Responsible
Responsive
Respected

SARVODAYA DEVELOPMENT FINANCE LIMITED
ANNUAL REPORT 2018/19

Responsible
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SARVODAYA DEVELOPMENT FINANCE LIMITED

Annual Report 2018/19

Contents

Organisational Overview

Our journey from inception, metamorphosis of our transformation and achieving our miles stones through basing our operations on our vision, mission and value framework, is presented in this preliminary section. This section also illuminates our journey till our present standing and projects our future vision and our ultimate goal of becoming a responsible, responsive and a respected brand in the minds of our customers.

Stewardship

The stewardship segment contemplates on our responsible responsiveness via adoption of best corporate governance practices and development of a risk management framework for effective management and direction towards business rejuvenation in a turbulent environment.

Management Discussion & Analysis

While giving an overview of the macro environment in which the business operated during the current year, this section delves into the capital creation within Manufactured, Human, Social & Relationship, Intellectual and Natural segments portraying the strategic view point and the execution of the activities throughout the year towards value creation.

Financial Reports

In depth performance information in terms of financial results are presented in this section portraying the depth and breadth of our performance with detailed analysis of the financial statements highlighting the successful business conduct, while confirming the authenticity and accuracy of the information displayed.

Annexures

The concluding section list outs the finer details of value added to stakeholders, our channel network around the island, the corporate information and the five year summary demonstrating the key information provided in the previous sections.

Responsible
Responsive
Respected

As we shift gears to encompass the varied and challenging situations that lie ahead, we take pride in the quality of our work in ensuring that all segments of society, especially those who may be marginalised or overlooked, are cared for and given every opportunity to grow. These values have always been a cornerstone in all we do, as we build extensive and intricate connections with the grassroots, moving ever upward in encompassing a diverse range of customers while extending our sincerity and empathy to all.

Helping us achieve all this and more, begins at the top. New and dynamic leadership has trickled down to create innovative ideas that have helped streamline every process of the business. Our professional and highly valued team has also worked relentlessly in order to handle situations in a timely and appropriate manner, which in turn, has made us a company that is trusted by many as we strive to help all Sri Lankans reach their true potential.

Sarvodaya Development Finance : responsible, responsive and respected.

VISION

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

MISSION

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

VALUES

» Purity in Service
» Diligent and Caring
» Transparent and Honest
» Passionately Committed

About the Report

ONLINE AND WEB DISCLOSURES
The complete annual report is made available on the corporate website and can be downloaded using the link www.sarvodayafinance.lk

We introduced a QR code link to view our Annual Report on our website.

BOUNDARY AND SCOPE OF REPORTING

This report covers the period from 01st April 2018 to 31st March 2019, 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.

There were no significant changes from previous reporting periods in the scope and aspect boundaries, as compared to the Annual Report issued in the previous reporting years; other than, the restatements of our financial statements in compliance with the reporting and disclosure requirements of the first time adoption of SLFRS 9 during the current reporting period.

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)

THIS REPORT IS IN COMPLIANCE CAPITAL REPORTING.

These are the legends of our capitals:

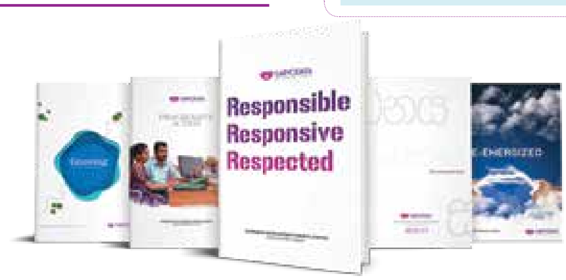
This report is in compliance with capital reporting framework guidelines. Followings are the legends of our capitals:

- Financial Capital
- Manufactured Capital
- Intellectual Capital
- Human Capital
- Social 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, ICRA Lanka has provided the Company's B+ (stable) rating.



< Our Previous Annual Reports

Our Journey

2010

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

2013

- Received the finance license 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 Program
- 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, centralized and a real-time co-banking system for all our business operations
- Rationalized 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

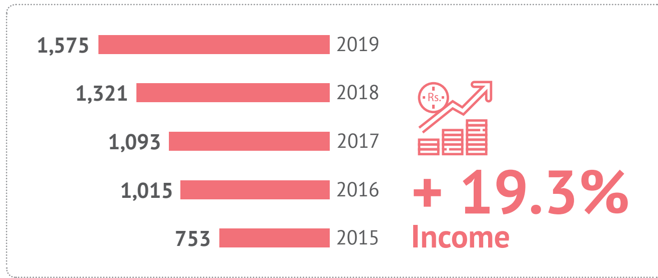
- Joint LankaClear and connected to over 4,000 ATMs of banks through LankaPay platform
- Introduced business intelligence (BI) technology for MIS reporting, monitoring and decision making
- Received a Silva Award (under Rs.20 billion assets category) from CA Sri Lanka for our Annual Report for the 2nd consecutive year.

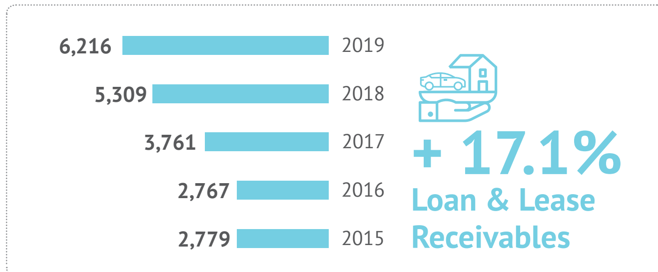
2019

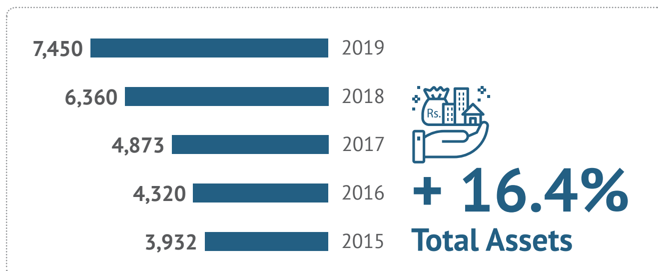
- Shifted Head Office to Colombo for greater visibility, customer acceptance and brand positioning
- Installed our first ATM
- Commenced digital Content marketing and penetration into social media

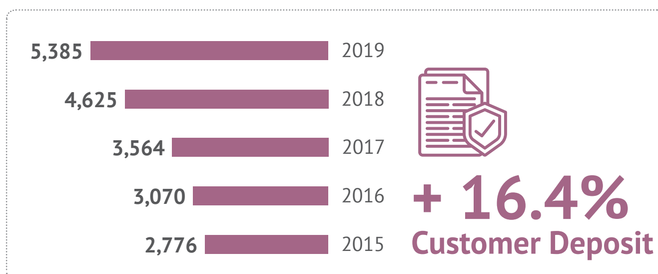
Financial Highlights

Financial Highlights	2019	2018	Change %
Profitability (Rs. 000)			
Income	1,575,247	1,320,761	19.3%
Interest Income	1,433,374	1,179,563	21.5%
Net Interest Income	826,753	762,964	8.4%
Operating Expenses	717,895	630,190	13.9%
Impairment Losses	94,014	89,116	5.5%
Profit Before Taxation	68,957	114,104	-39.6%
Profit for the Year	41,216	92,182	-55.3%
Assets & Liability (Rs. 000)			
Loans and Receivables	5,113,657	4,697,450	8.9%
Lease Rentals Receivables	1,102,513	611,055	80.4%
Total Assets	7,449,824	6,360,176	17.1%
Due to Customers	5,385,342	4,624,835	16.4%
Total Shareholders' Funds	1,098,546	1,130,810	-2.9%
Investor Information (Rs)			
Net Assets Value per Share	16.27	16.75	-2.9%
Earnings per Share - Basic	0.61	1.19	-48.7%
Dividend per Share	-	0.53	> 100%
Financial Indicators (%)			
Return on Assets (after tax)	0.60%	1.64%	-63.6%
Return on Equity (after tax)	3.70%	8.15%	> 100%
Cost to Income	83.18%	83.18%	0.0%
Net NPA Ratio	4.67%	2.61%	78.8%
Growth in Total Assets	17.13%	30.52%	-43.9%
Capital Adequacy Ratios (%)			
Tier I	13.58%	14.83%	-8.4%
Tier I & II	13.98%	14.83%	-5.7%









Non-Financial Highlights

	Unit	2019	2018
Finance Capital			
Economic Value Created		1,575.2	1,320.8
Distributed to			
Depositors & Lenders	Rs. Mn	606.6	416.6
Employees	Rs. Mn	356.2	328.1
Government	Rs. Mn	87.8	80.1
Suppliers	Rs. Mn	482.8	407.6
Shareholders	Rs. Mn	-	35.8
Retained	Rs. Mn	41.9	52.6
Manufactured Capital			
Branches	Nos.	30	30
Customer Service Centres	Nos.	21	21
Branches Upgraded	Nos.	1	15
Branches Relocated	Nos.	5	2
Investment in Fixed Assets	Rs. Mn	24.0	24.2
Social & Relationship Capital			
New Lending Products	Nos.	3	1
Customer Base	Nos.	164,545	158,158
Revenue to Government	Rs. Mn	137.9	97.7
Payment to Suppliers	Rs. Mn	764.7	868.7
Products Disbursements	Rs. Mn	3,684.0	3,957.4
Marketing Initiatives	Rs. Mn	43.9	30.1
SSS Trainings	Nos.	29	31
Human Capital			
Total Workforce	Nos.	521	548
New Recruitments	Nos.	134	180
Employees Promoted	Nos.	33	102
Employees Trainings	Hrs	406	383
Employees Rewarded	Rs.('000)	2,523	1,866
Natural Capital			
Electricity Usage	Kwh	523,541.3	483,344.0
Electricity per Rs. Million of Revenue	Kwh	332.4	366.0
Fuel Usage	Litre	105,729.0	117,283.4
Fuel per Rs. Million of Revenue	Litre	67.1	88.8
Energy Usage per Employee	Rs.	55,057.8	49,289.0

164,545
No of customers

524
Total Work flows

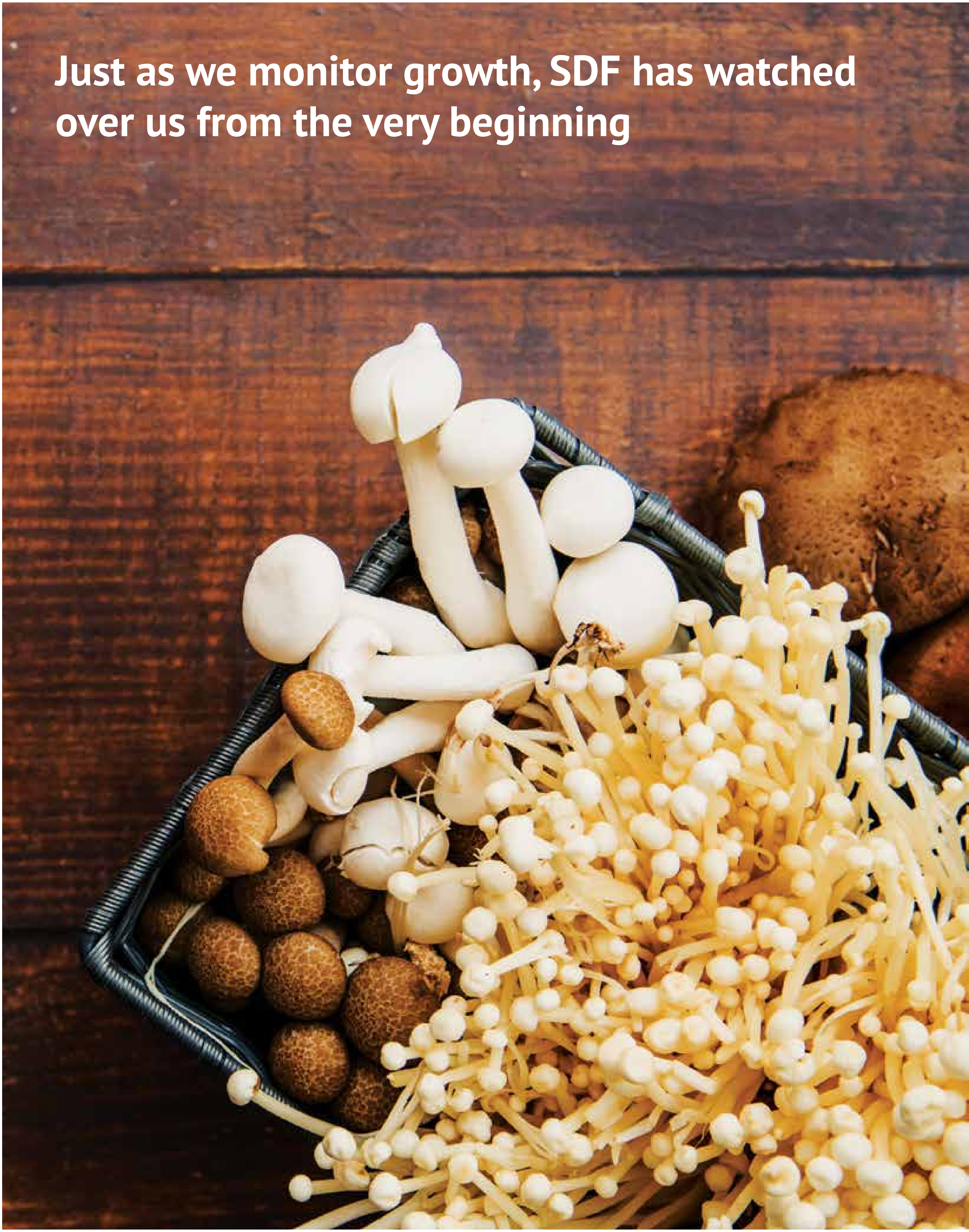
137.9 million
Revenue to Government

406 hours
Employee trainings

ATM
Installed our own ATM

Silver Award

Just as we monitor growth, SDF has watched over us from the very beginning



In 2011, I decided never to request a loan from any of the so-called popular banks. As I am only a small-time vegetable farmer, they had no respect for me and rejected all my loan applications. One day, on my way to Nuwara-Eliya in a private bus, a group of young girls and boys from SDF got in and distributed leaflets describing SDF's loan schemes for small and medium scale farmers.

I decided to visit SDF. The SDF staff were respectful and granted me a loan of Rs. 100,000 to improve my vegetable cultivation. As luck favoured me, I got a good crop. I got two more loans totalling to Rs.500,000/- from SDF to start a mushroom cultivation, in addition to vegetables. We earn good money now, and feel secure with peace of mind.

SDF treated me with respect and helped me move forward with courage.

Chairman's Message

The financial year 2018 was a very challenging year, where the national economy decelerated against a backdrop of uncertainty, public disappointment and anxiety. It is disappointing that post war Sri Lanka has turned out to be even more challenging than the years of war. The public expected significant economic growth, lower cost of living, encouraging rates of low interest, low inflation and a stronger currency to be lead indicators of economic growth in Si Lanka. However, all these indicators turned negative during the year under review. Due to these uncertainties and policy volatilities foreign investors kept away from capital markets, thus depriving the country an important channel of foreign direct investment into required sectors, which are key economic drivers. In particular, a high borrowing cost, emanating from high deposit rates of treasury bills, bank deposits and finance company deposits, led to inevitable higher lending rates in all institutions, thus hurting the public, inclusive of entrepreneurs in Sri Lanka, in a significant way.

It is paramount that Sri Lankan policy makers look at this equation carefully and take necessary steps to reduce the borrowing costs of all institutions, as it will otherwise cripple Sri Lanka's future and the economic revival of the country. Being totally focused on China and India-led strategic projects, will also not be the answer for the future. Sri Lanka must nurture and encourage a strong home grown economy where Sri Lankan entrepreneurs are encouraged and facilitated into bigger and better initiatives through their entrepreneurism.

An export lead economy, where we capitalise on the proximities of the South East Asian region countries and connectivity to Asia, should be mooted strategically, encouraged aggressively and facilitated meaningfully. The absence of this combination will lead to a great loss of opportunity for the youth and the people who have sacrificed tremendously in the past, especially during the disturbing three decades of intense war in the country. Given the circumstances, I believe SDF has done fairly well. We also had to face the challenges of the SLFRS 9 fair value based accounting mechanism, used for the first time in Sri Lanka. This rigid system, developed mainly for stronger, stable economies of the west, fails to capture the vulnerabilities of dynamic economies, thus forcing negative consequences and challenging accounting treatments.

"We took the opportunity during the last 6 months of the year, through a new team of leaders, to change the mindset and the culture of the organisation, and the efficiency of the organisation has improved in a remarkable manner as a result. The organisation started believing in bigger numbers, performing at a higher efficiency and delivering substance to all stakeholders."

We took the opportunity during the last 6 months of the year, through a new team of leaders, to change the mindset and the culture of the organisation, and the efficiency of the organisation has improved in a remarkable manner as a result. The organisation started believing in bigger numbers, performing at a higher efficiency and delivering substance to all stakeholders. A marketing oriented approach in everything we did, helped us in this process. We upgraded all 30 branches and 21 customer service centres in a manner that suits a futuristic value proposition. All branches were electronically linked and cosmetically upgraded with fittings that suit a modern day financial institution. We enhanced and upgraded capacities for all staff and also recruited some of the best talent available. We are happy to note, that all our branches and customer service centres are electronically linked on a real time basis. Our transactions are fully computerised starting from project appraisal, to project approval. We are moving rapidly to a paperless system.

We have just started on a journey to optimise the use of social media and electronic platforms in an efficient manner. We strongly subscribe to the power of social media into the future and thus we are positioning our campaigns strategically to use the multilayered social media platforms in an efficient manner.

The culture of the organisation also needs to evolve over time. SDF, with its very strong historical perspective and deeply rooted in 60 years of Sarvodaya culture, is midstream in transition to become an efficient, agile, dynamic, strategic and confident, employee centric organisation. The employees are greatly motivated to take-on leadership and independently be able to drive the organisation in a creative and sustainable manner. This transformation has excited many individuals and groups and has shown significant results in a short period of time. Training and change of mindsets of employees will be a continuing effort, which will derive great benefits in the long term to the organisation.

SDF is also a purpose driven organisation, where financial transactions are done with grace and mindfulness, ensuring that people are treated very respectfully and there is fairness in every transaction that takes place. Having empathy while delivering value to all, will be a remarkable feature which positions SDF as a special entity among all the other financial institutions in the country. Whilst we certainly protect our depositors, we act as responsible lenders to the country as well. We will ensure we develop every aspect of our financial institution. We will emphasise human resource management, IT excellence and social media and marketing, to be in the forefront of all future strides we will take.

We have also committed to grow COEXIST, our foundation to support vulnerable communities and to provide assistance to other communities based on a sustainability footing, up-cycling and recycling, good health and good life. Sri Lanka's first pumpkin farmers festival, organised by COEXIST, was a remarkable success where over 100,000 kilos of pumpkins was sold, when the entire crop was virtually abandoned by farmers due to non existence of demand, and all funds collected through this festival was distributed to the farmers. We initiated this festival to popularise the use of pumpkins and I take this opportunity to thank the hotels, farmers, the adivasi community and many other stakeholders who participated in this effort, and the public that supported this event. COEXIST will next venture out to bring over to 100 unknown entrepreneurs from the villages, who have committed their businesses on a sustainability footing and we look forward to engaging in many socially beneficial projects of this sort

It is also important to mention and appreciate that all the profits eran by our principle shareholder Sarvodaya Movement is channelled towards empowering the village and the society through hundreds of social programs that they engage continuously over the last 60 years.

SDF also continued to strengthen the relationships with Sarvodaya villages and societies, together with Sarvodaya affiliated entities and projects. This drive of leveraging on Sarvodaya is a significantly important aspect, which has brought tremendous results to the organisation and we look forward to strengthening our affiliation to a strongly built brand name, which has become a household name over the last 60 years. We will also move forward committing to link our organisation more with international partners to strengthen our balance sheet and to create important funding links with reliable, trustworthy and like-minded international organisations of repute.

I take the opportunity to thank my Directors, who have been a strong source of strength to SDF with their sincere committed efforts towards greatly adding value to the organisation and inspiring the organisation. These efforts are much appreciated. The management and staff of the organisation have displayed great commitment and dedication, which is much appreciated, and all their efforts are being applauded. I also thank the Sarvodaya movement, its founder leader Dr AT Ariyaratne, the current President Dr Vinya Ariyaratne, and all the management and members for their continued assistance for SDF. Most importantly, I thank all our shareholders, customers, depositors and borrowers, who have been most sincere to us and continue to be a part of our onward journey to serve the community as we progress forward as a nation.

Mr. Channa de Silva
Chairman

25th June 2019

CEO's Review

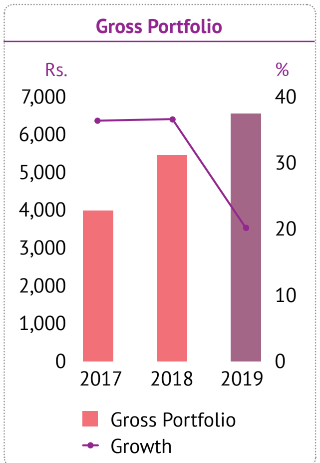
> "Having introduced many growth initiatives across our diversified portfolio of services, we have achieved commendable portfolio expansion across all business sectors, which has resulted in a healthy 19% increase in income from Rs 1.3 billion in the previous financial year, to Rs 1.6 billion."

The year under review was a challenging year for the entire financial services sector of the country due to the generally unfavourable macro environment that restricted business growth, while cost of funds maintained an upward trajectory. Despite these challenges, SDF has prevailed in strengthening its social and relationship capital base that will generate new opportunities in the future.

Business performance

SDF remained focused on maintaining strategic focus to create sustainable value for all stakeholders through changes to the business model. In a far reaching change to its traditional business model of predominantly micro lending, SDF is now in the process of rebalancing its portfolio and operational structures towards becoming an SME specialist, backed by customised financial products to support upward mobility from micro to small business and beyond. This change in business direction is demonstrated in the year-on-year growth of the SME portfolio of the Company and the growing brand recognition as an SME services provider. In full cognisance of the vital role of micro finance in uplifting rural grassroots economies, we, as a part of the Sarvodaya family, will continue our involvement in the country's micro finance industry. However, the lending portfolio has been rebalanced to emphasise a more diversified basket of financial services that contribute towards reducing downside systematic risks. Our target is for the micro business to represent 30%-40% of total disbursements in the Company's long term business model.

Having introduced many growth initiatives across our diversified portfolio of services, we have achieved commendable portfolio expansion across all business sectors, which has resulted in a healthy 19% increase in income from Rs 1.3 billion in the previous financial year, to Rs 1.6 billion. While the total income of the Company has continued to expand, as at end March 2019, micro lending remains the largest contributor to the income at about 45% of total Company income. Also, the SME product showed an encouraging progress with income from this segment increasing to Rs 326.4 million from Rs 154.0 million in year before. . As at the end of the current financial year SME portfolio amounted to Rs.1.6 billion representing 25% of gross portfolio.



Rs. 1.6 Bn
Income

Rs. 1.6 Bn
SME Portfolio

Rs. 1.1 Bn
Leasing Portfolio

Rs. 5.4 Bn
Customer Deposits

The leasing portfolio has done remarkably well in the year under review despite the general market downturn recoding an exceptional growth of 80% year-on-year, from Rs 600 million, to Rs 1.1 billion. The leasing business accounts for about 17% of the gross portfolio and is expected to expand its share rapidly in the future, under the direction of our sector growth plan. During the year under review, we initiated partnerships with a leading vehicle retailer, Ideal Motors, for providing leasing packages at extremely competitive rates that have enhanced customer convenience. We intend to enter into similar partnerships with DIMO and United Motors in next financial year for offering added benefits to our leasing customers. These projects would greatly contribute towards expansion of our leasing portfolio.

Our lending portfolio's growth was strongly supported by deposits growth. Under weakened market condition and highly intensified competition, deposits mobilisation was extremely challenging. However, we achieved a 16% growth in deposits from Rs.4.6 billion to Rs.5.4 billion.

Emphasis on the development of new market segments has enabled SDF to expand its footprint extremely rapidly into corporate lending, inclusive of SME corporates. The new corporate lending product generates multiple benefits through opportunities for larger sized credit lines, which improves the Company's cost management through inflows of comparatively lower administration costs. Therefore, the growth in corporate credit has made a significant contribution towards controlling SDF's cost to income ratio, while also enhancing quality of the portfolio by diluting the NPL ratios.

Conforming to the Sarvodaya movement's empowerment philosophy, SDF structures different financial products aimed at facilitating the upward movement of people. One such example is the Tharunodaya scheme for young entrepreneurs. Using this platform, instead of traditional leasing, SDF uplifts these ventures from the ordinary course of entrepreneurism, to new heights. The Thissamaharama water reserve and Lake Gregory in Nuwara Eliya, are catching the international limelight as hot spots for jet skiing, backed by SDF funds that have helped upgrade Sri Lankan tourism and businesses through the introduction of modern water sports facilities. The country has benefited from many such projects that have enhanced socio-economic lifestyles.

Building a performance culture

Enhancing our performance levels, through continuous productivity and efficiency gains, is essential to achieve growth objectives and also to ensure market share expansion and brand equity growth in an increasingly competitive market. Therefore, during the year under review all efforts were geared towards inculcating a performance driven culture, supported by the implementation of KPIs across the organisation, based on individual targets. A comprehensive performance management system is now in place extending across all employee grades and branches, and performance evaluations were systematically conducted for early identification of employee development needs in support of strategic objectives. The process is structured to inculcate a new culture, which is driven by accountability and tangible results. Employee performance will be measured within a framework of continuous supervision by department heads and reviewed monthly and quarterly for impartiality and accuracy of assessment. We fully subscribe to the constructive approach towards providing adequate opportunities towards developing personal and technical skills in all employees. In this regard, the deployment of the KPI system facilitates early identification of poor performance that can be addressed through a multi-layered approach. We have already introduced a systematic grooming mechanism to train and improve employee performance, coupled with a highly supportive mentoring system.

The reward framework has also been re-evaluated and reconstituted to reflect the core objective of transforming SDF into a performance driven entity through a new and more effective reward scheme. The incentives driven model has been replaced by a more pragmatic and quantifiable system of linking the overall reward system to broader acquisition costs and business potential of each geographic area as the backdrop to setting targets for each branch. Hence, the newly minted reward formula acknowledges existing regional and market asymmetries, when recognising best performances. While ensuring greater fairness in the reward framework, we have also strictly enforced penalties and disciplinary procedures across the organisation hierarchy, with the ultimate objective of building a highly motivated and disciplined team.

CEO's Review

Enhancing brand visibility

Setting clear and precise strategic objectives for our teams to pursue, is vital to ensure sustained growth. Our strategic priority for the current financial year was to enhance brand visibility. As Sarvodaya is a household name, this public popularity was used most effectively as a spring board to promote our SME financing and leasing services. Our existing service points that number 51, are strategically spread across the island providing a high-level of accessibility and convenience to all communities. I am happy to report that all SDF service points have now been upgraded, remodelled and also fully automated. The integration of digital platforms and e-commerce facilities at front end service points has become instrumental to drive growth in an environment of rising costs, brand differentiation and increasing personalisation. The modern operating environments at our outlets are designed with a future orientation and are equipped with the latest modern conveniences, such as collections via Mobitel Encash, and Western Union money transfers. Further enhancing our service standards, we initiated a financial emergency hotline under the dedicated number 1319 that has also opened up new business avenues.

The initiative we took two years back to introduce Mobitel mCash for collections has assisted in increasing the effectiveness in recoveries. Using this technology, we intend to establish virtual branches in near future with the required approval from the Central Bank to broad base our services using mobile devices, such as, smart phones or tabs, to increase our market reach with greater efficiency and effectiveness. Management efficiency and oversight have been augmented through the implementation of the MIS dashboard using Power BI tools from Microsoft, which enables management personnel to view real time status of repayments and recoveries for greater control over the portfolio resulting in enhancing the quality of the portfolio.

Expanding digital footprint

Understanding the digital revolution sweeping the world, we have successfully transferred the much loved traditional Sarvodaya values onto a new digital platform of social interaction, which is driving rapid change across the socio-economic strata of Sri Lanka. During the year under review we have been continually developing and advancing our digital footprint via multiple operational aspects, from sourcing the best talent, to stakeholder engagements, to marketing and public relations. By utilising modern technical facilities such as geo fencing to precisely target market segments and launching digital business promotional campaigns, we have been successful in attracting the modern, upwardly mobile generation of Sri Lankans.

Moving wholeheartedly onto the new digital dimension we have expanded our corporate social responsibility efforts onto our social media platforms with educational productions on health and wellness and other CSR activities. During the year, SDF engaged in a wide variety of CSR activities with many different stakeholders with the objective of supporting national welfare and empowering the underserved. A highly successful event in this regard was the Pumpkin Festival which was held in Colombo, to market the produce of local pumpkin farmers. The event saw wide spread publicity with the participation of leading hotels. Encouraged by the resounding success of this endeavour, we have already drawn up plans for a mega entrepreneurial forum in 2019 that will congregate start-up ventures from all corners of the country. The objective is to upscale these ventures and build partnerships and contact networks, to fuel essential entrepreneurial growth in the country. I believe such events will contribute towards consolidating SDF's unique brand identity, emulating the Sarvodaya movement's contributions towards grassroots entrepreneurial progress. In another corporate social responsibility venture, we educated the All Island School Children Transport Association on how to provide safe transport services, through proper maintenance of vehicles.

Plans for the future

Inspired by a philosophy of human advancement and empowerment and directed by a farsighted strategic vision of the future, we are motivated and dedicated towards achieving our business objectives in a sustainable manner, where all profits are redirected towards social progress through the Sarvodaya movement. Looking to the future, we have developed our growth strategies linked to the ubiquitous Sarvodaya heritage and brand name, which is respected by all communities across the country and which gives SDF a unique identity, differentiating it from all other financial services providers in the country. We will move forward supported by the three pillars of the Sarvodaya philosophy, digital platforms and uniqueness of products and services.

While the current macro environmental climate is far from conducive for business expansion beleaguered by political uncertainly in a crucial election year, we are confident of driving growth by leveraging our three competitive pillars to create value for our stakeholders.

In conclusion, I would like to thank the Chairman and the Board of Directors for their confidence in me and the management and all employees of SDF for their unstinting cooperation towards achieving the Company's corporate objectives. I also thank our business partners and our loyal customers and look forward to another mutually beneficial year.

Sincerely

Mr. Nilantha Jayanetti
Chief Executive Officer

25th June 2019

Board of Directors

Left to Right

Mr. C. Amrit CanagaRetna, *Non Executive / Independent*

Mr. Channa de Silva, *Chairman – Non Executive / Independent*

Dr. Richard W A Vokes, *Non Executive / Independent*

Mr. Masayoshi Yamashita, *Non Executive / Non Independent*

Dr. Janaki Kuruppu, *Non Executive / Independent*

Mr. Chamindha Rajakaruna, *Non Executive / Non Independent*

Board of Directors

Mr. Channa de Silva
Chairman – Non Executive / Independent
Mr Channa de Silva was appointed to the SDF 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.

A Fellow of the Chartered Institute of Management Accountants (FCMA – UK) and Fellow of the Chartered Certified Accountants (FCCA – UK), Mr. de Silva is a Sri Lanka board member of Member Net Worth 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 holds a Bachelor's Degree from the University of Colombo and Master's Degrees from Harvard University (USA) and Melbourne University (Australia). He serves as the President of University of Colombo Alumni Association "Sarasavi Mithuro" and also serves as Founder Chairman of Capital Media publishers of Echelon business magazine, Cosmopolitan Sri Lanka and Top Gear Sri Lanka magazines. He is also an Edward Mason Fellow of Harvard University and served as a Teaching Fellow in Finance at the Harvard Kennedy School.

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, utilizing 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. Richard W A Vokes
Non Executive / Independent
Appointed to the Board in March 2013, Dr. Richard Vokes is the Chairman of its Integrated Risk Management Committee. 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).

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 6 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 single handedly 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 & 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.

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 in 01st November 2017.

Mr. Rajakaruna was 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 with Sarvodaya Shramadana Movement as the Legal Officer. Subsequently, the National Awakening and Good Governance programme of Sarvodaya 'Deshodaya' was handed over to him and he was appointed Director of 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 the General Secretary of People's Action for Free and Fair Elections (PAFFREL), and as 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. Democratic Social Republic of Sri Lanka.

Mr. C. Amrit CanagaRetna

Non Executive / Independent

Experienced and a qualified banker with over 35 years of international and local experience specializing in retail and corporate conventional & sharia based financing, with the last 7 years heading Corporate & 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 8 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.

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

Corporate Management

Left to Right

Mr. Deshantha de Alwis, *DGM - Finance and Planning/ Acting Compliance Officer*

Mr. Nilantha Jayanetti, *Chief Executive Officer*

Mr. Felician Jayakody , *AGM - Credit*

Mr. Rasika Epasinghe, *AGM - Marketing, Business Development and Deposits Mobilisation*

Mr. Nilantha Jayanetti
Chief Executive Officer
Mr. Nilantha Jayanetti joined as the Chief Executive Officer of Sarvodaya Development Finance Limited (SDF) on 01st November 2018.

Mr. 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 & proactive leader in adopting Technology & 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 & 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, Mr. Jayanetti went on to obtain an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura. He has followed a programme on Strategic Leadership from Cornell University - Johnson Graduate School of Management, USA.

Mr. Deshantha de Alwis
Deputy General Manager – Finance and Planning/ Acting Compliance Officer
Mr Deshantha de Alwis joined SDF in May 2013. He assumed duties as the Deputy General Manager – Finance and Planning. Mr de Alwis counts over 25 years of experience in the financial services sector specialising in Merchant Banking, Finance and Planning, Treasury Management, MIS and Administration. Prior to joining Sarvodaya Development Finance he held the positions of General Manager – Finance and Administration at Mercantile Merchant Bank Limited and was the Deputy Financial Controller at Alliance Finance Company PLC, where he gained thorough experience at the strategic level of operations in relation to all key business activities.

Mr de Alwis is a Fellow of the Association of Chartered Certified Accountants, UK (FCCA), Institute of the Management Accountants of Sri Lanka (FCMA) and also of the Cambridge Association of Managers, UK (FCAM)

Mr. Rasika Epasinghe
Asst. General Manager – Marketing, Business Development and Deposits Mobilisation
Mr Rasika Epasinghe who joined Sarvodaya Development Finance in February 2013 as AGM – Marketing and Business Development has over 25 years of experience in the fields of Banking, Business Project Consulting, Marketing and Business Development. Having begun his career as a banker at Seylan Bank PLC, where he served for a period of six years, Mr Rasika went on to obtain a Bachelor's Degree in Business Administration with a dual major in Marketing and Management; a Post graduate Diploma in Marketing from the Sri Lanka Institute of Marketing (SLIM) and a Diploma in Credit Management from the Institute of Bankers, Sri Lanka (IBSL). He is also a Certified Management Accountant (CMA – Australia)

Mr Rasika has held senior positions as Operations Manager at Micro Cars Limited, Brand and Marketing Manager at Diesel & Motor Engineering (DIMO) PLC and Brand Manager for Castrol Lubricants and Goodyear Tyres at Associated Motorways (AMW) PLC. He was also the Manager – Key Accounts, United Motors PLC and Manager – Hire Purchase and Business Development, Hunter and Company PLC. An Ordinary Member of the Sri Lanka Institute of Marketing (SLIM), Member of the Chartered Management Institute (UK) and a Member of the Alumni Association of the Northwood University of USA. Mr Epasinghe is an All Island Justice of Peace.

Mr. Felician Jayakody
Asst. General Manager - Credit
Felician Jayakody joined Sarvodaya Development Finance Ltd from January 2018. He counts over 27 years of banking experience having served International and local banks.

He has experience in Branch Banking, Trade Finance, Corporate / SME Banking, Leasing, Project financing, Relationship Banking, Syndications, Risk Management, Treasury, Process Development & Re- Engineering, Audit, Credit Administration, Recoveries, Islamic Banking, Compliance and FCBU.

He started his career at Hatton National Bank where he served for 11 years and moved to Nations Trust Bank as Customer Relationship Manager.

Prior to joining Emirates NBD Bank in the United Arab Emirates, he was the Regional Manager at Pan Asia Banking Corporation.

Having returned to Sri Lanka from the United Arab Emirates in June 2012, Mr. Felician joined Amana Bank as a Head of Corporate Banking / FCBU.

He has completed the Credit Management Diploma (IBSL), Diploma in International Factoring – UAE, Diploma in Computer Studies. He has a BSc in Business Administration from University of Sri Jayewardenepura, MBA (USA). as well as AIB (inter) SL

Felician is a Fellow in Certified Managers at Cambridge Association of Managers (UK) and a Fellow of the Certified Professional Managers (Sri Lanka).

Senior Management Team

Left to Right

Mr. Chandana Bandara, *Head of Internal Audit/ Acting Risk Officer*
Mr. Nipuna Fernando, *Head of IT*
Mr. Mahesh Jayasanka, *Chief Manager - Finance*
Mr. Harindra Kuruppu, *Chief Manager - Branch Operations & Administration*
Mr. Sanjeewa Polgahagedara, *Head of Micro Loans*

Left to Right

Mr. Mohan Rupesighne, *Head of Litigation*
Mr. Kandaiyar Sasikumar, *Chief Manger-Recoveries*
Mrs. Anusha Fernando, *Head of Legal*
Mr. Suranga Fernando, *Head of Personal Loan*
Mr. Kelum Thilakarathne, *Head of Leasing*

Senior Management Team

Left to Right

Mr. Dharshana Perera, *Acting Head of Recoveries*
Mr. Nirmalath Fernando, *Senior Manager - Operations*
Mr. Manjula Kumarasinghe, *Senior Manager - Credit Administration*
Mr. Chaminda Niroshana, *Senior Manager - SME*
Mrs. Shalini Perera, *Senior Manager - HR*

Please note, *that the Senior Management Team is listed according to the alphabetical order of the surname within the sub group of Chief Managers, Head of Departments and Senior Managers*

Regional Managers

Left to Right

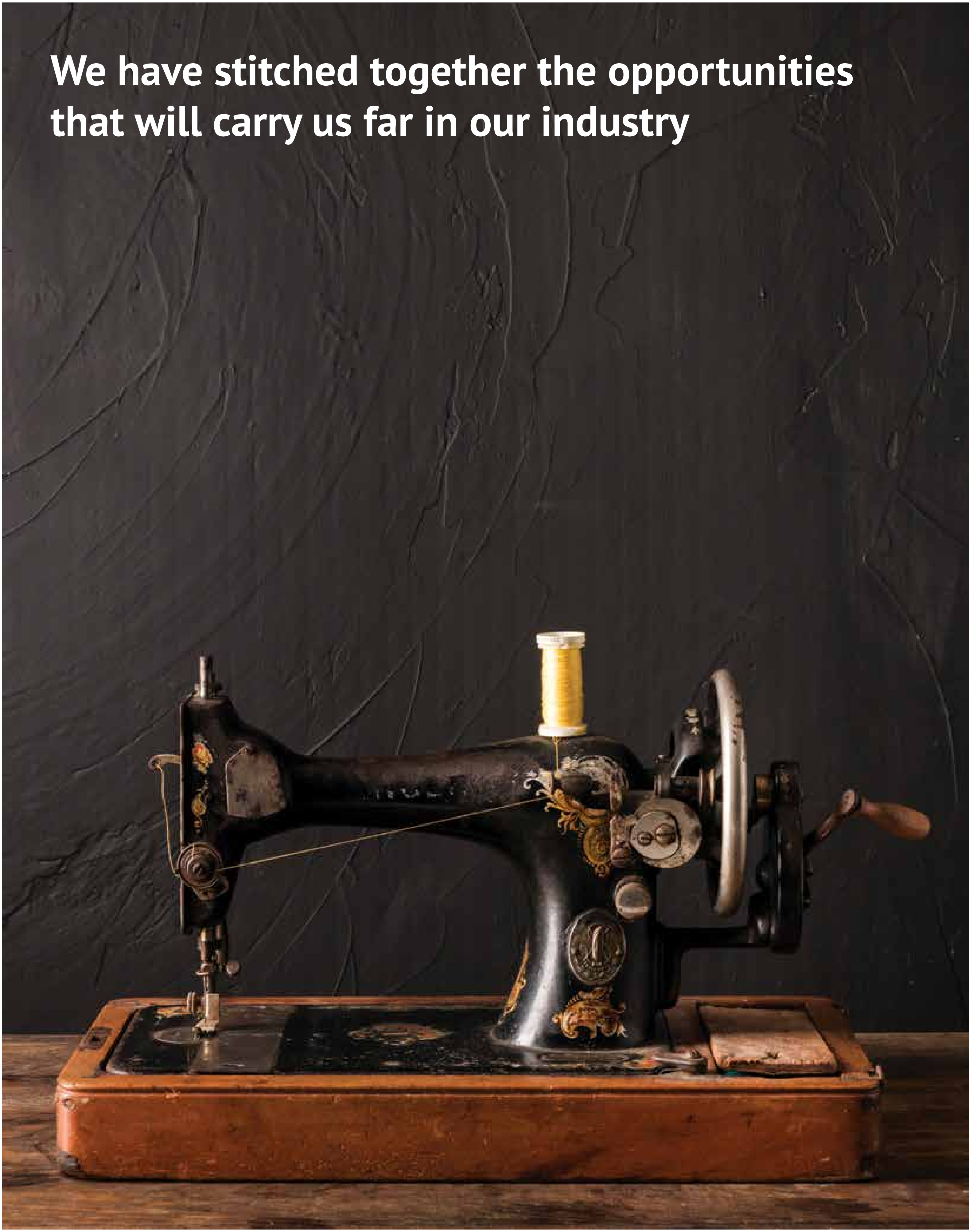
Mr. Janaka Bandara - *Region 1*
Mr. Kularuwan Gamage - *Region 2*
Mr. Chaminda Kumara - *Region 3*
Mr. Benedict Levin - *Region 4*
Mr. Thushara Cooray - *Region 5*
Mr. Dambahegedara Kumaradasa - *Region 6*

Branch and Customer Service Centres' Managers

Region	Branch/CSC	EPF Number	Name	Contact no.(office)	Contact No.(mobile)	E-mail(office)
Region 1 (Western)	Chilaw	52	Mr. D.M.Indrajith Dayaratne	032 5111666-7	0777 540588	managerchilaw@sdf.lk
	Minuwangoda CSC	1149	Mr. H.S.J.S.Dharmasena	033 5113666-7	0768 720670	oicminuwangoda@sdf.lk
	Pasyala CSC	51	Ms. W.A.C.Karunaratne	033 5112666-7	0777 572476	oicpasyala@sdf.lk
	Gampaha	1358	Mr. R.B.R Thushara	033 5111666-7	0761882861	managergampaha@sdf.lk
	Homagama	1014	Mr. P.K.D.Mahisanka	011 5944666-7	0765 508263	managerhomagama@sdf.lk
	Delgoda CSC	63	Ms. G.G.S.Shayamalee	011 5941666-7	0777 547503	oicdelgoda@sdf.lk
	Nattandiya CSC	152	Mr. R.D.T.L.Kumara	032 5112666-7	0771 961463	oicnattandiya@sdf.lk
	Panadura	816	Mr. A.S.K.De Alwis	038 5111666-7	0718 246294	managerpanadura@sdf.lk
	Piliyandala CSC	295	Mr. A.W.C.P.Gunawardena	011 5945666-7	0776 920777	oicpiliyandala@sdf.lk
Region 2 (Southern)	Akuressa CSC	257	Ms. M.W.P.Kumuduni	041 5114666-7	0768 693068	oicakuressa@sdf.lk
	Ambalantota	48	Mr. S.P.T.H.Subasinghe	047 5111666-7	0777 523957	managerambalantota@sdf.lk
	Karandeniya CSC	338	Mr. Kapila Saman Kumara	091 5112666-7	0778 481726	oickarandeniya@sdf.lk
	Kamburupitiya CSC	160	Ms. Udeni Mudalige	041 5116666-7	0763 167401	oickamburupitiya@sdf.lk
	Galle	32	Mr. B.H.P.Chamara Jayalath	091 5111666-7	0777 521173	managergalle@sdf.lk
	Matara	1159	Mr. T.Asela Nawaratne	041 5111666-7	0774 894937	managermatara@sdf.lk
Region 3 (Uva)	Moneragala	678	Mr. A.G.C.Wickramasinghe	055 5115666-7	0768 388682	managerbuttala@sdf.lk
	Medagama CSC	286	Mr. H.A.S.W.Hettiarachchi	055 5113666-7	0776 723380	oicmedagama@sdf.lk
	Ampara	1311	Mr. W.T.N.W.N.Tennakoon	063 5111666-7	0762 937275	managerampara@sdf.lk
	Mahiyanganaya CSC	293	Mr. W.M.R.S.P.Wanasinghe	055 5112666-7	0776 716385	oicmahiyangana@sdf.lk
	Kataragama CSC	65	Mr. K.E.Salamans	047 5112666-7	0729 905317	oickataragama@sdf.lk
	Badulla	70	Mr. S.A.D.C.Wimalasooriya	055 5111666-7	0777 521351	managerbadulla@sdf.lk
Region 4 (North Eastern)	Jaffna	1316	Mr. A. ANURAJ	021 5111666-7	0770 456957	managerjaffna@sdf.lk
	Trincomalee	1017	Mr. Piyadasa Jude Niroshan	026 5111666-7	0778 232279	managertrinco@sdf.lk
	Batticaloa	880	Mr. Baskaradasan Prathileepan	065 5111666-7	0774 442573	managerbatticaloa@sdf.lk
	Kalmunai CSC	1016	Mr. K.K.Ramesh	067 5106666-7	0777 540185	oickalmunai@sdf.lk
	Vavuniya	511	Mr. S.Ragishan	024 5111666-7	0777 636019	managervavuniya@sdf.lk
	Mannar CSC	938	Mr. N.T.Voltan	023 5111666-7	0763 167397	oicmannar@sdf.lk

Region	Branch/CSC	EPF Number	Name	Contact no.(office)	Contact No.(mobile)	E-mail(office)
Region 5 (North Western)	Godakawela	16	Mr. B.G.N.Jayatillake	045 5112666-7	0777 548398	managergodakawela@sdf.lk
	Ruwanwella CSC	27	Mr. P.L.Samarawickrama	036 5111666-7	0777 522978	oicruwanwella@sdf.lk
	Balangoda	150	Mr. K.V.S.Dhanapala	045 5111666-7	0763 167288	managerbalangoda@sdf.lk
	Ratnapura	1147	Mr. K.K.D.Piyasena	045 5113666-7	0773 427092	managerratnapura@sdf.lk
	Kurunegala	271	Mr. G.M.R.A.Gaspe	037 5112666-7	0777 527492	managerkurunegala@sdf.lk
	Kuliyapitiya	158	Mr. L.H.N.D.Fernando	037 5111666-7	0772 009344	managerkuliyapitiya@sdf.lk
	Kegalle	290	Mr. P.A.L.L.Perera	035 5111666-7	0766 482859	managerkegalle@sdf.lk
Region 6 (North Central)	Anuradhapura	683	Mr. H.Liyanage	025 5111666-7	0768 388683	manageranuradhapura@sdf.lk
	Dambulla	46	Mr. Y.G.J.Anurajeewa	066 5111666-7	0777 524707	managerdambulla@sdf.lk
	Dehiattakandiya CSC	37	Mr. K.D.N.Kumara	027 5113666-7	0777 517069	oicdehiattakandiya@sdf.lk
	Kekirawa CSC	56	Mr. M.Dharmapala	025 5113666-7	0777 507685	oickekirawa@sdf.lk
	Kebethigollawa	36	Mr. P.N.Sirisena	025 5112666-7	0778 898949	managerkebithigollewa@sdf.lk
	Medirigiriya	14	Mr. H.G.G.W.Bandara	027 5111666-7	0777 589338	managermedirigiriya@sdf.lk
	Parakramapura CSC	53	Mr. B.A.D.N.Kumari	025 5115666-7	0777 540288	oicparakramapura@sdf.lk
	Polonnaruwa	68	Mr. M.D.Indrasiri	027 5112666-7	0777 524549	managerpolonnaruwa@sdf.lk
	Puttalam	133	Mr. H.M.I.S.Kumara	032 5113666-7	0777 538901	managerputtalam@sdf.lk
	Tambuttegama CSC	59	Mr. W.D.Samantha Prasad	025 5114666-7	0777 540253	oictambuttegama@sdf.lk
Region 7 (Central)	Hatton CSC	57	Mr. M.G.Vijitha Maveekumbura	051 5111666-7	0777 508672	oichatton@sdf.lk
	Nawalapitiya CSC	492	Mr. C.P.Hettiarachchi	054 5111666-7	0718645403	oicnawalapitiya@sdf.lk
	Nuwara Eliya	35	Mr. W.R.M.J.Seneviratne	052 5111666-7	0777 524763	managernuwaraeliya@sdf.lk
	Kandy	1298	Mr. N.W.S.S.Weerasuriya	081 5113666-7	N/A	managerkandy@sdf.lk
	Digana CSC	54	Mr. W.D.D.N.K.Sooriyaratne	081 5112666-7	0777 540911	oicdigana@sdf.lk
	Matale	45	Mr. Upali Ranasinghe	066 5112666-7	0722 358004	managermatale@sdf.lk
Head Office	Borella	1141	Mr. J.A.D.S.Asanka	011 5942666-7	0764 831124	managerborella@sdf.lk

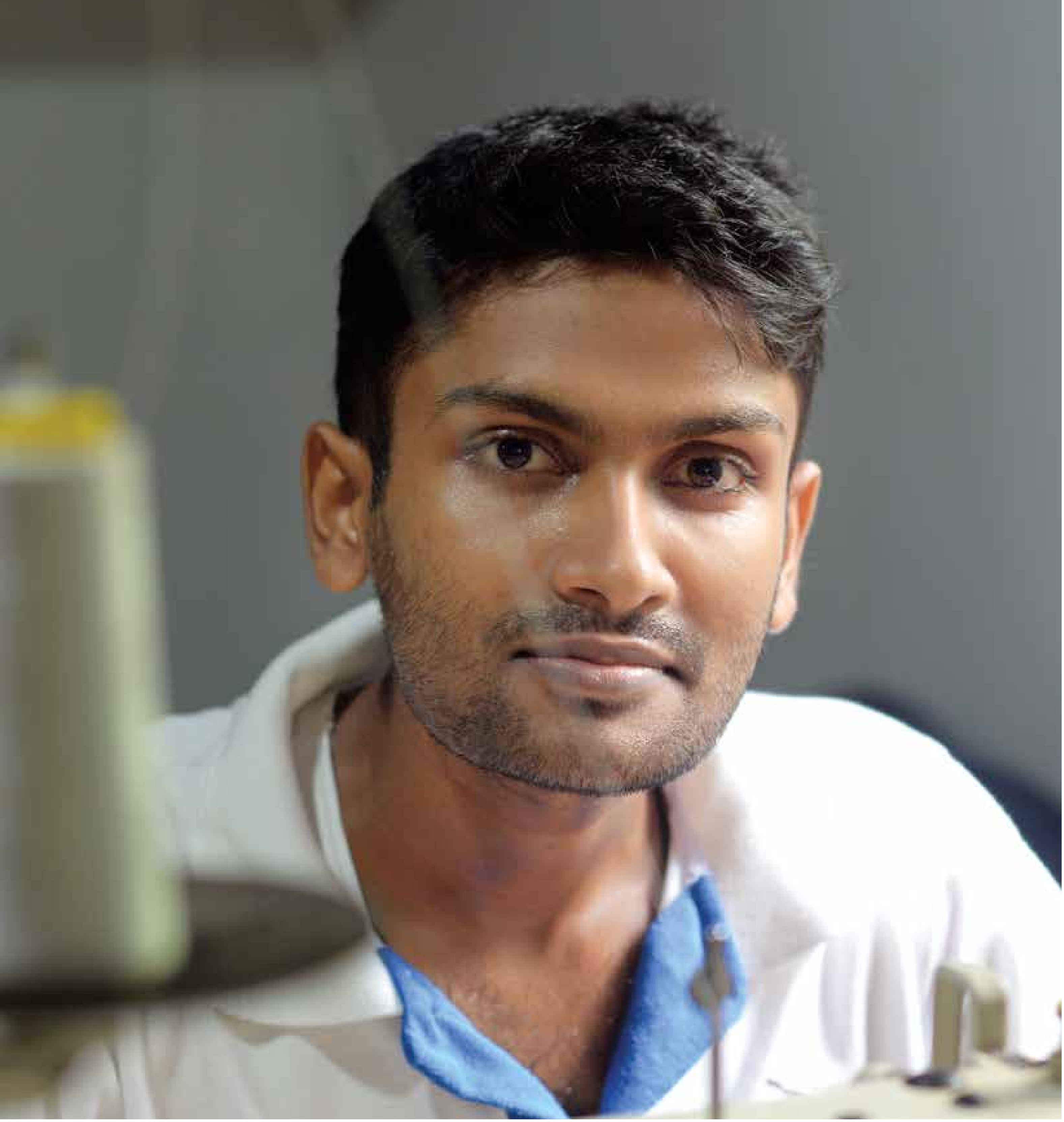
We have stitched together the opportunities that will carry us far in our industry



I started making cloth bags after sitting my ordinary level exam. At that point, I did not know how to even switch on a sewing machine. However, with self-determination I learned to sew. Slowly, we developed our business. I got a loan of Rs.100,000/- from SDF under their "Tharunodaya" loan programme, and added two more machines.

Today, we are a well-established small business in our area. Government offices in the area call us to exhibit and sell our products on their salary day. We are now trying to expand. Soon, we will add more space for our tailoring unit.

SDF showed its kind heart, and brought a smile to us.



Corporate Governance

Introduction

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.

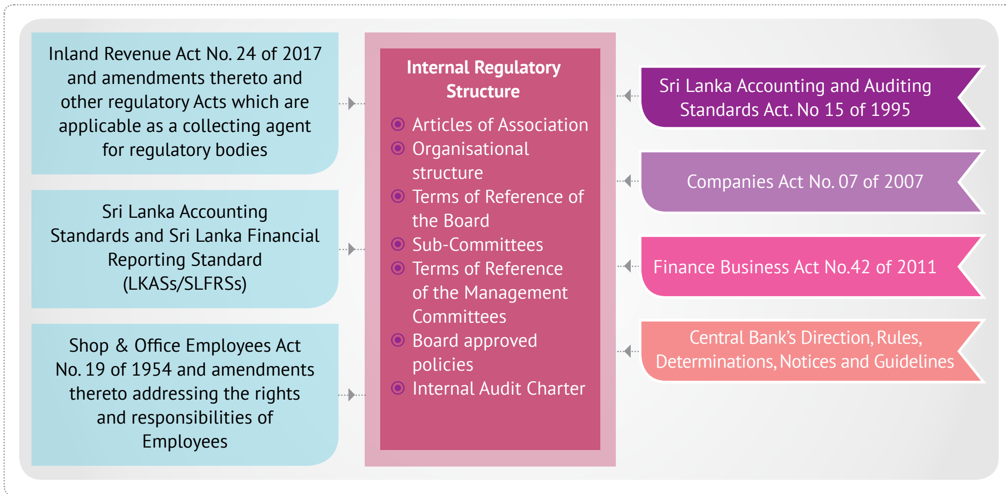
General

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.

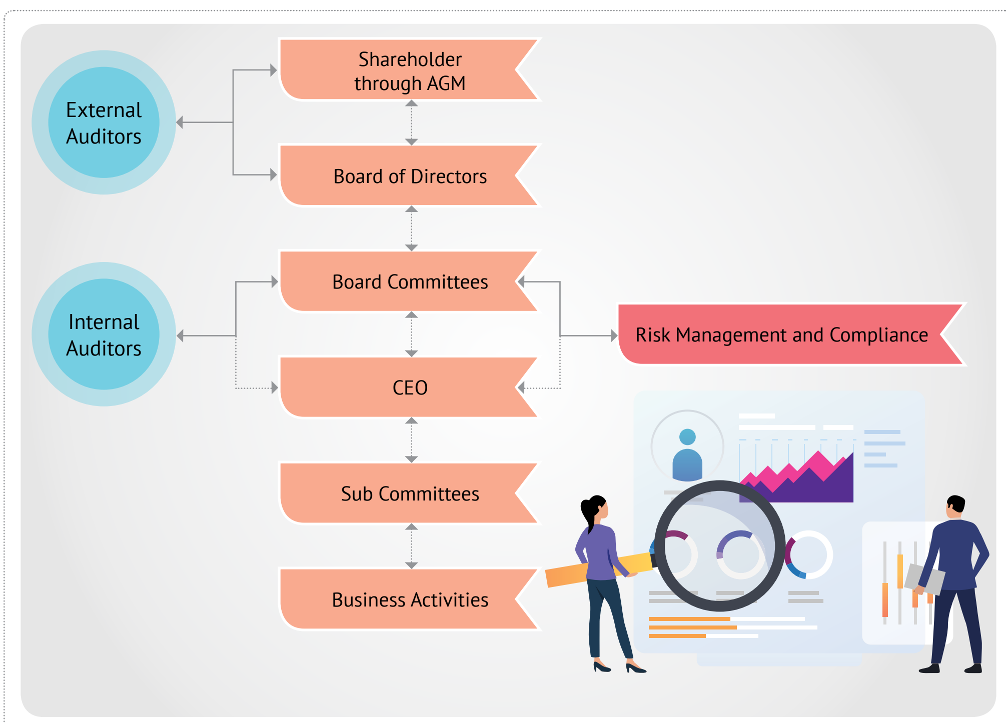
These specify the delegation of responsibility for governance, control and monitoring of operations between the shareholders, the Board of Directors and the CEO. The Board has established the principles of Corporate Governance, which are reviewed annually to ensure that they are appropriate, effective 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.



