



Sarvodaya Development Finance Limited
INITIAL PUBLIC OFFERING

Invest in Humanity

PROSPECTUS

Financial Advisors and Managers to the Issue





PROSPECTUS

ISSUE OF UP TO TWENTY TWO MILLION SEVEN HUNDRED AND TWENTY SEVEN THOUSAND TWO HUNDRED AND SEVENTY THREE (22,727,273) NEW ORDINARY VOTING SHARES OF SARVODAYA DEVELOPMENT FINANCE LIMITED (INITIAL ISSUE) WITH AN OPTION TO ISSUE UP TO A FURTHER TWENTY TWO MILLION SEVEN HUNDRED AND TWENTY SEVEN THOUSAND TWO HUNDRED AND SEVENTY THREE (22,727,273) NEW ORDINARY VOTING SHARES AT THE DISCRETION OF THE BOARD OF DIRECTORS (FURTHER ISSUE) IN THE EVENT OF AN OVERSUBSCRIPTION OF THE INITIAL ISSUE RESULTING IN A TOTAL ISSUANCE OF UP TO FORTY FIVE MILLION FOUR HUNDRED AND FIFTY FOUR THOUSAND FIVE HUNDRED AND FORTY SIX (45,454,546) NEW ORDINARY VOTING SHARES (TOTAL ISSUE) AT LKR 22/- PER SHARE

TO BE LISTED ON THE MAIN BOARD OF THE COLOMBO STOCK EXCHANGE
ISSUE OPENS ON NOVEMBER 23, 2021

Financial Advisors and Managers to the Issue



NDB Investment Bank Limited
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No. 135, Bauddhaloka Mawatha, Colombo 04
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INVITATION TO INVESTORS

Incorporated in 2010, Sarvodaya Development Finance Limited (SDF/Company) has evolved from a deep rooted commitment to nation building and development along with the 'grass roots upwards' model of the Sarvodaya Movement. Over its short span of existence, SDF has carved out a niche for itself as a leading financial institute offering tech-savvy financial services via a diverse product range to fulfil the financial needs of the customers.

The Sarvodaya movement having started in 1958 is one of the oldest Non-Governmental Organisations ("NGO") in Sri Lanka and has been uplifting and empowering rural masses for over six decades. SDF has evolved by capitalising on the unique Sarvodaya brand recognition and widespread network of solid relationships to cater to the needs of the Micro, Small and Medium Enterprises (MSMEs) in Sri Lanka. The linkages with Sarvodaya Societies, together with the strategic investments in modern ICT, enabled SDF to reach out to grassroots rural entrepreneurs. SDF's business focus is to fuel economic growth by channelling credit, and other support services, for environmentally friendly, sustainable business models across the country that contribute towards environmental conservation, while also facilitating quality of life improvements for communities as a whole.

In its role as a financial services provider, SDF's values for sustainable businesses are essential for the growth and prosperity of Sri Lanka's economy. SDF has developed and delivered value-added services in tandem with its specialised financial products, to assist MSMEs to develop markets and business opportunities, including technical training programs and special market development events. SDF has been recognised for its relentless endeavour by being named as the "fastest growing development finance company in Sri Lanka", at the UK based Global Banking and Finance Review Awards in 2021.

Through this Prospectus, SDF invites prospective investors to be part of its Initial Public Offering and participate in the future growth prospects of the Company.

THIS PROSPECTUS IS DATED OCTOBER 26, 2021.

The delivery of this Prospectus shall not under any circumstances constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus. If any such material change occurs, the same will be notified by the Company via a market announcement to the Colombo Stock Exchange ('CSE').

If you are in any doubt regarding the contents of this Prospectus or if you require any advice in this regard you should consult a Lawyer, or any other Professional Advisor.

The CSE has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of the shares which is decided solely by the Company.

This Prospectus has been prepared from the information provided by Sarvodaya Development Finance Limited ('SDF' or the 'Company') and its Directors and/or from publicly available sources. The Company and its Directors having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading.

Where representations regarding the future performance of SDF have been given in this Prospectus, such representations have been made after due and careful enquiry of the information available to the Company and making assumptions considered to be reasonable at the present point in time in their best judgment.

The Company accepts responsibility for the information contained in this Prospectus. While the Company has taken reasonable care to ensure full and fair disclosure of information, prospective investors are advised to carefully read this Prospectus and rely on their own examination and assessment of the Company including the risks involved prior to making any investment decision.

No person is authorised to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorised by the Company.

All Applicants (both resident and non-resident) should indicate their respective National Identity Card (NIC) Number or Company Registration Number or Passport Number as the case may be in the Application Form. Individual resident Applicants should indicate their Passport Number in the Application Form only if they do not have an NIC Number.

As per the Directive of the Securities and Exchange Commission ("SEC") made Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited ("CDS") dated November 30, 2010, all Shares allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, in order to facilitate the uploading of allotted Shares to their CDS account.

Please note that upon the allotment of Shares under this issue, the allotted Shares would be credited to the Applicant's CDS account so indicated. Please note that **SHARE CERTIFICATES SHALL NOT BE ISSUED**. Any Application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of Issue Closing Date or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment will be made.

You can open a CDS account through any Member/Trading Member of the CSE as set out in Annexure B or through any Custodian Bank as set out in Annexure C of this Prospectus. You can also open a CDS account through the 'CSE Mobile App'. The CSE mobile application can be downloaded from the Apple App Store (for Apple IOS users) or the Google Play Store (for Google Android users).

REGISTRATION OF THE PROSPECTUS

A copy of this Prospectus has been delivered to the Registrar General of Companies in Sri Lanka for registration. The following documents were also attached to the copy of the Prospectus delivered to the Registrar General of Companies.

➡ The Written Consent of Financial Advisors and Managers to the Issue

Financial Advisors and Managers to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Financial Advisors and Managers to the Issue and for the inclusion of the Research Report in the form in which it is included in the Prospectus.

➡ The Written Consent of the Registrars to the Issue

The Registrars to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Registrars to the Issue in the Prospectus.

➡ The Written Consent of the Auditors and Reporting Accountants to the Company and to the Issue

The Auditors and Reporting Accountants to the Company and to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Auditors and Reporting Accountants to the Company and to the Issue and for the inclusion of Accountants' Report in the Prospectus in connection with the Issue.

➡ The Written Consent of the Lawyers to the Issue

The Lawyers to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Lawyers to the Issue in the Prospectus.

➡ The Written Consent of the Bankers to the Company

The Bankers to the Company have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Bankers to the Company in the Prospectus.

➡ The Written Consent of the Bankers to the Issue

The Bankers to the Issue have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Bankers to the Issue in the Prospectus.

➡ The Written Consent of the Company Secretaries

The Company Secretaries have given and have not before the delivery of a copy of the Prospectus for registration withdrawn the written consent for the inclusion of the name as Company Secretaries in the Prospectus.

➡ The Declaration by the Directors

A declaration made by each of the Directors of the Company confirming that each of them have read the provisions of the Companies Act No.7. of 2007 (as amended) relating to the issue of the Prospectus and that those provisions have been complied with.

REGISTRATION OF THE PROSPECTUS IN JURISDICTIONS OUTSIDE OF SRI LANKA

This Prospectus has not been registered with any authority outside of Sri Lanka. Non-resident investors may be affected by the laws of the jurisdictions of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making their investment.

REPRESENTATION

No person is authorised to give any information or make any representation not contained in this Prospectus and if given or made, any such information or representation must not be relied upon as having been authorised by the Company.

FORWARD LOOKING STATEMENTS

Any statements included in this Prospectus that are not statements of historical fact constitute 'Forward Looking Statements'. These can be identified by the use of forward-looking terms such as 'expect', 'anticipate', 'intend', 'may', 'plan to', 'believe', 'could' and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward-Looking Statements.

Such Forward-Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company's ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company's actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward-Looking Statements in this Prospectus, investors are advised not to place sole reliance on such statements.

INVESTMENT CONSIDERATIONS

It is important that this Prospectus is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective investors, see 'Investment Considerations and Associated Risk Factors' in Section 12 of this Prospectus.

PRESENTATION OF CURRENCY INFORMATION AND OTHER NUMERICAL DATA

The financial statements of the Company and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Prospectus to 'LKR', 'Rupees', and 'Rs.' are references to the lawful currency of Sri Lanka. Reference to 'USD' is with reference to United States Dollars, the official currency of the United States of America.

Certain numerical figures in the Prospectus have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

PRESENTATION OF MACROECONOMIC AND INDUSTRY DATA

Economic and industry data used throughout this Prospectus are derived from various industry data sources, which the Company believes to be reliable, but the accuracy and completeness of that information is not guaranteed. Similarly, industry surveys and other publications, while believed to be reliable, have not been independently verified and neither the Company nor the Financial Advisors and Managers to the Issue make any representation as to the accuracy of that information.

Issue at a Glance

Company	Sarvodaya Development Finance Limited
Number of Ordinary Voting Shares to be Issued	Initial issue of up to 22,727,273 new Ordinary Voting Shares of the Company at the Share Issue Price (Initial Issue) and in the event of an oversubscription of the Initial Issue to issue up to a further 22,727,273 new Ordinary Voting Shares of the Company at the Share Issue Price at the discretion of the Board of Directors of SDF (Further Issue) resulting a total issuance of up to 45,454,546 new Ordinary Voting Shares of the Company (Total Issue)
Share Issue Price	LKR 22/- per Share
Amount to be Raised	Up to LKR 500,000,006/- via the Initial Issue and in the event of an oversubscription of the Initial Issue to raise up to LKR 500,000,006/- at the discretion of the Board of Directors of SDF via a Further Issue resulting in a total amount of up to LKR 1,000,000,012/- being raised via the Total Issue
Minimum Investment per Application	<p>Minimum investment per Application is One Hundred (100) new Shares (i.e. LKR 2,200/-).</p> <p>Applications in excess of the minimum investment should be in multiples of One Hundred (100) new Shares</p> <p>Minimum investment of One Hundred (100) new Shares will be allotted to each successful Applicant.</p>
Issue Opening Date	November 23, 2021
Issue Closing Date	<p>December 10, 2021</p> <p>or the day on which the Issue becomes oversubscribed during subscription period whichever is earlier</p>
Earliest Issue Closing Date	November 23, 2021
Basis of Allotment	The basis of allotment is detailed in Section 6.6 of this Prospectus
CSE Listing	To be listed on the Main Board of the CSE subject to compliance with the CSE Listing Rules and SEC Directives (as applicable)

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1.0 CORPORATE INFORMATION

The Company	Sarvodaya Development Finance Limited	
Legal Form of the Company	A limited liability company incorporated in Sri Lanka on January 1, 2010 under the Companies Act No. 07 of 2007 (as amended) as "Deshodaya Development Finance Company Limited" and subsequently changed its name to "Sarvodaya Development Finance Limited" on March 13, 2015. It commenced business operations as a Licensed Finance Company on December 19, 2012 and is regulated under Section 5 (7) of the Finance Business Act No. 42 of 2011	
Company Registration No.	PB 3795	
Registered Office	Sarvodaya Development Finance Limited No. 51/A Dr. Danister De Silva Mawatha Colombo 08 Tel: +94 11 5 444 666 Fax: +94 11 2 667 411	
Board of Directors	Mr. Channa de Silva	Chairman Non-Executive / Independent
	Mr. Masayoshi Yamashita	Director Non-Executive / Non-Independent
	Mr. Chamindha Rajakaruna	Director Non-Executive / Non-Independent
	Mr. Senthil Nandhanan Senthilverl	Director Non-Executive / Non-Independent
	Mr. Dammika Ganegama	Director Non-Executive / Independent
	Dr. Janaki Kuruppu	Director Non-Executive / Independent
	Mr. C. Amrit CanagaRetna	Director Non-Executive / Independent
	Ms. Shehara De Silva	Director Non-Executive / Independent
	Mr. Sunil De Silva	Director Non-Executive / Independent
Company Secretaries	P W Corporate Secretarial (Pvt) Ltd No. 3/17, Kynsey Road, Colombo 08 Tel : +94 11 4 640 360 Fax : +94 11 2 696 717	
Auditors to the Company	M/s Ernst & Young (Chartered Accountants) No. 201, De Saram Place Colombo 10 Tel: +94 11 2 463 500 Fax: +94 11 2 697 369	

Bankers to the Company	<p>Hatton National Bank PLC No. 715, Pannipitiya Road Thalawathugoda</p> <p>Tel : +94 11 2 774 194 Fax : +94 11 2 774 195</p> <p>National Development Bank PLC No. 40, Navam Mawatha Colombo 02</p> <p>Tel : +94 11 2 448 448 Fax : +94 11 2 441 106</p> <p>People's Bank 11th Floor, No. 75, Sir Chittampalam A Gardiner Mw Colombo 02</p> <p>Tel : +94 11 2 334 267 Fax : +94 11 2 473 340</p> <p>Commercial Bank of Ceylon PLC No. 07, Suramya Building Kotte Road Thalawathugoda</p> <p>Tel: +94 11 2 773 551 Fax: +94 11 2 773 553</p> <p>Sanasa Development Bank PLC No. 12, Edmonton Road Kirulapone Colombo 06</p> <p>Tel: +94 11 2 832 500 Fax: +94 11 2 514 256</p> <p>Cargills Bank Limited No. 696, Galle Road Colombo 03</p> <p>Tel: +94 11 7 640 261 Fax: +94 11 7 640 262</p>
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2.0 RELEVANT PARTIES TO THE ISSUE

Financial Advisors and Managers to the Issue	NDB Investment Bank Limited Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha, Colombo 04 Tel : +94 11 2 300 385-90 Fax : +94 11 2 300 393
Lawyers to the Issue	Nithya Partners No. 97A Galle Road , Colombo 03 Tel: +94 11 4 712 625 Fax: +94 11 2 328 817
Auditors and Reporting Accountants to the Issue	M/s Ernst & Young (Chartered Accountants) No. 201, De Saram Place, Colombo 10 Tel: +94 11 2 463 500 Fax: +94 11 2 697 369
Registrars to the Issue	P W Corporate Secretarial (Pvt) Ltd No. 3/17, Kynsey Road, Colombo 08 Tel : +94 11 4 640 360 Fax : +94 11 2 696 717
Bankers to the Issue	National Development Bank PLC No. 40, Navam Mawatha, Colombo 02 Tel : +94 11 2 448 448 Fax : +94 11 2 441 106

3.0 ABBREVIATIONS USED IN THE PROSPECTUS

"ALCO"	The Asset and Liability Management Committee
"Bn"	Billion
"c."	Circa
"CAGR"	Compounded Annual Growth Rate
"CAR"	Capital Adequacy Ratio
"CDS"	Central Depository Systems (Private) Limited
"CEO"	Chief Executive Officer
"EPS"	Earnings Per Share
"FCBU"	Foreign Currency Banking Unit
"FY"	Financial Year
"GDP"	Gross Domestic Product of Sri Lanka
"Mn"	Million
"NII"	Net Interest Income
"NIM"	Net Interest Margin
"NPL"	Non-Performing Loan
"SME"	Small and Medium Scale Enterprises

4.0 GLOSSARY OF TERMS RELATED TO THE ISSUE

Applicant/s	An investor who submits an Application Form in terms of this Prospectus
Articles of Association	Articles of Association of Sarvodaya Development Finance Limited
Application Form/Application	The application form that constitutes part of the Prospectus, through which the investors may apply for the New Shares
Board/Board of Directors/ Directors	The Board of Directors of Sarvodaya Development Finance Limited
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Private) Limited
CEFT	Common Electronic Fund Transfer
Companies Act	Companies Act No. 07 of 2007 (as amended)
Financial Advisors and Managers to the Issue/Managers to the Issue	NDB Investment Bank Limited
Foreign Investor	Citizens of Sri Lanka who are resident outside Sri Lanka and above 18 years of age; Corporate bodies incorporated or established outside Sri Lanka; Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas) Regional and country funds approved by the SEC Please refer Section 6.1 for further information
Further Issue	Issue of a further 22,727,273 New Shares at the Share Issue Price at the discretion of the Board of Directors of SDF in the event of an oversubscription of the Initial Issue
Issue/Share Issue/Total Issue/IPO	Issue of up to 45,454,546 New Shares comprising of Initial Issue and Further Issue as the case may be as detailed in Section 5 of this Prospectus
IIA	Inward Investment Account
Initial Issue	Issue of 22,727,273 New Shares of SDF at the Share Issue Price
New Shares	Up to 45,454,546 Ordinary Voting Shares of SDF to be issued via the IPO
IPO/Issue Opening Date, Earliest IPO/Issue Closing Date or IPO Closing Date	The dates of opening and closing date of the subscription list as set out in Section 5.8 of this Prospectus
Lawyers to the Issue	Nithya Partners
LKR/Rs./Rupees	Sri Lanka Rupees
Local Time	Sri Lanka Time
Market Day	Any day on which the Colombo Stock Exchange is open for trading
Mn	Million
NAV	Net Asset Value
Non-Retail Investor Category	Investors who do not fall under Retail Individual Investor Category and Unit Trust Investor Category
NIC	National Identity Card
Ordinary Shares/Shares/Issued and Paid up Ordinary Shares/ Ordinary Voting Shares	Ordinary voting shares of the Company
POA	Power of Attorney
Prospectus	This Prospectus dated October 26, 2021 issued by SDF in connection with the Share Issue
Public Holding	As set out in the Listing Rules of the CSE

Retail Individual Investor Category	Individual investors who subscribe for New Shares up to a value of LKR 100,000/- (i.e. up to 4,500 Shares)
Registrars to the Issue	P W Corporate Secretarial (Private) Limited
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SDF/Company	Sarvodaya Development Finance Limited
SEC	The Securities and Exchange Commission of Sri Lanka
Share Issue Price/Issue Price	The price at which the New Shares will be issued via IPO as detailed in this Prospectus, LKR 22/- per Ordinary Voting Share
Shares in Issue	The New Shares issued under this Prospectus
Stated Capital	The Stated Capital of SDF
Unit Holder	An individual who has made an investment in units not exceeding the value of LKR 10,000,000/- in a particular Unit Trust Fund that subscribes for New Shares, as per SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01)
Unit Trust Investor Category/Unit Trust	Growth and Balanced Unit Trusts operated by Managing Companies licensed under the SEC to operate such Unit Trusts, where such Unit Trusts comprises of not less than 500 Unit Holders resident in Sri Lanka who together hold at least 50% of that Unit Trust, as per SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01)



5.0 DETAILS OF THE ISSUE

All financial information and figures pertaining to FY22 in this section are based on the Unaudited Financial Statements of SDF as at August 31, 2021.

5.1 The Issue

The Issue contemplated herein shall constitute an invitation made to the general public to subscribe up to 22,727,273 new Ordinary Voting Shares of SDF at the Share Issue Price of LKR 22/- per Share to raise up to LKR 500,000,006/- (Initial Issue) with an option to issue a further 22,727,273 new Ordinary Voting Shares at the Share Issue Price of LKR 22/- per Share to raise up to a further LKR 500,000,006/- (Further Issue) at the discretion of the Board of Directors of SDF in the event of an oversubscription of the Initial Issue resulting in a total issuance of up to 45,454,546 Ordinary Voting Shares to raise up to LKR 1,000,000,012/-.

If fully subscribed, the New Shares will amount to 30.38% of the Ordinary Voting Shares of the Company subsequent to the IPO. The Central Bank of Sri Lanka (CBSL) has granted its approval for the Issue by its letter dated July 12, 2021 in terms of Section 3.2 of the Finance Companies (Structural Changes) Direction No. 1 of 2013. Further the Company has obtained the requisite approval for the said listing of Shares on the CSE under Section 28 A of Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended) which now has been repealed and replaced by Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021.

5.2 Nature of the New Shares

From the date of allotment, the New Shares shall rank equal and *pari passu* in all respects with the existing Ordinary Voting Shares and each New Share shall confer on the holder thereof the right to one vote on a poll at a meeting of the Company on any resolution, the right to an equal share in any dividend that may be paid by the Company and the right to an equal share in the distribution of the surplus assets of the Company in a liquidation.

5.3 Size of the Issue

The Company intends to raise up to LKR 500,000,006/- via the Initial Issue and in the event of an oversubscription of the Initial Issue to raise up to LKR 500,000,006/- via a Further Issue resulting in a total amount of up to LKR 1,000,000,012 being raised via the Total Issue.

5.4 Share Issue Price

The Share Issue Price will be LKR 22/- per Share. The Board of Directors of SDF is of the opinion that the Share Issue Price is fair and reasonable to the Company and to all existing Shareholders of the Company in terms of the Companies Act.

Advice for the determination of the Share Issue Price for the IPO was sought by SDF from the Financial Advisors and Managers to the Issue, NDB Investment Bank Limited in accordance with the Research Report compiled by NDBIB in line with Rule 3.1.4 (c) of the CSE Listing Rules.

A copy of the Research Report which includes the seven year forecast financials and the valuation methodologies is enclosed as Annexure A of this Prospectus.

The Net Asset Value (NAV) per Share of SDF as per the interim financial statements as at August 31, 2021 is LKR 21.28. The Share Issue Price is 1.03 times NAV.

It should be noted that the Shares issued via Prospectus dated August 24, 2020 and concluded in FY2021 was priced at the same Issue Price of LKR 22/- per share. Further, the subscription for the aforementioned fund raise was made by both external investors and stakeholders of the Sarvodaya Movement despite SDF being in the unlisted space at the time of the such Share issuance, thereby indicating positive investor sentiment and providing further validation on the proposed Share Issue Price.

A summary of the valuation methods used to determine the Share Issue Price is as follows:

Table 5.1 Summary of Valuation

Valuation Method	Value per Share (LKR)	Weightage	Upside on the Share Issue Price of LKR 22/- per Share
Residual Income	25.10	30%	14%
Price to Book Value (P/BV)	25.96	30%	18%
Precedent Transaction P/BV	26.43	40%	20%
Weighted Average Value per Share	25.89		18%

Source: Research Report (Annexure A)

The Share Issue Price of LKR 22/- per Share provides an upside of c.18% to the Weighted Average Value per Share of LKR 25.89 derived from the weighted average of the Residual Income Valuation, P/BV based valuation and Precedent Transaction P/BV based valuations on a 30:30:40 ratio. An IPO discount is provided to investors in order to provide a potential upside on the investment.

The investors should read the quantitative and qualitative factors given in Section 5.5, the risk factors included under Section 12 of this Prospectus and the details of the Company and its financial statements included in this Prospectus.

5.5 Quantitative and Qualitative Factors Pertaining to the Issue

5.5.1 Quantitative Factors

Net Asset Value (NAV) per Share and the Price to Book Value (P/BV)

The Net Asset Value (NAV) per Share and the Price to Book Value (P/BV) at the Share Issue Price are as follows:

Table 5.2 NAV per Share, P/BV at Share Issue Price

As at	Net Assets Value (LKR Mn)	Net Assets Value per Share (LKR)	P/BV at Share Issue Price (x)
March 31, 2021	2,181,385,226	20.95	1.05
August 31, 2021	2,215,960,398	21.28	1.03

- Based on the NAV per Share of LKR 20.95 as per the latest audited financial statements as at March 31, 2021, the P/BV of SDF is 1.05 times.
- Based on the NAV per Share of LKR 21.28 as per the interim financial statements as at August 31, 2021, the P/BV of SDF is 1.03 times
- The post-IPO NAV per Share amounts to LKR 21.50 based on the NAV as at August 31, 2021 and number of Ordinary Shares in issue assuming full subscription of the New Shares.

P/BV range of selected industry peers (from the Diversified Financials Industry Group as per GICS classification on the CSE) is given below (please refer Research Report in Annexure A for list of selected peers):

Particulars	Name of the Peer Entity	P/BV (x)*
Lowest	Alliance Finance Company PLC	0.34
Highest	Dialog Finance PLC	4.38
	Industry Average	1.22

Source: Colombo Stock Exchange, SGP Capital IQ

*Market capitalisation is as at August 31, 2021 and book values are as at the last published quarter ended June 30, 2021.

Earnings per Share (EPS), Return on Equity (ROE) and Price to Earnings Ratio (P/E)

Historical Earnings per Share (EPS), Return on Equity (ROE) and Price to Earnings Ratio (P/E) are given below.

Table 5.3 EPS, ROE and P/E

Year Ended	Basic EPS (LKR)*	Diluted EPS (LKR) *	ROE (%)**	P/E (x)***
March 31, 2021	2.55	2.55	10.86	8.63
March 31, 2020	1.51	1.51	8.87	14.57
March 31, 2019	0.61	0.61	3.70	36.07
Average	1.55	1.55	7.81	14.19
Five Months Ended August 31, 2021 (as per interim financials, not annualised)	0.33	0.33	1.55	NM
Five Months Ended August 31, 2021 (as per interim financials, annualised)	0.80	0.80	3.76	27.50

Source: SDF Audited and Interim Financial Statements

*Earnings per share(LKR) = Net profit as restated, attributable to equity shareholders/Weighted average number of equity shares outstanding during the year/period

**ROE = Profit After Tax / Average Net Assets

***P/E ratio is calculated based on the Share Issue Price of LKR 22/-. The Average P/E of 14.19 times is calculated based on the Average Basic EPS of LKR 1.55

NM- Not Meaningful

P/E Ratio

- Based on the forecasted financials for FY22E in the Research Report, Basic and Diluted EPS are expected to be LKR 1.36 while the P/E is 16.17 times (based on number of shares post IPO). The Basic and Diluted EPS expected for FY22E based on the number of shares pre IPO is LKR 1.95 while the P/E is 11.25 times
- Based on Basic and Diluted EPS of LKR 0.80 for the five months ended August 31, 2021, the P/E is 27.50 times (annualised Earnings).
- Based on Basic and Diluted EPS of LKR 2.55 for the year ended March 31, 2021, the P/E is 8.63 times.
- Based on the three year average (FY19 – FY21) Basic and Diluted EPS of LKR 1.55, the P/E is 14.19 times.
- Based on the peer group detailed in Table 5.4 the industry P/E is 11.75 times.

P/E details of selected peers (from the Diversified Financials Industry Group as per GICS classification on the CSE) are given below (please refer Research Report in Annexure A for list of selected peers):

Particulars	Name of the Peer Entity	P/E (x)*
Lowest	Alliance Finance Company PLC	3.41
Highest	Sinhaputhra Finance PLC	23.70
	Industry Average	11.75

Source: Colombo Stock Exchange, S&P Capital IQ,

*Market capitalisation is as at August 31, 2021 and earnings are on a trailing twelve month basis as at the last published quarter ended June 30, 2021.

Comparison of Accounting Ratios of Peer Entities

The comparable ratios of entities that are to some extent similar in business are given below (as at June 30, 2021). The peer group for SDF was selected based on the companies listed under the Diversified Financials Industry Group as per GICS classification on the CSE.

Table 5.4 Comparison of Key Ratios Across Peers

Peer Entity	NAV per Share (LKR)	EPS (LKR)	P/E (x)	P/BV (x)	ROE (%)
Asia Asset Finance PLC	18.00	0.58	13.00	0.42	3.28
Abans Finance PLC	30.60	5.45	4.59	0.82	19.90
Alliance Finance Company PLC	175.60	17.70	3.41	0.34	11.30
Associated Motor Finance Company PLC	289.60	-21.40	NM	0.63	-6.30
Orient Finance PLC	14.00	1.39	9.91	0.99	10.80
Bimpuh Finance PLC	4.69	-0.52	NM	1.06	-7.76
Dialog Finance PLC	18.50	-0.04	NM	4.38	-0.24
Softlogic Finance PLC	10.70	-2.50	NM	0.86	-29.70
Nation Lanka Finance PLC	0.63	-0.19	NM	1.28	-27.30
Prime Finance PLC	18.90	0.85	16.10	0.72	4.52
HNB Finance PLC	2.89	-0.02	NM	3.70	-0.82
Merchant Bank of Sri Lanka & Finance PLC	11.00	-0.66	NM	0.58	-9.65
Multi Finance PLC	7.48	-1.24	NM	1.34	-15.30
People's Merchant Finance PLC	6.51	0.40	16.40	1.00	5.09
Singer Finance (Lanka) PLC	21.00	2.17	6.92	0.71	10.70
Sinhaputhra Finance PLC	12.80	0.37	23.70	0.68	2.77

Source: Colombo Stock Exchange, S&P Capital IQ

NM - Not Meaningful

Earnings based metrics are on a trailing twelve month basis as at the last published quarter ended June 30, 2021

All balance sheet information of the respective peers are as at the last published quarter ended June 30, 2021

Market capitalisation is as at August 31, 2021

5.5.2 Qualitative Factors

In order to arrive at the Share Issue Price, the following qualitative factors were considered:

➤ **Trusted Sarvodaya brand and its long standing relationship with its primary customer segment**

Sarvodaya Movement having started in 1958 is one of the oldest NGOs in Sri Lanka and SDF intends to continue leveraging on the innate trust built in the "Sarvodaya" brand over the last 6 decades within its primary customer segment. As this segment of the population remains under served, the Company intends to sustain its focus and continue to increase its market share in this segment.

➤ **Wide range of services and facilities offered to customers**

SDF offers one of the widest range of services and facilities among institutions that cater to the Micro, SME and MSME segments, with specialised personal and business micro finance facilities, dedicated SME lending facilities, asset backed lending facilities, leasing products as well as numerous deposit accounts in its product portfolio. SDF is able to boost its asset base by offering multiple facilities to its client base to suit their specific requirements.

SDF through its expansive product offering caters to both working capital and development capital requirements of its client base.

➤ **Utilisation of the expansive Sarvodaya society network**

The Sarvodaya Movement comprises of more than 5,400 societies spread out across the island. SDF is unique in its ability to provide services through this framework. The Company offers a range of specialised (and often customised) facilities under the expanding product category of Society Loans. Clients that grow in financial standing utilising these facilities later demand more advanced products with higher returns for SDF. Upon their economic development, instead of shifting to large competitor banks as would be expected, clients of SDF have historically continued to rely on SDF because of the innate trust and bond developed with the Company. SDF's commitment to the sustainable growth of these grassroots communities is a key driver that the Company intends to continue building on to further strengthen its partnerships with this client base.

5.6 Objectives of the Issue

SDF intends to utilise the proceeds of the Issue for the following objectives:

5.6.1 Objective 1: Improve the Core Capital and thereby Strengthen the Equity Base of the Company

Funds to be raised through the Issue will primarily be utilised to improve the Core Capital level of the Company.

In terms of the Finance Companies (Minimum Core Capital) Direction No. 2 of 2017 issued by the Monetary Board of CBSL under the Finance Business Act No. 42 of 2011 ("Finance Business Act") and subsequent Directive No. 2 of 2017 dated February 23, 2017, Licensed Finance Companies ("LFCs") were required to meet a minimum core capital requirement of LKR 2,500,000,000/- as at January 01, 2021. However, as per the CBSL letter dated March 31, 2020 (Ref No: 24/01/015/0004/016), all LFCs are now required to comply with the said minimum Core Capital requirement by January 01, 2022. The Core Capital position of SDF as at August 31, 2021 is as follows;

Table 5.5 Core Capital Position of SDF

Minimum Core Capital Requirements		Core Capital Level of SDF		
Original Deadline to Meet the Minimum Regulatory Requirement of LKR 2.5 Bn (As per the Finance Business Act Directions No. 02 of 2017)	Revised Deadline to Meet Minimum Regulatory Requirement of LKR 2.5 Bn (as per CBSL letter dated March 31, 2020)	Core Capital Level as at August 31, 2021 (as per CBSL)	Core Capital Level Post Initial Issue (i.e., Assuming Full Subscription of the Initial Issue)	Core Capital Level Post Total Issue (i.e., Assuming Full Subscription of Total Issue)
January 01, 2021	January 01, 2022	LKR 1.636 Bn	LKR 2.136 Bn	LKR 2.636 Bn

Accordingly, SDF is required to increase its Core Capital to LKR 2.5 Bn by January 01, 2022. Core Capital of SDF as at August 31, 2021 as per CBSL was reported at c. LKR 1.636 Bn and the aforementioned Total Issue, if fully subscribed, would facilitate SDF to increase its Core Capital up to c. LKR 2.636 Bn.

In this regard, the Company has entered into underwriting arrangements with National Development Bank PLC and Sampath Bank PLC to underwrite up to 50% of the Initial Issue as morefully set out in Section 5.11 of the Prospectus to facilitate the IPO.

Further, the Company's Total Risk Weighted Capital Adequacy Ratio as at August 31, 2021 which stood at 21.58% will further improve to 26.85% and 31.78% subsequent to Initial Issue and Further Issue respectively.

5.6.2 Objective 2: Part Finance the Growth in the Loan Portfolio of SDF

The growth in the loan portfolio of SDF is expected to be driven by the rising demand for credit by Micro, Small and Medium Enterprises ("MSMEs") which has shown a significant progress in the recent past and form an integral component of SDF's customer base. Funding requirement for such disbursements would be mainly financed through public deposits and borrowings mainly from financial institutions.

The funds raised through the Issue, would also facilitate the Company to part finance the loan disbursements predominantly to product segments such as micro loans, SME loans, and leasing which is predominantly targeted at agro based machinery and equipment such as tractors, combined harvester machines and rice mills.

As at August 31, 2021, gross loans and receivables stood at LKR 8.67Bn. The monthly average disbursement of loans and advances for the period ended August 31, 2021 was LKR 384.62 Mn.

SDF expects to meet Objective 1 mentioned above, upon the allotment of New Shares through the IPO. Further SDF intends to utilise the proceeds of the Issue gradually to meet Objective 2 and complete the utilisation of the same before the end of first quarter (Q1) of FY 2023 based on the anticipated demand for credit. SDF will obtain the approval from the ALCO of SDF to invest any unutilised proceeds in Government securities at zero default risk and in fixed deposits in Licensed Commercial Banks ("LCBs") and money market funds generating a minimum return equivalent to the prevailing overnight REPO rate until such proceeds are utilised for Objective 2 identified above. ALCO comprises of Six (6) members including the Chief Executive Officer, Chief Manager – Finance, Head of Operations, Senior Manager - Treasury, Manager- Credit, Manager - Risk.

SDF, as at the date of this Prospectus, has not recognised any related parties for the lending of the proceeds from the fund raisings and as such, SDF will disburse the proceeds in the ordinary course of business. In the event SDF decides to disburse part of the proceeds of the Issue to any related party, such disbursements would be carried out in compliance with the Finance Business Act, its directions and Section 9 of the Listing Rules of the CSE, as applicable.

The objectives of the Issue do not amount to major transactions as per the Companies Act.

Audited Financial Statements and composition of Related Party Transactions Review Committee are in Annexure F and Section 8.9.4 respectively in the Prospectus.

5.6.3 Benefits to the Shareholders and IPO Investors from the Objectives of the Issue

It is expected that the improvement in core capital level emanating from a successful IPO would strengthen the equity base of SDF and thereby support the anticipated asset growth of SDF. This would further enhance the stability of the business operations of SDF and extend an opportunity for the shareholders and new investors to be part of the growth of SDF and benefit from returns in the future through improvement in expected profitability.

The strengthening of the capital base would enable SDF to maintain healthy capital adequacy levels and may enable SDF to access a wider array of funding options which could be less costly and thereby enhance the loan portfolio and profitability of SDF.

5.6.4 Specific Risks Associated with the Objectives of the Issue

The proposed amount to be raised through the IPO would strengthen the Core Capital levels (post Issue) of SDF and fulfil Objective 1. In the event the Issue is not fully subscribed; SDF would resort to alternate options of raising capital with the participation of external investors via private placements (as appropriate) and rights issues subject to obtaining relevant regulatory and shareholder approvals. Further, in the event SDF contemplates on any of the aforesaid alternate options of raising capital, SDF will make necessary market disclosures to the shareholders in accordance with the CSE Listing Rules as appropriate. However, in the event the Company fails to meet the minimum core capital requirements despite pursuing the fund raising options mentioned above, the CBSL may continue with the ceiling on deposit liabilities and may impose maximum ceiling on borrowings, freeze distribution of dividend or repatriation of profits and/or restrict expansion of business operations of SDF in terms of the Directive No. 2 of 2017 issued by CBSL dated February 23, 2017 or force SDF to comply with the consolidation plan of the CBSL. However, at present no such consolidation is envisaged under the said CBSL plan. In the event the Company is subject to an amalgamation pursuant to the consolidation plan of the CBSL, the Company would be bound by the relevant CSE Listing Rules.

Given the nature of the business and considering the current demand for credit, SDF does not foresee any deviations from its objectives or delays in deploying the funds raised via the Issue as mentioned above during the time frames stipulated. However, if the funds raised via the IPO is utilised for any purpose, other than the purposes/objectives mentioned above or any deviation from the stipulated time frame to achieve such objectives or any deviation from amount allocated for such objectives, SDF will make necessary disclosures to the shareholders via the CSE and include relevant disclosures in the Interim Financial Statements and Annual Report as appropriate. Further, SDF will take necessary steps to obtain the approvals of the relevant parties including the shareholders as appropriate at that point in time.

SDF will disclose the information pertaining to the utilisation of funds raised through the Issue in the Annual Report and Interim Financial Statements from the date of raising funds until the objectives are achieved, and funds are fully utilised as per the template referred to below.

Issue proceeds utilisations as at dd-mm-yyyy

Objective as per Prospectus	Amount Allocated as per Prospectus (LKR Mn)	Proposed Date of Utilisation as per Prospectus	Amount Allocated from Proceeds (LKR Mn) (A)	% of Total Proceeds	Amounts Utilised (LKR Mn) (B)	% of Utilisation against Allocation (B/A)	Clarification if not Fully Utilised including where the funds are invested (i.e. whether given to related parties etc.)

In the event the proceeds raised through the Issue have been fully utilised by the Company for any objective as disclosed in the Prospectus between two financial periods, the Company would disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first, subsequent to the utilisation in its entirety as per the above template.

5.7 Listing

The Issue contemplated herein constitutes an Initial issue of up to 22,727,273 new Ordinary Voting Shares at the Share Issue Price of LKR 22/- per Share to raise up to LKR 500,000,006/- with an option to issue a further 22,727,273 new Ordinary Voting Shares at the Share Issue Price to raise a further LKR 500,000,006/- at the discretion of the Board of Directors of SDF in the event of an oversubscription of the Initial Issue resulting in a total issuance of up to 45,454,546 new Ordinary Voting Shares of the Company (Total Issue).

If fully subscribed, the New Shares will amount to 30.38% of the Ordinary Shares of the Company subsequent to the IPO.

An application has been made and approved in principle by the CSE for the issue and listing of 149,596,052 Ordinary Voting Shares of the Company being the entirety of the Shares constituting the Stated Capital of the Company subsequent to the IPO.

However, the CSE reserves the right to withdraw such approval, in the circumstances set out in Rule 2.3 (b) of the Listing Rules of the CSE. Also, it should be noted that where there is any inconsistency between the contents of the Prospectus and the CSE Listing Rules, the CSE Listing Rules will prevail.

SDF has already complied with Rule 2.1.2 (i) (a), (b) and (d) of the CSE Listing Rules for a Main Board listing and Rule 2.1.2 (ii) of the CSE Listing Rules for a Diri Savi Board listing.

It is expected that the Company will meet the minimum public holding requirement set out in Rule 2.1.2 (i) (c) via the IPO pursuant to which the entire Ordinary Voting Shares of the Company will be listed on the Main Board of the CSE.

However, in the event where SDF is unable to meet the requirement of Rule 2.1.2 (i) (c) of the CSE Listing Rules for a Main Board listing, upon closure of the Issue, the Company would alternatively opt for a listing on the Diri Savi Board of the CSE as it is already in compliance with Rule 2.1.2 (ii) of the CSE Listing Rules.

It should be noted that the aforesaid public holding requirements would be calculated by considering all Shares that are freely tradable on the date of listing. The details of Shares subject to Lock-in are mentioned in Table 9.6 and Table 9.7 set out in Section 9 of the Prospectus.

5.8 Opening and Closing of the Subscription List

The subscription list for the New Shares will open at 9.00 a.m. on November 23, 2021 and shall, subject to the occurrence of the events in the following paragraph, remain open for fourteen (14) Market Days (including the date of opening) until closure at 4.30 p.m. December 10, 2021.

However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following. Accordingly, the Earliest Issue Closing Date shall be Issue Opening Date (i.e. November 23, 2021);

- The maximum of Total Issue amounting to 45,454,546 New Shares being fully subscribed;
- The Board of Directors of SDF decides to close the Issue upon the Initial Issue of 22,727,273 New Shares becoming fully subscribed.
- In the event of an oversubscription of the Initial Issue, if the Board of Directors of the Company decides to exercise the Further Issue (having subscribed the Initial Issue of 22,727,273 New Shares) but subsequently decides to close the subscription list upon partial satisfaction of subscription under Further Issue, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 p.m.
- In the event the Board of Directors of SDF decides to close the Issue without the full subscription of the Initial Issue, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 p.m.

The Board of SDF reserves the right to close the subscription list on any Market Day within the period of fourteen (14) Market Days, irrespective of whether the Issue is oversubscribed or not as stipulated above.

Applications may be made forthwith in the manner set out in Section 6.2 of this Prospectus.

5.9 Cost of the Issue

The total costs associated with the Issue are estimated to be c. LKR 34.9 Mn translating to c. 3.49% of the Issue. These include all direct costs and expenses associated with the Issue, inclusive of but not limited to the initial listing fees to the CSE, management/ advisory fees payable to the Financial Advisors and Managers to the Issue, brokerage commission, fees for the registrar function, fees for underwriters, legal, consultancy and accountancy fees, advertising and promotional costs and printing costs. The costs to be borne by SDF will be recovered from the internally generated funds of the Company.

5.10 Brokerage

Brokerage at the rate of zero decimal five per centum (0.5%) of the value of New Shares will be paid in respect of the number of New Shares allotted on Applications delivered physically bearing the original seal of any bank operating in Sri Lanka or a Member/Trading Member of the CSE or Managers to the Issue or any other intermediary appointed

by the Company and/or Financial Advisors and Managers to the Issue involved in the marketing of the Issue.

5.11 Minimum Subscription and Underwriting

The Issue is not conditional upon any minimum subscription amount being raised through this IPO.

As mentioned in Section 5.6 objectives of the Issue, the primary objective of the Share Issue is to improve the core capital of SDF and thereby strengthen the equity base of the Company as morefully described in Section 5.6.1. In this regard, the Company has entered into underwriting arrangements with National Development Bank PLC and Sampath Bank PLC (hereinafter referred to as "Underwriters") in order to partially underwrite the Initial Issue. The profiles of the Underwriters are given below.

As per the underwriting arrangements, in the event of an undersubscription of the Initial Issue, the Underwriters, will subscribe for equal amounts up to a maximum of LKR 125,000,000/- each aggregating to a subscription amount of a maximum of LKR 250,000,000/- (i.e. up to 50% of the Initial Issue) at the Share Issue Price.

The Company shall seek a listing of its Shares on the Main Board of the CSE subject to the Company satisfying the minimum public holding requirement as stipulated in Rule 2.1.2(i)(c). However, in the event of an undersubscription of the Issue, and if the Company is unable to fulfil the minimum public holding requirement as stipulated in Rule 2.1.2(i)(c), the subscribers will be allotted the New Shares they have applied for and the Company shall alternatively seek a listing of its Shares on the Diri Savi Board of the CSE as mentioned in Section 5.7 of the Prospectus.

In the event of an undersubscription of the Issue, the funds raised via the IPO together with internally generated funds and alternative equity raisings shall be utilised to meet the objectives of the Issue set out in Section 5.6 herein.

The profile of the Underwriters are as follows.

National Development Bank PLC

National Development Bank PLC (NDB Bank) is a leading listed licensed commercial bank in Sri Lanka with over 40 years of expertise in universal banking services. Inaugurated as a Development Financing Institution in 1979, with focus on SME and Project Financing, NDB Bank today has evolved to a fully-fledged commercial banking institution, whilst retaining its expertise in development oriented financing.

NDB Bank is also one of the fastest growing banks in the country, with a total asset base over LKR 663 Bn as at June 30, 2021. NDB Bank's stability is affirmed by a national long term rating of A+ with stable outlook from Fitch Ratings Lanka Limited.

NDB Bank is also the holding company for a group of companies engaged in full-spectrum capital market services covering investment

banking, wealth management, stockbroking and private equity under its subsidiary, NDB Capital Holdings Limited thereby offering a unique proposition to its clientele.

NDB Bank has presence through 114 branches spread across the country, with its services accessible from any part of the world, through NEOS, NDB Bank's multi-modal digitized banking platform. NDB Bank has been progressively embracing digitized technology, introducing many agile and innovative industry-first solutions. As the only EDGE certified corporate in Sri Lanka there is conscious strategic commitment towards gender balance and empowering females at the workplace in NDB Bank (EDGE® - Economic Dividends for Gender Equality).

Affirming its excellence in performance, NDB Bank has been the recipient of a large number of prestigious awards, both local and international. NDB Bank is the "Best Bank for Sri Lanka 2021" as adjudged by Global Finance of USA and the "Bank of the Year Sri Lanka 2020" as adjudged by The Banker UK (reigning winner). NDB Bank is also the "Best Digital Bank in Sri Lanka 2021" as adjudged by "AsiaMoney" and "One of the 10 Most Admired Corporates of Sri Lanka for 2021" as evaluated by Chartered Institute of Management Accountants (CIMA) Sri Lanka, International Chamber of Commerce, Sri Lanka (ICCSL) and Daily FT.

