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Development

SARVODAYA DEVELOPMENT FINANCE

SARVODAYA DEVELOPMENT FINANCE LIMITED

ANNUAL REPORT

2016 | 17

CONTENTS

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"

VALUES

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

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Development

Development can be measured in a myriad ways. It can mean the development in one's skills, the development of a community that comes together to support entrepreneurship, the development of one's self confidence knowing that someone believes in their vision and maybe the development of living standards through knowledge and resource allocation. At Sarvodaya Development Finance we believe that "Sanwardhanaya" or development is not merely measured through profit but through impact and the creation of long term goals that not only uplifts the lives of the SME's but also strengthens the economy of which they are a valid part.

Towards development and growth... with us.

Financial Highlights

	2016/17	2015/16	Change
Profitability (Rs. 000)			
Income	1,096,432	1,014,754	8.0%
Operating Income	815,530	758,839	7.5%
Operating Profit/(Loss)	4,169	125,783	-96.7%
Profit/(Loss) before Taxation	(43,859)	76,511	-157.3%
Income Tax Expenses	(9,324)	30,369	-130.7%
Profit/(Loss) for the Year	(34,535)	46,142	-174.8%
Profit/(Loss) for the Year after OCI	(38,764)	48,040	-180.7%
Assets & Liability (Rs. 000)			
Loan & Lease Receivable	3,760,599	2,766,806	35.9%
Due to Customer	3,563,700	3,070,417	16.1%
Total Equity	1,046,775	1,085,539	-3.6%
Total Assets	4,872,863	4,320,029	12.8%
Investor Information			
Net Asset Value Per Share (Rs.)	15.51	16.08	-3.6%
Earnings Per Share - Basic (Rs.)	(0.51)	0.68	174.8%
Dividend Per Share (Rs.)	NILL	0.25	100.0%
Financial Indicators (%)			
Return on Average Assets (after tax)	-0.75%	1.10%	
Return on Average Equity (after tax)	-3.24%	4.30%	
Growth in Profit	-174.85%	491.20%	
Growth in Total Assets	12.80%	9.90%	
Capital Adequacy Ratios (%)			
Tier I	25.02%	32.00%	
Tier I & II	25.02%	20.32%	

Total Assets

Rs.

+12.8%

Gross Income

Rs.

+8.0%

Loan & Lease Receivable

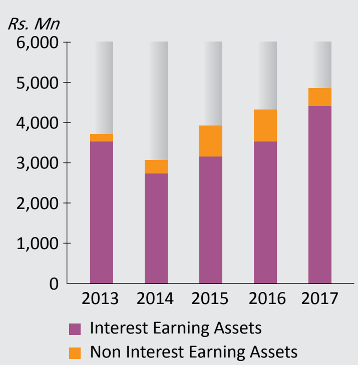
Rs.

+35.9%

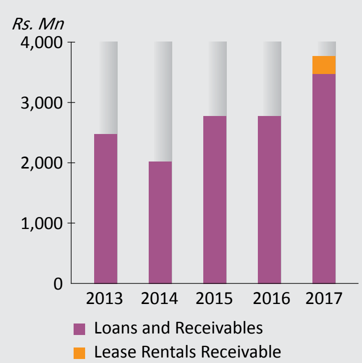
Customer Deposit

+16.1%

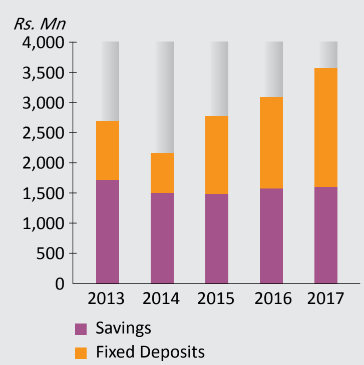
TOTAL ASSETS



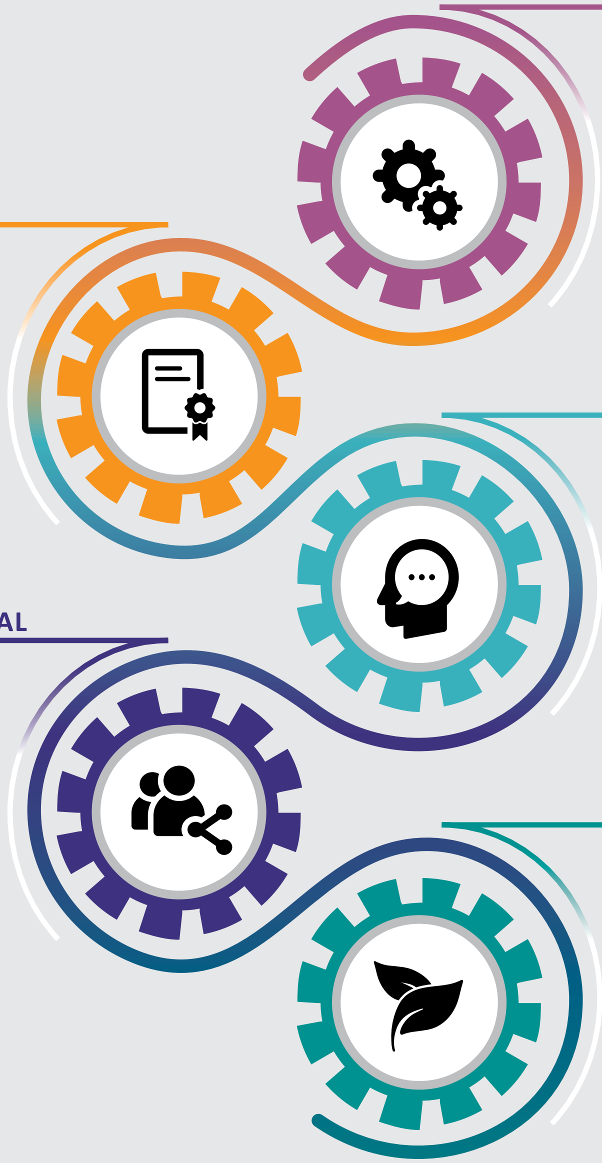
LOAN & LEASE RECEIVABLE



CUSTOMER DEPOSIT



Non-Financial Highlights



MANUFACTURED CAPITAL

Upgraded **IT System** with workflow Management process

New DR Site partnered with Dialog Rs. 5.6 Mn Investment

9 Branches/CSCs Rebranded & Strategically Relocated

8 Branches/CSCs Upgraded with new Facelift

INTELLECTUAL CAPITAL

Won the **Compliance Certificate** for 2014/15 & 2015/16

HUMAN CAPITAL

50 Training Programs

Implemented an Integrated **new HR System**

Introduced **Individual KPIs**

Rs. 352.8 Mn Rewards & Benefits to **Employees**

13 Promotions

SOCIAL & RELATIONSHIP CAPITAL

Introduced **Leasing & SME**

Re-launched **Pawning**

Established a **Central Processing Unit**

Over 190,000 Customer Base

Introduced **SMS Getaway**

Commenced WESTERN UNION transactions with NDB

Commenced **Lanka Money Transfer** with DFCC

5 new Lending Products

NATURAL CAPITAL

Corporate Office powered with **Solar Energy** **Rs. 2.5 Mn** investment

First move towards **Green Banking** A paperless approval process

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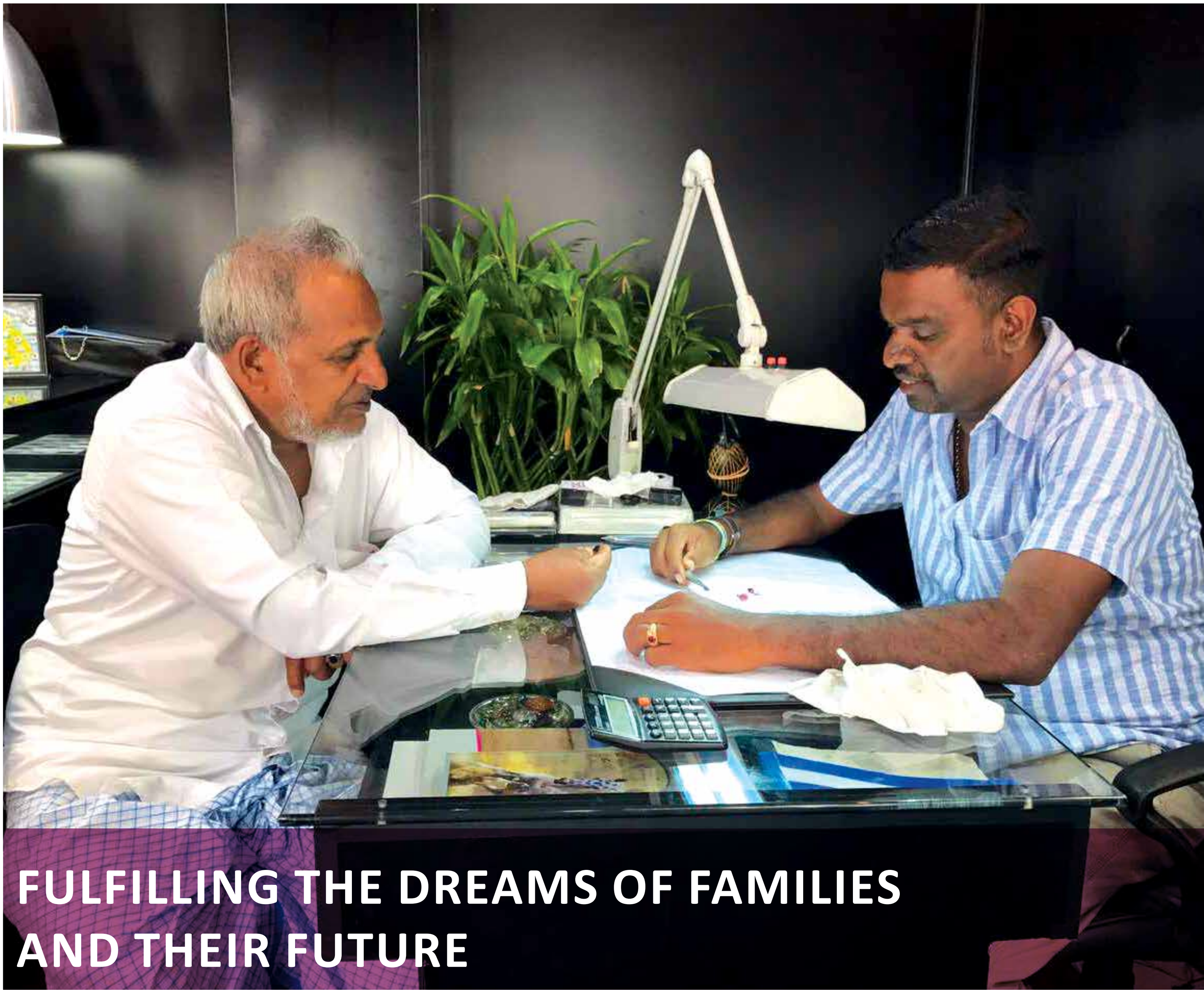

FULFILLING THE DREAMS OF FAMILIES AND THEIR FUTURE

BIMSARA GEMS & JEWELLERY, GALLE

Mr. B.M.D.Hemajith commenced his gem trading business 12 years ago from his residence in Galle, and subsequently registered it as a sole proprietorship in the name Bimsara Gems & Jewellery in February, 2011. He opened up a new showroom in a rented building at the Galle Fort, three years ago. However, Mr. Hemajith had to obtain credit from money lenders, against high rate of interest that had to be paid-up on a daily basis, to purchase gems and jewellery.

SDF provided Mr. Hemajith with a SME Revolving Term Loan in July, 2016 to be repaid every six months, to suite his working capital requirements. Since then Mr. Hemajith has been able to save on interest payments to money lenders and improved his sales and profits. He visits China and Tanzania four times a year and has been successful in canvassing new orders. He also manufactures gold jewellery which are displayed and sold to foreigners and local buyers at his showrooms at Ratnapura and Galle Fort.

Chairman's Message

Moving on to Sarvodaya Development Finance (SDF), over the last few years, the Company has been transitioning from a basic micro finance company to a sizeable financial institution, involved in funding micro finance and SMEs.

Dear shareholders,
It gives me great pleasure to present the annual report and audited financial statements for the financial year 2016/17 and to report a year of progress and consolidation for Sarvodaya Development Finance, the financial services arm of the Sarvodaya Movement.

The year under review was a globally challenging one with a widespread sense of unpredictability and dramatic changes to the old school and established socio-political systems. Led by Great Britain's decision to exit the European Union, the year under review heralded the turn of a new chapter in geopolitics. The uncertainty triggered by the Brexit continued its course by spilling over the pond, into the US, as demonstrated by the US presidential election and drastic policies adopted by the US, which in turn, is now reshaping many trade alliances with Asia. As one of Sri Lanka's largest trading partners the import strictures and potential changes to import duties by the US administration will create a challenging environment for Sri Lanka, as well as other Asian countries. The financial year 2016/17 was a high tension year viewed from a political perspective as well, with heightened security concerns across the globe and rising political animosity in North Korea, Afghanistan, Iraq and the Middle East that fuelled insecurity in a political and social context. These external developments were reflected in the economies of countries across the globe to varying degrees.

In Sri Lanka the year was marked by rising interest rates, rising rates of inflation, a weaker currency, low FDI inflows and falling exports, and thus lower than expected economic growth. Interest rates in the bank led financial sector continued to trend upwards throughout the year, compelling a large number of finance companies to increase their deposit rates, inducing an upward spiral in lending rates. This situation has created a daunting background for entrepreneurs who have been forced to borrow at high rates, which has also increased portfolio risks of lending institutions. Replicating the market rates, the rate of inflation moved upwards on the back of high lending rates and upward revisions of import taxes. While this upswing in the consumer price indices may not have been fully reflected in the national statistics, it is demonstrated in the form of rising cost of living, increases to utility rates and higher rents.

The Sri Lankan rupee depreciated significantly against the US dollar within the 12 months under review, to reach Rs. 152.15 as at end March 2017, from Rs. 143.9 in the previous year. This rapid depreciation is better highlighted when compared against the US dollar rate of Rs. 8.00 in 1978. It must be noted that even during the period of internal armed conflict the rupee was contained at below Rs. 130 per dollar. Therefore, the present rapid decline of the rupee is indicative of significant economic deterioration against other competing nations. In the external environment, Sri Lanka's export performance remained far below expectation and potential. In fact, the country has not developed any new export sectors for the past decade in response to changing global demand patterns and continued to be dependent on traditional exports. The country has also not been successful in attracting meaningful Foreign Direct Investments, compared to Asian competitors such as Thailand and Malaysia that draw in significant FDI flows annually.

Overall, the Sri Lankan economy exhibited a weaker position with high levels of in underemployment and unemployment and a fragile overall economy. The external reserve position made the economy weaker due to impending debt repayments, which has made the rupee more vulnerable.

Given this scenario, it is now time for the country to re-examine its approach to the challenges of development with a new mindset. Economic policies should be redrafted to strengthen the rupee to at least the 1990's level, while fiscal and monetary policies should be reviewed to create an environment of low interest rates and low taxes that in turn, leads to an backdrop that encourages entrepreneurial activity and employment creation. Developing entrepreneurs is key to economic growth and all efforts should be made to create a robust entrepreneurial platforms with support structures to groom and sustain entrepreneurs and SMEs. In addition, the discovery of fresh export markets, the generation of creative products for global markets and transparent governance, are prerequisites for private sector led economic growth, on which tomorrows growth should be anchored.

Moving onto Sarvodaya Development Finance (SDF), over the last few years, the Company has been transitioning from a basic micro finance company to a sizeable financial institution, involved in funding mainly micro finance and SMEs. A significant fact about SDF and its principal shareholder Sarvodaya Movement, is that all the distributable profits to Sarvodaya Movement are redistributed 100% among underprivileged communities, through its social work. This makes SDF unique among private sector financial services providers in the country and gives SDF a special status in the country's development landscape.

During the current financial year SDF relocated most branches to and deployed a competitive marketing and branding strategy to increase brand visibility and public awareness about SDF and its products and services. The Company has also successfully reoriented its staff to be more customer focused, in line with the Company's objective of serving the community. Technology is now rapidly becoming a driver of growth through cost savings and productivity enhancements. SDF has been quick to acknowledge the opportunities and advantages presented through technology infusion and has been migrating all manual processes onto digital platforms. As a result, all internal processes are now fully automated. In our endeavour to build grass roots economies, we continued to support micro entrepreneur as well as SMEs through a range of financial products during the year.

As at end March 2017, SDF's service delivery network comprised of 30 braches and 22 customer service centres. During the year we continued to consolidate on our synergies with Sarvodaya Movement to extend our customer reach. The network of effective Sarvodaya Movement Societies now numbering over 3,000 has penetrated extreme remote areas of the country. Through closer collaboration with the Sarvodaya Movement, SDF is now positioned to reach out to interior communities, well beyond our own physical branch network. This expansion drive has been conducted within social service orientation framework of our

Chairman's Message

ultimate parent, the Sarvodaya movement. Therefore, SDF's policy is to operate as an equitable and fair Company that cares about the welfare of our customers. We attempt at all times to perform our business operations in a friendly, trustworthy and responsible manner.

SDF is strengthening the outlook of its network and is upgrading its offices. The Company will also be launching a strenuous marketing drive. As part of this process, a Central Processing Unit (CPU) was established to centralise the back-office operations of branches and Customer Service Centres (CSC). The visibility of our branches and CSCs were enhanced by re-branding and relocating some branches and CSCs and by upgrading most of the remaining branches and CSCs with our new brand colours and logo. This move has increased customer acceptance of our brand resulting in sizable growth in business, both in terms of deposits and lending. Island wide promotions were conducted on print and electronic media in a widespread brand building and product awareness campaign.

The combined beneficial outcomes of the decisions enacted during the year will be reflected in our financials in the new financial year, through expansion of customer portfolios. Sarvodaya Development Finance has now established a platform to grow significantly. All the development value drives are in place to grow the Company significantly. I am confident SDF will achieve not only much improved financial performance but also greater social value creation in the new financial year.

ACKNOWLEDGMENTS

I would like to extend my gratitude to the entire Board of Directors of SDF for their invaluable guidance during the year. On a special note of thanks I would like to express my appreciations for the encouragement and advice extended to me by the founder of the Sarvodaya Movement, Dr. A. T. Ariyaratne, the General Secretary of Sarvodaya, Dr. Vinya Ariyaratne and the main governing council members of Sarvodaya. I also acknowledge with gratitude the support extended by the CEO and staff of SDF, and the Governor and officials of the Central Bank of Sri Lanka. As always I am grateful to our customers for their patronage and I also thank all other stakeholders for their valuable contributions to Sarvodaya Development Finance during the year.

Mr. Channa de Silva
Chairman

26th May 2017

CEO's Review

Improving the quality of our assets is a priority for the Company and emphasis was placed on strengthening and building capacity in the Recovery Department with more stringent guidelines and training. This investment I'm happy to say has helped us to manage our portfolio quality and ended up with 3.4% and 8.9% net and gross non performing ratios respectively.

CEO's Review

As a Sri Lankan and an advocate of rural economic development, I am proud to have been honoured by my appointment as the CEO of SDF, which is indeed a unique entity in the Sri Lankan financial sector landscape owing to its historic roots in community service and grassroots development. I took over my duties as the CEO of this exceptional organisation steeped in Sri Lankan values in October, 2016. During financial year 2016/17 our overarching priority was the uninterrupted execution of the strategic restructuring programme initiated in the previous financial year. In this context I am pleased to report tangible advancements in almost all aspects of the business at operational level, aimed at building a stronger foundation for the future of the Company.

The financial year 2016/17 was an exceptionally challenging one for SDF not only due to its ongoing internal reorganisations but also as a result of an unpredictable and volatile operating environment, which weighted down all financial institutions in the country. The macro environment of high inflation and interest rates caused operating costs to increase, narrowed net interest margins and exposed the Company to interest rates risks through the cascading affect on borrower ability to repay loans. The changes in loan-to-value ratio particularly applicable to three wheelers and cars caused a sharp contraction of the demand for leasing. This situation had a direct negative outcome on SDF, as leasing is a new products for the Company and we are new in this sector. Meanwhile, the industry is also facing new risks from another pending policy decision. The 2016 national budget proposal eliminated the need to report lending of below 500,000 to the Credit Information Bureau. If fully implemented, this lack of regulatory oversight will expose the lending industry involved in small ticket size facilities to dangers of over-borrowing and multiple-financing, increasing overall industry risks.

It is in this backdrop that SDF forged ahead with its business operations, including our marketing efforts to introduce new products, such as leasing, personal loans, Western Union, to the country. Given this operating climate I believe the financial results for the year, although up to the expectation and certainly below potential, can be termed as acceptable.

FINANCIAL PERFORMANCE

SDF achieved a top line growth of 8% to reach Rs. 1.1 Bn. We closed the year with a loss of Rs. 34.5 Mn. This can be primarily attributed to higher provisioning compared to the previous year.

Despite the negative market for leasing, we grew in the Gross leasing portfolio to Rs. 287 Mn. Although relatively new in the SME sector, we continued to gain ground in this segment, with SME lending reaching a Gross portfolio of Rs. 393.2 Mn. In December 2016 we also introduced a new loan product titled 'Preapproved Corporate Body Employee (PCBE) loans that have been extremely well received and accounted for Rs. 109 Mn. in disbursements by the end of the year. Supported by the contribution of new products, total lending grew by 37% to Rs. 3983 Mn. which is a remarkable achievement considering 2% growth achieved during the previous year.

Improving the quality of our assets is a priority for the Company and emphasis was placed on strengthening and building capacity in the Recovery Department with more stringent guidelines and training. This investment I'm happy to say has helped us to manage our portfolio quality and ended up with 3.4% and 8.9% net and gross non performing ratios respectively. This represents a marginal increase over the previous year's achievements. However, quality of all new products namely, Leasing, SME and PCBE have recorded less than 1% NPL ratio at the end of the year.

Although deposit growth was not a priority in previous years, during the current year, canvassing deposits was stressed as a means of low cost funding. Deposits were promoted by partnering with Sarvodaya Societies and through vigorous marketing campaigns. Following these efforts we recorded a 16.1.% growth in our deposit base, which now stands at Rs. 3,563 Mn.

Supported by lending expansion, SDF's balance sheet expanded by Rs. 552.8 Mn to reach Rs. 4,872.8 Mn by end March 2017.

OPERATIONAL IMPROVEMENTS

Operational level improvements were targeted at multiple points during the past 12 months with the objective of increasing overall efficiencies to strengthen the bottom-line and making the Company more customer oriented. The restructuring process was implemented primarily through the three areas of technology infusion, rationalisation of delivery channels and human resource development.

Technology is the direction of future growth in an environment of rising costs and dynamic risk factors. Fully cognisant of these facts, the SDF management in the previous financial year, finalised the commissioning of a new core workflow system customised for SDF. In the current financial year, we commenced rollout of the new system and successfully concluded its full implementation. I am pleased to report that SDF is now supported by a fully automated workflow system. Approvals for all facilities are made digitally through workflow modules in the main system. This has significantly increased the pace of doing business and made it possible for our employees to be far more productive than before. An important outcome of this internal efficiency enhancement is that SDF is now able to respond faster to customers, which has improved customer satisfaction.

The mobile platform in the next frontier for SDF's digital strategy and we are in the process of implementing a mobile App to facilitate real time payment collection updates. The new App will eliminate the time lag between customers making payments and the customer account updates. When fully operational this system will improve our internal controls, while adding to customer convenience.

For greater customer value creation we have now completed preparations to join the national ATM network. I am confident SDF will come on board the ATM system in the new financial year, which will allow us to offer the convenience of ATM cards to our customers.

Under our channel rationalisation plan SDF branches and customer service centres were evaluated on performance and the delivery network was streamlined to optimise benefits to the Company and customers. SDF had 58 service delivery points comprising 30 branches and 28 customer service centres at the start of the year. This network was reduced to 52 delivery points by amalgamating underperforming units with the nearest branch or service centre. Adjusting the delivery network has contributed towards lower operating costs and ramped up employee productivity.

The decision to enter the SME market has made it necessary for SDF to be located in easily accessible and commercial centres, for entrepreneurs to come to us. Therefore, in the current financial year we conducted a branch mapping exercise and relocated any outlying branches to strategic places in business areas. This transition has made SDF more accessible to a wider customer base and also made us more competitive by increasing our visibility among commercial and trading communities. Almost all branches were also refurbished for a more professional appearance in line with the new brand positioning of SDF.

We have also harnessed the synergies of the Sarvodaya movement to expand our out-reach dramatically. The Sarvodaya Shramadana Societies(SSS) are well established and trusted by the public and numbering over 3,000 are spread out across the four corners of the country. This year we set up a separate unit to partner with the Societies to attract deposits and to channel lending to rural communities. In a mutually beneficial partnership the Societies have been able to finance their members and other entrepreneurs through SDF, while SDF has enjoyed strong deposit growth through the intervention of the Sarvodaya Societies. I am confident this partnership will continue to prosper in our joint efforts to route funding and formal financial services to the grassroots.

In line with tactical improvements we made major changes in our people management processes to build up a competitive workforce that can take the Company forward in its future direction. For better cost management and internal controls the 3 units of legal, recovery and central processing, were taken under one roof at our rented out building in Rawathawatte. Redundancies resulting from mergers of branches and automation of back office functions due to introducing a better system during the previous year, were re-skilled and given new challenges. This was supported by a capacity planning exercise for branch staff to identify the optimum number of personnel required for the efficient operation of each branch. We will extend this process to all staff in the next financial year to improve staff productivity further. To instil a performance oriented culture, Key Performance Indicators (KPIs) and a new performance based incentive scheme was introduced and will be fully operationalised in the new year. The new system enables monthly assessments against targets for all employees.

As staff capacity building is a vital element for the sustainable growth of the Company, emphasis was placed on training. Staff were trained on new products, some were re-skilled under new job titles and others were given training to upgrade existing knowledge and to instil a customer oriented mindset. Comprehensive and well-focussed training programmes were conducted with a view to improve skills in SME, Leasing, Pawning and Marketing with the help of internal and external resource personnel. SDF invested in Rs. 3 Mn on training and development during the year under review.

OUTLOOK FOR THE NEW FINANCIAL YEAR

The focus in the new financial year will be on the bottom line to generate enhanced returns to all stakeholders. To achieve this, we will focus on growing our top line by continuing to expand our traditional and new product portfolios, while also containing our costs through productivity and efficiency improvement initiatives. I am confident we can maintain growth in all our market segments and achieve robust growth in leasing, SME and PCBE loans. The portfolio quality will be closely monitored to ensure sustainable expansion. I believe the changes introduced this year to our human resource management systems will lead to a gradual productivity improvement across the Company and will also lead to a more customer centric organisation culture. The benefits of these initiatives will start to emerge in the new financial year. In addition, we will continue our investments in training and mentoring programmes.

SDF customers meanwhile can look forward to many exciting technology advances as we continue to develop our mobile phone based platform and we will also connect our customers to the national ATM network in the new financial year. Overall, I believe the financial year 2017/18 will generate stronger returns for all our stakeholders.

APPRECIATIONS

I would like to thank the Chairman and the Board for directing and guiding the Company during the year and the management team that shouldered the responsibility of implementing Company growth strategies. My gratitude goes out to the officials of the Sarvodaya Societies and members, for their contributions towards the Company's performance during the year.
I would like to extend my appreciations to the Governor of the Central Bank and the Non Bank Financial Intuitions staff of the Central Bank, the Sarvodaya Associations, especially the Secretary and Executive Director, for the support extended to us during the year. I also extend my appreciations to the former CEO and Chairman for their role in strengthening and developing SDF.

Mr. Dharmasiri Wickramatilake
CEO

26th May 2017

Board of Directors

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

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

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

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

Mr. Shevon C P Gooneratne
Non-Executive, Independent Director

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

Mr. Alex Perera
Non-Executive, Independent Director

Dr. Richard W A Vokes
Non-Executive, Independent Director

Dr. Janaki Kuruppu
Non-Executive, Independent Director

Board of Directors

MR. CHANNA DE SILVA
Chairman – Non-Executive, Independant

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

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

A Fellow of the Chartered Institute of Management Accountants (FCMA – UK) and Fellow of the Chartered Certified Accountants (FCCA – UK), Mr. De Silva is a Sri Lanka Council Member 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 Melbourne University (Australia) and Harvard University (USA). He is also an Edward Mason Fellow of Harvard University and served as a Teaching Fellow in Finance at the Harvard Kennedy School.

DR. VINYA ARIYARATNE
Non-Executive, Non-Independent Director

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

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

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

MR. SHAKILA WIJEWARDENA
Non-Executive, Non-Independent Director

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

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

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

MR. K L GUNAWARDANA
Non-Executive, Non-Independent Director

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

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

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

MR. SHEVON C P GOONERATNE
Non-Executive, Independent Director

Appointed to the Board in April 2011, Mr. Shevon Gooneratne is a member of the Board Audit Committee. He is an Attorney at Law of the Supreme Court of Sri Lanka. He also holds Master of Human Rights and Democratisation from the University of Colombo and Post Attorney Diploma in Intellectual Property from Sri Lanka Law College. He is a senior lawyer with an extensive civil practice of over 23 years. He has also specialised in corporate investment and intellectual property matters.

He also has more than 18 years of experience in working with non-profit organisations and has been a member of many national committees on legal and justice reform projects. He is a Trustee of the Sarvodaya Trust Fund and an Honorary Legal Adviser to Sarvodaya since 2004. Mr. Gooneratne was also the former Head of the Sarvodaya Legal Services Movement (SLSM) and also served as a Non-Executive Director of SEEDS (Gte) Limited. He is also a consultant at Law & Society Trust.

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

DR. RICHARD W A VOKES
Non-Executive, Independent Director

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

Board of Directors

MR. MASAYOSHI YAMASHITA
Non-Executive, Non-Independent Director

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 Sanwa Bank (now the Bank of Tokyo- Mitsubishi UFJ), 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 the position of Manager of the Business Management Department of Gentosha Inc.

DR. JANAKI KURUPPU
Non-Executive, Independent Director

Dr. Janaki Kuruppu was appointed to the Director Board of SDF on 22nd December 2015. Dr. Kuruppu brings with her 27 years of professional experience to enhance the operations of the SDF family. Her experience in development banking as the first Chairperson of the Regional Development Bank which she set up by merging 6 provincial level banks to become the development bank with Sri Lanka's largest network, experience in retail and corporate banking and finance companies adds value to SDF.

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

In addition to over seven awards to her accolade, Dr. Kuruppu is also the only Asian to be appointed to the Steering Committee of AgriFin, a joint project of Bill and Melinda Gates Foundation and the World Bank for agriculture financing. Dr. Kuruppu holds a PhD from the University of Colombo, an M.A. in Statistics and a BSc in Mathematics from the University of Missouri, USA. At present, Dr Kuruppu is the Chairperson of Mother Sri Lanka Trust, runs her own business ventures and also works as a freelance business strategy and development consultant while serving as a member of many corporate boards.

MR. ALEX PERERA
Non-Executive, Independent Director

Appointed to the Board in July 2016, Mr. Perera is also a member of the Integrated Risk Management Committee. Mr. Alex Perera brings with him over 11 years of experience collectively in the Quantitative Finance sector and the Capital Markets sector. Currently he serves as a Vice President at Moody's Analytics Knowledge Services where he specialises in Asset Management, Data Analytics, Bank Regulatory Capital Management, Risk Management and Stress Testing. Well versed in both local and global financial markets, he entered the Capital Markets domain through his former role as a Senior Business Analyst at Millennium IT, a London Stock Exchange Group Company, where he focused on Global Trading Platforms, market-Data Dissemination Systems and Market Surveillance Systems. Throughout his career he has also been involved in Software Development, specifically mastering trading and portfolio analytics technologies.

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

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

Corporate Management

Mr. Dharmasiri Wickramatilake
CEO

Mr. Deshantha de Alwis
DGM – Finance & Planning

Mrs. Dilushi Dabare
AGM – Risk Management & Acting Compliance Officer

Mr. Janaka Dissanayake
AGM - Credit

Mr. Rasika Epasinghe
AGM – Branch Operations and Marketing

Mr. Kenneth Mendis
AGM – Alternate Channels & Acting Head of Internal Audit

Mr. Rohan Peiris
Head of IT

Mr. Tusitha Rajapaksha
Head of Recoveries

Please note, *that the Corporate Management is listed according to the alphabetical order of the surname within the designation.*

Corporate Management

MR. DHARMASIRI WICKRAMATILAKE
Chief Executive Officer

Mr. Dharmasiri Wickramatilake brings over 25 years of SME banking including leasing experience to his new role as CEO of Sarvodaya Development Finance. Prior to his new appointment, Mr. Wickramatilake was Senior Vice President (Branch Banking and SME) of DFCC Bank responsible for driving Branch Banking Businesses. He was leading a team of 7 Regional Managers and all Branch Managers. He was deeply involved in strategy formulations, plan implementation, budgeting, monitoring and effecting corrective actions, motivating staff and staff development, staff mentoring etc. He has been a Member of the Executive Committee, Credit Committee, Assets and Liability Committee, Special Loans Review Committee and IT Steering Committee. His dynamic tract record and professionalism will be the driving force for the Company in the years ahead.

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

MR. DESHANTHA DE ALWIS
Deputy General Manager – Finance and Planning

Mr. Deshantha De Alwis joined SDF in May 2013. He assumed duties as the Deputy General Manager – Finance and Planning. Mr. De Alwis counts over 23 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 Limited, 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 the key business activities.

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

MRS. DILUSHI DABARE
Assistant General Manager - Risk Management and Acting Compliance Officer

Mrs. Dilushi Dabare joined Sarvodaya Development Finance Ltd on the 2nd of November 2015. She is a professionally qualified banker with 25 years of service. Having begun her career at Seylan Bank PLC where she served for 20 years, she managed areas of bank operations, credit, trade, audit and branch finance. Prior to joining Sarvodaya Development Finance Ltd, she was at State Bank of India in the capacity of Risk Manager for 3 years. At SBI Mrs. Dilushi was responsible for establishing risk tolerance, approving related strategies and policies, monitoring and assessing the activities of management, overseeing policy compliance and the effectiveness of the risk framework to meet the requirements of applicable regulations and interests of stakeholders.

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

MR. JANAKA DISSANAYAKE
Assistant General Manager - Credit

Mr. Dissanayake assumed duties as AGM – Credit in January 2016. He counts over 17 years experience in Banking and Finance. Prior to joining SDF he was attached to Nations Trust Bank PLC in the capacity of Manager - Corporate Banking. During his tenure in the Banking Sector, he has served at NDB, Royal Bank of Scotland (UK), DFCC, Sanasa Development Bank PLC and Nations Trust Bank PLC specializing in SME and Corporate Credit. Janaka is an Associate Member of CIMA (UK) and a Level 3 candidate of the CFA Programme.

MR. RASIKA EPASINGHE
Assistant General Manager – Branch Operations and Marketing

Mr. Rasika Epasinghe who joined Sarvodaya Development Finance in February 2013 as AGM – Marketing and Business Development has over 23 years of experience in the fields of Banking, Marketing and Business Development. He joined as AGM - Marketing and Business Development and have been reassigned as the AGM – Branch Operations and Marketing, with effect from March 2015. Having begun his career as a Banker at Seylan Bank PLC, where he served for a period of six years, Mr. Rasika went on to obtain a Bachelor's Degree in Business Administration with a dual major in Marketing and Management; a Postgraduate Diploma in Marketing from the Sri Lanka Institute of Marketing (SLIM) and a Diploma in Credit Management from the Institute of Bankers, Sri Lanka (IBSL). He is also a Certified Management Accountant (CMA – Australia)

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

MR. KENNETH MENDIS
Assistant General Manager – Alternate Channels and Acting Head of Internal Audit

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

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

MR. ROHAN PEIRIS
Head of IT

Mr. Peiris joined SDF in January 2016. He counts over 31 years of experience in the IT sector and his primary focus is Commercial Banking. Prior to joining SDF, he has held several senior managerial positions including Head of IT (DGM) at Bank of Ceylon, Head of IT at DFCC Vardhana Bank, VP IT Operations DFCC Bank, Head of IT at Pan Asia Bank and Head of IT/Manager IT at Merchant Bank of Sri Lanka. In addition, he was also appointed the Country IT Consultant by ILO and has served as a Consultant Project Manager at a leading Software Company primarily involved in the development of Application Software to the Financial Sector.

Mr. Peiris holds a Master's Degree in IT from Keele University, UK and is a member of the British Computer Society (MBCS). He is a Chartered Information Technology Professional (CITP) of the British Computer Society, Member of the Computer Society of Sri Lanka (MCSL) Member of the Institue of Electric and Electronic Engineers (MIEEE) and a Member of the Project Management Institute, UK (MPMI). He also is an ITIL V3 qualified professional.

MR. THUSITHA RAJAPAKSHE
Head of Recoveries

Mr. Thusitha Rajapakshe joined SDF on September 15, 2016. He holds over 27 years' experience in the field of finance covering Recovery, Marketing & Credit. His prior appointments include middle and senior management positions in LB Finance, Alliance Finance, Central Finance, Multi Finance & TVS Automotive. He obtained his Credit Management Diploma from Sri Lanka Institute in Credit Management.

Senior Management

Mr. R A M Rupesinghe
Chief Manager - Legal

Mr. K Sasikumar
Chief Manager - Recoveries

Mr. M L P Prabath
Head of Leasing

Mr. P D P Sanjeewa
Head of Micro Loans

Mr. H A S Dharmasiri
Senior Manager -CAU

Mr. M A N A J Fernando
Senior Manager - Operations

Mr. P A B T Goonawardene
Senior Manager - IT

Mr. M C Hewawanitunga
Senior Manager – Business Development

Mr. U K M Jayasanka
Senior Manager - Finance

Mr. W K C Niroshana
Senior Manager - SME

Ms. K S Perera
Manager - HR

Please note, *that the Senior Managers are listed according to the alphabetical order of the surname within the designation.*

Regional Managers

Mr. L A R M Perera
Region 01

Mr. H G K Chaturanga
Region 02

Mr. H. M. C. R. Kumara
Region 03

Mr. B S R Levin
Region 04

Mr. L R C S Kumara
Region 05

Mr. D G Kumaradasa
Region 06

Mr. S Godakanda
Region 07

Branch and Customer Service Centre (CSC) Managers

No	Employee No	Name	Functional Title	Location
1	132	Archchi N D M	OIC	Akuressa
2	72	Pathirana I P A N	Branch Manager	Ambalantota
3	916	Gunathilake R G S S	Branch Manager	Ampara
4	683	Liyanage H	Branch Manager	Anuradhapura
5	16	Jayathilake B G N	Branch Manager	Badulla
6	290	Perera P A L L	Branch Manager	Balangoda
7	1020	Hariemalden J	Branch Manager	Batticaloa
8	1053	Miskin R I	Branch Manager	Borella
9	678	Wickramasinghe A G C	Branch Manager	Buttala
10	52	Dayaratna D M I	Branch Manager	Chilaw
11	14	Bandara H G G W	Branch Manager	Dambulla
12	58	Weerasekara W M U G S G	OIC	Dehiattakandiya
13	63	Shayamalee G G S	OIC	Delgoda
14	54	Sooriyaratna W D D N K	OIC	Digana
15	32	Jayalath B H G P C	Branch Manager	Galle
16	1054	Perera A M A L	Branch Manager	Gampaha
17	17	Chandrasena M D	Branch Manager	Godakawela
18	57	Maweekumbura M G V	OIC	Hatton
19	1014	Mahisanka P K D	Branch Manager	Homagama
20	880	Prathileepan P	Branch Manager	Jaffna
21	1016	Kanthaperumal R	OIC	Kalmunei
22	48	Subasinghe S P T H	OIC	Kamburupitiya
23	1058	Bandaranayake D A M M	Branch Manager	Kandy
24	49	Sampath P G W	OIC	Karandeniya
25	286	Hettiarchchi H A S W	OIC	Kataragama
26	36	Sirisena P N	Branch Manager	Kebithigollewa

No	Employee No	Name	Functional Title	Location
27	882	Perera J W R H S	Branch Manager	Kegalle
28	56	Dharmapala M	OIC	Kekirawa
29	31	Bandara W M K	Branch Manager	Kuliyapitiya
30	271	Gaspe G M R A	Branch Manager	Kurunegala
31	70	Wimalasooriya S A D C	OIC	Mahiyanganaya
32	377	Cithiralan A M	OIC	Mannar
33	45	Ranasinghe U	Branch Manager	Matale
34	43	Dayananda M K S	Branch Manager	Matara
35	134	Prasanna K B M N D	OIC	Medagama
36	68	Indrasiri M D	Branch Manager	Medirigiriya
37	295	Gunawardana A W C P	OIC	Minuwangoda
38	152	Kumara R D T L	OIC	Nattandiya
39	492	Hettiarchchi C P	OIC	Nawalapitiya
40	35	Seneviratna W R M J	Branch Manager	Nuwaraeliya
41	816	De Alwis A S K	Branch Manager	Panadura
42	53	Neelakumari B A D	OIC	Parackramapura
43	51	Karunarathna W A C	OIC	Pasyala
44	156	Srimal J M S	OIC	Piliyandala
45	37	Kumara K D N	Branch Manager	Polonnaruwa
46	133	Kumara H W M I S	Branch Manager	Puttalam
47	25	Cooray P T	Branch Manager	Ratnapura
48	55	Gunawardana H G D S	OIC	Ruwanwella
49	59	Samantha P W D	OIC	Thambuttegama
50	1017	Niroshan P J	Branch Manager	Trincomalee
51	42	Karunasena G V	OIC	Udugama
52	511	Ragishan S	Branch Manager	Vavuniya

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CREATING HOPE AND SHAPING A FUTURE THAT MATTERS

MATARA RASAHALA & BAKERS

Mr. Nalagamge Nilantha Priyadarshana started the Matara Hotel on a small scale in 1995 with an Rs. 5,000 investment. He expanded his business with a Rs. 100,000 loan from the SEEDS Dehiattakandiya Branch. In 2011 he obtained a Rs. 300,000 loan from SDF and moved into larger premises under the new name, Matara Rasahala. He then started a bakery with equipment financed by a Rs. 1 Mn loan from SDF.

Today, he is the proud owner of a hotel, a bookshop, a bakery and a restaurant with assets over Rs. 2.2 Mn and provides employment to 6 people.

