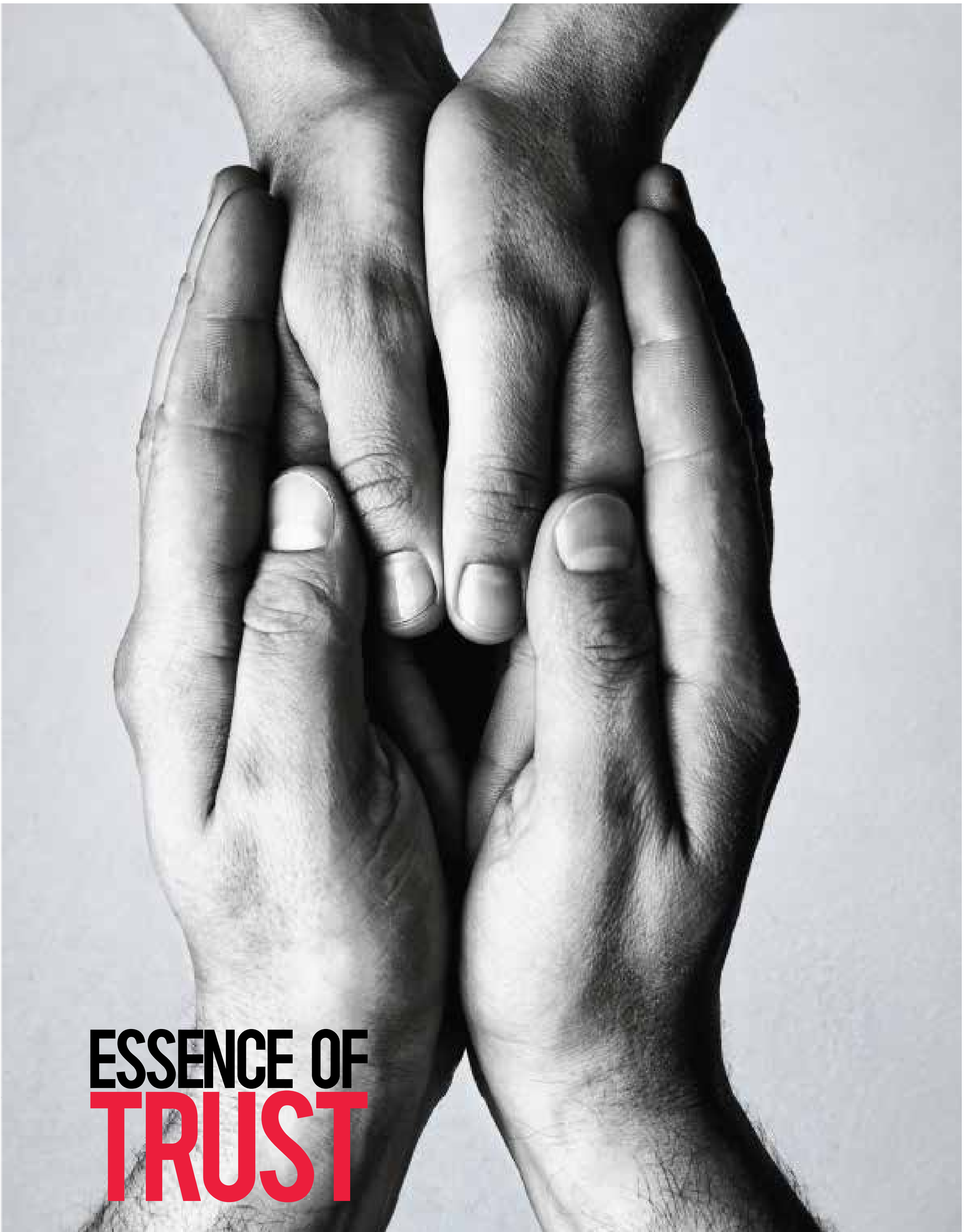
Orient Finance

Orient Finance PLC

Annual Report 2018-2019

ESSENCE OF TRUST



ESSENCE OF TRUST

Trust begins with genuine concern and commitment that goes unchanged over time. With a past of almost forty years, we have demonstrated this essence of trust. Orient Finance has always been at the helm of the industry, providing financial services with transparency and good governance to all our customers while creating sustainable relationships that are based on the values of Integrity, Accountability, Confidentiality and Professionalism. That is why we continue to serve our customers and take care of our stakeholders with a genuine commitment to enhancing their lives and financial potentials, with the trust of being there for them, every step of the way.

CONTENT

WE ARE PLEASED TO REPORT THAT THE COMPANY ACHIEVED A NET PROFIT AMOUNTING TO RS. 29 MILLION, WHICH IS A SIGNIFICANT 126% INCREASE WHEN COMPARED TO THE FINANCIAL YEAR ENDED 31ST MARCH 2018.

WE HAVE CONTINUED THE PROCESS OF STRENGTHENING THE CREDIT, WHICH WE COMMENCED DURING THE LAST QUARTER OF THE PREVIOUS FINANCIAL YEAR.

VISION

"To be a leading provider of unique Financial Solutions"

MISSION

Striving to maintain the highest service excellence to our customers
Creating wealth for our shareholders
Engaging in best business practices Assuring the well-being of our employees

VALUES

- Integrity
- Accountability
- Maintaining Confidentiality
- Professionalism

FINANCIAL HIGHLIGHTS

	2019	2018	Change %
Financial Performance (Rs.000)			
Income	3,493,414	3,496,109	-0.1%
Interest Income	3,239,038	3,311,049	-2.2%
Interest Expenses	(1,949,919)	(2,116,907)	-7.9%
Profit Before Tax	31,875	(103,718)	130.7%
Income Tax Expenses	(2,846)	(6,528)	-56.4%
Profit After Tax	29,029	(110,246)	126.3%
Financial Position at the Year End (Rs.000)			
Shareholder's Funds	2,166,500	2,348,050	-7.7%
Customer Deposits	10,479,531	11,852,625	-11.6%
Loans and Advances to Customers	14,033,760	14,504,334	-3.2%
Total Assets	17,359,644	18,115,694	-4.2%
Investor Information			
Earnings Per Share (EPS) - (Rs.)	0.20	(0.74)	
Dividend Per Share (Rs.)	-	0.25	
Net Asset Per Share (NAPS) - (Rs.)	14.64	15.86	
Ratios			
Return on Assets (Before Tax)	0.18%	-0.55%	
Return on Equity	1.29%	-4.53%	
Statutory Ratios			
Capital Adequacy			
Core Capital to Risk Weighted Assets Ratio (Min.5%)	5.47	9.64	
Total Capital to Risk Weighted Assets Ratio (Min.10%)	8.54	12.18	
Liquidity Ratio	7.9%	10.03	

PROFIT AFTER TAX

126%

GOLD LOAN PORTFOLIO

252%

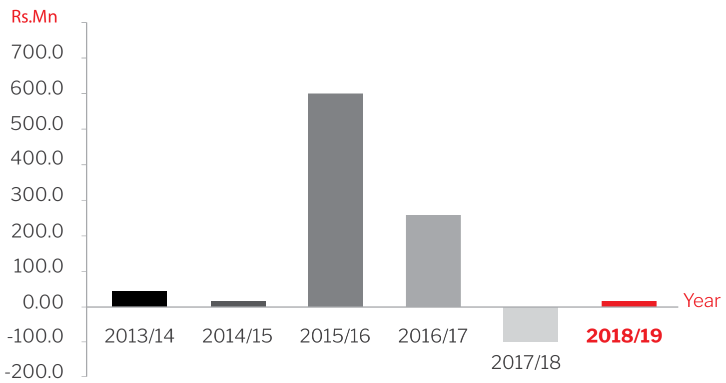
INTEREST EXPENSE

8%

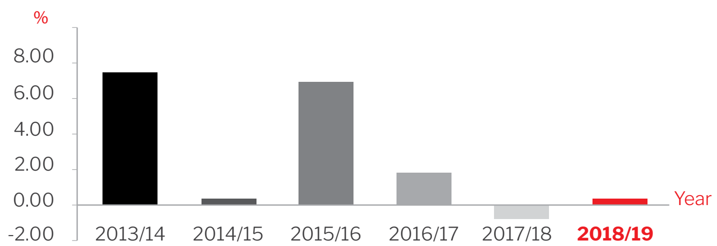
EARNINGS PER SHARE

127%

PROFIT AFTER TAX



EARNINGS PER SHARE



CHAIRMAN'S MESSAGE

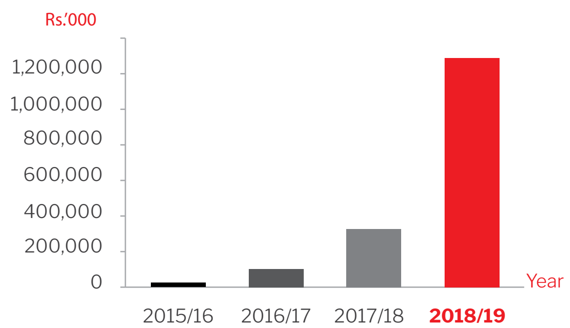
Dr. Dayanath Jayasuriya P. C. - Chairman

WE ARE PLEASED TO REPORT THAT THE COMPANY ACHIEVED A NET PROFIT AMOUNTING TO RS. 29 MILLION, WHICH IS A SIGNIFICANT 126% INCREASE WHEN COMPARED TO THE FINANCIAL YEAR ENDED 31ST MARCH 2018.

The past two or three years have not been the best of times for many medium-size and small-size finance companies. Nor are these companies currently able to be confident on progressing on a rapid growth trajectory. The underlying causes are many and varied but striking among these are the intrusion of the banking sector into what were the traditional business lines of finance companies; rising non-performing loans due to poor asset quality and high cost of living; Central Bank regulations imposing a cap on fixed deposit rates and, political uncertainty and economic volatility at the macro-level. These and other factors have exacted a heavy toll on the ability of finance companies to effectively compete with each other as well as banks, in particular.

During 2017/2018 Orient Finance PLC (Orient Finance) suffered a loss of Rs. 110 million. This was mainly due to large defaults in the lending and factoring lines of business. The focus during much of 2018/2019 was to trim the losses by way of adopting a more selective and cautious approach in lending. As with other finance companies Orient Finance too experienced a net outflow of fixed deposits due to non-renewals. We are pleased to report that the Company achieved a Net Profit amounting to Rs. 29 million, which is a significant 126% Increase when compared to the financial year ended 31st March 2018. Moreover, the Company's Earning Per Share (EPS) increased by 0.94% compared to the financial year ended 31st march 2018. Operating costs of the company was reduced by Rs.2.6 Million when compared to last year as a result of cost controlling measures adopted during the period. The Company recorded an increase in ROA (Return on Assets) and ROE (Return on Equity) to 0.18% & 1.29% from -0.55% & -4.53% respectively when compared to the last year. A noteworthy achievement during the period under review is that Orient Finance expanded its Gold Loan business network and consequently the gold loan portfolio increased from Rs. 301 Million to over Rs.1 Billion during this year.

GOLD LOAN PORTFOLIO



In terms of human resources, Orient Finance now has a staff exceeding 500 working in Colombo and its 30 branches and service centers island wide. Poaching of good staff continues unabated. The Board and the committees of Orient Finance worked diligently to raise the level of staff competencies in order to provide a better service to its customers. Several CSR activities were undertaken with support of the staff. During the drought, water tanks were provided to schools in certain districts. Assistance was provided to uplift the conditions of the School of Deaf and Blind Children in Jaffna.

Even though Orient Finance managed to wipe out the losses during the previous financial year and recorded a modest profit of Rs. 29 million, there is yet no room for complacency. Looking into the future, for most finance companies the only way forward would be through mergers and acquisitions and develop large entities that can meet the Central Bank's prudential requirements and withstand competition by banks. The Central Bank itself needs to reassess the role it expects from finance companies and provide the necessary environment in which finance companies can function effectively and efficiently without being stultified by further restrictions.

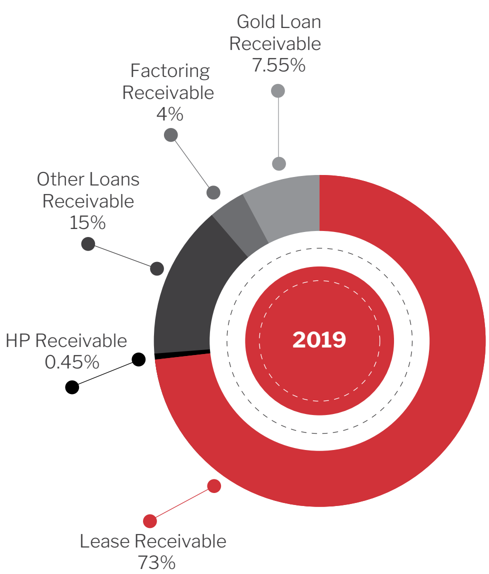
In conclusion, I would like to thank the Governor of the Central Bank and his staff for their support. I would also like to record my appreciation to the fellow Board members and the C.E.O. and other staff as well as shareholders and our customers for their unstinted support and cooperation.

Dr. Dayanath Jayasuriya P.C.
Chairman
26-Aug-2019

CHIEF EXECUTIVE OFFICER'S REVIEW

Jude Anthony - Chief Executive Officer

WE HAVE CONTINUED THE PROCESS OF STRENGTHENING THE CREDIT, WHICH WE COMMENCED DURING THE LAST QUARTER OF THE PREVIOUS FINANCIAL YEAR. THE STRINGENT CREDIT POLICY HELPS US IDENTIFY THE RIGHT CUSTOMER WITH WHOM THE COMPANY CAN HAVE A HEALTHY LONG-TERM FINANCIAL RELATIONSHIP.



It gives me great pleasure to share with you the Annual Report of Orient Finance PLC (OFP) for the year ended 31st March 2019. It was a year of ups and downs in which your company was able to meet challenges head on and performed reasonably well while demonstrating the essence of trust by providing financial services with transparency and good governance to all customers.

OPERATING ENVIRONMENT

The global economy witnessed moderate expansion in 2018 due to various economic and political issues in different parts of the world. Most economies, apart from the US, underwent a slowdown in economic activity. Uncertainties surrounding Brexit, tensions caused by the China-US trade standoff and increasing oil prices all contributed to inflation in developed as well as developing economies during the year.

The Sri Lankan economy was faced with numerous hurdles during the 2018/19 financial year with the end result being the Real GDP recording a growth of only 3.2% during 2018, compared to 3.4% in 2017, while some of our South Asian neighbours were able to achieve much higher figures. This figure was mainly achieved by growth in the Service sector and a recovery in the Agriculture sector.

Although the financial sector continued to expand in 2018, it was only modest growth mostly driven by the banking sector. While the Central Bank of Sri Lanka (CBSL) took steps to resolve troubled finance companies and to address the lingering concerns in the sector, overall NBFI sector also recorded moderate growth faced with an increasingly challenging environment. A glance at the sectors that have traditionally made a positive impact on the Banking and Finance industry reveal that a large majority of these did not fare well and as a result there was less of an impact on our industry. Tourism was one industry that continued to grow during the financial year but unfortunately nosedived after the horrific Easter Sunday bombings in April, which would invariably mean that there would be a significant impact felt in the economy from the drop in tourists in the 2019/20 financial year. On a somewhat of a positive note, when compared to previous years, there was a lesser negative impact from adverse weather conditions during this period. The uncertain political climate during the latter part of 2018 also played a part in the weakening of investor confidence and slowdown of economic activity as the general public adopted a “wait and see” approach while the constitutional crisis continued for a prolonged period.

Over the past few years, Sri Lanka has unfortunately experienced the crashing of several poorly-managed financial companies. This has meant that depositors have lost millions of Rupees of hard-earned money leading to demonstrations that have gained media attention and resulting in an all-round erosion of public confidence in finance companies. They have gradually gravitated towards the banks that also have the advantage of being able to give better interest rates. This is another aspect that has restricted our growth during the year. Banks also adopt a very cautious approach towards lending to finance companies as they are aware of the difficulties faced by the industry. The industry is facing serious challenges when it comes to credit quality and asset quality.

COMPANY PERFORMANCE

The Company has performed well when compared to last year. The key highlight during the year has been the exceptional performance of our Gold Loans product where we were able to register a 252% increase in our portfolio by reaching Rs. 1.06 billion, in comparison to Rs. 301 million in the 2017/18 financial year. Our Micro Leasing has also performed creditably, however, when it comes to Leasing, we faced numerous challenges mainly driven by the government policy measures adopted in August 2018 to curtail vehicle imports in order to address the pressure on the external sector and mainly on the exchange rate.

We have continued the process of strengthening the credit, which we commenced during the last quarter of the previous financial year. The stringent credit policy helps us identify the right customer with whom the Company can have a healthy long-term financial relationship. We have carefully reevaluated our lending strategy and adopted various methods in order to improve the quality of the credit, an approach that will help us experience positive outcomes in the next 2-3 years. Meanwhile, a prudent approach was applied to all collection activities of the Company where staff was given additional training while systems and processes have been further streamlined to improve the co-ordination between the various departments.

We continued to leverage technology to further enhance our back-end operations and strengthen the new systems and processes. The Company's corporate website has been revamped to give the user a better experience, up-to-date information and faster access. Having understood the importance of digital platforms in today's tech-savvy world, we have also invested more in strengthening our presence in social media by recruiting experts in the field to make the most of this new avenue for generating leads and finding customers. Technology has also been utilised when it comes to our field staff where they are regularly tracked using GPS technology in order to ensure their safety and maximise their effectiveness when out of office on customer visits.

During the year under review, we continued to attract candidates who were highly-qualified and possessed extensive experience in their relevant fields of expertise. The Company has taken prudent measures to ensure that the best candidates who are able to seamlessly fit into the culture of our Company are identified and recruited, and are given the necessary resources to grow within the organisation and be long-term, valuable assets. We introduced a performance management system which was instrumental in ensuring that all staff – from field staff to back office staff – were given proper incentives in order to keep them motivated and focused on performing at a high level throughout the year. Training programmes that focused on all levels of the workforce were carried out regularly, empowering the employees while fostering teamwork and leadership skills among all of them.

OUTLOOK

The new financial year will be one where the Company will "stick to the basics", without falling into the trap of attempting overly-ambitious initiatives. The ramifications of the Easter Sunday bombings are being felt throughout the country as the authorities make every possible attempt to get the security situation under control and rebuild public and investor confidence. We are heading into uncertain times with a Presidential election looming on the horizon, which will very likely be followed by a Parliamentary Election some time next year. Given such a backdrop, the Company intends to remain steadfastly focused on 3 pillars – Credit, Collection and Marketing – in order to strengthen our core competencies and set the foundation to take the business forward in the years ahead. Development of human resources via training programmes will be a key element to maximise the impact from the 3 pillars. The product portfolio will remain static and greater emphasis will be placed on increasing revenues from our existing products through careful planning and impactful execution. Expansion of our footprint across the island will given less priority as we strive to enhance our customer service levels from existing branches.

ACKNOWLEDGEMENTS

As I conclude my review, I would like to take this opportunity to thank the Chairman and the Board of Directors for their continuous support and wise counsel extended to me throughout the financial year. A special word of thanks go out to the corporate management team for their valuable insights as well as to each and every member of the Orient Finance family for their hard work and dedication in driving the Company forward. I also wish to express my appreciation to the Governor of the Central Bank of Sri Lanka and the officials at the Department of Supervision of Non-Bank Financial Institutions, for their advice and support. I would like to state my gratitude to all our valued customers for their continued patronage. Last, and by no means least, I say "Thank you" to our shareholders and other stakeholders for continuing to demonstrate trust and believing in our Company throughout all these years. Together, I believe we can elevate our company to the next level and achieve great things in the years ahead.

Jude Anthony
Chief Executive Officer
26-Aug-2019

ORIENT FINANCE PLC

38th

ANNIVERSARY

Celebrating 38 Years of Empowering the Financial Industry

Orient Finance PLC proudly celebrates 38 years of innovating financial services industry in Sri Lanka by providing cutting-edge financial solutions that help our valued customers achieve their full financial potential. We look forward to serve our valued customers with an unparalleled commitment for quality and a renewed passion for excellence while maintaining the impressive growth rate we have enjoyed over the decades.

We thank

all our valued customers and stake holders
for their continued faith and trust in us.

BOARD OF DIRECTORS

Standing Left to Right

- **Mr. Prakash Schaffter** Non-Independent Non-Executive Director
- **Mr. Ramesh Schaffter** Non-Independent Non-Executive Director
- **Ms. Minette Perera** Independent Non-Executive Director
- **Dr. Dayanath Jayasuriya** President's Counsel – Chairman, Independent Non-Executive Director
- **Mr. Sriyan Cooray** Independent Non-Executive Director
- **Mr. Anil Tittawella** Independent Non-Executive Director
- **Ms. Indrani Goonesekera** Independent Non-Executive Director

BOARD OF DIRECTORS

Dr. Dayanath Jayasuriya
President's Counsel – Chairman,
Independent Non-Executive Director

Dr. Dayanath Jayasuriya has a LL.B. from the University of Ceylon and a Ph.D. in Law from the University of Colombo. In June 1973 he was admitted as an Advocate of the Supreme Court of Sri Lanka and later as a President's Counsel.

He has been elected as a Fellow of the International Compliance Association (U.K); Honorary Fellow of the Society for the Advanced Study of Law (U.K.); Fellow of the International Federation of Adjusting Associations (U.K.); and as a Member of the Singapore Institute of Directors. He joined the Attorney-General's Department in February 1974 and left in 1983 as a Senior State Counsel. Until 1999 Dr. Jayasuriya worked in Geneva, Vienna, Bangkok and New Delhi where he held senior positions within the United Nations including that as Head, UNAIDS Secretariat, Pakistan and Chief Technical Adviser to the UN International Drug Control Programme covering South Asia and the Central Asian Republics. He has advised over 40 countries in Asia, Africa, Central Asia, South Pacific, South America and the Caribbean on regulatory aspects. From 2000-2003 he served as the Director-General of the SEC and Insurance Board of Sri Lanka and as the Chairman of both from 2004-2005. He is the Founder President of the South Asian Insurance Regulators' Forum. In 2005, he was elected as the Chairman of the IOSCO Presidents' Committee. He has also served as a Board member of the Public Enterprises Reform Commission; Working Director of the Public Utilities Commission and as a Founder Director of the National Procurement Agency. As a Visiting Professor of Law at the University of the Free State in South Africa, which is one of the largest and oldest law faculties in the country, he has taught subjects such as Corporate Governance and Financial Crime in the context of International Law. He has been a Visiting Scholar at Harvard University, Boston and has delivered guest lectures at Oxford University; University of London; Cambridge University; University of New South Wales; University of Tasmania; University of Montreal; Delaware Law School etc. He is a Distinguished Visitor at the Georgetown Law School, Washington D.C.

Dr. Jayasuriya has written more than 20 books, 25 monographs and published over 250 articles. His books have been cited in judgments of the United States Appeal Courts and are standard works of reference for professional and post-graduate courses in many countries. He is on the editorial board of several British journals such as The Company Lawyer, Journal of Financial Crime, Journal of Money Laundering Control, Journal of Qualitative Research in Financial Markets and the Emerald's Emerging Markets Case Studies Series. He is the Managing Partner, Corporate Governance Advisory Services Pte. Ltd. Singapore. He has also served as Chairman of a leading TV station and Sri Lanka's largest network of Films and Theatres.

Mr. Prakash Schaffter
Non-Independent Non-Executive Director

Prakash Schaffter is the Cambridge - educated Executive Chairman of Janashakthi. He has three decades of experience in the Insurance industry in both Sri Lanka and the United Kingdom. He led Janashakthi as Managing Director since 2006, through a growth phase that saw Janashakthi become the third largest Non Life Insurer, acquire the Non Life segment of AIA Insurance Lanka and in 2018, engage in the divestment of Janashakthi's Non Life segment.

Prakash who serves as a Non-Executive Director on the Board of Bank of Ceylon, is a former President of the Insurance Association of Sri Lanka, and continues to impact the business sector through his membership on the council of the Sri Lanka Institute of Directors (SLID). He serves on the Boards of several listed and unlisted entities, and has been amongst the youngest Fellow Members of the Chartered Insurance Institute. He has also served as President of the Young Presidents Organisation of Sri Lanka.

A former first class cricketer, he represented both the University of Cambridge and London University during his cricketing career. He has also served as President and Secretary of the Tamil Union Cricket and Athletic Club. He is a former Secretary of Sri Lanka Cricket, having served on three separate occasions on Interim Committees appointed by the Government.

Ms. Minette Perera
Independent Non-Executive Director

Ms. Minette Perera was the Group Finance Director of the MJF Group, which comprises of several tea growing, packing and exporting companies, supplying the "Dilmah Tea" brand around the world, from September 2000 to March 2013. During the period of her employment with the MJF Group, she was appointed a Director of the MJF Group of Companies including MJF Holdings Limited and held the Board positions till December 2014. She has also held Board positions before joining the MJF Group. Ms. Perera currently serves on the Boards of First Capital Holdings PLC and its Subsidiaries as an Independent Non-Executive Director. Ms. Perera is also on the Boards of Dilmah Ceylon Tea Company PLC (formerly Ceylon Tea Services PLC) since September 2000, Kahawatte Plantations PLC since January 2001 and Talawakelle Tea Estates PLC since January 2012. Ms. Perera is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants of UK and the Association of Chartered Certified Accountants of UK. She has over 40 years working experience as a qualified accountant having worked in leading local and international companies as an Executive Director.

Mr. Anil Tittawella
Independent Non-Executive Director

Mr. Anil Tittawella is a President's Counsel with wide professional career with experience in litigation and alternative dispute resolution mechanisms. His expertise is in civil and commercial law litigation, negotiation, mediation, legal documentation, mergers and acquisitions, corporate law and legal due diligence. He has a variety of clients drawn from different jurisdictions such as Pakistan, South Korea, Hong Kong, Sweden, UAE, Thailand, Singapore, England, USA, India, Mauritius, New Zealand and Switzerland. Mr. Tittawella was a member of the Bar Association of Sri Lanka Committee on Company Law Reform (1995-1996), a member of the Ceylon Chamber of Commerce Committee on Company Reforms (1993) and a member of the Sri Lanka Swedish joint legal team to formulate the new Arbitration Act of Sri Lanka (1994-1997). He was the Legal Consultant to the Airport and Civil Aviation Authority of Sri Lanka (1994-1997) and the founder member of the Institute of Commercial Law and Practice in Sri Lanka (1995). Mr. Tittawella was also a commission member of the Securities and Exchange Commission of Sri Lanka from 2000 to 2002 and a Member of the Insurance Board of Sri Lanka from 2001 to 2002. He is a Member of the Bar Association of Sri Lanka and the Colombo Law Society. Mr. Tittawella is an Attorney–at-Law of the Supreme Court of Sri Lanka admitted to the bar in 1985 and was appointed President's Counsel in 2005 and holds Solicitors (final) Examination of the Law Society of the United Kingdom. He also has a Master in Law (Hons) from the University of Waikato, New Zealand.

Mr. Ramesh Schaffter
Non-Independent Non-Executive Director

Non-Executive Director counting almost three decades of experience in Finance & Marketing, Mr. Schaffter is a Fellow Member and former Council Member of the Chartered Institute of Management Accountants, Sri Lanka, and an Associate Member of the Chartered Institute of Marketing. He was appointed to the Janashakthi Board in 2004, having served as Secretary to the Janashakthi Board since the inception of the Company in 1994, a position he held until 2017. He has also served on the Boards of several public listed and unlisted companies. A social entrepreneur and life coach, he is also an accomplished public speaker and a multiple award winner at national and international level Toastmasters' contests. He is the former President of the Habitat for Humanity Sri Lanka and former Board Member of World Vision for Sri Lanka. He is a Co-Founder of cable television channel Swarga TV, as well as the Christian Arts Foundation (Chraft), an organisation that promotes music and drama in Sri Lanka.

BOARD OF DIRECTORS

Ms. Indrani Goonesekera
Attorney-At-Law Independent
Non-Executive Director

Ms. Indrani Goonesekera is a Legal Consultant. She was the former Head of Legal of the Hatton National Bank PLC a leading licensed commercial bank and a company listed on the Colombo Stock Exchange. She has served on the Bank's Corporate Management for over 15 years and has functioned in the post of Deputy General Manager (Legal) for over 11 years, being overall responsible for advising and guiding the Bank on all legal aspects of the banking business and other operations. In addition to the post of Deputy General Manager (Legal), she was also the Board Secretary of the Bank responsible inter alia for advising and guiding the Board on all laws, rules, regulations procedures applicable to the Bank as an incorporated company, as a Licensed Commercial Bank by the Monetary Board of the Central Bank of Sri Lanka and as a Listed Company of the Colombo Stock Exchange. She was also Advisor to the Chairman of the Board of Directors of the Bank for a brief period. She has had a wide exposure to Banking and Finance, Corporate, Business and Commercial sectors. She commenced her professional career as a junior counsel in the chamber of Mr. K N Choksy, President's Counsel.

She holds a Master of Laws (LLM) degree from the University of West London in Business and Commercial Law, and is an Attorney-At-Law of the Supreme Court of the Republic of Sri Lanka. She is a Member of the Bar Association of Sri Lanka.

Mr. Sriyan Cooray
Independent Non-Executive Director

Mr. Sriyan Cooray currently serves as an Independent Non-Executive Director on the Board of National Development Bank PLC and was appointed as the Chairman of the Board Audit Committee from February 2019. He is a Fellow Member of the Chartered Institute of Management Accountants, UK.

An accomplished banker with 28 years of experience at HSBC, Mr. Cooray has served in a wide range of areas ranging from Finance, Operations, Compliance, Administration and Retail Banking at HSBC and retired from HSBC – Sri Lanka and Maldives as the Chief Operating Officer in May 2018, her position he held from 2007.

Whilst at HSBC, Mr. Cooray has also served on its Executive Committee for 25 years, a member of the Board of Trustees of the HSBC Provident and Pension Fund, and served on many internal committees of HSBC including the Assets and Liabilities Committee, Human Resource Policy Review Committee, HSBC's IT Steering Committee and Chaired the Management Committee which comprised the bank's second tier management.

Mr. Cooray acted as the Bank's CEO on numerous occasions in the last 15 years of his banking career with HSBC. He has gained a wealth of expertise from the widespread executive development offered by the HSBC Group.

From an industry perspective, he Chaired the industry level Banking Technical Advisory Committee in 2015/2016 as a sub committee of the Sri Lanka Bankers Association.

Prior to joining HSBC, Mr. Cooray has also been a part of Speville M & W Ltd, in the capacity of Financial Controller from 1987 – 1990 and prior to that he was engaged with KPMG Ford Rhodes Thornton & Company, Chartered Accountants.

Mr Cooray Represented Sri Lanka in rugby & currently is the President of CR & FC.

