SUSTAINED

GROWTH

THROUGH STABILITY

UB FINANCE

A UNION BANK COMPANY

ANNUAL REPORT - 2018

VISION

To be "Sri Lanka's preferred financial solutions provider"

MISSION

- To provide our **Depositors** with secure and maximized returns.
- To provide our **Customers** leverage to achieve their aspirations
- To maximize **Shareholder** value
- To empower our **Team** to deliver the values of the Company
- To operate within the **Regulatory** framework.
- To be a responsible corporate citizen towards the betterment of **Society**

BUSINESS PRINCIPLES

- Effective and Efficient Operations
- Time tested Policies and Procedures
- State of the Art IT Systems
- Prudent Lending Policy
- Strict Expense Discipline
- Strong Capital and Liquidity
- Good Corporate Governance

CORE VALUES

- Integrity
- Ownership
- Achievement
- Best People
- Team Spirit

Content

" The Company achieved its corporate objectives during the year under review despite macro-economic challenges."

Alexis Lovell, MBE
Chairman

Chairman's Message

Dear Shareholders,

I am pleased to present to you on behalf of the Board of Directors of UB Finance the Annual Report and Audited Financial Statements for the year ended 31st March 2018.

Economic Overview

Our Company operated in a business environment pegged by moderate growth with GDP recording a 3.1% growth in 2017 compared to the 4.5% hit in 2016. Real economic activity was dampened by weather, resulting in a slowdown particularly in the agriculture sector but having implications on overall consumption patterns.

Meanwhile the Non-Banking Financial Sector which represents 7.9% of Sri Lanka's financial system also grew moderately. In tandem with the macro economy the sector reached Rs. 1,355 Bn by the end of 2017 with a growth of 11.8% versus 21.7% enjoyed the year before. Steps taken by the Government to curtail credit growth and further tightening of the Loan to Value Ratio resulted in a slower growth in the NBFI sector.

The Central Bank of Sri Lanka reports that during the year the sector remained strong, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. NBFI sector now demonstrates a shift in funding mix, as increased assets were mainly funded through deposits while borrowings of the sector declined compared to the high growth recorded during the previous year. The Central Bank continued to take prudential measures to maintain the stability of the sector with much consideration on reviving the companies with weak financial positions.

Strategic Goals

The Company continued its three-pronged focus on improving operational efficiencies towards delivery of a competitive service, improving and introducing new products to meet the current economic conditions while strengthening the financial position of the Company.

The Company achieved its corporate objectives during the year under review despite macro-economic challenges and fiscal policy inconsistencies. The prevailing market conditions and business environment did not incentivize the Company to pursue the intended public listing which would not have yielded the desired value creation for its investors. Public listing remains a priority for the Company but prudent consideration of the market environment would precede such a move in the new financial year. Further a capital infusion is envisaged from a strong foreign investor from Asia with a long term view which would further strengthen the listing expectation.

SMEs drive 65% of the economy and UB Finance is deeply engaged with this segment of the population. As with other South East Asian countries Sri Lanka too is on the cusp of a SME led growth driven consumption rise which is already reflected in the economic trends. The Company's infrastructure build-up is targeted towards the milestone of per-capital income crossing the USD 5,000 mark.

Operations

During the financial year we witnessed a healthy upward financial momentum; our balance sheet remains strong while our bottom line is in positive territory as the Company continues to reinforce the operation and governance base to ensure sustainable and progressive business expansion.

The company growth remained 10-15% below potential with a further equity call taking precedence over investing in operational expansion. Performance during the year was impacted by stagnated consumer spend, and reduction of imports in certain vehicle categories. However our existing loyal customers repeat business and their refferals contributed towards UBF maintaining above industry performance. Interest rates also continued to be a source of concern to the financial sector.

UB Finance operates 17 branches predominantly in the western province, and the Company continues to tap into the 67 branch-strong network of our shareholder Union Bank to generate more referral business islandwide.

Company restructure in terms of systems, processes and governance is on track with all operational divisions maintaining a robust working dynamic. In terms of technology, planned and systematic digitalization in a timely manner remains our focus towards enhancing our back end operations while we continue to strive to excel in service which has been our consistent forte. Our product innovation team continues its efforts to formulate cutting edge asset and liability products in keeping with current financial trends and changes in taxation. Our marketing strategy is targeted and result-oriented while our campaigns push the limits of creativity.

Attracting top notch talent is always a challenge but we are committed to addressing the issue through training of existing staff, offering management training and constantly looking out for the next generation of new talent. It is gratifying to note that we've seen notable stability in the senior management level, where the attrition level has been very low indicative of a strong and steady leadership team ready to steer the Company with a long term view.

We remain very conscious of the guidelines set by the Central Bank and we diligently adhere to them. With the support of Union Bank, the principal shareholder, we have always met the minimum capital adequacy of the institution and the Company is compliant at all levels.

In the year ahead the Company would be entering a new phase of growth underpinned by capital infusion resonating shareholder confidence in our business potential. We'll also remain steadfast in our commitment to compliance, ethics and doing business the right way. The performance of the year concluded is indicative of the future course of the Company. On the strength of a positive business environment in 2019 UB Finance would continue to invest in value chains across the Country's regional community development as the building block of growth while looking to exceed customer 's and shareholder's expectations.

Acknowledgement

In conclusion I take this opportunity to commend our employees who have grown to 262 across 17 locations islandwide. Their abilities and skills are reflected in our continued resilience in challenging business environments. Our parent Union Bank has provided the Company much needed financial and moral support and we look forward to its guidance as we strive to achieve the targeted growth trajectory in 2019. I extend my sincere thanks to the Board of Directors whose leadership continues to steer the company to greater heights. I thank our business partners, our principals, suppliers and financial institutions for their continued support. I also wish to acknowledge our customers whose support holds us in good stead to remain on course in what is set to be an iconic journey of sustainable value creation.

Alexis Lovell, MBE
Chairman

Chief Executive Officer's Review

"UBF demonstrated sustained growth through stability during a challenging year"

Ransith Karunaratne
Director/Chief Executive Officer

The Countries GDP growth decelerated further from 4.5% in 2016 to 3.1% in 2017. Adverse weather conditions alternating from severe drought to heavy rain fall in many districts crippled the country's agricultural sector. At present, the Sri Lankan economy appears to be relying primarily on the services sector in areas such as tourism, communications, health care, financial and export services and to a lesser extent on the industrial sector and construction. The tightened fiscal and monetary policy stance of the government and regulator had a direct impact on the Finance Services Sector

Based on subdued macro economic growth, the NBFI sectors asset base grew at a slow pace. Measures taken to control vehicle imports, more stringent LTV ratios on accommodations granted to purchase registered vehicles, increased taxes on consumption, reduction in purchasing power and commercial banks continuously encroaching on LFC territory have impacted the performance of LFCs. Further, there have been many concerns in the micro finance sector. As a result of these issues many LFCs were forced to rethink their core lending business models to stay ahead of the competition. In this context, it is also imperative that all finance institutions especially the larger players adhere to compliance standards to maintain a level playing field along with more oversight by the regulator.

UBF demonstrated sustained growth through stability during a challenging year. In spite of the adverse economic and financial conditions the Company maintained a growth momentum above the industry standard through persistence and superior customer service. Total income for the year 2017/2018 increased by 27% to LKR 2,010 Mn. The profit before tax for the year was LKR 88 Mn. As in the past, the Company has continued its investment into strategically chosen areas of brand building, development of human capital and IT which has enabled the Company to maintain sustained growth in a volatile environment.

The Company's asset and liability positions remained well matched whilst maintaining sound levels of liquidity. The Company launched several innovative new products in both assets and liabilities to better service the customers' requirements.

Delivering on its promise to offer "a better deal" to customers, UBF announced the launch of the "Build-it" fixed deposit product in October 2017. It is a unique value proposition for salaried individuals and average savers who wish to accumulate a sizable cash build up for the purchase of an asset or a life event based on their monthly income, with maximized returns. During the year the Company's deposit base increased by 19% from LKR 6,063 Mn to LKR 7,237 Mn, highlighting the trust and confidence placed by long term depositors in UBF. As a member of the dynamic Union Bank Group, UBF demonstrated strength and stability within the financial services arena which has served the Company well in terms of retaining and growing its deposit base.

Gross loans and receivables from customers grew from LKR 9,028 Mn to LKR 10,011 Mn increasing by 11% despite the heightened fiscal policy and low economic growth. Notable drops in business volumes were seen in unregistered domestic vehicles and three-wheelers. However, once again personal referral by existing customers on the Company service standards and long term relationships with business partners accounted for a significant amount of retained and repeated business as well as new introductions. Challenge inspires innovation and during the year innovative and flexible lending products such as "Easy Lease" and "84 month Lease" were successfully introduced into the market. "Mortgage Loans" was another successfully launched customized product introduced to customers to refinance, purchase and improve their property and / or business. Due to the condition of the operating environment, as in previous years, the Company has been relatively cautious with regard to non asset back lending which is now proving to be an accurate Management decision.

UBF also continued to leverage on its unique position with regard to "Working Capital Financing" with new focus on the "Easy Drafts" product, which is an asset backed revolving loan facility for working capital purposes. Other working capital products include factoring, invoice / cheque discounting and short term loans. These products primarily service the SME sector catering to manufacturers, wholesalers and other services. During the year the Company experienced a significant growth in the Easy Draft product compared to other product lines. UBF has been able to manage risk for these products through recruiting specialized, industry experienced staff, who have pioneered Factoring and other working capital solutions in Sri Lanka for several decades.

UBF further expanded its product portfolio into the retail lending space by launching "Gold Loans" at the end of the financial year. This product provides liquidity to retail and whole sale customers giving them the opportunity to leverage against their gold articles. Keeping with its premise to offer its customers a better deal, UBF offers the maximum advances at the lowest rate in the market backed by a prompt, superior service quality with the highest security for gold articles. The Management expects to greatly expand its reach for the Gold Loan products utilizing Group resources.

The Company complied with the increased core capital requirement by the regulator with a capital infusion of LKR 300 Mn increasing the total capital including tier II capital to 1,406 Mn. The total assets of the Company also increased by 10.5% with the asset base standing at LKR 11,151 Mn as at 31.03.2018.

ICRA Lanka Limited re affirmed the issuer rating of (SL) BB with a stable outlook in recognition of the Company's growth prospects and stable outlook.

UBF is continuously looking for new business channels including vehicle dealers, importers and introducers, insurers and other business partners. The Company's continued commitment not only to diversify product lines but to also diversify market segments has helped UBF weather many market and industry changes and volatilities. Innovative marketing techniques as well as exceptional service standards maintained year after year have kept a constant stream of business flowing through these well established channels.

Finance cost saw an upward movement during the second part of the year in line with money market movements. During the year the Company further improved and strengthened our treasury management function. Operational expenses remained consistent due to efficient cost management strategies implemented in a timely manner. Improvements were made to documentation, procedures, processes and systems with emphasis on upgrading service standards and introducing value added services.

Tightening macro finance economic conditions saw severe strain on liquidity especially in the micro finance sector. This has resulted in an increase in NPLs across the financial services industry during the year. The Company tightened its credit policy and recovery process in an preemptive measure to control NPLs. As 90% of the accommodations are backed by underlined assets the Management is confident that the Company is insulated from this industry wide issue.

Risk management, compliance & corporate governance have always been the structural back bone of the Company enabling UBF to grow rapidly in a disciplined manner. During the year in concern many steps were taken to align these processes with the Parent Company Union Bank.

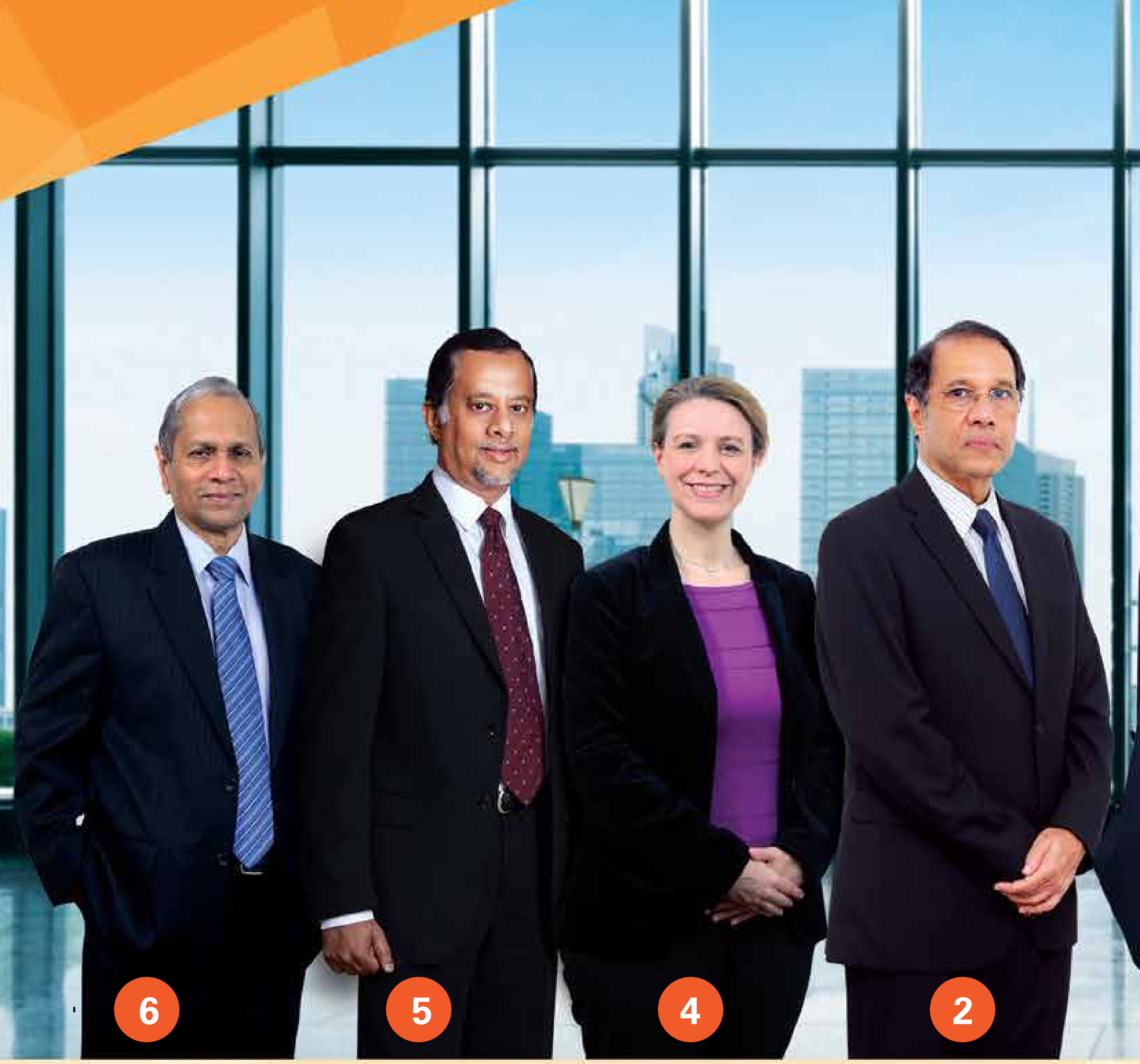
Human Capital plays a key role in delivering service excellence in the financial service sector. UBF maintains a performance driven, service oriented, integrity based culture. Attracting and retaining employees in general has become increasingly difficult in the existing environment. Despite same the UBF team consists of many young driven individuals who are mentored, trained and fostered into the UBF team where the entire employee experience is enriched through empowerment, career development, increased performance based rewards and personal affirmation.

The operating environment is likely to remain challenging in the coming year. However, we remain optimistic that UBF will outperform the industry as in previous years. The Company will continue to consolidate its business operations while leveraging on group synergies and strengthen specifically identified product lines to grow and enhance the Company. The Company is also in the process of developing a new core IT system to manage its products and digitize all processes and activities. Change management through timely adaptability and flexibility will be key to running a successful business operation and UBF believes this will propel the Company towards achieving its vision of being Sri Lanka's preferred financial services provider.

I take this opportunity to thank Mr. Alexis Lovell Chairman and my colleagues on the Board for their support and guidance. Special thanks to Mr. Davis Golding and Mr. Upali Wijeyesekara who retired during the year, for their invaluable advice and many contributions made since the acquisition of the Company. I also welcome Ms. Lisa G. Thomas to the Board. I am confident that the Company will benefit immensely from her extensive and varied multinational experiences in the financial services sector. I also thank my Chief Operating Officer Mr. Suresh Kandiah, the Corporate Management Team and Staff for their wholehearted commitment enabling us to steadily steer the Company through turbulent waters. My thanks are also extended to the Governor, the Directors and other officials of the Central Bank of Sri Lanka and to M/s. Ernst & Young the external auditors for their good governance, support and advice throughout the year.

The continued achievements of your Company would not be possible without the support of the Shareholders, Depositors, Customers and other Stakeholders. On behalf of the Board of Directors I sincerely thank you for the confidence and trust placed in us.

Ransith Karunaratne
Director / Chief Executive Officer



1 **Alexis Lovell, MBE**
Chairman

2 **Ananda Atukorala**
Deputy Chairman

3 **Ranvir Dewan**
Non Executive Director

4 **Lisa Thomas**
Non Executive Director

5 **Indrajit Wickramasinghe**
Non Executive Director

6 **Chandrakumar Ramachandra**
Non Executive Director

7 **Malinda Samaratunga**
Non Executive Director

8 **Ransith Karunaratne**
Director / Chief Executive Officer

"Our Board provides the strategic direction that strengthens our corporate framework and drives sustainable growth"

Board of Directors

MR. ALEXIS INDRAJIT LOVELL, MBE
Chairman / Independent Non-Executive Director

Mr. Alexis Lovell has been a Non-Executive Director of UB Finance since the acquisition of the Company in November 2011. He was appointed as the Chairman of the Company in October 2012. He is a Chartered Management Accountant (UK) and holds a Post Graduate Degree in Business Administration (Australia). He enriches the Board with over four decades of experience in the field of finance & investment banking. Mr. Lovell was awarded the Most Distinguished Order of the British Empire (MBE) by Her Majesty the Queen of England for services to Investment Banking at JI Capital Limited Middle East since 1971.

Mr. Lovell is Chairman of National Asset Management Ltd which is a Group Company. He is a member of the Board of Directors of Associated Electrical Corporation Ltd & Real Investment Holdings Pte Ltd. Mr. Lovell is well respected and recognized personality in the banking and financial industry for his deep insight, dynamic leadership, revolutionary concepts and his ability to re-engineer entities and create wealth.

MR. ANANDA WIJETILAKA ATUKORALA
Deputy Chairman /
Independent Non-Executive Director

Mr. Ananda Atukorala was appointed to the Board as an Independent Non Executive Director in July 2012. He is designated as the Deputy Chairman and Subordinated Director to the Board. He possesses extensive experience in banking, having been with the ANZ Banking Group both in Sri Lanka & Overseas. He has served as Deputy General Manager, ANZ Grindlays Bank, Sri Lanka; Country Manager Sri Lanka of Mashreq Bank PSC and was a former advisor to the Ministry of Policy Development & Implementation. He was a Director of Union Bank PLC for a period of nine years and retired in 2012 and a former Director of DFCC Bank PLC. He was also a former Director of the Sri Lanka Banks' Association (Guarantee) Ltd. & Credit Information Bureau of Sri Lanka(CRIB).

Presently, he serves as the Chairman of NDB PLC and Development Holdings (Pvt) Ltd an Independent Non-Executive Director of United Motors Lanka PLC, Orient Finance PLC, Colombo City Holdings PLC, NDB Securities Ltd, Arni Holdings and Investments (Pvt.) Ltd, Unawatuna Boutique Resort (Pvt)) Ltd and Unimo Enterprises Ltd. He is the Hony. Treasurer of Oxonian Heart Foundation. Mr. Atukorala had also served as a Member of the Technology Initiative for the Private Sector - an USAID sponsored project with the Ministry of Industrial Development. He was also a Working Committee Member - Commercial Banking Sector - Presidential Commission on Finance and Banking, Committee Member - Banker's Club of Sri Lanka. He holds a B.Sc (Leeds,UK), MTT (North Carolina, USA) and a MBA.

MR. RANVIR DEWAN
Non-Independent Non-Executive Director

Ranvir Dewan joined TPG Capital in July 2006 and is based in Singapore. He is currently the Head of Financial Institutions Group Operations. From April 2000 to July 2006 he was Executive Vice President and Chief Financial Officer of Standard Chartered First Bank (formerly Korea First Bank) in Seoul, Korea.

Prior to that Mr. Dewan spent 13 years with Citibank Global Consumer Bank and held various senior positions in its International businesses. In his previous assignment, he was Regional Financial Controller of Citibank" Global Consumer Bank with responsibilities covering 11 countries in the Asia Pacific region. Mr. Dewan has also held senior positions with KPMG in Canada and England where he specialized in the audits of financial institutions.

Mr. Dewan is a fellow of the Institute of Chartered Accountants in England & Wales (FCA) and a member of the Canadian Institute of Chartered Accountants (CPA, CA). He holds a Bachelor of Commerce (Honors) Degree from the Shriram College of Commerce, Delhi University, India. He serves on the Boards of Shriram City Union Finance Limited and is also a member of the Executive, Audit and Risk Committees of these institutions.

MS. LISA G. THOMAS
Non-Independent Non-Executive Director

Ms. Thomas has over a decade of experience in venture capital and private equity investing, governance and operations in emerging markets; having worked with companies in more than 20 countries in Africa, Asia and the Caucusus. She is Founder and Managing Director of Samata Capital, a fund management company dedicated to making private sector investments in small and growing businesses in emerging markets that advance opportunities for women and promote gender diversity. Ms. Thomas previously co-founded and was the Chief Investment Officer for VestedWorld, a venture fund focused on sub-Saharan Africa. Prior to that role, she was Director of Investments - Asia for Equator Capital Partners where she managed investments in scaling financial institutions in frontier and emerging markets. Her early career was in investment banking at Merrill Lynch in New York.

Ms. Thomas was an Emerging Leader Fellow at the Chicago Council on Global Affairs, and co-authored the paper “Africa Is Now: The Opportunity for Mid-Sized US Companies” and appeared on NPR’s worldview to discuss business development in Africa. She has taught and guest lectured at Northwestern University’s Kellogg School of Management and is a regular speaker at the University of Chicago Booth School of Business. Ms. Thomas holds an MBA from the University of Chicago Booth School of Business and a B.S. (Honors) from the University of Oregon.

MR. INDRAJIT WICKRAMASINGHE
Non-Independent Non-Executive Director

Mr. Indrajit Wickramasinghe was appointed as a Non-Executive Director of UB Finance in December 2014. He counts over 25 years of Management Experience having worked in the financial and consumer sectors in both local and multinational companies. He holds a Masters Degree in Business Administration (MBA) from the University of Sri Jayawardenapura, is a Fellow Member of the Chartered Institute of Marketing UK, a Chartered Marketer, a Member of the Association of the Professional Bankers and a member of the Oxford Business Alumni, University of Oxford.

Mr. Wickramasinghe serves as the Director / Chief Executive Officer of Union Bank of Colombo PLC and is a Non-Executive Director of National Asset Management Limited (NAMAL). Prior to his appointments at the Union Bank Group, he served as the Chief Operating Officer of NDB Bank PLC where he was responsible for all business areas including Retail Banking, Corporate Banking, SME Banking and Project Finance. Prior to that, he held positions as Vice President looking after functions such as HR, Marketing and seven years heading Retail Banking. Mr. Wickramasinghe was also a Non-Executive Director of Eagle Insurance/Aviva NDB Insurance, NDB Capital Holdings PLC, NDB Securities (Pvt) Ltd, Development Holdings (Pvt) Ltd and the Credit Information Bureau of Sri Lanka.

