SOLID GROUND FOR A STRONG FUTURE

Orient Finance

ORIENT FINANCE PLC
Annual Report 2019/2020

REMAINING POISED AND PREPARED FOR THE DEMANDS OF OUR STAKEHOLDERS AMIDST A CONSTANTLY CHANGING ENVIRONMENT, ORIENT FINANCE CONTINUES TO STRENGTHEN ITS COMPETITIVE ADVANTAGES, WHILE SETTING STANDARDS FOR THE FUTURE. AND IN SUSTAINING OUR COMPETITIVE EDGE WE CONTINUE TO RENEW OUR STRATEGIC APPROACHES, OFFERING SOME OF THE MOST LUCRATIVE INDUSTRY SOLUTIONS TO A WIDE BASE OF DISCERNING CUSTOMERS – REMAINING A SOURCE OF FINANCIAL STRENGTH FOR ALL.

IN INCREASING THE VALUE OFFERED TO OUR STAKEHOLDERS, WE HAVE STRENGTHENED OUR CORE FINANCIAL POSITION, ENSURING A SOLID FOUNDATION FOR STRONG OPERATIONAL OUTCOMES. THROUGH OUR RIGHTS ISSUE AND CONVERSION OF PREFERENCE SHARES, WE HAVE NOW RECEIVED A STRONG AND STABLE FINANCIAL BACKING WHICH HAS SUSTAINED OUR STRATEGIC EFFORTS AND ASSISTED US IN PROVIDING THE BEST RETURNS FOR OUR CUSTOMERS, EMPLOYEES AND MOST IMPORTANTLY OUR SHAREHOLDERS.

SOLID GROUND FOR A STRONG FUTURE

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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

Financial Statements

Supplementary Information

VALUES

- Integrity
- Accountability
- Maintaining Confidentiality
- Professionalism

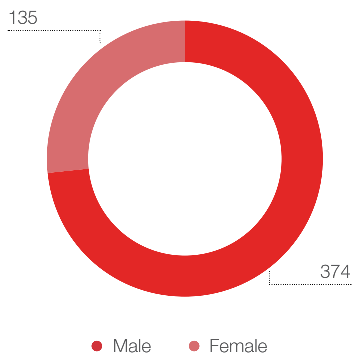
HIGHLIGHTS

FINANCIAL

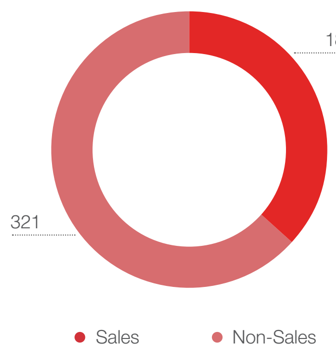
31st March		2020 Rs.	2019 Rs.	Change %
Results for the Year				
Income	Rs. Mn	3,285	3,493	(6.11)
Interest Income	Rs. Mn	3,053	3,239	(5.75)
Interest Expenses	Rs. Mn	(1,800)	(1,950)	(8.68)
Net Interest Income	Rs. Mn	1,253	1,289	(1.33)
Profit/(Loss) Before Tax	Rs. Mn	(437)	32	(540.56)
Profit/(Loss) After Tax	Rs. Mn	(437)	29	(1,581.43)
Position at the Year end				
Shareholders' Funds	Rs. Mn	2,710	2,166	25.44
Customer Deposits	Rs. Mn	9,021	10,480	(14.04)
Loans and Advances to Customers	Rs. Mn	12,339	14,034	(12.07)
Total Assets	Rs. Mn	15,638	17,360	(9.95)
Per Share				
Earnings/(Loss) Per Share	Rs.	(3.06)	0.21	
Market Price Per Share	Rs.	10.9	11.9	
Net Assets Per Share (Year-end)	Rs.	12.84	14.64	
Ratios				
Gross Profit/(Loss)	%	(12.96)	2.72	
Interest Margin	%	9.50	9.03	
Return on Equity	%	(16.14)	1.34	
Return on Assets (Before Tax)	%	(2.65)	0.27	
Statutory Ratios				
Core Capital to Risk Weighted Assets Ratio (Min. 5%)	%	10.23	5.47	
Total Capital to Risk Weighted Assets Ratio (Min. 10%)	%	11.66	8.54	
Liquidity Ratio (Min. 7.5%)	%	8.68	7.9	

NON - FINANCIAL

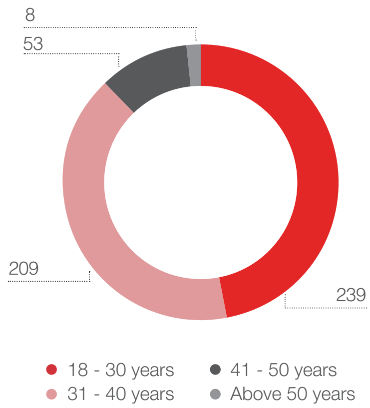
Gender Classification



Sales and Non-Sales



Age Analysis

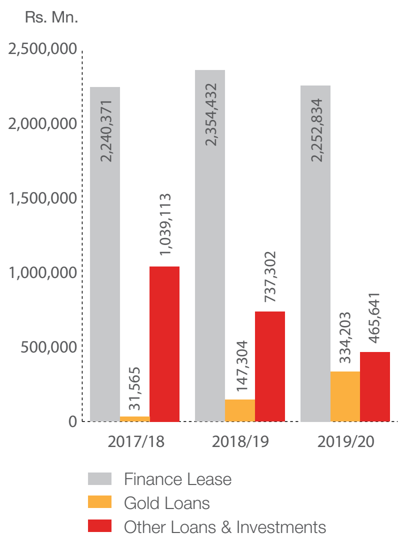


WORKFORCE
509
Number

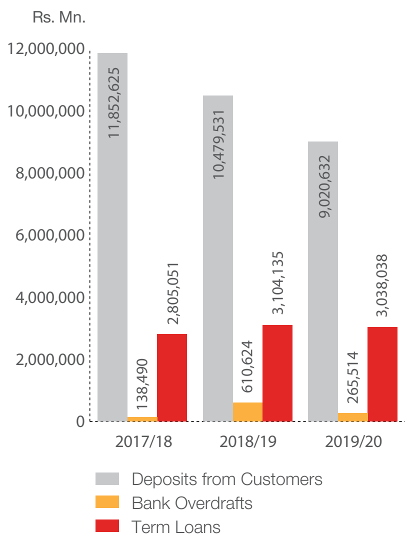
TRAINING HOURS
389
Hours

NEW RECRUITS
218
Number

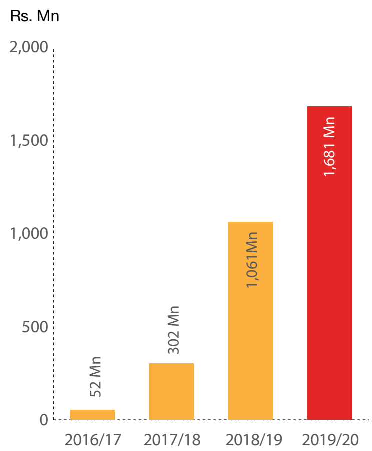
Composition of Interest Income



Composition of Source of Funds



Gold Loan Portfolio



CHAIRMAN'S MESSAGE

The financial year 2019/2020 got off to a bad start with the Easter Sunday explosions in churches and luxury hotels. The state of shock and setbacks had far reaching implications for the financial services sector. The dip in tourist arrivals made it difficult for those who rented vehicles to pay their dues in a timely manner. It also had an adverse effect on suppliers of goods to the tourist and allied industries. As the Central Bank bond scam details began to unfold, an ailing stock and bond market took a further beating. Presidential elections later in the year saw a new President assuming office and this was soon followed by tax and other concessions. A great deal of uncertainty loomed large with regard to the maximum interest rates on fixed deposits and bank lending rates. The country's tax structure witnessed significant uncertainty. The dissolution of Parliament and the call for fresh elections slowed down economic growth. The COVID-19 pandemic and the imposition of a lockdown and curfew necessitated a moratorium declared by the Central Bank. While the need for such a measure cannot be gainsaid from a humanitarian perspective, this necessitated banks and finance companies to plan new business strategies to deal with the decline in payments and in the inflow of funds for fixed deposits and other saving schemes.

It is in the above scenario that Orient Finance PLC, like most other entities, had to survive the financial year. The Company made a total loss of Rs.(437) million compared to a healthy profit of in Rs.29 million in 2019. Impairment cost increased by 78% amounting to Rs.445 million when compared to the last year. Value of Investment Properties increased by Rs.138 million as a result of some of the properties mortgaged for non-performing facilities had been transferred to the company name during the year. Overall, OFP balance sheet size reduced from Rs.17.3 billion to Rs.15.6 billion during the year due to reduction in Loans and Receivable portfolio, Deposit & Savings portfolio and losses reported during 2019/20 financial year. However, Gold Loan portfolio increased by Rs.620 million during the year.

Total Revenue

3,285

Rs. million

Personnel expenses increased by almost 10% amounting to Rs.39 million during the year as a result of 8% annual salary increment and formation of new divisions such as Internal Audit , Business units etc. The Company deliberately decided not to retrench staff or to deduct basic salaries of the staff and invested time and energy to develop a new business model looking at different scenarios.

The committees of the Board made every effort to protect shareholder and customer interests. The conversion of redeemable preference shares & interest into ordinary shares in September 2019 and a right issue in February 2020 helped to boost the total asset base by Rs.1,053 million. An on-sight Central Bank examination reported favorably on the direction followed by the Company and compliance with statutory requirements. A few areas which required improvement are being actively addressed.

In terms of CSR activities, the Company supported certain community-based activities during a drought experienced in certain parts of the country. Modest assistance was provided to the School for the Deaf and Blind.

The Company was fortunate to enlist as Directors Mr. Sriyan Cooray and Mr. Darshana Ratnayake. Both are veterans in the banking industry and bring to bear on our work many years of experience in leading foreign and local banks. A new CEO Mr. K. M. M. Jabir, with nearly 30 years of experience as a CEO and at senior management level, was recruited as the new CEO with effect from 01st of November 2019.

I wish to place on record our appreciation to the current Governor, as well as his immediate predecessor, and to the staff of the Department of Non-Bank Financial Institutions of the Central Bank and to the staff of the Securities and Exchange Commission and the Colombo Stock Exchange for their assistance at various times.

As this annual report is being released, I will be relinquishing, in terms of Central Bank rules, my functions as a Director and Chairman of Orient Finance PLC. It has been both a pleasure and a privilege to have served this Company. The last 9 years has witnessed the growth of the Company from being a small player to a medium-sized player, contributed partly as a result of the merger with Bartleet Finance Company in the year 2015. We went through many trials and tribulations, expanded our services, arranged bespoke solutions, raised the service levels, and most importantly, strived to do business following the best ethical norms. Had it not being for too many external factors beyond our control, I am confident that we would have done much better during the financial year under consideration. It is a pleasure for me to thank the members of the Board of Directors, the staff, shareholders and customers for their unstained support extended to me during the past 9 years. I have always endeavoured to do my best for all of them and the Company.

Dr. Dayanath Jayasuriya P.C.
Chairman

22 June 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

"I AM PLEASED TO SHARE WITH YOU THE ANNUAL REPORT OF ORIENT FINANCE PLC (OFP) FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2020.

IT HAS BEEN ONE OF THE MOST TUMULTUOUS YEARS IN THE RECENT TIMES FOR THE COUNTRY."

The 2019/20 financial year was undoubtedly the most challenging financial year in the history of the Company.

Despite the unprecedented challenges that were faced both domestically and internationally, OFP remained steadfast in its focus on the long-term strategic objectives. I wish to state that OFP stands with confidence ahead of F/Y 2020/21 with strong fundamentals and an efficient team of management, with a vision, backed by a vastly experienced Board of Directors.

Operating Environment

Navigating through turbulent waters

It has been a tumultuous year for the Sri Lankan economy, which started off with the deadly terror attack on Easter Sunday in April. A further setback for the economy was the reeling political crisis, a growing national deficit, a struggling Rupee, a debt outcrop, an early exit of foreign investors and a slowdown in GDP. Sri Lanka, which was ranked one of the top destinations for travel in 2018, witnessed a drop in tourist arrivals significantly following the bombings. The damage from the bomb attacks rippled through many industries, beyond tourism.

Given such a challenging backdrop, the GDP growth for 2019 which was projected to be around 4.2% at the beginning of the year, slipped to 2.7%. The Presidential Election held in November brought further uncertainty with the typical "wait and see" approach taken by the investors which has been witnessed in the past, during major elections. Subsequently, towards the end of the financial year, the COVID-19 pandemic brought the entire country to a standstill, taking the economy from a slowdown into a tailspin.

The NBFI sector's performance showed a considerable decline, with negative credit growth, reduced profits and escalated NPL levels. The slowdown in the sector was inevitably due to the subdued economic activities, lack of investor confidence, political uncertainty, and security concerns following the Easter Sunday attacks.

Role of Financial Institutions

It must be stated that the Banking and Finance sector is the backbone of any economy whilst the SME sector is the driver of economic growth, employment generation and poverty reduction. In such an environment, the Finance companies play a crucial role as always and stepped forward to provide loans to high risk customers who were unable to meet the stringent credit criteria to obtain credit facilities from mainstream banks. Financial institutions, such as OFP and many others, are a lifeline to these high-risk customers as we provide them, unique funding solutions to bring their creative ideas and business plans to life thereby nurturing an entrepreneurial mind-set. Eventually, these businesses grow over time to become enterprises which are serviced by the banks as well.

Company Performance

Following the challenging economic and financial market conditions, OFP registered a loss of Rs.437 million for the F/Y 2019/20 compared to the profit of Rs.29 million made during the last financial year. This was mainly due to the increase in impairment cost by Rs.445 million in 2019/2020 triggered by the adverse economic conditions in Sri Lanka due to the Easter Sunday attacks, where the negative impact existed in the country for a considerable period of time.

The total income of the Company declined by almost 6% amounting to Rs.208 million compared to the previous financial year mainly due to the dip witnessed in the loan portfolio by 1,694 million (12%). Despite the fact that a large number of companies in the NBFI sector failed to meet the CBSL minimum core capital

CHIEF EXECUTIVE OFFICER'S REVIEW

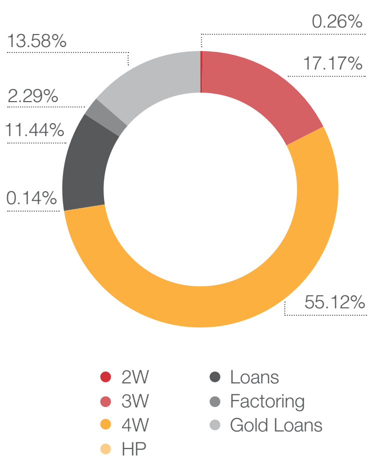
requirement of Rs.2 billion, OFP was able to increase its capital adequacy ratios above the CBSL requirements by raising Rs.506 million through a right issue. The Company issued 35.2 million new ordinary voting shares in the proportion of one new share for every five shares held at Rs.14.40 per share. OFP also redeemed its listed debentures for Rs.1 billion in full, during the year.

The internal control systems were further strengthened to promote effective operations and reliable financial & regulatory reporting. On a positive note, I am pleased to state that the key highlight of the year has been the outstanding performance of our Gold Loan product. Gold Loans portfolio increased by 58% to Rs.1.68 billion compared to Rs.1.06 billion last year. The Company initiated numerous cost saving measures resulting in cost reductions of Rs.56 million in the other operating expenses category compared to the previous year. VAT and NBT on financial services declined by Rs.51 million for the period concerned.

Product Portfolio

OFP's product portfolio was further refined to reflect the changing customer needs as well as the economic and market conditions. Credit facilities for motorcycles and Factoring products were discontinued, taking into consideration the high credit risk involved in such categories. The focus was mainly on low risk four-wheel leasing book and short-term Gold Loan portfolio.

Product Portfolio



> "OFP IS THE FIRST FINANCE COMPANY IN SRI LANKA TO INTRODUCE A DEDICATED INTERNAL CONTROLS DEPARTMENT IN ADDITION TO THE INTERNAL AUDIT DEPARTMENT."

Recruitments and Restructuring

A dedicated Internal Controls Department was established to ensure that necessary internal controls are in place to minimise operational risk and encourage adherence to relevant regulations. I am proud to state that OFP is the first Finance Company in Sri Lanka to introduce a dedicated Internal Controls department in addition to the Internal Audit Department. A new Head of Collection was recruited to streamline the collection process of the Company given the tough market conditions.

ICT

No significant ICT investments were made during the F/Y 2019/20 and the Company continued to utilise its existing IT tools and technologies to gain maximum output. Several IT initiatives are expected to be implemented during the coming financial year.

COVID-19 Impact

With the outbreak of the COVID-19 pandemic and the introduction of a debt moratorium by the Government, analysis indicates that, 91% of our valued customers were entitled to receive this benefit. However, less than 50% of our customers have applied for debt moratorium and others continued to make their payments without deferment making our liquidity levels stable.

Looking Ahead

Facing the "new normal"

We are in the midst of formulating a strategy on how to move forward to face the "new normal" ushered in by the pandemic. It is essential that we remain true to our customers and support them in difficult times. We have guided our front-line staff to have regular communication with our customers to identify their actual requirements, share knowledge and overall, make customers feel valued and important. We have always focused on providing win-win solutions to our customers for a long term mutual gain.

Acknowledgements

As I arrive at the end of my review, I wish to extend my sincere appreciation to the Chairman and the Board of Directors for the immense support and guidance given to me throughout the financial year.

In June 2020, we bid farewell to our incumbent Chairman, Dr. D. C. Jayasuriya PC who retired upon reaching the statutory retirement age. I wish to thank and place on record our appreciation to Dr. Jayasuriya for his leadership spanning over nine years. During his tenure the Company established itself in the industry as a name to reckon with. He was a driving force and an inspiration to us all and we are thankful for his selfless service towards the Company.

Simultaneously, we warmly welcome Mr. Anil Tittawella PC as our new Chairman, to lead the Company during this critical time. Mr. Tittawella is a senior legal professional with international exposure and experience across multiple areas and has worked with clients across many regions. He has been a Director at OFP for six years and is no stranger to us. I am confident that under his able leadership, the Company will be able to reach greater heights.

I am also grateful to the Governor of the Central Bank of Sri Lanka and the Officials at the Department of Supervision of Non-Bank Financial Institutions, for their advice all year round. I would also like to thank the corporate management team for their efforts in what was a very challenging year. All members of the Orient Finance family also deserve praise for their positive attitude and hard work during these tough times. Last, and by no means least, I would like to say a big "Thank you" to all our valued customers for their belief in OFP's products and services as well as to our shareholders and other stakeholders for believing in our Company throughout all these years. As we look back at a tumultuous year, I would like to emphasise on the fact that by working together as one team we can achieve great things in the future and I strongly believe that better times are around the corner for the Company.

K. M. M. Jabir
Chief Executive Officer

11 September 2020

BOARD OF DIRECTORS

Standing Left to Right

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

Mr. Anil Tittawella
Independent Non-Executive Director

Mr. Prakash Schaffter
Non-Independent Non-Executive Director

Mr. Ramesh Schaffter
Non-Independent Non-Executive Director

Standing Left to Right

Mr. K. M. M. Jabir
Chief Executive Officer/Director

Ms. Minette Perera
Non-Independent Non-Executive Director

Mr. Sriyan Cooray
Independent Non-Executive Director

Ms. Indrani Goonesekera
Independent Non-Executive Director

Mr. Darshana Ratnayake
Independent Non-Executive Director

BOARD OF DIRECTORS

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

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

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

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

Mr. K. M. M. Jabir
Chief Executive Officer/Director

Mr Jabir was appointed as the Executive Director/ CEO of Orient Finance PLC on the 1st of November 2019.

He is a Finalist of the Chartered Institute of Management Accountants and a Fellow Member of the Institute of Bankers of Sri Lanka. He has held numerous positions of seniority at several Finance Institutions.

Prior to Joining Orient Finance PLC, he was the Founder CEO and Executive Director of Richard Pieris Finance Ltd and held the position of Deputy General Manager - Operations, for 8 years at People's Leasing and Finance PLC. He was the Director of the People's Leasing Fleet Management Company. Further, he is also a visiting lecturer at the Institute of Bankers of Sri Lanka.

Mr Jabir has a 36 years of experience in the Banking and Finance Industry.

Mr. Prakash Schaffter
Non-Independent Non-Executive Director

Prakash Schaffter is the Cambridge educated Executive Chairman of Janashakthi. He has over three decades of experience in the Insurance industry in both Sri Lanka and the United Kingdom. He led Janashakthi as Managing Director from 2006 through a growth phase that saw Janashakthi become the third largest Non-Life Insurer. He was instrumental in acquiring the Non-Life segment of AIA Insurance Lanka in 2015 and also led the divestment project of Janashakthi's Non-Life segment in 2018.

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

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

BOARD OF DIRECTORS

Ms. Minette Perera
Non-Independent Non-Executive Director

Ms. Minette Perera was the Group Finance Director of the MJF Group, which comprises 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, and on the Boards of Dilmah Ceylon Tea Company PLC (formerly Ceylon Tea Services PLC), Kahawatte Plantations PLC and Talawakelle Tea Estates PLC.

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 Finance Professional having worked in leading local and international companies as an Executive Director.

Mr. Anil Tittawella
Independent Non-Executive Director

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

Mr. Ramesh Schaffter

Non-Independent Non-Executive Director

Counting over three decades of experience in Finance & Marketing, Mr. Ramesh Schaffter is a Fellow Member and former Council Member of the Chartered Institute of Management Accountants, Sri Lanka, and an Associate Member of the Chartered Institute of Marketing. He has served on the Boards of several public listed and unlisted companies.

A social entrepreneur and life coach, he is an accomplished public speaker and a multiple award winner at national and international level Toastmasters' contests. He is the former President of Habitat for Humanity Sri Lanka and a 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.

Mr. Schaffter also serves on the Council of the Colombo Theological Seminary, a graduate and postgraduate educational institute, and is the present Chairman of the Incorporated trustees of the Church of Ceylon.

Other principal appointments

Director: Janashakthi Insurance PLC, Janashakthi PLC, First Capital Holdings PLC, Serendib Land PLC, K H L Corporate Services Limited, Premier Synthetic Leather Manufacturers (Pvt) Limited, Sri Lanka Technology Incubator (Pvt) Limited.

Ms. Indrani Goonesekera

Attorney-At-Law Independent
Non-Executive Director

Ms. Indrani Goonesekera is a Legal Consultant. She was the former Head of Legal of the Hatton National Bank PLC a leading licensed commercial bank and a company listed on the Colombo Stock Exchange. She has served on the Bank's Corporate Management for over 15 years and has functioned in the post of Deputy General Manager (Legal) for over 11 years, being overall responsible for advising and guiding the Bank on all legal aspects of the banking business and other operations. In addition to the post of Deputy General Manager (Legal), she was also the Board Secretary of the Bank responsible inter alia for advising and guiding the Board in complying with 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 Company listed on 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 wide exposure to Banking and Finance, Corporate, Business and Commercial sectors. She commenced her professional career as a Junior Counsel in the Chambers of Mr. K N Choksy, President's Counsel, after reading at the Chamber as apprentice. She holds a Degree of Master of Laws (LLM) 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

Mr. Sriyan Cooray
Independent Non-Executive Director

Mr. Sriyan Cooray currently serves as an Independent Non-Executive Director on the Board of National Development Bank PLC and was appointed as the Chairman of the Board Integrated Risk Management Committee and also serves on the Audit Committee, Strategic Issues Committee and Related Party Transaction Review Committee. He is a Fellow Member of the Chartered Institute of Management Accountants, UK.

An accomplished banker with 28 years of experience at HSBC, Mr. Cooray has served in a wide range of areas ranging from Finance, Operations, Compliance, Administration and Retail Banking at HSBC and retired from HSBC – Sri Lanka and Maldives as the Chief Operating Officer in May 2018. Whilst at HSBC, Mr. Cooray has also served on its Executive Committee for 25 years, a member of the Board of Trustees of the HSBC Provident and Pension Fund, and served on many internal committees of HSBC including the Assets and Liabilities Committee, Human Resource Policy Review Committee, HSBC's IT Steering Committee and Chaired the Management Committee which comprised the bank's second tier management.

Mr. Cooray acted as the Bank's CEO on numerous occasions in the last 15 years of his banking career with HSBC. He has gained a wealth of expertise from the widespread executive development offered by the HSBC Group. From an industry perspective, he Chaired the industry level Banking Technical Advisory Committee in 2015/2016 as a Sub-Committee of the Sri Lanka Bankers Association. Prior to joining HSBC, Mr. Cooray has also been a part of Speville M & W Ltd, in the capacity of Financial Controller from 1987 – 1990 and prior to that he was engaged with KPMG Ford Rhodes Thornton & Company, Chartered Accountants. Mr. Cooray represented Sri Lanka in rugby.

Mr. Darshana Ratnayake
Independent Non-Executive Director

Mr. Darshana Ratnayake possesses over 3l years of experience as a Banker of which the last 7 years was as a member of the Corporate Management of two banks namely, NDB Bank and Cargills Bank. His immediate past appointment had been as the Chief Commercial Officer of Cargills Bank where he headed the SME and Retail Banking portfolios as well as the marketing aspects of the Bank. Prior to that he had been at Senior Management level for 3 years. Mr. Ratnayake possesses a Certificate in Finance from the Institute of Financial Services, UK, MBA from the University of Wales, UK & Certificate in SME Lending from Omega Institute, IFC.

He is well versed in all areas of Banking especially Retail, Agri Microfinance, Corporate and SME credit. He has been an integral part of critical committees of Banks including ALCO, Strategic Committees. Credit Committees and HR Committees. He has a proven track record in private and priority banking, sales team management and setting up and managing credit factories. He has also been at the forefront of technology and payments strategies at several banks. He has extensive experience in bank branch network management. He also possesses international qualifications in SME credit evaluation and credit risk management. He counts Human Resources Management as a core competency. Mr. Ratnayake served as Director of NDB Wealth Management (Pvt) Ltd. He is also the Director Corporate Affairs at Kings Hospital Colombo Pvt Ltd.

