SARVODAYA
DEVELOPMENT FINANCE

Respected for Goodness

SARVODAYA DEVELOPMENT FINANCE LIMITED

ANNUAL REPORT 2019/20

While challenges marred the year that was, we did not let them deter us from our purpose. At Sarvodaya, we believe in the dreams of our customers, and we believe that offering our unstinted support in helping them realise these dreams is the stepping stone to stronger families, communities and in the long term, a stronger nation. We are a key player, therefore, in working towards the greater good, uplifting those who have not been given the opportunity to tap into their full potential. Keeping that in mind, we direct our focus on helping those who were at different stages in their entrepreneurial ventures, assisting them to recognise their strengths and their contribution to society; a mission that has reaped results as we identify with being respected for goodness.

Respected for Goodness

Contents

Organisational Overview

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

Management Discussion & Analysis

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

Stewardship

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

Financial Reports

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



Annexures

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

Key Pages

About the Report

Our Vision

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

Our Mission

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

Our Values

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

BOUNDARY AND SCOPE OF REPORTING

This report covers the period from 01st April 2019 to 31st March 2020, which coincides with our financial reporting period. The report provides an overview of the entire operations of Sarvodaya Development Finance Limited. This also includes our strategy, targets and objectives, as well as the key performance indicators for the financial year. To reflect the importance assigned to integrated thinking, the report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value.

There were no significant changes from previous reporting periods in the scope and aspect boundaries, as compared to the Annual Report issued in the previous reporting years, other than the restatements of our Financial Statements in compliance with the reporting and disclosure requirements of the first-time adoption of SLFRS 16 during the current reporting period.

MANDATORY REPORTING FRAMEWORK AND GUIDELINES

Financial Reporting

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

Corporate Governance Reporting

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

Assurance

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

This Report is available in different mediums

Online Report
You can download our 2019/20 Annual Report as a PDF file via the link below.

Mobile Response
Our website is optimised for mobile use so you can read the annual report on your smartphone.

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

www.sarvodayafinance.lk/annual-reports/

THIS REPORT IS IN COMPLIANCE CAPITAL REPORTING.

These are the legends of our capitals:

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

- Financial Capital
- Manufactured Capital
- Intellectual Capital
- Human Capital
- Social Capital
- Natural Capital

ASSURANCE

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

Further, ICRA Lanka has provided the Company's B- (negative) rating.

Printed Report

The Report presents a balanced and comprehensive overview of our activities and our performance in 2019/20, meeting the diverse needs of our stakeholders.

Our Journey

2010

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

2013

- Received the finance license from the Central Bank to commence finance business

2014

- Acquired the assets and liabilities of the Micro Finance Division of the Parent Company
- Commenced finance business with a range of new lending and deposit products

2015

- Acquired 75.54% of the issued shares of George Steuart Finance PLC to comply with the Central Bank's Consolidation Programme
- Changed the Company's name to Sarvodaya Development Finance Limited
- Enhanced the share capital by Rs. 340 million
- Received a certificate of compliance from CA Sri Lanka for our Annual Report 2015 for the first time

2016

- Introduced a fully-integrated, centralised and a real-time co-banking system for all our business operations
- Rationalised the branch network by re-branding and relocating to strategic business locations

2017

- Introduced Western Union for money transfers
- Introduced mCash for loan collection
- Changed the business strategy from micro finance based to assets-backed lending by introducing leasing and SME

2018

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

2019

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

2020

- Received a Gold Award (under Rs. 20 billion assets category) from CA Sri Lanka for our Annual Report
- Achieved a milestone profit target of Rs. 100 million
- Introduced smart POS machines to facilitate customers loan instalment and utility bill payments
- Introduced new integrated Workflow management system
- Embarked on digital content marketing to reach customer niche markets

Financial Highlights

Financial Highlights	2020	2019	Change %
Profitability (Rs. 000)			
Income	1,802,436	1,575,247	14.4%
Interest Income	1,681,679	1,433,374	17.3%
Net Interest Income	931,562	826,753	12.7%
Operating Expenses	700,911	717,895	-2.4%
Impairment Losses	119,318	94,014	26.9%
Profit Before Taxation	124,068	68,957	79.9%
Profit for the Year	101,716	41,216	146.8%
Assets & Liability (Rs. 000)			
Loans and Receivables	5,230,705	5,113,657	2.3%
Lease Rentals Receivables	1,702,847	1,102,513	54.5%
Total Assets	8,215,216	7,449,824	10.3%
Due to Customers	5,101,976	5,385,342	-5.3%
Total Shareholders' Funds	1,195,679	1,098,546	8.8%
Investor Informtion (Rs.)			
Net Assets Value per Share	17.71	16.27	8.8%
Earnings per Share - Basic	1.51	0.61	146.8%
Financial Indicators (%)			
Return on Assets (after tax)	1.30%	0.60%	117.6%
Return on Euity (after tax)	8.87%	3.70%	139.8%
Cost to Income	76.87%	83.18%	-7.6%
Net NPA Ratio	6.14%	4.67%	31.5%
Growth in Total Assets	10.27%	17.13%	-40.0%
Capital Adequacy Ratios (%)			
Tier I	12.99%	13.58%	-4.3%
Tier I & II	13.23%	13.98%	-5.4%

Net Profit
101.7 Mn ↑147 %

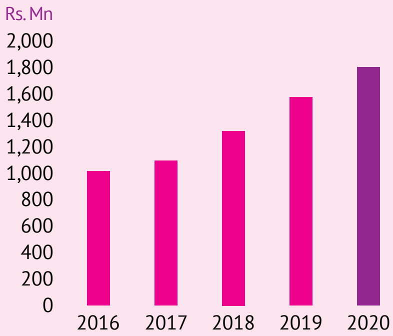
Total Assets
8.2 Bn ↑10.3%

Loan & Lease Balance
6.9 Bn ↑11.5%

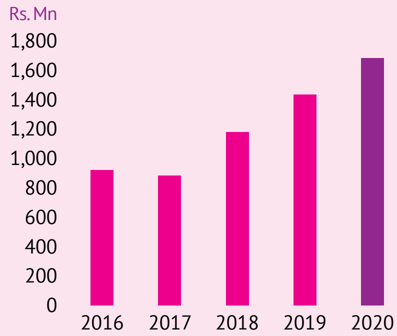
Shareholder's Fund
1.2 Bn ↑9%

Net Assets per Share
Rs. 17.7 ↑8.8%

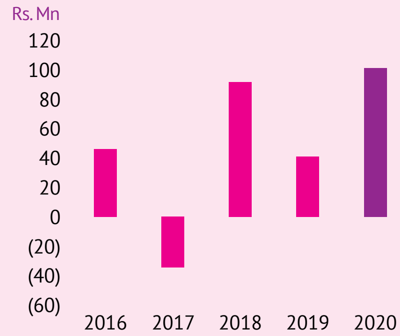
Income



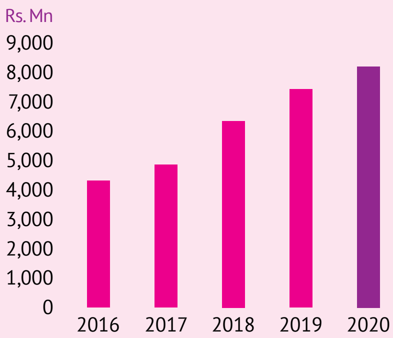
Interest Income



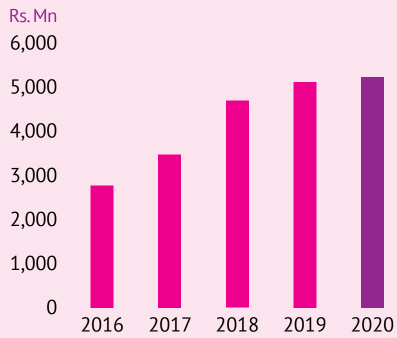
Net Profit



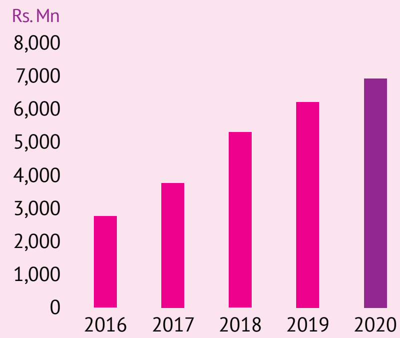
Total Assets



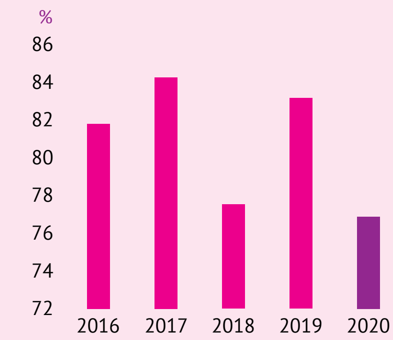
Lease Portfolio



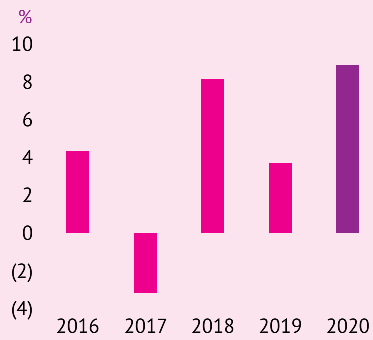
Total Portfolio



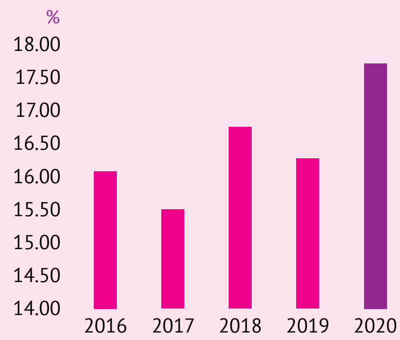
Cost to Income



ROE



Net Assets Per Share



Non-Financial Highlights

Financial Capital

Economic Value Created
1,575 2018/19 | 1,802 ↑ 2019/20

Distributed to

Depositors & Lenders		Suppliers	
Rs. 606.6 Mn 2018/19	Rs. 750.1 Mn ↑ 2019/20	Rs. 482.8 Mn 2018/19	Rs. 466.6 Mn ↓ 2019/20

Employees		Retained	
Rs. 356.2 Mn 2018/19	Rs. 363.2 Mn ↑ 2019/20	Rs. 41.9 Mn 2018/19	Rs. 97.1 Mn ↑ 2019/20

Government	
Rs. 87.8 Mn 2018/19	Rs. 125.4 Mn ↑ 2019/20

Manufactured Capital

Branches		Branches Relocated	
Nos. 30 2018/19	Nos. 30 2019/20	Nos. 05 2018/19	Nos. 05 2019/20

Customer Service Centers		Investment in Fixed Assets	
Nos. 21 2018/19	Nos. 21 2019/20	Rs. 24.0 Mn 2018/19	Rs. 23.7 Mn ↓ 2019/20

Branches Upgraded	
Nos. 01 2018/19	Nos. 02 ↑ 2019/20

Social & Relationship Capital

New Lending Products		Products Disbursements	
Nos. 03 2018/19	Nos. 03 2019/20	Rs. 3,684 Mn 2018/19	Rs. 3,668 Mn ↓ 2019/20

Customer Base		Marketing Initiatives	
Nos. 137,251 2018/19	Nos. 140,057 ↑ 2019/20	Rs. 43.9 Mn 2018/19	Rs. 24.3 Mn ↓ 2019/20

Revenue to Government		SSS Trainings	
Rs. 137.9 Mn 2018/19	Rs. 195.8 Mn ↑ 2019/20	Nos. 57 2018/19	Nos. 126 ↑ 2019/20

Payment to Suppliers	
Rs. 1,555.5 Mn 2018/19	Rs. 1,930.4 Mn ↑ 2019/20

Human Capital

	2018/19	2019/20
Total Workforce	Nos. 521	Nos. 471 ↓
Employees Trainings	Hrs 406	Nos. 320 ↓
New Recruitments	Nos. 134	Nos. 136 ↑
Employees Rewarded	Rs. 2.5 Mn	Rs. 0.5 Mn ↓
Employees Promoted	Nos. 33	Nos. 06 ↓

Natural Capital

	2018/19	2019/20
Electricity Usage	Kwh 523,541	Kwh 546,648 ↑
Fuel per Rs. Million of Revenue	Litre 67.1	Litre 70.7 ↑
Electricity per Rs. Million of Revenue	Kwh 332.4	Kwh 303.4 ↓
Energy Usage per Employee	Rs. 55,058	Rs. 67,417 ↑
Fuel Usage	Litre 105,729	Litre 127,458 ↑

Sarvodaya Development Finance consistently aims for quality in all aspects of our business. In this regard, we were the recipients of the,

Gold Award

Finance Companies and Leasing Companies

(Total Asset up to LKR 20 Bn) category

at the 55th Annual Report Awards held last year

Respected for our commitment

Being a businessman engaged in 'Papino' farming is unique to me. I grow this fruit not just for making money by selling to super markets, but also to help diabetic patients with a caring mind. This fruit is rich with ingredients that has Ayurvedic values. I make 'Papino' fruit juice and sell retail too. For the past two and a half years, SDF has been my well-wisher and the partner in my success.

SDF realised my commitment and helped me to accomplish success.

Chairman's Message

"SDF's digital strategy is our future strength. Our current digital platforms will be further enhanced to make SDF a fully-fledged digital entity with seamless digital connectivity between clients and SDF offices. All aspects of the business model will be digitised to enable greater flexibility and reach, with enhanced controls and efficiency."

Mr. Channa de Silva
Chairman

Perpetuating talent to achieve our goals

While the financial year 2019-20 was one of the worst years for the Sri Lankan economy and the entire world, paradoxically, it was probably one of the best years for SDF. Our numbers speak for themselves, where our bottomline has grown by over 145%. This is highly significant, as Sri Lanka's economy was at one of its lowest points within the last two decades during the financial year 2019-20. Private sector credit growth crashed from 11.26%, to 6.38% within the financial year ending March 2020 and asset growth of the finance company sector slowed to 2.06% in 2019, compared to the 18.5% growth in the previous year. The performance of the Colombo Stock Exchange for the year ending March 31st 2020 was a negative 17% and the exchange rate against the US dollar continued to slide from Rs. 176 to Rs. 188 by end-March 2020. The continued depreciation of the rupee demonstrated the weakness of the economy, along with weaknesses in all economic indicators, as reflected in the 2.3% GDP growth recorded in 2019.

Despite these unprepossessing economic indicators garnishing the past year, the economy is showing promise, principally as the private sector engine remains committed and robust. Attempts by the Government to reduce the Treasury Bill rates, which had declined by over 3% during the year, augers well for the country. The prime lending rates have also seen a significant reduction of almost 3%, from a high of 12.23% in early April 2019, to a more moderate 9.29% by the end of March 2020. Further attempts are being made to bring the Average Weighted Prime Lending Rate (AWPLR), which is a key denominator of bank lending rates, to a mid, single digit number, as well as to bring lending rates down to a single digit for industries. This will coerce long overdue structural changes to the economy, including a significant decline in deposit rates, while borrowing rates will become more affordable and also redirect funds from deposits, into other areas of investments. We strongly believe this is a growth-oriented change that would precipitate an upswing in GDP growth within the mid to long term. As businesses are motivated to borrow, investment flows into exports and other sectors, which are less complicated and easier to invest in, will increase. This will contribute towards stabilising the currency in the future. Investments by rural entrepreneurs in the production of goods, will be a critical component of this new economic model, particularly as imports for the next one year at least, may be fairly constrained and local producers will have to step in, to fill the gaps.

Chairman's Message

Given the unavoidable reliance on the internet during COVID-19 lockdowns, the country has leapfrogged by about five years into an internet era and many businesses have transitioned rapidly into internet businesses. Banking is now in a different league with bill payments and online transactions. Unfortunately, the cost of internet access remains high in Sri Lanka and this will be a deterrent to the mass migration of the country on to the internet. It is critically important that policymakers in this arena bring down the cost of internet charges significantly, with other positive measures in the telecommunications industry.

Retail recovery remains slow, as cash has become king and consumers are reluctant to part with their money. However, there is a growing appreciation of a more sustainable way of life and also more sustainable business models, which is a change of attitude that should be leveraged to build a more sustainable economic model.

Export markets are becoming increasingly difficult to penetrate, as most countries are following some form of import substitution and restrictive economic and trade models. In addition, logistics costs are rising, while COVID-19 has closed some of the doors in world trade. The doorways to tourism, for instance, will remain at least partially shut for a while. Therefore, the country will have to strengthen domestic tourism. Export production will also have to be recalibrated to respond to changes in export demand.

Facilitating financial flows into businesses and into the rural economy, particularly the SME sector, therefore, will be vital to support economic recovery and to build a more sustainable and equitable economic model.

Outlook and plans

Despite the dramatic changes overtaking the Sri Lankan economy, we have a fairly positive outlook for SDF over the short to medium term.

Relative to mainstream finance companies, which are concentrated in the Western Province, SDF is less affected due to our predominantly rural footprint. Only one of our 52 branches/service centres are in Colombo, and our rural bases continue to function in a reasonably satisfactory way, and did so even during the height of the COVID-19 period. Therefore, we have reason to remain optimistic that the agricultural rural economy and domestic economy in villages will continue to function. Recovery will predictably take longer in economic sectors which are dependent on global supply chains and depend on export demand. The recovery period in the rural segment may not be as prolonged. Therefore, on a comparative basis, we believe our primary markets will remain resilient.

As part of our commitment to the rural economy, SDF is investing in developing village entrepreneurs through practical advisory services, ranging from international level product packaging and presentation, to Internet-based marketing and outreach. We also help them develop critical skills, such as accounting and taxation, innovative thinking and problem solving. The Credit Plus scheme which is now partially operational will be implemented in full, to assist entrepreneurs transition into the next level.

SDF's digital strategy is our future strength. Our current digital platforms will be further enhanced to make SDF a fully-fledged digital entity with seamless digital connectivity between clients and SDF offices. All aspects of the business model will be digitised to enable greater flexibility and reach, with enhanced controls and efficiency.

We will also continue to explore international credit lines to offer funds at a reasonable cost to our clientele, and we will continue our efforts to enhance our share capital. We strongly believe in broad basing share ownership of SDF to create a unique finance company, which is owned by a social movement and a charitable organisation. The profit-orientation will be balanced by a development-oriented approach, where development and wellbeing of entrepreneurs and all stakeholders, is at the heart of the organisation. To realise this aspirational model, we hope to facilitate an equity share in SDF, for local and global impact-investors to participate in our equity drive, not only with their finances, but also with their technical expertise and experience gained across the world. Therefore, our capital enhancement drive will be both local and international. Our objective is to position SDF internationally as a case study and leading example of an organisation that delivers micro and SME solutions to empower rural communities.

A vital component of our growth plans is our employees. Our employees have a very special place in our organisation because we value them and see value in their happiness and progress. Therefore, we will continue to invest in employee welfare and skills development.

"A vital component of our growth plans is our employees. Our employees have a very special place in our organisation because we value them and see value in their happiness and progress. Therefore, we will continue to invest in employee welfare and skills development."

We share as a motto, what is termed in Sri Lankan village parlance as " ඇම්ම (passion), ගැම්ම (drive), රැදාව (relentlessness)," in the pursuit of success. Our recruitment process, strategies, and actions to fulfil our strategies, are based on this attitude. We have entrenched this mindset passionately into the DNA of the organisation. Therefore, it is easy for all of us to deliver the results that are most important to the organisation. Directed by the ඇම්ම, ගැම්ම, රැදාව (passion, drive and relentless pursuit) that come from our hearts, we always try to improve our services for our customers and other stakeholders.

Therefore, I take this opportunity to thank our loyal customers, who have been with us for over 30 years. We look forward to serving your needs even better in the future. The 60-year-old Sarvodaya Movement is the heart of this organisation and I thank the founder President, Dr. A T Ariyaratne, for his great encouragement and constant guidance. I also extend my sincere thanks to the current Sarvodaya leadership, including the President Dr. Vinya Ariyaratne, the Board of Sarvodaya and the entire Sarvodaya Movement for their unstinted support of SDF. I fully appreciate the contributions made by all other stakeholders, including the Centra Bank of Sri Lanka and the leading banks in the country for supporting us and working with us. I must also make special mention of our management team, headed by our CEO, Mr. Nilantha Jayanetti, and the staff of SDF, for their great effort, outstanding commitment, and passionate approach to doing new things with great responsibility and enthusiasm. I thank the Board of Directors of SDF who have greatly assisted us in this journey of ours. Together we look forward to many successful years ahead of us, to achieve our main objective of empowering village businesses, entrepreneurs and all other stakeholders, through committed hard work and creative approaches towards doing business.

Sincerely

Mr. Channa de Silva
Chairman

26th June 2020

CEO's Review

"All performance indicators of our existing branches have continued to improve, as is evidenced by the current year's financial performance. There have been significant changes for the better in the mindset of our employees within the last few years, towards a performance-based, open and cooperative work culture."

Mr. Nilantha Jayanetti
Chief Executive Officer

Perpetuating the innovation to think differently

I am pleased to report that SDF has made encouraging progress in terms of financial performance in the financial year 2019-20, despite the year going on record as one of the most challenging periods faced by Sri Lanka's financial sector. I believe our outstanding results for the year are due to SDF's business ethics, which are rooted in the Sarvodaya philosophy of mutual cooperation and caring for each other.

Overview of Financial Performance

Although the financial year 2019-20 commenced inauspiciously, with the Easter Sunday bombings that disrupted financial services and economic activities, and ended with the emergence of a global pandemic that effectively halted businesses activities for weeks on end, SDF has recorded robust financial growth. In fact, SDF has been able to overshoot the financial targets set for the year. Our operating profit overshot the target by a whopping 126%, hitting Rs. 102 million, compared to the target of Rs. 81 million.

Our total revenue for the year increased by 14.4%, from Rs. 1.6 billion in the previous financial year, to Rs. 1.8 billion. The profit before tax increased by 48.1% from Rs. 156.7 million, to Rs. 232.1 million and the after tax profit increased by 146.8%, from Rs. 41.2 million to Rs. 101.7 million.

It is also noteworthy that SDF's cost-to-income ratio has been improving over the past few years. The cost-to-income continued to strengthen from 83.2% in the previous year to 76.9% in the current year, demonstrating the efficiency gains we have made in our operations, despite constrains on accessing low cost public deposits. Our Return on Assets improved from 0.7% at the end of the previous financial year, to 1.3% by the end of the current financial year and the Return on Equity improved from 3.7% to 8.9% during this period.

All performance indicators of our existing branches have continued to improve, as is evidenced by the current year's financial performance. There have been significant changes for the better in the mindset of our employees within the last few years, towards a performance-based, open and cooperative work culture.

CEO's Review

Reflecting the overall financial industry situation, SDF's non-performing loan (NPL) ratios have increased slightly due to the sudden disruption of economic activities during the year and also, the Government moratorium on lease repayments for COVID-19 impacted businesses. However, our NPLs are well within the industry average. The gross NPL was 11.8% as at end March 2020, compared to 9.4% at the end of the previous financial year. I can assure our shareholders that we have instituted industry best practices for both lending and recoveries, which I believe will prevent a sudden surge in the NPL ratio. I urge our shareholders to kindly refer the Financial Capital chapter of this report for a more detailed explanation of SDFs current financial status.

Overview of Sectoral Performance

SDF's entire asset book has continued to grow. SME lending recorded excellent growth of 11%, supported by the Sarvodaya Societies. The 51 SDF branches actively promoted SME finance, and we also stepped up our digital promotional drive through social media networks. We are actively using digital tools, such as on geo fencing and awareness building campaigns on social media, together with traditional spot promotions, focus groups and even street promotions.

It is most satisfactory to note that through our leasing and lending facilities we have helped modernise Sri Lanka's agriculture sector by allowing our farmers access to modern machinery and equipment. Our partnerships with leading brands have made it possible to provide the latest and best in tractors, trucks, harvester machines and other equipment. To support the farming community, we arrange flexible repayment terms based on harvesting seasons, which allows farmers the freedom to repay when they earn incomes and reduces repayment stress on farming families. As result, our leasing portfolio has recorded a 59.0% growth year-on-year.

The micro lending category also expanded by 11.9% during the year. SDF's micro lending is channelled through the island wide Sarvodaya Societies that have bases in almost all Sri Lankan villages, providing reliable, trustworthy and direct access to rural micro entrepreneurs and cottage industries. We have empowered the Sarvodaya Societies by providing digital technological support to interact with borrowers and educate potential entrepreneurs on SDF services. I am pleased to note that lending activities of Sarvodaya Societies recorded a 16.7% growth during the year.

Although gold loans were not the priority for SDF in the year under review, this has increasingly become an important avenue for rural communities to access credit. Therefore, we have recruited a dedicated specialist to promote and grow this product in a manner that does not exploit the rural poor and ensures fair returns for rural families. I am confident SDF can provide a secure, more equitable pawning/gold loan service for our people, compared to the unregulated and unscrupulous informal money lenders who charge exploitative interest.

Our deposit base expansion on the other hand, is not up to expectation. This is more due to a Central Bank policy change, than COVID-19 or the Easter bombings. A Central Bank policy change has narrowed the interest gap between banks and finance companies, and reduced the advantage enjoyed by finance companies. Against this change in competitive environment, our deposit base declined by 5% year-on-year. SDF's total deposit base stood at Rs. 5.1 billion as at the end of the current financial year, compared to Rs. 5.4 billion in the previous year.

Due to the lower availability of public funds, SDF's share of bank borrowings increased by 90.8% year-on-year, to Rs. 1.6 billion. Fortunately, the cost differential between public deposits and bank borrowings, is not excessive.

SDF Tech Drive

SDF's decision to adopt a technology-based growth strategy has, in hindsight, proved to be not only cost efficient but also farsighted. As a result, SDF was better placed to survive the prolonged COVID-19 lockdowns. Our digital platforms, decentralised processes and tech-savvy management and staff, were ready and equipped to shift rapidly from the traditional business model, to a fully digital model.

The SDF IT support system was rapidly extended to ensure all Board meetings and other meetings were conducted online and on time. It is a matter of pride that even during the height of COVID-19 containment measures, we did not receive a single customer complaint regarding our services, and that all regulatory compliance protocols were observed on time, to ensure uninterrupted operations of our governance systems.

In addition, we have already extended our technology platforms all the way to our partners, the Sarvodaya Societies, located in villages scattered across the country. This extended digital network allowed us to provide a unique and urgent service to our rural customers, by facilitating essential transactions, such as utility bill payments and urgent fund transfers, through Sarvodaya Societies. It gives me great pleasure to record that 33,937 village individuals made digital fund transfers and payments, many for the first time in their lives, during this period, thanks to our digital support system. I believe this experience, which has built trust among village communities in digital systems, will help the transition from traditional financial services, to digital finances.

SDF Support for Entrepreneurs

A highlight of the year was the SDF Village Business Festival in July, to promote the three concepts of sustainability, recycling and upcycling. These businesses were invited to showcase their products in Colombo, to be promoted globally by SDF. The event was sponsored by the Hatton National Bank (HNB) and 150 entrepreneurs from across Sri Lanka participated. It is a source of great happiness to me that these businesses were connected

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Following the success of the Village Business Festival, we organised a two-day training on marketing and branding, online skills and packaging, with the collaboration of the Sri Lankan packaging industry, Sri Lanka Institute of Marketing (SLIM), the Sri Lanka Export Development Board (EDB) and the Postgraduate Institute of Management (PIM) of the Sri Jayewardenepura University, at the Sarvodaya Higher Learning Institute, in Bandaragama. This event imparted essential knowledge to our entrepreneurs to successfully market their products.

Future outlook

It is increasingly clear that we operate in a VUCA world (volatility, uncertainty, complexity and ambiguity) and it is imperative that we maintain an outside-in approach to always be ready to face anything. Having said that, I also believe Sri Lanka will recover faster than expected, because Sri Lanka as a country is very resilient. Another plus point for SDF is that COVID-19 impacts are lower at a rural level. Even during the lockdowns, farming, fishing and many other rural livelihoods that supply the local market continued. Therefore, provided rural entrepreneurs have access to affordable funding, I believe the rural economy will remain resilient and will support overall economic recovery. SDF is well positioned to support this rural economic growth by channelling funds and digital financial solutions deeper into the rural economy.

There is a general view that Sri Lankan villagers don't know to use technology. This is an anachronism. The new age rural youth are tech-savvy and willing to experiment with new technologies. SDF is prepared to tap into this new generation through popular digital platforms and digital solutions.

On that hopeful note, I conclude by thanking the Chairman and the Board for their invaluable support and confidence in me. My sincere gratitude goes out to our management and staff, and also to the Sarvodaya Movement and Sarvodaya Societies that are our trusted partners. We could not have achieved our success, without all of you. Our customers are the reason for our existence and I thank them for their patronage and loyalty. I also extend my gratitude to the many other business partners who stood by us during a challenging year. I look forward to working together to overcome any challenges that may come our way in the new financial year.

Sincerely

Mr. Nilantha Jayanetti
Chief Executive Officer

26th June 2020

Board of Directors

Seated Left to Right

Ms. Shehara de Silva, *Non-Executive/Independent Director*
Mr. Channa de Silva, *Chairman – Non-Executive/Independent*
Dr. Janaki Kuruppu, *Non-Executive/Independent*

Standing Left to Right

Dr. Richard W A Vokes, *Non-Executive/Independent*
Mr. C. Amrit CanagaRetna, *Non-Executive/Independent*
Mr. Sunil de Silva, *Non-Executive/Independent*
Mr. Chamindha Rajakaruna, *Non-Executive/Non-Independent*
Mr. Masayoshi Yamashita, *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 is also founder Chairman of Capital Media. 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 network panel of the Association of Chartered Certified Accountants (ACCA – UK) as well as Sri Lankan council member of the Chartered Institute for Securities & Investments (CISI – UK). He 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 the Graduates Association of the University of Colombo. He is also an Edward Mason Fellow of Harvard University and served as a Teaching Fellow in Public Finance at the Harvard Kennedy School.

Dr. Richard W A Vokes

Non-Executive/Independent

Appointed to the Board in March 2013, Dr. Richard Vokes is the Chairman of its Integrated Risk Management Committee. Dr Vokes currently works as an Independent Economic Consultant. From 1991-2011, he worked for the Asian Development Bank where he held a number of senior positions including Country Director for Nepal and later Sri Lanka. He has also been a Board Member of the Himal Hydro and Gorakali Tyre Company in Nepal, the South Asia Gateway Terminals and the National Development Bank (NDB) in Sri Lanka. Dr. Vokes was the Assistant Professor of Rural Development Planning at the Asian Institute of Technology (AIT), Bangkok, Thailand, from August 1978 to December 1982. Between 1985 and 1991, Dr. Vokes was Lecturer in Economics and South East Asian Studies at the University of Kent, Canterbury, UK.

Specialising in Economic Development of South and South East Asia, Dr. Vokes has extensive experience in conflict and post-conflict environments and disaster reconstruction and rehabilitation, policy dialogue and project and programme management. In addition to Sri Lanka and Nepal, Dr. Vokes has work experience in Thailand, Philippines, Malaysia, Lao PDR, Vietnam, Bhutan, Maldives, Cambodia and Myanmar. Dr. Vokes holds a PhD in Economics from the University of Hull (1978), Certificate of Education in Economics, Hull College of Education (1973) and BA (Hons.) in Economics and South East Asian Studies from the University of Hull (1972).

Mr. Masayoshi Yamashita

Non-Executive/Non-Independent

Born in Tokyo in 1973, Mr. Masayoshi Yamashita holds a degree from the Department of Political Science at Hosei University (Japan) and currently serves as the President and CEO of Gentosha Total Asset Consulting Inc. Mr. Yamashita began his career at the Sanwa Bank (now MUFG Bank, Ltd.), as a coverage banker for corporate clients at the bank's Iidabashi Branch, Hibiya Branch and Corporate Banking Division of Tokyo Headquarters. There, his duties included providing support for corporate funding, overseas expansion, and management finance strategies, offering settlement solutions, and making proposals to company owners looking to establish business succession frameworks.

At the Sanwa Bank Headquarters, Mr. Yamashita not only gained experience as a credit inspector and president's secretary but also developed expertise in crisis management support. After joining Gentosha Inc. (a Japanese publishing firm) in 2006, Mr. Yamashita served as a business management specialist in the Business Management Department, utilising the experience he had gained in IR, stockholder relations, internal control development, IPO preparation, MBO and other initiatives for listed companies from a corporate perspective. In 2012, Mr. Yamashita helped found Gentosha Total Asset Consulting Inc. and now also holds several concurrent positions, including Executive Officer of Gentosha Inc.

Dr. Janaki Kuruppu

Non-Executive/Independent

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

Starting her career as an entrepreneur, Dr. Kuruppu was 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 and The Green Building Council and a Director of the Presidential Secretariat.

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

Mr. Chamindha Rajakaruna

Non-Executive/Non-Independent

Mr. 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 a Director of Sarvo-Tec (Pvt) Ltd., and the Sarvodaya Institute of Higher Learning. Mr. Rajakaruna is also an Attorney-at-Law in the Supreme Court. Democratic Social Republic of Sri Lanka.

Mr. C. Amrit CanagaRetna

Non-Executive/Independent

An experienced and qualified ex-banker with over 35 years of international and local experience specialising in retail and corporate conventional and Sharia based financing, with the last seven years ending 2017 heading Corporate and SME Business Banking areas of Islamic Financing at Amana Bank PLC as its Vice President – Business Banking. Previously he has been the Deputy General Manager of Pan Asia Bank PLC. He is skilled at financial advisory services relating to working capital funding to financial institutions, corporates, small and medium sized industries, start-ups including foreign trade financing and construction finance. Having commenced his career at European Asian Bank in 1981, he has since worked for over eight banks both locally and internationally. Apart from his banking experience, he was the CEO/Director of a Central Bank approved finance company and has been a Financial Consultant to both private/Government entities.

Currently, Mr. Amrit is pursuing his passions in representing luxury brands in Sri Lanka in his capacity as Director – Strategic Investments of Royal Lanka Agencies (Pvt) Ltd; Sole Agents for MontBlanc, Baume & Mercier, Raymond Weil, Frederique Constant and Alpina Swiss brands. He is an associate member of the Chartered Institute of Bankers, UK and of the Institute of Credit Management, UK.

Ms. Shehara de Silva

Non-Executive/Independent Director

Ms. Shehara De Silva was appointed to the Director Board of SDF on 27th June 2019. An experienced international communication and marketing expert, with a track record of high impact strategy development in Malaysia and Sri Lanka, Shehara has been behind the success of several local, regional and Fortune 500 multinational brands.

Ms. Shehara has worked over a decade with Omnicom companies beginning as Director Planning of Naga DDB and later Managing Director of Interbrand Malaysia one of the world's leading brand consultancies. She ended up as Group Chief Strategy Officer of Foetus International with oversight over Naga DDB, Rapp, Tribal DDB Milk PR, covering a spectrum of companies in digital and interactive marketing, PR, media and publishing, and advertising. She is on the Board of Keells Foods PLC, The Biomass Group, The Neelan Thiruchelvan Trust, Informatics Institute of technology and The Music Project. She has been previously on the boards of The Arthur C Clark Centre for Science and Technology, and Eagle Fund Management. She has also worked in the development sector with ILO, Internews, USAID, NORAD, GIZ Plan International, etc.

Board of Directors

She was Deputy Director General Marketing and Promotion of the Board of Investment (BOI), trained on attracting FDI at the IDA in Ireland. Innovative Public private Partnerships such as Lanka Link/ Cap Gemini, and the diaspora engagement and knowledge transfer initiative - 'Return to Lanka' was initiated. Known for her creative conceptual air, she has being linked to several iconic transformation and CSR strategies, including 'Developing Young Minds', 'Planet Internet', the 'StART Foundation', MAS Women Go Beyond, etc. As CEO and Founder of ESP consult she created PET (People Empowerment through Technology) and SETTLE (Social Equity Through Teaching and Learning English).

She facilitated in the transformation of three Sri Lankan groups- Singer in retail, NDB in banking and Janashakthi in insurance. She has sat on several think tanks, judged and mentored several start-ups and innovation awards from the Eisenhower fellowship and Ray awards, to MIT global start-ups and the Roger Herschel creativity awards. She has spoken extensively at international conferences on branding, strategy and gender issues and won several International marketing and women leadership awards.

Mr. Sunil de Silva
Non-Executive/Independent

Mr. Sunil De Silva is a professional banker with over 41 years of experience in the areas of corporate banking, retail banking, micro finance, general banking, credit management and recoveries. He has commenced his banking career with Bank of Ceylon in 1974. Mr. De Silva has served as the Senior Deputy General Manager, Seylan Bank PLC and the Deputy General Manager of Pan Asia Bank PLC. He holds a Bachelor of Arts degree from University of Peradeniya.

Mr. De Silva is a Fellow of the Institute of Bankers of Sri Lanka. He has also served as the High Commissioner of Sri Lanka to South Africa (2015 - 2018) and Kenya (2018 - 2019). He was Sri Lanka's Permanent Representative to UN Environment Programme and UN Human Settlement Programme (UNHABITAT) during 2018 - 2019. He is a Lecturer in Lending and Credit Management at the Institute of Bankers - Sri Lanka and Central Bank of Sri Lanka for over 22 years. He is the author of the first banking book on credit management subject in Sri Lanka, 'Credit Management - A Hand Book for Credit Officers', which is a recommended hand book for banking exams.

He has also served as a member of the Board of Directors of Mahaweli Development Board during the period of 2005 - 2010.

Corporate Management

Left to Right
Mr. Nilantha Jayanetti, *Chief Executive Officer*
Mr. Felician Jayakody , *AGM – Credit*
Mr. Piyal Salwathura, *AGM HR*
Mr. Deshantha de Alwis, *DGM – Finance and Planning*
Ms. Sameera Kaumudi, *AGM Compliance*

Corporate Management

Nilantha Jayanetti – Chief Executive Officer

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

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

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

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

Deshantha De Alwis – DGM Finance and Planning

Deshantha De Alwis joined SDF in May 2013. He assumed duties as the Deputy General Manager – Finance and Planning. De Alwis counts over 26 years of experience in the financial services sector specialising in merchant banking, finance and planning, treasury management, MIS and administration. Prior to joining Sarvodaya Development Finance he held the positions of General Manager – Finance and Administration at Mercantile Merchant Bank Limited and was the Deputy Financial Controller at Alliance Finance Company PLC, where he gained thorough experience at the strategic level of operations in relation to all key business activities.

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)

Felician Jayakody – AGM Credit

Felician Jayakody joined Sarvodaya Development Finance Ltd from January 2018. He counts over 28 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 and re-engineering, audit, credit administration, recoveries, Islamic banking, compliance and FCBU.

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

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

Having returned to Sri Lanka from the United Arab Emirates in June 2012, 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 Jayawardenapura, 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).

Piyal Salwathura – AGM HR

Piyal Salwathura joined Sarvodaya Development Finance Ltd from August 2019. He graduated from the University of Peradeniya and he also holds National Diploma in Human Resource Management from NIBM.

Salwathura counts well over 25 years of work experience in the field of human resource management both in manufacturing and service sectors which also includes close to eight years of exposure to the finance and banking sector. He has held senior management positions in several blue chip organisations and some of them are multinationals.

Sameera Kaumudi – AGM Compliance

Sameera Kaumudi counts over 13 years of experience spanning the fields of risk management, compliance, process improvement and finance. Experienced at financial and non-financial institutions including leading conglomerates with exposure to multiple sectors such as healthcare, leisure, FMCG, power, insurance, automobile, retail, media, entertainment and financial services. Prior to joining Sarvodaya Development Finance Limited, she served Orient Finance PLC as the Senior Manager Risk and Compliance.

She is an Associate Member of the Chartered Institute of Management Accountants (ACMA – UK) and holds a Bachelors Degree in Town and Country Planning from University of Moratuwa. At present, she is reading for her Executive MBA at Commonwealth of Learning.

Senior Management Team

Seated Left to Right

Mahesh Jayasanka, *Chief Manager – Finance* | **Kelum Thilakarathne,** *Head of Leasing* | **Kularuwan Gamage,** *Head of Operations*

Standing Left to Right

Prabath Rangajeewa, *Head of Gold Loans* | **Anusha Fernando,** *Head of Legal* | **Manjula Kumarasinghe,** *Senior Manager – CAU*
Yenuka Gemal, *Senior Manager – Treasury*

Senior Management Team

Seated Left to Right

Chandana Bandara, *Head of Internal Audit* | **Nipuna Fernando,** *Head of IT* | **M A S Gunasekara,** *Senior Manager - Sarvodaya Society Development*

Standing Left to Right

Darshana Perera, *Acting Head of Recovery* | **Nirmalath Fernando,** *Senior Manager – Operations* | **Chaminda Niroshana,** *Senior Manager – SME*
Suranga Fermando, *Head of Personal Loans*

Regional Managers

Seated Left to Right
Jude Dharmasena, *Region 06* | **Chaminda Ruwan Kumara,** *Region 03* | **Thushara Cooray,** *Region 05* | **Balachandran Nawakulan,** *Region 04*

Standing Left to Right
Buddhika Sanjeewa, *Region 07* | **Amila Rajipaksha,** *Region 02* | **Sujith Asanka,** *Region 01* | **Ramesh Kanthaperumal,** *Region 08*

Branch and Customer Service Centres' Managers

Region	Branch/CSC	EPF Number	Name	Contact No (Office)	Contact No (Mobile)	Email (Office)
Region 1	Chilaw	52	Dayaratna D M I	032 5111666	0777 540588	managerchilaw@sdf.lk
	Delgoda	63	Shayamalee G G S	011 5941666	0777 547503	mgrdelgoda@sdf.lk
	Gampaha	1358	Thushara R B R	033 5111666	0761 882861	managergampaha@sdf.lk
	Homagama	443	Priyanka G H	011 5944666	0789 639462	managerhomagama@sdf.lk
	Minuwangoda	1325	Silva K S	033 5113666	0762 857084	mgrminuwangoda@sdf.lk
	Naththandiya	152	Kumara R D T L	032 5112666	0771 960463	mgrnattandiya@sdf.lk
	Panadura	816	Dealwis A S K	038 5111666	0776 744901	managerpanadura@sdf.lk
	Pasyala	51	Karunarathna W A C	033 5112666	0777 572476	managerpasyala@sdf.lk
	Piliyandala	295	Gunawardana A W C P	011 5945666	0776 920777	oicpiliyandala@sdf.lk
	Puttalam	1481	Rodrigo W S P S	032 5113666	0761 652452	managerchilaw@sdf.lk
Region 2	Akuressa	257	Kumuduni M W P	041 5114666	0768 693068	mgrakuressa@sdf.lk
	Ambalantota	48	Subasinghe S P T H	047 2225414	0777 523957	managerambalantota@sdf.lk
	Galle	32	Jayalath B H G P C	091 5111666	0777 521173	managergalle@sdf.lk
	Kamburupitiya	1458	Nisansala K L T	041 5116666	0770 503743	mgrkamburupitiya@sdf.lk
	Karandeniya	1247	Munasinghe P C	091 5112666	0778 211639	mgrkarandeniya@sdf.lk
	Matara	1159	Nawarathna T A	041 5111666	0764 081916	managermatara@sdf.lk
Region 3	Ampara	270	Bandara W M J	063 5111666	0777 525179	managerampara@sdf.lk
	Badulla	1480	Attanayaka A M D C	055 5111666	0772 896300	managerbadulla@sdf.lk
	Dehiattakandiya	37	Kumara K D N	027 5113666	0777 517069	mgrdehiattakandiya@sdf.lk
	Kataragama	65	Salamans K E	047 2236303	0777 527137	mgrkataragama@sdf.lk
	Mahiyangana	1376	Kulasekara K M D P B	055 5112666	0760 305873	mgrmahiyangana@sdf.lk
	Medagama	286	Hettiarchchi H A S W	055 5113666	0776 723380	mgrmedagama@sdf.lk
	Monaragala	1375	Bandara H M R P	055 5115666	0760 309118	managerbuttala@sdf.lk
Region 4	Jaffna	1445	Navakulan B	021 5111666	0768 121589	navakulanb@sdf.lk
	Mannar	69	Levin B S R	023 5111666	0777 528192	mgrmannar@sdf.lk
	Vavuniya	511	Ragishan S	024 5111666	0777 636019	managervavuniya@sdf.lk
Region 5	Balangoda	150	Dhanapala K V S	045 4935228	0763 167288	managerbalangoda@sdf.lk
	Godakawela	16	Jayathilake B G N	045 5112666	0777 548398	managergodakawela@sdf.lk
	Kegalle	290	Perera P A L L	035 5111666	0766 482859	managerkegalle@sdf.lk
	Kuliyapitiya	158	Fernando L H N D	037 5111666	0763 167434	managerkuliyapitiya@sdf.lk
	Kurunegala	1444	Jayaweera A M H M B	037 5112666	0764 783556	managerkurunegala@sdf.lk
	Rathnapura	1402	Amarasinghe E K M P	045 5113666	0763 415974	managerratnapura@sdf.lk
	Ruwanwella	1455	Kumara H V D A S	036 5111666	0763 823765	mgrruwanwella@sdf.lk

Region	Branch/CSC	EPF Number	Name	Contact No (Office)	Contact No (Mobile)	Email (Office)
Region 6	Anuradhapura	1476	Kodippili C S	025 5111666	0760 386981	manageranuradhapura@sdf.lk
	Dambulla	46	Anurajeewa Y G J	066 5111666	0777 524707	managerdambulla@sdf.lk
	Kebithigollewa	683	Liyanage H	025 5112666	0768 388683	managerkebithigollewa@sdf.lk
	Kekirawa	56	Dharmapala M	025 5113666	0777 507685	mgrkekirawa@sdf.lk
	Medirigiriya	14	Bandara H G G W	027 5111666	0777 589338	managermedirigiriya@sdf.lk
	Parakkramapura	1149	Dharmasena H S J S	025 5115666	0768 720670	juded@sdf.lk
	Polonnaruwa	797	Menike Y G N	027 5112666	0763 167378	managerpolonnaruwa@sdf.lk
	Thambuttegama	59	Samantha P W D	025 5114666	0777 540253	mgrtambuttegama@sdf.lk
Region 7	Digana	1354	Jayasighe I A P	081 5112666	0762 929079	mgrdigana@sdf.lk
	Hatton	57	Maweekumbura M G V	051 5111666	0777 508672	mgrhatton@sdf.lk
	Kandy	31	Bandara W M K	081 5113666	0777 538037	managerkandy@sdf.lk
	Matale	1394	Ranaraja R M R S B	066 5112666	0767 427785	managermatale@sdf.lk
	Nawalapitiya	492	Hettiarachchi C P	054 5111666	0774 791083	mgrnawalapitiya@sdf.lk
	Nuwaraeliya	35	Seneviratna W R M J	052 5111666	0777 524763	managernuwaraeliya@sdf.lk
Region 8	Batticaloa	1016	Kanthaperumal R	065 5111666	0778 195634	ramesk@sdf.lk
	Kalmunai	635	Kajenthiran P	067 5106666	0763 167369	mgrkalmunai@sdf.lk
	Trincomalee	1017	Niroshan P J	026 5111666	0778 232279	managertrinco@sdf.lk
Head Office	Borella	1141	Asanka J A D S	011 5942666	0764 831124	asankas@sdf.lk

Respected for our effort

I have been a customer of Sarvodaya since 1998, a total of 22 years. SDF, since its beginning, has been with me and supported me with over Rs.2.5 million loans to prosper my business. My papaya farm has grown from strength to strength now. For me, SDF is an invaluable part of my work and a partner in my success.

SDF recognised my efforts and helped me to become who I am now.

Stewardship

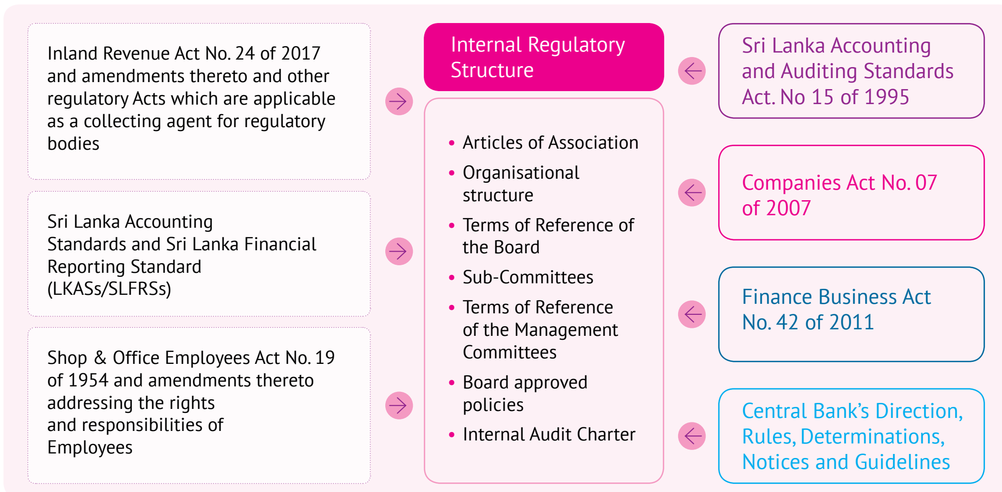
Corporate Governance

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

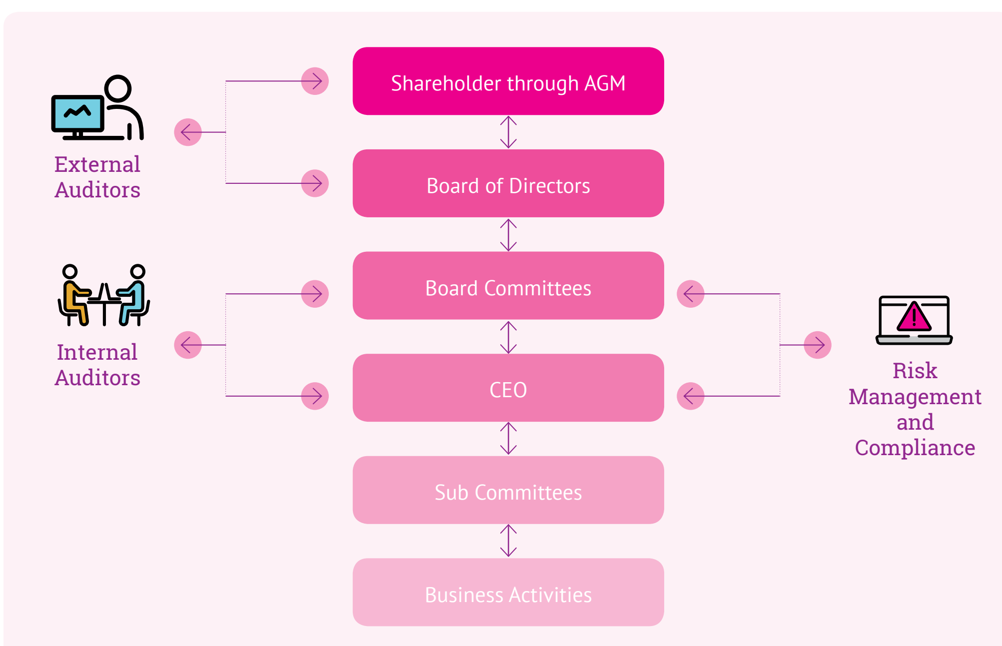
General
Good Corporate Governance is necessary in order to attain and retain public confidence in SDF. Its values – simplicity, openness and consideration – are the foundation for creating trust in the Company. These values are tied to the Company's purpose, goals and strategies and provide guidance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

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

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



Structure of Corporate Governance
- The structure for Corporate Governance and governance philosophy comprises of:
- Shareholders (through the AGM)
- Board of Directors
- CEO
- Business activities
- Independent risk control and compliance of the business activities
- Internal Audit



Annual General Meeting

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

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

Shareholder Communication

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

Board Leadership

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

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

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

Chair of the Board

The Chair of the Board has specific responsibilities, including;

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

The diverse experience, professional qualifications and competencies of the Chairman is disclosed under his profile on page 24.

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 37 of this Annual Report. The role and the responsibilities of the Chief Executive Officer, Mr. Nilantha Jayanetti, is disclosed under the 'Management's Role in the Structure of Corporate Governance', on page 43 of this Annual Report.

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

Board Composition

The Board currently comprises of six Directors which include the Chairman, who functions in an Independent, Non-Executive capacity. Four of the remaining Directors have also been categorised as Independent, Non-Executive Directors within the provision of Section 4 (4) of the Central Bank, Finance Companies (Corporate Governance) Direction 3 of 2008.

The diverse experiences, professional qualifications and competencies of the Board of Directors are disclosed under their profiles from pages 24 to 26 of this Annual Report.

Performance Evaluation

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

Corporate Governance

Mr. Channa De Silva
Chairman –
Non-Executive/Independent

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

Dr. Richard Vokes
Non-Executive/
Independent

Expertise in Banking Financial Services, Economics and Management

Mr. Masayoshi Yamashita
Non-Executive/
Non-Independent

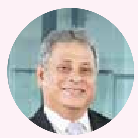
Expertise in Banking and Management

Dr. Janaki Kuruppu
Non-Executive/
Independent

Expertise in Banking & Financial Services

Mr. Chamindha Rajakaruna
Non-Executive/
Non-Independent

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

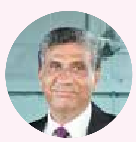


Mr. Amrit CanagaRetna
Non-Executive/
Independent

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

Ms. Shehara De Silva
Non-Executive/
Independent Director

Expertise in international communication and marketing



Mr. Sunil De Silva
Non-Executive/
Independent

Expertise in corporate banking, retail banking, micro finance, general banking, credit management and recoveries

Board of Directors

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

Retirement by Rotation and Re-Election of Directors

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

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

Changes in the Board's Composition

The following changes incurred during the year under review:

I. Appointment of New Directors

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

II. Retirement of Existing Directors

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

III. Resignation of Existing Directors

No Directors were resigned from their respective directorships during the year under review.

IV. Demise of Existing Directors

No Directors were demised during the year under review.

