ANNUAL REPORT | 2019

UB FINANCE
A UNION BANK COMPANY

Content

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

Alexis Lovell, MBE
Chairman

" We have once more overcome a turbulent year on a positive note, by harnessing the power of innovative thinking and creative problem solving."

Chairman's Message

Dear Shareholders,

Fixing our sights firmly on our future objectives and driven by an unrelenting determination to strengthen our business fundamentals, we have once more overcome a turbulent year on a positive note, by harnessing the power of innovative thinking and creative problem solving. Standing upon this solid foundation, it is my pleasure and privilege to present the annual report and audited financial statements of UB Finance Limited, for the financial year 2018-19.

Economic Overview

Sri Lanka's real GDP growth rate decelerated to 3.2% in 2018, compared to 3.4% in 2017. Growth was primarily attributed to the services sector which expanded at a rate of 4.7%, and was also supported by the recovery in agriculture activities, which recorded a growth of 4.8%. Against the slowdown of the overall economy, the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector also registered lower rates of growth, as credit growth and profitability declined and nonperforming loans increased. The sector's total asset growth slowed down to 5.6%, reaching Rs. 1,431.3 billion, compared to the 11.8% growth reported in 2017. Profitability of the sector declined by 17.2% ,mainly due to increased funding costs and higher loan loss provisions.

The lower than anticipated performance of the financial sector was due to multiple factors, including a number of regulatory changes, aimed at strengthening the domestic financial sector and enhancing consumer safety, that came into effect during the year. High import duty and more stringent regulations on lending such as lower loan to value ratios etc. resulted in disruptions to demand patterns, which caused a downturn in leasing business volumes. However the Leasing product continued to be the driving force of the sector.

Meanwhile, the country also experienced a rising interest rate environment, which exerted additional downward pressure on already narrow margins. Given the highly competitive nature of the finance industry in Sri Lanka, maintaining volume growth is essential to ensure year-on-year growth in profits, due to the fixed nature of business costs. In a scenario of rising interest rates, finance companies continued to experience erosion in margins against the fixed variables of lending rates and repayments. Coupled with constraints against achieving growth in business volumes, the sector inevitably recorded a lower rate of revenue growth.

Despite these external pressures, we remained focused on our operational targets and immediately switched our attention towards innovative solutions that continued to safeguard brand relevance and brand value, to consumers. We believe in the magic of the human mind and when faced with new challenges, we reverted to the drawing board to develop new consumer value propositions through innovative products that are timely and relevant for the country's economic situation. This was aimed at discovering new clients and new market segments that will continue to expand our business portfolios. This proactive management approach in a volatile market environment has made it possible to contain market share erosion and minimise losses.

A critical component of our growth drive has been the unyielding emphasis on good governance and internal controls that encourages robust but also prudent growth initiatives. UB Finance's risk management systems are continually reviewed and improved in line with the systematic risk profile of the external market and have been aligned with the Integrated Risk Management system of our principal, Union Bank, which is one of the first banks in the country to implement integrated risk management in the operational framework. This extensive oversight mechanism enables a high degree of sensitivity to market conditions and makes us highly responsive, enabling rapid corrective action to market changes and also providing a high level of security for shareholders' assets.

Backed by our strategic market knowledge and creative thinking, we have successfully grown our Net Interest Income by 18% to Rs. 721.5 million year-on-year from Rs 612.6 million, despite unfavourable market conditions within which we operated.

Strategic Goals

Our strategic priority for the year remained anchored firmly on building a healthier, more robust balance sheet that would enhance shareholder value. Today, UB Finance's cleaner, more resilient balance sheet reflects the outcomes of these efforts and, I can confidently give the assurance that our forward journey is now on a clearer path. Another priority for the year, was to meet the new capital adequacy requirements of the Central Bank. We have the assurance from our principal, Union Bank, to meet all statutory thresholds. Therefore, I am confident we do not face a compliance risk in this regard.

Future outlook

Looking ahead, I am confident that nearly seven years of spadework of ingraining industry best practices and building systems and processes for a secure framework of internal controls, will sustain the Company against any challenges of the future. With the groundwork now firmly in place and with a strategic partnership in the formation to support future expansion, we are now positioned for high geared growth.

Having said that, I would like to add that we are sensitive to the new economic dynamics and security environment that has emerged post April 2019. Therefore, we shall monitor market developments closely in deploying our operational plans for the new financial year. While interest rates had begun to stabilise in 2019, enabling greater planning predictability, the security threats that manifested in April 2019, have now introduced an entirely new element of threat into the macro risk portfolio.

The financial sector of Sri Lanka is a heavily taxed component of the economy, with a tax level of approximately 65% of revenue. This high level of taxation erodes shareholder returns and discourages new investments into the sector, hindering industry advancement and modernisation. Therefore, the country needs an innovative approach to differentiate itself in the global investment arena and to attract high quality investments. On the same note, as the Sri Lankan finance sector is one of the most and well regulated in the region I believe that new proposals for guidelines towards the NBFI sector should be in line to create an investor friendly environment to ensure a strongly capitalised sector.

As competition in financial markets increase, I anticipate further industry consolidation in the coming years. However, I am confident we have the systems and resources in place to weather changes to the competitive environment.

While the post April 2019 downturn in tourism has dampened demand for vehicle leasing, we will continue to introduce practical, timely new products to support tourism industry recovery. Another area of focus, will be on improving our cost to income ratio from the current level of 60%-65% towards a 40%-50% level, through sustained volume growth. Our strategic partnership with our parent company Union Bank and strong capitalisation through the injection of new capital will make it possible to tap into new opportunities in the SME and retail finance markets, contributing significantly towards portfolio expansion and new market development that will support the upward trajectory of the top line. Therefore, despite the macro uncertainties, I am confident of financial recovery and a sustained financial improvement by UB Finance within the short term.

Changes to directorate

On behalf of the Board of Directors, I take this opportunity to announce the retirement of Ananda Athukorala from the Board. I would like to extend my sincere gratitude to Ananda Athukorala for his services to the Company during the years of his tenure. He has been with the Company from its inception and has contributed unstintingly to the welfare of the Company. We shall miss his inputs and insights at Board meetings and Committee meetings, which he attended diligently. We wish him well in his retirement and all success in his plans for the future.

I would also like to welcome Athul Malik the Union Bank Chairman's appointment to the UBF Board as he brings his strategic expertise to further strengthen the Board of UBF.

Acknowledgements

I extend my appreciations to our parent, Union Bank, for its unwavering support during a challenging year and to the Board of Directors for their valuable advice and leadership in navigating the year. The best laid plans would come to nought without an efficient and dedicated team to execute these plans and I fully acknowledge the efforts by all our employees in driving the Company towards its success.

Our customers have been our strength and I fully appreciate their loyalty and look forward to enhancing their lives further, through our services. Our business partners, suppliers and financial institutions are partners in our journey and I thank them for their loyalty and look forward to their continued support.

Alexis Lovell, MBE

Chairman

Board of Directors

Ananda Atukorala
Deputy Chairman

Atul Malik
Non Executive Director

Indrajit Wickramasinghe
Non Executive Director

Chandrakumar Ramachandra
Non Executive Director

Alexis Lovell, MBE
Chairman

"Our Board concentrates on strategy oversight and governance practices that leads towards stability despite economic volatility"

Ranvir Dewan
Non Executive Director

Lisa Thomas
Non Executive Director

Malinda Samaratunga
Non Executive Director

Ransith Karunaratne
Director / Chief Executive Officer

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 and Ben Holdings 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 has been the Deputy Chairman and Senior 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. He was formerly a Director of Union Bank PLC & 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 an Independent Non-executive Chairman of National Development Bank PLC and Development Holdings (Pvt) Ltd, and as 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. 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 a Working Committee Member - Commercial Banking Sector - Presidential Commission on Finance and Banking, Committee Member - Banker's Club of Sri Lanka. He was also a former advisor to the Ministry of Policy Development & Implementation.

He holds a B.Sc (Leeds,UK), MTT (North Carolina, USA) and a MBA.

MR. ATUL MALIK

Non-Independent Non-Executive Director

Atul Malik, who currently functions as a Senior Advisor to TPG for their financial services portfolio, is a senior financial services executive with extensive experience and a successful track record in establishing, expanding and managing scale businesses across Asian developed and emerging markets.

Prior to joining TPG in October 2017, he was an advisor to General Atlantic from 2015 to 2017, the CEO of Maritime Bank, one of the largest private banks in Vietnam, from 2012 to 2015 and a Senior Advisor to Asia Capital & Advisors, a boutique private equity firm, from 2011 to 2012. Between 2007 and 2011, he was the Managing Director/ Regional Head Asia-Private & Business Clients of Deutsche Bank with operations covering India, China and Vietnam. During this period he was also a member of the DB Asia Pacific Executive Committee and the Global Private and Business Clients (PBC) Executive Committee, and was nominated as the Non Executive Director of DB China Limited.

During his 20 years long career at Citibank that commenced in 1988 with Citibank India, Mr. Malik has held a variety of senior roles, the last of which was as the Chief Executive Officer of Citibank Hong Kong (2004 to 2007), which is the Bank's largest retail and business banking operations in Asia. He was also a member of Citibank's Global Consumer Group Management Committee and the Asia Pacific Executive Committee. Mr. Malik holds a Master's Degree in Business Administration from the Rice University, USA (1987) and B Tech Degree from IIT Bombay (1985).

MR. RANVIR DEWAN

Non-Independent Non-Executive Director

Ranvir Dewan joined TPG Capital in July 2006. He is currently a Senior Advisor and was formerly 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 last 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 Union Bank of Colombo and is also a member of the Executive, Audit end 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 & Chairman 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

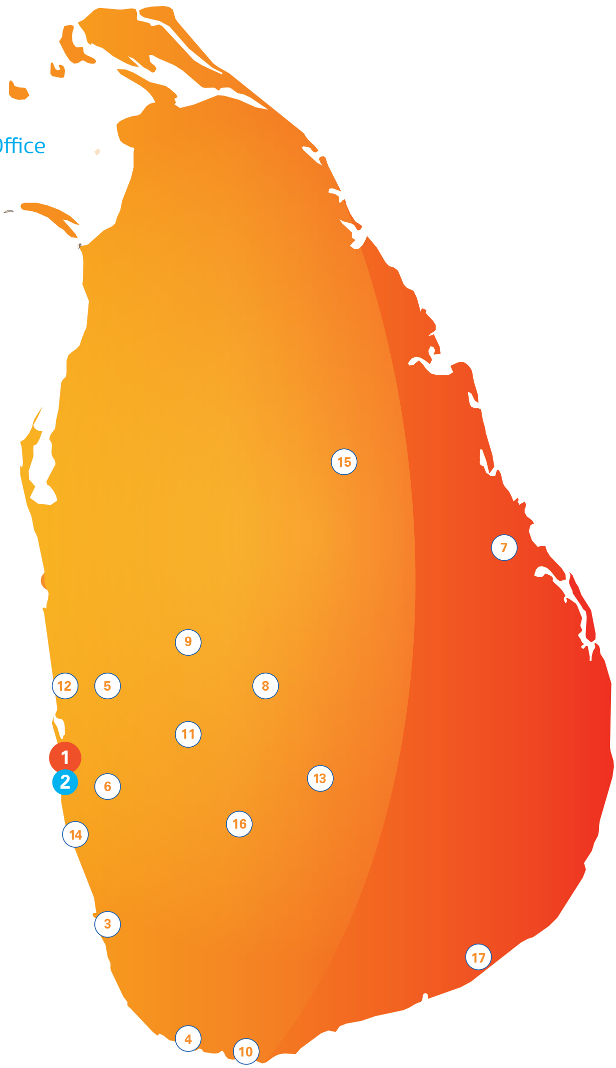
Mr. Ransith Karunaratne took over as the Chief Executive Officer of UB Finance in November 2012 and was appointed to the Board of Directors in March 2014. He is a Fellow Member of the Chartered Institute of Management Accountants - FCMA (UK) and holds a Master" Degree in Business Administration (MBA)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

Branch Network

1. Head Office - Colombo
2. Working Capital Premier Office
3. Ambalangoda
4. Galle
5. Gampaha
6. Kadawatha
7. Kalmunai
8. Kandy
9. Kurunegala
10. Matara
11. Mawanella
12. Negombo
13. Nuwara Eliya
14. Panadura
15. Polonnaruwa
16. Rathnapura
17. Thissamaharama



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

The Board of Directors of UB Finance Company Limited has pleasure in presenting their Annual Report and the State of Affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2019 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, mortgage loans, vehicle loans, working capital solutions and gold loans.