MANAGEMENT TEAM

Standing Left to Right

- **Nuwan Nilantha** - Senior Manager – Treasury • **Omal Kaluarachchi** - Senior Manager – Human Resources
- **K. M. M. Jabir** - CEO/Director • **Chatura Kulatilaka** - Head of Information Communication Technology
- **Gayani Godellawatta** - Head of Risk and Compliance • **Priyan Jayakody** - Chief Internal Auditor

Standing Left to Right

• **Sanjeeva Jayasinghe** - Head of Finance • **Dhanuka Tharanga Perera** - AGM - Gold Loan • **Chamilantha Fernando** - Head of Channels • **Fathima Fazmin Ahamad** - Senior Manager – Legal • **Hilary Calistus Nanayakkara** - Head of Recoveries • **Prasadi Perera** - AGM - Operations • **Pussewelage Prabath Sri De Silva** - Head of Credit Administration & Operations

SOLID GROUND FOR A STRONG FUTURE

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL ECONOMY

The global economy slowed down in 2019 as a result of growing trade tensions among the major economies, most notably the US and China, geopolitical tensions and lower domestic demand in key emerging market economies. The World Economic Outlook (WEO) of the IMF states that global economic growth in 2019 was lower at 2.9% in comparison to the 3.6% in 2018. In advanced economies growth was estimated to be a mere 1.7% (2.2% in 2018) as a result of the subdued growth in the United States and Europe notwithstanding the improved growth performance in economies such as the United Kingdom and Japan. Meanwhile, growth across emerging market and developing economies was around 3.7% (4.5% in 2018).

The global economy, which was already facing difficult times as a result of economic and political headwinds, was dealt a major blow by the arrival of the COVID-19 pandemic towards the end of the financial year. According to the April 2020 WEO of the IMF, the global economy in 2020 may experience its worst recession since the Great Depression and even worse than the Global Financial Crisis in 2007/08. As a result of the lockdowns all across the globe due to the COVID-19 pandemic, it is expected that the global economy will shrink drastically in 2020 and partially recover in 2021.

SRI LANKAN ECONOMY

The Sri Lankan economy registered a poor growth of 2.3% 2019, compared to the somewhat better growth of 3.3% in 2018, as per the provisional estimates of GDP of the Department of Census and Statistics (DCS). The Agriculture Sector only grew by a negligible 0.6% in 2019, in comparison to the relatively healthier growth of 6.5% achieved in 2018. This was mainly due to the adverse effects of extreme weather conditions prevalent during most months of the year.
The Industry Sector showed a better performance than 2018 by registering a growth of 2.7% compared to the growth of 1.2% in 2018. Meanwhile, the growth of the Services Sector dipped to 2.3% in 2019 compared to 2018, mainly due to the slowdown in activities caused by the Easter Sunday attacks.

During the year, both headline and core inflation moved broadly in the desired range of 4-6%, primarily due to subdued demand conditions and well-anchored inflation expectations. Numerous policies put forward to curtail import expenditure brought about a notable improvement in the trade and current account balances. This, together with significant inflows to the financial account, helped strengthen gross official reserves and stabilise the exchange rate.

Earnings from merchandise exports increased marginally by 0.4% to US$ 11,940 million in 2019 from US$ 11,890 million in 2018. Meanwhile, expenditure on merchandise imports dropped drastically during the year, driven by the decision to curtail non-essential imports, while lower import prices also contributed to this decline. Accordingly, expenditure on imports declined by 10.3% to US$ 19,937 million in 2019 from US$ 22,233 million in 2018.

At the time of writing of this Annual Report, Sri Lanka has demonstrated success in preventing a significant spread of the COVID-19 outbreak in the country. As the entire world continues to battle the pandemic, the forecasted contraction in the global economy has brought about a great deal of uncertainty regarding the country's economic performance in 2020. As the country gradually recovers from the pandemic, it is expected that the growth of credit to the private sector will increase as a result of the low market lending rates, enhanced economic activity boosted by fiscal and monetary stimulus, debt moratorium and special loan schemes for small and medium enterprises (SMEs).

Non-Banking Financial Institutions (NBFI) Sector

The NBFI sector essentially comprises Licensed Finance Companies (LFCs) and SLC (Specialised Leasing Companies) and contributes towards the economic growth of the country by providing enhanced services to customers via an ever-expanding branch network, thereby promoting financial inclusion in the country.
The performance of LFCs and SLCs showed a decline during the financial year, with negative credit growth, declining profitability and increase in NPLs. The downward trend in performance was triggered by the Easter Sunday attacks which led to subdued economic activities, prevailed political uncertainty, and lack of investor confidence.

Network

As at end-2019, the sector comprised 42 LFCs and 4 SLCs with a total of 1,432 branches and 599 other outlets out of which two-thirds were located outside the Western Province.

Total Asset Base

As at December 2019, the Total Asset Base of the sector stood at Rs.1,432.7 billion, a marginal 0.1% increase over 2018. It consisted mainly of loans and advances (77%) with Finance Leases at 52.9% of the gross loans and advances and other secured loans registering 37%.

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Lending

Lending activities of the sector declined during 2019 due to macro prudential policy measures to curtail importing of motor vehicles and lending towards vehicles such as the directions of LTV ratios for credit facilities for motor vehicles, higher market interest rates on lending, subdued economic and commercial activities due to loss of business confidence caused by the Easter Sunday attacks and the year end Presidential Election. Overall, credit provided by the LFCs and SLCs sector declined by 3% to Rs.1,102.7 billion, compared to the growth of 7.6% in the corresponding period of 2018.

Liabilities

Customer deposits made up a majority portion of liabilities, and increased assets were mainly funded through deposits, which accounted for 52.8% of the total liabilities of the sector. The deposit growth increased to 5.6% while borrowings reduced by 12.6% during the year.

Profitability

Net interest income of the sector during the year was Rs.117.4 billion, which increased by 7.9% (Rs.8.6 billion). Non-interest income increased by 3.4% (Rs.1.3 billion) as a result of the increase in default charges and other service charges, while non-interest expenses increased by 15.5% (Rs.12.6 billion) negatively affecting sector profitability. Overall, the sector recorded a profit after tax of Rs.14.5 billion, a significant decline of 31.9% when compared to 2018. This dip was primarily due to increased non-interest expenses and higher loan loss provisions.

Capital

The sector demonstrated resiliency by maintaining capital at healthy levels during the year. The total regulatory capital levels improved by Rs.22.3 billion in 2019 mainly due to the enhancement of minimum capital requirement by the Central Bank of Sri Lanka to Rs.2.0 billion by 01 January 2020 and Rs.2.5 billion by 01 January 2021.

Regulatory Developments

Throughout 2019, the Central Bank of Sri Lanka put forward a number of policy measures and prudential regulations to further strengthen the supervisory and regulatory framework of LFCs and SLCs. These were aimed at enhancing the stability and soundness of the sector to preserve customer confidence. Some of these include:

- The existing LTV Direction issued to LFCs was revised to incorporate the 2019 Budget proposals by allowing higher LTV ratios for light trucks (from 70% to 90%).
- The existing Direction on Valuation of Immovable Properties issued to LFCs and SLCs was revised.
- A Circular was issued to LFCs and SLCs in view of mitigating the adverse impact on the Tourism sector due to the Easter Sunday attacks.
- Regulations were issued on the priority of claims in a winding up of an LFC.
- With the objective of diversifying the ownership of shares in LFCs, a consultation paper was issued on introducing ownership limits to LFCs.
- A consultation paper was also issued on credit risk management for LFCs.

FINANCIAL REVIEW

The 2019/20 financial year has undoubtedly been a very challenging period for the country, industry and Company. The Easter Sunday terrorist attacks adversely affected all sectors of the economy and as a result key financial indicators showed negative trends with NPL doubling when compared to the previous financial year. The Presidential Elections towards the latter part of 2019 also disrupted any chances of a minor recovery in the economy while the financial year ended with the COVID-19 pandemic causing the country to go into a lockdown. As a result of all this, the country situation was not favourable for finance related activities and significantly disrupted the business activities of OFP as well as other companies in the industry.

OFP recorded a loss of Rs.437 million for the 2019/20 period when compared to the profit of Rs.29 million achieved last year. This was mainly triggered by the increase in impairment charges by Rs.445.49 million during the year under review. The Company successfully expanded the Gold Loans portfolio to Rs.1.68 billion during the year under review, an overall increase of 58% from the Rs.1.06 billion of 2018/2019. Interest income from Gold Loans increased by 127% to Rs.334 million.

OFP was able to successfully meet the Rs.2 billion minimum capital adequacy requirement imposed by the Central Bank of Sri Lanka (CBSL) by the end of 2019. This was achieved by raising Rs.506 million through a Rights Issue involving 35,183,526 new ordinary voting shares. The Company also took steps to convert the existing 4,000,496 preference shares to Ordinary Shares thereby raising Rs.546 million. Therefore, in total, OFP was able to infuse Rs.1,053,189,260 worth of funds into the Company.

The Value of Investment Properties increased by Rs.138 million as a result of some of the properties mortgage for non-performing facilities being transferred to the Company name during the year.

Total Income

The total income of the Company declined by nearly 6% amounting to Rs.208 million in comparison to last year primarily due to the 11.8% reduction of the loan portfolio amounting to Rs.1,694 million.

Total Assets
The Total Assets of the Company for the year under review reduced to Rs.15.6 billion from the Rs.17.3 billion of the last financial year due to the reduction in Loans & Receivable portfolio. This was due to reduced business volumes caused by the subdued economic environment and low write off contracts collection recorded during the year.

Interest Expenses
Interest expenses reduced by around 8%, amounting to Rs.150 million, when compared to the previous financial year mainly due to the reduction of weighted average cost of capital ratio from 14.51% in 2019 to 13.59% in 2020.

Operating Expenses
Operating costs of the Company decreased from Rs.490 million to Rs.474 million when compared to last year. The Company continued a number of cost controlling measures while various processes were streamlined and new initiatives adopted to bring down overhead costs. As a result of the cost saving measures taken by the management during the year there was a Rs.56 million reduction reported in the other operating expenses when compared to the last financial year. Additionally, VAT & NBT on financial services paid to the government reduced by Rs.51 million for the year due to reduction of tax rates and loss making circumstances of the company.

Personnel Expenses
Personnel expenses increased by almost 10% amounting to a total of Rs.39 million during the year. This was mainly driven by the formation of new divisions, such as Internal Audit, as well as new business units. The 8% annual salary increment also contributed towards this increase.

Cash & Cash Equivalents
Cash & Cash Equivalents and Investments with banks reduced by Rs.111 million and Rs.203 million respectively due to the utilisation of excess funds for the redemption of the Rs.1 billion debenture which matured during the year.

Liabilities
Interest bearing borrowings have increased by Rs.946 million during the year. These funds have been utilised for funding the debenture redemption. Bank overdraft amounts reduced by Rs.345 million at the end of the year as a result of excess liquidity generated through reduction in new statutory reserve requirements introduced by the CBSL to face the COVID-19 pandemic towards the latter part of the financial year.

Stated Capital
OFP's stated capital increased from Rs.1,379 million to Rs.2,432 million as a result of the conversion of Preference Shares to Ordinary Shares together with due interest amounting to Rs.546 million and the Rs.506 million Rights Issue completed during the year.

Retained Earnings
Resulting in the loss reported during the year, the Company's retained earnings have reduced from Rs.339 million to Rs.(171) million.

MARKETING
OFP is one of several companies operating in the highly-competitive NBFI sector and as a result, standing out from the crowd is becoming increasingly challenging. During the year, the Company's marketing and promotional efforts maintained the customary high standards by combining both traditional and innovative marketing techniques and media. Despite the subdued economic circumstances in the country, OFP made significant progress to create greater awareness about the Company's products and services. The various strategies implemented by the Company were mainly focused on generating new business and enhancing the customer experience.

Key Achievements
One of the key highlights of the year was the revisions to the credit guidelines where the approval process was centralised while maintaining the high service standards that also included same day service. In addition, OFP strengthened the credit policy, an area which plays a key role in managing daily business activities by providing the necessary guidelines for optimising the risk and return.

The Company was able to successfully adjust the vehicle segment by moving away from Indian and Chinese vehicle makes and models and pivoting towards Japanese and European ones that are known to have a greater demand and provide higher returns to both the customer and the Company. Additionally, there was a concerted

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effort to promote 3-wheelers as a separate product due to the fact that it offers better returns to OFP while also supporting the economy by creating self-employment to a segment of the population. Overall, OFP managed to further stabilise the portfolio and retain the existing customer base by offering competitive products to the target market segment.

Advertising and Promotions

OFP's Marketing Department works closely with the branch network to carry out various marketing activities to better connect with existing and prospective customers. Given the uncertain circumstances prevalent in the country throughout the year, OFP refrained from carrying out any significant marketing campaigns. Above-The-Line (ATL) marketing was not a priority as the Company instead focused targeted promotional campaigns that were cost effective and impactful. A number of mini campaigns and promotions were successfully carried out by the respective marketing teams and branches in order to generate buzz in the particular area for OFP's products and services. Campaigns carried out at vehicle dealers received a very positive response from the market.

There was greater emphasis on boosting OFP's online presence through digital marketing. Multilingual campaigns on Facebook brought about the desired results and the Company has been able to cement its place as one of the leading Finance Companies with a strong presence on Facebook. Electronic Direct Mailers (EDMs) were also widely utilised throughout the year to target specific geographical areas in the relevant language most suited for the target audience. Popular messaging tools were also used to disseminate promotional material in different languages.

The Company also utilised various outdoor advertising techniques to increase visibility. These included hoardings in prominent locations, street name boards and billboards at dealer/vendor locations in cities and towns across the island.

Leveraging Technology

OFP's approach towards business has always been about taking advantage of the various benefits provided by modern technology. OFP's corporate website was instrumental in effectively communicating with existing and prospective customers. As mentioned earlier, the Facebook page of OFP was utilised to communicate with the customer base on a regular basis. Based on the reports available on the social media platform, OFP has reached the 4th position in Insurance and Finance Company sector with a total reach over 47,000 Likes.

Staff Performance and Training

While the Sales and Marketing team did not expand during the year, there was a greater focus on improving the productivity of the team and streamlining operational activities. Frontline team members, who have been trained to market the entire range of the Company's products while also driving recoveries, were given KPIs based on their performance. Wherever necessary, training programmes were organised using internal and external resources to keep the team motivated and performing at a consistently high level.

Branch Network

While there were no new branches added to the network during the financial year, the Company took steps to upgrade the existing branches. The Kilinochchi branch was re-branded and relocated to provide the customers in the area greater convenience and accessibility. Additionally, the Avissawella, Kalutara, Panadura, Chilaw and Kochchikade branches as well as the Vehicle Yard was re-branded in line with the Company branding standards.

Product Portfolio

Given the economic situation of the country, there were no new products added to the portfolio during the year. The current portfolio consists of the following products:

Lease - Lease facilities are offered to a wide range of vehicles for private and commercial use. Both new and registered vehicles are offered facilities with a tailor-made flexible finance plan for the customer to suit the income and payment plan in minimum time period.

- **Speed Draft –** Product launched with the intention providing speedy financial solutions to the business community and professionals. The main feature is that it fulfills the short-term financing requirements of customers by providing them with a loan when they need it with the option of repaying the interest portion and settling the facility in a specific time period.

- **Trade-In –** As an attempt to attune product offers to the changing needs of customers, Orient Finance introduced Trade-In, where a used vehicle can be traded in for another, eliminating the hassle of selling the existing vehicle.

- **Term Loans –** Loan product given at fixed interest rates depending on the customer request, with a mortgage of property, the loan could be used as an investment to increase business volumes of an existing business.

Looking Ahead

As Sri Lanka emerges from the COVID-19 pandemic, it is clear that the economic future of the country, as well as the whole world, is looking uncertain and difficult. Given such a backdrop, as a responsible corporate entity, OFP's first step is to help the valued customers get back on their feet by giving them time to repay their loans and providing loans to ease their cash flow issues. In this "new normal", OFP must take prudent measures to stay ahead of the competition. Efficient service through online approval process, strong relationship with customers, speedy responses to client requirements and maximising the use of technology are some of the key areas the Company has identified to focus on during the new financial year. Digital media will once again play a crucial role in helping the Company engage with the target audience and build relationships. It is very unlikely that there will be any new products introduced or new branches opened as the focus will be on strengthening the current product offering and enhancing the operational efficiencies of the existing branch network. Essentially, the tried and tested methods that have worked well for the Company in the year under review will be continued in the new financial year with improvements wherever possible.

GOLD LOAN

For yet another financial year, OFP was able to successfully expand the Gold Loan portfolio continuing the upwards trajectory that commenced in recent years. The Gross Gold Loan portfolio of OFP expanded to Rs.1.60 billion during the year under review, an overall increase of 60% from the Rs.1.09 billion of 2018/29. Interest income from Gold Loans increased by 70% to Rs.334 million.

While interest in the product was shown from all 9 provinces in the country, there was a notable increase in the North and Eastern parts of the country where our sources revealed that the loans were used primarily for investments purposes rather than day-to-day spending as wrongly assumed by certain parties.

It is clear that nearly all of the companies in the Banking & Finance industry have commenced Gold Loan operations primarily driven by the fact that they see this as a product with significant potential that is somewhat easier to market and achieve positive results when compared to the other products in their portfolio, especially given the challenging economic environment prevalent in the country. The upward movement of the world gold prices which increased by around 70% during the year under review has further fuelled the interest in the product in the local market in recent years.

Given the uncertain economic situation in the country during the year, the Company expanded Gold Loan services to only one new branch, thereby increasing the Gold Loans network to 25 branches. The marketing staff at all 25 branches carried out impactful marketing initiatives as and when necessary, including street promotions and door-to-door campaigns, where they interacted with customers and explained the numerous benefits of OFP Gold Loans. Such awareness

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campaigns were instrumental in boosting the visibility of the Company's Gold Loan product in the market, and the positive impact of these efforts are clearly reflected in the remarkable returns that were achieved during the year.

As in previous years, OFP ensured that the customer was given ample time and opportunity to settle any outstanding payments and recover the pawned article without it being sent for auction. This customer-centric approach resulted in the percentage of articles auctioned off being as low as 0.75% at OFP, whereas the industry average is several times higher at around 3-4%.

Looking Ahead

Despite the bleak economic outlook caused by the COVID-19 outbreak, the Company expects the Gold Loan portfolio to increase for yet another year. The Company intends to commence Gold Loan facilities in 5 new branches, namely, Welisara, Ratnapura, Kurunegala, Kandy, and Hambantota, all of which were due to commence Gold Loan operations in the year under review but had to be put on hold as cost cutting measures were put in place. The new branches will allow OFP to reach a wider target market and provide greater convenience to customers in and around those cities and towns. The marketing approach that has so far brought about considerable success will continue across all branches. The focus will be on engaging with existing and prospective customers and having meaningful discussions on how Gold Loans can help enhance their lives and businesses.

HUMAN CAPITAL

At OFP, human capital plays a central role in the success of the Company. The continuous development of OFP's employees is pivotal for the Company to succeed, especially in today's uncertain economic landscape. Resultantly, OFP's Human Resource policies, practices and operating processes have been structured to enhance the knowledge, experience, attitude, work ethic as well as the physical and mental health of all employees. The Remuneration/ HR Committee of the Company comprising of three Independent Directors appointed by the Board of Directors governs all human resources policy level activities of the Company. The Human Resources Division of OFP works closely with the Company's leadership and regularly puts forward new strategies and initiatives that focus on nurturing the human capital.

Culture

The culture at OFP focuses on a number of key attributes such as Performance, Teamwork, Innovation, Integrity, Caring, Excellence and Trust, all of which help the employee improve continuously and contribute positively towards the development of the Company.

The performance-driven culture sets the platform for the individual to excel through monthly, quarterly and annual targets. The team culture is fostered by paving the way for an employee to take on extra responsibilities and work closely with other teams and departments in order to meet the Company's objectives. Teamwork is a common attribute that is put forward at all events in order to drive home the importance of it to achieving common goals.

At all times, employees are given the space to think creatively, test new ideas, question accepted norms and interpret mistakes as an opportunity to learn and grow. The management is always ready to listen to the opinions of their employees and understand their points of view on a wide range of matters.

Automation

The improvements in the cutting-edge Human Resources Information System (HRIS) deployed in the last financial year continued. With Janashakthi Insurance migrating to the same platform, there is easy access to information across the two companies. With the deployment of this system paper usage has dropped drastically and the Company is therefore one step closer to a paperless operation.

Succession Planning

For a number of years, OFP has been taking progressive steps towards grooming the next set of leaders who have the potential to take on the leadership roles in the Company in the future. This Board-approved group of highly-talented individuals consists of potential successors for every middle and senior management position in the Company. They are from various Departments and have received considerable training, development and exposure in order to ensure that they are performing at a consistently high level and are ready to step into the key leadership positions when the need arises.

Recruitment

OFP is an organisation that is well-respected in the industry. The foundation of the organisation consists of employees who are passionate, hard-working, innovative and committed. In order to nurture these attributes and grow as an organisation, it is imperative that the Company pays close attention to the type of employees that are recruited at every level.

Recruitment of employees at OFP is carried out based on the Recruitment Policy of the Company. The Company's Recruitment Team identifies suitable candidates and hires them in a timely manner so that there is no disruption to operational aspects even when employees change. Emphasis is placed on recruiting candidates who are knowledgeable in their respective job roles, are highly-motivated and possess exemplary qualities that will allow them to fit in seamlessly into the OFP working environment and culture.

Identifying the right talent for recruitment continues to be a challenge across all sectors in Sri Lanka and especially in the highly-competitive Banking and Finance sector. OFP uses a wide array of tried and tested methods to help attract the best candidates. Traditional methods such as vacancy advertisement in newspapers have been combined with modern methods such as advertising on online job portals and social media networks.

All recruitment is carried out using based on strict internal policies. Candidates undergo a written test as well as multiple interviews with key personnel. Reference checks and Credit Information Bureau of Sri Lanka (CRIB) background checks are also a part of the process. All this ensures that the most suitable candidates are identified and recruited for the given vacancies. Irrespective of whether the candidate is recruited or not, all the applications received are securely stored in a database for future reference, as and when vacancies arise.

Diversity

Over the years, OFP has built a solid reputation as a company that emphasises the strength in diversity. The Company has always focused on having a diverse workforce that has access to equal opportunities in a healthy work environment that is free from discrimination, harassment and victimisation.

Every employee of the Company is treated equally, irrespective of age, gender, race, religion, caste, disability, sexual orientation, marital status or political views. With all employees presented with equal opportunities, career progression boils down to individual performance, possessing the right attitude, professional work ethic and a drive to succeed, while embracing the culture of the Company and respecting all fellow co-workers.

Training and Development

Carrying out carefully-planned training and development of all employees is an important part of the success of OFP. Generally, regular training programmes are carried out for individuals in all departments in order to enhance their knowledge in the relevant area of expertise and prepare them to successfully face the challenges at work. However, due to the challenging economic environment, training programmes were curtailed to a certain extent.

OFP understands the need to carry out regular training and development while keeping costs low in today's "new normal" following the COVID-19 pandemic. In order to achieve this, there is greater emphasis placed on utilising the latest technology to carry out training programmes. Using the digital platform Zoom, the Company will be able to train a large number of employees for a fraction of the cost while also saving time for both trainers and the audience. The required modern equipment was setup at all branches and high-speed connectivity provided to carry out uninterrupted sessions. The first Zoom training sessions will be carried out in the early part of the new financial year. Meanwhile, there will be a greater focus on using internal trainers in order to save costs. All such trainers will be trained using "Train the Trainer" programmes. A comprehensive training calendar is put together at the beginning of the year so that all departments have visibility on the training programmes allocated for the year.

Rewarding Employees

Given the highly-competitive nature of the industry and the amount of investment in terms of time and resources that go into finding and recruiting new talent, it is vital that the Company has a robust system in place to retain its best employees. Resultantly, one of the key components of this system is the various benefits packages that align with the expectations and requirements of different groups of employees. During the year, OFP further enhanced the industry leading 360-degree incentive-based rewards scheme introduced in the previous financial year. The scheme provides achievable targets that keep the various teams highly-motivated while also helping the business to achieve its financial goals.

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Measuring Performance

Being a Company that is driven by performance, OFP has put in place a dynamic system that is able to measure employees' feedback in a timely and accurate manner. The Company performance management policy also requires annual formal feedback to be provided to all employees. All OFP employees are therefore subjected to periodic appraisals so that feedback on their performance within a given time period can be provided and they can be given directions on their future in the Company.

The appraisal agenda looks into a number of key factors including performance, learning and development, contribution to the Company talent pool, succession planning, employee promotions, lateral moves and career aspirations, amongst many others. In addition to this formal feedback, employees are always encouraged to provide constructive feedback to their respective managers and team leads on a regular basis. While the appraisals are carried out manually at the moment, there are plans to migrate the entire process to the new HRIS system during the new financial year. This will enable each employee to view his/her performance status on a dashboard while their superiors will also have the information of multiple employees at their fingertips allowing them to make quick decisions.

Employee Engagement

OFP goes to great lengths to keep all employees fully updated on a variety of topics related to the Company so that they understand that each and every one of them is an important member of the OFP Family. At the basic level, such engagement keeps all individuals well-informed of the Company's successes, progress and future plans, all of which would affect them as part of the OFP family.

OFP understands the importance of providing a platform for them to address their concerns and resolve issues and conflicts in a fair and transparent manner. Regular interactions are held with all employees to get a better understanding of the expectations of the workforce. Overall, the Company practices the following: Open Door Policy by Management, Whistle Blower Policy, Welfare Committees, Business Improvement Committees and CSR Volunteer teams.