NDB Bank carries to its credit a pristine record of excellence in corporate and environmental and social governance and continues its contribution towards financial prosperity of the nation and its people. All latest financial information of National Development Bank PLC is available on the website of CSE, www.cse.lk and the website of NDB Bank, www.ndbbank.com.

Sampath Bank PLC

Sampath Bank PLC (Sampath Bank) is one of Sri Lanka's premier commercial banks and ranked as the 3rd largest private sector bank based on the total assets (source: based on an analysis carried out by Sampath Bank PLC on the latest annual reports of all listed private sector licensed commercial banks published on the CSE website) in the country operating through 229 branches complemented by 455 ATMs including 96 offsite ATMs, and a dynamic digital platform offering a wide range of online services to its clients.

Incorporated in 1986 as a licensed commercial bank and listed on the CSE a year later, Sampath Bank has built a reputation as one of the most trusted and stable financial institutions not only in Sri Lanka, but also across the wider South Asian region. Today, Sampath Bank is among the largest private banks in the country, backed by an asset base in excess of LKR 1.1 Tn and a solid National Long Term Rating of 'AA- (lka) with stable outlook' assigned by Fitch Ratings.

Its legacy is built on the explicit commitment to bring high quality banking solutions within reach of every Sri Lankan. Over the past three decades, Sampath Bank has been working to make banking a simple

and effective process for its customers by providing them with ever more dynamic banking solutions that are also more affordable.

Sampath Bank serves a full spectrum of customer segments, including retail, large corporates, middle market and Small and Medium Enterprises (SMEs).

Sampath Bank's continued growth and success is founded on a highly diversified and well-balanced business model and a robust multi-channel environment.

Sampath Bank has been awarded as the "Best Commercial Bank and Retail Bank 2021 in Sri Lanka" for the eighth consecutive year by the World Finance Magazine, UK. Sampath Bank is among the prestigious top 5 "Most Respected Entities in Sri Lanka" for 2021 by LMD and Nielsen. In 2020, Sampath Bank was rated amongst the "Top 1000 World Banks 2020" by the UK's Banker Magazine in the 50th anniversary of the rankings.

All latest financial information of Sampath Bank is available on the website of CSE, www.cse.lk and the website of Sampath Bank, www.sampath.lk.

5.12 Inspection of Documents

Articles of Association, Auditors' Reports and Audited Financial Statements for the financial year ended March 31, 2021, Accountants Report and Summary of five (5) financial years immediately preceding the date of this Prospectus, material contracts and management agreements (if any) or in the case of contracts not reduced into writing a memorandum giving full particulars thereof, a detailed schedule of the share allotments made under the Prospectus dated August 24, 2020 and Research Report by Financial Advisors and Managers to the Issue would be made available for inspection by the public during normal working hours at the registered office of the Company, at No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08 from the date hereof, until the subscription list is closed or up to 14 Market Days, whichever is later as per Rule 3.1.19 (a) of the CSE Listing Rules.

The Prospectus, Application Form and Articles of Association of the Company will be available on the website of the CSE, www.cse.lk, on the website of the Company, www.sarvodayafinance.lk and on the website of the Financial Advisors and Managers to the Issue www.ndbib.com from the date hereof for a period of not less than fourteen (14) Market Days as stipulated in Rule 3.1.19 (b) of the CSE Listing Rules.

The research report prepared by Financial Advisors and Managers to the Issue, justifying the Share Issue Price will be available on the website of the CSE, www.cse.lk, on the Company website, www.sarvodayafinance.lk and on the website of the Financial Advisors and Managers to the Issue, www.ndbib.com, from the date hereof, for a period not less than two (2) months commencing from the date of issue of the Prospectus as stipulated in Rule 3.1.19 (c) of the CSE Listing Rules.

6.0 PROCEDURE FOR APPLICATION

6.1 Eligible Applicants

Applications are invited from the following categories of investors, having a valid CDS account in the CDS:

- i. Citizens of Sri Lanka who are resident in Sri Lanka above 18 years of age; or
- ii. Citizens of Sri Lanka who are resident outside Sri Lanka and above 18 years of age; or
- iii. Companies, corporations or institutions incorporated or established within Sri Lanka; or
- iv. Corporate bodies incorporated or established outside Sri Lanka; or
- v. Approved unit trusts licensed by the SEC; or
- vi. Approved provident funds and contributory pension schemes registered/incorporated/ established in Sri Lanka (in this case, Applications should be in the name of the Trustee/Board of Management); or
- vii. Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas); or
- viii. Global, regional and country funds approved by the SEC.

Applications made by individuals less than 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.

Applications submitted by investors mentioned in (ii), (iv),(vii) and (viii) should be in accordance with the provisions of Foreign Exchange Act No.12 of 2017 and any Directions issued thereunder.

Applications submitted under the Unit Trust Investor Category should conform to the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01).

Eligible Applicants may fall into one of the following categories.

- i. Retail Individual Investor Category
- ii. Unit Trust Investor Category
- iii. Non-Retail Investor Category

Please refer "Glossary of Terms and Abbreviations Related to the IPO" for the definitions of the aforementioned categories.

6.2 The Procedure for Application

6.2.1 How to Apply

Applicants applying for New Shares should submit their Applications in the manner set out below as applicable to you.

i. Via Physical Delivery

The Prospectus and Application Form will be made available free of charge from the collection points listed in Annexure B (subject however that SDF being able to obtain the printed copies from printers while complying with the travel restrictions that will be in force at the time). The Prospectus and the Application Form can also be downloaded from www.cse.lk, www.sarvodayafinance.lk, the website of the Financial Advisors and Managers to the Issue, www.ndbib.com. Please refer Section 6.2.8 for submission of Application Forms.

ii. Via SDF Web portal

The Prospectus and Application Form are available through SDF web portal, ipo.sarvodayafinance.lk. The SDF IPO web portal can also be accessed through the websites www.cse.lk, www.sarvodayafinance.lk and www.ndbib.com. Applicants who intend to submit their Application Form using this web portal may download the Application Form and follow the instructions set out in the said web portal and forward their Applications as per the instructions given therein.

iii. Via CSE Mobile App

Applicants who register with the CSE Mobile App should follow the instructions set out in the said Mobile App, and forward their Applications as per the instructions. Submission of digital Application Forms through such CSE Mobile App is limited to both citizens of Sri Lanka who are resident in or outside Sri Lanka and are above 18 years of age and, Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas) only.

The Mobile App, currently, does not facilitate Applications made through Powers of Attorney (POA), Margin Trading, Joint Applicants and the categories referred to in Section 6.1 sub-sections iii, iv, v, vi and viii to apply. Therefore, such Applicants may send their Applications physically or via SDF web portal as disclosed above.

APPLICANTS SHOULD APPLY ONLY THROUGH ONE INVESTOR CATEGORY (INCLUDING JOINT APPLICANTS) AND WOULD BE PERMITTED TO SUBMIT ONLY ONE APPLICATION FORM. TWO OR MORE APPLICATIONS SUBMITTED BY THE SAME APPLICANT EITHER UNDER THE SAME CATEGORY OR DIFFERENT CATEGORY WILL BE CONSTRUED AS MULTIPLE APPLICATIONS AND WILL BE REJECTED.

Applicants must apply for the New Shares on the Application Form, which constitutes part of this Prospectus. The Application Form should be legibly completed and be received by the Registrars to the Issue.

Retail Individual and Non-Retail Investor Category

Applicants falling under the Retail Individual and Non-Retail Investor Categories should apply for New Shares on the Application Form, which constitutes part of this Prospectus (please refer Section 6.2.1 above for methods of obtaining the Prospectus and Application Form).

Exact size copies of the Application Form will also be permissible under the Retail Individual and Non-Retail Investor Categories. The completed Application Forms should be submitted to the Registrars to the Issue in accordance with Section 6.2.8 of the Prospectus.

Local and foreign individual investor/s who apply for up to a maximum of 4,500 Shares (including 4,500 Shares) (value of not more than LKR 100,000/-) will be deemed as Retail Individual investors for share allotment purposes.

All non-resident Applicants and corporate Applicants should ensure that the Passport Number/Company Registration Number (as applicable) is stated in the relevant cages of the Application Form.

Unit Trust Investor Category

Applicants applying under the Unit Trust Investor Category should apply for the New Shares using the same Application Form (please refer Section 6.2.1 for methods of obtaining the Prospectus and Application Form and submission).

Only one Application should be made by an Applicant under the Unit Trust Category.

Applications submitted under the Unit Trust Investor Category should submit a confirmation by the trustee confirming that such Unit Trust is in conformity with the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01).

An Applicant of a Joint Application, applying through another Application Form, is deemed to have made multiple Applications and will be rejected.

An Applicant who has made an Application under a margin trading account should not apply individually or jointly on a separate Application Form. Such Applications will also be construed as multiple Applications and will be rejected.

Subject to the above, the Company/Managers/Registrars to the Issue reserve the right to reject multiple Applications and suspected multiple Applications which are not allowed or to accept only one Application Form at their discretion.

Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part, without any explanation or reason.

Please note that Applicant information such as full name, address, NIC Number/Passport Number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information shall take precedence over information provided in the Application Form.

Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts will be rejected.

Care must be taken to follow the instructions on the reverse of the Application Form. Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.

All Applicants (both resident and non-resident) should indicate their respective National Identity Card (NIC) Number or Company Registration Number or Passport Number as the case may be in the Application Form. Individual resident Applicants should indicate their Passport Number in the Application Form only if they do not have an NIC Number.

As per the Directive of the SEC made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the CDS dated November 30, 2010, all Shares allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, to facilitate the uploading of allotted Shares to their CDS account.

Please note that upon the allotment of New Shares under this Issue, the allotted New Shares would be credited to the Applicant's CDS account so indicated. Please note that **SHARE CERTIFICATES SHALL NOT BE ISSUED.**

Any Application which does not carry a valid CDS account number or indicates a CDS account number which is not opened at the time of the Issue Closing Date or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment will be made. You can open a CDS account through any Member/Trading Member of the CSE as set out in Annexure B or through any Custodian Bank as set out in Annexure C of this Prospectus. You can also open a CDS account through the 'CSE Mobile App'. The CSE mobile application can be downloaded from the Apple App Store (for Apple IOS users) or the Google Play Store (for Google Android users).

PLEASE NOTE THAT AN ALLOTMENT OF NEW SHARES WILL ONLY BE MADE IF YOU HAVE A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF APPLICATION.

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participants. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

Operation of a 'locked' balance in the CDS

In order to preserve the confidentiality of shareholder information and to ensure that securities are not made available for trading for those shareholders who do not want to trade the securities, the CDS provides a mechanism where securities can be 'locked' in the CDS account.

The CDS maintains two balances for each CDS account, namely a 'trading' balance and a 'locked' balance. The trading balance would be visible to the CDS participant and all dealings and trading would be permitted on the said trading balance, as done normally.

As opposed to the trading balance, the locked balance will not be visible to the CDS participant and all dealings on such locked balance would be suspended thereby maintaining the confidentiality of the information and also safeguarding the account holder from any unauthorised sale by a broker.

At the option and request of an account holder, the CDS would transfer a named quantity of securities from the locked balance to the trading balance of a CDS account and/or from the trading balance to the locked balance.

6.2.2 Number of Shares Applied

Application should be made for a minimum of 100 Shares for a value of LKR 2,200/- and in multiples of 100 Shares thereof.

Applications made for less than 100 Shares or for a number which is not in multiples of 100 Shares will be rejected and the accompanying cheques, bank drafts or bank guarantees will not be sent for clearing but be returned via ordinary post at the risk of the Applicant, or in the case of Joint Applicants, the first named Applicant. The cheque or bank draft or direct deposit or bank guarantee or RTGS/CEFT/SLIPS transfer should be issued/carried out to the exact value of the number of New Shares applied for multiplied by the Share Issue Price. Any Application not conforming to the above requirement will be rejected and the Application monies will be returned as aforementioned.

Please refer Section 6.3.1 for details with respect to the Mode of Remittance.

6.2.3 Identification Information

All Applicants should disclose their identification/registration information by filling in the space provided in the Application Form for this purpose.

Applicants are requested to state their residency and nationality in the appropriate spaces provided in the Application Form.

The NIC, Passport, or Company Registration Number as the case may be, must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected.

Resident Applicants may use the Passport for purposes of identification only if they do not have a NIC Number.

Tabulated below is the relevant identification information that a prospective investor should provide depending on the legal status:

Table 6.1 Investor Identification Required

Citizenship/Legal Form	Identification Information			
	NIC Number	Passport Number	Company Registration Number	Common Seal or Rubber Stamp
Sri Lanka Citizens	✓			
Sri Lanka Citizens with no NIC Number*		✓		
Foreign Citizens**		✓		
Corporate Entities***			✓	✓

* In the case of Sri Lankan citizens, the Passport Number will be accepted only when the NIC Number is not available. The CDS account must be for the same Passport Number.

** Foreign citizens must state the Passport Number in the space provided.

*** In case of a Corporate Entity, the Company Registration Number must be provided. The common seal or rubber stamp should be affixed and the Application Form duly signed as stipulated in the constitutional documents of such Applicants.

A valid CDS account number must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected. All non-resident Applicants and corporate Applicants should ensure that the Passport Number/ Company Registration Number is stated in the relevant cages of the Application Form. All information about the Applicant (i.e. name, address, nationality and NIC or Passport Number) will be downloaded from the database of the CDS, based on the number given in the Application Form. In the event of any discrepancy between the information in the CDS and in the Application Form, the information in the CDS shall take precedence.

If the CDS account number is not indicated in the Application Form, or the number indicated in the form is found to be inaccurate/incorrect, or the account number indicated is not opened at the Issue Closing Date, such Application will be rejected and no allotment of Shares will be made.

6.2.4 Key Responsibility of a Non-Resident Investor

Non-resident investors may be affected by the laws of the jurisdiction of their residence. If non-resident investors wish to apply for the New Shares, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

6.2.5 Margin Trading

Applicants who wish to apply through their margin trading account should submit the Applications in the name of the 'margin provider/Applicant's name' signed by the margin provider.

The Applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form. The New Shares shall be uploaded to the CDS account indicated in the Application Form.

The NIC, Passport, or Company Registration Number of the Applicant as the case may be, must be stated in the Application Form.

Resident Applicants may use the Passport for purposes of identification, only if they do not have a NIC Number.

A photocopy of the margin trading agreement must be submitted along with the Application.

Please note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications. Details regarding multiple Applications are available under Section 6.2.1. Please note that CSE Mobile App does not facilitate an Application by Applicants through a margin trading facility.

6.2.6 Applications Made Under Power of Attorney

In the case of Applications made under POA, a copy of the said POA, certified by a Notary Public to be a true copy of the original, should be submitted to the Registrars to the Issue along with the Application Form. The original POA should not be attached.

Please note that CSE Mobile App does not facilitate an Application by an Attorney (through Powers of Attorney).

6.2.7 Joint Applications

If the ownership of the New Shares is desired in the name of one Applicant, full details should be given only under the heading, SOLE/FIRST APPLICANT in the Application Form. In the case of Joint Applicants, the signatures and particulars in respect of all Applicants must be given under the relevant headings in the Application Form.

Joint Application Forms are permitted only for natural persons not exceeding three Applicants. Joint Applicants should note that there should not be a combination of residents of Sri Lanka and non-residents. An Applicant of a Joint Application shall not apply through a separate Application Form either individually or jointly.

Please note that CSE Mobile App does not facilitate an Application by Joint Applicants.

6.2.8 Submission of Applications

Application Forms properly and legibly filled in accordance with the instructions thereof, along with the applicable remittance/proof of

remittance as applicable (cheque or bank draft or direct deposit or bank guarantee or RTGS transfer or CEFT transfer or SLIPS transfer only) for the full amount payable on Application Form may be forwarded online as referred to Section 6.2.1, or if by way of delivery (by hand or post) enclosed in a sealed envelope marked '**Sarvodaya Development Finance Limited – IPO**' on the top left-hand corner and be addressed and dispatched by post or courier or delivered by hand to the Registrars to the Issue at the following address **prior to 4.30 p.m. Local Time on the Issue Closing Date.**

**P W Corporate Secretarial (Pvt) Ltd
No. 3/17, Kynsey Road, Colombo 08**

Applications may also be handed over to SDF, Financial Advisors and Managers to the Issue, Bankers to the Issue and its designated branches and, Members and Trading Members of the CSE, as set out in Annexure B **prior to 4.30 p.m. Local Time on the Issue Closing Date.**

In the case of Applications dispatched by post, such Applications should reach the Registrars to the Issue **not later than 4.30 p.m. Local Time on the Market Day immediately following the Issue Closing Date.**

Any Applications received after the above deadlines shall be rejected despite the fact the courier or post mark is dated prior to the Issue Closing Date.

6.3 Payment of Application Monies

6.3.1 Mode of Remittance

- (a) Payment in full for the total value of New Shares applied for should be made separately in respect of each Application either by cheque or bank draft or direct deposit or bank guarantee drawn upon a licensed commercial bank operating in Sri Lanka or RTGS/CEFT/SLIPS transfer directed through any licensed commercial bank operating in Sri Lanka, as the case may be subject to (b) and (c) below. The remittances on Applications will be deposited in a separate bank account in the name of '**Sarvodaya Development Finance Ltd – IPO**'.
- (b) The amount payable should be calculated by multiplying the number of New Shares applied for under a particular category by the Share Issue Price of LKR 22/-. If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee or amount deposited to IPO account via direct deposit or RTGS/CEFT/SLIPS transfer such Applications will be rejected.

Payments for Applications for Shares of a value below LKR 100,000,000/- may be supported by a cheque or bank draft or direct deposit or bank guarantee or single RTGS/CEFT/SLIPS transfer. CEFT/SLIPS transfers are subject to a maximum limit of Sri Lanka Rupees Five Million (LKR 5,000,000/-) imposed by the CBSL.

In the case of cheques, bank drafts, direct deposit, RTGS/CEFT/SLIPS transfer and bank guarantees, Application Forms should be accompanied by only one cheque or bank draft or single direct deposit or RTGS/CEFT/SLIPS transfer (single transfer) or bank guarantee and should be issued for the full amount indicated in the Application Form. Any Application for New Shares of a value below LKR 100,000,000/- accompanied by two or more cheques or bank drafts or direct deposits or RTGS/CEFT/SLIPS transfers or bank guarantees will be rejected at the outset.

- (c) Applicants making Applications for New Shares of a value above and inclusive of LKR 100,000,000/- will be permitted to submit multiple bank drafts (not cheques) or multiple bank guarantees or single RTGS transfer. Such Applicants are required to submit a list along with the Application Form giving details of payment, such as the amount of bank draft/bank guarantee, name of bank, name of branch and bank draft number/bank guarantee number and in the event of an RTGS transfer, a confirmation as per Section 6.3.4 must be submitted along with the Application Form. Valid Applications for New Shares of a value above and inclusive of LKR 100,000,000/- accompanied by multiple bank drafts or multiple bank guarantees will not be rejected.

Cash will not be accepted. Anyone wishing to pay cash should obtain a bank draft from a licensed commercial bank in Sri Lanka.

6.3.2 Cheques or Bank Drafts – Resident Sri Lankan Investors

Cheques or bank drafts should be drawn on any licensed commercial bank in Sri Lanka and crossed '**Account Payee Only**' and made payable to '**Sarvodaya Development Finance Ltd – IPO**'.

Cheques or bank drafts accompanying Application Forms made for less than 100 Shares, i.e. for a value less than LKR 2,200/- or for a number which is not in multiples of 100 Shares (as mentioned in Section 6.2.2) will not be sent for clearing and shall be returned via ordinary post at the risk of the Applicant, or in the case of joint Applicants, to the first named Applicant.

In the event that cheques are not realised within two (2) Market Days from the date of presenting the same to the bank for clearing, the Directors reserve the right to reject the Applications and return the Application monies. No allocation of New Shares will be made to such Applicants.

Applicants residing in outstation areas from which cheque clearance may take over two (2) Market Days are advised to make payment via bank drafts to avoid any delays.

Cheques must be honoured on the first presentation to the bank for the Application to be valid. Applications supported by cheques which are not honoured on first presentation will be rejected.

6.3.3 Bank Guarantees – Resident Sri Lankan Investors

Applications made by resident Sri Lankan investors backed by bank guarantees presented in line with the requirements set out in Section 6.3.1 will be accepted. Bank guarantees will be presented to the respective banks only after the New Shares have been allotted. Bank guarantees should be issued by any licensed commercial bank in Sri Lanka and in favour of '**Sarvodaya Development Finance Ltd – IPO**' in a manner acceptable to the Company and payable on demand.

Bank guarantees should be valid for a minimum of one (1) month from the Issue Opening Date (i.e. December 23, 2021).

Applicants are advised to ensure that sufficient funds/facilities are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Issue. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

The original bank guarantee should be lodged with the Registrars to the Issue along with the Application Form prior to 4.30p.m. local time on the Issue Closing Date.

In case of online Applications, a scanned copy of the original bank guarantee, may be uploaded and submitted online via SDF web portal together with the completed Application Form. Please note that the original bank guarantee is required to be received by the Registrars to the Issue together with a copy of the Application Form in order to claim funds in respect of such Applications made via bank guarantees. A flexibility may be given as appropriate depending on the situation of the country and due announcement will be made by the Company on the CSE in such case.

6.3.4 Direct Deposits – Resident Sri Lankan Investors

In case of Applications made using direct deposit via cash/cheque/bank draft, such direct deposit should be made to the credit of "**Sarvodaya Development Finance Ltd - IPO**" bearing the Account Number **101001039726** at **National Development Bank PLC, Head Office-Corporate (Branch Code - 900)** prior to 4.30 p.m. local time on the IPO Closing Date.

Such direct deposits are subject to a maximum limit of LKR 100,000,000/-.

A scanned copy of the deposit paying-in-slip, may be uploaded and submitted together with the Application Form prior to 4.30 p.m. local time on the Issue Closing Date.

6.3.5 RTGS/CEFT/SLIPS Transfers – Resident Sri Lankan Investors

In case of RTGS/CEFT/SLIPS transfers such transfers should be made to the credit of “**Sarvodaya Development Finance Ltd - IPO**” bearing the account number **101001039726** at **National Development Bank PLC, Head Office-Corporate (Branch Code - 900)**, on the Issue Opening Date (i.e., the funds to be made available to the above account).

The Applicants should obtain a confirmation from the Applicant’s bank to the effect that arrangements have been made to transfer payment in full for the total value of New Shares applied for to the credit of ‘**Sarvodaya Development Finance Ltd -IPO**’ and the fund transfer confirmation should be submitted along with the Application Form.

6.3.6 Foreign Currency Remittances

This section is applicable to:

- i. Citizens of Sri Lanka who are above 18 years of age and resident overseas.
- ii. Corporate bodies incorporated or established outside Sri Lanka.
- iii. Regional or country funds approved by the SEC.
- iv. Foreign citizens (irrespective of whether they are resident in Sri Lanka or overseas) who are above 18 years of age.

A Foreign Investor may invest through an IIA (previously known as a Securities Investment Account/SIA) maintained with any licensed commercial bank in Sri Lanka. The procedure for arranging payments through an IIA are presented below:

- A Foreign Investor may use the services of a custodian bank as an intermediary when investing in the Sri Lankan securities market.
- The intermediary may open an IIA, on investor’s behalf.
- In conjunction with the IIA, an account with the CDS must be opened in case the investor does not already possess a valid CDS account.
- In respect of regional or country funds investing for the first time in Sri Lanka, the intermediary will facilitate the approval process regulated by the SEC.
- Payment for New Shares should be made through a cheque or bank draft or bank guarantee issued by a licensed commercial bank in Sri Lanka or through a RTGS/CEFT/SLIPS transfer against the funds arranged through the IIA and made payable to ‘**Sarvodaya Development Finance Ltd - IPO** bearing the account number **101001039726** at **National Development Bank PLC, Head Office-Corporate (Branch Code - 900)** prior to 4.30 p.m. local time on the Issue Closing Date.

Cheques or bank drafts or bank guarantees or RTGS/CEFT/SLIPS transfers should be endorsed by the issuing custodian bank, to the effect that, arrangements have been made to facilitate such payment to be made against funds available in the individual’s IIA. The endorsement must be clearly indicated on the cheque or bank draft or the bank guarantee. Alternatively, a document detailing the endorsement could be submitted along with the payment and Application.

Any refund payments to Foreign Investors are made in terms of Section 6.7 of this Prospectus.

Applications supported by foreign currency remittances should be made in conformity with requisite declarations accompanied by the documentation stipulated by the Head of Department of Foreign Exchange of the Central Bank of Sri Lanka.

6.3.7 Restrictions Applicable to Foreign Citizens Resident in Sri Lanka

Foreign citizens resident in Sri Lanka may make payments through Sri Lanka Rupee Accounts, only if they possess dual citizenship where one such citizenship is Sri Lankan. **Foreign citizens having Sri Lankan citizenship should attach a certified copy of the citizenship certificate with the Application Form.**

Foreign citizens residing in Sri Lanka having valid residency visas should note that they cannot make remittances via cheques or bank drafts or bank guarantees or RTGS/CEFT/SLIPS transfers drawn upon Sri Lanka Rupee accounts maintained with any licensed commercial bank in Sri Lanka but may do so via an IIA account as detailed in Section 6.3.5 above. **Applications made by foreign citizens not in accordance with the foregoing shall be rejected.**

6.4 Rejection of Applications

- i. Application Forms which are incomplete in any way and/or are not in accordance with the terms and conditions set out in this Prospectus will be rejected at the absolute discretion of the Company.
- ii. Any Application Form which does not provide the NIC, Passport (where NIC is not available) or Company Registration Number as the case may be, will be rejected.
- iii. Applications delivered by hand or by courier after 4.30 p.m. Local Time on the Issue Closing Date will be rejected. Applications received by post after 4.30 p.m. Local Time on the succeeding Market Day immediately following the Issue Closing Date, will also be rejected even if they carry a postmark date earlier than the Issue Closing Date.
- iv. Applications made for less than 100 New Shares or for a number which is not in multiple of One 100 New Shares will be rejected.
- v. An Application which does not carry a CDS account number or indicates a number of a CDS account which is not opened at the time of Issue Closing Date or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment of New Shares will be made.
- vi. Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts, will be rejected.
- vii. Applicants should apply only through one investor category and would be permitted to submit only one Application Form. Two or more Applications submitted by the same Applicant either under the same category or different categories will be construed as multiple Applications and will be rejected.

- viii. The Company reserves the right to reject multiple Applications and suspected multiple Applications which are not allowed, as mentioned in Section 6.2.1.
- ix. Payment for Applications of New Shares of a value below LKR 100,000,000/- accompanying two or more cheques and bank drafts or multiple direct deposits or bank guarantees or RTGS/CEFT/SLIPS transfers as mentioned in Section 6.3.1 will be rejected at the outset.
- x. Applications made by individuals below 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected. Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part, without any explanation and reason.

6.5 Banking of Payments

All cheques and bank drafts received in respect of Applications will not be banked until the Market Day following the Issue Closing Date in terms of the CSE Listing Rules.

6.6 Basis of Allotment

The allotment of the New Shares will be made to the various categories of Applicants, as set out below:

Table 6.2 Basis of Allotment of New Shares to Various Categories of Applicants

Investor Category	Percentage of Issue (%)
Unit Trusts*	10%
Retail Individual	40%
Non-Retail	50%
	100%

* Unit Trust Investors should be growth or balanced unit trusts operated by managing companies licensed by the SEC, where such unit trusts comprise of not less than 500 unit holders resident in Sri Lanka who together hold at least 50% of that fund as per the Direction issued by the SEC (Ref: SEC/LEG/11/06/01).

Applications submitted under the Unit Trust Investor Category should accompany a confirmation by the trustee confirming that such unit trust is in conformity with the criteria defined by the SEC Directive dated June 06, 2011 (Ref: SEC/LEG/11/06/01) and CSE Listing Rules, 2.1.1(g)(ii)(b).

Local and foreign investor/s who apply for up to a maximum of 4,500 Shares (including 4,500 Shares) (value of not more than LKR 100,000/-) will be deemed as Retail Individual Investors for share allotment purposes.

Investors who do not fall under the Retail Individual Investor Category and Unit Trusts Investor Category stated above will be deemed as Non-Retail investors for share allotment purposes. The Board of Directors of SDF reserves the right to preferentially allot up to 50% of the New Shares available to be allotted under Non-Retail Investor Category to identified investors who apply through this category under the IPO.

In determining the basis of allotment within the Retail Individual Investor Category, investors who subscribe for a smaller number of shares shall be given priority.

The investor categories have been selected to ensure the broadest possible spread of shareholders while treating all Applicants in a fair manner as may be decided by the Board at its discretion.

In the event of an undersubscription in the Unit Trust Investor Category, the Retail Individual Investor Category shall be given first priority in allotment of the undersubscribed New Shares.

In the event of an undersubscription in the Retail Individual Investor Category, the Unit Trust Investor Category shall be given first priority in allotment of the undersubscribed New Shares.

In the event of an undersubscription in the Non-Retail Investor Category, Retail Individual Investor Category will be given first priority followed by Unit Trust Investor Category in the allotment of the undersubscribed New Shares.

In the event of an oversubscription in any one or more of the categories mentioned above, the basis of allotment will be decided by the Board of Directors of the Company in a fair and equitable manner.

The Board of Directors of the Company will endeavour to decide and announce to the CSE the basis of allotment as soon as practicable so as to ensure compliance with the Listing Rules. Upon the allotment being decided, an announcement will be made to the CSE.

The successful Applicants will be informed of their allotment within 10 market days from the Issue Closing Date.

6.7 Refunding/Returning of Funds on Partially Accepted/Rejected Applications

Where an Application is accepted only in part or rejected in its entirety, the balance/entirety of the monies received on an Application as the case may be, will be refunded. Such refunds will be made on or before the expiry of 8 Market Days from the Issue Closing Date (excluding the Issue Closing Date) as required by the CSE Listing Rules. As required by Rule 2.4(l) of the CSE Listing Rules, Applicants would be entitled to receive interest at the rate of last quoted AWPLR published during the immediately preceding week by the CBSL or any other authority (in the event CBSL ceases to publish the AWPLR) plus five per centum (5%) for the delayed period on any refunds not made by the expiry of the aforementioned period.

It is the responsibility of Non-Residents/Foreign Investors to ensure that their IIA details are accurately provided under 'Refund Payment Instructions' on the Application Form to forward the refund to the IIA through which the Application was made.

Refund Via Sri Lanka Inter-bank Payment Systems (SLIPS)

1. The refund payment will be made to the bank account specified by the Applicant through the SLIPS on or before the expiry of 8 Market Days from the Issue Closing Date (excluding the Issue Closing Date) as required by the CSE Listing Rules and a payment advice shall be issued to the Applicant provided that the Applicant has submitted accurate and complete details of Applicant's bank account in the Application Form. However, SLIPS transfers are subject to a maximum limit of LKR 5,000,000/- imposed by the CBSL with effect from October 29, 2010 as per Operating Instruction Circular No. 11/2010 dated October 25, 2010.
2. Even though the Applicant has requested for SLIPS transfer for refund amounts and submitted accurate and complete details of the bank account in the Application Form, refund amounts exceeding LKR 5,000,000/- will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a Joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.
3. In the event the refund payment is effected via SLIPS based on the bank account details provided by the Applicant in the Application Form, but is rejected by the Applicant's bank due to inaccurate or incomplete information, such refund payments would be made via a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In such instances, the bank together with the Registrars to the Issue will send the refund cheques to such Applicants at the earliest possible time and the Applicant should not hold the bank or the Registrars to the Issue accountable for such delays.

Refunds Via Crossed Cheque

1. If the Applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account with respect to refunds via SLIPS, the refund payment will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a Joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.
2. A request for cancellation of crossing on the refund cheque, in instances where the Applicant does not maintain a current account, should be addressed to the Registrars to the Issue in writing, stating the cheque number and the fact that the Applicant does not maintain a current account. The refund cheque and a clear photocopy of the Applicant's NIC should accompany the letter.

All Applicants (both resident and non-resident) should indicate their respective National Identity Card (NIC) Number or Company Registration Number or Passport Number as the case may be in the Application Form. Individual resident Applicants should indicate their Passport Number in the Application Form only if they do not have an NIC Number.

As per the Directive of the SEC made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the CDS dated November 30, 2010, all New Shares allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, to facilitate the uploading of allotted New Shares to their CDS account.

Please note that upon the allotment of New Shares under this Issue, the allotted New Shares would be credited to the Applicant's CDS account so indicated. Please note that **SHARE CERTIFICATES SHALL NOT BE ISSUED**.

Any Application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of Issue Closing Date or which indicates an inaccurate/incorrect CDS account number, shall be rejected and no allotment will be made. You can open a CDS account through any Member/Trading member of the CSE as set out in Annexure B or through any Custodian Bank as set out in Annexure C of this Prospectus. You can also open a CDS account through the 'CSE Mobile App'. The CSE mobile application can be downloaded from the Apple App Store (for Apple iOS users) or the Google Play Store (for Google Android users).

In the event of a refund cheque being delivered by hand by a third party to the Registrars to the Issue for cancellation of crossing, a letter of authorisation signed by the Applicant stating the NIC Number of such third party should also be presented with the refund cheque. Refund cheques on which the crossings have been cancelled by the Registrars to the Issue should preferably be collected in person or by third party authorised by the Applicant. Where an Applicant has requested the delivery of the cheque on which the crossing has been cancelled via post, such cheque will be sent at the risk of the Applicant.

6.8 Successful Applicants and CDS Lodgement

The New Shares allotted will be directly uploaded to the respective CDS accounts given in the Application Forms before the expiry of twelve (12) Market Days from the Issue Closing Date as per the CSE Listing Rules.

A written confirmation, upon the completion of crediting the respective CDS accounts will be sent to the shareholder within two (2) Market Days of crediting the CDS accounts by ordinary post to the address provided by each Applicant in their respective Applications.

Applicants have the option of having their Shares 'locked' in the CDS. Shares that are 'locked' will not be available for trading purposes and will not be visible to the participant. Such Applicants would have to fill in the relevant section in the Application Form for this purpose. If the Applicant has not specified that the Shares need to be deposited to his/her 'locked' balance in the CDS account, the said Shares would be deposited to Applicant's 'trading' balance in the CDS account.

Refer Section 6.2.1 for the definition of 'locked'.

New Shares shall not be transferable by the shareholders during the period between the date of allotment of the New Shares and up to the date of listing (excluding the date of listing) of the Ordinary Shares on the CSE. Further, the Company shall not allot any Shares of the Company (other than the allotment of New Shares) or transfer existing Shares during the interim period between the date of the Initial Listing Application and the date of listing of the Shares of the Company.

Upon the Ordinary Shares being listed on the CSE, such Shares shall be freely transferable except for those Shares mentioned in Section 9 of this Prospectus, which will be locked-in to be in compliant with CSE Listing Rules 2.1.1(d).

6.9 Declaration to the CSE and Secondary Market Trading

The Company will submit to the CSE a 'Declaration' on the Market Day immediately following the day on which the Applicants' CDS accounts are credited with the New Shares. Trading of the Ordinary Shares on the secondary market will commence on or before the third (3rd) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

Coconut Oil

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

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



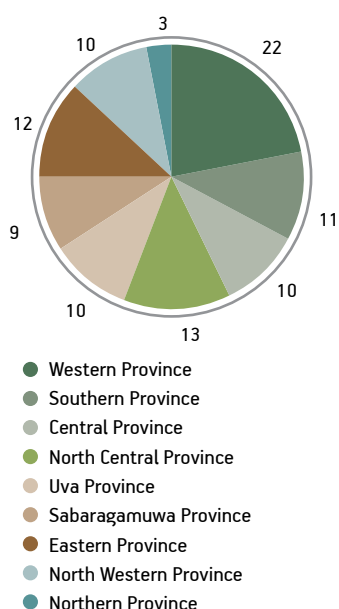
7.0 BUSINESS OPERATIONS OF SARVODAYA DEVELOPMENT FINANCE LIMITED

34

135,093
Total Client Base

LKR 6.75 Bn
of total LKR 8.67 Bn
portfolio as at
August 31, 2021
emerged from outside
the Western Province

Portfolio breakdown by region as at
August 31, 2021 (%)



7.1 Overview of SDF

All financial information and figures pertaining to FY22 in this section are based on the Unaudited Financial Statements of SDF.

Sarvodaya Development Finance Limited ("SDF" or the "Company"), formerly known as Deshodaya Development Finance Company Limited is a licensed finance company incorporated in 2010 as the economic arm of the Sarvodaya Movement. Sarvodaya movement having started in 1958 is one of the oldest NGOs in Sri Lanka, and it has been uplifting and empowering rural masses for over six decades.

Upon its establishment, SDF formalized Sarvodaya's ability to channel private sector investments into low and mid-income groups and often to communities deemed 'non-bankable' by formal financial institutions, at scale.

SDF has since evolved by capitalising on the unique Sarvodaya brand recognition and widespread network of solid relationships to cater to the needs of Micro, Small and Medium Enterprises (MSMEs) sector in Sri Lanka. At present, SDF has transformed itself into a tech-savvy financial services provider with a diverse product range to fulfil the financial needs of the customers.

SDF fulfils its mission to foster sustainable development by Providing not only a range of financial services, but also by conducting educational programmes on marketing, business management and other subject matter, and by organising specialised marketing and promotional events, targeting MSMEs from all parts of the country.

Unlike traditional financial services providers, 80% of SDF branches are located outside the Western Province to provide financial services to low and mid-level income populations. Today, while targeting SMEs as its primary customer segment, SDF also caters to the non-bankable community in Sri Lanka by delivering financial facilities to 135,093 citizens. SDF partners with the 5,400 Sarvodaya Shramadhana Societies (SSS) in villages across Sri Lanka to channel development funds deep into grass roots communities.

The principal business activities of SDF include deposit mobilisation, micro credit (represented by bulk loans to SSS, micro credit to individuals and individual entrepreneurs and gold loans), PCBE (represented by micro credit to employees of pre-approved corporate business entities), corporate and retail credit (represented by personal loans, business loans, housing loans, SME loans and leasing) and other credit facilities and related services. Despite rapid development, today, staying true to its roots, Sarvodaya's village societies still continue to grant loans at village level. For Sarvodaya, micro credit has been a tool for village regeneration and local activism.

SDF's business model is also an attractive mid-way alternative between entirely state sponsored provision of public services and complete privatization as the government is resource constrained and private capital is weary of low returns in rural investments.

Around 4% of SDF's loans have been granted directly to village societies. These village societies groom most of these borrowers and thereafter refer them to the nearest SDF branch for next level of facilities. SDF serves a market segment not serviced by others and this is one of its greatest strengths. As a result, more than 50% of SME and Leasing facilities are coming from these segments developed by the village societies.



The international shramadhana event in Bawulana village in Kandy organized and conducted to construct an access road to the village



Creating a safe learning space for conflict affected children

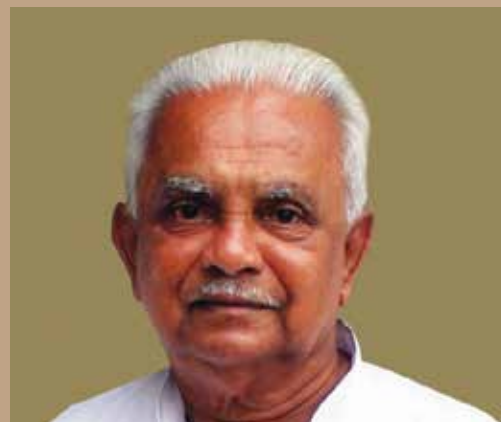
7.2 About Sarvodaya Movement

The Sarvodaya Movement commenced its journey in 1958 under its visionary Founder, Dr. A. T. Ariyaratne and has evolved as a voluntary movement committed to the upliftment of the poor and marginal communities through a philosophy of sharing and mutual support. Elected councils were later formed to represent and organise the voluntarism and concerns of the members. These councils developed into Sarvodaya Shramadana Societies, which took on the responsibility of maintaining the well-being of their communities.

Dr. A T Ariyaratne

Born on November 5, 1931, Dr. Ahangamage Tudor Ariyaratne is the founder of the Sarvodaya Movement of Sri Lanka. A former high school teacher at Nalanda College, he conducted the first shramadana work camp in 1958, which eventually led to the establishment of the Sarvodaya Movement.

For his exceptional contribution to peace and harmony, Dr. A. T. Ariyaratne has been nominated for the prestigious Nobel Peace Prize three times. He is also a recipient of the highest Sri Lankan award, SRI LANKA BHIMANYA and Gandhi Peace Award from the Government of India.



Initially the movement involved an education program that enabled students and teachers to live and work with the most remote village communities in Sri Lanka, lending a hand and developing self-help initiatives. Within nine years the “service learning programme” had expanded into a full-fledged development movement in hundreds of villages, with the goal of a comprehensive and non-violent social transformation. During its first 15 years, Sarvodaya grew with hardly any foreign aid or state support, relying on volunteer labour, mostly from the beneficiaries themselves. By the late 1970s, the Sarvodaya Movement, with support from partner organisations in more prosperous countries, became capable of reaching 15,000 villages in Sri Lanka.

7.3 Key Accomplishments Over 60 Years of Service



600

Community projects in the Plantation Sector



50,000

Women trained in self-employment



400,000

Including women and youth trained in enterprise development



Services to over
15,000
villages



5,400

registered Community-based Organizations under the patronage of Sarvodaya



3,000

houses and 15,000 water and sanitation facilities to those affected by war



250,000

volunteer community development projects, including 10,000 village roads, 4,500 pre-schools, 10,700 water projects



LKR 6.5 billion

worth of community projects during last 10 years



15,000

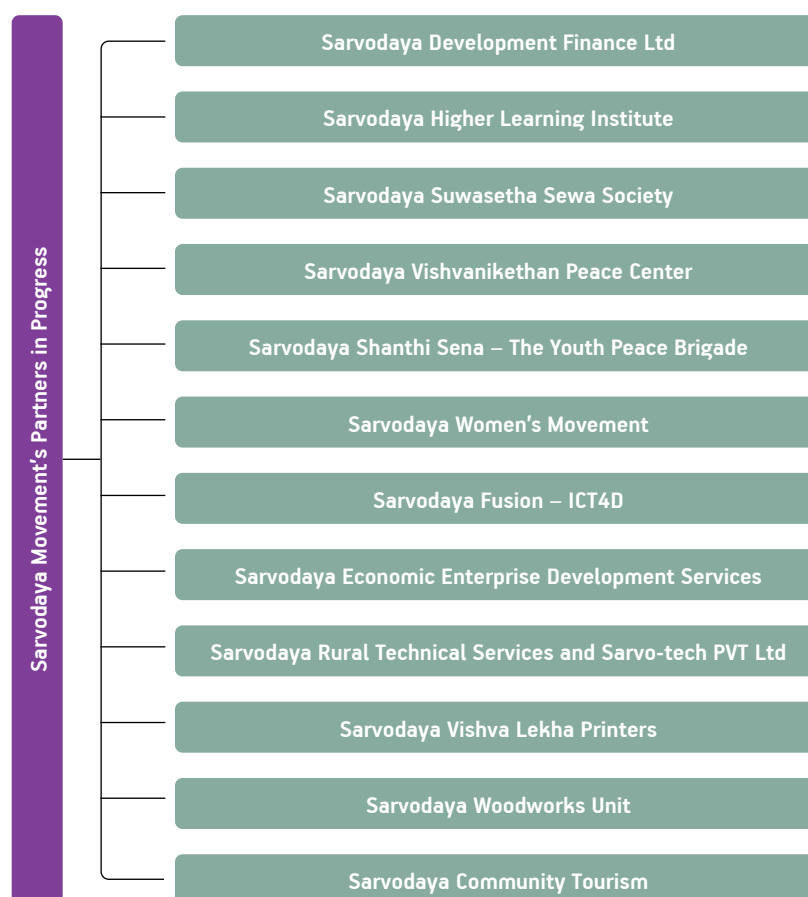
children served in Sarvodaya Suwasetha Homes



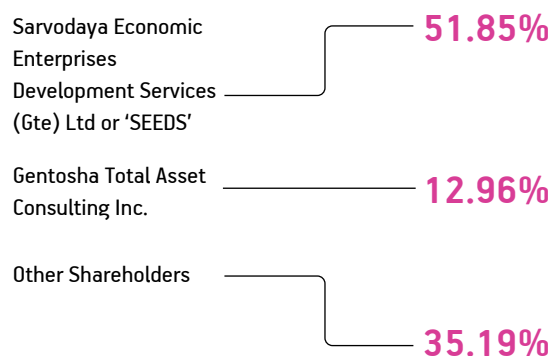
Serves over
135,000

This customer base has been with Sarvodaya for the past 25 years

7.4 Key Entities Under Sarvodaya Movement



7.5 Current Shareholding Structure of SDF



Sarvodaya Economic Enterprise Development Services (Guarantee) Limited, popularly known as "SEEDS (Gte.) Ltd.", is the majority shareholder of SDF with a shareholding of 51.85%.

Gentosha Total Asset Consulting Inc. (GTAC) formed in April 2012, is a comprehensive consulting company in Japan and owns 12.96% of SDF shares. The company consults high net worth individuals and corporates on various property and finance matters which include inheritance, business succession, optimisation of corporate finance and corporate insurance, real estate utilisation of domestic and foreign property, M&A advisory etc. GTAC's majority shareholding is owned by Gentosha Group, a large Japanese publisher of various books and magazines, including contents on property and asset formation and inheritance measures.