MR. CHANDRAKUMAR RAMACHANDRA
Independent Non-Executive Director

Mr. Chandrakumar Ramachandra was appointed as an Alternate Director to Mr. Davis Golding in October 2013 & was re-appointed to the Board in March 2014 as an Independent Non-Executive Director. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). He counts over four decades of post qualifying experience both locally and overseas specialising in the fields of auditing, tea exports, financial services and packaging. He served as a Partner of M/s. Hulugalle, Samarasinghe & Co. and later joined Lipton Ceylon Ltd where he was the Chief Accountant / Company Secretary at the time of leaving.

During this period he also served at the Head Office of Lipton, UK. He also held several key positions in various reputed business entities such as Commercial Bank of Ceylon's Fund Management Co. and Varna Ltd. Mr. Ramachandra served as a Non Executive Director of Sathosa Retail Ltd. In November 2004 he took up appointment as the Chief Financial Officer of the Uni Walkers Group. In early 2005 he was appointed to the Board of Uni Walker Packaging Ltd a post he held until early 2015. He also served as an independent Director on the Board of several Capital Reach Group Companies.

He is the Chairman of Asia Asset Finance PLC & Director of N. Vaitilingam & Co (Pvt) Ltd. He is currently the competent Authority of Hotel Developers PLC, the owning company of the Hilton Colombo. Mr. Ramachandra is a past President of the Chartered Accountants Students Society of Sri Lanka and is a double prize winner in Accounts at the exams conducted by the ICASL, in 1972 and 1974. He was also a CIMA Accounts World Prize winner in 1976.

MR. MALINDA SAMARATUNGA
Non-Independent Non-Executive Director

Mr. Malinda Samaratunga was appointed as a Non-Executive Director to the Board at the acquisition of the Company in November 2011. He is a Fellow Member of the Certified Management Accountants, Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK. He holds a Bachelor of Science (BSc) degree from the University of Colombo and a Master of Business Administration (MBA) from the University of Colombo.

Mr Samaratunga counts over two decades of extensive experience in finance & management in the banking & financial sectors. He currently functions in the capacity of the Chief Financial Officer of Union Bank of Colombo PLC, the Parent Company and prior to joining the Bank he was the the Assistant General Manager - Finance of Commercial Leasing Co. Ltd. for almost a decade.

MR. RANSITH KARUNARATNE
Non-Independent Executive Director /
Chief Executive Officer

Mr. Ransith Karunaratne took over as the Chief Executive Officer of UB Finance in November 2012 and was appointed to the Board of Directors in March 2014. He is a Fellow Member of the Chartered Institute of Management Accountants - FCMA (UK) and holds a Master" Degree in Business Administration (MBA) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura.

Mr. Karunaratne counts almost two decades of experience and has an exemplary track record in the financial services sector, having successfully launched, grown and managed high quality and profitable credit portfolios. He specializes in the area of Factoring. He has been the driving force behind restructuring, rebranding and re-launching of the Company.

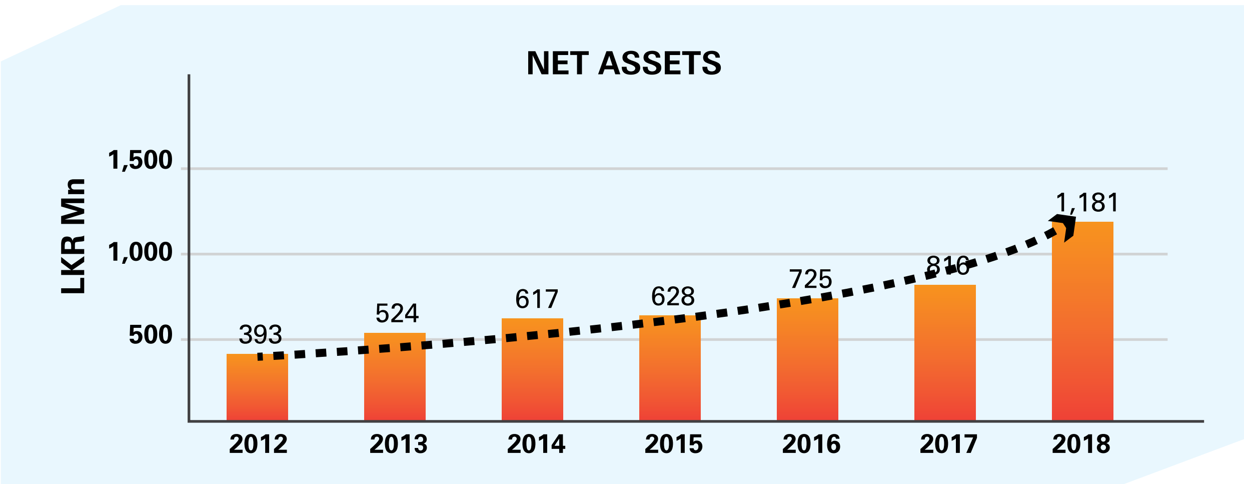
He was previously employed by LB Finance PLC in the capacity of Deputy General Manager – Corporate Lending, Factoring & Investments. He also functioned in the capacity of Assistant General Manager – Factoring at Commercial Leasing and Finance PLC and Portfolio Manager at Mercantile Leasing Ltd. which was later acquired by Nations Trust Bank. He is also involved in several social and community alleviation projects and serves on the Board of the Lanka Evangelical Alliance Development Service (LEADS).

"We delivered unsurpassed value to a diverse customer base through a suite of products and services appropriately designed to meet their diverse financial needs."

Suresh Kandiah
Chief Operating Officer

Operational Review

The 2017/18 financial year saw UB Finance once again making significant strides contrary to the economic milieu in the year under review. The Financial Sector performance slowed down due to various reasons such as; low credit growth, declining profitability along with poor credit quality, a legacy of the prevailing high interest rates, inflation and the regulatory directions on Loan-to-Value (LTV) Ratio. Despite the prevalent industry conditions, UB Finance continued to grow through the dedication and hard work of employees, the continued trust and confidence of customers and the leadership and strategic direction provided by the Directors and management resulting in a commendable performance for the Company. Income for the period increased by 27% to LKR 2,010 Mn and the total operating income for the period also increased by 10% to Rs. 686 Mn. The net profit for the year 2017/18 was Rs. 72 Mn in comparison to Rs. 67 Mn in 2016/17. Interest income generated from our Core business increased by a healthy 36% due to maintaining stable product yields and portfolio growth. Also during the period the deposit base increased from Rs. 6,063 Mn to Rs. 7, 237 Mn being a 19% increase, highlighting the confidence placed by depositors in the Company. Gross loans and receivables from customers grew by 11% and the total Net Assets increased by 45%.



Our focus during the year was to optimize our strengths and maximize on opportunities. We delivered unsurpassed value to a diverse customer base through a suite of products and services appropriately designed to meet their diverse financial needs. Our portfolio of products include investment solutions such as fixed deposits and savings, coupled with financial solutions in the form of leasing, vehicle and mortgage loans as well as working capital solutions through factoring, cheque discounting and easy drafts. We also introduced a flexible saving opportunity for employed individuals called "Build-it" and the UBF Gold Loans called "Ran Naya" for the mass retail segment.

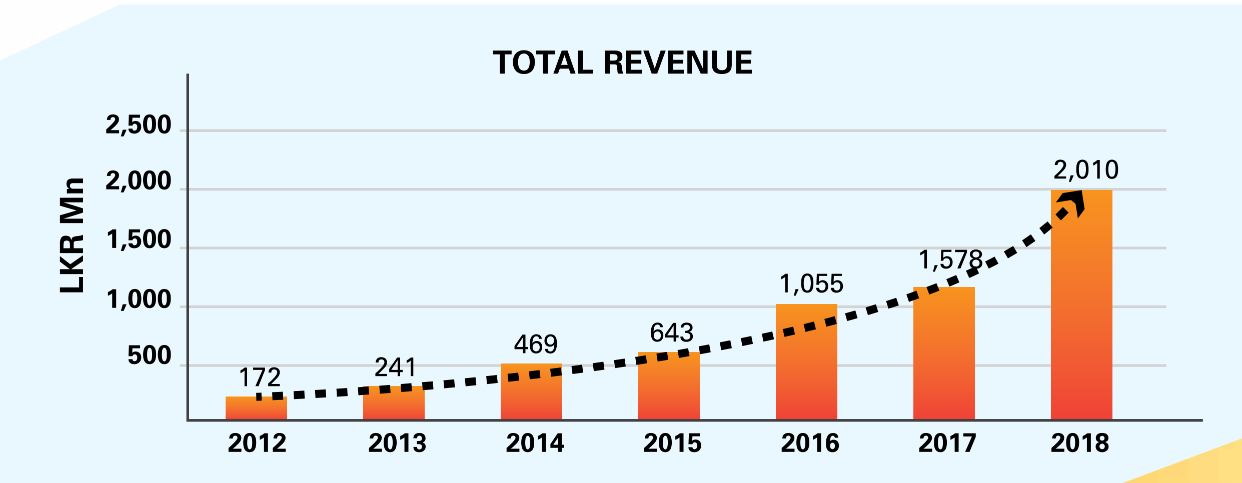
We also improved process efficiencies and aligning of our talent pool to deliver the best value and service thereby contributing to the significant growth and profitability of the organization. We continued to place significant importance on human capital as a key driver of the business. UB Finance continues to provide an enriching work environment that motivates and inspires its employees to perform at their best. Re-engineering of the business operations, documentation, procedures, processes and systems during the year has geared the company to offer its customers a superior level of service due to the overall efficiency and effectiveness of business operations. A number of IT initiatives were launched during the period under review enabling automation of most processes and imbuing speed and efficiency into the Company's operations.

Brand and image building initiatives also continued during the year to increase market share and augment our service offering. UB Finance's growing focus on the SME sector continued to gain momentum during the year. Several initiatives were carried out across the country to enhance our value proposition to the small and medium enterprise customers through a wide product and services range to meet the evolving needs of the sector.

Leasing

At UB Finance, our reputation is largely built on leasing and the year under review proved to be a challenging one for the leasing business as a result of a series of regulatory changes in the immediate operating environment. A key impact was the Monetary Board's decision to tighten the loan-to-value (LTV) ratio on unregistered three-wheelers, motorcars and vans with effect from 1st of January 2017 which restricted the allowable lending value. This resulted in us having to pursue alternative strategies to sustain and support our core business.

We ensured tailor made lease facilities are available to support the changing lifestyles across a wide spectrum of consumers. During the year the Company successfully launched Easy Lease and 84 months lease facility with attractive interest rates to address the changing financial needs of customers.



We also continued our salient efforts to build strategic alliances with vendors and dealers which continued to play a key role in the leasing business. For the team, we invested in training and development activities to enhance their professional skill levels and knowledge of all lending products.

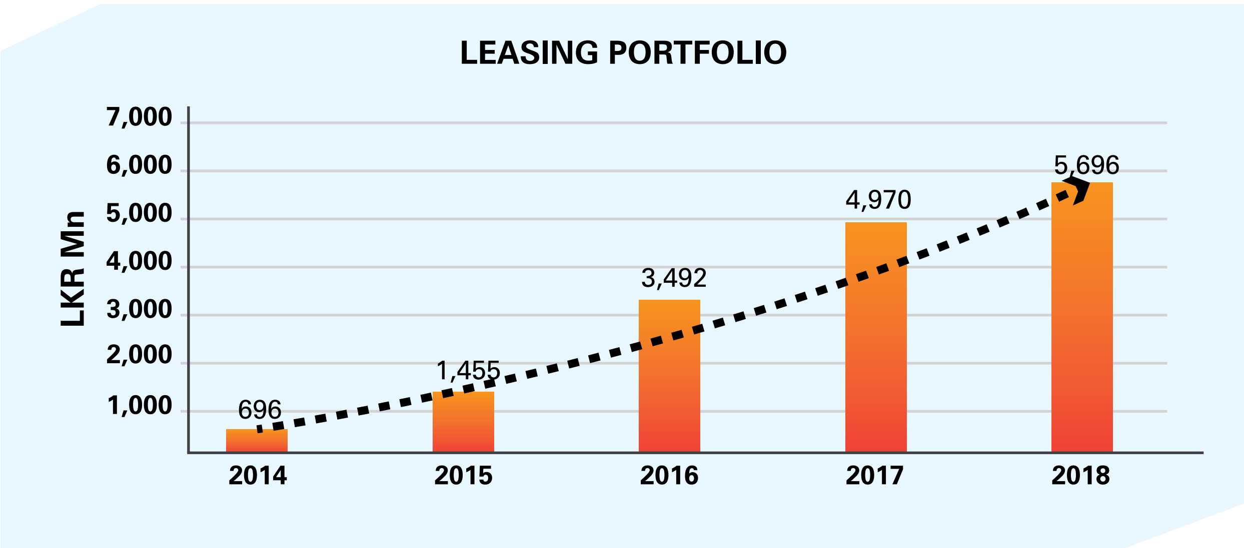
Even though we saw the industry being stagnant on the leasing portfolio due to the challenging market conditions, we are proud to state that through focused efforts, we increased our leasing portfolio by 14.6% to 5,696 Mn as at the end of the year.

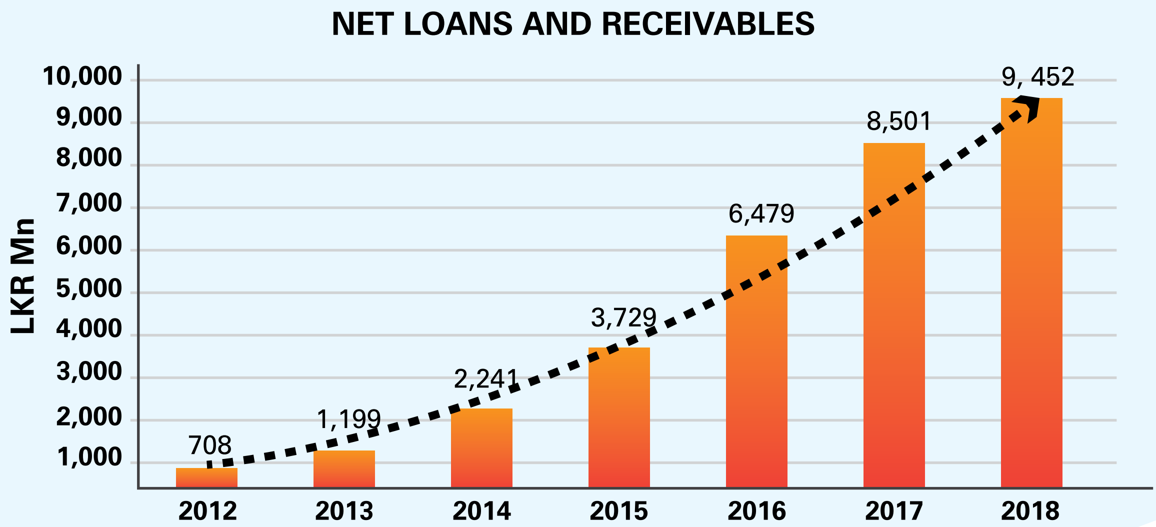
Working Capital

In order to captivate our target SME segment, we continue to provide with innovative, tailor made working capital solutions to meet specific business requirements. We offer greater funding flexibility supported by custom built, state of the art factoring and working capital management systems. During the year, despite the challenging market conditions and intense competitive pressures, UB Finance's working capital division focused on sustaining its current business by improving the quality of the portfolio. Our portfolio includes invoice discounting facilities, cheque discounting facilities, easy draft and special loans that helps customer obtain funding against business assets. Working capital facilities are offered to customers based on their credit worthiness and we ensure proper evaluation procedures are adhered to at the outset and thereafter, periodic reviews are carried out to support our monitoring process.

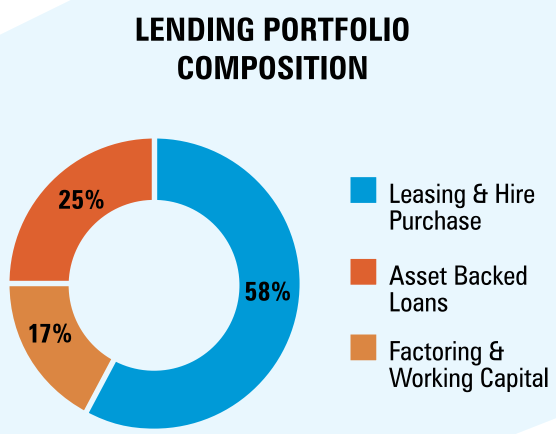
Working capital portfolio generated 21% from total lending portfolio income during the financial year. Total income generated from working capital portfolio increased from 340 Mn in 2017 to 399 Mn in 2018 indicating a 17% growth annually.

While the industry shun away from the working capital product, UBF realized that we had a unique advantage in this sector which is our current well experienced industry savvy staff who have specialized in this particular area. Hence, in order to further improve our foot print in this product segment, we embarked on an expansion drive of the factoring team to support the development of this business. With stringent processes and systems in place we were able to structure our team more efficiently so that our customers receive the best service at all times.





Net Loan book increased from LKR 8,501 Mn to 9,452 Mn indicating a 11% annual growth despite the negative economical conditions for the targeted market segment of UBF. NBFI sector portfolio grew at 10.6% during the 2018 financial year. This was mainly attributed by unsecured loans and Gold loans growth rate of 72% and 39% respectively. Thus, we are optimistic of our future as we expect to continue to further increase our loan book with our new Gold loan product that was launched in at the very end of this financial year under review.



In order to support the front line business generation units, UB Finance has a well-structured credit process.During the year the credit operations department continued to be responsible for facilitating of an efficient disbursement process that ensures that approved procedures are adhered to. The Company also maintained well-established credit policies, processes and procedures relating to credit operations as a measure to curb credit risk. We continued to strengthen our credit operations and redefine procedures to increase speed of service. We implemented new digitalized measures to simplify formalities, improve efficiencies and processes. This helped us to minimize the turnaround time for approvals and reduce the paperwork in the process. A high quality scientific customer grading & rating system was also employed to help maintain a good credit portfolio and minimize risks. Credit processes were also updated in a timely manner to meet the requirements of the market and aligned to the market trends. We made sure our team was well geared to deliver optimum results and reach their full potential. Therefore we conducted training programs that would help us curtail our exposure to unnecessary risks and methods to arrest possible losses.

The UB Finance recoveries function plays an important role in contributing towards the achievement of the Company's overall objectives. During the year, the Company ensured the close monitoring and continuous follow up on recoveries from existing customers so that credit quality stayed within accepted limits throughout the year. We continued to implement effective recovery strategies and stringent monitoring processes to maintain sound collection ratios, curtail bad debts and ensure timely repayments. We continued to strengthen our processes and procedures to effectively manage the repossession and disposal of possessed assets. At the same time we have been able to successfully contain the number of defaulters with the help of an effective focused recovery system drive by the recovery department under the close monitoring of senior management. The organization has also expedited and simplified the recovery process through greater collaboration with the regional and branch levels to maintain a strong recoveries operation that has been successful in maintaining effective control on the organization's credit quality.

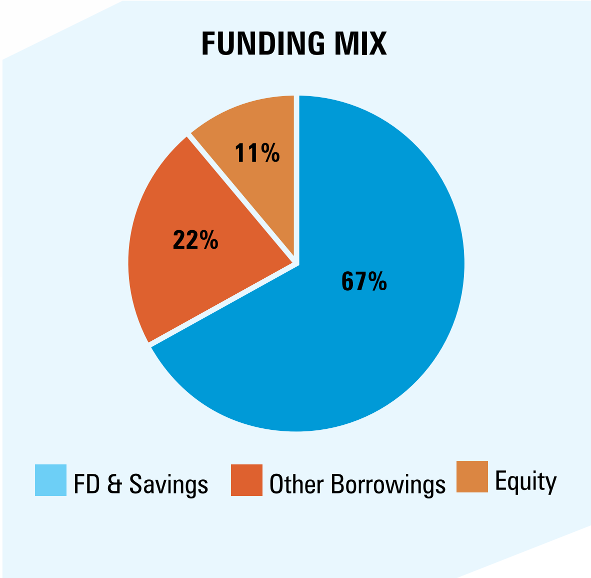
Our well-established legal unit plays an imperative role across all divisions of the organization. Its key objective is to ensure that all business activities are carried out in a manner which complies with the laws and regulations governing the organizations. The legal function at UB Finance has processes and procedures in place to facilitate its duties and take care of the Company's statutory responsibilities.

Our legal division supervises all legal issues, initiates legal action against default customer of the company and defends cases filed against the company. In-house legal team also helps to speed up credit approvals with minimum risk by analyzing and making recommendations on title of the properties offered for security and executing Mortgage Bonds on same.

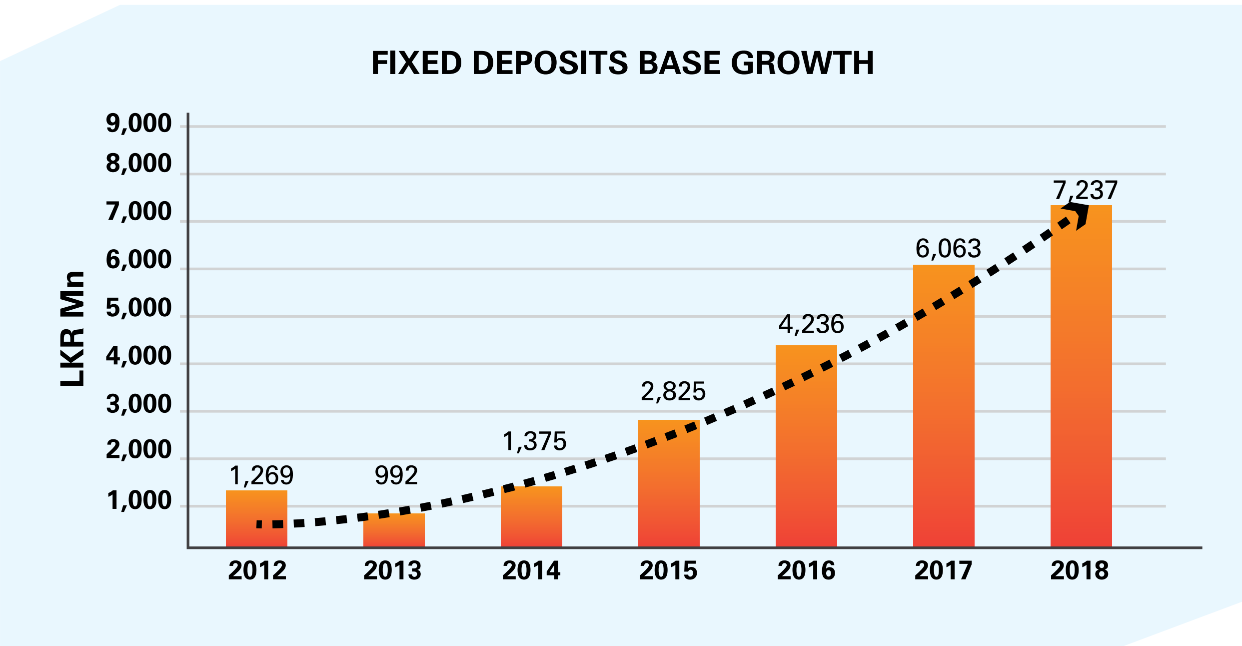
The legal department also closely coordinates with the recoveries division to maintain high recovery ratios on non performing facilities by adopting stringent measures to minimize the propensity of defaults.

Deposits

Deposit products continue to form the primary funding source for UB Finance. Growth in deposits remained a key priority for UBF and a gateway to building lasting customer relationships. Amidst the fierce competition from Banks and other finance companies, we continued to offer competitive rates for our deposits whilst at the same time delivering a superlative customized service paying finer attention to speed of delivery and convenience combined with safe and secure investments prospects.



Deposits continued to account for the bulk of the funding mix during the year with a strong growth of 19% to reach Rs. 7,237 Mn and an impressive retention ratio of approximately 60% as at 31st March 2018, reflecting the confidence placed by our depositors in UB Finance. Industry deposit to borrowing ratio is 62:38. However, with excellent customer service and increasing confidence of our customers over the company affairs, UBF has increased deposit to borrowing ratio to 75:25 in 2018 from 68:32 in 2017 further reducing the dependency on institutional borrowings.



