Orient Finance

BUILT ON INTEGRITY & TRUST

ORIENT FINANCE PLC
ANNUAL REPORT 2017 – 2018

BUILT ON INTEGRITY & TRUST

Creating Relationships,
Beyond Transactions,
Focusing on Customer Satisfaction,
The best Return-on-Investment,
Breaking barriers and building bonds,
Strengthened by the Faith,
and stability of the Company,
Reaching for a Future,
Benchmarked with Success,
Hand in hand,
We Create an unbeatable bond

Orient Finance

BUILT ON INTEGRITY AND TRUST!

CONTENT

ABOUT US

VISION

"To be a leading provider of unique Financial Solutions"

MISSION

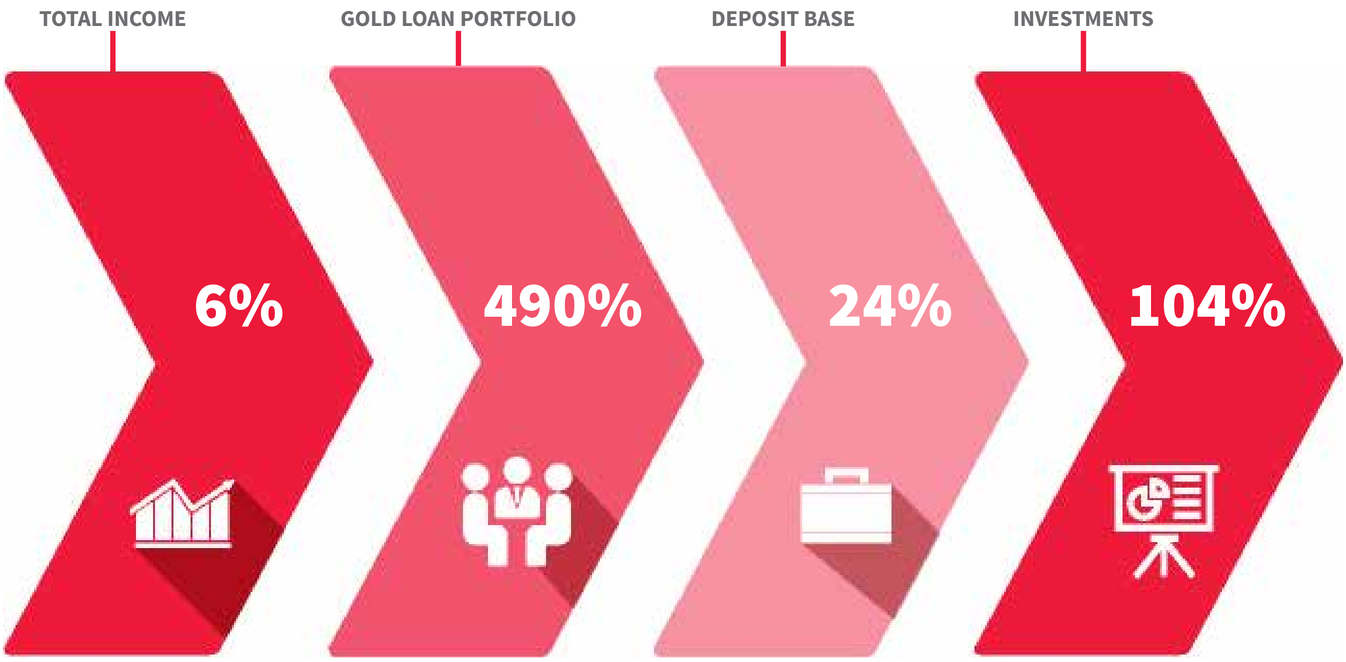
Striving to maintain the highest service excellence to our customers
Creating wealth for our shareholders
Engaging in best business practices
Assuring the well-being of our employees

VALUES

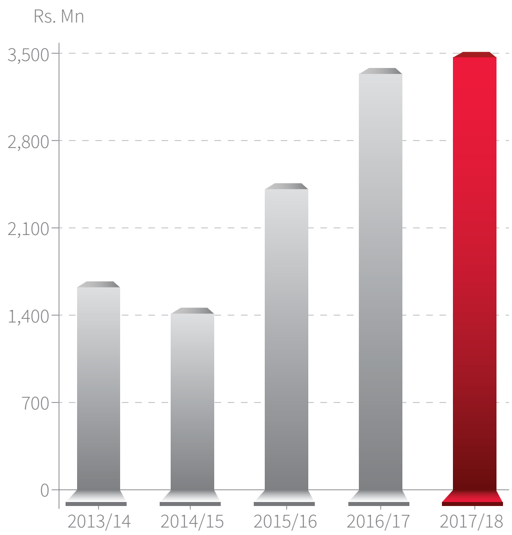
- Integrity
- Accountability
- Maintaining Confidentiality
- Professionalism

FINANCIAL HIGHLIGHTS

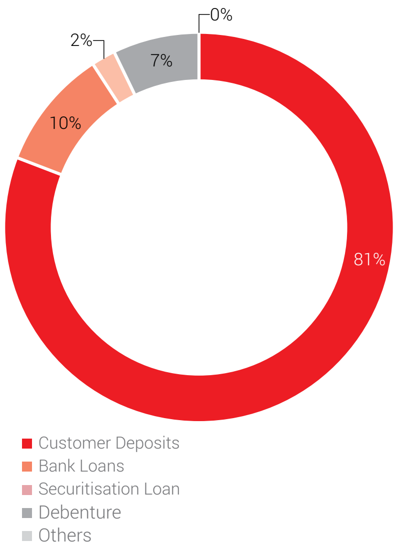
	2018 Rs.	2017 Rs.	Change %
Financial Performance (Rs. 000)			
Income	3,496,109	3,309,736	6%
Interest Income	3,311,049	3,128,709	6%
Interest Expenses	(2,116,907)	(1,836,496)	15%
Profit Before Tax	(103,718)	301,479	-134%
Income Tax Expenses	(6,528)	(43,803)	(0.86)
Profit After Tax	(110,246)	257,676	-143%
Financial Position at the Year End (Rs. 000)			
Shareholders' Funds	2,348,050	2,499,727	-6%
Customer Deposits	11,852,625	9,565,559	24%
Loans & Advances to Customers	14,504,334	16,416,103	-12%
Total Assets	18,115,694	19,450,029	-7%
Investor Information			
Earnings per Share (EPS) – (Rs.)	(0.74)	1.74	
Dividend per Share (Rs.)	0.25	-	
Net Assets per Share (NAPS) – (Rs.)	15.86	16.89	
Ratios			
Return on Assets (Before Tax)	(0.55%)	1.65%	
Return on Equity	(4.53%)	10.87%	
Statutory Ratio			
Capital Adequacy			
Core Capital to Risk Weighted Assets Ratio (Min. 5%)	9.64%	9.02%	
Total Capital to Risk Weighted Assets Ratio (Min. 10%)	12.18%	11.70%	
Liquidity Ratio	10.03%	6.50%	



Total Income



Funding Mix



CHAIRMAN'S MESSAGE

During the year under review, Orient Finance PLC increased its deposit base by Rs. 2.29 Bn to reach Rs. 11.85 Bn. This is a significant growth of 24%, exemplifying customer loyalty and trust. The Company reduced its interest bearing borrowings by Rs. 3 Bn, and overdraft liability by more than Rs. 450 Mn. Its investments in banks and other Board approved financial institutions increased by almost Rs. 385 Mn.

For the financial services sector, the year under review was neither the best of years nor the worst. The slowdown in economic growth, the delayed flow of foreign investments, political uncertainty, rising cost of living, and budgetary changes, among other factors, exacted a heavy toll in terms of many finance companies not achieving their targets.

Orient Finance PLC has long believed in adopting a cautious approach when dealing with prospective customers for leasing, hire purchase and factoring. Board approved credit policies, multi-layered screening and due diligence checks, and corporate and personal guarantees serve to mitigate many of the critical risks.

During the year under review, Orient Finance PLC increased its deposit base by Rs. 2.29 Bn to reach Rs. 11.85 Bn. This is a significant growth of 24% exemplifying customer loyalty and trust. The Company reduced its interest bearing borrowings by Rs. 3 Bn and overdraft liability by more than Rs. 450 Mn.

Its investments in banks and other Board approved financial institutions increased by almost Rs. 385 Mn. The turnover reached an all-time high of Rs. 3, 496.1 Mn. The recently commenced gold loan portfolio increased by a staggering 490% compared to the previous year. On the whole, these achievements are commendable given the country's macro-level financial context. However, despite even the best of robust systems, hire purchase, leasing and factoring facilities occasionally tend to fall between the cracks.

After an impressive record of profit-making over the years, Orient Finance PLC suffered a loss of Rs. 110 Mn due to bad debt provisioning caused by defaults, forged documentation etc. Corrective measures were promptly instituted and the Company is poised to follow a new growth trajectory.

We are looking forward to interesting times. Going forward, the Company is planning to launch bespoke hiring and leasing packages. Gold loan operation will be expanded. A study on introducing micro financing is underway.

Having made a substantial investment, the IT Department is being transformed into a savvy IT Department which will lead to better information management and customer satisfaction.

The Board through its Integrated Risk Management Committee takes a holistic view of risks that may affect the operations of the Company. Climate change is a new concern the Committee is addressing. All too often, floods, droughts and other climatic factors have adversely affected the ability of low income customers to pay the premia in due time. Tailor-made installment packages are being developed to provide greater flexibility in payments in times of a crisis. To reduce pollution, the Company now focuses more on hybrid and electric vehicles.

Mr. Mayura Fernando who joined Orient Finance PLC as the C.E.O. in June 2016 on a two year contract left in May 2018. On behalf of the Board, I would like to place on record our appreciation for his services.

Mr. Jude Anthony, an industry veteran, joined as Acting C.E.O. in June 2018 and we wish him every success in steering the Company in this highly competitive and difficult environment.

The Board is fortunate in that one of its Directors, Mr. Prakash Schaffter, has agreed to assist the Board in monitoring some of the activities in the Company. He has outstanding credentials and experience and the Company stands to gain from his valuable insights and inputs as we move forward with a new vision and greater energy.

Notwithstanding the minor setbacks experienced by the Company in the year under review, I am confident that we now stand on the threshold of an interesting era and that shareholders, customers and staff will be proud to be a part of our new journey.

Finally, I will be failing in my duties if I do not thank the Central Bank officials for extending their support to us at all times. All our employees, consultants and fellow Board members have extended to me their unstinted support and I wish to place on record my appreciation for their guidance and assistance.

Dr. Dayanath Jayasuriya P C
Chairman
19th June 2018

CHIEF EXECUTIVE OFFICER'S REVIEW

Strategies have already been implemented to improve our marketing, credit, collections, fixed deposits and gold loans which have resulted in markedly better performance during the final quarter of the year under review.

While the year under review was an exceptionally challenging year for the Company, it has been one where we have identified the most optimum pathway to take moving forward, so that we can ensure that the forthcoming year is a resounding success. We have reinforced our ideals of trust and integrity with our shareholders and customers, and have maintained the reputation and goodwill that the Company name commands in the market. We remain a highly ethical organisation that maintains its credibility and is in line with the instructions of the authorities.

While the macro environment hasn't been very conducive towards companies in the financial services, we are confident that moving forward, the Company will be able to perform significantly better given the measures being set in place. This shift is especially evident in the final quarter of the year under review, where we have been able to implement some fundamental changes that in a short time frame resulted in a marked improvement in our overall performance.

While it is clear that certain processes and products in our existing portfolio require more dedicated re-structuring and updating before we can see a holistic improvement, certain sections have had positive results. While our Fixed Deposits and Savings sections have performed well, the gold loan division of the company is the fasted growing with new centres being launched during the year under review.

It is clear to us that the Company has the potential to perform better than it has during the year under review, and having identified the areas that require attention and by introducing gradual and holistic changes along with re-engineering of processes, we are poised at the beginning of what promises to be a successful and profitable year.

PRODUCTS AND PROCESSES

While the company has a well established reputation and a positive image in the market, it is clear that moving forward we have to improve our processes. The company is now at a key growth stage and it is the ideal time to improve our portfolio and strengthen our fundamentals.

Strategies have already been implemented to improve our marketing, credit, collections, fixed deposits and gold loans which have resulted in markedly better performance during the final quarter of the year under review. We are in the process of re-engineering the model of our factoring business, and it will be implemented during the forthcoming year.

We have also paid attention to strengthen our operational procedures by changes to ensure that checks and balances are correctly done, processes are improved and streamlined, and line managers are given more authority.

We are in the process of strengthening the credit since the last quarter of the year under review we have introduced a stringent credit policy that identifies the right customer with whom the company can have a healthy long term relationship. We are focusing on mainly providing asset backed facilities. This new policy will be strictly adhered to in the future and its implementation further strengthened.

CHIEF EXECUTIVE OFFICER'S REVIEW Contd.

The collection activities of the Company has been enhanced and process through close monitoring, updating of processes, and by improving the co-ordination between the various departments. It is imperative that we curate a culture where every individual feels both accountable and responsible for their undertaking.

Steps are being taken to enhance our product portfolio, and to refresh it with a sustainable perspective with focus on stable products that provide long term benefits. We have a new IT system in the pipeline that will further enhance our operations and solidify the new processes being implemented.

FOCUS ON HUMAN RESOURCES

During the year under review the processes in the Company have been analysed and updated to ensure the better performance and retention of our workforce. We have paid significant attention to the Human Resource arm of the company, and are pleased to note that we are poised at an interesting juncture where we are able to demand a higher quality of new recruits. We are attracting candidates who are highly qualified and have extensive experience operating in the field. The Company is taking every measure to ensure that the best candidates are identified and recruited, are an ideal fit to our Company, and have the potential to be valuable assets to the organisation.

The fact that over the past few months we have identified a significant number of such candidates Whose enthusiasm and eagerness to work with the company is evident, is an indication that as an organisation we have carefully curated an image of dependability, integrity and success.

We have formulated plans to conduct extensive training programs that will empower our workforce and imbibe leadership skills at all levels, in every arm of the company. We are creating and encouraging a performance driven culture that focusses on equal opportunity, recreational outlets and a highly beneficial, driven employee welfare program. During the latter part of the year we have taken measures to ensure that we are expanding the numbers in our sales force and are enhancing their quality, and combined with the plans we have for the forthcoming year they have the potential to be consistently recognised as one of the best marketing teams in the country.

Our recruitment and training strategies have been restructured and refocused to ensure that the resources we are investing in building, enhancing and empowering our team will result in their optimum performance that will strengthen the company and elevate it to new heights.

The year under review wasn't an easy one and the Company, however in the last quarter the prudent steps that we have taken have already shown how quickly we can turn things around. I am highly optimistic regarding the forth-wining year, we have understood where we need to improve and have begun implementing strategies that deal directly with the areas that have been improved. The combination of getting the right people, the best processes and carefully curated products and prudent collection methods will ensure that the company is on the cusp a successful year.

ACKNOWLEDGEMENTS

The Chairman and Board of Directors have been a constant source of support and guidance to the corporate management team and I appreciate their valuable insights. I would also like to take this opportunity to thank the former CEO for his dedication and support, and would like to thank the corporate management team and the Orient Finance family for their commitment and loyalty. My gratitude to all our customers, shareholders and other stakeholders for their continued patronage. We pledge to uphold the highest ideals of trust and integrity that is intertwined throughout Orient Finance.

Jude Anthony
Acting Chief Executive Officer
19th June 2018

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, a leading Insurance personality in Sri Lanka, is the Cambridge educated Managing Director of Janashakthi and has three decades of experience in the Insurance industry in both Sri Lanka and the United Kingdom. He has led Janashakthi since 2006 through a growth phase that saw Janashakthi become the third largest insurer, acquire the Non Life segment of AIA Insurance Lanka and most recently engage in the divestment of Janashakthi's Non Life segment.

As the former President of the Insurance Association of Sri Lanka, he has, through several industry-related committees, led the discussion on regulatory changes, including the separation of Life and Non Life business segments. He continues to impact the business sector through his membership on the council of the Sri Lanka Institute of Directors (SLID).

Having 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 Cambridge University 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.

BOARD OF DIRECTORS Contd.

Mr. Ananda W Atukorala

Independent Non-Executive Director

Mr. Atukorala possesses extensive experience in banking, having been with the ANZ Banking Group both in Sri Lanka & Overseas. He has served as Deputy General Manager, ANZ Grindlays Bank, Sri Lanka; Country Manager Sri Lanka, Mashreq Bank PSC and was a former advisor to the Ministry of Policy Development & Implementation. He was a Non-Executive Director of Union Bank PLC for a period of 9 years and subsequently a Non-Executive Director of DFCC Bank PLC.

Presently, he serves as an Independent Non-Executive Chairman of National Development Bank PLC., Development Holdings (Pvt) Ltd. and as an Independent Non-Executive Director on the Boards of United Motors Lanka PLC, Colombo City Holdings PLC & NDB Securities Pvt Ltd., Unimo Enterprises Ltd., UB Finance Co. Ltd., Arni Holdings and Investments (Pvt) Ltd. and Unawatuna Boutique Resort (Pvt) Ltd.

Mr. Atukorala had also served as a Member of the Technology Initiative for the Private Sector – an USAID sponsored project with the Ministry of Industrial Development. He was also a Working Committee Member of the Commercial Banking Sector in the Presidential Commission on Finance and Banking, Committee Member of Banker's Club of Sri Lanka and a Former Director of Sri Lanka Banks Association (Guarantee) Ltd. and Credit Information Bureau(CRIB) of Sri Lanka. He holds the following degrees – B.Sc (Leeds, UK), MTT (North Carolina, USA) and a MBA.

Mr. Anil Tittawella

Independent Non-Executive Director

Mr. Anil Tittawella is a President's Counsel and has had a varied professional career with a wide range of subjects both in terms of litigation and under other dispute resolution mechanisms. His expertise is in civil and commercial law litigation, alternate dispute resolution mechanisms, legal documentation, drafting, negotiation, mergers and acquisitions, corporate legal matters and legal due diligence. Some of the countries that he has represented his clients in are Pakistan, South Korea, Hong Kong, Sweden, UAE, Thailand, Singapore, England, USA, India, Mauritius, New Zealand and Switzerland.

Mr. Tittawella has been 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 also 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 also functioned as a commission member of the Securities and Exchange Commission of Sri Lanka from 2000 to 2002 and was also 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 and holds Solicitors (final) Examination of the Law Society of the United Kingdom and Masters in Law (Hons) University of Waikato, New Zealand.

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.

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 over all 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 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.

BOARD OF DIRECTORS Contd.

Mr. Ramesh Schaffter

Non-Independent Non-Executive Director

Non-Executive Director Counting almost three decades of experience in Finance & Marketing, he 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.

MANAGEMENT TEAM

Jude Anthony
Acting Chief Executive Officer

Buwaneka Subasinghe
Director (Non-Board)

Nilantha Jayanetti
Senior Assistant General Manager – Marketing

Susantha Caldera
Assistant General Manager – Credit Control

Geethika Wickramasinghe
Assistant General Manager – Fund Mobilisation

Damitha Girihagama
Assistant General Manager – Recovery

Patrick Ranasinghe
Assistant General Manager – Credit

Prasadi Perera
Assistant General Manager – Factoring

Dhanuka Tharanga Perera
Assistant General Manager – Gold Loan

Ranjith Rathnapriya
Assistant General Manager Corporate Sales

Sanjeewa Seneviratne
Assistant General Manager Fund Mobilisation – Branches

MANAGEMENT TEAM Contd.

