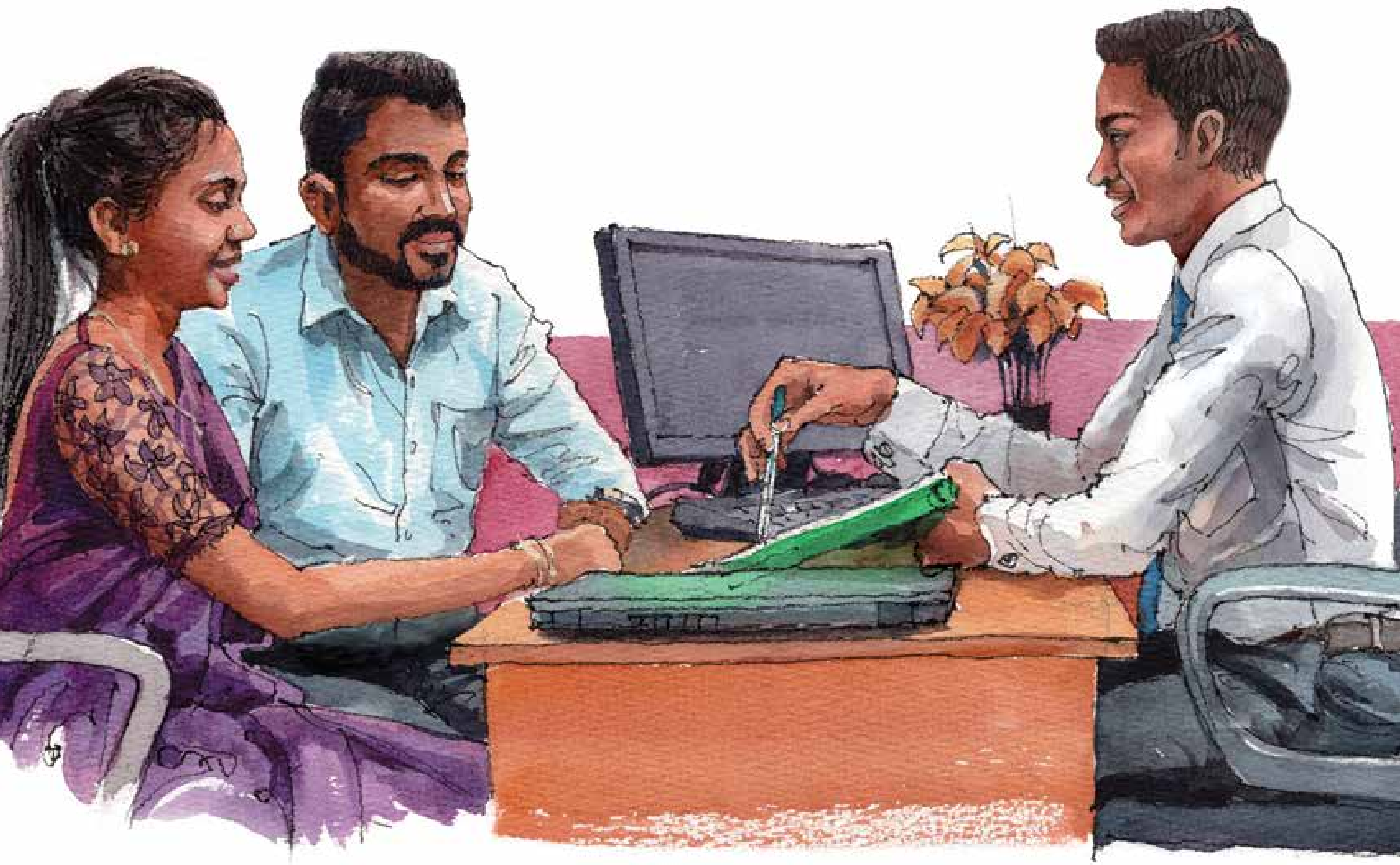
PROGRESSIVE ACTION



SARVODAYA DEVELOPMENT FINANCE LIMITED
ANNUAL REPORT 2017/18

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SARVODAYA DEVELOPMENT FINANCE LIMITED

Annual Report 2017/18

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

Words have a way of transforming us. Actions even more so. From humble beginnings to the financial institution that we are today, we have taken action and made great strides in not only diversifying our offerings but also catering to a plethora of customers whose needs are as wide as our reach. That's why we at Sarvodaya Finance are all about following our words with action that truly uplift the lives of our stakeholders. We ourselves had an exceptional year which saw this transformation turn things around; all by following through on progressive action.

Progressive Action

Financial Highlights

	2018	2017	Change %
Profitability (Rs. '000)			
Income	**1,320,761**	1,092,958	20.8
Interest Income	**1,179,563**	883,758	33.5
Net Interest Income	**762,964**	602,856	26.6
Operating Expenses	**630,190**	635,628	(0.9)
Impairment Losses	**89,116**	172,259	(48.3)
Profit/(Loss) Before Taxation	**114,104**	(43,859)	> 100
Profit/(Loss) After Taxation	**80,485**	(34,535)	> 100
Assets and Liability (Rs. '000)			
Loans and Receivables	**4,697,450**	3,477,040	35.1
Lease Rentals Receivables	**611,055**	283,559	> 100
Total Assets	**6,349,595**	4,872,893	30.3
Due to Customers	**4,624,835**	3,563,700	29.8
Total Shareholders' Funds	**1,134,612**	1,046,775	8.4
Investor Information (Rs.)			
Net Asset Value per Share	16.80	15.51	8.4
Earnings per Share - Basic	**1.19**	(0.51)	> 100
Dividend per Share	**0.53**	-	> 100
Financial Indicators (%)			
Return on Average Assets (after tax)	**1.43**	(0.75)	
Return on Average Equity (after tax)	**7.38**	(3.24)	
Cost to Income	**77.52**	84.26	
Net NPA Ratio	**3.56**	4.46	
Growth in Profit	> 100	< 0	
Growth in Total Assets	30.30	12.80	
Capital Adequacy Ratios (%)			
Tier I	**20.19**	25.02	
Tier II	**20.19**	25.02	

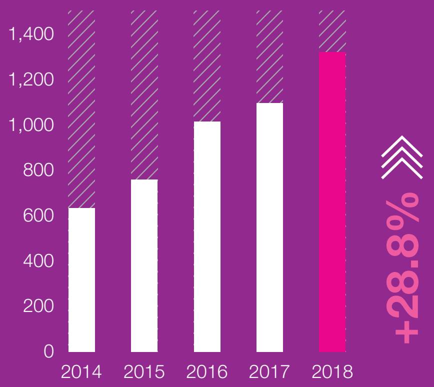
Rs.
80.5 Mn
Profit After Tax

Rs.
184.9 Mn
Operating Profit

Rs.
4.0 Bn
Disbursements

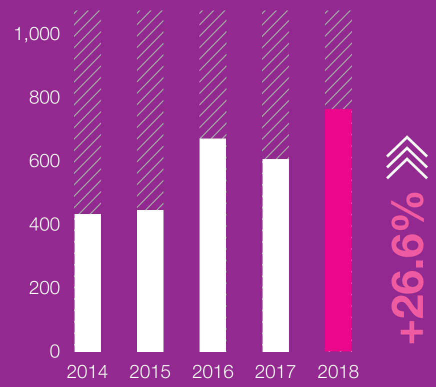
Income

(Rs. Mn)



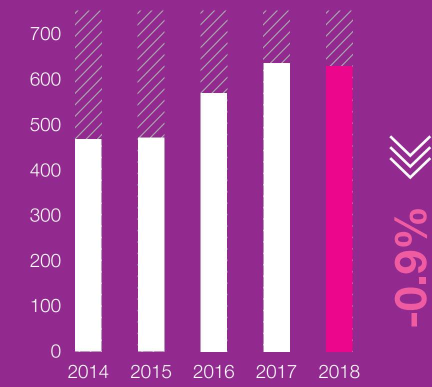
Net Interest Income

(Rs. Mn)



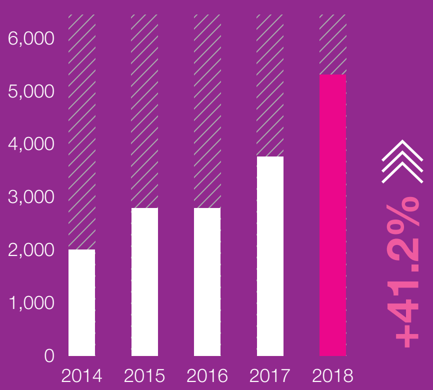
Operating Expenses

(Rs. Mn)



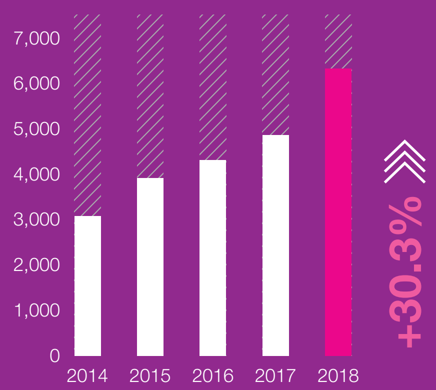
Loans and Lease Receivables

(Rs. Mn)



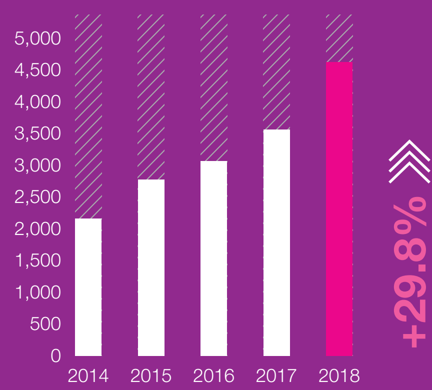
Total Assets

(Rs. Mn)



Customer Deposits

(Rs. Mn)



1.43 %

Return on Assets

7.38 %

Return on Equity

3.56 %

Net NPA Ratio

Non-Financial Highlights

	Unit	2018	2017
Finance Capital (Page 92 to 104)			
Economic Value Created	Rs. Mn	**1,320.8**	1,093.0
Distributed to;			
Depositors & Lenders	Rs. Mn	**416.6**	280.9
Employees	Rs. Mn	**322.7**	361.5
Government	Rs. Mn	**80.1**	48.0
Suppliers	Rs. Mn	**425.3**	441.4
Shareholders	Rs. Mn	**35.8**	-
Retained	Rs. Mn	**76.0**	(38.8)
Manufactured Capital (Page 105 to 111)			
Branches	Nos.	**30**	30
Customer Service Centres	Nos.	**21**	22
Branches Upgraded	Nos.	**15**	8
Branches Relocated	Nos.	**2**	9
Investment in Fixed Assets	Rs. Mn	**24.2**	88.8
Social and Relationship Capital (Page 122 to 137)			
New Lending Products	Nos.	**1**	6
Customer Base	Nos.	**158,158**	193,158
Revenue to Government	Rs. Mn	**97.7**	56.9
Payment to Suppliers	Rs. Mn	**868.7**	651.0
Products Disbursements	Rs. Mn	**3,957.4**	2,910.1
Marketing Initiatives	Rs. Mn	**30.1**	24.2
SSS Trainings	Nos.	**31**	2
Human Capital (Page 114 to 121)			
Total Workforce	Nos.	**548**	540
New Recruitments	Nos.	**180**	114
Employees Promoted	Nos.	**102**	14
Employees Trainings	Hrs	**383**	456
Employees Rewarded	Rs. ('000)	**1,866.0**	Nil
Natural Capital (Page 138 to 141)			
Electricity Usage	Kwh	**483,344.0**	455,884.0
Electricity per Rs. Million of Revenue	Kwh	**366.0**	417.1
Fuel Usage	Litre	**117,283.0**	112,553.0
Fuel per Rs. Million of Revenue	Litre	**88.8**	103.0
Energy Usage per Employee	Rs.	**49,289.0**	49,939.7

548
Total Workforce

51
Customer Delivery Points

ATM Card
Connecting to over 4,000 Banking Network ATMs through LankaPay platform

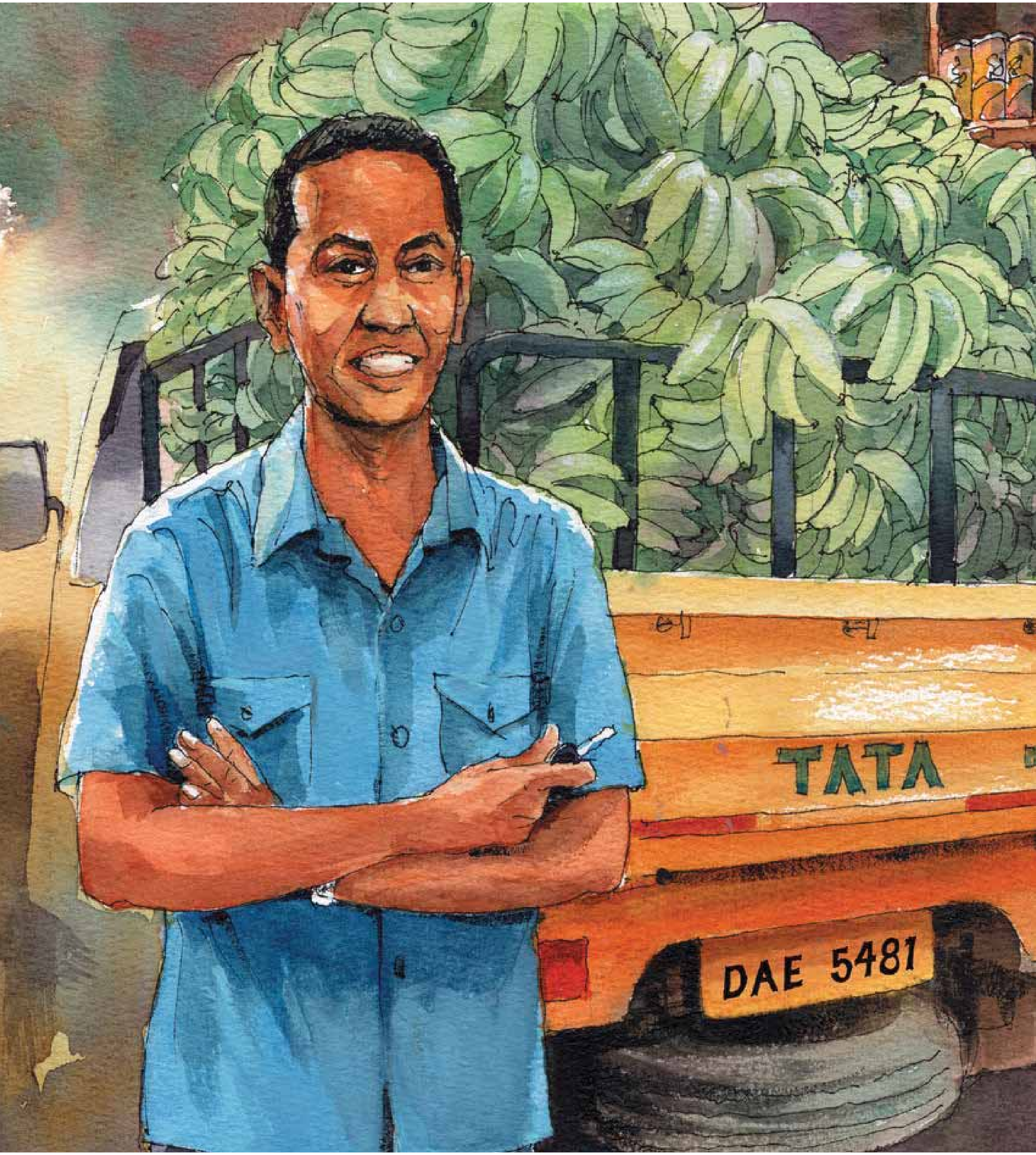
102 Employees Promoted
After considering individual KPIs

Rs. 97.6 Mn
Revenue to the Government.

mCash
Mobilise loan collections using mobile phones

Silver Award
Finance & Leasing Sector
below Rs. 20 Bn Assets Category at CA Sri Lanka Annual Report Awards 2017

158,158
Total Customers


TATA
DAE 5481

“Getting my produce to the town was always a hassle. But after speaking with SDF, my ideas for expansion are on fast track.”

Chairman's Message

"In the current financial year the Company has not only converted its previous year's losses into profits, but also, elevated the Company to emerge onto a stronger position than ever before, both in terms of financial stability and in terms of laying the groundwork for future growth."

Profit After Tax

Rs. 80.5 million

Lending Portfolio

Rs. 5.3 billion

It gives me great satisfaction to announce a progressive and satisfying performance by Sarvodaya Development Finance (SDF) in the financial year under review. This follows the successful deployment of our strategic restructuring programme. It is in the backdrop of this happy setting that I have the pleasure of presenting the annual report and audited financial statements of SDF, for the financial year 2017/18.

As our stakeholders are aware, SDF, which is the financial services arm of the Sarvodaya Movement, commenced an in-depth organisation restructuring programme in the financial year 2015/16, which, in execution, inevitably caused some disruptions to the financials. This resulted in a loss for the financial year 2016/17. However, in the current financial year the Company has not only converted its previous years' losses into profits, but also, elevated the Company to emerge onto a stronger position than ever before, both in terms of financial stability and in terms of laying the groundwork for future growth.

I would like to note that SDF's return to profitability has been achieved within a macro environment that was particularly challenging for financial services providers. The national GDP recorded a weak growth of 3.1% for 2017, compared to the 4.5% growth of the previous year. In this unfavourable economic environment where continuous government borrowing crowded-out the debt market, market interest rates and the inflation rate, increased. These macro developments converged towards pushing-up cost of funds, business risks and operating costs for small businesses on one end, while discouraging credit demand on the other, making it extremely difficult to achieve bottom-line growth.

The overall NBFI sector performance reflected the macro environment of 2017, recording relatively low credit growth, declining profitability and an increase in non-performing loans. The sector posted a profit after tax of Rs. 25.8 billion, an 18.0% decline compared to the profit of Rs. 31.5 billion recorded in 2016, mainly due to increased funding costs and higher loan loss provisions. Due to the floods that occurred during the first half of 2017, nationwide droughts later in the year, and the slower economic growth, the gross NPA ratio of the sector increased to 5.9% in 2017, from 5.3% reported in 2016. Meanwhile credit growth of the sector decelerated by 9.8 %(Rs. 94 billion) amounting to Rs. 1,057.1 billion, compared to 21.0% growth experienced during 2016. The slowdown of credit growth witnessed during the year, compared to 2016, can also be attributed to fiscal and macro prudential policy measures taken to curtail the importation of motor vehicles and lending towards vehicles, the

Chairman's Message

moderate economic growth witnessed in the economy during the year and high interest rates that prevailed in the market. Therefore, it is commendable and encouraging that SDF has recorded portfolio and profit growth in spite of these challenging environmental factors.

In the financial year 2017/18, SDF has converted its previous year's net negative financial position of Rs. 34.5 million, to a profit of Rs. 80.5 million. Despite sluggish demand conditions, SDF continued to experience growing demand for credit during the financial year 2017/18 with net portfolio surging by 41% to Rs. 5.3 billion. SDF's deposit base, which is the Company's main source of funding, increased by 30% to Rs. 4.6 billion, amply demonstrating the unfaltering public trust in the SDF brand which remains close to rural Sri Lankan grassroots communities with its association with the Sarvodaya Movement. While our revenues have continued to push beyond industry averages and macro cost factors have maintained upward momentum, SDF's costs to net income have contracted by 6.7%, as a result of strict middle-line control measures.

The current years' advancement of the Company across all fronts demonstrates the effectiveness of our growth strategy deployment at ground level, even within challenging and unfavourable market conditions. I request our shareholders to refer the CEO's review for a more detailed explanation of our business operations during the year, and also the Financial Capital chapter of this report for an update on the Company's current, much improved, financial status.

Honouring our commitment towards the advancement of grassroots entrepreneurism, we have disbursed Rs. 728 million to our micro customers in the current year. What is exponentially beneficial, is that most of this funding goes towards women entrepreneurs, a majority of whom are located outside the Western Province, contributing towards the quality of life enhancement of their entire families. The conscious decision to extend our support towards strengthening the SME backbone of this country was further strengthened in the current financial year with larger volumes of disbursements, coupled with specialised technical support services aimed at strengthening their business models and financial sustainability. SDF's success in penetrating the highly diverse SME sector is demonstrated by the 314% expansion of our SME customer base in terms of numbers of new customers. In this regard, I am pleased to report that many of our micro clients, who graduate to SME status, continue to remain with SDF. We are now better equipped to support them through this transition. In fact, almost 10% of our SME customer base comprise of former micro clients and many of our clients have repeatedly taken loans from us, to grow their businesses.

Another aspect which we have emphasised during the current financial year, is in relation to strengthening SDF's brand presence across the country, building consumer brand awareness and thereby augmenting brand equity. We have been extremely successful in this regard in utilising traditional media platforms for marketing and brand development and also in expanding our footprint in digital social media platforms through highly creative and impactful methods. The rapid growth in 'likes' and 'shares' enjoyed by our postings on Facebook demonstrates how effective and creative our social media campaigns have become and also demonstrate our success in attracting a new generation of tech savvy customers towards SDF. On average, our Facebook postings and promotional videos enjoy almost 100,000 views. We also have unparalleled numbers of 'likes' and viewers' sharing our videos, with participation from a broad age spectrum, indicating SDF's growing appeal to diverse social segments.

Reflecting the Company's aspiration towards a more youthful, dynamic and professional brand image, we have continued upgrading our branch network with modern technology facilities, contemporary interior designs, and attractive signage. The objective is to clearly differentiate the SDF brand in the current highly crowded financial services markets, while retaining the Company's traditional warmth, friendliness and welcoming ambiance.

We believe our team is the engine that drives our growth and we have empowered our employees by providing technological support systems and greater decision making autonomy, particularly in our branches. We have continued to harness modern digital technologies towards enhancing employee productivity and operational efficiency by upgrading IT systems within our branches and by equipping our collection staff with a mobile App to facilitate real-time payment updates. We have continued to integrate technology solutions into front and back-end activities and towards developing internal digital platforms. Ongoing measures towards greater connectivity across our island wide branch network have facilitated effective communications, employee engagement and leadership development, which is crucial to ensure uninterrupted business growth into the future. We also motivate our staff through a range of incentives and rewards, making SDF one of the best places to work in the country.

During the current financial year we invested significantly towards developing our human resources. The financial results of the current year are indicative that these investments are already resulting in excellent benefits for the organisation. Our objective is to position SDF as the country's largest and most ethical micro finance provider. I am confident SDF is now well entrenched in a growth trajectory towards this objective. Our continuous investments during the current financial year in systems and human capital development have now created adequate internal capacity to fuel growth. I believe the Company is now equipped to double and even triple its current business volumes at a rapid pace. Therefore, we have mapped out our growth plans to enable much higher capacity utilisation in the new financial year. We will also continue our market penetration drive through physical expansion and through our growing digital social media presence.

I am confident the demand trend for SDF's credit will not only be sustained in the short term, but will increase exponentially due to public trust in SDF and Sarvodaya brand strengths and also our heightened brand visibility. Therefore, a key strategic consideration for the SDF Board, is to access low cost funding to sustain the current growth momentum. The Board is currently considering additional funding from international credit lines. The Board is already discussing these international funding arrangements with a number of suitable international agencies that would allow us to double our lending in line with demand. A number of large institutional investors have expressed interest in an equity position in the Company too. We hope to arrive at a decision in this regard, in the new financial year to increase the equity base of the Company.

Given the current growth drive of the Company I am confident SDF is now positioned to increase shareholder returns and, through increased returns given to our shareholders, to also help more people and communities in need. Our customers and employees will also reap benefits of growth.

On this happy note, I would like to thank the Board, CEO and all staff for an excellent performance. Our customers are the centre of our business and I thank them for their loyalty and look forward to enhancing our services to support their growth aspirations. We remain committed to empower people and organisations and to serve all parties better, as we progress into the future with confidence.

Sincerely

Mr. Channa de Silva
Chairman

31st May 2018

CEO's Review

"The operating profit increased by 46 times from Rs. 4 million to Rs.185 million. The after tax loss of Rs. 34.5 million in FY 2016/17 was converted to a profit of Rs. 80.5 million in FY 2017/18."

I am pleased to report to our stakeholders that Sarvodaya Development Finance (SDF) has made a strong recovery and returned to profitability in 2017/18, coupled with tangible improvements across almost all our financial and operational fundamentals as our restructuring initiatives, cutting across all governance and administrative structures of the organisation, have now started showing results.

STRATEGIC PRIORITIES AND PERFORMANCE

My top priority for the current financial year was to revert SDF back to profitability. We have achieved this by converting our net losses of 2016/17, into a net profit within the time frame of 12 months. In terms of overall financial health of the Company, our internal risk matrix has now switched to predominantly green, with only a few amber and red spots remaining, with revenues, profitability, quality of portfolio, portfolio growth and efficiency indicators, all recording clear improvements.

A second priority was to aggressively push deposit growth, to build-up a cost-efficient funding base. In this regard, I can state that the current financial year is the highest year of deposit growth in all of SDF's history.

A third important area of focus was to effect a mindset shift among our workforce, from the grant-disbursement-mentality, towards a dynamic, commercially oriented, financial industry mindset. I believe we have

Income

Rs. 1.32 billion

Operating Profit

Rs.185 million

CEO's Review

made solid progress in this aspect as well, by transforming our workforce into an agile and efficient human resource base to meet contemporary business challenges.

FINANCIAL PERFORMANCE

As a consequence of portfolio improvement, interest income increased by 33% from Rs. 884 million to Rs. 1.18 billion by concentrating on the SME, personal loans and also leasing categories. This growth fuelled a total income growth of 21% from Rs. 1.09 billion, to Rs. 1,32 billion. While our restructuring process has already started showing results, I believe the larger share of benefits will be realised in the next 2-3 years.

Our lending portfolio growth was supported by deposit growth. Under current market conditions, deposit mobilisation is extremely competitive. However, we achieved a 30%, growth from Rs. 3.6 billion in 2016/17 to Rs. 4.6 billion.

In spite of portfolio and revenue growth, total expenses have reduced from Rs. 636 million to Rs. 630 million. Reduction of personnel cost by 11% contributed considerably towards overall cost reduction. However, it is encouraging that the per-person income has increased by 28.7% due to improved efficiency of operations, particularly in the front line, which accounts for the majority of our workforce. Staff cost to net income has reduced to 36%, from 44% last year. Our aim is to contain the ratio to around 30% which is around the industry average. The PAT per employee, was a loss of Rs. 64,000 last year. It is now a positive Rs. 147,000 per employee.

On the back of revenue growth and controlled expenses, the operating profit increased by 46 times, from Rs. 4 million to Rs.185 million. The after tax loss of Rs. 34.5 million in FY 2016/17 was converted to a profit of Rs. 80.5 million in FY 2017/18. Another contributor to profits was the significant drop in impairments for NPAs, by Rs. 83 million.

MANAGING OUR CREDIT RISK

The lending portfolio, which is our primary financial asset and primary source of revenue, was a focal point during the year. The objective was to improve the quality of the portfolio and introduce better controls to achieve high quality portfolio growth.

The effectiveness of our strategies and efforts can be demonstrated through the results. Our lending portfolio grew by 41% during the year, from Rs. 3.8 billion, to Rs. 5.3 billion. Bad debt recovery increased by 53% and the gross NPA improved from 8.9% to 6.2%, while the net NPA was cut back from 4.5 % to 3.6%.

Structural changes introduced to Recovery and Legal Departments have started showing results by way of improved collections and improvement in portfolio quality. This improvement was achieved through formally segregating the scope and duties of the Recoveries and Legal Departments. The litigation function was separated from the Legal Department and a new Head of Litigation was appointed. The Legal Division was overhauled with a new Head of Legal appointed through internal promotions. The legal team was enhanced and the regional coverage was strengthened. A dedicated Legal officer was also appointed to the Recoveries unit with a view to improve overall effectiveness of the Recovery unit. The scope of the Recoveries Department was widened to handle restructuring and rehabilitation of large loans. We have also ensured that the three units are working in a seamless process to facilitate rapid responses.

Credit risk management was addressed by shifting towards a secured regime. As a result, the portfolio is now more stable with a 65:35 distribution between collateral-backed and without collateral in lending, compared to the 40:60 status previously. We strengthened our depth of credit analysis by introducing credit risk rating modules for various products. Credit risk appraisal skill gaps were addressed in multiple ways, including training. We facilitated external training for all front line staff involved in credit, particularly on SME lending, and we sent our recovery personnel for training by the Central Bank and other industry experts.

BUILDING OUR TEAM

The underlying reason behind our extremely successful financial performance, is our team. During the year, we rolled out many wide ranging changes to our human resource administration system to add value to the organisation and increase our competitiveness.

Among other things, we implemented a monthly variable performance incentive model directly linking rewards with performance against targets. The scheme allowed per-person income to increase, with increased productivity. Instead of the previous structure of deposit mobilisation coming under the Branch Operations and Marketing Division, a separate Deposit Mobilisation Division was created at head office with an AGM appointed to overlook operations. This focus on deposits, helped drive deposit mobilisation as a separate function. We also introduced various other incentives and competitions for sales staff. Collections were made more efficient by arming staff with mobile applications and a mCash collection platform was introduced.

The Company approved a bonus to employees for the first time in its history in the current financial year, on top of distributing various incentive payments and rewards monthly.

On the recommendation of the Remuneration Committee, employee salaries were brought up to date after a salary survey, and delayed promotions were finally expedited. A policy on recruitment and salary increments was approved by the Board. An Employee Welfare Society was established under the HR Department and a medical insurance scheme was introduced for permanent employees.

FUTURE OUTLOOK AND PLANS

Going forward, a priority for SDF is to build-up the minimum capital requirement in 2018 by introducing fresh equity capital. We hope to do this through active partners that can bring value additions to the organisation. We are already discussing possibilities with international development banks, multilateral agencies and fund managers with operational experience in Sri Lanka, in this regard.

Credit quality and portfolio growth will remain a key growth area in the new financial year with expansion in targeted sectors, such as SME credit. While we currently offer an SME product, our trained human capital base in this specialised niche is limited. In the new financial year, we will grow our in-house skills in this sector and in core areas such as credit management, marketing, commercial orientation, leadership, soft skills, and use of modern ICTs. Upgrading our skills to enhance overall competitiveness will be an ongoing aspect of our growth model. This includes integrating modern digital technologies into all aspects of our operations. We are now connected to the ATM network through our ATM card and we are hoping to introduce mobile applications for deposit mobilisation and to improve operational efficiency and good governance.

Another growth aspect that we will develop in the new financial year, will be better synergies from our relationship with Sarvodaya Shramadana Societies and other sister Sarvodaya Organisations. This is an extensive network spanning the breadth of the island, which can be leveraged to generate business leads, deposit mobilisation and brand visibility.

I would like to thank our Chairman, Mr Channa de Silva, and the Board for their confidence in me and for their support throughout the year in driving the change management programme. I would also like to express my appreciations to the Governor, the Director, Non-Bank Financial Institutions and relevant staff at the Central Bank of Sri Lanka. I believe our achievements are due to our employees who have worked as a team and have been responsive to positive change. Therefore, I thank them and look forward to greater things in the new financial year. My gratitude also goes out to the General Secretary and Executive Director of Sarvodaya Shramadana Sangamaya and other Sarvodaya officials who supported us in numerous ways during this period. I also extend my gratitude to our loyal customers. The SDF team stands ready to meet their needs better in the new financial year.

Sincerely

Mr. Dharmasiri Wickramatilake
Chief Executive Officer

31st May 2018

Board of Directors

Seated Left to Right

Dr. Richard W A Vokes - *Non Executive / Independent* | **Mr. Masayoshi Yamashita -** *Non-Executive / Non Independent*
Dr. Janaki Kuruppu - *Non Executive / Independent* | **Mr. Channa de Silva -** *Chairman – Non Executive / Independent*

Standing Left to Right

Mr. K. L. Gunawardana - *Non Executive / Non Independent* | **Mr. Alex Perera -** *Non Executive / Independent*
Mr. Shakila Wijewardena - *Non Executive / Non Independent* | **Dr. Vinya Shanthidas Ariyaratne -** *Non Executive / Non Independent*
Mr. Shevon C P Gooneratne - *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. He is also an Edward Mason Fellow of Harvard University and served as a Teaching Fellow in Finance at the Harvard Kennedy School.

DR. VINYA SHANTHIDAS ARIYARATNE
Non Executive / Non Independent

Dr. Vinya Ariyaratne assumed office as Chairman of DDFC Board of Directors in January 2010 and thereafter of Sarvodaya Development Finance Limited till September 2014. He is the General Secretary of the Lanka Jathika Sarvodaya Shramadana Sangamaya, prior to which, he served as its Executive Director for a period of 10 years. Dr. Ariyaratne is also a Non-Executive Director of the Parent Company, SEEDS (Gte) Limited. He is also the Chairman of newly established Sarvodaya Institute of Higher Learning (SIHL), the educational empowerment arm of the Sarvodaya Movement.

Dr. Ariyaratne is a Medical Doctor specialized in Community Medicine and was a Lecturer at the Faculty of Medical Sciences of the University of Sri Jayewardanepura. He was also Visiting Senior Lecturer and Feldman Engaged Scholar at the Heller School for Social Policy and Management of the Brandeis University, USA.

Dr. Ariyaratne holds a Doctorate in Medicine (MD) from the De La Salle University of the Philippines and a Doctorate in Community Medicine (MD Com. Med.) from the Postgraduate Institute of Medicine of the University of Colombo. His academic qualifications also includes a Master of science in Community Medicine (MSc) from the University of Colombo and a Master's in Public Health (MPH) from the John Hopkins University of USA. In addition to the many awards he has received for his contributions toward the social upliftment of underserved communities, Dr. Ariyartne was conferred the Degree of Doctor of Civil Law (DCL) Honoris Causa in February 2007, by the University of Durham, UK, in recognition of his dedication to humanitarian causes and peace initiatives. In 2014, Dr. Ariyaratne received the "Social Entrepreneur of the Year" Award from the Schwab Foundation / World Economic Forum.

MR. SHAKILA WIJEWARDENA
Non Executive / Non Independent

Appointed to the Board of SDF on 1st January 2010. Mr Wijewardena assumed office as MD/CEO of SDF on January 2011 and was an Executive Director of the Board. He relinquished his post in July 2013 and was re-designated as a Non-Executive Director. He is also a member of all three Board designated Sub Committees, viz. the Integrated Risk Management Committee, the Board Audit Committee and the Board Remuneration Committee. He is also the former Chairman of Summit Finance PLC.

Prior to his tenure at SDF, Mr Wijewardena was the CEO MD of SDF's Parent Company, SEEDS (Gte) Limited, having joined the organisation in 2002. He was thereafter appointed a Board Director of SEEDS (ex officio). Mr Wijewardena has held senior positions in the corporate sector in the areas of marketing and management and has served Oxfam GB, United Kingdom, assisting Oxfam's Trading Division in East London.

Mr Wijewardena holds a Bachelor of Science (BSc) Degree from the University of Colombo and a Post graduate Diploma in Management Studies from the Anglia University UK., and is a member of the Chartered Management Institute, UK.

MR. K. L. GUNAWARDANA
Non Executive / Non Independent

Having appointed to the Board of Directors of Sarvodaya Development Finance (SDFC) in February 2010, Mr K L Gunawardana presently serves the Board of Directors of SDF as a Member of the Remuneration Committee. He is also a Vice President of Lanka Jathika Sarvodaya Shramadana Sangamaya (Inc) and a Non-Executive Director of the Board of Directors of Sarvodaya Economic Enterprise Development Services (Gurantee) Limited (SEEDS).

Mr Gunawardana retired from active of Lanka Jathika Sarvodaya Shramadana Sangamaya (Inc) as the Deputy Executive Director of Personality Awakening (Human Resource Development and Management) and Development Education in 2014. By then, he counted over 30 years of experience in planning and managing community development programmes over many sectors. Starting his career as a field Worker in 1976, Mr Gunawardana held the positions of Senior Executive Assistant, Assistant Director and Director of the Development Education Institute in Bandaragama, a fully-fledged Development Education Institute. He also served Sarvodaya Sharmadana Movement at national level as the Field Director, Executive Assistant (Monitoring and Evaluation) and Operational Executive during his tenure.

Mr. Gunawardana holds BA and MA Degrees in Sociology from the Universities of Peradeniya and Kelaniya, respectively. He also holds a Master's in Development Management (MDM) Degree from the Asian Institute of Management in the Philippines.

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 worked in Thailand, Philippines, Malaysia, Lao PDR, Vietnam, Bhutan, Maldives, Cambodia and Myanmar. Dr. Vokes holds a PhD in Economics from the University of Hull (1978), Certificate of Education in Economics, Hull College of Education (1973) and BA (Hons.) in Economics and South East Asian Studies from the University of Hull (1972).

MR. SHEVON C P GOONERATNE

Non Executive / Independent

Appointed to the Board in April 2011, Mr Shevon Gooneratne is a member of the Board Audit Committee. He is an Attorney at Law of the Supreme Court of Sri Lanka. He also holds Master of Human Rights and Democratisation from the University of Colombo and Post Attorney Diploma in Intellectual Property from Sri Lanka Law College. He is a senior lawyer with an extensive civil practice of over 24 years. He has also specialized in corporate investment and intellectual property matters.

He also has more than 20 years of experience in working with non-profit organisations and has been a member of many national committees on legal and justice reform projects. He is a Trustee

Board of Directors

of the Sarvodaya Trust Fund and an Honourary Legal Adviser to Sarvodaya since 2004. Mr. Gooneratne was also the former Head of the Sarvodaya Legal Services Movement (SLSM) and also served as a Non-Executive Director of SEEDS (Gte) Limited. He is also a consultant at Law & Society Trust.

In the corporate sector, Mr Gooneratne is a former Director of Summit Finance PLC and Frontier Capital Partners Limited. Mr. Gooneratne was the former Chairman of the Alumni Association of International Development Law Organisation (AAIDLO) Sri Lanka Branch and a Director since 2008. Mr Gooneratne is a Life Member of the Bar Association of Sri Lanka, a fellow Rotarian and a former President of Rotary Club of Moratuwa.

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. ALEX PERERA

Non Executive / Independent

Appointed to the Board in July 2016, Mr Perera is also a member of the Integrated Risk Management Committee. Mr. Alex Perera brings with him over 12 years of experience collectively in the Quantitative Finance sector and the Capital Markets sector. Currently he serves as an Assistant Director at Moody's Analytics Knowledge Services where he specializes in Risk Management, Data Analytics, Bank Regulatory Capital Management, Asset Management and Stress Testing. Well versed in both local and global financial markets, he entered the Capital Markets domain through his former role as a Senior Business Analyst at Millennium IT, a London Stock Exchange Group Company, where he focused on Global Trading Platforms, Market data Dissemination Systems and Market Surveillance Systems. Throughout his career he has also been involved in Software Development, specifically mastering trading and portfolio analytics technologies.

Mr Perera holds a Master's Degree in Quantitative Finance and Financial Engineering from the University of Manchester (UK) and a Bachelor's Degree in Computer Science and Engineering from the University of Moratuwa. He is a Chartered Financial Analyst (CFA) and is also a Microsoft Certified Professional. He was also a guest lecturer at the Department of Mathematics of the University of Moratuwa.

He was a Senior Oarsmen and the Vice-Captain of the University of Moratuwa Rowing team and took part in many institutional regattas, inter-university and national level rowing championships. He was also an active member of EISL Toastmasters Club.

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 Sicence 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.

Corporate Management

Seated Left to Right

Mr. Rasika Epasinghe - *AGM – Marketing & Business Development*
Mr. Dharmasiri Wickramatilake - *Chief Executive Officer*
Mr. Deshantha de Alwis - *DGM – Finance & Planning*

Standing Left to Right

Mr. Felician Jayakody - *AGM – Recoveries*
Mrs. Dilushi Dabare - *AGM – Risk Management & Acting Compliance Officer*
Mr. Kenneth Mendis - *AGM – Alternate Channels & Acting Head of Internal Audit*
Mr. Janaka Dissanayake - *AGM – Credit*

MR. DHARMASIRI WICKRAMATILAKE

Chief Executive Officer

Mr Dharmasiri Wickramtilake joined SDF in October 2016 and counts over 27 years experience in Branch Banking including, SME banking, leasing and personal financial products etc. Before joining SDF Mr Wickramatilake was Senior Vice President (Branch Banking and SME) of DFCC Bank responsible for driving Branch Banking Businesses. At DFCC, he was a Member of the Executive Committee, Credit Committee, Assets and Liability Committee, Special Loans Review Committee and IT Steering Committee and gave leadership to a team of 7 Regional Managers and all Branch Managers. He has comprehensive industry knowledge in strategy formulation, plan implementation, budgeting, monitoring and effecting corrective actions, staff motivation, staff development, staff mentoring etc. As CEO of SDF his inherent professionalism and business acumen is instrumental in spearheading SDF to being one of the leading finance companies in the Island.

Mr Wickrematilake is an alumnus of the Moratuwa University and is also a Chartered Mechanical Engineer with full Accountancy Qualification from the Chartered Institute of Management Accountants, UK. Furthermore, he holds an MBA from the Asian Institute of Technology of Bangkok, Thailand.

MR. DESHANTHA DE ALWIS

Deputy General Manager – Finance and Planning

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 24 years of experience in the financial services sector specializing 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 and Business Development

Mr Rasika Epasinghe who joined Sarvodaya Development Finance in February 2013 as AGM – Marketing and Business Development has over 24 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), the Canadian Institute and Marketing and a Member of the Alumni Association of the Northwood University of USA. Mr Epasinghe is an All Island Justice of Peace.

MR. JANAKA DISSANAYAKE

Asst. General Manager – Credit

Mr Dissanayake assumed duties as AGM – Credit in January 2016. He counts over 18 years' experience in the fields of Development/ Corporate Banking, Investment Banking, Corporate Finance, Equity research and fund management at local and foreign blue chip financial institutions.

Prior to joining SDF he was attached to Nations Trust Bank PLC in the capacity of Manager – Corporate Banking.

During his tenure in the Banking Sector, he has served at NDB, Royal Bank of Scotland (UK), DFCC, Sanasa Development Bank PLC and Nations Trust Bank PLC, specializing in SME and Corporate Credit.

Janaka is an Associate member of CIMA (UK) and a Level 3 candidate of the CFA Programme.

Corporate Management

MR. KENNETH MENDIS

Asst. General Manager – Alternate Channels and Acting Head of Internal Audit

Mr Mendis joined SEEDS (Gte) Limited in 2011 as Chief of Audit and was attached to SDF as the AGM Operations till February 2015. Thereafter, he was designated as AGM Internal Audit, in view of his experience as the Internal Auditor at SEEDS. From April 2016, he was designated as AGM – Alternate Channels, as the Company embarked on branchless banking. Mr Mendis commenced his career at HNB and then moved to Seylan Bank PLC, Pan Asia Bank and Sanasa Development Bank where he specialized in Operations, Credit International Trade and Risk Management.

Mr Mendis is an Associate Member of the Institute of Bankers of Sri Lanka (IBSL)

MS. DILUSHI DABARE

Asst. General Manager – Risk Management and Acting Compliance Officer

Ms Dilushi Dabare joined Sarvodaya Development Finance Ltd. on the 2nd of November 2015. She is a professionally qualified banker with 26 years of service. Having begun her career at Seylan Bank PLC where she served for 20 years, she managed areas of bank operation, credit, trade, audit and branch finance. Prior to joining Sarvodaya Development Finance Ltd., she was at State Bank of India (SBI) in the capacity of Risk Manager for 3 years. At SBI, Mrs Dilushi was responsible for establishing risk tolerance, approving related strategies and policies, monitoring and assessing the activities of management, overseeing policy compliance and the effectiveness of the risk framework to meet the requirements of applicable regulations and interests of stakeholders.

She has completed ICA International Diploma in Compliance, (UK); Advance Risk Management (IBSL); Certificate programme on Treasury and Foreign Exchange Operations (IBSL); Risk and Treasury Management Diploma (IBSL). While at Seylan Bank PLC she did her PhD in Management at the University of Honolulu (USA); MBA (USA); AIB (SL) as well as ACIM (SL). Mrs. Dilushi is a fellow in Certified Managers at Cambridge Association of Managers (UK); and Fellow in the Institute of Professional Financial Managers (UK).

MR. FELICIAN JAYAKODY

Asst. General Manager - Recoveries

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 and was Head of corporate banking / FCBU in Amāna Bank PLC.