Corporate Governance

INTRODUCTION

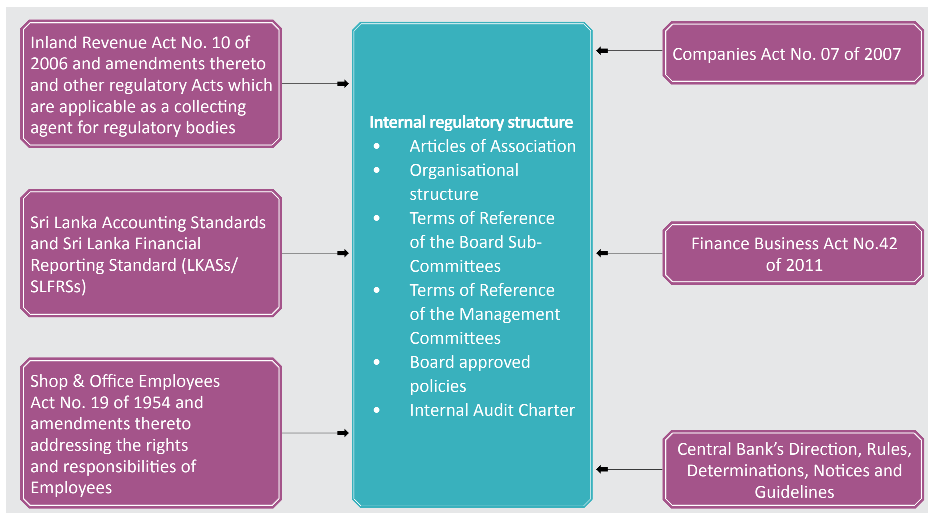
Governance is defined as the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation. Corporate Governance at Sarvodaya Development Finance Limited (SDF) comprises carefully considered rules and principles on management, control and delegation of responsibility between the shareholders, the Board of Directors and the CEO. The goal is to maintain the trust of customers and the public and to help businesses achieve a sound and sustainable financial situation.

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.

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

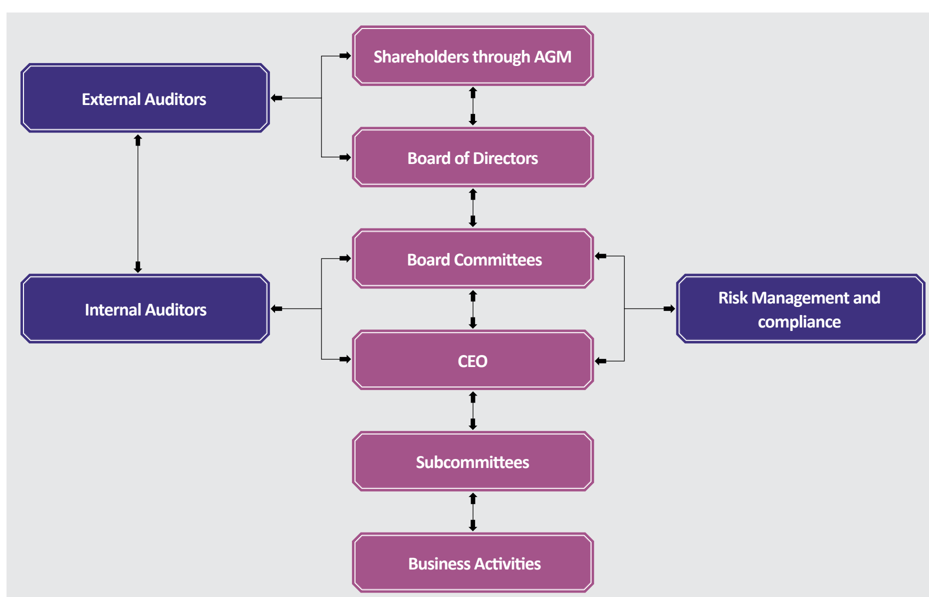
These specify the delegation of responsibility for governance, control and monitoring of operations between the shareholders, the Board of Directors and the CEO. The Board has established the principles of Corporate Governance, which are reviewed annually to ensure that they are appropriate, effective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



The structure for Corporate Governance and governance philosophy comprises:

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

STRUCTURE OF CORPORATE GOVERNANCE



ANNUAL GENERAL MEETING

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

- Declaring Dividend
- Adopting the Annual Report and the Audited Financial Statements
- Appointing the Auditors and fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed
- Electing Directors in the place of those retiring by rotation or otherwise

SHAREHOLDER COMMUNICATION

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

BOARD LEADERSHIP

The Board of Directors are elected by the shareholders at the AGM for a mandate of one year. The Board has an overarching responsibility for managing the affairs of SDF in the interests of the Company and all shareholders. The Board's tasks include, but are not limited to, setting operational goals and strategies, appointing and evaluating the CEO, ensuring that effective systems are in place to monitor and control operations, manage investments and ensuring that laws and regulations are followed.

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

CHAIR OF THE BOARD

The Chair of the Board has specific responsibilities, including;

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

The diverse experience, professional qualifications and competencies of the Chairman is disclosed under his profile on page 14.

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 27 of this Annual Report. The role and the responsibilities of the Chief Executive Officer, Mr. Dharmasiri Wickramatilake is disclosed under the 'Management's Role in the Structure of Corporate Governance', on page 34 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.

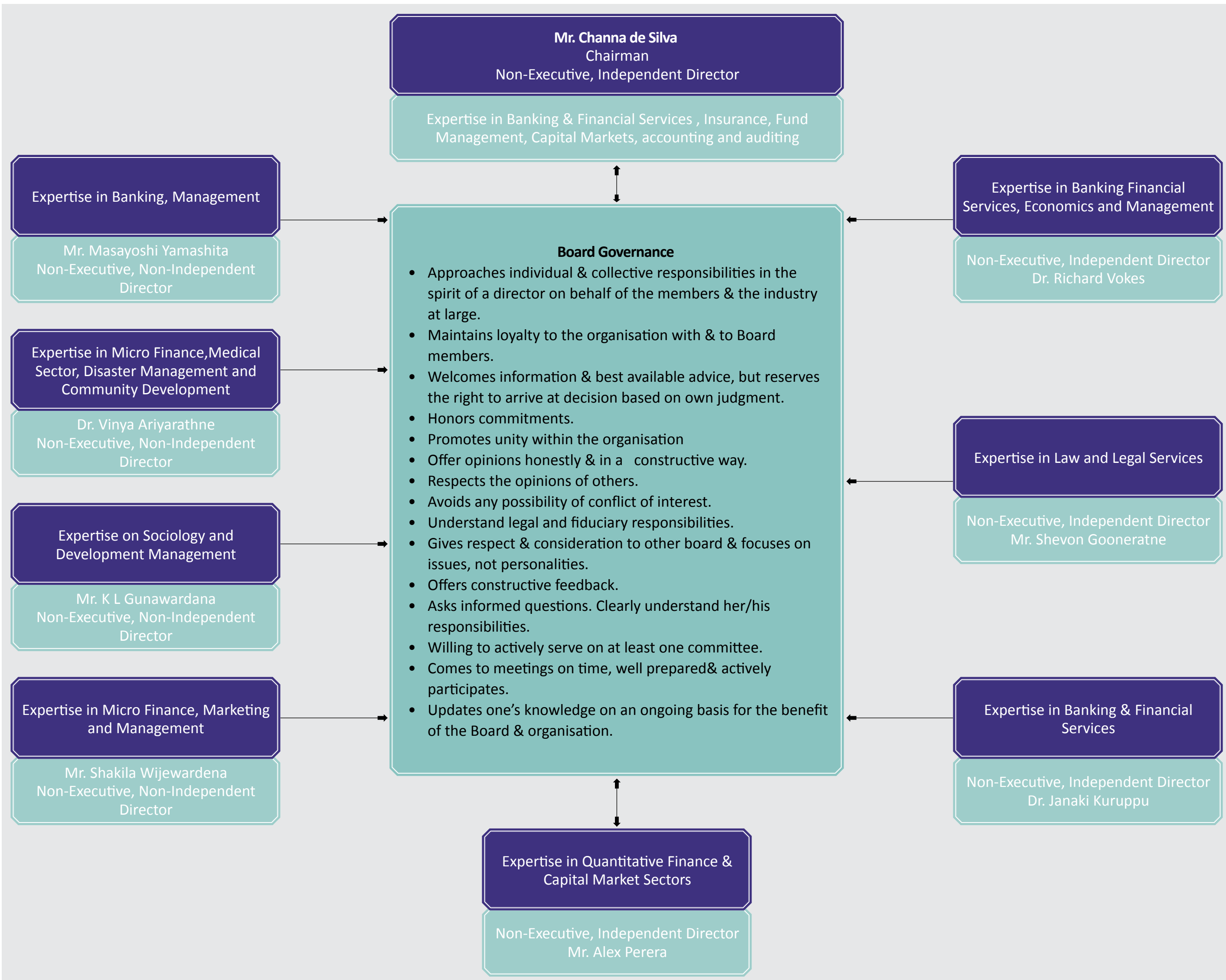
BOARD COMPOSITION

The Board currently comprises nine 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 Central Bank (CBSL) Direction 3 of 2008.

The diverse experiences, professional qualifications and competencies of the Board of Directors are disclosed under their profiles from pages 14 to 16 of this Annual Report.

Corporate Governance

Board Governance. Responsibility and Competencies



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.

RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

The following Directors who retired by rotation were reappointed at the AGM held on 24th June 2016.

I. Mr. M Yamashita
Non-Executive, Non-Independent Director, first appointed to the Board on 27th August 2014.

II. Mr. K L Gunawardena
Non-Executive, Non-Independent Director, first appointed to the Board on 5th February 2010.

III. Mr. Shevon Gooneratne
Non-Executive, Independent Director, first appointed to the Board on 5th February 2010.

CHANGES IN THE BOARD'S COMPOSITION

The following changes incurred during the year under review:

Name	First Appointed	Re-elected	Status
Mr. Eastman Narangoda	13th December 2013	September 2013	Chairman/Non-Executive, Independent Director *(Retired from the position of Chairman/Non-Executive, Independent Director w.e.f. 06th October 2016)*
Mr. Channa de Silva	19th April 2011	June 2015	Deputy Chairman/ Non-Executive, Independent Director *(Up to 05th October 2016)* *Chairman/Non-Executive, Independent Director* *(Appointed as the Chairman/Non-Executive, Independent Director w.e.f. 06th October 2016)*
Dr. Vinya Ariyaratne	01st January 2010	June 2015	Non-Executive, Non-Independent Director
Mr. Shakila Wijewardena	01st January 2010	June 2015	Non-Executive, Non-Independent Director
Mr. K L Gunawardana	05th February 2010	June 2016	Non-Executive, Non-Independent Director
Mr. Shevon Gooneratne	05th February 2010	June 2016	Non-Executive, Independent Director
Dr. Richard Vokes	07th March 2013	September 2014	Non-Executive, Independent Director
Ms. Masayoshi Yamashita	27th August 2014	June 2016	Non-Executive, Non-Independent Director
Dr. Janaki Kuruppu	22nd December 2015		Non-Executive, Independent Director
Mr. Alex Perera	01st July 2016		Non-Executive, Independent Director *(Appointed as Non-Executive, Independent Director w.e.f. 01st July 2016)*

CHANGES IN THE BOARD'S COMPOSITION

The following changes incurred during the year in review,

I. Resignations

- Mr. Eastman Narangoda retired from the post of Chairman/Non-Executive, Independent Director w.e.f. 06th October 2016 after reaching his age 70 on 05th September 2016.

II. New Appointments

- Mr. Channa de Silva was appointed as Chairman/Non-Executive, Independent Director w.e.f. 06th October 2016

III. New Directors

- Mr. Alex Perera joined the Board on 01st July 2016 as a 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 CBSL's aforementioned Direction, SDF has made a clear distinction between the functions and responsibilities of the Chairman and the CEO.

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

BOARD MEETINGS AND ATTENDANCE

The Board of Directors meets once a month and whenever the need arises. The Board convened thirteen (13), twelve (12) routine monthly meetings and one (1) additional meeting, during the year under review.

Corporate Governance

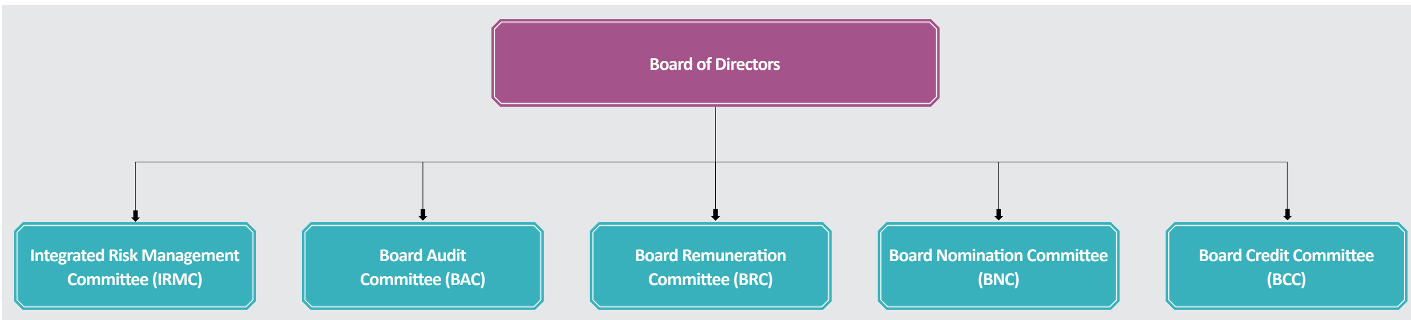
Record of Attendance at Board Meetings is given below:

Name of the Director		Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings															
						25.01.2016	29.02.2016	28.03.2016	25.04.2016	27.05.2016	24.06.2016	25.07.2016	25.08.2016	09.09.2016	26.09.2016	24.10.2016	28.11.2016	27.12.2016	27.01.2017	27.02.2017	24.03.2017
1	Mr Eastman Narangoda *(Retired w.e.f. 06th October 2016)*		√	√		√	√	√	√	√	√	√	√	√	√	-	-	-	-	-	-
2	Mr. Channa de Silva		√	√		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
3	Dr. Vinya Ariyaratne		√		√	√	X	√	√	√	√	√	√	√	√	√	√	√	√	X	√
4	Mr. Shakila Wijewardena		√		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
5	Mr. Shevon Gooneratne		√	√		√	√	√	√	√	√	√	√	√	√	√	√	√	√	X	X
6	Mr. K L Gunawardena		√		√	√	X	√	√	√	√	√	√	√	√	√	√	√	√	√	√
7	Dr. Richard Vokes		√	√		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
8	Mr. Masayoshi Yamashita		√		√	√	√	√	√	√	√	√	X	X	√	√	√	X	√	X	√
9	Dr. Janaki Kuruppu		√	√		√	√	√	√	√	√	√	√	X	√	√	X	√	√	√	√
10	Mr. Alex Perera *(Appointed w.e.f. 01st July 2016)*		√	√	-	-	-	-	-	-	-	√	√	√	√	√	√	√	√	√	√

In line with such norms, SDF set up following Board Committees:

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

The first two committees are mandatory under Sections 8 (2) and 8 (3) of the CBSL's Corporate Governance Directives, which also provides guidelines on their composition, functions and responsibilities. All subcommittees report directly to the Board.



DUTIES AND RESPONSIBILITIES OF THE BOARD COMMITTEES

Each committee is chaired by a Non-Executive Director who has the requisite qualifications and experience and is assisted by one or more of the Non-Executive Board Directors. The committees also co-opt Key Management Personnel and relevant Senior Managers in monitoring specific areas under their purview. They attend meetings on invitation. The respective reports of the first three committees for the year ended 31st March 2017 are given in pages 57 to 60 in this Annual Report.

BOARD SUBCOMMITTEES – COMPOSITION AND KEY FUNCTIONS

Board Committees	Members	Function	Management Committee/ Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Integrated Risk Management Committee (IRMC) (Mandatory)	**Chairman** • Dr. Richard Vokes **Members** • Mr. Shakila Wijewardena • Mr. Alex Perera *(Appointed w.e.f. 25th July 2016)*	The Integrated Risk Management Committee oversees issues involving market risk, credit risk, liquidity, funding and capital. The IRMC provides oversight and advice to the Asset and Liability Committee on market risk and liquidity risk exposures. IRMC reviews and evaluates the appropriateness of the governance model adapted.	I. Assets and Liability Committee (ALCO): • To make investments and execute asset/ liability transactions within delegated limits and manage liquidity and other market risks. The Committee ensuring developing appropriate parameters for pricing of deposits, loans and investments.	• 25th May 2016 • 23rd August 2016 • 23rd November 2016 • 27th January 2017	4	4
			II. Product Development Committee (PDC): • To develop new products in-line with the Company's strategic objectives.		Not scheduled	On requirement

Corporate Governance

Board Committees	Members	Function	Management Committee/ Function	Meeting held on	Number of Meetings held during the FY	Minimum Required Number of Meetings for FY
Board Audit Committee (BAC) (Mandatory)	**Chairman** • Mr. Channa de Silva **Members** • Mr. Shakila Wijewardena, • Mr. Shevon Gooneratne	• The Board Audit Committee gives the Board, through its work and in dialogue with the External Auditor, the Head of Internal Audit greater access to information on any deficiencies in routines and organisation from the standpoint of corporate governance, risk management and control. • The Board Audit Committee is responsible for ensuring that processes are in place for recommendations raised by the Management Audit Committee to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored.	I. Management Audit Committee (MAC): • To implement and monitor the progress of the decisions of the BAC.	• 19th April 2016 • 25th May 2016 • 23rd June 2016 • 12th August 2016 • 28th September 2016 • 17th November 2016	6	6
Board Remuneration Committee (BRC)	**Chairman** • Dr. Vinya Ariyaratne *(Resigned w.e.f. 14th September 2016)* • Dr. Janaki Kuruppu *(Appointed w.e.f. 14th September 2016)* **Members** • Mr. Shakila Wijewardena, • Mr. K L Gunawardana	• The Board Remuneration Committee prepares and recommends compensation packages issues and ensures, among other things, that compensation systems comply with effective risk management and do not encourage exaggerated risk-taking. The Committee is responsible for evaluating and recommending appropriate changes to the HR systems, policies including remuneration policies.	Not assigned	• 13th June 2016 • 14th September 2016 • 19th October 2016 • 25th November 2016 • 14th December 2016 • 20th January 2017 • 17th March 2017	7	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** • Dr. Vinya Ariyaratne **Members** • Mr. Eastman Narangoda, *(Retired w.e.f. 06th October 2016)* • Dr. Richard Vokes • Dr. Janaki Kuruppu *(Appointed w.e.f. 25th April 2016)*	• The Board Credit Committee approves credits within delegated limits, and set risk appetites for credits by evaluating and recommending the implementation of the credit risk policies in-line with the Company's strategic objectives.	I. Internal Credit Committee (ICC): • To approve credits within delegated limits. The Committee is sanctioned with developing the Company's credit policy by ensuring that the concentration of the credit risks are within the risks tolerance limits approved by the IRMC.		Not scheduled Credit facilities referred to BAC were approved via circulation.	On requirement
Board Nomination Committee (BNC)	**Chairman** • Dr. Vinya Ariyaratne **Members** • Mr. Shakila Wijewardena • Dr. Richard Vokes • Mr. Shevon Gooneratne	• The Board Nomination Committee is empowered to review the structure and composition of the Board and make recommendations to the Board in regards to any changes that need to be introduced. The Committee is engaged in appointing of new Directors and the members of the Corporate Management and also empowered with evaluating and approving the succession planning of the Corporate Management	Not assigned		Not scheduled	On requirement

Corporate Governance

BOARD COMMITTEE MEETINGS AND ATTENDANCE

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

Name	Status	Appointment Date to the Board	Attendance 2016/17				
			IRMC	BAC	BCC	BRC	BNC
Mr. Channa de Silva	Chairman/Non-Executive, Independent Director	19th April 2011		6			
Dr. Vinya Ariyaratne	Non-Executive, Non-Independent Director	01st January 2010				2	
Mr. Shakila Wijewardena	Non-Executive, Non-Independent Director	01st January 2010	4	6		7	
Mr. K L Gunawardana	Non-Executive, Non-Independent Director	05th February 2010				7	
Mr. Shevon Gooneratne	Non-Executive, Independent Director	05th February 2010		6			
Dr. Richard Vokes	Non-Executive, Independent Director	07th March 2013	4				
Dr. Janaki Kuruppu	Non-Executive, Independent Director	22nd December 2015				6	
Mr. Alex Perera	Non-Executive, Independent Director	01st July 2016					

MANAGEMENT'S ROLE IN THE STRUCTURE OF CORPORATE GOVERNANCE

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

Management Committees – Composition and Key Functions.

Committees	Function	Member	Designation	Meeting Sequence
Management Committee (ManCom)	• Decision-making body for major operational matters. • Overall review of performance.	Mr. Dharmasiri Wickramatilake	CEO	Every other week
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Janaka Dissanayake	AGM - Credit	
		Mr. Rasika Epasinghe	AGM - Branch Operation & Marketing	
		Ms. Dilushi Dabare	AGM - Risk Management and Acting Compliance Officer	
		Mr. Kenneth Mendis	AGM - Alternative Channels & Acing Head of Internal Audit	
		Mr. Rohan Peiris	Head of IT	
		Mr. Thusitha Rajapaksha	Head of Recovery	
		Mr. Mohanlal Rupasinghe	Chief Manager - Legal	
		Ms. Shalini Perera.	Manager - HR	
		Miss. Madhurika Handunnetti	Confidential Secretary to CEO/Secretary to the Committee	

<table>
<tr><th>Committees</th><th>Function</th><th>Member</th><th>Designation</th><th>Meeting Sequence</th></tr>
<tr><td rowspan="7">Management Audit Committee (MAC)</td><td rowspan="7">• To implement and monitor the progress of the decisions of the BAC.</td><td>Mr. Dharmasiri Wickramathilake.</td><td>CEO</td><td rowspan="7">Every two months and on requirement</td></tr>
<tr><td>Mr. Deshantha de Alwis</td><td>DGM - Finance and Planning</td></tr>
<tr><td>Mr. Rasika Epasinghe</td><td>AGM - Branch Operation & Marketing</td></tr>
<tr><td>Mr. Kenneth Mendis</td><td>AGM - Alternative Channels & Acting Head of Internal Audit/Secretary to the Committee</td></tr>
<tr><td>Mr. Janaka Dissanayake</td><td>AGM - Credit</td></tr>
<tr><td>Ms. Shalini Perera</td><td>Manager- HR</td></tr>
<tr><td>Ms. Dilushi Dabare</td><td>AGM - Risk Management & Acting Compliance Officer</td></tr>
<tr><td rowspan="6">Assets and Liability Committee (ALCO)</td><td rowspan="6">• 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.</td><td>Mr. Dharmasiri Wickramathilake</td><td>CEO</td><td rowspan="6">Every two months and on requirement</td></tr>
<tr><td>Mr. Deshantha de Alwis</td><td>DGM - Finance and Planning/Secretary to the Committee</td></tr>
<tr><td>Mr. Janaka Dissanayake</td><td>AGM - Credit</td></tr>
<tr><td>Mr. Rasika Epasinghe</td><td>AGM - Branch Operation & Marketing</td></tr>
<tr><td>Ms. Dilushi Dabare</td><td>AGM - Risk Management and Acting Compliance Officer</td></tr>
<tr><td>Ms. Sonali Weragoda</td><td>Manager - Business Intelligence & Analysis / Recording Secretary to the Committee</td></tr>
<tr><td rowspan="5">Credit Committee (CC)</td><td rowspan="5">• 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.</td><td>Mr. Dharmasiri Wickramathilake</td><td>CEO</td><td rowspan="5">On requirement</td></tr>
<tr><td>Mr. Janaka Dissanayake</td><td>AGM - Credit/Secretary to the Committee</td></tr>
<tr><td>Mr. Rasika Epasinghe</td><td>AGM - Branch Operation & Marketing</td></tr>
<tr><td>Ms. Dilushi Dabare</td><td>AGM - Risk Management and Acting Compliance Officer</td></tr>
<tr><td>Mr. Kenneth Mendis</td><td>AGM - Alternative Channels & Acting Head of Internal Audit</td></tr>
</table>

Corporate Governance

Committees	Function	Member	Designation	Meeting Sequence
Product Development Committee (PDC)	• To develop new products.	Mr. Dharmasiri Wickramathilake	CEO	On requirement
		Mr. Deshantha de Alwis	DGM - Finance and Planning	
		Mr. Janaka Dissanayake	AGM - Credit	
		Mr. Rasika Epasinghe	AGM - Branch Operation & Marketing/Secretary to the Committee	
		Mr. Kenneth Mendis	AGM - Alternative Channels & Acting Head of Internal Audits	
		Ms. Dilushi Dabare	AGM - Risk Management and Acting Compliance Officer	
		Mr. Rohan Peiris	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 Company has been able to provide a safe, secure and conducive environment for employees. Equally, SDF also ensures that human resource standards and regulations are followed. The Company does not condone discrimination of any kind.

FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial statements have been prepared in accordance to accounting standards comprising of Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards. Financial statements are also in accordance to the Finance Business Act, Companies Act, Directions issued by Central Bank of Sri Lanka and internal policies.

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

COMPLIANCE STATUS OF CORPORATE GOVERNANCE PRINCIPLES

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

This report shall be deemed to be the SDF's Corporate Governance Report for financial year 2016/2017, prepared in compliance with this Direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0	**Responsibilities of the Board of Directors**		
2.0 (1.0)	The Board of Directors (hereinafter referred to as the "Board") shall strengthen the safety and soundness of the finance company by.	Complied	The Company is headed by an effective Board of Directors with local as well as international experience and qualification drawn from backgrounds of banking and financial services, accounting, management, economics, marketing and as well as community management.
2.0 (1.0) (a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company.	Complied	The strategy has been drawn up for 2016-2020. The five year strategic plan was approved by the Board on the 28th of March 2016. The Company's corporative objectives, values and risk management was communicated through the presentation that was made to the Board and there after shared with the senior management team and the branch managers at the branch managers' meeting held in January 2017.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (1.0) (b)	Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least next three years.	Complied	Integrated Risk Management Policy was approved by the Board in April 2016. The strategies formulation revolved around devising separate strategy related to core business and support functions of the Company namely; Credit, Recoveries, Finance, Operations. Marketing and HR for the attainment of overall objectives. The Board reviewed business strategy on a regular basis by discussing their concerns on each core business with the AGM or DGM in charge of the particular division. Board approves and reviews the annual budget which is derived from Company's strategic plan incorporating subsequent changes to expectations, market variables and business climate.
2.0 (1.0) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	The Board has delegated the function to manage risks identified by the Board to a Board subcommittee namely Integrated Risk Management Committee (IRMC) and the IRMC minutes are submitted to the Board for their review.
2.0 (1.0) (d)	Approving policy of communication with all the stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	A Board approved communication policy is available addressing how the Company communicates with its stakeholders.
2.0 (1.0) (e)	Reviewing the adequacy and the integrity of the finance company's; **i)** Internal control systems; and	Complied	The Audit Committee on behalf of the Board monitors effectiveness of the internal control system on a continuous basis and reports to the Board on its findings. The Audit Committee updates the Board on material concerns and lapses in internal controls and recommends solutions on an ongoing basis. The 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 111 and the Assurance Report from the External Auditor on the Internal Control over Financial Reporting is disclosed on page 112.
	ii) Management of information systems.	Not Complied	Non-financial data are extracted from the MIS system and are compiled into presentable formats by the MIS Department. This information are then sent to the respective user departments to verify the accuracy and the integrity before submitting same to the Board and the Board subcommittees for their information and decision-making process. The Company has introduced an MIS policy which clearly defined process to review the reliability and the accuracy of non-financial information which are used by the Board and the Board subcommittees and the Board ensures the adequacy and the integrity of the Company's management information system. However, this policy has not been approved by the Board for implementation as at the year end. The management intends to refer the policy for Board approval in the coming year.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (1.0) (f)	Identifying and designating Key Management Personnel, who are in a position to – **i)** significantly influence policy; **ii)** direct activities; and **iii)** exercise control over business activities, operations and risk management.	Complied	The Company has identified and designated the KMPs as Chairman, Board of Directors, CEO, DGM, AGMs, Head of IT, Head of Legal, Head of Recoveries and Compliance Officer stated in the related party policy approved by the Board for the purpose of compliance of this Direction. The Company has followed the definition given in Sri Lanka Accounting Standards. LKAS 24 (Related Party Transactions) in defining and disclosing the transactions with its Key Management Personnel (KMPs) in these Financial Statements. The transactions that have been carried out with the related parties during the financial year ended 31st March 2017 are disclosed on pages 151 to 153 of this Annual Report.
2.0 (1.0) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	Complied	Article 119 of the Company's Articles of Association speaks about the authority of Board of Directors under general power of Directors. Areas of authority and key responsibilities for the Key Management Personnel have been defined in their individual job descriptions.
2.0 (1.0) (h)	Ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy.	Complied	The Board has a process for appropriate oversight of the affairs of the Company by KMPs. The CEO presents the monthly operational report to the Board for their review and to take timely actions.
2.0 (1.0) (i)	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including:		
	i) the selection, nomination and election of directors and key management personnel;	Complied	As per Article 87 and 95 of the Company, Board has the power to make decisions on selection, nomination and election of directors.
	ii) the management of conflicts of interests; and	Complied	Article 115 of the Company's Articles of Association addresses the provisions on management of conflicts of interest of Directors.
	iii) the determination of weaknesses and implementation of changes where necessary.	Complied	Weaknesses and implementation of changes where necessary have been determined at the Board level through the submission of annual Self-evaluation process of the Board members.
2.0 (1.0) (j)	Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.	Not Complied	The Company has a 'Succession Plan' approved by the Board in April 2016. The succession plan approved did not include a succession plan one-to-one. The Company has now drafted a one-to-one succession plan which has not been approved by the Board as at the date of this report.
2.0 (1.0) (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	CEO calls in the corporate and the Senior Management to the Board meetings when the need arises to explain matters relating to the operations and performance of the Company to the Board.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (1.0) (l)	Understanding the regulatory environment.	Complied	Regulatory requirements is discussed at the Management Committee (ManCom) meetings fortnightly. A regulatory compliance report, including CBSL Returns uploaded to the 'FInNet', signed jointly by the AGM – Risk Management and Acting Compliance Officer and CEO, is submitted to the Board of Directors at each monthly board meeting for Board's review and decision-making.
2.0 (1.0) (m)	Exercising due diligence in the hiring and oversight of External Auditors.	Complied	Article 146 of the Company's Articles of Association defines the process of appointment of External Auditors recommended by the Board at AGM. Messrs Ernst & Young, Chartered Accountants, has been appointed as the Company's External Auditors since year 2012/2013. This firm was selected from the Panel of External Auditors transmitted to all LFCs by the Central Bank's Department of Supervision of Non-Banking Financial Institutions, under Section 30 (4) of the Finance Business Act No. 42 of 2011.
2.0 (2.0)	The Board shall appoint the Chairman and Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and Chief Executive Officer in-line with paragraph 7 of this Direction.	Complied	The functions and responsibilities of the Chairman and CEO has been clearly defined and approved by the Board of Directors.
2.0 (3.0)	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge their duties to the finance company.	Complied	The Company has a Board approved procedure in place for seeking independent professional advice.
2.0 (4.0)	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	The Company's related party transaction policy approved by the Board governs Directors' responsibilities to abstain from voting in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest.
2.0 (5.0)	The Board shall have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the finance company is firmly under its authority.	Complied	The Company has a Board approved formal schedule of matters.
2.0 (6.0)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Banking Financial Institutions of the situation of the finance company prior to taking any decision or action.	Complied	Liquidity position of the Company is reported to the Central Bank of Sri Lanka on 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.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2.0 (7.0)	The Board shall include in the finance company's Annual Report, an Annual Corporate Governance Report setting out the compliance with this Direction.	Complied	The Board has included the Corporate Governance Report in all its Annual Reports published.
2.0 (8.0)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied	The Company has adapted a scheme of self-assessment to be undertaken by each Director annually and those records are maintained with the Company Secretary. Self-evaluation for the current year has been obtained and a summery has been submitted to the Board.
3.0	**Meetings of the Board**		
3.0 (1.0)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied	Board has met 13 times during the year under review. There were 12 instances where the Board's consent has been obtained through the circulation of written or electronic resolutions/papers. These papers have been tabled at the immediately following Board meeting.
3.0 (2.0)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied	Company has established a procedure to enable all directors to include matters and proposals in the agenda for regular Board meetings.
3.0 (3.0)	A notice of at least seven days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Not Complied	A reasonable notice has been given.
3.0 (4.0)	A Director, who has attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director, provided that participation at the Directors' meetings through an alternate Director shall, however be acceptable as attendance.	Complied	All directors have attended at least two-thirds of the meetings in the period of twelve months and also, attended at least one meeting of the immediately preceding three consecutive meetings held.
3.0 (5.0)	Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	The Board has appointed Messrs BDO Secretaries (Pvt) Limited, as Company Secretary to carry out all functions and responsibilities in accordance with statutory and regulatory requirements.
3.0 (6.0)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied	Chairman prepares the agenda and Company Secretary circulates the same.
3.0 (7.0)	All Directors shall have access to obtain advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	A Board approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
3.0 (8.0)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3.0 (9.0)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: **(a)** a summary of data and information used by the Board in its deliberations; **(b)** the matters considered by the Board; **(c)** the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; **(d)** the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations **(e)** the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted and the decisions; and **(f)** Board resolutions.	Complied	The Company Secretary records the proceedings of the meetings and the decisions taken thereat in sufficient details.
4.0	**Composition of the Board**		
4.0 (1.0)	Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.	Complied	As at 31st March 2017, the Board consisted of nine (9) Directors inclusive of the Chairman.
4.0 (2.0)	Subject to the transitional provisions contained herein and subject to paragraph 5 (1) of this Direction, the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period of office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied	The total period of service of all Non-Executive Directors does not exceed nine years.
4.0 (3.0)	Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.	Complied	All Board Directors are Non-Executive Directors. The post of Chief Executive Officer is not that of an Executive Director.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4.0 (4.0)	With effect from three years commencing 1st January 2009, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total number of Directors. A Non-Executive Director shall not be considered independent if such Director;	Complied	The Board comprised five Non-Executive, Independent Directors during the financial year 2016/17 who met the criteria for independence as specified in this rule. Self-declarations were obtained from all Non-Executive, Independent Directors confirming their suitability to be designated as 'independent' in terms of the criteria in this rule. Of the four Non-Executive, Non-Independent Directors, three are Board Directors of the Parent Company, SEEDS (Gte) Limited, while two holds one share each in the Company and one is a representative of a shareholder of the Company.
4.0 (4.0) (a)	has shares exceeding 2% of the paid-up capital of the finance company or 10% of the paid-up capital of another finance company;		
4.0 (4.0) (b)	has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph nine hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;		
4.0 (4.0) (c)	has been employed by the finance company during the two-year period immediately preceding the appointment as Director;		
4.0 (4.0) (d)	has a relative, who is a Director of Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid-up capital of the finance company or holds shares exceeding 12.5% of the paid-up capital of another finance company;		
4.0 (4.0) (e)	represents a shareholder, debtor or such other similar stakeholder of the finance company;		
4.0 (4.0) (f)	is an employee or a Director or has a shareholding of 10% or more of the paid-up capital in a Company or business organisation;		
4.0 (4.0) (f) (i)	which has a transaction with the finance company as defined in paragraph nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4.0 (4.0) (f) (ii)	in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4.0 (4.0) (f) (iii)	in which any of the other Directors of the finance company has a transaction as defined in paragraph nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4.0 (5.0)	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Complied	No alternate Directors were appointed during the year.
4.0 (6.0)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	The Board of Directors have the necessary competencies, and possess academic and professional qualifications in diverse fields to serve as members of the Company's Board, as disclosed in their profiles.
4.0 (7.0)	With effect from three years commencing 1st January 2009, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors that constitutes the quorum at such meeting are Non-Executive Directors.	Complied	Since all the Directors of the Company were Non-Executive Directors, this requirement was met at all meetings of the Board convened during the year.
4.0 (8.0)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report which shall be an integral part of its Annual Report.	Complied	Company has expressly identified and separately disclosed the names of all independent, non-executive directors in all cooperate communications as required by this section of the Direction. As disclosed in this Corporate Governance Report, currently, all nine Board Directors (including the Chairman) are named and identified as Non-Executive Directors. Of this number, five have been expressly identified as Independent Non-Executive Directors. The Board of Directors profiles disclosed from pages 14 to 16 also provides the required details.
4.0 (9.0)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	The article 102 of the Articles of Associations of the Company describes a clearly defined procedure for appointment of a new Director to the Board.
4.0 (10.0)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	There were no casual vacancies during the period in review. Article 101 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.
4.0 (11.0)	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied	The Company dully informed the shareholders the resignation of Mr. Eastman Narangoda, Chairman, after approval of same has been received from the Central Bank of Sri Lanka in terms of the applicable regulations.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
5.0	**Criteria to Assess the Fitness and Propriety of the Directors**		
5.0 (1.0)	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.	Complied	As at 31st March 2017 and at present, all Directors of the Company were below the age of 70 years.
5.0 (2.0)	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies /societies/bodies corporate, including associate companies and subsidiaries of the finance company. Note: The proviso to this sub paragraph was repealed by CBSL Direction No. 6 of 2013.	Complied	There are no Directors who hold office as a Director of more than 20 companies. None of the Directors hold office as a Director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities.
6.0	**Delegation of Functions**		
6.0 (1.0)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	All delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.
6.0 (2.0)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.
7.0	**The Chairman and the Chief Executive Officer**		
7.0 (1.0)	The roles of Chairman and Chief Executive officer shall be separated and shall not be performed by the one and the same person after three years commencing from 1st January 2009.	Complied	Role of Chairman and CEO are separate and are held by two individuals that are appointed by the Board, thereby, ensuring the power and authority.
7.0 (2.0)	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied	The Chairman is an Independent Non Executive Director.
7.0 (3.0)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship (s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	There is no financial, business, family or other relationship between the Chairman and the CEO which will impair their respective roles. With the exception of a shared family relationship between the Chairman and another Non-Executive Director, there is no financial, business, family or other material relationship among other members of the Board.
7.0 (4.0)	The Chairman shall: **(a)** provides leadership to the Board; **(b)** ensures that the Board works effectively and discharges its responsibilities: and **(c)** ensures that all key issues are discussed by the Board in a timely manner.	Complied	Chairman leads the Board ensuring its effective functioning.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
7.0 (5.0)	The Chairman shall be primarily responsible for preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied	Chairman makes the agenda and Company Secretary circulates it.
7.0 (6.0)	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The Agenda/Minutes of previous meetings/Board papers and other documents are delivered to every individual Board Director in advance, giving them adequate time to peruse the issues arising at each Board meeting, as per Section 3 (6) above.
7.0 (7.0)	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied	The Chairman complies with this provision by nominating Directors for the oversight of Board related committees.
7.0 (8.0)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied	The Company does not have any Executive Directors. Nevertheless, the Chairman ensures that a constructive relationship exists between the Board as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.
7.0 (9.0)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	As a Non-Executive Director, the Chairman is not directly engaged in any executive duties including supervision of KMPs.
7.0 (10.0)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	The AGM of the Company is the main forum where the Board maintains effective communication with its shareholders. The two main shareholders, namely, SEEDS (Gte) Limited and Gentosha Asset Inc., holds over 99.99% of the issued share capital of the Company. In addition, two of the Directors have one share each issued to them at the time of incorporation of the Company. These shareholders have Board representatives with whom the Chairman has effective communication at each Board meeting. The Chairman encourages shareholders to communicate their views and to seek assistance in matters that relate to them and explains the Company's progress and clarify matters that shareholders refer to the Board and the management at the Board meeting.
7.0 (11.0)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business.	Complied	The Chief Executive Officer is the apex executive of the Company. Board has delegated him with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0	**Board Appointed Committees**		
8.0 (1.0)	Every finance company shall have at least the two Board Committees set out in paragraphs 8 (2) and 8 (3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee. The Board shall present a report on the performance, duties and functions of each committee, at the AGM of the Company.	Complied	During the year 2016/17, there were five (05) Board appointed Committees directly reporting to the Board, namely the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Board Remuneration Committee (BRC), Board Credit Committee (BCC) and Board Nomination Committee (BNC). 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 31 and 33 provides the details of the scope and composition of the above committees and pages 57 to 60 provide the reports of the respective committees.
8.0 (2.0)	**Audit Committee** The following shall apply in relation to the Audit Committee:		
8.0 (2.0) (a)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied	Chairman of the Board Audit Committee (BAC), Mr. Channa de Silva, is an Independent, Non-Executive Director. A Fellow of the Chartered Institute of Management Accountants (FCMA-UK) and Fellow of the Chartered Certified Accountants (FCCA-UK). He has over 10 years' experience in the fund management and five years' experience in capital market and holds a Bachelor's Degree from the University of Colombo and a Master's Degree from Melbourne University and Harvard University.
8.0 (2.0) (b)	The Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All the members appointed to the BAC are Non-Executive Directors. CEO, DGM – Finance and Planning, AGM – Risk Management and Acting Compliance and External Auditors, Ernst & Young, present at the meeting/s by invitation.
8.0 (2.0) (c)	The Committee shall make recommendations on matters in connection with:	Complied	The Company has complied with the directive issued by the Central Bank of Sri Lanka to select an External Auditor from the panel of authorised auditors to audit the accounts of licensed finance companies. The Company has appointed Messrs Ernst & Young (Chartered Accountants) as the External Auditor in year 2012.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (c) (i)	The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	Complied	The Board Audit Committee has at its meetings during the year under review recommended: **i)** that Messrs Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2016/17; **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). No resignation or dismissal of the Auditor has taken place during the year 2016/17. The term of engagement of the present audit partner does not exceed five (05) years.
8.0 (2.0) (c) (ii)	The implementation of the Central Bank guidelines issued to Auditors form time to time;		
8.0 (2.0) (c) (iii)	The application of the relevant accounting standards; and		
8.0 (2.0) (c) (iv)	The service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.		
8.0 (2.0) (d)	The Committee shall review and monitor the External Auditors' independence and objectively and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	The Board Audit Committee monitors and reviews the External Auditors' independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. The Company's External Auditors for 2016/17, Messrs Ernst & Young, Chartered Accountants have provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.
8.0 (2.0) (e)	The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:	Complied	The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.
8.0 (2.0) (e) (i)	whether the skills and experience of the Auditor make it a suitable provider of the non-audit services;		
8.0 (2.0) (e) (ii)	whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by External Auditor; and		
8.0 (2.0) (e) (iii)	whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the Auditor, pose any threat to the objectivity and/or independence of the External Auditor.		