MANAGEMENT TEAM

Standing Left to Right

• **Susantha Caldera -** AGM - Credit Control • **Dhanuka Tharanga Perera -** AGM - Gold Loan
• **Prasadi Perera -** AGM - Factoring • **Jude Anthony -** CEO • **Geethika Wickramasinghe -** AGM - Fund Mobilisation
• **Chatura Kulatilaka -** Head of Information Communication Technology • **Sanjeeva Jayasinghe -** Head of Finance
• **Nuwan Nilantha -** Senior Manager – Treasury • **Chamilantha Fernando -** Head of Channels
• **Indrajith Thebulanda -** Senior Manager – Operations • **Fathima Fazmin Ahamad -** Senior Manager – Legal
• **Priyan Jayakody -** Chief Internal Auditor • **Gayani Godellawatta -** Head of Risk and Compliance
• **Ranjith Rathnapriya -** AGM – Corporate Sales • **Omal Kaluarachchi -** Senior Manager – Human Resources
• **Patrick Ranasinghe -** AGM - Credit

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL ECONOMY

The global economic growth was uneven during 2018 as most economies witnessed a slowdown in economic activity, barring the US economy. Most advanced economies grew modestly in 2018 while emerging market and developing economies continued to grow strongly, although at a lesser pace than in 2017. Global trade was curtailed by the uncertainty surrounding Brexit developments as well as the growing tensions in the US-China trade war.

Faced with growing uncertainties in the global economic environment, advanced economies took a gradual approach of monetary policy normalisation, citing favourable developments in domestic market conditions. This resulted in emerging market economies having to respond with the objective of restricting the adverse spillover effects of such normalisation. Central banks in most advanced, and emerging market and developing economies have taken measures to tighten monetary policy during 2018. The uncertainties in the global political and economic landscape posed significant challenges to Sri Lanka requiring the implementation of timely and prudent policy measures to support domestic growth initiatives while maintaining stability.

SRI LANKAN ECONOMY

Sri Lanka's economy recorded a modest growth of 3.2% in 2018, slightly dipping downwards from the 3.4% registered in 2017. One of the key factors in this downward movement is the weakening of the Industrial sector, most notably the Construction industry. However, on a positive note, the Agriculture sector rebounded buoyed by improved weather patterns throughout the year, expanding by 4.8%. The Services sector also expanded, by 4.7%, and continues to be a key contributor toward the country's economic growth, with Financial Services playing a notable role in economic expansion.

The political standoff that took place in October was a major blow for the country as the tourism industry was negatively affected and overall investor confidence weakened during the period. Subsequently, three major international rating agencies downgraded the country's sovereign rating dealing another blow to the country's economy.

As a result of the recovery shown by the Agriculture sector, the impact of lower fuel prices driven by the announcement of a market-based pricing formula and the success of the Government's enhanced monetary policy framework, both headline and core inflation remained subdued in 2018. Despite the dramatic depreciation of the Sri Lankan Rupee against major currencies, consumer price inflation remained low during the calendar year with only a few minor short–term fluctuations seen throughout the year.

During the course of the year, the Central Bank of Sri Lanka (CBSL) decided to end the monetary tightening cycle adopted in 2015 which had delivered the desired outcomes of lowering inflation and containing money and credit growth. In April 2018, CBSL reduced the Standing Lending Facility Rate (SLFR) by 25 basis points to 8.50%, while the Standing Deposit Facility Rate (SDFR) was kept unchanged at 7.25%. Following this, the CBSL maintained a neutral monetary policy stance as negative developments in global economic conditions and capital outflows towards the US brought pressure on the country's external sector and raised volatility in the domestic markets. Subsequently, the Average Weighted Deposit Rate (AWDR) decreased to 8.81% by end-2018 compared to the 9.07% recorded at end-2017, while the Average Weighted Lending Rate (AWLR) increased to 14.40% by end-2018, up from the 13.88% at end-2017.

During the second half of 2018, the Sri Lankan Rupee came under intense pressure as a result of the strengthening of the US Dollar and due to tight liquidity conditions in the domestic foreign exchange market. The Rupee ended the year depreciating by 16.4% against the US Dollar.

NON BANKING FINANCIAL INSTITUTIONS (NBFI) SECTOR

Asset Growth

Lending activities in the sector witnessed a downturn primarily due to two key factors : policy measures taken by the Government to curtail importation of motor vehicles as well as the overall slowdown in economic activity in the country. Overall, the sector's asset base showed a marginal increase of 5.6% during 2018. From the total asset base of Rs. 1,431.3 billion by end December 2018, 79.4% was attributed to loans and advances with finance leases amounting to 52.8% share of loans and advances and other secured loans making up 38%.

Asset Quality

There was a notable deterioration in asset quality across the NBFI sector in 2018. The weak economic activity together with the underwhelming performance of the Agriculture sector over the past couple of years largely curtailed the repayment capacity of customers, especially those in the SME and micro segments. This resulted in the sector's Non-Performing Advances (NPAs) ratio increasing from 5.9% in 2017 to 7.7% in 2018, which was the highest NPA ratio registered since February 2015.

Funding

The main source for funding in the sector continued to be funds generated through deposit mobilization as deposits recorded 50.1% of the total liabilities of the sector. However, deposit growth was marginal at 4.4% during the year, a significant reduction from the 29.4% growth recorded in 2017. The sector is witnessing a gradual shift towards bank borrowings with the 17.1% bank borrowings growth demonstrating a significant increase when compared to the negative growth in 2017.

Profitability

During the year, the sector posted a profit after tax of Rs. 21.4 billion, a drop of 17.2% compared to 2017. The decline was caused by numerous factors, most notably the lower Net Interest Margins (NIM) and higher provisioning costs. The sector's main source of income increased by only 6% in 2018 due to the combined effect of lower than expected growth in portfolio and higher interest expenses. The sector's bottom line came under pressure due to higher provisioning costs required given the high NPA prevalent during the year. Additionally, the implementation of the SLFRS 09 standards and the impact of the Debt Relief program introduced by the Ministry of Finance and Mass Media in August 2018 also contributed towards increasing provisioning costs in the sector. Overall, the sector-wide ROA decreased to 2.7% and ROE declined to 12.1% during the year.

Capitalisation

As a result of the CBSL's decision to enhance the minimum capital requirement up to Rs. 1 billion from 01 January 2018, the NBFI sector remained well capitalized and consistently above the minimum requirement throughout the year. The improvement in the total regulatory capital by Rs. 15.5 billion further indicates the sector's ability to withstand perceived adverse shocks. The sector's core capital decreased to 9.9% and total capital ratios dipped to 11.2% in 2018 from 12.4% and 13.1% respectively in 2017. This was the result of companies migrating to the new Capital Adequacy Reporting Framework and declaring risk weighted assets with a more risk sensitive focus covering credit risk and operational risk.

Regulatory Developments

Several regulatory developments that impacted the NBFI sector took place during the year:

- A Direction was issued to impose a new Capital Adequacy Framework that requires LFCs and SLCs to maintain capital adequacy ratio on a more risk sensitive focus covering credit and operational risks under the basic approach of the Basel accord.
- The LTV ratio for LFCs and SLCs was amended to reduce to 50% for unregistered or registered hybrid vehicles, which have been used in Sri Lanka for less than one year.
- A Direction on maximum rate of interest on microfinance loans was issued for LFCs and SLCs to protect customers from excessively high interest rates.
- A circular was issued on guidelines on the adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments

COMPANY PERFORMANCE

The year under review presented numerous challenges to OFP as well as the NBFI sector in general. Despite these circumstances, the Company was able to perform creditably and register a Net Profit of Rs. 29 million.

The Gold Loans portfolio continued to perform well and recorded a 252% increase during the year, reaching Rs. 1 billion in the process. Leasing was faced with numerous difficulties due to various factors including the Government's policy to curtail vehicle imports in order to address the pressure on the external sector and mainly on the exchange rate.

The Company continued to streamline the process of strengthening the credit by reevaluating the lending strategy and adopting various methods to improve the quality of the credit. The recovery mechanisms of the Company were further streamlined to improve the co-ordination between the various departments.

There is greater emphasis placed on leveraging technology to enhance business operations and strengthen the new systems and processes. Recruitment of highly-talented individuals to boost the Company's human resources and provide a platform for future growth continued during the year.

Through careful planning and prudent measures, OFP has been able to achieve a profit during the year. This augurs well for the Company as it highlights the fact that the Company is on the correct path and can look forward to a more successful year ahead.

FINANCIAL REVIEW

OFP closed the year by achieving a Net Profit of Rs. 29 million. This is a 126% increase when compared to the financial year ended 31-Mar-2018. The Company's Earning Per Share (EPS) has increased by 127% compared to the last financial year.

OFP successfully managed to grow the Gold Loan business by expanding to 10 branches during the year. This resulted in a significant growth in the Gold Loan portfolio from Rs. 302 million to Rs. 1 billion, a 252% increase, during the year.

Interest Income & Total Income

The Company's loan portfolio decreased by Rs. 470 million during the year and as a result the Interest Income reduced by 2.17% to Rs. 3.2 billion. However, due to a number of the new charges introduced by the Company during the year, the Total Income of the Company only reduced marginally by 0.08%.

Interest Expenses

As a result of the Company's deposit base declining by Rs.1.37 billion, the interest expenses reduced by Rs. 167 million during the year, an 8% decrease compared to the last year. The dip in the deposit base was primarily caused by a lack of confidence shown by customers in the NBFI sector due to the events in recent years where certain NBFI companies have faced financial difficulties and struggled to honour their payments to customers.

Total Assets

The Total Assets of the Company for the year under review reduced to Rs. 17.3 billion, a 4.35% drop, from the Rs. 18.1 billion. This can be attributed to 3 key reasons - the first day adjustment of Rs.336.85 million, a decrease in the deposit base by Rs. 1.4 billion and the dip in the portfolio by Rs. 470 million. Due to SLFRS 09 impact, as the first day adjustment, Rs. 336.85 million has been charged to retained earnings of the Company as a result of adopting possible loss methodology on impairment rather than the incurred loss method followed previously by the Company.

ROA & ROE

The Company has recorded an increase in ROA (Return on Assets) and ROE (Return on Equity) by 0.76% and 6.03% respectively when compared to the 2017/18 financial year.

Debt Repayment Levy (DRL)

With the introduction of Debt Repayment Levy by the Government in October 2018, finance companies are liable to pay 7% from its value addition. As a result of the DRL impact, the Company has paid Rs. 10.2 million as additional taxes for the 2018/19 period on top of the payments made on VATFS and NBTFS amounting to Rs. 52.8 million.

Operating Expenses

Operating costs of the Company decreased by Rs. 2.6 million to Rs. 879 million when compared to last year. This was achieved through a series of cost controlling measures adopted during the period where various processes were streamlined and new initiatives adopted to bring down overhead costs.

Profit Before Tax

Driven by the continued focus on a more sustainable development oriented business model, OFP was able to achieve a Profit Before Tax of Rs. 31.8 million during the year under review, as against a Rs. 103.7 million loss achieved in the previous financial year.

MARKETING

When considering the Sri Lankan economy and the NBFI sector, OFP operates in a very challenging, competitive and a crowded environment. Day-by-day the Banking and Financial industry makes leaps and strides in technology and innovation and ever demanding client base. Keeping in line with the competition, we also have made every possible effort to create greater awareness about our products and services in order to reach out to more potential customers while also providing vital information to the existing customer base. OFP's marketing and promotional efforts continued at a consistently high level throughout the year under review using both traditional and innovative marketing techniques and media. The various marketing strategies implemented by the Company are mainly focused on creating awareness and enhancing the customer experience.

The company looked at strengthening the Company's core fundamentals, we looked at our lending module with an intention of improving our credit quality and to increase the recovery process. This action was taken in line with challenging external environment that continued to bring pressure on our target market. The credit approval was centralized and strict control procedures were introduced and continuous effort was put in to improve productivity and improve quality lending. Performance based incentive schemes were introduced to reorient our sales teams and encourage them to be more performance-driven while being customer-centric.

Economy

Sri Lankan overall economy continued to record a modest growth last year, mainly due to the increase in Agriculture sector but the construction sector showed a negative figure.

Financial services sector continued to be the main contributor to economic expansion. Considering the market conditions, the company main focus was to promote secured lending through leasing to the SME sector.

NBFI Sector

The NBFI sector reported a moderate expansion, during the period with a slow growth in overall credit portfolio, the quality of the portfolio eroded which resulted in increase in NPL's and poor profitability across the board. Measures were taken by the regulator to curtail import of motor vehicles.

The LTV ratios applicable for credit facilities in respect of electric, hybrid and other unregistered vehicles and registered vehicles, was revised to 50% with effect from October 2018)

Advertising and Promotions

The company marketing team with the support of the branch network and the marketing staff carry out marketing activities to attract the target client segment. With the support of advertising agents some campaigns are carried out to increase the OFP brand awareness. The Company focuses on various outdoor advertising techniques to increase visibility, such as hoardings in prominent locations, street name boards and billboards at dealer/vendor locations in cities and towns across the island.

Mini campaigns and promotions are carried out by the respective marketing teams and branches in order to create awareness in the respective areas and combined promotional activities are carried out with vehicle importers and vehicle sales in order to capture new clients to the Company.

Leveraging Technology

OFP retained the focus on technology improvement and various initiatives were carried out in order to develop the IT system which enabled us to cater to the ever demanding needs of the existing customers. The corporate website of OFP was once again an effective tool in communicating with existing and prospective customers. With over 48,000 Fans, the Facebook page of OFP was utilized to communicate with the customer base in multiple languages. Electronic Direct Mailers were regularly sent out to selected customer groups informing them of special promotions while they were also used to reach out to employees as well.

The Company also used SMS broadcasting to target the customer base of the country informing them about our product offerings and services available. This strategy was also carried out on a branch-wise basis where the Company sent promotional SMS messages to people in a designated area close to the OFP branch informing them of special offers.

Staff Increase

The Sales and Marketing teams' head count was increased by 25% during the financial year under review.

This enabled OFP to serve the customers better and allowed the Company to carry out various types of promotional activities based on the unique attributes of each regional market while also increasing the level of personal selling capabilities. During the year, OFP fine-tuned their sales process in keeping with the requirements of the evolving customer base. Through better monitoring and support, both the Sales and the Recoveries teams were able to perform at a higher level during the period.

Training

Training of marketing staff was carried out throughout the year based on the comprehensive training calendar put together by the HR Department. The training of the Credit and Recoveries staff is of great importance to the business as Credit staff need to be very knowledgeable about how to analyze a customer before granting credit while the Recoveries staff should be able to follow up with the customer in a timely, professional manner and ensure the payments are received on time.

A new incentive scheme for both Credit and Recoveries staff was introduced during the year in order to keep them motivated to meet their KPIs with greater financial rewards being offered to those who exceed their KPIs. The Call Center, which operates during office hours on all working days, was also better utilized as a tool to build closer relationships with customers.

In addition, OFP looked at improving the skills, training and developing management techniques and grooming managerial staff through Leadership and Management Development programs in order to drive them to push the teams under them to achieve the desired business goals.

Branch Enhancements

During the latter part of the financial year, the Head Office of OFP was relocated to No.61, Dharmapala Mawatha, Colombo 7.

Additionally, City Branch (Borella), Chilaw and Puttlam branches were relocated while Ampara, Anurdhapura, Avissawella, Balangoda, Bandarawela, Batticaloa, Embilipitiya, Galle, Gampha, Hambantota, Horana, Jaffna, Kalutara, Kandy, Kegalle, Kochchikade, Kurunegala, Matara, Negombo, Nugegoda, Polonnaruwa, Ratnapura, Vavuniya, Panadura, Trincomalee and Welisara were refurbished to provide employees and customers with a modern office environment together with greater accessibility and convenience.

Product Portfolio

- **Lease** - Lease facilities are offered to a wide range of vehicles for private and commercial use. Both new and registered vehicles are offered facilities with a tailor-made flexible finance plan to the customer to suit the income and payment plan in minimum time period.
- **Speed Draft** – Product launched with the intention providing speedy financial solutions to the business community and professionals. The main feature is that it fulfils the short-term financing requirements of customers by providing them with a loan when they need it with the option of repaying the interest portion and settling the facility in a specific time period.
- **Trade-In** - As an attempt to attune product offers to the changing needs of customers, Orient Finance introduced Trade-In, where a used vehicle can be traded in for another, eliminating the hassle of selling the existing vehicle.
- **Term Loans** – Loan product given at fixed interest rates depending on the customer request, with a mortgage of property, the loan could be used as an investment to increase business volumes of an existing business

Looking Ahead

During the new financial year, OFP's marketing efforts will focus on 3 pillars

- Retention of the existing customer base and offering good quality lending products to the target market segment
- Enhancing the credit guidelines and building the quality of the product portfolio and
- Streamlining and a close recovery process in order to increase the recovery ratios in line with the industry benchmarks.

Given the uncertain economic climate in the country following the Easter Sunday attacks and the looming elections which will further complicate the political uncertainty in the corridors of power, it is imperative that the Company focuses on these 3 pillars to move forward. There will be a greater emphasis on leveraging the power of digital tools in order to better connect with the younger generation that is undoubtedly tech savvy and are well versed on how to extract information from the digital tools at their disposal. Using digital media to reach this customer segment has numerous benefits such as cost effectiveness, relative ease to target selected audiences based on key criteria, ability to communicate a substantial amount of information to them when they show interest by clicking on an online advert and enhanced tools to track responses and refine marketing campaign approaches.

In addition, greater emphasis would be placed on the branch network and personal selling where the marketers would aggressively follow new business avenues via vehicle dealers and sales and offer OFP product proposition in order to attract quality portfolio. Within the course of this, the Company also intends to carry out a corporate campaign that would aim to boost the OFP brand name among the target audience which will help to create top of mind awareness in the customers mind.

GOLD LOAN

OFP successfully expanded the Gold Loan portfolio for the second consecutive financial year by maintaining the growth momentum achieved in the previous financial year. The Gross Gold Loan portfolio grew to Rs. 1.09 billion during the year under review, an increase of 252% from the Rs. 301 million achieved in 2017/18. Interest income from Gold Loans increased by 367% to Rs. 147 million from the Rs. 31.5 million achieved in 2017/18.

Almost all companies in the NBFI sector have commenced Gold Loan operations due to the numerous challenges faced in other products during the year under review. Stable trend in world gold prices for yet another year has helped maintain a conducive environment for the product in the local market.

Although the product has been part of the OFP portfolio for several years, it is only in the 2017/18 financial year that the Company aggressively promoted it and the impressive results for two consecutive years highlights the positive impact of this approach. During the year, the Company expanded Gold Loan services to 10 new branches thereby providing Gold Loan services from a total of 24 branches across the island.

OFP's Gold Loans staff consists of highly-trained, professional individuals with 4 or more years of experience in handling Gold products. Throughout the year, the Gold Loan staff at all 24 branches carried out various marketing campaigns, including street promotions and door-to-door campaigns, where they met customers face to face and explained the numerous benefits of working with OFP for their urgent financial requirements. This kind of educational and awareness campaigns helped increase the visibility of the Company's Gold Loan product in the market, and has received a very positive response from the target audience, as is amply demonstrated in the remarkable figures achieved during the year under review.

One key highlight of the Company's approach can be witnessed in the percentage of articles that are auctioned off, which is as low as 0.5% at OFP, whereas the average in the market is around 3-5%. This underscores the fact that the Company makes every possible attempt to help the customer recover the article by being understanding and flexible to any genuine difficulties that the customer may face in paying back.

Looking Ahead

With the increasing demand for Gold Loans, the Company intends to expand the Gold Loan base in order to reach a wider target market and provide greater convenience to customers. Six new branches – Chilaw, Kurunegala, Kandy, Kilinochchi, Ratnapura and Hambanthota – are in line to commence Gold Loan operations during the new financial year. The impactful marketing campaigns will continue across all branches, where the focus will be on engaging with existing and prospective customers and having meaningful discussions on how Gold Loans can help their businesses.

FACTORING

Factoring mainly targets the Small and Medium-sized Enterprises (SMEs) and plays an important role in allowing a smooth cash flow, thereby enabling the organisation to innovate and grow. OFP caters to businesses such as manufacturers, whole sellers and other service providers to finance their working capital requirements. The Company provides customers with personalised, innovative, tailor-made working capital solutions to meet their specific business requirements. During the year under review, OFP was faced with many hurdles driven by the tough economic conditions in the market, all of which contributed to a significant dip in the performance of the Factoring Division. Given these challenging market conditions, the division scaled down the Cheque Discounting portfolio and focused more on servicing a selective 'Recourse Factoring' client base.

Looking Ahead

During the forthcoming year OFP will focus on maintaining quality and building a secured working capital portfolio. It must be noted that even the competitors within the industry have taken similar measures in order to minimise the credit risk.

HUMAN CAPITAL

At OFP, Human Capital refers to the overall impact created by the Company's most valuable asset - the employees. This encompasses their knowledge, experience, attitude, work ethic as well as their physical and mental health.

Being a progressive organisation, OFP's Human Resource policies, practices and operating processes play a pivotal role in human capital management. The Remuneration/HR Committee comprising of three Independent Directors appointed by the Board of Directors governs all human resources policy level activities of the Company. The Human Resources Division of OFP, together with the Company's leadership, are constantly looking to come up with new strategies and initiatives that focuses on nurturing the human capital. The growth and development of OFP's employees is critical for the Company to succeed, especially in today's increasingly challenging economic landscape. Resultantly, the Company realises that the greater the investment in their development, the stronger and more sustainable would be the returns.

Culture

The vibrant culture nurtured at OFP is built upon key attributes such as Innovation, Integrity, Caring, Excellence and Trust, helping employees to continuously improve and contribute positively towards the development of the Company.

The culture encourages employees to think creatively, test new ideas, question accepted norms and interpret mistakes as an opportunity to learn and grow. The Company strongly believes in listening to the opinions of their employees and understand their points of view on a wide range of matters - from customer service to operational efficiency to what it means to be an OFP employee.

Automation

During the year, the Company made significant progress in the automation of HR functions via the deployment of the cutting-edge Human Resources Information System (HRIS).

The multi-faceted system consists of a number of modules out of which Performance Management, Training and Development and Recruitment were implemented during the year. These 3 modules consist of a considerable amount of paperwork and therefore having them automated means that the systems and processes within each area will be streamlined and paperwork reduced to a bare minimum resulting in an almost paperless environment.

Succession Planning

OFP has already earmarked a group of highly-talented individuals from various Departments, who the Company believes have the potential to drive the Company forward into the future.

These key individuals, potential successors for every middle and senior management role, have been given additional training and development in order to ensure that they are performing at a high level at all times and are ready to embrace greater responsibility and key leadership positions as and when they are made available.

Recruitment

As an organisation that is well-respected in the industry, OFP pays special attention to ensure that the right type of employees is recruited to the Company. The foundation of the organisation consists of employees who are passionate, hardworking, innovative and committed. Recruitment of employees at OFP is carried out based on the Recruitment Policy of the Company.

The Company's Recruitment Team is entrusted with the important task of identifying suitable candidates and hiring them in a timely manner so that the growth of the Company can continue uninhibited. The focus is always on candidates who are knowledgeable in their respective area of expertise, are highly-motivated and possess exemplary qualities that will help them to excel in the organisation and win the trust of customers. Finding and hiring the best talent continues to be a challenge across all sectors in Sri Lanka and especially in the Banking and Finance sector. In order to keep ahead of the competition in recruiting talented individuals, while using traditional, tried and tested methodologies such as advertisements in the newspapers, OFP has increasingly turned towards modern technology. Social media networks, such as Facebook and LinkedIn, are widely used to target individuals who match selected criteria such as a certain age group or geographical location. Additionally, OFP continues to carry vacancy advertisements in some of the leading job portals in the country. The Company has further streamlined the recruitment process that includes multiple interviews with key personnel and a written test in order to fast track the process and revert back to the candidate quickly. Irrespective of whether the candidate's application is successful or not, all the applications received are securely stored in a database for future reference, as and when vacancies arise.

Diversity

OFP is an organisation that believes in strength in diversity. Over the years, the Company has emphasised the need to have a diverse workforce that has access to equal opportunities in a healthy work environment that is free from discrimination, harassment and victimisation.

OFP has successfully created an environment where every employee of the Company is treated equally regardless of age, gender, race, religion, caste, disability, sexual orientation, marital status or political views. Any individual can progress in his/her career at OFP provided he/she demonstrates the right attitude, work ethic and passion to succeed, while embracing the culture of the Company and respecting all fellow co-workers.

Training and Development

Training and development of all employees plays a crucial role in the continued success of the Company and the forging of career paths for each and every employee at OFP. Regular training programmes are carried out for individuals in all departments in order to enhance their knowledge in the relevant area of expertise and prepare them to successfully face the challenges at work.

A comprehensive training calendar is made available at the beginning of the year so that all departments have visibility on the training programmes allocated for the year and can organise their work without causing any disruptions to their core tasks. During the year, an in-house management training curriculum of modules covering all required competencies, team building activities, and a learning library was made available to provide individual coaching.

Training is conducted by a mix of internal experts and external consultants including those from organisations such as the Central Bank of Sri Lanka and the Finance House Association of Sri Lanka. Special emphasis is placed on providing training for branch level employees on a variety of topics ranging from credit management to administrative procedures to soft skills when handling internal and external customers. Additionally, a state-of-the-art training facility that can hold up to 100 individuals is available at the Corporate Office premises for centralised training programmes that bring in team members from all regional branches.

Rewarding Employees

OFP invests a significant amount of time and resources in finding and recruiting the right people and developing their skills as they progress in the Company. As the industry is known to have a high employee turnover ratio, the Company has come up with new ways to face this challenge. Given such an investment, it is equally important to the business that the Company retains its best employees.

To help in this effort, the Company designs benefits packages that align with the expectations and requirements of different groups of employees. During the year, OFP launched an industry leading 360-degree incentive-based rewards scheme above the traditional benefits offered to the employees. The scheme provides achievable targets that keep the various teams highly-motivated while also helping the business to achieve its financial goals. This balanced approach has received very positive feedback from the

employees and further demonstrates the Company's commitment to ensuring that all employees share in the Company's success.

Measuring Performance

All employees of OFP are subjected to regular appraisals to receive feedback on their performance and help to give them direction for the immediate future. The Company performance management policy requires annual formal feedback to be provided to all employees.

The appraisal agenda looks into a number of key factors including performance, learning and development, the contribution to the Company talent pool, succession planning, employee promotions, lateral moves and career aspirations, amongst many others. While formal feedback is a scheduled occurrence that generally takes place in the month of March, the performance-centric culture of OFP encourages managers and team leads to facilitate regular, transparent employee feedback at all levels.

Once the HRIS system is implemented, this appraisal mechanism will be online where each employee will be able to see his/her performance status on a dashboard while their superiors will also have the information of multiple employees at their fingertips enabling them to make quick business decisions.

Employee Engagement

At OFP, every possible effort is made to keep all employees fully informed and updated on a variety of aspects related to the Company so that they understand that each and every one of them is a valuable member of the OFP Family.

The engagement extends beyond keeping all individuals well-informed of the Company's victories, challenges and future plans, all of which would affect them on a daily basis. Some of these include organising meaningful welfare activities in partnership with representatives from various departments to brainstorming with employees on a variety of matters such as how to tackle adverse market situations or develop a higher quality work environment. Continuous dialogue is carried out with all employees to get a better understanding of the expectations of the Company and the employee. OFP recognises the rights of all employees and provide a platform for them to address their concerns and resolve issues and conflicts in a fair and transparent manner. Overall, the Company practices the following employee engagement activities: Open Door Policy by management, Whistle Blower Policy, Welfare Committees, Business Improvement Committees and CSR Volunteer teams.

Looking Ahead

One of the most significant goals for the new financial year is the automation of the HRIS. This will allow the Company to further streamline HR activities and create opportunities for the HR Division to focus more on nurturing the culture at OFP. Employee engagement will be enhanced with a number of activities earmarked to provide employees the chance to be actively involved in various activities. These include more sporting engagements for those who prefer to participate in sports and a new CSR initiative for those who believe in volunteerism. As the new financial year unfolds, despite the uncertainty surrounding the economy of the country, the Company intends to make all possible efforts to further enhance the work environment for all employees. Human resource policies and best practices will be further refined to enable the Company to attract and retain high-calibre individuals. The Company will foster a culture of trust and inclusivity with all employees and provide them with all necessary resources to achieve personal growth, which in turn will help the Company to achieve its business goals.

INFORMATION TECHNOLOGY

Orient Finance PLC continued its digital transformation process during the 2018/19 financial year by focusing on enhancing various IT functions across the company in order to deliver a better service to clients and other stakeholders. The Company was able to successfully carry out selected projects enabling it to reallocate and re-provision the IT resources more efficiently to improve IT infrastructure and services. The key highlight of these efforts was the end-to-end core IT system where OFP was able to make significant progress in the time-consuming process of finalizing the vendor. The proposed core IT system would encompass the entire IT operations of the Company, covering all business units and related support functions as well as enhancing the customer touch points. Once deployed, it will provide the customers with multiple ways to interact with the Company using devices such as smartphones and tablets, allowing them to carry out their business transactions on the go in a convenient, secure manner without having the need to visit a branch. Given the scale of the IT system, the Company estimates the project to take 12-18 months to be fully deployed, once the vendor has been finalized. One of the most crucial aspects that determine the speed and success of deployment of such an IT system is training. OFP, along with the chosen vendor, will be implementing a comprehensive training programme that will ensure complete transparency and educate all individuals in the Company on how to maximise the impact of the new system in order to streamline operations, increase efficiencies and provide a superior service to customers.

There is a growing trend in the world today where IT infrastructure of organisations across different industries comes under attacks from numerous threats that can result in loss in productivity, reputation and revenue. As a result, in order to counter this threat, the Company has taken various steps to enhance its IT security capabilities with the aim of better protecting the IT infrastructure from attacks from external parties. With the help of cyber security experts in the industry, together with support from law enforcement, the impact from these cyber threats can be minimized so that business operations can continue uninterrupted. In keeping with this emphasis on security, the Disaster Recovery (DR) site of the Company was further upgraded with the introduction of latest technologies in order to enhance on scalability and robustness.

Looking Ahead

OFP intends to continue the introduction of cutting-edge technology and platforms so that the Company can consolidate its position in terms of delivery of a high-quality service to both external and internal customers. The commencement of the rollout of the core IT system will be the key focus during the 2019/20 financial year. It is clear that the successful implementation of the system will bring with it a multitude of benefits that will help elevate the Company's operations to the next level and better equip it to face the challenges of a technologically advanced world.

The process of introducing a higher level of automation across company processes and functions will be continued to provide a higher quality of service to customers and stakeholders. Automation of key functions, notably HR and Procurement, and enhancing of support functions will also be a key objective during the new financial year. The new systems will also ensure that up-to-date information is readily available to the top tier of management so that they will be able to make key business decisions in a timely manner.

WELFARE ACTIVITIES

The highlight of the year was the annual sports day that was held in September 2018 at the Burgher Recreation Club (BRC) Grounds in Colombo 5. The full-day mega event was well attended by employees from all branches of OFP as they took part in a host of activities that included a cricket tournament, netball, tug of war, running events and several others. The branches were split across the 5 regions – Central, Southern, North East, Sabaragamuwa and Metro. The team members from the 5 regions battled each other in an atmosphere of friendly rivalry and took full advantage of the opportunity to socialise and make new friends in a spirit of camaraderie. After the distribution of prizes to the winners, the day ended with a musical show that kept the crowd dancing into the night.