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 16.

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, is disclosed under the 'Chair of the Board' on page 35 of this Annual Report. The role and the responsibilities of the Chief Executive Officer, Mr. Nilantha Jayanetti, is disclosed under the 'Management's Role in the Structure of Corporate Governance', on page 36 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 six Directors which include the Chairman, who functions in an Independent, Non-Executive capacity. Three 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 16 to 17 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.

Corporate 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 & Financial Services , Insurance, Fund Management, Capital Markets, Accounting and Auditing

Mr. Masayoshi Yamashita,
Non Executive / Non Independent
Expertise in Banking, 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

Board of Directors

- Approaches individual & 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.

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, Dr. Vinya Ariyaratne, Non-Executive, Non Independent Director, who retired by rotation was reappointed at the AGM held on 26th June 2018

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 Mr. Amrit CanagaRetna as a Non-Executive, Independent Director w.e.f. 19th October 2018.

II. Retirement of Existing Directors

The following Directors retired 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. The Company informed these retirements to the Central Bank of Sri Lanka.

Name	First Appointed	Re-elected	Retired	Status
Dr. Vinya Ariyaratne	01st January 2010	June 2018	31st December 2018	Non-Executive, Non-Independent Director
Mr. Shakila Wijewardena	01st January 2010	June 2015	31st December 2018	Non-Executive, Non-Independent Director
Mr. Shevon Gooneratne	05th February 2010	June 2016	03rd February 2019	Non-Executive, Independent Director

III. Resignation of Existing Directors

On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Board of Directors of the Company accepted the resignation of Mr. Alex Perera, Non-Executive, Independent Director w.e.f. 14th August 2018.

IV. Demise of Existing Directors

Mr. K.L. Gunawardana who was a Non-Executive, Non-Independent Director of the Company demised during the year under review and thus, ceased to be a Director w.e.f. 21st November 2018. The Company informed the demise of Mr. K.L. Gunewardana to the Central Bank of Sri Lanka.

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 2015	Chairman/ Non-Executive, Independent Director
Dr. Vinya Ariyaratne	01st January 2010	31st December 2018	June 2018	Non-Executive, Non-Independent Director
Mr. Shakila Wijewardena	01st January 2010	31st December 2018	June 2015	Non-Executive, Non-Independent Director
Mr. K L Gunawardana	05th February 2010	21st November 2018	June 2016	Non-Executive, Non-Independent Director
Mr. Shevon Gooneratne	05th February 2010	03rd February 2019	June 2016	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. Alex Perera	01st July 2016	-	June 2017	Non-Executive, Independent Director
Mr. Chamindha Rajakaruna	01st November 2017	-	-	Non-Executive, Non-Independent Director
Mr. Amrit CanagaRetna	19th October 2018	-	-	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.

Corporate Governance

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:

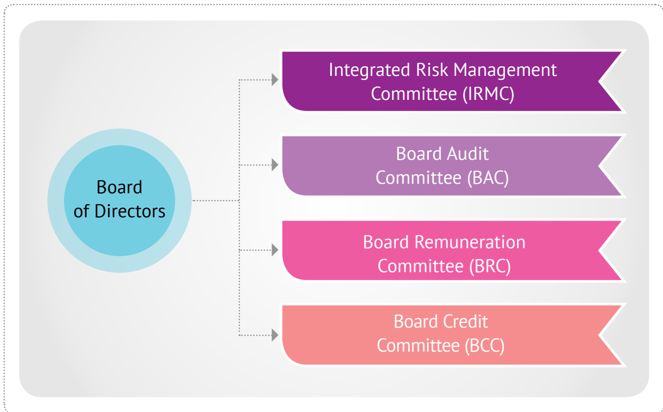
	Name of the Director	Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings											
						27.04.2018	31.05.2018	29.06.2018	23.07.2018	27.08.2018	28.09.2018	29.10.2018	29.11.2018	24.12.2018	25.01.2019	26.02.2019	29.03.2019
1	Mr. Channa de Silva		√	√		√	√	√	√	x	√	√	√	√	√	√	√
2	Dr. Vinya Ariyaratne (retired w.e.f. 31st December 2018)		√		√	√	√	√	√	√	√	√	√	√	-	-	-
3	Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018)		√		√	√	√	x	√	√	√	√	√	x	-	-	-
4	Mr. Shevon Gooneratne (retired w.e.f. 03rd February 2019)		√	√		√	√	√	√	√	√	√	√	√	√	-	-
5	Mr. K L Gunawardana (demised on 21st November 2018)		√		√	√	√	√	√	√	√	√	-	-	-	-	-
6	Dr. Richard Vokes		√	√		√	√	√	√	√	√	√	√	x	√	√	√
7	Mr. Masayoshi Yamashita		√		√	x	√	x	√	x	√	√	√	x	√	√	√
8	Dr. Janaki Kuruppu		√	√		√	√	√	√	√	√	√	√	√	√	X	√
9	Mr. Alex Perera (resigned from w.e.f. 14th August 2018)		√	√		√	√	√	√	-	-	-	-	-	-	-	-
10	Mr Chamindha Rajakaruna		√		√	√	√	√	√	√	√	√	√	√	√	√	√
11	Mr Amrit CanagaRetna (appointed w.e.f. 19th October 2018)		√	√		-	-	-	-	-	-	√	√	√	√	√	√

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)

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.



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 2019 are given in pages 69 to 75 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** Dr. Richard Vokes **Members** Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018) Mr. Alex Perera (resigned w.e.f. 14th August 2018) Mr. Amrit CanagaRetna (appointed w.e.f. 29th October 2018)	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.	24.04.2018 09.08.2018 26.11.2018 20.12.2018 01.02.2019 13.03.2019	6	4
			II. Product Development Committee (PDC): To develop new products in-line with the Company's strategic objectives.		Not scheduled	On requirement

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 Audit Committee (BAC) (Mandatory)	Chairman Mr. Channa de Silva Members Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018) Mr. Shevon Gooneratne (retired w.e.f. 03rd February 2019) Mr. Amrit CanagaRetna (appointed w.e.f.26th February 2019)	⦿ 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.	23.05.2018 20.06.2018 13.07.2018 27.08.2018 14.09.2018 28.09.2018 07.03.2019	7	4
Board Remuneration Committee (BRC)	Chairman Dr. Janaki Kuruppu Members Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018) Mr. K L Gunawardana (demised on 21st November 2018) Dr. Vinya Ariyaratne (appointed w.e.f. 28th September 2018 retired w.e.f 31st December 2018) Mr. Shevon Gooneratne (appointed w.e.f. 26th March 2018 and retired w.e.f 03rd February 2019) Mr. Channa de Silva (appointed w.e.f. 26th February 2019) Mr Amrit CanagaRetna (appointed w.e.f. 26th February 2019)	⦿ 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. ⦿ 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	Not assigned	01.08.2018 21.11.2018	2	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 Credit Committee (BCC)	Chairman Mr. Alex Perera (resigned as Chairman w.e.f. 14th August 2018) Mr. Amrit CanagaRetna (appointed as Chairman w.e.f. 29th October 2019) Members Mr. Channa de Silva Dr. Janaki Kuruppu Dr. Richard Vokes Dr. Vinya Ariyaratne (retired w.e.f. 31st December 2018)	⦿ 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.	06.12.2018 21.01.2019 25.02.2019 25.03.2019	4	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 2019			
			IRMC	BAC	BCC	BRC
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director	19th April 2011	-	6	4	-
Dr. Vinya Ariyaratne (retired w.e.f. 31st December 2018)	Non-Executive, Non-Independent Director	01st January 2010	-	-	-	1
Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018)	Non-Executive, Non-Independent Director	01st January 2010	4	5	-	2
Mr. K L Gunawardana (demised 21st November 2018)	Non-Executive, Non-Independent Director	05th February 2010	-	-	-	1
Mr. Shevon Gooneratne (retired w.e.f. 03rd February 2019)	Non-Executive, Independent Director	05th February 2010	-	6	-	1
Dr. Richard Vokes	Non-Executive, Independent Director	07th March 2013	4	-	4	-
Dr. Janaki Kuruppu	Non-Executive, Independent Director	22nd December 2015	-	-	2	2
Mr. Alex Perera (resigned w.e.f. 14th August 2018)	Non-Executive, Independent Director	01st July 2016	1	-	-	-
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director	01st November 2017	-	-	-	-
Mr. Amrit CanagaRetna (appointed w.e.f. 19th October 2018)	Non-Executive, Independent Director	19th October 2018	4	1	4	-

Corporate Governance

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)	• Decision-making body for major operational matters. • Overall review of performance.	Mr. Nilantha Jayanetti	CEO	Monthly
		Mr. Deshantha de Alwis	DGM - Finance and Planning /Acting Compliance Officer	
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Rasika Epasinghe	AGM – Marketing, Business Development & Deposits Mobilisation	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Mohanlal Rupesinghe	Head of Litigation	
		Mr. Nipuna Fernando	Head of IT	
		Mr. Chandana Bandara	Head of Internal Audit /Acting Risk Officer	
		Mr. Dharshana Perera	Acting Head of Recoveries	
		Ms. Anusha Fernando	Head of Legal	
		Ms. Shalini Perera.	Senior Manager – HR	
		Ms. Indira Dias	Confidential Secretary to CEO/Secretary to the Committee	
Management Audit Committee (MAC)	• To implement and monitor the progress of the decisions of the BAC.	Mr. Nilantha Jayanetti.	CEO	Quarterly and on requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning /Acting Compliance Officer	
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Rasika Epasinghe	AGM – Marketing, Business Development & Deposits Mobilisation	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Chandana Bandara	Head of Internal Audit /Acting Risk Officer/ Secretary to the Committee	
		Ms. Shalini Perera	Senior Manager- HR	

Committees	Function	Member	Designation	Meeting Sequence
Assets and Liability Committee (ALCO)	⦿ 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. Deshantha de Alwis	DGM - Finance and Planning /Acting Compliance Officer /Secretary to the Committee	
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Rasika Epasinghe	AGM – Marketing, Business Development & Deposits Mobilisation	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Chandana Bandara	Head of Internal Audit /Acting Risk Officer	
Management Credit Committee (MCC)	⦿ 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. Deshantha de Alwis	DGM - Finance and Planning /Acting Compliance Officer	
		Mr. Felician Jayakody	AGM – Credit /Secretary to the Committee	
		Mr. Chandana Bandara	Head of Internal Audit /Acting Risk Officer	
		Mr. Dharshana Perera	Acting Head of Recoveries	
Product Development Committee (PDC)	⦿ To develop new products.	Mr. Nilantha Jayanetti.	CEO	On requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning /Acting Compliance Officer	
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Rasika Epasinghe	AGM – Marketing, Business Development & Deposits Mobilisation /Secretary to the Committee	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Nipuna Fernando	Head of IT	

Corporate Governance

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, the 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 to accounting standards comprising of SLFRSs/LKAs. Financial Statements are also in accordance to 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 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 have 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 over 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.1.5 billion as at 01st January 2019 as stipulated in the Finance Business Act Direction No.02 of 2017. The Board of Directors work with their full commitment and have taken all possible measures towards raising Rs.1.5 Billion core capital requirement. The Board appointed NDB Investment Bank (NDBIB) in the financial year 2018 and executed a Mandate with them to obtain their services to raise Rs.500 Million capital via a private placement and another Rs.500 Million capital via an IPO. NDBIB has already initiated several discussions with potential investors, both locally and internationally. The Board is also currently negotiating with several investors for this purpose. The progress of these discussions are progressive but goes in a slow pace due to the sluggish market condition and the prevailing unfavourable economic and the political situation in the country. The Board of Directors had several discussions with the Central Bank in this regard and informed in writing of the progress made.

ii. The Finance Business Act Direction No.01 of 2016 on Opening, Closure and Relocation of Business Places Violation

The Company opened its first ATM at its head office premises at no.155/A, Dr, Danister De Silva Mawatha, Colombo 08 on 07th September 2018. This ATM was opened after obtaining the Central Bank's approval in November 2017 to join the Common ATM Switch (CAS) and the Common Electronic Fund Transfer Switch (CEFTS) as a secondary member settling the net balances through the RTGS settlement account of NDB. However, the Company has not obtained the Central Bank's approval to open this ATM from the Central Banks' NBFI Department, as per the requirements of the cited direction above. This violation was in-fact a "bona fide" oversight and a misunderstanding on the part of the Company due to the previous approval received from the Central Bank to join the LankaClear ATM network. Subsequently, the Company has written to the Central Bank and provided all required information/documents to obtain approval. The Monetary Board of the Central Bank has imposed a fine of Rs.250,000/- for this violation of the direction for which the Company has written to the Governor of Central Bank for his reconsideration to waiver of this penalty. The Central Bank has confirmed that all information/documents provided for this opening are now in place and the approval for the said opening will be given in due course. The Company had not received the approval for this opening as of the reporting date.

Compliance Status of Corporate Governance Principles

The following disclosures are prepared and presented in conformity with the Finance Company's (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 to be the SDF's Corporate Governance Report for the financial year 2019, 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 strategy has been drawn up for FY 2016 to FY 2020. The Company's corporative objectives, values and risk management was communicated through the presentation that was made to the Board and there after shared with the senior management team and the branch managers at the branch managers' meeting held in January 2017. 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 2019 to FY 2026 and presented to the Board in March 2019. The strategic business plan and the financial projections for the succeeding 6 year 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 at the Regional Managers meeting held in April 2019 and communicated down to the branch level.
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	The Integrated Risk Management Policy was approved by the Board in April 2016. 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 Head, AGM or DGM 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 2019 to 2026 under loan-term goals and financial plan.
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	Company has a process to manage the risks identified by the board and for the Board to discuss new strategies of the bank, and the risks arising out of new strategies. 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.
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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (e)	Reviewing the adequacy and the integrity of the finance company's; i) Internal control systems; and	Complied	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. 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 159 and the Assurance Report from the External Auditor on the Internal Control over Financial Reporting is disclosed on page 162.
	ii) Management of information systems.	Complied	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. 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. However, this process need to be strengthened by implementing an independent process to verify the integrity of the Finance Company's Management information submitted to the Board and the Board sub committees and based on results of the above process, the Board has to review the adequacy and the integrity of the MIS of the company.

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 as Chairman, Board of Directors, CEO, DGM, AGMs, Head of IT, Head of Legal, Head of Recoveries and Compliance Officer stated in the related party policy approved by the Board for the purpose of compliance of this Direction. The Company has followed the definition given in Sri Lanka Accounting Standards. 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 2019 are disclosed on pages 215 to 216 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;	Complied	As per Articles 85 to 92 of the Company, Board has the power to make decisions on selection, nomination and election of Directors.
	ii) the management of conflict of interests; and	Complied	Article 115 of the Company's Articles of Association addresses the provisions on management of conflicts of interest of Directors.
	iii) the determination of weaknesses and implementation of changes where necessary.	Complied	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. A summary of the board self-evaluations submitted at the Board, for the Board members to discuss and critically asses how they have performed during the year and the weaknesses identified and for them to take required remedial action, if deem necessary. A summary of the Board performance evaluations and the copies of the Board evaluation forms are presented to the Board.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (j)	Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.	Complied	The Company has a 'Succession Plan' approved by the Board in April 2016. The succession plan approved did include a succession plan one-to-one. Since this succession plan has been established in FY 2016, the Company intends to revisit and revise the plan, if necessary, in the FY 2020, for better governance.
2 (1) (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	The Board has scheduled regular meetings with the KMPs to review policies, establish communication lines and monitor progress towards corporate objectives. KMPs participate to the monthly Board meetings and explain matters relating to the operations and performance of the Company to the Board when need arises.
2 (1) (l)	Understanding the regulatory environment.	Complied	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 DGM –Finance & Planning /Acting compliance Officer 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. 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 6 months and amended if necessary by presenting to IRMC.
2 (1) (m)	Exercising due diligence in the hiring and oversight of External Auditors.	Complied	Article 146 of the Company's Articles of Association defines the process of appointment of External Auditors recommended by the Board at AGM. 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. Oversight of the external auditors is carried out by the Board Audit Committee (BAC) and the charter of the BAC addresses the same
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	The functions and responsibilities of the Chairman and CEO has been clearly defined and approved by the Board of Directors.

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.
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 28 to 67 of this Annual report.
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 by the Compliance Officer and those records are maintained with the Company Secretary. Self-evaluation for the current year has been obtained and a summery has been submitted to the Board.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 23 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.
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 32 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.

<table>
<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td>3 (7)</td><td>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.</td><td>Complied</td><td>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.</td></tr>
<tr><td>3 (8)</td><td>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.</td><td>Complied</td><td>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.</td></tr>
<tr><td>3 (9)</td><td>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:

(a) a summary of data and information used by the Board in its deliberations;
(b) the matters considered by the Board;
(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;
(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
(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
(f) Board Resolutions.</td><td>Complied</td><td>The Company Secretary records the proceedings of the meetings and the decisions taken throughout in sufficient detail.

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 complies with strategies and policies of the company and further they evidence data, reports and information used by the board members in arriving at the decisions</td></tr>
</table>

Corporate Governance

<table>
<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td colspan="4">4. Composition of the Board</td></tr>
<tr><td>4 (1)</td><td>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.</td><td>Complied</td><td>At the beginning of the period under review, the Company had ten (10) Board directors. Three (3) directors retired during the year, one (1) director resigned and one (1) director demised. One new director was appointed to the Board as a Non-Executive, Independent director.

Accordingly, As at 31st March 2019, the Board consisted of six (6) Directors inclusive of the Chairman.

<table>
<tr><th>Period</th><th>No. of Directors</th></tr>
<tr><td>01st April 2018 to 13th August 2018</td><td>10</td></tr>
<tr><td>14th August 2018 to 18th October 2018</td><td>9</td></tr>
<tr><td>19t October 2018 to 20th November 2018</td><td>10</td></tr>
<tr><td>21st November 2018 to 30th December 2018</td><td>9</td></tr>
<tr><td>31st December 2018 to 02nd February 2019</td><td>7</td></tr>
<tr><td>03rd February 2019 to 31st March 2019</td><td>6</td></tr>
</table></td></tr>
<tr><td>4 (2)</td><td>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.</td><td>Complied</td><td>The following directors retired from the Board after completing nine (9) years as Non-Executive directors.

<table>
<tr><th>Name</th><th>First Appointed</th><th>Re-elected</th><th>Retired</th><th>Status</th></tr>
<tr><td>Dr. Vinya Ariyaratne</td><td>01st January 2010</td><td>June 2018</td><td>31st December 2018</td><td>Non-Executive, Non-Independent Director</td></tr>
<tr><td>Mr. Shakila Wijewardena</td><td>01st January 2010</td><td>June 2015</td><td>31st December 2018</td><td>Non-Executive, Non-Independent Director</td></tr>
<tr><td>Mr. Shevon Gooneratne</td><td>05th February 2010</td><td>June 2016</td><td>03rd February 2019</td><td>Non-Executive, Independent Director</td></tr>
</table>
The total period of service of other Non-Executive directors does not exceed nine years.</td></tr>
<tr><td>4 (3)</td><td>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.</td><td>Complied</td><td>All Board Directors are Non-Executive Directors. The post of Chief Executive Officer is not that of an Executive Director.</td></tr>
</table>

<table>
<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td>4 (4)</td><td>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;</td><td rowspan="5">Complied</td><td rowspan="5">The Board comprised of five (5) Non-Executive, Independent Directors at the beginning of the period under review and reduced to four (4) at the end of the financial year. They met the criteria for independence as specified in this rule. Self-declarations were obtained from all Non-Executive, Independent Directors confirming their suitability to be designated as 'independent' in terms of the criteria in this rule.

<table>
<tr><th>Period</th><th>No. of Directors</th><th>Independent Directors</th></tr>
<tr><td>01st April 2018 to 13th August 2018</td><td>10</td><td>5</td></tr>
<tr><td>14th August 2018 to 18th October 2018</td><td>9</td><td>4</td></tr>
<tr><td>19t October 2018 to 20th November 2018</td><td>10</td><td>5</td></tr>
<tr><td>21st November 2018 to 30th December 2018</td><td>9</td><td>5</td></tr>
<tr><td>31st December 2018 to 02nd February 2019</td><td>7</td><td>5</td></tr>
<tr><td>03rd February 2019 to 31st March 2019</td><td>6</td><td>4</td></tr>
</table>

Of the two (2) Non-Executive, Non-Independent Directors, one is a representative of the Japanese shareholder of the Company.</td></tr>
<tr><td>4 (4) (a)</td><td>has shares exceeding 2% of the paid-up capital of the finance company or 10% of the paid-up capital of another finance company;</td></tr>
<tr><td>4 (4) (b)</td><td>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;</td></tr>
<tr><td>4 (4) (c)</td><td>has been employed by the finance company during the two-year period immediately preceding the appointment as Director;</td></tr>
<tr><td>4 (4) (d)</td><td>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;</td></tr>
</table>

Corporate Governance

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 have the necessary competencies, and possess academic and professional qualifications in diverse fields to serve as members of the Company's Board, as disclosed in their profiles on pages 16 to 17 of this Annual Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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. 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.
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	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. As disclosed in this Corporate Governance Report, currently, all six (6) Board Directors (including the Chairman) are named and identified as Non-Executive Directors. Of this number, four (4) have been expressly identified as Independent, Non-Executive Directors. The Board of Directors profiles disclosed from pages 16 to 17 of this Annual Report also provides the required details.
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	The article 92 of the Articles of Associations of the Company describes a clearly defined procedure for appointment of a new Director 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	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. There were no casual vacancies during the period under review.
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	There were no resignations or removal from office of Directors in the year under review.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 2019 and at present, all Directors of the Company were below the age of 70 years.
5 (2)	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. Note: The proviso to this sub section was repealed by CBSL Direction No. 6 of 2013.	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	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. All delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.
6 (2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company. 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.
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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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.
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 31 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 & 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 on 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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 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.
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	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. 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.
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.

<table>
<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td colspan="4">8. Board Appointed Committees</td></tr>
<tr><td>8 (1)</td><td>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.

The Board shall present a report on the performance, duties and functions of each committee, at the AGM of the Company.</td><td>Complied</td><td>During the financial year 2019, there were four (04) Board appointed Committees directly reporting to the Board, namely; the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Board Credit Committee (BCC) and Board Remuneration Committee (BRC).

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.

Pages 35 to 37 provides the details of the scope and composition of the above committees and pages 69 to 75 provide the reports of the respective committees.</td></tr>
<tr><td>8 (2)</td><td>Audit Committee
The following shall apply in relation to the Audit Committee:</td><td></td><td></td></tr>
<tr><td>8 (2) (a)</td><td>The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</td><td>Complied</td><td>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.</td></tr>
<tr><td>8 (2) (b)</td><td>The Board members appointed to the Committee shall be Non-Executive Directors.</td><td>Complied</td><td>All the members appointed to the BAC are Non-Executive Directors.

The following appointments, resignations and retirements to the Committee occurred during the year under review.
<table>
<tr><th>Name</th><th>Appointed</th><th>Retired</th><th>Resigned</th></tr>
<tr><td>Mr. Shevon Gooneratne</td><td>-</td><td>03rd February 2019</td><td>-</td></tr>
<tr><td>Mr. Shakila Wijewardena</td><td>-</td><td>31st December 2018</td><td>-</td></tr>
<tr><td>Mr. Amrit CanagaRetna</td><td>26th February 2019</td><td>-</td><td>-</td></tr>
</table>
CEO, DGM – Finance and Planning/Acting Compliance Officer and other KMPs and External Auditors, Ernst & Young, present at the meeting/s by invitation.</td></tr>
<tr><td>8 (2) (c)</td><td>The Committee shall make recommendations on matters in connection with:</td><td>Complied</td><td>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.</td></tr>
</table>

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 2019; 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). Further, the committee discussed and finalized the model creation and the technical evaluation report given by the Ernst & Young on the implementation of SLFRS 9 and agreed upon on the basis of calculation of the impairment provision for the first time adoption of SLFRS 9 by the Company w.e.f. 01st April 2018. 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. Since the current engagement partner, Mr. Ruwan Kottehewa, tendered his resignation, a new engagement partner, Ms. Nayana Sajeewani was assigned for the Company's statutory audit by Ernst & Young. 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.		
8 (2) (d)	The Committee shall review and monitor the External Auditors' independence and objectively and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	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. The Company's External Auditors for financial year 2019, 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 SLAuS.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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.		

Corporate Governance

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	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. 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. 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.
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)	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 – i) major judgmental areas; ii) any changes in accounting policies and practices; iii) significant adjustments arising from the audit; iv) the going concern assumption; and v) the compliance with relevant accounting standards and other legal requirements.	Complied	The 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. 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 the DGM – Finance and Planning in attendance with the External Auditors in order to monitor the integrity of the Financial Statements of the Company.
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

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 2018 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	The Committee has discussed the Internal audit scope, function and resources of the staff requirements. 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. 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.
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 2019 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 Acting 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	The Committee has recommended the appointment of the Head of Internal Audit.
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 discussed the resignation of former Acting Head of Internal Audit.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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.
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 of any Executive Directors, the Committee met with the External Auditors during the year under review. CEO, DGM –Finance & Planning /Acting Compliance Officer, Head of Internal Audit /Acting Risk Officer and Chief Manager – Finance attended these meetings on invitation.
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 71 to 73 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 7 meetings of the Board Audit Committee during the financial year 2019. Page 71 to this Annual Report, provides the details of the meetings of the Board Audit Committee during the financial year 2019 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 71 to 73 this Annual Report, provides details of the activities of the Committee and attendance of members at meetings of the Committee.

<table>
<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td>8 (2) (p)</td><td>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.</td><td>Complied</td><td>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.</td></tr>
<tr><td>8 (2) (q)</td><td>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.</td><td>Complied</td><td>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.</td></tr>
<tr><td>8 (3)</td><td>Integrated Risk Management Committee

The following shall apply in relation to the Integrated Risk Management Committee (IRMC):</td><td></td><td></td></tr>
<tr><td>8 (3) (a)</td><td>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.

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.</td><td>Complied</td><td>The Committee consist of two (2) Non-Executive Directors, CEO and the Key Management Personnel supervising broad risk categories such as credit, market, liquidity, operational and strategic risk.

Approved TOR lays down responsibility of the Committee.

The following appointments, resignations and retirements to the committee occurred during the year under review.

<table>
<tr><th>Name</th><th>Appointed</th><th>Retired</th><th>Resigned</th></tr>
<tr><td>Mr. Alex Perera</td><td>-</td><td>-</td><td>14th August 2018</td></tr>
<tr><td>Mr. Shakila Wijewardena</td><td>-</td><td>31st December 2018</td><td>-</td></tr>
<tr><td>Mr. Amrit CanagaRetna</td><td>29th October 2018</td><td>-</td><td>-</td></tr>
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</td></tr>
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Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (3) (b)	The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied	The Head of Internal Audit /Acting Risk Officer submits minutes 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. The Company has assessed the risks in relation to credit risks, market risk, liquidity risks in particular and detail reports are submitted and discussed at IRMC. The Company carries out stress testing in relation to interest rates and liquidity periodically and discuss the impact that arising from such risks to the Company at IRMC to take appropriate mitigating actions.
8 (3) (c)	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.	Not Complied	Committee has initiated action to review the adequacy and effectiveness of the Asset-Liability Committees' benchmarking against on its current TOR. 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.
8 (3) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	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 scrutinized closely and discussed periodically at ALCO and measures taken to mitigate such impacts arising from those risks. However, the Committee has to initiate reviewing and considering risk indicators which have gone beyond the specified qualitative and quantitative risk limits at each IRMC.
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 six (6) times during the financial year 2018. Page 69 provides the details of the meetings of the Committee during financial year 2019 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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 Head of Internal Audit/ Acting Risk Officer 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 will 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	DGM – Finance & Planning/ Acting Compliance Officer has been appointed as the Compliance Officer to monitor 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 Management and Compliance Departments.
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.		

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (2) (a-g)	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: (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	The Company has 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.
9 (3) (a-d)	The transactions with a related party that are covered in this Directions shall be the following: (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	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.

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 (RPT) Policy whereby the categories of persons who shall be considered as 'related parties' has been identified. Additionally, Company has initiated post audits 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	In accordance with the 'Related Party Transaction' Policy self-declarations are obtained from each Director of the related party transactions that have been carried out during the year and disclosed same under related party transactions on pages 215 to 216 to these Financial Statements. The Company's related party transaction 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 favorable treatment". The compliance officer extracts reports on RPT transactions on all products and checks them manually to ensure that no "more favorable treatment" is accorded to related parties than other constituents of the Company. The company in the process of developing a preventive process to identify and prevent through system any related party transaction which are giving more favourable treatments to the related parties; and, also to capture and disclose the related party transactions and information flows between the Company and any related party which may lead to share proprietary.
9 (4) (d)	Providing or obtaining services to or from a related party without a proper evaluation procedure.		

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 obtain self-declarations from each Director and the KMPs for the purpose of identifying parties related to them. Based on the information furnished in these declarations, 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.
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 165 to 229 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 157 and the 'Independent Auditors' Report' on pages 163 to 164 to 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 159 to this Annual Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
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 162 to this Annual Report.
10 (2) (d)	Details of Directors, including names, transactions with the finance company.	Complied	Details of the Directors are given on pages 16 to 17 of this Annual Report. Mr. Amrit KanagaRetna, Non-Executive, Independent Director, deposited Rs.380.0K in the Company during the year under review. The payable balance of this deposit with accrued interest amounted to Rs.385.0K as at the end of the FY. 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 42.1.1 to these Financial Statements on page 215 and in 'Report of the Board of Directors of the Affairs of the Company' on page 154 to 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. 36.11 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. 440.1K. The payable balance including interest accrued on those deposits amounted to Rs. 566.9K as at the year end.

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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	The 'Report of the Board of Directors on the Affairs of the Company' on pages 150 to 156 and the 'Corporate Governance Report' on pages 28 to 68 to this Annual Report, describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the financial year. The Directors' Statement on Internal Control over Financial Reporting on page 159 to 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 162).
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 38 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	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. We have obtained the Corporate Governance Factual Findings Report from the External Auditors.

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. Three Directors retired from the Board after completing nine (9) years in the Board whose details are fully described from page 30 to 31 this Corporate Governance Report. The Company did not have any Director completing nine years (9) as at the year end and on the date of this report other than described on the said pages above. 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 year end and on the date of this report.
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.		
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:		

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
11 (5)	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.		
11 (6)	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.		

Report of the Integrated Risk Management Committee

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 conforms to the same as given in the IRMC Terms of Reference (TOR) which sets out the membership, risk management framework, source of authority, responsibilities, duties, meeting frequency, quorum, and reporting procedures of the IRMC. The IRMC assists the Board of Directors in performing its oversight function in relation to different types of risk faced by SDF in its business operations and ensures adequacy and effectiveness of the risk management framework of SDF. The Committee submits Minutes of its meetings, which provide a record of the discussions and an assessment of risk issues, as well as recommended actions, to the Board of Directors for their review within a week of each IRMC meeting.

Roles and Responsibilities

Duties of the IRMC include determining the adequacy and effectiveness of risk mitigating measures used and 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 (2) Independent, Non-Executive Directors, the CEO, Acting Risk Officer 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
Dr. Richard Vokes	Chairman / Non-Executive, Independent Director
Mr. Amrit CanagaRetna	Member / Non – Executive, Independent Director

The Profiles of the IRMC members are set out from pages 15 to 17 of this Annual Report. Mr. Chandana Bandara, Head of Internal Audit /Acting Risk Officer, functions as the secretary to the IRMC.

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

Retirements

As per the provisions given in the Central Bank Corporate Governance Direction No.03 of 2018 and the Article 84 (viii) of the Company's Articles of Association, Mr. Shakila Wijewardena, Non-Executive, Non Independent Director, retired from the Board after serving nine (9) years as a Non-Executive Director. Accordingly, he ceased be a member of the IRMC w.e.f. his retirement date from the Board of 31st December 2018.

Resignations

Mr. Alex Perera, Non-Executive, Independent Director, resigned from the Board. Accordingly, he ceased to be a member of the IRMC w.e.f. his resignation date from the Board of 14th August 2018.

Appointments

Mr. Amrit CanagaRetna, Non-Executive, Independent Director, appointed to the IRMC by the Board w.e.f. 29th October 2018.

Committee Meetings and the Methodology

Six 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
Dr. Richard Vokes	06	06
Mr. Shakila Wijewardena (retired with effect from 31st December 2018)	06	04
Mr. Alex Perera (resigned with effect from 14th August 2018)	06	01
Mr. Amrit CanagaRetna (appointed with effect from 29th October 2018)	06	04

All key risk areas such as credit, operations, liquidity, and 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 Head of Internal Audit /Acting Risk Officer is present at all meetings to ensure that the proceedings are minuted correctly and the decisions taken therein are adopted accordingly.

Risk Management

The Division functions as an independent unit and is headed by a professional, functioning as Head of Internal Audit /Acting Risk Officer, reporting directly to the Chairman of the IRMC in relation to the risk management of the Company. 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.

Report of the Integrated Risk Management Committee

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 and thereafter been approved by the Board.

Initiatives undertaken during the year under review;

- Set credit, liquidity and market risk appetite for the Company
- Reviewed Risk Control Self-Assessment (RCSA) findings of the Company on half yearly basis
- Reviewed key risk indicators in use for risk monitoring and results of stress tests to evaluate resilience and compliance with internal benchmarks

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

Dr Richard Vokes
Chairman –Integrated Risk Management Committee

25th June 2019

Report of the Board Audit Committee

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 2019, 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 15 to 17 of this Annual Report. Mr. Chandana Bandara, Head of Internal Audit /Acting Risk Officer, who is a qualified Chartered Accountant, functions as the secretary to the BAC.

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

Retirements
As per the provisions given in the Central Bank Corporate Governance Direction No.03 of 2018 and the Article 84 (viii) of the Company's Articles of Association, the following members of the BAC retired from the Board after serving nine (9) years as Non-Executive Directors in the Board. Accordingly, they ceased to be members of the BAC with effect from their respective dates of retirement.

Name	Retired	Designation
Mr. Shakila Wijewardena	31st December 2018	Member / Non - Executive, Non Independent Director
Mr. Shevon Gooneratne	03rd February 2019	Member / Non-Executive, Independent Director

Appointments
The following member was appointed to the BAC by the Board during the current year.

Name	Appointed	Designation
Mr. Amrit CanagaRetna	26th February 2019	Member / Non - Executive, Independent Director

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	07	07
Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018)	06	05
Mr. Shevon Gooneratne (retired w.e.f. 03rd February 2019)	06	06
Mr. Amrit CanagaRetna (appointed w.e.f. 26th February 2019)	01	01

Report of the Board Audit

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 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 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 2019, 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 51 branch annual audits, 33 branch spot audits, 04 functional audits and 13 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 was implemented in FY 2017 and 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 Board Audit 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.

Mr. Channa de Silva
Chairman – Board Audit Committee

25th June 2019

Report of the Board Remuneration Committee

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 of three (3) Non-Executive Directors as at 31st March 2019 as mentioned below. The Chairman of the BRC is an Independent, Non-Executive Director.

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

The Profiles of the BRC members are set out from pages 15 to 17 of this Annual Report. Ms. Shalini Perera, Senior Manager -HR, functions as the secretary to the BRC.

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

Retirements

As per the provisions given in the Central Bank Corporate Governance Direction No.03 of 2018 and the Article 84 (viii) of the Company's Articles of Association, the following members of the BRC retired from the Board after serving nine (9) years as Non-Executive Directors in the Board. Accordingly, they ceased be members of the BRC with effect from their respective dates of retirement.

Name	Retired	Designation
Mr. Shakila Wijewardena	31st December 2018	Member / Non - Executive, Non Independent Director
Dr. Vinya Ariyaratne	31st December 2018	Member / Non - Executive, Non Independent Director
Mr. Shevon Gooneratne	03rd February 2019	Member / Non-Executive, Independent Director

Demise

Mr. K.L. Gunawardana who was a Non-Executive, Independent Director of the Board, demised in the current year and thereby, ceased to be a member of the BRC w.e.f. 21st November 2018.

Appointments

The following members were appointed to the BRC by the Board during the current year.

Name	Appointed	Designation
Mr. Channa de Silva	25th February 2019	Member / Non-Executive, Independent Director
Mr. Amrit CanagaRetna	25th February 2019	Member / Non - Executive, Independent Director
Dr. Vinya Ariyaratne	28th September 2018	Member / Non - Executive, Non Independent Director

Meetings

The BRC meets regularly, at least four times a financial year. The Chief Executive Officer and the Senior 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 two (2) meetings during the current year and the recommendations made by the BRC were circulated and ratified by the Board of Directors.

	01/08/2018	21/11/2018
Dr. Janaki Kuruppu – Chairman	√	√
Mr. Shakila Wijewardema (retired w.e.f. 31st December 2018)	√	√
Mr. K.L. Gunawardana (demised on 21st November 2018)	√	-
Dr. Vinya Ariyaratne (appointed on 28th September 2018 and retired w.e.f. 31st December 2018)	-	√
Mr. Shevon Gooneratne (retired w.e.f. 03rd February 2019)	-	√
Mr. Channa de Silva (appointed w.e.f. 25th February 2019)	-	-
Mr. Amrit CanagaRetna (appointed w.e.f.25th February 2019)	-	-

The BRC could not organise the minimum number of meetings required for the year due to CEOs changing in hand during the year under review. It was the opinion of the BRC that the key strategies in relation to HR could not be discussed and formulated objectively until the new CEO takes in office. Accordingly, BRC met in November 2018 after the arrival of the new CEO, to formulate the way forward in terms of HR policies, training and development.

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 'performance driven culture'.

The BRC reviewed/introduced following policy matters during the FY 2019.

- Evaluated and implemented a new HRIS system with "hSenid" strengthening the effectiveness of HR and payroll process.
- Evaluated and revised the existing reimbursement allowances provided to front-end officer and introduced a fuel reimbursement allowance for regional managers for conducting their official duties more productively.
- Evaluated and recommended the staff promotions to the Board based on their performance merits and achievement of KPIs.
- Guided in developing an annual training plan for each category of staff focussing on continuous skills development, capacity building and succession planning.
- Continuously emphasized the need to maintain the cost to income ratio by having the right number of people with the right backgrounds in place.
- Commenced developing an evaluation criteria and mechanism.
- Closely monitored and considered into staff welfare programs 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.

Dr. Janaki Kuruppu
Chairman – Board Remuneration Committee

25th June 2019

Risk Management

Overview

Sarvodaya Development Finance Limited (SDF) continues to strengthen its risk management strategy in line with the growth in scale and complexity of its operations. The principal risks faced by SDF are credit risk, market risk, liquidity risk, operational risk and IT risk. SDF has in place systems and procedures to gauge, evaluate, screen and deal with risk across the Company. An independent Risk Governance Procedure has been set up guaranteeing autonomy of risk estimation, observation and control procedures. Vigorous risk practices have been introduced to the risk culture of SDF. Risk systems are being strengthened in all Business Units. While product innovation is a key driver of the business, risks relating to new products are being mitigated at the point of origin. The risk administration runs parallel with the way the Company works, with new and improved risk mitigates to respond to current economic and environmental challenges.

Risk Highlights for the year 2018/19

Risk Category	Current Year Performance Criteria
Strategic Risk	• ROA declined to 1.0% • ROE declined to 4.4%
Credit Risk	• Focused on more secured lending, backed by collaterals • Credit disbursements decreased by 8.2% YoY. • Lending portfolio grew by 17.1% YoY • The Gross NPA ratio as at 31st March 2019 was 9.41%. • Recoveries strengthened through focused strategies by limiting the exposure to selected asset categories.
Operational Risk	• Staff turnover rate was high at 28% • A performance driven culture was implemented, rewarding best performers. • Efficiencies enhanced through process improvements and cost savings • IT governance strengthened by enhanced controls and for uninterrupted business process
Market Risk	• Increased interest rates in the macro environment pushed cost of funds (CoF) to 10.7% • The interest rate movements regularly monitored and lending products were priced maintaining a net interest margin (NIM) at 12% -13% range.
Liquidity Risk	• Liquid assets maintained above the regulatory requirement. • Long-term funding was raised to broaden the funding base. • Permanent overdraft facilities were raised as buffer for liquidity and contingencies • Maturity mismatches in assets & liabilities narrowed.
IT Risk	• Used technology to improve the efficiency and effectiveness of business processes and as an enabler for new business initiatives • Continuously updated IT system for enhanced performance • Improved IT risk management framework by introducing new risk management policies and processes.
Business Risk	• Introduced innovative products and developed market strategies to grow portfolio.
Compliance Risk	• Complied with directions issued by the Central Bank of Sri Lanka. • Continuously monitored internal controls, policies and procedures for adherence to compliance by employees. • Continuously engaged in training in areas of compliance.

Scope of Risk and the Risk Management Framework

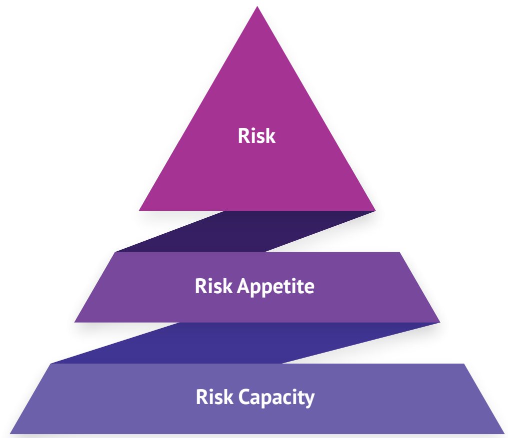
The administration of risk has a vital influence in all of the SDF's business activities. Identifying risk, risk assessing and analysing, planning action, implementing, measuring, controlling and monitoring are essential parts of managing risk.

The risk management function comes under the Board Integrated Risk Management Committee (IRMC) which functions as an independent unit. The IRMC constantly monitors the risk areas of the Company and ensures the risks taken in its operations are within the stipulated risk appetite of the Company. IRMC also ensures that the Company adheres to the policies and the controls specified by CBSL.

SDF has set up structures and procedures to address the risks which are vested on business/departmental heads. The IRMC spearheads the autonomous risk assessments, both qualitative and quantitative, and imparts the outcomes to the Management and the Board of Directors. The IRMC assists management level committees such as the Asset and Liability Management Committee (ALCO) to operate in an adequate and effective manner within the risk management framework in order to achieve strategic objectives. The ALCO reviews the asset and liability functions of the Company.

Details of Committees	
Name of Committee	**Representation**
ALCO	Chaired by: Mr. Nilantha Jayanetti - CEO
	Members: Mr. Deshantha de Alwis - (DGM - Finance & Planning / Acting Compliance Officer)
	Mr. Felician Jayakody (AGM -Credit)
	Mr. Rasika Epasinghe (AGM – Marketing, Business Development & Deposit Mobilisation)
	Mr. Chandana Bandara (Head of Internal Audit / Acting Risk Officer)
	Mr. Harindra Kuruppu (Chief Manager – Branch Operations & Administration)
IRMC	Chaired by: Dr. Richard Vokes
	Members: Mr. Amrit CanagaRetna (Board member)

Hierarchical Approach to Risk Appetite of SDF

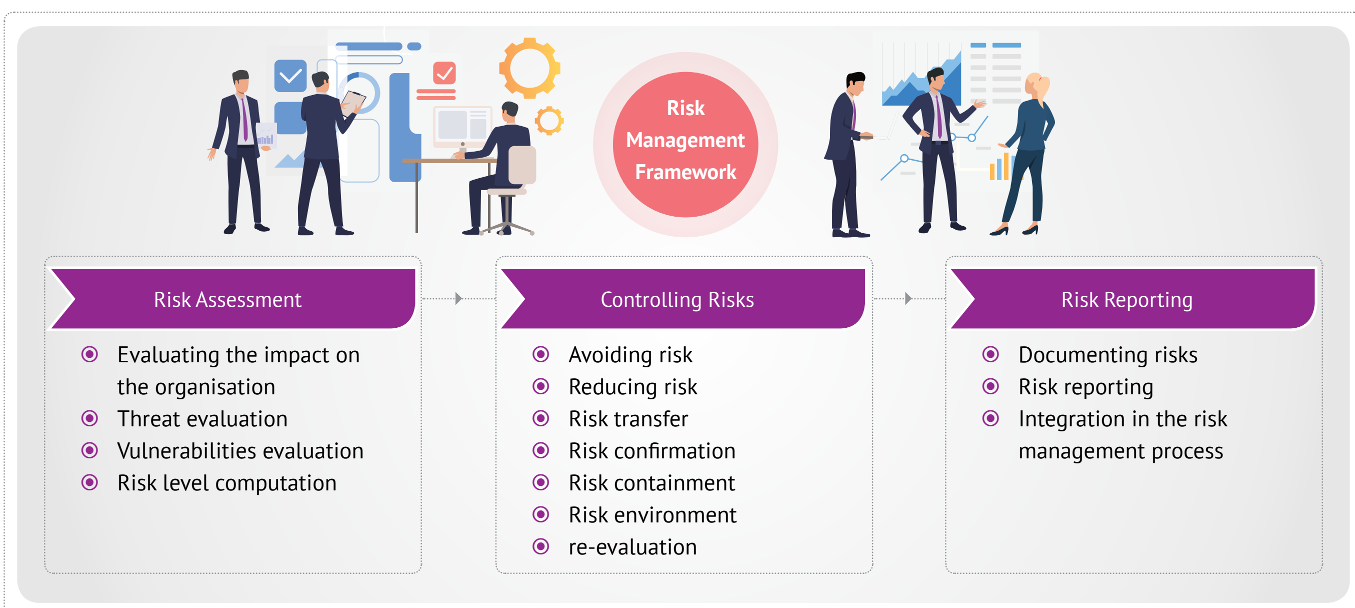


Risk Capacity

Risk capacity, is the amount of risk that the stakeholder has taken in order to reach financial goals. The rate of return necessary to reach organisational goals has been estimated by examining time frames and income requirements that have been discussed at length in the financial statements. Then, rate of return information helps potential investors to decide upon the types of investments to engage in, and the level of risk to take on.

Risk Appetite

The Board is responsible for setting the risk appetite for the Company. The IRMC, through delegated authority of the Board, is responsible to establish an effective risk appetite framework within the Company. The risk appetite is determined on the level of risk that the Company is willing to accept in reaching for its business objectives.

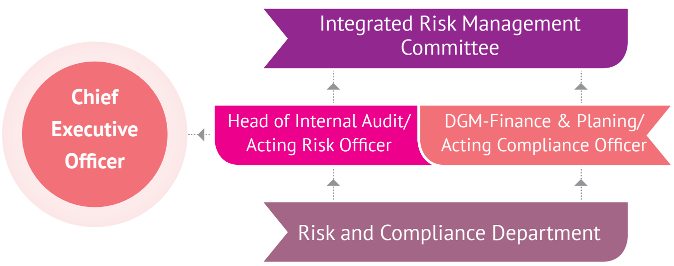


Risk Management

Risk Tolerance and Tolerance Limits

The risk tolerance is a quantitative expression of the amount of risk the company is willing to tolerate over a particular time period. There are operational controls in place for specific risks that are expressed in metrics and are monitored regularly.

Risk Governance



Responsibilities of Three Lines of Defence

SDF adopts a three lines of defence model which helps identify and segment the roles in relation to risk management and governance activities.

Three Lines of Defence

First Line

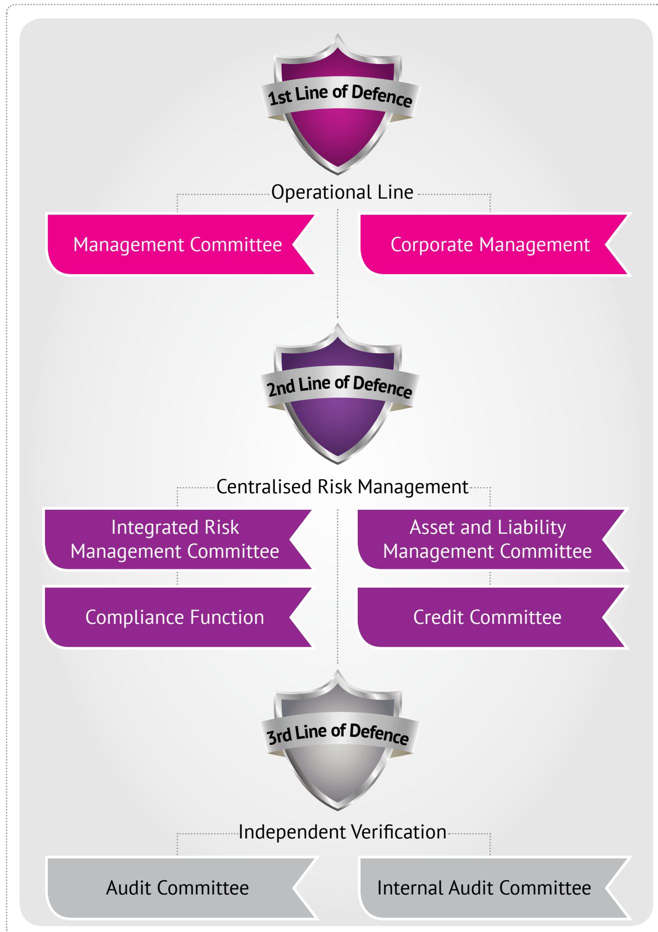
This line of defence covers the day to day operations of the Company. The accountability and responsibility of assessing, controlling and managing risk is identified. The business operations of the Company are shaped by the risk management policy and the risk appetite that has been set.

Second Line

The risk management function is the second line of defence. This provides guidance to branches and operational departments while determining the adequacy of risk mitigation. The IRMC along with ALCO as well as the Management Committee (ManCom) reviews risk management practices at the operational level and recommends necessary action.

Third Line

This is the internal audit of the company that reports independently to the Board Audit Committee (BAC). It is the internal audit that provides an independent assurance to both the first and second lines of defence while determining the effectiveness of internal controls as well as the policies in place.



SDF has focused its attention on the following major risks and has formulated policies and procedures to measure, assess, monitor and manage these systematically across all procedures and activities.

Strategic Risk

Strategic Risk Assessment

The strategic risk of SDF is monitored by the Corporate Management. Strategic risk arises from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. Thus it is important to formulate the right strategy. With the selection of the right strategy there needs to be proper execution in order to achieve corporate objectives.

Mitigation Methods

MIS dash-board provides reports on daily basis, which gives an overview of the performance. Financial Statements provides key statistics on monthly basis with in-depth analysis. This information enable the Board of Directors to understand the effectiveness of the strategies implemented.

SDF's performance is comprehensively reviewed monthly against budgets/ targets and for any gaps. If there are any significant variances immediate action is taken to ensure that the strategy implementation is back on track. Performance review meetings are held regularly at branch level and Regional levels. At the Head Office level, top management meet regional managers monthly and meet branch managers and officers in charge (OICs) once in three months.

Credit Risk

Credit Risk Assessment

Credit risk arises due to the possible low credit quality of borrowers with regard to repayment or due to outright default of payment. In order to manage the credit risk, the cash flow of the proposal and the credit worthiness of borrowers is properly evaluated and reviewed periodically. Additionally, the credit approval takes in to consideration the purpose of the loan, the security value and the credit history of the borrower. SDF lending products, such as leases and loans, are originated at the branch level and from the Credit Department. The credit proposals are evaluated based on the credit policy and guidelines of the Company. The credit approvals are in line with the delegated authority. The Credit Administration Department which reports to the Chief Manager–Branch Operations and Administration ensures that the security documents relating to the facilities are in order. It is the Finance and Planning Department that is entrusted with releasing disbursements of loans. Responsibility for credit risk has been delegated to the Board Credit Committee.

The Credit Department and Recoveries Department along with the Legal and Litigation Department are responsible for the overall management of the SDF's credit risk. The Credit Department measures the risk level of the credit portfolio. The Credit Department formulates the credit policy in consultation with business units, covers collateral requirements, and undertakes credit assessment and credit documentation. They also establish the authorisation structure for the approval and renewal of credit facilities. SDF uses its own internal credit risk assessment models for assessing credit risk together with clear guidelines to determine the suitability of collaterals and their valuation to ensure secondary sources of repayment in an eventuality.

In order to minimise the credit exposure the Credit Department seeks to ensure that the lending is backed by adequate realisable assets. This shift in strategy moved the secured with collaterals to without collaterals portfolio ratio from around 50:50 as at 31st March 2018 to around 69:31 as at 31st March 2019.

The Credit Department prepares a comprehensive management information report and submits it on a monthly basis to the Board of Directors. The Recoveries Department works closely with the Credit Department to ensure timely collection of overdue of problematic loans. The Recovery Department presents a monthly performance report to the Board of Directors. Tough recovery action of default accounts is undertaken by the Legal and Litigation Departments which is informed to the Board on a monthly basis. Gross NPA ratio was 9.4% and Net NPA ratio was 4.7%. as at 31st March 2019.

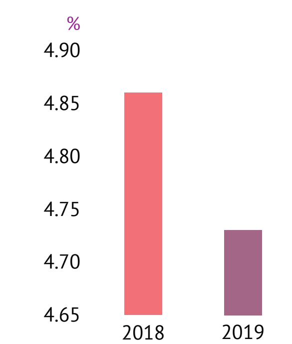
Mitigation Methods

The Board Credit Committee has authority and responsibility in decisions pertaining to the oversight of all transactions carried out by the Credit Division, Recoveries Division, and Legal and Litigation Division. The Board Credit Committee ensures stringent assessment of all clients.

The Company has appointed professional valuers for the valuation of vehicles, and other movable and non-movable properties obtained as collateral.

An MIS has been developed to stringently monitor and frequently report customers' loans that are deteriorating. SDF also closely monitors the geographical concentration as well as the severity and volatility of the external environmental when granting credit. Portfolio concentration, which includes industry, geography and product is shared with IRMC. This concentration is consistently monitored by the Risk Management Division (RMD) on a monthly basis. Single and group borrower limits are calculated as prescribed by the Central Bank of Sri Lanka. Requisite controls are established and checked against facilities approved. The RMD monitors the compliance to these limits reviewing the top 20 exposures on a monthly basis. Key ratios related to credit appetite of the Company and the risk tolerance levels have been established by RMD.

Top 20 Borrowers



The credit compliance has been covered by the Internal Audit Department in line with the credit policy and directions laid out by Central Bank of Sri Lanka. Head of Internal Audit raises significant credit concerns to the Management Audit Committee. The follow up action of all material credit concerns are highlighted to the BAC.

Operational Risk

Operational Risk Assessment

The responsibility of managing the Operational Risk lies with all staff in the Company. The accountability of managing operational risk lies with the management committee members and IRMC. They are responsible for maintaining an oversight over operational risk management and internal controls which covers all businesses and operations

Risk Management

for effective utilisation of the Company's resources and to minimize the risk of loss.

Mitigation Methods

The Company has developed a Risk Control Self-Assessment (RCSA) that has been carried out biannually for branches on their business processes. The risk audits are also carried out biannually. A RCSA completed by the branch managers is used to identify, assess, monitor and control operational risks. On reviewing audit reports, RMD has identified certain common key risk indicators (KRI) that affect the branch operations. These risks are critically reviewed regularly with the co-operation of the Internal Audit Department. The KRIs are used by the RMD to develop proactive action while at the same time providing a reverse analysis as guidance to avoid financial pitfalls in the foreseeable future.

SDF has in place a comprehensive Business Continuity Plan (BCP) and a Disaster Recovery Policy (DRP) whose implementation goes parallel with each other. The Company successfully completed disaster recovery drills covering all branches and CSCs in the year under review. During the year under review, SDF improved its processes and necessary steps were taken to reduce the probabilities of threats highlighted in the BCP risk assessment.

In mitigating operational risk, SDF has established robust controls with well-defined segregation of duties, policies and procedures. Upon identification and assessment of operational risks identified through Internal Audit, key controls have been suggested to Operations to mitigate such risk.

Market Risk

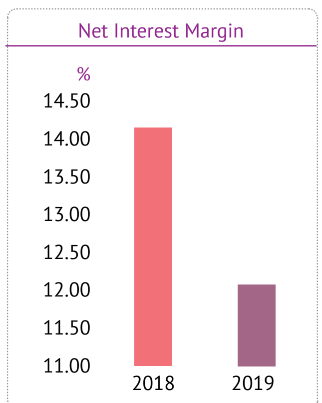
Market Risk Assessment

Changes in interest rates, liquidity and other market variables with an adverse impact on SDF's earnings or capital can result in a market risk. Financial products introduced such as loans and deposit schemes to facilitate transactions can also expose the Company to market risks. The Finance and Planning Department is responsible for coordinating and performing market risk management activities including measuring, and reporting of market risk possibilities and also reviewing SDF's market risk related policies. The monitoring of market risk is done by the RMD and it also provides independent reviews on market risks associated with new investment proposals and products. RMD recognises various sources of market risks and their characteristics with possible outcomes resulting from transactions undertaken by SDF. RMD ensures compliance with the Investment Policy and Asset and Liability Management Policy. Market risk limits set out in the above policies are regularly reviewed by ALCO and IRMC and monitored by RMD.

Mitigation Methods

The ALCO regularly reviews the interest rate environment, the movement of key interest rate indices and competitor rates. These reviews form the basis for determining the lending and deposit rates for the future. In arriving at such rates, the ALCO ensures that the minimum average interest rate spread is maintained at all times, thereby sustaining a healthy interest margin.

Sensitivity analysis and stress testing is carried out by the RMD on interest rate scenarios to decide on the risk exposure and to assess the impact on net interest income. The market risk limits are monitored and reported to the IRMC for its review.