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

Mr. Nipuna Fernando
Head of IT

Mr. Harindra Kuruppu
Chief Manger-Branch Operations & Administration

Mr. Mohan Rupesinghe
Head of Litigation

Mr. Kandaiyar Sasikumar
Chief Manger-Recoveries

Mr. Sunil Dharmasiri
Senior Manager-CAU

Mr. Nirmalath Fernando
Senior Manager-Operations

Mr. Suranga Fernando
Head of Personal Loans

Mr. Sugeeswara Gunasekera
Senior Manager-SSSCU

Mr. Mahesh Jayasanka
Senior Manager-Finance

Senior Management Team

Mr. Chaminda Niroshana
Senior Manager-SME

Mr. Sanjeeva Polgahagedara
Head of Micro Loans

Mr. Janaka Withanage
Head of Leasing

Ms. Anusha Fernando
Actg. Head of Legal

Ms. Shalini Perera
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, Senior Managers and Managers*

Regional Managers

Mr. Janaka Bandara
Region 1

Mr. Kularuwan Chaturanga
Region 2

Mr. Chaminda Kumara
Region 3

Mr. Benedict Levin
Region 4

Mr. Thushara Cooray
Region 5

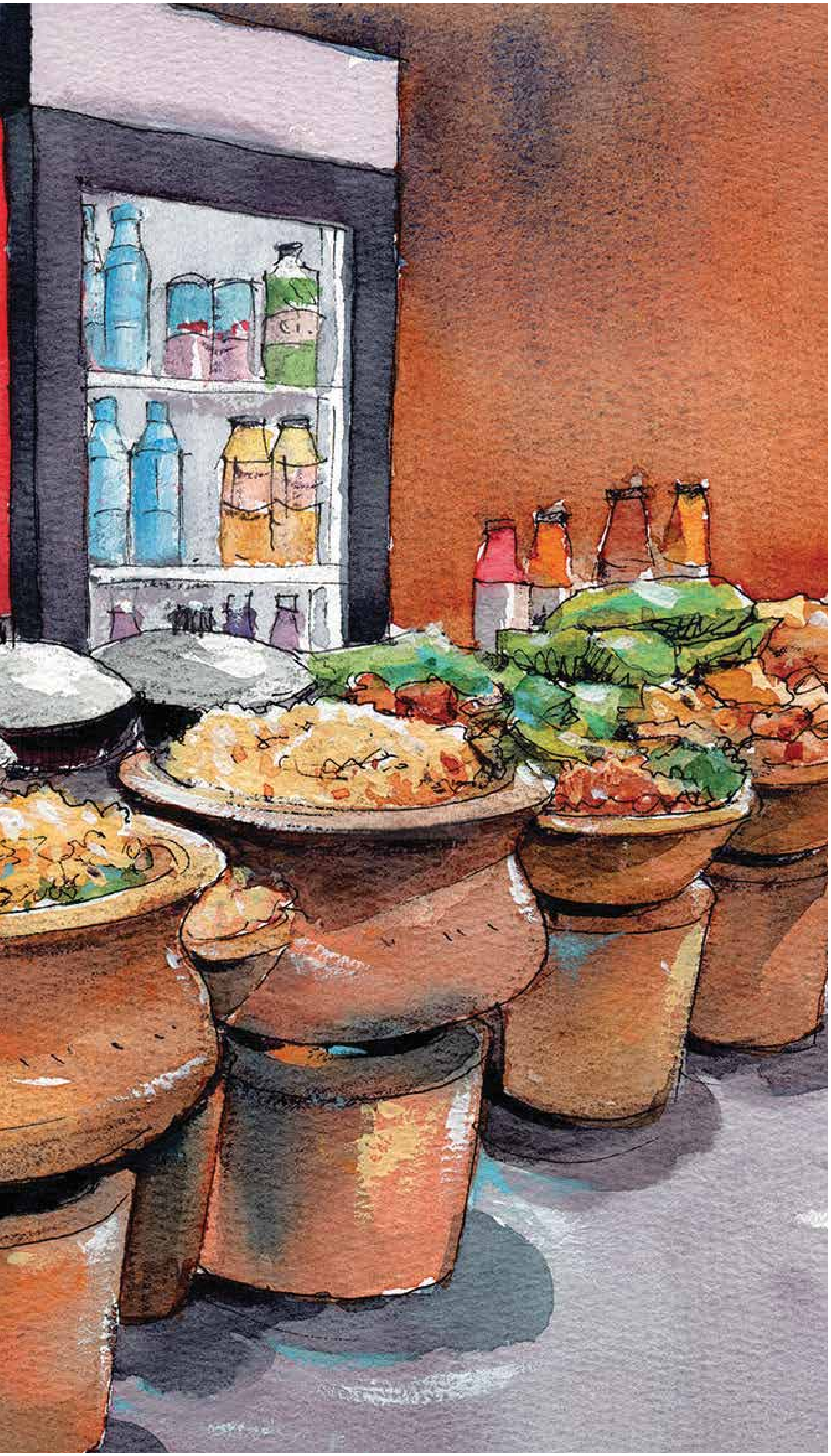
Mr. Dambahegedara Kumaradasa
Region 6

Mr. Chaminda Bandara
Region 7

Branch and Customer Service Centres' Managers

Region	Branch/ CSC	EPF Number	Name	Contact Number (Office)	Contact Number (Mobile)	E-mail (Office)
Region 1	Chilaw	52	Mr. D.M.Indrajith Dayarathna	032 5111666-7	077 7540588	managerchilaw@sdf.lk
	Minuwangoda CSC	295	Mr. A.W.C.P.Gunawardana	033 5113666-7	077 6920777	oicminuwangoda@sdf.lk
	Pasyala CSC	51	Ms. W.A.C.Karunarathne	033 5112666-7	077 7572476	oicpasyala@sdf.lk
	Gampaha	1054	Mr. A.M.S.L. Perera	033 5111666-7	076 6041235	managergampaha@sdf.lk
	Homagama	1014	Mr. P.K.D. Mahisanka	011 5944667-7	076 5508263	managerhomagama@sdf.lk
	Delgoda CSC	63	Ms. G.G.S.Shayamalee	011 5941666-7	077 7547503/ 071 7411697	oicdelgoda@sdf.lk
	Nattandiya CSC	152	Mr. R.D.T.L.Kumara	032 5112666-7	077 196 0463	oicnattandiya@sdf.lk
	Panadura	816	Mr. A.S.K.De Alwis	038 5111666-7	071 8246294	managerpanadura@sdf.lk
	Piliyandala CSC	1149	Mr. H.S.J.S.Dharmasena	076 8720670	077 8379986	oicpiliyandala@sdf.lk
	Borella	1141	Mr. J.A.D.S.Asanka	076 4831124	076 4831124	managerborella@sdf.lk
Region 2	Akuressa CSC	257	Ms. M.W.P.Kumuduni	041 5114666-7	0768 693 068	oicakuressa@sdf.lk
	Ambalantota	48	Mr. S.P.T.H. Subasinghe	047 5111666-7	077 7523957	managerambalantota@sdf.lk
	Karandeniya CSC	338	Mr. Kapila Saman Kumara	091 5112666	077 8481726	oickarandeniya@sdf.lk
	Kamburupitiya CSC	160	Ms. Udeni Mudalige	041 5116666	076 3167401	oickamburupitiya@sdf.lk
	Galle	32	Mr. B.H.P.Chamara Jayalath	091 5111667	077 7521173	managergalle@sdf.lk
	Matara	1159	Mr. T.Asela Nawarathna	041 5111666-7	077 4894937	managermatara@sdf.lk
Region 3	Buttala	678	Mr. A.G.C.Wickramasinghe	055 5115666-7	076 8388682	managerbuttala@sdf.lk
	Medagama CSC	286	Mr. H.A.S.W.Hettiarachchi	055 5113666-7	077 6723380	oicmedagama@sdf.lk
	Ampara	916	Mr. R G S S Gunathilaka	063 5111666-7	077 0846646	oicampara@sdf.lk
	Mahiyanganaya CSC	70	Mr. S A D C Wimalasooriya	055 5112666-7	077 7521592	oicmahiyangana@sdf.lk
	Kataragama CSC	65	Mr. K.E.Salamans	047 2236303	072 9905317	oickatargama@sdf.lk
	Badulla	134	Mr. K.B.M.N.D.Prasanna	055 5111666-7	077 7521351	managerbadulla@sdf.lk
Region 4	Jaffna	880	Mr. Baskarathasan Prathileepan	021 5111666	077 2442573	managerjaffna@sdf.lk
	Trincomalee	1017	Mr. .Piyadasa Jude Niroshan	026 5111666	077 8232279	managertrinco@sdf.lk
	Batticaloa	1020	Mr. Jeevarajah Hariemaldan	065 5111666	077 8232348	managerbatticaloa@sdf.lk
	Kalmunai CSC	1016	Mr. K.K.Ramesh	067 510 6666	077 754 0185	oickalmunai@sdf.lk
	Vavuniya	511	Mr. S.Ragishan	024 5111666-7	077 7636019	managervavuniya@sdf.lk
	Mannar CSC	938	Mr. N.T.Voltan	077 0059121	076 3167397	oicmannar@sdf.lk
Region 5	Godakawela	17	Mr. M.D Chandrasena	077 7572637	071 5310018	oicgodakawela@sdf.lk
	Ruwanwella CSC	55	Mr. H.G.D.S.Gunawardhana	036 5111666-7	071 8241063/ 077 7539972	oicruwanwella@sdf.lk
	Balangoda	290	Mr. P.A.L.L.Perera	045 4935247	075 5035512/ 076 6482859	managerbalangoda@sdf.lk
	Ratnapura	1147	Mr. K.K.D.Piyasena	045 5113666-7	077 3427092	managerratnapura@sdf.lk
	Kurunegala	271	Mr. G.M.R.A.Gaspe	037 5112666-7	077 7527492	managerkurunegala@sdf.lk
	Kuliyapitiya	31	Mr. W.M.K.Bandara	037 5111666-7	077 7538037	managerkuliyapitiya@sdf.lk
	Kegalle	882	Ms. J W H Shalini Perera	035 5111668	077 7480170	managerkegalle@sdf.lk

Region	Branch/ CSC	EPF Number	Name	Contact Number (Office)	Contact Number (Mobile)	E-mail (Office)
Region 6	Anuradhapura	683	Mr. H.Liyanage	025 5111666-7	076 8388683	manageranuradhapura@sdf.lk
	Dambulla	14	Mr. H.G.G.W.Bandara	066 5111666-7	077 7589338	managerdambulla@sdf.lk
	Dehiaththakandiya CSC	58	Mr. S.G.Weerasekara	027 5113666-7	077 7579433	oicdehiattakandiya@sdf.lk
	Kekirawa CSC	56	Mr. M. Dharmapala	025 5113666-7	077 7507685	oickekirawa@sdf.lk
	Kebithigollewa	36	Mr. P.N.Sirisena	025 5112666-7	077 8898949	managerkebithigollewa@sdf.lk
	Medirigiriya	68	Mr. M.D.Indrasiri	027 5111666-7	077 7524549	managermedirigiriya@sdf.lk
	Parakramapura CSC	53	Ms. B.A.D.N.Kumari	025 5115666-7	077 7540288	oicparakkramapura@sdf.lk
	Polonnaruwa	37	Mr. K.D.N.Kumara	027 5112666-7	077 7517069	managerpolonnaruwa@sdf.lk
	Puttalam	133	Mr. H.M.I.S.Kumara	032 5113666-7	077 7538901	managerputtalam@sdf.lk
	Tambuththegama CSC	59	Mr. W.D Samantha Prasad	025 5114666-7	077 7540253	oictambuttegama@sdf.lk
Region 7	Hatton CSC	57	Mr. M.G.Vijitha Maveekumbura	051 5111666-7	077 7508672	oichatton@sdf.lk
	Nawalapitiya CSC	492	Mr. C.P.Hettiarachchi	054 5111666-7	071 8645403	oicnawalapitiya@sdf.lk
	Nuwaraeliya	35	Mr. W.R.M.J.Senevirathne	051 5111666-7	077 7524763	managernuwaraeliya@sdf.lk
	Kandy	1103	Mr. A.A.R.N.Wijayasiri	077 6924932	077 2297707	managerkandy@sdf.lk
	Digana CSC	54	Mr. W D D N K Sooriyarathne	081 5112666-7	077 7540911	oicdigana@sdf.lk
	Matale	45	Mr. Upali Ranasinghe	066 5112666-7	077 546289/ 072 2358004	managermatale@sdf.lk



“The valley between my current life and what I wanted it to be, seemed impossible to cross over, until SDF came along. Now I'm doing what I love most.”

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.

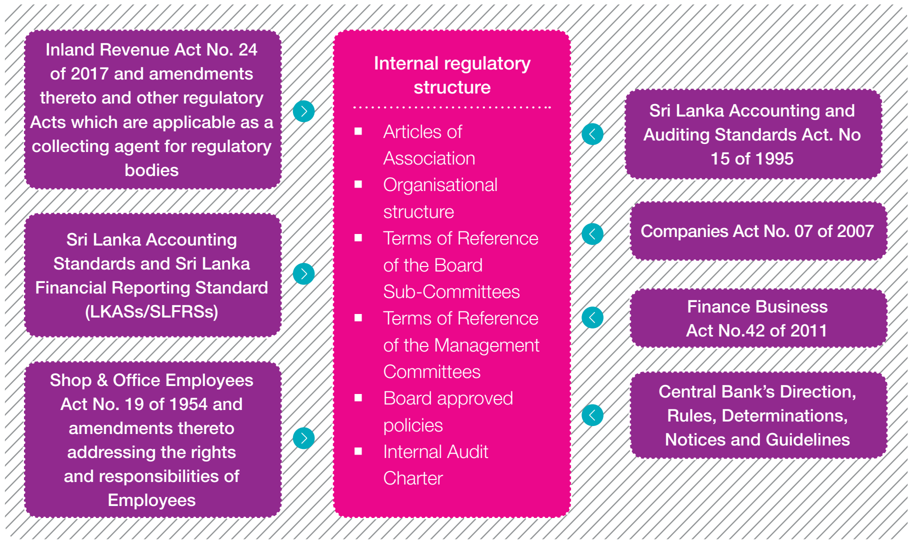
GENERAL

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.

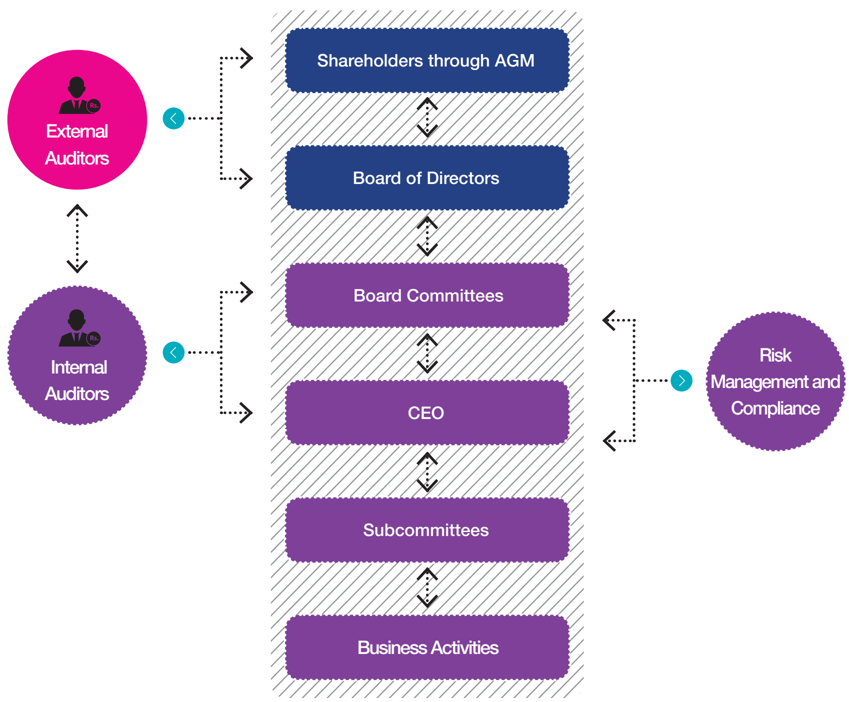
These specify the delegation of responsibility for governance, control and monitoring of operations between the shareholders, the Board of Directors and the CEO. The Board has established the principles of Corporate Governance, which are reviewed annually to ensure that they are appropriate, effective 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. The Company 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 proactively 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 20.

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. Dharmasiri Wickramatilake is disclosed under the 'Management's Role in the Structure of Corporate Governance', on page 41 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 ten Directors which include the Chairman, who functions in an Independent, Non-Executive capacity. Five of the remaining Directors have also been categorised as Independent, Non-Executive Directors within the provision of Section 4 (4) of Central Bank (CBSL) Direction 3 of 2008.

The diverse experiences, professional qualifications and competencies of the Board of Directors are disclosed under their profiles from pages 20 to 23 of this Annual Report.

Corporate Governance

BOARD GOVERNANCE, RESPONSIBILITY AND COMPETENCIES

Dr. Vinya Ariyaratne
Non-Executive, Non-Independent Director

Expertise in Micro Finance,Medical Sector, Disaster Management and Community Development

Mr. Channa de Silva
Chairman, Non-Executive, Independent Director

Expertise in Banking & Financial Services , Insurance, Fund Management, Capital Markets, Accounting and Auditing

Mr. Shakila Wijewardena
Non-Executive, Non-Independent Director

Expertise in Micro Finance, Marketing and Management

Mr. K L Gunawardana
Non-Executive, Non-Independent Director

Expertise on Sociology and Development Management

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 her/his 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.

Mr. Shevon Gooneratne
Non-Executive, Independent Director

Expertise in Law and Legal Services

Dr. Janaki Kuruppu
Non-Executive, Independent Director

Expertise in Banking & Financial Services

Dr. Richard Vokes
Non-Executive, Independent Director

Expertise in Banking Financial Services, Economics and Management

Mr. Masayoshi Yamashita
Non-Executive, Non-Independent Director

Expertise in Banking, Management

Mr. Alex Perera
Non-Executive, Independent Director

Expertise in Quantitative Finance & Capital Market Sectors

Mr. Chamindha S. Rajakaruna
Non-Executive, Non-Independent Director

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

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 recognizes that the Board evaluation is an essential component of good governance.

RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

The following Directors who retired by rotation were reappointed at the AGM held on 30th June 2017

i. Dr. Richard William Arnold Vokes, -
Non-Executive, Independent Director
ii. Dr. Janaki Padma Kuruppu -
Non-Executive, Independent Director
iii. Mr. Kurugamage Alex Dilan Perera - Non-Executive, Independent Director

CHANGES IN THE BOARD'S COMPOSITION

The following changes incurred during the year under review:

Name	First Appointed	Re-elected	Status
Mr. Channa de Silva	19th April 2011	June 2015	Chairman/ Non-Executive, Independent Director
Dr. Vinya Ariyaratne	01st January 2010	June 2015	Non-Executive, Non-Independent Director
Mr. Shakila Wijewardena	01st January 2010	June 2015	Non-Executive, Non-Independent Director
Mr. K L Gunawardana	05th February 2010	June 2016	Non-Executive, Non-Independent Director
Mr. Shevon Gooneratne	05th February 2010	June 2016	Non-Executive, Independent Director
Dr. Richard Vokes	07th March 2013	June 2017	Non-Executive, Independent Director
Ms. 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

CHANGES IN THE BOARD'S COMPOSITION

The following changes incurred during the year in review,

I. New Directors

Mr. Chamindha Rajakaruna was appointed to the Board on 01st November 2017 as a Non-Executive, Non-Independent Director.

SEPARATION OF FUNCTIONS AND RESPONSIBILITIES

In accordance with the industry's best practices and in compliance with Section 7 of the CBSL'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.

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.

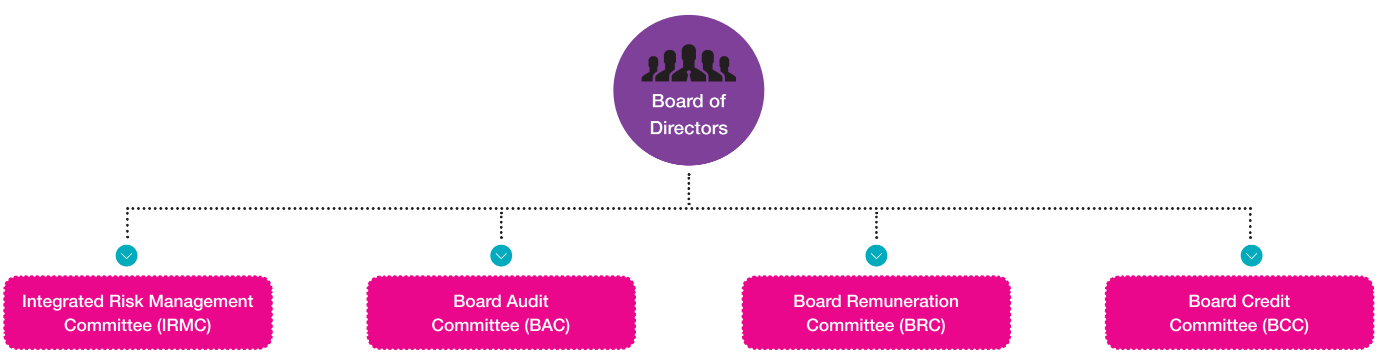
Record of Attendance at Board Meetings is given below:

	Name of the Director	Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings											
						28.04.2017	26.05.2017	30.06.2017	28.07.2017	25.08.2017	25.09.2017	23.10.2017	27.11.2017	29.12.2017	29.01.2018	26.02.2018	26.03.2018
1	Mr. Channa de Silva		√	√		√	√	√	√	x	√	√	√	√	√	√	√
2	Dr. Vinya Ariyaratne		√		√	√	√	√	√	√	√	√	√	√	x	√	√
3	Mr. Shakila Wijewardena		√		√	√	x	√	√	√	√	√	√	x	√	√	√
4	Mr. Shevon Gooneratne		√	√		√	√	√	√	√	√	√	√	√	√	√	√
5	Mr. K L Gunawardana		√		√	√	√	√	√	√	√	√	√	√	√	√	√
6	Dr. Richard Vokes		√	√		√	√	√	√	√	√	√	√	x	√	√	√
7	Mr. Masayoshi Yamashita		√		√	x	√	x	√	x	√	x	√	x	√	x	√
8	Dr. Janaki Kuruppu		√	√		√	√	√	√	√	√	√	√	x	x	√	√
9	Mr. Alex Perera		√	√		√	√	√	√	√	√	√	√	√	√	√	√
10	Mr Chamindha Rajakaruna		√		√	-	-	-	-	-	-	-	√	√	√	√	√

In line with such norms, SDF set up following Board 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 CBSL's Corporate Governance Directives, which also provides guidelines on their composition, functions and responsibilities. The Board dissolved the Board Nomination Committee (BNC) during the year under review and the scope and responsibilities assigned to BNC was amalgamated with BRC for effective functioning. All subcommittees 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. They attend meetings on invitation. The respective reports of the first three committees for the year ended 31st March 2018 are given in pages 70 to 74 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 Mr. Alex Perera	The Integrated Risk Management Committee oversees issues involving market risk, credit risk, liquidity, funding and capital. The IRMC provides oversight and advice to the Asset and Liability Committee on market risk and liquidity risk exposures. IRMC reviews and evaluates the appropriateness of the governance model adapted.	I. Assets and Liability Committee (ALCO): ▪ Makes investments and executes asset/ liability transactions within delegated limits and manages liquidity and other market risks. The Committee ensures the development of appropriate parameters for pricing of deposits, loans and investments.	22.05.2017 15.09.2017 15.12.2017 14.02.2018	4	4
			II. Product Development Committee (PDC): ▪ To develop new products in-line with the Company's strategic objectives.		Not scheduled	On requirement
Board Audit Committee (BAC) (Mandatory)	**Chairman** Mr. Channa de Silva **Members** Mr. Shakila Wijewardena, Mr. Shevon Gooneratne	▪ The Board Audit Committee gives the Board, through its work and in dialogue with the External Auditor, the Head of Internal Audit greater access to information on any deficiencies in routines and organisation from the standpoint of corporate governance, risk management and control. ▪ The Board Audit Committee 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.	04.04.2017 22.05.2017 28.09.2017 19.03.2018	4	4

Corporate Governance

Board Committees	Members	Function	Management Committee/Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Board Remuneration Committee (BRC)	**Chairman** Dr. Janaki Kuruppu **Members** Mr. Shakila Wijewardena, Mr. K L Gunawardana	▪ The Board Remuneration Committee 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 Board Remuneration Committee 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	22.06.2017 25.09.2017 22.12.2017 21.03.2018	4	4
Board Credit Committee (BCC)	**Chairman** Mr. Alex Perera (appointed w.e.f. 30.06.2017) **Members** Mr. Channa de Silva Dr. Janaki Kuruppu Dr. Richard Vokes Dr. Vinya Ariyaratne	▪ The Board Credit Committee 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. Internal Credit Committee (ICC): ▪ 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.	30.06.2017	1	On requirement

BOARD COMMITTEE MEETINGS AND ATTENDANCE

Board of Directors by Name, their Dates of Appointment and attendance of 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 2017/18			
			IRMC	BAC	BCC	BRC
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director	19th April 2011	-	4	1	-
Dr. Vinya Ariyaratne	Non-Executive, Non-Independent Director	01st January 2010	-	-	1	-
Mr. Shakila Wijewardena	Non-Executive, Non-Independent Director	01st January 2010	4	4	-	-
Mr. K L Gunawardana	Non-Executive, Non-Independent Director	05th February 2010	-	-	-	4
Mr. Shevon Gooneratne	Non-Executive, Independent Director	05th February 2010	-	3	-	-
Dr. Richard Vokes	Non-Executive, Independent Director	07th March 2013	4	-	1	-
Dr. Janaki Kuruppu	Non-Executive, Independent Director	22nd December 2015	-	-	1	4
Mr. Alex Perera	Non-Executive, Independent Director	01st July 2016	4	-	-	-
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director	01st November 2017	-	-	-	-

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. Dharmasiri Wickramatilake	CEO	Every other week
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Janaka Dissanayake	AGM – Credit	
		Mr. Rasika Epasinghe	AGM – Marketing & Business Development	
		Ms. Dilushi Dabare	AGM - Risk Management and Acting Compliance Officer	
		Mr. Kenneth Mendis	AGM - Alternative Channels & Acting Head of Internal Audit	
		Mr. Felician Jayakody	AGM - Recovery	
		Mr. Harindra Kuruppu	Chief Manager – Branch Operations and Administration	
		Mr. Mohanlal Rupesinghe	Head of Litigation	
		Mr. Nipuna Fernando	Head of IT	
		Ms. Anusha Fernando	Acting Head of Legal	
		Ms. Shalini Perera.	Manager – HR	
		Miss. Madhurika Handunnetti	Confidential Secretary to CEO/Secretary to the Committee	

Corporate Governance

Committees	Function	Member	Designation	Meeting Sequence
Management Audit Committee (MAC)	▪ To implement and monitor the progress of the decisions of the BAC.	Mr. Dharmasiri Wickramathilake.	CEO	Every other month and on requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Rasika Epasinghe	AGM - Marketing & Business Development	
		Mr. Kenneth Mendis	AGM - Alternative Channels & Acting Head of Internal Audit /Secretary to the Committee	
		Mr. Janaka Dissanayake	AGM – Credit	
		Ms. Dilushi Dabare	AGM - Risk Management & Acting Compliance Officer	
		Mr. Harindra Kuruppu	Chief Manager – Branch Operations and Administration	
		Ms. Shalini Perera	Manager- HR	
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. Dharmasiri Wickramathilake	CEO	Every other month and on requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning/Secretary to the Committee	
		Mr. Janaka Dissanayake	AGM – Credit	
		Mr. Rasika Epasinghe	AGM - Marketing & Business Development	
		Ms. Dilushi Dabare	AGM - Risk Management and Acting Compliance Officer	
		Mr. Harindra Kuruppu	Chief Manager – Branch Operations and Administration	

Committees	Function	Member	Designation	Meeting Sequence
Credit Committee (CC)	▪ 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. Dharmasiri Wickramathilake	CEO	On requirement
		Mr. Janaka Dissanayake	AGM - Credit/Secretary to the Committee	
		Mr. Rasika Epasinghe	AGM – Marketing & Business Development	
		Ms. Dilushi Dabare	AGM - Risk Management and Acting Compliance Officer	
		Mr. Kenneth Mendis	AGM - Alternative Channels & Acting Head of Internal Audit	
Product Development Committee (PDC)	▪ To develop new products.	Mr. Dharmasiri Wickramathilake	CEO	On requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Janaka Dissanayake	AGM - Credit	
		Mr. Rasika Epasinghe	AGM – Marketing & Business Development /Secretary to the Committee	
		Mr. Kenneth Mendis	AGM - Alternative Channels & Acting Head of Internal Audit	
		Ms. Dilushi Dabare	AGM - Risk Management and Acting Compliance Officer	
		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 Company 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. The Company does not condone discrimination of any kind.

FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial statements have been prepared in accordance to accounting standards comprising of Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards. Financial statements are also in accordance to the Finance Business Act, Companies Act, 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.

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 financial year 2017/18, prepared in compliance with this Direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0	**Responsibilities of the Board of Directors**		
2.0 (1.0)	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.
2.0 (1.0) (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 2015/16 to FY 2019/20. 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 2017/18 to FY 2020/21 and presented to the Board in January 2018. The revised targets were presented to the Regional Managers at the Regional Managers meeting on 05th April 2018 and communicated down to the branch level.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (1.0) (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 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.
2.0 (1.0) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	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.
2.0 (1.0) (d)	Approving policy of communication with all the stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	A Board approved communication policy is available addressing how the Company communicates with its stakeholders.
2.0 (1.0) (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 154 and the Assurance Report from the External Auditor on the Internal Control over Financial Reporting is disclosed on page 155.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
	ii) Management of information systems.	Not 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 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. However, this policy has not been approved by the Board for implementation as at the year end. The management intends to refer the policy for Board approval in the coming year.
2.0 (1.0) (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 2018 are disclosed on pages 205 to 207 of this Annual Report.
2.0 (1.0) (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.
2.0 (1.0) (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 CEO presents the monthly operational report to the Board for their review and to take timely action.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (1.0) (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 have been determined at the Board level through the submission of annual Self-evaluation process of the Board members.
2.0 (1.0) (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.
2.0 (1.0) (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	CEO calls in the corporate and the Senior Management to the Board meetings when the need arises to explain matters relating to the operations and performance of the Company to the Board.
2.0 (1.0) (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 AGM – Risk Management and Acting Compliance Officer and CEO, is submitted to the Board of Directors at each monthly board meeting for Board's review and decision-making. 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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (1.0) (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.
2.0 (2.0)	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 paragraph 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.
2.0 (3.0)	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.
2.0 (4.0)	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.
2.0 (5.0)	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.
2.0 (6.0)	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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (7.0)	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.
2.0 (8.0)	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.
3.0	**Meetings of the Board**		
3.0 (1.0)	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 20 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.
3.0 (2.0)	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.
3.0 (3.0)	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.
3.0 (4.0)	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.
3.0 (5.0)	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.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3.0 (6.0)	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.
3.0 (7.0)	All Directors shall have access to obtain advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	A Board approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
3.0 (8.0)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director.
3.0 (9.0)	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.	Complied	The Company Secretary records the proceedings of the meetings and the decisions taken throughout in sufficient detail.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4.0	**Composition of the Board**		
4.0 (1.0)	Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.	Complied	As at 31st March 2018, the Board consisted of ten (10) Directors inclusive of the Chairman.
4.0 (2.0)	Subject to the transitional provisions contained herein and subject to paragraph 5 (1) of this Direction, the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period of office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied	The total period of service of all Non-Executive Directors does not exceed nine years.
4.0 (3.0)	Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.	Complied	All Board Directors are Non-Executive Directors. The post of Chief Executive Officer is not that of an Executive Director.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4.0 (4.0)	With effect from three years commencing 1st January 2009, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total number of Directors. A Non-Executive Director shall not be considered independent if such Director;	Complied	The Board comprised five Non-Executive, Independent Directors during the financial year 2017/18 who 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. Of the four Non-Executive, Non-Independent Directors, three are Board Directors of the Parent Company, SEEDS (Gte) Limited, while two holds one share each in the Company and one is a representative of a shareholder of the Company.
4.0 (4.0) (a)	has shares exceeding 2% of the paid-up capital of the finance company or 10% of the paid-up capital of another finance company;		
4.0 (4.0) (b)	has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph nine hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;		
4.0 (4.0) (c)	has been employed by the finance company during the two-year period immediately preceding the appointment as Director;		
4.0 (4.0) (d)	has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid-up capital of the finance company or holds shares exceeding 12.5% of the paid-up capital of another finance company;		
4.0 (4.0) (e)	represents a shareholder, debtor or such other similar stakeholder of the finance company;		
4.0 (4.0) (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;		
4.0 (4.0) (f) (i)	which has a transaction with the finance company as defined in paragraph 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		
4.0 (4.0) (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		
4.0 (4.0) (f) (iii)	In which any of the other Directors of the finance company has a transaction as defined in paragraph 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.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4.0 (5.0)	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.
4.0 (6.0)	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.
4.0 (7.0)	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	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.
4.0 (8.0)	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 10 Board Directors (including the Chairman) are named and identified as Non-Executive Directors. Of this number, five have been expressly identified as Independent Non-Executive Directors. The Board of Directors profiles disclosed from pages 18 to 23 also provides the required details.
4.0 (9.0)	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.
4.0 (10.0)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	There were no casual vacancies during the period in review. Article 91 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.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4.0 (11.0)	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.
5.0	**Criteria to Assess the Fitness and Propriety of the Directors**		
5.0 (1.0)	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 2018 and at present, all Directors of the Company were below the age of 70 years.
5.0 (2.0)	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 paragraph 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.
6.0	**Delegation of Functions**		
6.0 (1.0)	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.
6.0 (2.0)	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.
7.0	**The Chairman and the Chief Executive Officer**		
7.0 (1.0)	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
7.0 (2.0)	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.
7.0 (3.0)	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. With the exception of a shared family relationship between the Chairman and another Non-Executive Director, there is no financial, business, family or other material relationship among other members of the Board.
7.0 (4.0)	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	Chairman leads the Board ensuring its effective functioning.
7.0 (5.0)	The Chairman shall be primarily responsible for preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied	Chairman makes the agenda and Company Secretary circulates it.
7.0 (6.0)	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.
7.0 (7.0)	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.
7.0 (8.0)	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 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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
7.0 (9.0)	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.
7.0 (10.0)	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 Asset Inc., holds over 99.99% of the issued share capital of the Company. In addition, two of the Directors have one share each issued to them at the time of incorporation of the Company. These 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.
7.0 (11.0)	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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0	**Board Appointed Committees**		
8.0 (1.0)	Every finance company shall have at least the two Board Committees set out in paragraphs 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.	Complied	During the year 2017/18, 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 39 and 40 provides the details of the scope and composition of the above committees and pages 70 to 74 provide the reports of the respective committees.
8.0 (2.0)	**Audit Committee** The following shall apply in relation to the Audit Committee:		
8.0 (2.0) (a)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied	Chairman of the Board Audit Committee (BAC), Mr. Channa de Silva, is an Independent, Non-Executive Director. A Fellow of the Chartered Institute of Management Accountants (FCMA-UK) and Fellow of the Chartered Certified Accountants (FCCA-UK). He has over 10 years' experience in the fund management and five years' experience in capital market and holds a Bachelor's Degree from the University of Colombo and a Master's Degree from Melbourne University and Harvard University.
8.0 (2.0) (b)	The Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All the members appointed to the BAC are Non-Executive Directors. CEO, DGM – Finance and Planning, AGM – Risk Management and Acting Compliance Officer and External Auditors, Ernst & Young, present at the meeting/s by invitation.
8.0 (2.0) (c)	The Committee shall make recommendations on matters in connection with:	Complied	The Company has complied with the directive 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.

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (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: i) that Messrs Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2017/18; 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). 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.
8.0 (2.0) (c) (ii)	The implementation of the Central Bank guidelines issued to Auditors from time to time;		
8.0 (2.0) (c) (iii)	The application of the relevant accounting standards; and		
8.0 (2.0) (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.		
8.0 (2.0) (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 2017/18, Messrs Ernst & Young, Chartered Accountants have provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (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.
8.0 (2.0) (e) (i)	whether the skills and experience of the Auditor make it a suitable provider of the non-audit services;		
8.0 (2.0) (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		
8.0 (2.0) (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.		
8.0 (2.0) (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.
8.0 (2.0) (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;		
8.0 (2.0) (f) (ii)	the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and		
8.0 (2.0) (f) (iii)	The co-ordination between Auditors where more than one Auditor is involved.		

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (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.
8.0 (2.0) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied	The Committee has met the External Auditors in the absence of the KMPs during the year under review. Each Committee Member has had a personal conversation with external auditors for better governance
8.0 (2.0) (i)	The Committee shall review the External Auditors' management letter and the Management's response thereto.	Complied	The Committee has reviewed the External Auditors' management letter and the Management responses thereto.
8.0 (2.0) (j)	The Committee shall take the following steps with regard to the internal audit function of the finance company:		
8.0 (2.0) (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.
8.0 (2.0) (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 year 2017/18 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.
8.0 (2.0) (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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (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 Acting Head of Internal Audit.
8.0 (2.0) (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.
8.0 (2.0) (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 Head of the Internal Audit Department directly reports to the Committee thus ensuring the independence and impartiality of the Internal Audit Department.
8.0 (2.0) (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.
8.0 (2.0) (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, AGM –Risk Management and Acting Compliance Officer and Senior Manager – Finance attended these meetings on invitation.
8.0 (2.0) (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' on pages 71 and 72 provides a summary of the Terms of Reference of the Committee.
8.0 (2.0) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	There were 4 meetings of the Board Audit Committee during the year 2017/18. Page 71 provides the details of the meetings of the Board Audit Committee during 2017/18 and the members' attendance thereat.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (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 and 72 provides details of the activities of the Committee and attendance of members at meetings of the Committee.
8.0 (2.0) (p)	The Secretary to the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied	In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all committee meetings in sufficient detail.
8.0 (2.0) (q)	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	Complied	The Company has established a 'Whistle-blower Policy' which has been approved by the Board Audit Committee and Board of Directors and practiced through-out the Company.
8.0 (3.0)	Integrated Risk Management Committee (IRMC) The following shall apply in relation to the Integrated Risk Management Committee:		
8.0 (3.0) (a)	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.	Complied	The Committee consist of three 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.
8.0 (3.0) (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	AGM – Risk Management and Acting Compliance 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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (3.0) (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.	Complied	Committee has initiated action to review the adequacy and effectiveness of all management level committees such as the Internal Credit Committee and the Asset-Liability Committees' benchmarking against on their current TOR.
8.0 (3.0) (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.	Not Complied	The Committee has to set specific risk appetite limits on credit, liquidity and market risk and review and consider risk indicators which have gone beyond the specified qualitative and quantitative risk limits.
8.0 (3.0) (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 four (4) times during the financial year 2017/18. Page 70 provides the details of the meetings of the Committee during 2017/18 and the members' attendance thereat.
8.0 (3.0) (f)	The Committee shall take appropriate action against the officers responsible for failure to identify specific risk and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Complied	Risks are identified collectively by the Integrated Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. The Company has a formal documented disciplinary action procedure which has been specifically noted in the Company's Human Resource Policy.
8.0 (3.0) (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 has submitted risk assessment reports to the next immediate Board meeting seeking the Board's views and action deemed necessary.
8.0 (3.0) (h)	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved polices on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	AGM – Risk Management and 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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9.0	**Related Party Transaction**		
9.0 (1.0)	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.		
9.0 (2.0) (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.
9.0 (3.0) (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
9.0 (4.0)	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 paragraph, '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.
9.0 (4.0) (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 page 205 to 207 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.
9.0 (4.0) (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.		
9.0 (4.0) (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.	Not Complied	The Company has to develop and implement a system process, in accordance with the related party policy in place, to 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.
9.0 (4.0) (d)	Providing or obtaining services to or from a related party without a proper evaluation procedure.		
9.0 (4.0) (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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10.0	**Disclosure**		
10.0 (1.0) (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 158 to 216 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.
10.0 (2.0)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		
10.0 (2.0) (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 pages 151 and 152 the 'Independent Auditors' Report' on pages 156 and 157.
10.0 (2.0) (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 154.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10.0 (2.0) (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 155.
10.0 (2.0) (d)	Details of Directors, including names, transactions with the finance company.	Complied	Details of the Directors are given on pages 18 and 23 there were no transactions with the Directors' of the Company other than the Directors' fees/remuneration paid.
10.0 (2.0) (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 40.1.1 to these Financial Statements on page 205 and in 'Report of the Board of Directors of the Affairs of the Company' on page 148.
10.0 (2.0) (f)	Total net accommodation as defined in paragraph 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 for KMPs disclosed under 10.0(2.0) (g) below. The net accommodations outstanding in respect of KMPs amounted to 0.37% of the Capital Funds of the Company.
10.0 (2.0) (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 amounted to Rs.37.29 million. There were no new accommodations granted to KMPs during the year. The value of deposits received from KMPs during the year amounted to Rs. 12.73 million. The payable balance including interest accrued on those deposits amounted to Rs.17.05 million as at the year end.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10.0 (2.0) (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 144 to 150 and the 'Corporate Governance Report' on pages 34 to 69 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 154 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 155).
10.0 (2.0) (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.
10.0 (2.0) (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
11.0	**Transitional Provision**		
11.0 (1.0)	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 paragraph 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. The Company did not have any Director completing nine years nor 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.
11.0 (2.0)	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.		
11.0 (3.0)	The following transitional provision shall apply to the 9-year retirement requirement imposed under paragraph 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.		
11.0 (4.0)	The following transitional provision shall apply to the maximum age level imposed under paragraph 5 (1) of this Direction:		
11.0 (5.0)	The following transitional provision shall apply to the maximum 20 companies/entity Directorship limitations imposed under paragraph 5 (2) of the Direction: If any person holds post of Director in excess of the limitation given in paragraph 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.		
11.0 (6.0)	If for any reason such ill health or any disqualification specified in the Act, the Monetary Board considers the exemptions referred to in subparagraphs 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 3 (6) (v) of the Banking Act Direction No. 11 and 12 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. 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 OF THE COMMITTEE

The IRMC is comprised of three Non-Executive Directors, the CEO, AGM – Risk Management and Acting Compliance Officer and the Corporate Management Team who manage the risks of business units. Chairman of the committee is Dr Richard Vokes while Mr Shakila Wijewardena and Mr Alex Perera are the other Non-Executive Directors.

COMMITTEE MEETINGS AND THE METHODOLOGY

Four meetings were held on a quarterly basis 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	4	4
Mr Shakila Wijewardena	4	4
Mr Alex Perera	4	4

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 Risk Management and Acting Compliance Officer is present at all meetings to ensure that the proceedings are minuted correctly and the decisions taken therein are adopted accordingly.

RISK MANAGEMENT AND COMPLIANCE DIVISION

The Division functions as an independent unit and is headed by a dedicated professional functioning as the AGM reporting directly to the Chairman of the IRMC. A comprehensive booklet identifying all areas of concern and remedial measures that have been taken as well as ongoing action to mitigate risks is circulated monthly among the Committee members.

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

Initiatives undertaken during 2017/18

- 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 for the diversity of products and services offered.

Dr Richard Vokes
Chairman – Integrated Risk Management Committee

31st May 2018

Report of the Board Audit Committee

COMPOSITION

Members of the Board Audit Committee (The Committee) are appointed by the Board and Comprised entirely of Non-Executive Directors. The Chairman of the committee shall be a Non-Executive Director who possesses adequate qualification and experience in accountancy and auditing. The Board Audit Committee as at 31st March 2018 comprises of two Independent, Non-Executive Directors and one Non Independent, Non-Executive Director of the Company as shown below:

Name	Designation
Mr. Channa de Silva	Chairman / Non-Executive, Independent Director
Mr. Shakila Wijewardena	Member / Non-Executive, Non-Independent Director
Mr. Shevon Gunaratne	Member / Non - Executive, Independent Director

The Profiles of the Board Audit Committee members are set out on pages 18 to 23

Mr. Kenneth Mendis functions as the secretary to the Board Audit Committee, additional to his functioning as AGM -Alternative Channels.

CHARTER OF THE COMMITTEE

The Terms of Reference of the Committee are clearly defined in the Charter of the Audit Committee 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 Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Committee 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 Committee 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 Committee has the entire authority to investigate into any matter, including call any employee to be questioned at a meeting of the Committee, full access to information and authority to obtain external professional advice, at the Company's expense.

MEETINGS

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

Name	Meetings held	Meetings attended
Mr. Channa de Silva	4	4
Mr. Shakila Wijewardena	4	4
Mr. Shevon Gooneratne	4	3

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

SUMMARY OF ACTIVITIES DURING THE YEAR

Financial Reporting

The Committee 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 Committee 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; (v) The compliance with relevant accounting standards and other legal requirements.

The Committee 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.

Report of the Board Audit Committee

Internal Controls, Risk Management Function and Going Concern

The Committee 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 Committee also assesses the Company's ability to continue as a going concern in the foreseeable future. The Committee reviewed and approved the Directors' Statements on internal controls system over financial reporting to be included in the Annual Report.

External Audit

The Committee monitors independence and objectivity of the audit processes of external audit in accordance with applicable standards of best practice. The Committee 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 Audit Committee met the External Auditors Messrs Ernst & Young during the year 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 Committee also reviewed the External Auditors' Management Letter and management responses thereto.

The Committee recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditors of Sarvodaya Development Finance for the financial period ending 31st March 2019, subject to approval by the Shareholders at the next Annual General Meeting.

Internal Audit

The Committee 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 Committee 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 Committee also reviews and monitors Management's responsiveness to the significant audit findings and recommendations of the Internal Auditor. Internal Audit Department carried out 43 branch annual audits, 32 branch spot audits and 10 special audits during the year ended 31st March 2018.

Oversight on Regulatory Compliance

The Committee 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 March 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 Committee.

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 Board Audit Committee engaged the main Board in taking decisions related to matters implemented by the Board Audit Committee. 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 Committee 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 Board Audit Committee for their participation and contribution to the efforts of the Board Audit Committee. Also appreciate the support of the Board of Directors in regard to all our activities at the Board Audit Committee. 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

31st May 2018

Report of the Board Remuneration Committee

OBJECTIVES AND SCOPE

The Remuneration Committee (RC) 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.

ROLE AND RESPONSIBILITY OF THE COMMITTEE

The Committee has responsibility for the following;

1. Make recommendations 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);
2. Recommend any contract of employment or related contract with Executive Directors on behalf of the Company;
3. Determine the terms of any compensation package in the event of early termination of the contract of any Executive Director; and
4. Make recommendations to the Board regarding the content to be included in the Annual Report on Directors remuneration
5. Assist the Board in deciding the Human Resource Policy
6. Approve Performance Goals for Key Management Personnel

The Board Nomination Committee (NC) was dissolved by the Board during the period under review and the role of the NC and RC have been amalgamated to read as the role of the RC.