Sanjeeva Jayasinghe
Senior Manager – Finance

Nuwan Nilantha
Senior Manager – Treasury

Chatura Kulatilaka
Senior Manager – Information Technology

Indrajith Thebulanda
Senior Manager – Operations

Omal Kaluarachchi
Senior Manager – Human Resources

Sameera Kaumudi
Senior Manager – Risk and Compliance


Because you need to look after the more important things in life,
let us look after the important things for you.

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL ECONOMY

Performance Overview

The global economy has performed at expected levels with an overall economy growth of 3.1% in the year 2017. In 2018 the growth rate has remained the same and the global growth is expected to moderate over the next two years as global slack dissipates, major central banks gradually remove policy accommodation, and the recovery in commodity exporters matures.

Despite recent softening, global economic growth is expected to remain robust at 3.1% in 2018 before slowing gradually over the next two years, as advanced-economy growth decelerates and the recovery in major commodity-exporting emerging market and developing economies (EMDE) levels off.

Growth in EMDEs is projected to gain further strength, reaching 4.5% in 2018 before stabilizing at 4.7% in 2019-20 as the recovery in commodity exporters matures.

SRI LANKAN ECONOMY

Performance Overview

As per official data released by the Department of Census and Statistics (DCS), Sri Lanka's real GDP growth decelerated further during 2017 to 3.1%, from the growth of 4.5% recorded in 2016.

Sri Lanka's economic growth has been well below the average growth rates of emerging market economies, and declined below the global growth estimate in 2017. Following the change in government we have noticed a dramatic shift in policies and national plans. This shift has had a direct impact on the sector and in turn the Company.

Financial markets remained volatile during 2017, in line with the changing local and global economic environment and excess rupee liquidity in the money market, which declined. The Sri Lankan rupee continued to depreciate gradually against the US dollar during the year, in an environment that allowed greater flexibility in exchange.

PERFORMANCE OF THE NON-BANKING FINANCIAL INSTITUTIONS (NBFI) SECTOR OF SRI LANKA

The performance of Non-Banking Financial Institutions (NBFI) consisting of Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) moderated during 2017 with low credit growth, declining profitability and increase in non-performing loans. The slowdown in the sector was mainly due to fiscal and macroprudential policy measures taken to curtail importation of motor vehicles, moderate economic growth and natural calamities such as floods and drought conditions that prevailed in 2017.

The sector NBFI expanded in 2017, with an asset growth of 11.8%, representing 7.9% of Sri Lanka's financial system. The sector exhibits a shift in funding mix, as increased assets were mainly funded through deposits while borrowings of the sector declined compared to the high growth recorded during the previous year. The deposits grew by 29.4% to Rs. 686.7 Bn in 2017, compared to the growth of 10.4% in 2016.

The gross non-performing loans (NPLs) portfolio increased to Rs. 65.9 Bn by Rs. 12.9 Bn in 2017 (24%) mainly attributed to floods, nationwide drought and slowing down of the economy. The gross NPL ratio increased to 5.9% in 2017 from 5.3% reported in 2016 due to the increase in gross NPLs and decline in the growth of the loan portfolio.

The total loan loss provisions increased by Rs. 7.4 Bn to Rs. 42.2 Bn due to the increase in the specific provisions made for NPLs. The provision coverage ratio declined to 64.0% in 2017, compared to 65.7% in 2016. As a result, net NPL ratio increased to 1.5% in 2017 from the reported ratio of 1.2% in 2016, showing signs of deterioration in the asset quality of the sector and with appropriate risk mitigation techniques, credit risk of the sector remained at manageable levels.

The net interest income of the sector increased at a slower rate than in 2016, recording a growth of 11.5% to Rs. 102.7 Bn. This was mainly due to the increase in interest expenses by 33.1%, compared to the growth of interest income only by 22.6%. As a result, the net interest margin of the sector (net interest income as a percentage of average assets) declined to 7.7% in 2017 from 7.9% in 2016.

The Central bank issued a new direction to revise the LTV ratio for credit facilities in line with the national budget proposal for year 2017. Further, the minimum core capital requirement for LFCs was increased to be completed on a staggered basis.

A cap on deposits and borrowings was imposed on all LFCs and SLCs, which did not comply with the minimum core capital requirement. Penalties were imposed on non-compliances identified through supervision of LFCs and SLCs. A circular was issued in May 2017, where LFCs and SLCs were allowed to grant concessions to borrowers who have been affected by floods, adverse weather conditions and connected circumstances in terms of the national policy adopted to facilitate the rehabilitation of businesses and normal operations of such borrowers in national interest.

COMPANY PERFORMANCE

The year under review was an exceptionally challenging one for Orient Finance PLC. The macro environment of high interest rates and inflation caused operating costs to increase from Rs. 773 Mn to Rs. 882 Mn while narrowing the net interest margins. Increased risk exposure towards borrowers ability to repay loans has resulted in increase of provision by Rs. 224 Mn. Company closed the year with a loss of Rs. 110 Mn which is primarily attributed to higher provisioning and the depletion of the Net Interest margin compared to the previous year.

The volatile nature of the business environment is one of the greatest challenges that OFP faces. The changes in loan-to-value ratio particularly applicable to three wheelers and cars tightened the demand for leasing . Despite the negative market for leasing, OFP grew in the Gross Gold Loan portfolio to Rs. 301 Mn. Although relatively new in the Gold Financing sector, Company continued to gain ground in this segment, with a remarkable growth of Gold Loan portfolio closer to 500% compared to the previous year.

Pillars of Success 2017

The Company conducts its operations through a network of 31 locations scattered across the country. The Company's strategic focus continues to be highly concentrated on the business expansion while ensuring the credit quality. Improving the quality of our loan portfolio is a priority for the Company and emphasis was placed on strengthening and building capacity in the Recovery Department with more stringent recruitment, training & related guidelines. We continue to derive customer satisfaction from serving a wider range of products to a diverse portfolio of customers while pursuing creation of value to all OFP's stakeholders.

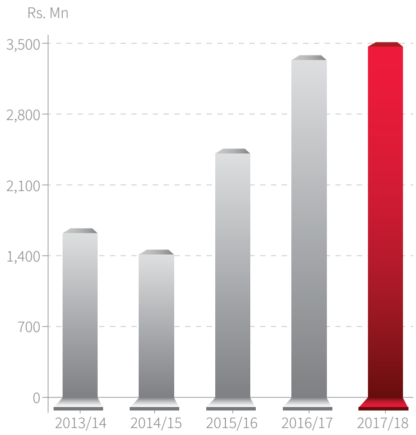
Despite the overall negative financial disposition of the Company, it is notable that the final quarter during which most of the strategic streamlining and re-engineering programs were implemented, a profit of Rs. 37 Mn was recorded. We consider this as an indication that the strategies adopted by the Company are optimised to ensure significantly improved results and turn the forthcoming year into a significantly successful one.

FINANCIAL PERFORMANCE

OFP achieved a top line growth of 6% to reach Rs. 3.5 Bn. We closed the year with a loss of Rs. 110 Mn. This can be primarily attributed to higher provisioning compared to the previous year. High interest rates and inflation has caused our operating cost to increase from Rs. 773 Mn to Rs. 882 Mn while narrowing net interest margins.

Despite the negative market for leasing, OFP achieved a significant achievement in the Gold Loan portfolio by ensuring a growth closer to 500% compared to the previous year.

Total Income



Interest Income

Interest income reached Rs. 3.3 Bn with an increase of 6% in the year 2017/18 compared to the previous financial year.

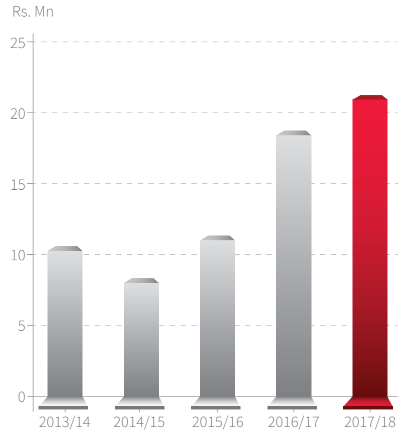
Re-pricing and strategic shift in products concentration caused the Company's net interest income to decrease by 8% and reached Rs. 1.2 Bn as at end of the financial year 2017/18. Hence, net interest margin reduced to 8% in the year from 14% reported in the preceding year.

Other income which comprises recovery of bad debts previously written off and other operating income increased to Rs. 72.9 Mn with a 43% growth in the year 2017/18.

Interest Expenses

Interest expenses increased by 15% and recorded Rs. 2.1 Bn in the year ended 31st March 2018.

Interest Expenses



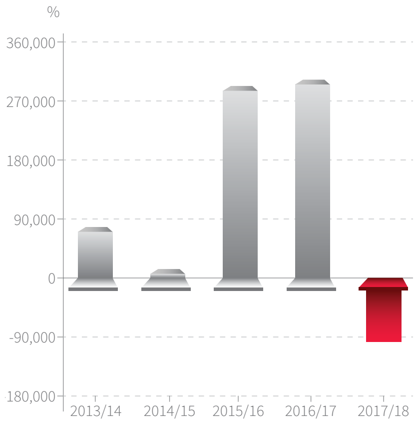
Operating Expenses

Operating expenses increased by 14% to record Rs. 882 Mn in the year 2017/18 and personnel expenses increased by 14% to Rs. 370 Mn. Operating expenses increasing at a higher rate than the rate of increase in the total operating income caused the Company's cost: income ratio to rise to 106% in the year 2017/18 compared to 67% in the last year. This can be mainly attributed to the 62.8% increase in impairment charges for loans and receivables from customers.

Profit Before Tax

Following the strategic decision to shift growth focus towards a more sustainable, development oriented business model, OFP implemented significant changes to business lines which had a mixed impact on revenues and profitability over the immediate implementation phase. Consequently the Company recorded a loss before tax of Rs. 103.7 Mn for the current financial year, which can be directly attributed to several factors.

Profit Before Income Tax



Provisions for Impairment

Increased risk exposure towards borrowers ability to repay loans has resulted in increase of provision by Rs. 224 Mn. The company has shown a 70% increase in the provision for impairment during the year under review. During the year under review the provision for impairment was recorded as Rs. 546 Mn as opposed to Rs. 322 Mn recorded in the previous year.

Total Assets

The total assets of the Company for the year under review stood at Rs. 18.1 Bn as opposed to Rs. 19.5 Bn in the previous year maintaining the company's position in the 15th place among Licensed Finance companies in the country. The total assets reduced by 7% as a result.

Lending Portfolio

The Net Lending portfolio of the Company decreased from Rs. 16.4 Bn to Rs. 14.5 Bn during the year under review. This 12% decrease is mostly attributed to bad credit along with the rise in vehicle prices, the increase in the Loan to Value ratio and funding cost.

The leasing and hire purchase products continue to be the biggest contributor to the lending portfolio, representing 73% of the total, while loans, factoring and gold loans represented 19%, 6% and 2% respectively of the total lending portfolio.

Equity Base

We maintained a healthy capital and comfortable liquidity position during the financial year ended 31st March 2018. Adhering to stipulated capital adequacy requirements laid down by the CBSL, the Company's core capital ratio stood at 9.65% (minimum 5%) and total risk weighted capital ratio stood at 12.18% (minimum 10%) as at 31st March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS Contd.

Net Assets per Share

The net assets per share of the Company decreased from Rs. 16.89 at the beginning of the year under review to Rs. 15.87 as of the year end.

Our Business Segments

During the year under review the Company's two business segments – Deposit Products and Lending Products – continued to perform amidst challenging market conditions.

Product Portfolio	
Deposit Product Portfolio	
For the public and Institutional investors	Deposits
Lending Products Portfolio	
For salaried employees, self-employed, professionals, corporate, and SMEs	General Leasing
	Micro Leasing
	Mortgage Loans
	Personal Loans
	Business Loans
	Gold Loans
	Loans against Fixed Deposits
	Factoring

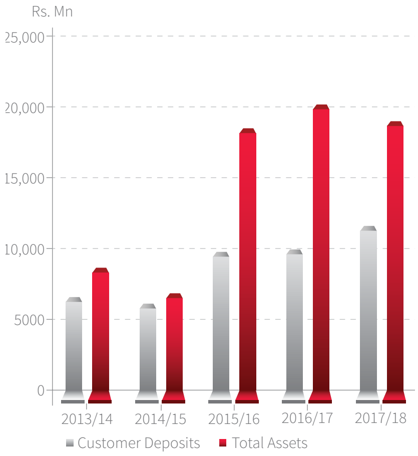
Deposit Products

Orient Finance offers several options fixed deposit product – from one-month deposits to 5-year deposits, and with an interest payable either monthly or at maturity. During the year under review the deposits portfolio reached to Rs. 11.9 Bn from the Rs. 9.6 Bn recorded in the previous year.

The Company recorded this growth in a background where commercial banks are offering comparatively higher rates. This growth is indicative of the confidence and trust placed on Orient Finance by the public as seen by the continuing increase in the number of customers over the years.

Plans are being formulated for the forthcoming year to ensure that the company increases its retail customer base and minimises liquidity risk.

Customer Deposits & Total Assets



Lending Products

Orient Finance offers a wide range of lending products to our customers. The Company's key products are leasing, personal loans and gold loans. However, we also offer other supplementary products such as property mortgage loans, business loans for the convenience of our customers.

Leasing, Hire Purchase and Loans

Leasing continues to dominate the Company's lending portfolio with a share of 71% during 2017/18. Leasing, hire purchase and loans together represent the largest portion of the company's product portfolio and accounts for over 90% of the total net lending portfolio.

Orient Finance offers two categories of leasing– micro leasing and general leasing products. Micro leasing is offered for the financing of low investment vehicles such as three wheelers and motor bikes. General leasing is offered to medium to high income earners requiring the purchase of high-value products.

During 2017/18 gross leasing portfolio reached to Rs. 10.3 Bn as at 31st March 2018. Declined portfolio growth is mainly attributed to the rise in importation prices of motor vehicles, the continued effects of the loan-to-value ratio requirements, the rising interest rates in the country together with the natural disasters such as floods and drought conditions which adversely affected several industries of the country.

Factoring

Factoring allows a smooth cash flow giving the opportunity to innovate and develop business. This product primarily targets the SME sector. The Company 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.

Despite of the exceptionally challenging macro environment, Factoring portfolio generated an interest income of Rs. 238 Mn. Although, this is only a modest growth compared to the last year the Company believes the product has considerable long term potential, especially in the SME sector and will give greater returns in the future.

Pillars of Success 2017

Gold Loan

OFP grew in the Gross Gold Loan portfolio to Rs. 301 Mn. Although relatively new in the Gold Financing sector, Company continued to gain ground in this segment, with a remarkable growth of Gold Loan portfolio closer to 500% compared to the previous year. Stable trend in gold prices created a conducive environment for gold loans. Additionally, expanded branch operations with a market penetration approach provided a scalable platform for this growth.

Due to the popularity and greater demand for this product, the Company will be continued to expand the gold loan base concurrently to branch expansions.

Marketing Endeavors

The Company focused on promoting and increasing awareness of identified products during the year under review using different marketing and promotional themes. We used both traditional and innovative marketing techniques and media. Media related advertisements are mostly designed by the external agents according to requirements given by the marketing team.

We used outdoor advertising techniques such as hoardings in strategic location around the country, street name boards and bill boards at dealer/vendor locations. Marketing strategies adopted by the Company are mainly focused on creating awareness and enriching the customer experience.

Creating awareness about products and services is vital for reaching out to more potential customers in target markets while serving vital information to OFP's loyal customers. The Company always selects an effective communication mix for reaching to each target group. Accordingly, we employed more marketing and sales personnel to expand our efforts in serving our customers better to enable us to increase the level of personal selling capabilities and to meet the increased demand for door-step services that the Company is associated with.

Web communications takes place via OFP official web site and social media networks. E-flyers through email advertisements include special promotions to communicate to employees and customers.

An extensive online campaign was undertaken with various concepts and platforms being used to target millennials and using updated virtual platforms to increase visibility and awareness. This campaign included the Trade-in-Portal, Geo-Fence Campaign, Virtual Branch, and Budget Bot Campaign.

Special emphasis was placed on promoting the leasing products while we also continued to expand marketing partnerships which allow the Company to gain access to new market and customer segments.

INFORMATION TECHNOLOGY

Orient Finance PLC has embarked on a digital transformation process where plans are in place on extending a better service to clients and stakeholders through expanding the IT function. One of the key initiatives undertaken was to float a Request for Proposal to implement an end-to-end core IT system and we have obtained proposals from systems providers.

We carried out certain projects during the year, which enabled us to reallocate and re-provision the IT resources more efficiently to improve IT infrastructure and services.

We are also in the process of bringing in a higher level of automation where company processes and functions will be more streamlined to provide a higher quality of service to customers and stakeholders. During the year under review, detailed action plans were developed and are now being strategically implemented.

Over the next few years we intend to consolidate our position in terms of quality of service with the introduction of modern cutting-edge technology and platforms.

The new systems will also ensure that all information is available to the top tier of management at any given time and will improve the overall customer experience by making processes and actions easier and more convenient. We foresee this IT transformation process being rigorously implemented over the next 12-18 months.

Marketing Promotion

OUR PEOPLE

We Value Our People

Human Resource policies, practices and operating processes play a pivotal role in human capital management. All human resources Policy level activities of the company are governed by the Remuneration/ HR Committee comprising of three independent directors appointed by the main board. Orient Finance PLC leadership together with the Human Resources division constantly envisions new strategies and initiatives towards talent acquisition and talent retention. We are a business that emphasizes upon the values our people. We strive to listen to their opinions on customer service, operational efficiency and what it means to be an Orient Finance employee. We aim to understand our employees as well as we understand our customers and innovate and change together to match the pace of growth in our markets.

Our employees are essential for us to triumph and we believe that the greater the investment in their development, the stronger and more sustainable would be the returns. The culture at OFP allows our employees to question putative norms, test new ideas, and to see mistakes as an opportunity to learn. Strong values such as Innovation, Integrity, Caring, Excellence and Trust help our employees to develop and positively contribute towards the development of the Company.

We Recruit Talent

Employee hiring is done based on the Recruitment Policy. Our business is built by employees who are innovative sales persons, who find solutions, and who deliver world class service. Our recruitment team continuously strives to be effective in meeting the significant challenge of hiring the new employees needed for our continuous growth. We ensure to hire candidates with a high level of motivation, exemplary capabilities and a higher level of expertise in their fields. The Company on its part will act to augment their professionalism, knowledge and presentability through our unique tailor-made training programmes that will groom them to be among the best in the country.

Diversity

We value diversity and through our equal opportunities policy we are dedicated to creating an environment that is free from discrimination, harassment and victimization. Everyone at OFP is treated equally regardless of age, colour, disability, race, gender, sexual orientation, marital status, political views or religious belief.