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

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

Separation of Functions and Responsibilities

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

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

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

Board Meetings and Attendance

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

Record of Attendance at Board Meetings is given below:

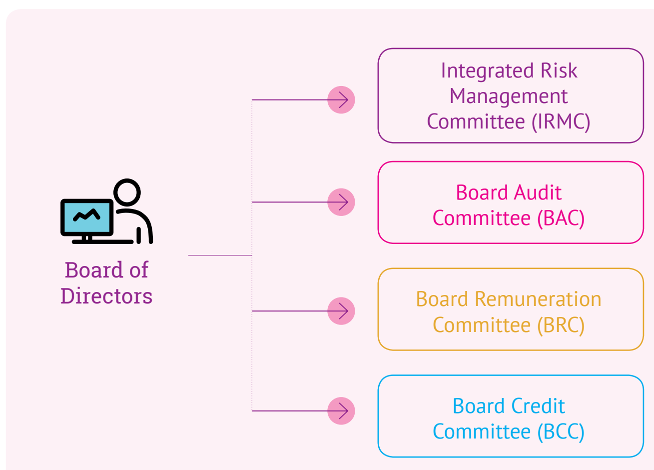
	Name of the Director	Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings											
						30/04/2019	27/05/2019	28/06/2019	26/07/2019	28/08/2019	27/09/2019	28/10/2019	25/11/2019	30/12/2019	29/01/2020	28/02/2020	27/03/2020
1	Mr. Channa de Silva		√	√		√	√	√	√	√	√	√	√	√	√	√	√
2	Dr. Richard Vokes		√	√		√	√	√	√	√	√	√	√	√	√	√	√
3	Mr. Masayoshi Yamashita		√		√	X	√	√	X	√	X	√	√	X	√	√	√
4	Dr. Janaki Kuruppu		√	√		√	√	X	√	√	√	√	√	√	√	√	√
5	Mr. Chamindha Rajakaruna		√		√	√	√	√	√	√	√	√	√	√	√	√	√
6	Mr. Amrit CanagaRetna		√	√		√	√	√	√	√	√	√	√	√	√	√	√
7	Ms. Shehara De Silva (appointed w.e.f. 27th June 2018)		√	√		-	-	√	√	√	√	√	√	√	√	√	√
8	Mr. Sunil De Silva (appointed w.e.f. 12th March 2020)		√	√		-	-	-	-	-	-	-	-	-	-	-	√

Board Appointed Committees

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

I. The Integrated Risk Management Committee (IRMC)
II. The Board Audit Committee (BAC)
III. The Board Remuneration Committee (BRC)
IV. The Board Credit Committee (BCC)

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



Duties and Responsibilities of the Board Committees

Each committee is chaired by a Non-Executive Director who has the requisite qualifications and experience and is assisted by one or more of the Non-Executive Board Directors. The committees also co-opt Key Management Personnel and relevant Senior Managers in monitoring specific areas under their purview to committee meetings, for effective discussion and decision making. They attend meetings on invitation. The respective reports of the first three committees for the year ended 31st March 2020 are given in pages 78 to 83 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. Amrit CanagaRetna	The IRMC oversees issues involving market risk, credit risk, liquidity, funding and capital. The IRMC provides oversight and advice to the Assets and Liability Committee on market risk and liquidity risk exposures. IRMC reviews and evaluates the appropriateness of the governance model adapted.	I. Assets and Liability Committee (ALCO): • Makes investments and executes asset/ liability transactions within delegated limits and manages liquidity and other market risks. The Committee ensures the development of appropriate parameters for pricing of deposits, loans and investments.	11/04/2019 21/05/2019 26/06/2019 24/07/2019 18/09/2019 18/10/2019 18/11/2019 20/12/2019 23/01/2020 26/02/2020 25/03/2020	11	4
			II. Product Development Committee (PDC): • To develop new products in-line with the Company's strategic objectives.		Not scheduled	On requirement
Board Audit Committee (BAC) (Mandatory)	**Chairman** Mr. Channa de Silva Mr. Amrit CanagaRetna	The BAC gives the Board, through its work and in dialogue with the External Auditor and the Head of Internal Audit, a greater access to information on any deficiencies in routines and organisation from the standpoint of corporate governance, risk management and control. The BAC is responsible for ensuring that processes are in place for recommendations raised by the Management Audit Committee to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored.	I. Management Audit Committee (MAC): • To implement and monitor the progress of the decisions of the BAC.	27.06.2019 26.09.2019 05.12.2019 30.03.2020	4	4

Board Committees	Members	Function	Management Committee/ Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Board Remuneration Committee (BRC)	**Chairman** Dr. Janaki Kuruppu **Members** Mr. Channa de Silva Mr. Amrit CanagaRetna Ms. Shehara de Silva (appointed w.e.f. 27th June 2019)	• The BRC prepares and recommends compensation packages issues and ensures, among other things, that compensation systems comply with effective risk management and do not encourage exaggerated risk-taking. The Committee is responsible for evaluating and recommending appropriate changes to the HR systems, policies including remuneration policies. • The BRC is empowered to review the structure and composition of the Board and make recommendations to the Board in regards to any changes that need to be introduced. The Committee is engaged in appointing of new Directors and members of the Corporate Management and also empowered with evaluating and approving the succession planning of the Corporate Management	Not assigned	22.05.2019 21.08.2019 26.03.2020	3	4

Board Committees	Members	Function	Management Committee/ Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Board Credit Committee (BCC)	Chairman Mr. Amrit CanagaRetna Members Mr. Channa de Silva Dr. Janaki Kuruppu Dr. Richard Vokes	The BCC approves credits within delegated limits, and set risk appetites for credits by evaluating and recommending the implementation of the credit risk policies in-line with the Company's strategic objectives.	I. Management Credit Committee (MCC): • To approve credits within delegated limits. The Committee is sanctioned with developing the Company's credit policy by ensuring that the concentration of the credit risks are within the risks tolerance limits approved by the IRMC.	29.04.2019 22.05.2019 20.06.2019 29.07.2019 20.09.2019 31.10.2019 19.11.2019 19.12.2019 22.01.2020 28.02.2020 26.03.2020	11	On requirement

Board Committee Meetings and Attendance

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

Name	Status	Appointment Date to the Board	Attendance 2019/20			
			IRMC	BAC	BCC	BRC
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director	19th April 2011	-	6	11	3
Dr. Richard Vokes	Non-Executive, Independent Director	07th March 2013	4	-	11	-
Dr. Janaki Kuruppu	Non-Executive, Independent Director	22nd December 2015	-	-	6	3
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director	01st November 2017	-	-	-	-
Mr. Amrit CanagaRetna	Non-Executive, Independent Director	19th October 2018	4	1	11	-
Ms. Shehara De Silva	Non-Executive, Independent Director	27th June 2019	-	-	-	1
Ms. Sunit De Silva	Non-Executive, Independent Director	12th March 2020	-	-	-	-

Management's Role in the Structure of Corporate Governance

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

Management Committees – Composition and Key Functions.

Committees	Function	Member	Designation	Meeting Sequence
Management Committee (ManCom)	• Decision-making body for major operational matters. • Overall review of performance.	Mr. Nilantha Jayanetti	CEO	Monthly
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Piyal Salwathura	AGM HR	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Nipuna Fernando	Head of IT	
		Mr. Chandana Bandara	Head of Internal Audit	
		Mr. Dharshana Perera	Acting Head of Recoveries	
		Ms. Anusha Fernando	Head of Legal	
		Ms. Indira Dias	Confidential Secretary to CEO/Secretary to the Committee	
Management Audit Committee (MAC)	• To implement and monitor the progress of the decisions of the BAC.	Mr. Nilantha Jayanetti	CEO	Quarterly and on requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Felician Jayakody	AGM – Credit	
		Mr. Piyal Salwathura	AGM HR	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Chandana Bandara	Head of Internal Audit / Secretary to the Committee	
Assets and Liability Committee (ALCO)	• To make investments and execute asset/ liability transactions within delegated limits and manage liquidity and other market risks. • To ensure developing appropriate parameters for pricing of deposits, loans and investments. • Review maturity/ reprising schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing.	Mr. Nilantha Jayanetti.	CEO	Every other month and on requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning /Secretary to the Committee	
		Mr. Felician Jayakody	AGM – Credit	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	

Committees	Function	Member	Designation	Meeting Sequence
Management Credit Committee (MCC)	• To approve credits within their delegated authority. • Develop the Company's credit policy and recommend changes to the policy, procedures and underwriting guidelines to the BCC as and when required. • Review the methodologies for assessing the credit risks and recommend appropriate credit exposure limits by ensuring that the concentration of credit risks are within the risk tolerance limits approved by the IRMC.	Mr. Nilantha Jayanetti	CEO	On requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Felician Jayakody	AGM – Credit /Secretary to the Committee	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Dharshana Perera	Acting Head of Recoveries	
Product Development Committee (PDC)	• To develop new products.	Mr. Nilantha Jayanetti	CEO	On requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Felician Jayakody	AGM – Credit	
		Ms. Sameera Kaumudi	AGM Compliance	
		Mr. Harindra Kuruppu	Chief Manager –Branch Operations & Administration	
		Mr. Nipuna Fernando	Head of IT	

Employee Participation in Corporate Governance

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

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

Financial Disclosures and Transparency

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

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

Regulatory Concerns Over Central Bank Directions, Rules, Determinations, Notices and Guidelines

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

i. Non-compliance with Minimum Core Capital Requirement

The Company has failed to meet the minimum core capital requirement of Rs.1.5 billion as at 01st January 2019 as stipulated in the Finance Business Act Direction No.02 of 2017. Also, the Company has to fulfil Rs.2.0 billion core capital requirement by December 31, 2020. The Board of Directors work with their full commitment and have taken all possible measures towards raising Rs.2.0 Billion core capital requirement.

The Board launched a Private Placement in February 2020 with the approval of the Central Bank to raise equity capital up to Rs.500 million and with provision to raise up to a total sum of Rs.1.0 billion in the event of an oversubscription of the initial issue. The NDB Investment Bank (NDBIB) with whom the Board has executed a Mandate acts as the Financial Advisors and Managers to the Issue. The Sarvodaya Movement has committed Rs.150 million equity investment through this Private Placement and the Board is confident to raise further Rs.150 million from the Sarvodaya Societies. The Board and the senior management of the Company plan to raise the balance capital requirement from other potential investors that they have discussed, both locally and internationally. The Board opines that the unprecedented outbreak of the coronavirus pandemic, might create some drawbacks to this share issue since the country is in lookdown to curtail the spread of the virus. Hence, the success or the failure of the share issue will depends on the magnitude of the coronavirus, the period the country will be in lock-down and the impact it will create to the economy. The Company did not receive any subscription for this share issue at the date of the Statement of Financial Position. In the event, this Private Placement becomes unsuccessful due to the coronavirus pandemic, the Board will take measures to arrange another Private Placement in the coming year to raise new equity capital up to Rs.1.0 billion. The Board is confident that with the committed efforts of both the Board and the senior management, the Company will be able to fulfil the core capital requirement of Rs.2.0 billion by December 2020.

ii. Violation of Provision of the Financial Transactions Reporting Act, No. 6 of 2006

Based on the on-site examination carried out by Financial Intelligence Unit (FIU) during the FY 2020, a penalty of Rs. 500,000/- was imposed due to not exerting adequate measures to screen the customers against UNSCR lists at the time of on boarding the customers. However, the said concern was addressed subsequently.

Compliance Status of Corporate Governance Principles

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

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

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2. Responsibilities of the Board of Directors			
2 (1)	The Board of Directors (hereinafter referred to as the "Board") shall strengthen the safety and soundness of the finance company by.	Complied	The Company is headed by an effective Board of Directors with local as well as international experience and qualification drawn from backgrounds of banking and financial services, accounting, management, and economics, marketing as well as community management.
2 (1) (a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company.	Complied	The strategies were re-visited and business plans were re-drawn in the year under review in line with current business model and products in pursuit. Financial projections were revised from FY 2019 to FY 2026 and presented to the Board in March 2019. The strategic business plan and the financial projections for the succeeding 6 year period ending 31st March 2026 includes overall business strategy of the Company. The revised targets were presented to the Regional Managers and Branch/ CSCs Managers/OICs at the Regional Managers meeting held in April 2019 and communicated down to the branch level.
2 (1) (b)	Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied	The strategic business plan and the financial projections for the succeeding 6-year period ending 31st March 2026 includes overall business strategy of the Company. The Company's strategic business plan contains measurable goals for FY 2020 to 2026 under long term goals and financial plan. The Company has established an Integrated Risk Management policy and risk management procedures which is adequately linked and addressing the risks arising out of the approved strategy. The Integrated Risk Management Policy was approved by the Board in April 2016. The strategy formulation revolved around devising separate strategies related to core business and support functions of the Company namely; Credit, Recoveries, Finance, Operations, Marketing and HR for the attainment of overall objectives. The Board reviewed business strategy on a regular basis by discussing their concerns on each core business with the Head, AGM or DGM in charge of the particular division. Board approves and reviews the annual budget which is derived from Company's strategic plan incorporating subsequent changes to expectations, market variables and business climate. Company's business strategy contains goals for FY 2019 to 2026 under loan-term goals and financial plan.
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	Company has a process to manage the identified risks and for the Board to discuss new strategies of the company, and the risks arising out of new strategies. The Board has delegated the function to manage risks identified by the Board to a Board subcommittee namely Integrated Risk Management Committee (IRMC) and the IRMC minutes are submitted to the Board for their review.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (d)	Approving policy of communication with all the stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	A Board approved communication policy is available addressing how the Company communicates with its stakeholders.
2 (1) (e)	Reviewing the adequacy and the integrity of the finance company's; i) Internal control systems; and	Complied	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 174 and the Assurance Report from the External Auditor on the Internal Control over Financial Reporting is disclosed on page 175.
	ii) Management of information systems.	Complied	Non-financial data are extracted from the MIS system and are compiled into presentable formats by the MIS Department. This information are then sent to the respective user departments to verify the accuracy and the integrity before submitting same to the Board and the Board subcommittees for their information and decision-making process. The Company has introduced an MIS policy approved by Board in May 2017 which clearly defined process to review the reliability and the accuracy of non-financial information which are used by the Board and the Board subcommittees and the Board ensures the adequacy and the integrity of the Company's management information system. The policy has also established a sound data governance structure that ensures the effective control of data quality for both financial and non- financial data. Further, Company has a process flow chart for Credit Administration Unit (CAU), approved by IRMC establishing responsibility to CAU to verify the accuracy and completeness of securities and data input to the Company's core-banking system. However, this process need to be strengthened by implementing an independent process to verify the integrity of the Finance Company's Management information submitted to the Board and the Board sub committees and based on results of the above process, the Board has to review the adequacy and the integrity of the MIS of the company.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (f)	Identifying and designating Key Management Personnel, who are in a position to – i) significantly influence policy; ii) direct activities; and iii) exercise control over business activities, operations and risk management.	Complied	The Company has identified and designated the KMPs as Chairman, Board of Directors, CEO, DGM, AGMs, Head of IT, Head of Legal, Head of Recoveries and Compliance Officer stated in the related party policy approved by the Board for the purpose of compliance of this Direction. The Company has followed the definition given in Sri Lanka Accounting Standards. LKAS 24 (Related Party Transactions) in defining and disclosing the transactions with its Key Management Personnel (KMPs) in these Financial Statements. The transactions that have been carried out with the related parties during the financial year ended 31st March 2020 are disclosed on pages 220 to 221 of this Annual Report.
2 (1) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	Complied	Articles 93 to 99 of the Company's Articles of Association speaks about the authority of Board of Directors under general power of Directors. Areas of authority and key responsibilities for the Key Management Personnel have been defined in their individual job descriptions. Further, authority of KMPs defined under Delegation of Authority levels assigned to KMPs by the Board
2 (1) (h)	Ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy.	Complied	The Board has a process for appropriate oversight of the affairs of the Company by KMPs. The KMPs in-charge of the key business and operational areas of the Company presents the monthly business and operational reports to the Board for their review and to take timely action.
2 (1) (i)	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including:		
	i) the selection, nomination and election of directors and key management personnel;	Complied	As per Articles 85 to 92 of the Company, Board has the power to make decisions on selection, nomination and election of Directors.
	ii) the management of conflict of interests; and	Complied	Article 115 of the Company's Articles of Association addresses the provisions on management of conflicts of interest of Directors.
	iii) the determination of weaknesses and implementation of changes where necessary.	Complied	Weaknesses and implementation of changes where necessary are ought to be determined at the Board level through the process of submission of annual Self-evaluations of the Board members. Copies of the Board evaluation forms are presented to the Board, for the Board members to discuss and critically asses how they have performed during the year and the weaknesses identified and for them to take required remedial action, if deem necessary.
2 (1) (j)	Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.	Complied	The Company has a 'Succession Plan' approved by the Board in April 2016. The succession plan approved did include a succession plan one-to-one. Since this succession plan has been established in FY 2016, the Company has already started revising the plan for better governance.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	The Board has scheduled regular meetings with the KMPs to review policies, establish communication lines and monitor progress towards corporate objectives. KMPs participate to the monthly Board meetings and explain matters relating to the operations and performance of the Company to the Board when need arises.
2 (1) (l)	Understanding the regulatory environment.	Complied	The Board has taken measures and processes are in place to understand the regulatory environment, and the Company maintains a relationship with regulators. Regulatory requirements are discussed at the Management Committee (ManCom) meetings fortnightly. A regulatory compliance report, including CBSL Returns uploaded to the 'FinNet', signed jointly by the AGM -Compliance and CEO, is submitted to the Board of Directors at each monthly board meeting for Board's review and decision-making. Also, as a code of best governance, the Board agenda includes Central Bank correspondences which enables the Board to discuss and understand the regulatory environment and to take timely and appropriate actions. Annual Compliance Plans are prepared for the IRMC and approved. They are subsequently submitted to the Board for approval. The plan is reviewed once in 6 months and amended if necessary by presenting to IRMC.
2 (1) (m)	Exercising due diligence in the hiring and oversight of External Auditors.	Complied	Article 146 of the Company's Articles of Association defines the process of appointment of External Auditors recommended by the Board at AGM. Messrs Ernst & Young, Chartered Accountants, has been appointed as the Company's External Auditors since FY 2012/13. This firm was selected from the Panel of External Auditors transmitted to all LFCs by the Central Bank's Department of Supervision of Non-Banking Financial Institutions, under Section 30 (4) of the Finance Business Act No. 42 of 2011. Oversight of the external auditors is carried out by the Board Audit Committee (BAC) and the charter of the BAC addresses the same
2 (2)	The Board shall appoint the Chairman and Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and Chief Executive Officer in-line with section 7 of this Direction.	Complied	The functions and responsibilities of the Chairman and CEO has been clearly defined and approved by the Board of Directors.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (3)	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge their duties to the finance company.	Complied	The Company has a Board approved procedure in place for seeking independent professional advice. The Board obtains independent professional advice in appropriate circumstances, at the expense of the Company.
2 (4)	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	The Company's related party transaction policy approved by the Board governs Directors' responsibilities to abstain from voting in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest. There were no such instances occurred during the period under review.
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the finance company is firmly under its authority.	Complied	The Company has a Board approved formal schedule of matters.
2 (6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Banking Financial Institutions of the situation of the finance company prior to taking any decision or action.	Complied	Liquidity position of the Company is reported to the Central Bank of Sri Lanka on a weekly basis. No such situation has arisen so far for the Board to take any decision or action or inform the Director of the Supervision of Non-Banking Financial Institutions of Central Bank of Sri Lanka.
2 (7)	The Board shall include in the finance company's Annual Report, an Annual Corporate Governance Report setting out the compliance with this Direction.	Complied	The Board has included the Corporate Governance Report in all its Annual Reports published. The Corporate Governance Report is published on pages 36 to 77 of this Annual report.
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied	The Company has adapted a scheme of self-assessment to be undertaken by each Director annually by the Compliance Officer and those records are maintained with the Company Secretary.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3. Meetings of the Board			
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied	Board has met 12 times during the year under review. There were 15 instances where the Board's consent has been obtained through the circulation of written or electronic resolutions/papers. These papers have been tabled at the immediately following Board meeting.
3 (2)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied	Company has established a procedure to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3 (3)	A notice of at least seven days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Complied	The Company has complied with the 7 day notice requirement. Agenda letters have been circulated by our Company Secretary to the Board of Directors at least 7 days prior to the Board meeting to provide all Directors an opportunity to attend.
3 (4)	A Director, who has attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director, provided that participation at the Directors' meetings through an alternate Director shall, however be acceptable as attendance.	Complied	All Directors have attended at least two-thirds of the meetings in the period of twelve months and also, attended at least one meeting of the immediately preceding three consecutive meetings held. The Board of Directors attendance at Board Meetings are disclosed on page 40 to this Corporate Governance Report. No alternative directors appointed during the period under review.
3 (5)	Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	The Board has appointed Messrs BDO Secretaries (Pvt.) Limited, as Company Secretary to carry out all functions and responsibilities in accordance with statutory and regulatory requirements.
3 (6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied	Chairman prepares the agenda and Company Secretary circulates same.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3 (7)	All Directors shall have access to obtain advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	A Board approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
3 (8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director.
3 (9)	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. Detailed minutes are kept covering the given criteria and the board minutes contain the required details such as, individual views of the different members, ultimate decision of the Board, whether complies with strategies and policies of the company and further they evidence data, reports and information used by the board members in arriving at the decisions

<table>
<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td colspan="4">4. Composition of the Board</td></tr>
<tr><td>4 (1)</td><td>Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.</td><td>Complied</td><td>At the beginning of the period under review, the Company had six (6) Board directors. Two (2) new directors were appointed to the Board as Non-Executive, Independent directors.
<table><tr><th>Period</th><th>No. of Directors</th></tr><tr><td>01.04.2019 – 26.06.2019</td><td>6</td></tr><tr><td>27.06.2019 – 11.03.2020</td><td>7</td></tr><tr><td>12.03.2020 – 31.03.2020</td><td>8</td></tr></table>
Accordingly, As at 31st March 2020, the Board consisted of eight (8) Directors inclusive of the Chairman.</td></tr>
<tr><td>4 (2)</td><td>Subject to the transitional provisions contained herein and subject to section 5 (1) of this Direction, the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period of office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.</td><td>Complied</td><td>The total period of service of Non-Executive directors have not exceed nine years.</td></tr>
<tr><td>4 (3)</td><td>Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an ‘Executive Director’) provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.</td><td>Complied</td><td>All Board Directors are Non-Executive Directors. The post of Chief Executive Officer is not that of an Executive Director.</td></tr>
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<tr><th>Rule Reference</th><th>Principle</th><th>Extent of Compliance</th><th>Affirmation/Extent of Adoption</th></tr>
<tr><td>4 (4)</td><td>With effect from three years commencing 1st January 2009, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total number of Directors. A Non-Executive Director shall not be considered independent if such Director;</td><td>Complied</td><td>The Board comprised of four (4) Non-Executive, Independent Directors at the beginning of the period under review and increased to four (6) at the end of the financial year. They met the criteria for independence as specified in this rule.
<table>
<tr><th>Period</th><th>No. of Directors</th><th>Independent Directors</th></tr>
<tr><td>01.04.2019 – 26.06.2019</td><td>6</td><td>4</td></tr>
<tr><td>27.06.2019 – 11.03.2020</td><td>7</td><td>5</td></tr>
<tr><td>12.03.2020 – 31.03.2020</td><td>8</td><td>6</td></tr>
</table>
Of the two (2) Non-Executive, Non-Independent Directors, one is a representative of the Japanese shareholder of the Company.

The Chairman and Ms. Shera de Silva hold common directorships in the Neelan Tiruchelvam Trust which is a Trust Fund.</td></tr>
<tr><td>4 (4) (a)</td><td>has shares exceeding 2% of the paid-up capital of the finance company or 10% of the paid-up capital of another finance company;</td><td></td><td></td></tr>
<tr><td>4 (4) (b)</td><td>has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in section nine hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;</td><td></td><td></td></tr>
<tr><td>4 (4) (c)</td><td>has been employed by the finance company during the two-year period immediately preceding the appointment as Director;</td><td></td><td></td></tr>
<tr><td>4 (4) (d)</td><td>has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid-up capital of the finance company or holds shares exceeding 12.5% of the paid-up capital of another finance company;</td><td></td><td></td></tr>
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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (4) (e)	represents a shareholder, debtor or such other similar stakeholder of the finance company;		
4 (4) (f)	is an employee or a Director or has a shareholding of 10% or more of the paid-up capital in a Company or business organisation;		
4 (4) (f) (i)	which has a transaction with the finance company as defined in section nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4 (4) (f) (ii)	In which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4 (4) (f) (iii)	In which any of the other Directors of the finance company has a transaction as defined in section nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.		
4 (5)	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Complied	No alternate Directors were appointed during the year.
4 (6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	The Board of Directors have the necessary competencies, and possess academic and professional qualifications in diverse fields to serve as members of the Company's Board, as disclosed in their profiles on pages 24 to 26 of this Annual Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (7)	With effect from three years commencing 1st January 2009, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors that constitutes the quorum at such meeting are Non-Executive Directors.	Complied	As per Article 105 of the Company's Article of Association, a quorum for a meeting shall be one third (1/3) of the directors. The required quorum has been complied with at all Board meetings. Since all the directors of the Company were Non-Executive directors, this requirement was met at all meetings of the Board convened during the year.
4 (8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report which shall be an integral part of its Annual Report.	Complied	Company has expressly identified and separately disclosed the names of all Independent, Non-Executive directors in all corporate communications as required by this section of the Direction. As disclosed in this Corporate Governance Report, all eight (8) Board Directors (including the Chairman) are named and identified as Non-Executive Directors. Of this number, six (6) have been expressly identified as Independent, Non-Executive Directors. The Board of Directors profiles disclosed from pages 24 to 26 of this Annual Report also provides the required details.
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	The article 92 of the Articles of Associations of the Company describes a clearly defined procedure for appointment of a new Director to the Board. The Company also has established a process for appointing new Directors to the Board.
4 (10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	Article 91 and 92 of the Articles of Association of the Company describes the process to fill a casual vacancy subject to the election by shareholders at the first AGM. There were no casual vacancies during the period under review.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (11)	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied	Resignation or removal of Directors and the reasons are duly informed to the Central Bank. There were no resignations or removal from office of Directors in the year under review.
5. Criteria to Assess the Fitness and Propriety of the Directors			
5 (1)	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.	Complied	As at 31st March 2020 and at present, all Directors of the Company were below the age of 70 years.
5 (2)	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies / societies/bodies corporate, including associate companies and subsidiaries of the finance company. Note: The proviso to this sub section was repealed by CBSL Direction No. 6 of 2013.	Complied	There are no Directors who hold office as a Director of more than 20 companies. None of the Directors hold office as a Director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities.
6. Delegation of Functions			
6 (1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board is empowered by the Article 95 of the Article of Association of the Company to delegate its powers to a committee of Directors or to a Director or Employee upon such terms and conditions and with such restrictions as the Board may think fit. All delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
6 (2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company. Delegated Authority limits in relation to approving of credit facilities are recommended by the BCC and approved by the Board. Delegated Authority in relation to operation, expenses, signing of cheques and other correspondences are recommended by the IRMC and approved by the Board.
7. The Chairman and the Chief Executive Officer			
7 (1)	The roles of Chairman and Chief Executive officer shall be separated and shall not be performed by the one and the same person after three years commencing from 1st January 2009.	Complied	Role of Chairman and CEO are separate and are held by two individuals that are appointed by the Board, thereby, ensuring the power and authority.
7 (2)	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied	The Chairman is an Independent, Non-Executive Director.
7 (3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship (s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	There is no financial, business, family or other relationship between the Chairman and the CEO which will impair their respective roles. Also, there is no financial, business, family or other material relationship among other members of the Board as disclosed on page 39 of this Corporate Governance Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
7 (4)	The Chairman shall: (a) provide leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities: and (c) ensures that all key issues are discussed by the Board in a timely manner.	Complied	Functions & Responsibilities of the Chairman approved by the board includes the requirements stipulated and further the self-evaluation form includes this requirement. Self-evaluation process ensures that the chairman provides leadership to the board, board works effectively and discharges its responsibilities and all key and appropriate issues are discussed by the board on a timely manner.
7 (5)	The Chairman shall be primarily responsible for preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied	Chairman makes the agenda and Company Secretary circulates it.
7 (6)	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The Agenda/Minutes of previous meetings/Board papers and other documents are delivered to every individual Board Director in advance, giving them adequate time to peruse the issues arising at each Board meeting, as per section 3 (6) above. The Company has circulated the Agenda papers to Directors seven (7) days prior to the meeting. The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings by submission of the detailed agenda and board papers prior to the meetings. Further, agenda has adequate information in relation to the agenda items.
7 (7)	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied	The Chairman complies with this provision by nominating Directors for the oversight of Board related committees. The Directors have made full and active contribution to the Board's affairs and to the decisions taken at the Board.
7 (8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied	The Company does not have any Executive Directors. Nevertheless, the Chairman facilitates the contribution of the Non-Executive Directors and ensures that a constructive relationship exists between the Board as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.
7 (9)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	As a Non-Executive Director, the Chairman is not directly engaged in any executive duties including supervision of KMPs.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	The AGM of the Company is the main forum where the Board maintains effective communication with its shareholders. There is a Board approved Communication Policy evidencing the process in this regards. The two main shareholders, namely, SEEDS (Gte) Limited and Gentosha Total Asset Consulting Inc., holds over 99.99% of the issued share capital of the Company. In addition, two other shareholders who were former Directors of the Company, have one share each issued to them at the time of incorporation of the Company. The two main shareholders have Board representatives with whom the Chairman has effective communication at each Board meeting. The Chairman encourages shareholders to communicate their views and to seek assistance in matters that relate to them and explains the Company's progress and clarify matters that shareholders refer to the Board and the management at the Board meeting.
7 (11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business.	Complied	The Chief Executive Officer is the apex executive of the Company. Board has delegated him with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters.
8. Board Appointed Committees			
8 (1)	Every finance company shall have at least the two Board Committees set out in sections 8 (2) and 8 (3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee. The Board shall present a report on the performance, duties and functions of each committee, at the AGM of the Company.	Complied	During the financial year 2020, 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 40 to 43 provides the details of the scope and composition of the above committees and pages 78 to 83 provide the reports of the respective committees.
8 (2)	Audit Committee The following shall apply in relation to the Audit Committee:		
8 (2) (a)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied	Chairman of the Board Audit Committee (BAC), Mr. Channa de Silva, is an Independent, Non-Executive Director. A Fellow of the Chartered Institute of Management Accountants (FCMA-UK) and Fellow of the Chartered Certified Accountants (FCCA-UK). He has over 10 years' experience in the fund management and five years' experience in capital market and holds a Bachelor's Degree from the University of Colombo and a Master's Degree from Melbourne University and Harvard University.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (b)	The Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All the members appointed to the BAC are Non-Executive Directors. CEO, DGM –Finance & Planning and other KMPs and the External Auditors, Ernst & Young, present at the meeting/s by invitation.
8 (2) (c)	The Committee shall make recommendations on matters in connection with:	Complied	The Company has complied with the Direction issued by the Central Bank of Sri Lanka to select an External Auditor from the panel of authorised auditors to audit the accounts of licensed finance companies. The Company has appointed Messrs Ernst & Young (Chartered Accountants) as the External Auditor in year 2012.
8 (2) (c) (i)	The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	Complied	The Board Audit Committee has at its meetings during the year under review recommended that: i) Messrs Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2020; ii) the implementation of Central Bank guidelines issued to Auditors from time to time; and iii) the application of Sri Lanka Accounting Standards (LKASs/SLFRSs). The Committee during the year met the External Auditors to discuss the accounting support given on development of the expected loss model in line with SLFRS 9 and the financial implications arising from the implementation of the Central Bank new Direction on the classification of non-performing loans which will be effective from 01st April 2021. The Committee also discussed and assessed the financial consequences arising from the application of SLFRS 16 which came in to effect at the beginning of the year under review. A policy has been established in relation to the service period, audit fee and resignation or dismissal of the Auditor which has addressed that the engagement partner does not exceed five (05) years, and is not reengaged for the audit before the expiry of three years from the date of the completion of the previous term. Resignation or dismissal of the auditor has not taken place during the period under review and the audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.
8 (2) (c) (ii)	The implementation of the Central Bank guidelines issued to Auditors from time to time;		
8 (2) (c) (iii)	The application of the relevant accounting standards; and		
8 (2) (c) (iv)	The service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.		
8 (2) (d)	The Committee shall review and monitor the External Auditors' independence and objectively and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	The Board Audit Committee monitors and reviews the External Auditors' independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. The Company's External Auditors for financial year 2020, Messrs Ernst & Young, Chartered Accountants have provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules. The Auditor's Engagement Letter submitted to the committee provide evidence of auditor's independence, and the audit is carried out in accordance with SLAS.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (e)	The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:	Complied	The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.
8 (2) (e) (i)	whether the skills and experience of the Auditor make it a suitable provider of the non-audit services;		
8 (2) (e) (ii)	whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by External Auditor; and		
8 (2) (e) (iii)	Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the Auditor, pose any threat to the objectivity and/or independence of the External Auditor.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (f)	The Committee shall, before the audit commences, discuss and finalise with External Auditors the nature and scope of the audit, including:	Complied	BAC has recommended the appointment of the external auditor to the Board before the commencement of the audit. The Committee has obtained an engagement letter from the Auditors' clearly describing the Auditor's independence to carry out the audit in accordance with LKASs/ SLFRSs. The Committee has, before the audit commences, discussed and agreed upon the audit plan for the audit. Scope of the audit includes an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting and the preparation of financial statements in accordance with relevant accounting principles and reporting obligations. The Company has appointed, Messrs. Ernst & Young, as the external auditor of the Company has hence, the coordination between auditors where more than one auditor was involved was not required during the period under review.
8 (2) (f) (i)	an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;		
8 (2) (f) (ii)	the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and		
8 (2) (f) (iii)	The co-ordination between Auditors where more than one Auditor is involved.		
8 (2) (g)	The Committee shall review the financial information of the finance company, in order to monitor the integrity of the Financial Statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board. The Committee shall focus particularly on – i) major judgmental areas; ii) any changes in accounting policies and practices; iii) significant adjustments arising from the audit; iv) the going concern assumption; and v) the compliance with relevant accounting standards and other legal requirements.	Complied	The Committee periodically reviews the financial information of the Company in order to monitor the integrity of the Financial Statements of the Company and other financial disclosures. Also, BAC has a process to review the financial information of the Company as required by the Direction when the Annual Audited Financial Statements and reports prepared for disclosure are presented to the Committee by the DGM – Finance and Planning in attendance with the External Auditors in order to monitor the integrity of the Financial Statements of the Company.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied	The Committee has met the External Auditors in the absence of the KMPs during the year under review. Each Committee Member has had a personal conversation with external auditors for better governance
8 (2) (i)	The Committee shall review the External Auditors' management letter and the Management's response thereto.	Complied	The Committee has reviewed and discussed the External Auditors' management letter for financial year 2019 and the Management responses thereto and provided necessary guidance to the management for improvement/implementation of better internal controls, best practices and governance.
8 (2) (j)	The Committee shall take the following steps with regard to the internal audit function of the finance company:		
8 (2) (j) (i)	Review the adequacy of the scope, functions and resources of the Internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work;	Complied	The Committee has discussed the Internal audit scope, function and resources of the staff requirements. Company has an Internal Audit Charter established at the company approved by the BAC which covers to provide independent, objective assurance and support designed to add value and improve the Company's operations and systems of internal controls. BAC oversees the proper functioning of internal audit and make changes to internal audit charter when necessary. The Internal Audit Department assists the Company with accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, governance and accountability processes.
8 (2) (j) (ii)	Review the internal audit programme and results of the Internal Audit process and , where necessary, ensure that appropriate action are taken on the recommendations of the Internal Audit Department;	Complied	The Committee has reviewed and approved the Internal Audit Plan for the financial year 2020 presented by the Internal Audit Department prepared based on overall risk assessment and the significant audit observations made during the previous year. This plan also includes the scope, functions and the resources of the Internal Audit Department.
8 (2) (j) (iii)	Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied	Assessment of the Internal Audit staff evaluations and Audit Committee performance has been carried out by the Audit Committee Chairman. Assessment of the performance of the Head of Internal Audit has also been carried out.
8 (2) (j) (iv)	Recommend any appointment or termination of the head, senior staff members and out sourced service providers to the internal audit function.	Complied	No appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function took place during the year under review.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (j) (v)	Ensure that the Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any out sourced service providers, and to provide an opportunity to the resigning senior staff members and out sourced service providers to submit reasons for resigning:	Complied	The Committee appraises resignations of senior staff members of the internal audit department including the head. The Committee appraised and duly approved the resignation of the Manager – Internal Audit during the year under review.
8 (2) (j) (vi)	Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	The internal audit charter of the Company addresses that the audit work should be performed with impartiality, proficiency and due professional care. Accordingly, the internal audit functions have been performed impartially and with proficiency and due care. The Head of the Internal Audit Department directly reports to the Committee thus ensuring the independence and impartiality of the Internal Audit Department.
8 (2) (k)	The Committee shall consider the major findings of internal investigations and the Management's responses there to.	Complied	Based on the reports submitted by the Internal Audit Department, the Committee reviews and considers major audit findings and the Management's responses thereto. Further, the Committee has instructed the Head of Internal audit that all investigations reports to be discussed in the Management Audit Committee level and disciplinary actions/decisions taken by the Management Audit Committee to be communicated to the Committee as a summarized report for discussion and instructions to the management for future cause of actions.
8 (2) (l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Director being present.	Complied	Although the Board Audit Committee does not comprise of any Executive Directors, the Committee met with the External Auditors during the current financial year. CEO, DGM – Finance & Planning, Head of Internal Audit, AGM -Compliance and Chief Manager – Finance attended these meetings on invitation.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (m) (i-iv)	The committee shall have: i) explicit authority to investigate into any matter within its terms of reference; ii) the resources which it needs to do so; iii) full access to information; iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	The Board approved Terms of Reference of the Board Audit Committee mandates explicit authority to investigate into any matter within its purview and take necessary action thereto. 'Board Audit Committee Report' from pages 80 to 81 this Corporate Governance Report, provides a summary of the Terms of Reference of the Committee.
8 (2) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	There were 5 meetings of the Board Audit Committee during the financial year 2020. Page 41 to this Annual Report, provides the details of the meetings of the Board Audit Committee during the financial year 2020 and the members' attendance thereat.
8 (2) (o) (i-iii)	The Board shall, in the Annual Report, disclose in an informative way – i) details of the activities of the Audit Committee; ii) the number of Audit Committee meetings held in the year; and iii) details of attendance of each individual member at such meetings.	Complied	The 'Board Audit Committee Report' from pages 80 to 81 this Annual Report, provides details of the activities of the Committee and attendance of members at meetings of the Committee.
8 (2) (p)	The Secretary to the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied	In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all committee meetings in sufficient detail.
8 (2) (q)	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	Complied	The Company has established a 'Whistle-blower Policy' which has been approved by the Board Audit Committee and Board of Directors and practiced through-out the Company. The whistle blower matters are submitted to the Committee for their review and instructions. This policy has been established in 2016 and the Company will review the policy for upgrade (if any) in the next financial year for better governance.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (3)	Integrated Risk Management Committee The following shall apply in relation to the Integrated Risk Management Committee (IRMC):		
8 (3) (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 two (2) Non-Executive Directors, CEO and the Key Management Personnel supervising broad risk categories such as credit, market, liquidity, operational and strategic risk. No changes to the composition of the Committee occurred during the year under review. The Charter of the Committee was revised by the Board during the year under review and the approved TOR lays down responsibility of the Committee.
8 (3) (b)	The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied	The AGM -Compliance submits minutes to the Board within seven (7) days of the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by the Committee and the responses received from the risk owners. The Company has assessed the risks in relation to strategic risks (core capital), credit risks, market risk, and liquidity risks in particular and detail reports are submitted and discussed at IRMC. The Company carries out stress testing in relation to interest rates and liquidity periodically and discuss the impact that arising from such risks to the Company at IRMC to take appropriate mitigating actions.
8 (3) (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Not Complied	Committee has initiated action to review the adequacy and effectiveness of the Asset-Liability Committees' benchmarking against on its current TOR. The committee has taken for discussion the key areas of concerns of other management level committees at the IRMC. However, the committee has not reviewed in full the adequacy and the effectiveness of other management level committees during the year under review and provided the necessary guidance and direction to those committees for effective functioning of those committees in relation to their TORs.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (3) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied	The Committee has set up specific Risk Appetites limits on credit, liquidity and market risk through the Board approved ALCO policy. These risks appetites are scrutinized closely and discussed periodically at ALCO and measures taken to mitigate such impacts arising from those risks.
8 (3) (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	The Committee meets at least quarterly each year. The Committee has met eleven (11) times during the financial year2020. Page 78 provides the details of the meetings of the Committee during financial year 2020 and the members' attendance thereat.
8 (3) (f)	The Committee shall take appropriate action against the officers responsible for failure to identify specific risk and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Complied	Risks are identified collectively by the Integrated Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. The Company has a formal documented disciplinary action procedure which has been specifically noted in the Company's Human Resource Policy.
8 (3) (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	The Committee submits the minutes of the IRMC to the next immediate board meeting which described fully the risks applicable to the Company and mitigating actions discussed seeking the Board views and actions deemed necessary. The AGM -Compliance prepares a detailed risk assessment report of the Company and presents at each IRMC. These risk assessments are categorically discussed at each IRMC and necessary guidance is given to the management to take prompt mitigating actions. The Company will initiate actions to submit a separate risk assessment report to the next immediate Board meeting within a week of each IRMC meeting in future.
8 (3) (h)	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved polices on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	AGM -Compliance monitors compliance of CBSL rules, regulations and directions issued under the Finance Business Act and submit a monthly compliance report to the Board for their review. Monitoring compliance of other applicable laws, internal controls and approved policies on all areas of business operations is carried out by the Risk and Compliance Department.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9. Related Party Transaction			
9 (1)	The following shall be in addition to the provisions contained in the finance companies (Lending) Direction, No. 1 of 2007 and the finance companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.		
9 (2) (a-g)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: (a) a subsidiary of the finance company; (b) any associate Company of the finance company; (c) a Director of the finance company; (d) a Key Management Personnel of the finance company; (e) a relative of a Director or a Key Management Personnel of the finance company; (f) a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company: (g) a concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company, has substantial interest.	Complied	The Company has developed a Related Party Transaction and Avoidance of Conflict of Interest policy and established a documented process approved by the Board identifying the particular related parties and to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with related parties as per the direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (3) (a-d)	The transactions with a related party that are covered in this Directions shall be the following: (a) granting accommodation; (b) creating liabilities to the finance company in the form of deposits, borrowings and investments; (c) providing financial or non-financial services to the finance company or obtaining those services from the finance company; (d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied	The Company has established a Board approved documented procedure to identify and report the types of transactions with related parties that is covered by this Direction.
9 (4)	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the finance company. For the purpose of this section, 'more favourable treatment' shall mean:	Complied	The Company has in place a Board approved Related Party Transaction and Avoidance of Conflict of Interest policy whereby the categories of persons who shall be considered as 'related parties' has been identified. Additionally, Company has controls in place to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties "more favourable treatment" as defined in section 9(4) than that accorded to other constituents of the finance company.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (4) (a)	Granting of 'total net accommodation' to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.	Complied	Related party transactions that have been carried out during the year are disclosed under related party transactions on pages 220 to 222 to these Financial Statements. The Company's Related Party Transaction and Avoidance of Conflict of Interest policy clearly defines the responsibilities of the Board of Directors, among other things, to ensure that the Company does not engage in transactions with related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Company.
9 (4) (b)	Charging of lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.		
9 (4) (c)	Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties.	Complied	The Company has established a detective process and initiated post audits to ensure that the Company does not engage in transactions with related parties granting "more favorable treatment". The compliance officer extracts reports on RPT transactions on all products and checks them manually to ensure that no "more favourable treatment" is accorded to related parties than other constituents of the Company. The Company in the process of developing a preventive process to identify and prevent through system any related party transaction which are giving more favourable treatments to the related parties; and, also to capture and disclose the related party transactions and information flows between the Company and any related party which may lead to share proprietary.
9 (4) (d)	Providing or obtaining services to or from a related party without a proper evaluation procedure.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (4) (e)	Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary. Confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	Complied	The Company has developed a detective process that enables the Company to retrieve data on related party transactions throughout the Company's network and ensure that the Company does not engage in transactions with related parties in more favourable treatments.
10. Disclosures			
10 (1)(a-b)	The Board shall ensure that – (a) annual Audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that, (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	The Board has ensured that the Audited Financial Statements are prepared and published in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators. Pages 178 to 233 discloses the details of the Financial Statements, Accounting Policies and Notes to these Financial Statements published by the Company as mentioned above. The Company has published the annual audited financial statements and the periodical financial statements in newspapers in an abridged form in Sinhala, Tamil and English languages.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		
10 (2) (a)	A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	The required confirmation on preparation of the annual Audited Financial Statements in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is given in 'Directors' Responsibility for Financial Reporting' on page 172 and the 'Independent Auditors' Report' on pages 176 to 177 to this Annual Report.
10 (2) (b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied	The report by the Board on the effectiveness of the Company's internal control mechanism over financial reporting is given in 'Directors' Statement on Internal Controls over Financial Reporting' on page 174 to this Annual Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10 (2) (c)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in sub para 2 (b) above, in respect of any statements prepared or published from the date of this Direction.	Complied	The Assurance Report from the External Auditor on the Effectiveness of Internal Control over Financial Reporting is disclosed on page 175 to this Annual Report.
10 (2) (d)	Details of Directors, including names, transactions with the finance company.	Complied	Details of the Directors are given on pages 24 to 26 of this Annual Report. Three Non-Executive Directors, deposited Rs.674.5 thousand in the Company in the form of savings deposits during the year under review. The payable balance of these savings deposits with accrued interest amounted to Rs.79.7 thousand as at the end of the financial year. There were no transactions with other Directors of the Company other than the Directors' fees/remuneration paid.
10 (2) (e)	Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.	Complied	The remuneration paid to the Board of Directors is disclosed in aggregate in note 42.1.1 to these Financial Statements on page 220 and in 'Report of the Board of Directors of the Affairs of the Company' on page 166 to this Annual Report.
10 (2) (f)	Total net accommodation as defined in section 9 (4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied	The Company did not have any accommodation outstanding in respect of each category of related parties as at the date of Statement of Financial Position, except for accommodations granted, if any, to KMPs disclosed under 10 (2) (g) below. There were no net accommodations outstanding in respect of KMPs and each type of other related parties as at the year end.
10 (2) (g)	The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its Key Management Personnel during the financial year, set out by Board categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate values of remuneration paid by the Company to its KMPs including Directors, amounted to Rs.39.3 million. There were no new accommodations granted to KMPs during the year. The value of deposits received from KMPs including Directors during the year, amounted to Rs.3.8 million The payable balance including interest accrued on those deposits amounted to Rs.541.8 thousand as at the financial year end.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10 (2) (h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied	The 'Report of the Board of Directors on the Affairs of the Company' on pages 166 to 171 and the 'Corporate Governance Report' on pages 36 to 77 to this Annual Report, describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the financial year. The Directors' Statement on Internal Control over Financial Reporting on page 174 to this Annual Report, confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Company has obtained an independent assurance report from the External Auditors on the effectiveness of the Internal Control mechanism (page 175).
10 (2) (i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management or non-compliance with the Act and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with measures taken by the finance company to address such concerns.	Complied	There were no regulatory and supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions thereunder that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions and required by the Monetary Board to be disclosed to the public other than those disclosed on page 46 Corporate Governance Report of this Annual Report.
10 (2) (j)	The External Auditor's certification of the compliance with the Corporate Governance Directions in the annual Corporate Governance Reports published from the date of this Direction.	Complied	The External Auditors have conducted an engagement in accordance with the principles set out in the Sri Lanka Standards on Related Service 4750 (SLSRS 4750) applicable to procedures agreed upon to meet the compliance requirement of this Direction. We have obtained the Corporate Governance Factual Findings Report from the External Auditors.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
11. Transitional Provision			
11 (1)	On the date of this Direction, if the number of Executive Directors in a finance company is either less than 5 or exceed 13, such finance company shall comply with section 4 (1) hereof, within three years commencing on 1st January 2009.	Complied	The Company has complied with the transitional provisions encompassed under this Direction. The Company did not have any Executive Directors during the financial year and on the date of this report. None of the Directors retired from the Board after completing nine (9) years in the Board during the FY 2020. The Company did not have any Director who has reached 70 years nor any Director having a Board position of over 20 companies/entities as at the financial year end and on the date of this report.
11 (2	On the date of this Direction, if the number of Executive Directors is more than one half of the number of Directors of the Board, the Board shall expressly identify the excess Executive Directors and inform the names of such excess Executive Directors to the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka within three years commencing 1st January 2009. On the expiry of three years commencing 1st January 2009, such excess Executive Directors shall not be considered as members of the Board.		
11 (3)	The following transitional provision shall apply to the 9-year retirement requirement imposed under section 4 (2) of this Direction: A Director who has completed nine years as at 1st January 2009 or who completes such term at any time prior to 31st December 2009, may continue for a further maximum period of three years commencing 1st January 2009.		
11 (4)	The following transitional provision shall apply to the maximum age level imposed under section 5 (1) of this Direction:		

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

Report of the Integrated Risk Management Committee

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

Charter of the Committee

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

Roles and Responsibilities

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

Composition

The IRMC is comprised of two (2) Independent, Non-Executive Directors, the CEO, AGM Compliance and the Corporate Management Team who manage the risks of business units. The Chairman of the IRMC is an Independent, Non-Executive Director.

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

The Profiles of the IRMC members are set out from pages 24 to 26 of this Annual Report. Ms. Sameera Kaumudi, AGM Compliance, functions as the Secretary to the IRMC.

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

Retirements

No retirements took place during the financial year 2019/20

Resignations

No resignations took place during the financial year 2019/20

Appointments

No appointments took place during the financial year 2019/20

Committee Meetings and the Methodology

Eleven (11) meetings were held during the year under review. The attendance of the Directors at the meetings for the year under review is as follows:

Names	Meetings held	Meetings attended
Dr. Richard Vokes	11	11
Mr. Amrit CanagaRetna	11	11

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

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

Risk Management

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

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

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

- Set credit, liquidity and market risk appetite for the Company and regularly review the potential risks in each area;
- Assessed all risks, i.e., credit, market, liquidity, operational, legal and reputational and strategic risks to the Company on a monthly basis through appropriate risk indicators;
- Reviewed key risk indicators in use for risk monitoring and results of stress tests to evaluate resilience and compliance with internal benchmarks.
- Reviewed the implementation of risk management as well as compliance and control systems.

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

Dr. Richard Vokes
Chairman –Integrated Risk Management Committee

26th June 2020

Report of the Board Audit Committee

Charter of the Committee

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

The Role and Responsibilities

The BAC is expected to ensure;

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

Authority

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

Composition

Members of the BAC are appointed by the Board and Comprised entirely of Non-Executive Directors. The Chairman of the BAC shall be a Non-Executive Director who possesses adequate qualification and experience in accountancy and auditing. The BAC comprised of two Independent, Non-Executive Directors of the Company as at 31st March 2020, as shown below:

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

The Profiles of the BAC members are set out from pages 24 to 26 of this Annual Report. Mr. Chandana Bandara, Head of Internal Audit, who is a qualified Chartered Accountant, functions as the Secretary to the BAC.

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

Meetings

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

Name	No. of meetings applicable	No. of meetings attended
Mr. Channa de Silva	05	05
Mr. Amrit CanagaRetna	05	05

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

Summary of Activities During the year

Financial Reporting

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

(i) Major judgmental areas,
(ii) Any changes in accounting policies and practices,
(iii) Significant adjustments arising from the audit,
(iv) The going concern assumption, and;
(v) The compliance with relevant accounting standards and other legal requirements.

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

Internal Controls, Risk Management Function and Going Concern

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

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

External Audit

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

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

The BAC recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditors of the Company for the financial year ending 31st March 2020, subject to approval by the shareholders at the next Annual General Meeting.

Internal Audit

The BAC reviewed the adequacy of the scope, functions and resources of the Internal Audit Department and satisfied itself that the Department has the necessary authority to carry out its work and monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system. The BAC ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The BAC also reviews and monitors Management's responsiveness to the significant audit findings and recommendations of the Internal Auditor. Internal Audit Department carried out 50 branch annual audits, 19 branch spot audits, three functional audits and 28 special audits during the year under review.

Oversight on Regulatory Compliance

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

Ethics and Good Governance

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

Whistle Blowing and Fraud

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

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

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

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

Conclusion

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

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

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

Mr. Channa de Silva
Chairman – Board Audit Committee

26th June 2020

Report of the Board Remuneration Committee

Objectives and Scope

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

The Role and Responsibilities

The BRC has following role and responsibilities.

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

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

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

I. Propose suitable Charter for the appointment and re-appointment of Directors to the Board and to act in accordance with such Charter in proposing appointments and re-appointments. Such Charter shall cover areas such as qualifications, competencies, independence, relationships which have potential to give rise to conflict vis-à-vis the business of the Company, etc.
II. Consider the making of any appointment or re-appointment to the Board
III. Provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment
IV. Regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes (a member of the Nomination BRC should not participate in decisions relating to his/her own appointment)
V. Adopt a scheme of self-assessment to be undertaken by each Director annually
VI. Identifying and designating Key Management Personnel
VII. Ensure 'fit and proper' of Directors and Key Management Personnel
VIII. Approve Key Management Personnel Succession Plan and periodically review selected successors for Key Positions

Composition

The BRC comprised four (4) Non-Executive Directors as at 31st March 2020 as mentioned below. The Chairman of the BRC is an Independent, Non-Executive Director.

Name	Designation
Dr. Janaki Kuruppu	Chairman/Non-Executive, Independent Director
Mr. Channa de Silva	Member/Non-Executive, Independent Director
Mr. Amrit CanagaRetna	Member/Non-Executive, Independent Director
Ms. Shehara De Silva (appointed w.e.f. 28th June 2019)	Member/Non-Executive, Independent Director

The Profiles of the BRC members are set out on pages 24 to 26 to this Annual Report. Mr. Piyal Salwathura, Assistant General Manager -HR, functions as the Secretary to the BRC.

Meetings

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

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

	22/05/2019	28/08/2019	26/03/2020
Dr. Janaki Kuruppu – Chairman	√	√	√
Mr. Channa de Silva – Member	√	√	√
Mr. Amrit CanagaRetna – Member	√	√	√
Ms. Shehara De Silva – Member (appointed w.e.f. 28th June 2019)	-	×	√

Stewardship

Key Policy Matters Reviewed/Introduced During the Review Period

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

The BRC reviewed/introduced the following policy matters during the FY 2020.

- Changed the probation period of the new staff members to six months from nine months and introduced a new criteria and procedure to evaluate the employees during the probation period.
- Revised monthly incentive procedure of all the staff to make align the staff members towards the performance driven culture
- Introduced a new scheme for staff annual performance review and introduced a staff grading system for all the staff to identify high performers and to reward them
- Continuously advocated in improving the annual training plan for each category of staff focussing on continuous skills development, capacity building and succession planning.
- Continuously monitored and emphasised the need to control cost by improving productivity and having the right number of people with the right backgrounds in place.
- Closely monitored and considered staff welfare programs in order to increase the satisfaction among staff.

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

Dr. Janaki Kuruppu
Chairman – Remuneration BRC

26th June 2020

Risk Management

Overview
With the growing complexity of the finance sector, Sarvodaya Development Finance Limited (SDF) continues to strengthen its risk management function to ensure proactive measures are adopted and risk is being prudently managed. The principal risks faced by SDF are credit risk, market risk, liquidity risk, operational risk and IT risk. A sound risk management system is in place to identify, evaluate, screen and respond to the risks faced by the Company. Vigorous risk management practices have been introduced to establish risk awareness and foster a sound risk culture at SDF. Risk evaluation systems are being strengthened in all business units. While product innovation is a key driver of the business, risks relating to new products are being mitigated at the point of origin.

Scope of Risk and the Risk Management Framework
The risk management function falls under the Board Integrated Risk Management Committee (IRMC) which functions as an independent unit. The IRMC continuously monitors the potential risk events 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 guidelines stipulated by CBSL.