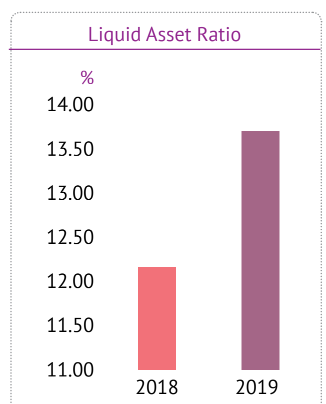
Liquidity Risk

Liquidity Risk Assessment

Liquidity Risks arise due to badly formulated or badly enforced policies having an adverse impact on the Company. SDF's funding comes mainly from deposits. SDF has initiated a strong deposit drive to manage and maintain the assets of the Company. The ALCO monitors the deposit portfolio and deposit movements periodically. The Treasury monitors daily disbursements and collections to assess cash flow gaps. The Company maintains stringent awareness and monitoring of its resources and has also put in place contingency measures to manage funding to face any adverse condition and maintain positive customer relations. SDF currently possess adequate cash and other liquid assets, bank funding lines and access to money market instruments to meet any funding needs as and when they fall due.

Mitigation Methods

SDF's ALCO meets once in two months or whenever the need arises to analyse and monitor liquidity risk and decide on actions to maintain an adequate margin of safety in liquid assets. This action helps to manage and control the overall liquidity of the Company. SDF's liquidity ratios are constantly monitored against benchmarks. A contingency plan is in place to curtail the exposure on SDF's liquidity position. Bank overdrafts were arranged as liquidity buffer and as cushion for contingencies. SDF maintains the liquid assets ratio at its required level as a method to measure and control daily liquidity risk.



IT Risk

IT Risk Assessment

Information Technology risk is created due to a weak information security structure which will cause data loss and threats. IT risk is monitored by RMD and the Audit Department. The fully integrated network system supports on-going branch operation, expansion, a growing product range and other business requirements.

Mitigation Methods

SDF has implemented a comprehensive IT Policy with an Information Security Policy. These policies are in line with industry practice. Employee awareness programmes are conducted to ensure security and to increase awareness. To keep pace with rapid changes in the industry, the IT staff at SDF are continuously trained to adapt to a new virtual IT environment. A disaster recovery drill was conducted as a part of the implementation of the Business Continuity Process. Continuous updates to the E-Finance system are tested in a test environment and undergo security reviews before launching to the live system.

Business Risk

Business Risk Assessment

Business risk is the possibility of SDF making a loss when introducing new products to the market. Business risk impairs a company's ability to provide stakeholders with adequate returns. The business risk is reviewed on a monthly basis by the ManCom.

Mitigation Methods

New products are screened by the Product Development Committee and reviewed by ALCO before implementation. Additionally, RMD reviews the processes and systems of new products and advises on risks associated with products prior to launch or implementation.

Compliance Risk

Compliance Risk Assessment

Compliance Risk arises due to the possibility of an adverse impact on reputation. The relevant areas to be considered are adherence to principles of integrity and fair dealing, adherence to all regulatory requirements and best practices recommended by the competent authorities. Compliance at SDF is carried out by the Compliance Division (CD).

Mitigation Methods

The CD has the responsibility of acting as the focal point to assess the Company's compliance procedures and guidelines and to promptly identify and address deficiencies when necessary. The CD is also responsible to monitor the adherence to internal controls and policies across all strata of divisions in the Company. A comprehensive report is given to the Board of Directors monthly on the status of meeting of compliance requirements stipulated.

Overall Risk Analysis

The Company encompasses on a few and basic products which include Leasing, SME, Housing Loans, Society Loans, Personal Loans, Business Loans, Pawning, and Cash Back Loans. The Company introduced Leasing in April 2016, re-launched pawning in February 2017 and introduced Pre-approved Corporate Body Employees loans in January 2017 as a measure of building our asset portfolio. SDF has been able to improve the asset quality while growing net portfolio which has reached Rs. 6.2 Billion as at end of the FY. Additionally, the credit team has appraised the potential risks arising by lending to the product mix and recommended action for mitigation.

Of the 6.2 Billion net loan portfolio, 1.3 Billion loans are within the Western region while the balance portfolio carries an equal distribution among other regions. The credit exposure to top 20 customers is 4.7% of the gross loan portfolio. The concentration levels indicate that SDF adheres to clearly defined credit processes and procedures laid down in the credit policy/manual.

SDF has set prudential limits to maximise exposures which are reviewed quarterly. Additionally, SDF strictly adheres to the single borrower limit defined by the CBSL, finance companies Direction No 4 of 2016 and also adheres to sectors, geography, collateral, and the exposure to single counterparty limits. The credit exposure to a single borrower was 2.8% of the Capital Funds as at the FY end.

The Company has laid down policies and procedures to manage the credit risk especially the portfolio risk. SDF reorganised its recovery structure and allocated additional resources and managed NPA through improved recoveries and actions through legal process during the financial year.

SARVODAYA
DEVELOPMENT FINANCE

SDF helped us find a renewed respect for our vocation of feeding the nation

Establishing the pumpkin festival when farmers all over the island were in dire need of selling their excess produce was one of the most challenging yet innovative projects that was undertaken by SDF. Through it, we assisted struggling farmers by selling over 100,000 Kgs of produce and also raising awareness about the health benefits and diverse uses of pumpkin.

Operating Environment

Global Economic Overview
According to the International Monetary Fund's World Economic Outlook, April 2019, global economic growth slowed down in the second half of 2018 due to trade tensions and tariff hikes between the United States and China, the decline in business confidence, a tightening of financial conditions, and higher policy uncertainty across many economies. After reaching a 4 percent growth in 2017, global growth remained steadfast, at 3.8 percent in the first half of 2018, but dropped to 3.2 percent in the second half of the year.

In China, the domestic regulatory tightening and diminishing export orders due to US tariff actions caused China's growth to decline from 6.8 percent in the first half of 2018, to 6.0 percent in the second half of the year. The resulting weakening of import demand appeared to have affected trading partner exports in Asia and Europe.

Among the advanced economies, the euro area slowed more than expected due to weakening consumer and business sentiment, delays from the new fuel emission standards for diesel-powered vehicles in Germany, policy uncertainty in Italy and street protests in France. Growing concerns about a no-deal Brexit may have also impacted investment spending within the euro area. Euro area exports softened considerably, in part because of weak intra-euro-area trade, which exacerbated poor sentiment across the currency area. In Japan, largely due to natural disasters in the third quarter, growth declined. However, the United States remained robust amid a tight labour market and strong consumption growth, but investment appeared to soften in the second half of the year. A common influence on sentiment across advanced and emerging market and developing economies has been high policy uncertainty in the wake of policy actions and difficulties in reaching agreement on contentious issues.

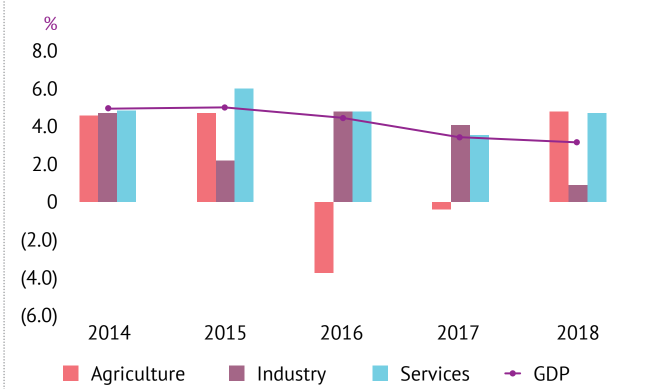
Sri Lanka Macro Economy

Sri Lanka became vulnerable to global and domestic disturbances in 2018, resulting in a lower than anticipated GDP growth rate despite a low inflation environment during the year.

GDP at current prices was estimated at Rs. 14,449.9 billion (US dollars 88.9 billion) in 2018, while it was Rs. 13,418.3 billion (US dollars 88.0 billion) in 2017. Accordingly, GDP at current prices recorded a growth of 7.7 per cent in 2018, compared to the higher growth of 11.9 per cent recorded in 2017. The implicit GDP deflater, decreased to 4.3 per cent in 2018, from 8.2 per cent in 2017, and the moderate growth of GDP at constant prices which was estimated at Rs. 9,644.7 billion in 2018, compared to Rs. 9,344.8 billion in 2017.

GDP per capita was estimated at Rs. 666,817 in 2018 in comparison to Rs. 625,736 in 2017, recording an increase of 6.6 per cent in 2018 compared to that of 10.6 per cent in 2017. The slow growth in GDP per capita in rupee terms was mainly associated with the slowdown in GDP at current prices since the mid-year population growth rate was stable. Moreover, per capita GDP in US dollar terms stood at US dollars 4,102 in 2018, almost similar to 2017 level of US dollars 4,104, which recorded a 5.6 per cent growth in 2017. This performance was mainly due to the weakening of the domestic currency, particularly during the latter part of the year alongside the moderate growth of GDP at current prices.

Annual GDP Growth Rate (a)



(a) based on the GDP estimates (base year 2010)

Source : Department of Census and Statistics

The value addition from Services expanded during 2018, registering a growth of 4.7 per cent, in comparison to 3.6 per cent growth recorded in 2017. This growth in Services was primarily driven by the robust growth in financial services. Further, the improvement in other personal services and the continuous expansion observed in wholesale and retail trade activities contributed to the growth in Services. Moreover, the growth in transportation activities, real estate, insurance, accommodation, professional services, education, telecommunication, human health and IT programming activities supported the growth performance in Services. However, public administration services and, programming and broadcasting activities contracted in 2018, dragging down the expansion in Services. The expansion witnessed in Services was also portrayed in PMI for Services, compiled by the CBSL on a monthly basis, which denoted an expansion in Services throughout the year.

However, Industry activities slowed down, dampening economic growth. The value added of Industry activities grew marginally by 0.9 per cent in 2018, compared to the growth of 4.1 per cent recorded in 2017. This slowdown in Industry activities was mainly attributable to the contraction in construction and mining activities, which accounted for a significant share of 35.1 per cent of the Industry activities. In the meantime, manufacturing activities recorded a modest growth in 2018. Considering the other Industry activities, electricity related activities, sewerage, waste treatment and disposal activities, and water collection, treatment and supply activities continued the positive growth trend during the year.

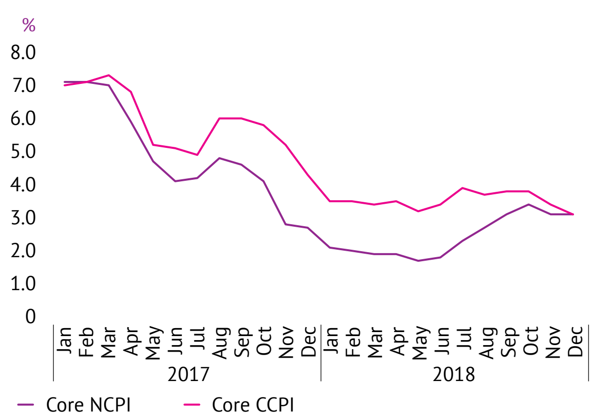
Inflation

The general price level as measured by the National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100),1 exhibited mixed movements during 2018 and largely followed the movement of prices of the items in the Food category. Due to supply side improvements supported by favourable weather conditions that prevailed during most parts of 2018, prices of items in the Food category mostly remained at low levels during the year. The prices of items in the Non-food category, which moved on an increasing trend during the year, except for December 2018, contributed partially towards the upward movement of the general price level.

The headline inflation, as measured by year-on-year change in the NCPI, exhibited an overall declining trend with mixed movements during 2018. As such, the NCPI based year-on-year headline inflation remained below 4.0 per cent during 2018, except for January, which recorded 5.4 per cent. In October 2018, the headline inflation declined to 0.1 per cent, recording the lowest value since January 2016. The observed low headline inflation rate was mainly attributable to the high base that prevailed, in 2017, due to high food prices. The NCPI based food inflation demonstrated a similar trend to that of NCPI headline inflation during the year. The NCPI based food inflation in October 2018 was -6.6 per cent, the lowest since January 2016. However, the NCPI based Non-food inflation exhibited an increasing trend during the first ten months of 2018 and declined thereafter. Meanwhile, the NCPI based annual average inflation reversed its increasing trend observed during 2017 and declined continuously from 7.6 per cent in January 2018 to 2.1 per cent in December 2018.

Headline inflation, as measured by the year-on-year change of CCPI, mostly remained within the target band of 4.0-6.0 per cent during the first nine months of 2018 and decreased below 4.0 per cent thereafter. The decline observed in CCPI based headline inflation from January to March was due to declining prices of items in the Food category. It followed an increasing trend during May to August recording a peak of 5.9 per cent in August and gradually declined to 2.8 per cent in December. The base effect was the lone contributor towards the decrease in CCPI based headline inflation in April and the increase of the same in August 2018. The CCPI based food inflation, in October, was -2.3 per cent, the lowest since January 2016. The annual average CCPI inflation declined from 6.6 per cent, in January 2018, to 4.3 per cent, in December 2018, while recording 5.6 per cent for three consecutive months from June to August 2018.

Movements of Core Inflation (Year-on-Year % Change)



Source : Department of Census and Statistics

Unemployment

The unemployment rate grew to 4.4 per cent in 2018, from 4.2 per cent in 2017, with the highest unemployment rates being reported in females, youth and educationally qualified categories. With regards to unemployment among the youth, high unemployment rates of 21.4 per cent and 10.4 per cent were seen from the age categories of 15-24 years and 25-29 years respectively, in 2018. In terms of educational qualifications, an unemployment rate of 9.1 per cent was reported from the GCE A/L and above category in 2018, compared to 8.1 per cent recorded in 2017. Skill mismatches have resulted in a labour shortage and a need to import labour for selected industries. The younger generation's preference for non-routine and cognitive jobs over routine and manual jobs is seen as a major cause for this.

External Sector Developments

The trade deficit expanded as the growth of import expenditure outpaced the growth of export earnings and the Sri Lankan rupee depreciated significantly by end 2018. Reflecting the impact of the expanded trade deficit and heightened capital outflows on the back of tightening global financial market conditions, the liquidity conditions in the domestic foreign exchange market remained mostly tight during the second half of 2018. Consequently, the Sri Lankan rupee depreciated, despite the substantial build-up of official reserves in the early part of 2018.

Meanwhile, adverse developments in the political environment towards the end of the year led to subdued investor sentiment, intensifying the pressure in the external sector. Considering these developments, the Central Bank and government initiated measures to curtail non-essential imports by way of increasing tariff and margin requirements, reducing the loan-to-value ratios, suspending the use of permits for vehicle imports, among others. Consequently, the external sector began to witness improved resilience towards the end of the year.

The current account deficit expanded notably in 2018. The current account deficit increased to 3.2 per cent of GDP in 2018 from 2.6 per cent of GDP in 2017, owing to the widened trade deficit, and a moderation in the secondary income balance, despite a

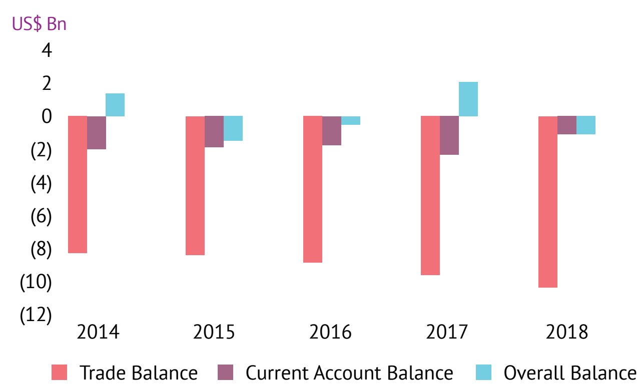
Operating Environment

healthy growth in the trade in services balance. In the trade account, higher than expected growth in import expenditure, particularly in categories such as vehicles, fuel and gold in the early part of 2018, outpaced the growth in export earnings, resulting in a considerable widening of the trade deficit. Reflecting the impact of remedial policy measures, the trade deficit declined significantly in November and December 2018, easing the pressure on the exchange rate and the Balance of Payments (BOP).

Meanwhile, the primary income account deficit recorded a marginal increase with an increase of interest payments on foreign loans by the government and dividend payments by direct investment enterprises (DIEs), while the reinvested earnings of DIEs declined significantly. However, the surplus in the services account increased during the year, mainly driven by earnings from tourism and the healthy inflows to the transport and computer services sub-sectors. Meanwhile, the surplus in the secondary income account reduced marginally compared to 2017, as workers' remittances, which recorded an increase through the first nine months of the year, moderated in the last quarter of 2018.

The financial account was augmented with higher inflows during 2018. The proceeds of two International Sovereign Bonds (ISBs), receipt of the foreign currency term financing facility, receipt of the fifth tranche of the International Monetary Fund's Extended Fund Facility (IMF-EFF) and foreign direct investment (FDI) inflows supported the financial account during the year. However, outflows of foreign investments from the government securities market and the Colombo Stock Exchange (CSE) exerted pressure on the financial account. Other major outflows in the financial account were payments relating to the maturity of international bonds issued by the banking sector. With these developments, the gross official reserves, which reached the historically highest level of US dollars 9.9 billion at end April 2018, moderated thereafter and declined to US dollars 6.9 billion by end 2018, mainly reflecting the impact of increased debt service payments and intervention by the Central Bank in the domestic foreign exchange market. Consequently, the overall balance recorded a deficit of US dollars 1,103 million in 2018.

Balance of Payments



Source : Department of Census and Statistics

The broad-based strengthening of the US dollar globally resulted in substantial outflows of foreign investments as in a number of other emerging markets, particularly in countries with current account deficits. This, coupled with a surge in import expenditure, dried up liquidity in the domestic foreign exchange market, thereby exerting significant pressure on the Sri Lankan rupee. Given the significant intraday volatility in the exchange rate, which intensified in the fourth quarter of 2018, the Central Bank adopted a cautious approach in intervening in the domestic foreign exchange market, while also maintaining the official reserves at a prudent level. Consequently, the Sri Lankan rupee depreciated by 16.4 per cent against the US dollar in 2018, while the Central Bank supplied US dollars 1,120 million to the domestic foreign exchange market on a net basis. Further, the Real Effective Exchange Rate (REER) index, which is an indicator of Sri Lanka's external competitiveness, remained predominantly below the base year level in 2018, signifying Sri Lanka's sustained external competitiveness.

The external sector showed improved resilience towards the end of 2018 and through the first quarter of 2019. The impact of policy measures introduced in curtailing certain non-essential imports, the moderation of outflows from the government securities market and the improved political environment resulted in stabilising the external sector towards the end of 2018. Consequently, the Sri Lankan rupee, which depreciated significantly during 2018, gained value in the first quarter of 2019, recording an appreciation of over 3 per cent. However, the relatively larger debt servicing obligations and the need to build buffers by augmenting official reserves remain a challenge in the medium term.

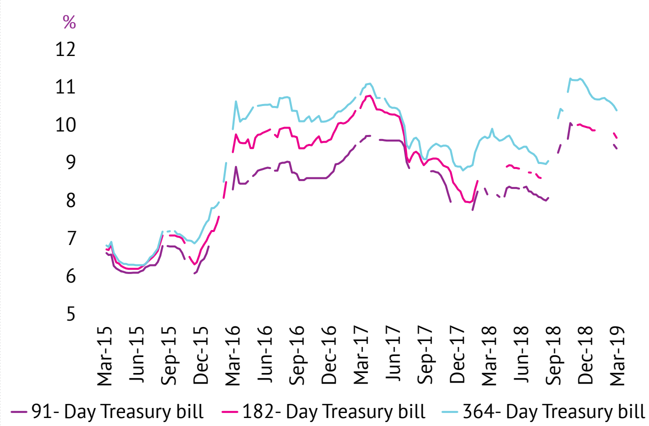
Interest rates

While market liquidity remained in surplus, averaging around Rs. 20 billion, during the first five months of the year, domestic money market liquidity turned into a deficit during the period from June to mid July 2018. However, with foreign exchange forward transactions carried out by the government with the Central Bank, liquidity in the domestic money market improved to a temporary surplus during the period from mid-July to September 2018. Since then, liquidity returned to a deficit mainly due to the reversal of the forward transactions with the government, foreign exchange sales by the Central Bank and maturing of Treasury bills held by the Central Bank. Thereafter, there was a persistent and expanding deficit in liquidity in the domestic money market mainly due to the impact of foreign exchange sales by the Central Bank. To address the persistent liquidity deficit in the domestic money market, the Central Bank reduced the SRR applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 6.00 per cent, from 7.50 per cent, with effect from mid-November 2018. Although this policy intervention injected around Rs. 90 billion to the market on a permanent basis, liquidity in the money market continued to remain in deficit partly due to foreign exchange sales by the Central Bank. Imposition of the margin requirement on LCs on the importation of motor vehicles and the requirement that such deposits be maintained with the Central Bank also contributed to the liquidity deficit to some extent. Accordingly, from mid-September to end 2018, daily overnight liquidity deficit amounted to Rs. 57.4 billion on average, while the overnight liquidity deficit stood at Rs. 148.4 billion by end 2018. Consequently, the Central Bank conducted overnight, short term, long term reverse repurchase auctions and purchased Treasury bills on an outright basis to provide required liquidity to the domestic money market, thereby maintaining stability in short term interest rates. The Central Bank further reduced the SRR by 1.00 percentage point to 5.00 per cent effective 01 March 2019 as deficit liquidity conditions in the domestic money market persisted in the first two months of 2019.

Most deposit interest rates of commercial banks remained at high levels during 2018. Overall, the Average Weighted Deposit Rate (AWDR), which captures the movements in interest rates of all outstanding interest bearing rupee deposits held with commercial banks, decreased by 26 basis points to 8.81 per cent by end 2018 from 9.07 per cent recorded at end 2017. Following a similar trend, the Average Weighted Fixed Deposit Rate (AWFDR), which is based on interest rates of all outstanding time deposits held with commercial banks, also decreased by 63 basis points to 10.85 per cent by end 2018 from 11.48 per cent at end 2017. Meanwhile, with a view to removing the impact of interest rates subsidised by the government on market interest rates, the AWDR and AWFDR were calculated by replacing senior citizens' special deposit rate of 15.0 per cent with relevant market interest rates since July 2018. Reflecting the commercial banks' attempt to mobilise deposits in an environment of tight liquidity conditions, the Average Weighted New Deposit Rate (AWNDR), which captures the interest rates offered on all new interest bearing rupee deposits during a month, increased by 88 basis points to 10.94 per cent by end 2018 from 10.06 per cent at end 2017. Further, the Average Weighted New Fixed Deposit Rate (AWNFDR), which is based on interest rates offered on all new time deposits during a month, increased by 62 basis points to 11.27 per cent by end 2018 from 10.65 per cent recorded at end 2017. Depositors continued to benefit from positive real rates of return during 2018 with inflation remaining considerably lower in comparison to deposit rates

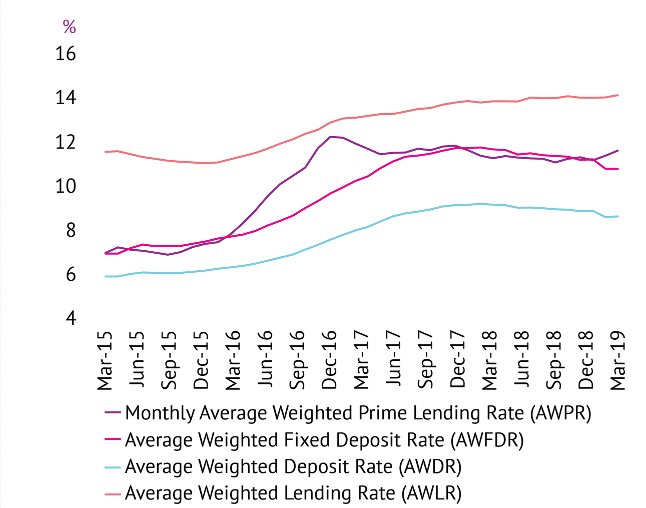
Tight liquidity conditions amidst continued high demand for credit caused lending rates of commercial banks to remain high in 2018. The weekly Average Weighted Prime Lending Rate (AWPR), which is computed based on interest rates applicable on short term loans and advances granted by commercial banks to their prime customers during a week, increased by 54 basis points to 12.09 per cent during 2018. The monthly average of weekly AWPR increased by 61 basis points to 11.94 per cent during the period under review. The Average Weighted Lending Rate (AWLR), which is based on interest rates of all outstanding loans and advances extended by commercial banks, increased by 52 basis points to 14.40 per cent during 2018. Meanwhile, bank-wise average weighted lending rates were in the range of 10.96-17.25 per cent at end 2018 compared to the range of 10.22-16.23 per cent observed at end 2017. Lending rates against most types of securities also increased during 2018.

Treasury Bill Yields (Primary Market)*



Source : Department of Census and Statistics

Market Interest Rates



Source : Department of Census and Statistics

Operating Environment

Economic Outlook

Real GDP growth, which was 3.2 per cent in 2018, is projected to gradually improve to around 5.0 per cent by 2023. The achievement of the envisaged growth path would depend on the successful implementation of the growth framework laid out in public policy documents along with higher participation of the private sector. The implementation of consistent policy measures without frequent revisions is expected to attract investment from both local and foreign sources into more productive sectors in the economy. With these investments, the output in the manufacturing sector that has remained modest, is expected to gradually shift towards higher value added products that are capable of meeting the demand of the domestic market as well as accessing international markets through the effective exploitation of trade agreements.

The value added contribution from the services sector is envisaged to rise with the expansion in knowledge based services. The efforts towards developing a commercially viable agriculture sector would also support the productive allocation of resources in the economy.

Investment in economic infrastructure is expected to provide impetus to growth during the medium term. This would include numerous projects in energy, public transport, and road development sectors aimed at supporting the production capacity of the country. In addition, the successful completion of development activities taking place in relation to the Colombo Port City project and the Western Region Megapolis Master Plan is also expected to boost economic growth. In tandem with these developments, education standards in the country are expected to be enhanced to meet the demands for a more skilled labour force from emerging sectors. Moreover, strengthening the higher education sector to enhance research and innovation is also expected to contribute towards sustaining a higher growth path.

Implementation of measures aimed at increasing female labour force participation would also support the growth drive.

These developments together with policies aimed at maintaining a stable macroeconomic environment are expected to improve Sri Lanka's per capita GDP to over US dollars 5,000 by 2023

Banking Sector

The banking sector continued to dominate the financial sector, accounting for about 62.4 per cent (excluding the Central Bank) of the total assets of the financial sector at end 2018.

The asset base of the banking sector expanded by Rs. 1.5 trillion during the year surpassing Rs. 11 trillion at end 2018 with a growth of 14.6 per cent in 2018 compared to the 13.8 per cent growth reported in 2017. The Sri Lankan rupee depreciation against the US dollar, resulted in an increase in the growth of assets and liabilities denominated in foreign currency. Loans and advances increased by Rs.1.3 trillion during the second half of 2018. The increase in loans accounted for 84.1 per cent of the assets growth during 2018, with the growth in loans increasing from 16.1 per cent in 2017 to 19.6 per cent in 2018. About 72 per cent of the increase in the loan portfolio of the banking sector was attributed to the increase in rupee loans. The increase in lending was largely diversified across the major sectors of the economy. In terms of products, credit cards (24.3 per cent), overdrafts (23.7 per cent) and term loans (19.9 per cent) were the main products which reported high growth rates during 2018. However, the share of credit cards out of total loans was minimal at 1.2 per cent.

Deposits continued to be the main source of funding representing 72 per cent of total liabilities of the banking sector at end 2018, while borrowings accounted for 15 per cent. The deposit base of the banking sector increased by Rs. 1.1 trillion during the year reaching Rs. 8.5 trillion at end 2018. Year-on-year growth in deposits declined to 14.8 per cent at end 2018 from 17.5 per cent at end 2017. Growth in time deposits accounted for 78.7 per cent of the increase in total deposits during the year, while savings and demand deposits accounted for 12.7 per cent and 4.4 per cent, respectively, at end 2018. As a result, the share of time deposits in total deposits had increased to 65.5 per cent at end 2018 compared to 63.6 per cent at end 2017, while causing for Current and Savings Account to total deposits (CASA) ratio to decrease from 34.2 per cent to 32 per cent over the corresponding period. Total borrowings of the banking sector increased significantly by Rs.156.3 billion (9.7 per cent) in 2018 compared to the decline of Rs. 89.3 billion (negative growth of 5.3 per cent) in 2017. This increase was mainly due to increased rupee borrowings which grew by 23.7 per cent (Rs. 142.3 billion) in 2018. The increase in rupee borrowing accounted for 91 per cent of the total increase in banking sector borrowings. Meanwhile, foreign currency borrowings in terms of Sri Lankan rupees grew marginally by 1.4 per cent (Rs. 14 billion) mainly due to the depreciation of the Sri Lankan rupee during the year.

Composition of Assets and Liabilities of the Banking Sector

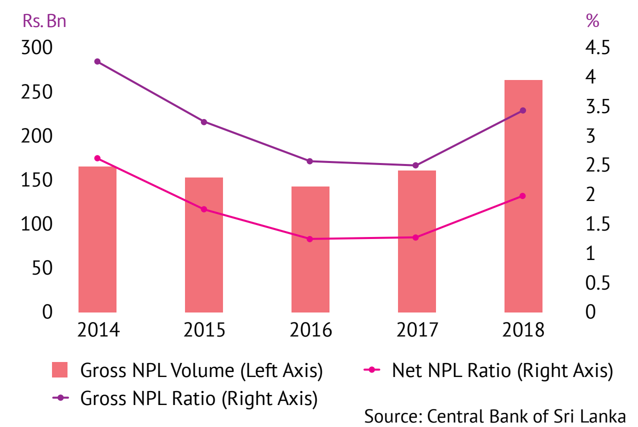
Item	2017 (a)		2018 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2017 (a)	2018 (b)
Assets						
Loans and Advances	6,430.9	62.5	7,693.4	65.2	16.1	19.6
Investments	2,554.4	24.8	2,671.6	22.7	12.5	4.6
Other (c)	1,307.1	12.7	1,429.0	12.1	5.8	9.3
Liabilities						
Deposits	7,399.0	71.9	8,492.4	72.0	17.5	14.8
Borrowings	1,607.1	15.6	1,763.4	15.0	-5.3	9.7
Capital Funds	866.7	8.4	1,030.4	8.7	22.5	18.9
Other	419.6	4.1	507.8	4.3	20.8	21.0
Total Assets/ Liabilities	10,292.4	100.0	11,794.0	100.0	13.8	14.6

Source: Central Bank of Sri Lanka

(a) Revised
(b) Provisional
(c) Includes cash and bank balances, placements, reverse repurchase agreements and fixed assets.

Quality of credit of the banking sector deteriorated considerably during 2018 with non-performing loans (NPLs) increasing by Rs. 102.5 billion compared to the increase of Rs. 18.3 billion during 2017. The challenging global and domestic market conditions that prevailed in 2018 may have contributed to the deterioration of quality of credit. Consequently, the gross NPL ratio increased from a historically low figure of 2.5 per cent at end 2017 to 3.4 per cent at end 2018. Total loan loss provisions increased by Rs. 38.9 billion during 2018, out of which specific provisions accounted for 86.8 per cent of the increase. However, the higher increase in NPLs had resulted in a decline in specific and total provision coverage ratios from 49.6 per cent and 69.9 per cent at end 2017 to 43.1 per cent and 57.4 per cent at end 2018, respectively.

Non Performing Loans of the Banking Sector



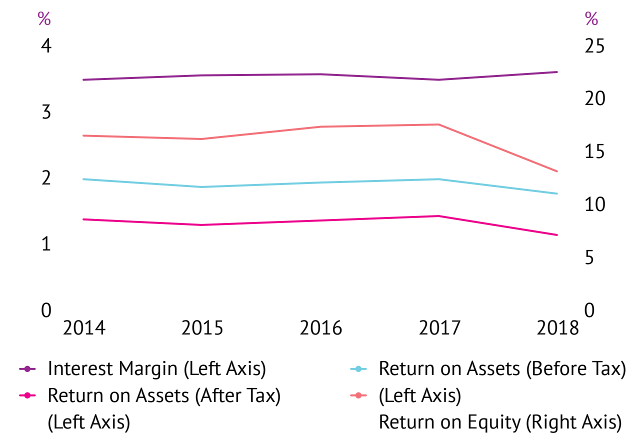
Source: Central Bank of Sri Lanka

The credit portfolio consisted of loans for consumption (18.1 per cent), construction (15.8 per cent), wholesale and retail trade (15 per cent), manufacturing (10.5 per cent), infrastructure developments (8.2 per cent) and agriculture, forestry and fishing (8.1 per cent) sectors.

Interest income of the banking sector grew at a higher rate (14 per cent) compared to interest expenses (12.8 per cent) during 2018, resulting in the net interest margin of the banking sector increasing from 3.5 per cent in 2017 to 3.6 per cent in 2018. Net interest income increased by Rs. 55.7 billion during 2018 compared to the previous year, while non-interest income increased by Rs. 25.7 billion largely owing to revaluation of foreign currency. However, the increase in non-interest expenses by Rs. 49.6 billion, largely owing to the increase in staff cost by Rs. 18.3 billion together with the increase in loan loss provisions by Rs. 21.1 billion, had resulted in lower profit before corporate tax of Rs. 194.7 billion in 2018 compared to the previous year.

Profit after taxes of the banking industry was Rs. 125.9 billion during 2018 and had contracted by 9.1 per cent compared to the previous year due to increase in provisioning, staff cost and higher taxation of the banking industry. The ROA declined from 2 per cent in 2017 to 1.8 per cent in 2018, while the ROE declined from 17.6 per cent to 13.2 per cent over the same period. The efficiency ratio deteriorated from 45.7 per cent in 2017 to 50 per cent in 2018, due to the increase in operating costs.

Profitability Indicators of the Banking Sector



Source: Central Bank of Sri Lanka

Nonbank finance sector

In 2018, the nonbank finance sector comprised of 43 Licensed Finance Companies (LFCs) and 5 Specialised Leasing Companies (SLCs). At end 2018, there were 1,373 branches and 658 other outlets of the LFCs and SLCs sector, out of which 927 branches (68 per cent) were concentrated outside the Western Province.

The performance of the sector moderated during the year in terms of credit growth, profitability and non-performing loans. Fiscal and macro prudential policy measures taken to curtail importation and credit granted for, purchasing motor vehicles negatively affected the demand for core lending products in the sector. Further, it is observed that the LFCs and SLCs are gradually moving away from vehicle financing to other secured lending activities.

However, the sector expanded in 2018, with an asset growth of 5.6 per cent and represented 7.6 per cent of Sri Lanka's financial sector assets by end 2018. The sector also exhibited a shift in the funding mix, as increased assets were mainly funded through borrowings while deposits increased slightly compared to high growth recorded during the previous year.

The expansion of total assets slowed down, recording a growth rate of 5.6 per cent (Rs. 76.3 billion) during the year reaching Rs.1, 431.3 billion compared to the 11.8 per cent growth reported in 2017. The asset base of the sector mainly consists of loans and advances

Operating Environment

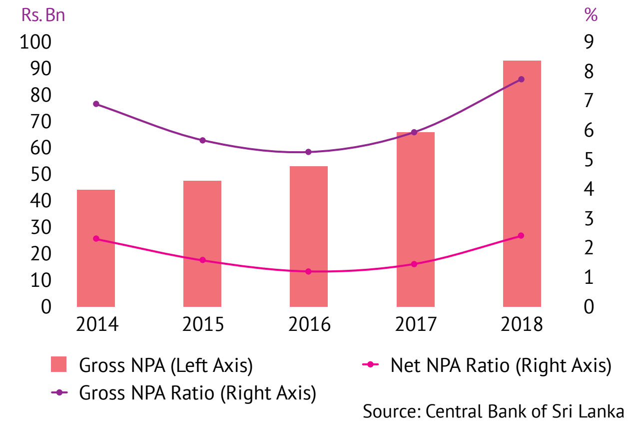
which accounted for 79.4 per cent of the sector assets. Finance leases accounted for the highest share of loans and advances, representing 52.8 per cent followed by other secured loans (38 per cent). Credit provided by the LFCs and SLCs sector grew by 7.6 per cent (Rs. 79.9 billion) to Rs.1, 137 billion compared to the growth of 9.8 per cent in the corresponding period of 2017. The expansion in finance leases contributed to 84.5 per cent of the credit growth while 16.1 per cent was through secured loans and advances. The hire purchase portfolio contracted during the year by Rs. 8 billion (29.7 per cent). However, the growth of finance lease portfolio for the year 2018 was 14.7 per cent compared to growth of 13 per cent recorded in year 2017.

Customer deposits still dominate the major portion of liabilities which accounted for 50.1 per cent of the total liabilities of the sector. Borrowings recorded a growth of 17.1 per cent (Rs. 67.8 billion) in 2018, a shift from the negative growth recorded in the year 2017. Deposit growth slowed down to 4.4 per cent, compared with the growth of 29.4 per cent recorded in the corresponding period of 2017. The sector showed a reliance on bank borrowings over deposits due to flexibility and negative public perception towards LFCs which reduced the funds mobilised through deposits.

The capital elements of the sector increased by 8.2 per cent to Rs.183.7 billion at end 2018, mainly on account of the increase in capital due to steps taken by LFCs to enhance the minimum core capital to meet the Rs. 1.5 billion requirement by 01 January 2019 and due to accumulation of profits for the financial year 2017/18. The gross non-performing advances (NPAs) ratio increased to 7.7 per cent in 2018 compared to 5.9 per cent reported in 2017. This is the highest NPA ratio recorded since February 2015. The main reasons attributable to this increase are unfavourable weather conditions during 2017 and slowing down in economic activities in 2018. Further, the provision coverage ratio declined to 57 per cent in 2018 compared to 64 per cent reported in 2017. As a result, net NPA ratio also increased to 2.4 per cent in 2018 from the reported ratio of 1.6 per cent in 2017 showing signs of deterioration in the asset quality of the sector. It is expected that NPA will rise further if extreme weather conditions prevail and due to spill over effect of the Debt Relief program that was introduced by the Ministry of Finance and Mass Media in August 2018. Further, implementation of SLFRS 9 is also expected to be a challenge for credit risk of the sector.

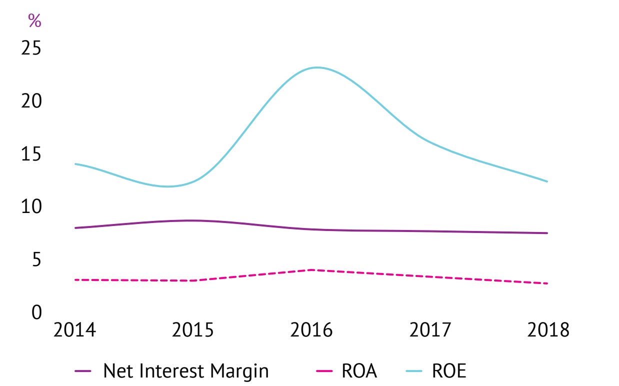
Along with the gradual increase in the interest rates during the year, interest rate risk of the sector slightly increased. Despite the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities, the sector was able to maintain a positive net interest margin.

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

The net interest income of the sector increased at a slower rate than in 2017, recording a growth of 6 per cent to Rs. 108.8 billion. This was mainly due to increase in interest income by 4.3 per cent and the growth of interest expenses by 2.9 per cent. As a result, the net interest margin (net interest income as a percentage of average assets) of the sector declined marginally to 7.4 per cent in 2018 from 7.7 per cent in 2017. However, non-interest income increased by 11.9 per cent mainly due to increase in default charges and other service charges while non-interest expenses also increased by 1.5 per cent adversely affecting the sector profitability mainly due to increase in staff costs. The loan loss provisions made against NPLs increased by Rs.12.4 billion during 2018 when compared to the provision of Rs. 13.5 billion made in 2017. The sector posted a profit after tax of Rs. 21.4 billion which declined by 17.2 per cent compared to the profit recorded in year 2017 mainly due to increased funding cost and higher loan loss provisions. ROA also decreased by 51 basis points during the year, reporting a ratio of 2.7 per cent and ROE declined nearly by 400 basis points, reporting a ratio of 12.1 per cent which shows sign of stress towards profitability of the sector.

The total regulatory capital levels improved by Rs. 15.5 billion in 2018 compared to the figures reported in 2017, mainly due to the enhancement of the minimum capital requirement by the Central Bank to Rs. 1 billion from 01 January 2018. This minimum requirement is further increased to Rs.1.5 billion by 01 January 2019. However, the sector core capital and total risk weighted capital adequacy ratios decreased to 9.9 per cent and 11.2 per cent in 2018 from the reported levels of 12.4 per cent and 13.1 per cent in 2017 as the companies had to report risk weighted assets with a more risk sensitive focus covering credit risk and operational risk under new capital adequacy framework

Colombo Stock Exchange (CSE)

The Colombo Stock Exchange recorded a declining trend in 2018 reversing the growth achieved in 2017. Responding to the adverse developments in the domestic and global environment. The ASPI decreased by 5.0 per cent to 6,052.4 at end 2018. The ASPI reached 5,761.1 in October 2018, its lowest during the year recording a decrease of 9.6 per cent. Meanwhile, S&P SL20 index decreased by 14.6 per cent during 2018 compared to the increase of 5.0 per cent recorded in 2017. The market recorded a negative development in terms of turnover, capitalisation and Price to Earning (PE) ratio. The average daily turnover was declined to Rs. 833.6 million during 2018, when compared to Rs. 915.3 million in 2017. Market capitalisation declined to Rs. 2,839.5 billion at end 2018 from Rs. 2,899.3 billion recorded at end 2017. Market capitalisation at end 2018 was equivalent to 21.4 per cent of GDP. Continued foreign outflows from the CSE was witnessed during 2018. The market recorded a net foreign outflow of Rs. 23.1 billion at end 2018 compared to the net foreign inflow of Rs.17.7 billion at end 2017.

New Regulatory Directives for NBFIs

During the year, a number of regulatory directives were introduced to the LFCs and SLC sector for better regulation of the sector.

- A new Capital Adequacy Framework for LFCs and SLCs was implemented to foster a strong emphasis on risk management and to encourage ongoing improvements in LFCs and SLCs' risk assessment capabilities.
- A circular was issued in March 2018, where LFCs were required to obtain a credit rating from a credit rating agency acceptable to the Central Bank and required to publish such rating with effect from 01 October 2018
- A new Direction on "Outsourcing of Business Operations" was introduced to standardise the outsourcing arrangements by introducing a risk management guideline to manage the risk arising from outsourcing and to impose restrictions on outsourcing core business functions/operations and activities.
- A new Direction on "Maximum Rate of Interest on Microfinance Loans" was introduced for LFCs and SLCs with the objective of protecting customers from being charged with exorbitant interest rates for microfinance loans.
- The LTV Ratio on vehicle imports was further revised to curtail imports requiring LFCs and SLCs to adopt the new ratio with effect from 01 October 2018.
- Another Direction was issued to regularise the valuation procedure of the LFCs and SLCs regarding immovable properties.
- The "Financial Customer Protection Framework" was issued to LFCs and SLCs to establish minimum standards for customer protection in the areas of disclosure and transparency, financial education and awareness, responsible business conduct, complaint handling and redress, equitable and fair treatment and protection of customer data and privacy.

Financial Capital

The turbulent macro environment bludgeoned the financial services industry during the current year with many crucial aspects, such as, the portfolio quality and growth, slumping year-on-year. The weather imposed damages, cyber security concerns, political turmoil and economic policy inconsistency coupled with capital outflow, affected the business confidence, creating a challenging environment. In addition, the tightening of the regulatory environment with increased capital adequacy requirements, implications of first-time adoption of SLFRS 9, microfinance ceiling rates, government debt reliefs on micro credit and pruning vehicle import industry, affected the growth of the industry in a negative manner.

Despite these heavy challenges, by portraying our strengths in strategic measures, policy framework, brand loyalty, technological efficiency and our value system, we were able to face the challenges head on, moulding the threats tepid and highlighting our resilience to the external environmental forces. As a result, albeit with certain downsides in our portfolio quality and profitability, our business performance managed to record a graceful facelift during the current year. SDF recorded a profit after tax of Rs.41.2 million in the report year from a profit after tax of Rs. 92.2 million recorded in the previous year.

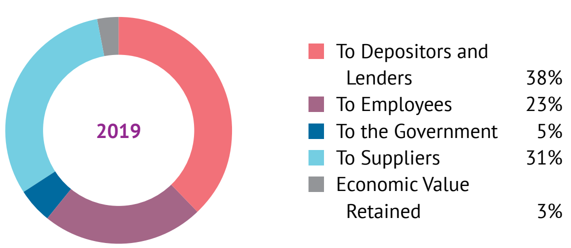
Strategic Priorities	Strategies
Grow bottom-line	Push top-line
	Improve NIMs
	Contain middle line through integration of technology to cut costs and increase operational efficiencies
Mobilise deposits	Provide a personalized service and create a sustainable business relationship with high-net-worth individuals to attract larger deposits
	Optimise the use of social media platform to reach target markets for product promotions
	Direct marketing campaigns to identified customer segments
	Implement village level promotional campaigns joining with SSS
	Introduce new products
	Incentivise top performers
Improve portfolio quality	Improve credit evaluation
	Harness technology for improved credit supervision and increase recoveries
Rebalance credit portfolio	Focus more on building the collateral-backed lending portfolio for improved credit quality
	Move into larger-ticket size micro individual loans backed by collateral
	Increase average loan size of micro loans
	Revamp gold loans with aggressive marketing for safer heaven
Optimise funding sources	Determine optimal mix between long-term funds and short-term funds to eliminate maturity mismatch and explore the opportunity to raise foreign funding as an alternative.
	Adopt new mechanisms, new products and new monitoring mechanisms and allocate appropriate resources to prioritise savings build-up and fixed deposit base.
Balance product mix	Consider fundamental changes to products, which are more suitable for the current volatile interest rate environment.
	Develop new products giving a balance between risks and returns, develop markets and profitable niche markets.

Performance Highlights

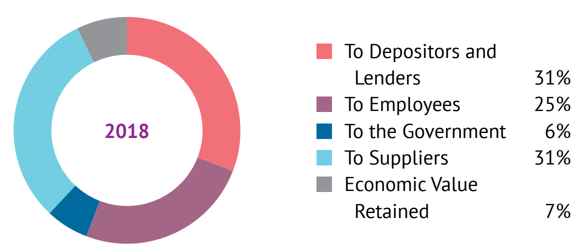
Total economic value created by SDF amounted to Rs. 1.6 billion in the FY 2019 which was an improvement of Rs.254.5 million compared to the previous year. This value has been distributed among our stakeholders as depicted below.

	2019		2018		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Economic Value Added						
Interest Income	1,433.37		1,179.56		253.81	
Other income	141.87		141.20		0.67	
Total	1,575.25		**1,320.76**		**254.49**	
Economic Value Distributed						
To Depositors and Lenders						
Interest Expenses	606.62		416.60		190.02	
	606.62	38.51	**416.60**	**31.54**	**190.02**	**74.67**
To Employees						
Salaries and other benefits	356.17		328.06		28.11	
	356.17	22.61	**328.06**	**24.84**	**28.11**	**11.05**
To the Government						
Income tax	-		9.35		(9.35)	
VAT on financial service	87.76		70.75		17.01	
	87.76	5.57	**80.10**	**6.06**	**7.66**	**3.01**
To Suppliers						
Other Operating Expenses	330.65		260.35		70.30	
Impairment charges	94.01		89.12		4.89	
Depreciation and amortisation	58.14		58.19		(0.05)	
	482.80	30.65	**407.66**	**30.87**	**75.15**	**29.53**
Economic Value Retained	41.89	2.66	**88.34**	**6.69**	**(46.45)**	**(18.25)**
Total	1,575.25	100.00	**1,320.76**	**100.00**	**254.49**	

Economic Value Added



Economic Value Added

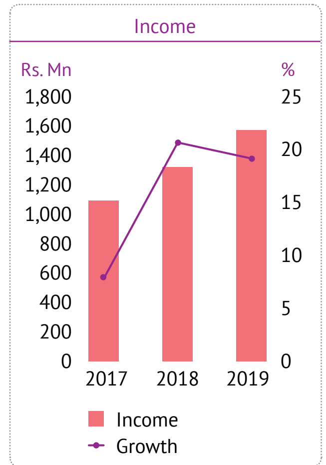


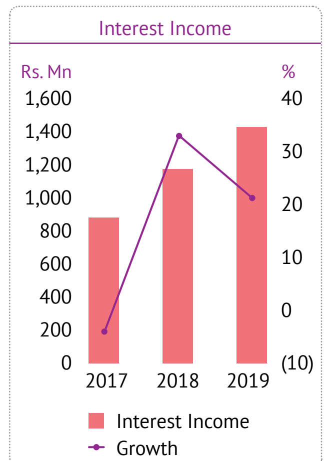
Financial Capital

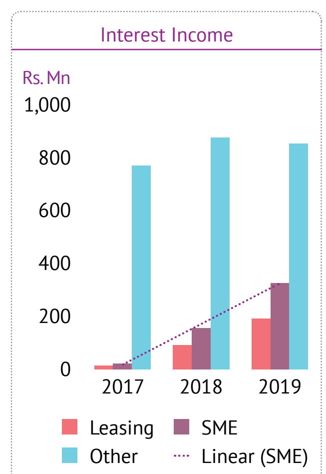
Key Financial Indicators

Key financial indicators of the Company for the current year are given below and explained further in this chapter.

	2019	2018	Change (%)
Statement of Profit or Loss (Rs. million)			
Income	**1,575.25**	1,320.76	19.27
Operating Income	**968.63**	904.16	7.13
Impairment Losses	**94.01**	89.12	5.49
Profit After Tax	**41.22**	92.18	(55.28)
Statement of Financial Position (Rs. million)			
Assets	**7,449.82**	6,360.18	17.13
Loans and Lease Receivables	**6,216.17**	5,308.50	17.10
Customer Deposits	**5,385.34**	4,624.84	16.44
Due to Banks and Other Institutions	**835.13**	463.28	80.26
Financial Indicators			
Net Interest Margin (%)	**12.51**	14.61	(14.37)
Return on Equity (%)	**3.70**	8.15	(54.60)
Net Assets Value per Share (Rs.)	**16.27**	16.75	(2.87)
Staff Cost: Net Income (%)	**36.87**	35.69	3.31
Cost of Funds (%)	**10.73**	9.55	12.36
Capital Adequacy (%)			
Core Capital Ratio	**13.58**	20.19	(32.74)
Total Risk Weighted Capital Ratio	**13.98**	20.19	(30.76)







Sources and Utilisation of Income

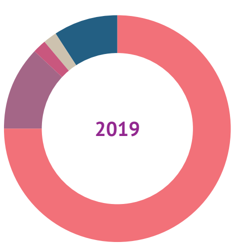
SDF's income grew by 19.27% and recorded at Rs.1.58 billion. This growth was primarily driven by the growth in interest income. The share of interest income to total income amounted to 91.0% compared to 89.3% share reported in the previous year.

Interest income, the primary source of income of the Company, escalated from Rs.1.18 billion to Rs.1.43 billion, recording a 21.5% hike. The growth in SME and leasing products, assisted SDF to record a distinct growth in interest income. SME contributed Rs.326.2 million or 22.8% towards interest income compared to 13.1% contribution in the previous year. Leasing contributed Rs. 191.0 million or 13.3% towards interest income compared to 7.9% contribution in the previous year.

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

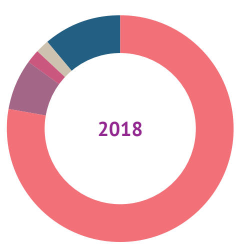
Sources and Utilisation of Income	2019		2018		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Source of Income						
Loans and Receivables	1,179.24		1,031.49		147.75	
Lease Rental Receivable	191.00		93.52		97.48	
Financial Investments	30.33		29.41		0.92	
Savings Interest	4.35		5.85		(1.50)	
Other Financial Assets	28.46		19.30		9.16	
Other Income	141.87		141.20		0.67	
Total	1,575.25		1,320.76		254.49	
Utilisation of Income						
To employees						
Personnel Expenses	356.17		328.06		28.11	
	356.17	22.61	328.06	24.84	28.11	8.57
To Suppliers						
Interest Paid	606.62		416.60		190.02	
Other Expenses	302.65		249.27		53.38	
Depreciation	58.14		58.19		(0.05)	
Loan Losses and Impairment	94.01		89.12		4.90	
	1,061.42	67.38	813.17	61.57	248.25	30.53
To the Government						
Income Tax	28.00		20.43		7.57	
VAT on Financial Service	87.76		70.75		17.01	
	115.76	7.35	91.18	6.90	24.58	26.96
To expansion and growth						
Retained Profits	33.65		69.91		(36.27)	
Statutory Reserve	8.24		18.44		(10.19)	
	41.89	2.66	88.35	6.69	(46.46)	(52.59)
Total	1,575.25		1,320.76		254.49	

Source of Income



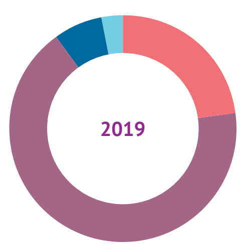
- Loans and Receivables 75%
- Lease Rental Receivable 12%
- Financial Investments 2%
- Savings Interest 0%
- Other Financial Assets 2%
- Other Income 9%

Source of Income



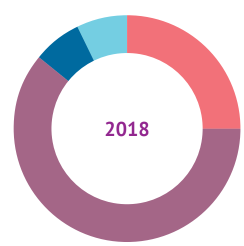
- Loans and Receivables 78%
- Lease Rental Receivable 7%
- Financial Investments 2%
- Savings Interest 0%
- Other Financial Assets 2%
- Other Income 11%

Utilisation of Income



- To Employees 23%
- To Suppliers 67%
- Income Tax 7%
- To expansion and Growth 3%

Utilisation of Income

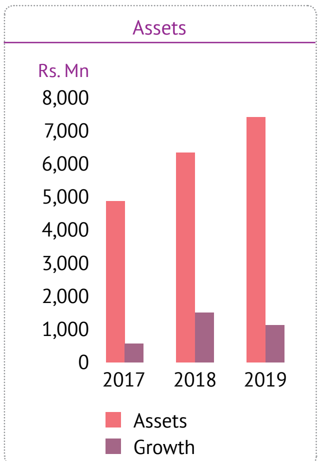


- To Employees 25%
- To Suppliers 61%
- Income Tax 7%
- To expansion and Growth 7%

Financial Capital

Assets

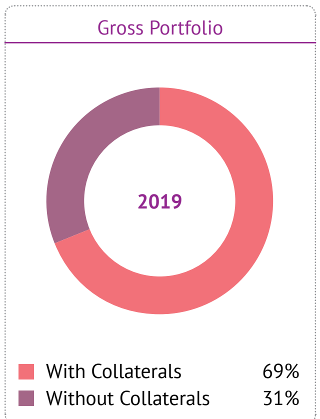
Our asset base reached Rs.7.45 billion with a growth of 17.1% compared to the total assets as at 31 March 2018. Growth in asset base was primarily driven by the growth in the lending portfolio of the Company. The new lending products range, mainly SME and Leasing, introduced in FY 2017, were instrumental for this growth.

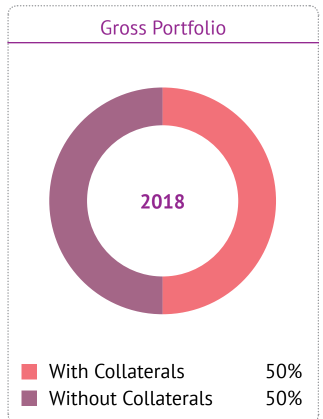


Loans and Lease Receivables

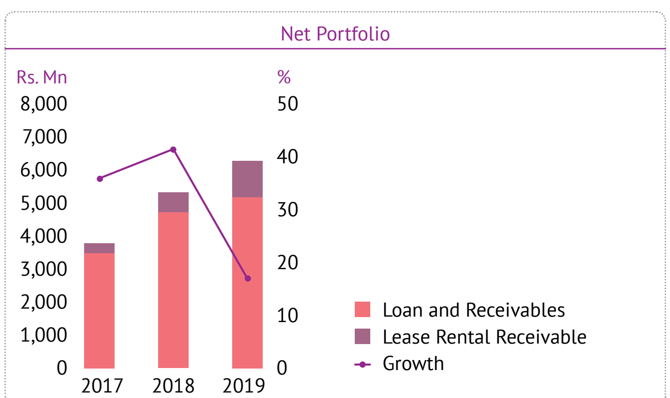
We anticipated the glooming uncertainties in macro-economic fundamentals and economic and political climate of the country few years back and we strategically moved into growing our loan portfolio with more focus being given on collateral-backed lending, to both improve our assets quality and also to minimise the impact of rising NPA. This was also a core aspect of SDF's restructuring process to address portfolio risks by rebalancing revenues towards a more secured and stable financial capital base. This was to be achieved by increasing the share of collateral based lending in the lending portfolio by expanding the share of SME, leasing, gold loans and personal loans.

The long-term business strategy of SDF is to maintain a share 70% on collateral-backed lending and reduce the share of micro lending to 30% overall. The micro lending criteria was also changed from group lending to micro individual based lending, comprising larger loan sizes, to scale up the business model. This was an important strategic shift in the overall business model of SDF which resulted in a notable shift in collaterals verses without collaterals mix of gross portfolio during the current year. Accordingly, the gross portfolio, backed by collaterals, increased to 69% as at the financial year end from 50% in the previous year.