7.6 Product Portfolio of SDF

The product range has continuously evolved in line with changing customer needs and to support the growth and development of its clientele from grass root level entrepreneurs to fully fledged SME entrepreneurs.



Fixed Saver

Fixed Saver accounts are popular savings where savings are fixed for one year and then can use as an ordinary savings or re-activated as a Fixed Saver for another year.



Children's Savings

The saving product "Pancha" is a minor savings investment made on behalf of the child for future use



Nena Diriya Micro Leasing Loan

Nena Diriya offers low interest rates and attractive benefits for students of any age group including those in University or enrolling for higher education to acquire a laptop for their studies.

This group also includes children of SSS members.



Fixed Deposits

SDF has fixed deposit products ranging from 1 month to 5 years at a fixed interest rate. Interest is payable monthly or at maturity.



Leasing

Leasing facilities are granted to farmers, SMEs and individuals including professionals, businessmen and corporate bodies by large to purchase 'income generating assets' such as tractors, combined harvester machines, trucks, three wheelers and all types of motor vehicles. SDF provides easy payment schemes and fast and friendly service through an island wide branch network and the Auto Finance Department at corporate office.



Micro Loans

Micro Personal Loans provides financial support for personal needs of salaried employees and also serves the under-served low-income employees who are not catered to by banks and other financial institutions.

Micro Business Loans are offered to micro-scale entrepreneurs to meet working capital requirements and capital expenditure. SDF continues its pioneering micro-finance services in Sri Lanka through this core product.



SME Loans

SME facilities are offered in the forms of term loans, short-term loans and revolving loans for customers to facilitate the financial needs of their businesses. SDF offers SME loans through the SME Department at the corporate office.

These loans are classified as either "SME General" or "SME Agri" loans. SME Agri loans focus on SMEs involved in paddy milling, food processing, production of agricultural inputs and agriculture related businesses or exports.



Private Loans

Employees of private and public sector corporates are offered competitively priced personal loans with an employer undertaking to deduct the loan instalments from their salaries and remit to SDF.



Gold Loans

Quick and easily accessible form of credit available for both personal and business financing. SDF emphasizes gold loans to support businesses and provides concessionary terms.



Society Loans

Provides bulk loans to Sarvodaya Shramadana Societies 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



Dairy Loans (Kiri Goviya)

These loans are targeted towards uplifting the local dairy industry and are provided to existing SDF micro clients, farmers who are presently involved in dairy farming or have registered with milk collecting centers, SSS members who are involved in dairy farming and even farmers who have engaged in dairy activities previously.



Housing Loans

These 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 including small scale entrepreneurs and estate workers.



Cash Backed Loans

Loans are granted against Fixed Deposits at attractive rates to facilitate urgent financial requirements of deposit holders

As per the philosophy of The Sarvodaya Movement, SDF does not provide its financial services to individuals and entities who are engaged in the production, marketing or distribution of the items indicated in the following negative list:

- ➔ Tobacco, alcohol, gambling, and prostitution
- ➔ Arms trade, narcotics, and illicit drugs
- ➔ Environmentally harmful products or activities
- ➔ Inciting and propagating harmful religious, racial, ethnic, social, cultural and sentiments
- ➔ Trading meat and live animals for consumption
- ➔ Products and services harmful to human health
- ➔ Illegal migration and human trafficking



Community based agri leasing

7.7 Physical Infrastructure of SDF



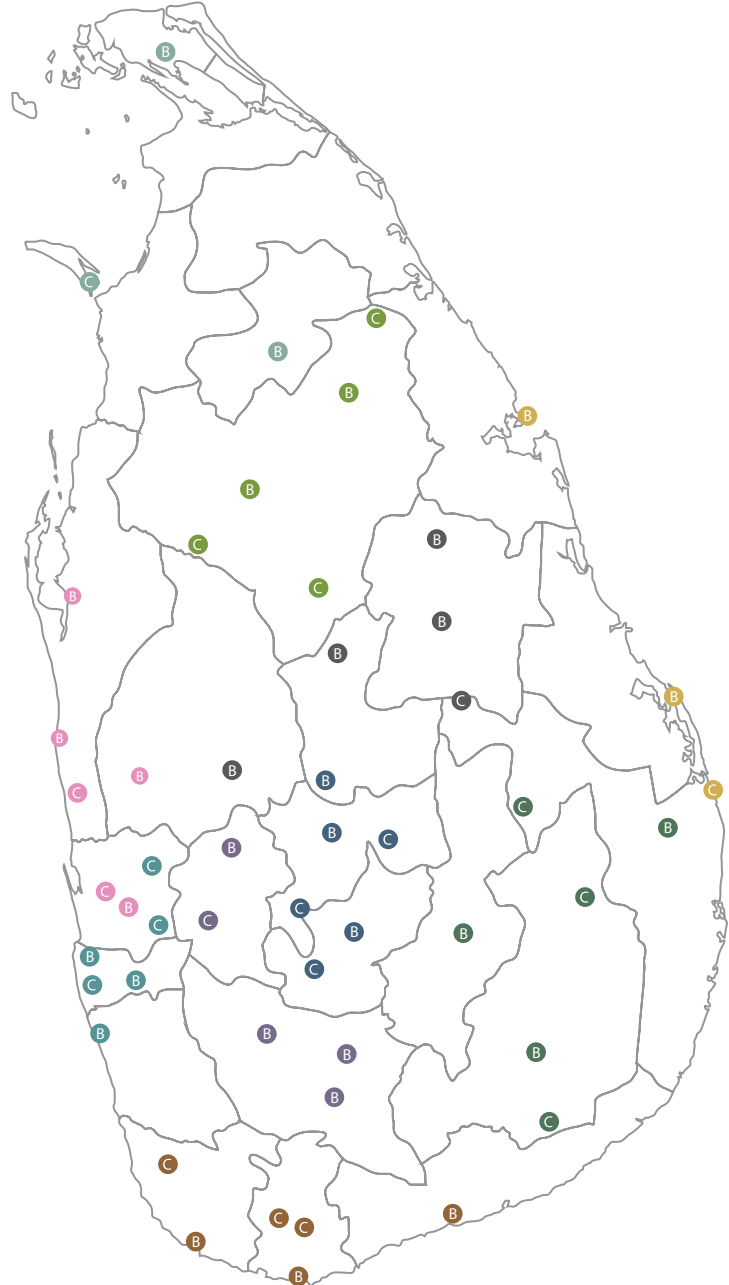
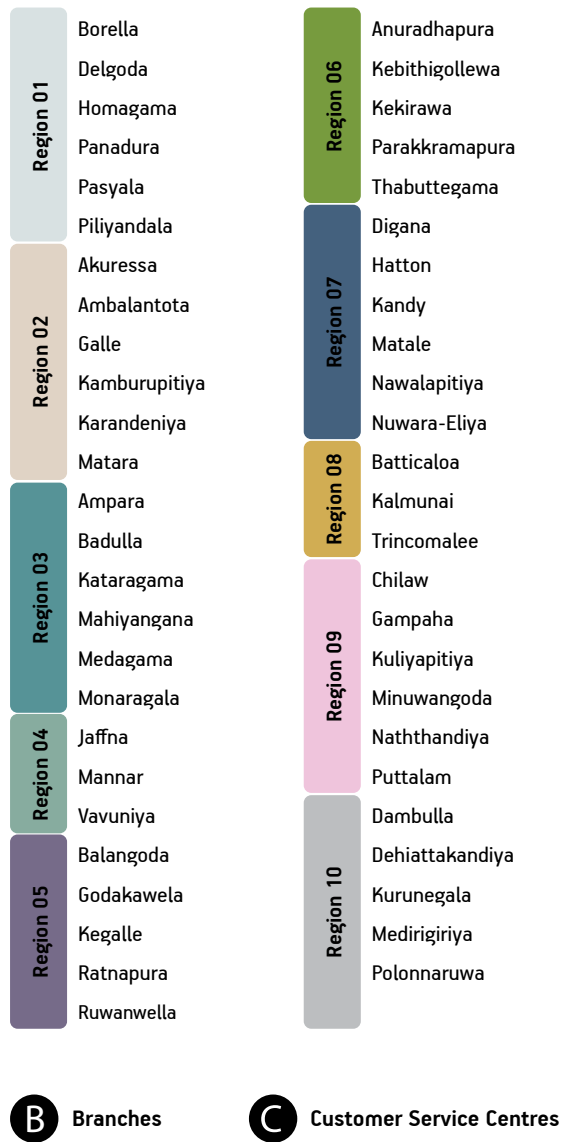
Opening ceremony of Gampaha Branch - awarding a tractor leasing facility to one of the customers

The requirement to provide convenient financial services by SDF is considered strategically important along with the continuous expansion of its deposit base. As at September 30, 2021, the entire service network of SDF comprised of 51 customer delivery points, comprising 30 branches and 21 customer service centres (CSCs), spread across the island serving different segments of society including the grass root levels.

Branches of SDF are set up in key strategic locations giving the Company access to both rural and urban populations. The revamped branch network was located at the most beneficial locations and the transformation of the branch outlook aided in brand visibility. In 2019, the Company relocated its Head Office premises to the Colombo metropolitan area enabling greater visibility to potential clientele and as a brand positioning initiative.

Further, as a measure of providing a convenient service for savings withdrawals, SDF joined the Island-wide ATM network via LankaPay network in 2018 to provide SDF customers access to over 400 ATMs across the country. SDF's business model is shifting more towards SME and leasing predominantly on agro based income generating assets such as tractors, combined harvester machines, small trucks in the recent years, where the majority of disbursements of these products are given to clients outside the Western Province.

Figure 7.1 – Physical Infrastructure of SDF



51
Branches/Customer
Service Centres

7.8 Customer Orientation

SDF strives to extend the best service standards to its customers, thus increasing customer satisfaction levels, the number of repeat customers and the overall longevity of operations. Communication with customers is maintained on a consistent basis whereby the Company uses customer feedback to improve the productivity of the operations and the effectiveness of the products. Customer satisfaction is evaluated via Mystery Shoppers which is a mechanism used to identify areas that need improvement, and to take necessary action.

In addition, customer feedback is discussed at staff meetings and management meetings, to respond as soon as possible. Furthermore, the Company conducts customer satisfaction surveys on a continuous basis and encourages customer feedback through placing suggestions and complaint register in branches. Also, via social media customer satisfaction is measured in order to analyse customer response patterns.

SDF introduced a hotline support with a short code 1319. This hotline would provide a speedy service to customers or potential customers in need of their financial emergency. A customer can call 1319 from any phone and it will get directed/connected to a call centre which is operated by a dedicated team who are ready to assist customers or potential inquirers who might become potential customers, instantly.

As a key strategy of strengthening the business partnership with Sarvodaya Societies, SDF has given a greater emphasis on the activities carried out by Society Coordinating Unit (SCU) of SDF. SCU focuses on strengthening SSS through motivation of the SSS officers and the management. In order to fulfil this strategic objective, SCU conducts several development and leadership training programs to SSS officers each year. Further, SDF continued to activate the dormant SSS and to re-engage them and rebuild the network to fulfil Sarvodaya's greater mission and vision. The SCU conducts joint marketing campaigns with SSS, to grow the SDF's brand name and assists in increasing bulk- loans to SSS, savings including children's savings and micro personal and business loans to SSS members.



Training provided by an expert from Agrarian Services department on sustainable agriculture program to female community base

7.9 Human Resources at SDF

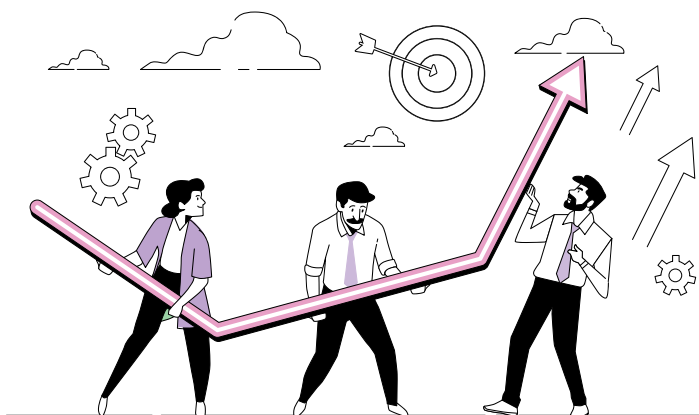
Human Resource (HR) strategy of SDF has been aligned with the corporate strategy and the HR policies cover all HR related matters from recruitment to retirement. SDF does not discriminate on the grounds of race, gender, age and any other socioeconomic factors in recruitment, training and promotion of its employees. The HR resource is built through training, coaching and mentoring to increase the creative and innovative output of the business operations.

As a key component of competitiveness in the marketplace, SDF continues to further integrate the HR strategy with the corporate strategy by addressing any HR policy gaps through the revision of formal policies and by adopting next generation management concepts to enhance the quality level of its employee base.

SDF motivates its staff using performance-based incentive schemes, training and skill development opportunities and reward systems including spot rewards. SDF conducts numerous quality development training in-house and outside as well as on the job training. HR policies are periodically upgraded to capture the latest HR management developments and thereby, identifying next generation motivation methodologies to enhance the quality level of the employee base.



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



Integrating HR Strategy for Value Creation

Policy Development

- ➔ Promotion policy
- ➔ Grievance handling policy
- ➔ Annual increment policy
- ➔ Recruitment criteria

Rewards and Incentives

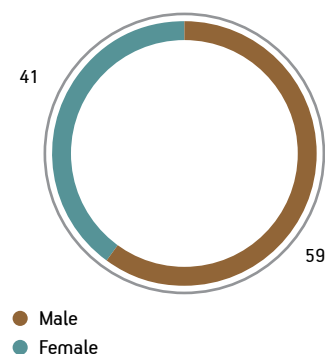
- ➔ Targets
- ➔ Monthly incentives
- ➔ Quarterly rewards
- ➔ Salary revisions
- ➔ Bonus
- ➔ Benefits

Training and Development

- ➔ Specialized training
- ➔ Soft-skills training
- ➔ Regional training

The current staff strength of SDF consists of 486 employees as at September 30, 2021

	Male	Female	Total
Corporate Management	2	0	2
Senior Management	21	2	23
Line Management	76	16	92
Executives	166	169	335
Others	21	13	34
Total	286	200	486



The employees of the Company are not members of any labour union and hence, the Company has not entered into any agreements with any labour union.

7.10 Core Competences of SDF

Experienced Management Team and Qualified Employees

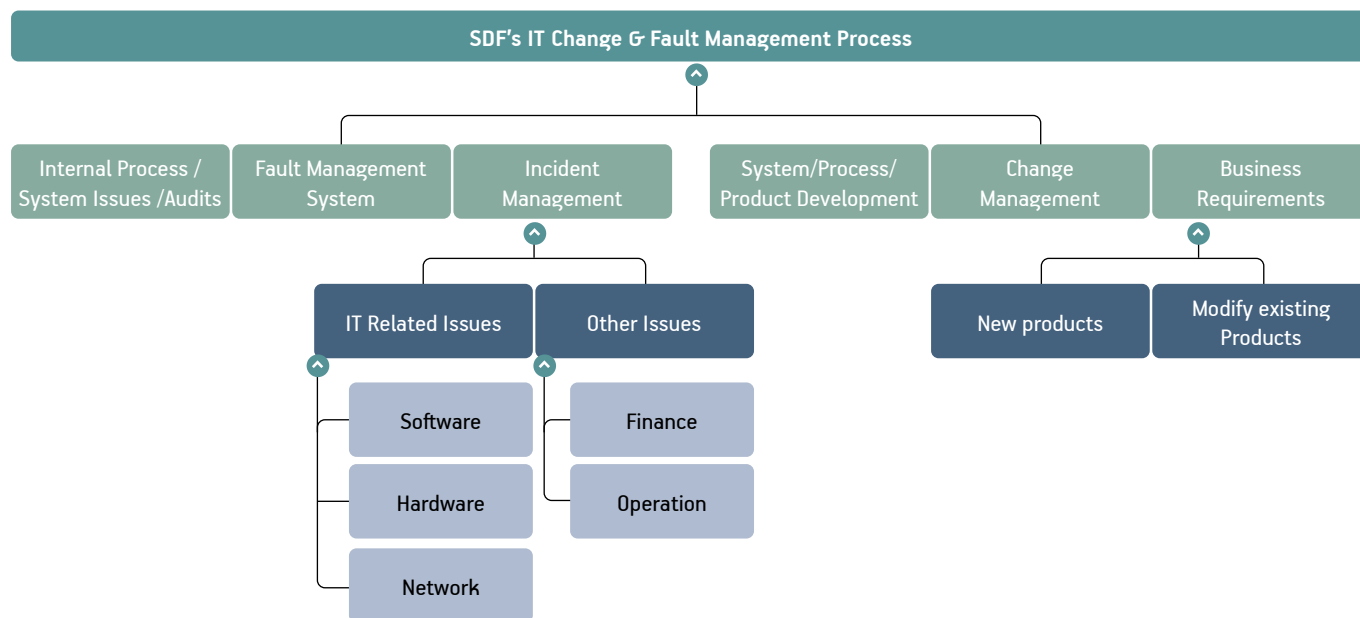
The Company has an experienced corporate management team who has extensive expertise in their respective domains. The experience and professionalism within the corporate management team has been the catalyst in integrating the core competencies which enables SDF to capitalise on the market opportunities.

The management team of SDF is a qualified and trained workforce who has mastered the operations in respective service divisions. Skill sets of employees provide the Company the flexibility to adapt to the needs of its clients and deliver the financial solutions in an effective manner.

Modern and Advanced Technology

A key success factor that has driven SDF to procure a successful growth over the years is its technical competency and incessant innovativeness in the infrastructure development field. IT strategy of the Company aims to include technology in all its operations to build efficiency and effectiveness across the organisation structure. As such the systems and processes are aligned, designed and inbuilt to reach greater customer satisfaction and quality of service. SDF strive to continuously upgrade its IT system with available new technologies to improve the effectiveness and efficiency of delivering a better value for its clientele.

SDF invests continuously in upgrading various applications of the IT system for improved MIS/Finance reporting and several other industry best practices. These upgrades improved customer convenience and reduced lead time for carrying-out transactions.



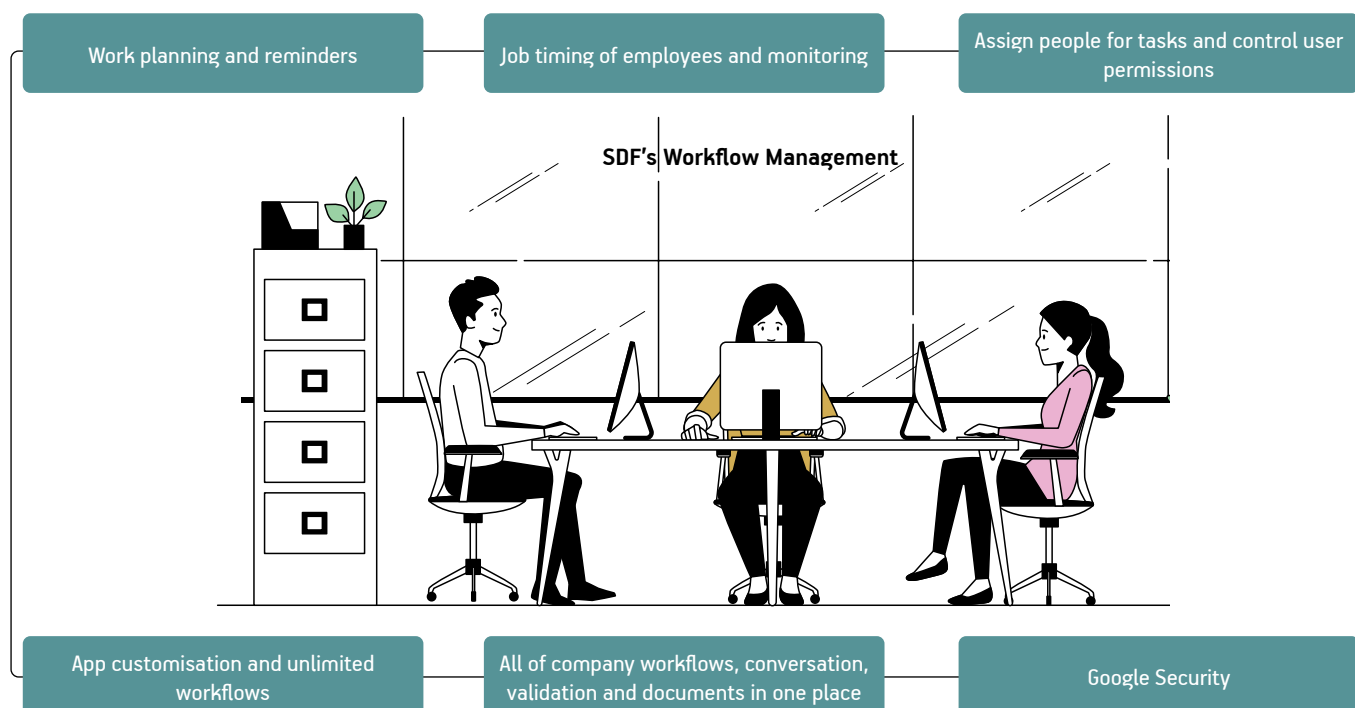
A brand-new chapter in the financial services industry, the virtual branches concept, has captured the attention of SDF due to the time efficiency, saving on cost on building premises, convenience, flexibility and to reach the millennial entrepreneurial population in the country for next generation banking experience. The Company commenced its initial step towards virtual branches equipped with the modern technology such as collections via Mobitel mCash and Western Union money transfers. Further, the change towards virtual banks will enable SDF to reach niche markets, expand reach, and increase speed and to increase monitoring and control to a greater and transparent level.

Digital Transformation Solution



SDF's Digital Transformation Framework

Going forward SDF is building workflow management systems and has commenced to process mapping and workflow building for identified crucial processes. Through this, SDF expects the workflow management system to enhance efficiency through transparency improving the quality of service aiming enhanced customer satisfaction levels. Further, value addition in terms of cost savings, flexibility and lean processing is also expected from the initiative.



Group Synergies through Affiliation with “Sarvodaya Movement” and SDF Brand

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

In the continuation of the Company brand repositioning initiative, further action to place the SDF brand as a millennial driven, digitally revolutionised, commercial enterprise, specialising in unique customer experience centric financial services provision was further improved using targeted marketing techniques. Repositioning the SDF brand has been a strategic priority for the Company. Thus, by using technology, the brand was revamped to one known to be value centric, customer driven, economic value creator.

New Product Development and Brand Image

The new savings and fixed deposit products introduced by SDF, namely, Daru Isuru Savings, 60x60 Dambadiva Vandana Fixed Deposits and Pancha children’s savings with a new gift scheme, elevated the SDF brand as a responsible and responsive brand addressing its customers’ current requirements. These products add value to SDF brand by specifically focusing on a customer segment and their identified needs.

Thus, the products enable the SDF brand to be recognised as a customer centric and responsive brand. Following are few other new products introduced by SDF during the year.

New Leasing Products	
SDF Scooter Bike	The Company launched this new leasing product for its female customers to purchase their own personal scooter bike through a leasing facility obtained from the Company. This new product focuses on target customer segments, such as, salon owners, beauticians, insurance advisors, permanent female employees of the government and private sector and self-employed female entrepreneurs. The customers can obtain a leasing facility up to 70% LTV for a maximum tenor of 3 years to purchase a brand new or an unregistered scooter bike. This product comes with added features such as, a free comprehensive insurance. Cover and a free motor-bike jacket with SDF logo embroidered.
New 3W Leasing Package	The product is targeted at penetrating the 3W leasing market with competitive features to grow the leasing portfolio via higher volumes with lower risk and higher NIM's. This new three-wheeler leasing package introduced in the previous year was re-energized by adding more features to include 2 free tyres and free RMV for the first year in addition to the free insurance for the first year which was already there.
Aapu Gaman Cash	The Company launched this product by targeting to cater for the short-term working capital requirements of the Company's SME clients, as well as any emergency cash needs of professionals and salaried employees. The customers can borrow up to 50% LTV of their vehicle by keeping the RMV book as a security with no additional guarantors. The customers who wish to borrow through this product, can obtain a structured leasing facility, with a maximum tenor of 2 years, with interest paid monthly and capital paid as a bullet payment, to facilitate their growing financial emergencies.

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

New PCBE Products	
Consumer Durable Easy-payment Loan Scheme	In partnership with Singer Sri Lanka an easy payment loan scheme to purchase a selected range of products from Singer retail outlets was introduced during the current year. The product was launched through selected SSS island-wide to facilitate their members to purchase Singer products.

New Micro Business Loans Products	
Tharunodaya Loan Scheme	<p>The Tharunodaya is a subsidized loan scheme targeting Micro Entrepreneurs under the Tharunodaya Project of Sarvodaya Movement to aid the young entrepreneurs to meet their working capital requirements to purchase of equipment or machinery for the smooth running / start-up of business ventures.</p> <p>Project objectives</p> <ul style="list-style-type: none"> ➤ Self-dependency ➤ Enjoy financial autonomy ➤ Contribute to the development of the area ➤ Actively participate in the development of the nation ➤ Provide employment opportunities to others ➤ Live with dignity, start a family <p>Marking the uniqueness of the Tharunodaya loan scheme, during 2019 SDF offered young entrepreneurs a leasing facility to finance Jet Ski which enables them to obtain state-of-the-art water sports equipment. Through this initiative, young people can offer tourists the opportunity to enjoy high-adrenaline water sports such as jet skiing on the Thissamaharama Water Reservoir and Gregory Lake, Nuwara Eliya. The first two clients were handed over with keys at the head office relocation ceremony held in Colombo.</p>

Sound Business Partnerships



Distribution of POS machines to Sarvodaya Shramadana Society members



SDF has come forward to empower women leaders in rural villages

SDF has a sound track record of partnering with well-known suppliers to promote leasing and micro loans. SDF has signed Memorandum of Understandings (MOUs) with Pay&Go and All Island Schools Children's Transport Association while jointly arranging marketing campaign with David Peiris for three-wheeler leasing.

Partnership with Pay&Go facilitate the customers to settle their payments via handheld digital devices from SDF's extensive network of branches, Providing privileged and personalised service while promoting on-time payment transactions with real-time updates. MOU with All Island Schools Children's Transport Association would assist to explore the opportunity to reward the 30,000+ membership of the association with flexible, convenient, and trustworthy finance solutions by offering customised, unique financial solutions.



Pay & Go & SDF MOU signing for Agri Leasing products focusing tractors & harvesters

7.11 Corporate Social Responsibility



Child development programme conducted by SDF with the participation of Dr. Vinya Ariyaratne



Team Sarvodaya carrying out rescue operations in flood affected areas

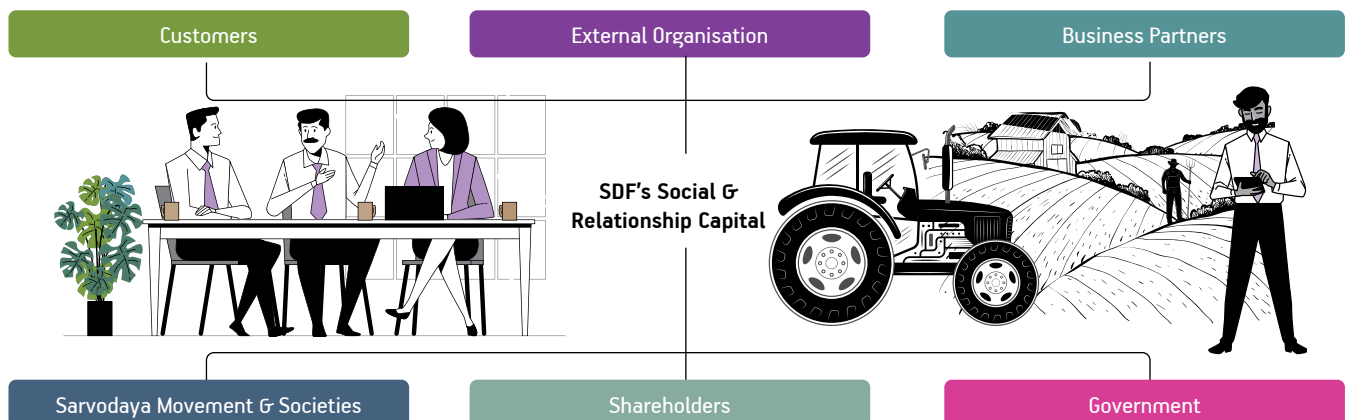
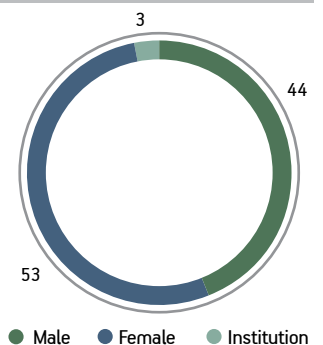


Community development programme conducted by SDF with the participation of Dr. Vinya Ariyaratne

Responsibility and commitment towards community remains an integral feature within the CSR framework of SDF with primary importance given to building better community living and lifestyle enhancement. SDF through its business culture attempts to support financial needs of micro entrepreneurs and SMEs, and distributes dividend to its parent, SEEDS, which redistributes these funds through community welfare activities through the Sarvodaya Movement. In addition, SDF also engages in CSR and charitable events to contribute to those in needs. As a policy, SDF does not finance projects that are harmful to society, such as slaughtering animals, gambling, money laundering and alcohol. As a responsible corporate citizen, SDF encourages women empowerment, sustainability, and environment protection activities.

The Company's contribution towards social and community advancement during the reporting year is highlighted below.

Customer Breakdown as at September 30, 2021 (%)



Some of the successfully completed CSR programmes of SDF include the following.

Coexist Sri Lanka



Coexist Sri Lanka is a platform founded by SDF to ignite and inspire synergetic collaboration and co-creation between progressive businesses, innovative social entrepreneurs, and young society leaders to create a stronger and more sustainable Sri Lanka that is supported by an empowered coexistence on all levels.

Coexist focusses on co-creating:

- ➔ Sustainable business
- ➔ Sustainable communities
- ➔ Sustainable nature

Coexist strives to create a meaningful dialogue to promote and create awareness of coexistence among all members of the community. Event which was organized by Coexist to create movements that inspire people and communities was a good reflection of the values that make up the foundation of SDF.



Sri Lanka's 1st ever Pumpkin Farmer's Festival introduced and organized by Co-Exist Foundation, which was established by SDF under the supervision of SDF Chairman. This was organized with the purpose of supporting the farmers in north central to sell their crop

SDF Covid Recovery Drive

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

In Sri Lanka, small and micro businesses were the most vulnerable to the sudden total loss of markets, and revenues for prolonged periods of time due to Covid containment measures by the Sri Lankan Government and Governments of export markets. From rural to urban parts of the country, thousands of small businesses lost their revenues overnight and were left with a frighteningly uncertain future.

Guided by the philosophy of economic opportunities for all and financial inclusiveness, SDF has taken concrete steps to support this national cause, some of which are listed below:

- ➔ Providing employment opportunities, within the SDF network, for migrant workers who lost foreign employment.
- ➔ In support of those entrepreneurs who lost their revenues or face uncertain cashflows, SDF developed supportive and personalised financial packages and immediately provided the Government debt moratorium. SDF also works closely with customers to rebuild businesses, or to start new enterprises.

- SDF mobilised its services at the regional level, covering all parts of the country, for customer convenience, and to ensure access to urgent financial support for business and personal requirements.
- In addition to financial services, SDF also backs environmentally sustainable recovery, by promoting green and sustainable business models.
- The SDF sustainable financing drive emphasises environmentally friendly business ventures, such as solar panels, and agricultural businesses that are essential for economic recovery. SDF spearheaded this sustainable recovery drive by adopting solar energy at its head office and will introduce such concepts to its customer base as well.



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



Intermediate care support team

"Nena Diriya" Micro Loans



Providing laptops under the Nena Diriya Micro Leasing Scheme

With the spreading of the COVID-19 pandemic and the subsequent lockdown imposed island wide in the month of March 2020, children's education was significantly disrupted as they were unable to attend school or tuition classes. As a result, a number of schools shifted to conducting classes using online tools. While a minority of the student population living mostly in the urban areas had easy access to computers and laptops for their online education, a majority of the population from suburban and rural areas were left out due to financial difficulties in purchasing laptops. As a responsible organisation that believes that all segments of society are cared for and given every opportunity to grow, SDF stepped forward to provide these students the means to acquire their own laptop by launching the "Nena Diriya" Micro Leasing Loan. Nena Diriya offers low interest rates and attractive benefits for students of any age group to acquire a laptop for their studies.

7.12 Accolades and Awards



Celebrating the award received on “Fastest Growing Development Finance Company in Sri Lanka 2021”

The relentless endeavour of SDF has been recognised by accomplishing rewards for the commitment towards consistent innovative and value-added solutions, quality, safe and sustainable construction.

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

SDF won gold award under finance and leasing companies at the 55th Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka, held in December 2019.

Most recently, SDF was recognised as the ‘fastest growing development finance company in Sri Lanka’, at the UK based, Global Banking and Finance Review Awards 2021.

7.13 Future Direction of SDF

Digital Evolution

SDF’s “Digital Strategy” is its future strength. The current digital platforms will be further enhanced to make SDF a fully-fledged digital entity with seamless digital connectivity between clients and SDF offices. All aspects of the business model will be digitized to enable greater flexibility and reach, with enhanced controls and efficiency.

As part of this “Digital Strategy,” SDF is to develop an application “SDF Smart Village App” to share services and assets efficiently among peers in real time through a highly responsive smart digital platform.

This App will enable trusted and secured transactions helping them to have broad based ownership. As a result, SDF will promote economic opportunities for individuals, empowering them into micro and SME entrepreneurs, allowing workers to enjoy flexibility and freedom. SDF expects that the “SDF Smart Village App” will disrupt numerous industries and redefine the fundamentals of employment.

Brand Building

SDF intends to enhance branding through advertising and marketing efforts and by stronger linkages with SSS and Sarvodaya Movement. Further, SDF intends to empower its staff through offering opportunity for participatory decision making, job rotation, instant rewards on service excellence and coaching and training for leadership. Staff social engagements will also be strengthened to develop team spirit and cooperation among primarily front-line personnel adding value to SDF’s origins which are rooted in rural communities and the social welfare movement in Sri Lanka.

Improve Asset Quality

SDF with a view to build a solid financial foundation for the Company, focuses on improving the quality of the lending portfolio as a strategic priority. Therefore, while pushing new lending products, SDF continues

to place high importance on recoveries and internal procedural aspects, including training for credit officers, to ensure better quality of new lending.

Portfolio Mix

SDF is uniquely placed in that it serves a vast range of clients from small businesses and individuals requiring micro-financing to high-net-worth individuals with more complex financing requirements. SDF treats all customers with the intention of creating long term relationships and tirelessly supports its micro financing clientele with the aim of instilling and developing their financial literacy. These clients soon grow to have greater funding needs, generating greater returns to SDF. Going forward, SDF aims to redouble its efforts in developing these small clients and aiding their growth while still retaining them as customers, thereby shifting their portfolio mix towards a higher average ticket size.

7.14 Major Assumptions Relating to the Future Plans of SDF

SDF will continue to fulfil its mission to foster sustainable developments and cater mainly to the MSME sectors, particularly in rural Sri Lanka. The onset of Covid-19 made digital transactions a necessity for all and created new necessities such as laptops and computers which increased the demand for microfinancing. Additionally, the impact on small business was high with most investments shifting to online platforms and channels.

SDF expects that the present shift to digital forms of operations will persist even after the pandemic induced lockdown situation has ceased. Further, the Company assumes that as a result of this shift, the way forward in the financial services field lies in digital offerings and transaction services to facilitate growing demand from increasing numbers of digital only businesses and a growing population of digitally literate youth.

SDF assumes that in order to successfully carry out its plans, the local and global macro economic conditions will remain favourable to such endeavours. As such, it assumes that the Covid-19 pandemic, resulting economic effects and other unforeseeable events will be successfully weathered by SDF with minimal negative impact on the Company and its plans.

SDF assumes that through its strong HR practices and commitment to staff welfare, it will be able to retain and attract talent with the right skillset and domain knowledge who will drive these plans going forward.

Please refer Section 12 for risks associated with business operation and future strategies of SDF.



Lemongrass

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

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

8.0 CORPORATE STRUCTURE

8.1 The Board of Directors of SDF

The Board of Directors of SDF endeavours to provide leadership through effective formulation and execution of policies and procedures to attain the objectives of the Company. The Board assumes ultimate responsibility for corporate governance within the Company. As at the date of the Prospectus, the Board comprises of nine (9) Directors of which six (6) are Non-Executive/Independent Directors including the Chairman and three (3) are Non-Executive/Non-Independent Directors. Board members are established personnel in their respective professional fields with several serving on public company boards, collectively providing the diversity and balance of skills for effective stewardship.

Table 8.1 The Board of Directors of SDF

Name	Designation
Mr. Channa de Silva	Chairman Non-Executive / Independent
Mr. Masayoshi Yamashita	Director Non-Executive / Non-Independent
Mr. Chamindha Rajakaruna	Director Non-Executive / Non-Independent
Mr. Senthil Nandhanan Senthilvel	Director Non-Executive/ Non-Independent
Mr. Dammika Ganegama	Director Non-Executive/ Independent
Dr. Janaki Kuruppu	Director Non-Executive / Independent
Mr. C. Amrit Canagaretna	Director Non-Executive / Independent
Ms. Shehara De Silva	Director Non-Executive / Independent
Mr. Sunil De Silva	Director Non-Executive / Independent

8.2 Profiles of the Board of Directors



MR. CHANNA DE SILVA

Chairman – Non-Executive/Independent

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

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

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

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



MR. MASAYOSHI YAMASHITA
Non-Executive/Non-Independent

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



MR. CHAMINDHA RAJAKARUNA
Non-Executive/Non-Independent

Mr. Chamindha Rajakaruna, is the Executive Director of Sarvodaya Shramadana Movement of Sri Lanka, the largest non-governmental organisation in the country since 2015. He was appointed to the Board of Directors of SDF on November 1, 2017.

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

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

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

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

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



MR. SENTHI NANDHANAN SENTHILVEL
Non-Executive/Non-Independent

Mr. Senthil Nandhanan Senthilvel was appointed to SDF Board on July 15, 2021. He counts 18 years' of corporate experience. He was on the board of Pan Asian Power PLC and currently the CEO at Dollar Corporation, total solution provider for cosmetics, confectionery, beverages, toiletries, detergent, incense stick and allied Industries since 1945. He is also an Executive Director at Senthilvel Holdings (Pvt) Ltd, investment company specialised in equity investments founded by Dr. Thirugnanasambandar Senthilvel. He has exposure in several areas such as sales, marketing, purchasing, logistics and equity trading. He is a Member of Association of Business Executives and holds an MBA from the University of Southern Queensland, Australia.



MR. DAMMIKA GANEGAMA
Non-Executive/Independent

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

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



DR. JANAKI KURUPPU
Non-Executive/Independent

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

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

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



MR. C. AMRIT CANAGARETNA
Non-Executive/Independent

Mr. C Amrit Canagartna is an experienced and a qualified ex-banker with over 35 years of international and local experience specialising in retail and corporate conventional and Sharia-based financing, with the last seven years ending 2017 heading Corporate and SME Business Banking areas of Islamic Financing at Amana Bank PLC as its Vice President – Business Banking. Previously he has been the Deputy General Manager of Pan Asia Bank PLC.

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

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

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



MS. SHEHARA DE SILVA
Non-Executive/Independent

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

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

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

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

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



MR. SUNIL DE SILVA
Non-Executive/Independent

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

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

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

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

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

8.3 Other Directorships and Positions Held by the Board of Directors

Table 8.2 Other Directorships and Positions held by Board of Directors of SDF

Name	Other Directorships/Positions Held	
Mr. Channa de Silva	<ul style="list-style-type: none"> ➤ Capital Media ➤ Echolen Media ➤ K Seeds Investments (Pvt) Ltd ➤ Bansei Royal Resort ➤ Neelan Tiruchelvam Trust ➤ Kandy Green Hills ➤ Lake Village (Pvt) Ltd 	<p>Chairman</p> <p>Chairman</p> <p>Director</p> <p>Director</p> <p>Trustee</p> <p>Chairman</p> <p>Chairman</p>
Mr. Masayoshi Yamashita	<ul style="list-style-type: none"> ➤ Gentosha Total Asset Consulting Inc. ➤ Gentosha Asset Management Inc. 	<p>Director</p> <p>Director</p>
Mr. Chamindha Rajakaruna	<ul style="list-style-type: none"> ➤ Sarvo- Teck (Pvt) Ltd ➤ Sarvodaya Sustainable Economic Enterprise Development Services (SEEDS) ➤ Sarvodaya Institute of Higher Learning 	<p>Director</p> <p>Director</p> <p>Director</p>
Mr. Senthil Nandhanan Senthilverl	<ul style="list-style-type: none"> ➤ Senthilverl Holdings (Pvt) Ltd ➤ Dollar Corporation 	<p>Executive Director</p> <p>Chief Executive Officer</p>
Mr. Dammika Ganegama	<ul style="list-style-type: none"> ➤ Mitra Innovation Ltd (UK) ➤ Mitra Innovation Pvt Limited (SL) ➤ Mitra Innovation Pty Ltd (AUS) ➤ Mitra Innovation Pte Ltd (Singapore) ➤ Mitra Spark Ltd (UK) ➤ Mitra Ventures Ltd (UK) ➤ Sri Lanka & Australia Chamber of Commerce. ➤ Samuel Gnanam IT Center ➤ Dama Japan Auto Imports 	<p>Co-founder/Managing Director</p> <p>Co-founder/Managing Director</p> <p>Co-founder/ Director</p> <p>Co-founder/ Director</p> <p>Co-founder/ EVP</p> <p>Co-founder/ EVP</p> <p>Vice President</p> <p>Advisory Board Member</p> <p>Founder/ Managing Director</p>
Dr. Janaki Kuruppu	<ul style="list-style-type: none"> ➤ Serendib Finance Ltd ➤ Mother Lanka Foundation ➤ Green Building Council of SL 	<p>Director</p> <p>Director</p> <p>Director</p>
Mr. C. Amrit CanagaRetna	<ul style="list-style-type: none"> ➤ International Needs Lanka - INLK 	<p>Honorary Director</p>
Ms. Shehara De Silva	<ul style="list-style-type: none"> ➤ Keells Food PLC ➤ NTT-Neelan Tiruchelvam Trust ➤ Quickshaws Pvt Ltd ➤ Quickshaws Travel (Pvt) Limited ➤ Chimneys Pvt Ltd ➤ Informatics Institute of Technology, Board of Management 	<p>Non-Executive Director</p> <p>Trustee/Director</p> <p>Non-Executive Director</p> <p>Non-Executive Director</p> <p>Non-Executive Director</p> <p>Non-Executive Director</p>
Mr. Sunil De Silva	<ul style="list-style-type: none"> ➤ Seylan Developments PLC 	<p>Independent Director</p>

8.4 Directors' Shareholdings in the Company

Directors' shareholding in the Company as at date of submission of Initial Listing Application to the CSE (i.e. September 6, 2021) are given below.

Table 8.3 Directors' Shareholding in SDF

Name of Director	Number of Shares	Value of Shares	Percentage of Shareholding (%)
Mr. Channa de Silva	140,000	3,080,000	0.13%
Mr. Dammika Ganegama*	365,000	8,030,000	0.35%

*Mr. Dammika Ganegama holds these Shares jointly with his spouse Ms. N H Ariyaratne

8.5 Sale and Purchase of SDF Shares by Directors

Share transactions made by Directors during the one (1) year period preceding the date of the Prospectus are tabulated below.

Table 8.4 Share Transactions of Directors in SDF

Name of Director	Date of Transaction	Transaction	Number of Shares	Price per Share (LKR)
Mr. Channa de Silva	August 28, 2020	Subscription for the share issue via Prospectus dated August 24, 2020	140,000	22/-
Mr. Dammika Ganegama	February 9, 2021	Subscription for the share issue via Prospectus dated August 24, 2020	365,000	22/-

*Mr. Dammika Ganegama holds these Shares jointly with his spouse Ms. N H Ariyaratne

8.6 Directors' Interests in Contracts

There are no contracts or arrangements in force as of the date of the submission of the Initial Listing Application in which the Directors of SDF are materially interested in relation to the business of the Company.

8.7 Directors' Interests in Assets

None of the Directors of SDF have any interest in any assets acquired, disposed or leased by the Company during the past two (2) years preceding the date of this Prospectus and/or in any assets proposed to be acquired, disposed or leased during the 2 years succeeding the Issue.

8.8 Statement – Board of Directors

No Director or a person nominated to become a Director of the Company has been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer.
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

8.9 Corporate Governance

The Board of Directors of SDF believes that the Corporate Governance is the gateway for long-term sustainability enhancing value for the stakeholders through ethical business conduct. The Board has the prime responsibility for managing affairs at SDF in a fair and transparent manner. The Board of SDF ensures that the Corporate Governance guidelines and best practices are strictly followed. The Board is aware of its inherent responsibility to disclose timely and accurate information regarding the financial performance as well as navigating the governance of the Company through its leadership.

The Board ensures that the necessary processes are in place to review and evaluate the Company's operations. For this, the Board has adopted Corporate Governance practices in line with the guidelines of CBSL and Code of Best Practice on Corporate Governance 2013 published jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and Section 3.1.17 of the CSE Listing Rules. These Rules assist the Board to make decisions that are independent of the Management.