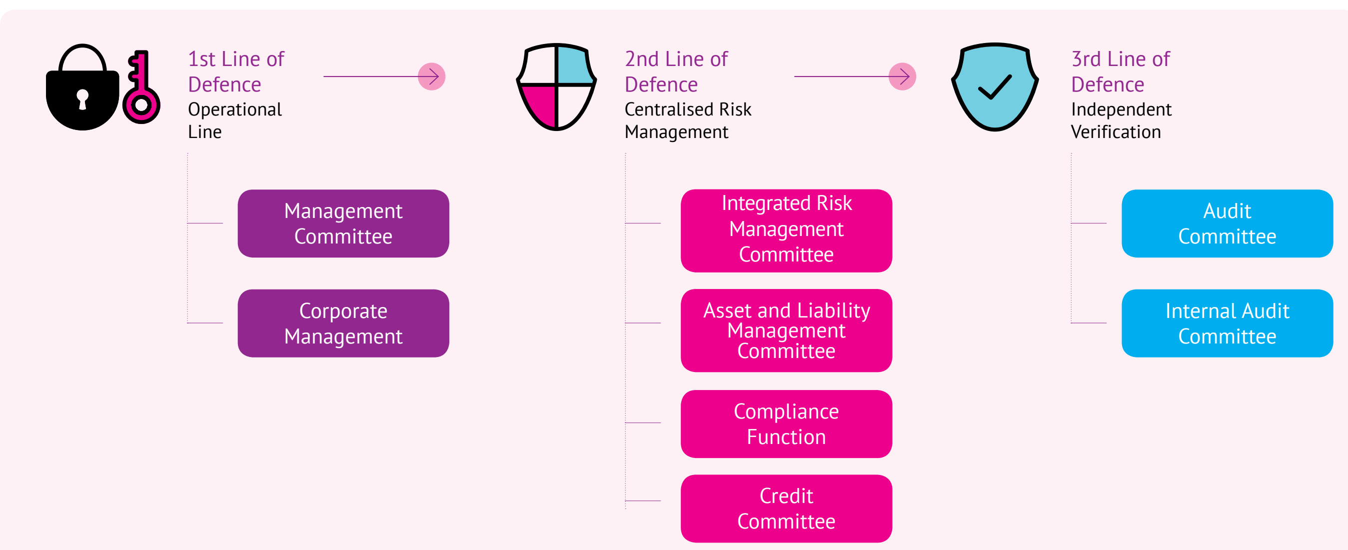
SDF has set up structures and procedures to address the risks which are vested on business/departmental heads. The IRMC spearheads the autonomous risk assessments, both qualitative and quantitative, and imparts the outcomes to the Management and the Board of Directors. The IRMC assists management level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

Risk Governance


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

Three Lines of Defence

First Line	This line of defence covers the day-to-day operations of the Company. The accountability and responsibility of assessing, controlling and managing risk is identified. The business operations of the Company are shaped by the risk management policy and the risk appetite that has been set.
Second Line	The risk management function is the second line of defence. This provides guidance to branches and operational departments while determining the adequacy of risk mitigation. The IRMC along with ALCO as well as the Management Committee (ManCom) reviews risk management practices at the operational level and recommends necessary action.
Third Line	This is the internal audit of the Company that reports independently to the Board Audit Committee (BAC). It is the internal audit that provides an independent assurance to both the first and second lines of defence while determining the effectiveness of internal controls as well as the policies in place.



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

Strategic Risk

Strategic Risk Assessment

The strategic risk of SDF is monitored by the Corporate Management. Strategic risk arises from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

Mitigation Methods

MIS dash-board provides reports on a daily basis, which gives an overview of the performance. Financial Statements provide key statistics on a monthly basis with in-depth analysis. This information enables 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 under the guidance of the head office management team.

Credit Risk

Credit Risk Assessment

Credit risk arises resulting from counterparties failing to meet with the financial obligations in compliance with the agreed terms and condition. In order to manage the credit risk, the credit worthiness of borrowers is carefully evaluated and reviewed periodically. The credit approval evaluates the purpose of the loan, the security value and the credit history of the borrower to obtain sufficient confidence of repayment capability. 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.

Credit approvals are given in line with the delegated authority. The Credit Administration Department which reports to the AGM- Credit 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 proceeds. Responsibility for credit risk evaluation has been delegated to the Board Credit Committee.

The Credit Department measures the risk level of the credit portfolio and evaluates the concentration risk of the SDF using its own internal credit risk assessment model, to assess the credit risk. In order to minimise the credit exposure the Credit Department seeks to ensure that the lending is backed by adequate realisable assets that is to be considered as the secondary repayment source.

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. Aggressive recovery action of default accounts is undertaken by the Legal and Litigation Departments which is informed to the Board on a monthly basis. Gross NPA ratio was 12% and Net NPA ratio was 4.87% as at 31st March 2020.

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 obtained the services of professional valuers for the valuation of vehicles, and other movable and non-movable properties obtained as collateral.

An MIS has been developed to stringently monitor and frequently report the list of facilities that carry early warning signals. 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 & Compliance Department (RCD) 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 RCD monitors the compliance to these limits reviewing the top 20 exposures on a monthly basis.

The credit compliance is also overseen by the RCD in line with the credit policy and directions laid out by Central Bank of Sri Lanka. AGM Compliance raises significant credit risks concerns to the Management Audit Committee. The follow up action of all material credit concerns are highlighted to the IRMC.

Operational Risk

Operational Risk Assessment

The operational risk arises as a result of failure in policies procedures, people issues and system disruptions. The responsibility of managing the Operational Risk lies with all staff in the Company. The accountability of managing operational risk lies with the management committee members and IRMC. They are responsible for maintaining an oversight over operational risk management and internal controls which covers all businesses and operations for effective utilisation of the Company's resources and to minimise the risk of loss.

Mitigation Methods

On reviewing the internal audit reports, the RCD has identified certain common Key Risk Indicators (KRI) that affect the branch operations. The KRIs are used by the RCD 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) and their implementation goes parallel with each other. During the year under review, SDF improved its processes and necessary steps were taken to reduce the probabilities of threats highlighted in the BCP risk assessment.

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

Market Risk

Market Risk Assessment

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

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

Mitigation Methods

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

IT Risk

IT Risk Assessment

Information technology risk is created due to a weak information security structure which will cause data loss and threats. SDF has a fully integrated network system that 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, the Risk & Compliance Department 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 RCD.

Mitigation Methods

The RCD 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 RCD 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.

Respected for our hardwork

When I was a child, I sat beside my parents and watched them making bamboo tats. My village 'Kinmanthudawa' is renounced for making world-class bamboo tats for generations. For me, making bamboo tats is a passion, more than a business. When I first needed money for my business, nearly two decades ago, it was Sarvodaya that helped me with Rs.15,000/- loan. Now, SDF has been a part of my success story.

SDF values my hard-work and my commitment for progress.

Operating Environment

Global Economic Overview

Following the rapid spread of the coronavirus across the globe, the global economy has been decimated to the worst downturn since the Great Depression of the 1930s. Advanced economies such as the United States, the United Kingdom, the Eurozone, and Japan are expected to contract in 2020 and other key trading partners of Sri Lanka, including China and India, are also projected to slowdown. Across the globe, the World Trade Organization (WTO) forecasts that global merchandise trade can decline by as much as 32% in 2020. While the poor economic performance of key trading partners will directly impact Sri Lanka's export earnings due to weakened demand, the imposition of various measures domestically and abroad to dampen the spread and the short term economic impact of the outbreak can cause supply chain disruptions, thereby impacting the country's current and future export capacity. Therefore, the global economy is not expected to recover within 2020.

According to the World Economic Outlook (WEO) of the IMF, released in April 2020, global economic growth in 2019 was lower at 2.9% compared to 3.6% in 2018. Growth in advanced economies was estimated at 1.7% in 2019, compared to 2.2% in the previous year. Meanwhile, growth across emerging market and developing economies moderated to 3.7% in 2019 from 4.5% in 2018, largely due to country specific shocks. Reflecting subdued economic activity across the globe, growth of world trade volume of merchandise and trade in services moderated notably in 2019 to 0.9% in comparison to the growth of 3.8% in 2018.

Within the post-COVID environment, global growth is projected to contract by 3.0% in 2020, followed by an expansion of 5.8% in 2021. This reflects a notable departure from the January 2020 WEO update of the IMF, wherein the global economy was projected to grow by 3.3% and 3.4%, respectively, in 2020 and 2021.

The growth in Advanced Economies is expected to contract by 6.1% in 2020, led by a contraction in most economies including the United States, Japan, the United Kingdom, Germany, France, Italy, and Spain. The emerging market and developing economies are expected to suffer from the health crisis as well as the severe external demand shock and tightening of global financial conditions. Accordingly, the growth in emerging market and developing economies is expected to contract by 1.0% in 2020. Notably, Emerging Asia is the only region that is expected to record a positive growth of 1.0% in 2020, despite the downward revision from 5.8% in the January update of the WEO. Economies in this group such as China, India, and Thailand are expected to grow moderately in 2020.

To support economic recovery, the Federal Reserve of the United States proceeded to a percentage point cut to bring the federal funds rate target range to 0.0% to 0.25%. The Federal Reserve acknowledged that the COVID-19 pandemic brought new risks and challenges to the economic outlook and noted that the rate was to be maintained until it was confident that the economy had weathered the recent events. The European Central Bank (ECB) launched Targeted Longer Term Refinancing Operations (TLTRO-III) to support bank lending to firms and households, and the Pandemic Emergency Purchase Programme (PEPP) to purchase private and public sector securities to counter significant risks to the monetary policy transmission mechanism, and recently adopted a package of temporary collateral easing measures to facilitate participation in liquidity providing operations. The Bank of Japan (BOJ) adopted monetary easing measures to safeguard sentiments and maintain stability in financial markets. Since the onset of the pandemic the Reserve Bank of Australia also lowered its benchmark rate in two cuts to a historically low level of 0.25%, directly citing the significant effect of the virus on the economy, which is highly dependent on economic activity in China. In addition to several targeted relief measures, the Bank Negara Malaysia reduced the Overnight Policy Rate by 50 basis points to 2.50% and reduced the statutory reserve requirement ratio by 1 percentage point with due consideration to weakened global economic conditions and disruptions to economic activity within the region. Other regional central banks such as the Reserve Bank of India reduced its policy repo rate by 75 basis points to 4.40% and the reverse repo rate by 115 basis points to 3.75% thus far in 2020, and announced that the accommodative stance was to be maintained for as long as necessary to revive the economy and mitigate the impact of the COVID-19 pandemic. The Bangko Sentral Ng Pilipinas reduced its overnight reverse repo rate by 125 basis points across three cuts to 2.75% so far in 2020, alongside a temporary relaxation of regulations on banks and a reduction of reserve requirement by 2 percentage points. Meanwhile, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the US Federal Reserve and the Swiss National Bank announced coordinated action to enhance the provision of liquidity through standing US dollar liquidity swap line arrangements.

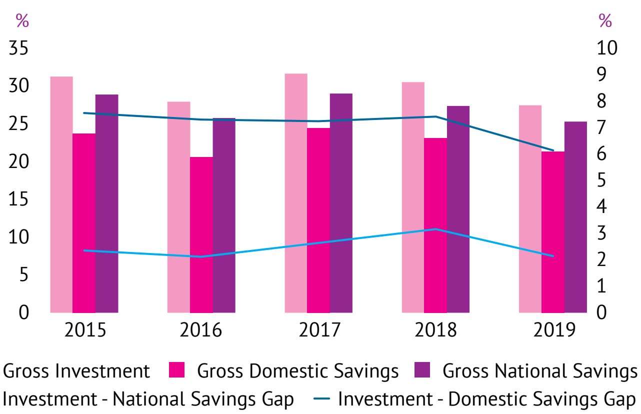
Sri Lankan Macro Economy

In 2019, Sri Lanka graduated to the upper middle-income country status in terms of per capita Gross National Income (GNI), according to the World Bank's country classification. The value of the country's Gross Domestic Product (GDP) at current market prices was US dollars 84.0 billion in 2019, compared to US dollars 88.4 billion in 2018. Per capita GDP and per capita GNI at current market prices were estimated at US dollars 3,852 and US dollars 3,741, respectively, in 2019, in comparison to US dollars 4,079 and US dollars 3,968, respectively, in the previous year.

However, Sri Lanka's economy declined to a 2.3% growth rate in 2019, compared to the growth of 3.3% in 2018, as per the provisional estimates of GDP of the Department of Census and Statistics (DCS). Due to extreme weather conditions, the agriculture sector recorded a growth of 0.6% in 2019 compared to the growth of 6.5% in 2018. The industry sector registered a growth of 2.7% in 2019, compared to the growth of 1.2% in the previous year. With the impact of the Easter Sunday attacks on tourism related activities, the growth of the services sector decelerated significantly to 2.3% in 2019, compared to the growth of 4.6% in 2018.

According to GDP estimates based on the expenditure approach, growth in 2019 was driven by consumption growth and the improvement in the external balance of goods and services. The share of consumption expenditure in GDP at current prices increased to 78.7% in 2019 from 77.0% in the previous year. Consumption expenditure grew by 3.5% in real terms during the year, as a combined outcome of household consumption expenditure and government consumption expenditure growing by 2.9% and 9.6%, respectively. The share of investment in GDP at current prices declined sharply to 27.4% in 2019, compared to 30.4% in the previous year, recording a negative real growth in investment of 9.5% . Domestic savings as a percentage of GDP at current prices declined to 21.3% in 2019 from 23.0% recorded in 2018, while national savings as a percentage of GDP also declined to 25.3% in 2019 from 27.3% in the previous year. However, due to the higher contraction in investment expenditure, both the domestic savings-investment gap as well as the national savings-investment gap narrowed in 2019 to 6.1% and 2.1% of GDP, respectively, from 7.4% and 3.1% of GDP in 2018.

Savings, Investment and the Savings-Investment Gap (as a percentage of GDP)



Source : Department of Census and Statistics

Inflation

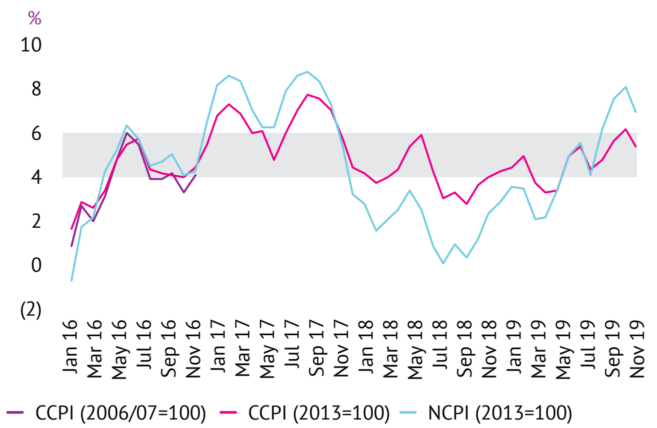
Despite transient supply side disturbances, both headline and core inflation moved broadly in the desired range of 4-6% during 2019. Headline inflation as measured by the Colombo Consumer Price Index (CCPI, 2013=100) accelerated from 3.7% in January 2019 to 5.0% in May 2019, before easing during the ensuing three months to record 3.4% in August 2019. However, subsequent adverse weather conditions caused high food inflation, resulting in an acceleration of headline inflation to reach 5.4% in October 2019, following which headline inflation remained below 5.0% during the remainder of the year. Accordingly, CCPI based year-on-year headline inflation was recorded at 4.8% in December 2019, in comparison to 2.8% in December 2018.

Headline inflation, based on the National Consumer Price Index (NCPI, 2013=100) that attributes a higher weight to food items, accelerated during the second half of 2019, reflecting the impact of supply side disruptions, and reached 6.2% in December 2019, compared to 0.4% recorded at end 2018.

Meanwhile, year-on-year headline inflation based on both the CCPI and the NCPI accelerated at the beginning of 2020, mainly due to persistently high food inflation. As such, year-on-year headline inflation based on the CCPI reached 6.2% in February 2020, while year-on-year inflation based on the NCPI peaked at 8.1% in February 2020. However, as food inflation eased, year-on-year headline inflation based on the CCPI and the NCPI decelerated to 5.4% and 7.0% , respectively, in March 2020, in spite of the disruptions caused by the spread of the COVID-19 pandemic.

Meanwhile, core inflation, which excludes volatile food, energy and transport groups from headline inflation, registered an increase at the beginning of 2019 due to the impact of the revision of house rentals and education fees in the CCPI basket, and remained at elevated levels during the remainder of the year. Accordingly, in December 2019, year-on-year core inflation based on the CCPI and the NCPI remained at 4.8% and 5.2% , respectively, compared to 3.1% recorded by both the indices in December 2018. In the first quarter of 2020, core inflation based on the CCPI and the NCPI decelerated, mostly on account of the base effect, and was recorded at 2.9% and 3.2% , respectively, in March 2020.

Headline Inflation (Year-on-Year)



Source : Department of Census and Statistics Central Bank of Sri Lanka

Unemployment

Reflecting subdued economic activity, the unemployment rate increased to 4.8% in 2019 from 4.4% in 2018. Male and female unemployment rates rose to 3.3% and 7.4% , respectively, during 2019, from 3.0% and 7.1% , respectively, in the previous year.

The Labour Force Participation Rate (LFPR) increased marginally to 52.3% in 2019 from 51.8% in 2018, primarily due to an increase in LFPR of females. Accordingly, LFPR for females increased to 34.5% in 2019 from 33.6% in 2018. Despite the increase in the unemployment rate, the employed population increased by 2.1% to 8.181 million in 2019 along with a higher LFPR. Meanwhile, the services sector, which is the largest sector of the economy, contributed 47.1% of the total employment, followed by the industry and agriculture sectors, contributing 27.6% and 25.3% of the total employment, respectively, in 2019. In terms of employment status, shares of public sector employees, private sector employees, employers, own account workers, and contributing family workers were 14.9% , 43.0% , 2.6% , 32.5% , and 7.0% , respectively, in 2019.

External Sector Developments

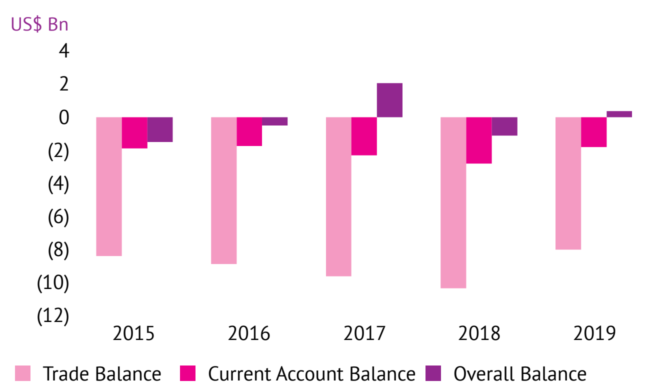
In 2019, Sri Lanka saw an improvement to the trade and current account balances due to policies that were aimed at curtailing import expenditure. This improvement, coupled with inflows to the financial account, helped strengthen gross official reserves and stabilise the exchange rate. The surplus in the services account moderated in 2019, mainly reflecting the adverse impact of the Easter Sunday attacks on tourist earnings and receipts from air passenger services. Overall, the current account deficit declined in 2019, to US dollars 1,808 million in 2019, which was 2.2% of GDP, compared to 3.2% in 2018.

The financial account recorded significant inflows in 2019, including proceeds of the International Sovereign Bonds (ISBs) and the receipt of two tranches of the Extended Fund Facility of the International Monetary Fund (IMFEFF). The financial account was strengthened by the two ISB issuances in March and June 2019 amounting to US dollars 4.4 billion and the receipt of the sixth and seventh tranches of the IMF-EFF amounting to US dollars 327 million. However, inward foreign direct investment (FDI) moderated, while foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded net outflows in 2019.

Despite the large foreign currency debt service payments by the government, significant inflows of foreign currency to the government and the Central Bank strengthened gross official reserves. This reflected the surplus in the overall balance of BOP in 2019. The Gross official reserves increased to US dollars 7.6 billion by end 2019 from US dollars 6.9 billion at end 2018. The country's gross official reserves at end 2019 could cover about 4.6 months of imports and about 57% of its short term liabilities. total international reserves, which consist of gross official reserves and foreign assets of depository corporations, increased to US dollars 10.4 billion by end 2019, equivalent to 6.3 months of imports.

Total external debt of the country increased to US dollars 55.9 billion by end 2019, which was equivalent to 66.6% of GDP, compared to 59.2% of GDP recorded by the end of 2018. The outstanding balance of ISBs, based on market value, increased to US dollars 15.2 billion at end 2019, reflecting the net impact of new ISB issuances and maturities.

Balance of Payments



Source: Central Bank of Sri Lanka

Exchange rate

The Sri Lankan rupee recorded a marginal appreciation of 0.6% against the US dollar in 2019, compared to the significant depreciation recorded in 2018. This appreciation of the currency mainly reflected the impact of the notable contraction in the trade deficit, in spite of pressure witnessed in the domestic foreign exchange market in the aftermath of the Easter Sunday attacks and amidst outflows of foreign investment from the Government securities market during the second half of 2019.

The Central Bank maintained flexibility in the determination of the exchange rate during the year, while intervening only to prevent any excessive volatility of the Sri Lankan rupee and build up reserves. the exchange rate, which remained stable up to the second week of March 2020, witnessed significant pressure with the spread of the COVID-19 pandemic, while speculation by market participants and foreign investors also weighed on the stability of the currency. The government and the Central Bank introduced several measures to curb the excessive pressure on the external sector, while allowing the rupee to depreciate in line with currencies of regional peers.

Interest rates

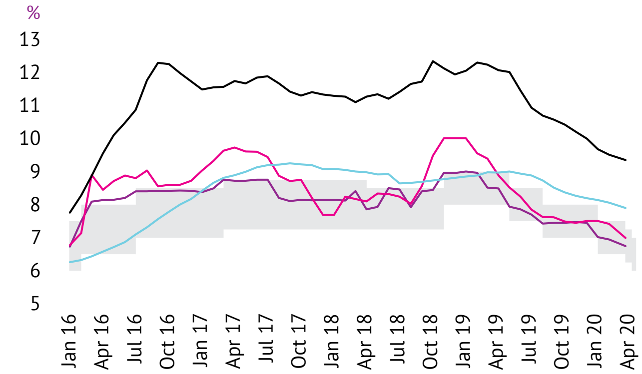
The Central Bank reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of LCBs by a total of 2.50 percentage points in November 2018 and March 2019, thereby addressing the persistent liquidity deficit in the domestic money market. Consequently, market liquidity turned to surplus levels from mid April 2019. However, in spite of the improvement in market liquidity, market interest rates remained downward rigid. Thus, the Central Bank imposed interest rate ceilings on deposit products of licensed banks and non bank financial institutions in April 2019, with a view to expediting the monetary policy transmission through the financial system. Further, with the commencement of the accommodative monetary policy stance, the Central Bank reduced policy interest rates by a total of 100 basis points, in May and August 2019, aimed at lowering the market lending rates and boosting credit flows to the private sector.

Responding to these measures, deposit interest rates adjusted downwards notably, while the adjustment of market lending rates remained grossly inadequate. Consequently, the Central Bank imposed ceilings on market lending rates in September 2019, while withdrawing the deposit rate ceilings imposed on licensed banks.

This resulted in a continued downward adjustment in market lending rates during the remainder of the year. However, considering the need for a faster reduction in market lending rates to support the slow growth in economic activity, the Central Bank reduced policy interest rates by a further 50 basis points in January 2020.

Moreover, considering the spread of the COVID-19 pandemic in the country and its potential impact on domestic economic activity and financial markets, the Central Bank, in an emergency move, reduced policy rates, in March and April 2020, by a total of 50 basis points, and SRR by 1.00 percentage point to 4.00% in March 2020. Accordingly, effective from the close of business on 3 April 2020, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) remained at 6.00% and 7.00%, respectively.

Standing Rate Corridor and Selected Market Interest Rates



AWCMR (month-end) Treasury Bill Yield (91-days) (month-end)
AWDR Monthly AWPR Standing Rate Corridor

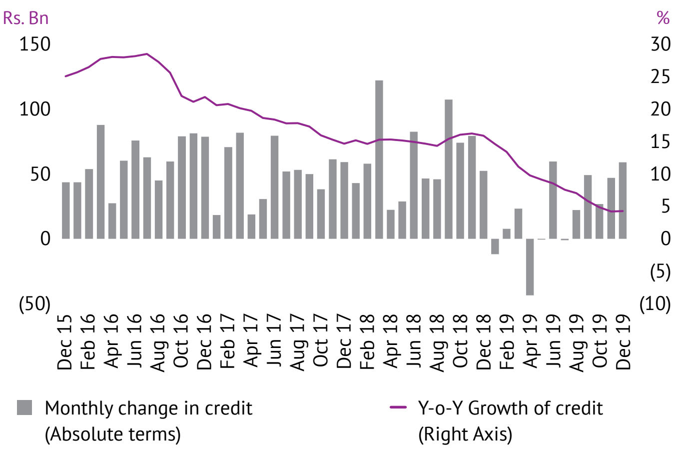
Source: Central Bank of Sri Lanka

The weekly Average Weighted Prime Lending Rate (AWPR), which is based on interest rates applicable on short term loans and advances granted by LCBs to their prime customers during a week, declined by 235 basis points to 9.74% during 2019. The Average Weighted Lending Rate (AWLR), which is based on interest rates of all outstanding loans and advances extended by LCBs, declined by 81 basis points to 13.59% during 2019. The yields on primary market Treasury bills decreased by 197-275 basis points across the tenures during 2019.

The year-on-year growth of credit to the private sector decelerated to 4.3% by end December 2019 from 15.9% recorded at end 2018. In absolute terms, the expansion of credit to the private sector was Rs. 236.8 billion in 2019, compared to an expansion of Rs. 762.1 billion in 2018. In terms of sectoral classification, growth of credit to the Agriculture and Fishing sector decelerated notably and recorded 0.2% , year-on-year, by end 2019, in comparison to the growth of 14.0% at end 2018. Growth of credit to both the Industry and Services sectors slowed to 3.1% by end 2019, from 15.3% and 17.8% , respectively, at end 2018. Personal Loans and Advances, which continued to record a notable growth in the recent past, also moderated to 11.9% by end 2019, compared to the growth of 20.3% at end 2018.

Having risen continuously from 26.4% in 2013 to 38.7% in 2018, credit to the private sector by LCBs as a percentage of GDP declined marginally to 38.6% in 2019. Credit to the private sector in the monetary aggregate M4, which covers Licensed Specialised Banks (LSBs) and Licensed Finance Companies (LFCs) in addition to LCBs, also followed a similar trend, declining to 51.9% of GDP in 2019 from 52.2% in the previous year.

Credit Granted by Commercial Banks to the Private Sector



Source: Central Bank of Sri Lanka

Economic Outlook

Within the post-COVID-19 recovery era, a notable contraction in the global economy is predicted. Sri Lanka too, remains vulnerable to the direct and spill over effects of the COVID-19 outbreak in the near term, as steps taken to ensure social distancing and thereby curbing the spread of the virus, are likely to have significant implications on economic activities. Relief measures announced by the Government and the Central Bank are expected to ease the burden on businesses and individuals affected by this outbreak. A baseline scenario where domestic economic activity gradually picks up from the end of the second quarter of 2020 and global economic activity gathers pace from the fourth quarter of the year is used for the purpose of macroeconomic projections.

Accordingly, the near term risks posed by the COVID-19 outbreak are not expected to have a significant impact on the medium term outlook of the economy, with appropriate measures to implement policies to promote sustained growth and improve resilience of the economy.

Based on the assumptions described above, annual real economic growth is projected to decelerate further in 2020, before rebounding thereafter towards the envisaged higher growth path. The envisaged growth path is contingent on the effective implementation of the Government's policy agenda, maintaining macroeconomic stability, addressing the structural issues that constrain sustained growth, and a revival in the global economy in the medium term. The direct and indirect tax relief measures introduced in late 2019 and early 2020 are expected to increase the purchasing power of individuals, and encourage domestic investment. Lower nominal and real interest rates will also boost private investment, providing impetus for economic growth. Increased government attention on the agriculture sector is expected to promote value addition in the sector, enhance markets for agriculture commodities, and enable farmers to build entrepreneurial skills, thereby ensuring high levels of income for those engaged in agriculture and related activities.

Meanwhile, the industry sector is expected to rebound in the medium term owing to the growth in the manufacturing sector supported by the expected increase in domestic demand and the gradual recovery in the global economy. The government's plans to secure investment for the Port City project and implement the highway development projects could revive investment in the medium term. These infrastructure projects will boost construction activities, enhancing value addition in the industry sector. Meanwhile, the increased purchasing power of households is envisaged to support the services sector, particularly wholesale and retail trade, accommodation, food and beverages, transportation, telecommunication and financial services subsectors. As domestic demand is insufficient to sustain high economic growth, measures are expected to support the expansion of merchandise and services exports in the medium term, in spite of the possible near term setback in these sectors due to sluggish global economic performance with the impact of the COVID-19 pandemic.

Inflation is expected to be maintained within the 4-6% range over the medium term with well anchored inflation expectations supported by proactive monetary policy measures taken by the Central Bank under a flexible inflation targeting framework.
The medium term fiscal outlook is expected to focus on further strengthening fiscal consolidation, by reducing the budget deficit and public debt to sustainable levels, while supporting the medium term development objectives and enhancing the living standards of the people. the budget deficit is projected to decline below 5.0% of GDP by 2024, supported by a gradual reduction in the current account deficit and an improvement in the primary balance to record a surplus over the medium term.

A significant decline in merchandise exports is likely, particularly to Sri Lanka's key export destinations of Europe and the United States. significant reduction in expenditure on imports is also expected. These developments are likely to result in a decline in the trade gap in 2020, before expanding thereafter with the normalisation of economic activity remittances is expected to remain subdued over the medium term with improved domestic employment opportunities, geopolitical developments in the Middle East and the government initiatives to discourage semi and unskilled migration.

These developments are expected to widen the external current account deficit in the near term, requiring more than envisaged foreign financing at a time when global financial markets are also in a turmoil due to the outbreak. Accordingly, the financial account is likely to be impacted, affecting the international reserves to some extent in the near term, although reserve adequacy is expected to be maintained at satisfactory levels. The external current account deficit would gradually adjust towards sustainable levels and the financial account is expected to receive sizeable flows over the medium term. A flexible and competitive exchange rate is expected to be maintained amidst the expected adjustment in the current account deficit. These developments would reinforce international reserves in the medium term. However, Sri Lanka's external debt position, in nominal terms, is projected to increase amidst the large refinancing requirements as well as future deficits in the external current account and the government budget deficit. However, the expected expansion in the economy over the medium term is likely to ease the country's external debt position.

Banking Sector

By end-2019, the banking sector comprised 32 banks which was made up of 26 Licensed Commercial Banks (LCBs), and six Licensed Specialised Banks (LSBs). The 26 LCBs include 13 branches of foreign banks. Out of these, two branches of foreign banks had commenced closing procedures based on decisions taken by their head offices. Further, Lankaputhra Development Bank Limited was merged with Pradeshiya Sanwardana Bank, while Sri Lanka Savings Bank Limited was acquired as a subsidiary by the National Savings Bank during the year. Further, 42 bank branches and 564 ATMs were established during 2019, while 11 bank branches and 13 ATMs were closed. Accordingly, the total number of banking outlets and ATMs had increased to 7,387 and 5,571, respectively, by end-2019.

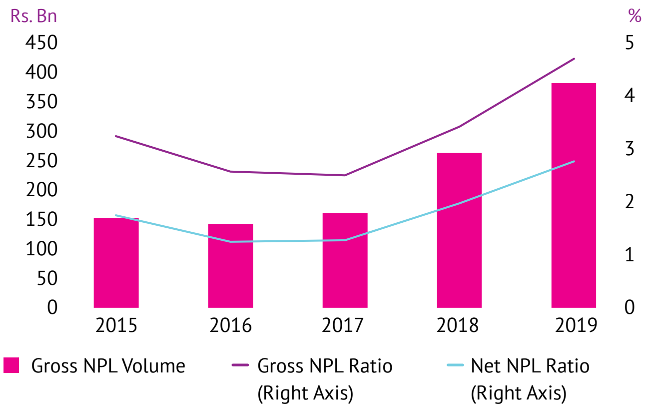
The asset base of the banking sector increased by Rs. 728.7 billion or 6.2% during the year and surpassed Rs. 12.5 trillion by end-2019, whereas the growth rate recorded in 2018 was 14.6%. Growth in loans decreased significantly from 19.6% in 2018 to 5.6% during the year 2019. Of this 5.6% loan growth, 77.0% could be attributed to the increase in rupee loans. Increase in lending was largely diversified across major sectors of the economy. In terms of products, rescheduled loans (102.2%), pawning (17.0%) and credit cards (15.3%) were the main products which reported a higher growth during 2019. Meanwhile, term loans, despite being the product with the highest increase in terms of value (Rs. 221.6 billion) during the year, recorded only a 5.0% growth due to the high base effect. Lower demand for credit than other years resulted in more funds of banks to be directed towards investments.

As a result, year-on-year growth in investments increased considerably from 4.6% as at end-2018 to 12.2% as at end-2019. The held-to-maturity portfolio grew by 18.1% during 2019 with increases in Treasury bills, Treasury bonds and Sri Lanka Development Bonds (SLDBs) by Rs. 122.1 billion, Rs. 143.9 billion and Rs. 114.6 billion, respectively. However, investments in the trading portfolio contracted by 7.3% during 2019 with investments in SLDBs decreasing by Rs. 116.0 billion, offsetting the increase in investments in Treasury bills and Treasury bonds of Rs. 52.3 billion and Rs. 22.5 billion, respectively. Deposits continued to be the main source of funding representing 73.2% of total liabilities of the banking sector as at end 2019, while borrowings accounted for 13.4% .

The year-on-year increase in the deposit base in 2019 was lower than 2018. The deposit base increased by Rs. 669.8 billion in 2019 reaching Rs. 9.2 trillion as at end-2019 compared with the increase of Rs. 1.1 trillion in 2018. The growth rate in deposits declined to 7.9% as at end-2019 from 14.8% as at end-2018. A decrease in off-balance sheet exposures was reported in 2019 compared to 2018, reflecting the slowdown in business activities that took place during the year. The negative growth in off-balance sheet exposures in 2019 was 5.3% (Rs. 233.5 billion), compared to the growth of 14.7% (Rs. 569.4 billion) in 2018.

Quality of credit of the banking sector deteriorated further during 2019 with NPLs ratio increasing from 3.4% at the end of 2018 to 4.7% at the end of 2019 mainly due to the adverse business conditions which prevailed during the year. Accordingly, total NPLs of the sector increased by Rs. 118.5 billion in 2019 compared to the increase of Rs. 102.5 billion in 2018. Total loan loss provisions increased by Rs. 48.5 billion during 2019, of which specific provisions accounted for 99.6% . However, higher increase in NPLs resulted in a decline in specific and total provisions coverage ratios from 43.1% and 57.4% , respectively, as at end-2018 to 42.4% and 52.3% , respectively, as at end-2019.

Non-Performing Loans of the Banking Sector



Source: Central Bank of Sri Lanka

Non-Bank Finance Sector

At end-2019, the sector comprised 42 LFCs and 4 SLCs. There were 1,432 branches and 599 other outlets out of which 952 branches (66.0%) were located outside the Western Province. Total assets of the sector stood at Rs. 1,432.7 billion by end-December 2019, representing 7.6% of Sri Lanka's financial system.

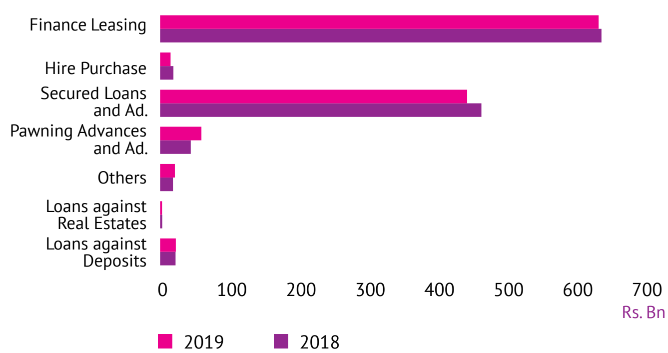
Total asset base of the sector stood at Rs. 1,432.7 billion, which expanded marginally by 0.1% (Rs. 1.3 billion) during the year, compared to 5.6% growth reported in 2018. The asset base of the sector mainly consisted of loans and advances which accounted for 77.0% of the total assets. Finance leases accounted for the major part, representing 52.9% of the gross loans and advances, followed by other secured loans, representing 37.0% .

Credit provided by the LFCs and SLCs sector declined by 3.0% (Rs. 34.3 billion) to Rs.1,102.7 billion, compared to the growth of 7.6% in the corresponding period of 2018. Loans and advances portfolio of product categories such as finance leases (Rs. 3.9 billion), secured loans and advances (Rs. 20.8 billion) and hire purchases (Rs. 4.3 billion) contracted, while pawning advances increased by Rs. 15.5 billion and loans against deposits increased by Rs. 0.6 billion.

The investment portfolio recorded a sharp increase of 20.5% (Rs. 22.5 billion) in 2019, compared to a negative growth of 7.1% in 2018. This is mainly due to increased investment in government securities maturing in less than 12 months (Rs. 9.0 billion), investment in shares, units and debt securities held for trading (Rs. 8.0 billion) and investment properties (Rs. 7.1 billion).

Other assets were mainly maintained in the form of cash, balances with banks and financial institutions, trading stocks, and fixed assets, which increased by 7.1% (Rs. 13.2 billion) in 2019, largely due to increased placements in banks and financial institutions.

Total Loans and Advances (Gross) by Productwise for LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

Customer deposits still dominated the major portion of liabilities, and increased assets were mainly funded through deposits, which accounted for 52.8% of the total liabilities of the sector. The deposit growth accelerated to 5.6% (Rs. 39.9 billion), while borrowings declined by 12.6% (Rs. 58.2 billion) in 2019. investment portfolio recorded a sharp increase of 20.5% (Rs. 22.5 billion) in 2019, compared to a negative growth of 7.1% in 2018.

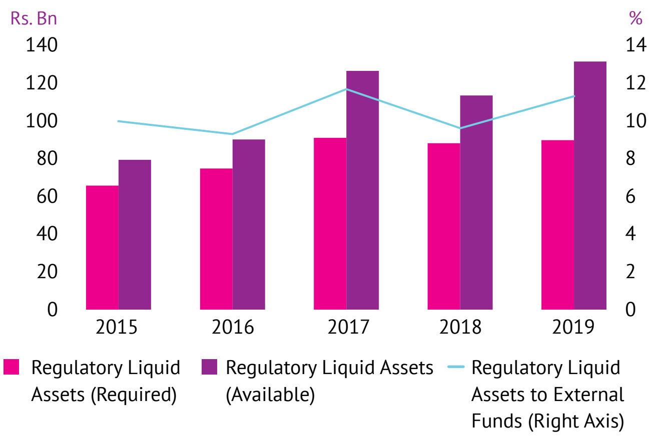
Other assets were mainly maintained in the form of cash, balances with banks and financial institutions, trading stocks, and fixed assets, which increased by 7.1% (Rs. 13.2 billion) in 2019, largely due to increased placements in banks and financial institutions.

The equity capital of the sector increased by 10.6% (Rs. 19.5 billion), which stood at Rs. 203.2 billion by end-2019, mainly on account of the increase in capital due to the steps taken by LFCs to enhance the minimum core capital to meet Rs. 2.0 billion requirements by 1 January 2020. The sector's core capital and total RWCARs stood at 11.1% and 12.5% , respectively, by end-December 2019, compared to the reported levels of 9.8% and 11.1% in the corresponding period of 2018.

The gross non-performing advances (NPA) ratio increased to 10.6% at end-December 2019, from 7.7% reported at end-December 2018, reflecting deterioration in the asset quality of the sector. The provision coverage ratio slightly deteriorated to 56.6% by end-December 2019, compared to 57.0% reported at end-December 2018. With the implementation of SLFRS 9, NPA will rise further which would highlight the significant credit risk of the sector.

The sector maintained adequate liquidity buffers well above the regulatory minimum levels. The overall regulatory liquid assets available in the sector at end-December 2019 indicated a surplus of Rs. 41.6 billion as against the stipulated minimum requirement of Rs. 89.8 billion. The liquidity ratio (liquid assets on deposits and borrowing) increased to 11.3% at end-December 2019, compared to 9.6% recorded at end-December 2018. In response to the maximum interest rates on deposits and debt instruments imposed on LFCs, cost of funds declined and lending rates also reduced to some extent with the new loans and advances granted. Accordingly, interest rate risk of the sector decelerated with the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities. Equity risk of the sector remained low during the year as exposure to the equity market in the form of investment in listed shares held for trading was minimal at Rs. 14.0 billion, which was only 1.0% of the total assets of the sector.

Regulatory Liquid Assets of the LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

Net interest income of the sector during the year was Rs. 117.4 billion, which increased by 7.9% (Rs. 8.6 billion). This was due to the combined effects of increased interest income by 7.6% (Rs. 18.3 billion) and increased interest expenses by 7.4% (Rs. 9.8 billion). The net interest margin of the sector (net interest income as a percentage of average assets) increased to 7.7% in 2019 from 7.4% in 2018, due to the combined effects of increased net interest income (7.9%) and increased (gross) average assets (4.3%).

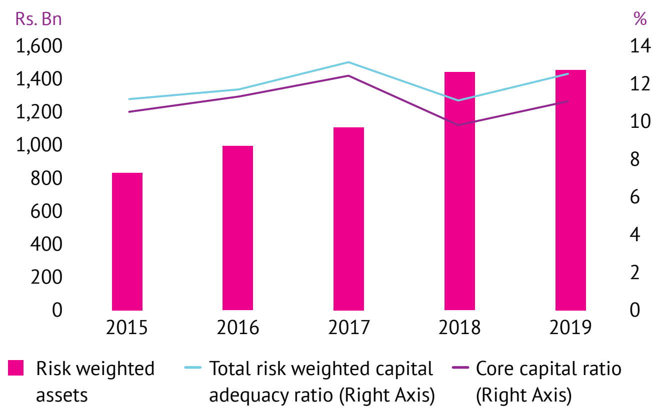
Non-interest income increased by 3.4% (Rs. 1.3 billion) mainly due to increased default charges and other service charges, while noninterest expenses increased by 15.5% (Rs. 12.6 billion) affecting sector profitability in an adverse manner. Non-interest expenses increased mainly due to increased administrative expenses (Rs. 4.1 billion), loss on valuation/ disposal of repossessed items (Rs. 2.7 billion), staff costs (Rs. 2.5 billion) and other expenses (Rs. 1.3 billion). The loan loss provisions made against NPAs during the year was Rs. 30.2 billion, which increased by 16.2% (Rs. 4.2 billion), when compared to the provision made in 2018.

The sector posted a profit after tax of Rs. 14.5 billion, a decline of 31.9% compared to the profit recorded in year 2018, mainly due to increased non-interest expenses and higher loan loss provisions. ROA also decreased by 56 basis points during the year, reporting a ratio of 2.2% , and ROE decreased by 463 basis points, reporting a ratio of 7.5% which shows signs of stress in the sector profitability.

The sector remained resilient with capital maintained at healthy levels during the year. The total regulatory capital levels improved by Rs. 22.3 billion in 2019, compared to the figures reported in 2018, mainly due to the enhancement of minimum capital requirement by the Central Bank to Rs. 2.0 billion by 01 January 2020 and Rs. 2.5 billion by 01 January 2021. The regulatory capital comprises Tier I and Tier II capital, of which Tier I capital contributed to 95.1% of the total regulatory capital. Tier I capital mainly comprises issued share capital, statutory reserve fund and published retained profits.

The sector's core capital and total RWCAR stood at 11.1% and 12.5% , respectively, in 2019 which increased by 1.3% and 1.4% from the reported ratios in 2018. LFCs and SLCs with assets less than Rs. 100.0 billion are required to maintain Tier I capital adequacy ratio of 6.5% and Total capital ratio of 10.5% , whereas LFCs and SLCs with assets of Rs. 100.0 billion and above are required to maintain Tier I capital adequacy ratio of 7.0% and Total capital ratio of 11.0% , with effect from 1 July 2019.

Risk Weighted Assets and CAR of the LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

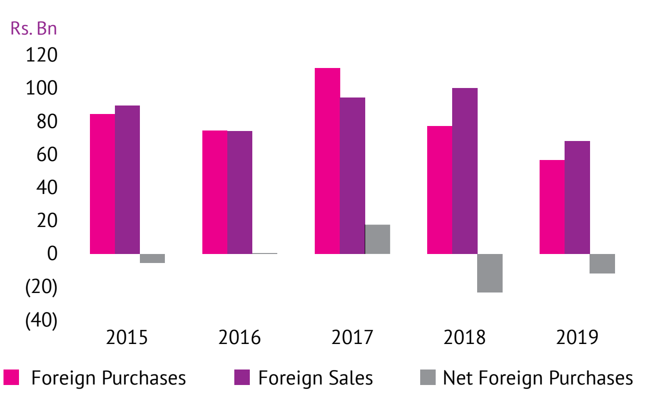
Colombo Stock Exchange (CSE)

The CSE recorded mixed performance during 2019 amidst adverse developments in the domestic and global environment. The ASPI grew by 1.3% in 2019 against the 5.0% decline reported in 2018 while S&P SL20 index declined by 6.3% in 2019 compared to the 14.6% decline reported in 2018. ASPI declined by 3.6% immediately after the Easters Sunday attacks and reached 5,200 in May 2019, its lowest value reported since 2012 and picked up gradually. The CSE indicators picked during the month of November 2019 mainly due to the positive sentiments that prevailed among investors towards the presidential election. The banks, finance & insurance sector index declined in both 2019 and 2018 year-on-year by 1.0% and 0.8% , respectively.

Market capitalisation increased marginally by 0.4% from Rs. 2,839.5 billion in 2018 to Rs. 2,851.3 billion at end-2019. As a percentage of GDP, total market capitalisation reached 21.5% at end-2019, a marginal increase from 21.4% reported in 2018, which remained low compared to peers in the Asian region. However, the average daily turnover declined to Rs. 711.2 million during 2019 compared to Rs. 833.6 million in 2018.

Foreign outflows from CSE continued during 2019, though some improvements were observed in terms of net foreign outflows when compared to 2018. In the secondary market, CSE reported a net foreign outflow of Rs. 11.7 billion during the year 2019 compared to Rs. 23.2 billion in the year 2018. the foreign investor contribution to total market turnover significantly declined to 36.4% in 2019 from 44.3% in 2018. There were no Initial Public Offerings in 2019 compared to Rs. 2.0 billion raised through two IPOs during 2018. Meanwhile, Rs. 31.0 billion was raised through 18 right issues in 2019 compared to Rs. 42.2 billion raised through 16 issues in 2018.

Foreign Participation at the CSE



Source: Colombo Stock Exchange

New Regulatory Directives for NBFIs

The Central Bank introduced several policy measures and prudential regulations to further strengthen the supervisory and regulatory framework of LFCs and SLCs for enhancing the stability and soundness of the sector to preserve customer confidence. A Direction was issued to introduce maximum interest rates on deposits and debt instruments of the LFCs and SLCs, considering the high real interest rates on deposits and high rates on lending products observed in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, while enhancing credit flows to the real economy. This Direction was revised subsequently in consideration of requests made by the LFCs to remain competitive in the market and also to reduce the impact on profits of LFCs.

The existing LTV Direction issued to LFCs was revised to incorporate the 2019 Budget proposals by allowing higher LTV ratios for light trucks. The earlier 70% LTV ratio in respect to light trucks was revised to an increased ratio of 90% .

The existing Direction on Valuation of Immovable Properties issued to LFCs and SLCs was revised. The eligibility criteria for valuers was updated and the frequency of valuation for different categories of assets classes was amended.

Accordingly, valuation of residential property which is occupied by the borrower for residential purposes obtained as collateral against loans and advances that are non-performing, shall be carried out in a less than five years frequency, and in respect to all other credit facilities, the valuation shall be carried out in a less than four years frequency. Valuation of immovable property obtained as collateral against loans and advances which are performing, shall be made at the time of initial granting and at a time of any subsequent enhancement of credit facilities. Revaluation of land, and land & building which are purchased or acquired for the purpose of conducting business of LFCs which are measured and disclosed in accordance with LKAS 16: Property, Plant and Equipment, and those purchased or acquired as LFCs' investments which are measured and disclosed in accordance with LKAS 40: Investment Property, shall be made in line with the internal policies or depending on any significant volatile changes in fair value.

A Circular was issued to LFCs and SLCs in view of mitigating the adverse impact on the tourism sector due to the Easter Sunday attacks. This enabled these institutions to grant a moratorium to individuals and entities who have registered with the Sri Lanka Tourism Development Authority or any other authority/agency to provide services to the tourism sector. Several explanatory notes were issued following the circular with more clarifications, specific instructions and reporting requirements on LFCs and SLCs.

Under the Extraordinary Gazette No.2125/58, regulations were issued on the priority of claims in a winding up of an LFC. Accordingly, the liquidator shall pay out of the assets of the LFC the expenses, fees and claims according to its tenor to the extent and in the order of priority set-out in the Schedule to the said regulation. After paying the preferential claims in accordance with the regulations, only thereafter shall the liquidator apply the assets of the company in satisfaction of all other claims in accordance with provisions of the Companies Act No. 7 of 2007.

A consultation paper was issued on introducing ownership limits to LFCs, with the objective of diversifying the ownership of shares in LFCs ownership limits on LFCs is viewed as an important part of the process of strengthening good corporate governance practices in this sector. Based on the observations received from the stakeholders on the first consultation paper, a second consultation paper was issued for observations during the latter part of the year.

A consultation paper was issued on credit risk management for LFCs. The existing directions on credit risk management are outdated and create a distortion in the treatment of NPLs in the LFCs and SLCs sector.

Respected for our values

I live in a dry zone. I have heard that fruits and vegetables grow in dry zones are much tastier. I didn't believe that until I experienced the same by myself. My village is famous for 'curd'. So, I thought, the curd we make must be superior in taste too. This strange thought inspired me ten years back, to start selling curd. My business is at a great height now. I take orders for curd and make and deliver. SDF is my financial partner in my success.

SDF respected our values and helped me to elevate my business.

Financial Capital

SDF recorded a profit after tax of Rs. 101.7 million in the current financial year from a profit after tax of Rs. 41.2 million recorded in the previous year. Our strategy of prudent management of credit portfolio while keeping overheads within reasonable limits helped the Company to post these impressive financial results. Given the unprecedented challenges witnessed during the FY 2020, the extreme endurance and the focus displayed by our workforce combined with our strategy measures, policy framework, brand loyalty and technologic advancements was instrumental in weathering-through such challenging conditions to achieve these impressive growth.

Rs

Net Profit
101.7 Mn ↑ 146.8 %

Total Assets
8.2 Bn ↑ 10.3%

The year under review was marked by the impact of the Easter Sunday bomb attacks in April 2019 and the coronavirus pandemic with a complete lock-down of the later part of the March in which the economic activity was near zero. Notwithstanding these heavy challenges, SDF navigated through crisis with stability and resilience and demonstrated a remarkable performance at the face of the economic and the business disruptions resulted from both. With economic fundamentals reopening in June 2019 after the Easter Sunday attack, we saw a gradual return of regular business operations which augmented our overall performance. During this time we realised the need to adapt to the new normal of business and remain strong to ensure that our customers and business partners are serviced in the most efficient and effective manner. As a result of our agile business strategy and concerted focus on core business, we were able to deliver impressive results for the current year.

Despite the tough operating conditions prevailed in the industry, SDF outdid all forecasts to achieve an impressive upsurge in profits. SDF recorded a profit after tax of Rs. 101.7 million in the current financial year from a profit after tax of Rs. 41.2 million recorded in the previous year. Our strategy of prudent management of credit portfolio while keeping overheads within reasonable limits helped the Company to post these impressive financial results. Given the unprecedented challenges witnessed during the FY 2020, the extreme endurance and the focus displayed by our workforce combined with our strategy measures, policy framework, brand loyalty and technologic advancements was instrumental in weathering-through such challenging conditions to achieve this impressive growth.

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

Financial Capital

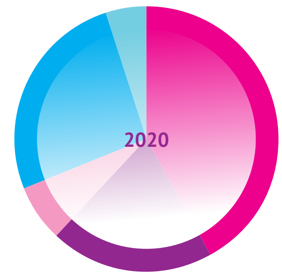
Performance Highlights

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

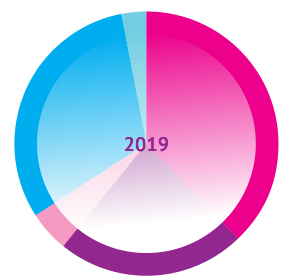
Total economic value created by SDF amounted to Rs. 1.8 billion in the FY 2020 which was an improvement of Rs. 227.19 million compared to the previous year. This value has been distributed among our stakeholders as depicted below.

	2020		2019		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Economic Value Added						
Interest Income	1,681.68		1,433.37		248.30	
Other Income	120.76		141.87		(21.12)	
Total	**1,802.44**		**1,575.25**		**227.19**	
Economic Value Distributed						
To Depositors and Lenders						
Interest Expenses	750.12		606.62		143.49	
	750.12	**41.62**	**606.62**	**38.51**	**143.49**	**63.16**
To Employees						
Salaries and Other Benefits	363.24		356.17		7.07	
	363.24	**20.15**	**356.17**	**22.61**	**7.07**	**3.11**
To the Government						
Income Tax	17.34		-		17.34	
VAT on Financial Service	108.02		87.76		20.26	
	125.36	**6.96**	**87.76**	**5.57**	**37.60**	**16.55**
To Suppliers						
Other Operating Expenses	293.53		330.65		(37.12)	
Impairment Charges	119.32		94.01		25.30	
Depreciation and Amortisation	53.73		58.14		(4.41)	
	456.58	**25.89**	**482.80**	**30.65**	**(16.23)**	**(7.14)**
Economic Value Retained	**97.14**	**5.39**	**41.89**	**2.66**	**55.25**	**24.32**
Total	**1,802.44**	**100.00**	**1,575.25**	**100.00**	**227.19**	

Economic Value Added



To Depositors and Lenders	42%
To Employees	20%
To the Government	7%
To Suppliers	26%
Economic Value Retained	5%



To Depositors and Lenders	38%
To Employees	23%
To the Government	5%
To Suppliers	31%
Economic Value Retained	3%

Key Financial Indicators

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

	2020	2019	Change (%)
Statement of Profit or Loss (Rs. million)			
Income	1,802.44	1,575.25	14.42
Operating Income	1,052.32	968.63	8.64
Impairment Losses	119.32	94.01	26.92
Profit After Tax	101.72	41.22	146.76
Statement of Financial Position (Rs. million)			
Assets	8,215.22	7,449.82	10.27
Loans and Lease Receivables	6,933.55	6,216.17	11.54
Customer Deposits	5,101.98	5,385.34	(5.26)
Due to Banks and Other Institutions	1,595.04	835.13	90.99
Financial Indicators			
Net Interest Margin (%)	12.21	12.51	(2.40)
Return on Equity (%)	8.87	3.70	139.73
Net Assets Value per Share (Rs.)	17.71	16.27	8.85
Staff Cost: Net Income (%)	33.91	36.87	(8.03)
Cost of Funds (%)	11.30	10.73	5.31
Capital Adequacy (%)			
Core Capital Ratio	12.99	13.58	(4.34)
Total Risk Weighted Capital Ratio	13.23	13.98	(5.36)

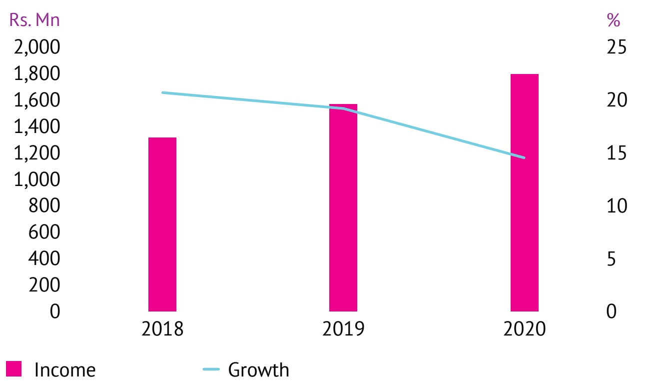
Sources and Utilisation of Income

Income was under pressure during H1 of 2020, stemming from stressed macro-economic conditions which resulted due to the Easter Sunday bomb attacks. SDF bounced back with endurance to record commendable growth in income for the year. SDF's strategic focus, experience and competence in its talented pool of Human Capital with a customer centric approach and efficient processes enabled SDF to perform exceptionally well amidst challenging conditions.