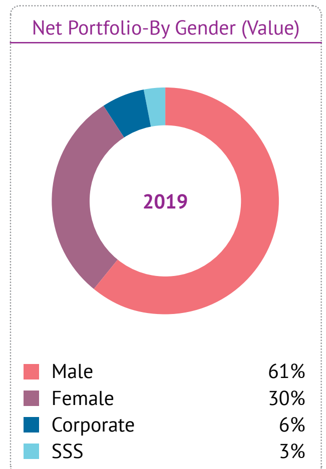


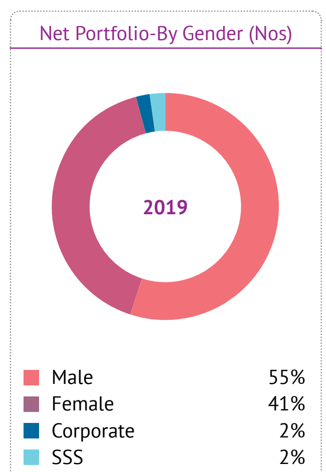


SDF's net portfolio, comprising of Loans and Lease Receivables reported in the Statement of Financial Position as at 31st March 2019, increased by Rs.907.7 million or 17.1% compared to Rs.1.5 billion or 41.2% growth registered in the previous year. The net portfolio stood at Rs.6.2 billion as at the end of reporting year.



The net receivable from male borrowers of the net portfolio, amounted to Rs.3.78 billion while the female borrowers amounted to Rs.1.88 billion. This represented 60.8% of net receivable value from male borrowers and 30.2% from female borrowers. The number of male borrowers amounted to 54.4% and female borrowers amounted to 41.2% of the net portfolio as at the end of current year.





For administrative simplicity, SDF has divided its 51 delivery channels into seven (7) regions. Western region (region 1) has the largest share of net portfolio which amounted to Rs.1.89 billion followed by the North western (region 5) with Rs. 802.35 million as at the end of the current year.

Region Name	Region	Net Portfolio By Gender (Rs. million)				
		Male	Female	Corporate	SSS	Total
Western	Region 1	934.55	610.13	280.94	61.42	1,887.04
Southern	Region 2	462.55	184.07	66.82	10.90	724.33
Uva	Region 3	464.57	167.01	1.35	6.77	639.69
North Eastern	Region 4	470.14	272.36	-	18.67	761.17
North Western	Region 5	567.38	195.87	17.81	21.27	802.35
North Central	Region 6	361.89	197.05	10.22	55.07	624.24
Central	Region 7	385.64	205.68	5.35	1.15	597.81
Corporate Office		129.30	44.20	3.21	-	176.71
Head Office		1.32	1.50	-	-	2.82
Total		**3,777.34**	**1,877.87**	**385.70**	**175.26**	**6,216.17**

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 41.2% of total loan customers.

Region Name	Region	Net Portfolio (Nos)				
		Male	Female	Corporate	SSS	Total
Western	Region 1	1,888	1,866	173	167	4,094
Southern	Region 2	926	774	132	35	1,867
Uva	Region 3	1,214	793	5	11	2,023
North Eastern	Region 4	1,952	1,195	-	30	3,177
North Western	Region 5	1,599	919	45	56	2,619
North Central	Region 6	1,436	1,160	19	111	2,726
Central	Region 7	1,130	1,032	29	9	2,200
Corporate Office		149	48	3	-	200
Head Office		28	26	-	-	54
Total		**10,322**	**7,813**	**406**	**419**	**18,960**

The first-time adoption of SLFRS 9 brought in many challenges to SDF, specially, when this adoption came in a period where the business climate of the country was far deteriorating and the recoveries of the loans becoming more intense. Furthermore, the introduction of the customer protection act by the Central Bank coupled with debt reliefs programs introduced by the government for drought affected borrowers, made the recoveries of loans, micro loans in particular, more difficult.

However, by rigorously pursuing the recovery and by streamlining legal actions in a more structured manner, SDF was successful in minimising the increase in the Impairment provision for loans and lease receivables and other losses in the current year. The impairment provision for the year amounted to Rs.94.0 million compared to Rs.89.1 million recorded in the previous year resulting in a marginal increase in provision of Rs.4.9 million. SDF beliefs that, SDF has a strong and capable management team who have now brought in many reforms and direction to streamline and speed up recoveries of NPA customers. Therefore, we took a policy decision not to write off any NPA loans going forward unless all efforts made, including legal actions, have showed fruitless. Accordingly, we did not write off any NPAs during the current year. We will continue to focus on strengthening our assets base as we move closer towards achieving our final objective of evolving into a development bank.

Disbursements

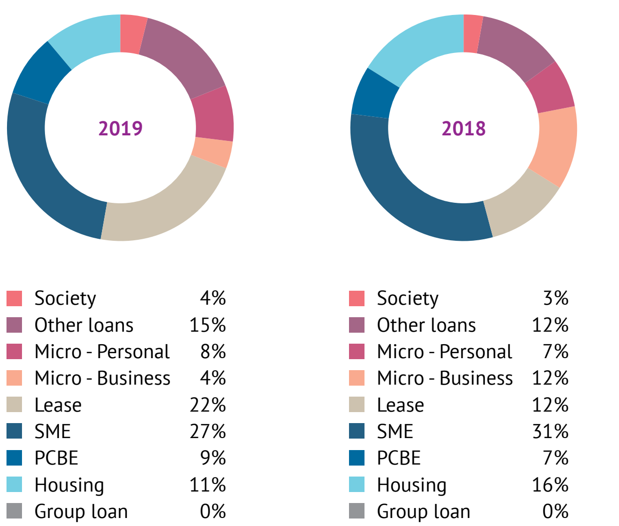
Total disbursement reached Rs.3.65 billion in the reporting year with a decline of 8.2% compared to the previous year. The increased customer demand for SME and leasing and faster service provided by further simplifying and automating the approval process, contributed towards fast-tracking the rate of loan disbursements.

With more focus being given towards collateral-based lending resulted in, SME loans contributing the highest to the growth in disbursements in the reporting year. SME disbursements amounted to Rs.1.0 billion or 27.4% of total lending followed by leasing with Rs.790.8 million or 21.7% of total lending.

Financial Capital

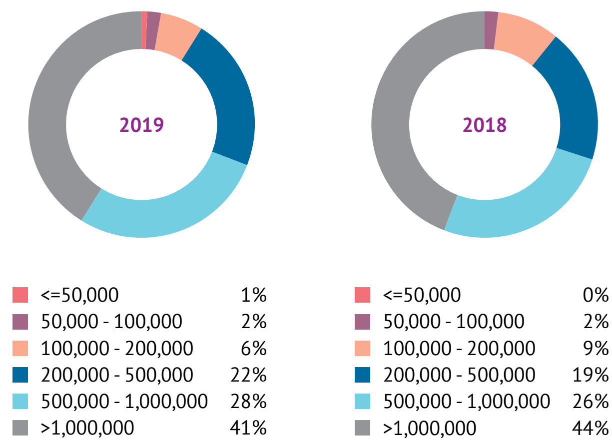
We thoughtfully curtailed the disbursements on SME during the latter part of the current year due to rising NPAs of this products in the banking and finance sector as a result of economic slow-down and curtailment of banking facilities for working capital requirement. As a result, we recorded a decline of 19.7% in SME disbursements during the current year in comparison to the previous year. To counterfeit this, we boosted up the leasing disbursements and as a result, leasing disbursements grew by Rs.323.7 million or 69.3% compared to the previous year. PCBE, the personal loan product performed satisfactorily with an average disbursement of Rs. 28.5 million per month during the reporting year and recorded a growth of 21.8% YoY.

Disbursements by Product



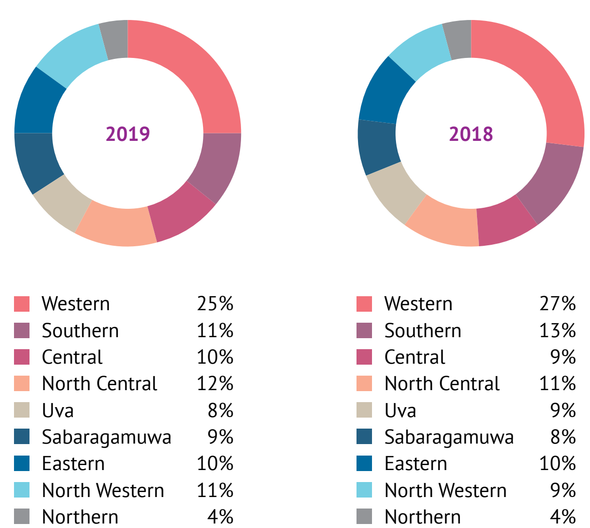
With the shift in overall lending strategy towards collateral-based lending, resulted in the ticket-size per loan increased sizably during the reporting year. The share of disbursements between Rs.0.5 million to Rs.1.0 million to total disbursements increased to 28.4% from 26.2%. The growth in micro leasing, such as, three-wheeler and buddy-truck leasing, largely contributed to the growth in this disbursement category. With the curtailment of SME lending, the share of disbursements over Rs.1.0 million decreased to 41.0% from 44.2% in the previous year. Out of total lending, 76.3% were executed below 24% ER compared to 68.2% of total lending in the previous year. This showcases our move towards collateral-backed lending where the rates are sizably lower than micro lending. Despite the contribution that collateral-backed lending makes towards SDF's portfolio quality, this shift into collateral-based lending at lower margins, affected the overall yield generated from the portfolio of the Company. The portfolio yield dropped to 22.8% at the year-end from 23.3% reported in two years ago.

Disbursements by Value



The highest contribution to the disbursements came from the Western Province which amounted to Rs.933.08 million or 25.6% of total lending during the current year. The contribution to total lending from the Western Province shows a drop of 1.0%, in rupee-terms, compared to the previous year. The North Central Province contributed the second largest with Rs.440.53 million or 12.1% of total lending followed by the Southern with Rs.398.90 million and the North Western Province with Rs.397.35 million.

Disbursements by Province



In terms of economic sectors, the construction sector accounted for the largest share at Rs.1.0 billion, which was a 388.4% growth compared to the previous financial year. The other customer category was the next largest recipients with Rs.769.33 million which was a decline of 0.6% YoY. With the slow-down in the agriculture sector as a result of prolonged draught witnessed in several provinces in the country, lending to agriculture and fishing sector was curtailed substantially, resulting in an 85.1% drop in lending to this sector compared to the previous year.

As many small-scaled businesses were struggled to sustain their businesses and honour their financial commitments timely, due to subdued market and sluggish economic conditions prevailed during a larger part of the current year, lending to trading sector was curtailed, resulting in Rs.308.78 million or 56.5% drop in disbursements to this sector. Other services and customer segments collectively accounted for Rs.1.67 billion which accounted for 45.71% of the loans disbursed during the current year.

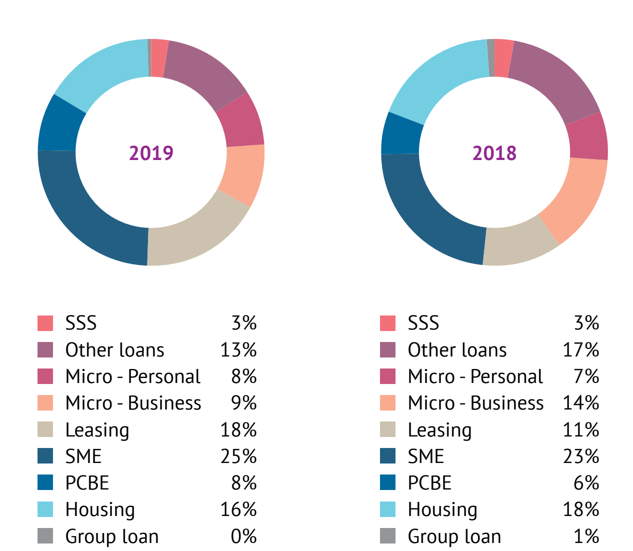
Disbursements -By Sector	2019	2018	Change
	Rs. million	Rs. million	%
Agriculture & Fishing	197.63	1,321.98	(85.1)
Manufacturing	447.73	242.23	84.8
Tourism	11.30	22.93	(50.7)
Transport	151.66	37.68	302.5
Constructions	1,002.74	205.30	388.4
Trades	238.10	546.88	(56.5)
New Economy	12.34	20.15	(38.8)
Financial and Business Services	51.82	27.43	88.9
Infrastructure	50.02	6.29	695.1
Other services	716.14	767.70	(6.7)
Other Customers	769.33	774.36	(0.6)
Total	3,648.81	**3,972.92**	**(8.2)**

Portfolio Composition

The new growth strategies implemented by aggressively moving into collateral-based lending contributed towards expanding the gross portfolio value by 19.9% to Rs.6.54 billion from Rs.5.46 billion as at the end of the current year. The newly added products; SME, leasing, micro personal and micro business loans and PCBE, contributed 67.5% to the gross portfolio as opposed to 61.7% contributed in the previous year.

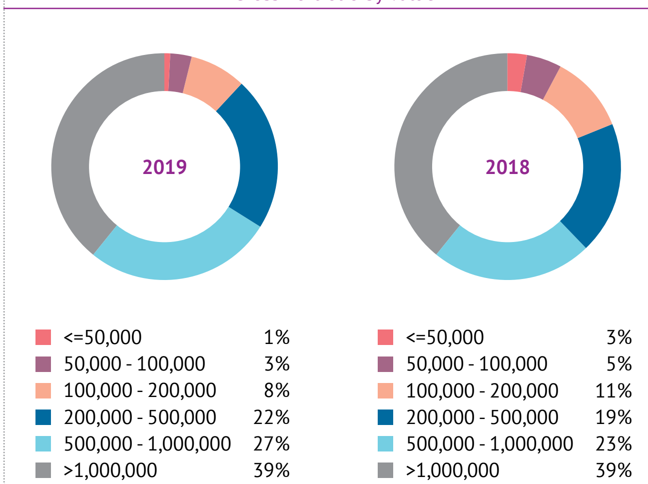
The SME portfolio moved up to Rs.1.61 billion registering a 28.3% growth YoY. Leasing registered a growth of 86.7% YoY which boosted the leasing portfolio to Rs.1.15 billion as at the end of the current year. The micro personal portfolio increased to Rs.512.88 million or by 36.3% while micro business portfolio declined to Rs.595.91 million or by 23.3% YoY. The curtailment in disbursements into trading sector resulted for the drop in the portfolio of micro business. In addition, the personal loan product- PCBE, registered an impressive growth of 58.9% YoY and stood at Rs.543.39 million as at the end of the current year.

Gross Portfolio by Product



The strategic shift towards collateral-based lending resulted in the individual loan size increasing sizably during the current year. The share of gross portfolio between Rs.0.5 million to Rs.1.0 million to total gross portfolio, increased to 27.1% from 23.3% and the share of gross portfolio over Rs.1.0 million, increased to 38.7% from 38.5% respectively compared to the previous year. Out of total gross portfolio, 77.0% of loans were below 24% ER as opposed to 73.2% of total portfolio in the previous year.

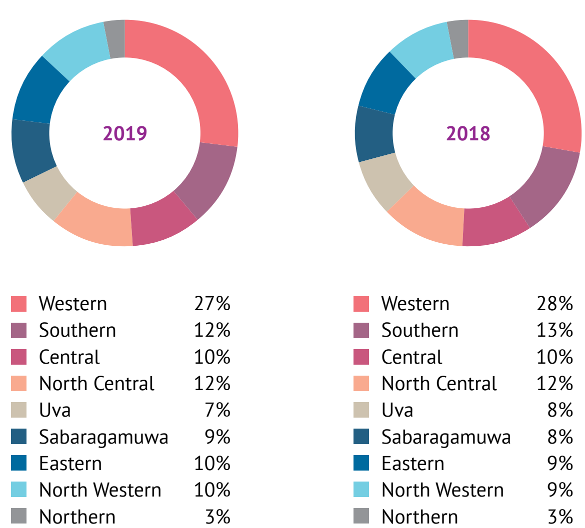
Gross Portfolio by Value



Financial Capital

The Western Province accounted for the major share of portfolio value at Rs.1.77 billion and recorded a growth of 16.0% YoY. The North Western Province demonstrated the highest level of growth of 38.46% YoY and increased the portfolio to Rs. 654.01 million at the end of the current year. The second highest growth was from the Sabaragamuwa Province which grew by 29.43% YoY to reach Rs.581.37 million. The North Central Province held the second largest share of portfolio at Rs.789.66 million and also recorded a growth of 20.8% YoY against the previous financial year.

Gross Portfolio by Province

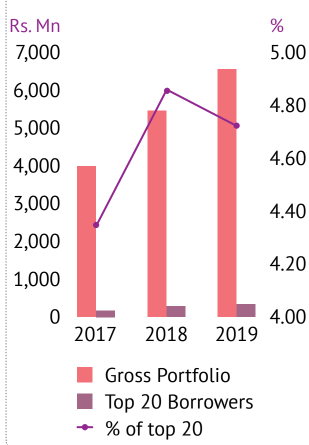


Sector-wise distribution of the portfolio indicates, the highest share of SDF's portfolio amounting to 22.24% is distributed in the construction sector. The construction sector showed greater dynamics with government-backed infrastructure developments projects, such as port city and mass-scale condominium apartments and hotels that are putting up in-and-around Colombo. Accordingly, our highest disbursements was into this sector resulting in the construction sector contributing the biggest share of our gross portfolio.

The tourism sector was adversely affected by the unfavourable weather conditions prevailed most part of the reporting year. Despite these adverse environmental conditions, SDF was able to maintain the portfolio quality of this sector at an acceptable level. The second largest exposure is in other customer sector with Rs.1.45 billion which recorded a growth of 49.3% YoY. The highest growth of 574.6% was reported in the infrastructure sector followed by the transport sector with 341.0% growth YoY.

Gross Portfolio -By Sector	2019	2018	Change
	Rs. million	Rs. million	%
Agriculture & Fishing	468.97	1,684.94	(72.2)
Manufacturing	718.46	399.06	80.0
Tourism	39.50	28.12	40.4
Transport	257.91	58.49	341.0
Constructions	1,455.20	399.58	264.2
Trades	777.57	705.44	10.2
New Economy	42.22	29.55	42.9
Financial and Business Services	80.26	57.25	40.2
Infrastructure	52.97	7.85	574.6
Other services	1,196.10	1,114.72	7.3
Other Customers	1,452.61	972.81	49.3
Total	**6,541.77**	**5,457.81**	**19.9**

Top 20 Borrowers



The value of the top 20 borrowers increased to Rs.309.16 million from Rs.265.46 million in the previous year. However, with larger ticket-size SME lending being curtailed, the percentage of top twenty (20) borrowers decreased from 4.86% to 4.73% as at the end of the current year.

Portfolio Quality

So as to build a solid financial foundation for the future of the Company, we focus on improving the quality of the lending portfolio as a strategic priority for the year. Therefore, while aggressively pushing new lending products, SDF redoubled attention on recoveries and internal procedural aspects, including training for credit officers, to ensure better quality of new lending. All lending was conducted within Central Bank's guidelines imposed on LTV. We pay considerable attention to industry changes to manage credit risk in our business operations, and adapt proactively. We also carefully monitored and reported changes in market credit risk factors and fluctuations in market interest rates, and priced our lending products at affordable prices to our borrowers.

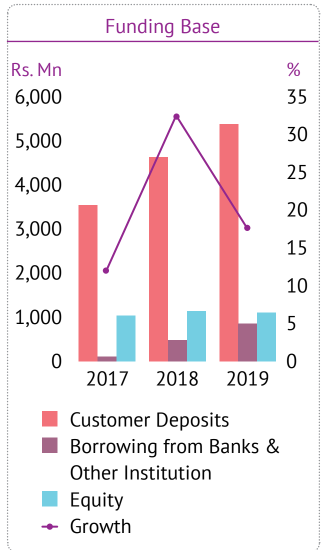
The restructuring of Legal Department into three inter-connected, distinct sections; namely, legal operation, litigation and writ execution, resulted in fast-tracking legal action on default customers. This structural change streamlined the legal recovery and the litigation process and resulted in an over 20% increase in the execution of legal action against default customers.

We harnessed our technology to the optimal level and developed a recovery dash-board using micro-soft power BI tools to monitor daily recovery, branch and field officer wise. The dash-board is directly linked to our core banking system to extract data real time. A recovery call centre was established to monitor the customers in the 0-3 age category and give constant reminders for settlement. Legal recovery camps was conducted region-wise to provide workable-solutions and re-payment plans for defaulted customers. One-to-one counselling meetings for NPA customers were conducted by the corporate management at the head office level to apprehend customers' plights and provide customer-centric repayment solutions .Despite all these efforts and structural changes we did to processes to revamp our recovery monitoring and collections, our non-performing loan ratio (NPA ratio)) increased to 9.41% as at 31 March 2019, from 6.20% reported in the previous year. Equally, the net NPA ratio increased to 4.67%, from 3.56% reported in the previous year. Our SME and micro business loan portfolios were battered by the slow-down in the economy which gave rise to a unfavourable business climate that affected the sustainability of these businesses. As a result, the recoveries of loans provided to these businesses were modest. This scenario increased the NPA of our SME and micro business portfolio resulting in this increased NPA ratio during the current year.

Funding Mix

SDF continued to adopt a pull strategy through ongoing marketing and promotional campaigns to attract public deposits as the primary source of funding. The growth of fixed deposits is considered essential to address the asset-liability mismatch. To diversify the funding mix and to maintain an acceptable level of loans to deposits ratio, SDF obtained medium term borrowings amounting to Rs.600.0 million from commercial banks during the current year.

One of SDF's core strategic objectives is to build a strong low-cost funding base to facilitate lending at affordable and competitive rates. In this regard, SDF initiated several negotiations with overseas funding institutions to obtain low-cost funding via foreign credit-lines to fuel a rapid growth of the portfolio in coming years.



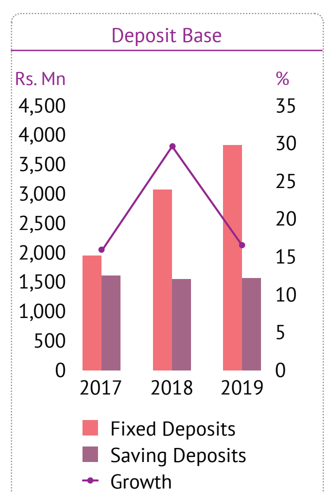
During the year, SDF's funding base increased to Rs.7.3 billion from Rs.6.2 billion in the previous year by registering a 17.7% growth YoY. Total deposits as a percentage of total funding mix, stood at 73.6% as at 31st March 2019, compared to 74.3% recorded as at 31 March 2018. The share of debt funding, collectively representing the medium-term loans and permanent overdrafts from banks and short-term micro loans from other institutions, amounted to 11.4% of total funding mix as at 31st March 2019 compared to 7.4% reported as at 31st March 2018.

The escalated deposits interest rates during the current year and re-pricing effects at the time of renewals coupled with relatively higher interests paid on bank borrowings, pushed the cost of funds up to 10.73% from 9.55% in the previous year.

Deposits Base

SDF was highly successful in its efforts and closed the financial year 2019 with the total deposit base growing to Rs.5.39 billion or by 16.4%. Fixed deposits grew by 24.6% or Rs.754.06 million and stood at Rs.3.82 billion at the end of the current year. Savings, recorded a modest growth and stood at Rs.1.56 billion at the end of the current year. The increase in the savings base amounted to Rs.6.44 million or 0.4% compared to the previous year.

The growth in fixed deposits was primarily driven by the head office marketing team by way of direct marketing through their personal contacts and through creating sustainable business relationships with high-net-worth individuals. The fixed saver, which is linked to micro lending, recorded a Rs.15.50 million growth YoY. Despite, Rs.27.42 million transferred to normal savings from "Pancha" children savings accounts after reaching age 18, the normal savings witnessed Rs.6.79 million drop overall and thereby, adversely contributing to the overall modest growth in the savings base.



Financial Capital

The Western Province accounted for the largest share of deposits base and recorded at Rs2.34 billion or 43.41% of the deposits base. The Western Province also demonstrated 33.56% growth YoY which was the highest growth rate recorded among the provinces. The North Western Province deposits base increased by Rs.79.5 million or 15.36% YoY and accounted for 11.09% of the total deposits base as at end of the current year. The Southern Province held the second largest share of the deposits base of Rs.606.52 million

The eligible deposits base amounted to Rs.4.75 billion as at the end of current year and the highest was recorded in the Western Province of Rs.2.11 billion and followed by the North Western Province of Rs.534.68 million.

Province	2019		2018	
	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)
Central Province	377.21	294.16	350.98	284.10
Eastern Province	240.99	217.31	225.00	203.04
North Central Province	471.51	421.01	433.33	393.72
North Western Province	597.00	534.68	517.51	470.12
Northern Province	86.94	76.92	80.35	72.05
Sabaragamuwa Province	421.07	373.46	404.01	368.11
Southern Province	606.52	509.96	608.34	521.35
Uva Province	246.18	218.28	217.14	184.10
Western Province	2,337.92	2,106.30	1,750.51	1,597.66
Total	**5,385.34**	**4,752.08**	**4,587.17**	**4,094.26**

The highest increase in the deposits base of Rs.434.86 million or 54.48% of net growth, was recorded in the deposit category of Rs.1.0 million to Rs.5.0 million. The highest share of the deposits base was recorded between Rs.1.0 million to Rs.5.0 million. The share of deposits base between Rs.1.0 million to Rs.5.0 million to total deposits base, increased to 32.12% from 28.23%. The deposits base over Rs.5 million increased by Rs.399.1 million demonstrating our direct marketing approaches to canvass deposits from high-net-worth individuals for creating a long-standing and sustainable business relationship. The share of the deposits base over Rs.25 million to total deposits base, increased to 10.0% from 5.2% in the previous year demonstrating this strategic shift in direct marketing for deposits mobilisation.

Deposit Category	2019		2018	
	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)
"Below Rs. 100,000/-"	1,007.45	999.67	984.69	974.96
"Rs 100,000 - 500,000"	1,030.83	926.62	1,070.18	960.93
"Rs 500,000 - 1,000,000"	697.22	568.29	716.36	608.19
"Rs 1,000,000 - 5,000,000"	1,729.99	1,436.81	1,295.13	1,081.92
"Rs 5,000,000 - 10,000,000"	245.09	192.87	160.45	123.13
"Rs 10,000,000 - 25,000,000"	136.21	89.27	123.10	107.86
"Over Rs 25,000,000"	538.55	538.55	237.26	237.26
Total	**5,385.34**	**4,752.08**	**4,587.17**	**4,094.26**

Our exposure on deposits, either equal or greater than Rs.10 million, accounted for 12.53% of the total deposits base illustrating a relatively low liquidity risk in case of a sudden withdrawal.

Investment Mix

We invested 5.9% of the total assets in Reverse Repurchase agreements (Repos) which accumulated to Rs.442.60 million as at 31 March 2019. Investment in fixed deposits decreased by Rs. 18.10 million or 8.7% and reached to Rs. 189.28 million.

Bottom Line

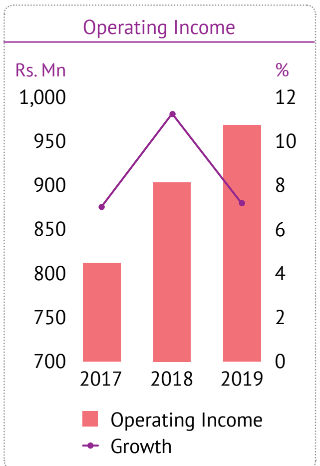
Operating Income

Reflecting the growth in our lending activities, interest income moved up by 21.5% to Rs1.43 billion. With increase in deposits rates and moving into medium-term bank borrowings, the interest expenses increased by 45.6% or Rs.190.02 million and recorded at Rs.606.62 million. While net interest income improving by Rs.63.79 million or 8.4% YoY, the net interest margin weakened to 12.51% from 14.36% owing to higher cost of funds and YoY drop in portfolio yield.

The share of other income which comprises, fees and commission income and other operating income, showed a marginal increase of 0.5% compared to 10.7% increase reported in the previous year. The collection of bad debts written off amounted to Rs.97.55 million as opposed to Rs.90.30 million collected in the previous year by showcasing an 8.0% increase YoY.

This contributed to this increase in other income.

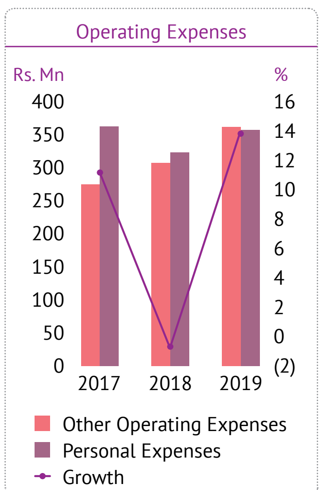
All in all, these factors contributed to record a Rs.64.46 million or 7.1% growth in total operating income in the current year.



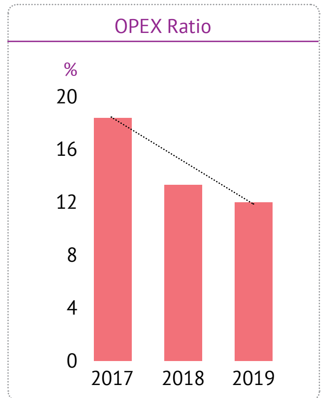
Operating Expenses

We are continuously evolving as a respected brand by re-branding, modernising and face-lifting our channel network to bring in ambience and to create speedy service to our valued customers. We've now evolved as a young, tech-savvy, financial institution and have invested in technology prudently, to bring in advancements to our customer service. Marketing of customer products has been given a new dimension by entering into digital marketing contents through social media platforms. We shifted to our state-of-the-art new head office in Borella by providing more space and extended hours of service to customers. Our marketing workforce was strengthened by recruiting young talents with unblemished track record, to push forward the credit disbursements to the planned levels. All these initiatives were well-planned and strategically executed to well-place our brand name in the minds of our customers.

These initiatives resulted in additional cost which were essential for the long-term sustainable business development. Marketing expenses moved up by Rs.13.81 million and the other operational expenses moved up by Rs.53.38 million during the current year. Personnel expenses moved up by Rs.34.37 million or 10.6% during the current year. This resulted in staff cost to net income ratio moving up to 36.87% during the current year compared to 35.69% in the previous year.



By improving productivity through optimising staff and resources to generate business, we were able to bring down our Opex ratio to 11.97% during the current year compared to 13.35% in the previous year.



We continuously focus on cost containment and cost efficiency and initiated many reforms during the current year, including the implementation of 5S, to minimise waste and optimise the available resources for generating of maximum output. We're moving towards a paperless environment by automating many of our manual processes. We believe, that these developments we're working on will substantially reduce our cost, mainly in paper and time, in future years.

Taxation

SDF's operating profit before tax and financial services registered a 15.2% decrease over the previous year. The escalated cost of funds as opposed to gradual decline in portfolio yield, contributed to this drop in operating profit. Despite the operating profit declining, as a result of Rs.34.37 million increase in personnel cost resulted in the financial services tax charge climbing to Rs.87.76 million from Rs.70.75 million in the previous year. The income tax charge also moved up in tandem to Rs.27.74 million, of which, the deferred tax provision amounted to Rs.26.19 million. This increase in deferred tax provision over Rs.6.08 million deferred tax provision reported in the previous year, was mainly due to the utilisation of the brought forward tax losses in full against the taxable profits, as provided by the Inland Revenue Act no. 24 of 2017 which came into effect from 01st April 2018.

SDF paid Rs.141.1 million in taxes to the Government during the current year which was an increase of Rs.43.5 million compared to previous year.

Profitability

Despite the greater challenges we faced from the deteriorating macro-economic conditions, tightened regulatory requirements, implementation of SLFRS 9 and rising NPA, we were able to demonstrate a reasonable performance in our profitability. With our business concentration moving towards more collateral-based lending, we were able to register a satisfactory year by recording a profit after tax (PAT) of Rs.41.2 million over the Rs. 92.2 million profit reported in the previous year.

The re-structuring and re-aligning of legal processes, focused task-forced recovery actions on selected ailing products and rewarding best performers for motivation towards creating enhanced performance also, contributed in a sizable way towards this improvement. Overall, the interest income on the lending portfolio improved to Rs.245.23 million or 21.80% YoY. Provision for impairment was curtailed by improved credit screening, tightened recoveries and

Financial Capital

collateral-based lending. Operating efficiencies were improved by automating various manual processes and thereby, bringing in containment of cost other than those expenses that were strategically incurred for business expansion and long-term sustainability. All in all, these focused initiatives implemented, assisted in recording a positive bottom line which is reflected in the reporting year's PAT.

Consequently, return on equity (ROE) declined to 3.70% over 8.15% reported in the previous year, and return on assets (ROA) declined to 0.60% over a 1.64% reported in the previous year.

Capital Resources and Liquidity

We maintained a comfortable capital and healthy liquidity position during the financial year ended 31 March 2019. However, SDF was not able to fulfil the minimum core capital requirement of Rs.1.5 billion as at the end of the current year. The country is passing through a period of economic decline and political instability. The stock market has plummeted and the valuations of many LFCs have contracted substantially. In this back-drop, attracting new investors to bring in additional capital is extremely difficult. Our Board of Directors are working on full commitment and have entered into many agreements with prospective parties, including NDBIB as the advisor and the investment manager, for raising the required capital in the coming financial year.

SDF intends to raise equity capital up to Rs.1.0 billion via a private placement in the coming year to meet the core capital requirement of Rs.2.0 billion by 01st January 2020 and then, followed by an IPO in the year after to meet future core capital requirements.

We've comfortably adhered to the stipulated capital adequacy ratios laid down by the Central Bank. Our core capital ratio (minimum 6%) and total capital ratio (minimum 10%) stood at 13.6% and 14.0% respectively as at 31 March 2019. The total core capital base as at 31 March 2019 stood at Rs.1.06 billion.

Cash Flow

Net cash generated from the operating profit before working capital changes amounted to Rs.226.91 million which was a drop of 14.48% compared to the previous year. This drop resulted largely due to the drop in the profit reported in the current year.

Net cash generated from operations recorded a negative Rs.102.16 million which was an improvement of Rs.249.73 million compared to Rs.351.89 million negative cash flow reported in the previous financial year. The decrease in this operating cash position was demonstrated by the increase in credit growth which was amply supported by the increase in deposits growth. The cash flow from investments activities was negative of Rs.224.75 million compared to a negative cash flow of Rs.47.29 million recorded in the previous year. The new investments taken place in financial instruments for regulatory purpose, largely contributed to this negative cash flow. With the inflow of Rs.600.0 million as bank borrowings, the net cash inflow from banks and other institutions amounted to Rs.500.12 million resulting in a net cash inflow of Rs.232.52 million compared to the previous year.

Overall, as a result of these major changes reported in our cash flow, the net increase in our cash and cash equivalents amounted to Rs.152.19 million compared to a negative of Rs.140.89 million reported in the previous year. With Rs.52.86 million negative cash and cash equivalent reported at the beginning of the year, our cash and cash equivalent moved up to a positive Rs.99.33 million at the end of current year.

Manufactured Capital

Strategic Priorities	Strategies
Improve branch profitability	Grade branches on business potential with adequate resources to drive profitability
	Revitalize branches and CSCs through process improvements
	Upgrade and revamp branches and CSCs
Invest in latest IT and Fintech	Implementation of digital transformation solutions -Marketing, analytics tools, resource planning & work flow management systems
	Cyber security and IT risk awareness building
Reach new markets	Join with Sarvodaya Societies to reach new markets
	Develop customized products for niche markets
	Branding and marketing campaigns

Our policy is to lease buildings for branch offices and customer service centres (CSCs), hence restricting the expansion of physical manufactured capital. Limiting the capital tie up in land & property for branch expansion, we intend to establish virtual branches via online banking system. Further, we limit our branch network to the existing branches and are in the process of evaluating the possibility of converting the existing CSCs to branches with Central Bank approval.

The Company's owned property is limited to the former head office building in Moratuwa which will be rented out during the early part of the next financial year. We moved in to our new state-of-the art head office building in Borella in January 2019 where our corporate office was situated earlier, with an intention to increase customer reach and ease of business. We totally rebranded the head office building with greater ambience and visibility. Also, we shifted our Borella branch to the new head office building giving it a modern outfit and more space for customer convenience. Our capital investment for these shifting amounted to Rs. 10.78 million. We leased out this building from Sarvodaya Movement for a lease rental of Rs.2 million plus taxes per month. We also revalued our former head office building and lands, which resulted in Rs. 1.90 million increase in property valuation.

We're in a continuous process of modernising our new head office and customer delivery points, comprising of branches and CSCs, to create greater ambiance and customer acceptance. In this process, we increased our capital investment in head office fixed assets, both former and the new, by Rs. 21.76 million and in our customer delivery points by Rs. 6.62 million, during the current year.

	Capital Investment	
	Cost (Rs.'000)	WDV (Rs.'000)
Head Office (former)	7,160.00	6,877.31
Head Office (new)	14,602.20	13,588.61
Branches/CSC's	6,617.86	6,021.32
Total	28,380.06	26.487.24

Customer Delivery Points

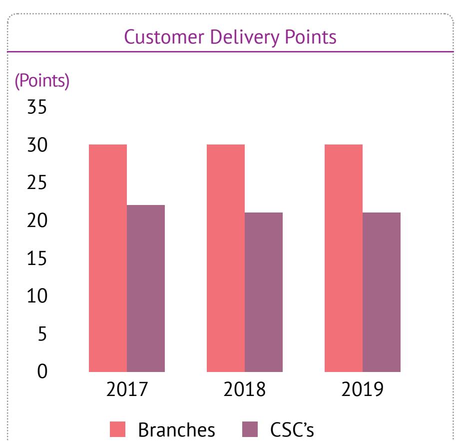
Presently, our customer delivery points spread across the island serves different segments of the society. As at end March 2019, our network comprised of 51 customer delivery points, comprising 30 branches and 21 customer service centers (CSCs), scattered across the island, which are all occupied under lease agreements.

Branch Network

SDF has an island wide branch network, with 30 branches, with presence in key strategic locations giving the Company access to both rural and urban populations. Our revamped branch network was located at the most beneficial locations and the transformation of the branch outlook aided in brand visibility.

Identifying Strategic Locations

We identify strategic locations that require our presence through the analysis of the market potential of the area in question, as well as any future prospects. This is done through extensive market research and demand trend analysis. To further enhance the value of our branch network, we rebranded and relocated some of our existing branches. This rebranding and relocating of branches is a continuous process, and we expect this relocation strategy to maximise benefits for customers by providing easier access and greater convenience, while facilitating improved return on assets for SDF. Aligning with this strategy, we relocated our Head office premises to the Colombo metropolitan area enabling greater visibility to potential clientele and as a brand positioning initiative.



Manufactured Capital

New Head Office opening in January 2019

New Head office in Colombo

In a bid to offer our customers a smoother and more efficient experience, we relocated our head office from 'Arthadharma Kendraya' of No.45, Rawatawatta Road, Moratuwa to No.155/A, Dr. Danister De Silva Mawatha, Colombo 08 in January 2019.

Opening of the new head office heralds the next chapter in a journey towards creating an economically progressive society designed to cater to the demanding needs of the business community, private and public sector executives in Colombo and the suburbs. Those in need of financial guidance can drop by after office hours and enjoy the undivided attention of a team of professionals geared to offer them the best in terms of solutions, advice and information.

Tantamount to our commitment to customers, is our commitment to our people. Appreciating the passion and dedication of our most valuable asset is a priority at SDF. Which is why the new head office comes complete with a fully equipped gym for the team to enjoy a truly immersive work-life balance.

Matara branch opening in October 2018

We did not expand our network during the financial year 2019, but we improved our services in leaps and bounds while making them easily accessible to customers.

Relocate Branches and CSCs

Under the branch relocation, rebranding and face-lifting initiative which we commenced few years back, we rebranded three (3) of our branches and one (1) CSC during the current year, enabling our customers to access us easily. These Branches/CSCs were equipped with modern facilities and made them more spacious for customers to carry out their transactions.

Branch Operations

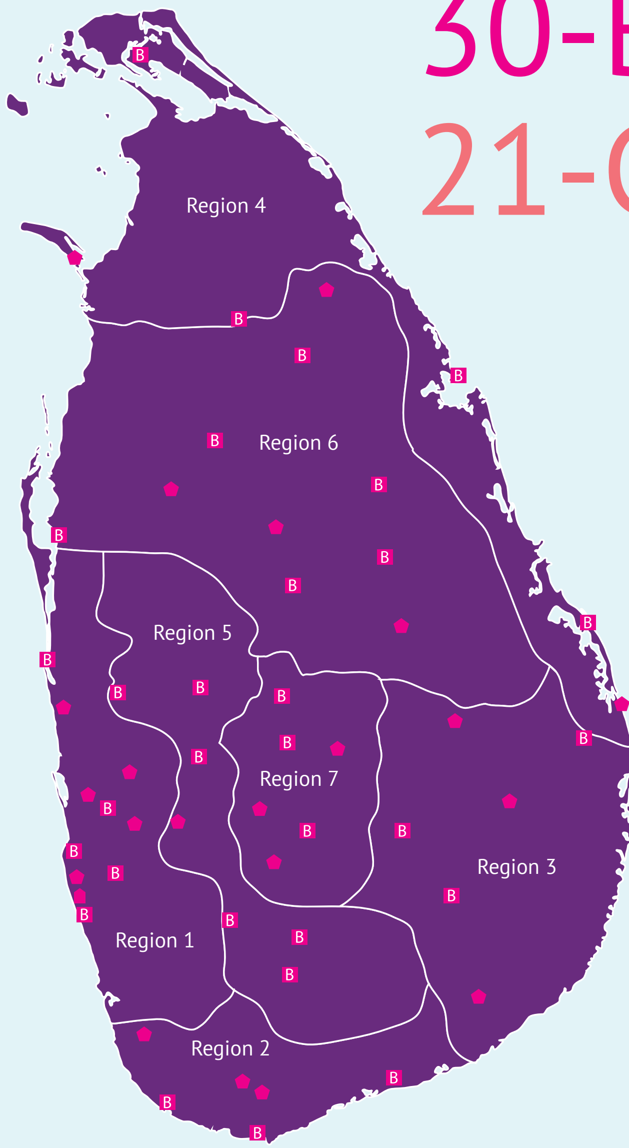
Branch rationalisation and operational efficiency improvements continued in the current financial year. The SDF branch and CSC network ensures our presence in strategic locations giving the Company access to both rural and urban populations. Our capital investments during the year for improvement of branches, brand building of branches and incorporation of IT and modern equipment totalled to Rs. 6.62 million which ensured faster service delivery and customer satisfaction.

	Capital Investment	
	Cost (Rs.'000)	WDV (Rs.'000)
Branches	4,774.65	4,.337.90
CSC's	1,843.21	1,683.42
Total	6,617.86	6,021.32

Our investments during the year for modernisation, branding and maintenance of previous years layout upgrading was Rs. 15.41 million which aided in reflecting our new phase lift across all our branches and CSCs including the new head office. In line with our commitment to give a unique customer experience our branches across the country and our new head office was given a new look in line with our new brand image.

	Capital Investment			
	Head Office (Rs.'000)	Branches (Rs.'000)	CSCs (Rs.'000)	Total (Rs.'000)
Maintenance	4,376.85	2,505.48	585.31	7,467.64
Modernising	7,555.97	-	-	7,555.97
Branding	66.97	218.04	102.67	387.68
Total	11.999.79	2,723.52	687.98	15,411.29

30-Branch
21-CSCs



Region 1

Branch
- Borella-Head Office
- Chilaw
- Gampaha
- Homagama
- Panadura

Customer Service Centres
- Minuwangoda
- Pasyala
- Delgoda
- Nattandiya
- Piliyandala

Region 2

Branch
- Ambalantota
- Galle
- Matara

Customer Service Centres
- Akuressa
- Karandeniya
- Kamburupitiya

Region 3

Branch
- Moneragala
- Ampara
- Badulla

Customer Service Centres
- Medagama
- Mahiyanganaya
- Kataragama

Region 4

Branch
- Jaffna
- Trincomalee
- Batticaloa
- Vavuniya

Customer Service Centres
- Kalmunai
- Mannar

Region 5

Branch
- Godakawela
- Balangoda
- Ratnapura
- Kurunegala
- Kuliyapitiya
- Kegalle

Customer Service Centres
- Ruwanwella

Region 6

Branch
- Anuradhapura
- Dambulla
- Kebethigollawa
- Medirigiriya
- Polonnaruwa
- Puttalam

Customer Service Centres
- Dehiattakandiya
- Kekirawa
- Parakramapura
- Tambuttegama

Region 7

Branch
- Nuwara Eliya
- Kandy
- Matale

Customer Service Centres
- Digana
- Hatton
- Nawalapitiya

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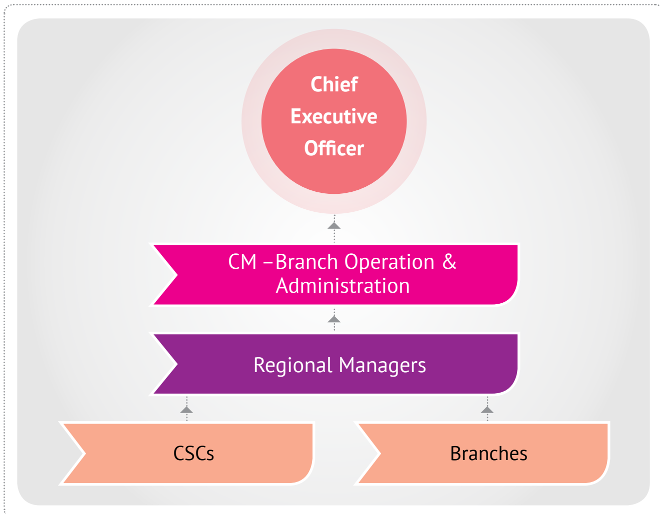
Branch Operating Structure

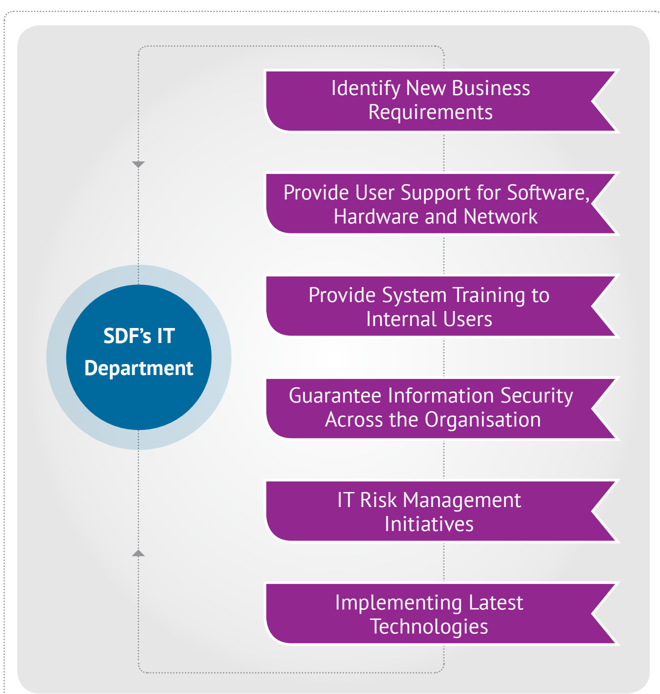
The operation of our branches/CSCs are directly headed by Regional Managers with the supervision coming under Chief Manager-Branch Operations & Administration.



Our credit approval process is partly decentralised as the regional managers are given a Delegated Authority (DA) that fall within a pre-determined limit of credit. Facilities above the DA limits of regional managers are approved by higher authorities through the online IT system. The operating results of the branches/CSCs are monitored real-time by the head office through the IT system.

Key Activities and Functions of SDF'S IT Department

Our IT Department covers the following key activities and functions.



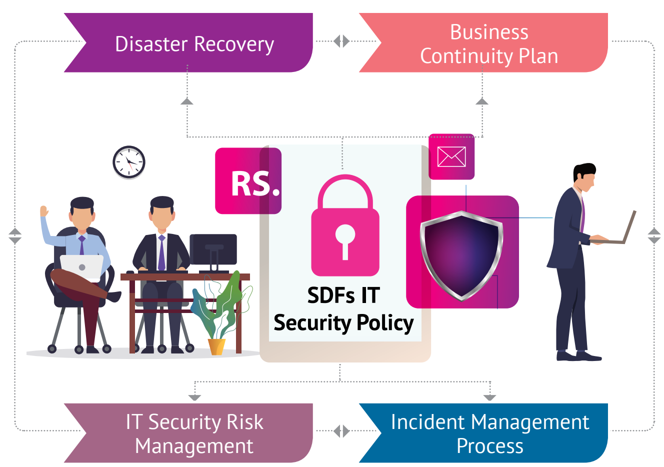
IT Infrastructure, Systems And Processes

Our IT strategy aims to include technology in all our operations to build efficiency and effectiveness across the organisation structure. As such our systems and processes are aligned, designed and inbuilt to reach greater customer satisfaction and quality of our service.

The relocation of our Head office premises to Borella which was completed within a short span was a great challenge to IT since it required the relocation of the server room and other IT infrastructure with minimal disruption to business. With proper planning and coordination, the relocation was completed due to the unparalleled dedication and commitment of our IT team. The total investment we made on the relocation of IT server and IT infrastructure was bare marginal and amounted to Rs. 4.74 million. We maximised the usage of available materials and in-house resources for this relocation without compromising the quality for greater productivity and cost saving.

Information Security Policy

Our IT Policy is currently focused on creating a sound Incident Management System providing adequate data protection and ensuring appropriate implementation in order to detect and remove any threats in a timely fashion. In addition, we have developed policies on Disaster Recovery & Business Continuation, E-mail and IT Security to further strengthen the coverage of data security.



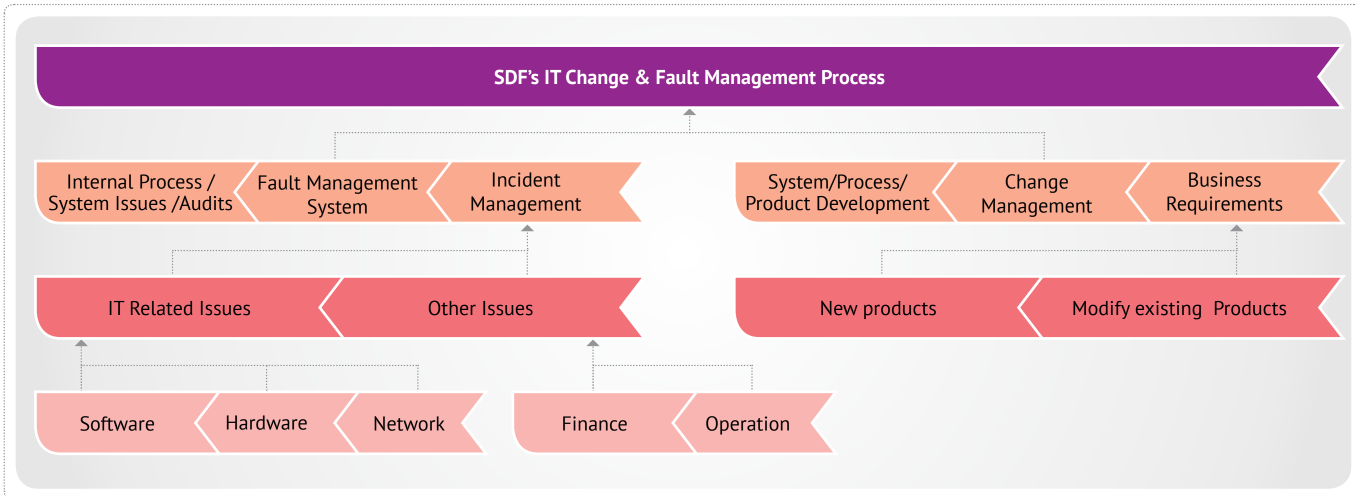
A Robust Disaster Recovery Site

Our network infrastructure was completely redesigned to enhance the data security features. Keeping in-line with Central Bank guidelines and internal DR policy, we partnered with Dialog IDC, Sri Lanka's first Uptime Tier III certified IDC provider, and re-located our DR site to their data centre located at Malabe with an investment of Rs.5.6 million in FY 2017. With this strategic move, we are now capable of providing a high-level of reliability and security, especially for mission critical applications and data related to customers and SDF.

We invested Rs. 4.20 million in hosting the DR site in the year under review. We carried out a DR drill during the year by connecting our branch network through the DR site. Each DR drill was timed to 4-5 hours and the results were satisfactory with zero errors and down times.

IT Risk Management

Our IT risk management process focus on three (3) areas of the IT process; namely, hardware, networking and software, to establish sound process controls to effectively run the IT system in achieving SDF's corporate objectives. Also, employee IT literacy enhancement initiative was undertaken as a measure to reduce inaccuracies and adaptability to the changing IT integrated environment.



Change Management

The formal process of making changes to IT services are channelled through the IT change management process. Our IT Department communicates and creates awareness of proposed IT changes across SDF through this process, to ensure that all changes are made in a thoughtful way that minimise negative impacts to our services and customers. This includes business requirements identified for modifications in existing products and new requirements for new product launches.

IT Training and Education

All staff was equipped with comprehensive in house and external training on new IT usage and as a measure of smooth change management. The following trainings were conducted aiming to increase staff IT literacy and day to day IT usage efficiency.

- Back office cashier training
- M cash recovery training
- Over C workflow training
- Introduction to crypto currency/block chain

Fault Management

Our IT Department developed a Fault Management System to analyse incidents that are related, or have common issues. This means that it is more serious than an Incident Management System which supports separate follow up at a deeper level to avoid future Incidents.

However, faults are not incidents. An incident can raise a fault, in cases, where there is a high possibility that the incident might happen again. Fault management function is tasked with identifying the underlying causal factor, which may relate to multiple incidents at SDF. It may take several incidents to transpire before fault management has enough data to understand the root cause using the developed Fault Management System.

Incident Management

Our IT Department is managing incidents which are unplanned interruptions to services or failure. The objective of the SDF Incident Management process is to restore the IT related or other service, as quickly as possible. The process is primarily aimed at the user level of Business Units and Branches of SDF.

IT Audits

We believe, having a robust IT system to provide a faster service to customers will result in an improved reputation and public confidence. We conduct period audits on IT processes to make sure that our IT system is up-to-date and sound. To apprehend the soundness of our IT system and to make timely changes/ modifications so as to make the system more robust, we completed the IT system audit, including the application audit during the last year. We invested Rs.1.1 million on this IT audit and took measures to implement the changes/modifications recommended by Ernst & Young, to make the system more robust.

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We look at IT audits as a continuous process as the system evolves and we intend to conduct IT audits through outsourced external professionals at least every other year.

Technology Advancements

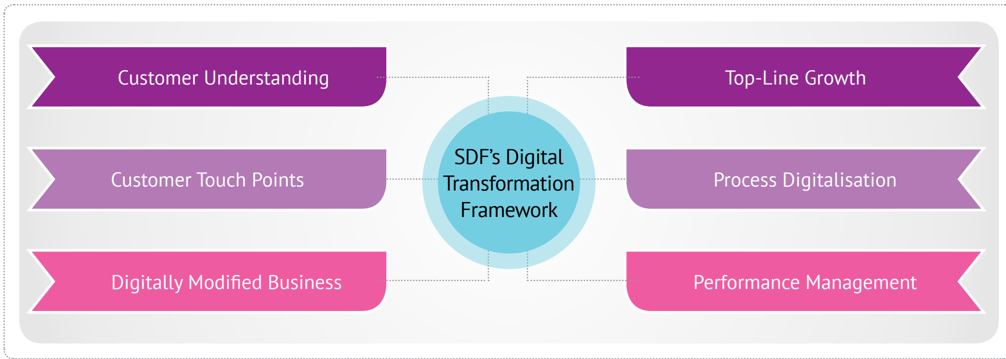
We strive to continuously upgrade our IT system with available new technologies to improve the effectiveness and efficiency of our customer service. During the year under review, we upgraded the IT system with newer versions of certain modules, such as loans, to accommodate enhancements, in the workflow process.
Also, we invested further in upgrading various applications of the IT system for improved MIS/Finance reporting and several other industry best practices. These upgrades improved customer convenience and reduced lead time for carrying-out transactions.

The system upgrade supported the following initiatives to be implemented during the year.

System Automation

We intend to roll out the system systematically to automate many processes and introduce new business products.
We automated all day end processes during the last year as the first stage of this process. We're currently engaged in upgrading the system to introduce a fully automated workflow management system from the customer feedback to the loan approval level.

Digital transformation solutions



The all-encompassing digital transformation across the structure has been the core transformative initiative since the previous year which we continued during the current year. In transforming digitisation we have looked in to each area highlighted in the framework and enabled inter connection to create a cascading flow across SDF.

Transforming Customer Experience

To digitally transform customer experience, we continued on the previously identified and implemented methodologies. Understanding that the customer is a priority element in the digital transformation process, we have increased our presence via the social media community through the Facebook page launched which enabled personalised customer interactions and understanding customer perspectives through encouraged interaction. In order to empower and add convenience to our customers, usage of avenues of customer touch points, such as new mobile support web and mCash facility was enabled to provide a prompt integrated service across channels increasing efficiency levels resulting in an upgraded digital customer experience. Further, focusing on top line growth through adopting a core banking system (eFinance) and power BI tools has given us access to quality customer information allowing identification of customer product personality to reach customer satisfaction via digital platforms.

We expect to implement Omni channel interaction platforms for customer ease of access and for greater service deliverance. As a result of Omni channel interaction, we expect to gradually capture customer preference data for customer predictive analysis to provide a better and a futuristic customer experience by prompting solutions beforehand by understanding customer insights.