The Board being responsible for the Company's Corporate Governance, oversees how the Management serves and protects the long-term interests of all its stakeholders. SDF believes that an active, well-informed and independent Board is necessary to ensure the highest standards of corporate governance. This is implemented through the careful selection and maintenance of a well-balanced and diversified Board.

In view of the best practice in Corporate Governance, the Board has delegated certain responsibilities to the following committees of the Board. The Committees deal with relevant issues according to the Terms of References of each committee and make recommendations to the Board.

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

- Integrated Risk Management Committee (IRMC)
- Board Audit Committee (BAC)
- Board Remuneration Committee (BRC)
- Related Party Transaction Review Committee (RPTRC)
- Board Credit Committee (BCC)

8.9.1 Integrated Risk Management Committee (IRMC)

The Integrated Risk Management Committee (IRMC) was established by the Board of Directors in compliance with the Section 8(3) of the Finance Companies (Corporate Governance) Direction No.03 of 2008 (as amended). The IRMC is comprised of two (2) Non-Executive / Independent Directors. The CEO, Acting Risk Officer and the Corporate Management Team who manage the risks of business units attend IRMC meetings by invitation. The Chairman of the IRMC is a Non-Executive / Independent Director.

Members of the Integrated Risk Management Committee are as follows;

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

Duties of the IRMC include:

- IRMC determines the adequacy and effectiveness of risk mitigating measures used and to ensure that the actual overall risk profile of the Company conforms to the desirable risk profile of the Company as defined by the Board of Directors.
- IRMC oversees issues involving market risk, credit risk, liquidity, funding and capital.
- IRMC provides oversight and advice to the Assets and Liability Committee on market risk and liquidity risk exposures.

- IRMC reviews and evaluates the appropriateness of the governance model adapted.

The IRMC evaluates the following management committees,

- Asset and Liability Committee (ALCO) – Makes investments and executes asset/liability transactions within delegated limits and manages liquidity and other market risks. The Committee ensures the development of appropriate parameters for pricing of deposits, loans and investments.
- Product Development Committee (PDC) – To develop new products in-line with the Company's strategic objectives.
- Tender Committee (TC) – To ensure transparency of the tender process is secured relating to disposal of repossessed vehicles and equipment of SDF.

8.9.2 Board Audit Committee (BAC)

The members of the Board Audit Committee (BAC) are appointed by the Board and comprised entirely of Non-Executive Directors. The BAC of SDF is comprised of two (2) Non-Executive/Independent Directors.

Members of the Board Audit Committee are as follows;

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

The BAC is expected to ensure following roles and responsibilities;

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

The BAC gives the Board, through its work and in dialogue with the External Auditor and the Head of Internal Audit, a greater access to information on any deficiencies in routines and organization from the standpoint of corporate governance, risk management and control.

The BAC is responsible for ensuring that processes are in place for recommendations raised by the Management Audit Committee to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored.

The Board Audit Committee includes the Management Audit Committee which implements and monitors the progress of the decision of the BAC.

8.9.3 Board Remuneration Committee (BRC)

The Board Remuneration Committee (BRC) is established to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of the Board of Directors Chief Executive Officer and Key Management Personnel while complying with the requirements of regulatory and governance bodies. The BRC comprises of four (4) Non-Executive/Independent Directors as mentioned below.

Members of the Board Remuneration Committee are as follows;

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

The BRC has following role and responsibilities.

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

The role and responsibilities of the BRC has been extended with the role and responsibilities of the Board Nomination Committee (BNC) as the BNC was dissolved by the Board in FY 2018 with an intention of

broad-basing the role of BRC for effective functioning and greater value creation.

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

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

Directors' Emoluments for FY 2021

Emoluments paid in the form of salaries, bonuses, fees, allowances and/or profit-sharing payments to the Directors of SDF during the FY2021 amounted to LKR 7,576,000/-.

8.9.4 Related Party Transaction Review Committee (RPTRC)

Members of the Related Party Transaction Review Committee comprises of three (3) Non-Executive/Independent Directors as follows;

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

Duties and responsibilities of the RPTRC include the following:

- Except for transactions set out below, all other related party transactions (RPT) should be reviewed by the RPTRC as required in terms of Terms of Reference of the Committee, either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Exceptions include:

- ➔ RPT which are recurrent (provision of goods and services or financial assistance), which are carried out on a continuing basis. Recurring business are expected to extend over a period of time. Such transactions are usually transactions in the ordinary and usual course of business of SDF, of a revenue or trading nature and which is necessary to conduct day-to-day operations of SDF. In the opinion of the RPTRC such terms should not be seen as more favorable to the related party as compared to those terms negotiated / made available to the general public;
 - ➔ the payment of dividend, issue of securities by the Company by way of a capitalisation of reserves or for cash, including the exercise of rights, options or warrants, the subdivision of shares or consolidation of shares which actions may favor a related party;
 - ➔ the grant of options, and the issue of securities pursuant to the exercise of options, under an employee share option scheme/ employees share purchase scheme;
 - ➔ a transaction in marketable securities carried out in the open market where the counterparty's identity is unknown to SDF at the time of the transaction;
 - ➔ the provision or receipt of financial assistance or services, upon usual commercial terms and in the ordinary course of business, from a company whose activities are regulated by any written law relating to licensed banks, finance companies or insurance companies or are subject to supervision by the CBSL or Insurance Board of Sri Lanka;
 - ➔ Directors' fees and remuneration, and employment remuneration.
- ➔ In the event an RPT will be ongoing (a Recurrent Related Party Transaction), the RPTRC may establish guidelines for the senior management to follow in its ongoing dealings with the related party. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with the related party to determine whether they are in compliance with the Committee's guidelines and that the related party transaction remains appropriate.
 - ➔ Evaluate on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPT are monitored, and subsequent changes in relationships with counterparties (from nonrelated to related and vice versa) are captured. Related parties, RPT and changes in relationships should be reflected in the relevant reports to the Board and regulators/ supervisors.
 - ➔ The Committee shall evaluate the terms and conditions of the facility or the transaction, ensuring that it is conducted at arm's length basis, or shall be upon economic terms no less favorable to SDF than those offered to others and that no business resources of the Company are misappropriated or misapplied. Further it should also determine any potential reputational risk issues that may arise as a result of or in connection with the transaction.
 - ➔ In determining that a transaction is at arm's length or not undertaken on more favorable economic terms for the related party, it shall consider the factors such as pricing, commission, interest rates, fee, tenor, collateral requirement, timing of transactions, and economic benefit.

In the evaluation, the Committee shall take into account, among others, the following:

- ➔ the related party's relationship to SDF and interest in the transaction;
- ➔ the material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- ➔ the benefits to SDF of the proposed RPT;
- ➔ the availability of other sources of comparable products or services;
- ➔ an assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.
- ➔ Ensure that appropriate disclosure is made, and/or information is provided to regulatory bodies (eg: CBSL and the CSE) regarding the company's RPT exposures.
- ➔ Report to the BOD on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- ➔ Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- ➔ Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs.

8.9.5 Board Credit Committee (BCC)

There are two Credit Committees, namely Board Credit Committee (BCC) and Internal Credit Committee (ICC). BCC comprises of four (4) Non-Executive Directors including the Chairman and the ICC comprises of the Chief Executive Officer (CEO), Deputy General Manager (DGM)- Finance and Planning, Assistant General Manager (AGM) -Credit, Assistant General Manager (AGM) -Compliance and Acting Head of Recoveries. 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.

Members of the Board Credit Committee are as follows;

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

The BCC approves credits within delegated limits, and set risk appetites for credits by evaluating and recommending the implementation of the credit risk policies in-line with the Company's strategic objectives. The Board Credit Committee includes the Management Credit Committee which 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.

8.10 Senior Management of SDF

The Senior Management of SDF possesses a wealth of experience and is motivated individuals playing distinctive roles in pursuing corporate objectives and strategy. The team brings together capabilities and experience which aid the Company in providing comprehensive high-quality service to its clientele. The senior managers are experienced in working with a high quality of service.

Senior Management of SDF is as follows:

Table 8.5 Senior Management of SDF

Names	Designation
Mr. Nilantha Jayanetti	Chief Executive Officer
Mr. Piya Salwathura	Assistant General Manager – Human Resource Development (HRD)
Mr. Ranapriya Fernando	Head of Credit
Mr. Mahesh Jayasanka	Chief Manager - Finance
Mr. Kularuwan Gamage	Chief Manager - Operations and Administration
Mr. Chandana Bandara	Head of Internal Audit
Mr. Dilshan Dissanayake	Head of IT
Mr. Kelum Thilakerathne	Head of Leasing
Mrs. Anusha Fernando	Head of Legal
Mr. Prabath Rangajeewa	Head of Gold Loan
Ms. Rashika Daniel	Senior Manager - Compliance
Mr. Yenuka Geemal	Senior Manager - Treasury
Mr. Sugeeshwara Gunasekara	Senior Manager - Sarvodaya Society Coordination
Mr. Chaminda Niroshana	Senior Manager - Operation
Mr. Darshana Perera	Senior Manager - Recovery
Mr. Nipuna Fernando	Senior Manager - IT Operations
Mr. Manjula Kumarasinghe	Senior Manager - Credit Administration
Ms. Indika Gayathri	Manager - Marketing

Profiles of the Senior Management of SDF



Mr. Nilantha Jayanetti
Chief Executive Officer

Mr. Jayanetti is the holder of a degree in Business Management with a specialisation in Accountancy from the University of Kelaniya. He obtained an MBA (Banking and Finance) from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura. He has followed a programme on Strategic Leadership from Cornell University - Johnson Graduate School of Management, USA. Before joining SDF, he served as the Senior Assistant General Manager at Orient Finance PLC for seven (7) years, where his initiatives that led to change in the business drive has positioned the company as a top brand in the industry. Prior to which, he has worked as the Marketing Manager at Merchant Bank of Sri Lanka & Finance PLC (formally known as Merchant Credit of Sri Lanka Ltd)



Mr. Piya Salwathura
Assistant General Manager - HRD

Graduated from the University of Peradeniya and also holds a National Diploma in Human Resource Management from NIBM.

Counted over twenty five (25) years of work experience in the field of human resource management both in manufacturing and service sectors which also includes close to ten (10) years of exposure to finance and banking sector. He has held senior management positions in several blue-chip organizations and some of them are multinationals.



Mr. Ranapriya Fernando
Head of Credit

Awarded Associate Life Membership from the Institute of Bankers of Sri Lanka. Currently reading for an Executive MBA in University of West London. Twenty seven (27) Years of experience in Banking and Finance sector. Consisting of local and overseas experience, mainly in the field of Credit and the Relationship Management. Having the experience and the knowledge to steer SDF to maintain a quality loan portfolio.



Mr. Mahesh Jayasanka
Chief Manager - Finance

MAAT and CA Qualification. Fifteen (15) years of experience in Auditing, Accounting, Taxation, Process Development and MIS through BI within the Finance and Non-Finance sectors such as banking, financial services, manufacturing, healthcare, retail and engineering. Before joining SDF, he served in Ernst & Young for a seven (7) year period.



Mr. Kularuwan Gamage
Chief Manager - Operations & Administration

Reading for MBA at University of Brittany. Seventeen (17) years of corporate experience in the finance industry. He served in BURU-Bangladesh, one of leading Microfinance institutes in Bangladesh as a program accompanier. Fully certified trainer of Micro Finance (ADBI) & business development (CEFE). Completion of specialized training for Global & Regional development in AIT Thailand. Have contributed to streamlining the procedures of Operation, Administration & Credit Administration departments.



Mr. Chandana Bandara

Head of Internal Audit

Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA). He is a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka, a finalist of The Association of Chartered Certified Accountants (UK) and holds an MBA from the University of Colombo. He also holds a Bachelor of Accountancy Special Degree with a First Class Honors from the University of Sri Jayewardenepura. Mr. Bandara counts nearly twenty (20) years of experience in the Banking & Finance, Insurance, FMCG, Manufacturing & Health Care industries. He started his career at Ernst & Young as a Senior Accountant.



Mr. Dilshan Dissanayake

Head of IT

Holds a Master of Business Administration from Anglia Ruskin University, UK and a BSc. (Hons) Degree in Information Systems from the Middlesex University, UK. He is also a Certified Information Security Expert and holds a Double Graduate Diploma in Software Engineering and Network Engineering counting over thirteen (13) years of experience as an IT professional, mainly in the Non-Banking Financial & Audit Sectors. He brings innovative solutions such as DRaaS & CCaaS, as well as ensuring streamlined Operations, Compliance and Security to SDF's Information Technology Unit.



Mr. Kelum Thilakerathne

Head of Leasing

Diploma In Credit Management - Institute of Credit Management, seventeen (17) Years of corporate experience in the Leasing Industry specialized in sales and marketing. Have introduced diversified leasing products in line with Sarvodaya Philosophy including Agro-based leasing in remote areas.



Mrs. Anusha Fernando

Head of Legal

Holds a LL.B Degree from the University of Colombo and enrolled as an Attorney -at - Law of the Supreme Court of Sri Lanka in 2008. Counts over ten (10) years of experience as a Corporate Lawyer.



Mr. Prabath Rangajeewa

Head of Gold Loan

Twenty five (25) years corporate experience in the finance sector specializing in gold loan, pawning and gold mortgages. Provided the leadership to have a full equipped gold loan division where more than LKR 550 mn worth gold loan portfolio is established.



Mr. Darshana Perera
Senior Manager - Recovery

Eighteen (18) years of corporate experience in the finance sector specialized in recovery in terms of both front office and back-office functions. He has contributed to streamlining the procedures of Recovery division and setting up the high-tech call centre in SDF.



Mr. Yenuka Geemal
Senior Manager - Treasury

Master of Financial Economics (Merit) University of Colombo, B. Sc Finance (sp) Uni of Sri J'Pura, CIMA Passed Finalist. He has counted ten (10) years' corporate experience in Investment Banking, Fund Management, Fund Mobilization & Treasury. He has contributed to build a diversified funding mix where high net worth shareholders were introduced via the recent issuance of Shares of SDF.



Ms. Rashika Daniel
Senior Manager - Compliance

Currently reading MBA, Cardiff University of Wales. ACMA/CIMA – Member of Chartered Institute of Management Accountants- UK, IABF – Completion of Intermediary Level in Banking and Finance – IBSL, Certification in Internal Audit- IBSL. Six (6) years of experience as an Internal Auditor in non-financial sector and nine (9) years of experience in the Banking sector.



Mr. Sugeeshwara Gunasekara
Senior Manager - Sarvodaya Society Coordination

Eighteen (18) years of corporate experience in the finance sector specialized in recovery in terms of both front office and back-office functions. He has contributed to streamlining the procedures of Recovery division and setting up the high-tech call centre in SDF.



Mr. Nipuna Fernando
Senior Manager - IT Operations

MBA in Finance University of Colombo, Bsc. Physical Science at University of Colombo and Member of British Computer Society and Chartered Information Technology Professional. Over twenty (20) years of experience out of that fifteen (15) years in the Finance Sector as an IT Profession.



Mr. Manjula Kumarasinghe
Senior Manager - Credit Administration

B.B.Mgt. Accountancy (Special) -University of Kelaniya, Higher National Diploma in Accountancy. He counts twelve (12) years of experience in a variety of industries including hospitality and manufacturing as an Accountant in non-financial sector and eleven (11) years of experience in the non-bank financial sector. As the Head of Credit Administration, he contributes in many aspects towards the improvement of the quality of the lending portfolio by formulating Credit Administration Procedure Manual, implementing good check and controls in security documentation etc.



Mr. Chaminda Niroshana
Senior Manager - Operation

Diploma in Banking at IBSL. Twenty eight (28) years of experience in Banking and Finance sector. He is in charge of the security documents in SDF.



Ms. Indika Gayathri
Manager - Marketing

M.Sc International Business Management from University of West London and B.Sc (Hons) Business Management from University of Wales. Ten (10) years' of corporate experience in Hospitality Industry in the field of Sales and Marketing ventured into Luxury Boutique hotels. She joined SDF in 2019 and heads the marketing division with assertive marketing solutions.

8.11 Statement - Chief Executive Officer

Please refer Section 8.10 for the profile of Mr. Nilantha Jayanetti, the Chief Executive Officer.

The Chief Executive Officer of SDF has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer.
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

Online Clothing Store

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

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



9.0 CAPITAL STRUCTURE

All financial information and figures pertaining to FY22 in this section are based on the Unaudited Financial Statements of SDF as at August 31, 2021.

As at the date of this Prospectus, the Stated Capital of the Company is LKR 1,694,137,046/- represented by 104,141,506 fully paid Ordinary Voting Shares.

9.1 An Overview of the Stated Capital

An overview of the Stated Capital of the Company is set forth below.

Table 9.1 Overview of Stated Capital

	As of March 31, 2019	As of March 31, 2020	As of March 31, 2021	Subsequent to the IPO
Stated Capital (LKR) (refer Table 9.2)	890,000,020	890,000,020	1,694,137,046	2,694,137,058
Number of Ordinary Shares in Issue (refer Table 9.2)	67,500,006	67,500,006	104,141,506	149,596,052

Table 9.2 Changes in Stated Capital of SDF

	Number of Shares	LKR
Balance as of April 01, 2018	67,500,006	890,000,020
Issue of Shares During the Year	-	-
Balance as of March 31, 2019	67,500,006	890,000,020
Issue of Shares During the Year	-	-
Balance as of March 31, 2020	67,500,006	890,000,020
Issue of 36,641,500 New Shares @ LKR 22/- per Share via Prospectus dated August 24, 2020 (refer Section 9.2)	36,641,500	806,113,000
Less: Expenses Relating to the Share issue		(1,975,974)
Balance as of March 31, 2021	104,141,506	1,694,137,046
Issue of up to 45,454,546 New Shares @ LKR 22/- per Share under the IPO contemplated through this Prospectus (if fully subscribed)	45,454,546	1,000,000,012
Balance immediately subsequent to the IPO	149,596,052	2,694,137,058

9.2 Details of Issue of Shares via the Prospectus Dated August 24, 2020

During the last 12 month period immediately preceding the date of the Prospectus, as part of the first phase of capital raising, the Board of Directors of SDF via the Prospectus dated August 24, 2020 decided to issue up to 45,454,546 Ordinary Voting Shares at an issue price of LKR 22/- per share to raise up to LKR 1,000,000,012/-. Under this fund raising, 36,641,500 new Ordinary Voting Shares of SDF were subscribed and allotted during the subscription period in eight tranches from August 28, 2020 to February 25, 2021 in line with the Prospectus dated August 24, 2020 to 1,282 identified investors at the issue price of LKR 22/- per share which resulted in the Company raising LKR 806,113,000/- .

Table 9.3 Details of Share Allotments During Last 12 Month Period

Date of Allotment	Number of Shares Allotted @ LKR 22/- per Share
August 28, 2020	330,000
September 9, 2020	10,000
September 25, 2020	50,000
October 10, 2020	40,000
January 20, 2021	10,797,000
January 27, 2021	8,671,000
February 9, 2021	4,251,000
February 25, 2021	12,402,500
Total	36,641,500

As per the SEC letter dated August 31, 2021 (Ref: SEC/COR/2021/08/260), the SEC granted a waiver on the requirement to disclose the full details of allotment of Ordinary Voting Shares to shareholders as stipulated in SEC Circular No. 02/2010 only with respect to the share allotments made to Sarvodaya Societies due to the large number of shareholders and as such shareholding range is disclosed as follows..

Table 9.4 Distribution of Share Allotments during Last 12 Month Period

Shareholding Range	Number of Shareholders	Total Number of Shares Allotted	% Shareholding Post Allotment of Shares
Up to 10,000	593	4,313,000	4.14%
10,001-20,000	383	5,679,000	5.45%
20,001-50,000	247	7,676,500	7.37%
50,001 -100,000	44	3,092,000	2.97%
100,001-300,000	9	1,657,000	1.59%
300,001-1,000,000	3	1,265,000	1.21%
1,000,001-3,000,000	1	1,414,000	1.36%
3,000,001-7,000,000	2	11,545,000	11.09%
Total	1282	36,641,500	35.18%

A detailed schedule of the share allotments made under the Prospectus dated August 24, 2020 in terms of SEC Circular No. 02/2010 will be made available for inspection at the registered office of the Company and also will be hosted on the website of the CSE, www.cse.lk and website of SDF, www.sarvodayafinance.lk in order to assist any potential investor to access the applicable information.

The details of share allotments made to all other shareholders (other than the Sarvodaya Societies) under the Prospectus dated August 24, 2020 are set out in Annexure G of this Prospectus.

9.3 Details of Repurchase and Redemption of Shares by SDF

The Company has not engaged in any share re-purchase, redemption or stated capital reduction exercises in the two (2) years preceding the date of this Prospectus.

9.4 Details of Transfer of Shares in SDF

There were no Shares of SDF that have been acquired by way of transfer during the period of twelve (12) months immediately preceding the date on which the Initial Listing Application was submitted to the CSE (i.e. September 6, 2021).

9.5 Shareholding Structure of SDF

Tabulated below are the top 20 shareholders of the Company as of the date of submission of the Initial Listing Application to the CSE (i.e. September 6, 2021) and the status of their shareholding subsequent to the IPO assuming full subscription of the IPO and that no subscription will be made by these shareholders via the IPO.

Table 9.5 Shareholders of SDF

Name of the Shareholder	Prior to IPO		Subsequent to IPO	
	Number of Shares	Percentage of Shareholding	Number of Shares	Percentage of Shareholding
Sarvodaya Economic Enterprises Development Services (Gte) Limited	54,000,000	51.85%	54,000,000	36.10%
Gentosha Total Asset Consulting Inc.	13,500,004	12.96%	13,500,004	9.02%
Senthilvel Holding (Pvt) Ltd	6,900,000	6.63%	6,900,000	4.61%
Lanka Jathika Sarvodaya Shramadana Sangamaya (Inc.)	4,645,000	4.46%	4,645,000	3.11%
Thalwila Pibidena Sarvodaya Shramadana Society	1,414,000	1.36%	1,414,000	0.95%
Porathota Sarvodaya Shramadana Society	450,000	0.43%	450,000	0.30%
Kekunawela Sarvodaya Shramadana Society	450,000	0.43%	450,000	0.30%
Mr. W T D Ganegama/ N H Ariyaratne	365,000	0.35%	365,000	0.24%
Kuda Arukgoda Sarvodaya Shramadana Society	300,000	0.29%	300,000	0.20%
Mr. C W Perera	230,000	0.22%	230,000	0.15%
Mrs. G R De Silva	230,000	0.22%	230,000	0.15%
Mr. Ikbāl Aboobacker Shammer	227,000	0.22%	227,000	0.15%
Dr. V S Ariyaratne	157,001	0.15%	157,001	0.10%
Mr. Ginige Channa Ajith De Silva	140,000	0.13%	140,000	0.09%
Hodella Wijaya Sarvodaya Shramadana Society	113,000	0.11%	113,000	0.08%
Sumedagama Sumedankara Sarvodaya Shramadana Society	110,000	0.11%	110,000	0.07%
Poramba Sarvodaya Shramadana Society	110,000	0.11%	110,000	0.07%
Mr. Weliwattage Shakila Perera Wijewardena	100,001	0.10%	100,001	0.07%
Mr. Thudugala	100,000	0.10%	100,000	0.07%
Dr. Ahangamage Tuder Ariyaratne/ Mrs. Neetha Dhammachari Ariyaratne	100,000	0.10%	100,000	0.07%
Other Existing Shareholders	20,500,500	19.69%	20,500,500	13.70%
IPO Shareholders	-	-	45,454,546	30.38%
Total	104,141,506	100.00%	149,596,052	100.00%

9.6 Details Pertaining to the Locked-in Shares – Pre and Post IPO

Details pertaining to the locked-in Shares constituting the public and non-public holding are given in Tables 9.6 and 9.7 below. In compliance with the CSE Listing Rules, 2.1.1(d) (i) the Shares continued to be held by the existing 'Non Public' shareholders will be locked-in for a period of six (6) months from the date of listing of Shares of SDF on the CSE. Further, share allotments carried out by the Company during the period of twelve (12) months immediately preceding the date of the Initial Listing Application are to be subjected to a lock-in, at the discretion of the SEC in terms of CSE Listing Rule 2.1.1 (d) (iv).

Accordingly, the SEC via its letter dated August 31, 2021, granted a waiver on the lock-in requirements only to the Shares issued to Sarvodaya Societies under the Prospectus dated August 24, 2020, in terms of the SEC Circular 01/2011 and whereas the Shares allotted to other shareholders (except for Sarvodaya Societies) will be subject to a lock-in period of six (6) months from the date of listing or twelve (12) months from the date of allotment, whichever is longer. Accordingly, the Shares allotted to other shareholders under the Prospectus dated August 24, 2020 are subject to a lock-in period of six (6) months from the date of listing of such Shares on the CSE or twelve (12) months from the date of allotment, whichever is longer.

Details pertaining to the lock-in Shares (pre and post IPO) are given below.

Table 9.6 Lock-in of Pre IPO Shares

Category of Shareholder	Locked-in Shares	Time Period After which the Locked-in Shares will be Available for Trading	Total Number of Shares	Number of Shares as a Percentage of Total Number of Shares in Issue (c. Pre-IPO)
Non-Public (Prior to issue of Shares via Prospectus dated August 24, 2020)	Locked-in	Six (6) Months from the date of listing	67,500,006	64.82%
Non-Public (under issue of Shares via Prospectus dated August 24, 2020)	Locked-in	Six (6) Months from the date of listing or twelve (12) Months from the date of allotment, whichever is longer	5,355,000	5.14%
Public (under issue of Shares via Prospectus dated August 24, 2020)	Locked-in	Six (6) Months from the date of listing or twelve (12) Months from the date of allotment, whichever is longer	8,202,000	7.88%
Public - Sarvodaya Societies (under issue of Shares via Prospectus dated August 24, 2020)	Not Locked-in	Not Applicable as per SEC Waiver referred in Section 9.6	23,084,500	22.17%
Total			104,141,506	100.00%

Note: The terms 'Non-Public Shareholders' and 'Public Shareholders' shall have the same meaning as set out in Rule 2.1.1 of the CSE Listing Rules.

Table 9.7 Shares Locked-in – Post IPO

Category of Shareholders (Post-Listing)	Locked-in Shares/Not-Locked in Shares	Time Period After Which the Locked-in Shares will be Available for Trading	Number of Shares	Number of Shares as a Percentage of Total Number of Shares in Issue (c. Post-IPO)
Non-Public (Prior to issue of Shares via Prospectus dated August 24, 2020)	Locked-in	Six (6) Months from the Date of Listing	67,500,006	45.12%
Non-Public (under issue of Shares via Prospectus dated August 24, 2020)	Locked-in	Six (6) Months from the date of listing or twelve (12) Months from the date of allotment, whichever is longer	5,355,000	3.58%
Public (under issue of Shares via Prospectus dated August 24, 2020)	Locked-in	Six (6) Months from the date of listing or twelve (12) Months from the date of allotment, whichever is longer	8,202,000	5.48%
Public - Sarvodaya Societies (under issue of Shares via Prospectus dated August 24, 2020)	Not Locked-in	Not Applicable as per SEC Waiver referred in Section 9.6	23,084,500	15.43%
Public (via IPO)	Not Locked-in	Not Applicable	45,454,546	30.38%
Total			149,596,052	100.00%

Note: The terms 'Non-Public Shareholders' and 'Public Shareholders' shall have the same meaning as set out in Rule 2.1.1 of the CSE Listing Rules.

Post-IPO public holding (total unlocked-Shares post-IPO that will be held by the Public as a percentage (%) of the total Shares in issue Post-IPO), as per the 'Public Shareholders' definition provided in the CSE Listing Rules is 45.82% representing a float adjusted market capitalisation of LKR 1,507,859,012/-.

No Shares were acquired by way of a transfer by Non-Public or Public Shareholders of SDF during the period of twelve (12) month period immediately preceding the date of the Initial Listing Application.

The Company confirms that the information furnished herewith shall remain unchanged until the date of listing.

The details of the lock-in periods for the Shares are mentioned in Table 9.6 and Table 9.7, and the Shares that will be subject to a lock-in will not be available for trading.

Shares listed on the CSE shall be freely transferable and registration of the transfer of such listed Shares shall not be subject to any restriction, save and except to the disclosure above and to the extent required for compliance with statutory requirements.

9.7 Details of Convertible Debt Securities

The Company has no outstanding convertible debt securities as of the date of this Prospectus.

9.8 Details of Shares Sold Privately in Conjunction with the Issue

No Shares are being offered privately in conjunction with this Issue.

9.9 Details of Take-Over Offers

There have been no take-over offers by third parties in respect of the Company's Shares during the past two (02) years, preceding the date of this Prospectus.

The Company has not made any take-over offers in respect of Shares of a third party during the past two (02) years preceding the date of this Prospectus.



Grinding Mill

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

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

All financial information and figures pertaining to FY22 in this section are based on the Unaudited Financial Statements of SDF as at August 31, 2021.

10.1 Relationship with Key Customers and Suppliers of SDF

Customers

The lending portfolio of SDF comprises a customer base diversified across various demographic segments of Sri Lankan society. The Company has a customer base of 135,093 individuals from various occupations and income levels indicating that SDF is not exposed or heavily dependent on a particular category of consumers. In line with SDF's long term strategy of diversifying its business and customer base, it is in the process of aggressively promoting its SME lending products.

Suppliers

SDF makes use of public deposits as its main source of financing. The current public deposit base of SDF which amounted to LKR 4.51 Bn as at August 31, 2021 has no reliance on any single depositor or group of depositors. However, with respect to the total quantum of public deposits to be raised by SDF, a cap of LKR 5.5 Bn on total deposits including accrued interest has been imposed by the CBSL until such time the Company meets the required minimum core capital as per Section 2.1 of Finance Business Act Direction No. 02 of 2017. SDF expects that the said deposit cap will be lifted by CBSL upon raising the required funds to fulfil the minimum core capital requirement as mentioned in Section 5.6.1. through this IPO.

SDF also utilises credit facilities offered by local banks which amounted to LKR 2.08 Bn as at August 31, 2021 to finance its lending business. This only accounts for 23.6% of the total funding structure and comprises of funding from several banking and financial institutions, thus indicating no dependency on any single institution.

10.2 Dividend Policy

Subject to the provisions of the Companies Act and the Articles of Association of SDF, the actual amount and timing of dividend payments on the Ordinary Voting Shares of the Company will be recommended and approved by the Board of Directors of the Company. The dividend policy of the Company will be based on a number of factors, including but not limited to the minimum capital requirements stipulated by CBSL from time to time, Company's earnings, cash flow position, and future investments and funding of growth and the maintenance of a sound and efficient capital structure and any other factors which the Board of Directors of the Company may deem relevant.

Dividend paid by the Company during the three (3) financial years immediately preceding the issue of Prospectus is set out in Accountants' Report presented in Annexure E of the Prospectus.

10.3 Working Capital

The Board is of the opinion that the working capital is sufficient for the purpose of carrying out day to day operations of the Company.

10.4 Details of Licences

The Company has obtained a license from the Monetary Board of CBSL to carry on finance business under the Finance Business Act No.42 of 2011 and has paid the annual license fee for the year 2021 on December 15, 2020.

10.5 Litigation, Disputes and Contingent Liabilities

As at August 31, 2021, there are no material legal, arbitration or mediation proceedings against the Company which may have or have had in the recent past affected the financial position or profitability of the Company. However, the Company in the normal course of its business has commenced legal recovery proceedings against defaulting customers.

As at August 31, 2021, there are no material contingent liabilities including guarantees that would affect the current and future profits of the Company except as disclosed in Note 38.1 of the Audited Financial Statements for the year ended March 31, 2021 and Note 1 of the Interim Financial Statements for the 5 months ended August 31, 2021.

As at August 31, 2021, there are no penalties imposed by any regulatory or state authority against the Company.

10.6 Management Agreements

There are no management agreements presently in force or currently being considered by SDF.

10.7 Material Contracts

There are no material contracts entered into by the Company other than those contracts entered into in the ordinary course of business.

10.8 Details of Commissions Paid

No commission has been paid in the two (2) years preceding the issue or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any Shares of the Company.

10.9 Details of Benefits Paid to Promoters

No commission has been paid in the two (2) years preceding the Issue or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any Shares of the Company.

10.10 Details of Transactions Relating to Property

There were no transactions relating to the property within the two (2) years preceding the Issue in which any vendor of the property to the Company or any person who is or was at the time of the transaction, a promoter or a director or proposed director of the Company had any interest, direct or indirect.

10.11 Taxation

The Corporate Income Tax rates under Inland Revenue (Amendment) Act No. 24 of 2017 and Value Added Tax (VAT) rates in accordance with the provisions of the Value Added Tax Act No. 14 of 2002 (Amended) applicable for SDF as at August 31, 2021 are disclosed below:

Table 10.1 Tax Rates Applicable for SDF as at August 31, 2021

Corporate Income Tax Rate	24.0%
Value Added Tax Rate	15.0%

11.0 MANAGEMENT DISCUSSION AND ANALYSIS

Sarvodaya Development Finance Limited
Initial Public Offering

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All financial information and figures pertaining to FY22 in this section are based on the Unaudited Financial Statements of SDF as at August 31, 2021.

11.1 Overview

11.1.1 Financial Year in Review

Financial snapshot of SDF as at March 31, 2021 is as follows;



LKR 1.58Bn
Income



10.86%
Return on Equity



LKR 183.36Mn
Profit for the Year



10.0%
Growth in Total Assets



LKR 9.04Bn
Total Assets



LKR 4.55Bn
Customer Deposits



LKR 2.18Bn
Total Shareholders' Funds



2.13%
Return on Assets

11.1.2 Summarised Audited Financials for the Five Years Ended March 31, 2021 and Interim Statements for the Five Months Ended August 31, 2021

Table 11.1 Summarised Audited and Interim Income Statements

For the Year Ended March 31, (LKR Mn)	2017	2018	2019	2020	2021	3 Year CAGR (2018-2021)	5 Months Ended August 31, 2021 (LKR Mn)
Interest Income	883.76	1,179.56	1,433.37	1,681.68	1,584.74	10.34%	647.85
Net Interest Income	602.86	768.28	826.75	931.56	961.40	7.76%	420.25
Other Income	212.67	141.20	141.87	120.76	158.79	3.99%	22.55
Profit Before Tax*	-41.08	119.42	68.96	124.07	266.83	30.73%	41.19
Profit After Tax	-31.75	97.50	41.22	101.72	183.36	23.43%	34.58

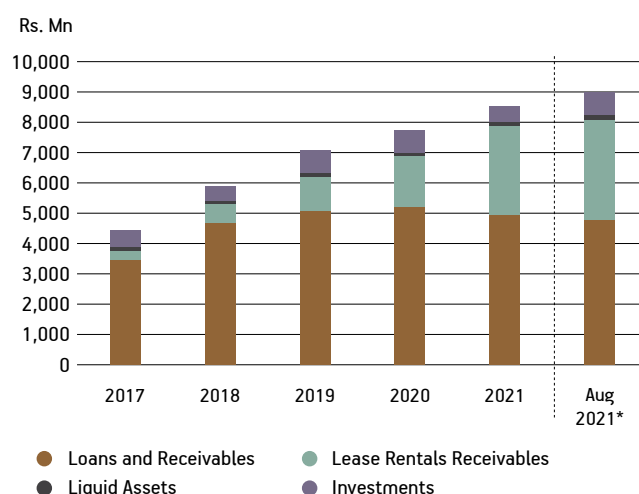
*After VAT on financial services

Table 11.2 Summarised Audited and Interim Statements of Financial Position

As at March 31, (LKR Mn)	2017	2018	2019	2020	2021	3 Year CAGR (2018-2021)	As at August 31, 2021 (LKR Mn)
Loans & Leases	3,760.60	5,308.50	6,216.17	6,933.55	7,906.70	14.20%	8,090.53
Total Assets	4,872.89	6,360.18	7,449.82	8,215.22	9,036.60	12.42%	9,452.26
Deposits	3,563.70	4,624.84	5,385.34	5,101.98	4,551.95	(0.53)%	4,508.44
Other Borrowings	75.86	463.28	835.87	1,595.04	1,729.62	55.13%	2,082.34
Total Liabilities	3,826.12	5,229.37	6,351.28	7,019.54	6,855.21	9.44%	7,236.30
Shareholders' Funds	1,049.56	1,130.81	1,098.55	1,195.68	2,181.39	24.48%	2,215.96
Total Liabilities and Shareholders' Funds	4,875.68	6,360.18	7,449.82	8,215.22	9,036.60	12.42%	9,452.26

11.1.3 Asset Base

Figure 11.1 Asset Base of SDF



Source: SDF Financial Statements

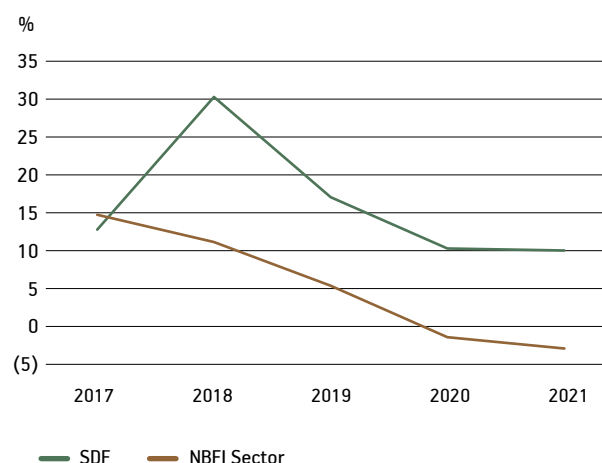
*Unaudited interim accounts

The asset base of the NBFI sector grew at a 4-year CAGR of 2.9% from 2017 to 2021 despite a significant slowdown in asset growth in 2019 and 2020. This was owing to the challenging business environment with political and economic uncertainties resulting from the Easter Sunday attacks in April 2019 and the onset of the Covid-19 pandemic in 2020.

Despite these challenges SDF has been able to maintain consistent above industry average asset growth with a 16.7% 4 Year CAGR and YoY increase of 10.0% in 2021 to LKR 9.04 Bn. This can be attributed to the YoY growth of 19.5% in its lending portfolio buoyed by the favourable interest rate environment. The asset base grew by a further 4.6% during the 5 months ended August 31, 2021 alone, primarily due to an increase in lease rental activity.

Net Loans and Receivables to customers and Lease Rental Receivables accounted for the bulk of the asset base of SDF throughout the period, contributing to 85.6% of the Total Asset Base as at August 31, 2021. The gross loans and receivables segment, which remained the Company's biggest revenue generating source (in the form of Interest Income), grew at a 4-year CAGR of 9.6% in the period under consideration, to record a value of LKR 5.34 Bn as at March 31, 2021. However, it dropped to LKR 5.20 Bn by August 31, 2021 owing to a shift in demand from loans to leases. The gross lease portfolio grew by a staggering 17.0% in just 5 months, contributing significantly to the growth of the asset base.

Figure 11.2 YoY Asset Growth of SDF and the NBFI Sector



Source: SDF Financial Statements and CBSL Financial Sector Statistics

11.2 Financial Position

11.2.1 Portfolio Mix

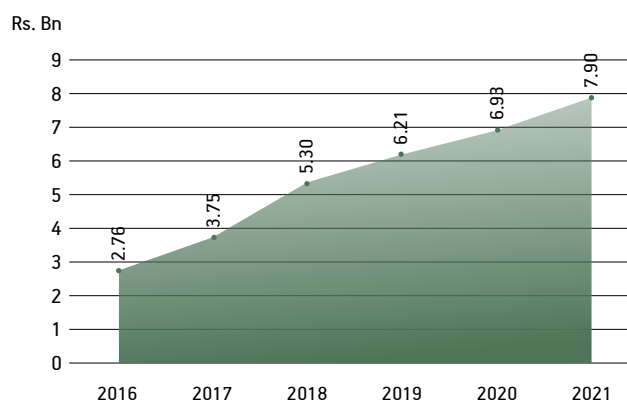
SDF retains the values and culture of the Sarvodaya movement and remains a financier of the masses, supporting humble dreams, village regeneration and local activism. The loan book growth of SDF has primarily been driven by growth in agriculture oriented leases and MSME loans. Out of LKR 8.67 Bn gross portfolio as at August 31, 2021, LKR 651.7 Mn are agricultural leases providing funding for tractors and harvesters of which only 0.4% is Non Performing. SDF focuses on promoting income generating assets with only 13% of loans disbursed during this period being related to consumption.

Further, SDF supports small to medium-sized rural businesses, many of which are related to the agriculture supply chain. The loan book has grown 50% in the three (3) years to 2021 led by growth in its leases which now accounts for 38% of the loan book.

Over the month of July 2021 (the only travel restriction free month to date in FY 2022) SDF disbursed c. LKR 711 Mn, the highest monthly disbursement in the history of the Company.

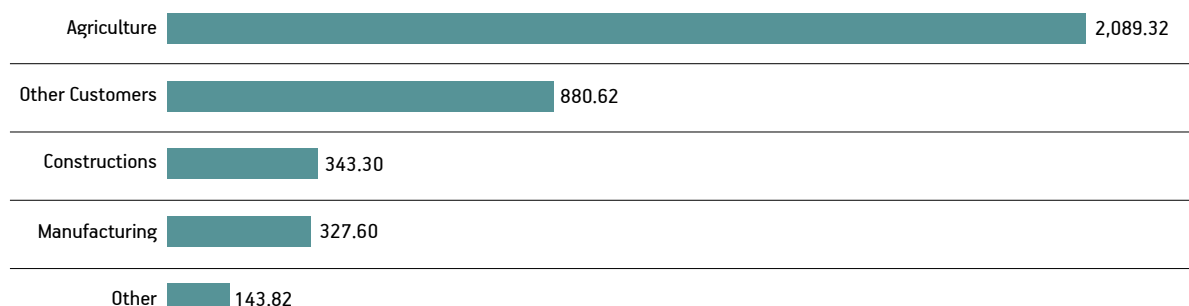
SDF is largely focused on supporting the agricultural sector to which more than 55% of disbursement in last financial year took place.

Figure 11.3 Growth in SDF Loan Book (Net) during the Last three (3) Years



Source: SDF

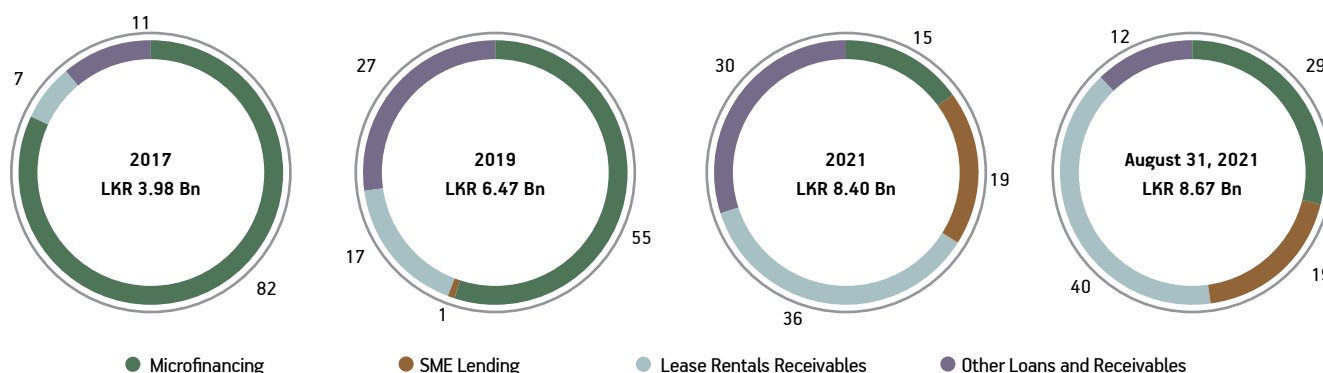
Figure 11.4 Disbursement in FY 2021 in LKR Mn



Source: SDF

During the five (5) months ended August 31, 2021 SDF had disbursed LKR 760.96 Mn into this sector, amounting to 40% of total disbursement.

Figure 11.5 Change in Gross Portfolio Mix as at March 31, 2017, 2019, 2021 and August 31, 2021



Source: SDF Financial Statements

Over the 5 years in review, SDF has converted its lending portfolio from being heavily focused on microfinancing to a more balanced portfolio with a wide range of customers. In FY2020 (pre covid status) microfinancing only accounted for 23.0% of the overall lending portfolio. This has resulted in reducing the risks borne by the Company and an improved NPL ratio. SDF caters to the same clientele in the grass root level in line with purpose entrepreneurship development.