During the year, the Company limited the number of employee activities in keeping with the subdued circumstances in the country. A handful of employment engagement workshops were carried out with fun-based activities incorporated to keep the morale high and drive home key messages.

Looking Ahead

Given the uneasy economic climate in the country, it is important that companies work smarter to survive these tough times. When it comes to human resources, this means that OFP will reinforce the importance of teamwork in a performance driven culture. Employees will be expected to go the extra mile and take on challenges and responsibilities outside their scope in order to achieve the objectives of the Company. Reduction of costs will be a must and it will require a wholehearted effort from the entire workforce to get used to the "new normal" brought upon the country by the COVID-19 pandemic.

During the new financial year, the Company intends to deploy new modules in the HRIS system and streamline HR functions even further while also reducing paper consumption. A new rewards scheme has been proposed and approved by the Remuneration Committee and the Management, and it is expected to be implemented during the early parts of the new financial year. The Company will look to further enhance human resource policies and best practices in order to attract and retain the best talent in the industry.

WELFARE

Orient Finance strongly believes in looking into the welfare of all employees as well as the communities in which the Company operates in. The Company has always made efforts to meaningfully engage with both groups by organising beneficial events and activities. In the wake up of the low-key environment in the country during the financial year, OFP scaled back on engagements to a certain degree. However, some of the key events that have been taking place for several years continued.

Annual Sports Day

The highly-anticipated Annual Sports Day, the main staff event in the calendar, was held in October 2019 at the Bloomfield Cricket and Athletic Club grounds. The sporting extravaganza was attended by employees from all branches of OFP as they battled each other across a number of activities including cricket, netball, tug of war, running and many others. The branches were split across the 5 regions – Central, Southern, North East, Sabaragamuwa and Metro. There was an atmosphere of friendly rivalry as participants demonstrated their competitive fire to bring victory to their respective teams. After the presentation ceremony the eventful day ended with a DJ music that kept the crowd dancing into the night.

Mercantile Soft Ball Cricket Tournament 2019

A strong OFP team took part in this popular tournament held in late September 2019 at the Panadura Army Grounds and The Zoysa Ground Moratuwa. The OFP team put together a good run to successfully reach the semi-final.

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Thornton Hike 2019

An outdoor adventure-oriented team from OFP took on an event of different nature when it entered the Thornton Hike 2019. The unique event was organised by Thornton Event Management as a way of supporting the Tourism Industry and also to promote competition hiking in Sri Lanka. The participants covered approximately 38 km uphill from the Bambarakanda falls to the World's End Junction at the Ohiya World's End Road. The hike covered the picturesque trails of the World's End, Nagrak Estate, Devil's Staircase, Great World's End Drop and the famous Ohiya village. Teams from various universities, corporates and other organisations took part in this one-of-a-kind event.

Shin Nippon Cricket Sixes 2019

2 teams from OFP took part in the Shin Nippon Welfare Society Cricket Sixes 2019 tournament which was held at Shalika Grounds, Narahenpita in August.

Community Projects

In terms of community-oriented projects, the Orient Finance Sports & Welfare Club successfully conducted another well-attended eye clinic during the year. This year's eye clinic built on last year's one by expanding to cover the entire branch network while the main clinic was held at the Head Office premises. The eye clinics were open to employees, clients, other stakeholders as well as the general public. All of them had the opportunity to get their vision tested free-of-charge by representatives of a leading eyecare firm and were given significant discounts when purchasing an assortment of eyewear.

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CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

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

The Governance Framework at Orient Finance is driven by Board approved policies and procedures which are in place governing all aspects of operations. These policies ensure the compliance of the organisation with applicable laws and regulations.

The Company ensures compliance with the following statutory legislation and regulations applicable thereunder:

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

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

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

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

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

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

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 2.1 (d)	Approving a policy of communication with the stakeholders.	Complied	A Stakeholder Communication Policy has been approved by the Board and implemented for appropriate communication with different stakeholder groups. The Company maintains a website and periodically issues press releases. Communications from stakeholders are promptly attended to.
Code A 1.2 CBSL 2.1 (f), (g), (h)	Proper delegation of authority to the Key Management Personnel (KMP).	Complied	The Board has identified and designated Key Management Personnel who are in a position to carry out the Company's operations and risk management processes. The KMPs' job roles and areas of authority have been defined in order to enable effective oversight of the affairs of the Company within the strategic objectives of the Company.
CBSL 2.1(i)	Periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel;(ii) the management of conflicts of interest; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied	A Board Nominations Committee is in operation for the nomination and selection of Directors and Key Management Personnel. A Board approved Conflict of Interest Policy is in place which sets out the procedure for handling situations of conflicts of interest. The effectiveness of the internal control framework is assessed through the internal audit and risk functions and changes made where necessary.
CBSL 2.1 (j)	Adoption of an effective Succession Plan for Key Management Personnel.	Complied	Succession planning is considered as a vital factor by the Board of Directors at all times. A succession plan is in place for key management positions.
CBSL 2.1 (k)	Meeting regularly with key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives	Complied	The Board interacts regularly with the management in order to execute and review policies and to ensure corporate objectives are met.
CBSL 2.1 (l),(m)	Understanding the regulatory environment and exercise due diligence in the hiring and oversight of external auditors.	Complied	The Board of Directors and the staff are continuously kept updated on regulatory developments and changes to regulations and implications. The Board Audit Committee exercises due diligence in hiring and oversight of External Auditors.
CBSL 2.2	The board to appoint the Chairman and the Chief Executive Officer (CEO)	Complied	The Board of Directors has appointed the Chairman and the CEO to Orient Finance PLC to provide direction and leadership to the Company.
CBSL 2.3 Code A.1.3	Independent professional advice to be obtained according to a procedure agreed to by the Board at the Company's expense.	Complied	Board approved "Policy on Seeking Independent Professional advice by Board of Directors" is in place. Board members are allowed to obtain independent professional advice as and when necessary at the expense of the Company.

CORPORATE GOVERNANCE

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 2.4	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	Directors abstain from voting on any resolution in which the Director or his related parties has an interest.
CBSL 2.5	The Board shall have a formal schedule of matters specially reserved to it for decision to ensure that the direction and the control of finance company is firmly under its authority.	Complied	The Board has a formal schedule of matters specially reserved for the Board for decision making to ensure that the direction and control is firmly under its authority. Documented guidelines are in place regarding the "Matters Reserved for the Board of Directors".
CBSL 2.6	The Board shall, if it considered that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of supervision of Non-Bank Financial Institution of the situation of the finance company prior to taking any decision or action.	N/A	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. External auditor's certification on internal controls has been obtained.
CBSL 2.8 Code A.9	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessment.	Complied	Self-assessment of each Director is performed annually and filed with the Company Secretary.
Meetings of the Board			
Code A.1.1 CBSL 3.1	The Board shall meet twelve times a financial year at approximately monthly intervals.	Complied	Board meetings were held in monthly intervals. The Board met 16 times during the year under review. The attendance of each Director at these meetings is given at the end of this report.
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.
Code A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Complied	Directors devote adequate time for Board meetings as well as Board Sub-Committee meetings to ensure that their duties and responsibilities are satisfactorily discharged.

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 3.3 Code A.6.2	A notice of at least 07 days shall be given for a regular Board meeting.	Complied	Sufficient notice has been given to the Board Members, to ensure all Directors have an opportunity to attend. The annual calendar of meetings is adopted at the first meeting of the calendar year and any changes are agreed upon with adequate notice.
CBSL 3.4	A Director, who has not attended at least two-thirds of the meetings in the period of twelve months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the Directors' meetings through an alternate Director shall however, be acceptable as attendance.	Complied	Directors have regularly attended Board Meetings. Attendance of each Director at the Board meetings has been disclosed at the end of this report.
CBSL 3.5	The Board shall appoint a Company Secretary to carry out secretarial services to the Board and shareholders meetings and other functions specified in the regulations.	Complied	KHL Corporate Services Limited has been appointed as the Company Secretary in line with the stipulated requirements.
CBSL 3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied	The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.
CBSL 3.7 Code A.1.4	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied	The Directors constantly work with the Company Secretaries to ensure that Board procedures and all applicable rules and regulations are duly complied.
CBSL 3.8	The Company Secretary shall maintain the minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time on reasonable notice by any director.	Complied	Minutes of Board Meetings are maintained by the Company Secretary. The Board Minutes are available for inspection by any Director as and when required.
CBSL 3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the Minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings.	Complied	Board Minutes are maintained in sufficient detail with data and information used by the Board in its deliberations, decisions and Board resolutions. Board Minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.
Composition of the Board			
Code A.10, A.10.1	Shareholders should be kept advised of relevant details in respect of Directors.	Complied	Required information on Board of Directors has been published in Annual Report under "Profiles of Directors" page 14 to 19.
CBSL 4.1	Number of Directors should not be less than 05 and not more than 13.	Complied	There are 9 Directors on the Board.

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Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 4.2	Total period of service of a Director should not exceed 09 years.	Complied	There are no Directors on the Board who has been a Director of the Company for more than nine years.
CBSL 4.3 Code A.5	Executive Directors shall not exceed one-half of the number of Directors of the Board.	Complied	This requirement is met. There are 8 Non-Executive Directors and 1 Executive Director on the Board.
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 nine Directors are Independent Non-Executive Directors. The composition of the Board is set out in pages 12 to 13 in this Annual Report.
CSE 7.10.2b Code A.5.4	Each Independent Directors shall submit a declaration of his/her independence against the specified criteria	Complied	Each Independent Director submits an annual declaration which is filed with the Company Secretaries.
CSE 7.10.3 Code A 5.5	The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the annual report the names of directors determined to be independent	Complied	The Board makes a decision as to the independence of each Director based on the declaration submitted. The details of independent Directors are included in pages 14 to 19 of this report.
CBSL 4.5 Code A.5.6	An alternative Director appointed to represent an independent Non-Executive Director should meet with the criteria for Independent Non-Executive Directors	Complied	All applicable rules and regulations are complied with in appointing alternate Directors.
CBSL 4.6	Non-Executive Directors shall have necessary skills, qualifications and experience to bring an objective judgment to bear on issues of strategy, performance and resources	Complied	All Non-Executive Directors are professionally qualified and possess adequate skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources. The profiles of the Directors are given in pages 14 to 19
CBSL 4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Complied	Required quorum has been complied with.
Code A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	Complied	The Board consists of members with necessary financial acumen and professional qualifications and experience in Banking, Accounting and related disciplines. Please refer "Directors' Profile" on pages 14 to 19 in this Annual Report.
CBSL 4.9 Code A.7, A.7.1, A.7.2	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	Complied	Appointment of new Directors to the Board are reviewed and recommended by the Nominations Committee, which consists of a majority of independent Directors. The existing Directors collectively decide on new members.

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 4.8	The finance company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report	Complied	The details of Directors are included in pages 12 to 13 of this Annual Report
CBSL 4.10	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after the appointment	Complied	Duly complied
CBSL 4.11	The Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institution if the Central Bank of Sri Lanka, regarding the resignation or removal of directors with the reasons and the relevant director's disagreement with the board	Complied	Duly complied
Criteria to assess the fitness and propriety of directors			
CBSL 5.1	The age of a person who serves as Director shall not exceed 70 years.	Complied	No Director has reached the age of 70 years.
CBSL 5.2	A Director shall not hold office as a Director of more than 20 companies/societies/body corporate inclusive of subsidiaries or associate companies of the finance company.	Complied	All Directors have complied with this requirement.
Delegation of Functions			
CBSL 6.1	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions. The exercise of delegated authority is clearly monitored.
CBSL 6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied	Delegation arrangements are periodically reviewed.
Chairman and Chief Executive Officer			
CBSL 7.1 Code A.2	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied	The positions of the Chairman and the CEO are separate and performed by different individuals to ensure the balance of power and responsibility. The Chairman is a Non-Executive Director while the CEO serves as an employee of the Company.
CBSL 7.2	The Chairman should be a Non-Executive Director	Complied	Chairman is a Non-Executive Independent Director.

CORPORATE GOVERNANCE

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 7.3	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	The name of the Chairman and the CEO are disclosed in pages 6 to 11 of this Annual Report. There is no financial, business, family or other relationship between the Chairman and the Chief Executive Officer. Mr Prakash Schaffter and Mr Ramesh Schaffter, Non-Executive Directors are siblings and are common directors of other companies. No other financial, business or family relationships exist between any other members of the Board, other than being common directors in certain companies.
CBSL 7.4 Code A.3	The Chairman shall: • Provide leadership to the Board; • Ensure that the Board works effectively and discharges its responsibilities; and • Ensure that all key issues are discussed in a timely manner	Complied	The Chairman is a Non-Executive Director. He frequently discusses relevant matters with the other Directors and the CEO.
CBSL 7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate this to the Company Secretary.	Complied	The agenda for the Meetings are prepared in consultation with the Chairman and circulated to the Board in advance.
CBSL 7.6 Code A.6	The Chairman shall ensure that all Directors are properly informed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied	Board Papers are circulated with sufficient details prior to the meetings in order for Directors to request any other information, if necessary. Minutes of Board meetings are circularised in a timely manner.
CBSL 7.7	The Chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the finance company.	Complied	All Directors are encouraged to actively participate at the Board Meetings and the ensuing discussions.
CBSL 7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied	8 Directors are Non-Executive Directors which encourages active participation in discussions.
CBSL 7.9	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	The Chairman is an Independent Non-Executive Director and is not involved in executive functions or in direct supervision of any staff.

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 7.10 Code C.1	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	Effective communication with shareholders is maintained through the Annual General Meeting and Extra Ordinary General Meetings. Moreover, Annual Reports are delivered to shareholders fifteen working days prior to the AGM in order to communicate their views effectively. The Chairman briefs the Board and the CEO regarding any issues or concerns of the shareholders.
CBSL 7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Company's operations and business.	Complied	The Chief Executive Officer functions as the executive-in-charge of the day-to-day management of the Company's operations and business.
Code A.11	The Board should be required, at least annually, to assess the performance of the CEO.	Complied	At the commencement of each financial year the Board, in consultation with the CEO, sets financial and non-financial targets that should be met by the CEO during the year. The performance of the CEO was evaluated by the Board at the end of the fiscal year against the targets that had been set at the beginning.
Board Appointed Committees			
CBSL 8.1	Every Finance Company shall have at least two Board committees as set out in paragraphs 8 (2) and 8 (3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied	The Board has established an Audit Committee and an Integrated Risk Management Committee. Each Committee reports to the Board and has a designated secretary. This Annual Report contains reports regarding the functions of such Committees.
Audit Committee			
CBSL 8.2 (a)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied	The Chairperson of the Audit Committee is a Non-Executive Director and her qualifications and experience are disclosed in page 16 of the Annual Report.
CBSL 8.2 (b)	Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All three members of the Committee are Non-Executive Directors.

CORPORATE GOVERNANCE

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.2 (c)	The Committee shall make recommendations on matters in connection with: i. The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; ii. The implementation of the Central Bank guidelines issued to auditors from time to time; iii. The application of the relevant accounting standards; and iv. The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of an Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied	The Audit Committee makes recommendations on the stated matters. A summary of the functions has been disclosed in the Audit Committee report in page 57 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.
CBSL 8.2 (f)	The Committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: i. an assessment of the Company's compliance with the relevant Directions-the management's internal controls over financial reporting; ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii the co-ordination between firms where more than one auditor is involved	Complied	The nature and scope of the audit was discussed with the external auditors in accordance with the stated matters and the Sri Lanka Auditing Standards.

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
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 and presented to the Committee. Annual and Quarterly Financial Statements are approved by the Audit Committee, before submission to the Board. The statements are in conformity with the stated requirements.
CBSL 8.2 (h)	The committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied	The committee reviewed the financial information of the Company as appropriate.
CBSL 8.2 (i)	The Committee shall review the external auditor's Management Letter and the management's response thereto.	Complied	The Committee has reviewed the external auditor's Management Letter and the management responses thereto.
CBSL 8.2 (j)	The Committee shall take the following steps with regard to the internal audit function of the Company. i. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department iv. Recommend any appointment or termination of the head, senior staff member and outsourced service providers to the internal audit function. v. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied	The internal audit plan is reviewed and approved by the Audit Committee at the beginning of the year. Internal audit reports are discussed with the Audit Committee and necessary actions are taken. The internal audit function is an independent function with direct reporting to the Board Audit Committee.

CORPORATE GOVERNANCE

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 have considered major findings of internal investigations and management's response thereto	Complied	Major findings of Internal Audit reports have been placed before the Board Audit Committee.
CBSL 8.2 (l)	The Chief Financial Officer, the Chief Internal Auditor and a representative of the external auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the Committee shall meet with the external auditors without the Executive Directors being present.	Complied	The Committee met with the external auditors twice during the year at the Board Audit Committee meetings
CBSL 8.2 (m)	The Committee shall have : (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	The terms of reference of the Board Audit Committee include 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.
CBSL 8.2 (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	The Committee has met 06 times during the financial year.
CBSL 8.2 (o)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied	Details of the work of the Audit Committee are disclosed in page 57 to this Annual Report. Attendance has been disclosed at the end of this report page 48.
CBSL 8.2 (p)	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed Minutes of the Committee Meetings.	Complied	Head of Risk & Compliance, as the Secretary to the Committee, maintained detailed minutes of the Committee meetings.
CBSL 8.2 (q)	The Committee shall review arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters. Ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow–up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied	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. A Board approved Whistleblower Policy is in place.

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
Integrated Risk Management Committee			
CBSL 8.3 (a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	The Committee comprised of four Non-Executive Directors, CEO, Head of Finance and Head of Risk and Compliance. The Committee met three times during the year to review the risk areas in line with its terms of reference and worked closely with the Key Management Personnel with regard to identified risks.
CBSL 8.3 (b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information.	Complied	A process is in place to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Company on a monthly basis through appropriate risk indicators and management information. The Board is kept informed of such risks on a timely basis.
CBSL 8.3 (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and asset-liability committee to address specific risks and to manage those risk within quantitative and qualitative risk limits as specified by the committee.	Complied	Minutes of management level committees are submitted to the Committee to review the adequacy and effectiveness of the respective committees.
CBSL 8.3 (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent level decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied	All risk indicators 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 held meetings on a quarterly basis during the year under review and has reviewed all aspects of risk management including 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 directed by the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied	The Committee recommended and initiated action as appropriate in relation to such findings. Process improvements were recommended by the Committee in instances where such issues were observed.
CBSL 8.3 (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	Risk assessment reports submitted to the Committee are forwarded to Board members for their feedback.

CORPORATE GOVERNANCE

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 8.3 (h)	The Committee shall establish a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	The Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Head of Risk and Compliance carries out the compliance function and reports to the Committee periodically.
Related Party Transactions			
CBSL 9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of finance company with any person who shall be considered as "related party" for the purpose of this direction.	Complied	The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties. The Related Party Transaction Review Committee is in place in line with the Code of Best Practice on Related Party Transactions. Further, transactions carried out with related parties in the normal course of business are disclosed in Note 42 on "Related party Disclosures" in the Financial Statements.
CBSL 9.3	Transactions with related parties in relation to accommodation, deposits, borrowings and investments, providing financial or non-financial services to or from the finance company, creating or maintaining reporting lines and information flows between the finance company and any related party are to be identified as transaction with related party.	Complied	All such related-party transactions are reviewed by the Board Related Party Transactions Committee.
CBSL 9.4	The Board shall ensure that the finance company does not engage in transactions with related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents.	Complied	The Company treats all Related Parties on the same basis as they would treat unrelated counterparties for all transactions.
Disclosures			
CBSL 10.1	The Board shall ensure that: • Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that • such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	Relevant Financial Statements are prepared and published at the specified frequencies in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English languages.
CBSL 10.2	The Board shall ensure following minimum disclosures are made in the annual report.		

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 10.2.a Code D.1	A statement to the effect that the annual audited Financial Statements has been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Relevant disclosures are included in page 59 of the Annual Report under "Directors Responsibility for Financial Reporting".
CBSL 10.2.b	A report by the Board on the Company's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied	Relevant disclosures are included in page 58 of the Annual Report under "Directors Report on the Internal Control System".
CBSL 10.2.c	The external auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above, in respect of any statements prepared or published after 31st March 2010.	Complied	The Company obtained a certification from the external auditors on the effectiveness of the Internal Control mechanism, which is on page 64 of this Report.
CBSL 10.2.d	Details of directors including names, transactions with the finance company.	Complied	Relevant disclosures are made and included in the Annual Report pages 14 to 19 and page 116 under "Board of Directors".
CBSL 10.2.e Code B.3	Fees, remuneration paid by the finance company to the directors in aggregate.	Complied	Relevant disclosures are made in the Annual Report page 96.
CBSL 10.2.f	Total net accommodation granted to each category of Related Parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance companies capital funds.	Complied	Relevant disclosures are made in the Annual Report page 116 under "Related Party Transactions".
CBSL 10.2.g	The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Company.	Complied	Relevant disclosures are made in the Annual Report page 96.
CBSL 10.2.h	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied	Relevant disclosures are included in the Annual Report page 59 under "Directors" Responsibility Statement".

CORPORATE GOVERNANCE

Reference to CBSL Regulation/ SEC & ICASL Code and CSE Listing Rule	Corporate Governance Principle	Status of Compliance	Extent of Compliance
CBSL 10.2.i	A statement of the regulatory and supervisory concerns on lapses in the finance Company's risk management, or non-compliance with these Directions that have been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Complied	There were no significant supervisory concerns on lapses in the Company's Risk Management or non-compliance with this Direction that had been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and requested by the Monetary Board to be disclosed to the public.
Code D.1.3	The annual report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements together with a statement by the auditors about their reporting responsibilities.	Complied	Directors' Responsibility Statement included in page 59 of this Annual Report contained the Directors' Responsibilities while the Auditors Responsibilities have been explained in the Auditors' Report in pages 68 to 71.
Code D.1.4	The Annual Report should contain a "Management Discussion and Analysis".	Complied	Refer pages 23 to 32 for the Management Discussion and Analysis.

Name of the Director	Board Meetings		Audit Committee Meetings		Integrated Risk Management Committee		Related Party Transactions Review Committee		Human Resources and Remuneration Committee		Nomination Committee	
	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance	Meetings Held	Attendance
Dr. D. C Jayasuriya P.C.*	16	16			3	3						
Mr. Prakash Schaffter	16	15	6	6					7	7	2	2
Mr. Anil Tittawella **	16	14			3	2	3	3			2	2
Ms. Minette Perera	16	16	6	6					7	6		
Ms. Indrani Goonesekera	16	16			3	3	3	3	7	7	2	2
Mr. Ramesh Schaffter	16	10										
Mr. Sriyan Cooray ***	15	14	6	5			3	3				
Mr. Darshana Ratnayake ****	5	4										
Mr. K. M. M. Jabir *****	5	4										

Notes :

* Dr. D. C. Jayasuriya P.C. resigned from his position as Director and Chairman with effect from 23rd June 2020.

** Mr. Anil Tittawella was appointed as the Chairman of the Company on 23rd June 2020.

*** Mr. Sriyan Cooray was appointed to the Board w.e.f. 03rd May 2019.

**** Mr. Darshana Ratnayake was appointed to Board w.e.f. 25th November 2019.

***** Mr. K. M. M. Jabir was appointed to the Board w.e.f. 25th November 2019.

RISK MANAGEMENT

Risk is an inherent element in finance Business. Therefore, it is an indispensable element in our operations. Orient Finance has implemented risk management strategies to effectively manage and mitigate the risks arising out of its business operations and to ensure that the residual risk remains within the risk-appetite for the Company.

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

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

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

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

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

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

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

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

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

Strategic Level

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

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

Management Level

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

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

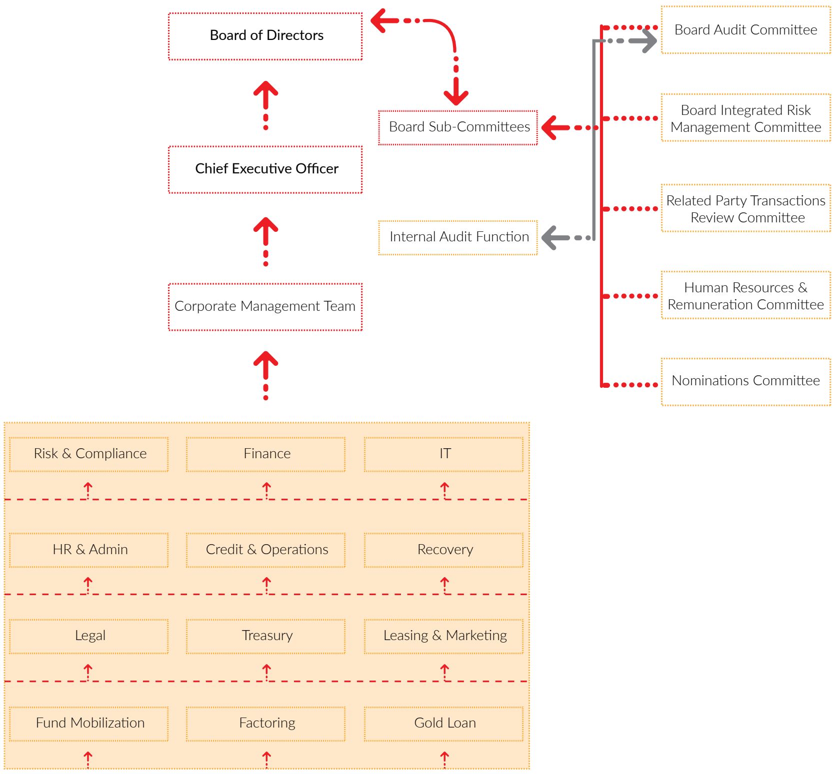
Operational Level

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

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

RISK MANAGEMENT

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



Types of Risks

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

Credit Risk

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

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

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

Credit Risk Based on Asset Quality

The non-performing loans ratio is a salient measure of the asset quality. Non-performing loans ratio is monitored on a regular basis at branch level, regional level and Company-wide level under the different product categories. Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking. Company regularly monitors credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal management reports are presented to various committees, containing information on key industry and economic trends as well as the Company's performance.