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 34 to 38.

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 27th September 2018. The report of the Auditors on the Financial Statements of the Company is given on page 32 - 33.

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 39 to 83 of this Annual Report.

Branch Network

As at 31st March 2019, 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 34 to 83 give a true and fair view of the state of affairs of the Company as at 31st March 2019 and the Profit and Loss for the year ended 31st March 2019.

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 81 of this Annual Report.

Shareholder Register

As at 31st March 2019, 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 2019, 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 2019;

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
Mr. Atul Malik	Director	17/04/2018

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, Ms. Lisa G. Thomas and Mr. Atul Malik.

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

Mr. A Malik was appointed as a Non-Independent Non-Executive Director w.e.f. 17th April 2018.

Mr. Ananda Atukorala retired w.e.f. 18th April 2019.

Mr. R M Balendra was appointed as an Alternate Director to Ms L G Thomas w.e.f. 8th June 2018.

Mr. Y Kanagasabai resigned w.e.f. 31st December 2018.

Mr. Alexis Lovell and Mr. R Dewan 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.

Shareholdings of Directors in the Company / Parent Company:

Shareholdings of Directors in the Company / Parent Company as at 31st March 2019;

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	17,183,523
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
Mr. Atul Malik	None	None	None

Set out below are the directorships held by the Directors in other Institutions as at 31st March 2019

Name of the Director	No. of Directorates / equivalent positions held in companies / societies / corporate bodies as at 31.03.2019
Mr. Alexis Indrajit Lovell, MBE	**Chairman** 01. National Asset Management Ltd 02. Ben Holdings Ltd 03. EBC Broadcasting Ltd 04. EAP Theatres and Films Ltd 05. Swarnamahal Jewellery Ltd **Director** 01. Real Investment Holdings Pte Ltd 02. Traditions Lanka Ltd **Principal** 01. JI Capital 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
Mr. Atul Malik	**Chairman** 01. Union Bank of Colombo PLC
Mr. Raj Moahan Balendra (Alternate to Ms. Lisa G. Thomas)	**Director** 01. S B Realtors Pvt Ltd 02. S B Corporate Pvt Ltd 03. Serendib Engineering Group PLC

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 81.

Events after the Reporting period

There were no post balance sheet events, except for the disclosures made under note 33.

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 Act. 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 2019 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. Ranvir Dewan (Chairman)
- Ms. Lisa G. Thomas / alternate
- Mr. Indrajit Wickramasinghe
- Mr. Chandrakumar Ramachandra
- Mr. Ransith Karunaratne

Board Credit Committee

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

Human Resources and Remuneration Committee

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

Strategic Planning Committee

- Mr. Atul Malik (Chairman)
- Mr. Alex Lovell
- Mr. Ananda Atukorala
- Ms. Lisa G. Thomas / alternate
- Mr. Indrajit Wickramasinghe

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
Alexis Lovell	12	11	-	-	-	-	4	4	3	3	4	2
Ananda Atukorala (ceased w.e.f. 18/04/2019)	12	10	4	2	1	1	4	4	3	3	4	3
Malinda Samaratunga	12	10	4	2	-	-	-	-	1	1	-	-
Chandrakumar Ramachandra	12	10	4	4	4	4	4	3	-	-	4	4
Ransith Karunaratne	12	11	-	-	4	3	-	-	-	-	-	-
Indrajit Wickramasinghe	12	12	-	-	4	4	-	-	3	3	-	-
Ranvir Dewan	12	10	4	2	3	3	-	-	-	-	-	-
Lisa Gayle Thomas (or her alternate) (appt from 28/11/2017)	12	10	4	3	4	2	4	3	3	3	4	3
Atul Malik (appt from 17/04/2018)	12	10	-	-	-	-	-	-	2	2	-	-
Yudhistran Kanagasabai (resigned w.e.f. 31/12/2017) (appt from 05/06/2018)	6	5	2	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

Ransith Karunaratne
Director / Chief Executive Officer

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

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 2021/22 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.
	(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;	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.
	(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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
	(i) Assessment of effectiveness of own governance practice i. Selection,nomination,and election of directors and appointment of KMP ii. Management of conflicts of interests iii. Determination of weaknesses and implementation of changes where necessary	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. 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. The Board appraises the performance of the Directors through an annual Board performance evaluation filled by each Director.
	(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.

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 2018/19.

CORPORATE GOVERNANCE

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 more than 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 2018/19.
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.

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 2019 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 2018/19.
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.
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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
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.

Section	Principle	Degree of Compliance
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 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 policy on the engagement of the external auditor in the provision of non-audit services.
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 2017/18 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 2018/19. 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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
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.
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 four Non-Executive Directors, Chief Executive Officer and Manager Risk & Compliance. The other KMPs participate upon invitation
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 will further improve on the review mechanism on the adequacy and effectiveness of the management level committees
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.

Section	Principle	Degree of Compliance
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.
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).

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
10.00	**Disclosures**	
10.01	Published interim and Annual Financial Statements based on applicable accounting standards and published in Sinhala, Tamil and English	Audited Financial Statements for 2018/19 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 and the transactions with the Company	d) Details of Directors have been disclosed in the "Annual Report of the Board of Directors on the State of Affairs of the Company". Transactions with the Company are disclose in note no 35 of the 2018/19 financials.
	e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	e) Disclosed in Note No. 35 of the 2018/19 Financials under "Transactions with Key Management Personnel".
	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. 35 of the 2018/19 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

Ms. Lisa Thomas
Non-Executive Director

Mr. Malinda Namal Samaratunga
Non-Executive Director

Mr. Ranvir Dewan
Non-Executive Director

The members of the Board Audit Committee (Committee) have the detailed and relevant experience and bring an independent mind set to their role. The Committee is chaired by Mr. Chandrakumar Ramachandra, a Fellow member of the Institute of Chartered Accountants of Sri Lanka. The Committee comprises of two Independent Non-Executive Directors and three Non-Executive Directors. The Committee, as a whole, have the required and relevant experience. Brief profiles of the Committee members are given in pages 8 to 10.

The Chief Executive Officer, Chief Operating Officer, Head of Finance and other Senior Managers attended meetings by invitation as necessary to brief the 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 17 of the Annual Report.

The Role of the Audit Committee

The Board Audit Committee assists the Board of Directors in fulfilling effectively its 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.

Significant amount of time has been spent on discussing the root causes of control weaknesses and regulatory breaches and the resulting remediation and mitigating action taken by the management. We also have discussed regulatory compliance issues and internal control weaknesses that have arisen.

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.

In 2018, the Company has adopted IFRS9 – Financial instruments with a focus on impairment of Loans and Advances and valuation of Financial instruments held at fair value. The Committee has discussed matters relating to same with management and External Auditors and found to be appropriate.

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, focusing on the areas of greater risk to the Company using a risk-based approach. 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. The Committee seeks and obtain the required assurance from the Business line on the remedial action in respect of the identified risks to maintain the effectiveness of the internal control procedure.

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

In line with Corporate Governance Direction, the lead engagement partner rotated out following the completion of the Audit of accounts of Financial Year 2017/2018, having held the role for five years. As a part of evaluation, the Committee has considered the experience and expertise of the proposed partner, the quality of the supporting audit team as well as the support from the External Auditor's global network.

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 emphasizes 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.

RISK MANAGEMENT COMMITTEE REPORT

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. Ranvir Dewan Non-Executive Director	Committee Chairman
Ms. Lisa G. Thomas Non-Executive Director	Committee Member
Mr. Indrajit Wickramasinghe Non-Executive Director	Committee Member
Mr. Chandrakumar Ramachandra Independent 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 are given on page 17

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 to 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 to oversee 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.

Ranvir Dewan

Mr. Ranvir Dewan
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 system of internal control provides reasonable, but not absolute assurance, against material misstatement on Financial reporting and records, and against financial losses and fraud.

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 on risk and control by identifying and assessing the risk faced, and in the design operation and monitoring of appropriate internal controls to mitigate the risk. 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. The Company further strengthened the processes and procedures internally applied to adopt the aforementioned accounting standards 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. The Company has recognized the need to improve, areas with respect to the processes such as related party transactions, monthly impairment computation and IT controls. The Company is in the process of updating relevant procedure manuals pertaining to these new requirements.

- Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which was applicable for financial reporting periods beginning from 1 April 2018.The Board will continuously take steps to strengthen the processes and controls around management information systems and information required for validation and compliance in line with SLFRS 9. The Financial statements for the year ended 31st March 2019 is compliant with all accounting standards currently in force.

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

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APAG/RM/DM

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

Report on the audit of 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 2019, and Income statement, 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 2019, 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 assura nce 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.

- 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.

INDEPENDENT AUDITOR'S REPORT

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• 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.

28 June 2019
Colombo

UB FINANCE COMPANY LIMITED
INCOME STATEMENT
Year ended 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Income	4	**2,152,702,226**	**2,010,850,282**
Interest Income	4.1	2,066,869,420	1,904,703,382
Interest Expenses	4.2	(1,345,413,836)	(1,292,033,238)
Net Interest Income		**721,455,584**	**612,670,144**
Fee and Commission Income	4.3	64,564,941	85,026,818
Fee and Commission Expenses	4.3	(21,050,908)	(32,985,998)
Net Fee and Commission Income		**43,514,032**	**52,040,820**
Other Operating Income (Net)	5	21,267,866	21,120,082
Total Operating Income		**786,237,481**	**685,831,046**
Impairment Charge for Loans and Receivables and Other Assets	6	(214,352,676)	(132,135,563)
Net Operating Income		**571,884,805**	**553,695,483**
Staff Costs	7	(193,257,023)	(170,344,838)
Depreciation of Property, Plant and Equipment	19.1	(28,909,703)	(22,133,078)
Amortisation of Intangible Assets	18	(1,595,028)	(1,426,464)
Other Expenses	8	(248,745,701)	(220,208,106)
Operating Profit before Value Added Tax (VAT) and NBT		**99,377,351**	**139,582,997**
Value Added Tax (VAT) and NBT on Financial Services		(44,639,752)	(51,321,688)
Debt Repayment Levy (DRL)		(8,543,122)	-
Profit Before Taxation		**46,194,476**	**88,261,309**
Tax Expense	9	(26,047,047)	(16,392,519)
Profit for the Year		**20,147,430**	**71,868,790**
Earnings Per Share : Basic	10	0.01	0.04

The Accounting Policies and Notes on pages 39 through 83 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Profit for the Year		20,147,430	71,868,790
Other Comprehensive Income to be reclassified to Income Statement			
Recycling into Income Statement	29	-	277,915
Other Comprehensive Income not to be reclassified to Income Statement			
Deferred Tax Charge impact on revaluation	20	-	(11,104,421)
Actuarial gains / (losses) on Post Employment Liability	26	(979,092)	5,378,191
Deferred Tax (Charge) / Reversal impact on above	20	274,146	(1,505,893)
Other Comprehensive Income for the Year, net of taxes		(704,946)	(6,954,208)
Total Comprehensive Income for the Year		**19,442,484**	**64,914,582**

The Accounting Policies and Notes on pages 39 through 83 form an integral part of these financial statements.

