



Sarvodaya Development Finance Limited
Annual Report 2020/21

When It Matters

The work that we do as a development finance company is two fold. We nurture and empower great ideas that come from under supported sectors and we sustain their livelihoods through resources, encouragement and constant support. The year under review, though not favourable for many industries, taught us a valuable lesson in adaptation and resilience, traits that we passed down to our customers through the value of empathy, and a promise to support them through thick and thin. While the pandemic did create unique and unprecedented challenges, it did not deter our mission and we were able to sustain partnerships that we had created in every corner of our island nation, demonstrating beyond a shadow of a doubt that we are there when it matters.

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ABOUT THE REPORT



Our Vision

To be a Catalyst in Creating an Economically Progressive Society, Living in Dignity



Our Mission

To Foster Sustainable Development Through the Provision of Ethical Financial Services and Fulfil Expectations of all Stakeholders



Our Values

- ➔ Purity in Service
- ➔ Diligent and Caring
- ➔ Transparent and Honest
- ➔ Passionately Committed

BOUNDARY AND SCOPE OF REPORTING

This report covers the period from 01st April 2020 to 31st March 2021, which coincides with our financial reporting period. The report provides an overview of the entire operations of Sarvodaya Development Finance Limited. This also includes our strategy, targets and objectives, as well as the key performance indicators for the financial year. To reflect the importance assigned to integrated thinking, the report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value.

MANDATORY REPORTING FRAMEWORK AND GUIDELINES

Financial Reporting

- ➔ Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka
- ➔ Companies Act No. 07 of 2007
- ➔ Finance Business Act No. 42 of 2011

Corporate Governance Reporting

- ➔ Finance Companies (Corporate Governance) Direction No. 3 of 2008, issued by the Monetary Board of the Central Bank of Sri Lanka and subsequent amendments thereto

Assurance

- ➔ Sri Lanka Auditing Standards (SLAuSs)
- ➔ Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka
- ➔ Sri Lanka Standards on Related Service 4750 (SLSRS 4750)

REPORTING FRAMEWORKS

To capture the Company's progress in delivering stakeholder value, this report has been compiled in line with International Integrated Reporting Council's ("IIRC's") Integrated Reporting (IR) Framework, which considers the six capitals, namely financial, manufactured, intellectual, human, social and relationship and natural capital.

Where possible the report also makes reference to the Global Reporting Initiative (GRI) Standards to highlight key sustainability indicators.

Further reinforcing its commitment to sustainability, SDF has also voluntarily decided to report on its contribution to the Sustainable Development Goals (SDG's) announced by the United Nations as part of its 2030 global agenda for sustainable development.

SUSTAINABLE DEVELOPMENT GOALS



THIS REPORT IS IN COMPLIANCE CAPITAL REPORTING.

This report is in compliance with capital reporting framework guidelines. Followings are the legends of our capitals:



Financial Capital



Manufactured Capital



Intellectual Capital



Human Capital



Social & Relationship Capital



Natural Capital

ASSURANCE

We apply a combined assurance process to review and assure various areas of our business and reporting. This includes assurances provided by the SDF Board and management, Internal Audit Department and the External Assurance by the External Auditors, Messrs. Ernst & Young (Chartered Accountants), who also provides a limited assurance on adherence to the regulator's corporate governance directions and selected sustainability information.

Further, Fitch Sri Lanka has reaffirmed the Company's rating as B+ (stable outlook).

Printed Report

The Report presents a balanced and comprehensive overview of our activities and our performance in 2020/21, meeting the diverse needs of our stakeholders.



Online Report

You can download our 2020/21 Annual Report as a PDF file via the link below.



Mobile Response

Our website is optimised for mobile use so you can read the Annual Report on your smartphone.



To scan a QR code on your phone, all you have to do is open the camera app and point your phone at the QR code. Make sure the QR code Reader App is installed on your mobile and then tap the pop-up notification.

This Report is available in different mediums

OUR JOURNEY

2010

Registered as a Public Limited Company by the name of Deshodaya Development Finance Company Limited

2013

Received the finance licence from the Central Bank to commence finance business

2014

Acquired the assets and liabilities of the Micro Finance Division of the Parent Company

Commenced finance business with a range of new lending and deposit products

2015

Acquired 75.54% of the issued shares of George Steuart Finance PLC to comply with the Central Bank's Consolidation Programme

Changed the Company's name to Sarvodaya Development Finance Limited

Enhanced the share capital by Rs. 340 million

Received a certificate of compliance from CA Sri Lanka for our Annual Report 2015 for the first time

2016

Introduced a fully-integrated, centralised and a real-time co-banking system for all our business operations

Rationalised the branch network by re-branding and relocating to strategic business locations

2017

Introduced Western Union for money transfers

Introduced mCash for loan collection

Changed the business strategy from micro finance based to assets-backed lending by introducing leasing and SME

2018

Joint LankaClear and connected to over 4,000 ATMs of banks through LankaPay platform

Introduced Business Intelligence (BI) technology for MIS reporting, monitoring and decision making

Received a Silver Award (under Rs. 20 billion assets category) from CA Sri Lanka for our Annual Report for the 2nd consecutive year

2019

Shifted Head Office to Colombo for greater visibility, customer acceptance and brand positioning

Installed our first ATM

Commenced digital content marketing and penetration into social media

2020

Received a Gold Award (under Rs. 20 billion assets category) from CA Sri Lanka for our Annual Report

Achieved a milestone profit target of Rs. 100 million

Introduced smart POS machines to facilitate customers loan instalment and utility bill payments

Introduced new integrated Workflow management system

Embarked on digital content marketing to reach customer niche markets

2021

Fastest Growing Development Finance Company in Sri Lanka 2021, awarded by Global Banking and Finance Review - UK.

Successfully completed private placement and raised new share capital of Rs. 806 Mn



FINANCIAL HIGHLIGHTS

		2020/21	2019/20	Change %
Profitability				
Income	Rs. Million	1,744	1,802	-3.3
Interest Income	Rs. Million	1,585	1,682	-5.8
Net Interest Income	Rs. Million	961	932	3.2
Operating Expenses	Rs. Million	704	701	0.4
Impairment Losses	Rs. Million	60	119	-49.6
Profit Before Taxation	Rs. Million	267	124	115.1
Profit for the Year	Rs. Million	183	102	80.3
Assets & Liability				
Loans and Receivables	Rs. Million	4,954	5,231	-5.3
Lease Rentals Receivables	Rs. Million	2,952	1,703	73.4
Total Assets	Rs. Million	9,037	8,215	10.0
Due to Customers	Rs. Million	4,552	5,102	-10.8
Total Shareholders' Funds	Rs. Million	2,181	1,196	82.4
Investor Information				
Net Assets Value per Share	Rs.	20.95	17.71	18.2
Earnings per Share - Basic	Rs.	2.55	1.51	69.2
Financial Indicators				
Return on Assets (after tax)	%	2.13	1.30	63.7
Return on Equity (after tax)	%	10.86	8.87	22.5
Cost to Income	%	70.82	76.87	-7.9
Gross NPA Ratio	%	9.99	11.81	-15.5
Net NPA Ratio	%	4.21	6.14	-31.4
Growth in Total Assets	%	10.00	10.27	-2.6
Capital Adequacy Ratios				
Core capital to risk weighted assets ratio (Tier I) (Minimum 6.5%)	%	21.58	12.99	66.1
Total risk weighted capital ratio (Tier II) (Minimum 10.5%)	%	21.80	13.23	64.8

183 Million

Profit for the
year

80.3%

9.03 Billion

Total
Assets

10.0%

2.13%

Return on
Assets

63.7%

Rs. 2.55

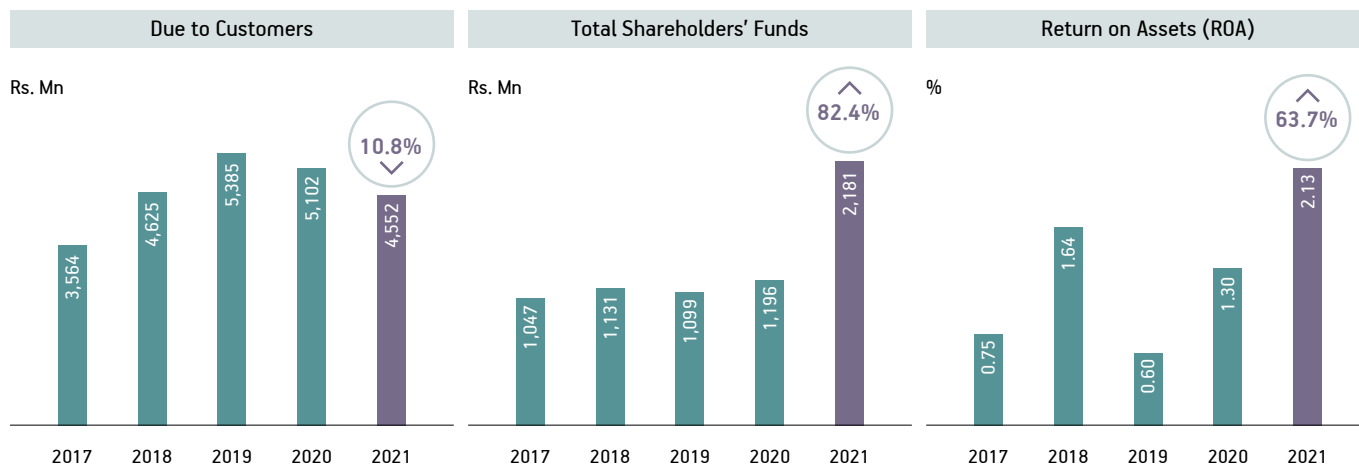
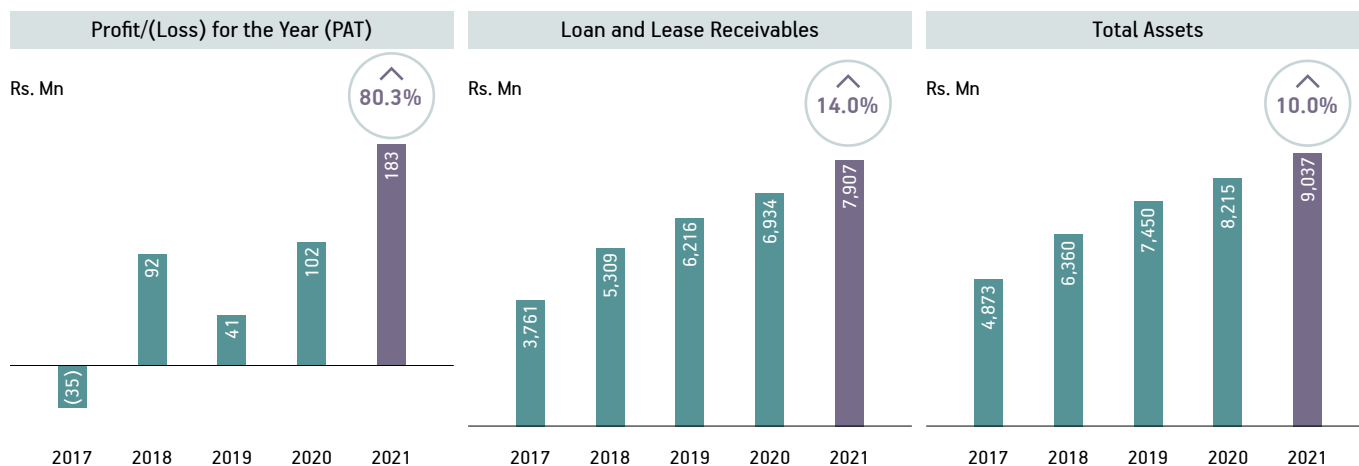
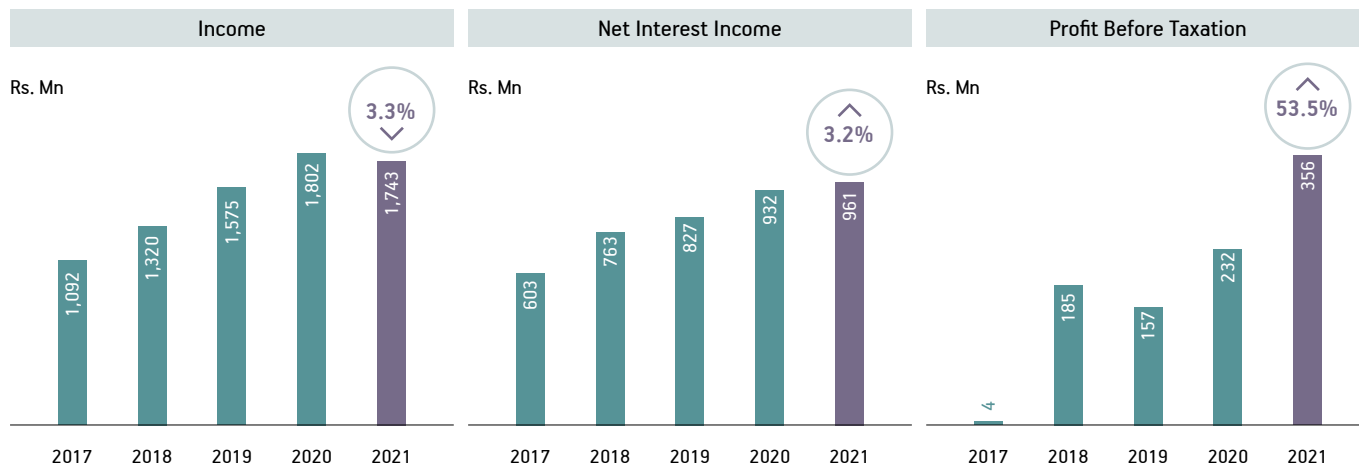
Earning per
Share

69.2%

2.18 Billion

Shareholder
Funds

82.4%



NON-FINANCIAL HIGHLIGHTS

Financial Capital

		2020/21	2019/20
Economic Value Created		1,743.5	1,802.4
Distributed to			
Depositors & Lenders	Rs. Mn	623.4	750.1
Employees	Rs. Mn	381.7	363.2
Government	Rs. Mn	99.2	125.4
Suppliers	Rs. Mn	471.4	456.6
Retained	Rs. Mn	167.8	97.1

Manufactured Capital

		2020/21	2019/20
Branches	Nos.	30	30
Customer Service Centres	Nos.	21	21
Branches Upgraded	Nos.	2	1
Branches Relocated	Nos.	2	5
Investment in Fixed Assets	Rs. Mn	33.9	23.7



Natural Capital

		2020/21	2019/20
Electricity Usage	Kwh	562,668.1	546,648.0
Electricity per Rs. Million of Revenue	Kwh	322.7	303.4
Fuel Usage	Litre	175,113.7	127,458.0
Fuel per Rs. Million of Revenue	Litre	100.4	70.7
Energy Usage per Employee	Rs.	364.8	67,417.0

Social & Relationship Capital

		2020/21	2019/20
New Lending Products	Nos.	2	3
Customer Base	Nos.	148,700	140,057
Revenue to Government	Rs. Mn	156.5	195.8
Payment to Suppliers	Rs. Mn	1,961.0	1,930.4
Products Disbursements	Rs. Mn	3,784.0	3,684.0
Marketing Initiatives	Rs. Mn	34.6	24.3
SSS Trainings	Nos.	103.0	126.0

Human Capital

		2020/21	2019/20
Total Workforce	Nos.	480	471
New Recruitments	Nos.	167	136
Employees Promoted	Nos.	64	14
Employees Trainings	Hrs	7,119	320
Employees Rewarded	Rs. ('000)	1,500	500

Fastest Growing Development Finance Company in Sri Lanka

2021, awarded by Global Banking and Finance Review - UK.





Coconut Oil

Just after we got married, my wife and I started a small coconut oil delivery business. This was in early 2019. As we went along, we felt the need of a vehicle to improve our business further. I am a member of the Sarvodaya society in my village and my wife and I approached them for advice. They directed us to Sarvodaya Development Finance to discuss the possibility of obtaining a loan facility to do the business and to buy a delivery vehicle.



After I contacted SDF, they processed our loan much faster than we expected and we also leased a vehicle and immediately began distributing coconut oil to nearby villages. Our business grew quickly and in less than a year we rented a shop space closer to the Anuradhapura main bus stand to start a wholesale business. With the support and guidance of SDF, we were able to set up a stable business that helped us to overcome many challenges during the COVID-19 pandemic. This has given us the confidence to aim for bigger things in the future.

Mr. W. A. S. M. Basnayaka
Anuradhapura

CHAIRMAN'S MESSAGE





“ Having achieved everything that we set out to do in 2020/21, all in the midst of a pandemic, SDF is now ready to embark on the next phase of its journey to empower rural and village entrepreneurs. ”

Dear Stakeholder,

On behalf of the Board of Directors, I am pleased to present the integrated Annual Report of Sarvodaya Development Finance Limited (SDF) for the financial year ended 31 March 2021. If we take a moment to reflect on SDF's journey so far, our progress, especially over the past five years, is remarkable. I trust this is because we have never wavered from our core purpose to drive responsible growth in order to empower entrepreneurs, especially the rural and village based entrepreneurs. I can safely say that our ability to not only withstand the COVID-19 pandemic impact during the year of review but also forge ahead to record the best-ever results to date is also without doubt due to the commitment to this strategy.

Before I proceed to discuss our achievements, allow me to provide some context regarding the environment in which we were required to operate in the FY ended 31st March 2021, in order to help you appreciate the significance of SDF's performance for FY 2020/21.

OPERATING CONTEXT

The Sri Lankan economy shrunk for the second consecutive year, from 2.3% in 2019 to (3.6%) in 2020. This is a significantly deeper contraction that comes on the back of a sizeable deterioration across all key sectors of the economy. However, it is worth noting that several sub sectors within the broader agriculture sector have seemingly defied the norm by growing exponentially in 2020.

Amidst a steady depreciation of the Sri Lankan Rupee, the overall size of the economy too appears to have shrunk with per capita GDP declining to USD 3,682 in 2020 from USD 3,852 in 2019.

The Rupees kept depreciating against the US\$ however managed to hold the value at around Rs.200 which may be satisfactory given the circumstances. The US\$ to LKR is a good indicator of the health and wellbeing of the economy.

CHAIRMAN'S MESSAGE

Sri Lanka's external sector exhibited a greater degree of resilience due to quick action by the Government to curtail non-essential imports at the start of the pandemic. It would have been better if the Government could rationalise its spending, sequence expenditure as the liberal loan funded debt is becoming extremely difficult to access and even more difficult to service and repay.

Meanwhile, it was a very trying time for the country's financial sector, and more so for the Non-Bank Financial Institutions (NBFI). As private sector credit appetite declined for the second year running, NBFIs found themselves in a tight spot. With credit extended by NBFIs showing a decline of (4.23)% year on year, sector-wide assets reported negative growth, plunging to Rs. 1,401 billion as at 31st December 2020. The decline in the asset book was mirrored in overall sector profitability for 2020.

Furthermore, the low interest rate regime had a bearing on deposit mobilisation and therefore, introduced liquidity challenges. The declining trend in both the industry wide asset book and profitability continued into the first quarter of 2021 as well.

In a macroeconomic summary the Government and the private sector had a major economic impact from the COVID related economic outcome and given the continuity of the pandemic these problems will not disappear fast and have the possibility of getting aggravated given the extension of COVID pandemic.

FINANCIAL PERFORMANCE

SDF recorded NPAT of Rs. 183 Mn for FY 2020/21. Not only is this an all-time high for the Company, but also an 80% increase over the Rs. 102 Mn recorded in the previous financial year.

This is an extra ordinary performance given the macro economic difficulties and challenges.

The SDF Loan Book grew by 14% in the financial year to reach Rs. 8.4 billion. The NPL's were also managed well to end the year with 9.98% against approximately 11.3% industry average.

STRATEGY AND FOCUS

Being able to demonstrate that we are a resilient, robust and successful organisation in the midst of a pandemic is a testament to our solid strategy. Our strategy to focus primarily on agriculture based grass root level communities, which has held us in good stead in the past, once again proved to be our safety net in this financial year under review too. Contrary to popular belief, this particular market segment has remained resilient and continued to attest to its ability to withstand even the harshest economic headwinds such as those brought on by a global pandemic.

The fact that grass root level farming communities were relatively immune to the pandemic compared to their city counterparts, augured well for SDF, for we were able to leverage on our highly competitive

and low interest rate structures to grow our loan book. Our lending rates were at least 30% less than our peers in the industry. The informal lending taking place across minimum of 30% of the economy is possibly six times more expensive to the borrower. This creates a confusing cocktail of rates at the grass roots not conducive for economic prosperity. Low financial literacy and access to quick finance is contributing towards this paradox.

We are committed to keep the interest rates low and provide the maximum service to our clients despite the adverse conditions surrounding us as the most reasonable financial providers in the sector. Furthermore, Government drive to encourage micro and SME businesses was also a notable feature during this period. On an overall basis, SDF's loan book expanded by a robust 14% year on year in 2020/21, far outpacing the (4.23%) negative industry growth experienced during the same period.

CAPITAL AND LIQUIDITY

SDF successfully completed a private placement launched by the Board in raising Rs. 806 million for this purpose was concluded in the current financial year, raising our shareholder funds to Rs. 2.18 Bn. This was a great effort where village societies joined private investors to raise these funds collectively.

On the liquidity front the debt moratorium provided by the Government raised certain liquidity challenges to the organisation. Meanwhile as mobilising public deposits became increasingly difficult in a low interest rate environment, we explored alternative sources to meet our funding requirements. Attracting institutional funding proved to be a challenge amidst a rebound in the local equities market and bond trading activity, while access to foreign credit lines was also limited owing to COVID related travel restrictions. Nevertheless, we are happy to report that thanks to our prudent liquidity management strategies SDF remained well liquid throughout the year.

OUTLOOK FOR THE FUTURE

Having achieved everything that we set out to do in 2020/21, all in the midst of a pandemic, SDF is now ready to embark on the next phase of its journey. The next 12 months will be crucial in setting the stage and building necessary capacity to support our progress from this point forward. The next step in this process is the proposed Initial Public Offering (IPO) that would see SDF transcending into the status of a listed entity. Importantly, the IPO aims to raise approximately Rs. 1 billion in equity capital through two tranches at the CSE IPO that we expect to deploy in October 2021.

We expect this equity injection to be a key catalyst in scaling up our operations in the coming years, as we seek to deepen SDF's penetration into its chosen markets. At this point, I would like to reiterate that the rural agriculture and SME based communities will remain the mainstay of our operations for the foreseeable future, where we will look at ways to strengthen the village entrepreneur more holistically by providing end-to-end solutions to catapult them onto a national

stage and then to a global stage. Our ultimate goal is to build an ecosystem that will mobilise the village economy to become a key enabler of national economic growth. Energised by our success this year, our teams have already begun collaborating with our network of Sarvodaya Shramadana Societies to study different models and assess the level of technology integration needed to bring about the desired transformation.

In this regard connecting the village entrepreneur and producer to the end market will be a significant feature. Utilisation of Sarvodaya societies to endorse the authenticity of the products and using village based transportation system will add much value to the village. Linking some of the products to export markets will be a key achievement in this journey. This midterm desire has the potential to convert some of our less vibrant villages into becoming export villages in the future. From a country perspective, I expect the next 12 months to be quite challenging as Sri Lanka continues to work towards stabilising macroeconomic fundamentals, all while struggling to bring COVID-19 under control. The international debt repayment by the Government, currency stabilisation, inflation control mechanisms, and liquidity management of the country will have a considerable bearing on all of us operating in the private sector territory.

That said, I believe the private sector has the energy, determination and the capability to play a vital role in providing the impetus for economic progress.

On our part, we will remain focused on championing rural economic growth as the foundation for Sri Lanka's post-COVID economic recovery. We will continue to provide liquidity and funding at reasonable rates to the micro and SME village entrepreneurs of Sri Lanka.

We will also encourage them and provide all assistance in regards to building their business through knowledge transfer in a current context that will add value to them. We believe these efforts will certainly provide them great strength in their long term journey.

APPRECIATIONS

While I am deeply appreciative of all that SDF has achieved thus far, I sincerely acknowledge that it has been a true team effort. On that note, I would like to take this opportunity to thank our CEO Mr. Nilantha Jayanetti and each and every one of SDF's 480 employees for their dedication and commitment to stay focused on doing what is right for our customers and for supporting the Company throughout. Our staff demonstrated an extremely outstanding commitment to work. Their passion to work hard, commitment to drive relentlessly and desire to produce great outcomes were well witnessed throughout the year.

I also wish to thank my fellow Board members for their staunch and unfailing support.

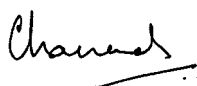
Special words of gratitude & appreciation to Dr. A T Ariyaratne - the founding father of the Sarvodaya Movement for his constant guidance and deep wisdom. I also extend my sincere thanks to the current Sarvodaya leadership, including the President Dr. Vinya Ariyaratne, the Board of Sarvodaya, Executive Director Mr. Chamindha Rajakaruna and the entire Sarvodaya Movement for their continued support provided to the SDF. As an organisation SDF works very closely with Sarvodaya Movement with villages and Sarvodaya Societies.

The devotion of loyalty of the Sarvodaya Societies, our village based members, and their network of Sarvodaya supporters is the backbone of SDF and we thank them profoundly for being with Sarvodaya for a time span of six decades and continue to be the corner stones of our development agenda.

All our customers have shown great loyalty and affection to the organisation and our employees. We thank all of them profoundly for being a part of SDF and we look forward to build on these relationships. I am also very grateful for the assistance received from all external stakeholders - shareholders, investors, bankers and regulators, in particular the Governor of the Central Bank of Sri Lanka and the officials at the Department of Supervision of Non-Bank Financial Institutions of CBSL.

The Board joins me in thanking each one of you for placing your trust in us. We hope that you will continue to support SDF to serve you better with great commitment in the years ahead as well.

Sincerely



Channa de Silva
Chairman

14th July 2021

CEO'S REVIEW





“ International recognition of SDF as the fastest growing development finance company in Sri Lanka, reflects SDF’s contributions towards its customer segments over the years, and in particular during the COVID-19 pandemic.”

Dear Stakeholder,

As we reach a year of living with the COVID-19 pandemic globally and locally, it is clear that we are in a world that is being transformed. Needless to say, the social and economic impact of COVID-19 was disastrous and unlike anything else we have seen before. In addition to the toll on human life as well as livelihoods, the pandemic waves throughout 2020/21 have been responsible for causing widespread chaos across the financial sector. It is now feared to be the deepest recession the world has seen over so many decades. In Sri Lanka, the first signs of COVID-19 emerged just after the local economy was regaining its balance after the Easter Sunday attacks. Government efforts to lockdown the country in a bid to curb the spread of the virus became the turning point of the Sri Lankan economy. However, I must appreciate the immediate actions taken by the Central Bank of Sri Lanka during this unprecedented disruption such as the Debt Moratorium Scheme which went a long way in easing the burden of COVID-19 affected businesses and individuals. As a sector, we have a critical role to play in the road to recovery by providing advice, relief and services to our customers and their businesses.

However, I must admit that for Sarvodaya Development Finance Limited (SDF), this interruption to normalcy provided a unique opportunity to demonstrate our ability to put the wellbeing of our employees and customers above all else.

TAKING CARE OF OUR EMPLOYEES

As the first wave of COVID-19 infections surged in late March 2020 and lockdowns ensued, the Company moved speedily into action, implementing a range of operational measures. Some of the key measures, included; setting up protocols for working from home, providing transport, and personal protective equipment to ensure the safety of all our staff, and furnishing our branches with sanitisers and introducing social distancing practices and hygiene to safeguard our customers as well as our employees. When a few SDF employees contracted the virus, we opened up a dedicated COVID-19 quarantine unit at the Sarvodaya Centre in February 2021, specifically for the use of our staff, while the medical insurance scheme was expanded to include COVID-19 related cases.

CEO'S REVIEW

However, I am glad about the fact that despite the challenges, we were able to continue with the Human Capital development activities. We kept our team motivated by giving them a bigger role in planning and greater responsibilities for decision making. Apart from this, we promoted some outstanding employees during the year and took the first steps towards formalising flexible work practices which will give our employees the opportunity to benefit from a better work-life balance on a more consistent basis. Moreover, we were able to reward our employees for their immense support during this challenging period through a bonus payment of 1.1 times of their monthly salary.

SUPPORTING OUR CUSTOMERS

As a development finance institution, our approach to customers has always remained distinctly different from other financial institutions. At SDF, we believe in standing alongside our customers and their families not only in good times but also when the tide changes. This past year gave us the opportunity to do just that. With all our branches closed to customers for the entirety of the lockdown, we encouraged our sales teams to be proactive and stay in constant contact with their customers over the phone and where possible through WhatsApp groups or social media. In parallel, we began engaging our staff to process the vast number of moratorium applications that we continued to receive throughout the first quarter of the financial year. I am happy to say that of the applications received, the debt moratorium was extended to approximately 90%.

Further we engaged with vulnerable customers who were not eligible for the moratorium and offered them relief in other ways. Beyond this, we increased the frequency of the recovery clinics conducted by our Society Coordination Unit for the membership of the Sarvodaya Shramadana Societies and encouraged our customers to use digital platforms such as the PayGGo enabled POS terminals at Societies and the mCash mobile payment facility to make their settlements without visiting our branches.

Meanwhile we ensured all branches were reopened from mid May 2020 onwards once lockdown restrictions were lifted. On a related note, we relocated several of our branches with the intention of improving the facilities available to customers.

OPERATIONAL HIGHLIGHTS

I must admit the first quarter was a tough period on the operational front, as the lockdown prevented us from pursuing any new business opportunities. However, once things opened up again in May 2020, we saw an almost instantaneous turnaround, for we found that our target market of mainly rural farming communities were less affected by the pandemic than those in cities. Another key aspect that worked in our favour was the strong push for growing activity amidst food security fears caused by pandemic with a culmination of these factors driving up demand for agri equipment, SDF's leasing volumes grew exponentially in the FY 2020/21 to record a massive 73% increase compared to the previous year. Meanwhile, with work from home and

online school becoming the new norm, we moved quickly to leverage on the opportunity by launching "Nena Diriya", a special leasing solution for laptops. The product which was launched in August, 2020 has since proven to be a phenomenal success, showing strong monthly growth in volumes.

The heightened interest in growing activity around the country translated into SDF's SME portfolio as well. Surpassing initial estimates, new volumes for the current financial year doubled compared to what was recorded in the previous year. Bolstered by strong growth in both the leasing and SME volumes, SDF's overall lending portfolio reflected growth of a solid 14%, year on year.

On funding side, we looked to consolidate our Deposit base, with the low interest rate proving to be an un conducive environment for mobilising deposits, we instead focused our attention towards customer retention. The strategy yielded good results as evinced by our 85%+ retention ratio. At the same time seeing as the rate differential between FD's and savings was at an all-time low, we seized the opportunity to boost our savings portfolio and thereby lower our cost of funds where our average cost of funds declined by 17% compared to the previous financial year.

Since our lending operation was hindered during the lockdown months, we quickly shifted our focus on recoveries. Recovery efforts were driven by the recoveries team along with the call centre team by bringing loan to NPL at 9.99%. Moreover, the cost management initiatives resulted in cost to income ratio of 71% which is a reduction of 6% compared to the previous year.

FINANCIAL RESULTS

Item	2021	2020	Change (%)
Profit for the Year (Rs.000)	183,357	101,716	80.26%
Total Assets Base (Rs.000)	9,036,598	8,215,216	10.00%
Cost to Income	70.8%	76.9%	-7.93%
Return on Assets (ROA)	2.1%	1.3%	63.51%
Return on Equity (ROE)	10.9%	8.9%	22.42%

AWARDS

The work we do in uplifting the lives of rural communities, in itself, is a very rewarding experience, but to be recognised for it proves that SDF is indeed a true champion of rural economic growth. I refer to the recent accolade at the UK-based, Global Banking and Finance Review Awards 2021, where SDF won global recognition as the fastest growing development finance company in Sri Lanka. This international recognition of SDF as the fastest growing development finance company in Sri Lanka, reflects SDF's contributions towards its customer segments over the years, and in particular during the COVID-19 pandemic in this past year.

The international award, which is valued throughout the global banking and financial community, recognises companies in the financial sector that specialise and excel in their chosen field. The high level of global competitiveness in applications and independent judging process makes the Global Banking and Finance Review Awards a globally prestigious vote of recognition.

DIGITAL AGENDA

Our strategy to deepen our investment into digital technology held in good stead this past year. Having invested consistently over the past few years to create a virtual server ecosystem for Mission Critical Applications ("MCA"), we were assured that SDF's underlying infrastructure was stable and in optimal condition to safeguard against adverse, unplanned outages. Thanks to this cloud-based technological architecture, the shift to the remote working environment proved to be a painless process. In fact the entire SDF team was able to seamlessly transition to remote working without a single lost day.

The pandemic environment saw SDF further accelerating its digital agenda. Moving swiftly ahead to adapt to the new normal environment, we further upgraded our IT infrastructure to enhance our capacity and build resilience. We invested in new hardware and expanded our storage networks to ensure that our infrastructure can meet the additional load. We invested in the latest video conferencing technology to enable all meetings including Board meetings and Committee meetings, to be conducted virtually. We also set a new industry standard by becoming the first financial institution in Sri Lanka to roll out the Google app sheet platform to dynamically strengthen our internal workflow systems. I am indeed very happy to say that SDF was thus able to maintain its unblemished compliance record for all regulatory filings and disclosure requirements throughout the lockdown period.

Meanwhile, in the context of the pandemic, we reviewed our entire Business Continuity Management programme with special emphasis on addressing the information security implications that may arise if remote access was granted for an extended period of time. To help us to gain a broader peripheral understanding, we sought the assistance of our information security audit partner to review SDF's existing BCM framework and recommend necessary improvements in line with global standards and best practices.

MOVING AHEAD

Being able to beat the odds and achieve our best ever results to date amidst a pandemic, speaks volumes about the relevance of our business model and SDF's resilience as an organisation. Hence I am very upbeat about the future prospects for SDF.

The outlook for the country too remains positive, with the projected "U" shaped economic recovery largely premised on the rapid expansion of the agriculture sector over the next few years. Moreover, with the Government's recent announcement regarding the banning of

chemical fertilisers also being well received by a majority of the farming community, I have reason to believe that growing activity and agricultural output is likely to grow exponentially in the coming years. Amidst this backdrop our first mover advantage serving grass root level Agri communities and our competitive rate structure, gives SDF a clear lead to fuel Sri Lanka's ambition in making the rural economy an engine of growth for the nation.

I expect SDF's proposed IPO in October 2021 too will boost our ability to further augment our value proposition in a way that can produce sustainable benefits to a broader cross section of our target market.

ACKNOWLEDGEMENTS

I wish to extend my sincere gratitude to the Chairman and Board of Directors for the support extended to navigate the Company in an exceptionally challenging year.

I would like to express my thanks to every single one of our customers for their confidence placed on us specially the Sarvodaya Sharamadana Societies. The trust you have placed in our Company over the years and especially in these difficult times has inspired us to aim for better heights in the future.

I am deeply grateful to the members of the SDF family, for your commitment towards SDF during one of the most challenging periods over a 30-year history. I am honoured by your sheer dedication despite the numerous pandemic-related constraints.

Special mention should also be made of Sarvodaya Movement which has been a source of support throughout this testing year. I extend my profound thanks to Dr. A.T. Ariyaratne and Dr. Vinya Ariyaratne for providing sound guidance which supported to take SDF from strength to strength.

In conclusion, our appreciation to the Governor of the Central Bank of Sri Lanka and the officials at the department of Supervision of Non-Bank Financial Institutions for their guidance and support throughout the year and to our External Auditor, EY for their valuable input and timely completion of the audit.

Sincerely



Nilantha Jayanetti
Chief Executive Officer

14th July 2021

BOARD OF DIRECTORS



MR. CHANNA DE SILVA
Chairman – Non-Executive/Independent

Mr. Channa de Silva was appointed to the Board in April 2011 thereafter appointed Deputy Chairman in November 2014 and assumed office as the Chairman of the SDF in October 2016.

He previously served as Managing Director of Summit Finance PLC as well as Managing Director of George Steuart Finance PLC. Formerly, he served as a Director of Pan Asia Bank PLC. He also served as Group Managing Director of Delmege Group Limited. He has served the government sector previously as Director General of the Securities and Exchange Commission (SEC) and the Executive Director of the Board of Investments (BOI) Sri Lanka. He is the Chairman/Co-founder of Capital Media.

He holds a Bachelor's Degree from the University of Colombo and Master's Degrees from Harvard University and Melbourne University. Fellow of the Chartered Institute of Management Accountants (FCMA – UK) and Fellow of the Chartered Certified Accountants (FCCA – UK).

He is the Vice President of the Sarvodaya Movement and also serves as the President of the University of Colombo Graduates Association. He is a Sri Lanka Board member of the Member network panel of the Association of Chartered Certified Accountants (ACCA - UK) as well as Sri Lankan Council member of the Chartered Institute for Securities & Investments (CISI - UK). He is an Edward Mason Fellow of Harvard University and served as a Teaching Fellow in Public Finance at the Harvard Kennedy School.



DR. RICHARD W. A. VOKES
Non-Executive/Independent

Appointed to the Board in March 2013, Dr. Vokes currently works as an Independent Economic Consultant. From 1991-2011, he worked for the Asian Development Bank where he held a number of senior positions including Country Director for Nepal and later Sri Lanka. He has also been a Board Member of the Himal Hydro and Gorakali Tyre Company in Nepal, the South Asia Gateway Terminals and the National Development Bank (NDB) in Sri Lanka. Dr. Vokes was the Assistant Professor of Rural Development Planning at the Asian Institute of Technology (AIT), Bangkok, Thailand, from August 1978 to December 1982. Between 1985 and 1991, Dr. Vokes was Lecturer in Economics and South East Asian Studies at the University of Kent, Canterbury, UK. Specialising in Economic Development of South and South East Asia, Dr. Vokes has extensive experience in conflict and post-conflict environments and disaster reconstruction and rehabilitation, policy dialogue and project and programme management. In addition to Sri Lanka and Nepal, Dr. Vokes has work experience in Thailand, Philippines, Malaysia, Lao PDR, Vietnam, Bhutan, Maldives, Cambodia and Myanmar. Dr. Vokes holds a PhD in Economics from the University of Hull (1978), Certificate of Education in Economics, Hull College of Education (1973) and BA (Hons.) in Economics and South East Asian Studies from the University of Hull (1972).



MR. MASAYOSHI YAMASHITA
Non-Executive/Non-Independent

Born in Tokyo in 1973, Mr. Masayoshi Yamashita holds a degree from the Department of Political Science at Hosei University (Japan) and currently serves as the President and CEO of Gentosha Total Asset Consulting Inc. Mr. Yamashita began his career at the Sanwa Bank (now MUFG Bank, Ltd.), as a coverage banker for corporate clients at the bank's Iidabashi Branch, Hibiya Branch and Corporate Banking Division of Tokyo Headquarters. There, his duties included providing support for corporate funding, overseas expansion, and management finance strategies, offering settlement solutions, and making proposals to company owners looking to establish business succession frameworks. At the Sanwa Bank Headquarters, Mr. Yamashita not only gained experience as a credit inspector and president's secretary but also developed expertise in crisis management support. After joining Gentosha Inc. (a Japanese publishing firm) in 2006, Mr. Yamashita served as a business management specialist in the Business Management Department, utilising the experience he had gained in IR, stockholder relations, internal control development, IPO preparation, MBO and other initiatives for listed companies from a corporate perspective. In 2012, Mr. Yamashita helped found Gentosha Total Asset Consulting Inc. and now also holds several concurrent positions, including Executive Officer of Gentosha Inc.



DR. JANAKI KURUPPU
Non-Executive/Independent

Dr. Janaki Kuruppu was appointed to the Director Board of SDF on 22nd December 2015. Dr. Kuruppu brings with her 27 years of professional experience to enhance the operations of the SDF family. Her experience in development banking as the first Chairperson of the Regional Development Bank which she set up by merging six provincial level banks to become the development bank with Sri Lanka's largest network, experience in retail and corporate banking and finance companies adds value to SDF.

Starting her career as an entrepreneur, Dr. Kuruppu was singlehandedly responsible for bringing Nielsen to Sri Lanka and spearheaded it to become the largest Market Research Company of that time as its first CEO/Managing Director. Thereafter, she served the Cargills Group as the Group Director - Strategic Planning and Business Development. After an illustrious career in the private sector, she served the public sector for seven years in an advisory capacity. Her tenure in the Public Service is marked with many milestones. Namely, she has the distinct honour of being the first Chairperson of the Regional Development Bank and the first female Chairperson of the Sri Lanka Tea Board. She also founded the Mother Sri Lanka Trust, a non-profit organisation to pioneer proactive participation in nation building. Dr. Kuruppu was also an Adviser to the Cabinet Sub Committee for Food Security and Cost of Living Management, Director of the Co-operative Wholesale Establishment, Commercial Bank, Colombo Dockyard and The Green Building Council and a Director of the Presidential Secretariat.

Dr. Kuruppu holds a PhD from the University of Colombo, an M.A. in Statistics and a BSc in Mathematics from the University of Missouri, USA. At present, Dr. Kuruppu is the Chairperson of Mother Sri Lanka Trust, runs her own business ventures and also works as a freelance business strategy and development consultant while serving as a member of many corporate boards.

BOARD OF DIRECTORS



MR. CHAMINDHA RAJAKARUNA
Non-Executive/Non-Independent

Chamindha Rajakaruna, is the Executive Director of Sarvodaya Shramadana Movement of Sri Lanka, the largest non-governmental organisation in the country since 2015. He was appointed to the Board of Directors of Sarvodaya Development Finance Limited on 01st November 2017.

Mr. Rajakaruna was a prominent student of Royal College, Colombo 07 and he obtained his Bachelor's Degree in Agriculture from the University of Peradeniya with a Second-Class Upper. He started his postgraduate studies, Master of Science in Water Resources Engineering in Belgium, in Katholieke University, Leuven (2003) and in Vrije University, Brussels (2004). Afterwards he entered the Technical University of Karlsruhe, Germany for his second Masters of Science Resources Engineering (2006). In his academic career, Mr. Rajakaruna was awarded two scholarships from the Governments of Belgium and Germany, namely Vlaamse Interuniversitaire Raad (VLIR) and Deutscher Akademischer Austausch Dienst (DAAD).

After his return to Sri Lanka in end-2006, Mr. Rajakaruna joined the Sarvodaya Shramadana Movement as its Legal Officer. Subsequently, the National Awakening and Good Governance programme of Sarvodaya 'Deshodaya' was handed over to him and he was appointed Director of the Deshodaya (Awakening the Nation) Secretariat.

The Foreign and Commonwealth Office of the United Kingdom offered him the Chevening Fellowship to study Government and Civil Society/NGO Relations in Wolverhampton University, UK. He also has served in the capacities of Project Director and Project Manager of a few USAID, Canadian High Commission, Embassy to Switzerland and Royal Norwegian Embassy funded projects to promote reconciliation and good governance in Sri Lanka.

He presently serves as a Director of Sarvo-Tec (Pvt) Ltd., and the Sarvodaya Institute of Higher Learning.

Mr. Rajakaruna is also an Attorney-at-Law in the Supreme Court of the Democratic Social Republic of Sri Lanka.



MR. C. AMRIT CANAGARETNA
Non-Executive/Independent

Experienced and a qualified ex-banker with over 35 years of international and local experience specialising in retail and corporate conventional and Sharia-based financing, with the last seven years ending 2017 heading Corporate and SME Business Banking areas of Islamic Financing at Amana Bank Plc as its Vice President – Business Banking.

Previously he has been the Deputy General Manager of Pan Asia Bank PLC.

Skilled at financial advisory services relating to working capital funding to financial institutions, corporates, small & medium sized Industries, start-ups including foreign trade financing and construction finance. Having commenced his career at European Asian Bank in 1981, he has since worked for over eight banks both locally and internationally. Apart from his banking experience, he was the CEO/Director of a Central Bank approved Finance Company and has been a Financial Consultant to both private/Government entities.

Currently Amrit is pursuing his passions in representing luxury brands in Sri Lanka in his capacity as Director – Strategic Investments of Royal Lanka Agencies (Pvt) Ltd. Sole Agents for MontBlanc, Baume & Mercier, Raymond Weil, Frederique Constant & Alpina Swiss brands.

He is a Associate member of the Chartered Institute of Bankers, UK and of the Institute of Credit Management, UK.



MS. SHEHARA DE SILVA
Independent/Non-Executive Director

Shehara De Silva was appointed to the Director Board of SDF on 27 June 2019. An experienced international communication and marketing expert, Shehara has been behind the success of several local, regional and Fortune 500 multinational brands.

Shehara has worked over a decade in Malaysia with Omnicom companies beginning as Director Planning of Naga DDB and later Managing Director of Interbrand Malaysia, one of the world's leading brand consultancies.

She is on the Board of Keells Foods Plc, The Neelan Tiruchelvan Trust, Informatics Institute of Technology and Ex-Pack Corrugated Cartons. She has been previously on the boards of Environment Foundation Ltd, Arthur C Clark Centre for Science and Technology, and Eagle Fund Management. She has also worked in the development sector with ILO, Internews, USAID, NORAD, GIZ, and Plan International.

She was Deputy Director General of the Board of Investment (BOI-SL), trained on attracting FDI at the IDA in Ireland. She facilitated in the transformation of three Sri Lankan groups - Singer in Retail, NDB in Banking and Janashakthi in Insurance.

She has sat on several think tanks, judged Innovation awards from the Eisenhower fellowship and Ray awards, to MIT global start-ups and the Roger Herschel creativity awards. She has spoken extensively at international conferences on branding, strategy and gender issues and won several local and international marketing and women leadership awards.



MR. SUNIL DE SILVA
Independent/Non-Executive

Mr. Sunil De Silva is a Professional Banker with over 41 years of experience in the areas of Corporate Banking, Retail Banking, Micro Finance, General Banking, Credit Management and Recoveries. Mr. De Silva commenced his banking career with Bank of Ceylon and served Bank of Ceylon London during 1988-1991. He has served as the Senior Deputy General Manager, Seylan Bank PLC and the Deputy General Manager of Pan Asia Bank PLC.

He holds a Bachelor of Arts Degree from the University of Peradeniya. He holds a Post Graduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka.

Mr. De Silva is a Fellow of the Institute of Bankers of Sri Lanka. He has also served as the High Commissioner of Sri Lanka to South Africa (2015–2018) and Kenya (2018–2019). He was the Sri Lanka's permanent representative to UN Environment Programme and U N Human Settlement Programme (UNHABITAT) during 2018-2019.

He was a lecturer in lending and credit management at the Institute of Bankers - Sri Lanka and Centre for Banking Studies for over 22 years. He is the author of the first banking book on credit management subject in Sri Lanka, 'Credit Management - A Hand Book for Credit Officers' which is a recommended hand book for banking exams. He has also served as a member of the Board of Directors of Mahaweli Development Board during the period of 2005–2010.

Currently he serves on the Seylan Development PLC Board as a Senior Independent Director.

BOARD OF DIRECTORS



MR. DAMMIKA GANEGAMA
Non-Executive/Independent

Mr. Dammiika Ganegama joined the Sarvodaya Finance Board of Directors in July 2020. Having more than 25 years of experience in the IT industry, Mr. Ganegama started his professional IT career when he joined a small startup in 1999. He programme managed many of the strategic accounts, helping increase their valuation and later to be part of its listing in 2007 with NASDAQ (VRTU). He is currently a Founding Partner and Executive Vice President of the Mitra Group.

The Mitra Group is headquartered in the UK with offices across Australia, Sri Lanka, Singapore and the US serving clients across 50+ countries. Mr. Ganegama owns and operates multiple ventures and businesses across many geographies and has also been appointed as a trusted advisor for several organisations. He has developed a wealth of experience in consulting and implementing digital transformation programmes for global clients ranging from SMEs, public sector, large scale enterprises and multi-nationals including Siemens, Aetna, BT, Staples, Axiata, IBM and other Fortune 500 clients. His experience and passion extend to programme management, setting up technology lead new businesses, ventures and partnerships across various industry verticals.

CORPORATE MANAGEMENT



MR. NILANTHA JAYANETTI
Chief Executive Officer

Jayanetti has a wealth of experience in the sphere of banking and finance, having served in senior management positions in reputed financial institutions with proven skills in marketing, business transformation, team building, operations management and proactive leader in adopting technology and finance and risk management.

Before joining SDF, he served as the Senior Assistant General Manager at Orient Finance PLC for seven years, where his initiatives that led to change in the business drive has positioned the company as a top brand in the industry, prior to which he has worked as the Marketing Manager at Merchant Bank of Sri Lanka and Finance PLC (formerly known as Merchant Credit of Sri Lanka).

Holder of a Degree in Business Management with a specialisation in Accountancy from the University of Kelaniya, Jayanetti went on to obtain an MBA (Banking and Finance) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He has followed a programme on Strategic Leadership from Cornell University – Johnson Graduate School of Management, USA.

SENIOR MANAGEMENT TEAM



Seated

Nilantha Jayanetti - *Chief Executive Officer*

Standing

Kelum Thilakerathne - *Head of Leasing* | Darshana Perera - *Senior Manager - Recovery* | Prabath Rangajeewa - *Head of Gold Loan*
Mahesh Jayasanka - *Chief Manager - Finance* | Kularuwan Gamage - *Head of Operations & Administration* | Anusha Fernando - *Head of Legal*
Yenuka Geemal - *Senior Manager - Treasury*

SENIOR MANAGEMENT TEAM



Seated

Piyal Salwathura - *Assistant General Manager - Human Resource*

Standing

M A S Gunasekara - *Senior Manager - Sarvodaya Society Coordination* | Dilshan Dissanayake - *Head of IT*

Manjula Kumarasinghe - *Senior Manager - Credit Administration* | Nipuna Fernando - *Senior Manager - IT Operations*

Chandana Bandara - *Head of Internal Audit* | Jayashan Nilruwan - *Manager Risk* | Chaminda Niroshana - *Senior Manager - Operation*

REGIONAL MANAGERS



Seated

Chaminda Kumara - *Regional Manager - Region 03*

Standing

Amila Rajapaksha - *Regional Manager - Region 02* | Buddhika Sanjeewa - *Regional Manager - Region 07*

Manoj C Fernando - *Regional Manager - Region 09* | Thushara Cooray - *Regional Manager - Region 05*

Jude Dharmasena - *Regional Manager - Region 4 / 10* | Ramesh Kanthaperumal - *Regional Manager - Region 08*

Chathura Kodippili - *Acting Regional Manager - Region 06* | Sujith Asanka - *Regional Manager - Region 01*

BRANCH AND CUSTOMER SERVICE CENTRES' MANAGERS

Region	Branch	Full Name	Contact Numbers	Office Mobile	Office E-mail
Region 01	Delgoda CSC	C U Speering	115941666	0762937248	mgrdelgoda@sdf.lk
	Pasyala CSC	M D S Amila Perera	335112666	0740406161	mgrpasyala@sdf.lk
	Panadura Branch	A S K De Alwis	385111666	0776744901	managerpanadura@sdf.lk
	Homagama Branch	R B R Thushara	115944666	0761882861	managergampaha@sdf.lk
	Piliyandala CSC	H M A D C Madushan	115945666	0772972086	mgrpiliyandala@sdf.lk
Region 02	Galle Branch	B H G P C Jayalath	915111666	0777521173	managergalle@sdf.lk
	Ambalantota Branch	S P T H Subasinghe	475111666	0777523957	managerambalantota@sdf.lk
	Matara Branch	R S Koswatta	415111666	0771571282	managermatara@sdf.lk
	Akuressa CSC	M W P Kumuduni	415114666	0768693068	mgrakuressa@sdf.lk
	Karandeniya CSC	K L S P Karunarathna	915112666	0740749140	mgrkarandeniya@sdf.lk
	Kamburupitiya CSC	M A Laksiri	415116666	0774803861	mgrkamburupitiya@sdf.lk
Region 03	Monaragala Branch	H M G C Nishan	555115666	0766217012	managerbuttala@sdf.lk
	Ampara Branch	W M J Bandara	635111666	0777525179	managerampara@sdf.lk
	Badulla Branch	W H N Nilantha	555111666	0762868914	managerbadulla@sdf.lk
	Kataragama CSC	K E Solamans	475112666	0777527137	mgrkataragama@sdf.lk
	Medagama CSC	H A S W Hettiarachchi	555113666	0776723380	mgrmedagama@sdf.lk
	Mahiyanganaya CSC	K M D P B Kulasekara	555112666	0760305873	mgrmahiyangana@sdf.lk
Region 04	Vavuniya Branch	P Ayngaran	245111666	0764810722	managervavuniya@sdf.lk
	Jaffna Branch	F Amalas	215111666	0778513766	managerjaffna@sdf.lk
	Mannar CSC	S Anujananth	235111666	0766125632	mgrmannar@sdf.lk
Region 05	Godakawela Branch	B G N Jayathilake	455112666	0777548398	managergodakawela@sdf.lk
	Balangoda Branch	K V S Dhanapala	455111666	0763167288	managerbalangoda@sdf.lk
	Ratnapura Branch	E K M P Amarasinghe	455113666	0763415974	managerratnapura@sdf.lk
	Kegalle Branch	P T Cooray - (AM)	355111666	0777540209	managerkegalle@sdf.lk
	Ruwanwella CSC	M G V Maweekumbura	365111666	0777508672	mgrruwanwella@sdf.lk

CSC- Customer Service Centre

AM -Acting Manager

Region	Branch	Full Name	Contact Numbers	Office Mobile	Office E-mail
Region 06	Kebithigollewa Branch	H Liyanage	255112666	0768388683	managerkebithigollewa@sdf.lk
	Thambuttegama CSC	P W D Samantha	255114666	0777540253	mgrtambuttegama@sdf.lk
	Parackramapura CSC	P I Jayathilaka	255115666	0769419627	mgrparakkramapura@sdf.lk
	Anuradhapura Branch	C Kodippilli - (AM)	255111666	0760386981	manageranuradhapura@sdf.lk
	Kekirawa CSC	M G S P Herath	255113666	0740999165	mgrkekirawa@sdf.lk
Region 07	Matale Branch	R M R S B Ranaraja	665112666	0767427785	managermatale@sdf.lk
	Kandy Branch	M S Premarathne	815113666	0740384634	managerkandy@sdf.lk
	Nawalapitiya CSC	C P Hettiarachchi	545111666	0774791083	mgrnawalapitiya@sdf.lk
	Digana CSC	I A P Jayasighe	815112666	0762929079	mgrdigana@sdf.lk
	Nuwaraeliya Branch	M G P A B Wickramasinghe - (AM)	525111666	0763167406	managernuwaraeliya@sdf.lk
	Hatton CSC	H B Sanjeewa - (AM)	515111666	0769976624	mgrhatton@sdf.lk
Region 08	Trincomalee Branch	P J Niroshan	265111666	0778232279	managertrinco@sdf.lk
	Baticalloa Branch	B Selvanayagam	655111666	0773137784	managerbaticalloa@sdf.lk
	Kalmunei CSC	A M Jaleel	675106666	0771065108	mgrkalmunai@sdf.lk
Region 09	Kuliyapitiya Branch	D M I Dayaratna	375111666	0777540588	managerkuliyapitiya@sdf.lk
	Puttalam Branch	W S P S Rodrigo	325113666	0761652452	managerchilaw@sdf.lk
	Chilaw Branch	S M N S Bandara	325111666	0740017029	managerchilaw@sdf.lk
	Gampaha Branch	M F S C Fernando	335111666	0740405646	managergampaha@sdf.lk
	Nattandiya CSC	R D T L Kumara	325112666	0771960463	mgrnattandiya@sdf.lk
	Minuwangoda CSC	K S Silva	335113666	0762857084	mgrminuwangoda@sdf.lk
Region 10	Dehiattakandiya CSC	S A J Chaminda	275113666	0764447838	mgrdehiattakandiya@sdf.lk
	Kurunegala Branch	A M H M B Jayaweera	375112666	0764783556	managerkurunegala@sdf.lk
	Medirigiriya Branch	A E Weerakkody	275111666	0764868419	medirigiriya@sdf.lk
	Polonnaruwa Branch	M P Sooriyaarachchi	275112666	0771462489	managerpolonnaruwa@sdf.lk
	Dambulla Branch	A M C M Samarakon	665111666	0740573981	managerdambulla@sdf.lk
Head Office	Borella Branch	Asanka J A D S - (AM)	115942666	0764831124	asankas@sdf.lk



Jackfruit Products

I am one of the oldest members of the Dibbedda Sarvodaya society, which I joined almost 35 years ago. Over the years I have had the opportunity to participate in many training programmes conducted by the society, which helped me to sharpen my entrepreneurial skills and gave me the confidence to start my own business venture to make processed jackfruit products on a small scale. Through the society I then approached Sarvodaya Development Finance (SDF) to see if they could help me with the credit facilities to import machinery and improve my production infrastructure. SDF understood my needs and helped to arrange the funding and with their support I was able to expand my product range.