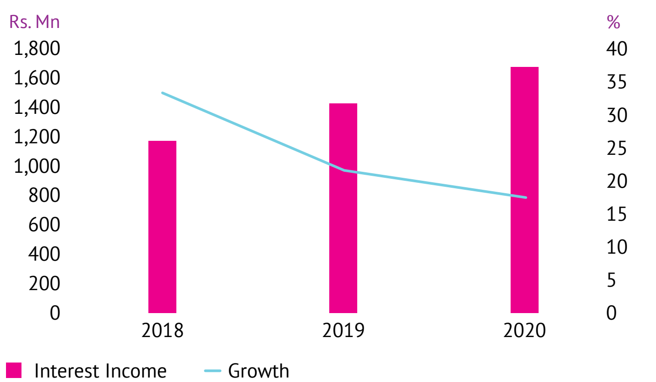
SDF's income grew by 14.42% and recorded at Rs. 1.80 billion. This growth was primarily driven by the growth in interest income by 17.32%. The share of interest income to total income amounted to 93.3% compared to 91.0% share reported in the previous year. The topline bolstered by a growth of 14.42% is all the more commendable, weighed against a negative outlook in the socio-economic sentiments prevalent in the country from the double blows of the Easter attacks and the COVID-19 pandemic.

Interest income, the primary source of income of the Company, escalated from Rs. 1.43 billion to Rs. 1.68 billion, recording a 17.32% hike. The growth in SME and leasing products, assisted SDF to record a distinct growth in interest income. SME contributed Rs. 395.2 million or 23.5% towards interest income compared to 22.8% contribution in the previous year. Leasing contributed Rs. 357.12 million or 21.2% towards interest income compared to 13.3% contribution in the previous year.

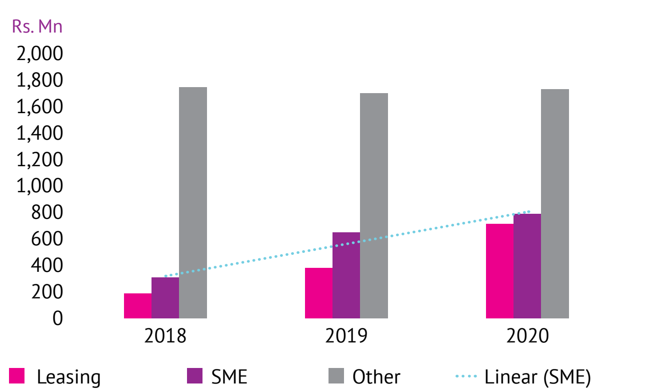
Income



Interest Income



Interest Income

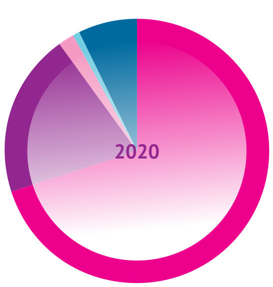


Financial Capital

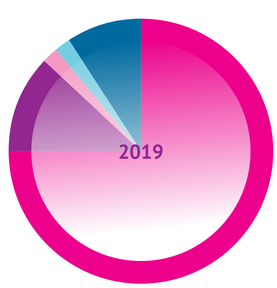
A comparison of sources and utilisation of incomes is given below.

Sources and Utilisation of Income	2020		2019		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Source of Income						
Loans and Receivables	1,263.49		1,179.24		84.25	
Lease Rental Receivable	357.12		191.00		166.11	
Financial Investments	40.69		30.33		10.36	
Savings Interest	1.50		4.35		(2.85)	
Other Financial Assets	18.89		28.46		(9.57)	
Other Income	120.77		141.87		(21.10)	
Total	**1,802.44**		**1,575.25**		**227.20**	
Utilisation of Income						
To Employees						
Personnel Expenses	363.24		356.17		7.07	
	363.24	**20.15**	**356.17**	**22.61**	**7.07**	**1.98**
To Suppliers						
Interest Paid	750.12		606.62		143.49	
Other Expenses	288.52		302.65		(14.13)	
Depreciation	53.73		58.14		(4.41)	
Loan Losses and Impairment	119.32		94.01		25.30	
	1,211.68	**67.22**	**1,061.42**	**67.38**	**150.26**	**14.16**
To the Government						
Income Tax	22.35		28.00		(5.65)	
VAT on Financial Service	108.02		87.76		20.26	
	130.37	**7.23**	**115.76**	**7.35**	**14.61**	**12.62**
To Expansion and Growth						
Retained Profits	76.80		33.65		43.15	
Statutory Reserve	20.34		8.24		12.10	
	97.14	**5.39**	**41.89**	**2.66**	**55.25**	**131.90**
Total	**1802.44**	**100**	**1,575.25**		**227.20**	

Sources of Income

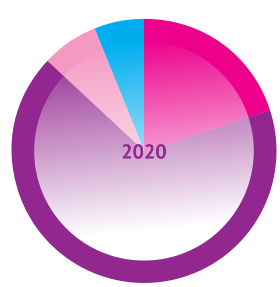


- Loans and Receivables 70%
- Lease Rental Receivable 20%
- Financial Investments 2%
- Savings Interest 0%
- Other Financial Assets 1%
- Other Income 7%

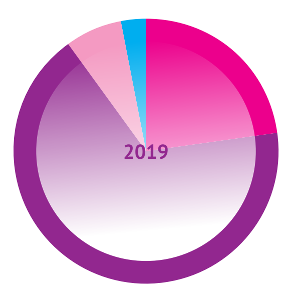


- Loans and Receivables 75%
- Lease Rental Receivable 12%
- Financial Investments 2%
- Savings Interest 0%
- Other Financial Assets 2%
- Other Income 9%

Utilisation of Income



- To Employees 20%
- To Suppliers 67%
- To the Government 7%
- To Expansion and Growth 6%

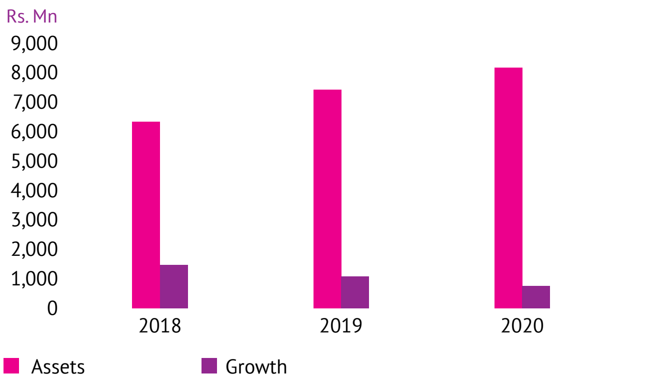


- To Employees 23%
- To Suppliers 67%
- To the Government 7%
- To Expansion and Growth 3%

Assets

Our asset base reached Rs. 8.22 billion with a growth of 10.27% compared to the total assets as at 31 March 2019. Growth in asset base was primarily driven by the growth in the lending portfolio of the Company. The new lending products range, mainly SME and Leasing, introduced in FY 2017, were instrumental for this growth.

Assets

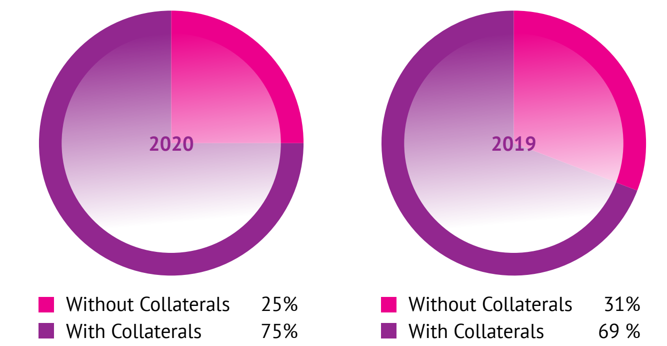


Loans and Lease Receivables

The Easter Sunday attacks at the beginning of the year made SDF think differently and seek focussed growth segments, for example leasing, to encourage rapid business growth and also to secure SDF's loan base. SDF with nearly 25% of its exposure to the SME sector was vulnerable to the slowdown in the economy that began with the Easter Sunday attacks and became more severe with the COVID-19 pandemic at the tail end of the FY. This made SDF curtail lending to the SME sector and also disburse limited loans to other business segments during the year. Alternatively, SDF gave more emphasis to expand leasing and gold loans backed by collateral to improve asset quality. As a strategic move, SDF shifted more towards collateral-backed lending few years back with an intention of moving into development-oriented financing as opposed to micro lending. This was also a core aspect of SDF's restructuring process to address portfolio risks by rebalancing revenues towards a more secured and stable financial capital base. This move helped SDF improve asset quality and withstand rising NPA that arose from turbulent macro-economic conditions.

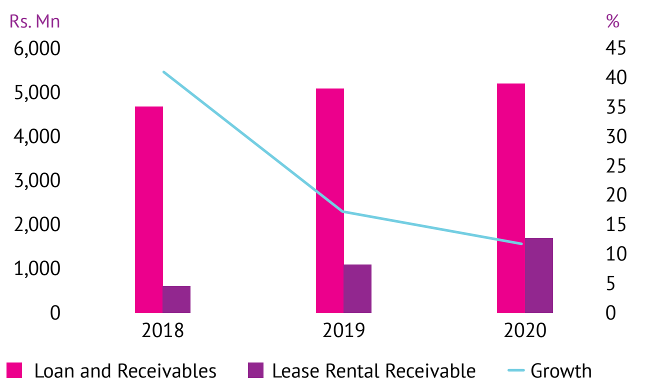
The long-term business strategy of SDF is to maintain a minimum share 70% on collateral-backed lending while maintaining a minimum of 30% on micro lending overall. The micro lending comprises micro business loans, micro individual loans and bulk loans given to Sarvodaya Societies (SSS) for on-lending to their members. Over the years, SDF upscaled the average ticket-size of micro lending for less complexity and to encourage new business growth and to widen its already varied and granular micro customer base. This was an important strategic shift in SDF's business model over the last couple of years which resulted in a notable shift in collateral vs. without collateral mix of gross portfolio. As a consequence, the gross portfolio, backed by collateral, increased further to 75.35% at the end of the current year from 69.48% in the previous year.

Gross Portfolio



SDF's net portfolio, comprising Loans and Lease Receivables reported in the Statement of Financial Position as at 31st March 2020, increased by Rs. 717.4 million or 11.54% compared to Rs. 907.7 million or 17.10% growth registered in the previous year. The net portfolio stood at Rs. 6.9 billion at the end of reporting year.

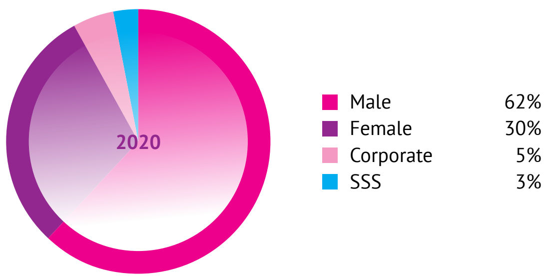
Net Portfolio



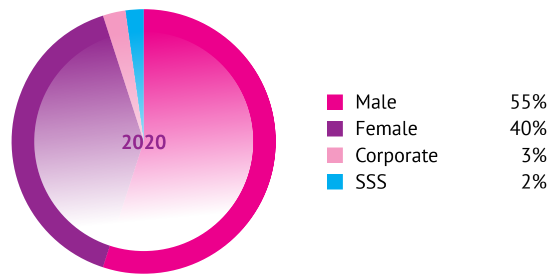
Financial Capital

The net receivable from male borrowers of the net portfolio, amounted to Rs. 4.32 billion while the female borrowers amounted to Rs. 2.04 billion. This represented 62.33% of net receivable value from male borrowers and 29.42% from female borrowers. The number of male borrowers amounted to 54.49% and female borrowers amounted to 39.98% of the net portfolio as at the end of current year.

Net Portfolio by Gender (Value)



Net Portfolio by Gender (Nos)



For administrative simplicity, SDF has divided its 51 delivery channels into eight (8) regions. Western region (region 1) has the largest share of net portfolio which amounted to Rs. 1.63 billion followed by the North Western (region 5) with Rs. 898.60 million as at the end of the current year.

Region Name	Region	Net Portfolio By Gender (Rs. million)				
		Male	Female	Corporate	SSS	Total
Western	Region 1	891.97	569.11	100.47	73.29	1,634.83
Southern	Region 2	536.69	169.84	54.84	13.30	774.67
Uva	Region 3	602.65	195.53	1.99	4.06	804.23
North Eastern	Region 4	146.80	92.94	0.01	0.02	239.77
North Western	Region 5	637.18	205.46	16.54	39.42	898.60
North Central	Region 6	495.86	212.03	7.29	51.69	766.87
Central	Region 7	424.95	235.19	4.26	5.80	670.19
Eastern	Region 8	312.48	175.00	0.10	8.16	495.74
Corporate Office		67.56	19.28	1.27	-	88.12
Head Office		203.07	164.03	189.61	-	556.71
Total		4,319.20	2,038.42	376.38	195.73	6,929.74

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

This is demonstrated by individual female borrowers representing 39.98% of total loan customers.

Region Name	Region	Net Portfolio (Nos)				
		Male	Female	Corporate	SSS	Total
Western	Region 1	1,533	1,522	206	181	3,442
Southern	Region 2	948	671	146	36	1,801
Uva	Region 3	1,184	880	22	8	2,094
North Eastern	Region 4	424	365	1	1	791
North Western	Region 5	1,563	856	67	74	2,560
North Central	Region 6	1,686	1,148	33	98	2,965
Central	Region 7	1,096	932	41	16	2,085
Eastern	Region 8	908	492	6	16	1,422
Corporate Office		95	27	5	-	127
Head Office		288	243	29	-	560
Total		9,725	7,136	556	430	17,847

LFCs fortunes are inextricably linked with the economy and the external disturbances can prove challenging. Since 2016, many external shocks such as adverse climate conditions, the Easter Sunday attacks in April 2019 and the global COVID-19 pandemic have caused unprecedented shocks to the economy. The increase in the impairment charge was mainly due to the increase in the collective provision charge in line with the growth in the gross portfolio and elevated risks caused by the Easter Sunday attacks, the COVID-19 pandemic and other stresses. Despite these unique challenges, by executing rigorous recovery actions supported by legal actions in a more structured manner, SDF was successful in minimising the increase in the Impairment provision for loans and lease receivables and other losses in the current year. The impairment provision for the year amounted to Rs. 119.32 million compared to Rs. 94.01 million recorded in the previous year resulting in a modest increase in provision of Rs. 25.30 million. SDF has a strong and capable management team who have now brought in many reforms and direction to streamline and speed up recoveries of NPA customers. As a policy, SDF took a decision not to write off any NPA loans going forward unless all credible efforts have been made, including legal actions, to recover. Accordingly, we did not write off any NPAs during the last two financial years. 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.

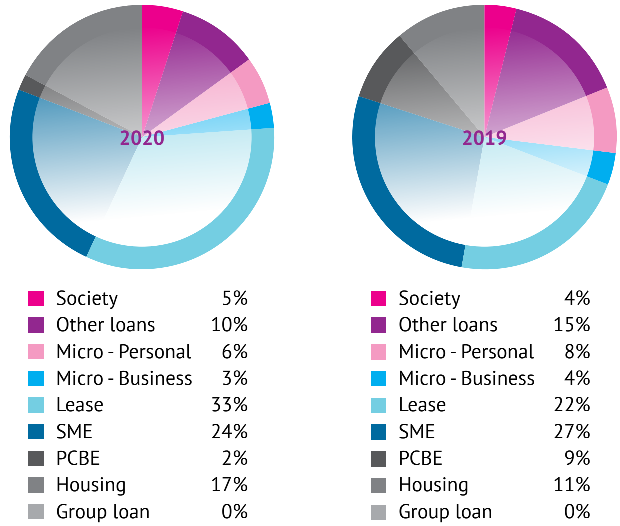
Disbursements

Total disbursement reached Rs. 3.67 billion in the current year with an improvement of 0.51% compared to the previous year. The increased customer demand for leasing and housing contributed to this modest growth. The automated loan approval process was further streamlined to fast-tracking the rate of loan disbursements.

With the decision to grow leasing to improve credit quality and to support the portfolio with quality collateral, leasing made the highest contribution to the growth in disbursements in the current year. Leasing disbursements amounted to Rs. 1.20 billion or 32.64% of total lending followed by SME with Rs. 889.69 million or 24.26% of total lending.

We curtailed SME lending thoughtfully due to the business impact the Easter Sunday attacks created on this sector making the sector NPA rise. As a result, SME lending recorded a decline of 10.89% during the current year in comparison to the previous year. Housing loan product performed satisfactorily with an average disbursement of Rs. 51.36 million per month during the current year and recorded a growth of 49.74% YoY.

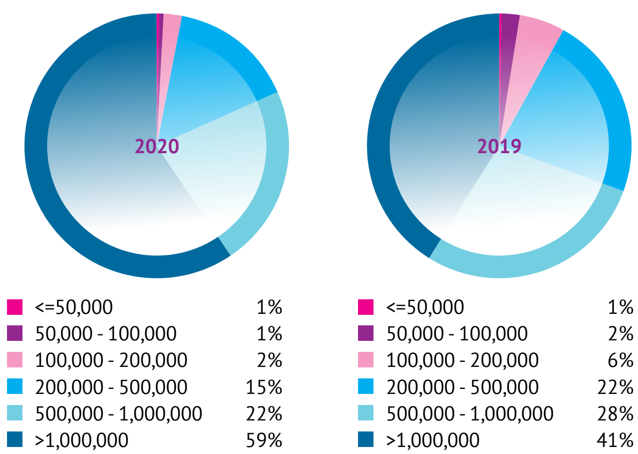
Disbursements by Product



With the shift in overall lending strategy towards collateral-based lending, resulted in the ticket-size per loan increased sizably during the current year. The share of disbursements over Rs. 1.0 million to total disbursements increased to 59.41% from 41.03%. With the curtailment of lending on SME and business loans, the share of disbursements between Rs. 0.5 million to Rs. 1.0 million decreased to 22.04% from 28.38% in the previous year.

Out of total lending 41.2% was executed below 24% ER compared to 76.3% of total lending in the previous year. This showcases an increase in micro leasing where the rates are sizably higher than other lending. Consequently, SDF overall portfolio yield improved to 23.36% at the year-end from 22.8% in the previous year due to higher yields generated from micro leasing, especially from three-wheeler, scooters and agro-based vehicles/machineries.

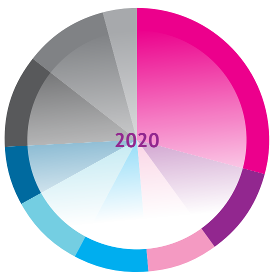
Disbursements by Value

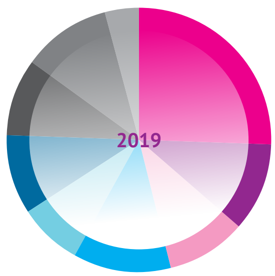


Financial Capital

The highest contribution to the disbursements came from the Western Province which amounted to Rs. 1.07 billion or 29.21% of total lending during the current year. The contribution to total lending from the Western Province shows 3.64% increase in rupee-terms, compared to the previous year. The Eastern Province contributed the second largest with Rs. 425.62 million or 11.61% of total lending followed by the Southern with Rs. 398.65 million and the North Western Province with Rs. 375.83 million.

Disbursements by Province





2020		2019	
Western Province	29%	Western Province	25%
Southern Province	11%	Southern Province	11%
Central Province	9%	Central Province	10%
North Central Province	9%	North Central Province	12%
Uva Province	9%	Uva Province	8%
Sabaragamuwa Province	7%	Sabaragamuwa Province	9%
Eastern Province	12%	Eastern Province	10%
North Western Province	10%	North Western Province	11%
Northern Province	4%	Northern Province	4%

In terms of economic sectors, disbursements to the construction sector accounted for the largest share at Rs. 1.47 billion, which was a 46.53% growth compared to the previous financial year. The other customers' category was the second largest sector with Rs. 919.64 million disbursements which registered an increase of 19.54% YoY. With the slow-down in tourism and transport sectors as a result of the Easter Sunday attacks, lending to these sectors was substantially curtailed, resulting in over 66% drop in the disbursements to these sectors compared to the previous year.

Similarly, as many small-scaled businesses struggled to sustain their businesses and honour their financial commitments in a timely manner due to the business impact created by the Easter Sunday attacks, lending to the trading sector was curtailed, resulting in Rs. 195.50 million or 82.11% drop in disbursements to this sector. Other services and customer segments collectively accounted for Rs. 1.23 billion which accounted for 33.65% of the loans disbursed during the current year.

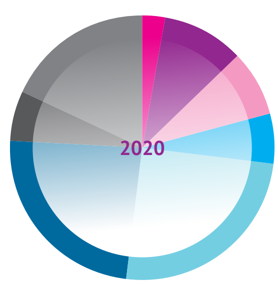
Disbursements by Sector	2020 Rs. million	2019 Rs. million	Change %
Agriculture & Fishing	111.35	197.63	(43.7)
Manufacturing	653.78	447.73	46.0
Tourism	3.84	11.30	(66.0)
Transport	51.18	151.66	(66.3)
Constructions	1,469.32	1,002.74	46.5
Trades	42.60	238.10	(82.1)
New Economy	-	12.34	(100.0)
Financial and Business Services	82.23	51.82	58.7
Infrastructure	18.96	50.02	(62.1)
Other services	314.64	716.14	(56.1)
Other Customers	919.64	769.33	19.5
Total	3,667.55	3,648.81	0.5

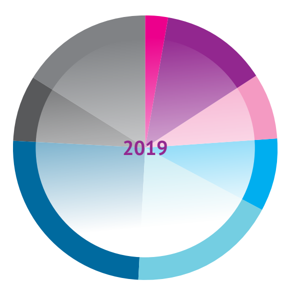
Portfolio Composition

The new growth strategies implemented by aggressively moving into collateral-based lending and focus more on leasing contributed towards expanding the gross portfolio value by 12.81% to Rs. 7.38 billion from Rs. 6.54 billion in the previous year. The key products; SME, leasing and housing loans contributed 66.94% to the gross portfolio as opposed to 58.12% contributed in the previous year.

The SME portfolio moved up slightly to Rs. 1.79 billion registering a 10.99% growth YoY. Leasing registered a growth of 59.02% YoY which boosted the leasing portfolio to Rs. 1.83 billion as at the end of the current year. The micro personal portfolio increased to Rs. 573.90 million or by 11.90% while micro business portfolio declined to Rs. 485.45 million or by 18.54% YoY. The curtailment in disbursements into trading sector resulted in the drop in the portfolio of micro business. In addition, the housing loan product, registered an impressive growth of 27.03% YoY and stood at Rs. 1.04 million at the end of the current year.

Gross Portfolio by Product

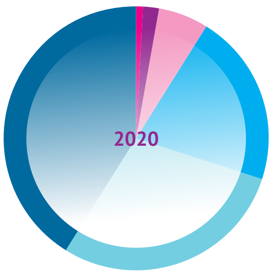




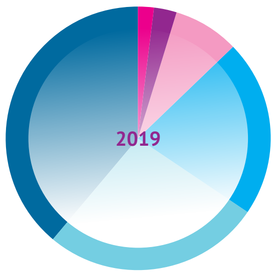
2020		2019	
Society	3%	Society	3%
Other loans	10%	Other loans	13%
Micro - Personal	8%	Micro - Personal	8%
Micro - Business	6%	Micro - Business	9%
Lease	25%	Lease	18%
SME	24%	SME	25%
PCBE	6%	PCBE	8%
Housing	18%	Housing	16%
Group loan	0%	Group loan	0%

The strategic shift towards collateral-based lending resulted in the average loan sizes increasing sizably during the current year. The share of gross portfolio between Rs. 0.5 million to Rs. 1.0 million increased to 28.95% from 27.13% and the share of gross portfolio over Rs. 1.0 million increased to 40.50% from 38.72% respectively compared to the previous year. Out of total gross portfolio, 51.7% of loans were below 24% ER as opposed to 77.0% of total portfolio in the previous year. This swing has emerged due to increased micro leasing during the current year.

Gross Portfolio by Value



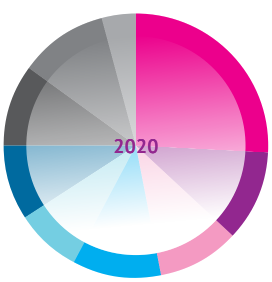
<=50,000	1%
50,000 - 100,000	2%
100,000 - 200,000	6%
200,000 - 500,000	21%
500,000 - 1,000,000	29%
>1,000,000	41%



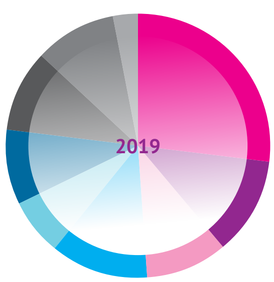
<=50,000	2%
50,000 - 100,000	3%
100,000 - 200,000	8%
200,000 - 500,000	22%
500,000 - 1,000,000	27%
>1,000,000	39%

The Western Province accounted for the highest share of portfolio value amounting to Rs. 1.95 billion and recorded a growth of 10.21% YoY. The Uva Province demonstrated the highest growth of 23.70% YoY and reached to Rs. 619.21 million at the end of the current year. The second highest growth came from the Eastern Province which grew by 20.64% YoY to reach Rs. 765.14 million. The North Central Province held the second largest share of the portfolio with Rs. 816.64 million and recorded a growth of 3.42% YoY against the previous financial year.

Gross Portfolio by Province



Western Province	26%
Southern Province	11%
Central Province	10%
North Central Province	11%
Uva Province	8%
Sabaragamuwa Province	9%
Eastern Province	10%
North Western Province	11%
Northern Province	4%



Western Province	27%
Southern Province	12%
Central Province	10%
North Central Province	12%
Uva Province	7%
Sabaragamuwa Province	9%
Eastern Province	10%
North Western Province	10%
Northern Province	3%

Sector-wise distribution of the portfolio indicates, the highest share of SDF's portfolio amounting to 32.32% is distributed to the construction sector. The construction sector showed greater dynamics as in previous year with Government-backed infrastructure developments projects continued to expand. Accordingly, our highest disbursements was into this sector resulting in the construction sector contributing the biggest share of our gross portfolio.

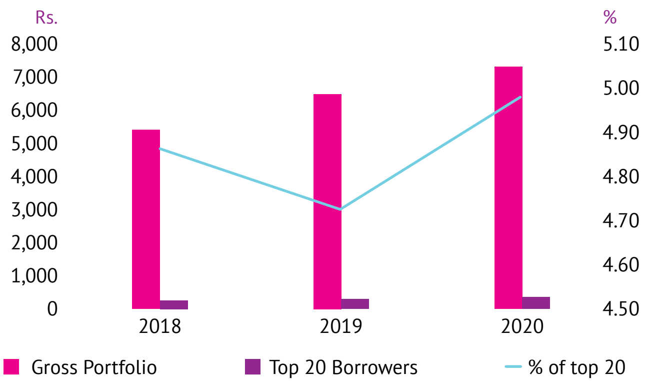
The tourism sector was severely affected by the Easter Sunday attacks, unfavourable weather conditions and COVID-19 pandemic at the tail end of March 2020. Notwithstanding these unprecedented circumstances, SDF was able to maintain the portfolio quality of this sector at an acceptable level. The second largest exposure is in other customers' sector with Rs. 1.66 billion which recorded a growth of 14.28% YoY. The highest growth of 63.88% was reported in the construction sector followed by the manufacturing sector with 58.06% growth YoY.

Gross Portfolio by Sector	2020	2019	Change
	Rs. million	Rs. million	%
Agriculture & Fishing	377.09	468.97	(19.6)
Manufacturing	1,135.60	718.46	58.1
Tourism	35.81	39.50	(9.3)
Transport	204.22	257.91	(20.8)
Constructions	2,384.72	1,455.20	63.9
Trades	521.30	777.57	(33.0)
New Economy	34.30	42.22	(18.8)
Financial and Business Services	66.91	80.26	(16.6)
Infrastructure	53.70	52.97	1.4
Other Services	905.81	1,196.10	(24.3)
Other Customers	1,660.05	1,452.61	14.3
Total	7,379.52	6,541.77	12.8

Financial Capital

The value of the top 20 borrowers increased to Rs. 367.60 million from Rs. 309.16 million in the previous year. Despite the larger ticket-size SME lending being curtailed, the percentage of top twenty (20) borrowers increased from 4.73% to 4.98% as at the end of the current year supported by lending to selected corporate entities for working capital requirements.

Top 20 Borrowers



Portfolio Quality

The year 2020 was probably the most challenging year for SDF in its history, as first the industry was stormed by the Easter Sunday attacks and just as the economy was recovering by the end of the FY, the industry was blistered with an even bigger crisis; the COVID-19 outbreak. We continued to display resilience even in the face of these unprecedented volatilities so as to build a solid financial foundation for the future of the Company. We focus on improving our lending quality by moving into leasing and also gold loans at the later part of the current year. While aggressively pushing leasing to improve assets quality, we redoubled our attention on recoveries and internal procedural aspects, including training for credit officers, to ensure better quality of new lending. We strictly followed the Central Bank's guidelines on LTV on leasing and exerted a considerable attention to industry changes to manage credit risk in our business operations, and adapt such changes proactively to improve efficiencies. We priced our lending products at affordable prices to our borrowers by carefully monitoring the changes in market credit risk factors and fluctuations in market interest rates.

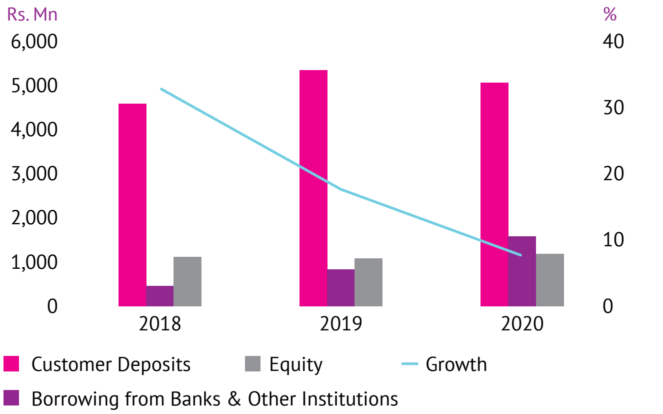
The recovery dash-board we developed in the previous year using micro-soft power BI tools to monitor daily recovery, branch and field officer wise, immensely contributed to the close supervision of recoveries as well as monitor the daily movements of the field officers for effective engagement of recoveries. The 1319 hotline was used effectively to follow up recoveries of performing contracts and give daily reminders until settlement. Instead of enforcing legal actions on NPA customers, our legal team got actively involved in the recoveries through direct negotiations with these defaulters for settlement. Legal recovery camps were conducted at regional level to provide workable-solutions and re-payment plans for defaulted customers. Individual counselling was conducted at branch level through the panel lawyers to emphasise the legal impact that would arise for not settling. One-to-one counselling meetings for NPA customers were conducted by the corporate management at the Head Office level to apprehend customers' plights and provide customer-centric repayment solutions. The senior management got actively involved in visiting branches and conducting recovery programmes for NPA customers to reduce NPA exposure. All these initiatives aided SDF to curtail the rising NPA and record at an acceptable level at the year end. Our non-performing loan ratio (NPA ratio) increased to 11.81% as at 31 March 2020, from 9.41% reported in the previous year. Equally, the net NPA ratio increased to 6.14%, from 4.67% reported in the previous year. Our SME and micro business loan portfolios in particular were battered by the economic down turn created by the Easter Sunday attacks. As a result, the recoveries from these products segments was harder. This is the major reason to why our NPA ratios reached these levels during the current year. However, our gross NPA ratio did not have any material difference to the industry ratio which stood at 11.56% as at the end of the current year.

Funding Mix

We continued to adopt a pull strategy through direct 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. However, the regulatory supervisory measures taken by the Central Bank on a few ailing LFCs created a lack of confidence in depositors' minds to invest in LFCs. This was amplified with the economic turbulence created in the aftermath of the Easter Sunday attacks. These combined reasons impacted our market segment for deposits and as a result we opted for bank borrowings as an alternative strategy to satisfy our funding requirement. SDF obtained medium and short term borrowings amounting to Rs. 975 million, including new overdraft facilities, from commercial banks during the current year. This was an increase of Rs. 375.0 million compared to the previous year.

One of our medium-term core strategic objective is to build a strong low-cost funding base to facilitate lending at affordable and competitive rates. In this regard, we have prioritized aggressively growing savings as a low-cost funding base in coming years. In addition, we have reached out to overseas funding institutions to obtain low-cost funding via foreign credit-lines to fuel a rapid growth of the portfolio in the coming years.

Funding Base



During the year, our funding base increased to Rs. 7.89 billion from Rs. 7.32 billion in the previous year by registering a 7.83% growth YoY. Total deposits as a percentage of total funding mix, stood at 64.64% as at 31st March 2020, compared to 73.6% recorded as at 31st March 2019. The share of debt funding, collectively representing the medium-term loans and overdraft facilities from banks and short-term micro loans from other institutions, amounted to 20.21% of total funding mix as at 31st March 2020 compared to 11.42% reported as at 31st March 2019.

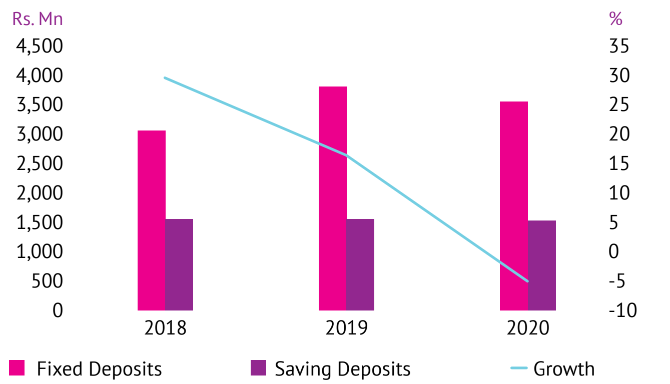
Albeit the deposits interest rates fell during the current year, the higher risk premium we had to pay on bank borrowings as opposed to deposits pushed the cost of funds up to 11.30% from 10.73% in the previous year. The risk premium we had to pay on these borrowings were relatively high due to our below investment grade rating, B (negative). As a result, the average interest rate paid on bank borrowings during the year amounted to 14.23%.

Deposits Base

SDF went through a very challenging and daunting period of time during the current year devastated by external volatilities. The negative outlook brought in by these external volatilities coupled with tight regulatory supervision by Central Bank on ailing LFCs caused worries in the depositors' minds. Our savings base remained resilient during this challenging period since majority of savings deposits are from SSS. The SSS savings base is relatively stable and unaffected by external volatilities due to years of close bonding with SDF. Despite SDF being an accepted and reputed house-hold brand and financially sound and growing, the behaviour of our fixed deposits holders is such that they have a relatively higher sensitivity to adverse external factors. The Company rating is also a key factor that depositors consider when depositing money. Our Company rating B (negative) is a below investment grade rating. We believe this also impacting our ability to attract potential high-net-worth individuals, institutions and investments funds to grow our fixed deposits. Giving our unique business model and YoY improvements in our qualitative and quantitative performance, we believe the current rating does not truly capture our unique business model and immense potential we have as a growing financial institution, both in qualitative and quantitative measures. We are confident that despite challenges are likely to prevail in the short-term, we are rightly positioned to deliver impressive financial performance in the ensuring years to improve our rating.

We closed the financial year 2020 with the total deposit base declining by Rs. 283.36 million or 5.26% to record at Rs. 5.10 billion. Fixed deposits base fell by 6.76% or Rs. 258.61 million and recorded at Rs. 3.57 billion at the end of the current year. Savings recorded a modest decline and stood at Rs. 1.54 billion at the end of the current year. The decrease in the savings base amounted to Rs. 24.76 million or 1.59% compared to the previous year.

Deposit Base



The Western Province accounted for the largest share of the deposits base and recorded at Rs. 2.26 billion or 44.40% of the deposits base. The Western Province deposits base decreased by Rs. 72.51 million or 3.10% YoY. The Central Province recorded a 6.08% growth YoY which was the only growth recorded among the provinces. The Southern Province held the second largest share of the deposits base of Rs. 564.76 million.

Financial Capital

The eligible deposits base amounted to Rs. 2.92 billion as at the end of current year and the highest was recorded in the Western Province of Rs. 1.64 billion and followed by the North Western Province of Rs. 264.29 million.

Province	2020		2019	
	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)
Central Province	350.80	164.22	377.21	294.16
Eastern Province	209.11	67.24	240.99	217.31
North Central Province	445.16	177.84	471.51	421.01
North Western Province	558.47	264.29	597.00	534.68
Northern Province	92.23	61.89	86.94	76.92
Sabaragamuwa Province	408.46	206.40	421.07	373.46
Southern Province	564.76	258.69	606.52	509.96
Uva Province	207.57	87.47	246.18	218.28
Western Province	2,265.41	1,636.43	2,337.92	2,106.30
Total	5,101.98	2,924.46	5,385.34	4,752.08

The highest increase in the deposits base of Rs. 43.39 million or 6.22% of net growth was recorded in the deposit category of Rs. 500 thousand to Rs. 1.0 million. The highest share of the deposits base was recorded between Rs. 1.0 million to Rs. 5.0 million. The share of deposits base between Rs. 1.0 million to Rs. 5.0 million to total deposits base, decreased to 28.74% from 32.12%. The deposits base over Rs. 5 million decreased by Rs. 75.20 million. The share of the deposits base over Rs. 25 million to total deposits base, increased to 10.68% from 10.0%.

Deposit Category	2020		2019	
	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)	Deposit Base Rs. (million)	Eligible Deposit Rs. (million)
"Below Rs. 100,000/-"	1,020.58	84.11	1,007.45	999.67
"Rs. 100,000 - 500,000"	1,029.87	463.94	1,030.83	926.62
"Rs. 500,000 - 1,000,000"	740.61	500.15	697.22	568.29
"Rs. 1,000,000 - 5,000,000"	1,466.26	1,113.69	1,729.99	1,436.81
"Rs. 5,000,000 - 10,000,000"	214.80	166.37	245.09	192.87
"Rs. 10,000,000 - 25,000,000"	84.76	54.71	136.21	89.27
"Over Rs. 25,000,000"	545.09	541.50	538.55	538.55
Total	5,101.98	2,924.46	5,385.34	4,752.08

Our exposure to either equal or greater than Rs. 10 million deposits as a percentage (%) to the total deposits base, dropped to 12.35% from 12.53% in the previous year, illustrating a relatively low liquidity risk to SDF in case of a sudden withdrawal.

Investment Mix

We invested 5.42% of the total assets in Reverse Repurchase agreements (Repos) which accumulated to Rs. 444.94 million as at 31 March 2020. Investment in fixed deposits decreased by Rs. 24.74 million or 2.0% and reached Rs. 164.54 million.

Bottom Line

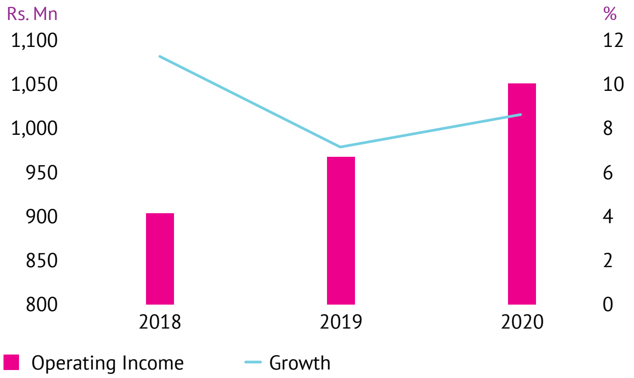
Operating Income

SDF concluded FY 2020 on an impressive note, consistently performing well on YoY, despite the extremely challenging events that marked the FY. Notwithstanding the unprecedented circumstances during the year, our gross income grew by 14.42% as opposed to 19.27% in the previous year. Reflecting the growth in our lending activities, interest income moved up by 17.32% to Rs. 1.68 billion. With increase in interest rates on medium and short-term bank borrowings, the interest expenses increased by 23.65% or Rs. 143.50 million and recorded at Rs. 750.12 million. While net interest income improving by Rs. 104.81million or 12.68% YoY, the net interest margin weakened to 12.21% from 12.51% owing to higher cost of funds stemming from bank borrowings.

The share of other income which comprises fees and commission income and other operating income, showed a sizable decrease of 17.49% compared to 0.5% marginal increase reported in the previous year. Despite fee and commission income increasing by Rs. 4.59 million or 18.36%, the recoveries of written off loans declining by Rs. 41.23 million or 42.26% contributed to the reported decline in other income. The recoveries of written off loan amounted to Rs. 56.32 million as opposed to Rs. 97.55 million in the previous year.

All in all, these factors contributed to record an Rs. 83.69 million or 8.64% growth in total operating income in the current year.

Operating Income



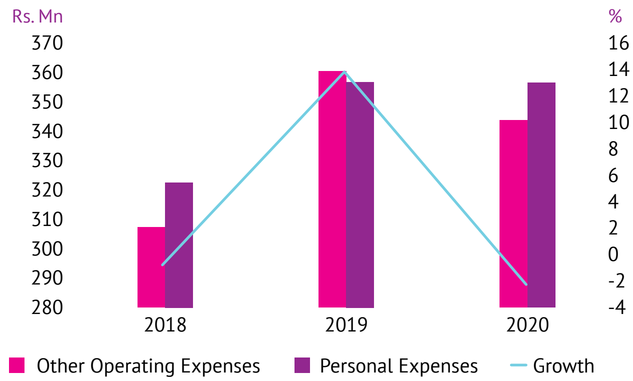
Operating Expenses

Relentless focus on driving cost rationalisation and process efficiencies through technological advancements and process re-engineering enabled SDF to record a 2.37% reduction in the operating expenses. The operating expenses for the current year amounted to Rs. 700.91 million as against Rs. 717.90 million reported in the previous year. We initiated a large number of cost management initiatives including rationalising right number of staffs in response to the challenging economic conditions, coupled with our technology driven process efficiencies already in place to contribute towards achieving this reduction in the operating expenses.

We are continuously evolving as a respected brand by re-branding, modernising and face-lifting our channel network to bring in ambience and to create speedy service to our valued customers. We've now evolved as a young, tech-savvy, financial institution and have invested in technology prudently, to bring in advancements to our customer service. Marketing of customer products has been given a new dimension by entering into digital content marketing through social media platforms. While using our website and Facebook account effectively as primary mediums for digital marketing, we extensively used 'geofencing' to approach pre-determined target market segments so as to attract potential customers to SDF by identifying and satisfying their necessities. These initiatives not only proved to be productive but also proved to be extremely cost-effective. Our state-of-the-art new head office in Borella provided greater ambience, visibility, more space and extended hours of service to our customers. While re-structuring support services with right number of staff, fresh talents were brought in with unblemished track-records to push-forward marketing both at HO and branch level. All these initiatives were well-planned and strategically executed to achieve greater productivity and efficiencies.

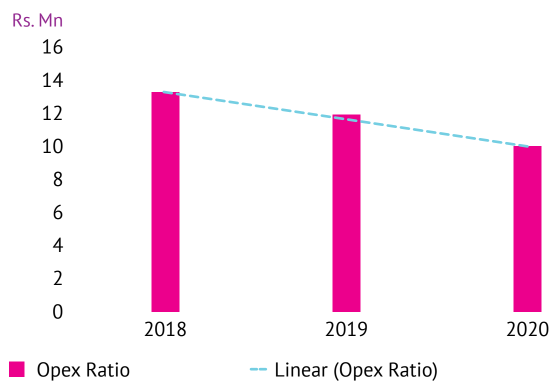
In this milieu, we contained operating expenses to record a decline of Rs. 16.98 million or 2.37% over the previous year, enabling us to post an operating profit of Rs. 232.09 million before taxes on financial services which reflected a remarkable improvement of 48.10%. This resulted in staff cost to net income ratio, efficiency ratio and staff cost to net income ratio improving to 76.87%, 66.61% and 33.91% respectively during the current year compared to 83.18%, 74.11% and 36.87% respectively in the previous year.

Operating Expenses



With effective cost management and staff rationalisation combined with technology-driven process efficiencies, we were able to further reduce our Opex ratio to 10.07% during the current year compared to 11.97% reported in the previous year.

Opex Ratio



We continued our efforts in initiating many reforms during the current year, including reaching next level of process improvement in 5S implementation, to minimise waste and optimise the available resources to generate maximum output. We have come a great distance in creating a paper-less environment through automation. We have replaced many manual process by introducing system-driven workflow management. We believe that the process re-engineering we are working on by simplifying and automating the manual processes will contribute to a substantial reduction in cost, mainly in paper and time, in coming years.

Financial Capital

Taxation

SDF's operating profit before tax on financial services registered a 48.10% increase over the previous year to reach Rs. 232.09 million. This illustrates SDF's sustained ability to prudently manage its assets and liabilities and core drivers in the midst of tumultuous times. Despite 23.65% increase in interest expense and 26.91% increase in the impairment provision, with effective cost management and productivity improvements, SDF was able to register this impressive growth. Despite the personal cost remained relatively same as a result of staff rationalisation and restructuring we did, the tax on financial services increased to Rs. 108.02 million or by 23.09% due to the impact of debt recovery levy (DRL) that was introduced during the current year. Although, the profit before taxation surged by Rs. 55.11 million or 79.92%, the income tax charge reduced to Rs. 22.35 million from Rs. 27.74 million in the previous year, as a result of brought forward tax adjustments. We paid Rs. 130.37 million in taxes to the Government during the current year which was an increase of Rs. 14.61 million compared to previous year.

Profitability

We have been able to record impeccable performance in profitability during a very challenging and daunting year. Our profits for the year soared to Rs. 101.72 million surpassing the budgeted figures by Rs. 40.0 million to register an overwhelming 146.79% growth YoY. This is a testament to the ability of our remarkable workforce, our strength, our dedication, our constant need to better ourselves and implementations of our high performing strategies. We continued to optimise technology investments to drive optimum efficiencies and enhance visibility, connectivity and integration with customers and business partners.

We were committed and remained agile in our operations and response during this challenging time while ensuring operational stability. Despite the unique challenges that prevailed since April 2019 after the Easter Sunday bomb attacks, we made solid progress towards our targets set for the FY 2020, which together with diversified product portfolio embedded with technologic advancements and strong cost control measures helped us to post this strong profits. One of the pillars of the SDF's success, besides the committed workforce, has been its eminent and highly disciplined Board of Directors, advocating necessary guidance for the stability of the Company. The combined experience of the Directors was testimonial in steering SDF forward through the year. We will harness best of these strengths in propelling SDF towards creating sustainable value for its stakeholders.

With the bottom-line bolstering by a growth of 146.79%, return on equity (ROE) soared to 8.87% over 3.70% reported in the previous year, and return on assets (ROA) climbed to 1.30% over a 0.60% reported in the previous year.

Capital Resources and Liquidity

We maintained a healthy liquidity position during the current year despite not having fulfilled the regulatory minimum core capital requirement. We were not able to fulfil the minimum core capital requirement of Rs. 1.5 billion as at the end of the current year. However, due to unprecedented challenges brought in by the outbreak of COVID-19, the Central Bank extended the deadline till 31st December 2020 to comply with this core capital requirement for the LFCs who have already complied with the Rs. 1.0 billion core capital requirement. However, with the core capital requirement increasing to Rs. 2.0 billion by 01st January 2021 as per the regulatory provisions, SDF is now required to raise minimum of Rs. 900.0 million by 31st December 2020 to comply with the regulatory core capital requirement.

In this backdrop, the Board of Directors launched a Private Placement in February to raise up to Rs. 500 million equity capital with an option to raising up to Rs. 1.0 billion in the event of an oversubscription of the initial issue. With the outbreak of COVID-19 in March, which was unprecedented and unforeseen, the success of this share issue will now depend on with the pace at which this pandemic is managed globally and more importantly locally. As at the date of the Statement of Financial Position, SDF had not received any subscription for this share issue. In the event, this Private Placement becomes unsuccessful due to the COVID-19 pandemic, the Board will take measures to arrange another Private Placement in the coming financial year to raise new equity capital up to Rs. 1.0 billion. The Board is confident that with the committed efforts of both the Board and the senior management, the Company will be able to fulfil the core capital requirement of Rs. 2.0 billion by December 2020 and follow by an IPO in the year after to meet future core capital requirement.

The country is passing through a period of economic decline. The stock market has plummeted and the valuations of many LFCs have contracted substantially. On top of that, the unprecedented complexities that may arise from the outbreak of COVID-19 will be closely correlated with the pace at which the sluggish macro-economic conditions prevail in the country improves. In this back-drop, attracting new investors to bring in additional capital is extremely difficult. Our Board of Directors are working on full commitment and have entered into many agreements with prospective parties, including NDBIB as the advisor and the investment manager, to raise the required core capital in the coming financial year.

Albeit not fulfilling the regulatory minimum core capital, we always maintained healthy capital ratios to support our business and maximise shareholders' value. We have comfortably adhered to the stipulated capital adequacy ratios laid down by the Central Bank. Our core capital ratio (minimum 6.5%) and total capital ratio (minimum 10.5%) stood at 12.99% and 13.23% respectively as at 31 March 2020. The total core capital base as at 31 March 2020 stood at Rs. 1.15 billion.

Cash Flow

Net cash generated from the operating profit before working capital changes amounted to Rs. 298.99 million which was an improvement of 33.49% compared to the previous year. This improvement resulted largely due to the surge in the profit reported in the current year.

Net cash generated from operations recorded a negative Rs. 771.26 million which was a weakening of Rs. 669.10 million compared to Rs. 102.16 million negative cash flow reported in the previous financial year. The decrease in this operating cash position was demonstrated by Rs. 283.37 decrease in deposits as against an increase of Rs. 160.27 million in loans and advances. The cash flow from investments activities was negative of Rs. 19.45 million compared to a negative cash flow of Rs. 224.75 million recorded in the previous year. The withdrawal of financial investments due to relaxed regulatory liquidity requirement was paramount in this decline. With new inflows of Rs. 975.0 million in bank borrowings, the net cash inflow from financing activities amounted to Rs. 592.16 million resulting in a net cash inflow of Rs. 92.04 million compared to the previous year.

As a result of these major changes reported in our cash flow, the net decline in our cash and cash equivalents amounted to Rs. 234.68 million compared to a net increase of Rs. 152.19 million reported in the previous year. With Rs. 99.33 million positive cash and cash equivalent reported at the beginning of the year, our cash and cash equivalent reported a negative balance of Rs. 135.35 million at the end of current year which was comfortably managed through available bank overdrafts.

Future Outlook

We will approach the future with the insights and acumen garnered over the years, renewing our commitment to our people and country with a high level of optimism and resolve. While the crisis caused by COVID-19 still continuing and the true impact of it will depend on the intensity and duration of the pandemic, SDF as a responsible corporate having a strong and respected industry name which was achieved with in a short period of time with its dedicated staff is fully committed to support our customers during this difficult time to rebuild their livelihoods and thereby the nation as a whole

Accordingly, our key focus in the coming year will be to support our customers in need, while ensuring maximum health and safety measures for our staff as well as maintaining stability of our Company and intensifying our pursuit of digital and technological transformation. While challenges are likely to prevail in the short-term and our estimated profit for the coming year be halved, our medium to long term growth plans are solid and we are confident of delivering strong earnings in the coming years. We strongly believe that with our technological advancements and the new products development and inroads into new markets will enable us to amplify the ongoing operations to generate superior profits in coming years.

Manufactured Capital

Strategic Priorities	Strategies
Improve branch profitability	• Grade branches on business potential with adequate resources to drive profitability
	• Improve processes through system automation to create optimal results
	• Upgrade and revamp for greater ambience, brand visibility and customer reach
Invest in latest IT and FinTech	• Implement digital transformation solutions such as workflow management systems for greater efficiencies.
	• Cyber security and IT risk awareness building
Reach new markets	• Partner with SSS for business expansion and to reach new markets
	• Develop customised products for niche markets
	• Branding and marketing campaigns with high emphasis on digital content marketing

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

The Company's owned property is limited to the former head office building in Moratuwa which was rented out during the FY 2020 for a lease rental of Rs. 0.7 million per month. We also revalued this property in FY 2020 and the resulted valuation was same as the last year. We moved in to our new state-of-the art head office building in Borella in January 2019. The state-of-the art new Head Office building brought in greater ambience and visibility, customer reach and acceptance and brand awareness and value creation to the Company. The benefits reaped by this move assisted in the Company registering outstanding financial performance in FY 2020.

We are in a continuous process of modernising our new Head Office and customer delivery points, comprising of branches and CSCs, to create greater ambiance and customer acceptance. In this process, we increased our capital investment in head office fixed assets by Rs. 19.75 million and in our customer delivery points by Rs. 3.95 million, during the current year. The capital investment in head office includes a 'LED wall' that we installed at the head office premises facing the main road with a capital investment of Rs. 5.2 million. This digital wall boosted our ambience, visibility and customer attraction. We will use the digital wall extensively to promote our brand and the products.

	Capital Investment	
	Cost (Rs.'000)	**WDV (Rs.'000)**
Head Office	19,789.56	18,070.17
Branches/CSC's	3,945.63	3,651.15
Total	23,735.19	21,721.32

Customer Delivery Points

Presently, our customer delivery points spread across the island serves different segments of the society. As at end March 2020, our network comprised 51 customer delivery points, comprising 30 branches and 21 customer service centres (CSCs), scattered across the island, which are all occupied under lease agreements.

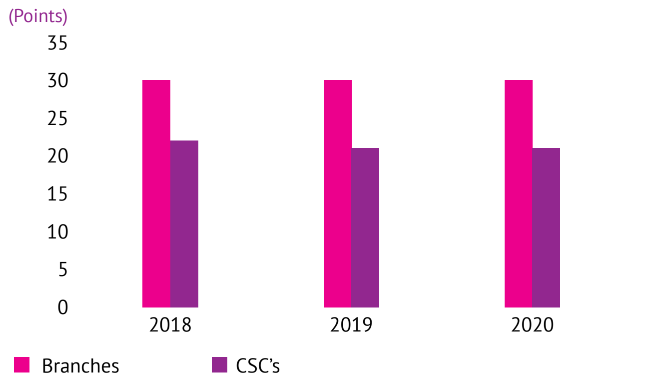
Branch Network

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

Identifying Strategic Locations

We identify strategic locations that require our presence through the analysis of the market potential of the area in question, as well as any future prospects. This is done through extensive market research and demand trend analysis. To further enhance the value of our branch network, we rebranded and relocated some of our existing branches. This rebranding and relocating of branches is a continuous process, and we expect this relocation strategy to maximise benefits for customers by providing easier access and greater convenience, while facilitating improved return on assets for SDF. Aligning with this strategy, we relocated our Head office premises to the Colombo metropolitan area during the FY 2019 enabling greater visibility to potential clientele and as a brand positioning initiative.