UB FINANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Assets			
Cash in Hand and Balances with Banks	12	473,888,928	455,042,958
Reverse Repurchased Agreements	13	546,524,988	455,652,248
Financial Assets at amortized cost - Loans and Receivables to other Customers	14	8,785,229,424	-
Loans and Receivables from Customers	14	-	9,452,656,902
Financial assets measured at fair value through Other Comprehensive Income	15	200,900	-
Financial Investments – Available for Sale	15	-	200,900
Investment in Fixed Deposit		505,040,564	-
Investment in Commercial Paper			158,703,642
Investment in Real Estate	16	120,791,395	163,828,425
Other Assets	17	111,842,459	79,402,061
Intangible Assets	18	7,935,521	8,427,137
Property, Plant and Equipment	19	245,353,658	188,612,501
Deferred Tax Assets	20	329,870,991	188,272,861
Total Assets		**11,126,678,828**	**11,150,799,635**
Liabilities			
Financial Liabilities at amortized cost			
Due to Banks	21	156,482,133	151,969,768
Due to other Customers	22	7,219,951,634	7,237,344,201
Other Borrowed Funds	23	2,725,340,507	2,225,701,258
Current Tax Liabilities		7,927,260	7,927,260
Financial Liabilities	24	107,690,424	230,495,648
Other Non Financial Liabilities	25	122,084,845	103,551,734
Post Employment Liability	26	17,122,708	12,790.282
Total Liabilities		**10,356,599,511**	**9,969,780,151**
Equity			
Stated Capital	27	1,028,272,810	3,152,047,599
Statutory Reserve Fund	28	66,854,606	52,044,800
Revaluation Reserves		28,554,226	28,554,226
Accumulated Loss	29	(353,602,325)	(2,051,627,141)
Total Shareholders' Equity		**770,079,317**	**1,181,019,484**
Total Equity and Liabilities		**11,126,678,828**	**11,150,799,635**

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

Asanka Udugama
Assistant General Manager - 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 39 through 83 form an integral part of these financial statements.

28th June 2019
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Available-for-Sale Reserve Rs.	Revaluation Reserves Rs.	Accumulated Profit/(Loss) Rs.	Total Rs.
Balance as at 1 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**
Transitional adjustment on the SLFRS 9		-	-	-	-	(597,753,682)	(597,753,682)
Deffered tax on transitional adjustment		-	-	-	-	167,371,031	167,371,031
Restated opening balance as at 1 April 2018 as per SLFRS 9		**3,152,047,599**	**52,044,800**	**-**	**28,554,226**	**(2,482,009,792)**	**750,636,833**
Share reduction		(2,123,774,789)	-	-	-	2,123,774,789	-
Other Comprehensive Income		-	-	-	-	(704,946)	(704,946)
Profit for the year		-	-	-	-	20,147,430	20,147,430
Transfer to Statutory Reserve	28.1	-	14,809,806	-	-	(14,809,806)	-
Balance as at 31 March 2019		**1,028,272,810**	**66,854,606**	**-**	**28,554,226**	**(353,602,325)**	**770,079,317**

The Accounting Policies and Notes on pages 39 through 83 form an integral part of these financial statements.

UB FINANCE COMPANY LIMITED
STATEMENT OF CASH FLOWS
Year ended 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Cash Flow from Operating Activities			
Interest Received	4.1	1,909,466,344	1,892,813,410
Fees and Commission Receipts	4.3	64,564,941	85,026,818
Interest Paid	4.2	(1,315,772,134)	(1,226,261,607)
Fees and Commission Paid	4.3	(21,050,908)	(32,985,998)
Payments on Other Operating Activities		(423,575,167)	(394,225,356)
Operating Profit / (Loss) before changes in Operating Assets and Liabilities		**213,633,075**	**324,367,267**
(Increase) / Decrease in Operating Assets:			
Funds Advanced to Customers	14	47,944,550	(1,103,706,040)
Others		(32,440,398)	(20,314,369)
Increase in Operating Liabilities:			
Due to Banks and Other Customers	22	25,127,414	1,116,638,860
Others		(142,899,354)	18,940,826
Net Cash used in Operating Activities before Income Tax		111,365,287	335,926,544
Retiring Gratuity paid	26	(985,533)	(312,500)
Income Tax Paid		(0)	(9,522,814)
Net Cash used in Operating Activities		**110,379,754**	**326,091,230**
Cash Flow from Investing Activities			
Dividends Received	5	18,576	342,450
Purchase of Intangible Assets	18	(1,103,412)	(865,691)
Purchase of Property and Equipment	19	(90,716,821)	(11,017,728)
Proceeds from Sale of Property and Equipment		6,285,000	6,950,000
Proceeds from Sale of Gold & Diamond Stocks		-	1,613,371
Proceeds from Sale of Quoted Equity Securities		-	431,961
Receipt in Unit Trusts		-	663,147
Investments in government securities		-	8,945,906
Net Cash used in Investing Activities		**(85,516,657)**	**7,063,416**
Cash Flow from Financing Activities			
Increase in Borrowings	23	426,680,167	235,180,857
Issues of Shares (Rights Issue)	27	-	300,060,130
Net Cash Generated from Financing Activities		**426,680,167**	**535,240,987**
Net (Decrease) / Increase in Cash and Cash Equivalents		451,543,265	868,395,633
Cash and Cash Equivalents at Beginning of the Year		917,429,081	49,033,448
Cash and Cash Equivalents at End of the Year		**1,368,972,347**	**917,429,081**
Reconciliation of Cash and Cash Equivalents			
Cash in Hand		18,752,608	649,915
Balances with Banks (Net of Overdraft)		298,654,187	302,423,276
Reverse Repurchased Agreements		546,524,988	455,652,248
Investment in Fixed Deposits		505,040,564	158,703,642
		1,368,972,347	**917,429,081**

The Accounting Policies and Notes on pages 39 through 83 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2019

1. CORPORATE INFORMATION

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, rebranded & 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, Gold Loan facilities, 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 2019 was authorized for issue in accordance with a resolution of the Board of Directors on 28th June 2019.

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 & SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 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 2019 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.

In these financial statements, the Company has applied SLFRS 9 and SLFRS 15, effective for annual periods beginning on or after 1 April 2018, for the first time. An explanation of how the transition to SLFRS 9 has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 3 on pages 54.

SLFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers.

However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards. The Company's assessment has not revealed any significant changes to the existing revenue recognition pattern.

2.1.2 Basis of Measurement
The financial statements of the company have been prepared on a historical cost basis, except for land and building, Fair value through other comprehensive income instrument that have been measured at fair value and liabilities for defined benefit obligations is recognized as the present value of the defined benefit obligation.

2.1.3 Functional and presentation currency
The financial statements are presented in Sri Lankan rupees which is the currency of the primary economic environment in which the Company operates.

2.1.4 Presentation of Financial Statements
The Company presents their Statement of Financial Position by grouping assets and liabilities by nature and listing in order that reflects relative liquidity and maturity pattern. 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 32.14.3 to the financial statement.

2.1.5 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.

2.1.6 Changes in accounting policies and disclosures

There were no changes to the accounting policies and accounting policies adopted are consistent with those of the previous financial year, except for the *changes due to the adoption of* SLFRS 09 and SLFRS 15. Related policies mentioned in detail below.

2.1.6.1 SLFRS 9 Financial Instruments

The financial statements of the Company have been prepared based on the new accounting policies and methods which have been revised in line with the requirements of the SLFRS 9 -Financial Instruments. The Company complied with LKAS -39, Financial Instruments: Recognition and measurements up to 31 March 2018 in the preparation of its annual Financial Statements. The Company has not restated comparative information for financial year end 31 March 2018 for financial instruments in the scope of SLFRS 9.

Therefore, the comparative information for financial year end 31 March 2018 is reported under LKAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of SLFRS 9 have been recognized directly in retained earnings as of 01 April 2018 and are disclosed in Note 3 to these financial statements.

Changes to classification and measurement

SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held to maturity, loans and receivables) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de recognition
- Financial assets at fair value through profit or loss (FVPL)

The accounting for financial liabilities remains largely the same as it was under LKAS 39. The Company's classification of its financial assets and liabilities and quantitative impact of applying SLFRS 09 as at 1 April 2018 is disclosed in Notes 3 to the Financial Statements.

Changes to the impairment calculation

The adoption of SLFRS 9 has changed the Company's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Company's impairment method are disclosed in Note 2.2.4.

2.1.7 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements, except those which had to be changed as a result of application of the SLFRS 9 and SLFRS 15 which are not comparable with the previous year.

2.1.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the company is 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 on 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,

2.2.1 Going Concern

The Board of Directors of the Company 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, Board of Directors 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.

2.2.2 Classification of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

2.2.2.1 Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model and, in particular, the way those risks are managed
- How managers of the business are compensated
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

2.2.2.2 The Solely Payment of Principal and Interest (SPPI) Test

As a second step of its classification process the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de-Minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.2.3 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 inputs of these models are derived from observable market data where possible, but if this is not available judgment is required to establish fair values.

The valuation of financial instrument is described in Note 31 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 31.4 to the Financial Statements.

2.2.4 Impairment Losses on Loans and Advances

2.2.4.1 Individual Impairment Assessment

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 statement of Profit & Loss. 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 impairment allowance made.

2.2.4.2 Collective Impairment Assessment

Accounting policy applicable period from 1 April 2018

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Defaults (PDs), Exposure at Defaults (EADs) and Loss Given Defaults (LGDs)
- a Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The Company's policy is to regularly review its models in the context of actual loss experience and adjust wherever necessary.

Accounting policy applicable period before 1 April 2018

The measurement of impairment losses under LKAS 39 on Loans and receivables have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively by categorizing them into, groups of assets with similar risk characteristics, to determine whether a 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 and judgments on the effect of concentrations of risks and economic data.

The impairment loss on loans and receivables is disclosed in Note 14.3 to the financial statement.

2.2.5 Useful lives of Property, Plant and Equipment and Intangibles

The Company reviews the assets' residual values, useful lives and methods of depreciation of Property, Plant and Equipment and intangible assets 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.

2.2.6 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.

2.2.7 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.

2.2.8 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 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.

2.2.9 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 30 for more details on Commitments and Contingencies.

2.2.10 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 is 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.

2.3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Company, unless otherwise indicated.

2.3.1 Cash and Cash Equivalents

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks.

The balances of the cash in hand are recorded at book value and the balances with banks are carried at amortized cost in the Statement of Financial Position.

2.3.2 Reverse Repurchased Agreements

Securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position net of impairment allowance, within "reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

2.3.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

2.3.3.1 Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Loans and receivables from customers are recognized when funds are transferred to the customers' accounts. The Company recognizes balances due to customers when funds are transferred to the Company.

2.3.3.2 Recognition and Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.2.2. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below. When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognizes the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is de- recognized.

2.3.3.3 Measurement categories of financial assets and liabilities.

From 1 April 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized Cost (AC)
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVPL)

Before 1 April 2018, the Company classified its financial assets as loans and receivables (amortized cost), FVPL, available for sale or held to maturity (amortized cost). Financial liabilities are measured at amortized cost or at FVPL.

The subsequent measurement of the financial assets depends on their classification.

2.3.3.3.1 Financial Investments at Fair Value Through Profit or Loss

The Company classifies financial assets or financial liabilities as fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value.

The Company does not have any financial instrument under this category.

2.3.3.3.2 Financial Assets at Amortized Cost – Loans and receivables from Customers

Policy applicable from 1 April 2018

Company only measures Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The company also measures investment in fixed deposit, investment in reverse repurchase agreements under this category.

Policy applicable before 1 April 2018

Financial Investments – Held to Maturity

Financial investments under held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold till maturity.