The following role of NC has been amalgamated with RC; namely,

1. 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.
2. Consider the making of any appointment or re-appointment to the Board
3. Provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment
4. 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; and
5. A member of the Nomination Committee should not participate in decisions relating to his/her own appointment
6. Adopt a scheme of self-assessment to be undertaken by each Director annually
7. Identifying and designating Key Management Personnel
8. Ensure 'fit and proper' of Directors and Key Management Personnel
9. Approve Key Management Personnel Succession Plan and periodically review selected successors for Key Positions

MEMBERS

The Committee comprises three (3) Non-Executive Directors as mentioned below. The Chairman of the Committee is an Independent, Non-Executive Director.

1. Dr. Janaki Kuruppu – Chairman.
2. Mr. Shakila Wijewardena
3. Mr. K L Gunawardana

MEETINGS

The RC meets regularly; at least four times a financial year. The Chief Executive Officer and the Manager -HR participate at meetings of the Remuneration Committee by invitation. The Minutes of each RC meeting held are submitted to the Board for their information. The final decision based on such recommendations is made by the Board of Directors.

The Committee held four (4) meetings during the period under review and the recommendations made by the Committee were circulated and ratified by the Board of Directors.

	22/06/2017	25/09/2017	22/12/2017	21/03/2018
Dr. Janaki Kuruppu –Chairman	√	√	√	√
Mr. Shakila Wijewardema	-	√	√	-
Mr. K.L. Gunawardana	√	√	√	√

Report of the Board Remuneration Committee

KEY POLICY MATTERS REVIEWED/ INTRODUCED DURING THE REVIEW PERIOD

As enumerated in last year's Report, the Committee continued to provide 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'.

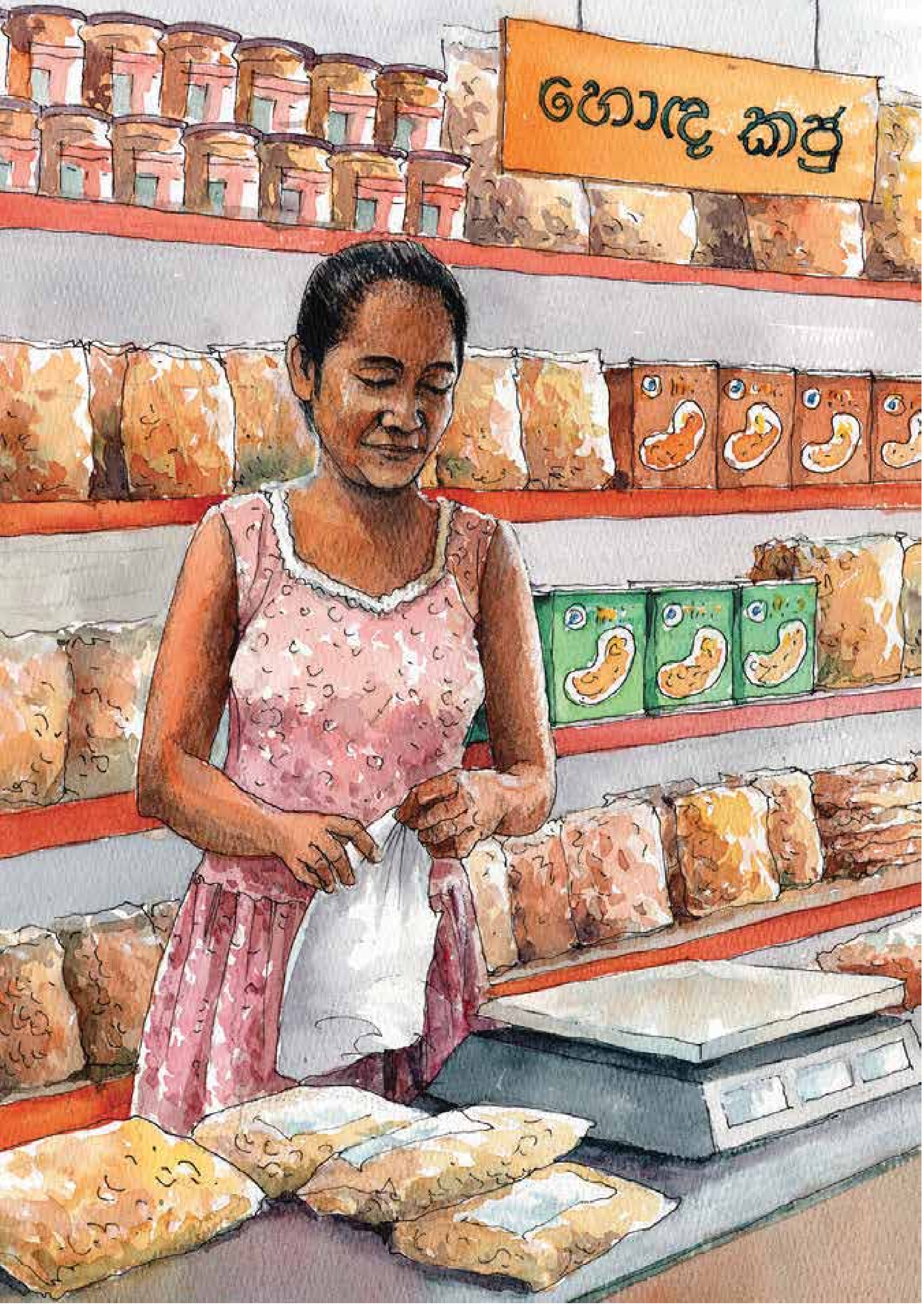
The Committee reviewed/introduced following policy matters during the FY 2017/18

- Carried out a salary survey and approved of salary revision, staff promotion and bonus scheme to staff members.
- Introduced a 'Grievance Procedure Policy" and a 'Promotion Policy'.
- Introduced SDF's Welfare Society with the intention of providing various benefits to employees to ensure employees' welfare.

The RC places much emphasis on training. The Committee encourages the provision of training and exposure. 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, these training opportunities will serve to motivate these employees. The Committee is of the view that as SDF grows and diversifies, it will benefit from having employees who are multi skilled, can serve cross functionally and can also work with a regional outlook.

Dr. Janaki Kuruppu
Chairman – Remuneration Committee

31st May 2018



“When I used to tell my friends, the plans I had for my own business, I had no clear idea on how to proceed with making it happen. But thankfully, SDF did.”

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 significant 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. Capital regulations have been executed and SDF is adequately capitalized under the current requirement of Basel III. 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. This system envisions the strengthening of Business Units at work level, with product innovation being the key driver. The risks relating to these 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 2017/18

Risk Category	Current Year Performance Criteria
Strategic Risk	▪ ROA improved to 1.43% ▪ ROE improved to 7.38%
Credit Risk	▪ Focused on more secured lending, backed by collaterals ▪ The Credit disbursements grew by 18.6% YoY. ▪ Lending portfolio grew by 41.2% YoY ▪ The NPA ratio at 6.2% is well within the tolerance limits and industry average. ▪ Recoveries strengthened through focused strategies by limiting the exposure to selected asset categories.
Operational Risk	▪ Staff turnover rate was high at 33% ▪ 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 9.6% ▪ The interest rate movements regularly monitored and lending products were prized maintaining a net interest margin (NIM) at 14% -15% 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

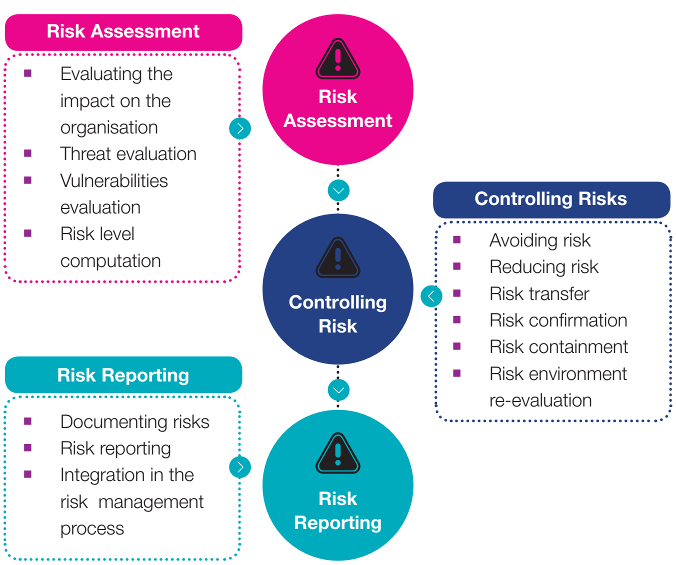
The administration of risk has a vital influence in all of the SDF's business activities. Identifying risk, risk assessing and analyzing, planning action, implementing, measuring, controlling and monitoring are essential parts of managing risk.

The risk management function comes under the 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.

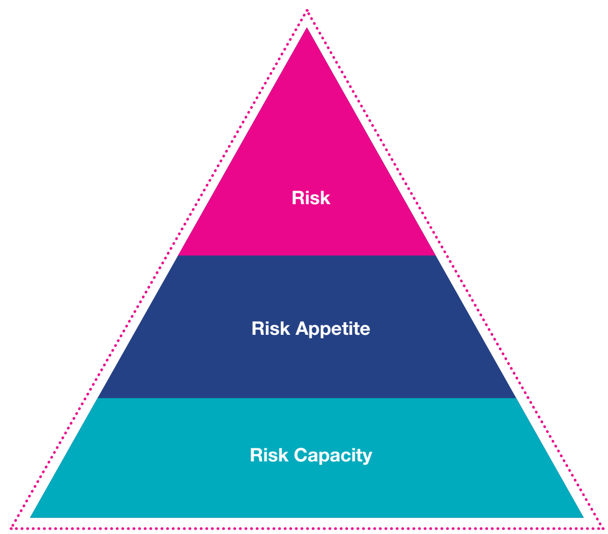
SDF has set up structures and procedures to address the risks which are vested on business/departmental heads. The IRMC spearheads the autonomous risk assessments, both qualitative and quantitative, and imparts the outcomes to the Management and the Board of Directors. The IRMC assists management level 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. ALCO reviews the asset and liability functions of the Company.

Details of Committees	
Name of Committee	Representation
ALCO	**Chaired by:** Mr. Dharmasiri Wickramatilake - *CEO*
	Members: Mr. Deshantha De Alwis - *(DGM - Finance & Planning)*
	Ms. Dilushi Dabare *(AGM- Risk & Compliance)*
	Mr. Rasika Epasinghe *(AGM – Marketing)*
	Mr. Janaka Dissanayake *(AGM –Credit)*
	Mr. Harindra Kuruppu *(CHM – OPS & ADM)*
IRMC	**Chaired by:** Dr. Richard Vokes
	Members: Mr. Shakila Wijewardana *(Board member)*
	Mr. Alex Perera *(Board member)*

RISK MANAGEMENT FRAMEWORK



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 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 Management

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 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. These 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.

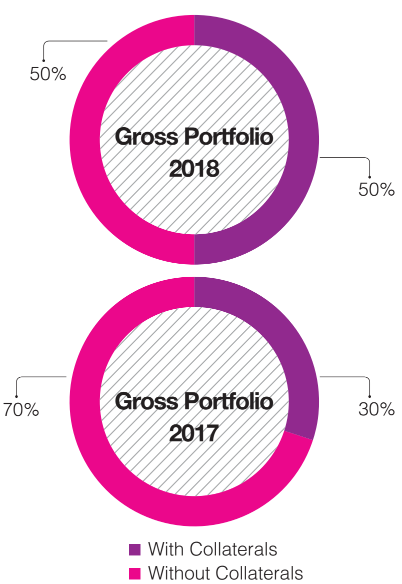
CREDIT RISK

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 30:70 as at 31st March 2017 to around 50:50 as at 31st March 2018.



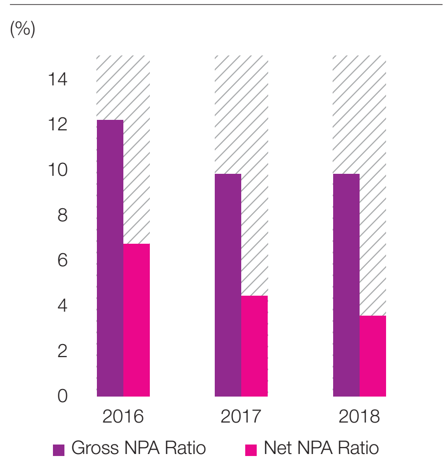
The Credit Department prepares a comprehensive management information report and submits it on a monthly basis to the Board of Directors. The Recoveries Department works closely with the Credit Department to ensure timely collection of overdue of problematic loans. The Recovery Department presents a 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. These strengthened monitoring and stern actions taken on default accounts resulted in SDF's Gross NPA ratio declining sharply to 6.20% as at 31st March 2018 from 9.81% as at 31st March 2017.

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.

Movement: NPA Ratios



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.

	2018	2017
Top 20 Borrowers	4.86%	4.35%

High value credits (over and above 7.5 Mn) are reviewed by the RMD within 6 months of granting. In addition, RMD measures and tracks the risk status of the credit portfolio on a monthly basis. The RMD undertakes stress testing and detects early warning signals on any deteriorating credit quality.

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. AGM –Alternative Channels & Acting 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

Risk Management

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 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 that have been identified 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.

SDF retains employees with capabilities and commitment that are required in achieving strategic objectives by rewarding and recognizing. SDF conducts performance appraisals and incentivizes based on performance. The training needs are duly identified to retain best employees ensuring sustainable growth.

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. 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 recognizes 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.

	2018	2017
Net Interest Margin	14.36%	14.74%

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. ALCO monitor 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 analyze 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.

	2018	2017
Liquid Asset Ratio	12.47%	20.39%

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.

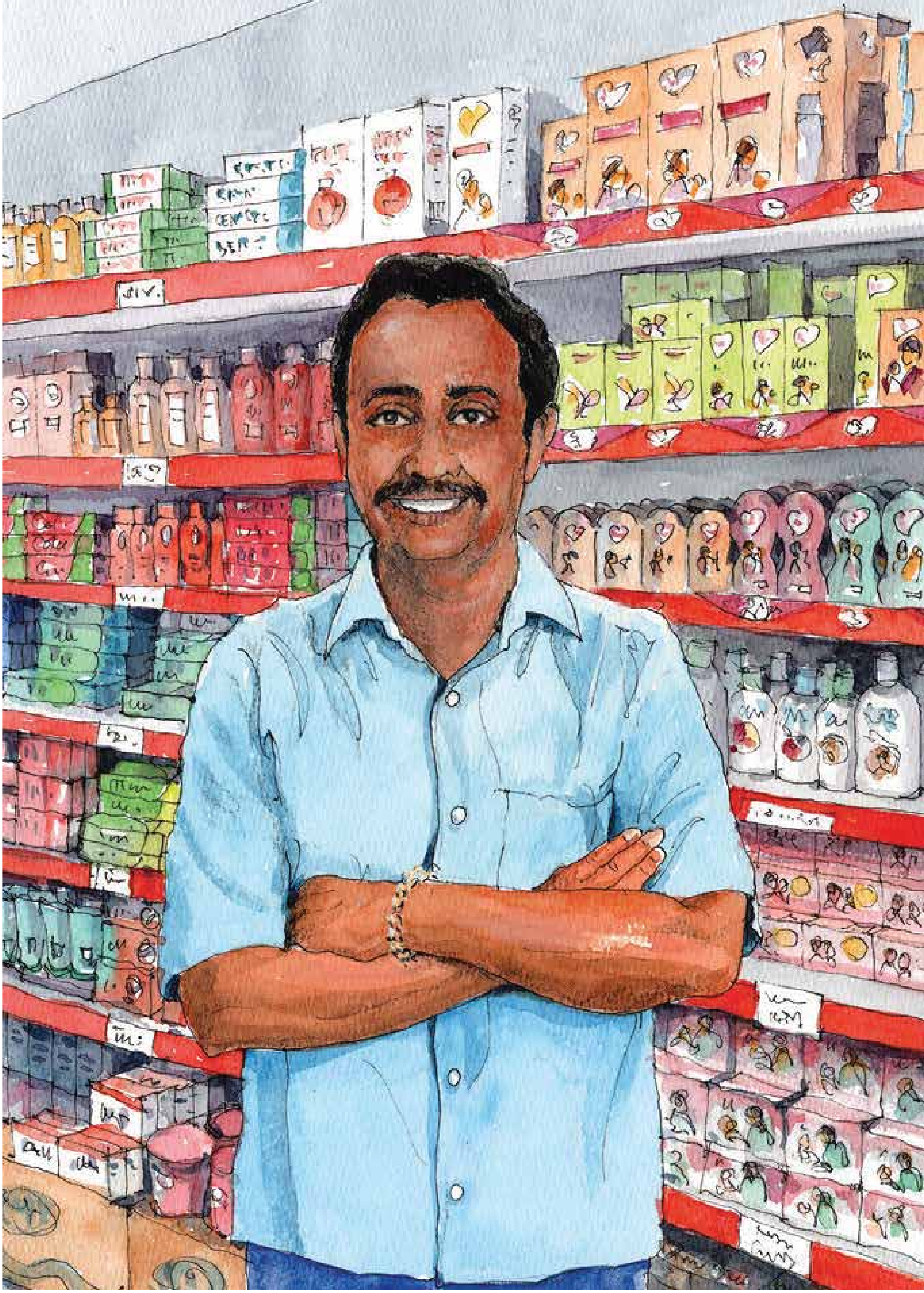
OVERALL RISK ANALYSIS

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 Feb 17 and introduced Pre-approved Corporate Body Employees loans in Jan 17 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. 5.3 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 5.3 Billion net loan portfolio 1.4 Billion loans are within the Western region where the balance portfolio carries an equal distribution among other regions. The credit exposure to top 20 customers is 4.9% 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 single borrower was 3.4% 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 reorganized its recovery structure and allocated additional resources and managed NPA through improved recoveries and actions through legal process during the financial year. This systematic change effectively brought SDF's gross NPA down to 6.20% as at 31st March 2018 from 9.81% in the previous year.



“My family is in a much better place since we opened up the shop. My children have hope for a brighter future… all because of SDF.”

Operating Environment

GLOBAL ECONOMIC OVERVIEW

World growth strengthened in 2017 to 3.8%, with a notable rebound in global trade. It was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth is expected to tick up to 3.9% this year and next, supported by strong momentum, favourable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States.

Resurgent investment spending in advanced economies and an end to the investment decline in some commodity-exporting emerging market and developing economies were important drivers of the uptick in global GDP growth and manufacturing activity in 2017. However, with expansions becoming less even, risks to growth forecasts are increasing. In the United States, near-term momentum is strengthening in line with the April WEO forecast, and the US dollar has appreciated by around 5% in recent weeks. Among emerging market and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals. Growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened.

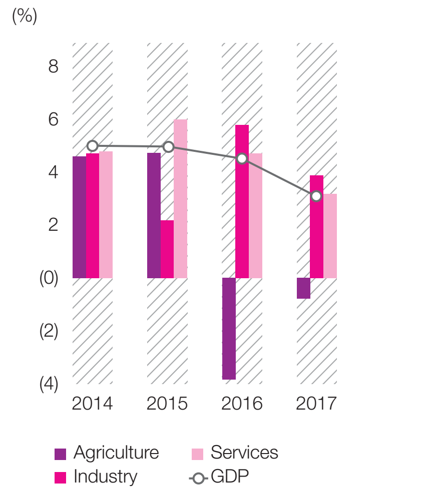
Emerging and Developing Asia is expected to maintain its robust performance, growing at 6.5% in 2018/19. Growth in China is projected to moderate from 6.9% in 2017 to 6.6% in 2018 and 6.4% in 2019, as regulatory tightening of the financial sector takes hold and external demand softens. India's growth rate is expected to rise from 6.7% in 2017 to 7.3% in 2018 and 7.5% in 2019, as drags from the currency exchange initiative and the introduction of the goods and services tax fade. Growth in the ASEAN-5 group of economies is expected to stabilise at around 5.3% as domestic demand remains healthy and exports continue to recover. Largely reflecting supply shortfalls, global oil prices increased 16% between February 2018 and early June 2018 (the reference period for the July 2018 WEO Update). Market expectations suggest that declining capacity in Venezuela and US sanctions on Iran may pose difficulties for the group to deliver the agreed upon production increase consistently. Futures markets, however, indicate prices are likely to decline over the next 4–5 years (in part due to increased US shale production) The increase in fuel prices has lifted headline inflation in advanced and emerging market economies affecting global growth.

SRI LANKA MACRO ECONOMY

The stabilisation policy measures witnessed improvements in the Sri Lanka economy during the year, nevertheless, resulting in a declined real economic growth. The tightening monetary policy affected the economy with a further tightening on March 2017 stabilising market interest rates at elevated levels. The adverse weather conditions coupled with reduced worker remittance and higher than expected headline inflation weighed on the economy, however, moderated by increase in investment and consumption expenditure.

GDP at current market prices were at Rs. 13,289 billion (USD 87.2 billion) in 2017, while it recorded Rs. 11,907 billion (USD 81.8 billion) in year 2016. The GDP in nominal terms therefore, grew by 11.6% for year 2017 in comparison to 8.7% year on year increase on year 2016. The per capita GDP at current market prices of Rs. 561,560 (USD 3,857) in year 2016 improved to Rs. 619,729 (USD 4,065) in year 2017

Economic Sector Growth Rate



establishing Sri Lanka as a middle income economy. However, the economic growth rate of the country declined to 3.1% in 2017, from 4,5% in 2016 as a negative growth for the second consecutive year in Agriculture, forestry and fishing activities due to the adverse weather conditions coupled with slowdown in Services and industrials sector activities; weighed on the GDP deceleration.

The growth in industry related activities slowed during 2017 with the deceleration in the growth of construction, and mining and quarrying activities. The construction sector, which supported the overall growth of the economy considerably during the post-war era, slowed down to record a growth of 3.1 % with mining and quarrying slowing down in growth to 5.9% during year 2017.

Manufacturing activities, which accounted for 15.7% of real GDP in 2017, grew at a sluggish rate of 3.9% in 2017, albeit supported by favourable developments in exports and domestic market food and other non-metallic mineral products.

The growth rate of services related activities, which accounted for over 56 %

Operating Environment

of real GDP, also moderated during 2017,, particularly due to the contraction in public administration and defence activities, and the slowdown in transportation activities. However, the growth in services activities was supported by the growth in financial services during 2017. Furthermore, wholesale and retail trade, and other personal service activities, also contributed positively towards the growth of the services sector.

Inflation

Overall the country experienced rising cost structures with the general price level, as measured by the consumer price indices, compiled by the Department of Census and Statistics (DCS), showing an increasing trend.

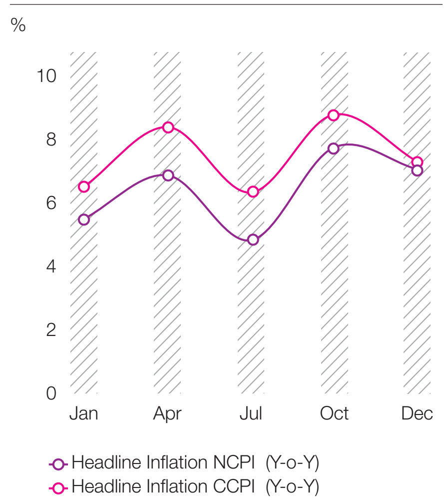
The CCPI moved up from 116.1 index points in January 2017 to 122.9 index points in December 2017. The movements of the CCPI were in line with the movements of the NCPI, however, at different magnitudes. In terms of the CCPI, the movements were driven by the Food category during the year, except in January and November 2017 where the movement was driven by the Non-food category.

During 2017, a notable contribution from the Non-food category was observed in terms of the CCPI compared to the marginal contribution of the same in terms of the NCPI. This may be attributable to the comparatively higher weight of the Non-food category in the CCPI than in the NCPI.

Headline Inflation

Headline inflation, as measured by the year-on-year change in the NCPI, exhibited an overall increasing trend with mixed movements during 2017. The NCPI based headline inflation increased during the first quarter of 2017 from 6.5% in January to 8.6% in March 2017 and gradually declined during the second quarter of 2017.

Headline Inflation NCPI & CCPI 2017



However, it picked up again during the third quarter of 2017 and peaked at 8.8% in October 2017, before declining to 7.3% in December 2017.

The movement of year-on-year inflation was highly determined by the base effect caused by the changes in food prices during 2016 as well as the introduction, suspension and re-imposition of government taxes during 2016. Moreover, monthly increases arising from high food prices that prevailed during January, February, September and October 2017 contributed towards the increase in the year-on-year inflation in these months. Meanwhile, the annual average NCPI inflation gradually increased from 4.6% in January 2017 to 7.7% in December 2017.

Unemployment

The unemployment rate improved positively during the year from 4.4% in year 2016 to 4.2% with a reported decline of female and youth unemployment rates. The female unemployment rate which reported a high 7% previously improved to 6.5% while the youth unemployment reduced to 18.6%. The increased employment from industry and services sectors and policy reduction in unskilled female labour migration, contributed towards increase in number of employed persons elevating the Labour Force Participation Rate (LFPR) However, the labour productivity declined marginally amidst a drop in agriculture sector productivity.

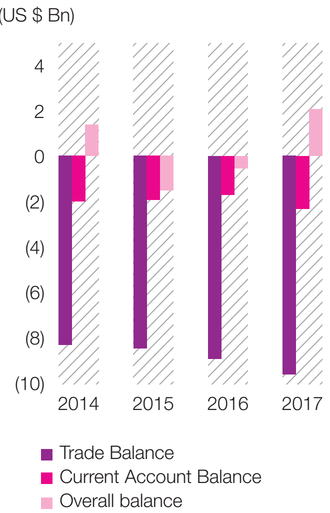
EXTERNAL SECTOR DEVELOPMENTS

Despite the setback in the current account, Sri Lanka's external sector improved gradually in 2017 with higher foreign exchange inflows. Earnings from the export of merchandise goods recorded a notable double digit growth in 2017, partly supported by the reinstatement of the European Union's Generalised System of Preferences plus (EU GSP+) facility, and strong institutional and policy support. However, higher than expected expenditure on imports, particularly on fuel and rice imports, to manage the impact of disruptive weather conditions as well as imports of gold, caused an expansion in the trade deficit during the year.

The deficit in the primary income account also widened during the year, mainly with the increase in interest payments and reinvested earnings by direct investment enterprises (DIEs). Although the healthy growth in transportation and computer services contributed towards the increase in earnings from exports of services, the moderation in earnings from tourism due to the partial closure of the Bandaranaike International Airport (BIA) for resurfacing of the runway and the breakout of the Dengue epidemic weighed down on the expected expansion in inflows to the services account.

Workers' remittances also declined in 2017, partly due to the sluggish growth in the Middle Eastern economies following geopolitical uncertainties and relatively low petroleum prices that prevailed during most months of 2017. The combined effect of the developments in trade, services and primary and secondary income accounts was a widening of the external current account

Balance of Payment



deficit to 2.6% of GDP in 2017 from 2.1% of GDP in 2016. In contrast, the financial account of the BOP improved substantially, especially during the last three quarters of the year, with the highest ever annual inflow of FDI, foreign investment in the government securities market and in the Colombo Stock Exchange (CSE), the receipt of the proceeds of the eleventh International Sovereign Bond (ISB), the foreign currency term financing facility, two tranches of the IMF-EFF programme and other foreign currency inflows to the government and the private sector. Reflecting these developments, the overall balance of the BOP recorded a surplus of US dollars 2.1 billion in 2017.

The gross official reserve position improved, both in terms of quantity and quality, reaching a healthy level of US dollars 8.0 billion by end 2017, from US dollars 6.0 billion at end 2016. Improved external sector performance, along with measures to deepen and develop the foreign exchange market further during the year, facilitated the Central Bank to follow a more market based exchange rate policy. Accordingly, even with the absorption of US dollars 1.7 billion from the domestic foreign exchange market on a net basis, the external value of the Sri Lankan rupee remained relatively stable, depreciating only by 2.0% against the US dollar in 2017.

During the year, the trade deficit widened as a result of the increased expenditure on imports to US dollars 9,619 million in 2017, compared to US dollars 8,873 million recorded in 2016.

As a percentage of GDP, the trade deficit was at 11.0% in 2017, compared to 10.9% in the previous year. Exports rebounded during 2017 to record the historically highest value in terms of earnings, thus reversing the lacklustre performance in exports, which has seen them declining from 33.3% of GDP in 2000 to 12.6% in 2016. Accordingly, earnings from exports increased by 10.2% to US dollars 11,360 million in 2017. The increase in exports was supported by the restoration of the EU GSP+ facility, recovery in external demand and expansion in investment in export related industries, increased commodity prices in the international market, conducive external trade policies together with strong institutional support and the favourable impact of the flexible exchange rate policy maintained by the Central Bank.

Increase in earnings from exports of tea (20.5%), textiles and garments (3.0 %), petroleum products (51.4%) and spices (28.1%), mainly contributed to the improved export performance during the year. Earnings from textiles and garments exports, which accounted for around 44% of total exports, surpassed US dollars 5 billion for the first time in history.

Expenditure on imports increased considerably in 2017, mainly due to higher imports related to inclement weather conditions and the increase in import volumes of crude oil. Accordingly, imports increased by 9.4% to US dollars 20,980 million during 2017. Expenditure on rice imports increased significantly to US dollars 301 million in 2017 compared to US dollars 13 million recorded in 2016 reflecting the impact of the reduction of duty on rice imports to meet the shortage in the domestic market caused by adverse weather conditions. A sharp increase was recorded in gold imports driven by arbitrage facilitated by tariff differentials between Sri Lanka and India. However, import expenditure on machinery and equipment (-4.4%), sugar (-25.2%), spices (-29.7%) and fertilizer (-24.9%) declined during the year. Imports from India accounted for 21.6% of total import expenditure, enabling India to regain its position as Sri Lanka's main import source, followed by China (18.9 %), the UAE (8.1%), Singapore (6.4%) and Japan (4.9%). The overall import volume index increased by 8.1% while the import price index, in US dollar terms, increased by 1.2%.

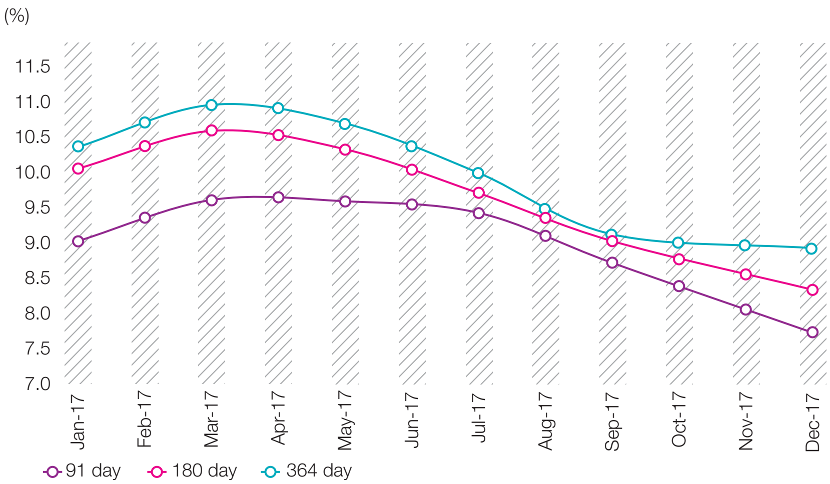
Interest Rates

In view of the tight monetary conditions in the economy, market interest rates continued to increase further during 2017, although some market interest rates stabilised towards the end of the year reflecting the improved liquidity conditions in the market.

Deposit and lending interest rates of commercial banks continued to increase during most of 2017 raising the cost of funds in the economy. However, some moderation in deposit rates was observed towards the end of the year, while lending rates stabilised at elevated levels. Yields on Treasury bills in the primary market showed upward movements initially in 2017 reflecting the increased borrowing requirements of the government. However, yields on Treasury bills in the primary market adjusted downwards thereafter, supported by improved domestic liquidity and with the availability of foreign financing to the government.

Operating Environment

Treasury Bill Yields



Commercial Bank Lending & Deposit Rates

Source: Central Bank Annual Report, Chapter 8

Accordingly, by end 2017, yields on 91-day, 182-day and 364-day Treasury bills declined by 103 basis points, 133 basis points and 127 basis points, respectively, from end 2016. Yields on Treasury bonds in the primary market also followed suit. The issuance of foreign currency denominated debt securities, such as Sri Lanka Development Bonds (SLDBs) and ISBs, also helped ease the pressure on yields of domestic debt instruments. The secondary market yield curve for government securities shifted downwards and remained relatively flat in 2017 with the improvements in investor sentiment as well as anchored inflation expectations. Meanwhile, Interest rates applicable on corporate debt securities remained high during 2017. Moreover, reflecting the gradual rise in key interest rates in the international markets.

Reflecting tight monetary conditions, deposit interest rates of commercial banks continued to increase during 2017, moderating at the end of the year. The average weighted deposit rate (AWDR), increased by 108 basis points to a peak of 9.25% by end September 2017 from 8.17% at end 2016. Similarly, the average weighted fixed deposit rate (AWFDR), also increased by 135 basis points to a peak of 11.81% by end September 2017 from 10.0% at end 2016. The average weighted lending rate (AWLR), increased by 68 basis points to 13.88% by end 2017 from 13.20% at end 2016.

ECONOMIC OUTLOOK

Although the growth performance of the Sri Lankan economy, in 2017, remained subpar as per the estimates of the DCS, the annual real GDP growth is expected to gradually improve to around 6.0% by 2022. The growth strategy of Sri Lanka is based on developing the country to transform itself into a hub in the region with a knowledge based, highly competitive social market economy. To this end, numerous key initiatives, including the Port City development project, the Megapolis project, and the economic corridor projects, are being carried out.

The deficit in the external current account is expected to be tapered over the medium term with the expected improvements in the trade account, inflows to the services account and workers' remittances. Exports are projected to grow at a higher rate than imports, narrowing the trade deficit as a percentage of GDP from 11.0% in 2017 to 8.7% by 2022. The flexible exchange rate policy, the reinstatement of the EU GSP+ and enhanced market access through trade agreements are expected to accelerate exports. Imports are also projected to increase over the medium term with higher imports of intermediary and investment goods.

The budget deficit is estimated to decline to 3.5% of GDP by 2020. The government revenue to GDP ratio is expected to increase to around 17% by 2021, with the expected increase in revenue collection following the implementation of the IRA, automation of revenue collection agencies and adoption of Flexible Inflation Targeting (FIT).

Banking Sector

The banking sector asset base surpassed Rs. 10 trillion by end 2017, with year-on-year growth reaching 13.8% by end 2017 from 12.0% by end 2016. The growth in assets was mainly due to the increase in loans and advances, which accounted for 62.5% of the total assets by end 2017.

The deposits and borrowings accounted for 71.9% and 15.6 %, respectively, of the total banking sector funds at end 2017. Customer deposits, recorded improved growth of 17.5% at end 2017, on year-on-year basis. During 2017, the share of term deposits increased to 63.6% , while the share of savings deposits declined to 27.5% of total deposits. Due to a rise in interest rates, the Current Account and Savings Account (CASA) ratio decreased to 33.2% by end 2017, from 37.1% previous year. Overall borrowings contracted to Rs. 1,607 billion (5.3%) at end 2017.

Item	2016(a)		2017(b)		Change (%)	
	Rs. Bn	Share (%)	Rs. Bn	Share (%)	2016 (a)	2017 (b)
Assets						
Loans and Advances	5,540.8	61.2	6,430.9	62.5	17.5	16.1
Investments	2,270.5	25.1	2,554.4	24.8	-3.3	12.5
Other (c)	1,235.3	13.7	1,307.3	12.7	21.8	5.8
Liabilities						
Deposits	6,295.6	69.6	7,399.0	71.9	16.5	17.5
Borrowings	1,696.4	18.8	1,607.1	15.6	-3.5	-5.3
Capital Funds	707.3	7.8	867.0	8.4	11.1	22.6
Other	347.3	3.8	419.6	4.1	24.4	20.8
Total Assets/ Liabilities	**9,046.6**	**100.0**	**10,292.6**	**100.0**	**12.0**	**13.8**

(a) Revised

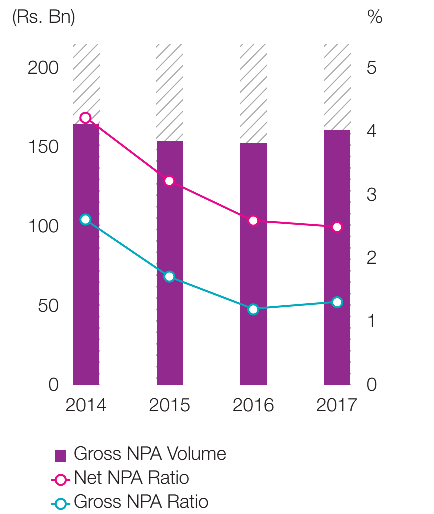
(b) Provisional

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

Source: Central Bank Annual Report, Chapter 8

During the year, the credit quality of the banking sector improved marginally, as reflected by the decline in the gross NPA ratio to 2.5% in 2017, from 2.6% in 2016. Total provisions for loan losses increased by Rs. 10 billion during 2017 weighing on total provision coverage ratio.

NPAs of the Banking Sector

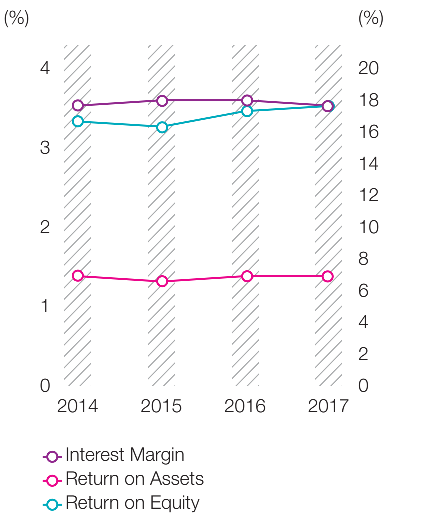


Source: Central Bank Annual Report, Chapter 8

Higher growth in interest expenses (39.1%) compared to the growth in interest income (28.3%) resulted in a marginal decline in the net interest margin to 3.5% during 2017, from 3.6% during 2016. Non-interest income, however, increased by Rs. 19 billion during 2017, while Non-interest expenses increased by Rs. 7 billion as a result of increased staff costs.

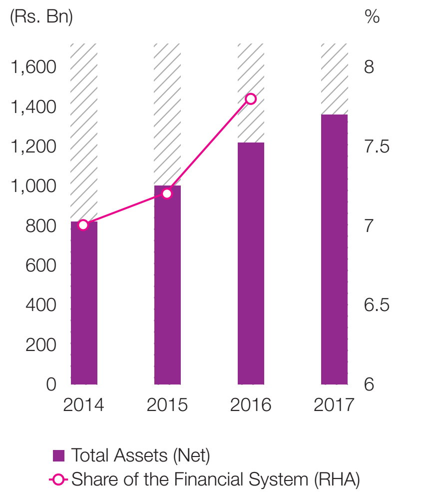
Operating Environment

Profitability Indicators of the Banking Sector

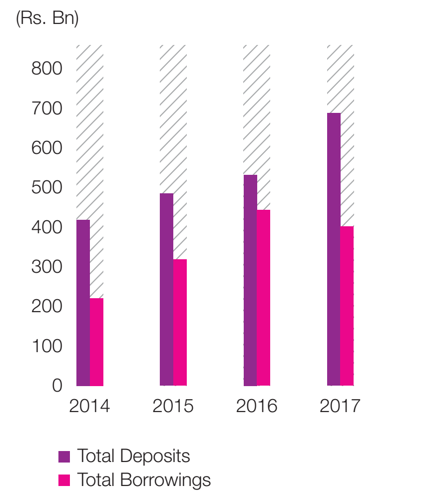


Source: Central Bank Annual Report, Chapter 8

Assets of the LFC & SLC Sector



Total Deposits & Borrowings of the LFC & SLC Sector



Profit after tax of the banking sector grew by 19.2% , from Rs. 116.5 billion in 2016 to Rs. 139 billion in 2017. The increase in profitability was reflected in the increase in the ROE and ROA ratios (before tax) by recording 17.6% and 1.4% respectively. The cost to income ratio has deteriorated to 76.3 % in 2017, with the increase in premises and establishment expenses, while the efficiency ratio improved to 45.7%.

Subsequent to the Basel III capital standards introduction in 01 July 2017 the banking sector Core Capital Adequacy Ratio (CAR) and total CAR as at end December 2017, stood at 12.4% and 15.2%, respectively. The share of Tier 1 capital to total capital increased to 81.1% as at end 2017 from 80.5% as at end 2016, The banking sector capital levels are expected to improve further with improved retained earnings and infusion of new capital to meet the increased minimum capital requirements under Basel III by end 2020.

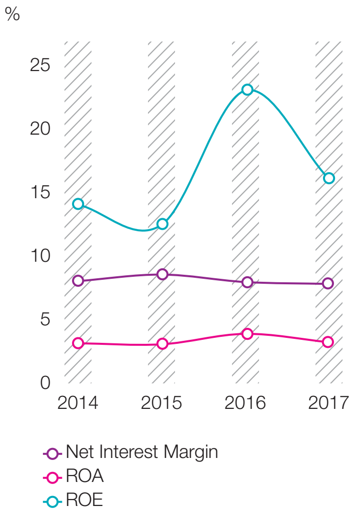
Nonbank Finance Sector

By the end of 2017, the sector comprised of 45 Licensed Finance Companies and 6 Specialised Leasing Companies. The sector expanded in 2017, representing 7.9% of Sri Lanka's financial system.

The total asset base of the sector grew moderately by Rs. 143 billion during the year reaching Rs. 1,355 billion by end 2017, at a growth rate of 11.8%, compared to the 21.7% in 2016. Credit growth of the sector decelerated to 9.8% (Rs. 94 billion) amounting to Rs. 1,057.1 billion, compared to 21.0% during 2016. Around 62% of this growth was through finance leases, while 36% was through secured loans and advances. The hire purchase portfolio contracted during the year by Rs. 15 billion (35.6%). However, the growth of finance lease portfolio for the year 2017 was 13%. The growth of investment portfolio, which comprises investment in equities, capital market debt instruments, government securities and investment properties, slowed down during the year 2017, to 5.7%. Customer deposits became the major portion of liabilities in 2017 and accounted for 50.7% of the total liabilities of the sector. The deposits grew by 29.4% to Rs. 686.7 billion in 2017, compared to the growth of 10.4 % in 2016. Time deposits grew by 29.2% compared to the growth of 11.1% in the year 2016 and savings deposits grew by 35.3% compared to the negative growth of 1.7% recorded in the previous year. Nevertheless, time deposits accounted for a major share of total deposits, representing 95.5%. The sector borrowings indicated a negative growth of 9.7% to Rs. 396.0 billion in 2017, compared with the high growth of borrowings of 39.6% experienced during 2016.

The net interest income of the sector increased at a slower rate than in 2016, recording a growth of 11.5% to Rs. 102.7 billion in the back of the increase in interest expenses. As a result, net interest margin of the sector declined marginally to 7.7% in 2017 from 7.9% in 2016. Non-interest income increased by 20.3% mainly due to the increase in default charges and other service charges, while non-interest expenses also increased by 21.9%, affecting adversely towards sector profitability, mainly due to the increase in staff costs. The loan loss provisions made against NPAs, which was Rs. 13.5 billion,

Profitability Indicators of the LFCs and SLCs Sector



Source: Central Bank Annual Report,

increased by Rs. 6 billion during 2017, when compared to the provision of Rs. 7.6 billion made in 2016, which also affected the profitability in 2017. Accordingly, the sector posted a profit after tax of Rs. 25.8 billion, an 18.0% decline compared to the profit of Rs. 31.5 billion recorded in the year 2016, reporting a ratio of 3.2% and ROE declined reporting a ratio of 16.1%, which showed signs of stress towards the profitability of the sector.

COLOMBO STOCK EXCHANGE (CSE)

Breaking a declining trajectory the Colombo Stock Market improved marginally during year 2017 with ASPI increasing by 2.3% to 6,369.3 and S&P SL 20 by 5.0% to 3,671.7 . The market capitalisation improved by 5.6% adding Rs. 154 billion in value while foreign investments highlighted a significant net inflow of Rs. 17.7 billion compared to 383.5 million previous year backed by strong fundamentally valued counters trading at a discount. The foreign investor contribution to aggregate market turnover improved to 46.9% marking investor confidence. The sector market performance was highlighted on banking, finance and insurance; beverage, food & tobacco; diversified holdings sectors recording index increases while hotels & travel and manufacturing sectors declined. The market price earnings ratio closed for the year at a relative low of 10.6x

NEW REGULATORY DIRECTIVES FOR NBFIS

A wide ranging new regulatory directive was the Financial Customer Protection Framework, which will come into effect from April 2018. It includes a set of guidelines and instructions that need to be adhered to by financial institutions to mitigate the potential harm to the customer

In addition, the minimum core capital requirement was increased from Rs. 400 million to Rs. 1.0 billion by 01 January 2018, Rs. 1.5 billion by 01 January 2019, Rs. 2.0 billion by 01 January 2020 and Rs. 2.5 billion by 01 January 2021.

New capital regulations will also come into effect on licensed finance companies from July 2018, similar to BASEL rules on banks. Finance companies will have to gradually increase their capital ratios from 2018 through 2021. Accordingly, the tier I and tier II ratios of licensed finance companies will increase to 8.5% and 12.5% gradually from the current 5% and 10% respectively, from July 1, 2018 through 2021. Finance companies with assets over Rs.100 billion will be required to build an additional capital surcharge of 150 basis points starting from July 1, 2019 to July 1, 2021. This effectively takes the total capital ratio up to 14% by 2021 for such larger finance companies.