Engaging Our People

This aspect extends beyond keeping colleagues informed of the Company's performance and issues that affect them on a daily basis. These range from designing welfare activities in conjunction with employee representatives, to brainstorming with employees on developing a higher quality work environment.

OFP believes in continual dialogue with all our employees and the construction of organisation citizenship and commitment, ensuring the success of employee relations. We strongly believe in employee engagement as an enabler of positive social influences for our Company. We recognize the rights of our employees and provide a platform to hear and address their concerns and resolve issues and conflicts in a fair and transparent manner.

The following employee engagement activities are practiced within the Group: Open Door Policy by management, Whistle Blower Policy, Welfare Committees, Business Improvement Committees, CSR Volunteer teams.

MANAGEMENT DISCUSSION AND ANALYSIS Contd.

We also encourage formal two-way communication through our employee surveys and our employee representation body, the Sports Club, both of which help us identify areas where we can improve as an employer and encourage participation and consultation in the decisions we make.

Sports Festival

We Develop Our People

Training and developing employees is a vital part of enabling them to forge their career with OFP. We place strong emphasis on developing our talent across the business and have further embedded appraisals, 1:2:1s where we provide critical feedback as a development tool. Using talent matrix mapping and succession planning we also identify potential successors for every middle and senior management role. Developing people is exciting, but also a challenge when growing a business as fast as we are. We have an in-house management training curriculum of modules covering all required competencies, team building activities, and a learning library in the making to provide individual coaching.

OFP Platform

At OFP we recognize the importance of meeting colleagues' learning and development needs in the most flexible way possible. Therefore, we have set our minds to develop an online platform that delivers beyond the more traditional classroom-based training. This will be on line towards the end of the next financial year.

Performance Centric Culture

All employees of the Company are subjected to regular appraisals to receive feedback on their performance. The Company performance management policy requires annual formal feedback to be provided to the executive cadre, and to all others. While formal feedback is a scheduled occurrence, the performance-centric culture of OFP encourages and facilitates constant employee feedback at all levels.

The appraisal agenda looks at performance, learning and development, the contribution to the Company talent pool, succession planning, employee promotions, lateral moves and career aspirations amongst others. The month of March is dedicated to appraisals.

Pillars of Success 2017

Retaining, Recognising and Rewarding Our People

As we invest a significant amount of time and resources in recruiting the right people and developing their skills, retaining our employees is vitally important to the business. This means designing benefits packages that are in tune with what different groups of employees want.

We have a range of traditional benefits and are on the verge of introducing an industry leading 360 degree incentive based rewards scheme above the usual benefits. We have a commitment to ensuring that all employees share in the Company's success through various rewards mechanisms.

The Company lays emphasis on fashioning a favorable working environment for its employees. Its human resources policies and practices qualify us to attract and retain high caliber personnel. OFP fosters a culture of inclusivity and trust at all times with all our employees committed to making Orient Finance 'More than just a Work Place'.

SOCIAL AND ENVIRONMENTAL PROTECTION

The Company's social sustainability initiatives are integrated with corporate responsibility activities aimed at serving the community within which we operate our business. During the year under review, the Company undertook several activities.

Partnered with Center of Gender Studies at University of Kelaniya for the programe on 'Empowering of Sri lankan women'

Awareness session was carried out for the business partners in Gampaha District to promote digital marketing as a mean of reducing paper usage

OUR GREEN FOOTPRINT

Being a Company that operates in the Financial Services sector, the direct adverse impact of our business activities on the environment is minimal. However, we understand that we can contribute even in a small way towards environmental conservation by improving internal business processes and managing waste.

Resultantly, during the year under review, the Company put in place the following measures to reduce our carbon footprint and indirectly contribute towards saving trees.

- Document Scanning System – This has eliminated the requirement by the Company to print and store hard copies such as agreements, official letters and other important documents that are now scanned and electronically stored.
- Online approval – By adoipting the online approval of Credit Facilities, the Company was able to reduce the necessity for printed copies to be provided for approval by relevant personnel.
- Promoting the recycling of paper – All paper being discarded by the Company is sent for recycling to external par ties, while file covers are re-used for document filing purposes and take all photocopies double sided.

CORPORATE GOVERNANCE

Corporate Governance refers to the structures and processes for the direction and control of the companies. It concerns the relationships among the management, Board of Directors, Shareholders and other stakeholders. A strong corporate culture and ethics are a vital strategy to survive and be profitable in a highly competitive market. Essentially Orient Finance, as a Finance Company is stabilised on trust and confidence placed by the public on the affairs of the Company. Therefore, the Best Corporate Governance practices have been put in place at Orient Finance to achieve its vision while complying with statutory rules and regulations.

The Company is in compliance with the Directions on Corporate Governance issued by the following Institutions;

- Finance Companies Directions on Corporate Governance issued by the Central Bank of Sri Lanka.
- Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.
- Listing Rules issued by the Colombo Stock Exchange.

The Company's commitment with respect to the above directions, code and rules are summarised 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 an effective Board to direct, lead and control the Company.
Responsibilities of the Board			
Code A.1.2, 2.1 CBSL (a), (b)	The Board should be responsible for ensuring the formulation and implementation of a sound business strategy.	Complied	A sound business strategy crafted by the Board of Orient Finance PLC guides the Company towards success in all its endeavors.
CBSL 2.1 (c), (e)	Identify risks and ensure implementation of appropriate systems by the Board of Directors.	Complied	The Company has in place an Integrated Risk Management Committee and Audit Committee to secure integrity of information, internal controls, and risk management. Effective systems have been implemented by the Company. Further, effectiveness of such systems is monitored by the Board, internal and external auditors and independent expert consultants when necessary, and improvements are implemented accordingly.
CBSL 2.1 (d)	Approving a policy of communication with the stakeholders.	Complied	A proper Stakeholder Communication Policy has been approved and implemented to maintain proper communication with stakeholders. The Company maintains a website and periodically issues press releases. Communications from stakeholders are promptly attended to.
CBSL 2.1 (f), (g), (h)	Proper delegation of authorities to the Key Management Personnel.	Complied	The Board has identified and designated Key Management Personnel who are in position to exercise controls over operations and risk management.
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	Evaluation of Board's own governance practices are assessed by the Directors individually and collectively on a periodic basis.
CBSL 2.1 (j)	Adoption of an effective CEO and Senior Management Succession Plan.	Complied	Succession plan is considered as a vital factor by the Board of Directors at all times.

CORPORATE GOVERNANCE Contd.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 2.1 (l),(m)	Understanding of 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 about regulatory developments and implications, and the Board and Audit Committee exercise due diligence in hiring and oversight of External Auditors.
CBSL 2.2	The board have appointed the Chairman and the Chief Executive Officer (CEO)	Complied	The Board of Directors have appointed a Chairman and a CEO to Orient Finance PLC.
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 advices by Board of Directors" is in place.
CBSL 2.4	A director shall abstain from voting on any Board resolution in relation to 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 Directors have related party interest and he is not counted in the quorum for the relevant agenda item at the Board Meeting.
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 of decision 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.	Complied	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 has been obtained for the same.
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 in monthly intervals. The Board met 14 times during the year under review. The attendance of each director at these meetings is given at the end of this report.
Code A.1.5 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 ascertaining their requirements with regard to matters for discussion.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 the duties and responsibilities are satisfactorily discharged.
CBSL 3.3	A notice of at least 07 days shall be given for a regular Board meeting.	Complied	Sufficient notices have been given to the Board, to ensure that 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	The attendance of each Director at these meetings have 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 (Pvt) Ltd 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 a 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	A process is in place for Directors to have access to the Company Secretary.
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.	Complied	Minutes of Board Meetings are maintained by the Company Secretary. The Minutes of the previous Board Meetings are adopted in the ensuing Board Meeting. The Board Minutes are available for inspection as and when required.
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 of 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.

CORPORATE GOVERNANCE Contd.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 Annual Report under “Profiles of Directors” (page 11), “Related Party Transactions” (Page 87) and “Attendance of the Directors during the year” (Page 36).
CBSL 4.1	Number of Directors should not be less than 05 and more than 13.	Complied	The Board comprised of 07 Directors as at the financial year end.
CBSL 4.2	Total period of service of a Director should not exceed 09 years.	Complied	There are no Directors on the Board who have served the Company for more than nine 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	Five out of Seven Directors are Independent Non-Executive Directors. The composition of the Board by category including their names is set out on page 11 in this Annual Report.
CBSL 4.5	The alternative director appointed to represent an independent non-executive director should be met with the criteria for independent non-executive directors	Complied	
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 resource	Complied	All Non-Executive directors are professionally sound to bring an objective judgment to bear on issues of strategy, performance and resource.
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	The 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 consist of persons with graduate, post graduate and professional qualifications in Banking, Accounting and related financial matters. The Directors’ financial acumen and knowledge is described under the “Board of Directors’ Profile” on page 11 to 14 in this Annual Report.
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	Board Performance is assessed to ensure that the experience and exposure of the Board Members are adequate to meet the strategic demands faced by the Company. The findings of the appraisals are taken into consideration in the appointment or reappointment of Directors. The existing Board collectively decides on new Board appointments.
CBSL 4.8	All corporate communications where the names of directors should be disclosed, Independent Non-Executive directors are expressly identified	Complied	This has been disclosed in this Annual Report under the profiles of Directors.
CBSL 4.9	The procedure for the appointment of new directors and orderly succession of appointments to the board.	Complied	The Nominations Committee consider the making of any appointment or re-appointment to the Board.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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	
CBSL 4.11	The Board shall have announced to the shareholders and notified 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	
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	To date no Director has exceeded 70 years of age. The Company Secretary maintains records of the age of the Directors.
CBSL 5.2	A person 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.
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 based on business requirements.
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	At Orient Finance, the positions of the CEO and Chairman are separated clearly to segregate 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 non-executive director	Complied	The 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 identity 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 Board is aware that there are no relationships whatsoever, between the Chairman and Chief Executive Officer. Similarly no relationships prevail among the other members of the Board, other than being common Directors of certain companies.

CORPORATE GOVERNANCE Contd.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 and appropriate issues are discussed	Complied	The Chairman complies with these requirements. He frequently discusses relevant matters with the other Directors and the CEO.
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 Company Secretary circulates a formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.
CBSL 7.6 Code A.6.1	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 sent with sufficiently prior to the meetings in order for Directors to request any other information if necessary.
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 in the Board's affairs.
CBSL 7.8	The Chairman shall facilitate the effective contribution of Non – Executive Directors in particular and ensure constructive relationships between Executive & Non- Executive Directors.	Complied	
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 does not get involved in executive functions or in supervising 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 Annual General Meetings and Extra Ordinary General Meetings. Moreover Annual Reports are delivered to shareholders fifteen working days ahead 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 of Orient Finance PLC functions as the apex 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 every financial year the Board in consultation with the CEO sets the reasonable 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. All committees shall appoint a secretary to arrange the 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, Integrated Risk Management Committee and Remuneration Committee. Board Committees submit minutes to the Board. Each Committee has a designated secretary. The annual report contains reports regarding the work of the 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 Chairman of The Audit Committee is a Non-Executive Director. Qualifications and experience are disclosed on page 13 of the Annual Report.
CBSL 8.2 (b)	All members of the Committee shall be Non-Executive Directors.	Complied	All Three 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 the 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 on page 46 of the Annual Report.
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 auditor's 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.

CORPORATE GOVERNANCE Contd.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 audit firm 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 Sri Lanka Accounting Standards and other legal requirements on going concern basis is 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 have reviewed the financial information of the company by, in order to monitor the integrity of the Financial Statements, annual report, accounts and periodical reports of the company are prepared for disclosure, and the significant financial reporting judgement contained therein.	Complied	The committee reviewed the financial information of the Company as appropriate.
CBSL 8.2 (i)	The committee shall have met the external auditors to discuss audit matters and absence of the executive management by perusing the minutes	Complied	The committee met the external auditors as appropriate.
CBSL 8.2 (j)	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 response thereto.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.2 (k)	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 appalment 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. The Internal Audit function is currently outsourced to KPMG (Chartered Accountants). The Internal audit function is an independent function with direct reporting to the Board Audit Committee.
CBSL 8.2 (l)	The committee shall have considered major findings of internal investigations and management's response thereto	Complied	
CBSL 8.2 (m)	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 twice a year, the Committee shall meet with the external auditors without the Executive Directors being present. If necessary the committee shall discuss matters regarding Interim and Final audit without the Key Management Personnel being present.	Complied	The Committee met with the external auditors twice during the year at the Board Audit Committee meetings without the Executive Directors.
CBSL 8.2 (n)	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 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 authorised 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.

CORPORATE GOVERNANCE Contd.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.2 (o)	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.
CBSL 8.2 (p)	The Board shall 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 Director at such meetings.	Complied	Details of the work of The Audit Committee are disclosed on the page 46 of this Annual Report. Attendance has been disclosed at the end of this report (Page 36).
CBSL 8.2 (q)	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	The Senior Manager Risk & Compliance keeps detailed minutes of the Committee meetings.
CBSL 8.2 (r)	The Committee shall ensure that proper arrangements are in place for the fair and independent investigation of matters and for appropriate follow –up and act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied	The Audit Committee is the key representative body for overseeing the Company's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.
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 comprises of four Non-Executive Directors, CEO, Senior Manager Finance and Senior Manager-Risk and Compliance. The Committee met four times during the year and worked clearly with the key Management Personnel.
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 continuously kept informed on 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 e 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 committees.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 which 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 met four times during the year under review. It has reviewed the business continuity plans.
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 Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied	The Committee did not come across any such material violations by staff during the year under review. Any non-compliance to regulations would be followed up by the Committee with the Board as and when detected.
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 8.4 (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. Assistant General Manager - Finance, 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 37 on "Related Party Disclosures" in the Financial Statements.
CBSL 9.3	There should be identified and report the transaction on accommodation, the form of deposits, borrowings and investments have been identified as transaction with related party	Complied	
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.

CORPORATE GOVERNANCE Contd.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 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.
CBSL 10.2	The Board shall ensure that the following minimum disclosures are made in the annual report.		
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 on page 51 of the Annual Report under "Directors Responsibility for Financial Reporting".
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 43 of the Annual Report under "Directors Report on the Internal Control System".
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 obtained a certification from the external auditors on the effectiveness of the Internal Control mechanism.
d	Details of directors including names, transactions with the finance company.	Complied	Relevant disclosures are made and are included in the Annual Report from page 11 to 14, and page 87 under "Board of Directors".
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 on page 87.

Reference to CBSL regulation/SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 on page 87 under Related Party Transactions.
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 on page 87 under Related Party Transactions.
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 on page 51 under “Directors Responsibility Statement”
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 Orient Finance PLC’s Risk Management or non-compliance with this Direction that had been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and requested by Monetary Board to be disclosed to the public.
j	The external auditor’s certification of the compliance with these Directions in the Annual Corporate Governance Reports published after 1st January 2011.	Complied	The Company has obtained a certificate from External Auditors over the compliance of Corporate Governance Directions. Further the Company is in the process of strengthening certain procedures based on the recommendations made by them.
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 which contained the Directors’ Responsibilities included on Page 51 of this Annual Report and Auditors Responsibilities have been explained in the Auditors’ Report on page 52
Code D.1.4	The Annual Report should contain a “Management Discussion and Analysis”.	Complied	Refer page 18 to 22 for the Management Discussion and Analysis.

CORPORATE GOVERNANCE Contd.

Name of the Director	Board Meetings		Audit Committee Meetings		Integrated Risk Management Committee		Related Party Transactions Review Committee		Remuneration Committee	
	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance
Dr. Dayanath Jayasuriya	14	14	-	-	4	4	-	-	-	-
Mr. Prakash Schaffter (or by his Alternative Director Mr. Ramesh Schaffter)	14	14	2	2	-	-	-	-	4	4
Mr. Ramesh Schaffter (Appointed w.e.f. 29th March 2018)	-	-	-	-	-	-	-	-	-	-
Mr. Ananda W Atukorala	14	14	5	5	2	2	2	2	4	4
Mr. Anil Tittawella (or by his Alternate Director Mr. A W Atukorala)	14	14	-	-	2	1	-	-	4	4
Mrs. Lakshmi Gunatilake (Retired w.e.f. 31 October 2017)	7	7	3	3	2	2	2	2	-	-
Ms. Minette Perera	14	14	5	5	-	-	2	2	-	-
Ms. Indrani Goonasekara	14	14	-	-	4	4	-	-	-	-

Notes

**Mr. Ananda Atukorala resigned from the Integrated Risk Management Committee w.e.f. 25th October 2017*

**Mr. Anil Tittawella was appointed to the Integrated Risk Management Committee w.e.f. 25th October 2017*

**Mr. Prakash Schaffter was appointed to the Audit Committee w.e.f. 25th October 2017*

RISK MANAGEMENT

Due to the inherent risks confronted by business entities operating in the finance industry and the stringent 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 its strategy towards the achievement of its long-term goals.

Our degree of 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 embedded approach to risk management.

The Board has 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 required facing the business are being addressed and all information to be disclosed is reported to the senior management and the Board where 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.

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

The Board of Directors, in principle is responsible for maintenance of 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.