Today my products are sold across the island including in popular supermarket chains. With my product range doing well in the market, I was able to focus on developing new products and have now even secured several patents for a number of unique products, all using jackfruit as a base. I have also been able to secure three patents for jackfruit milk powder, jackfruit (vegan) chili paste and toothpaste made from tender jackfruit leaves. Of these, the chili paste is very popular in the market. Given my lifelong passion for jackfruit, I am known as “Kos Mama” in my village, a title which I consider to be a great honour. As the next step, I hope to export some of my products and look forward to working with SDF to make this dream a reality.

Mr. S. L. M. Silva - Kos Mama
Panadura

BUSINESS MODEL

External Environment

Opportunities and Challenges

MISSION

STRATEGY

INPUTS



FINANCIAL CAPITAL
 Equity Capital - Rs. 2,181,385,226
 Debt Capital - Rs. 1,729,624,109
 Deposit Base - Rs. 4,551,945,183



MANUFACTURED CAPITAL
 30 branches, 21 Customer Service Centres
 Access to 4500+ ATM's
 5400 Sarvodaya Shramadana Societies
 Data Centre Support Systems



INTELLECTUAL CAPITAL
 Brand Philosophy
 Digital Transformation Agenda
 Culture of Ethics



HUMAN CAPITAL
 480 employees
 Human Capital Development Approach
 HR Governance
 Workforce Planning



SOCIAL AND RELATIONSHIP CAPITAL
 Customer philosophy
 Supply chain management
 Investor Relations Management
 Community Outreach Policy




NATURAL CAPITAL
 Monitoring and tracking
 Investing in green branches

CORPORATE GOVERNANCE FRAMEWORK

Value Adding Activities

Core Business Activities	Support Services
SME Loans	IT
Micro Loans	Finance
Society Loans	Operation and Administration
Housing Loans	Recoveries
Gold Loans	Legal
Leasing	Procurement
Fixed Deposits	
Savings	



Enterprise Risk Management

VISION

INPUTS

Growth in captive market share market

Stronger overall Brand Equity

Improved credit rating

Lower costs through operational excellence

Higher employee productivity and motivation

More satisfied customers

Organisational resilience to support business continuity

STAKEHOLDER OUTCOMES

Shareholders

2020/21

ROE - 10.86% (8.87% - 2019/20)

ROA - 2.13% (1.30% - 2019/20)

EPS - Rs.2.55 (Rs. 1.51 - 2019/20)

Short Term Targets

Value creation through IPO

Long Term Goals

Customers

2020/21

New Loans – Rs. 3,784,664,760
(Rs. 3,667,549,581 - 2019/20)

Digital Payment Solutions - PayGo and mCash

Dedicated Customer Complaint Hotline 1319

Short Term Targets

Off site customer touchpoints for greater convenience

Improve overall customer convenience through digital technology

Long Term Goals

Digital solutions for online real time access

Employees

2020/21

Promotions – 64 (F:5, M:5)
(14 (M:10, F4)- 2019/20)

Gender Balance – F: 40%,M: 60%
2019/20 : F: 45%, M: 55%)

Total Value of Benefits distributed
Rs. 381.67Ml (Rs. 363.24 - 2019/20)

Short Term Targets

Promote more women in the workforce

Develop a 1:1 leadership pipeline

Long Term Goals

Maintain a 50:50 Gender Ratio

Reduce employee attrition to below 10%

Suppliers

2020/21

Total Value distributed - Rs. 1,961,485,892
(Rs.1,930,401,256 - 2019/20)

New suppliers on-boarded - 894
(698 - 2019/20)

Short Term Targets

Increase local sourcing by 20%

Communities

2020/21

Total Value of community investment
(society disbursement) - Rs. 257,019,499
(Rs. 169,421,645 - 2019/20)

STAKEHOLDER ENGAGEMENT



INTRODUCTION

Our success largely depends on strong relationships with our stakeholders. To develop and maintain these relationships, we strive to build trust and engage in two-way communication with our stakeholder groups. In doing so we remain committed to openly communicating with our stakeholders, as well as actively listening and responding to their concerns.

In addition to actively communicating with our stakeholders, we regularly monitor media coverage and social media conversations and track the overall health of our brand, all of which allows us to better gauge how SDF is perceived on a broader scale.

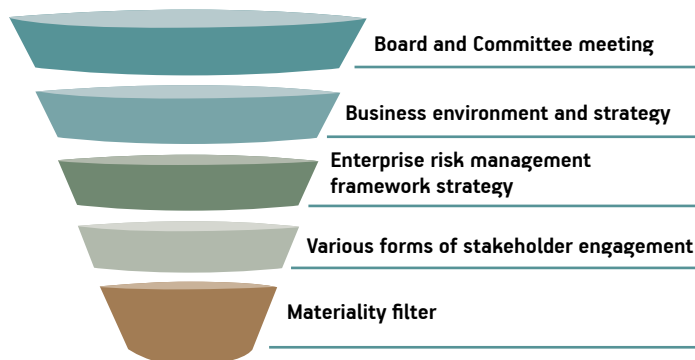
Method Of Engagement	Frequency Of Engagement	Key Concerns
Shareholders And Investors		
Annual General Meeting	Annual	<ul style="list-style-type: none"> ➤ SDF's response to the economic environment ➤ Government regulation and policy ➤ Competitive strengths ➤ Expansion to new markets and digital platforms ➤ Loan growth ➤ Cost management ➤ Capital and liquidity management ➤ Credit quality ➤ IT security and fraud management ➤ Digitisation and process automation ➤ Risk management
Annual Report	Annual	
Extraordinary General Meetings	As needed	
Interim Financial Statements	Quarterly	
Press conferences / press releases	As needed	
Corporate website	Continuous and ongoing	
Social media platforms	Continuous and ongoing	
Customers		
Sales teams	Continuous and ongoing	<ul style="list-style-type: none"> ➤ Support for micro entrepreneurs and start-ups ➤ Timeliness and relevance of product and services ➤ Distribution channels ➤ Outreach and awareness
Activities by the Society Coordination Unit	Continuous and ongoing	
Promotional activities	Continuous and ongoing	
Press conferences / press Releases	As needed	
Corporate website	Continuous and ongoing	
Social media platforms	Continuous and ongoing	
Customer surveys	As needed	

Method Of Engagement	Frequency Of Engagement	Key Concerns
Employees		
Sales briefings / team meetings	Continuous and ongoing	<ul style="list-style-type: none"> ➔ Pay and Benefits ➔ Development opportunities ➔ Career Prospects ➔ Connectivity to Management ➔ Job Satisfaction ➔ Work-life Balance
Management meetings	As needed	
Internal communications	Continuous and ongoing	
Employee notice board	As needed	
Training activities	Continuous and ongoing	
Awards ceremonies	Annual	
Other Company events	As scheduled	
Suppliers		
Activities by the Society Coordination Unit	Continuous and ongoing	<ul style="list-style-type: none"> ➔ Communication and engagement ➔ Fair and equitable opportunities ➔ Long term partnerships
Supplier registration process	Annually	
One-on-one meetings	As needed	
Corporate website	Continuous and ongoing	
Social media platforms	Continuous and ongoing	
Regulators		
Directives and circulars	Continuous and Ongoing	<ul style="list-style-type: none"> ➔ Capital and financial strength ➔ Availability of, and fair access to, credit and banking services ➔ Supporting economic growth ➔ Business ethics and anti-corruption ➔ Compliance with laws and regulations, including the laws governing money laundering and terrorist financing ➔ IT security ➔ Human and labour rights
CBSL Audit	Annual	
Interim Financials	Quarterly	
Annual Report	Annual	
Regulatory submissions/filings	As mandated	
Other meetings	As needed	
Community		
Activities by the Society Coordination Unit	Continuous and Ongoing	<ul style="list-style-type: none"> ➔ Support livelihood development of grass root level communities ➔ Investment in community infrastructure ➔ Community capacity building ➔ Internships
Press conferences/press releases	As needed	
Corporate website	Continuous and Ongoing	
Social media platforms	Continuous and Ongoing	
Annual report	Annual	
Community initiatives	As needed	

MATERIAL ISSUES

SDF assesses and reports on material issues in order to demonstrate how the Company’s strategy balances business objectives with stakeholders expectations.

We begin our materiality process by looking at issues that either represent a significant risk or opportunity for us in our business operations or could possibly affect stakeholders’ decisions about and opinions of SDF. These issues which are identified through various sources are then further analysed and filtered down to determine the most material matters. Material matters identified in this way are plotted on a Materiality Matrix based on their importance to the business or level of concern to stakeholders.



Based on their positioning within the Materiality Matrix, Material Issues serve to inform SDF’s short, medium and long term strategy.

Item	Importance to Stakeholders	Important to Business
1. Financial Performance and Stability	H	H
2. Liquidity and Gearing	M	H
3. Brand Reputation	M	H
4. Technology and Innovation	M	H
5. Credibility and Trust	H	H
6. Market Share	M	H
7. Accessibility and Reach	L	H
8. Technology and Innovation	M	H
9. Operational Excellence	H	M
10. Product Stewardship	M	H
11. Accessibility and Reach	L	H
12. Communication and Engagement	H	H
13. Strategic Partnerships	H	M
14. Community Involvement	M	H
15. Fairness and Equality	H	H
16. Inclusive Workplace	H	L
17. Competitive Rewards	L	H
18. Career Progression	H	L
19. Consultation and dialogue	M	M


L Low M Medium H High

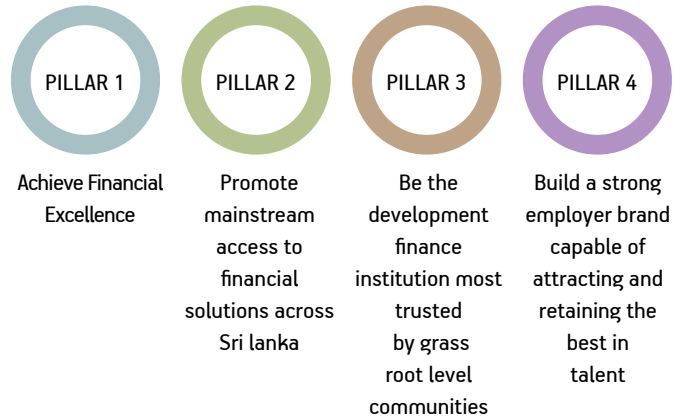
STRATEGY & RESOURCE ALLOCATION

SDF's strategic planning process is based on a three year planning cycle, which takes into account the Company's current position as well as projected future conditions to identify the critical success factors for the next few years. Typically the strategic plan is reviewed annually by the Board and realigned if needed to take account of any changes in regulatory frameworks and the competitive environment.



The 2020/21 strategic plan was reviewed more frequently during the year to assess the impact to the Company due to the rapidly evolving COVID-19 pandemic environment. However with SDF's business model as a development finance institution that caters to grass root level rural communities who appeared to be less affected by the pandemic induced economic downturn, it was felt that Company's 04 fundamental strategic pillars as well as the strategic levers that drive them, will remain unchanged.

Nevertheless, there were some new initiatives undertaken in response to the pandemic environment, mainly to strengthen the Company's recovery model and also for the safety of employees. These are highlighted below using the  icon



Achieve Financial excellence


Material Matters

- Financial Performance and Stability
- Liquidity and Gearing
- Market Share
- Operational Excellence

Strategic Levers

- Assets and Liability Management
- Cost Rationalisation Programme
- Regulatory Minimum Core Capital and Liquidity Requirements

FY 2020/21

Objectives	Resource Allocation	Results	Future Focus
➤ Target income level of Rs.1.7Bn	➤ Strong focus on Lending	Rs.1.7 Bn	Rs.1.9 Bn
➤ Maintain NPL ratio on par with industry average	➤ Aggressive recovery action, including more recovery camps and the launch of digital payment platforms in response to the pandemic environment 	9.99%	9.7%
➤ Reduce cost-to-income ratio	➤ Process automation to improve workflow systems	71.0%	70.0%

STRATEGY & RESOURCE ALLOCATION

Promote mainstream access to financial solutions across Sri Lanka


Material Matters

- Accessibility and Reach
- Technology and Innovation
- Brand Reputation
- Credibility and Trust
- Product Stewardship

Strategic Levers

- Business Strategy
- IT Strategy
- Ethics and Integrity Framework
- Customer Touch Points
- IT Support Systems

FY 2020/21

Objectives	Resource Allocation	Results	Future Focus
<ul style="list-style-type: none"> ➤ Increase lending to micro agri entrepreneurs ➤ Introduce new products and solutions to meet customer needs during the pandemic 	<ul style="list-style-type: none"> ➤ Strong focus on agri equipment leasing ➤ Launch of "Nena Diriya" a special leasing solution to cater to the demand for laptops  ➤ Implemented a new Product Development Policy to facilitate release of timely and relevant first-to-market products 	<p>26.2%</p> <p>Rs. 9,838,080</p>	<p>Invest in a fully integrated mobile wallet solution to enhance customer convenience</p>

Be the development finance institution most trusted by grass-root level communities


Material Matters

- Market Share
- Accessibility and Reach
- Technology and Innovation
- Brand Reputation
- Credibility and Trust
- Product Stewardship
- Communication and Engagement

Strategic Levers

- Business Strategy
- IT Strategy
- Ethics and Integrity Framework
- Customer Touch Points
- IT Support Systems
- Customer Experience Management

FY 2020/21

Objectives	Resource Allocation	Results	Future Focus
<ul style="list-style-type: none"> ➤ Grow customer base by 8% (Last year-140,057) ➤ Reduce recurring complaints by 20% ➤ Increase customer satisfaction 	<ul style="list-style-type: none"> ➤ Strengthened customer communication ➤ Launch of dedicated new customer hotline (1319) ➤ Launch of new digital payment platforms in response to the pandemic  	<p>Satisfied and long term customer base who introduced more than 50% of new customers to improve business</p>	<p>Leverage on digital technology to manage customer relationships through customised end-to-end solutions</p>

Promote mainstream access to financial solutions across Sri Lanka





Material Matters

- ➔ Fairness and Equality
- ➔ Inclusive Workplace
- ➔ Competitive Rewards
- ➔ Career Progression
- ➔ Consultation and Dialogue

Strategic Levers

- ➔ Talent Attraction Strategy
- ➔ Talent Retention Strategy
- ➔ Talent Management Approach

FY 2020/21

Objectives	Resource Allocation	Results	Future Focus
➔ Maintain employee retention at 70%	<ul style="list-style-type: none"> ➔ Promoted 64 employees ➔ There was no salary cuts or retrenchments due to the pandemic  	Employee retention ratio of 65%	Strengthen flexible work practices to increase female participation in the workforce
➔ Ensure employee satisfaction	<ul style="list-style-type: none"> ➔ Paid bonus with Rs. 13.2mn ➔ Increased all staff salary by 12% based on the performance. ➔ Introduced remote working arrangements during the 2-month island-wide lockdown  	Motivated performance driven staff with long term vision on SDF.	Identify and develop a high performers through structured career mapping supported by individual development plans, coaching and mentoring
➔ Improve gender ratio to 50:50 (M:F)	<ul style="list-style-type: none"> ➔ Enhance the medical insurance scheme to include COVID-19 related cases  ➔ New flexible work practices to improve work-life balance  	Current gender ratio to 60:40 (M:F)	



Safari Jeeps/Pepper Cultivation

Before the Easter Sunday attacks happened, I was running a very successful business where I was operating a fleet of safari jeeps in the Udawalawe National Park. I was also operating a few campsites. With many people in the area engaged in similar businesses, we formed the *Udawalawe Nidahas Safari Jeep Association*.

In 2018 when our businesses were booming, we were approached by the Sarvodaya Development Finance officials and discussed new approaches to expand our business operations. SDF offered us loans at a nominal interest rate and many of us made use of these facilities. The SDF officials went above and beyond and even helped us to formulate business development strategies as well.



But then came the Easter attacks followed by the COVID-19 pandemic and my safari business collapsed. After losing my main source of income, I shifted my focus from tourism to farming. Fortunately, for me I had a plot of land gifted to me by my father. I obtained a small loan from SDF to start a pepper cultivation on this land. Now I am once again slowly getting back on my feet, thanks to the lifeline extended to me by SDF. Today I have become a successful pepper cultivator.

Mr. Jayasinghe
Camp Road, Udawalawe

COVID-19 RESPONSE

The Coronavirus has been the cause of unprecedented social and economic disruption in the 21st century. In fact, the aftermath of the COVID-19 pandemic is predicted to lead to a global recession comparable only to the Great Depression and the World Wars of the 20th century.

In Sri Lanka, small and micro businesses were the most vulnerable to the sudden total loss of markets, and revenues for prolonged periods of time due to COVID containment measures by Sri Lankan Government and Governments of export markets. From rural to urban parts of the country, thousands of small businesses lost their revenues overnight and were left with a frighteningly uncertain future. Meanwhile, the global range of the Coronavirus meant employment losses for thousands of Sri Lankan migrant workers, who were forced to return home. They too, have little or no positive outlook for the future as a second wave of the virus has made a quick return to foreign employment, a tenuous prospect. Dreams of a better life have been shattered and thousands of families have been left destitute and disoriented. The psychological impact of this sudden loss of financial security is as devastating as the virus itself.

While the Government stepped in immediately, to provide subsistence requirements in the form of minimum financial assistance for those who lost employments due to COVID-19 and also extended a debt moratorium for businesses affected by COVID-19, there is no clear mechanism to assist these productive entrepreneurs and breadwinners regain their livelihoods. The need for a helping hand for recovery and return to productive employments becomes more urgent each passing day.

Guided by the philosophy of economic opportunities for all, and financial inclusiveness, SDF has taken concrete steps to support this national

cause. One such move is to provide employment opportunities, within the SDF network, for migrant workers who have lost foreign employments. In support of those entrepreneurs who have lost their revenues or face uncertain cashflows, SDF has developed supportive and personalised financial packages and has immediately provided the Government debt moratorium. SDF also works closely with customers to rebuild businesses, or to start new enterprises. SDF has mobilised its services at the regional level, covering all parts of the country, for customer convenience, and to ensure access to urgent financial support for business and personal requirements. In addition to financial services, SDF is also backing environmentally sustainable recovery, by promoting green and sustainable business models. The SDF sustainable financing drive emphasises environmentally friendly business ventures, such as Solar Panels, and agricultural businesses that are essential for economic recovery. SDF has spearheaded this sustainable recovery drive by adopting solar energy at its head office and will introduce such concepts to its customer base as well.

Sri Lanka's SME sector plays a key support role in the national economy, while grassroots microenterprises are essential to sustain rural economies. In an environment where export markets and foreign remittances cannot be reinstated immediately, creative solutions must be generated to sustain economic growth. SDF firmly believes restoring enterprises and livelihoods and creating alternate employments, is essential for an equitable economic recovery. Financial services should be harnessed to rebuild and rejuvenate the lives and livelihoods of those who contribute towards the economy through hard work and entrepreneurship. Together, we can create a new normal that is more sustainable and more equitable.



Sarvodaya awareness programme conducted at school



COVID-19 vaccination drive for the public held at Sarvodaya head office in Moratuwa

ASSISTING LOCAL COMMUNITIES

The pandemic increased hygiene and safety concerns and exacerbated social challenges, such as poverty and food security. We focused our social investments on local needs by developing social entrepreneurs which is the main objective of SDF and Sarvodaya through economic enterprises development needs.

BOLSTERING LIQUIDITY BUFFER AND OPTIMISING COST

We undertook multiple steps to ensure that we have adequate liquidity to meet our financial and other commitments. We continue to evaluate various funding opportunities so as to continue maintaining adequate liquidity and lower our cost of funds due to the low interest regime.

COLLECTIONS

Our field executives typically visit customers to collect due installments. However, on account of the 'stay at home' orders issued in various jurisdictions, we have been calling up our customers and sending them intimations over the phone. We informed our customers of the different digital modes through which they can make their payments.

ROBUST DISBURSEMENTS

Our marketing team identified the key segment of the economy and divert the disbursement mix accordingly. More than 50% of new loans are disbursed in to the agricultural sector which can be identified as the lowest impacted sector from the COVID-19 pandemic. We gradually increased the disbursements where monthly disbursement of March, 2021 was Rs. 589 Mn although disbursement of the first quarter of the financial year was Rs. 351 Mn.

RESUMPTION OF OPERATIONS

We resumed operations in a phased manner, and in accordance with the directives issued by the central Government and health authorities. The health and safety measures undertaken by us to resume operations safely included issuing of safety guidelines for our staff, conducting regular fumigation of office premises, conducting thermal screening of customers visiting our branch offices and providing masks and hand sanitisers at our offices.

MAINTAINING BUSINESS CONTINUITY

We ensured business continuity by taking proactive measures before the formal announcement of the lockdown on March 20, 2020. We started initiatives to deal with the restrictions and simultaneously ensured that our IT infrastructure and systems were in place, tested and checked, as a result SDF has complied with regulatory requirements of mandatory meeting while adhering to stay at home guidelines.

SUPPORTING OUR PEOPLE

When the COVID-19 pandemic was declared in March 2020, our priority was the health and safety of our employees and their families. We acted quickly and decisively as a Group to ensure we could continue to work safely under changing local conditions and protocols. Management immediately initiated an increase in insurance cover including their family members.

COVID-19 RESPONSE

CREATING JOB OPPORTUNITIES

We have allocated 40% of new recruitments to qualified employees who lost jobs due to the pandemic. Although the pandemic has led to a huge reduction in employee salaries including basic salaries, reversed job growth, caused job losses and pushed millions into working poverty all over the world, we did not implement salary cuts of even a single rupee or employee firing. Instead of that, we offered one month bonus and opportunities for job growth in terms of promotions and salary increments of 15% depending on performance to existing employees.

“Prevention is better than cure”

With the assistance of SDF, the Sarvodaya Movement is conducting COVID-19 prevention awareness programmes for different segments.



Conducted COVID-19 prevention awareness programs to the general public at local markets.

Ensuring Essential Needs

SDF as a socially-responsible entity is providing essential needs including food, health and education to impacted communities



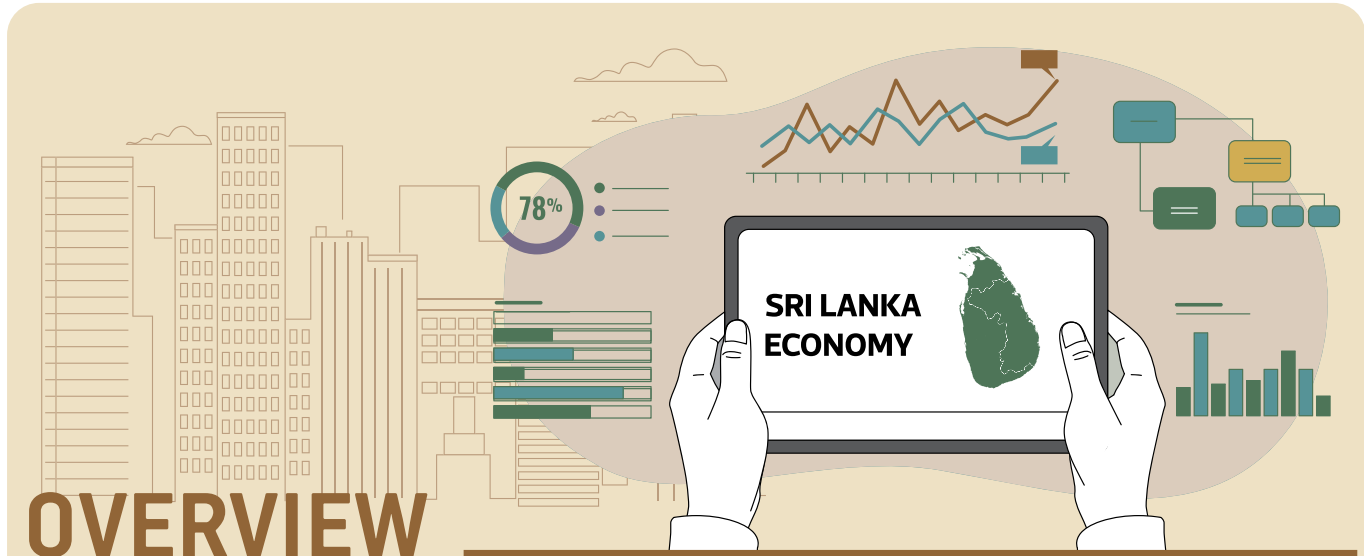
Sarvodaya and associates distributed dry rations to COVID-19 affected needy communities.



Intermediate healthcare services with emergency medical technicians of the Sarvodaya Movement.

Activities	Number of completed Activity
Mobile unit community awareness programs (25 Districts)	350
Vaccination program (at Sarvodaya Movement in Moratuwa)	2,500
Dry ration distribution	3000 Families

OPERATING ENVIRONMENT



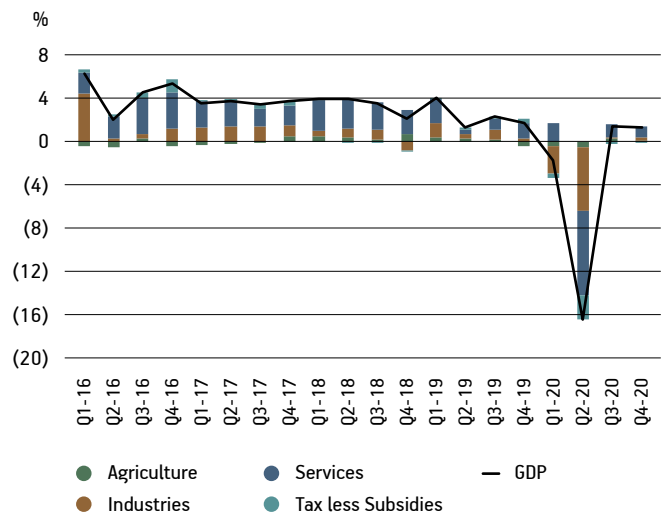
OVERVIEW

What was widely thought to be the year in which the Sri Lankan economy would rebound after the impact of the Easter Sunday attacks in 2019, turned out to be an even tougher year following the emergence of the COVID-19 first wave in March 2020 and its subsequent spread. As economic activity more or less ceased amidst the two month island-wide lockdown from March to May 2020, the economy contracted by a massive 16.4% in the second quarter of 2020 alone. And while a slight rebound was seen thereafter, on an overall basis the Sri Lankan economy is estimated to have contracted by 3.6% in 2020, compared to the 2.3% growth recorded in the preceding year. The contraction was driven by de-growth in all key sectors - agriculture by 2.4%, industry by 6.9%, and services by 1.5% compared to the previous year. Despite the subdued performance of the agriculture sector however, several sub sectors including the growing of vegetables, rice, fruits and cereals other than rice, recorded a healthy performance during 2020, on the back of Government policy initiatives to promote domestic agricultural production.

On the expenditure front, consumption expenditure recorded only moderate growth of 2% in 2020 at current prices, in comparison to a growth of 7.4% in 2019. This was largely attributed to the drop in household consumption expenditure in 2020 amidst widespread income losses stemming from the pandemic induced economic downturn. Effects of the pandemic were reflected in the unemployment rate as well as the Labour Force Participation Rate (LFPR). The Country's unemployment rate increased to 5.5% in 2020 from 4.8% in the previous year, while the LFPR declined to 50.6% in 2020 from 52.3% recorded in the preceding year.

Despite the difficulties brought on by the pandemic, Sri Lanka continued to maintain its unblemished record of debt servicing, successfully settling the International Sovereign Bond (ISB) of US dollars 1 billion that matured in October 2020. The Country's outstanding external debt, which remains a key concern of sovereign rating agencies, declined to US dollars 49.2 billion at end 2020 from US dollars 54.8 billion at end 2019.

Activity-wise Contribution to GDP Growth



Source: Department of Census and Statistics

OPERATING ENVIRONMENT

INFLATION

Headline inflation was broadly stable and stayed within the desired range of 4-6% throughout 2020 thanks to subdued demand conditions and well- anchored inflation expectations as well as the downward revisions to administered prices. Headline inflation, as measured by the Colombo Consumer Price Index (CCPI, 2013=100) after hitting a peak of 8.1% in February 2020 decreased gradually thereafter to 4.6% by end 2020, markedly lower than 6.2% recorded in December 2019.

EXTERNAL SECTOR

Sri Lanka's external sector strengthened in 2020. The trade deficit declined by US dollars 1,989 million to US dollars 6,008 million in 2020, compared to the previous year. The improvement is the result of the measures taken by the Government and the Central Bank to curb the import of non-essential imports, coupled with a notable increase in export revenue. Exports, which declined significantly during the second quarter of 2020, recovered faster than expected, reaching pre-pandemic levels by the end of the year.

Meanwhile the deficit in the external current account also narrowed to 1.3% of GDP, from 2.2% of GDP in 2019.

Inflows to the financial account remained modest in 2020, on the back of lower foreign direct investments. Foreign direct investment dropped to US dollars 670 million in 2020, in comparison to US dollars 1,189 million in 2019. Amidst this backdrop, the most notable inflows to the financial account during the year included the foreign currency term financing facility of US dollars 500 million from China Development Bank and US dollars 400 million from the Reserve Bank of India in July 2020 under the Framework on Currency Swap Arrangement for the South Asian Association for Regional Cooperation (SAARC) countries.

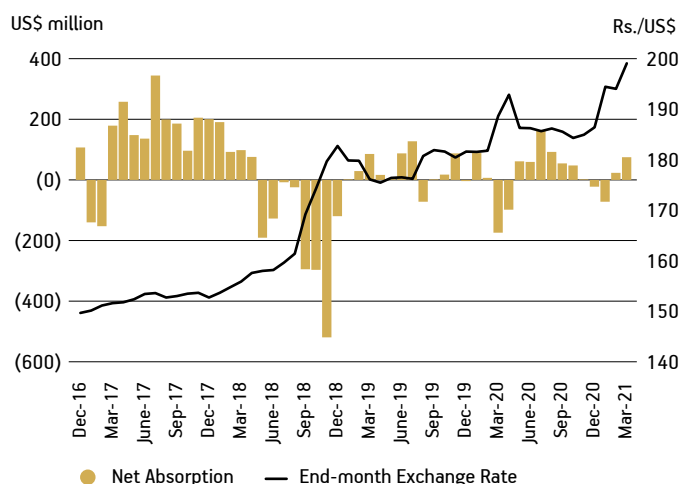
EXCHANGE RATE

The exchange rate remained relatively stable during 2020, despite some volatility at the beginning of the pandemic and again towards the end of the year due to speculative market behaviour.

INTEREST RATES

As part of the Central Bank's accommodative monetary policy stance, key policy interest rates declined to their historically lowest levels. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), were both reduced five consecutive times, finally ending up at 4.5% and 5.5%, respectively, by end 2020.

Exchange Rate and Central Bank Intervention in the Domestic Foreign Exchange Market



Source: Central Bank of Sri Lanka

FINANCIAL SECTOR DEVELOPMENTS

Overview

Sri Lanka's financial sector remained stable in 2020 notwithstanding the challenges posed by the COVID-19 pandemic. The banking sector which dominates the Country's financial sector, exhibited moderate growth in 2020. Nevertheless, the deterioration in credit quality and the moderation of foreign exchange inflows due to the pandemic remained the major concerns on banking sector operations.

Meanwhile, the second largest contributor to the local financial sector, the Non-Bank Financial Institutes (NBFI) sector recorded a sluggish performance in 2020 owing to the combined impact of a weak credit growth and increasing Non Performing Loans (NPLs), both culminating in lower profitability compared to the previous year.

NBFI Sector Performance

When compared to the previous year, the performance of the NBFI sector deteriorated significantly in 2020. Credit provided by the NBFI sector contracted by 5.7% compared to the contraction of 3.0% in 2019. While the weak credit appetite was driven primarily by the pandemic induced economic downturn, the curtailment of vehicle imports also had a severe impact on the sector's leasing model. Meanwhile deposit mobilisation activities which have traditionally been impacted by the lack of public confidence in the NBFI sector, was further affected by the low interest rate environment that prevailed during the year.

Asset Base

The sector asset base recorded a negative growth rate of 2.2% during the year to reach Rs. 1,401.6 billion as at 31st December 2020. Loans and advances continued to dominate the asset mix, even though total gross loans and advances reduced by 3.0% by end December 2020 on a year-on-year basis, compared to a reduction of 0.9% recorded at end December 2019. Within the Loans and advances portfolio, finance leases represented the highest share of 53.7%, followed by the secured loans and advances at 36.2%.

Credit Quality

On the back of the pandemic related economic downturn, the sector as a whole experienced a notable deterioration in credit quality in 2020 with the gross NPL ratio increasing to 13.9% by end December 2020 from the 10.6% reported as at end December 2019.

Profitability

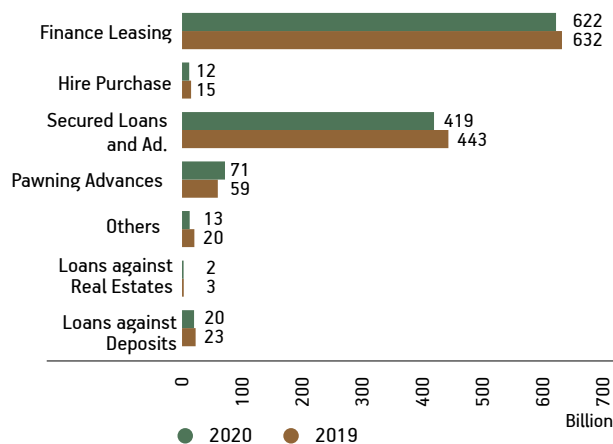
Sector profits dropped by 6.1% year on year to Rs. 13.7 billion in 2020, amidst a significant decline in interest income. Net Interest Income, the sectors' main revenue indicator, declined by 5.3% compared to the previous year. This was largely attributed to the weak credit growth stemming from the pandemic related economic downturn. Consequently Net interest margin of the sector also declined to 7.3% in 2020 from the 7.7% in 2019.

Capital and Liquidity

The sector as a whole remained resilient with capital maintained above the minimum required levels during the year. The capital base improved to Rs. 218.9 billion by end December 2020 compared with Rs. 182.0 billion recorded by end December 2019, with the infusion of new capital by LFCs to meet regulatory requirements. The sector core capital and total risk weighted capital ratios also increased to 14.5% and 15.7%, respectively, by end December 2020 from the reported levels of 11.1% and 12.5% at end December 2019.

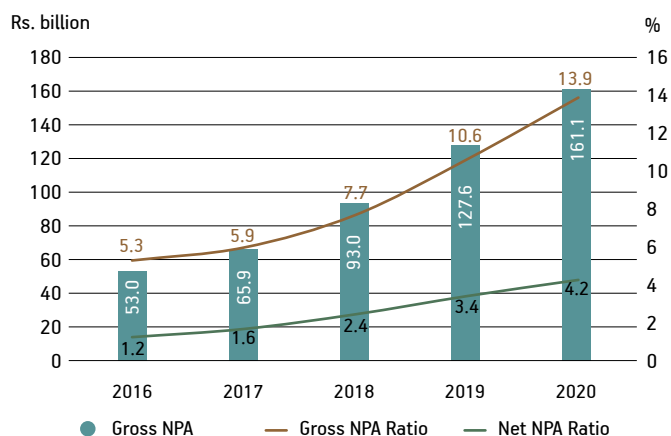
In yet another positive, the sector continued to maintain adequate liquidity buffers well above the regulatory minimum levels by end December 2020. The overall regulatory liquid assets available in the sector indicated a surplus of Rs. 89.0 billion as against the stipulated minimum requirement of Rs. 50.7 billion. The decision by the Central Bank to relax the liquid asset requirements is also partly responsible for boosting liquidity levels in the NBFIs sector.

Total Loans and Advances (Gross) by Productwise for 2019 and 2020



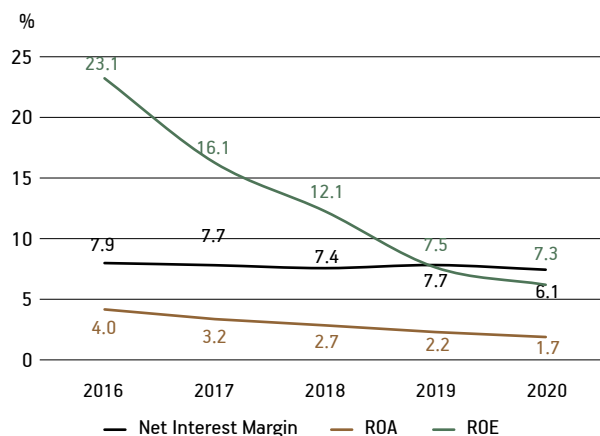
Source: Central Bank of Sri Lanka

Non Performing Loans and Provision



Source: Central Bank of Sri Lanka

Profitability Indicators of the LFCs and SLCs sector



Source: Central Bank of Sri Lanka

BUSINESS REPORT

LENDING

It was a rewarding year for SDF's Lending business. Benefiting from a strong demand for credit from its key market segments, SDF's loan book grew by a robust 13.75% year on year. Despite the inability to canvas new business during the 2-month islandwide lockdown, all key lending segments recorded solid improvements in the year under review.

SDF's Leasing business tabled an impressive performance for the FY 2020/21. Leveraging on the fact that the agri sector was one of the few sectors that was relatively less affected by the pandemic, SDF initiated proactive measures to bolster leasing volumes.

Backed by its long-standing reputation as the country's leading agri equipment leasing specialist, the Company pursued both organic and inorganic growth. The strategy delivered excellent results, as evinced by the sharp increase in new Leasing volumes in the current financial year. Meanwhile despite the LTV restrictions applicable for vehicles, the Company continued to make inroads into this space as well. The Leasing product suite was also further expanded with the launch of "Nena Diriya", a special leasing solution designed to cater to the increased demand for laptops due to the online work / school environment caused by the pandemic. A culmination of these efforts saw SDF's Leasing portfolio growing by 68% year on year.

The Company's SME Loan segment also reported good results. Moving aggressively to capitalise on the heightened interest in growing activity around the country, SDF succeeded in expanding its SME

Loan customer base by 10%. New volumes for the current financial year were double that recorded in the previous year. However, the overall SME Loan portfolio declined by 9% as a result of the COVID-19 pandemic.

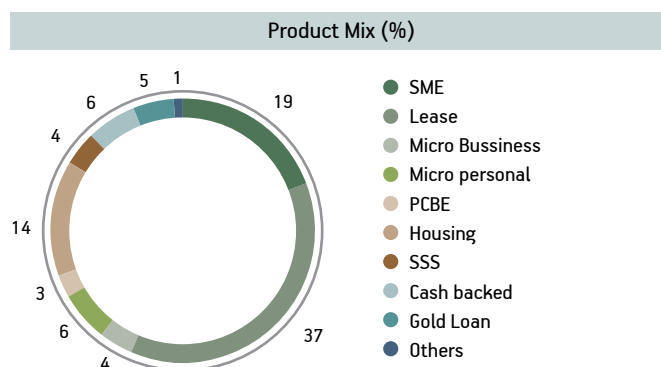
The Housing Loan portfolio also declined by 9% year on year, while the Cashback Loan portfolio grew by 9% over the figure reported in the previous financial year. SDF's Gold Loan portfolio recorded phenomenal growth, expanding from Rs. 31 million at the end of the previous financial year to Rs. 318 million as at 31st March 2021, denoting a massive 1,126% increase year on year. The strong demand for Gold Loans is linked to the consistently higher world gold prices throughout the year. Stemming from SDF's decision to move away from unsecured lending, the Company scaled back on marketing and promotional activities for Micro Business Loans. With less emphasis on promotion, the Micro Business Loans portfolio declined by 27% compared to the previous year.

Meanwhile, seeing as a sizable portion of its customer base impacted by pandemic related challenges, SDF remained proactive in its efforts to implement the debt moratorium announced by the government in April 2020. Based on the eligibility criteria set out under the scheme, a total of 8,617 SDF customers were granted phase 1 of the moratorium. Beyond this, the Company initiated its own relief efforts to assist other customers who did not fall within the moratorium's eligibility criteria. In parallel, more frequent recovery camps were conducted. To further complement these efforts, a number of online payment solutions were rolled out to give customers the ability to settle their dues without the need to visit an SDF branch. The collective impact of these measures saw the Company's NPL ratio fall from a high of 11.81% in 2020, to 9.99% by end March 2020, well below the industry average.

Products	As at 31st March 2019	As at 31st March 2020	As at 31st March 2021	%	Portfolio Growth	
	Gross Portfolio	Gross Portfolio	Gross Portfolio		Amount	%
SME	1,611,620,956	1,788,741,825	1,625,204,142	19%	(163,537,683)	-9%
Lease	1,152,749,743	1,833,078,458	3,084,419,992	37%	1,251,341,534	68%
Micro Bussiness	595,905,158	485,449,696	355,842,962	4%	(129,606,734)	-27%
Micro personal	512,878,292	573,898,592	481,738,676	6%	(92,159,916)	-16%
PCBE	543,387,652	442,269,537	262,274,998	3%	(179,994,539)	-41%
Housing	1,037,741,422	1,318,251,103	1,198,378,692	14%	(119,872,411)	-9%
SSS	175,257,040	204,521,274	339,302,197	4%	134,780,924	66%
Cash backed	636,150,533	493,447,292	540,044,355	6%	46,597,063	9%
Gold Loan	26,774,574	31,715,496	388,889,524	5%	357,174,028	1,126%
Others	249,303,207	208,149,861	117,975,222	1%	(90,174,639)	-43%
	6,541,768,577	7,379,523,134	8,394,070,760		1,014,547,626	14%

FOCUS FOR THE FUTURE

Going forward, SDF will look to build on the success achieved thus far, with the main priority being to grow captive market share in established markets. At the same time the Company will seek out new opportunities in yet untapped segments, with special emphasis on promoting secured lending at grass root level.



DEPOSITS

Contrary to the declining trend seen across the industry, SDF's deposit business recorded a resilient performance in the year under review. While the typical organic outflows were noted, SDF's solid reputation and long standing credibility ensured customer retention remained strongly at 83%. Consequently, on an overall basis, the Company's Fixed Deposits (FD) portfolio and the savings base for FY 2020/21 remained on par with the previous financial year. However some movement was observed within the FD base. Triggered by the low interest rate environment that prevailed during the year, the skew towards longer tenure FD's (12 months and above) increased while the concentration of shorter tenure FD's (3, 6 and up to 12 months) declined compared to the previous year.

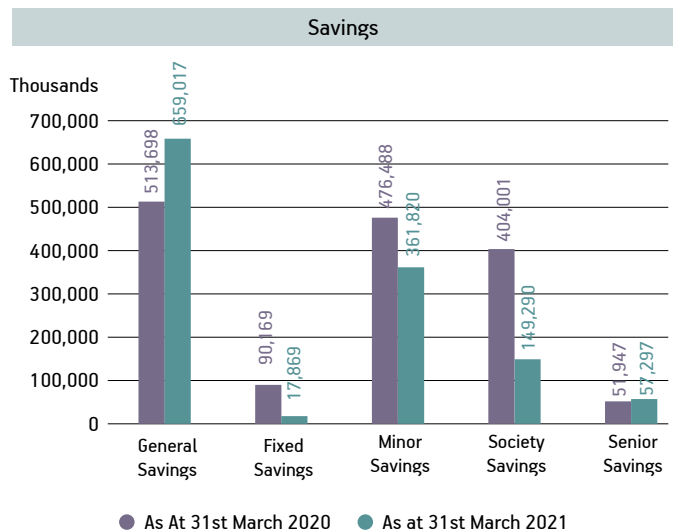
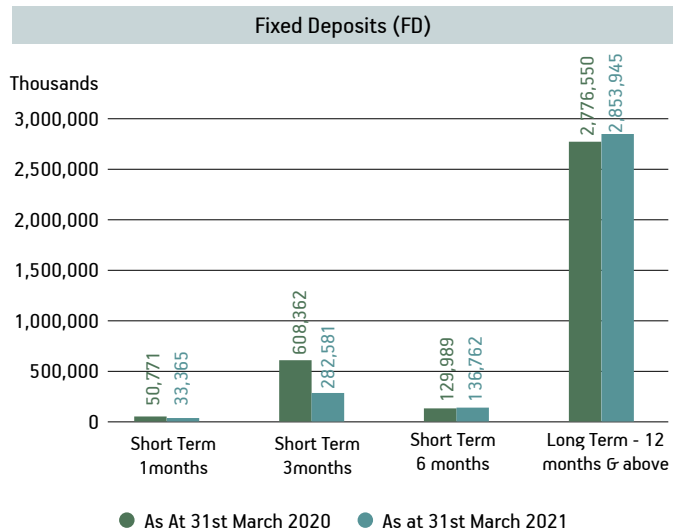
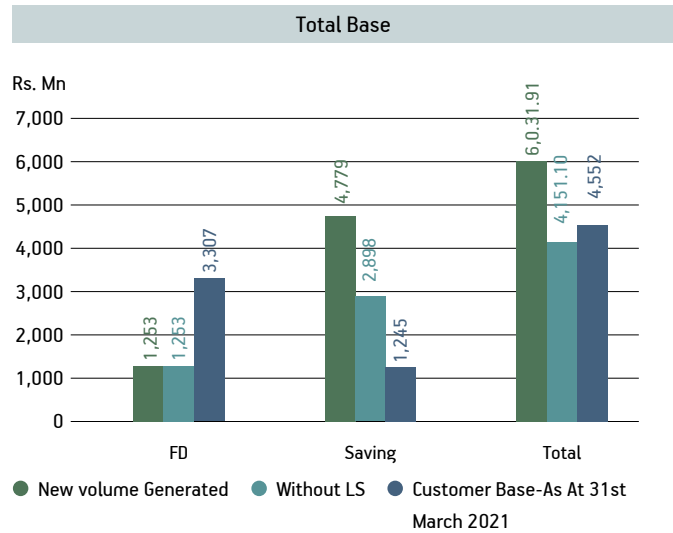
The reduction in shorter term FD's is also partly due to the fact that the rate differential between FD's and savings was at an all-time low, which prompted many retail customers to move their investment into a more liquid form during these uncertain times. Stemming from this, SDF's general savings portfolio grew by 26% year on year.

The inflow of new deposits and savings was somewhat hampered in the current financial year due to several factors. No aggressive deposit mobilisation activities were pursued owing to COVID-19 restrictions. Apart from this, interest rates were at a historical lows throughout 2020 - prompting investors, especially corporates and high net worth investors to opt for higher yielding investment opportunities. On the savings front, the economic downturn which brought pressure on average income levels and lowered the savings capacity of households, had a bearing on the inflow of new savings. This impact was largely reflected in SDF's minor savings portfolio. Meanwhile the society savings portfolio too witnessed a decline compared to the previous year, as several societies redirected their savings towards the private placement offered by the Company in the current financial year.

Based on these developments the savings to deposits ratio stood at 44.92% for FY 2020/21 compared to 47.05% in the previous financial year.

FOCUS FOR THE FUTURE

With interest rates likely to remain at low levels for the next 12 months, SDF will focus on customer retention through value added services that differentiate its products from peer offerings. However as the country gradually moves forward towards a degree of normalcy, and the interest rates regain a measure of stability, SDF will look to aggressively grow captive market share in the medium term.





Lemongrass

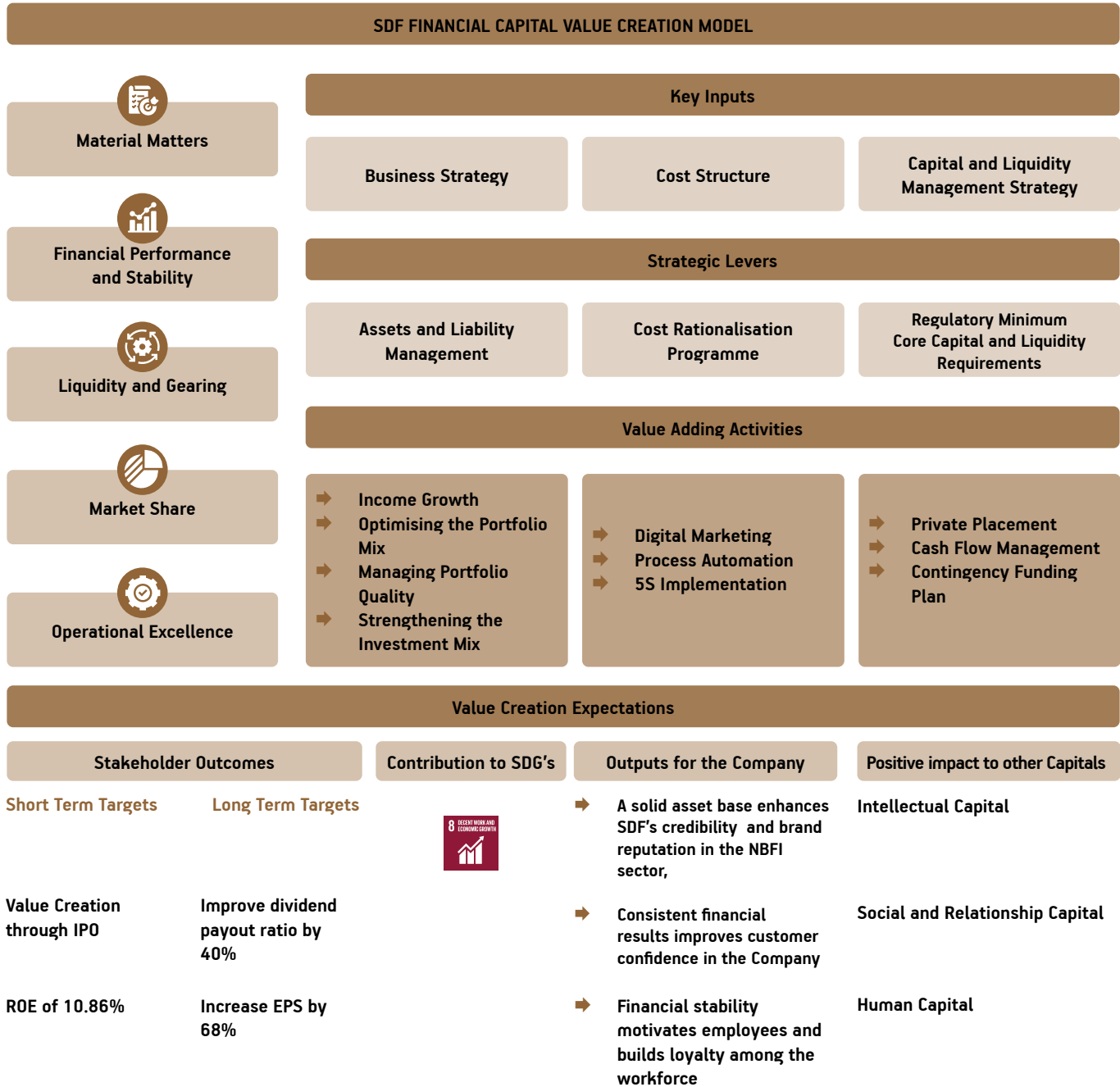
My father was the founder of the Sarvodaya Society in my village and I grew up learning about the work they do. While I followed in my father's footsteps to the paddy fields and crop farming, I looked around for other avenues to branch out. Having done my feasibility, I thought lemongrass cultivation would be a profitable venture.



When I first started I only had half an acre to cultivate, but with the help of Sarvodaya Development Finance, I was able to steadily increase my land base and keep up with the demand. Today with my lemongrass cultivation extending over 60 acres, I am a successful businessman in my village. It gives me great pride to export this lemongrass to Thailand. I hope to grow this export market strongly in the future. I am now able to share my knowledge and experience to help other budding entrepreneurs in my own village and in the surrounding villages. Today there are more than 100 families who have got employment through my cultivation business.

Mr. Kumara Jayalath
Rajanganaya, Yaya 10

FINANCIAL CAPITAL



Financial Capital refers to the financial resources obtained from external sources (Equity and Debt Capital) as well as internally generated funds (Reserves) that together create a foundation to grow and sustain the business over time.

The year under review will go down in history as one of the most challenging years in the 21st century as the outbreak of COVID-19, which started in late 2019, began to spread worldwide from January 2020. We experienced a country-wide lockdown and other control measures which in turn brought the economy more or less to a standstill position. To ease the burden on the general public and revive economic activity during this unprecedented disruption, the Central Bank of Sri Lanka (CBSL) introduced a Debt Moratorium scheme to offer support to COVID-19 affected businesses and individuals.

Despite the challenging conditions, Sarvodaya Development Finance Limited continued to deliver sustainable value to our prioritise the needs of all stakeholders. In order to assist our customers to overcome this difficult time, the SDF took prompt action to implement the relief measures introduced by the Government aimed at combating the impacts of COVID-19.

Despite the challenges presented by a year dominated by the pandemic, we prioritised asset quality and cost efficiency over growth, while ensuring safety, security and well-being of our employees and customers. We further strengthened our balance sheet by successfully raising Rs. 806 million via Private Placement, strengthened our liquidity and enhanced our coverage ratios which facilitates to bolster the potential for growth.

Despite the challenges prevailed in the industry, SDF outdid all forecasts to achieve an impressive upsurge in profits. SDF recorded a profit after tax of Rs.183.3 million in the year under review compared to the Rs.101.7 million recorded in the previous year. Our strategy of prudent management of the credit portfolio while keeping overheads within the reasonable thresholds enabled the Company to record these impressive financial results. Given the unprecedented challenges witnessed during the FY 2020/21, the extreme endurance and the focus displayed by our employees combined with our strategic measures, policy framework, brand loyalty and technological advancements were instrumental in overcome such challenging conditions to achieve these milestones.

Strategic Priorities	Strategies
Grow bottom-line	➔ Push top-line and sustain NIM
	➔ Contain cost and increase operational efficiencies through integration of technology and process re-engineering
Mobilise deposits	➔ Improve relationship with high-net-worth individuals through personalised service to attract larger deposits.
	➔ Optimise the use of social media platform and direct marketing to reach target markets for product promotions
	➔ Digital content marketing campaigns to identified customer segments
	➔ Collaborate with SSS to increase village level penetration through joint promotional campaigns
	➔ Introduce new products
	➔ Incentivise top performers
Improve portfolio quality	➔ Improve credit evaluation
	➔ Harness technology for improved credit supervision and improve recoveries
Rebalance credit portfolio	➔ Focus expanding the collateral-backed lending portfolio for improved credit quality
	➔ Move into larger-ticket size lending backed by collateral
	➔ Increase average loan size of lending
	➔ Expand gold loans through expansion and aggressive marketing
Optimise funding sources	➔ Optimise the mix of long-term and short-term funds to eliminate maturity mismatch.
	➔ Explore opportunities for off-shore funding.
	➔ Improve monitoring and allocate appropriate resources to prioritise savings deposits build-up.
Balance product mix	➔ Change products concentration to more suit the current interest rate environment and economic condition.
	➔ Develop new products giving a balance between risks and returns, develop markets and profitable niche markets.