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

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

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

Market Risk

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

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

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

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

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

Liquidity Risk

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

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

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

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

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

Operational Risk

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

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

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

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

Human Resource Risk

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

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

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

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

Technology Risk

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

RISK MANAGEMENT

dependency on automated systems and processes.

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

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

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

Compliance Risk

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

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

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

Reputational Risk

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

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

Strategic Risk

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

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

Risk Management in view of the Covid-19 Crisis

The on-set of the Covid-19 pandemic required the implementation of a Business Continuity Plan (BCP) devised to suit the risks emerging from the situation. Since the country was in a lock-down situation, the Corporate Management Team swiftly implemented a BCP. Work-from-home arrangements were provided for all key staff and remote working was implemented with the management making use of technology for day-to-day work as well as conducting meetings. The lock-down situation and the closure of branches impacted the normal business operations of the Company. The moratorium announced by the Government impacted the income and liquidity the most. The Management, led by the Board, immediately implemented cost saving measures as well as strategies to manage liquidity and earnings risk.

During this period, Operational Risk was high due to the environment that prevailed. Measures were implemented to contain the Operational Risk that arose during the period.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Acting in terms of the CBSL Direction No. 3 of 2008 on Corporate Governance, the Board of Directors of Orient Finance has established the Integrated Risk Management Committee (IRMC) to assess and oversee the management of all risks within the Company. The ultimate responsibility for managing the risks of the Company remains with the Board of Directors. Reporting to the Board, the IRMC acts within the scope provided in the IRMC Charter, which has been approved by the Board. The function of the IRMC is primarily one of oversight. Working closely with the top management, the IRMC assesses all risks faced by the Company and makes recommendations for changes to improve the controls and risk management.

Composition of the Committee

The Members of the Board appointed Integrated Risk Management Committee as at the end of the financial year 2019/20 comprised of the following members:

- Dr D. C. Jayasuriya PC***
- Mr Anil Tittawella* - Chairman (Appointed w.e.f. 30 June 2020 with the re-constitution of the sub-committee)
- Ms Indrani Goonasekera* - Director
- Mr Darshana Ratnayake* - Director
- Mr K M M Jabir** – Chief Executive Officer
- Mr Sanjeeva Jayasinghe – Head of Finance
- Ms Gayani Godellawatta - Head of Risk & Compliance/Secretary IRMC

** Independent Non-Executive Directors*
*** Executive Director*
**** Retired w.e.f. 23 June 2020*

Charter of the Committee

The Board Integrated Risk Management Committee was established by the Board of Directors in compliance with Direction No. 3 of 2008 on "Corporate Governance for Finance Companies" issued by the Monetary Board of the Central Bank of Sri Lanka, issued under the Finance Business Act No. 78 of 1988. The composition and the scope of work of the Committee is in conformity with provisions of the said Direction. The IRMC Charter sets out the membership, sources of authority, duties and the responsibilities of the Committee.

The Charter of the IRMC has been approved by the Board of Directors and is subject to annual review.

Committee Meetings

The Committee held three meetings during the year under review to discuss and make recommendations relating to risk exposure of the Company. The attendance of the members is given in page 48 of the Annual Report. The minutes of the IRMC Meetings and its recommendations are forwarded to the Board within a week of each meeting.

Committee Methodology

The IRMC assists the Board of Directors in its oversight function in relation to the different risk types. Working closely with the Key Management Personnel, the Committee assessed all types of risks that the Company is exposed to, including credit, liquidity, market and operational etc. through different risk indicators and management information and assessed the adequacy of risk management procedures in place.

Activities of the Committee

The Board approved IRMC Charter indicates the scope, methodology, structure and authority for the activities of the IRMC. Accordingly, the primary responsibilities of the IRMC includes:

- Oversight and review of the implementation of risk management as well as compliance procedures and internal control systems;
- Assess all key risks the Company is exposed to, on a monthly basis through appropriate risk indicators and management information, along with a detailed risk assessment on a quarterly basis;
- Take prompt corrective action to mitigate the effects of specific risks. In the event such risks are at levels beyond prudent levels decided by the Committee, it was required to address those risks and manage them within specific quantitative and qualitative risk parameters decided by the Committee and the Board;
- Review the sufficiency of personnel, systems, procedures and other issues impacting the risk profile of the Company;
- Monitor changes anticipated in the economic and business environment, including emerging trends, organisational and regulatory changes as well as other factors considered relevant to the operating environment of the organisation and its risk profile;
- Review and approve the Company's Disaster Recovery and Business Continuity Plan;
- Review the adequacy and effectiveness of all management level committees including the Credit Committee and the Assets and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk parameters specified by the Committee;
- Review the compliance related reports submitted periodically (quarterly) by the Risk and Compliance Department;

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- Take appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective action as recommended by the DSNBFI of the Central Bank of Sri Lanka.

In addition, the Committee may perform such other functions as are necessary or appropriate for the discharge of its duties and responsibilities.

Activities of the IRMC in FY 2019/20

- Reviewed the asset quality covering non-performing advances, product-wise credit quality, provision coverage and compared against industry and peers;
- Reviewed the impact on net interest income due to macro-economic conditions and changes to the economic environment;
- Reviewed the liquidity management strategies of the Company;
- Assessed the Company's compliance with laws, regulations and regulatory guidelines and internal policies in all areas of business operations;
- Reviewed the internal controls relating to the Company's operations and made appropriate changes to the systems and controls;
- Reviewed the operational efficiencies that impacted the strategic objectives of the Company;
- Assessed the business lines and their impact on the organisation's operational effectiveness;
- Reviewed the effectiveness of the strategies in place to minimise maturity mismatches;
- Reviewed the top HR related risks faced by the Company and assessed the effectiveness and sufficiency of mitigation actions initiated;
- Reviewed the Statutory Examination Report of the Dept. of Supervision of Non-Bank Financial Institutions of CBSL and reviewed and recommended action to respond to the observations raised therein within the agreed timelines.

In relation to the above activities, the Committee proposed modifications to internal control systems and processes for implementation by the Management.

On behalf of the Board Integrated Risk Management Committee,

Anil Tittawella

Mr. Anil Tittawella
Chairman
Board Integrated Risk Management Committee
11 September 2020

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition

The Human Resources and Remuneration Committee comprises three Non-Executive Directors namely:

- Ms. Indrani Goonasekera - Chairperson - Independent Non-Executive Director
- Mr. Prakash Schaffter – Member - Non-Independent Non-Executive Director
- Ms. Minette Perera – Member - Non-Independent Non-Executive Director

  (Ceased w.e.f. 30th June 2020 with the re-constitution of the Sub-Committees)
- Mr. Anil Tittawella – Member - Independent Non-Executive Director

  (Appointed w.e.f. 30th June 2020 with the re-constitution of the Sub-Committees)

The Company Secretaries function as the Secretary to the Committee.

Terms of Reference

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

Functions

The Committee continues to uphold the principles of accountability and transparency and ensures that the HR & Remuneration Policy demonstrates a clear link between rewards 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 Committee is conscious of the importance of reviewing the remuneration structure periodically and to evaluating 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 met to review the results of the Annual Performance Evaluation and assess its incremental impact on the total remuneration cost of the Company. At the meeting the Committee specifically reviewed the performance of the Senior Management for the year and made 2019/2020 against the given targets/goals recommendations to the Board in respect of the remuneration increases and promotions of the Senior Members of the management officers as it was designated to consider.

The Committee also carried out a performance evaluation of the then CEO for the year 2018/2019 against the targets/goals agreed by the CEO and submitted its observations to the Board for necessary evaluation by the Board as well. The Committee also met to consider the qualification suitability of certain applicants as replacements for some of the KMP positions that fell vacant during the year.

Committee Meetings

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

The Committee held seven times during the year under review. The attendance of the Members at the meeting are given under attendance report on page 48 of the report.

Minutes of the meetings and the recommendations of the Remuneration Committee were presented to the Board of Directors and recorded at the Board Meetings.

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.

Indrani Goonesekera
Chairperson
Human Resources and Remuneration Committee
11 September 2020

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board established the Related Party Transactions Review Committee in conformity with the mandatory provisions of Section 9 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 follow in dealing with related parties.

Composition

The Committee consists of 3 Non-Executive Directors, namely:

- Ms. Indrani Goonasekera – Chairperson - Independent Non-Executive Director
- Mr. Anil Tittawella – Independent Non-Executive Director

  (former Chairman, ceased w.e.f. 30th June 2020 with the re-constitution of the Committee)
- Mr. Sriyan Cooray – Member-Independent Non-Executive Director
- Mr. Darshana Ratnayake - Member - Independent Non-Executive Director

  (appointed w.e.f. 30th June 2020 with the re-constitution of the Committee)

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

Role

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

The main responsibilities of the Committee include the following:

- Develop and recommend policies and procedures to review Related Party Transactions of the Company.
- Review proposed Related Party Transactions of the Company, except those explicitly exempted by the Committee Charter and evaluate whether such transactions are in the best interest of the Company and all its stakeholders.
- Update the Board of Directors on the Related Party Transactions of the Company.
- Make disclosures on applicable Related Party Transactions, as required by the applicable regulations/rules.

Policy and Procedures

The Company has adopted a Related Part Transactions (RPTs) Policy to ensure that such transactions are at arm's length and do not grant such related party more favourable treatment than what is extended to an unrelated third party and adopted a procedure too, to identify and manage conflicting interests. This was in view of structuring the Company's policies and procedures to uphold good governance. The Policy has been prepared in accordance with the Finance Companies (Corporate Governance) Direction No: 3 of 2008, issued by the Central Bank of Sri Lanka (CBSL Direction) and considering the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance pertaining to RPTs.

The Committee ensures that all transactions with related parties are in the best interests of all stakeholders; adequate transparency is maintained and is in compliance with the company's policy and applicable laws, directions, rules and best practice.

Committee Meetings

The Committee held three meetings during the year under review. The attendance of Members at the Committee meetings is given on page 48 of the Annual Report. The Committee also considered where appropriate routine related party transactions by circulation.

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 and recorded.

Related Party Transaction list is disclosed on pages 115 to 116 of the Annual Report and under Note 42 of the Financial Statement.

Ms. Indrani Goonesekera
Chairperson
Related Party Transactions Review Committee
11 September 2020

BOARD AUDIT COMMITTEE REPORT

The Audit Committee (Committee) appointed by the Board consist of three Non-Executive Directors, two of whom are Independent. It is chaired by a Non 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 2020 it comprised of the following Directors:

- Ms. Minette Perera– Chairperson of the Committee
- Mr.N.Sriyan Suresh Cooray - A member of the Committee
- Mr. Darshana Ratnayake - A member of the Committee

The profiles of the members are given on pages 14 to 19 in this Annual Report.

The Head of Risk & 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. 3 of 2008, on "Corporate Governance for Finance Companies" issued by the Central Bank of Sri Lanka and the Rules on Corporate Governance as per section 7.10 of Listing Rules issued by the Colombo Stock Exchange. The composition and the scope of work of the Committee 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 six meetings during the year under review. Chief Executive Officer, Chief Internal Auditor, Head of 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 which mainly included activities under its terms of reference were regularly reported to the Board of Directors. The minutes of the committee meetings were also tabled at the Board meetings enabling all Board members to have access to the same.

The attendance of members is listed on page 48 of the Annual Report.

Roles and Responsibilities of the Committee

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

Financial Reporting System

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

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

Internal Audit

The Internal audit function is doing an Internal audit Department. 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 2020, 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
11 September 2020

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.

The internal audit function is doing an Internal Audit Department and they review the Company's compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis. 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;

Anil Tittawella
Chairman

Prakash Schaffter
Non-Executive Director

Minette Perera
Chairperson – Audit Committee

11 September 2020

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Company are responsible for the preparation and presentation of the Company's Financial Statements to the shareholders in accordance with the relevant provisions of the Companies Act No.07 of 2007 and other statutes which are applicable in the preparation of financial statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Auditors' Report in pages 68 to 71 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 2020; 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 2020.

In preparing the financial statements of the Company for the year ended 31st March 2020, 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
11 September 2020

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 2020. The details contained in this Report provide the relevant information as required by the Companies Act No.7 of 2007 and Finance Companies (Corporate Governance) Direction No. 3 of 2008.

Principal Activities

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

Review of Operations

A review of the operations of Orient Finance PLC during the financial year 2019/20 is contained in the Chairman's Message, CEO's Review and Management Discussion and Analysis (pages 9, 7 and 23). These reports form an integral part of this Annual Report.

Stated Capital

The Company's Stated Capital stood at Rs.2,431,879,039.00 as at 31st March 2020.

Reserves

The Company's retained earnings and other reserves as at 31st March 2020 amounting to Rs.278,330,570.00 Movements of reserves and the break up are given in Statement of Changes in Equity on page 75.

Issue of Shares for Preference Shares

Conversion of preference shares to ordinary voting shares

The Company has converted preference shares into 23,993,778/- ordinary shares at the ratio of six (06) ordinary shares for every one (01) preference share at a value of Rs.19.59 per ordinary share. Additionally 3,905,481 fully paid shares have been issued in respect of preference share dividend amounting to Rs.76,508,372.79/- calculated at Rs.19.59 per ordinary share. The issued ordinary shares have been listed in the Colombo Stock Exchange (CSE) on 11th September 2019.

Right issue of shares

The Company has issued 35,183,526 ordinary voting shares in the proportion of one (1) new ordinary voting shares for every five (5) ordinary voting shares in the capital of the company by way of a Rights Issue amounting to Rs.506,642,774.40/- to the holders of the issued ordinary voting shares of the Company at a price of Rs.14.40 per share. The issued ordinary shares have been listed in the Colombo Stock Exchange (CSE) on 28th February 2020.

Shareholding and Share Information

The Company had 1,056 registered ordinary shareholders as at 31st March 2020. The distribution of shareholding and major shareholders are given on pages 130 to 132.

Debenture Holding and Debenture Information

There was no debentures of the Company as at 31 March 2020 and amounted to Rs.1,000,000,000/- consisting of 10,000,000 debentures at Rs.100/- each was fully settled on 26th December 2019.

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 11), and Management Discussion and Analysis (pages 23 to 32).

Financial Statements

The Audited Financial Statements of the Company for the year ended 31st March 2020 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 two Directors of the Company, are given on pages 68 to 124 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 77 to 93.

Income, Profit & Appropriations

Provided below is a summary of the financial results of the Company's operations during the year ended 31st March 2020.

	2020 (Rs. Mn)	2019 (Rs. Mn)
Income	3,285.23	3,493.41
Profit /(Loss) Before Taxation	(425.68)	31.88
Less: Income Tax (Expense)/ Reversal	(11.65)	(2.84)
Profit /(Loss) for the year	(437.34)	29.03
Balance brought forward from the previous year	339.14	551.58
Less: Net impact on Adoption of SLFRS 09	-	309.04
Loss for the period of 2019/2020	(437.34)	
Transferred to Statutory Reserve Fund	(4.60)	(1.20)
Dividend Paid	-	-
Transfer from Other Comprehensive Income	(.921)	2.27
Write off of share premium generated through share conversion		
	(70.14)	-
Balance carried forward	(173.87)	339.14
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 46 to the financial statements.

Dividends

The Board of Directors does not recommend a dividend to the shareholders for the financial year ended 31st March 2020.

Corporate Donations

During the year under review, the Company has made donations amounting to Rs.42,250.00 (2019 – Rs.250,000).

Taxation

The Company is liable for income tax at the rate of 24%.

Statutory Payments

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

Property, Plant & Equipment

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

Outstanding Litigation

In the opinion of the Directors and the Company's lawyers, there is no pending litigation against the Company as at 31st March 2020.

Going Concern

In determining the basis of preparing the financial statements for the year ended 31st March, 2020, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Company and the appropriateness of the use of the going concern basis. As at reporting date, the Company evaluated the resilience of its business considering a wide range of factors under multiple scenarios, relating to expected revenue streams, cost management, profitability, the ability to defer non-essential capital expenditure, debt repayment schedules, if any, cash reserves and potential sources of financing facilities, if required, and the ability to continue providing service to ensure business continue as least impacted as possible.

Having presented the outlook for the Company's business to the Board of Directors and after due consideration of the range and likelihood of outcomes, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

In determining significant management judgments, estimates and assumptions the impact of the COVID -19 pandemic has been considered as of reporting date and specific considerations have been disclosed under the relevant notes.

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

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

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 Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee, Nomination Committee and Credit Committee to ensure oversight, control over certain affairs of the Company conforming to corporate governance standards of the Central Bank of Sri Lanka by adopting the best practices.

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

The following were the Directors of the Company during the year

Dr. D.C. Jayasuriya PC *	- Chairman - Independent - Non-Executive Director, Non-Independent
Mr. Prakash Schaffter	- Non-Executive Director
Mr. Anil Tittawella	- Independent - Non-Executive Director
Ms. Minette. D. A. Perera	- Independent - Non-Executive Director
Ms. Indrani Goonesekera	- Independent - Non-Executive Director
Mr. Ramesh Schaffter	- Non-Executive Director, Non-Independent
Mr. Sriyan Cooray	- Independent - Non-Executive Director (Appointed w.e.f. 03rd May 2019)
Mr. Darshana Joseph Ratnayake	- Independent - Non-Executive Director (Appointed w.e.f. 25th November 2019)
Mr. K. M. M. Jabir	- Executive Director (Appointed as the Chief Executive Officer w.e.f 01 November 2019 and subsequently appointed as an Executive Director w.e.f 25 November 2019)

** Dr. D.C. Jayasuriya P.C. resigned from his position as Director and Chairman with effect from 23rd June 2020.*

The profiles of the Directors are given on pages 14 to 19 of the Annual Report.

Interest Register

In terms of the Companies Act No.7 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. 7 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. D.C. Jayasuriya PC	Nil
Mr. Prakash Schaffter	10
Mr. K. M. A. T. B. Tittawella	Nil
Ms. Minette D. A. Perera	Nil
Ms. Indrani Goonesekera	Nil
Mr. Sriyan Cooray	Nil
Mr. Darshana Joseph Ratnayake	Nil
Mr. K. M. M. Jabir	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 2020.

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. 7 of 2007. The statement of Directors' Responsibilities given on page 59 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 42 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 Bartleet 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 2020 was 509 (31 March 2019 – 508)

Auditors

The Company's Auditors during the period under review were, M/s BDO Partners, (Chartered Accountants). The Board has authorised the payment of Rs.1,797,950.00 as Audit Fees for the year 2019/20. (The Auditors were paid Rs.1,494,250.00 as Audit Fees for the year 2018/19).

The retiring Auditors, M/s BDO Partners, have expressed their willingness to continue in office for the financial year 2020/21. 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 30 November 2020.

Annual General Meeting

The Annual General Meeting will be held on 30 November 2020. The notice of the meeting relating to the thirty seventh Annual General Meeting is given on page 138.

Acknowledgement of the Content of the Report

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

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

Anil Tittawella
Chairman
11 September 2020

P. A. Schaffter
Director
11 September 2020

KHL Corporate Services Limited
Company Secretaries
11 September 2020

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL SYSTEM

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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 2020.

Management's responsibility

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

Our responsibilities and compliance with SLSAE 3050

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

Summary of work performed

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

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

1. We had an initial meeting with the Head of Finance and other relevant key management of the Company and discussed the Company's approach in assessing, designing and effectiveness of the Company's internal controls over financial reporting.

2. Requested all correspondence related to Directors' Assessment on design and effectiveness of the Internal Control of the Company and performed further procedures including the following:

   2.1 We independently reviewed the documentation of internal controls related to the key processes provided by the management and confirmed the completeness of such documentation by performing walkthroughs and test of controls.

   2.2 We reviewed the findings by Internal Auditors related to internal control weaknesses including suggestions for improvements.

   2.3 Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees such as the Audit Committee.

3. Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

4. Considered whether the Directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review, whether it is regularly reviewed by the Board of Directors. Further, we considered whether the explanations given in the statement are consistent with our understanding.

5. Reviewed the other documentation prepared by or for the directors to support their Statement on Internal Control.

6. Obtained written representations from Directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

Our conclusion

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

Bos Palmes

CHARTERED ACCOUNTANTS
Colombo 02

14th September 2020
VR/cc

SOLID GROUND FOR A STRONG FUTURE

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

BDO

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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 2020, 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 77 to 124.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31st March 2020, 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 judgment, were of the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter 1: Impairment of loans and receivables
The company's gross loans and receivables amount to Rs.14.66 billion as at 31st March, 2020 (2019: Rs.15.35 billion) and impairment allowance for the year amounts to Rs.1,015 million at 31st March, 2020 (2019: Rs.569 million).

The company measures the impairment of loans and receivables using expected credit loss ("ECL") model as per SLFRS 9: Financial Instruments ("SLFRS 9"). The application of this standard requires management to exercise significant judgments in the determination of expected credit losses, including those relating to loans and receivables. Management applies significant judgment in the determination of estimated future cash flows, probabilities of default and forward-looking economic expectations.

Given the outbreak of COVID-19 in the last quarter of the financial year and the resulting uncertainty as to the economic and financial market impact, significant judgment was required to be exercised by the company in calculating the ECL. Specifically, this includes judgments around the impact of COVID-19 on forward looking information, considering potential macroeconomic outcomes that may impact future expected credit losses.

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

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

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

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

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

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

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

- Note 9 – Impairment charges for loans and receivables to customers
- Note 18 – Loans and receivables to customers

How our audit addressed the key audit matter

Our procedures included the following:

- We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation.
- We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of SLFRS 9: Financial Instruments.
- We test-checked the underlying calculations and data.

In addition to the above, we performed the following specific procedures:

For loans and receivables collectively assessed for impairment:

- We assessed the completeness of the underlying information in loans and receivables used in the impairment calculations by agreeing details to the company's source documents and information in IT systems.
- We also considered the reasonableness of macro-economic and other factors used by management by comparing them with publicly available data and information sources. This included assessing and challenging the reasonableness of macroeconomic scenarios considered and certain forward-looking economic data developed by the Company, with particular focus on the impact of COVID-19 in light of certain available information and consensus views.

For loans and receivables individually assessed for impairment:

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

We also assessed the adequacy of the related financial statement disclosures.

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 2020 and the extent of judgment involved due to complexity of assessment and the impact of the COVID 19 outbreak.

Goodwill and brand value were recognised in the financial statements, upon the Company (former Bartleet Finance PLC) acquiring and amalgamating 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. The company determines the recoverable amount of goodwill and brand value based on the value in use method, by using the discounted cash flow model. In carrying out its assessment, for the purposes of cash flow forecasts, the company projects future cash flows based on approved budgets. These cash flows are discounted using applicable discount rates.

Based on the impairment test performed for goodwill and brand value as explained above, the company concluded that both goodwill and brand value have not been impaired as at 31st March 2020.

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

How our audit addressed the key audit matter

We have tested management's assessment of the impairment of goodwill and brand value as at 31st March 2020.

Our work included the following procedures:

- We evaluated the management competence and level of skills required in developing assumptions, gathering accurate data and performing assessments.
- We assessed the validity of management's use of appropriate methods in assessing the impairment for goodwill and brand value.

INDEPENDENT AUDITORS' REPORT

- We challenged the key inputs and assumptions the company has used in assessing the impairment, considering the COVID 19 outbreak and its impact on macro-economic factors.
- 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 identified above when it becomes available to us 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 whether it appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain an audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of the 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.

CHARTERED ACCOUNTANTS
Colombo

14th September, 2020
VR/dm

INCOME STATEMENT

For the Year Ended 31st March	Note	2020 Rs.	2019 Rs.
Income	4	3,285,237,560	3,493,414,220
Interest income	5	3,052,677,796	3,239,037,768
Interest expenses	6	(1,799,707,844)	(1,949,919,167)
Net interest income		1,252,969,952	1,289,118,601
Fee and commission income	7	162,802,070	179,130,466
Other operating income	8	69,757,694	75,245,986
Total operating income		1,485,529,716	1,543,495,053
Impairment charges for loans and receivables to customers	9	(1,014,789,196)	(569,295,204)
Net operating income		470,740,520	974,199,849
Operating expenses			
Personnel expenses	10	(427,044,060)	(387,926,335)
Depreciation and amortisation		(63,584,937)	(29,028,616)
Other operating expenses	11	(405,800,088)	(462,276,999)
Operating profit/(loss) before Value Added Tax and NBT		(425,688,565)	94,967,899
Value Added Tax and NBT on financial services		(11,658,516)	(63,092,637)
Profit /(loss) before income tax		(437,347,081)	31,875,262
Income tax expense	12	-	(2,846,204)
Profit/(loss) for the year		(437,347,081)	29,029,058
Basic earnings per share (Rs.)	13.1	(3.06)	0.21
Dividend per share (Rs.)	14	-	-

Figures in brackets indicate deductions.

The accounting policies and notes on pages 77 to 124 form an integral part of these financial statements.

Colombo
14 September 2020

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the Year Ended 31st March	Note	2020 Rs.	2019 Rs.
Profit/(loss) for the year		(437,347,081)	29,029,058
Other comprehensive income/(expenses)			
Other comprehensive income/(expenses) to be re-classified to profit or loss in subsequent periods			
Change in fair value of financial assets at fair value through other comprehenisve income		(1,069,031)	855,067
Revaluation of Land and Building	25	-	32,032,082
Deferred tax effect on above	22	-	(3,203,208)
		(1,069,031)	29,683,941
Other comprehensive income/(expenses) not to be re-classified to profit or loss in subsequent periods			
Actuarial gain/(loss) on retirement benefit obligations	35.1	(719,951)	1,775,361
Deferred tax effect on above	22	(201,586)	497,101
		(921,537)	2,272,462
Other comprehensive income/(expenses) for the year net of tax		(1,990,568)	31,956,403
Total comprehensive income/(expenses) for the year net of tax		(439,337,649)	60,985,461

Figures in brackets indicate deductions.
The accounting policies and notes on pages 77 to 124 form an integral part of these financial statements.