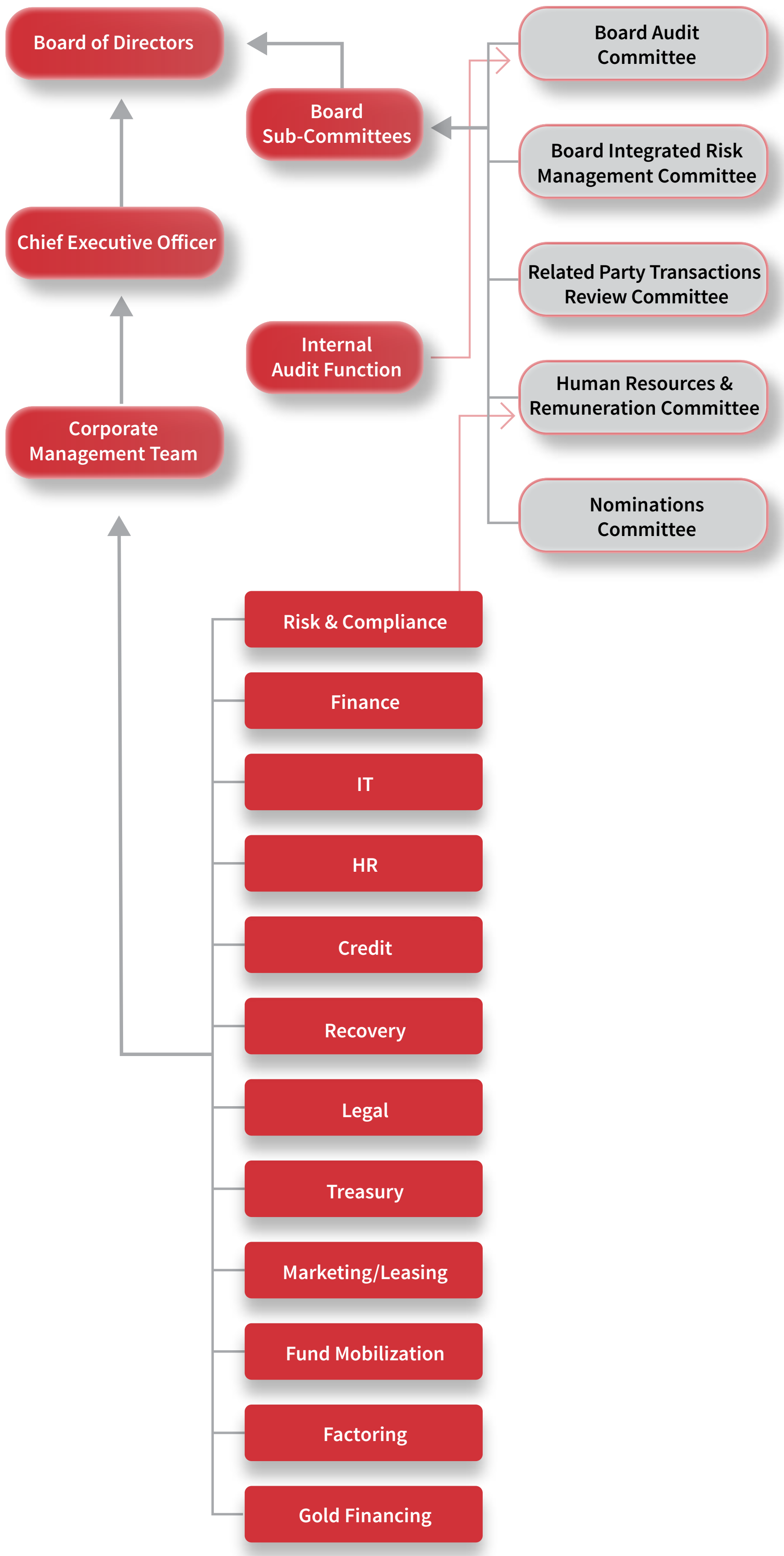
The IRMC is a Board subcommittee, which oversees the risk management function in line with the Board approved policies and strategies. IRMC develops the policy and operations for Company-wide risk management. In addition to the Board's representatives, the IRMC consist of the CEO, Senior Manager Finance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

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 potential losses stemming from the failure of clients or counterparties to meet their financial obligations with the Company. The Company's credit risk arises mainly from various accommodations 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. The Credit Policy manual was reviewed during the year and approved by the Board of Directors. Special attention is given to Credit Risk Management in terms of analyzing customer credit worthiness through rigorous customer evaluations before and after accommodations are granted. 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 about delegation of lending authority, client selection, due diligence in line with the Company's risk appetite.

Credit Risk Based on Asset Quality

Fluctuations in the non-performing loans ratio are 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 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. Portfolio delinquency and loan impairments as well as portfolio quality are constantly monitored by the Recoveries Department.

Credit Risk based on concentration 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 the same scenario would create 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. On a regular basis asset wise, sector wise and branch wise concentration is monitored.

Market Risk

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

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 for the Company. Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the net interest income of 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 maintains 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 company does not have enough financial resources to meet its obligation 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 strives to 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 deposit maturities are 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 oversee 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 round people. Therefore, people become the most important and the most valuable asset of the Company. It's ability to attract, develop, organise and retain the right number of appropriately qualified 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 conduct 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 the strict 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 focussed training and development programmes available to all employees across the company, on a needs basis.

Technology Risk

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

RISK MANAGEMENT Contd.

The Company has identified information as a vital business resource and a key asset to the organisational sustainability. Senior Manager IT and the IT team monitors and controls the integrity of the IT infrastructure and data. Special attention has been given for the risk related to the cyber-attacks.

Business continuity plan 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 memorandums based on the requirement.

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 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 would 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 management of risk. 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 sufficiency of the risk management framework of the Company.

COMPOSITION OF THE COMMITTEE

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. Mayura Fernando – Chief Executive Officer

Mr. Sanjeeva Jayasinghe – Senior Manager Finance

Ms. Sameera Kaumudi – Senior Manager 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 is 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 04 meetings during the year under review. The attendance of members is listed on page 36 of the Annual Report.

The IRMC assists 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 ensures the adequacy of the risk management practices of the Company.

The Committee assess 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

The approved Charter for the Board IRMC stipulates the authority, and structure of the BIRMC. Accordingly, the primary responsibilities of BIRMC include:

- Oversight and review of the implementation of risk management as well as compliance and control systems.
- Assess 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 quarterly basis.
- Take prompt corrective action to mitigate the effects of specific risks. In the event such risks are at levels beyond the prudent levels decided by the committee, the committee need to address such specific risks manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Review the sufficiency of personnel, systems, procedures and other risk management issues.
- Review and assess the integrity and adequacy of the Risk Management Function, including processes and organisational structure.
- Monitor changes anticipated for 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.
- Review and approve organisation’s Disaster Recovery and Business Continuity Plan.
- Review 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.
- Review the compliance related reports submitted periodically (quarterly) by the Risk and Compliance department.
- Take appropriate action 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 NBFI of Central Bank of Sri Lanka.

In addition to the above, the Committee may perform such other functions, which are necessary or appropriate for the discharging of its duty.

ACTIVITIES IN FY 2017/18

- 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, internal policies in all areas of business operations.
- 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.
- Assessed the Company’s compliance with laws, regulations and regulatory guidelines, internal policies.

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
19th June 2018

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

COMPOSITION

The Remuneration Committee comprises of two Independent Non-Executive Directors and one Non-Executive Director, namely:

Mr. Ananda W Atukorala – Chairman (Independent Non-Executive Director)

Mr. Prakash Schaffter (Non-Independent Non-Executive Director)

Mr. Anil Tittawella (Independent Non-Executive Director)

The Committee is headed by an Independent Non-Executive Director Mr. Ananda W. Atukorala, with the Company Secretary as the Secretary of the Committee. The Chief Executive Officer (CEO) was available to assist in the deliberations of the Committee along with Senior Manager – Human Resources or any others as required, and who attended meetings by invitation.

The Remuneration Committee operates within Board approved terms of reference 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.

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.

The CEO advised the Committee regarding the importance of reviewing the remuneration structure periodically and to evaluate it against industry norms to warrant fairness and internal & external equity.

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 organisational 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 recognise 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.

The Committee meets as often as necessary to make recommendations on compensation structures, bonuses, increments and promotions of staff and in instances where the Board refers specific matters to be reviewed by the Committee.

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

Minutes of the meetings and the recommendations of the Remuneration Committee were presented to the Board of Directors for Approval & Ratifications.

Ananda W Atukorala
Chairman
Human Resources and
Remuneration Committee
19th June 2018

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 present 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 have been appointed as the internal auditors 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. Dayanath Jayasuriya P C
Chairman

Prakash Shaffter
Non-Executive Director

Minette Perera
Chairman
Audit Committee
19th June 2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL SYSTEM

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Website : www.bdo.lk

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

INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF ORIENT FINANCE PLC

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 31st March 2018.

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 Senior Manager 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
19th June 2018
VR/cc

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 consist of 3 Independent, Non-Executive Directors. As at 31st March 2018 the members of the committee were:

Ms. Minette Perera – Chairperson/ Independent Non-Executive Director

Mr. Ananda W. Atukorala – Independent Non-Executive Director

Ms. Indrani Goonasekara – Independent Non-Executive Director (Appointed w.e.f. 25th October 2017)

Ms. Lakshmi K. Gunatilake – an Independent Non-Executive Director was a member of the Committee till her retirement from the Board on 30th October 2017.

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

COMMITTEE MEETINGS

The Committee held two 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 36 of the Annual Report.

RELATED PARTY TRANSACTIONS DURING THE YEAR 2017/18

During the year 2017/18, 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 in Note 37 of the Financial Statements.

On behalf of the Board Related Party Transactions Review Committee,

Minette Perera
Chairperson
Board Related Party Transactions Review Committee
19th June 2018

BOARD AUDIT COMMITTEE REPORT

The Audit Committee (Committee) appointed by the Board consist of three Non-Executive Directors. 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 March 2018 it comprised of the following Directors:

Ms. Minette Perera– Chairperson of the Committee

Mr. Ananda W Atukorala – A member of the Committee

Mr. Prakash Schaffter – A member of the Committee

Ms. Lakshmi K Gunathilake – An Independent Non-Executive Director was a member of the committee till her retirement from the Board on 30th October 2017.

The profiles of the members are given on pages 11 to 14 in this Annual Report.

Senior Manager Risk and Compliance 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. 03 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 is 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 five meetings during the year under review. Chief Executive Officer, Senior Manager – Finance and Senior Manager – 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 were conducted based on the terms of reference of the Audit Committee and 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 36 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

As in the previous years, the Internal Audit function has been outsourced and the internal audit plan for the year was discussed and approved by the Committee.

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 31st March 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
19th June 2018

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 31st March 2018. The details contained in this Report provide the relevant information as required by the Companies Act No. 07 of 2007 and Finance Companies (Corporate Governance) Direction No. 03 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 and Hire Purchase facilities, Margin Trading facilities, Vehicle Loans, Debt Factoring, Gold Loan Advances and other credit facilities.

REVIEW OF OPERATIONS

A review of the operations of Orient Finance PLC during the financial year 2017/18 is contained in the Chairman's Message, CEO's Review and Management Discussion and Analysis (pages 6, 8 and 18). These reports form an integral part of this Annual Report.

STATED CAPITAL

The Company's Stated Capital stood at Rs. 1,378,689,779 as at 31st March 2018.

RESERVES

The Company's retained earnings and other reserves as at 31st March 2018 amounting to Rs. 969,360,667. Movements of reserves and the break up are given in Statement of Changes in Equity on page 58.

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 789 registered ordinary shareholders as at 31st March 2018. The distribution of shareholding and major shareholders are given on page 99.

DEBENTURE HOLDING AND DEBENTURE INFORMATION

The Debentures of the Company as at 31st March 2018 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 (pages 6 to 7), the Chief Executive Officer's Review (pages 8 to 10), and Management Discussion and Analysis (pages 18 to 22).

FINANCIAL STATEMENTS

The Audited Financial Statements of the Company for the year ended 31st March 2018 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 55 to 94 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 60 to 70.

INCOME, PROFIT & APPROPRIATIONS

Provided below is a summary of the financial results of the Company's operations during the year ended 31st March 2018.

	2018 (Rs. Mn)	2017 (Rs. Mn)
Income	3,496.1	3,309.7
Profit before taxation	(103.7)	301.4
Less: Income tax (Expense)/Reversal	(6.5)	(43.8)
Profit for the year	(110.2)	257.6
Balance brought forward from the previous year	700.8	455.8
Less: Transferred to statutory reserve fund	-	(12.8)
Dividend paid	(37.0)	-
Transfer from other comprehensive income	(2.0)	0.2
Balance carried forward	551.6	700.8
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 41 to the Financial Statements.

DIVIDENDS

The Board of Directors does not recommend a dividend to the shareholders for the financial year ended 31st March 2018.

CORPORATE DONATIONS

During the year under review, the Company has made donations amounting to Rs. 26,200 (2017 – Rs. 78,340).

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 24 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 31st March 2018.

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 Board Audit Committee, Board Integrated Risk Management Committee and Human Resources and Remuneration 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. Dayanath Jayasuriya P C	Chairman – Independent Non-Executive Director
Mr. Prakash Schaffter	Non-Independent Non-Executive Director
Mr. Ananda W Atukorala	Independent Non-Executive Director
Mr. Anil Tittawella	Independent Non-Executive Director
Ms. Minette Perera	Independent Non-Executive Director
Ms. Indrani Goonesekera	Independent Non-Executive Director
Mr. Ramesh Schaffter	Non-Independent Non-Executive Director (Appointed w.e.f. 29th March 2018)
Ms. Lakshmi Gunatilake	Independent Non-Executive Director (Retired w.e.f. 30th October 2017)

The profiles of the Directors are given in pages 11 to 14 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.

DIRECTORS' INTEREST IN SHARES OF THE COMPANY

Name of the Director	No. of Shares
Dr. Dayanath Jayasuriya P C	Nil
Mr. Prakash Schaffter	10
Mr. Ananda W Atukorala	Nil
Mr. Anil Tittawella	Nil
Ms. Minette Perera	Nil
Ms. Indrani Goonesekara	Nil
Mr. Ramesh Schaffter	10

DIRECTORS' INTEREST IN DEBENTURES OF THE COMPANY

There were no debentures registered in the name of any Director as at 31st March 2018.

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 51 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 37 to the Financial Statements forming part of the Annual Report of the Board.

ENVIRONMENT

The Company has used its best endeavors 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 31st March 2018 was 469 (31st March 2017 – 447).

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

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. 1,400,000.00 as Audit Fees for the year 2017/18. (The Auditors were paid Rs. 1,352,500 as Audit Fees for the year 2017/18).

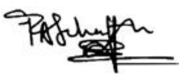
The retiring Auditors, M/s BDO Partners, have expressed their willingness to continue in office for the financial year 2018/19. A resolution to re-appoint, M/s BDO Partners, (Chartered Accountants), and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting to be held 20 July 2018.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 20 July 2018. The notice of the meeting relating to the thirty fifth Annual General Meeting is given on page 106.

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

Dr. Dayanath Jayasuriya P C
Chairman



Prakash Schaffter
Director

K H L Corporate Services Limited
Company Secretaries
19th June 2018

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 on page 52 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 31st March 2018; and
- Statement of Comprehensive Income, which presents a true and fair view of the profit and loss of the Company for the year ended 31st March 2018.

In preparing the Financial Statements of the Company for the year ended 31st March 2018, 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
19th June 2018

INDEPENDENT AUDITORS' REPORT

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Chartered Accountants
"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 31st March 2018, 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 55 to 94.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31st March 2018, 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 assessment of impairment of loans and receivables requires significant judgement by the company and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements inherent in the determination of the provision for impairment, we determined this to be a matter of most significance to our audit.

In determining the required impairment provision on loans and receivables, the company calculates the impairment allowances on individual and collective basis.

For all loans that are considered individually significant, the company assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. In identifying loans and advances to be considered for individual impairment, the company considers; known cash flow difficulties experienced by the borrower; number of instalments overdue; breaches of debt covenants; the probability that the borrower will enter bankruptcy or other financial realization; and a significant downgrading in credit rating by an external credit rating agency. In assessing the quantum of impairment to be provided, the company takes into consideration; company's aggregate exposure to the customer; the amount and timing of expected receipts and recoveries and valuation of the securities held as collateral.

Loans and receivables that have been assessed individually and found to be not impaired and all individually insignificant loans and receivables are assessed collectively, in groups of assets with similar characteristics, to determine whether provision should be made based on incurred loss events. Loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

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 17 – Loans and receivables to customers
- Note 47.1 – Credit risk

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit of accounting for the credit risk related to outstanding customer loans and receivables included the following procedures:

- For loans and receivables where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans.
- We also tested a sample of loans and receivables to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner.
- For a sample of loans and advances, we checked the valuation of securities to support the calculation of the impairment by comparing estimates to external evidence available and checked mathematical calculations.
- We tested controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired, the transfer of data (credit systems to impairment models and model output to the general ledger) and the calculation of the impairment provisions.
- We performed testing on the models used to calculate the collective impairment. This testing varied by portfolio, but typically included some combination of independent model rebuild, re-performance of the calculation and testing the extraction of data used in the models including the analysis of loans into groupings displaying the same delinquency characteristics.

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 31st March 2018 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 31st March 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. In arriving at the recoverable amount of goodwill and brand value, the company has used fair value method. The fair value of goodwill and brand as at 31st March 2018 were arrived by deducting tangible net assets value from market capitalization of the company, as at 31st March 2018. In arriving at market capitalization of the company, weighted average market price for last 12 months were considered.

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 31st March 2018.

The disclosure associated with impairment assessment of goodwill and brand value is set out in note 22 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 31st March 2018.

Our work included the following procedures:

- We evaluated the management competence and level of skills required in developing assumptions, gathering accurate data and performing assessment.
- We assessed the validity of management's use of appropriate method 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 audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT Contd.

- 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
19th June, 2018
VR/dm

INCOME STATEMENT

For the year ended 31st March	Note	2018 Rs.	2017 Rs.
Income	4	3,496,108,852	3,309,736,196
Interest income	5	3,311,048,574	3,128,709,442
Interest expenses	6	(2,116,906,558)	(1,836,496,004)
Net interest income		1,194,142,016	1,292,213,438
Fee and commission income	7	112,111,650	129,889,739
Other operating income	8	72,948,628	51,137,015
Total operating income		1,379,202,294	1,473,240,192
Impairment charges for loans and receivables to customers	9	(545,680,634)	(321,776,210)
Net operating income		833,521,660	1,151,463,982
Operating expenses			
Personnel expenses	10	(369,855,285)	(323,775,954)
Depreciation and amortisation		(23,437,189)	(30,940,656)
Other operating expenses	11	(488,580,521)	(418,517,028)
Operating profit/(loss) before Value Added Tax and NBT		(48,351,335)	378,230,344
Value Added Tax and NBT on financial services		(55,366,426)	(76,750,858)
Profit/(loss) before income tax		(103,717,761)	301,479,486
Income tax expense	12	(6,528,018)	(43,803,275)
Profit/(loss) for the year		(110,245,779)	257,676,211
Basic earnings per share (Rs.)	13.1	(0.74)	1.74
Diluted earnings per share (Rs.)	13.2	(0.74)	1.74
Dividend per share (Rs.)	14	0.25	-

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 60 to 94 form an integral part of these Financial Statements.

Colombo
19th June 2018

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31st March	Note	2018 Rs.	2017 Rs.
Profit/(loss) for the year		(110,245,779)	257,676,211
Other comprehensive income/(expenses)			
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods			
Available for sale financial assets – Net change in fair value		1,759,556	(1,168,048)
		1,759,556	(1,168,048)
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(loss) on retirement benefit plan	31.1	(1,567,022)	330,448
Deferred tax effect on above		(438,766)	(92,525)
		(2,005,788)	237,923
Other comprehensive income/(expenses) for the year net of tax		(246,232)	(930,125)
Total comprehensive income/(expenses) for the year net of tax		(110,492,011)	256,746,086

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 60 to 94 form an integral part of these Financial Statements.