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (f)	The Committee shall, before the audit commences, discuss and finalise with External Auditors the nature and scope of the audit, including:	Complied	BAC has recommended the appointment of the External Auditor to the Board before the commencement of the audit. The Committee has obtained an engagement letter from the Auditors' clearly describing the Auditor's independence to carry out the audit in accordance with LKASs/SLFRSs. The Committee has, before the audit commences, discussed and agreed upon the audit plan for the audit.
8.0 (2.0) (f) (i)	an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;		
8.0 (2.0) (f) (ii)	the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and		
8.0 (2.0) (f) (iii)	The co-ordination between Auditors where more than one Auditor is involved.		
8.0 (2.0) (g)	The Committee shall review the financial information of the finance company, in order to monitor the integrity of the Financial Statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board. The Committee shall focus particularly on – **i)** major judgmental areas; **ii)** any changes in accounting policies and practices; **iii)** significant adjustments arising from the audit; **iv)** the going concern assumption; and **v)** the compliance with relevant accounting standards and other legal requirements.	Complied	The Committee periodically reviews the financial information of the Company in order to monitor the integrity of the Financial Statements of the Company and other financial disclosures. Also, BAC has a process to review the financial information of the Company as required by the direction when the Annual Audited Financial Statements and reports prepared for disclosure are presented to the Committee by the DGM – Finance and Planning in attendance with the External Auditors in order to monitor the integrity of the Financial Statements of the Company.
8.0 (2.0) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied	The Committee has met the External Auditors in the absence of the KMPs during the year under review.
8.0 (2.0) (i)	The Committee shall review the External Auditors' management letter and the Management's response thereto.	Complied	The Committee has reviewed the External Auditors' management letter and the Management responses thereto.
8.0 (2.0) (j)	The Committee shall take the following steps with regard to the internal audit function of the finance company:		
8.0 (2.0) (j) (i)	Review the adequacy of the scope, functions and resources of the internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work;	Complied	The Committee has discussed the Internal audit scope, function and resources of the staff requirements.
8.0 (2.0) (j) (ii)	Review the internal audit programme and results of the internal audit process and , where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied	The Committee has reviewed and approved the Internal Audit Plan for the year 2016/17 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.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (j) (iii)	Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied	Assessment of the internal audit staff evaluations and Audit Committee performance has been carried out by the Audit Committee Chairman. Assessment of the performance of the Acting Head of Internal Audit has also been carried out.
8.0 (2.0) (j) (iv)	Recommend any appointment or termination of the head, senior staff members and out sourced service providers to the internal audit function.	Complied	The Committee has recommended the appointment of the Acting Head of Internal Audit.
8.0 (2.0) (j) (v)	Ensure that the Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any out sourced service providers, and to provide an opportunity to the resigning senior staff members and out sourced service providers to submit reasons for resigning:	Complied	No such resignation arose during the year.
8.0 (2.0) (j) (vi)	Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	The Acting Head of the Internal Audit Department directly reports to the Committee thus ensuring the independence and impartiality of the Internal Audit Department.
8.0 (2.0) (k)	The Committee shall consider the major findings of internal investigations and The Management's responses there to.	Complied	Based on the reports submitted by the Internal Audit Department, the Committee reviews and considers major audit findings and the Management's responses thereto.
8.0 (2.0) (l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Director being present.	Complied	Although the Board Audit Committee does not comprised of any Executive Directors, the Committee met with the External Auditors during the year under review. CEO, DGM –Finance & Planning, AGM –Risk Management and Acting Compliance Officer and Senior Manager – Finance attended these meetings on invitation.
8.0 (2.0) (m) (i-iv)	The committee shall have: **i)** explicit authority to investigate into any matter within its terms of reference; **ii)** the resources which it needs to do so; **iii)** full access to information; **iv)** authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	The Board approved Terms of Reference of the Board Audit Committee mandates explicit authority to investigate into any matter within its purview and take necessary action thereto. 'Board Audit Committee Report' on pages 58 and 59 provides a summary of the Terms of Reference of the Committee.
8.0 (2.0) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	There were six (6) meetings of the Board Audit Committee during the year 2016/17. Page 58 provides the details of the meetings of the Board Audit Committee during 2016/17 and the members' attendance there at.
8.0 (2.0) (o) (i-iii)	The Board shall, in the Annual Report, disclose in an informative way – **i)** details of the activities of the Audit Committee; **ii)** the number of Audit Committee meetings held in the year; and **iii)** details of attendance of each individual member at such meetings.	Complied	The 'Board Audit Committee Report' from pages 58 to 59 provides details of the activities of the Committee and attendance of members at meetings of the Committee.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (2.0) (p)	The Secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee meetings.	Complied	In accordance with the Terms of Reference, Acting Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all committee meetings in sufficient detail.
8.0 (2.0) (q)	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	Complied	The Company has established a 'Whistle-blower Policy' which has been approved by the Board Audit Committee and Board of Directors and practiced through-out the Company.
8.0 (3.0)	**Integrated Risk Management Committee (IRMC)** The following shall apply in relation to the Integrated Risk Management Committee:		
8.0 (3.0) (a)	The Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	The Committee consist of three Non-Executive Directors, CEO and the Key Management Personnel supervising broad risk categories such as credit, market, liquidity, operational and strategic risk. Approved TOR lays down responsibility of the Committee.
8.0 (3.0) (b)	The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied	AGM – Risk Management and Acting Compliance Officer submits minutes to the Board within seven (7) days of the Committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by the Committee and the responses received from the risk owners.
8.0 (3.0) (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied	Committee has initiated action to review the adequacy and effectiveness of all management level committees such as the Internal Credit Committee and the Asset-Liability Committees' benchmarking against on their current TOR.
8.0 (3.0) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Not Complied	The Committee has to set specific risk appetite limits and review and consider risks indicators which has gone beyond the specified qualitative and quantitative risks limits.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8.0 (3.0) (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	The Committee meets at least quarterly each year. The Committee has met four (4) times during the financial year 2016/17. Page 57 provides the details of the meetings of the Committee during 2016/17 and the members' attendance thereat.
8.0 (3.0) (f)	The Committee shall take appropriate action against the officers responsible for failure to identify specific risk and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Complied	Risks are identified collectively by the Integrated Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. The Company has a formal documented disciplinary action procedure which has been specifically noted in the Company's Human Resource Policy.
8.0 (3.0) (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	The Committee has submitted risk assessment reports to the next immediate Board meeting seeking the Board's views and action deem necessary.
8.0 (3.0) (h)	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved polices on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	AGM – Risk Management and Acting Compliance Officer has been appointed as the Compliance Officer to monitor compliance of CBSL rules, regulations and directions issued under the Finance Business Act and submit a monthly compliance report to the Board for their review. Monitoring compliance of other applicable laws, internal controls and approved policies on all areas of business operations is carried out by the Risk Management and Compliance Departments.
9.0	**Related Party Transaction**		
9.0 (1.0)	The following shall be in addition to the provisions contained in the finance companies (Lending) Direction, No. 1 of 2007 and the finance companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.		
9.0 (2.0) (a-g)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: **(a)** a subsidiary of the finance company; **(b)** any associate Company of the finance company; **(c)** a Director of the finance company; **(d)** a Key Management Personnel of the finance company; **(e)** a relative of a Director or a Key Management Personnel of the finance company; **(f)** a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company: **(g)** a concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company, has substantial interest.	Complied	The Company has established a documented process approved by the Board identifying the particular related parties and to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with related parties as per the direction.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9.0 (3.0) (a-d)	The transactions with a related party that are covered in this Directions shall be the following: **(a)** granting accommodation; **(b)** creating liabilities to the finance company in the form of deposits, borrowings and investments; **(c)** providing financial or non-financial services to the finance company or obtaining those services from the finance company; **(d)** creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied	The Company has established a Board approved documented procedure to identify and report the types of transactions with related parties that is covered by this Direction.
9.0 (4.0)	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, 'more favourable treatment' shall mean:	Not Complied	The Company has in place a Board approved Related Party Transaction (RPT) Policy whereby the categories of persons who shall be considered as 'related parties' has been identified. Additionally Company has initiated post audits to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties "more favorable treatment" as defined in section 9(4) than that accorded to other constituents of the finance company. However, the Company has not implemented a process either preventive or detective through the IT system or manually to prevent or detect of related party transactions which give more favourable treatment.
9.0 (4.0) (a)	Granting of 'total net accommodation' to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.	Complied	In accordance with the 'Related Party Transaction' Policy self-declarations are obtained from each Director of the related party transactions that have been carried out during the year and disclosed same under related party transactions on page 151 to 153 to these Financial Statements. The Company's related party transaction policy clearly defines the responsibilities of the Board of Directors, among other things, to ensure that the Company does not engage in transactions with related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Company.
9.0 (4.0) (b)	Charging of lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9.0 (4.0) (c)	Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties.	Not Complied	The Company has to develop and implement a systematic process in accordance with the related party policy in place to capture and disclose the related party transactions and information flows between the Company and any related party which may lead to share proprietary. The Company intends to obtain self-declarations from each Director and the KMPs for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the Company intends to develop a system that enables the Company to retrieve data on related party transactions throughout the Company's network.
9.0 (4.0) (d)	Providing or obtaining services to or from a related party without a proper evaluation procedure.		
9.0 (4.0) (e)	Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary. Confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.		
10.0	**Disclosure**		
10.0 (1.0) (a-b)	The Board shall ensure that – **(a)** annual Audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that, **(b)** such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	The Board has ensured that the Audited Financial Statements are prepared and published in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators. Pages 114 to 161 discloses the details of the Financial Statements, Accounting Policies and Notes to these Financial Statements published by the Company as mentioned above. The Company has published the annual audited financial statements and the periodical financial statements in newspapers in an abridged form in Sinhala, Tamil and English languages.
10.0 (2.0)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		
10.0 (2.0) (a)	A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	The required confirmation on preparation of the annual Audited Financial Statements in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is given in 'Directors' Responsibility for Financial Reporting' on page 109 and the 'Independent Auditors' Report' on page 113.
10.0 (2.0) (b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied	The report by the Board on the effectiveness of the Company's internal control mechanism over financial reporting is given in 'Directors' Statement on Internal Controls over Financial Reporting' on page 111.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10.0 (2.0) (c)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in sub para 2 (b) above, in respect of any statements prepared or published from the date of this Direction.	Complied	The Assurance Report from the External Auditor on the Effectiveness of Internal Control over Financial Reporting is disclosed on page 112.
10.0 (2.0) (d)	Details of Directors, including names, transactions with the finance company.	Complied	Details of the Directors are given on pages 12 to 16 and there were no transactions with the Directors' of the Company other than the Directors' fees/remuneration paid.
10.0 (2.0) (e)	Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.	Complied	The remuneration paid to the Board of Directors is disclosed in aggregate in Note 40.1.1 to these Financial Statements on page 151 and in 'Report of the Board of Directors of the Affairs of the Company' on page 108.
10.0 (2.0) (f)	Total net accommodation as defined in paragraph 9 (4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied	The Company did not have any accommodation outstanding in respect of each category of related parties as at the date of Statement of Financial Position, except for accommodations granted for KMPs disclosed under 10.0(2.0) (g) below. The net accommodations outstanding in respect of KMPs amounted to 0.37% of the Capital Funds of the Company.
10.0 (2.0) (g)	The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its Key Management Personnel during the financial year, set out by Board categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate values of remuneration paid by the Company to its KMPs amounted to Rs. 38.13 million. The total of accommodations granted to KMPs during the year amounted to Rs. 4.30 million and the net outstanding balance of those amounted to Rs. 3.80 million. In addition, the value of deposits received from KMPs during the year amounted to Rs. 10.39 million. The payable balance including interest accrued on those deposits amounted to Rs. 10.43 million as at the year end.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10.0 (2.0) (h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied	The 'Report of the Board of Directors on the Affairs of the Company' on pages 105 to 108 and the 'Corporate Governance Report' on pages 26 to 56 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 111 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 112).
10.0 (2.0) (i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management or non-compliance with the Act and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with measures taken by the finance company to address such concerns.	Complied	There were no regulatory and supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions thereunder that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions and required by the Monetary Board to be disclosed to the public.
10.0 (2.0) (j)	The External Auditor's certification of the compliance with the Corporate Governance Directions in the annual Corporate Governance Reports published from the date of this Direction.	Complied	The External Auditors have conducted an engagement in accordance with the principles set out in the Sri Lanka Standards on Related Service 4750 (SLSRS 4750) applicable to agreed upon procedures to meet the compliance requirement of this Direction. We have obtained the Corporate Governance Factual Findings Report from the External Auditors.

Corporate Governance

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
11.0	**Transitional Provision**		
11.0 (1.0)	On the date of this Direction, if the number of Executive Directors in a finance company is either less than 5 or exceed 13, such finance company shall comply with paragraph 4 (1) hereof, within three years commencing on 1st January 2009.	Complied	The Company has complied with the transitional provisions encompassed under this Direction. The Company did not have any Executive Directors during the financial year and on the date of this report. The Company did not have any Director completing nine years nor any Director who has reached 70 years nor any Director having a Board position of over 20 companies/entities as at the year end and on the date of this report.
11.0 (2.0)	On the date of this Direction, if the number of Executive Directors is more than one half of the number of Directors of the Board, the Board shall expressly identify the excess Executive Directors and inform the names of such excess Executive Directors to the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka within three years commencing 1st January 2009. On the expiry of three years commencing 1st January 2009, such excess Executive Directors shall not be considered as members of the Board.		
11.0 (3.0)	The following transitional provision shall apply to the 9-year retirement requirement imposed under paragraph 4 (2) of this Direction: A Director who has completed nine years as at 1st January 2009 or who completes such term at any time prior to 31st December 2009, may continue for a further maximum period of three years commencing 1st January 2009.		
11.0 (4.0)	The following transitional provision shall apply to the maximum age level imposed under paragraph 5 (1) of this Direction:		
11.0 (5.0)	The following transitional provision shall apply to the maximum 20 companies/entity Directorship limitations imposed under paragraph 5 (2) of the Direction: If any person holds post of Director in excess of the limitation given in paragraph 5 (2), such person within a maximum period of 3 years commencing 1st January 2009, comply with the limitation and notify the Monetary Board accordingly.		
11.0 (6.0)	If for any reason such ill health or any disqualification specified in the Act, the Monetary Board considers the exemptions referred to in subparagraphs 11 (3) and 11 (4) and 11 (5) should not be availed of, such grounds may be notified to the person by the Monetary Board and after a hearing, the Monetary Board limits the period of exemptions.		

Report of the Integrated Risk Management Committee

The Board of Directors of Sarvodaya Development Finance Limited (SDF) is the apex body which reviews and monitors the risks of the Company.

CHARTER OF THE COMMITTEE

The Integrated Risk Management Committee (IRMC) was established by the Board of Directors in compliance with the Section 3 (6)(v) of the Banking Act Direction No. 11 and 12 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The composition and the scope of work of the Committee conforms to the same as set out in the IRMC Terms of Reference (TOR) which sets out the membership, source of authority, duties, and responsibilities of the IRMC. The IRMC assists the Board of Directors in performing its oversight function in relation to different types of risks faced by SDF in its business operations and ensures adequacy and effectiveness of the risk management framework of SDF. The committee submits the Minutes to the Board of Directors as well as the risk assessment report within a week of each meeting to facilitate discussion of key issues raised by the Committee and action as necessary by the Board and Management.

ROLES AND RESPONSIBILITIES

Duties of the IRMC include determining the adequacy and effectiveness of such measures, and to ensure that the actual overall risk profile of the company conforms to the desirable risk profile of the company as defined by the Board of Directors.

COMPOSITION OF THE COMMITTEE

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

COMMITTEE MEETINGS AND THE METHODOLOGY

The Committee held four meetings on quarterly basis during the year under review. The attendance of the Committee members at the meeting during the financial year under review as follows:

Names	Meetings held	Meetings attended
Dr. Richard Vokes	4	4
Mr. Shakila Wijewardena	4	4
Mr. Alex Perera	4	3

The Committee assesses all key risks such as credit, operations, liquidity, market, legal and reputational risks on regular basis through MIS reports and other indicators. Apart from assisting the Board in performing its oversight in relation to various types of risks faced by the Company, the Committee also ensures the adequacy, soundness and effectiveness of risk management framework of the Company.

INITIATIVES UNDERTAKEN DURING 2016/2017

The following initiatives were undertaken during the financial year under review.

- Review of the TORs of other Committees that cover aspects of risk or Corporate Governance, such as the Management Committee, Management Audit Committee, Asset and Liability Committee, Credit Committee, and the Product Development Committee.
- Review the annual work plans, related strategies, policies and frameworks of the above Committees, to ensure that these Committees have a good understanding of their mandates and adequate mechanisms to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the IRMC.
- Conduct an initial Disaster Recovery drill.
- Conduct Risk Control Self-Assessment at all branches and reviewing finding with relevant Management Committees.
- Develop key risk indicators for use as a tool for risk monitoring and analysing the results of stress tests to evaluate resilience and compliance with external benchmarks set by Central Bank of Sri Lanka.
- Monitor the effectiveness and the independence of the risk management function within the company and ensure that adequate resources are deployed for this purpose.
- Comply with the external regulatory requirements as set out in the Corporate Governance directive and codes (CBSL, SEC and CA Sri Lanka) while disclosing information to public as communicated in the Disclosure Policy.
- Review the effectiveness of the compliance function, to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations.
- Implement a Risk Rating System for Leasing and Small and Medium Enterprise Loans.

During the year, IRMC provided the necessary leadership to business units and heads in effectively managing the risks in support of the overall business strategy and objectives.

Dr. Richard Vokes
Chairman – Integrated Risk Management Committee

26th May 2017

Report of the Board Audit Committee

COMPOSITION

Members of the Board Audit Committee (The Committee) are appointed by the Board and Comprised entirely of Non-Executive Directors. The Chairman of the committee shall be a Non-Executive Director who possesses adequate qualification and experience in accountancy and/or audit. The Board Audit Committee as at 31st March 2017 comprises of two Independent, Non-Executive Directors and one Independent, Non-Executive Director of the Company as shown below:
Mr. Channa de Silva : Chairman / Non-Executive, Independent Director
Mr. Shakila Wijewardena : Member / Non-Executive, Non- Independent Director
Mr. Shevon Gunaratne : Member / Non - Executive, Independent Director

The Profiles of the Board Audit Committee members are set out on pages 12 to 16.

Mr. Kenneth Mendis was appointed as Acting Head of Internal Audit, additional to his functioning as AGM -Alternate Channels as of 30th November 2016 with the resignation of Mr. Dinindu Malinga who was functioning as Head of the Internal Audit. As of 30th November 2016 Mr. Kenneth Mendis functions as the secretary to the Board Audit Committee.

CHARTER OF THE COMMITTEE

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

THE ROLE AND RESPONSIBILITIES

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

AUTHORITY

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

MEETINGS

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

Name	Meetings held	Meetings attended
Mr. Channa de Silva	6	6
Mr. Shakila Wijewardena	6	6
Mr. Shevon Gooneratne	6	6

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

SUMMARY OF ACTIVITIES DURING THE YEAR

Financial Reporting

The Committee reviewed the Financial Statements of the Company before submission to the Board, in order to monitor the integrity of the Financial Statements and the significant financial reporting judgments contained therein. In reviewing the Financial Statements, the Committee focuses particularly on: (i) Major judgmental areas; (ii) Any changes in accounting policies and practices; (iii) Significant adjustments arising from the audit; (iv) The going concern assumption; (v) The compliance with relevant accounting standards and other legal requirements.

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

Internal Controls, Risk Management Function and Going Concern

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

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

External Audit

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

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

The Committee recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditors of Sarvodaya Development Finance for the financial period ending 31st March 2017, subject to approval by the Shareholders at the next AGM.

Internal Audit

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

Oversight on Regulatory Compliance

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

Ethics and Good Governance

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

Whistle-Blowing and Fraud

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

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

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

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

Conclusion

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

I take this opportunity to thank the External Auditors, Internal Auditor Department and members of the Board Audit Committee for their participation and contribution to the efforts of the Board Audit Committee. Also appreciate the support of the Board of Directors in regard to all our activities at the Board Audit Committee. We believe that it was a year that we strengthen the organisation and moved forwarded as a financial institution in Sri Lanka.

Mr. Channa de Silva
Chairman – Board Audit Committee

26th May 2017

Report of the Board Remuneration Committee

OBJECTIVES AND SCOPE

The Committee is established by the Board to assist and report to the board in relation to the matters pertaining Human Resource. The role of the Committee is to advise on remuneration and issues relevant to remuneration policies and practices including those for senior management and Board of Directors.

ROLE OF THE COMMITTEE

The Committee has responsibility for the following:

1 Reviewing and evaluating market practices and trends in relation to remuneration relevant to the Company.

2 Reviewing and making recommendations to the Board in relation to the Company's remuneration practices; 3 Overseeing the performance of the members of senior management.

4 Preparing for the Board any report that may be required under applicable legal or regulatory requirements in relation to remuneration matters.

5 Remuneration including not only monetary payments (salary and wages) but also all other monetary and non-monetary emoluments and benefits including: Fringe benefits; Directors' and officers' and other insurance arrangements; Retirement benefits; and Equity participation and other incentive programme, in the context of general market and industry practices.

As enumerated in last year's Report, the Committee continued to provide visionary guidance and support to the Management to realise agreed sustainable growth tasks by introducing new HR policies/procedures, developing staff talents and seeking their full potential with a view to align the entire workforce with a 'performance driven culture'.

KEY POLICY MATTERS REVIEWED/ INTRODUCED DURING THE REVIEW PERIOD

- To link set business goals/Key Performance Indicators of the Company with Department and individual tasks, a well-designed 'Staff Performance evaluation' was introduced in February 2017.
- Introduce staff rewards scheme to enhance the staff productivity in January 2017.
- A 'Disciplinary Code', and 'Whistle-blowing Policy' detailing staff responsibilities, ethics, business etiquette and punishment in the event of violating set rules/breach of conditions of employment were introduced in April 2016 to March 2017 period.

MEMBERS

The Committee comprises three (3) Non-Executive Directors as mentioned below:

1. Dr. Janaki Kuruppu - Chairman (Appointed w.e.f. 14th September 2016)
2. Dr. Vinya Ariyarahne - Chairman (Resigned w.e.f. 14th September 2016)
3. Mr. Shakila Wijewardena
4. Mr. K L Gunawardana

MEETINGS

The Committee held seven (7) meetings during the period under review and the recommendations made by the Committee were circulated and ratified by the Board of Directors.

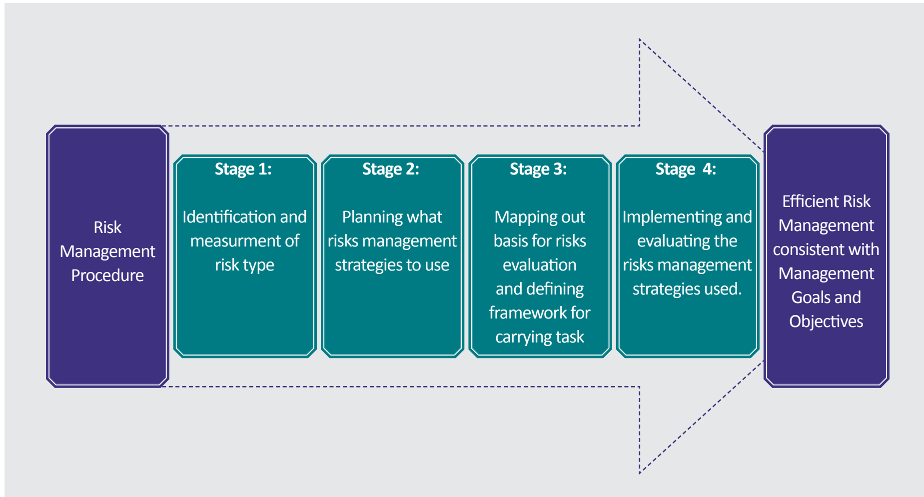
Meetings of the Board Remuneration Committee

	13/06/2013	14/09/2016	19/10/2016	25/11/2016	14/12/2016	20/1/2017	3/3/2017
Dr. Vinya Ariyarahne *(Resigned w.e.f. 14th September 2016)*	✔	✔	-	-	-	-	-
Dr. Janaki Kuruppu Chairman	-	✔	✔	✔	✔	✔	✔
Mr. Shakila Wijewardena	✔	✔	✔	✔	✔	✔	✔
Mr. K L Gunawardana	✔	✔	✔	✔	✔	✔	✔

Dr. Janaki Kuruppu
Chairman – Remuneration Committee

26th May 2017

Risk Management



1.0 RISK MANAGEMENT AT SARVODAYA DEVELOPMENT FINANCE

1.1 Overview

Sarvodaya Development Finance Company Ltd, (SDF) has an evolving and robust risk management methodology of proven effectiveness, aligned with regulatory standards and international best practices, and proportional to the scale and complexity of its activities. SDF is exposed to various risks that are an inherent part of any finance business. The major risks are credit risk, market risk, liquidity risk, operational risk and IT risk. SDF has policies and procedures in place to measure, assess, monitor and manage these risks systematically across all its activities. SDF has followed the guidelines laid down by the Central Bank of Sri Lanka on Basel III. Capital Regulations have been implemented and SDF is adequately capitalised as per the current requirements under Basel III. An independent Risk Governance Structure, in line with international best practices, has been put in place, in the context of sub division of duties and ensuring independence of risk measurement, monitoring and control functions. This framework visualises empowerment of Business Units at the operating level, with technology being the key driver, enabling identification and management of risk at the place of origination.

1.2 Scope of Risk and the Risk Management Framework

At SDF 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 SDF are integral parts that form the scope of risk management when fulfilling requirements of its customers and counterparties.

The risk management function of SDF comes under the purview of the Integrated Risk Management Committee (IRMC) where it is independent from the business lines. In the course of its business activities. SDF 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 Company-wide risk appetite and measures and controls to ensure that the risks taken are within the set limits.

SDF has put in place structures and processes to address these risks which are vested on business /departmental heads. Additionally, the Company has an IRMC which carries out independent risk evaluations both qualitative and quantitative and the results are shared with Management of SDF as well as the members of the Board of Directors.

1.3 New initiatives in Risk Management

SDF has taken several new risk initiatives towards enhancing its risk management which has been detailed in page 57.

1.4 Risk Management Department

The business units (i.e., Credit Department, Operations Department and Branches etc.) have primary responsibility for risk management. The Risk Management Department (RMD), which provides an independent oversight function, acts as the 2nd line of defence. The RMD is headed by the Assistant General Manager – Risk Management and Acting Compliance; who directly reports to the Chairman of IRMC and also has a functional reporting to the CEO.

2.0 RISK MANAGEMENT PROCESS

2.1 Overview

The risk management procedure carried on SDF can be broken down to the following generic steps:

2.2 Risk Identification

SDF identifies all risk categories stated below. SDF also determines the sources of these risks. When new risks arise the RMD will identify these risks from their early warning signals. Before commencing business with new products, the Company lays down its procedure which includes the risk associated with the new product.

2.3 Risk analysis and measurement

Risk analysis and measurement is both quantitative and qualitative and in line with the methods and procedures laid down in the relevant policies. The methods used are verified continuously by using sensitivity analysis and stress testing.

3.0 CREDIT RISK

3.1 Overview

Credit Risk is defined as the possibility of losses associated with the diminution in the credit quality of borrowers or interparty through outright default. The credit risk is managed by evaluating the creditworthiness properly and by periodical review on the credit granted, including a proper follow up mechanism.

Risk Management

3.2 Mitigation methods

SDF has delegated responsibility for the oversight of credit risk to its Board Credit Committee while the Credit Department and Recoveries Department along with the Legal Department are responsible for the management of the Company's credit risk, including formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, documentation and legal procedures and compliance with regulatory and statutory requirements. They are also responsible for establishing the authorisation structure for the approval and renewal of credit facilities.

SDF has a credit appraisal and risk assessment practices in place for identification, measurement, monitoring and control of the credit risk exposures. SDF uses Internal Credit Risk Assessment Models for assessing credit risk under different exposure segments.

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.

High value credits (over and above Rs. 5 Mn) has an off-site review mechanism (health check) within 6 months of disbursement carried out by RMD.

Credit Department and related business units are armed with inputs on the developments, prospects and risks in the industries/sectors tracked by the RMD. Industry-wise exposure ceilings are to be worked out on the basis of the industry prospects and the performance of SDF's exposures to the industry concerned.

Analysis of industry developments is shared with the operating functionalities by way of a weekly review.

The credit monitoring process provides information on products, industries and other indicators of elevated risk, facilitating diversification into thriving economic segments whilst reducing the overall credit risk concentration and optimising returns
The monitoring of Prudential Exposure norms for Single Borrowers, Substantial Exposure Norms and Unsecured Exposures, Special Clearance sectors, Negative sectors and other benchmarks on credit quality is being done quarterly.

SDF regularly conducts Stress Test on its Credit portfolio. Stress Scenarios are regularly updated in line with the Stress Testing Policy.

4.0 MARKET RISK

4.1 Overview

Market risk is the potential of an adverse impact on SDF's earnings or capital due to changes in interest rates, liquidity and other market variables. During the normal course of its business, the 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.

4.2 Mitigation methods

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 SDF's profitability, capital or the risk profile. Finance and Planning Department is responsible for co-ordinating and performing market risk management activities including measuring, and reporting of market risk exposures and reviewing SDF's market risk related policies and exposure limits on an annual basis. The monitoring of market risk is done by RMD. It also provides independent reviews on market risks associated with new investment proposals and products, thus facilitating efficient decision-making through optimising risk return trade-off.

Upon recognising various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the Company; risk management ensure compliance with the Investment Policy and Asset and Liability Policy. Similar to the Investment Policy and Asset and Liability Policy, the Integrated Risk Management Framework (IRMF) also define exposure limits and procedures within which money market transactions are undertaken. Market risk limits set out in the above policies are regularly reviewed by Asset and Liability Management Committee (ALCO) and IRMC.

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to minimise overall market risk exposures within the overall risk appetite of the Company. The major function carried out by ALCO include proactive managing interest rate risk; monitoring asset and liability gaps and assessing rate shock results on Net Interest Income (NII) to initiate appropriate mitigates such as changing interest rates. When ALCO meets once a month or whenever the need arises the committee analyses and monitors liquidity risk and decides on action to maintain an adequate margin of safety in liquid assets to manage and control the overall liquidity of the Company. SDF liquidity ratios are monitored against benchmarks.

A contingency plan is in place to curtail the exposure on SDF's liquidity position. Furthermore, the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk. The Company's ALCO policy has set measures of productivity in line with the long-term objectives of the Company which is detailed under Performance of Loans and Advances. RMD closely monitor the performance of the measures of productivity on a quarterly basis. Any adverse variances of same will be reported to the management, ALCO and IRMC for corrective action.

5.0 OPERATIONAL RISK

5.1 Overview

The operational risk management is the responsibility of all the 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 pertaining to SDF.

5.2 Mitigation methods

SDF manages operational risk through a set of internal controls and management processes that drive risk identification, assessment, controlling and monitoring. The Company has developed a Risk Control Self-Assessment (RCSA) that has been carried out biannually for branches on their business processes. Risk Management and Compliance circulates a questionnaire that is responded to by the Branch Managers which identifies and reviews the inherent risk and control available to mitigate and manage the residual risk.

Risk Control Self-Assessment (RCSA) is used to identify, assess, monitor and control operational risks. Risk and Control Self-Assessment encompasses assessment of severity and frequency, on a 5-point scale (very low, low, moderate, high, and very high), of the identified risk drivers. This is a forward-looking self-assessment exercise, which identifies business owners, assesses risk drivers, implements mitigating actions and monitors them on a continuous basis to determine the effectiveness of risk mitigates used. The results are presented to the IRMC.

After reviewing the audit reports, RMD has identified certain common Key Risk Indicators (KRIs) that are affecting the branch operations. These risks that have been identified are critically reviewed regularly with the help of Internal Audit Department. KRIs will develop early warning signals that help identify potential events that may harm the continuity of the day-to-day business. The Risk Management Department uses KRIs to develop proactive action while providing a backward view on risk events, so that lessons can be learnt from past incidents. This data is used to set the Company's risk appetite and to ensure that tolerance limits are reached.

SDF has developed a comprehensive Business Continuity Plan (BCP) and Disaster Recovery (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. The initial DR drill that was carried out among 2 branches and one business unit was a success.

6.0 COMPLIANCE RISK

6.1 Overview

Compliance risk is considered as an impact on reputation. The areas considered under compliance risk are the adherence to principles of integrity and fair dealing, adherence to regulatory requirements, limiting of business opportunities, reduced expansion potential and inabilities to enforce contracts.

6.2 Mitigation methods

The compliance function assesses the appropriateness of The Company's compliance procedures and guidelines, promptly follows up on any identified deficiencies, and where necessary, formulates proposals for amendments as per the compliance audit scope approved by CBSL. One of the indicators of compliance risk is the trend in the penalties or fines paid on account of non-compliance. Historically, the Company has not faced any significant penalties or fines from any of the regulatory authorities.

7.0 IT RISK

7.1 Overview

Information Technology risk is created due to a weak information security structure to prevent data loss and threats.

7.2 Mitigation methods

SDF implemented a robust IT Policy & Information Security Policy. These policies are in line with industry best practices.

Employee awareness programmes are conducted to ensure security and increase awareness.

An Initial Disaster Recovery Drill was conducted as a part of the implementation of Business Continuity Process.

Updates to the E Finance system are tested in a test environment and undergo security reviews before launching to the live system. An ISA audit was carried out by External Auditors.

8.0 OVERALL RISK ANALYSIS

The Company encompasses on a few and basic products which include Housing Loans, Society Loans, Personal Loans, Pawning, SME, Group Loans, Staff Loans, Cash Back Loans, Auto Loans and Leasing. The Company introduced Leasing in April 2016, re-launched pawning in Feb 17 and introduced Pre-approved Corporate Body Employees loans in Jan 17 as a measure of building our asset portfolio. SDF has been able to improve the asset quality while growing portfolio which has reached Rs. 3.9 Billion as at end of the FY. Additionally the credit team has appraised of the potential risks arising by lending to the detailed products and recommended action for the mitigation.

Of the 3.9 Billion loan portfolio 886 Million loans are within the Western region where as the balance portfolio carries an equal distribution among them. The credit exposure to top 20 customers is 4.4% of the total loan portfolio. The concentration levels implicate that SDF adheres to clearly defined credit processes and procedures laid down in the credit policy/ manual.

SDF has set prudential limits to maximise exposures which are reviewed quarterly. Additionally SDF strictly adheres the single borrower limit defined by the finance companies Direction No 4 of 2016. SDF also adheres to sectors, geography, collateral, and the exposure to single counterparty limits.

The Company has laid down policies and procedures to manage the credit risk especially of portfolio risk. The Company saw an increase in the NPA during the beginning of the year FY 2016/17. This is mainly due to the deterioration in the asset quality of the group loan portfolio and the migrations of data to a centralised online system from a standalone and manual system wherein certain mistakes had occurred in the classification of NPA that was corrected with the migration. SDF allocated a lot of resources to manage the gross NPA during the last 4 months and reduced it form a high of 14.5% to 8.9% as at 31st March 2017. This is with the legacy portfolio inherited from SEEDS. The gross NPA of the new portfolio (granted after Jan 2016) stood at 1.20% as at 31st Mar 17.

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REVITALISING MICRO ECONOMIES AND CREATING SELF SUFFICIENT COMMUNITIES

PRABATH FIBER CENTRE, EMBILIPITIYA

Mr. Prabath Nishantha is a businessman involved in purchasing and repairing damaged automobile body parts. He started the business in a rented workshop and subsequently relocated the business to his residence in Embilipitiya.

SDF provided an SME loan to Mr. Nishantha to expand his business by purchasing an 18 perch land adjoining his residence and to part-finance the construction of a new storage shed. Mr Nishantha has not only built his storage shed but has also built his house and leased a van and a trishaw from his business profits.

Management Discussion & Analysis

OPERATING ENVIRONMENT

Global Economic Overview

According to the World Economic Outlook, January 2017 report of the International Monetary Fund (IMF), economic activity gained momentum in the second half of 2016, especially in advanced economies, for a global economic growth rate of 3.1%, compared to the 3.2% of 2015. Advanced economies recorded a growth rate of 1.6% from 2.1% in 2015. Emerging Markets and Developing Economies maintained growth at 4.1% with China's growth rate dropping marginally to 6.7% from 6.9% and India's growth rate falling from 7.6% to 6.6%.

Among advanced economies, activity rebounded strongly in the United States after a weak first half of 2016, and the economy is approaching full employment. The picture for emerging market and developing economies (EMDEs) remains much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. But activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey, which faced a sharp contraction in tourism revenues. Activity in Russia was slightly better than expected, in part reflecting firmer oil prices. Global growth is projected to increase from an estimated 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018.

Sri Lankan Economy

In 2016, Sri Lankan economy grew by 4.4% in real terms compared to 4.8% in 2015, in the midst of headwinds from both domestic and external fronts. On the domestic front, recommencement of a few large scale government infrastructure projects and private sector investment activities supported economic growth. However, continuation of fiscal consolidation measures specifically related to revenue enhancement, increase in inflationary pressure towards the latter part of 2016 driven by supply side impediments and tax policy measures, tightening of the monetary policy stance of the Central Bank and adverse weather conditions that prevailed throughout the year dampened the growth momentum. Moreover, uncertainty that arose from frequent policy changes during the beginning of 2016 also impacted the overall economic activity.

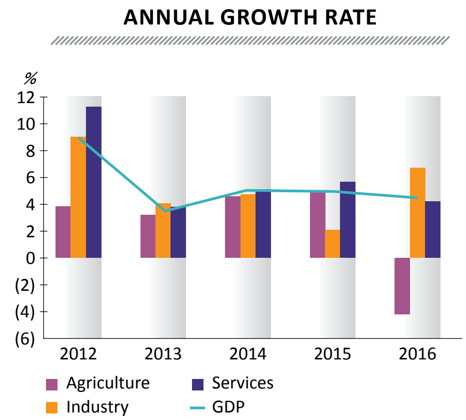
Growth was largely driven by the expansion in industry and services related activities. The Industry activities which comprise construction, mining and quarrying, manufacturing, electricity, water and waste treatment activities positively contributed to the overall growth. Most of the services activities contributed positively to the growth during 2016, but at a slower pace compared to the previous year. The recorded growth was largely supported by the significant expansion in financial services activities together with developments in the transportation of goods and passengers including warehousing activities.

Economic Activity	Annual Growth Rate (%)			
	2013	2014	2015	2016
Services	3.8	4.8	5.7	4.2
Industries	4.1	4.7	2.1	6.7
Agriculture, Forestry and Fishing	3.2	4.6	4.8	4.2
GDP	3.4	5.0	4.8	4.4

Source: Department of Census and Statistics

GDP at current market prices was estimated at Rs. 11,839.0 billion (USD 81.3 billion) in 2016, while it stood at Rs. 10,951.7 billion (USD 80.6 billion) in 2015. Accordingly, GDP in nominal terms grew by 8.1% in 2016 compared to 5.7% growth recorded in 2015. This increase was largely attributable to the upturn in GDP implicit deflator which increased to 3.6% in 2016 from its 0.8% growth in 2015. GDP per capita was estimated at Rs. 558,363 in 2016 compared to Rs. 522,355 recorded in 2015. Accordingly, GDP per capita grew by 6.9% in 2016 in comparison to 4.7% growth posted in 2015 supported by the increase in nominal GDP

Sectoral Performance



Source: Department of Census and Statistics

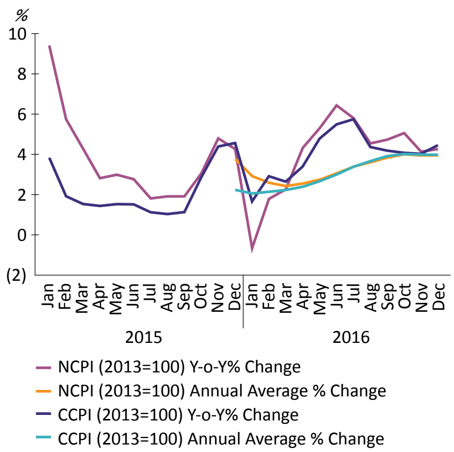
Inflation

The general price level, as measured in terms of both the National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100), compiled by the Department of Census and Statistics (DCS) followed an overall increasing trend with mixed movements during 2016. The movement of the general price level was largely in line with the price movements of the Food category. Price developments in the Non-food category, mainly led by government tax adjustments introduced on several occasions during the year, also triggered movements in the general price level. Furthermore, prices of imported consumer goods exerted some degree of upward pressure on domestic prices.

Annual average NCPI inflation increased from 2.9% in January 2016 to 4.0% in December 2016.

The CCPI (2013=100), which measures the price developments of urban areas of the Colombo district, also moved on an increasing trend with mixed movements during 2016. The CCPI was 110.0 index points in January 2016 and increased to 114.7 index points in December 2016. As such, year-on-year CCPI inflation was 1.7% in January 2016, peaked to 5.8% in July 2016 and reached 4.5% in December 2016. Meanwhile, annual average CCPI inflation increased from 2.1% in January 2016 to 4.0% in December 2016.

MOVEMENTS OF INFLATION (NCPI (2013=100) AND CCPI (2013=100))

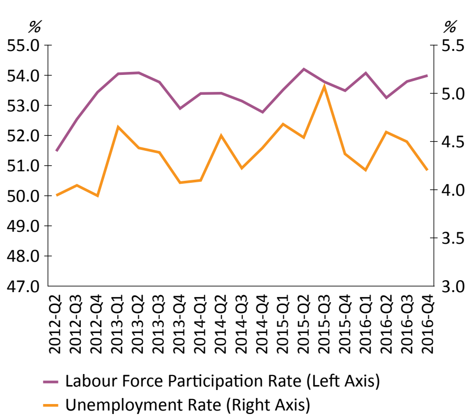


Source: Department of Census and Statistics

Unemployment Rate

The labour force, which is defined as the economically active population aged 15 years and above, increased by 1.2% during 2016 to 8.311 million, from 8.214 million in 2015. During 2016, the total labour force has grown by 1.2%, while a decline of 5.4% was recorded in the unemployed population, reflecting an increase in employment opportunities in the economy during 2016 compared to 2015. Accordingly, the absolute number of unemployed males and females were 153,990 and 212,923, respectively, for the period under review. The drop in both the female unemployment rate from 7.6% to 7.0% per cent and the male unemployment rate from 3.0% per cent to 2.9% per cent, during the period under review, contributed to the overall decrease in the unemployment rate.

TRENDS IN LABOUR FORCE & UNEMPLOYMENT



Source: Department of Census and Statistics

Exchange Rate

The exchange rate, which was maintained at relatively stable levels during the first half of 2016 with the support from the supply of foreign exchange liquidity, depreciated at a higher rate during the second half due to the gradual curtailment of foreign exchange supply by the Central Bank. During the year as a whole, the rupee recorded a depreciation of 3.83% against the US dollar over the depreciation of 9.03% in 2015. However, the Real Effective Exchange Rate (REER) indices remained above 100 indicating the need of further adjustment to the exchange rate to be competitive in the international market.

External Trade and Balance of Payment

Despite the positive growth recorded in the latter part of 2016, earnings from exports at USD 10,310 million reflected a decline of 2.2%, from USD 10,546 million in 2015, led by the declines in agricultural and industrial exports during the first seven months of the year. Export earnings declined mainly due to lower agricultural exports, which account for around one fourth of total exports. Earnings from agricultural exports declined by 6.3% to USD 2,326 million in 2016, reflecting lower exports of many categories under agricultural products. Earnings from industrial exports, which account for around three fourths of total export earnings, contracted by 1.0% to USD 7,940 million in 2016 in comparison to the previous year. Earnings from textiles and garments exports, which account for 47% of total exports, increased by 1.3% to USD 4,884 million in 2016, mitigating the impact of lower industrial exports to some extent. Earnings from the export of minerals rose marginally by 2.1% in 2016, contributing to only 0.3% of the total export earnings in 2016.