Customer Delivery Points



New Head Office in Colombo

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

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

Tantamount to our commitment to customers, is our commitment to our people. Appreciating the passion and dedication of our most valuable asset is a priority at SDF, which is why the new Head Office comes complete with a fully-equipped gym for the team to enjoy a truly immersive work-life balance. During the current year, the Company has commenced to convert this gym into a recreation centre for the HO staff by adding in a yoga centre, a library and a canteen for the health and the wellbeing of our employees. The capital investment for this project is estimated to be around Rs. 12.0 million.

Branch Expansion

We did not expand our network during the financial year 2020, but we improved our services in leaps and bounds while making them easily accessible to customers.

Manufactured Capital

Relocate Branches and CSCs

Under the branch relocation, rebranding and face-lifting initiative which we commenced few years back, we rebranded and relocated two (2) of our branches during the current year, enabling our customers to access us easily. These Branches/CSCs were equipped with modern facilities and made them more spacious for customers to carry out their transactions.

Relocation of Gampaha Branch

Branch Operations

Branch rationalisation and operational efficiency improvements continued in the current financial year. The SDF branch and CSC network ensures our presence in strategic locations giving the Company access to both rural and urban populations. Our capital investments during the year for improvement of branches, brand building of branches and incorporation of IT and modern equipment totalled to Rs. 3.95 million which ensured faster service delivery and customer satisfaction.

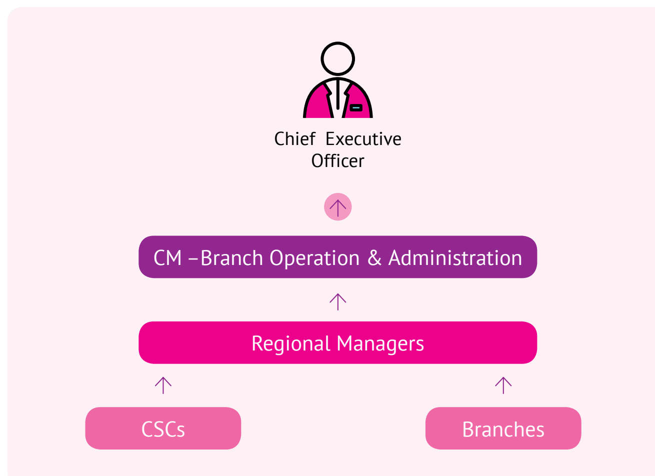
	Capital Investment	
	Cost (Rs.'000)	WDV (Rs.'000)
Branches	2,886.65	2,681.24
CSCs	1,058.98	969.91
Total	3,945.63	3,651.15

Our investments for modernisation, branding and maintenance of our capital assets amounted to Rs. 6.0 million during the current year. These improvements we made on our capital assets aided in reflecting our new phase lift across all our branches/CSCs and head office. In line with our commitment to give a unique customer experience, we constantly elevate our brand image in our branches/ CSCs and head to provide our customers a unique experience at the first engagement itself.

	Capital Investment			
	Head Office (Rs.'000)	Branches (Rs.'000)	CSCs (Rs.'000)	Total (Rs.'000)
Maintenance	1,827.61	1,581.89	862.76	4,272.25
Modernising	-	347.26	-	347.26
Branding	1,281.05	100.38	-	1,381.43
Total	3,108.66	2,029.53	862.76	6,000.94

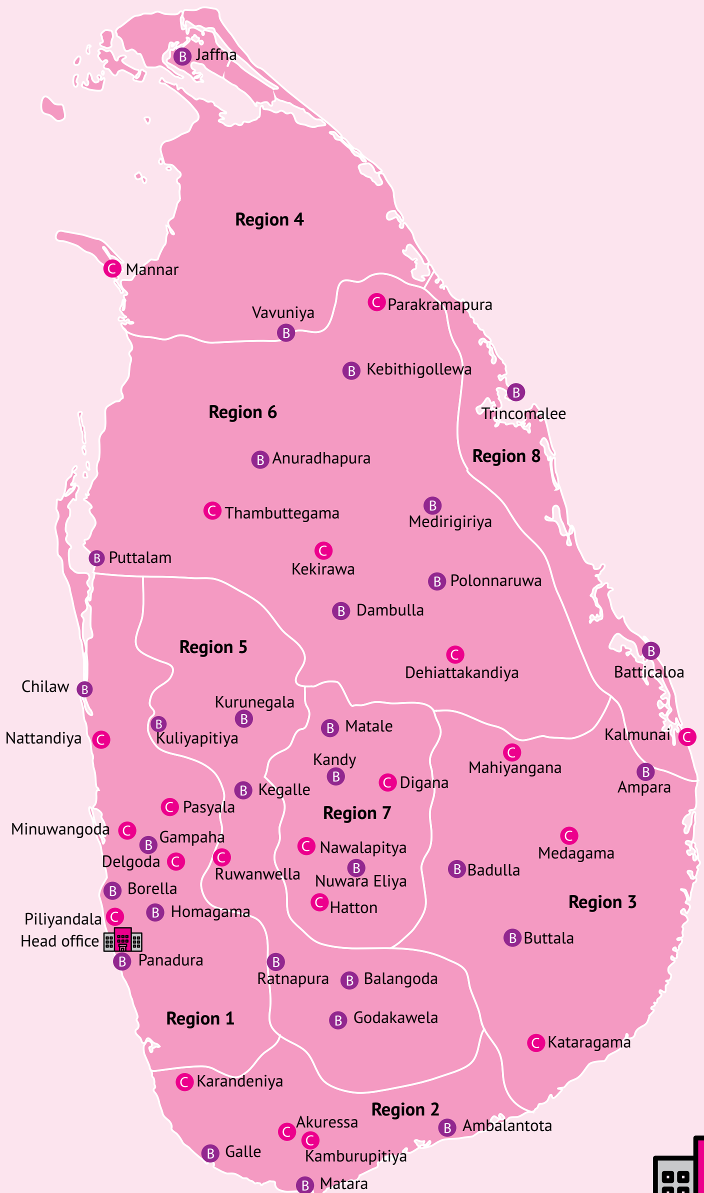
Branch Operating Structure

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



Our credit approval process is partly decentralised as the regional managers are given Delegated Authority (DA) that falls 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 and CSCs are monitored real-time by the Head Office through the IT system.

SARVODAYA DEVELOPMENT FINANCE



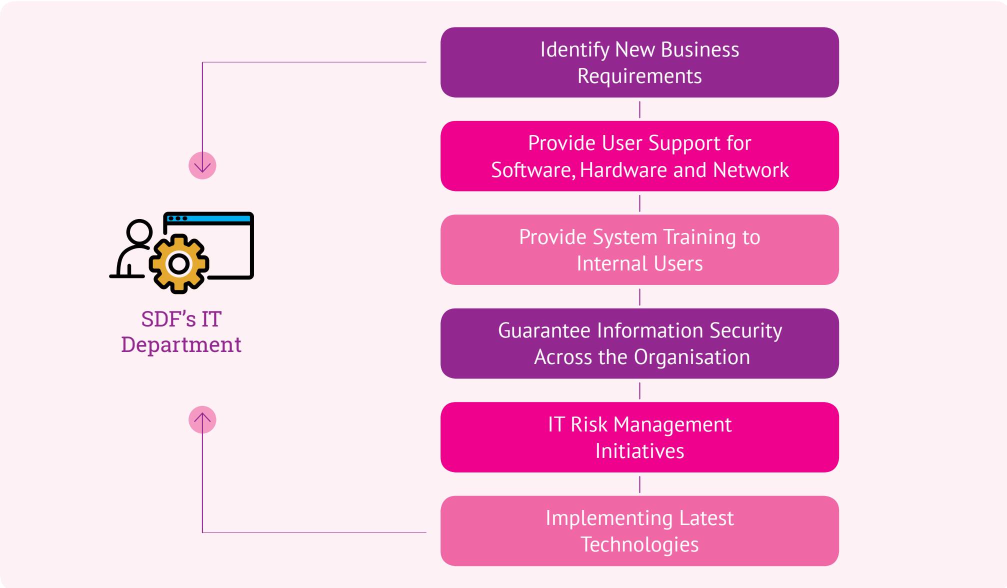
Region	Branch B	Customer Service Centers C
Region 1	Borella - Head Office Chilaw Panadura Homagama Gampaha Puttalam	Naththandiya Piliyandala Delgoda Minuwangoda Pasyala
Region 2	Ambalantota Galle Matara	Akuressa Karandeniya Kamburupitiya
Region 3	Badulla Monaragala Ampara	Mahiyangana Kataragama Dehiattakandiya Medagama
Region 4	Jaffna Vavuniya	Mannar
Region 5	Kegalle Balangoda Godakawela Kurunegala Kuliyapitiya Ratnapura	Ruwanwella
Region 6	Anuradhapura Dambulla Medirigiriya Polonnaruwa Kebithigollewa	Kekirawa Thabuttegama Parakkramapura
Region 7	Matale Kandy Nuwaraeliya	Nawalapitiya Digana Hatton
Region 8	Batticaloa Trincomalee	Kalmunai

30 Branches

21 Customer Service Centres

Key Activities and Functions of SDF'S IT Department

Our IT Department covers the following key activities and functions.

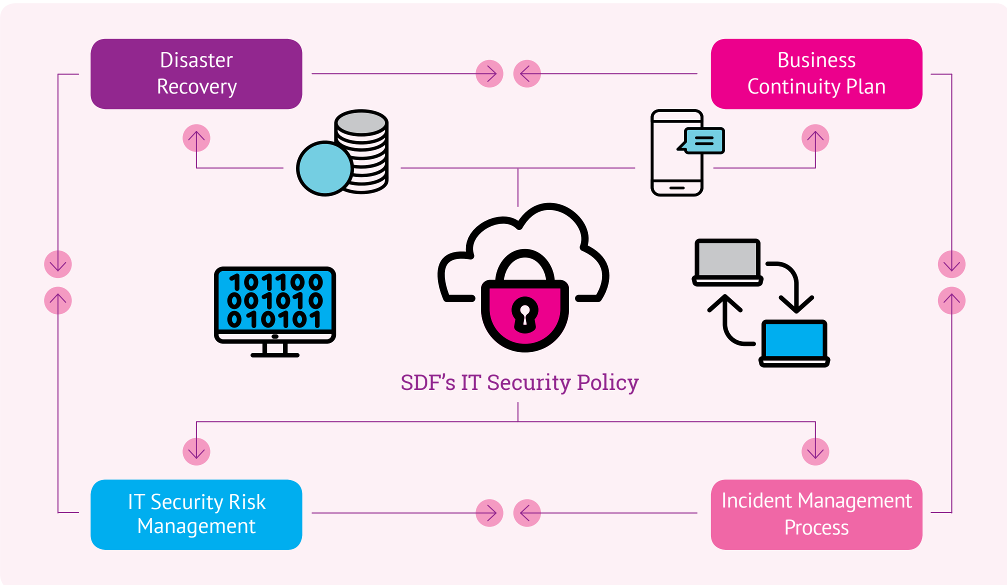


IT Infrastructure, Systems And Processes

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

Information Security Policy

Our comprehensive IT Policy is focused on many facets encompassing information technology. Our policy identifies the rules and procedures that SDF staff must follow when accessing and using an organisation's IT assets and resources. Focused investments have been made towards our e-mail and IT security to further strengthen the coverage of data security, ensuring that information is confidential, integrity is not compromised and that information is always available (The "CIA Triad" Methodology).



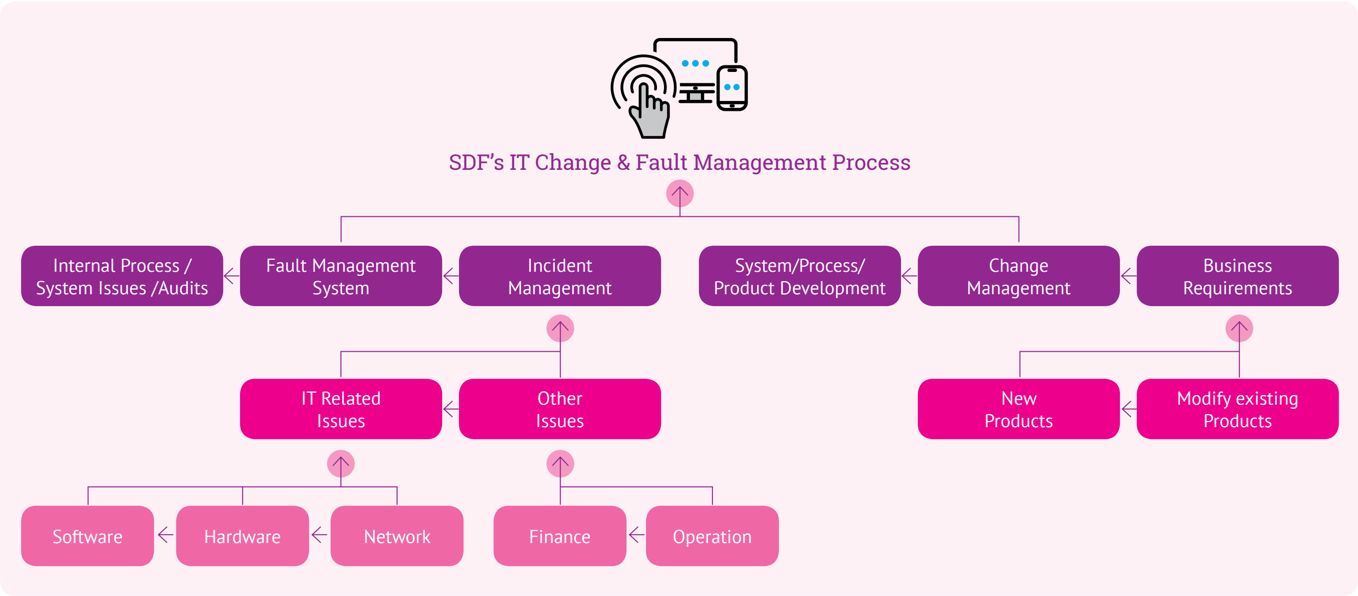
A Robust Disaster Recovery Site

Our network infrastructure was redesigned to enhance data security. Keeping in-line with Central Bank guidelines and internal DR policy, we partnered with Dialog IDC, Sri Lanka's first Uptime Tier III certified IDC provider, and re-located our DR site to their data centre located at Malabe with an investment of Rs. 5.6 million in FY 2017. With this strategic move, we are now capable of providing a high-level of reliability and security, especially for mission critical applications and data related to customers and SDF. As a future initiative, we intend to replace our 'Disaster Recovery' model to a cloud-based model by implementing 'Disaster-Recovery-as-a-Service (DRaaS)'.

We carried out a DR drill during the current 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. We aim to significantly improve out RTO and RPO values going forward.

IT Risk Management

Our IT Risk Management process focus on three (3) vital areas of the IT operations; namely, hardware, networking and systems/software. We have established sound process controls to effectively run our systems, gearing towards the achievement of SDF's corporate objectives. Also, employee IT literacy enhancement initiative was undertaken as a measure to reduce inaccuracies and improved adaptability to the changing technological environment.



Change Management

The formal process of making changes to IT services is channelled through a formal 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 methodically in order to minimise negative impacts to our services and customers. This includes business requirements identified for modifications in existing products as well as new requirements for new product launches.

IT Training and Education

All staff are equipped with comprehensive in-house and external trainings on the efficient use of IT resources. We keep our staff updated by providing continuous trainings on the emerging trends and technologies in IT environment. We believe that well-designed trainings will provide the required technical know-how to our staff which would ultimately result in enhanced efficiency level on the job. As more and more infrastructure and systems are introduced, so are the development of its users. The following training were conducted aiming to increase IT literacy for staff and day-to-day IT usage efficiency.

- Pay&Go recovery and utility bill payment training
- 'Over C' workflow management training
- MIS dash-board training for performance monitoring
- Digital content marketing training

Fault Management

Our IT Department developed a 'Fault Management System' to critically analyse incidents in order to identify patterns or issues that should be addressed at the root level. This approach, coupled with our 'Incident Management System', plays a vital role in tracking and streamlining IT resources.

Incident Management

Our IT Department manages incidents which are unplanned interruptions to services or failure. The objective of SDF's incident management process is to restore the IT related or other services 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 our customers will result in improved reputation and promote public confidence. We conduct period audits on IT systems and processes to make sure that our IT resources are up-to-date, maintain Integrity, upholds high compliance and ensures that the appropriate controls are implemented and working as intended. We completed an IT system audit, including the application audit in FY 2018 with an investment over Rs. 1.0 million. We implemented the changes/modifications recommended by the IT audit both in FY 2019 and 2020. We have carried out further upgrades to the IT system during the FY 2020 so as to cater for the greater accessibility to the information, process simplifications and data mining for strategic business information. With these developments and also to be aligned with our IT security policy and good governance, we have planned to carry out a comprehensive IT audit with an investment of over Rs. 1.0 million in the coming financial year.

We look at IT audits as a continuous process as the system evolves and we intend to conduct IT audits through external professionals periodically.

Manufactured Capital

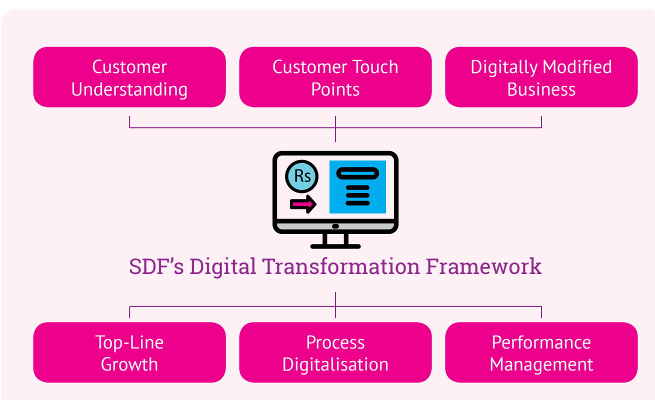
Technology Advancements

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. Additionally, 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.

System Automation

We intend to roll out certain process automations. By doing this, we will eliminate the degree of human error and provide a more streamlined and efficient output to certain day-to-day repetitive tasks. As the first stage of this process, we automated all day end processes during the FY 2018. As the second stage of this process, we initiated developing a fully-fledged automated workflow management system in the FY 2020 and we intend to complete the implementation of this process in FY 2021. We are currently engaged in introducing a fully-fledged automated workflow management system and we are also evaluating implementing BOTS as part of our system automation in the coming financial year.

Digital Transformation Solutions



The all-encompassing digital transformation is being evaluated across the board and is a core transformative initiative since the previous year, which we continued during the current year.

Transforming Customer Experience

To digitally transform customer experience, we continued on the previously identified and implemented methodologies. Understanding that the customer is a priority element in the digital transformation process, we have increased our presence via the social media community through the Facebook page launched which enabled personalised customer interactions and understanding customer perspectives through encouraged interaction. In order to empower and add convenience to our customers, usage of avenues of customer touch points, such as new mobile support web, mCash and Pay&Go facilities were 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 and power BI tools has given us access to quality customer information allowing identification of customer product personality to reach customer satisfaction via digital platforms.

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

In the coming year, we have included CEFTS integration with our core banking system as a key priority in our digital transformation road map. This implementation will automate the fund transfer process of supplier payments and thus facilitate our customers to make fund transfers between accounts and institutions.

Virtual Branches

We constantly gather feedback from our customers to apprehend customers' view point of our service quality. One of the constant feedback we receive is requesting us to introduce mobile-centric service solutions for greater convenience and faster service. Introducing mobile-centric service solutions to provide a greater service to our customers is a strategic focus area of the company's digital transformation process. It is also in line with our intention to expand our market penetration through establishing virtual branches subject to the Central Bank approval. We at present as an initial step towards virtual branches equipped the modern technology such as collections via Mobitel mCash and Western Union money transfers. Furthermore, we partnered with 'MegaPay (Pvt.) Limited' in the current year and introduced POS machines for loan recoveries. We intend to expand the usage of POS machines for deposits transactions subject to the approval of the Central Bank. In addition, plans are in place to include additional features such as biometric identification to these POS machines so that they can be used to operate as virtual branches The change towards virtual branches will enable us to reach niche markets, expand reach, and increase speed and to increase monitoring and control to a greater and transparent level.

ATM Expansion

The company's first owned ATM machine was ceremonially unveiled by our Chairman, Mr. Channa de Silva at our Head Office premises in Borella, on September 2018. We partnered up with LankaPay, providing us access to the full ATM network, island-wide. As indicated in our last year Annual Report, we have planned to increase our ATM network further moving forward. As an initial step towards this implementation, we have initiated discussions with 'Novus Technologies' in the current year to establish OPEX based ATM network at identified strategic business locations of the company. We intend to partner with Novus in the coming financial year to roll out this ATM expansion plan.

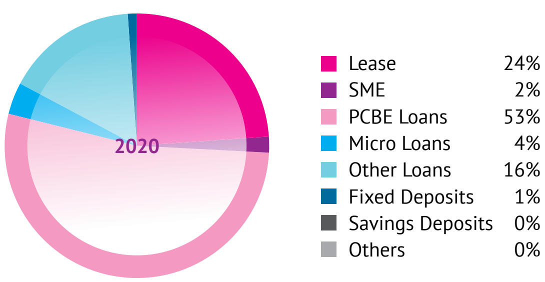
We will continue to use the services of LankaClear's Common ATM Switch to provide us access to this OPEX based ATM network. We have analysed and identified that operating of a full OPEX based ATM model is more cost effective for the Company and also hassle free operationally.

1319 Hotline Support

We introduced a dedicated short code customer hotline 1319 in FY 2019. This is a complete software solution developed in-house by our IT as a follow-up mechanism with the call centre for lead generation which included a war room application. The total lead generated through the hot-line reached 17,704 (1,699 in FY 2019) and nearly 20% of those converted into business transactions.

The graph below highlights the product-wise lead generation via 1319 as at 31st March 2020.

Leads Generated by Products



We have planned to upgrade the 1319 with SMS capability for the callers or the potential customers to send their queries via SMS to the hot line. These SMS will be picked up by our system and send to our call-centre agents to quickly respond to those by calling the potential customer and provide the requested details by his/her SMS.

Pay&Go

It is our pride to develop new technologies in order to uplift the lives and bring convenience to our customers and the society at large. We focus on constantly evolving and advancing in technology for creating customer convenience and experience.

With this strategic objective in mind, SDF partnered with MegaPay (Pvt.) Limited during the current year to provide a doorstep service to SDF's loan customers to pay their monthly installments and their utility bill payments. In addition, the Pay&Go will be introduced to SSS to empower SSS activities at village level. Under this partnership, SDF will deploy a 'Point of Sales (POS)' machines provided by Pay&Go, a product of MegaPay, for SSS authorised officers to visit the customer's home, office or business premises to collect payments such as utility bill payments. This allows the customer to save time and money, as there will be door step services. The increased face-to-face interactions will also serve to enhance communications and build stronger relationships between the officers and the customer base.

Signing the partnership agreement with MegaPay

MegaPay has grown to become one of Sri Lanka's leading payment service providers offering an innovative, reliable, convenient, safe and easy bill payment system.

Transforming Operational Processes

To digitally transform operational processes, we've introduced specialised, mature platforms such as 'Google' to enable staff members to increase effectiveness and to promote flexibility, such as work-from-home options with the aid of APN dongles specially during the lock-down period in March resulted from the outbreak of COVID-19 pandemic. This has created a satisfactory work environment with digital interactions and collaboration between employees allowing work sharing, knowledge sharing, and access to resources, remote report viewing, speedy communication and a strengthened networking among the work force. Usage of shared calendars has enabled us to organise our schedules effectively and transparently. The launch of the event calendar has ensured that SDF as a family appreciates what is happening around the Company by viewing events in the calendar and this has helped SDF to be interconnected and to promote the Company's brand in an inclusive atmosphere.

Our managerial personnel are capable of gaining deeper insights into products, regions and customers, and are able to make informed strategic decisions based on real data instead of assumptions. Managers have used the resources now available at their fingertips to compare and contrast, be informed and remain highly focused.

Manufactured Capital

New HR System

We implemented a new digitalised and interconnected HR system during the FY 2019 with a capital investment of Rs. 0.51 million to provide timely and accurate information to the employees and the management. The HR platform is linked to the SDF intranet and is used as a tool for connectivity across the organisation. The HR system overcomes the short falls of the previous system and continue to add value with employee information provision, employee life cycle management, absence management, attendance control through work flow management. The HR system builds efficiency across the organisation by saving time, providing staff with a portal, ensure confidentiality and efficiency.

Big Data

We initiated the big data concept in the FY 2018 through the introduction of Microsoft power BI tools which is linked to our core banking system for real-time data extraction. We have now developed the power BI tools to monitor the branch performance in terms of disbursements, recoveries, deposits and financial. The power BI tools is accessible to all our staff who have access through our intranet and consists of a dash-board providing real-time information of the financial and business performances of the Company, enabling access to useful and timely information for management, with a single click of a button.

SDF Power BI dash-board

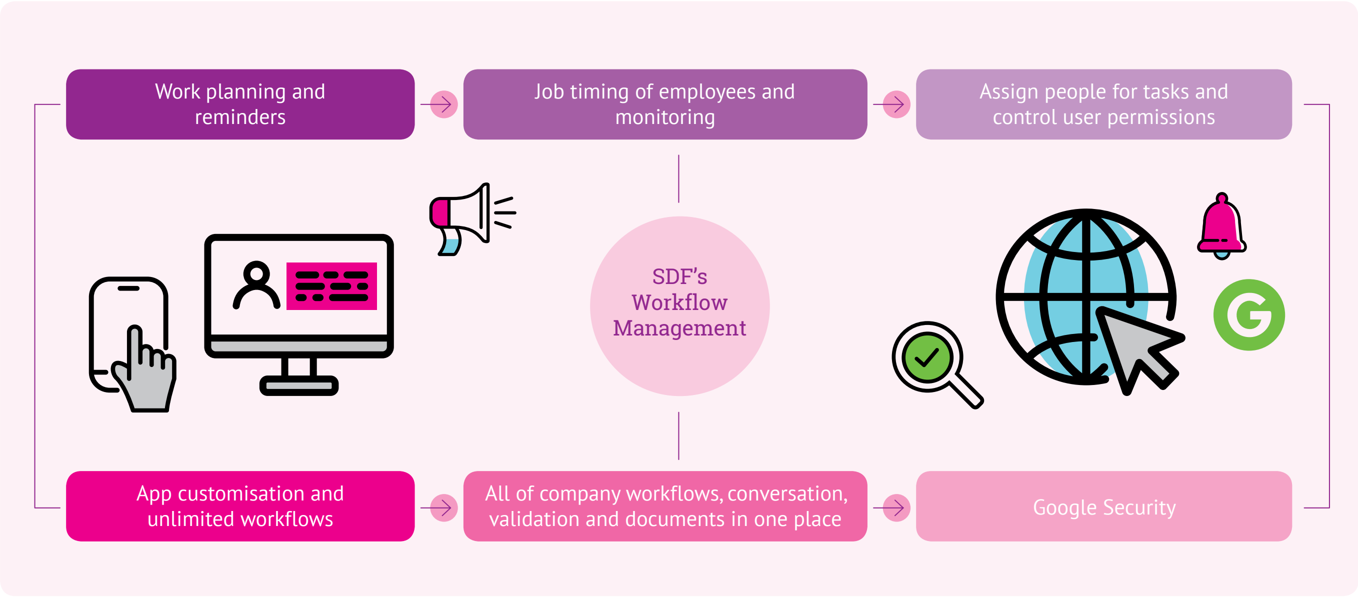
During the current year we advanced the dash-board to monitor the individual level performance, track customer visits by our field officers, monitor the progress of customer follow-ups through the recovery call centre and monitor the age migration of arrears contracts for timely actions. The power BI tool dash-board and other key statistics are constantly evolving to reflect timely and concise information for the top management for speedy decision making.

SDF Intranet

The web portal that was developed in the FY 2018 and continued to improve by inter-connecting all our internal applications in the Intranet for easy retrieval and reference to various operational guidelines; including, internal circulars, manuals, memos and other instructions sent to branches/CSCs, continue to add value as a knowledge access point for all employees. We have also developed a web-based event calendar to inform all employees of the events taking place in the organisation with granular details to create a sense of involvement and additionally aiming to provide effective event management within the company.

Resource Planning and Workflow Management Systems

In order to eliminate unnecessary delays in the current loan processing system, we have initiated upgrading to a comprehensive work flow management system by using licensed web-based application that we have purchased. As an initial step, we have fully automated the lease application process and it is in the UAT process. Further, we are now in the process of fully automating the customer loan application process. With the development of this processes, the users can clearly track the stages of the loan application. Additionally, users are able to upload the updated documents real time starting from the customer touch-point, thus enabling all users in the work flow chain to visibly view the changes made.



Going forward we are building work flow management systems for all of our internal processes which are manual-centric. At present, we have commenced process mapping and work flow building for identified crucial processes. We developed a workflow management system called 'Over C' by using the Google platform to systemise internal processes which are manual-driven. Accordingly, we systemised bill payments, travelling and subsistence claims and fund transfers during the current year. This initiative brought in simplification in to these process and also resulted in a significant cost savings both in paper cost and time. We expect the work flow management system to enhance efficiency through transparency improving the quality of service aiming enhanced customer satisfaction levels. Further, value addition in terms of cost savings, flexibility and lean processing is also expected from the initiative.

Procurement Process

The IT department together with the operations department is in the process of developing an integrated procurement process in order to eliminate delays, cost overruns, to eliminate paper usage and to improve process flexibility and speed. The process layouts that we finalised in the previous year was re-analysed to bring in the new process updates that occurred during the current year as a result of new technological developments related to the IT automation and workflow management systems. We intend to commence the initial process building based on revised process layouts during the coming financial year.

Transforming Business Models

The IT department's role in transforming the business models is providing collaborated business and financial solutions within an evolving technological platform, aligned to SDF business strategy in order to streamline solutions for all SDF requirements. IT systems and processes are being implemented as well as advanced business flows, through collaborative and integrated platforms across the organisation. As a result we have revolutionised the SDF core business by implementing sustainable finance solutions.

Green Banking

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

We have reduced the usage of paper by adopting a few initiatives across the organisation. Centralised printing has enabled us to reduce paper usage and to monitor and control the same. This coupled with our workflow management system, will allow us to reduce overall paper usage, hence substantially contributing to nature in terms of reduced paper usage. This will also contribute immensely to save energy and time and reduce space areas for storing.

Manufactured Capital

BoardPac App

As part of our Green Initiative and to streamline the process of providing Board papers to our Directors, we have implemented a platform called BoardPAC in FY 2019. This has enabled us to share board papers on a virtual platform and to manage the meeting information efficiently. With this initiative, we do not have the need to manually print, sign and circulate the same with all Directors. With proper internal protocols in place, we have entrusted the Chairman's Secretary to upload all Board papers to a 'protected' space which will allow all our Directors to access the same anywhere, anytime and in a very secure manner. Not only did this method reduce our paper cost and time, it also provided a seamless platform driving efficiency for all our Directors, allowing for critical decision making at their fingertips.

Cloud-based Platforms

We are planning to move towards total cloud-based platform (within Sri-Lanka) to support our rapid expansions, which will include cloud-based data centres. This will drastically reduce the cost of valuable resources, allowing our IT team to focus on driving value and introducing new technologies rather than focusing on maintaining our infrastructure. The cloud-based platforms will enable us to increase data security, portability and speed of access for better decision making. Cloud-based platforms will allow island wide connectivity and access for information enabling greater customer service. At present, the usage of 'G Suite' enabled emailing helps us in speedy interactions, inter-connectivity, remote access and timely decision making. Also, cloud-based platforms have enabled us to store data on a virtual platform enabling greater capacity for information storing and extraction.

As a first step of our journey in to clouds, we have evaluated migrating from our 'G Suit' basic version platform in to 'G Suit' business version platform during the coming year. This version facilitates cloud-base data storage for all our data excluding the core banking system. Also, we intend to immediately focus on moving our Disaster Recovery model to a cloud-based model (DRaaS) as well as our backup solution. As at initial stage, we will commence on boarding our backup solutions from on premises to a cloud-based platform, which is expected to minimise data risk and to free up space. Once these major milestones are completed, we will be evaluating moving our primary data centre to a Sri Lankan-based cloud platform.

Future Outlook

Our delivery network will continue to evolve through automation and integration at a digital level. Moving forward, we want to implement new innovations/technologies that will not only provide better prospects, but will also assist us in creating and driving value for our customers.

The IT Department is always on-the-lookout for technologies that brings in efficiencies;

- to drive value and to provide a seamless experience to our customers
- to reduce our operational costs
- to streamline existing services, policies, procedures and protocols
- to enhance and emphasise on security

With these strategic objectives in mind, we have planned on evaluating and implementing following key initiatives during the coming financial year;

- As part of our Omni-channel strategy;
  - Implement an internet banking solution for valuable our customers and staff
  - Implement CEFTS by integrating with our core banking system
- Implement an 'Information Security Management System (ISMS)' based on the ISO/IEC 27001:2013 standard for IT processes
- Implement a robust call centre solution for on boarding customers and effective recovery management
- Evaluate the relocation of our data centre.
- To replace our 'Disaster Recovery' model to a cloud-based model by implementing 'Disaster-Recovery-as-a-Service (DRaaS)'.
- Implement 'virtual branches' for efficient and speedy customer service and experience subject to Central Bank approval.
- Promote and facilitate online meetings as opposed to physical meetings for improved focus and cost savings.
- To streamline our call centre operations by implementing a value added call centre system.

Intellectual Capital

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

Intellectual Capital

SDF Brand

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

Enhancing Brand Visibility

New Product Launch

We continuously strive for differentiating our products range to cater to the growing requirements of our valued customers. We launched two new leasing products concentrating on two (2) specific assets types during the current year; namely, 'Tractor' leasing and 'Classic Car' leasing. We partnered with 'DIMO' to grant leases for DIMO tractors with an arrangement to buy-back the tractor at a discounted price in case of a default by the customer. The Classic car segment is a niche market with also almost zero completion. This customer segment is relatively rich and require speedy access to cash for transactions. We have introduced this product to differentiate ourselves from rest of the competitors and attract these potential customers to SDF with opportunities for cross-selling. We also launched a loan product named 'Chariththa Naya' which is specifically designed to provide financial assistance to couples for their wedding arrangements. As we continuously evolve with our systems, products and services to elevate our brand as a responsible and responsive brand addressing the customers' current requirements, we are constantly appraised by our customers for our 'goodness'.

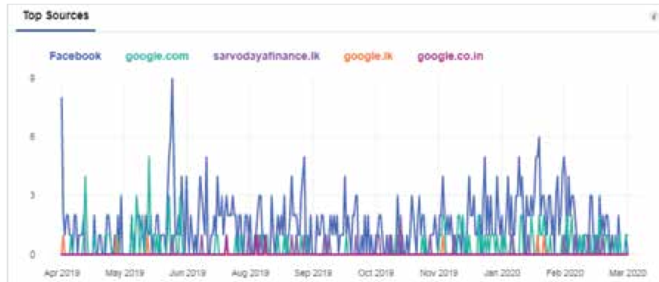
These new products are intended to add value to SDF brand by specifically focusing on niche-market segments and their identified needs. Thus, these products will enable the SDF brand to be recognised as a customer centric and responsive brand.

Sophistication of Brand Image

Social Media

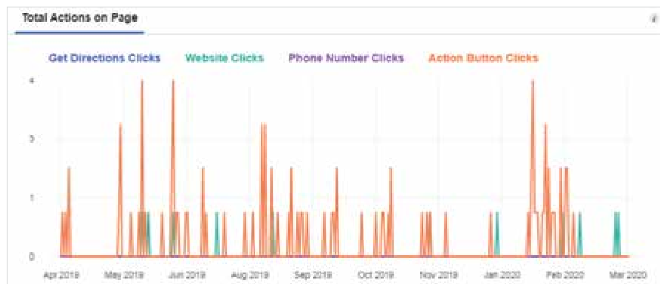
We built our intellectual capital by increasing our presence in social media. Our brand value was enhanced and recognised amongst social media users which was highlighted through the increased activity levels in views and actions on the page.

The below graph illustrates the statistics of digital platforms used by people to search SDF during the current year.



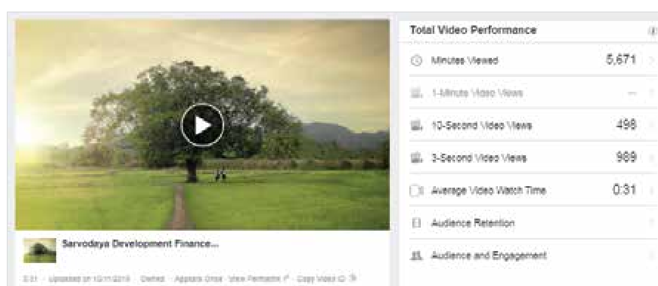
Top sources used to search SDF

The below graph exemplifies the number of actions on our Facebook page during the current year.



Total actions on Facebook page

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



Views on our videos on our Facebook page

Group Synergies

Sarvodaya Movement

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

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 SSS as well as SDF and enjoyed strong growth in credit disbursements as well as deposit collection. SSS worked in close relation with SDF for generating business leads for credit and deposits which in turn materialised into a strong growth in disbursements and deposits collections. SSS also worked collectively with SDF in conducting marketing initiatives in towns, villages and suburbs for promoting business and SDF's brand more prominently among the existing and the potential clientele.

Awards

Our Annual Report for FY 2019 created under the theme, 'Responsible, Responsive, Respected', was awarded with the gold award under LFCs and SLCs (total assets up to Rs. 20 billion) category at the 55th Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka, held in December 2019. This is the first time SDF bagged the Gold award having won the silver award in the same category for the last two (2) consecutive years.

The theme represented our pride in the quality of work in ensuring that all segments of society, especially those who may be marginalised or overlooked are cared for and given every opportunity to grow. These values have always been a cornerstone in all we do, as we build extensive and intricate connections with the grassroots, moving ever upward in encompassing a diverse range of customers while extending our sincerity and empathy to all. The report also showed how professional and highly-valued team continued to work tirelessly in order to face adverse challenges and handle difficult situations in a timely and appropriate manner, which in turn, made SDF a company that is trusted by all stakeholders.

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

Trademarks

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

Business Philosophy

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

Compliance and Stability

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

Intellectual Capital

Organisational Knowledge and Culture

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

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

SDF Software Systems

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

During the year we renewed our 'G Suite' license costing Rs. 2.89 million. 'G Suite' increases our operational efficiency, connectivity and flexibility creating further addition to our process capital through the licence renewal. We have planned to migrate to 'G Suit' business version in the coming year to improve our efficiencies and to systemise and streamline the Company's workflows. We also obtained software assurance and renewed Microsoft license costing Rs. 2.97 million. We updated and modified the E- Finance system to increase the efficiency and effectiveness of the system with an additional capital investment of Rs.0.9 million. We've developed KPI monitoring and recover monitoring platforms with trend analysis using Microsoft power BI tools. We have also embarked on developing an in-house work-flow management system, to systemise the Company's entire procurement process.

Future Outlook

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

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

Human Capital

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

HR Strategy

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

In the pursuit of success, our recruitment process, strategies, and actions to fulfil our strategies are based on this attitude. We have entrenched this mindset passionately into the DNA of the organisation. Therefore, it is easy for all of us to deliver the results that are most important to the organisation. We always try to improve our services to our customers and other stakeholders.

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

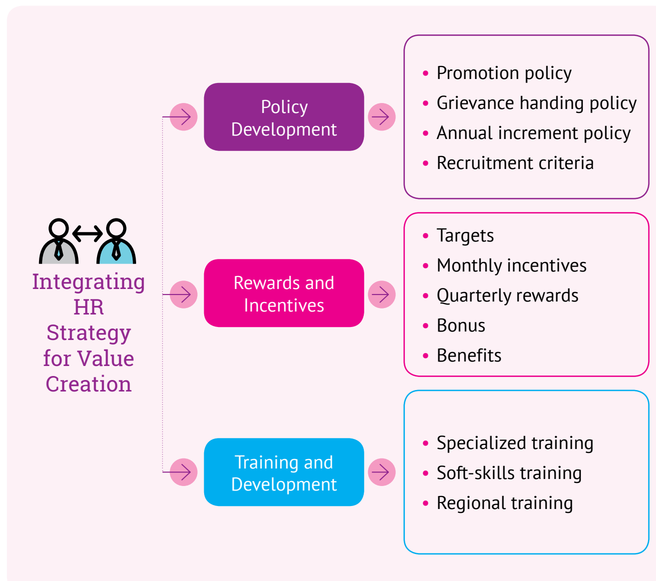
The open and supportive working culture that we maintain is directed by the ඇම්ම, ගැම්ම, රැදාව (passion, drive and relentless pursuit) that comes from our hearts. Starting from the recruitment to formulating strategies and executing actions are based on this attitude. Our efforts to create this positive attitude in the minds of our employees have brought us notable results in the financial year 2020.

Integrating HR Strategy for Value Creation

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

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

1. Continuous Policy Development
2. Rewards and Incentives
3. Training and Development



Policy Development

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

Staff Motivation

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

Rewards and Incentives

The rewards and incentive scheme which was revisited and implemented in few years back was continued as it was directly linked with performance to execute the strategic objective of the Company driving the internal organisation change which aided in creating a performance-based work culture. As a result, employee motivation was improved and the performance culture saw enthusiastic improvement throughout the year. Recognising best talent-based on performance encouraged a competitive and performance-driven culture within branches.

During the current year, 06 employees were promoted to next grades based on performance to recognise their commitment and value created for the Company and to motivate staff for better performance.

Training and Development

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 realise 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.

In the year under review, we invested Rs. 1.62 million on our human capital development through training and development programmes. Specific skills and specialised skill needs were identified based on the Company's objectives and strategy for the achievement of service excellence aligned to our branding and customer experience focus. Training needs were also derived from the performance management system and upon the recommendation of the immediate supervisor of an employee. Internal and external training programmes are carried out in accordance with the training needs of the employees. We expect our staff to possess a detailed and varied understanding of all aspects of the business, value systems, regulations and technical skills in the respective areas.

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

	No. of Training	No. of Training Hours	No. of Participants	Investment (Rs.'000)
Internal Trainings	17	112	698	1,002.6
External Trainings	26	208	63	620.6
Total	43	320	761	1,623.2

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

Internal Training

Key focus areas of training

- Recoveries Management
- CRM & Cross Selling
- SME
- Leasing
- Risk Management
- Operations Policies & Procedures
- Credit
- Orientation Programmes
- Digital Marketing

External Training

Key focus areas of training

- Developing Supervisors
- Digital Banking Foundation Workshop
- SME Lending
- Strategies on Debt Recoveries and Solutions for Problem Credit
- AML & Countering the Financing of Terrorism
- Contemporary Issues in SME's in Sri Lanka
- Impact of FinTech Revolutions for Finance professionals
- Forensic Accounting and Financial Frauds
- Business Intelligence and Block chain
- Consulting Programme for Field Officers
- Translating Strategy into Action
- Master Class on Planning and Analysis
- Programme on the Real Impact of IFRS9

SDF Toastmasters Club

The Sarvodaya Toastmasters Club continue to uphold our employee quality empowered by the fraternity of Toastmasters International. The dynamic functioning of the club strongly contribute in developing effective communication and leadership skills. Sarvodaya Toastmasters achieved the President's Distinguished Status for the second consecutive year since inception commending their performance. The club members participated in area level contests, joint club meetings, networking and training events within the district. The club achieved quality, strengthening member performance and building community presence within the Toastmaster district. The contribution from the club towards the Company performance was highlighted across events with the signature of quality conduct from the Toastmasters' adding to the value of Human Capital.

Employee Base

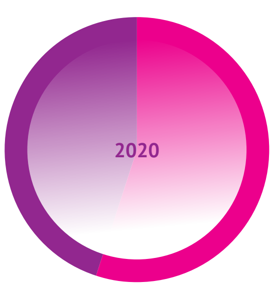
The total workforce of SDF stood at 471 as at the end of the financial year; 136 new recruits were added to workforce in replacement of 153 who left during the year under review. New recruitments were done mainly to strengthen sales, marketing and recoveries to drive business, expand market share and improve recoveries.

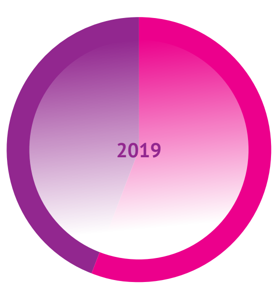
Breakdown of Workforce

Workforce	2020	2019
Payroll Cadre		
Permanent	389	433
Probation	73	75
Non Payroll Cadre		
Contract	-	02
Training	09	14
Total	471	524

98% of our workforce are on payroll and the balance is on contract and training basis. 83% of our workforce are on permanent basis. Male represent 55% of our pool of employees demonstrating equal importance given to both male and female in gender representation.

Employees -by Gender

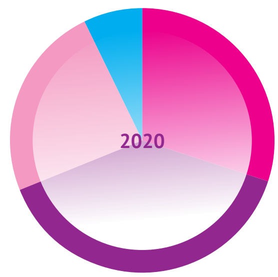


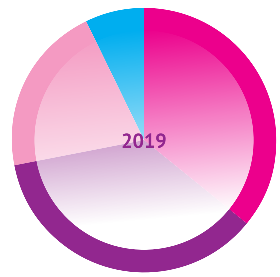


Employees by Age

We have a relatively young workforce where 69% of our total employees are below 40 years and 30% of our employees are below 30 years of age.

Employees by Age





Employees by Position

Our senior management team decreased to 27 from 29 last year. We strengthened our senior management by recruiting two experienced professionals at the capacity of AGMs to fill in the key vacancies. These AGMs recruited introduced new reforms and reengineered the HR and Risk and Compliance functions of the Company to a greater height. The senior management as a percentage of the total workforce amounted to 5.7%. The senior management includes employees who are senior managers and above; but, excludes the regional managers. The line management comprises regional managers, managers and assistant managers who amounted to 32.1% of our total workforce.

Employees by Position

Designation	Male	Female	Total	%
Senior Management	25	2	27	5.7
Line Management	122	29	151	32.1
Executives	63	103	166	35.2
Others	49	78	127	27.0
Total	259	212	471	100.0

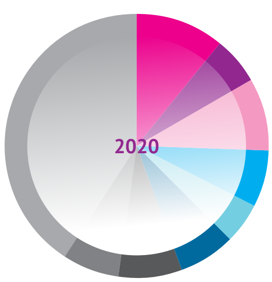
Employees –by Department

Department	Employees Nos.	%
CEO Office	2	0.4
Finance & Planning	18	3.8
IT	8	1.7
Credit	14	2.9
Recoveries	8	1.7
Marketing	6	1.3
Legal	8	1.7
Administration & Operation	18	3.8
Internal Audit	12	2.5
Branches/CSCs	292	62.0
Others	85	18.0
Total	471	100.0

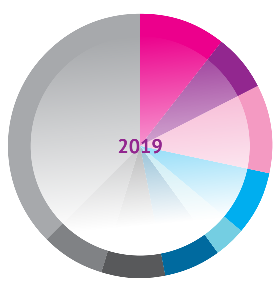
Employees by Geography

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

Employees by Geography 2020



Central	11%
Eastern	6%
North Central	9%
North Western	7%
Northern	5%
Sabaragamuwa	7%
Southern	8%
Uva	7%
Western	41%



Central	11%
Eastern	7%
North Central	11%
North Western	8%
Northern	4%
Sabaragamuwa	7%
Southern	8%
Uva	8%
Western	38%

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 ඇම්ම, ගැම්ම, රුදාව (passion, drive and relentless pursuit) that comes from the hearts of such recruits. Along with merit, such as skills, knowledge and abilities, regardless of age, race, gender, religion or ethnicity, the positive attitude demonstrating commitment to achieve results relentlessly is the key factor we consider in our recruitment process.

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.

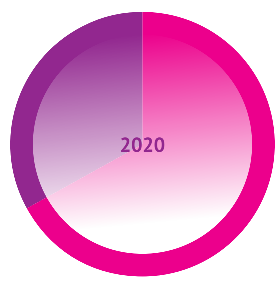
New Recruitments

During the year 136 new recruitments were made to fill vacancies and to fill vacancies of employees who left the company during the year.

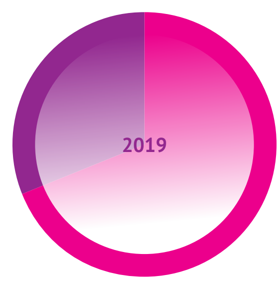
New Recruits by Gender

67% of new recruits are males with the increase in marketing and recovery activities.

New Recruits by Gender



Male	67%
Female	33%

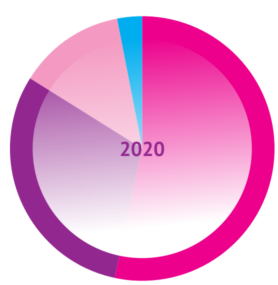


Male	69%
Female	31%

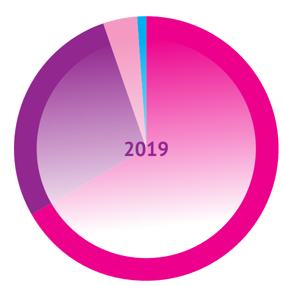
New Recruits by Age

Adding to our relatively young workforce 85% of new employees were below 40 years and 54% of new recruits were below 30 years of age.

New Recruits by Age



20-29	54%
30-39	31%
40-49	13%
50-59	3%



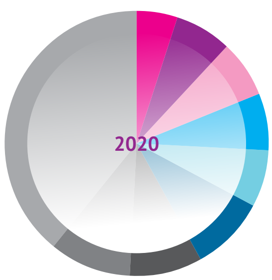
20-29	66%
30-39	28%
40-49	4%
50-59	1%

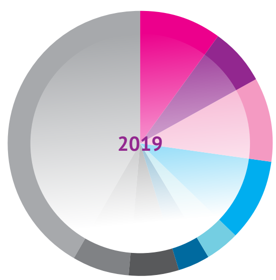
New Recruits by Age 2020	
Age (Years)	%
20-29	54
30-39	31
40-49	13
50-59	3
Total	100

New Recruits by Geography

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

New Recruits by Geography





New Recruits by Geography 2020	
Province	%
Central	5
Eastern	7
North Central	7
North Western	7
Northern	7
Sabaragamuwa	9
Southern	9
Uva	10
Western	39
Total	100

New Recruits by Designation

Designation	New Recruits	
	Nos	%
AGM	2	1
Heads of Divisions	1	1
Senior Manager	2	1
Regional Managers	2	1
Manager	23	17
Assistant Manager	10	7
Senior Executive	15	11
Executive	23	17
Junior Executive	35	26
Trainee	17	13
Trainee (out of payroll)	4	3
Junior Support Service Office	2	2
Total	136	100

Induction

New staff are introduced to our culture through an induction programme. The objective of the programme is to familiarise new entrants with the Company's operational processes, systems, practices, culture and values. Upon completion, employees will be expected to have a good grasp of the Company profile, organisational structure, HR policies, their individual roles and responsibilities, IT systems and the practices and policies. These induction programmes also cover a learning about the Sarvodaya Movement, its key operations and the grass-root level development that it does by way of uplifting the living standards of the marginalised communities in Sri Lanka.

Diversity and Equality

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

Employee Turnover

During the year 153 employees left the Company of whom 71% were males and the balance 29% were female employees. Our employee turnover rate was at 31%, increased from 29% in the previous financial year.

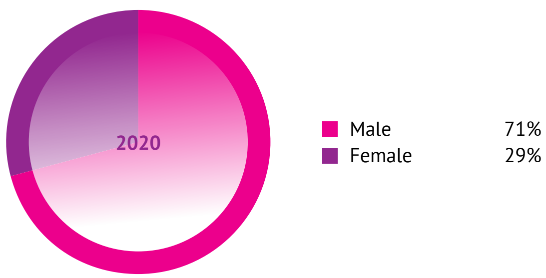
	2020	2019	Average
No. of Employees	153	158	156

The employee turnover rate was highest in the 20 to 29 age category which amounted to 76 or 50% of total turnover followed by 30 to 39 age category which amounted to 42 or 27% of total turnover.

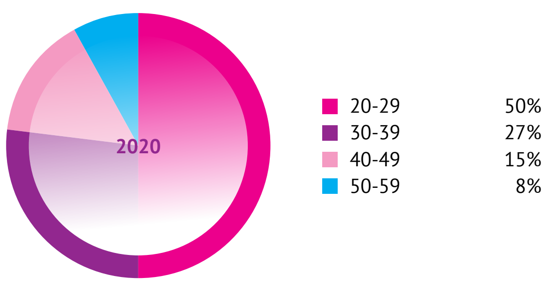
Employee Turnover by Geography

Geographically, the Western Province accounted for the highest turnover of 38% followed by Central and Southern Province with 12% each.

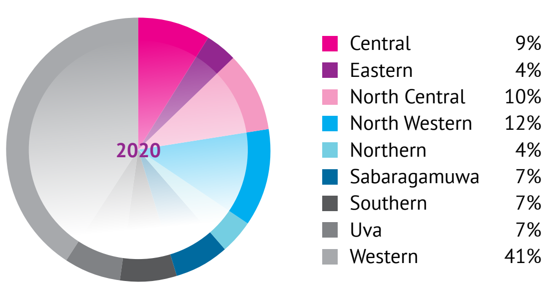
Employee Turnover by Gender



Employee Turnover by Age



Employee Turnover by Geography



Employee Turnover by Designation

Designation	No of Employees	%
AGM	2	1
Chief Manager	1	1
Senior Manager	2	1
Regional Manager	1	1
Manager	19	12
Assistant Manager	13	8
Senior Executive	24	16
Executive	42	27
Junior Executive	39	25
Trainee	5	3
Junior Support Service Officer	4	3
Trainee (out of payroll)	1	1
Total	153	100

Maternity Leave

Our employee retention rate for female employees following maternity leave stood at 7.1%. In the year under review, the total number of employees obtaining maternity leave was 14. Out of this figure, nine returned to work having completed their statutory maternity periods, while the others are still within their allocated period of maternity leave.

Performance Management System

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

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

The Performance Management System is primarily meant to achieve the following:

- to maintain a performance-based culture within the Company.
- to provide a systematic review of the performance of an employee.
- to assess the training and development needs of the employee, whilst assuring organisational development and satisfying the needs imposed by the growth plans of the Company.

Status of Compliance

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

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

	Employee Benefits		
	2020	2019	2020
	(Rs. Mn)	(Rs. Mn)	(%)
Salaries	196.9	199.6	56.8
EPF	23.6	24.0	6.8
ETF	5.9	6.0	1.7
Overtime	0.9	1.1	0.3
Allowances	88.3	94.1	25.5
Incentives	7.3	7.7	2.1
Casual Wages	13.0	12.5	3.8
Gratuity	10.8	8.5	3.1
Total	353.5	353.5	100.0

Welfare Facilities

We strengthened staff benefits under staff welfare and established SDF's Welfare Society in the financial year 2018. The Executive Committee of the Welfare Society has formulated an activity plan for the next financial year mainly focussing on establishing external partnerships that will provide enhanced benefits to the employees. 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 key 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
- Exposure tour/visit to overseas for selected employees
- Spectacle allowance
- Staff medical insurance
- Annual staff sport meet
- CSR projects

SDF Welfare Society Events

The followings key activities were carried out by our Welfare Society during the current year.