In November 2018, the Company organised an eye clinic for employees of the Western Region. All employees had the opportunity to get their vision tested free-of-charge by representatives of a leading eyecare firm and were given significant discounts when purchasing an assortment of eyewear. Over 100 employees took advantage of this eye clinic to purchase new eyewear or upgrade their existing ones.

The OFP family rallied around one of their fellow team members who had to undergo a major lifesaving surgery during the year. Contributions flooded in from employees across the company as they successfully collected the required funds for the surgery. The Welfare Society also contributed a significant amount in order to ease the burden on the team member's family.

The Company took part in the Mercantile Hockey tournament during the year and recorded some memorable wins. The team intends to take part in future tournaments and looks forward to an improved performance in the new season. An ice cream dansala was organised by the Corporate Office at Nugegoda during the Wesak holidays. A large number of employees took part in the dansala, which was attended by large crowds from the area.

Clean drinking water is a basic necessity in schools in the country but not every school has easy access to this resource. Therefore, during periods of drought this has become a very challenging issue and there is a daily struggle to obtain water during these difficult times. In order to lend a helping hand, Orient Finance came forward to donate 12 large tanks to store drinking water to schools in Ampara, Anuradhapura, Vavuniya and Jaffna. The initiative was driven by the Orient Finance Branch Managers in each of the identified areas together with the assistance of the local authorities and government healthcare institutions. The project involved equipping each school with a 1,000 litre tank, laying of pipes, water purification units and extra accessories, all of which were managed by Orient Finance. These tanks were handed over to the selected schools during the recent drought in the country with each tank providing drinking water to an average 150 students. During the drought, Orient Finance ensured that the tanks were constantly filled with drinking water thereby ensuring the daily drinking water requirements were fulfilled.

This project also benefited these schools immensely in the long term as the schools selected for this initiative lacked a permanent drinking water solution and therefore have serious difficulties in getting clean drinking water for their students throughout the year.

CORPORATE GOVERNANCE

Corporate Governance refers to the structures and processes that are established by a company for the direction and control of the organisation. It concerns the stewardship provided by the Board, relationship between the Board of Directors, shareholders, management and other stakeholders. A strong corporate culture and ethics are vital for the survival and profitability of an organisation in a highly competitive market. Essentially, the business operations of Orient Finance, as a Licensed Finance Company, is based on trust and confidence placed by the public on the Company. Therefore, sound Corporate Governance practices have been put in place at Orient Finance to achieve its objectives while complying with statutory rules and regulations.

The Governance structure at Orient Finance is driven by the Board of Directors who set the tone at the top. The Board approves the strategy and sets the corporate values and determines the risk appetite of the Company. It ensures that the Company operates within the regulatory framework and applicable laws and legislation and that appropriate internal controls are in place to comply with the regulations.

The Governance Framework at Orient Finance is driven by Board approved policies and procedures that are in place governing all aspects of operations. These policies ensure the compliance of the organisation with applicable laws and regulations. The Company ensures compliance with the following statutory legislation and regulations applicable thereunder:

- The Companies Act No. 7 of 2007
- Finance Business Act No. 42 of 2011

The Company is in compliance with the following Directions relating to Corporate Governance:

- Finance Companies Directions on Corporate Governance issued by the Central Bank of Sri Lanka.
- Listing Rules issued by the Colombo Stock Exchange

and voluntarily complies with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Company's commitment and compliance with respect to the above directions, code and rules are summarised in the table below.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
Code A.1	Every public company should be headed by an effective Board, which should direct, lead and control the Company.	Complied	Orient Finance PLC is headed by a well-experienced and eminent Board of Directors who provides direction and leadership to the Company and guides its activities.
Responsibilities of the Board			
Code A.1.2, CBSL 2.1 (a), (b)	The Board should be responsible for ensuring the formulation and implementation of a sound business strategy, values and risk management procedures and communicating same throughout the organization.	Complied	A sound business strategy has been put in place by the Board which guides the Company to success in all its endeavors. The Board has also approved Corporate Values and risk management policies, which have been communicated to all staff.
Code A 1.2 CBSL 2.1 (c), (e)	Identify risks and ensure implementation of appropriate systems by the Board of Directors, review adequacy of the internal control systems and the management information system.	Complied	The Company has in place a Board-approved Risk Management Policy. An Integrated Risk Management Committee and Audit Committee have been established to ensure risk management and integrity of information systems and internal controls. Effective internal controls have been implemented by the Company. Further, effectiveness of such systems is monitored by the Board through the IRMC, internal and external auditors and independent expert consultants where necessary and improvements are implemented accordingly.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 2.1 (d)	Approving a policy of communication with the stakeholders.	Complied	A Stakeholder Communication Policy has been approved by the Board and implemented for appropriate communication with different stakeholder groups. The Company maintains a website and periodically issues press releases. Communications from stakeholders are promptly attended to.
Code A 1.2 CBSL 2.1 (f), (g), (h)	Proper delegation of authority to the Key Management Personnel (KMP).	Complied	The Board has identified and designated Key Management Personnel who are in a position to carry out the Company's operations and risk management processes. The KMP's job roles and areas of authority have been defined in order to enable effective oversight of the affairs of the Company within the strategic objectives of the Company.
CBSL 2.1(i)	Periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interest; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied	A Board Nominations Committee is in operation for the nomination and selection of Directors and Key Management Personnel. A Board-approved Conflict of Interest Policy is in place, which sets out the procedure for handling situations of conflicts of interest. The effectiveness of the internal control framework is assessed through the internal audit and risk functions and changes made where necessary.
CBSL 2.1 (j)	Adoption of an effective Succession Plan for Key Management Personnel.	Complied	Succession planning is considered as a vital factor by the Board of Directors at all times.
CBSL 2.1 (k)	Meeting regularly with key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives	Complied	The Board interacts regularly with the management in order to execute and review policies and to ensure corporate objectives are met.
CBSL 2.1 (l), (m)	Understanding the regulatory environment and exercise due diligence in the hiring and oversight of external auditors.	Complied	The Board of Directors and the staff are continuously kept updated on regulatory developments and changes to regulations and implications. The Board Audit Committee exercises due diligence in hiring and oversight of External Auditors.
CBSL 2.2	The board to appoint the Chairman and the Chief Executive Officer (CEO)	Complied	The Board of Directors has appointed the Chairman and the CEO to Orient Finance PLC to provide direction and leadership to the Company.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 2.3 Code A.1.3	Independent professional advice to be obtained according to a procedure agreed to by the Board at the Company's expense.	Complied	Board-approved "Policy on Seeking Independent Professional advice by Board of Directors" is in place. Board members are allowed to obtain independent professional advice as and when necessary at the expense of the Company.
CBSL 2.4	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	Directors abstain from voting on any resolution in which the Director or his related parties has an interest.
CBSL 2.5	The Board shall have a formal schedule of matters specially reserved to it for decision to ensure that the direction and the control of finance company is firmly under its authority.	Complied	The Board has a formal schedule of matters specially reserved for the Board for decision making to ensure that the direction and control is firmly under its authority. Documented guidelines are in place regarding the "Matters Reserved for the Board of Directors".
CBSL 2.6	The Board shall, if it considered that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of supervision of Non-Bank Financial Institution of the situation of the finance company prior to taking any decision or action.	Not applicable	No such situation has arisen.
CBSL 2.7 CBSL 10.2 (j)	The Board shall include an annual corporate governance report in the annual report and external auditors' certification should be obtained.	Complied	The Company has included the Corporate Governance Report as required and external auditor's certification on internal controls has been obtained.
CBSL 2.8 Code A.9	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessment.	Complied	Self-assessment of each Director is performed annually and filed with the Company Secretary.
Meetings of the Board			
Code A.1.1 CBSL 3.1	The Board shall meet twelve times a financial year at approximately monthly intervals.	Complied	Board meetings were held at monthly intervals. The Board met 16 times during the year under review.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 3.2	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings.	Complied	Schedule of items and matters to be discussed in the Board meeting are included in the agenda. Additionally, the Chairman frequently consults Directors with a view to ascertain their requirements with regard to matters for discussion.
Code A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Complied	Directors devote adequate time for Board meetings as well as Board Sub-committee meetings to ensure that their duties and responsibilities are satisfactorily discharged.
CBSL 3.3 Code A.6.2	A notice of at least 07 days shall be given for a regular Board meeting.	Complied	Sufficient notice has been given to the Board Members, to ensure all Directors have an opportunity to attend. The annual calendar of meetings is adopted at the first meeting of the calendar year and any changes are agreed upon with adequate notice.
CBSL 3.4	A Director, who has not attended at least two-thirds of the meetings in the period of twelve months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the Directors' meetings through an alternate Director shall however, be acceptable as attendance.	Complied	Directors have regularly attended Board Meetings. Attendance of each Director at the Board meetings has been disclosed at the end of this report.
CBSL 3.5	The Board shall appoint a Company Secretary to carry out secretarial services to the Board and shareholders meetings and other functions specified in the regulations.	Complied	KHL Corporate Services Limited has been appointed as the Company Secretary in line with the stipulated requirements.
CBSL 3.6	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied	The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.
CBSL 3.7 Code A.1.4	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied	The Directors constantly work with the Company Secretaries to ensure that Board procedures and all applicable rules and regulations are duly complied.
CBSL 3.8	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time on reasonable notice by any director.	Complied	Minutes of Board meetings are maintained by the Company Secretary. The Board Minutes are available for inspection by any Director as and when required.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings.	Complied	Board Minutes are maintained in sufficient detail with data and information used by the Board in its deliberations, decisions and Board resolutions. Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.
Composition of the Board			
Code A.10, A.10.1	Shareholders should be kept advised of relevant details in respect of Directors.	Complied	Required information on Board of Directors has been published in the Annual Report under "Profiles of Directors" (page 14)
CBSL 4.1	Number of Directors should not be less than 05 and not more than 13.	Complied	The Board comprised of 07 Directors during the financial year under consideration.
CBSL 4.2	Total period of service of a Director should not exceed 09 years.	Complied	There are no Directors on the Board who has been a Director of the Company for more than 09 years.
CBSL 4.3 Code A.5	Executive Directors shall not exceed one-half of the number of Directors of the Board.	Complied	All Board members are Non-Executive Directors.
CBSL 4.4 Code A.5.2	Number of Independent Non-Executive Directors of the Board shall be at least one fourth of the total number of Directors.	Complied	05 out of 07 Directors are Independent Non-Executive Directors. The composition of the Board is set out in page 14 in this Annual Report.
CSE 7.10.2b Code A.5.4	Each Independent Director shall submit a declaration of his/her independence against the specified criteria	Complied	Each Independent Director submits an annual declaration which is filed with the Company Secretaries.
CSE 7.10.3 Code A 5.5	The Board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the Board and shall set out in the annual report the names of directors determined to be independent	Complied	The Board makes a decision as to the independence of each Director based on the declaration submitted. The details of independent Directors are included in pages 14 to 16 of this report.
CBSL 4.5 Code A.5.6	An alternative director appointed to represent an independent non-executive director should meet with the criteria for independent non-executive directors	Complied	All applicable rules and regulations are complied with in appointing alternate directors.
CBSL 4.6	Non-executive directors shall have necessary skills, qualifications and experience to bring an objective judgment to bear on issues of strategy, performance and resources	Complied	All Non-Executive Directors are professionally qualified and possess adequate skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources. The profiles of the Directors are given in page 14 to 16 of this report.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Complied	Required quorum has been complied with.
Code A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	Complied	The Board consists of members with necessary financial acumen and professional qualifications and experience in Banking, Accounting and related disciplines. Please refer "Board of Directors" on page 14 to 16 in this Annual Report, for the Directors' profiles
CBSL 4.9 Code A.7, A.7.1, A.7.2	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	Complied	Appointment of new Directors to the Board are reviewed and recommended by the Nominations Committee, which consists of a majority of independent Directors. The existing Directors collectively decide on new members.
CBSL 4.8	The Finance Company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Complied	The details of the Directors by category are included in pages 14 to 16 of this Annual Report
CBSL 4.10	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after the appointment	Complied	Duly complied
CBSL 4.11	The Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institution if the Central Bank of Sri Lanka, regarding the resignation or removal of directors with the reasons and the relevant director's disagreement with the board	Complied	Duly complied
Criteria to assess the fitness and propriety of directors			
CBSL 5.1	The age of a person who serves as Director shall not exceed 70 years.	Complied	No Director has reached the age of 70 years.
CBSL 5.2	A director shall not hold office as a Director of more than 20 companies/ societies/body corporate inclusive of subsidiaries or associate companies of the finance company.	Complied	All Directors have complied with this requirement.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
Delegation of Functions			
CBSL 6.1	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions. The exercise of delegated authority is clearly monitored.
CBSL 6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied	Delegation arrangements are periodically reviewed.
Chairman and Chief Executive Officer			
CBSL 7.1 Code A.2	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied	The positions of the Chairman and the CEO are separate and performed by different individuals to ensure the balance of power and responsibility. The Chairman is a Non-Executive Director while the CEO serves as an employee of the Company.
CBSL 7.2	The chairman should be a non-executive director	Complied	Chairman is a Non-Executive Independent Director.
CBSL 7.3	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	The name of the Chairman and the CEO are disclosed in page 07 and 09 of this report respectively. There is no Financial, Business, Family or other relationship between the Chairman and the CEO. Mr. Prakash Schaffter and Mr. Ramesh Schaffter, Non-Executive Directors are siblings and are common directors of other companies. No other Financial, Business or Family relationships exist between any other members of the Board, other than being common Directors in certain companies.
CBSL 7.4 Code A.3	The Chairman shall: • provide leadership to the Board; • ensure that the board works effectively and discharges its responsibilities; and • Ensure that all key issues are discussed in a timely manner	Complied	The Chairman is a Non-Executive Director. He frequently discusses relevant matters with the other Directors and the CEO. Matters requiring discussion by the Directors are placed on the agenda of the Board meetings as required.
CBSL 7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate this to the Company Secretary.	Complied	The agenda for the meetings are prepared in consultation with the Chairman and circulated to the Board in advance.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 7.6 Code A.6	The Chairman shall ensure that all directors are properly informed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied	Board Papers are circulated with sufficient details 7 days prior to the meetings in order for Directors to request any other information, if necessary. Minutes of Board meetings are circulated in a timely manner.
CBSL 7.7	The Chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the finance company.	Complied	All Directors are encouraged to actively participate at the Board meetings and the ensuing discussions.
CBSL 7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non- Executive Directors.	Complied	All Directors are Non-Executive Directors, which encourages active participation.
CBSL 7.9	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	The Chairman is an Independent Non-Executive Director and is not involved in executive functions or in direct supervision of any staff.
CBSL 7.10 Code C.1	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	Effective communication with shareholders is maintained through the Annual General Meeting and Extra Ordinary General Meetings. Moreover, Annual Reports are delivered to shareholders 15 working days prior to the AGM in order to communicate their views effectively. The Chairman briefs the Board and the CEO regarding any issues or concerns of the shareholders.
CBSL 7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Company's operations and business.	Complied	The Chief Executive Officer functions as the executive-in-charge of the day-to-day management of the Company's operations and business.
Code A .11	The Board should be required, at least annually to assess the performance of the CEO.	Complied	At the commencement of each financial year the Board, in consultation with the CEO, sets financial and non-financial targets that should be met by the CEO during the year. The performance of the CEO was evaluated by the Board at the end of the fiscal year against the targets that had been set at the beginning.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
Board Appointed Committees			
CBSL 8.1	Every Finance Company shall have at least two Board committees as set out in paragraphs 8 (2) and 8 (3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied	The Board has established an Audit Committee and an Integrated Risk Management Committee. Each Committee reports to the Board and has a designated secretary. This Annual Report contains reports regarding the functions of such Committees.
Audit Committee			
CBSL 8.2 (a)	The Chairman of the Committee shall be Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied	The Chairperson of the Audit Committee is a Non-Executive Director and her qualifications and experience are disclosed in page 15 of the Annual Report.
CBSL 8.2 (b)	Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All 03 members of the Committee are Non-Executive Directors.
CBSL 8.2 (c)	The Committee shall make recommendations on matters in connection with: i. the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; ii. the implementation of the Central Bank guidelines issued to auditors from time to time; iii. the application of the relevant accounting standards; and iv. the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of an Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied	The Audit Committee makes recommendations on the stated matters. A summary of the functions has been disclosed in the Audit Committee report in page 56 of the Annual Report.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.2 (d)	The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	The Committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards and best practices.
CBSL 8.2 (e)	The Committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non audit services.	Complied	The Company has a policy approved by the Board on engagement of non-audit services by the external auditors in order to safeguard External Auditors' objectivity and independence.
CBSL 8.2 (f)	The Committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: i. an assessment of the Company's compliance with the relevant Directions-the management's internal controls over financial reporting; ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii. the co-ordination between firms where more than one auditor is involved	Complied	The nature and scope of the audit was discussed with the external auditors in accordance with the stated matters and the Sri Lanka Auditing Standards.
CBSL 8.2 (g)	The Committee shall review the financial information of the Company, in order to monitor the integrity of the Financial Statements of the Company, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Company's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant Accounting Standards and other legal requirements.	Complied	The Annual and Quarterly Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and other legal requirements on going concern basis and presented to the Committee. Annual and Quarterly Financial Statements are approved by the Audit Committee, before submission to the Board. The statements are in conformity with the stated requirements.
CBSL 8.2 (h)	The committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied	The Committee reviewed the financial information of the Company as appropriate.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.2 (i)	The Committee shall review the external auditor's Management Letter and the management's response thereto.	Complied	The Committee has reviewed the external auditor's Management Letter and the management responses thereto.
CBSL 8.2 (j)	The Committee shall take the following steps with regard to the internal audit function of the Company. i. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department iv. Recommend any appointment or termination of the head, senior staff member and outsourced service providers to the internal audit function. v. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied	The internal audit plan is reviewed and approved by the Audit Committee at the beginning of the year. Internal audit reports are discussed with the Audit Committee and necessary actions are taken. Up to September 2018, the Internal Audit function was carried out by M/s KPMG, Chartered Accountants. An in-house Internal Audit function has been since established. The internal audit function is an independent function with direct reporting to the Board Audit Committee.
CBSL 8.2 (k)	The committee shall have considered major findings of internal investigations and management's response thereto	Complied	Internal Audit reports have been placed before the Board Audit Committee.
CBSL 8.2 (l)	The Chief Financial Officer, the Chief Internal Auditor and a representative of the external auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the Committee shall meet with the external auditors without the Executive Directors being present.	Complied	The Committee met with the external auditors twice during the year at the Board Audit Committee meetings without the Executive Director.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.2 (m)	The Committee shall have : (i)explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	The terms of reference of the Board Audit Committee includes the scope and responsibilities of the Committee. The Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matters within its terms of reference.
CBSL 8.2 (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	The Committee has met 05 times during the financial year. Minutes of such meetings have been recorded accordingly.
CBSL 8.2 (o)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied	Details of the work of the Audit Committee are disclosed in page 56 of this Annual Report. Attendance has been disclosed at the end of this report (Page 47).
CBSL 8.2 (p)	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed Minutes of the Committee Meetings.	Complied	Senior Manager Risk & Compliance, as the Secretary to the Committee, maintained detailed minutes of the Committee meetings. The Chief Internal Auditor will maintain the minutes in the following financial year.
CBSL 8.2 (q)	The Committee shall review arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters. Ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied	A Board-approved Whistle-blower Policy is in place.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
Integrated Risk Management Committee			
CBSL 8.3 (a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	The Committee comprised of four Non-Executive Directors, CEO, Head of Finance and Head of Risk and Compliance. The Committee met 04 times during the year to review the risk areas in line with its terms of reference and worked closely with the key Management Personnel with regard to identified risks.
CBSL 8.3 (b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information.	Complied	A process is in place to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Company on a monthly basis through appropriate risk indicators and management information. The Board is kept informed of such risks on a timely basis.
CBSL 8.3 (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and asset-liability committee to address specific risks and to manage those risk within quantitative and qualitative risk limits as specified by the committee.	Complied	Minutes of management level committees are submitted to the Committee to review the adequacy and effectiveness of the respective committees.
CBSL 8.3 (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent level decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied	All risk indicators that exceed the specified quantitative and qualitative risk limits are reviewed and discussed for action.
CBSL 8.3 (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	The Committee has held meetings on a quarterly basis during the year under review and has reviewed all aspects of risk management including the business continuity plans.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.3 (f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee and/or as directed by the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied	The Committee recommended and initiated action as appropriate in relation to such findings. Process improvements were recommended by the Committee in instances where such issues were observed.
CBSL 8.3 (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	Risk assessment reports submitted to the Committee are forwarded to Board members for their feedback.
CBSL 8.3 (h)	The Committee shall establish a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	The Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Head of Risk and Compliance carries out the compliance function and reports to the Committee periodically.
Related Party Transactions			
CBSL 9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of finance company with any person who shall be considered as "related party" for the purpose of this direction.	Complied	The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties. The Related Party Transaction Review Committee is in place in line with the Code of Best Practice on Related Party Transactions. Further, transactions carried out with related parties in the normal course of business are disclosed in Note 40 on "Related Party Disclosures" in the Financial Statements.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 9.3	Transactions with related parties in relation to accommodation, deposits, borrowings and investments, providing financial or non-financial services to or from the finance company, creating or maintaining reporting lines and information flows between the finance company and any related party are to be identified as transaction with related party	Complied	All such related-party transactions are reviewed by the Board Related Party Transactions Committee.
CBSL 9.4	The Board shall ensure that the finance company does not engage in transactions with related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents.	Complied	The Company treats all Related Parties on the same basis as they would treat unrelated counterparties for all transactions.
Disclosures			
CBSL 10.1	The Board shall ensure that: • Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that • Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	Relevant Financial Statements are prepared and published at the specified frequencies in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English languages.
CBSL 10.2	The Board shall ensure following minimum disclosures are made in the annual report.		
CBSL 10.2.a Code D.1	A statement to the effect that the annual audited Financial Statements has been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Relevant disclosures are included in page 63 of the Annual Report under "Directors' Responsibility Statement".
CBSL 10.2.b	A report by the Board on the Company's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied	Relevant disclosures are included in page 57 of the Annual Report under "Directors' Report on the Internal Control System".
CBSL 10.2.c	The external auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above, in respect of any statements prepared or published after 31st March 2010.	Complied	The Company has obtained a certification from the external auditors on the effectiveness of the Internal Control mechanism, which is at page 58 of this Report.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 10.2.d	Details of directors including names, transactions with the finance company.	Complied	Relevant disclosures are made and included in the Annual Report page 14 to 16 and page 114 under "Board of Directors".
CBSL 10.2.e Code B.3	Fees, remuneration paid by the finance company to the directors in aggregate.	Complied	Relevant disclosures are made in the Annual Report page 91
CBSL 10.2.f	Total net accommodation granted to each category of Related Parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance companies capital funds.	Complied	Relevant disclosures are made in the Annual Report page 114 under Related Party Transactions.
CBSL 10.2.g	The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Company.	Complied	Relevant disclosures are made in the Annual Report page 114.
CBSL 10.2.h	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied	Relevant disclosures are included in the Annual Report page 63 under "Directors' Responsibility Statement".
CBSL 10.2.i	A statement of the regulatory and supervisory concerns on lapses in the finance Company's risk management, or non-compliance with these Directions that have been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Complied	There were no significant supervisory concerns on lapses in the Company's Risk Management or non-compliance with these Directions that had been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and requested by the Monetary Board to be disclosed to the public.
Code D.1.3	The annual report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements together with a statement by the auditors about their reporting responsibilities.	Complied	Directors' Responsibility Statement included in Page 63 of this Annual Report contained the Directors' Responsibilities while the Auditors Responsibilities have been enumerated in the Auditors' Report in page 64.
Code D.1.4	The Annual Report should contain a "Management Discussion and Analysis".	Complied	Refer page 21 to 30 for the Management Discussion and Analysis.

Name of the Director	Board Meetings		Audit Committee Meetings		Integrated Risk Management Committee		Related party Transactions Review Committee		Human Resources and Remuneration Committee		Nomination Committee	
	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance
Dr. D C Jayasuriya P.C.*	16	16	-	-	5	5	4	2	-	-	-	-
Mr. Prakash Schaffter	16	16	6	5	-	-	-	-	5	5	-	-
Mr. Ananda Atukorala**	16	16	6	6	-	-	4	3	5	5	2	2
Mr. Anil Tittawella	16	16	-	-	5	2	-	-	5	5	2	2
Ms. Minette Perera***	16	16	6	6	-	-	4	2	-	-	-	-
Ms. Indrani Goonesekera	16	16	-	-	5	4	4	4	-	-	2	2
Mr. Ramesh Schaffter	16	10	-	-	-	-	-	-	-	-	-	-
Mr. Sriyan Cooray (Appointed w.e.f. 03-May-2019)	-	-	-	-	-	-	-	-	-	-	-	-

Notes :

* Dr. D C Jayasuriya P.C. was appointed to Related Party Transactions Review Committee w.e.f. 14-Dec-2018

** Mr. Ananda Atukorala retired from the Board w.e.f. 31-Mar-2019

*** Ms. Minette Perera resigned from Related Party Transactions Review Committee w.e.f. 13-Dec-2018

RISK MANAGEMENT

Due to the inherent risks confronted by business entities operating in the finance industry and the prudential regulatory framework within which such entities are mandated to operate, risk management has become an integral constituent in managing a finance company. At Orient Finance PLC, we recognise that risk taking is an indispensable element of our strategy towards the achievement of the Company's long-term goals.

Our success and the sustainability as a financial institution depends on our ability to manage multiple risk factors arising out of the complex and competitive market across multiple locations, product categories, functional departments, customer segments and asset classes. In doing this we take an integrated approach to risk management.

The Board assumes overall responsibility for the management of risk and for reviewing the effectiveness of internal control processes. Risk Appetite is translated and cascaded to different business activities both quantitatively and qualitatively. We thus aim to deliver superior value to all our stakeholders while achieving an appropriate trade-off between risk and returns. Our approach to risk management is designed to provide reasonable, but not absolute, assurance that our assets are safeguarded, the risks facing the business are being addressed and all information to be disclosed is reported to the senior management and the Board as appropriate.

Risk Management practices have been instilled into the core of every activity undertaken by the Company. The Risk Management process encompasses the identification, measurement, controlling and monitoring of each risk.

The Internal Audit function plays a key role in providing an assurance to both operational management and in meeting the Board's objectives in ensuring the effectiveness of the systems of internal control and risk management throughout the Company. Accordingly, it helps bring a systematic, disciplined approach to evaluate and improve the effectiveness of operational controls, governance processes and Risk Management.

The Board of Directors, in principle is responsible for maintenance of a prudent risk management mechanisms and orderly implementation of the risk framework in the Company. The Board approves the policies, strategies and systems, and operational approach for risk management. The effective implementation of the risk management function is carried out through the Integrated Risk Management Committee and the corporate management of the Company.

The IRMC is a Board subcommittee, which oversees the risk management function in line with the Board approved policies and strategies. IRMC develops the policy and operations for Company-wide risk management. In addition to the Board's representatives, the IRMC consist of the CEO, Head of Finance and Head of Risk and Compliance.

The ALCO is a management committee which is responsible for the asset-liability management and market risk management. The ALCO consists of the CEO, as the Chairman, and the key managerial personnel of the Company.

The Company's Risk & Compliance function is independent from the risk assuming business functions. It provides an independent oversight function which co-ordinates, facilitates and oversees the integrity and effectiveness of the Company's Risk Management framework. It is tasked with the responsibility of assisting the business units and functional departments in identifying and managing risks related to their respective operations and processes. It also monitors the status and effectiveness of the mitigation action plans.

Risk management at Orient takes place at three broad levels as follows:

STRATEGIC LEVEL

At the Strategic Level, risk management function is mainly performed by the Board of Directors and the Integrated Risk Management Committee (IRMC).

Tasks include defining risks, ascertaining risk appetite, formulating strategies and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within the risk appetite.

MANAGEMENT LEVEL

At the management level, Risk Management within business areas or across business lines ensure that strategies, policies and directives approved at the strategic level are operationalised.

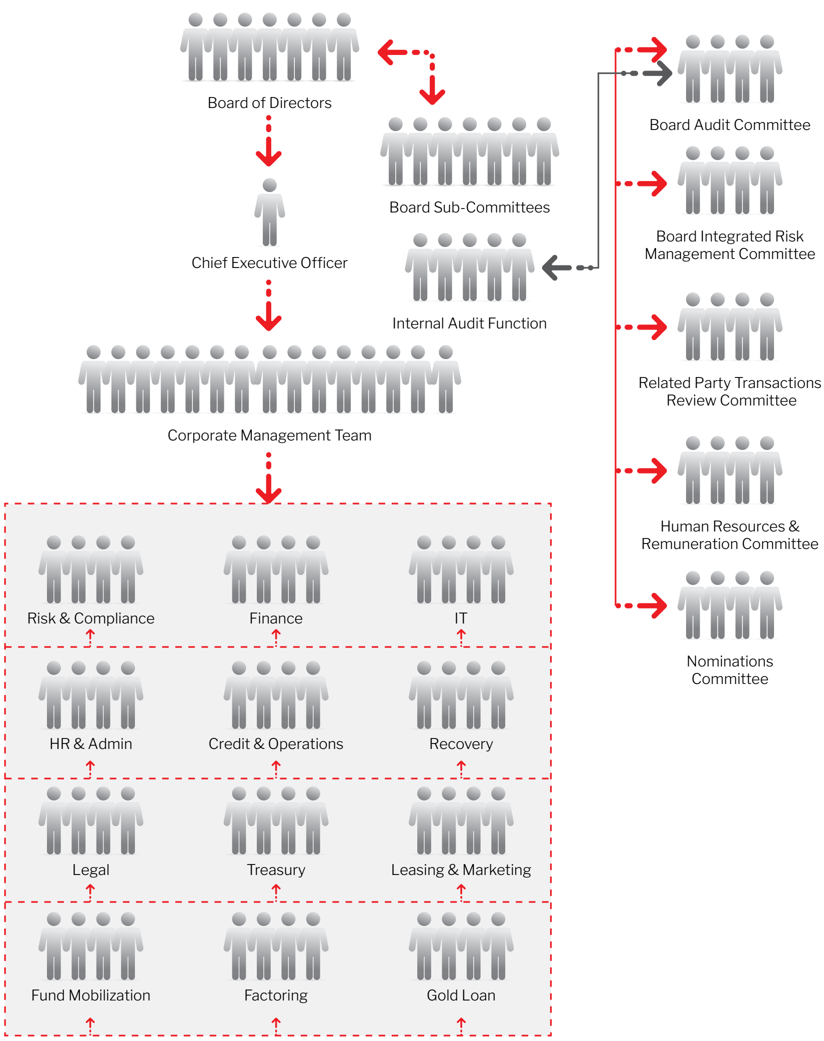
Development and implementation of underlying procedures, processes and controls are ensured at the management level. Assuring compliance with laid down policies, procedures and controls, and reviewing the outcome of operations and measuring and analysing risk related information are also performed at this level.