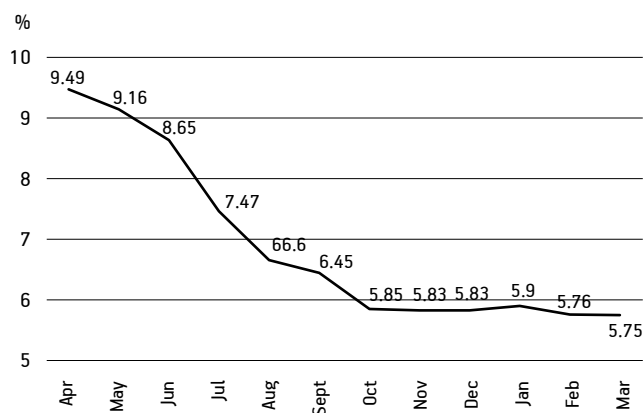
FINANCIAL CAPITAL

PERFORMANCE HIGHLIGHTS

Through the close relationship with our key stakeholder groups, SDF has been able to better understand their needs and address any concerns while balancing the distribution of value created.

Total economic value created by SDF amounted to Rs.1.74 billion in the FY 2020/21 which is a marginal decline compared to FY 2019/20 due to drastically reduction in interest rates.

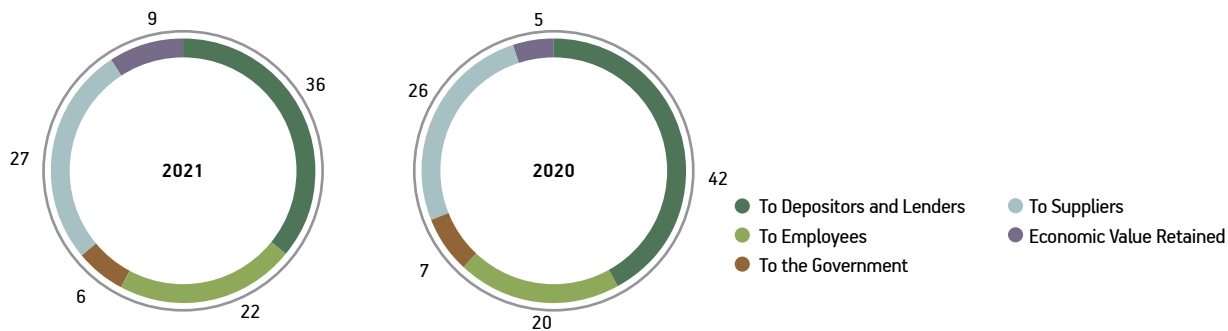
AWPLR Movement in FY 2020/21



This value has been distributed among our stakeholders as stated below.

	2020/21		2019/20		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Economic Value Added						
Interest Income	1,584.75		1,681.68		(96.93)	
Other income	158.79		120.76		38.03	
Total	1,743.54		1,802.44		(58.90)	
Economic Value Distributed To Depositors and Lenders						
Interest Expenses	623.35		750.12		(126.77)	
	623.35	35.75	750.12	41.62	(126.77)	(16.90)
To Employees						
Salaries and other benefits	381.67		363.24		18.43	
	381.67	21.89	363.24	20.15	18.43	5.07
To the Government						
Income tax	9.87		17.34		(7.47)	
VAT on financial service	89.36		108.02		(18.66)	
	99.23	5.69	125.36	6.96	(26.13)	(20.84)
To Suppliers						
Other Operating Expenses	364.19		293.53		70.66	
Impairment charges	60.09		119.32		(59.23)	
Depreciation and amortisation	47.16		53.73		(6.57)	
	471.44	27.04	456.58	25.89	14.86	3.25
Economic Value Retained	167.85	9.63	97.14	5.39	70.71	72.79
Total	1,743.54	100.00	1,802.44	100	(58.90)	

Economic Value Added (%)



KEY FINANCIAL INDICATORS

Amidst an external environment that continuous to remain challenging, SDF recorded a noteworthy performance. Key financial indicators of the Company for the current year are given below and explained further in this chapter.

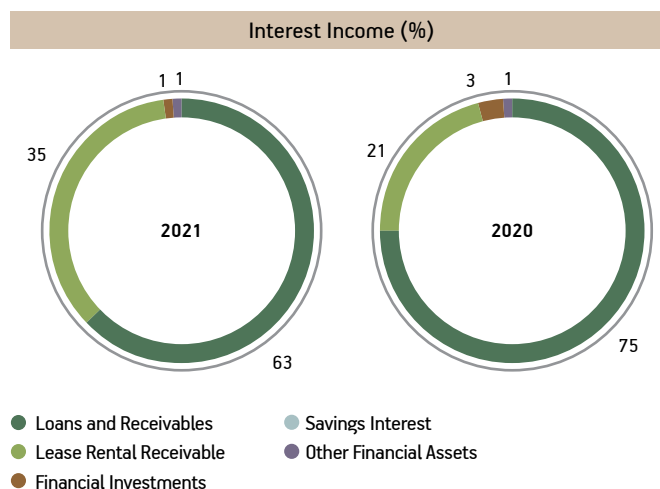
	2020/21	2019/20	Change (%)
Profitability (Rs.000)			
Income	1,743,539	1,802,436	-3.27%
Interest Income	1,584,745	1,681,679	-5.76%
Net Interest Income	961,398	931,562	3.20%
Operating Expenses	703,903	700,911	0.43%
Impairment Losses	60,092	119,318	-49.64%
Profit Before Taxation	266,835	124,068	115.07%
Profit for the Year	183,357	101,716	80.26%
Assets & Liability (Rs.000)			
Loan and Receivables	4,954,331	5,230,705	-5.28%
Lease Rental Receivables	2,952,368	1,702,847	73.38%
Total Assets	9,036,598	8,215,216	10.00%
Due to Customers	4,551,945	5,101,976	-10.78%
Total Shareholder's Fund	2,181,385	1,195,679	82.44%
Investor Information (Rs.)			
Net Asset Value per Share	20.95	17.71	18.27%
Earning per Share-Basic	2.55	1.51	68.90%
Financial Indicators (%)			
Return on Assets (after tax)	2.13%	1.30%	63.51%
Return on Equity (after tax)	10.86%	8.87%	22.42%
Cost to Income	70.82%	76.87%	-7.88%
Net NPA Ratio	4.21%	6.14%	-31.43%
Growth in Total Assets	10.00%	10.27%	-2.65%
Capital Adequacy Ratios (%)			
Tier I	21.58%	12.99%	66.10%
Tier I & II	21.80%	13.23%	64.78%

FINANCIAL CAPITAL

SOURCES AND UTILISATION OF INCOME

Income was under pressure during Q1 of 2020/21, stemming from stressed macro-economic conditions due to the COVID-19 pandemic. SDF bounced back in Q2 to record commendable growth in income for the year. SDF's strategic focus, experience and competence of talented pool of human capital with a customer centric approach and efficient processes enabled SDF to perform exceptionally well amidst challenging conditions.

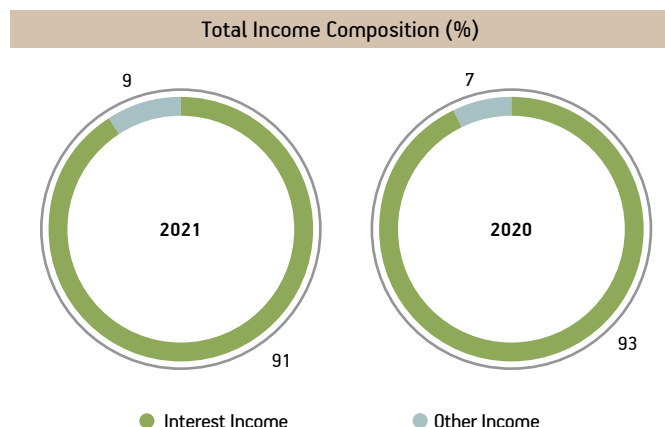
Interest income which is the primary source of income of the Company, slightly declined from Rs. 1.68 billion to Rs. 1.58 billion, recording a 5.76% contraction due to reduction in interest rates. The Interest Income received in FY 2020/21 was recorded as the highest contribution to Interest Income throughout the history of SDF.



A comparison of sources and utilisation of incomes is given below.

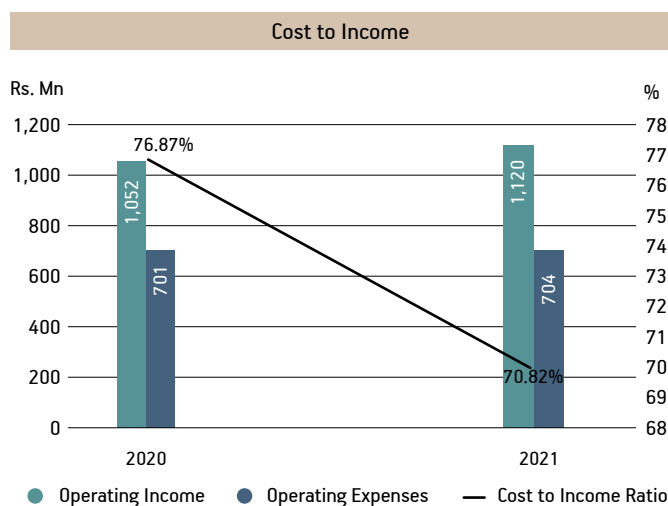
Sources and Utilisation of Income	2020/21		2019/20		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Source of Income						
Loans and Receivables	993.03		1,263.49		(270.46)	
Lease Rental Receivable	553.96		357.12		196.84	
Financial Investments	24.20		40.69		(16.50)	
Savings Interest	2.93		1.5		1.43	
Other Financial Assets	10.64		18.89		(8.25)	
Other Income	158.79		120.77		38.02	
Total	1,743.54		1,802.44		(58.90)	
Utilisation of Income						
To employees						
Personnel Expenses	381.67		363.24		18.43	
	381.67	21.89	363.24	20.15	18.43	5.07
To Suppliers						
Interest Paid	623.35		750.12		(126.77)	
Other Expenses	290.32		288.52		1.80	
Depreciation	47.16		53.73		(6.57)	
Loan Losses and Impairment	60.09		119.32		(59.23)	
	1,020.92	58.55	1,211.68	67.22	(190.76)	(15.74)
To the Government						
Income Tax	83.48		22.35		61.13	
VAT on Financial Service	89.62		108.02		(18.40)	
	173.10	9.93	130.37	7.23	42.73	32.77
To expansion and growth						
Retained Profits	131.18		76.80		54.38	
Statutory Reserve	36.67		20.34		16.33	
	167.85	9.63	97.14	5.39	70.71	72.79
Total	1,743.54	100	1,802.44	100	(58.90)	

Other income for the FY 2020/21 increased by 31% compared to previous financial year.



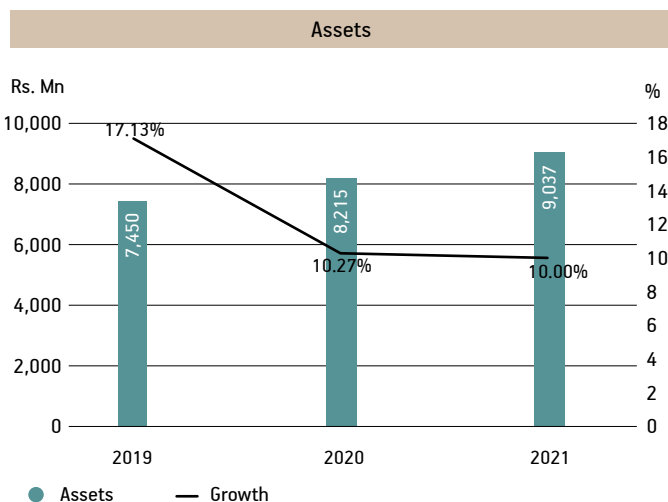
OPERATIONAL INCOME AND EXPENSES

We continued our efforts in initiating many reforms during the year under review targeting to minimise waste and optimise the available resources to generate maximum output. SDF operational income of SDF was improved by 6.4% compared to the previous financial year mainly due to the increase in net interest income where operational expenses were stabilised below to Rs. 705Mn. We have reached a greater height in creating a paper-less environment through automation. We have replaced many manual process with the introduction of a system-driven workflow management. We believe that the process reengineering which we are working on will contribute to a substantial reduction in cost, mainly related to paper and time, in the coming years. This resulted in decline in cost to income ratio is depicted below.



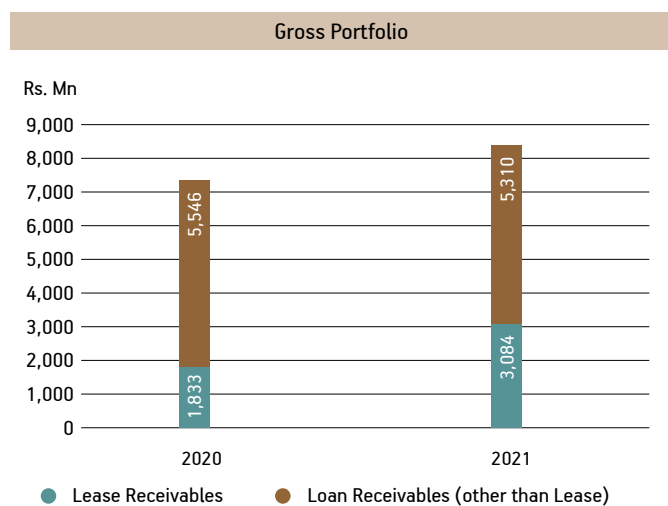
ASSET BASE

The asset base of the NBFIs sector declined by 2.94% from 31st March 2020 to 31st March 2021. This was mainly due to the challenging business environment with political economic uncertainties resulted from the COVID-19 pandemic in 2020. Despite these challenges, SDF has been able to record an asset growth of 10%.



LOANS AND LEASE RECEIVABLES

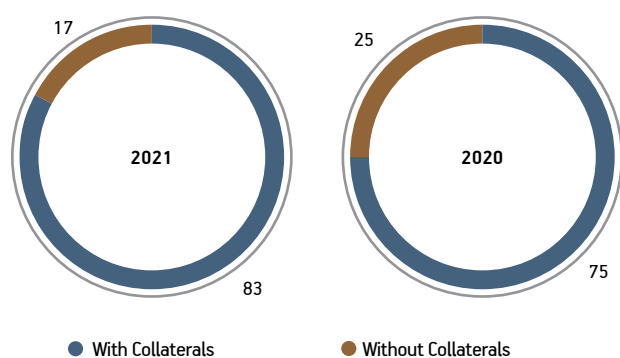
Loans and Receivables to customers and Lease Rental Receivables accounted for the bulk of the asset base of SDF throughout the year under review. It was responsible for 87.5% of the Total Asset Base as at 31st March 31 2021. The loans and receivables segment remained as the Company's biggest revenue generating source (in the form of Interest Income as at 31st March 2021.)



FINANCIAL CAPITAL

The long-term business strategy of SDF is to maintain a minimum share of 70% on collateral-backed lending while maintaining a minimum of 30% on micro lending overall. The micro lending comprises of micro business loans, micro individual loans and bulk loans given to Sarvodaya Shramadana Societies (SSS). Over the years, SDF was able to increase the average ticket-size of micro lending for less complexity and to encourage new business growth and to expand the micro customer base. This was an important strategic shift in SDF's business model over the last couple of years which resulted in a notable shift in collaterals verses without collaterals mix of gross portfolio. Accordingly, the gross portfolio, backed by collaterals, increased further to 83.32% as at the end of the current year from 75.35% in the previous year.

Gross Portfolio Composition (%)

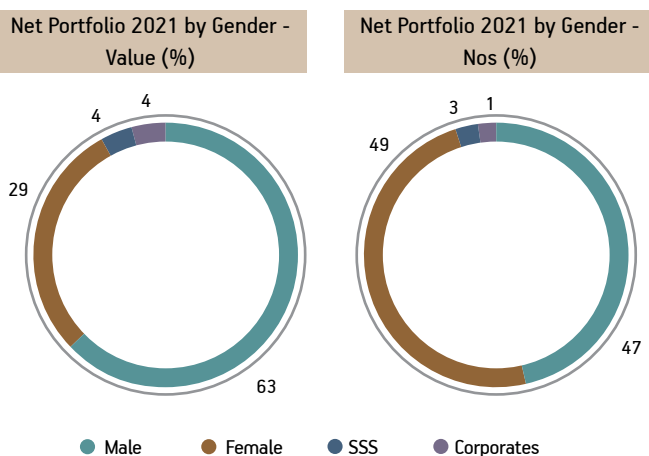


SDF's net portfolio, comprising of Loans and Lease Receivables reported in the Statement of Financial Position as at 31st March 2021, increased by Rs.976 million or 14.09% compared to Rs.717 million or 11.54% growth registered in the previous year. The net portfolio stood at Rs. 7.9 billion as at the end of the year under review.

The net receivable from male borrowers of the net portfolio, amounted to Rs.4.98 billion while the female borrowers amounted to Rs. 2.25 billion. This represented 63% of net receivable value from male borrowers and 29% from female borrowers.

Aligning to its core mission, SDF places a significant importance in empowering women to create sustainable financial wealth for their families. In this regard, SDF has placed a greater emphasis on empowering women to create sustainable livelihood for their families; by engaging in economic value adding activity such as, self-employment. SDF, through its micro loans products has assisted many women entrepreneurs and micro businesswomen to grow their businesses to a sustainable level.

This is demonstrated by individual female borrowers representing 49% of total loan customers.



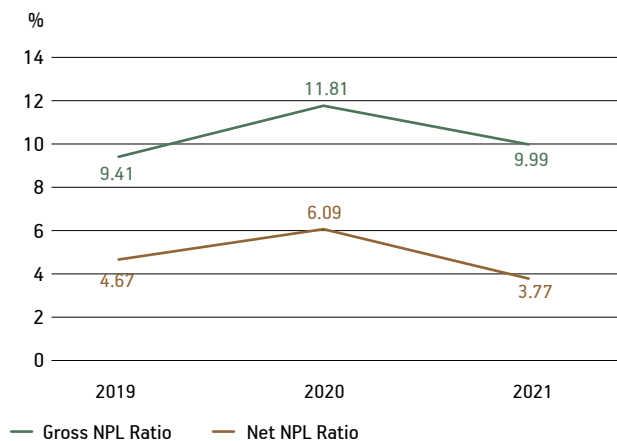
For administrative simplicity, SDF has divided its 51 delivery channels into ten (10) regions. Region 01 has the largest share of net portfolio which amounted to Rs.1.33 billion followed by the Region 9 with Rs.1.17 billion as at the end of the current year, resulting 83% loan portfolio is outside Western province.

Region	Net Portfolio By Gender (Rs. million)				
	Male	Female	Corporate	SSS	Total
Region 1	599	400	237	102	1,337
Region 2	613	198	51	30	892
Region 3	694	267	1	4	966
Region 4	135	121	-	-	256
Region 5	483	141	6	83	712
Region 6	363	109	2	51	525
Region 7	527	257	3	6	792
Region 8	300	180	2	13	495
Region 9	717	402	17	34	1,170
Region 10	529	178	12	12	731
Head Office	25	6	-	-	31
Total	4,985	2,259	328	334	7,906

ASSET QUALITY

The sluggish economic activities, political uncertainties, the Easter Sunday attacks, and the COVID-19 pandemic contributed to a decline in asset quality across the NBF1 sector as indicated by the Gross NPL ratio over the past five years. SDF too has suffered an increase in the NPL ratio due to the aforementioned macro factors. However, recent changes to their lending portfolio (detailed above) have resulted in an improvement in the NPL ratio to a 9.99% as of March 31, 2021 well below the industry average.

NPL Movement in SDF



DISBURSEMENTS

Total disbursement reached Rs.3.78 billion in the current year with an improvement of 3.19% compared to the previous year.

With the decision to grow leasing to improve credit quality and to support the portfolio with quality collaterals, the leasing made the highest contribution to the growth in disbursements in the current year. Leasing disbursements amounted to Rs.1.73 billion or 46% of total lending followed by other loans including SME & Micro with Rs. 2.05 or 54% of total lending.

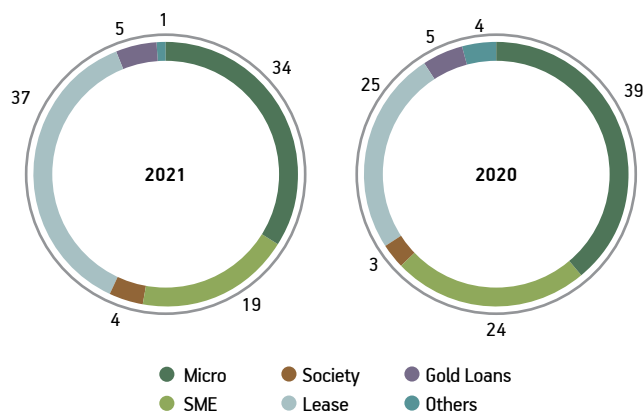
In terms of economic sectors, disbursements to the Agriculture sector accounted for the largest share at Rs. 2.08 billion equate to 55% of total disbursements. Although there are negatively impacted industries due to COVID-19 pandemic such as tourism, construction, the effect on SDF is very low as incremental disbursements on those sectors are very low compared to previous financial year. Therefore the main success factor of SDF in FY 2020/21 can be concluded as the shift towards the agro based and collateral based lending products.

	2020/21		2019/20	
	Value (Mn)	(%)	Value (Mn)	(%)
Agriculture & Fishing	2,089.32	55%	111.35	3%
Manufacturing	327.60	9%	653.78	18%
Tourism	0.41	0%	3.84	0%
Transport	26.56	1%	51.18	1%
Constructions	343.30	9%	1,469.32	40%
Trades	10.30	0%	42.60	1%
New Economy	3.28	0%	-	0%
Financial and business Services	1.61	0%	82.23	2%
Infrastructure	0.80	0%	18.96	1%
Other services	100.86	3%	314.64	9%
Other Customers	880.62	23%	919.64	25%
Total	3,784.66	100%	3,667.55	100%

PORTFOLIO COMPOSITION

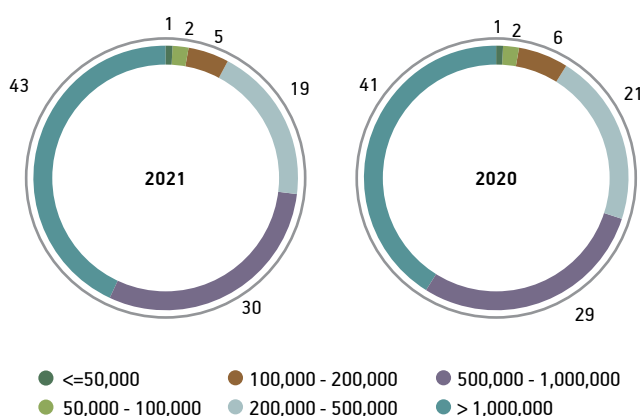
The new growth strategies implemented by aggressively moving into collateral-based lending and focus more on leasing contributed towards expanding the gross portfolio value by 13.75% to Rs. 8.39 billion compared to the Rs. 7.38 billion in the previous year. The key products; SME and Micro loans contributed 53% to the gross portfolio while Leasing contributed by 37%.

Gross Portfolio by Products (%)



The strategic shift towards collateral-based lending resulted in the average loan sizes increasing sizably during the current year. The share of gross portfolio between Rs. 0.5 million to Rs. 1.0 million increased to 30% from 29% and the share of gross portfolio over Rs.1.0 million increased to 43% from 41% respectively compared to the previous year.

Gross Portfolio by Value (%)



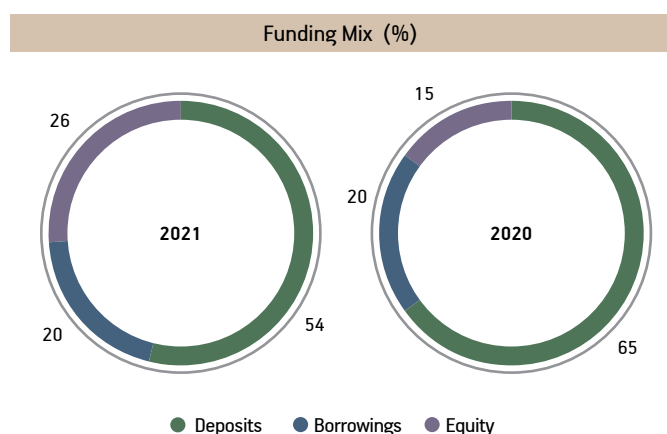
The Western Province only accounted for the 23% of total gross portfolio as the unique business model of SDF focus mainly into grass root level community. The geographical risk has been mitigated as no such specific areas are targeted.

FINANCIAL CAPITAL

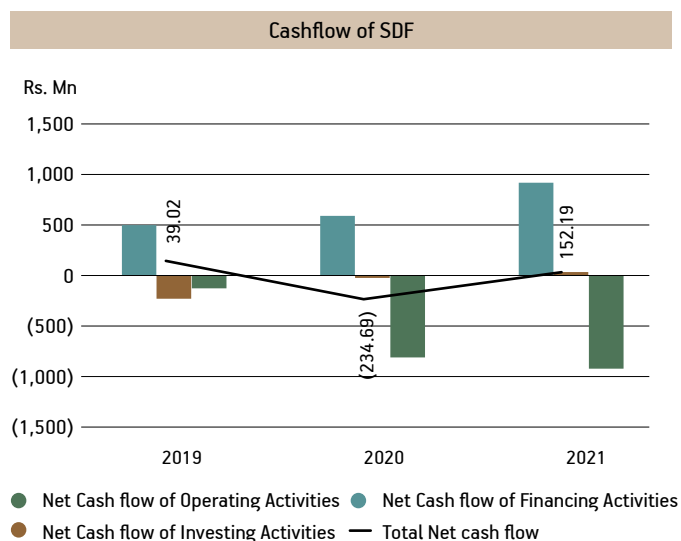
	2021		2020	
	Value (Mn)	(%)	Value (Mn)	(%)
Western Province	1,965	23%	1,948	26%
Southern Province	957	11%	824	11%
Central Province	836	10%	713	10%
North Central Province	1,030	12%	816	11%
Uva Province	747	9%	619	8%
Sabaragamuwa Province	750	9%	648	9%
Eastern Province	930	11%	765	10%
North Western Province	904	11%	788	11%
Northern Province	275	3%	255	3%
Total	8,394	100%	7,379	100%

FUNDING MIX

During the year under review, our funding base increased upto Rs. 8.46 billion from Rs. 7.89 Bn in the previous year by marking a 7.22% growth YoY. Total deposits as a percentage of total funding mix, stood at 54% as at 31st March 2021, compared to 65% recorded as at 31 March 2020. The share of debt funding, collectively representing the medium-term loans and overdraft facilities from banks and securitisation arrangements amounted to 20% of total funding mix as at 31st March 2021. Due to the private placement taken place in FY 2021, Equity represents 26% of total funding mix compared to that of 15% in previous financial year.



SDF was able to achieve positive net cash flow of Rs. 39 million compared to net cash outflow of Rs. 234 million recorded in previous financial year equity private placement and securitisation arrangement of Rs. 300Mn.



SDF's operating profit before tax on financial services registered a 53.47% increased over the previous year to reach Rs. 356.19 Mn. This illustrates SDF's sustained ability to prudently manage its assets and liabilities and core drivers in the midst of tumultuous times. Despite 16.90% decreased in interest expense and 49.64% decreased in the impairment provision, with effective cost management and productivity improvements, SDF was able to register this impressive growth. Despite the personal cost remained relatively same as a result 4.28% of staff rationalisation and restructuring we did, the tax on financial services decreased to Rs.89.36 Mn or by 17.37%. Although, the profit before taxation surged by Rs. 142.77 Mn or 115.07%, the income tax charge increased to Rs. 83.48 Mn from Rs. 22.35 Mn in the previous year. We paid Rs. 156.5 Mn in taxes to the Government during the current year which was an increased of Rs. 39.3 Mn compared to previous year.

PROFITABILITY

Despite the tough economic climate induced by the pandemic, SDFL was able to record its highest Profit After Tax of LKR 183.36 Mn in FY 2020/21, amounting to an 80.26% YoY growth with a YoY increase in Profit Before Tax of 115.07%.

With the bottom-line bolstering by a growth of 80.26%, Return On Equity (ROE) and Return On Assets (ROA) improved compared to previous financial year.

Profit Indicator	2020/21	2019/20
ROE	10.86%	8.87%
ROA	2.13%	1.30%
EPS	2.55	1.51

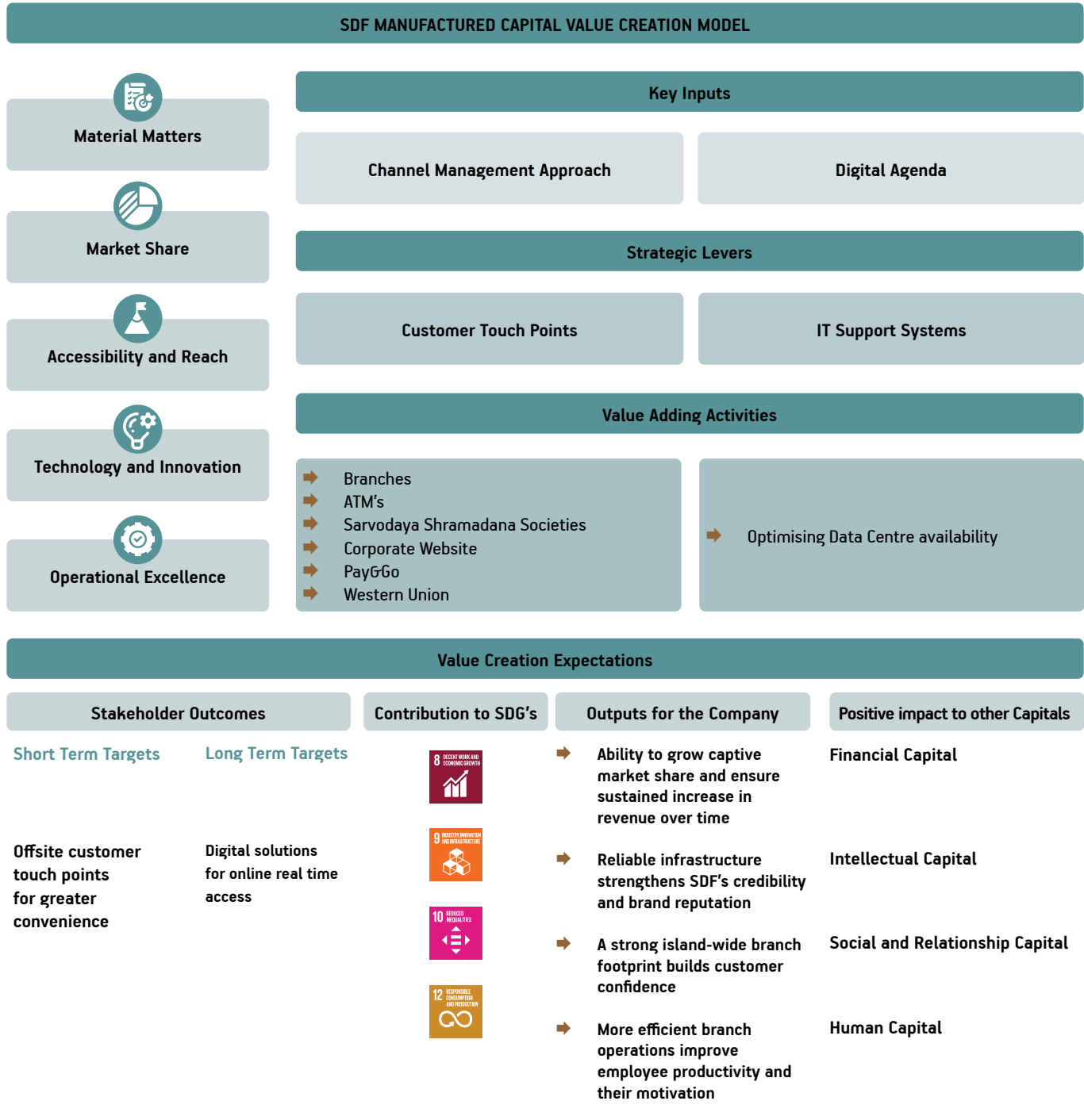
CAPITAL RESOURCES

SDF always maintained healthy capital ratios to support our business and maximise shareholders' value. We have comfortably adhered to the stipulated capital adequacy ratios laid down by the Central Bank. Our Tier I ratio (minimum 6.5%) and Tier II capital ratio (minimum 10.5%) stood at 21.58% and 21.80% respectively as at 31 March 2021.

KEY FOCUS AREAS FOR THE FUTURE

Increase access to equity capital through the IPO

MANUFACTURED CAPITAL



CHANNEL MANAGEMENT APPROACH

Our channel management approach is what drives our decisions regarding the physical and digital infrastructure through which customers can access our products and services. Customer-centricity and relevance are at the heart of this approach.

DIGITAL AGENDA

The use of digital technology to improve the efficiency of our operations has become now an accepted norm in our business and present. In recent years we have been exploring more technology-based solutions to enhance reliability of our physical and digital infrastructure.

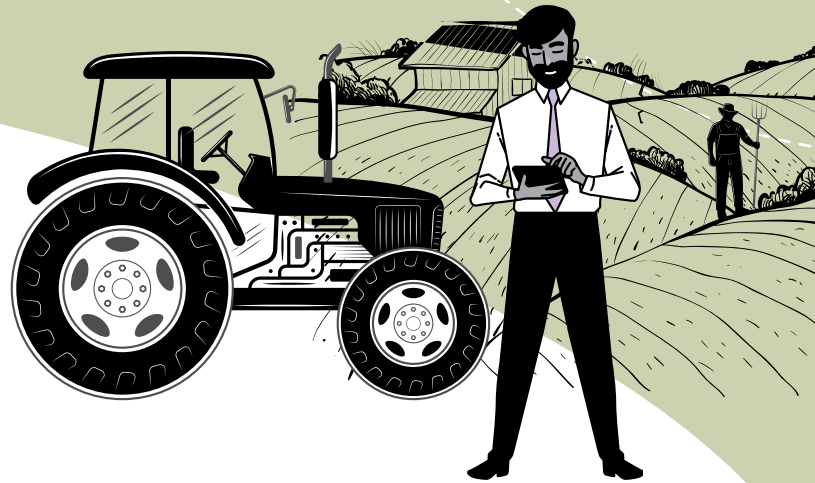
CUSTOMER TOUCH POINTS

Branches

Since the inception, our branch network has served as the primary touch point for SDF's customers. Hence we have always placed great importance on the strategic positioning of each of our branches. Given that our development finance-based operating model focuses mainly on agri entrepreneurs at a grass root level, we do not see the need to locate our branches in highly populated townships or commercial hubs and instead aim to maintain a higher branch penetration in agri intensive regions of the Country.

Our priority when setting up branches is to look for rentable space in unique locations that are easily reachable to our target market, this strategy has led to a majority of SDF's branches (more than 80%) to be set up in more remote regions of the country.

We often review the effectiveness of our branch locations based on the feedback from customers, which may lead to certain branches being relocated. Branch relocations are undertaken on an ongoing basis in order to maximise benefits for customers by providing easier access and greater convenience, while striking a balance between our return on investment. On this basis a total of two branches were relocated within the twelve months ending 31st March 2021. No new branches were added to the network in the current financial year.



Meanwhile our branch upkeep programme is an ongoing initiative to standardise the facilities across all SDF branches.

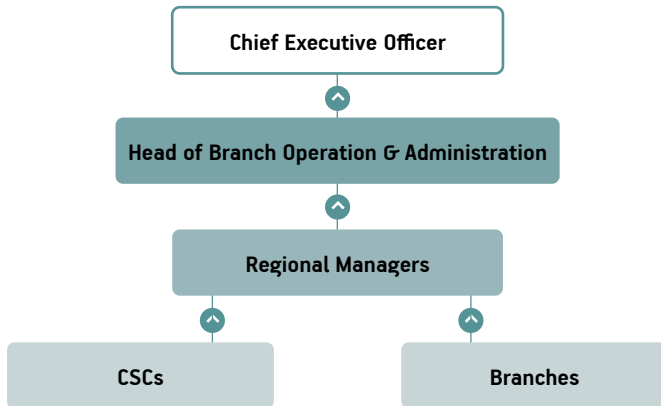
	2020/21	2019/20	2018/19
Branch CAPEX (Rs.)	33,895,737	23,735,187	23,965,355
Maintenance Exp (Rs.)	16,095,242	17,785,559	16,286,440
Branding (Rs.)	4,413,910	2,727,433	1,787,715
New branches	-	-	-
Relocations	2	2	4



Kamburupitiya branch opening

MANUFACTURED CAPITAL

Branch management and governance forms an integral part in our efforts to improve the efficiency of overall branch operations and meeting its stated objectives. The branch governance structure is designed to complement SDF's two-tier credit approval process, where regional managers are given the authority to approve credit facilities up to a certain limit. Facilities above these stipulated minimum limits are approved by higher authorities.



In the current financial year all SDF branches remained closed for customers during the two month island-wide lockdown as per Government recommended health guidelines. However approval was obtained for employees to report to work in batches in order to handle customer requests for the debt moratorium scheme during this period. All branches were reopened from mid May 2020 onwards once lockdown restrictions were lifted.

ATM'S

Since the introduction of SDF's first ATM in 2018, we have made a conscious effort to grow our network. SDF's savings customers are issued with an ATM Debit Card that allows them to use our ATM network, which is connected to the LankaPay network giving them access to a network of +4,500 ATMs island-wide.

SARVODAYA SHRAMADANA SOCIETIES (SSS)

Being part of the Sarvodaya Movement, SDF's business operations have always been closely linked to the network of 5,400 SSS. SDF leverages on its connections with the SSS network to gain access to their collective membership of over one million of predominantly self-employed individuals and grass root level micro entrepreneurs. These synergies have paved the way for SDF to further deepen its penetration into these market segments.

We have now also begun introducing more technology based solutions to enhance the facilities offered at SSS. Most notably the PayGo enabled POS terminals introduced during the current financial year for customers to pay their routine utility bills.

IT SUPPORT SYSTEMS

Optimising Data Centre Availability

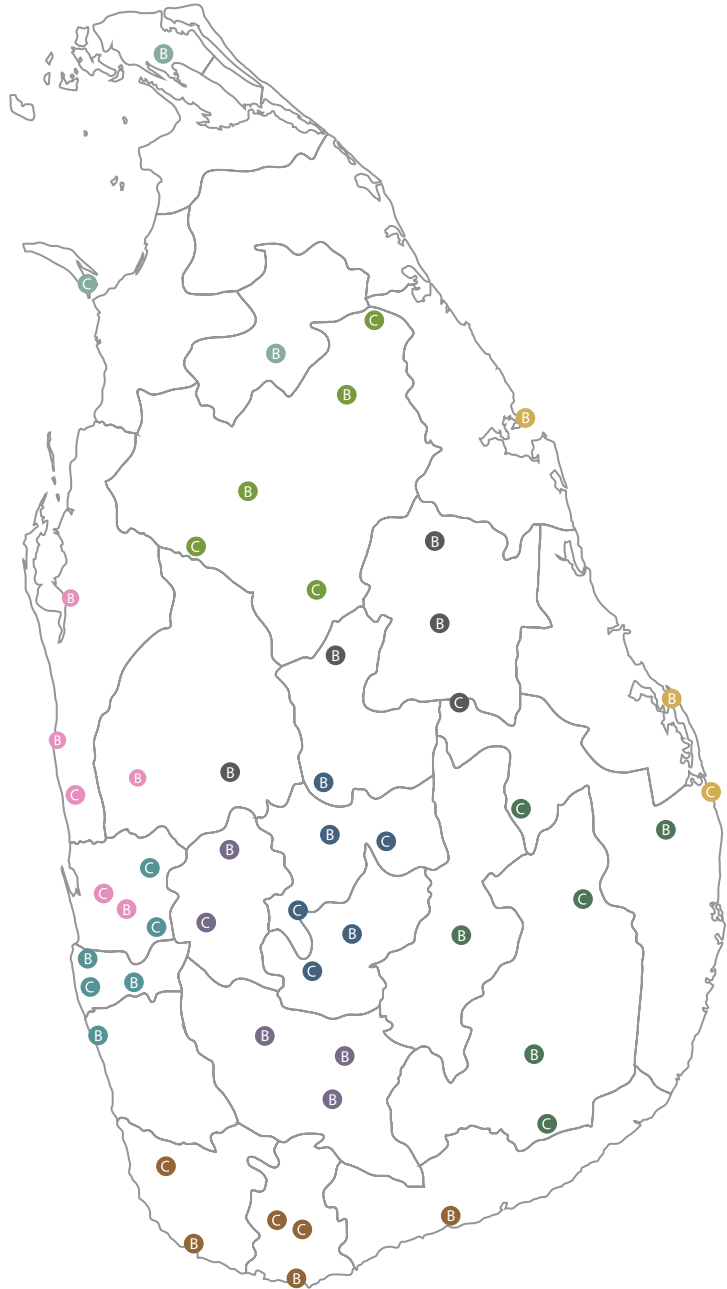
As the nerve centre of our operations, the main objective of our Data Centre is to minimise downtime across all our operations, including the branch network. To ensure an optimal availability of our Data Centre on a consistent basis, we have implemented the DRaaS (Disaster-Recovery-As-A-Service) methodology, a cloud-based solution to backup our data and IT infrastructure via a leading local expert. We also continually monitor and strengthen the security and performance of our Data Centre and its components to ensure stated objectives are met at all times.



Distribution of POS machines to Sarvodaya Shramadana Society members

KEY MANUFACTURED CAPITAL STATISTICS FOR 2020/21

Region 01	Borella Delgoda Homagama Panadura Pasyala Piliyandala	Region 06	Anuradhapura Kebithigollewa Kekirawa Parakkramapura Thabuttegama
Region 02	Akuressa Ambalantota Galle Kamburupitiya Karandeniya Matara	Region 07	Digana Hatton Kandy Matale Nawalapitiya Nuwaraeliya
Region 03	Ampara Badulla Kataragama Mahiyangana Medagama Monaragala	Region 08	Batticaloa Kalmunai Trincomalee
Region 04	Jaffna Mannar Vavuniya	Region 09	Chilaw Gampaha Kuliyapitiya Minuwangoda Naththandiya Puttalam
Region 05	Balangoda Godakawela Kegalle Ratnapura Ruwanwella	Region 10	Dambulla Dehiattakandiya Kurunegala Medirigiriya Polonnaruwa



B Branches **C** Customer Service Centres

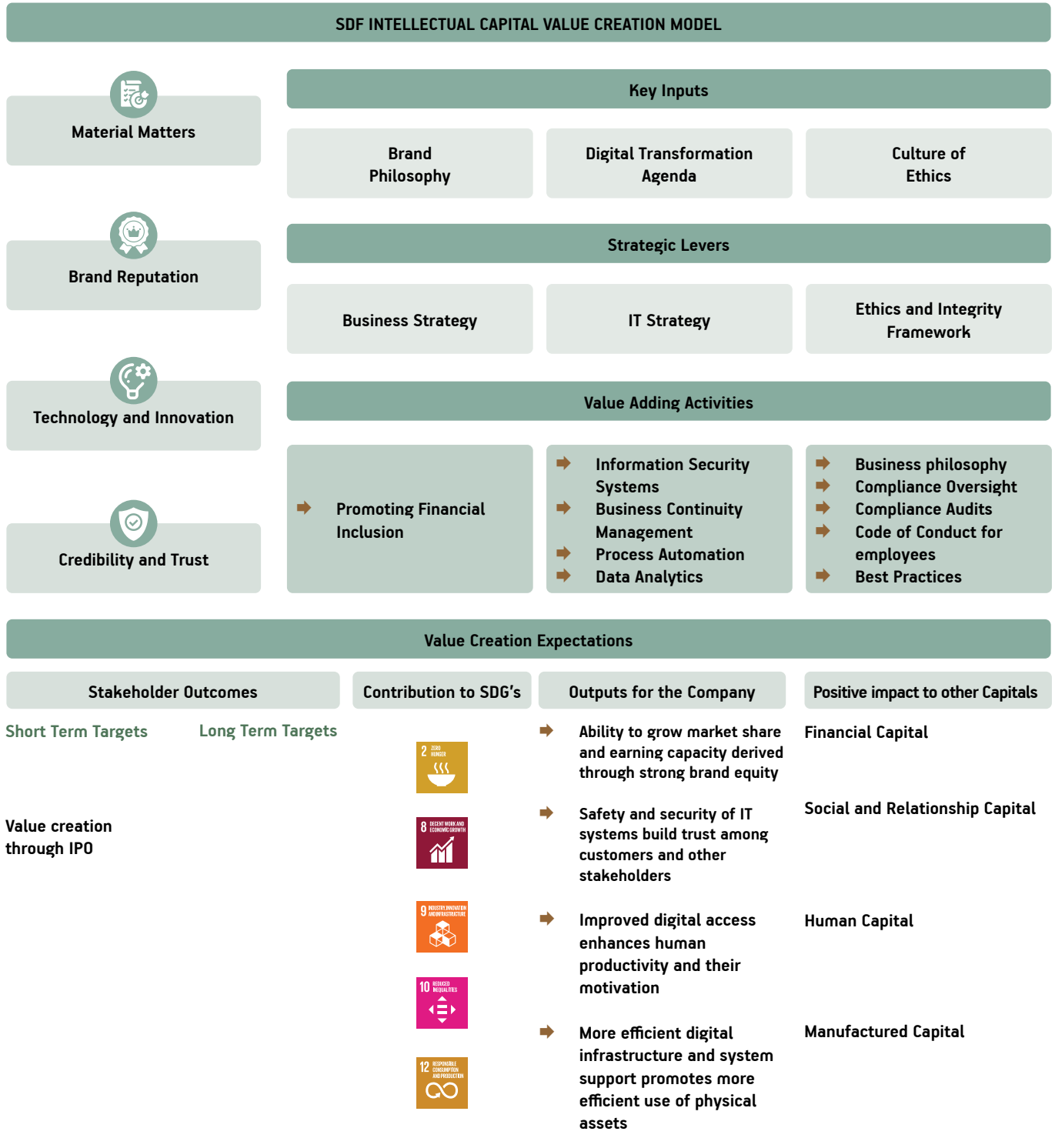
51

Branches/ Customer Service Centres

KEY FOCUS AREAS FOR THE FUTURE

Commissioning off site ATM's at selected locations	Introducing a mobile wallet application
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INTELLECTUAL CAPITAL



BRAND PHILOSOPHY

SDF's brand philosophy is unique in that it is based on the principles of social entrepreneurship promulgated by the Sarvodaya Movement which was founded over 06 decades ago in 1958. Staying firmly anchored to these foundational values, SDF has since the inception continued to serve grass root level communities who are often overlooked by the formal financial channels due to their inherent lack of financial sophistication. Epitomising the true spirit of development finance, SDF goes beyond the provision of financial assistance to create empowered communities and build them up as engines of growth in their respective local economies.

DIGITAL AGENDA

Seeing how the rapid pace of technology development continues to reshape the way business is done and connections are made, we believe it is imperative that SDF too leverages on technology to add value to its customers, operations and advance its strategic objectives. It is this premise that underscores our digital agenda and drives our efforts to holistically increase the digital penetration across the organisation to strengthen all core aspects of the business.

CULTURE OF ETHICS

Ethics are a fundamental part of how SDF operates. We believe that acting ethically and with integrity is vital in supporting our ability to execute our development finance mandate, while balancing the needs and expectations of our stakeholders.

BUSINESS STRATEGY

Promoting Financial Inclusion

As a development finance institution, SDF's reputation has always depended on its ability to live up to its purpose to promote financial inclusion among grass root level communities in Sri Lanka. These high expectations have driven us from the inception and every day since. As such we make certain our products are distinct, in that each and every one is an embodiment of our assurance to cater to the needs of our target market. Further to demonstrate our commitment to provide low income rural populations with access to financial services, we have ensured that more than 80% of SDF branches are located outside the Western Province. On this basis SDF has served thousands of mainly Micro Agri customers across the Country, proving itself as the champion of financial inclusion in Sri Lanka.

In recent years, we have increased our investment in digital technology in a bid to further empower communities by offering low cost value added digital solutions. For example the SDF Village Business Festival which we introduced in 2019 was a pioneering concept to facilitate micro entrepreneurs to explore opportunities that would allow them to take their business to the next level.

We are honoured to be the custodians of underserved rural agricultural communities and take pride in being known as the flagship brand responsible for grass-root level agri entrepreneurship in Sri Lanka.

IT STRATEGY

Information security systems

In an increasingly digital world, the importance of information security cannot be understated especially as cyber threats have become ever more sophisticated. As a financial institution, protecting SDF information assets is a key priority, which has led us to partner with a leading local security consultant to audit, review and recommend ongoing improvements to enhance our information security architecture.

Taking a further step towards safeguarding our information security systems, in the year under review we appointed an independent third party to conduct a comprehensive security audit, including Vulnerability Assessment and Penetration Testing to determine the efficacy of our core information security infrastructure. The process, which concluded in late 2020 confirmed the adequacy and appropriateness of our information security systems based on the "CIA Triad Model", a globally accepted practice to determine the confidentiality, integrity and availability of data assets.

Meanwhile, with our employees instructed to work from home for extended periods of time in the past year, we reinforced our DLP (Data Leakage Prevention) policies to make certain that our corporate network continues to maintain its integrity against related threats. Accordingly, only critical staff pertaining to vital roles/required for "business-as-usual" activities in our core business were identified and granted remote access to the Company's system. Moreover we reclassified the definition of "Remote Access" into two main areas, namely Communications and System Access. Communications policies were reviewed and revamped as needed, while System Access controls were made available through a Virtual Private Network ("VPN") for sanctioned devices such as laptops/desktops of authorised personnel. We also amped up our Anti-Virus ("AV") software policies and processes.



INTELLECTUAL CAPITAL

Business Continuity Management (BCM)

Business Continuity Management which has been mostly overlooked in the past, was brought to the forefront in 2020 amidst the disruptive environment caused by the COVID-19 pandemic. However for organisations supported by a well-planned BCM framework it was a relatively easy transition with minimal disruptions to the regular course of business.

This was the case for SDF as well. Having invested consistently over the past few years to create a virtual server ecosystem for Mission Critical Applications ("MCA"), we were assured that SDF's underlying infrastructure was stable and in optimal condition to safeguard against adverse, unplanned outages. With virtualisation technologies known for achieving a better performance ratio from the underlying hardware, we continued with this same technology stack and deployed the new servers in the current financial year, while at the same time upgrading to the latest stable version to ensure security and stability for our IT-enabled services in response to the pandemic. To further strengthen our BCM programme, we also purchased new Lenovo servers and additional Storage Area Network to ensure that our infrastructure can meet the demands of the business. All MCA's were immediately migrated to the new hardware, while our legacy servers were reconfigured to handle other non-mission critical assignments.

Also during the year, we linked up with a leading call centre solutions provider to implement an innovative platform to seamlessly integrate their solution with our Recovery Call centre. The new platform, termed CCaaS (Contact centre as a Service, also known as Call centre as a Service) is run on OPEX basis and as such required minimal capital expenditure to enable integration with our environment.

Meanwhile in the context of the pandemic, we reviewed our entire BCM programme by revisiting all related policies and procedures, with special emphasis on addressing the information security implications that may arise if remote access was granted for an extended period of time. For this purpose, we conferred with our information security partner to review SDF's existing BCM framework and recommend necessary improvements in line with global standards and best practices.

Process Automation

Process automation has been a key priority in our overall strategy. Over the past few years we have made steady progress in automating key aspects of our business, with a view to improving efficiency and reducing costs. One of the notable initiatives in the recent past, was the implementation of Google (G-Suite) to facilitate our email communications. In the current financial year, we upgraded our license to the G-Suite Business platform to gain access to more enhanced features and improved functionality, which also paved the way for the roll out of the new workflow management system powered by Google AppSheet.

The versatility of Google AppSheet has allowed SDF to streamline several key back end processes, such as our Supplier Payment Workflow and Bank Reconciliation Workflow, (amongst others) which have collectively led to a notable increase in productivity. Given these positive outcomes,

we have commenced migrating more workflows to the Google AppSheet platform.

Data Analytics

Having already taken the first steps towards investing in advanced digital tools to strengthen our data analytics capabilities, SDF continues to reap the benefits in its day-to-day operations. The Microsoft power BI tools were introduced in 2018 to monitor the branch performance in terms of disbursements, recoveries, deposits and financials, are now a vital part of our internal management information systems.

Meanwhile, power BI dashboards have proven to be invaluable for branch teams to keep track of branch targets as well as their own individual KPI's.

ETHICS AND INTEGRITY FRAMEWORK

Business Philosophy

As a member of the Sarvodaya Movement, which is dedicated to the social and spiritual wellbeing of all beings, SDF is guided by the ethical values ingrained in the Sarvodaya philosophy. Accordingly, we do not support business activities traditionally considered anti-social by Sri Lankan Buddhist principles, such as fisheries, poultry, gambling, alcohol, and weapons related industries.

Compliance Management

Operating in a highly-regulated industry such as the financial services sector, SDF is subject to a host of regulatory and compliance requirements. SDF has a zero tolerance approach towards non-compliance, which is enforced through a range of policies and procedures across the business and coupled with continuous and ongoing training to raise employee awareness and strengthen the compliance-based culture across the organisation. The responsibility for compliance is delegated to the respective functional head, while the ultimate responsibility for compliance lies with SDF's Board of Directors. Risk and compliance division is responsible for the implementation of the compliance programme at SDF.

Meanwhile annual compliance audits are conducted by the Internal Audit function as part of their routine assurance of policy and procedural compliance, with gaps detected along with recommendations reported to the Board Audit Committee for appropriate corrective action. Annual audits by the external auditors and the CBSL also serve to provide additional assurance regarding SDF's compliance status.

Code of Conduct for Employees

SDF's Employee Code of Conduct provides the foundation for building a strong compliance culture and for reinforcing ethics and integrity at all levels across the organisation. Developed based on SDF's fundamental business philosophy and in cognisance with all labour laws applicable to the Company, the code outlines standards and behaviours expected of all SDF employees and contains specific policies and guidelines relating to the standards and ethics on matters such as confidently, fair dealing, conflict of interest, anti-bribery and corruption and anti-money laundering.

All SDF employees and Directors, without exception, are expected to adhere to the spirit and letter of the code in their day-to-day work and when representing the Company during external engagements.

Best Practices

SDF's Whistleblower Policy encourages and protects employees who speak up when they encounter workplace behaviour that is perceived as unethical, illegal or is against SDF's Code of Conduct and core values. In line with global best practices, we take the utmost care to protect the identity of whistleblowers and their confidentiality as per applicable laws and regulations.

Awards

SDF was recognised as the Fastest Growing Development Finance Company in Sri Lanka 2021, at the prestigious Global Banking and Finance Review Awards. The international award, which is valued throughout the global banking and financial community, recognises companies in the financial sector that specialise and excel in their chosen field.