The total expenditure on imports rose moderately by 2.5% to USD 19,400 million in 2016, while non-fuel import expenditure increased by 4.2% to USD 16,919 million. Expenditure on investment goods, which accounts for 27% of total expenditure on imports, increased by 13.8% to USD 5,198 million in 2016, reflecting growth in the imports of major investment good categories, except transport equipment. Import expenditure on intermediate goods increased by 2.4% to USD 9,870 million in 2016, accounting for 51% of the country's total import bill. Expenditure on fuel imports declined by 8.1% to USD 2,481 million, due to reduced expenditure on both crude oil and refined petroleum imports, while expenditure on coal imports increased.

Workers' remittances, which account for the majority of inflows to the secondary income account as the key source of private transfers, grew at a modest rate of 3.7% to USD 7,242 million, as against the decline of 0.5% observed in 2015. The relatively low growth in workers' remittances can be mainly attributed to the fall in the income levels in countries in the Middle Eastern region as a result of persistently low oil prices and geopolitical uncertainties.

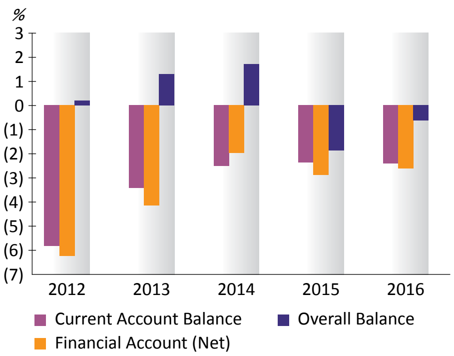
The trade deficit widened to USD 9,090 million in 2016 compared to USD 8,388 million recorded in 2015. The trade deficit as a percentage of GDP increased to 11.2% in 2016 compared to 10.4% in 2015.

The overall balance of payments recorded a deficit of USD 500 million in 2016, in comparison to a deficit of USD 1,489 million recorded in 2015. As such, net international reserves also declined to USD 4,529 million as at end 2016, from USD 5,029 million as at end 2015, with both the reserve asset position and the reserve related liability position declining during the year.

In June 2016, the Executive Board of the IMF approved a three year EFF of SDR 1.1 billion, approximately USD 1.5 billion, to Sri Lanka. The EFF, which is equivalent to 185% of the country's current quota with the IMF, is aimed at supporting the BOP and the government's reform agenda. The first tranche under the EFF, amounting to SDR 120 million (approximately USD 169 million), was made available to Sri Lanka in June 2016 and a similar amount was made available as the second tranche in November 2016, upon the successful completion of the first programme review. Further, the Central Bank continued to repay liabilities to the IMF under the Stand-By Arrangement (SBA) facility obtained in 2009, with total repayments amounting to USD 455 million in 2016. Repayments under the IMF SBA facility are to conclude in mid-2017.

Management Discussion & Analysis

BALANCE OF PAYMENTS



Source: Central Bank of Sri Lanka

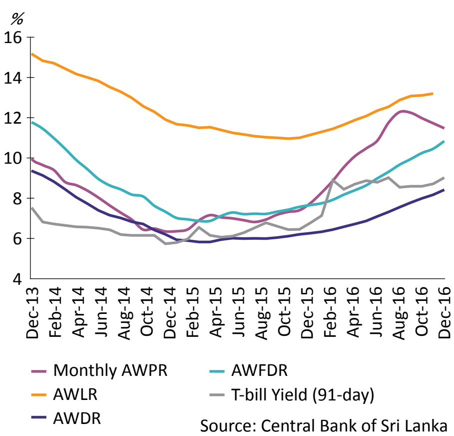
Interest Rates

The money market operated with a high level of excess liquidity of Rs. 105.3 billion at end 2015. Considering the ramifications of persistent and high liquidity levels in the market, the Central Bank increased SRR applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 7.50% with effect from 16 January 2016. With the Central Bank's decision to raise SRR with effect from January 2016 and to increase policy interest rates in February 2016, the Average Weighted Call Money Rate (AWCMR) increased to 7.50% by end February 2016 compared to 6.40% reported at end 2015. By end March 2016, AWCMR increased further and moved beyond the upper bound of the policy rate corridor reaching 8.15% by the first week of April 2016. Following the increase in policy interest rates for the second time in July 2016, AWCMR increased and stabilised at around 8.40% thereafter. By end 2016, AWCMR was at 8.42%, recording an increase of 202 basis points during the year. By end March 2017, AWCMR was recorded at 8.75%. Meanwhile, Sri Lanka Inter Bank Offered Rates (SLIBOR) also moved upwards during the year. Accordingly, by end 2016, overnight and 12-month SLIBOR stood at 8.44% and 12.00%, respectively, compared to 6.40% and 7.66%, respectively, at end 2015.

The Average Weighted Deposit Rate (AWDR), which reflects the movements in interest rates pertaining to all outstanding interest bearing deposits held with commercial banks, increased by 197 basis points to 8.17% by end 2016 from 6.20% at end 2015. Meanwhile, the Average Weighted Fixed Deposit Rate (AWFDR), which is based on interest rates pertaining to all outstanding time deposits held with commercial banks, also increased by 289 basis points to 10.46% by end 2016 from 7.57% at end 2015.

The weekly Average Weighted Prime Lending Rate (AWPR), which is computed based on interest rates applicable on loans and advances granted by commercial banks to their prime customers every week, increased by 399 basis points to 11.52% by end 2016 from 7.53% at end 2015, while the monthly AWPR increased by 433 basis points to 11.73% by end 2016 from 7.40% reported at end 2015.

SELECTED MARKET INTEREST RATE



Source: Central Bank of Sri Lanka

Economic Outlook

The Sri Lankan economy is projected to grow at a moderate rate of around 5.0% in 2017 amidst the adverse impact of unfavourable weather conditions, and is expected to improve gradually thereafter to record an annual growth rate of 7.0% by 2020. The private sector is expected to play a key role in achieving this higher growth momentum by exploiting potential growth opportunities in the economy and external markets.

The opportunities for the private sector would include the planned establishment of the Colombo Financial City, new opportunities under the Western Region Megapolis Project and the proposed establishment of economic corridors in the North East and South West of the island, and also in the areas surrounding the Hambantota and Trincomalee ports. In addition to these initiatives, domestic investment activities are also expected to continue.

These developments are expected to be supported by complementary policy measures of the government in creating a conducive environment for economic expansion. Such policy measures would include structural adjustments in both the fiscal and external sectors together with prudent macroeconomic management policies. Further, appropriate monetary policy measures are expected to maintain inflation at around 5.0%, on average. The nominal exchange rate is also being allowed to adjust to attain a real effective exchange rate (REER) index of 100 and to maintain it at that level to support the competitiveness of the economy. With these developments, the production capacity of the economy would improve supporting higher domestic production, which could be exported through improved market access supported by favourable policy initiatives. Hence, in the medium term, economic growth would be supported by all major sectors of the economy amidst increased demand from both domestic and external sectors resulting in Sri Lanka progressing towards an upper middle income economy.

The external current account deficit is expected to improve steadily with the projected developments in the external sector. Exports are projected to increase at a higher rate than imports, resulting in a narrowing of the trade deficit in the medium term. The rise in exports is projected to be supported through improved trade linkages, including the reinstating of GSP+ concession and proposed trade and economic partnership agreements.

Financial Sector

The country's financial sector continued to expand during the year whilst exhibiting resilience amidst challenging market conditions both globally and domestically. The growth of the financial sector was buoyed by the expansion in banking, other deposit taking financial institutions and contractual savings institutions. Domestic financial markets continued to be volatile during the year in response to changing local and global economic environment. Excess rupee liquidity in the domestic money market declined gradually into deficit levels during the year and rebounded to a surplus by end December 2016.

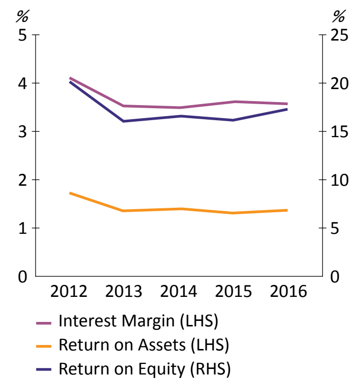
Several prudential measures taken by the Central Bank targeting banking and LFC and SLC sector stability mainly focused on cyber security, enhancing transparency and capital requirements under the Basel III framework. In addition, the Microfinance Act, No. 6 of 2016 was enacted with the objective of regulating microfinance institutions and the Central Bank issued prudential directions with respect to licensed microfinance companies (LMFCs) and guidelines to the Registrar of Voluntary Social Services Organisations for the regulation and supervision of microfinance non-governmental organisations during the year. With regard to the insurance sector, the Insurance Board of Sri Lanka (IBSL) issued directions with respect to the ownership of insurance companies, share capital, complaints handling by insurers and brokers, and cooling-off period to examine the terms and conditions of the policy documents during the year 2016.

Banking Sector

The asset base of the banking sector expanded by Rs. 969 billion during the year surpassing Rs. 9 trillion by end December 2016 albeit at a slower growth of 12.0% (y-o-y) in 2016 compared to 15.9% reported in 2015. The increase in assets was mainly attributed to the increase in loans and advances of Rs. 825 billion, which was primarily funded by a growth in deposits of 16.5% during the year. Borrowings of the banking sector declined to Rs. 1.7 trillion with a negative growth of 3.5% in 2016 compared to the growth of 21.4% in 2015. This was mainly due to decrease in foreign currency borrowings by USD 319 million recording a decline of 4.4% compared to the previous year. Profit recorded an increase mainly arising from higher net interest income. Profitability of the banking sector as reflected in ROA and ROE increased during the period. The banking sector continued to manage its risks prudently during the year and maintained a comfortable level of liquidity and capital. The asset quality improved during the year recording the lowest NPL ratio in the past two decades. Meanwhile, interest rate risk and re-pricing risks increased due to upward movements in interest rates. The banking sector expanded its operations throughout the year through the establishment of new banking outlets and installation of new Automated Teller Machines (ATMs).

Profitability Indicators of the Banking Sector

PROFITABILITY INDICATORS OF THE BANKING SECTOR



Licensed Finance Companies (LFCs) and specialised Leasing Companies (SLCs) Sectors
By end 2016, this sector comprised of 46 LFCs, 7 SLCs and 1,313 branches, out of which 886 branches were located outside the Western Province.

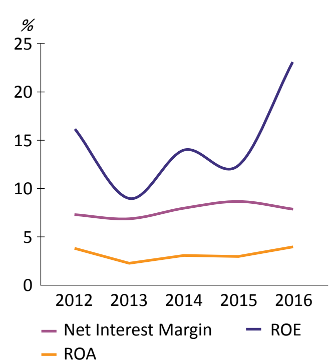
Greater business expansion of the LFCs/SLCs sector in to new areas of lending during the year enabled the sector to post increased level of profits. Accordingly, the sector posted a profit after tax of Rs. 31.5 billion compared to that of Rs. 15.2 billion in 2015 reporting a more than two fold increase. The net interest income of the sector increased at a slower rate of 12.0% to Rs. 92.1 billion compared to 32.0% increase in the previous year. The non-interest income recorded an increase in comparison to 2015 the non-interest expenses decreased marginally leading to an improved efficiency ratio. The loan loss provisions made against NPLs was lower by Rs. 1.9 billion during 2016 when compared to Rs. 9.5 billion reported for 2015. The profitability indicators of the sector, ROA and ROE, increased to 4.0% and 23.1%, respectively, in 2016 compared to 3.0% and 12.4%, respectively, in 2015.

The total regulatory capital of the sector improved by 25.1% to Rs. 116.2 billion mainly due to retained profits. The Tier I capital contributed to 97.2% of the total regulatory capital. The core capital and total risk weighted capital ratios of the sector increased to 11.4% and 11.7%, respectively, as at end 2016 from 10.5% and 11.2%, respectively, as at end of 2015.

During 2016, the LFCs/SLCs sector was able to expand their asset base exceeding the one trillion rupee mark while maintaining marginally lower growth than in previous year. The total asset base of the sector grew by 21.7% (Rs. 215.8 billion) in 2016 to Rs. 1,211.9 billion compared to a growth of 22.3% (Rs. 181.6 billion) in 2015. The 77.3% growth of assets was mainly led by lending activities. The increased assets were funded mainly through borrowings by 57.6% and the balance by deposits, equity capital and other liabilities which represented 23.3%, 10.6% and 8.4%, respectively.

The sector's reliance on retail deposits has gradually shifted towards bank borrowings over the past two years considering the flexibility and cost factor. This has changed the overall funding structure of the sector by increasing the share of borrowings to 36.2% in 2016 from 31.6% in 2015, while the share of deposits decreased to 43.8% in 2016 from 48.3% in 2015. During 2016, the borrowings increased by 39.6% or Rs. 124.4 billion to Rs. 438.7 billion in absolute terms compared to a growth of 44.6% recorded in 2015. The borrowings are predominantly from the banking and finance sector (58.5%) followed by debenture issues (16.5%), foreign borrowings (4.9%) and overdraft facilities (4.5%).

PROFITABILITY INDICATORS OF THE LFCS/ SLCS SECTOR



Source: Central Bank of Sri Lanka

The deposits recorded a moderate growth of 10.5% or Rs. 50.3 billion to Rs. 531.0 billion in 2016, compared to a 16.1% growth in 2015. The deposit mobilisation was mainly through time deposits accounting for 95.6% of the total deposits, whilst the residual was mainly from

Management Discussion & Analysis

savings deposits. The capital elements of the sector increased by 18.7% to Rs. 146.1 billion as at end 2016, mainly on account of internally generated profits.

Colombo Stock Exchange (CSE)

Colombo Stock Exchange (CSE) continued its downturn for the second consecutive year in 2016 with the All Share Price Index (ASPI) declining by 9.7% to 6,228.3 points and S&P SL20 Index declining by 3.6% to 3,496.4 points at end 2016 compared to 6,894.5 and 3,625.7 respectively, at end 2015. Market capitalisation of the CSE declined in 2016 to 23.2% of GDP from 26.8% in 2015. The daily average turnover of the CSE declined by 30.4% to Rs. 737.2 million in 2016 from Rs. 1,059.6 million in 2015, reflecting a sluggish performance during the year. Foreign investors accounted for 42.2% of the total turnover. Meanwhile, cumulative foreign purchases amounted to Rs. 74.6 billion, while cumulative foreign sales were Rs. 74.2 billion, resulting in a marginal net inflow to the market in 2016.

New Regulatory Directives for NBFIs

The Central Bank introduced a new framework on branch openings, closure and relocation and LFCs/SLCs were encouraged to open only branches instead of other outlets. The methodology used in setting the maximum upper limit of interest rates on deposits and debt instruments was revised to neutralise the impact of sudden changes in the interest rates.

A new regulatory framework for licensing, regulation and supervision of microfinance companies and Microfinance Non-Governmental Organisations (MNGOs) were unveiled. Accordingly, the Central Bank issued rules focusing on licencing criteria and licence fee, while prudential directions covering minimum core capita statutory reserve, deposits, minimum liquid asset ratio, assessment of shareholders, assessment of fitness and propriety of directors and chief executive officers, and the reporting requirements with respect to licensed microfinance companies were issued. The Central Bank also set principles, standards and guidelines to be issued to the Registrar of Voluntary Social Service Organisations (Registrar of VSSO) for the regulation of MNGOs. Licensing of new microfinance companies and registration of new MNGOs are expected to commence during the year 2017.

Management Discussion & Analysis - FINANCIAL CAPITAL

Financial Capital

Rising interest rates and changes in tax rates presented a challenging operating environment for SDF. Nevertheless, the Company recorded a strong performance in terms of asset growth, managing credit risk and maintaining healthy capital resources with sound growth levels. Notably, SDF maintained momentum of disbursements and deposit growth. SDF also maintained healthy capital and liquidity positions during the financial year ended 31 March 2017.

However, due to the volatile business environment, the Company's net interest income increased at a slower rate. Operating expenses increased sizably over the preceding financial year mainly due to the business expansion and increased employee incentives paid based on performance.

Owing to these factors, the Company's profit after tax in the reporting year decreased compared to the previous year.

Nevertheless, we ensured equitable distribution among our valued stakeholders in the form of salaries and benefits, government taxes and community and environmental investments in the reporting period.

Strategic Priorities	Strategies
Move away from traditional funding sources	• Gain access to more low cost funding and enhance product versatility
Optimisation of funding sources	• Determine optimal mix between long-term funds and short-term funds to eliminate maturity mismatch and exploring the opportunity to raise foreign funding as an alternative. Adopting new mechanisms, new products, new monitoring mechanisms and allocate appropriate resources to prioritise to build up savings and fixed deposit base.
Maintain a high quality asset portfolio	• Emphasis on the quality in the granting and initiating stringent recovery actions by strengthening legal and recovery departments with more resources. Implementing risks mitigating strategies such as by moving into more assets-backed lending to high credit rated customers to improve credit quality.
Maintain a balanced product mix	• Consider fundamental changes to products which are more suitable for the volatile interest rate environment. Develop new products giving a balance between risks and returns, developing markets and profitable niche markets.

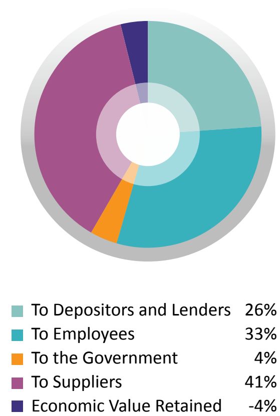
Management Discussion & Analysis - FINANCIAL CAPITAL

Performance Highlights

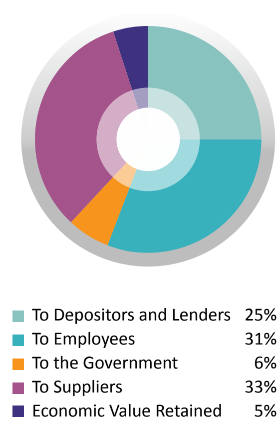
Total economic value created by SDF amounted to Rs 1.1 billion in the FY 2016/2017. This value has been distributed among our stakeholders as depicted below.

	2016/17		2015/16		Change	
	Rs. Million	%	Rs. Million	%	Rs. Million	%
Economic Value Added						
Interest Income	883.76		922.99		(39.24)	
Other income	212.67		91.76		120.91	
Total	**1,096.43**		**1,014.75**		**81.68**	
Economic Value Distributed						
To Depositors and Lenders						
Interest Expenses	280.90		255.92		24.99	
	280.90	**25.62%**	**255.92**	**25.22%**	**24.99**	**9.76%**
To Employees						
Salaries and other benefits	361.46		314.19		47.27	
	361.46	**32.97%**	**314.19**	**30.96%**	**47.27**	**15.05%**
To the Government						
Income tax	(0.04)		17.14		(17.17)	
VAT on financial service	48.03		49.27		(1.24)	
	47.99	**4.38%**	**66.41**	**6.54%**	**(18.42)**	**-27.74%**
To Suppliers						
Other Operating Expenses	225.17		223.48		1.69	
Impairment charges	172.26		61.29		110.96	
Depreciation and Amortisation	47.42		45.43		1.99	
	444.85	**40.57%**	**330.21**	**32.54%**	**114.64**	**34.72%**
Economic Value Retained	**(38.76)**	**-3.54%**	**48.04**	**4.73%**	**(86.80)**	**-180.69%**
Total	**1,096.43**		**1,014.75**		**81.68**	

2016/17



2015/16

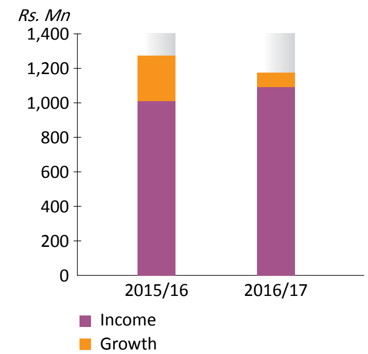


Key financial indicators

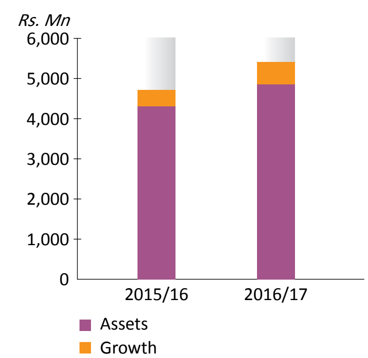
Key financial indicators for SDF for the year under review are given below and explained further in this chapter.

	2016/2017	2015/2016	Change (%)
Statement of Profit or Loss			
Income (Rs. million)	1,096.43	1,014.75	8.05%
Operating Income (Rs. million)	815.53	758.84	7.47%
Profit After Tax (Rs. million)	(34.54)	46.14	-174.86%
Statement of Financial Position			
Assets (Rs. million)	4,872.89	4,320.02	12.80%
Customer Deposits (Rs. million)	3,563.70	3,070.41	16.07%
Loans and Lease Receivables (Rs. million)	3,760.60	2,766.81	35.92%
Financial Indicators			
Net Interest Margin (%)	14.57%	19.41%	-24.94%
Return on Equity (%)	-3.24%	4.35%	-174.48%
Net Assets Value Per Share (Rs.)	15.51	16.08	-3.54%
Cost of Funds	8.33%	8.64%	-3.59%
Capital Adequacy			
Core Capital Ratio (minimum 5%)	25.02%	32.00%	-21.81%
Total Risk Weighted Capital Ratio (minimum 10%)	25.02%	20.32%	23.13%

INCOME



ASSETS



Sources and Utilisation of Income

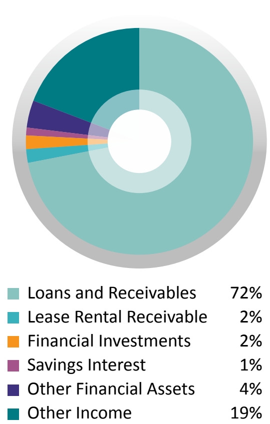
Our primary source of income is interest income generated from loans and lease receivables and during the current financial year this income declined to Rs. 804.62 million from Rs. 880.26 million in the previous year. However, total incomes were boosted by the interest income generated from the new products range introduced namely, leasing, SME, micro business and personal loans and PCBE loans. In addition, the profit of Rs.100.28 million realised on the sale of the subsidy Company, Summit Finance PLC, contributed largely to the growth of total income. We commenced finance leasing business in May 2016 after obtaining the license from CBSL in April 2016. The leasing business assisted to expand our income by an additional Rs. 16.44 million. Similarly, SME business which was commenced parallel with leasing contributed Rs. 23.01 million towards interest income.

Management Discussion & Analysis - FINANCIAL CAPITAL

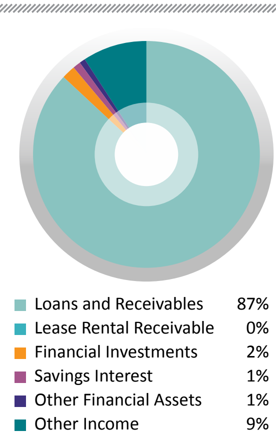
A comparison of sources and utilisation of incomes is given below.

Sources and Utilisation of Income	2016/17		2015/16		Change	
	Rs. million	%	Rs. million	%	Rs. million	%
Source of Income						
Loans and Receivables	788.18		880.26		(92.08)	
Lease Rental Receivable	16.44		-		16.44	
Financial Investments	25.48		17.39		8.09	
Savings Interest	13.78		13.91		(0.14)	
Other Financial Assets	39.88		11.43		28.45	
Other Income	212.67		91.76		120.91	
Total	**1,096.43**		**1,014.75**		**81.68**	
Utilisation of Income						
To employees						
Personnel Expenses	367.77		313.06		54.71	
	367.77	**33.54%**	**313.06**	**30.85%**	**54.71**	**17.48%**
To Suppliers						
Interest Paid	280.90		255.92		24.99	
Other Expenses	230.23		212.14		18.08	
Depreciation	47.42		45.43		1.99	
Loan Losses and Impairment	172.26		61.29		110.96	
	730.81	**66.65%**	**574.79**	**56.64%**	**156.02**	**27.14%**
To the Government						
Income Tax	(11.41)		29.60		(41.00)	
VAT on Financial Service	48.03		49.27		(1.24)	
	36.62	**3.34%**	**78.87**	**7.77%**	**(42.25)**	**-53.57%**
To expansion and growth						
Retained Profits	(38.76)		45.73		(84.50)	
Statutory Reserve	-		2.31		(2.31)	
	(38.76)	**-3.54%**	**48.04**	**4.73%**	**(86.80)**	**-180.69%**
Total	**1,096.43**		**1,014.75**		**81.68**	

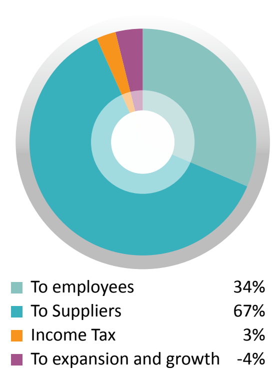
SOURCES OF INCOME 2016/17



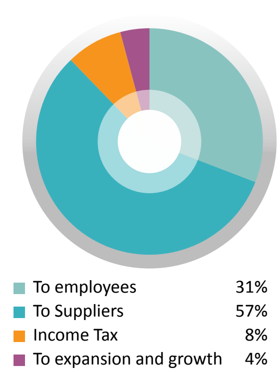
SOURCES OF INCOME 2015/16



UTILISATION OF INCOME 2016/17



UTILISATION OF INCOME 2015/16



Assets, Loans and Receivables Portfolio

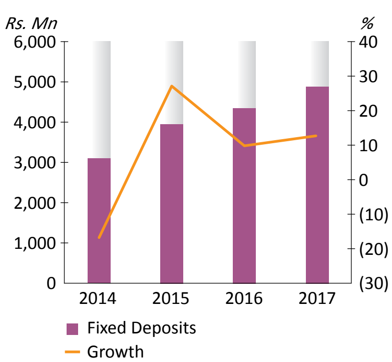
Our asset base reached Rs. 4,872.89 million with a growth of 12.80% compared to the assets as at 31 March 2016. Growth in asset base was primarily driven by the growth in the lending portfolio of the Company. The new lending products range introduced during the early part of the financial year was instrumental for this growth achieved.

The Company's gross portfolio as at the end of financial year 2016/17 stood at Rs.3,983.66 million reflecting a growth of 36.69% compared to the previous year.

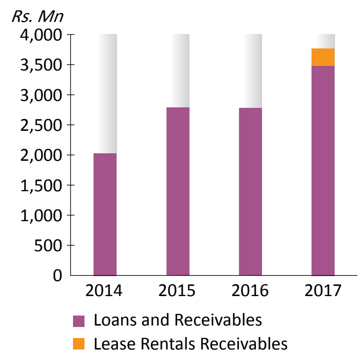
Net portfolio after accounting for impairment stood at Rs. 3,760.60 million as at 31 March 2017 compared to Rs. 2,766.81million as at end of financial year 2015/16.

Impairment charges for loans and receivables and other losses recorded Rs. 172.26 million compared to Rs. 61.29 million in the previous year. The Company wrote off Rs. 97.72 million during the year including loans which are fully provided for as at the year end. The criteria used for write off is defined by the Company write off policy.

ASSETS



NET PORTFOLIO

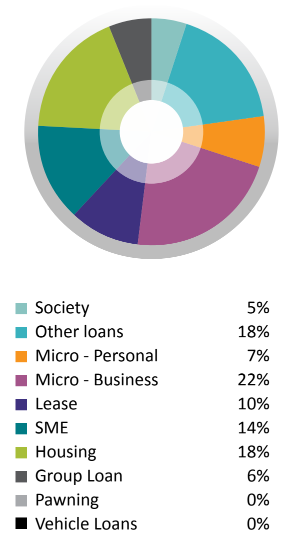


Disbursements

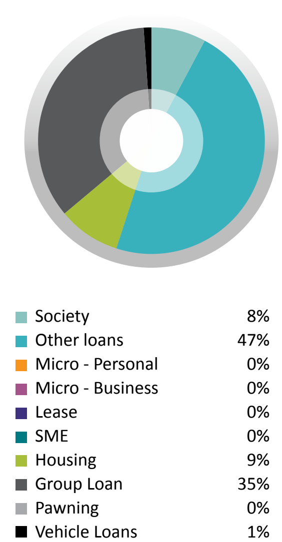
Total disbursement reached Rs. 3.35 billion in the reporting year with a growth of 35.22% compared to the previous year. This was amidst several macro-prudential measures implemented with respect to lending on motor vehicles mainly in the form of a Loan to Value ratio (LTV). The increased customer demand for new products introduced and faster service provided by implementing a work-flow management process through system automation contributed toward accelerating the rate of loan disbursements.

The newly minted micro business loans represented the largest share of the lending portfolio at 21.83% or Rs. 731.19 million, followed by housing loans which expanded to 18.02% of total lending from 8.54% in the previous financial year to reach Rs. 603.57 million. With the growth of new products, the share of Other Loans in the portfolio declined from 47.21% to 17.79%. Group loans which accounted for 34.62% of lending declined to 6.27% of disbursements. Other newly introduced products such as micro personal loans, leasing and SME loans captured a share of 6.66%, 9.89% and 13.95% or Rs. 222.97 million, Rs. 331.40 million and Rs 467.27 million of total disbursements, respectively.

DISBURSEMENTS- BY PRODUCT 2016/17



DISBURSEMENTS- BY PRODUCT 2015/16



Management Discussion & Analysis - FINANCIAL CAPITAL

When considering the disbursement province-wise, the Western Province recorded the highest disbursement of Rs. 1.09 billion for the year ended 31 March 2017 which was 32.47% of total lending and demonstrated a growth from a lower 19.14% of disbursements in the previous financial year. This was followed by the North central Province which absorbed 13.39% of lending accounting for Rs. 448.43 million and the Southern Province which accounted for 12.91% or Rs. 432.52 million of lending.

DISBURSEMENTS- BY PROVINCE 2016/17

In terms of economic sectors the agriculture and fishing sector accounted for the largest share at Rs. 887.60 million, which was a 49.49% growth compared to the previous financial year. The other services category was the next largest recipients with Rs. 751.12 million which was a growth of 275.07% year-on-year. With the improved dynamics of the tourism sector, the lending to tourism sector increased by 642.03% to Rs.22.31 million during the year. Other services and customer segments collectively accounted for Rs. 1.26 billion which accounted for 37.61% of the loans disbursed during the year.

Disbursements -By Sector (Total)	2016/2017	2015/2016	Change
Agriculture & Fishing	887,604,121	593,779,423	293,824,698
Manufacturing	282,269,083	381,078,008	(98,808,925)
Tourism	22,312,501	3,006,952	19,305,549
Transport	39,829,747	12,396,127	27,433,620
Constructions	323,191,375	524,218,250	(201,026,875)
Trades	452,440,378	635,654,722	(183,214,344)
New Economy	19,271,792	7,564,264	11,707,528
Financial and business Services	57,964,050	883,293	57,080,757
Infrastructure	7,042,000	4,865,562	2,176,438
Other services	751,120,428	200,259,142	550,861,286
Other Customers	506,996,068	113,706,410	393,289,658
Total	3,350,041,543	2,477,412,153	872,629,390

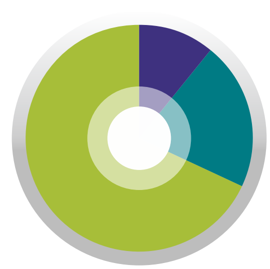
Portfolio Composition

The gross portfolio value expanded by 36.68% from Rs. 2.91 billion to Rs. 3.98 billion mainly due to the inclusion of the new products; micro personal and business loans, leasing and SME loans. In addition, 112.76% or Rs. 365.84 million growth in the housing loans which reached to Rs. 690.28 million as at the year-end largely contributed this portfolio growth during the year.

DISBURSEMENTS- BY PROVINCE 2015/16

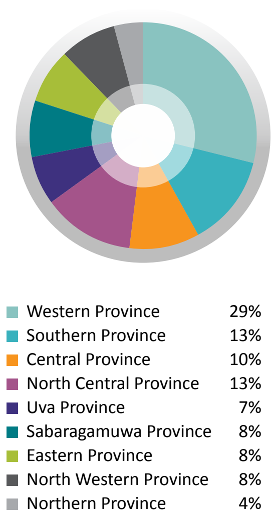
GROSS PORTFOLIO - BY PRODUCT 2016/17

GROSS PORTFOLIO - BY PRODUCT 2015/16

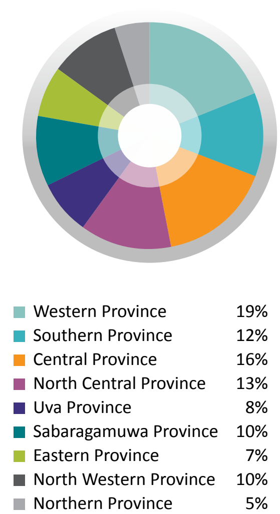


The Western Province accounted for the major share of portfolio value at Rs. 1.14 billion and demonstrated the highest level of growth at 105.22%. The second highest rate of growth was from the Eastern Province which grew at the rate of 56.45% to reach Rs. 315.40 million. The Southern Province held the second largest share of portfolio at Rs. 528.30 million and also recorded a growth of 46.49% against the previous financial year. The North Central province represented Rs. 522.84 million in portfolio value following a year-on-year growth of 33.05%.

GROSS PORTFOLIO -BY PROVINCE 2016/17



GROSS PORTFOLIO -BY PROVINCE 2015/16



The finance and business sector was the fastest growing market segment with an annual growth rate of 3,453.18%, followed by tourism, other service and new economy sectors that maintained growth rates of 375.22%, 241.19% and 206.88% respectively.

Portfolio Quality

We focused strongly on portfolio growth while maintaining stringent credit evaluation and recovery procedures to enhance credit quality. We pay considerable attention to changes in the industry in managing the credit risk we are exposed to in our business operations and adapt pro-actively. During the year under review, we rigidly maintained quality of the loans through close monitoring and adhering to policy measures initiated by the Central Bank of Sri Lanka.

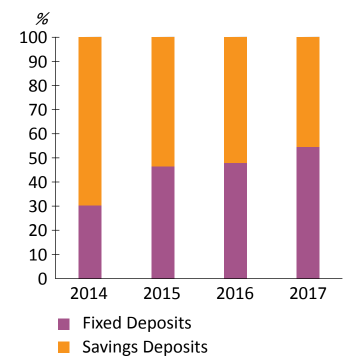
SDF experienced an increase in NPAs against the previous year with the Gross NPA ratio, increasing to 8.88% from 8.03% and the Net NPA increasing to 3.42% from 3.13%. This increase is relatively modest compared to the increase in impairment charge to Rs. 172.26 million from Rs. 61.29 million in the previous year. The expansion in NPA levels is partly due to the manual errors in calculating the aging of contracts prior to the system migration which was rectified through system after migration resulting in a higher provision. Secondly, the quality of the group loan portfolio deteriorated during the year partly due to product related issues and partly due to industry complexities stemming from multiple lending by other financial institutions. This resulted in the imposition of Rs. 62.19 million provision on group loans for the year. However, the stringent monitoring and efforts maintained throughout the year prevented quality deterioration of the rest of the portfolio and thereby contained the overall increase in NPA level to a modest level.

Funding Mix

During the year, our funding strategy was to focus on stimulating deposits to mitigate asset liability mismatch and build a strong low cost funding base.

As at the end of March 2017, the Company's deposit-base comprising fixed deposits and savings deposits, reached Rs. 3.56 billion reflecting a growth of 16.07%. Fixed deposits grew by 31.80% during the year recording Rs. 1.96 billion at the end of the year. Savings deposits reached to Rs. 1.61 billion recording only a marginal growth of 1.35%. The re-pricing effects of fixed deposits at the time of renewals brought the cost of funds down to 8.33% from 8.64% in the previous year. Total deposits as a percentage of total funding mix increased to 76.04% as at the end of the reporting year compared to the 73.33% recorded as at 31 March 2016.

DEPOSITS BASE



Debt funding, collectively representing long-term and short-term loans obtained from banks and other institutions as a share of total funding mix stood at 1.62% as at 31 March 2017compared to 0.75% reported in the previous financial year.

Investment Mix

We invested 5.50% of the total assets in Reverse Repurchase agreements which accumulated to Rs. 268.21 million as at 31 March 2017. Investment in fixed deposits witnessed an increase of 21.35% and reached to Rs. 282.58 million.

Management Discussion & Analysis - FINANCIAL CAPITAL

Bottom Line

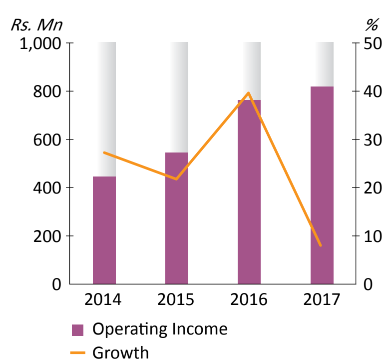
Operating Income

Interest income reached Rs. 883.76 million with a decline of 4.25% in the year 2016/17 compared to the previous financial year. Interest expenses increased by 9.76% and recorded Rs. 280.90 million in the year ended 31 March 2017. Re-pricing and strategic shift in products concentration caused the Company's net interest income to decrease by 9.63% and reached Rs. 602.86 million as at end of the financial year 2016/17. Hence, net interest margin reduced to 14.57% in the year from 19.41% reported in the preceding year.

Other income which comprises fees and commission income, recovery of bad debts previously written off and other operating income significantly increased to Rs. 212.67 million with a 131.77% growth in the year 2016/17. This increase was due to a profit of Rs.100.28 million earned from the divestment of the entire 75.54% stake in the subsidiary Company in January 2017.

Total operating income rose by 7.47% to Rs. 815.53 million in the year under review compared to the year 2015/16.

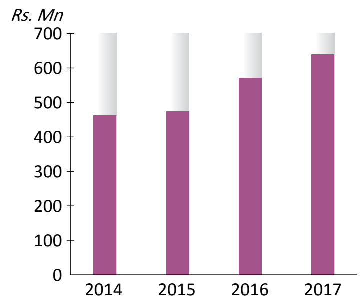
OPERATING INCOME



Operating Expenses

Operating expenses increased by 11.78% to record Rs. 639.10 million in the year 2016/17 and personnel expenses increased by 15.05% to Rs.361.46 million. Operating expenses increasing at a higher rate than the rate of increase in the total operating income caused the Company's cost: income ratio to rise to 84.26% in the year 2016/17 compared to 81.80% in the last year.

OPERATING EXPENSES



Taxation

SDF did not face any income tax liability in the year under review due to the Company recording losses and the deduction of the current year write offs amounting to Rs.97.72 million as allowable expense in computing income tax. The income tax expense of Rs.9.32 million was virtually due to the deferred tax of 9.28 million accrued mainly from the leasing portfolio

The hike in the VAT on Financial Services (FSVAT) Rate from 11% to 15% did not result in an overall increase in tax payments in SDF's case since this impact was largely off-set by the sharp increase in impairment provisioning to Rs.172.26 million. Hence, in spite of the rate hike to 15% from 11%, FSVAT in actual terms declined by Rs.1.24 million to Rs.48.03 million in the current year.

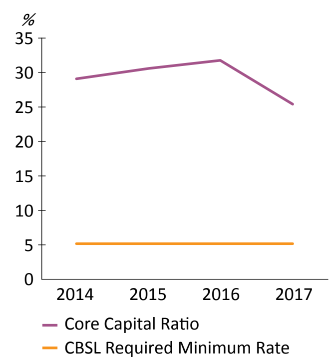
Profitability

Following the strategic decision to shift growth focus towards a more sustainable, development oriented business model, SDF implemented significant changes to business lines which had a mixed impact on revenues and profitability over the immediate implementation phase. Consequently the Company recorded a loss after tax of Rs.34.54 million for the current financial year, which can be directly attributed to several factors. The interest income of the Company declined by Rs.39.24 million to Rs.883.76 million due to the strategic shift which emphasised assets-backed lending such as leasing and SME. While being low risks products, these products also carry lower returns compared to micro financing such as group loans that generate nearly 40% yield. This shift in strategy and dis-continuation of group loan lending mostly in the 2nd half of the financial year resulted in group loan income declining by Rs.95.57 million and the group loan portfolio declining by Rs.567.17 million during the year respectively. Overall, the interest income on the lending portfolio declined by Rs.75.64 million and the portfolio yield declined to 23.33% from 30.49% in the previous year. These changes had the cumulative short-term impact of depressing the bottom line temporarily, which is reflected in the current financial year's PAT figure. Consequently, return on equity (ROE) recorded a negative figure of 3.24% compared to an improvement of 4.35% recorded in the previous year.

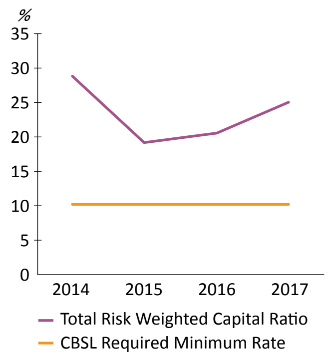
Capital Resources and Liquidity

We maintained a healthy capital and comfortable liquidity position during the financial year ended 31 March 2017. Adhering to stipulated capital adequacy requirements laid down by the CBSL, the Company's core capital ratio (minimum 5%) and total risk weighted capital ratio (minimum 10%) stood at 25.02% as at 31 March 2017, compared to the ratios as at the end of March 2016 of 32.00% and 20.32% respectively. The total capital base as at 31 March 2017 stood at Rs. 1.00 Billion.

CORE CAPITAL RATIO



TOTAL RISK WEIGHTED CAPITAL RATIO



Cash Flow

Net cash generated from operations recorded a negative Rs. 567.63 million compared to the positive cash flow of Rs. 221.52 million of the previous financial year. This decrease in the cash position was demonstrated by the increase in credit growth. The Company recorded a positive Rs. 360.47 million cash flow from investment activities, compared to the negative cash flow of Rs. 119.30 million last year. The proceeds of Rs. 479.76 million received from the sale of the subsidiary was the contributing factor for this increase. These major changes reported led to a decline in cash and cash equivalents from Rs. 306.77 million at the beginning of the year to Rs. 88.03 million at the end of financial year.

Management Discussion & Analysis - MANUFACTURED CAPITAL

Manufactured Capital

Strategic Priorities	Strategies
Optimise branch network	• Relocate branches and service centres • Rationalise and close down unproductive branches and service centres • Upgrade and revamp branches and service centres
Investing in latest technologies	• Develop mobile App for real time collections • Improving the internal ICT systems • Joining the national ATM network
Reach new markets	• Join with the Sarvodaya Societies to reach new markets • Develop customised products for niche markets • Branding and marketing campaign

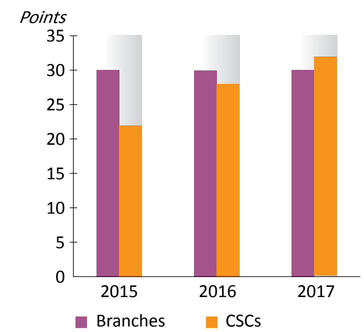
Branch Network

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

Customer Delivery Points

During the year, the 58 service delivery points, comprising 30 branches and 28 customer service centres (CSCs), were reduced to 52 delivery points by amalgamating underperforming units with the nearest branch or service centre.