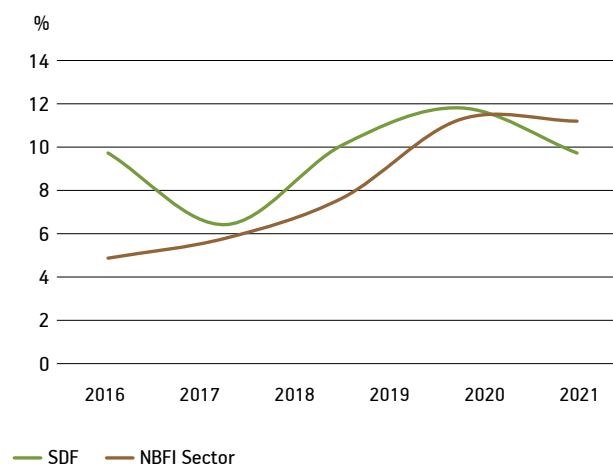
In FY2021 the overall portfolio mix shifted further, driven by the pressures of the pandemic. SME loans witnessed a stark decline as lockdowns and other restrictions severely hampered business operations of clients in these segments. A significant uptick was however seen in the gold loan (pawning) segment (included as part of other loans and receivables along with housing and cash backed loans) with large portions of SDF's clientele forced to rely on short to medium term asset backed facilities to meet their day to day personal and business cash flow requirements. Easing out of effective restrictions beginning FY 2022, however, caused this segment to shrink by 59% by August 31, 2021 and resulted in a heightened demand for microfinancing and leasing as economic activity began to recover. This shift is to be expected as the vast majority of SDF product portfolio of micro and SME organisations were among the segments most affected by the lockdowns. This increased these segments' share of the portfolio to 29% (LKR 2.54 Bn) and 40% (LKR 3.47 Bn) respectively as at August 31, 2021. SDF has continued to demonstrate remarkable agility in customizing its product portfolio to suit the requirements of its client base despite the constant changes driven by external noises over the last one and a half years.

11.2.2 Asset Quality

SDF, being an organisation aiming to improve the lives of grassroots communities, has historically had a Gross NPL ratio higher than the industry average due to its extensive portfolio of high-risk microfinancing clients.

The sluggish economic activities, political uncertainties, the Easter Sunday attacks and the COVID-19 pandemic contributed to a decline in asset quality across the NBFI sector as indicated by the Gross NPL ratio over the past 5 years. SDF too has suffered an increase in the NPL ratio due to the aforementioned macro factors. However, recent changes to their lending portfolio (detailed above) have resulted in an improvement in the NPL ratio to 9.8% as of March 31, 2021 well below the industry average. Further, SDF is proud to note the strong asset quality of its agriculture lending portfolio which carries a near zero NPL ratio.

Figure 11.6 Gross NPL Ratios of SDF and the NBFI Sector

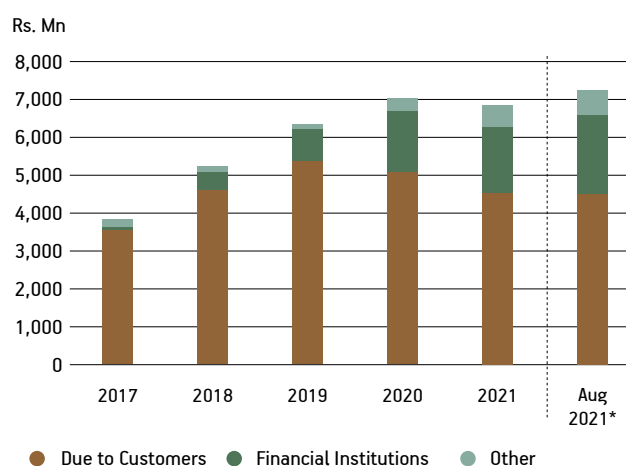


Source: SDF Financial Statements and CBSL Financial Sector Statistics

11.2.3 Funding Structure

Over the five (5) years in review SDF displayed a strong growth with overall deposit base growing at a 4 year CAGR of 5.0% despite the challenging macro-economic conditions. However, as evidenced in the graph below, given the decline in interest rates offered for customer deposits and CBSL imposed deposit cap of LKR 5.5 Bn, SDF was forced to rely on bank borrowings and capital infusion in FY 2021 to grow its lending portfolio. However, once the mentioned deposit cap is lifted upon raising the required funds to fulfil the minimum core capital requirement, SDF will be able to grow its deposit base with no imposed restrictions.

Figure 11.7 External Funding Structure of SDF



Source: SDF Financial Statements

*Unaudited interim accounts

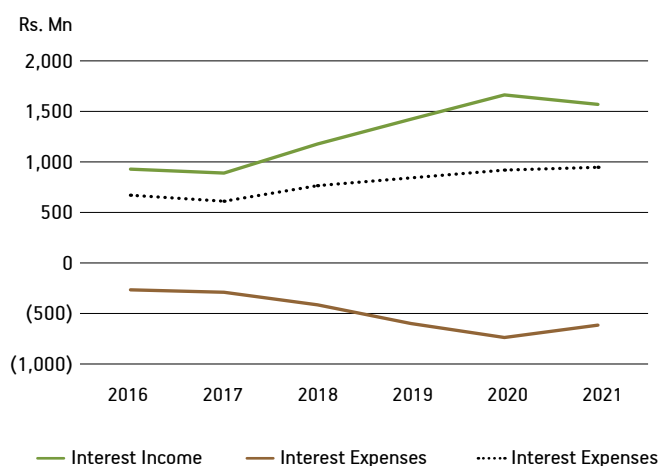
11.3 Financial Performance

11.3.1 Net Interest Income (NII)

SDF's NII which accounted for 85.8% of total operating income grew at a 4 year CAGR of 12.4% while a 3.2% Year on Year (YoY) increase was recorded in FY 2021 to post LKR 961.4 Mn. This YoY increase in NII is primarily supported by the 16.9% reduction in interest expenses incurred on fixed and savings deposits as a result of declining market interest rates and resulting reduction in the deposit base. Despite this, interest income only reduced by 5.8% primarily due to significant rises in SDFs leasing portfolio (the increases in vehicle prices countered the decline caused by the ban on importation of vehicles). This rise continued into FY 2022 with NII for the five (5) months ended August 2021 amounting to LKR 420.3 Mn.

The movement of NII over the review period is depicted in the chart below.

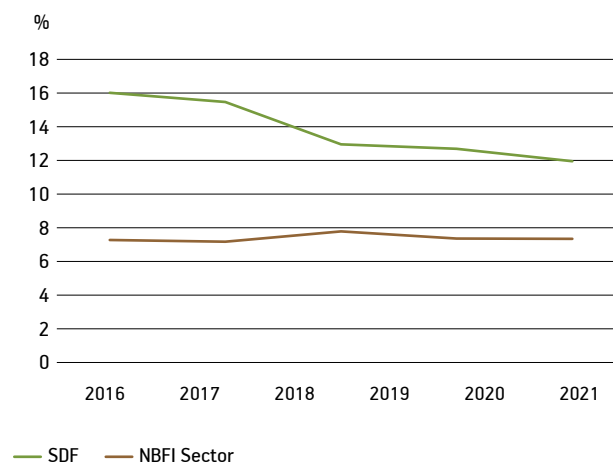
Figure 11.8 NII, Interest Income and Interest Expense of SDF



Source: SDF Financial Statements

Overall, the NBFI sector's earnings weakened due to a contraction of NIMs, primarily as a result of policy measures undertaken by the Monetary Board to enhance the quality of monetary policy transmission. However, SDF has been able to continue charging a premium from its customers in comparison to other Licensed Finance Companies based on the segments of the population that it caters to and its overall product offering. The Company has continuously maintained an above average NIM as a result. Further, interest rate increases following the monetary policy reviews announced after the CBSL Monetary Board Meeting held on August 18, 2021 are likely to be favourable to SDF.

Figure 11.9 NIMs of SDF and the NBFI Sector



Source: SDF Financial Statements and CBSL Financial Sector Statistics

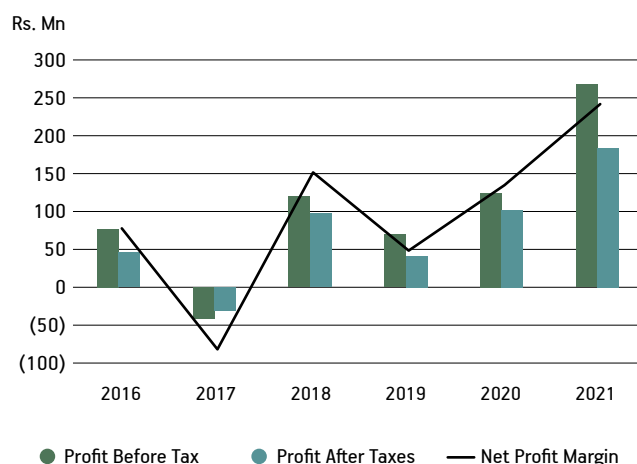
11.3.2 Profitability

As a result of strong NIIs and NIMs, SDF has displayed an upward trend in profitability over the last 5 years with a 3 Year CAGR of 30.7% in Profit Before Tax. Given the shift in the portfolio mix going forward, this trend is highly likely to continue. The loss made in FY 2017 was solely caused by impairment provisions carried forward from 2016 and is a one-off event.

Further, despite the tough economic climate induced by the pandemic, SDF was able to record its highest Profit After Tax of LKR 183.36 Mn in FY 2021, amounting to an 80.2% YoY growth with a YoY increase in Profit Before Tax of 115.0%. However, it should be noted that a portion of this rise is due to a one-off revaluation gain of LKR 89.5 Mn included under Other Income. After adjusting for this one-off item the Profit After Tax YoY change indicates a reduction of 7.7% which is reflective of the pandemic driven macroeconomic uncertainty that prevailed in FY2021. Despite the brief respite in early 2021, the country was again plunged into a cycle of travel restrictions and lockdowns resulting in a dip in profitability over the five (5) months ended August 31, 2021. This can be mainly attributed to conservative impairment charges introduced in July and August 2021 as a provision for potential default.

However, given the expedited vaccination drive in the country, it is reasonable to expect significant improvement in the economic situation nearing the end of the calendar year or even as early as October 2021. Hence, it is likely that a portion of this conservative provisioning will be reversed in the coming months resulting in substantial improvement to reported profitability.

Figure 11.10 Profitability of SDF



11.3.2.1 Cash Flow Position

SDF has recorded negative operating cashflows during the last 5 financial years (please refer Annexure E) as a result of its loan book growing at a faster rate than deposits. This is to be expected as SDF is a growing NBFI with a relatively low base (LKR 4.87 Bn in FY2017 and LKR 9.04 Bn in FY2021). A decline in deposits in FY2021 as a result of the current low interest rate regime has also contributed to the negative operating cash flows.

Negative operating cash flows are forecasted to continue until FY2026 as a result of the aggressive disbursement drive employed by the Company (please refer Annexure A). Positive operating cash flows are expected thereafter once portfolio and deposit growth stabilises.

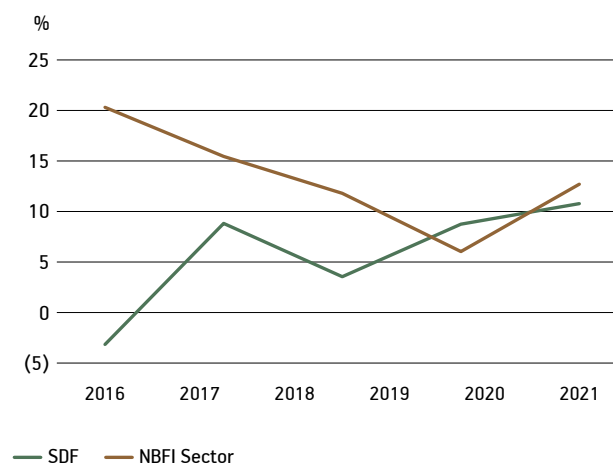
11.4 Key Financial Ratios

Figure 11.12 Key Financial Ratios of SDF

Profitability Ratios	2017	2018	2019	2020	2021
Return on Equity	-2.97%	8.94%	3.70%	8.87%	10.86%
Return on Assets	-0.69%	1.74%	0.60%	1.30%	2.13%
Net Interest Margin (NIM)	16.11%	15.56%	13.02%	12.76%	12.00%
Net Profit Margin	-3.89%	10.72%	4.26%	9.67%	16.37%
Interest Yield	23.62%	23.89%	22.58%	23.03%	19.77%
Interest Cost	8.33%	9.42%	10.73%	11.61%	9.61%
Interest Spread	15.28%	14.47%	11.85%	11.42%	10.17%
Cost to Income Ratio (Excluding Provisions)	75.39%	65.98%	74.11%	66.61%	62.84%
Cost to Income Ratio (Including Provisions)	96.18%	75.78%	79.29%	77.94%	68.20%

11.3.3 Return on Equity

Figure 11.11 ROE of SDF vs the NBFI Sector



Despite the falling ROEs of the NBFI sector, SDF has consistently been improving its returns and achieved a 10.8% ROE in 2021.

In the past SDF, as a relatively small institution has underperformed the sector in terms of ROEs. However, the ability to maintain above average NIMs and focus on portfolio diversification have enabled SDF to move towards the industry average.

	2017	2018	2019	2020	2021
Balance Sheet Related Ratio					
Loan Growth	35.92%	41.16%	17.10%	11.54%	14.04%
Deposit Growth	16.07%	29.78%	16.44%	-5.26%	-10.78%
Borrowings Growth	142.93%	510.73%	80.43%	90.82%	-5.81%
Loan to Deposit Ratio	105.53%	114.78%	115.43%	135.90%	173.70%
Credit Ratios					
Provision Coverage	55.67%	38.92%	45.86%	57.27%	71.41%
Credit Cost	4.25%	1.63%	1.44%	1.64%	0.71%
Gross NPL Ratio	9.80%	6.43%	10.18%	11.92%	9.80%

Source: SDF Financial Statements

11.5 Disclosure on the Impact of Covid-19 on the Company

The COVID-19 pandemic has affected Sri Lanka since March 2020, when the second and third waves emerged. Over the past one and half years', the COVID-19 pandemic has continued to disrupt business operations from rural to urban parts of the country with many small businesses losing their revenues. The Company has strictly adhered to the directions issued by Government, Health Authorities and Central Bank of Sri Lanka (CBSL) when conducting its business operations. The previous debt moratoriums granted as per the Circular No. 04 and No. 05 of 2020 (issued on 24th and 27th March 2020), Circular No. 11 of 2020 (issued on November 9, 2020) and Circular No. 06 of 2021 (issued on June 9, 2021) issued by the CBSL have now come to an end and customers have started to service loans in line with loan agreements. Despite pressures of the pandemic, the Company witnessed a steady increase in monthly disbursement and collections except in April and May 2020 (lockdown months) due to its unique business model. Further, volatility in deposit base was also negligible during this period.

Although there are negative impacts toward interest income, net interest margin and bottom-line of the income statement due to the relief measures given to the customers FY2022 to date, a considerable portion of the negative impact is being addressed via new interest income generated through new loans.

12.0 INVESTMENT CONSIDERATION AND ASSOCIATED RISKS

Prior to investing in the New Shares, prospective investors should pay particular attention to the fact that the Company and to a large extent its business activities are subject to a number of risk factors which may be within or outside the control of the Company.

It is recommended that potential investors review the entire Prospectus in detail and pay particular attention to the following risks in connection with the investment. If any of the considerations and uncertainties given below develop into actual events, the Company's business, financial conditions or results of operations and prospects could be materially and adversely affected and this may impact the performance of the Ordinary Voting Shares.

12.1 Risks Relating to Macro-Environmental Factors Government Policy and Regulations

The NBFIs sector is monitored and regulated by the CBSL, with the primary intention of safeguarding the interest of deposit holders, while overseeing the development of the industry. Any major regulatory changes that are introduced, such as the Risk Based Capital framework and the business segregation, will have a direct impact on the operations and performance of non-bank finance sector entities. However, the strict supervision by the regulators reduces the risk of liquidation and malpractice within the sector. This strict monitoring process provides a sense of security for the investors as well as the deposit holders.

Macro Economic Risk and Impact of COVID-19

Change in general economic factors such as the GDP growth rate, disposable income levels and the financial market performance pose a direct risk to the Company's financial performance. Additionally, prevailing interest rate regime and monetary policy of the country would also have an impact on the non-bank finance sector.

Moreover, the enduring Covid-19 pandemic could significantly impact the financial sector of the economy in addition to the aforesaid economic variables.

The Sri Lankan economy which was on its path to recovery following the Easter Sunday Attacks was badly impacted by the Covid-19 related lockdowns. This led a contraction of the Real GDP of the country by 3.6% in 2020 (source: <https://www.worldbank.org/en/country/srilanka/overview>).

The Government introduced a series of measures including a significant decrease in policy rates, to revive the economy. This together with increased Government and SOE borrowing has led to an increased credit growth despite the Covid-19 situation.

The economic fallout from the coronavirus pandemic, as well as the deteriorating sovereign credit profile, are expected to continue to weigh on the Sri Lankan financial sector in 2021, according to Fitch Ratings Lanka Limited. However, with the Government stated position of maintaining single digit interest rates and a consistent tax policy, the

sector may be in a better position to take up any losses that may arise from a possible rise in post moratorium NPLs.

12.2 Risks Relating to the Existing Business of SDF and Future Plans

Strategic Risk

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

Further, SDF's performance is comprehensively reviewed monthly against budgets/ targets and for any gaps as mitigation methods. If there are any significant variances immediate action is taken to ensure that the strategy implementation is back on track.

Performance review meetings are held regularly at branch level and regional levels. At the Head Office level, top management meets regional managers monthly and meet branch managers and Officers in Charge (OICs) once in 3 months.

Credit Risk

Credit risk arises due to the possible low credit quality of borrowers with regard to repayment or due to outright default of payment. In order to manage the credit risk, the cash flows of the proposal and the credit worthiness of borrowers are properly evaluated and reviewed periodically.

Additionally, the credit approval takes into consideration the purpose of the loan, the security value and the credit history of the borrower. SDF lending products, such as leases and loans are originated at the branch level and from the Credit Department. The credit proposals are evaluated based on the credit policy and guidelines of the Company. The credit approvals are in line with the delegated authority. The Credit Administration Department which reports to the Chief Manager—Branch Operations and Administration ensures that the security documents relating to the facilities are in order. It is the Finance and Planning Department that is entrusted with releasing disbursements of loans. Responsibility for credit risk has been delegated to the Board Credit Committee.

The Credit Department and Recoveries Department along with the Legal and Litigation Department are responsible for the overall management of the SDF's credit risk. The Credit Department measures the risk level of the credit portfolio. The Credit Department formulates the credit policy in consultation with business units, covers collateral requirements, and undertakes credit assessment and credit documentation. They also establish the authorisation structure for the approval and renewal of credit facilities. In order to minimize the credit exposure, the Credit Department seeks to ensure that the lending is backed by adequate realisable assets.

SDF uses its own internal credit risk assessment models for assessing credit risk together with clear guidelines to determine the suitability of collaterals and their valuation to ensure secondary sources of repayment in an eventuality.

The Credit Department prepares a comprehensive management information report and submits it on a monthly basis to the Board of Directors. The Recoveries Department works closely with the Credit Department to ensure timely collection of overdue loans. The Recovery Department presents a monthly performance report to the Board of Directors. Recovery action of default accounts is undertaken by the Legal and Litigation Department which is informed to the Board on a monthly basis.

The Board Credit Committee has authority and responsibility in decisions pertaining to the oversight of all transactions carried out by the Credit Division, Recoveries Division, and Legal and Litigation Division. The Board Credit Committee ensures stringent assessment of all clients. The Company has appointed professional valuers for the valuation of vehicles, and other movable and non-movable properties obtained as collateral. The MIS has been developed to stringently monitor and frequently report on customer loans showing signs of weakening credit quality. SDF also closely monitors the geographical concentration as well as the severity and volatility of the external environment when granting credit. Key ratios related to credit appetite of the Company and the risk tolerance levels have been established by Risk Management Division (RMD).

The credit compliance has been covered by the Internal Audit Department in line with the credit policy and directions laid out by the CBSL. Head of Internal Audit raises significant credit concerns to the Management Audit Committee. The follow up action of all material credit concerns are highlighted to the BAC. Further, the Company has considered possible measures to ascertain the level of expected credit loss to capture the impact of COVID 19 on its asset book to the extent required.

Operational Risk

Operational risk is the risk pertaining to loss resulting from inadequate or failed internal processes, people and systems, or from external events including pandemic situations like COVID 19, which affect the operations and business continuity of the entity.

The responsibility of managing the operational risk lies with all staff in the Company. The accountability of managing operational risk lies with the management committee members and IRMC. They are responsible for maintaining an oversight over operational risk management and internal controls which cover all businesses and operations for effective utilisation of the Company's resources and to minimise the risk of loss.

The Company has developed a Risk Control Self-Assessment (RCSA) that has been carried out bi-annually for branches on their business processes. The risk audits are also carried out bi-annually. RCSA

completed by the branch managers is used to identify, assess, monitor and control operational risks. On reviewing audit reports, RMD has identified certain common Key Risk Indicators (KRI) that affect the branch operations. These risks are critically reviewed regularly with the co-operation of the Internal Audit Department.

The KRIs are used by the RMD to develop proactive action while at the same time providing a reverse analysis as guidance to avoid financial pitfalls in the foreseeable future.

SDF has in place a comprehensive Business Continuity Plan (BCP) and a Disaster Recovery Policy (DRP) whose implementation go parallel with each other. In mitigating operational risk, SDF has established robust controls with well-defined segregation of duties, policies and procedures. Upon identification and assessment of operational risks through Internal Audit, key controls have been suggested to mitigate such risk in operations.

SDF has taken proactive measures to safeguard the health and safety of its employees and customers, implement flex and remote work policies and delivery of financial services through digital means to minimise any potential disruptions in its operations due to any pandemic situation.

Market Risk

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

The ALCO regularly reviews the interest rate environment, the movement of key interest rate indices and competitor rates. These reviews form the basis for determining the lending and deposit rates for the future. In arriving at such rates, the ALCO ensures that the minimum average interest rate spread is maintained at all times, thereby sustaining a healthy interest margin. Sensitivity analysis and stress testing is carried out by the RMD on interest rate scenarios to decide on the risk exposure and to assess the impact on net interest income. The market risk limits are monitored and reported to the IRMC for its review.

Liquidity Risk

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

SDF's ALCO meets once in 2 months or whenever the need arises to analyse and monitor liquidity risk and decide on actions to maintain an adequate margin of safety in liquid assets. This action helps to manage and control the overall liquidity of the Company. SDF's liquidity ratios are constantly monitored against benchmarks. A contingency plan is in place to curtail the exposure on SDF's liquidity position. SDF overdrafts were arranged as liquidity buffer and as cushion for contingencies.

Further, the management of SDF has considered and taken necessary measures to assess the impact of COVID 19 on the operations of the Company, in order to absorb sudden liquidity shocks, whilst complying with financial covenants and CBSL liquidity requirements.

SDF maintains the liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

Information Technology Risk

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

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

Business Risk

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

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

Risks Associated with the Future Plans of SDF

SDF understands that their plans may be subject to certain risks, especially given the current local and global economic environment vulnerabilities caused by the spread of Covid-19. The Company is vulnerable to the ill effects of the troubled financial environment. Therefore, SDF has recognized the need to be prudent and the importance of strengthening risk management capabilities while maintaining a strong capital base and high levels of liquidity.

Further, the pandemic also poses a risk to the health and safety of staff, many of whom must engage in social interaction in their daily work. During 2021, the Company endeavours to use its risk management capabilities to identify and mitigate major risks while safeguarding the health of its human resources.

Compliance Risk

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

The CD has the responsibility of acting as the focal point to assess the Company's compliance procedures and guidelines and to promptly identify and address deficiencies when necessary.

The CD is also responsible to monitor the adherence to internal controls and policies across all strata of divisions in the Company. A comprehensive report is given to the Board of Directors monthly on the status of meeting of compliance requirements stipulated.

12.3 Risks Relating to Investment in Shares

Inability to Provide Continuous Dividends

The ability of the Company to make dividend payments to its shareholders will be based on number of factors including the sufficiency of capital as per the CBSL requirements and distributable reserves, availability of cash reserves, business growth prospects, compliance with financing covenants etc.

Dividend payments are not assured and the Board of Directors may decide, in its absolute discretion, not to pay dividends. Further, any substantial dividend payment can significantly impact the capital requirements of the Company, restrict the Company's cash reserves and may adversely affect the liquidity position to support its lending operations and the ability to fund capital expenditures as well as make interest and principal repayments on its customer deposits and funding obligations.

As a result, the Company may be required to borrow additional money or raise equity capital, which may not be possible on attractive terms or at all, depending on market conditions prevailing at that point in time.

Price Volatility of Shares on the Secondary Market

Once the Shares of the Company are listed, secondary market prices of the Company's Shares may be volatile due to a range of factors including temporary spikes in demand or supply of such Shares, the Company's financial performance, investor sentiment, general economic and political conditions or fluctuations in the aggregate market. Due to these price volatilities, potential investors depending on their risk appetite may be required to hold the Shares on a long- term basis in order to optimise returns and therefore may not be suitable for short term investment. Further, the market price of the Shares may not reflect the underlying value of the Company due to price volatilities.

13.0 STATUTORY DECLARATIONS

13.1. DECLARATION BY THE DIRECTORS

October 26, 2021

We, the undersigned being the Directors of Sarvodaya Development Finance Limited, hereby declare and confirm that we have read the provisions of the Companies Act No.7 of 2007 (as amended) relating to the issue of the Prospectus and provisions listed therein have been complied with.

This Prospectus has been seen and approved by us and we individually and collectively accept full responsibility for the accuracy of the information given and confirm that the provisions of the Listing Rules of the Colombo Stock Exchange and the Companies Act No. 7 of 2007 and any subsequent amendments made have been complied with and after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of the Company have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to the Company and making assumptions that are considered reasonable at the present point in time and according to our best judgments.

We further declare that the profit forecasts have been included in this Prospectus after due and careful enquiry of the information available to the Company and assumptions that are considered to be reasonable at the present point in time and according to our best judgments.

Name	Designation	Signature
Mr. Channa de Silva	Chairman Non-Executive / Independent	Sgd.
Mr. Masayoshi Yamashita	Director Non-Executive / Non-Independent	Sgd.
Mr. Chamindha Rajakaruna	Director Non-Executive / Non-Independent	Sgd.
Mr. Senthil Nandhanan Senthilvel	Director Non-Executive / Non-Independent	Sgd.
Mr. Dammika Ganegama	Director Non-Executive / Independent	Sgd.
Dr. Janaki Kuruppu	Director Non-Executive / Independent	Sgd.
Mr. C. Amrit Canagaretna	Director Non-Executive / Independent	Sgd.
Ms. Shehara De Silva	Director Non-Executive / Independent	Sgd.
Mr. Sunil De Silva	Director Non-Executive / Independent	Sgd.

13.2. DECLARATION BY SARVODAYA DEVELOPMENT FINANCE LIMITED

We, Sarvodaya Development Finance Limited, having our Registered Office at No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08, Sri Lanka hereby declare that to the best of our knowledge and belief this Prospectus constitutes full and fair disclosure of all material facts about the Issue and the Company.

An application has been made to the Colombo Stock Exchange for permission to deal in and for a listing for all the Ordinary Voting Shares issued by the Company and those Ordinary Voting Shares, which are the subject of this Issue. Such permission will be granted when the Ordinary Voting Shares are listed on the Colombo Stock Exchange. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in the Prospectus. Listing on the Colombo Stock Exchange is not to be taken as an indication of the merits of the Company or of the Shares issued.

The Common Seal of Sarvodaya Development Finance Limited affixed at Colombo on October 26, 2021 in the presence of two Directors.

Sgd.
Director

Sgd.
Director

13.3. DECLARATION BY THE FINANCIAL ADVISORS AND MANAGERS TO THE ISSUE

13.3.1. NDB Investment Bank Limited

We, NDB Investment Bank Limited of Level 1, NDB Capital Building, 135, Bauddhaloka Mawatha, Colombo 04 hereby declare and confirm to the best of our knowledge and belief the Prospectus constitutes full and fair disclosure of all material facts about the Issue and the Company, and we have satisfied ourselves that the profit forecasts had been stated by the Directors of Sarvodaya Development Finance Limited after due and careful inquiry.

The Common Seal of NDB Investment Bank Limited affixed at Colombo on October 26, 2021 in the presence of two directors.

Sgd.
Director

Sgd.
Director

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**ANNEXURE A – RESEARCH REPORT PUBLISHED TO ASCERTAIN
THE VALUE OF ORDINARY VOTING SHARES OF
SARVODAYA DEVELOPMENT FINANCE LIMITED**

RESEARCH REPORT

Financial Advisors and Managers to the Initial Public Offering



September 6, 2021

The preparers of the Research Report possess the requisite expertise to prepare reports of this nature involving a company in the Diversified Financial Services Sector that is to be listed on the Colombo Stock Exchange

September 6, 2021

Board of Directors,
Sarvodaya Development Finance Limited,
No. 155/A, Dr. Danister De Silva Mawatha,
Colombo 08.

Dear Sirs,

Research Report on Valuation of Sarvodaya Development Finance Limited ("SDF")

We, NDB Investment Bank Limited, in the capacity of Financial Advisors and Managers to the Initial Public Offering (IPO) of SDF (hereinafter referred to as the "Managers to the Issue"), wish to submit the enclosed Research Report in accordance with Section 3.1.4. c (ii) of the Listing Rules of the Colombo Stock Exchange.

We have carried out a detailed analysis of the business operations of SDF to arrive at the fair value of SDF's shares based on three valuation methodologies and the results have been summarised below.

Valuation Method	Equity Value (LKR Mn)	Weightage	Per Share Valuation (LKR)
Residual Income	2,614.14	30%	25.10
Price to Book (PBV)	2,703.47	30%	25.96
Precedent Transaction PBV	2,752.16	40%	26.43
Weighted Average Valuation			25.89

We are of the view that SDF shares would have a fair value of **LKR 25.89 per share** as at August 31, 2021, given the Company's business fundamentals and the industry dynamics in the Financial Services Sector.

Considering the need to offer an upside to potential investors and the healthy marketability of shares, we recommend an offer price of **LKR 22/- per share**. The recommended offer price presents an upside of 18% to the weighted average valuation. It should be noted that the Issue of Shares via Prospectus dated August 24, 2020 was also priced at LKR 22/- per share.

The detailed Research Report is enclosed herewith for your reference.

Thank you.
Yours faithfully,

NDB INVESTMENT BANK LIMITED

Sgd.
Darshan Perera
Chief Executive Officer

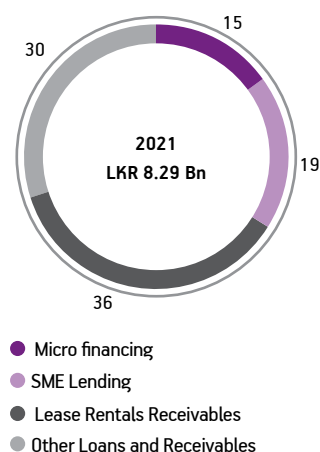
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1.0 LIST OF ABBREVIATIONS

AWPR	Average Weighted Prime Lending Rate
AWLR	Average Weighted Lending Rate
Bn	Billion
c.	Circa
CAGR	Compounded Annual Growth Rate
CSC	Customer Service Centre
CSE	Colombo Stock Exchange
CBSL	Central Bank of Sri Lanka
EPS	Earnings Per Share
FY	Financial Year
GDP	Gross Domestic Product of Sri Lanka
GoSL	Government of Sri Lanka
GTAC	Gentosha Total Asset Consulting Inc.
HNWI	High Net Worth Individual
IPO	Initial Public Offering
LCB	Licensed Commercial Banks
LFC	Licensed Finance Companies
LKR	Sri Lanka Rupee
LSB	Licensed Specialised Banks
Mn	Million
NAV	Net Asset Value
NII	Net Interest Income
NBFI	Non Bank Financial Institutions
NIM	Net Interest Margin
NPL	Non-Performing Loan
P/BV	Price to Book Value
RI	Residual Income
SDF	Sarvodaya Development Finance Limited
SEEDS	Sarvodaya Economic Enterprise Development Services (Guarantee) Limited
SME	Small and Medium Scale Enterprises
SLC	Specialised Leasing Companies
SSS	Sarvodaya Shramadana Societies
VAT	Value Added Tax
Q	Quarter
YoY	Year on Year

2.0 COMPANY OVERVIEW

Sarvodaya Development Finance Limited (SDF) is a limited liability company incorporated in Sri Lanka on January 1, 2010 under the Companies Act No. 07 of 2007 as "Deshodaya Development Finance Company Limited" and subsequently changed its name to "Sarvodaya Development Finance Limited" on March 13, 2015. It commenced business operations as a Licensed Finance Company on December 19, 2012 and is regulated under Section 5 (7) of the Finance Business Act No. 42 of 2011. SDF was conceived as the economic arm of Sarvodaya Movement and evolved from a deep-rooted commitment to nation building and development along with the 'grass roots upwards' model of the Sarvodaya Movement.



Today, while targeting SMEs as its primary customer segment, SDF also caters to the non-bankable community in Sri Lanka by delivering financial facilities to 135,093 citizens. SDF partners with the 5,400 Sarvodaya Shramadhana Societies (SSS) in villages across Sri Lanka to channel development funds deep into grass roots communities. As a result, 80% of SDF branches are located outside the Western Province to enable financial services to low and mid-level income populations. As at August 31, 2021, the entire service network of SDF comprised of 51 customer delivery points, with comprising 30 branches and 21 customer service centres (CSCs), spread across the island serving different segments of society including the grass root levels. Further, SDF joined the Island-wide ATM network via LankaPay network in 2018 to provide SDF customers access to over 400 ATMs across the country.

The principal business activities of SDF include deposit mobilisation, micro credit (represented by bulk loans to Sarvodaya Shramadhana Societies ("SSS"), micro credit to individuals and individual entrepreneurs and gold loans), PCBE (represented by micro credit to employees of Pre-approved Corporate Business Entities), corporate and retail credit (represented by personal loans, business loans, housing loans, SME loans and leasing) and other credit facilities and related services.

Sarvodaya Economic Enterprise Development Services (Guarantee) Limited, popularly known as "SEEDS (Gte.) Ltd.", is the majority shareholder of SDF with a shareholding of 51.85%. Gentosha Total Asset Consulting Inc. (GTAC) formed in April 2012, is a comprehensive consulting company in Japan and owns 12.96% of SDF shares. The other 35.19% of shares are held by a large number of investors including Sarvodaya Shramadhana Societies and several high net worth individuals (HNWIs).

SDF is uniquely placed in that it serves a vast range of clients from small businesses and individuals requiring micro-financing to HNWIs with more complex financing requirements. SDF supports its micro financing clientele with the aim of instilling and developing their financial literacy. These clients soon grow to have greater funding needs, generating greater returns to SDF. Going forward, SDF aims to redouble its efforts in developing these small clients and aiding their growth while still retaining them as customers, thereby shifting their portfolio mix towards a higher average ticket size. Furthermore, SDF's "Digital Strategy" is its future strength. The current digital platforms will be further enhanced to make SDF a fully-fledged digital entity with seamless digital connectivity between clients and SDF offices. All aspects of the business model will be digitized to enable greater flexibility and reach, with enhanced controls and efficiency.

Sources: SDF Annual Reports and Company Data

3.0 INDUSTRY OVERVIEW

3.1 Overview

The Non-Bank Finance Institution sector comprises of 39 LFCs and 3 Specialized Leasing Companies (SLCs). There is a concentration of branches of LFCs and SLCs within the Western Province with 526 (34%) out of a total of 1,530 branches belonging to the Western Province (CBSL --Statistics - March 2021).

In the Sri Lankan financial market, Non-Bank Finance Institutions (NBFIs) play a significant role. While the Central Bank of Sri Lanka regulates both NBFIs and banks, there are some notable distinctions in the regulatory treatment of NBFIs and banks, with NBFIs having more flexibility in governance structure and operational matters and not being subject to statutory reserve requirements. However, there are regulatory restrictions on the range of services that NBFIs can provide as well as their funding options. NBFIs typically provide the following types of loans:

- Vehicle loans
- Equipment loans
- Personal loans
- Micro credit
- Loans against property
- Loans against shares
- Corporate loans

The NBFI sector has recently faced challenges due to stagnant economic activity and the Covid-19 outbreak, resulting in poor asset quality, declining profitability, and an increase in non-performing loans (NPLs).

3.2 Assets and Liabilities of the NBFI Sector

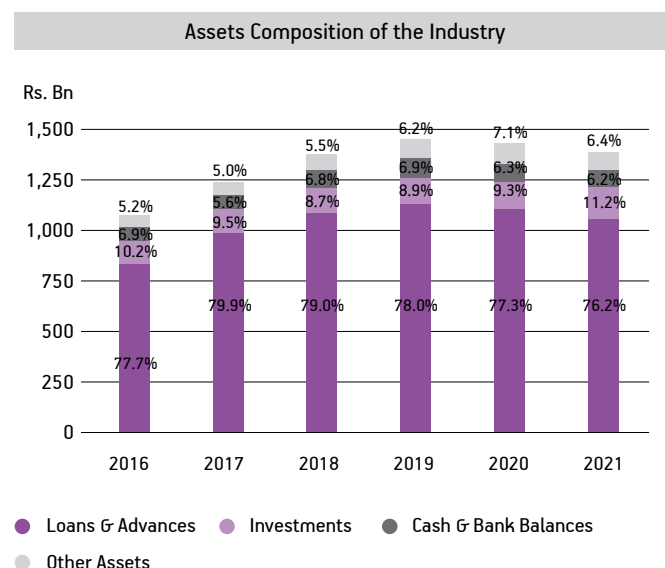


Figure 3.1 - Assets Composition of the Industry

Source: CBSL Statistics 2021

The asset base of the NBFI industry grew at a CAGR of 5.2% between FY16 and FY21 to LKR 1,391.9 billion at the end of March 2021 despite declines in both FY20 and FY21 mainly due to the increase in lending activities during the period FY16 to FY20.

Over 76% of assets are loans and advances, which have grown at a 5 year CAGR of 4.8% to sustain asset growth. Due to the deteriorating economic conditions brought on by the Easter Sunday attacks and the Covid-19 pandemic, Loans and Advances witnessed a negative growth of 2.3% and 4.2% in FY20 and FY21, respectively. Despite a decline of 4.7% from FY20 due to the limitation on motor vehicle imports, the loan portfolio continues to be centred on leasing and hire purchases, which accounted for 58.6% of overall loans and advances as of March 31, 2021.

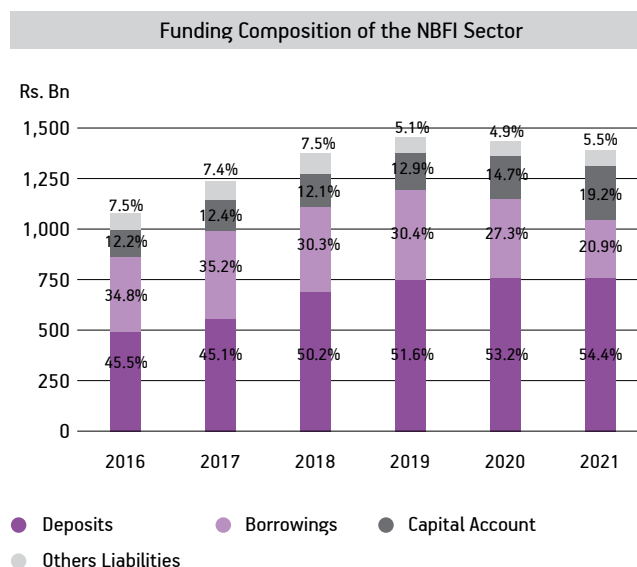


Figure 3.2 - Funding Composition of the Industry

Source: CBSL Statistics 2021

Deposits, which are the NBFI sector's primary source of financing, grew at a 5 year CAGR of 9.1% between FY16 and FY21, accounting for approximately 54% of total liabilities. Deposits grew by 23.9% in FY18, then 8.5% and 1.6% in FY19 and FY20, respectively. However, a drop of 0.7% was experienced in FY21 mainly due to the decrease in interest rates. There was a decrease in borrowings as well in FY20 and FY21 primarily attributable to the pandemic situation in the country.

3.3 Capital Levels of the NBFi Sector

Table 3.1 - Capital Adequacy

Industry Capital Adequacy	31-Mar-2017	31-Mar-2018	31-Mar-2019	31-Mar-2020	31-Mar-2021
Borrowings to Equity (times)	2.85	2.51	2.36	1.86	1.09
Core Capital to Risk Weighted Assets (CCR)	11.3%	11.2%	9.3%	11.2%	14.3%
Capital Base to Risk Weighted Assets (RWCAR)	11.8%	11.7%	10.6%	12.5%	15.6%

Source: CBSL Statistics 2021

The minimum regulatory capital requirements of LKR 2.0 billion required by December 31, 2020 (subsequently extended to March 31, 2021) and LKR 2.5 Billion by January 01, 2022 have resulted in a significant infusion of equity into the sector. This has also provided the flexibility to NBFIs to support businesses and individuals affected by the COVID-19 pandemic.

CBSL has suspended the licenses of a couple of NBFIs due to their inability to meet the minimum capital requirements (CBSL Press Releases – Non-Bank Financial Institutions). Furthermore, CBSL has required that companies that do not satisfy the industry's minimum core capital requirement to merge with other companies in the industry in terms of CBSL Master Plan for consolidation of NBFIs dated November 10, 2020.

3.4 Profitability of the NBFi Sector

Table 3.2 - Profitability

LKR (Mn)	31-Mar-2017	31-Mar-2018	31-Mar-2019	31-Mar-2020	31-Mar-2021
Total Interest Income	199,671	223,806	260,917	256,124	221,197
Total Interest Expenses	105,120	126,405	141,915	139,198	106,197
Net Interest Income	94,551	97,401	119,002	116,926	115,000
Non-Interest Income	30,181	35,463	38,681	37,683	40,095
Non-Interest Expenses (Operating Cost)	72,115	73,915	91,281	91,191	79,725
Loan Loss Provision	7,638	18,287	25,266	35,012	26,693
Profit for the Period (After tax)	28,392	24,002	21,497	13,227	29,666
NIM	7.78%	7.07%	8.02%	7.64%	7.59%
ROE	20.02%	14.53%	11.96%	6.62%	12.46%
ROA	3.70%	2.95%	2.77%	1.86%	3.21%
Provision Coverage Ratio	65.14%	62.73%	58.77%	54.72%	64.16%

Source: CBSL Statistics 2021

Increased non-performing loans, rising credit costs, and poor credit growth aggravated the issues faced by the industry in Sri Lanka as a result of the COVID-19 pandemic.

Due to increased loan loss provisioning and a decline in Net Interest Margin (NIM), the profitability of the NBFi sector fell in FY20. The debt moratorium may have added to the strain on the sector's profitability while masking the extent of asset-quality deterioration to some extent.

When compared to FY20, the industry's ROA and ROE increased by 72.6% and 88.2%, respectively, improving the industry's internal capital generation.

3.5 Liquidity of the NBFi Sector

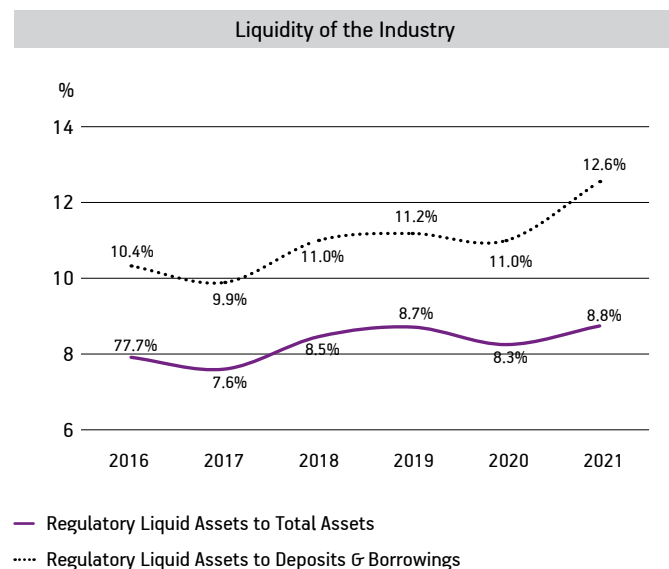


Figure 3.3 – Liquidity of the Industry

Source: CBSL Statistics 2021

The NBFi sector as a whole was able to manage liquidity levels beyond regulatory criteria owing to the easing of CBSL's monetary policy, the introduction of regulatory concessions in March 2020, and the reduction of minimum liquid assets requirements.

Despite certain fluctuations over the period under consideration, the gross amount of liquid assets in the sector indicated surpluses. The decline in loan demand as a result of low economic activity, in combination with the loosened monetary policy, resulted in such excess liquidity levels.

3.6 Asset Quality of the NBFi Industry

Table 3.3 - Asset Quality

Industry Asset Quality	31-Mar-2017	31-Mar-2018	31-Mar-2019	31-Mar-2020	31-Mar-2021
Gross Non-Performing Advances to Total Advances	4.9%	5.8%	7.7%	11.4%	11.3%
Net Non-Performing Advances to Total Advances	1.1%	1.5%	2.3%	3.8%	2.8%
Total Advances to Total Assets	79.0%	79.0%	78.0%	77.3%	76.2%
Provision Coverage Ratio	65.1%	62.7%	58.8%	54.7%	64.2%

Source: CBSL Statistics 2021

The NPL ratio of the industry has increased from FY17 to FY20 with the slowdown of economic growth and reduction in repayment capacity of borrowers due to a series of events including policy uncertainty, political instability, Easter Sunday Attacks and most recently the COVID-19 outbreak. However, it experienced a drop of 0.9% in FY21 giving a positive outlook for the industry.

3.7 Commercial Bank Average Lending/Borrowing Rates

The Average Weighted Prime Lending Rate (AWPR) in Sri Lanka is the average rate of interest charged by commercial banks on loans to individuals and businesses on a weekly basis. Average Weighted Lending Rates (AWLR) are calculated by the CBSL on a monthly basis based on interest rates of all outstanding loans and advances extended by commercial banks to the private sector.