Colombo
19th June 2018

STATEMENT OF FINANCIAL POSITION

As at 31st March	Note	2018 Rs.	2017 Rs.
ASSETS			
Cash and cash equivalents	15	195,581,111	107,894,350
Available for sale financial assets	16	945,559,444	839,887,069
Loans and receivables to customers	17	14,504,333,754	16,416,103,144
Investments with banks and other financial institutions	18	754,474,257	369,160,064
Other assets	19	210,103,729	197,047,025
Real estate stock	20	16,779,715	22,469,524
Deferred tax asset	21	270,475,120	275,622,280
Goodwill	22	564,545,746	564,545,746
Brand value	22	235,880,000	235,880,000
Intangible assets	23	1,975,920	105,510
Property, plant & equipment	24	415,618,078	421,315,170
Total assets		18,115,326,874	19,450,029,882
LIABILITIES			
Bank overdrafts	15	138,490,215	598,251,884
Deposits from customers	25	11,852,625,030	9,565,559,962
Interest bearing borrowings	26	1,806,789,942	4,815,150,455
Term debts	27	998,261,067	985,716,469
Redeemable preference shares	28	456,209,985	406,954,566
Current tax payable	29	-	2,136,340
Other liabilities	30	462,984,472	530,785,736
Non-interest bearing security deposits		41,831	848,126
Retirement benefit obligations	31	51,873,885	44,899,285
Total liabilities		15,767,276,427	16,950,302,823
EQUITY			
Stated capital	32	1,378,689,779	1,378,689,779
Statutory reserve fund	33	305,274,930	305,274,930
Revaluation reserve		112,291,899	116,471,908
Available for sale reserve	34	213,964	(1,545,592)
Retained earnings		551,579,875	700,836,034
Total equity		2,348,050,447	2,499,727,059
Total equity and liabilities		18,115,326,874	19,450,029,882
Net assets per share		15.86	16.89

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 60 to 94 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
Senior Manager – Finance

Jude Anthony
Acting 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
Chairman
Colombo
19th June 2018

Prakash Schaffter
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2018	Stated Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Available for Sale Value Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st April 2016	1,378,689,779	292,391,119	116,471,908	(377,544)	455,805,711	2,242,980,973
Profit/(loss) for the year	-	-	-	-	257,676,211	257,676,211
Other comprehensive income/(expense) net of taxes	-	-	-	(1,168,048)	237,923	(930,125)
Transfer to statutory reserve	-	12,883,811	-	-	(12,883,811)	-
Balance as at 31st March 2017	1,378,689,779	305,274,930	116,471,908	(1,545,592)	700,836,034	2,499,727,059
Profit/(loss) for the year	-	-	-	-	(110,245,779)	(110,245,779)
Other comprehensive income (expense) net of taxes	-	-	-	1,759,556	(2,005,788)	(246,232)
Revaluation gain on land write 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	2,348,050,446

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 60 to 94 form an integral part of these Financial Statements.

Colombo
19th June 2018

STATEMENT OF CASH FLOWS

For the year ended 31st March	2018 Rs.	2017 Rs.
Cash flows from operating activities		
Profit/(loss) before income tax expense	(103,717,761)	301,479,486
Adjustment for:		
Depreciation/amortisation	23,437,189	30,940,656
Profit on disposal of property, plant & equipment	3,265,316	(15,283,673)
Impairment charge	545,680,634	321,776,210
Finance expenses	2,116,906,558	1,836,496,004
Profit on sale of real estate	(4,868,206)	(6,105,716)
Investment income	(153,343,909)	(113,697,831)
Provision for gratuity	11,159,696	9,683,361
Operating profit/(loss) before working capital changes	2,438,519,517	2,365,288,497
Change in loans and receivables to customers	1,366,088,756	(2,898,575,188)
Change in other assets	(14,514,124)	50,594,470
Change in deposits from customers	2,187,323,849	357,310,126
Change in other liabilities	(67,801,264)	(173,699,009)
Change in non-interest bearing security margins	(806,295)	(1,042,979)
	5,908,810,439	(300,124,083)
Interest paid	(1,866,047,310)	(1,733,759,187)
Income tax paid	(2,498,544)	-
Gratuity paid	(5,752,118)	(3,306,664)
Net cash from/(used in) operating activities	4,034,512,467	(2,037,189,934)
Cash flows from investing activities		
Acquisition of property, plant & equipment and intangible assets	(27,222,665)	(17,962,347)
Proceeds from sale of property, plant & equipment	166,835	20,138,462
Proceeds from sale of real estate	10,558,015	30,044,042
Net change in available for sale financial assets	(103,912,819)	(84,931,013)
Net change in investments with bank and other financial institutions	(385,314,193)	63,169,149
Investment income received	153,343,909	113,697,831
Net cash generated from/(used in) investing activities	(352,380,918)	124,156,124
Cash flows from financing activities		
Interest bearing borrowings obtained	3,344,000,000	10,143,888,000
Repayment of interest bearing borrowings	(6,351,178,527)	(8,619,381,487)
Interest paid on debentures	(90,500,000)	(96,184,411)
Repayment of debentures	-	(204,000,000)
Proceeds from preference shares issue	-	400,049,600
Dividend paid	(37,004,593)	-
Net cash generated from/(used in) financing activities	(3,134,683,119)	1,624,371,702
Net change in cash and cash equivalents	547,448,430	(288,662,108)
Cash and cash equivalents at the beginning of the year	(490,357,534)	(201,695,426)
Cash and cash equivalents at the end of the year (Note A)	57,090,896	(490,357,534)
Note A		
Analysis of cash and cash equivalents at the end of the year		
Cash in hand	141,293,580	85,700,169
Cash at bank	54,287,531	22,194,181
Bank overdrafts – secured	(138,490,215)	(598,251,884)
	57,090,896	(490,357,534)

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 60 to 94 form an integral part of these Financial Statements.

Colombo
19th June 2018

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 75, Kumaran Rathnam Road, Colombo 02.

1.2 Principal Activities and Nature of Operations

The principal activities of the Company comprise finance leasing, hire purchasing, debt factoring, mobilization of deposits and gold loan 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 undertakes 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 Authorization

The Financial Statements of the Company for the year ended 31 March 2018 were authorized to issue by the board of directors on 19th June 2018.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The statement of financial position as at 31st March, 2018 income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, and comprising a 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, 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 historical cost basis except for the following material items in the statement of financial position;

- Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation.
- Available-for -sale financial assets are measured at fair value.
- Land and buildings are measured at revalued amounts.

2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional currency. All financial information presented in Sri Lanka Rupees have 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 36 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 it is required or permitted by any accounting standard or interpretation, and as specifically disclosed in the notes to the Financial Statements.

2.6 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 "Presentation of Financial Statements" except those resulted to change as the revision or application of new SLFRSs/LKASs. Further comparative information is reclassified wherever necessary to conform to the current year's presentation.

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 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 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 Impairment Losses on Loans and Advances

The company reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided for in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan to collateral ratio, level of restructured performing loans, etc.), and judgement on the effect of concentrations of risks and economic data.

The impairment loss on loans and advances is discussed in detail under Note 17 to the Financial Statements.

2.7.4 Impairment of Available for Sale Investments

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

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

2.7.5 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.7.6 Impairment Losses on Other Financial Assets

The company assesses whether there are any indicators of impairment for an asset or a cash generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate doing so. This requires the estimation of the 'value in use' of such individual assets or the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.7.7 Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

2.7.8 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.

2.7.9 Useful Economic Lives of Property, Plant & Equipment

Useful economic lives of Property, Plant & Equipment are estimated as disclosed in the Note 3.3.4 to the Financial Statements.

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 lease and hire purchase receivables, loans and advances, deposits and debt securities issued 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 purpose and characteristics and the management's intention in acquiring them.

All financial instruments are initially measured at their fair value plus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are charged to the income statement.

3.1.3 "Day 1" Profit or Loss

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

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS Contd.

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

3.1.4 Classification and Subsequent Measurement of Financial Assets

At inception financial assets are classified into one of the following categories:

- At fair value through profit or loss, and within this category as:

  Held for trading; or

  Designated at fair value through profit or loss
- Held-to-maturity
- Available for sale
- Loans and receivables

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

3.1.4.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed below.

The company has not designated any financial assets upon initial recognition at fair value through profit or loss.

3.1.4.1.1 Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking.

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss.

The company evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances.

3.1.4.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The company designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally at fair value;
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen

Financial assets designated at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'interest income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.1.4.2 Held to Maturity Financial Investments

Held to maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment changes for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

The company has not designated any financial assets as held to maturity during the financial year.

3.1.4.3 Available for Sale Financial Assets

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

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity through other comprehensive income in the 'available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recycled to the income statement in 'other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as 'interest income' using the EIR.

Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'impairment losses on financial investments' and removed from the 'available for sale reserve'.

3.1.4.4 Loans and Advances to Customers

Loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances to customers include hire purchase, lease receivable, factoring and gold loan advances.

When the Company is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Assets hired to customers under hire purchase agreements which transfer all the risks and rewards incidentals to ownership as well as the legal tittle at the end of such contractual period are classified as hire purchase (HP) arrangements.

Amount receivable under finance leases and hire purchases net of initial rentals received, unearned lease income and provision for impairment are classified as hire purchases and Lease receivable and are presented within Loans and Advances to customers.

After initial measurement, amounts 'loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'impairment of changes for loans and other losses".

3.1.5 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

They are brought to 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.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks and net of outstanding bank overdrafts.

3.1.6 Financial Liabilities

3.1.6.1 Classification and Subsequent Measurement of Financial Liabilities

At inception a financial liability is classified into one of the following categories:

- At fair value through profit or loss, and within this category as :
  - Held for trading; or
  - Designated at fair value through profit or loss.
- At amortised cost

The subsequent measurement of financial liabilities depends on their classification.

3.1.6.2 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.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking. Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "net gain or loss on financial assets and liabilities designated at fair value through profit or loss". The company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.1.6.3 Financial Liabilities at Amortised Cost

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'deposits due to customers ','subordinated term debts' or 'interest bearing 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 own equity shares.

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 expenses' in the income statement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.1.7 Reclassification of Financial Instruments

The company reclassifies non-derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standards – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available for sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In case a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The company may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

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

3.1.8 Derecognition of Financial Assets and Financial Liabilities

3.1.8.1 Financial Assets

Financial assets (or, where applicable or a part of a financial asset or part of a group of similar financial assets) is derecognised when;

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the assets nor transferred control of it, the asset is recognised to the extent of the Company's continuing involvement in it. In that case, the Company also recognises an associated liability. The transferred assets and the associated liabilities are measured on a basis that reflects the right and obligation that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3.1.8.2 Financial Liabilities

A financial liability is derecognised when the obligation under liability is discharged, cancelled or has expired.

3.1.8.3 Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in 'net interest income' and is accrued over the life of the agreement using the EIR.

3.1.9 Impairment of Financial Assets

The company assesses at each Reporting date to determine, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3.1.9.1 Impairment of Financial Assets Carried at Amortised Cost

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment account and the amount of impairment loss is recognised in the income statement.

Interest income continues to be accrued on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'.

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

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, collateral type, past-due status and other relevant factors.

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

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

3.1.9.2 Impairment of Available for Sale Financial Investments

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

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount/ impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income on such assets too is recorded within 'interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the equity through other comprehensive income is removed from equity and recognised in the income statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

The company writes-off certain financial investment available for sale when they are determined to be uncollectible.

3.1.9.3 Renegotiated Loans

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

3.1.9.4 Collateral Repossessed or Where Properties have Devolved to the Company

The company's policy is to determine whether a repossessed or devolved asset is best used for its internal operations or should be sold. Assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Company's policy. The assets held by company for temporary periods pending unexecuted auctions or any suitable recovery methods are not shown as investment properties.

3.1.10 Offsetting Financial Assets and Liabilities

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

3.1.11 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 the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an 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.

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Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which 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 derecognition of the instrument.

3.2 Inventories

Inventories consist of stationary 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.

3.3 Property, Plant & Equipment

Property, Plant & 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 one year period.

3.3.1 Recognition

Property, Plant & 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 & Equipment) in accounting for these assets. Property, Plant & 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.

3.3.2 Measurement

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

Other Property, Plant & 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 & Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant & Equipment.

Gains and losses on disposal of an item of Property, Plant & Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant & 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 capitalized 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.

3.3.3 Subsequent Expenditure

Expenditure incurred to replace a component of an item of Property, Plant & Equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. The cost of replacing part of an item of Property, Plant & 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 & Equipment are recognised in profit or loss as incurred. When replaced costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised.

3.3.4 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 & 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:

Freehold Buildings	50 years
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.

3.4 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.

3.4.1 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 & 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.

3.4.2 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 & 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 on 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.

3.5 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.

3.5.1 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 atleast 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.

3.5.1.1 Computer Software

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

3.5.2 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 carring 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.

3.5.2.1 Brand Value

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

3.5.3 Derecognition of Intangible Assets

Intangible assets 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.

3.6 Impairment of Non-Financial Assets

3.6.1 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.

3.6.2 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 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.

3.6.3 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.

3.7 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 profitor 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.

3.8 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.

3.9 Other Liabilities

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

3.10 Employee Benefits

3.10.1 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.

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS Contd.

3.10.1.1 Employees' Provident Fund (EPF)

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

3.10.1.2 Employees' Trust Fund (ETF)

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

3.10.2 Defined Benefit Plans

3.10.2.1 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; 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 "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.

3.10.3 Short Term Employee Benefits

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

3.11 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.

3.12 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.

3.13 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.

3.14 Income Statement

3.14.1 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.

3.14.1.1 Interest Income and Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The calculation of the EIR takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes all material transaction costs and fees and points paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in 'Interest Income' for financial assets and in 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.14.1.2 Dividend Income

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

3.14.1.3 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.

3.14.1.4 Interest on Overdue Rentals

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

3.14.1.5 Profit or Loss on Disposal of Property, Plant & Equipment

Profits or losses resulting from disposal of Property, Plant & Equipment have been accounted in the income statement.

3.14.1.6 Recovery of Bad and Doubtful Debts Written Off

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

3.14.2 Expenditure

All expenditure incurred in running of the business and in maintaining the Property, Plant & 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 & Equipment.

3.14.2.1 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 its intended use or sale, are capitalized 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.

3.15 Taxes

3.15.1 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. 10 of 2006 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.

3.15.2 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.

3.15.3 Withholding Tax on Dividends

Dividends distributed out of taxable profit of the local companies attract a 10% deduction at source and is not available for 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.

3.15.4 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 same base subject to Value Added Tax on financial services.

3.15.5 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 1st April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.16 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 diluted potential ordinary shares.

3.17 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.

3.18 Regulatory provisions

3.18.1 Deposit insurance scheme

In terms of the Finance Companies Direction No. 02 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 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

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS Contd.

32E of the Monetary Law Act with effect from 1st October 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.

3.19 Reserves

3.19.1 Statutory Reserve Fund

The statutory reserve fund is maintained in terms of licensed finance company (Capital Funds) direction No. 01 of 2003. Accordingly, the Company should transfer funds out of net profits of each year 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.

3.19.2 Available for Sale Reserve

This has been created in order to account the fair value changes of available for sale financial assets.

3.20 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.

3.21 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 1st January 2018.

SLFRS 9 – Financial Instruments: Classification and Measurement

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of SLFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1st February 2015. The adoption of SLFRS 9 is expected to have an effect on the classification and measurement of the Company's financial assets.

The company is in the process of quantifying the impact of implementation of SLFRS 9.

SLFRS 15 – Revenue from Contracts with Customers

The objective of this standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 1st January 2018. The impact on the implementation of the above standard has not been quantified yet.

SLFRS 16 – Leases

SLFRS 16 eliminates the classification of leases as either operating or finance for lessees and instead, introduce 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 will become effective on 1st January 2019.

NOTES TO THE FINANCIAL STATEMENTS

4. INCOME

For the year ended 31st March	Note	2018 Rs.	2017 Rs.
Interest income	5	3,311,048,574	3,128,709,442
Fee and commission income	7	112,111,650	129,889,739
Other operating income	8	72,948,628	51,137,015
		3,496,108,852	3,309,736,196

5. INTEREST INCOME

For the year ended 31st March	2018 Rs.	2017 Rs.
Finance lease	2,240,370,779	2,053,005,287
Hire purchase	113,856,992	321,223,114
Factoring	237,721,529	229,367,517
Loans	534,190,278	405,937,825
Gold loans	31,565,087	5,477,868
Interest income on investments	153,343,909	113,697,831
	3,311,048,574	3,128,709,442

6. INTEREST EXPENSES

For the year ended 31st March	2018 Rs.	2017 Rs.
Interest expense on		
Borrowings	432,216,671	578,428,838
Customer deposits	1,501,808,031	1,077,925,665
Debentures	103,044,598	108,988,015
Preference shares	56,006,941	6,904,966
Negotiable instruments	748,034	4,908,451
Overdraft interest	23,082,283	59,340,069
	2,116,906,558	1,836,496,004

7. FEE AND COMMISSION INCOME

For the year ended 31st March	2018 Rs.	2017 Rs.
Documentation income – Lease and hire purchases	45,585,666	53,270,569
Administration charges – Factoring	38,300,030	47,288,126
Service charges – Gold loan	625,791	642,120
Insurance commission	27,600,163	28,688,924
	112,111,650	129,889,739

NOTES TO THE FINANCIAL STATEMENTS Contd.

8. OTHER OPERATING INCOME

For the year ended 31st March	2018 Rs.	2017 Rs.
Collections from written off contracts	61,252,235	22,490,458
Profit on disposal of property, plant & equipment	-	15,283,673
Profit on sale of real estate	4,868,206	6,105,716
Rent income	1,217,523	1,160,941
Dividend income	432,000	140,400
Sundry income	5,178,664	5,955,827
	72,948,628	51,137,015

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

For the year ended 31st March	2018 Rs.	2017 Rs.
Specific impairment		
Finance lease	153,091,610	165,821,917
Hire purchase	20,455,030	41,457,268
Loans	89,938,453	109,547,691
Factoring	133,558,000	21,671,153
Gold loan	(365,279)	853,968
	396,677,814	339,351,997
Collective impairment		
Finance lease	137,758,987	39,830,951
Hire purchase	(8,734,475)	(66,382,956)
Loan	19,978,308	8,976,218
	149,002,820	(17,575,787)
Impairment charges/(reversals) for loans and receivables to customers	545,680,634	321,776,210

10. PERSONNEL EXPENSES

For the year ended 31st March	2018 Rs.	2017 Rs.
Salaries and other related expenses	318,700,309	280,564,002
Defined contribution plan – EPF	32,065,502	26,822,649
– ETF	8,025,428	6,705,942
Defined benefit plan	11,064,046	9,683,361
	369,855,285	323,775,954

11. OTHER OPERATING EXPENSES

For the year ended 31st March	2018 Rs.	2017 Rs.
Directors' emoluments	5,377,125	6,140,200
Auditor's remuneration	1,400,000	1,352,500
Professional and legal fees	20,280,521	27,399,724
Charity and donations	26,200	600,155
Administration and establishment expenses	367,218,877	318,401,542
Loss on disposal of property, plant & equipment	3,265,316	-
Advertising and business promotional expenses	88,804,231	62,370,792
Other expenses	2,208,251	2,252,115
	488,580,521	418,517,028

12. INCOME TAX EXPENSE

For the year ended 31st March	Note	2018 Rs.	2017 Rs.
Current tax			
On current year profits	12.1	-	-
Under provision in respect of previous year	29	1,819,624	-
Deferred tax			
Deferred tax charged to the income statement	21	4,708,394	43,803,275
Income tax expense for the year		6,528,018	43,803,275

12.1 Reconciliation between Accounting Profit and Taxable Income

	Note	2018 Rs.	2017 Rs.
Profit/(loss) before income tax expense		(103,717,761)	301,479,486
Adjustments on disallowable expenses		3,906,588,928	4,450,993,128
Adjustments on allowable expenses		(3,657,665,863)	(4,628,282,398)
Statutory income		145,205,305	124,190,216
Less: Tax loss claimed	12.2	(50,821,857)	(43,466,576)
Assessable income		94,383,448	80,723,640
Less: Utilisation of qualifying payments	12.3	(94,383,448)	(80,723,640)
Taxable profit/(loss) for the year		-	-
Effective tax rate		0.00%	0.00%

12.2 Tax Losses

	2018 Rs.	2017 Rs.
Tax losses brought forward	1,667,154,365	835,251,392
Tax losses on leasing business during the year	316,319,244	875,369,549
Tax losses claimed during the year	(50,821,857)	(43,466,576)
Tax losses carried forward	1,932,651,753	1,667,154,365

12.3 Qualifying Payment on Investment

	2018 Rs.	2017 Rs.
Consideration paid to acquire former Orient Finance PLC	1,730,906,250	1,730,906,250
Less: Utilised in prior years	(157,581,700)	(76,858,060)
Less: Utilised during the year	(94,383,448)	(80,723,640)
Balance qualifying payment carried forward	1,478,941,102	1,573,324,550

NOTES TO THE FINANCIAL STATEMENTS Contd.