Capital Reporting Highlights

SDF's CAPITAL

Manufactured Capital

Rs. 24.2 Mn
Invested in Fixed Assets

Rs. 2.0 Mn
Invested in DR site

51
Customer Delivery Points

ATM Card
Partnered with LankaClear

mCash
Partnered with Mobitel

G-suite
Partnered with Finetech

Financial Capital

Rs. 1.3 Bn
Economic Value Created

30%
Growth in Assets

29.8%
Growth in Customer Deposits

41.2%
Growth in Net Portfolio

Rs. 80.5 Mn
Profits Recorded

77.5%
Cost: Net Income Ratio Improved

Human Capital

Rs. 1.8 Mn
Rewards for Employees

Rs. 1.6 Mn
Employees Trainings

548
Total Workforce

180
New Recruits

71%
New Recruits below 30 Years

REPORTING

Social & Relationship Capital

SME & Leasing
Move towards Collaterals-backed Lending

Rs. 35.8 Mn
Dividend Proposed

333.8 %
EPS Increased

31
SSS Trainings

158,158
Total Customers

Rs. 97.6 Mn
Revenue to Government

Natural Capital

Ethical Business
Refrain Credit for Environmentally Polluting Business

Reduce Waste
Automate Processes

Green Banking
Reduce Paper Usage

Intellectual Capital

Brand Building
Reposition SDF as a young, tech-savvy financial services specialist

'One Sarvodaya'
Optimise Group synergies

Winning
Silver Award
at ICASL Annual Report Awards 2017 (below Rs.20 Bn Assets Category)

Financial Capital

The challenging business conditions and the constraints witnessed in the vehicle sales' industry coupled with the slowdown in the country's economy, brought many challenges to the industry as a whole. Despite this challenging operating environment, SDF rose from a slowdown in the previous year and recorded significant progress and positive growth in the reporting year. SDF displayed a notable advancement in revenues, profitability, quality of portfolio, portfolio growth, deposit growth and efficiency indicators – all recording clear improvements.

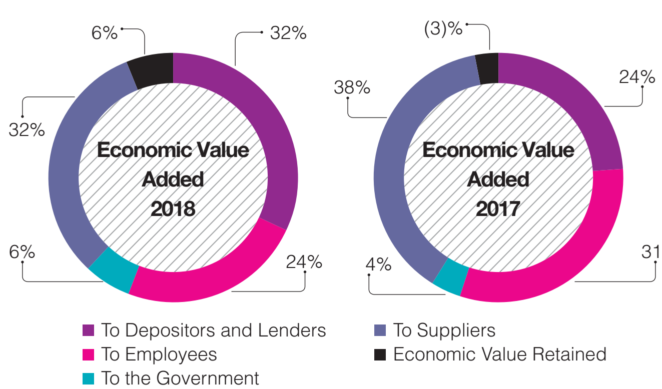
Portraying a strong and steadfast turnaround in its growth trajectory, SDF achieved a number of tangible improvements encompassing many aspects, as a result of successfully implementing a series of strategic measures. Owing to these all-round improvements in core business areas, SDF recorded a profit after tax of Rs.80.5 million in the report year from a loss after tax of Rs. 34.5 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	▪ Implement promotional campaigns ▪ Introduce new products ▪ Focus on marketing and sales ▪ Incentivise employees
Improve portfolio quality	▪ Improve credit evaluation ▪ Enhance credit supervision ▪ Increase recoveries ▪ Harness technology for repayments using mCash
Rebalance credit portfolio	▪ Aggressively promoted SME lending, personal loans, pawning and leasing products ▪ Reorient micro lending away from group based micro credit to individual loans ▪ Increase average loan size of micro loans
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, 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. 1.3 billion in the FY 2017/18 which was an improvement of Rs.228 million compared to the preceding year. This value has been distributed among our stakeholders as depicted below.

	2018		2017		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Economic Value Added						
Interest Income	1,179.56		883.76		295.80	
Other income	141.20		209.20		(68.00)	
Total	**1,320.76**		**1,092.96**		**227.80**	
Economic Value Distributed						
To Depositors and Lenders						
Interest Expenses	416.60		280.90		135.70	
	416.60	**31.54%**	**280.90**	**25.70%**	**135.70**	**59.57%**
To Employees						
Salaries and other benefits	322.74		361.46		(38.72)	
	322.74	**24.44%**	**361.46**	**33.07%**	**(38.72)**	**-17.00%**
To the Government						
Income tax	9.35		(0.04)		9.39	
VAT on financial service	70.75		48.03		22.72	
	80.10	**6.06%**	**47.99**	**4.39%**	**32.11**	**14.09%**
To Suppliers						
Other Operating Expenses	277.98		221.69		56.29	
Impairment charges	89.12		172.26		(83.14)	
Depreciation and amortisation	58.19		47.42		10.77	
	425.28	**32.20%**	**441.37**	**40.38%**	**(16.09)**	**-7.06%**
Economic Value Retained	**76.04**	**5.76%**	**(38.76)**	**-3.55%**	**114.80**	**50.40%**
Total	**1,320.76**	**100.00%**	**1,092.96**	**100.00%**	**227.80**	



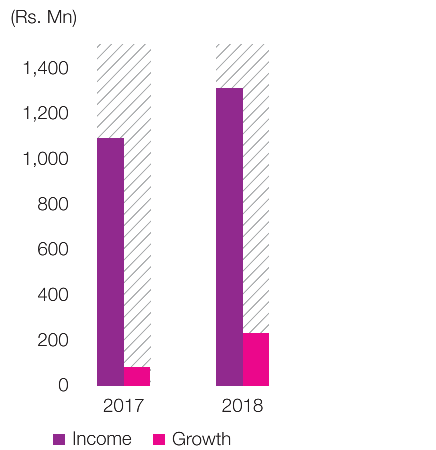
Financial Capital

KEY FINANCIAL INDICATORS

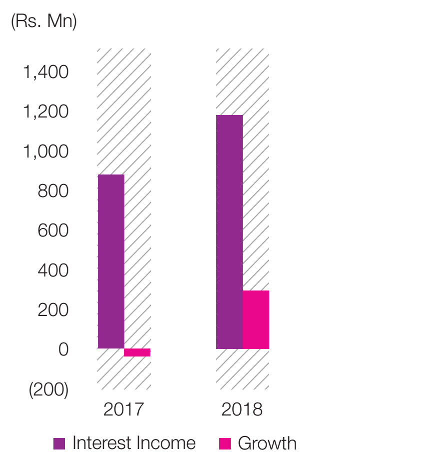
Key financial indicators of the Company for the year under review are given below and explained further in this chapter.

	2018	2017	Change (%)
Statement of Profit or Loss (Rs. million)			
Income	1,320.76	1,092.96	20.84
Operating Income	904.16	812.06	11.34
Impairment Losses	89.12	172.26	(48.27)
Profit After Tax	80.49	(34.54)	333.05
Statement of Financial Position (Rs. million)			
Assets	6,349.59	4,872.89	30.30
Loans and Lease Receivables	5,308.50	3,760.60	41.16
Customer Deposits	4,624.84	3,563.70	29.78
Due to Banks and Other Institutions	463.28	75.86	510.73
Financial Indicators			
Net Interest Margin (%)	14.36	14.74	(2.58)
Return on Equity (%)	7.38	(3.24)	327.78
Net Assets Value per Share (Rs.)	16.81	15.51	8.4
Staff Cost: Net Income (%)	35.69	44.32	(19.46)
Cost of Funds (%)	9.55	8.33	14.65
Capital Adequacy (%)			
Core Capital Ratio	20.19	25.02	(19.30)
Total Risk Weighted Capital Ratio	20.19	25.02	(19.30)

Income



Interest Income



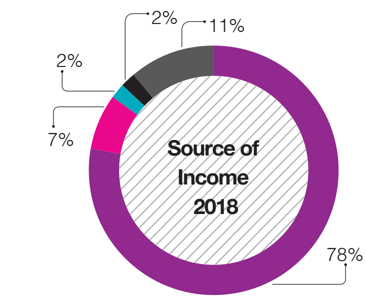
SOURCES AND UTILISATION OF INCOME

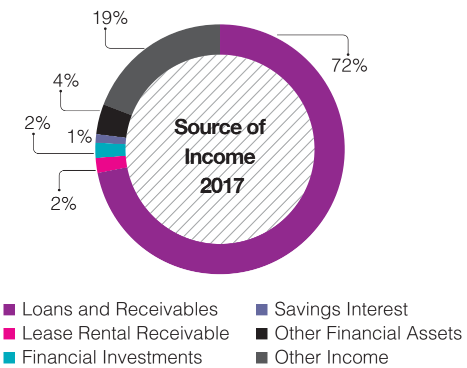
SDF's income grew by 20.84% and recorded at Rs.1.32 billion. This growth was primarily driven by the growth in interest income. The share of interest income to total income amounted to 89.3% compared to 80.9% share reported in the previous year.

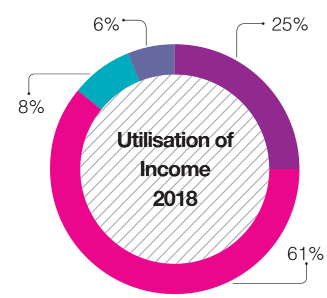
Interest income, the primary source of income of the Company, escalated from Rs.883.8 million to Rs.1,179.6 million, recording a 33.5% hike. Several factors, such as the improvement in portfolio, as well as more focus towards SME, leasing and personal loans products categories, assisted SDF to record a distinct growth in interest income. SME contributed Rs.154.0 million or 13.1% towards interest income compared to 2.6% contribution in the previous year. Leasing contributed Rs. 93.5 million or 7.9% towards interest income compared to 1.9% contribution in the previous year.

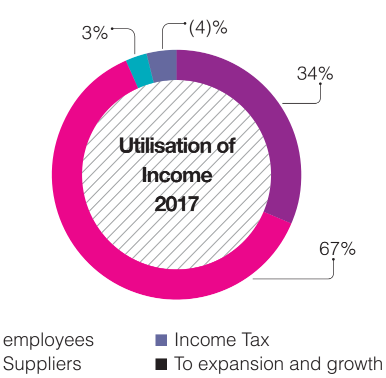
A comparison of sources and utilisation of incomes is given below.

Sources and Utilisation of Income	2018		2017		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Source of Income						
Loans and Receivables	1,031.49		788.18		243.31	
Lease Rental Receivable	93.52		16.44		77.08	
Financial Investments	29.41		25.48		3.93	
Savings Interest	5.85		13.78		(7.93)	
Other Financial Assets	19.30		39.88		(20.58)	
Other Income	141.20		209.20		(68.0)	
Total	**1,320.76**		**1,092.96**		**227.80**	
Utilisation of Income						
To employees						
Personnel Expenses	328.06		367.77		(39.71)	
	328.06	**24.84**	**367.77**	**33.65**	**(39.71)**	**(17.43)**
To Suppliers						
Interest Paid	416.60		280.90		135.70	
Other Expenses	249.27		226.75		22.52	
Depreciation	58.19		47.42		10.77	
Loan Losses and Impairment	89.12		172.26		(83.14)	
	813.17	61.57	727.33	66.55	85.84	37.68
To the Government						
Income Tax	32.74		(11.41)		44.15	
VAT on Financial Service	70.75		48.03		22.72	
	103.49	7.84	36.62	3.35	66.87	29.36
To expansion and growth						
Retained Profits	60.71		(38.76)		99.47	
Statutory Reserve	15.33		-		15.33	
	76.04	5.76	(38.76)	(3.55)	114.80	50.40
Total	**1,320.76**		**1,092.96**		**227.80**	







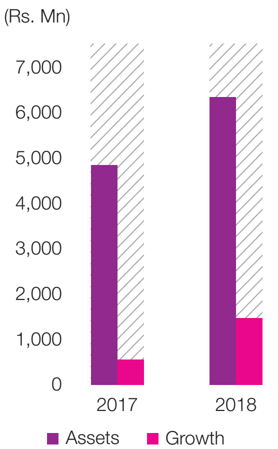


Financial Capital

ASSETS, LOANS AND LEASE RECEIVABLES

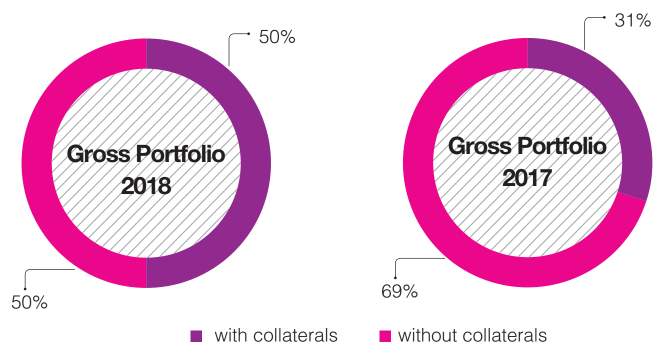
Our asset base reached Rs.6.35 billion with a growth of 30.3% compared to the total assets as at 31 March 2017. Growth in asset base was primarily driven by the growth in the lending portfolio of the Company. The new lending products range introduced in the previous year, were instrumental for this growth.

Assets



A core aspect of the Company restructuring process was 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, to 70% of all new lending and reducing the share of micro lending to 30% overall. With the discontinued group lending in the previous year, the microcredit lending criteria was also changed from group lending to individual lending, comprising larger loan sizes, to scale up the business model.

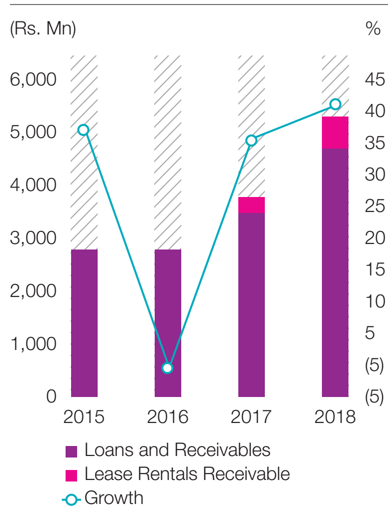
This was an important strategic shift in the overall business model of the Company which resulted in a notable shift in with collaterals verses without collaterals mix of gross portfolio during the reporting year. Accordingly, the gross portfolio backed by collaterals increased to 50% as at the financial year end from 31% in the previous year.

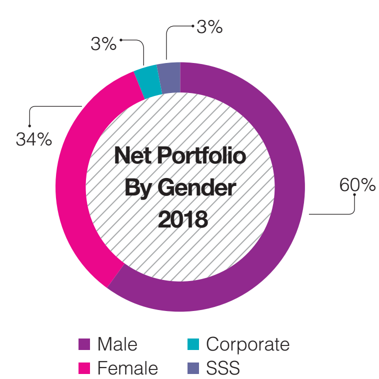


SDF's net portfolio, comprising of Loans and Lease Receivables reported in the Statement of Financial Position as at 31st March 2018, increased by Rs.1.5 billion or 41.2% compared to Rs.993.8 million or 35.9% growth registered in the previous year. The net portfolio stood at Rs.5.3 billion as at the end of reporting year.

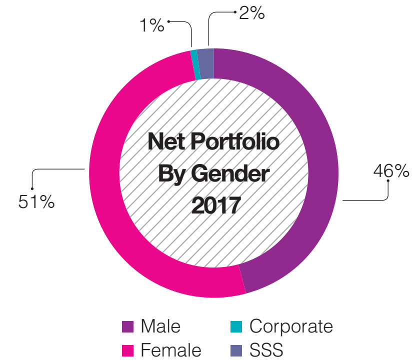
For administrative simplicity, SDF has divided its 51 delivery channels into seven (7) regions. Western region (region 1) has the largest share of net portfolio which amounted to Rs.1.44 billion followed by the Southern region (region 2) with Rs. 691.69 million as at the end of the reporting year. Male borrowers accounted for 60.1% of the net portfolio.

Net Portfolio





Region Name	Region	Net Portfolio By Gender (Rs. million)				
		Male	Female	Corporate	SSS	Total
Western	Region 1	704.55	550.15	135.35	51.61	1,441.66
Southern	Region 2	445.18	225.01	8.30	13.20	691.69
Uva	Region 3	345.20	149.31	1.58	7.76	503.85
North Eastern	Region 4	304.97	213.15	-	15.93	534.05
North Western	Region 5	456.48	169.90	0.88	12.64	639.90
North Central	Region 6	453.73	234.14	2.02	57.89	747.78
Central	Region 7	305.88	195.79	6.07	0.43	508.18
Corporate Office		172.30	60.66	5.80	-	238.76
Head Office		1.60	1.02	-	-	2.62
Total		**3,189.91**	**1,799.13**	**160.01**	**159.46**	**5,308.50**



Empowering women to create sustainable financial wealth for their families is a key strategic priority of Sarvodaya. Being in line with same principle, 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. In this regard, 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 51.1% of total loan customers.

Region Name	Region	Net Portfolio (Nos)				
		Male	Female	Corporate	SSS	Total
Western	Region 1	1,443	2,226	35	154	3,858
Southern	Region 2	924	1,106	6	43	2,079
Uva	Region 3	927	857	1	14	1,799
North Eastern	Region 4	1,205	1,407	-	30	2,642
North Western	Region 5	1,449	1,184	9	63	2,705
North Central	Region 6	2,166	2,201	3	131	4,501
Central	Region 7	1,069	1,325	18	8	2,420
Corporate Office		192	56	6	-	254
Head Office		25	16	-	-	41
Total		**9,400**	**10,378**	**78**	**443**	**20,299**

By rigorously pursuing the recovery and by streamlining legal actions in a more structured manner, SDF was successful in reducing the Impairment provision for loans and lease receivables and other losses by Rs.83.2 million during the reporting year. The impairment provision for the year amounted to Rs.89.1 million compared to Rs.172.3 million recorded in the previous year. SDF wrote off Rs.162.7 million worth of loans during the year which are fully provided for. Accordingly, there was no bottom-line impact from these loans written off. The criteria used for these write off are in accordance with SDF's write off policy approved by the Board.

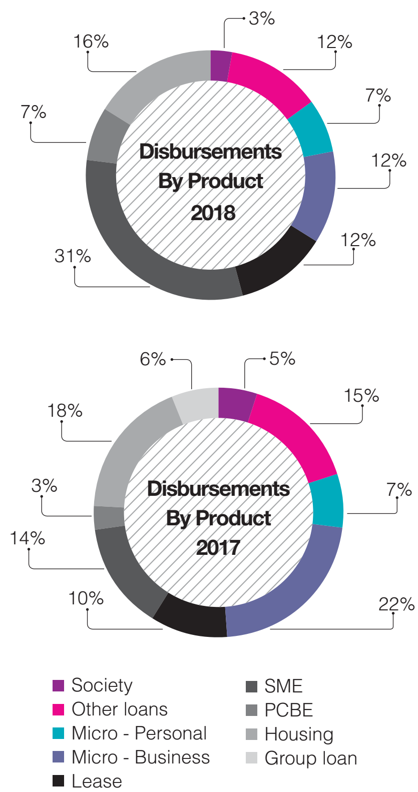
We will continue to focus on strengthening our assets base as we move closer towards achieving our final objective of evolving into a development bank.

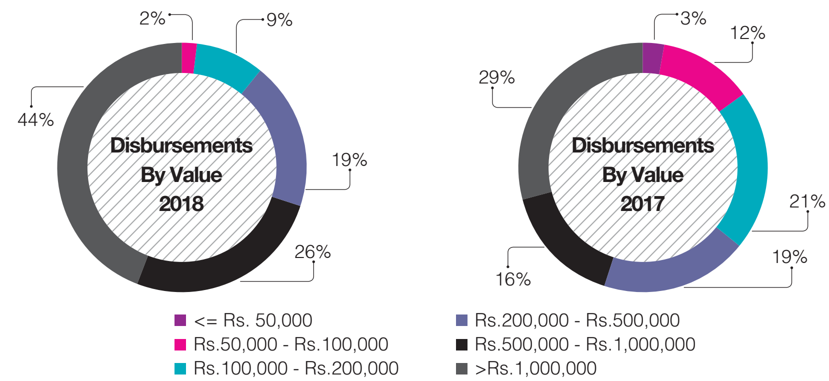
DISBURSEMENTS

Total disbursement reached Rs. 3.97 billion in the reporting year with a growth of 18.6% 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 toward fast-tracking the rate of loan disbursements.

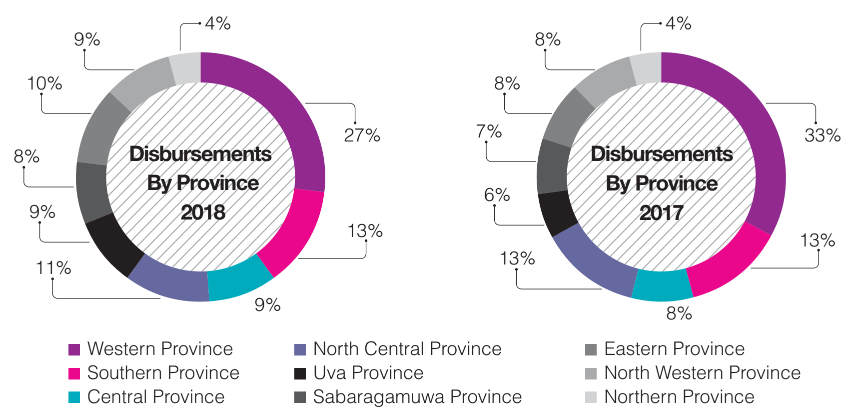
With more focus being given towards collateral-based lending resulted in, SME loans contributing the highest to the growth in disbursements in the reporting year. SME disbursements amounted to Rs.1.24 billion or 31.3% of total lending recording an exceptional growth rate of 166.0% YoY. A 41.0% growth was recorded in leasing which amounted to Rs. 467.14 million or 11.8% of total lending during the reporting year. PCBE, the personal loan product introduced in the previous year performed satisfactorily with an average disbursement of Rs. 23.4 million per month during the reporting year and recorded a growth of 157.6% YoY.

Financial Capital





The highest contribution to the disbursements came from the Western Province which amounted to Rs.1.06 billion or 26.6% of total lending during the reporting year. The contribution to total lending from the Western Province shows a drop of 3.1%, in rupee-terms, compared to the previous year. The Southern Province contributed the second largest with Rs.509.90 million or 12.8% of total lending followed by the North Central with Rs.455.89 million and the Eastern Province with Rs. 418.43 million.



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 26.2% from 16.2% and the share of disbursements over Rs.1.0 million increased to 44.2% from 29.4% respectively, in the previous year. Out of total lending, 68.2% were executed below 24% ER compared to 52.4% of total lending in the previous year. While contributing positively to the portfolio quality of SDF, 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 23.9% at the year-end from 31.7% reported in two years ago.

In terms of economic sectors the agriculture and fishing sector accounted for the largest share at Rs.1.32 billion, which was a 48.9% growth compared to the previous financial year. The other services category was the next largest recipients with Rs.774.36 million which was a growth of 52.7% YoY. With the slow-down in the construction sector, lending to this sector was curtailed resulting in a 36.5% drop in lending compared to the previous year.

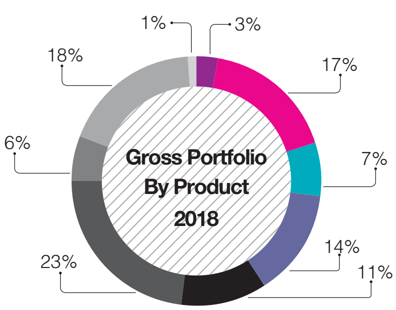
As the tourism sector continued to show improved dynamics, lending to the tourism sector was sustained at the same level as the previous year. Lending to this sector amounted to Rs.22.93 million which was marginally higher than the previous year. Other services and customer segments collectively accounted for Rs.1.65 billion which accounted for 41.49% of the loans disbursed during the reporting year.

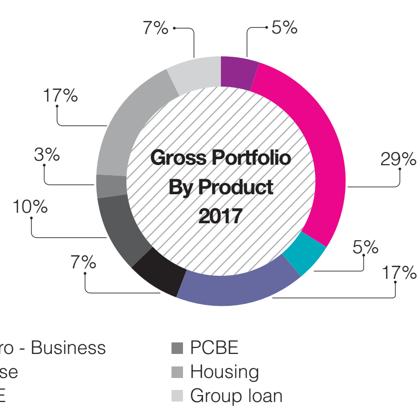
Disbursements -By Sector	2018	2017	Change
	Rs. million	Rs. million	%
Agriculture & Fishing	1,321.98	887.60	48.9
Manufacturing	242.23	282.27	(14.2)
Tourism	22.93	22.31	2.7
Transport	37.68	39.83	(5.4)
Constructions	205.30	323.19	(36.5)
Trades	546.88	452.44	20.9
New Economy	20.15	19.27	4.5
Financial and Business Services	27.43	57.96	(52.7)
Infrastructure	6.29	7.04	(10.7)
Other services	767.70	751.12	2.2
Other Customers	774.36	507.00	52.7
Total	**3,972.92**	**3,350.04**	**18.6%**

PORTFOLIO COMPOSITION

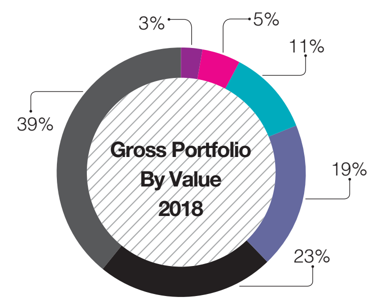
The new growth strategies implemented by aggressively moving into collateral-based lending contributed towards expanding the gross portfolio value by 37.0% to Rs.5.46 billion from Rs.3.98 billion as at the reporting year end. The newly added products; SME, leasing, micro personal and micro business loans and PCBE, contributed 61.7% to the gross portfolio as opposed to 41.6% contributed in the previous year.

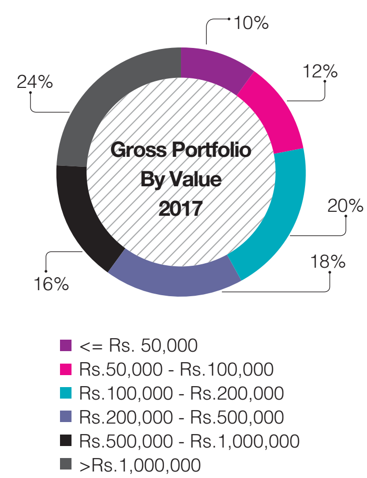
The SME portfolio moved up to Rs.1.26 billion registering a 219.4% growth YoY. Leasing registered a growth of 115.5% YoY which boosted the leasing portfolio to Rs. 617.44 million as at the reporting year end. The micro personal and micro business portfolios increased to Rs.376.22 million and Rs.776.85 million respectively, thereby increasing by 87.2% and 16.1% YoY, respectively. In addition, the newly added personal loan product- PCBE, registered an impressive growth of 217.9% YoY and stood at Rs. 341.94 million as at the reporting year end.





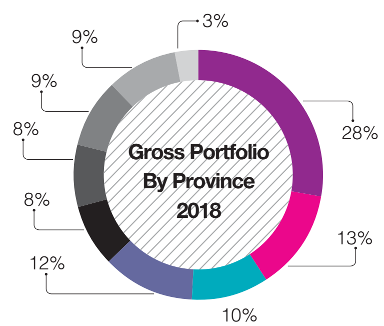
With more collateral-based lending being introduced, the individual loan values in the gross portfolio increased sizably during the reporting year. The share of portfolio between Rs.0.5 million to Rs.1.0 million to total gross portfolio increased to 23.3% from 15.6% and the share of portfolio over Rs.1.0 million increased to 38.5% from 24.6% respectively, in the previous year. Out of entire portfolio, 73.2% of loans were below 24% ER as opposed to 43.9% of total portfolio in the previous year.

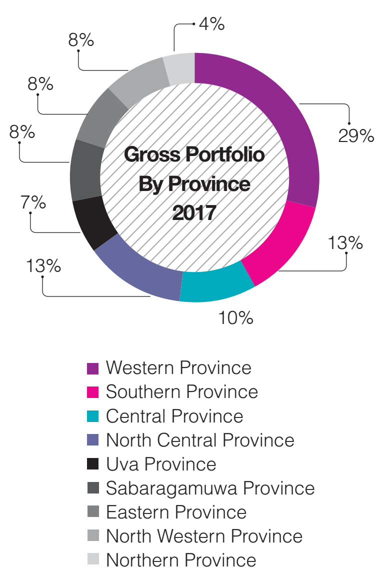




Financial Capital

The Western Province accounted for the major share of portfolio value at Rs.1.52 billion and recorded a growth of 33.6%. The Eastern Province demonstrated the highest level of growth at 62.2% and increased the portfolio to Rs. 511.53 million at the reporting year end. The second highest rate of growth was from the Uva Province which grew at the rate of 59.0% to reach Rs.425.09 million. The Southern Province held the second largest share of portfolio at Rs.709.33 million and also recorded a growth of 34.3% against the previous financial year.

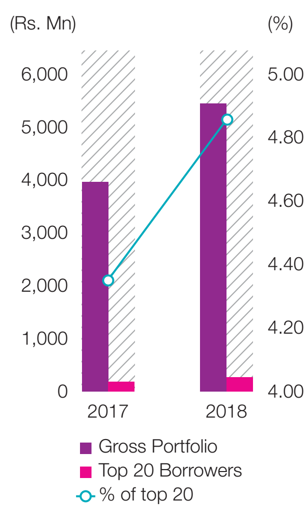




Sector-wise distribution of the portfolio indicates, the highest share of SDF's portfolio is distributed in the agriculture and fishing sector. This sector was adversely affected by the unfavourable weather conditions prevailed during most part of the reporting year. Despite these adverse environmental conditions, SDF was able to maintain the portfolio quality of this sector at an acceptable level. The second largest exposure is in other services sector with Rs.1.11 billion which recorded a growth of 51.5% YoY. The highest growth of 154.8% was reported in the tourism sector followed by the other customers sector with 82.0% growth YoY.

Gross Portfolio -By Sector	2018	2017	Change
	Rs. million	Rs. million	%
Agriculture & Fishing	1,684.94	1,005.30	67.6%
Manufacturing	399.06	416.99	-4.3%
Tourism	28.12	11.04	154.8%
Transport	58.49	40.02	46.2%
Constructions	399.58	522.58	-23.5%
Trades	705.44	634.03	11.3%
New Economy	29.55	24.34	21.4%
Financial and Business Services	57.25	50.32	13.8%
Infrastructure	7.85	8.53	-8.0%
Other services	1,114.72	735.96	51.5%
Other Customers	972.81	534.53	82.0%
Total	**5,457.81**	**3,983.66**	**37.0%**

Top 20 Borrowers



With increasing ticket-size of collateral-based lending, the percentage of top twenty (20) borrowers increased from 4.35% to 4.86% as at the end of the reporting year.

PORTFOLIO QUALITY

Improving the quality of the lending portfolio was a strategic priority for the year to build a solid financial foundation for the future of the Company. 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.

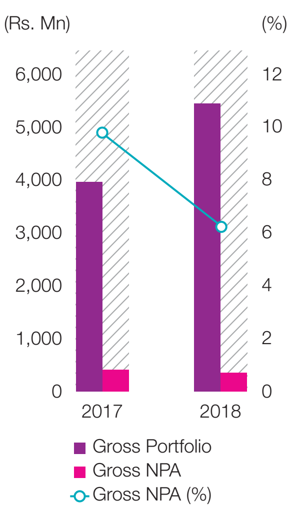
The Legal Department was restructured into three separate sections; namely, legal operation, litigation and writ execution during the year, which resulted in fast-tracking legal action on default customers. After implementation, this structural change resulted in an over 20% increase in the execution of legal action against default customers. All in all, as a result of our quality mind-set, the non-performing loan ratio (NPA ratio) improved to 6.20% as at 31 March 2018, from 9.81%reported in the previous year. Equally, the net NPA ratio improved to 3.56%, from 4.46% reported in the previous year.

FUNDING MIX

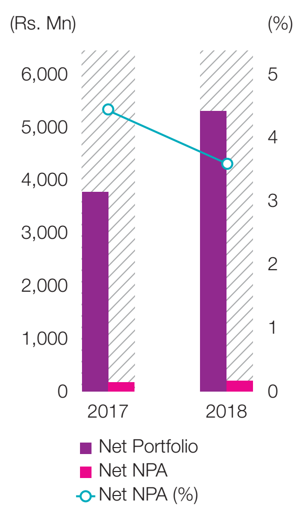
SDF continued to adopt a pull strategy through ongoing marketing and promotional campaigns to attract public deposits as the primary source of funding. The growth of fixed deposits is considered essential to address the asset-liability mismatch. To diversify the funding mix and to maintain an acceptable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

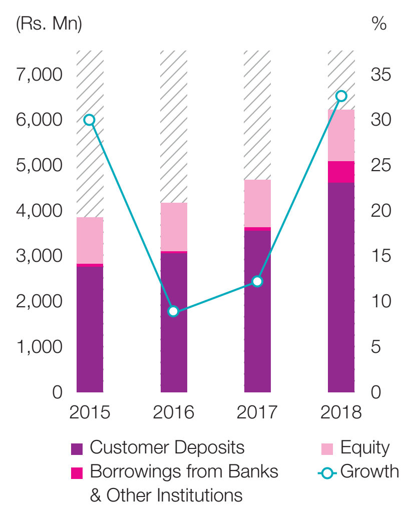
Gross NPA Ratio



Net NPA Ratio



Funding Base



Financial Capital

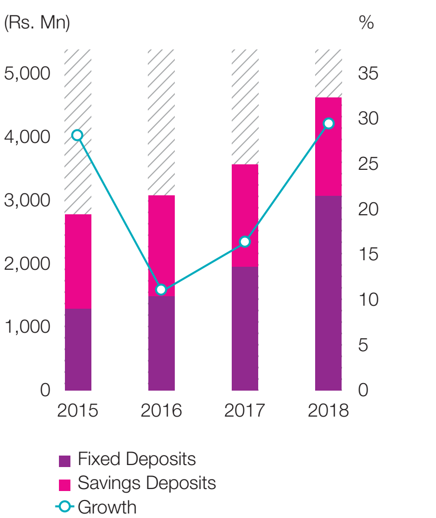
During the year, SDF's funding base increased to Rs.6.2 billion from Rs.4.7 billion in the previous year by registering a 32.8% growth YoY.

DEPOSITS BASE

SDF was highly successful in its efforts and closed the financial year 2017/18 with the total deposit base growing by 29.8% to Rs.4.62 billion. Fixed deposits grew by 57.0% or Rs.1.11 billion during the reporting year and stood at Rs. 3.07 billion at the end of the reporting year. Savings, on the other hand, recorded a moderate drop and stood at Rs.1.55 billion at the end of the reporting year. The drop in the savings base amounted to Rs.53.8 million or 3.3% 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. In spite of fixed saver, which is linked to micro lending, showing an impressive result by recording Rs.61.6 million growth YoY, the normal savings witnessed an over Rs.115.0 million drop resulting in the overall negative growth in the savings base.

Deposits Base



Total deposits as a percentage of total funding mix stood at 74.3% as at the end of the reporting year compared to the 76.0% recorded as at 31 March 2017. 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 7.4% of total funding mix as at 31st March 2018 compared to 1.6% reported in the previous financial year.

The escalated deposits interest rates during the reporting 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 9.55% from 8.33% in the previous year.

INVESTMENT MIX

We invested 4.4% of the total assets in Reverse Repurchase agreements which accumulated to Rs.282.27 million as at 31 March 2018. Investment in fixed deposits decreased by Rs.75.2 million or 26.6% and reached to Rs.207.37 million.

BOTTOM LINE

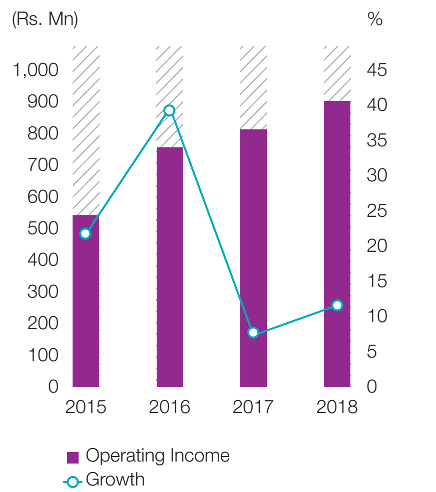
Operating Income

Reflecting the growth in our lending activities, interest income moved up by 33.5% to Rs1.18 billion, while interest expenses increased by 48.3% or Rs.135.70 million and recorded at Rs.416.6 million. While net interest income improving by Rs.160.1 million or 26.6% YoY, the net interest margin weakened to 14.36% from 14.74% 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 sizable drop and reported at 10.7% compared to 19.1% reported in the previous year. However, excluding the Rs.100.3 million profit generated via the sale of the subsidiary company in the previous year, the other income showed an improvement of Rs.32.28 million or 15.4% compared to the previous year. Improvements made in recoveries of bad debts written off previously, contributed to this increase in other income.
The collection of bad debts written off amounted to Rs.90.3 million as opposed to Rs.58.85 million collected in the previous year by showcasing a 53.45% increase YoY.

All in all, these factors contributed to record a Rs.92.1 million or 11.3% growth in total operating income in the reporting year.

Operating Income

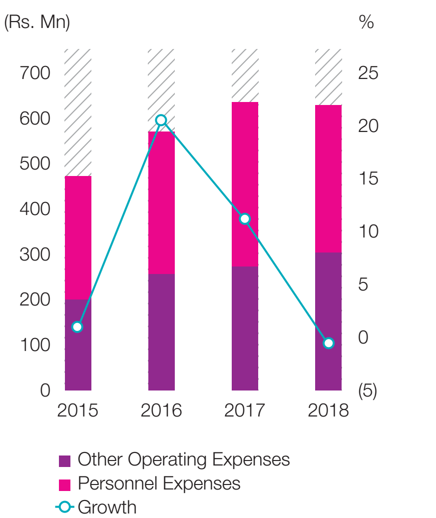


OPERATING EXPENSES

The increase in costs was unavoidable in the face of rising cost structures in the country. However, SDF focused on cost containment and cost efficiency during the reporting year and as a result, reduced the overall operating expenses by 0.9% compared to the previous year.

A capacity planning exercise was carried out at branch level and the staffs per branch was optimised. A performance based culture was introduced with close monitoring and supervision of under-performers resulting in un-productive staff leaving. Collectively, these factors contributed to an increase in efficiencies and in reducing the personnel expenses by Rs.38.72 million or 10.7% compared to the previous year. By improving productivity through optimising staff coupled with curtailment in personnel expenses, helped to improve the staff cost to net income ratio to 35.69% from 44.32% in the previous year. The overall improvements in the top line and containment of operating expenses assisted SDF to improve cost to net income ratio to 77.52% from 84.26% and efficiency ratio to 69.70% from 78.27% in the previous year.

Operating Expenses



TAXATION

SDF's operating profit before tax and financial services showed a remarkable advancement and registered a 4,334.5% increase over the previous year. This exceptional performance during the reporting year resulted in the financial services tax charge surging to Rs.70.75 million. The income tax charge also moved up in tandem to Rs.33.6 million, of which, the deferred tax provision amounted to Rs.17.8 million. The increase in deferred tax provision over Rs. 9.3 million deferred tax asset reported in the previous year, was mainly due to the increase in capital invested in the finance lease business.

SDF paid Rs.97.6 million in taxes to the Government during the reporting year which was an increase of Rs.40.7 million compared to previous year.

PROFITABILITY

With the business model going through a strategic shift during the reporting year and business concentration moving towards more collateral-based lending, SDF registered a successful year by recording a profit after tax (PAT) of Rs.80.5 million over the Rs. 34.5 million loss 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, contributed in a sizable way towards this improvement. Overall, the interest income on the lending portfolio improved to Rs.320.4 million or 39.82% YoY. Provision for impairment was curtailed by improved credit screening, tightened recoveries and collateral-based lending. Operating efficiencies were improved by automating various manual processes and thereby, bringing in containment of cost. All in all, these focused initiatives implemented, assisted in improving the bottom line which is reflected in the reporting year's PAT.

Consequently, return on equity (ROE) improved to 7.38% over a negative of 3.24% and return on assets (ROA) improved to 1.43% over a negative of 0.75% in the previous year.

CAPITAL RESOURCES AND LIQUIDITY

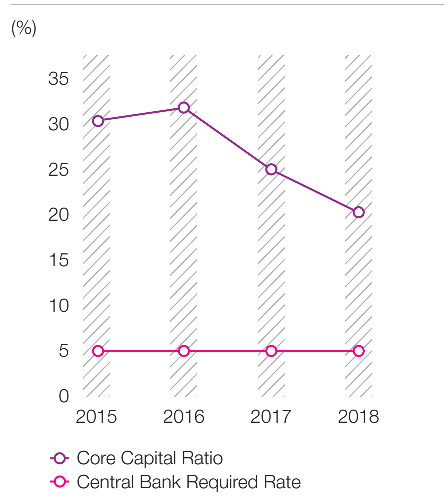
We maintained a comfortable capital and healthy liquidity position during the financial year ended 31 March 2018. Adhering to stipulated capital adequacy requirements laid down by the CBSL, the Company's core capital ratio (minimum 5%) and total risk weighted capital ratio (minimum 10%) stood at 20.19% each as at 31 March 2018. The total core capital base as at 31 March 2018 stood at Rs.1.08 billion.

This is also in line with the new regulatory capital adequacy requirements for a minimum core capital of Rs.1.0 billion by 01st January 2018.

In order to meet future statutory core capital targets, SDF has initiated discussions with an investment bank and arranged to sign an agreement with them, for them to act as the advisor and the investment manager for raising the required capital for the Company.

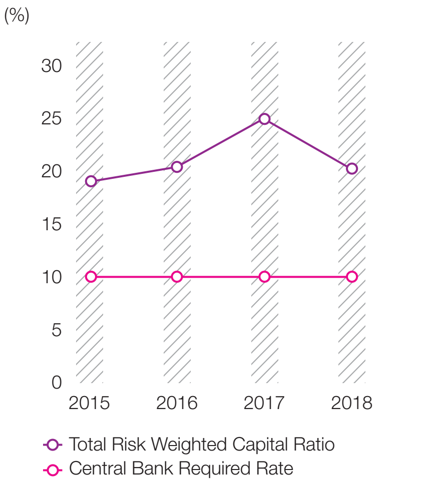
SDF intends to raise capital via a private placement initially in the coming year to meet the core capital requirement by 01st January 2019; and then, followed by an IPO in the year after to meet future core capital requirements. A non-disclosure agreement has been already signed with the bank for this purpose. SDF intends to sign the Mandate engaging the bank for capital raising, in the early part of the coming financial year.

Core Capital Ratio



Financial Capital

Total Risk Weighted Capital Ratio



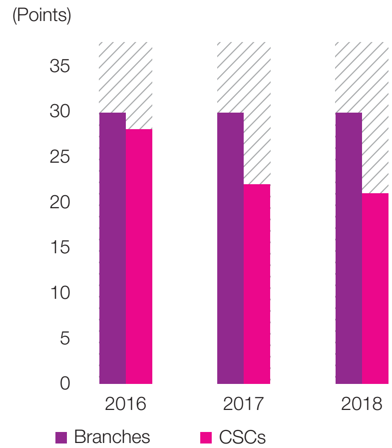
CASH FLOW

Net cash generated from operations recorded a negative Rs. 361.20 million which was an improvement of Rs. 212.62 million compared to Rs. 573.82 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. SDF recorded a Rs. 47.29 million negative cash flow from investment activities, compared to a positive cash flow of Rs. 360.47 million recorded in the previous year. The new capital invested in Company's fixed assets largely contributed to this negative cash flow. These major changes reported led to a decline in cash and cash equivalents from Rs. 88.03 million at the beginning of the year to a negative of Rs. 52.86 million at the end of reporting year. The negative cash & cash equivalents position as at the reporting year end was financed through permanent overdraft facilities obtained from commercial banks.

Manufactured Capital

Strategic Priorities	Strategies
Improve branch profitability	■ Grade branches on profitability ■ Motivate staff at branch level ■ Rationalise branches and CSCs ■ Upgrade and revamp branches and CSCs
Invest in latest technologies	■ Develop mobile App for real time collections ■ Improve the internal ICT systems ■ Join the national ATM network
Reach new markets	■ Join with Sarvodaya Societies to reach new markets ■ Develop customised products for niche markets ■ Branding and marketing campaign

Customer Delivery Points



SDF has limited manufactured capital as the Company policy is to lease buildings for its branch offices and service centres. The Company's owned property is limited to the Company head office building in Moratuwa. During the current financial year we revalued the head office building and lands, which resulted in a Rs.11.8 million increase in property valuation. We're in a continuous process of modernising our head office and delivery points to create greater ambiance and customer acceptance. In this process, we increased our capital investment in head office fixed assets by Rs.12.3 million and in our customer delivery points by Rs.11.9 million, during the current year.

As at end March 2018, our network comprised of 51 customer delivery points scattered across the island, which are all occupied under lease agreements.

BRANCH NETWORK

SDF has an island wide service delivery network with presence in key strategic locations giving the Company access to both rural and urban populations.

CUSTOMER DELIVERY POINTS

During the year, the 52 service delivery points, comprising of 30 branches and 22 customer service centres (CSCs), were reduced to 51 delivery points by amalgamating one underperforming CSC with its nearest branch.

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 rebrand and relocate our existing branches. We expect the relocation strategy to maximise benefits for customers by providing easier access and greater convenience, while facilitating improved return on assets for SDF.

BRANCH EXPANSION

Although, we did not expand our branch network with new branches or CSCs in FY 2017/18, the strategic changes were effected for efficiency improvements and for greater accessibility for our customers.

Relocate Branches and CSCs

We rebranded and relocated two (2) of our branches during the year for greater visibility and also to enable our customers to have easy access to our products and services. These branches/CSCs were upgraded with modern facilities for faster responses to customers and customer waiting areas were redesigned for a modern ambience.

Re-opening of the Ambalantota Branch at the relocated premises

Manufactured Capital

Rationalise and consolidate the Unproductive Branches and Service Centres

The stand alone operations of one (1) under-performing CSC were discontinued and merged with the operations of its nearest branch. This move was taken to optimise resources and to provide better service to customers in those locations.