CUSTOMER DELIVERY POINTS



Identifying Strategic Location

We identify strategic locations that require our presence through the analysis of the market potential of the area in question, as well as any future prospects. This is done through extensive market research and demand trend analysis. To further enhance the value of our branch network, we rebrand and relocate our existing branches. We expect the relocation strategy to maximise benefits for customers by providing easier access and greater convenience, while facilitating improved return on assets for SDF.

Borella Branch Opening

Relocate Branches and Service Centres

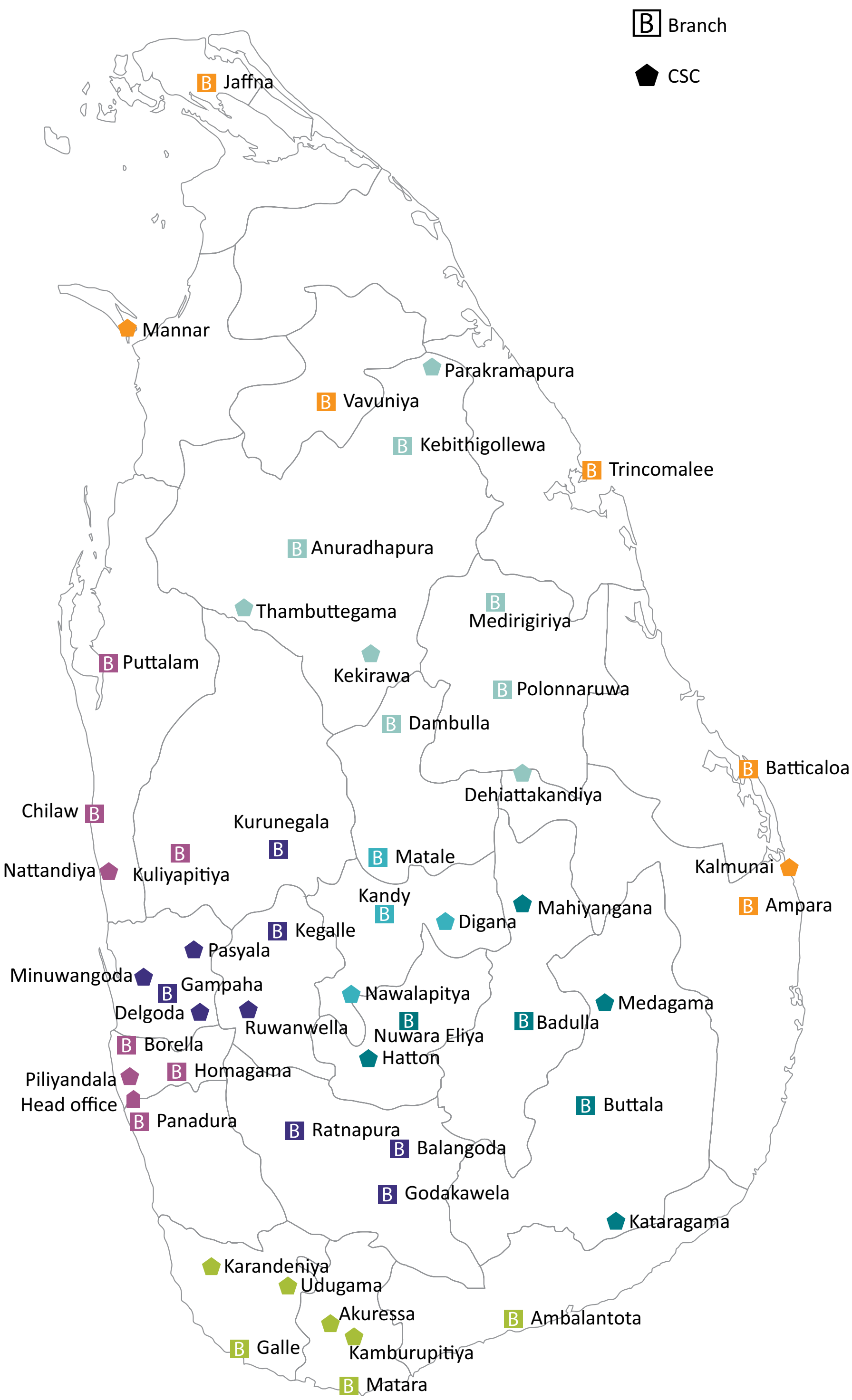
We rebranded and relocated nine (9) of our branches/CSCs during the year to give those a greater visibility and also to enable our customers to have easy access to our products and services.

Rationalise and Close Down Unproductive Branches and Service Centres

The standalone operations of six (6) under-performing CSCs were discontinued and merged with the operations of the branches that they were assigned to. This move was taken to optimize the resources and for better servicing the customers of those locations

Upgrade and Revamp Branches and Service Centres

We refurbished and gave a new facelift to eight (8) of our branches/CSCs during the year. Service quality standards of these branches/CSCs were also improved to provide a much faster and friendly service to our esteemed customers in those locations.



Region 01	Borella	Piliyandala
	Homagama	Naththandiya
	Panadura	
	Kuliyapitiya	
	Chilaw	
	Puttalam	

Region 02	Ambalanthota	Akuressa
	Galle	Kamburupitiya
	Matara	Karandeniya
		Udugama

Region 03	Badulla	Hatton
	Nuwara Eliya	Kataragama
	Buttala	Mahiyangana
		Medagama

Region 04	Ampara	Kalmunai
	Batticaloa	Mannar
	Jaffna	
	Trincomalee	
	Vavuniya	

Region 05	Kegalle	Delgoda
	Gampaha	Minuwangoda
	Kurunegala	Pasyala
	Balangoda	Ruwanwella
	Godakawela	
	Ratnapura	

Region 06	Anuradhapura	Dehiattakandiya
	Dambulla	Kekirawa
	Kebethigollewa	Parakkramapura
	Medirigiriya	Tambuttegama
	Polonnaruwa	

Region 07	Kandy	Digana
	Matale	Nawalapitiya

Management Discussion & Analysis - MANUFACTURED CAPITAL

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

Operating Structure

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

IT Infrastructure, Systems and Processes

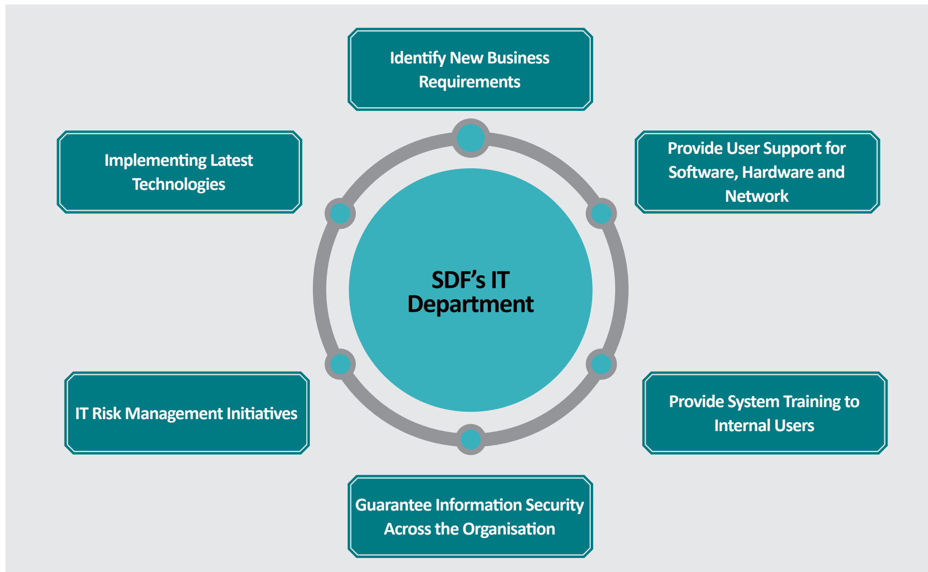
Our IT division can provide all-inclusive services for changing business activities and business needs. Our IT strategy aligns closely with our business strategy of the Company.

Information Security Policy

Our IT Policy is currently focused on creating a sound incident management system providing adequate data protection and ensuring appropriate implementation in order to detect and remove any threats in a timely fashion. In addition, we have developed policies on disaster recovery, E-mail and IT Security to further strengthen the coverage of data security.

Key Activities and Functions of SDF's IT Department

Our IT department covers following key activities and functions.

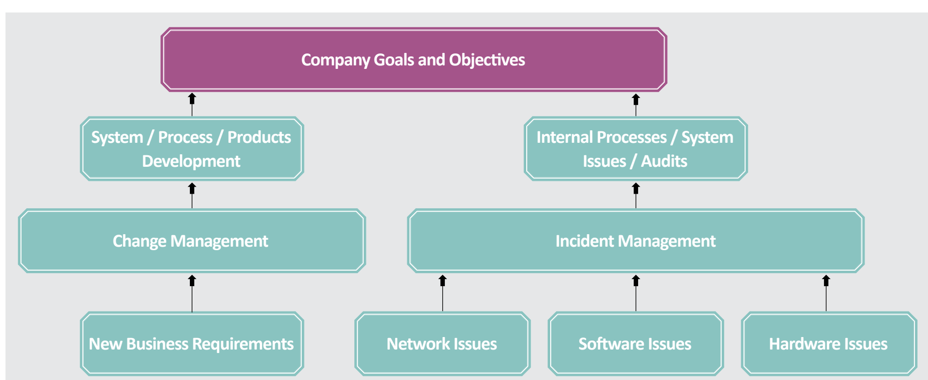


A Robust Disaster Recovery Site

Our network infrastructure was completely redesigned to enhance the data security features. Keeping in-line with Central Bank guidelines & internal DR policy, we partnered with Dialog IDC, the 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. With this strategic move, we are now capable of providing a high-level of reliability and security, especially for mission critical applications & data related to customers and SDF.

IT Risk Management

Our IT risk management process focus on three (3) areas of IT processes; namely, hardware, networking and software to establish sound process controls to effectively run the IT system in achieving SDF's corporate objectives.



Change Management

The formal process of making changes to IT services are channeled through the IT change management process. Our IT department communicates and creates awareness of proposed IT changes across SDF through this process to ensure that all changes are made in a thoughtful way that minimise negative impact to our services and customers.

Incident Management

Incidents are unplanned disturbances to an IT service or a drop in the quality of an IT service. Incident management is the process that our IT department takes to record and resolve incidents. The team that predominantly takes care of incident management is the help desk team. The IT help desk comprise of an experienced team who are capable of resolving any system-related and/or user-related issues in relation to hardware, networking and software of the IT system. If required, the help desk team directly liaise with the IT system provider to resolve any issues that cannot be resolved at the help desk level.

IT Audits

We believe, having a robust IT system to provide a faster service to customers will result in an improved reputation and public confidence. We conduct period audits on IT processes to make sure that our IT system is up-to-date and well-sound. To apprehend the soundness of our IT system and to make timely changes/modifications to same so as to make the system more robust, we carried out an IT system audit including an application audit through Ernst & Young during the year under review. We intend to implement the changes/modifications recommended by Ernst & Young in the coming year to make the system more robust.

Technology Advancements

We strive to continuously upgrade our IT system with available new technologies to improve the effectiveness and efficiency of our customer service. During the year under review, we upgraded the IT system to a newer version to accommodate enhancements in the workflow process, MIS/Finance reporting and several other industry best practices. These upgrades brought in an improved customer convenience and reduction in lead time for carrying-out transactions.

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

Branch Automation

We integrated our physical branches on line with head office to a centralised system for a centralised work flow management for cost efficiencies.

Green Banking

Introduced a Paperless online approval proposal for leasing and loans which sizably reduced usage of papers, reduced time leading to increased efficiency and customer satisfaction.

Strategic Partnerships

Partnered with Dialog and using their SMS gateway, we developed an in-house middle-ware to send SMSs to our customer base. Currently, we use this gateway to send SMSs to our arrears loan customers.

SLIPS, ATMs and m-Cash

The existing numbering format of Savings accounts was re-structured to 12 digits to comply with the standard requirement of SLIPS, ATMs and m-Cash transactions.

SDF Intranet

Developed an Intranet to upload all operational guidelines; including, internal circulars, manuals, memos and other instructions being sent to branches/CSCs for easy retrieval and reference.

IT Policies

Introduced/updated IT policy, IT security policy, Email policy and DR policy which resulted in greater regulation, control and risk minimisation in related to data and information sharing

SDF Web Portal

Launched SDF web portal and social media network which enabled marketing strategies to be more customer segment focused and result oriented

In addition, the implementation of a robust IT system paved the way, not only for internal development, but also to enter into relationships with NDB Bank for the implementation of the Western Union money transfer and with DFCC Bank for foreign remittances (LMT) during the year which further strengthened and enhanced the convenience of providing financial services to our valued and loyal customers.

Investing in Latest Technologies

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

Management Discussion & Analysis - MANUFACTURED CAPITAL

Foreign Currency Remittance

We partnered with DFCC & NDB, two of the prime banks to launch Lanka Money Transfer (LMT) remittance service and western union money transfer programme which will allow our customers who work in foreign countries to transfer money to our savings accounts through their bank accounts.

Mobile Cash (m-Cash)

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

With an Eye to extend our services to rural customers, we're in our planning stages with a telco to implement a mobile money platform to facilitate the Company's loan collections via smart phone devices. This initiative will be a timely step forward to providing an enhanced customer service experience. This advancement in IT will facilitate real-time updating of customer accounts on payment of loan installments through mobile cash.

We have also harnessed the synergies of the Sarvodaya Movement to extend our outreach further inland. The SSS are well established and trusted by the public and numbering over 3,000 are spread out across the four corners of the country. This year we set up a separate unit to collaborate with SSS to reach businesses and entrepreneurs in the interior parts of the country.

Future Outlook

Our customer delivery points will expand exponentially in the coming financial year with SDF joining the national ATM network. We intend to introduce as ATM card to our savings and loans customers. This will allow SDF to provide a convenient service its existing customers as well as to significantly increase new customers.

Signing LMT agreement with DFCC

Signing western union agreement with NDB

Management Discussion & Analysis - INTELLECTUAL CAPITAL

Intellectual Capital

Strategic Priorities	Strategies
Repositioning the brand and enhancing brand visibility	• Continuous branding and marketing campaigns • Working with Sarvodaya Societies to leverage Sarvodaya brand • Community engagements riding on the Sarvodaya community brand recognition • Strengthening governance practices, sustainable reporting, and compliance. • Keeping with emerging trends
Optimising group synergies for stronger branding	• Working with Sarvodaya Societies to reach Sarvodaya members and contacts • Enhance cross selling to improve brand image as a 'One stop solution' for customers. • Incentivising SSS for generating leads for leasing, SME and deposits mobilisation.
Cultivating innovations and encouraging knowledge sharing	• Training and development opportunities • Encouraging open communications • Facilitating team work and interactions

Awards

SDF's Annual Report for FY 2016/2017 themed 'Re-Energised', was awarded with a 'Certificate of Compliance' for the second consecutive time at the 52 Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka. The theme represented the re-energising of the Company following the formulation of a new strategic blue print to guide and direct future growth of the Company.

Management Discussion & Analysis - INTELLECTUAL CAPITAL

Brand Image

SDF's ultimate parent, the Lanka Jathika Sarvodaya Shramadana Sangamaya (LJSSS), is a well known and much loved name among Sri Lankan communities across the country due to its close ties to grassroots populations and active involvement in their economic welfare. Stemming from these roots SDF enjoys a strong brand recognition in the country which is further augmented by the years of close working relationships with micro entrepreneurs.

In addition, following the name change from Deshodaya Development Finance (DDFC) to Sarvodaya Finance (SDF) with a unique logo and corporate colours, Sarvodaya Finance has been working to create a perception of being 'a close partner' in the hearts and minds of customers.

Group Synergies

The unmatched brand power and reach of the Sarvodaya Movements presents exciting opportunities for synergies when combined with SDF's socialised financial services. We optimised the synergies and strengthened the relationship mainly with SSS during the current financial year to create a win-win situation for SSS as well as for SDF. This strategic move assisted SDF to record a strong growth in credit disbursements as well as deposit mobilisation during the year under review.

Business Philosophy

As part of the Sarvodaya Movement, SDF is strongly influenced by the community development philosophy and community service culture. Complying with this outlook and being as the financial arm of Sarvodaya Movement, SDF intends to actively contribute to Sarvodaya's social programme by distributing a sizable portion of its yearly profits by way of dividends to Sarvodaya Movement to facilitate their community welfare programmes. The designs of SDF has embraced the philoshophical values and principles of Sarvodaya in designing and delivering its products and services to its valued customers. Keeping our tag line of 'Care & Concern' in mind, we always strive with care in mind to offer affordable financial services to our valued customers. We take great efforts to conduct our operations in a fair, transparent and just manner which is our business ethics and guiding principles.

Compliance and Stability

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

Organisational Knowledge and Culture

SDF has a qualified, trained and experienced staff that add to the wealth of the Company through their insights of the industry and market trends. Our long-standing performance on the arena ensures that we possess an extensive knowledge of the micro credit industry which has made it possible to support the advancement of micro entrepreneurs to the status of SMEs.

We encourage a working culture that is open, supportive and collaborative. We encourage our employees to voice opinions and take proactive actions to drive innovation and suggest change.

Future Outlook

We will continue our focus on enhancing the SDF brand through advertising and marketing efforts and also by stronger linkages with SSS and Sarvodaya Movement. We anticipate further improvements as a result of the synergies generated through this collaboration that will add value to customers while repositioning the SDF brand in the crowded financial services market. Our employees' knowledge and expertise will be enhanced through training-led initiatives and we will continue to innovate, by introducing new products into the market.

Management Discussion & Analysis - HUMAN CAPITAL

Human Capital

Strategic Priorities	Strategies
Attract and recruit best talent	• Identify required talent based on the proposed operational changes such as new product launches and network expansion • Have proper recruitment process • Recruit on the basis of merit
Develop competencies	• Retrain and re-skill for new challenges • Provide continuous training and skill upgrading opportunities
Retain existing talent	• Offer career development opportunities • Competitive remuneration packages • Reward systems based on performance
Build a performance based culture	• Transparent performance evaluation against KPIs • Training to develop under performers

HR Strategy

The HR strategy has been aligned with the corporate strategy and the HR policies cover all Human Resources-related matters from recruitment to retirement. We do not discriminate on the grounds of race, gender, age and any other socioeconomic factor in the recruitment, training and promotion of its employees. In line with our increasing branch expansion, we duly recruited new staff to fit the new roles that were being created within our operations.

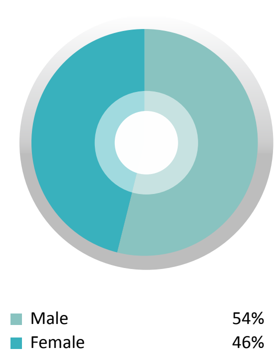
We maintain an open and supportive working culture that encourages teamwork. We have started to integrate HR processes into IT systems to improve employee productivity. The payroll and attendance processes of SDF are fully integrated into the IT system currently.

Employee Profile

With new recruits, our cadre strength stood at 540 employees as at 31 March 2017. This represented a decrease of 63 or 12% from the preceding year. During the year, we inculcated a performance based culture by introducing new key performance indicators (KPIs). Also, a capacity planning programme was carried out at branch level to optimise the staff requirement per branch. Excess staff recognised through this exercise were re-deployed to other areas within the organisation. While these initiatives brought in improvements in productivity, it also resulted in a higher labour turnover.

88% of our workforce are on permanent basis. Men represent 54% of our pool of employees.

EMPLOYEE TURNOVER -BY GENDER



Management Discussion & Analysis - HUMAN CAPITAL

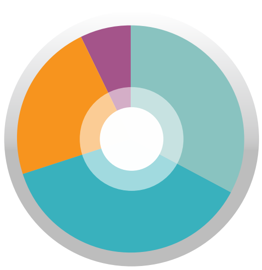
Our employees are primarily based in the Western Province, followed by the North central and Southern respectively.

EMPLOYEES' -BY GEOGRAPHY

Central	10%
Eastern	6%
North Central	12%
North Western	7%
Northern	4%
Sabaragamuwa	6%
Southern	10%
Uva	7%
Western	38%

We have a relatively young workforce with 70% of our total employees are below 40 year and 30% of our employees are below 30 years of age.

EMPLOYEES' -BY AGE



20-29	33%
30-39	37%
40-49	23%
50-59	7%

Breakdown by Position

Our senior management team increased to 19 from 16 in last year. We strengthened the senior management by recruiting experienced professionals to fill in the vacancies. The senior management as a percentage of the total workforce amounted to 4% in 2016/17. Senior management included employees who are senior managers and above but excludes the regional managers. Line management comprising of regional managers, managers and assistant managers amounted to 18% of our total workforce.

New Recruits -By Position				
Position	Male	Female	Total	%
Senior Management	18	1	19	4%
Line Management	77	19	96	18%
Executives	181	214	395	73%
Others	14	16	30	6%
	290	250	540	100%

Breakdown by Department

As at the year-end, 27% of our workforce was based at head office, 7% was based at regional offices and the remaining 66%, was based at branches and CSCs.

	No. of Employees	
	2016/2017	%
CEO Office	2	0.4%
Finance & Planning	19	3.5%
IT	14	2.6%
Credit	14	2.6%
Recoveries	7	1.3%
Marketing	4	0.7%
Legal	8	1.5%
Admin & Operations	23	4.3%
Internal Audit	10	1.9%
Others	46	8.5%
Regional Offices	38	7.0%
Branches/CSCs	355	65.7%
Total	540	100%

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.

Opportunities are also created for promising employees to enhance their professional and personal development whilst mediocre performers are given on-the-job training under the guidance of experienced managers.

A total of 50 training programmes, both internal and external. were conducted for our employees during the year.

Some of these training programmes were as follows

- Building High performance
- Contemporary leaderships and motivation models
- Team building,
- Role of emotional Intelligence and soft skills
- Mitigating organisational fraud and forensic audits
- Total cost management
- Operational and financial sustainability of micro finance institutions
- Brand value creation

In additions, we also conducted several technical programmes to enhance the product/service knowledge of our employees.

Training needs were identified based on the Company's branch rationalisation strategy for optimum branch performance by staffing each branch with the required types and levels of skills. Training needs were also derived from the performance management system and upon the recommendation of the immediate supervisor of an employee. Internal and external training programmes are carried out in accordance with the training needs of the employees. We expect our staff to possess a detailed and varied understanding of our products with adequate ICT and documentation skills.

For the year under review, we spent Rs. 2.6 million on training and development needs of its staff. We conducted fifty (50) training programmes focusing on both role-related and off role-related aspects.

	No. of training Hours	No. of training Hours	No. of Participants	Investment (Rs.'000)
Internal trainings	27	240	1,175	1,966.3
External trainings	23	216	65	385.8
	50	456	1,240	2,352.1

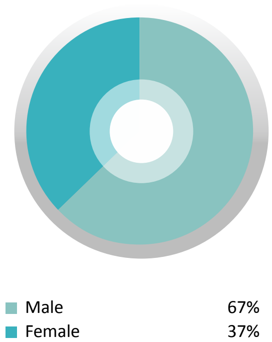
Induction

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

Employee Turnover

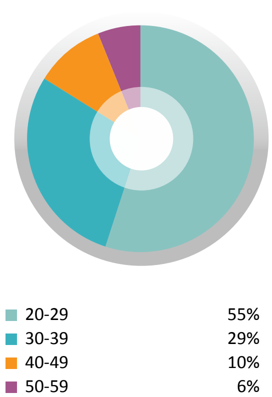
Total employee turnover for the financial year 2016/2017 was 177 or 31% of whom 63% were males and the balance 27% were female employees.

EMPLOYEE TURNOVER -BY GENDER



The employee turnover rate was highest in the 20 to 29 age category which amounted to 98 to 55% of total turnover followed by 30 to 39 age category which amounted to 51 or 29% of total turnover.

EMPLOYEE TURNOVER -BY AGE



Management Discussion & Analysis - HUMAN CAPITAL

Geographically, the Western Province accounted for the highest turnover of 40% followed by North Western with 12%. Our employee retention rate for female employees following maternity leave stood at 3.5%.

Employee Turnover -By Geography		
Geography	No of Employees	%
Central	17	10%
Eastern	7	4%
North Central	8	5%
North Western	21	12%
Northern	5	3%
Sabaragamuwa	14	8%
Southern	17	10%
Uva	18	10%
Western	70	40%
Total	177	100%

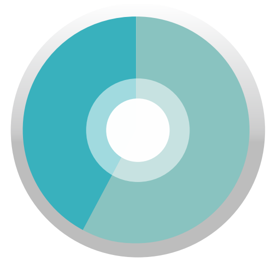
Employee Recruitment Policy

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

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

During the year under review, we recruited 114 employees to fill in the vacancies.

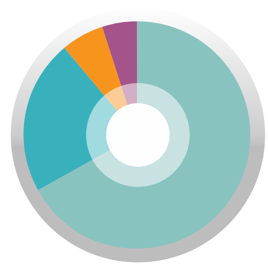
NEW RECRUITS -BY GENDER



Male 58%
Female 42%

Out of total new recruitments, 67% were in the age category of 20-29 and 25% were in the age category of 30-39.

NEW RECRUITS -BY AGE



20-29 67%
30-39 22%
40-49 6%
50-59 5%

7 of the new recruits were recruited to fill the senior management vacancies and 22 were recruited to fill the vacancies existed in the line management.

New Recruits -By Position				
Position	Male	Female	Total	%
Senior Management	6	1	7	6%
Line Management	17	5	22	19%
Executives	31	21	52	46%
Others	12	21	33	29%
Total	66	48	114	100%

Employee Rewards System

We have commenced introducing a performance-based reward system that is on par with market benefits. This will be accompanied by a performance based salaries of our employees, in order to be a competitive employer in the market.

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

Employee Benefits		
	2016/2017 (Rs. million)	%
Salaries	194.12	55.0%
EPF	23.36	6.6%
ETF	5.84	1.7%
Overtime	1.05	0.3%
Allowances	110.94	31.4%
Incentives	5.61	1.6%
Casual Wages	8.17	2.3%
Gratuity	3.75	1.1%
Total	352.84	100%

Welfare Measures

Welfare facilities provided to our employees include:

- Donating of schools books including stationeries to the school children of the staff members
- Personal accident and fidelity guarantee insurance cover for all staff
- Payment of a fixed monetary contribution in case of a marriage of a staff member
- Payment of a fixed monetary contribution in case of a funeral of a staff member or an immediate family members
- Reimbursement of professional membership fees paid by corporate management
- Granting of distress loans at nominal interest rates
- Granting of interest free festival advances
- Providing of staff uniforms to drivers, security and office messengers.

Diversity and Equality

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

Performance Management System

Key Performance Indicators (KPIs) were introduced during the year to establish performance targets and to monitor performance of employees. We use a holistic system of assessment that takes into consideration both quantitative and qualitative factors.

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

The performance management system is primarily meant to achieve the following:

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

To motivate branch staff towards a performance based culture, we introduced a savings campaign from November 2016 to December 2016 and rewarded the top achievers with a first prize being an air ticket to Thailand.

1st, 2nd & 3rd place winners of the savings campaign award ceremony held in January 2017

Employee Wellbeing

Employee wellbeing is built into the Company by creating a positive and safe work environment helps reduce absenteeism, staff turnover and increases productivity in all levels of our operations. We offer comprehensive welfare benefits, advocate healthy lifestyles and conduct sporting events for the benefit of our employees and participate in events to build an environment of cooperation.

Grievance Management

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

Future Plans

The full implementation of the performance based systems introduced in the current financial year will take place in the new financial year. This process will contribute towards significant changes to organisation culture while also boosting overall productivity and performance of the Company.

Management Discussion & Analysis - SOCIAL AND RELATIONSHIP CAPITAL

Social and Relationship Capital

Strategic Priorities	Strategies
Develop a more customer centric service delivery	• Develop soft skills • Improve the complaint management system
Improve business relationships	• Invest on business promotions. • Organise interactive events • Conduct Stakeholder engagement periodically and satisfaction surveys to address their concern
Improve contribution to country	• Support SME and micro sectors
Support business growth	• Capture new market share • Develop new products

Customer Capital

Our customer capital comprise individuals and institutions representing, entrepreneurs, micro enterprises, SMEs and working people. As at end March 2017, our customer base, comprising loans and deposits, increased from 186,219 clients in the previous year to191,605 clients in the reporting year which is a growth of 2.9%.

SDF's Customer Policy

SDF is strongly influenced by the values of our parent the Sarvodaya Movement. Hence our business philosophy is steeped in community development and community service. Our operations are conducted under the principles of fairness, transparency and justice. 80% of SDF profits redistributed by way of dividends will reach those in need through community welfare programmes conducted by Sarvodaya Movement. The products and services we offer to our customers are designed in an equitable manner to provide maximum returns and satisfaction to our customers.

We engage with our customers mainly through a relationship based approach and customer interactions are conducted through primarily our front office staff and field staff. In addition the SDF website is slowly gaining as a customer communication channel. We also communicate through media and online advertising, social media campaigns, events and promotions, CSR activities and Sarvodaya movement social programmes.

Meeting Customer Needs

This financial year ended 31st March 2017 is a year which brought in remarkable improvements in operations, where certain important strategic initiatives were taken to strengthen the internal processes, systems and controls to speed up the provision of customer service to all segments of our customers; namely individuals, Corporates, Government and Sarvodaya Shramadana Societies (SSS).

One of the key initiative that took place during the year was the establishment of a Central Processing Unit (CPU) to centralise the back-office operation of our branches and customer service centres (CSCs) of the Company. The key job functions of the CPU included processing documents in relation to lending, deposits, account opening & bill payments. This centralised approach in processing of documentation resulted in creating adequate time for branch/CSC staff to concentrate on more important aspects; such as, marketing, business development and speedy customer service.

Also, by re-branding and relocating of some of our branches/CSCs for greater visibility and face-lifting and upgrading most of the remaining branches/CSCs with our new brand colors and logos, enable us to enhance the visibility of our branch/CSC premises resulting in a remarkable increase in walk-in customers. This move created more customer acceptance towards our brand value resulting in sizable growth in business, both in deposits and lending. The Island wide promotions we carried out to promote our brand so as to attract new customers was anchored by print & electronic media coverage which focused more on brand building and creating product awareness.

Our Products

Our product portfolio has been continually improved in line with changing customer needs and to support the growth and development of grass roots entrepreneurs. As part of this process SDF has now realigned the product portfolio 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. We also placed stronger emphasis on deposit growth as the key funding source in growing our lending

Product	Product Features	Gross portfolio	Disbursements	No. of customers
Micro Business Loans	Business loans are offered to micro-scale entrepreneurs to meet working capital requirements and capital expenditure. SDF continues it's pioneering Micro Finance services in Sri Lanka through this core product.	Rs. 668.9 Mn	Rs. 724.2 Mn	2667
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.	Rs. 201.0 Mn	Rs. 225.6 Mn	897
Society Loans	Provides bulk loans to 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.	Rs. 189.0 Mn	Rs. 170.0 Mn	880
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.	Rs. 690.3 Mn	Rs. 609.8 Mn	5043
Cash -Backed Loans	Loans are granted against Fixed Deposits at attractive rates to facilitate urgent financial requirements of deposits holders	Rs. 254.9 Mn	Rs. 268.6 Mn	951
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, Borella.	Rs. 286.6 Mn	Rs. 332.8 Mn	324
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, Borella.	Rs. 393.3 Mn	Rs. 469.2 Mn	122
PCBE Loans (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.	Rs. 107.5 Mn	Rs. 109.1 Mn	369
Pawning	Pawning facilities are provided by keeping gold jewelry as security for customer's personal and consumption needs.	Rs. 2.3 Mn	Rs. 0.8 Mn	154

Leasing

The 'Auto Finance' department was established in financial year 2015/2016 to commence vehicle loans until we obtain leasing license from CBSL. We commenced leasing in May 2016 through our Auto Finance department after obtaining the leasing license in April 2016. With the addition of leasing to our products range, we are now able to provide a fast and a friendly services to our valued customers, both existing and prospective, who wish to buy their preferred vehicles through leasing at an affordable installment plan that meets their budget. SDF currently provides leasing facilities for all types of vehicles, ranging from motor cars, dual-purpose vehicles and heavy-vehicles to more micro based products such as three-wheelers and two-wheelers and vehicles used for agricultural activities. As at the year end, SDF's leasing portfolio stood at Rs.286.6 million and consisted of 324 customers.

Management Discussion & Analysis - SOCIAL AND RELATIONSHIP CAPITAL

SDF initiated a new concept of "Irudina Leasing" from January 2017 by opening our Homagama branch on Sundays with vehicles from suppliers kept on display in the branch premises. As at March 2017 total vehicle suppliers of SDF stood at 17 and 14 of same consisted of corporate suppliers. In addition, we had a database of over 100 registered introducers for vehicle leasing as at 31st March 2017.

SME Loans

With the vision of becoming a development bank in the near future and providing a better services to existing and prospective SME sector customers, SDF set up a new SME unit. SME products such as term loans, short term loans and revolving loans were introduced in to SDF's product offerings to cater to the lucrative and growing SME sector. The SME unit also filled an important gap to support micro finance customers, who had grown over the years by partnering with SDF in to SME and emerging SME sectors. SDF was not being able to assist these customer sector earlier due to non-existence of SME products and lack of internal expertise. With the additional of SME department with new talents and expertise in this sector, SDF is now able to cater effectively to its loyal micro customers who are transitioning their businesses now up to SME and emerging SME levels. Extensive training was carried out covering all branch staff to develop their relationship management and credit appraisal skills to give a fast and effective service to SME customers. As at the year end, SDF's SME loan portfolio stood at Rs.393.3 million and consisted of 122 customers.

Society Loans

SDF provides bulk loans to SSS for onward lending to their members at relatively small ticket size not exceeding Rs.100K. In other words, the SSS acts as an intermediary to channel SDF's loans to its micro borrowers. SSS members obtain loans for a variety of purposes, primarily to initiate or improve income-generating projects, as well as, for consumption purposes and other expenses. When compared to other direct competitors, SDF has a unique advantage in reaching the grass-root level micro customers at remote areas through these SSS network. Understanding the strategic importance of this network, SDF established a Society Coordinating unit during the reporting year to directly coordinate with SSS for strengthening relationship and also to conduct joint business promotions at village level promoting SDF's leasing, micro lending products and savings. During the year, this unit carried out several marketing programmes jointly with SSS which assisted in increasing bulk-loans to SSS, savings including children savings and micro personal and business loans to SSS members. SSS were also assisted in providing links to SDF for its leasing products. As at the year end, SDF's SSS loan portfolio stood at Rs.189.0 million and consisted of 880 customers.

PCBE Loans

This product was introduced with a structured procedure mainly targeting salaried non-executive, junior executive and above employees at factories and offices of reputed corporates. The blue collar workers such as factory workers are an under banked segment with much potential and this new product enabled us to tap into this lucrative market. A new appraisal procedure was introduced to minimise the credit risk involved and also to fast-track the granting of loans in a timely and efficient manner. As at the year end, SDF's PCBE loan portfolio stood at Rs.107.5 million and consisted of 369 customers.

Customer Training

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

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.

Both the training programmes are conducted at a nominal fee of Rs. 1,000 and a voucher of Rs. 500 would be issued to each participant. This Rs. 500 is deducted from the documentation charges at the time of disbursing the next immediate loan to these participants, on submission of the voucher. The duration of each training programme is one day with lunch and refreshments being provided.

During the year 2 such training programmes were conducted.

No.	Training	Date	Venue	No. of Participants
1	Entrepreneurship Development	19/5/2016	Galle	19
2	Entrepreneurship Development	10/01/2017	Matara	12

Faster Loan Approval Process

SDF's IT system was up-grated during the year by implementing an on-line work-flow-management process to fast-track loan approval process. This advancement in IT system assisted us to vastly improve our overall customer service which lead to a vast improvement in overall customer acceptance and satisfaction.

Deposits Mobilisation

The wealth of experience we have gained over the years through our parent organisation, SEEDS (Gte) Limited, and the unique advantage we have through our longstanding, un-blemished relationship with SSS together with aggressive and focused direct marketing campaigns conducted in urban areas to attract high-net-worth individuals, helped SDF to increase the deposit base by Rs.493.3 Mn or 16.1% to reach Rs 3.56 Bn at the end of the financial year. In addition to the series of promotional campaigns conducted island-wide, the attractive gift-scheme introduced by the Company to recognize top achievers in mobilising savings deposit added more energy to employees' morale to record these results at the end of the reporting year.

In addition to our main deposit products; namely, Normal Savings, Pancha Children Savings & Fixed deposits, we revolutionised the industry by introducing a new saving product called "Fixed Saver", where the depositor is required to deposit a minimum amount per month for a period of 12 months without carrying out any withdrawals during that period. This new product was launched with an attractive interest rate and also giving an option to the customer to convert the existing balance in his/her saving account to a fixed deposit at the expiry of one year from the start date of the saving account. This product was highly welcomed by our rural customers and within a short period of time, the 'fixed saver' savings base grew to Rs.15.6 Mn at the end of the reporting period.

Customer Grievance 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 redressal, the complaint is handled through an external-process by appointing external inquiry officers to assess the inquiry and provide their professional opinion and judgement in a very fair and transparent manner.

Customer Satisfaction and Feedback

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

Marketing Communications

During the current financial year, the emphasis on marketing and brand building was increased as part of SDF's expansion drive to target new customer segments and enhance brand visibility within an extremely competitive market.
The Internal Audit and Compliance Officer ensures that the marketing and communication initiatives meet product specific disclosures and compliance to contractual obligations and legal and regulatory requirements. All marketing campaigns are endorsed by CEO and the Board of Directors where necessary. All marketing materials used for these promotions are subsequently forwarded to CBSL for its approval prior to implementation.

During the year the marketing and business promotion expenditure was Rs.24.2 million while in FY 2015/16 the expenditure was at Rs.21.9 million.

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

Marketing Initiatives for the year

Marketing and promotional activities by SDF involved different media to target different customers segments. The expenditure incurred involving different media activities carried out during the reporting year are described below.

Marketing Activity	Expenditure (Rs. Million)	Expenditure (%)
Print Media	4.9	20.2%
Electronic Media	12.2	50.4%
Events and exhibitions	5.0	20.7%
Special Campaigns	2.1	8.7%
Total	24.2	100.0%

Product Responsibility

SDF is 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.

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 the community capital section of this Report.

Anti-competitive Behaviour

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

Anti-corruption

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

Our internal auditors, risk management unit and the compliance officer are responsible for ensuring that best practices prevail at all levels of the Company. During the year, no material risks and incidents related to corrupt practices were reported from the head office and branch network

Customer Privacy

SDF does 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.

Management Discussion & Analysis - SOCIAL AND RELATIONSHIP CAPITAL

Product Portfolio Screening

SDF has 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.

Sriyani Textiles and Sriyani Fashion & Jewels

Clay Garments

Wijaya Fancy Palace

Central Optician Centre

Socially and Environmentally Responsible Products

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.

Sriyani Textiles and Sriyani Fashion & Jewels

Sriyani Textiles is a partnership family business and one of the oldest business outlets on the Colombo – Kandy Main Road in Kegalle, in existence for the past 4 decades. The business was initiated by the father of Mr. Ganeshan Thyageswaran in 1972, has a reputation for quality textiles and ready made garments. After the demise of the father the business was taken over by the three sons

The firm diversified in 2004 to include personal care products such as cosmetics, ladies costume jewelery and other beauty care products by opening a new shop at Main Street, Kegalle named Sriyani Fashion Jewels & Gifts.

Mr. Ganeshan Thyageswaran sought financial assistance from SDF to expand the business, which paved the way to become the largest and the most popular textile department store in the city. SDF provided a SME Term loan facility to expand the working capital of the business, within a short period. Following this success, the owners plan to open a new showroom which will be at Dalada Weediya, Kandy.

Clay Garments

Damith Sudarshana is a descendant from a potter clan and has learned the art of making different ornamental goods out of clay since his childhood. After finishing his education, Sudarshana started producing clay ornaments and selling them to pilgrims of the Katharagama Saman Devalaya.

He obtained his first loan of Rs. 500,000 from SDF to expand his business. He obtained a loan of Rs. 700,000 to put up a store to cater the demand throughout the year. He obtained his third loan of Rs. 500,000 to increase his sales. Sudarshana has had a close relationship with SDF for over 5 years and about 15 families in the area make a living with his enterprise currently.

Wijaya Fancy Palace

Mr. Murugesu Wijaya Kumar started his business of selling pujaa items and other ornamental items to pilgrims visiting the Saman Dewalaya, of Kataragama, with a loan of Rs. 100,000 from SDF in 2004. After settling the first loan, he obtained a loan of Rs. 150,000 and then bought a three-wheeler to transport his business inventories. Continuing his growth trajectory, he next purchased a Mahendra cab for Rs. 876,000 on a loan and started a Safari Transport service. He has again obtained a loan of Rs. 300,000 which is being repaid at the moment.

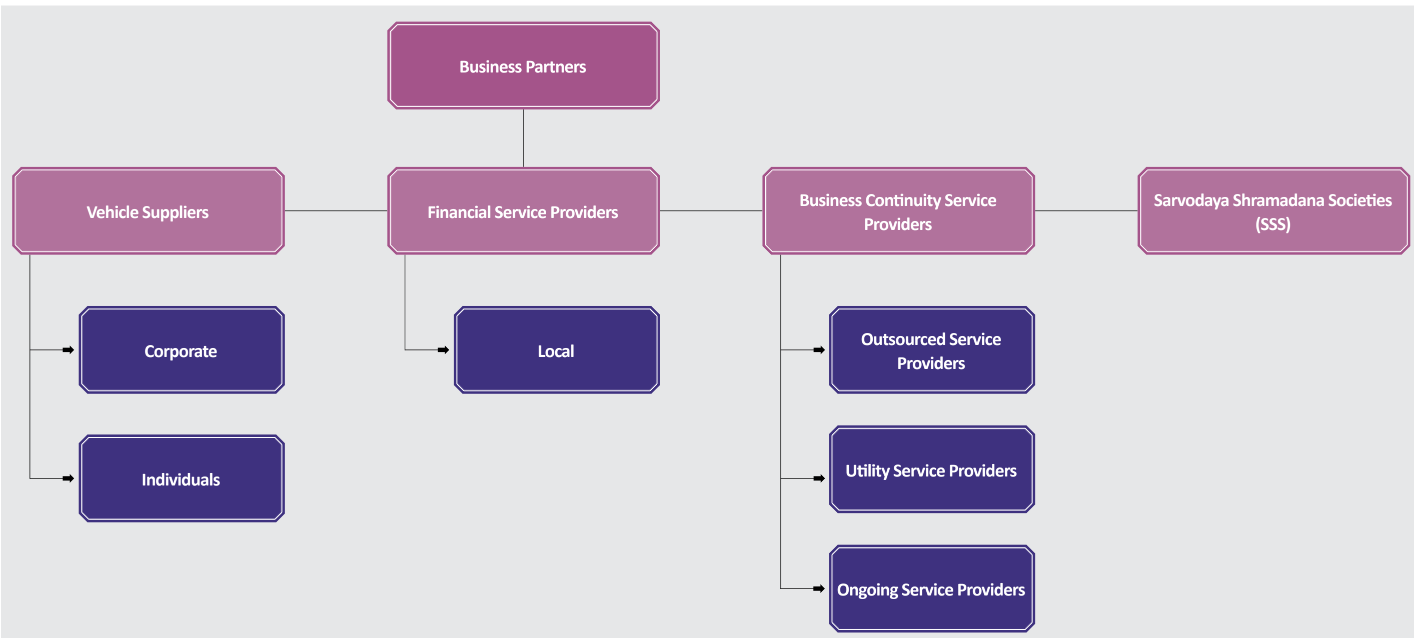
Central Optician Centre

Mrs. Mayalaku Kirushanthi obtained a Rs. 500,000 loan from SDF to develop her "Central Optician Centre". She had been running the business without equipment and spectacle frames. The loan went to remodel the business. As the result her monthly average net profit increased from Rs. 120 000 to Rs. 150,000 Mrs. M. Kirushnthi says SDF processed her loan fast with the best assessment. She hopes to work with us in the future to expand her business.