Colombo
14 September 2020

STATEMENT OF FINANCIAL POSITION

As at 31st March	Note	2020 Rs.	2019 Rs.
ASSETS			
Cash and cash equivalents	16	70,618,412	181,741,883
Financial assets - fair value through other comprehensive income	17	934,478,086	936,939,610
Loans and receivables to customers	18	12,339,298,071	14,033,759,660
Investments with banks and other financial institutions	19	82,492,401	286,253,330
Other assets	20	279,432,153	252,392,826
Real estate stock	21	16,772,709	16,772,709
Deferred tax asset	22	370,887,353	371,088,939
Goodwill	23.2	564,545,746	564,545,746
Brand value	23.1	235,880,000	235,880,000
Intangible assets	24	805,470	1,505,430
Property, plant and equipment	25	75,180,798	78,163,766
Right of use assets	26	128,894,557	-
Investment properties	27	538,250,002	400,600,002
Total assets		15,637,535,758	17,359,643,901
LIABILITIES			
Due to banks - bank overdrafts	16	265,514,298	610,624,135
Deposits from customers	28	9,020,632,231	10,479,531,283
Interest bearing borrowings	29	3,038,038,298	2,091,868,611
Term debts	30	-	1,012,265,985
Redeemable preference shares	31	-	512,216,926
Lease liability - Right of use assets	32	117,941,195	-
Current tax payable	33	-	-
Other liabilities	34	442,612,869	436,331,176
Retirement benefit obligations	35	42,587,258	50,305,976
Total liabilities		12,927,326,149	15,193,144,092
EQUITY			
Stated capital	36	2,431,879,039	1,378,689,779
Statutory reserve fund	37	311,080,742	306,478,542
Revaluation reserve	38	141,120,773	141,120,773
Fair value reserve	39	-	1,069,031
Retained earnings/(accumulated losses)		(173,870,945)	339,141,684
Total equity		2,710,209,609	2,166,499,809
Total equity and liabilities		15,637,535,758	17,359,643,901
Net assets per share		12.83	14.64

Figures in brackets indicate deductions.
The accounting policies and notes on pages 77 to 124 form an integral part of these financial statements.
The financial statements are in compliance with the requirements of the Companies Act No.07 of 2007.

Sanjeeva Jayasinghe
Head of Finance

K. M. M. Jabir
Chief Executive Officer/Director

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.

Prakash Schaffter
Director

Ramesh Schaffter
Director

Colombo
14 September 2020
VR/dm

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2020	Stated capital Rs.	Statutory reserve fund Rs.	Revaluation reserve Rs.	Fair value reserve Rs.	Retained earnings/ (accumulated losses) Rs.	Total Rs.
Balance as at 01st April 2018	1,378,689,779	305,274,930	112,291,899	213,964	309,043,776	2,105,514,348
Profit for the year	-	-	-	-	29,029,058	29,029,058
Other comprehensive income net of taxes	-	-	-	855,067	2,272,462	3,127,529
Surplus on revaluation of land	-	-	32,032,082	-	-	32,032,082
Deferred tax effect on revaluation	-	-	(3,203,208)	-	-	(3,203,208)
Transfer to statutory reserve	-	1,203,612	-	-	(1,203,612)	-
Balance as at 31st March 2019	1,378,689,779	306,478,542	141,120,773	1,069,031	339,141,684	2,166,499,809
Loss for the year	-	-	-	-	(437,347,081)	(437,347,081)
Other comprehensive income (expense) net of taxes	-	-	-	(1,069,031)	(921,537)	(1,990,568)
Transfer to statutory reserve (Note 37)	-	4,602,200	-	-	(4,602,200)	-
Transactions with Equity holders						
Conversion of preference share capital to ordinary shares	470,038,111	-	-	-	-	470,038,111
Conversion of accrued preference share interest to ordinary shares	76,508,375	-	-	-	-	76,508,375
Write off of share premium generated through share conversion	-	-	-	-	(70,141,811)	(70,141,811)
Right issue of shares	506,642,774	-	-	-	-	506,642,774
Balance as at 31st March 2020	2,431,879,039	311,080,742	141,120,773	-	(173,870,945)	2,710,209,609

Figures in brackets indicate deductions.
The accounting policies and notes on pages 77 to 124 form an integral part of these financial statements.

Colombo
14 September 2020

STATEMENT OF CASH FLOWS

For the year ended 31st March	2020 Rs.	2019 Rs.
Cash flows from operating activities		
Profit/(loss) before income tax	(437,347,081)	31,875,262
Adjustment for:		
Depreciation and amortisation	63,584,937	29,028,616
Profit on disposal of property, plant and equipment	(260,675)	(52,313)
Impairment charges for loans and receivables to customers	1,014,789,196	569,295,204
Finance expenses	1,799,707,844	1,949,919,167
Investment income	(114,577,128)	(156,669,506)
Provision for gratuity	10,217,158	10,732,336
Operating profit before working capital changes	2,336,114,251	2,434,128,766
Change in loans and receivables to customers	542,022,390	(435,576,803)
Change in other assets	(27,039,327)	(42,289,097)
Change in deposits from customers	(1,421,815,124)	(1,329,754,438)
Change in other liabilities	6,281,696	(26,653,296)
	1,435,563,886	599,855,132
Rent paid	(59,165,572)	-
Interest paid	(1,295,885,791)	(1,850,685,994)
Income tax paid	-	(12,840,738)
Gratuity paid	(18,655,827)	(10,524,884)
Net cash from/(used in) operating activities	61,856,696	(1,274,196,484)
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(30,740,368)	(59,547,042)
Proceeds from sale of property, plant and equipment	282,706	-
Proceeds from sale of real estate	-	7,006
Net change in financial assets - FVTOCI	1,392,493	9,474,901
Net change in investments with bank and other financial institutions	203,380,071	468,220,927
Investment income received	114,957,986	156,669,506
Net cash generated from investing activities	289,272,888	574,825,298
Cash flows from financing activities		
Interest bearing borrowings obtained	7,283,733,569	4,578,904,726
Repayment of interest bearing borrowings	(6,359,055,739)	(4,275,006,688)
Interest paid on borrowings	(398,979,517)	-
Interest paid on debentures	(90,195,165)	(90,500,000)
Redemption of preference shares	(59,289,140)	-
Redemption of debentures	(1,000,000,000)	-
Right issue of shares	506,642,774	-
Net cash generated from/(used in) financing activities	(117,143,218)	213,398,038
Net change in cash and cash equivalents	233,986,366	(485,973,148)
Cash and cash equivalents at the beginning of the year	(428,882,252)	57,090,896
Cash and cash equivalents at the end of the year (Note A)	(194,895,886)	(428,882,252)
Analysis of cash and cash equivalents at the end of the year		Note A
Cash in hand	62,617,606	162,415,514
Cash at bank	8,000,806	19,326,369
Bank overdrafts - secured	(265,514,298)	(610,624,135)
	(194,895,886)	(428,882,252)

The accounting policies and notes on pages 77 to 124 form an integral part of these financial statements.
Figures in brackets indicate deductions.

Colombo
14 September 2020

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. The company is approved under Finance Lease Act, No. 56 of 2000 and Finance Business Act No. 42 of 2011 and listed in the Colombo Stock Exchange.

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

1.2 Principal activities and nature of operations

The principal activities of the company are comprised of finance leasing, hire purchasing, debt factoring, mobilisation of deposits and Gold 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 takes the responsibility for the preparation and presentation of the financial statements of the company as per the provisions of the Companies Act No.07 of 2007 and the requirements of the Sri Lanka Accounting Standards comprising LKAS and SLFRS.

1.5 Date of authorisation

The financial statements of the company for the year ended 31st March 2020 were authorised for issue by the board of directors on 14 September 2020.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The statement of financial position as at 31 March 2020 income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, and the summary of significant accounting policies and other explanatory information to the financial statements ("financial statements") of the company for the year then ended, comply with the Sri Lanka Accounting Standards (SLFRSs /LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka") and the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Basis of measurement

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

Item	Basis of measurement
Financial assets measured at fair value through other comprehensive income	Fair value
Retirement benefit obligations	Liability is recognised as the present value of the retirement benefit obligations plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.
Investment property: Land and Buildings	Fair value

2.3 Functional and presentation currency

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

2.4 Presentation of financial statements

The assets and liabilities of the company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. Maturity analysis is presented in Note 41 to the financial statements.

2.5 Materiality and aggregation

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

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

2.6 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter-period comparability. The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The company has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on "Leases" (SLFRS 16). Therefore, the comparative information is reported under Sri Lanka Accounting Standard – LKAS 17 on "Leases" (LKAS 17) and is not comparable with the information presented for 2018/2019.

2.7 Going concern

In determining the basis of preparing the financial statements for the year ended 31 March 2020, based on available information, the management has assessed the existing and anticipated effects of COVID–19 on the company and the appropriateness of the use of the going concern basis. As at reporting date, the company evaluated the resilience of its business considering a wide range of factors under multiple scenarios, relating to expected revenue streams, cost management, profitability, the ability to defer non-essential capital expenditure, debt repayment schedules, if any, cash reserves and potential sources of financing facilities, if required, and the ability to continue providing service to ensure business continues as least impacted as possible.

Having presented the outlook for the company's business to the Board of Directors and after due consideration of the range and likelihood of outcomes, the Directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

In determining significant management judgments, estimates and assumptions the impact of the COVID -19 pandemic has been considered as of reporting date and specific considerations have been disclosed under the relevant notes.

2.8 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (LKAS and SLFRS) requires management to make judgments, 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 judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements of the company are as follows:

2.8.1 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in 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, judgment is required to establish fair values.

2.8.2 Classification of financial assets and liabilities

As per SLFRS 9, the significant accounting policies of the company provide scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria:

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

2.8.3 Impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are based on the assumptions about a number of factors and the actual results may differ, resulting in future changes to the allowance.

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

2.8.4 Impairment of goodwill and brand

Impairment exists when the carrying value of goodwill and brand exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The company has adopted value in use (VIU) method for impairment assessment and VIU calculation is based on a discounted cash flow (DCF) 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 performance of the company. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount of goodwill and brand are disclosed and further explained in Note 23 to the financial statements.

2.8.5 Defined benefit obligations

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.

2.8.6 Useful economic lives of property, plant and equipment

Useful economic lives of property, plant and equipment are estimated as disclosed in the Note 3.4.4 to the financial statements.

2.8.7 SLFRS 16 – Leases (Applicable from April 01, 2019)

2.8.7.1 Determination of the lease term for lease contracts with renewal and termination options (company as a lessee)

The company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The company has several lease contracts that include extension and termination options. The company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2.8.7.2 Estimating the incremental borrowing rate

As the company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the company "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The company estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

2.9 Changes in Accounting Policies

The company has consistently applied the accounting policies to all periods presented in these financial statements, except for the changes arising out of transition to SLFRS 16 as set out below:

2.10 New and amended standards and interpretations

In these financial statements, the company has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after January 1, 2019, for the first time. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.10.1 Sri Lanka Accounting Standard SLFRS 16 – "Leases"

Sri Lanka Accounting Standard SLFRS 16 – "Leases" (SLFRS 16) became effective for annual periods beginning on or after 01st January 2019. SLFRS 16 supersedes LKAS 17 "Leases", IFRIC interpretation 4 - "Determining whether an Arrangement contains a Lease, SIC - 15 "Operating Leases - Incentives" and SIC - 27 "Evaluating the Substance of Transactions involved in the legal form of a Lease". This standard which replaced Sri Lanka Accounting Standard LKAS 17 – "Leases" (LKAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17 where by lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact on leases where the company is the lessor.

The company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application as 01st April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application. The company elected to use the transitional practical expedient to not reassess whether a contract is or contains a lease at 01st April 2019. Instead, the company applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

The company recognised right-of-use of assets and lease liabilities for those leases previously classified as operating leases. The right-of-use of assets for leases was recognised at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Based on the above, the financial statement impact of adopting SLFRS 16 as at 01st April 2019 are summarised below:

	Rs.
Right-of-use assets recognised and presented in the statement of financial position as "Right-of-use-of assets"	158 Mn
Lease liabilities recognised	158 Mn

The adoption of SLFRS 16 had no impact on the company's retained earnings. The details of right-of-use assets are given in Note 26 to the financial statements.

2.10.2 International Financial Reporting Interpretation IFRIC 23 – "Uncertainty over income tax treatments"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The company applies significant judgment in identifying uncertainties over income tax treatments. Since the company operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the company considered whether it has any uncertain tax positions and the company determined that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have a significant impact on the financial statements of the company.

2.11 Amendments to Sri Lanka Accounting Standards issued but not yet effective

Several amendments to Sri Lanka Accounting Standards (SLFRS/LKAS) are effective for the annual financial period beginning on or after 01st January 2020, and earlier application is permitted. However, the company has not earlier adopted the following amendments to SLFRS/LKAS in preparing these financial statements as they are not expected to have a significant impact on the company's financial statements.

2.11.1 Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The company shall apply those amendments prospectively for annual financial period beginning on or after 01 January 2020.

2.11.2 Amendments to the conceptual framework for financial reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions as an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current SLFRS/LKAS. However, if the company relies on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the SLFRS/LKAS, it will need to apply the revised framework from 01st April 2020. The company will need to consider whether those accounting policies are still appropriate under the revised framework.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments – Initial recognition, classification and subsequent measurement

3.1.1 Date of recognition

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

3.1.2 Initial measurement of financial instruments

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

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

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

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

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

3.1.2.1 "Day 1" profit or loss

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

3.1.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at one of the following:

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

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 Business model assessment

The company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by-instrument basis because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the company's original expectations, the company does not change the classification

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of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the company's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money.

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

3.1.3.3 Financial assets measured at amortised cost

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

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

Financial assets measured at amortised cost are given in Notes 3.1.3.3.1 to 3.1.3.3.4 below.

3.1.3.3.1 Loans and advances to customers

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

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

3.1.3.3.2 Investment in reverse repurchase agreement against the treasury bills and bonds

When the company purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (reverse repo), the agreement is accounted for as a financial asset in the SOFP reflecting the transaction's economic substance as a loan granted by the company. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest income/receivable being recognised as interest income in profit or loss.

Details of "Investment in reverse repurchase agreement against the treasury bills and bond" are given in Note 17.

3.1.3.3.3 Cash and cash equivalents

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

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

3.1.3.3.4 Investments with banks and other financial institutions

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

3.1.3.4 Financial assets measured at FVOCI

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

3.1.3.4.1 Debt instruments measured at FVOCI

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

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

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

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

3.1.3.4.2 Equity instruments designated at FVOCI

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

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

3.1.4 Classification and subsequent measurement of financial liabilities

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

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

The subsequent measurement of financial liabilities depends on their classification.

3.1.4.1 Financial liabilities at fair value through profit or loss

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

3.1.4.2 Financial liabilities at amortised cost

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

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

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses are also recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.1.5 Reclassification of financial assets and liabilities

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

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

3.1.5.1 Measurement of reclassification of financial assets

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

- To Fair value through other comprehensive income

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

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

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

- To Fair value through profit or loss

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

  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust

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fair value on the reclassification date. The adjusted amount becomes the amortised cost.

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

3.1.5.1.3 Reclassification of Financial Instruments at "Amortised Cost"

- To Fair value through other comprehensive income

  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- To Fair value through profit or loss

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

3.1.6 De-recognition of financial assets and financial liabilities

3.1.6.1 Financial assets

The company de-recognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all risks and rewards of ownership nor retains control of the financial asset.

3.1.6.2 Financial liabilities

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

3.1.7 Modification of financial assets and financial liabilities

3.1.7.1 Financial assets

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

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

3.1.7.2 Financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

3.1.8 Offsetting of financial instruments

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

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

3.1.9 Amortised cost and gross carrying amount

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

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

3.1.10 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 50.

3.1.11 Identification and measurement of impairment of financial assets

3.1.11.1 Overview of the ECL principles

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

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

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

In response to COVID-19, the company undertook a review of its loan portfolios and the related ECL. The review considered the macroeconomic outlook, client and customer credit quality, the type of collateral held, exposure at default and the effect of payment deferral options as at the reporting date. While certain model inputs including forward-looking information were revised, the ECL models, SICR thresholds, and definitions of default remain consistent with prior periods.

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

3.1.11.2 Significant increase in credit risk

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

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

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

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

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

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

3.1.11.3 Definition of default and credit impaired assets

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

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

In addition, the company classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is in "default".

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

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3.1.11.4 Movement between the stages

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

3.1.11.5 Grouping financial assets measured on collective basis

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

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

3.1.11.6 The calculation of Expected Credit Loss Principle (ECL)

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

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

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

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

Forward-looking information

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

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

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

Exchange rate

At the reporting date, the company adopted an approach recognising that COVID-19 is the key driver of the macroeconomic outlook at the reporting date.

3.1.12 Write-off of loans and advances

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

3.2 Fair value measurement

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

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

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

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

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

Level 1

When available, the company measures fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

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

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

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

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

Level 3

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

3.3 Inventories

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

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

3.4 Property, plant and equipment

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

3.4.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be reliably measured.

3.4.2 Measurement

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

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

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

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

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

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

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

3.4.3 Subsequent expenditure

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

3.4.4 Depreciation

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

The estimated useful lives are as follows:

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

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

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

3.5 Investment properties

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

3.5.1 Basis of recognition

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

3.5.2 Measurement

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

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

3.5.3 Derecognition

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

Property are recognised in the income statement in the year of retirement or disposal.

3.6 Leases

3.6.1 Application as per SLFRS 16 (Applicable from April 01, 2019)

3.6.1.1 Right-Of-Use Assets – Company as a lessee

a) Basis of recognition

The company applies Sri Lanka Accounting Standard SLFRS 16 "Leases" (SLFRS 16) in accounting for all leasehold rights except for short term leases, which are held for use in the provision for services.

b) Basis of measurement

The company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

c) Depreciation

Right-of-use assets are depreciated over the lease term of the assets as there is no reasonable certainty that the company will obtain the ownership of such assets by the end of the lease term.

3.6.1.2 Lease liability

At the commencement date of the lease, the company recognises lease liabilities, measured at present value of lease payments to be made over the lease term. The present value of lease commitments as at 01st April 2019 has been calculated using the weighted average incremental borrowing rate of 14.51%. The company applied the modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and operating lease liabilities.

Details of "Right-of-use asset" and "Lease liability" are given in Notes 26 and 32 respectively.

3.6.1.3 Operating leases – Company as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The company recognises lease payments from operating leases as income on a straight-line basis. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.7 Intangible assets

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

3.7.1 Intangible assets with finite lives and amortisation

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

3.7.1.1 Computer software

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

3.7.2 Intangible assets with indefinite lives and amortisation

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

3.7.2.1 Brand value

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

3.7.3 Derecognition of intangible assets

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

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

3.8 Impairment of non-financial assets

3.8.1 Recognition

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

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

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

3.8.2 Calculation of recoverable amount

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

3.8.3 Reversal of impairment

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Deposits due to customers

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

3.10 Other liabilities

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

3.11 Employee benefits

3.11.1 Defined contribution plans

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

3.11.1.1 Employees' Provident Fund (EPF)

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

3.11.1.2 Employees' Trust Fund (ETF)

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

3.11.2 Defined benefit plans

3.11.2.1 Retirement benefit obligations

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

The calculation is performed by a qualified actuary using a "Projected Unit Credit" method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used. The assumptions based on which the results of actuarial valuation was determined are included in the Note 35 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.

3.11.3 Short term employee benefits

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

3.12 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.

3.13 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.

3.14 Events occurring after the reporting date

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in the financial statements, where necessary.

3.15 Income statement

3.15.1 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.

3.15.1.1 Interest income and interest expense

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

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

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

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

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

Effective Interest Rate (EIR)

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

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

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

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

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

3.15.1.2 Dividend income

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

3.15.1.3 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.

3.15.1.4 Interest on overdue rentals

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

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

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

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

3.15.1.6 Recovery of bad and doubtful debts written off

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

3.15.2 Expenditure

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

Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and renewals are charged to revenue in the year in which the expenditure is incurred.

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

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

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

3.15.2.1 Borrowing costs

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

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

3.16 Taxes

3.16.1 Income tax expense

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

Current taxes

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

Deferred tax

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

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

3.16.2 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.

3.16.3 Crop Insurance Levy (CIL)

As per the provisions of Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.17 Earnings per share

The financial statements present basic earnings per share (EPS) for its ordinary shareholders. The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

3.18 Cash flow statement

The cash flow statement has been prepared using the "indirect method". Interest paid is 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.

3.19 Regulatory provisions

3.19.1 Deposit insurance scheme

In terms of the Finance Companies Direction No. 2 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. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 01st 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.

3.20 Reserves

3.20.1 Statutory reserve fund

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

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

3.20.2 Fair value / Available for sale reserve

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

3.21 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.

NOTES TO THE FINANCIAL STATEMENTS

4. INCOME

For the year ended 31st March	2020 Rs.	2019 Rs.
Interest income (Note 5)	3,052,677,796	3,239,037,768
Fee and commission income (Note 7)	162,802,070	179,130,466
Other operating income (Note 8)	69,757,694	75,245,986
	3,285,237,560	3,493,414,220

5. INTEREST INCOME

For the year ended 31st March	2020 Rs.	2019 Rs.
Finance lease	2,252,834,035	2,354,432,212
Hire purchase	2,280,721	24,113,591
Factoring	51,007,077	112,131,923
Loans	297,775,883	444,386,673
Gold loans	334,202,952	147,303,863
Interest income on investments	114,577,128	156,669,506
	3,052,677,796	3,239,037,768

6. INTEREST EXPENSES

For the year ended 31st March	2020 Rs.	2019 Rs.
Interest expense on		
Borrowings	355,005,867	245,760,664
Customer deposits	1,258,801,863	1,513,886,827
Debentures	77,929,180	104,504,918
Preference shares	23,476,889	56,006,941
Negotiable instruments	14,769,603	-
Bank overdrafts	50,695,905	29,759,817
Interest expense on lease liabilities - Right of use asset	19,028,537	-
	1,799,707,844	1,949,919,167

7. FEE AND COMMISSION INCOME

For the year ended 31st March	2020 Rs.	2019 Rs.
Documentation income - Lease and hire purchases	93,352,818	118,019,752
Administration charges - Factoring	5,335,697	10,613,532
Service charges - Gold loans	-	1,115,207
Insurance commission	64,113,555	49,381,975
	162,802,070	179,130,466

8. OTHER OPERATING INCOME

For the year ended 31st March	2020 Rs.	2019 Rs.
Collections from written off contracts	24,232,575	43,876,642
Profit on disposal of property, plant and equipment	260,675	52,313
Rent income	11,768,093	9,307,904
Fair value gain on investment properties	5,400,000	-
Dividend income	577,920	495,360
Sundry income	27,518,431	21,513,767
	69,757,694	75,245,986

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

For the year ended 31st March	2020 Rs.	2019 Rs.
Finance lease receivable		
Stage 01	(7,255,165)	(2,618,401)
Stage 02	91,510,229	15,985,953
Stage 03	685,529,226	376,406,700
	769,784,290	389,774,252
Hire purchase receivable		
Stage 01	(130,418)	(955,523)
Stage 02	(344,692)	(3,634,069)
Stage 03	15,205,657	27,185,029
	14,730,547	22,595,437
Other loans receivable		
Stage 01	(12,752,177)	(15,808,645)
Stage 02	(22,643,874)	(28,964,242)
Stage 03	189,550,348	75,424,107
	154,154,297	30,651,220
Factoring receivable		
Stage 01	-	(10,908,113)
Stage 02	-	-
Stage 03	71,286,151	141,936,496
	71,286,151	131,028,383
Gold loans receivable		
Stage 01	-	(4,754,088)
Stage 02	-	-
Stage 03	4,833,911	-
	4,833,911	(4,754,088)
Total Impairment charge	1,014,789,196	569,295,204

NOTES TO THE FINANCIAL STATEMENTS

10. PERSONNEL EXPENSES

For the year ended 31st March		2020 Rs.	2019 Rs.
Salaries and other related expenses		366,817,375	333,288,622
Defined contribution plan	– EPF	40,007,621	35,120,303
	– ETF	10,001,906	8,785,074
Defined benefit plan	– Gratuity	10,217,158	10,732,336
		427,044,060	387,926,335

11. OTHER OPERATING EXPENSES

For the year ended 31st March	2020 Rs.	2019 Rs.
Directors' emoluments	5,900,000	6,380,000
Auditor's remuneration	1,328,250	1,391,500
Professional and legal fees	25,065,219	22,762,159
Charity and donations	42,250	468,900
Administration and establishment expenses	303,983,770	391,007,050
Advertising and business promotional expenses	49,365,318	38,721,891
Other expenses	20,115,281	1,545,499
	405,800,088	462,276,999

12. INCOME TAX EXPENSE

For the year ended 31st March	2020 Rs.	2019 Rs.
Current tax		
On current year profits (Note 12.1)	-	-
Under provision in respect of previous years (Note 33)	-	12,840,738
Deferred tax		
Deferred tax charged to the income statement (Note 22)	-	(9,994,534)
Income tax expense for the year	-	2,846,204

12.1 Reconciliation between accounting profit/(loss) and taxable income

For the year ended 31st March	2020 Rs.	2019 Rs.
Profit/(loss) before income tax expense	(437,347,081)	31,875,262
Adjustments on disallowable expenses	3,782,417,496	3,586,221,442
Adjustments on allowable expenses	(2,908,258,218)	(3,249,028,378)
Statutory income	436,812,197	369,068,326
Less: Tax loss claimed (Note 12.2)	(436,812,197)	(369,068,326)
Assessable income	-	-
Less: Utilisation of qualifying payments (Note 12.3)	-	-
Taxable profit for the year	-	-
Effective tax rate	-	-

12. 2 Tax losses

For the year ended 31st March	2020 Rs.	2019 Rs.
Tax losses brought forward	1,514,517,180	1,370,440,955
Tax losses on leasing business during the year	-	513,144,551
Tax losses claimed during the year	(436,812,197)	(369,068,326)
Tax losses carried forward	1,077,704,983	1,514,517,180

12.3 Qualifying payment on investment

For the year ended 31st March	2020 Rs.	2019 Rs.
Consideration paid to acquire former Orient Finance PLC	1,730,906,250	1,730,906,250
Less : Utilised in prior years	(251,965,148)	(251,965,148)
Balance qualifying payment carried forward	1,478,941,102	1,478,941,102

12.4 Current tax

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

13. EARNINGS PER SHARE

13.1 Basic earnings per share

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

For the year ended 31st March	2020 Rs.	2019 Rs. (Rs-stated)
Profit/(loss) attributable to ordinary shareholders (Rs.)	(437,347,081)	29,029,058
Weighted average number of ordinary shares	142,774,184	139,673,350
Earnings per share (Rs.)	(3.06)	0.21
Weighted average number of ordinary shares	142,774,184	139,673,350

13.1 Weighted average number of shares has been computed after taking the impact of conversion of preference shares and the right issue during the year. Also earnings per share of the previous year has been adjusted to that effect as required by the LKAS 33 - Earnings per share.