Loans and receivables include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment through contractual cash flows, other than because of credit deterioration.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR), less allowance for impairment. The amortization is included in 'Interest income' and the losses arising from impairment are recognized in 'Impairment for loans and other losses' in the Statement of Profit or Loss.

Write-offs

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Loans and the related impairment allowance accounts are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

Collateral Valuation

To the extent possible, the Company uses 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.

2.3.3.3.3 Financial Investments at Fair Value Through Other Comprehensive Income

Policy applicable from 1 April 2018 Debt Instruments

The Company applies the new category under SLRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available for sale under LKAS 39. FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost.

Equity Instruments

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value OCI. This election is made on an investment by investment basis.

The Company classifies Unquoted equity securities under this category.

Policy applicable before 1 April 2018

Financial investments available for sale includes equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity through "Statement of Comprehensive Income" in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Statement of Profit or Loss in 'Net gains/(losses) from financial investments'. Dividends earned whilst holding 'Available for sale financial investments' are recognized in the Statement of Profit or Loss under 'Net gains/(losses) from financial investments' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'Impairment for loans and other losses' and are removed from the available for sale reserve.

2.3.3.3.4 Classification and Subsequent Measurement of Financial Liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Gains or losses on liabilities held for trading are recognized in the Statement of Profit or Loss. The Company has not designated any financial liabilities upon initial recognition, at fair value through profit or loss.

2.3.3.3.5 Classification and Subsequent Measurement of Financial Liabilities at amortized cost

Financial liabilities issued by the Company that are not designated as fair value through profit or loss are classified as liabilities under 'due to Banks', 'due to customers' and 'other borrowed funds' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity, under conditions that are potentially unfavorable to the entity or settling the obligation by delivering variable number of entity's own equity instruments. The details of financial liabilities measured at amortized cost are given in Note 31 to the financial statements.

Due to Banks

Company borrowings include refinance borrowings, call money and term borrowings. Subsequent to initial recognition, these are measured at their amortized cost using the effective interest rate method. Amortized cost is calculated by taking in to account any discount or premium on the issue and cost that are an integral part of the EIR. The EIR amortization is included in 'Interest expenses' in the Statement of Profit or Loss.

Due to Customers

Due to customers include non-interest-bearing deposits, savings deposits, fixed deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the effective interest rate method, which are recognized in the Statement of Profit or Loss under 'Interest expenses'.

Other Borrowed Funds

Other borrowed funds include borrowings from non-Banking institutions. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method, which are recognized in the Statement of Profit or Loss under 'Interest expenses'.

2.3.4 Impairment of Financial Assets

Policy applicable before 1 April 2018

Financial Assets carried at amortized cost

For the financial assets carried at amortized cost, such as Cash and cash equivalent, Balances with Central Bank, Placements with Banks, Reverse repurchased agreements, Loans and receivables customers, other loans and receivables, held to maturity investments and other financial assets, 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 the asset in a Group of 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.

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 a true allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued 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 income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Impairment on Loans and other losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the most recent EIR. If the Company has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the product category that considers similar credit risk characteristics such as collateral type, past–due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from year to year (such as changes in unemployment rates, gross domestic production - GDP rate, inflation, exchange rate or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Policy applicable after 1 April 2018

The Company recognizes the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition by, considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 as described below:

- Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12 months Expected Credit Loss (12mECL). Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. Facilities which are within 30 days past due are in Stage 1.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the Life Time Expected Credit Loss (LTECL). Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Facilities which are within 31 to 90 days past due are in Stage 2.

- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs. Facilities which are more than 90 days past due are in Stage 3.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

The calculation of ECLs

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de- recognized and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.
- Economic Factor Adjustment:

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- o GDP growth
- o Unemployment rates
- o Interest rates
- o Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2.3.5 De-recognition of Financial Assets and Financial Liabilities

2.3.5.1 De-recognition due to substantial modification of terms and conditions

The Company de-recognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes.

If the modification does not result in cash flows that are substantially different, the modification does not result in de-recognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.3.5.2 De-recognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when the rights to receive cash flows from the financial asset have expired. The Company also de-recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

The Company has transferred the financial asset if, and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
  - The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short- term advances with the right to full recovery of the amount lent plus accrued interest at market rates
  - The Company cannot sell or pledge the original asset other than as security to the eventual recipients
  - The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de-recognition if either:

- The Company has transferred substantially all the risks and rewards of the asset, or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Company's continuing involvement, in which case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.3.6 Fair Value Determination and Measurement

2.3.6.1 Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2.3.6.2 Measurement of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Details of fair value of assets and liabilities and their inputs based on fair value hierarchy is given in Note 31 to the financial statement.

2.3.6.3 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.

2.3.7 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,

Nonrefundable 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.

2.3.8 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used for more than one period.

Basis of Recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably in accordance with LKAS 16 "Property, plant and equipment".

Measurement

Property, plant and equipment is stated at cost/ revaluation, net of accumulated depreciation and accumulated impairment losses if any. Initially property, plant and equipment are measured at its cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

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

De-recognition

The carrying amount of an item of property, plant and equipment is de-recognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in "Other operating income" in the Statement of Profit or Loss in the year the asset is de-recognized. When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognized. Major inspection costs are capitalized at each such capitalization, the remaining carrying amount of the previous cost of inspections is de-recognized.

Depreciation

Depreciation is recognized in profit or loss 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 de-recognized. Depreciation doesn't cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The estimated depreciation rates of the assets by equal annual installments 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 & 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.

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 of buildings 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.

2.3.9 Intangible Assets

Basis of Recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

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.

Other Intangible Assets

Other intangible assets consist of brand value, asset management and advisory intangible, licenses and related infrastructure. Other intangible assets are initially recognized when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

Subsequent Measurement

These other intangible assets are with an indefinite useful life which shall not be amortized, is required to test for impairment by comparing its recoverable amount with its carrying amount on annually or whenever there is an indication that these intangible assets may be impaired. Accordingly, these other intangible assets are measured at cost less accumulated impairment losses.

De-recognition of Intangible Assets

The carrying amount of an item of intangible asset is de-recognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is de-recognized.

2.3.10 Deferred Tax

Deferred tax assets are provided on all deductible 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.

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 asset arising from the initial recognition of an asset or liability in a transaction, affects neither the accounting profit nor taxable profit or loss.

When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability at the time of transaction, affects neither the accounting profit nor the taxable profit or loss.

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.

Differed 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.

2.3.11 Current Tax Asset/ Liabilities

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current year and any adjustments to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

2.3.12 Other Assets

The Company classify all their other assets as 'Other financial assets' and 'Other non-financial assets'.

Refundable deposits are carried at the fair value. Advances and pre-payments are amortized during the period in which they are utilized and are carried at cost less provision for impairment.

Staff loans are granted below market interest rates. 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 recognize the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Statement of Profit or Loss over the tenor of the financial instrument using the EIR method.

The Day 1 difference is classified as 'Pre-paid staff cost' and is amortized over the loan period by using the EIR. The staff loans are subsequently measured at amortized costs.

2.3.13 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.

2.3.14 Other Liabilities

Other liabilities include other financial liabilities and other non-financial liabilities. These liabilities are recorded at amounts expected to be payable at the reporting date.

2.3.15 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In compliance with the Gratuity Act No. 12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees who joined to the Company.

An actuarial valuation is carried out annually to ascertain the full liability under the fund, and this is stated under 'Post Employment Liability "in the Statement of Financial Position. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company determines the interest expense on the defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the defined benefit liability at the end of the annual period.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Company's obligations.

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

Recognition of actuarial gains and losses

The Company recognizes the total actuarial gains and losses that arise in calculating the Company's obligation with respect to the plan in Other Comprehensive Income during the period in which it occurs.

Funding arrangement

The gratuity liability is not externally funded.

Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows:

Parameter	2019	2018
Discount Rate	10.75%	10.0%
Rate of salary increment	9.50%	9.0%

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.

2.3.16 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.

2.3.17 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, 20% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) II 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.

2.3.18 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 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 in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Company enters into various irrevocable commitments and contingent liabilities. These consist of guarantees, letters of credit and other undrawn commitments to lend.

Letters of credit and acceptances commit the Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. They carry a similar credit risk to loans.
Operating lease commitments of the Company (as a lessor and as a lessee) and pending legal claims against the Company too form part of commitments of the Company. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Company.

In the normal course of business, the Company entered in to various irrevocable commitments and incurred certain contingent liabilities. These consists of guarantees, letters of credit and other undrawn commitments to lend.

Though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Company.

RECOGNITION OF INCOME AND EXPENSES

2.3.19 Gross Income

Gross Income 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 for each type of gross income are given under the specific income classifications.

2.3.20 Net interest Income

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available for sale or held to maturity under LKAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognizes interest income and interest expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the financial position with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement.

2.3.21 Interest Income on Overdue Rentals

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

2.3.22 Net Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers.

Fee and commission expenses

All the fee and commission expenses are expensed as the services are received. Fee and commission expenses are recognized on an accrual basis.

2.3.23 Other Operating Income

Income earned on other sources, which are not directly related to the normal operations of the Company are recognized as other operating income on accrual basis, such as gains on disposal of property, plant and equipment, gain from investments in real estate and foreign exchange gains/(losses).

Gains/(losses) arising from disposal of property, plant and equipment are recorded after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Revenue from the real estate sale is recognized when the control over the asset of the goods have passed to the buyer.

2.3.24 Dividend Income

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

2.3.25 Recovery of Bad Debts Written Off

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

2.3.26 Impairment

Policy applicable from 1 April 2018

The Company recognizes the changes in the impairment allowance for loans and receivables and other financial assets, which are assessed as per the SLFRS 9 - Financial Instruments.

Policy applicable before 1 April 2018

The Company recognizes the changes in the impairment allowance for loans and receivables, which are assessed as per the LKAS 39 - Financial Instruments: Recognition and Measurement.

The methodology adopted by the Company is explained in Note 2.2.4 to these Financial Statements.

Further, the company recognizes an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

2.3.27 Personnel Expenses

Personnel expenses include salaries and bonus, terminal benefit charges, and other staff related expenses.

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The provisions for bonus is recognized if the Company has a present legal or constructive obligation to pay this amount, as a result of past services provided by the employee and the obligation can be estimated reliably.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contribution and Employees' Trust Fund contribution in accordance with the respective statutes and regulations. The Company contributes 12% and 3% of gross salaries of employees to the Company's Employees' Provident Fund and the Employees' Trust Fund respectively.

Defined Benefit Plans

Contributions to defined benefit plans are recognized in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19 - 'Employee Benefits'.

2.3.28 Depreciation and Amortization

Depreciation and amortization are the systematic allocation of a depreciable amount of the property, plant and equipment and intangible assets over its useful life.

2.3.29 Other Expenses

Other expenses are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. Provisions in respect of other expenses are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.3.30 Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy(DRL) on Financial Services

Value Added Tax (VAT)

VAT on Financial Services is calculated in accordance with the Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provision related to terminal benefits. The VAT rate applied in 2018 is 15% (2017 - 15%).

Nation Building Tax (NBT)

NBT on Financial Services is calculated in accordance with the Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services. The NBT rate applied in 2018 is 2% (2017 - 2%).

Debt Repayment Levy (DRL)

DRL on Financial Services is calculated in accordance with the Finance Act No. 35 of 2018 for a period from 1st October 2018 to 31st December 2021. DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services. The DRL rate applied in 2018 is 7%.

2.3.31 Tax Expense

Income tax and other taxes

As per the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes', the tax expense / income is the aggregate amount included in determination of profits or loss for the year in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income, in which case it is recognized in Other Comprehensive Income.

Provision for the taxation is based on the profit for the year adjusted for taxation purpose in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto and any adjustments to tax payable in respect to the previous years.

Note 09 represent the major components of income tax expense to the financial statements.