Business Partner Capital

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

Our Business Partners



Vehicle promotion at our Homagama branch with AMW/DIMO & Ideal Motors

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.

Vehicle Suppliers

To maintain and enhance positive relationships with business partners and stimulate SDF branch staff for leasing businesses, SDF initiated several leasing campaigns with vehicle suppliers. Under the above initiative the SDF auto finance department conducted a joint promotion series with AMW at their Automall showrooms and at our branch premises around the island with the participation of our branch staff and supplier representatives. These promotions were carried out focusing mainly on promoting leasing on Suzuki Alto cars for salaried employees.

Leasing campaigns with David Pieris Motor Company (DPMC) were carried out at few selected branch premises mainly focusing on Bajaj two-wheelers and three-wheelers for our micro personal customers. In addition, few campaigns were carried out with Ideal Motors promoting leasing on Mahendra bolero trucks for our micro business and SME customers.

We maintain a long-standing relationships 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.

Management Discussion & Analysis - SOCIAL AND RELATIONSHIP CAPITAL

Business Continuity Service Providers

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

Outsourced Service Providers

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

Utility Services

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

Ongoing Services

This mainly comprises 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

SDF has a diverse supplier base and as of 31 March 2017, our supplier base was 126 excluding registered vehicle suppliers for leasing. The cumulative payments made to suppliers during the reporting period, excluding payments made to vehicle suppliers, stood at a figure of Rs. 318.2 million compared to Rs. 288.1 million reported in the preceding year.

Sarvodaya Shramadana Societies (SSS)

During the year, the Company entered into a strategic partnership with SSS in a market outreach programme that has enabled SDF to penetrate further into regional markets.

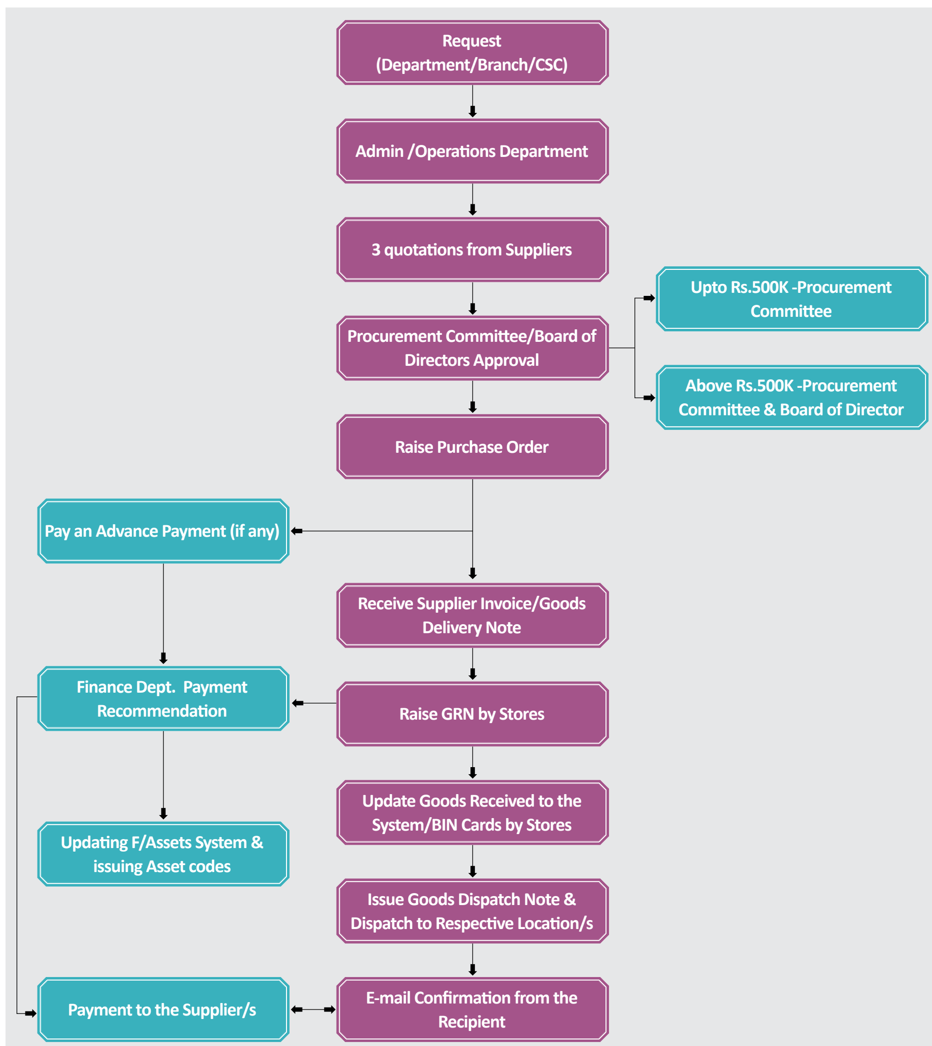
Society Coordinating Unit was established to strengthen the relationship between the SSS and SDF. This unit conducted several brand awareness and marketing programmes at the premises of SSS and as a result, we were able to strengthen the business relationship with several SSS which had a minimal relationship with the Company previously. We were also able to register some of these SSS into our main business stream and granted few sizable loans to them for working capital requirement and onward lending to their members.

Administrative Support

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

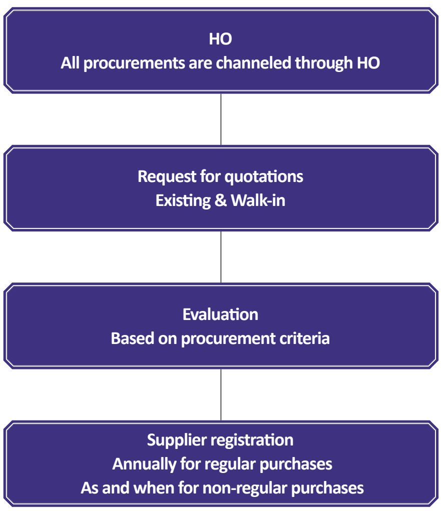
Procurement Process

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



Suppler Screening and Selection

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



Procurement Practices

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

Memberships in External Organisations

SDF maintains 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

Investor Capital

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

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

	2016/17	2015/16	% Change
Equity Information			
Earnings per Share (Rs)	-0.51	0.68	-175.0%
Dividend per Share (Rs.)	Nil	0.25	Nil
Net Assets Value per Share (NAVPS) (Rs.)	15.51	16.08	-3.5%
Return on Equity (%)	-3.2%	4.4%	-174.5%
Debt Information			
Debt to Equity Ratio (times)	3.3	2.8	17.9%
Interest Cover (times)	0.8	1.2	-35.0%
Current Ratio (times)	0.9	1.0	-11.1%

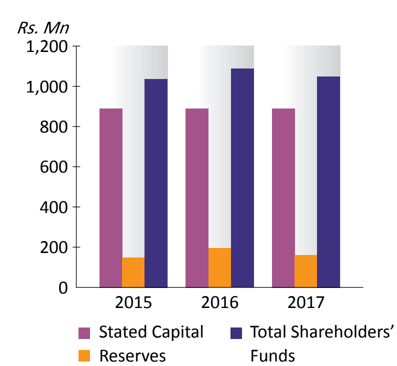
Shareholder Wealth Creation

Due to the loss reported in the current year, SDF did not propose ant dividends to its shareholders. During the year under review, the total number of ordinary shares of the Company remained unchanged at 67,500,006. The current year loss including OCI of Rs.38.8 million reduced the overall reserves to Rs. 1.05 billion from Rs.1.09 billion recorded in the previous year.

Changes to Share Capital

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

COMPOSITION OF EQUITY



Management Discussion & Analysis - SOCIAL AND RELATIONSHIP CAPITAL

Name	Position	No. of Shares as at	
		31st March 2017	31st March 2016
Dr. Vinya Ariyaratne	Non Independent, Non-Executive Director	1	1
Mr. Shakila Wijewardena	Non Independent, Non-Executive Director	1	1

Debt and Solvency

The debt to equity ratio stood at 3.3 times. Interest cover condensed from 1.3 times to 0.8 times over the same period.

The Company's core capital ratio and total risk-weighted capital ratio stood at 25.02% and 25.02% respectively. This was maintained well above the regulatory requirements of 5% and 10%. This indicates that the Company preserves sufficient capital to act as a cushion against any future risks.

Compliance

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

Sarvodaya Development Finance
www.sarvodayafinance.lk

Community Capital

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

We donated Rs.0.6 million worth of kitchen appliances to flood-affected people in 'Hanwella' area in May 2016 as part of our CSR activities.

Donating kitchen appliances to flood affected people in "Hanwella" area

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

Community engagement

Promoting Financial Literacy

We continued to conduct workshops for micro borrowers, in collaboration with SEEDS, to give a basic introduction to business management. The areas covered included maintaining effective financial records, basic accounting concepts, working capital and business management etc.

Management Discussion & Analysis - NATURAL CAPITAL

Natural Capital

As a Company tracing its origins to the rural grassroots, SDF's business philosophy encompasses sustainable and responsible concepts that attempts to avoid negative environmental impacts through our operations. As a policy, we do not promote projects that pollute the environment. We also do not operate any businesses in the vicinity of protected environmental areas. Also our business operations do not impact biodiversity nor do they harm endangered or vulnerable species. These efforts in managing our environment impacts also help us meet the expectations of our stakeholders, reduce business risks and reduce operating costs as well.

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

SDF Environmental Policy

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

SDF Environmental Strategy

SDF 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.

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.

SDF updated the solar system installed in the HO building with 22 new solar panels powered by 6 nos. KSTAR 5.5KW invertors with an investment of Rs.2.5 million during the reporting year.

Project Details

Project :Power HO with Solar Energy
Project Started Date :27-Jun-2016
Project Complete Date : 25-Jul-2016
Supplier : MSR Security & Energy Technology Consultations
No. of panels :22 panels with 6 nos. KSTAR 5.5KW max Grid Tied Inverters
Total Investment(Rs.) : 2,490,450
Estimated power generation by 5.5KW six Inverter (units)3,240
Expected Saving per month (Rs.) : 87,578
Expected Saving per month (%.) : 27.0%
Actual average Net Saving per month (Rs.) : 130,698
Actual average Net Saving per month (%.) : 40.3%

Management Discussion & Analysis - NATURAL CAPITAL

The project was expected to reduce electricity cost by 27%. The project generated nearly 30% saving on electricity cost immediately after the implementation and with re-locating certain sections to new premises and maximising the space utilisation enabled SDF to reduce the electricity bill by 40% on average per month from the implementation date to the year end.

Average Monthly Net Saving of Electricity Resulted from Solar Project

Details	Period	Average Consumption (p.m.)		
		Units	Rs.	per unit
Before Installation of new panels	01st April to 30th June 16	11,636.00	324,256.17	27.87
After Installation of new panels	01st July to 31st Mar 17	6,933.67	193,558.18	27.92
Average Net Saving (p.m.)		4,702.33	130,697.99	(0.05)
Average Net Saving (%.)		40.4%	40.3%	-0.2%

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

Electricity Consumption

	2016/17			2015/16		
Location	kwh	Joules	Rs.	kwh	Joules	Rs.
Head Office	97,311	3.50x10^{11}	5,104,856	107,584	3.87x10^{11}	3,486,062
Corporate Office	17,266	6.21x10^{10}	-	2,232	8.03x10^{9}	-
CPU	14,242	5.13x10^{10}	-	-	-	-
Branches	327,065	1.18x10^{12}	7,587,923	231,519	8.33x10^{11}	5,255,260
Total	**455,884**	**1.64x10^{12}**	**12,692,778**	**341,335**	**1.22x10^{12}**	**8,741,322**

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

Emissions

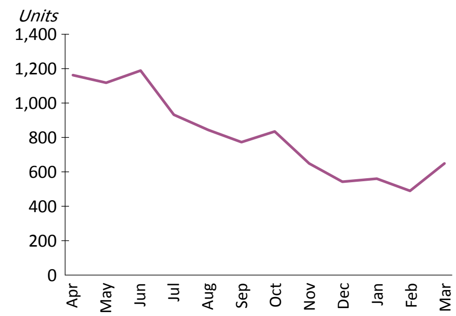
The main form of emissions by SDF is fuel emissions due to daily commute of employees and travel between branches and head office. We are working at optimising route planning and vehicles use to avoid unnecessary mileage, to reduce fuel consumption and emissions.

Fuel Consumption

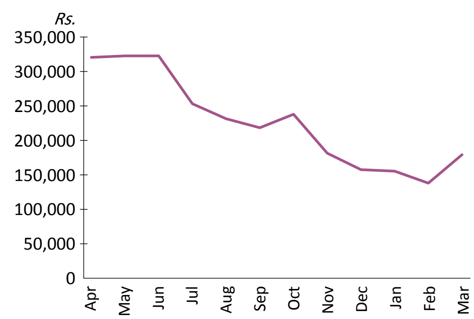
	2016/17			2015/16		
	Litre	Joules	Rs.	Litre	Joules	Rs.
Head Office Petrol	28,878	9.95x10^{11}	3,105,714	6,945	2.93x10^{11}	589,669
Diesel	5,806	2.22x10^{11}	551,612	5,712	2.18x10^{11}	542,669
Branches Petrol	77,869	2.68x10^{12}	10,617,333	56,476	1.94x10^{12}	7,766,827
Diesel	-	-	-	-	-	
Total Petrol	106,747	3.67x10^{12}	13,723,047	63,420	2.18x10^{12}	8,356,497
Diesel	5,806	2.22x10^{11}	551,612	5,712	2.18x10^{11}	542,669

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

ELECTRICITY CONSUMPTIONS



ELECTRICITY CONSUMPTIONS



Waste Management

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

Financial Reports

Financial Contents

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

The Directors of Sarvodaya Development Finance Limited. (Sarvodaya Finance) take pleasure in presenting their Annual Report on the state of affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2017.

This Report was approved by the Directors at its meeting held on 26h May 2017.

CORPORATE PHILOSOPHY

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

LEGAL FORM

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

LOCATION

The Company's Registered Office, which is also its Head Office, is located at 'Arthadharma Kendraya', No. 45, Rawathawatte Road, Moratuwa. Other contact details are given under Corporate Information.

BRANCH NETWORK

As at 31st March 2017, the Company's branch network comprised 30 Branch Offices and 22 Customer Service Centres (CSCs) within the purview of seven Regional Offices (pages 165 to 167). Some of these entities had their beginnings as SEEDS' District and Sub-Offices. Now, each unit in the network has been rebranded with a new corporate identity and functions as a standalone entity. During the financial year, the standalone operations of six (6) CSCs were discontinued and merged same with the operations of the branches that they were assigned to for better servicing the customers of those locations. Nine (9) of the branches and CSCs 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. In addition, eight (8) of the branches and CSCs were given a new facelift through refurbishment and upgraded their quality standards in providing services to our esteemed customers in those locations. This move not only helped to retain the existing customers but also helped to attract new customers.

REVIEW OF PERFORMANCE AND RISK MANAGEMENT

The Chairman's Message (pages 6 to 8) and the Chief Executive Officer's Review (pages 9 to 11) encapsulate the Company's business performance during the reporting year, set against the wider economic background as indicated in the Management Discussion and Analysis (pages 66 to 102). A detailed report on Assessing and Managing Risk is given in page 57.

STATUTORY/REGULATORY COMPLIANCE

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

PRINCIPAL ACTIVITIES

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

The Company disposed its total shareholding in its subsidiary, Summit Finance PLC (formerly: George Steuart Finance PLC) during the financial year under review. The principal activities of Summit Finance PLC at the time of disposal consisted of acceptance of deposits, granting leasing facilities, hire purchases, mortgage loans, business loans, traders' loans, real estate development and related services, bill discounting and other credit facilities and related services.

FINANCIAL STATEMENTS

The Financial Statements of the Company (pages 114 to 161), 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 (page 109) that they are responsible for the preparing and presenting the Financial Statements and that they give a true and fair view of the affairs of the Company for the year ended 31st March 2017. The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income /(Expenses), 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 2017 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 111) 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.

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

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 (page 113).

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Company during the year under review. The Directors are of the view that these policies have been applied consistently supported by informed judgements. Significant Accounting Policies together with the notes adopted in preparation of the Financial Statements of the Company is given on the pages 118 to 161 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.

ACCOUNTING PERIOD

The financial accounting period reflects the information from 01st April 2016 to 31st March 2017

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

The Company recorded a total interest income of Rs.883.8 Million (Rs.923.0 Million in year 2016) for the year ended 31st March 2017. This represents a negative growth of total interest income by Rs.39.2 Million or 4.2% compared to the previous year. A more descriptive analysis of the interest income is given in note no. 07 (page 124) to these Financial Statements.

Profit and Appropriations

The Company recorded a loss after tax of Rs. 34.5 Million (a profit after tax of Rs. 46.1 Million in year 2016) for the year ended 31st March 2017. This represents a negative growth of 174.8% compared to the previous year. The Company recorded a total comprehensive loss of Rs. 38.8 Million (a total comprehensive income of Rs. 48.0 Million in year 2016) for the year ended 31st March 2017.

The compliance requirement to transfer a percentage (%) of current year profit based on 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 did not arise in the year under review due to the reported loss of the Company. Accordingly, The Board of Directors did not transfer any amount to the Company's 'Statutory Reserve Fund' during the year under review. The Board of Directors transferred Rs. 2.3 Million from the Net Profit of the Company to the 'Statutory Reserve Fund' of the Company for the year ended 31st March 2016.

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

	2016	2017
	Rs. ('000)	Rs. ('000)
Profit /(Loss) after taxation	(34,535.47)	46,141.78
Profit brought forward from previous year	129,410.91	83,677.71
Transfers from reserves	-	-
Profit available for appropriation	94,875.44	129,819.49
Appropriations		
Dividend paid for current year	-	-
Other comprehensive income /(expenses)	(4,228.50)	1,898.51
Transfer to reserves	-	(2,307.09)
Total appropriation	(4,228.50)	(408.58)
Un-appropriated profit carried forward	90,646.94	129,410.91

Dividends on Ordinary Shares

Details of information on dividends are given in note no 7.1 to the Financial Statements on page no 124 The Board of Directors did not recommend payment of any dividend for the year under review due to the reported loss of the current year.

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 2017 amounted to Rs. 88.6 Million (Rs. 76.5 Million in year 2016). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no. 27.1, to these Financial Statements. The Directors are of the opinion that the current market value of the freehold property (purchased from SEEDS (Gte) Ltd., in December 2013), is not significantly different to the amounts disclosed in the aforementioned note no. 27.3 on page 142.

STATED CAPITAL

The stated capital of the Company as at 31st March 2017amounted to Rs.890 Million (Rs. 890 Million as at 31st March 2016). 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. 1.05 Billion (Rs. 1.09 Billion in year 2016) at the end of the financial year.

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

	2017	2016
	Rs. ('000)	Rs. ('000)
Statutory Reserve Fund	20,383.15	20,383.15
Investment Fund	-	-
Revaluation Reserve	45,744.83	45,744.83
Retained Earnings	90,646.93	129,410.91
Total	156,774.91	195,538.89

ISSUE OF SHARES OR DEBENTURES

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

SHARE INFORMATION

The Company's Parent Company, 'Sarvodaya Economic Enterprises Development Services (Gte) Ltd' or 'SEEDS', is the major shareholder, with a total of 54,000,000 ordinary shares issued at Rs. 540 Million. Gentosha Total Asset Consulting Inc. is the second largest shareholder with a total of 13,500,004 shares issued at Rs. 350 Million. Two other shareholders, listed under directors' shareholdings, were allotted one share each issued at Rs. 10/- each when the Company was incorporated on 1st January 2010 under the Companies Act No. 07 of 2007.

DIRECTORS' SHAREHOLDINGS

With the exception of the following two Directors, who hold one share each, no other Board Director has held any shares in the Company, either at the beginning or at the end of the reporting period.

Name	31.03.2017	31.03.2016
Dr. Vinya Ariyaratne	1	1
Mr. Shakila Wijewardena	1	1

DIRECTORATE

On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Company appointed Mr. Kurugamage Alex Dilan Perera as a Non-Executive, Independent Director w.e.f. 01st July 2016, appointed Mr. Channa de Silva as Chairman/Independent, Non-Executive Director and accepted the retirement of Mr.Eastman Narangoda from the position of Chairman/Independent, Non-Executive Director w.e.f. 06th October 2016. The Board of Directors accepted the retirement of Mr. Eastman Narangoda, after he reaching his age 70, in compliance with the requirements of Central Bank of Sri Lanka, Finance Companies (Corporate Governance) Direction NO.03 of 2008, section 5 (i).

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

Name	Status
Mr. Eastman Narangoda	Chairman/Non-Executive, Independent Director *(Retired from the position of Chairman/Non-Executive, Independent Director w.e.f. 06th October 2016)*
Mr. Channa de Silva	Deputy Chairman/ Non-Executive, Independent Director *(up to 05th October 2016)* Chairman/Non-Executive, Independent Director *(Appointed as the Chairman/Non-Executive, Independent Director w.e.f. 06th October 2016)*
Dr. Vinya Ariyaratne	Non-Executive, Non Independent Director
Mr. Shakila Wijewardena	Non-Executive, Non Independent Director
Mr. K L Gunawardana	Non-Executive, Non Independent Director
Mr. Shevon Gooneratne	Non-Executive, Independent Director
Dr. Richard Vokes	Non-Executive, Independent Director
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director
Dr. Janaki Kuruppu	Non-Executive, Independent Director
Mr. Alex Perera	Non-Executive, Independent Director *(Appointed as a Non-Executive, Independent Director w.e.f. 01st July 2016)*

The nine-member Board of Directors is composed of distinguished professionals whose financial acumen in banking, finance, economics and allied fields have been invaluable in guiding the destinies of the Company during their tenure of office. The profiles of the Directors appear on pages 12 to 16.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held thirteen (13) meetings, twelve (12) monthly meetings and one (1) additional meeting, during the year under review,. The attendance schedule is given in the Corporate Governance Report on page 30.

BOARD SUB-COMMITTEES

The Board has delegated some responsibilities to five (5) oversight committees without derogating from its ultimate responsibility to the Company. They are: (i) Integrated Risk Management Committee (IRMC); (ii) Board Audit Committee (BAC); (iii) Board Remuneration Committee (BRC); (iv) Board Nomination Committee (BNC) and (v) Board Credit Committee (BCC). The composition, functions and responsibilities of the first three entities are set out in their respective reports as at 31st March 2017 and included in this Annual Report.

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

MANAGEMENT LEVEL COMMITTEES

The Board also appointed five (5) management level committees in line with industry norms. These are the Asset-Liability Management Committee (ALCO), the Management Audit Committee (MAC), the Management Committee (ManCom), the Internal Credit Committee (ICC) and the Product Development Committee (PDC). Composition of these Committees as at 31st March 2017, appear on pages 34 to 36.

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 2017 and 31st March 2016 are stated below and disclosed under note no. 40.1.1 to these Financial Statements on page 151.

	2017	2016
	Rs. ('000)	Rs. ('000)
Directors' Fees and Emoluments	5,744.44	5,126.7

CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 26 to 56, 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 112. 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.

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, particularly in view of the Central Bank's Directive on mergers.

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 30th June 2017.

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

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

The Company paid following sums for audit and related services as well as non-audit services to M/s. Ernst & Young, Chartered Accounts. Agreed `-Upon Procedures engagement to comply with the Finance Companies Direction No.03 of 2008 and Assurance engagement on Directors' Statement of Internal Control have been classified as audit related services and, the fees paid on the same during the year under review are included under audit and related services accordingly. Non audit services mainly comprised of the fees paid during the year under review on tax consultancy services and IT system audit that E & Y have carried out as a separate assignment.

	2017	2016
	Rs. ('000)	Rs. ('000)
Audit and Related Services	1,796.85	2,074.36
Non Audit Services	940.85	505.49

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 111) 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 112).

NOTICE OF MEETING

Notice convening the Seventh Annual General Meeting of the Company is given on page 172.

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

Channa

Channa de Silva
Chairman

Dr. Vinya Ariyaratne
Director

BDO Secretaries (Pvt) Limited
Company Secretaries

26th May 2017

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditors' Report on page 113 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 2017, exhibited on pages 114 to 161 in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Finance Business Act No. 42 of 2011 and the relevant Directions, Guidelines etc., issued by the Central Bank of Sri Lanka for Licensed Finance Companies. The Directors also ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

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

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

The Directors have provided the Auditor with all the financial records, related data and minutes of shareholders' and Directors' meetings and given them every opportunity to carry out and reviews and tests that they consider appropriate and necessary for the performance of their responsibilities. Messrs Ernst & Young has examined the Financial Statements made available together with all other financial records, minutes of shareholders' and Directors' meetings and related information and have expressed their opinion which appears on page 113 of this Annual Report.

COMPLIANCE REPORT

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

- the state of affairs of the Company and its subsidiaries as at 31st March 2017 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 May 2017

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 2017 are prepared and presented in conformity with the requirements of the followings;

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

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

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and Estimates and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Company during the year under review. We also confirm that the Company has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

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

The Company's Board Audit Committee, inter alia, reviewed all the internal and external audit and inspection programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the 'Board Audit Committee Report' on pages 58 to 59 of this Annual Report. The Board Audit Committee meets periodically with the internal audit team and the independent external auditor to view their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of Internal Controls and Procedures.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants and their Report in given on page 113 to this Annual Report. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs Ernst & Young in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Ernst & Young's independence and objectivity.

We confirm to the best of our knowledge that;

- The Company has complied with all applicable laws, regulations and prudential requirements;
- There are no material non compliances;
- There are no material litigations that are pending against the Company other than those disclosed in the note 37 on page 150 to the Financial Statements of this Annual Report; and
- All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the reporting date have been paid, or where relevant provided for.

Deshantha de Alwis
DGM –Finance and Planning

Dharmasiri Wickramatilake
Chief Executive Officer

26th May 2017

Directors' Statement on Internal Control Over Financial Reporting

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

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

Among the internal control procedures embedded within the Company are:

- An Integrated Risk Management (IRM) structure that involves the Board of Directors, Key Management Personnel, Heads of Divisions and the island-wide service network.
- A specialised Risk Management Unit, headed by the AGM – Risk Management and Acting Compliance Officer tasked with assessing all types of risks associated with the Company and communicating the management and the Board the prompt actions required to mitigate the effects of such risks.
- The Internal Audit Division headed by the AGM –Alternative Channels and Acting Head of Audits tasked with assessing the soundness of Company's internal control system and risk management functions and the ongoing evaluation of how the organisation has adapted to changes in the risk environment.
- 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.
- Management Level Committees such as the Asset and Liability Committee (ALCO), Management Audit Committee (MAC), the Management Committee (ManCom) and the committees on Credit and Product Development tasked with specific duties and responsibilities to implement the strategic actions and driving the Company towards its strategic direction while taking timely actions to mitigate the effects of any risks that are arising.
- Upgrading the information system ('e-finance') and operationalizing same with inclusion of a work-flow-management system for processing and approving loans and services to the customers and information generation for MIS and financial reporting to keep track of all financial operations real time and generate reports online to enhance service quality and integrity of financial reporting.

The internal control system ensures, among others; transparency, segregation of duties, clear management reporting lines and adequate operating procedures in both its Head and Corporate Offices as well as in its service network of 30 branches and 22 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 113.

By order of the Board,

Channa de Silva
Chairman/ Chairman, Board Audit Committee

26th May 2017

Independent Assurance Report to the Board of Directors on Internal Control

Building a better working world

Ernst & Young
Chartered Accountants
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Colombo 10
Sri Lanka

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Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

KHRC/KTS

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

INTRODUCTION

We were engaged by the Board of Directors of Sarvodaya Development Finance Limited ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2017.

MANAGEMENT'S RESPONSIBILITY

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

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3000

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

SUMMARY OF WORK PERFORMED

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

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

SLSAE 3000 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3000 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

OUR CONCLUSION

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

Ernst & Young

26 May 2017
Colombo

Independent Auditors' Report

Building a better working world

Ernst & Young
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KHRC/KTS

TO THE SHAREHOLDERS OF SARVODAYA DEVELOPMENT FINANCE LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Sarvodaya Development Finance Limited, ("the Company"), which comprise the Statement of Financial Position as at 31 March 2017, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages 118 to 161.

BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion, scope and limitations of the audit are as stated above.
b) In our opinion:

   - 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,

   - The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

Ernst & Young

26 May 2017
Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year Ended 31 March	Notes	2017 Rs.	2016 Rs.
Income	6	1,096,432,113	1,014,753,642
Interest Income		883,758,122	922,993,919
Interest Expenses		(280,902,184)	(255,915,002)
Net Interest Income	**7**	**602,855,938**	**667,078,917**
Fee and Commission Income	8	29,193,693	17,351,163
Other Operating Income	9	183,480,298	74,408,560
Total Operating Income		**815,529,929**	**758,838,640**
Impairment Charges for Loans and Other Losses	10	(172,259,081)	(61,294,116)
Net Operating Income		643,270,847	697,544,524
Operating Expenses			
Personnel Expenses	11	(361,457,648)	(314,185,138)
Depreciation of Property, Plant and Equipment	27	(40,736,446)	(34,771,373)
Amortisation of Intangible Assets	26	(6,683,064)	(10,662,306)
Other Operating Expenses	12	(230,225,116)	(212,142,771)
Operating Profit before Tax on Financial Services		**4,168,574**	**125,782,936**
Tax on Financial Services	13	(48,027,957)	(49,272,363)
Profit/(Loss) before Taxation		(43,859,383)	76,510,573
Income Tax Expenses	14	9,323,911	(30,368,790)
Profit/(Loss) for the Year		**(34,535,473)**	**46,141,783**
Other Comprehensive Income / (Expenses)			
Actuarial Gains/(Losses) on Defined Benefit Plans	32	(6,311,370)	(1,768,842)
Gain/(Loss) due to changes in Assumptions	32	-	2,896,283
Income Tax (Charge) / Credit Relating to Components of Other Comprehensive Income		2,082,867	771,066
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		**(4,228,503)**	**1,898,507**
Other Comprehensive Income for the Year, Net of Tax		(4,228,503)	1,898,507
Total Comprehensive Income/(Expenses) for the Year		(38,763,976)	48,040,290
Basic Earnings Per Share (Rs)			
Earning per share - Basic	15	(0.51)	0.68

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Notes	2017 Rs.	2016 Rs.
Assets			
Cash and Cash Equivalents	19	138,046,068	306,766,105
Loans and Receivables	20	3,477,040,068	2,766,806,059
Lease Rental Receivables	21	283,558,784	-
Financial Investments	22	268,211,272	243,177,150
Other Financial Assets	23	282,577,503	232,859,565
Investment in Subsidiary Companies	24	-	379,474,885
Other Non Financial Assets	25	64,336,684	78,966,548
Current Tax Refund		29,768	-
Intangible Assets	26	36,694,563	30,443,303
Property, Plant and Equipment	27	321,409,381	281,535,732
Deferred Tax Assets	28	988,885	-
Total Assets		**4,872,892,976**	**4,320,029,346**
Liabilities			
Due to Banks and Other Institutions	29	75,855,964	31,225,454
Due to Customers	30	3,563,699,800	3,070,417,410
Other Non Financial Liabilities	31	165,765,352	96,909,412
Post Employment Benefit Liability	32	20,796,934	16,088,241
Current Tax Liabilities		-	9,471,585
Deferred Tax Liabilities	28	-	10,378,342
Total Liabilities		**3,826,118,050**	**3,234,490,444**
Shareholders' Funds			
Stated Capital	33	890,000,020	890,000,020
Retained Earnings	34	90,646,934	129,410,910
Reserves	35	66,127,972	66,127,972
Total Shareholders' Funds		**1,046,774,926**	1,085,538,902
Total Liabilities and Shareholders' Funds		**4,872,892,976**	**4,320,029,346**

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

Deshantha de Alwis
DGM - Finance & Planning

Dharmasiri Wickramatilake
Chief Executive Officer

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

Channa de Silva
Chairman

Dr. Vinya Ariyarathne
Director

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

26th May 2017
Colombo

Statement of Changes in Equity

	Note	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserves Rs.	Revaluation Reserves Rs.	Total Equity Rs.
Balances as at 01 April 2015		890,000,020	83,677,710	18,076,058	45,744,825	1,037,498,612
Profit for the Year		-	46,141,783	-	-	46,141,783
Other Comprehensive Income		-	1,898,507	-	-	1,898,507
Transfer from Investment Fund Reserve	35	-	(2,307,089)	2,307,089	-	-
Balances as at 31 March 2016		**890,000,020**	**129,410,910**	**20,383,147**	**45,744,825**	**1,085,538,902**
Loss for the Year		-	(34,535,473)	-	-	(34,535,473)
Other Comprehensive Income		-	(4,228,503)	-	-	(4,228,503)
Transfer to Statutory Reserves Fund	35	-	-	-	-	-
Balances as at 31 March 2017		**890,000,020**	**90,646,934**	**20,383,147**	**45,744,825**	**1,046,774,926**

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

Statement of Cash Flow

Year Ended 31 March	Notes	2017 Rs.	2016 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		(43,859,383)	76,510,573
Adjustments for			
Impairment Provision	8	172,259,081	61,294,116
Profit from Sale of Subsidiary		(100,280,782)	-
Reversal of Provision of Loan Risk Assurance Benefit Fund		(15,116,703)	(5,606,967)
Loss/(Profit) on Disposal of Property, Plant and Equipment	9	(877,984)	27,103
Provision for Defined Benefit Plans	32	5,778,323	4,754,295
Depreciation of Property, Plant and Equipment		40,736,446	34,771,373
Amortisation of Intangible Assets		6,683,064	10,662,306
Notional Tax Credit on Interest on Treasury Bills		2,547,619	1,738,897
Operating Profit before Working Capital Changes		**67,869,680**	**184,151,695**
(Increase)/Decrease in Loans and Advances	20	(880,648,372)	(55,066,124)
(Increase)/Decrease in Lease Rentals Receivable		(286,341,389)	-
(Increase)/Decrease in Other Financial Assets	23	(49,717,939)	(225,810,690)
(Increase)/Decrease in Other Non Financial Assets	25	14,629,864	(12,363,388)
Increase/(Decrease) in Amounts Due to Customers		493,282,390	294,178,805
Increase/(Decrease) in Other Non Financial Liabilities		73,292,189	36,428,237
Cash Generated from Operations		**(567,633,576)**	**221,518,536**
Retirement Benefit Liabilities Paid		(7,381,000)	(5,775,310)
Net Collection of LRAB Fund		10,693,703	18,221,991
Income Tax Paid		(9,501,353)	-
Net Cash From/(Used in) Operating Activities		**(573,822,226)**	**233,965,217**
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		7,262,685	1,305,204
Acquisition of Property, Plant and Equipment	27	(88,578,227)	(76,496,267)
Acquisition of Intangible Assets	26	(12,934,325)	(2,777,600)
Financial Investments	22	(25,034,121)	(41,333,564)
Net cash received from sale of subsidiary		479,755,667	-
Net Cash Flows from/(Used in) Investing Activities		360,471,680	**(119,302,226)**
Cash Flows from / (Used in) Financing Activities			
Net Cash Flow from bank and other institutional barrowings		(5,389,218)	(6,878,629)
Net Cash Flows from/(Used in) Financing Activities		**(5,389,218)**	**(6,878,629)**
Net Increase in Cash and Cash Equivalents		(218,739,764)	107,784,362
Cash and Cash Equivalents at the Beginning of the Year		306,766,105	198,981,741
Cash and Cash Equivalents at the End of the Year	A	**88,026,341**	**306,766,105**
A Cash and Cash Equivalents at the End of the Year			
Favourable Cash & Cash Equivalents		138,046,068	306,766,105
Unfavourable Cash & Cash Equivalents		(50,019,727)	-
Total Cash and Cash Equivalents at the End of the Year		**88,026,341**	**306,766,105**

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

Sarvodaya Development Finance Limited (The 'Company') is a public limited liability company incorporated and domiciled in Sri Lanka and is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office of the Company is located at "Arthadharma Kendraya", No 45, Rawatawatte Road, Moratuwa and the principal place of business is situated at the same place.

1.2 Principal Activities of the Company

The principal activities of the Company consist of Acceptance of Deposits, Granting Micro Finance Loans, SME Loans, Leasing, Mortgage Loans, Business Loans, Pawning and other credit facilities and related services.

1.3 Consolidated Financial Statements

The requirement to prepare and present separate consolidated Financial Statements for the year under review did not arise due to non-existence of the subsidiary, Summit Finance PLC (Formerly: George Steuart Finance PLC), as at the Statement of Financial Position date which arose as a result of the Company disposing its total shareholding of 75.54% of the shares in issue of its subsidiary company, during the year under review. The operating results of the subsidiary as at the last reporting date immediately prior to the disposal date and the fair value of consideration received and the resulting gain of the disposal are disclosed under note no:24.1 -'Discontinued Operation'- on page 137 to these Financial Statements.

1.4 Loss of Control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

1.5 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.

1.6 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 114). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 115). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 116).

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 utilise those cash flows (Refer page 117) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 118 to 161).

1.7 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2017 (including comparatives) have been approved and authorised for issue by the Board of Directors on 26 May 2017.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Preparation of Financial Statements

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 27	Page 139
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 32	Page 146

2.2 Presentation of Financial Statements

The Company present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36 to these Financial Statements.

2.3 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

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

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

2.4 Basis of Consolidation

Consolidated Financial Statements for the year ended 31 March 2017 have not been prepared and presented separately in the Financial Statements of the year under review due to the non-existence of a "Group" as a result of the sale of subsidiary during the year under review (Refer Note 24.1).

2.5 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency, unless indicate otherwise. No adjustments have been made for inflationary factors.

2.6 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 01 on 'Presentation of Financial Statements.

2.7 Going Concern

The Board of Directors of the Company has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Company to continue as a going concern. Therefore, the Financial Statements of the Company continue to be prepared on the going concern basis.

3. GENERAL ACCOUNTING POLICIES

3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognised 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 a material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to these Financial Statements are as follows.

- Allowance for Impairment Charges for Loans and Receivables (Details under note 10)
- Deferred Taxation (Details under note 28)
- Post-Employment Benefit Liability (Details under note 32)
- Related Party Transactions (Details under note 40)
- Fair Value of Financial Instruments (Details under note 18)

3.2 Financial Instruments

Initial Recognition Date

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

Initial Measurement of Financial Instruments

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

Classification and Subsequent Measurement of Financial Assets

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

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

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

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value though profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position

Notes to the Financial Statements

taking. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Sri Lanka Accounting Standards -LKAS 39, 'Financial Instruments: Recognition and Measurement'.

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

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

Other Financial Liabilities

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

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

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

Derecognition of Financial Assets and Financial Liabilities

a) Financial Assets

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

- The rights to receive cash flows from the asset have expired,
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
  - the Company has transferred substantially all the risks and rewards of the asset, or
  - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Statement of Profit or Loss.

Re-classification of Financial Assets and Liabilities

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

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

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

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

3.3 Impairment of Non-Financial Assets

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

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

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

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

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

4.1 SLFRS 9 -Financial Instruments: Classification and Measurement

This standard will replace Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). The improvements introduced by SLFRS 9 includes a logical model for classification and measurment, a single, forward-looking 'expected loss' impairment model and a substantially - reformed approach to hedge accounting which are detailed below. SLFRS 9 will become effective on 01 January 2018.

Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle based approach replaces existing rule-based requirements that are complex and difficult to apply. Accordingly, financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL').

Although the classification and measurement outcomes will be similar to LKAS 39 in many instances, the combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared to LKAS 39.

The classification of financial liabilities is essentially unchanged.

Impairment

SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised. This credit loss (impairment) requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 - month ECL') for all financial assets to which impairment requirement is applied.

In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events. Current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under LAKS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with LKAS 39.

Notes to the Financial Statements

The Company has not yet quantified the impact on the Company's Financial Statements from the implementation of this Standard. Company needs to build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operation, this standard is expected to have a pervasive impact on the Company's Financial Statements, in particular, calculation of impairment of the financial instruments on an expected credit loss model is expected to result an increase in the overall level of impairment allowances. The Standard also introduces new presentation and extensive new disclosure requirements.

4.2 Sri Lanka Accounting Standard (SLFRS 15) –"Revenue from Contracts with Customers"

The objective of this standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers. The approach specifies that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

The new Standard will replace the existing Revenue recognition guidelines, including, LKAS 18 on 'Revenue', LKAS 11 on 'Construction Contacts' and IFRIC 13 on 'Customer Loyalty Programmes'..

SLFRS 15 will become effective on 1st January 2018 with early adoption permitted

The Company does not expect a significant impact on its Financial Statements resulting from the adoption of DLFRS 15.

4.3 SLFRS 16 – Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard - LKAS 17 - Leases and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

SLFRS 16 will become effective on 1st January 2019. The Company has not yet quantified the impact on the Company's Financial Statements from the implementation of this Standard.

4.4 Amendments to Sri Lanka Accounting Standard - LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than the carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate),without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 01 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendment is not expected to have a material impact on the company.

4.5 Amendments to Sri Lanka Accounting Standard - LKAS 7 Disclosure Initiative "Statement of Cash Flows"

The amendments to LKAS 7 "Statement of Cash Flows" are part of the Institute of Chartered Accountants of Sri Lanka's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 01 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the company.

4.6 Amendments to Sri Lanka Accounting Standard - SLFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The Institute of Chartered Accountants of Sri Lanka issued amendments to SLFRS 2 "Share based Payment" that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The impact on the implementation of the above standard has not been quantified yet by the company.