14. DIVIDEND PER SHARE

The calculation of dividend per share is based on the dividend paid to the ordinary shareholders for the year divided by the ordinary shares outstanding for the year.

For the year ended 31st March	2020 Rs.	2019 Rs.
Dividend paid (Rs)	-	-
Dividend per share (Rs.)	-	-

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL ASSETS AND LIABILITIES

15.1 Classification as at 31 March 2020

	Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) Rs.	Assets at Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Assets			
Cash and cash equivalents	-	70,618,412	70,618,412
Investments in government securities and unquoted shares	934,478,086	-	934,478,086
Loans and receivables to customers	-	12,339,298,071	12,339,298,071
Investments with banks and other financial institutions	-	82,492,401	82,492,401
Total financial assets	934,478,086	12,492,408,884	13,426,886,970

	Financial Liabilities at Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Liabilities		
Bank overdrafts	265,514,298	265,514,298
Deposits from customers	9,020,632,231	9,020,632,231
Interest bearing borrowings	3,038,038,298	3,038,038,298
Total financial liabilities	12,324,184,827	12,324,184,827

15.2 Classification as at 31 March 2019

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

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

16. CASH AND CASH EQUIVALENTS

As at 31st March	2020 Rs.	2019 Rs.
Cash in hand	62,617,606	162,415,514
Cash at bank	8,000,806	19,326,369
	70,618,412	181,741,883
Bank overdrafts	(265,514,298)	(610,624,135)
Cash and cash equivalents for the purpose of cash flow statement	(194,895,886)	(428,882,252)

17. FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31st March	2020 Rs.	2019 Rs.
Investments in government securities (Note 17.1)	934,247,486	936,709,010
Investments in unquoted shares (Note 17.2)	230,600	230,600
	934,478,086	936,939,610

17.1 Investments in government securities

As at 31st March	2020 Rs.	2019 Rs.
Treasury bills	934,247,486	936,709,010
	934,247,486	936,709,010

17.2 Investments in unquoted shares

As at 31st March	2020 Directors' Valuation Rs.	2019 Directors' Valuation Rs.
Finance House Consortium (Private) Limited	200,000	200,000
Credit Information Bureau of Sri Lanka	30,600	30,600
	230,600	230,600

The Directors' valuation of non-quoted securities based on cost of investment less impairment amounts to Rs.230,600/- (2019 - Rs.230,600/-).

NOTES TO THE FINANCIAL STATEMENTS

18. LOANS AND RECEIVABLES TO CUSTOMERS

As at 31st March	2020 Rs.	2019 Rs.
Loans and receivables	18,046,003,601	19,532,570,976
Less: Unearned income	(3,383,288,574)	(4,184,747,333)
Net loans and receivables	14,662,715,027	15,347,823,643
Less: Impairment for expected credit losses (Note 18.1)	(2,323,416,956)	(1,314,063,983)
Net loans and receivables	12,339,298,071	14,033,759,660

18.1 Product-wise analysis of net loans and receivables

18.1.1 Finance lease receivables

As at 31st March	2020 Rs.	2019 Rs.
Gross lease rentals receivable	13,627,166,190	14,816,758,285
Less: Unearned income	(3,221,382,673)	(3,827,859,091)
Net lease rentals receivable	10,405,783,517	10,988,899,194
Less: Impairment for expected credit losses (Note 18.1.6)	(1,452,845,296)	(683,568,519)
Net finance lease receivable	8,952,938,221	10,305,330,675
Lease rentals receivables within one year		
Gross lease rentals receivable within one year	5,078,724,915	4,425,314,793
Less: Unearned income	(1,590,269,853)	(1,889,473,103)
Net lease rentals receivable within one year	3,488,455,062	2,535,841,690
Less: Impairment for expected credit losses	(566,389,483)	(354,768,337)
Net finance lease receivable within one year	2,922,065,579	2,181,073,353
Lease rentals receivables within one to five years		
Gross lease rentals receivable within one to five years	8,521,686,084	10,379,225,317
Less: Unearned income	(1,629,203,439)	(1,937,783,949)
Net lease rentals receivable within one to five years	6,892,482,645	8,441,441,368
Less: Impairment for expected credit losses	(886,455,813)	(328,800,182)
Net finance lease receivable within one to five years	6,006,026,832	8,112,641,186
Lease rentals receivables later than five years		
Gross lease rentals receivable later than five years	26,755,191	12,218,175
Less: Unearned income	(1,909,381)	(602,039)
Net lease rentals receivable later than five years	24,845,810	11,616,136
Less: Impairment for expected credit losses		
Net finance lease receivable later than five years	24,845,810	11,616,136
Total	8,952,938,221	10,305,330,675

18.1.2 Hire purchase receivable

As at 31st March	2020 Rs.	2019 Rs.
Gross hire purchase rentals receivable	44,582,204	71,995,230
Less: Unearned income	(88,854)	(2,252,683)
Net hire purchase rentals receivable	44,493,350	69,742,547
Less: Impairment for expected credit losses (Note 18.1.6)	(27,658,882)	(14,562,665)
Net hire purchase receivable	16,834,468	55,179,882
Hire purchase rentals receivables within one year		
Gross hire purchase rentals receivable within one year	44,582,204	68,105,022
Less: Unearned income	(88,854)	(1,807,223)
Net hire purchase rentals receivable within one year	44,493,350	66,297,799
Less: Impairment for expected credit losses	(27,658,882)	(14,562,664)
Hire purchase rentals receivable within one year	16,834,468	51,735,135
Hire purchase rentals receivables within one to five years		
Gross hire purchase rentals receivable within one to five years	-	3,890,208
Less: Unearned income	-	(445,460)
Net hire purchase rentals receivable within one to five years	-	3,444,748
Less: Impairment for expected credit losses	-	-
Hire purchase rentals receivable within one to five years	-	3,444,748
Total	16,834,468	55,179,883

18.1.3 Other loans receivables

As at 31st March	2020 Rs.	2019 Rs.
Gross other loans rentals receivables	2,059,495,557	2,798,462,639
Less: Unearned income	(161,817,047)	(354,635,559)
Net other loans rentals receivables	1,897,678,510	2,443,827,080
Less: Impairment for expected credit losses (Note 18.1.6)	(486,182,421)	(335,322,505)
Net other loans receivables	1,411,496,089	2,108,504,575
Other loans receivables within one year		
Gross other loans rentals receivable within one year	965,869,373	1,977,580,863
Less: Unearned income	(84,643,160)	(214,609,472)
Net other loans rentals receivable within one year	881,226,213	1,762,971,391
Less: Impairment for expected credit losses	(68,403,447)	(130,412,228)
Net other loans receivables within one year	812,822,766	1,632,559,163
Other loans receivables within one to five years		
Gross other loans rentals receivable within one to five years	1,093,626,183	820,881,776
Less: Unearned income	(77,173,887)	(140,026,087)
Net other loans rentals receivable within one to five years	1,016,452,296	680,855,689
Less: Impairment for expected credit losses	(417,778,973)	(204,910,277)
Net other loans receivables within one to five years	598,673,323	475,945,412
Total	1,411,496,089	2,108,504,575

NOTES TO THE FINANCIAL STATEMENTS

18.1.4 Factoring receivable

As at 31st March	2020 Rs.	2019 Rs.
Factoring receivable	634,124,307	784,769,974
Less: Impairment for expected credit losses (Note 18.1.6)	(351,407,756)	(280,121,605)
Net factoring receivable	282,716,551	504,648,369

18.1.5 Gold Loan receivables

As at 31st March	2020 Rs.	2019 Rs.
Gold Loans receivable	1,680,635,343	1,060,584,848
Less: Impairment for expected credit losses (Note 18.1.6)	(5,322,600)	(488,689)
Net Gold Loans receivable	1,675,312,743	1,060,096,159

18.1 Product-wise analysis of net loans and receivables

	As at 31 March 2020			As at 31 March 2019		
	Gross Receivable Rs.	ECL Allowance Rs.	Net Receivable Rs.	Gross Receivable Rs.	ECL Allowance Rs.	Net Receivable Rs.
Finance lease receivable (Note 18.1.1)						
Stage 01	5,073,548,244	(99,885,266)	4,973,662,978	7,223,195,857	(107,140,432)	7,116,055,425
Stage 02	3,505,042,570	(347,072,669)	3,157,969,901	3,069,473,723	(255,562,440)	2,813,911,283
Stage 03	1,827,192,701	(1,005,887,361)	821,305,340	696,229,614	(320,865,647)	375,363,967
	10,405,783,515	(1,452,845,296)	8,952,938,219	10,988,899,194	(683,568,519)	10,305,330,675
Hire purchase receivable (Note 18.1.2)						
Stage 01	404,660	(5,074)	399,586	15,983,982	(135,493)	15,848,489
Stage 02	948,536	(47,955)	900,581	10,883,719	(392,647)	10,491,072
Stage 03	43,140,155	(27,605,852)	15,534,303	42,874,846	(14,034,525)	28,840,321
	44,493,351	(27,658,881)	16,834,470	69,742,547	(14,562,665)	55,179,882
Other loans receivable (Note 18.1.3)						
Stage 01	989,007,647	(23,710,532)	965,297,115	1,501,716,895	(36,462,709)	1,465,254,186
Stage 02	167,816,951	(28,372,743)	139,444,208	317,381,696	(51,016,617)	266,365,079
Stage 03	740,853,913	(434,099,145)	306,754,768	624,728,489	(247,843,179)	376,885,310
	1,897,678,511	(486,182,420)	1,411,496,091	2,443,827,080	(335,322,505)	2,108,504,575
Factoring receivable (Note 18.1.4)						
Stage 01	147,999,108	(4,222,492)	143,776,616	337,270,775	(4,222,492)	333,048,283
Stage 02	-	-	-	-	-	-
Stage 03	486,125,199	(347,185,264)	138,939,935	447,499,199	(275,899,113)	171,600,086
	634,124,307	(351,407,756)	282,716,551	784,769,974	(280,121,605)	504,648,369

	As at 31 March 2020			As at 31 March 2019		
	Gross Receivable Rs.	ECL Allowance Rs.	Net Receivable Rs.	Gross Receivable Rs.	ECL Allowance Rs.	Net Receivable Rs.
Gold loans receivable (Note 18.1.5)						
Stage 01	-	-	-	-	-	-
Stage 02	-	-	-	-	-	-
Stage 03	1,680,635,343	(5,322,600)	1,675,312,743	1,060,584,848	(488,689)	1,060,096,159
	1,680,635,343	(5,322,600)	1,675,312,743	1,060,584,848	(488,689)	1,060,096,159
Total	14,662,715,027	(2,323,416,953)	12,339,298,074	15,347,823,643	(1,314,063,983)	14,033,759,660

18.1.6 Movement in impairment charges during the year

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Pawning Rs.	Total Rs.
Balance as at 01st April 2019	683,568,519	14,562,664	335,322,505	280,121,605	488,689	1,314,063,982
Charge for the year	769,784,290	14,730,547	154,154,297	71,286,151	4,833,911	1,014,789,197
Written off during the year	(507,511)	(1,634,330)	(3,294,382)	-	-	(5,436,223)
Balance as at 31st March 2020	1,452,845,296	27,658,881	486,182,420	351,407,759	5,322,600	2,323,416,956

18.1.7 Movement in specific and collective impairment charges for the year ended 31st March 2019

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Pawning Rs.	Total Rs.
Balance as at 01st April 2018	794,121,455	159,103,227	397,199,431	190,961,972	5,242,777	1,546,628,862
Charge/(reversal) for the year	389,774,252	22,595,437	30,651,220	131,028,383	(4,754,088)	569,295,204
Written off during the year	(500,327,186)	(167,136,000)	(92,528,146)	(41,868,753)	-	(801,860,085)
Balance as at 31st March 2019	683,568,519	14,562,664	335,322,505	280,121,605	488,689	1,314,063,983

18.1.8 Impairment for Expected Credit Losses (Stage Composition) as at 31st March 2020

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Pawning Rs.	Total Rs.
Stage 01 ECL	99,885,266	5,074	23,710,532	4,222,492	-	127,823,364
Stage 02 ECL	347,072,669	47,955	28,372,743	-	-	375,493,367
Stage 03 ECL	1,005,887,361	27,605,852	434,099,145	347,185,264	5,322,600	1,820,100,222
	1,452,845,296	27,658,881	486,182,420	351,407,756	5,322,600	2,323,416,953

19. INVESTMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31st March	2020 Rs.	2019 Rs.
Investments in fixed deposits	82,526,401	286,484,085
Less: Expected credit loss on investment in fixed deposits	(34,000)	(230,755)
	82,492,401	286,253,330

20. OTHER ASSETS

As at 31st March	2020 Rs.	2019 Rs.
Advances paid	42,500,605	64,829,920
Insurance commissions receivable	12,169,559	539,864
VAT receivable	15,117,403	5,774,098
ESC and WHT recoverable	99,448,422	98,414,371
Deposits and prepayments	110,196,164	82,834,573
	279,432,153	252,392,826

21. REAL ESTATE STOCK

As at 31st March	2020 Rs.	2019 Rs.
Naranwala project	1,772,497	1,772,497
Kiriberiya project	2,887,113	2,887,113
Matale project	9,960,709	9,960,709
Maddawaththa project	865,459	865,459
Chilaw project	1,793,927	1,793,927
Fall in fair value of real estate stock	(506,996)	(506,996)
	16,772,709	16,772,709

22. DEFERRED TAX ASSET

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	371,088,939	270,475,120
Deferred tax effect on transitional arrangement	-	94,319,594
(Charge)/reversal for the year	-	9,994,534
Deferred tax effect on actuarial gain/(loss) on retirement benefit obligations	(201,586)	(497,101)
Deferred tax effect on revaluation surplus	-	(3,203,208)
Balance at the end of the year	370,887,353	371,088,939

22.1 Deferred tax assets

The amount recognised as deferred tax asset is as follows:

As at 31st March	2020 Rs.	2019 Rs.
Property, plant and equipment and intangible assets	(51,347,932)	(31,354,647)
Right of use assets	(3,066,940)	-
Retirement benefit obligations	11,924,432	14,085,673
Tax losses carried forward	118,477,423	82,729,360
Qualifying payment on purchase consideration of amalgamation	211,308,959	211,308,959
Unclaimed impairment provision	83,591,410	94,319,594
	370,887,353	371,088,939

Deferred tax has been determined based on the effective tax rate of 28%.

As of 31st March 2020, the Company has a tax loss amounting to Rs.1,077,704,983/- (2019 - Rs.1,514,517,180/-) which is available for 5 years for offsetting against future Statutory Income of the Company in each year of assessment. However, the Company has recognised deferred tax asset on unused tax losses only upto the deferred tax liability as 31st March 2020. Accordingly, deferred tax asset of Rs.118,477,423/- has been recognised for the tax losses amounting to Rs.423,133,654/-.

The carrying amount of deferred tax assets is reviewed by the management at each reporting date and recognised to the extent of probable taxable profits in 4 years time as recommended by IR Act No. 24 of 2017.

23. GOODWILL ON ACQUISITION

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

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

23.1 Brand value

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

Valuation methodology and principal assumptions used for the brand valuation

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

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

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

23.2 Goodwill

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

23.3 Impairment

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

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

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

Consequently, the management has taken an approach to assess impairment with a combined approach of both the brand value and goodwill.

Management determined forecast operating results based on past performance and expectations for the future considering COVID 19 impact. 'The pre-tax discount rate used is 15.40% and the growth rate used to extrapolate cash flow projections beyond five years is 3% per annum. Value in Use (VIU) computed based on these data and assumptions support the carrying value of goodwill.

NOTES TO THE FINANCIAL STATEMENTS

The summary of assessments is as follows:

	Rs.
Value in Use as per management's assessments	3,617,275,501
Carrying value of brand value and goodwill	800,425,746

Since the carrying value is less than the value-in-use, the management concluded that there was no impairment of brand value and goodwill taken together as at 31st March 2020.

24. INTANGIBLE ASSETS

As at 31st March	2020 Rs.	2019 Rs.
Computer software		
Cost		
Balance at the beginning of the year	11,653,860	11,653,860
Balance at the end of the year	11,653,860	11,653,860
Accumulated amortisation		
Balance at the beginning of the year	10,148,430	9,677,940
Amortised during the year	699,959	470,490
Balance at the end of the year	10,848,390	10,148,430
Carrying amount as at 31st March	805,470	1,505,430

25. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings	Office equipment Rs.	Computer equipment Rs.	Motor vehicles Rs.	Total Rs.
Cost					
Balance as at 01st April 2019	73,557,821	91,184,300	130,918,014	1,141,875	296,802,010
Additions during the year	11,220,781	14,106,235	5,413,352	-	30,740,368
Disposals during the year	(64,662)	(337,180)	(970,349)	-	(1,372,191)
Balance as at 31st March 2020	84,713,940	104,953,355	135,361,017	1,141,875	326,170,187
Depreciation					
Balance as at 01st April 2019	45,113,846	62,542,157	109,840,366	1,141,875	218,638,244
Charge for the year	10,912,762	11,455,303	11,333,240	-	33,701,305
On disposals	(64,661)	(337,180)	(948,319)	-	(1,350,160)
Balance as at 31st March 2020	55,961,947	73,660,280	120,225,287	1,141,875	250,989,389
Carrying amount as at 31st March 2020	28,751,993	31,293,075	15,135,730	-	75,180,798
Carrying amount as at 31st March 2019	28,443,975	28,642,143	21,077,648	-	78,163,766

25.1 Based on the assessment of potential impairment carried out internally, for property, plant and equipment by the Board of Directors as at 31st March 2020, no provision was required to be made in the financial statements.

25.2 Property, plant and equipment included fully depreciated assets having a gross amount of Rs.208,642,829.61/- as at 31st March 2020. (31 March 2019 - Rs.187,562,598/-).

25.3 There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2018/2019 -nil).

25.4 There were no restrictions on the title of the property, plant and equipment as at 31st March 2020.

25.5 There were no items of property, plant and equipment pledged as security as at 31st March 2020.

25.6 There were no temporary idle items of property, plant and equipment as at 31st March 2020.

26. RIGHT OF USE-ASSETS

As at 31st March	2020 Rs.	2019 Rs.
Cost		
Balance at the beginning of the year	-	-
Day 1 impact on adoption of SLFRS 16	158,078,230	-
Balance at the end of the year	158,078,230	-
Accumulated amortisation		
Balance at the beginning of the year	-	-
Charge for the year	29,183,673	-
Balance at the end of the year	29,183,673	-
Net book value as at 31st March 2020	128,894,557	-

27. INVESTMENT PROPERTIES

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	400,600,002	-
Additions during the year	132,250,000	-
Fair value gain on investment properties	5,400,000	-
Transferred from property, plant and equipment	-	400,600,002
Balance at the end of the year	538,250,002	400,600,002

27.1 The details of land and buildings

As at 31st March	Land Extent (Perches)	Building Area (Sq.Ft)	Value as at 31st March 2020 Rs.
38, Station Road, Matara	37.8	9,400	126,000,000
197/4, Galle Road, Kalutara	39.87	36,141	280,000,000
Eluwila, Panadura	A1-R3-P22	-	90,000,000
3rd Lane, Pubudu Kreedangana Mawatha, Halbarawa, Malambe	R1-P11	2,623	42,250,000
Total			538,250,000

NOTES TO THE FINANCIAL STATEMENTS

28. DEPOSITS FROM CUSTOMERS

As at 31st March	2020 Rs.	2019 Rs.
Fixed deposits (Note 28.1)	8,956,019,504	10,401,745,077
Savings deposits	64,612,727	77,786,206
	9,020,632,231	10,479,531,283

28.1

As at 31st March	2020 Rs.	2019 Rs.
Public deposits	8,662,171,507	10,070,813,152
Interest accrued	293,847,997	330,931,925
Public deposits at amortised cost	8,956,019,504	10,401,745,077

28.2 Rs.6,231,868,863/- (2018/2019 - Rs.7,350,388,538/-) of deposits from customers are expected to be matured within 12 months from the reporting date, 31st March 2020.

29. INTEREST BEARING BORROWINGS

As at 31st March	2020 Rs.	2019 Rs.
Institutional borrowings (Note 29.1)	3,038,038,298	2,091,868,611
	3,038,038,298	2,091,868,611

29.1 Movement in institutional borrowingss

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	2,043,385,377	1,739,487,340
Obtained during the year	7,283,733,568	4,578,904,725
Payments made during the year	(6,359,055,739)	(4,275,006,688)
Balance before adjusting for amortised interest (Note 29.3)	2,968,063,206	2,043,385,377
Net effect on amortised interest payable (Note 29.3)	69,975,092	48,483,234
Balance at the end of the year	3,038,038,298	2,091,868,611

29.2 Interest bearing borrowings - Current and non-current

As at 31st March	2020 Rs.	2019 Rs.
Payable within one year	2,251,584,961	1,692,785,278
Payable after one year (1-5 years)	786,453,337	399,083,333
	3,038,038,298	2,091,868,611

29.3 Institutional borrowings

Financial institution	Facility amount	Capital outstanding as at 31.03.2020	Finance cost payable as at 31.03.2020	Total payable at amortised cost as at 31.03.2020	Tenure of loan
	Rs.	Rs.	Rs.	Rs.	(months)
Long-term loans					
Union Bank PLC	375,000,000	351,562,500	4,478,810	356,041,310	48
Seylan Bank PLC	300,000,000	50,000,000	372,795	50,372,795	48
Pan Asia Banking Corporation PLC	100,000,000	84,000,000	621,370	84,621,370	24
Bank of Ceylon	704,000,000	425,111,111	1,151,861	426,262,972	36
Cargills Bank PLC	400,000,000	288,888,890	487,549	289,376,439	36
Medium term loans					
Sampath Bank PLC	250,000,000	14,250,000	26,446	14,276,446	60
Nations Trust Bank PLC	75,000,000	65,625,000	291,465	65,916,465	24
Short-term loans - Revolving					
National Development Bank PLC	300,000,000	225,000,000	1,983,804	226,983,804	Revolving
Union Bank PLC	200,000,000	200,000,000	854,795	200,854,795	Revolving
Pan Asia Banking Corporation PLC	200,000,000	200,000,000	2,065,753	202,065,753	Revolving
Securitisation					
Hatton National Bank PLC	900,000,000	763,625,705	53,558,090	817,183,796	36
Commercial Papers					
First Capital Asset Management Limited	150,000,000	150,000,000	2,041,177	152,041,177	6
SAFE Holdings (Private) Limited	150,000,000	150,000,000	2,041,177	152,041,177	4
		2,968,063,206	69,975,092	3,038,038,299	

30. TERM DEBTS

As at 31st March	2020	2019
	Rs.	Rs.
Balance at the beginning of the year	1,000,000,000	1,000,000,000
Redeemed during the year	(1,000,000,000)	-
Balance at the end of the year (Note 30.1)	-	1,000,000,000
Initial cost on debentures	-	(11,332,496)
Net effect on amortised interest payable	-	23,598,481
	-	1,012,265,985

30.1 Details of term debts

Interest payment frequency	Allotment date	Maturity date	Effective annual yield	Value of the debentures as at 31.03.2020 (Rs.)	Value of the debentures as at 31.03.2019 (Rs.)
Semi annually	26th December 2014	26th December 2019	9.05%	-	1,000,000,000
Balance at the end of the year				-	1,000,000,000

NOTES TO THE FINANCIAL STATEMENTS

31. REDEEMABLE PREFERENCE SHARES

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	400,049,600	400,049,600
Conversion into ordinary shares	(399,896,300)	-
Redeemed during the year	(153,300)	-
Balance at the end of the year	-	400,049,600
Net effect on amortised interest payable	-	112,167,326
	-	512,216,926

On 16th February 2017, the Company issued 4,000,496 new five year, unlisted, redeemable, nonconvertible, cumulative non-voting, unsecured, subordinated preference shares, to the existing holders of issued ordinary shares of the Company in the proportion of one (01) 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.

On 11th September 2019, the Company has converted its redeemable preference shares into 23,993,778 ordinary shares at a ratio of six (06) ordinary shares for every one (01) preference share of Rs.19.59 (per share value). Also, another 3,905,481 fully paid ordinary share have been issued with equivalent to the dividend payable amount of Rs.76,508,375/- (Refer Note 36.2).