Upgrade and Revamp Branches and CSCs

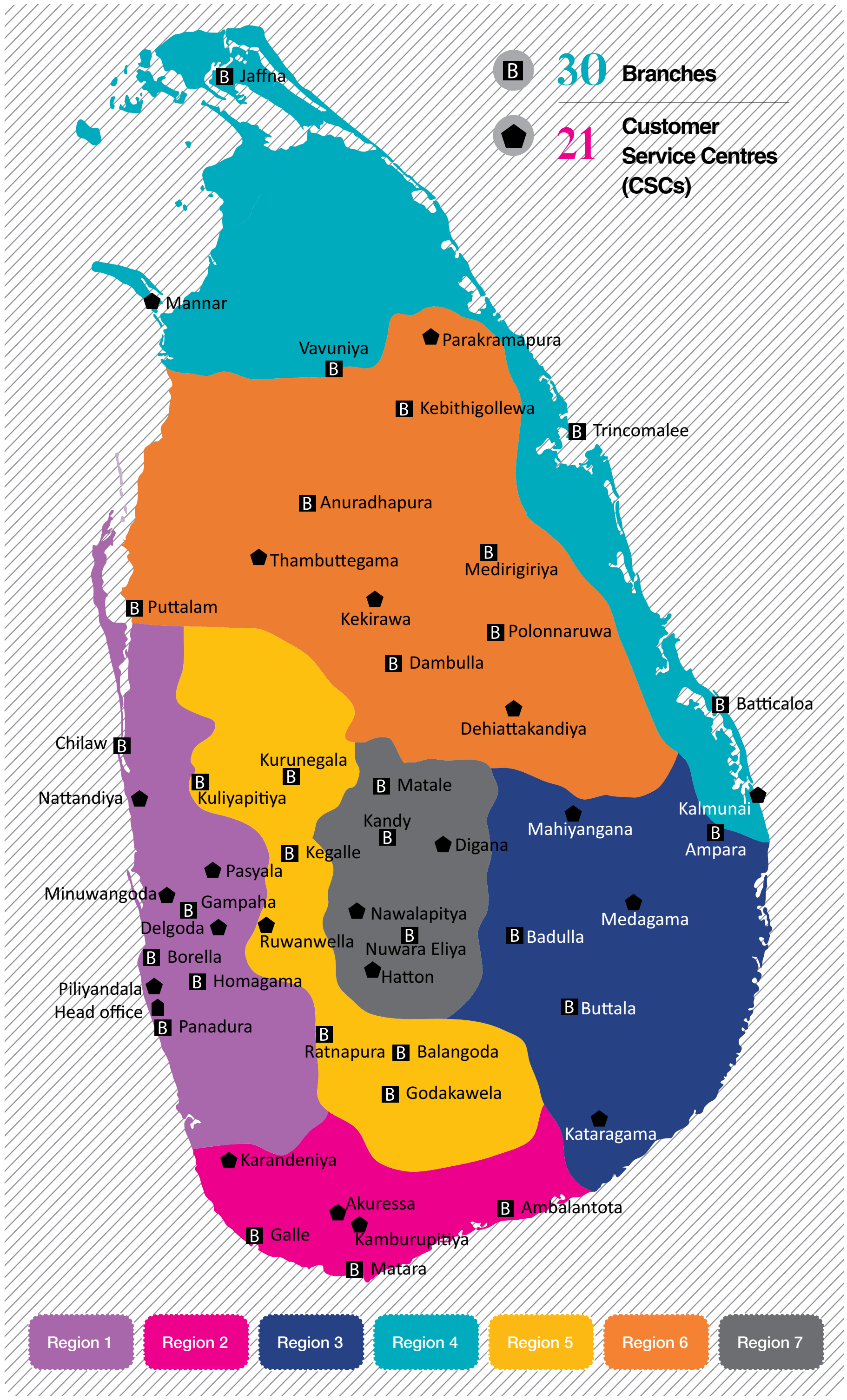
We refurbished fifteen (15) branches/CSCs during the year. Service quality standards of these branches/CSCs were also improved to provide a much faster and friendly service to our esteemed customers in those locations.

These strategic actions taken not only helped us to retain our existing customers but also assisted in attracting new customers.

BRANCH OPERATIONS

Branch rationalisation and operational efficiency improvements continued in the current financial year. The SDF branch and service network ensures our presence in strategic locations giving the Company access to both rural and urban populations.

We invested Rs.11.9 million during the year under review, to improve internal facilities of branches and CSCs through the incorporation of modern equipment and machinery to respond faster to customer needs and to enhance customer convenience when transacting with branches.



	Capital Investment	
	Cost (Rs. '000)	WDV (Rs. '000)
Branches	8,693.02	8,035.82
CSCs	3,246.14	3,036.48
Total	**11,939.16**	**11,072.30**

We invested Rs.12.1 million on redesigning and replacing internal layouts, designs and furnishings and upgrading ambience to create a more modern and pleasing environment in line with our new branding. External colours and signage were also replaced to reflect the new logo and brand image as a youthful and dynamic brand.

	Capital Investment		
	Branches (Rs. '000)	CSCs (Rs. '000)	Total (Rs. '000)
Maintenance	7,725.71	641.93	8,367.64
Upgrading	2,024.71	242.56	2,267.27
Redesigning	1,073.34	-	1,073.34
Branding	373.11	-	373.11
Total	**11,196.87**	**884.49**	**12,081.36**

BRANCH OPERATING STRUCTURE

The operation of our branches/CSCs are directly headed by Regional Managers with the supervision of head office. 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.

IT INFRASTRUCTURE, SYSTEMS AND PROCESSES

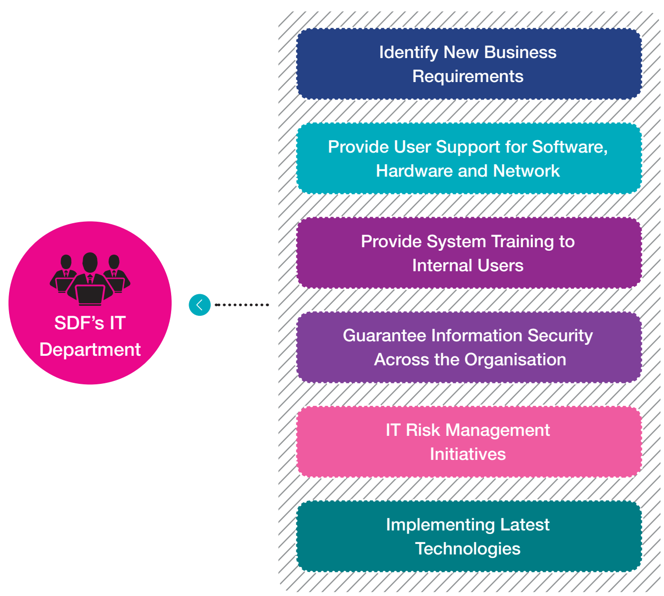
Our IT division can provide all-inclusive services for changing business activities and business needs. Our IT strategy aligns closely with the business strategy of the Company.

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, E-mail and IT Security to further strengthen the coverage of data security.

KEY ACTIVITIES AND FUNCTIONS OF SDF'S IT DEPARTMENT

Our IT Department covers the following key activities and functions.



Manufactured Capital

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 2016/17. 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. 2.0 million in hosting the DR site in the year under review. We carried out two (2) DR drills 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.

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.

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.

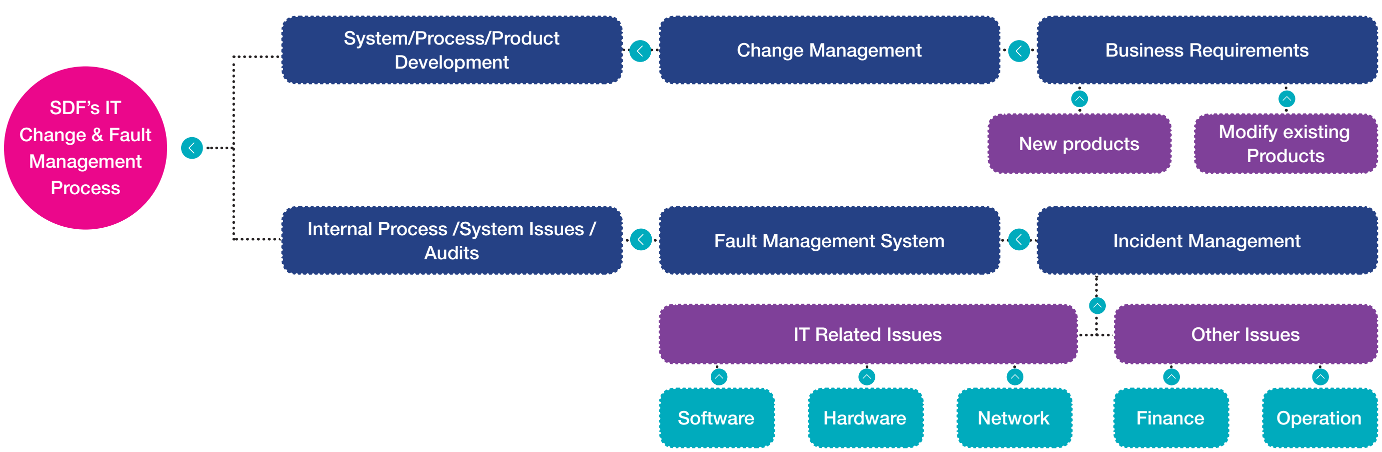
However, faults are not incidents. An incident can raise a fault, in cases, where there is a high possibility that the incident might happen again. Fault management function is tasked with identifying the underlying causal factor, which may relate to multiple incidents at SDF. It may take several incidents 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 a 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 year under review which we initiated in the previous year. We invested Rs.1.1 million on this IT audit and intend to implement the changes/ modifications recommended by Ernst & Young in the coming year, to make the system more robust.



TECHNOLOGY ADVANCEMENTS

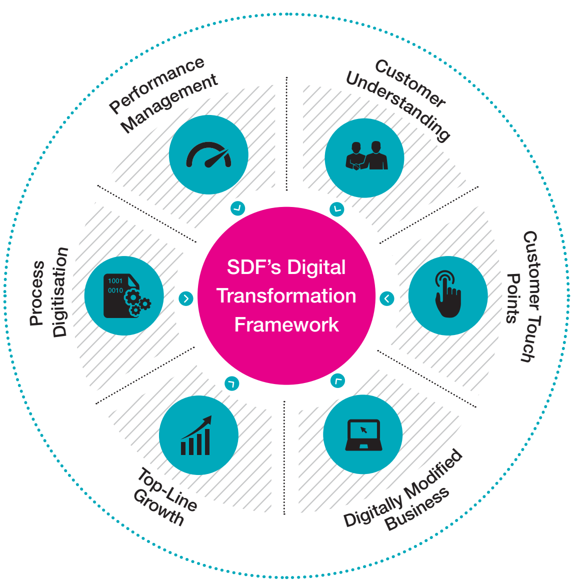
We strive to continuously upgrade our IT system with available new technologies to improve the effectiveness and efficiency of our customer service. During the year under review, we upgraded the IT system with newer versions of certain modules, such as loans, to accommodate enhancements, in the workflow 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 process and introduce new business products. We automated all day end processes during the year under review as the first stage of this processes. We're currently engaged in upgrading the system to introduce new business products; such as, loans, leasing and savings.

Digital Transformation



The continuous upgrade to our core-banking IT system has enabled us to transform our business and organisational activities, processes, competencies and models to fully leverage in a strategic and prioritized way bringing in a transformed customer experience, and with present and future shifts in mind.

Transforming Customer Experience

To digitally transform customer experience, we've identified several methodologies. Understanding that the customer is a priority element in the digital transformation process, we have launched a social media community through a Facebook page 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 (e-Financials) 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.

Transforming Operational Processes

To digitally transform operational processes, we've launched performance management tools such as 'Google emails' 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, speedy communication and strengthened networking among the work force.

Now, 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 the resources at their fingertips to compare and contrast the data in ways they could not have attempted previously. Through this process of digitalisation initiative, we've commenced implementation of a new digitalised HR system to obtain real time information and to fast pace responses.

HRIS System

SDF intends to introduce a new state-of-the-art HRIS system integrated with the IT system for performance evaluation and monitoring. Also, the system will automate all HR functions, such as attendance, payroll, performance and incentive calculation. This is expected to increase employee satisfaction through a broader service quality. We intend to test run the HR system in the 2nd quarter of the next financial year and implement the system during 3rd quarter of the next financial year.

Further, several new internal applications were developed enabling customised process digitalisation for SDF in the likes of PO and Asset Management Systems.

Manufactured Capital

Management Systems

Big Data

We've initiated the 1st phase of introducing the Big Data concept by connecting our core –banking IT system through Power–BI tools. The finance Department has incorporated all MIS reports using the power BI tool. Powerful dashboards are built into the intranet enabling access to useful and timely management information with a single click of the mouse.

SDF Intranet

We developed a web portal and inter-connected all our internal applications in the Intranet for easy retrieval and reference to various operational guidelines that we've uploaded; including, internal circulars, manuals, memos and other instructions sent to branches/ CSCs.

TRANSFORMING BUSINESS MODELS

In order to digitally transform the business models, we intend to discover synergistic organisational silos enabling a new growth face across the Company. We intend to expand over boundaries by venturing into digitalised platforms as follows.

Green Banking

We introduced a paperless online approval proposal for leasing, SME and loans which would sizably reduce usage of paper and reduce process time, which will lead to increased efficiency and customer satisfaction.

Cloud-based Platforms

We are planning to move for the total Cloud-based platform with the future expansions which will include Cloud-based backup solutions and Cloud-based data centres which in turn will drastically reduce the cost of IT infrastructure.

IT Policies

We updated our IT policy and IT security policy to bring in greater regulation, control and risk minimisation in relation to data and information sharing.

Investing in Latest Technologies

Our IT policy is to leverage IT as a means to achieve our future objectives through the development of innovative products and services to cater to the varying demands of our stakeholders by delivering responses that promise to be timely and efficient while mitigating the threats posed to information and security.

We've entered in to the following strategic partnerships and used the latest technologies available to provide extended services to our existing customers and also to increasingly expanding our new customer base.

STRATEGIC PARTNERSHIPS

We partnered with LankaClear, Mobitel and Finetech Consultancy Limited to introduce ATMs, mobile cash (mCash) and G-suite (a cloud based platform) during the year under review.

ATMs

We now offer island-wide ATM access via the LankaPay ATM Network. We entered into a partnership with LankaClear to facilitate island-wide ATM access to our discerning customers through its LankaPay Common ATM Network. Incorporating cutting edge technology to boost our operations, we will be offering the exclusive LankaPay solutions viz. LankaPay Shared ATM Switch (SAS) and LankaPay Card Management System (CMS).

Launching SDF ATM Card

We invested Rs.1.3 million to upgrade our IT system to facilitate ATM transactions. In addition, we intend to station our ATM machine at our corporate office, Colombo 08. With this initiative, our customer delivery points will expand exponentially in the coming financial year with SDF joining the national ATM network. We introduced this ATM card to our savings and loans customers so as to provide a convenient service to our existing customers as well as to significantly increasing new customers. Through this extended service, our customers can now benefit from gaining access to over 4000 ATMs across the country through the LankaPay Common ATM Network. Furthermore, the new service offers a hassle-free card management system with the convenience of cash withdrawal anytime from anywhere for a fraction of the cost. This extended service will enable a greater reach to our customers to fulfil their financial transactions with the Company.

Signing agreement with LankaClear

Signing agreement with Mobitel

Mobile Cash (mCash)

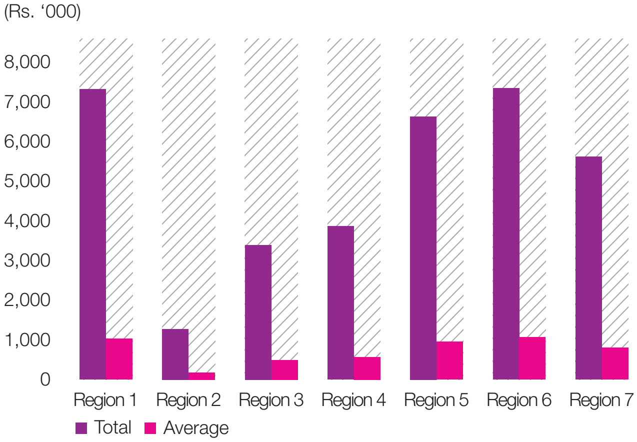
The mobile phone is rapidly becoming a business tool in addition to a communication tool. SDF has been quick to get on the mobile revolution by harnessing the mobile phone as a digital platform for convenience and productivity.

With an eye to extend our services to rural customers, we partnered with Mobitel and introduced mCash during the year under review for loan collections on the field. This initiative was a timely step forward to providing an enhanced customer service experience. This advancement in IT will facilitate real-time updating of customer accounts on payment of loan instalments through mobile cash.

This extended service will provide a greater convenience to our micro customers who require to travel a long distance to our customer delivery points to make their loan payments. The payments made by customers through the mCash system are updated to their accounts on the same day and also instantly notified by a text message to their mobiles once the payment is made.

Region wise mCash Collection

(Rs. '000)



We intend to use mCash as one of our key strategic tools to expand our deposits customer base in future.

G-suite

Marking the first phase of the undertaking, we completed the cloud-ready information technology platform. In the first phase, we partnered with Finetech Consultancy and moved to cloud-based G-suite platform from the on premises platform for mail and other office related software with an initial investment of Rs.3.1 million equaling to 400 user licenses.

We expect G-suite to bring in a vast improvement in productivity and cost efficiency. The migration to G-suite is expected to bring in a cost saving of Rs.10.2 million per year based on current exchange rate of US $160. The embedded tools in G-suite, such as, google chat and hangouts could be effectively used internally to improve the communication between different layers of the management. This will bring in substantial time saving which will eventually result in an improved productivity. Video conferencing can be conducted in an interactive manner using Google Chrome box where significant cost can be saved on travelling time and accommodation.

We've fully completed migration to G-suite and trained our staff to effectively use G-suit for enhanced productivity.

FUTURE OUTLOOK

Our delivery network will continue to evolve through expansion and greater automation. From 2018 onwards branches will have greater autonomy in terms of operational and administrative decision making including identifying cadre requirements.

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.

Intellectual Capital

Strategic Priorities	Strategies
Repositioning the brand and enhancing brand visibility	■ Continuous branding and marketing campaigns ■ Working with Sarvodaya Societies to leverage the SDF brand ■ Community engagements riding on the Sarvodaya community brand recognition ■ Strengthening governance practices, sustainable reporting, and compliance. ■ Keeping with emerging trends
Enhancing brand equity	■ Invest in branding initiatives by aligning with emerging trends ■ Working with Sarvodaya Societies to leverage Sarvodaya brand ■ Community engagements riding on the Sarvodaya community brand recognition ■ Strengthening governance practices, sustainable reporting, and compliance.
Creating brand image	■ Create brand image as a modern, dynamic brand through advertising and promotions ■ Redesign branches to reflect new brand personality ■ Gain mind-share in modern communication channels such as Facebook
Optimising group synergies for stronger branding	■ Working with Sarvodaya to develop 'Óne Sarvodaya' strategy with one common goal at national level and for effective sharing of group synergies and resources. ■ Enhance cross selling to improve brand image as a 'One stop solution' for customers. ■ Incentivising SSS for generating leads for leasing, SME and deposits mobilisation.
Cultivating innovation and encouraging knowledge sharing	■ Training and development opportunities ■ Encouraging open communications ■ Facilitating team work and interactions

SDF BRAND

A central aspect of the Company restructuring has been repositioning the SDF brand as a young, tech-savvy, commercial enterprise specialising in financial service, as opposed to the previous perception of SDF as a non-commercial entity linked to the Sarvodaya Movement. 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 a been a strategic priority for the Company and was initiated with the name change from DDFC to SDF accompanied by a serious of brand building activities, both through ATL and BTL, thereafter to create a perception of being 'a close partner' in the hearts and minds of customers.

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).

GROUP SYNERGIES

Sarvodaya Movement

Sarvodaya Movement initiated the concept of Óne Sarvodaya' focusing on bringing all its related entities into a one co-strategy framework by amalgamating their separate strategies into the co-strategy of the Movement. This is an important turn-around of the strategic direction of the Movement which is now looking at co-aligning all sub-strategies of its related entities in to a one, to achieve a one common goal at national level. Importantly, this initiative will open up greater opportunities for the entire Movement to share its diverse synergies and resources for value creation and enhanced productivity.

Óne Sarvodaya' strategy discussion session chaired by Dr. Walter Link, a consultant to Sarvodaya

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 as well as SDF and enjoyed strong growth in credit disbursements as well as deposit collection.

AWARDS

Our Annual Report for FY 2016/17 themed 'Development', was awarded with the silver award under LFCs and SLCc (total assets up to Rs.20 billion) category at the 53rd Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka. 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 of which they are a valid part.

BUSINESS PHILOSOPHY

As part of the Sarvodaya Movement, we are strongly influenced by the 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 welfare programmes. The designs of SDF has embraced the philoshophical values and principles of Sarvodaya in designing and delivering its products and services to its valued customers. Keeping our tag line of 'Care & Concern' in mind, we always strive with care in mind to offer affordable financial services to our valued customers. We take great efforts to conduct our operations in a fair, transparent and just manner which is our business ethics and guiding principles.

COMPLIANCE AND STABILITY

We ensure that our activities comply with relevant rules, directives and guidelines stipulated by regulatory bodies, which has contributed towards building trust in our brand among the public of the country. This focus on compliance has contributed towards a stable business operation that is build on solid financial management with unrelenting focus on quality of portfolios and balance sheet.

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.

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.

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. The following initiatives were carried out during the year.

Stock Management Software

We developed a customised software for stock management for our stores with a workflow approval system for updating and issuing of stocks and fixed assets.

'One Sarvodaya' Web Portal

We developed a web portal extending across all Sarvodaya entities connecting all personnel to socialise, communicate, share resources and participate in Sarvodaya activities. The system has allowed previously unconnected personnel of the Sarvodaya Group to establish contact and share knowledge.

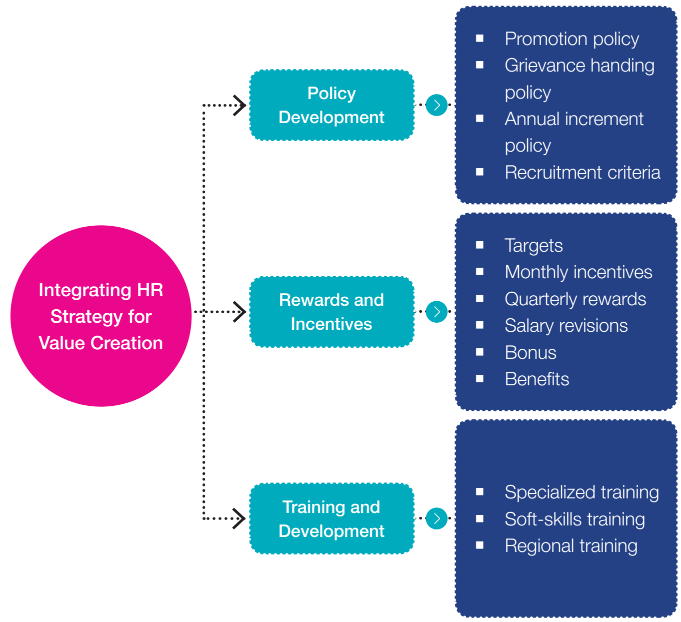
FUTURE OUTLOOK

Our continuing investments into customised ICT applications and internal systems, couple with investments into brand building, will rapidly enhance our intellectual capital base in the future. In addition, the internal knowledge base will continue to grow under the rigorous training calendar that is lined up for all our employees. We also have a line-up of many new products that will enter the market over the next few years, again adding to the overall intellectual assets of the company.

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 improvements as a result of the synergies generated through this collaboration and 'Óne Sarvodaya' initiative that will add value to our customers while repositioning our brand more prominently in the crowded financial services market. Our employees' knowledge and expertise will be enhanced through training-led initiatives and we will continue to innovate, by introducing new products into the market.

Human Capital

Strategic Priorities	Strategies
Build a performance based culture	▪ Realign reward system ▪ Transparent performance evaluation against KPIs ▪ Incentivise best performers ▪ Training to develop under performers
Address skill gaps	▪ Identify skill gaps in each category ▪ Provide continuous training and skill upgrading opportunities
Attract and recruit best talent	▪ Set recruitment criteria to ensure transparent, fair recruitments based on merit ▪ Identify required talent based on market sub-segments and leadership pipeline development



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 expansion, we duly recruited new staff to fit the new roles that were being created within our operations.

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 currently.

INTEGRATING HR STRATEGY FOR VALUE CREATION

SDF does not discriminate on the grounds of race, gender, age and any other socioeconomic factor in recruitment, training and promotion of its employees.

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 formulation of formal policies and by defining criteria for specific HR administration functions. These changes were broadly in the three areas of;

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

POLICY DEVELOPMENT

The quality of human resource administration was improved through the development and implementation of an annual increment policy and a promotion scheme backed by performance evaluations against targets. A grievance handling policy was developed to address staff concerns and to facilitate positive and trust-based relationships. A policy on increments was introduced and salaries were mapped against market rates and revisions were executed.

REWARDS AND INCENTIVES

The rewards and incentive scheme was revisited and was directly linked with performance to execute the strategic objective of driving internal organisation change to create a performance based work culture. Multiple changes were made to measure individual performance on a monthly basis and incentives were increased and made incremental to encourage upward performance. Competitions were introduced across the branch network with attractive incentive scheme, to encourage a competitive and performance driven culture within branches. All changes were clearly communicated to all employees and effected across the Company including all branches.

During the year the company paid out in excess of Rs 1.8 million in rewards to employees who won competitions and achieved the best performance across the branch network.

Game Blaster–Deposit Winner (Air ticket to Thailand)

Competition Name	Rewards Paid (Rs. '000)
Best Collection Ratio	800.0
Best Region	300.0
Best Reduction in Total Arrears	300.0
Pawning Winner	20.0
PCBE Loan Winner	60.0
Leasing Winner	60.0
Game Blaster-Deposit Winner	326.0
Total	**1,866.0**

The Company carried out a salary survey during the year and revised the salaries upward in all categories of workforce. The best performers were recognised objectively with a larger increase than others to motivate for an improved performance. In addition, 102 employees were promoted to next grades based on performance to recognise their commitment and value created for the Company.

TRAINING AND DEVELOPMENT

The next area of focus during the year was targeted training based on strategic growth targets in different market segments that SDF in currently operating in. 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 spent in excess of Rs. 1.6 million on an intensive training and development programme for staff that lasted all year round. Specific skills and specialised skill needs were identified based on the company's branch rationalisation strategy for optimum branch performance by staffing each branch with the required types and levels of skills. 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 our products with adequate ICT and documentation skills.

	No. of Training	No. of Training Hours	No. of Participants	Investment (Rs.'000)
Internal Trainings	22	158	1,077	1,292.71
External Trainings	30	225	112	380.56
Total	**52**	**383**	**1,189**	**1,673.27**

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

Human Capital

Internal Training
- Leasing Training
- Interactive Training Session-Dr. Link Stage3
- One Sarvodaya Training Programme
- Systematic Approach on Sales & Challenge
- mCash Training for Field Officers
- HR Orientation
- Pawning & Pawning E-Finance Module
- Branch Operational Issues/CPU and Credit Documents Checking
- Credit & Leasing Training
- Customer Relationship Management & Cross Selling
- G-suit Early Adopter Training
- Customer Relationship Management & Cross Selling
- Leasing Marketing
- Credit Evaluation

External Training
- Customer Relationship Management for MFI's
- Credit Evaluation & Quality Portfolio -Tamil Training Workshop
- Lending Against Pawn Broking
- FHA Seminar on Recoveries Management
- Seminar on Apartment Ownership Law
- Combating money laundering and Terrorist financing
- Risk Symposium 2017
- Systematic Approach on Sales & Challenge(LASL)
- Public Awareness Programme
- Civil Procedure Code(Amendment)Act
- Implication of Sri Lanka Accounting Standards for Bank & Finance Companies
- Property Securities
- Lending Against Pawn Broking
- Domestic Inquiry Procedures and Termination of Employment
- Magnifying Micro Finance
- Branch Operational Issues/CPU and Credit Documents Checking-Tamil
- Leadership Training for Supervisors
- New Foreign Exchange Act No 12 of 2017
- Supervisory Skills Development
- Budget Highlights
- Credit Documentations
- On the Job Training
- TCX Workshop on Local Currency Financing
- Seminar on Prevention of Money Laundering and Application of KYC Procedures
- RAMIS' Tax System & Practical Issues faced by Tax Payers
- Strategic Planning, Balanced Score Card & IT Governance
- Evolution of Heads to Bots
- South Asian Micro Entrepreneurs Network's Conference

SDF Toastmasters Club
Human resource element was further enhanced with the initiation of the SDF Toastmasters club; named as, 'Sarvodaya Toastmasters Club' in the fraternity of Toastmasters International (TI). Toastmasters International is a worldwide nonprofit 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' was established with the intention of getting personnel across Sarvodaya sister companies to improve their collaborative and leadership skills. We have exceeded our expectations in this regard with interactive feedback methodologies. The members have learnt how to speak up in helpful ways in diverse settings such as within numerous communities, work place and sometimes as advocates for causes that Sarvodaya believe in. The members have become more confident in their ability to communicate effectively and clearly, with skills that enable them to navigate smoothly through situations of tension and disagreement, through win-win negotiation, conflict resolution or as peacemakers and positivist within the work place.

Installation of SDF Toastmasters Club

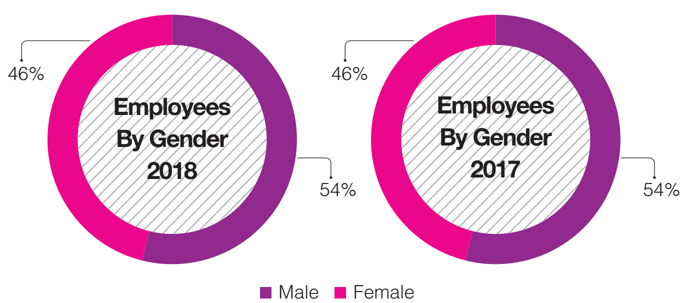
EMPLOYEE PROFILE AS AT END MARCH 2018

The total workforce of SDF stood at 548 as at the end of the financial year. 180 new recruits were added to workforce in replacement of 172 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

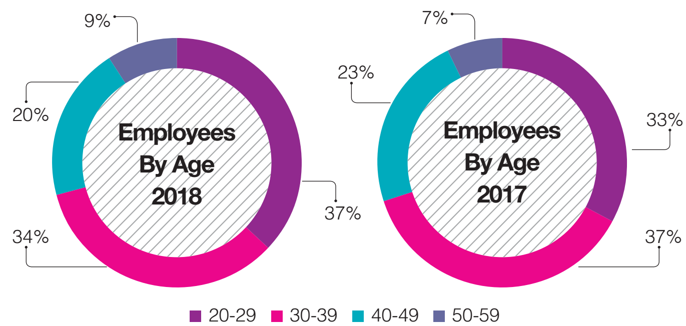
Workforce	2018	2017
Payroll Cadre		
Permanent	420	473
Probation	88	66
Non Payroll Cadre		
Contract	28	1
Training	12	
Total	**548**	**540**

93% of our workforce are on payroll and the balance is on contract and training basis. 77% of our workforce are on permanent basis. Male represent 54% of our pool of employees.



EMPLOYEES -BY AGE

We have a relatively young workforce with 71% of our total employees are below 40 year and 37% of our employees are below 30 years of age.



EMPLOYEES -BY POSITION

Our senior management team increased to 20 from 19 in 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 4% in FY 2017/18. 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 18% of our total workforce.

Employees –By Position				
Designation	Male	Female	Total	%
Senior Management	19	1	20	3.6%
Line Management	75	18	93	17.0%
Executives	176	205	381	69.5%
Others	28	26	54	9.9%
Total	**298**	**250**	**548**	**100.0%**

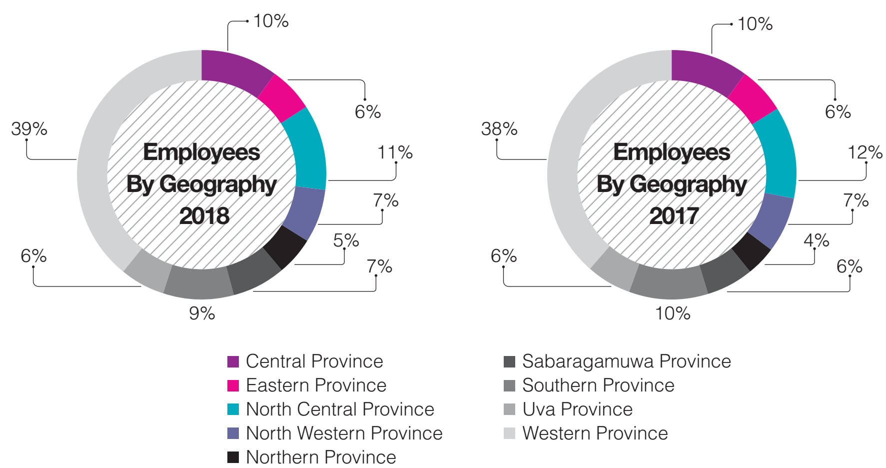
Human Capital

EMPLOYEES –BY DEPARTMENT

Department	Employees	
	Nos.	%
CEO Office	2	0.4%
Finance & Planning	15	2.7%
IT	11	2.0%
Credit	15	2.7%
Recoveries	7	1.3%
Marketing	8	1.5%
Legal	11	2.0%
Administration & Operation	24	4.4%
Internal Audit	11	2.0%
Regional Offices	43	7.8%
Branches /CSCs	356	65.0%
Others	45	8.2%
Total	**548**	**100.0%**

EMPLOYEES –BY GEOGRAPHY

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



EMPLOYEE RECRUITMENT POLICY

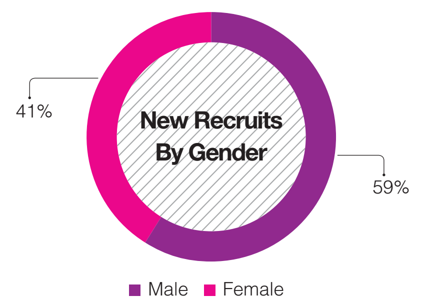
The recruitment drive was refocused by setting clear recruitment criteria for all positions. Our greatest asset and competitive advantage is our staff members. Hence, we continually strive to recruit the best candidate who fits the job requirement. Our recruitment strategy is focused on recruiting and 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

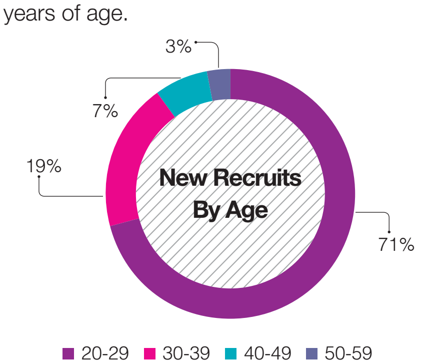
During the year 180 new recruitments were made to fill vacancies and to meet expansion needs of the company. 59% of new requites are males.

NEW RECRUITS -BY GENDER



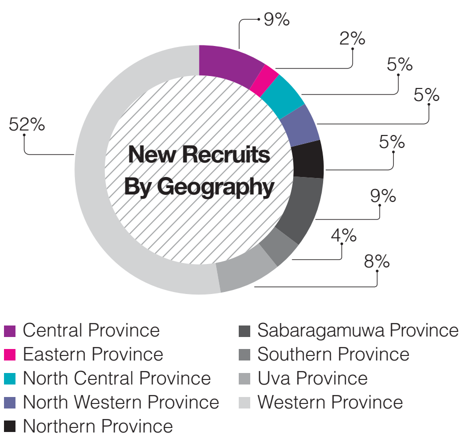
NEW RECRUITS -BY AGE

71% of the new recruits were below 30 years of age.



NEW RECRUITS –BY GEOGRAPHY

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



Designation	New Recruits	
	Nos	%
AGM	2	1%
Chief Manager	3	2%
Senior Manager	3	2%
Regional Managers	2	1%
Manager	7	4%
Assistant Manager	7	4%
Senior Executive	22	12%
Executive	28	16%
Junior Executive	32	18%
Trainee	70	39%
Junior Support Service Office	4	2%
Total	**180**	**100%**

INDUCTION

New staff are introduced to the company 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.

Talent show conducted by our new management trainees at 'Ape Gama' after the Induction

The realignment and integrating of HR strategies have resulted in improved performance of employees and better team work for good relationships across regions.

DIVERSITY AND EQUALITY

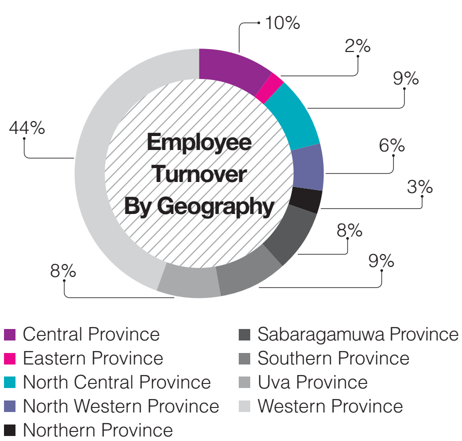
All recruitments, transfers and promotions are based on assessed and individual merit, and as an equal opportunities employer, we do not discriminate on the grounds of gender, age, race, cultural differences or any other applicable indicator. There were no incidents of discrimination reported during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

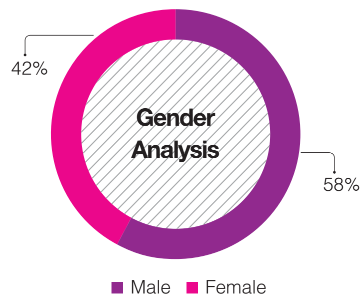
EMPLOYEE RETENTION

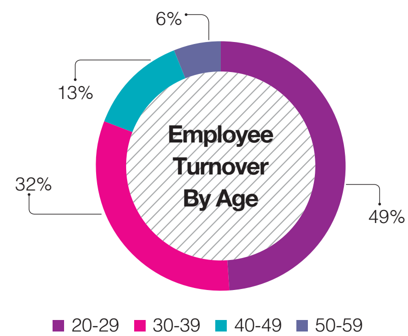
During the year 172 employees left the company under review of whom 58% were males and the balance 42% were female employees. Our employee turnover rate was at 32% which increased from 31% in the previous financial year.

	2018	2017	Average
No. of Employee	172	177	175

Human Capital







The employee turnover rate was highest in the 20 to 29 age category which amounted to 84 or 49% of total turnover followed by 30 to 39 age category which amounted to 55 or 32% of total turnover.

EMPLOYEE TURNOVER –BY GEOGRAPHY

Geographically, the western province accounted for the highest turnover of 44% followed by central province with 10%.

EMPLOYEE TURNOVER –BY DESIGNATION

Designation	No of Employees	%
AGM	1	1%
Head of Department	2	1%
Senior Manager	4	2%
Regional Manager	2	1%
Manager	7	4%
Assistant Manager	11	6%
Senior Executive	22	13%
Executive	30	17%
Junior Executive	60	35%
Trainee	30	17%
Junior Support Service Officer	3	2%
Total	**172**	**100%**

MATERNITY LEAVE

Our employee retention rate for female employees following maternity leave stood at 73%. In the year under review the total number of employees obtaining maternity leave was 26. Out of this figure, 18 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) were introduced in the previous financial year to establish 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

SDF is 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 by contributing 12% to EPF and 3% to ETF. Employees' contribution to EPF is 8%. As gratuity, 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		
	2018 (Rs. Mn)	2017 (Rs. Mn)	2018 (%)
Salaries	178.55	194.12	56.8%
EPF	21.49	23.36	6.8%
ETF	5.36	5.84	1.7%
Overtime	0.91	1.05	0.3%
Allowances	87.58	110.94	27.9%
Incentives	3.98	5.61	1.3%
Casual Wages	9.77	8.17	3.1%
Gratuity	6.74	5.78	2.1%
Total	**314.38**	**354.87**	**100.0%**

WELFARE FACILITIES

We strengthened staff benefits under staff welfare and established SDF's welfare society during the year under review. 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)
- 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 Sport-meet held at G. H. Buddhadasa Ground with nearly 400 staff participating

EMPLOYEE WELLBEING

Employee wellbeing is built into the Company by creating a positive and safe work environment helps 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.

GRIEVANCE MANAGEMENT

An open-door policy is adopted to reduce employee dissatisfaction and to promote better communications. In addition, a grievance handing 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 motivation and skill upgrades. Staff motivation will be addressed through more improvements to the incentive and rewards scheme and to communicate the new performance-based structure to all grades of staff island- wide. Staff social engagements will also be strengthened to develop team spirit and cooperation among our personnel who are scattered island wide.

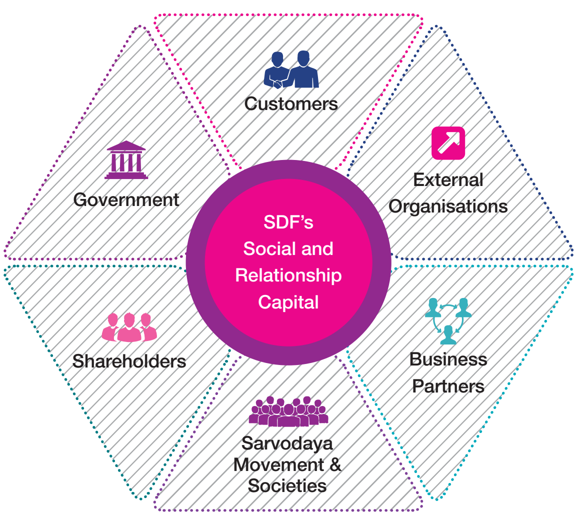
While SDF invests in continuous training we hope to pay more attention to development of soft skills in the new financial year that will target primarily front-line personnel.

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.

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	▪ Promoted SME lending, leasing, personal loans and pawning segments aggressively ▪ Set up separate dedicated unit for deposit mobilisation and promote fixed deposits ▪ Trained deposit and credit staff at all branches ▪ Introduced branch level competitions to motivate staff to achieve credit and deposit targets
Strengthen relationships with key stakeholder groups	▪ Joined 'One Sarvodaya' programme ▪ Integrated closer with Sarvodaya Societies ▪ Improved the complaint management system ▪ Organised interactive events ▪ Conducted Stakeholder engagement periodically and satisfaction surveys to address their concerns

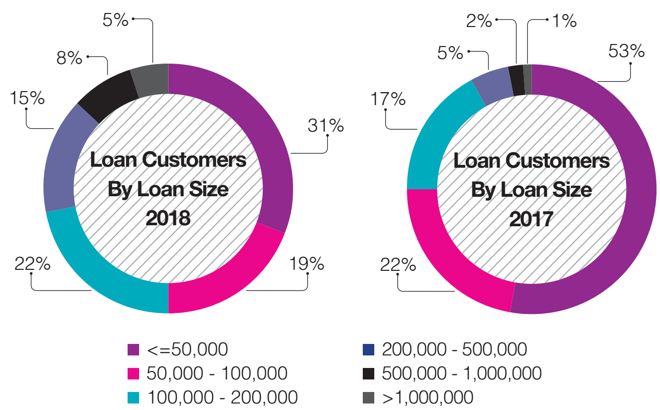
Our social capital growth priorities have been aligned with our overall corporate targets and linked with our financial targets for the short to medium term. Therefore, the current year's social capital priorities reflect our financial priorities of addressing the asset-liability mismatch and lending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



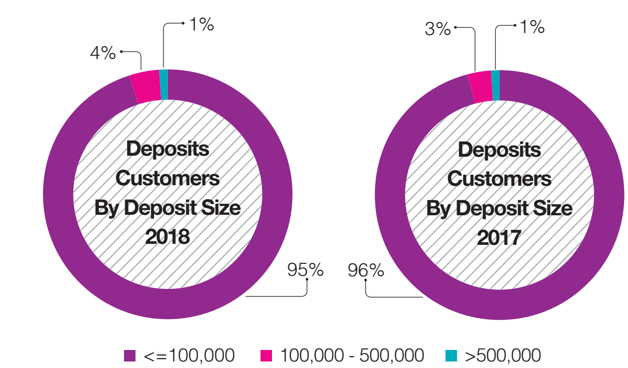
SDF'S CUSTOMER CAPITAL

Our customer capital comprises of individuals and institutions representing, entrepreneurs, micro enterprises, SMEs and working people. As at end March 2018, our customer base, comprising loans and deposits, decreased from 193,762 customers in the previous year to 158,158 customers in the reporting year which is a decline of 22.5%.

Our loan customer base declined from 36,160 to 20,299 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 on SME and leasing to grow our loan book.



By moving into a more fixed deposits based approach to grow our deposits as opposed to a more savings based approach resulted in our deposits customer base declining from 157,602 to 137,859 during the current financial year.



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. 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.

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 is slowly gaining as a customer communication channel. 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.

Under our new business model, we are now giving more prominence to SME, leasing and personal loans as well as introducing special savings products such as "Fixed Saver" to support deposit growth. Also we have planned to introduce new savings products for both parents and children while re-launching the Pancha gift scheme. We are also developing new leasing products and improving the approval process to provide more strength and comfort when they need financial assistance.

By re-branding and relocating of some of our branches/CSCs for greater visibility and face-lifting and upgrading most of the remaining branches/CSCs with our new brand colours and logos, enable us to enhance the visibility of our branch/CSC premises resulting in a remarkable increase in walk-in customers. 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 anchored by print & electronic media coverage which focused more on brand building and creating product awareness.