5. AMENDMENTS TO EXISTING ACCOUNTING STANDARDS THAT BECAME EFFECTIVE FROM 01 JANUARY 2016

Amendments to the below detailed existing Accounting Standards with effect from 01st January 2016 as published by the Institute of Chartered Accountants of Sri Lanka are not expected to have an impact on the Financial Statements of the company.

SLFRS 14 - Regulatory Deferral Accounts

The objective of this standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

SLFRS 14 is effective for a period beginning on or after 01 January 2016. Implementation of this standard is not expected to have an impact on the Financial Statements of the company.

Notes to the Financial Statements

6. INCOME

Accounting Policy

Gross income (Revenue) is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

Year Ended 31 March	2017 Rs.	2016 Rs.
Interest Income	883,758,122	922,993,919
Fee and Commission Income	29,193,693	15,177,472
Other Operating Income (net)	183,480,298	76,582,251
Total Income	**1,096,432,113**	**1,014,753,642**

7. NET INTEREST INCOME

Accounting Policy

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate.

The carrying amount of the financial assets or financial liabilities is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortised cost is calculated by taking into account any discount or premium on an acquisition and fees and costs that are an integral part of the EIR. The change in carrying amount is recorded as 'Interest income' for financial assets and interest expenses for financial liabilities.

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

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

Year Ended 31 March	2017 Rs.	2016 Rs.
7.1 Interest Income		
Loans and Receivables	788,179,275	880,258,554
Lease Rentals Receivables	16,442,769	-
Financial Investments (Note 7.3)	25,476,186	17,388,970
Savings Deposits	13,776,659	13,912,868
Other Financial Assets	39,883,233	11,433,527
Total Interest Income	**883,758,122**	**922,993,919**
7.2 Interest Expenses		
Due to Bank and Other Institutions	4,122,634	3,347,711
Due to Customers	276,779,550	252,567,291
Total Interest Expenses	**280,902,184**	**255,915,002**
Net Interest Income	**602,855,938**	**667,078,917**

7.3 Notional tax credit on secondary market transactions

According to section 137 of the Inland Revenue Act No. 10 of 2006, Net Interest Income of the Company derived from the secondary market transactions in Treasury Bills and Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on such securities, bonds or bills less interest expenses on repurchase transaction with securities, Treasury Bonds or Treasury Bills from which such interest income was earned) for the period 1st April 2016 to 31 st March 2017 has been grossed up by Rs. 2,547,619/- (2016 : Rs 1,738,897/-) for the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

8. FEE AND COMMISSION INCOME

Accounting Policy

Income from Fee-Based Activities

The Company earns fee and commission income from a diverse range of services it provides to its customers. These fees include credit-related fees, documentation charges and service income. All fees and commissions are recognised to the Statement of Profit or Loss on an accrual basis.

Year Ended 31 March	2017 Rs.	2016 Rs.
Credit Related Fees and Commissions	11,285,327	2,173,691
Documentation Income	17,507,998	14,710,684
Service Charge Income	400,368	466,788
Total Net Fee and Commission Income	**29,193,693**	**17,351,163**

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-down loans and advances, capital gains/(losses) and gains from property, plant & equipment.

Capital Gains

Capital gains from sale of securities and group investments present the difference between the sales proceeds from sale of such investments and the carrying value of such investments.

Year Ended 31 March	2017 Rs.	2016 Rs.
Recoveries of Bad Debts	58,848,069	61,171,202
Profit on Disposal of Property Plant & Equipment	877,984	27,103
Net Gain from Sale of Subsidiary	100,280,782	-
Reversal of Provision of Loan Risk Assurance Benefit Fund	15,116,703	5,606,967
Other Sundry Income (Note 9.1)	8,356,760	7,603,288
Total Other Operating Income	**183,480,298**	**74,408,560**

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

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

Accounting Policy

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

Year Ended 31 March	2017 Rs.	2016 Rs.
Loans and Advances Receivable Excluding Pawing Advance	170,414,363	67,269,948
Finance Lease Rental Receivable	2,782,605	-
Pawning Advance	(937,887)	(5,975,833)
Total Impairment Charges for Loans and Other Losses	**172,259,081**	**61,294,116**

Notes to the Financial Statements

11. PERSONNEL EXPENSES

Accounting Policy

Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees’ Provident Fund and Employees’ Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Company contributes 12% and 3% of gross salaries of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

Contributions to defined benefit plans are recognised in the Statement of profit or Loss and other comprehensive income based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19, Defined benefit Obligations.

Year ended 31 March	2017 Rs.	2016 Rs.
Salaries and Other Related Expenses	320,442,118	277,871,566
Employer’s Contribution to Employees' Provident Fund	23,364,478	19,398,157
Employer’s Contribution to Employees' Trust Fund	5,839,325	4,849,133
Gratuity Charge for the Year	5,778,323	5,881,736
Other Staff Related Expenses	6,033,404	6,184,546
Total Personnel Expenses	**361,457,648**	**314,185,138**

12. OTHER OPERATING EXPENSES

Accounting Policy

Operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

Year Ended 31 March	2017 Rs.	2016 Rs.
Directors' Emoluments	5,744,444	5,126,662
Auditors Remuneration	1,914,805	1,821,649
Professional and Legal Expenses	4,811,581	10,318,285
Deposit Insurance Premium	4,595,993	4,533,905
General Insurance Expenses	2,786,781	1,908,753
Office Administration and Establishment Expenses	170,914,408	152,570,993
Travelling & Transport Expenses	10,610,144	10,815,742
Other Expenses	4,611,089	3,145,186
Marketing Expenses	24,235,872	21,901,596
Total Other Operating Expenses	**230,225,116**	**212,142,771**

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 and emoluments of employees computed on prescribed rate.

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.

Year Ended 31 March	2017 Rs.	2016 Rs.
Value Added Tax on Financial Services	42,081,318	41,691,999
National Building Tax on Financial Services	5,946,639	7,580,364
Total Tax on Financial Services	**48,027,957**	**49,272,363**

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 recognised directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognised in Equity or OCI.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 28 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the year was 28% (2016 - 28%).

The components of the income tax expense for the years ended 31 March 2017 and 2016 are:

Year Ended 31 March	2017 Rs.	2016 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 14.1)	-	22,604,887
(Over) / Under Provision in Respect of 2014/2015 (Note 14.2)	-	(5,469,497)
(Over) / Under Provision in Respect of 2015/2016	(39,551)	-
Deferred Taxation		
Transfers to / (from) Deferred Taxation (Note 28)	(9,284,360)	13,233,400
Total Tax Expenses	**(9,323,911)**	**30,368,790**

Notes to the Financial Statements

14. INCOME TAX EXPENSES (CONTD.)

14.1 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the years ended 31 March are as follows.

Year Ended 31 March	2017 Rs.	2016 Rs.
Profit Before Tax	(43,859,383)	76,510,573
Add : Disallowable Expenses	232,601,592	167,657,372
Less: Tax Deductible Expenses	(144,400,557)	(119,965,270)
Disallowable Income	(101,158,766)	
Adjusted Profit / (Loss) for Tax Purposes	(56,817,114)	124,202,675
Assessable Income	-	124,202,675
Less - Allowable Losses	-	(43,470,936)
Taxable Income	-	80,731,739
Income Tax @ 28%	-	22,604,887
Income Tax on Current Year's Profit	-	22,604,887
Effective Tax Rate	-	30%

14.2 (Over)/Under Provision in Respect of 2014/2015

The Company claimed an income tax over provision of Rs. 5,469,497/- in respect of the year 2014/2015 from the income tax liability of the year of assessment 2015/2016. This over provision arose as a result of claiming the allowable bad debt expenses of the written off contracts amounting to Rs.197 Million in the year 2013/2014 when filing the income tax return for the year of assessment 2013/2014.

14.3 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto, ESC was payable at 0.25 percent on Company's liable turnover and was deductible from income tax payable.

14.4 Crop Insurance Levy

As per provisions of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy was introduced with effect from 1st April 2013 and is payable to the National Insurance Trust Fund. Currently, the crop insurance levy is payable at 1 percent of profit after tax.

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':

Year Ended 31 March	2017 Rs.	2016 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders	(34,535,473)	46,141,783
Amount used as the denominator		
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	67,500,006	67,500,006
Weighted average basic Earnings per Share (Rs.)	**(0.51)**	**0.68**

16. DIVIDEND PAID AND PROPOSED

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

The Board of Directors of the Company has not recommended any distribution of dividend for the year ended 31 March 2017.

The Board of Directors of the Company had recommended the payment of a first & final cash dividend of Rs. 0.25 per share for the year ended 31 March 2016. However, the Company did not distribute the dividend since the approval for the distribution was not received from the Central Bank.

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 March	2017 Loans and Receivable Rs.	2017 Total Rs.	2016 Loans and Receivable Rs.	2016 Total Rs.
Assets				
Cash and Cash Equivalents	138,046,068	138,046,068	306,766,105	306,766,105
Loans and Receivables	3,477,040,068	3,477,040,068	2,766,806,059	2,766,806,059
Lease Rentals Receivables	283,558,784	283,558,784	-	-
Financial Investments	268,211,272	268,211,272	243,177,150	243,177,150
Other Financial Assets	282,577,503	282,577,503	232,859,565	232,859,565
Total Financial Assets	**4,449,433,694**	**4,449,433,694**	**3,549,608,879**	**3,549,608,879**

As at 31 March	2017 Amortised Cost Rs.	2017 Total Rs.	2016 Amortised Cost Rs.	2016 Total Rs.
Liabilities				
Due to Banks and Other Institutions	75,855,963	75,855,963	31,225,454	31,225,454
Due to Customers	3,563,699,800	3,563,699,800	3,070,417,410	3,070,417,410
Total Financial Liabilities	**3,639,555,764**	**3,639,555,764**	**3,101,642,864**	**3,101,642,864**

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

The fair value of the financial instruments that are recorded at the fair values are determined using valuation techniques which incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

18.1 Determination of Fair Value and Fair Value Hierarchy

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. The Company uses various valuation methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

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.

Notes to the Financial Statements

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

We review the inputs to the fair value measurements to ensure they are appropriately categorised within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognised as if they had taken place at the end of the reporting period

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments 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 2017	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2017 Rs.
Financial Assets					
Cash and Cash Equivalents	138,046,068	-	-	138,046,068	138,046,068
Loans and Receivables	-	-	3,697,316,985	3,697,316,985	3,477,040,068
Lease Rentals Receivables	-	-	286,341,389	286,341,389	283,558,784
Financial Investments	-	268,211,272	-	268,211,272	268,211,272
Other Financial Assets	-	282,577,503	-	282,577,503	282,577,503
Total Financial Assets	**-**	**550,788,775**	**3,983,658,374**	**4,672,493,217**	**4,449,433,694**
Financial Liabilities					
Due to Banks and Other Institutions	-	75,855,963	-	75,855,963	75,855,963
Due to Customers	-	-	3,563,699,800	3,563,699,800	3,567,683,774
Total Financial Liabilities	**-**	**75,855,963**	**3,563,699,800**	**3,639,555,764**	**3,639,555,764**

As at 31 March 2016	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2016 Rs.
Financial Assets					
Cash and Cash Equivalents	306,766,105	-	-	306,766,105	306,766,105
Loans and Receivables	-	-	2,914,388,763	2,914,388,763	2,766,806,059
Financial Investments	-	245,757,551	-	245,757,551	243,177,150
Other Financial Assets	-	234,371,785	-	234,371,785	232,859,565
Total Financial Assets	**306,766,105**	**480,129,336**	**2,914,388,763**	**3,701,284,204**	**3,549,608,879**
Financial Liabilities					
Due to Banks and Other Institutions	-	31,225,454	-	31,225,454	31,225,454
Due to Customers	-	-	3,070,417,410	3,070,417,410	3,070,417,410
Total Financial Liabilities	**-**	**31,225,454**	**3,070,417,410**	**3,101,642,864**	**3,101,642,864**

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

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

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Assets & Liabilities for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

Lease Rentals Receivable

Lease rentals receivable & Stock out on hire with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year.

Reclassification of financial assets

The Financial assets reclassified during the financial year 2016/2017 and discussed under Note 42 to these Financial Statement.

19. CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand, balances with banks and cash in transit . The cash in hand comprises of local currency only.

As at 31 March	2017 Rs.	2016 Rs.
Cash in Hand	40,921,997	42,623,363
Balances with Banks	97,124,071	264,142,742
Total Cash & Cash Equivalents	**138,046,068**	**306,766,105**

20. LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in ‘interest income’ in the statement of comprehensive income. The losses arising from impairment are recognised in ‘impairment (charge)/reversal on loans and other losses’ in the statement of comprehensive income.

Notes to the Financial Statements

20. LOANS AND RECEIVABLES (CONTD.)

As at 31 March	2017 Rs.	2016 Rs.
Gross Loans and Receivables	3,697,316,985	2,914,388,763
(Less): Allowance for Impairment Charges for Loans and Receivables (Note 20.3)	(220,276,917)	(147,582,704)
Net Loans and Receivables	**3,477,040,068**	**2,766,806,059**

20.1 Gross Loans and Receivables - By Province

As at 31 March	2017 Rs.	2016 Rs.
Western Province	928,595,868	620,251,697
Southern Province	508,549,565	350,041,238
Central Province	387,215,608	441,194,978
North Central Province	513,337,192	383,297,383
Uva Province	258,310,243	235,365,681
Sabaragamuwa Province	316,022,264	272,927,832
Eastern Province	312,965,991	197,077,633
North Western Province	314,563,183	282,304,407
Northern Province	157,757,071	131,927,914
	3,697,316,985	**2,914,388,763**

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

20.2 Gross Loans and Receivables - By Industry

As at 31 March	2017 Rs.	2016 Rs.
Agriculture & Fishing	980,709,299	595,227,688
Manufacturing	399,868,730	429,296,458
Tourism	9,303,426	2,289,573
Transport	25,793,375	17,257,825
Constructions	513,769,792	601,370,571
Trades	615,234,308	711,232,237
New Economy	16,383,123	7,775,058
Financial and Business Services	38,951,568	1,392,245
Infrastructure	8,382,375	4,644,551
Other Services	463,737,560	288,821,637
Other Customers	625,183,430	255,080,920
	3,697,316,985	**2,914,388,763**

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables

Accounting Policy

The Company assesses at each reporting date, whether there is any objective evidence that loans and receivables are impaired. Loans and receivables are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Statement of Profit or Loss. The

20. LOANS AND RECEIVABLES (CONTD.)

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables (Contd.)

Accounting Policy (Contd.)

carrying amount of impaired loans on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised

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

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

Individually Impaired Receivables

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

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

Individually Assessed Financial Assets

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower
- past due contractual payments of either principal or interest
- breach of loan covenants or conditions
- the probability that the borrower will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.
- known cash flow difficulties experienced by the borrower;

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

Company's aggregate exposure to the customer;

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Notes to the Financial Statements

20. LOANS AND RECEIVABLES (CONTD.)

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables (Contd.)

Accounting Policy (Contd.)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'.

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

Collectively Assessed Loans and Receivables

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

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

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and individually significant.
- For homogeneous groups of loans that is not considered.

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

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

Write-off of Loans and Receivables

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

Rescheduled Loan Facilities

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

Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets .The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

20. LOANS AND RECEIVABLES (CONTD.)

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables (Contd.)

Accounting Policy (Contd.)

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Reversal of Impairment

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

As at 31 March	2017 Rs.	2016 Rs.
20.4 Allowance for Impairment Losses on Loans & Receivables		
Balance at the Beginning of Year	147,582,704	80,312,756
Charge for the Year	170,414,363	67,269,948
Amounts Written Off	(97,720,150)	-
Balance at the End of Year	220,276,917	147,582,704
Individual Impairment	-	-
Collective Impairment	220,276,917	147,582,704
Total	**220,276,917**	**147,582,704**

21. LEASE RENTALS RECEIVABLE

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

Lease rental receivable include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all its initial investment, other than because of credit deterioration.

After initial measurement, lease rental receivable is subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of Profit or Loss. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

As at 31 March	2017 Rs.	2016 Rs.
21.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	417,577,387	-
Less: Unearned Income	(131,235,997)	-
Total Lease Rentals Receivables	286,341,389	-
(Less): Allowance for Impairment Charges (Note 21.3)	(2,782,605)	
Net Lease Rentals Receivables	**283,558,784**	-

Notes to the Financial Statements

21. LEASE RENTALS RECEIVABLE (CONTD.)

As at 31 March	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
21.2 Maturity of Lease Rentals Receivables				
Gross Lease Rental Receivables	107,977,472	309,599,915	-	417,577,387
Less: Unearned Income	(50,856,415)	(80,379,582)	-	(131,235,997)
Total Lease Rental Receivables	57,121,056	229,220,333	-	286,341,389
(Less): Allowance for Impairment Charges (Note 21.3)	(2,782,605)	-	-	(2,782,605)
Net Lease Rentals Receivables	54,338,451	229,220,333	-	283,558,784

21.3 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

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

As at 31 March	2017 Rs.	2016 Rs.
Balance at the Beginning of Year	-	-
Charge / (Reversal) for the Year	2,782,605	-
Balance at the End of Year	2,782,605	-
Individual Impairment	-	-
Collective Impairment	2,782,605	-
Total	**2,782,605**	**-**

22. FINANCIAL INVESTMENTS

Accounting Policy

Financial investments - Loans and receivables include Government Securities, unquoted debt instruments and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortised cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss Account in impairment charges for loans and receivables.

As at 31 March	2017 Rs.	2016 Rs.
Sri Lanka Government Securities - REPO	268,211,272	243,177,150
Total Financial Investments	**268,211,272**	**243,177,150**

23. OTHER FINANCIAL ASSETS

Accounting Policy

Other financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has not the intention and ability to hold to maturity. After initial measurement, other financial assets are subsequently measured at amortised cost using the EIR, less impairment. The amortization is included in ‘interest income’ in the Statement of Profit or Loss.

As at 31 March	2017 Rs.	2016 Rs.
Fixed Deposits	282,577,503	232,859,565
Total Other Financial Assets	**282,577,503**	**232,859,565**

23. OTHER FINANCIAL ASSETS (CONTD.)

As at 31 March	Free from Lien 2017 Rs.	Under -Lien 2017 Rs.	Total 2017 Rs.
23.1 Other Financial Assets -Under Lien			
Fixed Deposits	132,577,503	150,000,000	282,577,503
Total Other Financial Assets	**132,577,503**	**150,000,000**	**282,577,503**

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
23.2 Contractual Maturity Analysis of Other Financial Assets				
Fixed Deposits	282,577,503	-	-	282,577,503
Total Other Financial Assets	**282,577,503**	**-**	**-**	**282,577,503**

24. INVESTMENTS IN SUBSIDIARY COMPANIES

Accounting Policy

Investment in subsidiaries is accounted at cost less impairment in the Financial Statements of the Company. The net assets of each subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31 March	Percentage Holding %	2017 Cost Rs.	Percentage Holding %	2016 Cost Rs.
Summit Finance PLC (Formally, George Steuart Finance Plc)	-	-	75.54%	379,474,885
Total Investments in Subsidiary Companies		**-**	**-**	**379,474,885**

24.1 Discontinued Operations

On 24 October 2016, the Board of Directors of the Company decided to dispose its total share holding of 75.54% of voting shares in issue of its subsidiary company, Summit Finance PLC (Formerly: George Steuart Finance PLC). The Board of Directors determined the Summit Finance PLC was a non-core business activity of the company and that selling the Summit Finance, would permit the company to focus fully on its core businesses. The Company received the approval from the Central Bank of Sri Lanka on 21st December 2016 for the said disposal and subsequently disposed its total share holding on 16th January 2017 for a total consideration of Rs. 510 million, with a gain on disposal of Rs. 100 million.

	Rs.
24.2 Subsidiary Statement of Profit or Loss for the period ended 31 December 2016	
Interest Income	215,599,397
Interest Expenses	(95,896,508)
Net Interest Income	**119,702,889**
Other Income	5,163,552
Personnel Expense	(45,377,873)
Other Expenses	(65,506,390)
Profit Before Taxation	**13,982,178**
VAT & NBT on Financial Services	(6,449,440)
Income Tax Expenses	(839,230)
Profit/(Loss) for the Year from Discontinued Operations	**6,693,508**

Notes to the Financial Statements

24. INVESTMENTS IN SUBSIDIARY COMPANIES (CONTD.)

	Rs.
24.3 The Fair Value of the Consideration Received and the Resulting Gain on Disposal of Subsidiary.	
Fair Value of Consideration Received	509,899,500
Less:	
Carrying Amount of Investment in Subsidiary as at the Date of Disposal	(379,474,885)
Transaction Cost Relating to the Disposal	(30,143,833)
Gain of Disposal of Subsidiary	**100,280,782**

25. OTHER NON FINANCIAL ASSETS

Accounting Policy

Company classifies all non-financial assets other than Intangible Assets, Property, Plant & Equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include inventories, other advance, rent deposit and other receivable amounts. These assets are non-interest earning and recorded at the amounts that are expected to be received. Prepayments that form a part of other receivable are amortised during the period in which it is utilised and is carried at historical cost less provision for impairment.

As at 31 March	2017 Rs.	2016 Rs.
Inventories	6,293,256	5,458,569
Other Advance	2,199,438	11,414,759
Rent Deposit	28,226,742	30,313,767
Other Receivable (Note 25.1)	27,617,258	31,779,453
Total Other Non Financial Assets	**64,336,684**	**78,966,548**

25. 1 This balance included Unsettled Tax Credit Rs.12,492,129/-, Refundable Deposit and Pre payments Rs. 12,739,966/- , and Others Rs. 2,385,162/-.

26. INTANGIBLE ASSETS

Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

26.1 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 amortised 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 2017 and 2016 is given below.

	Company
Computer software	3 Years
Computer software - E-Finance	5 Years

Intangible assets are derecognised 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 derecognised.

26. INTANGIBLE ASSETS (CONTD.)

The Company derecognised a computer software (SENOVA system) during the year 2016 which carried a net book value of 'Zero' as at 31st March 2016. This derecognition took place as a result of SENOVA system retiring from its active use during the year 2016 due to the Company migrating into a new computer software (E-finance system) during the year 2016. The loss that arose from this derecognition was recognised under profit /(loss) on disposal of property, plant & equiptment.

As at 31 March	2017 Rs.	2016 Rs.
26.2 Computer Software - Cost		
Cost at the Beginning of Year	30,446,941	31,976,002
Additions and Improvements	12,934,325	30,446,941
Disposal During the Year	-	(31,976,002)
Cost at the End of Year	**43,381,266**	**30,446,941**
26.3 Amortisation & Impairment		
Amortisation at the Beginning of Year	3,638	21,317,335
Charge for the year	6,683,064	10,662,305
Disposal during the year	-	(31,976,002)
Amortisation at the End of Year	6,686,702	3,638
Net Book Value at the End of Year	**36,694,563**	**30,443,303**
26.4 Computer Software Under Development		
Balance at the Beginning of Year	-	27,589,341
Additions during the year	-	2,777,600
Transfers/Adjustments	-	(30,366,941)
Balance at the End of Year	-	-
Net Book Value of Total Intangible Assets	**36,694,563**	**30,443,303**

27. PROPERTY, PLANT & EQUIPMENT

Accounting Policies

Basis of Recognition

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

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 labor, 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 capitalised 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.

Notes to the Financial Statements

27. PROPERTY, PLANT & EQUIPMENT (CONTD.)

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.

Subsequent Cost
These are costs that are recognised 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 derecognised 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 derecognised.

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 2016 and 2017, 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.

27. PROPERTY, PLANT & EQUIPMENT (CONTD.)

	Balance As at 01.04.2016 Rs.	Additions during the year Rs.	Adjustments During the year Rs.	Disposals during the year Rs.	Balance As at 31.03.2017 Rs.
27.1 The Movement in Property, Plant & Equipment					
27.1.1 Cost or Valuation					
Freehold Assets					
Land	67,781,200	-	-	-	67,781,200
Building	72,347,825	-	-	-	72,347,825
Furniture & Fittings	50,892,583	38,375,791	1,240,000	583,787	87,444,587
Office Equipment	42,883,043	7,972,685	-	76,686	50,779,043
Computer Equipment	61,642,693	10,034,301	562,464	-	71,114,530
Plant & Machinery	18,903,044	16,345,449	-	-	35,248,493
Motor Vehicle	25,738,422	15,850,000	-	7,600,000	33,988,422
Total Cost or Valuation	**340,188,811**	**88,578,227**	**1,802,464**	**8,260,473**	**418,704,100**

	Balance As at 01.04.2016 Rs.	Charge during the year Rs.	Adjustments During the year Rs.	Disposals during the year Rs.	Balance As at 31.03.2017 Rs.
27.1.2 Depreciation					
Freehold Assets					
Building	4,162,478	1,808,696	-	-	5,971,173
Furniture & Fittings	10,284,120	6,702,532	36,234	216,198	16,806,688
Office Equipment	15,914,514	9,166,323	-	28,376	25,052,462
Computer Equipment	19,433,537	13,327,838	-	-	32,761,375
Plant & Machinery	2,106,142	3,592,030	-	-	5,698,172
Motor Vehicle	6,752,288	6,139,027	-	1,886,466	11,004,849
Total Depreciation	**58,653,079**	**40,736,446**	**36,234**	**2,131,039**	**97,294,719**

27.1.2.1 Transfers of Property, Plant and Equipments to their respective categories has been carried out to comply with the current year presentation. The increase /(decrease) in depreciation that has resulted due to these transfers has been charged to the Statement of Profit or Loss of the current year.

As at 31 March	2017 Rs.	2016 Rs.
27.1.3 Net Book Value		
Land	67,781,200	67,781,200
Building	66,376,652	68,185,347
Furniture & Fittings	70,637,898	40,608,463
Office Equipment	25,726,581	26,968,529
Computer Equipment	38,353,156	42,209,156
Plant & Machinery	29,550,321	16,796,902
Motor Vehicle	22,983,573	18,986,134
Total Carrying Amount of Property, Plant and Equipment	**321,409,381**	**281,535,732**

27.2 The Company had revalued its land and building in financial year 2014. The valuation had been performed by P.V.Kalugalagedara & Associates, Chartered valuation surveyor and estate agent in 31 December 2013. Accordingly a revaluation surplus amounting to Rs. 45,744,825/- had been credited to the revaluation reserve account in financial year 2014.

Notes to the Financial Statements

27. PROPERTY, PLANT & EQUIPMENT (CONTD.)

27.3 The carrying amount of the company revalued land and building, if they were carried at cost less accumulated depreciation, would be as follows;

As at 31 March			2017			2016
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land	17,027,000	-	17,027,000	17,027,000	-	17,027,000
Building	61,416,000	5,971,173	55,444,827	61,416,000	4,162,478	57,253,522
Total	**78,443,000**	**5,971,173**	**72,471,827**	**78,443,000**	**4,162,478**	**74,280,522**

27.4 Title Restriction on Property, Plant and Equipment
There were no restrictions on the title of Property, Plant and Equipment as at 31st March 2017 and 31st March 2016.

27.5 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. (2016: Nil)

27.6 Temporarily Idle of Property, Plant and Equipment
There were no Property, Plant and Equipment idle as at 31st March 2017 and 31st March 2016

27.7 Property, Plant and Equipment Retired from Active Use
There were no Property, Plant and Equipment retired from active use as at 31st March 2017 and 31st March 2016 other than those disclose under Note 26 Intangible Assets on page 138.

28. 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 recognised 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) In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised 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 utilised 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

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

28. DEFERRED TAXATION (CONTD.)

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or par t of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each Statement of Financial Position date and are recognised 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the Statement of Financial Position

As at 31 March	2017 Rs.	2016 Rs.
28.1 Statement of Financial Position		
Deferred Tax Liabilities		
Accelerated depreciation for tax purposes	33,167,885	28,604,955
	33,167,885	**28,604,955**
Deferred Tax Assets		
Defined Benefit Plans - Profit Or Loss	4,055,958	4,820,391
Defined Benefit Plans - Other Comprehensive Income	1,767,184	(315,683)
Carry Forward Loss On Leasing Business	7,560,974	-
Carry Forward Loss On Other Operations	20,772,654	13,721,906
	34,156,770	18,226,613
Net Deferred Tax Liabilities/(Assets)	**(988,885)**	**10,378,342**

As at 31 March	2017 Rs.	2016 Rs.
28.2 Statement of Profit or Loss		
Deferred Tax Liabilities		
Accelerated Depreciation for Tax Purposes	4,562,930	15,051,623
	4,562,930	**15,051,623**
Deferred Tax Assets		
Defined Benefit Plans - Profit Or Loss	764,433	1,056,950
Defined Benefit Plans - Other Comprehensive Income	(2,082,867)	(771,066)
Carry Forward Loss on Leasing Business	(7,560,974)	-
Carry Forward Loss on Other Operations	(7,050,748)	(13,721,906)
Allowance for Impairment Charges	-	10,846,734
	(15,930,157)	(2,589,288)
Deferred Tax Income / (Expense)	(9,284,360)	13,233,401
Deferred Tax Income / (Expense) - Statement of Other comprehensive income	**(2,082,867)**	**(771,066)**

Notes to the Financial Statements

29. 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 amortised cost using the EIR method. Interest paid/payable on these dues are recognised in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	2017 Rs.	2016 Rs.
Bank Overdrafts (Note 29.1)	50,019,727	-
Loans and Other Bank Facilities (Note 29.2)	25,836,237	31,225,454
Total Due to Banks & Other Institutions	**75,855,964**	**31,225,454**

29.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Other Financial Assets. Other Financial Assets which are under lien are disclosed under Note 23.1 to these Financial Statements.

	As at 01.04.2016 Rs.	Loans Obtained Rs.	Repayments Capital Rs.	Interest Rs.	As at 31.03.2017 Rs.	Period	Security
29.2 Loans and Other Bank Facilities							
NDB Loan	10,300,037	-	(2,508,818)	918,130	7,791,219	60 Months	Mortgage Two Vehicles
Rotary Loan	18,863,467	8,555,000	(12,335,400)	1,810,064	15,083,068	36 Months	Unsecured
Other Borrowings	2,061,950	900,000	-	-	2,961,950	NA	Unsecured
Total Loans and Other Bank Facilities	**31,225,454**	**9,455,000**	**(14,844,218)**	**2,728,194**	**25,836,237**		

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

30. DUE TO CUSTOMERS

Accounting Policies

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margins and other deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the EIR method. Interest paid/payable on deposits are recognised in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	2017 Rs.	2016 Rs.
Fixed Deposits	1,955,249,581	1,483,446,679
Savings Deposits	1,607,045,443	1,585,565,955
Inactive Society-Savings	1,404,776	1,404,776
Total Due to Customers	**3,563,699,800**	**3,070,417,410**

30.1 Sri Lanka Deposit Insurance And Liquidity Support Scheme

Under the Direction No. 2 of 2010 [Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of Rs. 300,000/- for each depositor. The Company has paid Rs. 4,595,993/- as the premium of the said Insurance scheme during the financial year under review (2016 - Rs. 4,533,905/-).

30.2 Contractual Maturity Analysis Of Customer Deposits

As at 31 March	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	1,607,150,316	348,099,265	-	1,955,249,581
Savings Deposits	1,323,990,610	132,767,575	150,287,259	1,607,045,443
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	**2,932,545,702**	**480,866,840**	**150,287,259**	**3,563,699,800**

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

Notes to the Financial Statements

31. OTHER NON FINANCIAL LIABILITIES

Accounting Policy

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

Provisions are recognised 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 recognised as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

As at 31 March	2017 Rs.	2016 Rs.
Accrued Expenses	46,980,946	27,933,776
Others (Note 31.1)	101,467,225	50,413,223
Pawning Contingency Provision	-	937,887
Loan Risk Assurance Fund (Note 31.2)	12,800,000	17,223,000
Amount Due to Related Parties	4,517,181	401,526
	165,765,352	**96,909,412**

31.1 This balance included Staff Welfare Fund Rs. 6,506,441/-, Loan & Lease Creditor Balance Rs. 74,212,252/- , Loan Sundry Changes Payable Rs. 2,567,013/- and Others Rs. 18,181,518/-.

31.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2017. 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.

32. 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 recognised 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.

32. POST-EMPLOYEMENT BENEFIT OBLIGATIONS (CONTD.)

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.

As at 31 March	2017 Rs.	2016 Rs.
32.1 Provision for Retirement Gratuity		
Balance at the beginning of the year	16,088,241	17,109,256
Amount Charged/(Reversed) for the Year	5,778,323	5,881,736
Actuarial (Gains)/Losses	6,311,370	1,768,842
(Gain)/Loss Due to Changes in Assumptions	-	(2,896,283)
Payments Made During the Year	(7,381,000)	(5,775,310)
Balance at the End of the Year	**20,796,934**	**16,088,241**

32.2 Average future working life time as per the assumptions made is 10.1 years as of 31st March 2017 (10.2 years as of 31st March 2016).

As at 31 March	2017 Rs.	2016 Rs.
32.3 Expenses on Defined Benefit Plan		
Current Service Cost for the Year	3,847,735	4,170,811
Interest Cost for the Year	1,930,588	1,710,925
Actuarial (Gains)/ Losses (32.6)	6,311,370	1,768,842
(Gains)/ Losses Due to Changes in Assumptions	-	(2,896,283)
Total Expenses on Defined Benefit Plan	**12,089,693**	**4,754,295**

32.4 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 2017 and 2016 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'.

	2017	2016
32.5 Actuarial Assumptions		
Discount Rate	12.0%	12.0%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
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

Notes to the Financial Statements

32. POST-EMPLOYEMENT BENEFIT OBLIGATIONS (CONTD.)

32.6 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year by net decrease of 46 participants and the salary increased by 14.4 % (vs. 10% assumed)

32.7 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 2017.

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	Sensitivity Effect on Pension Fund Surplus Increase / (decrease)
		Rs.	Rs.
+1%		422,314	(422,314)
(-1%)		(3,151,637)	3,151,637
	+1%	(3,103,105)	3,103,105
	(-1%)	408,831	(408,831)

As at 31 March	Number of Shares	2017 Rs.	Number of Shares	2016 Rs.
33. STATED CAPITAL				
Issued and Fully Paid-Ordinary shares				
At the Beginning of Year	67,500,006	890,000,020	67,500,006	890,000,020
Issued During the Year	-	-	-	-
At the End of Year	67,500,006	890,000,020	67,500,006	890,000,020

36.3 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

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

As at 31 March	2017 Rs.	2016 Rs.
34. RETAINED EARNINGS		
Balance at the Beginning of Year	129,410,910	83,677,709
Company Balance as at beginning	-	-
Profit for the Year	(34,535,473)	46,141,783
Other Comprehensive Income	(4,228,503)	1,898,507
Transfer to Statutory Reserves Fund	-	(2,307,089)
Transfers from Investment Fund Account (Note 35)	-	-
Balance at the End of Year	**90,646,934**	**129,410,910**

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.

35. RESERVES

35.1 Statutory Reserve Fund

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003.

35.2 Revaluation Reserve Fund

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

	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2015	18,076,058	45,744,825	63,820,883
Transfers to/(from) during the year	2,307,089	-	2,307,089
Transferred to Retaining Earnings	-	-	-
As at 31 March 2016	20,383,147	45,744,825	66,127,973
Transfers from during the year	-	-	-
As at 31 March 2017	**20,383,147**	**45,744,825**	**66,127,972**

36. 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.

As at 31 March	2017 Within 12 Months Rs.	2017 After 12 Months Rs.	2017 Total Rs.
Assets			
Cash and Cash Equivalents	138,046,068	-	138,046,068
Loans and Receivables	1,816,369,362	2,363,868,004	3,477,040,068
Lease Rentals Receivables	54,106,070	178,083,473	283,558,784
Financial Investments	268,211,272	-	268,211,272
Other Financial Assets	282,577,503	-	282,577,503
Other Non Financial Assets	36,109,951	28,226,732	64,336,684
Current Tax Liabilities	29,768	-	29,768
Intangible Assets	-	36,694,563	36,694,563
Property, Plant and Equipment	-	321,409,381	321,409,381
Deferred Tax Asset	-	988,885	988,885
Total Assets	**2,595,449,995**	**2,929,271,039**	**4,872,892,975**
Liabilities			
Due to Banks and Other Institutions	19,870,778	55,985,185	75,855,963
Due to Customers	2,932,545,702	631,154,098	3,563,699,800
Other Non Financial Liabilities	91,170,942	74,594,407	165,765,350
Post Employment Benefit Liability	-	20,796,934	20,796,934
Total Liabilities	**3,043,587,423**	**782,530,625**	**3,826,118,047**
Net Assets/(Liability)	**(448,137,428)**	**2,146,740,414**	**1,046,774,929**

Notes to the Financial Statements

36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

As at 31 March	2016 Within 12 Months Rs.	2016 After 12 Months Rs.	2016 Total Rs.
Assets			
Cash and Cash Equivalents	306,766,105	-	306,766,105
Loans and Receivables	1,910,447,169	856,358,890	2,766,806,059
Financial Investments	243,177,150	-	243,177,150
Other Financial Assets	232,859,565	-	232,859,565
Investment in Subsidiary Companies	-	379,474,885	379,474,885
Other Non Financial Assets	47,379,929	31,586,619	78,966,548
Intangible Assets	-	30,443,303	30,443,303
Property, Plant and Equipment	-	281,535,732	281,535,732
Total Assets	**2,740,629,918**	**1,579,399,429**	**4,320,029,347**
Liabilities			
Due to Banks	13,825,557	17,399,897	31,225,454
Due to Customers	2,780,822,847	289,594,563	3,070,417,410
Other Non Financial Liabilities	53,300,177	43,609,235	96,909,412
Post Employment Benefit Liability	-	16,088,241	16,088,241
Current Tax Liabilities	9,471,585	-	9,471,585
Deferred Tax Liabilities	-	10,378,342	10,378,342
Total Liabilities	**2,857,420,166**	**377,070,278**	**3,234,490,444**
Net Assets/(Liability)	**(116,790,248)**	**1,202,329,151**	**1,085,538,903**

37. COMMITMENTS AND CONTINGENCIES

37.1 Contingent Liabilities

Contingent liabilities are possible obligations, where existence will be confirm only by uncertain future economics benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 "Provisions contingent liabilities and Contingent Assets". Contingent Liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

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.

37.2 Commitments

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

38. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2017 Rs.	 2016 Rs.	Included Under
Motor Vehicle	Vehicle Loan	6,870,348	7,738,922	Property, Plant and Equipment
Fixed Deposit	Bank Overdraft	132,577,503	-	Other Financial Assets
		139,448,851	7,738,922	

39. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the Reporting date, no circumstances have arisen which would require adjustment to or disclosure in the Financial Statements.

40. RELATED PARTY TRANSACTIONS

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

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

40.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the Board of Directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

Year Ended 31 March	2017 Rs.	2016 Rs.
40.1.1 Key Management Personnel Compensation		
Short Term Employment Benefits	4,825,000	4,200,000
Directors Fees & Expenses	5,744,444	5,126,662
Total Key Management Personnel Compensation	**10,569,444**	**9,326,662**

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

40.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

Year Ended 31 March	2017 Rs.	2016 Rs.
40.2.2.1 Transaction with KMPs, and their Close Members of the Family		
Items in Statement of Financial Position		
Deposit Accept During the Year	100,000	3,500,000
Interest Payable	310,126	16,541
Deposit Repayment During the Year	(3,926,667)	-
Assets Disposal During the Year	7,000,000	-
Amounts Settled During the Year	(7,000,000)	-
	(3,516,541)	**3,516,541**
Items in Statement of Profit or Loss		
Interest Accrued During the Period	310,126	116,890
Profit from Assets Disposal	1,286,466	-
	1,596,592	**116,890**

40.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

Notes to the Financial Statements

40. RELATED PARTY TRANSACTIONS (CONTD.)

40.1.4 Transactions with Group Entities

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

Year Ended 31 March	2017 Rs.	2016 Rs.
40.1.4.1 Transactions with Parent Company		
Sarvodaya Economic Enterprises Development (Gte) Ltd.		
Statement of Financial Position		
Transaction Made During the Year		
Rent Due on Eight Buildings Leased from SEEDS (Gte) Ltd.	540,000	323,750
Loan Interest Payable	1,417,726	-
Loan Installment Deducted from Salary on behalf of parent	107,600	-
Transport Charges, share of Electricity, water, telephone and security bills	-	8,092
Purchase of Land	-	4,679,000
Rent Received from SEEDS (Gte) Ltd.	-	740,100
Reimbursement of Salary Cost of SEEDS (Gte) Ltd Employees	984,613	288,220
Amount settled to SEEDS (Gte) Ltd	(2,078,972)	(5,953,502)
	970,967	**85,659**

Year Ended 31 March	2017 Rs.	2016 Rs.
40.1.4.2 Transactions with Shareholders		
Gentosa Total Assets Inc.		
Items in Statement of Financial Position		
Deposit Accepted During the Period	59,275,211	112,832,582
Deposit Repayment During the Period	-	(5,000,000)
Interest payable on Deposits	274,431	112,264
	59,549,642	**107,944,846**
Items in Statement of Profit or Loss		
Interest Accrued During the Period	14,872,483	6,598,377
	14,872,483	**6,598,377**

40.1.4.3 Transactions with Lanka Jathika Sarvodaya Shramadana Sangamaya (LJSSS)

The immediate parent of the Company is SEEDS (Gte) Ltd which is LJSSS owned entity. The Company enters into transactions, arrangements and agreements with LJSSS and its related entities. The significant dealings during the year under review and as at the reporting date are as follows.

40. RELATED PARTY TRANSACTIONS (CONTD.)

Year Ended 31 March	2017 Rs.	2016 Rs.
Items in Statement of Financial Position		
Deposit Accepted During the Period	42,725,017	103,000,000
Interest payable on Deposits	1,892,156	498,247
Purchase of Land	-	11,262,200
Loan Granted During the Period	(12,737,388)	(5,000,000)
Loan Repayment and Amounts Settled During the Period	(50,060,859)	(11,262,200)
	(18,181,073)	**98,498,247**
Items in Statement of Profit or Loss		
Loan Interest Income	530,703	367,121
Interest Expenses	(10,848,588)	(7,286,989)
Rent Expenses	-	(2,354,013)
	11,379,291	**10,008,123**

41. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka . The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

41.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximise shareholders' value.

42. COMPARATIVE INFORMATION

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

	As Reported Previously Rs.	Reclassification Rs.	Current Presentation Rs.	Classified Under
Statement of Financial Position				
Rotary Loans (Rotary Up Town) (Note a)	5,458,569	(5,458,569)		Due to Banks
Amounts Due to Related Parties (Note b)		5,458,569	5,458,569	Other Non Financial Assets
Statement of Profit or Loss				
Other Sundry Income (Note 9.1) (Note b)	2,173,691	(2,173,691)		Other Operating Income
Credit Related Fees and Commissions (Note b)		2,173,691	2,173,691	Fee and Commission Income

(a) During the financial year, Rotary up town loan balance was reclassified as Amounts Due to Related Parties due to an error in classification.