Celebration of Religious Events

We celebrated all ethnic and religious events commemorating the SDF's philosophy of harmony through diversity.

SDF get-together

Our annual get-together was celebrated at Citrus Hotel, Waskaduwa with the participation of all staff members from around the country. The event was funded and organised by the Welfare Society. Numerous activities were organised at the event where employees were able to showcase talents, connect with each other, win many gifts and strengthen the SDF's spirit for a better and stronger SDF culture. Also, regional level get-togethers were organised to strengthen the bond between the team.

SDF Recreational Centre

We take our employees' health and wellbeing seriously. Hence to facilitate their busy schedules and to keep them fit, SDF's Welfare Society has commenced converting the existing gym in the roof-top area to a recreation centre by including a fully-equipped gym, a canteen, a yoga centre and a library. While the Company will invest on the CAPEX of this construction, the Sarvodaya Movement (Lessor) and the Welfare Society will contribute mainly towards the OPEX of this investment. The society will also bear the cost of the sports equipment that is required to be purchased for the gym. The total investment for this recreation centre is estimated to be around Rs. 12.0 million. The employees will be able to use these facilities by June 2020. The gym and the yoga centre will be opened to all staff and allow them flexibility to use these facilities.

SDF Welfare Fund Projects

The welfare society carried out the following activities during the current year.

- organised SDF annual get-together at 'Citrus' hotel, Waskaduwa with a cost of over Rs. 2.0 million.
- increased the death allowance paid to a member by Rs. 5,000/- and included the mother-in-law and father-in-law in addition to father and mother of the member as eligible persons for the death allowance.
- donated Rs. 72,000/- worth of books in celebration of 'Poson' festival.
- spent over Rs. 250,000/- in organising regional and head office level get-togethers.
- recognised three (3) children of our staff who have got selected to universities after A/L and rewarded each of them with Rs. 25,000/- cash reward.
- recognised ten (10) children of our staff who have passed out the 5-year scholarship exam with splendid results and rewarded each of them with Rs. 5,000/- cash reward.

Employee Wellbeing

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

Grievance Management

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

Future Plans

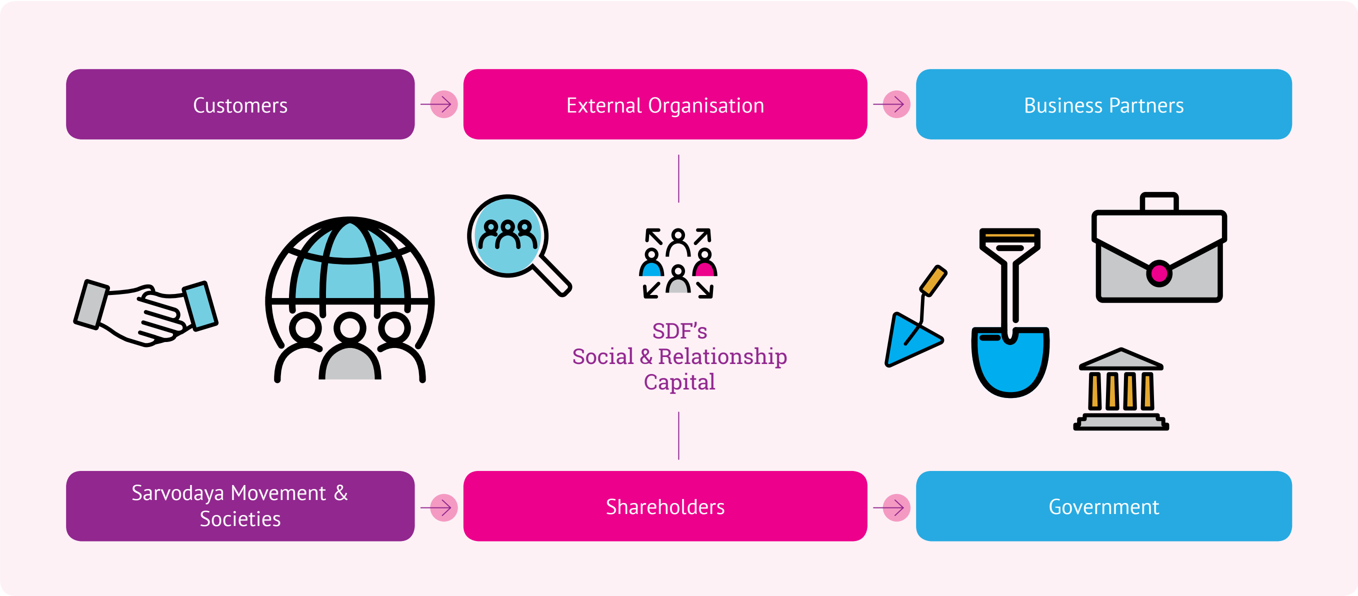
The primary area of focus in the new financial year will be continuing on staff empowerment and establishing a performance-based recognition culture by providing opportunities for the skilled performers to provide leadership to drive forward the Company with "ඇම්ම (passion), ගැම්ම (drive), රැදාව (relentlessness)," in the pursuit of our success. This will be addressed through giving opportunity for participatory decision making, job promotion opportunities, instant rewards on service excellence and coaching and training for leadership. Staff social engagements will also be strengthened to develop team spirit and cooperation among our personnel who are scattered island wide. While we invest in continuous training, we hope to pay more attention to further development of soft skills and business etiquette in the new financial year that will target primarily front-line personnel.

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.
	• Increase market share
Support financial priorities	• Focus on growing SME, leasing, personal loans and gold loan segments aggressively.
	• Attract high-net-worth clientele for growing deposits base
	• Appoint product champions to develop focus plans to growth deposits
	• Train staff on direct marketing and cross selling at all branches.
	• Introduce branch level competitions to motivate staff to achieve credit and deposit targets.
Strengthen relationships with key stakeholder groups	• Strengthen relationship with Sarvodaya Movement and Sarvodaya Societies as key business partners.
	• Improve the complaint management system.
	• Conduct stakeholder engagement periodically and satisfaction surveys to address their concerns.

As a Licensed Finance Company, Sarvodaya Development Finance Limited believes that Sustainability requires close engagement with its stakeholders while building and maintaining mutually beneficial relationships. Therefore, as a service driven organization, the Company has forged valuable relationships with its stakeholders and continuously working on, to ensure these bonds are lasting. The growth of the Social and Relationship Capital which includes Customers, External Organizations, Business Partners, Sarvodaya Movement and Societies, Shareholders and Government, is interlinked with the Company's Strategic goals.

Therefore, continuing from last financial year, the current year's Social Capital priorities reflect our financial priorities of addressing the asset-liability mismatch, lending portfolio growth and improving our market share in terms of customer deposits and lending portfolio, while also strengthening our brand associations with key stakeholders such as Sarvodaya Movement, Sarvodaya Societies (SSS), significant business partners and specific customer groups.



SDF'S Customer Capital

The most important stakeholder of any business is its customers. Our main focus is to meet their needs and improve their financial well-being through offering a varied product portfolio as well as a superior service that enhances the customer experience. Therefore expectations and needs of our customers and potential customers are considered in formulating and implementing new strategies on company procedures and product innovations.

Our Customer Capital comprises of individuals and corporates. Our customer base increased to 140,057 during the current year, a 2.04% increase from 137,251 recorded in the previous year, mainly driven by the expansion of leasing business and the normal savings base. After adjusting for the duel counting of customers who are having both deposits and loans with us, the actual number of our customers recorded as at 31st March 2020 was 125,327.

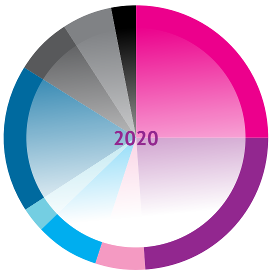
	2020	2019	% Change
Total Number of Customers	140,057.00	137,251.00	2.04
Number of Loans Customers	17,847.00	18,960	(5.87)
Number of Deposits customers	122,210.00	118,291	3.31
Lending portfolio (Rs. million)	7,171.37	6,292.47	13.97
Total Deposit (Rs. million)	5,101.98	5,385.33	(5.26)
Market Share in Lending portfolio (%)*	0.65	0.57	14.04
Market Share in Deposits (%)*	0.67	0.72	(6.94)

**Source: CBSL Annual Report 2019*
(the % of SDF's lending and deposits portfolios as against the % of LFCs lending and deposits portfolios as at 31st December 2019)

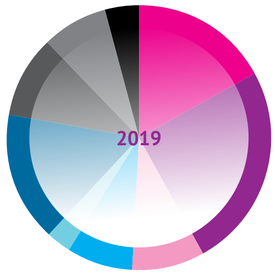
During the year under review, our gross portfolio increased by 12.81% from Rs.6.54 billion to Rs.7.38 billion due to changing our business strategy to drive leasing as a concentrated product for growing loan base. Due to this change in our strategy, the leasing portfolio increased by 59.02% to stood at 1.83 billion as at 31st March 2020.

Social and Relationship Capital

Loan Customers by Lending Products



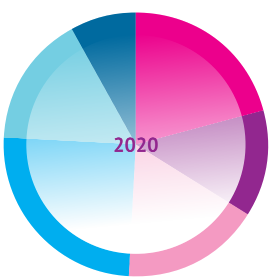
Leasing	25%
SME Loans	24%
Micro Business Loans	6%
Micro Personal Loans	8%
Society Loans	3%
Housing Loans	18%
Cash-Backed Loans	7%
Personal Loans	6%
Gold Loans	0%
Other Loans	3%



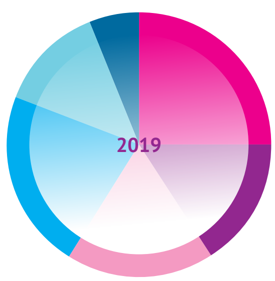
Leasing	17%
SME Loans	25%
Micro Business Loans	9%
Micro Personal Loans	8%
Society Loans	3%
Housing Loans	16%
Cash-Backed Loans	10%
Personal Loans	8%
Gold Loans	0%
Other Loans	4%

During the year under review, our loan customer base declined by 5.87% from 18,960 to 17,847 due to changing our business strategy from a more micro centric business model to a more collateral-based lending business model. Due to this change in our strategy, the number of leasing customers increased by 53.34%. Also, the number of customers who have borrowed Rs. 500.0 thousand and above has increased by 20.93%.

Loan Customers by Loan Size



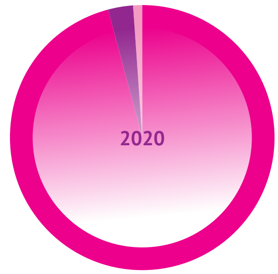
<=50,000	21%
50,000 - 100,000	13%
100,000 - 200,000	17%
200,000 - 500,000	25%
500,000 - 1,000,000	16%
>1,000,000	8%



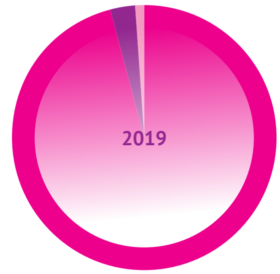
<=50,000	25%
50,000 - 100,000	16%
100,000 - 200,000	18%
200,000 - 500,000	22%
500,000 - 1,000,000	13%
>1,000,000	6%

During the current year, our focus was to expand our deposit base by giving more weight on growing our savings products. As a result, the number of our savings deposits customers grew by 3,919 or 3.31% compared to the previous year. The number of deposits customer as at 31st March 2020 stood at 122,210 out of which 86,309 were normal savings customers.

Deposit Customers by Deposit Size



<=100,000	96%
100,000 - 500,000	3%
>500,000	1%



<=100,000	96%
100,000 - 500,000	3%
>500,000	1%

SDF'S Customer Policy

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

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

Meeting Customer Needs

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

By identifying client needs and carefully providing them with focused financial solutions through our innovative product development initiatives, we respond timely and the most suitable manner in order to uplift the economic lives of our client base. By identifying requirements and providing specific services coupled with our value-added advice, learning opportunities and socially responsible service methods, we achieve our Vision. By partnering with our customers in building their livelihood we earn their unwavering loyalty, respect and long lasting relationship. We are dedicated in providing personalised service to each and every customer in all our service points.

We relocated two (2) of our branches during the current year for creating greater brand visibility and customer attraction. By doing so, we were able to capture a larger market penetration in that area due to our customer-oriented service and our value-added services. Also, the new location provides easy access to our grass root level customers who are the most-valued long-standing customers of SDF.

The Island wide promotions were carried out to promote our brand in order to attract new customers using digital platforms as well as traditional media channels. The customer call centre system with a dedicated customer hotline 1319 for financial emergencies and lead generation introduced during the previous financial year was further improved to provide a speed customer service.

Also the process and procedures were revised and updated during current year to provide a satisfactory customer service and to meet our customers' expectations and needs. A workflow management system was developed so that all the approvals are given via system. But we ensured that all the regulatory requirements are complied with.

Our Customer Centric Initiatives

Our customer centric initiatives carried out during the year include;

Harnessing technology/processes	• Strengthening of 1319 financial emergency service hot line with extended support service as a recovery call centre.
	• Increase customer reach through digital content marketing • Simplified approvals through workflow management system
Value added services	• Advices on financial management and technical know-how for micro and SME customers • continuous promotions were conducted for new savings holders with significant value addition
New products	• A range of customer centric new products were introduced being responsive to the needs of specific customer segments
Training staff for better service quality	• Training on their own product and cross Selling for existing staff members
	• Monthly trainings and inductions programs were conducted for staff and new recruits
Linked rewards with performance	• Targets were set and communicated to all branches and personnel and KPIs were set and monitored to ensure service excellence

Customer Satisfaction and Feedback

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

Our Products

The key interface point with our customers is carried out through our product portfolio. Therefore, the products we offer are carefully developed to address our customer's unique financial needs. Also, we always keep in mind that the products we introduced to market help to develop a person's livelihood. We have developed a product portfolio to cater our customers who have gradually grown with us from grass root micro level to fully fledge SME entrepreneurs.

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)	No. of Customers	Gross NPA Ratio %	Net NPA Ratio %
Leasing	Leasing facilities are granted to individuals including professionals, businessmen and corporate bodies by large to purchase motor vehicles. We provide easy payment schemes and fast and friendly service through island wide branch network and our Auto Finance Dept. at our corporate office, Colombo 08.	1,833.1	1,197.3	2,685	3.6%	1.7%
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.	1,788.7	889.7	1,208	17.2%	13.9%
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.	485.4	122.9	2,214	28.6%	17.7%
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.	573.9	231.2	1,676	8.3%	6.4%
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.	204.5	169.4	430	3.1%	0.8%
Housing Loans	Theses consist of loan facilities to support house constructions, extensions, renovations or repairs. The product mainly caters to low income micro customers who cannot avail themselves to housing loans provided by Banks and other financial institutions.	1,318.3	616.3	3,130	10.2%	7.1%
Cash -Backed Loans	Loans are granted against Fixed Deposits at attractive rates to facilitate urgent financial requirements of deposits holders	493.4	317.5	1,308	0.1%	0.1%
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.	442.3	81.6	2,272	9.9%	4.6%
Gold loans	Gold loan facilities are provided by keeping gold jewellery as security for customer's personal and consumption needs.	31.7	27.8	509	2.1%	2.1%

Leasing

Lease products of SDF provides leasing facilities for all types of vehicles, ranging from motor cars, dual-purpose vehicles and heavy-vehicles to micro based products such as three-wheelers, two-wheelers and vehicles used for agricultural activities. The market opportunities for these products have vastly improved with the increase in demand for registered and unregistered vehicles as well as machineries with new technologies. These products offer financial assistance for customers to acquire machineries, registered and unregistered vehicles through our wide reach network in 51 channel network across the island. Salient features of this product is that the customer-oriented approach of the Company and the customers are always provided a quick service through a friendly, professional agent who will come to the customer's doorstep, understand his or her needs clearly and provide a flexible leasing solution that meets the customer's requirements.

The gross leasing portfolio of the company increased to Rs.1.83 billion in FY 2020 with the expansion of the leasing operations, a 59.02% increase from Rs.1.15 billion recorded in FY 2019. The number of customers served as at the end of the current year stood at 2,685 recording a 53.34% growth from the previous financial year. During the current year, we took several measures to increase our exposure to leasing in the market by expanding our leasing portfolio such as signing of new MOUs to bring new customers into the company, continuous promotional campaigns to increase customer awareness and focussing on specific segments like agriculture, three wheeler etc., The initiative includes the MOU we signed with 'DIMO' to provide leasing facilities to their tractors with a buy-back arrangement in case of a default by the lessee.

Also, a large number of well experienced marketing personnel were recruited to the Company during the current year to speedup volumes while maintaining quality. Most of our branches were assigned with separate marketing officers for leasing business in order to effectively reach out to a wider customer base. Process and procedures related to leasing product was updated in order to address the customer's changing financial need and to provide a high standard service delivery to the customers in line with the applicable regulations. IT system was modified to allow system approvals which enabled the disbursement process fast. Extensive training for the marketing officers were conducted throughout the year so that each and every employee has the practical field knowledge as well as in-depth idea of the processes to be followed.

The total vehicle suppliers as at the year-end stood at 605, including 519 individual suppliers, and 86 corporate and sole proprietor suppliers. In addition.

SME Loans

The SME product of our company provides financial facilities to SME and emerging SME level customers to develop and improve their businesses especially to those Micro level customers who had grown to SME level by partnering with us. The portfolio consists of short and long term financial products which helps the company to bridge the maturity mismatches specially the short term baskets.

As at 31st March 2020, our SME loan portfolio stood at Rs.1.79 billion recording a growth of 10.99% compared to Rs.1.61 billion recorded in the previous year. The SME division is now fully equipped with necessary skills to give a fast and effective service to SME customers and at the end of the current financial year, the SME loan customers stood at 1.208 recording a growth of 16.04% over the previous year.

During the current financial year, we have taken several steps to expand our SME loan portfolio by signing new tie ups with corporate bodies which helped the company to bring in new customers and providing extensive trainings to SME staff members region wise to improve their knowledge on serving the customers better by identifying their needs and suggesting a suitable financial solution. Also, the process and procedures related to SME products were streamlined to enable faster customer service.

Micro Personal Loans

This product was introduced with a structured procedure mainly targeting low salaried workers such as factory workers who do not have the access to banking facilities. We introduced 'Charithra Naya', a personal loan product target the wedding couples to plan their dream wedding-day well in advance with SDF. A couple who invest in Rs.0.5 million in our fixed deposit will get eligible for request for Rs.1.0 million loan from SDF to meet their wedding expenses. This is a double bonanza for the couple since while earing attractive interest on the fixed deposit, they can also obtain two-times of their deposit value as a loan from the Company at a very competitive rate. If they invest less than Rs.0.5 million, the couple can request up to Rs.0.5 million loan from the Company. This loan provides opportunity to wedding couples to access much-needed funds for their wedding hassle-free n a very quick and fast time.

The micro personal loan portfolio stood at Rs.573.90 million recording a growth of 11.90% from the previous financial year. The number of micro personal loans customers we served as at 31st March 2020 was 1,676 representing an increase of 23.6% compared to the previous financial year. In order to minimise the credit risk the micro personal loan division has developed a detailed and strict appraisal procedure to analyse the credit worthiness of the customers.

Social and Relationship Capital

Micro Business Loans

The concept of microfinance is one where financial assistance is provided to those who have no access to banking facilities for the purpose of fulfilling their working capital requirements and capital expenditures.

The gross micro business portfolio recorded 18.54% decline in the current financial year to record at Rs.485.45 million from Rs.595.91 million in the previous year. The micro business loan customer base stood at 2,214 as at the end of the financial year 2020 which declined by 23.20% from 2,883 in the previous financial year. This was mainly due to the change in management strategy to focus more on asset back lending. Even though the management focus was to reduce the growth rate of this product the process and procedure manuals were streamlined and updated to cater the financial needs of this customer segment. Although the staff need to give continues follow up on collection, the business creates a win-win situation for the both parties. As a value added service for the customers who are farming, the company acts as the intermediary to assist them to identify potential markets.

Society Loans

Society loans are bulk loans granted to Sarvodaya Societies (SSS) for the purpose of granting small ticket-size loans not exceeding Rs.300,000/- to their society members. In this case. SSS acts as the intermediary to channel our loans to its customers. These loans are granted for the purpose of starting up or improve the small scale income generating projects of society members, for their consumption purpose and to cover some other expenses. Unlike other micro business competitors, we have the direct access to the micro segment in rural areas through the SSS network.

As at the end of the current financial year, the SSS loan portfolio stood at Rs.204.52 million reporting a growth of 16.70% compared to Rs.175.26 million as at the end of the previous financial year. The number of SSS served was 430 as at 31st March 2020 representing an increase of 2.63%.

During the current financial year, the company streamlined its process and changed the approval process to online. Trainings were given to the staff members on the product features and updated processes. Also the company was able to reactivate several inactive societies.

Housing Loans

These loans are granted to customers who need financial assistance to construct, expand or renovate their houses. This product mainly caters to the low income segment customers who do not have the access to the banking facilities.

The housing loan portfolio stood at Rs.1.32 billion as at the end of the current financial year recording a growth of 27.03% from the previous financial year. The customer base decreased from 3,725 to 3,130 during the current financial year showing a negative growth of 15.97%.

Gold Loans

The Gold Loan product was rebranded as "Swarna Sahana" during the current financial year and it gives the customer to decide the tenure ranging from one (1) month to six (6) months depending on their repayment capacity. This loan is granted to against the gold articles.

We maintained prudent loan-to-value ratio to ensure portfolio quality is maintained in all disbursements. Our gold loan portfolio stood at Rs.31.72 million at the financial year end depicting an 18.45% growth from the previous financial year.

The company has taken several measures to expand this product. Well experienced staff dedicated to this product were recruited to all some selected service locations during the current financial year to promote the business among the community and existing customers of other products.. Also continuous marketing campaigns such as door to door campaigns, campaigns through social media were carried out to create awareness on this product. Trainings were given to improve their product knowledge and market conditions. In addition to these measures company also the procedures and process were streamlined and updated to enable a greater customer service.

Faster Loan Approval Process

Our IT system was further developed during the financial year under review to automate some manual processes with adequate controls and to grant online loan approvals in order to make the loan disbursement process faster. Currently the time taken for loans disbursement is very low compared to industry norm.

Deposits Mobilisation

Public Deposits was the key source of funding to carry out the business at SDF. We provides a wide range of deposit products to our expanding customer base such as fixed deposits, normal savings, fixed savings, minor savings and SSS savings all of which provide numerous benefits to the customer. Customers' deposits are handled with responsibility and care within a framework of ethical fund management. All funds received are re-invested into the various lending products offered by the Company, thereby adding value to all stakeholders. Fixed deposits are accepted for periods ranging from 1 month to 5 years with interest being paid either monthly or at maturity. Minor savings accounts and other savings accounts are accepted for longer periods.

During the current financial year, our deposits base decreased by 5.26% from Rs.5.39 billion to record at Rs.5.10 billion due to the unstable economic conditions. Yet, our deposit team put all their effort to retain most of the deposits by giving the depositors more effective financial solutions. As at the end of the current financial year, the number of depositors served by us stood at 122,210 which grew by 3.31% from the previous financial year. The growth in the normal savings and senior citizen savings contributed for this increase. New deposit customer acquisition from the strong relationship with the SSS contributed to the growth of normal savings deposit base. The entire deposits team was given training on areas related to deposits. Customers were offered competitive interest rates within the ceiling rates given by the Central Bank of Sri Lanka. Aggressive marketing campaigns, such as direct mailer campaigns and door-to-door promotions, were successfully carried out within the boundaries of the ethical approach that the Company always practices.

Our Deposit Products

Product	Product Features	Deposit Base	
		Rs. (million)	Nos.
Fixed deposits	Deposited for a fixed period of time ranging from 1 month to 5 years at a fixed interest rate, interest is payable monthly or at maturity.	3,565.67	4,392
Normal Savings	Regular or ordinary savings products.	513.70	86,309
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.	90.17	8,436
Pancha Savings	Minor savings are an investment made on behalf of the child for future use	476.49	20,206
Sarvodaya Society Savings	Regular ordinary savings made by Societies from the income they generate by their routine business transactions.	404.00	1,372
Senior Citizen	Regular ordinary savings made by senior citizens	51.95	5,008

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

Product Responsibility

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

Product Portfolio Screening

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

Anti-Corruption

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

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

Anti-Competitive Behaviour

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

Customer Privacy

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

Customer Grievances Handling Mechanism

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

Customer Satisfaction and Feedback

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

Customer Training

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

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

Building Financial Literacy

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

Marketing Communications

The Marketing Department mainly focusses on building the corporate image and brand awareness while preserving the uniqueness of Sarvodaya culture. The Department aims to make the SDF brand the brand of humanity by taking it to a different level.

During the current financial year, many product related promotional campaigns were conducted to improve the product and brand awareness. Company mainly used below-the-line advertising for these promotional campaigns, Company also used digital platforms to create brand and product awareness such as LED screen displayed at Colombo, usage of social media and 'geofencing'. Our effective marketing communications highly contributed in the expansion of our customer base and to penetrate into new customer segments in a highly competitive market.

The Compliance Officer ensures that the marketing and communication initiatives meet product specific disclosures and compliance to contractual obligations and legal and regulatory requirements. All marketing campaigns are endorsed by CEO and the Board of Directors where necessary. All marketing materials used for these promotions are subsequently forwarded to the Central Bank for its approval prior to implementation. Any incidents of non-compliance with regulatory bodies with regard to marketing and communications efforts were not reported during the financial year under review.

Marketing Initiatives for the Year

Marketing and promotional activities conducted by us involved different media to target different customer segments. During the current financial year, the marketing and business promotion expenditure was Rs.24.28 million which was a reduction of 44.69% compared to the previous financial year. This showcase the value creation we did through conscious cost controls by initiating marketing through digital platforms.

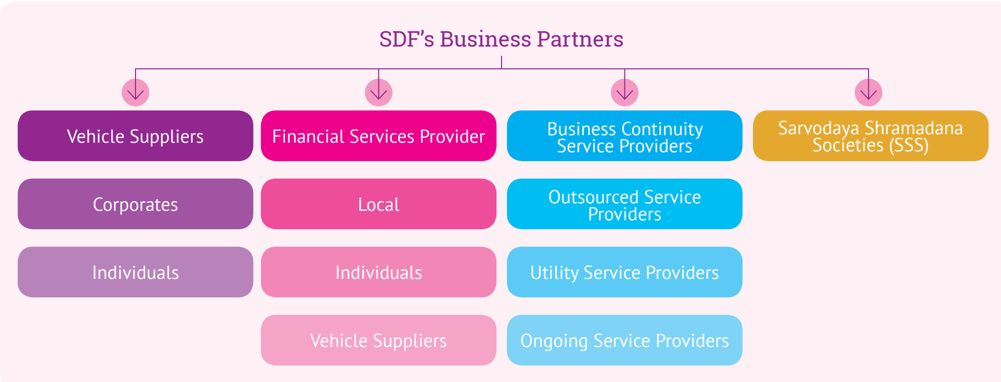
The expenditure incurred involving different media activities carried out during the current financial year are described below.

Marketing Activity	2019/20		2018/19	
	Rs. (million)	(%)	Rs. (million)	(%)
Print Media	2.08	8.57%	5.20	11.85%
Electronic Media	1.60	6.59%	7.00	15.95%
Events and exhibitions	4.30	17.71%	11.80	26.88%
Special Campaigns	16.30	67.13%	19.90	45.33%
Total	24.28	100.00%	43.90	100.00%

Business Partner Capital

With the unique culture at SDF with trust and cooperation, we aim to build lasting business partnerships, which results mutually benefits for all parties. Our business partners comprises of vehicle suppliers, financial service providers, business continuity service providers and SSS. As a measure of sustaining these business partnerships, we always ensure to clearly communicate the expectations of our Company and to get their expectations.

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.
- Clearly defined expectations

We've a diverse supplier base and as at 31st March 2020, our supplier base was 847 including registered vehicle suppliers for leasing. The Company focussed on strengthening the Supplier base during the current financial year. The cumulative payments made to suppliers during the current financial amounted to Rs.1.93 billion compared to Rs.1.56 billion paid in the previous financial year.

Supplier	2020		2019	
	Nos	Rs. (million)	Nos	Rs. (million)
Vehicle Suppliers	605	1,197.20	619	790.80
Corporates	63	624.90	71	319.80
Sole Proprietors	23	74.60	19	54.60
Individuals	519	497.70	529	416.40
Other Suppliers	242	733.20	256	764.70
Corporates	86	414.80	89	426.50
Sole Proprietors	27	79.60	31	89.50
Individuals	129	238.80	136	248.70
Total Suppliers	847	1,930.40	875	1,555.50

Vehicle Suppliers

To maintain and enhance positive relationships with business partners and stimulate our branch staff members for leasing businesses, we initiated several leasing campaigns jointly with vehicle suppliers with the participation of our staff and supplier representatives. These promotions were carried out focusing mainly on positioning of our brand as a trusted financier for leasing products in the market.

MOU Agreement with DIMO

During the current financial year, we entered into MOU with the 'Diesel and Motor Engineering PLC' to provide increased benefits to our village farmers who are looking to realize their dreams to own their own tractor. Our partnership with DIMO facilitates an opportunity to our village farmers to purchase a DIMO tractor through a lease facility from our extensive network of branches at an affordable rate and a privileged, personalised service. The MOU comes with a buy-back option from DIMO to purchase the tractor from the Company in case of a default by the lease customer. We disbursed nearly 35 leases for DIMO tractors amounting to Rs.90.0 million (including down payment) under this agreement during the current financial year. We expect this MOU to create synergies and enable SDF to expand its leasing business.

Signing the MOU with 'DIMO'

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

Business Continuity Service Providers
We create a trust-worthy relationships 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
The company has outsourced most of the 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 services.

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.

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

The SCU conducted many marketing campaigns together with SSS, to strengthen our brand name. Various training sessions were conducted during the current year to develop the SSS and their activities. We have over the years incentivized SSS to recognise their contribution to grow our products base, attract new customers and reach new markets through island-wide SSS network.

During the current financial year, SCU carried out 10 marketing programmes jointly with SSS which assisted in increasing bulk-loans to SSS, savings including children savings, 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.32.0 million worth of financial inquiries about our loans and deposits from potential customers through these marketing programs carried out by SCU jointly with SSS.

Programme	Financial Inquiries Received	
Name	Nos.	Rs. (million)
Marketing campaigns with SSS	10	32.0

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

Programme	Number of SSS Participants		
Name	Nos.	SSS	Members
Capacity building & Leadership	22	102	362
Entrepreneurship	10	10	132
Knowledge Training –SSS officers & executive committee	84	84	430
Knowledge Training –SSS officer bearers	10	167	501

The following key aspects were focussed in conducting these programmes.

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

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

Programme Organizer	Programme Name	Participants	
		SSS	Others
Sarvodaya Women's Movement	Entrepreneurship Development	1	35
Sarvodaya MOD Project	Entrepreneurship Development, Business Planning & Marketing	2	90

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

Administrative Support

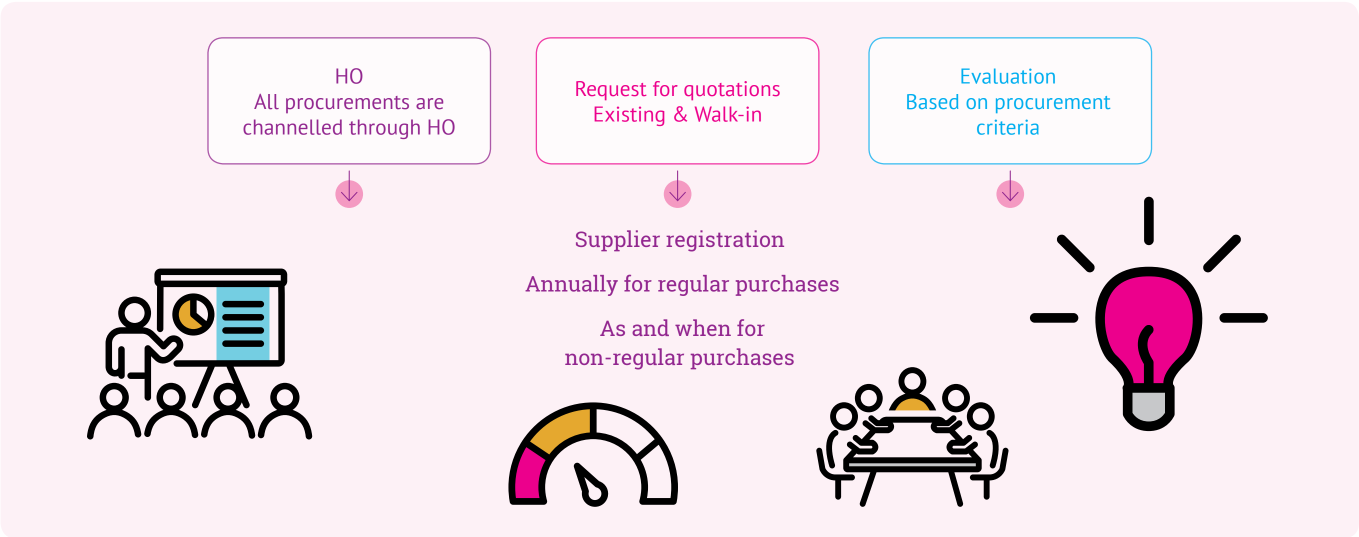
We exercise prompt payments, maintain regular contact with our partners and assure that all sustainability related issues are equally addressed.

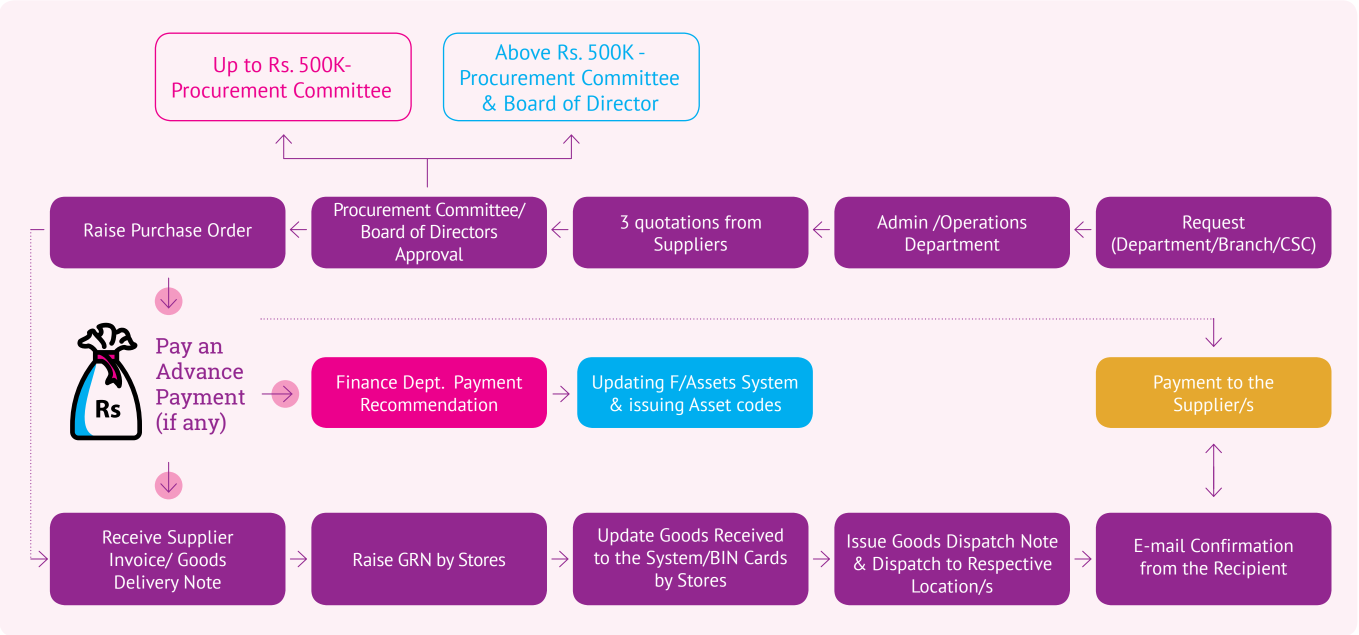
Procurement Process

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

Supplier Screening and Selection

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





Procurement Practices

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

Membership in External Organisations

We maintain relationships with several industry organisations, professional institutions, associations and societies. These are:
The Finance House Association of Sri Lanka
The Financial Ombudsman Sri Lanka
Credit Information Bureau of Sri Lanka
Lanka Microfinance Practitioners Association
The Employer Federation of Ceylon

Community Capital

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

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

Village Bis Festival

The Company in collaboration with 'Co-exist' foundation organised a pumpkin farmer festival in February 2019. We came to the market where farmers from North Central province were destitute being unable to sold a kilo of pumpkin for even Rs.2/-. In one single day of the festival we were able to sell over 100,000 kilos of pumpkin providing the farmers almost Rs.26/- a kilo.

As a responsible corporate citizen, we intend to continue these sort of social impactful programs in a meaningful manner. With that strategic objective in mind, The Company in collaboration with 'Co-exist' foundation and Hatton National Bank (HNB), organised the 'Village Biz Festival' in July 2019. This event was the first ever event of its kind bringing together over one hundred village entrepreneurs assembled at the Green Path, Colombo 07 for a one-day showcase of their products to celebrate sustainable business models that promote coexistence. The main objective of this international event was to create awareness on sustainable business and life patterns that focuses on up-cycling, recycling, sustainability and innovation of sustainable products and promote holistic living that embraces the concept of wellness.

The festival intended supporting the creation of holistic business models that can inspire and influence systems to embrace a holistic approach and serve as replicable models for all. The event created awareness on sustainable business and life patterns through a day's showcase initiative that focused on up-cycling, recycling, sustainability and innovation of sustainable products and promotion of holistic living. It inspired and influenced the new generation to embrace sustainability and also promoted sustainable approaches among Sri Lankan entrepreneurs. The event showcased products of more than 150 entrepreneurs from different parts of Sri Lanka. The participants got a unique opportunity to learn and understand of the frameworks of sustainable business of those entrepreneurs who displayed their products at the event.

The festival was held with a carnival spirit with a focus to entertainment aspect as well. There were variety of classics and contemporary music with various dancing troupes adding colour. Food was a special aspect focusing on nutrition and authenticity. There were lot of novel food items such as food made out of pumpkin and hot dogs with mushrooms. The Dambana Veddha community featured at this event where a 12-member team participated with their traditional cultural events folk dances and products such as bee honey and showcased their capabilities.

As a continuation of the initiative a Value Creation Workshop was organized by the Company together with 'Co-exit' foundation was held at the Sarvodaya training center at Bandaragama, in September 2019 as a free residential workshop. The program focused on providing best of technical expertise with regard to fine tuning products of entrepreneurs, creating marketing platform and increasing managerial and leadership capabilities, supporting their finance management skills and providing them with access to finance. It also helped the entrepreneurs to bind together as one unit becoming a cohesive group emanating from different backgrounds.

A number of experts from the Sri Lanka Institute of Marketing (SLIM), the Postgraduate Institute of Management (PIM), the Sri Lanka Institute of Packaging (SLIP) shared their insights on key topics including "Identifying and enhancing currently business opportunities", "Different Types of Packaging and the Importance of Packaging" and "IT and Digital Marketing". The program offered these social entrepreneurs the chance to interact with those experts on a variety of key subject areas that will certainly assist them to boost their businesses. The education session was marked as a turning point of uplifting the lives of social entrepreneurs who produce and sell, recycle and upcycle sustainable and innovative products and to find insight to connect with the potential consumer.

The growing economic emancipation of our rural community required a dedicated institution that could take such emancipation forward via the providing of capital, training, information, advice and product marketing support. SDF's objective of conducting these sort of social initiatives is to support and empower these growing economic emancipation of our rural community and the SMEs and micro enterprises at the grassroots level. The Village Biz Festival was conceptualized as a continuation of our efforts to bridge today's urban-rural divide.

Blood Donation Campaign

Our customer service centre at Madagama, organised a blood donation campaign in July 2019 for the 3nd consecutive year, by demonstrating our business values in providing services with purity and caring.

The details of the campaign are as follows;

- number of donators : 76 (female 28, male 48)
- hospitals affiliated : Blood Bank & General Hospital, Badulla
- number of hospital crew : doctors – 01, nurses 04 & attendants 04.
- amount of blood donated: 76 pints (O+ 57, AB+ 4, A+ 3, B+ 11, O- 1)

Investor Capital

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

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

	2020	2019	% Change
Equity Information			
Earnings per Share (Rs.)	1.51	0.62	144
Dividend per Share (Rs.)	-	-	N/A
Net Assets Value per Share (NAVPS) (Rs.)	17.71	16.27	9
Return on Equity (%)	8.87	3.8	133
Debt Information			
Debt to Equity Ratio (times)	5.6	5.7	-2
Interest Cover (times)	1.2	1.1	9
Current Ratio (times)	0.8	0.8	05

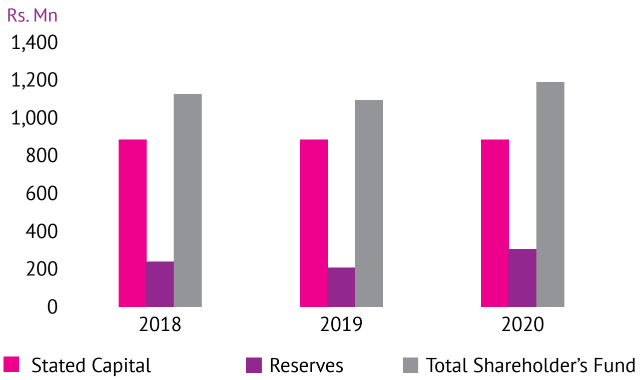
Shareholder Wealth Creation

The current year profit of Rs.101.72 million added to bring the overall shareholders' funds to Rs.1.20 billion. During the current financial year, the total number of ordinary shares of the Company remained unchanged at 67,500,006.

Social and Relationship Capital

Changes to Share Capital

Composition of Equity



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

Changes to Directors' Shareholding

None of the Board of Directors of SDF has held any shares in the Company, either at the beginning or at the end of the financial year under review.

Revenue to Government

During the year under review, the Company paid Rs.195.79 million to government in way of taxes compared to Rs.115.50 million paid in the previous financial year.

Debt and Solvency

The debt to equity ratio decreased to 5.60 times during the year under review from 5.70 times in the previous financial year. Interest cover improved to 1.20 times from 1.10 times during the year under review.

Capital Adequacy

The Company's core capital ratio and total risk-weighted capital ratio stood at 12.99% and 13.23% respectively. This was maintained well above the regulatory requirements of 6.5% and 10.5%. This indicates that the Company preserves sufficient capital to act as a cushion against any future risks.

Central Bank introduced direction/guidelines for capital adequacies requiring progressive capital infusion with the next tranche falling on 01st January 2021 with a minimum capital requirement of Rs.2.0 billion. As required by the Finance Business Act (Minimum Core Capita) Direction No.02 of 2017, the Company has not met the core capital requirement of Rs.1.5 billion by 01st January 2019. The Central Bank gave an extension up to 31st December 2020 for LFCs who have already complied with Rs.1.0 billion core capital to fulfil the minimum core capital requirement of Rs.1.5 billion. With the next tranche of minimum core capital requirement of Rs.2.0 billion is falling on 01st January 2021, the Company is required to comply for Rs.2.0 billion core capital requirement by 31st December 2020.

The Board of Directors have given their best efforts and continuously taking all possible measures to fulfil the core capital requirement of Rs.2.0 billion by 31st December 2020. So as to meet this regulatory requirement, the Company has launched a Private Placement during the current year to raise up to Rs.500.0 million equity capital initially and with further provisions to raise up to Rs.1.0 billion in the event of an oversubscription.

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

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

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

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

The Company Secretary
BDO Secretaries (Pvt) Limited
Corporate Secretarial Services
“Charter House”
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02.

Links
Company’s profiles, branch network, announcements, financials and products and services

Sarvodaya Development Finance
www.sarvodayafinance.lk

Natural Capital

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

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

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

SDF Environmental Policy

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

SDF Environmental Strategy

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

SDF Environmental Initiatives

We initiated the implementation of the 5S concept within the company during the FY 2019 with the view of enhancing efficiency through eliminating waste, standardising resource usage and sustaining a green friendly environment within all processes and structures of the organisation. During the current year, we have completed the following initiatives under out 5S programme to make our day-to-day processes more effective and

- organised filing system.
- waste paper bin maintaining system.
- standardising user drawers.
- lighting colour system.
- clean and shine the office environment.

Big Cleaning Day

We conducted our 'big clearing day' for the second consecutive year under the 5S programme. This programme resulted in decluttering the entire Head Office business premises while allowing to dispose of unwanted resources and to reuse underutilised resources up to the full potential. Through this waste elimination process we were able to recycle paper waste and electronic waste of over five tons.

Village Biz Festival

As a CSR initiative a festival for the pumpkin farmers of the North Central area to sell their produce was initiated by the Company in collaboration with the 'Coexist Foundation' during the FY 2019. The event marked sales of over 100,000kg of pumpkin and created a new market place for the village pumpkin farmers. The event was able to create an impact in the city, making it a theme dish in hotels, restaurants and households.

Continuing our efforts to create a sustainable livelihood for our village entrepreneurs, we organised a village biz festival during the current financial year to to promote sustainable approaches among Sri Lankan entrepreneurs and showcase the products of more than 100 entrepreneurs from different parts of Sri Lanka. The event facilitated the collective learning of sustainable business models and frameworks. Through this one-day showcase initiative, we created awareness on sustainable business and life patterns that focuses on up-cycling, recycling, sustainability and innovation of sustainable products and promote holistic living that embraces the concept of wellness.

SDF Energy Management

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

Electricity Consumption

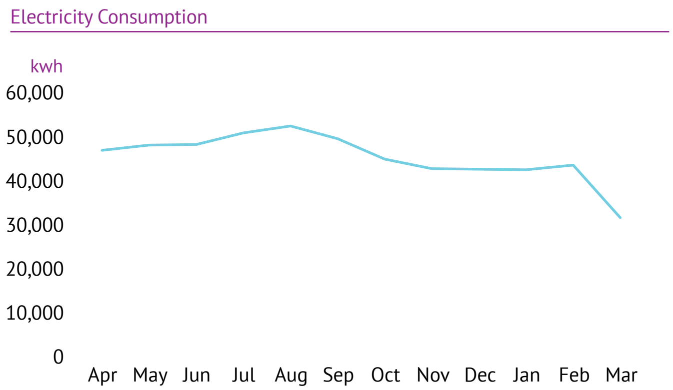
The shifting to our state-of-the-art new Head Office building in the later part of the previous year resulted in our electricity consumption increasing marginally during the current year. While the kwh consumption in Head Office increased by 6.62%, the kwh consumption in branches/CSCs increased by 3.10%. The rupee value of the electricity consumption increased marginally by 0.3% and recorded at Rs. 14.19 million compared to Rs. 14.15 million incurred during the previous year. Despite face-lifting, upgrading and relocating some of our branches/CSCs during the current year by adding more capital into plant and machineries and electrical items, the electricity consumption was prudently managed through close monitoring and optimising the usage.

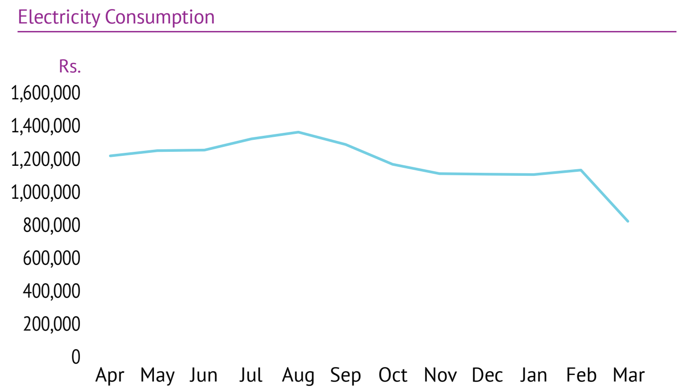
Location	2020			2019		
	kwh	Joules	Rs.	kwh	Joules	Rs.
Head Office	**207,850**	**7.48×10^{11}**	**6,027,657**	194,942	7.01×10^{11}	6,231,603
Branches/CSCs	**338,798**	**1.22×10^{12}**	**8,165,031**	328,599	1.18×10^{12}	7,919,246
Total	**546,648**	**1.96×10^{12}**	**14,192,688**	523,541	1.88×10^{12}	14,150,850

1 kwh electricity = 3.60x106 in joules

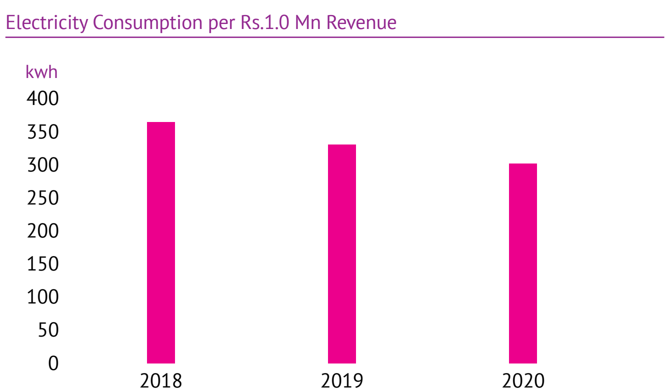
Natural Capital

The below graph demonstrates the MoM electricity consumption in our Head Office and branch network during the financial year 2020.





Per employee electricity consumption increased to Rs. 30,130/- during the current year from Rs. 27,000/- consumed in the previous year. However, the electricity usage in kwh per Rupees 1.0 million Revenue reduced to 303.4 kwh compared to 332.4 kwh reported in the previous year. The graph below illustrates the YoY reduction in electricity usage in kwh per Rupees 1.0 million.



For administrative purposes, we have divided our network into eight (8) regions. The region-wise electricity consumption shows that the highest consumption was in the Western region (region 1).

Region	2020			2019		
	kwh	Joules	Rs.	kwh	Joules	Rs.
Region 1	**73,822**	**2.65×10^{11}**	**1,779,119**	67,216	2.41×10^{11}	1,619,897
Region 2	**42,761**	**1.54×10^{11}**	**1,030,530**	44,073	1.58×10^{11}	1,062,170
Region 3	**53,012**	**1.90×10^{11}**	**1,277,600**	40,696	1.46×10^{11}	980,768
Region 4	**19,397**	**0.69×10^{11}**	**467,463**	48,801	1.75×10^{11}	1,176,115
Region 5	**51,774**	**1.86×10^{11}**	**1,247,756**	51,507	1.85×10^{11}	1,241,320
Region 6	**56,545**	**2.04×10^{11}**	**1,362,725**	60,501	2.17×10^{11}	1,458,076
Region 7	**15,540**	**0.56×10^{11}**	**374,511**	15,805	0.56×10^{11}	380,899
Region 8	**25,947**	**0.93×10^{11}**	**625,327**	NA	NA	NA
Head Office	**207,850**	**7.48×10^{11}**	**6,027,657**	194,942	7.01×10^{11}	6,231,603
Total	**546,648**	**1.96×10^{12}**	**14,192,688**	523,541	1.88×10^{12}	14,150,850

Solar Project at Head Office

With the shifting of our Head Office premises to Borella, we partnered with 'Lanka Shakthi Technologies' to install solar panels in our head office. This project was approved by the Board and we commenced the project installation during the current year. The installation process came to a stumbling block due to the outbreak of COVID-19 and hence, the completion was deleyed by further three months. We have planned to complete this project by the H2 of the coming year. The total electricity generation requirement for Head Office is approximately 160kw. However, due to limitation in the available space, we are only able to install solar panels that are capable of generating electricity up to 70kw. The estimated capital investment on this project is Rs. 8.0 million. The project is expected to bring in nearly 25% savings on the monthly electricity cost of the head office.

Emissions

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

Fuel Consumption

The total fuel consumption of the Company increased by 21,730 litres or by Rs. 3.03 million. This increase was the result of regular visits by head office officials and regional managers for promotional activities and recovery programmes at branch/CSC level.

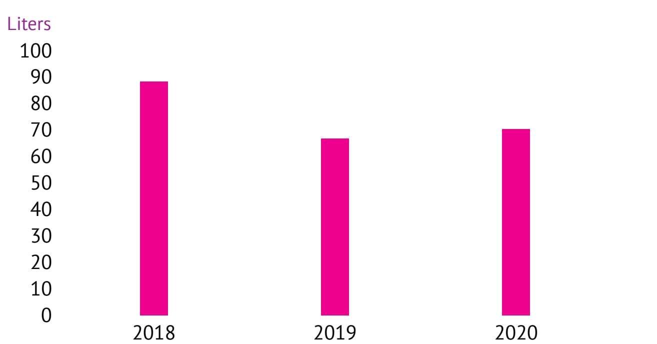
	2020			2019		
	Litre	**Joules**	**Rs.**	**Litre**	**Joules**	**Rs.**
Head Office Petrol	**41,484**	**1.42×10^{12}**	**5,766,260**	35,374	1.21×10^{12}	4,917,038
Diesel	**5,377**	**2.05×10^{11}**	**591,426**	5,588	2.14×10^{11}	614,721
Branches Petrol	**80,598**	**2.78×10^{12}**	**11,203,110**	64,766	2.23×10^{12}	9,002,509
Diesel	**-**		**-**	-	-	-
Total Petrol	**122,082**	**4.21×10^{12}**	**16,969,370**	100,141	3.45×10^{12}	13,919,548
Diesel	**5,377**	**2.05×10^{11}**	**591,426**	5,588	2.14×10^{11}	614,721

1 litre of fuel (Petrol) = 34.46x106 in joules/ 1 litre of fuel (Diesel) = 38.31x106 in joules

Per employee fuel consumption increased to Rs. 37,284 during the current year compared to Rs. 27,737 consumed in the previous year. This was largely due to the fact that the total workforce of the Company reducing to 471 from 524 in the previous year. The increase in branch visits by the head office officials and the regional managers for various official activities also contributed to this increase.

However, the fuel usage in Litres per Rupees 1.0 million Revenue increased to 70.7 Litres, compared to 67.1 Litres consumed in the previous year. The graph below illustrates the YoY reduction in electricity usage in Litres per Rupees 1.0 million.

Fuel Consumption per Rs.1.0 Mn Revenue



The region-wise fuel consumption shows that highest consumption was in the Western region (region 1).

Region	2020			2019		
	Litre	Joules	Rs.	Litre	Joules	Rs.
Region 1	17,525	$6.03x10^{11}$	2,436,011	9,819	$3.38x10^{11}$	1,364,812
Region 2	10,615	$3.65x10^{11}$	1,475,455	7,870	$2.71x10^{11}$	1,093,939
Region 3	8,180	$2.82x10^{11}$	1,136,971	5,676	$1.95x10^{11}$	788,994
Region 4	5,519	$1.90x10^{11}$	767,103	10,364	$3.57x10^{11}$	1,440,527
Region 5	11,518	$3.96x10^{11}$	1,601,066	9,583	$3.30x10^{11}$	1,332,084
Region 6	11,588	$3.99x10^{11}$	1,610,763	13,818	$4.76x10^{11}$	1,920,710
Region 7	7,886	$2.72x10^{11}$	1,096,140	6,389	$2.20x10^{11}$	888,015
Region 8	7,767	$2.67x10^{11}$	1,079,601	NA	NA	NA
Head Office	46,860	$1.61x10^{12}$	6,357,686	42,210	$1.45x10^{12}$	5,705,187
Total	127,458	$4.39x10^{12}$	17,560,796	105,729	$3.64x10^{12}$	14,534,269

Waste Management

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

Recycling

Under 5S implementation process over 400Kg of paper waste and 5000Kg of electronic waste consisting of computer items, office equipment were recycled. Organic waste disposal system was implemented with the intention of establishing a compost creation system. An ongoing system of weekly paper collection and segregation for recycling was initiated along with an e waste collection system. The daily organic waste collection through the separate bin system was established for waste disposal. Further, a compost bin was installed outside the building premises. We intend to use the compost as fertiliser for our gardening and landscaping to beautify our premises while acting as an environmentally conscious company.