Virtual branches

The brand new chapter in the financial services industry, the virtual branches concept, has capture the attention of SDF due to the time efficiency, saving on cost on building premises, convenience, flexibility and in order to reach the millennial entrepreneurial population in the country for next generation banking experience. The accessibility to remote locations in the country is also an advantage expected from the concept which will be enabled through hand held digital devices such as mobiles, smart phones and tabs. We at present as an initial step towards virtual branches equipped the modern technology such as collections via Mobitel mCash and Western Union money transfers. Furthering our usage of Mobitel *mCash* which was used for recoveries, we intend to expand to virtual branches subject to the approval of the Central Bank. The change towards virtual banks will enable SDF to reach niche markets, expand reach, and increase speed and to increase monitoring and control to a greater and transparent level.

ATM Installation

With the SDF's savings deposits base expanding and reaching into the grass-root level depositors, the requirement to provide convenient financial services to these depositors was brought in with greater importance. Therefore, as a measure of providing a convenient service for savings withdrawals, SDF joint to the Island-wide ATM network via LankaPay network in financial year 2018.

With the SDF's business model shifting more towards SME and leasing in the recent years, where the majority of disbursements of these products are given to corporate clients, the requirement to cater financial services to corporate clients using Fintech solutions became crucial as well. Therefore, in order to better serve the corporate clientele for the purpose of creating an enhanced business relationship with them and also attracting potential micro clientele, both individual and business, from the Borella metropolitan area, it was identified that an ATM machine is required to establish in the Borella premises where the new head office is located, for competitive advantage.

The company owned first ATM machine was ceremonially unveiled by Chairman of SDF, Mr. Channa de Silva at Borella, head office premises in September 2018. SDF made a capital investment of Rs. 1.69 million in putting up this ATM at the premises.

ATM opening in September 2018

The newly installed ATM will offer great convenience and highly efficient services to the customers 24 hours a day, and 365 days a year. The ATM installation has at the strategic location has facilitated frequent withdrawals of cash to the surrounding clientele from nearby train stations, prison staff and commuters in the baseline road whereby the absence of any other ATM in a 1km radius has entailed SDF to attract many customers to use the ATM machine at the head office which has access to the LankaPay network. Also, the availability of ample customer parking at the head office premises enables SDF to attract commuters on the baseline road. Therefore, the installed ATM creates a greater value addition to SDF and also operates as a very effective marketing tool in attracting potential customers. The total withdrawals using the ATM at head office premises during the financial year amounted to Rs. 3.39 million. We expect to further increase our ATM network on identified strategic locations going forward.

1319 Hotline support

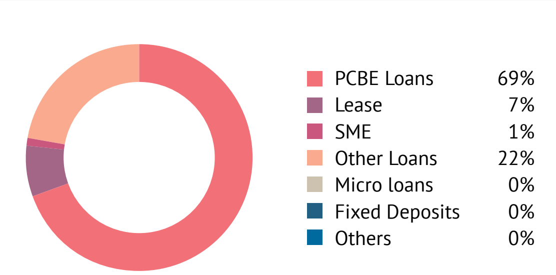
As a marketing initiative a dedicated hotline, with a short-code 1319, was introduced by SDF. A complete software solution was developed in-house by our IT as a follow up mechanism with the call centre for lead generation which includes a war room application. This development in-house saved Rs. 0.7 million , which could have other wise invested in a similar system. We introduced this hotline to provide a speedy service to our customers or potential customers in need of their financial emergency. A customer can call 1319 from any phone and it will get directed connected to our call centre which is operated by a dedicated team who are ready to assist our customers or potential inquirers who might become potential customers, instantly.

Following portrays the comprehensive dash board of the application displaying the key information at a glance. The total lead generation from the hotline reached 1699 for the FY 2019 and nearly 20% of these leads generated into business transactions.

The following is the Home page of the War Room developed by the SDF IT Department for customer lead generation through 1319 hotline system.

The graph highlights the product wise lead generation as at 31st March 2019, highlighting the PCB (pre-approved corporate body personal loans) as the product recording the highest number of leads generated as a proportion of total leads.

Leads Generated by Products



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Transforming Operational Processes

To digitally transform operational processes, we've launched performance management tools such as 'Google emails', Google Drive and 'docs' enabling staff members to increase effectiveness and to promote flexibility through work from home options with the aid of APN dongles. This has created a satisfactory work environment with digital interactions and collaboration between employees allowing work sharing, knowledge sharing, access to resources, remote report viewing, and speedy communication and strengthened networking among the work force. Usage of shared Calendar has enabled us to organize our schedules effectively and transparently. The launch of the event Calendar has ensured that SDF as a family appreciates what is happening around the Company by viewing events in the calendar and this has helped SDF to be interconnected and to promote company brand in an all-inclusive knowledge of SDF aura.

Our managerial personnel are capable of gaining deeper insights into products, regions and customers, and are able to make informed strategic decisions based on real data instead of assumptions. Managers have used the resources now available at their fingertips to compare and contrast in an informed and focused manner. Through this process of digitalisation initiative, we've implemented a new digitalised HR system that gives real time information and enables fast paced response ability.

New HR System

We implemented a new digitalised and interconnected HR system with a capital investment of Rs 0.51 million (60% of the total cost) to provide timely and accurate information to the employees and the management. We have built the HR platform linked to the SDF intranet and is used as a tool for connectivity across the organisation. The HR system overcoming the short falls of the previous system continue to add value with employee information provision, employee life cycle management, absence management, attendance control and through work flow management. The HR system builds efficiency across the organisation through time savings, individual access, confidentiality and cost efficiency by being digital.

Big Data

We initiated the big data concept in the previous year through the introduction of Microsoft power BI tools which is linked to our core banking system for real-time data extraction. We have now developed the power BI tools to monitor the branch performance in terms of disbursements, recoveries, deposits and financial. The power BI tools is accessible to all our staff who have given access through our intranet and consists of a dash-board providing real-time information of the finacial and business performances of the Company, enabling access to useful and timely management information with a single click of the mouse.

The power BI tool dash-board and other key statistics are constantly evolving to reflect timely and concise information for the top management for speedy decision making through sharing points and access windows.

SDF Power BI dash-Board

SDF Intranet

The web portal that was developed last year inter-connecting all our internal applications in the Intranet for easy retrieval and reference to various operational guidelines; including, internal circulars, manuals, memos and other instructions sent to branches/ CSCs, continued to add value as a knowledge access point for all employees. We have also developed a web based Event Calendar to inform all employees of the happenings around the organisation with the finer details to develop the feeling of involvement and also aiming at effective event management within the company.

Resource Planning & Workflow Management Systems

In order to eliminate unnecessary delays in current loan processing system, we've initiated upgrading a comprehensive work flow management system by using licensed web-based vendor software that we purchased. As an initial step, we're looking at fully automating the customer loan application process. With the development of this process, the users can clearly track the process stages of the loan application. Also users are able to upload the updated documents real time starting from the customer touch-point, thus, enabling all users in the work flow chain to visibly view the changes made.

Going forward we are building work flow management systems for all of our processes. At present we have commenced process mapping and work flow building for identified crucial processes. We expect the work flow management system to enhance efficiency through transparency improving the quality of service aiming enhanced customer satisfaction levels. Further, value addition in terms of cost savings, flexibility and lean processing is also expected from the initiative.

Procurement Process

IT department together with the operations department is in the process of developing an integrated procurement process in order to eliminate delays, cost overruns, to eliminate paper usage and to improve process flexibility and speed. During the current year, the process layout was finalised with the intention of commencing the initial process building during the next financial year.

Transforming Business Models

IT department's role in transforming the business models, is providing collaborated business and financial solutions within an evolving technological platform aligned to SDF business strategy and to regenerate through advanced solution provision for all SDF needs. IT systems and processes are implementing and advancing business flow through collaborative and integrated platforms across the organisation. As a result we have revolutionised the SDF business view by implementing sustainable finance solutions.

Green Banking

We introduced a paperless online approval proposal for leasing, SME and loans which would sizably reduce usage of paper and process time, which will lead to increased efficiency and customer satisfaction. The new work-flow management system that we're developing will also substantially result in saving time and cost mainly involving paper, in the loan processing process.

We have reduced the usage of paper by adopting IT enabled systems across the organisation structure such as centralised multi-purpose printer usage. Centralised printing systems have enabled us to reduce paper usage and to monitor and control the same. As a result our monthly saving from multi-purpose printer usage was approximately Rs.145K.

BoardPacks App

We intend to implement the BoardPacks to initiate using soft copies for the Board paper Pack where all Board papers are sent to the Board members for their reference via the BoardPack software; i.e. via board portal app from eShare. This will enable us to share board papers on a virtual platform and to manage the meeting information efficiently. The paper saving and the ability to reach crucial decision making information at the fingertips would benefit the Company in our quest for value creation through technology.

Cloud-based Platforms

We are planning to move for the total Cloud-based platform with the future expansions which will include Cloud-based data centres which in turn will drastically reduce the cost of IT infrastructure. As a result, we have initiated feasibility of on boarding our backup solutions from on premises to a Cloud based platform, which is expected to minimise data risk and to free up space. The Cloud based platforms will enable us to increase data security, portability and speed of access for better decision making. Cloud based platforms will allow island wide connectivity and access for information enabling greater customer service. At present, the usage of G-suite enabled emailing helps us in speedy interactions, inter connectivity, remote access and timely decision making. Also, cloud based platforms have enabled us to store data on a virtual platform enabling greater capacity for information storing and extraction.

Manufactured Capital

IT Policies

We reviewed our IT policy to include data security and integrity as well as to include new technological developments. The constant upgrading of the IT policy is of paramount importance as industry changes are dynamic and transforming. New technological inclusions are required to be reviewed for identifying gaps and timely addressing as SDF has opted to include major changes to our operational structures. The policy renewal is expected to aid SDF in identifying fraud, mitigating errors and to enable higher efficiency levels.

Awards & Recognition

Dynamic CIO (India)

With implementation of mCash for loan collection, we submitted our success story in implementing mCash as an alternative solution for loan collection mainly from micro-customer segment, which was taken as a case study for Dynamic CIO competition which was conducted by Indian company, which evaluated the solutions from different stake holder perspectives. SDF has won an award from the Dynamic CIO for mCash implementation in the Company.

Future Outlook

Our delivery network will continue to evolve through automation and integration on a digital level. Moving forward, to make our IT systems more robust in terms of security and governance, we intend to implement the Information Security Management System (ISMS) based on the ISO/IEC 27001:2013 standard for IT processes. Also, the implementation of CEFTS integration is on the pipe line now as customers demand inward and outward transfers from their accounts to SDF accounts. Further, integration of Omni channel such as internet banking branch less banking is also in the pipe line in order to have more out-reach. We expect to fully integrate all systems in the future through an ERP platform.

Intellectual Capital

Strategic Priorities	Strategies
Enhancing brand visibility	⦿ Broadening brand visibility through focused niche marketing initiatives. ⦿ Community engagements riding on the Sarvodaya community brand recognition. ⦿ Strengthening governance practices, sustainable reporting, and compliance. ⦿ Changing to customer experience branding. ⦿ Omni channel reach initiation. ⦿ Increase brand acceptance through differentiation
Integration of business Philosophy	⦿ Sustainability education across the company. ⦿ Contribution to Sarvodaya Movement. ⦿ Identifying business sense within Sarvodaya value system. ⦿ Identifying aspects that create value for customers for an economic uplifting.
Sophistication of brand image	⦿ Create brand image as a modern, futuristic and dynamic brand through advertising and promotions. ⦿ Gain mind-share in modern communication channels such as Facebook. ⦿ Modern IT integration in to business and brand marketing. ⦿ Digital marketing initiative creating greater customer outreach.
Cultivating innovation and encouraging knowledge sharing	⦿ Training and development opportunities. ⦿ Encouraging open communications. ⦿ Facilitating team work and interactions. ⦿ Sharing knowledge through a knowledge hub. ⦿ Rewarding innovative thinking and recognizing talent
Optimising group synergies for branding, networking and marketing	⦿ Enhance network reach through relationship building and collective marketing initiatives within the Sarvodaya group. ⦿ Enhance cross selling to improve brand image as a "One stop solution" to customers ⦿ Partnering with SSS and creating strong business relationship to generate leads.

SDF Brand

In the continuation of the company brand repositioning initiative further action to place the SDF brand as a millennial driven, digitally revolutionised, commercial enterprise, specialising in unique customer experience centric financial services provision was further improved using targeted marketing techniques. While SDF is proud of its heritage and association with the Sarvodaya Movement and the associated public trust in the brand, it is essential for long term financial sustainability, that the Company is recognised for its financial specialisation on a commercial footing. Therefore, repositioning the SDF brand has been a strategic priority for the Company. Thus, by using technology, the brand was revamped and the brand visibility was improved as a value centric, customer driven, economic value creator.

Enhancing Brand Visibility

New Product Launch

The new savings & fixed deposit products introduced by SDF, namely; Daru Isuru Savings, 60x60 Dambadiva Vandana Fixed deposits and Pancha children savings with a new gift scheme, elevated the SDF brand as a responsible and responsive brand addressing its customers' current requirements.

These products add value to SDF brand by specifically focusing on a customer segment and their identified needs. Thus, the products enables the SDF brand to be recognized as a customer centric and responsive brand. The Inauguration ceremony of these products was held in August 2018 at Sarvodaya Headquarters.

Intellectual Capital

Xmas 'Promotions

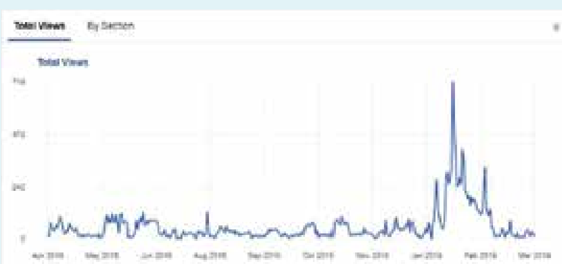
With the dawn of the Christmas season, SDF conducted a vehicle promotion with Ideal Motors at Crescat Boulevard -Colombo 3 in December 2018. This promotion was initiated to showcase SDFs brand presence and brand transformation into the main stream finance industry, thus creating value addition through gradual and economic progression of SDF's customer base. Lead generation from the promotion was 30 deposit leads and 50 leasing leads. Nearly 20% of these leads were converted into business transactions.

Also, product promotion with Santa was held at Battaramulla town area in order to affiliate the seasonal spirit of SDF brand and to show case the children centric segment of our brand. The initiative collected over 150 leads and of which 30% was converted into business transactions.

Sophistication of Brand Image

Social Media

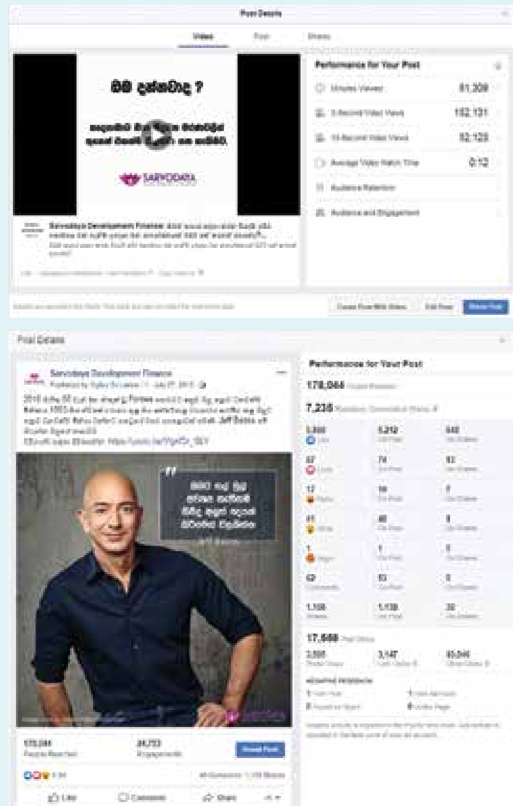
We built our intellectual capital by increasing our presence in social media. Our brand value was enhanced and recognized amongst the social media users which was highlighted through the increased activity levels in views and actions on page.



Views on our facebook page

Total Actions on facebook page

The videos we posted on social media help promote our visibility and the brand image to a larger network of clients. As a result, our brand value increased as a tech savvy, socially present and accepted brand.



Views on our videos on our facebook page

Group Synergies

Sarvodaya Movement

The synergistic collaboration with the Sarvodaya Movement spanning from the 'One Sarvodaya' initiative expanded during the current year with many collaborative efforts bringing value to both companies. The network and the access to the market that SDF receive through the Sarvodaya Movement is unparalleled in increasing brand presence and business growth. The connection with Sarvodaya societies has paved way for penetration into niche market segments and thereby fulfil SDF's mission of economic development of the society through the collaborations created via the One Sarvodaya Movement. The synergies created via Sarvodaya sister companies allow SDF to add value through access to new markets, and to identify one stop solutions for customer segments.

The following highlights an event where SDF officers together with Sarvodaya Movement joined hands for a collaborative planning and discussion session aiming to build synergies and to drive direction towards one cause. The event which was held at the Region 06 was participated by the Sarvodaya Movement Executive Director, The SDF Regional manager and the relevant officers.

Sarvodaya Societies

The unmatched reach of the Sarvodaya Movement presents exciting opportunities for synergies when combined with SDF's socialised financial services. We have capitalised on this opportunity during the current financial year to create a win-win situation for Sarvodaya Societies (SSS) as well as SDF and enjoyed strong growth in credit disbursements as well as deposit collection. SSS worked in close relation with SDF for generating business leads for credit and deposits which in turn materialized into a strong growth in disbursements and deposits collections. SSS also worked collectively with SDF in conducting marketing initiatives in towns, villages and suburbs for promoting business and SDF's brand more prominently among the existing and the potential clientele.

Awards

Our Annual Report for FY 2018 themed 'Progressive Action', was awarded with the silver award under LFCs and SLCs (total assets up to Rs.20 billion) category at the 54th Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka, held in December 2018. We won the silver award under this category for the second consecutive year.

The theme represented our strategic objective of creating long-term sustainable value for our valued customers not only to uplift their lives from Micro to SME's; but also, through which, to strengthen the economy and to sustain the continuous development through innovation and brand enhancement.

SDF has established itself as a key player in providing financial solutions to the SME sector in the country while adhering to the "grassroots" model of its parent movement, Sarvodaya. With over 50 branches and customer service centres island-wide, SDF continues to empower and develop local community through innovative financial solutions.

Trademarks

We are currently in the process of trademarking two of our product brands – Pancha (children's savings product) and Fixed Saver (a special savings account).

Business Philosophy

We at SDF strive to reach an equilibrium point in community values and business sense. As part of the Sarvodaya Movement, we are strongly influenced by the sustainable vision, community development philosophy and community service culture. Complying with this outlook and being as the financial arm of Sarvodaya Movement, SDF intends to actively contribute to Sarvodaya's social programme by distributing a sizable portion of its yearly profits by way of dividends to Sarvodaya Movement to facilitate their community building welfare provision programmes. On the other hand the designs of SDF deliver its products and services to its customers by finding the best economic solutions. SDF has opted to operate within the value boundaries created by the Sarvodaya Movement and thus we are maintaining our tag line of 'Care & Concern', we always strive with care in mind to offer affordable financial services to our valued customers. We take great effort to conduct our operations in an equitable, transparent and just manner which encompasses our business ethics, guiding principles, sustainable vision and the profit element reached through efficient business conduct which in turn loops in benefiting the society. Therefore, we have created a unique business sense and build our trade mark as sustainable, conscious and profitable economic entity.

Compliance and Stability

To maintain trust in our brand we strive to uphold all regulations rules and guidelines given by regulators. The adherence to compliance has paved way for a smoother control of the business operations ensuring transparency, integrity and the quality of portfolios, business activities and financial management.

Intellectual Capital

Organisational Knowledge and Culture

We have a qualified, trained and experienced staff that add to the wealth of the Company through their insights of the industry and market trends. Our long-standing performance on the arena ensures that we possess an extensive knowledge of the micro credit industry which has made it possible to support the advancement of micro entrepreneurs to the status of SMEs. The collective experience of our corporate management stand at over 100 years. We have created a knowledge hub which can be shared across the organisation for education learning and professional development. The experience and leadership building received through the Toastmasters club allows further leadership and professional development of our employees.

We encourage a working culture that is open, supportive and collaborative. We encourage our employees to voice opinions and take proactive actions to drive innovation and suggest change. We practice empowerment and continuous improvement concepts and encourage a culture of sustainable thinking. The employee growth within the Sarvodaya value system helps mould a culture of harmony and equality within, bringing in strength through principles.

SDF Software Systems

A rapidly expanding intellectual property of SDF is the Company's growing suit of customised software specifically designed in-house to continually streamline internal processes and to improve operational efficiencies. While contributing towards greater productivity and cost savings, the ultimate objective of our customised software investments is to enhance value for our customers through better quality, more flexible and faster service delivery.

During the year we renewed our G suite license costing USD 16,000. G- Suite increases our operational efficiency, connectivity and flexibility creating further addition to our process capital through the licence renewal. We also obtained software assurance and filled Microsoft license gaps costing USD 16,035 We updated and modified the E- Finance system to increase the efficiency and effectiveness of the system. We've developed KPI monitoring and recover monitoring platforms with trend analysis using Microsoft power BI tools. Also, we've embarked on developing an in-house work-flow management system, to systemize the Company's entire procurement process.

Future Outlook

We expect our intellectual capital base to grow rapidly with the ICT transformations and digital initiative spanning across company processes. In addition, the brand revamping and customer experience centric brand launching will help boost intellectual value in a rapid manner with the unique recognition the company is expected to receive across the nation. The knowledge hub and the sharing via digital platforms as well as the resultant innovation is also expected to add to the intellectual capital of the company. We expect to implement a work flow management system for process efficiency and to implement a 'chatbot' system via our website for customer lead generation.

We will continue our focus on enhancing our brand through advertising and marketing efforts and also by stronger linkages with SSS and Sarvodaya Movement. We anticipate further improvement with the next generation digital transformation and ICT integration initiatives which is expected to propel the company forward to the next era of financial services provision.

Human Capital

Strategic Priorities	Strategies
Build an empowered employee culture	⦿ Realign reward system
	⦿ Transparent performance evaluation against KPIs
	⦿ Incentivise best performers
	⦿ Training to develop under performers
Minimise skill mismatches	⦿ Identify skill gaps in each category and provide continuous training and skill upgrading opportunities
Recruit best talent	⦿ Identify and recruit best talent in the market for each sub-segments of the business operation
Develop employee strengths	⦿ Internal & external training, Continuous learning
	⦿ Motivate and provide opportunities for staff based on their skills and strengths to demonstrate their talents and climb up the ladder

HR Strategy

The HR strategy has been aligned with the corporate strategy and the HR policies cover all Human Resources-related matters from recruitment to retirement. We do not discriminate on the grounds of race, gender, age and any other socioeconomic factor in the recruitment, training and promotion of its employees. In line with our increasing branch face lifting and our focus on recovery, we duly recruited new staff and replaced the gap created by the leaving staff.

We maintain an open and supportive working culture that encourages teamwork. We have started to integrate HR processes into IT systems to improve employee productivity. The payroll and attendance processes of SDF are fully integrated into the IT system and the new HR system keeps the entire staff interconnected and informed.

Integrating HR Strategy for Value Creation

SDF does not discriminate on the grounds of race, gender, age and any other socioeconomic factors in recruitment, training and promotion of its employees. The HR resource is built through training, coaching and mentoring to increase the creative and innovative output of the business operations.

As a key component of competitiveness in the market place, during the current financial year, SDF continued to further integrate our HR strategy with the corporate strategy by addressing any HR policy gaps through the revision of formal policies and by adopting next generation management concepts. These changes were broadly in the three areas of;

1. Continuous Policy development
2. Rewards and incentives
3. Training and Development

Policy Development

During the current year, all HR policies were reviewed to identify gaps and to improve in line with the changing business environment. However, the policies were considered adequate for the current business scenario.

Policy Development

- Promotion policy
- Grievance handing policy
- Annual increment policy
- Recruitment criteria

Rewards and Incentives

- Targets
- Monthly incentives
- Quarterly rewards
- Salary revisions
- Bonus
- Benefits

Training and Development

- Specialized training
- Soft-skills training
- Regional training

Human Capital

Staff Motivation

We motivate our staff using performance based incentive schemes, training and skill development opportunities and reward systems including spot rewards. We revisit our HR policies periodically and upgrade to capture the latest HR management developments and thereby, identify next generation motivation methodologies to enhance the quality level of our employee base. Therefore, we conduct numerous quality development training in-house and outside as well as on the job training.

Rewards and Incentives

The rewards and incentive scheme which was revisited and implemented in the previous year was continued as it was directly linked with performance to execute the strategic objective of the Company driving the internal organisation change which aided in creating a performance based work culture. As a result, the employee motivation was improved and the performance culture saw enthusiastic improvement though out the year. Competitions were introduced across the branch network with attractive incentive scheme to encourage a competitive and performance driven culture within branches.

During the current year, SDF paid out in excess of Rs 2.5 million in rewards to employees who won competitions and achieved the best performance across the branch network.

Competition Name	Rewards Paid (Rs.'000)
Best Collection Ratio	722.5
Best Reduction in Total Arrears	672.5
Pawning Winner	70.0
PCBE Loan Winner	442.5
Leasing Winner	442.5
Other	173.6
Total	2,523.6

During the current year, 33 employees were promoted to next grades based on performance to recognise their commitment and value created for the Company and to motivate staff for better performance.

Recognising top performers

We rewarded our top business performers with trip to Bangkok with all expenses paid. As a result, with the spirit generated through this recognition, we were able to create an atmosphere with boosted morale and spirit in our front-end staffs which resulted in significant improvement in team-work and productivity. The highest two leasing performers for the quarter ending June 2018, who were from our Nawalapitiya and Mahiyanganaya CSCs, were awarded with 3 nights and 4 days Bangkok tour.

Training & Development

The area of focus during the current year on training and development was targeted at building a culture of service excellence and being responsive. Training was structured on a regional basis and also at head office level, on specialised and technical areas, to ensure full coverage of all skill gaps.

Our people management strategy is aligned to our vision, mission, values and the set business goals of our Company. We consider grooming our employees for career development within the organisation as a key importance for our sustainable growth. We carry out a systematic process of developing our employees enabling them to realize their full potential and grow themselves step-by-step with the organisation. Our motive is to create a supportive environment to our employees for them to acquire knowledge, competencies and skills that would create value both to their own personal lives, professional careers and the Company.

For the year under review, we invested Rs.1.76 million on our human capital development through training and development programmes. Specific skills and specialised skill needs were identified based on the company's objectives and strategy for the achievement of service excellence aligned to our branding and customer experience focus. Training needs were also derived from the performance management system and upon the recommendation of the immediate supervisor of an employee. Internal and external training programmes are carried out in accordance with the training needs of the employees. We expect our staff to possess a detailed and varied understanding of all aspects of the business, value systems, regulations and technical skills in the respective areas.

	No. of Training	No. of Training Hours	No. of Participants	Investment (Rs.'000)
Internal Trainings	19	122	762	1,030.8
External Trainings	37	284	97	725.4
Total	56	406	859	1,756.2

The training programmes had wide ranging coverage based on identified skill gaps and new skill and knowledge requirements.

HR Traning and Development Initiative

Internal Training

Key Focused Areas of Training
- CRM & Cross Selling
- Recoveries Management
- Assets backed Lending
- Risk Management
- Creating efficiencies in operational processes
- Orientation
- Digital Marketing
- 5S

External Training

Key Focused Areas of Training
- Developing Leaders
- Transforming Strategy into Actions
- Business Intelligence
- Planning & Analysis
- Digital Banking
- Fighting against Fraud
- Strategies on Debt Recovery
- AML & Countering the Financing of Terrorism
- Cyber Security
- Forensic Accounting and Financial Frauds

SDF Toastmasters Club

The 'Sarvodaya Toastmasters Club' continue to uphold our employee quality. Toastmasters International is a worldwide non-profit educational organisation that empowers individuals to become more effective communicators and leaders which enabled our employees to hone their communicating, public speaking and leadership skills within the Toastmasters fraternity. 'Sarvodaya Toastmasters' achieved the President Distinguished status during the year commending their performance.

The Toastmasters participated for numerous area level contests, club meetings, get together and functions organised building within the Toastmaster network and establishing our presence among the community. Toastmasters aided in improving our employees service quality and helped shape personality and leadership qualities which was apparent during many occasions throughout the year in our business conduct which added to our status of human capital.

Employee Base

The total workforce of SDF stood at 524 as at the end of the financial year. 134 new recruits were added to workforce in replacement of 158 who left during the year under review. New recruitments were done mainly to strengthen sales, marketing and recoveries to drive business, expand market share and improve recoveries.

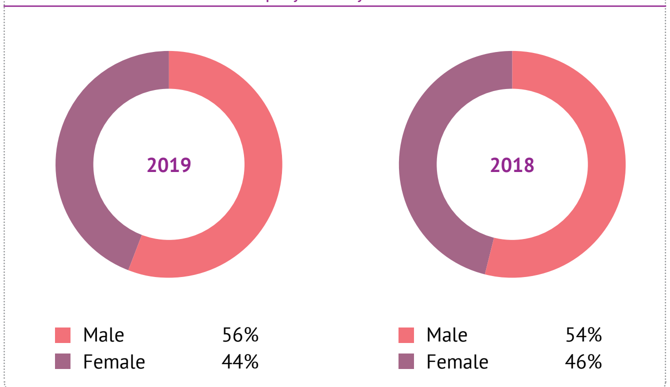
Breakdown of Workforce

Workforce	2019	2018
Payroll Cadre		
Permanent	433	420
Probation	75	88
Non Payroll Cadre		
Contract	02	28
Training	14	12
Total	524	548

97% of our workforce are on payroll and the balance is on contract and training basis. 83% of our workforce are on permanent basis. Male represent 56% of our pool of employees achieving equal gender representation.

Human Capital

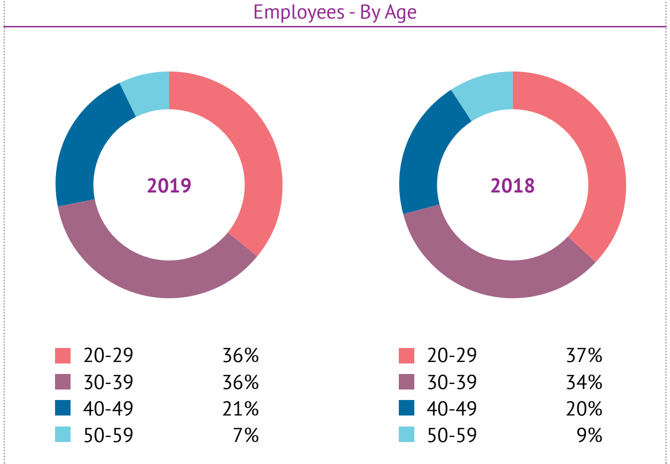
Employees - By Gender



Employees -by Age

We have a relatively young workforce where 72% of our total employees are below 40 year and 36% of our employees are below 30 years of age.

Employees - By Age



Employees -By Position

Our senior management team increased to 29 from 20 last year. We strengthened the senior management by recruiting experienced professionals to fill in the vacancies. The senior management as a percentage of the total workforce amounted to 3.6%. The senior management includes employees who are senior managers and above; but, excludes the regional managers. The line management comprises of regional managers, managers and assistant managers who amounted to 17% of our total workforce.

Employees –By Position

Designation	Male	Female	Total	%
Senior Management	27	2	29	5.53%
Line Management	74	13	87	16.60%
Executives	183	199	382	72.90%
Others	11	15	26	4.96%
Total	295	229	524	100.00%

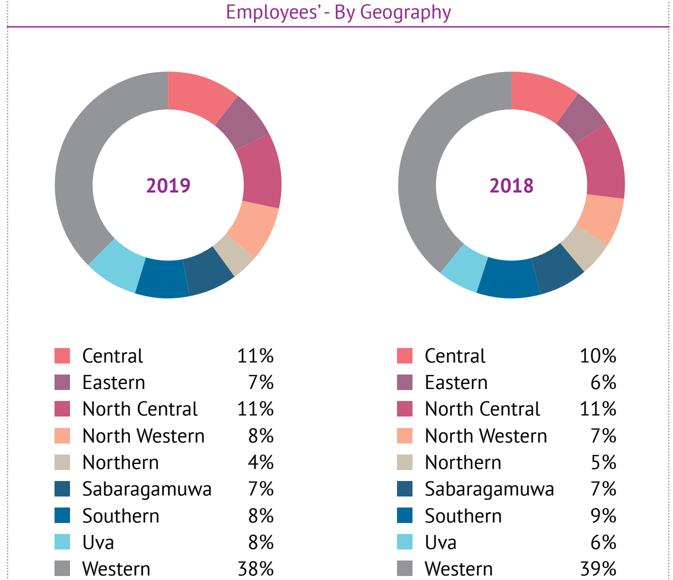
Employees –By Department

Department	Employees	
	Nos.	%
CEO Office	2	0.4%
Finance & Planning	17	3.3%
IT	9	1.7%
Credit	14	2.7%
Recoveries	5	1.0%
Marketing	7	1.3%
Legal	11	2.1%
Administration & Operation	23	4.4%
Internal Audit	14	2.7%
Branches /CSCs	336	64.0%
Others	86	16.4%
Total	524	100.0%

Employees –By Geography

Our employees are primarily based in the Western Province, followed by the North central and Central Provinces respectively.

Employees' - By Geography



Employee Recruitment Policy

The recruitment drive was refocused by setting clear recruitment criteria for all positions. Our greatest asset and competitive advantage is our staff members. Hence, we continually strive to recruit the best candidate who fits the job requirement. Our recruitment strategy is focused on recruiting and selecting based on merit, such as skills, knowledge and abilities, regardless of age, race, gender, religion or ethnicity.

As an equal opportunity employer, we provide equal opportunities for all employees in all aspects of HR including training and development, remuneration and benefits and the like. The HR department of SDF is guided by its motto – we provide a career, not merely a job. All our endeavours pertaining to HR are geared to make us an employer of choice in the financial services industry.

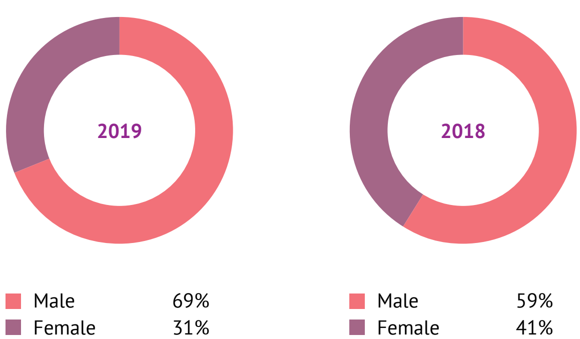
New Recruitments

During the year 134 new recruitments were made to fill vacancies and to fill vacancies of employees who left the company during the year.

New Recruits-By Gender

69% of new recruits are males with the increase in marketing and recovery activities.

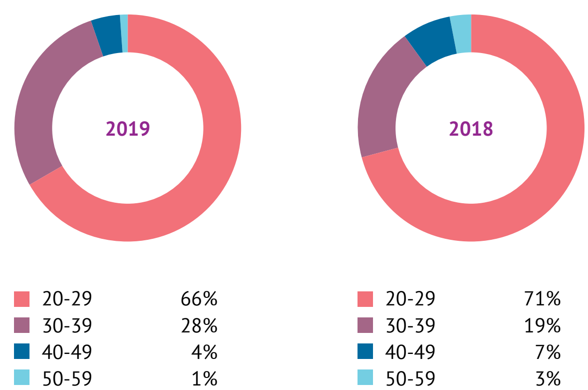
New Recruits -By Gender



New Recruits -By Age

Adding to our relatively young workforce 94% of new employees were below 40 years and 66% of new recruits were below 30 years of age.

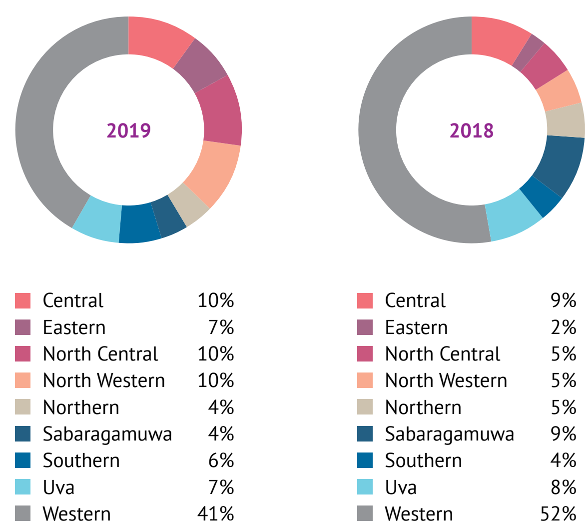
New Recruits' - By Age



New Recruits-By Geography

Our new recruits were primarily from the Western Province, followed by Central, North Central and North Western Provinces respectively.

New Recruits - By Geography



Human Capital

New Recruits–By Designation

Designation	New Recruits	
	Nos	%
CEO	1	1%
Head of Divisions	2	1%
Senior Manager	1	1%
Regional Managers	1	1%
Manager	11	8%
Assistant Manager	4	3%
Senior Executive	24	18%
Executive	37	28%
Junior Executive	44	33%
Trainee	1	1%
Trainee (out of payroll)	6	4%
Junior Support Service Office	2	1%
Total	134	100%

Induction

New staff are introduced to our culture through an induction programme. The objective of the programme is to familiarise new entrants with the Company's operational processes, systems, practices, culture and values. Upon completion, employees will be expected to have a good grasp of the Company profile, organisational structure, HR policies, their individual roles and responsibilities, IT systems and the practices & policies.

Diversity and Equality

All recruitments, transfers and promotions are assessed based on individual merits. As an equal opportunities employer, we do not discriminate on the grounds of gender, age, race, cultural differences or any other applicable indicator. There were no incidents of discrimination reported during the year under review, hence no corrective actions were required.

Employee Turnover

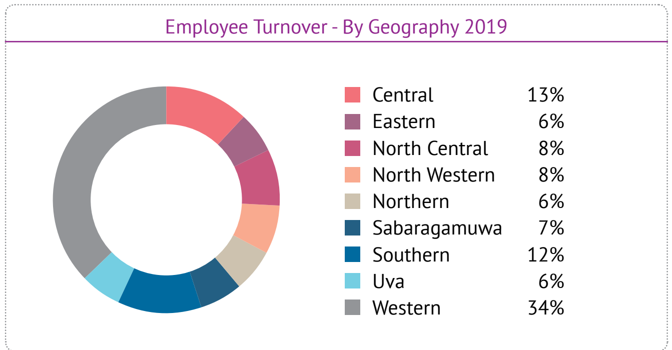
During the year 158 employees left the Company of whom 58% were males and the balance 42% were female employees. Our employee turnover rate was at 29% which reduced from 32% in the previous financial year.

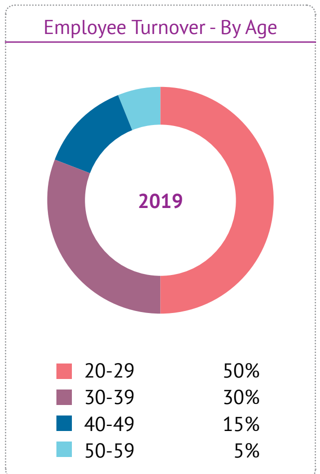
	2019	2018	Average
No. of Employees	158	172	155

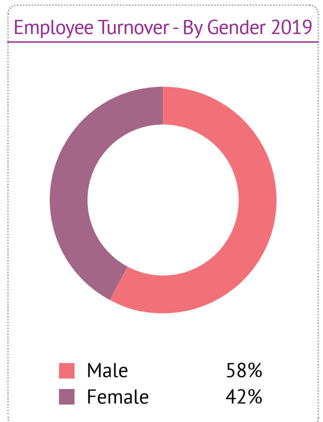
The employee turnover rate was highest in the 20 to 29 age category which amounted to 79 or 50% of total turnover followed by 30 to 39 age category which amounted to 48 or 30% of total turnover.

Employee Turnover – By Geography

Geographically, the western province accounted for the highest turnover of 34% followed by central and southern provinces with 13% and 12% respectively.







Employee Turnover –By Designation

Designation	No of Employees	%
CEO	1	1%
AGM	3	2%
Head of Department	1	1%
Senior Manager	2	1%
Regional Manager	2	1%
Manager	9	6%
Assistant Manager	6	4%
Senior Executive	19	12%
Executive	48	30%
Junior Executive	44	28%
Trainee	1	1%
Junior Support Service Officer	1	1%
Trainee (out of payroll)	21	13%
Total	158	100%

Maternity Leave
Our employee retention rate for female employees following maternity leave stood at 78%. In the year under review, the total number of employees obtaining maternity leave was 9. Out of this figure, 7 returned to work having completed their statutory maternity periods, while the others are still within their allocated period of maternity leave.

Performance Management System
Key Performance Indicators (KPIs) are used to measure performance targets and to monitor performance of employees. We use a holistic system of assessment that takes into consideration both quantitative and qualitative factors.

In addition, we possess a rating system, which is utilised in the categorical allocation of increments and bonuses to employees (which are dependent on performance evaluations). The Performance Management System consists of an annual performance planning, targeted quantitative evaluation against the KPIs, qualitative evaluation against the KPIs and the skills, competencies and assorted capabilities of our employees.

The Performance Management System is primarily meant to achieve the following:
- to maintain a performance-based culture within the Company.
- to provide a systematic review of the performance of an employee.
- to assess the training and development needs of the employee, whilst assuring organisational development and satisfying the needs imposed by the growth plans of the company.

Status of Compliance
We are fully compliant with all applicable labour regulations and did not face any fines or penalties for non-compliance or delays in compliance during the period under review.

We ensure that all employee EPF, ETF and gratuity payments are executed on time and as appropriate, in respect to all relevant guidelines and regulation. We contribute 12% to EPF and 3% to ETF. Employees' contribution to EPF is 8%. As gratuity payment, we pay half a month's salary for each completed year of service for those employees who have completed five years or more in service, on their resignation/retirement.

	Employee Benefits		
	2019 (Rs. Mn)	2018 (Rs. Mn)	2019 (%)
Salaries	199.6	178.6	56.5%
EPF	24.0	21.5	6.8%
ETF	6.0	5.4	1.7%
Overtime	1.1	0.91	0.3%
Allowances	94.1	87.6	26.6%
Incentives	7.7	4.0	2.2%
Casual Wages	12.5	9.8	3.5%
Gratuity	8.5	6.7	2.4%
Total	353.5	314.4	100.0%

Welfare Facilities
We strengthened staff benefits under staff welfare and established SDF's welfare society in the last financial year. The Board appointed a separate executive committee to govern the affairs of the society. The executive committee have formulated an activity plan for the next year mainly focussing on establishing external partnerships that will provide enhanced benefits to the employees. Also, the plan is focussed on building up the welfare fund by conducting several fund-raising events during the year which would enable the welfare society to broad-base the scope of existing welfare provisions to employees.

The welfare facilities provided to our employees at present include;
- Provision of School Books for children of staff members up to grade 13
- Death Donation Benefits
- Distress/ Motor Cycle Loan Facility
- Marriage Allowance
- Reimbursement of professional membership subscription for corporate members (maximum: one professional institute)
- Senior Management members were sent overseas for an exposure tour/visit
- Reimbursement of telephone bills, fuel & maintenance, subsistence and lodging expenses & official travelling expenses
- Spectacle Allowance
- Staff Medical Insurance
- Annual Staff Sport Meet
- CSR Projects

SDF Welfare Society Events
The followings key activities were carried out by our welfare society during the current year

Human Capital

A Seasonal Sale

A seasonal sale was organised with Abans for Head office staff giving them the opportunity to purchase Abans electronic items on an easy-payment scheme where the instalments are deducted from their salary and remitted to Abans by the Company.

Celebration of Religious Events

We celebrated all ethnic and religious events commemorating the SDFs philosophy of harmony through diversity.

SDF get together

We celebrated our annual get-together with the participation of all staff members from around the country. The event was funded and organised by the welfare society. Numerous activities were organised at the event where employees were able to show case talents, connect with each other, win many gifts and strengthen the SDF's spirit for a better and stronger SDF culture.

SDF Gymnasium

We take our employees' health and wellbeing seriously. Hence to facilitate their busy schedules and to keep them fit, SDF's welfare society implemented a gymnasium in the rooftop area of our new head office building. The gym is open to all staff and allow them flexibility to use the facility.

SDF Welfare Fund Projects

Donation to Cancer Hospital

During the current year, the welfare society donated in excess of Rs.80 thousand to the cancer hospital for medication and other miscellaneous items for the use of the ward 4,5 and 6 which was handed over with the participation of the Senior management of the company.

"Chawudari" stage drama

The welfare society spent Rs.200 thousand and organised the "Chawudari" stage drama for the staffs of SDF in July 2018 at "Nawa Rangahala' premises in Colombo.

Employee Wellbeing

Employee wellbeing is built into the Company by creating a positive and spirited work environment which helps to reduce absenteeism, staff turnover and increases productivity in all levels of our operations. We offer comprehensive welfare benefits, advocate healthy lifestyles and conduct sporting events for the benefit of our employees and participate in events to build an environment of cooperation. We provide our employees of all necessary amenities required within the working environment for their physical and mental needs and development.

Grievance Management

An open-door policy is adopted to reduce employee dissatisfaction and to promote better communications. In addition, a grievance handling mechanism including a whistle-blowing policy is available for employees to file a formal grievance.

Future Plans

The primary area of focus in the new financial year will be on staff empowerment. This will be addressed through giving opportunity for participatory decision making, job rotation opportunities, instant rewards on service excellence and coaching and training for leadership. Staff social engagements will also be strengthened to develop team spirit and cooperation among our personnel who are scattered island wide. While we invest in continuous training, we hope to pay more attention to development of soft skills and business etiquette in the new financial year that will target primarily front-line personnel.

Adding value to SDF's origins which are rooted in rural communities and the social welfare movement in Sri Lanka, we hope to engage staff through CSR activities to help those in need by providing our time and funds and also to conduct GPTW (Great Place To Work) surveys within the organisation to identify and to address gaps for a continuously improving work place.

Social and Relationship Capital

Strategic Priorities	Strategies
Brand building	Marketing and brand development.
	Leveraged digital media for marketing.
	Trained front end staff on soft skills.
Support financial priorities	Focus on growing SME, leasing, personal loans and gold loan segments aggressively.
	Attract high-net-worth clientele for growing deposits base
	Train deposit and credit staff on direct marketing at all branches.
	Introduce branch level competitions to motivate staff to achieve credit and deposit targets.
Strengthen relationships with key stakeholder groups	Strengthen relationship with Sarvodaya Movement and Sarvodaya Societies as key business partners.
	Improve the complaint management system.
	Conduct stakeholder engagement periodically and satisfaction surveys to address their concerns.

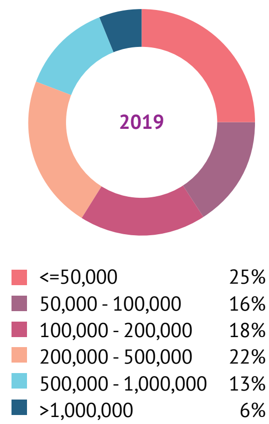
Our social capital growth priorities have been aligned with our overall corporate targets and linked with our financial targets for the short to medium term. Therefore, spanning from last year, the current year's social capital priorities reflect our financial priorities of addressing the asset-liability mismatch and lending portfolio growth, while also strengthening our brand associations with key stakeholders such as Sarvodaya Movement, Sarvodaya Societies (SSS), significant business partners and specific customer groups.

SDF'S Customer Capital

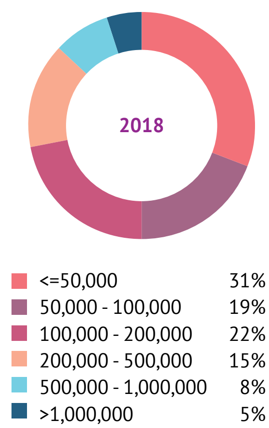
Our customer capital comprises of individuals and institutions representing, entrepreneurs, micro enterprises, SMEs and working people. As at end March 2019, our customer base, comprising loans and deposits, increased from 158,158 customers in the previous year to 164,545 customers in the reporting year which is a growth of 4% driven by the growth of deposit customers.

Our loan customer base declined 7% from 20,299 to 18,960 as a result of our business strategy shifting from a more micro centric business model to a more collateral-based lending business model with more focus being given to SME and leasing to grow our loan book.

Loan Customers by Loan Size



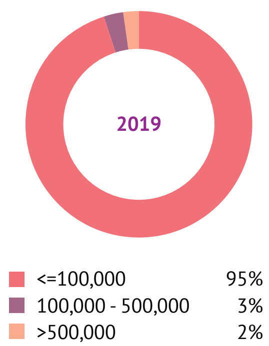
Loan Customers by Loan Size



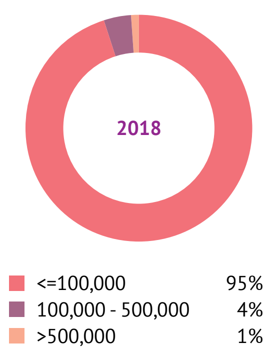
By growing our savings deposits base and senior citizens deposits through targeted marketing campaigns, we were able to grow our total deposit customer base to 145,585 from 137,859 during the current financial year. Our rationale in growing deposits was focused on unique product creation to meet client demand.

Social and Relationship Capital

Deposits Customers by Deposit Size



Deposits Customers by Deposit Size



SDF'S Customer Policy

SDF is strongly influenced by the values of our parent the Sarvodaya Movement. Hence our business philosophy is steeped in community development and community service. Our operations are conducted under the principles of fairness, transparency and justice where we strive to be responsible, responsive and to achieve respect from our conduct. 80% of dividend distributed out of SDF profits will reach those in need through community welfare programmes conducted by Sarvodaya Movement. The products and services we offer to our customers are designed in an equitable manner to provide maximum returns and satisfaction to our customers and to grow them to a higher economic standing.

We engage with our customers mainly through a relationship-based approach and customer interactions are conducted through primarily our front office staff and field staff. In addition, the SDF website & social media platforms are fully fledged customer communication channels. We also communicate through media and online advertising, social media campaigns, events and promotions, CSR activities and Sarvodaya Movement social programmes.

Meeting Customer Needs

During the current year, we focused on developing new products to cater to changing customer needs and to support the growth and development of grass roots livelihoods through economic empowerment, through household savings and financial assistance for self-employment and entrepreneurship.

By identifying client needs and carefully providing them with focused financial solutions through our innovative product development initiatives, we respond in a timely and the most suitable manner in order to uplift the economic lives of our clients. By identifying requirements and providing specific services coupled with value added advice, learning opportunity and socially responsible service methods, we achieve the said standards of customer lives, in accordance to our vision statement. Thereby, we earn customer unwavering loyalty, and through partnering in livelihood building, we earn respect from our long standing customers due to our unique service excellent brand image. We are dedicated in providing personalised service to each and every customer in all our service points.

By relocating of some of our branches/CSCs for greater visibility last year, we initiated the re-branding of ourselves, which continued during the current year. We also shifted our head office to a prominent, convenient and a more strategic location to provide better service to clients by being present in the Colombo business centre. This move created more customer acceptance towards our brand value resulting in sizable growth in our business in collateral-based lending products.

The Island wide promotions we carried out to promote our brand so as to attract new customers was launched via digital avenues, which helped to cover the expanse of the nation. In order to revamp customer interaction on a digital level, we introduced the dedicated call centre team with a dedicated customer hotline 1319 for financial emergencies and lead generation, thereby, reaching customers at their fingertips.

Our Customer Centric Initiatives

Our customer centric initiatives carried out during the year include;

Harnessing technology/ processes	Launching 1319 financial emergency service hot line
	Digital media launching
Value added services	Many promotions were conducted for new savings holders with significant value addition
New products	A range of customer centric new products were introduced being responsive to the needs of specific customer segments
Training staff for better service quality	The new annual training calendar was developed to include targeted training including soft skills
	Monthly training was conducted for back office staff, new recruits and branch managers
Linked rewards with performance	Targets were set and communicated to all branches and personnel and KPIs were set and monitored to ensure service excellence

Customer Satisfaction and Feedback

Customer satisfaction is evaluated via Mystery Shoppers which is a mechanism used to identify areas that need improvement, and to take necessary action. In addition, customer feedback is discussed at staff meetings and management meetings, to respond as soon as possible. We conduct customer satisfaction surveys and encourage customer feedback through placing suggestions and complaint register in branches. Also via social media customer satisfaction is measured in order to analyse customer response patterns.

Our Products

Our product portfolio has been continually improved in line with changing customer needs and to support the growth and development of grass root entrepreneurs. As part of this process, we added value to our product portfolio by continually customising our products and introducing new products to meet the needs of specific sub-customer categories. As such, we have evolved our product base to cater to the customers, who have gradually grown with us and have emerged from grass root level micro entrepreneurs to fully fledged SME entrepreneurs.

Social and Relationship Capital

Our Lending Products

We have now realigned our lending product range from its original micro finance focus to a broader SME focus with a range of new products, such as leasing and SME loans that are designed to support the graduation of micro enterprises into SME status.

Product	Product Features	Gross Portfolio Rs. (million)	Disbursements Rs. (million)	Customers Nos	Gross NPA Ratio %	Net NPA Ratio %
Leasing	Leasing facilities are granted to individuals including professionals, businessmen and corporate bodies by large to purchase motor vehicles. We provide easy payment schemes and fast and friendly service through island wide branch network and our Auto Finance Dept. at our corporate office, Colombo 08.	1,152.7	790.8	1,751	5.9%	4.1%
SME Loans	SME facilities are offered in the forms of term loans, short-term loans and revolving loans for customers for business purpose to facilitate the financial needs of their businesses. We provide a fast and friendly service to our customers through our SME Department at our corporate office, Colombo 08.	1,611.6	998.4	1,041	10.4%	9.1%
Micro Business Loans	Business loans are offered to micro-scale entrepreneurs to meet working capital requirements and capital expenditure. SDF continues its pioneering Micro Finance services in Sri Lanka through this core product.	595.9	128.4	2,883	16.6%	9.8%
Micro Personal Loans	Provides financial support to accomplish diverse personal needs of any salaried employee. This product serves the under-served low income employees who are not catered to by Banks and other financial institutions.	512.9	272.5	1,356	4.8%	3.3%
Society Loans	Provides bulk loans to Sarvodaya Societies (SSS) for onward lending to their individual members. This product assists in uplifting the lives of rural low-income customers who are members of the SSS and helps to propagate Sarvodaya values of self-sufficiency.	175.3	152.3	419	2.1%	0.5%
Housing Loans	Theses consist of loan facilities to support house constructions, extensions, renovations or repairs. The product mainly caters to low income micro customers who cannot avail themselves to housing loans provided by Banks and other financial institutions.	1,037.7	411.6	3,725	7.4%	4.9%
Cash -Backed Loans	Loans are granted against Fixed Deposits at attractive rates to facilitate urgent financial requirements of deposits holders	636.2	522.8	1,608	0.02%	0.02%
Personal Loans: PCBE (Pre-approved Corporate Body Employee Loans)	Employees of Private and Public Sector Corporates are offered competitively priced personal loans with an employer undertaking to deduct the loan installments from their salaries and remit to us. This product helps cater to the under banked blue collar factory workers, health care workers etc.	543.4	342.6	2,287	1.4%	0.8%
Gold loans	Gold loan facilities are provided by keeping gold jewellery as security for customer's personal and consumption needs.	26.8	64.5	532	0.18%	0.18%

Leasing

The gross leasing portfolio recorded a creditable 87% growth reaching Rs.1.15 billion from Rs. 617.44 million the previous year. The leasing customer base stood at 1,751 from 816 the previous year which was a growth of 115%. During the year, we continued to introduce new customized products designed for specific customer segments.

We provide leasing facilities for all types of vehicles, ranging from motor cars, dual-purpose vehicles and heavy-vehicles to more micro based products such as three-wheelers and two-wheelers and vehicles used for agricultural activities. Our total vehicle suppliers as at the year-end stood at 1,819, including 1,721 individual suppliers, and 98 of same consisted of corporate suppliers. In addition, we had a database of nearly 428 registered introducer for vehicle leasing as at 31st March 2019. The following new leasing products were introduced during the year.

New Leasing Products

Being a responsive to the growing needs of our valued customer, we introduce following leasing products during the current year.

I. SDF scooter bike

*The new leasing product, "Apu Gaman Cash" was launched as a structured leasing facility, with a maximum tenor of two years, with interest paid monthly and capital paid as a bullet payment, to facilitate the growing financial emergencies of our customers. Our customers can borrow up to 50% LTV of their vehicle by keeping the RMV book as a security with no additional guarantors.

II. Aapu Gaman Cash

We launched this product by targeting to cater for the short term working capital requirements of SME clients, as well as, emergency cash needs of professionals and salaried employees. The product focusses on target customer segments, such as, the beauty salon owners, beauticians, lady insurance advisors, government & private sector permanent lady employees and self-employed lady entrepreneurs.

III. New 3W leasing package

The product is targeted at penetrating the 3W leasing market with competitive features so as to grow the leasing portfolio via higher volumes with lower risk and higher NIM's.

This new three-wheeler leasing package introduced in the previous year was re-energized by adding more features to include 2 free tyres and free RMV for the first year in addition to the free insurance for the first year which was already there. We re-energized this product being a responsive service provider, to cater for the appealing requirements of our esteemed customers.

SME Loans

Our SME portfolio recorded a growth of Rs.355.66 million or 28% year-on-year to Rs. 1.61 billion, under the dedicated SME unit. The SME department is now fully equipped with necessary skills to give a fast and effective service to SME customers.