OUR CUSTOMER CENTRIC INITIATIVES

Our customer centric initiatives during the year include;

Harnessing technology/ processes	▪ The SDF ATM card was launched for savings customers who can now access their accounts from any ATM machine in the country without travelling to branches to withdraw funds. ▪ The mCash operation system was mobilised, enabling customers to immediately update their loan accounts on repayments. ▪ The Central Processing Unit (CPU) to centralise the back-office operation of the branches and customer service centres (CSCs) of the Company was further streamlined. The key job functions of the CPU include processing documents in relation to lending, deposits, account opening and bill payments. This centralized approach in processing of documentation resulted in creating adequate time for branch/CSC staff to concentrate on more important aspects, such as, marketing, business development and speedy customer service.
Value added services	▪ Many promotions were conducted for new savings holders ▪ In a significant value addition, SDF entered into an agreement with Janashakthi Insurance to provide loan protection cover for our customers obtaining various credit lines
New products	▪ A range of new products were introduced giving greater choice and flexibility for customers
Training staff for better service quality	▪ The training calendar was developed to specifically include branch staff ▪ 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 ▪ All increments and promotions were linked to performance
Training for customers	▪ Continued conducting credit plus (Credit+) training sessions for our micro customers and for SME's, conducted a products awareness and brand building program in Ratmalana at the Silver Ray Hotel with a strong participation of about 100 invitees of SMEs. ▪ SDF conducts two types of training programs for micro customers, namely financial literacy and entrepreneurship development, at a nominal fee of Rs.1,000 and a voucher of Rs.500 would be issued to each participant. This Rs.500 is deducted from the documentation charges at the time of disbursing the next immediate loan to these participant, on submission of the voucher.

Social and Relationship Capital

Products awareness & brand building programme conducted to invited SMEs

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.

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 needs of specific sub-customer categories.

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.	617.4	467.1	816	2.0%	1.3%
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.	1,255.7	1,243.0	642	5.1%	5.0%
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.	776.9	465.6	3,438	2.9%	1.8%
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.	376.2	262.9	1,220	0.5%	0.3%
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.	161.9	133.1	447	1.8%	0.2%
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.	977.8	621.2	4,573	2.6%	1.2%
Cash -Backed Loans	Loans are granted against Fixed Deposits at attractive rates to facilitate urgent financial requirements of deposits holders	491.5	464.6	1,501	0%	0%
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.	342.0	281.2	1,285	0.2%	0.1%
Gold loans	Pawning facilities are provided by keeping gold jewellery as security for customer's personal and consumption needs.	20.2	18.7	354	0.7%	0.7%

Social and Relationship Capital

LEASING

The gross leasing portfolio recorded a creditable 115% growth albeit from an extremely small base as we entered this segment only in 2016. As at the year end, our gross leasing portfolio stood at Rs.617.4 million and consisted of 816 customers, which was a growth of 492 new customers during the current year. 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 389, including individual suppliers, and 23 of same consisted of corporate suppliers. In addition, we had a database of nearly 150 registered introducer for vehicle leasing as at 31st March 2018.

New leasing products to be introduced;

- An Over Draft type facility for vehicle leasing
- Speedy Cash leasing scheme for quick leases using RMV book for short term leasing needs
- A highly attractive new three wheel leasing package was introduced to support micro entrepreneurs and for self-employment. The product includes free life insurance coverage and many special offers.

We are also considering a new, short term vehicle leasing product for Sarvodaya employees and another product with contracted retailers to allow Sarvodaya employees to purchase household goods on the backing of two guarantors.

SME LOANS

Our SME portfolio recorded a tremendous growth of Rs.862.7 million or 219.4% year-on-year, under the dedicated SME unit. The SME department is now fully staffed and was exposed to intensive training during the year, on relationship management and credit appraisal 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. With the additional of SME in to our products range in last year, we are now able to cater effectively to its loyal micro customers who are transitioning their businesses now up to SME and emerging SME levels. Extensive training was carried out during the year covering all branch staff, to develop their relationship management and credit appraisal skills to give a fast and effective service to SME customers.

During the year, to enhance customer convenience and operational efficiency, the disbursement process was reviewed and rationalized to significantly reduce disbursement time. Under the new system, SME loan approvals are reviewed and approved (or denied), within the maximum period of 14 days, which is better than the disbursement times of most banks in the country. The lending size was increased from the previous maximum limit of Rs.15 million to Rs.30 million, with the lower limit retained at Rs.0.5 million. Credit growth during the year was mainly within the Western Province followed by the Southern and Central provinces. As at the year end, our SME gross loan portfolio stood at Rs.1.3 billion and consisted of 642 customers which was a growth of 520 new customers during the year.

New SME products introduced;

- A bank guarantee product was launched for our micro and SME clients

Our improved SME products were taken to the market through traditional marketing channels and digital platforms including our Facebook page.

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.161.9 million and consisted of 447 societies.

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 target customer groups during the year to raise awareness about this unique product and to grow the portfolio. We conducted extremely successful campaigns in both government institutions and private companies that contributed directly to new business volumes. As at the year end, our PCBE loan portfolio stood at Rs.342.0 million and consisted of 1,285 customers; an increase of 916 new customers during the year.

New personal loan products to be introduced;

- A loan facility in partnership with Singer Sri Lanka for easy payment purchases from Singer retail outlets

GOLD LOANS

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

Promotional banner for relaunching pawning

We maintained prudent loan-to-value ratio to ensure portfolio quality is maintained in all new disbursements. Our pawning portfolio stood at Rs.20.2 million at the year end with a customer base of 354. We anticipate rapid continued growth of this lending category in the new financial year.

CUSTOMER TRAINING

We conduct two types of training programmes for its 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.

FASTER LOAN APPROVAL PROCESS

Our IT system was up-graded further during the year by adding more manual processes to on-line work-flow-management process 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, 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 on fixed deposits, as the key funding source in growing our lending. We have shown a remarkable performance in overall deposit net intake, by growing the deposit base by over Rs.1.0 billion during the year as a result of our deposit mobilisation drive under a dedicated deposits mobilisation unit at HO. In addition, the wealth of experience we have gained over the years through our parent organisation, SEEDS (Gte) Limited, and the unique advantage we have through our longstanding, un-blemished relationship with SSS together with aggressive and focused direct marketing campaigns conducted in urban areas to attract high-net-worth individuals, helped us to achieve this exceptional growth in our deposit base.

The deposits base grew by Rs.1.06 billion or 29.8% to reach Rs.4.6 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. In addition, the attractive incentive scheme introduced by us to recognise top achievers in mobilising deposits added more energy to employees' morale to record these results at the end of the reporting year.

OUR DEPOSITS PRODUCTS

Product	Product Features	Deposits 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.	3,070.2	7,807
Normal Savings	Regular or ordinary savings products.	525.8	92,458

Social and Relationship Capital

Product	Product Features	Deposits Base	
		Rs. (million)	Nos.
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.	77.1	6,087
Pancha Savings	Minor savings are an investment made on behalf of the child for future use	494.3	23,098
Sarvodaya Society Savings	Regular ordinary savings made by Societies from the income they generate by their routine business transactions.	457.4	8,409

The focus during the year was to capture larger sized fixed deposits to increase the fixed deposit component in the deposit base to address the asset-liability mismatch. The significant factor is the increase in our long term FD base during the year, which reflects public trust and confidence towards the Company and the turnaround in the composition of the deposits base from more society-based to more public-based.

One of the other significant move during the year was to link the 'Fixed Saver' savings accounts to micro lending, where 5% of all micro loans are re-channelled into a 'Fixed Saver' account to encourage long-term saving. These savings can be converted to fixed deposits, which in turn, makes the deposit holder eligible for further credit facilities. This move resulted in 'Fixed Saver' savings base increasing to Rs. 77.1 million at the year end. In addition, the 'Pancha' children's savings account was relaunched with a new, extremely attractive gift scheme.

We will continue to strengthen our deposits portfolio in the new financial year to celebrate our 60th anniversary of Sarvodaya Movement. The plans include introducing an exciting new children's savings product that will be directly linked to parental savings, to ensure the financial stability of the next generation. In addition, we intend to launch a highly attractive 60 months fixed deposit product to commemorate Sarvodaya's 60th anniversary and another commemorative product for senior citizens with free religious tours to India.

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-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.

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

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.

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 our centric initiatives section of this Report.

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.

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 AGM –Risk Management and 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 CBSL 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 year the marketing and business promotion expenditure was Rs.30.1million while in FY 2016/17 the expenditure was at Rs.24.2 million.

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

Marketing Activity	2018		2017	
	(Rs. million)	(%)	(Rs. million)	(%)
Print Media	5.0	16.6%	4.9	20.2%
Electronic Media	7.6	25.2%	12.2	50.4%
Events and exhibitions	3.9	13.0%	5.0	20.7%
Special Campaigns	13.6	45.2%	2.1	8.7%
Total	**30.1**	**100%**	**24.2**	**100%**

Social and Relationship Capital

HELPING OUR CUSTOMERS GROW

Mr. A K M Imitiyas

Mr. Abdul Kadar Mohomad Imitiyas, aged 55 years is the sole proprietor of "Athika Products" which was started in January 2014.

Mr. Imitiyas is a dedicated and ambitious businessman who engaged in the business of wholesale trading in water bottles, soft drinks, murukku, gram and toffees. The business is fairly large compared to other small dealers in the locality. He sells to the traders in the area and purchases from wholesale dealers in the Kandy district.

Mr. Imitiyas is extremely grateful to SDF for granting a loan of Rs. 3.5 Mn for his business expansion.

Ms. A K Ajantha Indrani

Ms. A K Ajantha Indrani started her micro business in 1995 with the help of her family. She encountered numerous set backs but persevered. In 2009, she took a loan of Rs. 100,000/- from SEEDS to remodel and expand her place of business. She was able to settle the loan within 3 years.

Thereafter, Rs. 200,000/- was loaned to her to expand the business and she converted to wholesale trade. She successfully repaid the loan within one year. Her dedication to her work was instrumental in the success of her business, and today her wholesale enterprise distributes goods to many retail traders in the area. SDF granted her a loan of Rs. 1 Mn which she has utilised to upgrade and modernise her business.

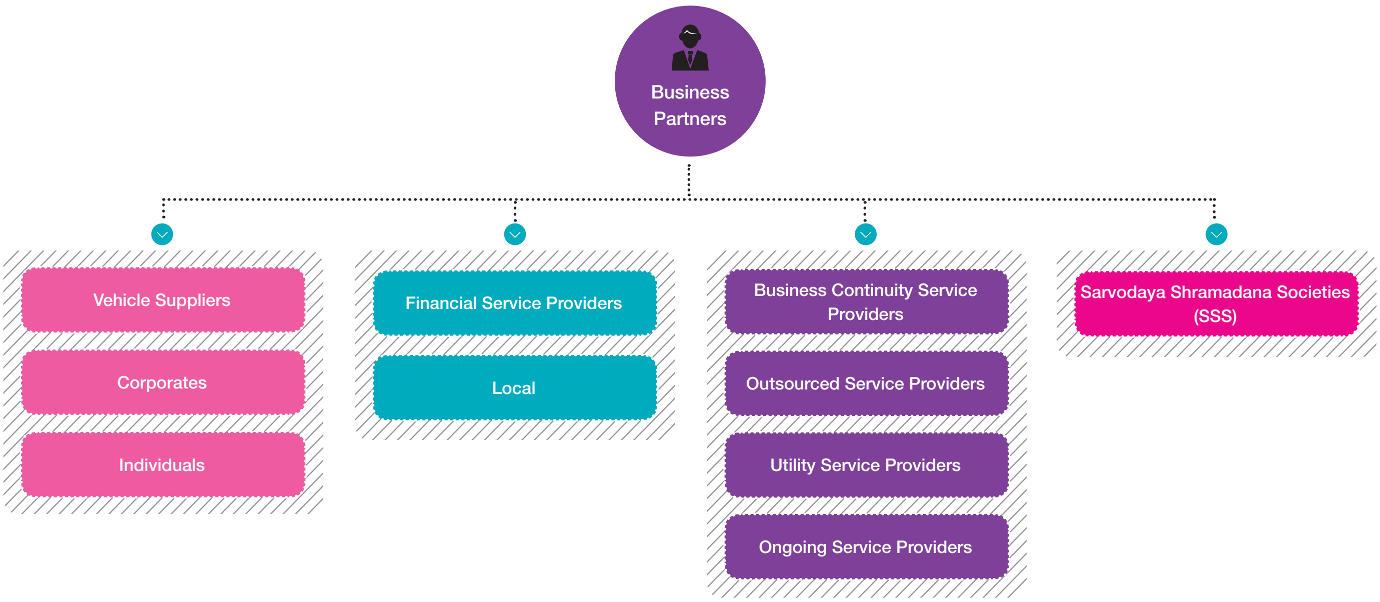
Walgama Ayuvedic Products Limited

Walgama Ayuvedic Products Limited was incorporated in 2012. Mr. M D Sarath Rupasinghe started manufacturing Ayurvedha Medicine in 2000 with a loan of Rs. 50,000/- from SEEDS. As the business progressed, further loan of Rs. 500,000/- was taken from SEEDS to purchase a vehicle for the distribution of medicine. At present over 100 products are available under Walgama Ayurvedic Products. SDF granted her a loan of Rs. 2 Mn for further expansion of her business.

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.

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 2018, our supplier base was 520 including registered vehicle suppliers for leasing. The cumulative payments made to suppliers during the reporting period stood at a figure of Rs.868.7 million compared to Rs.651.0 million paid in the preceding year.

Supplier	2018		2017	
	Nos	Rs. (million)	Nos	Rs. (million)
Vehicle Suppliers	389	467.1	207	332.8
Corporates	23	86.5	25	124.2
Sole Proprietors	6	14.3	3	18.4
Individuals	360	366.3	179	190.2
Other Suppliers	131	401.6	126	318.2
Corporates	48	266.3	43	186.2
Sole Proprietors	22	42.1	26	34.1
Individuals	61	93.2	57	97.9
Total Suppliers	**520**	**868.7**	**333**	**651.0**

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.

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.

Social and Relationship Capital

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)

Understanding the strategic importance of this network, we strengthened the activities carried out by our Society Coordinating Unit (SCU) during the reporting year to directly coordinate with SSS for strengthening relationship and also to conduct joint business promotions at village level promoting our leasing, SME, micro lending products and savings.

During the year, SCU carried out 13 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.100 million worth of financial inquiries on loans and deposits from potential customers through these marketing programs carried out by SCU.

Programme		Financial Inquiries Received
Name	Nos.	Rs. (million)
Marketing	13	100.0

A door-to-door marketing programme carried out jointly with SSS

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.

Programme		Number of SSS Participants	
Name	Nos.	Office Bearers	Members
Capacity building & Leadership	8	58	209
Entrepreneurship	2	22	28
Business Planning	21	68	289

A leadership's skills and capacity building training programme carried out for SSS

SARVODAYA MOVEMENT

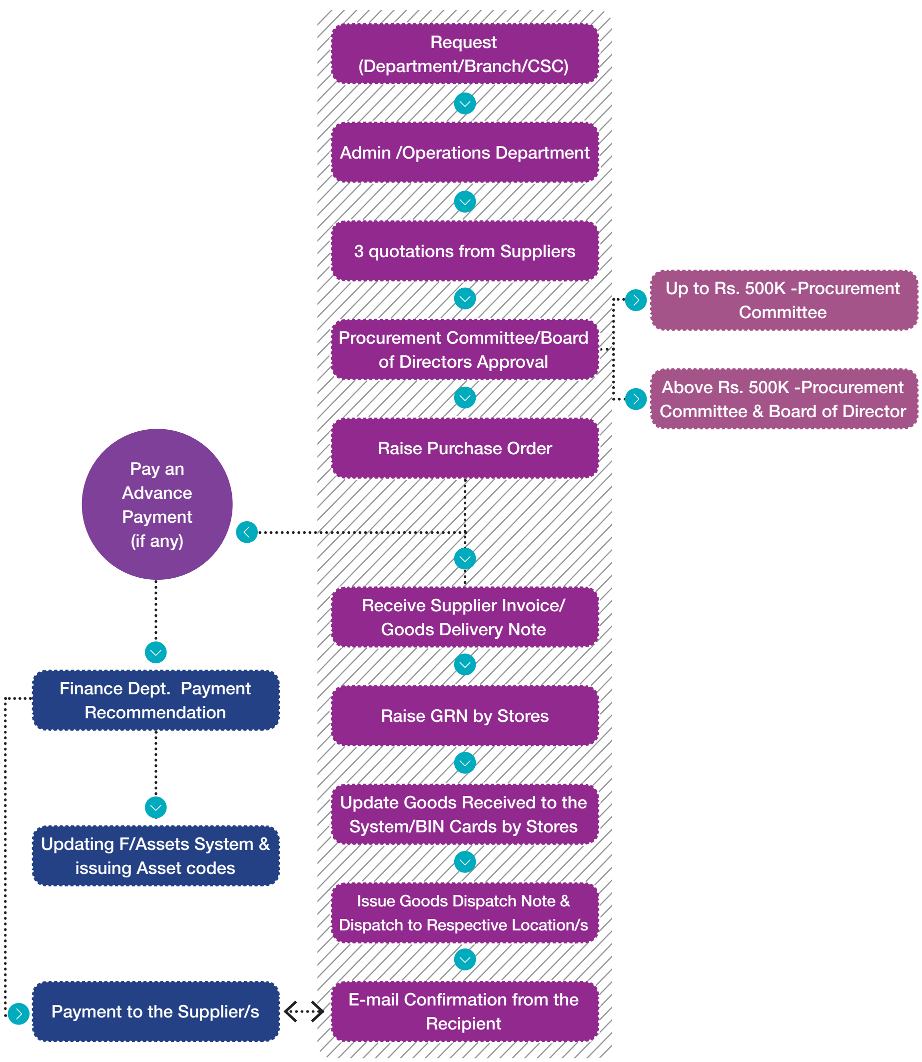
The 'One Sarvoday' program has been developed to unite and integrate all Sarvodaya legal entities under the Sarvodaya universal strategy. As part of this initiative, the Company has been more involved with other Sarvodaya organisations during the current financial year through participation in Sarvodaya events and sharing information. We will continue to build relationships with our sister entities in the new financial year.

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 HO.

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

MEMBERSHIPS 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

Social and Relationship Capital

INVESTOR CAPITAL

The two (2) main shareholders SEEDS (Gte) Ltd. and Gentosha Asset 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 with the associated Annual General Meeting and 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 channeled as dividends to SEEDS are redistributed within the community through various community development projects of Sarvodaya.

	2018	2017	% Change
Equity Information			
Earnings per Share (Rs)	1.19	(0.51)	333.8
Dividend per Share (Rs.)	0.53	Nil	N/A
Net Assets Value per Share (NAVPS) (Rs.)	16.81	15.51	8.4
Return on Equity (%)	7.4	(3.2)	330.6
Debt Information			
Debt to Equity Ratio (times)	4.5	3.5	28.6
Interest Cover (times)	1.3	0.8	59.2
Current Ratio (times)	0.8	0.9	(12.4)

SHAREHOLDER WEALTH CREATION

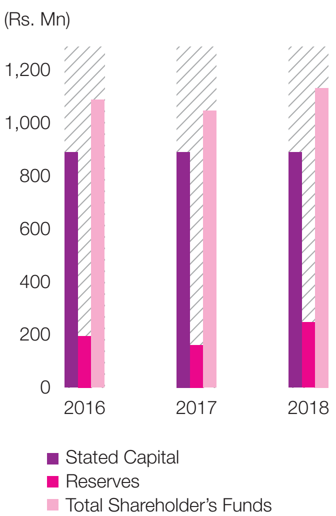
The current year profit including OCI of Rs. 87.8 million increased the overall shareholders' funds to Rs.1.13 billion from Rs.1.05 billion recorded in the previous year. With this value created to shareholders, the Board of Directors proposed a final dividend of Cents 53 per share to Company's shareholders.

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

Changes to Share 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

Composition of Equity



CHANGES TO DIRECTORS' SHAREHOLDING

During the year under review, the total number of ordinary shares owned by the Directors of the Company remained unchanged.

Name	Position	No. of Shares as at	
		31st March 2018	31st March 2017
Dr. Vinya Ariyaratne	Non Independent, Non-Executive Director	1	1
Mr. Shakila Wijewardena	Non Independent, Non-Executive Director	1	1

REVENUE TO GOVERNMENT

During the year under review, the Company paid Rs.97.6 million to government in way of taxes compared to Rs.56.9 million paid in the previous year.

DEBT AND SOLVENCY

The debt to equity ratio increased to 4.5 times from 3.5 times in the previous year. Interest cover improved from 0.8 times to 1.3 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 20.19% each respectively. This was maintained well above the regulatory requirements of 5% and 10%. This indicates that the Company preserves sufficient capital to act as a cushion against any future risks.

CBSL has introduced a new direction/guidelines for capital adequacies which will come into effect from 01st July 2018. The new direction/guidelines is looking at strengthening the capital base of LFCs, to successfully manage any risks arising from their business operation and as well as, any future risks that is unforeseen currently. The new direction/guidelines has brought in an additional provisioning requirement for operational risk and has further tighten the risk weightages applied for credit risk. The provisional calculation of our capital adequacy ratios, as per risk parameters given in this direction/guidelines indicates, that our ratios are well above the new regulatory requirements imposed by the new direction/guidelines.

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

Social and Relationship Capital

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 both directly 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.

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

Assistance for Flood Victims

We donated Rs.0.3 million worth of kitchen appliances to flood-affected people in 'Ratnapura' district in May 2017 as part of our CSR activities. Accordingly, 175 packs worth Rs.1,750/- each were distributed as follows;

- Pahala Galathura, Kiriella, Ratnapura - 85 packs
- Angammana, Ratnapura - 65 packs
- Gemunugama, Ratnapura - 25 packs

Distributing kitchen appliances to flood-affected people in the Ratnapura district

SUPPORTING RURAL VILLAGE

Uplifting living standards of rural communities is a key Sarvodaya tenet and in the year under review, we embarked on this principle by initiating the construction two public toilets for two extremely rural villages in Kebithigollawa and Parakramapura, in the North Central Province. We intend to complete this social work in early next financial year.

Supporting Sarvodaya Childrens' Homes

We provided dinner to the Suwasetha Children's home in Lunawa, Moratuwa for 16 teenage mothers and 18 children under the age of 5.

Vesak Dansala

Our Homagama branch organised a Vesak dansala to commemorate the Vesak season.

Blood Donation Campaign

Our customer service centre at Madagama organised a blood donation campaign in July 2017 by demonstrating our business values in providing service with purity and caring.

The details of the campaign is as follows;

- number of donators : 81 (female 19, male 62)
- hospitals affiliated : Blood Bank & General Hospital, Badulla
- number of hospital crew : doctors – 01, nurses 03 & attendants 04.
- amount of blood donated: 81 pints (O+ 32, AB+ 6, A+ 16, B+ 27)

Book Donation Campaign

We donated more than 400 books collected from personnel across the Company and donated to the children in Sarvodaya Suwasetha as part of Sarvodaya's continuous process of educating and uplifting the child's well-being.

As a responsible corporate, we continue to give top priority and follow through with best business practices. With due engagement with community leaders, local governmental and non-governmental agencies, we are committed to synergising our everyday activities with the aspirations of the communities we operate in. Our network of branches provides us with details on critical issues that need to be addressed within their respective geographical areas.

Natural Capital

Our attempt is to avoid any negative environmental impacts through our operations at all times as part of our business philosophy, which encompasses sustainable and responsible business concepts and practices. As a Company tracing its origins to the rural grassroots and embracing the doctrines of purity in service, we follow concepts of ethical financial services and do not provide credit for businesses that are environmentally polluting. We also do not operate any businesses in the vicinity of protected environmental areas. Also our business operations do not impact biodiversity nor do they harm endangered or vulnerable species. These efforts in managing our environment impacts also help us meet the expectations of our stakeholders, reduce business risks and reduce operating costs as well.

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 initiate culture change
Minimise environmental impacts	▪ Shifting manual processes online ▪ Promoting efficiency improvements and waste reduction ▪ Analysing environment impact from business of SME project is part of the credit evaluation process of lending
Be a responsible financial services provider	▪ Support environmentally friendly businesses

SDF ENVIRONMENTAL POLICY

Our environmental policy is to grow our business in an environmentally sustainable fashion, which entails being conscious of our environmental impacts and making all attempts to minimise these while also advocating and promoting an environmentally responsible way of life amongst stakeholders along the value chain.

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 joined in hands with Sarvodaya and planted 150 rare and endemic tree saplings at the Sarvodaya Institute of Higher Learning premises in Aluthgama, Bandaragama.

This was done in collaboration with ‘thuru’ that demonstrated one of their latest technologies of propagating seeds with drone at this event. This initiative marked SDFs commitment towards a green world through green business and sustainable technology. The project not only marked our consciousness of environmental protection and defence of flora diversity, but also our belief in the role of collaborative technological and business role for a sustainable resource creation. The endemic plants were chosen to protect the sustenance of these plant species and as an inspiration for future generations to understand the value of nature conservation.

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.

The solar system we installed in our HO building in FY 2016/17 with an investment of Rs.2.5 million, comprising 22 solar panels, powered by 6 KSTAR 5.5KW invertors, resulted in further energy saving, when considered the cost of electricity incurred per unit of electricity consumed during the reporting year.

The project was expected to reduce electricity cost by 27%. The project generated nearly 30% saving on electricity cost immediately after the implementation. Re-locating certain sections to new premises and maximising the space utilisation enabled us to reduce the electricity bill by 40% on average, per month, in FY 2016/17 from the implementation date to the year end. With revamping of the head office building with new capital investments of Rs.12.3 million in fixed assets coupled with a larger utilisation of vacant space for expansion, the average consumption of electricity was increased in Rupee terms. However, the sound maintenance of the solar system resulted in an overall cost saving per unit of consumption.

Average Monthly Net Saving of Electricity from Solar Project

Details	Period	Average Consumption (p.m.)		
		Units	Rs.	per unit
After Installation of new panels	01st July to 31st March 17	6,933.67	193,558.18	27.99
	01st April to 31st March 18	7,042.75	195,355.63	27.79
Average Net Saving (p.m.)		(109.08)	(1,797.45)	0.20
Average Net Saving (%.)		(1.6)%	(0.9)%	0.7%

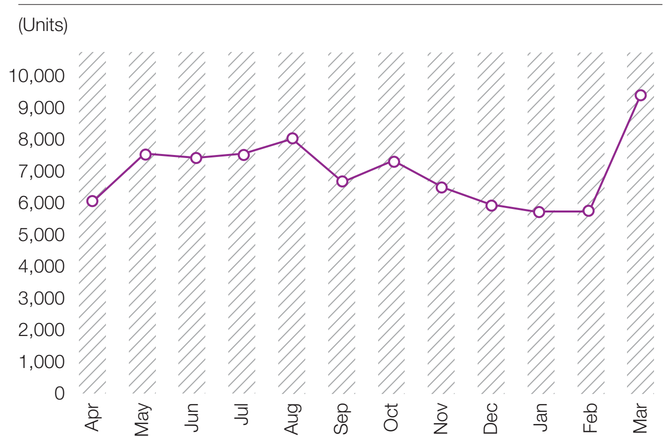
We initiated this project as a part of our 'Green Banking' initiative where we intend to convert most of our business processes into a paperless environment in the long run. As a responsible corporate citizen, our intention through this project was to contribute actively to the government's initiative of promoting solar energy so as to reduce producing carbon imprint through releasing green energy to the grid.

Electricity Consumption

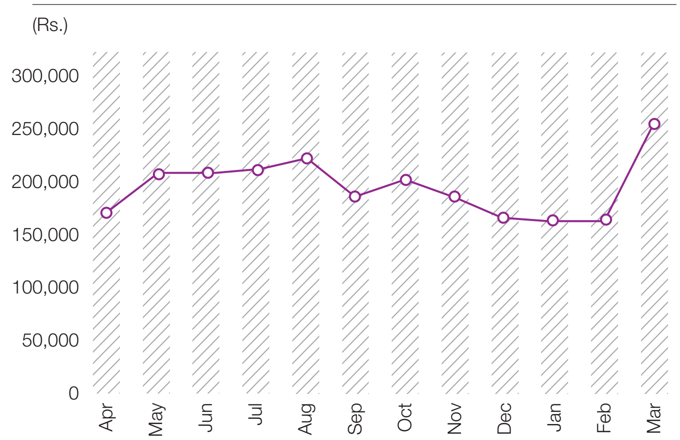
Location	2018			2017		
	kwh	Joules	Rs.	kwh	Joules	Rs.
Head Office	93,308	3.35×10^{11}	3,561,193	97,311	3.50×10^{11}	4,246,369
Corporate Office	47,366	1.70×10^{11}	1,459,027	17,266	6.21×10^{10}	531,849
CPU	34,444	1.23×10^{11}	789,965	14,242	5.13×10^{10}	326,637
Branches	308,226	1.10×10^{12}	7,428,235	327,065	1.18×10^{12}	7,587,923
Total	**483,344**	$\mathbf{1.74 \times 10^{12}}$	**13,238,422**	**455,884**	$\mathbf{1.64 \times 10^{12}}$	**12,692,778**

1 kwh electricity = 3.60×10^6 in joules

Electricity Consumptions



Electricity Consumptions



Natural Capital

Per employee electricity consumption increased to Rs.24,158 during the year under review, compared to Rs.23,505 consumed in the previous year. However, the electricity usage in Kwh per Rupees 1.0 million Revenue reduced to 365.9 Kwh compared to 417.1 Kwh reported in the previous year.

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	2018			2017		
	kwh	Joules	Rs.	kwh	Joules	Rs.
Region 1	71,532	2.57×10^{11}	1,723,916	68,978	2.48×10^{11}	1,705,963
Region 2	33,406	1.20×10^{11}	805,074	38,525	1.38×10^{11}	878,369
Region 3	32,907	1.18×10^{11}	793,065	41,370	1.48×10^{11}	943,229
Region 4	39,521	1.42×10^{11}	952,452	36,435	1.31×10^{11}	830,716
Region 5	50,397	1.81×10^{11}	1,214,573	60,891	2.19×10^{11}	1,388,315
Region 6	58,345	2.10×10^{11}	1,406,119	46,722	1.68×10^{11}	1,065,272
Region 7	22,118	0.79×10^{11}	533,037	34,144	1.22×10^{11}	776,059
Head Office	175,118	6.30×10^{11}	5,810,186	128,819	4.63×10^{11}	5,104,856
Total	**483,344**	**1.74×10^{12}**	**13,238,422**	**455,884**	**1.64×10^{12}**	**12,692,778**

EMISSIONS

In accordance with the nature of our operations, much of the energy we consumed as in the form of electricity, which is used to power our premises. In addition, 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

		2018			2017		
		Litre	Joules	Rs.	Litre	Joules	Rs.
Head Office	Petrol	30,297	1.04×10^{12}	3,605,372	28,878	9.95×10^{11}	3,105,714
	Diesel	8,034	3.07×10^{11}	771,245	5,806	2.22×10^{11}	551,612
Branches	Petrol	78,952	2.72×10^{12}	9,395,334	77,869	2.68×10^{12}	10,617,333
	Diesel	-	-	-	-	-	-
Total	**Petrol**	**109,250**	**3.76×10^{12}**	**13,000,706**	**106,747**	**3.67×10^{12}**	**13,723,047**
	Diesel	**8,034**	**3.07×10^{11}**	**771,245**	**5,806**	**2.22×10^{11}**	**551,612**

1 litre of fuel (Petrol) = 34.46×10^{6} in joules
1 litre of fuel (Diesel) = 38.31×10^{6} in joules

Per employee fuel consumption reduced to Rs.25,131 during the year under review, compared to Rs.26,435 consumed in the previous year. Accordingly, the fuel usage in Litres per Rupees 1.0 million Revenue reduced to 88.8 Litres, compared to 103.0 Litres consumed in the previous year.

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

Region	2018			2017		
	Litre	Joules	Rs.	Litre	Joules	Rs.
Region 1	13,937	$4.80x10^{11}$	1,658,483	13,731	$4.73x10^{11}$	1,875,367
Region 2	10,446	$3.59x10^{11}$	1,243,071	9,360	$3.22x10^{11}$	1,275,701
Region 3	7,992	$2.75x10^{11}$	951,091	9,067	$3.12x10^{11}$	1,235,871
Region 4	11,752	$4.04x10^{11}$	1,398,457	8,920	$3.07x10^{11}$	1,215,773
Region 5	9,731	$3.35x10^{11}$	1,157,985	12,803	$4.41x10^{11}$	1,745,097
Region 6	16,347	$5.63x10^{11}$	1,945,290	14,710	$5.06x10^{11}$	2,005,007
Region 7	8,731	$3.00x10^{11}$	1,038,983	9,233	$3.18x10^{11}$	1,258,518
Head Office	38,348	$1.32x10^{12}$	4,378,592	34,728	$1.19x10^{12}$	3,663,325
Total	**117,283**	**$4.04x10^{12}$**	**13,771,951**	**112,553**	**$3.87x10^{12}$**	**14,274,659**

WASTE MANAGEMENT

Waste generation is primarily bio degradable food waste and administrative waste. We attempt to reduce paper waste by reusing. As a policy, all staff are educated to re-use the used A4 papers for all internal communications and limit use of new A4 papers for external and Board level communications. We upgraded our IT system during the reporting year by introducing an on-line work-flow-management process for loan approvals which helped SDF in reducing paper consumption sizably.

“I find my job extremely fulfilling. I help people see better because SDF stepped in to help me see my own potential.”

Financial Reports

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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 2018.

This Report was approved by the Directors at its meeting held on 31st May 2018.

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 'Arthadharma Kendraya', No. 45, Rawathawatte Road, Moratuwa. Other contact details are given under Corporate Information.

BRANCH NETWORK

As at 31st March 2018, the Company's branch network comprised 30 Branch Offices and 21 Customer Service Centres (CSCs) within the purview of seven Regional Offices (pages 222 to 225). 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, the standalone operations of one (1) CSC were discontinued and merged same with the operations of the branch that it was assigned to for better servicing the customers of those locations. Two (2) branches were rebranded and strategically relocated with greater visibility to enable our customers in those strategic locations to have easy access to our products and services. This move not only helped to retain the existing customers but also helped to attract new customers.

The Company has written to Central Bank seeking approval to convert fourteen (14) best performing CSCs to branches so as to provide extended services, including servicing customer deposits, to our valued customers in those locations. 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 13) and the Chief Executive Officer's Review (pages 14 to 17) 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 83 to 141). A detailed report on Assessing and Managing Risk is given in page 70.

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 158 to 216), have been prepared in accordance with the Sri Lanka Accounting Standards and the Sri Lanka Financial Reporting Standards (SLFRSs /LKASs), which came into effect in January 2012.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm by declaration (pages 151 and 152) 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 2018.

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 2018 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 154) 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 156 and 157).

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 on the pages 162 to 216 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

The Company has carried out a substantial revision to its Articles of Association during the year under review 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 2017 to 31st March 2018.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

The Company recorded a total interest income of Rs.1,179.6 Million (Rs.883.8 Million in year 2017) for the year ended 31st March 2018. This represents a growth of total interest income by Rs.295.8 Million or 33.5% compared to the previous year. A more descriptive analysis of the interest income is given in note no. 7.1 (page 169) to these Financial Statements.

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

Profit and Appropriations

The Company recorded a profit after tax of Rs. 80.5 Million (a loss after tax of Rs. 34.5 Million in year 2017) for the year ended 31st March 2018. This represents a growth of Rs. 115.0 Million or 333.1% compared to the previous year. The Company recorded a total comprehensive income of Rs. 87.8 Million (a total comprehensive loss of Rs. 38.8 Million in year 2017) for the year ended 31st March 2018.

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.15.3 Million to the Company's 'Statutory Reserve Fund' during the year under review. The Board of Directors did not transfer any amount to the 'Statutory Reserve Fund' of the Company for the year ended 31st March 2017 due to reported loss in the said year.

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

	2018 Rs. ('000)	2017 Rs. ('000)
Profit /(Loss) After Taxation	80,485.23	(34,535.47)
Profit Brought Forward from Previous Year	90,646.93	129,410.91
Transfers from Reserves	-	-
Profit Available for Appropriation	171,132.16	94,875.44
Appropriations		
Dividend Paid for Current Year	-	-
Other Comprehensive Income	(3,830.83)	(4,228.50)
Transfer to Reserves	(15,330.88)	-
Revaluation of Land & Building	(611.97)	-
Total Appropriation	(19,773.68)	(4,228.50)
Un-appropriated Profit Carried Forward	151,358.48	90,646.94

Dividend on Ordinary Shares

The Board of Directors recommended payment of final dividend of Cents 53 per share for the year under review. Details of information on dividends are given in note no 16 to the Financial Statements on page 175.

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred on Property, Plant and Equipment (including capital work in progress) of the Company in the year ended 31st March 2018 amounted to Rs. 24.2 Million (Rs. 88.6 Million in year 2017). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no. 26.1, to these Financial Statements.

During the financial year under review, Company revalued its land and building as at 31st March 2018 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. 26.2 to these Financial Statements.

STATED CAPITAL

The stated capital of the Company as at 31st March 2018 amounted to Rs.890 Million (Rs. 890 Million as at 31st March 2017). 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. 244.6 million (156.8 million in year 2017) at the end of the financial year.

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

	2018 Rs. ('000)	2017 Rs. ('000)
Statutory Reserve Fund	35,714.03	20,383.15
Investment Fund	-	-
Revaluation Reserve	57,539.24	45,744.83
Retained Earnings	151,358.48	90,646.93
Total	**244,611.75**	**156,774.91**

CONTINGENT LIABILITIES

There were no material contingent liabilities as at the reporting date except as disclosed in note no 37 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 37.3 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 39 on page 205 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, listed under directors' shareholdings, 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 Directors, 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	31.03.2018	31.03.2017
Dr. Vinya Ariyaratne	1	1
Mr. Shakila Wijewardena	1	1

DIRECTORATE

On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Company appointed Mr. Chamindha Samantha Rajakaruna as a Non-Executive, Non-Independent Director w.e.f. 01st November 2017.

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
Mr. Shakila Wijewardena	Non-Executive, Non Independent Director
Mr. K L Gunawardana	Non-Executive, Non Independent Director
Mr. Shevon Gooneratne	Non-Executive, Independent Director
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
Mr. Chamindha Samantha Rajakaruna	Non-Executive, Non-Independent Director *(Appointed as a Non-Executive, Non-Independent Director w.e.f. 01st November 2017)*

The ten-member Board of Directors is 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 18 to 23.

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 38.

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 year under review 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 2018 and included in this Annual Report.

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

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 Internal Credit Committee (ICC) and (v) the Product Development Committee (PDC). Composition of these Committees as at 31st March 2018, appear on pages 41 to 43.

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 2018 and 31st March 2018 are stated below and disclosed under note no 40.1.1 to these Financial Statements on page 205.

	2018 Rs. ('000)	2017 Rs. ('000)
Directors' Fees and Emoluments	5,609.52	5,744.44

CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 34 to 69, 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 155 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 2.0 (8.0) on page 49 in the Company's report on Corporate Governance.

The AGM –Risk Management and Acting Compliance Officer is given with the responsibility to coordinate with the Directors and collect the responses, and submit to the Board and discuss at the Board Meeting. The Directors' self-assessments was discussed at the Board meeting held in the month of May 2018.

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. Board evaluation for the year under review was discussed at the Board Meeting held in the month of April 2018.

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 28th June 2018.

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 IT system audit that E & Y have carried out as a separate assignment.

	2018 Rs. ('000)	2017 Rs. ('000)
Audit and Related Services	1,992.93	1,796.85
Non Audit Services	1,629.14	940.85

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 154) confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Company has obtained a certificate from the External Auditors on the effectiveness of the Internal Control mechanism (page 155).

PREPARATIONS FOR ADOPTING NEW REGULATIONS

i. New Inland Revenue ACT

The Company has taken necessary steps to assess the implications of the new Inland Revenue Act which will become effective from April 1, 2018.

ii. New Accounting Standards

- Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments: Classification and Measurement) SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods starting on or after 1st January 2018 with early adoption permitted.

  The Company took several initiatives in early 2017 including various deliberations at the Board Audit Committee (BAC) and Board level for early preparations of the implementation of this standard. The BAC set up a multi-disciplinary team with technical expertise to initiate the implementation project with the Company's auditors, Ernst & Young. The Chief Executive Office and Deputy General Manager –Finance and Planning provided the necessary guidance and advice in the implementation process.

  The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions. Company performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and Implementation Phase (solution development) on SLFRS 9 Financial Instruments and developed the required financial models and calculated the potential impact of the new requirement based on 31st March 2018. It is anticipated that the impact will be significant to the Company.

- Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contracts with Customers)
  SLFRS 15 will replace existing 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.

  It is anticipated that the new standard will not have a significant impact on the financial statements of the Company. The Company is evaluating the impact of other revenue contracts currently.

- 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 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 Seventh Annual General Meeting of the Company is given on page 230

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

Dr. Vinya Ariyaratne
Director

BDO Secretaries (Pvt) Limited
Company Secretaries

31st May 2018

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditors' Report on page 156 and 157 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 2018, exhibited on pages 158 to 216 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 on pages 156 and 157 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 2018 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

Directors' Responsibility for Financial Reporting

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

31st May 2018

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 2018 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 (LKSs/SLFRSs)
- 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' on pages 71 and 72 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 on pages 156 and 157 to 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 37.3 on page 204 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

Dharmasiri Wickramatilake
Chief Executive Officer

31st May 2018

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 AGM – Risk Management and Acting Compliance 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 AGM –Alternative Channels and Acting Head of Audits 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) and the committees on Credit and Product Development 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 both its Head and Corporate Offices 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 155.

By order of the Board,

Channa de Silva
Chairman / Chairman, Board Audit Committee

31st May 2018

Independent Assurance Report to the Board of Directors on Internal Control

Building a better working world

Ernst & Young
Chartered Accountants
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ey.com

KHRC/ AKM

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

INTRODUCTION

We were engaged by the Board of Directors of Sarvodaya Development Finance Limited ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2018.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3000

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000.

SUMMARY OF WORK PERFORMED

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

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

SLSAE 3000 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 3000 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

OUR CONCLUSION

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

Ernst & Young

31 May 2018
Colombo

Independent Auditors' Report

EY
Building a better working world

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KHRC/ AKM

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

REPORT ON THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Sarvodaya Development Finance Limited, which comprise the statement of financial position as at 31st March 2018, and the statement of 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 give a true and fair view of the financial position of the Company as at 31st March 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

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

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.
- 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

31 May 2018
Colombo.

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Notes	2018 Rs.	2017 Rs.
Income	6	1,320,761,083	1,092,958,179
Interest Income		1,179,563,193	883,758,122
Interest Expenses		(416,598,838)	(280,902,184)
Net Interest Income	7	762,964,355	602,855,938
Net Fee and Commission Income	8	30,837,094	25,719,759
Other Operating Income	9	110,360,797	183,480,298
Total Operating Income		904,162,245	812,055,995
Impairment Charges for Loans and Other Losses	10	(89,116,323)	(172,259,081)
Net Operating Income		815,045,922	639,796,914
Operating Expenses			
Personnel Expenses	11	(322,738,479)	(361,457,648)
Depreciation of Property, Plant and Equipment	26	(46,923,650)	(40,736,446)
Amortisation of Intangible Assets	25	(11,263,143)	(6,683,064)
Other Operating Expenses	12	(249,265,028)	(226,751,183)
Operating Profit Before Tax on Financial Services		184,855,622	4,168,574
Tax on Financial Services	13	(70,751,368)	(48,027,957)
Profit/(Loss) Before Taxation		114,104,254	(43,859,383)
Income Tax Expenses	14	(33,619,018)	9,323,911
Profit/(Loss) for the Year		80,485,235	(34,535,473)
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	31	(3,346,548)	(6,311,370)
Gain/(Loss) due to Changes in Assumptions	31	(1,974,056)	-
Deferred Tax (Charge)/Reversal on Above Items		1,489,769	2,082,867
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		(3,830,835)	(4,228,503)
Surplus from Revaluation of Property, Plant & Equipment		11,794,414	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		(611,972)	-
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		11,182,442	-
Other Comprehensive Income for the Year, Net of Tax		7,351,608	(4,228,503)
Total Comprehensive Income/(Expenses) for the Year		87,836,843	(38,763,976)
Basic Earnings Per Share (Rs.)			
Earning per Share - Basic *	15	1.19	(0.51)
Dividend per Share (Rs.) **			
Dividend per Share : Gross	16	0.53	-
Dividend per Share : Net		0.46	-

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

** Calculated based on proposed final dividend which is to be approved at the Annual General Meeting

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Notes	2018 Rs.	2017 Rs.
Assets			
Cash and Cash Equivalents	19	116,978,318	138,046,068
Loans and Receivables	20	4,697,449,566	3,477,040,068
Lease Rentals Receivables	21	611,054,718	283,558,784
Financial Investments	22	282,268,953	268,211,272
Other Financial Assets	23	207,371,048	282,577,503
Other Non Financial Assets	24	90,613,760	64,336,684
Income Tax Refund		-	29,768
Intangible Assets	25	35,134,360	36,694,563
Property, Plant and Equipment	26	308,724,162	321,409,381
Deferred Tax Asset	27	-	988,885
Total Assets		6,349,594,884	4,872,892,976
Liabilities			
Due to Banks and Other Institutions	28	463,277,223	75,855,963
Due to Customers	29	4,624,835,030	3,563,699,800
Other Non Financial Liabilities	30	73,488,805	165,765,352
Post Employment Benefit Liability	31	26,415,691	20,796,934
Current Tax Liabilities		11,051,013	-
Deferred Tax Liabilities	27	15,915,351	-
Total Liabilities		5,214,983,113	3,826,118,050
Shareholders’ Funds			
Stated Capital	32	890,000,020	890,000,020
Retained Earnings	33	151,358,483	90,646,934
Reserves	34	93,253,268	66,127,972
Total Shareholders’ Funds		1,134,611,770	1,046,774,926
Total Liabilities and Shareholders’ Funds		6,349,594,884	4,872,892,976
Net Assets Value Per Share		16.8	15.5
Commitments and Contingencies	37	15,500,000	15,850,000

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

Dharmasiri Wickramatilake
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

Dr. Vinya Ariyaratne
Director

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

31st May 2018

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 2016		890,000,020	129,410,910	20,383,147	45,744,825	1,085,538,902
Profit/(Loss) for the Year		-	(34,535,473)	-	-	(34,535,473)
Other Comprehensive Income/(Expenses)		-	(4,228,503)	-	-	(4,228,503)
Transfer from Investment Fund Reserve	34	-	-	-	-	-
Balances as at 31 March 2017		890,000,020	90,646,934	20,383,147	45,744,825	1,046,774,926
Profit for the Year		-	80,485,235	-	-	80,485,235
Other Comprehensive Income/(Expenses)		-	(3,830,835)	-	-	(3,830,835)
Transfer to Statutory Reserves Fund	34	-	(15,330,880)	15,330,880	-	-
Revaluation of Land & Building		-	(611,972)	-	11,794,414	11,182,442
Balances as at 31 March 2018		890,000,020	151,358,482	35,714,027	57,539,239	1,134,611,770

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

Statement of Cash Flow

Year ended 31 March	Notes	2018 Rs.	2017 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		114,104,254	(43,859,383)
Adjustments for			
Impairment Provision	8	89,116,323	172,259,081
Profit from Sale of Subsidiary		-	(100,280,782)
Reversal of Provision of Loan Risk Assurance Benefit Fund		(6,835,413)	(15,116,703)
Loss/(Profit) on Disposal of Property, Plant and Equipment	9	1,087,861	(877,984)
Provision for Defined Benefit Plans	26	6,739,853	5,778,323
Depreciation of Property, Plant and Equipment		46,923,650	40,736,446
Amortisation of Intangible Assets		11,263,143	6,683,064
Notional Tax Credit on Interest on Treasury Bills		2,940,945	2,547,619
Operating Profit before Working Capital Changes		265,340,615	67,869,680
(Increase)/Decrease in Loans and Advances	20	(1,305,957,454)	(880,648,372)
(Increase)/Decrease in Lease Rentals Receivable		(331,064,301)	(286,341,389)
(Increase)/Decrease in Other Financial Assets	23	72,265,510	(49,717,939)
(Increase)/Decrease in Other Non Financial Assets	24	(26,277,076)	14,629,864
Increase/(Decrease) in Amounts Due to Customers		1,061,135,230	493,282,390
Increase/(Decrease) in Other Non Financial Liabilities		(87,336,547)	73,292,189
Cash Generated from Operations		(351,894,023)	(567,633,576)
Retirement Benefit Liabilities Paid		(6,441,700)	(7,381,000)
Net Collection of LRAB Fund		1,895,413	10,693,703
Income Tax Paid		(4,756,204)	(9,501,353)
Net Cash From/(Used in) Operating Activities		(361,196,513)	(573,822,226)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		671,563	7,262,685
Acquisition of Property, Plant and Equipment	26	(24,203,439)	(88,578,227)
Acquisition of Intangible Assets	25	(9,702,939)	(12,934,325)
Financial Investments	22	(14,057,681)	(25,034,121)
Net Cash Received from Sale of Subsidiary		-	479,755,667
Net Cash Flows from/(Used in) Investing Activities		(47,292,497)	360,471,680
Cash Flows from / (Used in) Financing Activities			
Payment under Finance Lease Liabilities		-	-
Net Cash Flow from Bank and Other Institutional Borrowings		267,602,520	(5,389,218)
Net Cash Flow from Debt Issued and Other Borrowings		-	-
Net Cash Flows from/(Used in) Financing Activities		267,602,520	(5,389,218)
Net Increase in Cash and Cash Equivalents		(140,886,491)	(218,739,764)
Cash and Cash Equivalents at the Beginning of the Year		88,026,341	306,766,105
Cash and Cash Equivalents at the End of the Year	A	(52,860,149)	88,026,341
A Cash and Cash Equivalents at the End of the Year			
Favourable Cash & Cash Equivalents		116,978,318	138,046,068
Unfavourable Cash & Cash Equivalents		(169,838,466)	(50,019,727)
Total Cash and Cash Equivalents at the end of the year	19	(52,860,149)	88,026,341

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

Notes to the Financial Statements

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 "Arthadharma Kendraya", No 45, Rawatawatte Road, Moratuwa 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 2018 (including comparatives) have been approved and authorized for issue by the Board of Directors on 31 May 2018.