Waste Reduction

Paper Waste reduction

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

We have initiated revamping automated work flow management processes for lending products approvals and support services work flows, which further assisted us in reducing paper consumption largely.

Centralised Printing

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

Water Waste Reduction

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

Culture Change towards Sustainability

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

Future Outlook

Electricity consumption Per Square Foot Reduction

We have initiated implementing LED lighting systems in branches and at Head Office premises. In order to optimise electricity consumption, we are continuously improving on our lighting plan, the usage of natural light and repairing the air conditioning system for efficient cost management. We intend to moderate the current electricity consumption per square foot through efficient lighting solutions.

Solar Panels Installation

The solar system we installed in our HO building at Moratuwa in FY 2017 with an investment of Rs. 2.5 million, comprising 22 solar panels, powered by six KSTAR 5.5KW inverters, generated nearly 30% saving on electricity cost immediately after the implementation. With the shifting of our Head Office to Colombo, we have commenced implementing solar panels at our new Head Office premises. The project will comprise 171 solar panels, powered by SMA STP 50kw and 15kw grid tied inverters and is expected to bring in nearly 30% saving on the monthly electricity bill. We intend to cover approximately 50% of our current monthly electricity requirement using panels installed on our rooftop.

As a responsible corporate citizen, we strive to convert to sustainable energy measures and intend to promote solar installation to our branch/CSC premises as well by educating the land lords of the benefits. As a sustainability goal, we intend to be futuristic and as a concerned corporate citizen to preserve the natural environment by adopting our evolving state-of-the-art technology and by being flexible to changes in the industry which are environmentally friendly.

Respected for our stability

At my young age, I was passionate about becoming a textile shop owner. I started my business very humbly to reach the stature that I enjoy now. It was SDF that helped me and watched me grow over the last six years. Having a textile and accessories business is no easy task but, nearly Rs.2.0 million loans that SDF gave me to purchase a van and to add more items to my business, truly helped me to sustain and grow.

SDF foresaw my potentials and helped bringing in stability to my business.

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

The Directors of Sarvodaya Development Finance Limited. (SDF) take pleasure in presenting their Annual Report on the state of affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2020.

This Report was approved by the Directors at its meeting held on 26th June 2020.

CORPORATE PHILOSOPHY

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

LEGAL FORM

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

LOCATION

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

BRANCH NETWORK

As at 31st March 2020, the Company's branch network comprised 30 Branch Offices and 21 Customer Service Centres (CSCs) within the purview of eight Regional Offices (pages 238 to 240). Some of these entities had their beginnings as SEEDS' District and Sub-Offices. Now, each unit in the network has been rebranded with a new corporate identity and functions as a standalone entity. During the financial year, two (2) branches were rebranded and strategically relocated with greater visibility to enable our customers in those strategic locations to have easy access to our products and services. This move not only helped to retain the existing customers but also helped to attract new customers.

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

REVIEW OF PERFORMANCE AND RISK MANAGEMENT

The Chairman's Message (pages 14 to 17) and the Chief Executive Officer's Review (pages 18 to 21) encapsulate the Company's business performance during the current financial year, set against the wider economic background as indicated in the Management Discussion and Analysis (pages 102 to 163). A detailed report on Assessing and Managing Risk is given in page 84.

STATUTORY/REGULATORY COMPLIANCE

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

PRINCIPAL ACTIVITIES

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

FINANCIAL STATEMENTS

The Financial Statements of the Company (pages 178 to 223), 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 172) 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 2020.

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

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

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Directors confirm by declaration (page 174) 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 176 to 177).

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Company during the year under review. The Directors are of the view that these policies have been applied consistently supported by informed judgements. Significant Accounting Policies together with the notes adopted in preparation of the Financial Statements of the Company is given from the pages 182 to 233 of these Financial Statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

ARTICLES OF ASSOCIATION AND CHANGES DURING THE YEAR

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

ACCOUNTING PERIOD

The financial accounting period reflects the information from 01st April 2019 to 31st March 2020.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

The Company recorded a total interest income of Rs.1,681.7 million (Rs.1,433.4 million in financial year 2019) for the year ended 31st March 2020. This represents a growth of total interest income by Rs.248.3 million or 17.3% compared to the previous year. A more descriptive analysis of the interest income is given in note no. 7.1 (page 190) to these Financial Statements.

Profit and Appropriations

The Company recorded a profit after tax of Rs.101.7 million (a profit after tax of Rs.41.2 million in financial year 2019) for the year ended 31st March 2020. This represents an increase of Rs.60.5 million or 146.8% compared to the previous year. The Company recorded a total comprehensive income of Rs.97.1 million (a total comprehensive income of Rs.43.3 million in financial year 2019) for the year ended 31st March 2020.

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.20.3 million (Rs.8.2 million in financial year 2019) to the Company's 'Statutory Reserve Fund' during the year under review.

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

	2020 Rs. ('000)	2019 Rs. ('000)
Profit /(Loss) After Taxation	**101,716.34**	41,216.25
Profit Brought Forward from Previous Year	**118,686.00**	160,561.93
Impact of adopting SLFRS 9 as at 01st April 2018	-	(39,748.04)
Profit Available for Appropriation	**220,402.35**	162,030.14
Appropriations		
Final Dividend Paid	-	(35,775.00)
Other Comprehensive Income / (Expenses)	**(4,582.72)**	674.12
Transfer to Reserves	**(20,343.27)**	(8,243.25)
Revaluation of Land & Building	-	-
Total Appropriation	**(24,925.99)**	(43,344.14)
Un-appropriated Profit Carried Forward	**195,476.36**	118,686.00

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

Dividend on Ordinary Shares

The Board of Directors did not recommend payment of any dividend for the current financial year (recommended payment of Cents 53 per share as final dividend for financial year 2019). Details of information on dividends are given in note no 16 to the Financial Statements on page 197.

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 2020 amounted to Rs.23.74 million (Rs.23.97 million in financial year 2020). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no 26.1, to these Financial Statements.

During the financial year under review, Company revalued its land and building as at 31st March 2020 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 2020 amounted to Rs.890 million (Rs.890 million as at 31st March 2019). 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.305.68 million (Rs.208.55 million in the financial year 2019) at the end of the financial year.

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

	2020 Rs. ('000)	2019 Rs. ('000)
Statutory Reserve Fund	**67,406.13**	47,062.86
Revaluation Reserve	**42,796.76**	42,796.76
Retained Earnings	**195,476.36**	118,686.00
Total	**305,679.25**	208,545.62

CONTINGENT LIABILITIES

There were no material contingent liabilities as at the reporting date except as disclosed in note no 39 to these Financial Statements.

OUTSTANDING LITIGATIONS

In consultation with the Company Lawyers, the Board of Directors opine that the pending litigations against the Company as at the reporting date will not have any material impact on the reported financial results or the future operations of the Company. The litigations against the Company are fully disclosed under note no 39.3 to these Financial Statements.

ENVIRONMENTAL PROTECTION

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

EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events and/or circumstances that have arisen since the reporting date that would require adjustments to or disclosure in the financial statements, other than those disclosed in note no 41 on page 220 to these Financial Statements.

ISSUE OF SHARES OR DEBENTURES

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

SHARE INFORMATION

The Company's Parent Company, 'Sarvodaya Economic Enterprises Development Services (Gte) Ltd' or 'SEEDS', is the major shareholder, with a total of 54,000,000 ordinary shares issued at Rs.540 million. Gentosha Total Asset Consulting Inc. is the second largest shareholder with a total of 13,500,004 shares issued at Rs.350 million. Two other shareholders, who were previously directors of the company and retired during the financial year 2019 after serving nine (9) years as non-executive directors in the Company, as required by the Central Bank Corporate Governance Direction No.03 of 2018 and the Article 84 (viii) of the Company's Articles of Association, were allotted one share each issued at Rs.10/- each when the Company was incorporated on 1st January 2010 under the Companies Act No. 07 of 2007.

DIRECTORS' SHAREHOLDINGS

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

DIRECTORATE

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

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

Name	Status
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director
Dr. Richard Vokes	Non-Executive, Independent Director
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director
Dr. Janaki Kuruppu	Non-Executive, Independent Director
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director
Mr. Amrit KanagaRetna	Non-Executive, Independent Director
Ms. Shehara De Silva	Non-Executive, Independent Director (Appointed w.e.f. 27th June 2019)
Mr. Sunil De Silva	Non-Executive, Independent Director (Appointed w.e.f. 12th March 2020)

The eight-member Board of Directors of the Company who held directorships as at 31st March 2020 are composed of distinguished professionals whose financial acumen in banking, finance, economics and allied fields have been invaluable in guiding the destinies of the Company during their tenure of office. The profiles of the Directors appear on pages 24 to 26.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held twelve (12) monthly meetings, during the year under review. The attendance schedule is given in the Corporate Governance Report on page 40.

BOARD SUB-COMMITTEES

The Board has delegated some responsibilities to four (4) oversight committees without derogating from its ultimate responsibility to the Company. They are:

(i) Integrated Risk Management Committee (IRMC);
(ii) Board Audit Committee (BAC);
(iii) Board Remuneration Committee (BRC) and;
(iv) Board Credit Committee (BCC).

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

The composition, functions and responsibilities of the first three committees are set out in their respective reports as at 31st March 2020 and included in this Annual Report.

MANAGEMENT LEVEL COMMITTEES

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

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

Composition of these Committees as at 31st March 2020, appear on pages 44 to 45.

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 2020 and 31st March 2019 are stated below and disclosed under note no 42.1.1 to these Financial Statements on page 220.

	2020 Rs. ('000)	2019 Rs. ('000)
Directors' Fees and Emoluments	**7,454.31**	8,235.42

CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 36 to 77, 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 175 Also, the Company has obtained a factual findings reports on Corporate Governance from External Auditors over the compliance of corporate governance directions and the Company is in the process of strengthening the procedure.

APPRAISAL OF BOARD PERFORMANCE

Each Board Director of the Company, in conformity with the Section 2(8) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, undertakes a self-assessment annually by answering a self-assessment questionnaire. The Board of Directors undertook the self-assessment for the year under review. The extent of compliance is fully described under Rule Reference no 2 (8) on page 51 in the Company's report on Corporate Governance.

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

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

STATUTORY PAYMENTS

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

EMPLOYEE SHARE OWNERSHIP AND PROFIT SHARING PLANS

There are no immediate plans to introduce employee share ownership and profit sharing scheme. However, the employees are given an opportunity to invest in the Company's shares via the Private Placement that commenced in the month of February 2020. The purpose of the Private Placement is to raise up to Rs.500.0 million equity capital with provision to raising up to Rs.1.0 billion in the event of an oversubscription to comply with the Central Bank regulatory core capital requirement of Rs.2.0 billion by 31st December 2020.

AUDITORS

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

Messrs Ernst & Young have expressed their willingness to continue in office for the ensuing year and a resolution with regard to their reappointment and remuneration will be submitted for approval by the shareholders at the next Annual General Meeting scheduled on 31st July 2020.

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

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

The Company paid following sums for audit and related services as well as non-audit services to M/s. Ernst & Young, Chartered Accounts. Agreed-Upon Procedures engagement to comply with the Finance Companies Direction No.03 of 2008 and Assurance engagement on Directors' Statement of Internal Control have been classified as audit related services and, the fees paid on the same during the year under review are included under audit and related services accordingly. Non audit services mainly comprised of the fees paid during the year under review on tax consultancy services, and payment for review of Company's impairment model of SLFRS 09 that E & Y have carried out as a separate assignment.

	2020 Rs. ('000)	2019 Rs. ('000)
Audit and Related Services	**1,938.97**	891.71
Non Audit Services	**875.86**	1,038.76

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 174) 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 175).

PREPARATIONS FOR ADOPTING NEW REGULATIONS

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

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

ii. New Accounting Standards/Interpretations Issued and Became Effective

The Company has adopted SLFRS 16 - (Leases), issued by the Institute of Chartered Accountants of Sri Lanka, effective for annual periods beginning on or after 01st January 2019, for the first time. The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 01st April 2019. The Company has not adopted early any other Standard, Interpretation or Amendment that has been issued but is not yet effective.

The Company has leases for various branches/CSCs. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases of low-value assets. The Standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Accordingly, the Company have recognized Rs.169.4 million as 'Right-of-use' Lease Assets and Rs.171.7 million as Lease Creditor in the Statement of Financial Position of the Company's as at 31st March 2020.

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

The following accounting standards have been issued by the Institute of Chartered Accountants of Sri Lanka but not yet effective as at 31st March 2020. The Company intends to adopt these standards, if applicable, when they become effective.

- SLFRS 17 – Insurance Contracts
  This is a comprehensive new accounting standard for insurance contracts. This standard is not applicable to the Company.
- Amendments to LKAS 1 and LKAS 8: Definition of Material
  The amendments are applied prospectively for the annual periods beginning on or after 01st January 2020 with early application permitted. The amendments to the definition of material are not expected to have a significant impact on the Company's Financial Statements.

NOTICE OF MEETING

Notice convening the Ninth Annual General Meeting of the Company is given on page 246.

ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

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

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

Channa de Silva
Chairman

Chamindha Rajakaruna
Director

BDO Secretaries (Pvt) Limited
Company Secretaries

26th June 2020

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditors' Report from page 176 to 177 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 2020, exhibited from pages 178 to 233 in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards (SLFRSs/ LKASs), the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Finance Business Act No. 42 of 2011 and the relevant Directions, Guidelines etc., issued by the Central Bank of Sri Lanka for Licensed Finance Companies. The Directors also ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

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

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

The Directors have provided the Auditor with all the financial records, related data and minutes of shareholders' and Directors' meetings and given them every opportunity to carry out and reviews and tests that they consider appropriate and necessary for the performance of their responsibilities. Messrs Ernst & Young has examined the Financial Statements made available together with all other financial records, minutes of shareholders' and Directors' meetings and related information and have expressed their opinion which appears from pages 176 to 177 of this Annual Report.

COMPLIANCE REPORT

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

- The state of affairs of the Company as at 31st March 2020 and;
- The profit or loss of the Company for the financial year then ended.

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

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

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

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

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

By order of the Board,

BDO Secretaries (Pvt) Limited
Company Secretaries

26th June 2020

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 2020 are prepared and presented in conformity with the requirements of the followings;

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

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

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and Estimates and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Company during the year under review. We also confirm that the Company has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

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

The Company's Board Audit Committee, inter alia, reviewed all the internal and external audit and inspection programs, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the 'Report of the Board Audit Committee' from pages 80 to 81 of this Annual Report. The Board Audit Committee meets periodically with the internal audit team and the independent external auditor to view their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of Internal Controls and Procedures.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants and their Report in given from pages 176 to 177 of this Annual Report. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs Ernst & Young in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Ernst & Young's independence and objectivity.

We confirm to the best of our knowledge that;

- The Company has complied with all applicable laws, regulations and prudential requirements;
- There are no material non compliances other than those disclosed on page 46 to the Corporate Governance of this Annual Report;
- There are no material litigations that are pending against the Company other than those disclosed in the note 39.3 on page 219 to the Financial Statements of this Annual Report, and;
- All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the reporting date have been paid, or where relevant provided for.

Deshantha de Alwis
DGM –Finance and Planning

Nilantha Jayanetti
Chief Executive Officer

26th June 2020

Directors' Statement on Internal Control Over Financial Reporting

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

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

Among the internal control procedures embedded within the Company are:

- An Integrated Risk Management (IRM) structure that involves the Board of Directors, Key Management Personnel, Heads of Divisions and the island-wide service network.
- A specialised Risk Management Unit tasked with assessing all types of risks associated with the Company and communicating the management and the Board the prompt actions required to mitigate the effects of such risks.
- The Internal Audit Division tasked with assessing the soundness of Company's internal control system and risk management functions and the ongoing evaluation of how the organisation has adapted to changes in the risk environment.
- Management Level Committees such as the Asset and Liability Committee (ALCO), Management Audit Committee (MAC), the Management Committee (ManCom), Management Credit Committee (MCC) and the Product Development Committee (PDC) tasked with specific duties and responsibilities to implement the strategic actions and driving the Company towards its strategic direction while taking timely actions to mitigate the effects of any risks that are arising.
- Board Level Oversight Committees such as the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) tasked with specific duties and responsibilities for reviewing and improving the effectiveness of systems, processes and procedures in place to mitigate risks.
- Continuous upgrading to the information system ('e-finance') and operationalizing same for enhanced screening and performance of the work-flow-management system for processing and approving loans and services to the customers and information generation for MIS and financial reporting to keep track of all financial operations real time and generate reports online to enhance service quality and integrity of financial reporting.

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

CONFIRMATION

The Board is of the opinion that while it has complied with the aforementioned directives, it can provide a reasonable assurance against material misstatements, fraud and/or malpractice. The Board is also of the opinion while it has established the aforementioned internal control procedures, the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with the Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka.

EXTERNAL AUDITORS' CERTIFICATION

The External Auditors have submitted an Independent Assurance Report on the process adopted by the Directors on the system of internal controls over financial reporting. The External Auditors' Report is disclosed on page 175.

By order of the Board,

Channa de Silva
Chairman / Chairman, Board Audit Committee

26th June 2020

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

EY
Building a better working world

Ernst & Young
Chartered Accountants
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PNS/DW

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

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Sarvodaya Development Finance Limited ("the Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2020.

Management's Responsibility

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

Our Independence and Quality Control

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

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

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

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

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

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

Summary of work performed

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

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

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

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

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

Our conclusion

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

Ernst & Young

29 June 2020
Colombo

Independent Auditor's Report

Building a better working world

Ernst & Young
Chartered Accountants
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PNS/DW/AD

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sarvodaya Development Finance Limited ("the Company), which comprise the statement of financial position as at 31 March 2020, and the statement of Profit or Loss and Other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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

29 June 2020
Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Income	6	**1,802,435,773**	1,575,246,892
Interest Income		**1,681,678,539**	1,433,374,472
Interest Expenses		**(750,116,462)**	(606,621,257)
Net Interest Income	7	**931,562,077**	826,753,216
Net Fee and Commission Income	8	**29,580,891**	24,992,979
Other Operating Income	9	**91,176,343**	116,879,440
Total Operating Income		**1,052,319,311**	968,625,635
Impairment Charges for Loans and Other Losses	10	**(119,317,776)**	(94,014,169)
Net Operating Income		**933,001,535**	874,611,466
Operating Expenses			
Personnel Expenses	11	**(356,879,823)**	(357,108,571)
Depreciation of Property, Plant and Equipment		**(40,442,919)**	(45,088,470)
Amortisation of Intangible Assets		**(13,285,897)**	(13,051,870)
Other Operating Expenses	12	**(290,302,786)**	(302,645,855)
Operating Profit before Tax on Financial Services		**232,090,111**	156,716,700
Tax on Financial Services	13	**(108,022,553)**	(87,760,056)
Profit/(Loss) before Taxation		**124,067,558**	68,956,645
Income Tax Expenses	14	**(22,351,216)**	(27,740,393)
Profit/(Loss) for the Year		**101,716,342**	41,216,252
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	31	**(2,062,826)**	5,548
Gain/(Loss) due to changes in Assumptions	31	**(4,302,064)**	930,725
Deferred Tax (Charge)/Reversal on above items		**1,782,169**	(262,156)
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		**(4,582,721)**	674,117
Surplus from Revaluation of Property, Plant & Equipment		**-**	1,900,707
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		**-**	(532,198)
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		**-**	1,368,509
Other Comprehensive Income for the Year, Net of Tax		**(4,582,721)**	2,042,626
Total Comprehensive Income/(Expenses) for the Year		**97,133,622**	43,258,878
Basic Earnings Per Share (Rs.)			
Earning per Share - Basic *	15	**1.51**	0.61

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

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

Statement of Financial Position

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Assets			
Cash and Cash Equivalents	18	**73,226,394**	140,902,916
Loans and Receivables	19	**5,230,704,947**	5,113,657,129
Lease Rentals Receivables	20	**1,702,847,496**	1,102,513,124
Financial Investments	21	**444,939,031**	442,595,260
Other Financial Assets	22	**164,535,666**	189,276,648
Other Non Financial Assets	23	**142,043,956**	144,424,300
Intangible Assets	24	**15,111,123**	27,008,129
Investment Property	25	**126,094,500**	118,594,500
Property, Plant and Equipment	26	**146,268,040**	170,852,219
Right-of-use Lease Assets	27	**169,444,369**	-
Total Assets		**8,215,215,520**	7,449,824,224
Liabilities			
Due to Banks and Other Institutions	28	**1,595,035,613**	835,873,973
Due to Customers	29	**5,101,975,953**	5,385,341,597
Other Non Financial Liabilities	30	**99,220,587**	79,667,975
Post Employment Benefit Liability	31	**33,753,016**	27,212,065
Current Tax Liabilities	32	**15,432,447**	14,768,247
Lease Creditor	33	**171,735,097**	-
Deferred Tax Liabilities	34	**2,383,540**	8,414,722
Total Liabilities		**7,019,536,254**	6,351,278,580
Shareholders' Funds			
Stated Capital	35	**890,000,020**	890,000,020
Retained Earnings	36	**195,476,359**	118,686,006
Reserves	37	**110,202,886**	89,859,618
Total Shareholders' Funds		**1,195,679,266**	1,098,545,644
Total Liabilities and Shareholders' Funds		**8,215,215,520**	7,449,824,224
Net assets value per share		**17.71**	16.27
Commitments and Contingencies	39	**9,365,100**	6,940,000

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

Deshantha de Alwis
DGM - Finance & Planning

Nilantha Jayanetti
Chief Executive Officer

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

Channa de Silva
Chairman

Chamindha Rajakaruna
Director

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

26 June 2020
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 31 March 2018 (Restated)		890,000,020	160,561,930	38,819,607	41,428,252	1,130,809,809
Impact of adopting SLFRS 9 as at 1 April 2018		-	(39,748,039)	-	-	(39,748,039)
Restated balance under SLFRS 9 as at 1 April 2018		890,000,020	120,813,891	38,819,607	41,428,252	1,091,061,770
Profit for the Year		-	41,216,251	-	-	41,216,251
Other Comprehensive Income		-	674,117	-	-	674,117
Transfer to Statutory Reserves Fund		-	(8,243,250)	8,243,250	-	-
Revaluation of Land & Building		-	-	-	1,368,509	1,368,509
Final Dividend Paid		(35,775,003)	(35,775,003)			
Balances as at 31 March 2019		890,000,020	118,686,006	47,062,857	42,796,761	1,098,545,644
Profit for the Year		-	101,716,342	-	-	101,716,342
Other Comprehensive Income		-	(4,582,721)	-	-	(4,582,721)
Transfer to Statutory Reserves Fund		-	(20,343,268.46)	20,343,268	-	-
Revaluation of Land & Building		-	-	-	-	-
Final Dividend Paid		-	-	-	-	-
Balances as at 31 March 2020		890,000,020	195,476,359	67,406,125	42,796,761	1,195,679,266

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

Statement of Cash Flow

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		124,067,558	68,956,644
Adjustments for			
Impairment Provision	10.	119,317,776	94,014,169
Reversal of Provision of Loan Risk Assurance Benefit Fund		(1,030,125)	(5,585,990)
Loss/(Profit) on Disposal of Property, Plant and Equipment		(7,832,178)	(46,464)
Provision for Defined Benefit Plans	11.	10,733,365	8,491,897
Depreciation of Property, Plant and Equipment	26.1.2	40,442,919	45,088,470
Amortisation of Intangible Assets		13,285,897	13,051,870
Operating Profit before Working Capital Changes		298,985,211	223,970,595
(Increase)/Decrease in Loans and Receivables	19.	(160,271,308)	(523,322,568)
(Increase)/Decrease in Lease Rentals Receivable	20.	(676,290,858)	(539,381,909)
(Increase)/Decrease in Other Financial Assets		24,740,982	18,094,400
(Increase)/Decrease in Other Non Financial Assets		2,380,344	(43,229,194)
Increase/(Decrease) in Amounts Due to Customers	29.	(283,365,644)	760,506,567
Increase/(Decrease) in Other Non Financial Liabilities		22,559,165	1,203,000
Cash Generated from Operations		(771,262,107)	(102,159,108)
Retirement Benefit Liabilities Paid		(10,557,304)	(6,759,250)
Net Collection of LRAB Fund		370,125	215,990
Income Tax Paid	32.	(25,936,029)	(14,475,303)
Net Cash From/(Used in) Operating Activities		(807,385,315)	(123,177,670)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		8,015,000	238,338
Acquisition of Property, Plant and Equipment	26.1.1	(23,735,187)	(23,965,355)
Acquisition of Intangible Assets		(1,388,891)	(4,925,640)
Financial Investments		(2,343,771)	(160,326,307)
Dividend Paid		-	(35,775,003)
Net Cash Flows from/(Used in) Investing Activities		(19,452,848)	(224,753,967)
Cash Flows from / (Used in) Financing Activities			
Funds received from bank and other institutional barrowings	28.2	990,494,489	500,120,116
Net Cash Flow from Debt Issued and Other borrowings	28.2	(398,338,806)	-
Net Cash Flows from/(Used in) Financing Activities		592,155,683	500,120,116
Net Increase in Cash and Cash Equivalents		(234,682,480)	152,188,479
Cash and Cash Equivalents at the beginning of the year		99,328,332	(52,860,148)
Cash and Cash Equivalents at the end of the year	A	(135,354,147)	99,328,332
A Cash and Cash Equivalents at the end of the year			
Favorable Cash & Cash Equivalents		73,226,394	140,902,916
Unfavorable Cash & Cash Equivalents		(208,580,540)	(41,574,583)
Total Cash and Cash Equivalents at the end of the year	19	(135,354,147)	99,328,332

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

Notes to the Financial Statement

1. CORPORATE INFORMATION

1.1 General

Sarvodaya Development Finance Limited (The 'Company') is a public limited liability company incorporated and domiciled in Sri Lanka and is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office of the Company is located at No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 and the principal place of business is situated at the same place.

The Company's parent undertaking is Sarvodaya Economic Enterprises Development Services (Gte) limited, which is also the Company's ultimate Parent.

1.2 Principal Activities of the Company

The principal activities of the Company consist of Acceptance of Deposits, Granting Micro Finance Loans, SME Loan, Leasing, Housing Loans, Business Loans, Pawning and other credit facilities and related services.

1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2020 (including comparatives) have been approved and authorized for issue by the Board of Directors on 26th June 2020.

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 178). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 179). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 180). 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 181) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 182 to 233).

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1.6 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 204
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 212
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment.	Note 25	Page 204

1.7 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 38 to these Financial Statements.

1.8 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.

1.9 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.

1.10 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.

1.11 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.

2. GENERAL ACCOUNTING POLICIES
2.1 Significant Accounting Judgments, Estimates and Assumptions
In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to these Financial Statements are as follows
- Allowance for Impairment Charges for Loans and Receivables (Details under note 3.2.9)
- Deferred Taxation (Details under note 34)
- Post-Employment Benefit Liability (Details under note 31)
- Related Party Transactions (Details under note 42)

2.2 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement
2.2.1 Date of Recognition
All financial assets and liabilities are initially recognised on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

2.2.2 Initial measurement of Financial Instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

2.2.3 'Day 1' profit or loss
When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

2.2.4 Measurement categories of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

The details of the above conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

3.2.4 (a) (ii) Equity instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

The Company has not classified any Equity instruments at FVOCI.

3.2.4 (a) (iii) Due to Banks and other institutions

After initial measurement, due to banks are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded due to banks as Financial Liabilities at Amortised Cost in the form of Overdrafts term loans and short term loans.

3.2.9 Impairment of Financial Assets

a. Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 46.2.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs.Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

b. The Calculation of Expected Credit Loss (ECL)

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

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

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

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise expected draw downs on committed facilities, and accrued interest from missed payments.

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

Notes to the Financial Statement

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan Commitments: When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

Financial Guarantee contracts: The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability –weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

c. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

d. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

e. Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

Financial Reports

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.2.9 (iii) Reversals of impairment

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

3.2.9 (iv) Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2019,when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 45.2 The Company also considers whether the assets should be classified as Stage 3.

3.2.9 (v) Write-off of Financial Assets at Amortised Cost

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

3.2.9 (vi) Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

3.2.9 (vii) Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39.The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.2.9 (viii) Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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

3.3 Finance and Operating Lease

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.3.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the

Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable". The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is including 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

3.3.2 Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which is not yet effective as at 31st March 2020. The Company intends to adopt these standards, if applicable, when they become effective.

SLFRS 17 Insurance Contracts

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first applies SLFRS17.

This standard is not applicable to the Company.

Amendments to LKAS 1 and LKAS 8: Definition of Material

Amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting policies, Changes in accounting Estimates and Errors are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Company's Financial Statements.

5. CHANGES IN ACCOUNTING POLICIES

5.1 New Accounting Standards/Interpretations effective during the year

The Company has adopted SLFRS16 - Leases, effective for annual periods beginning on or after 01 January 2019, for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

5.1.1 SLFRS 16 –Leases

SLFRS 16 supersedes LKAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 4.2.2 for the accounting policy prior to 1 April 2019.

Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.2.1 for the accounting policy beginning 1 April 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases
For leases that were classified as finance leases applying LKAS 17, the carrying amount of the right of use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying LKAS 17. For those leases, the Company accounted for the right of use asset and the lease liability applying this Standard from the date of initial application.

Leases previously accounted for as operating leases
The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases we reecognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date
- of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial
- application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate
- the lease

6. INCOME

Gross income (Revenue) is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

	2020 Rs.	2019 Rs.
Interest Income	**1,681,678,539**	1,433,374,472
Net Fee and Commission Income	**29,580,891**	24,992,979
Other Operating Income (net)	**91,176,343**	116,879,440
Total Income	**1,802,435,773**	1,575,246,892

7. NET INTEREST INCOME

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Company use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

	2020 Rs.	2019 Rs.
7.1 Interest Income		
Loans and Receivables	**1,263,494,470**	1,179,240,913
Lease Rentals Receivables	**357,115,232**	191,001,130
Financial Investments	**40,686,088**	30,326,307
Savings Deposits	**1,496,777**	4,350,666
Other Financial Assets	**18,885,971**	28,455,456
Total Interest Income	**1,681,678,539**	1,433,374,472
7.2 Interest Expenses		
Due to Bank and Other Institution	**179,260,061**	60,402,155
Due to Customers	**546,799,253**	546,219,102
Interest Expenes on Lease Creditor	**24,057,148**	
Total Interest Expenses	**750,116,462**	606,621,257
Net Interest Income	**931,562,077**	826,753,216

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.

	2020 Rs.	2019 Rs.
8.1 Fee and Commission Income		
Credit Related Fees and Commissions	**18,702,957**	12,745,744
Documentation Charges	**25,697,061**	28,720,423
Service Charge	**10,207,124**	924,116
Total Fee and Commission Income	**54,607,141**	42,390,283

	2020 Rs.	2019 Rs.
8.2 Fee and Commission Expenses		
Credit Related Fees and Commissions	**15,226,578**	11,714,192
Documentation Charges	**278,571**	362,709
Service Charge	**9,521,101**	5,320,403
Total Fee and Commission Expenses	**25,026,250**	17,397,304
Total Net Fee and Commission Income	**29,580,891**	24,992,979

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, gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

	2020 Rs.	2019 Rs.
Recoveries of Written-Off Loans & Receivables	**56,319,546**	97,545,842
Profit/(Loss) on Disposal of Property Plant & Equipment	**7,832,178**	46,464
Reversal of Provision of Loan Risk Assurance Benefit Fund	**1,030,125.42**	5,585,990
Other Sundry Income (Note 9.1)	**25,994,493**	13,701,144
Total Other Operating Income	**91,176,343**	116,879,440

9.1 Other Sundry Income included savings accounts threshold charges, office rent re-imbursements, stationery income 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 9: Financial Instruments. The methodology adopted by the Company is explained in Note 3.2.9 to these Financial Statements.

	2020 Rs.	2019 Rs.
Loans and Receivables	**43,223,491**	61,693,889
Finance Lease Rental Receivables	**76,094,285**	32,320,280
Total Impairment Charges for Loans and Other Losses	**119,317,776**	94,014,169

The Impact on COVID 19- Impairment of Financial Assets - Expected Credit Loss calculation
The Company considered the Probability of Default (PD) computed as at February 29, 2020, in order to estimate the Expected Credit Loss (ECL) as at March 31, 2020, due to uncertainty and lack of sufficient information to make any adjustments to capture the potential impact of COVID 19 based on the “COVID - 19 Pandemic: Guidance Notes on the Implications on Financial Reporting” issued by the institute of chartered accountants of Sri Lanka has provided reporting guidelines

11. PERSONNEL EXPENSES

Accounting Policy

Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Company contributes 12% and 3% of gross salaries of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

Contributions to defined benefit plans are recognised in the Statement of profit or Loss and other comprehensive income based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19, Defined benefit Obligations.

Year ended 31 March	2020 Rs.	2019 Rs.
Salaries and Other Related Expenses	312,413,478	314,570,215
Employer's Contribution to Employees' Provident Fund	23,587,300	23,961,690
Employer's Contribution to Employees' Trust Fund	5,896,825	5,988,236
Gratuity Charge for the Year	10,785,865	8,491,897
Other Staff Related Expenses	4,196,354	4,096,534
Total Personnel Expenses	**356,879,823**	357,108,571

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.

	2020 Rs.	2019 Rs.
Directors' Emoluments	7,454,305	8,235,417
Auditors Remuneration	2,029,874	2,440,262
Professional and Legal Expenses	2,274,528	950,352
Deposit Insurance Premium	6,898,474	6,717,039
General Insurance Expenses	4,420,263	3,758,520
Office Administration and Establishment Expenses	201,765,609	196,875,369
Travelling & Transport Expenses	35,978,600	28,818,535
Other Expenses	5,218,327	10,961,711
Marketing and Promotional Expenses	24,262,806	43,888,651
Total Other Operating Expenses	**290,302,786**	302,645,855

Crop Insurance Levy

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

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 2020 was 15%.

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.

As per the notice published by the Department of Inland Revenue dated 29th November 2019, Nations Building Tax (NBT) on Financial Services has been abolished with effect from 01 January 2020.

Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

As per the notice published by the Department of Inland Revenue dated 20th January 2020, Debt Repayment Levy has been abolished with effect from 01 January 2020

	2020 Rs.	2019 Rs.
Value Added Tax on Financial Services	**70,959,752**	61,970,225
National Building Tax on Financial Services	**6,082,516**	8,262,696
Debit Repayment Levy	**30,980,285**	17,527,134
Total Tax on Financial Services	**108,022,553**	87,760,056

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.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 32 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the fist 9 months period was 28% and it was chnaged as 24% with effect from 1 January 2020 (2019 - 28%).

The components of the income tax expense for the years ended 31 March 2020 and 2019 are:

	2020 Rs.	2019 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 14.1)	**19,554,842**	-
(Over) / Under Provision in Respect of 2014/15	**3,862,469**	-
(Over) / Under Provision in Respect of 2015/16	**3,182,917**	-
(Over) / Under Provision in Respect of 2017/18	**-**	1,550,102
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 34.2)	**(4,249,013)**	26,190,291
Total Tax Expenses	**22,351,216**	27,740,393

Financial Reports

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.

	2020 Rs.	2019 Rs.
Profit Before Tax	**124,067,558**	68,956,644
Add : Disallowable Expenses	**264,584,242**	233,883,316
Taxable Loss on Leasing Business	**(8,737,906)**	(6,294,331)
Adjustment on SLFRS 16	**8,778,731**	-
Less: Tax Deductible Expenses	**(135,464,188)**	(141,138,023)
Disallowable Income	**(92,679,503)**	(19,648,652)
Adjusted Profit / (Loss) for Tax Purposes	**160,548,934**	135,758,955
Assessable Income	**160,548,934**	135,758,955
Less - Allowable Losses	**(88,123,592)**	(135,758,955)
Taxable Income	**72,425,342**	-
Income Tax @ 28%	**15,209,322**	-
Income Tax @ 24%	**4,345,521**	
Income Tax on Current Year's Profit	**19,554,842**	-

14.2 (Over) / Under Provision in Respect of Y/As 2014/15 and 2015/16

The Company recorded an income tax under provision Rs 3,862,469/- and Rs 3,182,917 in respect of the years 2014/15 and 2015/16. This under provision arose a result of finalizing two tax assessment.

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':

	2020 Rs.	2019 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders (Rs.)	**101,716,342**	41,216,251
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.)	**1.51**	0.61

16. DIVIDEND PAID AND PROPOSED

The Board of Directors did not recommend distribution of dividend for the year ended 31 March 2020 and 2019.

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised.The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

17.1 Analysis of Financial Instruments by Measurement Basis

	2020		2019	
	Amortised Cost Rs.	Total Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and Cash Equivalents	**73,226,394**	**73,226,394**	140,902,916	140,902,916
Loans and Receivables	**5,230,704,947**	**5,230,704,947**	5,113,657,129	5,113,657,129
Lease Rentals Receivables	**1,702,847,496**	**1,702,847,496**	1,102,513,124	1,102,513,124
Financial Investments	**444,939,031**	**444,939,031**	442,595,260	442,595,260
Other Financial Assets	**164,535,666**	**164,535,666**	189,276,648	189,276,648
Total Financial Assets	**7,616,253,533**	**7,616,253,533**	6,988,945,076	6,988,945,076
Financial Liabilities				
Due to Banks and Other Institutions	**1,595,035,613**	**1,595,035,613**	835,873,973	835,873,973
Due to Customers	**5,101,975,953**	**5,101,975,953**	5,385,341,597	5,385,341,597
Total Financial Liabilities	**6,697,011,566**	**6,697,011,566**	6,221,215,570	6,221,215,570

18. 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	2020 Rs.	2019 Rs.
Cash in Hand	**34,089,998**	44,382,608
Balances with Banks	**39,136,396**	96,520,308
Total Cash and Cash Equivalents	**73,226,394**	140,902,916

18.1 Net cash and Cash Equivalents for the Purpose of the Cash Flow Statement

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

Favorable Cash & Cash Equivalents (Note 18)	**73,226,394**	140,902,916
Unfavorable Cash & Cash Equivalents (Note 28)	**(208,580,540)**	(41,574,583)
Cash & Cash Equivalents for Cash Flow Purposes	**(135,354,146)**	99,328,333

19. LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets measured at amortized cost if both following conditions are made ;

Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of comprehensive income.

	2020 Rs.	2019 Rs.
Gross Loan and Receivables	**5,523,994,556**	5,363,723,248
Less : Allowance for Impairment Charges for Loans and Receivables (Note 19.1)	**(293,289,609)**	(250,066,119)
Net Loans and Receivables	**5,230,704,947**	5,113,657,129

19.1 Analysis of loans and receivables on maximum exposure to credit risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impared loans and receivables	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Gross Loan and Receivable	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Allowance for expected credit losses(ECL)	(58,248,938)	(41,976,964)	(193,063,707)	(293,289,609)
	3,148,250,291	788,161,617	1,294,293,039	5,230,704,947

19.2 Allowance for Impairment Charges for Loans and Receivables

Reversal of Impairment

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

Year ended 31 March	2020 Rs.	2019 Rs.
Allowance for Impairment Losses on Loans & Receivables		
Balance as at Being of the Year	**250,066,119**	142,951,114
Impact of adopting SLFRS 9 as at 1 April 2019	**-**	45,788,865
	250,066,119	188,739,979
Charge for the Year	**43,223,490**	61,326,139
Amounts Written Off	**-**	-
Balance as at End of the Year	**293,289,609**	250,066,119
Individual Impairment	**-**	-
Collective Impairment	**293,289,609**	250,066,119
Total	**293,289,609**	250,066,119

19.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	82,088,713	30,911,399	137,066,006	250,066,119
Charge/ (Reversal) to income statement	(23,839,775)	11,065,565	55,997,701	43,223,490
Write-off during the year	-	-	-	-
Balance as at 31st March 2020	58,248,938	41,976,964	193,063,707	293,289,609

20. LEASE RENTALS RECEIVABLE

Accounting Policy

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

Lease rental receivable include financial assets measured at amortized cost if both following conditions are made ;
Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement, lease rental receivable is subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

20. LEASE RENTALS RECEIVABLE (CONTD.)

20.1 Lease Rentals Receivable

	2020 Rs.	2019 Rs.
Gross Lease Rentals Receivables	**2,635,271,050**	1,645,200,014
Less: Unearned Income	**(802,192,592)**	(488,412,414)
Total Lease Rentals Receivables	**1,833,078,458**	1,156,787,600
(Less): Allowance for Impairment Charges (Note 20.5)	**(130,230,964)**	(54,274,476)
Net Lease Rentals Receivables	**1,702,847,496**	1,102,513,124

20.2 Analysis of loans and receivables on maximum exposure to credit risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impared loans and receivables	994,966,920	502,844,238	335,267,300	1,833,078,458
Less - Allowance for expected credit losses (ECL)	(17,990,868)	(28,179,267)	(84,060,828)	(130,230,964)
	976,976,052	474,664,971	251,206,471	1,702,847,496

20.3 Maturity of Lease Rentals Receivables

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	**895,952,803**	**1,425,538,069**	**-**	**2,321,490,872**
Less: Unearned Income	**(279,173,975)**	**(209,238,439)**	**-**	**(488,412,414)**
Total Lease Rental Receivables	**616,778,828**	**1,216,299,630**	**-**	**1,833,078,458**
(Less): Allowance for Impairment Charges (Note 20.5)	**(70,341,185)**	**(59,889,778)**	**-**	**(130,230,964)**
Net Lease Rentals Receivables	**546,437,643**	**1,156,409,852**	**-**	**1,702,847,496**

20.4 Maturity of Lease Rentals Receivables

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	393,833,875	1,251,366,140	-	1,645,200,015
Less: Unearned Income	(210,058,973)	(278,353,441)	-	(488,412,414)
Total Lease Rental Receivables	183,774,902	973,012,699	-	1,156,787,601
(Less): Allowance for Impairment Charges (Note 20.2)	-	(54,274,476)	-	(54,274,476)
Net Lease Rentals Receivables	183,774,902	918,738,223	-	1,102,513,124

20.5 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy
The accounting policy used in calculating impairment charge is fully described under Note 3.2.9.

	2020 Rs.	2019 Rs.
Balance as at begging of the Year	**54,274,476**	6,350,973
Impact of adopting SLFRS 9 as at 1 April 2019	**-**	15,603,224
	54,274,476	21,954,197
Charge / (Reversal) for the year	**75,956,487**	32,320,280
Balance as at End of the Year	**130,230,964**	54,274,476
Individual Impairment	**-**	-
Collective Impairment	**130,230,964**	54,274,476
Total	**130,230,964**	54,274,476

20.6 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	12,684,971	14,092,112	27,497,393	54,274,476
Charge/ (Reversal) to income statement	5,305,897	14,087,154	56,563,436	75,956,487
Write-off during the year	-	-	-	-
Balance as at 31st March 2020	17,990,868	28,179,267	84,060,828	130,230,964

21. FINANCIAL INVESTMENTS

Accounting Policy
Financial investments include Government Securities and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

	2020 Rs.	2019 Rs.
Sri Lanka Government Securities - REPO	**444,939,031**	442,595,260
Total Financial Investments	**444,939,031**	442,595,260

22. OTHER FINANCIAL ASSETS

Accounting Policy
Financial investments include Fixed Deposit. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

	2020 Rs.	2019 Rs.
Fixed Deposits	**164,535,666**	189,276,648
Total Other Financial Assets	**164,535,666**	189,276,648

22.1 Contractual Maturity Analysis of Other Financial Assets

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	**164,535,666**	**-**	**-**	**164,535,666**
Total Other Financial Assets	**164,535,666**	**-**	**-**	**164,535,666**

23. OTHER NON FINANCIAL ASSETS

Accounting Policy
The Company classifies all non-financial assets other than Intangible Assets, Property, Plant & Equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include inventories, other advance, rent deposit and other receivable amounts. These assets are non-interest earning and recorded at the amounts that are expected to be received. Prepayments that form a part of other receivable are amortized during the period in which it is utilized.

	2020 Rs.	2019 Rs.
Inventories	**3,562,565**	7,808,584
Other Advance	**14,575,770**	2,056,535
Rent Deposit	**17,581,500**	31,800,517
Other Receivable	**106,324,121**	102,758,664
Total Other Non Financial Assets	**142,043,956**	144,424,300

Amounts Receivable from Government
Other receivable includes Amounts Receivable from Government Rs 33,624,587/- As per signed MOU between SDF and Ministry of Finance and Mass Media under "Special debit relief for Microfinance Loan grated to women in drought affected Districts".

24. INTANGIBLE ASSETS

Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the supply of services, for rental to others or for administrative purposes.

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

24.1 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 2020 and 2019 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.

24.2 Computer Software

	2020 Rs.	2019 Rs.
Cost		
Cost as at begging of the year	**58,009,845**	53,084,205
Additions and Improvements	**1,388,891**	4,925,640
Disposal during the year	**-**	-
Cost as at end of the year	**59,398,736**	58,009,845
Amortisation & Impairment		
Amortisation as at begging of the year	**31,001,716**	17,949,845
Charge for the year	**13,285,897**	13,051,870
Disposal during the year	**-**	-
Amortisation as at end of the year	**44,287,613**	31,001,716
Net book value as at end of the year	**15,111,123**	27,008,129
Net book value of total intangible assets	**15,111,123**	27,008,129

25. INVESTEMENT PROPERTY

Accounting Policy

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Other Comprehensive Income in the year in which they arise.

Derecognition

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

	2020 Rs.	2019 Rs.
Balance as at 1 April	**118,594,500**	-
Transfer from during the year	**7,500,000**	118,594,500
Gain from fair value adjustment	**-**	
Balance as at 31 March	**126,094,500**	118,594,500

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.

Subsequent Cost
These are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

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

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

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

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

The estimated useful lives of the assets for the year ended 31 March 2020 and 2019, are as follows:

Assets Category	**Useful Life**
Buildings	40 Years
Office Equipment	5 Years
Computer Equipment	5 Years
Furniture & Fittings	10 Years
Plant & Machinery	8 Years
Motor Vehicles	5 Years

The depreciation rates are determined separately for each significant part of assets and depreciation is provided proportionately for the completed number of days the asset is in use, if it is purchased or sold during the financial year. Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

26. PROPERTY, PLANT & EQUIPMENT (CONTD.)

26.1 The Movement in Property, Plant & Equipment

	Balance As at 01.04.2019 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2020 Rs.
26.1.1 Cost or Valuation					
Freehold Assets					
Land	25,550,000	-	(7,500,000)	-	**18,050,000**
Furniture & Fittings	98,249,035	2,667,813	-	123,459	**100,793,390**
Office Equipment	60,212,608	10,522,363	-	91,483	**70,643,488**
Computer Equipment	80,565,796	248,933	-	80,814,729	
Plant & Machinery	40,356,954	521,078	-	157,251	**40,720,781**
Motor Vehicle	43,328,322	9,775,000	-	10,350,000	**42,753,322**
Total cost or valuation	348,262,715	23,735,187	(7,500,000)	10,722,193	**353,775,709**

	Balance As at 01.04.2019 Rs.	Charge during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2020 Rs.
26.1.2 Depreciation					
Freehold Assets					
Furniture & Fittings	34,070,685	9,963,952	-	(78,673)	**43,956,994**
Office Equipment	41,791,824	8,393,975	-	(57,469)	**50,128,330**
Computer Equipment	60,254,673	9,980,412	-	-	**70,233,944**
Plant & Machinery	15,002,689	5,073,861	-	(150,709)	**19,925,842**
Motor Vehicle	26,290,625	7,030,719	-	(10,058,784)	**23,262,559**
Total Depreciation	177,410,496	40,442,919	-	(10,345,634)	**207,507,669**

	2020 Rs.	2019 Rs.
26.1.3 Net Book Value		
Land	**18,050,000**	25,550,000
Furniture & Fittings	**56,836,396**	64,178,350
Office Equipment	**20,515,157**	18,420,784
Computer Equipment	**10,580,785**	20,311,123
Plant & Machinery	**20,794,939**	25,354,265
Motor Vehicle	**19,490,763**	17,037,697
Total Carrying Amount of Property, Plant and Equipment	**146,268,040**	170,852,219

26.1.4 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired proport, plant & equipments to the aggregate value of Rs. 23,735,187/- (2019 - Rs. 23,965,355/-) Cash payment amounting to Rs. 23,735,187/- (2019 - Rs 23,965,355) was paid during the year for purchase of property, plant & equipment.

26.1.5 Fully-depreciated property, plant & equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is Rs. 82,452,109/-. (2019 - Rs. 51,346,941/-)

26.2 Fair value related disclosures of Freehold land

Freehold land located at No 45, Rawathawatta Road, Moratuwa is carried at the revalued amount. The independent valuers provide the fair value of land 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 2020) 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 2020). Accordingly, there were no any changed in valuation as at 31 March 2020.

26.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2020 and 31 March 2019.

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. (2019: Nil)

26.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2020 and 31 March 2019.

26.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2020 and 31 March 2019.

27. RIGHT-OF-USE ASSETS

	2020 Rs.	2019 Rs.
Cost		
Effect of adoption of SLFRS 16 as at 01 April 2019	188,564,089	-
Opening Balance of Advance Payment for the Right-of-Use Assets as at 01 April 2019	17,744,017	-
Rent Payable Under LKAS 17 as at 01 April 2019	(1,748,000)	-
Adjusted Balance as at bening of the year	204,560,106	-
Additions during the year	29,914,134	-
Balance as at end of the Year	234,374,877	-
Accumulated Depreciation		
Balance as at begging of the year		
Charges for the year	64,930,508	-
Balance as at end of the year	64,930,508	-
Carrying Amount as at end of the Year	169,444,369	-

27.1 Reconciliation between the Operating Lease Commitments to the Lease Liability Balances Reported under SLFRS 16 as at 1 April 2019

	Rs.'000
Operating lease commitments as at 31 March 2019	1,748,000
Recognition exemptions adopted for short-term leases and leases of low-value assets	-
Adjustments as a result of de-scoped leases	-
Undiscounted lease liabilities as at 1 April 2019	1,748,000
Weighted average incremental borrowing rate as at 1 April 2019 (%)	13.5%
Lease liabilities due to initial application of SLFRS 16, recognised as at 1 April 2019	171,735,097

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'.

	2020 Rs.	2019 Rs.
Bank Overdrafts (Note 28.1)	**208,580,540**	41,574,583
Loans and Other Bank Facilities (Note 28.2)	**1,374,276,405**	793,558,872
Interest Payable on Bank Facilities	**12,178,668**	740,518
Total Due to Banks & Other Institution	**1,595,035,613**	835,873,973

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. 59,031,301 /- as at 31 March 2020 (2019 - Rs. 634,857/-).

28.2 Loans and Other Bank Facilities

	As at 01.04.2019 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2020 Rs.
NDB Vehicle Loan	1,963,729	-	(1,963,729)	-
NDB Term Loan	510,000,000	375,000,000	(175,000,000)	**710,000,000**
HNB Term Loan	262,500,000	300,000,000	(225,000,000)	**337,500,000**
SDB Term Loan	-	300,000,000	-	**300,000,000**
Rotary Loan	13,133,193	15,494,489	(7,813,227)	**20,814,455**
Other Borrowings	5,961,950	-	-	**5,961,950**
Total Loans and Other Bank Facilities	793,558,872	990,494,489	(409,776,956)	**1,374,276,405**

28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Vehicle Loan	**1,963,729**	**-**	**-**	**1,963,729**
NDB Term Loan	**240,000,000**	**470,000,000**	**-**	**710,000,000**
HNB Term Loan	**225,000,000**	**112,500,000**	**-**	**337,500,000**
SDB Term Loan	**200,000,000**	**100,000,000**	**-**	**300,000,000**
Rotary Loan	**7,819,261**	**12,995,194**	**-**	**20,814,455**
Other Borrowings	**-**	**-**	**5,961,950**	**5,961,950**
Bank Overdrafts	**208,580,540**	**-**	**-**	**208,580,540**
Interest Payable on Bank Facilities	**12,178,668**	**-**	**-**	**12,178,668**
Total Due to Customers	**895,542,198**	**695,495,194**	**5,961,950**	**1,596,999,342**

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Vehicle Loan	1,963,729	-	-	1,963,729
NDB Term Loan	120,000,000	390,000,000	-	510,000,000
HNB Term Loan	75,000,000	187,500,000	262,500,000	
Rotary Loan	6,705,625	6,427,568	-	13,133,193
Other Borrowings	-	-	5,961,950	5,961,950
Bank Overdrafts	41,574,583	-	-	41,574,583
Total Due to Customers	245,243,937	583,927,568	5,961,950	835,133,455

29. DUE TO CUSTOMERS

Accounting Policies

Due to other customers include non-interest bearing deposits, savings deposits, term deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	2020 Rs.	2019 Rs.
Fixed Deposits	**3,565,672,847**	3,824,280,592
Savings Deposits	**1,536,303,106**	1,559,656,229
Inactive Society-Savings	**-**	1,404,776
Total Due to Customers	**5,101,975,953**	5,385,341,597

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. 6,898,474/- as the premium of the said Insurance scheme during the financial year under review (2019 - Rs. 6,717,039/-).

29.2 Contractual Maturity Analysis Of Customer Deposits

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	**2,467,672,652**	**1,098,000,195**	**-**	**3,565,672,847**
Savings Deposits	**1,306,513,761**	**135,226,451**	**94,562,895**	**1,536,303,106**
Inactive Society-Savings	**-**	**-**	**-**	
Total Due to Customers	**3,774,186,413**	**1,233,226,646**	**94,562,895**	**5,101,975,953**

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,610,234,242	1,214,046,350	-	3,824,280,592
Savings Deposits	1,313,210,490	140,250,188	106,195,551	1,559,656,229
Inactive Society-Savings	1,404,776	-	1,404,776	
Total Due to Customers	3,924,849,508	1,354,296,539	106,195,551	5,385,341,597

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

30. OTHER NON FINANCIAL LIABILITIES

Accounting Policy

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

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

	2020 Rs.	2019 Rs.
Accrued Expenses	**37,440,102**	36,656,739
Others (Note 30.1)	**59,712,891**	35,318,653
Loan Risk Assurance Fund (Note 30.2)	**1,830,000**	2,490,000
Amount Due to Related Parties	**237,594**	5,202,583
	99,220,587	79,667,975

30.1 This balance included staff welfare fund, unidentified deposit, loan sundry charges payable and WHT collections.

30.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2020. The actuarial valuation was performed by Piyal S Goonetilleke and Associates, Professional Actuary. The reversal of provision that resulted from the actuarial valuation has been recognised as income under 'Other Operating Income'. All loan customers who enrolled with this assurance program will be eligible for total payment of the outstanding loan amounts at the time of death or total disability. The actuarial valuation will serve as the basis for calculating the liability adequate for covering the outstanding loan balances of customers (with a loan less than or equaling Rs. 250,000/-) in the event of a participant death or a total disability.