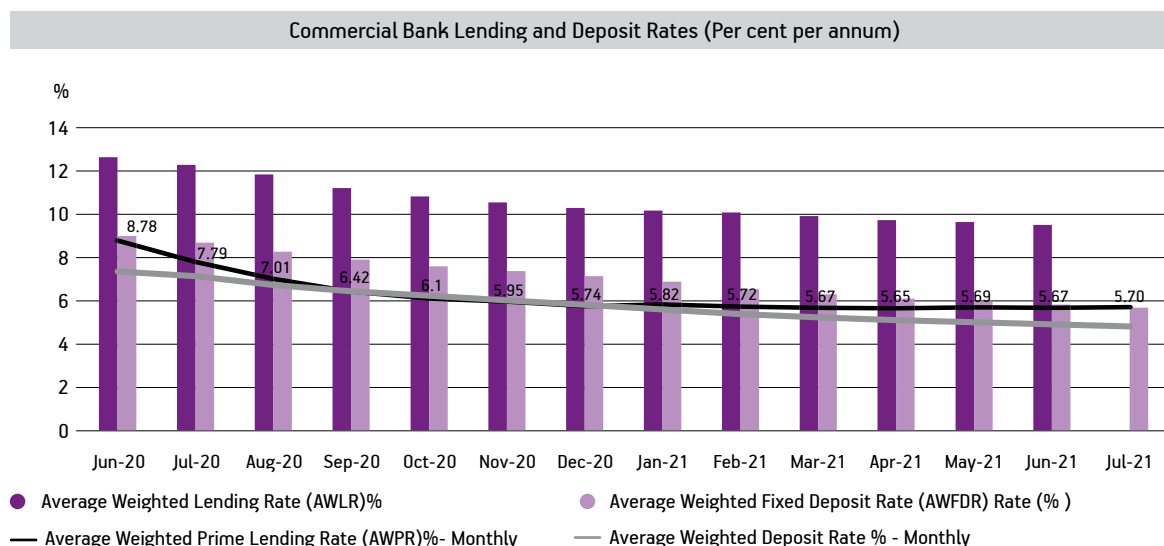
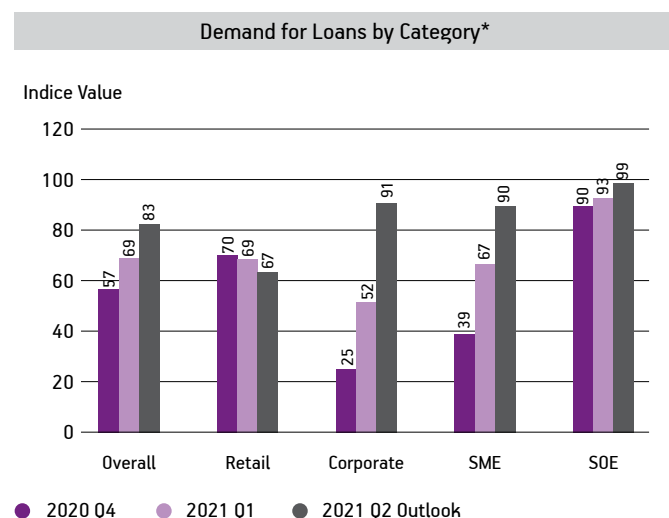


Figure 3.4 – Commercial Bank Lending/Borrowing Rates

Source: CBSL Statistics 2020-21

The reduction in AWLR and AWPR over the course of 2021 comes about as a result of lower interest rates being charged on fixed deposits and loans spurred by expansionary monetary policy implemented via growing money supply. This reduction provides consumers the ability to afford higher loan sizes

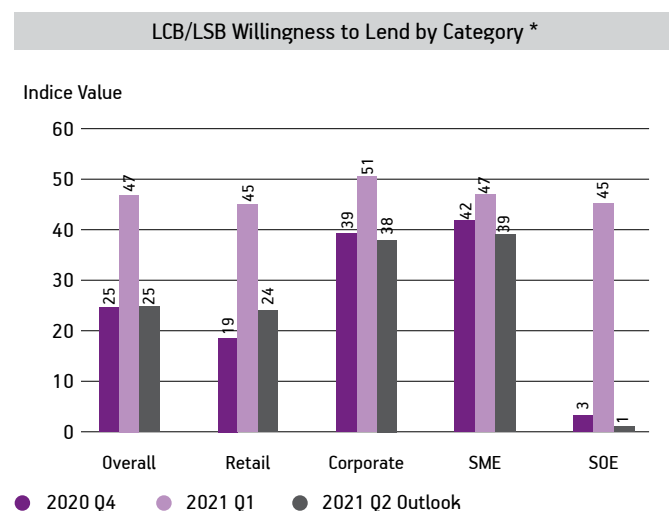
3.8 Comparison of Demand and Supply of Loans in the Banking Sector



Source: CBSL Survey on Credit Supply 2021

Figure 3.5 – Demand for Loans by Category

As per the CBSL credit supply survey issued on May 06, 2021, the demand for loans has increased at a higher pace in 2021 Q1 compared to 2020 Q4 and is set to increase further in 2021 Q2 due to the rise in economic activity.



Source: CBSL Survey on Credit Supply 2021

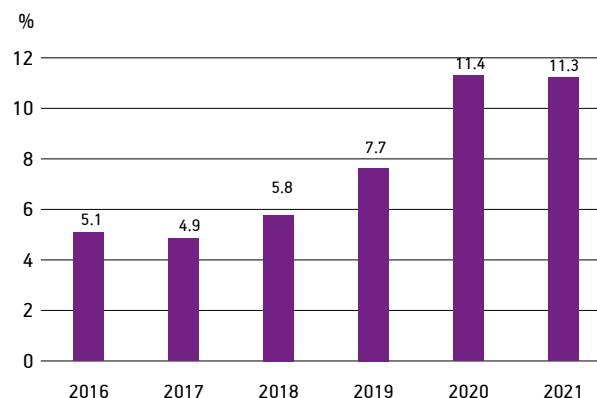
Figure 3.6 – Willingness to Lend by Category

* Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

LCB and LSBs' willingness to lend grew in 2021 Q1 compared to 2020 Q4, and all loan sectors (retail, corporate, SME, and SOE) indicated an increase in willingness to lend. Relaxation of lending criteria based on expectations of improved financials as a result of increased economic activity and the relaxation of the COVID-19 pandemic in 2021 Q1 steered this further improvement in lending willingness. But a reduction in willingness to lend in 2021 Q2 is anticipated, and the rise in demand for loans specially in the SME sector would cause a deficit in loans provided under the scope of LCBs and LSBs. Hence, an increased demand for NBFIs loans could be seen towards the end of 2021 with carefully structured higher Net Interest Margins.

3.9 Key Developments in the NBF Sector in 2021

Gross Non Performing Advances to Total Advances



Source: CBSL Statistics 2021

Figure 3.7 – Gross NPL of the Industry

During the financial year, CBSL employed accommodative monetary policies, such as lowering the statutory reserve ratio and policy rates, in order to help the economy grow.

As previously discussed, import limitations on motor vehicles imposed to reduce the impact on the balance of payment had an impact on the leasing and hire purchase segments. In addition, two consultation papers on NBF credit risk management and applying ownership limitations on NBFs to diversify share ownership were introduced by the Department of Supervision of Non-Bank Financial Institutions of the CBSL dated December 12, 2020 and August 25, 2021.

Concessional lending and debt moratoria for pandemic-affected firms helped to strengthen the financial system and restore market confidence. Debt moratoria were recommended to NBFs in varied degrees for eligible sectors such as tourism, SMEs and export related firms, self-employed, and eligible individuals. Furthermore, debt moratoria for the tourism and passenger transportation industries, which were set to expire on March 31, 2021, were extended for another six months. Additionally, on June 9, 2021, CBSL published a circular extending debt moratoriums until the end of August, offering relief to both performing and non-performing loans. As a result, NBFs may confront a variety of challenges, including liquidity pressure, even though they may be better equipped to grasp the ramifications of moratoria, having gained experience during the first wave of Covid-19 and having successfully navigated the pandemic situation thus far.

3.10 Risks Relating to NBFI Sector

The sector is inherently more exposed to credit risk than the banking sector because the nature of its business model is to typically deal with relatively high-risk clients and charge a higher margin (compared to the banking industry). Due to the economic slump, the sector's NPLs have increased, posing a risk to the sector's profitability. Additionally, the banking sector's expansion into consumer categories historically dominated by NBFIs such as leasing, and SME loans has posed a challenge to the NBFI sector as well.

Under CBSL laws, special types of lending facilities, such as mortgage loans, are capped at lower rates, which may have an impact on the institutions' NIM. Moreover, vehicle import restrictions have an impact on the leasing section of the NBFI's product portfolio.

3.11 Future Outlook of the NBFI Sector

While current minimum capital regulations serve to keep the NBFI industry stable over time, the industry's revival is mostly dependent on the economy's short to medium term recovery.

The CBSL's strategy to consolidate the financial sector is expected to strengthen the business, with finance corporations emerging with greater capital bases and less rivalry. This is predicted to lower the sector's cost-to-income ratio, allowing for improved long-term profitability.

Furthermore, the government has showed its commitment to improve the regulatory aspects of the NBFI sector in light of the sector's stability by appointing an Ombudsman and reviewing current legislation (CBSL Press Releases and The Financial Ombudsman Sri Lanka website).

Sri Lanka's GDP is expected to expand by 3.4 percent in 2021, according to the Asian Development Bank. The Sri Lankan government anticipates a positive impact following the Sri Lanka Investment Forum, which took place electronically in June and drew over 4,000 participants, including 1,500 investors. The Colombo Port City project is also expected to promote significant economic growth.

In deriving at the valuation, the following sources were referred to:

- i. Unaudited 5 Month Interim Statements of SDF as at August 31, 2021
- ii. Audited Financial Statements of SDF for the Financial Years ended March 31, 2017, 2018, 2019, 2020 and 2021
- iii. Budgets and internal forecasts provided by the Management of SDF
- iv. Information on S&P Capital IQ Platform
- v. Trading related information available on the Colombo Stock Exchange
- vi. Other publicly available information

The Managers to the issue are of the view that the information sources listed above were adequate to carry out the equity valuation of Sarvodaya Development Finance Limited in a fair and reasonable basis to the best of their knowledge. Furthermore, it should be noted that the Managers have not carried out an independent verification of the information provided by the Company. In addition, no information has come to the attention of the Managers to believe that the facts and data set forth in the Report are incorrect.

5.0 FINANCIAL FORECASTS AND ASSUMPTIONS

The financial statements of SDF were forecasted based on the audited financial statements of the Company for the year ended March 31, 2021. Management expectations, current trends in the segments in which SDF operates and the overall macro-economic outlook were considered when forecasting the Company's performance.

Given the expansive growth plans of the Company, a 7 year forecast period ending in FY2028 was considered to capture normalised residual income in the persistence factor for valuation purposes.

The Managers have established that the assumptions used for forecasts given in this report are reasonable and fair to the best of our knowledge.

5.1 Loan and Lease Portfolios

5.1.1 Disbursements

SDF could not pursue its planned aggressive disbursement strategy in FY2021 due to the onset of the Covid-19 pandemic and resulting lockdowns towards the end of FY2020. The Company did however record a YoY growth of 19.5% in its overall portfolio buoyed by the favourable interest rate environment. Given that the segments of the population that SDF predominantly caters to were the most affected by the pandemic, the Company was forced to revise its overall expectations for the year.

Disbursements (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Loans and Receivables	2,479.1	2,367.4	3,196.5	4,706.7	6,393.4	8,108.5	9,498.6	10,766.7	12,104.4
Leasing	1,188.5	2,013.8	2,562.6	3,331.3	4,525.1	5,739.1	6,723.0	7,620.6	8,567.3
Total	3,667.5	4,381.2	5,759.2	8,038.0	10,918.5	13,847.6	16,221.6	18,387.3	20,671.7
YoY Growth	21.1%	19.5%	31.5%	39.6%	35.8%	26.8%	17.1%	13.4%	12.4%
Average Monthly Disbursements	305.6	365.1	479.9	669.8	909.9	1,154.0	1,351.8	1,532.3	1,722.6

While disbursements once again slowed down in the first two months of FY2022 with the 3rd wave of Covid-19, the ongoing revival of Sri Lanka's economy, driven by the GoSL's expansive vaccination drive, and the continuation of the current interest rate regime are expected to lead to a significant increase in disbursements in FY2022. Additionally, the influx of capital through the IPO will reduce the dependency on borrowings and customer deposits in the short term, thereby allowing the Company to be more aggressive with its disbursements as evidenced by the forecasted growth in FY2022 and FY2023. Effective implementation of the Company's strategy of mobilising deposits and advances via Sarvodaya Societies will help sustain these disbursement levels going forward. Growth in disbursements will revert to its long-term sustainable growth rate from FY2024 to the end of the forecast window with the gradual stabilisation of Loan to Deposit Ratios during this period (please refer Section 6.2 for Loan to Deposit Ratios).

Disbursement Mix %	FY2020	FY2021	FY2022F	FY2023 Onwards
Cash Backed Loans	8.7%	7.2%	7.0%	7.7%
Micro Loans	11.8%	1.3%	1.2%	4.8%
SME	24.6%	7.7%	8.2%	13.3%
Gold Loans	0.8%	27.3%	28.7%	18.5%
Leasing	32.4%	46.0%	44.5%	41.4%
Other	21.8%	10.5%	10.4%	14.2%
Total	100.0%	100.0%	100.0%	100.0%

Disbursement Mix % - Leasing	FY2020	FY2021	FY2022 Onwards
Four Wheeler	69.3%	53.7%	53.7%
Three Wheeler	16.4%	16.8%	16.8%
Two Wheeler	0.3%	5.9%	5.9%
Tractor	10.7%	13.0%	13.0%
Other	3.3%	10.5%	10.5%
Total	100.0%	100.0%	100.0%

The overall disbursement mix shifted in FY2021 driven by the pressures of the pandemic. Micro loans (business and personal) and SME loans witnessed a stark decline as lockdowns and other restrictions severely hampered operations of clients in these segments. A significant uptick was however seen in the Gold loan (pawning) segment with large portions of SDF's clientele forced to rely on short to medium term asset backed facilities to meet their day to day personal and business cash flow requirements. The increase in retail prices for vehicles resulting from import restrictions enforced by the GoSL led to a short-term increase in the quantum of leasing facilities offered in FY2021.

The overall disbursement mix as well as the leasing disbursement mix is expected to normalise by FY2023 with the aforementioned expectations for economic recovery. Credit growth is also assumed to expand post FY2022 due to expected favourable macroeconomic fundamentals; improved consumer spending, improved consumer sentiment and corporate earnings which are likely to drive economic growth momentum. Policy and political certainty and low interest rate environment are expected to reinforce demand for credit.

Credit growth is forecasted to funnel through increased lending to Sarvodaya Societies, SMEs, leasing advances and gold loans. SDF's strategy of empowering over 450 societies through introduction of fintech, improving financial literacy in rural Sri Lanka and competitive rate lending is expected to create customer stickiness and secure access to a market segment that remains underpenetrated by other financial institutions

5.1.2 Gross and Net Portfolio

The strength and reach of the Sarvodaya brand is highlighted by the fact that SDF was able to grow its portfolio in FY2021 despite the numerous macroeconomic challenges brought about by multiple waves of COVID-19.

Portfolio (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Cash backed Loans	493.4	540.0	382.8	282.1	465.5	468.1	647.4	636.9	803.3
Micro Loans	1,637.8	1,222.0	865.1	941.3	1,249.0	1,589.0	1,941.5	2,238.8	2,576.3
SME	1,788.7	1,625.2	1,505.5	1,991.2	2,870.7	3,879.0	4,917.9	5,899.6	6,872.6
Gold Loans	31.7	388.9	853.8	545.0	1,045.3	1,053.0	1,484.1	1,460.0	1,861.2
Leasing	1,764.3	3,084.4	4,200.8	5,446.7	7,606.8	10,210.8	12,626.5	14,964.5	17,110.9
Other	1,525.1	1,538.6	1,373.7	1,633.0	2,147.8	2,781.6	3,482.5	4,055.5	4,739.5
Gross Portfolio	7,241.0	8,399.2	9,181.6	10,839.3	15,385.0	19,981.4	25,099.9	29,255.2	33,963.8
YoY Growth	10.7%	16.0%	9.3%	18.1%	41.9%	29.9%	25.6%	16.6%	16.1%
Net Portfolio	6,790.9	7,855.9	8,525.5	10,089.3	14,545.3	19,024.0	23,975.6	27,970.9	32,537.0
YoY Growth	9.2%	15.7%	8.5%	18.3%	44.2%	30.8%	26.0%	16.7%	16.3%

The Other category above comprises Society Loans, Housing Loans and Staff Loans. While relatively high write off levels and impairment expenses were witnessed over the last two financial years and are expected in FY2022 as well (as evidenced by lower YoY growth in the Net Portfolio) this too is expected to normalise as lingering implications of the pandemic gradually fade.

As mentioned in Section 5.1.1, SDF's portfolio is expected to grow rapidly during the forecast window in line with the aggressive disbursement strategy that levers on the influx of capital through the IPO, the strength of the Sarvodaya brand, the extensive Sarvodaya Society network and the favourable macroeconomic climate. The Company's portfolio mix is also expected to shift in line with the forecasted trend in disbursements.

Gross Portfolio Mix %	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Loans and Receivables	75.6%	63.3%	54.2%	49.8%	50.6%	48.9%	49.7%	48.8%	49.6%
Lease Rental Receivables	24.4%	36.7%	45.8%	50.2%	49.4%	51.1%	50.3%	51.2%	50.4%

5.2 Interest Income

Interest income declined significantly in FY2021 from 9.5% in February 2020 (last month before the onset of Covid-19) and 12.2% in February 2019 as a result of the drastic change in the interest rate regime, with AWPR dropping under 6% in October 2020 and maintaining that level as at the date of the valuation (please refer Section 3.0 for further details on the changes in the interest rates and the monetary sector as a whole). SDF was also required to refinance portions of its portfolio at lower interest rates in line with the GoSL's and CBSL's policy decisions to ease the burden on the population.

Interest Income (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Gross Loans Receivable	1,263.5	993.0	965.0	1,036.3	1,348.8	1,835.2	2,229.4	2,690.7	2,958.6
Gross Lease Rentals Receivable	357.1	554.0	779.6	1,051.3	1,356.0	1,830.9	2,284.9	2,902.9	3,330.3
Income from Other Interest Earning Assets	61.1	37.8	33.3	55.1	63.8	64.0	98.7	110.4	142.1
Total Interest Income	1,681.7	1,584.7	1,777.8	2,142.7	2,768.6	3,730.1	4,612.9	5,704.0	6,431.0

Interest income is expected to recover from the decline witnessed in FY2021 and increase rapidly thereafter in line with the growth in SDF's portfolio and the expected recovery in the AWPR following the increase in CBSL policy rates announced through the Monetary Policy Review dated August 6, 2021

Loan Type	Interest Rate (FY2022)	Weighted Average Tenure
Cash Backed Loans	9%	1.00
Micro Loans - Business	24%	3.50
Micro Loans - Personal	24%	3.00
Gold Loans	17%	1.00
SME Lending	25%	3.75
Society Loans	18%	2.75
Housing Loan	21%	4.50

Lease Type	Interest Rate (FY2022)	Weighted Average Tenure
Four Wheelers	18%	4.00
Three Wheelers	22%	3.75
Two Wheelers	22%	2.50
Other	21%	3.75

Current Company lending rates were used to forecast the interest income from disbursements in FY2022 while the spread was assumed to decrease with the gradual increase in AWPR. A constant weighted average tenure was assumed for all disbursements during the forecast period. Interest income from the existing portfolio as at March 31, 2021 was incorporated as per the repayment schedules provided by the Management of SDF.

SDF has been able to charge a premium from its customers in comparison to other Licensed Finance Companies based on the segments of the population that it caters to and the added associated costs. The Company has continuously maintained an above average Net Interest Margin (NIM) as a result.

5.3 Funding

Given the decline in interest rates offered for customer deposits SDF was forced to rely on bank borrowings and capital infused in FY2021 to grow its portfolio. SDF infused c. LKR 806 Mn as equity in FY2021 towards meeting the minimum core capital requirement of LKR 2,000 Mn stipulated by the CBSL for Licensed Finance Companies by December 31, 2020. As outlined in the Prospectus, SDF intends to raise up to LKR 1,000 Mn through its IPO to meet the stipulated core capital requirement of LKR 2,500 Mn set for January 1, 2022 and to utilise the same as growth capital in its rapid expansion.

Funding (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Fixed Deposits	3,405.2	3,157.0	3,725.3	4,395.9	5,714.6	7,143.3	8,929.1	11,161.4	13,951.7
Savings Deposits	1,536.3	1,245.3	1,469.4	1,733.9	2,254.1	2,817.7	3,522.1	4,402.6	5,503.2
Other	160.5	149.6	172.6	203.7	264.8	331.0	413.8	517.2	646.5
Total Deposits	5,102.0	4,551.9	5,367.4	6,333.5	8,233.6	10,292.0	12,865.0	16,081.2	20,101.5
<i>YoY Growth</i>	-5.3%	-10.8%	17.9%	18.0%	30.0%	25.0%	25.0%	25.0%	25.0%
Bank Borrowings	1,595.0	1,729.6	1,397.4	1,488.5	3,557.2	5,932.8	8,234.2	8,852.3	9,246.5
Funding Mix									
Fixed Deposits	50.8%	50.3%	55.1%	56.2%	48.5%	44.0%	42.3%	44.8%	47.5%
Savings Deposits	22.9%	19.8%	21.7%	22.2%	19.1%	17.4%	16.7%	17.7%	18.8%
Bank Borrowings	23.8%	27.5%	20.7%	19.0%	30.2%	36.6%	39.0%	35.5%	31.5%
Other	2.4%	2.4%	2.6%	2.6%	2.2%	2.0%	2.0%	2.1%	2.2%
Loan to Deposit Ratio	135.9%	173.7%	158.8%	159.3%	176.7%	184.8%	186.4%	173.9%	161.9%

Total customer deposits are expected to revert to FY2019 levels (c. LKR 5,385 Mn) in FY2022 with the expected gradual increase in interest rates (following the increase in CBSL policy rates announced through the Monetary Policy Review dated August 6, 2021) and maintain this growth rate through FY2023 following the relaxation of the deposit cap imposed by the CBSL as mentioned in the paragraph below. The Company will be able to fund its lending portfolio through FY2023 with limited growth in customer deposits and bank borrowings by effectively utilising the capital infused through the IPO. However, a significant increase in customer deposits and bank borrowings will be required to fund its growth through the remainder of the forecast window. Maintaining sustainable Loan to Deposit Ratio levels was a key consideration in forecasting the growth in customer deposits.

However, with respect to the total quantum of public deposits to be raised by SDF, a cap of LKR 5.5 Bn on total deposits including accrued interest has been imposed by the CBSL until such time the Company meets the required minimum core capital as per Section 2.1 of Finance Business Act Direction No. 02 of 2017. SDF expects that the said deposit cap will be lifted by CBSL upon raising the required funds (i.e. LKR 1 Bn) to fulfil the minimum core capital requirement through this IPO as per formal communications received from the CBSL as at August 31, 2021.

5.4 Interest Expense

Interest expense declined significantly in FY2021 primarily due to the aforementioned drastic change in the interest rate regime. A decline in overall customer deposits due to the decreasing interest rates offered was witnessed as well as detailed in Section 5.3. Decreasing customer deposits were supplanted by low-cost bank borrowings during the year at the cost of a drastic increase in the Loan to Deposit Ratio.

Interest Expense (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Fixed Deposits	458.9	369.6	343.1	481.8	606.4	776.9	973.9	1,263.2	1,577.9
Savings Deposits	87.8	67.8	53.9	77.9	107.6	156.8	194.0	260.5	335.1
Bank Borrowings	179.3	162.0	184.3	192.6	455.1	807.2	1,097.6	1,215.3	1,214.7
Interest Expense on Lease Creditors	24.1	23.9	25.0	25.5	26.0	26.7	27.4	27.4	27.4
Total Interest Expense	750.1	623.3	606.2	777.8	1,195.1	1,767.7	2,292.9	2,766.4	3,155.2

The non cash interest expense for lease liabilities has also been categorised under interest expenses as per the revised accounting standard, IFRS 16 from FY2020 onwards.

Cost of Funding	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Fixed Deposit	12.7%	11.3%	10.0%	11.9%	12.0%	12.1%	12.1%	12.6%	12.6%
Saving Deposit	5.7%	4.9%	4.0%	4.9%	5.4%	6.2%	6.1%	6.6%	6.8%
Bank Borrowings	11.2%	9.4%	11.8%	12.9%	12.8%	13.6%	13.3%	13.7%	13.1%

While SDF is expected to leverage on the attraction of deposits via Sarvodaya Societies to boost its deposit base, the Company will have to offer above market interest rates going forward to attract sufficient deposits to meet its long term funding requirements subject to being compliant with CBSL regulations.

Given the aggressive Loan to Deposit Ratio that SDF will be maintaining until FY2027, it has been assumed that the Company will have to utilise expensive bank funding lines to sustain its growth. Cost of bank borrowings are expected to decline in FY2028 with the reduction in the Company's Loan to Deposit Ratio.

A key point to note is that SDF will be able to maintain NIMs in excess of 10% throughout the forecast period. Please refer Section 6.0 for further details on forecast NIMs and other key financial indicators.

5.5 Other Income

Other income consists of Fee and Commission Income, Recoveries of Bad Debt and Other Sundry Income. Fee and Commission Income has been forecasted at 0.5% of disbursements from FY2022 and declines to 0.45% by FY2027 with rising disbursements. SDF's digital transformation strategy focused on facilitating digital payments and other cashless transactions via the branch network and Sarvodaya Society network is expected to drive Fee and Commission Income.

While significant Bad Debt recoveries were witnessed in FY2019 and FY2020, this is not expected going forward as a significant portion of the recoverable bad debt has now been recovered. A decline in recoveries has therefore been assumed going forward. Other Sundry Income was also forecasted at 0.5% of disbursements in line with the historical average. A revaluation gain of c. LKR 89.5 Mn boosted the Other Income figure in FY2021, this too has been eliminated when normalising forecasts going forward.

5.6 Operating Expenses

Personnel expenses are the primary component of Operating Expenses. Growth in Personnel Expenses is linked to the number of staff employed and the growth in average annual salary. Average annual salaries are expected to increase at a rate of 8% per annum while the total number of staff is expected to increase from the current number of 480 to 670 by FY2028. SDF has embraced a culture of lean operations, therefore no new branches are expected to be opened during the forecast period. Ready access to the aforementioned Sarvodaya Societies spread across the island coupled with branch rationalization and upgrading customer service centres into branches are contemplated to provide the necessary geographical reach required to realize the planned growth. However, the recruitment of a total of 190 executives has been factored into the forecast period to drive SDF's strategy of reaching grass root level customers and expanding its portfolio.

Marketing Expenses are also expected to increase rapidly during the forecast period on the back of increased promotional, marketing and activation efforts, especially those geared towards rural and underdeveloped market segments. SDF's aspirations of being a key Fintech player also warrants the forecasted increased marketing expenses.

5.7 Taxation

Value Added Tax (VAT) on financial services has been expensed at 15% of Total Value Addition (i.e. the sum of Profit Before Tax and Personnel Expenses). Tax benefits offered to companies that list on the CSE prior to December 31, 2021 have been considered when forecasting Income Tax expense. Therefore Income Tax has been expensed at 12% of taxable profits in FY2022, 14% from FY2023 to FY2025 and 24% thereafter.

5.8 Dividends

A dividend pay out ratio of 25% has been incorporated for the first 3 years of the forecast window. Pay out has been increased to 50% from FY2025 onwards following the increase and subsequent stabilisation of the growth in profitability and the asset base in line with Management expectations.

5.9 Other Balance Sheet Items

Management expectations and plans for minimal increases in Property, Plant and Equipment and Intangible Assets were incorporated in line with SDF's objective to effectively utilise the Sarvodaya Network to facilitate its growth.

Right of Use Asset and Lease Liability schedules provided by Management were directly incorporated into the forecast. Other balance sheet items have been forecasted based on management expectations and long-term plans.

Non-Financial Liabilities have increased in FY2021 due to change in the method of recognition of vehicle lease creditor from bank balance to the lease credit balance. In FY 2020, the Company raised cheques for vehicle lease creditors by crediting the respective bank account immediately after issue of a purchasing order and then released a cheque to the supplier after transferring the vehicle through the Department of Motor Traffic. In FY2021 the internal policy was changed and SDF accordingly recorded payable amount under Lease Creditor account in general ledger immediately after the issuing PO and then raised cheques after the RMV process. This change has been factored in the forecasts as accordingly

6.0 KEY FINANCIAL RATIOS AND METRICS

6.1 Asset Quality Indicators

Asset Quality Indicators	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Gross NPL Ratio	11.9%	9.9%	9.7%	9.3%	7.7%	7.4%	7.2%	7.4%	7.5%
Provision Coverage	57.3%	56.6%	74.2%	74.5%	70.4%	67.5%	62.9%	60.1%	55.7%
Credit Cost	1.6%	0.7%	1.2%	1.2%	0.8%	0.8%	0.7%	0.6%	0.5%

SDF's strategy to rely on community-based lending in its growth drive is expected to result in better credit evaluation and collections. Gross NPL ratios are therefore expected to decline during the forecast window before stabilising at the expected long term average at the end of the forecast window.

6.2 Key Performance Indicators

Key Performance Indicators	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Net Interest Margin	12.8%	12.2%	12.7%	12.9%	11.8%	11.0%	10.2%	10.7%	10.2%
Loan to Deposit Ratio	135.9%	173.7%	158.8%	159.3%	176.7%	184.8%	186.4%	173.9%	161.9%
Return on Assets (ROA)	1.3%	2.1%	2.1%	2.5%	2.8%	3.0%	3.0%	3.5%	3.6%
Return on Equity (ROE)	8.9%	10.9%	7.4%	8.2%	10.6%	14.0%	16.5%	20.8%	22.3%
Net Assets per Share (LKR)	11.5	20.9	22.3	23.7	25.7	27.5	29.9	33.2	37.1
Dividend per Share (LKR)	0.0	0.0	0.3	0.5	0.7	1.9	2.4	3.3	3.9
Earnings per Share (LKR)	1.0	2.6	1.4	1.9	2.6	3.7	4.7	6.6	7.8
Debt : Equity	5.9	3.8	2.5	2.3	2.5	2.8	3.1	3.5	3.9

ROE is expected to increase with the steady increase in Earnings per Share driven by SDF's aggressive growth drive. The dividend pay out ratio is expected to be increased with the gradual stabilisation in the growth in profitability (please refer Section 5.9) leading to further expansions in ROE during the latter half of the forecast window.

The Debt to Equity ratio decline in FY2021 is due to the infusion of capital via the Issue of Shares via Prospectus dated August 24, 2020 and will decrease further in FY2022 with the subsequent capital infusion through the IPO. This is expected to revert to the expected long term sustainable level during the latter half of the forecast window.

6.3 Capital Adequacy Ratios

Capital Adequacy Ratios	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Tier 1 Capital Ratio	15.2%	21.6%	30.0%	28.6%	22.8%	18.9%	16.4%	15.7%	15.1%
Total Capital Ratio	15.5%	21.8%	30.2%	28.7%	22.9%	19.0%	16.5%	15.7%	15.1%

7.1 Residual Income Method (RI)

$$\text{Share price} = \left[\sum_{t=1}^{\infty} \frac{NI_t - (\text{Equity balance} \times r)_t}{(1+r)^t} \right] + BV_0$$

BV_0 = Current net asset value

NI = Earnings

r = Cost of equity

t = time

Residual Income is an approach to equity valuation that formally accounts for the Economic Value Added of a business. It is the excess income after accounting for opportunity costs measured relative to the book value of Shareholders' equity. RI is calculated by deducting an equity charge from the earnings during the year. The equity charge is derived by applying a cost of equity to the net asset value at the beginning of the year. RI Methodology depicts that, the intrinsic value of the company is its current adjusted book value, post equity infusion of the company, plus the present value of the future residual income.

The RI Method is considered the most appropriate income based methodology for the valuation of financial services companies as it is calculated taking into account the opportunity cost of capital relative to the book value of equity.

7.2 Peer Price to Book Multiple Based Method

Price to Book Value ratio is calculated as;

$$PBV = \frac{\text{Market value of an ordinary share}}{\text{Net Asset Value per share}}$$

The ratio is used to determine the extent of the premium/discount paid by investors on the book value of a share of an entity. The book value of shares is multiplied by an appropriate PBV ratio to arrive at the market value of the company as follows:

$$\text{Share price} = BVPS * PBV \text{ multiple}$$

Where:

$BVPS$ = Net asset Value per Share as at August 31, 2021

PBV = Average PBV of Peer Sample

The Peer Price to Book Multiple Based Method is considered an appropriate market based methodology for the valuation of financial services companies as it is calculated relative to the book value of equity of its peers.

7.3 Precedent Transaction Price to Book Multiple Based Method

Precedent transaction price to book multiple based valuation is a technique in which the price to book multiple of the price paid for in similar transaction involving a company is considered an indicator of the entity's value. Transaction multiples of prior transactions of a similar nature pertaining to the company could be viewed as a fair and reasonable basis to estimate the share price and any significant deviations could hinder market sentiments.

Some of the aspects of precedent transaction price to book multiple based valuation are,

- The size of the transaction should be similar in size to the transaction that is being considered for the target company
- The type of transaction and the characteristics of the buyer should be similar. Transactions that occurred more recently are considered more valuable in terms of comparability

8.0 VALUATION RESULTS

The Residual Income, Price to Book Multiple and Precedent Transaction P/BV Multiple based Methods were used for the valuation of SDF's shares. A direct asset based valuation such as NAV has not been considered as it does not reflect the implicit growth potential of the Company resulting from the capital to be raised via the IPO. The Precedent Transaction (P/BV) Multiple based method has been considered as an alternate method as it is based on the recent share issue carried out by SDF and is believed to provide a fair and reasonable measure of the same.

The assumptions used to arrive at the fair value of the shares of SDF as per the methodologies given in Section 7.0 are detailed in this section.

8.1 Residual Income (RI) Valuation

The equity value of SDF was determined using the RI Valuation Method based on assumptions for Cost of Equity of 15% and a Persistence Factor of 0.80. Note that Cost of Equity was derived using the Capital Asset Pricing Model (CAPM) as given below. The Persistence Factor selected, considers the relatively low asset base of SDF (in comparison to its peers) and the forecasted growth trajectory of the Company.

CAPM Assumptions	
10 Year Government Bond Rate (Rf) [†]	9.55%
Beta [‡]	0.94
Market Risk Premium (MRP)	5.80%
Cost of Equity (Ke)	15.00%

[†]Source: CBSL Economic Data Library as at September 06, 2021

[‡]Source: Levered and unlevered Beta by industry for Emerging Markets by Aswath Damodaran

$$K_e = R_f + (MRP * Beta)$$

The MRP was estimated based on the current market sentiment and overall market risk appetite. The standard CAPM formula above was used to estimate the Cost of Equity. Given the increased volatility in interest rates due to recent changes to the CBSL policy rates the latest available 10 Year Government Bond Rate was used to factor in the heightened interest rate risk.

Residual Income (LKR Mn)	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Opening Book Value	2,216.0	3,334.1	3,546.8	3,839.5	4,118.3	4,473.0	4,964.1
Profit for the Year	203.6	283.6	390.2	557.7	709.4	982.2	1,172.2
Equity Charge	(332.4)	(500.1)	(532.0)	(575.9)	(617.7)	(671.0)	(744.6)
Residual Income	(75.2)	(216.5)	(141.8)	(18.2)	91.7	311.2	427.6
Discount Factor at Cost of Equity	0.92	0.80	0.70	0.61	0.53	0.46	1.31
Discounted Residual Income	(69.3)	(173.5)	(98.8)	(11.0)	48.3	142.6	559.9

Valuation (LKR Mn)	
Present Value of Residual Income as at August 31, 2021	398.2
Book Value of Equity as at August 31, 2021	2,216.0
Pre-IPO Valuation of Equity as at August 31, 2021	2,614.1
Implied PBV Multiple	1.18
Number of Shares - Pre IPO	104,141,506
Pre-IPO Equity Value per Share (LKR)	25.10

The RI value per share set out herein, is subject to the viability of the forecasts/assumptions made in Section 5 of this Research Report.

Sensitivity Analysis

The sensitivity of the RI valuation to the cost of equity and the persistence factor has been evaluated below in line with requirements of the 'Guidance Note' of the CSE dated February 3, 2021.

		Cost of Equity				
Persistence Factor		14.0%	14.5%	15.0%	15.5%	16.0%
	0.70	2,712	2,599	2,490	2,385	2,284
	0.75	2,779	2,659	2,544	2,434	2,328
	0.80	2,866	2,737	2,614	2,497	2,384
	0.85	2,982	2,842	2,707	2,580	2,458
	0.90	3,147	2,988	2,838	2,696	2,560

Scenario Analysis – Impact of Covid 19 on FY2022 Earnings

Given the uncertainty prevalent in the country as at the date of this report with the resurgence of Covid-19, two additional scenarios linked to the earnings of SDF were evaluated for FY2022 to understand the potential implications to SDF's performance.

Scenario	FY2022 Base Case	10% Reduction in Earnings	25% Reduction in Earnings
Profit After Tax (LKR Mn)	203.57	183.21	152.67
Resultant Pre-IPO Valuation of Equity (LKR Mn)	2,614.14	2,605.58	2,592.74
Equity Value Per Share (LKR)	25.10	25.02	24.90

It has been assumed that any impact to SDF's performance would be limited to FY2022 as it is expected that a vast majority of the country will be vaccinated within this calendar year, thereby mitigating the possibility of an extended economic downturn. This outlook is backed by FY2021 performance, where earnings receded when travel restrictions and/or lockdowns were imposed, but bounced back no sooner these restrictions were released.

Based on these assumptions, a 10% reduction in earnings resulted in a 0.33% reduction in the residual income per share valuation while a 25% reduction resulted in a decline of 0.82%.

8.2 Peer Price to Book Multiple (P/BV) Based Valuation

The following peer companies were used in arriving at a valuation for SDF. Given the large number of listed entities categorised under the Diversified Financial Services Sector, the peer group was narrowed down based on the total asset base of each institution, all peers with a total asset base under LKR 36 Bn were considered (SDF's total asset base at the end of the forecast window is c. LKR 36 Bn; please refer Section 9.2). LOLC Development Finance PLC (PBV of 36.6) and SMB Leasing Finance PLC (latest reported equity figure does not account for recent Rights Issue, PBV is therefore skewed) were disregarded as they were considered outliers.

The Market Based Valuation set out herein of the Company, is dependent upon the relative size of the peer entities below, in comparison to the Company.

Peer Group	P/BV	Peer Group	P/BV
Asia Asset Finance PLC	0.42	HNB Finance PLC	3.70
Abans Finance PLC	0.82	Merchant Bank of Sri Lanka & Finance PLC	0.58
Alliance Finance Company PLC	0.34	Multi Finance PLC	1.34
Associated Motor Finance Company PLC	0.63	People's Merchant Finance PLC	1.00
Orient Finance PLC	0.99	Singer Finance (Lanka) PLC	0.71
Bimpuh Finance PLC	1.06	Sinhaputhra Finance PLC	0.68
Dialog Finance PLC	4.38	Average Peer Multiple	1.22
Softlogic Finance PLC	0.86	Book Value per Share as at August 31, 2021 (LKR)	21.28
Nation Lanka Finance PLC	1.28	Equity Value per Share of SDF (LKR)	25.96
Prime Finance PLC	0.72		

Source: Capital IQ; as at August 31, 2021

8.3 Precedent Transaction Price to Book Multiple (P/BV) Based Valuation

The Issue of Shares via Prospectus dated August 24, 2020 of SDF where shares were allotted through eight tranches in FY2021 was considered to derive the per share value of SDF under the Precedent Transaction Price to Book Multiple (P/BV) Based Valuation. Through this fund raising, 36,641,500 new Ordinary Voting Shares were issued at a price of LKR 22/- per share between August 28, 2020 and February 25, 2021 resulting in the Company raising a total gross figure of LKR 806,113,000.

Precedent Transaction P/BV Based Valuation	LKR
FY2021 Share Issue Price	22.00
NAVPS as at March 31, 2020	17.71
Precedent Transaction P/BV	1.242
NAVPS as at August 31, 2021	21.28
Valuation at Precedent Transaction P/BV	26.43

Considering the nature and the timing of the transaction that occurred, the transaction multiple of this Share Issuance can be viewed as a fair and reasonable basis to determine the per share value of SDF.

Further, it should be noted that the subscription for the aforementioned fund raise was made by both external investors and stakeholders of the Sarvodaya Movement despite SDF being in the unlisted space at the time of the said Issuance of Shares, thereby indicating positive investor sentiment and providing further validation on the proposed Share Issue Price.

The Pre-Share Issue P/BV was calculated based on the NAVPS as at March 31, 2020 as this was the figure that was used as a basis when approaching investors.

8.4 Recommended Fair Value of SDF

The recommended fair value of SDF based on the valuation methods described in Sections 7.1, 7.2 and 7.3 is given below:

Valuation Method	Equity Value (LKR Mn)	Weightage	Per Share Valuation (LKR)	Upside on Offer Price of LKR 22/-
Residual Income	2,614.14	30%	25.10	14%
Price to Book (P/BV)	2,703.47	30%	25.96	18%
Precedent Transaction P/BV	2,752.16	40%	26.43	20%
Weighted Average Valuation as at August 31, 2021			25.89	18%

Although significant growth is expected during the forecast window, a weightage of only 30% has been given to the Residual Income valuation method because of its sensitivity to the interest rate environment. The Precedent Transaction P/BV Based Valuation has been given the highest weightage as it reflects the value attributed to the Company by external investors during the recent fund raising by SDF via the Share Issuance via Prospectus dated August 24, 2020. The P/BV Based Valuation has been given a weightage of only 30% as it does not capture the significant growth trajectory of the Company.

The recommended offer price of LKR 22/- per share offers an upside of 18% to the Weighted Average Valuation of LKR 25.89 per share. Also, the recommended offer price of LKR 22/- per share is in line with the pricing of the shares under the recently concluded Share Issuance of SDF.

9.0 FORECAST STATEMENTS OF FINANCIAL PERFORMANCE

9.1 Forecast Statements of Profit and Loss for SDF

Statement of Profit and Loss (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Interest Income	1,681.7	1,584.7	1,777.8	2,142.7	2,768.6	3,730.1	4,612.9	5,704.0	6,431.0
Interest Expenses	(750)	(623)	(606)	(778)	(1,195)	(1,768)	(2,293)	(2,766)	(3,155)
Net Interest Income	932	961	1,172	1,365	1,573	1,962	2,320	2,938	3,276
Other Income	121	159	80	101	129	158	179	195	221
Total Operating Income	1,052	1,120	1,251	1,466	1,702	2,120	2,499	3,132	3,497
Impairment Charges for Loans*	(119)	(60)	(112)	(135)	(122)	(169)	(169)	(185)	(156)
Net Operating Income	933	1,060	1,139	1,331	1,581	1,951	2,330	2,947	3,341
Operating Expenses									
Personnel Expenses	(357)	(374)	(409)	(446)	(493)	(570)	(615)	(730)	(800)
Depreciation & Amortisation	(54)	(47)	(51)	(51)	(59)	(68)	(71)	(88)	(85)
Other Operating Expenses	(266)	(248)	(264)	(278)	(293)	(311)	(329)	(348)	(368)
Marketing Expenses	(24)	(35)	(52)	(63)	(81)	(97)	(108)	(133)	(133)
Operating Profit before Tax on FS	232	356	363	494	654	906	1,207	1,649	1,956
Tax on Financial Services	(108)	(89)	(116)	(141)	(172)	(221)	(273)	(357)	(413)
Profit Before Tax	124	267	247	353	482	685	933	1,292	1,542
Income Taxes	(22)	(83)	(44)	(69)	(92)	(127)	(224)	(310)	(370)
Profit After Taxes	102	183	204	284	390	558	709	982	1,172

* Gross and Net Portfolio forecasts have been provided in Section 5.1.2. Impairment charges for Loans are derived based on Write Offs and Total Impairments which are captured in the Gross NPL Ratios provided in Section 6.1

9.2 Forecast Statements of Financial Position of SDF

Statement of Financial Position (LKR Mn)	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Cash and Cash Equivalents*	73	131	893	468	87	89	103	134	171
Loans and Receivables	5,231	4,954	4,496	4,891	7,255	9,185	11,834	13,574	16,067
Lease Rentals Receivables	1,703	2,952	4,030	5,198	7,290	9,839	12,142	14,397	16,470
Financial Investments	609	375	551	642	822	1,048	1,318	1,642	2,049
Other Non-Financial Assets	142	99	99	99	99	99	99	99	99
PPE, Investment Property & Intangible Assets	287	382	395	411	422	427	433	425	424
Right-of-Use Asset	169	143	158	161	165	170	175	180	185
Total Assets	8,215	9,037	10,622	11,871	16,141	20,857	26,104	30,452	35,466
Due to Banks and Other Institutions	1,595	1,730	1,397	1,489	3,557	5,933	8,234	8,852	9,247
Due to Customers	5,102	4,552	5,367	6,334	8,234	10,292	12,865	16,081	20,102
Other Non-Financial Liabilities	133	338	261	228	228	225	238	256	265
Lease Liabilities	172	161	188	200	208	215	220	224	228
Tax Liabilities	18	74	74	74	74	74	74	74	74
Total Liabilities	7,020	6,855	7,288	8,324	12,301	16,739	21,631	25,488	29,915
Stated Capital	890	1,694	2,694	2,694	2,694	2,694	2,694	2,694	2,694
Retained Earnings	195	327	469	668	941	1,192	1,511	1,953	2,481
Reserves	110	161	171	185	204	232	268	317	375
Total Shareholder Funds	1,196	2,181	3,334	3,547	3,839	4,118	4,473	4,964	5,550
Total Liabilities and Shareholder Funds	8,215	9,037	10,622	11,871	16,141	20,857	26,104	30,452	35,466

* The increase in Cash and Cash Equivalents in FY2022 is primarily as a result of the capital infusion via the IPO

10.0 RISKS

This section highlights some of the risks that could be faced by the Company which in turn could affect its performance and share price.