We also focused on further enhancing our market share with the launch of the UBF Build-IT, a new innovative deposit product. This product is a flexible investment tool which will allow investors to select the amount of investment which is comfortable to them based on their income and other monthly financial commitments and create a personalized monthly savings mechanism.

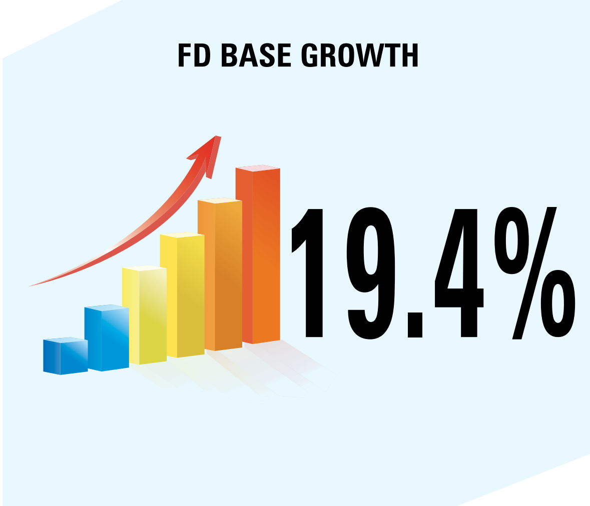
With the intention of broad basing the deposit product range to garner more business, year round marketing initiatives were organized for key segment groups and deposit canvassing operations continued on a growth trajectory at branch level as well. We also continued to streamline our deposit operations to meet the growing market demands. Backed by the strength of our parent Company Union Bank, we have successfully been able to maintain the stability of a Bank and the flexibility of a Finance Company in order to meet our customers needs in a more safe and secure manner.

Being a part of an industry with many leading players in a highly competitive market place, UB Finance places critical importance towards safeguarding the Company's market share. A strategic marketing plan was implemented during the year in an effort to expand and promote our products and services in the right way, at the right time, using the correct media to existing customers and identified new target markets.

UB Finance continued to hold many promotions and engage in numerous other marketing activities during the year to further build its brand and reinforce its distinctive brand value. Below- the- line measures were used to showcase the brand and drive it forward, while Above – the - line measures were blended into this brand building process, through selected initiatives in the print and electronic media. Further, with the increasing use of digital platforms for marketing and promotional activities, the Company also increased its digital and social media presence.

A cohesive Public Relations Strategy was also mooted to strengthen the organization's image, perception and status, promoting it as a leader in the preferred sector.

We continued to add value to our existing product portfolio with the launch of four new products – Easy Lease, 84 months lease, Build-it and Gold Loans. In support of this, general advertising campaigns for these products were carried out with more focused marketing activities to reach niche target market segments. These campaigns helped to strategically support the operations in the branches during the year.



Furthermore door-to-door marketing and personalized promotions for UB Finance's entire product range with special focus on Easy Draft and Mortgage Loans were introduced to increase customer awareness across all target sectors. Awareness and visibility for the UB Finance brand was further augmented with the renovation and rebranding initiatives of the branches and through outdoor branding.

Compliance is an important aspect for UB Finance (UBF) and we conduct our operations in compliance with all applicable laws, regulations and standards. We maintain a stringent culture of compliance where governance, principles, ethics, accountability, integrity and transparency remain in absolute focus. We continually strive to enhance relationships with relevant regulatory institutions. The organization also ensures continuous compliance and alignment with industry standards.

As in the past UB Finance has complied with all statutory and regulatory requirements and such compliance is closely monitored by the Board of Directors.

We also have a unique advantage with our parent company Union Bank, sharing their expertise in shared services in areas such as risk, governance, compliance, Internal audit and other support functions.

At UB Finance information technology (IT) is a core function that helps drive the business forward. It plays an integral role in providing an effective platform that supports operations and helps to align the corporate strategy and plans. The organization has in place a comprehensive IT framework which has been integrated into most of the organization's business activities to deliver greater customer satisfaction, service standards and efficiencies.

During the year under review, UB Finance continued to strengthen its security features through its IT platform to ensure that high standards are maintained. A well-defined IT Security Policy is also in place which guarantees that all critical systems are well safeguarded from any potential security infringements. This helped to enhance and maintain information, security controls and systems while safeguarding the confidentiality of the information. A number of IT initiatives were launched during the period enabling automation of a number of processes, imbuing speed and efficiency into the organization's operations and driving a paperless enterprise.

We continue to invest well in our systems and processes and to add value to our products and services. UB Finance's IT developments are designed not only to improve operations, services and products but also to maximize productivity, infuse efficient, speed and data into a network fueling timely decision making.

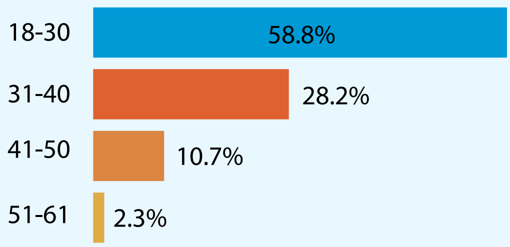
Human Resources

Development of our Human Resources continues to be an integral facet in our Strategic Plan. Our priority is to create an environment where employees remain committed, stay motivated and are consistently satisfied with the work they do. Our recruitment process ensures that UB Finance recruits people for jobs that best suit their talents and capabilities.

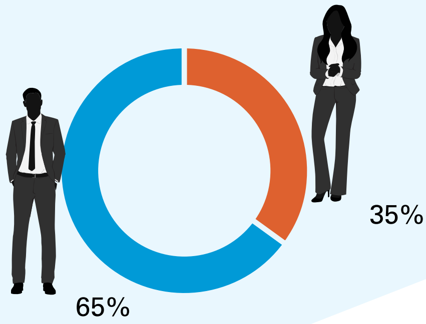
In the year under review, due to the growing scale of operations UBF's workforce reached a total strength of 262. The Company takes pride in its team that has been courageous, spirited and fearless in their endeavors to navigate the Company towards a positive trajectory.

Standing firm on the principle of 'equal opportunity', UBF maintained its stance on recruiting versatile employees, adding value to a multi-disciplinary workforce. The recruitment process remained competitive and structured, where precedence was given to internal recruitment as deemed suitable but also encouraged application from the best outside talent.

STAFF AGE ANALYSIS



GENDER COMPOSITION



UBF has always laid great emphasis on fostering and nurturing a culture of continuous learning and development, believing strongly that our vision, mission and objectives can only be achieved with a team whose knowledge horizons are continually open and empowered. A total of 13,254 training hours was implemented across the multiple categories this year. These programs encompass development initiatives constructed to hone technical and soft skills, leadership development and on-the-job training. For new employees we have also developed a comprehensive induction program to provide the tools and knowledge needed.

Negombo Branch
Best Branch of the Year

Mr. Susantha Jayathissa
Best Credit Marketing Staff of the Year

Mr. Lesly Lekamge
Long Standing Service of 25 Years

Ms. Uthpala Sandanayaka
Best Factoring Staff of the Year

UBF Night 2017 - Award Winners

"Our corporate management team plays a pivotal role in successfully implementing the strategic objectives of the organization"

Corporate Management

1. **Himali Perera**
   Head of Factoring
2. **Asanka Udugama**
   Head of Finance
3. **Amila Nilaweera**
   Chief Manager - Leasing (Region 01)
4. **Pradeep Roshantha**
   Chief Manager - Leasing (Region 02)

Divisional Heads

"The integration of expertise of our team enables us to make the most of emerging opportunities"

Lesly Lekamge
Senior Manager - Real Estate

Chinthaka Gamage
Senior Manager - Marketing Communication

Samanthi Senevirathne
Senior Manager - Investments

Dilini Paiva
Senior Manager - PA to CEO's Office

Chaminda Weerasinghe
Senior Manager - Recoveries

Piyal Weerakoon
Senior Manager - Legal

Vilashani Bandara
Senior Manager - Financial Reporting

Ranjan Asirvatham
Senior Manager - Gold Loan

Nimali Ranaweera
Manager - Human Resources

Dushanthi Silva
Manager - Risk & Compliance

Area Ma

Indika Bandara
Area Manager - Area 01

Supun Gunathilake
Area Manager - Area 02

Branch Managers &

Udara Abeywickrama
Manager - Ambalangoda

Kavinda Tennakoon
Manager - Kurunegala

Sumesh Baduge
Officer in Charge - Tissamaharama

Surangika Samaranayaka
Officer in Charge - Kandy

Nirman Mapitagama
Officer in Charge - Head office

Sameera Mahindadasa
Act. Officer in Charge - Galle

anagers

Deshal Weerage
Area Manager - Area 03

Sugath Kumara
Act. Area Manager - Area 04

& Officers in Charge

Kalum Chamara
Manager - Kadawatha

Vijendra Sachin
Officer in Charge - Kalmunai

Arosha Perera
Officer in Charge - Matara

Pradeep Chandana
Officer in Charge - Mawanella

Kathireson Shivapragash
Act. Officer in Charge - Nuwara Eliya

"A well-orchestrated team of Branch Managers helps the organization to deliver the best value and service that yield optimum returns for customers"

Corporate Highlights

2012/13

Inception of UB Finance

Capital Infusion by Union Bank & Shore Cap II (USA)

Identification of Vision & Mission

Launch of Working Capital Products

2013/14

Infrastructure Development

New Plush Head Office

Core System implementation

Formulation of Policies & Procedures

2014/15

Growth

8 New branches since inception

Introduction of New Products (Easy Draft and Save & Shop)

Major Brand awareness Drive

2015/16

Expansion

Further Four new outstation branches

Dedicated factoring office

ICRA Rating (BB stable)

SME sector drive

2016/17

Stability

Rs.10 Bn Total Assets

Rs.06 Bn Fixed Deposits

Launch of "Flexit"

Strong Channel Development

Debenture Issue of LKR 300 Mn

2017/18

Sustainability

Launch of Easy Lease

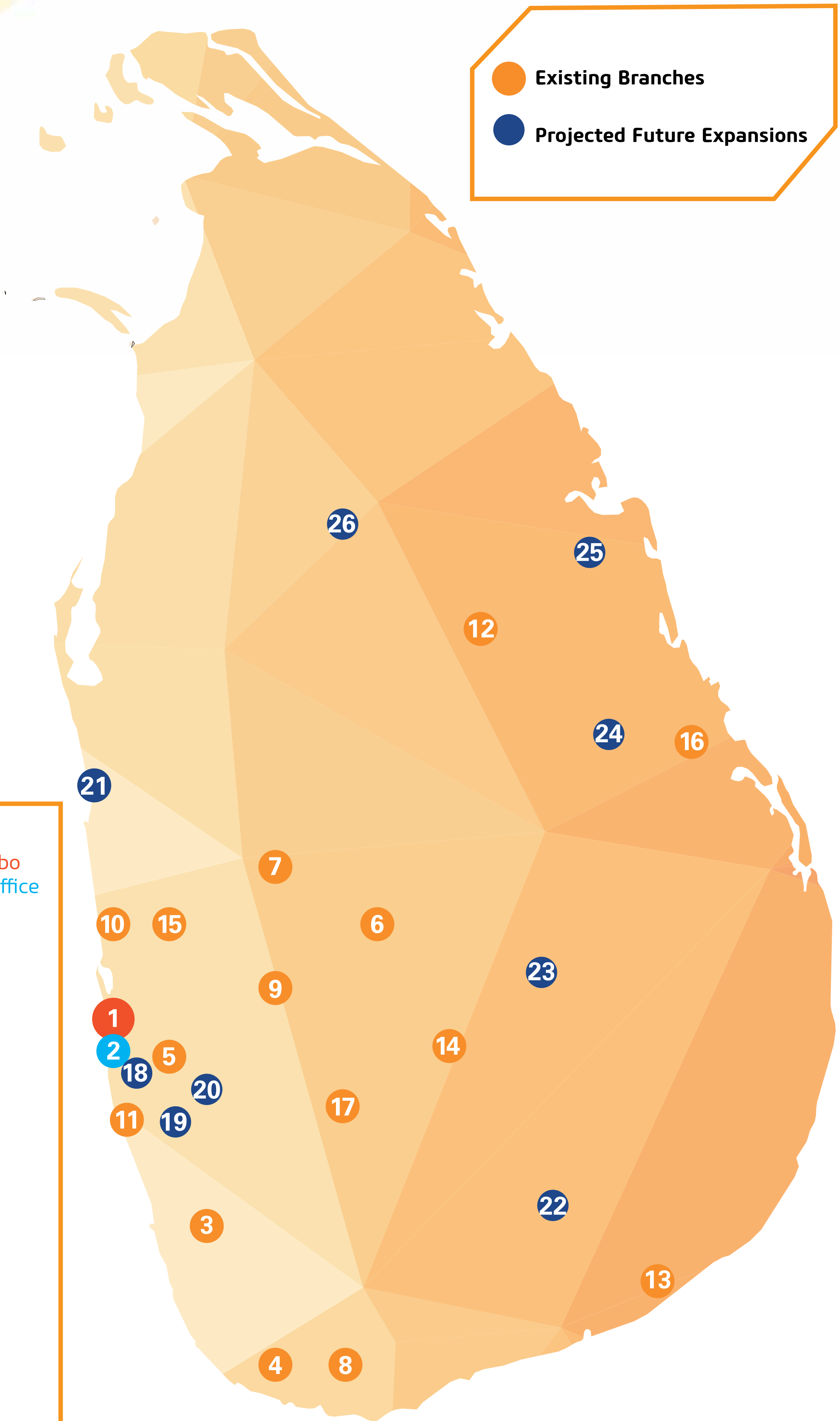
Launch of Mortgage Loan

Launch of Build-It

Launch of Gold Loan

Rights Issue of LKR 300 Mn

Branch Network Expansion



1. Head Office - Colombo
2. Factoring Premier Office
3. Ambalangoda
4. Galle
5. Kadawatha
6. Kandy
7. Kurunegala
8. Matara
9. Mawanella
10. Negombo
11. Panadura
12. Polonnaruwa
13. Tissamaharama
14. Nuwara Eliya
15. Gampaha
16. Kalmunei
17. Rathnapura
18. Nugegoda
19. Horana
20. Kaduwela
21. Chillaw
22. Monaragala
23. Mahiyanganaya
24. Batticaloa
25. Trincomalee
26. Anuradhapura

ANNUAL REPORT OF THE BOARD OF DIRECTORS' ON THE STATE OF AFFAIRS OF THE COMPANY

The Board of Directors of UB Finance Company Limited is presenting the Annual Report and the State of Affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2018 in compliance with Companies Act No. 07 of 2007.

This report is made in compliance with Section 168 of the Companies Act No. 07 of 2007 and Finance Companies Direction No. 3 of 2008 on Corporate Governance for Registered Finance Companies in Sri Lanka.

The Board of Directors have disclosed information of the Company which they believe is material and in the best interest of the Shareholders and the Company.

Legal Status of the Company

UB Finance Company Limited was incorporated under the Companies Ordinance No.51 of 1938 on 12th July 1961 as a Limited Liability Company under the name of The Finance and Guarantee Company Limited. The Company was re-registered as required under the provisions of the Companies Act No. 7 of 2007 on 26th December 2007. The name of the Company was changed to UB Finance Company Limited on 25th April 2012.

The Company is a Finance Company in terms of the Finance Business Act No.42 of 2011 and is a registered Finance Leasing Establishment in terms of the Finance Leasing Act No. 56 of 2000.

Major Shareholders of the Company

Union Bank of Colombo PLC, the parent Company and ShoreCap II Limited are the major Shareholders of the Company.

Principle Activities and the Nature of the Company

The principle activity of the Company is providing financial services namely, accepting deposits, maintaining savings accounts, lease financing, hire purchase, mortgage and vehicle loans, factoring and real estate.

Financial Statements

The Complete Financial Statements of the Company made as per revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No.7 of 2007, duly signed by two Directors on behalf of the Board are given on pages 48 to 52.

Auditors Report

M/s. Ernst & Young, Chartered Accountants was re-appointed as the External Auditors of the Company at the Annual General Meeting held on 29th September 2017. The report of the Auditors on the Financial Statements of the Company is given on page 46 - 47.

Accounting Policies

The Financial Statements made as per revised Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No.7 of 2007 adopting significant accounting policies and notes are given on pages 53 to 98 of this Annual Report.

Branch Network

As at 31st March 2018, the Company has 16 branches including the Head Office and one service centre.

Financial Reporting & Responsibility for the Accounts

The Directors are satisfied that the financial statements presented on pages 48 to 98 give a true and fair view of the state of affairs of the Company as at 31st March 2018 and the Profit and Loss for the year ended 31st March 2018.

In addition, the Directors are satisfied with the financial statements. Appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgments and estimates have been made and the 'Going Concern' basis has been adopted.

The Directors also confirm that the financial statements of the Company have been prepared in compliance with the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. The Directors have taken reasonable measures to safeguard the assets of the Company and to establish appropriate systems of internal control with a view to prevent and detect frauds and other irregularities.

The Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the Company as at the reporting date have been paid or where relevant provided for.

Payments made to Directors

The Directors fees, remuneration and payments made are disclosed on page 95 of this Annual Report.

Shareholder Register

As at 31st March 2018, the total number of Ordinary Voting Shares issued by the Company was 2,077,129,688 among 801 Ordinary Voting Shareholders.

As at 31st March 2018, the total number of Ordinary Non Voting Shares issued by the Company was 217,965,347 to the Ordinary Non-Voting Shareholders. The Company has resolved some of the issues with regard to the discrepancies pertaining to the Ordinary Non-Voting Share Register Case No. HC/CIVIL/60/2013/CO, the court sanctioned and approved rectified share register is currently being used.

Director's & Officer's Liability Policy

Union Bank of Colombo PLC, the Parent Company has obtained a Directors & Officers Liability Policy for a cover of LKR 300 million from AIA Insurance Lanka PLC covering the Directors interests of the subsidiaries.

The Directorate

The Directors of the Company as at 31st March 2018;

Name of the Director	Position	Date of Appointment
Mr. Alexis Indrajit Lovell, MBE	Chairman	01/11/2011
Mr. Ananda Wijetilaka Atukorala	Senior Director	11/07/2012
Mr. Malinda Namal Samaratunga	Director	01/11/2011
Mr. Chandrakumar Ramachandra	Director	12/03/2014
Mr. Ransith Nishantha Karunaratne	Director	12/03/2014
Mr. Indrajit Asela Wickramasinghe	Director	31/12/2014
Mr. Ranvir Dewan	Director	02/11/2015
Ms. Lisa G. Thomas	Director	23/11/2017

The Independant Non Executive Directors of the Company are Mr. Alexis Lovell, MBE - Chairman, Mr. Ananda Atukorala - Senior Director and Mr. Chandrakumar Ramachandra.

The Non Independent Non-Executive Directors are Mr. Malinda Samaratunga, Mr. Indrajit Wickramasinghe, Mr. Ranvir Dewan and Ms. Lisa G. Thomas.

Mr. Ransith Karunaratne is the Executive Director and Chief Executive Officer of the Company.

Mr. A W Atukorala and Mr. I A Wickramasingha retires by rotation at the Annual General Meeting in terms of Article 77 of the Articles of Association and being eligible, offers themselves for re-election.

Ms. L G Thomas was appointed as a Non-Independent Non-Executive Director with effect from 23rd November 2017.

Mr. A Malik was appointed as a Non-Independent Non-Executive Director with effect from 17th April 2018.

Mr. Y Kanagasabai was appointed as a Non-Independent Non-Executive Director with effect from 8th June 2018.

Mr. R M Balendra was appointed as an Alternate Director to Ms L G Thomas with effect from 8th June 2018.

In terms of Article 85 of the Articles of Association, Ms. L G Thomas and Mr. A Malik and Mr. Y Kanagasabai will hold office until the forthcoming Annual General Meeting and being eligible offer themselves for re-election at the said Annual General Meeting.

Shareholdings of Directors in the Company / Parent Company:

Shareholdings of Directors in the Company / Parent Company as at 31st March 2018;

Name of the Director	No. of Voting Shares in the Company	No. of Non Voting Shares in the Company	No. of Voting Shares in the Parent Company
Mr. Alexis Indrajit Lovell, MBE	None	None	24,145,899
Mr. Ananda Wijetilaka Atukorala	10,010	None	18,745
Mr. Malinda Namal Samaratunga	None	None	None
Mr. Chandrakumar Ramachandra	None	None	None
Mr. Ransith Nishantha Karunaratne	None	None	None
Mr. Indrajit Asela Wickramasinghe	None	None	None
Mr. Ranvir Dewan	None	None	None
Ms. Lisa G. Thomas	None	None	None

Set out below are the directorships held by the Directors in other Institutions as at 31st March 2018

Name of the Director	No. of Directorates / equivalent positions held in companies / societies / corporate bodies as at 31.03.2018
Mr. Alexis Indrajit Lovell, MBE	**Chairman** 01. National Asset Management Ltd **Director** 01. Real Investment Holdings Pte Ltd 02. Asssociated Electrical Corporation Ltd **Principal** 01. JI Capital Ltd
Mr. Ananda Wijetilaka Atukorala	**Chairman** 01. NDB PLC 02. Development Holdings (Pvt) Ltd **Independent Non-Executive Director** 01. United Motors Lanka PLC 02. Orient Finance PLC (formerly Bartleet Finance PLC) 03. Colombo City Holdings PLC 04. NDB Securities Ltd 05. Arni Holdings & Investments (Pvt) Ltd 06. Unawatuna Boutique Resort (Pvt) Ltd 07. Unimo Enterprises Ltd
Mr. Malinda Namal Samaratunga	**Director** 01. Namal Asset Management Limited
Mr. Chandrakumar Ramachandra	**Chairman** 01. Asia Asset Finance PLC **Director** 01. Ceylon Galvanishing Industries Ltd 02. N. Vaitilingam & Co (Pvt) Ltd **Competent Authority** 01. Hotel Developers Ltd
Mr. Ransith Nishantha Karunaratne	**Non-Executive Director/Treasurer** 01. Lanka Evangelical Alliance Development Service
Mr. Indrajit Asela Wickramasinghe	**Director / Chief Executive Officer** 01. Union Bank of Colombo PLC **Director** 01. Namal Asset Management Limited
Mr. Ranvir Dewan	**Director** 01. Union Bank of Colombo PLC 02. Shriram City Union Finance Limited
Ms. Lisa G. Thomas	**Principal** 01. Samata Advisors

Register of Directors and Secretaries

The Company maintains a registry of Directors and Secretaries. The names and addresses and their business occupations are set out in this register.

Communication

The Company has a Board approved Communication Policy detailing its communication processes and channels with all its stakeholders.

The Directors declare their interest in contracts at meetings and have refrained from voting when decisions are taken in respect of these.

Directors' Transactions with the Company / Related Party Disclosures

Directors' transactions with the Company / Related party disclosure are disclosed on page 95.

Events after the Reporting period

There were no post balance sheet events, except for the disclosures made under note 34.

Interest Register

The Company is adhering to the requirements stipulated in the Companies Act No.7 of 2007 and an Interest Register is maintained in line with the said article. Monthly the Board of Directors declare all related party transactions at the Board Meeting and accordingly the interest register is updated.

Compliance with Rules & Regulations including Corporate Governance Practices

The Board of Directors act in compliance with the statutory requirements and has continuously communicated with the regulatory and supervisory bodies. A compliance report is tabled at the monthly Board meeting informing the status of compliance levels as per the statutory requirements.

The Board has delegated its business operations to the Key Management Personnel led by the Chief Executive Officer and business operations are monitored by the Board. The Board Committee members liaise with the Key Management Personnel in their day to day activities whenever necessary to ensure the safety and soundness of the Company.

The Board of Directors have always taken decisions in accordance with the prevailing laws and regulations of the Country and those specifically imposed by the regulatory bodies.