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. 10 of 2006 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 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	2018 Rs.	2017 Rs.
Profit/(loss) attributable to ordinary shareholders	(110,245,779)	257,676,211
Weighted average number of ordinary shares	148,018,370	148,018,370
Earnings per share	(0.74)	1.74
Weighted average number of ordinary shares	148,018,370	148,018,370

13.2 Diluted Earnings per Share

There were no potential dilutive ordinary shares at any time during the year or previous year. Therefore, diluted earnings per share is as same as basic earnings per share shown above.

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	2018 Rs.	2017 Rs.
Dividend paid	37,004,593	-
Dividend per share	0.25	-

15. CASH AND CASH EQUIVALENTS

As at 31st March	2018 Rs.	2017 Rs.
Cash in hand	141,293,580	85,700,169
Cash at bank	54,287,531	22,194,181
	195,581,111	107,894,350
Bank overdrafts	(138,490,215)	(598,251,884)
Cash and cash equivalents for the purpose of cash flow statement	57,090,896	(490,357,534)

16. AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31st March	Note	2018 Rs.	2017 Rs.
Investments in Government Securities	16.1	945,328,844	839,656,469
Investments in unquoted shares	16.2	230,600	230,600
		945,559,444	839,887,069
16.1 Investments in Government Securities			
Treasury Bills		945,328,844	839,656,469
Government Securities at fair value		945,328,844	839,656,469

As at 31st March	Note	2018 Rs.	2017 Rs.
16.2 Investments in Unquoted Shares			
Finance House Consortium (Pvt) Ltd.		200,000	200,000
Credit Information Bureau of Sri Lanka		30,600	30,600
		230,600	230,600

17. LOANS AND RECEIVABLES TO CUSTOMERS

As at 31st March	Note	2018 Rs.	2017 Rs.
Loans and receivables		19,849,322,496	22,237,850,219
Less: Unearned income		(4,135,215,572)	(5,157,654,540)
Net loans and receivables		15,714,106,924	17,080,195,679
Less: Allowance for specific impairment	17.1.6	(878,306,016)	(481,628,206)
Allowance for collective impairment	17.1.6	(331,467,154)	(182,464,329)
Net loans and receivables		14,504,333,754	16,416,103,144
17.1 Product Wise Analysis of Net Loans and Receivables			
Finance lease receivables	17.1.1	10,334,479,733	11,276,603,861
Hire purchase receivables	17.1.2	225,800,353	822,858,087
Other loans receivables	17.1.3	2,710,335,660	2,811,938,685
Factoring receivables	17.1.4	932,449,998	1,453,645,309
Gold loans receivables	17.1.5	301,268,010	51,057,202
		14,504,333,754	16,416,103,144
17.1.1 Finance Lease Receivables			
Gross lease rentals receivables		14,596,344,058	16,086,805,610
Less: Unearned income		(3,605,385,175)	(4,444,573,196)
Net lease rentals receivable		10,990,958,883	11,642,232,414
Less: Allowance for impairment	17.1.6	(656,479,150)	(365,628,553)
Net finance lease receivables		10,334,479,733	11,276,603,861
Lease rentals receivables within one year			
Gross lease rentals receivables within one year		5,664,869,363	5,470,347,329
Less: Unearned income		(1,769,488,793)	(1,917,876,507)
Net lease rentals receivables within one year		3,895,380,570	3,552,470,822
Lease rentals receivables within one to five years			
Gross lease rentals receivables within one to five years		8,927,437,818	10,567,054,536
Less: Unearned income		(1,835,666,659)	(2,477,292,944)
Net lease rentals receivables within one to five years		7,091,771,159	8,089,761,592
Lease rentals receivables later than five years			
Gross lease rentals receivables later than five years		4,036,877	0
Less: Unearned income		(229,723)	0
Net lease rentals receivables later than five years		3,807,154	0
Total		10,990,958,883	11,642,232,414

NOTES TO THE FINANCIAL STATEMENTS Contd.

As at 31st March	Note	2018 Rs.	2017 Rs.
17.1.2 Hire Purchase Receivables			
Gross hire purchase rentals receivables		417,430,718	1,112,374,936
Less: Unearned income		(24,740,909)	(134,347,948)
Net hire purchase rentals receivables		392,689,809	978,026,988
Less: Allowance for impairment	17.1.6	(166,889,456)	(155,168,901)
Net hire purchase receivables		225,800,353	822,858,087
Hire purchase rentals receivables within one year			
Gross hire purchase rentals receivables within one year		392,675,904	805,125,288
Less: Unearned income		(22,244,280)	(96,700,012)
Net hire purchase rentals receivables within one year		370,431,624	708,425,276
Hire purchase rentals receivables within one to five years			
Gross hire purchase rentals receivables within one to five years		24,754,814	304,538,864
Less: Unearned income		(2,496,629)	(37,409,653)
Net hire purchase rentals receivables within one to five years		22,258,185	267,129,211
Hire purchase rentals receivables after five years			
Gross hire purchase rentals receivables after five years		-	2,710,785
Less: Unearned income		-	(238,284)
Net hire purchase rentals receivables after five years		-	2,472,501
		392,689,809	978,026,988
17.1.3 Other Loans Receivables			
Gross other loans rentals receivables		3,425,509,656	3,490,839,827
Less: Unearned income		(505,089,488)	(578,733,396)
Net other loans rentals receivables		2,920,420,168	2,912,106,431
Less: Allowance for impairment	17.1.6	(210,084,508)	(100,167,746)
Net other loans receivables		2,710,335,660	2,811,938,685
Other loans receivables within one year			
Gross other loans rentals receivables within one year		2,355,410,818	2,125,700,467
Less: Unearned income		(298,059,506)	(315,752,033)
Net other loans rentals receivables within one year		2,057,351,312	1,809,948,434
Other loans receivables within one to five years			
Gross other loans rentals receivables within one to five years		1,070,098,838	1,414,382,993
Less: Unearned income		(207,029,982)	(312,382,190)
Net other loans rentals receivables within one to five years		863,068,856	1,102,000,803
Other loans receivables later than five years			
Gross other loans rentals receivables later than five years		-	160,112
Less: Unearned income		-	(2,918)
Net other loans rentals receivables later than five years		-	157,194
Total		2,920,420,168	2,912,106,431

As at 31st March	Note	2018 Rs.	2017 Rs.
17.1.4 Factoring Receivables			
Factoring receivables		1,108,281,365	1,495,918,676
Less: Allowance for impairment	17.1.6	(175,831,367)	(42,273,367)
Net factoring receivables		932,449,998	1,453,645,309
17.1.5 Gold Loan Receivables			
Gold loan receivables		301,756,699	51,911,170
Less: Provision for specific impairment	17.1.6	(488,689)	(853,968)
Net gold loan receivables		301,268,010	51,057,202

17.1.6 Movement in Specific and Collective Impairment Charges during the Year

	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	42,273,367	853,968	664,092,535
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
Specific impairment	376,712,268	145,127,419	180,146,273	175,831,367	488,689	878,306,016
Collective impairment	279,766,882	21,762,037	29,938,235	-	-	331,467,154
	656,479,150	166,889,456	210,084,508	175,831,367	488,689	1,209,773,170

18. INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31st March	2018 Rs.	2017 Rs.
Investments in fixed deposits	753,371,057	368,056,864
Investments in debentures	1,103,200	1,103,200
	754,474,257	369,160,064

19. OTHER ASSETS

As at 31st March	2018 Rs.	2017 Rs.
Advances paid	23,235,975	13,989,246
Insurance commissions receivable	2,394,959	11,709,069
VAT receivables	13,897,785	8,996,902
ESC and WHT recoverable	76,283,657	67,874,327
Deposits and prepayments	94,291,353	94,477,481
	210,103,729	197,047,025

NOTES TO THE FINANCIAL STATEMENTS Contd.

20. REAL ESTATE STOCK

As at 31st March	2018 Rs.	2017 Rs.
Naranwala project	1,772,497	2,215,527
Kiriberiya project	2,887,113	5,707,198
Matale project	9,469,959	9,381,085
Maddawaththa project	865,459	1,536,851
Chillaw project	1,784,687	3,628,863
	16,779,715	22,469,524

21. DEFERRED TAX ASSET

As at 31st March	2018 Rs.	2017 Rs.
Balance at the beginning of the year	275,622,280	319,518,080
Reversal for the year	(4,708,394)	(43,803,275)
Deferred tax effect on actuarial gain	(438,766)	(92,525)
Balance at the end of the year	270,475,120	275,622,280

21.1 Deferred Tax Asset

The amount recognised as deferred tax asset is as follows:

As at 31st March	2018 Rs.	2017 Rs.
Property, plant & equipment and intangible assets	(41,527,167)	(36,702,120)
Lease assets	-	(38,382,680)
Gratuity	14,524,688	12,571,800
Tax losses carried forward	86,168,640	100,398,760
Qualifying payment on purchase consideration of amalgamation	211,308,959	237,736,520
	270,475,120	275,622,280

22. 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 30th June 2015 which has been computed as follows:

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

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

22.2 Goodwill

Pursuant to recognition of brand value as described in Note 22.1 above, the remainder of the premium on acquisition amounting to Rs. 564,545,746 has been recognised as goodwill on acquisition.

22.3 Impairment

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

(a) Departments of the two entities were merged

(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 brand value and goodwill. This was based on market capitalization of the Company using weighted average market price per share of the 12 months preceeding the balance sheet date, computed as follows:

Market capitalization (Rs.)	2,590,781,988
Tangible net assets as at 31st March 2018 (Rs.)	(1,547,624,701)
Value for brand value and goodwill (Rs.)	1,043,157,287
Carrying value of brand value and goodwill (Rs.)	800,425,746

Since the book value is less than the intrinsic value, the management concluded that there was no impairment of brand value and goodwill as at 31st March 2018.

23. INTANGIBLE ASSETS

As at 31st March	2018 Rs.	2017 Rs.
Computer software		
Cost		
Balance at the beginning of the year	9,312,960	9,312,960
Additions during the Year	2,340,900	-
Balance at the end of the year	11,653,860	9,312,960
Accumulated amortisation		
Balance at the beginning of the year	9,207,450	8,795,302
Amortised during the year	470,490	412,148
Balance at the end of the year	9,677,940	9,207,450
Carrying amount as at 31st March	1,975,920	105,510

23.1 There were no capitalized borrowing costs related to the internal development of software during the year (2016/2017 – Nil).

NOTES TO THE FINANCIAL STATEMENTS Contd.

24. PROPERTY, PLANT AND EQUIPMENT

Cost	Land Rs.	Buildings Rs.	Furniture and Fittings Rs.	Office Equipment Rs.	Computer Equipment Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 1st April 2017	108,923,000	294,865,468	50,746,582	63,718,076	110,506,480	1,141,875	629,901,481
Additions during the year	-	-	4,620,600	6,495,902	13,765,264	-	24,881,766
Disposals/Write-off during the year	(5,000,000)	-	(7,586,502)	(2,005,620)	(164,753)	-	(14,756,875)
Balance as at 31st March 2018	103,923,000	294,865,468	47,780,680	68,208,358	124,106,991	1,141,875	640,026,372
Depreciation							
Balance as at 1st April 2017	-	18,425,929	42,769,700	53,103,627	93,145,180	1,141,875	208,586,311
Charge for the year	-	5,897,310	4,033,776	5,126,622	7,908,991	-	22,966,699
On disposals	-	-	(5,601,732)	(1,451,740)	(91,244)	-	(7,144,716)
Balance as at 31st March 2018	-	24,323,239	41,201,744	56,778,509	100,962,927	1,141,875	224,408,294
Carrying amount as at 31st March 2018	103,923,000	270,542,229	6,578,936	11,429,849	23,144,064	-	415,618,078
Carrying amount as at 31st March 2017	108,923,000	276,439,539	7,976,882	10,614,449	17,361,301	-	421,315,171

24.1 Based on the assessment of potential impairment carried out internally, for Property, Plant & Equipment by the board of directors as at 31st March 2018, no provision was required to be made in the Financial Statements.

24.2 Property, Plant & Equipment included fully depreciated assets having a gross amount of Rs. 180,762,903 as at 31st March 2018. (2016/17 – Rs. 172,676,437)

24.3 There were no capitalized borrowing costs related to the acquisition of Property, Plant & Equipment during the year (2016/2017 – nil).

24.4 There were no restrictions on the tittle of the Property, Plant & Equipment as at 31st March 2018.

24.5 There were no items of Property, Plant & Equipment pledged as security as at 31st March 2018 except Matara and Kalutara buildings disclosed in asset pledged note.

24.6 There were no temporary idle items of Property, Plant & Equipment as at 31st March 2018.

24.7 Details of Freehold Land and Buildings.

Location	Address	Land Extent	Valuation of the Land Rs.	Building Area (Sq.Ft)	Valuation of the Building Rs.
Matara	38, Station Road, Matara	37.8 Perches	68,040,000	9,400 Sq. Ft	36,700,000
Kalutara	197/4, Galle Road, Kalutara	39.87 Perches	35,883,000	36,141 Sq. Ft	258,165,468
			103,923,000		294,865,468

A land with a extent of 10 perches situated at School Avenue, Mahindarama Road, Ethul Kotte, Kotte has been derecognised due to a restriction.

25. DEPOSITS FROM CUSTOMERS

As at 31st March	Note	2018 Rs.	2017 Rs.
Fixed deposits	25.1	11,772,678,129	9,496,983,402
Savings deposits		79,946,901	68,576,560
		11,852,625,030	9,565,559,962
25.1 Fixed Deposits			
Public deposits		11,399,286,886	9,223,333,378
Interest accrued		373,391,243	273,650,024
Public deposits at amortised cost		11,772,678,129	9,496,983,402

25.2 Rs. 6,647,268,881 (2016/2017 – Rs. 1,962,675,244/-) of deposits from customers are expected to be matured after 12 months period from the Reporting date 31st March 2018.

26. INTEREST BEARING BORROWINGS

As at 31st March	Note	2018 Rs.	2017 Rs.
Institutional borrowings	26.1	1,806,789,942	4,802,268,132
Promissory notes		-	12,882,323
		1,806,789,942	4,815,150,455
26.1 Movement in Institutional Borrowings			
Balance at the beginning of the year		4,746,665,867	3,222,159,355
Obtained during the year		3,344,000,000	10,143,888,000
Payments made during the year		(6,351,178,527)	(8,619,381,488)
Balance before adjusting for amortised interest	26.3	1,739,487,340	4,746,665,867
Net effect on amortised interest payable	26.3	67,302,602	55,602,265
Balance at the end of the year		1,806,789,942	4,802,268,132
26.2 Interest Bearing Borrowings – Current and Non-Current			
Payable within one year		1,198,447,248	3,270,214,981
Payable after one year (1-5 years)		608,342,694	1,544,935,474
		1,806,789,942	4,815,150,455

NOTES TO THE FINANCIAL STATEMENTS Contd.

26.3 Institutional Borrowings

Bank	Facility Amount Rs.	Capital Outstanding as at 31.03.2018 Rs.	Finance Cost Payable as at 31.03.2018 Rs.	Total Payable at Amortised Cost as at 31.03.2018 Rs.	Tenure of Loan (Months)
Long term loans					
Union Bank PLC	500,000,000	234,374,648	267,747	234,642,395	48
Sampath Bank PLC	250,000,000	114,570,000	248,601	114,818,601	60
Seylan Bank PLC	450,000,000	228,125,000	1,883,241	230,008,241	48
Pan Asia Banking Corporation PLC	200,000,000	39,117,705	1,050,691	40,168,396	48
Bank of Ceylon	1,450,000,000	715,999,987	6,211,714	722,211,701	36
Short-term loans – Revolving					
Nations Trust Bank PLC	130,000,000	70,000,000	74,795	70,074,795	Revolving
Sampath Bank PLC – Money market	100,000,000	100,000,000	142,466	100,142,466	Revolving
Securitization					
Deutsche Bank	318,100,000	237,300,000	57,423,346	294,723,346	48
		1,739,487,340	67,302,602	1,806,789,942	

27. TERM DEBTS

As at 31st March	Note	2018 Rs.	2017 Rs.
Balance at the beginning of the year		1,000,000,000	1,204,000,000
Redeemed during the year		-	(204,000,000)
Balance at the end of the year	27.1	1,000,000,000	1,000,000,000
Initial cost on debentures		(25,334,415)	(38,346,915)
Net effect on amortised interest payable		23,595,482	24,063,384
		998,261,067	985,716,469

Interest Payment Frequency	Allotment Date	Maturity Date	Effective Annual Yield	Value of the Debentures as at 31.03.2018 (Rs.)	Value of the Debentures as at 31.03.2017 (Rs.)
Semi annually	26th December 2014	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

28. REDEEMABLE PREFERENCE SHARES

As at 31st March	2018 Rs.	2017 Rs.
Balance at the beginning of the year	400,049,600	-
Issued during the year	-	400,049,600
Balance at the end of the year	400,049,600	400,049,600
Net effect on amortised interest payable	56,160,385	6,904,966
	456,209,985	406,954,566

On 16th February 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 propotion 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.

29. CURRENT TAX PAYABLE

As at 31st March	Note	2018 Rs.	2017 Rs.
Balance at the beginning of the year		2,136,340	2,136,340
Adjustments in respect of previous years' under provision	12	1,819,624	-
Set off – ESC and WHT		(1,457,420)	-
Payments made during the year		(2,498,544)	-
Balance at the end of the year		-	2,136,340

30. OTHER LIABILITIES

As at 31st March	2018 Rs.	2017 Rs.
Vendor payable	234,445,446	423,089,194
Insurance payable	54,653,980	15,508,998
Accrued expenses and other payable	162,411,398	80,680,388
Real estate advances	11,473,648	11,507,156
	462,984,472	530,785,736

31. RETIREMENT BENEFIT OBLIGATIONS

As at 31st March	Note	2018 Rs.	2017 Rs.
Balance at the beginning of the year		44,899,285	38,853,036
Amount recognised in the total comprehensive income	31.1	12,726,718	9,352,913
Payments during the year		(5,752,118)	(3,306,664)
Balance at the end of the year		51,873,885	44,899,285

31.1 The amount recognised in the total comprehensive income is as follows:

As at 31st March	2018 Rs.	2017 Rs.
Interest cost	5,387,914	3,885,305
Current service cost	5,771,782	5,798,056
Actuarial (gain)/loss recognised	1,567,022	(330,448)
	12,726,718	9,352,913

NOTES TO THE FINANCIAL STATEMENTS Contd.