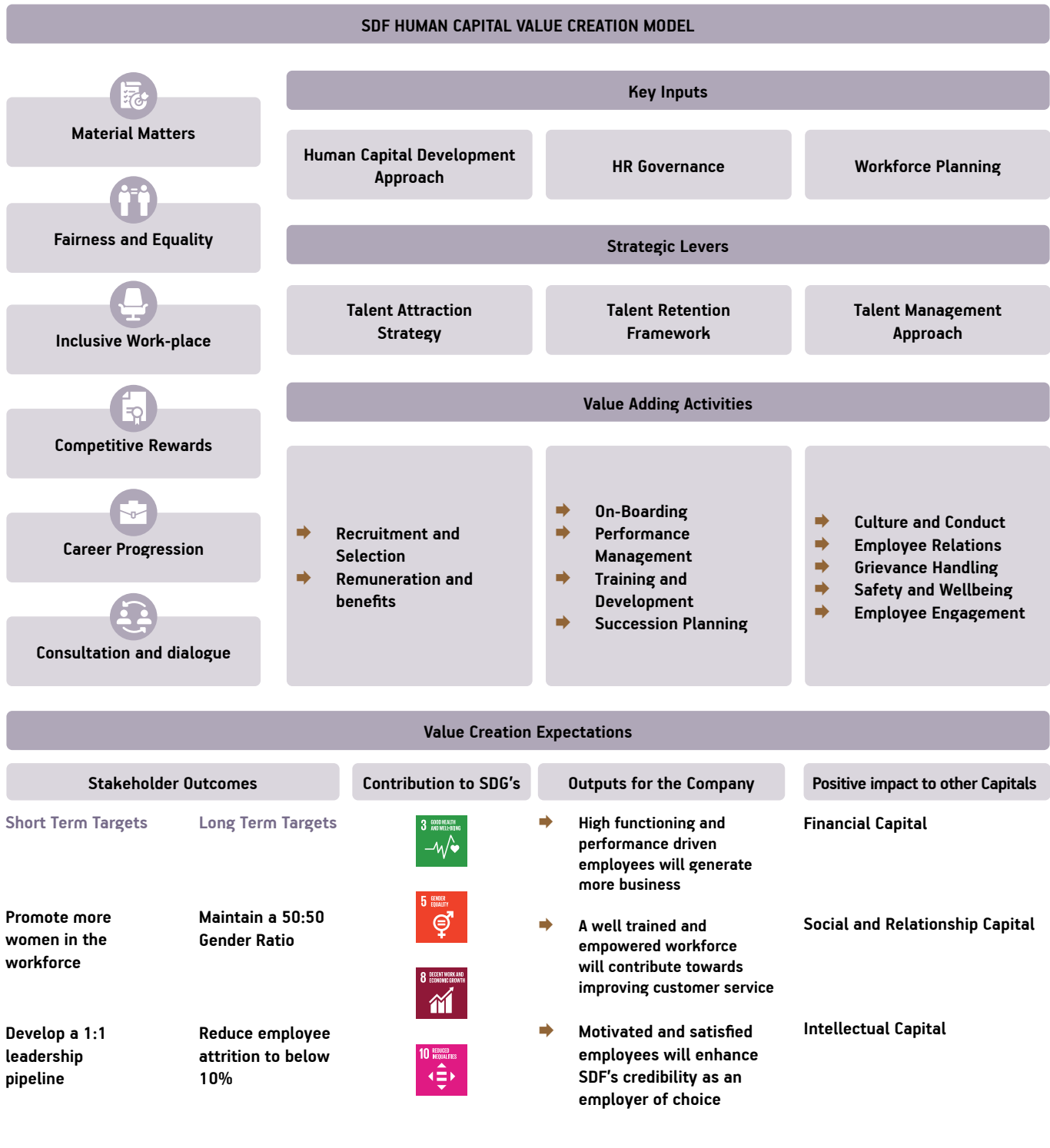
Celebrating the award received on "Fastest Growing Development Finance Company Sri Lanka 2021"

KEY FOCUS AREAS FOR THE FUTURE

Introduce AI-based predictive analysis tools to enhance the quality of management information systems

Invest in robotic process automation to improve productivity and enhance overall operational efficiency of back office functions

HUMAN CAPITAL



Value Creation Expectations

Stakeholder Outcomes		Contribution to SDG's	Outputs for the Company	Positive impact to other Capitals
Short Term Targets	Long Term Targets		<ul style="list-style-type: none"> ➔ High functioning and performance driven employees will generate more business 	Financial Capital
Promote more women in the workforce	Maintain a 50:50 Gender Ratio		<ul style="list-style-type: none"> ➔ A well trained and empowered workforce will contribute towards improving customer service 	Social and Relationship Capital
Develop a 1:1 leadership pipeline	Reduce employee attrition to below 10%		<ul style="list-style-type: none"> ➔ Motivated and satisfied employees will enhance SDF's credibility as an employer of choice 	Intellectual Capital
				

HUMAN CAPITAL DEVELOPMENT APPROACH

SDF's Human Capital Development approach is fundamentally tied to our corporate strategy. Underpinned by our solid HR Governance framework and supported by the workforce planning process, we focus on three strategic levers to ensure we have the best in-class talent to meet the needs of the Company.

Apart from this, we want our employees to fully embrace our unique culture and actually live by the core values on which SDF was founded - Purity in Service, Diligent and Caring, Transparent and Honest, Passionately Committed. Towards this end, we offer a compelling employee value proposition based on the principles of fairness, equality and non-discrimination as stated under the International Labour Organisation (ILO) convention and the UN Global Compact for human rights. As an equal opportunity employer we are committed to treat all employees equally and provide a dynamic and challenging work environment to encourage everyone of them to maximise their potential.

HR GOVERNANCE

HR Governance plays a crucial role in the management and execution of SDF's human capital development framework.

All HR related activities at SDF are centralised and handled by the Company's HR department. The HR department provides oversight for the formulation and implementation of all HR policies and for ensuring compliance with all labour laws applicable to the Company. The HR department is headed by the AGM Human Resources, who reports to the CEO on operational matters and to the Board Remuneration Committee and the Board of Directors regarding policy and compliance matters.

WORKFORCE PLANNING

Operating in a fiercely competitive industry such as Sri Lanka's non-bank financial sector, workforce planning has become a vital tool in identifying manpower requirements and facilitating SDF's human capital development model.

Workforce planning is a comprehensive process undertaken annually by various levels of management, to establish the Company's manpower requirements for the forthcoming financial year.

HR Governance Framework	
Regulatory Compliance	Policy and Procedures
Shop and Office Employees (Regulation of Employment and Remuneration) Act, No. 19 of 1954 and its amendments	Employee Resourcing Policy
Employee's Provident Fund Act No. 15 of 1958	Reward Management Policy
Payment of Gratuity Act no. 12 of 1983	Performance Management Policy
Maternity Benefits Ordinance of 1939	Training and Development Policy
	Employee Administration Policy
	Grievance Handling Policy
	Disciplinary Management Policy
	Anti-Sexual Harassment Policy
	Whistleblower Policy

SDF was fully compliant with all regulatory requirements in the year under review.

HUMAN CAPITAL

TALENT ATTRACTION STRATEGY

Recruitment and Selection

In striving to recruit talented individuals whose attitude and mindset are a best fit for SDF's corporate culture, we maintain a highly transparent recruitment process where both internal and external applicants are granted equal opportunity to apply for vacancies identified through our workforce planning process. We also have clear guidelines regarding local hiring, where we aim to ensure that at least 95% of the entry level staff at our branches are hired locally from the area. Furthermore, being positioned as an employer of choice has enabled SDF to gain access to universities and professional institutes to recruit more specialised aspects of the business.

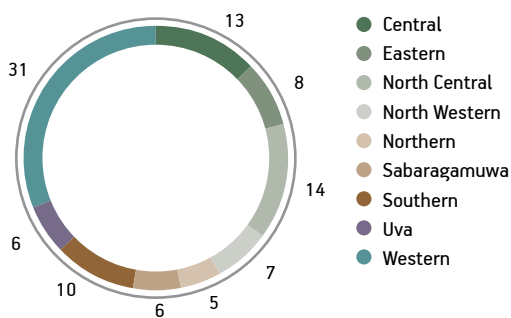
Selections are made purely on the basis of merit. We use a systematic approach to shortlist candidates by mapping their credentials and expertise against the desired skills for the job, while all shortlisted candidates are subject to a series of competency based interviews prior to determining if they are the best fit for SDF.

In recent years, we have further streamlined our selection process with the use of globally accepted talent selection techniques such as 'Assessment Centres'. Benchmarking these globally accepted practices elevates SDF's position as an employer of choice, which in turn paves the way for the Company to access a wider talent pool.

All new recruits are subject to a six month probationary period.

In the year under review we continued with our recruitments despite the challenges arising from the pandemic, with a total of 167 recruitments being made within the 12 months ending 31st March 2021.

New Recruits -By Geography 2021



Remuneration and Benefits

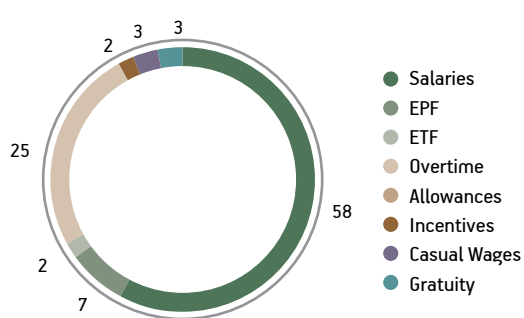
At the heart of SDF's talent attraction strategy is a robust remuneration and benefit structure that goes beyond the statutory minimum requirements to provide a fair, equitable, and market competitive package in recognition of the duties and responsibilities of the job.

As an equal opportunity employer, our entry level wage structures are the same for males as well as females. Moreover males and females performing similar roles across the Company are also remunerated equally and are entitled to the following benefits, in addition to their basic salary;

- ➔ Surgical and Hospitalisation cover for the employee and their immediate family, including parents and in laws
- ➔ OPD Cover
- ➔ Marriage benefit
- ➔ Death donation benefit

New recruits within the probationary period are entitled to the OPD cover, in addition to their basic salary.

Employee Benefits 2021 (%)



TALENT RETENTION FRAMEWORK

Onboarding

While finding and hiring the right candidates is important, we realise it is equally important to ensure they benefit from a strong onboarding experience once they join. In fact onboarding serves as the point of origin for SDF's talent retention framework.

The first phase of our on-boarding programme is the one week orientation and induction, which is managed centrally by the HR department. Upon completion of their orientation and induction, all new recruits are allocated to respective departments and placed under a mentor to facilitate the smooth transition to their new job role.

We were compelled to change our on-boarding process in the current financial year owing to pandemic related restrictions. Accordingly, the orientation and induction process was decentralised with respective branch managers tasked with performing the relevant duties.

A total of 167 new recruits were on-boarded in this manner in the year under review.

Performance Management

Performance Management is an integral component in our efforts to create a vibrant, high performance culture that will drive employees to reach their full potential. To facilitate this, we have put in place

a Performance Management System (PMS) which ensures that the goals and objectives that flow from the Company's leadership are reflected across all levels of the business as well as in the personal objectives of each individual. This supports for creating a vital link between the performance of individual employees and SDF's overall strategic plan. The PMS is an annual process that kick-starts with the goal setting exercise that takes into account the expected financial and non-financial targets set out in the Company's strategic plan for the forthcoming financial year. Once the relevant goals are agreed upon and approved by the Remuneration Committee and the Board, they are then cascaded down through respective Departments/Branches in the form of targets. These are further filtered down to a granular level through individual KPI's for each employee. In addition, expected competencies (soft skills) for each job grade/job role too are communicated separately and may be changed from time to time.

Monthly performance dashboards allow managers to monitor employee performance throughout the year, while the quarterly review process is an opportunity for managers to meet with each employee to discuss performance gaps and take corrective action to support under performers to return to track. The annual performance appraisal at the conclusion of the financial year, is a formal process where employees review and discuss their performance with their respective supervisor. The performance appraisal form used for this purpose focuses

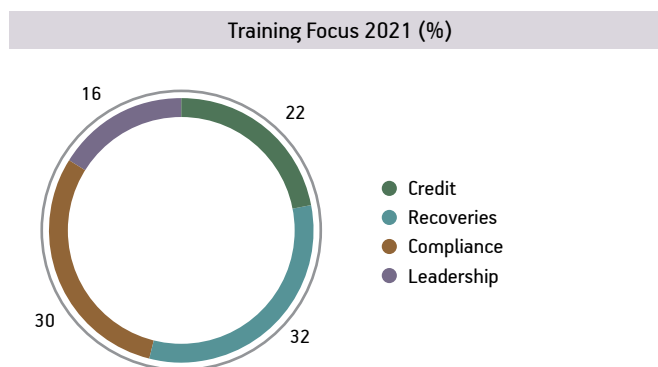
on assigning a final rating to each employee based on the collective results of their performance against predetermined KPI's and their level of competency (soft skills) required to perform the job effectively. The final rating is used by the management to determine increments, bonuses and promotions. The annual performance appraisal is also the basis for which training needs are established and personal career development plans are set.

The performance of each employee is reviewed in this manner by their respective superior(s) as assigned in the organisational structure.

All employees with at least six months service with the Company as at 31st March of a particular year become eligible to receive a performance appraisal for that year. On this basis, nearly 83% of SDF's total workforce benefitted from the annual performance appraisal for FY 2020/21. The remaining 17% consisted of 82 employees who were within the 6 month probationary period. The performance of probationary employees is reviewed frequently by their immediate supervisor throughout the probationary period.

Training and Development

We believe training and development is central to creating a high quality work force that will give SDF a clear competitive edge. Training activities are undertaken as per our annual training plan. Similar to the manpower plan, the training plan too is prepared based on the inputs received from business heads, departments and branches, who use the annual performance appraisal process as the key point of reference for establishing the training needs of their respective teams.



The training plan is accompanied by the training budget where the largest allocation is assigned to technical and operational areas. In recent years, the training budget for soft skills training and compliance training has also been in-creased substantially.

The restrictions on physical gatherings due to the pandemic saw much of the training activities for the FY 2020/21 being shifted to online platforms. Adapting quickly to this new normal environment, we rolled out a series of train-the-trainer workshops to build capacity among a selected group of senior managers, which ensured that our technical and operational training could continue uninterrupted throughout the year.

Employee Category	Headcount			Hours		
	Male	Female	Total	Male	Female	Total
Head Office Staff	26	4	30	403	57	460
RMs & BMs	135	7	142	1,434	80	1,514
BDO	134	46	180	1,400	656	2,056
Recovery Officers	169	0	169	1,816	0	1,816
Back Office - Branch	0	89	89	0	178	178
New Recruits - Induction	61	24	85	916	179	1,095
Grand Total	525	170	695	5,969	1,150	7,119

HUMAN CAPITAL



Succession Planning

We are focused on identifying, assessing and developing leaders who can execute our strategy and demonstrate the desired behaviour that are key to realise our corporate vision.

The succession planning process is also facilitated through the annual performance appraisal. All employees who receive a high performance rating on their annual performance appraisal are earmarked for development through a structured succession planning process which focuses on enabling them to take on leadership positions within the Company over time. Employees earmarked for development have access to additional training, career guidance and leadership development initiatives that improve their capacity to advance their career in tandem with the SDF’s future growth trajectory. As a part of their development plans, all earmarked candidates also benefit from job enrichment opportunities including special assignments as well as coaching and mentoring sessions to groom them to take on additional responsibilities and explore new career paths. This is also in part to ensure we have the right leaders, with the right forward-looking skills, in the right positions at the right time.



“Way Forward” strategic planning sessions are a regular feature of SDF – This is a programme led by renowned Prof. Gunapala Nanayakkara. All members of the leadership team took part in creating a clear and concise strategy for SDF.

A total of 64 employees were promoted in the current financial year.

Employee Category	2020/21			2019/20		
	Male	Female	Total	Male	Female	Total
Manager	7	2	9	-	-	-
Assistant Manager	-	5	5	1	-	1
Senior Executive	17	5	22	4	2	6
Executive	15	7	22	5	2	7
Journal Executive	2	2	4	-	-	-
Senior Support Service Staff	1	1	2	-	-	-
Total	42	22	64	10	4	14

TALENT MANAGEMENT APPROACH

Culture and Conduct

SDF has a distinct culture, where values and ethics go hand in hand with performance. We care deeply about our responsibility to create an inclusive environment and to respect the dignity and diversity of all employees working under the SDF brand umbrella. Our commitment to diversity and inclusion and zero tolerance for any form of harassment encompasses all aspects of our business. To ensure these principles are applied in practice, we set out clear guidelines to drive inclusive behaviours among our employees. At the same time we expect our leaders to be proactive in their approach to fostering an inclusive and respectful work environment where all employees are treated equally and fairly without exception.



Diwali celebration - All 51 branches and CSCs along with the Head Office engaged in celebrating Diwali.

HUMAN CAPITAL

Employee Relations

Maintaining an open door policy since the inception, has allowed SDF to build solid relationships with its employees based on trust and mutual respect. Other routine forums such as the sales meetings and team briefings at branches and departments are also important avenues to strengthen employee relations. Beyond this, the annual visit by the AGM HR to all departments and branch locations has proven to be highly effective in cultivating employee relationships.

We maintain a consistent approach to inform employees informed of operational changes. Typically operational changes are informed via email and through the intranet with employees given a minimum of two weeks notice prior to the implementation of any changes. Given these approaches to build employee relations over the past six years, the need for a collective agreement has not arisen.

Meanwhile we conduct exit interviews for employees resigning from SDF. Exit interviews were conducted for all 157 employees who resigned from SDF in the current financial year.

Grievance Handling

SDF employees who feel their issues have not been successfully resolved through discussion with the immediate supervisor, can escalate their concerns through our formal grievance procedure managed under the custody of the HR department. A structured grievance handling mechanism is in place and contains a set of guidelines to ensure employees receive a fair and equitable outcome for personal grievances in the workplace.

No such incidents were reported through the grievance handling mechanism in the current financial year.

Safety and Wellbeing

Given the nature of our business, SDF's employees do not face any material occupational health and safety risks. Nonetheless we remain fully committed to provide our employees with a safe and secure work environment that will enable them to perform at their best. In order to maintain this commitment, we assign equal priority to health and safety matters, as we do to all other aspects of the business. We comply with all national health and safety regulations to ensure our premises are safe for our employees. We continuously monitor safety systems and conduct regular safety drills to confirm the readiness of our safety systems, while safety training is done regularly to raise awareness among employees.

In the current financial year, the focus on safety took on a new dimension in the context of the pandemic. We took immediate action to implement all recommended safety protocols for protection of employees, while employees were trained and guided on following health regulations when at work. Where possible employees were allowed to work from home and new flexible work practices were designed and implemented. A new policy on home working and flexible work practices was also rolled out in June 2020.

The Medical insurance scheme was expanded to include COVID-19 related cases, while a dedicated COVID-19 quarantine unit was set up at the Sarvodaya centre specifically for the use of SDF staff, as and when needed.



SDF opened its own in-house Gym and staff recreation area. Pictured here is Sri Lanka's most outstanding multiple medal winning swimmer Julian Bowling being the Chief Guest at this function.

Employee Engagement

SDF's Welfare and Sports Society maintains an annual event calendar consisting of a range of sports and recreational activities organised to give employees the opportunity to interact with their colleagues and the management in an informal setting. Of these, the annual staff get-together for all the staff and the annual sports extravaganza for employees are highly popular and much sought after events in our annual calendar. However these events were not held in the current financial year owing to pandemic related restrictions.

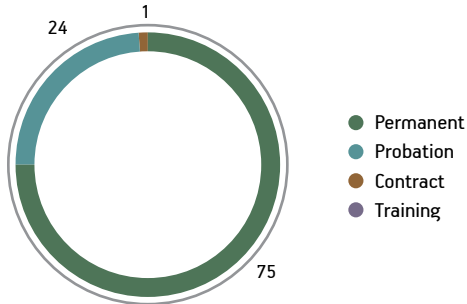


Having evening Yoga classes at SDF staff recreation centre for the staff by trained instructors is a feature of SDF to keep a healthy balance between mind and body.

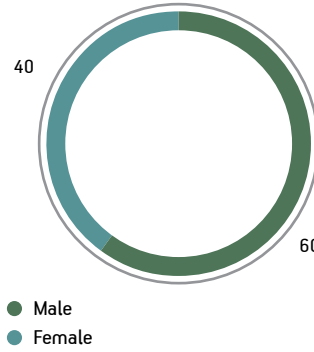
HUMAN CAPITAL

KEY HUMAN CAPITAL FIGURES FOR 2020/21

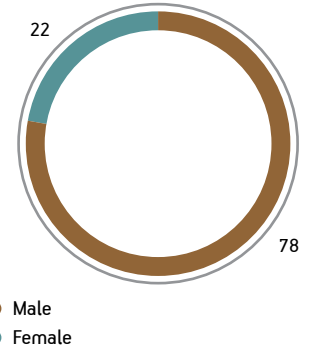
Workforce Movement 2021 (%)



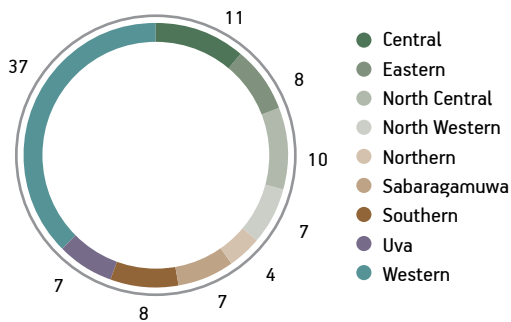
Employees-by Gender 2021 (%)



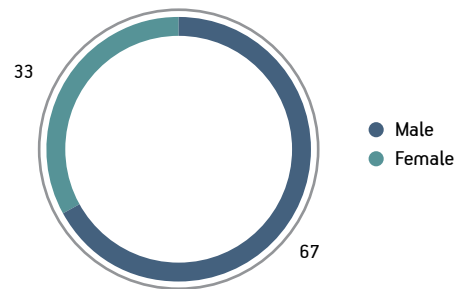
New Recruits-by Gender 2021 (%)



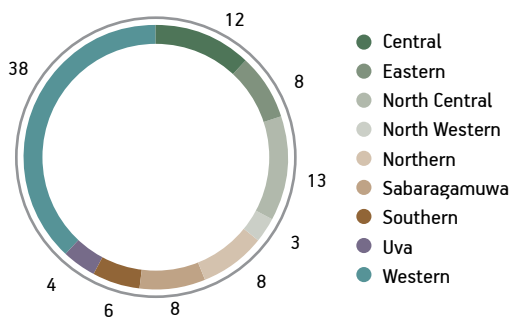
Employees-by Geography 2021 (%)



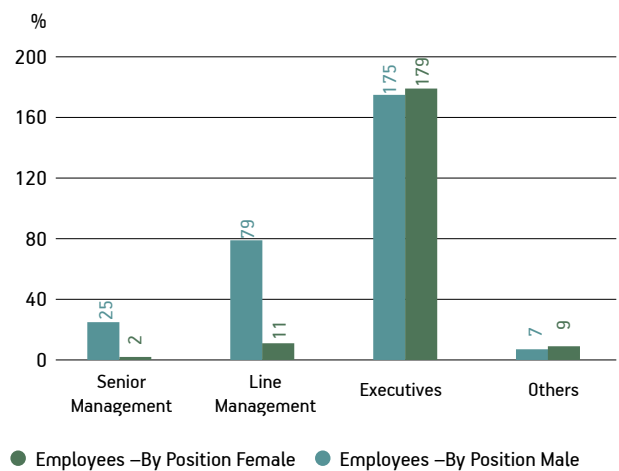
Employees Turnover-by Gender 2021 (%)



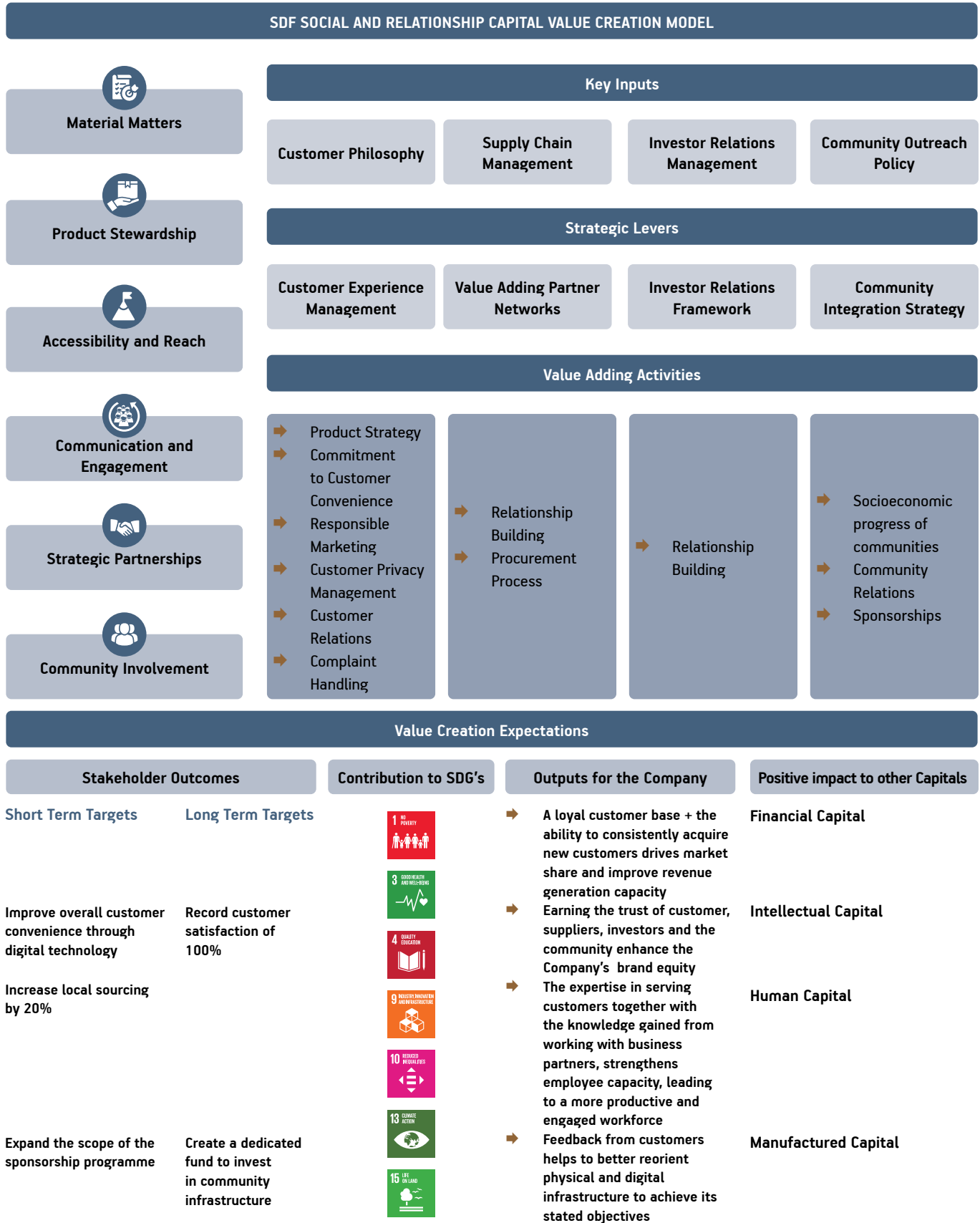
Employees Turnover-by Geography 2021 (%)



Diversity Indicator-by Position



SOCIAL AND RELATIONSHIP CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL

CUSTOMER PHILOSOPHY

We take our responsibility towards our customers very seriously. As a development finance institution whose target market is mainly the rural underserved communities across Sri Lanka, we reinforce our commitment to our customers by providing simple, cost effective and innovative financial solutions in a courteous and responsible manner.

SUPPLY CHAIN MANAGEMENT (SCM)

We undertake SCM in principle to support the sustainability and continuity of our business. Our approach is centered on clearly identifying all key supply chain partners and building strong enduring relationships with each of them based on the trust.

INVESTOR RELATIONS MANAGEMENT

SDF's investors are typically two types equity investors and the providers of debt capital. Based on the information needs of each category, we strive to provide timely, transparent, consistent and credible information on a regular basis, while more detailed information is provided as needed from time to time during group meetings or on a one-on-one basis.

COMMUNITY OUTREACH POLICY

As a development finance institution, community outreach goes hand in hand with our core business. Therefore our customers and the communities we serve are essentially one and the same. As such, our goal is not only to facilitate their financial independence, but to holistically address the needs of our communities by supporting their overall socio-economic progress.



CUSTOMER EXPERIENCE MANAGEMENT

Product Strategy

Our product strategy stems from SDF's mandate to promote financial inclusion in Sri Lanka with customer-centricity being the key principle driving our product development process. Equally importantly we ensure that our products and services conform to all laws and regulations applicable to local financial institutions. SDF core values and ethical considerations also play a major role in framing our commitment to develop responsible products that are timely and responsive to the specific needs and expectations of our main customer segments.

In the current financial year, a new Product Development Policy was introduced setting out formal guidelines to determine the way new products are identified, developed, marketed and to allocate responsibilities for managing each stage of the product life cycle. Among the notable new developments introduced is the mandatory screening process to assess the environmental and social impact to customers, caused by our products. The screening process would henceforth be applicable to SDF's new product pipeline. It will also be used to see how our existing products measure up in terms of social and environmental impacts.

Meanwhile to support the execution of the new Product Policy, the existing product governance structure was also revamped. As per the new structure, proposals for all new products and services will be routed through the New Product Development Committee chaired by the Chief Executive Officer, and consisting of Head of Credit, Head of Finance, Head of Compliance, Head of IT, Head of Audit, Head of Marketing and Head of Risk. SDF's Board of Directors will be responsible for ensuring that product risks are well managed, and the needs and rights of consumers are appropriately addressed in line with SDF's core values and customer-centric principles.



The Product Head along with the respective Business Head would liaise with departments and form a product launch team who will work along with the development, launch and post operation. In the instance where the Business Head and the Product Head are the same, He/she will initiate the product launch team.



IT department will evaluate the system requirements for the new product, and ensure that the required modifications will be accommodated in the system.



The necessary training for the staff, related to product features, system navigation, and operations will be provided by the product heads and the IT department.



All new products launched should be entered to the new product launched registry along with the type of product, product owner, customer segments and special conditions applicable.

SDF PRODUCTS



Dairy Loans (Kiri Goviya)

Target Market

- ➔ Existing SDF micro clients
- ➔ Farmers who are presently involved in the dairy farming
- ➔ Farmers who have registered with milk collecting centers
- ➔ SSS members who are involved in the dairy farming
- ➔ Farmers who have engaged in dairy activities previously
- ➔ New potential clients



Scooty Bikes

Target Market

- ➔ Beauty salon owners, beauticians
- ➔ Lady insurance advisors
- ➔ Government/ private sector permanent lady employees including grama sevakas
- ➔ Self employed ladies
- ➔ Teachers of government and private schools
- ➔ Sarvodaya female employees Beyond a certain seniority



SME

Target Market

- ➔ Paddy milling
- ➔ Made tea
- ➔ Bakery products
- ➔ Coconut based products
- ➔ Other food processing
- ➔ Garments
- ➔ Vehicle service
- ➔ Hospital and medical labs
- ➔ Restaurant hotel and catering
- ➔ Commercial and passengers
- ➔ Fisheries
- ➔ Poultry farming
- ➔ Furniture manufacturing



Housing Loans

Target Market

- ➔ Any entrepreneur, estate workers, salaried employees, Estate workers



Nana Diriya

Target Market

- ➔ Students
- ➔ University students
- ➔ Students who are enrolling for higher studies
- ➔ Children's of sarvodaya Shramadana members



SDF Agri Leasing

Target Market

- ➔ Farmers



Micro Personal

Target Market

- ➔ Salaried employees of private and public sectors



SDF 3wheel

Target Market

- ➔ Three wheel owners
- ➔ Government/private sector permanent employees
- ➔ Self-employees
- ➔ Three wheel drivers
- ➔ Sarvodaya employees



Sarvodaya Shramadana Society

Target Market

- ➔ Society members



Micro Business Loan

Target Market

- ➔ Micro entrepreneurs in the country

COMMITMENT TO CUSTOMER CONVENIENCE

Excellence in customer convenience is one of the key drivers of our effort to differentiate SDF as a truly customer centric financial institution. From an accessibility perspective, we combine traditional brick and mortar distribution channels as well as specific mechanisms unique to our operating model. SDF has a network of 51 branches including customer service centres across the Island-wide, of which more than 80% are located out of the western province. Customers can also access our products through over 5,400 Sarvodaya Shramadana Societies located around Sri Lanka.

In recent years we have been pursuing technology-based solutions to further enhance the level of convenience offered to our customers. Since the roll out of SDF's first ATM in 2018 we have been steadily increasing our ATM footprint. SDF's savings customers are issued with an ATM Debit Card that allows them to use our ATM network, which is connected to the LankaPay network giving them access to a network

of 4,500+ ATMs island-wide. The most recent developments on the technology front were the new initiatives introduced in response to the pandemic, notably the integration with LankaPay to enable customers to pay their dues via PayGo enabled POS terminals located at most Sarvodaya Shramadana Societies. As a value added service, we also enabled customers to pay their routine utility bills also in this way. Further, we tied up with Mobitel (Pvt) Ltd to extend the mCash mobile payment facility to SDF customers.

Beyond this, we continue to adopt a broad based approach to transform every aspect of our business model with the intention of creating an ecosystem to support our overall customer convenience goals. Our digitisation agenda is a key enabler of this effort, where in particular we have begun using process automation to improve our credit approval processes of our leasing and SME loan products.

SOCIAL AND RELATIONSHIP CAPITAL

RESPONSIBLE MARKETING

In keeping with our commitment to be honest and forthright in our customer dealings, we aim to provide our customers with all relevant information to help them make informed decisions when deciding to transact with us. SDF's Board approved Marketing Policy states that all our advertising and promotional material be designed in compliance with the regulatory requirements applicable to local financial institutions. Moreover in keeping with globally-accepted best practices we strive to ensure that the information we provide regarding our products and services are clear, understandable, accurate, and accessible.

SDF's primary marketing activities are conducted by branch teams who design localised campaigns tailored to the particular target markets in their areas. To enhance the effectiveness of our communication, we also use a range of mediums, including print and electronic media as well as the corporate website and social media channels. Moreover we conduct joint branding and marketing activities in collaboration with several of our key business partners whose values are consistent with SDF's own brand ideals. On this basis, we regularly participate in the town storming activities conducted by Sarvodaya Shramadana Societies and have also tied up with selected dealers and agents for our leasing business.

Marketing Activity	2020/21		2019/20	
	Rs. (millions)	(%)	Rs. (million)	(%)
Print Media	2.36	6.82%	2.08	8.57%
Electronic Media	4.1	11.86%	1.6	6.59%
Event and Exhibition	8.44	24.41%	4.3	17.71%
Special Campaigns/ Digital	19.68	56.91%	16.3	67.13%
Total	34.58	100.00%	24.28	100.00%

Marketing Campaigns for 2020/21		
Campaign	Target Customer Segment	Mediums
Agri Equipment Leasing	Agri Farmers Agri Entrepreneurs	➔ Spot promotion ➔ Town storming ➔ Tie ups with dealerships
Nene Diriya (for laptops)	For professionals and students	➔ Social media
Kiri Govia loan facility	SME's (Diary Sector) Farmers	➔ Localised Branch Campaigns ➔ Spot promotion

CUSTOMER PRIVACY

We understand safeguarding the privacy of customer data is among the many prerequisites for earning the trust of our customers for this purpose, we have installed the latest data protection software to safeguard customers information, with strict authority limits to grant access to authorised personnel only. Furthermore we train our employees regularly to educate them on their duties and responsibilities with regard to upholding customer privacy. In addition, we use the corporate website, social media accounts, email announcements, to continuously raise awareness among customers about potential information security threats and provide them with practical and useful content on how best to protect themselves against any such risks.

CUSTOMER RELATIONS

Given that we are in a strongly people oriented business, we engage with our customers mainly through a relationship-based approach with customer interactions conducted primarily through our front office staff and field staff at branches. In addition, the SDF website and social media platforms also serve as key channels in building customer relations on an ongoing basis.

With the pandemic hampering our ability to maintain physical interactions with customers, in this past year we kept in constant touch with our customers through WhatsApp groups and other similar communication tools.

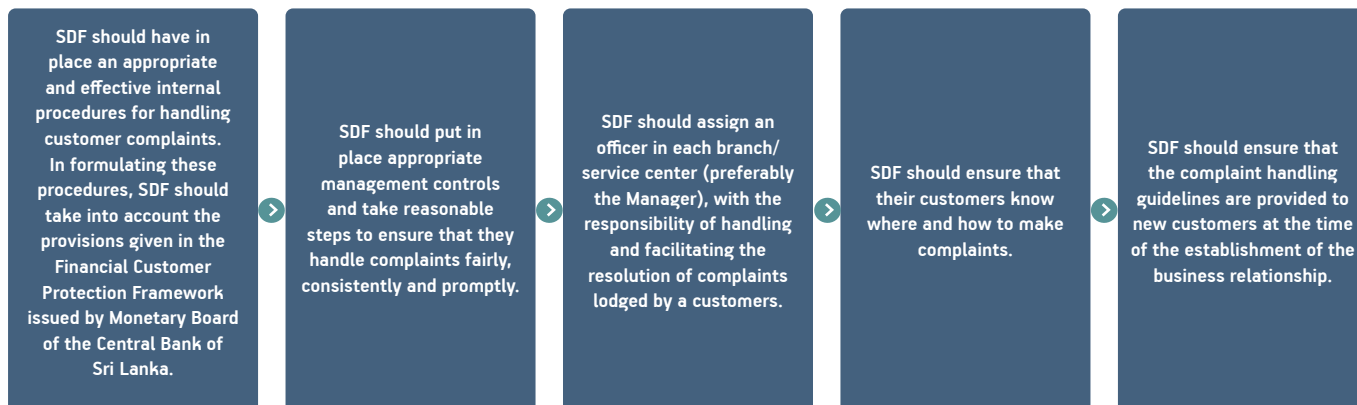
Province	No. of Branches	No. of Frontline Employees	No. of Customers
Western	10	38	24,734
Southern	06	23	16,792
Central	06	20	15,463
Eastern	05	23	12,879
North Central	08	29	21,542
North Western	05	20	14,128
Northern	03	10	5,926
Sabaragamuwa	05	20	13,473
Uva	05	19	10,156

COMPLAINT MANAGEMENT

We provide our customers a diverse selection of channels to communicate their inquiries and concerns, with each issue seen as a welcome opportunity to improve our services and enhance the overall customer experience. All concerns reported through any of these channels are documented and handled in compliance with board-approved guidelines, which include specific workflows, set timelines and designated authorities to oversee the process.

In the year under review the available customer complaint mechanisms were further expanded with a dedicated 24-hour customer hotline (1319) being put in place.

COMPLAINT MANAGEMENT PROCESS



All complaints, including recurring complaints are recorded in the customer complaint register, which is reviewed on weekly basis by the Head of Compliance to ensure that all complaints have been successfully resolved and outstanding complaints are being dealt with as appropriate.

Follow up calls to customers to verify their satisfaction of the complaint resolution mechanism, is an important metric for setting team and branch KPI's.

VALUE ADDING PARTNER NETWORKS

Relationship Building

Business relationships with key value chain partners is a key component of SDF's overall approach to sustainable business.

Sarvodaya Shramadana Societies (SSS) are a key stakeholder in SDF's value chain. The work done by SSS complements SDF's own business model in that it allows the Company to promote its products to SSS members. The network of 5,400 SSS therefore serves as a crucial distribution channel for SDF's products and services. Given the strategic nature of the relationship between SDF and the SSS, we have appointed a dedicated Society Coordinating Unit (SCU) for the purpose of strengthening working relationships for mutual benefit. As the primary liaison between SDF and the SSS, the SCU's main responsibility is to coordinate with the SSS leadership in providing product training and necessary resources to enable SSS officers to carry out their day-to-day activities. Apart from this, the SCU is tasked with overseeing all joint marketing campaigns conducted. The SCU and the SSS also work together in identifying projects to support SDF's community investment programme.

The broader objectives of the SCU also includes, re-engaging dormant SSS and bringing them back into the mainstream Sarvodaya network.

Suppliers of vehicles and equipment for our leasing business, are also key partners in SDF's value chain. Continuous and ongoing relationship building efforts over the years has enabled SDF to develop a solid supplier base, which as at 31st March 2021 consisted of 634 vehicle suppliers and other 260 equipment suppliers. To further cement these relationships, we have in recent years begun entering into formal MOU's with selected partners, coupled with joint marketing and promotional campaigns from time to time. Moreover we regularly engage with our suppliers to obtain their feedback which we see as an opportunity to further improve our relationship with our suppliers.

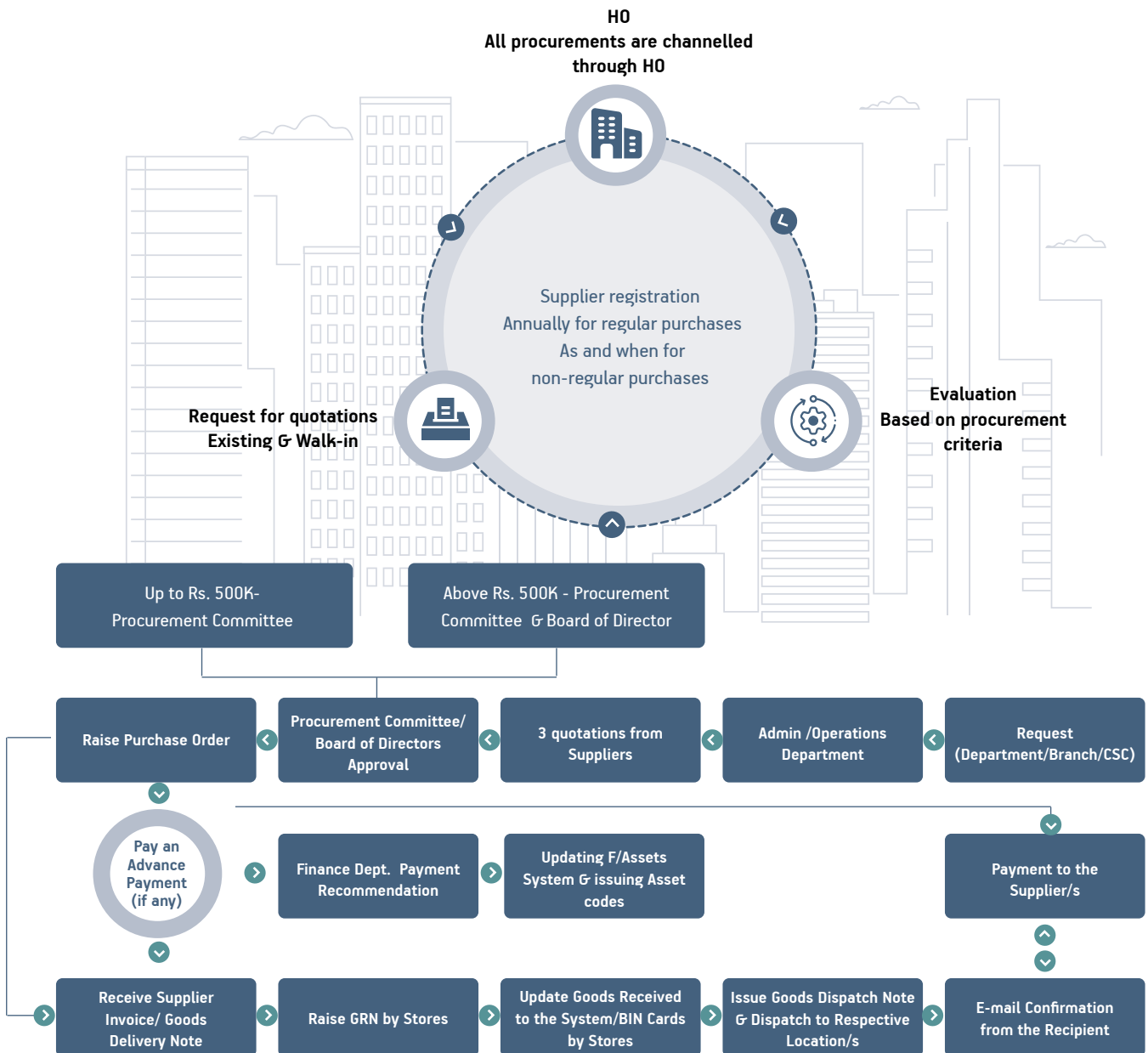
Procurement Process

Our procurement process has been designed with the aim of finding the right supply chain partners who have the capacity to support the continuity of our business operations. Operational suppliers are broadly categorised as: suppliers of goods such as stationery and furniture as well service providers for maintenance, construction, marketing, etc. SDF's procurement process serves as the first point of reference for building strong relationships with operational suppliers and service providers who share the same values and principles we are striving to emulate through our own activities. Towards this end the procurement process seeks to promote fair business practices, openness, and equal opportunities for all.

SOCIAL AND RELATIONSHIP CAPITAL

Local sourcing is an important part of our procurement process. In certain identified operational areas of our business, we encourage local sourcing. For example, to meet the security and janitorial needs of our branches, we seek to work with suppliers from the respective localities. However such suppliers too are required to adhere to the Company's procurement process.

The efficacy of the entire procurement process is subject to audit as part of the annual internal audit framework, with gaps identified reported to the Board for appropriate action.

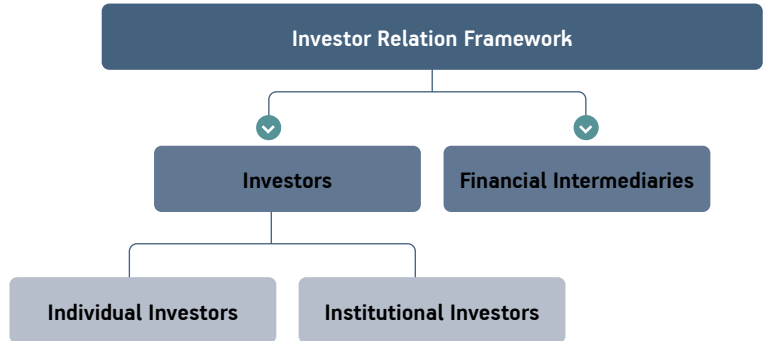


INVESTOR RELATIONS FRAMEWORK

Relationship Building

We are committed to maintaining good relations with all our investors. This is achieved through our Investor Relations Framework which sets out specific actionable initiatives as the basis of building strong relationships with all investor categories.

In the current financial year, SDF's decision to raise Rs. 507,771,000 by way of a private placement gave the SSS community the opportunity for equity ownership of the Company. Accordingly, as at 31st March 2021, 1265 Sarvodaya Shramadana Societies collectively hold 22% of SDF's equity shareholding.



COMMUNITY INTEGRATION STRATEGY

Socio-economic progress of communities

As a specialised development finance institution, community integration is the bedrock of our operations. The core premise of our business is to promote financial inclusion by supporting grass root level micro entrepreneurs and SME's, which in itself reflects our unequivocal commitment to contribute towards social and community advancement of underserved communities across Sri Lanka.

Community Relations

SDF's community relations are managed by the SCU in close collaboration with the Sarvodaya Shramadana Societies. This process allows us to strengthen the connection with the communities whom we serve by gaining a deeper insight into other challenges that affect the community as a whole. We are thus able to determine how SDF can potentially get involved in seeking solutions to such issues.



Dr. A. T. Ariyaratne addressing the gathering at the conclusion of the SDF Private Placement of shares. Event held at Sarvodaya head quarters.

SOCIAL AND RELATIONSHIP CAPITAL



SDF deals with over 1,500 Sarvodaya Societies. A cross section of SSS members from across the country at a SDF function involving the Private Placement of SDF shares.

SPONSORSHIPS

SDF's sponsorship initiative



The sponsorship being handed over to the University of Colombo Graduates Association where SDF annually sponsors five scholarships for financially deserving undergraduates of the University of Colombo.



SDF is a principal sponsor of the Sri Lanka Kidney Patients Association (SLKA). The SLKA is housed in a part of SDF premises in Borella.

YOUTH FORCE TEAM



A tree planting event of the 'Youth Force Sri Lanka' at Sarvodaya Bandaragama Centre being co-sponsored by SDF.

MOUSEY MI (MEE) PLANTS PROJECT IN HAMBANTOTA



SDF joins in sponsorship for the 50,000 Mee tree planting project inaugurated in Hambantota in collaboration with the Ministry of Environment, University of Colombo Graduates Association and Sawarnawahini.

SOCIAL AND RELATIONSHIP CAPITAL

BOOK DONATION TO UNDERPRIVILEGED KIDS FROM COLOMBO.



SDF donates school supplies to under privileged kids from marginalised communities. These kids belong to a theatre group conducted by a SDF associate.

KEY SOCIAL AND RELATIONSHIP CAPITAL STATISTICS FOR 2020/21

Key Customer Metrics

Social Media Activity



Facebook



Instagram



LinkedIn



YouTube

Supplier Value Creation

	2020/21	2019/20	2018/19
New suppliers on-boarded to the supplier registry	894	698	623
Total Value distributed to suppliers (Rs.)	1,961,485,892	1,930,401,256	1,555,504,202
Value distributed to local suppliers (Rs.)	1,956,251,583	1,925,884,593	1,551,425,869

	2020/21	2019/20	2018/19
No. of joint marketing campaigns conducted with vehicle and equipment suppliers	50	200	185

KEY FOCUS AREAS FOR THE FUTURE

Leverage on digital technology to manage customer relationships through customised end-to-end solutions

Invest in a fully integrated mobile wallet solution to enhance customer convenience

NATURAL CAPITAL



Solar panel at SDF Head Office Roof.

As a financial services institution, SDF's operations do not contribute materially towards environmental degradation or natural capital loss. Nevertheless, as an environmentally conscious organisation we are committed to act responsibly at all times in order to minimise the cascading impact on the environment caused by our business over time. In this regard, we have adopted a two-pronged approach to focus on;

MONITORING AND TRACKING

Electricity usage and fuel consumption attributed to staff travelling are tracked and monitored digitally through hand-held devices.

To control the use of electricity in our day-to-day operations, we have set clear targets for consumption at a regional and corporate level, with usage continuously tracked and any notable deviations subject to further review and investigation. Moreover annual electricity usage levels are measured against overall revenue and cost structures, while usage per employee is also monitored digitally through hand-held devices.

Similar metrics are applied to monitor fuel consumption across the Company.

A notable reduction in electricity and fuel consumption was observed in the FY 2020/21, owing to the restricted branch operations during the two-month islandwide lockdown at the start of the current financial year.

INVESTING IN GREEN BRANCHES

As part of a broader effort to move towards green branches, SDF in 2019 took the first steps towards investing in renewable energy by commissioning rooftop solar panels at the Company's head office building in Colombo 08. Almost 35% of the monthly electricity requirements of the head office building are now met through this initiative.

Going paperless is another important pillar in our green branch concept. The key driver of this effort is our digital agenda through which we are looking to increase the degree of process automation and thereby cut the use of paper in our day-to-day operations. Recent efforts in this regard have delivered excellent results, with SDF's paper consumption showing a steady year on year decline over the past three years. However, given that a large number of processes are still paper-intensive manual operations, we continue to encourage employees to reduce and reuse paper where possible and practical. SDF has also signed up with a Central Environmental Authority (CEA) approved recycling partner to ensure paper waste is disposed responsibly.

A significant reduction in paper use was noted in the current financial year, as we migrated to digital communications in response to the pandemic-related challenges.



Grinding Mill

I am the owner of a small grinding mill in Jaffna, where I produce rice, flour and coconut oil. I first started my business by producing these items in my home and then going door to door to sell them in my village. My products were of a high quality and quickly caught on in the market. I felt I needed to expand my operation in order to meet the increase in demand.



I visited Sarvodaya Development Finance to obtain a loan for my business and also a lease facility for a DIMO Batta, which would allow me to supply to neighbouring villages as well. After I started delivering to a wider area, my customer base has grown steadily and I now have customers as far as Chavakachcheri, Kodikamam and the Palai area. I am now planning to visit SDF to obtain a second loan facility. I really appreciate their personalised service and do not want to visit any other bank or financial institution for my needs.

Mr. Karunatharan Velauthapillai
Madduvill, East Chavakachcheri, Jaffna.

RISK MANAGEMENT



OVERVIEW

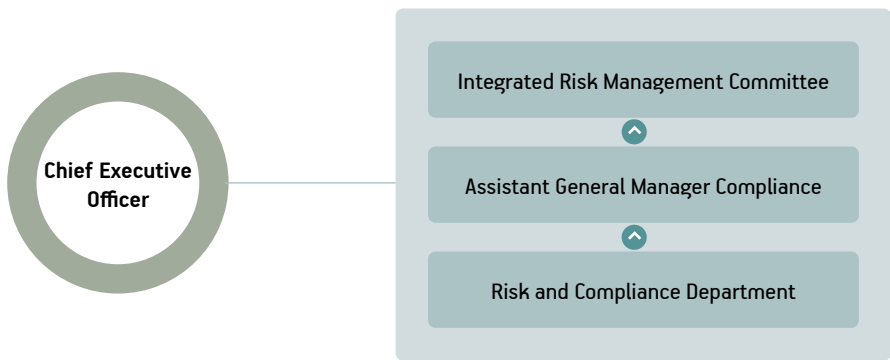
Uncertainty and volatility have become the new normal and therefore as a financial institution, it is imperative to be proactive in our risk management strategies to build resilience against the external shocks. Complexity of the risk landscape increased dramatically as the COVID-19 pandemic exacerbated vulnerabilities of nations, entities and people around the world. While the swift lockdown in March 2020 helped in managing the first wave and a journey towards establishing normalcy commenced by June 2020, October 2020 witnessed a second wave and March 2021 witnessed a third wave with widespread infection throughout the country, straining diminished resources.

Our reputation and the achievement of its corporate objectives depend on the ability to identify, assess and manage risks at all levels. The Company's Risk Management strategy is therefore fundamentally based on maintaining adequate capital, liquidity and operational control at all times in order to safeguard the interest of all our stakeholders. The level of risk across our business and uncertainties we face are key areas of focus for the Board.

RISK GOVERNANCE STRUCTURE

The Company's Board of Directors is responsible for developing the overall risk strategy, including; supervision of the risk management framework, approval of the Risk Management Policy for each material risk and overseeing and challenging the risk levels to which the Company is exposed, while ensuring compliance with the law and regulations.

The overall adequacy and effectiveness of the risk management framework is managed through the Integrated Risk Management Committee (IRMC), the Board Audit Committee (BAC), which solely comprises Non-Executive Independent Directors, and the Assets and Liabilities Management Committee (ALCO) which comprises senior level staff members in charge of key business functions. Acting within the authority delegated by the Board, these committees review specific risk areas and receive regular reports on risk management, internal controls, portfolio trends, policies, limits and standards.



Committee	Role	Membership
Integrated Risk Management Committee (IRMC)	IRMC operates primarily as an oversight committee monitoring risk types, concentrating particularly on Credit, Liquidity, Capital Operational, Strategic and Reputational risks and related issues	Comprises of Non-Executive Independent Directors and senior level staff, who are in charge of key business functions. Details of the members are given in the Integrated Risk Management Committee Report on Page 138.
Board Audit Committee (BAC)	BAC reviews the accounting policies and practices, controls and procedures established by management for compliance with regulatory and financial reporting requirements.	Solely comprises of Non-Executive Independent Directors. Chairman of the Committee possesses qualifications and experience in accountancy and audit. Details of the members are given in the Audit Committee Report on Page 140.
Assets and Liabilities Management Committee (ALCO)	ALCO is responsible for identifying, managing and controlling risks in executing the business strategy of the Company.	Comprises of senior level staff who are in charge of Finance, Risk, Credit, Fund Mobilisation, Recoveries, Marketing and Treasury.

RISK CULTURE

The Company recognises the importance of having a strong risk culture to support its efforts to create value for stakeholders. In this regard, the Company focuses on multiple drivers to enhance the risk culture and emphasise the principle of best business practices in order to empower the employees and give them the confidence to act responsibly and transparently in executing their day-to-day job functions.

The Company's Risk and Compliance Division takes the lead in the development and implementation of necessary policies and procedures to ensure the principles of risk management are incorporated into the day-to-day business activities. This is supported by the three-lines-of defence mechanism which facilitates in building and maintaining a robust companywide risk culture and promoting a high level of risk awareness at all levels of the business.

High levels of risk awareness is key to the financial stability of the Company and supports business line growth strategies. A culture of risk awareness and compliance is facilitated within the Company by the Risk and Compliance Division through ongoing training of employees. Employees in specialised roles are required to gain specified levels of skills and experience relevant to their roles which encompass a thorough understanding of the risks relevant to these roles. This is vital to strengthen the first line of defence.