The composition of the Board Committees as at 31st March 2018 are as follows ;

Audit Committee

- Mr. Chandrakumar Ramachandra (Chairman)
- Mr. Ananda Atukorala
- Ms. Lisa G. Thomas / alternate
- Mr. Malinda Samaratunga
- Mr. Ranvir Dewan

Integrated Risk Management Committee

- Mr. Ananda Atukorala (Chairman)
- Ms. Lisa G. Thomas / alternate
- Mr. Indrajit Wickremasinghe
- Mr. Chandrakumar Ramachandra
- Mr. Ransith Karunaratne

Board Credit Committee

- Mr. Ananda Atukorala (Chairman)
- Mr. Alex Lovell
- Ms. Lisa G. Thomas / alternate
- Mr. Upali Wijeyesekera
- Mr. Chandrakumar Ramachandra

Related Party Transactions Review Committee

- Mr. Ananda Atukorala (Chairman)
- Mr. Upali Wijeyesekera
- Mr. Chandrakumar Ramachandra

Human Resources and Remuneration Committee

- Mr. Upali Wijeyesekera (Chairman)
- Mr. Alex Lovell
- Mr. Ananda Atukorala
- Ms. Lisa G. Thomas / alternate

Strategic Planning Committee

- Mr. Alex Lovell (Chairman)
- Mr. Ananda Atukorala
- Ms. Lisa G. Thomas / alternate
- Mr. Indrajit Wickremasinghe
- Mr. Malinda Samaratunga

Number of Meetings Held and Attendance

Names of the Director	Board Meetings		Audit Committee		Integrated Risk Management Committee		Human Resources & Remuneration Committee		Strategic Committee		Credit Committee	
	E	A	E	A	E	A	E	A	E	A	E	A
Mr. Alexis Indrajit Lovell	12	10	-	-	-	-	4	4	4	2	4	3
Mr. Ananda Wijetilaka Atukorala	12	11	4	4	4	4	4	4	4	4	4	4
Mr. Davis Frederick Golding or his alternate (resigned from 25/04/2017)	1	0	-	-	-	-	-	-	-	-	-	-
Mr. Kenneth Kusinath Upali Wijeyesekera (ceased from 23/05/2017)	2	1	-	-	-	-	-	-	-	-	-	-
Mr. Malinda Namal Samaratunga	12	9	4	3	-	-	-	-	4	3	-	-
Mr. Chandrakumar Ramachandra	12	12	4	4	4	4	-	-	-	-	4	4
Mr. Ransith Karunaratne	12	12	-	-	4	4	-	-	-	-	-	-
Mr Indrajit Asela Wickramasinghe	12	10	-	-	4	3	-	-	4	3	-	-
Mr. Ranvir Dewan	12	11	4	2	-	-	-	-	-	-	-	-
Ms. Lisa Gayle Thomas or her alternate (appointed from 28/11/2017)	4	1	2	-	1	-	-	-	1	1	2	-

E - Eligibility / **A** - Attendance

Annual General Meeting

The Board takes the opportunity to address the issues of shareholders at the Annual General Meeting. The Financial Statement of the Company is prepared according to the accepted Rules and Accounting Standards. The Financial Accounts were published and also circulated prior to the Annual General Meeting. A copy of the Notice of Meeting is attached to this Annual Report.

For and on behalf of the Board of Directors

Alexis Indrajit Lovell, MBE
Chairman
28th August 2018
Colombo

Ransith Karunaratne
Director / Chief Executive Officer

Lasanthi Abeykoon
Company Secretaries
P W Corparate Secretarial (Pvt) Ltd

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
2.00	**The Responsibilities of the Board of Directors**	
2.01	Strengthening the safety and soundness of the Company	
	(a) Approve, oversee and communicate the strategic objectives and corporate values	A Board Approved Budget Forecast up to 2020/21 is in place. The Strategic Intent outlines the corporate values and medium term objectives of the company. These strategic objectives and corporate values have been communicated to the Management and are discussed and reviewed by the Board, Board Committees and Management periodically.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	The strategic intent document has been approved by the Board. The company is in the process of developing an overall risk policy with consultation of the Group Integrated Risk Management Committee.
	(c) Identifying and managing risk	The Company has an Integrated Risk Management Committee which has a mandate to identify the overall risk of the Company. A framework is in place for the Management and staff to report risk events to the Integrated Risk Management Committee. The composition of the Integrated Risk Management Committee and frequency of meetings is disclosed under the "Annual Report of the Board of Directors on the state of affairs of the Company".
	(d) Communication policy with all stakeholders	The Company has a Board approved communication policy.
	(e) Integrity of the internal control system and management information system	There is a mechanism at the company to identify the accuracy of the internal control by the Board of Directors through the process over design and effectiveness of internal control over financial reporting. Further Internal Audit Division of the company adds value to the process verifying the effectiveness of the above process. Financial information and reporting submitted to the Board are being checked and verified through the Financial audit. Further the company will take necessary measures to initiate a process by the Internal Audit department to review the accuracy of all Non-financial information which is used by the Board and the Board sub committees. The findings and the process, will be presented to the Board for the Board to review the adequacy and integrity of management information.
	(f) Identifying and designating Key Management Personnel	The Board has identified The Board of Directors, Chief Executive Officer, the Chief Operating Officer, the Head of Finance, and the Compliance Officer as Key Management Personnel.
	(g) Authority and responsibilities of the Board and Key Management Personnel;	Article 99-104 of the Company's Articles of Association defines the authority of the Board of Directors. The Company has a Board approved schedule of matters specifically reserved for the Board defining the areas of authority and key responsibilities of the Board of Directors which is covered under the Code of Corporate Governance which has been approved by the Board. The areas of authority and key responsibilities of the KMP's are defined in their job descriptions which will be approved by the Board.

Section	Principle	Degree of Compliance
	(h) Oversight of the affairs of the Finance Company by Key Management Personnel	The Board has a process for appropriate oversight of the affairs of the Company by Key Management Personnel. Affairs of the Company are presented by the Key Management Personnel to the Board for their information, discussion, review and approval at Board Sub Committee meetings and the monthly Board meetings.
	(i) Assessment of effectiveness of own governance practice	The Board appraises the performance of the Directors through an annual Board performance evaluation filled by each Director. As per the Articles of Association, the Board has the power to make decisions on selection, nomination and election of Directors. Directors are identified and nominated to the Board based on diversity of skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Election of Directors is effected in accordance with the requirements of the Companies Act No 07 of 2007. The Board has entrusted this task to the "Board HR and Remuneration Committee" for future nominations. Article 89 & 90 and Article 86 of the Articles of Association address the provisions on management of conflicts of interest of Directors. Conflicts of interests are managed on a monthly basis where Directors disclose their Directorships in other companies. Key Management Personnel declares any interest annually. In the event a conflict is identified corrective action is taken immediately.
	(j) Succession plan for Key Management Personnel	The Company has a succession plan in place covering all Key Management Personnel. The Company will get this plan approved by the Board.
	(k) Regular meetings with the Key Management Personnel	The members of the Corporate Management regularly prepare reviews, make presentations and take part in discussions on their areas of responsibility at Management Meetings, Asset Liability Committee Meetings, Board Sub Committee Meetings and Board Meetings.
	(l) Regulatory environment	The Board reviews the Company's compliance with the regulatory environment via monthly compliance reports submitted to the Board by the Compliance Officer. An effective relationship with the regulator is maintained by way of active participation by Chief Executive Officer at quarterly meetings and other meetings, trainings and workshops conducted by the regulator.
	(m) Hiring and oversight of external auditors	Company's Articles of Association outline the process of engaging the services of an External Auditor. As per the Articles of association the External Auditor is appointed at the Annual General Meeting of the Company. In line with the Audit Committee Charter the Board has entrusted the Audit Committee with the responsibility of engagement and oversight of the External Auditors.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
2.02	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities	The Chairman and the Chief Executive Officer of the Company have been appointed by the Board and the functions and responsibilities of the said have been defined and approved by the Board in the "Functions and Responsibilities of the Chairman, Chief Executive Officer and Senior Director of UB Finance Company Limited". The Chairman is responsible for leading the Board and Chief Executive Officer is in charge and responsible for the overall Management of the Company.
2.03	Directors ability to seek independent professional advice	The Directors are able to obtain independent professional advice as and when necessary at Company expense and the Board has obtained professional advice in appropriate circumstances. The Board approved policy will be implemented.
2.04	Dealing with conflict of interests	Directors Interests and Shareholdings and conflicts of interest (if any) are disclosed at monthly Board meetings. Directors abstain from voting on any Board resolution when there is conflict of interest and they are not counted in the quorum.
2.05	Formal schedule of matters specifically reserved for the Board decision	The Board has a formal schedule of matters specifically reserved to it for decision which is defined in the "Code of Corporate Governance" of the Company. The Board has put in place Board Sub Committees, systems and controls to facilitate the effective discharge of Board functions and to ensure that the direction and control of the Company is firmly under Board control and authority.
2.06	Situation of insolvency issue	During the period no such situation has arisen. In the event of such a possibility the Board will take necessary actions to comply.
2.07	Publish corporate governance report in Annual report	This report serves the said requirement.
2.08	Annual self- assessment by the Directors	The Company has adopted a scheme of self-assessment to be undertaken by each Director annually and is filed with the Company Secretary.
3.00	**Meetings of the Board**	
3.01	Regular Board meetings	The Board meets regularly at monthly intervals at a minimum and during the year the Board held twelve Board meetings. There were instances where the Board's consent had been obtained through the circulation of written or electronic resolutions/ papers which were subsequently ratified by the Board.
3.02	Arrangements for Directors to include matters and proposals in the agenda	All Board members are given an opportunity to include matters and proposals in the agenda for discussion at Board meetings.
3.03	Notice of meetings	As a practice, Directors are given notice of the meetings at least 7 days prior with respect of regular Board Meetings.
3.04	Directors attendance at Board meetings	Directors have attended at least two thirds of the meetings held during the year and no Director has been absent for three consecutive regular Board meetings during the year 2017/18.

Section	Principle	Degree of Compliance
3.05	Appointment of a Company Secretary to handle the secretariat services to the Board	M/s.PW Corporate Secretarial (Pvt.) Ltd. was appointed by the Board as the new Company Secretary on the 29th of February 2016 and has acted in this role to date. The Company Secretary ensures that proper Board procedures are followed and that applicable rules and regulations are brought to the notice of the Board.
3.06	Preparation of agenda for a Board meeting by the Company secretary	The Agenda is prepared by the Company Secretary.
3.07	Directors access to advice and services of the Company Secretary	All Directors have access to obtain advice and services from the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
3.08	Maintenance of Board minutes	The Company Secretary maintains the minutes and the minutes are open for inspection at any reasonable time to any Director.
3.09	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities	The Company Secretary maintains detailed minutes of Board meetings covering the requirements of the direction. Minutes are approved by the Chairman and the members of the Board.
4.00	**Compositions of the Board**	
4.01	The number of Directors	The number of Directors on the Board has not been less than 5 or more than 13 during the Financial Year. The Board Consist of 08 Non-Executive Directors and one Executive Director.
4.02	Period of service of a Director	The total period of service of all Non-Executive Directors does not exceed nine years.
4.03	Board balance	The composition of Executive Directors does not exceed one half of the total number of Directors.
4.04	Independent Non-Executive Directors	The number of Independent Non-Executive Directors of the Board is one fourth of the total number of Directors.
4.05	Appointment of an Alternate Director to represent an Independent Non-Executive Director	No such situation has arisen in 2017/18.
4.06	Skills and Experience of Non-Executive Directors	The Directors are eminent persons with knowledge, expertise and experience in different business sectors which has added diversity and brought about better judgment in matters relating to strategy, performance and resources.
4.07	More than half the quorum of Non-Executive Directors in Board meetings	All the Board meetings held during the financial year are duly constituted with more than one half of the number of Directors present at such meetings being Non-Executive Directors.
4.08	Expressly identification of the Independent Non- Executive Directors in corporate communications and disclose the details of Directors	The details of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are disclosed in the "Annual Report of the Board of Directors on the affairs of the Company".
4.09	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Company's Articles of Association address the procedure for appointment and removal of Directors.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
4.10	Directors appointed to fill a casual vacancy to be re-elected at first general meeting after their appointment	All Directors appointed to the Board are subject to re-election by the Shareholders at the first Annual General Meeting after their appointment. The Articles of Association addresses the procedure to fill a casual vacancy subject to their appointment.
4.11	Communication of reasons for removal or resignation of Directors	The Board announces such situations to the shareholders at the Annual General Meeting. Cessation of office of the Directors has been duly communicated to the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities.
5.00	**Criteria to assess the fitness and propriety of Directors**	
5.01	The age of Director shall not exceed 70 years	All the Directors as at 31st March 2018 are below the age of 70 years and the Company Secretary monitors the compliance.
5.02	Directors shall not hold office as a Director for more than 20 companies/ societies/ corporate bodies including associate and subsidiary companies	The total number of positions held as a Director or any other equivalent position in companies, societies, including subsidiaries or Associate Companies of the Finance Company is less than 20.
6.00	**Delegation of Functions**	
6.01	Delegation of work to the Management	All delegations are made in a manner that would not hinder the Board's ability to discharge its functions.
6.02	Periodical evaluation of the delegation process	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.
7.00	**The Chairman and the Chief Executive Officer**	
7.01	Division of responsibilities of the Chairman and Chief Executive Officer	There is a clear separation of duties between the roles of the Chairman and the Chief Executive Officer. These positions are held by two separate individuals who have been appointed by the Board.
7.02	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director	No such situation has arisen in 2017/18.
7.03	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board members	The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material relationship between the Chairman and the Chief Executive Officer. However Company will have to have a process to identify the required relationships and disclose in its Annual Report.
7.04	Chairman to: (a) Provide leadership to the Board (b) Ensure that the Board works effectively and discharges its responsibilities; and (c) Ensure that all key issues are discussed by the Board in a timely manner	The Chairman provides leadership to the Board and ensures that the Board works effectively when discharging its responsibilities and that all key issues are discussed by the Board in a timely manner. The Board has a scheme of self-assessment for the Board of Directors.

Section	Principle	Degree of Compliance
7.05	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary	The Chairman & the Board of Directors have delegated this function to the Company Secretary who prepares and circulates the agenda prior to the Board Meeting.
7.06	Ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting	The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers, with sufficient time prior to the meeting.
7.07	Encourage each Director to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Finance Company	The Chairman encourages all Directors to actively participate in Board affairs.
7.08	Facilitate effective contribution of Non-Executive Directors in particular and ensure constructive relationships between executive and Non-Executive Directors	The Chairman facilitates the effective contribution of all Directors. Executive and Non-Executive Directors work together in the best interest of the Company.
7.09	Refrain from direct supervision of Key Management Personnel or executive duties	The Chairman is a Non-Executive Director and the Chairman does not get directly involved in the supervision of Key Management Personnel or engage in any other executive duties.
7.10	Maintain effective communication with Shareholders	The AGM of the Company is the main forum where the Board maintains effective communication with Shareholders and that the views of Shareholders are communicated to the Board. Adequate time is allocated to the Shareholders to raise any questions at Shareholder meetings. All queries are answered by the Chairman, the Board of Directors, Chief Executive Officer and other Key Management Personnel.
7.11	Chief Executive Officer functions as the apex executive-in- charge of the day to day operations and business	The Chief Executive Officer is responsible for the day-to-day operations and business of the Company.
8.00	**Board appointed Committees**	
8.01	Establishing Board committees, their functions and reporting	The following Board sub committees have been appointed by the Board and requires each such committee to report to the Board: 1. Integrated Risk Management Committee 2. Board Audit Committee 3. Board Strategic Planning Committee 4. Board Credit Committee 5. Board HR & Remuneration Committee Reports of such committees are submitted to the Board for review and approval
8.02	Audit committee	
	The following shall apply in relation to the Audit Committee:	
A	The Chairman of the committee to be a Non-Executive Director with relevant qualifications and experience	The Chairman of the Board Audit Committee is an Independent Non-Executive Director who is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.
B	All members of the committee to be Non-Executive Directors	All members of the Board Audit Committee are Non-Executive Directors.
C	Duties of the committee: (i) the appointment of the external auditor (ii) The implementation of the Central Bank guidelines (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the auditor	The Committee has to recommend the appointment of the external auditor for audit services. The evaluation is carried out by the Board Audit Committee in relation to Central Bank of Sri Lanka Directions & Guidelines. All matters regarding Central Bank of Sri Lanka Directions & Guidelines and new Accounting Standards are discussed and advised to the Board and Management by the Audit Committee and the Management implements

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
		the same. The Committee ensures that the requirement of rotation of External Audit Engagement Partner once in every 5 years is met. The Audit Committee has the primary responsibility for making recommendations on the appointment, re-appointment or removal of the External Auditor in line with professional standards and regulatory requirements.
D	Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes	External Auditors are independent and report directly to the Board Audit Committee of the Company. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking the regulations and guidelines.
E	Develop and implement a policy on the engagement of an External Auditor to provide non-audit services	The Company has a procedure for engagement of external professionals for advice and services required by the Company from time to time as given in the "Code of Corporate Governance", however it is not specific with regard to the engagement of External Auditors for non-audit services, as such the Company will further improve the procedure for better governance. In the event of such an engagement the management will to the best of its ability, ensure that the independence of the auditor is not compromised and Audit Committee approval is sorted.
F	Determine the nature and the scope of the External Audit	The committee has to discuss and finalize the nature and scope of the audit, with the external auditors.
G	Review the financial information of the Company	Financial statements are circulated to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit recommendations and compliance with statutory requirements takes place and obtains required clarifications in respect of all areas before being recommended for the Board Approval.
H	Meeting of External Auditors to discuss issues and problems of Interim and Final Audits in the absence of Executive Management	The Board Audit Committee has met and had discussions with the External Auditors with and without the presence of the Executive Management as required.
I	Reviewing of the External Auditors' management letter and the response thereto	The Committee has reviewed the external auditor's management letter for the year 2016/17 and management responses thereto.
J	Review of the internal Audit function (i) Review scope, functions and resources (ii) Review of internal audit program (iii) Review internal audit department (iv) Recommendations on internal audit functions (v) Independence of internal audit functions	The Committee has reviewed the adequacy of scope of internal audit function and the internal audit program for the year ended 2017/18. The Board Audit Committee has discussed and reviewed the findings of the Internal Audit Reports prepared by the Union Bank Internal Audit team. The Union Bank Audit team directly reports to the Audit Committee with a dotted reporting line to the Chief Executive Officer.
K	Consideration about the internal investigations and management's responses	The committee considers the major findings of internal audit investigations and Management's responses thereto.
L	Attendees of the Audit Committee meeting with Corporate Management and external auditors	Other Board members and the Chief Executive Officer also attend meetings upon the invitation of the committee. The Committee has met the External Auditors without the Executive Management present.

Section	Principle	Degree of Compliance
M	Explicit authority, adequate resources, access to information; and obtain external professional advice wherever necessary	The Board Audit Committee is guided by a Board approved "Audit Committee Charter" which sets out authority and responsibility of the said Committee. The Board Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Board Audit Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.
N	Regular meetings	The Committee meets regularly. The agenda and the discussion material are circulated in advance, and the conclusions are recorded in the meeting minutes.
O	Disclosure in the Annual report	The Report of the Audit Committee includes the details of the activities, number of meetings held during the year and the Directors attendance to the Audit Committee meetings.
P	Maintain minutes of meetings	The Secretary of the Audit Committee records and maintains all minutes of the meetings.
Q	Whistleblower Policy	The Company has a "Whistle Blowing Policy" by which employees of the Finance Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Board Audit Committee ensures that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action. The Board Audit Committee also acts as the key representative body for overseeing the Finance Company's relations with the External Auditor.
8.03	**Integrated Risk Management Committee**	
	The following shall apply in relation to the Integrated Risk Management Committee:	
A	The composition of IRMC	The Integrated Risk Management Committee consists of three Non-Executive Directors, Chief Executive Officer, Chief Operating Officer, Head of Finance and Manager Risk & Compliance.
B	Periodical risk assessment	The Company has a process to assess and evaluate the risks and the findings and reviews are submitted to the Board quarterly.
C	Review and measurement of management level committee risk	The Integrated Risk Management Committee reviews adequacy and effectiveness of the credit committee.
D	Corrective action to mitigate the risk	The process to review the risk indicators will be further strengthened in the coming financial year for further improvement of the risk management of the Company.
E	Frequency of meetings	The Integrated Risk Management Committee had four meetings during the Financial Year.
F	Actions against the officers responsible for failures to identify risks and take prompt corrective actions	The Integrated Risk Management Committee has a process in place for the Management to identify report and take corrective action on specific risks faced by the Company. Any failures/non compliances in this regard will be referred to the HR Department for necessary action.
G	Risk assessment report to the Board	The Integrated Risk Management Committee has kept the Board informed of their risk assessment of the Company by forwarding a risk report and also tabling the minutes at the Board meeting.

Section	Principle	Degree of Compliance
H	Establishment of a compliance function	The Company's compliance with laws and regulations are monitored by the Compliance Officer and the Integrated Risk Management Committee. The Company has a process to assess the compliance with internal controls and approved policies pertaining to all areas of business operations.
9.00	**Related party transactions**	
9.01	Avoid conflicts of interest that arise from transactions of the Company with related parties	The "Code of Corporate Governance" approved by the Board covers the definition of related parties and how to handle transactions entered into with related parties.
9.02	Related party transactions	Transactions carried out with Related Parties are disclosed in the Financial Statements on 'Related Party Disclosures'. The Company is in the process of improving the monitoring mechanism in this regard.
9.03	Monitoring of related party transactions defined as more favourable transactions	The Company has not engaged in transactions with related parties in a manner that has granted such parties a "more favourable treatment" than that is accorded to other similar constituents of the Company. The Board will improve on the process for identifying related parties through the branch network/system to identify, and avoid granting more favourable treatment to the related parties as defined in Direction 9(2).
10.00	**Disclosures**	
10.01	Published interim and Annual Financial Statement based on applicable accounting standards and published in Sinhala, Tamil and English	Audited Financial Statements for 2017/18 were prepared and published in the News Papers in all three languages in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.
10.02	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	a) Disclosed in the "Annual Report of the Board of Directors on the State of Affairs of the Company".
	b) A report by the Board on the Finance Company's internal control mechanism	b) Disclosed in the "Directors Statement on Internal Controls over Financial Reporting".
	c) The external auditor's certification on the effectiveness of the internal control mechanism	c) The Board has obtained a certification from External Auditors on the effectiveness of the internal controls over financial reporting.
	d) Details of Directors.	d) Details of Directors have been disclosed in the "Annual Report of the Board of Directors on the State of Affairs of the Company".
	e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	e) Disclosed in Note No. 36 of the 2017/18 Financials under "Transactions with Key Management Personnel".

Section	Principle	Degree of Compliance
	f) Total net accommodation and the net accommodations outstanding to the related parties as a percentage of the capital funds	f) There is no accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties.
	g) The aggregate values of remuneration paid and the values of the transactions of the Finance Company with its Key Management Personnel	g) Disclosed in Note No. 36 of the 2017/18 Financials under "Transactions with Related Parties".
	h) A report confirming compliance with prudential requirements, regulators laws and internal controls	h) Disclosed in the "Directors Statement on Internal Controls Over Financial Reporting" & "The Annual Report of the Board of Directors on the State of Affairs of the Company".
	i) Non compliance reporting	i) There are no significant non compliances requiring disclosure.
	j) The external auditor's certification of the compliance with the corporate governance direction	j) The external Auditor's certification on the compliance with the Corporate Governance direction issued by the Monetary Board has been obtained.

AUDIT COMMITTEE REPORT

Composition and Performance

At the end of the year, the Audit Committee as appointed by the Board comprised of the following Non-Executive Directors of the company;

Mr Chandrakumar Ramachandra (Chairman)
Independent Non-Executive Director
Mr Ananda Wijetilaka Atukorala
Independent Non-Executive Director
Mr Davis Frederick Golding – Resigned with effect from 25/04/2017
Non-Executive Director
Mr Malinda Namal Samaratunga
Non-Executive Director
Mr Ranvir Dewan
Non-Executive Director

The BAC is chaired by Mr. Chandrakumar Ramachandra, a Fellow member of the Institute of Chartered Accountants of Sri Lanka. The BAC comprises of two Independent Non-Executive Directors and two Non-Executive Directors. The Board Audit Committee (BAC), as a whole, have the required and relevant experience. Brief profiles of the Committee members are given in pages 10 to 11.