OPERATIONAL LEVEL

At the Operational Level risk management activities are performed by individuals who take risks on the Company's behalf, which includes front, middle and back office personnel.

They are required to comply with approved policies, procedures and controls. Operational level personnel provide invaluable inputs to continuously improve risk related activities undertaken in day-to-day operations.

The broad risk management governance structure can be shown as follows:



TYPES OF RISKS

In achieving the Company's desired objectives, Orient Finance PLC is exposed to several risks which have been categorised as follows.

Credit Risk

Credit risk is the risk of potential loss stemming from the failure of clients or counterparties to meet their financial obligations to the Company as they fall due. The Company's credit risk arises mainly from different types of accommodation granted and could be identified as the most significant risk faced by the Company.

Credit is required to be granted according to the approved policies and procedures of the Company. A Board approved Credit Policy manual is in place to guide the business units. Special attention is given to Credit Risk Management in terms of analyzing customer credit worthiness through rigorous customer evaluations before credit facilities are granted and review of the repayments thereafter. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner.

The Credit Policy plays a central role in managing daily business activities which provides guidelines for optimising the risk and return. Company's credit approval process plays the most vital role in credit risk management on a day-to-day basis. The process defines the principles on delegation of lending authority, client selection and due diligence in line with the Company's risk appetite.

Credit Risk Based on Asset Quality

The non-performing loans ratio is a salient measure of the asset quality. Non-performing loans ratio is monitored on a regular basis at branch level, regional level and Company-wide level under the different product categories. Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking.

Company regularly monitors credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal management reports are presented to various committees, containing information on key industry and economic trends as well as the Company's performance.

Portfolio delinquency and loan impairments as well as portfolio quality are constantly monitored by the Recoveries Department.

Credit Risk based on concentration or uneven distribution of exposures to its borrowers or uneven distribution of exposures to particular sectors, regions, industries or products also give rise to credit risk since this could lead to concentration risk. It may arise from product range, industry sectors, asset categories, and geographical areas. Maintaining a satisfactory diversity in the said segments would provide the company with a safety buffer as it mitigates the concentration risk as any unfavorable impact from one segment may be set off by the positive movement of the other.

Concentration risk is monitored through the variations in the KRI along with the set tolerance limits. Concentration is monitored on a regular basis asset wise, sector wise and branch wise.

Market Risk

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, equity prices and commodity prices such as gold. It often challenges the balance between assets and liabilities through movements in interest rates, exchange rates, gold prices, etc which may adversely affect the holding of the Company's assets and liabilities.

Since the Company's operations involve granting of accommodation, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk for the Company.

Interest rate risk is managed principally through minimising interest rate sensitive asset and liability gaps. In order to mitigate the interest rate risk exposure movements in interest rates are closely monitored.

Excessive movements in market interest rate could bring severe volatility to Company's net interest income and net interest margin. Therefore, the Company focuses on maintaining an adequate Net Interest Margin so that increases in interest expenses can be absorbed to a certain extent.

ALCO closely monitors the interest rate movements, and issues directions to lending and borrowing units on interest rate strategies.

Liquidity Risk

Liquidity risk refers to the risk that the company does not have enough financial resources to meet its obligations as they fall due, without incurring excessive cost. In the case of Orient Finance this relates mainly to the ability to meet refund of deposits obtained from the public as they fall due and settlement of installments on bank and other borrowings.

Management of mismatches in the timing of cash flows, effective management of liquidity is considered of utmost importance in order to ensure smooth functioning of Company's operations. Therefore, the Company monitors a number of liquidity risk indicators to assess the efficacy of the comfort provided by its liquid assets. Key focus is given to liquid asset ratio, maturity gap analysis and funding concentration.

Special attention is given to the liquidity of the Company as it provides critical defense against this and several other risks such as reputation, compliance, and financial risks. The Company also ensure that the liquidity ratios required to be maintained by the applicable Central Bank regulations are complied with.

ALCO is the responsible monitoring body that oversees our liquidity management policies. Treasury Management Consultant attends the ALCO meetings and provides the required guidance. The Treasury Department receives direction from ALCO and is responsible for managing liquidity limits.

Liquidity risk is a standing agenda item at the Company's monthly ALCO meetings. The pricing of deposits is done in a way to control the maturity mismatches between our lending and borrowing portfolios.

Operational Risk

Operational risk is considered to be the risk of losses stemming from inadequate or failed internal processes, people and systems, or from external events.

The Company seeks to minimise exposure to operational risk, subject to cost trade-offs. Possible losses to the company's assets due to unforeseen events have been covered with comprehensive insurance policies.

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Board Integrated Risk Management Committee oversees the management of operational risks at the strategic level. In addition, the Board Audit Committee also receives and reviews the management letter of the external auditor. This formal structure of governance provides the Board with confidence that operational risks are being proactively identified and effectively managed. Further, awareness building and comprehensive training sessions are undertaken to educate staff on the significance of the compliance with operational policies, processes and controls.

Human Resource Risk

Being a service-oriented company, its main processes revolve around people. Therefore, people become the most important and the most valuable asset of the Company. The Company's ability to attract, develop and retain the right number of appropriately skilled people is critical if we are to compete and grow effectively.

Failure to employ suitable personnel for relevant tasks, lack of proper performance recognition mechanisms and losses arising from misconduct of employees mainly give rise to people risk. Therefore, the Company ensures that adequate processes are in place to understand and respond to employee needs.

The staff recognition and rewarding are done through the annual performance appraisals. Further the Company ensures adherence to minimum qualification based on the positions filled, pre-employment screening, employer feedback and exit interviews as mitigating activities of people's risk.

Improving competencies and skills are recognised as another vital factor in managing human capital risk. The Company achieves this through targeted, business focused training and development programmes available to all employees across the company, on a needs basis.

Technology Risk

Technological risk arises due to increasing complexity of cyber- attacks, obsolescence, unexpected break down of ICT systems and loss of sensitive and valuable information. These possibilities can have an adverse impact on the financial position and lead to Operational risk to the company. The Company's ICT risk raises with the increase of dependency on automated systems and processes.

The Company has identified information as a vital business resource and a key asset to the organisational sustainability. Head of Information Communication Technology and the ICT team monitors and controls the integrity of the ICT infrastructure and data.

Special attention has been given for the risk related to the possibility of cyber attacks.

Business continuity plans has been established recognising the threats and risks that the Company faces, with an eye to ensure that people and other assets are protected and able to function in the event of a disaster.

Compliance Risk

Compliance risk is defined as the potential threat to the earnings or business resulting from violations or infringement of laws, regulations or stipulated practices and standards within the company, industry and Government. Failure to comply with laws and regulations could expose the Company to civil and/or criminal actions leading to damages, fines and criminal sanctions and/ or its employees with possible consequences for its corporate reputation.

The Company has established a Risk and Compliance division in order to oversee the compliance of the Company with Central Bank directions, Colombo Stock Exchange regulations and other related regulations. It disseminates the regulatory directives through internal memoranda to the relevant staff members.

In order to mitigate and manage the Compliance Risk, relevant Compliance Policies and Processes have been established. The Annual Compliance Programme outlines the systematic approach to Compliance within the organization.

Reputational Risk

Reputational risk is the potential damage to the company, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the company or its actions. Reputational risk could arise from the failure of the company to effectively mitigate the risks in its businesses including credit, liquidity, market, regulatory, or other operational risks. Damage to the company's reputation could cause existing clients to reduce or cease to do business with the company and prospective clients to be reluctant to do business with the Company.

The Company mitigates the reputational risk through good governance practices and risk management practices. Further the Company focuses on efficient and timely communication among all stakeholders.

Strategic Risk

Strategic risk arises from failure to achieve strategic goals of the Company. Business strategies are adopted after evaluating the overall risks associated with such strategies.

A comprehensive, Board-approved strategic plan for the next three years is in place with quantitative targets. As the Company is operating in a challenging and dynamic market, the strategic plan of the Company is monitored regularly to assess the possible obstacles that could arise in achieving the strategic objectives.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board is ultimately responsible for setting the risk appetite and for the effective oversight of the management of risk. The Committee is responsible of setting the risk tolerance limits, assess the high risk areas and to take proactive measures to mitigate risk, to overseeing and reviewing the overall prudential risks including, but not limited to, credit, market, capital adequacy, liquidity, operational, strategic and reputational risks.

Operating under the delegated authority of the Board, the Board Integrated Risk Management Committee (IRMC) performs the oversight function through an integrated approach in relation to different types of risks faced by the Company in its business operations and ensures the adequacy of the risk management framework of the Company.

COMPOSITION OF THE COMMITTEE

In compliance with Section 8(3) of the Direction No. 03 of 2008, on Finance Companies (Corporate Governance), issued by the Monetary Board of the Central Bank of Sri Lanka, the Chief Executive Officer, Head of Finance and Head of Risk and Compliance are also members of the Committee, representing the Management. Further all the Key Management Persons attend the committee meetings on invitation. The Board appointed Integrated Risk Management Committee (IRMC) as at the end of the financial year comprised the following members:

Dr. Dayanath Jayasuriya P.C.* – Chairman
Mr. Anil Tittawella* – Director
Ms. Indrani Goonasekera* – Director
Mr. Jude Anthony – Chief Executive Officer
Head of Finance
Head of Risk and Compliance

* Independent Non-Executive Director

CHARTER OF THE COMMITTEE

Board appointed Integrated Risk Management Committee was established by the Board of Directors, in compliance with the Direction No. 03 of 2008, on "Corporate Governance for Finance Companies" issued by the Central Bank of Sri Lanka. The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction. The IRMC charter clearly sets out the membership, source of authority, duties and the responsibilities of the IRMC.

COMMITTEE MEETINGS AND METHODOLOGY

The Committee held 05 meetings during the year under review. The attendance of members is listed on page 47 of the Annual Report.
The IRMC assisted the Board of Directors in performing its oversight function in relation to different types of risks faced by the Company in its business operations and ensured the adequacy of the risk management practices of the Company.
The Committee assessed all key risks such as credit, market, liquidity, operational, etc. through a set of risk indicators. The Committee continued to work closely with the Key Management Personnel and the Board in fulfilling its responsibilities for Risk Management.

ACTIVITIES OF THE COMMITTEE

In accordance with the approved Charter for the Board, the IRMC undertook the following activities:

- Reviewed the implementation of risk management as well as compliance and control systems.
- Assessed all risks, i.e., credit, market, liquidity, operational, legal and reputational and strategic risks to the Organisation on a monthly basis through appropriate risk indicators and management information along with a detailed risk assessment on a quarterly basis.
- Took prompt corrective action to mitigate the effects of specific risks. In the event such risks were at levels beyond the threshold levels decided by the committee, the committee addressed such specific risks in order to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Reviewed the adequacy of personnel, systems, procedures and other risk management issues.
- Reviewed and assessed the integrity and adequacy of the risk management function, including processes and organisational structure.
- Monitored changes in the light of the economic and business environment, including consideration of emerging trends, organisational and regulatory changes as well as other factors considered relevant to the organisation's risk profile.
- Reviewed and approved the organisation's Disaster Recovery and Business Continuity Plan.
- Reviewed the adequacy and effectiveness of all management level committees including the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Reviewed the compliance related reports submitted periodically by the Risk and Compliance department.
- Took appropriate action against the officers responsible for failure to identify specific risks and recommended prompt corrective actions as recommended by the committee, and/or as directed by the NBFI of Central Bank of Sri Lanka.
- Reviewed the asset quality covering the non-performing advances, product wise credit quality, provision coverage and comparison against industry and peers.
- Reviewed the impact on net interest income triggered by the macro-economic changes.
- Reviewed the liquidity management strategies of the Company.
- Assessed the Company's compliance with laws, regulations and regulatory guidelines

- Reviewed the changes proposed to revise the funding mix of the Company due to the fluctuations in Loans to Deposits Ratio.
- Reviewed the effectiveness of the strategies in place to minimise the maturity mismatches.
- Reviewed the top HR related risks faced by the Company and assessed the adequacy and effectiveness of the proposed mitigation actions.
- Approved in principle, all policies relating to risk management (Conflict of Interest Management Policy, Customer Complaint Handling Policy, Document Retention and Destruction Policy, Procurement Policy etc.) and submitted these for the approval of the Board

In relation to the above activities, the Committee proposed certain modifications and better controls.

On behalf of the Board Integrated Risk Management Committee

Dr. Dayanath Jayasuriya P. C.
Chairman
Board Integrated Risk Management Committee
26-Aug-2019

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

COMPOSITION

The Human Resources and Remuneration Committee appointed by the Board, comprises three Non-Executive Directors, two of whom, including the Chairperson are Independent Non-Executive Directors, namely:

Ms. Indrani Goonesekera - Chairperson - (Appointed w.e.f. 01-Apr-2019)

Mr. Prakash Schaffter - Director

Ms. Minette Perera - Director (Appointed w.e.f. 01-Apr-2019)

Mr. Ananda W Atukorala - Director (former Chairman) – (retired w.e.f.31 March 2019) and

Mr. Anil Tittawella - Director- (ceased to be a member w.e.f 01-Apr-2019, with the reconstitution of the Board sub-committees)

Brief profiles of the members are given on pages 14 to 16 of the Annual Report.

TERMS OF REFERENCE

The Remuneration Committee operates within Board approved terms of references and assists the Board of Directors in ensuring that remuneration arrangements in Orient Finance PLC align reward with performance. The Committee has the authority to discuss matters under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter.

REMUNERATION POLICY

The reward strategies and remuneration structure of the Company is designed to attract, motivate and retain high-caliber people, at all levels of the organizational hierarchy, in a highly competitive environment. Accordingly, a key feature of the remuneration policy is to pay for performance. A primary objective of the remuneration policy of the Company is to attract and retain qualified and experienced workforce and reward their performance commensurate with each individual's commitment towards the organisation.

The policy is designed to recognize and reward individual contributions based on its impact on the performance of the Company and to generate human capital with the right mix of experience, skills and knowledge to route the business strategy.

FUNCTIONS

The Committee continues to uphold the principles of accountability and transparency and ensures that the HR & Remuneration Policy demonstrates a clear link between reward and performance.

The Committee is responsible for setting up the remuneration policy and determining the remuneration packages of the Key Management Personnel (KMP) including Corporate Management and Managerial Staff, making recommendations on compensation structures, bonuses, increments and promotions of staff.

The Committee reviewed the results of the Annual Performance Evaluation and its incremental impact on the total remuneration cost of the Company. The Committee specifically reviewed the performance of the Senior Management and made recommendations to the Board in respect of the remuneration increases and promotions of the Senior Management as it is designated to consider.

The CEO assisted the Committee in reviewing the remuneration structure periodically and in evaluating it against industry norms to warrant fairness and internal & external equity.

COMMITTEE MEETINGS

The Committee met 05 times during the year under review. The Committee meets as often as necessary and in instances where the Board refers specific matters to be reviewed by the Committee.

The Chief Executive Officer (CEO) who is responsible for the overall management of the Company, attended meetings by invitation and assisted in the deliberations of the Committee along with Senior Manager – Human Resources or any others as required. The minutes of the meetings and the reports on the recommendations made to the Board were circulated to the Board and recorded at Board meetings. Attendance at meetings are given in the table on page 47 of the Annual Report.

Ms. Indrani Goonesekera
Chairperson
Human Resources and Remuneration Committee
26-Aug-2018

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

In January 2016, the Board established the Board Related Party Transactions Review Committee in accordance with the Section 9.2 of the Listing Rules of the Colombo Stock Exchange. The Committee is responsible to review in advance all proposed related party transactions, which are not of an on-going nature other than those explicitly exempted under the rules. Where a related party transaction is on-going, the committee established guidelines for the senior management to following in the dealing with related parties.

COMPOSITION OF THE COMMITTEE

The Committee consists of 3 independent, Non-Executive Directors. As at 31-Mar-19 the members of the Committee were:

Dr. D C Jayasuriya P.C. - Chairman

Mr. Ananda W Atukorala - Independent Non-Executive Director (Retired w.e.f. 31st-Mar-19)

Ms. Indrani Goonasekara - Independent Non-Executive Director

The Company Secretary functions as the Secretary to the Board Related Party Transactions Review Committee.

ROLE OF THE COMMITTEE

The purpose of the committee is to provide independent review, approval and oversight of Related Party Transactions of the Company.

The main responsibilities of the Committee include the following.

- Develop and recommend policies and procedures to review Related Party Transactions of the Company.
- Review proposed Related Party Transactions of the Company except those explicitly exempted by the Committee Charter.
- Update the Board of Directors on the Related Party Transactions of the Company.
- Make disclosures on applicable Related Party Transactions, as required by the applicable regulations.

POLICIES AND PROCEDURES

The Company has adopted a Related Part Transactions (RPTs) Policy in view of structuring the Company's policies and procedures to uphold good governance and in the best interests of the Company. The Policy has been prepared in accordance with the rules pertaining to RPTs under the Listing Rules of Colombo Stock Exchange.

The Committee ensures that all transactions with related parties are in the best interests of all stakeholders; adequate transparency is maintained and is in compliance with the Listing Rules. The Committee reviewed related party transactions during the year and communicated its observations to the Board.

COMMITTEE MEETINGS

The Committee held 04 meetings during the year under review. The proceedings of the Committee meetings, which mainly included activities under its Committee Charter, were regularly reported to the Board of Directors. The minutes of the committee meetings were also tabled at the Board meetings enabling all Board members to have access to the same.

The Company also considered, where appropriate, routine related party transactions by circulation.

The attendance of members is listed on page 47 of the Annual Report.

RELATED PARTY TRANSACTIONS DURING THE YEAR 2018/19

During the year 2018/19, there were no recurrent or non-recurrent related party transactions that exceeded the respective thresholds that required immediate market disclosure or shareholder approval, as per the Listing Rules of the Colombo Stock Exchange. Details of other recurrent related party transactions entered into by the Company during the period under review are disclosed below.

Name of the Company	Nature of the transaction	Opening Balance as at 01-Apr-18 (Rs.)	(Payments)/ Receipts during the period (Rs.)	Closing Balance as at 31st Mar-19 (Rs.)
Janashakthi Insurance PLC	Rent and Utility Paid	2,961,685	(26,086,035)	393,977.49
	Payments for in-house insurance policies	-	(1,748,091)	-
	Rent Income Received	535,569.55	2,005,650	257,476.73
	Purchase of Fixed Assets	-	(1,936,209)	-
	Reimbursement of promotion expense	-	(490,812)	-
	Life insurance payments for customers	-	(18,872,239)	-
Orient Capital Limited	Reimbursement of collections on assigned debtors		4,706,080	
Kelsey Homes Pvt Limited	Granting and repayment of Business Loan	-	61,230,361	208,868,296

On behalf of the Board Related Party Transactions Review Committee

Dr. D C Jayasuriya P.C.
Chairman - Board Related Party Transactions Review Committee
26-Aug-2019

BOARD AUDIT COMMITTEE REPORT

The Audit Committee (Committee) appointed by the Board consist of three Non-Executive Directors, two of whom are independent. It is chaired by an independent Non-Executive Director who is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

COMPOSITION OF THE COMMITTEE

The Audit Committee has been appointed by the Board of Directors of the Company. As at 31-Mar-19 it comprised of the following Directors:

Ms. Minette Perera - Chairperson of the Committee

Mr. Ananda W. Atukorala - A member of the Committee (Retired w.e.f. 31- Mar-2019)

Mr. Prakash Schaffter - A member of the Committee

The profiles of the members are given on pages 14 to 16 in this Annual Report.

The Chief Internal Auditor functions as the secretary to the Board Audit Committee.

TERMS OF REFERENCE OF THE COMMITTEE

Board appointed Audit Committee was established by the Board of Directors, in compliance with the Direction No. 3 of 2008, on "Corporate Governance for Finance Companies" issued by the Central Bank of Sri Lanka and the Rules on Corporate Governance as per Section 7.10 of Listing Rules issued by the Colombo Stock Exchange. The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction and the Listing Rules.

Terms of Reference is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly.

COMMITTEE MEETINGS

The Committee held 06 meetings during the year under review. Chief Executive Officer, Head of Finance and Head of Risk & Compliance attended the meetings by invitation. The Committee also invited members of the Senior Management of the Company to participate in the meetings from time to time based on necessity.

The proceedings of the Committee meetings, which mainly included activities under its terms of reference, were regularly reported to the Board of Directors. The minutes of the committee meetings were also tabled at the Board meetings enabling all Board members to have access to the same.

The attendance of members is listed on page 47 of the Annual Report.

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The duties of the Committee shall be to assist the Board in overseeing the management conduct of the Company's financial reporting process, monitoring the independence and performance of external auditors, monitoring internal controls & internal audit function and formulating policies and procedures of the Company.

FINANCIAL REPORTING SYSTEM

The Committee reviewed the financial reporting system adopted by the Company during the year with particular reference to the following;

- The preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in accordance with the Sri Lanka Accounting Standards.
- The rationale and basis for the significant estimates and judgments underlying the financial statements.

INTERNAL AUDIT

The Internal Audit function was outsourced to Chartered Accountants m/s KPMG and the internal audit plan for the year was discussed and approved by the Committee. KPMG have reported to the Audit Committee until end of February 2019.

During the year, Committee advised the management to setup an Internal Audit Department as per the CBSL direction No.7 of 2018 and accordingly Internal Audit Division was formed with effects from 1st March 2019.

Weaknesses in internal controls, finance and business operations highlighted in the internal audit reports were examined by the Committee and follow up actions taken by the management on the audit recommendations were also reviewed. The Committee reviewed the effectiveness of the internal audit function. The scope and procedures for internal audit during the ensuing year was also reviewed by the Committee.

EXTERNAL AUDIT

A special meeting was held with the external auditors before commencing the current year's audit to discuss and agree the scope of the audit and the audit plan. Prior to the release of the Audited Accounts, a meeting was held between the external Auditors and the Committee to discuss the progress and any audit concerns. Issues highlighted in the management letter of the previous year were also discussed with external auditors and corrective actions were recommended to the management for implementation.

The Committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair their independence and a policy on engagement of auditors for non-audit services is in place.

The fees payable to the auditors have been recommended by the Committee to the Board for approval.

The Audit Committee also recommended to the Board of Directors that Messrs. BDO Partners be reappointed as Auditors for the financial year ending 31-Mar-2019, subject to the approval of the shareholders at the Annual General Meeting.

On behalf of the Board Audit Committee

Minette Perera
Chairperson - Board Audit Committee
26-Aug-2019

DIRECTORS' REPORT ON THE INTERNAL CONTROL SYSTEM

RESPONSIBILITY

In line with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Section 10(2) (b) and (c), the Board of Directors presents this report on the internal control system of Orient Finance PLC.

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of internal control over financial reporting. The process is regularly reviewed by the Board.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures pertaining to internal control over financial reporting.

M/S KPMG has been appointed as the internal auditors and during the year an internal audit department was setup and they review the Company's compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures. The annual audit plan is reviewed and approved by the Board Audit Committee. Major findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.

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 auditors of the Company for suitability of design and effectiveness on an on-going basis.

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 adapted 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;

Dr. D.C. Jayasuriya - PC
Chairman

Prakash Schaffter
Non-Executive Director

Minette Perera
Chairperson – Board Audit Committee
28-Jun-2019

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL SYSTEM

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Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

INTRODUCTION

We were engaged by the Board of Directors of Orient Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control ("the Statement") over financial reporting of the Company included in the annual report for the year ended 31-Mar-2019.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement as required by Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction, No.3 of 2008 and Corporate Governance – Amendment Direction, No.06 of 2013. In the absence of specific detail guidelines with respect of preparation and presentation of the Statement for finance companies, in preparing and presenting the statement, the company has considered "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050

Our responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. In the absence of specific detail guidelines with respect of providing assurance report for finance companies on the Director's Statement on Internal control, we conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

SUMMARY OF WORK PERFORMED

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective appropriate evidence has been obtained by performing the following procedures.

1. We had an initial meeting with the Head of Finance and other relevant key management of the Company and discussed the Company's approach in assessing, designing and effectiveness of the Company's internal controls over financial reporting.
2. Requested all correspondence related to Directors' Assessment on design and effectiveness of the Internal Control of the Company and performed further procedures including the following:
   - 2.1 We independently reviewed the documentation of internal controls related to the key processes provided by the management and confirmed the completeness of such documentation by performing walkthroughs and test of controls.
   - 2.2 We reviewed the findings by Internal Auditors related to internal control weaknesses including suggestions for improvements.
   - 2.3 Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees such as the Audit Committee.
3. Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
4. Considered whether the directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company, whether it has been in place for the year under review, whether it is regularly reviewed by the Board of Directors. Further, we considered whether the explanations given in the statement are consistent with our understanding.
5. Reviewed the other documentation prepared by or for the Directors to support their Statement on Internal Control.
6. Obtained written representations from Directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

OUR CONCLUSION

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Company.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo 02
28-Jun-2019
VR/cc

Financial Statements

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

The Directors have pleasure in presenting the Annual Report together with the audited financial statements of the Company for the financial year ended 31-Mar-2019. The details contained in this Report provide the relevant information as required by the Companies Act No.7 of 2007 and Finance Companies (Corporate Governance) Direction No. 3 of 2008.

PRINCIPAL ACTIVITIES

Orient Finance PLC is a Licensed Finance Company registered in terms of the Finance Business Act No.42 of 2011. Principal activities of the Company are acceptance of Fixed Deposits, maintenance of Savings Accounts, granting Lease facilities, Vehicle Loans, Debt Factoring, Gold Loans and other credit facilities.

REVIEW OF OPERATIONS

A review of the operations of Orient Finance PLC during the financial year 2018/19 is contained in the Chairman's Message, CEO's Review and Management Discussion and Analysis (pages 7,9 and 21). These reports form an integral part of this Annual Report.

STATED CAPITAL

The Company's Stated Capital stood at Rs.1,378,689,779.00 as at 31-Mar-2019.

RESERVES

The Company's retained earnings and other reserves as at 31-Mar-2019 amounting to Rs. 787,810,030 Movements of reserves and the break up are given in Statement of Changes in Equity on page 70.

ISSUE OF SHARES OR DEBENTURES

There were no new issues of ordinary shares and debentures during the Financial Year.

SHAREHOLDING AND SHARE INFORMATION

The Company had 1,043 registered ordinary shareholders as at 31-Mar-2019. The distribution of shareholding and major shareholders are given on page 128.

DEBENTURE HOLDING AND DEBENTURE INFORMATION

The Debentures of the Company as at 31-Mar-2019 amounted to Rs. 1,000,000,000/- consisting of 10,000,000 debentures at Rs. 100/- each and quoted on the Main Board of the Colombo Stock Exchange.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Message (page 7), the Chief Executive Officer's Review (pages 9 to 10), and Management Discussion and Analysis (pages 21 to 30).

FINANCIAL STATEMENTS

The Audited Financial Statements of the Company for the year ended 31-Mar-2019 have been prepared in line with applicable accounting standards and regulatory and statutory requirements, inclusive of specific disclosures. The said Audited Financial Statements duly signed by the Chairman and another Director of the Company, are given on pages 67 to 123 and forms an integral part of the Annual Report of the Board.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by the Company in the preparation of the Financial Statements and the impact of changes in the Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards made during the year, are given on pages 72 to 87.

INCOME, PROFIT & APPROPRIATIONS

Provided below is a summary of the financial results of the Company's operations during the year ended 31-Mar-2019.

	2019 (Rs. Mn)	2018 (Rs. Mn)
Income	3,493.41	3,496.11
Profit Before Taxation	31.88	(103.72)
Less: Income Tax (Expense)/ Reversal	(2.84)	(6.53)
Profit for the year	29.03	(110.25)
Balance brought forward from the previous year	551.58	700.84
Less: Net impact on Adoption of SLFRS 09	309.04	-
Transferred to Statutory Reserve Fund	(1.20)	-
Dividend Paid	-	(37.00)
Transfer from Other Comprehensive Income	2.27	(2.00)
Balance carried forward	339.14	551.58
Proposed Dividend	-	-

EVENTS AFTER BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date which would require adjustment to or disclosure in the accounts, except those disclosed under Note 44 to the financial statements.

DIVIDENDS

The Board of Directors does not recommend a dividend to the shareholders for the financial year ended 31-Mar- 2019.

CORPORATE DONATIONS

During the year under review, the Company has made donations amounting to Rs. 250,000 (2018 – Rs. 600,155).

TAXATION

The Company is liable for income tax at the rate of 28%.

STATUTORY PAYMENTS

The Board of Directors confirm that to the best of their knowledge and belief, statutory payments to all relevant regulatory and statutory authorities have been paid by the Company.

PROPERTY, PLANT & EQUIPMENT

The details of property, plant and equipment of the Company are given under Note 25 of this Annual Report.

OUTSTANDING LITIGATION

In the opinion of the Directors and the Company's lawyers, there is no pending litigation against the Company as at 31-Mar-2019.

GOING CONCERN

After considering the financial position, operating conditions, regulatory and other factors and such matters, required to be addressed in terms of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

THE BOARD OF DIRECTORS

The Board assumes overall responsibility to the shareholders for setting the direction of the Company through the establishment of policies and key strategic objectives and ensuring that their implementation is in line with the Company's vision and values. The Directors are accountable for proper guidance of the Company's affairs and share collective responsibility in ensuring the highest standards of ethics and integrity in the conduct of business of the Company. The Board also bears ultimate responsibility for maintaining the integrity of financial information and the effectiveness of the Company's systems of internal control and risk management.

The Board has also appointed Board sub-committees, namely the Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Credit Committee to ensure oversight, control over certain affairs of the Company conforming to corporate governance standards of the Central Bank of Sri Lanka by adopting the best practices.

It is considered the view of the Board that the Company has taken necessary precautions to safeguard the interests of its stakeholders.

The following were the Directors of the Company during the year.

Dr. D.C. Jayasuriya PC	Chairman - Independent – Non-Executive Director
Mr. Prakash Schaffter	Non-Executive Director
Mr. Ananda W. Atukorala	Independent - Non-Executive Director (Retired w.e.f. 31-Mar-2019)
Mr. Anil Tittawella	Independent - Non-Executive Director
Ms. Minette D.A. Perera	Independent - Non-Executive Director
Ms. Indrani Goonesekera	Independent - Non-Executive Director
Mr. Ramesh Schaffter	Non-Executive Director
Mr. Sriyan Cooray	Independent - Non-Executive Director (Appointed w.e.f. 03-May-2019)

The profiles of the Directors are given in pages 14 to 16 of the Annual Report.

INTEREST REGISTER

In terms of the Companies Act No. 07 of 2007, an Interests Register is maintained by the Company. All the Directors have made general declarations as provided for in Section 192(2) of the Companies Act No. 07 of 2007.

DIRECTORS' REMUNERATION

Directors' fees and emoluments paid during the year are given in Note 11 to the Financial Statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD.