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 158). Statement of Financial Position provides the information on the financial position of the Company as at the year end (Refer page 159). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 160). 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 161) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 162 to 216).

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
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 26	Page 188
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 31	Page 198

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 35 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 10)
- Deferred Taxation (Details under note 27)
- Post-Employment Benefit Liability (Details under note 31)
- Related Party Transactions (Details under note 40)
- Fair Value of Financial Instruments (Details under note 18)

3.2 Financial Instruments
Initial Recognition Date

All financial assets and liabilities are initially recognized on the trade date; i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per Sri Lanka Accounting Standard - LKAS 39, 'Financial Instruments: Recognition and Measurement'.

Classification and Subsequent Measurement of Financial Assets

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

- At fair value through profit or Loss
  - Held-for-trading; or
  - Designated at fair value through profit or loss
- Loans and Receivables
- Available-for-Sale; or
- Held-to-Maturity

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

Notes to the Financial Statements

Financial Liabilities at Fair Value through Profit or Loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value though profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered by the Company that are not designated as hedging instruments in hedge relationships as defined by Sri Lanka Accounting Standards -LKAS 39, 'Financial Instruments: Recognition and Measurement'.

Gains or losses on liabilities fair value through profit or loss are recognised in the Statement of Profit or Loss.

The Company has not designated any financial liabilities upon recognition, at fair value though Profit or Loss.

Other Financial Liabilities
Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as 'other financial liabilities', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinate debts.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR.

Derecognition of Financial Assets and Financial Liabilities

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an 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 that the Company could be required to repay.

b) Financial Liabilities
A financial liability is derecognized 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 recognized in the Statement of Profit or Loss.

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

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

The Company may reclassify a non-derivative trading asset out of the 'held-for-trading' category and in to the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increase its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

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

3.3 Impairment of Non-Financial Assets

The Company assesses at each Statement of Financial Position date whether there is an indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each Statement of Financial Position date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Financial Statements. Accordingly, the following Accounting standards and interpretations have not been applied in preparing these Financial Statements plans to apply these standards on the respective effective dates.

Sri Lanka Accounting Standard - LFRS 9 (Financial Instruments: Classification and Measurement)

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted.

The Company took several initiatives in early 2017 including various deliberations at the Board Audit Committee (BAC) and Board level for early preparations of the implementation of this standard. The BAC set up a multi-disciplinary team with a high technical expertise to initiate the implementation project with the Company's auditors, Ernst & Young. The Chief Executive Office and Deputy General Manager –Finance and Planning provided the necessary guidance and advice in the implementation process.

Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business Model Assessment

Company determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives.

Notes to the Financial Statements

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 asset held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affects the performance of the business model (and the financial asset 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 value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales are also important aspect of Company's assessment

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios in to account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectation, 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

Contractual Cash flow Characteristic Test

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle & Interest (SPPI)

'Principle' 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 principle or amortization 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 SPPI assessment, the Company applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminis exposure to risk 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 the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date.

The Company has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below:

Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed collectively.

Stage 3: Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed individually/Collectively.

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30 days past due
- Rating of the financial instrument is below investment grade
- Downgrade movement in the external ratings of the instrument – i.e.: movement result in doubling of PD

Grouping financial assets measured on a collective basis

As explained above, Company calculates ECL on a collective or individual basis. Asset classes where Company calculates ECL on an Individual basis includes All Individually Significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment. The Company does not have any assets classes which falls into stage 3 category where individual impairment is required.

Company groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the premium receivable as described below:

- Product /Asset Type
- Type of Collateral
- Days Past Due
- Industry

The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.

LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward-looking Information

In it's ECL model Company relies on broad range qualitative/quantitative forward-looking information as economic input such as:

Quantitative

- GDP Growth
- Inflation
- Average LTV
- Interest Rates
- Unemployment

Qualitative

- Government Policies
- Status of the Industry Business
- Regulatory Impact

Company performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and Implementation Phase (solution development) on SLFRS 9 Financial Instruments and calculated the potential impact of the new requirement based on 31st March 2018. It is anticipated that the impact will be significant to the Company. The resulting increase in the impairment charge will be treated through the Statement of Changes in Equity when preparing the audited financial statements for the financial year ending 31st March 2019. The Company has also undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contracts with Customers)

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

Either a full retrospective application or a modified retrospective application is required for 1 January 2018.Contracts within the scope of SLFRS 4 Insurance Contracts are scope out according to scope (paragraph 5 (b)) of SLFRS 15. The Company is evaluating the impact of other revenue contacts currently.

Notes to the Financial Statements

Sri Lanka Accounting Standard - SLFRS 16 (LEASES)

SLFRS 16 will replace Sri Lanka Accounting Standard – 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. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17.
The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases. SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, Lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The impact on the implementation of the above Standard has not been quantified yet.

IFRIC Interpretation 23 : Uncertainty over income tax treatment

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard - LKAS 12 (Income tax) and does not apply to taxes or levies outside the scope of Sri Lanka Accounting Standard - LKAS 12 (Income tax), nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following;

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

How an entity considers changes in facts and circumstances. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, the Company may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

5. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company are consistent with those used in the previous financial year.

6. 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.

	2018 Rs.	2017 Rs.
Interest Income	1,179,563,193	883,758,122
Net Fee and Commission Income	30,837,094	25,719,759
Other Operating Income (net)	110,360,797	183,480,298
Total Income	1,320,761,083	1,092,958,179

7. 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.

Interests from overdue rentals have been accounted for on a cash received basis.

	2018 Rs.	2017 Rs.
7.1 Interest Income		
Loans and Receivables	1,031,487,663	788,179,275
Lease Rentals Receivables	93,523,012	16,442,769
Financial Investments (Note 7.3)	29,409,449	25,476,186
Savings Deposits	5,847,396	13,776,659
Other Financial Assets	19,295,673	39,883,233
Total Interest Income	1,179,563,193	883,758,122
7.2 Interest Expenses		
Due to Bank and Other Institution	23,679,095	4,122,634
Due to Customers	392,919,743	276,779,550
Total Interest Expenses	416,598,838	280,902,184
Net Interest Income	762,964,355	602,855,938

Notes to the Financial Statements

7. NET INTEREST INCOME (CONTD.)

7.3 Notional tax credit on secondary market transactions

According to section 137 of the Inland Revenue Act No. 10 of 2006, Net Interest Income of the Company derived from the secondary market transactions in Treasury Bills and Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on such securities, bonds or bills less interest expenses on repurchase transaction with securities, Treasury Bonds or Treasury Bills from which such interest income was earned) for the period 1st April 2017 to 31st March 2018 has been grossed up by Rs. 2,940,945/- (2017 : Rs. 2,547,619/-) for the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

8 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.

	2018 Rs.	2017 Rs.
8.1 Fee and Commission Income		
Credit Related Fees and Commissions	9,965,335	11,285,327
Documentation Charges	28,060,578	17,507,998
Service Charge	719,470	400,368
Total Fee and Commission Income	38,745,383	29,193,693
8.2 Fee and Commission Expenses		
Credit Related Fees and Commissions	6,687,575	3,473,934
Documentation Charges	137,324	-
Service Charge	1,083,389	-
Total Fee and Commission Expenses	7,908,289	3,473,934
Total Net Fee and Commission Income	30,837,094	25,719,759

9 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.

	2018 Rs.	2017 Rs.
Recoveries of Written-Off Loans & Receivables	90,304,250	58,848,069
Profit/(Loss) on Disposal of Property Plant & Equipment	(1,087,861)	877,984
Net Gain from Sale of Subsidiary	-	100,280,782
Reversal of Provision of Loan Risk Assurance Benefit Fund	6,835,413	15,116,703
Other Sundry Income (Note 9.1)	14,308,995	8,356,760
Total Other Operating Income	110,360,797	183,480,298

9.1 Other Sundry Income included Savings Accounts Threshold Charges, Office Rent Re-imbursements, Training Income, Stationery Income, Profit /(Loss) from Pawning Auctions and other.

10 IMPAIRMENT CHARGES /(REVERSAL) FOR LOANS AND OTHER LOSSES

Accounting Policy

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 39: Financial Instruments: Recognition and Measurement. The methodology adopted by the Company is explained in Note 20.3 to these Financial Statements.

	2018 Rs.	2017 Rs.
Loans and Receivables Excluding Pawing Advance	85,412,155	170,414,363
Finance Lease Rental Receivables	3,568,367	2,782,605
Pawning Advances	135,800	(937,887)
Total Impairment Charges for Loans and Other Losses	89,116,323	172,259,081

11 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 Statements

11 PERSONNEL EXPENSES (CONTD.)

Year ended 31 March	2018 Rs.	2017 Rs.
Salaries and Other Related Expenses	**285,828,651**	320,442,118
Employer's Contribution to Employees' Provident Fund	**21,486,145**	23,364,478
Employer's Contribution to Employees' Trust Fund	**5,356,320**	5,839,325
Gratuity Charge for the Year	**6,739,853**	5,778,323
Other Staff Related Expenses	**3,327,511**	6,033,404
Total Personnel Expenses	**322,738,479**	361,457,648

12 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.

	2018 Rs.	2017 Rs.
Directors' Emoluments	**5,609,524**	5,744,444
Auditors Remuneration	**1,873,265**	1,914,805
Professional and Legal Expenses	**2,094,476**	4,811,581
Deposit Insurance Premium	**5,258,314**	4,595,993
General Insurance Expenses	**2,805,596**	2,786,781
Office Administration and Establishment Expenses	**177,920,285**	167,440,474
Travelling & Transport Expenses	**23,497,745**	10,610,144
Other Expenses	**126,000**	4,611,089
Marketing and Promotional Expenses	**30,079,824**	24,235,872
Total Other Operating Expenses	**249,265,028**	226,751,183

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 1st 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.

13 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.

	2018 Rs.	2017 Rs.
Value Added Tax on Financial Services	62,407,111	42,081,318
National Building Tax on Financial Services	8,344,258	5,946,639
Total Tax on Financial Services	70,751,368	48,027,957

14 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 tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 27 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% (2016 - 28%).

The components of the income tax expense for the years ended 31 March 2018 and 2017 are:

	2018 Rs.	2017 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 14.1)	9,345,181	-
(Over) / Under Provision in Respect of 2012/2013 (Note 14.2)	11,042,645	-
(Over) / Under Provision in Respect of 2013/2014 (Note 14.2)	(4,550,840)	-
(Over) / Under Provision in Respect of 2015/2016	-	(39,551)
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 27.2)	17,782,033	(9,284,360)
Total Tax Expenses	33,619,018	(9,323,911)

Notes to the Financial Statements

14 INCOME TAX EXPENSES (CONTD.)

14.1 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.

	2018 Rs.	2017 Rs.
Profit Before Tax	**114,104,254**	(43,859,383)
Add : Disallowable Expenses	**224,016,830**	232,601,592
Taxable Loss on Leasing Business	**41,630,728**	-
Less: Tax Deductible Expenses	**(286,202,417)**	(144,400,557)
Disallowable Income	**(42,202,248)**	(101,158,766)
Adjusted Profit / (Loss) for Tax Purposes	**51,347,146**	(56,817,114)
Assessable Income	**51,347,146**	-
Less - Allowable Losses	**(17,971,501)**	-
Taxable Income	**33,375,645**	-
Income Tax @ 28%	**9,345,181**	-
Income Tax on Current Year's Profit	**9,345,181**	-
Effective Tax Rate		

14.2 (Over) / Under Provision in Respect of Y/As 2012/13 and 2013/14

The IRD has finalized tax assessments which were issued for Y/A 2012/13 and Y/A 2013/14 with disallowing 1 % allowable provision claimed against the actual provision made as per LKAS 39. The basis determined by the IRD for disallowing this is, according to the Section 25(1) (eee) of the Inland Revenue Act, No.10 of 2006. Only such sum the Commissioner General considers as reasonable for doubtful debts could be deducted in asserting the taxable profit of the Company. Accordingly, the collective impairment charges provided for FY 2012/2013 was determined as not reasonable by IRD. Further, the IRD has disallowed impairment reversal which was recorded in 2013/14 against the disallowable provision recorded under FY 2012/13.

15 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':

	2018 Rs.	2017 Rs.
Amount Used as the Numerator		
Profit Attributed to Ordinary shareholders	**80,485,235**	(34,535,473)
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.)	**1.19**	(0.51)

16 DIVIDEND PAID AND PROPOSED

Provision for the final dividend is recognized at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders in accordance with section 56(1) (b) of the Companies Act No. 07 of 2007.

The Board of Directors of the Company has recommended distribution of final dividend of Cents 53 per share for the year ended 31 March 2018. The Board of Directors did not recommend distribution of dividend for the year ended 31st March 2017.

16.1 Final Dividend Proposed for the Year - 2017/18 Respectively

	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

In accordance with Sri Lanka Accounting Standard - LKAS 10 "Event after the Reporting Period", above proposed final divined has been recognised as a liability as at the year end.

17 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

	2018 Loans and Receivable Rs.	2018 Total Rs.	2017 Loans and Receivable Rs.	2017 Total Rs.
Assets				
Cash and Cash Equivalents	116,978,318	116,978,318	138,046,068	138,046,068
Loans and Receivables	4,697,449,566	4,697,449,566	3,477,040,068	3,477,040,068
Lease Rentals Receivables	611,054,718	611,054,718	283,558,784	283,558,784
Financial Investments	282,268,953	282,268,953	268,211,272	268,211,272
Other Financial Assets	207,371,048	207,371,048	282,577,503	282,577,503
Total Financial Assets	5,915,122,603	5,915,122,603	4,449,433,694	4,449,433,694
	2018 Amortized Cost Rs.	**2018 Total Rs.**	**2017 Amortized Cost Rs.**	**2017 Total Rs.**
Liabilities				
Due to Banks and Other Institutions	463,277,223	463,277,223	75,855,963	75,855,963
Due to Customers	4,624,835,030	4,624,835,030	3,563,699,800	3,563,699,800
Total Financial Liabilities	5,088,112,253	5,088,112,253	3,639,555,764	3,639,555,764

Notes to the Financial Statements

18 FAIR 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.

18.1 Determination of Fair Value and Fair Value Hierarchy

	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2018 Rs.
Financial Assets					
Cash and Cash Equivalents	116,978,318	-	-	116,978,318	116,978,318
Loans and Receivable	-	-	4,358,878,195	4,358,878,195	4,697,449,566
Lease Rentals Receivables	-	-	782,454,072	782,454,072	611,054,718
Financial Investments	-	282,268,953	-	282,268,953	282,268,953
Other Financial Assets	-	207,371,048	-	207,371,048	207,371,048
Total Financial Assets	-	489,640,001	5,141,332,267	5,747,950,586	5,915,122,603
Financial Liabilities					
Due to Banks and Other Institutions	-	463,277,223	-	463,277,223	463,277,223
Due to Customers	-	-	4,624,857,704	4,624,857,704	4,630,914,413
Total Financial Liabilities	-	463,277,223	4,624,857,704	5,088,134,927	5,094,191,635

	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2017 Rs.
Financial Assets					
Cash and Cash Equivalents	138,046,068	-	-	138,046,068	138,046,068
Loans and Receivable	-	-	3,697,316,985	3,697,316,985	3,477,040,068
Lease Rentals Receivables	-	-	286,341,389	286,341,389	283,558,784
Financial Investments	-	268,211,272	-	268,211,272	268,211,272
Other Financial Assets	-	282,577,503	-	282,577,503	282,577,503
Total Financial Assets	138,046,068	550,788,775	3,983,658,374	4,672,493,216	4,449,433,694
Financial Liabilities					
Due to Banks and Other Institutions	-	75,855,963	-	75,855,963	75,855,963
Due to Customers	-	-	3,563,699,800	3,563,699,800	3,563,699,800
Total Financial Liabilities	-	75,855,963	3,563,699,800	3,639,555,764	3,639,555,764

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Notes to the Financial Statements

18 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Assets & Liabilities for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits and savings deposits which doesn't have a specific maturity. Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books. (Cash and Cash Equivalents, Financial Investments , Other Financial Assets)

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year.

Lease Rentals Receivable

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses and applicable spreads to approximate current rates. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivable is the vehicle financed, gold or other property. The fair value of finance receivables is categorized within Level 3 of the fair value measurement hierarchy. Loans and advances granted to customers with a variable rate are considered to be carried at fair value in the books net of credit losses.

Due to Customers

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest). The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Certificate of deposits that have a maturity of less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of Due to Customers is categorized within Level 3 of the hierarchy.

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	2018 Rs.	2017 Rs.
Cash in Hand	49,855,664	40,921,997
Balances with Banks	67,122,654	97,124,071
Total Cash and Cash Equivalents	116,978,318	138,046,068

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.

	2018 Rs.	2017 Rs.
Favourable Cash & Cash Equivalents (Note 19)	**116,978,318**	138,046,068
Unfavourable Cash & Cash Equivalents (Note 28)	**(169,838,466)**	(50,019,727)
Cash & Cash Equivalents for Cash Flow Purposes	**(52,860,148)**	88,026,341

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.

	2018 Rs.	2017 Rs.
Gross Loan and Receivables	**4,840,400,680**	3,697,316,985
Less : Allowance for Impairment Charges for Loans and Receivables (Note 20.3)	**(142,951,114)**	(220,276,917)
Net Loans and Receivables	**4,697,449,566**	3,477,040,068
20.1 Gross Loans and Receivables - By Product		
Micro Personnel Loan	**718,161,031**	310,927,599
SME Loan	**1,255,950,895**	396,280,885
Micro Business Loan	**776,802,024**	674,067,218
Housing Loan	**977,818,923**	695,319,195
Cash Margin	**493,771,621**	265,209,148
Sarvodaya Society Loan	**159,595,585**	180,432,602
Staff Loan	**4,063,007**	3,117,983
Pawning Advance	**20,200,826**	2,269,609
Other Loan	**434,036,769**	1,169,692,744
Total Gross Loan and Receivable	**4,840,400,680**	3,697,316,985

Notes to the Financial Statements

20 LOANS AND RECEIVABLES (CONTD.)

	2018 Rs.	2017 Rs.
20.2 Gross Loans and Receivables - By Province		
Western Province	**1,179,279,059**	928,595,868
Southern Province	**676,759,609**	508,549,565
Central Province	**449,959,198**	387,215,608
North Central Province	**612,350,350**	513,337,192
Uva Province	**380,962,666**	258,310,243
Sabaragamuwa Province	**423,107,797**	316,022,264
Eastern Province	**498,546,468**	312,965,991
North Western Province	**444,490,110**	314,563,183
Northern Province	**174,945,423**	157,757,071
Total Gross Loan and Receivable	**4,840,400,680**	3,697,316,985

The province-wise disclosure is made based on the location of the branch from which the loan has been disbursed.

	2018 Rs.	2017 Rs.
20.3 Gross Loans and Receivables - By Industry		
Agriculture & Fishing	**1,540,141,621**	980,709,299
Manufacturing	**370,591,522**	399,868,730
Tourism	**21,260,040**	9,303,426
Transport	**33,783,682**	25,793,375
Constructions	**385,662,838**	513,769,792
Trades	**655,527,066**	615,234,308
New Economy	**22,683,436**	16,383,123
Financial and Business Services	**49,400,843**	38,951,568
Infrastructure	**7,780,034**	8,382,375
Other Services	**922,889,175**	463,737,560
Other Customers	**830,680,424**	625,183,430
Total Gross Loan and Receivable	**4,840,400,680**	3,697,316,985

20.4 Allowance for Impairment Charges for Loans and Receivables

Accounting Policy

The Company assesses at each reporting date, whether there is any objective evidence that loans and receivables are impaired. Loans and receivables 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 loans and receivables that can be reliably estimated.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Statement of Profit or Loss. The carrying amount of impaired loans on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

The allowance for credit losses represents our estimate of the probable loss on the collection of finance receivables from customers as of the balance sheet date. The adequacy of the allowance for credit losses is assessed monthly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. The credit losses are attributable to lease, hire purchase, loans and receivables portfolio.

The uncollectible portion of finance receivables are charged to the provision for impairment when an account is deemed to be uncollectible taking into consideration the financial condition of the customer, borrower or lessee, the value of the collateral, recourse to guarantors and other factors. Recoveries on finance receivables previously taken as impaired are debited to the allowance for credit losses.

Individually Impaired Receivables

The Company review their individually-significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Financial Assets

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 realization; and
- a significant downgrading in credit rating by an external credit rating agency.
- known cash flow difficulties experienced by the borrower;

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

Company's aggregate exposure to the customer;

- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The extent of other creditors' commitments ranking ahead of, or pari-passu with, the Company and the likelihood of other creditors continuing to support the Company;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realisable value of security (or other credit mitigates) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- The likely dividend available on liquidation or bankruptcy;

Notes to the Financial Statements

20 LOANS AND RECEIVABLES (CONTD.)

20.4 Allowance for Impairment Charges for Loans and Receivables (contd.)

f there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset 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 the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Finance receivables that are more than five months in arrears, related to repossessed collaterals, subjected to legal action/ongoing legal action, untraceable or unattainable collaterals, or are determined to be uncollectible, are identified as individually impaired. Impairment is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell. Loss severity/Loss Given Default (LGD) of each category of impaired receivable is assumed to be a vital factor for the allowance for impairment.

The LGD assumptions are based on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding observable changes in recent economic trends and conditions, portfolio composition and other relevant factors.

Collectively Assessed Loans and Receivables

Impairment is assessed on a collective basis to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

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 individually significant.
- For homogeneous groups of loans that is not considered.

The collective impairment is evaluated primarily using net-flow method that based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular accounts that are uncollectible cannot be specifically identified. In addition to the Loss Given Default (LGD), we make projections for Probability of Default (PD) to estimate the collective impairment of future cash flows of loans and receivables.

The net-flow-method is based on the most recent years of history. Each probability of Default (PD) is calculated by dividing default contracts of each age category by beginning-of-period total contacts of each age category. The loss emergence period is a key assumption within our model and represents the average amount of time between when a loss event first occurs and when it is incurred. This time period starts when the borrower begins to experience financial difficulty. It is evidenced, typically through observable data for above average company NPL, historically low collection ratio, historically high rental arrears, and unacceptable low level of business volumes which may result in a portfolio level impairment. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Where ever, historical loss experiences have not yet incurred and/or our historical loss experiences are lower than the industry averages, we may use the industry averages in assessing the probability of default (PD) and loss given default (LGD) of such loans and receivables for prudent recognition and measurement.

Write-off of Loans and Receivables

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

Rescheduled Loan Facilities

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

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, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets .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. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Reversal of Impairment

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

Year ended 31 March	2018 Rs.	2017 Rs.
20.5 Allowance for Impairment Losses on Loans & Receivables		
Balance as at Beginning of the Year	220,276,917	147,582,704
Charge for the Year	85,412,155	170,414,363
Amounts Written Off	(162,737,958)	(97,720,150)
Balance as at End of the Year	142,951,114	220,276,917
Individual Impairment	-	-
Collective Impairment	142,951,114	220,276,917
Total	142,951,114	220,276,917

Notes to the Financial Statements

21 LEASE RENTALS RECEIVABLE

Accounting Policy

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

Lease rental receivable include financial assets 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.

	2018 Rs.	2017 Rs.
21.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	877,201,547	417,577,387
Less: Unearned Income	(259,795,856)	(131,235,997)
Total Lease Rentals Receivables	617,405,690	286,341,389
(Less): Allowance for Impairment Charges (Note 20.2)	(6,350,973)	(2,782,605)
Net Lease Rentals Receivables	611,054,718	283,558,784

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
21.2 Maturity of Lease Rentals Receivables				
Gross Lease Rental Receivables	165,124,364	712,077,182	-	877,201,547
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 20.2)	(3,071,531)	(3,279,442)	-	(6,350,973)
Net Lease Rentals Receivables	50,283,847	560,770,870	-	611,054,718

As at 31 March 2017	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
21.3 Maturity of Lease Rentals Receivables				
Gross Lease Rental Receivables	107,977,472	309,599,915	-	417,577,387
Less: Unearned Income	(50,856,415)	(80,379,582)	-	(131,235,997)
Total Lease Rental Receivables	57,121,057	229,220,333	-	286,341,390
(Less): Allowance for Impairment Charges (Note 20.2)	(2,782,605)	-	-	(2,782,605)
Net Lease Rentals Receivables	54,338,452	229,220,333	-	283,558,785

	2018 Rs.	2017 Rs.
21.4 Gross Lease Rental Receivables - By Province		
Western Province	**344,804,275**	212,462,300
Southern Province	**32,567,702**	19,752,544
Central Province	**79,932,897**	19,086,498
North Central Province	**41,272,855**	9,509,632
Uva Province	**44,126,186**	9,024,096
Sabaragamuwa Province	**26,073,571**	5,008,640
Eastern Province	**12,986,297**	2,438,504
North Western Province	**27,844,940**	8,126,707
Northern Province	**7,796,970**	932,469
Total Gross Lease Rental Receivables	**617,405,690**	286,341,389

	2018 Rs.	2017 Rs.
21.5 Gross Lease and Receivables - By Industry		
Agriculture & Fishing	**144,794,617**	24,592,375
Manufacturing	**28,469,780**	17,125,640
Tourism	**6,863,044**	1,734,720
Transport	**24,702,064**	14,222,215
Constructions	**13,914,768**	8,814,532
Trades	**49,909,608**	18,262,023
New Economy	**6,869,824**	7,959,105
Financial and Business Services	**7,848,509**	11,209,836
Infrastructure	**72,569**	151,571
Other Services	**192,043,133**	110,575,981
Other Customers	**141,917,774**	71,693,391
Total Gross Lease Rental Receivables	**617,405,690**	286,341,389

21.6 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

The accounting policy used in calculating impairment charge is fully described under Note 20.3.

	2018 Rs.	2017 Rs.
Balance as at Beginning of the Year	**2,782,605**	-
Charge / (Reversal) for the Year	**3,568,367**	2,782,605
Balance as at End of the Year	**6,350,973**	2,782,605
Individual Impairment	**-**	-
Collective Impairment	**6,350,973**	2,782,605
Total	**6,350,973**	2,782,605

Notes to the Financial Statements

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 amortization is included in interest income in the Statement of Profit or Loss.

	2018 Rs.	2017 Rs.
Sri Lanka Government Securities - REPO	282,268,953	268,211,272
Total Financial Investments	282,268,953	268,211,272

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 amortization is included in 'interest income' in the Statement of Profit or Loss.

	2018 Rs.	2017 Rs.
Fixed Deposits	207,371,048	282,577,503
Total Other Financial Assets	207,371,048	282,577,503

	Free from Lien 2018 Rs.	Under -Lien 2018 Rs.	Total 2018 Rs.	Free from Lien 2017 Rs.	Under -Lien 2017 Rs.	Total 2017 Rs.
23.1 Other Financial Assets -Under Lien						
Fixed Deposits	207,371,048	-	207,371,048	132,577,503	150,000,000	282,577,503
Total Other Financial Assets	207,371,048	-	207,371,048	132,577,503	150,000,000	282,577,503

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
23.2 Contractual Maturity Analysis of Other Financial Assets				
Fixed Deposits	207,371,048	-	-	207,371,048
Total Other Financial Assets	207,371,048	-	-	207,371,048

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.

	2018 Rs.	2017 Rs.
Inventories	**15,792,281**	6,293,256
Other Advance	**1,811,859**	2,199,437
Rent Deposit	**26,909,222**	28,226,732
Other Receivable	**46,100,398**	27,617,258
Total Other Non Financial Assets	**90,613,760**	64,336,684

Economic Service Charge (ESC)

Other receivable includes Economic Service Changes As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto, ESC was payable at 0.5 % on Company's liable turnover and was deductible from income tax payable.

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.

25.1 Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the 'Statement of Financial Position' under the category 'intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2018 and 2017 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.

Notes to the Financial Statements

25 INTANGIBLE ASSETS (CONTD.)

	2018 Rs.	2017 Rs.
25.2 Computer Software		
Cost		
Cost as at Beginning of the Year	43,381,266	30,446,941
Additions and Improvements	9,702,939	12,934,325
Disposal during the Year	-	-
Cost as at end of the Year	53,084,205	43,381,266
25.3 Amortisation & Impairment		
Amortisation as at Beginning of the Year	6,686,702	3,638
Charge for the Year	11,263,143	6,683,064
Disposal during the Year	-	-
Amortisation as at End of the Year	17,949,845	6,686,702
Net Book Value as at End of the Year	35,134,360	36,694,563
Net Book Value of Total Intangible Assets	35,134,360	36,694,563

26 PROPERTY, PLANT & EQUIPMENT

Accounting Policies

Basis of Recognition

Property, plant & equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost Model

The Company applies the 'Cost Model' to all property, plant & equipment other than free hold land and building and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Company applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the date reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

The Company engages an Independent Valuer to determine the fair value of free hold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

During the current financial year, the Company revalued its freehold lands and buildings and the details of the such revaluation and the resulted revaluation surplus are fully described under Note 26.2

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.

Repairs and Maintenance
Repairs and Maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

Derecognition
An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year the asset is derecognized.

Useful Life Time of Property, Plant & Equipment and Depreciation
Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Company review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 March 2017 and 2018, are as follows:

Assets Category	Use-full 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 Statements

26 PROPERTY, PLANT & EQUIPMENT (CONTD.)

26.1 The Movement in Property, Plant & Equipment (contd.)

	Balance As at 01.04.2017 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2018 Rs.
26.1.1 Cost or Valuation					
Freehold Assets					
Land	67,781,200	-	9,608,800	-	**77,390,000**
Building	72,347,825	-	(5,593,325)	-	**66,754,500**
Furniture & Fittings	87,444,587	4,050,018	-	2,106,945	**89,387,660**
Office Equipment	50,779,043	6,193,018	-	1,089,303	**55,882,758**
Computer Equipment	71,114,530	2,907,115	-	465,053	**73,556,592**
Plant & Machinery	35,248,493	1,913,288	-	-	**37,161,781**
Motor Vehicle	33,988,422	9,140,000	-	-	**43,128,422**
Total cost or valuation	418,704,100	24,203,439	4,015,475	3,661,301	**443,261,714**

	Balance As at 01.04.2017 Rs.	Charge during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2018 Rs.
26.1.2 Depreciation					
Freehold Assets					
Building	5,971,173	1,807,766	(7,778,939)	-	**-**
Furniture & Fittings	16,806,688	8,896,563	-	836,971	**24,866,280**
Office Equipment	25,052,462	10,499,058	-	787,784	**34,763,736**
Computer Equipment	32,761,375	14,376,469	-	277,122	**46,860,722**
Plant & Machinery	5,698,172	4,538,596	-	-	**10,236,768**
Motor Vehicle	11,004,849	6,805,197	-	-	**17,810,046**
Total Depreciation	97,294,719	46,923,649	(7,778,939)	1,901,877	**134,537,552**

	2018 Rs.	2017 Rs.
26.1.4 Net Book Value		
Land	**77,390,000**	67,781,200
Building	**66,754,500**	66,376,652
Furniture & Fittings	**64,521,380**	70,637,898
Office Equipment	**21,119,021**	25,726,581
Computer Equipment	**26,695,870**	38,353,156
Plant & Machinery	**26,925,013**	29,550,321
Motor Vehicle	**25,318,377**	22,983,573
Total Carrying Amount of Property, Plant and Equipment	**308,724,162**	321,409,381

26.1.5 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 24,203,439/- (2017 - Rs. 88,578,227/-) Cash payment amounting to Rs. 22,572,142/- (2017 - Rs 88,578,227) was paid during the year for purchase of property, plant & equipment.

26.1.6 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. 23,587,615/-

26.2 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 2018) 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 2018). Accordingly, a revaluation surplus amounting to Rs. 11,794,415/- had been credited to the revaluation reserve account as at 31 March 2018.

26.2.1 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			2018			2017
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land	32,968,200	-	32,968,200	32,968,200	-	32,968,200
Building	61,416,000	7,774,544	53,641,456	61,416,000	5,971,173	55,444,827
Total	94,384,200	7,774,544	86,609,656	94,884,200	5,971,173	88,413,027

26.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31st March 2018 and 31st March 2017.

26.4 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. (2017: Nil).

26.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31st March 2018 and 31st March 2017.

26.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31st March 2018 and 31st March 2017.

Notes to the Financial Statements

27 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

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

Year ended 31 March	2018 Rs.	2017 Rs.
27.1 Statement of Financial Position		
Deferred Tax Liabilities		
Accelerated Depreciation for Tax Purposes	34,693,946	33,167,885
Finance Leases	22,793,664	-
Total Deferred Tax Liabilities	57,487,610	33,167,885
Deferred Tax Assets		
Defined Benefit Plans - Profit or Loss	5,906,624	4,055,958
Defined Benefit Plans - Other Comprehensive Income	1,489,769	1,767,184
Carry Forward Loss on Leasing Business	19,230,827	7,560,974
Carry Forward Loss on Other Operations	14,945,039	20,772,654
Total Deferred Tax Assets	41,572,259	34,156,770
Net Deferred Tax Liabilities/(Assets)	15,915,351	(988,885)

Year ended 31 March		2018 Rs.	2017 Rs.
27.2 Statement of Profit or Loss			
Deferred Tax Liabilities			
Accelerated Depreciation for Tax Purposes		1,526,061	4,562,930
Finance Leases		22,793,664	-
Deferred Tax Income/(Expense)		24,319,725	4,562,930
Deferred Tax Assets			
Defined Benefit Plans - Profit or Loss		(1,850,666)	764,433
Defined benefit plans - Other Comprehensive Income		277,414	(2,082,867)
Carry Forward loss on Leasing Business		(11,669,853)	(7,560,974)
Carry Forward Loss on Other Operations		5,827,615	(7,050,748)
Deferred Tax Income/(Expense)		(7,415,489)	(15,930,156)
Net Deferred Tax Income/(Expense) - Statement of Profit or Loss	17,782,033	(9,284,359)	
Net Deferred Tax Income/(Expense) - Statement of Other Comprehensive Income		(877,797)	(2,082,867)

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'.

	2018 Rs.	2017 Rs.
Bank Overdrafts (Note 28.1)	169,838,466	50,019,727
Loans and Other Bank Facilities (Note 28.2)	293,438,756	25,836,237
Total Due to Banks & Other Institution	463,277,223	75,855,963

Notes to the Financial Statements

28 DUE TO BANKS & OTHER INSTITUTIONS (CONTD.)

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. 80,161,534/- as at 31 March 2018 (2017 - Rs. 99,980,273/-).

	Period	Interest Rate	As at 01.04.2017 Rs.	Loans Obtained Rs.	Repayments Interest	Repayments Capital Rs.	As at 31.03.2018 Rs.
28.2 Loans and Other Bank Facilities							
NDB Vehicle Loan	5 Years	9.5 % to 10.5 %	7,791,219	-	(678,740)	(2,769,702)	**5,021,517**
NDB Term Loan	5 Years	AWPLR+3.5 %	-	300,000,000	(15,468,917)	(30,000,000)	**270,000,000**
Rotary Loan	3 Years	13% to 15 %	15,083,068	-	(2,217,112)	(1,627,778)	**13,455,289**
Other Borrowings			2,961,950	2,000,000	-	-	**4,961,950**
Total Loans and Other Bank Facilities			25,836,237	302,000,000	(18,364,768)	(34,397,480)	**293,438,756**

28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2018				
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**

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2017				
NDB Vehicle Loan	2,769,702	5,021,517	-	7,791,219
Rotary Loan	8,185,186	6,897,882	-	15,083,068
Other Borrowings	-	-	2,961,950	2,961,950
Bank Overdrafts	50,019,727	-	-	50,019,727
Total Due to Customers	60,974,615	11,919,399	2,961,950	75,855,964

29 DUE TO CUSTOMERS

Accounting Policies

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'.

	2018 Rs.	2017 Rs.
Fixed Deposits	**3,070,215,632**	1,955,249,581
Savings Deposits	**1,553,214,622**	1,607,045,443
Inactive Society-Savings	**1,404,776**	1,404,776
Total Due to Customers	**4,624,835,030**	3,563,699,800

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. 600,000/- 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 (2017 - Rs. 4,595,993/-).

29.2 Contractual Maturity Analysis Of Customer Deposits

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2018				
Fixed Deposits	**2,224,911,565**	**845,302,725**	**-**	**3,070,215,632**
Savings Deposits	**1,255,954,467**	**149,910,386**	**147,349,770**	**1,553,214,622**
Inactive Society-Savings	**1,404,776**	**-**	**-**	**1,404,776**
Total Due to Customers	**3,482,270,807**	**995,213,111**	**147,349,770**	**4,624,835,030**

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2017				
Fixed Deposits	1,607,150,316	348,099,265	-	1,955,249,581
Savings Deposits	1,323,990,610	132,767,575	150,287,259	1,607,045,444
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	2,932,545,702	480,866,840	150,287,259	3,563,699,801

We have raised fixed deposits with a pre-termination option to the customers; hence, fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

Notes to the Financial Statements

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 discreation 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'.

	2018 Rs.	2017 Rs.
Accrued Expenses	**36,595,879**	46,980,946
Others (Note 30.1)	**24,175,930**	101,467,225
Loan Risk Assurance Fund (Note 30.2)	**7,860,000**	12,800,000
Amount Due to Related Parties	**4,856,996**	4,517,181
	73,488,805	165,765,352

30.1 This balance included staff welfare fund, unidentified deposit, loan & lease creditor balance, loan sundry changes payable and WHT collections.

30.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2018. 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.

	2018 Rs.	2017 Rs.
31.1 Provision for Retirement Gratuity		
Balance at the beginning of the Year	**20,796,934**	16,088,241
Amount Charged/(Reversed) for the Year	**6,739,853**	5,778,323
Actuarial (Gains)/Losses	**3,346,548**	6,311,370
(Gain)/Loss Due to Changes in Assumptions	**1,974,056**	-
Payments Made During the Year	**(6,441,700)**	(7,381,000)
Balance at the End of the Year	**26,415,691**	20,796,934

	2018 Rs.	2017 Rs.
31.2 Expenses on Defined Benefit Plan		
Current Service Cost for the Year	**4,244,221**	3,847,735
Interest Cost for the Year	**2,495,632**	1,930,588
Actuarial (Gains)/ Losses (Note 31.5)	**3,346,548**	6,311,370
(Gains)/ Losses Due to Changes in Assumptions	**1,974,056**	-
Total Expenses on Defined Benefit Plan	**12,060,457**	12,089,693

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 2018 and 2017 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'.

Notes to the Financial Statements

31 POST-EMPLOYEMENT BENEFIT OBLIGATIONS (CONTD.)

	2018	2017
31.4 Actuarial Assumptions		
Discount Rate	11.0%	12.0%
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	10.2 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 by net decrease of 33 participants and the salary increased by 14.9 % (vs. 10% assumed)

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 2018.

	Increase/(decrease) in Discount Rate	Increase/(decrease) in Salary Increment Rate	Sensitivity Effect on Statement Comprehensive Income Increase/(decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase / (decrease) Rs.
	+1%		(1,974,056)	1,974,056
	(-1%)		2,267,065	(2,267,065)
		+1%	2,183,916	(2,183,916)
		(-1%)	(1,937,020)	1,937,020

	Number of Shares	2018 Rs.	Number of Shares	2017 Rs.
32 STATED CAPITAL				
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

32.1 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.

	2018 Rs.	2017 Rs.
33 RETAINED EARNINGS		
Balance as at Beginning of the Year	**90,646,934**	129,410,910
Profit/(Loss) for the Year	**80,485,235**	(32,452,606)
Other Comprehensive Income	**(4,442,807)**	(6,311,370)
Transfer to Statutory Reserves Fund	**(15,330,880)**	-
Balance as at End of the Year	**151,358,483**	90,646,934

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.

Notes to the Financial Statements

34 RESERVES

34.1 Statutory Reserve Fund

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003. Accordingly, Company has transferred 20% of its net profit after taxation to the Reserve Fund as Company's Capital Funds to Deposit Liabilities, belongs to less than 25% and not less than 10%.