The Chief Executive Officer, Chief Operating Officer, Head of Finance and other Senior Managers attended meetings by invitation as necessary to brief the Audit Committee on specific matters. The External Auditors also attended meetings by invitation whenever necessary.

The activities and views of the Committee have been communicated to the Board of Directors monthly through verbal briefings, formal updates and by tabling the minutes of the Committee's meetings. The Board Audit Committee met four times during the period under review, including the meetings with External Audit without the presence of the Management.

Attendance of Committee members at each meeting is given in the table on page 32 of the Annual Report.

The Role of the Audit Committee

The Board Audit Committee assists the Board of Directors in fulfilling effectively it's responsibilities relating to financial and other related affairs of the Company. The committee is empowered to oversee:

- Preparation, presentation and adequacy of disclosures in the Financial Statements, in accordance with Sri Lanka Accounting Standards.
- Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.
- Processes to ensure that the Company's internal controls and risk management procedures are adequate to meet the requirements of the Sri Lanka Accounting Standards.

Terms of Reference

The Charter of the Audit Committee, which is subject to review and revision periodically by the Board of Directors, clearly defines the Terms of Reference of the Committee.

Key responsibilities of the BAC

Financial Reporting

The Committee reviewed the Company's Interim and Annual Financial Statements and other financial information prior to publication.

The Committee reviewed and discussed with the Management and the External Auditors the appropriateness of critical accounting policies and material judgmental matters where judgment was applied, the practices and related changes thereto, financial reporting controls and the extent of compliance with accounting policies.

Internal Audit and Internal Controls

The Company has engaged the services of the Group Internal Audit division of Union Bank to carry out the internal audit function of the company. The Head of Internal Audit of Union Bank function as the Secretary to the Committee.

During the year the Audit Committee reviewed the performance of the internal audit function. It discussed Internal Audit Reports and the corrective action taken by the Management. It also evaluated the Company's internal control system. The deficiencies and lapses reported by both Internal Auditors and External Auditors are discussed with Management and recommendations given by them are implemented.

External Audit

The Committee assists the Board of Directors in engaging External Auditors for Audit and Non Audit services in compliance with the Statutes. Meetings with the group auditor were held twice during the engagement. The Committee discusses the audit plan, key audit issues and their resolution, management response, proposed remuneration etc pertaining to the External Auditors.

The Committee met the External Auditors with the Management during the course of the External Audit to discuss all significant audit issues and to ensure that the Financial Statements complied with accounting standards and other relevant laws and regulations.

The reappointment of External Auditor Messrs Ernst & Young for the next financial year is recommended subject to the approval of the shareholders at the AGM.

Whistle Blowing Policy

The whistle blowing policy serves as a communication channel to address genuine concerns that the staff may have in relation to activities which they feel are wrongful or illegal or otherwise harmful to the interests of the Company, its employees, customers and all other stakeholders. The Committee continuously emphasises on sustaining ethical values of the Company and in this regard, a Code of Ethics and Whistle Blowing policy is in place. All staff have been made aware of the existence of such a policy and encouraged to whistle blow if they suspect any wrong doing. All necessary procedures and techniques are in place to conduct independent and impartial investigations into incidents reported through whistle-blowing or identified through other channels. The whistle-blowing policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers. The policy is subject to annual review in order to further improve its effectiveness.

Chandrakumar Ramachandra
Chairman – Board Audit Committee.

Purpose

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risks faced by the Company in its business operations and ensure adequacy and effectiveness of the risk management framework of the company.

Composition

The Board appointed Integrated Risk Management Committee comprised of the following members;

Mr. Ananda Atukorala Independent Non-Executive Director	Committee Chairman
Mr. Chandrakumar Ramachandra Independent Non-Executive Director	Committee Member
Mr. Indrajit Wickremasinghe Non-Executive Director	Committee Member
Mr. Ransith Karunaratne Director / CEO	Committee Member

Terms of Reference

The Board Integrated Risk Management Committee has adopted the provisions of Section 8 (3) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Monetary Board of Central Bank of Sri Lanka in defining the UB Finance Integrated Risk Management Committee Charter.

Committee Meetings

During the year under review the committee held four meetings on a quarterly basis. Attendance of Committee meetings given on page 32

The Committee is mainly responsible for the following, namely;

- To Identify, assess and manage Board risk categories, i.e. Credit, market, operational and strategic risks through risk indicators.
- To Review the adequacy and effectiveness of all management level Committees such as credit Committee address specific risks and manage those risks within quantitative and qualitative risks limits as specified by the Committee.
- To Monitor and take appropriate actions with the officers responsible for failure to identify specific risks and initiate corrective action as necessary.
- To take prompt actions to mitigate the effect of specific risks in the case of such risks are at levels beyond the prudent level.
- To establish a compliance function to assess the finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.

Activities of the Committee

- The Board has undertaken its duties in overseen risk management in credit, operational and market risk. These were monitored by divisional heads and reported to the Manager Risk and Compliance.

- The risks were then reviewed and assessed monthly by the Manager Risk and Compliance. Summarized reports were submitted quarterly to the Committee for concurrence and/or specific direction in order to ensure that the risks are managed appropriately.

- Proceedings of meetings were tabled at subsequent meetings of the Board.

Ananda Atukorala
Committee Chairman
Integrated Risk Management Committee

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Finance Companies Corporate Governance Direction No. 03 of 2008 (or Finance Leasing Direction No. 04 of 2009), section 10(2)(b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the UB Finance Company Limited. ("Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board. The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The management is in the process of documenting the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

The Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS. Processes applied to adopt the said accounting standards were strengthened during the year 2017/18 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee.

Progressive improvements on processes to comply with new requirements of recognition measurement, classification and disclosure are being made whilst some processes as at the reporting date were not fully completed. In particular, due to time constraints, areas with respect to the processes such as related party transactions, monthly impairment computation and IT controls are being implemented as at the Reporting date. The Company is in the process of updating relevant procedure manuals pertaining to these new requirements.

Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

External Auditors Certification

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting. The matters addressed by the External Auditors in this respect, are being looked into.

By Order of the Board

Alexis Lovell, MBE
Chairman

Ransith Karunaratne
Director/ Chief Executive Officer

Chandrakumar Ramachandra
Director/Chairman-Audit Committee

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel :+94 11 2463500
Fax Gen :+94 11 2697369
Tax :+94 11 5578180
eysl@lk.ey.com
ey.com

BW/PML/AD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UB FINANCE COMPANY LIMITED

Report on the Financial Statements

Opinion

We have audited the financial statements of UB FINANCE COMPANY LIMITED ("the Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

Building a better working world

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

Ernst + Young

28 June 2018
Colombo

UB FINANCE COMPANY LIMITED

INCOME STATEMENT

Year ended 31 March 2018

	Notes	2018 Rs.	2017 Rs.
Income	4	**2,010,850,282**	**1,578,536,968**
Interest Income	4.1	1,904,703,382	1,403,157,114
Interest Expenses	4.2	(1,292,033,238)	(925,528,236)
Net Interest Income		**612,670,144**	**477,628,878**
Fee and Commission Income	4.3	85,026,818	90,596,133
Fee and Commission Expenses	4.3	(32,985,998)	(29,854,046)
Net Fee and Commission Income		**52,040,820**	**60,742,087**
Other Operating Income (Net)	5	21,120,082	84,783,721
Total Operating Income		**685,831,046**	**623,154,686**
Impairment Charge for Loans and Receivables and Other Assets	6	(132,135,563)	(90,632,002)
Net Operating Income		**553,695,483**	**532,522,684**
Staff Costs	7	(170,344,838)	(151,293,776)
Depreciation of Property, Plant and Equipment	19.1	(22,133,078)	(21,982,466)
Amortisation of Intangible Assets	18	(1,426,464)	(1,424,422)
Other Expenses	8	(220,208,106)	(231,466,276)
Operating Profit before Value Added Tax (VAT) and NBT		**139,582,997**	**126,355,744**
Value Added Tax (VAT) and NBT on Financial Services		(51,321,688)	(32,952,620)
Profit before Taxation		**88,261,309**	**93,403,124**
Tax Expense	9	(16,392,519)	(25,842,472)
Profit for the Year		**71,868,790**	**67,560,652**
Earnings Per Share : Basic / Diluted	10	0.04	0.04

The Accounting Policies and Notes on pages 53 through 98 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2018

	Notes	2018 Rs.	2017 Rs.
Profit for the Year		71,868,790	67,560,652
Other Comprehensive Income to be reclassified to Income Statement			
Losses on re-measuring Available-for-Sale Financial Assets	29	-	149,279
Impairment adjustment for Available-for-Sale Investment	29	-	-
Recycling into Income Statement	29	277,915	-
Other Comprehensive Income not to be reclassified to Income Statement			
Gain on revaluation of land and buildings	19.1	-	23,084,832
Deferred Tax (Charge) / Reversal impact on above	20	(11,104,421)	-
Actuarial gains / (losses) on Post Employment Liability	26.1	5,378,191	414,304
Deferred Tax (Charge) / Reversal impact on above		(1,505,893)	(116,005)
Other Comprehensive Income for the Year, net of taxes		(6,954,208)	23,532,410
Total Comprehensive Income for the Year		**64,914,582**	**91,093,062**

The Accounting Policies and Notes on pages 53 through 98 form an integral part of these financial statements.

UB FINANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	2018 Rs.	2017 Rs.
Assets			
Cash in Hand and Balances with Banks	11	455,042,958	515,949,911
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	12	455,652,248	444,432,380
Sri Lanka Government Securities - Available for Sale	13	-	8,423,661
Loans and Receivables from Customers	14	9,452,656,902	8,501,728,542
Financial Investments – Available for Sale	15	200,900	1,152,765
Commercial Paper Investments		158,703,642	-
Investments in Real Estate	16	163,828,425	152,315,852
Other Assets	17	79,402,061	59,087,692
Intangible Assets	18	8,427,137	8,987,910
Property, Plant and Equipment	19	188,612,501	204,192,159
Deferred Tax Assets	20	188,272,861	199,347,229
Total Assets		**11,150,799,635**	**10,095,618,101**
Liabilities			
Due to Banks	21	151,969,768	911,348,844
Due to other Customers	22	7,237,344,201	6,063,491,070
Other Borrowed Funds	23	2,225,701,258	1,966,071,424
Current Tax Liabilities		7,927,260	8,798,155
Other Financial Liabilities	24	292,241,942	281,911,853
Other Non Financial Liabilities	25	41,805,440	33,194,703
Post Employment Liability	26	12,790.282	14,757,279
Total Liabilities		**9,969,780,151**	**9,279,573,328**
Equity			
Stated Capital	27	3,152,047,599	2,851,987,469
Statutory Reserve Fund	28	52,044,800	48,451,361
Available-for-Sale-Reserve	29	-	(277,915)
Revaluation Reserves		28,554,226	39,658,647
Accumulated Loss	30	(2,051,627,141)	(2,123,774,789)
Total Shareholders' Equity		**1,181,019,484**	**816,044,773**
Total Equity and Liabilities		**11,150,799,635**	**10,095,618,101**

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Asanka Udugama
Head Of Finance

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board;

Alexis Indrajit Lovell, MBE
Chairman

Ransith Karunaratne
Director / Chief Executive Officer

The Accounting Policies and Notes on pages 53 through 98 form an integral part of these financial statements.

28 June 2018
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Available-for-Sale Reserve Rs.	Revaluation Reserves Rs.	Accumulated Loss Rs.	Total Rs.
Balance as at 01 April 2016		**2,851,987,469**	**45,073,328**	**(427,194)**	**16,573,815**	**(2,188,255,707)**	**724,951,711**
Other Comprehensive Income		-	-	149,279	23,084,832	298,299	23,532,410
Profit for the year		-	-	-	-	67,560,652	67,560,652
Transfer to the Statutory Reserve	28.1	-	3,378,033	-	-	(3,378,033)	-
Balance as at 31 March 2017		**2,851,987,469**	**48,451,361**	**(277,915)**	**39,658,647**	**(2,123,774,789)**	**816,044,773**
Balance as at 01 April 2017		**2,851,987,469**	**48,451,361**	**(277,915)**	**39,658,647**	**(2,123,774,789)**	**816,044,773**
Other Comprehensive Income		-	-	277,915	(11,104,421)	3,872,297	(6,954,209)
Issue of Shares	27	300,060,130	-	-	-	-	300,060,130
Profit for the year		-	-	-	-	71,868,790	71,868,790
Transfer to Statutory Reserve	28.1	-	3,593,439	-	-	(3,593,439)	-
Balance as at 31 March 2018		**3,152,047,599**	**52,044,800**	**-**	**28,554,226**	**(2,051,627,141)**	**1,181,019,484**

The Accounting Policies and Notes on pages 53 through 98 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 March 2018

	Notes	2018 Rs.	2017 Rs.
Cash Flow from Operating Activities			
Interest Received	4.1	1,892,813,410	1,296,354,424
Fees and Commission Receipts	4.3	85,026,818	90,596,133
Interest Paid	4.2	(1,226,261,607)	(840,140,034)
Fees and Commission Paid	4.3	(32,985,998)	(29,854,046)
Payments on Other Operating Activities		(394,225,356)	(272,048,097)
Operating Profit / (Loss) before changes in Operating Assets and Liabilities		**324,367,267**	**244,908,380**
(Increase) / Decrease in Operating Assets:			
Funds Advanced to Customers	14	(1,103,706,040)	(2,024,599,967)
Others		(20,314,369)	30,706,137
Increase in Operating Liabilities:			
Due to Banks and Other Customers	22	1,116,638,860	1,741,986,604
Others		18,940,826	(17,586,814)
Net Cash used in Operating Activities before Income Tax		335,926,544	(24,585,660)
Retiring Gratuity paid	26	(312,500)	(317,178)
Income Tax Paid		(9,522,814)	(16,704,751)
Net Cash used in Operating Activities		**326,091,230**	**(41,607,589)**
Cash Flow from Investing Activities			
Dividends Received	5	342,450	5,265
Purchase of Intangible Assets	18	(865,691)	-
Purchase of Property, Plant and Equipment	19	(11,017,728)	(31,235,794)
Proceeds from Sale of Property Plant and Equipment		6,950,000	4,300,000
Proceeds from Sale of Gold & Diamond Stocks		1,613,371	-
Proceeds from Sale of Quoted Equity Securities		431,961	780,854
Receipt in Unit Trusts		663,147	-
Investments in government securities		8,945,906	-
Net Cash used in Investing Activities		**7,063,416**	**(26,149,675)**
Cash Flow from Financing Activities			
Increase in Borrowings	23	235,180,857	(182,493,686)
Issues of Share (Right Issue)	27	300,060,130	-
Net Cash Generated from Financing Activities		**535,240,987**	**(182,493,686)**
Net (Decrease) / Increase in Cash and Cash Equivalents		868,395,633	(250,250,950)
Cash and Cash Equivalents at Beginning of the Year		49,033,448	299,284,398
Cash and Cash Equivalents at End of the Year		**917,429,081**	**49,033,448**
Reconciliation of Cash and Cash Equivalents			
Cash in Hand		649,915	610,000
Balances with Banks (Net of Overdraft)		302,423,276	(396,008,932)
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements - Available for Sale		455,652,248	444,432,380
Investment in Commercial Papers		158,703,642	-
		917,429,081	**49,033,448**

The Accounting Policies and Notes on pages 53 through 98 form an integral part of these financial statements.

1. REPORTING ENTITY

1.1 General

UB Finance Company Limited is a Limited Liability Company, incorporated and domiciled in Sri Lanka. The Company was originally incorporated as The Finance & Guarantee Company Limited on 12 July 1961 under the Companies Ordinance No. 51 of 1938 and was re-registered as required under the provision of the Companies Act No.7 of 2007 on 26th December 2007. The Company being a Finance Company is also registered with the Central Bank of Sri Lanka under the Finance Business Companies' Act No. 42 of 2011 and Finance Leasing Act No.56 of 2000 of Sri Lanka.

Union Bank of Colombo PLC (Parent company) together with its US based strategic investment partner ShoreCap II acquired The Finance & Guarantee Co. Ltd. on 1st November 2011. The Company was restructured, re branded & launched as UB Finance Co. Ltd. on 25 April 2012. The Company's Registered Office / Head Office are currently located at No.10, Daisy Villa Avenue, Colombo 04.

1.2 Parent Entity and the Ultimate Controlling Parties

The Company's immediate parent is Union Bank of Colombo PLC and ultimate controlling party is TPG Asia GenPar VI,L.P, registered in the Cayman Island.

1.3 Principal Activities and Nature of Operations

As a Finance Company registered with the Monetary Board of the Central Bank of Sri Lanka, the principle business activities of the Company include investment activities such as accepting fixed deposits and savings accounts, finance activities such as providing lease, hire purchase and loan facilities and working capital activities such as factoring. The Company also deals in real estate and other investment and credit activities. Being the first finance company to be backed by a commercial bank in the private sector, UB Finance Company Limited is uniquely positioned to offer its customers "The versatility of a finance company backed by the strength of a bank".

1.4 Date of Authorization for Issue

The Financial Statements of UB Finance Company Limited for the year ended 31 March 2018 was authorized for issue in accordance with a resolution of the Board of Directors on 28 June 2018.

1.5 Director's Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of UB Finance Company Limited as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards (LKAS/SLFRS).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows together with Accounting Policies and notes (Financial Statements), as at 31 March 2018 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred as LKASs and SLFRSs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and the presentation of the financial statements is also in compliance with the requirements of the Finance Business Act No. 42 of 2011.

2.2 Basis of Measurement

The financial statements of the company have been prepared on a historical cost basis, except for land and building, available-for-sale financial investments that have been measured at fair value and liabilities for defined benefit obligations is recognized as the present value of the defined benefit obligation.

2.3 Functional and presentation currency

The financial statements presented in Sri Lankan rupees have been prepared on a historical cost basis except otherwise stated.

2.4 Presentation of Financial Statements

The company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 33.14.3.

2.5 Materiality and Aggregation

In compliance with LKAS 01 (Presentation of Financial Statements),each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial Assets and Financial Liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard and as specifically disclosed in the accounting policies.

2.6 Comparative Information

The Financial Statements of the Company provide comparative information in respect of the previous period. In addition, the company presents an additional Statement of Financial Position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy and previous year's figures and phrases have been re-arranged whenever necessary to confirm to the current year's presentation.

2.7 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

2.8 Statement of Cash Flows

The Statement of Cash flows is prepared using the direct method, as stipulated in LKAS 7-"Statement of Cash Flows". Cash and cash equivalents comprise cash in hand; cash at bank, bank overdraft and Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.9 Significant accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the company in conformity with Sri Lanka Accounting Standards (LKASs and SLFRSs) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised on and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Company are as follows,

2.9.1 Going Concern

The Company's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.9.2 Fair value of financial instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 32 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 32.4 to the Financial Statements.

2.9.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions which are based on a number of factors and actual results may differ, resulting in future changes to the assumptions.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in comparing of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual Companies). The impairment loss on loans and advances is disclosed in more detail in Note 06 and Note 14.

2.9.4 Impairment of Available for Sale Investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.9.5 Taxation

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgments were required to determine the total provision for current, deferred and other taxes in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made. The taxation is disclosed in more detail in Note 09.

2.9.6 Deferred Tax Assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. The deferred taxation is disclosed in more detail in Note 20.

2.9.7 Defined Benefit Plan

The cost of the defined benefit plan and the present value of its obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Refer Note 26 for more detail on Defined Benefit Plan.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the company.

2.9.8 Useful lives of Property, Plant and Equipment and Intangibles

The Company reviews the assets' residual values, useful lives and methods of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.9.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Refer Note 31 for more details on Commitments and Contingencies.

2.9.10 Revaluation of Property Plant and Equipment

The Company usually engages an external independent and qualified valuer once in three year basis to determine the fair values. When significant changes in fair values are expected in between, a valuation is adopted in more regular basis, based on the judgment of the Board, appropriately advised by the valuer.

Changes in fair value being recognized in other comprehensive income. The Company engaged an individual valuation specialist to assess fair value as at 31st March 2017 for land and building. Land and buildings are valued by reference to market based evidence, using comparable price adjusted for specific market factors such as nature, location and condition of the property. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 19.4.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and Cash Equivalents

The Cash Flow statement is prepared using the direct method, as stipulated in LKAS 7-"Statement of Cash Flows" Whereby operating, investing and financial activities are separately recognized.

For the purpose of the Statement of Cash Flow, cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, non–restricted current account balances with Company's on demand (net of unfavourable balances) or with an original maturity of three months or less and placements with banks (less than three months) Details of Cash and Cash Equivalents are given in note 11.

3.2 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

Financial Assets within the scope of LKAS 39 are classified as Loans and Advances, Lease Rental Receivables, Financial Investments Held-to-Maturity, Financial Investments Available-for-sale, Financial Investments Held for Trading as appropriate. The Company determines the classification of its financial assets at initial recognition.

3.2.1 Date of recognition

The Company initially recognizes loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

3.2.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss.

3.2.3 ' Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable, or when the instrument is de recognized. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortized using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.2.4 Classification and Subsequent Measurement of Financial Assets

At the inception a financial asset is classified into one of the following.

- Financial assets at fair value through profit or loss
- Held to maturity financial assets
- Loans and receivables
- Financial assets available-for-sale

The subsequent measurement of financial assets depends on their classification.

Financial assets at Fair Value Through Profit or Loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognized in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of profit or loss.

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as available-for-sale.

Held to Maturity (HTM) financial investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortization is included in interest income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognized as impairment cost in the Statement of Profit or Loss and Other Comprehensive Income.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- Finance leases and hire purchase

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- Advances and other loans to customers

Advances and other loans to customers comprised of revolving loans and loans with fixed instalment.

Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

Financial Investments Available For Sale (AFS)

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

3.2.5 Classification and Subsequent Measurement of Financial Liabilities

The Company initially recognizes non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes there in recognized in profit or loss.

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortized cost

Deposits and bank borrowings are the Company's sources of debt funding.
The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortized cost using the effective interest method.

3.2.6 Reclassification of Financial Instruments

The Company reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

No reclassifications of financial instruments were done during the year.

3.3 Derecognition of Financial Assets and Financial Liabilities

Financial Assets

The Company derecognizes a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial Liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

3.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

3.5 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

3.6 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

3.7 Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Impairment of Financial Assets carried at Amortized Cost

For financial assets carried at amortized cost (such as amounts due from Company's, loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Individually Assessed Financial Assets

The criteria used to determine whether there is objective evidence of impairment include and not limited to:

- Known cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The probability that the borrower will enter bankruptcy or other financial reorganization; and
- A significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

When impairment losses are determined for those financial assets where objective evidence of impairment exists, the following factors are considered:

- Company's aggregate exposure to the customer;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The realizable value of security (or other credit mitigates) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;

Collectively Assessed Financial Assets

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed financial assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events

occurring before the reporting date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financial assets within the group, those financial assets are removed from the group and assessed on an individual basis for impairment.
The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of financial assets

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financial assets. Losses in these groups of financial assets are recorded on an individual basis when individual financial assets are written off, at which point they are removed from the group.

The Company uses the Net Flow Rate method to calculate the historical loss experience on collective basis. Under this methodology the movement in the outstanding balance of customers into bad categories over the periods are used to estimate the amount of financial assets that will eventually be written off as a result of the events occurring before the reporting date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Reversal of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognized in the Statement of Profit or Loss.

Write-off of Financial Assets carried at Amortized Cost

Financial assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realization of security.

Impairment of Rescheduled Loans and Advances

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

Collateral Repossessed

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the market value.

Impairment of Available For Sale Financial Investments

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized in other comprehensive income.