DIRECTORS' INTEREST IN SHARES OF THE COMPANY

Name of the Director	No. of Shares
Dr. D.C. Jayasuriya P.C.	Nil
Mr. Prakash Schaffter	10
Mr. K.M.A.T.B. Tittawella	Nil
Ms. Minette D. A. Perera	Nil
Ms. Indrani Goonesekera	Nil
Mr. Ramesh Schaffter	10
Mr. Sriyan Cooray	Nil

DIRECTORS' INTEREST IN DEBENTURES OF THE COMPANY

There were no debentures registered in the name of any Director as at 31-Mar-2019.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards and Companies Act No. 07 of 2007. The Statement of Directors' Responsibilities given on page 63 forms an integral part of the Annual Report of the Board of Directors.

RELATED PARTY TRANSACTIONS

The Directors have disclosed the transactions, if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard 24, Related Party Disclosures, which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 40 to the financial statements forming part of the Annual Report of the Board.

ENVIRONMENT

The Company has used its best endeavours to comply with the relevant environmental laws and regulations.

The Company has not engaged in any activity that is harmful or hazardous to the environment.

CORPORATE GOVERNANCE

In the management of the Company, the Directors have placed emphasis in conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced/improved from time to time to enhance risk management measures and to improve accountability, transparency and financial discipline.

COMPLIANCE WITH LAWS AND REGULATIONS

Orient Finance has at all times ensured that it complied with the applicable laws and regulations. The respective divisional heads responsible for compliance table a report on compliance at monthly meeting of the Board of Directors.

RISK AND INTERNAL CONTROLS

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by Orient Finance and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines.

HUMAN RESOURCES

The Company continued to implement appropriate Human Resource Management Policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees which has resulted in high motivation.

The number of employees as at 31-Mar-2019 was 508 (31-Mar-2018 – 476).

AUDITORS

The Company's Auditors during the period under review were M/s BDO Partners, (Chartered Accountants). The Board has authorized the payment of Rs. 1,494,250.00 as Audit Fees for the year 2018/19. (The Auditors were paid Rs. 1,400,000.00 as Audit Fees for the year 2017/18).

The retiring Auditors, M/s BDO Partners, have expressed their willingness to continue in office for the financial year 2019/20. A resolution to re-appoint, M/s BDO Partners, (Chartered Accountants), and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting to be held on 27-Sep-2019.

The Company do not have any other relationship with the auditors other than disclosed above.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 27-Sep-2019. The notice of the meeting relating to the thirty sixth Annual General Meeting is given on page 136

ACKNOWLEDGMENT OF THE CONTENT OF THE REPORT

The Board of Directors does hereby acknowledge the contents of this Annual Report as per the requirements of the Companies Act No. 07 of 2007.

This Annual Report is signed for and on behalf of the Board of Directors by:

Dr. Dayanath Jayasuriya P.C.
Chairman

P. A. Schaffter
Director

KHL Corporate Services Limited
Company Secretaries
26-Aug-2019

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Company are responsible for the preparation and presentation of the Company's Financial Statements to the shareholders in accordance with the relevant provisions of the Companies Act No. 07 of 2007 and other statutes which are applicable in the preparation of financial statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Auditors' Report in page 64 of the Annual Report.

The Financial Statements comprise of:

- Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company as at 31-Mar-2019 and
- Statement of Comprehensive Income, which presents a true and fair view of the profit and loss of the Company for the year ended 31-Mar-2019.

In preparing the financial statements of the Company for the year ended 31-Mar-2019, the Directors confirm that appropriate accounting policies have been selected and applied consistently. Reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed.

The Directors are of the view that the Company has adequate resources to continue in business for the foreseeable future and have applied the going concern basis in the preparation of these financial statements.

The Directors have also taken such reasonable steps to safeguard the assets of the Company to prevent and detect frauds and other irregularities. In this context, the Directors have given due consideration to the establishment of appropriate internal control systems.

The Directors are responsible to ensure that the Company maintains sufficient accounting records enabling to disclose, with reasonable accuracy, the financial position of the entity and also to be able to ensure that the Financial Statements of the Company meet with the requirements of the Companies Act, Directions issued by the Central Bank of Sri Lanka and generally accepted accounting policies and principles.

The Directors have provided the external auditors with every opportunity to carry out any reviews and tests which they consider appropriate and necessary for the performance of their responsibilities.

The Directors also confirm to the best of their knowledge that all taxes, levies and financial obligations of the Company have been either paid or adequately provided for in the Financial Statements.

The Directors are of the view that they have discharged their responsibilities as stated in this statement.

K. H. L. Corporate Services Limited
Secretaries
26-Aug-2019

INDEPENDENT AUDITORS' REPORT

BDO

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"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

TO THE SHAREHOLDERS OF ORIENT FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orient Finance PLC (the company), which comprise the statement of financial position as at 31-Mar-2019, and the income statement, statement of other 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 as set out on pages 72 to 123.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31-Mar-2019, and of its financial performance and its 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter 1: Impairment of loans and receivables

The company's gross loans and receivables amount to Rs. 15.35 billion as at 31-Mar-2019 (2018: Rs. 15.71 billion) and impairment allowance for the year amounts to Rs. 569 million at 31-Mar-2019 (2018: Rs. 546 million).

On 01st April, 2018 the company adopted SLFRS 9: Financial Instruments ("SLFRS 9") which measures impairment using an expected credit loss ("ECL") model. The application of the new standard requires management to exercise significant judgements in the determination of expected credit losses, including those relating to loans and receivables. Management applies significant judgement in the determination of estimated future cash flows, probabilities of default and forward looking economic expectations.

Due to the significance of loans and receivables and the significant estimates and judgement involved, the impairment of these loans and receivables was considered to be a key audit matter.

The impairment provision is considered separately on an individual and collective impairment basis.

In calculating the impairment provision on a collective basis, statistical models are used. The following inputs to these models require significant management judgement:

- the probability of default (PD);
- the exposure at default (EAD);
- the loss given default (LGD); and
- the effective interest rates.

In assessing loans and receivables on an individual basis, significant judgements, estimates and assumptions have been made by management to:

- Determine if the loan or advance is credit impaired;
- Evaluate the adequacy and recoverability of collateral;
- Determine the expected cash flows to be collected; and
- Estimate the timing of the future cash flows.

The disclosures associated with impairment of loans and receivables are set out in the financial statements in the following notes:

- Note 9 – Impairment charges for loans and receivables to customers
- Note 15.3 - Impact on transition to SLFRS 9 on the company's financial statements
- Note 18 – Loans and receivables to customers

How our audit addressed the key audit matter

Our procedures included the following:

- We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation.

- We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of SLFRS 9: Financial Instruments.
- We test-checked the underlying calculations and data.

In addition to the above, we performed the following specific procedures:
- For loans and receivables collectively assessed for impairment:
- We assessed the completeness of the underlying information in loans and receivables used in the impairment calculations by agreeing details to the company's source documents and information in IT systems.
- We also considered the reasonableness of macro-economic and other factors used by management by comparing them with publicly available data and information sources.

For loans and receivables individually assessed for impairment:
- We assessed the main criteria used by the management for determining whether an impairment event had occurred.
- Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held.

We also assessed the adequacy of the related financial statement disclosures including the disclosure on the impact of the initial adoption of SLFRS 9.

Key audit matter 2: Impairment of Goodwill and Brand Value

The company carries out an impairment review of goodwill and brand value at least annually or whenever there is an impairment indicator in accordance with Sri Lanka Accounting Standards.

This was considered a matter of significance to our audit due to the materiality of the carrying value of the goodwill and brand value balances which amount to Rs. 565 million and Rs. 236 million respectively as at 31- Mar-2019 and because the directors' assessment of impairment involves significant judgement.

Goodwill and brand value were recognized in the financial statements, upon the company (former Bartleet Finance PLC) acquired and amalgamated former Orient Finance PLC during the financial year ended 31-Mar-2016.

As per LKAS 36: Impairment of Assets, the company is required to annually test for impairment of goodwill and brand. Impairment is assessed by comparing the carrying value of assets against the recoverable amount. The company determines the recoverable amount of goodwill and brand value based on the value in use method, by using the discounted cash flow model. In carrying out its assessment, for the purposes of cash flow forecasts, the company projects future cash flows based on approved budgets. These cash flows are discounted using applicable discount rates.

Based on the impairment test performed for goodwill and brand value as explained above, the company concluded that both goodwill and brand value have not been impaired as at 31-Mar-2019.

The disclosure associated with impairment assessment of goodwill and brand value is set out in note 23 to the financial statements.

How our audit addressed the key audit matter

We have tested management's assessment of the impairment of goodwill and brand value as at 31- Mar-2019.

Our work included the following procedures:

- We evaluated the management competence and level of skills required in developing assumptions, gathering accurate data and performing assessments.
- We assessed the validity of management's use of appropriate methods in assessing the impairment for goodwill and brand value.
- We challenged the key inputs and assumptions the company has used in assessing the impairment.
- We carried out calculations on the impairment assessment to determine the degree by which the key assumptions would need to change in order to trigger an impairment.
- We tested the appropriateness of the related disclosures provided in the company's financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgement 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 an 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.
- 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 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.

We also provide Those Charged with Governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3890.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo
28-Jun-2019
VR/dm

INCOME STATEMENT

For the Year Ended 31st March	Note	2019 Rs.	2018 Rs.
Income	4	3,493,414,220	3,496,108,852
Interest income	5	3,239,037,768	3,311,048,574
Interest expenses	6	(1,949,919,167)	(2,116,906,558)
Net interest income		1,289,118,601	1,194,142,016
Fee and commission income	7	179,130,466	112,111,650
Other operating income	8	75,245,986	72,948,628
Total operating income		1,543,495,053	1,379,202,294
Impairment charges for loans and receivables to customers	9	(569,295,204)	(545,680,634)
Net operating income		974,199,849	833,521,660
Operating expenses			
Personnel expenses	10	(387,926,335)	(369,855,285)
Depreciation and amortisation		(28,558,126)	(23,437,189)
Other operating expenses	11	(462,747,489)	(488,580,521)
Operating profit/(loss) before Value Added Tax and NBT		94,967,899	(48,351,335)
Value Added Tax and NBT on financial services		(63,092,637)	(55,366,426)
Profit /(loss) before income tax		31,875,262	(103,717,761)
Income tax expense	12	(2,846,204)	(6,528,018)
Profit/(loss) for the year		29,029,058	(110,245,779)
Basic earnings per share (Rs.)	13.1	0.20	(0.74)
Dividend per share (Rs.)	14	-	0.25

Figures in brackets indicate deductions.

The accounting policies and notes on pages 72 to 123 form an integral part of these financial statements.

Colombo
28-Jun-2019

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the Year Ended 31st March	Note	2019 Rs.	2018 Rs.
Profit/(loss) for the year		29,029,058	(110,245,779)
Other comprehensive income/(expenses)			
Other comprehensive income/(expenses) to be re-classified to profit or loss in subsequent periods			
Change in fair value of financial assets at fair value through other comprehensive income		855,067	1,759,556
Revaluation of Land and Building	25	32,032,082	-
Deferred tax effect on above	22	(3,203,208)	-
		29,683,941	1,759,556
Other comprehensive income/(expenses) not to be re-classified to profit or loss in subsequent periods			
Actuarial gain/(loss) on retirement benefit plan	33.1	1,775,361	(1,567,022)
Deferred tax effect on above	22	497,101	(438,766)
		2,272,462	(2,005,788)
Other comprehensive income/(expenses) for the year net of tax		31,956,403	(246,232)
Total comprehensive income/(expenses) for the year net of tax		60,985,461	(110,492,011)

The accounting policies and notes on pages 72 to 123 form an integral part of these financial statements.

Colombo
28-Jun-2019

STATEMENT OF FINANCIAL POSITION

As At 31st March	Note	2019 Rs.	2018 Rs.
ASSETS	15		
Cash and cash equivalents	16	181,741,883	195,581,111
Financial assets – fair value through other comprehensive income	17	936,939,610	945,559,444
Loans and receivables	18	14,033,759,660	14,504,333,754
Investments with banks and other financial institutions	19	286,253,330	754,474,257
Other assets	20	252,392,826	210,103,729
Real estate stock	21	16,772,709	16,779,715
Deferred tax asset	22	371,088,939	270,475,120
Goodwill	23	564,545,746	564,545,746
Brand value	23.1	235,880,000	235,880,000
Intangible assets	24	1,505,430	1,975,920
Property, plant and equipment	25	78,163,766	415,618,078
Investment properties	26	400,600,002	-
Total assets		17,359,643,901	18,115,326,874
LIABILITIES	15		
Due to banks - bank overdrafts	16	610,624,135	138,490,215
Deposits from customers	27	10,479,531,283	11,852,625,030
Interest bearing borrowings	28	2,091,868,611	1,806,789,942
Term debts	29	1,012,265,985	998,261,067
Redeemable preference shares	30	512,216,926	456,209,985
Other liabilities	32	436,331,176	462,984,472
Non-interest bearing security deposits		-	41,831
Retirement benefit obligations	33	50,305,976	51,873,885
Total liabilities		15,193,144,092	15,767,276,427
EQUITY			
Stated capital	34	1,378,689,779	1,378,689,779
Statutory reserve fund	35	306,478,542	305,274,930
Revaluation reserve	36	141,120,773	112,291,899
Available for sale reserve	37	-	213,964
Fair value reserve	37	1,069,031	-
Retained earnings		339,141,684	551,579,875
Total equity		2,166,499,809	2,348,050,447
Total equity and liabilities		17,359,643,901	18,115,326,874
Net assets per share		14.64	15.86

Figures in brackets indicate deductions.

The accounting policies and notes on pages 72 to 123 form an integral part of these financial statements.

The Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Sanjeeva Jayasinghe
Head of Finance

Jude Anthony
Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.
Approved and signed for and on behalf of the Board.

Dr. Dayanath Jayasuriya P.C.
Chairman

Ramesh Schaffter
Director

Colombo
28-Jun-2019
VR/dm

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2019	Stated Capital Rs.	Statutory reserve fund Rs.	Revaluation reserve Rs.	Available for sale reserve Rs.	Fair value reserve Rs.	Retained earnings Rs.	Total Rs.
Balance as at 1st April 2017	1,378,689,779	305,274,930	116,471,908	(1,545,592)	-	700,836,035	2,499,727,060
Profit/(Loss) for the year	-	-	-	-	-	(110,245,779)	(110,245,779)
Other comprehensive income net of taxes	-	-	-	1,759,556	-	(2,005,788)	(246,232)
Revaluation gain on land written off	-	-	(4,180,009)	-	-	-	(4,180,009)
Dividend Paid	-	-	-	-	-	(37,004,593)	(37,004,593)
Transfer to statutory reserve	-	-	-	-	-	-	-
Balance as at 31st March 2018	1,378,689,779	305,274,930	112,291,899	213,964		551,579,875	2,348,050,447
Impact on adoption of SLFRS 09							
Recognition of SLFRS 09 ECLs	-	-	-	-	-	(336,855,693)	(336,855,693)
Deferred Tax on transitional adjustment	-	-	-	-	-	94,319,594	94,319,594
Transfer to fair value reserve	-	-	-	(213,964)	213,964	-	-
Restated balance under SLFRS 9 as at 1st April 2018	1,378,689,779	305,274,930	112,291,899	-	213,964	309,043,776	2,105,514,348
Profit/(Loss) for the year	-	-	-	-	-	29,029,058	29,029,058
Other comprehensive income (expense) net of taxes	-	-	-	-	855,067	2,272,462	3,127,529
Revaluation of land and buildings	-	-	32,032,082	-	-	-	32,032,082
Transferred to Statutory Reserve		1,203,612				(1,203,612)	
Deferred tax effect on revaluation	-		(3,203,208)	-	-		(3,203,208)
Balance as at 31st March 2019	1,378,689,779	306,478,542	141,120,773	-	1,069,031	339,141,684	2,166,499,809

Figures in brackets indicate deductions.

The accounting policies and notes on pages 72 to 123 form an integral part of these financial statements.

Colombo
28-Jun-2019

STATEMENT OF CASH FLOWS

For the year ended 31st March	Note	2019 Rs.	2018 Rs.
Cash flows from operating activities			
Profit/(loss) before income tax expense		31,875,262	(103,717,761)
Adjustment for:			
Depreciation/amortisation	25	28,558,126	23,437,189
Loss on disposal of property, plant and equipment	11	(52,313)	3,265,316
Impairment charges for loans and receivables to customers	9	569,295,204	545,680,634
Finance expenses	6	1,949,919,167	2,116,906,558
Profit on sale of real estate	8	-	(4,868,206)
Investment income	5	(156,669,506)	(153,343,909)
Provision for gratuity	10	10,732,336	11,159,696
Operating profit/(Loss) before working capital changes		2,434,128,766	2,438,519,517
Change in loans and receivables to customers		(435,576,803)	1,366,088,756
Change in other assets		(42,289,097)	(14,514,125)
Change in deposits from customers		(1,329,754,438)	2,187,323,849
Change in other liabilities		(26,653,296)	(68,607,558)
		599,855,132	5,908,810,439
Interest paid		(1,850,685,994)	(1,866,047,309)
Income tax paid	32	(12,840,738)	(2,498,544)
Gratuity paid	33	(10,524,884)	(5,752,118)
Net cash from/(used in) operating activities		(1,274,196,484)	4,034,512,468
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	25	(59,547,042)	(27,222,665)
Proceeds from sale of property, plant and equipment		-	166,835
Proceeds from sale of real estate		7,006	10,558,015
Net change in available for sale financial assets		9,474,901	(103,912,819)
Net change in investments with bank and other financial institutions		468,220,927	(385,314,193)
Investment income received		156,669,506	153,343,909
Net cash generated from/(used in) investing activities		574,825,298	(352,380,918)
Cash flows from financing activities			
Interest bearing borrowings obtained	28.1	4,578,904,726	3,344,000,000
Repayment of interest bearing borrowings	28.1	(4,275,006,688)	(6,351,178,527)
Interest paid on debentures		(90,500,000)	(90,500,000)
Dividend paid		-	(37,004,593)
Net cash generated from/(used in) financing activities		213,398,038	(3,134,683,120)
Net change in cash and cash equivalents		(485,973,148)	547,448,430
Cash and cash equivalents at the beginning of the year		57,090,896	(490,357,534)
Cash and cash equivalents at the end of the year (Note A)		(428,882,252)	57,090,896
Analysis of cash and cash equivalents at the end of the year			Note A
Cash in hand		162,415,514	141,293,580
Cash at bank		19,326,369	54,287,531
Bank overdrafts – secured		(610,624,135)	(138,490,215)
		(428,882,252)	57,090,896

The accounting policies and notes on pages 72 to 123 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Colombo
28-Jun-2019

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 CORPORATE INFORMATION

Orient Finance PLC (the "company") is a Public Limited Company incorporated and domiciled in Sri Lanka under the Companies Act No. 07 of 2007 and approved under Finance Lease Act, No. 56 of 2000 and Finance Business Act No. 42 of 2011 and is listed in the Colombo Stock Exchange.

The registered office of the Company is located at No. 02, Deal Place, Colombo 03 and the business is carried out at 61, Dharmapala Mawatha, Colombo 07.

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal activities of the Company are comprised of finance leasing, hire purchasing, debt factoring, mobilisation of deposits and gold loans advances.

1.3 PARENT ENTITY AND ULTIMATE PARENT ENTITY

In the opinion of the Directors, the Company's parent undertaking is Janashakthi PLC.

1.4 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors takes the responsibility for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards comprising LKAS and SLFRS.

1.5 DATE OF AUTHORISATION

The Financial Statements of the Company for the year ended 31-Mar-2019 were authorised to issue by the Board of Directors on 28-Jun-2019.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The statement of financial position as at 31st March 2019 income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, and the summary of significant accounting policies and other explanatory information to the Financial Statements ("Financial Statements") of the Company for the year then ended, comply with the Sri Lanka Accounting Standards (SLFRSs/LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 BASIS OF MEASUREMENT

The Financial Statements have been prepared on a historical cost basis except for the following material items in the statement of financial position;

Item	Basis of Measurement
Financial assets measured at fair value through other comprehensive income (from 1st April 2018)	Fair value
Financial assets available for sale (Up to 31st March 2018)	
Retirement benefit obligation	Liability is recognised as the present value of the retirement obligation plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.
Investment property: Land and Buildings	Fair value

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee unless stated otherwise.

2.4 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the Company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. Maturity analysis is presented in Note 39 to the Financial Statements.

2.5 MATERIALITY AND AGGREGATION

In compliance with LKAS 01 on "Presentation of Financial Statements", each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

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 recognised amounts and there is an intention to settle on a net basis, or to realise 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 or interpretation, and as specifically disclosed in the notes to the Financial Statements.

2.6 COMPARATIVE INFORMATION

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Company has not restated the comparative information for 2017/2018 for financial instruments within the scope of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9). Therefore, the comparative information for 2017/2018 is reported under Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement" (LKAS 39) and is not comparable to the information presented for 2017/2018. Differences arising from adoption of SLFRS 9 have been recognised directly in equity as of 1- Apr-2018 and are disclosed in Note 15.3.

2.7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (LKAS and SLFRS) 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

2.7.1 Going concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast a 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.

2.7.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

2.7.3 Classification of financial assets and liabilities

Applicable from 1-Apr-2018
As per SLFRS 9, the Significant Accounting Policies of the Company provide scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria:

- The entity's business model for managing the financial assets as set out in Note 3.1.3.1.
- The contractual cash flow characteristics of the financial assets as set out in Note 3.1.3.2.

2.7.4 Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 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. These estimates are based on the assumptions about a number of factors and the actual results may differ, resulting in future changes to the allowance.

Refer Notes 9 and 18 for more details relating to impairment loss assessment on financial assets.

2.7.5 Defined benefit obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making various assumptions determining the discount rates, future salary increases, mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

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

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

2.7.6 Useful economic lives of property, plant and equipment

Useful economic lives of property, plant and equipment are estimated as disclosed in the note 3.3.4 to the Financial Statements.

2.8 CHANGES IN ACCOUNTING POLICIES

The Company has consistently applied the Accounting Policies to all periods presented in these Financial Statements, except for the changes arising out of transition to SLFRS 9 and Sri Lanka Accounting Standard – SLFRS 7 (revised) on “Financial Instruments: Disclosures” (SLFRS 7) and Sri Lanka Accounting Standard – SLFRS 15 “Revenue from Contracts with Customers” (SLFRS 15) as set out below:

2.8.1 New and amended standards and interpretations

In these Financial Statements, the Company has applied SLFRS 9, SLFRS 7 and SLFRS 15, which are effective for the annual reporting periods beginning on or after 1-Jan-2018, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.8.1.1 SLFRS 9 – Financial Instruments

SLFRS 9 issued in December 2014 replaced LKAS 39 and is applicable for annual reporting periods beginning on or after 1-Jan-2018.

In accordance with the option given in SLFRS 9 not to restate the comparatives, the Company has not restated comparative information for 2017/2018 for financial instruments within the scope of SLFRS 9. Therefore, comparative information for 2017/2018 is reported under LKAS 39 and is not comparable with the information presented for 2018/2019.

Differences arising from the adoption of SLFRS 9 have been recognised directly in equity as of 1-Apr-2018 and are disclosed in Note 15.3.

2.8.1.1.1 Changes to classification and measurement

To determine their classification and measurement category, 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’ cash flow characteristics.

Classification and measurement categories as specified in LKAS 39 for financial assets (FVTPL, HTM, L&R and AFS) have been replaced by:

- Financial assets measured at amortised cost
- Financial assets measured at Fair value through other comprehensive income (FVOCI)
- Financial assets measured at Fair value through profit or loss (FVTPL)

FVOCI includes debt and equity instruments measured at fair value through other comprehensive income. On derecognition of debt instruments measured at FVOCI, cumulative gains or losses are recycled to profit or loss. However, cumulative gains or losses on derecognition of equity instruments measured at FVOCI are not reclassified to profit or loss and are transferred directly to retained earnings.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39, all fair value changes of liabilities designated under the fair value option were recognised in profit or loss. Under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income (OCI); and
- The remaining amount of change in the fair value is presented in profit or loss.

Note 3.1.4 provides an explanation on how the Company classifies financial liabilities under SLFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the transition date: i.e. 1-Apr-2018.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated at FVTPL, the determination of whether presenting the effects of changes in the financial liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

The Company’s classification of its financial assets and liabilities is given in Notes 3.1.3 and 3.1.4. The quantitative impact of applying SLFRS 9 as at 1-Apr-2018 is disclosed in Note 15.3.

2.8.1.1.2 Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Company’s accounting for loan loss impairments by replacing the incurred loss approach under LKAS 39 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 FVTPL, together with loan commitments and financial guarantee contracts but not to equity investments. Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

The allowance is based on the ECLs associated with the PD in the next twelve months unless there has been a significant increase in credit risk since origination. Lifetime expected credit loss is provided for financial assets for which the credit risk has increased significantly from initial recognition and the credit impaired assets subsequent to initial recognition. 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.

If a debt security had a low credit risk at the date of initial application of SLFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Details of the Company's impairment method are disclosed in Note 3.1.10.

2.8.1.2 SLFRS 7 (Revised) – Financial Instruments: Disclosures

The Company adopted SLFRS 7 together with SLFRS 9, effective from 1-Apr-2018. Changes including transition disclosures as shown in Note 15.3 together with detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are disclosed as per the requirements of the Standards in Notes 3.1.10 and 18.

Movements during the year in the ECL allowances are presented in Note 18.

2.8.1.3 SLFRS 15 – Revenue from contracts with customers

SLFRS 15 replaces revenue recognition guidance, including LKAS 18 on "Revenue", LKAS 11 on "Construction Contracts" and IFRIC 13 on "Customer Loyalty Programmes" and is effective for annual reporting periods beginning on or after 1-Jan-2018.

SLFRS 15 provides a comprehensive framework for determining whether, how much, and when revenue is recognised. SLFRS 15 requires new qualitative and quantitative disclosures aimed at enabling users of Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities are required to apply a five-step model to determine when to recognise revenue and at what amount. The model specifies that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount at which the entity expects to be entitled.

There is no significant impact on the Financial Statement of the Company resulting from the application of SLFRS 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Company unless otherwise indicated.

3.1 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.1.1 Date of recognition

The Company initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Note 3.1.3 and 3.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

Trade receivables that do not have a significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have a significant financing component) at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below:

3.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

3.1.3 Classification and subsequent measurement of financial assets

From 1-Apr-2018 as per SLFRS 9, the Company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

Up to 31-Mar-2018 as per LKAS 39, the Company classified its financial assets into one of the following categories:

- Financial assets at fair value through profit or loss (FVTPL), and within this category,
  - Held for trading
  - Designated at fair value through profit or loss
- Loans and receivables
- Held to maturity
- Available for sale

Details of the impact on reclassification and measurement from LKAS 39 to SLFRS 9 are disclosed in transition disclosures given in Note 15.3.

3.1.3.1 Business model assessment

With effect from 1-Apr-2018, the Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument by instrument basis because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods and the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.1.3.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than deminimising 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 principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains such a contractual term that could change the timing or amount of contractual cash flows that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Refer Notes 3.1.3.3 and 3.1.3.4 below for details on different types of financial assets recognised in the Statement of Financial Position (SOFP).

3.1.3.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial assets measured at amortised cost are given in Notes 3.1.3.3.1 to 3.1.3.3.3 below.

3.1.3.3.1 Loans and advances to customers

Loans and advances to customers include loans and advances, and lease and hire purchase receivables of the Company.

Details of "Loans and advances to customers" are given in Note 18.

3.1.3.3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments. They are brought to the Financial Statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Details of "Cash and cash equivalents" are given in Note 16.

3.1.3.3.3 Investments with banks and other financial institutions

Details of "Investments with banks and other financial institutions" are given in Note 19.

3.1.3.4 Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

3.1.3.4.1 Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

These instruments comprise Government Securities that had previously been classified as available for sale.

Details of "Debt instruments at FVOCI" are given in Note 17.

3.1.3.4.2 Equity instruments designated at FVOCI

Upon initial recognition, the Company elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI.

These instruments comprise unquoted shares that had been previously classified as Available for sale under LKAS 39.

Details of "Equity instruments at FVOCI" are given in Note 17.

3.1.4 Classification and subsequent measurement of financial liabilities

As per SLFRS 9, the Company classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
  - Held-for-trading; or
  - Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

3.1.4.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The Company does not have any financial liabilities at fair value through profit or loss.

3.1.4.2 Financial liabilities at amortised cost

Financial liabilities issued by the Company that are not designated at FVTPL are classified as financial liabilities at amortised cost under "Deposits from customers", "Due to banks" or "Other borrowings" 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 the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.1.5 Reclassification of financial assets and liabilities

As per SLFRS 9, financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.1.5.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Company reclassifies all affected assets prospectively from the first day of the first reporting period following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

3.1.5.2 Measurement of reclassification of financial assets

3.1.5.2.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

- To Fair value through other comprehensive income

  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.

- To Amortised Cost

  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

3.1.5.2.2 Reclassification of Financial Instruments at 'Fair value through other comprehensive income'

- To Fair value through profit or loss

  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- To Amortised Cost

  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount is not adjusted as a result of reclassification.

3.1.5.2.3 Reclassification of Financial Instruments at "Amortised Cost"

- To Fair value through other comprehensive income

  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- To Fair value through profit or loss

  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

3.1.6 De-recognition of financial assets and financial liabilities

3.1.6.1 Financial assets

The Company de-recognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

3.1.6.2 Financial liabilities

The Company de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

3.1.7 Modification of financial assets and financial liabilities

3.1.7.1 Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

As per LKAS 39, if the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not de-recognised, then impairment of the asset was measured using pre-modification interest rate.

3.1.7.2 Financial liabilities

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. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

3.1.8 Offsetting of financial instruments

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

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

3.1.9 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any ECL allowance.

3.1.10 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 48.

3.1.11 Identification and measurement of impairment of financial assets

3.1.11.1 Overview of the ECL principles

As per SLFRS 9, the Company records an allowance for expected credit losses for loans and advances to customers, debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and loan commitments.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL. Refer Note 3.1.11.2 for a description on how the Company determines when a significant increase in credit risk has occurred.
- Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. Refer Note 3.1.11.3 for a description on how the Company defines credit impaired and default.
- Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The Company does not have POCI loans as at the reporting date.

The key judgements and assumptions adopted by the Company in addressing the requirements of SLFRS 9 are discussed below:

3.1.11.2 Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company's historical experience and expert credit assessment and including forward looking information.

The Company considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 60 days past due in accordance with the rebuttable presumption in SLFRS 9.

The Company individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or instruments.
- When the value of collateral is significantly reduced and/or realisibility of collateral is doubtful.
- When a customer is subject to litigation that significantly affects the performance of the credit facility.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants
- When the customer is deceased/ insolvent.
- When the Company is unable to contact or find the customer

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The Company regularly monitors the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the Company determines significant increase in credit risk based on the generally accepted investment/non-investment grade definitions published by international rating agencies. Debt instruments are moved to stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

3.1.11.3 Definition of default and credit impaired assets

The Company considers loans and advances to customers as defaulted when:

- The borrower is unlikely to pay its obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The borrower becomes 180 days past due on its contractual payments.