The Risk and Compliance Department serves as the 2nd line of defence, implementing the Company's risk management framework and policies. Internal audit functions as the 3rd line of defence, reviewing the effective functioning of internal controls set in place and providing feedback independently to the Board Audit Committee.

First Line of Defence	Second Line of Defence	Third Line of Defence
Business lines/ Corporate Functions (Ownership for the day-to-day management of risk)	Risk Management & Controls (Direction for Risk Management and Compliance, facilitating high level of risk awareness throughout the organisation)	Assurance (Providing independent and objective assurance on the Risk Management processes and practices in place)
<ul style="list-style-type: none"> ➤ Chief Executive Officer ➤ Senior Management Team ➤ Business Units 	<ul style="list-style-type: none"> ➤ Integrated Risk Management Committee ➤ Assets and Liability Management Committee ➤ Risk and Compliance Division 	<ul style="list-style-type: none"> ➤ Board Audit Committee ➤ External Auditor ➤ Internal Audit Division

RISK MONITORING AND REPORTING

An Enterprise Risk Management (ERM) Framework backed by a strong risk culture is in place to identify, assess, monitor and control risks within the Company. Risk monitoring and reporting are crucial elements in this ERM framework. All material risks are monitored centrally by the Risk and Compliance Division, with any significant irregularities promptly escalated to the Corporate Management, Board Integrated Risk Management Committee and the Board of Directors for review and necessary action.

Additionally, the Operational Risk Self-Assessment (ORSA) process was also introduced which has facilitated both management and staff to assume responsibility for internal controls. It also acts as a bottom-up feedback mechanism which supports the organisation to be proactive in risk management.

RISK MANAGEMENT

MANAGING MATERIAL RISKS

Credit Risk

We define credit risk as the risk of losses arising because counterparties fail to meet all or part of their payment obligations to the Company. Credit Risk consists of two major components; Default Risk and Credit Concentration Risk, which together represent the most material risk for a financial institution.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. A well-defined hierarchy of delegated approval supported by high ethical standards and well established policies and procedures provide a robust framework for the management of credit risk.

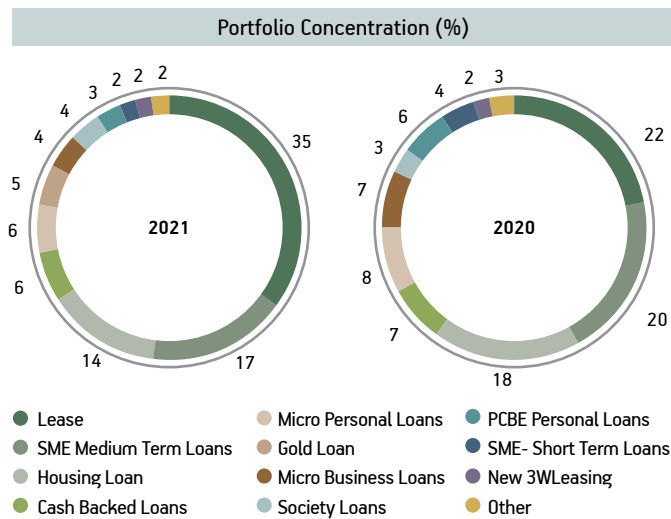
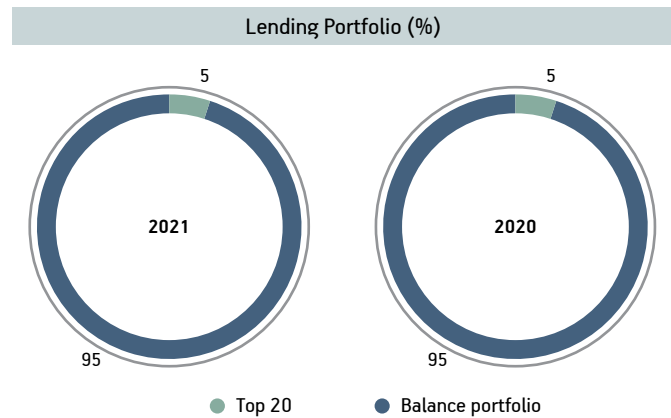
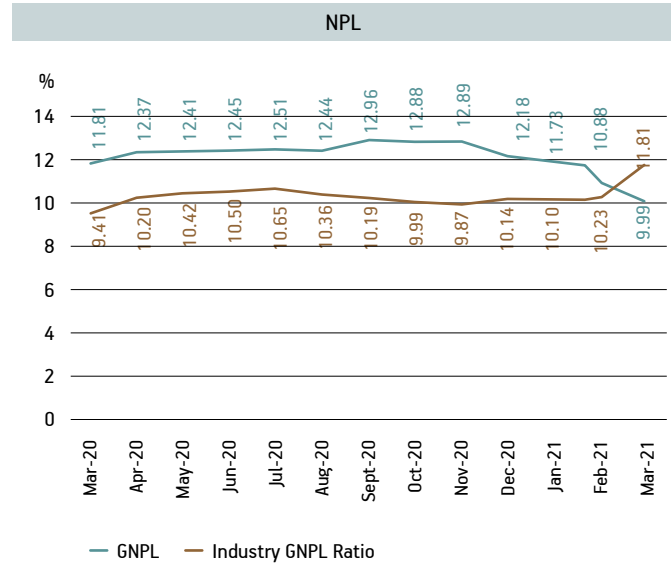
Major credit exposures to individual counterparties, groups of counterparties and product categories are reviewed and approved by the designated officers under the delegated approving limits set by the Board. The Board approves changes to the delegated authority levels pertaining to credit as considered necessary.

The risk of loss due to the concentration of credit risk to a specific product, asset class, sector or counterparty is monitored regularly. Credit concentration risk is managed within limits set for counterparty or groups of connected counterparties, asset type, industry sectors, etc. Credit concentrations are monitored by IRMC and ALCO in each of the product type and such limits as material to the company are reviewed accordingly.

Key controls used are;

- Credit Policy that serves as the foundation for prudent lending
- Comprehensive due diligence and customer screening procedures at the pre-credit evaluation stage, including borrower rating for all obligors
- Independent review by the Risk and Compliance Division for individual/group exposures in excess of Rs. 3 Mn
- A clear segregation of duties between loan origination, pre-credit evaluation and administration
- Effective identification of Early Warning Signals and Watch Listing procedure

We regularly monitor 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.



Liquidity Risk

The risk that the Company is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. Liquidity and funding risk is the possibility that the Company does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

This is carefully managed by the Assets & Liability Committee(ALCO). ALCO is the monitoring body responsible for overseeing our liquidity management policies. The Treasury Department receives direction from ALCO and is responsible for managing liquidity limits. Liquidity risk is a standard agenda item at our ALCO meetings.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective, the Company regularly monitors liquidity position and maintains an adequate buffer of liquid assets. The Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements.

Operational Risk

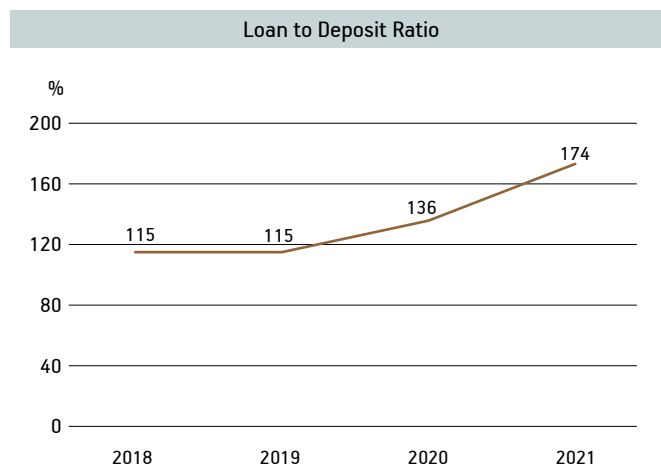
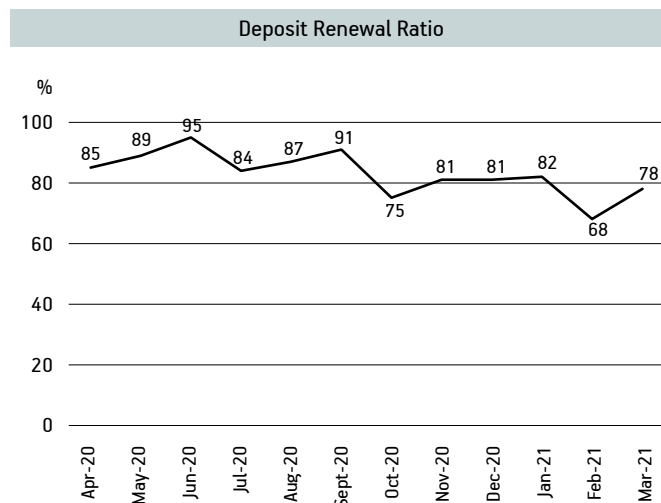
Operational Risk arises due to the disruptions, breakdown of systems, failed or incomplete processes, people related issues and external events that could have an impact on the Company's performance and future prospects.

We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Some of the key controls related to operational risk management are;

- Operational Risk Management Policy
- Internal Policies, Procedures, along with MOUs, Service Level Agreements and Non-Disclosure Agreements to effectively manage relationships with external service providers
- Internal IT controls
- Operational Risk Self Assessment (ORSA) Declaration

All business units are responsible for setting and maintaining standards for operational risk management. Possible losses to the company's assets due to unforeseen events have been covered with comprehensive insurance policies



Legal/Regulatory Risk

Legal/regulatory risk is the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations. Furthermore, legal risk includes losses due to ambiguity of laws or unfavourable contract clauses and loose contracts.

The Company conducts its business in accordance with the Company's code of conduct, laws and regulations imposed by the regulatory authorities with zero tolerance for failure or breach of such obligations. SDF has a zero tolerance approach towards non-compliance and has implemented a comprehensive corporate governance framework to support the achievement of this target. Compliance function regularly reviews the Company's compliance with rules, directions and determinations of regulatory bodies.

RISK MANAGEMENT

The Integrated Risk Management Committee has established a compliance function to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls, and other prescribed practices.

Capital Risk

Capital risk is the risk of the Company having insufficient capital resources to meet minimum regulatory requirements and to support the credit rating, growth and strategic direction of the Company. IRMC monitors the capital position and the capital management activities undertaken by the Company.

Capital Adequacy Ratio (CAR) is a key indicator which measures the financial strength of a finance company. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of the financial system. A higher capital adequacy ratio indicates that the Company can handle losses and fulfil its obligations to account holders without ceasing operations.

As at 31.03.2021 the position of Capital Adequacy was as follows;

Category	Amount (Rs' 000)
Risk Weighted Assets	9,262,592
Total Capital Base	2,019,232
Tier I Capital Ratio (Minimum requirement- 6.5%)	21.58%
Tier II Capital Ratio (Minimum requirement- 10.5%)	21.80%

Strategic Risk

Strategic Risks can be defined as risks that affect or are created by the Company's business strategy and strategic objectives. Strategic Risks are created internally as well as externally. The failure to take action where needed to address challenges or make timely changes in response to macroeconomic trends also constitute strategic risk. The company continuously follows developments taking place in the business environment and formulates its strategies to optimise the opportunities available whilst attempting to manage risks associated with such strategies. Business strategies are adopted after evaluating the overall risks associated with such strategies. A comprehensive strategic plan for the next five years is in place with quantitative which is monitored continuously.

Key controls which are in place are;

- ➔ Budgeting Process
- ➔ Strategic Planning Process
- ➔ Environmental Scan through PESTLE Analysis and SWOT Analysis

CORPORATE GOVERNANCE



PREAMBLE

Governance is defined as the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation. Corporate governance at Sarvodaya Development Finance Limited (SDF), comprises of carefully considered rules and principles on management, control and delegation of responsibility between the shareholders, the Board of Directors and the CEO.

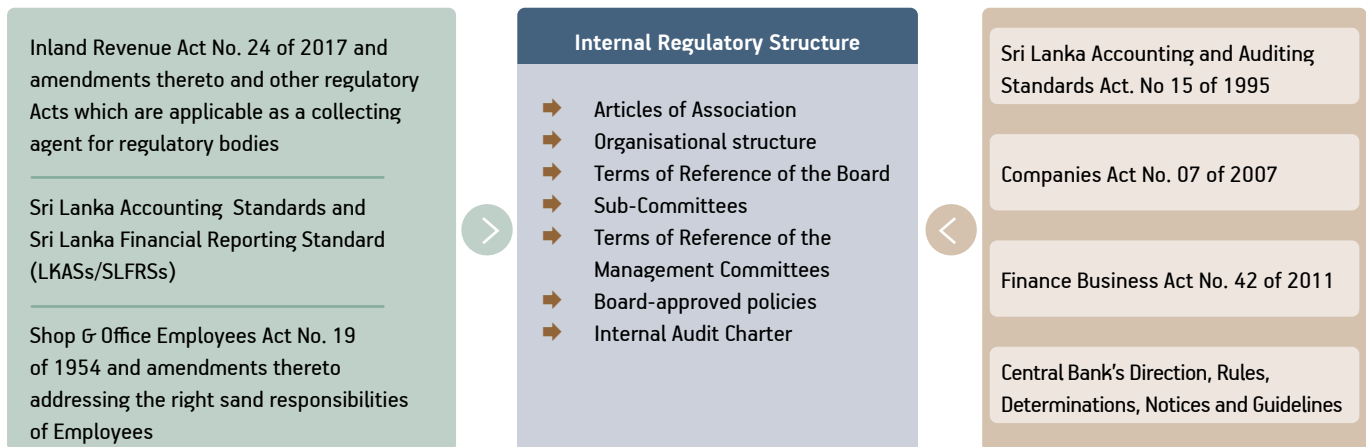
GENERAL

Good corporate governance is necessary in order to attain and retain public confidence in SDF. Its values simplicity, openness and consideration are the foundation for creating trust in the Company. These values are tied to the Company's purpose, goals and strategies and provide guidance on how it is governed and how employees act on a day-to-day basis.

Regulatory Structure

Corporate governance at SDF is based on current external regulatory requirements.

These specify the delegation of responsibility for governance, control and monitoring of operations between the shareholders, the Board of Directors and the CEO. The Board has established the Principles of Corporate Governance, which are reviewed annually to ensure that they are appropriate, effective and compatible with the latest developments in this area. The Board and the CEO in turn govern operations through a clearly-defined governance model that includes a number of policies and instructions. Their purpose is to describe the delegation of responsibilities in order to create strong, intra-group processes whose goal is to maintain the trust of customers and the public and to help businesses attain a sound and sustainable financial situation.



CORPORATE GOVERNANCE

STRUCTURE OF CORPORATE GOVERNANCE

The structure for corporate governance and governance philosophy comprises of:

- ➔ Shareholders (through the AGM)
- ➔ Board of Directors
- ➔ CEO
- ➔ Business activities
- ➔ Independent risk control and compliance of the business activities
- ➔ Internal Audit



ANNUAL GENERAL MEETING

The shareholders of SDF exercise their influence at the Annual General Meeting (AGM), which is the Company's highest decision-making forum. In addition, Extraordinary General Meetings can be called. The AGM resolves among other things;

- ➔ declaring dividend
- ➔ adopting the Annual Report and the Audited Financial Statements
- ➔ appointing the Auditors and fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed
- ➔ electing Directors in the place of those retiring by rotation or otherwise

SHAREHOLDER COMMUNICATION

SDF is committed to promoting effective and open communication with all shareholders, ensuring consistency and clarity of disclosure at all times. SDF aims to engage with shareholders transparently and regularly in order to facilitate a mutual understanding of our respective objectives. SDF strives to be accessible to investors and pro-actively encourages all shareholders to participate at the AGM.

BOARD LEADERSHIP

The Board of Directors are elected by the shareholders at the AGM for a mandate of one year. The Board has an overarching responsibility for managing the affairs of SDF in the interests of the Company and all shareholders. The Board's tasks include, but are not limited to,

- ➔ setting operational goals and strategies
- ➔ appointing and evaluating the CEO
- ➔ ensuring that effective systems are in place to monitor and control operations,
- ➔ manage investments and ensuring that laws and regulations are followed

The Board of Directors are collectively responsible and accountable for making certain that the Company performs according to its mandate and adheres to its obligations to its constituencies. The Board is the sole governing authority in the Company and providing strategic leadership to the Management and staff in achieving its corporate goals and objectives. The Board's composition and balance ensures that no single individual dominates the decision-making process.

CHAIR OF THE BOARD

The Chair of the Board has specific responsibilities, including;

- ➔ overseeing the CEO's work and being a discussion partner to him and supporting and monitoring the functions to ensure that the Board's decisions and instructions are implemented
- ➔ organising and managing the Board's work
- ➔ encouraging an open, constructive dialogue within the Board including the evaluation of the Board's work
- ➔ charged with providing leadership to the Board and ensuring that opinions of all Directors are appropriately considered in decision-making

The diverse experience, professional qualifications and competencies of the Chairman is disclosed under his profile on page 22.

SEPARATION OF ROLES – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of the Chairman and the Chief Executive Officer of the Company are distinct and clearly separated, ensuring the balance of power and authority.

The role and specific responsibilities of the Chairman, Mr. Channa de Silva, are disclosed under the 'Chair of the Board' on page 100 of this Annual Report. The role and the responsibilities of the Chief Executive

Officer, Mr. Nilantha Jayanetti, are disclosed under the 'Management's Role in the Structure of Corporate Governance', on page 106 of this Annual Report.

There is no financial, business, family or other relationship between the Chairman and the Chief Executive Officer or other material relationship with other members of the Board which will impair their respective roles.

BOARD COMPOSITION

The Board currently comprises of nine (9) Directors including the Chairman, who functions in an Independent, Non-Executive capacity. Seven (7) of the remaining Directors have also been categorised as Independent, Non-Executive Directors within the provision of Section

4 (4) of the Central Bank, Finance Companies (Corporate Governance) Direction 3 of 2008.

The diverse experiences, professional qualifications and competencies of the Board of Directors are disclosed under their profiles from pages 22 to 26 of this Annual Report.

Performance Evaluation

To assess its performance, the Board subjects itself to a thorough performance evaluation annually in line with the Corporate Governance regulations set by the Central Bank of Sri Lanka. The Board recognises that the Board evaluation is an essential component of good governance.

Dr. Richard Vokes
Non-Executive/Independent



Expertise in Banking Financial Services, Economics and Management



Mr. Channa De Silva
Chairman
Non-Executive/Independent

Expertise in Banking, Fund Management, Capital Markets, Accounting and Auditing



Mr. Masayoshi Yamashita
Non-Executive/ Non-Independent

Expertise in Banking and Management



Dr. Janaki Kuruppu
Non-Executive/ Independent

Expertise in Banking & Financial Services



Mr. Chamindha Rajakaruna
Non-Executive/Non-Independent

Expertise in Law and Legal Services, Community Development, Agriculture and Agriculture Engineering, Water-Resource Engineering, Government and Civil Society Relations



Mr. Amrit CanagaRetna
Non-Executive/
Independent

Expertise in Banking, Islamic Financing, Foreign Trade Financial and Financial Advisory Services



Ms. Shehara De Silva
Non-Executive/
Independent Director

Expertise in International Communication and Marketing



Mr. Dammika Ganegama
Non Executive/Independent

Expertise in IT, Business Processes and IT Solutions



Mr. Sunil De Silva
Non-Executive/
Independent

Expertise in Corporate Banking, Retail Banking, Micro Finance, General Banking, Credit Management and Recoveries

Board of Directors

- ➔ Approaches individual and collective responsibilities in the spirit of a Director on behalf of the members and the industry at large.
- ➔ Maintains loyalty to the organisation with and to Board members.
- ➔ Welcomes information and best available advice, but reserves the right to arrive at decision based on own judgment.
- ➔ Honours commitments.
- ➔ Promotes unity within the organisation
- ➔ Offer opinions honestly and in a constructive way.
- ➔ Respects the opinions of others.
- ➔ Avoids any possibility of conflict of interest.
- ➔ Understand legal and fiduciary responsibilities.
- ➔ Gives respect and consideration to other Board and focuses on issues, not personalities.
- ➔ Offers constructive feedback.
- ➔ Asks informed questions. Clearly understand his/her responsibilities.
- ➔ Willing to actively serve on at least one committee.
- ➔ Comes to meetings on time, well prepared & actively participates.
- ➔ Updates one's knowledge on an ongoing basis for the benefit of the Board and organisation.

CORPORATE GOVERNANCE

RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

At each Annual General Meeting one of the Directors shall retire from the office provided that a Director appointed to the office of Chief Executive Officer, Managing or Joint Managing Director, or other Executive Officer shall not, while holding that office, be subject to retirement by rotation or be taken into account in determining the Directors to retire in each year (Article 85 of the Articles of Association of the Company).

Accordingly, Mr. Channa de Silva, Non- Executive Independent Director who retired by rotation, was reappointed at the AGM on 26th July 2019.

Changes in the Board's Composition

The following changes incurred during the year under review:

I. Appointment of New Directors

On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Board of Directors of the Company appointed Ms. Shehara De Silva as a Non-Executive, Independent Director w.e.f. 27th June 2019 and Mr. Sunil De Silva as a Non-Executive, Independent Director w.e.f. 12th March 2020.

II. Retirement of Existing Directors

No Directors were retired during 2020/21 from their respective directorships upon serving nine (9) years in the Board as Non-Executive Directors, as required by the Finance Companies (Corporate Governance) Direction No.03 of 2018 and the Article 84 (viii) of the Company's Articles of Association.

III. Resignation of Existing Directors

No Directors were resigned from their respective directorships during 2020/21

IV. Demise of Existing Directors

No Directors were demised during 2020/21.

Accordingly, the following Directors held office during the year under review.

Name	First Appointed	Resigned/ Retired/ Demised	Re-elected	Status
Mr. Channa de Silva	19th April 2011	-	June 2019	Chairman/ Non-Executive, Independent Director
Dr. Richard Vokes	07th March 2013	-	June 2017	Non-Executive, Independent Director
Mr. Masayoshi Yamashita	27th August 2014	-	June 2016	Non-Executive, Non-Independent Director
Dr. Janaki Kuruppu	22nd December 2015	-	June 2017	Non-Executive, Independent Director
Mr. Chaminda Rajakaruna	01st November 2017	-	-	Non-Executive, Non-Independent Director
Mr. Amrit CanagaRetna	19th October 2018	-	-	Non-Executive, Independent Director
Ms. Shehara De Silva	27th June 2019	-	-	Non-Executive, Independent Director
Mr. Sunil De Silva	12th March 2020	-	-	Non-Executive, Independent Director
Mr. Dammika Ganegama	15th July 2020	-	-	Non-Executive, Independent Director

Separation of Functions and Responsibilities

In accordance with the industry's best practices and in compliance with section 7 of the Central Bank's aforementioned Direction, SDF has made a clear distinction between the functions and responsibilities of the Chairman and the CEO.

The Chairman and the Board are responsible for formulating policy and providing direction and leadership, while the CEO and his management team are tasked with executing Board policies and directives.

The Board has a process of obtaining the details of any relationship (including financial, business, family or other material/relevant relationships), if any, between the Chairman and the CEO and the board members of the Company and the nature of any relationships among members of the Board. There were no such relationships among the Chairman and the CEO and the members of the Board.

Board Meetings and Attendance

The Board of Directors meets once a month and whenever the need arises. The Board convened twelve (12) routine monthly meetings during the year under review.

Record of Attendance at Board Meetings is given below

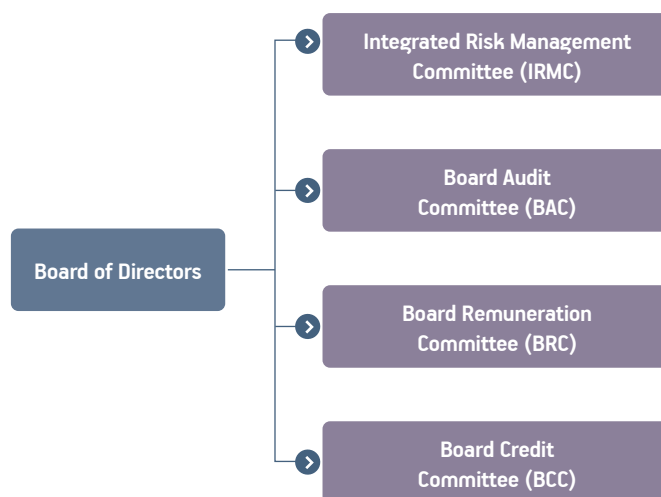
	Name of the Director	Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings											
						28.04.2020	29.05.2020	26.06.2020	31.07.2020	28.08.2020	29.09.2020	29.10.2020	26.11.2020	30.12.2020	27.01.2021	25.02.2021	25.03.2021
1	Mr. Channa de Silva		√	√		√	√	√	√	√	√	√	√	√	√	√	
2	Dr. Richard Vokes		√	√		√	√	√	√	√	√	√	√	√	√	√	
3	Mr. Masayoshi Yamashita		√		√	√	√	x	√	√	√	√	√	x	√	x	
4	Dr. Janaki Kuruppu		√	√		√	√	√	√	√	√	√	√	√	√	√	
5	Mr Chamindha Rajakaruna		√		√	√	√	√	√	√	√	√	√	√	√	√	
6	Mr Amrit CanagaRetna		√	√		√	√	√	√	√	√	√	√	√	√	√	
7	Ms. Shehara De Silva		√	√		√	√	x	√	√	√	√	√	√	√	√	
8	Mr. Sunil De Silva		√	√		√	√	√	√	√	√	√	√	√	√	√	
9	Mr. Dammika Ganegama (appointed w.e.f. 15 th July 2020)		√	√		-	-	-	√	√	√	√	√	√	√	√	

Board Appointed Committees

In line with the section 8 (1) of Finance Companies (Corporate Governance) Direction No.03 of 2008 and such prudential norms, the Company has set up following Board appointed committees:

- I. The Integrated Risk Management Committee (IRMC)
- II. The Board Audit Committee (BAC)
- III. The Board Remuneration Committee (BRC)
- IV. The Board Credit Committee (BCC)
- V. The Related Party Transactions Review Committee (RPTRC)

The first two committees are mandatory under sections 8 (2) and 8 (3) of the Finance Companies (Corporate Governance) Direction 03 of 2008, which also provides guidelines on their composition, functions and responsibilities. The Board dissolved the Board Nomination Committee (BNC) during the financial year 2018 and the scope and responsibilities assigned to BNC was amalgamated with BRC for effective functioning. All board committees report directly to the Board.



CORPORATE GOVERNANCE

Duties and Responsibilities of the Board Committees

Each committee is chaired by a Non-Executive Director who has the requisite qualifications and experience and is assisted by one or more of the Non-Executive Board Directors. The committees also co-opt Key Management Personnel and relevant Senior Managers in monitoring specific areas under their purview to committee meetings, for effective discussion and decision making. They attend meetings on invitation. The respective reports of the first three committees for the year ended 31st March 2021 are given in pages 138 to 143 in this Annual Report.

Board Subcommittees – Composition and Key Functions

Board Committees	Members	Function	Management Committee/Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Integrated Risk Management Committee (IRMC) (Mandatory)	Chairman Mr. Amrit CanagaRetna Members Mr. Sunil De Silva	The IRMC oversees issues involving market risk, credit risk, liquidity, funding and capital. The IRMC provides oversight and advice to the Assets and Liability Committee on market risk and liquidity risk exposures. IRMC reviews and evaluates the appropriateness of the governance model adapted.	I. Assets and Liability Committee (ALCO): ➔ Makes investments and executes asset/liability transactions within delegated limits and manages liquidity and other market risks. The Committee ensures the development of appropriate parameters for pricing of deposits, loans and investments.	22/04/2020 20/05/2020 23/06/2020 25/08/2020 23/10/2020 15/12/2020 22/01/2020 23/02/2021	8	4
			II. Product Development Committee (PDC): ➔ To develop new products in-line with the Company's strategic objectives.		Not scheduled	On requirement
Board Audit Committee (BAC) (Mandatory)	Chairman Mr. Channa de Silva Mr. Amrit CanagaRetna	The BAC gives the Board, through its work and in dialogue with the External Auditor and the Head of Internal Audit, a greater access to information on any deficiencies in routines and organisation from the standpoint of corporate governance, risk management and control. The BAC is responsible for ensuring that processes are in place for recommendations raised by the Management Audit Committee to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored.	I. Management Audit Committee (MAC): ➔ To implement and monitor the progress of the decisions of the BAC.	22/06/2020 21/09/2020 20/11/2020 18/03/2021	4	4

Board Committees	Members	Function	Management Committee/Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Board Remuneration Committee (BRC)	<p>Chairman Mr. Dammika Ganegama</p> <p>Members Mr. Channa de Silva Mr Amrit CanagaRetna Ms. Shehara De Silva</p>	<p>➔ The BRC prepares and recommends compensation packages issues and ensures, among other things, that compensation systems comply with effective risk management and do not encourage exaggerated risk-taking. The Committee is responsible for evaluating and recommending appropriate changes to the HR systems, policies including remuneration policies.</p> <p>➔ The BRC is empowered to review the structure and composition of the Board and make recommendations to the Board in regards to any changes that need to be introduced. The Committee is engaged in appointing of new Directors and members of the Corporate Management and also empowered with evaluating and approving the succession planning of the Corporate Management</p>	Not assigned	17/06/2020 16/12/2020 07/04/2021	3	4

CORPORATE GOVERNANCE

Board Committees	Members	Function	Management Committee/Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Board Credit Committee (BCC)	Chairman Mr. Amrit CanagaRetna Members Mr. Channa de Silva Dr. Janaki Kuruppu Mr. Sunil De Silva	The BCC approves credits within delegated limits, and set risk appetites for credits by evaluating and recommending the implementation of the credit risk policies in-line with the Company's strategic objectives.	I. Management Credit Committee (MCC): ➔ To approve credits within delegated limits. The Committee is sanctioned with developing the Company's Credit Policy by ensuring that the concentration of the credit risks are within the risks tolerance limits approved by the IRMC.	23/04/2020 24/05/2020 24/07/2020 22/09/2020 20/11/2020 20/01/2021 16/03/2021	7	On requirement

BOARD COMMITTEE MEETINGS AND ATTENDANCE

Board of Directors by Name, their Dates of Appointment and attendance to Board Committees are given in the table below. The Secretaries to these Committees keep detailed minutes of the Committee meetings.

Name	Status	Appointment Date to the Board	Attendance 2020/21			
			IRMC	BAC	BCC	BRC
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director	19th April 2011	-	4	7	3
Dr. Richard Vokes	Non-Executive, Independent Director	07th March 2013	8	-	1	-
Dr. Janaki Kuruppu	Non-Executive, Independent Director	22nd December 2015	-	-	6	3
Mr. Amrit CanagaRetna	Non-Executive, Independent Director	19th October 2018	8	4	7	-
Ms. Shehara De Silva	Non-Executive, Independent Director	27th June 2019	-	-	-	1
Mr. Sunil De Silva	Non-Executive, Independent Director	12th March 2020	6		6	
Mr. Dammika Ganegama	Non-Executive, Independent Director	15th July 2020				

MANAGEMENT'S ROLE IN THE STRUCTURE OF CORPORATE GOVERNANCE

The CEO, having authority and responsibility of planning, directing and controlling the activities of the Company in accordance with the delegated authority limits given to him by the Board, relies upon a number of management level committees to implement corporate strategies and policies in accordance with appropriate risk parameters in day-to-day management. Following management level committees have been formed by the Board to manage the day-to-day business and the operation of the Company with the main objective of achieving a sustainable growth while maintaining best practices in Corporate Governance.

Management Committees – Composition and Key Functions

Committees	Function	Member	Designation	Meeting Sequence
Management Committee (ManCom)	<ul style="list-style-type: none"> ➔ Decision-making body for major operational matters. ➔ Overall review of performance. 	Mr. Nilantha Jayanetti	CEO	Monthly
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Piyal Salwathura	AGM HR	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Dilshan Dissanayake	Head of IT	
		Mr. Nipuna Fernando	Senior Manager IT	
		Mr. Chandana Bandara	Head of Internal Audit	
		Mr. Dharshana Perera	Acting Head of Recoveries	
		Ms. Anusha Fernando	Head of Legal	
		Mr. Mahesh Jayasanka	Chief Manager Finance	
		Mr. Kularuwan Gamage	Head of Operations & Administration	
		Mr. Yenka Gemal	Senior Manager Treasury	
Management Audit Committee (MAC)	<ul style="list-style-type: none"> ➔ To implement and monitor the progress of the decisions of the BAC. 	Mr. Nilantha Jayanetti.	CEO	Quarterly and on requirement
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Piyal Salwathura	AGM HR	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Mahesh Jayasanka	Chief Manager – Finance	
		Mr. Kularuwan Gamage	Head of Operations & Administration	
		Mr. Chandana Bandara	Head of Internal Audit/Secretary to the Committee	
Assets and Liability Committee (ALCO)	<ul style="list-style-type: none"> ➔ To make investments and execute asset/liability transactions within delegated limits and manage liquidity and other market risks. ➔ To ensure developing appropriate parameters for pricing of deposits, loans and investments. ➔ Review maturity/ reprising schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing. 	Mr. Nilantha Jayanetti.	CEO	Every other month and on requirement
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Kularuwan Gamage	Head of Operations & Administration	
		Mr. Mahesh Jayasanka	Chief Manager Finance	
		Ms. Pujani Pathirana	Manager Risk Management	
		Mr. Yenuka Gemal	Senior Manager Treasury	

CORPORATE GOVERNANCE

Committees	Function	Member	Designation	Meeting Sequence
Management Credit Committee (MCC)	<ul style="list-style-type: none"> ➔ To approve credits within their delegated authority. ➔ Develop the Company's Credit Policy and recommend changes to the policy, procedures and underwriting guidelines to the BCC as and when required. ➔ Review the methodologies for assessing the credit risks and recommend appropriate credit exposure limits by ensuring that the concentration of credit risks are within the risk tolerance limits approved by the IRMC. 	Mr. Nilantha Jayanetti.	CEO	On requirement
		Mr. Felician Jayakody	AGM – Credit /Secretary to the Committee	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Mahesh Jayasanka	Chief Manager Finance	
		Mr. Dharshana Perera	Senior Manager-Recoveries	
Product Development Committee (PDC)	<ul style="list-style-type: none"> ➔ To develop new products. 	Mr. Nilantha Jayanetti.	CEO	On requirement
		Mr. Felician Jayakody	AGM – Credit	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Mahesh Jayasanka	Chief Manager Finance	
		Mr. Kularuwan Gamage	Head of Operations & Administration	
		Mr. Dilshan Dissanayake	Head of IT	

EMPLOYEE PARTICIPATION IN CORPORATE GOVERNANCE

The active participation of the employees has helped serve the interest of the stakeholders. SDF has been able to do so by empowering employees to positively contribute towards good corporate governance. To assist and facilitate transparency, SDF has institutionalised processes across all functionalities.

Moreover, SDF has been able to provide a safe, secure and conducive environment for employees. Equally, SDF also ensures that human resource standards and regulations are followed. SDF does not condone discrimination of any kind.

FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial Statements have been prepared in accordance with accounting standards comprising of SLFRSs/LKAs. Financial Statements are also in accordance with the Finance Business Act No. 42 of 2011, Companies Act No. 07 of 2007, Directions issued by Central Bank of Sri Lanka and internal policies.

Messrs, Ernest and Young are the Independent Auditors of the Company. The External Auditors are permitted to act independently without the intervention of the Corporate Management or the Board of Directors. All the information required by the External Auditors has been provided to them.

REGULATORY CONCERNS OVER CENTRAL BANK DIRECTIONS, RULES, DETERMINATIONS, NOTICES AND GUIDELINES

The Central Bank of Sri Lanka has informed the Company in relation to following regulatory concerns and violations of directions. The Board of Directors of the Company has taken all required measures to comply with these regulatory concerns and avoid incidence of violation of directions in future.

i. Non-compliance with Minimum Core Capital Requirement

The Company has failed to meet the minimum core capital requirement of Rs. 2 billion as at 01st January 2021 as stipulated in the Finance Business Act Direction No. 02 of 2017 and as per the concession granted under the moratorium. Also, the Company has to fulfil Rs. 2.5 billion core capital requirement by December 31, 2021. The Board of Directors work with full commitment and has taken all possible measures towards raising Rs. 2.0 Billion core capital requirement.

The Board initiated an Initial Public Offer to meet the minimum core capital requirement of Rs. 2.5Bn by 31st December 2021. With the CSE listing, the Board is confident that SDFL will be able to have a higher potential for growth while achieving the desired objectives.

Compliance Status of Corporate Governance Principles

The following disclosures are prepared and presented in conformity with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, issued by the Monetary Board of the Central Bank of Sri Lanka and which came into operation with effect from 1st January 2009 and subsequent amendments thereto.

This report shall be deemed as SDF's Corporate Governance Report for the financial year 2020/21, prepared in compliance with this Direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2. Responsibilities of the Board of Directors			
2 (1)	The Board of Directors (hereinafter referred to as the "Board") shall strengthen the safety and soundness of the finance company by.	Complied	The Company is headed by an effective Board of Directors with local as well as international experience and qualification drawn from backgrounds of banking and financial services, accounting, management, and economics, marketing as well as community management.
2 (1) (a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company.	Complied	The strategies were re-visited and business plans were re-drawn in the year under review in line with current business model and products in pursuit. Financial projections were revised from FY 2021 to FY 2026 and presented to the Board in March 2019. The strategic business plan and the financial projections for FY 2021 to FY 2026 period ending 31st March 2026 includes overall business strategy of the Company. The revised targets were presented to the Regional Managers and Branch/CSCs Managers/OICs.
2 (1) (b)	Approving the overall business strategy of the finance company, including the overall Risk Policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied	<p>The strategic business plan and the financial projections for the succeeding 5-year period ending 31st March 2026 includes overall business strategy of the Company. The Company's strategic business plan contains measurable goals for FY 2021 to 2026 under long term goals and financial plan.</p> <p>The Company has established an Integrated Risk Management Policy and risk management procedures which is adequately linked and addressing the risks arising out of the approved strategy.</p> <p>The Integrated Risk Management Policy was approved by the Board in March 2020. The strategy formulation revolved around devising separate strategies related to core business and support functions of the Company namely; Credit, Recoveries, Finance, Operations, Marketing and HR for the attainment of overall objectives. The Board reviewed business strategy on a regular basis by discussing their concerns on each core business with the team and the in charge of the particular division. Board approves and reviews the annual budget which is derived from Company's strategic plan incorporating subsequent changes to expectations, market variables and business climate. Company's business strategy contains goals for FY 2021 to 2026 under loan-term goals and financial plan.</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	<p>The Company has a process to manage the identified risks and for the Board to discuss new strategies of the company, and the risks arising out of new strategies.</p> <p>The Board has delegated the function to manage risks identified by the Board to a Board subcommittee namely Integrated Risk Management Committee (IRMC) and the IRMC minutes are submitted to the Board for their review.</p>
2 (1) (d)	Approving policy of communication with all the stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	A Board-approved Communication Policy is available addressing how the Company communicates with its stakeholders.
2 (1) (e)	Reviewing the adequacy and the integrity of the finance company's; i) Internal control systems; and	Complied	<p>The Audit Committee on behalf of the Board monitors effectiveness of the internal control system on a continuous basis and reports to the Board on its findings. The Audit Committee updates the Board on material concerns and lapses in internal controls and recommends solutions on an ongoing basis. The routine internal audits carry out by Company's Internal Audit Department adds value to this process by verifying the effectiveness of the same through their routine internal audits.</p> <p>The report by the Board on the effectiveness of the Company's internal control mechanism over financial reporting is given in "Directors' Statement on Internal Controls over Financial Reporting" on page 153 and the Assurance Report from the External Auditor on the Internal Control over Financial Reporting is disclosed on page 156.</p>
	ii) Management of information systems.	Complied	<p>Non-financial data are extracted from the MIS system and are compiled into presentable formats by the MIS Department. This information are then sent to the respective user departments to verify the accuracy and the integrity before submitting same to the Board and the Board subcommittees for their information and decision-making process.</p> <p>The Company has introduced an MIS Policy approved by Board in May 2017 which clearly defined process to review the reliability and the accuracy of non-financial information which are used by the Board and the Board subcommittees and the Board ensures the adequacy and the integrity of the Company's management information system. The policy has also established a sound data governance structure that ensures the effective control of data quality for both financial and non- financial data. Further, Company has a process flow chart for Credit Administration Unit (CAU), approved by IRMC establishing responsibility to CAU to verify the accuracy and completeness of securities and data input to the Company's core-banking system.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (f)	Identifying and designating Key Management Personnel, who are in a position to – i) significantly influence policy; ii) direct activities; and iii) exercise control over business activities, operations and risk management.	Complied	The Company has identified and designated the KMPs based on the definition given in Sri Lanka Accounting Standards as well as the CBSL Directions. LKAS 24 (Related Party Transactions) in defining and disclosing the transactions with its Key Management Personnel (KMPs) in these Financial Statements. The transactions that have been carried out with the related parties during the financial year ended 31st March 2021 are disclosed on pages 196 to 197 of this Annual Report.
2 (1) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	Complied	Articles 93 to 99 of the Company's Articles of Association speaks about the authority of Board of Directors under general power of Directors. Areas of authority and key responsibilities for the Key Management Personnel have been defined in their individual job descriptions. Further, authority of KMPs defined under Delegation of Authority levels assigned to KMPs by the Board
2 (1) (h)	Ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy.	Complied	The Board has a process for appropriate oversight of the affairs of the Company by KMPs. The KMPs in-charge of the key business and operational areas of the Company presents the monthly business and operational reports to the Board for their review and to take timely action.
2 (1) (i)	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: i) the selection, nomination and election of directors and key management personnel; ii) the management of conflict of interests; and iii) the determination of weaknesses and implementation of changes where necessary.	Complied Complied Complied	 As per Articles 85 to 92 of the Company, Board has the power to make decisions on selection, nomination and election of Directors. Article 115 of the Company's Articles of Association addresses the provisions on management of conflicts of interest of Directors. Weaknesses and implementation of changes where necessary are ought to be determined at the Board level through the process of submission of annual self-evaluations of the Board members. Copies of the Board evaluation forms are presented to the Board, for the Board members to discuss and critically assess how they have performed during the year and the weaknesses identified and for them to take required remedial action, if deem necessary.
2 (1) (j)	Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.	Complied	The remuneration committee has discussed the Succession Plan and recommend to submit for the board approval.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	<p>The Board has scheduled regular meetings with the KMPs to review policies, establish communication lines and monitor progress towards corporate objectives.</p> <p>KMPs participate in the monthly Board meetings and explain matters relating to the operations and performance of the Company to the Board when need arises.</p>
2 (1) (l)	Understanding the regulatory environment.	Complied	<p>The Board has taken measures and processes are in place to understand the regulatory environment, and the Company maintains a relationship with regulators.</p> <p>Regulatory requirements are discussed at the Management Committee (ManCom) meetings fortnightly. A regulatory compliance report, including CBSL Returns uploaded to the 'FinNet', signed jointly by the AGM - Compliance and CEO, is submitted to the Board of Directors at each monthly board meeting for Board's review and decision-making. Also, as a code of best governance, the Board agenda includes Central Bank correspondences which enables the Board to discuss and understand the regulatory environment and to take timely and appropriate actions.</p> <p>Annual Compliance Plans are prepared for the IRMC and approved. They are subsequently submitted to the Board for approval. The plan is reviewed once in six months and amended if necessary by presenting to IRMC.</p>
2 (1) (m)	Exercising due diligence in the hiring and oversight of External Auditors.	Complied	<p>Article 146 of the Company's Articles of Association defines the process of appointment of External Auditors recommended by the Board at AGM.</p> <p>Messrs Ernst & Young, Chartered Accountants, has been appointed as the Company's External Auditors since FY 2012/13. This firm was selected from the Panel of External Auditors transmitted to all LFCs by the Central Bank's Department of Supervision of Non-Banking Financial Institutions, under Section 30 (4) of the Finance Business Act No. 42 of 2011.</p> <p>Oversight of the External Auditors is carried out by the Board Audit Committee (BAC) and the charter of the BAC addresses the same.</p>
2 (2)	The Board shall appoint the Chairman and Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and Chief Executive Officer in-line with section 7 of this Direction.	Complied	<p>The functions and responsibilities of the Chairman and CEO has been clearly defined and approved by the Board of Directors.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (3)	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge their duties to the finance company.	Complied	The Company has a Board-approved procedure in place for seeking independent professional advice. The Board obtains independent professional advice in appropriate circumstances, at the expense of the Company.
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	The Company's Related Party Transaction Policy approved by the Board governs Directors' responsibilities to abstain from voting in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest. There were no such instances occurred during the period under review.
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the finance company is firmly under its authority.	Complied	The Company has a Board-approved formal schedule of matters.
2 (6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Banking Financial Institutions of the situation of the finance company prior to taking any decision or action.	Complied	Liquidity position of the Company is reported to the Central Bank of Sri Lanka on a weekly basis. No such situation has arisen so far for the Board to take any decision or action or inform the Director of the Supervision of Non-Banking Financial Institutions of Central Bank of Sri Lanka.
2 (7)	The Board shall include in the finance company's Annual Report, an Annual Corporate Governance Report setting out the compliance with this Direction.	Complied	The Board has included the Corporate Governance Report in all its Annual Reports published. The Corporate Governance Report is published on pages 109 to 137 of this Annual report.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied	The Company has adapted a scheme of self-assessment to be undertaken by each Director annually and those records are maintained with the Company Secretary.
3. Meetings of the Board			
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied	Board has met 12 times during the year under review. There were 15 instances where the Board's consent has been obtained through the circulation of written or electronic resolutions/papers. These papers have been tabled at the immediately following Board meeting.
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 where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied	Company has established a procedure to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3 (3)	A notice of at least seven days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Complied	The Company has complied with the 7 day notice requirement. Agenda letters have been circulated by our Company Secretary to the Board of Directors at least 7 days prior to the Board meeting to provide all Directors an opportunity to attend.
3 (4)	A Director, who has attended at least two-thirds of the meetings in the period of 12 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	All Directors have attended at least two-thirds of the meetings in the period of twelve months and also, attended at least one meeting of the immediately preceding three consecutive meetings held. The Board of Directors attendance at Board Meetings are disclosed on page 103 to this Corporate Governance Report. No alternative directors appointed during the period under review.
3 (5)	Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	The Board has appointed Messrs, BDO Secretaries (Pvt.) Limited, as Company Secretary to carry out all functions and responsibilities in accordance with statutory and regulatory requirements.
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	Chairman prepares the agenda and Company Secretary circulates same.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3 (7)	All Directors shall have access to obtain advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	A Board-approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
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	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director.
3 (9)	<p>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 of a Board meeting shall clearly contain or refer to the following:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</p> <p>(d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations</p> <p>(e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted and the decisions; and</p> <p>(f) Board Resolutions.</p>	Complied	<p>The Company Secretary records the proceedings of the meetings and the decisions taken throughout in sufficient detail.</p> <p>Detailed minutes are kept covering the given criteria and the Board minutes contain the required details such as, individual views of the different members, ultimate decision of the Board, whether it complies with strategies and policies of the Company and further data, reports and information used by the Board members in arriving at the decisions</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4. Composition of the Board			
4 (1)	Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.	Complied	At the beginning of the period under review, the Company had eight (8) Board Directors. A new Director was appointed to the Board as a Non-Executive, Independent Directors. Accordingly, As at 31st March 2021, the Board consisted nine (9) Directors inclusive of the Chairman.
4 (2)	Subject to the transitional provisions contained herein and subject to section 5 (1) of this Direction, the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period of office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied	The total period of service of Non-Executive Directors has not exceed nine years.
4 (3)	Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.	Complied	All Directors of the Board are Non-Executive Directors. The Chief Executive Officer is not a member of the Board.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (4)	With effect from three years commencing 1st January 2009, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total number of Directors. A Non-Executive Director shall not be considered independent if such Director;	Complied	<p>The Board comprised of six (6) Non-Executive, Independent Directors at the beginning of the period under review (out of total number of eight directors) and increased to seven (7) at the end of the financial year. They met the criteria for independence as specified in this rule.</p> <p>Of the two (2) Non-Executive, Non-Independent Directors, one is a representative of the Japanese shareholder of the Company.</p> <p>Mr. Channa de Silva and Ms. Shehara de Silva hold common directorships in the Neelan Tiruchelvam Trust which is a Trust Fund.</p>
4 (4) (a)	has shares exceeding 2% of the paid-up capital of the finance company or 10% of the paid-up capital of another finance company;		
4 (4) (b)	has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in section nine hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;		
4 (4) (c)	has been employed by the finance company during the two-year period immediately preceding the appointment as Director;		
4 (4) (d)	has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid-up capital of the finance company or holds shares exceeding 12.5% of the paid-up capital of another finance company;		

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (4) (e)	represents a shareholder, debtor or such other similar stakeholder of the finance company;		
4 (4) (f)	is an employee or a Director or has a shareholding of 10% or more of the paid-up capital in a Company or business organisation;		
4 (4) (f) (i)	which has a transaction with the finance company as defined in section nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4 (4) (f) (ii)	In which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4 (4) (f) (iii)	In which any of the other Directors of the finance company has a transaction as defined in section nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.		
4 (5)	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Complied	No Alternate Directors were appointed during the year.
4 (6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	The Board of Directors has the necessary competencies, and possesses academic and professional qualifications in diverse fields to serve as members of the Company's Board, as disclosed in their profiles on pages 22 to 26 of this Annual Report.
4 (7)	With effect from three years commencing 1st January 2009, 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 at least one-half of the number of Directors that constitutes the quorum at such meeting are Non-Executive Directors.	Complied	As per Article 105 of the Company's Article of Association, a quorum for a meeting shall be one third (1/3) of the Directors. The required quorum has been complied with at all Board meetings. Since all the Directors of the Company were Non-Executive Directors, this requirement was met at all meetings of the Board convened during the year.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. 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 which shall be an integral part of its Annual Report.	Complied	<p>The Company has expressly identified and separately disclosed the names of all Independent, Non-Executive Directors in all corporate communications as required by this section of the Direction.</p> <p>As disclosed in this Corporate Governance Report, all nine (9) Board Directors (including the Chairman) are named and identified as Non-Executive Directors. Of this number, seven (6) have been expressly identified as Independent, Non-Executive Directors.</p> <p>The Board of Directors profiles disclosed from pages 22 to 26 of this Annual Report also provides the required details.</p>
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	Article 92 of the Articles of Associations of the Company describes a clearly defined procedure for appointment of a new Director to the Board. The Company also has established a process for appointing new Directors to the Board.
4 (10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	<p>Article 91 and 92 of the Articles of Association of the Company describes the process to fill a casual vacancy subject to the election by shareholders at the first AGM.</p> <p>There were no casual vacancies during the period under review.</p>
4 (11)	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied	Resignation or removal of Directors and the reasons are duly informed to the Central Bank. There were no resignations or removal from office of Directors in the year under review.
5. Criteria to Assess the Fitness and Propriety of the Directors			
5 (1)	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.	Complied	As at 31st March 2021 and at present, all Directors of the Company were below the age of 70 years.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
5 (2)	<p>A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies /societies/ bodies corporate, including associate companies and subsidiaries of the finance company.</p> <p>Note: The proviso to this sub section was repealed by CBSL Direction No. 6 of 2013.</p>	Complied	There are no Directors who hold office as a Director of more than 20 companies. None of the Directors hold office as a Director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities.
6. Delegation of Functions			
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	<p>The Board is empowered by the Article 95 of the Article of Association of the Company to delegate its powers to a committee of Directors or to a Director or Employee upon such terms and conditions and with such restrictions as the Board may think fit.</p> <p>All delegations are made in a manner that it will not hinder the Board's ability to discharge its functions.</p>
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	<p>Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.</p> <p>Delegated Authority limits in relation to approving of credit facilities are recommended by the BCC and approved by the Board. Delegated Authority in relation to operation, expenses, signing of cheques and other correspondences are recommended by the IRMC and approved by the Board.</p>
7. The Chairman and the Chief Executive Officer			
7 (1)	The roles of Chairman and Chief Executive officer shall be separated and shall not be performed by the one and the same person after three years commencing from 1st January 2009.	Complied	Role of Chairman and CEO are separate and are held by two individuals that are appointed by the Board, thereby, ensuring the power and authority.
7 (2)	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied	The Chairman is an Independent, Non-Executive Director.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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	There is no financial, business, family or other relationship between the Chairman and the CEO which will impair their respective roles. Also, there is no financial, business, family or other material relationship among other members of the Board as disclosed on page 102 of this Corporate Governance Report.
7 (4)	The Chairman shall: (a) provide leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities: and (c) ensures that all key issues are discussed by the Board in a timely manner.	Complied	Functions and responsibilities of the Chairman approved by the Board includes the requirements stipulated and further the self-evaluation form includes this requirement. Self-evaluation process ensures that the chairman provides leadership to the Board, Board works effectively and discharges its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner.
7 (5)	The Chairman shall be primarily responsible for preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied	Chairman makes the agenda and Company Secretary circulates it.
7 (6)	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The Agenda/Minutes of previous meetings/Board papers and other documents are delivered to every individual Board Director in advance, giving them adequate time to peruse the issues arising at each Board meeting, as per section 3 (6) above. The Company has circulated the Agenda papers to Directors seven (7) days prior to the meeting. The Chairman ensures, that all Directors are properly briefed on issues arising at Board meetings by submission of the detailed agenda and board papers prior to the meetings. Further, agenda has adequate information in relation to the agenda items.
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 interests of the finance company.	Complied	The Chairman complies with this provision by nominating Directors for the oversight of Board related committees. The Directors have made full and active contribution to the Board's affairs and to the decisions taken at the Board.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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	The Company does not have any Executive Directors. Nevertheless, the Chairman facilitates the contribution of the Non-Executive Directors and ensures that a constructive relationship exists between the Board as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.
7 (9)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	As a Non-Executive Director, the Chairman is not directly engaged in any executive duties including supervision of KMPs.
7 (10)	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	<p>The AGM of the Company is the main forum where the Board maintains effective communication with its shareholders. There is a Board-approved Communication Policy evidencing the process in this regards.</p> <p>The two main shareholders, namely, SEEDS (Gte) Limited and Gentosha Total Asset Consulting Inc., holds over 99.99% of the issued share capital of the Company. In addition, two other shareholders who were former Directors of the Company, have one share each issued to them at the time of incorporation of the Company. The two main shareholders have Board representatives with whom the Chairman has effective communication at each Board meeting. The Chairman encourages shareholders to communicate their views and to seek assistance in matters that relate to them and explains the Company's progress and clarify matters that shareholders refer to the Board and the management at the Board meeting.</p>
7 (11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business.	Complied	The Chief Executive Officer is the apex executive of the Company. Board has delegated him with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters.
8. Board Appointed Committees			
8 (1)	<p>Every finance company shall have at least the two Board Committees set out in sections 8 (2) and 8 (3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee.</p> <p>The Board shall present a report on the performance, duties and functions of each committee, at the AGM of the Company.</p>	Complied	<p>During the financial year 2021, there were five (05) Board appointed Committees directly reporting to the Board, namely; the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Board Credit Committee (BCC), Board Remuneration Committee (BRC) and Related Party Transactions Review Committee (RPTRC).</p> <p>Each committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the Chairman of the respective committees.</p> <p>Pages 104 to 106 provides the details of the scope and composition of the above committees and pages 138 to 143 provide the reports of the respective committees.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2)	Audit Committee The following shall apply in relation to the Audit Committee:		
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	Chairman of the Board Audit Committee (BAC), Mr. Channa de Silva, is an Independent, Non-Executive Director. A Fellow of the Chartered Institute of Management Accountants (FCMA-UK) and Fellow of the Chartered Certified Accountants (FCCA-UK). He has over 10 years' experience in the fund management and five years' experience in capital market and holds a Bachelor's Degree from the University of Colombo and a Master's Degree from Melbourne University and Harvard University.
8 (2) (b)	The Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All the members appointed to the BAC are Non-Executive Directors. CEO and other KMPs and the External Auditors, Ernst & Young, present at the meeting/s by invitation.
8 (2) (c)	The Committee shall make recommendations on matters in connection with:	Complied	The Company has complied with the Direction issued by the Central Bank of Sri Lanka to select an External Auditor from the panel of authorised auditors to audit the accounts of licensed finance companies. The Company has appointed Messrs, Ernst & Young (Chartered Accountants) as the External Auditor in year 2012.
8 (2) (c) (i)	The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	Complied	The Board Audit Committee has at its meetings during the year under review recommended that: i) Messrs, Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2021; ii) the implementation of Central Bank guidelines issued to Auditors from time to time; and iii) the application of Sri Lanka Accounting Standards (LKASs/SLFRSs). The Committee during the year met the External Auditors to discuss the accounting support given on development of the expected loss model in line with SLFRS 9 and the financial implications arising from the implementation of the Central Bank new Direction on the classification of non-performing loans which will be effective from 01st April 2021. The Committee also discussed and assessed the financial consequences arising from the application of SLFRS 16 which came in to effect at the beginning of the year under review. A policy has been established in relation to the service period, audit fee and resignation or dismissal of the Auditor which has addressed that the engagement partner does not exceed five (05) years, and is not reengaged for the audit before the expiry of three years from the date of the completion of the previous term. Resignation or dismissal of the auditor has not taken place during the period under review and the audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.
8 (2) (c) (ii)	The implementation of the Central Bank guidelines issued to Auditors from time to time;		
8 (2) (c) (iii)	The application of the relevant accounting standards; and		
8 (2) (c) (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.		