Risks Relating to Macro-Environmental Factors

➤ Market Risk

Market risk arises from changes in interest rates, liquidity, and other market variables that have a negative impact on SDF's earnings or capital. Financial products established to ease transactions, such as loans and deposit plans, can expose the Company to market risks.

The Management Committee reviews such risks when introducing new products on a monthly basis. Before being implemented, new goods are evaluated by the Product Development Committee and approved by the Asset-Liability Committee (ALCO) for pricing and the Internal Risk Management Committee (IRMC) for risks. RMD also examines the processes and systems of new goods, as well as the risks connected with them, before launch or implementation.

The ALCO reviews the interest rate environment, as well as the movement of key interest rate indices and competitor rates, on a regular basis. These evaluations serve as the foundation for calculating future loan and deposit rates. The ALCO guarantees that the minimal average interest rate spread is maintained at all times while determining these rates, ensuring a healthy net interest margin.

➤ Government Policy and Regulations and the Impact of COVID-19

In response to the economic downturn caused by implication of the Covid-19 pandemic, to revitalize the economy, the government implemented a series of policies, including a considerable reduction in policy rates, debt moratoriums and bans on the import of new vehicles (thereby creating a surge in secondary market prices). Despite the Covid-19 crisis, these expansionary policies, combined with rising government and SOE borrowing, has resulted in greater credit expansion.

According to Fitch Ratings, the economic fallout from the coronavirus outbreak, as well as the deteriorating sovereign credit profile, would continue to weigh on the Sri Lankan financial sector in 2021. With the government's stated objective of keeping interest rates in the single digits and a consistent tax policy, the sector may be in a better position to absorb any losses that may emerge from a probable spike in post-moratorium NPLs.

Risks Relating to Micro-Environmental Factors

➤ Credit Risk

Credit risk emerges as a result of borrowers' potentially poor repayment credit quality or outright payment default. While SDF has maintained above industry NPL ratios in the past, due to the effects of the pandemic tied in with the relatively risky portfolio mix, the Company did experience a dip in their asset quality. With the prolonged effects of the pandemic this trend could continue. However, recent shifts to creating a less risky portfolio mix and strong processes on reviewing

the cash flows of the projects being funded and the credit worthiness of borrowers should be sufficient to control credit risk.

Further, the Credit Department and Recoveries Department, as well as the Legal and Litigation Department, oversee SDF's credit risk. The Credit Department assesses the credit overall portfolio risk level. The Credit Department develops credit policies in collaboration with business units, handles collateral requirements, performs credit evaluations and credit documentation.

Risks Relating to Internal-Environmental Factors

➤ Operational Risk

The risk of loss coming from insufficient or failing internal procedures, people, and systems, as well as external events such as pandemic situations like COVID 19, which affect the entity's operations and business continuity, is known as operational risk. All employees in the company are responsible for controlling operational risk. The management committee members and the IRMC are responsible for controlling operational risk. They are in charge of overseeing operational risk management and internal controls across all businesses and operations in order to make the best use of the Company's resources and lower the risk of loss.

➤ Liquidity Risk

Liquidity Risk emerges as a result of poorly formulated or poorly implemented policies that have a negative impact on the company. SDF maintains sustainable Loan to Deposit Ratios. To manage and maintain the Company's assets, SDF has launched an aggressive deposit push. The ALCO monitors the deposit portfolio and its changes on a regular basis. To identify cash flow gaps, Treasury monitors daily disbursements and collections.

The Company maintains a high level of awareness and monitoring of its resources, as well as contingencies to handle funds in the event of a crisis while maintaining good client relations. SDF presently holds sufficient cash and other liquid assets, bank funding lines, and money market instrument access to satisfy any funding requirements as they arise.

Darshan Perera – Director/CEO, NDB Investment Bank Limited

Darshan is credited as being a dynamic team player, highly skilled in all aspects of financial and investment markets. He has to his credit, led teams that have successfully managed a large number of IPOs, M&As, and debt raisings and in doing so, introduced to the country new products and achieved record breaking results. Darshan is renowned in the industry as a corporate advisory specialist, specialising in areas of business due diligence, fund raising and restructuring. Darshan has also been instrumental in leading NDBIB to win numerous international and local awards for consecutive years.

Prior to joining NDBIB, Darshan held senior management positions in a number of large organisations and banking institutions, including serving as an Assistant Vice President at Vanik Incorporation. Darshan's career is enriched with a myriad of different academic disciplines. He holds a B.Sc. in Physical Science and an MBA from the University of Colombo. He is an Associate Member of the Institute of Bankers, Sri Lanka and of the Chartered Institute of Marketing, UK. He also holds the Chartered Institute of Management Accountants qualification.

Nilendra Weerasinghe – Chief Corporate Advisory Officer

Nilendra leads the Corporate Advisory team which is responsible for equity capital raisings, mergers & acquisitions and general advisory assignments. He has over twelve years of experience in investment banking and has been part of the NDBIB team for landmark M&A and IPO transactions. Nilendra has executed numerous transactions in multiple sectors including telecommunication, financial services, manufacturing, food and beverages, leisure, and agri business in Sri Lanka, the Maldives, Bangladesh and the Southeast Asian region. He has been involved in executing over LKR 28.0 Bn in equity capital raising and over LKR 36.0 Bn in M&A transactions. Nilendra has also been part of teams which executed key fund-raising initiatives via loan syndications and project financing.

His previous work experience includes Goldman Sachs in Singapore where he was involved in advising and raising equity funds via IPOs for clients in the Southeast Asian region. Nilendra is a CFA Charterholder, a graduate in Computer Science and Engineering with a first-class honours degree from the University of Moratuwa, an Associate Member of Chartered Institute of Management Accountants, UK (ACMA) and also holds an MBA in Strategy and Operations from the National University of Singapore.

Sujani Perera – Assistant Vice President - Corporate Advisory

Sujani has over ten years of investment banking experience at NDBIB. Since joining NDBIB, Sujani has engaged in a diverse range of capital market transactions including IPOs, M&As, rights issues, private placements, corporate restructurings, loan syndications, structured debt facilities and delistings for leading corporates spread across an array of industries, some of which have been milestone transactions for the Company and the country. Sujani is responsible for sourcing and advising clients with regard to capital market transactions, both in listed and unlisted space.

Sujani holds a B.Sc. (Hons) in Finance from the University of Sri Jayewardenepura and a Master of Financial Economics (Merit) from the University of Colombo. Sujani is also an Associate Member of Chartered Institute of Management Accountants, UK (ACMA).

Savinda Fernando – Assistant Manager – Corporate Advisory

Savinda joined NDBIB in 2020 and is currently engaged in a range of corporate advisory transactions including business valuations and M&As. Prior to joining NDBIB he worked as an Engineer at MAS Intimates (Pvt) Ltd.

Savinda has a MEng (Hons) in Mechanical Engineering from the University of Nottingham, UK and is also a Level II candidate of the CFA examination.

Madhara Iddamalgodha – Management Associate

Madhara joined NDBIB in 2021 and is engaged in a range of debt capital market and corporate advisory transactions including debenture issues, securitisations, business valuations and M&As. Prior to joining NDBIB she has had internship and part time working experience in numerous fields including marketing and private equity.

Madhara has a B.Sc. in Finance, Accounting and Management with first-class honours from the University of Nottingham and is also a CIMA Passed Finalist (2017). She is currently pursuing a Masters in Economics degree at the University of Colombo.

The information, forecasts, analyses, assumptions and opinions contained herein have been compiled or arrived at solely based on information provided to the Managers by SDF. Such information has not been independently verified and no guarantee, representation or warranty, expressed or implied is made as to its accuracy, completeness or correctness. Nothing contained in this Research Report is, or shall be relied upon as, a promise or representation by the Managers. All such information is subject to change without notice and such changes could be due to unforeseen circumstances. This Research Report is for information purposes only and does not purport to be a complete description of the subject matter presented herein.

Any estimate, projection, opinion, forecast and valuation contained in this Research Report involve significant elements of subjective judgment and analysis, which may or may not be correct. No representation is made that any estimate, projection or forecast will be achieved. The actual future events may vary significantly from the estimates, projections, forecasts or valuation and each estimate, projection, forecast or valuation is based on a number of assumptions and is subject to matters which are outside the control of the Managers. Verification of assets of SDF and evaluation of agreements between clients of SDF have not been carried out during this exercise.

Accordingly, the Managers shall not be liable for any loss or damage howsoever arising as a result of any person acting or refrain from acting in reliance on any information, forecast analysis and opinion contained herein.

The recipients of this Research Report and/or Investors are expected to carry out their own independent evaluations taking into consideration macro-economic variables and other relevant conditions.

The valuation presented herein is valid for a period of three months (03) from the date of the final Prospectus, however, subject to there being no material changes to the parameters impacting operations of SDF.

Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

FINANCIAL ADVISORS AND MANAGERS TO THE ISSUE

NDB Investment Bank Limited

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Fax: +94 11 2 300 393
www.ndbib.com

COMPANY

Sarvodaya Development Finance Limited

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Dr. Danister De Silva Mawatha
Colombo 08
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Fax: +94 11 2 667 411
www.sarvodayafinance.lk

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Fax: +94 11 2 314 181
E-mail: mail@ndbs.lk

Somerville Stockbrokers (Pvt) Ltd.

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+94 11 2 502 858 / +94 11 2 502 862
Fax: +94 11 2 502 852
E-mail: contact@somerville.lk

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Fax: +94 11 2 342 068
E-mail: jkstock@keells.com

Asha Securities Limited

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Tel: +94 11 2 429 100
Fax: +94 11 2 429 199
E-mail: asl@ashasecurities.net

Acuity Stockbrokers (Pvt) Ltd.

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E-mail: sales@acuitystockbrokers.com

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Fax: +94 11 2 430 070
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Lanka Securities (Pvt) Ltd

No. 228/1, Galle Road, Colombo 4.
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Fax: +94 11 4 706 767
E-mail: info@lankasec.com

Asia Securities (Pvt) Ltd.

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Fax: +94 11 258 4864
E-mail: inquiries@asiasecurities.lk

Capital Trust Securities (Pvt) Ltd.

No. 42, Mohamed Macan Markar Mawatha,
Colombo 3.
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E-mail: inquiries@capitaltrust.lk

S C Securities (Pvt) Ltd.

5th Floor, No. 26B, Alwis Place, Colombo 3.
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Fax: +94 11 2 394 405
E-mail: itdivision@sampathsecurities.lk

CT CLSA Securities (Pvt) Ltd.

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Colombo-4.
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Fax: +94 11 2 552 289
E-mail: info@ctclsa.lk

First Capital Equities (Pvt) Ltd.

No. 2, Deal Place, Colombo 3.
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Fax: +94 11 5 736 264
E-Mail: equity@firstcapital.lk

Bartleet Religare Securities (Pvt) Ltd.

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No. 65, Braybrooke
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Tel: +94 11 5 220 200
Fax: +94 11 2 434 985
E-mail: info@bartleetstock.com

Nation Lanka Equities (Pvt) Ltd.

No. 44, Guildford Crescent, Colombo 07.
Tel: +94 11 7898302
Fax: +94 11 2673355
E-mail: info@nlequities.com

LOLC Securities Limited

No. 481, T.B. Jayah Mawatha, Colombo 10.
Tel: +94 11 588 9889
Fax: +94 11 266 2883
E-Mail: info@lolcsecurities.com

Capital Alliance Securities (Pvt) Ltd.

Level 5, "Millennium House", 46/58 Navam
Mawatha,
Colombo 2.
Tel: +94 11 2 317 777
Fax: +94 11 2 3177 88
E-mail: info@cal.lk

SMB Securities (Pvt) Ltd.

No. 02, Gower Street, Colombo 5.
Tel: +94 11 4 388 138
Fax: +94 11 2670294
E-mail: info@smbsecurities.lk

First Guardian Equities (Pvt) Ltd.

32nd Floor, East Tower, World Trade Centre,
Colombo 1.
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E-mail: info@fge.lk

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Fax: +94 11 5 328 177
E-mail: info@taprobane.lk

Candor Equities Ltd.

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Nawam Mawatha, Colombo 02.
Tel: +94 11 2 359 100
Fax: +94 11 2 305 522
E-mail: info.cel@candorh.com

Softlogic Stockbrokers (Pvt) Ltd

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Fax: +94 11 7 277 099
Email: ssb.inquiry@softlogic.lk

Enterprise Ceylon Capital (Private) Limited.

No. 73/1, Dharmapala Mawatha, Colombo 7
Tel: +94 11 244 5644, 11 230 1861/2
E-mail: info@ecc.lk

Richard Pieris Securities (Pvt) Ltd.

No. 310, High Level Road, Nawinna,
Maharagama
Tel: +94 11 431 0500
Fax: +94 11 280 2385
Email: communication@rpsecurities.com

NDB BANK BRANCH NETWORK

Branch Name	General	Address
Akkaraipattu	067 7448000/1	No. 487, Main Street, Akkaraipattu
Akuressa	041 7448000/1	No. 21, Main Street, Akuressa
Aluthgama	0347448010/1	No. 267, Galle Road, Aluthgama
Ambalangoda	0917448000/1	No. 333 , Galle Road , Ambalangoda
Ambalantota	047 7448000/1	No. 127 , Main Street , Ambalantota
Ampara	063 7448000/1	No.75, D S Sennanayake Street, Ampara
Anuradhapura	025 7448000/1	No. 522/C, Maithreepala Senanayake Mw, New Town, Anuradhapura
Athurugiriya	011 7448060/1	No. 70/15A, Borella Road, Athurugiriya
Avissawella	036 7448000/1	No. 93, Ratnapura Road, Avissawella
Badulla	055 7448000/1	No. 242, Lower Street, Badulla
Balangoda	0457448000/1	No. 24 A, Barns Ratwatte Mawatha, Balangoda
Bandarawela	057 7448000/1	No.317 , Main Street , Bandarawela
Battaramulla	011 7448090/1	No. 245,Main Street,Battaramulla.
Batticaloa	065 7448000/1	No. 16, Liyods Avenue, Batticaloa.
Boralesgamuwa	0117448063/4	No. 39, Kesbawa Road, Boralesgamuwa
Borella	0117 448078/9	No. 31/5, Dr. N M Perera Mawatha, Borella
Chavakachcheri	0217448013/4	No. 1,3,5, Kandy Road, Chavakachcheri
Chenkalady	065 7448003/4	No. Trincomalee Road,Chenkalady.
Chilaw	032 7448000/1	No. 50-52, Skyline Building, Colombo Road, Chilaw
Chunnakam	021 7448018/9	No. 30, K..K.S. Road, Chunnakam
Colombo 7	011 7448004/5	No. 103A, Dharmapala Mawatha, Colombo 7
Dambulla	066 7448000/1	No. 42, Kurunegala Road, Dambulla
Digana	081 7448003/4	No. 59/6 , Gonawala Road ,Digana.
Eheliyagoda	036 7448003/4	No. 153, Main street, Eheliyagoda.
Elpitiya	091 7448003/4	No. 23, Ambalangoda Road , Elpitiya
Embilipitiya	047 7448003/4	No. 67, Pallegama, Embilipitiya
Fort	011 7448111/2	No, 39 , Canal Row, Colombo 01.
Galle	091 7448006/7	No. 1/A,Abeysekara Building,Wakwella Road, Galle
Gampaha	033 7448000/1	No. 153, Colombo Road, Gampaha
Gampola	081 7448000/1	No. 75, Nuwara Eliya Road, Gampola
Giriulla	037 7558010/1	No. 86, Negombo Road Giriulla.
Hambanthota	047 7448006/7	No. 34, Wilmot Street, Hambantota
Hanwella	036 7448006/7	No. 130/C , Pahala Hanwella, Hanwella.
Havelock Town	0117 448006/7	No. 117, Havelock Road, Colombo 05
Hendala	011 7448094/3	No. 46A Hendala Road, Hendala
Hikkaduwa	091 7448009/10	No. 245, Galle Road, Hikkaduwa.
Hingurakgoda	027 7558010/1	No. 10, Airport Road , Hingurakgoda
Homagama	011 7448045/6	No. 64A, Highlevel Road, Homagama
Horana	034 7448013/5	No. 135, Panadura Road, Horana
Ja - Ela	011 7448075/6	No.121, Colombo Road, Ja-Ela

Branch Name	General	Address
Jaffna	021 7448011/24	No.62/6, Stanley Road, Jaffna
Kadawatha	011 7448036/7	No. 147, Kandy Road, Kadawatha
Kaduruwela	027 7558003/4	No. 25, Batticaloa Road, Polonnaruwa
Kaduwela	011 7448081/2	No. 501/2, Awissawella Road, Kaduwela
Kahawatte	045 7448003/4	No. 149, Main Street, Kahawatte
Kalmunai	067 7448003/4	No. 165, Batticaloa Road, Kalmunai
Kalutara	034 7448016/7	No. 290. Galle Road, Kalutara South
Kandana	011 7448039/40	No. 677, Negombo Road, Kandana
Kandy	081 7448015/6	No. 133, Kotugodella Veediya, Kandy
Kandy City Centre	081 7448006/7	L 1 - 3 , Level 1 , Kandy City Center, No . 05 , Dalada Veediya , Kandy
Katana	031 7448000/1	No.05, Koongashandiya, Katana
Katugastota	081 7448009/10	No. 111, Kurunegala Road, Katugastota
Katunayake	011 7448096/7	No. 745 , Baseline Road , Aweriwatta , Katunayaka
Kegalle	035 7448003/4	No. 261/1, Kandy Road, Kegalle
Kekirawa	0257448003/4	No. 61, Opposite Government Hospital, Main Street, Kekirawa
Kiribathgoda	011 7448033/4	No. 540, New Hunupitiya Road, Dalugama, Kelaniya
Kochchikade	031 7448003/4	No. 96, Chilaw Road, Kochchikade.
Kohuwela	0117 448051/2	No. 143, S De S Jayasinghe Mawatha, Nugegoda.
Kollupitiya	011 7448018/9	No.321, Galle Road, Colombo 3
Kotahena	0117 448030/1	No. 295, George R De Silva Mw, Colombo 13
Kottawa	011 7448099/100	No. 365/1 A, High Level Road, Kottawa
Kuliyapitiya	037 7558003/4	No. 133, Main Street, Kuliyapitiya
Kurunegala	037 7558006/7	No. 6, Rajapihilla Mw, Kurunegala
Maharagama	011 7448015/6	No. 108 A, Highlevel Road, Maharagama
Mahawewa	032 7448003/4	Chilaw Road, Mahawewa.
Mahiyanganaya	055 7448003/4	No. 02, New Town, Mahiyanganaya
Malabe	0117448049/8	No. 760, New Kandy Road, Malabe
Manipay	021 7448021/2	No. 260, Manipay Road, Manipay
Marine Drive	011 7448102/3	No. 42, Sagara Road, Marine Drive, Colombo 4
Matale	066 7448003/4	No. 144, Main Street, Matale
Matara	041 7448003/4	No. 60, Uyanwatte Rd, Matara
Mathugama	034 7448022/3	No. 98, Agalawatta Road, Mathugama
Minuwangoda	011 7448084/5	No. 49, Negombo Road, Minuwangoda
Monaragala	055 7448006/7	No. 29, Pothuwil Road, Monaragala
Moratuwa	011 7448021/2	No. 255, Galle Road, Idama, Moratuwa
Mount Lavinia	011 7448024/5	No. 431/433, Galle Road, Mount Lavinia
Narahenpita	011 7448105/6	No. 193, Kirula Road, Narahenpita, Colombo 5.
Narammala	037 7558013/4	No. 144, Kurunegala Road, Narammala
Nattandiya	032 7448006/7	No. 82, Marawila Road, Nattandiya.
Nawalapitiya	054 7448000/1	No. 70B, Gampola Road, Nawalapitiya
Nawam Mawatha	011 7448000/1	No. 40, Nawam Mw, Colombo 02

Branch Name	General	Address
Negombo	031 7448006/7	No. 121, St. Joseph Street, Negombo
Nelliady	021 7448012/27	No. 109, Jaffna Road, Nelliady
Nikaweratiya	037 7558016/7	No. 65, Puttalam Road, Nikaweratiya
Nittambuwa	033 7448003/4	No. 496, Kandy Road, Nittambuwa
Nugegoda	011 7448009/10	No. 152, Nawala Road, Nugegoda
Nuwara Eliya	052 7448000/1	No. 50/2, Siva Complex, Block C, Lawson Street, Nuwaraeliya
Old Moor Street	011 7448108/9	No. 311, Old Moor Street, Colombo 12
Panadura	038 7448000/1	No. 319, Galle Road, Panadura
Pelawatte	011 7448027/8	No. 301, Pannipitiya Road, Battaramulla
Pettah	011 7448072/3	No. 137, 133/1, Main Street, Colombo 11
Pilimathalawa	081 7448012/3	No. 240, Colombo Road, Pilimathalawa
Piliyandala	011 7448057/8	No. 120, Horana Road, Piliyandala.
Pitakotte	011 7448114/5	No. 322B, Kotte Road, Pitakotte
Private Wealth Centre	011 7448087/8	No. 135, Rainbow Business Centre, Bauddhaloka Mawatha, Colombo 04
Puttalam	032 7448009/10	No. 104, Kurunegala Road, Puttalam
Rajagiriya	011 7448012/3	No. 505, Sri Jayawardenapura Etul Kotte, Kotte
Ratmalana	011 7448066/7	No. 151, Galle Road, Ratmalana
Ratnapura	045 7448006/7	No. 211, Main Street, Ratnapura
Shangri-la	011 7448117/8	One Galle Face Mall, Premises no L 1 - 77, No 1 A, Colombo 02.
Tangalle	047 7448009/10	No. 90A, Matara Road, Tangalle.
Thambuttegama	025 7448006/7	No. 255A, Main Street, Thambuttegama
Thirunelveli	021 7448016/17	No. M102, Palaly Road, Jaffna
Tissamaharama	047 7448012/3	No. 133 E, New Town, Tissamaharama
Trincomalee	026 7448000/1	No. 91 & 93, North Coast Road, Trincomalee
Uragasmanhandiya	091 7448012/3	No. 131, Main Street, Uragasmanhandiya
Vavuniya	024 7448000/1	No. 188, 190, 192 & 190/1, Kandy Road, Vavuniya.
Warakapola	035 7448000/1	No. 96 & 98, Main Street, Warakapola
Wariyapola	037 7558019/20	Navinna Bldg, Puttalam Road, Wariyapola
Wattala	011 7448042/3	No. 378A, Negombo Road, Wattala
Wellawatte	011 7448120/1	No. 302, Galle Road, Colombo 6
Wennappuwa	031 7448009/10	No. 204, Chilaw Road, Wennappuwa
Yakkala	033 7448006/7	No. 65/5 B, Kandy Road, Yakkala

Bank of Ceylon

Head Office
11th Floor, 04, Bank of Ceylon Mawatha,
Colombo 01.
Tel: +94 112 204064

Citi Bank, N A

65 C, Dharmapala Mawatha,
P. O. Box 888, Colombo 07.
Tel: +94 114 794728

Commercial Bank of Ceylon PLC

Commercial House
21, Bristol Street, P.O. Box 853, Colombo 01.
Tel: +94 11 2 445 010-15

Deutsche Bank AG

P.O. Box 314, 86, Galle Road, Colombo 03.
Tel: +94 11 2 447 062 / 011 2 438 057

Hatton National Bank PLC

HNB Towers, 479, T. B. Jayah Mawatha,
Colombo 10.
Tel: +94 112 661 762

Union Bank of Colombo PLC

64, Galle Road, Colombo 03.
Tel: +94 112 374205

Nations Trust Bank PLC

256, Sri Ramanathan Mawatha, Colombo 15
Tel: +94 114 313131

Pan Asia Banking Corporation PLC

Head Office
450, Galle Road, Colombo 03.
Tel: +94 11 2 565 565

The Hongkong and Shanghai Banking

Corporation Limited
24, Sir Baron Jayathilake Mawatha, Colombo 01.
Tel: +94 11 2 325 435, +94 11 2 446 591,
+94 11 2 446 303

People's Bank

Head Office - Treasury, 5th Floor, Sir Chittampalam
A. Gardiner Mawatha, Colombo 02.
Tel: +94 11 2 206782

Public Bank Berhad

340, R A De Mel Mawatha, Colombo 03.
Tel: +94 11 2 576 289, +94 11 7 290 200-7

Standard Chartered Bank

37, York Street, P. O. Box 112, Colombo 01.
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Sampath Bank PLC

110, Sir James Peiris Mawatha, Colombo 02.
Tel: +94 115 331458, +94 114 730662

State Bank of India

16, Sir Baron Jayathilake Mawatha, Colombo 01.
Tel: +94 114 622350

Seylan Bank PLC

Level 8, Ceylinco Seylan Towers,
90, Galle Road, Colombo 03.
Tel: +94 11 4 701 812, 011 4 701 819

ANNEXURE D –INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2021

Sarvodaya Development Finance Limited
Initial Public Offering

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Sarvodaya Development Finance Limited

Statement of Profit or Loss and Other Comprehensive Income

Five Months Period ended 31 August 2021

		5 Months to 31 Aug 2021	5 Months to 31 Aug 2020
	Notes	Rs.	Rs.
Income	2	670,393,839	641,158,202
Interest Income		647,846,301	617,465,127
Interest Expenses		(227,591,986)	(283,069,916)
Net Interest Income		420,254,315	334,395,211
Net Fee and Commission Income		15,322,616	3,954,353
Other Operating Income		7,224,922	19,738,722
Total Operating Income		442,801,853	358,088,286
Impairment Charges for Loans and Other Losses		(63,239,746)	(56,731,549)
Net Operating Income		379,562,107	301,356,737
Operating Expenses			
Personnel Expenses		(165,107,150)	(140,656,693)
Depreciation of Property, Plant and Equipment		(15,586,407)	(15,652,413)
Amortisation of Intangible Assets		(1,427,068)	(4,561,931)
Other Operating Expenses		(125,805,124)	(100,328,779)
Operating Profit before Tax on Financial Services		71,636,358	40,156,920
Tax on Financial Services		(30,447,425)	(22,798,670)
Profit/(Loss) before Taxation		41,188,933	17,358,250
Income Tax Expenses		(6,613,761)	(12,085,652)
Profit/(Loss) for the Period		34,575,172	5,272,598
Total Comprehensive Income/(Expenses) for the Period		34,575,172	5,272,598
Basic Earnings Per Share (Rs)			
Earning per Share - Basic *	3	0.33	0.08

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

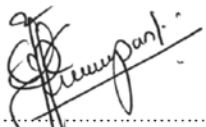
Sarvodaya Development Finance Limited


Statement Of Financial Position

As at 31 August 2021


	Notes	31 Aug 2021 Rs.	31 March 2021 Rs.
Assets			
Cash and Cash Equivalents		198,202,735	130,870,989
Loans and Receivables	4	4,782,565,960	4,954,331,169
Lease Rentals Receivables	5	3,307,967,924	2,952,368,025
Financial Investments		513,537,775	374,591,188
Other Financial Assets		796,309	779,506
Other Non Financial Assets		119,189,051	99,226,178
Intangible Assets		6,448,219	5,055,287
Investment Property		215,678,750	215,678,750
Property, Plant and Equipment		155,646,928	160,884,369
Right-of-use Lease Assets		152,226,729	142,812,343
Total Assets		9,452,260,381	9,036,597,804
Liabilities			
Due to Banks and Other Institutions		2,082,339,841	1,729,624,109
Due to Customers		4,508,441,552	4,551,945,183
Other Non Financial Liabilities		349,962,537	282,552,100
Post Employment Benefit Liability		57,586,863	55,828,613
Current Tax Liabilities		50,276,496	53,665,325
Lease Creditor		172,481,438	161,198,954
Deferred Tax Liabilities		15,211,255	20,398,293
Total Liabilities		7,236,299,982	6,855,212,577
Shareholders' Funds			
Stated Capital	6	1,694,137,046	1,694,137,046
Retained Earnings		361,231,117	326,655,945
Reserves		160,592,235	160,592,235
Total Shareholders' Funds		2,215,960,398	2,181,385,227
Total Liabilities and Shareholders' Funds		9,452,260,381	9,036,597,804
Net Assets Value per Share		21.28	20.95

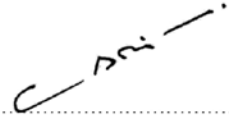
I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.


.....
Mahesh Jayasanka
Chief Manager - Finance


.....
Nilantha Jayanetti
Chief Executive Officer

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


.....
Channa de Silva
Chairman


.....
Chamindha Rajakaruna
Director

3rd September 2021
Colombo

Sarvodaya Development Finance Limited

Statement Of Changes In Equity

Five Months Period ended 31 August 2021

	Stated Capital Rs.	Share Pending Allotments Rs.	Retained Earnings Rs.	Statutory Reserves Rs.	Revaluation Reserves Rs.	Total Equity Rs.
Balances as at 01 April 2020 (Audited)	890,000,020	-	195,476,360	42,796,761	67,406,124	1,195,679,265
Profit for the Period	-		5,272,598	-	-	5,272,598
Transfer during the Period	-		-	-	-	-
Fund Received for Private Placement	-	7,360,000	-	-	-	-
Balances as at 31 August 2020	890,000,020	7,360,000	200,748,958	42,796,761	67,406,124	1,200,951,863
Balances as at 01 April 2021 (Audited)	1,694,137,046	-	326,655,944	104,077,474	56,514,761	2,181,385,226
Profit for the Period	-	-	34,575,172	-	-	34,575,172
Transfer during the Period	-	-	-	-	-	-
Balances as at 31 August 2021	1,694,137,046	-	361,231,117	104,077,474	56,514,761	2,215,960,398

Sarvodaya Development Finance Limited

STATEMENT OF CASH FLOWS

Five Months Period ended 31 August 2021

	Notes	5 Months to 31 Aug 2021 Rs.	5 Months to 31 Aug 2021 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		41,188,933	17,358,250
Adjustments for			
Impairment Provision		63,239,746	56,731,549
Loss/(Profit) on Disposal of Property, Plant and Equipment		(60,494)	(80,124)
Provision for Defined Benefit Plans		3,200,000	2,990,000
Depreciation of Property, Plant and Equipment		15,586,407	15,652,413
Amortisation of Intangible Assets		1,427,068	4,561,931
Amortisation of Right to Use Assets		24,405,951	-
Interest Expenses on Lease Creditor		8,065,695	-
Operating Profit before Working Capital Changes		157,053,306	97,214,020
(Increase)/Decrease in Loans and Receivables		131,990,564	94,688,359
(Increase)/Decrease in Lease Rentals Receivable		(379,064,999)	(507,480,189)
(Increase)/Decrease in Other Financial Assets		(16,803)	(6,864,929)
(Increase)/Decrease in Other Non Financial Assets		(19,728,918)	6,582,634
Increase/(Decrease) in Amounts Due to Customers		(43,503,631)	68,864,497
Increase/(Decrease) in Other Non Financial Liabilities		67,693,992	33,595,360
Cash Generated from Operations		(85,576,490)	(213,400,247)
Retirement Benefit Liabilities Paid		(1,441,750)	(1,536,471)
Net Collection of LRAB Fund		(283,555)	-
Income Tax Paid		(15,189,628)	(3,143,098)
Repayment of Lease Creditor		(31,204,591)	-
Net Cash From/(Used in) Operating Activities		(133,696,014)	(218,079,816)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		-	134,214
Acquisition of Property, Plant and Equipment		(9,921,385)	(10,286,520)
Acquisition of Intangible Assets		(2,820,000)	-
Financial Investments		(138,946,587)	74,632,366
Net Cash Flows from/(Used in) Investing Activities		(151,687,973)	64,480,060
Cash Flows from / (Used in) Financing Activities			
Funds received from bank and other institutional borrowings		964,450,000	535,481,000
Repayment of bank and other institutional borrowings		(465,863,866)	(213,970,094)
Share Issue/Fund Received for private placement		-	7,360,000
Net Cash Flows from/(Used in) Financing Activities		498,586,134	328,870,906
Net Increase in Cash and Cash Equivalents		213,202,147	175,271,149
Cash and Cash Equivalents at the beginning of the year		(96,338,146)	(135,354,147)
Cash and Cash Equivalents at the end of the year (A)	A	116,864,002	39,917,002
A Cash and Cash Equivalents at the end of the year (A)			
Favourable Cash & Cash Equivalents		198,202,735	124,709,771
Unfavourable Cash & Cash Equivalents		(81,338,732)	(84,792,769)
Total Cash and Cash Equivalents at the end of the year		116,864,002	39,917,002

Sarvodaya Development Finance Limited

Notes to the Interim Financial Statements

Five Months Period ended 31 August 2021

1. Explanatory Notes

The accounting policies followed in preparing the above Interim Financial Statements are the same as those disclosed in our Annual Report for the year ended 31 March 2021.

These Interim Financial Statements have been prepared in compliance with the requirements of Sri Lanka Accounting Standards -LKAS 34 Interim Financial Reporting.

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

The Commitments and Contingencies as at 21 August 2021 was Rs. 7.4 Mn and as at 31 March 2021 was Rs. 7.7 Mn.

The Company was provided income tax at the concessionary tax rate of 12% for the five-month period ended 31 August 2021 and used 24 % for the 2020 same period.

2. Income

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

	5 Months to 31 Aug 2021 Rs.	5 Months to 31 Aug 2020 Rs.
Interest Income	647,846,301	482,404,249
Net Fee and Commission Income	15,322,616	5,287,757
Other Operating Income (net)	7,224,922	10,800,306
Total Income	670,393,839	498,492,312

Recognition of interest income for credit facilities under moratoriums

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

3. Earnings Per Share

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':

	5 Months to 31 Aug 2021 Rs.	5 Months to 31 Aug 2020 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders (Rs)	34,575,172	5,272,598
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	104,141,506	67,500,006
Weighted average basic Earnings per Share (Rs.)	0.33	0.08

Sarvodaya Development Finance Limited

Notes to the Interim Financial Statements

Five Months Period ended 31 August 2021

4. Loans and Receivables

	31 Aug. 2021 Rs.	31 Mar. 2021 Rs.
Gross Loan and Receivables	5,158,117,724	5,290,108,288
Less : Allowance for Impairment Charges for Loans and Receivables	(375,551,764)	(335,777,119)
Net Loans and Receivables	4,782,565,960	4,954,331,169

4.1 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 August 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	1,667,388,150	728,586,863	2,762,142,712	5,158,117,724
Allowance for expected credit losses (ECL)	(18,710,616)	(18,001,442)	(338,839,706)	(375,551,764)
	1,648,677,534	710,585,421	2,423,303,006	4,782,565,960

4.2 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	2,035,974,246	940,557,251	2,313,576,790	5,290,108,288
Allowance for expected credit losses(ECL)	(28,104,183)	(25,919,324)	(281,753,612)	(335,777,119)
	2,007,870,063	914,637,927	2,031,823,178	4,954,331,169

5. Lease Rentals Receivable

	31 Aug. 2021 Rs.	31 Mar. 2021 Rs.
5.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	4,861,393,765	4,403,506,362
Less: Unearned Income	(1,391,332,633)	(1,312,510,230)
Total Lease Rentals Receivables	3,470,061,132	3,090,996,132
(Less): Allowance for Impairment Charges (Note 20.5)	(162,093,208)	(138,628,108)
Net Lease Rentals Receivables	3,307,967,924	2,952,368,025

5.2 Analysis of lease rental receivables on maximum exposure to credit risk

As at 31 August 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired lease rental receivables	987,737,415	1,009,336,911	1,472,986,805	3,470,061,132
Less - Allowance for expected credit losses (ECL)	(12,137,181)	(16,810,246)	(133,145,780)	(162,093,208)
	975,600,234	992,526,666	1,339,841,025	3,307,967,924

Sarvodaya Development Finance Limited

Notes to the Interim Financial Statements

Five Months Period ended 31 August 2021

5.3 Analysis of lease rental receivables on maximum exposure to credit risk

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired lease rental receivables	1,515,792,769	692,364,381	882,838,982	3,090,996,132
Less - Allowance for expected credit losses (ECL)	(28,566,093)	(16,235,244)	(93,826,770)	(138,628,108)
	1,487,226,675	676,129,137	789,012,212	2,952,368,025

6. Stated Capital	Number of Shares	31 Aug. 2021 Rs.	Number of Shares	31 Mar. 2021 Rs.
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	104,141,506	1,694,137,046	67,500,006	890,000,020
Issued during the year	-	-	36,641,500	804,137,026
At the end of the year	104,141,506	1,694,137,046	104,141,506	1,694,137,046

ANNEXURE E - ACCOUNTANTS' REPORT AND FIVE YEAR SUMMARY

ACCOUNTANTS' REPORT

Sarvodaya Development Finance Limited
Initial Public Offering

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Ernst & Young
Chartered Accountants
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Sri Lanka

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eysi@lk.ey.com
ey.com

PNS/DW

Board of Directors
Sarvodaya Development Finance Limited
No. 155/A
Dr Danister De Silva Mawatha
Colombo 10

03 September 2021

Accountants' Report
Sarvodaya Development Finance Limited

Dear Sirs/Madam,

Introduction

This report has been prepared for the purpose of Prospectus issued in connection with the issue of up to 22,727,273 New Ordinary Voting Shares of Sarvodaya Development Finance Limited (Initial Issue) with an option to issue up to a further 22,727,273 New Ordinary Voting Shares at the discretion of the Board of Directors (Further Issue) in the event of an oversubscription of the initial Issue resulting in a total issuance of up to 45,454,546 new ordinary voting shares (Total Issue) at LKR 22/- per share.

We have examined the Financial Statements of the Sarvodaya Development Finance Limited for the financial years ended 31 March 2017 to 31 March 2021, and report as follows.

1. Incorporation

Sarvodaya Development Finance Limited (the "Company") is a public limited liability Company incorporated on 01 January 2010, and domiciled in Sri Lanka. It is a Licensed Finance Company regulated under the Finance Business Act No. 42 of 2011 and amendments thereto. The Company was re-registered under the Companies Act No. 07 of 2007.

2. Financial Information

2.1 Five-year Summary of Audited Financial Statements

A summary of Statements of Profit or Loss and Other Comprehensive Income, Statements of Financial Position, Statement of Changes in Equity and Statement of Cash Flows of the Company for the financial years ended 31 March 2017 to 31 March 2021, based on the audited Financial Statements.

2.2 Audited Financial Statements for the Year Ended 31 March 2021

Audit report on the Financial Statements of the Company for the year ended 31 March 2021 together with such Financial Statements comprising the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows along with the accounting policies and notes.

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

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

A member firm of Ernst & Young Global Limited



2.3 Audit Reports

We (Messrs. Ernst & Young) have audited the Financial Statements of the Company for the years ended 31 March 2021 and unmodified audit opinions have been issued for the said financial years by our reports dated 26 May 2017, 31 May 2018 and 25 June 2019, 29 June 2020 and 14 July 2021.

2.4 Accounting Policies

The Financial Statements of the Company for the years ended 31 March 2017 to 31 March 2021 comply with Sri Lanka Accounting Standards.

The accounting policies of the Company is stated in detail in the audited Financial Statements of Sarvodaya Development Finance Limited for the year ended 31 March 2021.

2.5 Dividends

Company has paid dividend during the years ended 31 March 2017 to 31 March 2021 as follows.

Year	Dividend Per Share (Rs.)
2019	0.53

2.6 Events After Reporting Date

There were no significant events occurred after the last audit report date.

3. Restriction on Use

This report is made solely for the purpose of the Board of Directors of Sarvodaya Development Finance Limited to include in the Prospectus issued in connection with issue of up to 22,727,273 New Ordinary Voting Shares of Sarvodaya Development Finance Limited (Initial Issue) with an option to issue up to a further 22,727,273 New Ordinary Voting Shares at the discretion of the Board of Directors (Further Issue) in the event of an oversubscription of the Initial Issue resulting in a total issuance of up to 45,454,546 new ordinary voting shares (Total Issue) at LKR 22/- per share. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the addressee, for our audit work, for this report we have formed. This report should not to be used, circulated, quoted or otherwise referred to for any other purpose.

Yours faithfully

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Sarvodaya Development Finance Limited
Initial Public Offering

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	2021 Rs.	2020 Rs.	2019 Rs.	Restated 2018 Rs.	2017 Rs.
Income	1,743,539,205	1,802,435,773	1,575,246,892	1,320,761,083	1,096,432,113
Interest Income	1,584,744,640	1,681,678,539	1,433,374,472	1,179,563,193	883,758,122
Interest Expenses	(623,347,022)	(750,116,462)	(606,621,257)	(416,598,838)	(280,902,184)
Net Interest Income	961,397,618	931,562,077	826,753,216	762,964,355	602,855,938
Net Fee and Commission Income	35,856,002	29,580,891	24,992,979	30,837,094	29,193,693
Other Operating Income	122,938,563	91,176,343	116,879,440	110,360,797	183,480,298
Total Operating Income	1,120,192,183	1,052,319,311	968,625,635	904,162,245	815,529,929
Impairment Charges for Loans and Other Losses	(60,091,862)	(119,317,776)	(94,014,169)	(89,116,323)	(172,259,081)
Net Operating Income	1,060,100,321	933,001,535	874,611,466	815,045,922	643,270,847
Operating Expenses					
Personnel Expenses	(374,095,908)	(356,879,823)	(357,108,571)	(322,738,479)	(361,457,648)
Depreciation of Property, Plant and Equipment	(37,102,566)	(40,442,919)	(45,088,470)	(46,923,650)	(40,736,446)
Amortisation of Intangible Assets	(10,055,835)	(13,285,897)	(13,051,870)	(11,263,143)	(6,683,064)
Other Operating Expenses	(282,648,941)	(290,302,786)	(302,645,855)	(249,265,028)	(230,225,116)
Operating Profit before Tax on Financial Services	356,197,071	232,090,111	156,716,700	184,855,622	4,168,574
Tax on Financial Services	(89,362,305)	(108,022,553)	(87,760,056)	(70,751,368)	(48,027,957)
Profit/(Loss) before Taxation	266,834,766	124,067,558	68,956,644	114,104,254	(43,859,383)
Income Tax Expenses	(83,478,023)	(22,351,216)	(27,740,393)	(21,921,964)	9,323,911
Profit/(Loss) for the Year	183,356,743	101,716,342	41,216,251	92,182,290	(34,535,473)
Other Comprehensive Income					
Actuarial Gains/(Losses) on Defined Benefit Plans	(13,647,141)	(2,062,826)	5,548	(3,346,548)	(6,311,370)
Gain/(Loss) due to changes in Assumptions	(6,755,239)	(4,302,064)	930,725	(1,974,056)	-
Deferred Tax (Charge)/Reversal on above items	4,896,571	1,782,169	(262,156)	1,489,769	2,082,867
Net Other Comprehensive Income not to be Reclassified to Profit or Loss	(15,505,809)	(4,582,721)	674,117	(3,830,835)	(4,228,503)
Surplus from Revaluation of Property, Plant & Equipment	18,050,000	-	1,900,707	11,794,414	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment	(4,332,000)	-	(532,198)	(16,110,987)	-
Net Other Comprehensive Income not to be Reclassified to Profit or Loss	13,718,000	-	1,368,509	(4,316,573)	-
Other Comprehensive Income for the Year, Net of Tax	(1,787,809)	(4,582,721)	2,042,626	(8,147,408)	(4,228,503)
Total Comprehensive Income/(Expenses) for the Year	181,568,935	97,133,622	43,258,877	84,034,882	(38,763,976)

STATEMENT OF FINANCIAL POSITION

Sarvodaya Development Finance Limited
Initial Public Offering

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	2021.03.31 Rs.	2020.03.31 Rs.	2019.03.31 Rs.	2018.03.31 Rs.	Restated 2017.03.31 Rs.
Assets					
Cash and Cash Equivalents	130,870,989	73,226,394	140,902,916	116,978,318	138,046,068
Loans and Receivables	4,954,331,169	5,230,704,947	5,113,657,129	4,697,449,566	3,477,040,068
Lease Rentals Receivables	2,952,368,025	1,702,847,496	1,102,513,124	611,054,718	283,558,784
Financial Investments	374,591,188	444,939,031	442,595,260	282,268,953	268,211,272
Other Financial Assets	779,506	164,535,666	189,276,648	207,371,048	282,577,503
Investment in Subsidiary Companies	-	-	-	-	-
Other Non Financial Assets	99,226,178	142,043,956	144,424,300	101,195,106	64,336,684
Income Tax Refund	-	-	-	-	29,768
Intangible Assets	5,055,287	15,111,123	27,008,129	35,134,360	36,694,563
Investment Property	215,678,750	126,094,500	118,594,500	-	-
Property, Plant and Equipment	160,884,369	146,268,040	170,852,218	308,724,162	321,409,381
Deferred Tax Assets	-	-	-	-	988,885
Right-of-use Lease Assets	142,812,343	169,444,369	-	-	-
Total Assets	9,036,597,804	8,215,215,520	7,449,824,224	6,360,176,231	4,872,892,976
Liabilities					
Due to Banks and Other Institutions	1,729,624,109	1,595,035,613	835,133,455	463,277,223	75,855,964
Due to Customers	4,551,945,183	5,101,975,953	5,385,341,597	4,624,835,030	3,563,699,800
Other Non Financial Liabilities	282,552,100	99,220,587	80,408,493	84,070,152	165,765,352
Post Employment Benefit Liability	55,828,613	33,753,016	27,212,065	26,415,691	20,796,934
Current Tax Liabilities	53,665,325	15,432,447	14,768,247	11,051,015	-
Lease Creditor	161,198,954	171,735,097	-	-	-
Deferred Tax Liabilities	20,398,293	2,383,540	8,414,722	19,717,312	-
Total Liabilities	6,855,212,578	7,019,536,254	6,351,278,580	5,229,366,422	3,826,118,050
Shareholders' Funds					
Stated Capital	1,694,137,046	890,000,020	890,000,020	890,000,020	890,000,020
Retained Earnings	326,655,945	195,476,359	118,686,006	160,561,929	90,646,934
Reserves	160,592,235	110,202,886	89,859,618	80,247,859	66,127,972
Total Shareholders' Funds	2,181,385,226	1,195,679,266	1,098,545,644	1,130,809,809	1,046,774,926
Total Liabilities and Shareholders' Funds	9,036,597,804	8,215,215,520	7,449,824,224	6,360,176,231	4,872,892,976

Mahesh Jayasanka
Chief Manager-Finance

Nilantha Jayanetti
Chief Executive Officer

The above summarised financial information and its extraction from audited financial statements, is the responsibility of the Board of Directors.