In addition, the Company classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is “default”.

In assessing whether a borrower is in default, Company reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Company considers non performing credit facilities/customers with one or more of indicators set out in Note 3.1.11.2 above as credit impaired.

3.1.11.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 3.1.11.2. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

3.1.11.5 Grouping financial assets measured on collective basis

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on individual basis include credit impaired facilities of individually significant customers.

Those financial assets for which, the Company determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on a collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to customers are grouped into homogeneous portfolios, based on a combination of product and customer characteristics.

3.1.11.6 The Calculation of Expected Credit Loss Principle (ECL)

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation 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 derecognised and is still in the portfolio.
- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw down on committed facilities and accrued financing income from missed payments.
- LGD: 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 lenders would expect to receive, including realisation of any collateral.

Forward-looking information
The Company incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified key drivers of credit risk both quantitatively and qualitatively for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and supranational organisations such as IMF.

Quantitative drivers of credit risk	Qualitative drivers of credit risk
GDP growth	Status of industry business
Unemployment rate	Regulatory impact
Interest rate (AWPLR)	Government policies
Rate of inflation	
Exchange rate	

3.1.12 Write-off of loans and advances

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 realisation of security.

3.2 DETERMINATION OF FAIR VALUE

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Level 1

When available, the Company measures 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 asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses, credit models, option pricing models and other relevant valuation models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which the current market transactions or observable market data are not available. Their fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on de-recognition of the instrument.

3.3 INVENTORIES

Inventories consist of stationeries purchased for the office use. Inventories are measured at lower of cost or net realisable value.

Cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

3.4 PROPERTY, PLANT AND EQUIPMENT

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

3.4.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised 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 reliably measured.

3.4.2 Measurement

Land and Buildings are stated at revalued amounts, net of accumulated depreciation.

Other property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

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 labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit and loss.

Purchased software that is integrated to the functionality of the related equipment is capitalised as intangible assets.

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Company are revalued by independent professional valuers more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date.

3.4.3 Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. When replaced costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised.

3.4.4 Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease terms and other useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease period.

The estimated useful lives are as follows:

Furniture and fittings	4 years
Office equipment	4 years
Computer equipment	4 years
Motor vehicles	4 years

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised.

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

3.5 INVESTMENT PROPERTIES

Investment properties are properties held either to earn rental income or for capital appreciation or for both. They are not properties held for sale in the ordinary course of business, used in the production or supply of goods or service or for administrative services.

3.5.1 Basis of recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Company and if the cost of the investment property can be measured reliably.

3.5.2 Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The carrying amount includes the cost of replacing part of an existing Investment Property at the time that the cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing of an Investment Property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. The Company revalues investment property at least once in three years.

3.5.3 Derecognition

Investment Properties are derecognised when either they have been disposed of or when the Investment Property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising on the retirement or disposal of an Investment Property are recognised in the income statement in the year of retirement or disposal.

3.6 FINANCE AND OPERATING LEASES

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

3.6.1 Finance lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets but not necessarily a legal title, are classified as finance leases. When the Company is a lessor under a finance lease the amounts due under the lease, after deduction of unearned charges, are included in 'loans and receivables from customers'. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'property, plant and equipment' and the corresponding liability to the lessor is included in 'other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

3.6.2 Operating lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised in the statement of financial position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'general and administrative expenses' and 'other operating income', respectively.

3.7 INTANGIBLE ASSETS

Intangible assets acquired separately are measured initially at cost. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses.

3.7.1 Intangible assets with finite lives and amortisation

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function/nature of the intangible asset. Amortisation is commenced when the assets are available for use.

3.7.1.1 Computer software

Computer software is amortised over four years from the date of acquisition.

3.7.2 Intangible assets with indefinite lives and amortisation

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the CGU level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.7.2.1 Brand value

Brand value is not amortised and is tested for impairment annually.

3.7.3 Derecognition of intangible assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds and the carrying amount of the asset and are recognised in the income statement.

3.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

3.8.1 Recognition

The carrying values of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For the assets that have indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

3.8.2 Calculation of recoverable amount

The recoverable amount is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market assessment of their time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3.8.3 Reversal of impairment

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount.

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 amortisation, if no impairment loss had been recognised.

3.9 DEPOSITS DUE TO CUSTOMERS

These include term deposits and certificates of deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the effective interest method, except where the Company designates liabilities at fair value through profit or loss. They are stated in the statement of financial position at amount payable. Interest paid / payable on these deposits based on effective interest rate is charged to the income statement.

3.10 DEBT SECURITIES ISSUED AND SUBORDINATED TERM DEBTS

These represent the funds borrowed by the Company for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method, except where the Company designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in the income statement.

3.11 OTHER LIABILITIES

Other liabilities are recorded at amounts expected to be payable at the reporting date.

3.12 EMPLOYEE BENEFITS

3.12.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.12.1.1 Employees' Provident Fund (EPF)

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

3.12.1.2 Employees' Trust Fund (ETF)

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.12.2 Defined benefit plans

3.12.2.1 Retirement benefit obligations

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods: and that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted.

The calculation is performed by a qualified actuary using a "Projected Unit Credit" method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used. The assumptions based on which the results of actuarial valuation was determined are included in the note 31 to the Financial Statements.

The Company recognises all actuarial gains and losses arising from the defined benefit plan and all expenses related to defined benefit plans in the income statement and actuarial gains and losses in the other comprehensive income.

This retirement benefit obligation is not externally funded.

However, according to the payment of Gratuity Act No. 12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

3.12.3 Short term employee benefits

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

3.13 PROVISIONS

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.14 CAPITAL COMMITMENTS AND CONTINGENCIES

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured.

Capital commitment and contingent liabilities of the Company are disclosed in the respective notes to the Financial Statements.

3.15 EVENTS OCCURRING AFTER THE REPORTING DATE

All material events after the reporting period have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

3.16 INCOME STATEMENT

3.16.1 Revenue recognition

Revenue is recognised 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 are ascertained before revenue is recognised.

3.16.1.1 Interest income and interest expense

Interest income and expense are recognised in the Income Statement using the effective interest rate (EIR) method.

As per SLFRS 9, the interest income and expense presented in the Income Statement include:

- Interest on financial assets measured at amortised cost calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

As per LKAS 39, the interest income and expense recognised in the Income Statement included:

- Interest on loans and receivables calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective Interest Rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs).
For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

3.16.1.2 Dividend income

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

3.16.1.3 Fees and commission income and expense

Fees and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR. Other fees and commission income are recognised as the related services are performed.

3.16.1.4 Interest on overdue rentals

Overdue interest is charged on loans and advances which are not paid on the due date and accounted for on the cash basis.

3.16.1.5 Profit or loss on disposal of property, plant and equipment

Profits or losses resulting from disposal of property, plant and equipment have been accounted in the income statement.

3.16.1.6 Recovery of bad and doubtful debts written off

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

3.16.2 Expenditure

All expenditure incurred in running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

Expenditure incurred for the purpose acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure. Repairs and renewals are charged to revenue in the year in which the expenditure is incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

The profit earned by the Company before taxation as shown in the Income Statement is after making provision for all known liabilities and for the depreciation of property, plant and equipment.

3.16.2.1 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for the intended use or sale, are capitalised as part of the asset.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.17 TAXES

3.17.1 Income tax expense

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised directly in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxes

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto, at the rates specified in the Note 12 to the Financial Statements. This note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

Deferred Tax

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.17.2 Value Added Tax on financial services

VAT on financial services is calculated in accordance with the amended VAT Act No. 07 of 2003. The Base for the computation of VAT on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.17.3 Withholding Tax on dividends

Dividends distributed out of taxable profit of the local companies attract a 10% deduction at source and are not available to be set off against the tax liability of the Company. Withholding Tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividends is recognised.

3.17.4 Nation Building Tax (NBT) on financial services

NBT on financial services is calculated in accordance with Nation Building Tax (Amendment) Act No. 10 of 2014. NBT on financial services is payable on the same base subject to Value Added Tax on financial services.

3.17.5 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1-Apr-2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.18 EARNINGS PER SHARE

The Financial Statements present basic earnings per share (EPS) for its ordinary shareholders. The 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 the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

3.19 CASH FLOW STATEMENT

The cash flow statement has been prepared using the “indirect method”. Interest paid are classified as operating cash flows, interest and dividend received are classified as investing cash flows while dividends paid are classified as financing cash flows for the purpose of presenting of the cash flow statement.

3.20 REGULATORY PROVISIONS

3.20.1 Deposit insurance scheme

In terms of the Finance Companies Direction No. 02 of 2010 “Insurance of Deposit Liabilities” issued on 27-Sep-2010 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. 01 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1-Oct-2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions.
- Deposit liabilities to Government of Sri Lanka.
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act Direction No. 03 of 2008 on Corporate Governance of registered finance companies.
- Deposit liabilities held as collateral against any accommodation granted.
- Deposit liabilities falling within the meaning of 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% on eligible deposit liabilities as at the end of the month to be payable within a period of 15 days from the end of the respective month.

3.21 RESERVES

3.21.1 Statutory reserve fund

The statutory reserve fund is maintained in terms of a licensed finance company (Capital Funds) Direction No. 01 of 2003. Accordingly, the Company should transfer funds out of net profits of each year in the flowing manner, after due provision has been made for taxation and bad and doubtful debts.

- If capital funds are not less than twenty five percent of total deposit liabilities a sum equal to not less than five percent of the net profits;
- If capital funds are less than twenty five percent of total deposit liabilities but not less than ten percent thereof, a sum equal to not less than twenty percent of the net profits;
- If capital funds are less than ten percent of total deposit liabilities a sum equal to not less than fifty percent of the net profits.

3.21.2 Fair value/Available for sale reserve

This has been created in order to account the fair value changes of Financial assets at Fair Value Through Other Comprehensive Income/Available for sale financial assets.

3.22 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 Company’s management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For each of the strategic divisions, the Company’s management monitors the operating results 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 a company basis and are not allocated to operating segments.

3.23 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards were issued by the Institute of Chartered Accountants of Sri Lanka and is effective for the periods commencing on or after of 1-Jan-2019.

SLFRS 16 – Leases

SLFRS 16 eliminates the classification of leases as either operating or finance for lessees and instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset at the start of the lease and, because most lease payments are made over time, also, obtaining financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying LKAS 17.

The new standard SLFRS 16, supersedes the requirement in LKAS 17 leases and becomes effective on 1-Jan-2019.

4. INCOME

For the year ended 31st March	2019 Rs.	2018 Rs.
Interest income (Note 5)	3,239,037,768	3,311,048,574
Fee and commission income (Note 7)	179,130,466	112,111,650
Other operating income (Note 8)	75,245,986	72,948,628
	3,493,414,220	3,496,108,852

5. INTEREST INCOME

For the year ended 31st March	2019 Rs.	2018 Rs.
Finance lease	2,354,432,212	2,240,370,779
Hire purchase	24,113,591	113,856,992
Factoring	112,131,923	237,721,529
Loans	444,386,673	534,190,278
Gold loans	147,303,863	31,565,087
Interest income on investments	156,669,506	153,343,909
	3,239,037,768	3,311,048,574

5.1 NOTIONAL TAX CREDIT ON GOVERNMENT SECURITIES ON SECONDARY MARKET TRANSACTIONS

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

However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from 1-Apr-2018, interest income from Government Securities are excluded from withholding tax. Hence, notional tax credit to claimed by the Company was discontinued from 1-Apr-2018 with implementation of Inland Revenue Act No. 24 of 2017.

6. INTEREST EXPENSES

For the year ended 31st March	2019 Rs.	2018 Rs.
Interest expense on		
Borrowings	245,760,664	432,216,671
Customer deposits	1,513,886,827	1,501,808,031
Debentures	104,504,918	103,044,598
Preference shares	56,006,941	56,006,941
Negotiable instruments	-	748,034
Overdraft interest	29,759,817	23,082,283
	1,949,919,167	2,116,906,558

7. FEE AND COMMISSION INCOME

For the year ended 31st March	2019 Rs.	2018 Rs.
Documentation income – Lease and hire purchases	118,019,752	45,585,666
Administration charges – Factoring	10,613,532	38,300,030
Service charges – Gold loans	1,115,207	625,791
Insurance commission	49,381,975	27,600,163
	179,130,466	112,111,650

8. OTHER OPERATING INCOME

For the year ended 31st March	2019 Rs.	2018 Rs.
Collections from written off contracts	43,876,642	61,252,235
Profit on disposal of property, plant and equipment	52,313	-
Profit on sale of real estate	-	4,868,206
Rent income	9,307,904	1,217,523
Dividend income	495,360	432,000
Sundry income	21,513,767	5,178,664
	75,245,986	72,948,628

9. IMPAIRMENT CHARGES/(REVERSALS) FOR LOANS AND RECEIVABLES TO CUSTOMERS

For the year ended 31st March	2019 Rs.	2018 Rs.
Finance lease receivable		
Stage 01	(2,618,401)	-
Stage 02	15,985,953	-
Stage 03	376,406,700	-
Net impairment charges	-	290,850,597
	389,774,252	290,850,597
Hire purchase receivable		
Stage 01	(955,523)	-
Stage 02	(3,634,069)	-
Stage 03	27,185,029	-
Net impairment charges	-	11,720,555
	22,595,437	11,720,555
Other loans receivable		
Stage 01	(15,808,645)	-
Stage 02	(28,964,242)	-
Stage 03	75,424,107	-
Net impairment charges	-	109,916,761
	30,651,220	109,916,761
Factoring receivable		
Stage 01	(10,908,113)	-
Stage 02	-	-
Stage 03	141,936,496	-
Net impairment charges	-	133,558,000
	131,028,383	133,558,000
Gold loans receivable		
Stage 01	(4,754,088)	-
Stage 02	-	-
Stage 03	-	-
Net impairment charges	-	(365,279)
	(4,754,088)	(365,279)
Total Impairment charge	569,295,204	545,680,634

10. PERSONNEL EXPENSES

For the year ended 31st March	2019 Rs.	2018 Rs.
Salaries and other related expenses	333,288,622	318,700,309
Defined contribution plan – EPF	35,120,303	32,065,502
– ETF	8,785,074	8,025,428
Defined benefit plan – Gratuity	10,732,336	11,064,046
	387,926,335	369,855,285

11. OTHER OPERATING EXPENSES

For the year ended 31st March	2019 Rs.	2018 Rs.
Directors' emoluments	6,380,000	5,377,125
Auditor's remuneration	1,391,500	1,400,000
Professional and legal fees	22,762,159	20,280,521
Charity and donations	468,900	26,200
Administration and establishment expenses	391,477,540	367,218,877
Loss on disposal of property, plant and equipment	-	3,265,316
Advertising and business promotional expenses	38,721,891	88,804,231
Other expenses	1,545,499	2,208,251
	462,747,489	488,580,521

12. INCOME TAX EXPENSE

For the year ended 31st March	2019 Rs.	2018 Rs.
Current tax		
On current year profits (Note 12.1)	-	-
Under provision in respect of previous years (Note 31)	12,840,738	1,819,624
Deferred tax		
Deferred tax charged to the income statement (Note 22)	(9,994,534)	4,708,394
Income tax expense for the year	2,846,204	6,528,018

12.1 RECONCILIATION BETWEEN ACCOUNTING PROFIT AND TAXABLE INCOME

For the year ended 31st March	2019 Rs.	2018 Rs.
Profit/(loss) before income tax expense	31,875,262	(103,717,761)
Adjustments on disallowable expenses	3,586,221,442	3,906,588,928
Adjustments on allowable expenses	(3,249,028,378)	(3,657,665,863)
Statutory income	369,068,326	145,205,305
Less: Tax loss claimed (Note 12.2)	(369,068,326)	(50,821,857)
Assessable income	-	94,383,448
Less: Utilisation of qualifying payments (Note 12.3)	-	(94,383,448)
Taxable profit/(loss) for the year	-	-
Effective tax rate	0.00%	0.00%

12. 2 TAX LOSSES

For the year ended 31st March	2019 Rs.	2018 Rs.
Tax losses brought forward	1,932,651,752	1,667,154,365
Tax losses on Leasing Business during the year	513,144,551	316,319,244
Tax losses claimed during the year	(369,068,326)	(50,821,857)
Tax losses carried forward	2,076,727,977	1,932,651,752

12.3 QUALIFYING PAYMENT ON INVESTMENT

For the year ended 31st March	2019 Rs.	2018 Rs.
Consideration paid to acquire former Orient Finance PLC	1,730,906,250	1,730,906,250
Less : Utilised in prior years	(251,965,148)	(157,581,700)
Less : Utilised during the year	-	(94,383,448)
Balance qualifying payment carried forward	1,478,941,102	1,478,941,102

12.4 CURRENT TAX

The company is liable for tax at the rate of 28% on its taxable income in accordance with the Inland Revenue Act No. 24 of 2017 and subsequent amendments made thereto.

13. EARNINGS PER SHARE

13.1 BASIC EARNINGS PER SHARE

The calculation of earnings per share is based on the profit/(loss) attributable to the ordinary shareholders for the year divided by the weighted average number of ordinary shares outstanding during the year.

For the year ended 31st March	2019 Rs.	2018 Rs.
Profit/(loss) attributable to ordinary shareholders (Rs.)	29,029,058	(110,245,779)
Weighted average number of ordinary shares	148,018,370	148,018,370
Earnings per share (Rs.)	0.20	(0.74)
Weighted average number of ordinary shares	148,018,370	148,018,370

14. DIVIDEND PER SHARE

The dividend per share is based on the dividend paid during the year and the number of ordinary shares outstanding as at that date.

For the year ended 31st March	2019 Rs.	2018 Rs.
Dividend paid (Rs.)	-	37,004,593
Dividend per share (Rs.)	-	0.25

15. FINANCIAL ASSETS AND LIABILITIES

15.1 CLASSIFICATION AS AT 31ST MARCH 2019

	Financial Assets Recognised Through Profit or Loss (FVTPL) Rs.	Financial assets at Fair Value Through Other Comprehensive Income (FVTOCI) Rs.	Financial Assets at Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Assets				
Cash and cash equivalents	-	-	181,741,883	181,741,883
Available for sale financial assets	-	936,939,610	-	936,939,610
Loans and receivables to customers	-	-	14,033,759,660	14,033,759,660
Investments with banks and other financial institutions	-	-	286,253,330	286,253,330
Total Financial Assets	-	936,939,610	14,501,754,873	15,438,694,483

	Financial Liabilities at Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Liabilities		
Bank overdrafts	610,624,135	610,624,135
Deposits from customers	10,479,531,283	10,479,531,283
Interest bearing borrowings	2,091,868,611	2,091,868,611
Term debts	1,012,265,985	1,012,265,985
Redeemable preference shares	512,216,926	512,216,926
Total financial liabilities	14,706,506,940	14,706,506,940

15.2 CLASSIFICATION AS AT 31ST MARCH 2018

	Loans and Receivables (L&R) Rs.	Financial Assets Available For Sale(AFS) Rs.	Total Carrying Amount Rs.
Financial Assets			
Cash and cash equivalents	195,581,111	-	195,581,111
Available for sale financial assets	-	945,559,444	945,559,444
Loans and receivables to customers	14,504,333,754	-	14,504,333,754
Investments with banks and other financial institutions	754,474,257	-	754,474,257
Total Financial Assets	15,454,389,122	945,559,444	16,399,948,566

	Financial Liabilities at Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Liabilities		
Bank overdrafts	138,490,215	138,490,215
Deposits from customers	11,852,625,030	11,852,625,030
Interest bearing borrowings	1,806,789,942	1,806,789,942
Term debts	998,261,067	998,261,067
Redeemable preference shares	456,209,985	456,209,985
Total financial liabilities	15,252,376,239	15,252,376,239

15.3 CLASSIFICATION OF ASSET AND LIABILITIES ON THE DATE OF INITIAL APPLICATION OF SLFRS 09

Transition disclosures

When adopting the SLFRS 09, the Company has applied a modified retrospective method in preparing the annual Financial Statements for the year ended 31-Mar-2019. Accordingly, comparative information for the year 2018/2019 has not been restated for financial instruments within the scope of SLFRS 09. The comparative information for 2018/2019 is reported under LKAS 39 for the relevant balances.

The impact of adopting SLFRS 09 at transition date, i.e. 1-Apr-2018 has been adjusted to the opening retained earnings for the year 2018 and the note below presents the impact on the financial assets and liabilities as at 1-Apr-2018.

	Note	Original classification under LKAS 39	New classification under SLFRS 09	Original carrying amount LKAS 39	New carrying amount SLFRS 09
		Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and cash equivalents		Loans and Receivables	Financial Assets at Amortised Cost	195,581,111	195,581,111
Available for sale financial assets		Available for Sale financial assets	Fair Value Through Other Comprehensive Income	945,559,444	945,559,444
Loans and receivables to customers	(i)	Loans and Receivables	Financial Assets at Amortised Cost	14,504,333,754	14,167,478,061
Investments with banks and other financial institutions		Loans and Receivables	Financial Assets at Amortised Cost	754,474,257	754,474,257
Financial Liabilities					
Bank overdrafts		Financial Liabilities at amortised cost	Financial Liabilities at amortised cost	138,490,215	138,490,215
Deposits from customers				11,852,625,030	11,852,625,030
Interest bearing borrowings				1,806,789,942	1,806,789,942
Term debts				998,261,067	998,261,067
Redeemable preference shares				456,209,985	456,209,985

Note (i)

Loans and receivables to customers	Rs.
Carrying amount as at 31st March 2018 based on LKAS 39	14,504,333,754
Remeasurement : Expected Credit Loss Allowance	(336,855,693)
Carrying amount as at 1st April 2018 based on SLFRS 09	14,167,478,061

Impact of transition to SLFRS 09 on the opening balance of the Retained Earnings is as follows:

Retained Earnings	Rs.
Closing balance as at 31st March 2018 based on LKAS 39	551,579,875
Recognition of expected credit losses under SLFRS 09	(336,855,693)
Deferred tax in relation to Expected credit losses	94,319,594
Opening balance under SLFRS 09 as at 1st April 2018	309,043,776

The following is a reconciliation of the closing impairment allowance for financial assets under LKAS 39 to the opening ECL allowance determined under SLFRS 09 as at 1-Apr-2018:

	Rs.
Closing impairment provision as at 31st March 2018, under LKAS 39	1,209,773,170
Recognition of Expected Credit Losses under SLFRS 9 for Financial Assets at Amortised Cost	336,855,693
Opening impairment provision under SLFRS 09 as at 1st April 2018	1,546,628,863

16. CASH AND CASH EQUIVALENTS

As at 31st March	2019 Rs.	2018 Rs.
Cash in hand	162,415,514	141,293,580
Cash at bank	19,326,369	54,287,531
	181,741,883	195,581,111
Bank overdrafts	(610,624,135)	(138,490,215)
Cash and cash equivalents for the purpose of cash flow statement	(428,882,252)	57,090,896

17. FINANCIAL ASSETS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31st March	2019 Rs.	2018 Rs.
Investments in government securities (Note 17.1)	936,709,010	945,328,844
Investments in unquoted shares (Note 17.2)	230,600	230,600
	936,939,610	945,559,444

17.1 INVESTMENTS IN GOVERNMENT SECURITIES

As at 31st March	2019 Rs.	2018 Rs.
Treasury bills	936,709,010	945,328,844
	936,709,010	945,328,844

17.2 INVESTMENTS IN UNQUOTED SHARES

As at 31st March	2019 Directors' Valuation Rs.	2018 Directors' Valuation Rs.
Finance House Consortium (Pvt) Ltd.	200,000	200,000
Credit Information Bureau of Sri Lanka	30,600	30,600
	230,600	230,600

The Directors' valuation of non-quoted securities based on cost of investment less impairment amounts to Rs. 230,600/- (2018 – Rs. 230,600/-).

18. LOANS AND RECEIVABLES TO CUSTOMERS

As at 31st March	2019 Rs.	2018 Rs.
Loans and receivables	19,532,570,976	19,849,322,496
Less: Unearned income	(4,184,747,333)	(4,135,215,572)
Net loans and receivables (Note 18.1)	15,347,823,643	15,714,106,924
Less: Allowance for impairment (Note 18.1)	(1,314,063,983)	(1,209,773,170)
Net loans and receivables (Note 18.1)	14,033,759,660	14,504,333,754

18.1 PRODUCT-WISE ANALYSIS OF NET LOANS AND RECEIVABLES

	As at 31st March 2019 (SLFRS 9)			As at 31st March 2018 (LKAS 39)
	Gross Receivable	ECL Allowance	Net Receivable	
Finance lease receivable (Note 18.1.1)				
Stage 01	7,223,195,857	(107,140,432)	7,116,055,425	-
Stage 02	3,069,473,723	(255,562,440)	2,813,911,283	-
Stage 03	696,229,614	(320,865,647)	375,363,967	-
Net finance lease receivable	-	-	-	10,334,479,733
	10,988,899,194	(683,568,519)	10,305,330,675	10,334,479,733
Hire purchase receivable (Note 18.1.2)				
Stage 01	15,983,982	(135,493)	15,848,489	-
Stage 02	10,883,719	(392,647)	10,491,072	-
Stage 03	42,874,846	(14,034,525)	28,840,321	-
Net hire purchase receivable	-	-	-	225,800,353
	69,742,547	(14,562,665)	55,179,882	225,800,353
Other loans receivable (Note 18.1.3)				
Stage 01	1,501,716,895	(36,462,709)	1,465,254,186	-
Stage 02	317,381,696	(51,016,617)	266,365,079	-
Stage 03	624,728,489	(247,843,179)	376,885,310	-
Net other loans receivable	-	-	-	2,710,335,660
	2,443,827,080	(335,322,505)	2,108,504,575	2,710,335,660
Factoring receivable (Note 18.1.4)				
Stage 01	337,270,775	(4,222,492)	333,048,283	-
Stage 02	-	-	-	-
Stage 03	447,499,199	(275,899,113)	171,600,086	-
Net factoring receivable	-	-	-	932,449,998
	784,769,974	(280,121,605)	504,648,369	932,449,998
Gold loans receivable (Note 18.1.5)				
Stage 01	-	-	-	-
Stage 02	-	-	-	-
Stage 03	1,060,584,848	(488,689)	1,060,096,159	-
Net gold loans receivable	-	-	-	301,268,010
	1,060,584,848	(488,689)	1,060,096,159	301,268,010
Total	15,347,823,643	(1,314,063,983)	14,033,759,660	14,504,333,754

18.1.1 Finance lease receivables

As at 31st March	2019 Rs.	2018 Rs.
Gross lease rentals receivable	14,816,758,285	14,596,344,058
Less: Unearned income	(3,827,859,091)	(3,605,385,175)
Net lease rentals receivable	10,988,899,194	10,990,958,883
Less: Allowance for impairment (Note 18.1.6)	(683,568,519)	(656,479,150)
Net finance lease receivable	10,305,330,675	10,334,479,733
Lease rentals receivables within one year		
Gross lease rentals receivable within one year	4,425,314,793	5,664,869,363
Less: Unearned income	(1,889,473,103)	(1,769,488,793)
Net lease rentals receivable within one year	2,535,841,690	3,895,380,570
Lease rentals receivables within one to five years		
Gross lease rentals receivable within one to five years	10,379,225,317	8,927,437,818
Less: Unearned income	(1,937,783,949)	(1,835,666,659)
Net lease rentals receivable within one to five years	8,441,441,368	7,091,771,159
Lease rentals receivables later than five years		
Gross lease rentals receivable later than five years	12,218,175	4,036,877
Less: Unearned income	(602,039)	(229,723)
Net lease rentals receivable later than five years	11,616,136	3,807,154
Total	10,988,899,194	10,990,958,883

18.1.2 Hire purchase receivable

As at 31st March	2019 Rs.	2018 Rs.
Gross hire purchase rentals receivable	71,995,230	417,430,718
Less: Unearned income	(2,252,683)	(24,740,909)
Net hire purchase rentals receivable	69,742,547	392,689,809
Less: Allowance for impairment (Note 18.1.6)	(14,562,665)	(166,889,456)
Net hire purchase receivable	55,179,882	225,800,353
Hire purchase rentals receivables within one year		
Gross hire purchase rentals receivable within one year	68,105,022	392,675,904
Less: Unearned income	(1,807,223)	(22,244,280)
Net hire purchase rentals receivable within one year	66,297,799	370,431,624
Hire purchase rentals receivable within one to five years		
Gross hire purchase rentals receivable within one to five years	3,890,208	24,754,814
Less: Unearned income	(445,460)	(2,496,629)
Net hire purchase rentals receivable within one to five years	3,444,748	22,258,185
	69,742,547	392,689,809

18.1.3 Other loans receivables

As at 31st March	2019 Rs.	2018 Rs.
Gross other loans rentals receivables	2,798,462,639	3,425,509,656
Less: Unearned income	(354,635,559)	(505,089,488)
Net other loans rentals receivables	2,443,827,080	2,920,420,168
Less: Allowance for impairment (Note 18.1.6)	(335,322,505)	(210,084,508)
Net other loans receivables	2,108,504,575	2,710,335,660
Other loans receivables within one year		
Gross other loans rentals receivable within one year	1,977,580,863	2,355,410,818
Less: Unearned income	(214,609,472)	(298,059,506)
Net other loans rentals receivable within one year	1,762,971,391	2,057,351,312
Other loans receivables within one to five years		
Gross other loans rentals receivable within one to five years	820,881,776	1,070,098,838
Less: Unearned income	(140,026,087)	(207,029,982)
Net other loans rentals receivable within one to five years	680,855,689	863,068,856
Total	2,443,827,080	2,920,420,168

18.1.4 Factoring receivable

As at 31st March	2019 Rs.	2018 Rs.
Factoring receivable	784,769,974	1,108,281,365
Less: Allowance for impairment (Note 18.1.6)	(280,121,605)	(175,831,367)
Net factoring receivable	504,648,369	932,449,998

18.1.5 Gold loan receivables

As at 31st March	2019 Rs.	2018 Rs.
Gold loan receivable	1,060,584,848	301,756,699
Less: Provision for specific impairment (Note 18.1.6)	(488,689)	(488,689)
Net Gold loan receivable	1,060,096,159	301,268,010

18.1.6 Movement in impairment charges during the year (SLFRS 9)

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Gold loan Rs.	Total Rs.
Balance as at 31st March 2018	656,479,150	166,889,456	210,084,508	175,831,367	488,689	1,209,773,170
Recognition of SLFRS 09 ECLs	137,642,305	(7,786,229)	187,114,923	15,130,605	4,754,088	336,855,692
Opening Balance as at 1st April 2018	794,121,455	159,103,227	397,199,431	190,961,972	5,242,777	1,546,628,862
Charge/(reversal) for the year	389,774,252	22,595,437	30,651,220	131,028,383	(4,754,088)	569,295,204
Written off during the year	(500,327,186)	(167,136,000)	(92,528,146)	(41,868,753)	-	(801,860,085)
Balance as at 31st March 2019	683,568,519	14,562,665	335,322,505	280,121,605	488,689	1,314,063,981

18.1.7 Movement in specific and collective impairment charges for the Year Ended 31st March 2018 (LKAS 39)

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Gold loan Rs.	Total Rs.
Balance as at 1st April 2017	365,628,553	155,168,901	100,167,746	42,273,368	853,968	664,092,536
Charge/(reversal) for the year	290,850,597	11,720,555	109,916,761	133,558,000	(365,279)	545,680,634
Written off during the year	-	-	-	-	-	-
Balance as at 31st March 2018	656,479,150	166,889,456	210,084,508	175,831,367	488,689	1,209,773,170

18.1.8 Impairement for Expecetd Credit Losses (Stage Composition) as at 31st March 2019

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Gold loan Rs.	Total Rs.
Stage 01 ECL	107,140,432	135,493	36,462,709	4,222,492	-	147,961,126
Stage 02 ECL	255,562,440	392,647	51,016,617	-	-	306,971,704
Stage 03 ECL	320,865,647	14,034,525	247,843,179	275,899,113	488,689	859,131,153
	683,568,519	14,562,665	335,322,505	280,121,605	488,689	1,314,063,983

19. INVESTMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31st March	2019 Rs.	2018 Rs.
Investments in fixed deposits	286,484,085	753,371,057
Investments in debentures	-	1,103,200
	286,484,085	754,474,257
Less: Expected credit loss on investment in fixed deposits	(230,755)	-
	286,253,330	754,474,257

20. OTHER ASSETS

As at 31st March	2019 Rs.	2018 Rs.
Advances paid	64,829,920	23,235,975
Insurance commissions receivable	539,864	2,394,959
VAT receivable	5,774,098	13,897,785
ESC and WHT recoverable	98,414,371	76,283,657
Deposits and prepayments	82,834,573	94,291,353
	252,392,826	210,103,729

21. REAL ESTATE STOCK

As at 31st March	2019 Rs.	2018 Rs.
Naranwala project	1,772,497	1,772,497
Kiriberiya project	2,887,113	2,887,113
Matale project	9,960,709	9,469,959
Maddawaththa project	865,459	865,459
Chilaw project	1,793,927	1,784,687
Fall in fair value of real estate stock	(506,996)	-
	16,772,709	16,779,715

22. DEFERRED TAX ASSET

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	270,475,120	275,622,280
Deferred tax effect on unclaimed impairment provision	94,319,594	-
Reversal for the year	9,994,534	(4,708,394)
Deferred tax effect on actuarial gain	(497,101)	(438,766)
Deferred tax effect on revaluation gain	(3,203,208)	-
Balance at the end of the year	371,088,939	270,475,120

22.1 DEFERRED TAX ASSETS

The amount recognised as deferred tax asset is as follows:

As at 31st March	2019 Rs.	2018 Rs.
Property, plant and equipment and intangible assets	(31,354,647)	(41,527,167)
Gratuity	14,085,673	14,524,688
Tax losses carried forward	82,729,360	86,168,640
Qualifying payment on purchase consideration of amalgamation	211,308,959	211,308,959
Unclaimed impairment provision	94,319,594	-
	371,088,939	270,475,120

23. GOODWILL ON ACQUISITION

There was a premium amounting to Rs. 800,425,746/- on the amalgamation of former Orient Finance PLC with former Bartleet Finance PLC during the quarter ended 30-Jun-2015 which has been computed as follows:

	Rs.
Total consideration paid	1,730,906,250
Total identifiable net assets	930,480,504
Total premium	800,425,746

23.1 BRAND VALUE

Out of the total premium on the acquisition of former Orient Finance PLC, Rs. 235,880,000/- was attributed as Brand Value of former Orient Finance PLC based on a valuation carried out by an independent professional valuer.