32. LEASE LIABILITY-RIGHT OF USE ASSETS

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	-	-
Day 01 impact on adoption of SLFRS 16	158,078,230	-
Interest charge for the year	19,028,537	-
Payment made during the year	(59,165,572)	-
	117,941,195	-
Payable within one year	38,917,796	-
Payable after one year	79,023,399	-
	117,941,195	-

33. CURRENT TAX PAYABLE

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	-	-
Adjustments in respect of previous years' under provision (Note 12)	-	12,840,738
Payments made during the year	-	(12,840,738)
Balance at the end of the year	-	-

34. OTHER LIABILITIES

As at 31st March	2020 Rs.	2019 Rs.
Vendor payable	136,136,161	123,688,774
Insurance payable	49,419,932	61,073,173
Accrued expenses and other payable	244,744,532	239,860,046
Real estate advances	12,312,244	11,709,183
	442,612,869	436,331,176

35. RETIREMENT BENEFIT OBLIGATIONS

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	50,305,976	51,873,885
Amount recognised in the total comprehensive income (Note 35.1)	10,937,109	8,956,975
Payments during the year	(18,655,827)	(10,524,884)
Balance at the end of the year	42,587,258	50,305,976

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

As at 31st March	2020 Rs.	2019 Rs.
Interest cost	5,178,908	5,706,127
Current service cost	5,038,250	5,026,209
Actuarial (gain)/loss recognised	719,951	(1,775,361)
	10,937,109	8,956,975

35.2 An actuarial valuation of the retirement benefit obligations was carried out as at 31st March 2020 by Actuarial and Management Consultants (Pvt) Ltd. The Company has estimated its gratuity liability as at 31st March 2020 based on the forecast given by the actuaries using the census and assumptions as at 31st March 2020.

The principal assumptions used were as follows:

As at 31st March	2020	2019
Discount rate	10.5%	11%
Future salary increases	8%	8%
Staff turnover factor	41%	50%
Retirement age	55 years	55 years

35.3 Sensitivity of assumptions employed in actuarial valuation

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

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

NOTES TO THE FINANCIAL STATEMENTS

Increase/decrease in discount rate	Increase/decrease in salary increment	2019/2020 Sensitivity effect on income statement increase/(reduction) in results for the year Rs.	2018/2019 Sensitivity effect on income statement increase/(reduction) in results for the year Rs.
1%	-	(756,660)	(765,874)
(1%)	-	796,885	798,323
-	1%	944,668	976,708
-	(1%)	(912,737)	(952,895)

36. STATED CAPITAL

As at 31st March	2020 Rs.	2019 Rs.
Ordinary shares (Note 36.1)	2,431,879,039	1,378,689,779
Redeemable preference shares	-	400,049,600
Stated Capital	2,431,879,039	1,778,739,379
Less: Redeemable preference shares- classified as borrowings (Refer Note 31)	-	(400,049,600)
Total Equity	2,431,879,039	1,378,689,779
No.of shares (Note 36.2)	211,101,155	148,018,370

36.1 Movement in ordinary shares

As at 31st March	2020 Rs.	2019 Rs.
At the beginning of the year	1,378,689,779	1,378,689,779
Add: Conversion of redeemable preference shares and interest into ordinary shared	546,546,486	-
Right issue of shares	506,642,774	-
At the end of the year	2,431,879,039	1,378,689,779

36.2 Movement in number of shares

As at 31st March	2020 Rs.	2019 Rs.
At the beginning of the year	148,018,370	148,018,370
Add: Conversion of redeemable preference shares and interest to ordinary shares	27,899,259	-
Right issue of shares	35,183,526	-
At the end of the year	211,101,155	148,018,370

36.3 Conversion of preference shares to ordinary voting shares

The Company has converted preference shares into 23,993,778/- ordinary shares at the ratio of six (06) ordinary shares for every one (01) preference share at a value of Rs.19.59 per ordinary share. Additionally 3,905,481 fully paid shares have been issued in respect of preference share dividend amounting to Rs.76,508,375/- calculated at Rs.19.59 per ordinary share. The issued ordinary shares have been listed in the Colombo Stock Exchange (CSE) on 11th September 2019.

36.4 Right issue of shares

The Company has issued 35,183,526 ordinary voting shares in the proportion of one (1) new ordinary voting shares for every five (5) ordinary voting shares in the capital of the Company by way of a Rights Issue amounting to Rs.506,642,774/- to the holders of the issued ordinary voting shares of the Company at a price of Rs.14.40 per share. The issued ordinary shares have been listed in the Colombo Stock Exchange (CSE) on 28th February 2020.

36.5 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.

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

37. STATUTORY RESERVE FUND

As at 31st March	2020 Rs.	2019 Rs.
At the beginning of the year	306,478,542	305,274,930
Transfer during the year	4,602,200	1,203,612
At the end of the year	311,080,742	306,478,542

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

38. REVALUATION RESERVE

As at 31st March	2020 Rs.	2019 Rs.
At the beginning of the year	141,120,773	112,291,899
Revaluation surplus during the year	-	32,032,082
Deferred effect on revaluation surplus	-	(3,203,208)
At the end of the year	141,120,773	141,120,773

39. OTHER RESERVES

39.1 Fair value reserve

As at 31st March	2020 Rs.	2019 Rs.
Balance at the beginning of the year	1,069,031	213,964
Gain/(loss) on fair value of financial assets	(1,069,031)	855,067
Balance at the end of the year	-	1,069,031

40. FINANCIAL REPORTING BY SEGMENTS

Business Segments

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

a) Hire purchase, finance leasing - Provision of hire purchase and leasing facilities to customers
b) Loans - Provision of Loan facilities to customers
c) Factoring - Debt factoring
d) Gold Loan - Provision of loans against gold

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March	Finance leases, Hire purchases 2020 Rs.	Finance leases, Hire purchases 2019 Rs.	Loans 2020 Rs.	Loans 2019 Rs.
Interest income	2,338,403,999	2,494,208,042	310,882,396	467,925,509
Fee and commission income	148,749,131	160,654,792	8,717,242	6,746,935
Other income	58,800,620	55,809,134	4,589,925	11,156,506
Total segmental income	2,545,953,750	2,710,671,968	324,189,563	485,828,950
Less: Interest expense	(1,313,452,946)	(1,461,233,963)	(203,692,452)	(289,108,911)
Segmental results	1,232,500,804	1,249,438,005	120,497,111	196,720,039
Depreciation and amortisation	(45,712,808)	(21,181,253)	(7,193,432)	(4,234,231)
Impairment charge	(784,514,837)	(412,369,688)	(154,154,296)	(30,651,220)
Other Expenses	(612,870,355)	(701,769,927)	(96,509,825)	(141,429,069)
Income tax	-	-	-	-
Profit/(loss) after tax	(210,597,196)	114,117,137	(137,360,442)	20,405,519
Segmental assets	11,341,046,771	12,831,672,396	1,783,795,451	2,599,104,379
Segmental liabilities	9,397,216,996	11,268,590,699	1,478,759,329	2,252,643,811

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Less than 3 months Rs	3-12 months Rs	1-3 years Rs	3-5 years Rs	Over 5 years Rs	Total 2020 Rs	Total 2019 Rs
ASSETS							
Cash and cash equivalents	70,618,412	-	-	-	-	70,618,412	181,741,883
Financial assets at fair value through other comprehensive income	934,478,086	-	-	-	-	934,478,086	936,939,610
Loans and receivables to customers	1,615,322,291	3,167,889,888	6,317,516,696	1,219,271,494	19,297,705	12,339,298,071	14,033,759,660
Investments with banks and other financial institutions	-	82,295,646	-	-	-	82,492,401	286,253,330
Other assets	279,432,153	-	-	-	-	279,432,153	252,392,826
Real estate stock	-	16,772,709	-	-	-	16,772,709	16,772,709
Deferred tax asset	-	-	-	370,887,353	-	370,887,353	371,088,939
Brand value	-	-	-	-	235,880,000	235,880,000	235,880,000
Goodwill	-	-	-	-	564,545,746	564,545,746	564,545,746
Intangible assets	-	-	-	-	805,470	805,470	1,505,430
Property, plant and equipment (including Right of use assets)	-	-	-	-	204,075,355	204,075,355	78,163,766
Investment properties	-	-	-	-	538,250,002	538,250,002	400,600,002
Total assets	2,899,850,942	3,266,958,243	6,317,516,696	1,590,158,847	1,562,854,278	15,637,535,758	17,359,643,901
LIABILITIES							
Bank overdrafts	265,514,298	-	-	-	-	265,514,298	610,624,135
Deposits from customers	2,600,772,447	3,631,096,416	2,414,168,164	374,595,201	-	9,020,632,231	10,479,531,283
Interest bearing borrowings	843,133,256	1,408,451,704	723,953,337	62,500,000	-	3,038,038,298	2,091,868,611
Term debts	-	-	-	-	-	-	1,012,265,985
Redeemable preference shares	-	-	-	-	-	-	512,216,926
Lease liability-Right of use assets	9,786,851	29,130,945	79,023,399	-	-	117,941,195	-
Other liabilities	548,241,821	12,312,241	-	-	-	442,612,869	436,331,176
Retirement benefit obligations	-	-	-	-	42,587,258	42,587,258	50,305,976
	4,267,448,673	5,080,991,306	3,217,144,900	437,095,201	42,587,258	12,927,326,149	15,193,144,092
Maturity Gap	(1,367,597,731)	(1,814,033,063)	3,100,371,796	1,153,063,646	1,520,267,020		

Factoring		Gold Loan		Total	
2020	2019	2020	2019	2020	2019
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
53,632,255	117,765,696	349,759,147	159,138,521	3,052,677,796	3,239,037,768
5,335,697	10,613,532	-	1,115,207	162,802,070	179,130,466
919,342	2,713,298	5,447,808	5,567,048	69,757,694	75,245,986
59,887,294	131,092,526	355,206,955	165,820,776	3,285,237,560	3,493,414,220
(40,798,716)	(70,312,207)	(241,763,731)	(129,264,086)	(1,799,707,844)	(1,949,919,167)
19,088,578	60,780,319	113,443,224	36,556,690	1,485,529,716	1,543,495,053
(1,440,813)	(1,029,779)	(8,537,925)	(2,112,863)	(63,584,937)	(29,028,616)
(71,286,151)	(131,028,381)	(4,833,911)	4,754,088	(1,014,789,196)	(569,295,201)
(19,510,108)	(41,467,434)	(115,612,376)	(29,100,035)	(844,502,664)	(913,295,971)
-	-	-	(2,846,204)	-	(2,846,204)
(73,148,494)	(112,745,275)	(15,540,988)	7,251,676	(437,347,081)	29,029,061
357,286,500	623,963,802	2,117,196,973	1,304,903,325	15,599,325,695	17,359,643,902
296,189,086	547,850,139	1,755,160,737	1,124,059,443	12,927,326,149	15,193,144,092

42. RELATED PARTY TRANSACTIONS

The Company carries out transactions 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.

42.1 Parent and ultimate controlling party

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

42.2 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.5,900,000/- (2018/2019 - Rs.6,380,000/-) to the Directors as emoluments, of which all are comprised of short term employment benefits and no post-employment benefits have been paid during the year (2018/2019 – Nil). There are no direct transactions, arrangements and agreements involving key management personnel of the Company other than disclosed in other related party transactions.

The Company accepts and holds fixed deposits from key management personnel and their relatives in the normal course of its business and the amount outstanding on such deposits as at 31st March 2020 is Rs.152,250,000/- (2018/2019 - Rs.183,650,000/-).

42.3 Other related party transactions

The following transactions have been carried out with related parties during the year ended 31st March 2020.

NOTES TO THE FINANCIAL STATEMENTS

42.3.1 Recurrent related party transactions

Company	Relationship	Nature of Transactions	Aggregate value of related party transactions entered into during the financial year Rs.	Aggregate value of related party transactions as a % of Net revenue/income	Terms and conditions of the related party transactions
Janashakthi PLC	Affiliate	Rent and utility paid	(19,347,806)	(1)%	As per the rent agreements
		Payments for In house insurance policies	(8,768,318)	(1)%	As per the insurance policies
		Rent income received	2,652,396	0%	As per the rent agreements
		Life insurance payments for customers	(14,636,588)	(1)%	As per the insurance policies
		Payment for preference share dividend	(40,083,670)	(3)%	
Orient Capital Limited	Affiliate	Reimbursement of collections on assigned debtors	(4,053,697)	0%	As per the agreements
Kelsey Homes	Affiliate	Granting of business loans	(175,000,000)	(12)%	As per the lease agreements
		Repayment of loans	69,419,477	(5)%	
KHL Corporate Services Limited	Affiliate	Payments for secretary function	(742,238)	0%	

42.3.2 Non-recurrent related party transactions

Name of the related party	Relationship	Value of related party transactions entered into during the financial year Rs.	Value of related party transactions as a % of Equity	Value of related party transactions as a % of total assets	Terms and Conditions of the Related Party Transactions	The rationale for entering into the transactions
Janashakthi PLC	Parent	76,475,411	3%	0%	-	Conversion of preference share dividends to Ordinary Shares
		399,724,000	15%	3%	-	Conversion of Preference share capital to Ordinary Shares
First Capital Limited		400,000,000	15%	3%	As per the loan agreement	Obtained Business Loan

43. CAPITAL COMMITMENTS

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

44. CONTINGENT LIABILITIES

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

The Inland Revenue Department has issued assessments on Value Added Tax on Financial Services amounting to Rs.313,774,417/- (including penalties of Rs.129,636,750/-) and the Board of Directors is confident that there will not be any additional tax liability on that.

45. 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 29 to the financial statements.

Funding Institution	Nature of assets	Nature of liability	Balance Outstanding as at 31st March 2020	Value of assets pledged (Rs.)	Included under
Bank of Ceylon	Leases and Hire Purchase Receivable	OD	20,343,298	66,666,667	Future Rental Receivable
Commercial Bank of Ceylon PLC	Leases and Hire Purchase Receivable	OD	102,592,742	227,500,000	Future Rental Receivable
Hatton National Bank PLC	Leases and Hire Purchase Receivable	OD	147,712	32,500,000	Future Rental Receivable
National Development Bank PLC	Leases and Hire Purchase Receivable	OD	2,626,160	30,000,000	Future Rental Receivable
People's Bank	Leases and Hire Purchase Receivable	OD	64,701,518	93,750,000	Future Rental Receivable
Sampath Bank PLC	Leases and Hire Purchase Receivable	OD	6,138,733	99,750,000	Future Rental Receivable
Seylan Bank PLC	Land and Building	OD	17,430,798	225,000,000	Investment Property
Union Bank PLC	Leases and Hire Purchase Receivable	OD	8,970,779	30,000,000	Future Rental Receivable
DFCC Bank PLC	Un-secured	OD	1,264,225	-	Un-secured
HNB Trust 02	Leases and Hire Purchase Receivable	Securitisation	295,500,000	483,999,374	Future Rental Receivable
Hatton National Bank PLC- Trust 03	Leases and Hire Purchase Receivable	Securitisation	300,000,000	462,665,511	Future Rental Receivable
Hatton National Bank PLC- Trust 04	Leases and Hire Purchase Receivable	Securitisation	168,125,705	291,026,261	Future Rental Receivable
National Development Bank PLC	Leases and Hire Purchase Receivable	Short Term Revolving	225,000,000	270,000,000	Future Rental Receivable
Nations Trust Bank PLC	Leases and Hire Purchase Receivable	Medium Term Loan	65,625,000	98,437,500	Future Rental Receivable
Pan Asia Banking Corporation PLC	Leases and Hire Purchase Receivable	Short Term Revolving	200,000,000	250,000,000	Future Rental Receivable
Cargills Bank PLC	Leases and Hire Purchase Receivable	Term Loan	288,888,890	390,000,002	Future Rental Receivable
Bank of Ceylon	Leases and Hire Purchase Receivable	Term Loan	425,111,111	566,814,815	Future Rental Receivable
Pan Asia Banking Corporation PLC	Leases and Hire Purchase Receivable	Term Loan	84,000,000	105,000,000	Future Rental Receivable
Sampath Bank PLC	Leases and Hire Purchase Receivable	Term Loan	14,250,000	18,952,500	Future Rental Receivable
Seylan Bank PLC	Leases and Hire Purchase Receivable	Term Loan	50,000,000	75,000,000	Future Rental Receivable
Union Bank PLC	Leases and Hire Purchase Receivable	Term Loan	351,562,500	421,875,000	Future Rental Receivable
Union Bank PLC	Leases and Hire Purchase Receivable	Short Term Revolving	200,000,000	240,000,000	Future Rental Receivable
First Capital Asset Management Limited	Un-secured	Commercial Paper	150,000,000	-	Un-secured
SAFE Holdings (Private) Limited	Un-secured	Commercial Paper	150,000,000	-	Un-secured

NOTES TO THE FINANCIAL STATEMENTS

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

45.2 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.

46. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The outbreak of COVID-19 in the last quarter of the financial year has caused disruption to many local and global business and economic activities. The Company has been closely monitoring the impact of the pandemic on its business operations at year end and also in the immediate future. The Company evaluated all guidelines issued by the Government as well as international best practices and has developed individual health and safety guidelines to ensure suitable working arrangements and safe conditions for employees, customer and other stakeholders with the gradual commencement of economic activities by the public and private sectors after a stringent lockdown period of over a month. The Company has evidenced a smooth transactions with the resumption of business activities where the Company is seeing a positive momentum.

However, given the valuate and reviving landscape. The Company will continue to monitor the impact on its operations and protectively take measures to ensure that the business continue as seamlessly as possible.

47. COMPARATIVE INFORMATION

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

48. DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and presentation of these financial statements.

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

The number of employees of the Company as at 31st March 2020 is 509 (2019-508).

50. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Fair values are determined according to the following hierarchy:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy.

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets - fair value through other comprehensive income				
Government Securities	934,247,486	-	-	934,247,486
Investments in unquoted shares	-	230,600	-	230,600
	934,247,486	230,600	-	934,478,086

51. FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented on the Company's statement of financial position at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values in the table below may be different from the actual amounts that will be received/ paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 March	2020		2019	
	Carrying Value (Rs.)	Fair Value (Rs.)	Carrying Value (Rs.)	Fair Value (Rs.)
ASSETS				
Cash and cash equivalents	70,618,412	70,618,412	181,741,883	181,741,883
Loans and receivables to customers	12,339,298,071	12,339,298,071	14,033,759,660	14,033,759,660
Investments with banks and other financial institutions	82,492,401	82,492,401	286,253,330	286,253,330
	12,492,408,884	12,492,408,884	14,501,754,873	14,501,754,873
LIABILITIES				
Bank overdrafts	265,514,298	265,514,298	610,624,135	610,624,135
Deposits from customers	9,020,632,231	9,020,632,231	10,479,531,283	10,479,531,283
Interest bearing borrowings	3,038,038,298	3,038,038,298	2,091,868,611	2,091,868,611
Term debts	-	-	1,012,265,985	1,012,265,985
Redeemable preference shares	-	-	512,216,926	512,216,926
	12,324,184,827	12,324,184,827	14,706,506,940	14,706,506,940

Given below are the methodologies and assumptions used in fair value estimates.

Cash and cash equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Investments with banks and other financial institutions

The carrying amounts of fixed deposits with banks and other reverse repurchase agreements, approximate their fair value as those are short-term in nature. Almost all of these balances have a remaining maturity of less than six months from the reporting date.

Loans and receivables to customers

Fair value of the loans and receivables to customers is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables. The Company calculated the fair value of the loans and receivables to customers based on interest rates at the reporting date for similar types of loans and receivables. Accordingly, fair value of such loans does not materially differ from its carrying value amounting to Rs.12,339,298,074/-.

Bank overdrafts

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

Deposits from customers

More than 69% of the customer deposits have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre-mature uplift. Amounts paid to customers in the event of pre-mature uplift would not be materially different to its carrying value as at the reporting date. Therefore, fair value of customer deposits approximates to their carrying value as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

Interest bearing borrowings

Interest bearing borrowings include both the fixed rate and floating rate borrowings. Floating rate borrowings represent nearly 63% of the portfolio. Accordingly, carrying value of the floating rate borrowings approximate to their fair values as at the reporting date. Rest of the borrowings has a remaining contractual maturity of less than one year. Therefore, fair value of interest bearing borrowings approximate to the carrying value as at the reporting date.

52. FINANCIAL RISK MANAGEMENT

Risk is the most important factor considered in strategic decision making process at Orient Finance PLC. Therefore, all possible risks are properly evaluated before taking any strategic or operational decision and the best options which minimise the risk is decided. 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

52.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company's credit committee. The Company's credit department, reporting to the Company's credit committee, is responsible for management of the Company's credit risk, including:

I Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

II Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the Company's credit committee or the Board of Directors as appropriate.

III Reviewing and assessing credit risk - Company's credit 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 practices throughout the Company in the management of credit risk.

VI The spread of COVID-19 has negatively impacted many firms, mainly through potential description in manufacturing - supply chains, domestic consumption, tourism and exports, posting downside visits to their earning prospects. This has in turn impacted the capacity of such firms to meet contractual loan obligations leading to an increase in NPLs. However, the Company has determined the impact of COVID-19 on its loans and advances portfolio as minimal and short terms as the Company has been providing more secured lending in the recent years and the majority of the customers in the portfolio do not belong to the industries significantly impacted by COVID-19. Further, the Company believes relief measures granted in accordance with the government moratorium program will not dampen the recoverability of the loan facilities.

Regular audits of business units and the Company's credit processes are evaluated by internal audit.

As at 31st March	2020 Rs.	2019 Rs.
Loans and advance to customers		
Carrying amount at amortised cost		
Individually significant impaired loans and advances (Note 50.1.1)	1,482,319,810	2,429,560,066
Carrying amount of unimpaired loans and advances (Note 50.1.2)	10,856,978,264	11,604,199,594
	12,339,298,074	14,033,759,660

52.1.1 Individually significant impaired loans and advances

As at 31st March	2020 Rs.	2019 Rs.
Gross receivable	3,098,285,547	3,194,412,467
Allowance for impairment	(1,615,965,738)	(764,852,401)
Individually significant impaired loans and advances	1,482,319,810	2,429,560,066

52.1.2 Individually significant unimpaired and individually not significant

As at 31st March	2020 Rs.	2019 Rs.
Gross receivable	11,564,429,481	12,153,411,176
Allowance for collective impairment	(707,451,217)	(549,211,582)
Carrying amount of unimpaired loan advances	10,856,978,264	11,604,199,594

Write-off policy

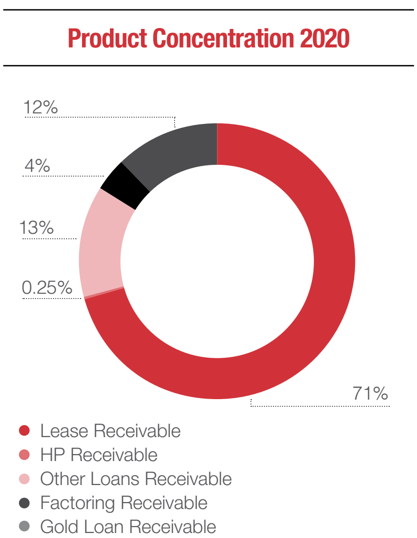
The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Company's credit division determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position so that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

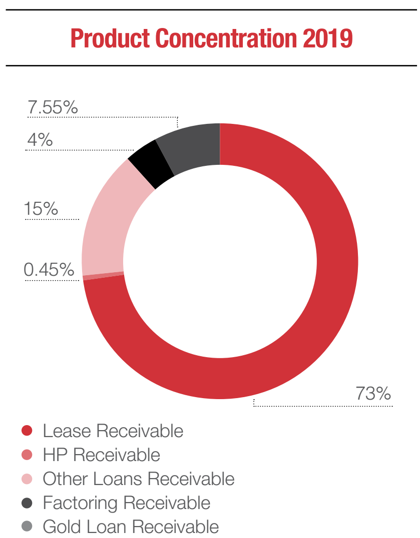
Concentration of credit risk

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

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

Product concentration





NOTES TO THE FINANCIAL STATEMENTS

52.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities to ensure that sufficient liquidity is maintained within the Company as a whole.

The daily liquidity position is monitored and regular liquidity stress testing conducted under a variety of scenarios covering both the normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO which in turn submit monthly summary to the board.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. While the company's debt securities and subordinated liabilities have maturities of over one year, deposits from customers generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends and maintaining unutilised credit lines.

Exposure to liquidity risk

The key measure used by the Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the following month. A similar, but not identical, calculation is used to measure the Company's compliance with the liquidity limit established by the Company's lead regulator, CBSL. Details of the reported Company ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

As at 31st March	2020 Rs.	2019 Rs.
Time deposits	8,943,119,504	10,401,745,077
Saving deposits	64,612,727	77,786,206
Unsecured borrowings	309,837,000	1,315,450
Total liquid assets	1,074,649,158	1,365,243,065
Cash in hand	62,617,606	162,415,514
Balances in current accounts (favourable)	16,645,000	5,536
Deposits in commercial banks	61,139,066	266,113,005
Approved securities	934,247,486	936,709,010
Average month end deposit liabilities	11,174,273,000	11,192,422,000
Average month end outstanding borrowings	1,199,119,000	1,254,631,000
	12,373,392,000	12,447,053,000

As at 31st March	2020 Rs.	2019 Rs.
Required minimum amount of liquid assets	934,987,559	1,051,973,984
10% of fixed deposits	894,311,950	1,040,174,508
15% of savings deposits	9,691,909	11,667,931
10% of unsecured borrowings	30,983,700	131,545
Required minimum amount of approved securities	618,669,600	933,528,975
(7.5% till 30.03.2020, 5% with effective from 31.03.2020 till 30.09.2020)		

Maturity analysis for financial liabilities

Contractual maturity of the assets and the liabilities of the Company is disclosed in the Note 39 to the financial statements.

To manage the liquidity risk arising from financial liabilities, the Company holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

52.3 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 standardised approach is used under Basel II) and the element of the fair value reserve relating to unrealised gains/losses on equity instruments measured at fair value through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

According to these regulations, the minimum capital requirement under Tier 1 is 6.5% of the total risk weighted assets and Tier 2 is 10.5% of the total risk weighted assets.

The Company's Capital Adequacy Ratios as at 31st March 2020 were 10.23% (2019 - 5.47%) and 11.66% (2019 - 8.54%) for Tier I and Tier II respectively.