The Company writes-off certain Available for Sale financial investments when they are determined to be uncollectible.

3.8 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance Lease

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognized in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Operating Lease

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases.

Operating leases – Company as a lessee

Operating lease payments are recognized as an expense in the statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognized as an expense in the period in which they are incurred.

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

3.9 Real Estate Property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as real estate property and is measured at the lower of cost and net realizable value.
Cost includes:
- Freehold rights for land
- Amounts paid to contractors for developments
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs,

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of real estate property recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

3.10 Property, Plant and Equipment

Recognition and Measurement

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.
The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognized in other income/other expenses in profit or loss.

Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

Revaluation Model

The Company revalues its land and buildings which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

On revaluation of lands and buildings, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognized in the statement of profit or loss. A decrease in value is recognized in the statement of profit or loss where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

Derecognition

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or losses rising on de-recognition of the asset is included in the Income statement the year the asset is derecognized.

Subsequent Costs

The cost of replacing a component of an item of property, plant or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The depreciation charges are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognized.

The estimated useful lives of the assets by equal annual instalments are as follows.

Building	2.5%
Leasehold Improvements	10%
Computer and Equipment	25%
Furniture and Fittings	7.5%
Motor Vehicles	15%
Office Equipment (included under Furniture and Fittings)	15%

The asset's residual value, useful life and method of depreciation are reviewed at each statement of financial position date and adjusted prospectively, as changes in accounting estimates.

3.11 Intangible Assets

Software

Software acquired by the Company is stated at cost less accumulated amortization and accumulated impairment losses.

Expenditure on internally developed software is recognized as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimated Useful Life of Intangible Assets

Intangible	Amortization Period
Computer Software	Over 10 years from the date of Available to use

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

3.12 Impairment of non–Financial Assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.13 Employee Benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

Employees' Provident Fund

The company and the employees contribute 12% and 8% respectively on the salary of each employee to the approved private provident fund.

Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the employees' trust fund.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognizes all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income.

Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows:

Parameter	2018	2017
Discount Rate	10.0%	12.9%
Rate of salary increment	9.0%	10.5 %

The demographic assumptions underlying the valuation are retirement age 55, early withdrawals from service, and retirement on medical grounds, death before and after retirement, etc.

An actuarial valuation is carried out at every year end to ascertain the full liability under the fund.

Recognition of Actuarial Gain and Losses

The company recognizes the total actuarial gains and losses that arises in calculating the company obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Interest Cost

Interest cost is the expected increase due to interest during the period in the present value of the planned liabilities because the benefits are one year closer to settlement.

Recognition of Past Service Cost (Applicable only when a plan has been changed)

Past Service Costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the introduction of, or changes to the plan, past service costs are recognized immediately.

Funding Arrangements

The Gratuity liability is not externally funded.

Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.14 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

3.15 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless they are remote.

3.16 Cash in Hand and Balances with Banks

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with Central Bank of Sri Lanka and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

3.17 Interest and similar Income and Expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

Once the recorded value of a financial asset or a Company of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.18 Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee Income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee Income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

3.19 Dividend Income

Dividend income is recognized when the Company's right to receive the payment is established.

3.20 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

3.21 Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised on a cash basis.

3.22 Income tax and other taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Note 09 represent the major components of income tax expense to the financial statements.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 9 to the Financial Statements.

Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT) on Financial Services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognized as expense in the period it becomes due.

Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and subsequent amendments thereto. ESC is payable only on exempt turnover of the Company at 0.50% and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

Nation Building Tax (NBT) on Financial Services

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

OTHER ACCOUNTING POLICIES

3.23 Earnings per Share (EPS)

The Company presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of earnings per share are given in Note 10.

3.24 Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Company has identified six operating segments based on products and services, as follows:

- Lease
- Hire Purchase
- Factoring
- Special Purpose Loans
- Housing Loans
- Others

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on an overall basis and are not allocated to operating segments.

Details of segment reporting are given in Note 37.

3.25 Cash Flow Statement

The cash flow statement has been prepared by using 'The Direct Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognized. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The cash and cash equivalent include cash in hand, balances with banks, liquid investments.

3.26 Regulatory Provision

(a) Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b)i of the said Direction.

(b) Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Companies Act No. 78 of 1988, Direction No 2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to all Registered Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No 1 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) deposit liabilities to member institutions
b) deposit liabilities to Government of Sri Lanka
c) deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
d) deposit liabilities held as collateral against any accommodation granted
e) deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Registered Finance Companies are required to pay a premium of 0.15% per annum payable monthly calculated on total amount of eligible deposits as at the end of the month. Member institutions shall remit the applicable amount of the premium within a period of 15 days from the end of the respective month and submit the details of deposits and calculation of premium in a format specified by the Director of Bank Supervision.

(c) Crop Insurance Levy

In terms Section 14 of the Finance Act No 12 of 2013 all institutions under the purview of Banking Act No 30 of 1988, Finance Companies Act No 78 of 1988 and Regulation of Insurance Industry Act No 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

3.27 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market in active markets for similar instruments,
(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

3.28 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

SLFRS 16- Leases

Summary of the Requirements

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.
SLFRS 16 is effective for annual Reporting periods beginning on or after 01 January 2019.

Possible Impact on Financial Statements

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

3.29 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2018

SLFRS 9 Financial Instruments

Summary of the Requirements

SLFRS 9, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:
- 12 month expected credit loss; or
- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carries guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

Possible Impact on Financial Statements

The company is in the process of initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operations, this standard is expected to have a pervasive impact on the company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

SLFRS 15 Revenue from Contracts with Customers

Summary of the Requirements

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Possible Impact on Financial Statements

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.

3.30 AMENDMENTS TO EXISTING ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2017

Amendments to existing Accounting Standards with effect from 01st January 2017 as published by the Institute of Chartered Accountants of Sri Lanka did not have any impact on the Financial Statements of the Company other than those disclosed below.

LKAS 7 - Statement of Cash Flows

The amendment requires an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accordingly an entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values and
- Other changes

Necessary disclosures have been given under Note 23 to the Financial Statements.

LKAS 12 - Income Taxes

When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, the entity shall consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, entity may assess the deductible temporary difference in combination with all of its other deductible temporary differences.

However, if tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Further the amendment requires an entity to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences, when evaluating whether the entity will have sufficient taxable profit in future periods. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

According to the amendment introduced through Inland Revenue Act, the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The Company did not have a material impact from the above amendment during the year ended 31st March 2018.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

		Notes	2018 Rs.	2017 Rs.
4	**INCOME**			
	Interest Income	4.1	1,904,703,382	1,403,157,114
	Fee and Commission Income	4.3	85,026,818	90,596,133
	Other Operating Income	5	21,120,082	84,783,721
			2,010,850,282	**1,578,536,968**

		2018 Rs.	2017 Rs.
4.1	**Interest Income**		
	Sri Lanka Government Securities	43,287,429	37,959,119
	Balances with Banks	28,879,901	6,761,042
	Loans and receivables to other customers	1,832,536,052	1,358,436,953
		1,904,703,382	**1,403,157,114**

Notional Tax Credit on Secondary Market Transactions

Inland Revenue Act no 10 of 2006, provided that a company which derives interest income from the secondary market transactions on Government Securities (on or after 1 April 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, the net interest income earned from the secondary market transactions in Government Securities for the year 1 April 2017 to 31 March 2018, has been grossed up in the financial statements.

		2018 Rs.	2017 Rs.
4.2	**Interest Expense**		
	Due to banks	419,945,419	283,228,018
	Due to customers	872,087,819	642,300,218
		1,292,033,238	**925,528,236**
	Net interest income	**612,670,144**	**477,628,878**

		2018 Rs.	2017 Rs.
4.3	**Net Fee And Commission Income**		
	Fee and Commission Income	85,026,818	90,596,133
	Fee and Commission Expenses	(32,985,998)	(29,854,046)
	Net fee and commission income	**52,040,820**	**60,742,087**

		2018 Rs.	2017 Rs.
5	**OTHER OPERATING INCOME**		
	Dividend Income	342,450	5,265
	Gain on Sale of Property, Plant and Equipment	1,441,470	1,550,290
	Operating profit on Real Estate	3,805,838	39,206,591
	Write off reversal	-	28,335,102
	Others	15,530,324	15,686,473
		21,120,082	**84,783,721**

		2018 Rs.	2017 Rs.
6	**IMPAIRMENT CHARGE FOR LOANS AND RECEIVABLES AND OTHER ASSETS**		
	Loans and other receivables from customers	152,777,679	109,194,003
	Provision charge / (reversal) on real estate	(20,642,116)	(18,562,001)
		132,135,563	**90,632,002**

7. STAFF COSTS

	Notes	2018 Rs.	2017 Rs.
Salaries		133,641,576	118,105,250
Employee benefit - defined contribution plans (EPF/ETF)		18,031,664	16,359,520
Employee benefit - defined benefit plans		3,723,694	2,652,531
Rewards and incentives to employees		13,357,404	12,885,185
Others		1,590,500	1,291,290
		170,344,838	**151,293,776**

Provision for the defined benefit plans have been made based on the actuarial valuation carried out as at 31 March 2018. Please refer note 26 for detailed disclosure and assumptions on the Post Employment Liability.

8. OTHER EXPENSES

	2018 Rs.	2017 Rs.
Directors' emoluments	4,523,810	6,309,524
Auditors' remuneration	1,800,000	1,816,186
Professional and legal expenses	8,156,197	8,469,894
Advertising & Marketing expenses	30,578,066	46,384,491
Office administration and establishment expenses	162,753,419	156,049,195
Others	12,396,614	12,436,986
	220,208,106	**231,466,276**

9. TAXATION

The components of income tax expense for the year ended 31st March 2018 are;

		2018 Rs.	2017 Rs.
Current Income Tax	9.1	21,265,112	25,958,477
Over Provision from previous year taxes		(3,336,646)	-
Deferred tax charge	20	(1,535,947)	(116,005)
		16,392,519	**25,842,472**

9.1 Reconciliation of Current Income Tax Expense

	2018 Rs.	2017 Rs.
In Rupees		
Profit Before Tax	88,261,309	93,403,124
Add: Dis allowable Expenses	123,503,126	149,019,036
Less: Tax Deductible Expenses	(94,980,959)	(99,793,162)
Statutory Income	116,783,476	142,628,998
: Tax Losses claimed	(40,836,648)	(49,920,149)
Taxable Income	75,946,828	92,708,848
Tax expense for the period (@28%)	**21,265,112**	**25,958,477**
Effective Tax Rate	**22.35%**	**27.67%**
Effective Tax Rate (Excluding Deferred tax)	**24.09%**	**27.79%**

10. BASIC EARNINGS PER ORDINARY SHARE

10.1 Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

10.2 The following reflects the income and share details used in the computation of the Basic Earning per Share.

Earnings per share: Basic/Diluted	Notes	2018 Rs.	2017 Rs.
Amount used as the numerator:			
Profit after tax for the year attributable to equity holders		71,868,790	67,560,652
Number of ordinary shares used as denominator			
Weighted average number of ordinary shares	10.2.1	1,845,192,950	1,695,162,885
Basic / diluted earnings per ordinary share		**0.04**	**0.04**

10.2.1 Weighted Average Number of Ordinary Shares for Basic / Diluted EPS

	Outstanding No. of Shares 2018	Outstanding No. of Shares 2017	Weighted Average No. of Shares 2018	Weighted Average No. of Shares 2017
Number of shares in issue as at 1st April	1,695,162,885	1,695,162,885	1,695,162,885	1,695,162,885
Add : Number of shares issued under rights issues 2017/2018	600,120,260	-	150,030,065	-
Add : Bonus element on number of shares issued under rights issue 2017/2018	-	-	-	-
Number of shares in issue / weighted average number of shares as at 31st March	**2,295,283,145**	**1,695,162,885**	**1,845,192,950**	**1,695,162,885**

11. CASH IN HAND AND BALANCES WITH BANKS

	2018 Rs.	2017 Rs.
Cash in hand	649,915	610,000
Cash at Banks	454,393,043	515,339,911
	455,042,958	**515,949,911**

12. CASH COLLATERAL ON SECURITIES BORROWED AND REVERSE REPURCHASED AGREEMENTS

	2018 Rs.	2017 Rs.
Due from Banks	455,652,248	444,432,380
	455,652,248	**444,432,380**

13. SRI LANKA GOVERNMENT SECURITIES

	2018 Rs.	2017 Rs.
Available-for-Sale		
Treasury bonds	-	8,423,661
	-	**8,423,661**

14. LOANS AND RECEIVABLES FROM CUSTOMERS

	Notes	2018 Rs.	2017 Rs.
Gross loans and receivables	14.1 & 14.2	10,011,498,985	9,027,819,236
(Less): Individual impairment	14.3	(228,929,374)	(275,682,694)
Collective impairment	14.3	(329,912,709)	(250,408,000)
Net loans and receivables		**9,452,656,902**	**8,501,728,542**

14.1. Gross Loans and Receivables from Customers - By Product

	2018 Rs.	2017 Rs.
Pawning	60,085	-
Term loans	2,205,493,974	1,648,939,650
Leasing	5,696,267,560	4,970,250,240
Hire Purchase	52,617,483	158,509,230
Housing Loans	171,351,676	193,343,090
Factoring	1,738,372,125	1,815,190,944
Other Loans and Receivables	147,336,082	241,586,082
	10,011,498,985	**9,027,819,236**

14.1.1 Contractual maturities of Loans and Receivables from Customers

	Within one year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31st March 2018				
Loans and Receivables	4,592,078,260	5,120,856,912	298,563,813	**10,011,498,985**

	Within one year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31st March 2017				
Loans and Receivables	4,816,575,996	4,209,513,034	1,730,206	**9,027,819,236**

14.2 Gross Loans and Receivables from other customers - By Industry

	2018 Rs.	2017 Rs.
Agriculture	535,339,611	461,548,332
Construction and Transport	1,140,396,116	1,494,411,498
Trading and Manufacturing	3,426,630,609	2,355,338,869
Services including Bank, Finance and Insurance	1,177,781,912	821,739,727
Other	3,731,350,737	3,894,780,810
	10,011,498,985	**9,027,819,236**

14.3 Movements in Individual and Collective Impairment Charges during the Year

	2018 Rs.	2017 Rs.
Individual impairment charges		
Balance as at 01 April	(275,682,694)	(236,510,426)
Charge to income statement	(73,272,970)	(39,172,268)
Impairment reversals on loan write off	120,026,290	-
Balance as at 31 March	**(228,929,374)**	**(275,682,694)**
Collective impairment charges		
Balance as at 01 April	(250,408,000)	(180,386,263)
(Charge)/Reversal to income statement	(79,504,709)	(70,021,737)
Impairment reversals on loan write off	-	-
Balance as at 31 March	**(329,912,709)**	**(250,408,000)**

15. FINANCIAL INVESTMENTS - AVAILABLE FOR-SALE (EXCLUDING SRI LANKA GOVERNMENT SECURITIES)

	Notes	2018 Rs.	2017 Rs.
Equity securities			
Quoted	15.1	-	312,591
Unquoted	15.2	200,900	200,900
Investment in Unit Trusts	15.3	-	639,274
		200,900	**1,152,765**

15.1 Equity Securities

Quoted Investments	2018 No. of Shares	2018 Cost (Rs.)	2018 Market Value (Rs.)	2017 No. of Shares	2017 Cost (Rs.)	2017 Market Value (Rs.)
Blue Diamond Jewellery Worldwide PLC	-	-	-	1,040,657	2,606,570	312,591
		-	**-**		**2,606,570**	**312,591**

Fair value of Available-for-Sale Financial assets is derived from quoted market prices in active markets.

15.2 Unquoted Investments

	2018 No. of Shares	2018 Cost (Rs.)	2018 Director Valuations (Rs.)	2017 No. of Shares	2017 Cost (Rs.)	2017 Director Valuations (Rs.)
Credit Information Bureau	9	900	900	9	900	900
Finance House Consortium (Pvt) Ltd	20,000	200,000	200,000	20,000	200,000	200,000
		200,900	**200,900**		**200,900**	**200,900**

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

15.3 Investments In Unit Trust

	2018 No. of Units	2018 Cost (Rs.)	2018 Market Value (Rs.)	2017 No. of Units	2017 Cost (Rs.)	2017 Market Value (Rs.)
Eagle Growth and Income Fund (Former Pyramid Unit Trust)	-	-	-	10,204	75,000	340,930
Cey Bank Unit Trust Fund	-	-	-	12,631	100,000	298,344
		-	**-**		**175,000**	**639,274**

Fair value of the unit trusts are obtained from the observable market data available in the market.

16. INVESTMENTS IN REAL ESTATE

	2018 Rs.	2017 Rs.
Land		
Cost	113,217,072	122,202,858
Less : Provision	(5,147,381)	(5,003,625)
Net Value	108,069,691	117,199,233
Housing Projects		
Cost	4,910,481	5,954,549
Less : Provision	(2,054,580)	(3,098,648)
Net Value	2,855,901	2,855,901
Other Projects		
Cost	169,563,790	376,658,820
Less : Provision	(116,660,956)	(344,398,102)
Net Value	52,902,834	32,260,718
	163,828,425	**152,315,852**

17. OTHER ASSETS

	2018 Rs.	2017 Rs.
Advances	5,621,929	8,203,099
Deposits and Prepayments	62,968,452	31,318,225
Others	10,811,680	19,566,368
	79,402,061	**59,087,692**

18. INTANGIBLE ASSETS

	2018 Rs.	2017 Rs.
Cost		
Balance as at 01 April	23,297,766	23,297,766
Additions/ Transfers	865,691	-
Balance as at 31 March	24,163,457	23,297,766
(Less): Amortisation of Intangible Assets		
Balance as at 01 April	14,309,856	12,885,434
Additions/ Transfers	-	-
Amortisation for the year	1,426,464	1,424,422
Balance as at 31 March	15,736,320	14,309,856
Net book value at 31 March	**8,427,137**	**8,987,910**

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

19. PROPERTY, PLANT AND EQUIPMENT

19.1 Property, Plant and Equipment

2018	Land and Buildings Rs.	Leasehold Improvement Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
Cost or Valuation						
Balance as at 01 April	91,267,500	52,637,830	31,334,878	61,135,297	31,465,208	267,840,713
Additions/Transfers	-	680,263	2,310,050	2,717,188	5,310,227	11,017,728
Revaluation surplus	-	-	-	-	-	-
Revaluation adjustment	-	-	-	-	-	-
Disposals/Transfers	-	-	-	-	(6,495,750)	(6,495,750)
Balance as at 31 March	91,267,500	53,318,093	33,644,928	63,852,485	30,279,685	272,362,691
(Less): Accumulated depreciation						
Balance as at 01 April	-	14,756,610	20,303,793	23,074,489	5,513,662	63,648,554
Charge for the year	666,015	5,853,190	5,007,793	6,528,412	4,077,668	22,133,078
Disposal / Transfers	-	-	-	-	(2,031,442)	(2,031,442)
Balance as at 31 March	666,015	20,609,800	25,311,586	29,602,901	7,559,888	83,750,190
Net book value as at 31 March	**90,601,485**	**32,708,293**	**8,333,342**	**34,249,584**	**22,719,797**	**188,612,501**

2017	Land and Buildings Rs.	Leasehold Improvement Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
Cost or Valuation						
Balance as at 01 April	59,775,000	50,254,128	26,130,654	57,157,430	16,218,708	209,535,920
Additions/Transfers	15,167,112	2,383,702	5,204,224	3,977,867	19,670,000	46,402,905
Revaluation surplus	23,084,832	-	-	-	-	23,084,832
Revaluation adjustment	(6,759,444)	-	-	-	-	(6,759,444)
Disposals/Transfers	-	-	-	-	(4,423,500)	(4,423,500)
Balance as at 31 March	91,267,500	52,637,830	31,334,878	61,135,297	31,465,208	267,840,713
(Less): Accumulated depreciation						
Balance as at 01 April	6,124,440	9,052,554	13,986,455	16,762,082	4,734,661	50,660,192
Charge for the year	635,004	5,704,056	6,317,338	6,312,407	3,013,661	21,982,466
Revaluation adjustment	(6,759,444)	-	-	-	-	(6,759,444)
Disposals/Transfers	-	-	-	-	(2,234,660)	(2,234,660)
Balance as at 31 March	-	14,756,610	20,303,793	23,074,489	5,513,662	63,648,554
Net book value as at 31 March	**91,267,500**	**37,881,220**	**11,031,085**	**38,060,808**	**25,951,546**	**204,192,159**

19.2 Net Book Values

At Cost	2018 Rs.	2017 Rs.
Land and Buildings	90,601,485	91,267,500
Leasehold Assets	32,708,293	37,881,220
Motor Vehicles	22,719,797	25,951,546
Computer & Equipments	8,333,342	11,031,085
Furniture & Fittings	34,249,584	38,060,808
	188,612,501	**204,192,160**

19.3 During the financial year, the Company has acquired Property, Plant and Equipment to the aggregate value of Rs.11,017,728/-.

19.4 Fair Valuation Process and Key Valuation Assumptions

The Company measures land and buildings at revalued amounts with gains in fair value being recognised in equity (Revaluation Reserve) and losses in the Statement of Income Statement. The Company usually engages an external independent and qualified valuer once in three year basis to determine the fair values. When significant changes in fair values are expected in between, a valuation is adopted in more regular basis, based on the judgment of the Board, appropriately advised by the valuer.

The latest revaluation has been carried out by Mr. D.Jayawardena a chartered independent valuer as at 31 March 2017. The valuation of the building has been determined using the investment approach which falls under level 3 of the fair value measurement hierarchy. The carrying value of such revalued building as at 31 March 2017 are approximate the fair values determined by Mr. D.Jayawardena as at 31 March 2017.

Key significant unobservable valuation inputs are as follows :

Bokundara Property	Rs. 275,000 - Rs. 325,000 per perch				
Negombo Property	Average rate Rs. 70/- as monthly income - Estimated monthly income Rs. 350,000/-	40% Out goings from Gross annual income	Capitalize on Return 5.5% (in years) 18.18yp	10% for contingencies	20 Mn as Insurance value of the building

19.5 There were no significant temporarily idling assets as at 31 March 2018.

19.6 Company continues to use Property Plant and Equipment and Intangible assets which are fully depreciated amounting to Rs. 9,424,925/- as at 31 March 2018.

20. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings;

	Statement of Financial Position	
	2018 Rs.	**2017** Rs.
Deferred Tax Liability		
Depreciation of Property Plant and Equipment	47,090,694	34,225,134
Depreciation of Lease Assets	117,034,908	(1,325,251)
Revaluation reserve	11,104,421	-
	175,230,023	32,899,883
Deferred Tax Assets		
Carried forward retained loss	(341,864,404)	(219,758,645)
Defined Benefit Plans	(3,581,279)	(4,132,038)
Impairment of Loans and Receivables from Customers	(18,057,201)	(8,356,429)
	(363,502,884)	(232,247,111)
Deferred Income Tax (Charge) / Reversal	**(1,535,947)**	**(116,005)**
Net Deferred Tax Asset	**(188,272,861)**	**(199,347,229)**

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

21. DUE TO BANKS

	Notes	2018 Rs.	2017 Rs.
Bank Overdraft		151,969,768	911,348,844
		151,969,768	**911,348,844**

22 DUE TO OTHER CUSTOMERS

		2018 Rs.	2017 Rs.
At amortised cost	22.1	7,237,344,201	6,063,491,070
		7,237,344,201	**6,063,491,070**

22.1 Due to Other Customers - By Products

	2018 Rs.	2017 Rs.
Savings deposits	15,759,869	16,757,131
Fixed deposits	7,221,584,332	6,046,733,939
	7,237,344,201	**6,063,491,070**

23. OTHER BORROWED FUNDS

	2018 Rs.	2017 Rs.
Borrowings from Financial Institutions & Banks	1,925,569,505	1,665,939,671
Corporate Debenture	300,131,753	300,131,753
	2,225,701,258	**1,966,071,424**

23.1

DUE TO BANKS	2018			2017		
	Amount repayabale within 1 year Rs.	Amount repayabale after 1 year Rs.	Total Rs.	Amount repayabale within 1 year Rs.	Amount repayabale after 1 year Rs.	Total Rs.
Securitised Borrowings and Other Bank Facilities	949,445,996	1,276,255,262	2,225,701,258	780,521,032	1,185,550,392	1,966,071,424
	949,445,996	**1,276,255,262**	**2,225,701,258**	**780,521,032**	**1,185,550,392**	**1,966,071,424**

Securitised Borrowings and Other Bank Facilities	As at 01.04.2017 Rs.	Loan Obtained Rs.	Interest Recognised Rs.	Repayment Capital Rs.	Repayment Interest Rs.	As at 31.03.2018 Rs.
Direct Borrowings	1,966,071,424	1,400,000,000	306,302,972	1,164,819,143	281,853,994	2,225,701,258

24 OTHER FINANCIAL LIABILITIES

	2018 Rs.	2017 Rs.
Vendor Payables	138,129,672	68,057,102
Fees Payable	10,547,126	7,154,124
Sundry Creditors	49,844,604	154,103,078
Other Financial Liabilities	93,720,540	52,597,549
	292,241,942	**281,911,853**

25 NON FINANCIAL LIABILITIES

	2018 Rs.	2017 Rs.
Provisions & Accrued Expenses	30,953,536	20,108,567
Other Payables	10,851,904	13,086,136
	41,805,440	**33,194,703**

26 POST EMPLOYMENT LIABILITY

26.1 The movement of the Post Employment Liability of the Company is given below;

	Notes	2018 Rs.	2017 Rs.
Post Employment Liability as at 01 April		14,757,279	12,836,230
Amount recognised in Income Statement	26.2	3,723,694	2,652,531
Amount recognised in Other Comprehensive Income	26.3	(5,378,191)	(414,304)
Payments made during the year		(312,500)	(317,178)
Balance as at 31 March		**12,790,282**	**14,757,279**

26.2 Amount recognised in Income Statement

	2018 Rs.	2017 Rs.
Service cost	2,187,461	1,953,505
Net interest on the net Post Employment Liability	1,536,233	699,026
	3,723,694	**2,652,531**

26.3 Amount recognised in Other Comprehensive Income

	2018 Rs.	2017 Rs.
Liability (gains)/ losses due to changes in assumptions	47,719	408,913
Liability experience (gains)/ losses arising during the year	(5,425,910)	(823,217)
	(5,378,191)	**(414,304)**

26.4 The principal assumptions used in determining Post Employment Liability are shown below;

	2018	2017
Discount Rate	10.0%	12.9%
Salary Increment Rate	9.0%	10.5%
Retirement Age	55 Years	55 Years
Mortality	Mortality Table	Mortality Table

26.5 Messers Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries has carried out an independent actuarial valuation of the defined benefit plan and accordingly compatible assumptions have been used in determining the cost of the retirement benefits.

26.6 The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment liability measurement.

Increase/(Decrease) in discount rate- %	+1%	-1%		
Increase/(Decrease) in salary increment rate - %			+1%	-1%
Sensitivity effect on Statement of Other Comprehensive Income	192,057	(199,552)	(252,877)	247,510
Sensitivity effect on Post Employment Liability	(192,057)	199,552	252,877	(247,510)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

27 STATED CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

	2018 Rs.	2017 Rs.
Issued and fully paid ordinary share capital	2,851,987,469	2,851,987,469
Additions during the year	300,060,130	-
	3,152,047,599	**2,851,987,469**
Number of ordinary shares issued	**2,295,283,145**	**1,695,162,885**

28 STATUTORY RESERVE FUND

28.1 Five percent of the profits after tax is transferred to the Reserve Fund as required by the Section 3b (i) of the Central Bank Direction No 01 of 2003.

	2018 Rs.	2017 Rs.
Balance as at 1 April	48,451,361	45,073,328
Transfer during the year	3,593,439	3,378,033
Balance as at 31 March	**52,044,800**	**48,451,361**

29 AVAILABLE FOR SALE RESERVE

	2018 Rs.	2017 Rs.
Balance as at 1 April	(277,915)	(427,194)
Fair value loss recognised during the year	-	149,279
Accumulated fair value loss transferred to income statement	277,915	-
Balance as at 31 March	**-**	**(277,915)**

30 ACCUMULATED LOSS

	2018 Rs.	2017 Rs.
Balance as at 1 April	(2,123,774,789)	(2,188,255,707)
Profit for the year	71,868,790	67,560,652
Other Comprehensive Income for the year	3,872,298	298,299
Transfer to Statutory Reserve Fund	(3,593,439)	(3,378,033)
Balance as at 31 March	**(2,051,627,141)**	**(2,123,774,789)**

31. COMMITMENTS AND CONTINGENCIES

31.1 Lease Arrangements

Operating Lease Commitments - Company as Lessee

The Company has entered in to operating leases for Company premises. There are no restrictions placed upon the lessee by entering in to these leases.

Future minimum lease payments under non cancellable operating leases as at 31 March are, as follows;	2018 Rs.	2017 Rs.
Within one year	31,473,750	30,328,800
After one year to five years	121,474,855	125,069,369
More than five years	33,680,955	61,912,191
	186,629,560	**217,310,360**

31.2 Litigations against the Company

Litigation is a common occurrence in the Company industry due to the nature of the business undertaken. The Company has an established legal protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonable estimated, the Company makes adjustments to account for any adverse effect which the claims may have on its financial standing. Set out below are unresolved legal claims against the Company as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of it's outcome.

Litigations against the UB Finance Company Limited

a DLM 164/16, DSP 266/12, DMR 1608/14, DMR 1609/14, DMR 1610/14, DMR 03020/15, HC/Civil/177/10, 4107/11 M, 2121/P/DC, DMR/1615/17
Loan/ Lease based cases (in relation to immovable assets).

b DSP 222/10, DMR 925/14.
Loan/Lease based cases (In relation to movable assets) .

c DTS 279/08.
FD related cases.

d B 4004/15, B 4005/14, CHC 533/15, CHC 534/15, CHC 535/15, CHC 536/15, CHC 503/15, SC/FRA/207/17, SC/FR/317/19.
Share - ownership related cases.

e LT/08/641/2012, LT/02/512/2015, LB/76305 MC, LB/76306 MC, LB/76308 MC, 3540 A.
Labour Tribunal cases.

31.3 Contingent Liabilities

a. The Company has recognised that there could be a contingent liability in respect of certain real estate projects entered into by the previous management. This exact nature of the liability and its extent cannot be determined at this point of time due to the non availability of sufficient information.

b. The Company has received a tax assessment from Inland Revenue Department for an amount of Rs. 27 million for the year 2014/15. The Board of directors is in the view that this can be defended and has appealed against the assessment.

c. The Company has received a tax assessment from Inland Revenue Department for an amount of Rs. 94 million for the year 2015/16, the Board of directors is in the view that this can be defended and has started appealing process accordingly.

d. The Company has received a judgement against the Company and the Company has filed leave to appeal applications at the Civil appelate.

31.4 Capital Commitments

The Company has no commitments for aquitision of Property Plant & Equipments insidencial to the ordinary cause of Business.

32 FAIR VALUE OF ASSETS AND LIABILITIES

32.1 Assets and Liabilities recorded at fair value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Financial investments – available for sale

Available for sale financial assets, which primarily consist of quoted equities & Government debt securities are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka & quoted equities are valued using quoted market prices in the active markets as at the reporting date.

Trading assets & other assets measured at fair value

Trading assets & other assets measured at fair value are the government debt securities ,asset–backed securities & quoted equities. Government debt securities & asset-backed securities are valued using yield curves published by the Central Bank of Sri Lanka . For quoted equities the Company uses quoted market price in active markets as at the reporting date.

32.2 Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:

Level 1 – quoted market price (unadjusted): financial instruments with quoted prices in active markets.
Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.
Level 3 – valuation technique with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

32.3 Valuation Framework

Cash and Cash Equivalents

Included in Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as Cash and cash equivalents. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our statement of financial position.

Finance Receivables (Loans, Lease Rentals Receivable & Stock out on Hire)

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest).

Other Financial Assets

Since all the balances which are under other financial assets have short term maturities, it is assumed that the carrying amounts of those balances approximate their fair values.

32.4 Assets and liabilities measured at fair value - fair value hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial position in the financial statements.

	2018			
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Sri Lanka government securities - Available for Sale	-	-	-	-
Financial Investments – Available for Sale				
Equity Securities	-	-	200,900	200,900
Debt Securities	-	-	-	-
Investments in Unit Trusts	-	-	-	-
Non Financial Assets				
Land and buildings	-	-	91,267,500	91,267,500
	-	**-**	**91,468,400**	**91,468,400**

The methods used to determined fair value of the financial instruments categorised under level 3 are stated in Note 15.2
The methods used to determined fair value of Non financial assets - land and buildings categorized under level 3 are stated in Note 19.4

	2017			
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Sri Lanka government securities - Available for Sale	8,423,661	-	-	8,423,661
Financial Investments – Available for Sale				
Equity Securities	312,591	-	200,900	513,491
Debt Securities	-	-	-	-
Investments in Unit Trusts	-	639,274	-	639,274
Non Financial Assets				
Land and buildings	-	-	91,267,500	91,267,500
	8,736,252	**639,274**	**91,468,400**	**100,843,926**

32.5 Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies & assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts which do not have a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money–market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

Set out below is a comparison of the carrying amounts & fair values of the Bank's financial instruments by classes, that are not carried at fair value in the financial statements. This table does not include the fair values of non–financial assets & non–financial liabilities.

32.5 Fair value of financial assets and liabilities not carried at fair value (Contd..)

	2018				
	Level 1	Fair Value Level 2	Level 3	Fair Value	Carrying amount
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Loans and Receivables from Customers	-	9,498,133,491	-	9,498,133,491	9,452,656,902
	-	**9,498,133,491**	**-**	**9,498,133,491**	**9,452,656,902**
Financial Liabilities					
Due to other Customers	-	6,346,341,236	-	6,346,341,236	7,221,584,332
Other Borrowed Funds	-	932,383,542	-	932,383,542	2,225,701,258
	-	**7,278,724,778**	**-**	**7,278,724,778**	**9,447,285,590**

	2017				
	Level 1	Fair Value Level 2	Level 3	Fair Value	Carrying amount
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Loans and Receivables from Customers	-	8,794,178,934	-	8,794,178,934	8,501,728,542
	-	**8,794,178,934**	**-**	**8,794,178,934**	**8,501,728,542**
Financial Liabilities					
Due to other Customers	-	5,896,904,107	-	5,896,904,107	6,046,733,939
Other Borrowed Funds	-	1,926,330,394	-	1,926,330,394	1,966,071,424
	-	**7,823,234,501**	**-**	**7,823,234,501**	**8,012,805,363**

The Following is a list of financial investments whose carrying amount is a reasonable approximation of fair value. Because for example, they are short-term in nature or reprice to current market rates Frequently:

	Carrying amount	
	2018	2017
	Rs.	Rs.
Assets :		
Cash and Bank Balances	455,042,958	515,949,911
Repurchase Agreements	455,652,248	444,432,380
Commercial Paper	158,703,642	-
Liabilities :		
Due to Banks	151,969,768	911,348,844
Due to Customers Savings	15,759,869	16,757,131
Other Financial Liabilities	292,241,942	281,911,853

33 RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the companies continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities. The company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non–trading risks. It is also subject to country risk and various operating risks.

The business risks such as changes in the environment, technology and industry are primarily addressed through the company's strategic planning process. Industry specific changes are also reviewed and presented on a need basis by the Management and are tabled at the Integrated Risk Management Committee (IRMC) and the Credit Committee (CC).

33. RISK MANAGEMENT (Contd...)

33.2 Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a Board Sub Committee called "Integrated Risk Management Committee (IRMC)" which has the responsibility to monitor the overall risk process within the company.

The IRMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. IRMC is also responsible for managing risks and monitoring risk levels and reports on monthly/quarterly basis to the Board.

Exceptions are reported on daily/ monthly/ quarterly basis, where necessary, to the IRMC or its sub committees, and the relevant actions are taken to address exceptions and any areas of weakness.

Company Treasury and the Asset Liability Committee (ALCO) are responsible for managing the company's assets and liabilities and the overall financial structure.

33.3 Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the company. These limits reflect the business strategy and market environment of the company as well as the level of risk that the company is willing to accept, with additional emphasis on selected industries. In addition, the company's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and Integrated Risk Committee. These reports include aggregate credit exposures, credit concentration, operational risk, market risk and liquidity ratios. Management assess the appropriateness of the allowance for credit losses on a monthly basis.

Risk related policies are documented and made available to all staff at all levels for a comprehensive understanding of the Company's risk appetite and the overall risk management of the Company. Workshops are held to share knowledge of potential risk events and keep the staff abreast with the latest changes. Briefings are also given to other relevant members of the company on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

33.4 Risk mitigation

As part of its overall risk management, the company uses various instruments to manage exposures resulting from credit risks, changes in interest rates, equity risks, and exposures arising from transactions.

The company actively uses collateral to reduce its credit risks.

33.5 Excessive risk concentration

In order to avoid excessive concentrations of risk, the company's policies and procedures include specific guidelines, including concentration limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

33.6 Credit Risk

The company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of borrowers, including regular collateral revisions. Company uses a risk rating process to rate the borrowers according to its risk profile. The credit quality review process aims to allow the company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

A structured and standardized credit appraisal and approval process is in place. Credit Authority lies with the Board of Directors, Board Credit Committee, Credit Committee and members of the management as per the assigned limits on delegated credit authority. All credit facilities are required to be reviewed by the Branch Managers and Product Managers annually. Company's systems for credit evaluation and decision making are independent from collateralization albeit collateral helps to mitigate credit risk.

Credit Operation Department reviews credit facilities before and after sanctioning of facilities. A separate Loan Review Policy approved by the Board of Directors is in place.

In the post sanctioning review of credit facilities, the Credit Committee reviews among other things, the disbursements, perfection of collaterals and repayments are in accordance with the terms of approval.

33.7 Impairment Assessment

For accounting purposes, the company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment.
- Where the company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Individually assessed allowances

The company determines the provisions appropriate for each individually significant loan or advance on an individual basis by Credit Department, Finance Department, including any overdue payments of interests, or infringement of the original terms of the contract. Items considered when determining provisioning amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The company generally bases its analysis on historical experience. However, when there are significant market developments, the company would include macroeconomic factors within its assessments.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data.

33.8 Credit Quality by Class of Financial Assets

The company manages the credit quality of financial assets by categorising its credit exposure by class of financial asset, line of business and geographic region. It is the company's policy to maintain accurate and consistent risk profile across the credit portfolio. The table below shows the credit quality for all financial assets exposed to credit risk, based on the company's internal credit rating system.

As at 31 March 2018	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Cash in hand and balances with Banks	455,042,958	-	-	455,042,958
Sri Lanka Government Securities - Available for Sale	-	-	-	-
Cash collateral on securities borrowed & reverse repurchased agreements	455,652,248	-	-	455,652,248
Loans and receivables from customers	2,747,404,709	6,760,187,483	503,906,795	10,011,498,987
Financial investments – Available-for-sale	200,900	-	-	200,900
Commercial Paper Investment	158,703,642	-	-	158,703,642
	3,817,004,457	**6,760,187,483**	**503,906,795**	**11,081,098,735**

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past Due But Not Impaired *				
	Less than 3 Months	3 to 6 Months	6 to 12 Months	More than 12 Months	Total
Loans and receivables from customers	3,633,999,555	613,519,021	158,499,163	2,354,169,744	6,760,187,483

* Past due but not Impaired Loans and Receivable include the Loans and Receivables that are collectively impaired.

33. RISK MANAGEMENT (Contd...)

33.8 Credit Quality by Class of Financial Assets (Contd...)

As at 31 March 2017	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Cash in Hand and Balances with Banks	515,949,911	-	-	515,949,911
Sri Lanka Government Securities	8,423,661	-	-	8,423,661
Investment in Fixed Deposit	-	-	-	-
Cash collateral on securities borrowed & reverse repurchased agreements	444,432,380	-	-	444,432,380
Loans and Receivables from Customers	2,548,195,502	6,028,089,012	451,534,723	9,027,819,237
Financial Investments – Available for Sale	1,152,765	-	-	1,152,765
Total Financial Assets	**3,518,154,219**	**6,028,089,012**	**451,534,723**	**9,997,777,954**

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Past Due But Not Impaired *				
	Less than 3 Months	3 to 6 Months	6 to 12 Months	More than 12 Months	Total
Loans and receivables from customers	3,757,042,724	888,037,430	411,291,111	971,717,747	6,028,089,012

* Past due but not Impaired Loans and Receivable include the Loans and Receivables that are collectively impaired.

33.9 Analysis of Credit Risk Exposure

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral and the net exposure to credit risk.

	2018		2017	
As at 31 March	Maximum Exposure to Credit Risk Rs.	Net Exposure Credit Risk Rs.	Maximum Exposure to Credit Risk Rs.	Net Exposure Credit Risk Rs.
Cash in Hand and Balances with Banks	455,042,958	455,042,958	515,949,911	515,949,911
Sri Lanka Government Securities	-	-	8,423,661	8,423,661
Cash collateral on securities borrowed & reverse repurchased agreements	455,652,248	455,652,248	444,432,380	444,432,380
Loans and Receivables from Customers	9,452,656,902	555,922,217	8,501,728,542	390,141,528
Financial Investments - Available for Sale	200,900	200,900	1,152,765	1,152,765
Commercial Paper Investment	158,703,642	158,703,642	-	-
Total Financial Assets	**10,522,256,650**	**1,625,521,965**	**9,471,687,259**	**1,360,100,245**

The Company holds certain assets as collateral which it is permitted to sell or repledge in the event of default by the owner of the collateral, under the usual terms and conditions applying to such agreements which are fair valued based on the valuations obtained.

33.10 Credit–related commitment risks

Such commitment risks are mitigated by regular review of unfunded limits and exposures similar to review of funded limits and exposures.

33.11 Collateral and other credit enhancements:

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:
- For securities lending and reverse repurchase transactions, cash or securities
-For commercial lending, charges over real estate properties, inventory and trade receivables etc
-For retail lending, mortgages over residential properties etc
- Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement.
-It is the company's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the company does not occupy repossessed properties for business use.
-The company also makes use of netting agreements with borrowers with whom a significant volume of transactions are undertaken.

Although on the balance sheet netting arrangements may significantly reduce credit risk, it should be noted that:
- Credit risk is eliminated only to the extent that amounts due to the same borrower will be settled after the assets are realized
- The documentation are legally enforceable

33. RISK MANAGEMENT (Contd...)

33.12 Analysis of risk concentration

The following table shows the risk concentration by industry for the components of the statement of financial position.

As at 31 March 2018	Agriculture Rs.	Construction & Transport Rs.	Trading & Manufacturing Rs.	Services Including Financial Services Rs.	Other Rs.	Total Rs.
Financial Assets						
Cash in hand and balances with Banks	-	-	-	455,042,958	-	455,042,958
Sri Lanka Government Securities - Available for Sale	-	-	-	-	-	-
Cash collateral on securities borrowed & reverse repurchased agreements	-	-	-	455,652,248	-	455,652,248
Investment in fixed deposits	-	-	-	-	-	-
Loans and receivables from customers	505,477,056	1,076,782,028	3,235,484,761	1,112,082,353	3,522,830,705	9,452,656,903
Financial Investments – Available for Sale	-	-	-	200,900	-	200,900
Commercial Paper Investment	-	-	-	158,703,642	-	158,703,642
Total Financial Assets	**505,477,056**	**1,076,782,028**	**3,235,484,761**	**2,181,682,101**	**3,522,830,705**	**10,522,256,651**
As at 31 March 2017						
Cash in Hand and Balances with Banks	-	-	-	515,949,911	-	515,949,911
Sri Lanka government securities	-	-	-	8,423,661	-	8,423,661
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	-	-	-	444,432,380	-	444,432,380
Investment in fixed deposits	-	-	-	-	-	-
Loans and Receivables from Customers	434,651,884	1,407,325,574	2,218,082,924	773,853,343	3,667,814,819	8,501,728,544
Financial Investments – Available for Sale	-	-	-	1,152,765	-	1,152,765
Total Financial Assets	**434,651,884**	**1,407,325,574**	**2,218,082,924**	**1,743,812,060**	**3,667,814,819**	**9,471,687,261**

33. RISK MANAGEMENT (Contd...)

33.13 Liquidity risk and funding management

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity consistently through a Management Committee. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The company also has lines of credit that it can access to meet liquidity needs. In addition, the company maintains Treasury bill investments with the Central Bank of Sri Lanka equal to 7.5% of customer deposits. Net liquid assets consist of cash, short-term company deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

Liquid Asset Ratios	2018	2017
Year End	13%	14%
Maximum	19%	21%
Minimum	11%	10%
Average	13%	14%

Advances to Deposit Ratios

The company stresses the importance of fixed deposit and savings accounts as sources of funds to finance lending to customers. Advance to Deposit Ratio

	2018	2017
Year End	1.4	1.4
Maximum	1.6	1.4
Minimum	1.4	1.3
Average	1.5	1.4

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the company's financial assets and liabilities as at 31 March 2018. Contractual maturities of undiscounted cash flows of financial assets and liabilities are shown in the table below;

2018	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Assets					
Cash in hand and balances with Banks	455,042,958	-	-	-	455,042,958
Sri Lanka government securities	-	-	-	-	-
Cash collateral on securities borrowed & reverse repurchased agreements	455,652,248	-	-	-	455,652,248
Loans and receivables from customers	2,739,452,705	3,000,145,352	7,028,392,392	-	12,767,990,449
Financial investments – Available-for-sale	-	-	-	200,900	200,900
Commercial Paper Investment	158,703,642	-	-	-	158,703,642
	3,808,851,553	**3,000,145,352**	**7,028,392,392**	**200,900**	**13,837,590,197**
Liabilities					
Due to banks	151,969,768	-	-	-	151,969,768
Due to other customers	2,089,255,968	3,095,863,351	3,176,731,413	-	8,361,850,732
Other Borrowed funds	359,747,187	864,372,060	1,601,326,552	-	2,825,445,799
Other Financial Liabilities	227,755,505	64,486,437	-	-	292,241,942
	2,828,728,428	**4,024,721,848**	**4,778,057,965**	-	**11,631,508,241**

33. RISK MANAGEMENT (Contd...)

33.13 Liquidity risk and funding management (Contd..)

2017	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Assets					
Cash in Hand and Balances with Banks	515,949,911	-	-	-	515,949,911
Sri Lanka Government securities	-	-	-	8,423,661	8,423,661
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	444,432,380	-	-	-	444,432,380
Investment in fixed deposits	-	-	-	-	-
Loans and Receivables from Customers	3,893,935,161	1,906,175,829	5,460,328,894	1,882,323	11,262,322,207
Financial Investments – Available for Sale	951,865	-	-	200,900	1,152,765
	4,855,269,317	**1,906,175,829**	**5,460,328,894**	**10,506,884**	**12,232,080,024**
Liabilities					
Due to Banks	911,348,844	-	-	-	911,348,844
Due to other Customers	2,051,144,551	2,133,296,760	2,662,207,731	-	6,846,649,042
Other Borrowed Funds	308,699,051	692,613,205	1,494,614,718	-	2,495,926,974
Other Financial Liabilities	281,911,853	-	-	-	281,911,853
	3,553,104,299	**2,825,909,965**	**4,156,822,449**	**-**	**10,535,836,713**

33.14 Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. As such interest rate risk is a key risk exposure of the comapny due to unanticipated movements in the future interest rates which arises from the core business activities, granting of credit facilities, accepting deposits and issuing debt instruments.

Interest rate risk is mitigated principally through minimizing the interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the company conducts periodic reviews and re-prices it assets particularly by the means of following.