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.

OTHER ACCOUNTING POLICIES

2.3.32 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 as required by the Sri Lanka Accounting Standard No 33(LKAS 33)- "Earnings per Share"
Details of earnings per share are given in Note 10.

2.3.33 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 36.

2.3.34 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.

2.3.35 Events occurring after the reporting date

Events after the reporting period are those events, favorable and unfavorable, 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.

2.3 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 April 2019.

Possible Impact on Financial Statements

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

3 TRANSITION DISCLOSURES

The following disclosure set out the impact of adopting SLFRS 9 on the statement of financial position, the retained earnings including the effect of replacing LKAS 39 incurred credit loss calculations with SLFRS 9 expected credit losses.

3.1 Reconciliation between carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 April 2018

	Ref	LKAS 39				SLFRS 9	
		Category	Amount	Reclassification	Remeasurment	Category	Amount
Assets / Liabilities							
Cash and cash equivalents		L&R	455,042,958			AC	455,042,958
Reverse repurchased agreements		L&R	455,652,248			AC	455,652,248
To: Financial investments at amortised cost-loans and advances to customers			-	10,011,498,984		AC	10,011,498,984
From: Loans and receivables to other customers		L&R	10,011,498,984	(10,011,498,984)			-
Less: Collective impairment	A		(329,912,709)		(559,126,440)		(889,039,149)
Less: Individual Impairment			(228,929,374)		-		(228,929,374)
			9,452,656,901				8,893,530,461
Other Non Financial Liabilities							
Impairment on off Balance Sheet Exposure			-		(38,627,241)		(38,627,241)
To: Financial investments at fair value through other comprehensive income				200,900		FVOCI	200,900
From: Financial Investments – Available for Sale		AFS	200,900	(200,900)	-		-
Investment in Commercial Paper		L&R	158,703,642	-	-	AC	158,703,642
Financial Liabilities		AC	292,241,942	(61,746,294)		AC	230,495,648
Other non Financial Liabilities		AC	41,805,440	61,746,294		AC	103,551,734
Deferred tax asset on transitional adjustments					167,371,031		
Accumulated Loss	3.2.1		(2,051,627,141)		(430,382,651)		(2,482,009,791)

A The adoption of SLFRS 9 has fundamentally changed the Company's credit loss impairment method by replacing incurred loss approach based on LKAS 39 with a forward looking ECL approach. From 1 April 2018 the Company has recorded the allowance for expected credit losses for loans and other financial assets not held at FVPL , together with commitments and contingencies.

3.2.1 The impact of transition to SLFRS 9 on retained earnings

Retained Earnings	
Closing balance under LKAS 39 (31st March 2018)	(2,051,627,141)
Transitional adjustment on the implementation of SLFRS 9 (Refer 3.2.2)	(597,753,682)
Deferred tax asset on transitional adjustments	167,371,031
Opening adjustment under SLFRS 9	(2,482,009,791)

3.2.2 Reconciliation of the aggregate opening loan loss provision allowances under LKAS 39 to the expected credit loss provision under SLFRS 9

Impairment on Financial Assets/ Liabilities	LKAS 39 31st March 2018	Remeasurment	SLFRS 9 1st April 2018
Financial assets at amortised cost - loans and advances to customers	(329,912,709)	(559,126,440)	(889,039,149)
Impairment on off Balance Sheet Exposure	-	(38,627,241)	(38,627,241)
	(329,912,709)	(597,753,682)	(927,666,390)

4 INCOME

	Notes	2019 Rs.	2018 Rs.
Interest Income	4.1	2,066,869,420	1,904,703,382
Fee and Commission Income	4.3	64,564,941	85,026,818
Other Operating Income	5	21,267,866	21,120,082
		2,152,702,226	**2,010,850,282**

4.1 Interest Income

	2019 Rs.	2018 Rs.
Reverse Repurchased Agreements	44,621,363	43,287,429
Balances with Banks	34,088,601	28,879,901
Loans and receivables to other customers	1,988,159,455	1,832,536,052
	2,066,869,420	**1,904,703,382**

4.2 Interest Expense

	2019 Rs.	2018 Rs.
Due to banks	403,557,815	419,945,419
Due to customers	941,856,021	872,087,819
	1,345,413,836	**1,292,033,238**
Net interest income	**721,455,584**	**612,670,144**

4.3 Net Fee And Commission Income

	2019 Rs.	2018 Rs.
Fee and Commission Income	64,564,941	85,026,818
Fee and Commission Expenses	(21,050,908)	(32,985,998)
Net fee and commission income	**43,514,032**	**52,040,820**

5 OTHER OPERATING INCOME

	2019 Rs.	2018 Rs.
Gain on Sale of Property, Plant and Equipment	1,215,778	1,441,470
Operating profit on Real Estate	6,715,387	3,805,838
Income on write off Recoveries	4,328,614	-
Others	9,008,087	15,872,774
	21,267,866	**21,120,082**

6 IMPAIRMENT CHARGE FOR LOANS AND RECEIVABLES, AND OTHER ASSETS

	2019 Rs.	2018 Rs.
Impairment on on Balance Sheet Exposure	-	152,777,679
Individual	214,432,865	-
Collective	3,326,697	-
Impairment on off Balance Sheet Exposure	(1,559,914)	-
Impairment Charge for Financial assets at amortised cost	216,199,648	152,777,679
Provision charge / (reversal) on real estate	(1,846,972)	(20,642,116)
	214,352,676	**132,135,563**

6.1 Financial assets at amortised cost- Loans and advances to customers

		2019 Rs.	2018 Rs.
Stage 1	Collective	(2,769,900)	-
Stage 2	Collective	(3,415,806)	-
Stage 3	Collective	7,952,489	-
Collective impairment (Off and on Balance Sheet)		1,766,784	79,504,709
Stage 3	Individual	214,432,865	73,272,970
	Total	**216,199,649**	**152,777,679**

7. STAFF COSTS

	Notes	2019 Rs.	2018 Rs.
Salaries		150,444,390	133,641,576
Employee benefit - defined contribution plans (EPF/ETF)		20,480,158	18,031,664
Employee benefit - defined benefit plans		4,338,867	3,723,694
Staff related expenses		16,877,002	13,357,404
Others		1,116,607	1,590,500
		193,257,023	**170,344,838**

Provision for the defined benefit plans have been made based on the actuarial valuation carried out as at 31 March 2019. Please refer note 26 for detailed disclosure and assumptions on the Post Employment Liability.

8. OTHER EXPENSES

	2019 Rs.	2018 Rs.
Directors' emoluments	5,625,000	4,523,810
Auditors' remuneration	1,800,000	1,800,000
Professional and legal expenses	10,261,686	8,156,197
Advertising & Marketing expenses	39,233,731	30,578,066
Office administration and establishment expenses	179,211,740	162,753,419
Others	12,613,543	12,396,614
	248,745,701	**220,208,106**

9. TAXATION

The components of income tax expense for the years ended 31 March 2019 are;

		2019 Rs.	2018 Rs.
Current Tax	9	-	21,265,112
Over Provision from previous year taxes		-	(3,336,646)
Deferred tax charge	20	26,047,047	(1,535,947)
		26,047,047	**16,392,520**

9.1 Reconciliation of Current Income Tax Expense

		2019 Rs.	2018 Rs.
In Rupees			
Profit Before Tax		46,194,476	88,261,309
Add: Disallowable Expenses		1,726,285,567	123,503,126
Less: Tax Deductible Expenses		(1,716,583,917)	(94,980,959)
Statutory Income		55,896,127	116,783,476
Less: Deductions under Section 32			
: Tax Losses claimed		(55,896,127)	(40,836,648)
Taxable Income		-	75,946,828
Tax expense for the period (@28%)		-	21,265,111
Over provision from previous year taxes		-	(3,336,646)
Deferred tax charge	20	26,047,047	(1,535,947)
		26,047,047	16,392,518
Effective Tax Rate		56.39%	18.57%
Effective Tax Rate (Excluding Deferred tax)		0.00%	20.31%

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2019

10. EARNINGS PER 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	Notes	2019	2018
Amount used as the numerator:			
Profit after tax for the year attributable to equity holders (Rs.)		20,147,430	71,868,790
Number of ordinary shares used as denominator			
Weighted average number of ordinary shares	10.2.1	2,295,095,035	1,845,004,840
Basic / diluted earnings per ordinary share		**0.01**	**0.04**

10.2.1 Weighted Average Number of Ordinary Shares for Basic EPS

	Outstanding No. of Shares		Weighted Average No. of Shares	
	2019	2018	2019	2018
Number of shares in issue as at 1st April	2,295,095,035	1,694,974,775	2,295,095,035	1,694,974,775
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	**2,295,095,035**	**2,295,095,035**	**2,295,095,035**	**1,845,004,840**

10.2.2 The total number of shares consist of 2,077,129,688 ordinary voting shares and 217,965,347 ordinary non-voting shares.

11. MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial is measured and how income and expenses including fair value gains and losses are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in the Sri Lanka Accounting Standards - SLFRS 9: Financial instruments under headings of the statement of financial position.

As at 31 March 2019 **ASSETS**	Fair value through P&L	Fair value through OCI	Amortised cost	Total
Cash in hand and Balances with Banks	-	-	473,888,928	473,888,928
Reverse repurchased agreements	-	-	546,524,988	546,524,988
Financial investments at amortised cost-loans and advances to customers	-	-	8,785,229,424	8,785,229,424
Financial assets measured at fair value through other comprehensive income	-	200,900	-	200,900
Investments in Fixed Deposits	-	-	505,040,564	505,040,564
Other Assets	-	-	3,268,404	3,268,404
Total Financial Assets	-	**200,900**	**10,313,952,309**	**10,314,153,209**

LIABILITIES	Fair value through P&L	Amortised cost	Total
Due to Banks	-	156,482,133	156,482,133
Due to other Customers	-	7,219,951,634	7,219,951,634
Other Borrowed Funds	-	2,725,340,507	2,725,340,507
Financial Liabilities	-	107,690,424	107,690,424
Total Financial Liabilities	-	**10,209,464,699**	**10,209,464,699**

11. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd...)