31.2 An actuarial valuation of the retirement benefit obligation was carried out as at 31st March 2018 by Actuarial and Management Consultants (Pvt) Ltd. The company has estimated its gratuity liability as at 31st March 2018 based on the forecast given by the actuarier using the census and assumptions as at 31st March 2018.

The principal assumptions used were as follows:

	2018 %	2017 %
Discount rate	11	12
Future salary increases	10	10
Staff turnover factor	40	23
Retirement age	55 years	55 years

31.3 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrate 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.

As at 31st March Increase/Decrease in Discount Rate	Increase/Decrease in Salary Increment	2018 Sensitivity Effect on Comprehensive Income Statement Increase/(Reduction) in Results for the Year Rs.	2017 Sensitivity Effect on Comprehensive Income Statement Increase/(Reduction) in Results for the Year Rs.
1%	-	(969,299)	(1,483,582)
-1%	-	1,016,235	1,271,729
-	1%	1,249,302	1,489,530
-	-1%	(1,212,579)	(1,712,531)

32. STATED CAPITAL

As at 31st March	Note	2018 Rs.	2017 Rs.
Ordinary shares	32.1	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	28	(400,049,600)	(400,049,600)
Total equity		1,378,689,779	1,378,689,779
No. of shares	32.2	148,018,370	148,018,370

32.1 Movement in Ordinary Share Capital

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

32.2 Movement in Number of Shares

At the beginning of the year	148,018,370	148,018,370
At the end of the year	148,018,370	148,018,370

32.3 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.

32.4 All ordinary shares rank equally with regard to the Company's residual assets.

33. STATUTORY RESERVE FUND

As at 31st March	2018 Rs.	2017 Rs.
At the beginning of the year	305,274,930	292,391,119
Transfer during the year	-	12,883,811
At the end of the year	305,274,930	305,274,930

33.1 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 Central Bank of Sri Lanka.

34. AVAILABLE FOR SALE RESERVE

As at 31st March	2018 Rs.	2017 Rs.
Balance at the beginning of the year	(1,545,592)	(377,544)
During the year fair value gain/(loss) on AFS financial assets	1,759,556	(1,168,048)
Balance at the end of the year	213,964	(1,545,592)

35. FINANCIAL REPORTING BY SEGMENTS

Business Segments

The company has three 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 and finance leasing – Provision of hire purchase and leasing facilities to customers

(b) Loans – Provision of loan facilities to customers

(c) Factoring – Debt factoring

	Finance Leases and Hire Purchases		Loans		Factoring		Unallocated		Total	
For the year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Interest income	2,354,227,771	2,374,228,401	534,190,278	405,937,825	237,721,529	229,367,517	184,908,996	119,175,699	3,311,048,574	3,128,709,442
Fee and commission income	54,683,213	67,612,267	18,502,616	14,347,226	38,300,030	47,288,126	625,791	642,120.00	112,111,650	129,889,739
Other income	49,806,406	18,638,034	11,445,829	3,852,424	-	-	11,696,393	28,646,557	72,948,628	51,137,015
Total segmental income	2,458,717,390	2,460,478,702	564,138,723	424,137,475	276,021,559	276,655,643	197,231,180	148,464,376	3,496,108,852	3,309,736,196
Less: Interest expense	(1,541,272,184)	(1,353,586,373)	(395,573,311)	(314,576,128)	(136,091,016)	(162,621,651)	(43,970,046)	(5,711,852)	(2,116,906,558)	(1,836,496,004)
Segmental results	917,445,206	1,106,892,329	168,565,411	109,561,347	139,930,543	114,033,992	153,261,134	142,752,524	1,379,202,294	1,473,240,192

NOTES TO THE FINANCIAL STATEMENTS Contd.

For the year ended 31st March	Finance Leases and Hire Purchases 2018 Rs.	2017 Rs.	Loans 2018 Rs.	2017 Rs.	Factoring 2018 Rs.	2017 Rs.	Unallocated 2018 Rs.	2017 Rs.	Total 2018 Rs.	2017 Rs.
Depreciation and amortisation	(17,064,139)	(22,804,760)	(4,379,575)	(5,299,871)	(1,506,727)	(2,739,794)	(486,748)	(96,231)	(23,437,189)	(30,940,656)
Impairment charge/ (reversal)	(302,571,152)	(255,868,149)	(109,916,761)	(43,382,061)	(133,558,000)	(20,829,000)	365,279	(1,697,000)	(545,680,634)	(321,776,210)
Other Expenses	(404,655,303)	(376,918,699)	(92,992,358)	(77,907,929)	(31,610,533)	(42,686,460)	(384,544,037)	(321,530,752)	(913,802,231)	(819,043,840)
Income tax	-	-	-	-	-	-	(6,528,018)	(43,803,275)	(6,528,018)	(43,803,275)
Profit/(loss) after tax	193,154,611	451,300,721	(38,723,283)	(17,028,514)	(26,744,716)	47,778,738	(237,932,390)	(224,374,734)	(110,245,778)	257,676,211
Segmental assets	13,270,615,746	14,911,400,633	2,710,335,660	2,811,938,685	932,449,998	1,453,645,309	1,201,925,470	273,045,255	18,115,326,874	19,450,029,882
Segmental liabilities	234,445,446	423,089,194	-	-	-	-	15,532,830,982	16,533,259,878	15,767,276,428	16,950,302,823

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31st March	Less than 3 Months Rs.	3-12 Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Total 2018 Rs.	2017 Rs.
ASSETS							
Cash and cash equivalents	195,581,111	-	-	-	-	195,581,111	107,894,350
Available for sale financial assets	-	449,206,995	496,121,850	-	230,600	945,559,444	839,887,069
Loans and receivables to customers	3,657,063,798	2,866,364,602	6,465,853,579	1,511,244,621	3,807,154	14,504,333,754	16,416,103,144
Investments with banks and other financial institutions	244,863,214	484,351,112	25,259,932	-	-	754,474,257	369,160,064
Other assets	25,630,934	184,472,795	-	-	-	210,103,729	197,047,025
Real estate stock	-	16,779,715	-	-	-	16,779,715	22,469,524
Deferred tax asset	-	-	-	270,475,120	-	270,475,120	275,622,280
Brand value	-	-	-	-	235,880,000	235,880,000	564,545,746
Goodwill	-	-	-	-	564,545,746	564,545,746	235,880,000
Intangible assets	-	-	-	-	1,975,920	1,975,920	105,510
Property, plant & equipment	-	-	-	-	415,618,078	415,618,078	421,315,170
Total assets	4,123,139,057	4,001,175,219	6,987,235,361	1,781,719,741	1,222,057,498	18,115,326,874	19,450,029,882
LIABILITIES							
Bank overdrafts	138,490,215	-	-	-	-	138,490,215	598,251,884
Deposits from customers	3,247,676,524	1,957,679,625	5,285,004,846	1,362,264,035	-	11,852,625,030	9,565,559,962
Interest bearing borrowings	337,538,997	860,908,251	608,342,694	-	-	1,806,789,942	4,815,150,455
Term debts	23,595,482	-	974,665,585	-	-	998,261,067	985,716,469
Redeemable preference shares	-	-	-	456,209,985	-	456,209,985	406,954,566
Current tax payable	-	-	-	-	-	-	2,136,340
Other liabilities	451,510,824	11,473,648	-	-	-	462,984,472	530,785,736
Non-interest bearing security deposits	41,831	-	-	-	-	41,831	848,126
Retirement benefit obligations	-	-	-	-	51,873,885	51,873,885	44,899,285
	4,198,853,873	2,830,061,524	6,868,013,125	1,818,474,020	51,873,885	15,767,276,427	16,950,302,823
Maturity Gap	(75,714,815)	1,171,113,695	119,222,235	(36,754,280)	1,170,183,613		

37. 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.

37.1 Parent and Ultimate Controlling Party

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

37.2 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. 5,377,125 (2016/2017 – Rs. 6,140,200/-) to the directors as emoluments, of which all comprised of short term employment benefits and no post-employment benefits have been paid during the year (2016/2017 – 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 held 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 31st March 2018 is Rs. 132,150,000/- (2016/2017 – 201,900,000/-).

37.3 Other Related Party Transactions

The following transactions have been carried out with related parties during the year ended 31st March 2018.

37.3.1 Recurrent Related Party Transactions

Company	Relationship	Nature of Transactions	Rs.
Janashakthi PLC	Parent	Payment of Dividends – Preference shares	(6,071,424.00)
		Payment of Dividends – Ordinary shares	(29,911,662.00)
Janashakthi General Insurance Ltd. (Upto 10th February 2018)*	Affiliate	Insurance commission received	30,644,708
		Insurance premium paid	(22,115,208)
		Rent paid and Security Deposit	(5,438,110)
Janashakthi Insurance PLC	Affiliate	Rent and utility paid for window offices	(797,677)
		Life insurance to staff	(2,573,617)
		Rent income received	1,133,279
Orient Capital Ltd.	Affiliate	Reimbursement of collections on assigned debtors	(5,193,783)
		Short term loan granted	(95,000,000)
		Short term loan repaid	99,663,820

** Janashakthi PLC has diposed its subsidiary, Janashakthi General Insurance Ltd., on 10th February 2018 and hence transaction upto then has been categorized as Related Party Transactions.*

37.3.2 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.

38. CAPITAL COMMITMENTS

The company has no material capital commitments outstanding as at the Reporting date.

39. 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 an assessments on Value Added Tax on financial services amounting to Rs. 65,299,441/- and the Board of Directors is confident that there will not be any additional tax liability on that.

NOTES TO THE FINANCIAL STATEMENTS Contd.

40. 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. 26 to the Financial Statements.

Funding Institution	Nature of Assets	Nature of Liability	Balance Outstanding as at 31 March 2018	Value of Assets Pledged (Rs.)	Included Under
Sampath Bank PLC	Leases and hire purchases receivable	Long term borrowings	114,818,601	152,378,100	Future rental receivables
Sampath Bank PLC	Leases and hire purchases receivable	Short term Loans – Revolving	100,142,466	133,000,000	Future rental receivables
Seylan Bank PLC	Leases and hire purchases receivable	Long term borrowings	230,008,241	342,187,500	Future rental receivables
Union Bank PLC	Leases and hire purchases receivable	Long term borrowings	234,642,708	281,249,953	Future rental receivables
Bank of Ceylon PLC	Leases and hire purchases receivable	Long term borrowings	722,211,701	952,279,983	Future rental receivables
Nations Trust Bank PLC	Leases and hire purchases receivable	Short term loans – Revolving	70,074,795	195,000,000	Future rental receivables
Pan Asia Banking Corporation PLC	Leases and hire purchases receivable	Short term loans	40,168,396	50,147,131	Future rental receivables
Deutsche Bank	Leases and hire purchases receivable	Securitizations	294,723,349	413,815,651	Future rental receivables
Commercial Bank of Ceylon PLC	Leases and hire purchases receivable	Bank overdraft	116,473,654	253,500,000	Future rental receivables
Hatton National Bank PLC	Leases and hire purchases receivable	Bank overdraft	1,516,531	32,500,000	Future rental receivables
Sampath Bank PLC	Leases and hire purchases receivable	Bank overdraft	-	99,750,000	Future rental receivables
Peoples Bank	Leases and hire purchases receivable	Bank overdraft	-	93,750,000	Future rental receivables
NDB Bank PLC	Leases and hire purchases receivable	Bank overdraft	1,316,115	30,000,000	Future rental receivables
Union Bank PLC	Leases and hire purchases receivable	Bank overdraft	-	30,000,000	Future rental receivables
Bank of Ceylon	Leases and hire purchases receivable	Bank overdraft	-	66,500,000	Future rental receivables
Nations Trust Bank PLC	Leases and hire purchases receivable	Bank overdraft	19,198,916	30,000,000	Future rental receivables
Seylan Bank PLC	Land and Building	Bank overdraft	-	190,000,000	Property, Plant & Equipment

40.1 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.

40.2 In the ordinary course of the business, the Company enters into transactions that result 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.

40.3 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.

41. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

42. COMPARATIVE INFORMATION

Comparative information of the Company has been reclassified wherever necessary to conform with the current year's presentation/ classification.

43. DIRECTORS' RESPONSIBILITY

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

44. NUMBER OF EMPLOYEES OF THE COMPANY AS AT THE YEAR END

Number of employees of the Company as at 31st March 2018 is 469 (2017 – 447).

45. 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 – Available for sale				
Government Securities	945,328,844	-	-	945,328,844
Investments in unquoted shares	-	230,600	-	230,600
	945,328,844	230,600	-	945,559,444

NOTES TO THE FINANCIAL STATEMENTS Contd.

46. 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 31st March	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs.	Rs.	Rs.	Rs.
ASSETS				
Cash and cash equivalents	195,581,111	195,581,111	107,894,350	107,894,350
Loans and receivables to customers	14,504,333,754	14,504,333,754	16,416,103,144	16,416,103,144
Investments with banks and other financial institutions	754,474,257	754,474,257	369,160,064	369,160,064
	15,454,389,122	15,454,389,122	16,893,157,558	16,893,157,558
LIABILITIES				
Bank overdrafts	138,490,215	138,490,215	598,251,884	598,251,884
Deposits from customers	11,852,625,030	11,852,625,030	9,565,559,962	9,565,559,962
Interest bearing borrowings	1,806,789,942	1,806,789,942	4,815,150,455	4,815,150,455
Term debts	998,261,067	998,261,067	985,716,469	985,716,469
Redeemable preference shares	456,209,985	456,209,985	406,954,566	406,954,566
	15,252,376,239	15,252,376,239	16,371,633,336	16,371,633,336

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 amounted to Rs. 14,504,333,754.

Bank Overdrafts

The carrying amounts of bank overdrafts, approximate their fair value as those are short term in nature.

Deposits from Customers

More than 44% 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 upliftment. Amounts paid to customers in the event of pre-mature upliftment would not be materially different to its carrying value as at 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 fixed rate and floating rate borrowings. Floating rate borrowings represent nearly 81% 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 have 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.

47. 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 decide the best options which minimise the risk. 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

47.1 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 authorization structure for the approval and renewal of credit facilities. Authorization 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 division 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 practice 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	Note	2018 Rs.	2017 Rs.
Loans and advance to customers			
Carrying amount at amortised cost			
Individual significant impaired loans and advances	47.1.1	633,311,345	467,018,049
Carrying amount of unimpaired loans and advances	47.1.2	13,871,022,409	15,949,085,095
		14,504,333,754	16,416,103,144
47.1.1 Individually Significant Loans and Advances			
Gross receivable		1,511,617,361	948,646,255
Allowance for impairment		(878,306,016)	(481,628,206)
Individually significant impaired loans and advances		633,311,345	467,018,049
47.1.2 Individually Significant Unimpaired and Individually Not Significant (Collective Impairment)			
Gross receivable		14,202,489,563	16,131,549,424
Allowance for impairment		(331,467,154)	(182,464,329)
Carrying amount of unimpaired loans advances		13,871,022,409	15,949,085,095

NOTES TO THE FINANCIAL STATEMENTS Contd.

Write-off Policy

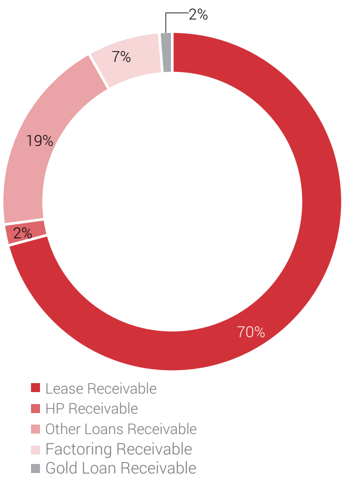
The company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Company's credit division determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such 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 standardized loans, write-off decisions generally are based on a product-specific past due status.

Concentrations of Credit Risk

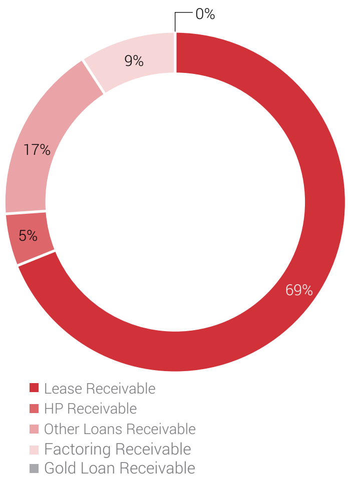
The company monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk from loans and advances and investment securities at the Reporting date is shown below:

2018



2017



47.2 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. 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 is conducted under a variety of scenarios covering both 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 banks borrowing 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	2018 Rs.	2017 Rs.
Time deposits	11,772,678,129	9,496,983,402
Saving deposits	79,946,901	68,576,560
Unsecured borrowings	1,173,835,000	1,737,099,000
Total liquid assets	**1,675,331,259**	**1,264,736,623**
Cash in hand	141,293,580	85,700,169
Balances in current accounts (favourable)	30,656,000	5,504,000
Deposits in commercial banks	558,052,835	333,875,985
Approved securities	945,328,844	839,656,469
Average month end deposit liabilities	9,101,961,000	9,085,545,000
Average month end outstanding borrowings	1,891,581,000	1,896,822,000
	10,993,542,000	**10,982,367,000**
Required minimum amount of liquid assets	**1,306,643,348**	**1,133,694,724**
10% of fixed deposits	1,177,267,813	949,698,340
15% of savings deposits	11,992,035	10,286,484
10% of unsecured borrowings	117,383,500	173,709,900
Required minimum amount of approved securities 7.5%	**824,515,650**	**823,677,525**

Maturity Analysis for Financial Liabilities

Contractual maturity of the assets and the liabilities of the Company is disclosed in the Note 36 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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

47.3 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 1 Capital, which includes stated capital, perpetual bonds (which are classified as innovative tier 1 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 2 Capital, which includes qualifying subordinated liabilities, collective impairment allowances (limited to those credit portfolios where the standardized 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 1 is 5% of the total risk weighted assets and Tier 2 is 10% of the total risk weighted assets.

47.4 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 for the Company.

This risk is reviewed periodically by ALCO and Integrated Risk Management Committee.