52.4 Market Risk

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, equity prices and gold prices. As the Company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk to the Company.

Interest rate risk the potential negative impact on the net interest income base on rate actuations and impact to the profitability of the Company. The Company does not have variable interest rates and all facilities granted are on fixed interest rates. The global outbreak of the novel COVID-19 epidemic has resulted in consecutive reductions in policy rates and monetary easing policies by the Central Bank of Sri Lanka to encourage banks and finance companies to reduce lending rates. The impact of reduction in interest rates on rate sensitive assets and liabilities and the subsequent profitability thereon is yet to be assessed.

Foreign exchange (FOREX) and country risk

Foreign exchange (FOREX) risk is the risk that finance companies may suffer loss as a result of advance exchange rate movements. Country risk is the risk that arises due to cross border transactions. The uncertainty caused by the COVID-19 pandemic could lead to increased pressure on the local currency resulting in higher foreign exchange risk. However, since the Company does not have any foreign borrowings or foreign transactions overseas, the Company concludes that COVID-19 impact on FOREX is not substantial on the Company to conduct in-depth analysis. However, there is a slight impact when budgeting for this cost. The above risks are triggered by the treasury operations.

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

SOLID GROUND FOR A STRONG FUTURE

SUPPLEMENTARY INFORMATION

TEN YEAR ACHIEVEMENTS

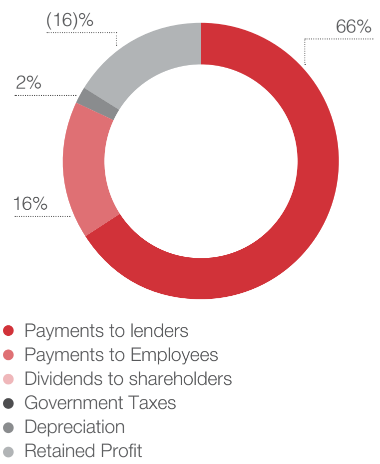
For the year ended 31st March	2020	2019	2018	2017
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Operating Results				
Income	3,285,238	3,493,414	3,496,109	3,309,736
Interest Income	3,052,678	3,239,038	3,311,049	3,128,709
Interest Expenses	(1,799,708)	(1,949,919)	(2,116,907)	(1,836,496)
Net Interest Income	1,252,970	1,289,119	1,194,142	1,292,213
Operating Expenses & Provisions	(1,922,877)	(1,511,619)	(1,482,920)	(1,171,760)
Profit/(Loss) Before Income Tax	(437,347)	31,875	(103,718)	301,479
Income Tax on Profit	-	(2,846)	(6,528)	(43,803)
Profit/(Loss) for the year	(437,347)	29,029	(110,246)	257,676
Balance Sheet Information				
Assets				
Loans & Advances to Customers	12,339,298	14,033,760	14,504,334	16,416,103
Financial Investments - Held to Maturity	-	-	-	-
Financial Investments - Available for Sale	934,478	936,940	945,559	839,887
Cash and Cash Equivalents	70,618	181,742	195,581	107,894
Property, Plant & Equipment and Investment Assets	613,431	478,764	415,618	421,315
Other Assets	1,679,711	1,728,438	2,054,602	1,664,830
Total Assets	15,637,536	17,359,644	18,115,694	19,450,029
Liabilities				
Deposits from Customers	9,020,632	10,479,531	11,852,625	9,565,559
Borrowings	3,038,038	2,091,869	1,806,790	4,815,150
Debentures and Preference Shares	-	1,524,483	1,454,471	1,392,671
Other Liabilities	868,655	1,097,261	653,390	1,176,922
Total Liabilities	12,927,326	15,193,144	15,767,276	16,950,302
Capital Employed				
Stated Capital	2,431,879	1,378,690	1,378,690	1,378,690
Retained Profit & Reserve Fund	278,331	787,810	969,728	1,121,037
Total Capital Employed	2,710,210	2,166,500	2,348,418	2,499,727
Ratios and Related Information				
Operating Ratios				
ROE	-17.94%	1.29%	-4.53%	10.87%
ROA - Before Tax	-2.65%	0.18%	-0.55%	1.65%
Gross Profit Margin	38.14%	36.90%	34.16%	39.04%
Net Profit Margin	-13.31%	0.83%	-3.14%	7.79%
Income Growth	-5.96%	-0.08%	5.63%	40.06%
Profit Growth	-1606.59%	-126.33%	-142.64%	-57.54%
Assets Growth	-9.92%	-4.17%	-6.86%	13.66%
Net Assets Growth	25.10%	-7.75%	-6.05%	11.45%
Gearing Ratios				
Debt to Equity - Times	4.45	6.51	6.44	6.31
Interest Cover - Times	0.76	1.02	0.95	1.16
Investor Ratios				
Basic earnings per share - (Rs.)	(3.06)	0.20	(0.74)	1.74
Net assets value per share - (Rs.)	12.83	14.64	15.87	16.89
Dividend per share - (Rs.)	-	-	0.25	-
Dividend Cover - Times	N/A	N/A	N/A	N/A
Dividend Payout ratio	0.00%	0.00%	-33.68%	0.00%

2016	2015	2014	2013	2012 (Restated)	2011
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2,363,152	1,362,664	1,605,010	1,552,160	1,178,760	1,150,826
2,229,746	1,283,087	1,465,703	1,336,170	1,054,055	780,287
(1,096,453)	(805,279)	(1,039,248)	(964,202)	(614,026)	(487,491)
1,133,293	477,807	426,455	371,969	440,029	292,796
(970,838)	(553,203)	(495,380)	(566,782)	(474,212)	(436,369)
295,861	4,182	70,381	21,177	90,522	226,966
311,012	-	(13,014)	(13,625)	(16,416)	(4,902)
606,873	4,182	57,367	7,552	74,105	222,063
13,839,304	4,987,749	5,615,826	5,323,316	4,981,731	3,005,992
-	-	1,165,133	1,061,579	729,076	588,493
756,124	592,105	11,120	186,024	355,016	339,300
231,678	194,035	200,985	161,989	118,154	123,477
438,736	446,864	533,064	292,713	203,261	186,512
1,846,840	585,231	334,015	677,506	601,801	639,540
17,112,682	6,805,984	7,860,144	7,703,127	6,989,039	4,883,315
9,249,312	5,746,847	6,463,960	5,747,762	5,075,410	3,630,633
3,262,738	31,760	378,751	923,320	1,032,409	457,294
1,176,913	204,000	204,000	204,000	204,000	-
1,180,738	253,377	252,020	323,997	237,508	201,012
14,869,701	6,235,984	7,298,731	7,199,080	6,549,327	4,288,940
1,378,690	306,025	306,025	306,025	61,205	61,205
864,291	263,974	255,388	198,021	378,507	533,170
2,242,981	569,999	561,413	504,046	439,712	594,375
43.15%	0.74%	10.77%	1.60%	14.33%	44.44%
2.47%	0.06%	0.90%	0.29%	1.52%	5.21%
47.96%	35.06%	26.57%	23.96%	37.33%	25.44%
25.68%	0.31%	3.57%	0.49%	6.29%	19.30%
73.42%	-15.10%	3.40%	31.68%	2.43%	26.55%
14412.19%	-92.71%	659.63%	-89.81%	-66.63%	284.10%
151.44%	-13.41%	2.04%	10.22%	43.12%	27.69%
293.51%	1.53%	11.38%	14.63%	-26.02%	46.76%
6.10	10.50	12.55	13.64	14.35	6.88
1.27	1.01	1.07	1.02	1.15	1.47
7.00	0.05	7.50	0.99	9.69	36.28
15.15	7.45	73.38	65.88	57.47	77.69
-	-	-	0.76	6.00	1.00
N/A	N/A	N/A	1.30	1.61	36.28
0.00%	0.00%	0.00%	76.99%	61.94%	2.76%

STATEMENT OF VALUE ADDED

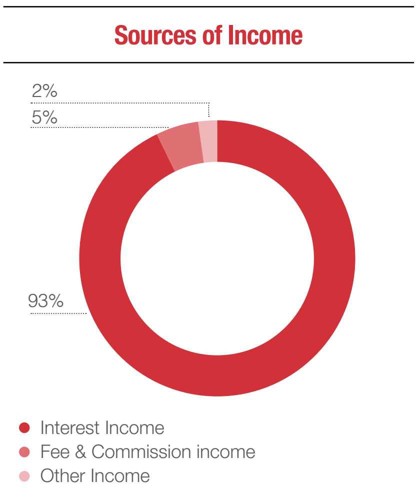
For the year ended 31st March	2020 Rs. Mn	2019 Rs. Mn
Gross value added	3,285	3,493
Cost of services	406	(525)
Provision for impairment losses	(1,015)	(569)
	1,864	2,399
Value Allocated		
Payments to lenders	1,799	1,950
Payments to employees	427	388
Dividends to shareholders	-	-
Government Taxes	12	3
Depreciation	63	29
Retained Profit	(437)	29
	1,864	2,399

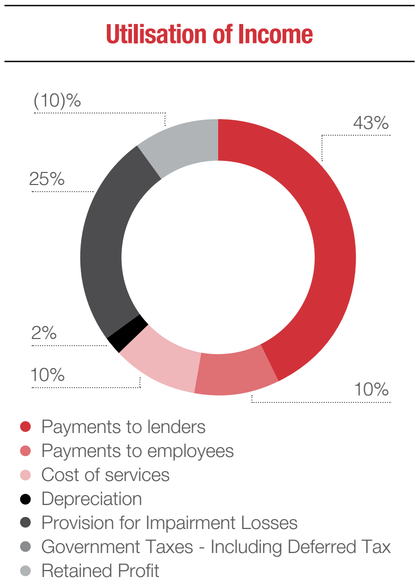
Value Allocated



SOURCES AND UTILISATION OF INCOME

For the year ended 31st March	2020 Rs. Mn	2019 Rs. Mn
Sources of Income		
Interest Income	3,053	3,239
Fee & Commission Income	163	179
Other Income	70	75
	3,285	3,493
Utilisation of Income		
Payments to lenders	1,798	1,950
Payments to employees	427	388
Cost of services	406	525
Depreciation	64	29
Provision for Impairment Losses	1,015	569
Government Taxes - Including Deferred Tax	12	3
Retained Profit	(437)	29
	3,285	3,493





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 1,056 registered Voting Shareholders as at 31st March 2020 (2018/2019 - 1,043) distributed as follows.

Range	As at 31st March 2020			As at 31st March 2019		
	No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1 - 1000	587	147,626	.069	560	142,797	0.09
1,001 - 10,000	280	1,177,764	.558	280	1,163,256	0.79
10,001 - 100,000	162	5,595,943	2.651	177	5,800,198	3.92
100,001 - 1,000,000	25	6,031,029	2.857	24	5,833,100	3.94
Over 1,000,000	2	198,148,793	93.864	2	135,079,019	91.26
Total	1056	211,101,155	100.00	1043	148,018,370	100.00

ANALYSIS OF SHAREHOLDERS

As at 31 March	2020		2019	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Residents	211,011,844	99.96	147,885,919	99.92
Non-Residents	89,311	.04	132,451	0.09

Public Holding

Public Holding as at 31st March 2020 is 12,952,282

Number of Public Shareholders as at 31st March 2020 is 1,057

Public Holding of issued number of shares as percentage as at 31st March 2020 is 6.14%

Float adjusted market capitalisation (Rs) 79,065,827

The CSE granted an extension in terms of Sections 7.13.3 (iii) of the Listing Rules to comply with the minimum public holding requirement until 04th June 2020. Accordingly, upon the expiry of the extension period, Orient Finance PLC is considered non-compliant and is entitled for a grace period of 06 months until 04th December 2020 to comply with the minimum public holding requirement. The Company is entitled for a further period of 03 months, until 04th March 2021, in accordance with the CSE circular 03-04-2020 dated 10th April 2020 extending the timelines for submission of Financial Statements and Enforcement Action.

3. SHARE PRICE INFORMATION

	2019/20 (Rs.)	2018/19 (Rs.)
Highest	12.70	17.40
Lowest	6.00	12.80
Close	6.10	13.00

4. INVESTOR RATIOS

As at 31st March	2020 (Rs.)	2019 (Rs.)
Net Asset Value per Ordinary Share	12.83	14.64
EPS	(3.06)	0.21
Price Earnings Ratio	(1.99)	65.50

5. DIRECTORS' INTEREST IN SHARES

The number of shares held by the Directors as at 31st March	2020	2019
Dr. D. C. Jayasuriya PC – Chairman	-	-
Mr. Prakash Schaffter	10	10
Mr. K. M. A. T. B. Tittawella	-	-
Ms. Minette D. A. Perera	-	-
Ms. Indrani Goonesekera	-	-
Mr. Sriyan Suresh Cooray	-	-
Mr. Darshana Joseph Ratnayake		
Mr. Ramesh Schaffter	10	10
	20	20

6. CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

As at 31st March	2020	2019
Mr. K. M. M. Jabir	-	-

7. TOP 20 SHAREHOLDERS AS AT 31ST MARCH 2020

	Name	No. of Shares	%
1	Janashakthi PLC	196,010,494	92.85
2	First Capital PLC	2,138,299	1.01
3	Mr. L. P. Mendis	696,103	0.33
4	Seylan Bank PLC/ S. R. Fernanado	490,839	0.23
5	Mr. R. A. B. K. Kumara	500,000	0.24
6	Mr. K. S. S. Peris	382,814	0.18
7	Mr. N. L. S. Fernando	377,677	0.18
8	Mr. A. S. A. Fernando	336,100	0.16
9	M/S Commercial Credit And Finance PLC	330,000	0.16
10	Seylan Bank PLC/ K. L. G. Udayanda	231,365	0.11
11	Mr. G. A. C. De Silva	211,000	0.10
12	Mr. M. K. De Livera	207,628	0.10
13	Mr. R. M. P. Dayawansa	202,095	0.10
14	Mr. S. D. S. Gunasekera	200,000	0.09
15	M/S Merchant Bank of Sri Lanka & Finance PLC	200,000	0.09
16	Mrs. M. N. S. Fernando	195,523	0.09
17	Merchant Bank of Sri Lanka & Finance PLC/D. L. J. Priyadarshana	191,903	0.09
18	Mr. D. N. F. G. Martinus	184,333	0.09
19	Mr. R. E. Rambukwella	154,989	0.07
20	Mr. P. G. Piyasiri	137,668	0.07

SHARE INFORMATION

DEBENTURE INFORMATION

Market Values of Listed Debentures

Five years rated secured, redeemable 10,000,000 debentures of Rs.100 each issued at maturity date as at 26th December 2019. These debentures were listed on the Main Board of the Colombo Stock Exchange with 9.25% interest rate per annum payable on semi-annually.

Market Prices - Debenture	31st March 2020	31st March 2019
Highest price	-	N/T*
Lowest price	-	N/T*
Last traded price	-	N/T*

Interest Rate of Comparable Government Securities

	2019/20	2018/19
2014/2019 (05 Year)	-	9.99%

Yield to Maturity of Last trade

	2019/20	2018/19
Debenture	-	N/T*

Debenture Related Ratios

	2019/20	2018/19
Debt to Equity Ratio (Times)	-	6.55
Interest Coverage Ratio (Times)	-	1.05
Liquid Asset Ratio	-	7.9%

N/T - Not Traded*

GLOSSARY OF FINANCIAL TERMS

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis

The system of accounting wherein revenue is 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.

Expected Credit Losses (ECL)

A probability weighted estimate of credit losses over the expected life of the financial instrument.

12 Months Expected Credit Losses (12MECL)

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

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.

GLOSSARY OF FINANCIAL TERMS

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

Exposure at Default (EAD)

Gross carrying amount of financial instruments subject to impairment calculation.

Exposure at claim

Contingent claim or position which carries a risk of financial loss.

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value through Profit or Loss

A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

Finance Lease

A lease that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. Title may or may not eventually be transferred.

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Instrument

Any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Gross Dividend

The proportion of profit distributed to shareholders including the tax withheld.

Group

A parent and all its subsidiaries and associates.

Guarantees

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfill the contractual obligation.

Hire Purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

Impairment

This occurs when the recoverable amount of an asset is less than its carrying amount.

Intangible Asset

An identifiable non-monetary asset without physical substance.

Interest Cover

Earnings before interest and tax divided by interest expenses. This indicates the ability to cover or service interest charges of the debt holders.

Key Management Personnel (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

Lease

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Lending Portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Life Time Expected Credit Loss (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid Asset

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills.

Liquid Assets Ratio

Liquid assets as a percentage of public deposits.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Market Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of currency risk, interest rate risk and other price risk.

Net Asset Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income

The difference between interest income earned from interest earning assets and interest expenses incurred on interest bearing liabilities.

Non-Performing Advances

Loans and advances of which rentals are in arrears for six months or more.

NPL Ratio

Total non-performing loans as a percentage of the total lending portfolio.

Parent

An entity that has one or more subsidiaries.

Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Related Party

Parties have the ability to control or exert a significant influence over the company's financial and operating decisions.

Related Party Transactions

A transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

Return on Average Assets (ROA)

Net profit for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

Return on Average Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreement

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Risk Weighted Assets

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

Segmental Analysis

Analysis of financial information by segments of an organisation 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.

Solely Payments of Principal and Interest Test (SPPI)

Classification decision for non–equity financial assets under SLFRS

Sustainability Report

A practice of measuring, disclosing, and being accountable for organisational 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 organisation.

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

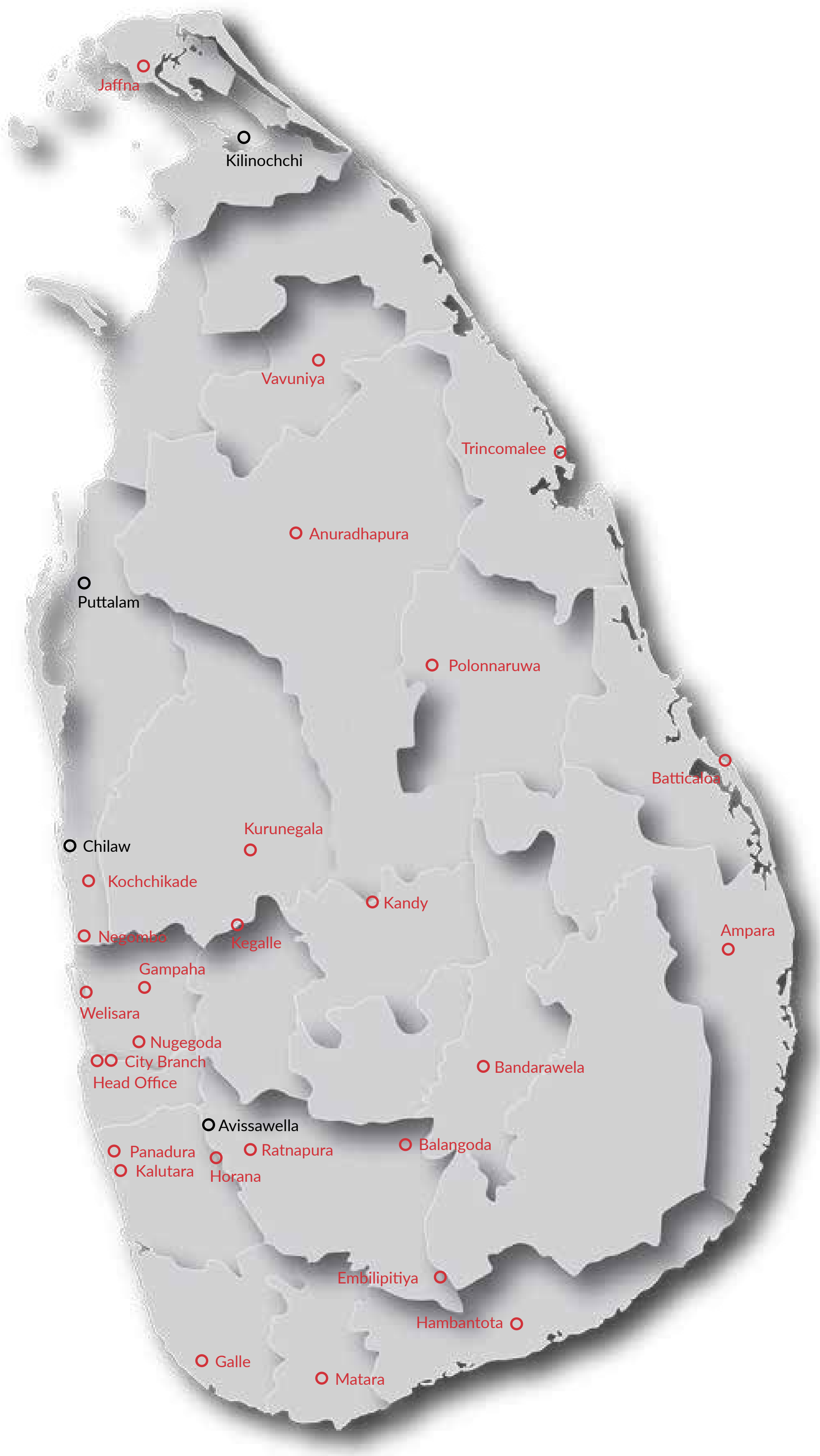
Tier II Capital

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



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NOTICE OF MEETING

Notice is hereby given that the 37th Annual General Meeting of Orient Finance PLC will be held as a virtual meeting emanating from the Boardroom of the Company at No.19, Railway Avenue, Nugegoda on Monday, 30th November 2020 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 2020 together with the report of the Auditors thereon.
2. To re-appoint Mr. Darshana Ratnayake, who was appointed to the Board on 25th November 2019 and retires in terms of Article 25(3) of the Articles of Association of the Company.
3. To re-appoint Mr. K. M. M. Jabir, who was appointed to the Board on 25th November 2019 and retires in terms of Article 25(3) of the Articles of Association of the Company.
4. To re-elect 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.
5. To re-elect Mr. Prakash Schaffter, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company and offers himself for re-election.
6. To re-appoint Messrs. BDO Partners, Chartered Accountants as Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.
7. To authorise the Directors to determine and make donations.

By Order of the Board

K H L Corporate Services Limited
Secretaries

01st November 2020

Notes:

1. The Shareholders are requested to register with their first names and last names via the below link before 4.00 pm, on Wednesday, 25th November 2020, to receive the link to join the AGM. The same names should be used to log in to participate in the AGM on 30th November 2020.

   https://orientfinance.lk/AGM-2020-Registration

2. A member entitled to attend and vote at the above Meeting is entitled to appoint a Proxy to attend and vote on behalf of him/her. A Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose.
3. The completed Form of Proxy must be forwarded by email to agm2020@orient.lk, fax to +94 112372498, WhatsApp to +94 773647178 or directly deposited at the Office of the Company Secretaries, K H L Corporate Services Limited, No.15, Walukarama Road, Colombo 03. No registration of proxies will be accommodated after this deadline.
4. Shareholders who are unable to participate at the Meeting through the online meeting platform are encouraged to appoint a director as his/ her/its proxy by forwarding the duly completed Proxy Form clearly indicating their vote under each matter set out in the Proxy Form to the Company Secretaries as specified above in order that their vote may be identified and recorded as if he/she/it were present at the Meeting.

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FORM OF PROXY

I / We, ... of

.... being a Member/s of the

Company, hereby appoint .... (holder of NIC No. ....)

of .... failing him/her,

1. Mr. Anil Tittawella failing him
2. Mr. Prakash Schaffter failing him
3. Ms. Minette Perera failing her
4. Ms. Indrani Goonesekera failing her
5. Mr. Ramesh Schaffter failing him
6. Mr. Sriyan Cooray failing him
7. Mr. Darshana Ratnayake failing him
8. Mr. K. M. M. Jabir

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 as a virtual meeting emanating from the Boardroom of the Company at No.19, Railway Avenue, Nugegoda on Monday, 30th November 2020 at 10.30 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Please indicate your preference by placing a 'X' in the box of your choice against each Resolution.

		FOR	AGAINST
1.	Receive the Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31st March 2020 together with the report of the Auditors thereon.		
2.	Re-appointment of Mr. Darshana Ratnayake, who retires in terms of Article 25(3) of the Articles of Association of the Company.		
3.	Re-appointment of Mr. K. M. M. Jabir, who retires in terms of Article 25(3) of the Articles of Association of the Company.		
4.	Re-election of Mr. Anil Tittawella, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company.		
5.	Re-election of Mr. Prakash Schaffter, who retires by rotation in terms of Article 25(7) of the Articles of Association of the Company.		
6.	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.		
7.	To authorise the Directors to determine and make donations.		

Signed on this .... day of .... 2020.

Signature/s ....

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

FORM OF PROXY

Instructions for the completion of the Form of Proxy

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address, by signing in the space provided and filling the date of signature and your National Identity Card Number.

   The completed Form of Proxy must be forwarded to the Company Secretaries by email agm2020@orient.lk, fax +94 112372498, WhatsApp to +94 773647178 or directly deposited at the Office of Company Secretaries, K H L Corporate Services Limited, No.15, Walukarama Road, Colombo 03 not less than 48 hours before the time fixed for the Meeting. No registration of proxies will be accommodated after this deadline.

2. 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.

3. If the Shareholder is a company or a corporate body, the Proxy should be executed in accordance with its Articles of Association or Constitution. The Company may but shall not be bound to, require evidence of the authority of any such attorney or officer.

4. 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
Mr. Anil Tittawella – Chairman
Dr. D C Jayasuriya P C – (Retired w.e.f. 23-Jun-2020)
Mr. Prakash Schaffter
Ms. Minette Perera
Ms. Indrani Goonesekera
Mr. Ramesh Schaffter
Mr. Sriyan Cooray
Mr. Darshana Joseph Ratnayake (Appointed w.e.f. 25-Nov-2019)
Mr. K. M. M. Jabir (Appointed w.e.f. 25-Nov-2019)

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

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Company Secretary
KHL Corporate Services Ltd.
No. 02,
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External Auditors
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"Charter House", 65/2,
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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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