Valuation methodology and principal assumptions used for the brand valuation

“Income approach” has been considered for the valuation of brand by the independent professional valuer and the following principal assumptions were used.

- Implied royalty rate – 1.68%
- Cost of equity – 19.67% (risk free rate – 9.67% + equity risk premium – 5% + alpha 5%)
- Terminal growth rate – 2%
- Terminal multiplier 5.77

To determine appropriate royalty rates for the trade names, the Independent professional valuer has considered royalty rates available in the international markets for banking and finance related brands/trade marks.

23.2 GOODWILL

Pursuant to recognition of brand value as described in Note 23.1 above, the remainder of the premium on acquisition amounting to Rs. 564,545,746/- has been recognised as goodwill on acquisition.

23.3 IMPAIRMENT

The management has assessed to ascertain whether there could be any impairment on the brand value and/or goodwill. A separate assessment of value in use of brand value and goodwill is not practicable as the future cash flows attached to the cash generating unit pertaining to pre-acquisition of Orient Finance PLC due to the following reasons:

(a) Departments of the two entities have been merged post amalgamation

(b) Certain employees resigned and the remaining employees took over the responsibilities of similar areas where the employees left.

Consequently, the management has taken an approach to assess impairment with a combined approach of both the brand value and goodwill. For this purpose the management assessed value in use taking into consideration the future estimated cash flows to equity.

Key assumptions used for value-in-use calculations

Management determined forecast operating results based on past performance and expectations for the future. 'The pre-tax discount rate used is 16.54% and the growth rate used to extrapolate cash flow projections beyond five years is 3% per annum. Value in Use (VIU) computed based on these data and assumptions support the carrying value of goodwill.

The summary of assessments is as follows:

	Rs.
Value in Use as per management's assessments	3,526,025,832
Carrying value of brand value and goodwill	800,425,746

Since the carrying value is less than the value in use, the management concluded that there was no impairment of brand value and goodwill taken together as at 31-Mar-2019.

24. INTANGIBLE ASSETS

As at 31st March	2019 Rs.	2018 Rs.
Computer software		
Cost		
Balance at the beginning of the year	11,653,860	9,312,960
Additions during the year	-	2,340,900
Balance at the end of the year	11,653,860	11,653,860
Accumulated amortisation		
Balance at the beginning of the year	9,677,940	9,207,450
Amortised during the year	470,490	470,490
Balance at the end of the year	10,148,430	9,677,940
Carrying amount as at 31st March	1,505,430	1,975,920

25. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	Furniture and fittings Rs.	Office equipment Rs.	Computer equipment Rs.	Motor vehicles Rs.	Total Rs.
Cost						
Balance as at 1st April 2018	398,788,468	47,780,680	68,208,358	124,106,991	1,141,875	640,026,372
Additions during the year	-	26,196,642	24,845,088	8,505,312	-	59,547,042
Disposals during the year	-	(419,501)	(1,869,146)	(1,694,289)	-	(3,982,936)
Revaluation	32,032,082	-	-	-	-	32,032,082
Transferred to investment property	(430,820,550)	-	-	-	-	(430,820,550)
Balance as at 31st March 2019	-	73,557,821	91,184,300	130,918,014	1,141,875	296,802,010
Depreciation						
Balance as at 1st April 2018	24,323,239	41,201,744	56,778,509	100,962,927	1,141,875	224,408,294
Charge for the year	5,897,309	4,456,296	7,632,793	10,571,728	-	28,558,126
On disposals	-	(544,194)	(1,869,145)	(1,694,289)	-	(4,107,628)
Adjustment on revaluation	(30,220,548)	-	-	-	-	(30,220,548)
Balance as at 31st March 2019	-	45,113,846	62,542,157	109,840,366	1,141,875	218,638,244
Carrying amount as at 31st March 2019	-	28,443,975	28,642,143	21,077,648	-	78,163,766
Carrying amount as at 31st March 2018	374,465,229	6,578,936	11,429,849	23,144,064	-	415,618,078

25.1 Based on the assessment of potential impairment carried out internally, for property, plant and equipment by the Board of Directors as at 31-Mar-2019, no provision was required to be made in the Financial Statements.

25.2 Property, plant and equipment included fully depreciated assets having a gross amount of Rs. 187,562,598/- as at 31-Mar-2019. (31-Mar-2018 – Rs. 180,762,903/-).

25.3 There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2017/2018 – nil).

25.4 There were no restrictions on the title of the property, plant and equipment as at 31-Mar-2019.

25.5 There were no items of property, plant and equipment pledged as security as at 31-Mar-2019 except Matara and Kalutara buildings disclosed in asset pledged note (Note 43).

25.6 There were no temporary idle items of property, plant and equipment as at 31-Mar-2019.

25.7 Due to change in nature of use, Land and Building at Kalutara and Matara were transferred as Investment Property as at 31-Mar-2019. As of the date of transfer, land and buildings were revalued by an independent valuer, Messrs. Deshamanya. H.B. Manjula Basnayaka.

Land and buildings were valued at their open market/fair value, and the surplus arising from the revaluation was transferred to the revaluation reserve.

In determining the fair value, the current condition of the properties, future usability and associated redevelopment requirements have been considered. The Valuer has also made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are approximated within the appropriate range of values.

The details of land and buildings and significant assumptions used by the valuer are as follows:

Location	Address	Land Extent	Building Area (Sq.Ft)	Valuation of Land and Building Rs.	Carrying amount as at 31st March 2019 Rs.	Revaluation Gain Rs.
Matara	38, Station Road, Matara	37.8 Perches	9,400 Sq. Ft	124,600,000	100,336,000	24,264,000
Kalutara	197/4, Galle Road, Kalutara	39.87 Perches	36,141 Sq. Ft	276,000,000	268,231,918	7,768,082
				400,600,000	368,567,918	32,032,082

26. INVESTMENT PROPERTIES

As at 31st March	2019 Rs.	2018 Rs.
Balance as at 1st April 2018	-	-
Transferred from property, plant and equipment	400,600,002	-
Balance as at 31st March 2019	400,600,002	-

27. DEPOSITS FROM CUSTOMERS

As at 31st March	2019 Rs.	2018 Rs.
Fixed deposits (Note 27.1)	10,401,745,077	11,772,678,129
Savings deposits	77,786,206	79,946,901
	10,479,531,283	11,852,625,030

27.1 FIXED DEPOSITS

As at 31st March	2019 Rs.	2018 Rs.
Public deposits	10,070,813,152	11,399,286,886
Interest accrued	330,931,925	373,391,243
Public deposits at amortised cost	10,401,745,077	11,772,678,129

27.2 Rs. 7,350,388,538/- (2017/2018 - Rs. 6,647,268,881/-) of deposits from customers are expected to be matured after a 12 months period from the reporting date, 31-Mar-2019.

28. INTEREST BEARING BORROWINGS

As at 31st March	2019 Rs.	2018 Rs.
Institutional borrowings (Note 28.1)	2,091,868,611	1,806,789,942
	2,091,868,611	1,806,789,942

28.1 MOVEMENT IN INSTITUTIONAL BORROWINGS

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	1,739,487,340	4,746,665,867
Obtained during the year	4,578,904,725	3,344,000,000
Payments made during the year	(4,275,006,688)	(6,351,178,527)
Balance before adjusting for amortised interest (Note 28.3)	2,043,385,377	1,739,487,340
Net effect on amortised interest payable (Note 28.3)	48,483,234	67,302,602
Balance at the end of the year	2,091,868,611	1,806,789,942

28.2 INTEREST BEARING BORROWINGS – CURRENT AND NON-CURRENT

As at 31st March	2019 Rs.	2018 Rs.
Payable within one year	1,692,785,278	1,198,447,248
Payable after one year (1-5 years)	399,083,333	608,342,694
	2,091,868,611	1,806,789,942

28.3 INSTITUTIONAL BORROWINGS

Bank	Facility amount Rs.	Capital outstanding as at 31.03.2019 Rs.	Finance cost payable as at 31.03.2019 Rs.	Total payable at amortised cost as at 31.03.2019 Rs.	Tenure of loan (months)
Long-term loans					
Union Bank PLC	500,000,000	74,591,019	91,042	74,682,061	60
Sampath Bank PLC	250,000,000	64,410,000	152,149	64,562,149	60
Seylan Bank PLC	300,000,000	125,000,000	1,100,753	126,100,753	48
Pan Asia Banking Corporation PLC	50,000,000	1,184,337	438	1,184,775	48
Bank of Ceylon	2,024,000,000	758,833,721	3,590,739	762,424,460	36
Medium term loans					
Sampath Bank PLC	200,000,000	16,666,300	42,108	16,708,408	12
Short-term loans - Revolving					
Nations Trust Bank PLC	55,000,000	55,000,000	610,681	55,610,681	Revolving
National Development Bank PLC	150,000,000	150,000,000	1,968,288	151,968,288	Revolving

Bank	Facility amount	Capital outstanding as at 31.03.2019	Finance cost payable as at 31.03.2019	Total payable at amortised cost as at 31.03.2019	Tenure of loan (months)
	Rs.	Rs.	Rs.	Rs.	
Union Bank PLC	200,000,000	200,000,000	452,054	200,452,054	Revolving
Sampath Bank PLC	100,000,000	100,000,000	254,795	100,254,795	Revolving
Cargills Bank PLC	400,000,000	400,000,000	1,931,507	401,931,507	Revolving
Securitization					
Deutsche Bank	318,100,000	97,700,000	38,288,680	135,988,680	48
		2,043,385,377	48,483,234	2,091,868,611	

29. TERM DEBTS

As at 31st March	2019	2018
	Rs.	Rs.
Balance at the beginning of the year	1,000,000,000	1,000,000,000
Balance at the end of the year (Note 29.1)	1,000,000,000	1,000,000,000
Initial cost on debentures	(11,332,496)	(25,334,415)
Net effect on amortised interest payable	23,598,481	23,595,482
	1,012,265,985	998,261,067

29.1 DETAILS OF TERM DEBTS

Interest payment frequency	Allotment date	Maturity date	Effective annual yield	Value of the debentures as at 31.03.2019 (Rs.)	Value of the debentures as at 31.03.2018 (Rs.)
Semi annually	26th December 2018	26th December 2019	9.05%	1,000,000,000	1,000,000,000
Balance at the end of the year				1,000,000,000	1,000,000,000

30. REDEEMABLE PREFERENCE SHARES

As at 31st March	2019	2018
	Rs.	Rs.
Balance at the beginning of the year	400,049,600	400,049,600
Balance at the end of the year	400,049,600	400,049,600
Net effect on amortised interest payable	112,167,326	56,160,385
	512,216,926	456,209,985

On 16-Feb-2017, the company issued 4,000,496 new five year, unlisted, redeemable, non convertible, cumulative, non-voting, unsecured, subordinated Preference Shares, to the existing holders of issued ordinary shares of the company in the proportion of one new preference share for every existing thirty seven Ordinary Shares held at a price of Rs. 100 per share with a 14% annual dividend per share.

31. CURRENT TAX PAYABLE

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	-	2,136,340
Adjustments in respect of previous years' under provision (Note 12)	12,840,738	1,819,624
Set off – ESC and WHT	-	(1,457,420)
Payments made during the year	(12,840,738)	(2,498,544)
Balance at the end of the year	-	-

32. OTHER LIABILITIES

As at 31st March	2019 Rs.	2018 Rs.
Vendor payable	123,688,774	234,445,446
Insurance payable	61,073,173	54,653,980
Accrued expenses and other payable	239,860,046	162,411,398
Real estate advances	11,709,183	11,473,648
	436,331,176	462,984,472

33. RETIREMENT BENEFIT OBLIGATIONS

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	51,873,885	44,899,285
Amount recognised in the total comprehensive income (Note 33.1)	8,956,975	12,726,718
Payments during the year	(10,524,884)	(5,752,118)
Balance at the end of the year	50,305,976	51,873,885

33.1 THE AMOUNT RECOGNISED IN THE TOTAL COMPREHENSIVE INCOME IS AS FOLLOWS:

As at 31st March	2019 Rs.	2018 Rs.
Interest cost	5,706,127	5,387,914
Current service cost	5,026,209	5,771,782
Actuarial (gain) /loss recognised	(1,775,361)	1,567,022
	8,956,975	12,726,718

33.2 An actuarial valuation of the retirement benefit obligation was carried out as at 31-Mar-2019 by Actuarial and Management Consultants (Pvt) Ltd. The company has estimated its gratuity liability as at 31-Mar-2019 based on the forecast given by the actuarier using the census and assumptions as at 31-Mar-2019.

The principal assumptions used were as follows:

As at 31st March	2019	2018
Discount rate	11%	11%
Future salary increases	8%	10%
Staff turnover factor	50%	40%
Retirement age	55 years	55 years

33.3 SENSITIVITY OF ASSUMPTIONS EMPLOYED IN ACTUARIAL VALUATION

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 benefit liability measurement.

The sensitivity of the income statement and the statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2018/2019	2017/2018
Increase/decrease in discount rate	Increase/decrease in salary increment	Sensitivity effect on income statement increase/(reduction) in results for the year	Sensitivity effect on income statement increase/(reduction) in results for the year
		Rs.	Rs.
1%	-	(765,874)	(969,299)
(-1%)	-	798,323	1,016,235
-	1%	976,708	1,249,302
-	(-1%)	(952,895)	(1,212,579)

34. STATED CAPITAL

As at 31st March	2019	2018
	Rs.	Rs.
Ordinary shares (Note 34.1)	1,378,689,779	1,378,689,779
Redeemable Preference Shares	400,049,600	400,049,600
Stated Capital	1,778,739,379	1,778,739,379
Less: Redeemable Preference Shares- classified as borrowings (Refer Note 30)	(400,049,600)	(400,049,600)
Total Equity	1,378,689,779	1,378,689,779
No. of shares (Note 34.2)	148,018,370	148,018,370

34.1 MOVEMENT IN ORDINARY SHARES

As at 31st March	2019 Rs.	2018 Rs.
At the beginning of the year	1,378,689,779	1,378,689,779
At the end of the year	1,378,689,779	1,378,689,779

34.2 MOVEMENT IN NUMBER OF SHARES

As at 31st March	2019 Rs.	2018 Rs.
At the beginning of the year	148,018,370	148,018,370
At the end of the year	148,018,370	148,018,370

34.3 The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the company.

34.4 All ordinary shares rank equally with regard to the company's residual assets.

35. STATUTORY RESERVE FUND

As at 31st March	2019 Rs.	2018 Rs.
At the beginning of the year	305,274,930	305,274,930
Transfer during the year	1,203,612	-
At the end of the year	306,478,542	305,274,930

35.1 Statutory reserve fund is a capital reserve which contains profits transferred as required by Section 3 (b) (i) of Finance Companies Capital Funds Direction No. 01 of 2003 issued by the Central Bank of Sri Lanka.

36. REVALUATION RESERVE

As at 31st March	2019 Rs.	2018 Rs.
At the beginning of the year	112,291,899	112,291,899
Revaluation surplus during the year	32,032,082	-
Deferred Tax effect on revaluation surplus	(3,203,208)	-
At the end of the year	141,120,773	112,291,899

37. OTHER RESERVES

37.1 AVAILABLE FOR SALE RESERVE

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	-	(1,545,592)
During the year fair value gain/(loss) on AFS financial assets	-	1,759,556
Balance at the end of the year	-	213,964

37.2 FAIR VALUE RESERVE

As at 31st March	2019 Rs.	2018 Rs.
Balance at the beginning of the year	213,964	-
Gain on fair value of financial assets	855,067	-
Balance at the end of the year	1,069,031	-

38. FINANCIAL REPORTING BY SEGMENTS

BUSINESS SEGMENTS

The company has four reportable segments, as described below, which are the company's strategic divisions. The strategic divisions offer different products and services, which are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the company's management reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the company's reportable segments.

(a) Hire purchase, finance leasing – Provision of hire purchase and leasing facilities to customers

(b) Loans – Provision of Loan facilities to customers

(c) Factoring – Debt factoring

(d) Gold Loan – Provision of loans against gold

For the year ended 31st March	Finance leases, Hire purchases		Loans	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.
Interest income	2,494,208,042	2,465,874,032	467,925,509	562,844,711
Fee and commission income	160,654,792	54,683,213	6,746,935	18,502,616
Other income	55,809,134	53,112,260	11,156,506	13,631,462
Total segmental income	2,710,671,968	2,573,669,505	485,828,950	594,978,789
Less: Interest expense	(1,461,233,963)	(1,541,272,184)	(289,108,911)	(395,573,311)
Segmental results	1,249,438,005	1,032,397,320	196,720,039	199,405,477
Depreciation and amortisation	(21,181,253)	(17,064,139)	(4,234,231)	(4,379,575)
Impairment charge	(412,369,688)	(302,571,152)	(30,651,220)	(109,916,761)
Other Expenses	(701,769,927)	(665,318,909)	(141,429,069)	(170,756,604)
Income tax	-	(4,752,903)	-	(1,219,851)
Profit/(Loss) after tax	114,117,137	42,690,217	20,405,519	(86,867,313)
Segmental assets	12,831,672,396	13,189,363,185	2,599,104,379	3,385,099,740
Segmental liabilities	11,268,590,699	11,479,800,320	2,252,643,811	2,946,333,992

	Factoring		Gold Loan		Total	
	2019	2018	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	117,765,696	247,579,653	159,138,521	34,750,177	3,239,037,768	3,311,048,574
	10,613,532	38,300,030	1,115,207	625,791	179,130,466	112,111,650
	2,713,298	4,689,698	5,567,048	1,515,208	75,245,986	72,948,628
	131,092,526	290,569,381	165,820,776	36,891,176	3,493,414,220	3,496,108,852
	(70,312,207)	(136,091,016)	(129,264,086)	(43,970,046)	(1,949,919,167)	(2,116,906,558)
	60,780,319	154,478,365	36,556,690	(7,078,870)	1,543,495,053	1,379,202,294
	(1,029,779)	(1,506,727)	(2,112,863)	(486,748)	(28,558,126)	(23,437,189)
	(131,028,381)	(133,558,000)	4,754,088	365,282	(569,295,201)	(545,680,634)
	(41,467,434)	(58,746,227)	(29,100,035)	(18,980,491)	(913,766,464)	(913,802,231)
	-	(419,671)	(2,846,204)	(135,593)	(2,846,204)	(6,528,018)
	(112,745,274)	(39,752,260)	7,251,676	(26,316,420)	29,029,058	(110,245,779)
	623,963,802	1,164,592,376	1,304,903,325	376,271,573	17,359,643,901	18,115,326,874
	547,850,139	1,013,641,655	1,124,059,443	327,500,461	15,193,144,092	15,767,276,427

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Less than 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total 2019	Total 2018
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
ASSETS							
Cash and cash equivalents	181,741,883	-	-	-	-	181,741,883	195,581,111
Financial assets at fair value through other comprehensive income	936,939,610	-	-	-	-	936,939,610	945,559,444
Loans and receivables to customers	1,756,384,877	3,140,016,842	7,446,255,577	1,679,486,228	11,616,136	14,033,759,660	14,504,333,754
Investments with banks and other financial institutions	269,459,340	16,793,990	-	-	-	286,253,330	754,474,257
Other assets	65,360,588	187,032,239	-	-	-	252,392,826	210,103,729
Real estate stock	-	16,772,709	-	-	-	16,772,709	16,779,715
Deferred tax asset	-	-	-	371,088,939	-	371,088,939	270,475,120
Brand value	-	-	-	-	235,880,000	235,880,000	235,880,000
Goodwill	-	-	-	-	564,545,746	564,545,746	564,545,746
Intangible assets	-	-	-	-	1,505,430	1,505,430	1,975,920
Property, plant and equipment	-	-	-	-	78,163,766	78,163,766	415,618,078
Investment properties	-	-	-	-	400,600,002	400,600,002	-
Total assets	3,209,886,298	3,360,615,780	7,446,255,577	2,050,575,167	1,292,311,080	17,359,643,901	18,115,326,874
LIABILITIES							
Bank overdrafts	610,624,135	-	-	-	-	610,624,135	138,490,215
Deposits from customers	3,070,854,755	4,279,533,784	2,094,563,691	1,034,579,053	-	10,479,531,283	11,852,625,030
Interest bearing borrowings	526,865,274	1,165,920,004	399,083,333	-	-	2,091,868,611	1,806,789,942
Term debts	23,598,481	988,667,504	-	-	-	1,012,265,985	998,261,067
Redeemable preference shares	-	-	-	512,216,926	-	512,216,926	456,209,985
Other liabilities	424,621,993	11,709,183	-	-	-	436,331,176	463,026,303
Retirement benefit obligations	-	-	-	-	50,305,976	50,305,976	51,873,885
	4,656,564,638	6,445,830,475	2,493,647,024	1,546,795,979	50,305,976	15,193,144,092	15,767,276,427
Maturity Gap	(1,446,678,340)	(3,085,214,695)	4,952,608,553	503,779,188	1,242,005,104		

40. RELATED PARTY TRANSACTIONS

The company carries out transactions in the ordinary course of the business with parties who are defined as related parties according to Sri Lanka Accounting Standard, LKAS 24 “Related Party Disclosures”, the details of which are reported below.

40.1 PARENT AND ULTIMATE CONTROLLING PARTY

The parent and ultimate controlling party of the company is Janashakthi PLC.

40.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

According to LKAS 24, "Related Party Disclosures", key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (Including Executive and Non-Executive Directors) and their immediate family members have been classified as key management personnel of the company.

The company has paid Rs. 6,380,000/- (2017/2018 – Rs. 5,377,125/-) to the Directors as emoluments, of which all are comprised of short term employment benefits and no post-employment benefits have been paid during the year (2017/2018 – Nil). There are no direct transactions, arrangements and agreements involving key management personnel of the company other than disclosed in other related party transactions.

The company accepts and holds fixed deposits from key management personnel and their relatives in the normal course of its business and the amount outstanding on such deposits as at 31-Mar-2019 is Rs. 183,650,000/- (2017/2018 – Rs. 132,150,000/).

40.3 OTHER RELATED PARTY TRANSACTIONS

The following transactions have been carried out with related parties during the year ended 31-Mar-2019.

40.3.1 Recurrent Related Party Transactions

Company	Relationship	Nature of Transactions	Rs.
Janashakthi Insurance PLC	Affiliate	Rent and utility paid	(26,086,035)
		Payments for Inhouse insurance policies	(1,748,091)
		Rent income received	2,005,650
		Purchase of Fixed Assets	1,936,209
		Reimbursement of promotion expenses	490,812
		Life insurance payments for customers	(18,872,239)
Orient Capital Limited	Affiliate	Reimbursement of collections on assigned debtors	(4,706,080)
Kelsey Homes	Affiliate	Granting of Business Loans	(175,000,000)
		Repayment of Loans	61,230,361

40.3.2 Non-Recurrent Related Party Transactions

There were no non-recurrent transactions carried out with Related Parties as required to be disclosed by Rule 9.3.2 (a) of the CSE listing Rules.

41. CAPITAL COMMITMENTS

The company does not have material capital commitments outstanding as at the reporting date.

42. CONTINGENT LIABILITIES

The company does not anticipate any contingent liabilities to arise out of any contingent events as at reporting date except as disclosed below:

The Inland Revenue Department has issued assessments on Value Added Tax on Financial Services amounting to Rs. 294,223,489/- (including penalties of Rs. 122,653,108/-) and the Board of Directors is confident that there will not be any additional tax liability on that.

43. ASSETS PLEDGED AS SECURITIES

The following assets have been pledged as securities against the long-term and short-term borrowings that have been disclosed under the note No. 28 to the Financial Statements.

Funding Institution	Nature of assets	Nature of liability	Balance Outstanding as at 31st March 2019	Value of assets pledged (Rs.)	Included under
BOC	Leases and Hire Purchase Receivable	OD	36,931,668	32,500,000	Future Rental Receivable
Commercial Bank of Ceylon PLC	Leases and Hire Purchase Receivable	OD	21,327,079	30,000,000	Future Rental Receivable
Hatton National Bank PLC	Leases and Hire Purchase Receivable	OD	16,932,777	32,500,000	Future Rental Receivable
NDB Bank PLC	Leases and Hire Purchase Receivable	OD	21,327,079	30,000,000	Future Rental Receivable
NTB	Leases and Hire Purchase Receivable	OD	19,678,256	30,000,000	Future Rental Receivable
Peoples Bank	Leases and Hire Purchase Receivable	OD	69,548,716	93,750,000	Future Rental Receivable
Sampath Bank PLC	Leases and Hire Purchase Receivable	OD	64,009,370	99,750,000	Future Rental Receivable
Seylan Bank PLC	Land and Building	OD	55,000,000	190,000,000	Investment Property
Union Bank	Leases and Hire Purchase Receivable	OD	25,207,094	30,000,000	Future Rental Receivable
DFCC Bank	Leases and Hire Purchase Receivable	OD	207,333,312	275,753,305	Future Rental Receivable
Trust 17	Leases and Hire Purchase Receivable	Securitisation	97,700,000	187,152,855	Future Rental Receivable
NDB Bank PLC	Leases and Hire Purchase Receivable	Short Term Revolving	150,000,000	180,000,000	Future Rental Receivable
NTB	Leases and Hire Purchase Receivable	Short Term Revolving	55,000,000	82,500,000	Future Rental Receivable
Pan Asia Banking Corporation	Leases and Hire Purchase Receivable	Short Term Revolving	-	250,000,000	Future Rental Receivable
Cargills Bank	Leases and Hire Purchase Receivable	Short Term Revolving	400,000,000	480,000,000	Future Rental Receivable
BOC	Leases and Hire Purchase Receivable	Term Loan	758,833,319	1,009,248,314	Future Rental Receivable
Pan Asia Banking Corporation	Leases and Hire Purchase Receivable	Term Loan	1,184,339	1,480,424	Future Rental Receivable
Sampath Bank PLC	Leases and Hire Purchase Receivable	Term Loan	181,076,300	240,831,479	Future Rental Receivable
Seylan Bank PLC	Leases and Hire Purchase Receivable	Term Loan	125,000,000	187,500,000	Future Rental Receivable
Union Bank	Leases and Hire Purchase Receivable	Term Loan	74,591,019	89,509,223	Future Rental Receivable
Union Bank	Leases and Hire Purchase Receivable	Short Term Revolving	200,000,000	240,000,000	Future Rental Receivable

43.1 The company has pledged Rs. 1,309,045,845 worth of debtors as securities to Janashakthi General Insurance Ltd. for the guarantee obtained for the debentures issued amounting to Rs. 1,000,000,000.

43.2 In the ordinary course of the business, the company entered into transactions that resulted in the transfer of financial assets to third parties. The information above sets out the extent of such transfers and retained interest in transferred assets.

43.3 The company has transferred future rental receivable of lease and hire purchases, but has retained substantially all of the credit risks associated with the transferred assets. Due to the retention of substantially all the risk and rewards on these assets, the company continues to recognise these assets within lease rental receivable and stock out on hire.

44. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the date of the statement of financial position, no circumstances have arisen which would require adjustments to, or disclosures, in the Financial Statements.

45. COMPARATIVE INFORMATION

Comparative information of the Financial Statements has been re-classified wherever necessary to conform to the current year's presentation/classification.

46. DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

47. NUMBER OF EMPLOYEES OF THE COMPANY AS AT THE YEAR END

The number of employees of the company as at 31-Mar-2019 is 508 (2018 – 476).

48. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy.