34.2 Revaluation Reserve Fund

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment

Company	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2016	20,383,147	45,744,825	66,127,972
Transfers to/(from) During the Year	-	-	-
Transferred to Retaining Earnings	-	-	-
As at 31 March 2017	20,383,147	45,744,825	66,127,972
Transfers from During the Year	15,330,880	11,794,414	15,330,880
As at 31 March 2018	35,714,028	57,539,239	93,253,268

35 CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	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	2,172,607,703	2,524,841,864	4,697,449,566
Lease Rentals Receivables	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	63,704,537	26,909,222	90,613,760
Intangible Assets	-	35,134,360	35,134,360
Property, Plant and Equipment	-	308,724,162	308,724,162
Deferred Tax Asset	-	-	-
Total Assets	3,004,953,024	3,344,641,862	6,349,594,884
Liabilities			
Due to Banks and Other Institutions	70,216,719	393,060,504	463,277,223
Due to Customers	3,400,705,729	1,224,129,302	4,624,835,030
Other Non Financial Liabilities	40,418,843	33,069,962	73,488,805
Post Employment Benefit Liability	-	26,415,691	26,415,691
Current Tax Liabilities	11,051,013	-	11,051,013
Deferred Tax Liabilities	-	15,915,351	15,915,351
Total Liabilities	3,522,392,304	1,692,590,810	5,214,983,114
Net Assets/(Liability)	(517,439,280)	1,652,051,052	1,134,611,770

	2017 With in 12 Months Rs.	2017 After 12 Months Rs.	2017 Total Rs.
Assets			
Cash and Cash Equivalents	138,046,068	-	138,046,068
Loans and Receivables	1,816,369,362	1,660,670,705	3,477,040,067
Lease Rental Receivable	54,106,071	229,452,714	283,558,785
Financial Investments	268,211,272	-	268,211,272
Other Financial Assets	282,577,503	-	282,577,503
Other Non Financial Assets	36,109,951	28,226,732	64,336,683
Current Tax Liability	29,768	-	29,768
Intangible Assets	-	36,694,563	36,694,563
Property, Plant and Equipment	-	321,409,381	321,409,381
Current Tax Assets	-	988,885	988,885
Total Assets	2,595,449,995	2,277,442,980	4,872,892,976
Liabilities			
Due to Banks	19,870,778	55,985,185	75,855,963
Due to Customers	2,932,545,702	631,154,098	3,563,699,800
Other Non Financial Liabilities	91,170,942	74,594,407	165,765,350
Post Employment Benefit Liability	-	20,796,934	20,796,934
Total Liabilities	3,043,587,422	782,530,624	3,826,118,050
Net Assets/(Liability)	(448,137,427)	1,494,912,356	1,046,774,926

36 FINANCIAL REPORTING BY SEGMENT

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.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to the Financial Statements

36 FINANCIAL REPORTING BY SEGMENT (CONTD.)

Year ended 31 March	Lease 2018 Rs.	Lease 2017 Rs.	SME 2018 Rs.	SME 2017 Rs.
Interest Income	93,523,012	16,442,769	154,013,067	22,591,106
Net Fee and Commission Income	5,148,742	1,005,288	8,450,430	1,867,875
Other Operating Income	6,818	-	173,013	-
Gross Income	98,678,572	17,448,057	162,636,509	24,458,981
Interest Expenses	(37,912,769)	(13,605,190)	(64,703,166)	(18,680,489)
Total Operating Income	60,765,804	3,842,867	97,933,343	5,778,491
Credit Loss Expenses	(3,568,367)	(2,782,605)	(1,840,869)	(3,164,254)
Net Operating Income	57,197,436	1,060,262	96,092,474	2,614,237
Other Expenses	(47,551,096)	(5,882,088)	(76,870,305)	(5,882,088)
Depreciation and Amortization	(4,837,113)	(2,370,976)	(7,819,596)	(2,370,976)
Segment Result	4,809,227	(7,192,802)	11,402,573	(5,638,827)
Tax on Financial Services				
Income Tax Expenses				
Profit Attributable to Share Holders	4,809,227	(7,192,802)	11,402,573	(5,638,827)
Segment Assets	612,636,978	286,425,047	1,185,991,085	393,273,461
Total Assets	612,636,978	286,425,047	1,185,991,085	393,273,461
Segment Liabilities	607,827,752	286,425,047	1,174,588,512	393,273,461
Total Liabilities	607,827,752	286,425,047	1,174,588,512	393,273,461

	Micro & Other		Other		Total
2018	2017	2018	2017	2018	2017
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
877,474,596	765,588,169	54,552,518	79,136,078	1,179,563,193	883,758,122
17,237,922	22,846,596	-	30,837,094	25,719,759	
96,918,319	73,964,772	13,262,647	109,515,526	110,360,797	183,480,298
991,630,837	862,399,538	67,815,165	188,651,604	1,320,761,083	1,092,958,179
(261,413,920)	(173,362,880)	(52,568,984)	(75,253,625)	(416,598,838)	(280,902,184)
730,216,917	689,036,658	15,246,181	113,397,979	904,162,245	812,055,995
(83,707,086)	(166,312,222)	-	(0)	(89,116,323)	(172,259,081)
646,509,830	522,724,436	15,246,181	113,397,979	815,045,922	639,796,914
(441,862,071)	(570,562,566)	(5,720,035)	(5,882,088)	(572,003,507)	(588,208,831)
(44,948,215)	(30,913,383)	(581,868)	(11,764,177)	(58,186,793)	(47,419,511)
159,699,544	(78,751,513)	8,944,278	95,751,714	184,855,622	4,168,573
				(70,751,368)	(48,027,957)
				(33,619,018)	9,323,911
159,699,544	(78,751,513)	8,944,278	95,751,714	80,485,235	(34,535,474)
3,514,636,204	3,086,944,329	1,036,330,617	1,106,250,139	6,349,594,884	4,872,892,976
3,514,636,204	3,086,944,329	1,036,330,617	1,106,250,139	6,349,594,884	4,872,892,976
3,264,289,726	3,086,944,329	168,277,124	59,475,213	5,214,983,113	3,826,118,050
3,264,289,726	3,086,944,329	168,277,124	59,475,213	5,214,983,113	3,826,118,050

Notes to the Financial Statements

37 COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determination amount of all known liabilities.

Contingent liabilities are possible obligations, where existence will be confirm only by uncertain future economics benefits is not probable or cannot be readily 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.

	2018 Rs.	2017 Rs.
37.1 Contingent Liabilities		
Guarantees Issues to Other Institution	**1,000,000**	1,500,000
Total Contingent Liabilities	**1,000,000**	1,500,000

37.2 Commitments

The Company did not have significant capital commitments as at the Statement of Financial Position date.

	2018 Rs.	2017 Rs.
37.3 Litigation Against the Company		
Cases Pending Against the Company	**14,500,000**	14,350,000
Total Contingent Liabilities	**14,500,000**	14,350,000

38 ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount 2018 Rs.	Pledged 2017 Rs.	Included Under
Motor Vehicle	Vehicle Loan	**5,021,517**	6,870,348	Property, Plant and Equipment
Fixed Deposit	Bank Overdraft	**-**	132,577,503	Other Financial Assets
Rental Receivable on Micro Business and Personal Loan	Bank Overdraft	**173,330,204**	-	Loans and Receivables
Rental Receivable on SME Loan	Bank Overdraft	**120,700,470**	-	Loans and Receivables
Rental Receivable on SME Loan	Term Loan	**89,228,028**	-	Loans and Receivables
Rental Receivable on Lease	Term Loan	**269,063,857**	-	Lease Rental Receivable
		657,344,076	139,447,851	

39 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, other than those disclosed below.

Proposed Dividends

The Board of Directors of the Company has proposed a final dividend of Rs. 0.53 per share for the Ordinary Shareholders of the Company for the year ended 31st March 2018. This will be declared at the Annual General Meeting to be held on 28th June 2018, upon approval of the shareholders.

In accordance with Sri Lanka Accounting Standard - LKAS 10 (Events After the Reporting Period), this proposed final dividend has not been recognised as a liability as at 31st March 2018. As required by section 56(2) of the Companies Act No 7 of 2007, the Board of Directors has confirmed that the Company has satisfied the ‘Solvency Test’ in accordance with section 57 of the Companies Act No 7 of 2007, having obtained a certificate from the auditors, prior to recommending the final dividend for the year.

40 RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties in the ordinary course of its business who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 ‘Related Party Disclosures’, on an arms length basis at commercial rate.

Details of related party transactions which the company had during the year are as follows,

40.1 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.

	2018 Rs.	2017 Rs.
40.1.1 Key Management Personnel Compensation		
Short Term Employment Benefits	**5,769,590**	4,825,000
Directors Fees & Expenses	**5,609,524**	5,744,444
Total Key Management Personnel Compensation	**11,379,114**	10,569,444

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.

40.1.2 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.

Notes to the Financial Statements

40 RELATED PARTY TRANSACTIONS (CONTD.)

	2018 Rs.	2017 Rs.
40.2.2.1 Transaction with KMPs, and their Close Members of the Family		
Items in Statement of Financial Position		
Deposit Accept During the Year	11,101,101	100,000
Interest Payable	159,923	310,126
Deposit Repayment During the Year	(1,031,601)	(3,926,667)
Assets Disposal During the Year	-	7,000,000
Amounts Settled During the Year	-	(7,000,000)
Total	10,229,423	(3,516,541)
Items in Statement of Profit or Loss		
Interest Accrued During the Period	256,205	310,126
Profit from Assets Disposal	-	1,286,466
Total	256,205	1,596,592

40.1.3

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.

40.1.4 Transactions with Group Entities

The Group entities include the Parent , Fellow Subsidiaries and Associate companies of the parent.

Sarvodaya Economic Enterprises Development (Gte) Ltd.	2018 Rs.	2017 Rs.
40.1.4.1 Transactions with Parent Company		
Statement of Financial Position		
Transaction Made During the Year		
Rent Due on eight buildings leased from SEEDS (Gte) Ltd.	-	540,000
Loan Interest Payable	407,778	1,417,726
Loan Instalment deducted from Salary on behalf of parent	-	107,600
Reimbursement of salary cost of SEEDS (Gte) Ltd employees	149,860	984,613
Amount settled to SEEDS (Gte) Ltd	(217,823)	(2,078,972)
Total	339,815	970,967

Gentosa Total Assets Inc.	2018 Rs.	2017 Rs.
40.1.4.2 Transactions with Shareholders		
Items in Statement of Financial Position		
Deposit Accepted During the Period Including Interest Capitalisation	-	59,275,211
Interest Payable on Deposits	295,448	274,431
Total	295,448	59,549,642
Items in Statement of Profit or Loss		
Interest Accrued During the Period	19,787,648	14,872,483
Total	19,787,648	14,872,483

41 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.

41.1 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.

42 Comparative Information

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

	As Reported	Reclassification Previously Rs.	Current Presentation Rs.	Current Classification Rs.
Statement of Profit or Loss				
Fees & Commission Income	29,193,693	(3,473,934)	25,719,759	Net Fees & Commission Income
Other Operating Expenses	(230,225,116)	3,473,934	(226,751,183)	Other Operating Expenses

(a) During the financial year, Fees & Commission related expenses was reclassified under net fees & commission income for better presentation.

Notes to the Financial Statements

43 RISK MANAGEMENT

43.1 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.

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.

43.2 Credit Risk

Over view

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 authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the DA of the CEO.

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (contd.)

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.

43.2.1 Credit Quality by Class of Financial Assets

	2018 Neither Past Due Not 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) (Note 43.2.1.1)	493,771,621	-	-	4,346,629,060	**4,840,400,680**
Lease Rentals Receivables (Gross) (Note 43.2.1.1)	-	-	-	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**

43.2.1.1 The Company consider total loan and lease balances to calculate collective impairment.

	2017 Neither Past Due Not Impaired Rs.	2017 Past Due But Not Impaired Rs.	2017 Individually Impaired Rs.	2017 Collectively Impaired Rs.	2017 Total Rs.
Assets					
Cash and Cash Equivalents	138,046,068	-	-	-	138,046,068
Loans and Receivable (Gross)	265,209,148	-	-	3,432,107,837	3,697,316,985
Lease Rentals Receivables (Gross)	-	-	-	286,311,389	286,311,389
Financial Investments	268,211,272	-	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	-	282,577,503
Total Financial Assets	954,043,991	-	-	3,718,449,226	4,672,493,217

43.2.1.2 The Company consider total loan and lease balances to calculate collective impairment.

43.2.2 Analysis of Risk Concentration

43.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector wise Breakdown	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

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (contd.)

Sector wise Breakdown	2017 Cash and Cash Equivalents Rs.	2017 Loans and Receivable Rs.	2017 Lease Rental Receivable Rs.	2017 Financial Investments Rs.	2017 Other Financial Assets Rs.	2017 Total Financial Assets Rs.
Agriculture & Fishing	-	980,709,299	24,592,375	-	-	1,005,301,674
Manufacturing	-	399,868,730	17,125,640	-	-	416,994,370
Tourism	-	9,303,426	1,734,720	-	-	11,038,146
Transport	-	25,793,375	14,222,215	-	-	40,015,590
Constructions	-	513,769,792	8,814,532	-	-	522,584,324
Trades	-	615,234,308	18,029,642	-	-	633,263,950
New Economy	-	16,383,123	7,959,105	-	-	24,342,228
Financial and Business Services	138,046,068	38,951,568	11,209,836	282,577,503	470,784,974	
Infrastructure	-	8,382,375	151,571	-	-	8,533,946
Government	-	-	-	268,211,272	-	268,211,272
Other Services	-	1,088,920,990	182,501,753	-	-	1,271,422,743
Total	138,046,068	3,697,316,986	286,341,389	268,211,272	282,577,503	4,672,493,217

43.3 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.

43.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities

As at 31 March 2018	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 Receivables	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)	827,010,350

As at 31 March 2017	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	138,046,068	-	-	-	-	138,046,068
Loans and Receivables	253,541,529	498,542,835	1,064,284,998	1,660,534,118	136,587	3,477,040,068
Lease Rentals Receivable	71,228	10,013,668	44,021,175	229,452,714	-	283,558,784
Financial Investments	-	268,211,272	-	-	-	268,211,272
Other Financial Assets	-	282,577,503	-	-	-	282,577,503
Total Financial Assets	391,658,825	1,059,345,278	1,108,306,173	1,889,986,832	136,587	4,449,433,694
Financial Liabilities						
Due to Banks and Other Institutions	53,023,235	7,951,380	11,919,399	-	2,961,950	75,855,964
Due to Customers	1,136,648,191	848,945,080	946,952,431	480,866,840	150,287,259	3,563,699,800
Total Financial Liabilities	1,189,671,426	856,896,460	958,871,830	480,866,840	153,249,209	3,639,555,764
Total Net Financial Assets/(Liabilities)	(798,012,601)	202,448,818	149,434,343	1,409,119,992	(153,112,622)	809,877,930

43.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2018.

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.4 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.

43.5 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.

43.5.1 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.

43.5.2 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.

	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)	827,010,350

Notes to the Financial Statements

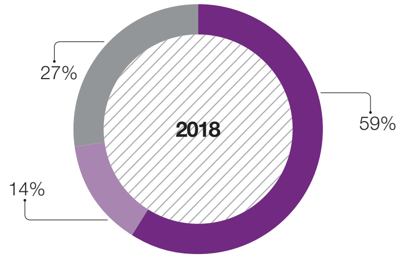
43 RISK MANAGEMENT (CONTD.)

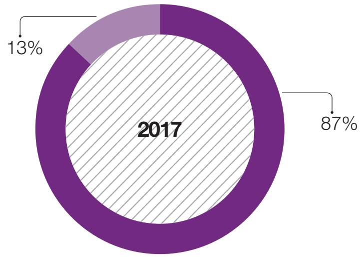
43.5 Market Risk (contd.)

	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 31.03.2017 Rs.
Assets							
Cash and Cash Equivalents	97,421,041	-	-	-	-	40,625,026	138,046,067
Loans and Receivables	752,084,364	1,064,284,998	1,299,583,006	360,951,112	136,587	3,477,040,067	
Lease Rentals Receivables	10,084,896	44,021,175	134,062,298	95,390,416	-	-	283,558,785
Financial Investments	268,211,272	-	-	-	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	-	-	-	282,577,503
Total Financial Assets	1,410,379,076	1,108,306,173	1,433,645,304	456,341,528	136,587	40,625,026	4,449,433,694
Financial Liabilities							
Due to Banks and Other Institutions	53,023,235	7,951,380	11,919,399	-	-	2,961,950	75,855,964
Due to Customers	1,985,593,271	946,952,431	318,723,138	162,143,701	150,287,259	-	3,563,699,800
Total Financial Liabilities	2,038,616,506	954,903,811	330,642,537	162,143,701	150,287,259	2,961,950	3,639,555,764
Interest Sensitivity Gap	(628,237,430)	153,402,362	1,103,002,767	294,197,827	(150,150,672)	37,663,076	809,877,930

Value Added Statement

	2018 Rs.	%	2017 Rs.	%	2016 Rs.	%
Value Added						
Interest Income	**1,179,563,193**		883,758,122		922,993,919	
Interest Expenses	**(416,598,838)**		(280,902,184)		(255,915,002)	
Cost of Service	**(264,758,848)**		(228,633,091)		(227,379,654)	
Value Added by Financial Service	**498,205,507**		374,222,847		439,699,263	
Other Income	**141,197,890**		212,673,991		91,759,723	
Impairment Changes	**(89,116,323)**		(172,259,081)		(61,294,116)	
Total	**550,287,074**		414,637,757		470,164,870	
Distribution of Value Added						
To Employees						
Salaries and Other Benefits	**322,738,479**		361,457,648		314,185,138	
	322,738,479	**59%**	361,457,648	87%	314,185,138	67%
To the Government						
Income Tax Paid	**4,785,973**		5,780,978		-	
Tax on Financial Services	**70,751,368**		48,027,957		49,272,363	
	75,537,341	**13.73%**	53,808,935	12.98%	49,272,363	10.48%
To Expansion and Growth						
Retained Profits	**60,711,548**		(38,763,976)		48,040,290	
Reserve	**15,330,880**		-		-	
Depreciation and Amoritisation	**58,186,793**		47,419,510		45,433,679	
Deferred Taxation	**17,782,033**		(9,284,360)		13,233,400	
	152,011,254	**27.62%**	(628,826)	-0.15%	106,707,369	22.70%
Economic Value Distributed	**550,287,074**	**100.00%**	414,637,757	100.00%	470,164,870	100.00%





■ To Employees ■ To the Government ■ To Expansion and Growth

Capital Adequacy

Computation of Risk Weighted Assets	Balance			
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000
Cash & Current Accounts with Banks	**71,912**	40,625	78,189	208,621
Deposits with Banks	**249,109**	372,990	461,437	7,049
Sri Lanka Govt Treasury Bills	**273,029**	264,747	243,177	201,844
Loans and Advances :				
Against Deposits with the Company	**491,464**	265,074	159,770	226,803
Loans against Gold and Gold Jewellery	**20,107**	2,270	46,237	55,206
Other Loans and Advances	**4,796,933**	3,493,255	2,541,800	2,497,001
Property, Plant & Equipment	**343,859**	358,104	281,536	279,391
Other Assets	**144,755**	74,582	488,885	456,517
Total	**6,391,168**	4,871,647	4,301,031	3,932,432

Constituents of Capital	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000
Tier 1: Core Capital				
Paid up Share Capital	**890,000**	890,000	890,000	890,000
Statutory Reserve Fund	**35,714**	20,383	20,383	18,076
Published Retaining Earnings	**151,358**	90,647	129,411	83,678
General Reserves		-	-	-
Total Tier 1: Capital	**1,077,072**	1,001,030	1,039,794	991,754
Tier 2: Supplementary Capital				
Capital Reserves (Revaluation)	**-**	-	-	-
Bonus Shares	**-**	-	-	-
Total Tier 2: Capital	**-**	-	379,475	379,475
Equity investment in unconsolidated banking & financial subsidiaries	**-**	-	379,475	379,475
Capital Base	**1,077,072**	1,001,030	660,319	612,279

Note - Total of Tier 2 Capital should not exceed the total of Tier 1 Core Capital for Capital Adequacy Calculations.

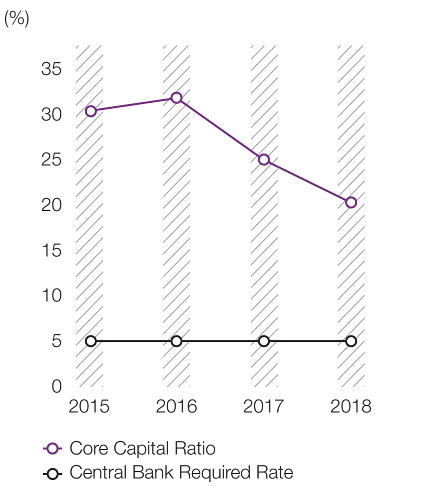
	2018	2017	2016	2015
Core Capital Ratio				
Core Capital Ratio	**20.19%**	25.02%	32.00%	30.66%
Central Bank Required Rate	**5.00%**	5.00%	5.00%	5.00%
Total Risk Weighted Capital Ratio				
Total Risk Weighted Capital Ratio	**20.19%**	25.02%	20.32%	18.93%
Central Bank Required Rate	**10.00%**	10.00%	10.00%	10.00%

	Risk Weighted Balance			
Risk Weight Factor	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000
0%	-	-	-	-
20%	49,822	74,598	92,287	1,410
0%	-	-	-	-
-	-	-	-	
0%	-	-	-	-
0%	-	-	-	-
100%	4,796,933	3,493,255	2,386,404	2,497,001
100%	343,859	358,104	281,536	279,391
100%	144,755	74,582	488,885	456,517
	5,335,369	4,000,539	3,249,112	3,234,319

Note

During the financial year, on balance sheet item narrations renamed in line with Central Bank classification for better classification and presentation.

Core Capital Ratio - Tier I

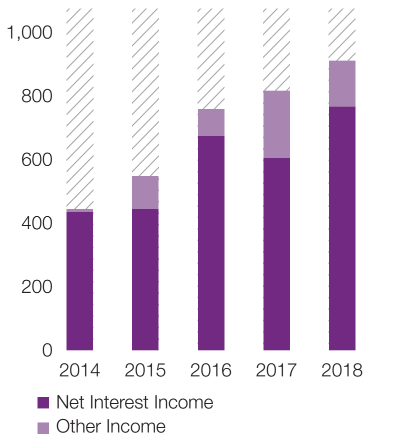


Risk Weighted Capital Ratio - Tier II

Five Year at a Glance

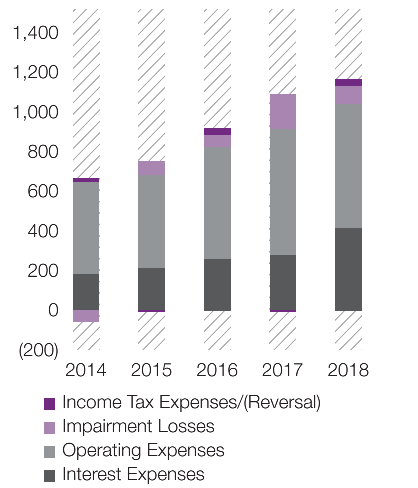
Income

(Rs.)



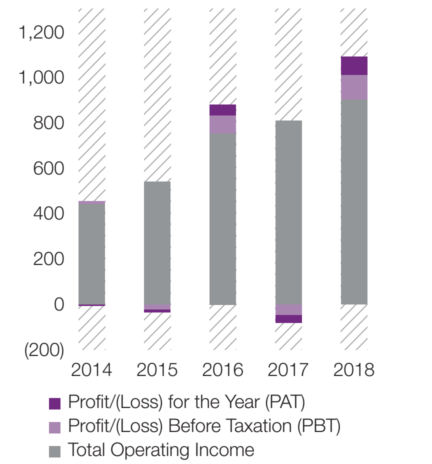
Total Expenses

(Rs.)



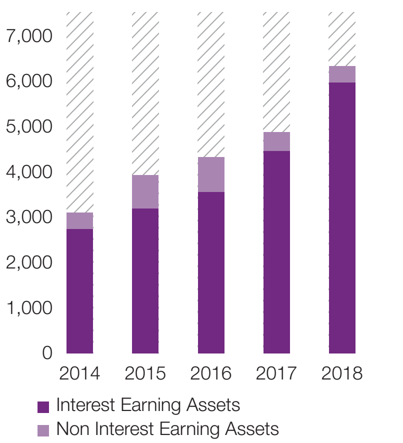
Profitability

(Rs.)



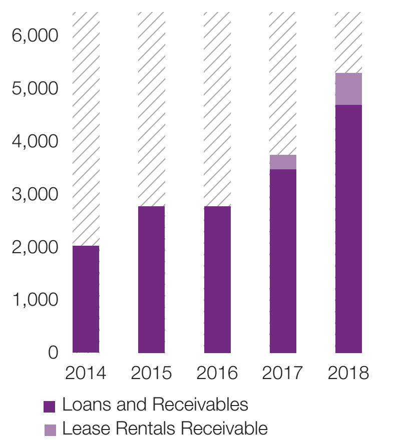
Total Assets

(Rs.)



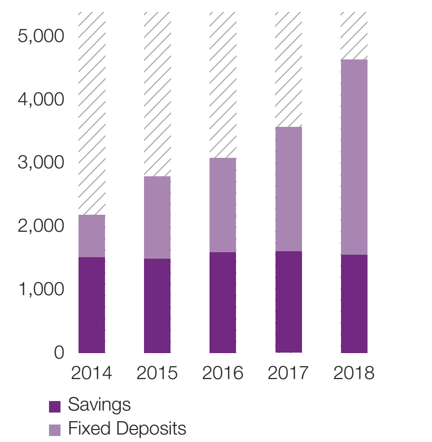
Loan & Lease Rental Receivable

(Rs.)



Customer Deposits

(Rs.)



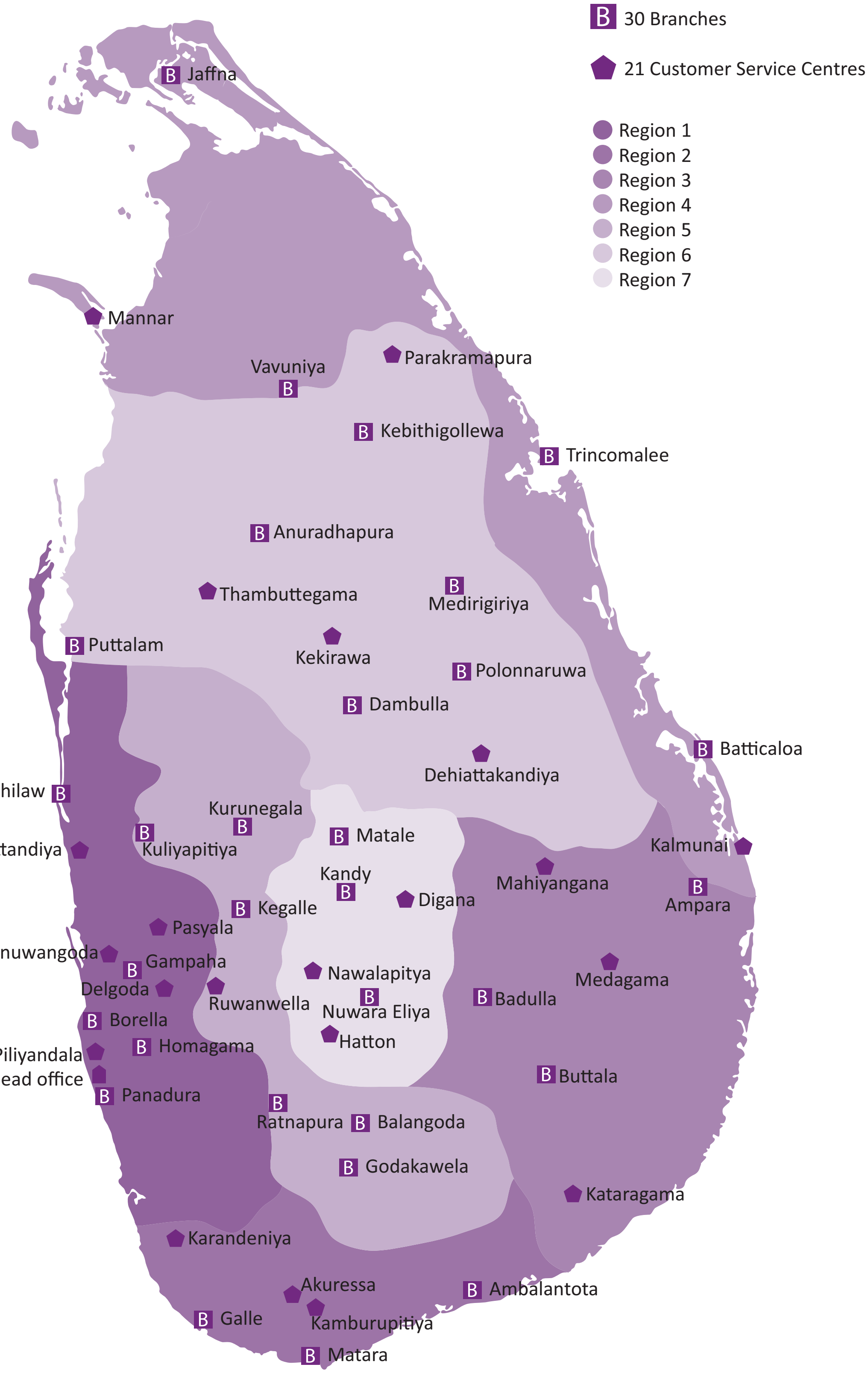
For the Year ended 31 March	2018	2017	2016	2015	2014
Operating Results (Rs.)					
Income	**1,320,761,083**	1,092,958,179	1,014,753,642	752,992,948	628,973,021
Interest Income	**1,179,563,193**	883,758,122	922,993,919	652,411,316	616,478,140
Interest Expenses	**416,598,838**	280,902,184	255,915,002	210,804,012	183,543,351
Net Interest Income	**762,964,355**	602,855,938	667,078,917	441,607,304	432,934,789
Other Income	**141,197,890**	209,200,057	91,759,723	100,581,632	12,494,881
Total Operating Income	**904,162,245**	812,055,995	758,838,640	542,188,936	445,429,670
Operating Expenses	**630,190,300**	635,628,341	571,761,588	473,080,446	469,145,908
Impairment Losses	**89,116,323**	172,259,081	61,294,116	67,331,561	(57,615,716)
Profit/(Loss) Before Taxation (PBT)	**114,104,245**	(43,859,383)	76,510,573	(20,468,783)	10,280,218
Income Tax Expenses/(Reversal)	**33,619,018**	(9,323,911)	30,368,790	(8,674,853)	14,006,429
Profit/(Loss) for the Year (PAT)	**80,485,235**	(34,535,473)	46,141,783	(11,793,930)	(3,726,211)

For the Year ended 31 March	2018	2017	2016	2015	2014
Assets					
Cash and Cash Equivalents	116,978,318	138,046,068	306,766,105	208,620,885	223,666,256
Loans and Receivables	4,697,449,566	3,477,040,068	2,766,806,059	2,779,009,883	2,020,282,776
Lease Rentals Receivable	611,054,718	283,558,784	-	-	-
Financial Investments	282,268,953	268,211,272	243,177,150	201,843,587	199,999,867
Other Financial Assets	207,371,048	282,577,503	232,859,565	7,048,875	288,324,529
Investment in Subsidiary Companies	-	-	379,474,885	379,474,885	-
Property, Plant and Equipment	308,724,162	321,409,381	281,535,732	241,143,145	206,608,279
Other Assets	125,748,120	102,049,900	109,409,852	115,290,422	139,398,326
Total Assets	6,349,594,884	4,872,892,976	4,320,029,346	3,932,431,683	3,078,280,032
Interest Earning Assets	5,843,210,256	4,449,433,694	3,549,608,879	3,196,523,230	2,732,273,428
Non Interest Earning Assets	506,384,629	423,459,282	770,420,467	735,908,453	346,006,604
Liabilities					
Due to Banks	463,277,223	75,855,963	31,225,454	47,743,228	101,898,813
Due to Customers	4,624,835,030	3,563,699,800	3,070,417,410	2,776,238,605	2,165,002,302
Savings	1,554,619,398	1,607,045,443	1,585,565,955	1,484,222,353	1,500,062,897
Fixed Deposits	3,070,215,632	1,956,654,357	1,484,851,455	1,292,016,252	664,939,405
Other Non Financial Liabilities	73,488,805	165,765,352	96,909,412	53,841,982	93,922,901
Post Employment Benefit Liability	26,415,691	20,796,934	16,088,241	17,109,256	17,952,857
Other Liability	26,966,364	-	19,849,927	-	2,008,696
Total Liabilities	5,214,983,113	3,826,118,050	3,234,490,444	2,894,933,071	2,380,785,569
Shareholders' Funds					
Stated Capital	890,000,020	890,000,020	890,000,020	890,000,020	540,000,020
Reserves	244,611,750	156,774,907	195,538,882	147,498,592	157,494,443
Other Information					
Number of Staff	548	540	602	572	543
Number of Branches	30	30	30	30	30
Number of CSCs	21	22	28	32	32
Profit Before Tax Per Employee	208,219	(81,221)	127,094	(35,785)	18,932
Profit After Tax Per Employee	146,871	(63,955)	76,647	(20,619)	(6,862)
Total Assets Per Employee	11,586,852	9,023,876	7,176,128	6,874,881	5,669,024
Employees Per Branch	7	7	8	8	7

Capital Adequacy Ratio (Rs.)	2018	2017	2016	2015	2014
Tier I	20.19%	25.02%	32.00%	30.66%	29.13%
Tier II	20.19%	25.02%	20.32%	18.93%	29.13%
Tier I (New Framework w.e.f 1 July 2018)	14.83%	-	-	-	-
Tier II (New Framework w.e.f 1 July 2018)	14.83%	-	-	-	-
Financial Indicators					
Return on Assets (ROA)	1.43%	(0.75)%	1.12%	(0.34)%	-0.11%
Return on Equity (ROE)	7.38%	(3.24)%	4.35%	(1.36)%	-0.58%
Equity to Assets	17.87%	21.48%	25.13%	26.38%	22.66%
Net Assets Per Share (Rs.)	16.81	15.51	16.08	15.37	12.92
Dividend Per Share (Rs.) *	0.53	NIL	NIL	NIL	NIL
Return on Interest Earning Assets	22.23%	21.36%	21.78%	21.14%	16.76%
Cost of Fund	9.55%	8.33%	8.64%	8.28%	7.00%
Interest Spread	12.68%	13.02%	13.15%	12.86%	9.76%
Net Interest Margin	14.36%	14.74%	19.78%	14.90%	13.76%
Portfolio Yield	23.89%	23.33%	31.74%	25.70%	23.21%
Staff Cost : Net Income	35.69%	44.32%	41.40%	50.00%	52.00%
Cost : Net Income	77.52%	84.26%	81.80%	91.40%	109.40%
Efficiency Ratio	69.70%	78.27%	75.35%	87.25%	105.32%
Debit : Equity	486.71%	352.72%	260.65%	320.35%	289.65%
Earnings Per Share (Rs.)	1.19	(0.51)	0.68	(0.19)	0.17
Shareholders' Fund to Deposit	24.53%	29.37%	37.10%	42.00%	29.20%
Liquid Assets Ratio	12.47%	20.39%	26.20%	16.50%	30.00%
Assets Quality Indicators					
Gross NPA Ratio	6.2%	9.8%	8.0%	5.0%	12.9%
Net NPA Ratio	3.6%	4.5%	3.1%	2.8%	3.1%
NPA to Assets	5.1%	8.0%	5.5%	3.7%	9.4%
Provision to Advance	2.7%	5.6%	5.1%	3.1%	9.8%
Provision Cover	45.8%	57.1%	63.0%	60.8%	76.0%

* Calculated based on proposed final dividend which is to be approved at the Annual General Meeting

Branch Network



Ref	Region	Branch	Telephone No	Address	Contact Details	
					Fax No.	E-Mail Address
1	Region 1	Gampaha	335111666-7	No. 40/1/1, Colombo Road , Gampaha.	0332 222 075	gampaha@sdf.lk
2		Chilaw	325111666-7	No. 66, Kurunegla Road, Chilaw.	0322 222 453	chilaw@sdf.lk
3		Borella	115942666-7	Nagarodaya Centre, No. 155/1, Baseline Road, Borella, Colombo 8	0112 693 845	borella@sdf.lk
4		Panadura	385111666-7	No. 322, Galle Road, Panadura	0382 233 400	panadura@sdf.lk
5		Homagama	115944666-7	No. 119/1/1. Katuwana Road, Homagama.	0112 895 506	homagama@sdf.lk
6	Region 2	Ambalantota	475111666-7	No. 141/2, Tissa Road, Ambalantota.	0472 225 210	ambalantota@sdf.lk
7		Galle	915111666-7	No. 110, Olcott Mawatha, Galle.	0912 227 096	galle@sdf.lk
8		Matara	415111666-7	No. 451 , Anagarika Dharmapala Mawatha, Pamburana, Matara.	0412 234 998	matara@sdf.lk
9	Region 3	Ampara	635111666-7	No.20, 6th Lane, Ampara.	0632 224 962	ampara@sdf.lk
10		Monaragala	555115666-7	No. 304/1, In front of Banck of Ceyloen, Kachcheriya Junction, Monaragala.	0552 273 789	buttala@sdf.lk
11		Badulla	555111666-7	No. 377, Passara Rd. Viharagoda, Badulla.	0552 229 391	badulla@sdf.lk
12	Region 4	Jaffna	215111666-7	No. 62/20A, Stanley Road, Jaffna	0212 219 542	jaffna@sdf.lk
13		Batticaloa	655111666-7	No. 132, Trinco Road, Batticaloa.	0652 223 977	batticaloa@sdf.lk
14		Trincomalee	265111666-7	No. 31 B, Kandy Road, Trincomalee.	0262 050 241	trinco@sdf.lk
15		Vavuniya	245111666-7	No.58, 1st Cross Streeet, Vavuniya.	0242 224 949	vavuniya@sdf.lk
16	Region 5	Godakawela	455112666-7	No. 58 G1/1, Main Street, Godakawela	0452 240 350	godakawela@sdf.lk
17		Balangoda	455111666-7	No. 133/A, Barnes Ratwatte Mawatha, Balangoda	0452 286 168	balangoda@sdf.lk
18		Kuliyapitiya	375111666-7	No. 82, Kurunegala Road, Kuliyapitiya.	0372 282 144	kuliyapitiya@sdf.lk
19		Kurunegala	375112666-7	No. 24, Mihidhu Mawatha, , Kurunegala.	0372 221 422	kurunegala@sdf.lk
20		Ratnapura	455113666-7	No. 177,Main Street, Rathnapura.	0452 230 182	ratnapura@sdf.lk
21		Kegalle	355111666-7	No. 245, Colombo Road,Kegalle	0352 222 712	kegalle@sdf.lk

Branch Network

Ref	Region	Branch	Telephone No	Address	Contact Details	
					Fax No.	E-Mail Address
22	Region 6	Dambulla	665111666-7	No. 707, Anuradhapura Road, Dambulla.	0662 283 354	dambulla@sdf.lk
23		Anuradhapura	255111666-7	No. 561/B-39, 4th Lane, Near New Bus Stand, Anuradhapura.	0252 224 954	anuradhapura@sdf.lk
24		Polonnaruwa	275112666-7	No21,Opposite Police Station, Kaduruwela, Polonnaruwa.	0272 223 473	polonnaruwa@sdf.lk
25		Puttalam	325111666-7	No. 116, Kurunegala Road, Puttalam.	0322 266 043	puttalam@sdf.lk
26		Medirigiriya	275111666-7	No. 18, Main Street, Medirigiriya	0272 248 777	medirigiriya@sdf.lk
27		Kebethigollewa	255112666-7	Horowpothana Road, Kebethigollewa.	0252 298 643	kebithigollewa@sdf.lk
28	Region 7	Kandy	815111666-7	No.102, Yatinuwara Weediya , Kandy.	0812 204 584	kandy@sdf.lk
29		Nuwara Eliya	525111666-7	No.29/1, Lawson Street, Nuwara Eliya	0522 235 031	nuwaraeliya@sdf.lk
30		Matale	665112666-7	No. 630, Trincomalee Street, Matale.	0662 224 801	matale@sdf.lk

Customer Service Centres

Ref	Region	Branch	Telephone No	Address	Contact Details	
					Fax No.	E-Mail Address
1	Region 1	Delgoda	115941666-7	No. 328/B, New Kandy Road, Delgoda.	0112 403 054	oicdelgoda@sdf.lk
2		Minuwangoda	335113666-7	No. 87/1/1, Kurunegala Road, Minuwangoda.	0112 281 625	oicminuwangoda@sdf.lk
3		Nattandiya	325112666-7	Marawila Road, Nattandiya.	0322 253 172	oicnattandiya@sdf.lk
4		Pasyala	335112666-7	No.178/8/3, Usaviya wattha, Pasyala	0332 284 054	oicpasyala@sdf.lk
5		Piliyandala	115945666-7	No. 24A , Vidyala Mawatha , Piliyandala.	0112 606 727	oicpiliyandala@sdf.lk
6	Region 2	Akuressa	415114666-7	No. 93, Matara Road, Akuressa.	0412 284 100	oicakuressa@sdf.lk
7		Kamburupitiya	415116666-7	Pathirana Building, Kirinda Road, Kamburupitiya.	0412 294 603	kamburupitiyacsc@sdf.lk
8		Karandeniya	915112666-7	4th Mile Post, Maha Edanda, Karandeniya.	0912 291 434	oickarandeniya@sdf.lk
9	Region 3	Kataragama	475112666-7	No. 41/B, New Town, Kataragama.	0472 236 303	oickatargama@sdf.lk
10		Mahiyanganaya	555112666-7	No. 112/8, Girandurukotte Road, Mahiyangana.	0552 257 215	oicmahiyangana@sdf.lk
11		Medagama	555113666-7	No. 22, Bibila Road, Medagama.	0552 266 048	oicmedagama@sdf.lk
12	Region 4	Kalmunai	675111666-7	No. 218, Batticaloa Road, Kalmunai.	0672 222 512	oickalmunai@sdf.lk
13		Mannar	235111666-7	No 4, Convent Road, Sinnakadai,Mannar	0262 050 241	mannarsc@sdf.lk
14	Region 5	Ruwanwella	365111666-7	No. 122, Main Street, Ruwanwella.	0362 267 920	oicruwanwella@sdf.lk
15	Region 6	Dehiaththakandiya	275113666-7	No. 62/1 E, New Town, Dehiattakandiya.	0272 250 009	oicdehiattakandiya@sdf.lk
16		Kekirawa	255113666-7	No. 27, Yakkala Road, Kekirawa	0252 265 329	oickekirawa@sdf.lk
17		Parakramapura	255115666-7	Kodithuwakku Building, Padaviya Road, Parakramapura.	0252 254 335	oicparakkramapura@sdf.lk
18		Thambuttegama	255114666-7	No. 137, Rajina Junction, Anuradhapura Road, Thambuttegama	0252 275 530	oictambuttegama@sdf.lk
19	Region 7	Digana	815112666-7	No. 15 /1, New Town, Digana, Rajawella.	0812 375 481	diganacsc@sdf.lk
20		Hatton	515111666-7	No. 3, Dimbula Road, Hatton.	0512 223 375	oichatton@sdf.lk
21		Nawalapitiya	545111666-7	No. 100/1, Gampola Road, Nawalapitiya.	0542 222 463	managernuwaraeliya@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.

Amortization
Amortization 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 amortization 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.

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.

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.

Glossary

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.

P

Parent
An entity that controls one or more subsidiaries.

Portfolio Yield
Interest earned on loans and lease receivables expressed as a percentage of average gross loans and lease receivables.

Provision
Amounts set aside against possible losses on net receivable of facilities granted to customers, as a result of them becoming partly or wholly uncollectible.

Provision Cover
Impairment charge for loans and other losses expressed as a percentage of the total of non-performing loans and lease receivables before discounting for allowance for impairment charge on non-performing loans and lease receivables.

R

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Assets (ROA)
Profit after Tax (PAT) expressed as a percentage of the average assets

Return on Interest Earning Assets
Interest income expressed as a percentage of average Interest earning assets.

Risk Weighted Assets
The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighted factors.

Return on Equity (ROE)
Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average equity attributable to the equity holders of the company.

S

Shareholders' Funds
This consists of issued and fully paid up ordinary shares, redeemable preference shares and other reserves.

Shareholder Funds to Deposits
Equity attributable to the equity holders of the company expressed as a percentage of average deposits liability.

Staff Cost to Net Income
Staff cost expressed as a percentage of total operating income.

Stated Capital
All amounts received by the Company or due and payable to the Company- (a) in respect of the issue of shares, (b) in respect of calls on shares.

Statutory Reserve Fund
A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Subsidiary
An entity including an unincorporated entity such as a partnership, which is controlled by another entity known as the Parent.

Specific Impairment Provisions
Impairment is measured individually for loans that are individually significant to the Company

T

Tier I Capital
Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital
Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term-debts.

V

Value Addition
Value of wealth created by providing leasing and other related services considering the cost of providing such services.

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 28th June 2018 at 11.00 a.m. at the SDF, Nagarodaya Building, Borella 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 2018 and the Auditor's report thereon.

3. To declare a dividend, as recommended by the Directors.

4. To re-appoint Dr. Vinya Shanthidas Ariyaratne, the 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,

BDO Secretaries (Private) Limited
Company Secretaries

31st May 2018

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.

Form of Proxy

I/We ………………………………………………… (PP/NIC No/Com. RegNo…………………………………) of ……………………………
…………………………………………………………… being a Shareholder/s* of Sarvodaya Development Finance Limited, hereby appoint:

Mr. C. De Silva	of Moratuwa or failing him*
Dr. V. S. Ariyaratne	of Ratmalana or failing him*
Mr. W. S. P. Wijewardena	of Battaramulla or failing him*
Mr. B. S. C. P. Gooneratne	of Moratuwa or failing him*
Mr. K. L. Gunawardena	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. K. A. D. Perera	of Dehiwala or failing him *
Mr. C. S. Rajakaruna	of Athurugiriya or failing him

…………………………………………….. 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 **28th June 2018 at 11.00 a.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 2018 and the Auditors' report thereon.		
2)	To declare a dividend, as recommended by the Directors		
3)	To re-appoint Dr. Vinya Shanthidas Ariyaratne, the Director of the Company who retire by rotation in terms of the Articles of Association of the Company.		
4)	To re-appoint M/S Ernst & Young, Chartered Accountants as External Auditors and to authorize the Directors to determine their remuneration		
5)	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 June, Two Thousand and Eighteen.

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 discretion will vote as he thinks fit.

3. The completed form of Proxy should be deposited at the Registered Office of Sarvodaya Development Finance Limited, at "Arthadharma Kendraya", No. 45, Rawathawatta Road, Moratuwa, 48 hours before the time appointed for the holding of the meeting.

Arthadharma Geethaya

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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
"Arthadharma Kendraya"
45, Rawathawatte Road,
Moratuwa,
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
Mr. Shakila Wijewardena
Mr. K L Gunawardana
Mr. Shevon Gooneratne
Dr. Richard Vokes
Mr. Masayoshi Yamashita
Dr. Janaki Kuruppu
Mr. Alex Dilan Perera
Mr. Chamindha Rajakaruna –Appointed w.e.f. 01st November 2017

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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“Arthadharma Kendraya” 45, Rawathawatte Road, Moratuwa, Sri Lanka.
Telephone No.: 011 5 444 666 | Fax No.: 011 2 655 122
E-mail: info@sdf.lk | Website: www.sarvodayafinance.lk