(b) During the financial year, Other Operating Income was reclassified as Credit Related Fees and Commission for better presentation.

Notes to the Financial Statements

43. RISK MANAGEMENT

43.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

Risk Management 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.

43. RISK MANAGEMENT (CONTD.)

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

Assets and Liability Management Committee (ALCO)
ALCO is chaired by the CEO and has representatives from the Operation, Credit , Risk & Compliance and Finance & Planning Departments. The Committee meets regularly to monitor and manage the assets & liabilities of the Company and also 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 and AGM -Branch Operation & Marketing. BCC is the supreme authority to approve credit facilities and formulate credit policies for the company and ICC is the supreme management level approving authority beyond the delegated authority of the CEO.

43.2 CREDIT RISK

Over view
Credit risk is the risk of financial loss to SDF if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the SDF's loans and advances to customers. The exposure to the credit risk is mainly derived from financial sector companies as the sector engage primarily in providing financing facilities to its customers. The Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

Credit Risk Management
The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The credit department and recoveries department are responsible for management of the companies' credit risk, including the formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the DA of the CEO.

Individually impaired loans are loans and advances for which the company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. Past due but not impaired loan other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but SDF believes that impairment is not appropriate on the basis of collateral available and/or the stage of collection of amounts owed to the Company.

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 materialised. 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.

Notes to the Financial Statements

43. RISK MANAGEMENT (CONTD).

	2017 Neither Past Due Nor Impaired Rs.	2017 Past Due But Not Impaired Rs.	2017 Individually Impaired Rs.	2017 Total Rs.
43.2.1 Credit Quality by Class of Financial Assets				
Assets				
Cash and Cash Equivalents	138,046,068	-	-	138,046,068
Loans and Receivables (Gross)	2,797,217,548	900,099,437	-	3,697,316,985
Lease Rentals Receivables (Gross)	217,407,577	68,933,812	-	286,341,389
Financial Investments	268,211,272	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	282,577,503
Total Financial Assets	**3,703,459,967**	**969,033,249**	**-**	**4,672,493,217**

43.2.1.1.1 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and Receivables (Gross)	385,605,466	193,744,261	107,840,660	212,909,050	900,099,437
Lease Rental Receivable	53,760,509	15,173,303	-	-	68,933,812
	439,365,975	**208,917,564**	**107,840,660**	**212,909,050**	**969,033,249**

43.2 Credit Risk

	2016 Neither Past Due Nor Impaired Rs.	2016 Past Due But Not Impaired Rs.	2016 Individually Impaired Rs.	2016 Total Rs.
Assets				
Cash and Cash Equivalents	306,766,105	-	-	306,766,105
Loans and Receivables (Gross)	1,598,909,365	1,315,479,398	-	2,914,388,763
Financial Investments	243,177,150	-	-	243,177,150
Other Financial Assets	232,859,565	-	-	232,859,565
Total Financial Assets	**2,381,712,185**	**1,315,479,398**	**-**	**3,697,191,583**

43.2.1.2 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and Receivables (Gross)	430,862,330	275,053,039	156,984,198	452,579,831	1,315,479,398
	430,862,330	**275,053,039**	**156,984,198**	**452,579,831**	**1,315,479,398**

43. RISK MANAGEMENT (CONTD).

43.2.2 Analysis of Risk Concentration

43.2.2.1 Industry Analysis

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

Sector wise Breakdown	2017 Cash and Equalants Cash Rs.	2017 Loans and Receivables Rs.	2017 Lease Rental Receivables Rs.	2017 Financial Investments Rs.	2017 Other Financial Assets Rs.	2017 Total Financial Assets Rs.
Agriculture & Fishing	-	980,709,299	24,592,375	-	-	1,005,301,674
Manufacturing	-	399,868,730	17,125,640	-	-	416,994,370
Tourism	-	9,303,426	1,734,720	-	-	11,038,146
Transport	-	25,793,375	14,222,215	-	-	40,015,590
Constructions	-	513,769,792	8,814,532	-	-	522,584,324
Trades	-	615,234,308	18,029,642	-	-	633,263,950
New Economy	-	16,383,123	7,959,105	-	-	24,342,228
Financial and Business Services	138,046,068	38,951,568	11,209,836	-	282,577,503	470,784,974
Infrastructure	-	8,382,375	151,571	-	-	8,533,946
Government	-	-	-	268,211,272	-	268,211,272
Other Services	-	1,088,920,990	182,501,753	-	-	1,271,422,743
Total	**138,046,068**	**3,697,316,985**	**286,341,389**	**268,211,272**	**282,577,503**	**4,672,493,217**

Sector wise Breakdown	2016 Cash and Cash Rs.	2016 Loans and Receivables Rs.	2016 Financial Investments Rs.	2016 Other Financial Assets Rs.	2016 Total Financial Assets Rs.
Agriculture & Fishing	-	570,603,403	-	-	570,603,403
Manufacturing	-	408,561,392	-	-	408,561,392
Tourism	-	2,267,866	-	-	2,267,866
Transport	-	15,843,875	-	-	15,843,875
Constructions	-	569,018,537	-	-	569,018,537
Trades	-	674,953,202	-	-	674,953,202
New Economy	-	7,711,049	-	-	7,711,049
Financial and Business Services	306,766,105	1,355,436	-	232,859,565	540,981,106
Infrastructure	-	4,637,184	-	-	4,637,184
Government	-	-	243,177,150	-	243,177,150
Other Services	-	511,854,116	-	-	511,854,116
Total	**306,766,105**	**2,766,806,061**	**243,177,150**	**232,859,565**	**3,549,608,880**

Notes to the Financial Statements

43. RISK MANAGEMENT (CONTD).

43.3 Liquidity Risk & Funding Management

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a regular basis. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the asset and liability management committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.

ALCO meets at least once in two months and as and when necessary. ALCO is responsible for managing and controlling the overall liquidity of the company and reviews the impact of strategic decisions on Company's liquidity position.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

43.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

As at 31 March 2017	On Demand	Less than 03 Months	03-12 Months	01-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	138,046,068	-	-	-	-	138,046,068
Loans and Receivables	253,541,529	498,542,835	1,064,284,998	1,660,534,118	136,587	3,477,040,068
Lease Rentals Receivables	71,228	10,013,668	44,021,175	229,452,714	-	283,558,784
Financial Investments	-	268,211,272	-	-	-	268,211,272
Other Financial Assets	-	282,577,503	-	-	-	282,577,503
Total Financial Assets	**391,658,825**	**1,059,345,277**	**1,108,306,173**	**1,889,986,832**	**136,587**	**4,449,433,694**
Financial Liabilities						
Due to Banks and Other Institutions	55,985,185	7,951,380	11,919,399	-	-	75,855,963
Due to Customers	1,136,648,191	848,945,080	946,952,431	480,866,840	150,287,259	3,563,699,800
Total Financial Liabilities	**1,192,633,376**	**856,896,460**	**958,871,830**	**480,866,840**	**150,287,259**	**3,639,555,764**
Total Net Financial Assets/(Liabilities)	**(800,974,552)**	**202,448,818**	**149,434,344**	**1,409,119,993**	**(150,150,672)**	**809,877,931**

43. RISK MANAGEMENT (CONTD).

As at 31 March 2016	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	306,766,105	-	-	-	-	306,766,105
Loans and Receivables	441,162,599	614,255,933	1,306,200,858	1,034,545,460	252,750	3,396,417,600
Financial Investments	-	243,177,150	-	-	-	243,177,150
Other Financial Assets	-	200,000,000	32,859,565	-	-	232,859,565
Total Financial Assets	**747,928,704**	**1,057,433,083**	**1,339,060,423**	**1,034,545,460**	**252,750**	**4,179,220,420**
Financial Liabilities						
Due to Banks and Other Institutions	-	2,666,161	11,159,397	17,399,897	-	31,225,455
Due to Customers	1,589,977,917	487,853,251	703,965,186	289,542,316	-	3,071,338,670
Total Financial Liabilities	**1,589,977,917**	**490,519,412**	**715,124,583**	**306,942,213**	**-**	**3,102,564,125**
Total Net Financial Assets/(Liabilities)	**(842,049,213)**	**566,913,671**	**623,935,840**	**727,603,247**	**252,750**	**1,076,656,295**

43.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2017.

43.4 Operational Risk

Overview

The operation risk management is the responsibility of all the staff in the company. The accountability of managing operation risk lies with the management committee members. They are responsible for maintaining an over sight over operational risk, and internal controls and covering all businesses and operations pertaining to SDF.

After reviewing the audit reports the Intergraded 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.

43.5 Market Risk

Overview

Market risk is the potential of an adverse impact on SDF's earnings or capital due to changes in interest rates. During the normal course of its business, company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the company to market risk in varying degrees.

Market Risk Management

Risk Management Framework ensures the appropriate management of the market risks within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact SDFC's profitability, capital or the risk profile.

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the company risk management process functions in compliance with the Investment Policy and Asset and Liability Policy . Investment Policy and Asset and Liability Policy alone with Intergraded 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).

Notes to the Financial Statements

43. RISK MANAGEMENT (CONTD).

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimise 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 SDF
- Articulating interest rate review of the SDF

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.

43.5.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities, namely the granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; and basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. The Company's exposure to interest rate risk is primarily associated with factors such as:

- Reprising risk arising from a fixed rate borrowing portfolio where reprising frequency is different to that of the lending portfolio;
- Yield curve risk arising from unanticipated shifts of the market yield curve;

Interest rate risk is managed principally through minimizing interest rate sensitive asset/liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

43.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31 March 2017	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2017 Rs.
Assets							
Cash and Cash Equivalents	97,421,041	-	-	-	-	40,625,026	138,046,068
Loans and Receivables	752,084,364	1,064,284,998	1,299,583,006	360,951,112	136,587	-	3,477,040,068
Lease Rentals Receivables	10,084,896	44,021,175	134,062,298	95,390,416	-	-	283,558,784
Financial Investments	268,211,272	-	-	-	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	-	-	-	282,577,503
Total Financial Assets	**1,410,379,075**	**1,108,306,173**	**1,433,645,304**	**456,341,528**	**136,587**	**40,625,026**	**4,449,433,694**
Financial Liabilities							
Due to Banks and Other Institutions	53,023,235	7,951,380	11,919,399	-	-	2,961,950	75,855,963
Due to Customers	1,985,593,271	946,952,431	318,723,138	162,143,701	150,287,259	-	3,563,699,800
Total Financial Liabilities	**2,038,616,506**	**954,903,811**	**330,642,537**	**162,143,701**	**150,287,259**	**2,961,950**	**3,639,555,764**
Interest Sensitivity Gap	**(628,237,430)**	**153,402,362**	**1,103,002,767**	**294,197,827**	**(150,150,672)**	**37,663,076**	**809,877,931**

43. RISK MANAGEMENT (CONTD).

As at 31 March 2016	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 31.03.2016 Rs.
Assets							
Cash and Cash Equivalents	264,142,742	-	-	-	-	42,623,363	306,766,105
Loans and Receivables	892,296,738	1,018,150,431	765,166,236	90,973,861	218,792	-	2,766,806,058
Financial Investments	243,177,150	-	-	-	-	-	243,177,150
Other Financial Assets	200,000,000	32,859,565	-	-	-	-	232,859,565
Total Financial Assets	**1,599,616,630**	**1,051,009,996**	**765,166,236**	**90,973,861**	**218,792**	**42,623,363**	**3,549,608,878**
Financial Liabilities							
Due to Banks and Other Institutions	2,666,161	11,159,397	13,374,218	4,025,679	-	-	31,225,455
Due to Customers	1,589,056,656	1,191,766,191	223,193,591	66,400,971	-	-	3,070,417,409
Total Financial Liabilities	**1,591,722,817**	**1,202,925,588**	**236,567,809**	**70,426,650**	**-**	**-**	**3,101,642,864**
Interest Sensitivity Gap	**7,893,813**	**(151,915,592)**	**528,598,427**	**20,547,211**	**218,792**	**42,623,363**	**447,966,014**

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.

Subsequent Cost
These are costs that are recognised 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.

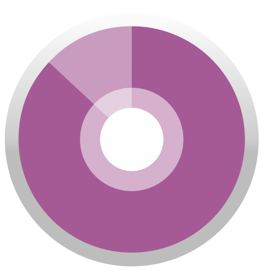
Repairs and Maintenance
Repairs and Maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most 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 derecognised 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 derecognised.

Value Added Statement

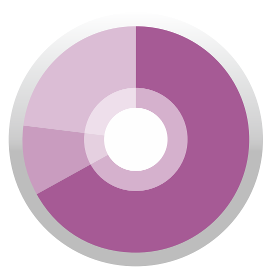
For the year Ended 31st March	2017 Rs.	%	2016 Rs.	%	2015 Rs.	%
Value Added						
Interest Income	883,758,122		922,993,919		652,411,316	
Interest Expenses	(280,902,184)		(255,915,002)		(210,804,012)	
Cost of Services	(228,633,090)		(227,379,654)		(168,820,972)	
Value Added by Financial Service	374,222,848		439,699,263		272,786,332	
Other Income	212,673,991		91,759,723		100,581,632	
Impairment Charges	(172,259,081)		(61,294,116)		(67,331,561)	
Total	**414,637,757**		**470,164,870**		**306,036,403**	
Distribution of Value Added						
To Employees						
Salaries and Other Benefits	361,457,648		314,185,138		271,105,385	
	361,457,648	**87%**	**314,185,138**	**67%**	**271,105,385**	**89%**
To Providers of Capital						
Dividend to Ordinary Shareholders	-	-	-	-	-	-
	-	-	-	-	-	-
To the Government						
Income Tax Paid	5,780,978		-		-	
VAT on Financial Service	48,027,957		49,272,363		22,245,714	
	53,808,935	**13%**	**49,272,363**	**10%**	**22,245,714**	**7%**
To Expansion and Growth						
Retained Profits	(38,763,976)		48,040,290		(9,995,851)	
Depriciation and Amortisation	47,419,510		45,433,679		26,469,202	
Deferred Taxation	(9,284,360)		13,233,400		(3,788,047)	
	(628,825)	**0%**	**106,707,369**	**23%**	**12,685,304**	**4%**
Total	**414,637,757**	**100%**	**470,164,870**	**100%**	**306,036,403**	**100%**

2016/17



- To employees 87%
- To providers of capital 0%
- To the government 13%
- To expansion and growth 0%

2015/16



- To employees 67%
- To providers of capital 0%
- To the government 10%
- To expansion and growth 23%

Capital Adequacy

	Balance					Risk Weighted Balance (Restated)			
	2017	2016	2015	2014	Risk Weight	2017	2016	2015	2014
	Rs.000	Rs.000	Rs.000	Rs.000	Factor	Rs.000	Rs.000	Rs.000	Rs.000
Cash & Current Accounts with Banks	40,625	78,189	208,621	223,666	0%	-	-	-	-
Deposits with Banks	372,990	461,437	7,049	288,325	20%	74,598	92,287	1,410	57,665
Sri Lanka Govt Treasury Bills	264,747	243,177	201,844	235,000	0%	-	-	-	-
Loans and Advances :	-	-	-	-					
Against Deposits with the Company	265,074	159,770	226,803	365,608	0%	-	-	-	-
Loans against Gold and Gold Juwelary	2,270	46,237	55,206	92,371	0%	-	-	-	-
Other Loans and Advances	3,493,255	2,541,800	2,497,001	1,562,304	100%	3,493,255	2,386,404	2,497,001	1,562,304
Other Investments (excluding items deducted from the total Capital)					100%	-	-	-	-
Property, Plant & Equipment	358,104	281,536	279,391	238,803	100%	358,104	281,536	279,391	238,803
Other Assets	74,582	488,885	456,517	72,203	100%	74,582	488,885	456,517	72,203
Total	**4,871,647**	**4,301,031**	**3,932,432**	**3,078,280**		**4,000,539**	**3,249,112**	**3,234,319**	**1,930,975**

Constituents of Capital	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000
Tier 1: Core Capital				
Paid up Share Capital	890,000	890,000	890,000	540,000
Statutory Reserve Fund	20,383	20,383	18,076	22,551
Published Retaining Earnings	90,647	129,411	83,678	-
General Reserves	-	-	-	
Total Tier 1: Capital	**1,001,030**	**1,039,794**	**991,754**	**562,551**
Tier 2: Supplementary Capital				
Capital Reserves (Revaluation)	-	-	-	-
Bonus Shares	-	-	-	-
Total Tier 2: Capital	**-**	**-**	**-**	**-**
Deduction				
Equity investment in unconsolidated banking & financial subsidiaries	-	379,475	379,475	
Capital Base	**1,001,030**	**660,319**	**612,279**	**562,551**

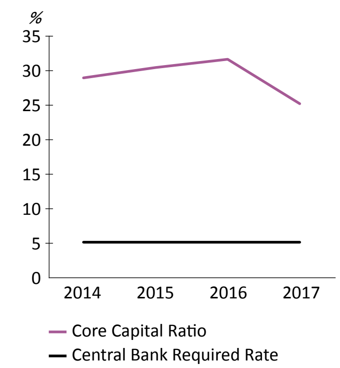
Note - Total of Tier 2 Capital should not exceed the total of Tier 1 Core Capital for Capital Adequacy Calculations.

	2017	2016	2015	2014
Core Capital Ratio				
Core Capital Ratio	25.02%	32.00%	30.66%	29.13%
Central Bank Required Rate	5.00%	5.00%	5.00%	5.00%
Total Risk Weighted Capital Ratio				
Total Risk Weighted Capital Ratio	25.02%	20.32%	18.93%	29.13%
Central Bank Required Rate	10.00%	10.00%	10.00%	10.00%

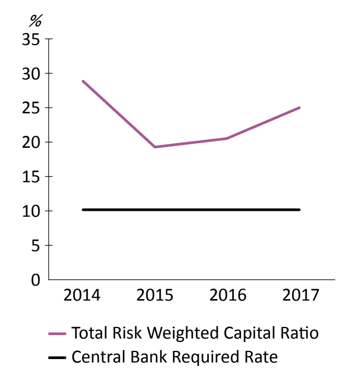
Note

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

CORE CAPITAL RATIO - TIER I



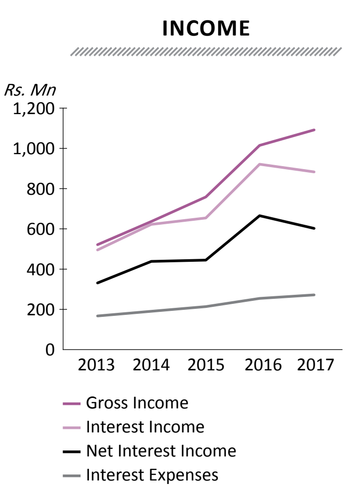
RISK WEIGHTED CAPITAL RATIO - TIER II

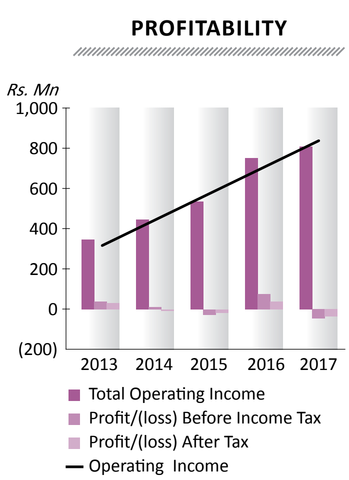


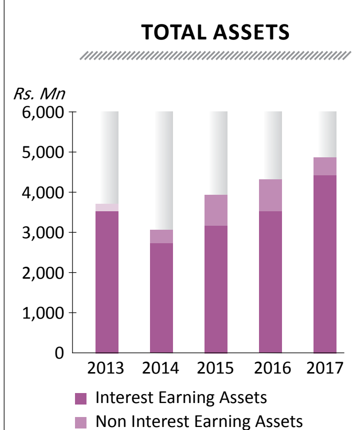
Five Year at a Glance

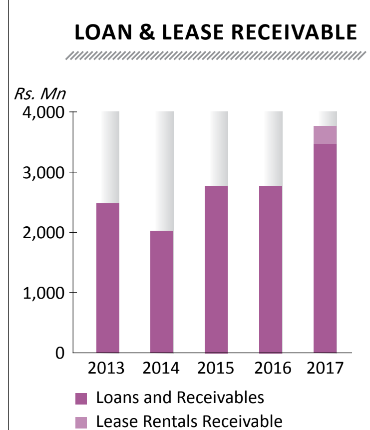
For the Year ended 31 March	2017	2016	2015	2014	2013
Operating Results (Rs)					
Gross Income	1,096,432,113	1,014,753,642	752,992,948	628,973,021	512,763,776
Interest Income	883,758,122	922,993,919	652,411,316	616,478,140	488,947,317
Interest Expenses	280,902,184	255,915,002	210,804,012	183,543,351	163,075,825
Net Interest Income	602,855,938	667,078,917	441,607,304	432,934,789	325,871,492
Other Income	212,673,991	91,759,723	100,581,632	12,494,881	23,816,459
Total Operating Income	815,529,929	758,838,640	542,188,936	445,429,670	349,687,951
Operating Expenses	639,102,274	571,761,588	473,080,446	469,145,908	242,493,330
Impairment Losses	172,259,081	61,294,116	67,331,561	(57,615,716)	62,244,955
Profit/(loss) Before Income Tax	(43,859,383)	76,510,573	(20,468,783)	10,280,218	38,819,254
Income Tax Expenses/(Reversal)	(9,323,911)	30,368,790	(8,674,853)	14,006,429	8,655,559
Profit/(loss) After Tax	(34,535,473)	46,141,783	(11,793,930)	(3,726,211)	30,163,695

As at 31 March	2017	2016	2015	2014	2013
Assets					
Cash and Cash Equivalents	138,046,068	306,766,105	208,620,885	223,666,256	420,902,938
Loans and Receivables	3,477,040,068	2,766,806,059	2,779,009,883	2,020,282,776	2,486,561,652
Lease Rentals Receivable	283,558,784	-	-	-	-
Financial Investments	268,211,272	243,177,150	201,843,587	199,999,867	199,999,983
Other Financial Assets	282,577,503	232,859,565	7,048,875	288,324,529	452,208,451
Current Tax Refund	29,768	-	-	-	-
Investment in Subsidiary Companies	-	379,474,885	379,474,885	-	-
Property, Plant and Equipment	321,409,381	281,535,732	241,143,145	206,608,279	-
Other Assets	109,409,852	109,409,852	115,290,422	139,398,326	95,024,920
Interest Earning Assets	4,449,433,694	3,549,608,879	3,196,523,230	2,732,273,428	3,559,673,024
Non Interest Earning Assets	423,429,513	770,420,467	735,908,453	346,006,604	172,882,847
Total Assets	**4,872,892,976**	**4,320,029,346**	**3,932,431,683**	**3,078,280,032**	**3,732,555,871**



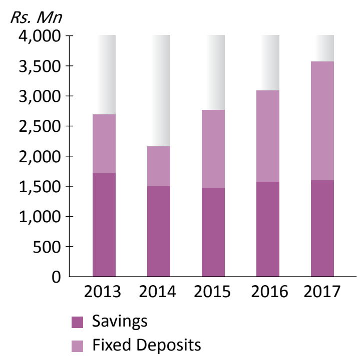




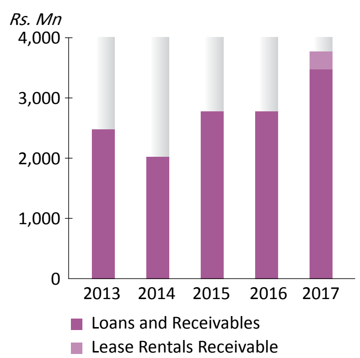


As at 31 March	2017	2016	2015	2014	2013
Liabilities					
Due to Banks	75,855,963	31,225,454	47,743,228	101,898,813	288,496,354
Due to Customers	3,563,699,800	3,070,417,410	2,776,238,605	2,165,002,302	2,691,252,460
Savings	1,607,045,443	1,585,565,955	1,484,222,353	1,500,062,897	1,711,308,054
Fixed Deposits	1,956,654,357	1,484,851,455	1,292,016,252	664,939,405	979,944,406
Other Non Financial Liabilities	165,765,350	96,909,412	53,841,982	93,922,901	125,819,688
Post Employment Benefit Liability	20,796,934	16,088,241	17,109,256	17,952,857	-
Current Tax Liability	-	19,849,927	-	2,008,696	40,472,631
Total Liabilities	**3,826,118,050**	**3,234,490,444**	**2,894,933,071**	**2,380,785,569**	**3,146,041,133**
Shareholders' Funds					
Stated Capital	890,000,020	890,000,020	890,000,020	540,000,020	540,000,020
Reserves	156,774,907	195,538,882	147,498,592	157,494,443	46,514,717
Total Shareholders' Funds	**1,046,774,927**	**1,085,538,902**	**1,037,498,612**	**697,494,463**	**586,514,737**
Other Information					
Number of Staff	541	602	572	543	216
Number of Branches	30	30	30	30	30
Number of CSCs	22	28	32	32	32
Profit before Tax per Employee	(81,071)	127,094	(35,785)	18,932	179,719
Profit after Tax per Employee	(63,836)	76,647	(20,619)	(6,862)	139,647
Total Assets per Emplyee	9,007,141	7,176,128	6,874,881	5,669,024	17,280,351
Average Employees per Branch	7	8	8	7	6

CUSTOMER DEPOSIT



LOAN & LEASE RECEIVABLE



As at 31 March	2017	2016	2015	2014	2013
Capital adequacy ratio					
TIRE I	25.02%	32.00%	30.66%	29.13%	29.13%
TIRE II	25.02%	20.32%	18.93%	29.13%	29.13%
Financial Indicators					
Return on Assets (ROA)	-0.75%	1.12%	-0.34%	-0.11%	0.91%
Return on Equity (ROE)	-3.24%	4.35%	-1.36%	-0.58%	5.20%
Equity to assets	21.48%	25.13%	26.38%	22.66%	15.71%
Net assets Per Share (Rs.)	15.51	16.08	15.37	12.92	10.86
Dividend Per Share (Rs.)	NIL	0.25	NIL	NIL	NIL
Return on Interest Erning Assets	21.36%	21.78%	21.14%	16.76%	15.46%
Cost of Fund	8.33%	8.64%	8.28%	7.00%	6.20%
Interest Spread	13.02%	13.15%	12.86%	9.76%	9.26%
Portfolio Yield	23.33%	31.74%	25.70%	23.21%	22.65%
Staff Cost : Net Income	44.32%	41.40%	50.00%	52.00%	35.30%
Cost : Net Income	84.26%	81.80%	91.40%	109.40%	71.10%
Debit : Equity	331.12%	285.70%	272.20%	319.70%	508.00%
Ernings Per Share (Rs.)	(0.51)	0.68	(0.19)	0.17	0.56
Net Assets Per Share (Rs.)	15.51	16.08	15.37	13.13	10.86
Shareholders' Fund to Deposit	29.37%	37.10%	42.00%	29.20%	23.60%
Liquid Assets Ratio	20.39%	26.20%	16.50%	30.00%	42.50%
Assets Quality Indicators					
Gross NPA Ratio	8.9%	8.0%	5.0%	12.9%	31.9%
Gross NPA (with Reshedulements)	9.8%	12.2%	5.0%	12.9%	31.9%
Net NPA Ratio	3.4%	3.1%	2.8%	3.1%	18.4%
Net NPA (with Reshedulements)	4.5%	6.7%	2.8%	3.1%	18.4%
NPA to Assets	8.0%	5.5%	3.7%	9.4%	28.5%
Provision to Advance	5.6%	5.1%	3.1%	9.8%	16.5%
Provision Cover	57.1%	63.0%	60.8%	76.0%	51.8%

Branch Network

BRANCHES					
Region	Branch	Telephone Number	Address	Fax No.	E-Mail Address
Region 01	Borella	0115 942 666-7	Nagarodaya Centre, No. 155/1, Baseline Road, Borella, Colombo 8.	0112 693 845	borella@sdf.lk
	Homagama	0115 944 666-7	No.119/1/1, Katuwana Road, Homagama.	0112 895 506	homagama@sdf.lk
	Panadura	0385 111 666-7	No.322, Galle Road, Panadura	0382 233 400	panadura@sdf.lk
	Kuliyapitiya	0375 111 666-7	No.82, Kurunegala Road, Kuliyapitiya.	0372 282 144	kuliyapitiya@sdf.lk
	Chilaw	0325 111 666-7	No.66, Kurunegla Road, Chilaw.	0322 222 453	chilaw@sdf.lk
	Puttalam	0325 111 666-7	No. 116, Kurunegala Road, Puttalam.	0322 266 043	puttalam@sdf.lk
Region 02	Ambalanthota	0475 111 666-7	No. 141/2, Tissa Road, Ambalantota.	0472 225 210	ambalantota@sdf.lk
	Galle	0915 111 666-7	No.110, Olcotte Mawatha, Galle.	0912 227 096	galle@sdf.lk
	Matara	0415 111 666-7	No.451 ,Anagarika Dharmapala Mawatha, Pamburana, Matara.	0412 234 998	matara@sdf.lk
Region 03	Badulla	0555 111 666-7	No.377, Passara Rd. Viharagoda, Badulla.	0552 229 391	badulla@sdf.lk
	Nuwara Eliya	0525 111 666-7	No.29/1, Loason Street , Nuwara Eliya	0522 235 031	nuwaraeliya@sdf.lk
	Buttala	0555 115 666-7	No. 100, Main Street, Buttala.	0552 273 789	buttala@sdf.lk
Region 04	Ampara	0635 111 666-7	No.20, 6th Lane, Ampara.	0632 224 962	ampara@sdf.lk
	Batticaloa	0655 111 666-7	No. 132, Trinco Road, Batticaloa.	0652 223 977	batticaloa@sdf.lk
	Jaffna	0215 111 666-7	No.62/20 A, Stanley Road, Jaffna.	0212 219 542	jaffna@sdf.lk
	Trincomalee	0265 111 666-7	No.31 B, Kandy Road, Linga Nagar, Trincomalee.	0262 050 241	trinco@sdf.lk
	Vavuniya	0245 111 666-7	No.28, 30, 2nd Cross Streeet, Vavuniya.	0242 224 949	vavuniya@sdf.lk
Region 05	Kegalle	0355 111 666-7	No 245, Colombo Road, Kegalle	0352 222 712	kegalle@sdf.lk
	Gampaha	0335 111 666-7	No. 40, Colombo Road, Gampaha.	0332 222 075	gampaha@sdf.lk
	Kurunegala	0375 112 666-7	No. 24, Mihindu Avenue, Kurunegala.	0372 221 422	kurunegala@sdf.lk
	Balangoda	0455 111 666-7	No. 133/A, Barnes Ratwatte Mawatha, Balangoda	0452 286 168	balangoda@sdf.lk
	Godakawela	0455 112 666-7	No. 58 G1/1, Main street, Godakawela	0452 240 350	godakawela@sdf.lk
	Rathnapura	0455 113 666-7	No. 177,Main Street, Rathnapura.	0452 230 182	ratnapura@sdf.lk
Region 06	Anuradhapura	0255 111 666-7	No. 561/B-39, 4th Lane, Near New Bus Stand, Anuradhapura.	0252 224 954	anuradhapura@sdf.lk
	Dambulla	0665 111 666-7	No. 707, Anuradhapura Road, Dambulla.	0662 283 354	dambulla@sdf.lk
	Kebethigollewa	0255 112 666-7	Horowpathana Road, Kebithigollewa.	0252 298 643	kebithigollewa@sdf.lk
	Medirigiriya	0275 111 666-7	No. 18, Main Street, Medirigiriya	0272 248 777	medirigiriya@sdf.lk
	Polonnaruwa	0275 112 666-7	No.21, Opposite the Police Station , Main Street, Kaduruwela, Polonnaruwa.	0272 223 473	polonnaruwa@sdf.lk
Kandy Cluster	Kandy	0815 111 666-7	No.102, Yatinuwara Veediya, Kandy.	0812 204 584	kandy@sdf.lk
	Matale	0665 112 666-7	No. 630, Trincomalee Street, Matale	0662 224 801	matale@sdf.lk

Customer Service Centres

Region	CSC	Telephone Number	Address	Fax No.	E-mail Address
Region 01	Piliyandala	0115 945 666-7	No. 24 A, College Avenue, Piliyandala.	0112 606 727	piliyandalacsc@sdf.lk
	Naththandiya	0325 112 666-7	Near Dhammessara Vidyalaya, Marawila Road , Nattandiya.	0322 253 172	nattandiyacsc@sdf.lk
Region 02	Akuressa	0415 114 666-7	No. 93, Matara Road, Akuressa.	0412 284 100	akuressacsc@sdf.lk
	Kamburupitiya	0415 116 666-7	Pathirana Building, Kirinda Road, Kamburupitiya.	0412 294 603	kamburupitiyacsc@sdf.lk
	Karandeniya	0915 112 666-7	4th Mile Post, Maha Edanda, Karandeniya.	0912 291 434	karandeniyacsc@sdf.lk
	Udugama	0915 113 666-7	New Pasans Building, Bar Junction, Udugama.	091 2 285 611	udugamacsc@sdf.lk
Region 03	Hatton	0515 111 666-7	No. 3, Dimbula Road, Hatton.	0512 223 375	hattoncsc@sdf.lk
	Kataragama	0475 112 666-7	No. 55/C, Saddhathissa Mw, New Town, Kataragama.	0472 236 303	kataragamacsc@sdf.lk
	Mahiyangana	0555 112 666-7	No. 112/8, Girandurukotte Road, Mahiyangana.	0552 257 215	mahiyanganacsc@sdf.lk
	Medagama	0555 113 666-7	No. 21, Nearby Bus Stand, Bibila Road, Medagama.	0552 266 048	medagamacsc@sdf.lk
Region 04	Kalmunai	0675 111 666-7	No. 218, Batticaloa Road, Kalmunai.	0672 222 512	kalmunaicsc@sdf.lk
	Mannar	0235 111 666-7	No 10/4, Convent Road, Sinnakadai, Mannar.	0232 250 758	mannarcsc@sdf.lk
Region 05	Delgoda	0115 941 666-7	No.328/B, New Kandy Road, Delgoda.	0112 403 054	delgodacsc@sdf.lk
	Minuwangoda	0335 113 666-7	No. 87/1/1, Kurunegala Road, Minuwangoda.	0112 281 625	minuwangodacsc@sdf.lk
	Pasyala	0335 112 666-7	No.178/8/3, Usaviya wattha, Pasyala	0332 284 054	pasyalacsc@sdf.lk
	Ruwanwella	0365 111 666-7	No. 122, Main Street, Ruwanwella.	0362 267 920	ruwanwellacsc@sdf.lk
Region 06	Dehiattakandiya	0275 113 666-7	No. 62/1 E, New Town, Dehiattakandiya.	0272 250 009	dehiattakandiyacsc@sdf.lk
	Kekirawa	0255 113 666-7	No. 27, Yakkala Road, Kekirawa	0252 265 329	kekirawacsc@sdf.lk
	Parakkramapura	0255 115 666-7	Kodituwakku Building, Padaviya Road, Parakkramapura	0252 254 335	parakkramapuracsc@sdf.lk
	Tambuttegama	0255 114 666-7	No. 137, Rajina Junction, Anuradhapura Road, Thambuttegama	0252 275 530	tambuttegamacsc@sdf.lk
Kandy Cluster	Digana	0815112666-7	No.15/1, New Town, Digana, Rajawella	0812 375481	diganacsc@sdf.lk
	Nawalapitiya	0545111666-7	No.100/1, Gampola Road, Nawalapitiya	0542 222 463	nawalapitiyacsc@sdf.lk

Glossary

A

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortization
Amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un collectability.

Available for Sale Financial Assets
All assets not in the three categories namely, loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

C

Cash Basis
Recognizing the effects of transactions and events when receipt or payment of cash or cash equivalent occurs.

Capital Adequacy Ratio
The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash Equivalents
Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows
Inflows and outflows of cash and cash equivalents.

Collective Impairment Provision
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commitments
Credit facilities approved but not yet utilised by the customers as at the date of the statement of financial position.

Contingencies
A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Cost to Net Income Ratio
The operating expenses, including tax on financial services but excluding the impairment (charge)/reversal for loans and other losses, expressed as a percentage of net income.

Cost of Funds
Interest expenses expressed as a percentage of average interest bearing liabilities.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Customer Deposits
Money deposited by account holders. Such funds are recorded as liabilities.

D

Debt to Equity
Interest bearing liabilities expressed as a percentage of average equity attributable to the equity holders of the Company.

Debt to Equity (Excluding Deposits)
Interest bearing liabilities excluding public deposits expressed as a percentage of average equity attributable to the equity holders of the company.

Deferred Tax
Sum set aside for tax in the Financial Statements for taxation that may become payable/ receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rule and accounting conventions.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

De recognition
The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Discount rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

E

Earnings per Share
Profits attributable to ordinary shareholders divided by the ordinary shares in issue.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate
Provision for taxation excluding deferred tax divided by the profit before taxation.

Glossary

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-shedulement 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

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills & bonds.

Liquidity Assets Ratio
Liquid assets expressed as a percentage of average deposits liability and short term liabilities.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans Payable
Financial liabilities, other than short term trade payables on normal credit terms.

Loans and Receivables
Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

M

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets per Share
Equity attributable to the equity holders of the Company divided by the average number of ordinary share in issue during the year.

Net Interest Income (NII)
The difference between incomes earned from interest earning assets and cost incurred on financial instrument/ facilities used for funding the interest earning assets.

Net NPA Ratio
The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the post rescheduled age.

Net NPA Ratio (with reschedulements)
The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

Net Portfolio
The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities net of impairment charge for loans and other losses.

Non-performing Advances
Rentals receivables in arrears equals to six rentals or more than six rentals have been categorised as non-performing.

NPA to Assets
The total of non-performing loans and lease receivables expressed as a percentage of average total asset

O

Operational Risk
The risk of loss incurring from inadequate or failed internal processes, people and systems or from external events.

P

Parent
An entity that controls one or more subsidiaries.

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

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

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

R

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

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

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

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

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

S

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

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

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

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

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

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

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

T

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

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

V

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Shareholders of Sarvodaya Development Finance Limited will be held on 30th June 2O17 at 12.30 p.m. at the Head Office at "Arthadharma Kendraya", No. 45, Rawathawatta Road, Moratuwa 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 2017 and the Auditor's report thereon.
3. To re-appoint Dr. Richard William Arnold Vokes, Dr. Janaki Padma Kuruppu and Mr. Kurugamage Alex Dilan Perera, the Directors of the Company who retire by rotation in terms of the Articles of Association of the Company.
4. To re-appoiht w/s. Ernst & Young, Chartered Accountants as External Auditors and to authorise 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,

BDO Secretaries (Private) Limited
Company Secretaries

26th May 2017

Note

By order of the Board a member entitled to attend and vote at the meeting or 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:

Mr. C. de Silva	of Colombo or failing him*
Dr. V. S. Ariyaratne	of Colombo or failing him*
Mr. W. S. P. Wijewardena	of Colombo or failing him*
Mr. B. S. C. P. Gooneratne	of Colombo or failing him*
Mr. K. L. Gunawardana	of Colombo or failing him*
Dr. R. W. A. Vokes	of U.K. or failing him*
Mr. M. Yamashita	of Japan or failing him*
Dr. J. P. Kuruppu	of Colombo or failing her*
Mr. K. A. D. Perera	of Colombo or failing him *

……………………………………………………………………………………………… of ……………………………………………………………………………………………. as my/our* proxy to represent me/us* and to vote as indicated hereunder for me/us* and on my/our* behalf at the Annual General Meeting of the Company to be held on **30th June 2017 at 12.30 p. m** and at every poll which may be taken in consequence of the aforesaid Meeting at any adjournment thereof.

		For	Against
1)	To receive and adopt the Annual Report of the Board of rs along with the Financial Statements of the Company for the Financial Year ended 31st March 2017 and the Auditor's report thereon.		
2)	To re-appoint Dr. Richard William Arnold Vokes, Dr. Janaki, Padma Kuruppu and Kurugamage Alex Perera, Directors of the Company who retire by rotation interms of the Articles of Association of the Company.		
3)	To re-appoint M/S Ernst & Young, Chartered Accountants as External Auditors and to authorize the Directors to determine their remuneration		
4)	To receive and consider any other business of which due notice has been given.		

In witness I/we place my/our* hands hereunto this ……….. day of June, Two Thousand and Seventeen..

Signature

Notes:
*Please delete inappropriate word/s.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy, by filling it legibly your full name and address, signing in the space provided, and filling in the date of signature.

2. Please indicate clearly how your proxy is to vote. If no indication is given, the proxy in his discretion will vote as he thinks fit.

3. The completed form of Proxy should be deposited at the Registered Office of Sarvodaya Development Finance Limited, at “Arthadharma Kendraya”, No. 45, Rawathawatta Road, Moratuwa, 48 hours before the time appointed for the holding of the meeting.

Arthadharma Geethaya

දැහැමෙන් උපයා කොටසක් යැපුමට
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ගම පිබිදේ - දැය පිබිදේ - දැය පිබිදේ - ගම පිබිදේ -
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අත් දම් විදූ නැණ පාදා - ජන මූළු ගම රට සාදා - ජය ගෙන මග එන බාදා
ගම පිබිදේ - දැය පිබිදේ - දැය පිබිදේ - ගම පිබිදේ
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දැහැමෙන් උපයා - කොටසක් යැපුමට
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ඉතිරි කොටස - රඳවා හදිසියකට
ධනය හසුරුවමු - හොඳ දියුණුවකට

පබැඳූම - **ආචාර්ය ඒ ටී ආරියරත්න**
සංගීතය - **රෝහණ වීරසිංහ**
ගායනය - **අමරසිරි පීරිස්**

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 Number
047

Tax Payer Identity Number (TIN)
134037954

Registered Office & Head Office
"Arthadharma Kendraya"
45, Rawathawatte Road, Moratuwa,
Sri Lanka.
Telephone No.: 011 5 444 666
Fax No.: 011 2 655 122
E-mail: info@sdf.lk
Website: www.sarvodayafinance.lk

Share Capital
Rs. 890,000,020

Share Holding

Sarvodaya Economic Enterprises Development Services (Guarantee) Limited	54,000,000
Gentosha Total Asset Consulting Inc., Japan	13,500,004
Dr. Vinya Ariyaratne	1
Mr. Shakila Wijewardena	1
Total	67,500,006

Accounting Year-end
31st March

Board of Directors
Mr. Channa de Silva - Chairman - Appointed w.e.f. 06 October 2016
Dr. Vinya Ariyaratne
Mr. Shakila Wijewardena
Mr. K L Gunawardana
Mr. Shevon Gooneratne
Dr. Richard Vokes
Mr. Masayoshi Yamashita
Dr. Janaki Kuruppu
Mr. Alex Perera – Appointed w.e.f. 01 July 2016

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

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Optima Designs (Pvt) Ltd.
A full service design and print company.
www.optimadesigns.lk

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"Arthadharma Kendraya"
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Fax No.: 011 2 655 122
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Website: www.sarvodayafinance.lk