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets – fair value through other comprehensive income				
Government Securities	936,709,010	-	-	936,709,010
Investments in unquoted shares	-	230,600	-	230,600
	936,709,010	230,600	-	936,939,610

49. FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

The following table summarises the carrying amounts and the company's estimate of fair values of those financial assets and liabilities not presented on the company's statement of financial position at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values in the table below may be different from the actual amounts that will be received/ paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 March	2019		2018	
	Carrying Value (Rs.)	Fair Value (Rs.)	Carrying Value (Rs.)	Fair Value (Rs.)
ASSETS				
Cash and cash equivalents	181,741,883	181,741,883	195,581,111	195,581,111
Loans and receivables to customers	14,033,759,660	14,033,759,660	14,504,333,754	14,504,333,754
Investments with banks and other financial institutions	286,253,330	286,253,330	754,474,257	754,474,257
	14,501,754,873	14,501,754,873	15,454,389,122	16,893,157,558
LIABILITIES				
Bank overdrafts	610,624,135	610,624,135	138,490,215	138,490,215
Deposits from customers	10,479,531,283	10,479,531,283	11,852,625,030	11,852,625,030
Interest bearing borrowings	2,091,868,611	2,091,868,611	1,806,789,942	1,806,789,942
Term debts	1,012,265,985	1,012,265,985	998,261,067	998,261,067
Redeemable preference shares	512,216,926	512,216,926	456,209,985	456,209,985
	14,706,506,940	14,706,506,940	15,252,376,239	15,252,376,239

Given below is the methodologies and assumptions used in fair value estimates.

Cash and cash equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Investments with banks and other financial institutions

The carrying amounts of fixed deposits with banks and other reverse repurchase agreements, approximate their fair value as those are short-term in nature. Almost all of these balances have a remaining maturity of less than six months from the reporting date.

Loans and receivables to customers

Fair value of the loans and receivables to customers is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables. The company calculated the fair value of the loans and receivables to customers based on interest rates at the reporting date for similar types of loans and receivables. Accordingly, fair value of such loans does not materially differ from its carrying value amounting to Rs. 14,033,759,660/-.

Bank overdrafts

The carrying amounts of bank overdrafts, approximate their fair value as those are short-term in nature.

Deposits from customers

More than 70% of the customer deposits have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre-mature uplift. Amounts paid to customers in the event of pre-mature uplift would not be materially different to its carrying value as at the reporting date. Therefore, fair value of customer deposits approximates to their carrying value as at the reporting date.

Interest bearing borrowings

Interest bearing borrowings include both the fixed rate and floating rate borrowings. Floating rate borrowings represent nearly 94% of the portfolio. Accordingly, carrying value of the floating rate borrowings approximate to their fair values as at the reporting date. Rest of the borrowings has a remaining contractual maturity of less than one year. Therefore, fair value of interest bearing borrowings approximate to the carrying value as at the reporting date.

50. FINANCIAL RISK MANAGEMENT

Risk is the most important factor considered in strategic decision making process at Orient Finance PLC. Therefore, all possible risks are properly evaluated before taking any strategic or operational decision and the best options which minimise the risk is decide. Risk management framework of the company is discussed in detail in this report. The major categories of financial risks are;

1. Credit risk
2. Liquidity risk
3. Operational risk
4. Market Risk

50.1 CREDIT RISK

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's loans and advances to customers. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its company's credit committee. The company's Credit Department, reporting to the company's Credit Committee, is responsible for management of the company's credit risk, including:

I. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

II. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the company's Credit Committee or the Board of Directors as appropriate.

III. Reviewing and assessing credit risk - company's Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

IV. Limiting concentrations of exposure to counterparties, geographies and industries.

V. Providing advice, guidance and specialist skills to business units to promote best practices throughout the company in the management of credit risk.

Regular audits of business units and the company's credit processes are evaluated by internal audit.

As at 31st March	2019 Rs.	2018 Rs.
Loans and advance to customers		
Carrying amount at amortised cost		
Individually significant impaired loans and advances (Note 50.1.1)	2,429,560,066	467,018,049
Carrying amount of unimpaired loans and advances (Note 50.1.2)	11,604,199,594	15,949,085,095
	14,033,759,660	16,416,103,144

50.1.1 Individually significant impaired loans and advances

As at 31st March	2019 Rs.	2018 Rs.
Gross receivable	3,194,412,467	948,646,255
Allowance for impairment	(764,852,401)	(481,628,206)
Individually significant impaired loans and advances	2,429,560,066	467,018,049

50.1.2 Individually significant unimpaired and individually not significant

As at 31st March	2019 Rs.	2018 Rs.
Gross receivable	12,153,411,176	16,131,549,424
Allowance for collective impairment	(549,211,582)	(182,464,329)
Carrying amount of unimpaired loan advances	11,604,199,594	15,949,085,095

Write-off policy

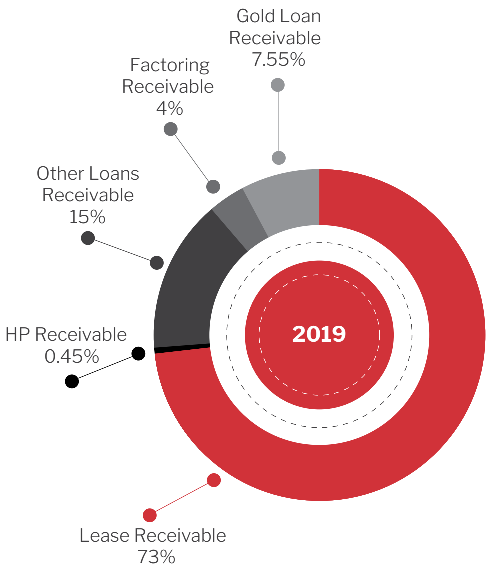
The company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the company's Credit Department determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position so that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

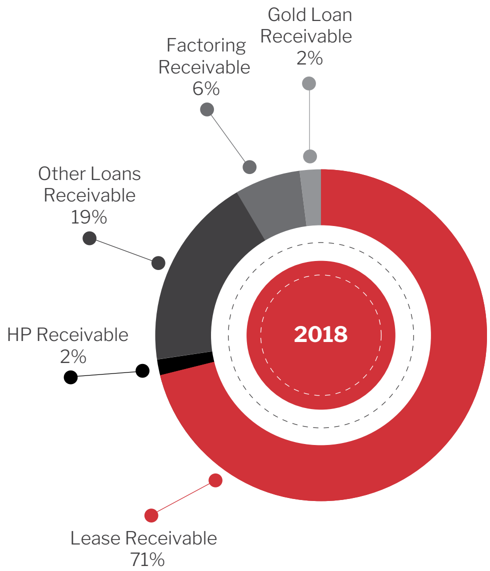
Concentration of credit risk

The company monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk from loans and advances and investment securities at the reporting date is shown below:

Product concentration





50.2 LIQUIDITY RISK

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities to ensure that sufficient liquidity is maintained within the company as a whole.

The daily liquidity position is monitored and regular liquidity stress testing conducted under a variety of scenarios covering both the normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the company and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO which in turn submit monthly summary to the board.

The company relies on deposits from customers and bank borrowings as its primary sources of funding. While the company's debt securities and subordinated liabilities have maturities of over one year, deposits from customers generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the company's liquidity risk and the company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends and maintaining unutilised credit lines.

Exposure to liquidity risk

The key measure used by the company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the following month. A similar, but not identical, calculation is used to measure the company's compliance with the liquidity limit established by the company's lead regulator, CBSL. Details of the reported company ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

As at 31st March	2019 Rs.	2018 Rs.
Time deposits	10,401,745,077	11,772,678,129
Saving deposits	77,786,206	79,946,901
Unsecured borrowings	1,315,450	1,173,835,000
Total liquid assets	1,365,243,065	1,675,331,259
Cash in hand	162,415,514	141,293,580
Balances in current accounts (favourable)	5,536	30,656,000
Deposits in commercial banks	266,113,005	558,052,835
Approved securities	936,709,010	945,328,844
Average month end deposit liabilities	11,192,422,000	9,101,961,000
Average month end outstanding borrowings	1,254,631,000	1,891,581,000
	12,447,053,000	10,993,542,000
Required minimum amount of liquid assets	1,051,973,984	1,306,643,348
10% of fixed deposits	1,040,174,508	1,177,267,813
15% of savings deposits	11,667,931	11,992,035
10% of unsecured borrowings	131,545	117,383,500
Required minimum amount of approved securities 7.5%	933,528,975	824,515,650

Maturity analysis for financial liabilities

Contractual maturity of the assets and the liabilities of the company is disclosed in the Note 39 to the Financial Statements.

To manage the liquidity risk arising from financial liabilities, the company holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

50.3 OPERATIONAL RISKS

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Compliance with company standards is periodically reviewed by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the audit committee and senior management of the company.

Capital Management

The company manages its capital base to comply with regulatory capital requirements and to maintain a solid fund base.

CBSL has set minimum capital requirements for the finance companies as discussed below:

Tier I Capital, which includes stated capital, perpetual bonds (which are classified as innovative Tier I securities), retained earnings, translation reserve and non-controlling interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

Tier II Capital, which includes qualifying subordinated liabilities, collective impairment allowances (limited to those credit portfolios where the standardised approach is used under Basel II) and the element of the fair value reserve relating to unrealised gains/losses on equity instruments measured at fair value through other comprehensive income.

According to these regulations, the minimum capital requirement under Tier I is 6% of the total risk weighted assets and Tier II is 10% of the total risk weighted assets.

The company's Capital Adequacy Ratios as at 31-Mar-2019 were 5.47% and 8.54% for Tier I and Tier II respectively. Company's Tier I and Tier II ratios are below the statutory requirement as per the Capital Adequacy Direction No. 03 of 2018.

The Company is in the process of taking the following measures to address the above short fall in the capital Adequacy Ratios.

1. The Board of Directors of Orient Finance PLC has resolved to convert the existing 4,000,496 preference shares and accrued interest outstanding as at 31-Oct-2018 to Ordinary Shares subject to the approval of the preference shareholders of the company.
2. The company is also in the process of making a Right Issue to its ordinary shareholders to the value of Rs. 500 Mn.

50.4 MARKET RISK

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, equity prices and gold prices. As the company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk to the company.

This risk is reviewed periodically by ALCO and Integrated Risk Management Committee.

TEN YEAR ACHIEVEMENTS

For the year ended 31st March	2019	2018	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Operating Results				
Income	3,493,414	3,496,109	3,309,736	2,363,152
Interest Income	3,239,038	3,311,049	3,128,709	2,229,746
Interest Expenses	(1,949,919)	(2,116,907)	(1,836,496)	(1,096,453)
Net Interest Income	1,289,119	1,194,142	1,292,213	1,133,293
Operating Expenses & Provisions	(1,511,619)	(1,482,920)	(1,171,760)	(970,838)
Profit Before Income Tax	31,875	(103,718)	301,479	295,861
Income Tax on Profit	(2,846)	(6,528)	(43,803)	311,012
Profit for the year	29,029	(110,246)	257,676	606,873
Balance Sheet Information				
Assets				
Loans & Advances to Customers	14,033,760	14,504,334	16,416,103	13,839,304
Financial Investments - Held to Maturity	-	-	-	-
Financial Investments - Available for Sale	936,940	945,559	839,887	756,124
Cash and Cash Equivalents	181,742	195,581	107,894	231,678
Property, Plant & Equipment and Investment Assets	478,764	415,618	421,315	438,736
Other Assets	1,728,438	2,054,602	1,664,830	1,846,840
Total Assets	17,359,644	18,115,694	19,450,029	17,112,682
Liabilities				
Deposits from Customers	10,479,531	11,852,625	9,565,559	9,249,312
Borrowings	2,091,869	1,806,790	4,815,150	3,262,738
Debentures and Preference Shares	1,524,483	1,454,471	1,392,671	1,176,913
Other Liabilities	1,097,261	653,390	1,176,922	1,180,738
Total Liabilities	15,193,144	15,767,276	16,950,302	14,869,701
Capital Employed				
Stated Capital	1,378,690	1,378,690	1,378,690	1,378,690
Retained Profit & Reserve Fund	787,810	969,728	1,121,037	864,291
Total Capital Employed	2,166,500	2,348,418	2,499,727	2,242,981
Ratios and Related Information				
Operating Ratios				
ROE	1.29%	-4.53%	10.87%	43.15%
ROA - Before Tax	0.18%	-0.55%	1.65%	2.47%
Gross Profit Margin	36.90%	34.16%	39.04%	47.96%
Net Profit Margin	0.83%	-3.14%	7.79%	25.68%
Income Growth	-0.08%	5.63%	40.06%	73.42%
Profit Growth	-126.33%	-142.64%	-57.54%	14412.19%
Assets Growth	-4.17%	-6.86%	13.66%	151.44%
Net Assets Growth	-7.75%	-6.05%	11.45%	293.51%
Gearing Ratios				
Debt to Equity - Times	6.51	6.44	6.31	6.10
Interest Cover - Times	1.02	0.95	1.16	1.27
Investor Ratios				
Basic earnings per share - (Rs.)	0.20	-0.74	1.74	7.00
Net assets value per share - (Rs.)	14.64	15.87	16.89	15.15
Dividend per share - (Rs.)	-	0.25	-	-
Dividend Cover - Times	N/A	N/A	N/A	N/A
Dividend Payout ratio	0.00%	-33.68%	0.00%	0.00%

2015	2014	2013	2012 (Restated)	2011	2010 (Restated)
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
1,362,664	1,605,010	1,552,160	1,178,760	1,150,826	909,391
1,283,087	1,465,703	1,336,170	1,054,055	780,287	777,519
(805,279)	(1,039,248)	(964,202)	(614,026)	(487,491)	(529,864)
477,807	426,455	371,969	440,029	292,796	247,655
(553,203)	(495,380)	(566,782)	(474,212)	(436,369)	(299,938)
4,182	70,381	21,177	90,522	226,966	79,589
-	(13,014)	(13,625)	(16,416)	(4,902)	(21,774)
4,182	57,367	7,552	74,105	222,063	57,814
4,987,749	5,615,826	5,323,316	4,981,731	3,005,992	2,339,380
-	1,165,133	1,061,579	729,076	588,493	557,591
592,105	11,120	186,024	355,016	339,300	181,369
194,035	200,985	161,989	118,154	123,477	104,012
446,864	533,064	292,713	203,261	186,512	157,231
585,231	334,015	677,506	601,801	639,540	484,734
6,805,984	7,860,144	7,703,127	6,989,039	4,883,315	3,824,317
5,746,847	6,463,960	5,747,762	5,075,410	3,630,633	2,997,786
31,760	378,751	923,320	1,032,409	457,294	187,031
204,000	204,000	204,000	204,000	-	-
253,377	252,020	323,997	237,508	201,012	234,492
6,235,984	7,298,731	7,199,080	6,549,327	4,288,940	3,419,309
306,025	306,025	306,025	61,205	61,205	61,205
263,974	255,388	198,021	378,507	533,170	343,803
569,999	561,413	504,046	439,712	594,375	405,008
0.74%	10.77%	1.60%	14.33%	44.44%	15.43%
0.06%	0.90%	0.29%	1.52%	5.21%	2.32%
35.06%	26.57%	23.96%	37.33%	25.44%	27.23%
0.31%	3.57%	0.49%	6.29%	19.30%	6.36%
-15.10%	3.40%	31.68%	2.43%	26.55%	1.13%
-92.71%	659.63%	-89.81%	-66.63%	284.10%	81.81%
-13.41%	2.04%	10.22%	43.12%	27.69%	25.96%
1.53%	11.38%	14.63%	-26.02%	46.76%	17.53%
10.50	12.55	13.64	14.35	6.88	7.86
1.01	1.07	1.02	1.15	1.47	1.15
0.05	7.50	0.99	9.69	36.28	9.45
7.45	73.38	65.88	57.47	77.69	66.17
-	-	0.76	6.00	1.00	1.00
N/A	N/A	1.30	1.61	36.28	9.45
0.00%	0.00%	76.99%	61.94%	2.76%	10.59%

STATEMENT OF VALUE ADDED

For the year ended 31st March	2019 Rs. Mn	2018 Rs. Mn
Gross value added	3,493	3,496
Cost of services	(525)	(507)
Provision for Impairment Losses	(569)	(546)
	2,399	2,443
Value Allocated		
Payments to lenders	1,950	2,117
Payments to employees	388	370
Dividends to shareholders	-	37
Government taxes	3	6
Depreciation	29	23
Retained profit	29	(110)
	2,399	2,443

SOURCE AND UTILISATION OF INCOME

For the year ended 31st March	2019 Rs. Mn	2018 Rs. Mn
Sources of Income		
Interest Income	3,239	3,311
Fee & Commission income	179	112
Other Income	75	73
	3,493	3,496
Utilization of Income		
Payments to lenders	1,950	2,117
Payments to employees	388	370
Cost of services	525	507
Depreciation	29	23
Provision for Impairment Losses	569	546
Government Taxes - Including Deferred Tax	3	6
Dividends	-	37
Retained profit	29	(110)
	3,493	3,496

SHARE INFORMATION

1. STOCK EXCHANGE LISTING

Orient Finance PLC has listed its shares on the Diri Savi Board of the Colombo Stock Exchange by way of an Initial Public Offering on 18-Feb-2016.

Stock Exchange code for Orient Finance PLC shares is “BFN”.

2. SHAREHOLDERS INFORMATION

There were 1,043 registered Voting Shareholders as at 31-Mar-2019 (2017/2018 - 789) distributed as follows:

Range	As at 31 March 2019			As at 31 March 2018		
	No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1 - 1000	560	142,797	0.09	417	101,641	0.07
1,001 - 10,000	280	1,163,256	0.79	216	1,016,975	0.69
10,001 - 100,000	177	5,800,198	3.92	127	4,222,287	2.85
100,001 - 1,000,000	24	5,833,100	3.94	27	6,876,706	4.65
Over 1,000,000	2	135,079,019	91.26	2	135,800,761	91.75
Total	1,043	148,018,370	100.00	789	148,018,370	100.00

ANALYSIS OF SHAREHOLDERS

As at 31 March	2019		2018	
	No. of Shares	% of Shares	No.. of Shares	% of Shares
Residents	147,885,919	99.92	148,018,270	100
Non-Residents	132,451	0.09	100	-

PUBLIC HOLDING

Public Holding as at 31-Mar-2019	15,077,610
Number of Public Shareholders as at 31-Mar-2019	1,033
Public Holding of issued number of shares as at 31-Mar-2019	8.74%
Float adjusted market capitalization (Rs.)	168,178,472

According to the option 2 of 7.13.1 (b) of the listing rules the company is non-compliant with the minimum public holding requirement as at 31-Mar-2019. The company is in the process of taking corrective actions.

3. SHARE PRICE INFORMATION

	2018/19 (Rs.)	2017/18 (Rs.)
Highest	19.50	21.70
Lowest	10.50	13.30
Close	13.10	18.90

4. INVESTOR RATIOS

As at 31st March	2019 (Rs.)	2018 (Rs.)
Book Value	14.64	15.86
EPS	0.20	(0.74)
Price Earnings Ratio	65.50	(25.54)

5. DIRECTORS' INTEREST IN SHARES

The number of shares held by the Directors as at 31st March	2019	2018
Dr. D.C. Jayasuriya PC – Chairman	-	-
Mr. Prakash Schaffter	10	10
Mr. Ananda W. Atukorala (Retired w.e.f. 31st March 2019)	-	-
Mr. K.M.A.T.B. Tittawella	-	-
Ms. Minette D.A. Perera	-	-
Ms. Indrani Goonesekara	-	-
Mr. Ramesh Schaffter (Alternative Director to Mr. Prakash Schaffter)	10	10
	20	20

6. CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

As at 31st March	2019	2018
Mr. Jude Anthony	-	-

7. TOP 20 SHAREHOLDERS AS AT 31ST MARCH 2019

	Name	No. of Shares	%
1	Janashakthi PLC	132,940,720	89.81
2	First Capital PLC	2,860,041	1.93
3	Mr. L.P.Mendis	566,495	0.38
4	Seylan Bank Plc/ S.R. Fernanado	695,328	0.47
5	Mr. R.A.B.K.Kumara	500,000	0.34
6	Mr. K.S.S. Peris	512,209	0.35
7	Mr.N.L.S.Fernando	329,177	0.22
8	Mr. A.S.A.Fernando	529,288	0.36
9	M/S Commercial Credit And Finance Plc	330,000	0.22
10	Mrs. M. N. S. Fernando	248,555	0.17
11	Mr.R.E.Rambukwella	149,000	0.10
12	Mr. G.A.C.De Silva	211,000	0.14
13	Mr.M.K.De Livera	207,628	0.14
14	Mr. S.D.S. Gunasekera	200,000	0.14
15	M/S Merchant Bank of Sri Lanka & Finance PLC/ D.L.J. Priyadarshana	344,541	0.23
16	Dr. N.C.N. Amarasena	195,000	0.13
17	Mr. R.M.P. Dayawansa	19,130	0.01
18	Seylan Bank PLC/ K.L.G.Udayanda	177,794	0.12
19	Mr. A.T.Abeysinghe	139,384	0.09
20	Mr. K.D.A. Weerasinghe	133,400	0.09

SHARE INFORMATION CONTD.

DEBENTURE INFORMATION

MARKET VALUES OF LISTED DEBENTURES

Five years rated secured, redeemable 10,000,000 debentures of Rs. 100 each on 26-Dec-2014. These debentures were listed on the Main Board of the Colombo Stock Exchange with 9.25% interest rate per annum payable on semi-annually.

Market Prices - Debenture	31st March 2019	31st March 2018
Highest price	N/T*	N/T*
Lowest price	N/T*	N/T*
Last traded price	N/T*	N/T*

INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES

	2018/19	2017/18
2014/2019 (05 Year)	9.99%	9.68%

YIELD TO MATURITY OF LAST TRADE

	2018/19	2017/18
Debenture	N/T*	N/T*

DEBENTURE RELATED RATIOS

	2018/19	2017/18
Debt to Equity Ratio (Times)	6.55	6.53
Interest Coverage Ratio (Times)	1.05	1.17
Liquid Asset Ratio	7.9%	6.30%

N/T - Not Traded*

GLOSSARY OF FINANCIAL TERMS

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

ACCRUAL BASIS

The system of accounting wherein revenue is recognized at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

AMORTIZATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AVAILABLE FOR SALE (AFS)

Non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

CAPITAL ADEQUACY RATIO

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka.

CAPITAL RESERVES

Reserves identified for specific purposes and considered not available for distribution.

CASH EQUIVALENTS

Short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST TEST (SPPI)

Classification decision for non–equity financial assets under SLFRS

EXPECTED CREDIT LOSSES (ECL)

A probability weighted estimate of credit losses over the expected life of the financial instrument.

12 MONTHS EXPECTED CREDIT LOSSES (12MECL)

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

LIFE TIME EXPECTED CREDIT LOSS (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

EXPOSURE AT DEFAULT (EAD)

Gross carrying amount of financial instruments subject to impairment calculation.

EXPOSURE AT CLAIM

Contingent claim or position which carries a risk of financial loss.

CONTINGENCIES

A condition or situation existing at the balance sheet date where the outcome will be confirmed only by the occurrence or non-occurrence of one or more future events.

CORPORATE GOVERNANCE

The process by which corporate entities are governed to promote stakeholder interest. Shareholders exert collective pressure on management to ensure equitable decision making on matters that may affect the value of their holdings and base their response on statutory requirements or on so called "Best Practice".

CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

DEFERRED TAXATION

Sum set aside for tax in the financial statements that may become payable / receivable in a financial year other than the current financial year.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION

Removal of a previously recognized financial asset or liability from an entity's statement of financial position.

DIVIDEND PER SHARE (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; this indicates the proportion of the current year's dividend attributable to an ordinary share in issue.

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; this indicates the proportion of the current year's earnings attributable to an ordinary share in issue.

GLOSSARY OF FINANCIAL TERMS CONTD.

ECONOMIC VALUE ADDED (EVA)

A measure of performance considering cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

FAIR VALUE

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

FINANCE LEASE

A lease that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. Title may or may not eventually be transferred.

FINANCIAL ASSET

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

FINANCIAL INSTRUMENT

Any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

FINANCIAL LIABILITY

A contractual obligation 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 unfavourable to the entity.

GROSS DIVIDEND

The proportion of profit distributed to shareholders including the tax withheld.

GROUP

A parent and all its subsidiaries and associates.

GUARANTEES

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfill the contractual obligation.

HIRE PURCHASE

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

IMPAIRMENT

This occurs when the recoverable amount of an asset is less than its carrying amount.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance.

INTEREST COVER

Earnings before interest and tax divided by interest expenses. This indicates the ability to cover or service interest charges of the debt holders.

KEY MANAGEMENT PERSONNEL (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

LEASE

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

LENDING PORTFOLIO

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

LIQUID ASSET

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills.

LIQUID ASSETS RATIO

Liquid assets as a percentage of public deposits.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

MARKET RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of currency risk, interest rate risk and other price risk.

NET ASSET VALUE PER ORDINARY SHARE

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

NET INTEREST INCOME

The difference between interest income earned from interest earning assets and interest expenses incurred on interest bearing liabilities.

NON-PERFORMING ADVANCES

Loans and advances of which rentals are in arrears for six months or more.

NPL RATIO

Total non-performing loans as a percentage of the total lending portfolio.

PARENT

An entity that has one or more subsidiaries.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

RELATED PARTY

Parties have the ability to control or exert a significant influence over the company's financial and operating decisions.

RELATED PARTY TRANSACTIONS

A transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

RETURN ON AVERAGE ASSETS (ROA)

Net profit for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

RETURN ON AVERAGE EQUITY (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

REVERSE REPURCHASE AGREEMENT

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

RISK WEIGHTED ASSETS

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an organization specifically, the different industries and the different business lines in which it operates.

SHAREHOLDERS' FUNDS (EQUITY)

Total of issued and fully paid ordinary share capital and capital and revenue reserves attributable to ordinary shareholders.

SUSTAINABILITY REPORT

A practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization.

TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debts, such as unsecured subordinate term debts and other hybrid capital instruments.

VALUE ADDED

Value of wealth created by providing financial and other related services less the cost of providing such services.

BRANCH NETWORK

Head Office
No. 61, Dharmapala Mawatha,
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☎ : +94 117 577 577
🖷 : +94 117 577 511
✉ : orientfinance@orient.lk

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🖷 : +94 117 577 593
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🖷 : +94 632 223 800
✉ : ampara@orient.lk

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Window Offices

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Kilinochchi
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Puttalam
No. 116, Kurunegala Road,
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NOTICE OF MEETING

Notice is hereby given that the 36th Annual General Meeting of Orient Finance PLC will be held on 27-Sep-2019 at Renuka City Hotel, No. 328, Galle Road, Colombo 03 at 10.30 a.m. to transact the following businesses.

1. To receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31-Mar-2019 together with the report of the Auditors thereon.
2. To re-elect Ms. Indrani Goonasekera, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company and offers herself for re-election.
3. To re-elect Ms. Minette Perera, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company and offers herself for re-election.
4. To re-appoint Mr. Sriyan Cooray, who was appointed to the Board on 03-May-2019 in terms of Article 25(3) of the Articles of Association of the Company.
5. To re-appoint Messrs. BDO Partners, Chartered Accountants as Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.
6. To authorize the Directors to determine and make donations.

K H L Corporate Services Limited
Secretaries

At Colombo

26-Aug-2019

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.
2. A proxy need not be a member of the Company.
3. A Form of Proxy is enclosed for this purpose.
4. The Completed Form of Proxy must be deposited at the Office of the Company Secretaries, No. 15, Walukarama Road, Colombo 03 not less than 48 hours before the time fixed for the meeting.

NOTES

NOTES

FORM OF PROXY

I / We, ... of .... being

a Member/s of the Company, hereby appoint ....

(holder of NIC No. ....) of .... failing him/her,

1. Dr. Dayanath Jayasuriya P.C. failing him
2. Mr. Prakash Schaffter failing him
3. Mr. Anil Tittawella failing him
4. Ms. Minette Perera failing her
5. Ms. Indrani Goonesekera failing her
6. Mr. Ramesh Schaffter failing him
7. Mr. Sriyan Cooray

as my/our Proxy to represent me/us and vote on my/our behalf at the Annual General Meeting of the Company to be held on the 27-Sep-2019 at Renuka City Hotel, No. 328, Galle Road, Colombo 03 at 10.30 a.m. and at any adjournment thereof.

Please indicate your preference by placing a 'X' in the box of your choice against each Resolution.

		FOR	AGAINST
1.	Receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31-Mar-2019 together with the report of the Auditors thereon		
2.	Re-election of Ms. Indrani Goonesekera, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company.		
3.	Re-election of Ms. Minette Perera, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company.		
4.	Re-appointment of Mr. Sriyan Cooray, who retires in terms of Article 25(3) of the Articles of Association of the Company.		
5.	Re-appointment of Messrs. BDO Partners, Chartered Accountants as Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.		
6.	To authorize the Directors to determine and make donations.		

Signed on this .... day of .... 2019.

Signature/s ....

....
Shareholder's N.I.C./P.P./Co. Reg. No.

INSTRUCTIONS FOR THE COMPLETION OF THE FORM OF PROXY

1. Please perfect the Form of Proxy, after filling in legibly your full name and address, by signing in the space provided and fill in the date of signature and your National Identity Card Number.
2. The completed Form of Proxy should be deposited at the Office of the Secretaries, K H L Corporate Services Limited of No.02, Deal Place, Colombo 03, 48 hours before the time appointed for the holding of the meeting.
3. If an Attorney has signed the Form of Proxy, the relative Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the Shareholder is a company or a corporate body, the Proxy should be executed in accordance with its Articles of Association or Constitution.
5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

CORPORATE INFORMATION

NAME OF THE COMPANY

Orient Finance PLC

LEGAL FORM

A public limited liability company incorporated on 24th July 1981 under the Companies ordinance No. 51 of 1938 and was re-registered in terms of the Companies Act No. 07 of 2007 on 27th July 2009.

The Company is registered under the Finance Leasing Act No. 56 of 2000 and Finance Business Act No. 42 of 2011.

COMPANY REGISTRATION NUMBER

PB 1079 PQ (previous PVS/PBS 7651)

TAX PAYER IDENTIFICATION NUMBER

104076513

BOARD OF DIRECTORS

Dr. D C Jayasuriya P C – Chairman
Mr. Prakash Schahter
Mr. Ananda W Atukorala (Retired w.e.f. 31-Mar-2019)
Mr. Anil Tittawella
Ms. Minette D A Perera
Ms. Indrani Goonasekera
Mr. Ramesh Schahter
Mr. Sriyan Coorey (Appointed w.e.f.30-Mar-2019)

STOCK EXCHANGE LISTING

The Company is listed on the Diri Savi Board of the Colombo Stock Exchange of Sri Lanka.

REGISTERED OFFICE

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COMPANY SECRETARY

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EXTERNAL AUDITORS

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BANKERS

Commercial Bank of Ceylon PLC
Bank of Ceylon
NDB Bank PLC
Seylan Bank PLC
Sampath Bank PLC
People’s Bank
Nations Trust Bank PLC
Pan Asia Bank PLC
DFCC Bank PLC

CREDIT RATING AGENCY

ICRA Lanka

ACCOUNTING YEAR END

31st March

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