The SME unit also filled an important gap to support micro finance customers, who had grown over the years by partnering with us in to SME and emerging SME sectors. We were not being able to assist these customer sector earlier due to non-existence of SME products and lack of internal expertise. The SME unit supports the micro customers who are transitioning their businesses now up to SME and emerging SME levels. As at the year end, our SME customers numbered 1,041 which was a growth of 399 new customers or 62% growth during the year.

New SME Products

Identifying the growing short-term financial needs of our valued SME customers for uninterrupted business operation, we introduce following SME products during the current year.

I. Revolving Loans

We launched this product by targeting to cater for the short term working capital requirements of our SME clients, for smooth functioning of their business operation. The repayment of loan is tailor made to suit their present financial position and future cash-flow generation. The loan is given for a maximum period of 12 months and the interest of the loan to be paid monthly and the capital as a bullet payment. The capital can be revolved for a further period of 12 months with in a short period after settling the capital in full at maturity.

Society Loans

We provide bulk loans to SSS for onward lending to their members at relatively small ticket size not exceeding Rs.100K. In other words, the SSS acts as an intermediary to channel our loans to its micro borrowers. SSS members obtain loans for a variety of purposes, primarily to initiate or improve income-generating projects, as well as, for consumption purposes and other expenses. When compared to other direct competitors, we have a unique advantage in reaching the grass-root level micro customers at remote areas through these SSS network. As at the year end, our SSS loan portfolio stood at Rs.175.3 million and consisted of 116 SSS.

PCBE Loans

This product was introduced with a structured procedure mainly targeting salaried non-executive, junior executive and above employees at factories and offices of reputed corporates.
The blue-collar workers such as factory workers are an under banked segment with much potential, and this new product enabled us to tap into this lucrative market. A new appraisal procedure was introduced to minimise the credit risk involved and also to fast-track the granting of loans, in a timely and efficient manner.

We continued to reach out to our target customer groups during the current year to raise awareness about this unique product and to grow the portfolio. We conducted extremely successful campaigns, in both government institutions

Social and Relationship Capital

and private companies that contributed directly to new business volumes. As at the year end, our PCBE loan portfolio stood at Rs.543.4 million and consisted of 2,287 customers; an increase of 1,002 customers during the year.

New PCBE products

Being responsive to the seasonal needs of our SSS members, we introduced the following PCBE products during the current year.

I. Consumer Durable Easy-payment Loan Scheme

In partnership with Singer Sri Lanka an easy payment loan scheme to purchase a selected range of products from Singer retail outlets was introduced during the current year.

The product was launched through selected SSS island-wide to facilitate their members to purchase Singer products. A bulk loan was provided to these SSS to grant loans to their members on easy payment scheme to purchase a selected range of products from Singer retail outlets. However, this loan scheme was dishonoured during the year due to certain practical issues encountered in relation to the operating and monitoring of these loans and also various customer complaints received in regards to the quality of after-sale service.

Micro Business Loans

Business loans are offered to micro-scale entrepreneurs to meet working capital requirements and capital expenditure. The gross micro business portfolio recorded 23.3% decline reaching Rs. 595.9 million from Rs. 776.9 million the previous year. The micro business loan customer base stood at 2,883 from 3,438the previous year which was a decline of 16.1%. During the year, we continued to introduce new customized products designed for specific customer segments.

New Micro Business products

The uniqueness of SDF's brand name is built on years of trust and the respect it has earned by assisting the grass-root level micro customers to financially uplift their social status. With our continuous desire to be responsive to the business needs of our micro business entrepreneurs, we partnered with Sarvodaya Movement to provide project loans to "Tharunodaya project" initiated by Sarvodaya Movement in partnership with the "Open Society Foundation (OSF)" of the philanthropist, Mr. Goerge Soros, to facilitate financial assistance for young micro entrepreneurship in marginalized communities in rural areas, to build up their social capacities.

Subsidy Micro Loan Schemes

Rotary Kandy Community Development Foundation Loan Scheme

SDF has been financing micro enterprises under an enterprise development project in Anuradhapura, Thambuttegama and Kekirawa under the patronage of Rotary International through Rotary Kandy Community Development Foundation (Pvt) Ltd. for over 12 years.

Under the project micro enterprises such as dairy farming, retail trade, micro-scale agribusinesses, etc., are financed and the relevant business development services, business counselling etc., are provided to the beneficiaries whenever necessary to ensure the sustainability of their micro enterprise.

More than 50 micro enterprises have been funded under the project and all have been successful operationally. We have disbursed loans amounting to Rs. 13.13 million under the scheme.

Tharunodaya Loan Scheme

The Tharunodaya is a subsidised loan scheme targeting Micro Entrepreneurs under the Tharunodaya Project of Sarvodaya Movement to aid the young entrepreneurs to meet their working capital requirements to purchase of equipment or machinery for the smooth running / start-up of business ventures.

The loan amount is granted within Rs.100K to Rs200K for a tenor of 48 months. 1/3 of the start-up capital is subsidised by OSF and the entrepreneur should contribute another 1/3. SDF partners in this project to provide the balance 1/3 of the seed capital as a loan at a concessionary rate up to a maximum of Rs.200K. We have disbursed Tharunodaya loans amounting to Rs.7.87 million in FY 2019. The subsidised loan project expect to increase the opportunities and develop the capacities of unemployed youth to engage in income generation activities and aid in their economic growth. We provide SME loan facilities with the below objectives.

Project objectives

- Self-dependency
- Enjoy financial autonomy
- Contribute to the development of the area
- Actively participate in the development of the nation
- Provide employment opportunities to others
- Live with dignity, start a family

Marking the uniqueness of the Tharunodaya loan scheme, during the year we offered young entrepreneurs a leasing facility to finance Jet Ski which enables them to obtain state-of-the-art water sports equipment. Through this initiative, young people can offer tourists the opportunity to enjoy high-adrenalin water sports such as jet skiing on the Thissamaharama Water Reservoir and Gregory Lake, Nuwaraeliya. The first two clients were handed over with keys at the head office relocation ceremony held in Colombo

Senani Wijeyewardena Babson Fund Loan Scheme

This is a revolving fund facility for the purpose of granting subsidy loan facilities for the micro sector customers. We have utilised the fund to provide loans for micro sector customers except for the fishing industry. The fund which was initiated at a value of Rs.1.0 million currently has grown to a value of Rs.5.96 million. The loans granted from the fund expect to support micro level individuals or businesses to be uplifted from their current economic conditions.

Gold Loans

We recommenced pawning facilities which was previously discontinued, by restarting 10 pawning centres in FY 2018. The new pawning product was re-launched and reintroduced to the market as Gold Loans in last year, to meet demand in both rural and urban areas among both individual and business groups.

The Gold Loan product was rebranded in the name of "Swarna Sahana" during the current year giving the customer options to select the tenor of the loan from one, three and six months range depending on his/her income stream and/or repayment capacity.

We maintained prudent loan-to-value ratio to ensure portfolio quality is maintained in all disbursements. Our Gold loan portfolio stood at Rs.26.8 million at the year end with a customer base of 532. We anticipate rapid continued growth of this lending category in the new financial year.

Faster Loan Approval Process

Our IT system was up-graded further during the year by adding more manual processes to on-line documentation, viewing, controlling processes. These improvements are in line with our continuous upgrade to the work-flow-management system to fast-track the loan approval process mainly on leasing and SME. This process improvement has assisted us to disburse leasing and SME faster than the industry norms, reducing physical documentation; which has led to a vast improvement in overall customer acceptance and satisfaction.

Deposits Mobilisation

We also placed stronger emphasis on deposit growth, with more emphasis being given to product creation. Deposits were strategically driven as the key funding source in growing our lending segment. The network through Sarvodaya Movement, SSS, our unblemished brand name built through 60 years of herald community service, helped SDF to win as a trusted brand name from customers to choose us to deposit their hard earned money. The unique advantage we have through our longstanding relationship with SSS aided in growing the savings deposit base, while the new introduction of the "Dambadiva 60x60" fixed deposit product marking Sarvodaya Movement's 60th anniversary was also herald as a success in building the deposit base. This product featured a free tour to Dambadiva for senior citizens who invest Rs.1.0 million fixed deposit for five year period.

New Deposits Products

As a responsible corporate citizen, we believe, we need to constantly evolve to meet our customers" growing demands and bring in new products to cater for their changing life-styles. Understanding the strategic importance of our deposits customers for the sustainable business growth, we introduced following new fixed deposits and savings deposits during the current year.

I. "Dambadiva 60x60" fixed deposit product

Marking the Sarvodaya Movement 60th anniversary in December 2018, we introduced "Dambadiwa 60x60" fixed deposit featured with a free tour to Dambadiva for senior citizen who invest Rs.1.0 million in fixed deposit with a maturity of five years.

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II. "Daru Isuru" savings product

The life-styles of our customers are changing daily making their lives more intense and busy. As parents, they maximise their time and capacity to earn a better future for their children. By recognising these changing life-styles of our customers and their utmost desire to make a better future for their children, we innovated ourselves and introduced "Daru Isuru" normal savings products for our busy parents.

In this account, the parents can open a "Daru Isuru" normal savings account and a "Daru Issuru Pancha" children savings account/s for their child/children. 1/3 of the interest earned on the parents' account will automatically be credited to their children savings account at the month-end in addition to the normal interest earned on these children savings accounts. In this way, without much hassle and notice, the parents will be saving an additional amount for their children's future which would thereby assist their children savings accounts to grow in a more consistent and progressively manner.

The deposits base grew by Rs. 760.5 million or 16.4% to reach Rs.5.39 billion at the end of the financial year. A series of promotional campaigns were also conducted island-wide to fuel this growth in deposits base mainly in the savings and senior citizens deposits. In addition, the incentive scheme introduced previous year paved way to create enthusiasm amongst employees' to record these results at the end of the reporting year.

Our Deposit Products

Product	Product Features	Deposit Base	
		Rs. (million)	Nos.
Fixed deposits	Deposited for a fixed period of time ranging from 1 month to 5 years at a fixed interest rate, interest is payable monthly or at maturity.	3,824.28	7,124
Normal Savings	Regular or ordinary savings products.	489.05	94,854
Fixed Savings	Fixed Saver accounts where savings are fixed for one year and then can use as an ordinary savings or re activated as a Fixed Saver for another year.	92.86	7,975
Pancha Savings	Minor savings are an investment made on behalf of the child for future use	513.58	21,881
Sarvodaya Society Savings	Regular ordinary savings made by Societies from the income they generate by their routine business transactions.	410.10	8,313
Senior Citizen		55.46	5,438

The focus during the year was to grow savings base via SSS and also to capture larger sized fixed deposits from high-net-worth individuals, to increase the fixed deposit component in the deposit base to address the asset-liability mismatch. Though the number of fixed deposits count depleted from 7,807 to 7,124, the fixed deposit base grew due to the focus on larger deposits. Also, the deposit base grew through the increase in senior citizens deposits and the hybrid product, "fixed saver", which reflects public trust and confidence towards the Company.

As a service provider with a conscience mind, we will continue to strengthen our deposits portfolio in the new financial year by launching unique products aligned with customer needs, and through extensive branding and value creation approaches, to place the SDF brand as a respected brand within the house hold community, as well as, within the corporate community.

Product Responsibility

We are highly conscious of the ethical delivery of our products and services. We ensure, to the best of our ability, that we give due priority to the engagement process with timely and well-structured processes to protect our customers from any risks related to delivery of our products and services.

Product Portfolio Screening

As a finance company engaged in the leasing of automobiles, we are conscious of the impact of vehicle emissions on the environment. We have taken initiatives to put in place a detailed precautionary mechanism to address environmental and social impact in the structuring and delivery of products. We therefore follow a thorough screening process to factor in the environmental and social consequences of our operations with customers.

Anti-Corruption

We utilise sound internal controls to prevent any improper activities and transactions from taking place. Formal mechanisms are in place to investigate, redress and take due disciplinary actions for any complaints or allegations related to corruption.

Our internal auditors, risk management unit and the compliance officer are responsible for ensuring that best practices prevail at all levels of the company. During the year, no material risks and incidents related to corrupt practices were reported from the head office and branch network. We have established a whistle blowing policy and educate our employees at their induction of the importance of the adherence to the policy thus preventing any corruption taking place within our system.

Anti-Competitive Behaviour

We do not engage in any anti-competitive behaviour and is committed to establishing a 'level playing field' in the industry. Pricing is objectively set in line with the country's monetary policy and the market trend. In testimony for this, for the year under review, the Company was not party to any fines or associated penalties for anti-competitive behaviour.

Customer Privacy

We do not share customer information with external parties. However, we disclose/share customer details with statutory bodies as stipulated and also to affiliated companies under the expressed consent of customers. Data security is protected through IT security policy and disaster recovery process.

Customer Grievances Handling Mechanism

Complaints can be lodged through formal correspondence or at one-to-one meetings with staff and management. Once a complaint is lodged, relevant officers, managers and even the Chief Executive Officer can be engaged for mediation and corrective action. If the internal mechanism is unsuccessful at grievance redress, the complaint is handled through an external-process by appointing external inquiry officers to assess the inquiry and provide their professional opinion and judgement in a very fair and transparent manner.

Customer Satisfaction and Feedback

All customer feedback is discussed at staff meetings and management meetings to respond as soon as possible.

Customer Training

We conduct two types of training programmes for our customers, namely financial literacy and entrepreneurship development. The aim of conducting these trainings are to educate them to run their businesses successfully which in turn, result in a regular repayment of loans given by us.

The financial literacy training targets micro and small business holders and covers basics of book keeping, cash flow management, pricing and stock controlling etc. The entrepreneurship development training is designed for prospective entrepreneurs and micro and small business owners. It covers the definition of entrepreneurship, character of an entrepreneur, setting goals, business idea generation, measuring and taking risks etc. Most of these customer whom we train are SSS members who have obtained loans either through SSS or directly through SDF.

Building Financial Literacy

We remain committed to addressing issues of financial literacy in developing areas and sectors of Sri Lanka. This forms a direct pillar of our CSR approach. Further information can be accessed under customer training and customer centric initiatives section of this Report.

Marketing Communications

During the current financial year, the emphasis on brand building and product marketing drive with the introduction of new products and also the changes occurred in line of business as part of our expansion drive to target new customer segments and enhance brand visibility within an extremely competitive market.

The Acting Compliance Officer ensures that the marketing and communication initiatives meet product specific disclosures and compliance to contractual obligations and legal and regulatory requirements. All marketing campaigns are endorsed by CEO and the Board of Directors where necessary. All marketing materials used for these promotions are subsequently forwarded to the Central Bank for its approval prior to implementation.

Any incidents of non-compliance with regulatory bodies with regard to marketing and communications efforts were not reported during the year.

Marketing Initiatives for the Year

Marketing and promotional activities conducted by us involved different media to target different customer segments. During the current year, the marketing and business promotion expenditure was Rs.43.9million while in FY 2018, the expenditure was at Rs.30.1 million.

The expenditure incurred involving different media activities carried out during the reporting year are described below.

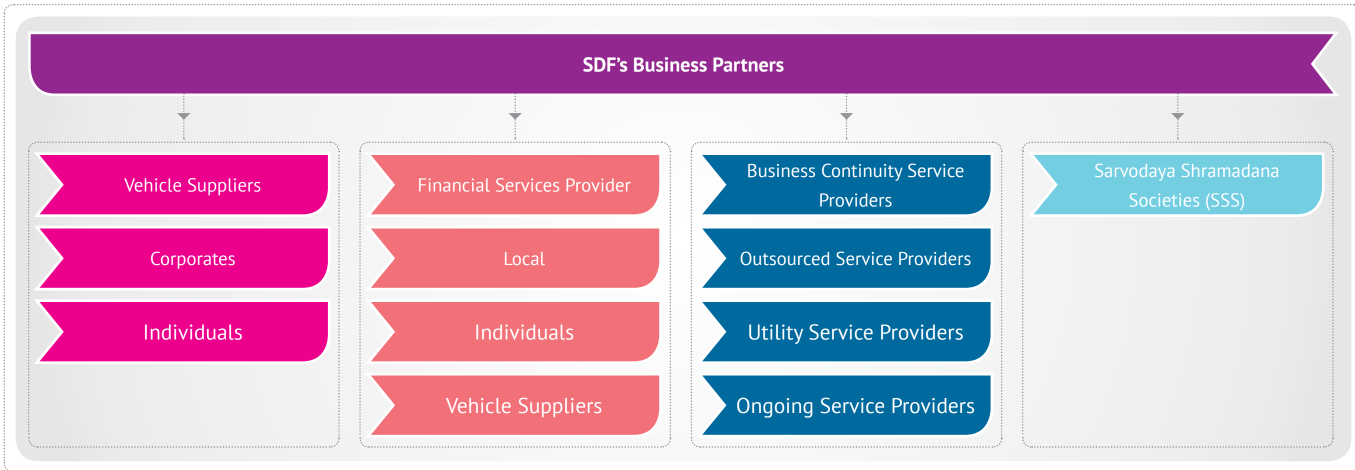
Marketing Activity	2019		2018	
	Rs. (million)	(%)	Rs. (million)	(%)
Print Media	5.2	11.8%	5.0	16.6%
Electronic Media	7.0	16.0%	7.6	25.2%
Events and exhibitions	11.8	26.8%	3.9	13.0%
Special Campaigns	19.9	45.3%	13.6	45.2%
Total	43.9	100%	30.1	100%

Business Partner Capital

With SDF's tradition of trust and cooperation, we aim to build partnerships based on sound relationships that generate mutually beneficial outcomes for all parties involved.

Social and Relationship Capital

Our Business Partners



Our engagement policy with business partners are based on;

- Legal and ethical compliance in procurement practice.
- Building long term, sustainable relationships.
- Enhancing Company's performance through cost-effective and quality procurement.
- Giving fair and equal opportunities to suppliers.

We've a diverse supplier base and as of 31 March 2019, our supplier base was 875 including registered vehicle suppliers for leasing. The total supplier base increased by 355 or 68.3% during the current year. The cumulative payments made to suppliers during the reporting period stood at a figure of Rs.1.55 billion compared to Rs.868.7 million paid in the preceding year.

Supplier	2019		2018	
	Nos	Rs. (million)	Nos	Rs. (million)
Vehicle Suppliers	619	790.8	**389**	**467.1**
Corporates	71	319.8	23	86.5
Sole Proprietors	19	54.6	6	14.3
Individuals	529	416..4	360	366.3
Other Suppliers	256	764.69	**131**	**401.6**
Corporates	89	426.5	48	266.3
Sole Proprietors	31	89.5	22	42.1
Individuals	136	248.7	61	93.2
Total Suppliers	875	1555.5	**520**	**868.7**

Vehicle Suppliers

To maintain and enhance positive relationships with business partners and stimulate our branch staff for leasing businesses, we initiated several 3-wheeler leasing campaigns jointly with David Peiris Motor Company at few selected branch premises with the participation of our branch staff and supplier representatives. These promotions were carried out focusing mainly on promoting leasing on 3-wheelers for un-employed youth and for our micro loan customers.

During the year we entered into MOU's with the following vehicle suppliers.

MOU agreement with Ideal Motors

We entered in to a MOU with Ideal Motors Ltd to provide increased benefits to its customers dispersed around the country, who are looking to realize their dream of owning a vehicle. We partnered with Ideal Motors and this MOU with them to facilitate their customers, to obtain leasing and loan facilities from our extensive network of branches, at a competitive rate and a privileged, personalised service. We expect this MOU to create synergies and aid SDF in promoting the leasing business.

Signing the MOU with Ideal Motors

We conducted a vehicle promotion together with Ideal Motors during the Christmas season at Crescat Boulevard marking our link.

MOU agreement with All Island Schools Children's Transport Association

We inked a strategic MOU with the "All Island Schools Children's Transport Association" to reward the 30,000 strong membership with unique financial solutions and to raise awareness about the consumption of sugar and artificial drinks amongst children and families. This MOU tries to explore the opportunity to reward the 30,000+ membership of the association with flexible, convenient and trustworthy finance solutions by offering customised, unique financial solutions. Concurrently, both parties are contemplate on the social cause of discouraging artificial drinks amongst children within the vehicles of these members and by educating parents, as well as the children, about the harmful effects of sugar.

Signing the MOU with All Island School Children's Transport Association

Financial Service Providers

We maintain a long-standing relationship with our financial services providers by adhering to all relevant agreements, mutual obligations and other terms and requirements. Further, monitoring mechanisms are also continuously implemented.

Business Continuity Service Providers

We create a trust-worthy relation with our business continuity service providers adhering to contractual obligations which has helped us to conduct our operation without risk of interruption and inefficiencies.

Outsourced Service Providers

We've outsourced non-core business operations to specialised companies having expertise on specific areas. This includes security services, janitorial services, logistics, courier services, waste management services, tax consultancy services and financial advisory.

Utility Services

This mainly comprises electricity, water, telephone and Internet services. As stated previously, these service providers expect prompt payments for their services. We ensue that such requirements are fulfilled as satisfactorily as possible.

Ongoing Services

This mainly comprise of supply of fixed assets, premises and equipment maintenance, system development, computer software and hardware solutions, stationery, fuel, advertising and business promotions. We ensue that timely engagement are maintained with these service providers and make prompt payments for their services to maintain a trusted, long-lasting relationship

Society Coordinating Unit (SCU)

As a key strategy of strengthening our business partnership with sarvodaya societies (SSS), we gave a greater emphasis on the activities carried out by our Society Coordinating Unit (SCU) during the current year. SCU focused on strengthening SSS through motivation of the SSS officers and the management. In order to fulfil this strategic objective, we conducted several development and leadership training programs to SSS officers during the year. We continued to activate the dormant SSS and to re-engage them and rebuild the network to fulfil the Sarvodaya's greater mission and vision.

The SCU conducted many marketing campaigns together with SSS, to grow the SDF's brand name. Various training sessions were conducted during the year to develop the SSS and their activities. During the past two years, SDF has distributed incentives amounting to over Rs. 6 million to SSS, in recognition of the third party deposits and loans canvassed in order to grow our reach through the SSS network base.

During the year, SCU carried out 12 marketing programmes jointly with SSS which assisted in increasing bulk-loans to SSS, savings including children savings and micro personal and business loans to SSS members. SSS were also assisted in providing links to us for our leasing and SME products. We received Rs.65.0 million worth of financial inquiries on loans and deposits from potential customers through these marketing programs carried out by SCU with SSS.

Programme	Financial Inquiries Received	
Name	Nos.	Rs. (million)
Marketing campaigns with SSS	12	65.0

In addition, we extended our business partnership with SSS by conducting several value-added training programmes to the office bearers and also to the members of SSS, focusing mainly on developing capacity and leadership skills, entrepreneurship, and business planning.

Social and Relationship Capital

Programme		Number of SSS Participants	
Name	**Nos.**	**SSS**	**Members**
Capacity building & Leadership	26	78	316
Entrepreneurship	2	22	28
Knowledge Training	29	82	338

The following key aspects were focussed in conducting these programmes.

- SSS officer's & manager's capacity development training programme
- Business and entrepreneurship development for SSS officers and SSS members
- Leadership programmes for SSS officers
- Financial management and accounting programmes for SSS officers
- SSS CSR Programmes

Workshop conducted for capacity building to SSS office bearers

Workshop conducted for entrepreneurship development to SSS members

Resource Contribution by SCU

In addition to SCU formal functionalities, SCU provided their expertise as resource persons to the programmes conducted by the Sarvodaya Movement.

Programme Organizer	Programme Name	Participants	
		SSS	**Others**
Sarvodaya Women's Movement	Entrepreneurship Development	1	40
Sarvodaya Sangamaya	Entrepreneurship Development, Business Planning & Marketing	1	170

The SCU aided in conducting the annual meetings of the SSS together with SDF branches/CSCs throughout the current year ensuring SSS accountability and best governance.

Administrative Support

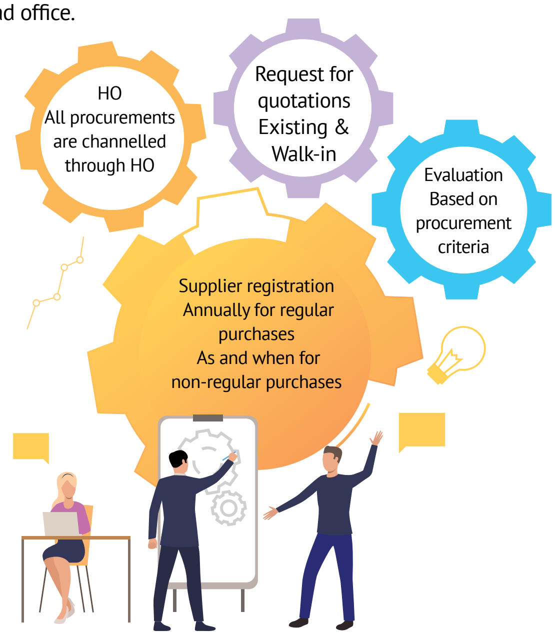
We exercise prompt payments, maintain regular contact with our partners and assure that all sustainability related issues are equally addressed.

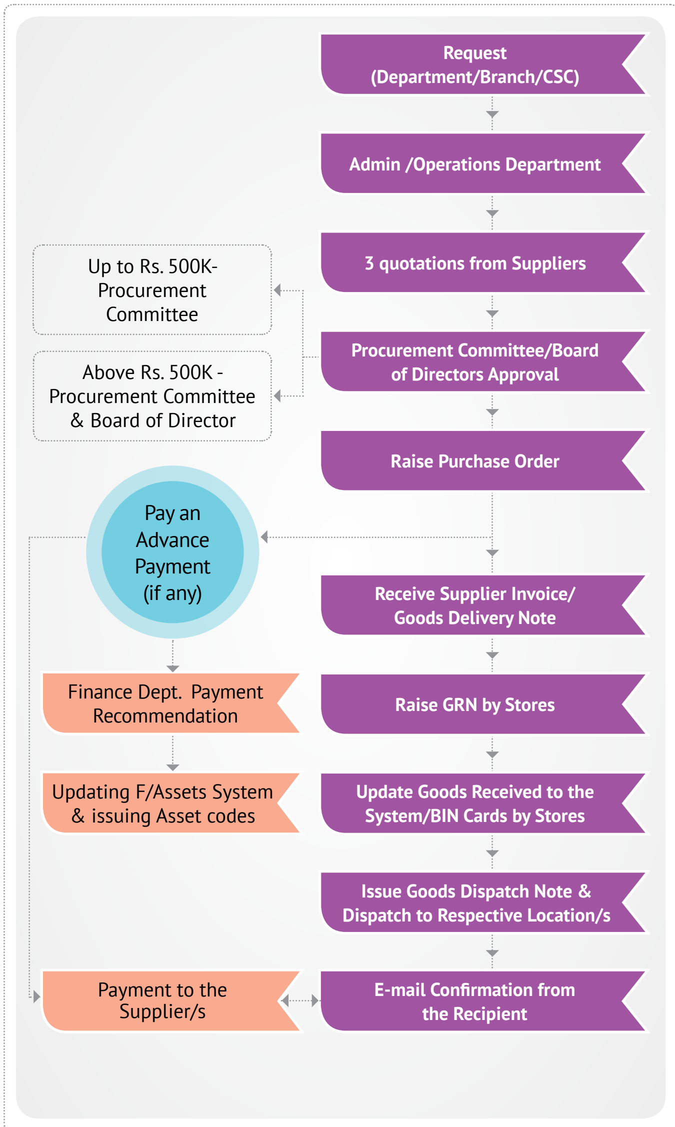
Procurement Process

We exercise prompt adherence to procurement criteria laid down in the Company's procurement Policy in screening and selecting suppliers for our business continuity services.

Supplier Screening and Selection

Supplier screening and selection for all procurement purchases is carried out centrally through administration department at head office.





Procurement Practices

We maintain industry best practices in all procurement activities that are conducted according to formal, established procurement processes. We are consistent in monitoring the procurement process to be effective and efficient

Membership in External Organisations

We maintain relationships with several industry organisations, professional institutions, associations and societies. These are:

- The Finance House Association of Sri Lanka
- The Financial Ombudsman Sri Lanka
- Credit Information Bureau of Sri Lanka
- Lanka Microfinance Practitioners Association
- The Employer Federation of Ceylon

Community Capital

The primary objective of SDF, through our business activities, is to contribute towards social and community advancement. We attempt to achieve this objective through our work, by supporting micro entrepreneurs and SMEs, and by distributing dividend to our parent, SEEDS, which redistributes these funds through community welfare activities through the Sarvodaya Movement. In addition, we also engage in CSR and charitable events to contribute to those in needs. As a policy, we do not finance projects that are harmful to society, such as slaughtering animals, gambling, money laundering and alcohol. As a responsible corporate citizen, we encourage women empowerment, sustainability and environment protection activities.

Our contribution towards social and community advancement during the reporting year is highlighted below.

Pumpkin Farmers' Festival

Co-exist foundation, which is a foundation envisaged by the Chairman of SDF, and founded by SDF, launched its latest project of social uplifting, initiating a festival for the pumpkin farmers of the North Central area to sell their bumper harvest. The excess harvest produced created a dire situation to the pumpkin farming community threatening to ruin the entire harvest and pushing many families into detrimental economic and social ditch. The pumpkin harvest which was in the verge of being wasted was addressed by SDF and Co-exist via conducting a festival in Green path by transporting the pumpkin produce mainly from North Central region to Colombo.

The first ever pumpkin farmer's festival initiated the public awareness to the plight of the local farmer, the resources available to transform local lives through engagement and the availability of unique and innovative solutions as well as the strength and energy of a community on a just cause.

Social and Relationship Capital

The event marked sales of over 100,000Kg of pumpkin. By presenting the many values and creative ways the pumpkin could be consumed and used, the creative value addition the raw pumpkin could give was demonstrated with the aid of renowned chefs and craftsmen. The event show cased a variety of stalls selling value added pumpkin such as pumpkin soup, pumpkin dessert and pumpkin based medicine.

The pumpkin farmers' festival in turn assisted the farmers to find a new market segment for their produce while preventing wastage of the excess produce and also to promote the crop and its various uses amongst the consumers. The event educated the consumers of the various benefits of the pumpkin as a vegetable, a fruit, an ayurvedic medicine, as a cosmetic item and as an artistic engagement.

The festival was graced by renowned hotels in the area, Ministry of Agriculture, Tourism Promotion Bureau and the prominent personnel such as Dr A T Ariyaratne, Adiwasee Vannila Aththo and renowned Chef Pubilis Silva. The commuters, the business community in the area as well as dwellers of Colombo took time in loitering around the festival grounds, enjoying and building awareness of Sarvodaya message of awakening all and paving the way for such fulfilment true to SDF vision of being a catalyst in creating an economically progressive society. Several well-wishers aided the humane endeavour with generous donations while others contributed buying at least one pumpkin. Approximately 25 pumpkin farmers were present selling their bumper harvest and the event was herald by communities as a success. All proceeds generated from the event was directed towards the welfare of the pumpkin farming communities.

Heartened by the success of the event, Co-exist foundation plans to launch a further event in collaboration with SDF, to create an opportunity to village level business community to open up business avenues and modes of recognition for them as village entrepreneurs. We expect to launch this festival in the next financial year.

Supporting Baddegama Children

SDF in collaboration with Sarvodaya "Suwa Setha", organised a shramadana campaign in the Baddegama Boy's home in August 2018.

Screening a "*Handful of leaves*" –A documentary film about Sarvodaya

SDF in collaboration with Sarvodaya Sangamaya organised the screening of "Handful of Leaves", a documentary film about Sarvodaya Movement, produced by Mr.Vishnu Vasu was held at the National Film Corporation, Tharanganee Hall, in November 2018, in Celebrating the 60th Anniversary of Sarvodaya Movement. The film was screened to the members of SDF, SSS and Sarvodaya Movement.

Blood Donation Campaign

Our customer service centre at Madagama, organised a blood donation campaign in July 2018 for the 2nd consecutive year, by demonstrating our business values in providing services with purity and caring.

The details of the campaign are as follows;

- number of donators : 93 (female 26, male 67)
- hospitals affiliated : Blood Bank & General Hospital, Badulla
- number of hospital crew : doctors – 01, nurses 03 & attendants 02.
- amount of blood donated: 92 pints (O+49, AB+1, A+16, B+27)

Investor Capital

The two (2) main shareholders SEEDS (Gte) Ltd. and Gentosha Total Asset Consulting Inc, holds over 99.99% of SDF's shares. The shareholders are represented on the Board and therefore, are in direct communication with the Company and the Chairman of the Board. In addition, we communicate with our investors annually, through the AGM where the significant activities and the financial performance of the Company are communicated to the investors through the presentation of the Audited Financial Statements and the Annual Report. The financial and operational performance of the Company are presented to the Board of Directors at their monthly board meetings.

However, unlike traditional private businesses, SDF as a subsidiary of SEEDS who is having an 80% holding on the Company. Any profits that are channelled as dividends to SEEDS are redistributed within the community through various community development projects of Sarvodaya Movement.

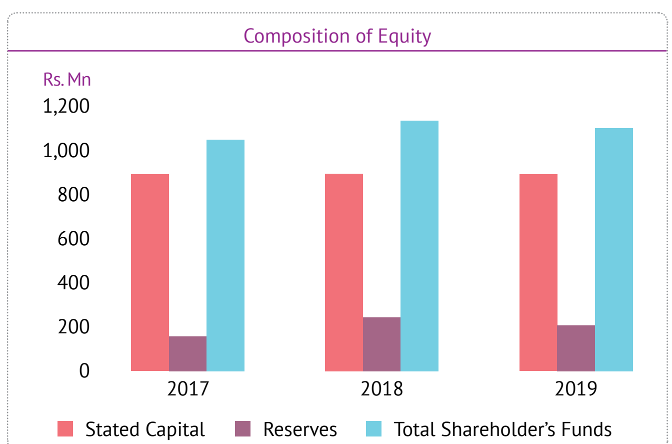
	2019	2018	% Change
Equity Information			
Earnings per Share (Rs)	0.62	1.31	-52.6
Dividend per Share (Rs.)	-	0.53	N/A
Net Assets Value per Share (NAVPS) (Rs.)	16.27	16.75	-2.9
Return on Equity (%)	3.8	8.1	-53.7
Debt Information			
Debt to Equity Ratio (times)	5.7	4.5	26.3
Interest Cover (times)	1.1	1.3	-12.5
Current Ratio (times)	0.8	0.8	6.4

Shareholder Wealth Creation

The current year profit of Rs.41.2 million added to bring the overall shareholders' funds to Rs.1.1 billion. However, as a result of dividend paid of Rs.35.8 million and the impairment provisioning impact of Rs.39.7 million arising from the first-time adoption of SLFRS 9 as at 01st April 2018, reduced the shareholders' wealth to Rs.1.10 billion from Rs.1.13 billion recorded in the previous year.

During the year under review, the total number of ordinary shares of the Company remained unchanged at 67,500,006.

Changes to Share Capital



Social and Relationship Capital

Year ended	No. of shares at the beginning of the financial year		Addition/(Redemption) of shares during the financial year		Cumulative shares at the end of the financial year		Issued capital at the end of the financial year
	Ordinary shares	Preference Shares	Ordinary	Preference Shares	Ordinary	Preference Shares	
Share Capital (Rs.)	890,000,020	-	-	-	890,000,020	-	890,000,020
No. of shares	67,500,006	-	-	-	67,500,006	-	67,500,006

Changes to Directors' Shareholding

With the exception of the following two former Directors, who retired from their respective directorships during the current financial year after serving the Board 9 years as Non-Executive Directors, in compliance with the Corporate Governance Direction No.03 of 2008, and who hold one share each, no other Board Director has held any shares in the Company, either at the beginning or at the end of the reporting period.

Name	Position	No. of Shares as at	
		31st March 2019	31st March 2018
Dr. Vinya Ariyaratne (retired w.e.f. 31st December 2018)	Non-Executive, Non Independent Director	1	1
Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018)	Non-Executive, Non Independent Director	1	1

Revenue to Government

During the year under review, the Company paid Rs.115.5 million to government in way of taxes compared to Rs.92.67 million paid in the previous year.

Debt and Solvency

The debt to equity ratio increased to 5.7 times from 4.5 times in the previous year. Interest cover deteriorated from 1.3 times to 1.1 times as at the end of the reporting year.

Capital Adequacy

The Company's core capital ratio and total risk-weighted capital ratio stood at 13.58% and 13.98% respectively. This was maintained well above the regulatory requirements of 6% and 10%. This indicates that the Company preserves sufficient capital to act as a cushion against any future risks.

Central Bank introduced direction/guidelines for capital adequacies requiring progressive capital infusion with the next tranche falling on 01st January 2020 with a minimum capital requirement of Rs.2 billion. As required by the Finance Business Act (Minimum Core Capita) Direction No.02 of 2017, the Company has not met the core capital requirement of Rs.1.5 billion by 01st January 2019. The Board of Directors have given their best efforts and continuously taking all possible measures to fulfil the core capital requirement of Rs.2.0 billion by 01st January 2020.

Compliance

We are committed to acting in accordance with regulatory requirements, ensuring that all our shareholders are safeguarded from risks.

Related Party Transactions

There were no individual transactions exceeding 10% of the equity or 5% of total assets during the year under review with any related party of the Company.

Risks

Information pertaining to the risk factors associated with our business operation and the mitigating actions that the Company has taken to avoid and/or minimise any material impacts arising from those risk factors are discussed in the section on Risk Management of this Report.

Shareholder Inquiries

Shareholders may, at any time, contact the Company Secretary, to direct questions/comments or request for publicly available information.

The Company Secretary

BDO Secretaries (Pvt) Limited
Corporate Secretarial Services
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02.

Links

Company's profiles, branch network, announcements, financials and products and services

Sarvodaya Development Finance
www.sarvodayafinance.lk

Natural Capital

Ingrained in our sustainable economic mission the responsibility of safeguarding the natural environment takes precedence in conducting our business operations. Encompassed within our business philosophy and value system the environment rejuvenation and preservation cascade down to the grassroots of our activities and service choices. Our operations doesn't directly negatively endanger the natural environment and we strive to prevent any indirect impact through conscience scrutiny of our credit destination. Our efforts in supporting and safeguarding the environment and our initiation of sustainable energy usage as well as resource management has resulted in reducing waste and eliminating inefficiencies thereby strengthening business sustainability.

We did not face any fines/non-monetary sanctions for non-compliance with environmental laws and regulations during the year under review.

Strategic Priorities	Strategies
Promote environmentally conscious behaviour within the Company	Educate employees and maintain an environment friendly culture across the organisation.
	Establishing an environment protection policy
Minimise negative environmental impact	Shifting to total office automation.
	Analysing environment impact from business as part of the credit evaluation process of lending.
	Incorporate concepts such as 5S and waste recycling.
	Use sustainable energy sources.
	Actively participate in environment safeguarding activities.
	Promote efficiency improvements as waste management
Be a responsible financial services provider	Support environmentally friendly businesses.
	Promote businesses using sustainable energy methodologies

Sdf Environmental Policy

Our environmental policy is to grow our business in an environmentally sustainable fashion, which entails being conscious of our environmental impact and making all attempts to minimise these while also advocating and promoting an environmentally responsible way of life amongst stakeholders along the value chain. We have initiated in documenting the environmental policy and implementing across SDF including the branch network.

SDF Environmental Strategy

Our sustainability strategy is based on the 3R principle of reducing, reusing and recycling. The Company will initially focus inwards in attempting to reduce waste and consumption while reusing and recycling where ever practical. In addition, we advocate environmentally friendly businesses by providing financial support for them.

SDF Environmental Initiatives

We initiated the implementation of the 5S concept within the company with the view of enhancing efficiency through eliminating waste, standardising resource usage and sustaining a green friendly environment within all processes and structures of the organisation.

Big cleaning day

Our big cleaning day conducted under the 5S programme resulted in de cluttering the entire Head office business premises while allowing to dispose of unwanted resources and to reuse underutilised resources up to the full potential. Through this waste elimination process we were able to recycle paper waste, electronic waste and organic waste up to over 2 tons.

Pumpkin Festival

As a CSR initiative a festival for the pumpkin farmers of the North Central area to sell their produce was initiated by the company. The bumper harvest situation of the pumpkin produce which rendered a threat of being completely wasted was addressed by the company via conducting a festival in Green path in February 2019 by transporting the pumpkin produce mainly from North Central area to Colombo. By presenting the many values and creative ways the pumpkin could be consumed and used, the creative value addition the raw pumpkin could give was demonstrated with the aid of renowned chefs, craftsmen and exporters. This in turn assisted the farmers to find a new market segment for their produce while preventing wastage of the excess produce. The event marked sales of over 100,000kg of pumpkin.

Natural Capital

SDF Energy Management

In accordance with the nature of our operations, much of the energy we consume is in the form of electricity, which is used to power our premises. Outside our habitual range of operations, energy is consumed in the form of fuel used for transport between our branches and the Head Office.

Electricity consumption

During the FY 2019, the effect of the solar project we installed during the financial year 2017 at the former head office building resulted in the following electricity consumption for the company. An average monthly loss of Rs.6.5K was incurred in electricity consumption in the first quarters of the financial year compared to previous year. This loss was incurred as a consequence of service departments re-structuring, modernisation and expansion took place at the former head office during the year under review which required fixing and replacing of additional lighting and air conditioning. Also, staff training programs conducted through-out the year on regular basis at former head office contributed to this increase consumption in electricity.

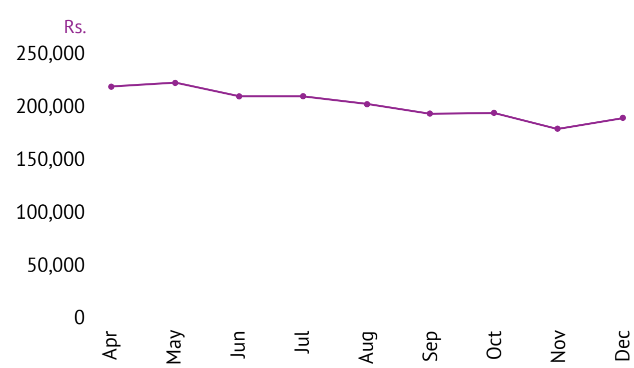
Average Monthly Net Saving (Loss) of Electricity from Solar Project

Details	Period	Average Consumption (p.m.)		
		Units	Rs.	per unit
Powered by solar panels	01st April 2018 to 31st December 2018	7,042.75	195,355.63	27.79
Installed at former head office	01st January 2019 to 31st March 2019	7,362.33	201,811.93	27.40
Average Net Saving /(Loss) (p.m.)		(319.58)	(6,456.30)	0.39
Average Net Saving /(Loss) (%.)		-4.5%	-3.3%	1.4%

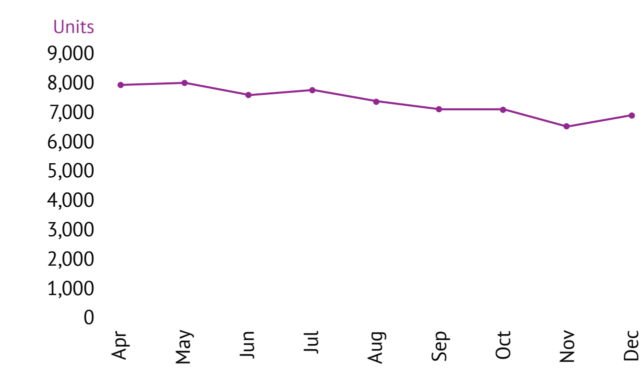
However, with the sound maintenance of the solar system, continuous monitoring and saving energy and changing the lighting into LED, helped us to save electricity consumption from 7,890 units p.m. on average in the first quarter of the financial year to 6,788 units p.m. on average in the third quarter of the financial year, prior to shifting to our new head office premises in Borella in January 2019.

This resulted in Rs.33.4K saving p.m. on average in the third quarter compared to the first quarter of the financial year. The graph below demonstrates MoM contraction in our electricity consumption in the first three quarters of the financial year, which was powered through the solar system installed at the former head office building at Moratuwa.

Electricity Consumptions



Electricity Consumptions



With the shifting of head office premises to Borella, a new solar project was reviewed for installation. The installation of this solar panels is expected to be completed during the next financial year. As a responsible corporate citizen, SDF strive to convert to sustainable energy measures and intend to promote solar installation to its branch premises by educating the land lords of the benefits.

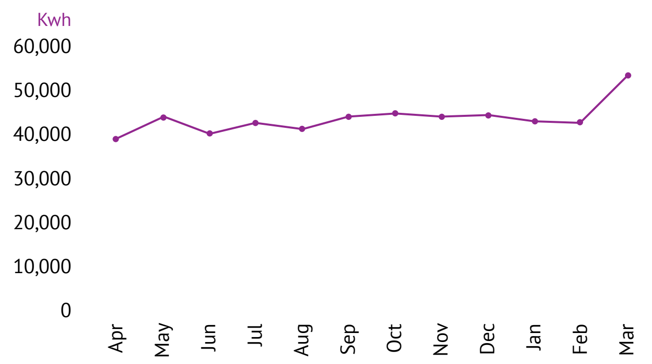
Electricity Consumption

Location	2019			2018		
	kwh	Joules	Rs.	kwh	Joules	Rs.
Head Office	194,942	7.01×10^{11}	6,231,603	175,118	6.30×10^{11}	5,810,186
Branches	328,599	1.18×10^{12}	7,919,246	308,226	1.10×10^{12}	7,428,235
Total	523,541	1.88×10^{12}	14,150,850	483,344	1.74×10^{12}	13,238,422

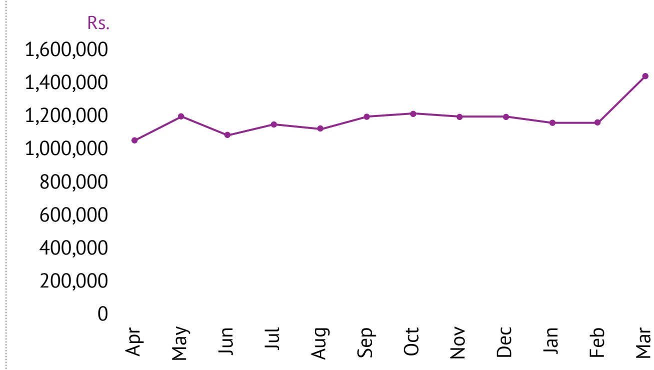
1 kwh electricity = 3.60×10^{6} in joules

The below graph demonstrates the MoM electricity consumption in our head office and branch network during the financial year 2019.

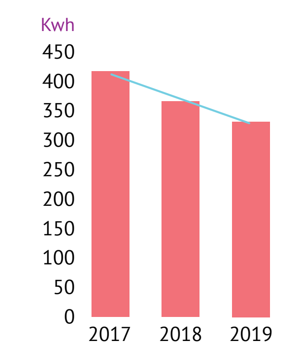
Units



Bill for the month



Electricity Consumption per Rs.1.0 Million Revenue



Per employee electricity consumption increased to Rs.27,005 during the year under review from Rs.25,264 consumed in the previous year. However, the electricity usage in Kwh per Rupees 1.0 million Revenue reduced to 332.4 Kwh compared to 366.0 Kwh reported in the previous year. The graph below illustrates the YoY reduction in electricity usage in kwh per Rupees 1.0 million.

For administrative purposes, we have divided our network into seven (7) regions. The region-wise electricity consumption shows that the highest consumption was in the western region (region 1).

Region	2019			2018		
	kwh	Joules	Rs.	kwh	Joules	Rs.
Region 1	67,216	2.41×10^{11}	1,619,897	71,532	2.57×10^{11}	1,723,916
Region 2	44,073	1.58×10^{11}	1,062,170	33,406	1.20×10^{11}	805,074
Region 3	40,696	1.46×10^{11}	980,768	32,907	1.18×10^{11}	793,065
Region 4	48,801	1.75×10^{11}	1,176,115	39,521	1.42×10^{11}	952,452
Region 5	51,507	1.85×10^{11}	1,241,320	50,397	1.81×10^{11}	1,214,573
Region 6	60,501	2.17×10^{11}	1,458,076	58,345	2.10×10^{11}	1,406,119
Region 7	15,805	0.56×10^{11}	380,899	22,118	0.79×10^{11}	533,037
Head Office	194,942	7.01×10^{11}	6,231,603	175,118	6.30×10^{11}	5,810,186
Total	523,541	1.88×10^{12}	14,150,850	483,344	1.74×10^{12}	13,238,422

Natural Capital

Emissions

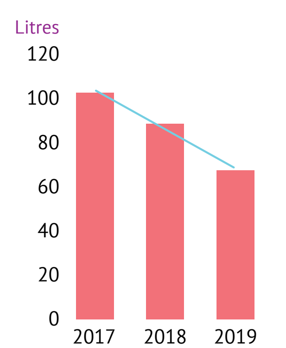
Energy is consumed in the form of fuel for daily commute of employees and for transport between our branches and the Head Office. We are working at optimising route planning and using our vehicles to avoid unnecessary mileage, to reduce fuel consumption and emissions.

Fuel Consumption

		2019			2018		
		Liter	Joules	Rs.	Liter	Joules	Rs.
Head Office	Petrol	**35,374**	**$1.21x10^{12}$**	**4,917,038**	30,297	$1.04x10^{12}$	3,605,372
	Diesel	**5,588**	**$2.14x10^{11}$**	**614,721**	8,034	$3.07x10^{11}$	771,245
Branches	Petrol	**64,766**	**$2.23x10^{12}$**	**9,002,509**	78,952	$2.72x10^{12}$	9,395,334
	Diesel	**-**	**-**	**-**	-	-	-
Total	Petrol	**100,141**	**$3.45x10^{12}$**	**13,919,548**	109,250	$3.76x10^{12}$	13,000,706
	Diesel	**5,588**	**$2.14x10^{11}$**	**614,721**	8,034	$3.07x10^{11}$	771,245

1 litre of fuel (Petrol) = $34.46x10^{6}$ in joules
1 litre of fuel (Diesel) = $38.31x10^{6}$ in joules

Fuel Consumption per Rs.1.0 Million Revenue



Per employee fuel consumption increased to Rs.27,737 during the year under review, compared to Rs.25,131 consumed in the previous year. However, the fuel usage in Litres per Rupees 1.0 million Revenue reduced to 67.1 Litres, compared to 88.8 Litres consumed in the previous year. The graph below illustrates the YoY reduction in electricity usage in Litres per Rupees 1.0 million.

The region-wise fuel consumption shows that highest consumption was in north central region (region 6).

Region	2019			2018		
	Litre	Joules	Rs.	Litre	Joules	Rs.
Region 1	**9,819**	**$3.38x10^{11}$**	**1,364,812**	13,937	$4.80x10^{11}$	1,658,483
Region 2	**7,870**	**$2.71x10^{11}$**	**1,093,939**	10,446	$3.59x10^{11}$	1,243,071
Region 3	**5,676**	**$1.95x10^{11}$**	**788,994**	7,992	$2.75x10^{11}$	951,091
Region 4	**10,364**	**$3.57x10^{11}$**	**1,440,527**	11,752	$4.04x10^{11}$	1,398,457
Region 5	**9,583**	**$3.30x10^{11}$**	**1,332,084**	9,731	$3.35x10^{11}$	1,157,985
Region 6	**13,818**	**$4.76x10^{11}$**	**1,920,710**	16,347	$5.63x10^{11}$	1,945,290
Region 7	**6,389**	**$2.20x10^{11}$**	**888,015**	8,731	$3.00x10^{11}$	1,038,983
Head Office	**42,210**	**$1.45x10^{12}$**	**5,705,187**	38,348	$1.32x10^{12}$	4,378,592
Total	**105,729**	**$3.64x10^{12}$**	**14,534,269**	117,283	$4.04x10^{12}$	13,771,951

Waste Management

Waste generation is primarily bio degradable food waste and administrative waste. We've started several initiatives during the year under review to reduce waste and to minimise the incidence of such waste occurring. Our waste management initiatives are described below.

Recycling

Under 5S implementation process over 1400Kg of paper waste, 600 Kg of electronic waste consisting of computer items, office equipment were recycled. Organic waste disposal system was implemented with the intention of establishing a compost creation system. An ongoing system of weekly paper collection and segregation for recycling was initiated along with an e waste collection system. The daily organic waste collection through the separate bin system was established for waste disposal. Further, a compost bin was installed outside the building premises. We intend to use the compost as fertiliser for our gardening and landscaping to beautify our premises while acting as an environmentally conscious company.

Waste reduction

Paper Waste reduction

We attempt to reduce paper waste by reusing. As a policy, all staff are educated to re-use the A4 papers for all internal communications and limit use of new A4 papers for external communications. In our attempt to reach green banking and total paperless office system.

We initiated revamping automated work flow management processes for lending product approval process via new integrated IT systems, which further assisted us in reducing paper consumption sizably.

Centralised Printing

The three types of printers used (Brother Laser Printer-use for printing normal office related documents, Epson Dot Matrix Printer-use for printing pawning ticket, Epson PLQ20 Pass book Printer-use for pass book printing) and the photo copy machines used in the SDF head office and the branch network was changed to multi printer options saving much maintenance cost, paper usage and electricity consumption leading to better monitoring and controlling of the company's paper and resource usage. Also, this initiative released tied up capital on printers towards other efficient avenues.

Water waste reduction

Identification of water leakages, repairing the plumbing system and optimising water usage in the kitchen quarters and the washrooms are being established. Through the 5S initiative we intend to analyse the feasibility of establishing a waste water collection and reuse method for daily use especially in drought affected branch areas.

Culture Change Towards Sustainability

Employee education from induction to continuous periodical training is being carried out to build a green conscious individual at SDF. We educate our employees on the macro picture on global sustainability through presentations and lectures. We present opportunities for our employees to participate in environment saving activities conducted by the Sarvodaya Movement and other environment conscious projects. We encourage active participation in wastage management via continuous employee contribution to uphold best practices such as segregated waste disposal, resource reuse and ownership in best practices. Through the 5S implementation we have created employee awareness in continuous energy protection, acknowledgement of sustainability and continuous improvement of efficiency.

Future Outlook

Electricity consumption per square foot reduction

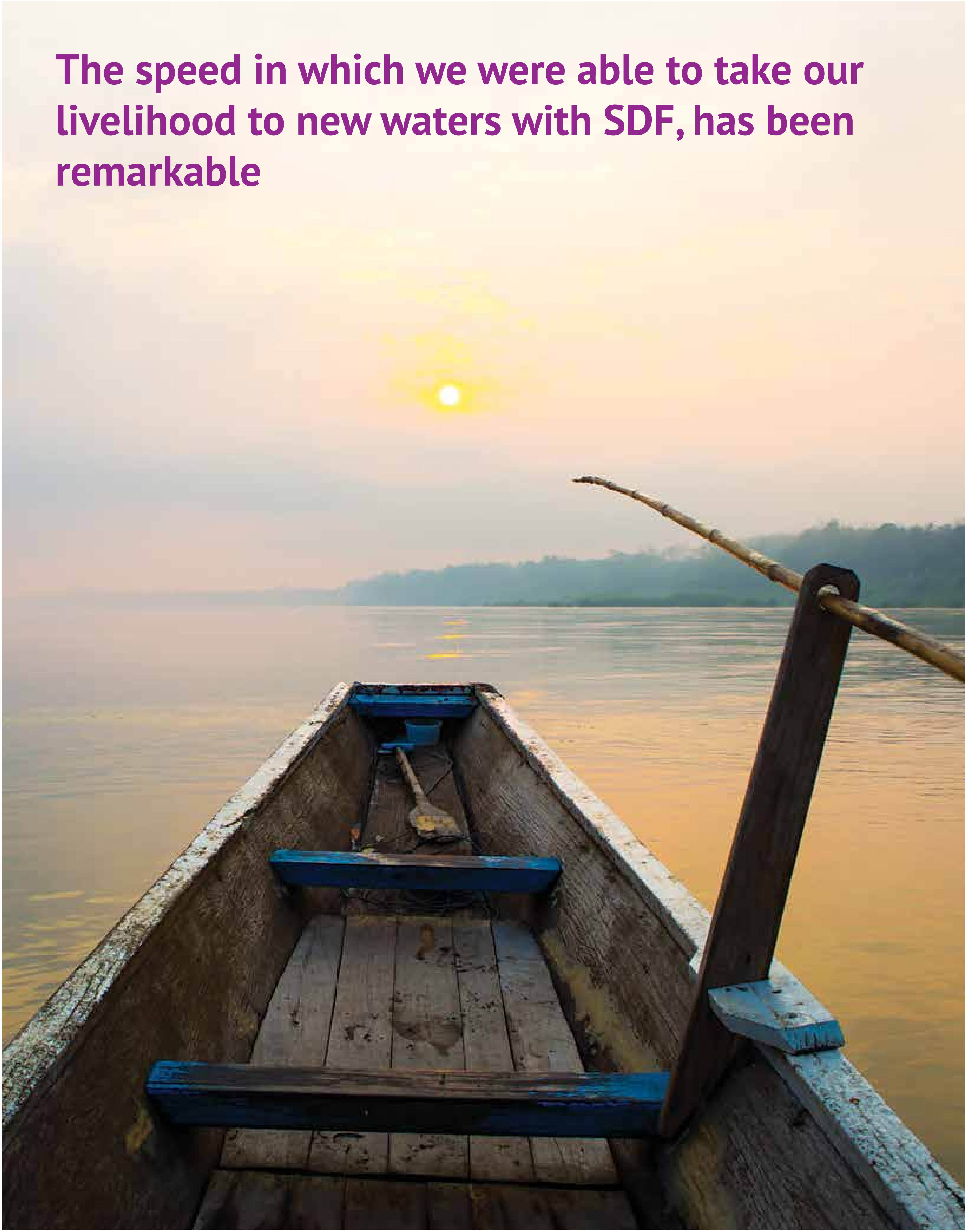
We intend to implement LED lighting systems in all branches and at head office premises. In order to optimise lighting electricity consumption and air conditioning electricity consumption revisiting the lighting plan, usage of natural light and repairing the air conditioning system is being planned for the new financial year. The current electricity consumption per square foot is at 5.35 kwh per annum costing Rs 145 per square foot. We intend to moderate this through efficient lighting solutions.