As at 31 March 2018 **ASSETS**	Held for Trading	Held to Maturity	Loans & Receivables	Available for sale	Total
Cash in hand and Balances with Banks	-	-	455,042,958	-	455,042,958
Reverse repurchased agreements	-	-	455,652,248	-	455,652,248
Financial investments at amortised cost-loans and advances to customers	-	-	9,452,656,902	-	9,452,656,902
Financial investments available for sale	-	-	-	200,900	200,900
Investments in Commercial Paper	-	-	158,703,642	-	158,703,642
Other Assets	-	-	3,183,975	-	3,183,975
Total Financial Assets	-	-	**10,525,239,726**	**200,900**	**10,525,440,626**

LIABILITIES	Held for Trading	Amortised cost	Total
Due to Banks	-	151,969,768	151,969,768
Due to other Customers	-	7,237,344,201	7,237,344,201
Other Borrowed Funds	-	2,225,701,258	2,225,701,258
Other Financial Liabilities	-	230,495,647	230,495,647
Total Financial Liabilities	-	**9,845,510,875**	**9,845,510,875**

12. CASH IN HAND AND BALANCES WITH BANKS

	2019 Rs.	2018 Rs.
Cash in hand	18,752,608	649,915
Cash at Banks	455,136,319	454,393,043
	473,888,928	**455,042,958**

13. REVERSE REPURCHASED AGREEMENTS

	2019 Rs.	2018 Rs.
Due from Banks	546,524,988	455,652,248
	546,524,988	**455,652,248**

14. FINANCIAL ASSETS AT AMORTIZED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS/ LOAN AND RECEIVABLES FROM CUSTOMERS

	2019 Rs.	2018 Rs.
Gross loans and receivables (Note 14.1 & 14.2)	9,972,045,533	10,011,498,984
(Less): Individual impairment (Note 14.3)	(294,450,263)	(228,929,374)
Collective impairment (Note 14.3)	(892,365,846)	(329,912,709)
Net loans and receivables	**8,785,229,424**	**9,452,656,902**

14.1 Stage wise classification of gross loans and receivables

	2019 Rs.
Stage 1	5,133,711,811
Stage 2	2,200,766,358
Stage 3	2,637,567,364
	9,972,045,533

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2019

14. LOANS AND RECEIVABLES FROM CUSTOMERS (Contd...)

14.1. Gross Loans and Receivables from Customers - By Product

	2019 Rs.	2018 Rs.
Gold Loans	102,736,870	60,085
Term loans	2,135,993,828	2,205,493,974
Leasing	5,521,403,796	5,696,267,560
Hire Purchase	29,180,490	52,617,483
Housing Loans	168,411,332	171,351,676
Working Capital	1,865,834,024	1,738,372,125
Other Loans and Receivables	148,485,193	147,336,082
	9,972,045,533	**10,011,498,985**

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 2019				
Loans and Receivables	4,873,960,855	4,851,275,651	246,809,026	**9,972,045,533**

	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**

14.2 Gross Loans and Receivables to other customers - By Industry

	2019 Rs.	2018 Rs.
Agriculture	595,524,611	535,339,611
Construction and Transport	1,126,696,190	1,140,396,116
Trading and Manufacturing	3,667,551,940	3,426,630,609
Services including Bank, finance and Insurance	1,185,067,599	1,177,781,912
Other	3,397,205,192	3,731,350,737
	9,972,045,533	**10,011,498,985**

14.3 Movements in Individual and Collective Impairment Charges during the Year

	2019 Rs.	2018 Rs.
Individual impairment charges		
Balance as at 01 April	(228,929,374)	(275,682,694)
Charge to income statement	(214,432,865)	(73,272,970)
Impairment reversals on loan write off	148,911,976	120,026,290
Balance as at 31 March	**(294,450,263)**	**(228,929,374)**
Collective impairment charges		
Balance as at 01 April	(889,039,149)	(250,408,000)
(Charge)/Reversal to income statement	(3,326,697)	(79,504,709)
Impairment reversals on loan write off	-	-
Balance as at 31 March	**(892,365,846)**	**(329,912,709)**

15. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	2019 Rs.	2018 Rs.
Equity securities			
Unquoted	15.1	200,900	200,900
		200,900	**200,900**

15.1 Unquoted Investments

	2019			2018		
	No. of Shares	Cost (Rs.)	Fair Value (Rs.)	No. of Shares	Cost (Rs.)	Fair Value (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.

16. INVESTMENTS IN REAL ESTATE

	2019 Rs.	2018 Rs.
Land		
Cost	67,433,960	113,217,072
Less : Provision	(3,300,409)	(5,147,381)
Net Value	**64,133,550**	**108,069,691**
Housing Projects		
Cost	5,954,549	4,910,481
Less : Provision	(3,098,648)	(2,054,580)
Net Value	**2,855,901**	**2,855,901**
Other Projects		
Cost	170,462,900	169,563,790
Less : Provision	(116,660,956)	(116,660,956)
Net Value	**53,801,944**	**52,902,834**
	120,791,395	**163,828,425**

17. OTHER ASSETS

	2019 Rs.	2018 Rs.
Other Financial Assets		
Other Financial Assets	3,268,404	3,183,975
Other Non Financial Assets		
Advances	4,226,429	5,621,929
Deposits and Prepayments	33,239,344	37,162,381
Other Tax Receivable	35,280,649	22,622,097
Other Trading Stock	35,827,632	10,811,680
	111,842,459	**79,402,061**

18. INTANGIBLE ASSETS

	2019 Rs.	2018 Rs.
Cost		
Balance as at 01 April	24,163,458	23,297,766
Additions/ Transfers	1,103,412	865,691
Balance as at 31 March	**25,266,870**	**24,163,458**
(Less): Amortisation of Intangible Assets		
Balance as at 01 April	15,736,321	14,309,856
Amortisation for the year	1,595,028	1,426,464
Balance as at 31 March	17,331,349	15,736,321
Net book value at 31 March	**7,935,521**	**8,427,137**

19. PROPERTY, PLANT AND EQUIPMENT

19.1 Property, Plant and Equipment

2019 Cost or Valuation	Land and Buildings Rs.	Leasehold Improvements Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 01 April	91,267,500	53,318,093	33,644,928	63,852,485	30,279,685	272,362,690
Additions	-	499,449	3,054,873	17,540,899	69,621,600	90,716,821
Disposals	-	-	-	-	(5,784,199)	(5,784,199)
Balance as at 31 March	**91,267,500**	**53,817,542**	**36,699,801**	**81,393,384**	**94,117,086**	**357,295,312**
(Less): Accumulated depreciation						
Balance as at 01 April	666,015	20,609,800	25,311,586	29,602,901	7,559,888	83,750,189
Charge for the year	666,015	6,059,454	4,499,906	8,767,577	8,916,752	28,909,703
Disposals	-	-	-	-	(718,238)	(718,238)
Balance as at 31 March	**1,332,030**	**26,669,254**	**29,811,492**	**38,370,478**	**15,758,402**	**111,941,654**
Net book value as at 31 March	**89,935,470**	**27,148,288**	**6,888,309**	**43,022,906**	**78,358,684**	**245,353,658**

Property, Plant and Equipment

2018 Cost or Valuation	Land and Buildings Rs.	Leasehold Improvements Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 01 April	91,267,500	52,637,830	31,334,878	61,135,297	31,465,208	267,840,713
Additions	-	680,263	2,310,050	2,717,188	5,310,227	11,017,728
Disposals	-	-	-	-	(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
Disposals	-	-	-	-	(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**

19.2 Net Book Values

At Cost	2019 Rs.	2018 Rs.
Land and Buildings	89,935,470	90,601,485
Leasehold Assets	27,148,288	32,708,293
Motor Vehicles	78,358,684	22,719,797
Computer & Equipments	6,888,309	8,333,342
Furniture & Fittings	43,022,906	34,249,584
	245,353,657	**188,612,501**

19.3 During the financial year, the Company has acquired Property, Plant and Equipment to the aggregate value of Rs. 90,716,821/-

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 2019.

19.6 Company continues to use Property Plant and Equipment which are fully depreciated amounting to Rs. 27,978,151/- as at 31 March 2019.

20. DEFERRED TAXATION

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

	Statement of Financial Position	
	2019 Rs.	**2018 Rs.**
Deferred Tax Assets		
Carried forward retained loss	295,366,706	341,864,404
Defined Benefit Plans	4,794,358	3,581,279
Deferred Tax Asset on impairment allownace	149,298,661	18,057,201
	449,459,725	**363,502,884**
Deferred Tax Liability		
Depreciation of Property Plant and Equipment	(38,714,239)	(47,090,694)
Depreciation of Lease Assets	(69,770,073)	(117,034,908)
Revaluation reserve	(11,104,421)	(11,104,421)
	(119,588,734)	**(175,230,023)**
Net Deferred Tax Asset	329,870,991	188,272,861
Deferred Tax Assets/ (Liabilities) Movement		
Balance as at beginning of the year	188,272,861	199,347,228
Transitional adjustment on the implementation of IFRS 9	167,371,031	-
Deferred tax (charged)/reversed to the Statement of Profit or Loss	(26,047,047)	1,535,948
Deferred Tax charged to the other comprehensive income	274,146	(12,610,315)
Balance as at the year end	**329,870,991**	**188,272,861**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2019

21. DUE TO BANKS

	Notes	2019 Rs.	2018 Rs.
Bank Overdraft		156,482,133	151,969,768
		156,482,133	**151,969,768**

22 DUE TO OTHER CUSTOMERS

		2019 Rs.	2018 Rs.
At amortised cost	22.1	7,219,951,634	7,237,344,201
		7,219,951,634	**7,237,344,201**

22.1 Due to Other Customers - By Products

	2019 Rs.	2018 Rs.
Savings deposits	14,962,469	15,759,869
Fixed deposits	7,204,989,165	7,221,584,332
	7,219,951,634	**7,237,344,201**

23. OTHER BORROWED FUNDS

	2019 Rs.	2018 Rs.
Borrowings from Financial Institutions & Banks	2,401,493,138	1,925,569,505
Corporate Debenture	323,847,369	300,131,753
	2,725,340,507	**2,225,701,258**

23.1

DUE TO BANKS	2019 Amount repayable within 1 year Rs.	2019 Amount repayable after 1 year Rs.	2019 Total Rs.	2018 Amount repayable within 1 year Rs.	2018 Amount repayable after 1 year Rs.	2018 Total Rs.
Securitised Borrowings and Other Bank Facilities	1,474,725,584	1,250,614,923	2,725,340,507	949,445,996	1,276,255,262	2,225,701,258
	1,474,725,584	**1,250,614,923**	**2,725,340,507**	**949,445,996**	**1,276,255,262**	**2,225,701,258**

Securitised Borrowings and Other Bank Facilities	As at 01.04.2018 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayment Capital Rs.	Repayment Interest Rs.	As at 31.03.2019 Rs.
Direct Borrowings	2,225,701,258	1,304,783,484	372,763,058	877,971,556	299,935,738	2,725,340,507

24 FINANCIAL LIABILITIES

	2019 Rs.	2018 Rs.
Vendor Payables	32,155,711	138,129,672
Fees Payable	2,537,949	2,053,361
Sundry Creditors	37,740,422	49,844,604
Other Financial Liabilities	35,256,343	40,468,010
	107,690,424	**230,495,647**

25 NON FINANCIAL LIABILITIES

	2019 Rs.	2018 Rs.
Provisions & Accrued Expenses	34,807,886	30,953,536
Other Payables	50,209,632	72,598,199
Impairment on off Balance Sheet Exposure	37,067,328	-
	122,084,845	**103,551,734**

26 POST EMPLOYMENT LIABILITY

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

	Notes	2019 Rs.	2018 Rs.
Post Employment Liability as at 01 April		12,790,282	14,757,279
Amount recognised in Income Statement	26.2	4,338,867	3,723,694
Amount recognised in Other Comprehensive Income	26.3	979,092	(5,378,191)
Payments made during the year		(985,533)	(312,500)
Post Employment Liability as at 31 March		**17,122,708**	**12,790,282**

26.2 Amount recognised in Income Statement

	2019 Rs.	2018 Rs.
Service cost	3,059,839	2,187,461
Net interest on the net Post Employment Liability	1,279,028	1,536,233
	4,338,867	**3,723,694**

26.3 Amount recognised in Other Comprehensive Income

	2019 Rs.	2018 Rs.
Liability (gains)/ losses due to changes in assumptions	48,502	47,719
Liability experience (gains)/ losses arising during the year	930,590	(5,425,910)
	979,092	**(5,378,191)**

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

	2019	2018
Discount Rate	10.75%	10.0%
Salary Increment Rate	9.5%	9.0%
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	640,103	(697,561)	(765,549)	714,162
Sensitivity effect on Post Employment Liability	(640,103)	697,561	765,549	(714,162)

26.7 The Expected benifit payment in the Future years of retirement Gratuity.

	2019 Rs.
Within Next 12 Months	3,549,768
Between 2 and 5 years	9,555,972
Beyond 5 years	2,946,493

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.

	Notes	2019 Rs.	2018 Rs.
Issued and fully paid ordinary share capital		3,152,047,599	2,851,987,469
Additions during the year		-	300,060,130
Capital Reduction	27.1	(2,123,774,789)	-
		1,028,272,810	3,152,047,599
Number of ordinary shares issued		2,295,283,145	2,295,283,145

27.1 During the year the Company wrote off the brought forward pre acquisition losses amounting to LKR 2,123,774,789 against the stated capital in order to restructure the Balance Sheet, to reflect accurately the value of its underlying assets.