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (d)	The Committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	<p>The Board Audit Committee monitors and reviews the External Auditors' independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>The Company's External Auditors for financial year 2021, Messrs Ernst & Young, Chartered Accountants have provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules. The Auditor's Engagement Letter submitted to the committee provide evidence of Auditor's independence, and the audit is carried out in accordance with SLAS.</p>
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 that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:	Complied	The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.
8 (2) (e) (i)	whether the skills and experience of the Auditor make it a suitable provider of the non-audit services;		
8 (2) (e) (ii)	whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by External Auditor; and		
8 (2) (e) (iii)	Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the Auditor, pose any threat to the objectivity and/or independence of the External Auditor.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (f)	The Committee shall, before the audit commences, discuss and finalise with External Auditors the nature and scope of the audit, including:	Complied	<p>BAC has recommended the appointment of the External Auditor to the Board before the commencement of the audit. The Committee has obtained an engagement letter from the Auditors' clearly describing the Auditor's independence to carry out the audit in accordance with LKASs/ SLFRSs. The Committee has, before the audit commences, discussed and agreed upon the audit plan for the audit.</p> <p>Scope of the audit includes an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting and the preparation of financial statements in accordance with relevant accounting principles and reporting obligations.</p> <p>The Company has appointed Messrs. Ernst & Young, as the External Auditor of the Company has hence, the coordination between Auditors where more than one Auditor was involved was not required during the period under review.</p>
8 (2) (f) (i)	an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;		
8 (2) (f) (ii)	the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and		
8 (2) (f) (iii)	The co-ordination between Auditors where more than one Auditor is involved.		
8 (2) (g)	<p>The Committee shall review the financial information of the finance company, in order to monitor the integrity of the Financial Statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board. The Committee shall focus particularly on –</p> <ul style="list-style-type: none"> 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	<p>The Committee periodically reviews the financial information of the Company in order to monitor the integrity of the Financial Statements of the Company and other financial disclosures.</p> <p>Also, BAC has a process to review the financial information of the Company as required by the Direction when the Annual Audited Financial Statements and reports prepared for disclosure are presented to the Committee by Chief Manager Finance in attendance with the External Auditors in order to monitor the integrity of the Financial Statements of the Company.</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 has met the External Auditors in the absence of the KMPs during the year under review. Each Committee Member has had a personal conversation with External Auditors for better governance
8 (2) (i)	The Committee shall review the External Auditors' Management Letter and the Management's response thereto.	Complied	The Committee has reviewed and discussed the External Auditors' Management Letter for financial year 2021 and the Management responses thereto and provided necessary guidance to the management for improvement/implementation of better internal controls, best practices and governance.
8 (2) (j)	The Committee shall take the following steps with regard to the internal audit function of the finance company:		
8 (2) (j) (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;	Complied	<p>The Committee has discussed the Internal audit scope, function and resources of the staff requirements.</p> <p>Company has an Internal Audit Charter established at the company approved by the BAC which covers to provide independent, objective assurance and support designed to add value and improve the Company's operations and systems of internal controls. BAC oversees the proper functioning of internal audit and make changes to internal audit charter when necessary.</p> <p>The Internal Audit Department assists the Company with accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, governance and accountability processes.</p>
8 (2) (j) (ii)	Review the internal audit programme and results of the Internal Audit process and , where necessary, ensure that appropriate action are taken on the recommendations of the Internal Audit Department;	Complied	The Committee has reviewed and approved the Internal Audit Plan for the financial year 2021 presented by the Internal Audit Department prepared based on overall risk assessment and the significant audit observations made during the previous year. This plan also includes the scope, functions and the resources of the Internal Audit Department.
8 (2) (j) (iii)	Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied	Assessment of the Internal Audit staff evaluations and Audit Committee performance has been carried out by the Audit Committee Chairman. Assessment of the performance of the Head of Internal Audit has also been carried out.
8 (2) (j) (iv)	Recommend any appointment or termination of the head, senior staff members and out sourced service providers to the Internal Audit function.	Complied	No appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function took place during the year under review.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (j) (v)	Ensure that the Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any out sourced service providers, and to provide an opportunity to the resigning senior staff members and out sourced service providers to submit reasons for resigning;	Complied	The Committee appraises resignations of senior staff members of the Internal Audit Department including the head.
8 (2) (j) (vi)	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 Charter of the Company addresses that the audit work should be performed with impartiality, proficiency and due professional care. Accordingly, the Internal Audit functions have been performed impartially and with proficiency and due care. The Head of the Internal Audit Department directly reports to the Committee thus ensuring the independence and impartiality of the Internal Audit Department.
8 (2) (k)	The Committee shall consider the major findings of internal investigations and the Management's responses there to.	Complied	Based on the reports submitted by the Internal Audit Department, the Committee reviews and considers major audit findings and the Management's responses thereto. Further, the Committee has instructed the Head of Internal audit that all investigations reports to be discussed in the Management Audit Committee level and disciplinary actions/decisions taken by the Management Audit Committee to be communicated to the Committee as a summarised report for discussion and instructions to the Management for future cause of actions.
8 (2) (l)	The Chief Finance 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 Director being present.	Complied	Although the Board Audit Committee does not comprise any Executive Directors, the Committee met with the External Auditors during the current financial year. CEO and the other KMPs attended these meetings on invitation.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (m) (i-iv)	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; iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	The Board-approved Terms of Reference of the Board Audit Committee mandates explicit authority to investigate into any matter within its purview and take necessary action thereto. 'Board Audit Committee Report', from pages 140 to 141 this Corporate Governance Report, provides a summary of the Terms of Reference of the Committee.
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	There were 4 meetings of the Board Audit Committee during the financial year 2021. Page 140 of this Annual Report, provides the details of the meetings of the Board Audit Committee during the financial year 2021 and the members' attendance thereat.
8 (2) (o) (i-iii)	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	The 'Board Audit Committee Report' from pages 140 to 141 of this Annual Report, provides details of the activities of the Committee and attendance of members at meetings of the Committee.
8 (2) (p)	The Secretary to 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	In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all committee meetings in sufficient detail.
8 (2) (q)	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall 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 Company has established a 'Whistle-Blower Policy' which has been approved by the Board Audit Committee and Board of Directors and practiced through-out the Company. The whistle blower matters are submitted to the Committee for their review and instructions. The board has reviewed and approved the updated policy in April 2021.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (3)	<p>Integrated Risk Management Committee</p> <p>The following shall apply in relation to the Integrated Risk Management Committee (IRMC):</p>		
8 (3) (a)	<p>The Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.</p> <p>The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>	Complied	The Committee consists of three (3) Non-Executive Directors, and invitees of CEO and the Key Management Personnel supervising broad risk categories such as credit, market, liquidity, operational and strategic risk.
8 (3) (b)	<p>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. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.</p>	Complied	<p>The IRMC minutes are submitted to the to the Board within seven (7) days of the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by the Committee and the responses received from the risk owners.</p> <p>The Company has assessed the risks in relation to strategic risks (core capital), credit risks, market risk, and liquidity risks in particular and detail reports are submitted and discussed at IRMC.</p>
8 (3) (c)	<p>The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.</p>	Not Complied	<p>Committee has initiated action to review the adequacy and effectiveness of the Asset-Liability Committees' benchmarking against on its current TOR.</p> <p>The committee has taken for discussion the key areas of concerns of other management level committees at the IRMC. However, the committee has not reviewed in full the adequacy and the effectiveness of other Management level committees during the year under review and provided the necessary guidance and direction to those committees for effective functioning of those committees in relation to their TORs.</p>
8 (3) (d)	<p>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 levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.</p>	Complied	The Committee has set up specific Risk Appetites limits on credit, liquidity and market risk through the Board-approved ALCO Policy. These risks appetites are scrutinised closely and discussed periodically at ALCO and measures taken to mitigate such impacts arising from those risks.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 meets at least quarterly each year. The Committee has met eight (8) times during the financial year 2021. Page 138 provides the details of the meetings of the Committee during financial year 2021 and the members' attendance thereat.
8 (3) (f)	The Committee shall take appropriate action against the officers responsible for failure to identify specific risk and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Complied	Risks are identified collectively by the Integrated Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. The Company has a formal documented disciplinary action procedure which has been specifically noted in the Company's Human Resource Policy.
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	The Committee submits the minutes of the IRMC to the next immediate board meeting which described fully the risks applicable to the Company and mitigating actions discussed seeking the Board views and actions deemed necessary. The AGM - Compliance prepares a detailed risk assessment report of the Company and presents at each IRMC. These risk assessments are categorically discussed at each IRMC and necessary guidance is given to the management to take prompt mitigating actions. The Company has initiate actions to submit a separate risk assessment report to the next immediate Board meeting within a week of each IRMC meeting in future.
8 (3) (h)	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved polices 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	AGM - Compliance monitors compliance of CBSL rules, regulations and directions issued under the Finance Business Act and submit a monthly compliance report to the Board for their review. Monitoring compliance of other applicable laws, internal controls and approved policies on all areas of business operations is carried out by the Risk and Compliance Department.
9. Related Party Transaction			
9 (1)	The following shall be in addition to the provisions contained in the finance companies (Lending) Direction, No. 1 of 2007 and the finance companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (2) (a-g)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction:</p> <ul style="list-style-type: none"> (a) a subsidiary of the finance company; (b) any associate Company of the finance company; (c) a Director of the finance company; (d) a Key Management Personnel of the finance company; (e) a relative of a Director or a Key Management Personnel of the finance company; (f) a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company; (g) a concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company, has substantial interest. 	Complied	<p>The Company has developed a Related Party Transaction and Avoidance of Conflict of Interest policy and established a documented process approved by the Board identifying the particular related parties and to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with related parties as per the direction.</p>
9 (3) (a-d)	<p>The transactions with a related party that are covered in this Directions shall be the following:</p> <ul style="list-style-type: none"> (a) granting accommodation; (b) creating liabilities to the finance company in the form of deposits, borrowings and investments; (c) providing financial or non-financial services to the finance company or obtaining those services from the finance company; (d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	Complied	<p>The Company has established a Board-approved documented procedure to identify and report the types of transactions with related parties that is covered by this Direction.</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (4)	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the finance company. For the purpose of this section, 'more favourable treatment' shall mean:	Complied	The Company has in place a Board-approved Related Party Transaction and Avoidance of Conflict of Interest Policy whereby the categories of persons who shall be considered as 'related parties' has been identified. Additionally, the Company has controls in place to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties "more favourable treatment" as defined in section 9(4) than that accorded to other constituents of the finance company.
9 (4) (a)	Granting of 'total net accommodation' to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.	Complied	Related party transactions that have been carried out during the year are disclosed under related party transactions on pages 196 to 197 of these Financial Statements. The Company's Related Party Transaction and Avoidance of Conflict of Interest Policy clearly defines the responsibilities of the Board of Directors, among other things, to ensure that the Company does not engage in transactions with related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Company.
9 (4) (b)	Charging of lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.		
9 (4) (c)	Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties.	Complied	The Company has established a detective process and initiated post audits to ensure that the Company does not engage in transactions with related parties granting "more favourable treatment". The compliance officer extracts reports on RPT transactions on all products and checks them manually to ensure that no "more favourable treatment" is accorded to related parties than other constituents of the Company. The company has established a Board Related Party Transaction Review Committee to check the governance of those transactions.
9 (4) (d)	Providing or obtaining services to or from a related party without a proper evaluation procedure.		
9 (4) (e)	Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary. Confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	Complied	The Company has developed a detective process that enables the Company to retrieve data on related party transactions throughout the Company's network and ensure that the Company does not engage in transactions with related parties in more favourable treatments.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10. Disclosures			
10 (1)(a-b)	The Board shall ensure that – (a) annual Audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that, (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	The Board has ensured that the Audited Financial Statements are prepared and published in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators. Pages 157 to 208 discloses the details of the Financial Statements, Accounting Policies and Notes to these Financial Statements published by the Company as mentioned above. The Company has published the annual Audited Financial Statements and the periodical Financial Statements in newspapers in an abridged form in Sinhala, Tamil and English languages.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		
10 (2) (a)	A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	The required confirmation on preparation of the Annual Audited Financial Statements in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is given in 'Directors' Responsibility for Financial Reporting' on page 151 and the 'Independent Auditors' Report' on pages 157 to 158 of this Annual Report.
10 (2) (b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a 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	The report by the Board on the effectiveness of the Company's internal control mechanism over financial reporting is given in 'Directors' Statement on Internal Controls over Financial Reporting' on page 153 of 154 this Annual Report.
10 (2) (c)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in sub para 2 (b) above, in respect of any statements prepared or published from the date of this Direction.	Complied	The Assurance Report from the External Auditor on the Effectiveness of Internal Control over Financial Reporting is disclosed on page 156 of this Annual Report.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10 (2) (d)	Details of Directors, including names, transactions with the finance company.	Complied	Details of the Directors are given on pages 22 to 26 of this Annual Report. Three Non-Executive Directors, deposited Rs.674.5 thousand in the Company in the form of savings deposits during the year under review. The payable balance of these savings deposits with accrued interest amounted to Rs.79.7 thousand as at the end of the financial year. There were no transactions with other Directors of the Company other than the Directors' fees/remuneration paid.
10 (2) (e)	Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.	Complied	The remuneration paid to the Board of Directors is disclosed in aggregate in note 42 to these Financial Statements on page 196 and in 'Report of the Board of Directors of the Affairs of the Company' on page 149 of this Annual Report.
10 (2) (f)	Total net accommodation as defined in section 9 (4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied	The Company did not have any accommodation outstanding in respect of each category of related parties as at the date of Statement of Financial Position, except for accommodations granted, if any, to KMPs disclosed under 10 (2) (g) below. There were no net accommodations outstanding in respect of KMPs and each type of other related parties as at the year end.
10 (2) (g)	The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its Key Management Personnel during the financial year, set out by Board categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate values of remuneration paid by the Company to its KMPs including Directors, amounted to Rs. 39.3 million. There were no new accommodations granted to KMPs during the year. The value of deposits received from KMPs including Directors during the year, amounted to Rs. 3.8 million The payable balance including interest accrued on those deposits amounted to Rs. 541.8 thousand as at the financial year end.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 non-compliance.	Complied	<p>The Report of the Board of Directors on the Affairs of the Company' on pages 146 to 150 and the 'Corporate Governance Report' on pages 99 to 137 of this Annual Report, describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the financial year.</p> <p>The Directors' Statement on Internal Control over Financial Reporting on page 153 of this Annual Report, confirms that the financial reporting system has been designed to provide a 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. The Company has obtained an independent assurance report from the External Auditors on the effectiveness of the Internal Control mechanism (page 156).</p>
10 (2) (i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management or non-compliance with the Act and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with measures taken by the finance company to address such concerns.	Complied	There were no regulatory and supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions thereunder that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions and required by the Monetary Board to be disclosed to the public other than those disclosed on page 109 Corporate Governance Report of this Annual Report.
10 (2) (j)	The External Auditor's certification of the compliance with the Corporate Governance Directions in the annual Corporate Governance Reports published from the date of this Direction.	Complied	<p>The External Auditors have conducted an engagement in accordance with the principles set out in the Sri Lanka Standards on Related Service 4750 (SLSRS 4750) applicable to procedures agreed upon to meet the compliance requirement of this Direction.</p> <p>We have obtained the Corporate Governance Factual Findings Report from the External Auditors.</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
11. Transitional Provision			
11 (1)	On the date of this Direction, if the number of Executive Directors in a finance company is either less than 5 or exceed 13, such finance company shall comply with section 4 (1) hereof, within three years commencing on 1st January 2009.	Complied	The Company has complied with the transitional provisions encompassed under this Direction. The Company did not have any Executive Directors during the financial year and on the date of this report. None of the Directors retired from the Board after completing nine (9) years in the Board during the FY 2021.
11 (2)	On the date of this Direction, if the number of Executive Directors is more than one half of the number of Directors of the Board, the Board shall expressly identify the excess Executive Directors and inform the names of such excess Executive Directors to the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka within three years commencing 1st January 2009. On the expiry of three years commencing 1st January 2009, such excess Executive Directors shall not be considered as members of the Board.		The Company did not have any Director who has reached 70 years nor any Director having a Board position of over 20 companies/entities as at the financial year end.
11 (3)	The following transitional provision shall apply to the 9-year retirement requirement imposed under section 4 (2) of this Direction: A Director who has completed nine years as at 1st January 2009 or who completes such term at any time prior to 31st December 2009, may continue for a further maximum period of three years commencing 1st January 2009.		
11 (4)	The following transitional provision shall apply to the maximum age level imposed under section 5 (1) of this Direction:		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
11 (5)	<p>The following transitional provision shall apply to the maximum 20 companies/entity Directorship limitations imposed under section 5 (2) of the Direction: If any person holds post of Director in excess of the limitation given in section 5 (2), such person within a maximum period of 3 years commencing 1st January 2009, comply with the limitation and notify the Monetary Board accordingly.</p>		
11 (6)	<p>If for any reason such ill health or any disqualification specified in the Act, the Monetary Board considers the exemptions referred to in subsections 11 (3) and 11 (4) and 11 (5) should not be availed of, such grounds may be notified to the person by the Monetary Board and after a hearing, the Monetary Board limits the period of exemptions.</p>		

REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE



Mr. Amrit CanagaRetna
Chairman – Intergrated Risk Management Committee

14th July 2021

Sarvodaya Development Finance firmly believes that risk management function is the core of the organization since SDF functions as a financial intermediary. A robust risk management system ensures the protection of depositors, investors and key stakeholder interest along with secured long term growth in the organization. The Board of Directors of Sarvodaya Development Finance Limited (SDF) is the apex body which reviews and monitors the risks of the Company.

CHARTER OF THE COMMITTEE

The Integrated Risk Management Committee (IRMC) was established by the Board of Directors in compliance with the Section 8(3) of the Finance Companies (Corporate Governance) Direction No.03 of 2008. The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction. The IRMC charter clearly sets out the membership, source of authority, duties and the responsibilities of the IRMC. The IRMC assists the Board of Directors in ensuring the Company is financially viable and sustainable by regularly assessing a diverse range of risks faced by SDF in its business operations and assuring the adequacy and effectiveness of the risk management framework implemented by SDF.

ROLES AND RESPONSIBILITIES

Duties of the IRMC include identification of current and potential risks and determining the adequacy and effectiveness of risk mitigating measures used to ensure that the actual overall risk profile of the Company conforms to the desirable risk profile of the Company as defined by the Board of Directors.

COMPOSITION

The IRMC is comprised of two (3) Independent, Non-Executive Directors, the CEO, AGM Compliance and the Corporate Management Team who manage the risks of business units. The Chairman of the IRMC is an Independent, Non-Executive Director.

Name	Designation
Mr. Amrit CanagaRetna	Chairman/Non-Executive, Independent Director
Dr. Richard Vokes	Member/Non-Executive, Independent Director
Mr. Sunil De Silva	Member/Non-Executive, Independent Director

The Profiles of the IRMC members are set out from pages 22 to 24 of this Annual Report. AGM -Compliance, functions as the secretary to the IRMC.

The following changes to the composition of IRMC occurred during the period under review.

RETIREMENTS

No retirements took place during the year under review

RESIGNATIONS

No resignations took place during the year under review

APPOINTMENTS

Mr. Sunil De Silva was appointed to the Committee during the year under review.

COMMITTEE MEETINGS AND THE METHODOLOGY

Eight (8) meetings were held during the year under review. The attendance of the Directors at the meetings for the year under review is as follows:

Names	Meetings held	Meetings attended
Mr. Amrit CanagaRetna	8	8
Dr. Richard Vokes	8	8
Mr. Sunil De Silva (appointed w.e.f. June 2020)	8	6

All key risk areas such as credit, operations, liquidity, market, legal and reputational risk, are assessed by the Committee on a regular basis through MIS reports and other reports that assess the risk areas of SDF. Apart from assisting the Board in performing its oversight in relation to both qualitative and quantitative risk, the Committee also ensures the adequacy, soundness and effectiveness of the risk management framework of the Company.

The AGM Compliance was present at all meetings to ensure that the proceedings are minuted correctly and the decisions taken therein are adopted accordingly.

RISK MANAGEMENT

The work of the Committee was supported by the Risk and Compliance Department headed by the AGM Compliance. The Division functions as an independent unit and the AGM Compliance directly reports to the Chairman of the IRMC. A comprehensive booklet identifying all areas of concern and remedial measures that have been taken as well as ongoing action to mitigate risks is circulated monthly among the Committee members.

All policies, laws, regulations and internal controls have been monitored and implemented in the year under review. Policies that need be renewed to conform to the regulations have been identified, presented to the IRMC for its review and concurrence and thereafter approved by the Board.

Key areas addressed by the IRMC during the year under review:

- ➔ Key focus was given on the deterioration of credit quality level of the industry and discussed the measures to be undertaken to improve credit quality.
- ➔ Improvements were recommended to ensure the completeness of security documentation.
- ➔ Reviewed the liquidity position, funding pipeline and liquidity management strategies of the Company.
- ➔ Assessed all risks, i.e., credit, market, liquidity, operational, legal and reputational and strategic risks to the Company on a monthly basis through appropriate risk indicators;
- ➔ Reviewed key risk indicators in use for risk monitoring and results of stress tests to evaluate resilience and compliance with internal benchmarks.
- ➔ Reviewed the implementation of risk management as well as compliance and control systems.

During the year under review, the IRMC provided the necessary guidance to the Company, in line with its risk appetite, for effective management of risk supporting the overall business strategy and objectives.

REPORT OF THE BOARD AUDIT COMMITTEE



Mr. Channa de Silva
Chairman – Board Audit Committee

14th July 2021

CHARTER OF THE COMMITTEE

The Terms of Reference of the Board Audit Committee (BAC) are clearly defined in the Charter of the BAC which is periodically reviewed and revised with the concurrence of the Board of Directors. The process ensures that new development and concerns are adequately addressed. The BAC is responsible to the Board of Directors and reports on its activities regularly. The functions of the BAC are designed to assist the Board of Directors in its general oversight on financial reporting, internal and external audit and compliance with legal and regulatory requirements and risk management.

THE ROLE AND RESPONSIBILITIES

The BAC is expected to ensure;

- ➔ The integrity of the financial reporting of the Company and the compliance with financial reporting requirements, information requirements of the Company's Act and other related financial reporting regulations.
- ➔ The effectiveness of the internal control system and the Company's Risk Management function
- ➔ The Company's ability to continue as a going concern in the foreseeable future
- ➔ Independence and effectiveness of the Company's External Auditors
- ➔ Performance of the Company's Internal Audit function
- ➔ The Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function

AUTHORITY

The BAC has the entire authority to investigate into any matter, including call any employee to be questioned at a meeting of the BAC, full access to information and authority to obtain external professional advice, at the Company's expense.

COMPOSITION

Members of the BAC are appointed by the Board and Comprised entirely of Non-Executive Directors. The Chairman of the BAC shall be a Non-Executive Director who possesses adequate qualification and experience in accountancy and auditing. The BAC comprised of two

Independent, Non-Executive Directors of the Company as at 31st March 2021, as shown below:

Name	Designation
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director
Mr. Amrit CanagaRetna	Member/Non - Executive, Independent Director

The Profiles of the BAC members are set out from pages 22 to 24 of this Annual Report. Mr. Chandana Bandara, Head of Internal Audit, who is a qualified Chartered Accountant, functions as the secretary to the BAC.

No changes to the composition of BAC occurred during the period under review.

MEETINGS

The attendance of the BAC members at the meetings during the financial year under review was as follows:

Name	No. of meetings applicable	No of meetings attended
Mr. Channa de Silva	04	04
Mr. Amrit CanagaRetna	04	04

On the invitation of the BAC, any officer of the Company, External Auditors and any outsider may attend all or part of any meeting. The proceedings of the BAC meetings are recorded with adequate details and reported to the Board of Directors.

SUMMARY OF ACTIVITIES DURING THE YEAR

Financial Reporting

The BAC reviewed the audited Financial Statements of the Company before submission to the Board, in order to monitor the integrity of the Financial Statements and the significant financial reporting judgments contained therein. In reviewing the audited Financial Statements, the BAC focuses 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.

The BAC also assessed the Company's compliance with financial reporting requirements, information requirements of the Companies Act, Finance Business Act and other relevant financial reporting related regulations and requirements.

Internal Controls, Risk Management Function and Going Concern

The BAC keeps under review the Company's internal controls and risk management systems ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards.

The BAC also assesses the Company's ability to continue as a going concern in the foreseeable future. The BAC reviewed and approved the 'Directors' Statements on Internal Controls over Financial Reporting' to be included in the Annual Report.

External Audit

The BAC monitors independence and objectivity of the audit processes of external audit in accordance with applicable standards of best practice. The BAC with the approval of the Board of Directors developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.

The BAC met the External Auditors Messrs Ernst & Young during the year under review and provided the opportunity to discuss the issues, problems and reservations arising from audits including those matters that may need to be discussed in the absence of Key Management Personnel. The BAC also reviewed the External Auditors' Management Letter and management responses thereto.

The BAC recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditors of the Company for the financial year ending 31st March 2021, subject to approval by the Shareholders at the next Annual General Meeting.

Internal Audit

The BAC reviewed the adequacy of the scope, functions and resources of the Internal Audit Department and satisfied itself that the Department has the necessary authority to carry out its work and monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system. The BAC ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The BAC also reviews and monitors Management's responsiveness to the significant audit findings and recommendations of the Internal Auditor. Internal Audit Department carried out 50 branch annual audits, 55 branch spot audits, 01 functional audits and 09 special audits during the year under review.

Oversight on Regulatory Compliance

The BAC with the assistance of internal audit closely examined the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

Ethics and Good Governance

Highest standards of Corporate Governance and adherence to the Company's Code of Ethics are ensured. All appropriate procedures are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means.

Whistle-Blowing and Fraud

Whistling Blower Policy that was implemented in year 2017 which was subsequently revised in year 2021 is intended to encourage and enable employees and others to raise serious concerns internally, so that Board of Directors and the Corporate Management can address and correct inappropriate conduct and actions.

In the event of whistle-blower is uncomfortable or reluctant to report his/her supervisor, then he/she could report the matter to the next higher level of Management including the BAC.

The whistle-blower policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers. The policy is subject to annual review in order to further improve the effectiveness.

The BAC engaged the main Board in taking decisions related to matters implemented by the BAC. The main Board thereafter, is fully briefed and take part in making decisions in regards to certain key areas of Operations.

Conclusion

The evaluation of reports and based on independent judgment, the BAC is satisfied about the financial reporting, internal control environment, compliance with statutory requirements, independence and effectiveness of External Auditors and performance of internal audits of the Company.

I take this opportunity to thank the External Auditors, Internal Audit Department and members of the BAC for their participation and contribution to the efforts of the BAC. Also appreciate the support of the Board of Directors in regard to all our activities at the BAC.

We believe that it was a year that we strengthened the organisation and moved forward as a financial institution in Sri Lanka.

REPORT OF THE BOARD REMUNERATION COMMITTEE



Mr. Dammika Ganegama
Chairman – Remuneration BRC

14th July 2021

OBJECTIVES AND SCOPE

The Board Remuneration Committee (BRC) is established to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of staff while complying with the requirements of regulatory and governance bodies, satisfying the expectations of staff members.

THE ROLE AND RESPONSIBILITIES

The BRC has following role and responsibilities.

- I. Recommend to the Board on the Company's framework of Non-Executive Directors' remuneration and its cost and to determine on behalf of the Board specific remuneration packages including pension rights for Executive Directors (which also includes that of the Chief Executive Officer and/or equivalent position thereof)
- II. Recommend any contract of employment or related contract with Executive Directors on behalf of the Company
- III. Determine the terms of any compensation package in the event of early termination of the contract of any Executive Director and make recommendations to the Board regarding the content to be included in the Annual Report on Directors remuneration
- IV. Assist the Board in deciding the Human Resource Policy
- V. Approve Performance Goals for Key Management Personnel

The role and responsibilities of the BRC has been extended with the role and responsibilities of the Board Nomination Committee (BNC) as the BNC was dissolved by the Board in FY 2018 with an intention of broad-basing the role of BRC for effective functioning and greater value creation.

Accordingly, the following role and responsibilities of BNC has been amalgamated with BRC; namely,

- I. Propose suitable Charter for the appointment and re-appointment of Directors to the Board and to act in accordance with such Charter in proposing appointments and re-appointments. Such Charter shall cover areas such as qualifications, competencies, independence, relationships which have potential to give rise to conflict vis-à-vis the business of the Company, etc.

- II. Consider the making of any appointment or re-appointment to the Board
- III. Provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment
- IV. Regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes (a member of the Nomination BRC should not participate in decisions relating to his/her own appointment)
- V. Adopt a scheme of self-assessment to be undertaken by each Director annually
- VI. Identifying and designating Key Management Personnel
- VII. Ensure 'fit and proper' of Directors and Key Management Personnel
- VIII. Approve Key Management Personnel Succession Plan and periodically review selected successors for Key Positions

COMPOSITION

The BRC comprised four (4) Non-Executive Directors as at 31st March 2021 as mentioned below. The Chairman of the BRC is an Independent, Non-Executive Director.

Name	Designation
Mr. Dammika Ganegama	Chairman/Non-Executive, Independent Director
Mr. Channa de Silva	Member/Non-Executive, Independent Director
Mr. Amrit CanagaRetna	Member/Non-Executive, Independent Director
Ms. Shehara De Silva	Member/Non-Executive, Independent Director

The Profiles of the BRC members are set out on pages 22 to 26 of this Annual Report. Mr. Piyal Salwathura, Assistant General Manager -HR, functions as the Secretary to the BRC.

MEETINGS

The BRC meets regularly, at least four times a financial year. The Chief Executive Officer and the Assistant General Manager – HR participate at meetings of the BRC by invitation. The Minutes of each BRC meetings held are submitted to the Board for their information and decision making on the implementation of recommendations made by the BRC.

The BRC held three (3) meetings during the current year and the recommendations made by the BRC were circulated and ratified by the Board of Directors.

	17/06/2020	16/12/2020	07/04/2021
Mr. Dammika Ganegama – Chairman	√	√	√
Mr. Channa de Silva – Member	√	√	√
Mr. Amrit CanagaRetna – Member	√	√	√
Ms. Shehara De Silva – Member	√	√	√

KEY POLICY MATTERS REVIEWED/INTRODUCED DURING THE REVIEW PERIOD

The BRC continued providing visionary guidance and support to the Management to realise agreed sustainable growth tasks by introducing new HR policies/procedures, developing staff talents and seeking their full potential with a view to align the entire workforce towards a performance-driven culture

THE BRC REVIEWED/INTRODUCED THE FOLLOWING POLICY MATTERS DURING THE FY 2021.

- Upgraded existing Medical/Health Insurance policy with OPD Coverage
- Performed employees were served with Bonus equalling to their one month salary
- Seven new HR Policies introduced and implemented to maintain smooth functioning of the company operations
- Continuously advocated in improving the annual training plan for each category of staff focussing on continuous skills development, capacity building and succession planning.
- Continuously monitored and emphasised the need to control cost by improving productivity and having the right number of people with the right backgrounds in place.
- Closely monitored and considered staff welfare programmes in order to increase the satisfaction among staff.

The BRC places much emphasis on training and encourages the provision of continuous training and exposure as a key strategic role of HR. This will enhance the existing skills of employees and expand their experience and knowledge. Training will also bring in new thinking and fresh ideas. Further, continuous training opportunities provided to employees will serve to motivate those employees. The BRC is of the view that as SDF grows and diversifies, it will benefit from having employees who are multi skilled who can serve cross functionally and also work with a regional outlook.



Online Clothing Store

As a tour guide, I lost my main source of income when the tourist industry collapsed after the Easter bomb attack in 2019. Then came the COVID-19 pandemic, which made things much worse. I began looking for other ways to make a living and started a small store in Nawanagaraya in Polonnaruwa, to sell export quality readymade garments.



After learning about online marketing through Facebook, I was keen to move my business to the online platform. However I did not have the startup capital to be able to do this. I approached many financial institutes, but got rejected until I contacted Sarvodaya Development Finance. They welcomed me and guided me through my business journey. Thanks to SDF my business became the first ever online clothing store in Polonnaruwa. I hope to grow this business with the assistance of SDF.

Mr. Shiwantha Bandara
Polonnaruwa (Nawa Nagaraya)

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

The Directors of Sarvodaya Development Finance Limited. (SDF) take pleasure in presenting their Annual Report on the state of affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2021.

This Report was approved by the Directors at its meeting held on 26th July 2021.

CORPORATE PHILOSOPHY

The Vision and Mission Statements, the Guiding Values and the Arthadharma Geethaya (Song), express the overarching philosophy and culture of the Company.

LEGAL FORM

The Company is a limited liability company incorporated in Sri Lanka on 1st January 2010 under the Companies Act No. 07 of 2007 bearing Registration No. PB 3795. It commenced business operations as a Licensed Finance Company (LFC) on 19th December 2012, regulated under Section 5 (7) of the Finance Business Act No. 42 of 2011.

LOCATION

The Company's Registered Office, which is also its Head Office, is located at 'No.155/A, Dr. Danister De Silva Mawatha, Colombo 08'. The contact details of the Company are given under Corporate Information.

BRANCH NETWORK

As at 31st March 2021, the Company's branch network comprised 30 Branch Offices and 21 Customer Service Centres (CSCs) within the purview of ten Regional Offices (pages 212 to 213). Some of these entities had their beginnings as SEEDS' District and Sub-Offices. Now, each unit in the network has been rebranded with a new corporate identity and functions as a standalone entity. During the financial year, two (2) branches were rebranded and strategically relocated with greater visibility to enable our customers in those strategic locations to have easy access to our products and services. This move not only helped to retain the existing customers but also helped to attract new customers.

The Company wrote to Central Bank in financial year 2019 seeking approval to convert nine (9) best performing CSCs to branches as part of regularisation plan for converting other outlets into branches and also to provide extended services, including servicing customer deposits, to our valued customers in those locations. The Company had not received the Central Bank approval for this conversion as at the date of signing these Financial Statements. As a future move, with the intention of catering to a much wider market segment through its products and services, the Company intends to relocate several other branches/CSCs in the coming financial year to locations which are more prominent in terms of visibility and business potential.

REVIEW OF PERFORMANCE AND RISK MANAGEMENT

The Chairman's Message (pages 14 to 17) and the Chief Executive Officer's Review (pages 18 to 21) encapsulate the Company's business performance during the current financial year, set against the wider economic background as indicated in the Management Discussion and Analysis (pages 54 to 91). A detailed report on Assessing and Managing Risk is given in page 94.

STATUTORY/REGULATORY COMPLIANCE

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto; as well as the Directions, Rules, Notices, Determinations and Guidelines, for Non-Bank Financial Institutions, issued by the Central Bank of Sri Lanka (CBSL) under enabling legislation. The Directors are also taking steps to resolve any issues of non-compliance.

PRINCIPAL ACTIVITIES

Pursuant to obtaining the finance companies license in December 2012, the Company's principal business activities during the year were deposit mobilisation, micro credit (represented by bulk loans to Sarvodaya Societies), micro credit including gold loans to individuals and individual entrepreneurs, PCBE (represented by micro credit to employees of pre-approved corporate business entities), corporate and retail credit (represented by personal loans, business loans, mortgage loans, SME and Leasing), and other credit facilities and related services.

FINANCIAL STATEMENTS

The Financial Statements of the Company (pages 157 to 207), have been prepared in accordance with the Sri Lanka Accounting Standards and the Sri Lanka Financial Reporting Standards (SLFRSs /LKASs), which came into effect in January 2012.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm by declaration (pages 151) that they are responsible for the preparing and presenting of the Financial Statements and that they give a true and fair view of the affairs of the Company for the year ended 31st March 2021.

The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes to the Financial Statements for the year ended 31st March 2020 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs/ LKASs), the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995 and the Directions/Rules made under Finance Business Act No. 42 of 2011 and Directions issued thereto.

Furthermore, the Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future and has adopted the 'going concern' basis in preparing these Financial Statements.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Directors confirm by declaration (page 153) that they are responsible for the adequacy and effectiveness of the internal control mechanism in place in the Company. Recognising its responsibility in maintaining the safety and soundness of the Company and safeguarding its assets and resources, the Board has instituted an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and the process includes the system of internal control over financial reporting.

The Board confirms that apart from regularly reviewing this process, it has also instituted systems and procedures which comply with relevant laws and regulations to keep abreast of industry norms. The Board also affirms that the Company's internal control mechanism has been designed to provide reasonable assurance with regard to the reliability of financial reporting and that the preparation of Financial Statements has been carried out according to the Sri Lanka Accounting Standards (SLFRSs/LKASs), and the other regulatory requirements of the Central Bank of Sri Lanka.

AUDITORS' REPORT

The Auditors' Report on the Financial Statements of the Company for the year in review is set out in this Annual Report (pages 157 to 158).

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Company during the year under review. The Directors are of the view that these policies have been applied consistently supported by informed judgements. Significant Accounting Policies together with the notes adopted in preparation of the Financial Statements of the Company is given from the pages 163 to 207 of these Financial Statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

ARTICLES OF ASSOCIATION AND CHANGES DURING THE YEAR

During the financial year under review, no revisions and/or amendments were made to the Company's Articles of Association.

ACCOUNTING PERIOD

The financial accounting period reflects the information from 01st April 2020 to 31st March 2021.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

The Company recorded a total interest income of Rs.1,584.7 million (Rs.1,681.7 million in financial year 2020) for the year ended 31st March 2021. This represents a negative growth of total interest income by Rs.96.9 million or 5.8% compared to the previous year. A more descriptive analysis of the interest income is given in note 6 (page 170) to these Financial Statements.

Profit and Appropriations

The Company recorded a profit after tax of Rs.183.4 million (a profit after tax of Rs.101.7 million in financial year 2020) for the year ended 31st March 2021. This represents an increase of Rs.81.6 million or 80.2% compared to the previous year. The Company recorded a total comprehensive income of Rs.181.6 million (a total comprehensive income of Rs.97.1 million in financial year 2020) for the year ended 31st March 2021.

As per the guidelines and criteria laid down in the Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No.1 of 2013 of the Central Bank of Sri Lanka, the Board of Directors transferred Rs.36.7 million (Rs.20.3 million in financial year 2020) to the Company's 'Statutory Reserve Fund' during the year under review.

Details of the Company's performance and appropriation of profit are tabulated below.

	2021	2020
	Rs. ('000)	Rs. ('000)
Profit /(Loss) After Taxation	183,356.74	101,716.34
Profit Brought Forward from Previous Year	195,476.36	118,686.00
Impact of adopting SLFRS 9 as at 01st April 2018	-	-
Profit Available for Appropriation	378,833.10	220,402.35
Appropriations		
Final Dividend Paid	-	-
Other Comprehensive Income / (Expenses)	(15,505.81)	(4,582.72)
Transfer to Reserves	(36,671.35)	(20,343.27)
Revaluation of Land & Building	-	-
Total Appropriation	(52,177.16)	(24,925.99)
Un-appropriated Profit Carried Forward	326,655.94	195,476.36

Dividend on Ordinary Shares

The Board of Directors did not recommend payment of any dividend for the current financial year. Details of information on dividends are given in note no 15 to the Financial Statements on page 175.

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred on Property, Plant and Equipment (including capital work in progress) of the Company in the year ended 31st March 2021 amounted to Rs.33.89 million (Rs.23.74 million in financial year 2020). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no 25, to these Financial Statements.

During the financial year under review, Company revalued its land and building as at 31st March 2021 to comply with the provisions of section 31 of LKAS 16: Property, Plant and Equipment. The details of such revaluation and the resulted revaluation surplus are fully described under note no 25.2 to these Financial Statements.

STATED CAPITAL

The stated capital of the Company as at 31st March 2021 amounted to Rs.1,694 million (Rs.890 million as at 31st March 2020). The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The Company issued 36,641,500 new ordinary shares during the financial year through a private placement to comply with CBSL core capital requirement.

RESERVES

Total Reserves of the Company, including Retained Earnings, stood at Rs.487.25 million (Rs.305.68 million in the financial year 2020) at the end of the financial year.

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

A summary of Reserves of the Company at the end of the financial year is as follows.

	2021	2020
	Rs. ('000)	Rs. ('000)
Statutory Reserve Fund	104,077.47	67,406.13
Revaluation Reserve	56,514.76	42,796.76
Retained Earnings	326,655.94	195,476.36
Total	487,248.17	305,679.25

CONTINGENT LIABILITIES

There were no material contingent liabilities as at the reporting date except as disclosed in note no 38 to these Financial Statements.

OUTSTANDING LITIGATIONS

In consultation with the Company Lawyers, the Board of Directors opine that the pending litigations against the Company as at the reporting date will not have any material impact on the reported financial results or the future operations of the Company. The litigations against the Company are fully disclosed under note no 38 to these Financial Statements.

ENVIRONMENTAL PROTECTION

The Directors, to the best of their knowledge and belief, are satisfied that the Company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events and/or circumstances that have arisen since the reporting date that would require adjustments to or disclosure in the financial statements, other than those disclosed in note no 40 on page 196 to these Financial Statements.

ISSUE OF SHARES OR DEBENTURES

The Company did not issue any shares or debentures during the financial year under review.

SHARE INFORMATION

There were 1,279 shareholders registered as at 31st March 2021 (4 shareholders as at 31st March 2020).

DIRECTORS' SHAREHOLDINGS

No Board of Directors have held any shares in the Company, either at the beginning or at the end of the reporting period.

DIRECTORATE

On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Board of Directors of the Company appointed Mr Dammika Ganegama as a Non-Executive, Independent Director w.e.f. 15th July 2020

Accordingly, the following Directors held office during the financial year under review.

Name	Status
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director
Dr. Richard W. A. Vokes	Non-Executive, Independent
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director
Dr. Janaki Kuruppu	Non-Executive, Independent Director
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director
Mr. Amrit KanagaRetna	Non-Executive, Independent Director
Ms. Shehara De Silva	Non-Executive, Independent Director
Mr. Sunil De Silva	Non-Executive, Independent Director
Mr. Dammika Ganegama	Non-Executive, Independent Director (Appointed w.e.f. 15th July 2020)

The eight-member Board of Directors of the Company who held directorships as at 31st March 2021 are composed of distinguished professionals whose financial acumen in banking, finance, economics and allied fields have been invaluable in guiding the destinies of the Company during their tenure of office. The profiles of the Directors appear on pages 22 to 26.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held twelve (12) monthly meetings, during the year under review. The attendance schedule is given in the Corporate Governance Report on page 103.

BOARD SUB-COMMITTEES

The Board has delegated some responsibilities to five (5) oversight committees without derogating from its ultimate responsibility to the Company. They are:

- (i) Integrated Risk Management Committee (IRMC);
- (ii) Board Audit Committee (BAC);
- (iii) Board Remuneration Committee (BRC);
- (iv) Board Credit Committee (BCC) and;
- (v) Related Party Transaction Review Committee (RPTRC).

The Board dissolved the Board Nomination Committee (BNC) during the financial year 2018 and the scope and functionalities carried out by the same was delegated to the Board Remuneration Committee.

The composition, functions and responsibilities of the first three committees are set out in their respective reports as at 31st March 2021 and included in this Annual Report.

MANAGEMENT LEVEL COMMITTEES

The Board also appointed five (5) management level committees in line with industry norms. These are:

- (i) the Asset-Liability Management Committee (ALCO),
- (ii) the Management Audit Committee (MAC),
- (iii) the Management Committee (ManCom),
- (iv) the Management Credit Committee (MCC) and;
- (v) the Product Development Committee (PDC).

Composition of these Committees as at 31st March 2021, appear on pages 107 to 108.

DIRECTORS' REMUNERATION

As required by Section 168 (1) (f) of the Companies Act No.07 of 2007, the Directors' fees and emoluments for the financial year ended 31st March 2021 and 31st March 2020 are stated below and disclosed under note no 41 to these Financial Statements on page 196.

	2021	2020
	Rs. ('000)	Rs. ('000)
Directors' Fees and Emoluments	7,576.00	7,454.31

CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 99 to 137, complies with the Central Bank's Direction No. 3 of 2008 on Corporate Governance issued under enabling legislation.

The Board has obtained the Assurance Report from its External Auditors, Messrs Ernst & Young (Chartered Accountants) on the Internal Control over Financial Reporting and the same is disclosed on page 156. Also, the Company has obtained a factual findings reports on Corporate Governance from External Auditors over the compliance of corporate governance directions and the Company is in the process of strengthening the procedure.

APPRAISAL OF BOARD PERFORMANCE

Each Board Director of the Company, in conformity with the Section 2(8) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, undertakes a self-assessment annually by answering a self-assessment questionnaire. The Board of Directors undertook the self-assessment for the year under review. The extent of compliance is fully described under Rule Reference no 2 (8) on page 114 in the Company's report on Corporate Governance.

The AGM –Compliance coordinated with the Directors and collected the responses during the financial year under review. However, due to the practical limitations and warranted circumstances that occurred from the outbreak of COVID-19 pandemic, the Directors' responses to the self-assessment questionnaire was submitted to the Board and discussed at the Board meeting held in the month of April 2021.

The Board also carried out an annual self-evaluation of its subcommittees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008, and the Best Practices of Corporate Governance.

STATUTORY PAYMENTS

The Directors are satisfied, to the best of their belief and knowledge, that all statutory dues, vis-à-vis the Government and the Company's employees, have been paid up-to-date on a timely basis.

EMPLOYEE SHARE OWNERSHIP AND PROFIT SHARING PLANS

There are no immediate plans to introduce employee share ownership and profit sharing scheme. However, the employees are given an opportunity to invest in the Company's shares via the Private

Placement that commenced in the month of February 2020. The purpose of the Private Placement is to raise up to Rs.500.0 million equity capital with provision to raising up to Rs.1.0 billion in the event of an oversubscription to comply with the Central Bank regulatory core capital requirement of Rs.2.0 billion by 31st December 2020.

AUDITORS

The Company's External Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. They were appointed with effect from 14th February 2013, pursuant to a Directive by the Central Bank of Sri Lanka (CBSL) in October 2012, where Licensed Finance Companies were required in terms of the Finance Business Act No. 42 of 2011, to appoint an External Auditor from a Panel of Independent Auditors, as listed by the Central Bank.

Messrs Ernst & Young have expressed their willingness to continue in office for the ensuing year and a resolution with regard to their reappointment and remuneration will be submitted for approval by the shareholders via circulation.

Auditors' remuneration consists of two types of fees, as follows:

- Audit service fees for the year under review and;
- Audit-related fees for non-audit services.

The Company paid following sums for audit and related services as well as non-audit services to M/s. Ernst & Young, Chartered Accounts. Agreed-Upon Procedures engagement to comply with the Finance Companies Direction No.03 of 2008 and Assurance engagement on Directors' Statement of Internal Control have been classified as audit related services and, the fees paid on the same during the year under review are included under audit and related services accordingly. Non audit services mainly comprised of the fees paid during the year under review on tax consultancy services, and payment for Accountants Report provided by auditors.

	2021	2020
	Rs. ('000)	Rs. ('000)
Audit and Related Services	3,282.87	1,938.97
Non Audit Services	515.81	875.86

COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS LAWS AND INTERNAL CONTROLS

The Company has not engaged in any activity contravening any laws and regulations. There have been no irregularities involving management or employees that could have material financial effect or otherwise resulting in non-compliance with prudential requirements, regulations, laws and internal controls. The Directors' Statement on Internal Control over Financial Reporting (page 153) confirms that the financial reporting system has been designed to provide a 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. The Company has obtained a certificate from the External Auditors on the effectiveness of the Internal Control mechanism (page 156).

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

PREPARATIONS FOR ADOPTING NEW REGULATIONS

i. New Directions/Guidelines issued by the Central Bank of Sri Lanka

The Company has adopted the new directions/guidelines issued by the Central Bank of Sri Lanka which are directly related to the nature of the current business operation during the year under review. The directions/guidelines issued during the year under review but are not currently applicable to the Company due to the nature of current business operation were noted for future compliance.

ii. New Accounting Standards/Interpretations Issued but Not Yet Effective

Amendments to SLFRS 09, LKAS 39, SLFRS 07, SLFRS 04 and SLFRS 16: Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) & Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments Recognition & Measurement) provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 1 January 2021.

Amendments to SLFRS 16: COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying Sri Lanka Accounting Standard - SLFRS 16 (Leases) guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

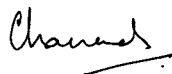
The amendment applies to annual reporting periods beginning on or after 1 June 2020.

None of the new or amended pronouncements are expected to have a material impact on the Financial Statements of the Group in the foreseeable future.

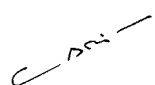
ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by section 168(1)(k) of the Companies Act No 07 of 2007 the Board of Directors hereby acknowledge the contents of this report.

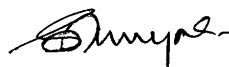
For and on behalf of the Board of Directors of Sarvodaya Development Finance Limited.



Channa de Silva
Chairman



Chamindha Rajakaruna
Director



BDO Secretaries (Pvt) Limited
Company Secretaries

14th July 2021

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditors' Report from page 157 to 158 of this Annual Report.

As per the Sections 148(1), 150(1) and 151 of the Companies Act No. 07 of 2007, Directors of the Company have responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the state of affairs of the Company as at the Statement of Financial Position date and of the profit or loss for the year and place the same before the Annual General Meeting.

The Directors consider that the Financial Statements of the Company for the year ended 31st March 2021, exhibited from pages 157 to 207 in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Finance Business Act No. 42 of 2011 and the relevant Directions, Guidelines etc., issued by the Central Bank of Sri Lanka for Licensed Finance Companies. The Directors also ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the Financial Statements have been prepared as aforesaid. Further, the Directors have responsibility to ensure that the Company maintains adequate general supervision, control and administration of the affairs of the business to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. The Directors have instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it has been under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business in an orderly manner. The Directors are satisfied that proper accounting records have been maintained with proper internal controls being set up to prevent and detect frauds and irregularities in the Company operation to safeguard the assets of the Company.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion. To the best of the knowledge and belief of the Directors, the Company's Auditor Messrs Ernst & Young, have carried out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

The Directors have provided the Auditor with all the financial records, related data and minutes of shareholders' and Directors' meetings and given them every opportunity to carry out and reviews and tests that they consider appropriate and necessary for the performance of their responsibilities. Messrs Ernst & Young has examined the Financial Statements made available together with all other financial records, minutes of shareholders' and Directors' meetings and related information and have expressed their opinion which appears from pages 157 to 158 of this Annual Report.

COMPLIANCE REPORT

The Directors confirm, the Company has complied with the requirement of Section 151(1) of the Companies Act No. 07 of 2007, and the Financial Statements of the Company give a true and fair view of;

- The state of affairs of the Company as at 31st March 2021 and;
- The profit or loss of the Company for the financial year then ended.

The Directors also confirm, the Company has complied with the requirement of Section 148(1) of the Companies Act No. 07 of 2007, and that the Company has kept accounting records which correctly record and explain the Company's transactions, and at any time enabled;

- The financial positions of the Company to be determined with reasonable accuracy,
- The Directors to prepare Financial Statements in accordance with the Companies Act No.7 of 2007, and;
- The Financial Statements of the Company to be readily and properly audited.

The Directors to the best of their knowledge and belief, are satisfied that all taxes, statutory dues and levies payable by the Company as at the Statement of Financial Position date relating to employees and the Government and other statutory bodies, have been paid or, where relevant, provided for.

The Financial Statements of the Company have been certified by the Chief Executive Officer and the Deputy General Manager –Finance and Planning, as the officers responsible for their preparation as required by the Section 150(1)(b) and they have also signed by two Directors of the Company as required by Section 150(1)(c) of the Companies Act No.7 of 2007.

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

By order of the Board,



BDO Secretaries (Pvt) Limited
Company Secretaries

14th July 2021

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Sarvodaya Development Finance Limited (the Company) as at 31st March 2021 are prepared and presented in conformity with the requirements of the followings;

- ➔ Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (SLFRSs/LKSs)
- ➔ Companies Act No. 07 of 2007
- ➔ Sri Lanka Accounting and Auditing Standards Act no. 15 of 1995
- ➔ Finance Business Act No. 42 of 2011 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka

The Significant Accounting Policies have been constantly applied by the Company. Application of Significant Accounting Policies and Estimates that involve a high degree of judgement and complexity were discussed with the Board Audit Committee and the Company's External Auditors. Comparative information has been reclassified where applicable to comply with the current presentation and material departures, if any, have been disclosed and explained.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and Estimates and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Company during the year under review. We also confirm that the Company has

adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for establishing, implementing and managing Internal Controls and Procedures within the Company. We confirm based on our evaluations that the estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis in order to ensure that the Financial Statements are reflected in a true and fair manner, the form and substance of transactions and the Company's state of affairs is reasonably presented. To ensure this, we have taken proper and sufficient care in implementing effective Internal Controls and Procedures for ensuring that material information relating to the Company are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Company for the financial year under review and are satisfied that there were no significant deficiencies and weaknesses in the design or the operation of Internal Controls and Procedures to the best of our knowledge. The Company's Internal Audit Department conducts periodic reviews to provide reasonable assurance that the established policies and the procedures of the Company were consistently followed.

The Company's Board Audit Committee, inter alia, reviewed all the internal and external audit and inspection programs, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the 'Board Audit Committee Report' from pages 140 to 141 of this Annual Report. The Board Audit Committee meets periodically with the internal audit team and the independent external auditor to view their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of Internal Controls and Procedures.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given from pages 157 to 158 of this Annual Report. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs Ernst & Young in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Ernst & Young's independence and objectivity.

We confirm to the best of our knowledge that;

- ➔ The Company has complied with all applicable laws, regulations and prudential requirements;
- ➔ There are no material non-compliances other than those disclosed on page 108 to 109 the Corporate Governance of this Annual Report;
- ➔ There are no material litigations that are pending against the Company other than those disclosed in the note 38 on page 195 to the Financial Statements of this Annual Report, and;
- ➔ All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the reporting date have been paid, or where relevant provided for.