Solar Panels Installation

The solar system we installed in our HO building at Moratuwa in FY 2017 with an investment of Rs.2.5 million, comprising 22 solar panels, powered by 6 KSTAR 5.5KW invertors, generated nearly 30% saving on electricity cost immediately after the implementation. With the shifting of our head office to Colombo in January 2019, we've already had conducted an initial feasibility study to implement solar panels at the new head office premises in Borella. We intend to cover approximately 50% of our current monthly electricity requirement using panels installed on our roof top. The initiative is currently at the evaluation process for approval.

As a sustainability goal we intend to be futuristic and as a concerned corporate citizen to preserve the natural environment by adopting state of the art technology and by being flexible to changes in the industry which are environmentally friendly.

The speed in which we were able to take our livelihood to new waters with SDF, has been remarkable



A few years ago, when the Gregory's Lake beautification project started, I launched three passenger boats. The income from this venture was not much. Sitting in a rowing boat, I dreamed of a speed boat.

I visited SDF to discuss my "big plans". Their friendliness impressed me. I applied for a loan of Rs. 5 million. SDF granted me two loans of Rs.2.5 million each. I bought two jet skis. On an auspicious day, surrounded by friends and family, I launched my two jet skis into the waters of Lake Gregory. On my first jet ski ride, I felt like I was flying.

SDF fulfilled my dreams and brought me success.

Report of the Board of Directors on the Affairs of the Company

The Directors of Sarvodaya Development Finance Limited. (Sarvodaya Finance) 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 2019.

This Report was approved by the Directors at its meeting held on 25th June 2019.

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 Company's Head Office was sifted to Colombo during the current financial year and accordingly, the Company's Registered Office and the Head Office was changed to the above address from its previous location, 'Arthadharma Kendraya', No. 45, Rawathawatte Road, Moratuwa. Other contact details are given under Corporate Information.

BRANCH NETWORK
As at 31st March 2019, the Company's branch network comprised 30 Branch Offices and 21 Customer Service Centres (CSCs) within the purview of seven Regional Offices (pages 234 to 236). 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, three (3) branches and one (1) CSC 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 has written to Central Bank during the financial year 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 conversance as at the date of signing these Financial Statements. As a future move, 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 with the intention of catering to a much wider market segment through its products and services.

REVIEW OF PERFORMANCE AND RISK MANAGEMENT
The Chairman's Message (pages 10 to 11) and the Chief Executive Officer's Review (pages 12 to 14) encapsulate the Company's business performance during the reporting year, set against the wider economic background as indicated in the Management Discussion and Analysis (pages 84 to 147). A detailed report on Assessing and Managing Risk is given in page 69.

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 Shramadana Societies, micro credit to individuals and individual entrepreneurs and gold loans primarily pawning), 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 165 to 229), 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 157) 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 2019.

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 2019 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 159) 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 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), 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 163 to 164).

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 169 to 229 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, there were no revisions/amendments made to the Company's Articles of Association. The Company carried out a substantial revision to its Articles of Association during the financial year 2018 to accommodate following requirements of;

- the name change of the Company
- the Directions of Central Bank of Sri Lanka
- to carry out finance leasing business
- the listing of the Company in Colombo Stock Exchange

The other major changes that were carried out, other than described above, compared to the previous Articles are described below.

Old Article No.	Provision	New Article No.	Change to
87	Maximum Number of Directors 10	78	Maximum Number of Directors 13
112	Quorum for the Board Meeting is 2 Directors	105	1/3 of the Directors
118	Circular Resolution to be approved by Chairman and 1 Director	104(iv)	Chairman plus 50% of the Directors
99	1/3 of the Directors should retire at the AGM	85	1 Director should retire

ACCOUNTING PERIOD

The financial accounting period reflects the information from 01st April 2018 to 31st March 2019.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

The Company recorded a total interest income of Rs.1,433,4 Million (Rs.1,179.6 Million in financial year 2018) for the year ended 31st March 2019. This represents a growth of total interest income by Rs.253.8 Million or 21.5% compared to the previous year. A more descriptive analysis of the interest income is given in note no. 8.1 (page 183) to these Financial Statements.

Profit and Appropriations

The Company recorded a profit after tax of Rs. 41.2 Million (a profit after tax of Rs. 92.2 Million in financial year 2018) for the year ended 31st March 2019. This represents a decline of Rs. 51.0 Million or 55.3% compared to the previous year. The Company recorded a total comprehensive income of Rs. 43.3 Million (a total comprehensive income of Rs. 84.0 Million in financial year 2018) for the year ended 31st March 2019.

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.8.2 Million (Rs.18.4 Million in financial year 2018) 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.

Report of the Board of Directors on the Affairs of the Company

	2019 Rs. ('000)	2018 Rs. ('000)
Profit /(Loss) After Taxation	41,216.25	92,182.29
Profit Brought Forward from Previous Year	160,561.93	90,646.93
Impact of adopting SLFRS 9 as at 01st April 2018	(39,748.04)	-
Profit Available for Appropriation	162,030.14	182,829.22
Appropriations		
Final Dividend Paid	(35,775.00)	-
Other Comprehensive Income / (Expenses)	674.12	(3,830.83)
Transfer to Reserves	(8,243.25)	(18,436.46)
Revaluation of Land & Building	-	-
Total Appropriation	(43,344.14)	(22,267.29)
Un-appropriated Profit Carried Forward	118,686.00	160,561.93

Dividend on Ordinary Shares

The Board of Directors did not recommend payment of dividend for the year under review (recommended payment of final dividend of Cents 53 per share in financial year 2018). Details of information on dividends are given in note no 17 to the Financial Statements on page 189.

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 2019 amounted to Rs. 23.97 Million (Rs. 24.2 Million in financial year 2018). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no 27.1, to these Financial Statements.

During the financial year under review, Company revalued its land and building as at 31st March 2019 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 27.2 to these Financial Statements.

STATED CAPITAL

The stated capital of the Company as at 31st March 2019 amounted to Rs.890 Million (Rs. 890 Million as at 31st March 2018). The stated capital is the total of all amounts received by the Company in respect of the issued share capital.

RESERVES

Total Reserves of the Company, including Retained Earnings, stood at Rs. 208.55 million (240.81 million in the financial year 2018) at the end of the financial year.

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

	2019 Rs. ('000)	2018 Rs. ('000)
Statutory Reserve Fund	47,062.86	38,819.61
Revaluation Reserve	42,796.76	41,428.25
Retained Earnings	118,686.00	160,561.93
Total	208,545.62	240,809.79

CONTINGENT LIABILITIES

There were no material contingent liabilities as at the reporting date except as disclosed in note no 39 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 39.3 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 41 on page 215 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

The Company's Parent Company, 'Sarvodaya Economic Enterprises Development Services (Gte) Ltd' or 'SEEDS', is the major shareholder, with a total of 54,000,000 ordinary shares issued at Rs. 540 Million. Gentosha Total Asset Consulting Inc. is the second largest shareholder with a total of 13,500,004 shares issued at Rs. 350 Million. Two other shareholders, who were previously directors of the company and retired during the financial year after serving nine (9) years as non-executive directors in the Company, as required by the Central Bank Corporate Governance Direction No.03 of 2018 and the Article 84 (viii) of the Company's Articles of Association, were allotted one share each issued at Rs. 10/- each when the Company was incorporated on 1st January 2010 under the Companies Act No. 07 of 2007.

DIRECTORS' SHAREHOLDINGS

With the exception of the following two former Directors, who retired from their respective directorships during the financial year and who hold one share each, no other Board Director has held any shares in the Company, either at the beginning or at the end of the reporting period.

Name	31.03.2019	31.03.2018
Dr. Vinya Ariyaratne (retired w.e.f. 31st December 2018)	1	1
Mr. Shakila Wijewardena (retired w.e.f. 31st December 2018)	1	1

DIRECTORATE

On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Company appointed Mr. C. Amrit CanagaRetna as a Non-Executive, Independent Director w.e.f. 19th October 2018 and accepted the resignation of Mr. Alex Perera, Non-Executive, Independent Director w.e.f. 14th August 2018.

Mr. Vinya Ariyaratne and Mr. Shakila Wijewardena who were Non-Executive, Non-Independent directors of the Company retired from their respective directorships w.e.f. 31st December 2018 after serving nine (9) years in the Board as Non-Executive directors. Mr. Shevon Geeneratne who was a Non-Executive, Independent director of the Company retired w.e.f. 03rd February 2019 on similar reason.

Mr. K.L. Gunawardana who was a Non-Executive, Non-Independent director of the Company demised during the year under review and hence ceased to be a director w.e.f. 21st November 2018.

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

Name	Status
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director
Dr. Vinya Ariyaratne	Non-Executive, Non Independent Director (retired w.e.f. 31st December 2018)
Mr. Shakila Wijewardena	Non-Executive, Non Independent Director (retired w.e.f. 31st December 2018)
Mr. K L Gunawardana	Non-Executive, Non Independent Director (demised on 21st November 2018)
Mr. Shevon Gooneratne	Non-Executive, Independent Director (retired w.e.f. 03rd February 2019)
Dr. Richard Vokes	Non-Executive, Independent Director
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director
Dr. Janaki Kuruppu	Non-Executive, Independent Director
Mr. Alex Perera	Non-Executive, Independent Director (resigned w.e.f. 14th August 2018)
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director
Mr. Amrit KanagaRetna	Non-Executive, Independent Director (Appointed w.e.f. 19th October 2018)

The six-member Board of Directors of the Company who held directorships as at 31st March 2019 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 15 to 17.

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 32.

BOARD SUB-COMMITTEES

The Board has delegated some responsibilities to four (4) 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) and;
(iv) Board Credit Committee (BCC).

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 2019 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).

Report of the Board of Directors on the Affairs of the Company

Composition of these Committees as at 31st March 2019, appear on pages 36 to 37 .

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 2019 and 31st March 2018 are stated below and disclosed under note no 42.1.1 to these Financial Statements on page 215.

	2019 Rs. ('000)	2018 Rs. ('000)
Directors' Fees and Emoluments	8,235.42	5,609.52

CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 28 to 68 , 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 162 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 43 in the Company's report on Corporate Governance.

The former AGM –Risk Management and Acting Compliance Officer who resigned from her post in January 2019 coordinated with the Directors and collected the responses, and submitted to the Board and discussed the directors' self-assessment at the Board Meeting. The Directors' self-assessments was discussed at the Board meeting held in the month of December 2018. With the resignation of former AGM –Risk Management and Acting Compliance Officer, DGM –Finance & Planning was appointed as the Acting Compliance Officer w.e.f. 24th January 2019 in addition to his duties as DGM –Finance & Planning and given the responsibility of coordinating and collecting responses from directors in this regard for future reporting periods for discussion at the Board Meeting.

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.

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 at the next Annual General Meeting scheduled on 26th July 2019.

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

i. Audit service fees for the year under review and;
ii. 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 completion of implementation of SLFRS 09 that E & Y have carried out as a separate assignment.

	2019 Rs. ('000)	2018 Rs. ('000)
Audit and Related Services	891.71	1,992.93
Non Audit Services	1,038.76	1,629.14

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 159) 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 (page162).

PREPARATIONS FOR ADOPTING NEW REGULATIONS

i. New Inland Revenue ACT

The Company has adopted the new Inland Revenue Act which became effective from April 1, 2018. The new Inland Revenue Act brought in both favourable and unfavourable conditions & new reforms which collectively did not bring any material impact to the reporting figures in the Financial Statements of the Company.

ii. New Accounting Standards Issued and Became Effective

The Company has adopted SLFRS 9 - (Financial Instruments: Classification and Measurement), SLFRS 7 (Revised) – (Financial Instruments: Disclosures) and SLFRS 15 – (Revenue from Contracts with Customers), issued by the Institute of Chartered Accountants of Sri Lanka, effective for annual periods beginning on or after 01st April 2018, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments: Classification and Measurement)
  SLFRS 9 Financial Instruments replaced LKAS 39 for annual periods starting on or after 1st January 2018 with early adoption permitted.
  For companies whose accounting periods start from 01st April, the adoption was effective from 01st April 2018 and accordingly, the Company adopted SLFRS 9 during the financial year as the date of transition as 01st April 2018. The Company did not early adopted this standard in previous years.

The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets of the Company. As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate the comparative figures. The adjustments arose to the carrying amounts of financial assets and liabilities, at the date of transition, were recognized in the retained earnings as at 01st April 2018. Accordingly, the information presented for the financial year 2018, does not reflect the requirement of SLFRS 9 and therefore, not comparable to the information presented for the financial year 2019 under SLFRS 9.

The Company's classification of its financial assets and liabilities is explained under note no 3.2.4 (page 17) of these Financial Statements and the quantitative impact of applying SLFRS 9 as at 01st April 2018 is disclosed under note no 6 (page 181) to these Financial Statements.

- Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contracts with Customers)
  The Company adopted SLFRS 15 on 01st April 2018 prospectively. SLFRS 15 replaced the previous revenue recognition guidelines including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs for annual period starting on or after 1st January 2018.

  The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

iii. New Accounting Standards Issued but Not Yet Effective

The following SLFRSs/ LKSs have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st March 2019. The Company intends to adopt these standards, if applicable, when they become effective.

Sri Lanka Accounting Standard - SLFRS 16 (Leases)
SLFRS 16 will replace LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a Lease for annual periods starting on or after 1st January 2018. The Company is required to adopt the new standard w.e.f. 01st April 2019.

The Company has done a preliminary assessment of the impact that the initial application of SLFRS 16 will have on its financial statements. The Company opines that the new standard will not have a significant impact on the financial statements of the Company. The impact on the implementation has not been quantified yet.

Report of the Board of Directors on the Affairs of the Company

NOTICE OF MEETING

Notice convening the Eighth Annual General Meeting of the Company is given on page 241.

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

25th June 2019

Director's 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 163 to 164 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 2019, exhibited from pages 165 to 229 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 163 to 164 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 and its subsidiaries as at 31st March 2019 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

25th June 2019

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 2019 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 71 to 73 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 in given from pages 163 to 164 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;
- There are no material litigations that are pending against the Company other than those disclosed in the note 39.3 on page 214 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.

Deshantha de Alwis
DGM –Finance and Planning

Nilantha Jayanetti
Chief Executive Officer

25th June 2019

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, headed by the Head of Internal Audit and Acting Risk Officer 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 headed by the Head of Internal Audit and Acting Risk Officer 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.

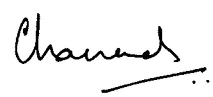
CONFIRMATION

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 162.

By order of the Board,



Channa de Silva
Chairman / Chairman, Board Audit Committee

25th June 2019

SDF lent us a hand to grow and make our dreams come true

When the owner of our business was in Korea, for the first time he saw a glove making machine. He bought two machines home and started glove manufacturing at his small house. He drove all the way from his home in Mattegoda to Tangalle, to sell his gloves to the fishing community. His dream was to build a small factory. SDF gave him a helping hand and gave him Rs.1.5 million loan to put up his factory.

Today, SG Gloves have made a name for itself. Our products are sold across the country. SDF came forward again and gave us another loan to buy a land for expansion. Now, our dreams are coming true.

SDF showed us the path towards fulfilling our dreams.

Independent Assurance Report to the Board of Directors of Sarvodaya Development Finance Limited

EY
Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

PNS/WDPL

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 (the "Statement") included in the annual report for the year ended 31 March 2019.

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.

Ernst & Young

25 June 2019
Colombo

Independent Auditor's Report

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

PNS/WDPL/TW

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 2019, 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 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report

- 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.

Ernst & Young

25 June 2019

Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Notes	2019 Rs.	Restated 2018 Rs.
Income	7	1,575,246,892	1,320,761,083
Interest Income		1,433,374,472	1,179,563,193
Interest Expenses		(606,621,257)	(416,598,838)
Net Interest Income	8	826,753,216	762,964,355
Net Fee and Commission Income	9	24,992,979	30,837,094
Other Operating Income	10	116,879,440	110,360,797
Total Operating Income		968,625,635	904,162,245
Impairment Charges for Loans and Other Losses	11	(94,014,169)	(89,116,323)
Net Operating Income		874,611,466	815,045,922
Operating Expenses			
Personnel Expenses	12	(357,108,571)	(322,738,479)
Depreciation of Property, Plant and Equipment		(45,088,470)	(46,923,650)
Amortisation of Intangible Assets		(13,051,870)	(11,263,143)
Other Operating Expenses	13	(302,645,855)	(249,265,028)
Operating Profit before Tax on Financial Services		156,716,700	184,855,622
Tax on Financial Services	14	(87,760,056)	(70,751,368)
Profit before Taxation		68,956,644	114,104,254
Income Tax Expenses	15	(27,740,393)	(21,921,964)
Profit for the Year		41,216,251	92,182,290
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	31	5,548	(3,346,548)
Gain/(Loss) due to changes in Assumptions	31	930,725	(1,974,056)
Deferred Tax (Charge)/Reversal on above items		(262,156)	1,489,769
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		674,117	(3,830,835)
Surplus from Revaluation of Property, Plant & Equipment		1,900,707	11,794,414
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		(532,198)	(16,110,987)
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		1,368,509	(4,316,573)
Other Comprehensive Income for the Year, Net of Tax		2,042,626	(8,147,408)
Total Comprehensive Income/(Expenses) for the Year		43,258,877	84,034,882
Basic Earnings Per Share (Rs.)			
Earning per Share - Basic *	16	0.61	1.37
Dividend per Share (Rs.)			
Dividend per Share : Gross	17	-	0.53
Dividend per Share : Net		-	0.46

* Calculated based on profit for the year

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

Statement of Financial Position

Year ended 31 March	Notes	2019 Rs.	Restated 2018 Rs.
Assets			
Cash and Cash Equivalents	19	140,902,916	116,978,318
Loans and Receivables	20	5,113,657,129	4,697,449,566
Lease Rentals Receivables	21	1,102,513,124	611,054,718
Financial Investments	22	442,595,260	282,268,953
Other Financial Assets	23	189,276,648	207,371,048
Other Non Financial Assets	24	144,424,300	101,195,106
Intangible Assets	25	27,008,129	35,134,360
Investment Property	26	118,594,500	-
Property, Plant and Equipment	27	170,852,218	308,724,162
Total Assets		7,449,824,224	6,360,176,231
Liabilities			
Due to Banks and Other Institutions	28	835,133,455	463,277,223
Due to Customers	29	5,385,341,597	4,624,835,030
Other Non Financial Liabilities	30	80,408,493	84,070,152
Post Employment Benefit Liability	31	27,212,065	26,415,691
Current Tax Liabilities	32	14,768,247	11,051,015
Deferred Tax Liabilities	33	8,414,722	19,717,312
Total Liabilities		6,351,278,580	5,229,366,422
Shareholders' Funds			
Stated Capital	34	890,000,020	890,000,020
Retained Earnings	35	118,686,006	160,561,930
Reserves	36	89,859,618	80,247,859
Total Shareholders' Funds		1,098,545,644	1,130,809,809
Total Liabilities and Shareholders' Funds		7,449,824,224	6,360,176,231
Net assets value per share		16.27	16.75
Commitments and Contingencies	39	6,940,000	15,500,000

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

Deshantha de Alwis
DGM - Finance & Planning

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 169 to 229 form an integral part of these Financial Statements.

25 June 2019
Colombo

Statement of Changes in Equity

	Note	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserves Rs.	Revaluation Reserves Rs.	Total Equity Rs.
Balances as at 01 April 2017		890,000,020	90,646,933	20,383,148	45,744,825	1,046,774,926
Profit for the year		-	92,182,290	-	-	92,182,290
Other Comprehensive Income/(Expenses)		-	(3,830,835)	-	-	(3,830,835)
Transfer to Statutory Reserves Fund		-	(18,436,459)	18,436,459	-	-
Revaluation of Land & Building	36	-	-	-	(4,316,573)	(4,316,573)
Balances as at 31 March 2018 (Restated)		890,000,020	160,561,930	38,819,607	41,428,252	1,130,809,809
Impact of adopting SLFRS 9 as at 1 April 2018		-	(39,748,039)	-	-	(39,748,039)
Restated balance under SLFRS 9 as at 1 April 2018		890,000,020	120,813,891	38,819,607	41,428,252	1,091,061,770
Profit for the year		-	41,216,251	-	-	41,216,251
Other Comprehensive Income		-	674,117	-	-	674,117
Transfer to Statutory Reserves Fund	36	-	(8,243,250)	8,243,250	-	-
Revaluation of Land & Building		-	-	-	1,368,509	1,368,509
Final Dividend Paid		-	(35,775,003)	-	-	(35,775,003)
Balances as at 31 March 2019		890,000,020	118,686,006	47,062,857	42,796,761	1,098,545,644

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

Statement of Cash Flow

Year ended 31 March	Notes	2019 Rs.	2018 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		68,956,644	114,104,254
Adjustments for			
Impairment Provision	11	94,014,169	89,116,323
Reversal of Provision of Loan Risk Assurance Benefit Fund	10	(5,585,990)	(6,835,413)
Loss/(Profit) on Disposal of Property, Plant and Equipment	10	(46,464)	1,087,861
Provision for Defined Benefit Plans	31.1	8,491,897	6,739,853
Depreciation of Property, Plant and Equipment	27.1.2	45,088,470	46,923,650
Amortisation of Intangible Assets	25.1	13,051,870	11,263,143
Notional Tax Credit on Interest on Treasury Bills		-	2,940,945
Operating Profit before Working Capital Changes		223,970,596	265,340,615
(Increase)/Decrease in Loans and Advances	20	(523,322,568)	(1,305,957,454)
(Increase)/Decrease in Lease Rentals Receivable	21	(539,381,909)	(331,064,301)
(Increase)/Decrease in Other Financial Assets	23	18,094,400	72,265,510
(Increase)/Decrease in Other Non Financial Assets	24	(43,229,194)	(26,277,076)
Increase/(Decrease) in Amounts Due to Customers	29	760,506,567	1,061,135,230
Increase/(Decrease) in Other Non Financial Liabilities		1,203,000	(87,336,547)
Cash Generated from Operations		(102,159,107)	(351,894,023)
Retirement Benefit Liabilities Paid	31	(6,759,250)	(6,441,700)
Net Collection of LRAB Fund		215,990	1,895,413
Income Tax Paid	32	(14,475,303)	(4,756,204)
Net Cash From/(Used in) Operating Activities		(123,177,670)	(361,196,513)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		238,338	671,563
Acquisition of Property, Plant and Equipment	27	(23,965,355)	(24,203,439)
Acquisition of Intangible Assets	25	(4,925,640)	(9,702,939)
Financial Investments	22	(160,326,307)	(14,057,681
Dividend Paid			(35,775,003)
Net Cash Flows from/(Used in) Investing Activities		(224,753,967)	(47,292,496)
Cash Flows from / (Used in) Financing Activities			
Payment under Finance Lease Liabilities		-	-
Net Cash Flow from bank and other institutional borrowings	28.2	500,120,116	267,602,520
Net Cash Flow from Debt Issued and Other borrowings		-	-
Net Cash Flows from/(Used in) Financing Activities		500,120,116	267,602,520
Net Increase in Cash and Cash Equivalents		152,188,479	(140,886,490)
Cash and Cash Equivalents at the beginning of the year		(52,860,148)	88,026,341
Cash and Cash Equivalents at the end of the year	A	99,328,332	(52,860,148)
A Cash and Cash Equivalents at the end of the year			
Favorable Cash & Cash Equivalents		140,902,916	116,978,318
Unfavorable Cash & Cash Equivalents		(41,574,583)	(169,838,466)
Total Cash and Cash Equivalents at the end of the year	19	99,328,332	(52,860,148)

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

Notes to the Financial Statement

1. 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, Pawning 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 2019 (including comparatives) have been approved and authorized for issue by the Board of Directors on 25th June 2019.

1.4 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.

1.5 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 165). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 166). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 167). 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 168) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 169 to 229).

2. Basis of Preparation of Financial Statements

2.1 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
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment.	Note 26	Page 198
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 27	Page 198
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 33	Page 207

Notes to the Financial Statement

2.2 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.

2.3 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.

Financial assets and financial liabilities are off set and the net amount is reported in the Statement of Financial Position of the Company only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss of the Company unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Notes to these Financial Statements of the Company.

2.4 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.

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

2.6 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 Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Company to continue as a going concern. Therefore, the Financial Statements of the Company continue to be prepared on the going concern basis.

3. General Accounting Policies

3.1 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 3.2.9)
- Deferred Taxation (Details under note 33)
- Post-Employment Benefit Liability (Details under note 31)
- Related Party Transactions (Details under note 42)

3.2 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

3.2.1 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.

3.2.2 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.

3.2.3 '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.

3.2.4 Measurement categories of Financial Assets and Financial Liabilities

3.2.4 (a) Policy applicable from 1 April 2019

On initial recognition, a financial asset is classified as measured at,

- Amortised cost,
- fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss. (FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

3.2.4 (a) (i) Financial Assets at Amortised cost :

The Company only measures loans, receivables, and other financial investments, at amortised cost if both of the following conditions are met:

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

Loans and Receivables consist of cash and cash equivalents, lease receivables, loan and receivables, Financial investments and other assets.

The details of the above conditions are outlined below.

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.

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.

3.2.4 (a) (ii) Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Notes to the Financial Statement

The Company has not classified any Equity instruments at FVOCI.

3.2.4 (a) (iii) 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.

3.2.4 (b) Policy applicable before 1 April 2019

The Company classified its financial assets into one of the following categories, as per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

a) Financial assets at Fair value through profit or loss (FVTPL);
b) Loans & Receivables (L&R)
c) Held to Maturity (HTM) Financial assets
d) Financial assets available for sale

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated and based on the Company's ability to hold.

Subsequent measurement of financial assets depends on their classification.

a) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

Financial Assets available for sale include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

c) Held to Maturity Financial Assets

Held to Maturity Financial assets are non- derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. This includes investment in government securities.

After the initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses'.

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

The Company has not classified any Financial Assets as Held for Maturity.

d) Loans and Receivables

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

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

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking in to account any discount or premium on acquisition, fees, and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in impairment charges for loans and receivables' in the Income Statement.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold loan receivables and other assets.

3.2.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
a) Financial liabilities held for trading
b) Financial liabilities designated at fair value through profit or loss

(ii) Financial liabilities at amortised cost,when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss (FVTPL)
Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

ii. Financial Liabilities at Amortised Cost
Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans and debentures.

3.2.6 Reclassifications of Financial assets and Financial Liabilities
From 1 April 2019, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018.

3.2.7 Derecognition of Financial Assets and Financial Liabilities
3.2.7(a) Derecognition of Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset, if and only if, either:
- The Company has transferred its contractual rights to receive cash flows from the financial asset

Or
- It retains the rights to cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had

Notes to the Financial Statement

been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3.2.7 (b) Derecognition - Financial Liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.2.9 Impairment of Financial Assets
3.2.9 (i) Policy applicable from 1 April 2019
a. 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 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 as 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 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs.Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

b. 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 with in 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.

Stage2: 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%.

Loan

Commitments: When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

Financial Guarantee contracts:

The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability –weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

c. 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.

d. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilisation.

e. 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
- Unemployment rate
- Central Bank base rates
- Inflation

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

3.2.9 (ii) Policy applicable before 1 April 2019

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

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets carried at Amortised Cost

(i) Individually assessed Loans and Receivables-Factoring and Loans

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- Significant downgrading in credit rating by an external credit rating agency

For those loans where objective evidence of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in Income Statement.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

(ii) Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

(iii) Collectively assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

(iv) Homogeneous groups of Loans and Advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

- When the group of loan by nature short term, the company use net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under the methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:

- recent loan portfolio growth and product mix,
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in government laws and regulations

b. Available for Sale Financial Investments

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

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

c. Held to Maturity Financial Assets

An impairment loss in respect of held to maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3.2.9 (iii) 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.

3.2.9 (iv) 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 renotiated 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 (v) Write-off of Financial Assets at Amortised Cost

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, 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.

Notes to the Financial Statement

3.2.9 (vi) Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

3.2.9 (vii) 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.

3.2.9 (viii) Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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

3.3 Finance and Operating Lease

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

3.3.1 Finance Lease

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 a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable". The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

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

3.3.2 Operating Lease

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

4. New Accounting Standards Issued but not yet Effective

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which is not yet effective as at 31st March 2019. The Company intends to adopt these standards, if applicable, when they become effective.

A. SLFRS 16- LEASES

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations.

The Company is required to adopt SLFRS 16 Leases from 1 April 2019. The Company has done a preliminary assessment of the impact that the initial application of SLFRS 16 will have on its financial statements. The actual impact of adopting the standard on 1 April 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases.

Leases in which the Company is a lessee

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying SLFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The new standard requires a lessee to:

- Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Company's finance leases.

Transition

The Company plans to apply SLFRS 16 initially on 1 April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with LKAS 17. The impact on the implementation of the above Standard has not been quantified yet.

5. Changes in Accounting Policies

The Company has adopted SLFRS 9 –Financial Instruments, SLFRS 7 (Revised) - Financial Instruments Disclosures, SLFRS 15-Revenue from Contracts with Customers, effective for annual periods beginning on or after 01 April 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

SLFRS 9 - Financial Instruments

The Company has initially adopted SLFRS 9 with the date of transition as 1st April 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 'Financial Instruments: Disclosure'.

As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognized in the retained earnings as at 1 April 2018. Accordingly, the information presented for year 2018 does not reflect the requirements of SLFRS 9 and therefore not comparable to the information presented for the year 2019 under SLFRS 9.

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represents a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to SLFRS 7 Financial Instruments: Disclosures that are applied to disclosures of 2019, but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting SLFRS 9 is set out in Note 06 to the Financial Statements.

Notes to the Financial Statement

Classification of Financial Assets & Financial Liabilities
SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through Profit & Loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

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

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

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

The Company's classification of its financial assets and liabilities is explained in 3.2.4 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in note 06 to the Financial Statements.

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

Details of the Company's impairment method are disclosed in Note 3.2.9 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in Note 06 to the Financial Statements.

To reflect the differences between SLFRS 9 and LKAS 39, Financial Instruments: Disclosures was updated and the Company has adopted it, together with SLFRS 7, for the year beginning 1 April 2018. Changes include transition disclosures as shown in Note 06, detailed information about the ECL calculations such as assumptions and inputs are set out in Note 3.2.9 to the Financial Statements.

SLFRS 15 –Revenue from Contracts with Customers
The Company has also adopted SLFRS 15 on 01 April 2018 prospectively. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

6. Transition Disclosures

The following set out the impact of adopting SLFRS 9 on the Statement of Financial Position, and retained earnings including the effect of replacing LKAS 39's incurred loss calculations with SLFRS 9's expected credit losses.

6.1 A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1st April 2018 is, as follows.

	LKAS 39 Measurement		Remeasurement		SLFRS 9	
	Category	Amount	ECL	Other	Amount	Category
Cash and Cash Equivalents	L&R	116,978,318	-	-	116,978,318	Amortised cost
Loans and Receivables	L&R	4,697,449,566	(45,788,865)	-	4,651,660,701	Amortised cost
Lease Rentals Receivables	L&R	611,054,718	(15,603,224)	-	595,451,493	Amortised cost
Financial Investments	L&R	282,268,953	-	-	282,268,953	Amortised cost
Other Financial Assets	L&R	207,371,048	-	-	207,371,048	Amortised cost
Other Non Financial Assets	L&R	101,195,106	-	-	101,195,106	Amortised cost
Intangible Assets	L&R	35,134,360	-	-	35,134,360	Amortised cost
Investment Property	L&R	-	-	-	-	Amortised cost
Property, Plant and Equipment		308,724,162			308,724,162	
Total Assets		6,360,176,231	(61,392,089)	-	6,298,784,142	
Liabilities						
Due to Banks and Other Institutions	Amortised cost	463,277,223	-	-	463,277,223	Amortised cost
Due to Customers	Amortised cost	4,624,835,030	-	-	4,624,835,030	Amortised cost
Other Non Financial Liabilities	Amortised cost	84,070,152	-	-	84,070,152	Amortised cost
Post Employment Benefit Liability	Amortised cost	26,415,691	-	-	26,415,691	Amortised cost
Current Tax Liabilities		11,051,015	-	-	11,051,015	
Deferred Tax Liabilities		19,717,312	(21,644,050)	-	(1,926,738)	
Total Liabilities		5,229,366,422	(21,644,050)	-	5,207,722,373	
Equity						
Stated Capital		890,000,020	-	-	890,000,020	
Retained Earnings		160,561,930	(39,748,039)	-	120,813,891	
Reserves		80,247,859	-	-	80,247,859	
Total Equity		1,130,809,809	(39,748,039)	-	1,091,061,770	
Total Liabilities and Equity		6,360,176,232	(61,392,089)	-	6,298,784,143	

L&R: Loans & receivables

A. The impact of adopting SLFRS 9 on deferred tax is set out under Note 6.2 to the Financial Statements.

Notes to the Financial Statement

6. Transition Disclosures (Contd.)

6.2 The impact of transition to SLFRS 9 on retained earnings, is as follows.

	Retained Earnings Rs.
Closing balance under LKAS 39 as at 31st March 2018 (Restated)	160,561,930
Remeasurement adjustments on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9	(61,392,089)
Deferred tax impact on above	21,644,050
Total change in equity due to adoption of SLFRS 9	(39,748,039)
Opening balance under SLFRS 9 as at 1st April 2018	120,813,891

6.3 The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Loan loss provision under LKAS 39 as at 31 March 2018 Rs.	Re-measurement Rs.	ECLs under SLFRS 9 as at 1 April 2018 Rs.
Loans and Receivables	142,951,114	45,788,865	188,739,979
Lease Rentals Receivables	6,350,973	15,603,224	21,954,197
	149,302,086	61,392,089	210,694,176

7. Income

Accounting Policy
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.

	2019 Rs.	2018 Rs.
Interest Income	1,433,374,472	1,179,563,193
Net Fee and Commission Income	24,992,979	30,837,094
Other Operating Income (net)	116,879,440	110,360,797
Total Income	1,575,246,892	1,320,761,083

8. Net Interest Income

Accounting Policy
For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate.

The carrying amount of the financial assets or financial liabilities is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortised cost is calculated by taking into account any discount or premium on an acquisition and fees and costs that are an integral part of the EIR. The change in carrying amount is recorded as 'Interest income' for financial assets and interest expenses for financial liabilities.

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.

	2019 Rs.	2018 Rs.
8.1 Interest Income		
Loans and Receivables	1,179,240,913	1,031,487,663
Lease Rentals Receivables	191,001,130	93,523,012
Financial Investments (Note 8.3)	30,326,307	29,409,449
Savings Deposits	4,350,666	5,847,396
Other Financial Assets	28,455,456	19,295,673
Total Interest Income	1,433,374,472	1,179,563,193
8.2 Interest Expenses		
Due to Bank and Other Institution	60,402,155	23,679,095
Due to Customers	546,219,102	392,919,743
Total Interest Expenses	606,621,257	416,598,838
Net Interest Income	826,753,216	762,964,355

8.3 Notional Tax

The Inland Revenue Act No 10 of 2006, effective up to 31 March 2018, provided that a company which derives interest income from the secondary market transactions in Government Security would be entitled to a notional tax credit provided such interest income forms part of the statutory income of the Company for that year of Assessment.

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

Notes to the Financial Statement

9. Net Fee and Commission Income 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.

	2019 Rs.	2018 Rs.
9.1 Fee and Commission Income		
Credit Related Fees and Commissions	12,745,744	9,965,335
Documentation Charges	28,720,423	28,060,578
Service Charge	924,116	719,470
Total Fee and Commission Income	42,390,283	38,745,383
9.2 Fee and Commission Expenses		
Credit Related Fees and Commissions	11,714,192	6,687,575
Documentation Charges	362,709	137,324
Service Charge	5,320,403	1,083,389
Total Fee and Commission Expenses	17,397,304	7,908,289
Total Net Fee and Commission Income	24,992,979	30,837,094

10. 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, capital gains/(losses), gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

Capital Gains
Capital gains from sale of securities and group investments present the difference between the sales proceeds from sale of such investments and the carrying value of such investments.

	2019 Rs.	2018 Rs.
Recoveries of Written-Off Loans & Receivables	97,545,842	90,304,250
Profit/(Loss) on Disposal of Property Plant & Equipment	46,464	(1,087,861)
Reversal of Provision of Loan Risk Assurance Benefit Fund	5,585,990	6,835,413
Other Sundry Income (Note 10.1)	13,701,144	14,308,995
Total Other Operating Income	116,879,440	110,360,797

10.1 Other Sundry Income included Savings Accounts Threshold Charges, Office Rent Re-imbursements, Training Income, Stationery Income and other.

11. Impairment Charges 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 3.2.9 to these Financial Statements.

	2019 Rs.	2018 Rs.
Loans and Receivables Excluding Pawing Advance	61,326,139	85,412,155
Finance Lease Rental Receivables	32,320,280	3,568,367
Pawning Advances and Other Loans	367,750	135,800
Total Impairment Charges for Loans and Other Losses	94,014,169	89,116,323

12. Personnel Expenses

Accounting Policy
Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges, share-based payments 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.

Notes to the Financial Statement

12. Personnel Expenses (Contd.)

Year ended 31 March	2019 Rs.	2018 Rs.
Salaries and Other Related Expenses	314,570,215	285,828,651
Employer's Contribution to Employees' Provident Fund	23,961,690	21,486,145
Employer's Contribution to Employees' Trust Fund	5,988,236	5,356,320
Gratuity Charge for the Year	8,491,897	6,739,853
Other Staff Related Expenses	4,096,534	3,327,511
Total Personnel Expenses	357,108,571	322,738,479

13. 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.

	2019 Rs.	2018 Rs.
Directors' Emoluments	8,235,417	5,609,524
Auditors Remuneration	2,440,262	1,873,265
Professional and Legal Expenses	950,352	2,094,476
Deposit Insurance Premium	6,717,039	5,258,314
General Insurance Expenses	3,758,520	2,805,596
Office Administration and Establishment Expenses	196,875,369	177,920,285
Travelling & Transport Expenses	28,818,535	23,497,745
Other Expenses	10,961,711	126,000
Marketing and Promotional Expenses	43,888,651	30,079,824
Total Other Operating Expenses	302,645,855	249,265,028

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.

14. 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 value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation computed on prescribed rates and emoluments payable to employees and provision relating to terminal benefits.

VAT rate applied for the financial year ended 31 March 2018 was 15%.

VAT rates applied during the financial year ended 31 March 2017 at 11% for 143 days and 15% for balance 222.

Nations Building Tax (NBT) on Financial Services

As per provisions of the Nations Building Tax Act (NBT) Act No. 9 of 2009 and amendments thereto, NBT was payable at 2 percent on Company's value additions attributable to financial services with effect from 1st January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on financial services.

Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

	2019 Rs.	2018 Rs.
Value Added Tax on Financial Services	61,970,225	62,407,111
National Building Tax on Financial Services	8,262,696	8,344,258
Debit Repayment Lavy	17,527,134	-
Total Tax on Financial Services	87,760,056	70,751,368

15. 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 expect 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 Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 1 April 2018 and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Notes to the Financial Statement

15. Income Tax Expenses (Contd.)

Accounting Policy

Deferred Taxation
Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 33 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 for the year was 28% (2018 - 28%).

The components of the income tax expense for the years ended 31 March 2019 and 2018 are:

	2019 Rs.	Restated 2018 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 15.1)	-	9,345,181
(Over) / Under Provision in Respect of 2012/2013 (Note 15.2)	-	11,042,645
(Over) / Under Provision in Respect of 2013/2014 (Note 15.2)	-	(4,550,840)
(Over) / Under Provision in Respect of 2017/2018	1,550,102	-
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 33.2)	26,190,291	6,084,979
Total Tax Expenses	27,740,393	21,921,964

15.1 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.

	2019 Rs.	2018 Rs.
Profit Before Tax	68,956,644	114,104,254
Add : Disallowable Expenses	233,883,316	224,016,830
Taxable Loss on Leasing Business	(6,294,331)	41,630,728
Less: Tax Deductible Expenses	(141,138,023)	(286,202,417)
Disallowable Income	(19,648,652)	(42,202,248)
Adjusted Profit / (Loss) for Tax Purposes	135,758,955	51,347,146
Assessable Income	135,758,955	51,347,146
Less - Allowable Losses	(135,758,955)	(17,971,501)
Taxable Income	-	33,375,645
Income Tax @ 28%	-	9,345,181
Income Tax on Current Year's Profit	-	9,345,181

15.2 (Over) / Under Provision in Respect of Y/As 2018/19

The Company recorded an income tax under provision amounting Rs. 1,550,102/- in respect of the year 2017/18 from the income tax liability of the current year. This under provision arose a result of final adjustment made with adjusted tax computation prepared for income tax return filling purpose.

16. 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':

	2019 Rs.	2018 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders	41,216,251	92,182,290
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	67,500,006	67,500,006
Weighted average basic Earnings per Share (Rs.)	0.61	1.37

17. Dividend Paid And Proposed

The Board of Directors did not recommend distribution of dividend for the year ended 31 March 2019.

The Board of Directors of the Company has recommended and paid of final dividend of Cents 53 per share for the year ended 31 March 2018.

17.1 Final Dividend Paid for the Year - 2017/18

	Gross Dividend Rs.	Dividend Tax Rs.	Net Dividend Rs.
Final dividend for FY 2017/18	35,775,003	5,008,500	30,766,503
Dividend per Ordinary Share	0.53		0.46

Notes to the Financial Statement

18. Analysis of Financial Instruments by Measurement Basis

Accounting Policy
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.

18.1 Analysis of Financial Instruments by Measurement Basis

	2019		2018	
	Amortised Cost Rs.	Total Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and Cash Equivalents	140,902,916	140,902,916	116,978,318	116,978,318
Loans and Receivables	5,113,657,129	5,113,657,129	4,697,449,566	4,697,449,566
Lease Rentals Receivables	1,102,513,124	1,102,513,124	611,054,718	611,054,718
Financial Investments	442,595,260	442,595,260	282,268,953	282,268,953
Other Financial Assets	189,276,648	189,276,648	207,371,048	207,371,048
Total Financial Assets	6,988,945,077	6,988,945,077	5,915,122,603	5,915,122,603
Financial Liabilities				
Due to Banks and Other Institutions	835,133,455	835,133,455	463,277,223	463,277,223
Due to Customers	5,385,341,597	5,385,341,597	4,624,835,030	4,624,835,030
Total Financial Liabilities	6,220,475,052	6,220,475,052	5,088,112,253	5,088,112,253

19. 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.

Year ended 31 March	2019 Rs.	2018 Rs.
Cash in Hand	44,382,608	49,855,664
Balances with Banks	96,520,308	67,122,654
Total Cash and Cash Equivalents	140,902,916	116,978,318

19.1 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.

	2019 Rs.	2018 Rs.
Favorable Cash & Cash Equivalents (Note 19)	140,902,916	116,978,318
Unfavorable Cash & Cash Equivalents (Note 28)	(41,574,583)	(169,838,466)
Cash & Cash Equivalents for Cash Flow Purposes	99,328,333	(52,860,148)

20. Loans and Receivables

Accounting Policy

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

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

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 amortisation is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of comprehensive income.

	2019 Rs.	2018 Rs.
Gross Loan and Receivables	5,363,723,248	4,840,400,680
Less : Allowance for Impairment Charges for Loans and Receivables (Note 20.2)	(250,066,119)	(142,951,114)
Net Loans and Receivables	5,113,657,129	4,697,449,566

20.1 Analysis of loans and receivables on maximum exposure to credit risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impared loans and receivables	3,858,410,284	500,916,016	1,004,396,948	5,363,723,248
Gross Loan and Receivable	3,858,410,284	500,916,016	1,004,396,948	5,363,723,248
Allowance for expected credit losses(ECL)	(82,088,713)	(30,911,399)	(137,066,006)	(250,066,119)
	3,776,321,571	470,004,617	867,330,941	5,113,657,129

Notes to the Financial Statement

20. Loans and Receivables (Contd.)

20.2 Allowance for Impairment Charges for Loans and Receivables

Accounting Policy (Applicable from 1 April 2018)
The Company recognize impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standards – SLFRS 09 (Financial Instruments). The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements.

Accounting Policy (Applicable up to 31 March 2018)
The Company recognize impairment provision which are assessed based on incurred loss method in accordance with Sri Lanka Accounting Standards – LKAS 39 (Financial Instruments: Recognition and Measurement) up to 31 March 2018. The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements

Year ended 31 March	2019 Rs.	2018 Rs.
Balance as at Being of the Year	142,951,114	220,276,917
Impact of adopting SLFRS 9 as at 1 April 2019	45,788,865	-
	188,739,979	220,276,917
Charge for the Year	61,326,139	85,412,155
Amounts Written Off	-	(162,737,958)
Balance as at End of the Year	250,066,119	142,951,114
Individual Impairment	-	-
Collective Impairment	250,066,119	142,951,114
Total	250,066,119	142,951,114

20.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2018	71,341,215	17,093,286	100,305,479	188,739,979
Charge/ (Reversal) to income statement	10,747,498	13,818,113	36,760,528	61,326,139
Write-off during the year	-	-	-	-
Balance as at 31st March 2019	82,088,713	30,911,399	137,066,006	250,066,119

21. Lease Rentals Receivables

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 with fixed or determinable payments that are not quoted in an active market, other than:

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

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 amortisation is included in 'interest income' in the statement of Profit or Loss. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

	2019 Rs.	2018 Rs.
Gross Lease Rentals Receivables	1,645,200,014	877,201,547
Less: Unearned Income	(488,412,414)	(259,795,856)
Total Lease Rentals Receivables	1,156,787,600	617,405,690
(Less): Allowance for Impairment Charges (Note 21.4)	(54,274,476)	(6,350,973)
Net Lease Rentals Receivables	1,102,513,124	611,054,718

21.1 Analysis of loans and receivables on maximum exposure to credit risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impared loans and receivables	778,062,769	234,001,712	144,723,120	1,156,787,600
Less - Allowance for expected credit losses (ECL)	(12,684,971)	(14,092,112)	(27,497,393)	(54,274,476)
	765,377,797	219,909,600	117,225,727	1,102,513,124

Notes to the Financial Statement

21. Lease Rentals Receivable (Contd.)

21.2 Maturity of Lease Rentals Receivables

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	393,833,875	1,251,366,140	-	1,645,200,014
Less: Unearned Income	(210,058,973)	(278,353,441)	-	(488,412,414)
Total Lease Rental Receivables	183,774,902	973,012,698	-	1,156,787,600
(Less): Allowance for Impairment Charges (Note 21.2)		(54,274,476)	-	(54,274,476)
Net Lease Rentals Receivables	129,500,426	973,012,698	-	1,102,513,123

21.3 Maturity of Lease Rentals Receivables

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	165,124,364	712,077,182	-	877,201,546
Less: Unearned Income	(111,768,986)	(148,026,870)	-	(259,795,856)
Total Lease Rental Receivables	53,355,378	564,050,312	-	617,405,690
(Less): Allowance for Impairment Charges (Note 21.2)	(3,071,531)	(3,279,442)	-	(6,350,973)
Net Lease Rentals Receivables	50,283,847	560,770,870	-	611,054,717

21.4 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

Accounting Policy (Applicable from 1 April 2018)

The Company recognize impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standards – SLFRS 09 (Financial Instruments). The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements.

Accounting Policy (Applicable up to 31 March 2018)

The Company recognize impairment provision which are assessed based on incurred loss method in accordance with Sri Lanka Accounting Standards – LKAS 39 (Financial Instruments: Recognition and Measurement) up to 31 March 2018. The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements

	2019 Rs.	2018 Rs.
Balance as at begging of the Year	6,350,973	2,782,605
Impact of adopting SLFRS 9 as at 1 April 2019	15,603,224	-
	21,954,197	2,782,605
Charge / (Reversal) for the year	32,320,280	3,568,367
Balance as at End of the Year	54,274,476	6,350,973
Individual Impairment	-	-
Collective Impairment	54,274,476	2,782,605
Total	54,274,476	2,782,605

21.5 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2018	4,471,185	8,019,758	9,463,254	21,954,197
Charge/ (Reversal) to income statement	8,213,786	6,072,354	18,034,139	32,320,280
Write-off during the year	-	-	-	-
Balance as at 31st March 2019	12,684,971	14,092,112	27,497,393	54,274,476

22. Financial Investments

Accounting Policy
Financial investments - Loans and receivables include Government Securities, unquoted debt instruments and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR, less provision for impairment. The amortisation is included in interest income in the Statement of Profit or Loss.

	2019 Rs.	2018 Rs.
Sri Lanka Government Securities - REPO	442,595,260	282,268,953
Total Financial Investments	442,595,260	282,268,953

Notes to the Financial Statement

23. Other Financial Assets

Accounting Policy
Other financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has not the intention and ability to hold to maturity. After initial measurement, other financial assets are subsequently measured at amortized cost using the EIR, less impairment. The amortisation is included in 'interest income' in the Statement of Profit or Loss.

	2019 Rs.	2018 Rs.
Fixed Deposits	189,276,648	207,371,048
Total Other Financial Assets	189,276,648	207,371,048

23.1 Contractual Maturity Analysis of Other Financial Assets

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	189,276,648	-	-	189,276,648
Total Other Financial Assets	189,276,648	-	-	189,276,648

24. Other Non Financial Assets

Accounting Policy
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 and is carried at historical cost less provision for impairment.

	2019 Rs.	2018 Rs.
Inventories	7,808,584	15,792,281
Other Advance	2,056,535	1,811,859
Rent Deposit	31,800,517	26,909,222
Other Receivable	102,758,664	56,681,744
Total Other Non Financial Assets	144,424,300	101,195,106

Amounts Receivable from Government
Other receivable includes Amounts Receivable from Government Rs 42,030,733/- As per signed MOU between SDF and Ministry of Finance and Mass Media under "Special debit relief for Microfinance Loan grated to women in drought affected Districts".

25. Intangible Assets

Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or 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 Group 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.

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 2019 and 2018 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.

25.1 Computer Software

	2019 Rs.	2018 Rs.
Cost		
Cost as at begging of the year	53,084,205	43,381,266
Additions and Improvements	4,925,640	9,702,939
Disposal during the year	-	-
Cost as at end of the year	58,009,845	53,084,205
Amortisation & Impairment		
Amortisation as at begging of the year	17,949,845	6,686,702
Charge for the year	13,051,870	11,263,143
Disposal during the year	-	-
Amortisation as at end of the year	31,001,716	17,949,845
Net book value as at end of the year	27,008,129	35,134,360
Net book value of total intangible assets	27,008,129	35,134,360

Notes to the Financial Statement

26. 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 Profit or Loss 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.

	2019 Rs.	2018 Rs.
Balance as at 1 April	-	-
Transfer from during the year	118,594,500	-
Gain from fair value adjustment	-	
Balance as at 31 March	118,594,500	-

27. Property, Plant & Equipment

Accounting Policy

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 and the details of the such revaluation and the resulted revaluation surplus are fully described under Note 27.2

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.

Reairs 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 2018 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

27. Property, Plant & Equipment (Contd.)

27.1 The Movement in Property, Plant & Equipment

	Balance As at 01.04.2018 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2019 Rs.
27.1.1 Cost or Valuation					
Freehold Assets					
Land	77,390,000	-	(51,840,000)	-	25,550,000
Building	66,754,500	-	(66,754,500)	-	-
Furniture & Fittings	89,387,660	8,944,120	-	(82,746)	98,249,035
Office Equipment	55,882,758	4,573,954	-	(244,103)	60,212,608
Computer Equipment	73,556,592	7,052,209	-	(43,005)	80,565,796
Plant & Machinery	37,161,781	3,195,172	-	-	40,356,954
Motor Vehicle	43,128,422	199,900	-	-	43,328,322
Total cost or valuation	443,261,714	23,965,355	(118,594,500)	(369,854)	348,262,715

	Balance As at 01.04.2018 Rs.	Charge during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2019 Rs.
27.1.2 Depreciation					
Freehold Assets					
Building	-	1,900,707	(1,900,707)	-	-
Furniture & Fittings	24,866,280	9,235,768	-	(31,362)	34,070,685
Office Equipment	34,763,736	7,272,191	-	(244,103)	41,791,824
Computer Equipment	46,860,722	13,433,304	-	(39,353)	60,254,673
Plant & Machinery	10,236,768	4,765,921	-	-	15,002,689
Motor Vehicle	17,810,046	8,480,579	-	-	26,290,625
Total Depreciation	134,537,552	45,088,470	(1,900,707)	(314,819)	177,410,496

	2019 Rs.	2018 Rs.
27.1.3 Net Book Value		
Land	25,550,000	77,390,000
Building	-	66,754,500
Furniture & Fittings	64,178,350	64,521,380
Office Equipment	18,420,784	21,119,021
Computer Equipment	20,311,123	26,695,870
Plant & Machinery	25,354,264	26,925,013
Motor Vehicle	17,037,697	25,318,377
Total Carrying Amount of Property, Plant and Equipment	170,852,218	308,724,162

27.1.4 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 23,965,355/- (2018 - Rs. 24,203,439/-) Cash payment amounting to Rs. 23,965,355/- (2017 - Rs 22,572,142) was paid during the year for purchase of property, plant & equipment.

27.1.5 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. 92,856,842/-. (2018 - Rs. 23,587,615/-)

27.2 Fair value related disclosures of Freehold land

Freehold land and building located at No 45, Rawathawatta Road, Moratuwa is carried at the revalued amount, being the fair value at the valuation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years or more frequently if the fair values are substantially different from carrying amounts according to the Company policy.

Therefore the fair value exist in the recent valuation (31 March 2019) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13 (Fair Value Measurement) less subsequent accumulated depreciation and impairment losses considered as the fair value exist as at the reporting date (31 March 2019). Accordingly, a revaluation surplus amounting to Rs. 1,900,707/- had been credited to the revaluation reserve account as at 31 March 2019.

27.2.1 The carrying amount of the company revalued land and building, had they were carried at cost less accumulated depreciation, would be as follows;

As at 31 March	2019 Cost Rs.	2019 Accumulated Depreciation Rs.	2019 Carrying value Rs.	2018 Cost Rs.	2018 Accumulated Depreciation Rs.	2018 Carrying value Rs.
Land	17,027,000	-	17,027,000	17,027,000	-	17,027,000
Building	61,416,000	7,774,544	53,641,456	61,416,000	5,971,173	55,444,827
Total	78,443,000	7,774,544	70,668,456	78,443,000	5,971,173	72,471,827

27.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2019 and 31 March 2018.

27.4 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. (2018: Nil)

27.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2019 and 31 March 2018.

27.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2019 and 31 March 2018.

Notes to the Financial Statement

28. 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'.

	2019 Rs.	2018 Rs.
Bank Overdrafts (Note 28.1)	41,574,583	169,838,466
Loans and Other Bank Facilities (Note 28.2)	793,558,872	293,438,756
Total Due to Banks & Other Institution	835,133,455	463,277,223

28.1 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. 249,365,143/- as at 31 March 2019 (2018 - Rs. 80,161,534/-).

28.2 Loans and Other Bank Facilities

	As at 01.04.2018 Rs.	Loans Obtained Rs.	Repayments Interest Rs.	Repayments Capital Rs.	As at 31.03.2019 Rs.
NDB Vehicle Loan	5,021,517	-	(342,780)	(3,057,788)	1,963,729
NDB Term Loan	270,000,000	300,000,000	(37,136,904)	(60,000,000)	510,000,000
HNB Term Loan	-	300,000,000	(15,783,137)	(37,500,000)	262,500,000
Rotary Loan	13,455,289	7,610,000	(2,089,084)	(7,932,096)	13,133,193
Other Borrowings	4,961,950	1,000,000	-	-	5,961,950
Total Loans and Other Bank Facilities	293,438,756	608,610,000	(55,351,904)	(108,489,884)	793,558,872

28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Vehicle Loan	1,963,729	-	-	1,963,729
NDB Term Loan	120,000,000	390,000,000	-	510,000,000
HNB Term Loan	75,000,000	187,500,000	-	262,500,000
Rotary Loan	6,705,625	6,427,568	-	13,133,193
Other Borrowings	-	-	5,961,950	5,961,950
Bank Overdrafts	41,574,583	-	-	41,574,583
Total Due to Customers	245,243,937	583,927,568	5,961,950	835,133,455

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Vehicle Loan	3,057,788	1,963,729	-	5,021,517
NDB Term Loan	60,000,000	210,000,000	-	270,000,000
Rotary Loan	7,158,931	6,296,358	-	13,455,289
Other Borrowings	-	-	4,961,950	4,961,950
Bank Overdrafts	169,838,466	-	-	169,838,466
Total Due to Customers	240,055,186	218,260,087	4,961,950	463,277,223

29. Due to Customers

Accounting Policy

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margins 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'.

	2019 Rs.	2018 Rs.
Fixed Deposits	3,824,280,592	3,070,215,632
Savings Deposits	1,559,656,229	1,553,214,622
Inactive Society-Savings	1,404,776	1,404,776
Total Due to Customers	5,385,341,597	4,624,835,030

29.1 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. 300,000/- for each depositor. The Company has paid Rs. 5,258,314/- as the premium of the said Insurance scheme during the financial year under review (2018 - Rs. 4,595,993/-).