UB Finance Company Limited is yet to comply with the minimum core capital and capital adequacy requirements set out in the Direction No.02 of 2017 and Direction No. 03 of 2018 of Finance Business Act as of 31 March 2019. As a result, the Central Bank of Sri Lanka had issued a letter dated 23 January 2019 imposing a temperary cap of LKR 7,200 million on total deposits and Rs. 9,800 million on Loans & Advances (Net of Interest in Suspence), until the required capital adequacy ratios are met.

The management of the Company received an extention till 30th June 2019 from the Central Bank to meet the said Capital requirement. The Company subsequently sought for a further extention till 31st December 2019 as they are currently evaluating the options available to enhance the capital.

28 STATUTORY RESERVE FUND

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

	2019 Rs.	2018 Rs.
Balance as at 1 April	52,044,800	48,451,361
Transfer during the year	4,029,486	3,593,439
Other transfers based on the CBSL requirement	10,780,320	-
Balance as at 31 March	**66,854,606**	**52,044,800**

29 ACCUMULATED LOSS

	2019 Rs.	2018 Rs.
Balance as at 1 April	(2,051,627,141)	(2,123,774,789)
Share reduction (Note 27.1)	2,123,774,789	-
Profit for the year	20,147,430	71,868,790
Other Comprehensive Income for the year	(704,946)	3,872,298
Transfer to Statutory Reserve Fund	(14,809,805)	(3,593,439)
Transitional adjustment based on the SLFRS 9	(597,753,682)	-
Deffered tax on transition adjustment	167,371,031	-
Balance as at 31 March	**(353,602,325)**	**(2,051,627,141)**

30 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company incurs certain contingent liabilities. This consists mainly of undrawn commitments to lend.

Though these obligations may not be recognised on the Statement of Financial Position, they do not contain credit risk and are therefore part of the overall risk of the Company.

30.1 Capital commitments

	2019 Rs.	2018 Rs.
Undrawn loan commitments	107,158,292	71,798,965
	107,158,292	**71,798,965**

30.1 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;

	2019 Rs.	2018 Rs.
Within one year	33,160,774	31,473,750
After one year to five years	104,118,375	121,474,855
More than five years	17,876,661	33,680,955
	155,155,810	**186,629,560**

30.2 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 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
Loan/ Lease based cases (in relation to immovable assets).

b DSP/222/10, DMR/836/16, DMR/2814/15
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

Share - ownership related cases.

e LT/08/641/2012, LT/02/512/2015, LB/76305 MC, LB/76306 MC, CA(Writ)/377/13 (Appeal Case), LB/76308 MC, 3540 A, CA(Writ)/413/13, 3540A, SC/App/26/2014, CE/D6/04/61/2016
Labour Tribunal cases.

30 COMMITMENTS AND CONTINGENCIES (Contd...)

30.3 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. The 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. 94 million for the year 2015/16. The Board of directors is in the view that this can be defended and has started the appealing process accordingly.

c. The Company has received a judgement against the Company and the Company has filled leave to appeal applications at the Civil appellate. The Company legal Counsellors are of the view that there will be no additional liability on same.

d. The Company entered into a settlement with IRD for the tax assessment raised in for the 2014/15 period. Based on same no additional tax liability was required.

e. The Company received a tax in default notice of LKR. 42.9 Mn from IRD. However the Company is of the view that there will be no additional liabity on same.

f. The Company has received a tax assessment from Inland Revenue Department for an amount of Rs. 62.9 million for the year 2016/17. The Board of directors is in the view that this can be defended and has started the appealing process accordingly.

30.4 Capital Commitments

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

31 FAIR VALUE OF ASSETS AND LIABILITIES

31.1 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 instruments at fair value through other comprehensive income/Financial investments - Available for sale

Financial investments at fair value through other comprehensive income / Financial investments – Available for Sale , which primarily consist of quoted and unquoted equities, and investment in units and Government debt securities.

Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka. Investment in units and quoted equities are valued using market prices in the active markets at the reporting date.

31.2 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.

31.3 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.

31.4 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 catergorised. The amounts are based on the value recognised in the statement of financial position in the financial statements.

	2019			
	Level 1 Rs.	**Level 2 Rs.**	**Level 3 Rs.**	**Total Rs.**
Financial Assets measured at fair value	-	-	-	-
Financial Investments at fair value through other comprehensive income				
Equity Securities	-	-	200,900	200,900
Non Financial Assets				
Land and buildings			91,267,500	91,267,500
	-	**-**	**91,468,400**	**91,468,400**

The methods used to determine fair value of the financial instruments categorised under level 3 are stated in Note 15.1

The methods used to determine fair value of Non financial assets - land and buildings categorized under level 3 are stated in Note 19.4

	2018			
Financial Assets measured at fair value	**Level 1 Rs.**	**Level 2 Rs.**	**Level 3 Rs.**	**Total Rs.**
	-	-	-	-
Financial Investments - Available for sale				
Equity Securities	-	-	200,900	200,900
Non Financial Assets				
Land and buildings	-	-	91,267,500	91,267,500
	-	**-**	**91,468,400**	**91,468,400**

31.5 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 Company'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.

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

	2019				
		Fair Value			
	Level 1	Level 2	Level 3	Fair Value	Carrying amount
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets at amortized cost - Loans and Receivables to other Customers	-	9,370,405,244	-	9,370,405,244	8,785,229,424
	-	**9,370,405,244**	**-**	**9,370,405,244**	**8,785,229,424**
Financial Liabilities					
Due to other Customers	-	7,196,007,999	-	7,196,007,999	7,219,951,634
Other Borrowed Funds	-	2,655,741,501	-	2,655,741,501	2,725,340,507
	-	**9,851,749,500**	**-**	**9,851,749,500**	**9,945,292,141**

	2018				
		Fair Value			
	Level 1	Level 2	Level 3	Fair Value	Carrying amount
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.
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	7,237,344,201
Other Borrowed Funds	-	932,383,542	-	932,383,542	2,225,701,258
	-	**7,278,724,778**	**-**	**7,278,724,778**	**9,463,045,459**

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	
	2019	2018
Assets :	Rs.	Rs.
Cash and Bank Balances	473,888,928	455,042,958
Repurchase Agreements	546,524,988	455,652,248
Investments in Fixed Deposits/ Commercial Paper	505,040,564	158,703,642
Liabilities :		
Due to Banks	156,482,133	151,969,768
Financial Liabilities	107,690,424	230,495,648

32 RISK MANAGEMENT

32.1 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 Board Credit Committee (BCC).

32. RISK MANAGEMENT (Contd...)

32.2 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.

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

32.3 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. The Board receives a comprehensive risk report once a quarter which is designed to provide all necessary information to assess and conclude on the risks of the Company.

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.

32.4 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.

32.5 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.

32.6 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 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 Board Credit Committee reviews among other things, the disbursements, perfection of collaterals and repayments are in accordance with the terms of approval.

32.7 Impairment Assessment

The methodology of the impairment assessment is explained in the note 2.2.4 under summary of significant accounting policies.

32.8 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 2019	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Cash in hand and balances with Banks	473,888,928	-	-	473,888,928
Reverse repurchased agreements	546,524,988	-	-	546,524,988
Financial Assets at amortized cost - Loans and Receivables to other Customers	3,685,092,202	5,531,832,366	755,120,965	9,972,045,533
Financial assets measured at fair value through Other Comprehensive Income	200,900	-	-	200,900
Investment in Fixed Deposit	505,040,564	-	-	505,040,564
Other Financial Assets	3,268,404	-	-	3,268,404
Total Financial Assets	**5,214,015,986**	**5,531,832,366**	**755,120,965**	**11,500,969,317**

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	3,742,238,839	603,938,463	289,337,068	896,317,997	5,531,832,366

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

As at 31 March 2018 Assets	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
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
Investment in Commercial Paper	158,703,642	-	-	158,703,642
Other Financial Assets	3,183,975	-	-	3,183,975
Total Financial Assets	**3,820,188,432**	**6,760,187,483**	**503,906,795**	**11,084,282,710**

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.

32.9 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.

	2019		2018	
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	473,888,928	473,888,928	455,042,958	455,042,958
Reverse repurchased agreements	546,524,988	546,524,988	455,652,248	455,652,248
Financial Assets at amortized cost - Loans and Receivables to other Customers	8,785,229,424	1,840,095,453	9,452,656,902	555,922,217
Financial assets measured at fair value through Other Comprehensive Income	200,900	200,900	200,900	200,900
Investment in Fixed Deposit	505,040,564	505,040,564	158,703,642	158,703,642
Other Financial Assets	3,268,404	3,268,404	3,183,975	3,183,975
Total Financial Assets	**10,314,153,208**	**3,369,019,236**	**10,525,440,625**	**1,628,705,940**

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.

32.10 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.

32.11 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

32. RISK MANAGEMENT (Contd...)

32.12 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 2019	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	-	-	-	473,888,928	-	473,888,928
Reverse repurchased agreements	-	-	-	546,524,988	-	546,524,988
Financial Assets at amortized cost - Loans and Receivables to other Customers	523,243,191	989,771,716	3,168,047,649	602,896,983	3,501,269,886	8,785,229,425
Financial assets measured at fair value through Other Comprehensive Income	-	-	-	200,900	-	200,900
Investment in Fixed Deposit	-	-	-	505,040,564	-	505,040,564
Other Financial Assets	-	-	-	-	3,268,404	3,268,404
Total Financial Assets	**523,243,191**	**989,771,716**	**3,168,047,649**	**2,128,552,362**	**3,504,538,291**	**10,314,153,208**

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
Reverse Repurchased Agreements	-	-	-	455,652,248	-	455,652,248
Loans and Receivables to other 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
Investment in Commercial Paper	-	-	-	158,703,642	-	158,703,642
Other Financial Assets	-	-	-	-	3,183,975	3,183,975
Total Financial Assets	**505,477,056**	**1,076,782,028**	**3,235,484,761**	**2,181,682,101**	**3,526,014,680**	**10,525,440,626**

32. RISK MANAGEMENT (Contd...)

32.13 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	**2019**	**2018**
Year End	14%	13%
Maximum	16%	19%
Minimum	11%	11%
Average	13%	13%

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

	2019	**2018**
Year End	1.4	1.4
Maximum	1.5	1.6
Minimum	1.4	1.4
Average	1.4	1.5

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 2019. Contractual maturities of undiscounted cash flows of financial assets and liabilities are shown in the table below;

2019	**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	473,888,928	-	-	-	473,888,928
Reverse repurchased agreements	546,524,988	-	-	-	546,524,988
Financial Assets at amortized cost - Loans and Receivables to other Customers	3,327,441,015	2,829,230,810	6,126,748,538	277,035,031	12,560,455,395
Financial assets measured at fair value through Other Comprehensive Income	-	-	-	200,900	200,900
Investment in Fixed Deposit	505,040,564	-	-	-	505,040,564
Other Financial Assets	3,268,404				3,268,404
	4,856,163,900	**2,829,230,810**	**6,126,748,538**	**277,235,931**	**14,089,379,180**
Liabilities					
Due to banks	156,482,133	-	-	-	156,482,133
Due to other customers	2,032,071,805	2,884,709,682	3,538,563,454	-	8,455,344,940
Other Borrowed funds	718,895,054	792,702,151	1,543,044,286	-	3,054,641,491
Financial Liabilities	83,667,709	24,022,715	-	-	107,690,424
	2,991,116,701	**3,701,434,547**	**5,081,607,740**	**-**	**11,774,158,988**

32. RISK MANAGEMENT (Contd...)

32.13 Liquidity risk and funding management (Contd..)

2018 Assets	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Cash in hand and balances with Banks	455,042,958	-	-	-	455,042,958
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
Financial Assets	3,183,975	-	-	-	3,183,975
	3,812,035,528	**3,000,145,352**	**7,028,392,392**	**200,900**	**13,840,774,172**
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	166,009,211	64,486,437	-	-	230,495,648
	2,766,982,134	**4,024,721,848**	**4,778,057,965**	**-**	**11,569,761,947**

32.14 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 company 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

32.14 Interest Rate Risk (Contd...)

32.14.1 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 reprising or maturity dates.