Mahesh Jayasanka
Chief Manager-Finance



Nilantha Jayanetti
Chief Executive Officer

14th July 2021

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

This statement is issued in compliance with Section 10 (2) (b) of the Central Bank's Direction No. 03 of 2008 to licensed finance companies, which requires the Board to include in its Annual Report a statement on the Company's internal control over financial reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place in the Company. Recognising its responsibility in maintaining the safety and soundness of the Company and safeguarding its assets and resources, the Board has instituted an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and the process includes the system of internal control over financial reporting. The Board confirms that apart from regularly reviewing this process, it has also instituted systems and procedures which comply with relevant laws and regulations to keeps abreast of industry norms. The Board also affirms that the Company's internal control mechanism has been designed to provide reasonable assurance with regard to the reliability of financial reporting and that the preparation of Financial Statements has been carried out according to the Sri Lanka Accounting Standards (SLFRSs/LKASs), which were first adopted by the Company in 2012.

Among the internal control procedures embedded within the Company are:

- ➔ An Integrated Risk Management (IRM) structure that involves the Board of Directors, Key Management Personnel, Heads of Divisions and the island-wide service network.
- ➔ A specialised Risk Management Unit tasked with assessing all types of risks associated with the Company and communicating the management and the Board the prompt actions required to mitigate the effects of such risks.
- ➔ The Internal Audit Division tasked with assessing the soundness of Company's internal control system and risk management functions and the ongoing evaluation of how the organisation has adapted to changes in the risk environment.
- ➔ Management Level Committees such as the Asset and Liability Committee (ALCO), Management Audit Committee (MAC), the Management Committee (ManCom), Management Credit Committee (MCC) and the Product Development Committee (PDC) tasked with specific duties and responsibilities to implement the strategic actions and driving the Company towards its strategic direction while taking timely actions to mitigate the effects of any risks that are arising.

- ➔ Board Level Oversight Committees such as the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) tasked with specific duties and responsibilities for reviewing and improving the effectiveness of systems, processes and procedures in place to mitigate risks.
- ➔ Continuous upgrading to the information system ('e-finance') and operationalizing same for enhanced screening and performance of the work-flow-management system for processing and approving loans and services to the customers and information generation for MIS and financial reporting to keep track of all financial operations real time and generate reports online to enhance service quality and integrity of financial reporting.

The internal control system ensures, among others; transparency, segregation of duties, clear management reporting lines and adequate operating procedures in Head Office as well as in its service network of 30 branches and 21 customer service centres.

CONFIRMATION

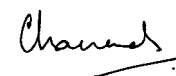
The Board is of the opinion that while it has complied with the aforementioned directives, it can provide a reasonable assurance against material misstatements, fraud and/or malpractice. The Board is also of the opinion while it has established the aforementioned internal control procedures, the Financial

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 the Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka.

EXTERNAL AUDITORS' CERTIFICATION

The External Auditors have submitted an Independent Assurance Report on the process adopted by the Directors on the system of internal controls over financial reporting. The External Auditors' Report is disclosed on page 156.

By order of the Board,



Channa de Silva
Chairman / Chairman, Board Audit Committee

14th July 2021



ESPRIT
SAN FRANCISCO
EST. 1968 U.S.A.
CITY OF THE FUTURE

Jasmine Cultivation

I am a resident of Mangalaeliya, Puttalam. I was working overseas and had to return to Sri Lanka in mid-2020 because I was laid off due to the COVID-19 pandemic. Unable to find work in my hometown, I decided to start a horticultural business on a small land that I owned. I decided to cultivate Jasmine flowers.



After visiting many places to obtain a loan to start my business, I contacted Sarvodaya Development Finance where they treated me like a family member and immediately helped me by arranging a loan facility. I was able to quickly expand my cultivation and even start growing new flower varieties such as Rajaphottu and Kukul Karamal. With my business growing rapidly, I obtained a leasing facility from SDF to buy a vehicle to transport my flowers. Before I started cultivating, Jasmine flowers were mainly imported from India. Now I am able to cater to almost 50% of the demand. In my small way I think I am helping to reduce the outflow of currency from the Country.

I am very grateful to SDF for helping me to build my business which has given me the opportunity to contribute to the national economy.

Mr. Gayan
Mangalaeliya, Puttalam.

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SARVODAYA DEVELOPMENT FINANCE LIMITED



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Chartered Accountants
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PNS/DW

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SARVODAYA DEVELOPMENT FINANCE LIMITED

REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Sarvodaya Development Finance Limited ("the Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2021.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3051

Our responsibility is 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 design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

SUMMARY OF WORK PERFORMED

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 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 3051 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.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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 has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

14 July 2021
Colombo

Partners: M M A Jayasinghe FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA W R H De Silva ACA ACMA Ms. Y A De Silva FCA Ms. K R M Fernando FCA ACMA
N Y R L Fernando ACA W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA D N Gamage ACA ACMA A P A Gunasekera FCA FCMA A Herath FCA
D R Hulangamuwa FCA FCMA LLB (Lond) Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P Y K N Sajewani FCA
N M Sulbiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA Ms. P S Paranavitane ACMA LLB (Colombo) T P M Ruberu FCMA FCCA C A Yalagala ACMA

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT



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Chartered Accountants
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ey.com

PNS/DW/AD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SARVODAYA DEVELOPMENT FINANCE LIMITED

Report on the audit of the financial statements

OPINION

We have audited the financial statements of Sarvodaya Development Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2021, and the statement of Profit or Loss and 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.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Partners: H M A Jayasinghe FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA W R H De Silva ACA ACMA Ms. Y A De Silva FCA Ms. K R M Fernando FCA ACMA
N Y R L Fernando ACA W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA D N Gamage ACA ACMA A P A Gunasekera FCA FCMA A Herath FCA
D K Hulangamuwa FCA FCMA LLB (Lond) Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA
N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA Ms. P S Paranavitane ACMA LLB (Colombo) T P M Ruberu FCMA FCCA C A Yalagala ACMA

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT



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

We also:

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

14th July 2021
Colombo

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March,	Notes	2021 Rs.	2020 Rs.
Income	5	1,743,539,205	1,802,435,773
Interest Income		1,584,744,640	1,681,678,539
Interest Expenses		(623,347,022)	(750,116,462)
Net Interest Income	6	961,397,618	931,562,077
Net Fee and Commission Income	7	35,856,002	29,580,891)
Other Operating Income	8	122,938,563	91,176,343
Total Operating Income		1,120,192,183	1,052,319,311
Impairment Charges for Loans and Other Losses	9	(60,091,862)	(119,317,776)
Net Operating Income		1,060,100,321	933,001,535
Operating Expenses			
Personnel Expenses	10	(374,095,908)	(356,879,823)
Depreciation of Property, Plant and Equipment		(37,102,566)	(40,442,919)
Amortisation of Intangible Assets		(10,055,835)	(13,285,897)
Other Operating Expenses	11	(282,648,941)	(290,302,786)
Operating Profit before Tax on Financial Services		356,197,071	232,090,111
Tax on Financial Services	12	(89,362,305)	(108,022,553)
Profit/(Loss) before Taxation		266,834,766	124,067,558
Income Tax Expenses	14	(83,478,023)	(22,351,216)
Profit/(Loss) for the Year		183,356,743	101,716,342
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	30	(13,647,141)	(2,062,826)
Gain/(Loss) due to changes in Assumptions	30	(6,755,239)	(4,302,064)
Deferred Tax (Charge)/Reversal on above items		4,896,571	1,782,169
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		(15,505,809)	(4,582,721)
Surplus from Revaluation of Property, Plant & Equipment		18,050,000	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		(4,332,000)	-
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		13,718,000	-
Other Comprehensive Income for the Year, Net of Tax		(1,787,809)	(4,582,721)
Total Comprehensive Income/(Expenses) for the Year		181,568,935	97,133,622
Basic Earnings Per Share (Rs)			
Earning per Share - Basic *	14	2.55	1.51

* Calculated based on profit/(loss) for the year

Accounting Policies and Notes from pages 163 to 207 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March,	Notes	2021 Rs.	2020 Rs.
Assets			
Cash and Cash Equivalents	17	130,870,989	73,226,394
Loans and Receivables	18	4,954,331,169	5,230,704,947
Lease Rentals Receivables	19	2,952,368,025	1,702,847,496
Financial Investments	20	374,591,188	444,939,031
Other Financial Assets	21	779,506	164,535,666
Other Non Financial Assets	22	99,226,178	142,043,956
Intangible Assets	23	5,055,287	15,111,123
Investment Property	24	215,678,750	126,094,500
Property, Plant and Equipment	25	160,884,369	146,268,040
Right-of-use Lease Assets	26	142,812,343	169,444,369
Total Assets		9,036,597,804	8,215,215,520
Liabilities			
Due to Banks and Other Institutions	27	1,729,624,109	1,595,035,613
Due to Customers	28	4,551,945,183	5,101,975,953
Other Non Financial Liabilities	29	282,552,100	99,220,587
Post Employment Benefit Liability	30	55,828,613	33,753,016
Current Tax Liabilities	31	53,665,325	(1,210,738)
Lease Creditor	32	161,198,954	171,735,097
Deferred Tax Liabilities	33	20,398,293	19,026,724
Total Liabilities		6,855,212,578	7,019,536,253
Shareholders' Funds			
Stated Capital	34	1,694,137,046	890,000,020
Retained Earnings	35	326,655,945	195,476,359
Reserves	36	160,592,235	110,202,886
Total Shareholders' Funds		2,181,385,226	1,195,679,266
Total Liabilities and Shareholders' Funds		9,036,597,804	8,215,215,520
Net Assets Value per Share		20.95	17.71
Commitments and Contingencies	39	7,689,916	9,365,100

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

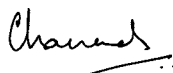


Mahesh Jayasanka
Chief Manager - Finance

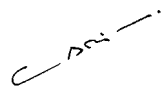


Nilantha Jayanetti
Chief Executive Officer

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



Channa de Silva
Chairman



Chamindha Rajakaruna
Director

Accounting Policies and Notes from pages 163 to 207 form an integral part of these Financial Statements.

14 July 2021
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2021	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserves Rs.	Revaluation Reserves Rs.	Total Equity Rs.
Balances as at 31 March 2019	890,000,020)	118,686,006	47,062,857	42,796,761	1,098,545,643)
Profit for the Year	-	101,716,342	-	-	101,716,342
Other Comprehensive Income	-	(4,582,721)	-	-	(4,582,721)
Transfer to Statutory Reserves Fund	-	(20,343,268)	20,343,268	-	-
Balances as at 31 March 2020	890,000,020	195,476,359	67,406,125	42,796,761	1,195,679,265
Profit for the Year	-	183,356,743	-	-	183,356,743
Other Comprehensive Income	-	(15,505,809)	-	13,718,000	(1,787,809)
Transfer to Statutory Reserves Fund	-	(36,671,349)	36,671,349	-	-
Share Issue	806,113,000	-	-	-	806,113,000
Expenses related to the Share Issue	(1,975,974)	-	-	-	(1,975,974)
Balances as at 31 March 2021	1,694,137,046	326,655,944	104,077,474	56,514,761	2,181,385,226

Accounting Policies and Notes from pages 163 to 207 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March,	Notes	2021 Rs.	2020 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		266,834,766	124,067,558
Adjustments for			
Impairment Provision	9	50,884,654	119,317,776
Changing Fair Value of Investment Property		(89,584,250)	-
Reversal of Provision of Loan Risk Assurance Benefit Fund		-	(1,030,125)
Loss/(Profit) on Disposal of Property, Plant and Equipment		(267,857)	(7,832,178)
Provision for Defined Benefit Plans	10	12,491,938	10,733,365
Depreciation of Property, Plant and Equipment	25.1.2	37,102,566	40,442,919
Amortisation of Intangible Assets		10,055,835	13,285,897
Amortisation of Right to Use Assets		62,944,563	64,930,508
Interest Expenses on Lease Creditor		23,920,090	24,057,148
Operating Profit before Working Capital Changes		374,382,306	387,972,868
(Increase)/Decrease in Loans and Receivables	18	233,886,268	(160,271,308)
(Increase)/Decrease in Lease Rentals Receivables	19	(1,257,917,674)	(676,290,858)
(Increase)/Decrease in Other Financial Assets		163,756,160	24,740,982
(Increase)/Decrease in Other Non Financial Assets		42,817,778	2,380,344
Increase/(Decrease) in Amounts Due to Customers	28	(550,030,770)	(283,365,644)
Increase/(Decrease) in Other Non Financial Liabilities		183,374,104	22,559,165
Cash Generated from Operations		(809,731,828)	(736,337,871)
Retirement Benefit Liabilities Paid		(10,818,721)	(10,557,304)
Net Collection of LRAB Fund		(42,591)	370,125
Income Tax Paid	31	(26,665,820)	25,936,026
Repayment of Lease Creditor		(70,768,771)	(86,796,291)
Net Cash From/(Used in) Operating Activities		(918,027,731)	(807,385,315)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		494,697	8,015,000
Acquisition of Property, Plant and Equipment	25.1.1	(33,895,737)	(23,735,187)
Acquisition of Intangible Assets		-	(1,388,891)
Financial Investments		70,347,843	(2,343,771)
Net Cash Flows from/(Used in) Investing Activities		36,946,804	(19,452,848)
Cash Flows from / (Used in) Financing Activities			
Funds received from bank and other institutional borrowings	27.2	1,293,108,000	990,494,489
Repayment of bank and other institutional borrowings	27.2	(1,177,148,099)	(398,338,806)
Funds Received from Share Issue		804,137,026	-
Net Cash Flows from/(Used in) Financing Activities		920,096,928	592,155,683
Net Increase in Cash and Cash Equivalents		39,016,000	(234,682,480)
Cash and Cash Equivalents at the beginning of the year		(135,354,147)	99,328,332
Cash and Cash Equivalents at the end of the year	A	(96,338,146)	(135,354,147)
A. Cash and Cash Equivalents at the end of the year			
Favorable Cash & Cash Equivalents		130,870,989	73,226,394
Unfavorable Cash & Cash Equivalents		(227,209,135)	(208,580,540)
Total Cash and Cash Equivalents at the end of the year	18	(96,338,146)	(135,354,147)

Accounting Policies and Notes from pages 163 to 207 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENT

CORPORATE INFORMATION

1.1 General

Sarvodaya Development Finance Limited (The 'Company') is a public limited liability company incorporated and domiciled in Sri Lanka and is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office of the Company is located at No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 and the principal place of business is situated at the same place.

The Company's parent undertaking is Sarvodaya Economic Enterprises Development Services (Gte) limited, which is also the Company's ultimate Parent.

1.2 Principal Activities of the Company

The principal activities of the Company consist of Acceptance of Deposits, Granting Micro Finance Loans, SME Loan, Leasing, Housing Loans, Business Loans, Gold Loan and other credit facilities and related services.

1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2021 (including comparatives) have been approved and authorized for issue by the Board of Directors on 14th July 2021.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of Compliance

The Financial Statements of the Company which comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Significant Accounting Policies and Notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of Financial Statements is also in compliance with the requirements of Finance Business Act No. 42 of 2011 and amendments thereto.

2.2. Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs/LKASs.

The Board of Directors acknowledges their responsibility as set out in the 'Report of the Board of Directors on the Affairs of the Company', 'Directors' Responsibility for Financial Reporting' and 'Directors' Statement on Internal Control over Financial Reporting' and the certification given on the 'Statement of Financial Position' of the Annual Report.

These Financial Statements include

The Statement of Profit or Loss and Other Comprehensive Income provides the information on the performance for the year under review (Refer page 159). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 160). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 161). Statement of Cash Flows provides the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs for entities to utilize those cash flows (Refer page 162) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 163 to 207).

2.3. Preparation of Financial Statements

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 25.2	Page 185
Defined benefit obligations	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	Note 30	Page 188
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment.	Note 24	Page 182

2.4. Presentation of Financial Statements

The Company present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 to these Financial Statements.

NOTES TO THE FINANCIAL STATEMENT

2.5. Use of Materiality, Aggregation, Offsetting and Rounding

Materiality and Aggregation
In compliance with Sri Lanka Accounting Standards – 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.

Offsetting

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 an Accounting Standard.

Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

2.6. Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency, unless indicate otherwise. No adjustments have been made for inflationary factors.

2.7. Going Concern

The Board of Directors of the Company has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Company has submitted a 5-year strategic business plan to the CBSL as a requirement of the proposed finance sector consolidation process to become a 20 Bn assets company in 2026. To comply with the CBSL core capital requirement, the CBSL has approved an Initial Public Offer (IPO) requested by the Company to raise balance core capital requirements. The Financial Statements of the Company continue to be prepared on the going concern basis.

2.8. Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

GENERAL ACCOUNTING POLICIES

Accounting policy relating to each accounting topic is given along with the relevant note to the Financial Statements. The other

significant accounting policies are described below;

Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to these Financial Statements are as follows

- ➔ Allowance for Impairment Charges for Loans and Receivables (Details under note 3.3.2)
- ➔ Deferred Taxation (Details under note 33)
- ➔ Post-Employment Benefit Liability (Details under note 30)
- ➔ Related Party Transactions (Details under note 41)

3. FINANCIAL INSTRUMENTS- INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

3.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

3.1.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data

from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

3.1.4 Measurement categories of Financial Assets and Financial Liabilities

As per SLFRS 09, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised Cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

3.1.5 Business model assessment

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

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated

portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

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

3.1.6 Contractual Cash Flow Characteristic Test (The SPPI test)

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

3.1.7 Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, 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 09.

3.1.8 Derecognition of Financial Assets and Financial Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

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

3.1.9 Modification of Financial Assets and Financial Liabilities

If the terms of a financial asset are modified, an assessment needs to be performed to determine whether the modified terms are substantially different from the existing terms. This assessment considers whether the cash flows of the modified asset are substantially different. Where terms are substantially different, the existing financial

NOTES TO THE FINANCIAL STATEMENT

asset will be derecognised and a new financial asset will be recognised at fair value.

Modifications to the original terms and conditions of the loans due to the above COVID-19 moratoriums, did not result in derecognition of the original loans as the Management concluded that the modifications were substantial. The Company recognises the interest income on gross carrying amount based on the effective interest rate for the moratorium period and after the moratorium period till the end of the lifetime of the instrument.

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 derecognition 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.

3.1.10 Due to Banks and other institutions

After initial measurement, due to banks are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded due to banks as Financial Liabilities at Amortised Cost in the form of Overdrafts term loans and short term loans.

3.2 Impairment of Financial Assets

3.2.1 Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 42.4.1.(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 01

When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 01 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 02.

Stage 02

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 02 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 03.

Stage 03:

Loans considered credit-impaired. The Company records an allowance for the LTECLs.

3.2.2 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the 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 calculations are outlined below and the key elements are, as follows.

PD :The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise expected draw downs on committed facilities, and accrued interest from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

3.2.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

3.2.4 Forward looking information

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

- ➔ GDP Growth (%)
- ➔ Inflation (YoY Average)
- ➔ Interest Rate (PLR)
- ➔ Unemployment (% of Labor Force)

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

3.2.5 Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event

occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

3.2.6 Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2019, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 45.2 The Company also considers whether the assets should be classified as Stage 3.

3.2.9 Write-off of Financial Assets at Amortised Cost

Financial assets and the related impairment allowance accounts are normally written-off when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

3.2.10 Collateral Valuation

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carried out by independent professional valuers as required by the said direction issued by CBSL.

The assessed fair value of the immovable properties does not consider for measurement of regulatory provisions for bad and doubtful debts as per Direction No 03 of 2006 and subsequent amendments thereto issued by CBSL.

NOTES TO THE FINANCIAL STATEMENT

3.2.11 Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.2.12 Non-Accrual Receivables

Cessation of Interest income recognition is triggered out when the receivables are more than six months in arrears, receivables are subject to legal action/ ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognised only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

3.2.13 Measurement

Uncertainty and Sensitivity Analysis of ECL Estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation including estimation of Probabilities of Default (PD), Loss Given Default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of Exposures

at Default (EAD) and assessing significant increases in credit risk. This becomes more complex, particularly in times of economic volatility and uncertainty. The Company form multiple economic scenarios based on economic forecasts to estimate future credit losses and to determine an unbiased ECL estimate. Management judgements are used to address the data and model limitations and expert credit judgements.

Methodology

The Company have been used three scenarios at multiple confidence levels to capture the exceptional nature of the current economic environment and to simulate management's view of the range of potential outcomes. The range of forecasts are generated through the model due to the uncertainty caused by COVID-19 and resultant restrictions on mobility and economic activities.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes.

ECL Scenarios and Sensitivity Analysis of Allowance for Impairment Losses

As expected, the scenarios create differing impacts on ECL and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

Management Judgemental Adjustments

The governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and defaults on which models are based. The Company recognised that the Management judgemental adjustments are required to help ensure that an appropriate amount of ECL impairment is recognised. Although the granting of the customer reliefs as directed by governmental and CBSL support programmes do not necessarily indicate that the credit risk of those facilities have significantly increased nor credit impaired. However, the management judged that the PDs applicable for credit impaired facilities to be applied in calculating the ECL for these facilities that are in stage 01 and stage 02.

4 NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to SLFRS 09, LKAS 39, SLFRS 07, SLFRS 04 and SLFRS 16: Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) & Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments Recognition & Measurement) provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 1 January 2021.

Amendments to SLFRS 16:

COVID-19 Related Rent

Concessions

The amendments provide relief to lessees from applying Sri Lanka Accounting Standard - SLFRS 16 (Leases) guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020.

None of the new or amended pronouncements are expected to have a material impact on the Financial Statements of the Group in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENT

5. INCOME

Gross income (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 specific recognition criteria, for each type of gross income, are given under the respective income notes.

Year ended 31 March	2021 Rs.	2020 Rs.
Interest Income	1,584,744,640	1,681,678,539
Net Fee and Commission Income	35,856,002	29,580,891
Other Operating Income (net)	122,938,563	91,176,343
Total Income	1,743,539,205	1,802,435,773

Recognition of interest income for credit facilities under moratoriums

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

6. NET INTEREST INCOME

Accounting Policy

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 must also be met before revenue is recognised.

The Company use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability

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

Year ended 31 March	2021 Rs.	2020 Rs.
6.1 Interest Income		
Loans and Receivables	993,024,757	1,263,494,470
Lease Rentals Receivables	553,963,114	357,115,232
Financial Investments	24,195,687	40,686,088
Savings Deposits	2,925,060	1,496,777
Other Financial Assets	10,636,021	18,885,971
Total Interest Income	1,584,744,640	1,681,678,539
6.2 Interest Expenses		
Due to Bank and Other Institution	162,008,088	179,260,061
Due to Customers	437,418,843	546,799,253
Interest Expense on Lease Creditor	23,920,090	24,057,148
Total Interest Expenses	623,347,022	750,116,462
Net Interest Income	961,397,618	931,562,077

7. NET FEE AND COMMISSION INCOME

Accounting Policy

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

The Company recognises Fee and Commission income net of directly attributable expenses.

Credit Related Fees and Services

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, CRIB charges, Insurance commission and Other credit related changes.

Other Fee and Commission Expense

Other Fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expense are recognised on an accrual basis.

7.1 Fee and Commission Income

Year ended 31 March	2021 Rs.	2020 Rs.
Credit Related Fees and Commissions	19,306,211	18,702,957
Documentation Charges	24,614,575	25,697,061
Service Charge	7,976,258	10,207,124
Total Fee and Commission Income	51,897,044	54,607,141

7.2 Fee and Commission Expenses

Year ended 31 March	2021 Rs.	2020 Rs.
Credit Related Fees and Commissions	8,473,038	15,226,578
Documentation Charges	146,198	278,571
Service Charge	7,421,806	9,521,101
Total Fee and Commission Expenses	16,041,042	25,026,250
Total Net Fee and Commission Income	35,856,002	29,580,891

8. OTHER OPERATING INCOME

Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Company is recognised as other operating income on an accrual basis.

Other operating income includes recoveries of written-off loans and receivables, gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

Year ended 31 March	2021 Rs.	2020 Rs.
Recoveries of Written-Off Loans & Receivables	18,955,297	56,319,546
Profit/(Loss) on Disposal of Property Plant & Equipment	267,857	7,832,178
Change Fair Value of Investment Property	89,584,250	-
Reversal of Provision of Loan Risk Assurance Benefit Fund	-	1,030,125
Other Sundry Income (Note 8.1)	14,131,158	25,994,493
Total Other Operating Income	122,938,563	91,176,343

8.1 Other Sundry Income included savings accounts threshold charges, office rent re-imburements, stationery income and other.

NOTES TO THE FINANCIAL STATEMENT

9. IMPAIRMENT CHARGES /(REVERSAL) FOR LOANS AND OTHER LOSSES

Accounting Policy

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 9: Financial Instruments. The methodology adopted by the Company is explained in Note 3.2.2 to these Financial Statements.

Year ended 31 March	2021 Rs.	2020 Rs.
Loans and Receivables	42,487,510	43,085,692
Finance Lease Rental Receivables	8,397,145	76,094,285
Provision for Other Assets	9,207,207	137,798
Total Impairment Charges for Loans and Other Losses	60,091,862	119,317,776

Changes in Accountong Policies

The Company has changed the portfolio segmentation strategy to maintain more product provision cover between secured and unsecured portfolio.

Recognition of interest income for credit facilities under moratoriums

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

10. PERSONNEL EXPENSES

Accounting Policy

Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' Provident Fund and Employees' Trust Fund

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

Contributions to defined benefit plans are recognised in the Statement of profit or Loss and other comprehensive income based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19, Defined benefit Obligations.

Year ended 31 March	2021 Rs.	2020 Rs.
Salaries and Other Related Expenses	323,350,593	312,413,478
Employer's Contribution to Employees' Provident Fund	24,383,353	23,587,300
Employer's Contribution to Employees' Trust Fund	6,095,373	5,896,825
Gratuity Charge for the Year	12,491,938	10,785,865
Other Staff Related Expenses	7,774,651	4,196,354
Total Personnel Expenses	374,095,908	356,879,823

11. OTHER OPERATING EXPENSES

Accounting Policy

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

Year ended 31 March	2021 Rs.	2020 Rs.
Directors' Emoluments	7,576,000	7,454,305
Auditors Remuneration	3,282,876	2,029,874
Professional and Legal Expenses	3,207,802	2,274,528
Deposit Insurance Premium	6,605,953	6,898,474
General Insurance Expenses	5,177,963	4,420,263
Office Administration and Establishment Expenses	182,851,422	201,765,609
Traveling & Transport Expenses	32,591,090	35,978,600
Other Expenses	6,775,302	5,218,327
Marketing and Promotional Expenses	34,580,533	24,262,806
Total Other Operating Expenses	282,648,941	290,302,786

Crop Insurance Levy

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

12. TAX ON FINANCIAL SERVICES

Accounting Policy

Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT on Financial Services is charged at 15%.

Nations Building Tax (NBT) on Financial Services

As per provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services.

As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

Debt Repayment Levy

As per the Finance Act No 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on Financial Services.

As per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 1 January 2020.

Year ended 31 March	2021 Rs.	2020 Rs.
Value Added Tax on Financial Services	88,994,892	70,959,752
National Building Tax on Financial Services	367,413	6,082,516
Debit Repayment Levy	-	30,980,285
Total Tax on Financial Services	89,362,305	108,022,553

NOTES TO THE FINANCIAL STATEMENT

13. INCOME TAX EXPENSES

Accounting Policy

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

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year 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 Note 13.1 to these Financial Statements.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 32 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate is 24% and it was changed as 24% with effect from 1 January 2020 (Up to 31 December 2019 - 28%).

The components of the income tax expense for the years ended 31 March 2021 and 2020 are:

Year ended 31 March	2021 Rs.	2020 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 13.1)	77,582,750	19,554,842
Under/(Over) Provision of Current Taxes in respect of Previous Years	3,959,133	7,045,386
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 33.2)	1,936,139	(4,249,013)
Total Tax Expenses	83,478,023	22,351,216

13.1 Reconciliation of Accounting Profit And Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March are as follows.

Year ended 31 March	2021 Rs.	2020 Rs.
Profit Before Tax	266,834,766	124,067,558
Add : Disallowable Expenses	214,426,153	264,584,242
Taxable Loss on Leasing Business	21,551,337	(8,737,906)
Adjustment on SLFRS 16	12,591,312	8,778,731
Less: Tax Deductible Expenses	(94,623,249)	(135,464,188)
Disallowable Income	(97,518,861)	(92,679,503)
Adjusted Profit / (Loss) for Tax Purposes	323,261,459	160,548,934
Assessable Income	323,261,459	160,548,934
Less - Allowable Losses	-	(88,123,592)
Taxable Income	323,261,459	72,425,342
Income Tax @ 28%	-	15,209,322
Income Tax @ 24%	77,582,750	4,345,521
Income Tax on Current Year's Profit	77,582,750	19,554,842

13.2 Under/(Over) Provision of Current Taxes in respect of Previous Years

The Company recorded an income tax under provision Rs 1,414,475/- for Y/A 2019/20 based on the submitted annual tax return. and the balance tax Rs. 2,644,658/- provided for the possible tax adjustments on recent issued tax assessments.

14. EARNINGS PER SHARE

Accounting Policy

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 as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share':

Year ended 31 March	2021 Rs.	2020 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders (Rs.)	183,356,743	101,716,342
Amount used as the denominator		
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	71,894,661	67,500,006
Weighted average basic Earnings per Share (Rs.)	2.55	1.51

15. DIVIDEND PAID AND PROPOSED

The Board of Directors did not recommend distribution of dividend for the year ended 31 March 2021.

16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

16.1 Analysis of Financial Instruments by Measurement Basis

As at 31 March	2021		2020	
	Amortised Cost Rs.	Total Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and Cash Equivalents	130,870,989	130,870,989	73,226,394	73,226,394
Loans and Receivables	4,954,331,169	4,954,331,169	5,230,704,947	5,230,704,947
Lease Rentals Receivables	2,952,368,025	2,952,368,025	1,702,847,496	1,702,847,496
Financial Investments	374,591,188	374,591,188	444,939,031	444,939,031
Other Financial Assets	779,506	779,506	164,535,666	164,535,666
Total Financial Assets	8,412,940,877	8,412,940,877	7,616,253,533	7,616,253,533
Financial Liabilities				
Due to Banks and Other Institutions	1,729,624,109	1,729,624,109	1,595,035,613	1,595,035,613
Due to Customers	4,551,945,183	4,551,945,183	5,101,975,953	5,101,975,953
Total Financial Liabilities	6,281,569,293	6,281,569,293	6,697,011,566	6,697,011,566

NOTES TO THE FINANCIAL STATEMENT

17. CASH AND CASH EQUIVALENTS

Accounting Policy

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

As at 31 March	2021 Rs.	2020 Rs.
Cash in Hand	47,538,601	34,089,998
Balances with Banks	83,332,388	39,136,396
Total Cash and Cash Equivalents	130,870,989	73,226,394
17.1 Net cash and Cash Equivalents for the Purpose of the Cash Flow Statement		
For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.		
Favorable Cash & Cash Equivalents (Note 17)	130,870,989	73,226,394
Unfavorable Cash & Cash Equivalents (Note 27)	(227,209,135)	(208,580,540)
Cash & Cash Equivalents for Cash Flow Purposes	(96,338,146)	(135,354,146)

18. LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets measured at amortized cost if both following conditions are made ;

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of comprehensive income.

As at 31 March	2021 Rs.	2020 Rs.
Gross Loan and Receivables	5,290,108,288	5,523,994,556
Less : Allowance for Impairment Charges for Loans and Receivables (Note 18.1)	(335,777,119)	(293,289,609)
Net Loans and Receivables	4,954,331,169	5,230,704,947

18.1 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	2,035,974,246	940,557,251	2,313,576,790	5,290,108,288
Gross Loan and Receivable	2,035,974,246	940,557,251	2,313,576,790	5,290,108,288
Allowance for expected credit losses (ECL)	(28,104,183)	(25,919,324)	(281,753,612)	(335,777,119)
	2,007,870,063	914,637,927	2,031,823,179	4,954,331,169

18.2 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2020	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Gross Loan and Receivable	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Allowance for expected credit losses(ECL)	(58,248,938)	(41,976,964)	(193,063,707)	(293,289,609)
	3,148,250,291	788,161,617	1,294,293,039	5,230,704,947

18.3 Allowance for Impairment Charges for Loans and Receivables

Reversal of Impairment

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

As at 31 March	2021 Rs.	2020 Rs.
Allowance for Impairment Losses on Loans & Receivables		
Balance as at Being of the Year	293,289,609	250,066,119
Charge for the Year	42,487,510	43,223,490
Amounts Written Off	-	-
Balance as at End of the Year	335,777,119	293,289,609
Individual Impairment	-	-
Collective Impairment	335,777,119	293,289,609
Total	335,777,119	293,289,609

18.4 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	58,248,938	41,976,964	193,063,707	293,289,609
Charge/ (Reversal) to income statement	(30,144,755)	(16,057,640)	88,689,904	42,487,510
Write-off during the year	-	-	-	-
Balance as at 31st March 2021	28,104,183	25,919,324	281,753,612	335,777,119

NOTES TO THE FINANCIAL STATEMENT

19. LEASE RENTALS RECEIVABLE

Accounting Policy

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

Lease rental receivable include financial assets measured at amortized cost if both following conditions are made ;

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement, lease rental receivable is subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

As at 31 March	2021 Rs.	2020 Rs.
19.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	4,403,506,362	2,635,271,050
Less: Unearned Income	(1,312,510,230)	(802,192,592)
Total Lease Rentals Receivables	3,090,996,132	1,833,078,458
(Less): Allowance for Impairment Charges (Note 20.5)	(138,628,108)	(130,230,964)
Net Lease Rentals Receivables	2,952,368,025	1,702,847,496

19.2 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	1,515,792,769	692,364,381	882,838,982	3,090,996,132
Less - Allowance for expected credit losses (ECL)	(28,566,093)	(16,235,244)	(93,826,770)	(138,628,108)
	1,487,226,675	676,129,137	789,012,212	2,952,368,026

19.3 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2020	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	994,966,920	502,844,238	335,267,300	1,833,078,458
Less - Allowance for expected credit losses (ECL)	(17,990,868)	(28,179,267)	(84,060,828)	(130,230,964)
	976,976,052	474,664,971	251,206,471	1,702,847,496

19.4 Maturity of Lease Rentals Receivables

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	1,456,789,309	2,946,717,053	-	4,403,506,362
Less: Unearned Income	(378,905,381)	(933,604,849)	-	(1,312,510,230)
Total Lease Rental Receivables	1,077,883,928	2,013,112,204	-	3,090,996,132
(Less): Allowance for Impairment Charges (Note 20.5)	(75,648,907)	(62,979,201)	-	(138,628,108)
Net Lease Rentals Receivables	1,268,320,657	1,950,133,004	-	2,952,368,026

19.5 Maturity of Lease Rentals Receivables

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	895,952,803	1,739,318,247	-	2,635,271,050
Less: Unearned Income	(279,173,975)	(523,018,617)	-	(802,192,592)
Total Lease Rental Receivables	616,778,828	1,216,299,630	-	1,833,078,458
(Less): Allowance for Impairment Charges (Note 20.2)	(70,341,185)	(59,889,779)	-	(130,230,964)
Net Lease Rentals Receivables	546,437,643	1,156,409,851	-	1,702,847,495

19.6 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

The accounting policy used in calculating impairment charge is fully described under Note 3.2.9.

As at 31 March	2021 Rs.	2020 Rs.
Balance as at beggng of the Year	130,230,964	54,274,476
Charge / (Reversal) for the year	8,397,144	75,956,487
Balance as at End of the Year	138,628,108	130,230,964
Individual Impairment	-	-
Collective Impairment	138,628,108	130,230,964
Total	138,628,108	130,230,964

19.7 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	17,990,868	28,179,267	84,060,828	130,230,963
Charge/ (Reversal) to income statement	10,575,225	(11,944,023)	9,765,942	8,397,144
Write-off during the year	-	-	-	-
Balance as at 31st March 2021	28,566,093	16,235,244	93,826,770	138,628,108

NOTES TO THE FINANCIAL STATEMENT

20. FINANCIAL INVESTMENTS

Accounting Policy

Financial investments include Government Securities and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31 March	2021 Rs.	2020 Rs.
Sri Lanka Government Securities - REPO	374,591,188	444,939,031
Total Financial Investments	374,591,188	444,939,031

21. OTHER FINANCIAL ASSETS

Accounting Policy

Financial investments include Fixed Deposit. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31 March	2021 Rs.	2020 Rs.
Fixed Deposits	779,506	164,535,666
Total Other Financial Assets	779,506	164,535,666

21.1 Contractual Maturity Analysis of Other Financial Assets

As at 31 March	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	779,506	-	-	779,506
Total Other Financial Assets	779,506	-	-	779,506

22. OTHER NON FINANCIAL ASSETS

Accounting Policy

The Company classifies all non-financial assets other than Intangible Assets, Property, Plant & Equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include inventories, other advance, rent deposit and other receivable amounts. These assets are non-interest earning and recorded at the amounts that are expected to be received. Prepayments that form a part of other receivable are amortized during the period in which it is utilized.

As at 31 March	2021 Rs.	2020 Rs.
Inventories	2,773,721	3,562,565
Rent Deposit	17,217,500	17,581,500
Other Receivable	79,234,956	120,899,891
Total Other Non Financial Assets	99,226,178	142,043,956

Amounts Receivable from Government

Other receivable includes Amounts Receivable from Government Rs 16,812,293/- As per signed MOU between SDF and Ministry of Finance and Mass Media under "Special debit relief for Microfinance Loan granted to women in drought affected Districts".

23. INTANGIBLE ASSETS

Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the supply of services, for rental to others or for administrative purposes.

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

23.1 Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the 'Statement of Financial Position' under the category 'intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2021 and 2020 is given below.

Computer software	3 Years
Computer software - E-Finance	5 Years

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is included in the Statement of Profit or Loss in the year the asset is derecognized.

As at 31 March	2021 Rs.	2020 Rs.
23.2 Computer Software		
Cost		
Cost as at beginning of the year	59,398,736	58,009,844
Additions and Improvements	-	1,388,891
Disposal during the year	-	-
Cost as at end of the year	59,398,736	59,398,736
Amortisation & Impairment		
Amortisation as at beginning of the year	44,287,613	31,001,716
Charge for the year	10,055,835	13,285,897
Disposal during the year	-	-
Amortisation as at end of the year	54,343,448	44,287,613
Net book value as at end of the year	5,055,287	15,111,123
Net book value of total intangible assets	5,055,287	15,111,123

NOTES TO THE FINANCIAL STATEMENT

24. INVESTMENT PROPERTY

Accounting Policy

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Other Comprehensive Income in the year in which they arise.

Derecognition

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

	2021 Rs.	2020 Rs.
Balance as at 1 April	126,094,500	118,594,500
Transfer from during the year	-	7,500,000
Gain from fair value adjustment	89,584,250	-
Balance as at 31 March	215,678,750	126,094,500

The Company has recorded rent income for year ended 31 March 2021 Rs 8,305,200 (2020 - Rs 8,309,700/-) and not incurred any repair and maintenance expenses on behalf of the property.

Property	Method of valuation	Effective date of valuation	Significant unobservable inputs (Level 3)	Sensitivity of fair value to un-observable inputs	Value (LKR)
No 45, Rawathwatta Road, Moratuwa	Market value	31-Mar-21	Estimated price per perch LKR 2,000,000/- (Land Extent - 48.69 perches)	Positively correlated sensitivity	215,678,750

25. PROPERTY, PLANT & EQUIPMENT

Accounting Policies

Basis of Recognition

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

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost Model

The Company applies the 'Cost Model' to all property, plant & equipment other than free hold land and building and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Company applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the date reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

The Company engages an Independent Valuer to determine the fair value of free hold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

During the current financial year, the Company revalued its freehold lands and buildings.

Subsequent Cost

These are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

Repairs and Maintenance

Repairs and Maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year the asset is derecognized.

Useful Life Time of Property, Plant & equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Company review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 March 2020 and 2019, are as follows:

Assets Category	Useful Life
Buildings	40 Years
Office Equipment	5 Years
Computer Equipment	5 Years
Furniture & Fittings	10 Years
Plant & Machinery	8 Years
Motor Vehicles	5 Years

The depreciation rates are determined separately for each significant part of assets and depreciation is provided proportionately for the completed number of days the asset is in use, if it is purchased or sold during the financial year. Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

NOTES TO THE FINANCIAL STATEMENT

25. PROPERTY, PLANT & EQUIPMENT (CONTD.)

25.1 The Movement in Property, Plant & Equipment

	Balance As at 01.04.2020 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2021 Rs.
25.1.1 Cost or Valuation					
Freehold Assets					
Land	18,050,000	-	18,050,000	-	36,100,000
Furniture & Fittings	100,793,390	11,434,660	-	824,129	111,403,920
Office Equipment	70,643,488	13,268,800	-	2,513,844	81,398,442
Computer Equipment	80,814,729	1,064,888	-	2,896,601	78,983,017
Plant & Machinery	40,720,781	8,127,389	-	-	48,848,170
Motor Vehicle	42,753,322	-	-	-	42,753,322
Total cost or valuation	353,775,709	33,895,737	18,050,000	6,234,574	399,486,871

	Balance As at 01.04.2020 Rs.	Charge during the year Rs.	Adjustments Rs.	Disposals during the year Rs.	Balance As at 31.03.2021 Rs.
25.1.2 Depreciation					
Freehold Assets					
Furniture & Fittings	43,956,994	10,455,989	-	(610,115)	53,802,867
Office Equipment	50,128,330	8,996,299	-	(2,513,277)	56,611,353
Computer Equipment	70,233,944	5,069,968	-	(2,884,340)	72,419,572
Plant & Machinery	19,925,842	5,577,803	-	-	25,503,645
Motor Vehicle	23,262,559	7,002,506	-	-	30,265,065
Total Depreciation	207,507,669	37,102,566	-	(6,007,733)	238,602,502

As at 31 March	2021 Rs.	2020 Rs.
25.1.3 Net Book Value		
Land	36,100,000	18,050,000
Furniture & Fittings	57,601,053	56,836,396
Office Equipment	24,787,089	20,515,157
Computer Equipment	6,563,446	10,580,785
Plant & Machinery	23,344,525	20,794,939
Motor Vehicle	12,488,257	19,490,763
Total Carrying Amount of Property, Plant and Equipment	160,884,369	146,268,040

25.1.4 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 33,895,737/- (2020 - Rs. 23,735,187/-) Cash payment amounting to Rs. 33,895,737/- (2020 - Rs. 23,735,187) was paid during the year for purchase of property, plant & equipment.

25.1.5 Fully-depreciated property, plant & equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is Rs. 101,793,852/- (2020 - Rs. 82,452,109/-)

25.2 Fair value related disclosures of Freehold land

Property	Method of valuation	Significant unobservable inputs (Level 3)	Sensitivity of fair value to un-observable inputs	Value (LKR)
No 45, Rawathwatta Road, Moratuwa	Market value	Estimated price per perch	Positively correlated sensitivity	36,100,000
LKR 2,000,000/- (Land Extent - 18.05 perches)				

25.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2021 and 31 March 2020.

25.4 Compensation from Third Parties for items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up. (2020: Nil)

25.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2021 and 31 March 2020.

25.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2021 and 31 March 2020.

26. RIGHT-OF-USE ASSETS

	2021 Rs.	2020 Rs.
Cost		
Effect of adoption of SLFRS 16 as at 01 April 2019	234,374,877	188,564,089
Opening Balance of Advance Payment for the Right-of-Use Assets as at 01 April 2019	-	17,744,017
Rent Payable Under LKAS 17 as at 01 April 2019	-	(1,748,000)
Adjusted Balance as at beginning of the year	234,374,877	204,560,106
Additions during the year	41,770,515	29,914,134
Less - Adjustment on COVID-19 Concession Received	(5,457,977)	-
Balance as at end of the Year	270,687,415	234,374,877
Accumulated Depreciation		
Balance as at beginning of the year	64,930,508	-
Charges for the year	62,944,563	64,930,508
Balance as at end of the year	127,875,071	64,930,508
Carrying Amount as at end of the Year	142,812,343	169,444,369

NOTES TO THE FINANCIAL STATEMENT

27. DUE TO BANKS & OTHER INSTITUTIONS

Accounting Policy

Due to banks include bank and other institutional borrowings and bank overdrafts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	2021 Rs.	2020 Rs.
Bank Overdrafts (Note 27.1)	227,209,135	208,580,540
Loans and Other Bank Facilities (Note 27.2)	1,481,187,982	1,374,276,405
Interest Payable on Bank Facilities	21,226,993	12,178,668
Total Due to Banks & Other Institution	1,729,624,109	1,595,035,613

27.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Loan & Receivables and the Company has unutilised Bank Overdraft of Rs. 57,613,963 /- as at 31 March 2021 (2020 - Rs. 59,031,301/-).

	As at 01.04.2020 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2021 Rs.
27.2 Loans and Other Bank Facilities				
NDB Term Loan	710,000,000	375,000,000	(368,200,000)	716,800,000
HNB Term Loan	337,500,000	300,000,000	(362,700,000)	274,800,000
SDB Term Loan	300,000,000	300,000,000	(394,311,070)	205,688,930
Sampath Bank Term Loan	-	6,308,000	(525,652)	5,782,348
Securitisation Loan	-	300,000,000	(51,500,000)	248,500,000
Rotary Loan	20,814,455	11,700,000	(8,959,702)	23,554,753
Other Borrowings	5,961,950	100,000	-	6,061,950
Total Loans and Other Bank Facilities	1,374,276,405	1,293,108,000	(1,186,196,424)	1,481,187,982

27.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Term Loan	246,800,000	470,000,000	-	716,800,000
HNB Term Loan	125,400,000	149,400,000	-	274,800,000
SDB Term Loan	205,688,930	-	-	205,688,930
Sampath Bank Term Loan	696,049	5,086,299	-	5,782,348
Securitisation Loan	182,100,000	66,400,000	-	248,500,000
Rotary Loan	9,031,653	14,523,100	-	23,554,753
Other Borrowings	-	-	6,061,950	6,061,950
Bank Overdrafts	21,226,993	205,982,142	-	227,209,135
Interest Payable on Bank Facilities	21,226,993	-	-	21,226,993
Total Due to Customers	812,170,618	911,391,541	6,061,950	1,729,624,109

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Term Loan	240,000,000	470,000,000	-	710,000,000
HNB Term Loan	225,000,000	112,500,000	-	337,500,000
SDB Term Loan	200,000,000	100,000,000	300,000,000	
Rotary Loan	7,819,261	12,995,194	-	20,814,455
Other Borrowings	-	-	5,961,950	5,961,950
Bank Overdrafts	208,580,540	-	-	208,580,540
Interest Payable on Bank Facilities	12,178,668	-	-	12,178,668
Total Due to Customers	893,578,469	695,495,194	5,961,950	1,595,035,613

28. DUE TO CUSTOMERS

Accounting Policies

Due to other customers include non-interest bearing deposits, savings deposits, term deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	2021 Rs.	2020 Rs.
Fixed Deposits	3,306,652,431	3,565,672,847
Savings Deposits	1,245,292,752	1,536,303,106
Total Due to Customers	4,551,945,183	5,101,975,953

28.1 Sri Lanka Deposit Insurance And Liquidity Support Scheme

Under the Direction No. 2 of 2010 Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of Rs. 1,000,000/- for each depositor. The Company has paid Rs. 6,605,953/- as the premium of the said Insurance scheme during the financial year under review (2020 - Rs. 6,898,474/-).

28.2 Contractual Maturity Analysis Of Customer Deposits

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,660,979,972	645,672,460	-	3,306,652,432
Savings Deposits	1,038,516,344	124,704,047	82,072,361	1,245,292,752
Total Due to Customers	3,699,496,316	770,376,507	82,072,361	4,551,945,184

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,467,672,652	1,098,000,195	-	3,565,672,847
Savings Deposits	1,306,513,761	135,226,451	94,562,895	1,536,303,106
Total Due to Customers	3,774,186,413	1,233,226,646	94,562,895	5,101,975,953

We have raised fixed deposits with a pre-termination option to the customers; hence, fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

NOTES TO THE FINANCIAL STATEMENT

29. OTHER NON FINANCIAL LIABILITIES

Accounting Policy

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

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

As at 31 March	2021 Rs.	2020 Rs.
Accrued Expenses	40,952,038	37,440,102
Others (Note 29.1)	239,812,653	59,712,891
Loan Risk Assurance Fund (Note 29.2)	1,787,409	1,830,000
Amount Due to Related Parties	-	237,594
	282,552,100	99,220,587

29.1 This balance included supplier payment payable balance Rs. 164,300,975/- as at 31 March 2021 (2020 - Rs. 2,275,000)

29.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2021. The actuarial valuation was performed by Piyal S Goonetilleke and Associates, Professional Actuary. The reversal of provision that resulted from the actuarial valuation has been recognised as income under 'Other Operating Income'. All loan customers who enrolled with this assurance program will be eligible for total payment of the outstanding loan amounts at the time of death or total disability. The actuarial valuation will serve as the basis for calculating the liability adequate for covering the outstanding loan balances of customers (with a loan less than or equaling Rs.250,000/-) in the event of a participant death or a total disability.

30. POST-EMPLOYMENT BENEFIT OBLIGATIONS

Accounting Policy

Employee benefit liability includes the provisions for retirement gratuity liability.

Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit actuarial cost method. Actuarial gains and losses are recognized as income or expense in other comprehensive income during the financial year in which it arises.

Basis of Measurement

The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below: 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 the Company's policy on salary revisions.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefit'. However, under the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Recognition Of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

	2021 Rs.	2020 Rs.
30.1 Provision for Retirement Gratuity		
Balance at the beginning of the year	33,753,016	27,212,065
Amount Charge for the Year	12,491,938	10,733,365
Actuarial (Gains)/Losses	13,647,141	2,062,826
(Gain)/Loss Due to Changes in Assumptions	6,755,239	4,302,064
Payments Made During the Year	(10,818,721)	(10,557,304)
Balance at the End of the Year	55,828,613	33,753,016

As at 31 March	2021 Rs.	2020 Rs.
30.2 Expenses on Defined Benefit Plan		
Current Service Cost for the Year	9,211,145	7,628,469
Interest Cost for the Year	3,280,793	3,104,896
Actuarial (Gains)/ Losses (31.5)	13,647,141	2,062,826
(Gains)/ Losses Due to Changes in Assumptions	6,755,239	4,302,064
Total Expenses on Defined Benefit Plan	32,894,318	17,098,255

30.3 Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 March 2021 and 2020 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

30.4 Actuarial Assumptions

Year ended 31 March	2021	2020
Discount Rate	8.2%	9.7%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
Average Future Working Life	10.2 Yeats	9.5 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table.	Long Term 1987 Soc. Sec. Table.
Retirement age	Retirement age of 55 Years	Retirement age of 55 Years

30.5 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

30.6 Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2021.

NOTES TO THE FINANCIAL STATEMENT

30. POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTD.)

Increase/(decrease) in Discount Rate %	Increase/(decrease) in Salary Increment Rate %	Sensitivity Effect on Statement of Comprehensive Income Increase / (decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase/(decrease) Rs.
+1%		(4,601,795)	(4,601,795)
(-1%)		5,304,020	5,304,020
	+1%	4,973,399	4,973,399
	(-1%)	(4,414,810)	(4,414,810)

31. CURRENT TAX LIABILITIES

	2021 Rs.	2020 Rs.
Balance as at 1st April	(1,210,738)	(1,874,938)
Provision for the year	81,541,883	26,600,229
Less: Tax paid	(9,874,664)	(18,131,413)
Adjustment (ESC/WHT/Notional Tax etc.)	(16,791,156)	(7,804,616)
Balance as at 31st March	53,665,325	(1,210,738)

32. LEASE CREDITOR

	2021 Rs.	2020 Rs.
Balance as at 1 April 2019	171,735,097	204,560,106
Less- Adjustment on COVID 19 Concession	(5,457,977)	-
Additions	41,770,515	29,914,134
Interest Expenses	23,920,090	24,057,148
Payments	(70,768,771)	(86,796,291)
Balance as at end of the Year	161,198,954	171,735,097

32.1 Contractual Maturity Analysis of Lease Creditor

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Total Rs.
Lease Creditor	54,317,803	106,881,151	161,198,954
Total Lease Creditor	54,317,803	106,881,151	161,198,954

33. DEFERRED TAXATION

Accounting Policy

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

- (I) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (II) Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:
 - ➔ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
 - ➔ Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

33.1 Statement of Financial Position

As at 31 March	2021 Rs.	2020 Rs.
Deferred Tax Liabilities		
Accelerated depreciation for tax purposes	10,442,880	24,288,306
Finance leases	14,879,423	16,476,201
Right-of Use Assets	(4,412,787)	1,045,824
Revaluation Reserve	40,097,807	16,643,185
Total Deferred Tax Liabilities	61,007,323	58,453,516
Deferred Tax Assets		
Defined benefit plans - Profit or loss	13,398,867	9,450,844
Carry forward losses	-	-
Impairment Provision	27,210,164	29,975,947
Total Deferred Tax Assets	40,609,031	39,426,792
Net Deferred Tax Liabilities/(Assets)	20,398,293	19,026,724

NOTES TO THE FINANCIAL STATEMENT

33. DEFERRED TAXATION (CONTD.)

33.2 Statement of Profit or Loss

Year ended 31 March	2021 Rs.	2020 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	23,454,622	-
Accelerated depreciation for tax purposes	(13,845,426)	(4,985,010)
Finance leases	(1,596,778)	(3,791,831)
Lease Creditor	(5,458,611)	1,045,824
Deferred Tax Income/(Expense)	2,553,807	(7,731,017)
Deferred Tax Assets		
Defined benefit plans - Profit or loss	(8,844,594)	(3,613,635)
Defined benefit plans - Other comprehensive income	4,896,571	1,782,169
Carry forwarded Impairment Expenses	2,765,783	11,713,222
Carry forward Loss on other operations	-	(8,181,922)
Deferred expenses to be claimed in income tax liability of future years	-	-
Deferred Tax Income/(Expense)	(1,182,239)	1,699,834
Net Deferred Tax Income/(Expense) - Statement of profit or loss	1,936,139	(4,249,013)
Net Deferred Tax Income/(Expense) - Statement of Other comprehensive income	564,571	1,782,169

Revised income tax rates proposed to the Inland Revenue Act, No. 24 of 2017 by Circular No. PN/IT/2020-03 (Revised), be implemented with effect from 01 January 2020. On 23 April 2021, CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for financial reporting period ending 26 March 2021. Accordingly, the Company applied 24% income tax rate for the determination of deferred tax in 2021 and recognised an adjustment to deferred tax liabilities amounting to Rs. 761,069 /- from reduction in tax rate.

34. STATED CAPITAL

As at 31 March	Number of Shares	2021 Rs.	Number of Shares	2020 Rs.
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	67,500,006	890,000,020	67,500,006	890,000,020
Issued during the year	36,641,500	804,137,026	-	-
At the end of the year	104,141,506	1,694,137,046	67,500,006	890,000,020

34.1 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

35. RETAINED EARNINGS

	2021 Rs.	2020 Rs.
Balance as at beginning of the Year	195,476,359	118,686,006
Impact of adopting SLFRS 9 as at 1 April 2018	-	-
	195,476,359	118,686,006
Profit for the Year	183,356,743	101,716,342
Other Comprehensive Income	(15,505,809)	(4,582,721)
Transfer to Statutory Reserves Fund	(36,671,349)	(20,343,268)
Dividend Paid	-	-
Balance as at end of the Year	326,655,945	195,476,359

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

36. RESERVES

36.1 Statutory Reserve Fund

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003. Accordingly, Company has transferred 20% of its net profit after taxation to the Reserve Fund as Company's Capital Funds to Deposit Liabilities, belongs to less than 25% and not less than 10%.

36.2 Revaluation Reserve Fund

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment with net of differed tax on revaluation.