29.2 Contractual Maturity Analysis Of Customer Deposits

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,610,234,242	1,214,046,350	-	3,824,280,592
Savings Deposits	1,313,210,490	140,250,188	106,195,551	1,559,656,229
Inactive Society-Savings	-	1,404,776	-	1,404,776
Total Due to Customers	3,924,849,508	1,354,296,539	106,195,551	5,385,341,597

Notes to the Financial Statement

29. Due to Customers (Contd.)

29.2 Contractual Maturity Analysis Of Customer Deposits (Contd.)

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,224,912,907	845,302,725		3,070,215,632
Savings Deposits	1,255,954,466	149,910,386	147,349,770	1,553,214,622
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	3,482,272,150	995,213,111	147,349,770	4,624,835,031

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.

30. 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'.

	2019 Rs.	2018 Rs.
Accrued Expenses	36,878,091	36,595,879
Others (Note 30.1)	35,837,819	34,757,277
Loan Risk Assurance Fund (Note 30.2)	2,490,000	7,860,000
Amount Due to Related Parties	5,202,583	4,856,996
Total Other Non Financial Liabilities	80,408,493	84,070,152

30.1 This balance included staff welfare fund, unidentified deposit, loan & lease creditor balance, loan sundry changes payable and WHT collections. The Company's welfare fund balance transferred to Sarvodaya Welfare Society on 20 August 2018.

30.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2019. 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.

31. Post-Employement 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.

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.

31.1 Provision for Retirement Gratuity

	2019 Rs.	2018 Rs.
Balance at the beginning of the year	26,415,691	20,796,934
Amount Charged for the Year	8,491,897	6,739,853
Actuarial (Gains)/Losses	(5,548)	3,346,548
(Gain)/Loss Due to Changes in Assumptions	(930,725)	1,974,056
Payments Made During the Year	(6,759,250)	(6,441,700)
Balance at the End of the Year	27,212,065	26,415,691

31.2 Expenses on Defined Benefit Plan

	2019 Rs.	2018 Rs.
Current Service Cost for the Year	5,571,046	4,244,221
Interest Cost for the Year	2,920,851	2,495,632
Actuarial (Gains)/ Losses (31.5)	(5,548)	3,346,548
(Gains)/ Losses Due to Changes in Assumptions	(930,725)	1,974,056
Total Expenses on Defined Benefit Plan	7,555,624	12,060,457

Notes to the Financial Statement

31. Post-Employement Benefit Obligations (Contd.)

31.3 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 2019 and 2018 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'.

31.4 Actuarial Assumptions

	2019	2018
Discount Rate	11.4%	11.0%
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 Years	10 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

31.5 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

31.6 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 2019.

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%		(2,063,523)	2,063,523
(-1%)		2,366,828	(2,366,828)
	+1%	2,290,393	(2,290,393)
	(-1%)	(2,032,734)	2,032,734

32. Current Tax Liabilities

	2019 Rs.	2018 Rs.
Balance as at 1st April	11,051,013	(29,768)
Add - Transferred during the year	16,642,435	-
Less: Tax paid	(721,048)	-
Adjustment (ESC/WHT/Notional Tax etc.)	(13,754,255)	(4,756,204)
Provision for the year (Note 15)	1,550,102	15,836,988
Balance as at 31st March	14,768,247	11,051,015

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 Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or par t of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each Statement of Financial Position 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 the Statement of Financial Position.

Notes to the Financial Statement

33. Deferred Taxation (Contd.)

33.1 Statement of Financial Position

Year ended 31 March	2019 Rs.	Restated 2018 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	-	16,110,987
Accelerated depreciation for tax purposes	29,273,316	34,693,946
Finance leases	20,268,031	22,793,664
Total Deferred Tax Liabilities	49,541,348	73,598,597
Deferred Tax Assets		
Defined benefit plans - Profit or loss	7,619,378	5,906,624
Defined benefit plans - Other comprehensive income	-	1,489,769
Carry forward loss on leasing business	11,713,222	19,230,827
Carry forward loss on other operations	-	27,254,065
Impairment Provision	21,816,188	-
Total Deferred Tax Assets	41,126,626	53,881,286
Net Deferred Tax Liabilities/(Assets)	8,414,722	19,717,312

33.2 Statement of Profit or Loss

Year ended 31 March	2019 Rs.	2018 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	532,198	16,110,987
Accelerated depreciation for tax purposes	(5,420,630)	1,526,061
Finance leases	(2,525,633)	22,793,664
Deferred Tax Income/(Expense)	(7,414,065)	40,430,712
Deferred Tax Assets		
Defined benefit plans - Profit or loss	(1,712,754)	(1,850,666)
Defined benefit plans - Other comprehensive income	1,489,769	277,415
Carry forward loss on leasing business	7,517,605	(11,669,853)
Carry forward Loss on other operations	27,254,065	(6,481,411)
Deferred expenses to be claimed in income tax liability of future years	(149,975)	-
Deferred Tax Income/(Expense)	34,398,710	(19,724,516)
Net Deferred Tax Income/(Expense) - Statement of profit or loss	26,190,291	6,084,979
Net Deferred Tax Income/(Expense) - Statement of Other comprehensive income	(794,354)	(14,621,218)

34. Stated Capital

	Number of Shares	2019 Rs.	Number of Shares	2018 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	-	-	-	-
At the end of the year	67,500,006	890,000,020	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.

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

35. Retained Earnings

	2019 Rs.	Restated 2018 Rs.
Balance as at beginning of the Year	160,561,930	90,646,933
Impact of adopting SLFRS 9 as at 1 April 2018	(39,748,039)	-
	120,813,891	90,646,933
Profit for the Year	41,216,251	92,182,290
Other Comprehensive Income	674,117	(3,830,835)
Transfer to Statutory Reserves Fund	(8,243,250)	(18,436,458)
Dividend Paid	(35,775,003)	-
Balance as at end of the Year	118,686,006	160,561,930

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

Accounting Policy

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

Accounting Policy

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.

Notes to the Financial Statement

Company	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2017	20,383,148	45,744,825	66,127,973
Transfers to/(from) during the year	18,436,459	-	18,436,459
Revaluation of Land & Building	-	(4,316,573)	(4,316,573)
As at 31 March 2018	38,819,607	41,428,252	80,247,859
Transfers to/(from) during the year	8,243,250	-	8,243,250
Revaluation of Land & Building	-	1,368,509	1,368,509
As at 31 March 2019	47,062,857	42,796,761	89,859,618

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.

	2019 Within 12 Months Rs.	2019 After 12 Months Rs.	2019 Total Rs.
Assets			
Cash and Cash Equivalents	140,902,916	-	140,902,916
Loans and Receivables	2,386,305,387	2,727,351,743	5,113,657,129
Lease Rentals Receivables	339,559,399	762,953,726	1,102,513,124
Financial Investments	442,595,260	-	442,595,260
Other Financial Assets	189,276,648	-	189,276,648
Other Non Financial Assets	79,490,760	64,933,540	144,424,300
Intangible Assets	-	27,008,129	27,008,129
Investment Property	-	118,594,500	118,594,500
Property, Plant and Equipment	-	170,852,218	170,852,218
Total Assets	3,578,130,368	3,871,693,856	7,449,824,224
Liabilities			
Due to Banks and Other Institutions	245,243,937	589,889,518	835,133,455
Due to Customers	3,925,060,074	1,460,281,523	5,385,341,597
Other Non Financial Liabilities	45,097,684	35,310,809	80,408,493
Post Employment Benefit Liability	-	27,212,065	27,212,065
Current Tax Liabilities	14,768,247	-	14,768,247
Deferred Tax Liabilities	-	8,414,722	8,414,722
Total Liabilities	4,230,169,943	2,121,108,637	6,351,278,580
Net Assets/(Liability)	(652,039,575)	1,750,585,219	1,098,545,644

	2018 Within 12 Months Rs.	2018 After 12 Months Rs.	2018 Total Rs.
Assets			
Cash and Cash Equivalents	116,978,318	-	116,978,318
Loans and Receivables	2,172,607,702	2,524,841,864	4,697,449,566
Lease Rental Receivable	162,022,464	449,032,254	611,054,718
Financial Investments	282,268,953	-	282,268,953
Other Financial Assets	207,371,048	-	207,371,048
Other Non Financial Assets	74,285,884	26,909,222	101,195,106
Intangible Assets	-	35,134,360	35,134,360
Property, Plant and Equipment	-	308,724,162	308,724,162
Total Assets	3,015,534,370	3,344,641,862	6,360,176,231
Liabilities			
Due to Banks	70,216,719	393,060,504	463,277,223
Due to Customers	3,400,705,728	1,224,129,302	4,624,835,030
Other Non Financial Liabilities	51,000,190	33,069,962	84,070,152
Post Employment Benefit Liability	-	26,415,691	26,415,691
Current Tax Liabilities	11,051,015	-	11,051,015
Deferred Tax Liabilities	-	19,717,312	19,717,312
Total Liabilities	3,532,973,652	1,696,392,771	5,229,366,422
Net Assets/(Liability)	(517,439,282)	1,648,249,091	1,130,809,809

38. Financial Reporting By Segment

Accounting Policy

For management purposes, the Company is organised into business units based on its products and services and has three reportable segments, as follows:

Lease

This segment includes Leasing products offered to the customers.

SME

This segment includes Loan products offered to the small and medium scale customers

Loan

This segment includes Loan products offered to the customers

Other Business

This segment include all other business activities that Company engaged other than above segments

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements. Also, the Company's financing (including finance costs and finance income) and income taxes are managed on a Company basis and are not allocated to operating segments.

Notes to the Financial Statement

38. Financial Reporting By Segment (Contd.)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended 31 March	Lease		SME	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Interest income	191,001,130	93,523,012	326,193,713	154,013,067
Net fee and commission income	2,307,547	5,148,742	5,264,644	8,450,430
Other operating income	67,454	6,818	478,175	173,013
Gross income	193,376,132	98,678,572	331,936,532	162,636,510
Interest expenses	(84,040,497)	(37,912,769)	(133,739,422)	(64,703,166)
Total operating income	109,335,634	60,765,803	198,197,109	97,933,344
Credit loss expenses	(32,320,280)	(3,568,367)	(44,672,478)	(1,840,869)
Net Operating Income	77,015,355	57,197,436	153,524,631	96,092,475
Other Expenses	(65,975,443)	(47,551,096)	(131,950,885)	(76,870,305)
Depreciation and Amortisation	(5,814,034)	(4,837,113)	(11,628,068)	(7,819,596)
Segment Result	5,225,878	4,809,227	9,945,678	11,402,574
Tax on financial services				
Income tax expenses				
Profit attributable to share holders	5,225,878	4,809,227	9,945,678	11,402,574
Segment assets	1,102,513,124	612,636,978	1,502,293,731	1,185,991,085
Total Assets	1,102,513,124	612,636,978	1,502,293,731	1,185,991,085
Segment labilities	1,092,478,020	607,827,752	1,480,945,479	1,174,588,512
Total labilities	1,092,478,020	607,827,752	1,480,945,479	1,174,588,512

Micro & Other		Other		Total	
2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
853,047,200	877,474,596	63,132,429	54,552,518	1,433,374,472	1,179,563,193
21,711,604	17,237,922	(4,290,816)	-	24,992,979	30,837,094
105,202,525	96,918,319	11,131,286	13,262,647	116,879,440	110,360,797
979,961,329	991,630,837	69,972,898	67,815,165	1,575,246,892	1,320,761,084
(341,218,880)	(261,413,920)	(47,622,457)	(52,568,984)	(606,621,257)	(416,598,839)
638,742,449	730,216,917	22,350,441	15,246,181	968,625,635	904,162,245
(16,653,661)	(83,707,086)	(367,750)	-	(94,014,169)	(89,116,322)
622,088,788	646,509,831	21,982,691	15,246,181	874,611,466	815,045,923
(442,035,465)	(441,862,071)	(19,792,633)	(5,720,035)	(659,754,426)	(572,003,507)
(38,954,028)	(44,948,215)	(1,744,210)	(581,868)	(58,140,340)	(58,186,792)
141,099,294	159,699,545	445,848	8,944,278	156,716,700	184,855,624
				(87,760,056)	(70,751,368)
				(27,740,393)	(21,921,964)
141,099,294	159,699,545	445,848	8,944,278	41,216,251	92,182,291
3,611,361,294	3,514,636,204	1,233,656,075	1,036,330,617	7,449,824,224	6,360,176,231
3,611,361,294	3,514,636,204	1,233,656,075	1,036,330,617	7,449,824,224	6,360,176,231
3,310,562,455	3,264,289,726	467,292,626	182,660,432	6,351,278,580	5,229,366,422
3,310,562,455	3,264,289,726	467,292,626	182,660,432	6,351,278,580	5,229,366,422

Notes to the Financial Statement

39. 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.

39.1 Contingent Liabilities

	2019 Rs.	2018 Rs.
Guarantees issues to other institution	-	1,000,000
Total contingent Liabilities	-	1,000,000

39.2 Commitments

The Company did not have significant capital commitments as at the Statement of Financial Position date.

39.3 Litigation Against the Company

	2019 Rs.	2018 Rs.
Cases pending against the Company	6,940,000	14,500,000
Total contingent Liabilities	6,940,000	14,500,000

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.

40. Assets Pledge

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2019 Rs.	Carrying Amount Pledged 2018 Rs.	Included Under
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	526,581,515	173,330,204	Loans and Receivables
Rental receivable on SME Loan	Bank Overdraft	82,052,807	120,700,470	Loans and Receivables
Rental receivable on SME Loan	Term Loan	896,372,078	89,228,028	Loans and Receivables
Rental receivable on Lease	Term Loan	475,067,552	269,063,857	Lease Rental Receivable
		1,980,073,952	652,322,559	

41. Events Occurring after the Reporting date

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

42. Related Party Transactions

Accounting Policy

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,

42.1 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.

42.1.1 Key Management Personnel Compensation

	2019 Rs.	2018 Rs.
Short Term Employment Benefits	5,373,904	5,769,590
Directors Fees & Expenses	8,235,417	5,609,524
Total Key Management Personnel Compensation	13,609,320	11,379,114

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.

42.1.2 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.

42.1.2.1 Transaction with KMPs, and their Close Members of the Family

	2019 Rs.	2018 Rs.
Items in Statement of Financial Position		
Deposit accept during the year	563,231	11,101,101
Interest payable	-	159,923
Deposit repayment during the year	(11,052,631)	(1,031,601)
	(10,489,400)	10,229,423
Items in Statement of Profit or Loss		
Interest accrued during the period	156,236	256,205
	156,236	256,205

Notes to the Financial Statement

42. Related Party Transactions (Contd.)

42.1.3 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.

42.1.4 Transactions with Group Entities

The Group entities include the Parent , Fellow Subsidiaries and Associate companies of the parent.

42.1.4.1 Transactions with Parent Company

Sarvodaya Economic Enterprises Development (Gte) Ltd.	2019 Rs.	2018 Rs.
Statement of Financial Position		
Transaction Made During the Year		
Loan Interest Payable	-	407,778
Interest Accrued during the Year	407,778	-
Loan Interest Paid during the Year	(62,191)	-
Loan Installment deducted from Salary on behalf of parent	-	-
Reimbursement of salary cost of SEEDS (Gte) Ltd employees	-	149,860
Amount settled to SEEDS (Gte) Ltd	-	(217,823)
	345,587	339,815

42.1.4.2 Transactions with Shareholders

Gentosa Total Assets Inc.	2019 Rs.	2018 Rs.
Items in Statement of Financial Position		
Deposit Accepted during the period including interest capitalisation	144,496,500	-
Interest payable on Deposits	305,622	295,448
	144,802,122	295,448
Items in Statement of Profit or Loss		
Interest Accrued During the Period	21,347,878	19,787,648
	21,347,878	19,787,648

43. 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.

43.1 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.

44. 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 Rs.	Reclassification Rs.	Current Presentation Rs.	Current Classification
Statement of Financial Position				
Other Non Financial Assets	90,613,760	10,581,347	101,195,106	Other Non Financial Assets
Other Non Financial Liabilities	84,070,152	(10,581,347)	62,907,458	Other Non Financial Liabilities

(a) During the financial year, Cheque control balance was reclassified under Other Non Financial Assets for better presentation.

45. Restatement of Financial Statements

The Company has rectified not recording of differed tax expense on revaluation surplus which tax impact imposed by Inland Revenue Department in line with new Inland Revenue Act, No 24. of 2017.

Impact on Financial Potions	Current Presentation Rs.	As reported Previously Rs.	Net Impact Rs.
Deferred Tax Liability	19,717,312	15,915,351	3,801,961
Retained Earnings	160,561,930	151,358,483	9,203,447
Reserves	80,247,859	93,253,268	(13,005,409)
Impact on Income Statement			
Income Tax Expenses	21,921,964	33,619,018	(11,697,054)
Other Comprehensive Income			
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment	16,110,987	611,972	15,499,015

The change did not have an impact on operating, investing and financing cash flows.

Notes to the Financial Statement

46. 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.

46.1 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 Bank'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

	2019		2018
	Investment Property Rs.	Freehold Land Rs.	Freehold Land & Building Rs.
Balance as at begging of the Year	-	144,144,500	134,157,852
Revaluation reserve credit to revaluation reserve	-	1,900,707	11,794,414
Total gain / (loss) recognised in profit or loss:			
Depreciation of buildings	-	(1,900,707)	(1,807,766)
Transfer during the Year	118,594,500	(118,594,500)	-
Balance at end on the Year	118,594,500	25,550,000	144,144,500

The company has transferred free hold land and bulling as Investment property as at 31 March 2019.

46.2 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. For quoted debt issued, the fair values are determined based on quoted market prices. For variable rate instruments with a fixed credit spread, an adjustment is made to reflect the change in credit spread since the instrument was first recognised.

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 Bank'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

46. Fare Value of Financial Instruments (Contd.)

As at 31 March 2019	Fare Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	140,902,916	-	-	140,902,916	140,902,916
Loans and Receivables	-	5,536,157,881	-	5,536,157,881	5,363,721,143
Lease Rentals Receivables	-	1,197,308,675	-	1,197,308,675	1,156,787,601
Financial Investments	442,595,260	-	-	442,595,260	442,595,260
Other Financial Assets	189,276,648	-	-	189,276,648	189,276,648
	772,774,823	6,733,466,556	-	7,506,241,379	7,293,283,567
Financial Liabilities					
Due to Banks and Other Institutions	-	835,133,455	-	835,133,455	835,133,455
Due to Customers		5,357,395,535		5,357,395,535	5,385,339,493
	-	6,192,528,990	-	6,192,528,990	6,220,472,948

As at 31 March 2018	Fare Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	116,978,318	-	-	116,978,318	116,978,318
Loans and Receivables	-	4,986,026,013	-	4,986,026,013	4,840,400,680
Lease Rentals Receivables	-	627,622,025	-	627,622,025	617,405,690
Financial Investments	207,371,048	-	-	207,371,048	207,371,048
Other Financial Assets	101,195,106	-	-	101,195,106	101,195,106
	425,544,473	5,613,648,039	-	6,039,192,511	5,883,350,843
Financial Liabilities					
Due to Banks and Other Institutions	-	463,277,223	-	-	463,277,223
Due to Customers	-	4,601,209,408	-	-	4,624,835,030
	-	5,064,486,631	-	-	5,088,112,253

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.

47. Risk Management

47.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

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 (IRM) Committee, which has the responsibility to monitor the overall risk process within the Company. The IRM Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM Committee is responsible for managing risk decisions and monitoring risk levels and reports on a periodical basis to the Board.

Risk Management Framework

At Sarvodaya Development Finance Company the management of risk plays a pivotal part in all its business activities. The identification, evaluation, measurement, mitigation, monitoring and reporting of risks associated with products, processes, systems and services of Sarvodaya Development Finance Company is an integral part that forms the scope of risk management when fulfilling requirements of its customers and counterparties.

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 independence from the business lines. In the course of its business activities, Sarvodaya Development Finance Company is constantly exposed to risks that include but are not limited to Credit Risk, Liquidity Risk and Operational Risk.

Sarvodaya Development Finance Company 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 strives therefore to manage the integrated risks by developing a companywide risk appetite and measures and controls to ensure that the risk taken is within the set limits.

Sarvodaya Development Finance Company has put in place structures and processes to address these risks which are vested to departmental heads. Additionally the company has an IRMC which carry out independent risk evaluations both qualitative and quantitative and the results are shared with Management of Sarvodaya Development Finance Company as well as the members of the Board of Directors.

Three Lines of Defense

In achieving its goals, Sarvodaya Development Finance Company 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. Operational Risk aspects focus on major risk types developed under the Risk Control Self Assessment (RCSA) 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.

Sarvodaya Development Finance Company'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.

Notes to the Financial Statement

47. Risk Management (Contd.)

Risk appetite defines the aggregate quantum of risk the company is willing to assume in different areas 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.

Integrated Risk Management Unit (IRMU)
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 IRMU is headed by the Assistant General Manager – Risk Management & Acting Compliance Officer who directly reports to the Chair of IRMC and also has a functional 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.

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 overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

Credit Committee
There are two Credit Committees, namely Board Credit Committee (BCC) and Internal Credit Committee (ICC). BCC is comprised of three non-executive board members including the Chairman and two directors and the ICC is comprised of the CEO, AGM -Credit, AGM -Risk Management & Acting Compliance Officer, AGM Alternative Channels and Audit and AGM -Branch Operation & Marketing. BCC is the supreme authority to approve credit facilities and formulate credit policies for the company and ICC is the supreme management level approving authority beyond the delegated authority of the CEO.

47.2 Credit Risk

Overview
Credit risk is the risk of financial loss to SDF if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the SDF'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. 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 authorisation structure for the approval and renewal of credit facilities. Authorisation 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 PCBE 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.

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.

47.2.1 Credit Quality by Class of Financial Assets

	2019 Neither Past Due Nor Impaired Rs.	2019 Past Due But Not Impaired Rs.	2019 Individually Impaired Rs.	2019 Collectively Impaired Rs.	2019 Total Rs.
Assets					
Cash and Cash Equivalents	140,902,916	-	-	-	140,902,916
Loans and Receivable (Gross) (Note 47.2.1.1)	656,877,369	-	-	4,723,236,783	5,380,114,152
Lease Rentals Receivables (Gross) (Note 47.2.1.1)	-	-	-	1,156,787,600	1,156,787,600
Financial Investments	442,595,260	-	-	-	442,595,260
Other Financial Assets	189,276,648	-	-	-	189,276,648
Total Financial Assets	1,429,652,192	-	-	5,880,024,383	7,309,676,575

47.2.1.1 The Company consider total loan and lease balances to calculate collective impairment other than cash back loan.

	2018 Neither Past Due Nor Impaired Rs.	2018 Past Due But Not Impaired Rs.	2018 Individually Impaired Rs.	2018 Collectively Impaired Rs.	2018 Total Rs.
Assets					
Cash and Cash Equivalents	116,978,318	-	-	-	116,978,318
Loans and Receivable (Gross)	493,771,621	-	-	4,346,629,060	4,840,400,680
Lease Rentals Receivables (Gross)	-	-	-	617,405,690	617,405,690
Financial Investments	282,268,953	-	-	-	282,268,953
Other Financial Assets	207,371,048	-	-	-	207,371,048
Total Financial Assets	1,100,389,940	-	-	4,964,034,750	6,064,424,690

47.2.1.2 The Company consider total loan and lease balances to calculate collective impairment other than cash back loan.

Notes to the Financial Statement

47. Risk Management (Contd.)

47.2 Credit Risk (Contd.)

47.2.2 Analysis of Risk Concentration

47.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector wise Breakdown	2019 Cash and Cash Equivalents Rs.	2019 Loans and Receivable Rs.	2019 Lease Rental Receivable Rs.	2019 Financial Investments Rs.	2019 Other Financial Assets Rs.	2019 Total Financial Assets Rs.
Agriculture & Fishing	-	413,235,823	10,903,470	-	-	424,139,293
Manufacturing	-	542,541,597	175,915,512	-	-	718,457,110
Tourism	-	36,295,644	3,201,050	-	-	39,496,694
Transport	-	34,877,872	223,032,997	-	-	257,910,869
Constructions	-	1,435,258,109	19,937,417	-	-	1,455,195,525
Trades	-	735,816,589	41,750,050	-	-	777,566,639
New Economy	-	27,429,535	14,792,038	-	-	42,221,573
Financial and Business Services	140,902,916	75,541,144	4,719,737	-	189,276,648	410,440,444
Infrastructure	-	49,648,994	3,323,974	-	-	52,972,968
Government	-	-	-	442,595,260	-	442,595,260
Other Services	-	2,013,077,941	659,211,356	-	-	2,672,289,297
Total	140,902,916	5,363,723,248	1,156,786,600	442,595,260	189,276,648	7,293,285,671

Sector wise Breakdown	2018 Cash and Cash Equivalents Rs.	2018 Loans and Receivable Rs.	2018 Lease Rental Receivable Rs.	2018 Financial Investments Rs.	2018 Other Financial Assets Rs.	2018 Total Financial Assets Rs.
Agriculture & Fishing	-	1,540,141,621	144,794,617	-	-	1,684,936,238
Manufacturing	-	370,591,522	28,469,780	-	-	399,061,302
Tourism	-	21,260,040	6,863,044	-	-	28,123,085
Transport	-	33,783,682	24,702,064	-	-	58,485,746
Constructions	-	385,662,838	13,914,768	-	-	399,577,607
Trades	-	655,527,066	49,909,608	-	-	705,436,674
New Economy	-	22,683,436	6,869,824	-	-	29,553,260
Financial and Business Services	116,978,318	49,400,843	7,848,509	-	207,371,048	381,598,718
Infrastructure	-	7,780,034	72,569	-	-	7,852,603
Government	-	922,889,175	192,043,133	282,268,953	-	1,397,201,260
Other Services	-	830,680,424	141,917,774	-	-	972,598,197
Total	116,978,318	4,840,400,680	617,405,690	282,268,953	207,371,048	6,064,424,690

47.3 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. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a regular basis. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company'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.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

47.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

As at 31 March 2019	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	140,902,916	-	-	-	-	140,902,916
Loans and Receivables	561,458,514	474,758,174	1,350,088,699	2,727,351,743	-	5,113,657,129
Lease Rentals Receivables	84,831,455	22,927,871	231,800,073	762,953,726	-	1,102,513,125
Financial Investments	-	347,317,986	95,277,274	-	-	442,595,260
Other Financial Assets	-	132,765,273	56,511,375	-	-	189,276,648
Total Financial Assets	787,192,885	977,769,303	1,733,677,421	3,490,305,469	-	6,988,945,078
Financial Liabilities						
Due to Banks and Other Institutions	-	93,081,310	152,162,626	583,927,568	-	829,171,505
Due to Customers	-	2,509,079,620	1,415,980,455	1,354,085,972	106,195,551	5,385,341,597
Total Financial Liabilities	-	2,602,160,930	1,568,143,081	1,938,013,540	106,195,551	6,214,513,102
Total Net Financial Assets/(Liabilities)	787,192,885	(1,624,391,627)	165,534,340	1,552,291,929	(106,195,551)	774,431,976

Notes to the Financial Statement

47. Risk Management (Contd.)

47.3 Liquidity Risk & Funding Management (Contd.)

As at 31 March 2019	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	116,978,318	-	-	-	-	116,978,318
Loans and Receivables	360,521,495	555,049,995	1,257,036,213	2,524,841,864	-	4,697,449,566
Lease Rentals Receivable	15,607,182	33,499,443	112,915,839	449,032,254	-	611,054,718
Financial Investments	-	245,608,329	36,660,624	-	-	282,268,953
Other Financial Assets	-	77,096,618	130,274,430	-	-	207,371,048
Total Financial Assets	493,106,995	911,254,385	1,536,887,106	2,973,874,118	-	5,915,122,603
Financial Liabilities						
Due to Banks and Other Institutions	164,981,470	17,791,603	52,425,116	223,117,083	4,961,950	463,277,223
Due to Customers	1,220,597,050	891,892,981	1,368,376,672	996,618,559	147,349,770	4,624,835,030
Total Financial Liabilities	1,385,578,520	909,684,584	1,420,801,788	1,219,735,642	152,311,720	5,088,112,253
Total Net Financial Assets/(Liabilities)	(892,471,525)	1,569,801	116,085,318	1,754,138,476	(152,311,720)	827,010,349

47.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2019.

47.3.2.1 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 SDF.

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.

SDF 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.

47.3.2.2 Market Risk

Overview

Market risk is the potential of an adverse impact on SDF'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 SDFC'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 SDFC
- articulating interest rate review of the SDFC
- 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 SDF'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. SDF 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. SDF 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:

- Reprising risk arising from a fixed rate borrowing portfolio where reprising 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.

Notes to the Financial Statement

47. Risk Management (Contd.)

47.3 Liquidity Risk & Funding Management (Contd.)

47.5.2 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 reprising or maturity dates.

Company	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 as at 31.03.2019 Rs.
Assets							
Cash and Cash Equivalents	140,902,916	-	-	-	-	-	140,902,916
Loans and Receivables	1,036,216,688	1,350,088,699	2,017,764,591	709,587,152	-	-	5,113,657,129
Lease Rentals Receivables	107,759,326	231,800,073	545,355,412	217,598,314	-	-	1,102,513,124
Financial Investments	347,317,986	95,277,274	-	-	-	-	442,595,260
Other Financial Assets	132,765,273	56,511,375	-	-	-	-	189,276,648
Total Financial Assets	1,764,962,188	1,733,677,421	2,563,120,003	927,185,465	-	-	6,988,945,077
Financial Liabilities							
Due to Banks and Other Institutions	93,081,310	152,162,626	396,427,568	187,500,000	-	5,961,950	835,133,455
Due to Customers	2,509,079,620	1,415,980,455	912,124,891	441,961,081	106,195,551		5,385,341,597
Total Financial Liabilities	2,602,160,930	1,568,143,081	1,308,552,460	629,461,081	106,195,551	5,961,950	6,220,475,052
Interest Sensitivity Gap	(837,198,742)	165,534,340	1,254,567,544	297,724,385	(106,195,551)	(5,961,950)	768,470,024

Company	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 as at 31.03.2018 Rs.
Assets							
Cash and Cash Equivalents	45,065,971	-	-	-	-	71,912,347	116,978,318
Loans and Receivables	915,571,490	1,257,036,213	1,787,142,362	737,699,501	-	-	4,697,449,566
Lease Rentals Receivables	49,106,626	112,915,839	315,140,156	133,892,098	-	-	611,054,718
Financial Investments	245,608,329	36,660,624	-	-	-	-	282,268,953
Other Financial Assets	77,096,618	130,274,430	-	-	-	-	207,371,048
Total Financial Assets	1,332,449,034	1,536,887,106	2,102,282,518	871,591,599	-	71,912,347	5,915,122,603
Financial Liabilities							
Due to Banks and Other Institutions	187,630,069	52,425,116	128,260,087	90,000,000	-	4,961,950	463,277,223
Due to Customers	2,032,329,057	1,368,376,672	543,888,464	452,730,094	147,349,770	80,160,974	4,624,835,030
Total Financial Liabilities	2,219,959,126	1,420,801,788	672,148,552	542,730,094	147,349,770	85,122,924	5,088,112,253
Interest Sensitivity Gap	(887,510,093)	116,085,318	1,430,133,966	328,861,505	(147,349,770)	(13,210,577)	827,010,349

Value Added Statement

	2019		2018		2017	
	Rs.	%	Rs.	%	Rs.	%
Value Added						
Interest Income	1,433,374,472		1,179,563,193		883,758,122	
Interest Expenses	(606,621,257)		(416,598,838)		(280,902,184)	
Cost of Service	(289,046,537)		(264,146,875)		(228,633,091)	
Value Added by Financial Service	537,706,679		498,817,480		374,222,847	
Other Income	141,872,419		141,197,890		212,673,991	
Impairment Changes	(94,014,169)		(89,116,323)		(172,259,081)	
Total	585,564,929		550,899,047		414,637,757	
Distribution of Value Added						
To Employees						
Salaries and other benefits	357,108,571		322,738,479		361,457,648	
	357,108,571	61.0	322,738,479	59.0	361,457,648	87.0
To the Government						
Income Tax Paid	14,475,303		4,785,973		5,780,978	
Tax on Financial Servies	87,760,056		70,751,368		48,027,957	
	102,235,359	17.4	75,537,341	13.7	53,808,935	12.9
To Expantion and Growth						
Retained Profits	33,647,118		69,914,997		(38,763,976)	
Reserve	8,243,250		18,436,459		-	
Depreciation and Amoritisation	58,140,340		58,186,793		47,419,510	
Deferred Taxtaion	26,190,291		6,084,979		(9,284,360)	
	126,220,999	21.5	152,623,227	27.6	(628,826)	-0.1
Economic Value Distributed	585,564,929	100.0	550,899,047	100.0	414,637,757	100.0

Capital Adequacy

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	2019 Rs.'000	2018 Rs.'000
Tier 1 Capital	985,754	1,014,500
Total Capital	1,014,524	1,014,500
Total Risk Weighted Amount	7,258,722	7,258,722
Risk Weighted Amount for Credit Risk	5,982,706	5,982,706
Risk Weighted Amount for Operational Risk	1,276,016	1,276,016
Company's tier 1 capital ratio %	13.6	14.0
Regulatory minimum tier 1 ratio %	6.5	6.0
Company's total capital ratio %	14.0	14.0
Regulatory minimum total capital ratio %	10.5	10.0

Item	2019 Rs.'000	2018 Rs.'000
Tier I capital	1,055,749	1,049,634
Stated capital	890,000	890,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	47,063	38,820
Audited retained earnings/(losses)	118,686	120,814
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit(losses)	-	-
Adjustments to Tier I capital	69,995	35,134
Goodwill (net)	-	-
Other intangible assets (net)	27,008	35,134
Other Comprehensive Income losses	-	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	42,987	
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)	985,754	1,014,500
Tier 2 Capital	28,770	-
Instruments qualified as Tier 2 capital	28,770	-
Revaluation gains	-	-
General provisions/ Collective impairment allowances	-	-
Eligible Tier 2 Capital	28,770	-
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	28,770	-
Total Capital	1,014,524	1,014,500

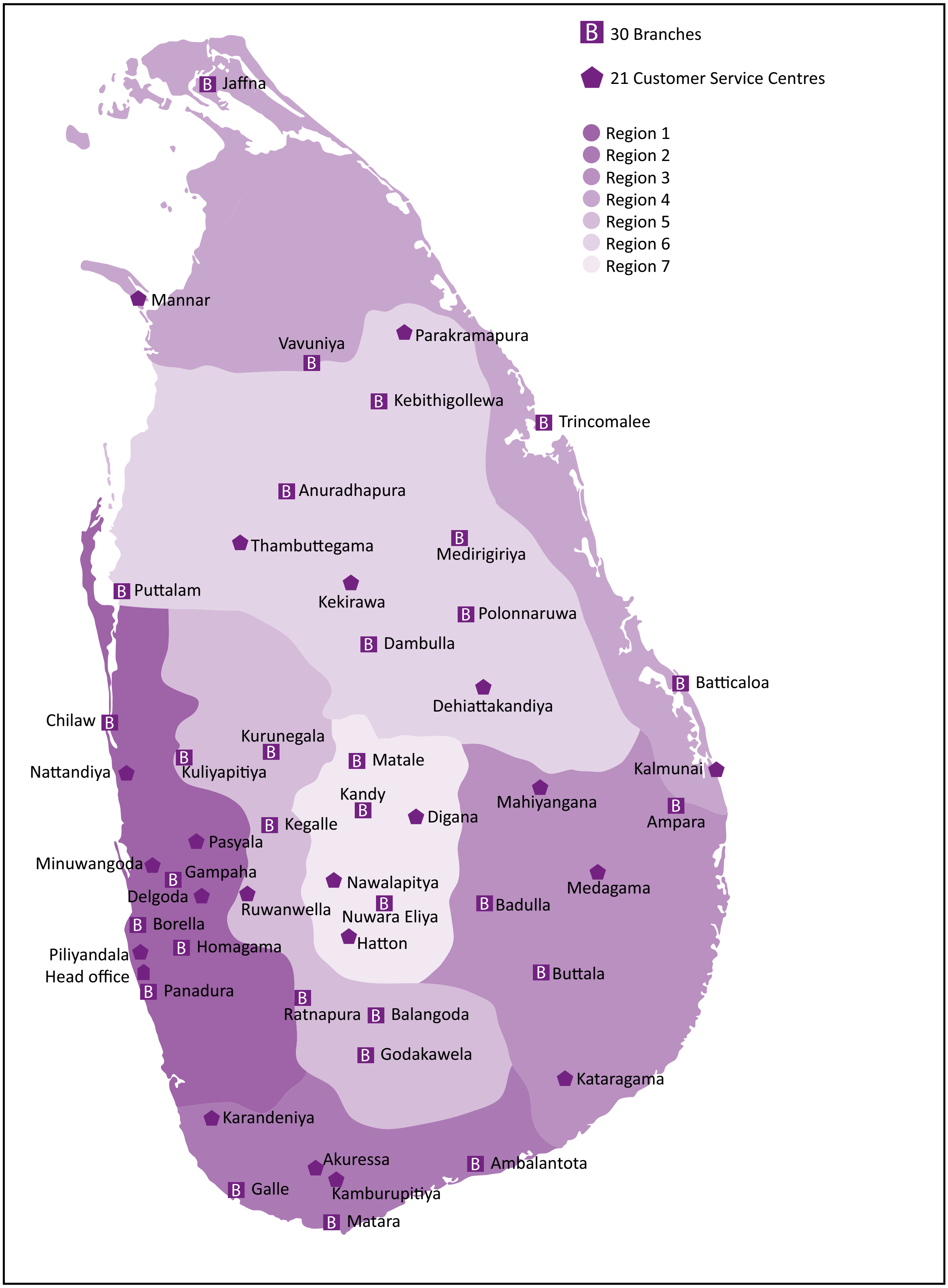
Five Year at a Glance

For the Year ended 31 March	2019	2018 Restated	2017	2016	2015
Operating Results (Rs)					
Income	1,575,246,892	1,320,761,083	1,092,958,179	1,014,753,642	752,992,948
Interest Income	1,433,374,472	1,179,563,193	883,758,122	922,993,919	652,411,316
Interest Expenses	606,621,257	416,598,838	280,902,184	255,915,002	210,804,012
Net Interest Income	826,753,216	762,964,355	602,855,938	667,078,917	441,607,304
Other Income	141,872,419	141,197,890	209,200,057	91,759,723	100,581,632
Total Operating Income	968,625,635	904,162,245	812,055,995	758,838,640	542,188,936
Operating Expenses	717,894,766	630,190,301	635,628,341	571,761,588	473,080,446
Impairment Losses	94,014,169	89,116,323	172,259,081	61,294,116	67,331,561
Profit/(Loss) Before Taxation (PBT)	68,956,644	114,104,254	(43,859,383)	76,510,573	(20,468,783)
Income Tax Expenses/(Reversal)	27,740,393	21,921,964	(9,323,911)	30,368,790	(8,674,853)
Profit/(Loss) for the Year (PAT)	41,216,251	92,182,290	(34,535,473)	46,141,783	(11,793,930)

As at 31 March	2019	2018 Restated	2017	2016	2015
Assets					
Cash and Cash Equivalents	140,902,916	116,978,318	138,046,068	306,766,105	208,620,885
Loans and Receivables	5,113,657,129	4,697,449,566	3,477,040,068	2,766,806,059	2,779,009,883
Lease Rentals Receivable	1,102,513,124	611,054,718	283,558,784	-	-
Financial Investments	442,595,260	282,268,953	268,211,272	243,177,150	201,843,587
Other Financial Assets	189,276,648	207,371,048	282,577,503	232,859,565	7,048,875
Investment in Subsidiary Companies	-	-	-	379,474,885	379,474,885
Property, Plant and Equipment	27,008,129	35,134,360	321,409,381	281,535,732	241,143,145
Other Assets	433,871,019	409,919,268	102,049,900	109,409,852	115,290,422
Total Assets	7,449,824,224	6,360,176,231	4,872,892,976	4,320,029,346	3,932,431,683
Interest Erning Assets	7,222,329,479	5,992,512,343	4,449,433,694	3,549,608,879	3,196,523,230
Non Interest Erning Assets	531,835,340	516,965,975	423,429,513	770,420,467	735,908,453
Liabilities					
Due to Banks	835,133,455	463,277,223	75,855,963	31,225,454	47,743,228
Due to Customers	5,385,341,597	4,624,835,030	3,563,699,800	3,070,417,410	2,776,238,605
Savings	1,561,061,005	1,554,619,398	1,607,045,443	1,585,565,955	1,484,222,353
Fixed Deposits	3,824,280,592	3,070,215,632	1,956,654,357	1,484,851,455	1,292,016,252
Other Non Financial Liabilities	80,408,493	84,070,152	165,765,352	96,909,412	53,841,982
Post Employment Benefit Liability	27,212,065	26,415,691	20,796,934	16,088,241	17,109,256
Other Liability	23,182,969	30,768,327	-	19,849,927	-
Total Liabilities	6,351,278,580	5,229,366,422	3,826,118,050	3,234,490,444	2,894,933,071

As at 31 March	2019	2018 Restated	2017	2016	2015
Shareholders' Funds					
Stated Capital	890,000,020	890,000,020	890,000,020	890,000,020	890,000,020
Reserves	208,545,623	240,809,789	156,774,907	195,538,882	147,498,592
Other Information					
Number of Staff	521	508	540	602	572
Number of Branches	30	30	30	30	30
Number of CSCs	21	21	22	28	32
Profit Before Tax Per Employee	132,354	224,615	(81,221)	127,094	(35,785)
Profit After Tax Per Employee	79,110	181,461	(63,955)	76,647	(20,619)
Total Assets Per Emplyee	14,299,087	12,520,031.95	9,023,876	7,176,128	6,874,881
Employees Per Branch	7	7	7	8	8
Capital Adequacy Ratio (%)					
Tier I	-	20.19%	25.02%	32.00%	30.66%
Tier II	-	20.19%	25.02%	20.32%	18.93%
Tier I (New Framwwork w.e.f 1 July 2018)	13.58%	14.83%	0.00%	0.00%	0.00%
Tier II (New Framwwork w.e.f 1 July 2018)	13.98%	14.83%	0.00%	0.00%	0.00%
Financial Indicators					
Return on Assets (ROA)	0.60%	1.64%	0.75%	1.12%	-0.34%
Return on Equity (ROE)	3.70%	8.15%	-3.24%	4.35%	-1.36%
Equity to Assets	14.75%	17.78%	21.48%	25.13%	26.38%
Net assets Per Share (Rs.)	16.27	16.75	15.51	16.08	15.37
Dividend Per Share (Rs.) *	NIL	0.53	NIL	NIL	NIL
Return on Interest Erning Assets	21.69%	22.59%	21.36%	21.78%	21.14%
Cost of Fund	10.73%	9.55%	8.33%	8.64%	8.28%
Interest Spread	10.96%	13.05%	13.02%	13.15%	12.86%
Net Interest Margin	12.51%	14.61%	14.74%	31.74%	25.70%
Portfolio Yield	22.88%	23.89%	23.33%	31.74%	25.70%
Staff Cost : Net Income	36.87%	35.69%	44.32%	41.40%	50.00%
Cost : Net Income	83.18%	77.52%	84.26%	81.80%	91.40%
Effciency Ratio	74.11%	69.70%	78.27%	75.35%	87.25%
Debit : Equity	565.85%	469.44%	331.12%	285.70%	272.20%
Ernings Per Share (Rs.)	0.61	1.19	(0.51)	0.68	(0.19)
Shareholders' Fund to Deposit	20.40%	24.53%	29.37%	37.10%	42.00%
Liquid Assets Ratio	13.75%	13.75%	20.39%	26.20%	16.50%
Assets Quality Indicators					
Gross NPA Ratio	9.41%	6.20%	8.90%	8.00%	5.00%
Net NPA Ratio	4.67%	2.61%	3.40%	3.10%	2.80%
NPA to Assets	8.92%	6.03%	8.00%	5.50%	3.70%
Provision to Advance	5.08%	3.06%	5.60%	5.10%	3.10%
Provision Cover	49.43%	44.10%	57.10%	63.00%	60.80%

Branch Network



Ref	Region	Branch	Telephone No	Address	E-mail Address
1	Region 1 (Western)	Gampaha	335111666-7	No.40/1/1, Colombo Road, Gampaha	gampaha@sdf.lk
2		Chilaw	325111666-7	No.66, Kurunegala Road, Chilaw	chilaw@sdf.lk
3		Panadura	385111666-7	No.322, Galle Road, Panadura	panadura@sdf.lk
4		Homagama	115944666-7	No.119/1/1, Katuwana Road, Homagama	homagama@sdf.lk
5	Region 2 (Southern)	Ambalantota	475111666-7	No.150,Main street,Ambalantota.	ambalantota@sdf.lk
6		Galle	915111666-7	No.26, Sri Dewamitta Road, Galle	galle@sdf.lk
7		Matara	415111666-7	No.372/C, Anagarika Dharmapala Mawatha Pamburana, Matara.	matara@sdf.lk
8	Region 3 (Uva)	Ampara	635111666-7	No.20, 6th Lane, Ampara	ampara@sdf.lk
9		Moneragala	555115666-7	No.304/1, In front of Bank of Ceylon Kachcheriya Junction, Moneragala	buttala@sdf.lk
10		Badulla	555111666-7	No.377, Passara Road, Viharagoda, Badulla	badulla@sdf.lk
11	Region 4 (North Eastern)	Jaffna	215111666-7	No.62/20A, Stanley Road, Jaffna	jaffna@sdf.lk
12		Batticaloa	655111666-7	No.132, Trinco Road, Batticaloa	batticaloa@sdf.lk
13		Trincomalee	265111666-7	No.31B, Kandy Road, Trincomalee	trinco@sdf.lk
14		Vavuniya	245111666-7	No.58, 1st Cross Street, Vavuniya	vavuniya@sdf.lk
15	Region 5 (North Western)	Godakawela	455111666-7	No.58 G1/1, Main Street, Godakawela	godakawela@sdf.lk
16		Balangoda	455111666-7	No.133/A, Barnes Ratwatte Mawatha, Balangoda	balangoda@sdf.lk
17		Kuliyapitiya	375111666-7	No.82, Kurunegala Road, Kuliyapitiya	kuliyapitiya@sdf.lk
18		Kurunegala	375111666-7	No.24, Mihindu Mawatha, Kurunegala	kurunegala@sdf.lk
19		Ratnapura	455113666-7	No.177, Main Street, Ratnapura	ratnapura@sdf.lk
20		Kegalle	355111666-7	No.245, Colombo Road, Kegalle	kegalle@sdf.lk
21	Region 6 (North Central)	Dambulla	665111666-7	No.707, Anuradhapura Road, Dambulla	dambulla@sdf.lk
22		Anuradhapura	255111666-7	No.561/B-39, 4th Lane, Near New Bus Stand, Anuradhapura	anuradhapura@sdf.lk
23		Polonnaruwa	275112666-7	No.21, Opposite Police Station, Kaduruwela Polonnaruwa	polonnaruwa@sdf.lk
24		Puttalam	325113666-7	No.116, Kurunegala Road, Puttalam	puttalam@sdf.lk
25		Medirigiriya	275111666-7	No.18, Main Street, Medirigiriya	medirigiriya@sdf.lk
26		Kebethigollawa	255111666-7	Horowpathana Road, Kebethigollawa	kebithigollawa@sdf.lk
27	Region 7 (Central)	Kandy	815113666-7	No.102, Yatinuwara Veediya, Kandy	kandy@sdf.lk
28		Nuwara Eliya	525111666-7	No.29/1, Lawson Street, Nuwara Eliya	nuwaraeliya@sdf.lk
29		Matale	665112666-7	No.630, Trincomalee Street, Matale	matale@sdf.lk
30	Head Office Branch	Borella	115942666-7	No.155/A, Dr.Danister De Silva Mawatha Colombo-8	borella@sdf.lk

Customer Service Centres

Ref	Region	Branch	Telephone No	Address	E-mail Address
1	Region 1 (Western)	Delgoda	115941666-7	No.328/B, New Kandy Road, Delgoda	oicdelgoda@sdf.lk
2		Minuwangoda	335113666-7	No.87/1/1, Kurunegala Road, Minuwangoda	oicminuwangoda@sdf.lk
3		Nattandiya	325112666-7	Marawila Road, Nattandiya	oicnattandiya@sdf.lk
4		Pasyala	335112666-7	No.178/8/3, Usaviya Watta, Pasyala	oicpasyala@sdf.lk
5		Piliyandala	115945666-7	No.24/A, Vidyala Mawatha, Piliyandala	oicpiliyandala@sdf.lk
6	Region 2 (Southern)	Akuressa	415114666-7	No.93, Matara Road, Akuressa	oicakuressa@sdf.lk
7		Kamburupitiya	415116666-7	Pathirana Building, Kirinda Road, Kamburupitiya	oickamburupitiya@sdf.lk
8		Karandeniya	915112666-7	4th Mile Post, Maha Edanda,	oickarandeniya@sdf.lk
				Karandeniya	
9	Region 3 (Uva)	Kataragama	475112666-7	No.41/B, New Town, Kataragama	oickataragama@sdf.lk
10		Mahiyangana	555112666-7	No.112/8, Girandurukotte Road, Mahiyangana	oicmahiyangana@sdf.lk
11		Medagama	555113666-7	Near by bus stand,Bibile Rd, Medagama.	oicmedagama@sdf.lk
12	Region 4 (North Eastern)	Kalmunai	675106666-7	No.218, Batticaloa Road, Kalmunai	oickalmunai@sdf.lk
13		Mannar	235111666-7	No.4, Convent Road, Sinnakadai, Mannar	oicmannar@sdf.lk
14	Region 5 (North Western)	Ruwanwella	365111666-7	No.122, Main Street, Ruwanwella	oicruwanwella@sdf.lk
15	Region 6 (North Central)	Dehiattakandiya	275113666-7	No.62/1E, New Town, Dehiattakandiya	oicdehiattakandiya@sdf.lk
16		Kekirawa	255113666-7	No.27, Yakalla Road, Kekirawa	oickekirawa@sdf.lk
17		Parakramapura	255114666-7	Kodituwakku Building, Padaviya Road, Parakramapura	oicparakramapura@sdf.lk
18		Tambuttegama	255114666-7	No.137, Rajina Junction, Anuradhapura Road, Tambuttegama	oictambuttegama@sdf.lk
19	Region 7 (Central)	Digana	815112666-7	No.15/1, New Town, Digana, Rajawella	oicdigana@sdf.lk
20		Hatton	515111666-7	No.3, Dimbula Road, Hatton	oichatton@sdf.lk
21		Nawalapitiya	545111666-7	No.100/1, Gampola Road, Nawalapitiya	oicnawalapitiya@sdf.lk

Glossary

A

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortisation
Amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un collectability.

Available for Sale Financial Assets
All assets not in the three categories namely, loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

C

Cash Basis
Recognizing the effects of transactions and events when receipt or payment of cash or cash equivalent occurs.

Capital Adequacy Ratio
The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Funds
Shareholders' funds net of statutory reserves

Cash Equivalents
Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows
Inflows and outflows of cash and cash equivalents.

Collective Impairment Provision
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commitments
Credit facilities approved but not yet utilised by the customers as at the date of the statement of financial position.

Contingencies
A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Cost to Net Income Ratio
The operating expenses, including tax on financial services but excluding the impairment (charge)/reversal for loans and other losses, expressed as a percentage of net income.

Cost of Funds
Interest expenses expressed as a percentage of average interest bearing liabilities.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Customer Deposits
Money deposited by account holders. Such funds are recorded as liabilities.

D

Debt to Equity
Interest bearing liabilities expressed as a percentage of average equity attributable to the equity holders of the Company.

Debt to Equity (Excluding Deposits)
Interest bearing liabilities excluding public deposits expressed as a percentage of average equity attributable to the equity holders of the company.

Deferred Tax
Sum set aside for tax in the Financial Statements for taxation that may become payable/ receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rule and accounting conventions.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

De recognition
The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Discount rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

E

Earnings per Share
Profits attributable to ordinary shareholders divided by the ordinary shares in issue.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Glossary

Effective Tax Rate
Provision for taxation excluding deferred tax divided by the profit before taxation.

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.

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.

Glossary

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.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Shareholders of Sarvodaya Development Finance Limited will be held on 26th July 2019 at 12.30 p.m. at the Head Office at No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08 for following purposes.

Agenda

1. The Notice convening the Meeting.

2. To receive and adopt the Annual Report of the Board of Directors along with the Financial Statements of the Company for the Financial Year ended 31st March 2019 and the Auditor's report thereon.

3. To re-appoint Mr. Channa De Silva - Director of the Company who retires by rotation in terms of the Articles of Association of the Company.

5. To re-appoint M/s. Ernst & Young, Chartered Accountants as External Auditors and to authorize the Directors to determine their remuneration

6. To receive and consider any other business of which due notice has been given.

By order of the Board,

B D O Secretaries (Private) Limited
Company Secretaries

25th June 2019

Note
By order of the Board a member entitled to attend and vote at the meeting is entitled to appoint a Proxy (whether a member or not) to attend and vote instead of him. A Form of Proxy is enclosed with the Report for this purpose and shareholders who are unable to attend in person are requested to kindly complete and return such Form of Proxy in due time, in accordance with the instructions noted on the Form of Proxy.

Arthadharma Geethaya

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බහු දෑ ගැතිකං - නව අදිරජ මං - අහුරා පලවා වනසා //
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කොටස් දෙකක් - ආයෝජන කෙරුමට
ඉතිරි කොටස - රඳවා හදිසියකට
ධනය හසුරුවමු - හොඳ දියුණුවකට

පබැඳුම - **ආචාර්ය ඒ ටී ආරියරත්න**
සංගීතය - **රෝහණ වීරසිංහ**
ගායනය - **අමරසිරි පීරිස්**

Form of Proxy

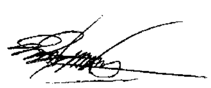
I/We …………………………………………………. (PP/NIC No/Com. Reg No.…………………………………) of ………………………………………………………………
……………………………… being a Shareholder/s* of Sarvodaya Development Finance Limited, hereby appoint:

Mr. C. De Silva	of Moratuwa or failing him*
Dr. R. W. A. Vokes	of U.K. or failing him*
Mr. M. Yamashita	of Japan or failing him*
Dr. J. P. Kuruppu	of Colombo or failing her*
Mr. C. S. Rajakaruna	of Athurugiriya or failing him*
Mr. C. A. CanagaRetna	of Nugegoda or failing him*
Mrs. S. De Silva	of Colombo

…………………………………………… of ……………………………………………………………………………………… as my/our* proxy to represent me/us* and to vote as indicated hereunder for me/us* and on my/our* behalf at the Annual General Meeting of the Company to be held on 26th July 2019 at 12.30 p.m. and at every poll which may be taken in consequence of the aforesaid Meeting at any adjournment thereof.

	For	Against
1. To receive and adopt the Annual Report of the Board of Directors along with the Financial Statements of the Company for the Financial Year ended 31st March 2019 and the Auditor's report thereon.	☐	☐
2. To re-appoint Mr. Channa De Silva - Director of the Company who retires by rotation in terms of the Articles of Association of the Company.	☐	☐
3. To re-appoint M/s. Ernst & Young, Chartered Accountants as External Auditors and to authorize the Directors to determine their remuneration	☐	☐
4. To receive and consider any other business of which due notice has been given	☐	☐

In witness I/we place my/our* hands hereunto this ……….. day of July, Two Thousand and Nineteen.



Signature

Notes:
*Please delete inappropriate word/s.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy, by filling it legibly your full name and address, signing in the space provided, and filling in the date of signature.

2. Please indicate clearly how your proxy is to vote. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.

3. The completed form of Proxy should be deposited at the Registered Office of Sarvodaya Development Finance Limited, at No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08, 48 hours before the time appointed for the holding of the meeting.

Notes

Notes

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.51/A
Dr. Danister De Silva Mawatha
Colombo 08,
Sri Lanka.
Telephone No.: 011 5 444 666
Fax No.: 011 2 655 122
E-mail: info@sdf.lk
Website: www.sarvodayafinance.lk

Share Capital
Rs. 890,000,020

Share Holding

Sarvodaya Economic Enterprises Development Services (Guarantee) Limited	54,000,000
Gentosha Total Asset Consulting Inc., Japan	13,500,004
Dr. Vinya Ariyaratne	1
Mr. Shakila Wijewardena	1
Total	67,500,006

Accounting Year-end
31st March

Board of Directors

Mr. Channa de Silva	- Chairman
Dr. Vinya Ariyaratne	- Retired w.e.f. 31st December 2018
Mr. Shakila Wijewardena	- Retired w.e.f. 31st December 2018
Mr. K L Gunawardana	- Demised on 21st November 2018
Mr. Shevon Gooneratne	- Retired w.e.f. 03rd February 2019
Dr. Richard Vokes	
Mr. Masayoshi Yamashita	
Dr. Janaki Kuruppu	
Mr. Alex Dilan Perera	- Resigned w.e.f. 14th August 2018
Mr. Chamindha Rajakaruna	
Mr. Amrit CanagaRetna	- Appointed w.e.f. 19th October 2018

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

Bankers
Hatton National Bank PLC
People's Bank
Bank of Ceylon
Seylan Bank PLC
DFCC Bank PLC
Commercial Bank PLC
National Development Bank PLC

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Sarvodaya Development Finance Limited
No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08.
Telephone No.: 011 5 444 666 | Fax No.: 011 2 655 122
E-mail: info@sdf.lk | Website: www.sarvodayafinance.lk