- Effective policies and procedures designed to control the nature and amount of IRR, including clearly defined IRR limits and lines of responsibility and authority
- Appropriate risk-measurement, monitoring, and reporting systems
- Systematic internal controls that include the internal or external review and audit of key elements of the risk-management process

33.14.1 Interest Rate Risk Exposure on Financial Assets and Liabilities

The table below analyses the company's interest rate risk exposure on financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

As at 31 March 2018	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	-	-	-	-	455,042,958	455,042,958
Sri Lanka Government Securities - Available for Sale	-	-	-	-	-	-
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements - Available for Sale	455,652,248	-	-	-	-	455,652,248
Investment in Fixed Deposit	-	-	-	-	-	-
Loans and Lease Receivables	1,869,922,278	2,163,313,900	5,120,856,912	298,563,812	-	9,452,656,902
Financial Investments - Available for Sale	-	-	-	-	200,900	200,900
Commercial Paper Investment	158,703,642	-	-	-	-	158,703,642
	2,484,278,168	**2,163,313,900**	**5,120,856,912**	**298,563,812**	**455,243,858**	**10,522,256,650**
Financial Liabilities						
Due to Banks	151,969,768	-	-	-	-	151,969,768
Due to Customers	1,795,907,751	2,800,625,404	2,640,811,046	-	-	7,237,344,201
Other Borrowed funds	1,135,211,979	385,884,031	704,605,248	-	-	2,225,701,258
Other Financial Liabilities	-	-	-	-	292,241,942	292,241,942
	3,083,089,498	3,186,509,435	3,345,416,294	-	292,241,942	9,907,257,169
INTEREST SENSITIVITY GAP	**(598,811,330)**	**(1,023,195,535)**	**1,775,440,618**	**298,563,812**	**163,001,916**	**614,999,481**

33.14.1 Interest Rate Risk Exposure on Financial Assets and Liabilities (Contd...)

As at 31 March 2017	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	-	-	-	-	515,949,911	515,949,911
Sri Lanka government securities	-	-	-	8,423,661	-	8,423,661
Cash collateral on securities borrowed & reverse repurchased agreements	444,432,380	-	-	-	-	444,432,380
Investment in Fixed Deposit	-	-	-	-		-
Loans and Lease Receivables	2,366,412,020	1,226,656,150	4,906,984,518	1,675,854	-	8,501,728,542
Financial Investments - Available for Sale	-	-	-	-	1,152,765	1,152,765
	2,810,844,400	**1,226,656,150**	**4,906,984,518**	**10,099,515**	**517,102,676**	**9,471,687,259**
Financial Liabilities						
Due to Banks	911,348,844	-	-	-	-	911,348,844
Due to Customers	1,983,395,847	1,842,328,984	2,237,766,239	-	-	6,063,491,070
Other Borrowed funds	261,405,705	519,115,608	1,185,550,111	-	-	1,966,071,424
Other Financial Liabilities	-	-	-	-	281,911,853	281,911,853
	3,156,150,396	**2,361,444,592**	**3,423,316,350**	**-**	**281,911,853**	**9,222,823,191**
INTEREST SENSITIVITY GAP	**(345,305,996)**	**(1,134,788,442)**	**1,483,668,168**	**10,099,515**	**235,190,823**	**248,864,068**

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

33.14.2 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's Net Interest Income.

Net Interest Income (NII) Sensitivity by Interest Rate Change

	2018		2017	
Parallel Increase/Decrease of Rate	(+/-) 1%	(+/-) 2%	(+/-) 1%	(+/-) 2%
Annual Impact on NII (Rs.)	(+/-) 12,179,016	(+/-) 24,358,033	(+/-) 7,716,272	(+/-) 15,432,544

33.14.3 Current and Non Current Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

As at 31 March 2018	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Assets					
Cash in hand and balances with Banks	455,042,958	-	-	-	455,042,958
Sri Lanka government securities	-	-	-	-	-
Cash collateral on securities borrowed & reverse repurchased agreements	455,652,248	-	-	-	455,652,248
Investment in fixed deposits	-	-	-	-	-
Loans and receivables from customers	1,869,922,278	2,163,313,900	5,120,856,912	298,563,812	9,452,656,902
Financial investments – Available-for-sale	-	200,900	-	-	200,900
Commercial Paper Investment	158,703,642	-	-	-	158,703,642
Investment in Real Estate	16,922,747	46,124,154	100,781,524	-	163,828,425
Intangible assets	-	-	-	8,427,137	8,427,137
Property, plant and equipment	-	-	-	188,612,501	188,612,501
Deferred tax assets	-	-	-	188,272,861	188,272,861
Other Assets	47,732,155	22,008,756	9,661,150	-	79,402,061
	3,003,976,028	**2,231,647,710**	**5,231,299,586**	**683,876,311**	**11,150,799,635**
Liabilities					
Due to banks	151,969,768	-	-	-	151,969,768
Due to other customers	1,795,907,751	2,800,625,404	2,640,811,046	-	7,237,344,201
Other Borrowed funds	282,845,298	666,600,698	1,276,255,262	-	2,225,701,258
Current Tax Liabilities	-	7,927,260	-	-	7,927,260
Other Financial Liabilities	148,676,798	143,565,144	-	-	292,241,942
Other Non Financial Liabilities	36,286,120	5,519,320	-	-	41,805,440
Post Employment Liability	-	-	-	12,790,282	12,790,282
	2,415,685,735	**3,624,237,826**	**3,917,066,308**	**12,790,282**	**9,969,780,151**
Equity	-	-	-	1,181,019,484	1,181,019,484
Total Equity & Liabilities	**2,415,685,735**	**3,624,237,826**	**3,917,066,308**	**1,193,809,766**	**11,150,799,635**

33. RISK MANAGEMENT (Contd...)

33.14.3 Current and Non Current Analysis of Assets and Liabilities (Contd..)

As at 31 March 2017	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Assets					
Cash in hand and balances with Banks	515,949,911	-	-	-	515,949,911
Sri Lanka Government securities	-	-	8,423,661	-	8,423,661
Cash collateral on securities borrowed & reverse repurchased agreements	444,432,380	-	-	-	444,432,380
Investment in fixed deposits	-	-	-	-	-
Loans and receivables from customers	2,366,412,021	1,226,656,150	4,906,984,518	1,675,853	8,501,728,542
Financial investments – Available for Sale	-	1,152,765	-	-	1,152,765
Investment in Real Estate	-	48,000,000	104,315,852	-	152,315,852
Intangible assets	-	-	-	8,987,910	8,987,910
Property, Plant and Equipment	-	-	-	204,192,159	204,192,159
Deferred tax assets	-	-	-	199,347,229	199,347,229
Other non financial assets	59,087,692	-	-	-	59,087,692
	3,385,882,004	**1,275,808,915**	**5,019,724,031**	**414,203,151**	**10,095,618,101**
Liabilities					
Due to banks	911,348,844	-	-	-	911,348,844
Due to other customers	1,983,395,847	1,842,328,984	2,237,766,239	-	6,063,491,070
Other Borrowed funds	261,405,705	519,115,608	1,185,550,111	-	1,966,071,424
Current Tax Liabilities	-	8,798,155	-	-	8,798,155
Other Financial Liabilities	75,211,226	206,700,627	-	-	281,911,853
Other Non Financial Liabilities	33,194,703	-	-	-	33,194,703
Post Employment Liability	-	-	14,757,279	-	14,757,279
	3,264,556,325	**2,576,943,374**	**3,438,073,629**	**-**	**9,279,573,328**
Equity	-	-	-	816,044,773	816,044,773
Total Equity & Liabilities	**3,264,556,325**	**2,576,943,374**	**3,438,073,629**	**816,044,773**	**10,095,618,101**

34. EVENTS AFTER THE REPORTING PERIOD

Post balance sheet a Capital reduction was carried out on 08th June 2018. The Stated Capital was written off for the balance of Rs. 2,123,774,789/- against the retained losses.

35. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

As at 31 March 2018

Description of Property	Nature of Encumbrance	Carrying Amount of Assets Pledged Rs.	Included Under
Lease/ Hire Purchase rental receivable	Long term loans	2,517,003,924	Loans and receivables from Customers

As at 31 March 2017

Description of Property	Nature of Encumbrance	Carrying Amount of Assets Pledged Rs.	Included Under
Lease/ Hire Purchase rental receivable	Long term loans	3,387,564,373	Loans and receivables from Customers

36. RELATED PARTY DISCLOSURES

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows.

36.1 Transactions with Key Management Personnel

Related party include Key Management Personel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

That Key Management Personnel (KMP) include the board of Directors of the company, Chief Executive Officer of the company, Chief Operating Officer, Head of Finance of the company, compliance officer and Key Management Personnel of the parent entity.

36.2 Key Management Personnel Compensation

	2018 Rs.	2017 Rs.
Short-term employment benefits	25,544,100	18,960,000
Post Employement Benefit	2,633,760	2,232,000
Directors' emoluments	4,523,810	6,309,524
	32,701,670	**27,501,524**

36.3 Transactions, arrangements and agreements with Key Management Personnel and their close members of the family of the company

The company enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with key management personnel for the relevant financial year.

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

Statement of Financial Position	Reported Under	2018 Rs.	2017 Rs.
Liabilities			
Fixed Deposits	Due to Customers	15,228,131	12,695,000
		15,228,131	**12,695,000**
Statement of Comprehensive Income			
Interest Expense on Customer Deposits	Interest Expenses	**1,465,826**	**1,443,904**

36.4 Transactions with Other Related Parties

36.4.1 Transactions with parent Company - Union Bank of Colombo PLC.

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the parent.

Transactions with Parent Company

Statement of Financial Position	Reported Under	2018 Rs.	2017 Rs.
Liabilities			
Borrowings	Other Borrowed Funds	847,916,667	918,749,994
		847,916,667	**918,749,994**
Statement of Comprehensive Income			
Interest Expense on Borrowings	Interest Expense	97,343,634	79,277,819
		97,343,634	**79,277,819**
Other Transactions			
Borrowings obtained during the Year		200,000,000	600,000,000
Borrowings settled during the Year		(270,833,333)	(156,250,000)
		(70,833,333)	**443,750,000**

37. SEGMENT INFORMATION

For the Management purposes, the company is organised in to five operating segments based on the services offered to customers. The following table presents income, profit and certain asset and liability information regarding the company's operating segments.

2018	Lease	Hire Purchase	Factoring	Special Purpose and Hire Purchase Loans	Housing Loans	Others	Total
Interest Income	1,109,713,167	20,189,609	366,198,657	311,051,861	(759,024)	98,309,112	1,904,703,382
Interest Expenses	(735,135,788)	(6,790,586)	(224,346,828)	(284,631,565)	(22,113,910)	(19,014,561)	(1,292,033,238)
Net Interest Income	**374,577,379**	**13,399,023**	**141,851,829**	**26,420,296**	**(22,872,934)**	**79,294,551**	**612,670,144**
Fee and Commission Income	34,804,795	446,987	32,973,739	9,138,520	(2)	7,662,779	85,026,818
Fee and Commission Expenses	(13,502,456)	(173,408)	(12,792,102)	(3,545,272)	1	(2,972,761)	(32,985,998)
Net Fee and Commission Income	**21,302,339**	**273,579**	**20,181,637**	**5,593,248**	**(1)**	**4,690,018**	**52,040,820**
Other Operating Income (Net)	-	-	-	-	-	21,120,082	21,120,082
Total Operating Income	**395,879,718**	**13,672,602**	**162,033,466**	**32,013,544**	**(22,872,935)**	**105,104,651**	**685,831,046**
Impairment Charge for Loans and Receivables and Other Assets	(87,647,061)	1,980,665	(40,113,427)	(37,203,516)	4,438,109	26,409,666	(132,135,563)
Net Operating Income	**308,232,657**	**15,653,267**	**121,920,039**	**(5,189,972)**	**(18,434,826)**	**131,514,317**	**553,695,483**
Staff Costs	(96,922,109)	(895,288)	(29,578,437)	(37,526,525)	(2,915,552)	(2,506,926)	(170,344,838)
Depreciation of Property, Plant and Equipment	(12,593,188)	(116,326)	(3,843,156)	(4,875,860)	(378,821)	(325,728)	(22,133,078)
Amortisation of Intangible Assets	(811,624)	(7,497)	(247,689)	(314,246)	(24,415)	(20,993)	(1,426,464)
Other Expenses	(125,293,107)	(1,157,356)	(38,236,625)	(48,511,273)	(3,768,991)	(3,240,753)	(220,208,106)
Operating Profit before Value Added Tax (VAT) and NBT	**72,612,629**	**13,476,800**	**50,014,133**	**(96,417,876)**	**(25,522,605)**	**125,419,917**	**139,582,997**
Value Added Tax (VAT) and NBT on Financial Services	-	-	-	-	-	-	(51,321,688)
Profit / (Loss) Before Taxation	**72,612,629**	**13,476,800**	**50,014,133**	**(96,417,876)**	**(25,522,605)**	**125,419,917**	**88,261,309**
Tax Expense							(16,392,519)
Profit / (Loss) for the Year	**72,612,629**	**13,476,800**	**50,014,133**	**(96,417,876)**	**(25,522,605)**	**125,419,917**	**71,868,790**

37. SEGMENT INFORMATION (Contd..)

For the Management purposes, the company is organised in to five operating segments based on the services offered to customers. The following table presents income, profit and certain asset and liability information regarding the company's operating segments.

2017	Lease	Hire Purchase	Factoring	Special Purpose and Hire Purchase Loans	Housing Loans	Others	Total
Interest Income	809,646,947	50,361,804	262,770,506	218,484,426	6,778,986	55,114,445	1,403,157,114
Interest Expenses	(498,908,204)	(15,910,981)	(182,206,853)	(122,617,348)	(19,407,565)	(86,477,285)	(925,528,236)
Net Interest Income	**310,738,743**	**34,450,823**	**80,563,653**	**95,867,078**	**(12,628,579)**	**(31,362,840)**	**477,628,878**
Fee and Commission Income	21,636,628	7,700	38,779,793	8,937,271	2,600	21,232,141	90,596,133
Fee and Commission Expenses	(7,129,895)	(2,537)	(12,779,063)	(2,945,089)	(857)	(6,996,605)	(29,854,046)
Net Fee and Commission Income	**14,506,733**	**5,163**	**26,000,730**	**5,992,182**	**1,743**	**14,235,536**	**60,742,087**
Other Operating Income (Net)	-	-	-	-	-	84,783,721	84,783,721
Total Operating Income	**325,245,476**	**34,455,986**	**106,564,383**	**101,859,260**	**(12,626,836)**	**67,656,417**	**623,154,686**
Impairment Charge for Loans and Receivables and Other Assets	(34,690,134)	2,039,179	(30,878,163)	(13,996,697)	(5,749,701)	(7,356,486)	(90,632,002)
Net Operating Income	**290,555,342**	**36,495,165**	**75,686,220**	**87,862,563**	**(18,376,537)**	**60,299,931**	**532,522,684**
Staff Costs	(81,555,271)	(2,600,928)	(29,784,897)	(20,043,950)	(3,172,506)	(14,136,224)	(151,293,776)
Depreciation of Property, Plant and Equipment	(11,849,701)	(377,906)	(4,327,643)	(2,912,317)	(460,954)	(2,053,945)	(21,982,466)
Amortisation of Intangible Assets	(767,838)	(24,488)	(280,423)	(188,713)	(29,869)	(133,091)	(1,424,422)
Other Expenses	(124,772,448)	(3,979,193)	(45,568,293)	(30,665,494)	(4,853,657)	(21,627,191)	(231,466,276)
Operating Profit before Value Added Tax (VAT) and NBT	**71,610,084**	**29,512,650**	**(4,275,036)**	**34,052,089**	**(26,893,523)**	**22,349,480**	**126,355,744**
Value Added Tax (VAT) and NBT on Financial Services	-	-	-	-	-	-	(32,952,620)
Profit / (Loss) Before Taxation	**71,610,084**	**29,512,650**	**(4,275,036)**	**34,052,089**	**(26,893,523)**	**22,349,480**	**93,403,124**
Tax Expense							(25,842,472)
Profit/(Loss) for the Year	**71,610,084**	**29,512,650**	**(4,275,036)**	**34,052,089**	**(26,893,523)**	**22,349,480**	**67,560,652**

38. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in the Statement of Financial Position (2016/2017) to comply with the current year classification.

		Previous Year Classification	Reclassified	Current Year Classification
24	**Other Financial Liabilities**	75,211,226	206,700,627	281,911,853
25	**Other non Financial Liabilities**	239,895,330	(206,700,627)	33,194,703

UB FINANCE
A UNION BANK COMPANY

සරණ යාත්‍රා

UBF
SPORTS CLUB

UBF Sports Club plays an active role in initiating sports and recreational activities amongst the UBF team whilst building harmony, fellowship and team spirit across the organization.

This year as well, the Company's Cricket team participated in the MCA "E" Division 25-Over League Tournament organized by the Mercantile Cricket Association of Sri Lanka. The team was captained by Mithun Jayawickrama and Vice Captained by Nipuna Gamage. The UBF hard ball Cricket team performed well and successfully advanced in to the quarter finals of the six-a-side tournament. During the year the UBF softball Cricket Team also made strides in to the Quarter finals of the Mercantile T20 Softball Cricket Tournament. They were also adjudged the winners at the Yes FM Cricket sixes 2017 and the CIMA Corporate Cricket Sixes 2017. The UBF Softball Cricket Team also participated at the Kandy Finance House Tournament and was awarded Runners Up at this Tournament.

Furthermore UBF team also displayed their sports prowess in Cricket and Rugby at the Annual Sports Day 2017 of the Finance House Association of Sri Lanka. The UBF Basket Ball team participated at the Mercantile Division E Tournament and advanced to the Semi Finals. They also displayed their skills at the Mercantile 3x3 tournament and was placed in the Quarter Finals of the tournament.

UBF Sports Club also conducted other activities to engage staff and build camaraderie. Its Annual Avurudhu Uthsavaya was held this year at Club Palm Bay Marawila adhereing to the traditions and norms of the celebrations. Staff members were encouraged to participate dressed in cultural attire and the event had many exciting Avurudhu games and cultural activities, making this event a truly memorable occasion.

The UBF Cricket Sixes 2017 was organized for UBF Staff on the 22nd July 2017 at the Ceylon Steel Corporation Ground at Athurugiriya with the participation of 223 employees.

UBF also conducted a fundraiser called the "Gypsies Family Night" at Pegasus Reef Hotel on the 18th November 2017 with participation from over 400 individuals.

UBF Award Ceremony was held at Hotel Ramada on the 9th December 2017 with an overwhelming participation of the members of UBF team. As in the past, the UBF Night was an event to remember packed with fun and entertainment. Furthermore, on this occassion awards were presented to the most outstanding members of the UBF team for their outstanding performance towards the business during that year.

The UBF sports club also teamed up with Singer Sri Lanka to afford the UBF staff an opportunity to purchase household appliances and goods at special prices with favourable payment options.

To commemorate the Vesak season, UBF organized an Ice Cream Dansala at the UBF Head Office premises with participation of over 500 people.

Over the last year Sri Lanka was hit by severe storms causing widespread flooding and landslides in many areas of the country. Many were affected by this disaster and numerous homes were destroyed. As a conscientious citizen of Sri Lanka the UBF sports club organized the UBF Sahana Yathra on the 2nd June 2017 and staff members visited Rathnapura, Galle and Mathara to distribute dry rations and water for affected individuals. Donations were also made to 5 staff members who were affected by the floods.

A significant amount of the contributions made towards these projects were voluntary donations made by the UBF team and loyal customers.

Mr. Nipuna Gamage
Most Outstanding sportsman of the Year

UBF Cricket Sixes 2017 - Winners

UBF Cricket Team

UBF Basketball Team

CORPORATE INFORMATION

Company Name	:	UB Finance Company Limited
Statutory Status	:	Limited Liability Company
Incorporated On	:	12-07-1961
Company Reg.No	:	PB 113 (Previously PVS 1940 /PBS)
Governed By	:	The Companies Act No.07 of 2007, The Finance Business Act No.42 of 2011 & The Finance Leasing Act No. 56 of 2000
Registered Office	:	No. 10, Daisy Villa Avenue, Colombo 04
Head Office	:	No. 10, Daisy Villa Avenue, Colombo 04
Telephone	:	+94 (0) 11 4 468 888
Fax	:	+94 (0) 11 2 508 517
E-mail	:	info@ubf.lk
Website	:	www.ubf.lk
External Auditors	:	M/s. Ernst & Young
Company Secretary	:	P W Corporate Secretarial (Pvt) Ltd

Bankers

Union Bank of Colombo PLC
Nations Trust Bank PLC
People's Bank
Sampath Bank PLC
Hatton National Bank PLC
Seylan Bank PLC
Commercial Bank of Ceylon PLC

VAT Registration No : 104019404 - 7000

Branch Network :

LOCATION	ADDRESS	TELEPHONE	FAX
Head Office	No. 10, Daisy Villa Avenue, Colombo 04	+94 (0) 114 - 468 888	+94 (0) 112 - 508 517
Factoring	No. 12, R. A. De Mel Mawatha, Colombo 05	+94 (0) 114 - 501 343 +94 (0) 114 - 501 344	+94 (0) 114 - 501 345
Ambalangoda	No.27, Wickckramasooriya Road, Ambalangoda	+94 (0) 917 - 634 600 +94 (0) 917 - 634 601	+94 (0) 917 - 634 602
Galle	No. 121, Colombo Road, Kaluwella, Galle	+94 (0) 917 - 634 577 +94 (0) 917 - 634 576	+94 (0) 917 - 634 575
Gampaha	No. 56, Bauddhaloka Mawatha, Gampaha	+94 (0) 334 - 501 520 +94 (0) 334 - 501 521	+94 (0) 334 - 501 522
Kadawatha	No. 143/B, Kandy Road, Kadawatha	+94 (0) 117 - 634 577 +94 (0) 117 - 634 576	+94 (0) 117 - 634 575
Kalmunai	No. 141/B, Main Street, Kalmunai	+94 (0) 674 - 501 011 +94 (0) 674 - 501 012	+94 (0) 674 - 501 013
Kandy	No. 75, Yatinuwara Veediya, Kandy	+94 (0) 817 - 634 577 +94 (0) 817 - 634 576	+94 (0) 817 - 634 575
Kurunegala	No. 64, Jayawansha Building, Colombo Road, Kurunegala	+94 (0) 377 - 634 577 +94 (0) 377 - 634 576	+94 (0) 377 - 634 575
Matara	No. 268, Dharmapala Mawatha, Matara	+94 (0) 417 - 634 577 +94 (0) 417 - 634 576	+94 (0) 417 - 634 575
Mawanella	No. 89, Kandy Road, Mawanella	+94 (0) 357 - 634 577 +94 (0) 357 - 634 576	+94 (0) 357 - 634 575
Negombo	No. 539, Colomobo Road, Kurana, Negombo	+94 (0) 317 - 634 577 +94 (0) 317 - 634 576	+94 (0) 317 - 634 575
Nuwara Eliya	No. 32/1, Park Road, Nuwara Eliya	+94 (0) 524 - 650 300 +94 (0) 524 - 650 301	+94 (0) 524 - 650 302
Panadura	No. 223A, 1st Floor, Galle Road, Panadura	+94 (0) 387 - 634 577 +94 (0) 387 - 634 576	+94 (0) 387 - 634 575
Polonnaruwa	No. 05, Batticaloa Road, Polonnaruwa	+94 (0) 277 - 634 577 +94 (0) 277 - 634 576	+94 (0) 277 - 634 575
Rathnapura	No. 13, Colombo Road, Rathnapura	+94 (0) 454 - 650 300 +94 (0) 454 - 650 301	+94 (0) 454 - 650 302
Thissamaharama	No. 163, Kachcheriyagama, Thissamaharama	+94 (0) 477 - 634 577 +94 (0) 477 - 634 576	+94 (0) 477 - 634 575

www.ubf.lk | +94 114 468 888
No. 10 Daisy Villa Avenue, Colombo 04