Other Information

TEN YEAR ACHIEVEMENTS

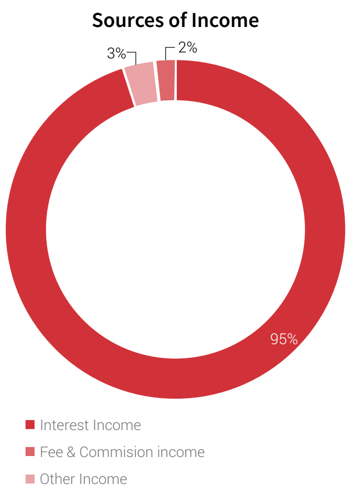
For the year ended 31st March	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000	2012 (Restated) Rs. '000	2011 Rs. '000	2010 (Restated) Rs. '000	2009 Rs. '000
Operating results										
Income	3,496,109	3,309,736	2,363,152	1,362,664	1,605,010	1,552,160	1,178,760	1,150,826	909,391	899,197
Interest income	3,311,049	3,128,709	2,229,746	1,283,087	1,465,703	1,336,170	1,054,055	780,287	777,519	833,921
Interest expenses	(2,116,907)	(1,836,496)	(1,096,453)	(805,279)	(1,039,248)	(964,202)	(614,026)	(487,491)	(529,864)	(566,458)
Net interest income	1,194,142	1,292,213	1,133,293	477,807	426,455	371,969	440,029	292,796	247,655	267,462
Operating expenses and provisions	(1,482,920)	(1,171,760)	(970,838)	(553,203)	(495,380)	(566,782)	(474,212)	(436,369)	(299,938)	(294,130)
Profit before income tax	(103,718)	301,479	295,861	4,182	70,381	21,177	90,522	226,966	79,589	38,609
Income tax on profit	(6,528)	(43,803)	311,012	-	(13,014)	(13,625)	(16,416)	(4,902)	(21,774)	(6,810)
Profit for the year	(110,246)	257,676	606,873	4,182	57,367	7,552	74,105	222,063	57,814	31,799
Balance sheet information										
Assets										
Loans and advances to customers	14,504,334	16,416,103	13,839,304	4,987,749	5,615,826	5,323,316	4,981,731	3,005,992	2,339,380	2,325,422
Financial investments – Held to maturity	-	-	-	-	1,165,133	1,061,579	729,076	588,493	557,591	132,635
Financial investments – Available for sale	945,559	839,887	756,124	592,105	11,120	186,024	355,016	339,300	181,369	34,940
Cash and cash equivalents	195,581	107,894	231,678	194,035	200,985	161,989	118,154	123,477	104,012	10,703
Property, plant & equipment	415,618	421,315	438,736	446,864	533,064	292,713	203,261	186,512	157,231	155,236
Other assets	2,054,602	1,664,830	1,846,840	585,231	334,015	677,506	601,801	639,540	484,734	377,215
Total assets	18,115,694	19,450,029	17,112,682	6,805,984	7,860,144	7,703,127	6,989,039	4,883,315	3,824,317	3,036,151
Liabilities										
Deposits from customers	11,852,625	9,565,559	9,249,312	5,746,847	6,463,960	5,747,762	5,075,410	3,630,633	2,997,786	2,156,384
Borrowings	1,806,790	4,815,150	3,262,738	31,760	378,751	923,320	1,032,409	457,294	187,031	214,899
Debentures and preference shares	1,454,471	1,392,671	1,176,913	204,000	204,000	204,000	204,000	-	-	-
Other liabilities	653,390	1,176,922	1,180,738	253,377	252,020	323,997	237,508	201,012	234,492	320,270
Total liabilities	15,767,276	16,950,302	14,869,701	6,235,984	7,298,731	7,199,080	6,549,327	4,288,940	3,419,309	2,691,553
Capital employed										
Stated capital	1,378,690	1,378,690	1,378,690	306,025	306,025	306,025	61,205	61,205	61,205	61,205
Retained profit and reserve fund	969,728	1,121,037	864,291	263,974	255,388	198,021	378,507	533,170	343,803	283,392
Total capital employed	2,348,418	2,499,727	2,242,981	569,999	561,413	504,046	439,712	594,375	405,008	344,597

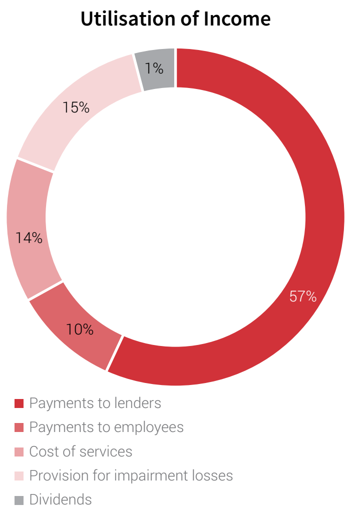
Ratios and Related Information

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating ratios										
ROE	-4.53%	10.87%	43.15%	0.74%	10.77%	1.60%	14.33%	44.44%	15.43%	9.67%
ROA – Before tax	-0.55%	1.65%	2.47%	0.06%	0.90%	0.29%	1.52%	5.21%	2.32%	1.30%
Gross profit margin	34.16%	39.04%	47.96%	35.06%	26.57%	23.96%	37.33%	25.44%	27.23%	29.74%
Net profit margin	-3.14%	7.79%	25.68%	0.31%	3.57%	0.49%	6.29%	19.30%	6.36%	3.54%
Income growth	5.63%	40.06%	73.42%	-15.10%	3.40%	31.68%	2.43%	26.55%	1.13%	24.22%
Profit growth	-142.64%	-57.54%	14412.19%	-92.71%	659.63%	-89.81%	-66.63%	284.10%	81.81%	-35.23%
Asset growth	-6.86%	13.66%	151.44%	-13.41%	2.04%	10.22%	43.12%	27.69%	25.96%	3.92%
Net asset growth	-6.05%	11.45%	293.51%	1.53%	11.38%	14.63%	-26.02%	46.76%	17.53%	10.17%
Gearing ratios										
Debt to equity – Times	6.44	6.31	6.10	10.50	12.55	13.64	14.35	6.88	7.86	6.88
Interest cover – Times	0.95	1.16	1.27	1.01	1.07	1.02	1.15	1.47	1.15	1.07
Investor ratios										
Basic earnings per share – (Rs.)	(0.74)	1.74	7.00	0.05	7.50	0.99	9.69	36.28	9.45	5.20
Net asset value per share – (Rs.)	15.87	16.89	15.15	7.45	73.38	65.88	57.47	77.69	66.17	56.30
Dividend per share – (Rs.)	0.25	-	-	-	-	0.76	6.00	1.00	1.00	2.00
Dividend cover – Times	N/A	N/A	N/A	N/A	N/A	1.30	1.61	36.28	9.45	2.60
Dividend payout ratio	-33.68%	0.00%	0.00%	0.00%	0.00%	76.99%	61.94%	2.76%	10.59%	38.50%

STATEMENT OF VALUE ADDED

	Year 2018 Rs. Mn	Year 2017 Rs. Mn
Gross value added	3,496	3,310
Cost of services	(507)	(495)
Provision for impairment losses	(546)	(322)
	2,443	2,493
Value allocated		
Payments to lenders	2,117	1,836
Payments to employees	370	324
Dividends to shareholders	37	-
Government Taxes	6	44
Depreciation	23	31
Retained profit	(110)	258
	2,443	2,493





SOURCES AND UTILISATION OF INCOME

	Year 2018 Rs. Mn	Year 2017 Rs. Mn
Sources of income		
Interest income	3,311	3,129
Fee and commission income	112	130
Other income	73	51
	3,496	3,310
Utilisation of income		
Payments to lenders	2,117	1,836
Payments to employees	370	323
Cost of services	507	496
Depreciation	23	31
Provision for impairment losses	546	322
Government Taxes – Including deferred tax	6	44
Dividends	37	0
Retained profit	(110)	258
	3,496	3,310

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 18th February 2016.

Stock Exchange code for Orient Finance PLC shares is "BFN".

2. SHAREHOLDERS INFORMATION

There were 789 registered Voting Shareholders as at 31st March 2018 (2016/2017 – 574) distributed as follows:

Range	As at 31 March 2018			As at 31 March 2017		
	No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1 – 1000	417	101,641	0.07%	336	80,898	0.05%
1,001 – 10,000	216	1,016,975	0.69%	153	661,239	0.45%
10,001 – 100,000	127	4,222,287	2.85%	69	2,202,415	1.49%
100,001 – 1,000,000	27	6,876,706	4.65%	12	3,512,824	2.37%
Over 1,000,000	2	135,800,761	91.75%	4	141,560,994	95.64%
Total	789	148,018,370	100.00%	574	148,018,370	100.00%

ANALYSIS OF SHARE HOLDERS

As at 31st March	2018		2017	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Residents	148,018,270	100	148,018,270	100
Non-Residents	100	-	100	-

Public Holding of issued number of shares as at 31 March 2018 is 10.18%

3. SHARE PRICE INFORMATION

As at 31st March	2018	2017
Highest	21.70	21.00
Lowest	13.30	9.00
Close	18.90	9.20

4. INVESTOR RATIOS

As at 31st March	2018	2017
Book value	15.86	16.89
EPS	(0.74)	1.74
Price earnings ratio	(25.54)	5.29

SHARE INFORMATION Contd.

5. DIRECTORS INTEREST IN SHARES

The Number of Shares held by the Directors as at 31st March	2018	2017
Mr. Ananda W Atukorala	-	-
Dr. Dayanath Jayasuriya P C	-	-
Mr. Anil Tittawella	-	-
Ms. Minette Perera	-	-
Ms. Indrani Goonesekara	-	-
Mr. Prakash Schaffter	10	10
Mr. Ramesh Schaffter (Appointed w.e.f. 29th March 2018)	10	0

6. ACTING CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

As at 31st March	2018	2017
Mr. Jude Anthony	-	-

7. TOP 20 SHAREHOLDERS AS AT 31 MARCH 2018

	Name	No. of Shares	%
1.	Janashakthi PLC	132,940,720	89.81
2.	First Capital Limited	2,860,041	1.93
3.	Seylan Bank PLC/S.R. Fernando	695,328	0.47
4.	Mr. L P Mendis	566,495	0.38
5.	Mr. A S A Fernando	529,288	0.36
6.	Mr. K S S Peiris	512,209	0.35
7.	Mr. R A B K Kumara	500,000	0.34
8.	Merchant Bank of Sri Lanka PLC/J Hewa Wanithunga	344,541	0.23
9.	Commercial Credit And Finance PLC	330,000	0.22
10.	Mr. N L S Fernando	329,177	0.22
11.	Colombo Trust Finance PLC/K A C Duminda	246,000	0.17
12.	Mr. A K D S Karunarathna	234,950	0.16
13.	Dr. Mrs. G A C De Silva	211,000	0.14
14.	Mrs. H K S Priyadarshani	200,000	0.14
15.	Mr. W K R Jayakody	198,000	0.13
16.	Dr. N C N Amarasena	195,000	0.13
17.	Mr. K Rajakanthan	189,158	0.13
18.	Mr. D M S V Abeyratne	175,679	0.12
19.	Mr. R P U Halgahawela	150,510	0.10
20.	Mr. R E Rambukwelle	149,000	0.10

DEBENTURE INFORMATION

Market Values of Listed Debentures

Five years rated secured, redeemable 10,000,000 debentures of Rs. 100 each on 26th December 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.

As at 31st March	2018	2017
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

As at 31st March	2018	2017
2014/2019 (05 Year)	9.68	11.97

Yield to Maturity of Last trade

As at 31st March	2018	2017
Debenture	N/T*	N/T*

Debenture Related Ratios

As at 31st March	2018	2017
Debt to equity ratio (Times)	6.47	6.31
Interest coverage ratio (Times)	1.01	1.21
Liquid asset ratio	8.95%	6.30%

** 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 recognised 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.

AMORTISATION

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.

COLLECTIVE IMPAIRMENT PROVISIONS

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant.

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 recognised 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.

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

A financial instrument is 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 group is 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.

HELD-TO-MATURITY INVESTMENTS
Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

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 Intangible Asset is an identifiable 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
A parent is 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
Is 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
Sustainability reporting is 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

	Address	Contact No.		E-mail
Head Office	75, Kumaran Rathnam Road, Colombo 02	Tel: Fax:	+94 117 577 577 +94 117 577 511	Orientfinance@orient.lk
Ampara	01, D.S. Senanayake Road, Ampara	Tel: Fax:	+94 637 755 400 +94 632 223 800	ampara@orient.lk
Anuradhapura	561/3, Maithreepala Senanayaka Mawatha, New Town, Anuradhapura	Tel: Fax:	+94 257 225 838 +94 257 225 839	anuradhapura@orient.lk
Balangoda	80/A, Barns Rathwatta Mawatha, Balangoda	Tel: Fax:	+94 457 679 440 +94 457 679 441	balangoda@orient.lk
Bandarawela	374, Badulla Road, Bandarawela	Tel: Fax:	+94 577 670 135 +94 577 670 137	bandarawela@orient.lk
Batticaloa	298/1,2,3, Main Street, Batticaloa	Tel: Fax:	+94 657 675 550 +94 657 675 551	batticaloa@orient.lk
City Branch	200/1, Dr. N.M. Perera Mawatha, Colombo 08	Tel: Fax:	+94 117 577 587 +94 117 577 593	City@orient.lk
Embilipitiya	77/1, New Town Road, Pallegama, Embilipitiya	Tel: Fax:	+94 477 670 612 +94 477 670 613	embilipitiya@orient.lk
Galle	60/B, Colombo RoadKaluwella Road, Galle	Tel: Fax:	+94 917 673 312 +94 917 673 313	galle@orient.lk
Gampaha	309/B, Colombo Road, Gampaha	Tel: Fax:	+94 337 267 732 +94 332 236 233	gampaha@orient.lk
Hambantota	33/C, Tissa Road, Hambantota	Tel: Fax:	+94 477 678 066 +94 477 678 067	hambanthota@orient.lk
Horana	254, Panadura Road, Horana	Tel: Fax:	+94 347 671 174 +94 347 671 175	horana@orient.lk
Jaffna	306/A, Hospital Road, Jaffna	Tel: Fax:	+94 217 672 240 +94 217 672 241	jaffna@orient.lk
Kalutara	294/A, Galle Road, Kalutara North, Kalutara	Tel: Fax:	+94 347 388 060 +94 347 388 060	kalutara@orient.lk
Kandy	319, D. S. Senanayake Veediya, Kandy	Tel: Fax:	+94 817 500 620 +94 817 500 627	kandy@orient.lk
Kegalle	330, Main Street, Kegalle	Tel: Fax	+94 357 400 450 +94 357 400 454	kegalle@orient.lk
Kochchikade	162/4, Chilaw Road, Kochchikade	Tel: Fax	+94 317 311 397 +94 317 311 396	kochchikade@orient.lk
Kurunegala	9/A, Noel Seneviratne Mawatha, Colombo Road, Kurunegala	Tel: Fax	+94 377 389 022 +94 372 229 969	kurunegala@orient.lk
Matara	38, Station Road, Matara	Tel: Fax	+94 417 415 590 +94 417 415 593	matara@orient.lk

	Address	Contact No.		E-mail
Negombo	32, Ave Maria Road, Negombo	Tel: Fax	+94 317 319 562 +94 317 319 560	negombo@orient.lk
Panadura	51, Horana Road, Panadura	Tel: Fax	+94 387 674 188 +94 387 674 189	panadura@oreint.lk
Polonnaruwa	13/2, Hospital Junction, Polonnaruwa	Tel: Fax	+94 277 671 486 +94 277 671 484	polonnaruwa@orient.lk
Rathnapura	172, Main Street, Rathnapura	Tel: Fax	+94 457 623 093 +94 457 623 094	rathnapura@orient.lk
Trincomalee	323/1A, Ahambaram Road, Trincomalee	Tel: Fax	+94 267 673 444 +94 267 673 445	trinco@orient.lk
Vavuniya	52/G/5, 2nd Cross Street, Vavuniya	Tel: Fax	+94 247 678 585 +94 247 678 586	vavuniya@orient.lk
Welisara	395, Negombo Road, Welisara	Tel: Fax:	+94 117 628 653 +94 112 236 142	welisara@orient.lk

Window Offices	Address	Contact No.		E-mail
Avissawella	21, Kudagama Road, Avissawella	Tel: Fax:	+94 367 389 030 +94 367 389 033	avissawella@orient.lk
Chilaw	54, Kurunegala Road, Chilaw	Tel:	+94 324 934 184	chilaw@orient.lk
Kilinochchi	Kandy Road (near the Old Hospital), Kilinochchi	Tel:	+94 217 201 186	kilinochchi@orient.lk
Nugegoda	19, Railway Avenue, Nugegoda	Tel:	+94 117 221 282	nugegoda@orient.lk
Puttalam	116, Kurunegala Road, Puttalam	Tel:	+94 324 934 185	puttalam@orient.lk

NOTICE OF MEETING

Notice is hereby given that the 35th Annual General Meeting of Orient Finance PLC will be held on 20 July 2018 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 31st March 2018 together with the report of the Auditors thereon.
2. To re-elect of Dr. Dayanath Jayasuriya, who retires by rotation in terms of Article 25 (7) of the Articles of Association of the Company and offers himself for re-election.
3. To re-elect of Mr. Anil Tittawella, who retires by rotation in terms of Article 25 (7) of the Articles of Association of the Company and offers himself for re-election.
4. To re-appoint of Mr. Ramesh Schaffter, who was appointed to the Board during the financial year and retires in terms of Article 25 (3) of the Articles of Association of the Company and offers himself for re-appointment.
5. To re-appoint 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.

By Order of the Board,

K H L Corporate Services Limited
Secretaries

At Colombo
19th June 2018

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 failing him
2. Mr. Prakash Schaffter failing him
3. Mr. Ananda W Atukorala failing him
4. Mr. Anil Tittawella failing him
5. Ms. Minette Perera failing her
6. Ms. Indrani Goonesekera failing her
7. Mr. Ramesh Schaffter

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 20th day of July 2018 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.	Receiving the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 March 2018 together with the report of the Auditors thereon		
2.	Re-election of Dr. Dayanath Jayasuriya, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company.		
3.	Re-election of Mr. Anil Tittawella, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company.		
4.	Re-appointment of Mr. Ramesh Schaffter, 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 .... 2018.

Signature/s

Shareholder's N.I.C./P.P./Co. Reg. No.

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.

FORM OF PROXY Contd.

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.15, Walukarama Road, 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 Schaffter
Mr. Ananda W Atukorala
Mr. Anil Tittawella
Ms. Minette D A Perera
Ms. Indrani Goonasekera
Mr. Ramesh Schaffter

STOCK EXCHANGE LISTING

The Company is listed on the *Diri Savi* Board of the Colombo Stock Exchange of Sri Lanka.

REGISTERED OFFICE

No. 02, Deal Place,
Colombo 03.
Tel: +94 112 639 878
Fax: +94 112 639 868

HEAD OFFICE

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Tel: +94 117 577 577
Fax: +94 117 577 511
Web: www.orientfinance.lk
E-mail: orientfinance@orient.lk

CORPORATE OFFICE

19, Railway Avenue,
Nugegoda.
Tel: +94 117 444 222
Fax: +94 117 444 249

COMPANY SECRETARY

KHL Corporate Services Ltd.
No. 15,
Walukarama Road,
Colombo 03.
Tel: +94 112 639 878
Fax: +94 112 639 868

EXTERNAL AUDITORS

BDO Partners,
Chartered Accountants,
"Charter House", 65/2,
Sir Chittampalam A Gardiner Mawatha,
Colombo 02.
Tel: +94 112 421 878
Fax: +94 112 336 064

INTERNAL AUDITORS

KPMG (Chartered Accountants)
32A, Sir Mohamad Macan Makar Mawatha,
Colombo 03.
Tel: +94 115 426 426
Fax: +94 112 445 872

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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