	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2019	47,062,857	42,796,761	80,247,859
Transfers to/(from) during the year	20,343,268	-	20,343,268
As at 31 March 2020	67,406,125	42,796,761	110,202,886
Transfers to/(from) during the year	36,671,349	-	36,547,491
Revaluation of Land & Building	-	13,718,000	13,718,000
As at 31 March 2021	104,077,474	56,514,761	160,592,235

NOTES TO THE FINANCIAL STATEMENT

37. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

	2021 Within 12 Months Rs.	2021 After 12 Months Rs.	2021 Total Rs.
Assets			
Cash and Cash Equivalents	130,870,989	-	130,870,989
Loans and Receivables	2,750,743,074	2,203,588,095	4,954,331,169
Lease Rentals Receivables	1,268,320,657	1,684,047,367	2,952,368,025
Financial Investments	374,591,188	-	374,591,188
Other Financial Assets	779,506	-	779,506
Other Non Financial Assets	99,226,178	-	99,226,178
Intangible Assets	-	5,055,287	5,055,287
Investment Property	-	215,678,750	215,678,750
Property, Plant and Equipment	-	160,884,369	160,884,369
Right-of-Use Assets	56,235,529	86,576,814	142,812,343
Total Assets	4,680,767,121	4,355,830,684	9,036,597,804
Liabilities			
Due to Banks and Other Institutions	1,018,152,760	711,471,350	1,729,624,109
Due to Customers	3,734,554,903	817,390,281	4,551,945,183
Other Non Financial Liabilities	280,699,706	1,852,393	282,552,100
Post Employment Benefit Liability	-	55,828,613	55,828,613
Current Tax Liabilities	53,665,325	-	53,665,325
Lease Creditor	54,317,803	106,881,151	161,198,954
Deferred Tax Liabilities	-	20,398,293	20,398,293
Total Liabilities	5,141,390,497	1,713,822,081	6,855,212,577
Net Assets/(Liability)	(460,623,376)	2,642,008,603	2,181,385,226

	2020 Within 12 Months Rs.	2020 After 12 Months Rs.	2020 Total Rs.
Assets			
Cash and Cash Equivalents	73,226,394	-	73,226,394
Loans and Receivables	2,491,331,763	2,739,373,184	5,230,704,947
Lease Rental Receivable	546,437,643	1,156,409,853	1,702,847,496
Financial Investments	444,939,031	-	444,939,031
Other Financial Assets	164,535,666	-	164,535,666
Other Non Financial Assets	79,490,760	62,553,196	142,043,956
Intangible Assets	-	15,111,123	15,111,123
Investment Property	-	126,094,500	126,094,500
Property, Plant and Equipment	-	146,268,040	146,268,040
Right-of-Use Assets	-	169,444,369	169,444,369
Total Assets	3,799,961,257	4,415,254,263	8,215,215,520
Liabilities			
Due to Banks and Other Institutions	893,578,469	701,457,144	1,595,035,613
Due to Customers	3,774,186,413	1,327,789,541	5,101,975,953
Other Non Financial Liabilities	45,097,684	54,122,903	99,220,587
Post Employment Benefit Liability	-	33,753,016	33,753,016
Current Tax Liabilities	15,432,447	-	(1,210,738)
Lease Creditor	171,735,097	-	171,735,097
Deferred Tax Liabilities	-	2,383,540	19,026,724
Total Liabilities	4,728,295,013	2,119,506,143	7,019,536,253
Net Assets/(Liability)	(928,333,756)	2,295,748,121	1,195,679,267

38. COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 "Provisions contingent liabilities and Contingent Assets". Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

38.1 Contingent Liabilities

As at 31 March	2021 Rs.	2020 Rs.
Guarantees issues to other institution	2,250,000	4,225,000
Total contingent Liabilities	2,250,000	4,225,000

38.2 Commitments

The Company did not have significant capital commitments as at the Statement of Financial Position date.

38.3 Litigation Against the Company

As at 31 March	2021 Rs.	2020 Rs.
Cases pending against the Company	5,439,916	5,140,100
Total contingent Liabilities	5,439,916	5,140,100

Company did not have any significant contingent liabilities which requires disclosures in the Financial Statements of the Company as at the Statement of Financial Position date.

39. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets		Nature of Liability 2021 Rs.	Carrying Amount Pledged 2020 Rs.	Included Under
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	200,635,188	325,043,547	Loans and Receivables
Rental receivable on SME Loan	Term Loan	658,861,762	1,098,333,229	Loans and Receivables
Rental receivable on Lease	Term Loan	417,597,464	453,579,866	Lease Rental Receivable
Rental receivable on Micro Business	Term Loan	5,190,828	-	Loans and Receivables
Rental receivable on Lease	Securitization	674,529,430	-	Lease Rental Receivable
		1,956,814,673	1,876,956,643	

NOTES TO THE FINANCIAL STATEMENT

40. EVENTS OCCURRING AFTER THE REPORTING DATE

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty in the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the company has strictly adhered to the guidelines and directions issued by both the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. Further, the Company has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL in addition to its own relief schemes. These relief measures include deferment of repayment terms of credit facilities and offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges. The closing date for the customer request is 15 July 2021.

There are no other events occurring after the reporting date which require adjustments to or disclosure in the financial statements.

41. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties in the ordinary course of its business who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', on an arms length basis at commercial rate.

Details of related party transactions which the company had during the year are as follows,

41.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the board of directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

41.1.1 Key Management Personnel Compensation

Year ended 31 March	2021 Rs.	2020 Rs.
Short Term Employment Benefits	6,225,000	5,373,904
Directors Fees & Expenses	7,576,000	7,454,305
Total Key Management Personnel Compensation	13,801,000	12,828,209

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

41.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

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

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

41.1.2.1 Transaction with KMPs, and their Close Members of the Family

Year ended 31 March	2021 Rs.	2020 Rs.
Items in Statement of Financial Position		
Deposit accept during the year	785,000	585,000
Deposit repayment during the year	(832,347)	(979,547)
	(47,347)	(394,547)
Items in Statement of Profit or Loss		
Interest accrued during the period	29,753	18,812
	29,753	18,812

41.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

41.1.4 Transactions with Group Entities

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

41.1.4.1 Transactions with Parent Company

Sarvodaya Economic Enterprises Development (Gte) Ltd.

Year ended 31 March	2021 Rs.	2020 Rs.
Statement of Financial Position		
Transaction Made During the Year		
Loan Interest Paid during the Year	-	(1,866,840)
Deposit withdrawal during the year	-	2,000,000
	-	133,160

41.1.4.2 Transactions with Shareholders

Gentosa Total Assets Inc.

Year ended 31 March	2021 Rs.	2020 Rs.
Items in Statement of Financial Position		
Deposit Accepted during the period including interest capitalisation	16,042,952	52,796,499
Interest payable on Deposits	-	2,537,231
Capital Repayment during the Year	379,749,118	-
Interest Paid during the Year	9,824,287	-
	16,042,952	55,333,730
Items in Statement of Profit or Loss		
Interest Accrued During the Period	16,374,968	16,740,033
	16,374,968	16,740,033

42. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka. In terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 – Minimum Core Capital, a cap of Rs. 5.5 Bn on total deposits including accrued interest has been imposed by the Central Bank of Sri Lanka.

42.1 Capital Management

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

The Company has issued Rs 804 Mn shares during the year through a private placement. This private placement includes Rs 420 Mn shares issued to inactive Sarvodaya Shramadana Societies by converting their deposits. With reference to the Central Bank letter dated 9th July 2021, the action plan has been requested from the Company in relation to the above Rs 420 Mn shares. Therefore, the said Rs 420Mn shares have not been considered the Company's core capital as at 31 March 2021. Hence the Company has not met the minimum core capital requirement as at 31 March 2021.

NOTES TO THE FINANCIAL STATEMENT

43. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

	As Reported Previously	Reclassification Rs.	Current Presentation Rs.	Current Classification Rs.
Statement of Financial Position				
Current Tax Liabilities	15,432,447	(16,643,185)	(1,210,738)	Current Tax Liabilities
Deferred Tax Liabilities	2,383,540	16,643,185	19,026,724	Deferred Tax Liabilities

- (a) During the financial year, deferred tax on value changes in investment property was reclassified under Defered Tax Liability for better presentation.

44. FARE VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

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

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

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

The principal or the most advantageous market must be accessible by the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 - Inputs include quoted prices for identical instruments and are the most observable.

Level 2 - Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

Level 3 - Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

Valuation framework

The Company has an established control framework for the measurement of fair values. The Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

44.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Company's estimate of assumptions that a market participant would make when valuing assets and liabilities.

Property, Plant & Equipment

Property, Plant & Equipment Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Non Financial Assets measured at fair value

Level 3 Fair Value Measurement

	2021		2020	
	Investment Property Rs.	Freehold Land Rs.	Investment Property Rs.	Freehold Land Rs.
Balance as at begging of the Year	126,094,500	18,050,000	118,594,500	25,550,000
Revaluation reserve credit to revaluation reserve	-	18,050,000	-	-
Total gain/(loss) recognised in profit or loss:	89,584,250	-		
Transfer during the Year	-	-	7,500,000	(7,500,000)
Balance at end on the Year	215,678,750	36,100,000	126,094,500	18,050,000

44.2 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

NOTES TO THE FINANCIAL STATEMENT

44. FARE VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

As at 31 March 2021	Faire Value				Carrying Value Rs.
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	
Financial Assets					
Cash and Cash Equivalents	130,870,989			130,870,989	261,741,978
Loans and Receivables				5,011,615,239	5,011,615,239
Lease Rentals Receivables				3,405,226,261	3,405,226,261
Financial Investments		374,591,188	-	374,591,188	749,182,376
Other Financial Assets	-	779,506	-	779,506	1,559,012
	130,870,989	375,370,694	-	8,923,083,184	9,429,324,867
Financial Liabilities					
Due to Banks and Other Institutions	-	1,595,035,613	-	1,729,624,109	1,729,624,109
Due to Customers	-	-	4,551,945,183	4,551,945,183	4,551,945,183
	-	1,595,035,613	4,551,945,183	6,281,569,293	6,281,569,293

As at 31 March 2020	Faire Value				Carrying Value Rs.
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	
Financial Assets					
Cash and Cash Equivalents	73,226,394	-	-	73,226,394	73,226,394
Loans and Receivables	-	-	5,194,937,239	5,194,937,239	5,230,704,947
Lease Rentals Receivables	-	-	1,692,490,922	1,692,490,922	1,702,847,496
Financial Investments	444,939,031	-	444,939,031	444,939,031	
Other Financial Assets	-	164,535,666	-	164,535,666	164,535,666
	73,226,394	609,474,697	6,887,428,160	7,570,129,250	7,616,253,533
Financial Liabilities					
Due to Banks and Other Institutions	-	1,595,035,613	-	1,595,035,613	1,595,035,613
Due to Customers	-	-	5,101,975,953	5,101,975,953	5,109,040,104
	-	1,595,035,613	5,101,975,953	6,697,011,566	6,704,075,717

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

45. RISK MANAGEMENT

45.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring through established risk limits and controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for prudently managing the risk exposures relating to his or her responsibilities. Company's risk strategy focuses on managing principal risks faced by the Company while striking a fair balance between the risk return trade-off. Based on the unprecedented impact on economy and financial services sector due to COVID-19 pandemic, a robust approach in risk management is considered as of paramount importance by the Company.

Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a subcommittee, Integrated Risk Management Committee (IRMC). The Board has delegated its authority to the IRMC for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC reviews and assess the Company's overall risks and to focus on policy recommendations and strategies and the Board of Directors are duly updated of its activities.

Risk Management Framework

At Sarvodaya Development Finance Limited the management of risk plays an integral part in all its business activities. The identification, evaluation, measurement, mitigation, decision making and control implementation, monitoring and reporting of risks associated with products, processes, systems and services of Sarvodaya Development Finance Limited is vital to the scope of risk management when fulfilling requirements of its customers and other stakeholders.

The risk management function of Sarvodaya Development Finance Company comes under the purview of the Director of Non Bank Supervision and the Integrated Risk Management Committee (IRMC) where its independent from the business lines. In the course of its business activities, Sarvodaya Development Finance Limited is constantly exposed to risks that include but are not limited to Credit Risk, Liquidity Risk, Market Risk, and Operational Risk.

Sarvodaya Development Finance Limited is aware of a wide spectrum of risks that it is exposed to, and provides attention to each and every risk factor that could hinder the achievement of the company's overall objectives. The risk management function therefore strives to manage the integrated risks by developing a companywide risk appetite and measures and controls to ensure that the risk taken is within the desired limits of the company .

Sarvodaya Development Finance Limited has put in place structures and processes to address these risks which are vested to functional departments. Additionally the company has an IRMC which carry out independent risk evaluations both qualitative and quantitative and the results are shared with the Management team of Sarvodaya Development Finance Limited as well as the Board of Directors.

Three Lines of Defense

In achieving its goals, Sarvodaya Development Finance Limited deploys risk management and internal control structure referred to as the 'three lines of defense', where in roles between the line management, risk management and inspection /audit are segregated.

Risk Profile Dashboard

Sarvodaya Development Finance Company has established policy parameters on tolerance limits on a number of identified key risk indicators. These encompass compliance with CBSL and other regulatory frameworks. Credit Risk aspects are evaluated through numerous types of concentrations and asset quality levels whereas Market Risk aspects focus on liquidity and interest rate. The regulatory compliance to the sufficiency of capital requirement would evaluate the capital adequacy risk. Operational Risk aspects focus on major risk types developed under the Operational Risk Self Assessment (ORSA) exercise. The desired level under each indicator is being monitored against achievement on a regular basis to provide a clear perspective of the risk profile of the Sarvodaya Development Finance Company. Further, continuous assessment has been carried out to minimize any adverse impact of the COVID-19 pandemic through regular monitoring of sector exposure and formulating strategies to overcome possible future challenges.

Sarvodaya Development Finance Limited's Risk Appetite Framework

Within a volatile financial market, it is important to understand the accurate risk profile of the company. For starters the company has implemented simple risk appetite framework that helps to better understand and manage the risks through the development of action plan and through day-to-day business decisions.

Risk appetite defines the aggregate quantum of risk the company is willing to assume in different aspects of business. It is to achieve its strategic objectives while maintaining the desired risk profile. Tolerance limits have been set for certain risk. A limit system is adopted to translate the risk appetite of the company so that it is understood by the management and practical to implement, while catering to current levels of the operations.

Risk Management Unit (RMU)

The business units (i.e. Credit Department, Operations Department and Branches etc.) have primary responsibility for risk management. The Integrated Risk Management Unit, which provides an independent oversight function, acts as the 2nd line of defense. The RMU is headed by the Assistant General Manager – Compliance (Acting Head of Risk) who directly reports to the Chair of IRMC and also has an administrative reporting to the CEO.

Risk Measurement & Reporting

The Company's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to IRMC on a periodic basis.

NOTES TO THE FINANCIAL STATEMENT

45. RISK MANAGEMENT (CONTD.)

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

Assets and Liability Management Committee (ALCO)

ALCO is chaired by the CEO and has representatives from the Operation, Credit, Risk & Compliance and Finance & Planning Departments. The Committee meets regularly to monitor and manage the assets & liabilities of the Company and also to manage the overall liquidity position of the Company to ensure liquidity is maintained at healthy levels, whilst satisfying regulatory requirements. These decisions taken by the ALCO are further reviewed at IRMC.

Credit Committee

There are two Credit Committees, namely Board Credit Committee (BCC) and Management Credit Committee (MCC). BCC is comprised of three Non-Executive Independent Directors and the MCC is comprised of the CEO, AGM -Credit, AGM -Compliance(Acting Head of Risk), Chief Manager Finance and Senior Manager Recoveries. Board is the vested with the ultimate authority to approve credit facilities whereas BCC formulate credit policies for the company and overlooks the credit function by ensuring the asset quality whilst approving high value credit facilities. MCC is the supreme management level approving authority beyond the delegated authority of the CEO.

45.2 Credit Risk

Over view

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. The exposure to the credit risk is mainly derived from financial sector companies as the sector engage primarily in providing financing facilities to its customers. Credit risk is considered as Sarvodaya Development Finance Limited's major risk exposure. The Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

Credit Risk Management

The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The credit department and recoveries department are responsible for management of the companies' credit risk, including the 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. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the DA of the CEO.

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of qualitative as well as quantitative variables for the measurement of borrowers' risk. All internal risk ratings are tailored to various products namely SME Loans and Leasing. For accounting purposes, the Company uses a collective model for the recognition of losses on impaired financial Assets.

Collateral Management

The primary source of repayment of credit exposures is the cash flows while the collaterals obtained by the company act as a possible secondary recourse. Collateral generally include cash, marketable securities, properties, stocks, trade debtors, other receivables machinery and equipment and other physical or financial assets and are assessed at the inception, in accordance with the guidelines issued by the Central Bank of Sri Lanka

Clear guidelines are in place to determine the suitability of collateral in credit risk mitigation based on their different characteristics and for valuation, to ensure the collaterals will continue to provide the anticipated secondary source of repayment in an eventuality. The company has a panel of appointed professional valuers in order to obtain valuation of the properties, machinery and vehicles obtained as collateral.

Periodic estimation of values of collateral ensures that they will continue to provide the expected repayment source in an event where the primary source has not materialized. The collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/ or more frequent valuations.

The company also accepts personal guarantees, guarantees from other financial institutions and credit-worthy bodies as collateral for credit facilities. The financial strength of guarantors as against their cash flows, net worth, etc. is taken into consideration to establish their capacity to repay the facilities in case of a default.

Covid-19 Impact on credit risk

The outbreak of Covid-19 Panademic has disrupted the regular business operations and economic activities locally and across the globe. This created serious economic effects in SME and retail segments causing stress on repayment , which elivated the credit risk. Adhering to the guidelines issued by the Central bank Of Sri lanka, the company offered relief measures to individuals and business by deffreing payments and waiving off certain fees.

The Company's risk management ensures and continuously monitors the portfolio delinquency levels and sector exposures are kept in a minimum level of risk whilst ensuring the return objectives of the company is achived

45.2.1 Credit Quality by Class of Financial Assets

	2021 Neither Past Due Nor Impaired Rs.	2021 Past Due But Not Impaired Rs.	2021 Individually Impaired Rs.	2021 Collectively Impaired Rs.	2021 Total Rs.
Assets					
Cash and Cash Equivalents	130,870,989	-	-	-	130,870,989
Loans and Receivable (Gross) (Note 45.2.1.1)	539,822,681	-	-	4,750,285,607	5,290,108,288
Lease Rentals Receivables (Gross) (Note 45.2.1.1)	-	-	-	3,090,996,132	3,090,996,132
Financial Investments	374,591,188	-	-	-	374,591,188
Other Financial Assets	779,506	-	-	-	779,506
Total Financial Assets	1,046,064,364	-	-	7,841,281,739	8,887,346,103

45.2.1.1 The Company consider total loan and lease balances to calculate collective impairment.

45.2 Credit Risk

	2020 Neither Past Due Nor Impaired Rs.	2020 Past Due But Not Impaired Rs.	2020 Individually Impaired Rs.	2020 Collectively Impaired Rs.	2020 Total Rs.
Assets					
Cash and Cash Equivalents	73,226,394	-	-	-	73,226,394
Loans and Receivable (Gross)	492,268,426	-	-	5,031,726,130	5,523,994,556
Lease Rentals Receivables (Gross)	-	-	-	1,833,078,458	1,833,078,458
Financial Investments	444,939,031	-	-	-	444,939,031
Other Financial Assets	164,535,666	-	-	-	164,535,666
Total Financial Assets	1,174,969,517	-	-	6,864,804,588	8,039,774,105

NOTES TO THE FINANCIAL STATEMENT

45. RISK MANAGEMENT (CONTD.)

45.2.1.2 The Company consider total loan and lease balances to calculate collective impairment.

45.2.2 Analysis of Risk Concentration

45.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector	2021 Cash and Cash Equivalents Rs.	2021 Loans and Receivable Rs.	2021 Lease Rental Receivable Rs.	2021 Financial Investments Rs.	2021 Other Financial Assets Rs.	2021 Total Financial Assets Rs.
Agriculture & Fishing	-	1,139,850,651	1,059,840,070	-	-	2,199,690,721
Manufacturing	-	494,103,544	632,555,561	-	-	1,126,659,105
Tourism	-	28,465,587	3,362,102	-	-	31,827,689
Transport	-	14,405,210	153,133,507	-	-	167,538,718
Constructions	-	1,967,041,038	35,323,105	-	-	2,002,364,143
Trades	-	346,691,459	21,435,723	-	-	368,127,182
New Economy	-	6,369,685	9,341,320	-	-	15,711,005
Financial and Business Services	130,870,989	25,563,811	1,661,551	-	779,506	158,875,856
Infrastructure	-	45,083,426	902,685	-	-	45,986,111
Government	-	-	-	374,591,188	-	374,591,188
Other Services	-	1,247,234,309	1,166,864,367	-	-	2,414,098,676
Total	130,870,989	5,314,808,719	3,084,419,992	374,591,188	779,506	8,905,470,394

Sector	2020 Cash and Cash Equivalents Rs.	2020 Loans and Receivable Rs.	2020 Lease Rental Receivable Rs.	2020 Financial Investments Rs.	2020 Other Financial Assets Rs.	2020 Total Financial Assets Rs.
Agriculture & Fishing	-	354,731,368	21,213,332	-	-	375,944,700
Manufacturing	-	665,361,030	466,788,554	-	-	1,132,149,584
Tourism	-	32,716,148	2,987,497	-	-	35,703,645
Transport	-	21,085,695	182,516,944	-	-	203,602,639
Constructions	-	2,357,396,597	20,071,408	-	-	2,377,468,005
Trades	-	491,579,668	28,135,841	-	-	519,715,509
New Economy	-	23,184,189	11,008,741	-	-	34,192,930
Financial and Business Services	73,226,394	63,381,150	3,320,575	-	164,535,666	304,463,785
Infrastructure	-	53,155,077	381,429	-	-	53,536,506
Government	-	-	-	444,939,031	-	444,939,031
Other Services	-	1,531,416,588	1,049,091,303	-	-	2,580,507,891
Total	73,226,394	5,594,007,510	1,785,515,624	444,939,031	164,535,666	8,062,224,225

45.3 Liquidity Risk & Funding Management

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, the Company's management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing liquidity and funding to ensure future cash flows. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the asset and liability management committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.

ALCO meets at least once in two months and as and when necessary. ALCO is responsible for managing and controlling the overall liquidity of the company and reviews the impact of strategic decisions on Company's liquidity position.

During the Covid-19 pandemic the company implemented a comprehensive and proactive mechanism to ensure that liquid assets are well managed by the organization during periods of business disruptions and well addressed during the turbulent times. Management developed cash flows forecasts in order to monitor and absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement. I.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure. ALCO closely overlooks the changes and development related to the pandemic both locally and globally and incorporated them when making management decisions.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

45.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

As at 31 March 2021	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	130,870,989	-	-	-	-	130,870,989
Loans and Receivables	552,261,393	1,237,591,845	1,509,830,199	2,707,493,996	-	6,007,177,434
Lease Rentals Receivable	123,172,283	579,904,815	1,155,513,651	2,362,771,220	125,405	4,221,487,374
Financial Investments	-	298,608,188	75,983,000	-	-	374,591,188
Other Financial Assets	-	276,735	502,771	-	-	779,506
Total Financial Assets	806,304,665	2,116,381,583	2,741,829,621	5,070,265,216	125,405	10,734,906,490
Financial Liabilities						
Due to Banks and Other Institutions	248,436,128	223,244,504	546,472,128	704,011,325	7,460,025	1,729,624,109
Due to Customers	1,144,722,764	1,030,224,505	1,559,607,634	735,317,919	82,072,361	4,551,945,183
Total Financial Liabilities	1,393,158,891	1,253,469,008	2,106,079,763	1,439,329,244	89,532,386	6,281,569,293
Total Net Financial Assets/(Liabilities)	(586,854,226)	862,912,575	635,749,859	3,630,935,972	(89,406,981)	4,453,337,198

As at 31 March 2020	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	73,226,394	73,226,394				
Loans and Receivables	478,898,287	704,914,996	1,305,518,480	2,739,373,184	-	5,228,704,947
Lease Rentals Receivable	50,653,069	137,948,513	357,836,062	1,156,409,852	-	1,702,847,496
Financial Investments	-	366,058,986	78,880,044	-	-	444,939,030
Other Financial Assets	-	163,796,793	738,873	-	-	164,535,666
Total Financial Assets	602,777,750	1,372,719,288	1,742,973,459	3,895,783,036	-	7,614,253,533
Financial Liabilities						
Due to Banks and Other Institutions	220,759,208	325,901,647	346,917,615	695,495,194	5,961,950	1,595,035,614
Due to Customers	1,264,246,886	1,359,994,966	1,149,944,561	1,233,226,646	94,562,895	5,101,975,954
Total Financial Liabilities	1,485,006,094	1,685,896,613	1,496,862,176	1,928,721,840	100,524,845	6,697,011,568
Total Net Financial Assets/(Liabilities)	(882,228,343)	(313,177,324)	248,111,283	1,967,061,196	(100,524,845)	919,241,967

NOTES TO THE FINANCIAL STATEMENT

45. RISK MANAGEMENT (CONTD.)

45.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2021.

45.3.2.1 Operational Risk

Overview

The operation risk management is the responsibility of all the staff in the company. The accountability of managing operation risk lies with the management committee members. They are responsible for maintaining an over sight over operational risk, and internal controls and covering all businesses and operations pertaining to the Company.

After reviewing the audit reports the Integrated Risk Management Committee has identified certain common KRI that is affecting the branch operations. These risks that have been identified are critically reviewed regularly with the help of Internal Audit Department.

The Company has introduced and implemented a comprehensive BCP and DR policy. The BCP and DR policy is supported by a BCP and DR plan to ensure that SDF has the capability to handle failure of system, disaster at branches and disruption of business.

Regulators are primarily interested in protecting the rights of customers. Greater attention has been given to risk appetite and mitigation both at Company and service-line levels. the fundamental data underlying record-keeping and the risk associated with their retention has been over looked by Operations and Information Technology.

45.3.2.2 Market Risk

Overview

Market risk is the potential of an adverse impact on Company's earnings or capital due to changes in interest rates. During the normal course of its business, company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the company to market risk in varying degrees.

Market Risk Management

Risk Management Framework ensures the appropriate management of the market risks within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact Company's profitability, capital or the risk profile.

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the company risk management process functions in compliance with the Investment Policy and Asset and Liability Policy . Investment Policy and Asset and Liability Policy alone with Integrated Risk Management Framework (IRMF) and Stress Testing Guidelines also define exposure limits and procedures within which such transactions are required to be undertaken. Market risk limits set out in the above policies are regularly reviewed by Asset and Liability Management Committee (ALCO) and Integrated Risk Management Committee (IRMC).

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimize overall market risk exposures within the overall risk appetite of the company. In this regard, the major functions carried out by ALCO include:

- proactive managing of liquidity risk profile of the company
- articulating interest rate review of the company
- monitoring asset and liability gaps, and rate shock results on Net Interest Income (NII) to initiate appropriate measures such as changing interest rate structure.

Functionalities of Market Risk Management

The Market Risk Management is done by Finance and Planning which is responsible for coordinating and performing Market Risk Management activities including measuring, monitoring and reporting of market risk exposures, and reviewing Company's market risk related policies and exposure limits at least annually. It also provides independent reviews on market risks associated with new investment proposals and products, thus facilitating efficient decision-making through optimizing risk-return trade off. The Company has made a strategic decision to maintain a risk appetite moderately above competitor rates since it allows the best potential for creating shareholder value at an acceptable risk level. The Company manages the volatility and potential downward risk through diversification.

45.5.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities, namely the granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; and basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. The Company's exposure to interest rate risk is primarily associated with factors such as:

- ➔ Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio;
- ➔ Yield curve risk arising from unanticipated shifts of the market yield curve;

Interest rate risk is managed principally through minimizing interest rate sensitive asset/liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly. Regularly monitoring of Net interest margin took place to be vigilant and proactive towards the Covid-19 relief measures introduced by the government pertaining to interest rates.

45.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

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

Year ended 31 March 2021	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Assets							
Cash and Cash Equivalents	83,332,388	-	-	-	-	47,538,601	130,870,989
Loans and Receivables	1,789,853,238	1,509,830,199	2,546,039,509	161,454,487	-	-	6,007,177,434
Lease Rentals Receivable	703,077,098	1,155,513,651	1,490,598,379	872,172,841	125,405	-	4,221,487,374
Financial Investments	298,608,188	75,983,000	-	-	-	-	374,591,188
Other Financial Assets	276,735	502,771	-	-	-	-	779,506
Total Financial Assets	2,579,215,528	1,898,551,285	2,971,787,753	908,596,136	117,677	47,538,601	8,412,940,877
Financial Liabilities							
Due to Banks and Other Institutions	450,453,638	546,472,128	561,965,468	142,045,857	1,398,075	27,288,943	1,729,624,109
Due to Customers	2,025,338,148	1,559,607,634	606,377,716	128,940,204	82,072,361	149,609,120	4,551,945,183
Total Financial Liabilities	2,475,791,787	2,106,079,763	1,168,343,183	270,986,061	83,470,436	176,898,063	6,281,569,293
Interest Sensitivity Gap	103,423,741	(207,528,478)	1,803,444,569	637,610,075	(83,352,759)	(129,359,462)	2,131,371,584

Year ended 31 March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Assets							
Cash and Cash Equivalents	39,136,396	-	-	-	-	34,089,998	73,226,394
Loans and Receivables	1,183,813,283	1,307,518,480	2,213,360,650	526,012,534	-	-	5,230,704,947
Lease Rentals Receivables	188,601,581	357,836,062	831,811,154	324,598,698	-	-	1,702,847,495
Financial Investments	366,058,986	78,880,044	-	-	-	-	444,939,030
Other Financial Assets	163,796,793	738,873	-	-	-	-	164,535,666
Total Financial Assets	1,941,407,039	1,744,973,459	3,045,171,804	850,611,232	-	34,089,998	7,616,253,532
Financial Liabilities							
Due to Banks and Other Institutions	546,660,854	346,917,615	555,495,194	140,000,000	-	5,961,950	1,595,035,613
Due to Customers	2,624,241,851	1,149,944,561	1,035,344,058	197,882,588	94,562,895	-	5,101,975,953
Total Financial Liabilities	3,170,902,705	1,496,862,176	1,590,839,252	337,882,588	94,562,895	5,961,950	6,697,011,566
Interest Sensitivity Gap	(1,229,495,666)	248,111,283	1,454,332,552	512,728,644	(94,562,895)	28,128,048	919,241,966

VALUE ADDED STATEMENT

	2020/21		2019/20		2018/19		2017/18	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Value Added								
Interest Income	1,584,744,640		1,681,678,539		1,433,374,472		1,179,563,193	
Interest Expenses	(623,347,022)		(750,116,462)		(606,621,257)		(416,598,838)	
Cost of Service	(353,030,813)		(296,341,155)		(289,046,537)		(264,146,875)	
Value Added by Financial Service	608,366,805		635,220,921		537,706,679		498,817,480	
Other Income	158,794,565		120,757,234		141,872,419		141,197,890	
Impairment Changes	(60,091,862)		(119,317,776)		(94,014,169)		(89,116,323)	
Total	707,069,508		636,660,380		585,564,929		550,899,047	
Distribution of Value Added								
To Employees								
Salaries and other benefits	374,095,908		356,879,823		357,108,571		322,738,479	
	374,095,908	52.9%	356,879,823	56.1%	357,108,571	61.0%	322,738,479	58.6%
To the Government								
Income Tax Paid	26,665,820		25,144,580		14,475,303		4,785,973	
Tax on Financial Services	89,362,305		108,022,553		87,760,056		70,751,368	
	116,028,125	16.4%	133,167,133	20.9%	102,235,359	17.5%	75,537,341	13.7%
To Expansion and Growth								
Retained Profits	131,179,586		76,790,353		33,647,118		69,914,997	
Reserve	36,671,349		20,343,268		8,243,250		18,436,459	
Depreciation and Amortisation	47,158,401		53,728,816		58,140,340		58,186,793	
Deferred Taxation	1,936,139		(4,249,013)		26,190,291		6,084,979	
	216,945,475	30.7%	146,613,425	23.0%	126,220,999	21.6%	152,623,227	27.6%
Economic Value Distributed	707,069,508	100.0%	636,660,380	100.0%	585,564,929	100.0%	550,899,047	100.0%

CAPITAL ADEQUACY

New Capital Adequacy Framework

In June 2018, CBSL introduced a new Capital Adequacy Framework (CAF) revoking the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006. The new CAF is intended to foster a strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities.

The existing Capital Adequacy direction was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements were applicable for market and operational risks. Therefore the new CAF provides for maintenance of Capital Adequacy Ratios (CARs) on a more risk sensitive focus covering credit and operational risk under basic approach available in Basel II Accord.

Item	2020/21 Rs.'000	2019/20 Rs.'000
Tier 1 Capital	1,998,518	1,106,028
Total Capital	2,019,232	1,126,742
Total Risk Weighted Amount	926,259	7,258,722
Risk Weighted Amount for Credit Risk	7,851,486	7,116,415
Risk Weighted Amount for Operational Risk	1,411,106	1,398,086
Company's tier 1 capital ratio %	21.6	15.2
Regulatory minimum tier 1 ratio %	6.5	6.5
Company's total capital ratio %	21.8	15.5
Regulatory minimum total capital ratio %	10.5	10.5

Item	2020/21 Rs.'000	2019/20 Rs.'000
Tier I capital	2,056,786	1,152,882
Stated capital	1,694,137	890,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	104,077	67,406
Audited retained earnings/(losses)	326,656	195,476
(less) Revaluation gains/surplus of investment property	68,084	-
General and other disclosed reserves	-	-
Current year's profit(losses)	-	-
Adjustments to Tier I capital	58,268	46,854
Goodwill (net)	-	-
Other intangible assets (net)	5,055	15,111
Other Comprehensive Income losses	-	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	53,213	31,743
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	-	-
Shortfall of capital in financial subsidiaries	-	-
SLFRS 9 day one impact adjustment	-	-
Tier I Capital (after adjustments)	1,998,518	1,106,028
Tier 2 Capital	20,714	20,714
Instruments qualified as Tier 2 capital	-	-
Revaluation gains	20,714	20,714
General provisions/ Collective impairment allowances	-	-
Eligible Tier 2 Capital	20,714	20,714
Total Adjustments to eligible Tier 2 Capital	-	-
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	-	-
Eligible Tier 2 Capital after adjustments	20,714	20,714
Total Capital	2,019,232	1,126,742

DECADE AT A GLANCE

For the Year ended 31 March	2020/21 Rs. (000)	2019/20 Rs. (000)	2018/19 Rs. (000)	2017/18 Rs. (000)	2016/17 Rs. (000)	2015/16 Rs. (000)	2014/15 Rs. (000)	2013/14 Rs. (000)	2012/13 Rs. (000)	2011/12 Rs. (000)
Operating Results										
Income	1,743,539	1,802,436	1,575,247	1,320,761	1,092,958	1,014,754	752,993	628,973	512,764	271,215
Interest Income	1,584,745	1,681,679	1,433,374	1,179,563	883,758	922,994	652,411	616,478	488,947	271,215
Interest Expenses	623,347	750,116	606,621	416,599	280,902	255,915	210,804	183,543	163,076	111,076
Net Interest Income	961,398	931,562	826,753	762,964	602,856	667,079	441,607	432,935	325,871	159,591
Other Income	158,795	120,757	141,872	141,198	209,200	91,760	100,582	12,495	23,816	-
Total Operating Income	1,120,192	1,052,319	968,626	904,162	812,056	758,839	542,189	445,430	349,688	159,591
Operating Expenses	703,903	700,911	717,895	630,190	635,628	571,762	473,080	469,146	242,493	85,735
Impairment Losses	60,092	119,318	94,014	89,116	172,259	61,294	67,332	(57,616)	62,245	29,940
Profit Before Taxation	356,197	232,090	156,717	184,856	4,169	125,783	1,777	33,899	44,950	43,916
Tax on Financial Services	89,362	108,023	87,760	70,751	48,027	49,272	22,245	23,619	6,130	5,219
Income Tax Expenses/(Reversal)	83,478	22,351	27,740	21,922	(9,324)	30,369	(8,675)	14,006	8,656	10,909
Profit/(Loss) for the Year (PAT)	183,357	101,716	41,216	92,182	(34,535)	46,142	(11,794)	(3,726)	30,164	27,716
Statement of Financial Position										
Assets										
Cash and Cash Equivalents	130,871	73,226	140,903	116,978	138,046	306,766	208,621	223,666	420,903	4,854
Loans and Receivables	4,954,331	5,230,705	5,113,657	4,697,450	3,477,040	2,766,806	2,779,010	2,020,283	2,486,562	1,041,806
Lease Rentals Receivable	2,952,368	1,702,847	1,102,513	611,055	283,559	-	-	-	-	-
Financial Investments	374,591	444,939	442,595	282,269	268,211	243,177	201,844	200,000	200,000	-
Other Financial Assets	780	164,536	189,277	207,371	282,578	232,860	7,049	288,325	452,208	568,000
Investment in Subsidiary Companies	-	-	-	-	-	379,475	379,475	-	-	-
Intangible Assets	5,055	15,111	27,008	35,134	321,409	281,536	241,143	206,608	-	-
Other Assets	618,602	583,851	433,871	409,919	102,050	109,410	115,290	139,398	95,025	1,260,123
Total Assets	9,036,598	8,215,216	7,449,824	6,360,176	4,872,893	4,320,029	3,932,432	3,078,280	3,732,556	2,874,784
Liabilities										
Due to Banks	1,729,624	1,595,036	835,874	463,277	75,856	31,225	47,743	101,899	288,496	-
Due to Customers	4,551,945	5,101,976	5,385,342	4,624,855	3,563,700	3,070,417	2,776,239	2,165,002	2,691,252	2,279,732
Savings	1,245,293	1,536,303	1,561,061	1,554,619	1,607,045	1,585,566	1,484,222	-	-	-
Fixed Deposits	3,306,652	3,565,673	3,824,281	3,070,216	1,956,654	1,484,851	1,292,016	-	-	-
Other Non Financial Liabilities	282,552	99,221	79,668	84,070	165,765	96,909	53,842	93,923	125,820	5,542
Post Employment Benefit Liability	55,829	33,753	27,212	26,416	20,797	16,088	17,109	17,953	-	-
Other Liability	235,263	189,551	23,183	30,768	-	19,850	-	2,009	40,473	15,520
Total Liabilities	6,855,213	7,019,536	6,351,279	5,229,366	3,826,118	3,234,490	2,894,933	2,380,786	3,146,041	2,300,793
Shareholders' Funds										
Stated Capital	1,694,137	890,000	890,000	890,000	890,000	890,000	890,000	540,000	540,000	540,000
Reserves	487,248	305,679	208,546	240,810	156,775	195,539	147,499	157,494	46,515	33,991
Total Shareholders' Funds	2,181,385	1,195,679	1,098,546	1,130,810	1,046,775	1,085,539	1,037,499	697,494	586,515	573,991

For the Year ended 31 March	2020/21 Rs. (000)	2019/20 Rs. (000)	2018/19 Rs. (000)	2017/18 Rs. (000)	2016/17 Rs. (000)	2015/16 Rs. (000)	2014/15 Rs. (000)	2013/14 Rs. (000)	2012/13 Rs. (000)	2011/12 Rs. (000)
Other Information										
Number of Staff	480	471	521	508	540	602	572	543	216	216
Number of Branches	30	30	30	30	30	30	30	30	30	30
Number of CSCs	21	21	21	21	22	28	32	32	32	32
Number of Gold Centers within the Branches	35	25	5	-	-	-	-	-	-	-
Profit Before Tax Per Employee	742	493	301	364	8	209	3	62	208	203
Profit After Tax Per Employee	382	216	79	181	(64)	77	(21)	(7)	140	128
Total Assets Per Employee	18,826	17,442	14,299	12,520	9,024	7,176	6,875	5,669	17,280	13,309
Employees Per Branch	6	7	7	7	8	8	7	6	6	-
Capital Adequacy Ratio (%)										
Tier I		-	-	20.19%	25.02%	32.00%	30.66%	29.13%	29.13%	NILL
Tier II		-	-	20.19%	25.02%	20.32%	18.93%	29.13%	29.13%	NILL
Tier I (w.e.f 1 July 2018)	21.58%	12.99%	13.58%	14.83%						
Tier II (w.e.f 1 July 2018)	21.80%	13.23%	13.98%	14.83%						
Operating Result										
Cost of Fund	9.50%	11.30%	10.73%	9.55%	8.33%	8.64%	8.28%	7.00%	6.20%	4.90%
Interest Spread	9.00%	10.81%	10.96%	13.05%	13.02%	13.15%	12.86%	9.76%	9.26%	9.23%
Net Interest Margin	11.44%	12.21%	12.51%	14.61%	14.74%	31.74%	25.70%			
Cost to Income	70.82%	76.87%	83.18%	77.52%	84.19%	81.84%	91.36%	110.63%	71.10%	56.99%
Staff Cost : Net Income	33.40%	33.91%	36.87%	35.69%	44.32%	41.40%	50.00%	52.00%	35.30%	23.30%
Financial Indicators										
Return on Assets (ROA)	2.13%	1.30%	0.60%	1.64%	0.75%	1.12%	-0.34%	-0.11%	0.91%	0.96%
Return on Equity (ROE)	10.86%	8.87%	3.70%	8.15%	-3.24%	4.35%	-1.36%	-0.58%	5.20%	4.83%
Equity to Assets	24.14%	14.55%	14.75%	17.78%	21.48%	25.13%	26.38%	22.66%	15.71%	19.97%
Net assets Per Share (Rs.)	20.95	17.71	16.27	16.75	15.51	16.08	15.37	12.92	10.86	10.63
Return on Interest Earning Assets	19.00%	22.11%	21.69%	22.59%	21.36%	21.78%	21.14%	16.76%	15.46%	14.13%
Portfolio Yield	19.70%	23.36%	22.88%	23.89%	23.33%	31.74%	25.70%	23.21%	22.65%	22.00%
Debit : Equity	314.26%	579.88%	565.85%	469.44%	331.12%	285.70%	272.20%	319.70%	508.00%	397.20%
Ernings Per Share (Rs.)	2.55	1.51	0.61	1.19	(0.51)	0.68	(0.19)	0.17	0.56	0.51
Shareholders' Fund to Deposit	47.92%	23.44%	20.40%	24.53%	29.37%	37.10%	42.00%	29.20%	23.60%	25.20%
Liquid Assets Ratio	9.13%	11.41%	13.75%	13.75%	20.39%	26.20%	16.50%	30.00%	42.50%	24.90%
Assets Quality Indicators										
Gross NPA Ratio	9.99%	11.81%	9.41%	6.20%	8.90%	8.00%	5.00%	12.90%	31.90%	N/A
Net NPA Ratio	4.21%	6.14%	4.67%	2.61%	3.40%	3.10%	2.80%	3.10%	18.40%	N/A
NPA to Assets	9.28%	11.13%	8.92%	6.03%	8.00%	5.50%	3.70%	9.40%	28.50%	N/A
Provision to Advance	5.66%	5.74%	5.08%	3.06%	5.60%	5.10%	3.10%	9.80%	16.50%	N/A
Provision Cover	56.58%	48.58%	49.43%	44.10%	57.10%	63.00%	60.80%	76.00%	51.80%	N/A

BRANCH NETWORK

Region	Branch	Telephone No.	Branch Address	Office E-mail
Region 01	Delgoda CSC	0115941666	No.358/3, New Kandy Road, Delgoda	delgodacsc@sdf.lk
	Pasyala CSC	0335112666	No.178/8/3, Usaviya Watta, Pasyala	pasyalacsc@sdf.lk
	Panadura Branch	0385111666	No.322, Galle Road, Panadura	panadura@sdf.lk
	Homagama Branch	0115944666	No.119/1/1, Katuwana Road, Homagama	homagama@sdf.lk
	Piliyandala CSC	0115945666	No.24A, Vidyala Mawatha, Piliyandala	piliyandalacsc@sdf.lk
Region 02	Galle Branch	0915111666	No.26, Sri Dewamitta Road, Galle	galle@sdf.lk
	Ambalantota Branch	0472225414	No.141/2, Tissa Road, Ambalantota	ambalantota@sdf.lk
	Matara Branch	0415111666	No.372/C, Anagarika Dharmapala Mawatha, Pamburana, Matara.	matara@sdf.lk
	Akuressa CSC	0415114666	No.93, Matara Road, Akuressa	akuessacsc@sdf.lk
	Karadeniya CSC	0915112666	4th Mile Post, Maha Edanda, Karadeniya	karandenyacsc@sdf.lk
	Kamburupitiya CSC	0415116666	No.07, Akuressa Road, Kamburupitiya	kamburupitiyacsc@sdf.lk
	Region 03	Monaragala Branch	0555115666	No.304/1, In front of Bank of Ceylon, Kachcheriya Junction, Moneragala
Ampara Branch		0635111666	No.20, 6th Lane, Ampara	ampara@sdf.lk
Badulla Branch		0555111666	No.377, Passara Road, Viharagoda, Badulla	badulla@sdf.lk
Kataragama CSC		0472236303	No.41/B, New Town, Kataragama	kataragamacsc@sdf.lk
Medagama CSC		0555113666	No.22, Bibile Road, Medagama	medagamacsc@sdf.lk
Mahiyanganaya CSC		0555112666	No.112/8, Girandurukotte Road, Mahiyanganaya	mahiyanganayacsc@sdf.lk
Region 04	Vavuniya Branch	0245111666	No.58, 1st Cross Street, Vavuniya	vaunia@sdf.lk
	Jaffna Branch	0215111666	No.62/20A, Stanley Road, Jaffna	jaffana@sdf.lk
	Mannar CSC	0235111666	No.4, Convent Road, Sinnakadai, Mannar	mannarcsc@sdf.lk
Region 05	Godakawela Branch	0455112666	No.58 G1/1, Main Street, Godakawela	godakawela@sdf.lk
	Balangoda Branch	0454935228	No.133/A, Barnes Ratwatte Mawatha, Balangoda	balangoda@sdf.lk
	Ratnapura Branch	0455113666	No.177, Main Street, Ratnapura	ratnapura@sdf.lk
	Kegalle Branch	0355111666	No.245, Colombo Road, Kegalle	kegalle@sdf.lk
	Ruwanwella CSC	0365111666	No.122, Main Street, Ruwanwella	ruwanwellacsc@sdf.lk

Region	Branch	Telephone No.	Branch Address	Office E-mail
Region 06	Kebithigollewa Branch	0255112666	Horowpathana Road, Kebethigollawa	kebithigollawa@sdf.lk
	Thambuttegama CSC	0255114666	No.137, Rajina Junction, Anuradhapura Road, Tambuttegama	thambuttegamasc@sdf.lk
	Parackramapura CSC	0255115666	Kodituwakku Building, Padaviya Road, Parakramapura	parakramapurasc@sdf.lk
	Anuradhapura Branch	0255111666	No.61, Market Place, Anuradhapura	anuradhapura@sdf.lk
	Kekirawa CSC	0255113666	No.27, Yakalla Road, Kekirawa	kekirawa@cscsdf.lk
Region 07	Matale Branch	0665112666	No.630, Trincomalee Street, Matale	matale@sdf.lk
	Kandy Branch	0815113666	No.102, Yatinuwara Veediya, Kandy	kandy@sdf.lk
	Nawalapitiya CSC	0545111666	No.100/1, Gampola Road, Nawalapitiya	nawalapitiyacsc@sdf.lk
	Digana CSC	0815112666	No.15/1, New Town, Digana, Rajawella	diganacsc@sdf.lk
	Hatton CSC	0515111666	No.3, Dimbula Road, Hatton	hattoncsc@sdf.lk
Region 08	Trincomalee Branch	0265111666	No.31B, Kandy Road, Trincomalee	trincomalee@sdf.lk
	Batticaloa Branch	0655111666	No.132, Trinco Road, Batticaloa	batticaloa@sdf.lk
	Kalmunei CSC	0675106666	No.218, Batticaloa Road, Kalmunai	kalmuneicsc@sdf.lk
Region 09	Kuliyapitiya Branch	0375111666	No.82, Kurunegala Road, Kuliyapitiya	kuliyapitiya@sdf.lk
	Puttalam Branch	0325113666	No.116, Kurunegala Road, Puttalam	puttalam@sdf.lk
	Chilaw Branch	0325111666	No.66, Kurunegala Road, Chilaw	chilaw@sdf.lk
	Gampaha Branch	0335111666	No.10038, Colombo Road, Gampaha	gampaha@sdf.lk
	Nattandiya CSC	0325112666	Marawila Road, Nattandiya	nattandiyacsc@sdf.lk
	Minuwangoda CSC	0335113666	No.67/A, Colombo Road, Minuwangoda	minuwangodacsc@sdf.lk
Region 10	Dehiattakandiya CSC	0275113666	No.62/1E, New Town, Dehiattakandiya	dehiattakandiyacsc@sdf.lk
	Kurunegala Branch	0375112666	No.24, Mihindu Mawatha, Kurunegala	kurunagala@sdf.lk
	Medirigiriya Branch	0275111666	No.18, Main Street, Medirigiriya	medirigiriya@sdf.lk
	Polonnaruwa Branch	0275112666	No.21, Opposite Police Station, Kaduruwela, Polonnaruwa	polonnaruwa@sdf.lk
	Dambulla Branch	0665111666	No.707, Anuradhapura Road, Dambulla	dambulla@sdf.lk
Head Office	Borella	0115942666	No.155/A, Dr.Danister De Silva Mawatha, Colombo-8	borella@sdf.lk

Efficiency Ratio

Operating expenses expressed as a percentage of income; interest income plus other income

Eligible Deposits

Customer Deposits after deducting for loans outstanding balances taken against the security of deposits and deposits balances of directors and KMPs.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F**Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transactions.

Fair Value through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or a derivative (except for a -derivative that is a financial guarantee contract)

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 Liability

A contractual obligation to deliver cash or another financial asset to another entity.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Funding Mix

The total of shareholders' funds, customer deposits and borrowings from banks and other institutions

G**Gross Dividend**

The portion of profits distributed to the shareholders including the tax withheld.

Gross NPA Ratio

The total of the non-performing loans and receivables and non-performing Lease Rentals Receivables expressed as a percentage of the total of average loans and receivables and average Lease Rentals Receivables portfolio. In calculating gross NPA ratio the age of the re-schedule contracts are calculated based on post re-schedulement age.

Gross NPA Ratio (with reschedulements)

The total of the non-performing loans and lease receivables expressed as a percentage of average loans and lease receivables portfolio. In calculating gross NPA ratio, the age of the rescheduled contracts

are calculated based on the pre and post rescheduled age.

Gross Portfolio

The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities

H**HTM (Held to Maturity) Investments**

Non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

I**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where the Company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Intangible Asset

An identifiable non-monetary asset without physical substance.

Interest Margin

Net interest income expressed as a percentage of average interest earnings assets

Interest Spread

This difference between the average interest rate earned on the interest earning assets and the average interest rate paid on the interest bearing liabilities.

Impairment Allowance for Loans and Other Losses

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

K**Key Management Personnel**

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L**Lending**

Lending represents the disbursements of the Company during the year under review

Lending Base

This represents Loans and Lease Receivables of the Company

Liquid Assets

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 & bonds.

Liquidity Assets Ratio

Liquid assets expressed as a percentage of average deposits liability and short term liabilities.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans Payable

Financial liabilities, other than short term trade payables on normal credit terms.

GLOSSARY

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

M

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets per Share

Equity attributable to the equity holders of the Company divided by the average number of ordinary share in issue during the year.

Net Interest Income (NII)

The difference between incomes earned from interest earning assets and cost incurred on financial instrument/ facilities used for funding the interest earning assets.

Net NPA Ratio

The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the post rescheduled age.

Net NPA Ratio (with reschedulements)

The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

Net Portfolio

The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities net of impairment charge for loans and other losses.

Non-performing Advances

Rentals receivables in arrears equals to six rentals or more than six rentals have been categorised as non-performing.

NPA to Assets

The total of non-performing loans and lease receivables expressed as a percentage of average total asset

O

Operational Risk

The risk of loss incurring from inadequate or failed internal processes, people and systems or from external events.

Operating Expense Ratio (Opex Ratio)

Operating expenses expressed as a percentage of average of gross loan portfolio

P

Parent

An entity that controls one or more subsidiaries.

Portfolio Yield

Interest earned on loans and lease receivables expressed as a percentage of average gross loans and lease receivables.

Provision

Amounts set aside against possible losses on net receivable of facilities granted to customers, as a result of them becoming partly or wholly uncollectible.

Provision Cover

Impairment charge for loans and other losses expressed as a percentage of the total of non-performing loans and lease receivables before discounting for allowance for impairment charge on non-performing loans and lease receivables.

R

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Assets (ROA)

Profit after Tax (PAT) expressed as a percentage of the average assets

Return on Interest Earning Assets

Interest income expressed as a percentage of average Interest earning assets.

Risk Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighted factors.

Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average equity attributable to the equity holders of the company.

S

Shareholders' Funds

This consists of issued and fully paid up ordinary shares, redeemable preference shares and other reserves.

Shareholder Funds to Deposits

Equity attributable to the equity holders of the company expressed as a percentage of average deposits liability.

Staff Cost to Net Income

Staff cost expressed as a percentage of total operating income.

Stated Capital

All amounts received by the Company or due and payable to the Company- (a) in respect of the issue of shares, (b) in respect of calls on shares.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Subsidiary

An entity including an unincorporated entity such as a partnership, which is controlled by another entity known as the Parent.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company

T

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 debt such as hybrid capital instruments and subordinated term-debts.

V

Value Addition

Value of wealth created by providing leasing and other related services considering the cost of providing such services.

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සංගීතය - රෝහණ විරසිංහ
ගායනය - අමරසිරි පිරිස්

CORPORATE INFORMATION

Name of Company

Sarvodaya Development Finance Limited

Parent Company

Sarvodaya Economic Enterprises Development Services (Guarantee) Limited

Legal Form

Incorporated on 1st January 2010 as a public limited liability company under the Companies Act No. 7 of 2007.

Commenced Business Operations

Effective 19th December 2012, as a Licensed Finance Company (LFC) Regulated by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011

Licensed Finance Leasing Company

Regulated by the Central Bank of Sri Lanka under the Finance Leasing Act No. 56 of 2000

Approved Credit Agency under Mortgage

Act No. 6 of 1949 and Trust Receipts Ordinance No. 12 of 1947 by the Dept. of Commerce

Company Registration Number

PB 3795

Central Bank Registration No.

047

Tax Payer Identity Number (TIN)

134037954

Registered Office & Head Office

No. 155/A
Dr. Danister De Silva Mawatha
Colombo 08,
Sri Lanka.
Telephone No.: 011 5 444 666
Fax No.: 011 2 667 411
E-mail: info@sdf.lk
Website: www.sarvodayafinance.lk

Share Capital

Rs. 1,694,137,046

Accounting Year-end

31st March

Board of Directors

Mr. Channa de Silva - Chairman
Dr. Richard Vokes
Mr. Masayoshi Yamashita
Dr. Janaki Kuruppu
Mr. Chamindha Rajakaruna
Mr. Amrit CanagaRetna
Ms. Shehara De Silva
Mr. Sunil De Silva
Mr. Dammika Ganegama - Appointed w.e.f. 15th July 2020

Company Secretary

BDO Secretaries (Pvt) Limited,
Corporate Secretarial Services,
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha,
Colombo 2.

External Auditors

M/s Ernst & Young,
Chartered Accountants,
201, De Saram Place,
Colombo 10.

Legal Adviser

Nithya Partners
D. L. & F. De Saram

Bankers

Hatton National Bank PLC
People's Bank
Bank of Ceylon
Seylan Bank PLC
DFCC Bank PLC
Commercial Bank PLC
National Development Bank PLC
Sanasa Development Bank PLC
Cargills Bank PLC



www.sarvodayafinance.lk

Sarvodaya Development Finance Limited

No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08.

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