31. POST-EMPLOYEMENT BENEFIT OBLIGATIONS

Accounting Policy
Employee benefit liability includes the provisions for retirement gratuity liability.

Gratuity
The costs of retirement gratuities are determined by a qualified actuary using projected unit credit actuarial cost method. Actuarial gains and losses are recognized as income or expense in other comprehensive income during the financial year in which it arises.

Basis of Measurement
The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below: In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Company's policy on salary revisions.

Recognition of Actuarial Gains and Losses
The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

31.1 Provision for Retirement Gratuity

	2020 Rs.	2019 Rs.
Balance at the beginning of the year	27,212,065	26,415,691
Amount Charged for the Year	10,733,365	8,491,897
Actuarial (Gains)/Losses	2,062,826	(5,548)
(Gain)/Loss Due to Changes in Assumptions	4,302,064	(930,725)
Payments Made During the Year	(10,557,304)	(6,759,250)
Balance at the End of the Year	**33,753,016**	27,212,065

31.2 Expenses on Defined Benefit Plan

	2020 Rs.	2019 Rs.
Current Service Cost for the Year	7,628,469	5,571,046
Interest Cost for the Year	3,104,896	2,920,851
Actuarial (Gains)/ Losses (31.5)	2,062,826	(5,548)
(Gains)/ Losses Due to Changes in Assumptions	4,302,064	(930,725)
Total Expenses on Defined Benefit Plan	**17,098,255**	7,555,624

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 2020 and 2019 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

31.4 Actuarial Assumptions

	2020	2019
Discount Rate	**9.7%**	11.4%
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	**9.5 Years**	10 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table.	Long Term 1987 Soc. Sec. Table.
Retirement age	Retirement age of 55 Years	Retirement age of 55 Years

31.5 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

31.6 Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2020.

	Increase/(decrease) in Discount Rate %	Increase/(decrease) in Salary Increment Rate %	Sensitivity Effect on Statement of Comprehensive Income Increase/(decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase/ (decrease) Rs.
	+1%		(2,664,242)	2,664,242
	(-1%)		3,067,263	(3,067,263)
		+1%	2,932,224	(2,932,224)
		(-1%)	(2,600,423)	2,600,423

32. CURRENT TAX LIABILITIES

	2020 Rs.	2019 Rs.
Balance as at 1st April	**14,768,247**	11,051,013
Add - Trafered duing the year	**-**	16,642,435
Less: Tax paid	**(18,131,413)**	(721,048)
Adjustment (ESC/WHT/Notional Tax etc.)	**(7,804,616)**	(13,754,255)
Provision for the year	**26,600,229**	1,550,102
Balance as at 31st March	**15,432,447**	14,768,247

33. LEASE CREDITOR

	2020 Rs.	2019 Rs.
Balance as at 1 April 2019	**204,560,106**	-
Addtions	**29,914,134**	-
Interest Expenses	**24,057,148**	-
Payments	**(86,796,291)**	-
Balance as at end of the Year	**171,735,097**	-

34. DEFERRED TAXATION

Accounting Policy

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

(I) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(II) Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or par t of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of reporting date.

34.1 Statement of Financial Position

Year ended 31 March	2020 Rs.	2019 Rs.
Deferred Tax Liabilities		
Accelerated depreciation for tax purposes	**24,288,306**	29,273,316
Finance leases	**16,476,201**	20,268,031
Right-of Use Assets	**3,735,087**	-
Total Deferred Tax Liabilities	**41,810,331**	49,541,347
Deferred Tax Assets		
Defined benefit plans - Profit or loss	**9,450,844**	7,619,378
Carry forward losses	**-**	11,713,222
Impairment Provision	**29,975,947**	21,794,026
Total Deferred Tax Assets	**39,426,792**	41,126,626
Net Deferred Tax Liabilities/(Assets)	**2,383,540**	8,414,722

34.2 Statement of Profit or Loss

Year ended 31 March	2020 Rs.	2019 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	**-**	532,198
Accelerated depreciation for tax purposes	**(4,985,010)**	(5,420,630)
Finance leases	**(3,791,831)**	(2,525,633)
Lease Creditor	**1,045,824**	-
Deferred Tax Income/(Expense)	**(7,731,017)**	(7,414,065)
Deferred Tax Assets		
Defined benefit plans - Profit or loss	**(3,613,635)**	(1,712,754)
Defined benefit plans - Other comprehensive income	**1,782,169**	1,489,769
Carry forwarded Impairment Expenses	**11,713,222**	7,517,605
Carry forward Loss on other operations	**(8,181,922)**	27,254,065
Deferred expenses to be claimed in income tax liability of future years	**-**	(149,975)
Deferred Tax Income/(Expense)	**1,699,834**	34,398,710
Net Deferred Tax Income/(Expense) - Statement of profit or loss	**(4,249,013)**	26,190,291
Net Deferred Tax Income/(Expense) - Statement of Other comprehensive income	**1,782,169**	(794,354)

35. STATED CAPITAL

	Number of Shares	2020 Rs.	Number of Shares	2019 Rs.
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	**67,500,006**	**890,000,020**	67,500,006	890,000,020
Issued during the year	**-**	**-**	-	-
At the end of the year	**67,500,006**	**890,000,020**	67,500,006	890,000,020

35.1 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.

36. RETAINED EARNINGS

	2020 Rs.	2019 Rs.
Balance as at beginning of the Year	**118,686,006**	160,561,930
Impact of adopting SLFRS 9 as at 1 April 2018	**-**	(39,748,039)
	118,686,006	120,813,891
Profit for the Year	**101,716,342**	41,216,251
Other Comprehensive Income	**(4,582,721)**	674,117
Transfer to Statutory Reserves Fund	**(20,343,268)**	(8,243,250)
Dividend Paid	**-**	(35,775,003)
Balance as at end of the Year	**195,476,359**	118,686,006

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.

37. RESERVES

37.1 Statutory Reserve Fund

Accounting Policy

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

37.2 Revaluation Reserve Fund

Accounting Policy

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment with net of differed tax on revaluation.

Company	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2018	38,819,607	41,428,252	80,247,859
Transfers to/(from) during the year	8,243,250	-	8,243,250
Revaluation of Land & Building	-	1,368,509	1,368,509
As at 31 March 2019	47,062,857	42,796,761	89,859,618
Transfers to/(from) during the year	20,343,268	-	20,343,268
Revaluation of Land & Building	-	-	-
As at 31 March 2020	67,406,125	42,796,761	110,202,886

38. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

	2020 Within 12 Months Rs.	2020 After 12 Months Rs.	2020 Total Rs.
Assets			
Cash and Cash Equivalents	73,226,394	-	73,226,394
Loans and Receivables	2,491,331,763	2,739,373,184	5,230,704,947
Lease Rentals Receivables	546,437,643	1,156,409,853	1,702,847,496
Financial Investments	444,939,030	-	444,939,031
Other Financial Assets	164,535,666	-	164,535,666
Other Non Financial Assets	79,490,760	62,553,196	142,043,956
Intangible Assets	-	15,111,123	15,111,123
Investment Property	-	126,094,500	126,094,500
Property, Plant and Equipment	-	146,268,040	146,268,040
Right-of-Use Assets	-	169,444,369	169,444,369
Total Assets	3,799,961,256	4,415,254,264	8,215,215,520
Liabilities			
Due to Banks and Other Institutions	893,578,469	701,457,144	1,595,035,613
Due to Customers	3,774,186,413	1,327,789,541	5,101,975,953
Other Non Financial Liabilities	45,097,684	54,122,903	99,220,587
Post Employment Benefit Liability	-	33,753,016	33,753,016
Current Tax Liabilities	15,432,447	-	15,432,447
Lease Creditor	171,735,097		
Deferred Tax Liabilities	-	2,383,540	2,383,540
Total Liabilities	4,728,295,013	2,119,506,143	7,019,536,253
Net Assets/(Liability)	(928,333,757)	2,295,748,121	1,195,679,267

	2019 Within 12 Months Rs.	2019 After 12 Months Rs.	2019 Total Rs.
Assets			
Cash and Cash Equivalents	140,902,916	-	140,902,916
Loans and Receivables	2,386,305,386	2,727,351,743	5,113,657,129
Lease Rental Receivable	339,559,398	762,953,726	1,102,513,124
Financial Investments	442,595,260	-	442,595,260
Other Financial Assets	189,276,648	-	189,276,648
Other Non Financial Assets	79,490,760	64,933,540	144,424,300
Intangible Assets	-	27,008,129	27,008,129
Investment Property	118,594,500	118,594,500	
Property, Plant and Equipment	-	170,852,219	170,852,219
Total Assets	3,578,130,368	3,871,693,856	7,449,824,224
Liabilities			
Due to Banks	245,984,455	589,889,518	835,873,973
Due to Customers	3,925,060,074	1,460,281,523	5,385,341,597
Other Non Financial Liabilities	44,357,166	35,310,809	79,667,975
Post Employment Benefit Liability	-	27,212,065	27,212,065
Current Tax Liabilities	14,768,247	-	14,768,247
Deferred Tax Liabilities	-	8,414,722	8,414,722
Total Liabilities	4,230,169,943	2,121,108,637	6,351,278,580
Net Assets/(Liability)	(652,039,575)	1,750,585,219	1,098,545,644

39. COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 “Provisions contingent liabilities and Contingent Assets”. Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

39.1 Contingent Liabilities

	2020 Rs.	2019 Rs.
Guarantees issues to other institution	4,225,000	-
Total contingent Liabilities	**4,225,000**	-

39.2 Commitments

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

39.3 Litigation Against the Company

	2020 Rs.	2019 Rs.
Cases pending against the Company	5,140,100	6,940,000
Total contingent Liabilities	**5,140,100**	6,940,000

Company did not have any significant contingent liabilities which requires disclosures in the Financial Statements of the Company as at the Statement of Financial Position date.

40. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2020 Rs.	2019 Rs.	Included Under
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	325,043,547	526,581,515	Loans and Receivables
Rental receivable on SME Loan	Bank Overdraft	-	82,052,807	Loans and Receivables
Rental receivable on SME Loan	Term Loan	1,098,333,229	896,372,078	Loans and Receivables
Rental receivable on Lease	Term Loan	453,579,866	475,067,552	Lease Rental Receivable
		1,876,956,643	1,980,073,952	

41. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

42. RELATED PARTY TRANSACTIONS

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

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

42.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the board of directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

42.1.1 Key Management Personnel Compensation

	2020 Rs.	2019 Rs.
Short Term Employment Benefits	5,373,904	5,769,590
Directors Fees & Expenses	7,454,305	5,609,524
Total Key Management Personnel Compensation	12,828,209	11,379,114

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

42.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

42.1.2.1 Transaction with KMPs, and their Close Members of the Family

	2020 Rs.	2019 Rs.
Items in Statement of Financial Position		
Deposit accept during the year	585,000	563,231
Deposit repayment during the year	(979,547)	(11,052,631)
	(394,547)	(10,489,400)
Items in Statement of Profit or Loss		
Interest accrued during the period	18,812	156,236
	18,812	156,236

42.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

42.1.4 Transactions with Group Entities

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

42.1.4.1 Transactions with Parent Company

Sarvodaya Economic Enterprises Development (Gte) Ltd.	2020 Rs.	2019 Rs.
Statement of Financial Position		
Transaction Made During the Year		
Loan Interest Payable	-	-
Interest Accrued during the Year	-	407,778
Loan Interest Paid during the Year	(1,866,840)	(62,191)
Deposit withdrwal during the year	2,000,000	-
	133,160	345,587

42.1.4.2 Transactions with Shareholders

Gentosa Total Assets Inc.

	2020 Rs.	2019 Rs.
Items in Statement of Financial Position		
Deposit Accepted during the period including interest capitalisation	52,796,499	144,496,500
Interest payable on Deposits	2,537,231	305,622
	55,333,730	144,802,122
Items in Statement of Profit or Loss		
Interest Accrued During the Period	16,740,033	21,347,878
	16,740,033	21,347,878

43. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.In terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 – Minimum Core Capital, a cap of Rs. 5.5 Bn on total deposits including accrued interest has been imposed by the Central Bank of Sri Lanka.

43.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

44. COMPARATIVE INFORMATION

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

	As Reported Previously Rs.	Reclassification Rs.	Current Presentation Rs.	Current Classification
Statement of Financial Position				
Due to Banks and Other Institutions	835,133,455	740,518	835,873,973	Due to Banks and Other Institutions
Other Non Financial Liabilities	80,408,493	(740,518)	79,667,975	Other Non Financial Liabilities

(a) During the financial year, interest payable on Bank and Other Barrowings was reclassified under Due to Bank and Other Institutions for better presentation.

45. FARE VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

The fair value of the financial instruments that are recorded at the fair values are determined using valuation techniques which incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

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

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Level 1 - Inputs include quoted prices for identical instruments and are the most observable.

Level 2 - Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

Level 3 - Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

Valuation framework

The Company has an established control framework for the measurement of fair values. The Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

45.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Company's estimate of assumptions that a market participant would make when valuing assets and liabilities.

Property, Plant & Equipment

Property, Plant & Equipment Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

45. FARE VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Non Financial Assets measured at fair value

Level 3 Fair Value Measurement

	2020		2019	
	Investment Property Rs.	Freehold Land Rs.	Investment Property Rs.	Freehold Land Rs.
Balance as at begging of the Year	**118,594,500**	**25,550,000**	-	144,144,500
Revaluation reserve credit to revaluation reserve	-	-	-	1,900,707
Total gain / (loss) recognised in profit or loss:				
Depreciation of buildings	-	-	-	(1,900,707)
Transfer during the Year	7,500,000	(7,500,000)	118,594,500	(118,594,500)
Balance at end on the Year	**126,094,500**	**18,050,000**	118,594,500	25,550,000

The company has transferred free hold land and bulling as Investment property as at 31 March 2020 and 2019.

45.2 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

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

Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 March 2020	Level 1 Rs.	Level 2 Rs.	Fair Value Level 3 Rs.	Total Rs.	Carrying Value Rs.
Financial Assets					
Cash and Cash Equivalents	73,226,394	-	-	73,226,394	73,226,394
Loans and Receivables		-	5,194,937,239	5,194,937,239	5,230,704,947
Lease Rentals Receivables		-	1,692,490,922	1,692,490,922	1,702,847,496
Financial Investments	444,939,031	-	-	444,939,031	444,939,031
Other Financial Assets		164,535,666	-	164,535,666	164,535,666
	682,701,090	6,887,428,160	-	7,570,129,250	7,616,253,533
Financial Liabilities					
Due to Banks and Other Institutions	-	1,595,035,613	-	1,595,035,613	1,595,035,613
Due to Customers		-	5,101,975,953	5,101,975,953	5,109,040,104
	-	6,697,011,566	-	6,697,011,566	6,704,075,717

As at 31 March 2019	Level 1 Rs.	Level 2 Rs.	Fair Value Level 3 Rs.	Total Rs.	Carrying Value Rs.
Financial Assets					
Cash and Cash Equivalents	140,902,916	-	-	140,902,916	140,902,916
Loans and Receivables	-	5,536,157,881	-	5,536,157,881	5,363,721,143
Lease Rentals Receivables	-	1,197,308,675	-	1,197,308,675	1,156,787,601
Financial Investments	442,595,260	-	-	442,595,260	442,595,260
Other Financial Assets	189,276,648	-	-	189,276,648	189,276,648
	772,774,824	6,733,466,556	-	7,506,241,380	7,293,283,568
Financial Liabilities					
Due to Banks and Other Institutions	-	835,133,455	-	835,133,455	835,133,455
Due to Customers	-	5,357,395,535	-	5,357,395,535	5,385,339,493
	-	6,192,528,990	-	6,192,528,990	6,220,472,948

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

46. RISK MANAGEMENT

46.1 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.

46.2 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.

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.

46. RISK MANAGEMENT (CONTD.)

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.

46.2.1 Credit Quality by Class of Financial Assets

	2020 Neither Past Due Nor Impaired Rs.	2020 Past Due But Not Impaired Rs.	2020 Individually Impaired Rs.	2020 Collectively Impaired Rs.	2020 Total Rs.
Assets					
Cash and Cash Equivalents	73,226,394	-	-	-	73,226,394
Loans and Receivable (Gross) (Note 45.2.1.1)	492,268,426	-	-	5,031,726,130	5,523,994,556
Lease Rentals Receivables (Gross) (Note 45.2.1.1)	-	-	-	1,833,078,458	1,833,078,458
Financial Investments	444,939,031	-	-	-	444,939,031
Other Financial Assets	164,535,666	-	-	-	164,535,666
Total Financial Assets	1,174,969,516	-	-	6,864,804,589	8,039,774,105

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

	2019 Neither Past Due Nor Impaired Rs.	2019 Past Due But Not Impaired Rs.	2019 Individually Impaired Rs.	2019 Collectively Impaired Rs.	2019 Total Rs.
Assets					
Cash and Cash Equivalents	140,902,916	-	-	-	140,902,916
Loans and Receivable (Gross)	656,877,369	-	-	4,706,845,879	5,363,723,248
Lease Rentals Receivables (Gross)	-	-	-	1,156,787,600	1,156,787,600
Financial Investments	282,268,953	-	-	-	442,595,260
Other Financial Assets	207,371,048	-	-	-	189,276,648
Total Financial Assets	1,287,420,286	-	-	5,863,633,479	7,293,285,671

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

46.2.2 Analysis of Risk Concentration

46.2.2.1 Industry Analysis

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

Sector wise Breakdown	2020 Cash and Cash Equivalents Rs.	2020 Loans and Receivable Rs.	2020 Lease Rental Receivable Rs.	2020 Financial Investments Rs.	2020 Other Financial Assets Rs.	2020 Total Financial Assets Rs.
Agriculture & Fishing	-	354,731,368	21,213,332	-	-	375,944,700
Manufacturing	-	665,361,030	466,788,554	-	-	1,132,149,584
Tourism	-	32,716,148	2,987,497	-	-	35,703,645
Transport	-	21,085,695	182,516,944	-	-	203,602,639
Constructions	-	2,357,396,597	20,071,408	-	-	2,377,468,005
Trades	-	491,579,668	28,135,841	-	-	519,715,509
New Economy	-	23,184,189	11,008,741	-	-	34,192,930
Financial and Business Services	73,226,394	63,381,150	3,320,575	-	164,535,666	304,463,784
Infrastructure	-	53,155,077	381,429	-	-	53,536,506
Government	-	-	-	444,939,031	-	444,939,031
Other Services	-	1,531,416,588	1,049,091,303	-	-	2,580,507,891
Total	73,226,394	5,594,007,509	1,785,515,624	444,939,031	164,535,666	8,062,224,224

Sector wise Breakdown	2019 Cash and Cash Equivalents Rs.	2019 Loans and Receivable Rs.	2019 Lease Rental Receivable Rs.	2019 Financial Investments Rs.	2019 Other Financial Assets Rs.	2019 Total Financial Assets Rs.
Agriculture & Fishing	-	413,235,823	10,903,470	-	-	424,139,293
Manufacturing	-	542,541,597	175,915,512	-	-	718,457,110
Tourism	-	36,295,644	3,201,050	-	-	39,496,694
Transport	-	34,877,872	223,032,997	-	-	257,910,869
Constructions	-	1,435,258,109	19,937,417	-	-	1,455,195,525
Trades	-	735,816,589	41,750,050	-	-	777,566,639
New Economy	-	27,429,535	14,792,038	-	-	42,221,573
Financial and Business Services	140,902,916	75,541,144	4,719,737	-	18,927,648	410,440,444
Infrastructure	-	49,648,994	3,323,974	-	-	52,972,968
Government	-	-	-	442,595,260	-	442,595,260
Other Services	-	2,013,077,941	659,211,356	-	-	2,672,289,297
Total	140,902,916	5,363,723,248	1,156,787,601	442,595,260	18,927,648	7,293,285,671

46. RISK MANAGEMENT (CONTD.)

46.3 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.

Management considered different possible outcomes to assess the possible impact from Covid 19 to the company's operations and forecast cash flows in order to absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement. I.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

46.3.1 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 2020	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	73,226,394	-	-	-	-	73,226,394
Loans and Receivables	478,898,287	704,914,996	1,307,518,480	2,739,373,184	-	5,230,704,947
Lease Rentals Receivables	50,653,069	137,948,513	357,836,062	1,156,409,852	-	1,702,847,496
Financial Investments	-	366,058,986	78,880,044	-	-	444,939,031
Other Financial Assets	-	163,796,793	738,873	-	-	164,535,666
Total Financial Assets	602,777,750	1,372,719,288	1,744,973,459	3,895,783,036	-	7,616,253,533
Financial Liabilities						
Due to Banks and Other Institutions	220,759,208	325,901,647	346,917,615	695,495,194	5,961,950	1,595,035,613
Due to Customers	1,264,246,886	1,359,994,966	1,149,944,561	1,233,226,646	94,562,895	5,101,975,953
Total Financial Liabilities	1,485,006,094	1,685,896,612	1,496,862,176	1,928,721,840	100,524,845	6,697,011,566
Total Net Financial Assets/(Liabilities)	(882,228,343)	(313,177,324)	248,111,283	1,967,061,196	(100,524,845)	919,241,967

As at 31 March 2019	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	140,902,916	-	-	-	-	140,902,916
Loans and Receivables	561,458,514	474,758,174	1,350,088,699	2,727,351,743	-	5,113,657,129
Lease Rentals Receivable	84,831,455	22,927,871	231,800,073	762,953,726	-	1,102,513,125
Financial Investments	-	347,317,986	95,277,274	-	-	442,595,260
Other Financial Assets	-	132,765,273	56,511,375	-	-	189,276,648
Total Financial Assets	787,192,885	977,769,304	1,733,677,421	3,490,305,469	-	6,988,945,078
Financial Liabilities						
Due to Banks and Other Institutions	-	93,081,310	152,162,626	583,927,568	-	829,171,505
Due to Customers	-	2,509,079,620	1,415,980,455	1,354,085,972	106,195,551	5,385,341,597
Total Financial Liabilities	-	2,602,160,930	1,568,143,081	1,938,013,540	106,195,551	6,214,513,102
Total Net Financial Assets/(Liabilities)	787,192,885	(1,624,391,627)	165,534,340	1,552,291,929	(106,195,551)	774,431,976

46.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2020.

46.3.2.1 Operational Risk

Overview

The operation risk management is the responsibility of all the staff in the company. The accountability of managing operation risk lies with the management committee members. They are responsible for maintaining an over sight over operational risk, and internal controls and covering all businesses and operations pertaining to SDF.

After reviewing the audit reports the Integrated Risk Management Committee has identified certain common KRI that is affecting the branch operations. These risks that have been identified are critically reviewed regularly with the help of Internal Audit Department.

SDF has introduced and implemented a comprehensive BCP and DR policy. The BCP and DR policy is supported by a BCP and DR plan to ensure that SDF has the capability to handle failure of system, disaster at branches and disruption of business.

Regulators are primarily interested in protecting the rights of customers. Greater attention has been given to risk appetite and mitigation both at Company and service-line levels. the fundamental data underlying record-keeping and the risk associated with their retention has been over looked by Operations and Information Technology.

46.3.2.2 Market Risk

Overview

Market risk is the potential of an adverse impact on SDF's earnings or capital due to changes in interest rates. During the normal course of its business, company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the company to market risk in varying degrees.

46. RISK MANAGEMENT (CONTD.)

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.

46.5.1 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.

46.5.2 Interest Rate Risk Exposure on Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

Company	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2020 Rs.
Assets							
Cash and Cash Equivalents	39,136,396	-	-	-	-	34,089,998	73,226,394
Loans and Receivables	1,183,813,283	1,307,518,480	2,213,360,650	526,012,534	-	-	5,230,704,947
Lease Rentals Receivables	188,601,581	357,836,062	831,811,154	324,598,698	-	-	1,702,847,496
Financial Investments	366,058,986	78,880,044	-	-	-	-	444,939,031
Other Financial Assets	163,796,793	738,873	-	-	-	-	164,535,666
Total Financial Assets	1,941,407,039	1,744,973,459	3,045,171,805	850,611,232	-	34,089,998	7,616,253,533
Financial Liabilities							
Due to Banks and Other Institutions	546,660,854	346,917,615	555,495,194	140,000,000	-	5,961,950	1,595,035,613
Due to Customers	2,624,241,851	1,149,944,561	1,035,344,058	197,882,588	94,562,895	-	5,101,975,953
Total Financial Liabilities	3,170,902,706	1,496,862,176	1,590,839,252	337,882,588	94,562,895	5,961,950	6,697,011,566
Interest Sensitivity Gap	(1,229,495,667)	248,111,283	1,454,332,553	512,728,643	(94,562,895)	28,128,048	919,241,967

Company	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2019 Rs.
Assets							
Cash and Cash Equivalents	96,520,308	-	-	-	-	44,382,608	140,902,916
Loans and Receivables	1,036,216,688	1,350,088,699	2,017,764,591	709,587,152	-	-	5,113,657,129
Lease Rentals Receivables	107,759,326	231,800,073	545,355,412	217,598,314	-	-	1,102,513,124
Financial Investments	347,317,986	95,277,274	-	-	-	-	442,595,260
Other Financial Assets	132,765,273	56,511,375	-	-	-	-	189,276,648
Total Financial Assets	1,764,962,188	1,733,677,421	2,563,120,003	927,185,465	-	-	6,988,945,077
Financial Liabilities							
Due to Banks and Other Institutions	93,081,310	152,162,626	396,427,568	187,500,000	-	5,961,950	835,133,455
Due to Customers	2,509,079,620	1,415,980,455	912,124,891	441,961,081	106,195,551	-	5,385,341,597
Total Financial Liabilities	2,602,160,930	1,568,143,081	1,308,552,460	629,461,081	106,195,551	5,961,950	6,220,475,052
Interest Sensitivity Gap	(837,198,742)	165,534,340	1,254,567,544	297,724,385	(106,195,551)	(5,961,950)	768,470,024

Value Added Statement

	2020		2019		2018	
	Rs.	%	Rs.	%	Rs.	%
Value Added						
Interest Income	1,681,678,539		1,433,374,472		1,179,563,193	
Interest Expenses	(750,116,462)		(606,621,257)		(416,598,838)	
Cost of Service	(296,341,155)		(289,046,537)		(264,146,875)	
Value Added by Financial Service	635,220,921		537,706,679		498,817,480	
Other Income	120,757,234		141,872,419		141,197,890	
Impairment Changes	(119,317,776)		(94,014,169)		(89,116,323)	
Total	636,660,380		585,564,929		550,899,047	
Distribution of Value Added						
To Employees						
Salaries and other benefits	356,879,823		357,108,571		322,738,479	
	356,879,823	56.1%	357,108,571	61.0%	322,738,479	58.6%
To the Government						
Income Tax Paid	25,144,580		14,475,303		4,785,973	
Tax on Financial Servies	108,022,553		87,760,056		70,751,368	
	133,167,133	20.9%	102,235,359	17.5%	75,537,341	13.7%
To Expantion and Growth						
Retained Profits	76,790,353		33,647,118		69,914,997	
Reserve	20,343,268		8,243,250		18,436,459	
Depreciation and Amoritisation	53,728,816		58,140,340		58,186,793	
Deferred Taxtaion	(4,249,013)		26,190,291		6,084,979	
	146,613,425	23.0%	126,220,999	21.6%	152,623,227	27.6%
Economic Value Distributed	636,660,380	100.0%	585,564,929	100.0%	550,899,047	100.0%

Capital Adequacy

New Capital Adequacy Framework

In June 2018, CBSL introduced a new Capital Adequacy Framework (CAF) revoking the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006. The new CAF is intended to foster a strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities.

The existing Capital Adequacy direction was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements were applicable for market and operational risks. Therefore the new CAF provides for maintenance of Capital Adequacy Ratios (CARs) on a more risk sensitive focus covering credit and operational risk under basic approach available in Basel II Accord.

Item	2020 Rs.'000	2019 Rs.'000
Tier 1 Capital	1,106,028	985,754
Total Capital	1,126,742	1,014,524
Total Risk Weighted Amount	7,258,722	7,258,722
Risk Weighted Amount for Credit Risk	7,116,415	5,982,706
Risk Weighted Amount for Operational Risk	1,398,086	1,276,016
Company's tier 1 capital ratio %	12.99	13.58
Regulatory minimum tier 1 ratio %	6.50	6.50
Company's total capital ratio %	13.23	13.98
Regulatory minimum total capital ratio %	10.50	10.50

Item	2020 Rs.'000	2019 Rs.'000
Tier I capital	1,152,882	1,055,749
Stated capital	890,000	890,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	67,406	47,063
Audited retained earnings/(losses)	195,476	118,686
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit(losses)	-	-
Adjustments to Tier I capital	46,854	69,995
Goodwill (net)	-	-
Other intangible assets (net)	15,111	27,008
Other Comprehensive Income losses	-	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	31,743	42,987
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	-	-
Shortfall of capital in financial subsidiaries	-	-
SLFRS 9 day one impact adjustment	-	-
Tier I Capital (after adjustments)	1,106,028	985,754
Tier 2 Capital	20,714	28,770
Instruments qualified as Tier 2 capital	-	-
Revaluation gains	20,714	28,770
General provisions/ Collective impairment allowances	-	-
Eligible Tier 2 Capital	20,714	28,770
Total Adjustments to eligible Tier 2 Capital	-	-
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	-	-
Eligible Tier 2 Capital after adjustments	20,714	28,770
Total Capital	1,126,742	1,014,524

Five Year at a Glance

For the Year ended 31 March	2020	2019	2018	2017	2016
Operating Results (Rs)					
Income	**1,802,435,773**	1,575,246,892	1,320,761,083	1,092,958,179	1,014,753,642
Interest Income	**1,681,678,539**	1,433,374,472	1,179,563,193	883,758,122	922,993,919
Interest Expenses	**750,116,462**	606,621,257	416,598,838	280,902,184	255,915,002
Net Interest Income	**931,562,077**	826,753,216	762,964,355	602,855,938	667,078,917
Other Income	**120,757,234**	141,872,419	141,197,890	209,200,057	91,759,723
Total Operating Income	**1,052,319,311**	968,625,635	904,162,245	812,055,995	758,838,640
Operating Expenses	**700,911,425**	717,894,766	630,190,301	635,628,341	571,761,588
Impairment Losses	**119,317,776**	94,014,169	89,116,323	172,259,081	61,294,116
Profit/(Loss) Before Taxation (PBT)	**124,067,558**	68,956,645	114,104,254	(43,859,383)	76,510,573
Income Tax Expenses/(Reversal)	**22,351,216**	27,740,393	21,921,964	(9,323,911)	30,368,790
Profit/(Loss) for the Year (PAT)	**101,716,342**	41,216,252	92,182,290	(34,535,473)	46,141,783

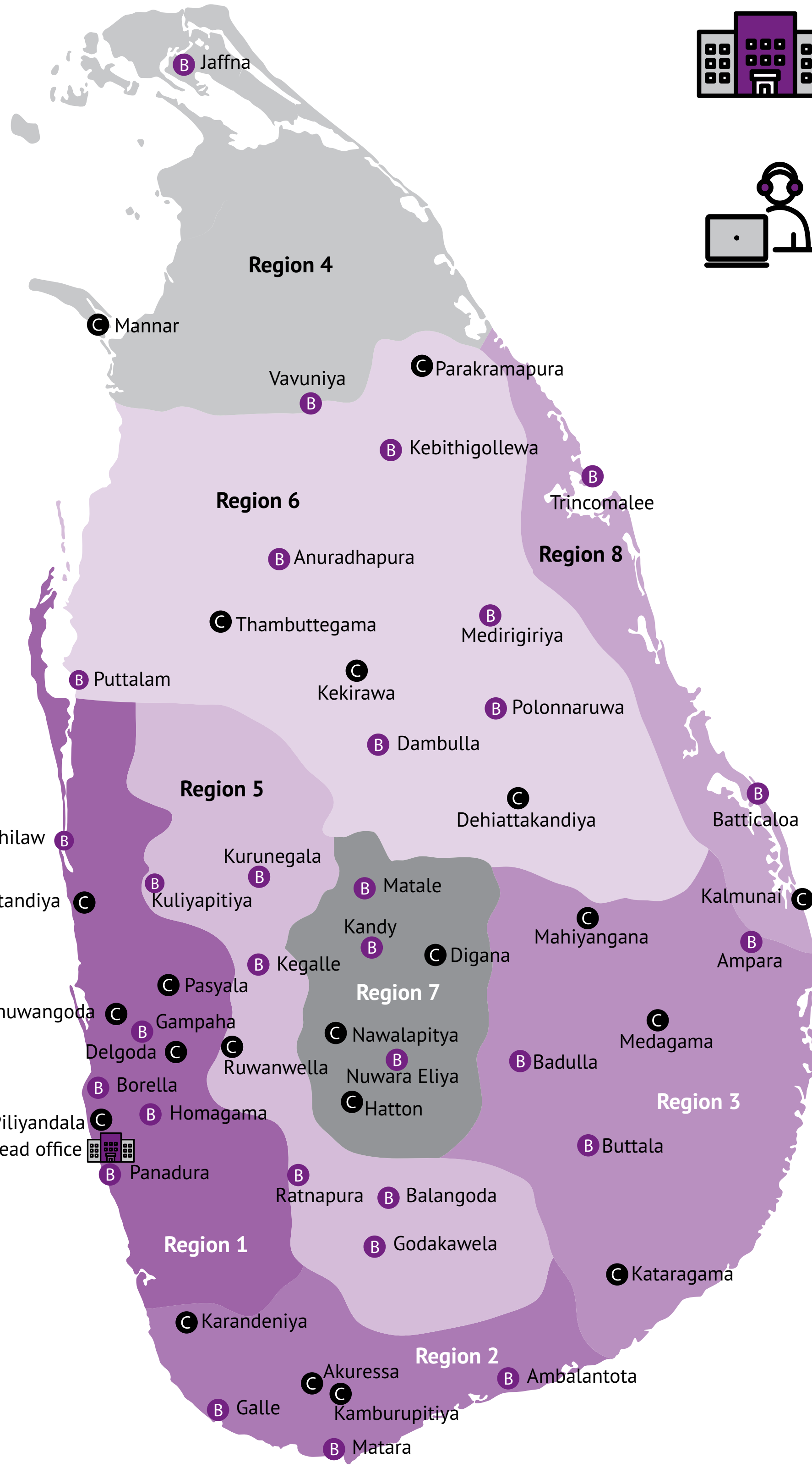
As at 31 March	2020	2019	2018	2017	2016
Assets					
Cash and Cash Equivalents	**73,226,394**	140,902,916	116,978,318	138,046,068	306,766,105
Loans and Receivables	**5,230,704,947**	5,113,657,129	4,697,449,566	3,477,040,068	2,766,806,059
Lease Rentals Receivable	**1,702,847,496**	1,102,513,124	611,054,718	283,558,784	-
Financial Investments	**444,939,031**	442,595,260	282,268,953	268,211,272	243,177,150
Other Financial Assets	**164,535,666**	189,276,648	207,371,048	282,577,503	232,859,565
Investment in Subsidiary Companies	**-**	-		-	379,474,885
Property, Plant and Equipment	**15,111,123**	27,008,129	35,134,360	321,409,381	281,535,732
Other Assets	**583,850,865**	433,871,019	409,919,268	102,049,900	109,409,852
Total Assets	**8,215,215,520**	7,449,824,224	6,360,176,231	4,872,892,976	4,320,029,346
Liabilities					
Due to Banks	**1,595,035,613**	835,873,973	463,277,223	75,855,963	31,225,454
Due to Customers	**5,101,975,953**	5,385,341,597	4,624,855,030	3,563,699,800	3,070,417,410
Savings	**1,536,303,106**	1,561,061,005	1,554,619,398	1,607,045,443	1,585,565,955
Fixed Deposits	**3,565,672,847**	3,824,280,592	3,070,215,632	1,956,654,357	1,484,851,455
Other Non Financial Liabilities	**99,220,587**	79,667,975	84,070,152	165,765,352	96,909,412
Post Employment Benefit Liability	**33,753,016**	27,212,065	26,415,691	20,796,934	16,088,241
Other Liability	**189,551,084**	23,182,969	30,768,327	-	19,849,927
Total Liabilities	**7,019,536,254**	6,351,278,580	5,229,366,422	3,826,118,050	3,234,490,444

As at 31 March	2020	2019	2018	2017	2016
Shareholders' Funds					
Stated Capital	**890,000,020**	890,000,020	890,000,020	890,000,020	890,000,020
Reserves	**305,679,245**	208,545,624	240,809,789	156,774,907	195,538,882
Other Information					
Number of Staff	**471**	521	508	540	602
Number of Branches	**30**	30	30	30	30
Number of CSCs	**21**	21	21	22	28
Profit Before Tax Per Employee	**263,413**	132,354	224,615	(81,221)	127,094
Profit After Tax Per Employee	**215,958**	79,110	181,461	(63,955)	76,647
Total Assets Per Emplyee	**17,442,071**	14,299,087	12,520,032	9,023,876	7,176,128
Employees Per Branch	**6**	7	7	7	8
Capital Adequacy Ratio (%)					
Tier I	**-**	-	20.19%	25.02%	32.00%
Tier II	**-**	-	20.19%	25.02%	20.32%
Tier I (New Framwwork w.e.f 1 July 2018)	**12.99%**	13.58%	14.83%	0.00%	0.00%
Tier II (New Framwwork w.e.f 1 July 2018)	**13.23%**	13.98%	14.83%	0.00%	0.00%
Financial Indicators					
Return on Assets (ROA)	**1.30%**	0.60%	1.64%	0.75%	1.12%
Return on Equity (ROE)	**8.87%**	3.70%	8.15%	-3.24%	4.35%
Equity to Assets	**14.55%**	14.75%	17.78%	21.48%	25.13%
Net assets Per Share (Rs.)	**17.71**	16.27	16.75	15.51	16.08
Dividend Per Share (Rs.)	**NIL**	NIL	0.53	NIL	NIL
Return on Interest Erning Assets	**22.11%**	21.69%	22.59%	21.36%	21.78%
Cost of Fund	**11.30%**	10.73%	9.55%	8.33%	8.64%
Interest Spread	**10.81%**	10.96%	13.05%	13.02%	13.15%
Net Interest Margin	**12.21%**	12.51%	14.61%	14.74%	31.74%
Portfolio Yield	**23.36%**	22.88%	23.89%	23.33%	31.74%
Staff Cost : Net Income	**33.91%**	36.87%	35.69%	44.32%	41.40%
Cost : Net Income	**76.87%**	83.18%	77.52%	84.26%	81.80%
Effciency Ratio	**66.61%**	74.11%	69.70%	78.27%	75.35%
Debit : Equity	**579.88%**	565.85%	469.44%	331.12%	285.70%
Ernings Per Share (Rs.)	**1.51**	0.61	1.19	(0.51)	0.68
Shareholders' Fund to Deposit	**23.44%**	20.40%	24.53%	29.37%	37.10%
Liquid Assets Ratio	**11.41%**	13.75%	13.75%	20.39%	26.20%
Assets Quality Indicators					
Gross NPA Ratio	**11.81%**	9.41%	6.20%	8.90%	8.00%
Net NPA Ratio	**6.14%**	4.67%	2.61%	3.40%	3.10%
NPA to Assets	**11.13%**	8.92%	6.03%	8.00%	5.50%
Provision to Advance	**5.74%**	5.08%	3.06%	5.60%	5.10%
Provision Cover	**48.58%**	49.43%	44.10%	57.10%	63.00%

Branch Network

30
Branches

21
Customer
Service Centres



Ref	Region	Branch	Telephone No.	Address	E-mail Address
1	Region 1 (Western)	Gampaha	033 5111666-7	No.40/1/1, Colombo Road, Gampaha	gampaha@sdf.lk
2		Chilaw	032 5111666-7	No.66, Kurunegala Road, Chilaw	chilaw@sdf.lk
3		Panadura	038 5111666-7	No.322, Galle Road, Panadura	panadura@sdf.lk
4		Homagama	011 5944666-7	No.119/1/1, Katuwana Road, Homagama	homagama@sdf.lk
5	Region 2 (Southern)	Ambalantota	047 5111666-7	No.150,Main street,Ambalantota	ambalantota@sdf.lk
6		Galle	091 5111666-7	No.26, Sri Dewamitta Road, Galle	galle@sdf.lk
7		Matara	041 5111666-7	No.372/C, Anagarika Dharmapala Mawatha Pamburana, Matara.	matara@sdf.lk
8	Region 3 (Uva)	Ampara	063 5111666-7	No.20, 6th Lane, Ampara	ampara@sdf.lk
9		Moneragala	055 5115666-7	No.304/1, In front of Bank of Ceylon Kachcheriya Junction, Moneragala	buttala@sdf.lk
10		Badulla	055 5111666-7	No.377, Passara Road, Viharagoda, Badulla	badulla@sdf.lk
11	Region 4 (North)	Jaffna	021 5111666-7	No.62/20A, Stanley Road, Jaffna	jaffna@sdf.lk
13		Vavuniya	024 5111666-7	No.58, 1st Cross Street, Vavuniya	vavuniya@sdf.lk
14	Region 5 (North Western)	Godakawela	045 5111666-7	No.58 G1/1, Main Street, Godakawela	godakawela@sdf.lk
15		Balangoda	045 5111666-7	No.133/A, Barnes Ratwatte Mawatha, Balangoda	balangoda@sdf.lk
16		Kuliyapitiya	037 5111666-7	No.82, Kurunegala Road, Kuliyapitiya	kuliyapitiya@sdf.lk
17		Kurunegala	037 5111666-7	No.24, Mihindu Mawatha, Kurunegala	kurunegala@sdf.lk
18		Ratnapura	045 5113666-7	No.177, Main Street, Ratnapura	ratnapura@sdf.lk
19		Kegalle	035 5111666-7	No.245, Colombo Road, Kegalle	kegalle@sdf.lk
20	Region 6 (North Central)	Dambulla	066 5111666-7	No.707, Anuradhapura Road, Dambulla	dambulla@sdf.lk
21		Anuradhapura	025 5111666-7	No.561/B-39, 4th Lane, Near New Bus Stand, Anuradhapura	anuradhapura@sdf.lk
22		Polonnaruwa	027 5112666-7	No.21, Opposite Police Station, Kaduruwela Polonnaruwa	polonnaruwa@sdf.lk
23		Puttalam	032 5113666-7	No.116, Kurunegala Road, Puttalam	puttalam@sdf.lk
24		Medirigiriya	027 5111666-7	No.18, Main Street, Medirigiriya	medirigiriya@sdf.lk
25		Kebethigollawa	025 5111666-7	Horowpathana Road, Kebethigollawa	kebithigollawa@sdf.lk
26	Region 7 (Central)	Kandy	081 5113666-7	No.102, Yatinuwara Veediya, Kandy	kandy@sdf.lk
27		Nuwara Eliya	052 5111666-7	No.29/1, Lawson Street, Nuwara Eliya	nuwaraeliya@sdf.lk
28		Matale	066 5112666-7	No.630, Trincomalee Street, Matale	matale@sdf.lk
29	Region 8 (Eastern)	Batticaloa	065 5111666-7	No.132, Trinco Road, Batticaloa	batticaloa@sdf.lk
30		Trincomalee	026 5111666-7	No.31B, Kandy Road, Trincomalee	trinco@sdf.lk
31	Head Office Branch	Borella	011 5942666-7	No.155/A, Dr.Danister De Silva Mawatha Colombo-8	borella@sdf.lk

Customer Service Centres

Ref	Region	Branch	Telephone No.	Address	E-mail Address
1	Region 1 (Western)	Delgoda	011 5941666-7	No.328/B, New Kandy Road, Delgoda	oicdelgoda@sdf.lk
2		Minuwangoda	033 5113666-7	No.87/1/1, Kurunegala Road, Minuwangoda	oicminuwangoda@sdf.lk
3		Nattandiya	032 5112666-7	Marawila Road, Nattandiya	oicnattandiya@sdf.lk
4		Pasyala	033 5112666-7	No.178/8/3, Usaviya Watta, Pasyala	oicpasyala@sdf.lk
5		Piliyandala	011 5945666-7	No.24/A, Vidyala Mawatha, Piliyandala	oicpiliyandala@sdf.lk
6	Region 2 (Southern)	Akuressa	041 5114666-7	No.93, Matara Road, Akuressa	oicakuressa@sdf.lk
7		Kamburupitiya	041 5116666-7	Pathirana Building, Kirinda Road, Kamburupitiya	oickamburupitiya@sdf.lk
8		Karandeniya	091 5112666-7	4th Mile Post, Maha Edanda, Karandeniya	oickarandeniya@sdf.lk
9	Region 3 (Uva)	Kataragama	047 5112666-7	No.41/B, New Town, Kataragama	oickataragama@sdf.lk
10		Mahiyangana	055 5112666-7	No.112/8, Girandurukotte Road, Mahiyangana	oicmahiyangana@sdf.lk
11		Medagama	055 5113666-7	Near by bus stand,Bibile Rd, Medagama.	oicmedagama@sdf.lk
12		Dehiattakandiya	027 5113666-7	No.62/1E, New Town, Dehiattakandiya	oicdehiattakandiya@sdf.lk
13	Region 4 (North)	Mannar	023 5111666-7	No.4, Convent Road, Sinnakadai, Mannar	oicmannar@sdf.lk
14	Region 5 (North Western)	Ruwanwella	036 5111666-7	No.122, Main Street, Ruwanwella	oicruwanwella@sdf.lk
15	Region 6 (North Central)	Kekirawa	025 5113666-7	No.27, Yakalla Road, Kekirawa	oickekirawa@sdf.lk
16		Parakramapura	025 5114666-7	Kodituwakku Building, Padaviya Road, Parakramapura	oicparakramapura@sdf.lk
17		Tambuttegama	025 5114666-7	No.137, Rajina Junction, Anuradhapura Road, Tambuttegama	oictambuttegama@sdf.lk
18	Region 7 (Central)	Digana	081 5112666-7	No.15/1, New Town, Digana, Rajawella	oicdigana@sdf.lk
19		Hatton	051 5111666-7	No.3, Dimbula Road, Hatton	oichatton@sdf.lk
20		Nawalapitiya	054 5111666-7	No.100/1, Gampola Road, Nawalapitiya	oicnawalapitiya@sdf.lk
21	Region 8 (Eastern)	Kalmunai	067 5106666-7	No.218, Batticaloa Road, Kalmunai	oickalmunai@sdf.lk

Glossary

A

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortisation
Amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un collectability.

Available for Sale Financial Assets
All assets not in the three categories namely, loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

C

Cash Basis
Recognizing the effects of transactions and events when receipt or payment of cash or cash equivalent occurs.

Capital Adequacy Ratio
The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Funds
Shareholders' funds net of statutory reserves

Cash Equivalents
Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows
Inflows and outflows of cash and cash equivalents.

Collective Impairment Provision
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commitments
Credit facilities approved but not yet utilised by the customers as at the date of the statement of financial position.

Contingencies
A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Cost to Net Income Ratio
The operating expenses, including tax on financial services but excluding the impairment (charge)/reversal for loans and other losses, expressed as a percentage of net income.

Cost of Funds
Interest expenses expressed as a percentage of average interest bearing liabilities.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Customer Deposits
Money deposited by account holders. Such funds are recorded as liabilities.

D

Debt to Equity
Interest bearing liabilities expressed as a percentage of average equity attributable to the equity holders of the Company.

Debt to Equity (Excluding Deposits)
Interest bearing liabilities excluding public deposits expressed as a percentage of average equity attributable to the equity holders of the company.

Deferred Tax
Sum set aside for tax in the Financial Statements for taxation that may become payable/ receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rule and accounting conventions.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

De recognition
The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Discount rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

E

Earnings per Share
Profits attributable to ordinary shareholders divided by the ordinary shares in issue.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Glossary

Effective Tax Rate
Provision for taxation excluding deferred tax divided by the profit before taxation.

Efficiency Ratio
Operating expenses expressed as a percentage of income; interest income plus other income

Eligible Deposits
Customer Deposits after deducting for loans outstanding balances taken against the security of deposits and deposits balances of directors and KMPs.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

F

Fair Value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transactions.

Fair Value through Profit or Loss
A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or a derivative (except for a -derivative that is a financial guarantee contract)

Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity.

Financial Instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Funding Mix
The total of shareholders' funds, customer deposits and borrowings from banks and other institutions

G

Gross Dividend
The portion of profits distributed to the shareholders including the tax withheld.

Gross NPA Ratio
The total of the non-performing loans and receivables and non-performing Lease Rentals Receivables expressed as a percentage of the total of average loans and receivables and average Lease Rentals Receivables portfolio. In calculating gross NPA ratio the age of the re-schedule contracts are calculated based on post re-schedulement age.

Gross NPA Ratio (with reschedulements)
The total of the non-performing loans and lease receivables expressed as a percentage of average loans and lease receivables portfolio. In calculating gross NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

Gross Portfolio
The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities

H

HTM (Held to Maturity) Investments
Non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

I

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans
Loans where the Company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Intangible Asset
An identifiable non-monetary asset without physical substance.

Interest Margin
Net interest income expressed as a percentage of average interest earnings assets

Interest Spread
This difference between the average interest rate earned on the interest earning assets and the average interest rate paid on the interest bearing liabilities.

Impairment Allowance for Loans and Other Losses
Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

K

Key Management Personnel
Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Lending
Lending represents the disbursements of the Company during the year under review

Lending Base
This represents Loans and Lease Receivables of the Company

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills & bonds.

Liquidity Assets Ratio
Liquid assets expressed as a percentage of average deposits liability and short term liabilities.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans Payable
Financial liabilities, other than short term trade payables on normal credit terms.

Loans and Receivables
Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

M

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets per Share
Equity attributable to the equity holders of the Company divided by the average number of ordinary share in issue during the year.

Net Interest Income (NII)
The difference between incomes earned from interest earning assets and cost incurred on financial instrument/ facilities used for funding the interest earning assets.

Net NPA Ratio
The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge.
In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the post rescheduled age.

Net NPA Ratio (with reschedulements)
The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge.
In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

Net Portfolio
The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities net of impairment charge for loans and other losses.

Non-performing Advances
Rentals receivables in arrears equals to six rentals or more than six rentals have been categorised as non-performing.

NPA to Assets
The total of non-performing loans and lease receivables expressed as a percentage of average total asset

O

Operational Risk
The risk of loss incurring from inadequate or failed internal processes, people and systems or from external events.

Operating Expense Ratio (Opex Ratio)
Operating expenses expressed as a percentage of average of gross loan portfolio

P

Parent
An entity that controls one or more subsidiaries.

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

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

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

R

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

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

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

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

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

S

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

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

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

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

Glossary

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

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

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

T

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

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

V

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

Arthadharma Geethaya

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කොටස් දෙකක් - ආයෝජන කෙරුමට
ඉතිරි කොටස - රඳවා හදිසියකට
ධනය හසුරුවමු - හොඳ දියුණුවකට

පබැඳුම - **ආචාර්ය ඒ ටී ආරියරත්න**
සංගීතය - **රෝහණ වීරසිංහ**
ගායනය - **අමරසිරි පීරිස්**

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 31st July 2020 at 12.30 p.m. at the Head Office at No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08 for following purposes.

Agenda

1. The Notice convening the Meeting.

2. To receive and adopt the Annual Report of the Board of Directors along with the Financial Statements of the Company for the Financial Year ended 31st March 2020 and the Auditor's report thereon.

3. To re-appoint Mr. Masayoshi Yamashita- Director of the Company who retires 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.

By order of the Board,

B D O Secretaries (Private) Limited
Company Secretaries

29th June 2020

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 ………………………………………………………………………………………… (NIC No/Com. Reg. No……………………………..………………………………) of ………………………...………………………………………………………………….………….. being a Shareholder/s* of Sarvodaya Development Finance Limited, hereby appoint:

M C. De Silva	of Moratuwa or failing him*
Dr. R. W. A. Vokes	of U.K. or failing him*
Mr. M. Yamashita	of Japan or failing him*
Dr. J. P. Kuruppu	of Colombo or failing her*
Mr. C. S. Rajakaruna	of Athurugiriya or failing him*
Mr. C. A. CanagaRetna	of Nugegoda or failing him*
Mrs. S. De Silva	of Colombo failing her*
Mr. W. S. D. De Silva	of Gonawala or failing him*

………………………………………………………………………………………… of ………………………………………………………………………………………… as my/our* proxy to represent me/us* and to speak and vote whether on a show of hands or on a poll for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 31st July 2020 at 12.30 p.m. and at any adjournment thereof.

	For	Against
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 2020 and the Auditor's report thereon.		
3. To re-appoint Mr. Masayoshi Yamashita- Director of the Company who retires 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 July, Two Thousand and Twenty.

…………………………………….

Signature

Notes:

*Please delete inappropriate word/s.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy, by filling it legibly your full name and address, signing in the space provided, and filling in the date of signature.

2. Please indicate clearly how your proxy is to vote. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.

3. The completed form of Proxy should be deposited at the Registered Office of Sarvodaya Development Finance Limited, at No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08, 48 hours before the time appointed for the holding of the meeting.

Notes

Annexures

Notes

Corporate Information

Name of Company
Sarvodaya Development Finance Limited

Parent Company
Sarvodaya Economic Enterprises Development Services (Guarantee) Limited

Legal Form
Incorporated on 1st January 2010 as a public limited liability company under the Companies Act No. 7 of 2007.

Commenced Business Operations
effective 19th December 2012, as a Licensed Finance Company (LFC) regulated by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011

Licensed Finance Leasing Company
regulated by the Central Bank of Sri Lanka under the Finance Leasing Act No. 56 of 2000

Approved Credit Agency under Mortgage
Act No. 6 of 1949 and Trust Receipts Ordinance No. 12 of 1947 by the Dept. of Commerce

Company Registration Number
PB 3795

Central Bank Registration No.
047

Tax Payer Identity Number (TIN)
134037954

Registered Office & Head Office
No. 155/A
Dr. Danister De Silva Mawatha
Colombo 08,
Sri Lanka.
Telephone No.: 011 5 444 666
Fax No.: 011 2 667 411
E-mail: info@sdf.lk
Website: www.sarvodayafinance.lk

Share Capital
Rs. 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. Richard Vokes
Mr. Masayoshi Yamashita
Dr. Janaki Kuruppu
Mr. Chamindha Rajakaruna
Mr. Amrit CanagaRetna
Ms. Shehara De Silva - Appointed w.e.f. 27th June 2019
Mr. Sunil De Silva - Appointed w.e.f. 12th March 2020

Company Secretary
BDO Secretaries (Pvt) Limited,
Corporate Secretarial Services,
“Charter House”
65/2, Sir Chittampalam A Gardiner Mawatha,
Colombo 2.

External Auditors
M/s Ernst & Young,
Chartered Accountants,
201, De Saram Place,
Colombo 10.
Legal Adviser
Nithya Partners

Bankers
Hatton National Bank PLC
People’s Bank
Bank of Ceylon
Seylan Bank PLC
DFCC Bank PLC
Commercial Bank PLC
National Development Bank PLC
Sanasa Development Bank PLC

Sarvodaya Development Finance Limited
No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08.
Telephone No.: 011 5 444 666 | Fax No.: 011 2 667 411
E-mail: info@sdf.lk | Website: www.sarvodayafinance.lk