As at 31 March 2019	Up to 3 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31/03/2019 Rs.
Financial Assets						
Cash and Bank Balances	-	-	-	-	473,888,928	473,888,928
Reverse Repurchased Agreements	546,524,988	-	-	-	-	546,524,988
Financial Assets at amortized cost - Loans and Receivables to other Customers	1,043,808,303	2,580,915,108	4,851,275,652	309,230,362	-	8,785,229,424
Financial assets measured at fair value through other Comprehensive Income	-	-	-	-	200,900	200,900
Investment in Fixed Deposit	505,040,564	-	-	-	-	505,040,564
Financial Assets					3,268,404	3,268,404
	2,095,373,855	**2,580,915,108**	**4,851,275,652**	**309,230,362**	**477,358,232**	**10,314,153,209**
Financial Liabilities						
Due to Banks	156,482,133	-	-	-	-	156,482,133
Due to Customers	1,985,184,128	2,387,983,524	2,846,783,983	-	-	7,219,951,635
Other Borrowed funds	1,174,296,126	625,337,621	786,405,000	-	139,301,761	2,725,340,507
Financial Liabilities	-	-	-	-	107,690,424	107,690,424
	3,315,962,386	**3,013,321,145**	**3,633,188,983**	**-**	**246,992,185**	**10,209,464,699**
INTEREST SENSITIVITY GAP	**(1,220,588,531)**	**(432,406,037)**	**1,218,086,669**	**309,230,362**	**230,366,046**	**104,688,510**

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

As at 31 March 2018	Up to 3 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31/03/2018 Rs.
Financial Assets						
Cash and Bank Balances	-	-	-	-	455,042,958	455,042,958
Reverse repurchased agreements	455,652,248	-	-	-	-	455,652,248
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
Investment in Commercial Paper	158,703,642	-	-	-	-	158,703,642
Financial Assets					3,183,975	3,183,975
	2,484,278,168	**2,163,313,900**	**5,120,856,912**	**298,563,812**	**458,427,833**	**10,525,440,624**
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
Financial Liabilities	-	-	-	-	230,495,648	230,495,648
	3,083,089,498	**3,186,509,435**	**3,345,416,294**	**-**	**230,495,648**	**9,845,510,875**
INTEREST SENSITIVITY GAP	**(598,811,330)**	**(1,023,195,535)**	**1,775,440,618**	**298,563,812**	**227,932,184**	**679,929,750**

32.14.2 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

	2019		2018	
Parallel Increase/Decrease of Rate	(+/-) 1%	(+/-) 2%	(+/-) 1%	(+/-) 2%
Annual Impact on NII (Rs.)	(+/-) (32,374,796)	(+/-) (64,749,592)	(+/-) 12,179,016	(+/-) 24,358,033

32.14.3 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 2019	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	473,888,928	-	-	-	473,888,928
Reverse repurchased agreements	546,524,988	-	-	-	546,524,988
Financial Assets at amortized cost - Loans and Receivables to other Customers	1,048,820,716	2,575,902,697	4,851,275,652	309,230,362	8,785,229,426
Financial assets measured at fair value through Other Comprehensive Income	-	200,900	-	-	200,900
Investment in Fixed Deposit	505,040,564	-	-	-	505,040,564
Investment in Real Estate	14,845,200	38,945,614	67,000,581	-	120,791,395
Intangible assets	-	-	-	7,935,521	7,935,521
Property, plant and equipment	-	-	-	245,353,658	245,353,658
Deferred tax assets	-	-	-	329,870,991	329,870,991
Other Assets	46,514,277	19,944,559	45,383,621	-	111,842,457
	2,635,634,673	**2,634,993,770**	**4,963,659,854**	**892,390,531**	**11,126,678,828**
Liabilities					
Due to banks	156,482,133	-	-	-	156,482,133
Due to other customers	1,985,184,128	2,387,983,524	2,846,783,983	-	7,219,951,635
Other Borrowed funds	821,631,220	653,094,364	1,250,614,923	-	2,725,340,507
Current Tax Liabilities	-	7,927,260	-	-	7,927,260
Financial Liabilities	83,667,709	24,022,715	-	-	107,690,424
Other Non Financial Liabilities	122,084,845	-	-	-	122,084,845
Post Employment Liability	-	-	-	17,122,708	17,122,708
	3,169,050,034	3,073,027,863	4,097,398,906	17,122,708	10,356,599,512
Equity	-	-	-	770,079,317	770,079,317
Total Equity & Liabilities	**3,169,050,034**	**3,073,027,863**	**4,097,398,906**	**787,202,024**	**11,126,678,828**

32. RISK MANAGEMENT (Contd...)

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

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
Reverse repurchased agreements	455,652,248	-	-	-	455,652,248
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
Investment in Commercial Paper	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	9,661,149	-	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
Financial Liabilities	148,676,798	81,818,850	-	-	230,495,648
Other Non Financial Liabilities	36,286,120	67,265,614	-	-	103,551,734
Post Employment Liability	-	-	-	12,790,282	12,790,282
	2,415,685,736	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	2,415,685,736	3,624,237,826	3,917,066,308	1,193,809,766	11,150,799,635

33. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which should require adjustment to, or disclosure in the financial statement except for the disclosures made under note 30.3.

34. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

As at 31 March 2019

Description of Property	Nature of Encumbrance	Carrying Amount of Assets Pledged Rs.	Included Under
Lease/ Hire Purchase rental receivable	Long term loans	3,134,338,342	Loans and receivables from Customers

As at 31 March 2018

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

35. 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.

35.1 Transactions with Key Management Personnel

Related party include Key Management Personal 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.

35.2 Key Management Personnel Compensation

	2019 Rs.	2018 Rs.
Short-term employment benefits	28,269,470	25,544,100
Post Employement Benefit	3,066,212	2,633,760
Directors' emoluments	5,625,000	4,523,810
	36,960,682	**32,701,670**

In addition to the above, the Company has also provided non-cash benefits such as vehicles, insurance for Key Management Personnel in line with the approved benefit plan of the Company.

35.3 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	2019 Rs.	2018 Rs.
Liabilities			
Fixed Deposits	Due to Customers	6,588,350	15,228,131
		6,588,350	**15,228,131**
Statement of Comprehensive Income			
Interest Expense on Customer Deposits	Interest Expenses	**615,198**	**1,465,826**

35.4 Transactions with Other Related Parties

35.4.1 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	2019 Rs.	2018 Rs.
Liabilities			
Borrowings	Other Borrowed Funds	781,250,000	847,916,667
		781,250,000	**847,916,667**
Statement of Comprehensive Income			
Interest Expense on Borrowings	Interest Expense	136,823,607	97,343,634
Expenses Reimbursment	Sundry Expenses	956,896	-
		137,780,503	**97,343,634**
Other Transactions			
Borrowings obtained during the Year		500,000,000	200,000,000
Borrowings settled during the Year		(566,666,667)	(270,833,333)
		(66,666,667)	**(70,833,333)**

36. 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.

2019	Lease Rs.	Hire Purchase Rs.	Factoring Rs.	Special Purpose and Hire Purchase Loans Rs.	Housing Loans Rs.	Others Rs.	Total Rs.
Interest Income	1,379,353,447	5,631,594	347,160,157	145,984,527	518,795	188,220,900	2,066,869,420
Interest Expenses	(744,939,746)	(3,936,989)	(251,735,604)	(137,389,207)	(22,721,811)	(184,690,479)	(1,345,413,836)
Net Interest Income	634,413,701	1,694,605	95,424,553	8,595,320	(22,203,017)	3,530,422	721,455,584
Fee and Commission Income	35,642,369	112,471	17,211,173	5,953,622	-	5,645,306	64,564,941
Fee and Commission Expenses	(11,620,923)	(36,670)	(5,611,572)	(1,941,133)	-	(1,840,609)	(21,050,908)
Net Fee and Commission Income	24,021,445	75,801	11,599,602	4,012,489	-	3,804,697	43,514,033
Other Operating Income (Net)	-	-	-	-	-	21,267,866	21,267,866
Total Operating Income	658,435,146	1,770,405	107,024,155	12,607,810	(22,203,017)	28,602,984	786,237,482
Impairment Charge for Loans and Receivables and Other Assets	(118,483,591)	3,612,380	(101,811,441)	(41,873,688)	6,034,407	38,169,257	(214,352,676)
Net Operating Income	**539,951,555**	**5,382,785**	**5,212,713**	**(29,265,878)**	**(16,168,610)**	**66,772,241**	**571,884,806**
Staff Costs	(107,004,130)	(565,514)	(36,159,635)	(19,734,767)	(3,263,791)	(26,529,185)	(193,257,023)
Depreciation of Property, Plant and Equipment	(16,006,961)	(84,596)	(5,409,192)	(2,952,163)	(488,237)	(3,968,554)	(28,909,703)
Amortisation of Intangible Assets	(883,148)	(4,667)	(298,440)	(162,879)	(26,937)	(218,956)	(1,595,028)
Other Expenses	(137,727,556)	(727,887)	(46,541,925)	(25,401,087)	(4,200,903)	(34,146,343)	(248,745,701)
Operating Profit before Value Added Tax (VAT) and NBT	**278,329,760**	**4,000,119**	**(83,196,477)**	**(77,516,775)**	**(24,148,478)**	**1,909,203**	**99,377,352**
Value Added Tax (VAT) and NBT on Financial Services & Debt Recovery Levy(DRL)	-	-	-	-	-	(53,182,874)	(53,182,874)
Profit / (Loss) Before Taxation	**278,329,760**	**4,000,119**	**(83,196,477)**	**(77,516,775)**	**(24,148,478)**	**(51,273,671)**	**46,194,478**
Tax Expense	-	-	-	-	-	(26,047,047)	(26,047,047)
Profit / (Loss) for the Year	**278,329,760**	**4,000,119**	**(83,196,477)**	**(77,516,775)**	**(24,148,478)**	**(77,320,718)**	**20,147,430**

36. 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.

2018	Lease Rs.	Hire Purchase Rs.	Factoring Rs.	Special Purpose and Hire Purchase Loans Rs.	Housing Loans Rs.	Others Rs.	Total Rs.
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**

UB FINANCE
A UNION BANK COMPANY

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 Pan Asia Banking Corporation 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
Working Capital Premier Office	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, (Patabendimulla) Wickramasooriya 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. (No.1118) Kandy Road, Kadawatha.	+94 (0) 117 - 634 577 +94 (0) 117 - 634 576	+94 (0) 117 - 634 575
Kalmunai	No. 114B, 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, Colombo Road, Kurunegala.	+94 (0) 377 - 634 577 +94 (0) 377 - 634 576	+94 (0) 377 - 634 575
Matara	No. 268, Anagarika Dharmapala Mawatha, Matara.	+94 (0) 417 - 634 577 +94 (0) 417 - 634 576	+94 (0) 417 - 634 575
Mawanella	No. 91, Rambukkana Road, Mawanella.	+94 (0) 357 - 634 577 +94 (0) 357 - 634 576	+94 (0) 357 - 634 575
Negombo	No. 539, Colombo 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, Nuwaraeliya.	+94 (0) 524 - 650 300 +94 (0) 524 - 650 301	+94 (0) 524 - 650 302
Panadura	No. 223A, Maha Veediya, 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. 105/1, Moragahayata, Colombo Road, Ratnapura.	+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

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