Channa de Silva
Chairman

Chamindha Rajakaruna
Director

03 September 2021
Colombo

STATEMENT OF CHANGES IN EQUITY

Sarvodaya Development Finance Limited
Initial Public Offering

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	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	1,037,498,611
Profit for the Year	-	46,141,783	-	-	46,141,783
Other Comprehensive Income	-	1,898,507	-	-	1,898,507
Transfer to Statutory Reserves Fund	-	(2,307,089)	2,307,089	-	-
Balances as at 31 March 2016	890,000,020	129,410,910	20,383,148	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)
Balances as at 31 March 2017	890,000,020	90,646,933	20,383,148	45,744,825	1,046,774,926
Profit for the Year	-	92,182,290	-	-	92,182,290
Other Comprehensive Income	-	(3,830,835)	-	-	(3,830,835)
Transfer to Statutory Reserves Fund	-	(18,436,459)	18,436,459	-	-
Revaluation of Land & Building	-	-	-	(4,316,573)	(4,316,573)
Balances as at 31 March 2018 (Restated)	890,000,020	160,561,930	38,819,607	41,428,252	1,130,809,809
Impact of adopting SLFRS 9 as at 1 April 2018	-	(39,748,039)	-	-	(39,748,039)
Restated balance under SLFRS 9 as at 1 April 2018	890,000,020	120,813,891	38,819,607	41,428,252	1,091,061,770
Profit for the year	-	41,216,251	-	-	41,216,251
Other Comprehensive Income	-	674,117	-	-	674,117
Transfer to Statutory Reserves Fund	-	(8,243,250)	8,243,250	-	-
Revaluation of Land & Building	-	-	-	1,368,509	1,368,509
Final Dividend Paid	-	(35,775,003)	-	-	(35,775,003)
Balances as at 31 March 2019	890,000,020	118,686,006	47,062,857	42,796,761	1,098,545,644
Profit for the period	-	101,716,342	-	-	101,716,342
Other Comprehensive Income	-	(4,582,721)	-	-	(4,582,721)
Transfer to Statutory Reserves Fund	-	(20,343,268)	20,343,268	-	-
Balances as at 31 March 2020	890,000,020	195,476,359	67,406,125	42,796,761	1,195,679,266
Profit for the Year	-	183,356,743	-	-	183,356,743
Other Comprehensive Income	-	(15,505,809)	-	13,718,000	(1,787,809)
Transfer to Statutory Reserves Fund	-	(36,671,349)	36,671,349	-	-
Share Issue	806,113,000	-	-	-	806,113,000
Expenses related to the Share Issue	(1,975,974)	-	-	-	(1,975,974)
Balances as at 31 March 2021	1,694,137,046	326,655,945	104,077,474	56,514,761	2,181,385,227

STATEMENT OF CASH FLOWS

Sarvodaya Development Finance Limited
Initial Public Offering

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	2021 Rs.	2020 Rs.	Restated 2019 Rs.	2018 Rs.	2017 Rs.
Cash Flows From / (Used in) Operating Activities					
Profit before Income Tax Expense	266,834,766	124,067,558	68,956,644	114,104,254	(43,859,383)
Adjustments for					
Impairment Provision	50,884,654	119,317,776	94,014,169	89,116,323	172,259,081
Change in Fair Value of Investment Property	(89,584,250)	-	-	-	-
Profit from sale of subsidiary	-	-	-	-	(100,280,782)
Reversal of Provision of Loan Risk Assurance Benefit Fund	-	(1,030,125)	(5,585,990)	(6,835,413)	(15,116,703)
Loss/(Profit) on Disposal of Property, Plant and Equipment	(267,857)	(7,832,178)	(46,464)	1,087,861	(877,984)
Provision for Defined Benefit Plans	12,491,938	10,733,365	8,491,897	6,739,853	5,778,323
Depreciation of Property, Plant and Equipment	37,102,566	40,442,919	45,088,470	46,923,650	40,736,446
Amortisation of Intangible Assets	10,055,835	13,285,897	13,051,870	11,263,143	6,683,064
Notional Tax Credit on Interest on Treasury Bills	-	-	-	2,940,945	2,547,619
Amortisation of Right to Use Assets	62,944,563	64,930,508	-	-	-
Interest Expenses on Lease Creditor	23,920,090	24,057,148	-	-	-
Operating Profit before Working Capital Changes	374,382,306	387,972,867	223,970,596	265,340,616	67,869,680
(Increase)/Decrease in Loans and Advances	233,886,268	(160,271,308)	(523,322,568)	(1,305,957,454)	(880,648,372)
(Increase)/Decrease in Lease Rentals Receivable	(1,257,917,674)	(676,290,858)	(539,381,909)	(331,064,301)	(286,341,389)
(Increase)/Decrease in Other Financial Assets	163,756,160	24,740,982	18,094,400	72,265,510	(49,717,939)
(Increase)/Decrease in Other Non Financial Assets	42,817,778	2,380,344	(43,229,194)	(26,277,076)	14,629,864
Increase/(Decrease) in Amounts Due to Customers	(550,030,770)	(283,365,644)	760,506,567	1,061,135,230	493,282,390
Increase/(Decrease) in Other Non Financial Liabilities	183,374,104	20,367,800	1,203,000	(87,336,547)	73,292,189
Cash Generated from Operations	(809,731,828)	(684,465,816)	(102,159,107)	(351,894,022)	(567,633,576)
Retirement Benefit Liabilities Paid	(10,818,721)	(10,557,304)	(6,759,250)	(6,441,700)	(7,381,000)
Net Collection of LRAB Fund	(42,591)	370,125	215,990	1,895,413	10,693,703
Income Tax Paid	(26,665,820)	(25,936,029)	(14,475,303)	(4,756,204)	(9,501,353)
Repayment of Lease Creditor	(70,768,771)	(86,796,291)	-	-	-
Net Cash From/(Used in) Operating Activities	(918,027,731)	(807,385,315)	(123,177,670)	(361,196,513)	(573,822,226)
Cash Flows from / (Used in) Investing Activities					
Sales of Property, Plant and Equipment	494,697	8,015,000	238,338	671,563	7,262,685
Acquisition of Property, Plant and Equipment	(33,895,737)	(23,735,187)	(23,965,355)	(24,203,439)	(88,578,227)
Acquisition of Intangible Assets	-	(1,388,891)	(4,925,640)	(9,702,939)	(12,934,325)
Financial Investments	70,347,843	(2,343,771)	(160,326,307)	(14,057,681)	(25,034,121)
Net cash received from sale of subsidiary	-	-	-	-	479,755,667
Net cash effect on acquisition of subsidiary	-	-	-	-	-
Dividend Paid	-	-	(35,775,003)	-	-
Net Cash Flows from/(Used in) Investing Activities	36,946,804	(19,452,848)	(224,753,967)	(47,292,496)	360,471,680
Cash Flows from / (Used in) Financing Activities					
Issues Shares	-	-	-	-	-
Net Cash Flow from bank and other institutional borrowings	1,293,108,000	990,494,489	500,120,116	267,602,520	(5,389,218)
Net Cash Flow from Debt Issued and Other borrowings	(1,177,148,099)	(398,338,806)	-	-	-
Funds Received from Share Issue	804,137,026	-	-	-	-
Net Cash Flows from/(Used in) Financing Activities	920,096,928	592,155,683	500,120,116	267,602,520	(5,389,218)
Net Increase in Cash and Cash Equivalents	39,016,000	(234,682,480)	152,188,481	(140,886,489)	(218,739,764)
Cash and Cash Equivalents at the beginning of the year	(135,354,147)	99,328,332	(52,860,148)	88,026,341	306,766,105
Cash and Cash Equivalents at the end of the year (A)	(96,338,146)	(135,354,147)	99,328,333	(52,860,148)	88,026,341
A Cash and Cash Equivalents at the end of the year (A)					
Favourable Cash & Cash Equivalents	130,870,989	73,226,394	140,902,916	116,978,318	138,046,068
Unfavourable Cash & Cash Equivalents	(227,209,135)	(208,580,540)	(41,574,583)	(169,838,466)	(50,019,727)
Total Cash and Cash Equivalents at the end of the year	(96,338,146)	(135,354,147)	99,328,333	(52,860,148)	88,026,341

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
Chartered Accountants
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PNS/DW/AD

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

Report on the audit of the financial statements

OPINION

We have audited the financial statements of Sarvodaya Development Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2021, and the statement of Profit or Loss and Other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

A member firm of Ernst & Young Global Limited



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

We also:

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

A handwritten signature in black ink, appearing to read 'Ernst & Young', is written over a horizontal line.

14th July 2021
Colombo

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Sarvodaya Development Finance Limited
Initial Public Offering

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



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

Accounting Policies and Notes from pages 149 to 193 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

Sarvodaya Development Finance Limited
Initial Public Offering

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

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

Mahesh Jayasanka
Chief Manager - Finance

Nilantha Jayanetti
Chief Executive Officer

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

Channa de Silva
Chairman

Chamindha Rajakaruna
Director

Accounting Policies and Notes from pages 149 to 193 form an integral part of these Financial Statements.

14 July 2021
Colombo



STATEMENT OF CHANGES IN EQUITY

Sarvodaya Development Finance Limited
Initial Public Offering

147

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

Accounting Policies and Notes from pages 149 to 193 form an integral part of these Financial Statements.



STATEMENT OF CASH FLOWS

Sarvodaya Development Finance Limited
Initial Public Offering

148

Year ended 31 March,	Notes	2021 Rs.	2020 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		266,834,766	124,067,558
Adjustments for			
Impairment Provision	9	50,884,654	119,317,776
Change in Fair Value of Investment Property		(89,584,250)	-
Reversal of Provision of Loan Risk Assurance Benefit Fund		-	(1,030,125)
Loss/(Profit) on Disposal of Property, Plant and Equipment		(267,857)	(7,832,178)
Provision for Defined Benefit Plans	10	12,491,938	10,733,365
Depreciation of Property, Plant and Equipment	25.1.2	37,102,566	40,442,919
Amortisation of Intangible Assets		10,055,835	13,285,897
Amortisation of Right to Use Assets		62,944,563	64,930,508
Interest Expenses on Lease Creditor		23,920,090	24,057,148
Operating Profit before Working Capital Changes		374,382,306	387,972,868
(Increase)/Decrease in Loans and Receivables	18	233,886,268	(160,271,308)
(Increase)/Decrease in Lease Rentals Receivables	19	(1,257,917,674)	(676,290,858)
(Increase)/Decrease in Other Financial Assets		163,756,160	24,740,982
(Increase)/Decrease in Other Non Financial Assets		42,817,778	2,380,344
Increase/(Decrease) in Amounts Due to Customers	28	(550,030,770)	(283,365,644)
Increase/(Decrease) in Other Non Financial Liabilities		183,374,104	20,367,800
Cash Generated from Operations		(809,731,828)	(684,465,816)
Retirement Benefit Liabilities Paid		(10,818,721)	(10,557,304)
Net Collection of LRAB Fund		(42,591)	370,125
Income Tax Paid	31	(26,665,820)	(25,936,029)
Repayment of Lease Creditor		(70,768,771)	(86,796,291)
Net Cash From/(Used in) Operating Activities		(918,027,731)	(807,385,315)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		494,697	8,015,000
Acquisition of Property, Plant and Equipment	25.1.1	(33,895,737)	(23,735,187)
Acquisition of Intangible Assets		-	(1,388,891)
Financial Investments		70,347,843	(2,343,771)
Net Cash Flows from/(Used in) Investing Activities		36,946,804	(19,452,848)
Cash Flows from / (Used in) Financing Activities			
Funds received from bank and other institutional borrowings	27.2	1,293,108,000	990,494,489
Repayment of bank and other institutional borrowings	27.2	(1,177,148,099)	(398,338,806)
Funds Received from Share Issue		804,137,026	-
Net Cash Flows from/(Used in) Financing Activities		920,096,928	592,155,683
Net Increase in Cash and Cash Equivalents		39,016,000	(234,682,480)
Cash and Cash Equivalents at the beginning of the year		(135,354,147)	99,328,332
Cash and Cash Equivalents at the end of the year	A	(96,338,146)	(135,354,147)
A. Cash and Cash Equivalents at the end of the year			
Favorable Cash & Cash Equivalents		130,870,989	73,226,394
Unfavorable Cash & Cash Equivalents		(227,209,135)	(208,580,540)
Total Cash and Cash Equivalents at the end of the year	18	(96,338,146)	(135,354,147)



Accounting Policies and Notes from pages 149 to 193 form an integral part of these Financial Statements.

CORPORATE INFORMATION

1.1 General

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

The registered office of the Company is located at No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 and the principal place of business is situated at the same place.

The Company's parent undertaking is Sarvodaya Economic Enterprises Development Services (Gte) limited, which is also the Company's ultimate Parent.

1.2 Principal Activities of the Company

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

1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2021 (including comparatives) have been approved and authorized for issue by the Board of Directors on 14th July 2021.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of Compliance

The Financial Statements of the Company which comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Significant Accounting Policies and Notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of Financial Statements is also in compliance with the requirements of Finance Business Act No. 42 of 2011 and amendments thereto.

2.2. Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs/LKASs.

The Board of Directors acknowledges their responsibility as set out in the 'Report of the Board of Directors on the Affairs of the Company', 'Directors' Responsibility for Financial Reporting' and 'Directors' Statement on Internal Control over Financial Reporting' and the certification given on the 'Statement of Financial Position' of the Annual Report.

These Financial Statements include

The Statement of Profit or Loss and Other Comprehensive Income provides the information on the performance for the year under review (Refer page 159). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 160). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 161). Statement of Cash Flows provides the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs for entities to utilize those cash flows (Refer page 162) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 163 to 207).

2.3. Preparation of Financial Statements

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

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 25.2	Page 171
Defined benefit obligations	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	Note 30	Page 174
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment.	Note 24	Page 168

2.4. Presentation of Financial Statements

The Company present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 to these Financial Statements.



2.5. Use of Materiality, Aggregation, Offsetting and Rounding

Materiality and Aggregation

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

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard.

Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

2.6. Functional and presentation currency

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

2.7. Going Concern

The Board of Directors of the Company has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Company has submitted a 5-year strategic business plan to the CBSL as a requirement of the proposed finance sector consolidation process to become a 20 Bn assets company in 2026. To comply with the CBSL core capital requirement, the CBSL has approved an Initial Public Offer (IPO) requested by the Company to raise balance core capital requirements. The Financial Statements of the Company continue to be prepared on the going concern basis.

2.8. Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

GENERAL ACCOUNTING POLICIES

Accounting policy relating to each accounting topic is given along with the relevant note to the Financial Statements. The other

significant accounting policies are described below;

Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

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

- Allowance for Impairment Charges for Loans and Receivables (Details under note 3.3.2)
- Deferred Taxation (Details under note 33)
- Post-Employment Benefit Liability (Details under note 30)
- Related Party Transactions (Details under note 41)

3. FINANCIAL INSTRUMENTS- INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

3.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

3.1.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data



from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

3.1.4 Measurement categories of Financial Assets and Financial Liabilities

As per SLFRS 09, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised Cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

3.1.5 Business model assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated

portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.1.6 Contractual Cash Flow Characteristic Test (The SPPI test)

As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms of that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.1.7 Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 09.

3.1.8 Derecognition of Financial Assets and Financial Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

3.1.9 Modification of Financial Assets and Financial Liabilities

If the terms of a financial asset are modified, an assessment needs to be performed to determine whether the modified terms are substantially different from the existing terms. This assessment considers whether the cash flows of the modified asset are substantially different. Where terms are substantially different, the existing financial



asset will be derecognised and a new financial asset will be recognised at fair value.

Modifications to the original terms and conditions of the loans due to the above COVID-19 moratoriums, did not result in derecognition of the original loans as the Management concluded that the modifications were substantial. The Company recognises the interest income on gross carrying amount based on the effective interest rate for the moratorium period and after the moratorium period till the end of the lifetime of the instrument.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value.

3.1.10 Due to Banks and other institutions

After initial measurement, due to banks are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded due to banks as Financial Liabilities at Amortised Cost in the form of Overdrafts term loans and short term loans.

3.2 Impairment of Financial Assets

3.2.1 Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 42.4.1.(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 01

When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 01 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 02.

Stage 02

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 02 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 03.

Stage 03:

Loans considered credit-impaired. The Company records an allowance for the LTECLs.

3.2.2 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation

to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

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

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise expected draw downs on committed facilities, and accrued interest from missed payments.

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



The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

3.2.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

3.2.4 Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP Growth (%)
- Inflation (YoY Average)
- Interest Rate (PLR)
- Unemployment (% of Labor Force)

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

3.2.5 Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event

occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

3.2.6 Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2019, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 45.2 The Company also considers whether the assets should be classified as Stage 3.

3.2.9 Write-off of Financial Assets at Amortised Cost

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

3.2.10 Collateral Valuation

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carried out by independent professional valuers as required by the said direction issued by CBSL.

The assessed fair value of the immovable properties does not consider for measurement of regulatory provisions for bad and doubtful debts as per Direction No 03 of 2006 and subsequent amendments thereto issued by CBSL.



3.2.11 Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.2.12 Non-Accrual Receivables

Cessation of Interest income recognition is triggered out when the receivables are more than six months in arrears, receivables are subject to legal action/ ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognised only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

3.2.13 Measurement

Uncertainty and Sensitivity Analysis of ECL Estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation including estimation of Probabilities of Default (PD), Loss Given Default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of Exposures

at Default (EAD) and assessing significant increases in credit risk. This becomes more complex, particularly in times of economic volatility and uncertainty. The Company form multiple economic scenarios based on economic forecasts to estimate future credit losses and to determine an unbiased ECL estimate. Management judgements are used to address the data and model limitations and expert credit judgements.

Methodology

The Company have been used three scenarios at multiple confidence levels to capture the exceptional nature of the current economic environment and to simulate management's view of the range of potential outcomes. The range of forecasts are generated through the model due to the uncertainty caused by COVID-19 and resultant restrictions on mobility and economic activities.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes.

ECL Scenarios and Sensitivity Analysis of Allowance for Impairment Losses

As expected, the scenarios create differing impacts on ECL and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

Management Judgemental Adjustments

The governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and defaults on which models are based. The Company recognised that the Management judgemental adjustments are required to help ensure that an appropriate amount of ECL impairment is recognised. Although the granting of the customer reliefs as directed by governmental and CBSL support programmes do not necessarily indicate that the credit risk of those facilities have significantly increased nor credit impaired. However, the management judged that the PDs applicable for credit impaired facilities to be applied in calculating the ECL for these facilities that are in stage 01 and stage 02.

4 NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

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

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



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

Amendments to SLFRS 16:

COVID-19 Related Rent

Concessions

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

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

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

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



5. INCOME

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

Year ended 31 March	2021 Rs.	2020 Rs.
Interest Income	1,584,744,640	1,681,678,539
Net Fee and Commission Income	35,856,002	29,580,891
Other Operating Income (net)	122,938,563	91,176,343
Total Income	1,743,539,205	1,802,435,773

Recognition of interest income for credit facilities under moratoriums

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

6. NET INTEREST INCOME

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Company use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability

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

Year ended 31 March	2021 Rs.	2020 Rs.
6.1 Interest Income		
Loans and Receivables	993,024,757	1,263,494,470
Lease Rentals Receivables	553,963,114	357,115,232
Financial Investments	24,195,687	40,686,088
Savings Deposits	2,925,060	1,496,777
Other Financial Assets	10,636,021	18,885,971
Total Interest Income	1,584,744,640	1,681,678,539
6.2 Interest Expenses		
Due to Bank and Other Institution	162,008,088	179,260,061
Due to Customers	437,418,843	546,799,253
Interest Expense on Lease Creditor	23,920,090	24,057,148
Total Interest Expenses	623,347,022	750,116,462
Net Interest Income	961,397,618	931,562,077



7. NET FEE AND COMMISSION INCOME

Accounting Policy

The Company earns fee and commission income from a diverse range of services it provides to its customers.

The Company recognises Fee and Commission income net of directly attributable expenses.

Credit Related Fees and Services

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, CRIB charges, Insurance commission and Other credit related changes.

Other Fee and Commission Expense

Other Fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expense are recognised on an accrual basis.

7.1 Fee and Commission Income

Year ended 31 March	2021 Rs.	2020 Rs.
Credit Related Fees and Commissions	19,306,211	18,702,957
Documentation Charges	24,614,575	25,697,061
Service Charge	7,976,258	10,207,124
Total Fee and Commission Income	51,897,044	54,607,141

7.2 Fee and Commission Expenses

Year ended 31 March	2021 Rs.	2020 Rs.
Credit Related Fees and Commissions	8,473,038	15,226,578
Documentation Charges	146,198	278,571
Service Charge	7,421,806	9,521,101
Total Fee and Commission Expenses	16,041,042	25,026,250
Total Net Fee and Commission Income	35,856,002	29,580,891

8. OTHER OPERATING INCOME

Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Company is recognised as other operating income on an accrual basis.

Other operating income includes recoveries of written-off loans and receivables, gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

Year ended 31 March	2021 Rs.	2020 Rs.
Recoveries of Written-Off Loans & Receivables	18,955,297	56,319,546
Profit/(Loss) on Disposal of Property Plant & Equipment	267,857	7,832,178
Change Fair Value of Investment Property	89,584,250	-
Reversal of Provision of Loan Risk Assurance Benefit Fund	-	1,030,125
Other Sundry Income (Note 8.1)	14,131,158	25,994,493
Total Other Operating Income	122,938,563	91,176,343



8.1 Other Sundry Income included savings accounts threshold charges, office rent re-imbursements, stationery income and other.

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

Accounting Policy

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 9: Financial Instruments. The methodology adopted by the Company is explained in Note 3.2.2 to these Financial Statements.

Year ended 31 March	2021 Rs.	2020 Rs.
Loans and Receivables	42,487,510	43,085,692
Finance Lease Rental Receivables	8,397,145	76,094,285
Provision for Other Assets	9,207,207	137,798
Total Impairment Charges for Loans and Other Losses	60,091,862	119,317,776

Changes in Accountong Policies

The Company has changed the portfolio segmentation strategy to maintain more product provision cover between secured and unsecured portfolio.

Recognition of interest income for credit facilities under moratoriums

The ajdusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

10. PERSONNEL EXPENSES

Accounting Policy

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

Employees' Provident Fund and Employees' Trust Fund

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

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

Year ended 31 March	2021 Rs.	2020 Rs.
Salaries and Other Related Expenses	323,350,593	312,413,478
Employer's Contribution to Employees' Provident Fund	24,383,353	23,587,300
Employer's Contribution to Employees' Trust Fund	6,095,373	5,896,825
Gratuity Charge for the Year	12,491,938	10,785,865
Other Staff Related Expenses	7,774,651	4,196,354
Total Personnel Expenses	374,095,908	356,879,823



11. OTHER OPERATING EXPENSES**Accounting Policy**

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

Year ended 31 March	2021 Rs.	2020 Rs.
Directors' Emoluments	7,576,000	7,454,305
Auditors Remuneration	3,282,876	2,029,874
Professional and Legal Expenses	3,207,802	2,274,528
Deposit Insurance Premium	6,605,953	6,898,474
General Insurance Expenses	5,177,963	4,420,263
Office Administration and Establishment Expenses	182,851,422	201,765,609
Traveling & Transport Expenses	32,591,090	35,978,600
Other Expenses	6,775,302	5,218,327
Marketing and Promotional Expenses	34,580,533	24,262,806
Total Other Operating Expenses	282,648,941	290,302,786

Crop Insurance Levy

As per provisions of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy was introduced with effect from 01 April 2013 and is payable to the National Insurance Trust Fund. Currently, the crop insurance levy is payable at 1 percent of profit after tax.

12. TAX ON FINANCIAL SERVICES**Accounting Policy****Value Added Tax (VAT) on Financial Services**

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT on Financial Services is charged at 15%.

Nations Building Tax (NBT) on Financial Services

As per provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services.

As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

Debt Repayment Levy

As per the Finance Act No 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on Financial Services.

As per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 1 January 2020.

Year ended 31 March	2021 Rs.	2020 Rs.
Value Added Tax on Financial Services	88,994,892	70,959,752
National Building Tax on Financial Services	367,413	6,082,516
Debit Repayment Levy	-	30,980,285
Total Tax on Financial Services	89,362,305	108,022,553



13. INCOME TAX EXPENSES

Accounting Policy

As per the Sri Lanka Accounting Standard - LKAS 12 on Income Taxes, the tax expense/tax income is the aggregate amount included in determination of profits or loss for the period in respect of income tax and deferred tax. The tax expense/Income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognized in Equity or OCI.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 13.1 to these Financial Statements.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 32 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate is 24% and it was changed as 24% with effect from 1 January 2020 (Up to 31 December 2019 - 28%).

The components of the income tax expense for the years ended 31 March 2021 and 2020 are:

Year ended 31 March	2021 Rs.	2020 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 13.1)	77,582,750	19,554,842
Under/(Over) Provision of Current Taxes in respect of Previous Years	3,959,133	7,045,386
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 33.2)	1,936,139	(4,249,013)
Total Tax Expenses	83,478,023	22,351,216

13.1 Reconciliation of Accounting Profit And Taxable Income

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

Year ended 31 March	2021 Rs.	2020 Rs.
Profit Before Tax	266,834,766	124,067,558
Add : Disallowable Expenses	214,426,153	264,584,242
Taxable Loss on Leasing Business	21,551,337	(8,737,906)
Adjustment on SLFRS 16	12,591,312	8,778,731
Less: Tax Deductible Expenses	(94,623,249)	(135,464,188)
Disallowable Income	(97,518,861)	(92,679,503)
Adjusted Profit / (Loss) for Tax Purposes	323,261,459	160,548,934
Assessable Income	323,261,459	160,548,934
Less - Allowable Losses	-	(88,123,592)
Taxable Income	323,261,459	72,425,342
Income Tax @ 28%	-	15,209,322
Income Tax @ 24%	77,582,750	4,345,521
Income Tax on Current Year's Profit	77,582,750	19,554,842



13.2 Under/(Over) Provision of Current Taxes in respect of Previous Years

The Company recorded an income tax under provision Rs 1,414,475/- for Y/A 2019/20 based on the submitted annual tax return. and the balance tax Rs. 2,644,658/- provided for the possible tax adjustments on recent issued tax assessments.

14. EARNINGS PER SHARE

Accounting Policy

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share':

Year ended 31 March	2021 Rs.	2020 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders (Rs.)	183,356,743	101,716,342
Amount used as the denominator		
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	71,894,661	67,500,006
Weighted average basic Earnings per Share (Rs.)	2.55	1.51

15. DIVIDEND PAID AND PROPOSED

The Board of Directors did not recommend distribution of dividend for the year ended 31 March 2021.

16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

16.1 Analysis of Financial Instruments by Measurement Basis

As at 31 March	2021		2020	
	Amortised Cost Rs.	Total Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and Cash Equivalents	130,870,989	130,870,989	73,226,394	73,226,394
Loans and Receivables	4,954,331,169	4,954,331,169	5,230,704,947	5,230,704,947
Lease Rentals Receivables	2,952,368,025	2,952,368,025	1,702,847,496	1,702,847,496
Financial Investments	374,591,188	374,591,188	444,939,031	444,939,031
Other Financial Assets	779,506	779,506	164,535,666	164,535,666
Total Financial Assets	8,412,940,877	8,412,940,877	7,616,253,533	7,616,253,533
Financial Liabilities				
Due to Banks and Other Institutions	1,729,624,109	1,729,624,109	1,595,035,613	1,595,035,613
Due to Customers	4,551,945,183	4,551,945,183	5,101,975,953	5,101,975,953
Total Financial Liabilities	6,281,569,293	6,281,569,293	6,697,011,566	6,697,011,566



17. CASH AND CASH EQUIVALENTS

Accounting Policy

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

As at 31 March	2021 Rs.	2020 Rs.
Cash in Hand	47,538,601	34,089,998
Balances with Banks	83,332,388	39,136,396
Total Cash and Cash Equivalents	130,870,989	73,226,394
17.1 Net cash and Cash Equivalents for the Purpose of the Cash Flow Statement		
For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.		
Favorable Cash & Cash Equivalents (Note 17)	130,870,989	73,226,394
Unfavorable Cash & Cash Equivalents (Note 27)	(227,209,135)	(208,580,540)
Cash & Cash Equivalents for Cash Flow Purposes	(96,338,146)	(135,354,146)

18. LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets measured at amortized cost if both following conditions are made ;

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

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

As at 31 March	2021 Rs.	2020 Rs.
Gross Loan and Receivables	5,290,108,288	5,523,994,556
Less : Allowance for Impairment Charges for Loans and Receivables (Note 18.1)	(335,777,119)	(293,289,609)
Net Loans and Receivables	4,954,331,169	5,230,704,947



18.1 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	2,035,974,246	940,557,251	2,313,576,790	5,290,108,288
Gross Loan and Receivable	2,035,974,246	940,557,251	2,313,576,790	5,290,108,288
Allowance for expected credit losses (ECL)	(28,104,183)	(25,919,324)	(281,753,612)	(335,777,119)
	2,007,870,063	914,637,927	2,031,823,179	4,954,331,169

18.2 Analysis of loans and receivables on maximum exposure to credit risk

As at 31 March 2020	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Gross Loan and Receivable	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Allowance for expected credit losses(ECL)	(58,248,938)	(41,976,964)	(193,063,707)	(293,289,609)
	3,148,250,291	788,161,617	1,294,293,039	5,230,704,947

18.3 Allowance for Impairment Charges for Loans and Receivables

Reversal of Impairment

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

As at 31 March	2021 Rs.	2020 Rs.
Allowance for Impairment Losses on Loans & Receivables		
Balance as at Beginning of the Year	293,289,609	250,066,119
Charge for the Year	42,487,510	43,223,490
Amounts Written Off	-	-
Balance as at End of the Year	335,777,119	293,289,609
Individual Impairment	-	-
Collective Impairment	335,777,119	293,289,609
Total	335,777,119	293,289,609

18.4 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	58,248,938	41,976,964	193,063,707	293,289,609
Charge/ (Reversal) to income statement	(30,144,755)	(16,057,640)	88,689,904	42,487,510
Write-off during the year	-	-	-	-
Balance as at 31st March 2021	28,104,183	25,919,324	281,753,612	335,777,119



19. LEASE RENTALS RECEIVABLE**Accounting Policy**

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

Lease rental receivable include financial assets measured at amortized cost if both following conditions are made ;

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

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

As at 31 March	2021 Rs.	2020 Rs.
19.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	4,403,506,362	2,635,271,050
Less: Unearned Income	(1,312,510,230)	(802,192,592)
Total Lease Rentals Receivables	3,090,996,132	1,833,078,458
(Less): Allowance for Impairment Charges (Note 20.5)	(138,628,108)	(130,230,964)
Net Lease Rentals Receivables	2,952,368,025	1,702,847,496

19.2 Analysis of lease rentals receivables on maximum exposure to credit risk

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired lease rentals receivables	1,515,792,769	692,364,381	882,838,982	3,090,996,132
Less - Allowance for expected credit losses (ECL)	(28,566,093)	(16,235,244)	(93,826,770)	(138,628,108)
	1,487,226,675	676,129,137	789,012,212	2,952,368,026

19.3 Analysis of lease rentals receivables on maximum exposure to credit risk

As at 31 March 2020	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired lease rentals receivables	994,966,920	502,844,238	335,267,300	1,833,078,458
Less - Allowance for expected credit losses (ECL)	(17,990,868)	(28,179,267)	(84,060,828)	(130,230,964)
	976,976,052	474,664,971	251,206,471	1,702,847,496



19.4 Maturity of Lease Rentals Receivables

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	1,456,789,309	2,946,717,053	-	4,403,506,362
Less: Unearned Income	(378,905,381)	(933,604,849)	-	(1,312,510,230)
Total Lease Rental Receivables	1,077,883,928	2,013,112,204	-	3,090,996,132
(Less): Allowance for Impairment Charges (Note 20.5)	(75,648,907)	(62,979,201)	-	(138,628,108)
Net Lease Rentals Receivables	1,268,320,657	1,950,133,004	-	2,952,368,026

19.5 Maturity of Lease Rentals Receivables

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	895,952,803	1,739,318,247	-	2,635,271,050
Less: Unearned Income	(279,173,975)	(523,018,617)	-	(802,192,592)
Total Lease Rental Receivables	616,778,828	1,216,299,630	-	1,833,078,458
(Less): Allowance for Impairment Charges (Note 20.2)	(70,341,185)	(59,889,779)	-	(130,230,964)
Net Lease Rentals Receivables	546,437,643	1,156,409,851	-	1,702,847,495

19.6 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

The accounting policy used in calculating impairment charge is fully described under Note 3.2.9.

As at 31 March	2021 Rs.	2020 Rs.
Balance as at beggning of the Year	130,230,964	54,274,476
Charge / (Reversal) for the year	8,397,144	75,956,487
Balance as at End of the Year	138,628,108	130,230,964
Individual Impairment	-	-
Collective Impairment	138,628,108	130,230,964
Total	138,628,108	130,230,964

19.7 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	17,990,868	28,179,267	84,060,828	130,230,963
Charge/ (Reversal) to income statement	10,575,225	(11,944,023)	9,765,942	8,397,144
Write-off during the year	-	-	-	-
Balance as at 31st March 2021	28,566,093	16,235,244	93,826,770	138,628,108



20. FINANCIAL INVESTMENTS

Accounting Policy

Financial investments include Government Securities and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31 March	2021 Rs.	2020 Rs.
Sri Lanka Government Securities - REPO	374,591,188	444,939,031
Total Financial Investments	374,591,188	444,939,031

21. OTHER FINANCIAL ASSETS

Accounting Policy

Financial investments include Fixed Deposit. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31 March	2021 Rs.	2020 Rs.
Fixed Deposits	779,506	164,535,666
Total Other Financial Assets	779,506	164,535,666

21.1 Contractual Maturity Analysis of Other Financial Assets

As at 31 March	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	779,506	-	-	779,506
Total Other Financial Assets	779,506	-	-	779,506

22. OTHER NON FINANCIAL ASSETS

Accounting Policy

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

As at 31 March	2021 Rs.	2020 Rs.
Inventories	2,773,721	3,562,565
Rent Deposit	17,217,500	17,581,500
Other Receivable	79,234,956	120,899,891
Total Other Non Financial Assets	99,226,178	142,043,956



Amounts Receivable from Government

Other receivable includes Amounts Receivable from Government Rs 16,812,293/- As per signed MOU between SDF and Ministry of Finance and Mass Media under "Special debit relief for Microfinance Loan granted to women in drought affected Districts".

23. INTANGIBLE ASSETS**Accounting Policy**

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

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

23.1 Software

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

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2021 and 2020 is given below.

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

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is included in the Statement of Profit or Loss in the year the asset is derecognized.

As at 31 March	2021 Rs.	2020 Rs.
23.2 Computer Software		
Cost		
Cost as at begging of the year	59,398,736	58,009,844
Additions and Improvements	-	1,388,891
Disposal during the year	-	-
Cost as at end of the year	59,398,736	59,398,736
Amortisation & Impairment		
Amortisation as at begging of the year	44,287,613	31,001,716
Charge for the year	10,055,835	13,285,897
Disposal during the year	-	-
Amortisation as at end of the year	54,343,448	44,287,613
Net book value as at end of the year	5,055,287	15,111,123
Net book value of total intangible assets	5,055,287	15,111,123



24. INVESTMENT PROPERTY**Accounting Policy**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Other Comprehensive Income in the year in which they arise.

Derecognition

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

	2021 Rs.	2020 Rs.
Balance as at 1 April	126,094,500	118,594,500
Transfer from during the year	-	7,500,000
Gain from fair value adjustment	89,584,250	-
Balance as at 31 March	215,678,750	126,094,500

The Company has recorded rent income for year ended 31 March 2021 Rs 8,305,200 (2020 - Rs 8,309,700/-) and not incurred any repair and maintenance expenses on behalf of the property.

Property	Method of valuation	Effective date of valuation	Significant unobservable inputs (Level 3)	Sensitivity of fair value to un-observable inputs	Value (LKR)
No 45, Rawathwatta Road, Moratuwa	Market value	31-Mar-21	Estimated price per perch LKR 2,000,000/- (Land Extent - 48.69 perches)	Positively correlated sensitivity	215,678,750

25. PROPERTY, PLANT & EQUIPMENT**Accounting Policies****Basis of Recognition**

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

Basis of Measurement

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

Cost Model

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



Revaluation Model

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

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

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

During the current financial year, the Company revalued its freehold lands and buildings.

Subsequent Cost

These are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

Repairs and Maintenance

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

Derecognition

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

Useful Life Time of Property, Plant & equipment and Depreciation

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

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

The estimated useful lives of the assets for the year ended 31 March 2020 and 2019, are as follows:

Assets Category	Useful Life
Buildings	40 Years
Office Equipment	5 Years
Computer Equipment	5 Years
Furniture & Fittings	10 Years
Plant & Machinery	8 Years
Motor Vehicles	5 Years



The depreciation rates are determined separately for each significant part of assets and depreciation is provided proportionately for the completed number of days the asset is in use, if it is purchased or sold during the financial year. Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

25. PROPERTY, PLANT & EQUIPMENT (CONTD.)**25.1 The Movement in Property, Plant & Equipment**

	Balance As at 01.04.2020 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2021 Rs.
25.1.1 Cost or Valuation					
Freehold Assets					
Land	18,050,000	-	18,050,000	-	36,100,000
Furniture & Fittings	100,793,390	11,434,660	-	824,129	111,403,920
Office Equipment	70,643,488	13,268,800	-	2,513,844	81,398,442
Computer Equipment	80,814,729	1,064,888	-	2,896,601	78,983,017
Plant & Machinery	40,720,781	8,127,389	-	-	48,848,170
Motor Vehicle	42,753,322	-	-	-	42,753,322
Total cost or valuation	353,775,709	33,895,737	18,050,000	6,234,574	399,486,871

	Balance As at 01.04.2020 Rs.	Charge during the year Rs.	Adjustments Rs.	Disposals during the year Rs.	Balance As at 31.03.2021 Rs.
25.1.2 Depreciation					
Freehold Assets					
Furniture & Fittings	43,956,994	10,455,989	-	(610,115)	53,802,867
Office Equipment	50,128,330	8,996,299	-	(2,513,277)	56,611,353
Computer Equipment	70,233,944	5,069,968	-	(2,884,340)	72,419,572
Plant & Machinery	19,925,842	5,577,803	-	-	25,503,645
Motor Vehicle	23,262,559	7,002,506	-	-	30,265,065
Total Depreciation	207,507,669	37,102,566	-	(6,007,733)	238,602,502

As at 31 March	2021 Rs.	2020 Rs.
25.1.3 Net Book Value		
Land	36,100,000	18,050,000
Furniture & Fittings	57,601,053	56,836,396
Office Equipment	24,787,089	20,515,157
Computer Equipment	6,563,446	10,580,785
Plant & Machinery	23,344,525	20,794,939
Motor Vehicle	12,488,257	19,490,763
Total Carrying Amount of Property, Plant and Equipment	160,884,369	146,268,040

**25.1.4 Property, Plant & Equipments Acquired During the Financial Year**

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 33,895,737/- (2020 - Rs. 23,735,187/-) Cash payment amounting to Rs. 33,895,737/- (2020 - Rs. 23,735,187) was paid during the year for purchase of property, plant & equipment.

25.1.5 Fully-depreciated property, plant & equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is Rs. 101,793,852/- (2020 - Rs. 82,452,109/-)

25.2 Fair value related disclosures of Freehold land

Property	Method of valuation	Significant unobservable inputs (Level 3)	Sensitivity of fair value to un-observable inputs	Value (LKR)
No 45, Rawathwatta Road, Moratuwa	Market value	Estimated price per perch	Positively correlated sensitivity	36,100,000
LKR 2,000,000/- (Land Extent - 18.05 perches)				

25.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2021 and 31 March 2020.

25.4 Compensation from Third Parties for items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up. (2020: Nil)

25.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2021 and 31 March 2020.

25.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2021 and 31 March 2020.

26. RIGHT-OF-USE ASSETS

	2021 Rs.	2020 Rs.
Cost		
Effect of adoption of SLFRS 16 as at 01 April 2019	234,374,877	188,564,089
Opening Balance of Advance Payment for the Right-of-Use Assets as at 01 April 2019	-	17,744,017
Rent Payable Under LKAS 17 as at 01 April 2019	-	(1,748,000)
Adjusted Balance as at beginning of the year	234,374,877	204,560,106
Additions during the year	41,770,515	29,914,134
Less - Adjustment on COVID-19 Concession Received	(5,457,977)	-
Balance as at end of the Year	270,687,415	234,374,877
Accumulated Depreciation		
Balance as at beginning of the year	64,930,508	-
Charges for the year	62,944,563	64,930,508
Balance as at end of the year	127,875,071	64,930,508
Carrying Amount as at end of the Year	142,812,343	169,444,369



27. DUE TO BANKS & OTHER INSTITUTIONS**Accounting Policy**

Due to banks include bank and other institutional borrowings and bank overdrafts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	2021 Rs.	2020 Rs.
Bank Overdrafts (Note 27.1)	227,209,135	208,580,540
Loans and Other Bank Facilities (Note 27.2)	1,481,187,982	1,374,276,405
Interest Payable on Bank Facilities	21,226,993	12,178,668
Total Due to Banks & Other Institution	1,729,624,109	1,595,035,613

27.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Loan & Receivables and the Company has unutilised Bank Overdraft of Rs. 57,613,963 /- as at 31 March 2021 (2020 - Rs. 59,031,301/-).

	As at 01.04.2020 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2021 Rs.
27.2 Loans and Other Bank Facilities				
NDB Term Loan	710,000,000	375,000,000	(368,200,000)	716,800,000
HNB Term Loan	337,500,000	300,000,000	(362,700,000)	274,800,000
SDB Term Loan	300,000,000	300,000,000	(394,311,070)	205,688,930
Sampath Bank Term Loan	-	6,308,000	(525,652)	5,782,348
Securitisation Loan	-	300,000,000	(51,500,000)	248,500,000
Rotary Loan	20,814,455	11,700,000	(8,959,702)	23,554,753
Other Borrowings	5,961,950	100,000	-	6,061,950
Total Loans and Other Bank Facilities	1,374,276,405	1,293,108,000	(1,186,196,424)	1,481,187,982

27.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Term Loan	246,800,000	470,000,000	-	716,800,000
HNB Term Loan	125,400,000	149,400,000	-	274,800,000
SDB Term Loan	205,688,930	-	-	205,688,930
Sampath Bank Term Loan	696,049	5,086,299	-	5,782,348
Securitisation Loan	182,100,000	66,400,000	-	248,500,000
Rotary Loan	9,031,653	14,523,100	-	23,554,753
Other Borrowings	-	-	6,061,950	6,061,950
Bank Overdrafts	21,226,993	205,982,142	-	227,209,135
Interest Payable on Bank Facilities	21,226,993	-	-	21,226,993
Total Due to Customers	812,170,618	911,391,541	6,061,950	1,729,624,109



As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Term Loan	240,000,000	470,000,000	-	710,000,000
HNB Term Loan	225,000,000	112,500,000	-	337,500,000
SDB Term Loan	200,000,000	100,000,000	300,000,000	
Rotary Loan	7,819,261	12,995,194	-	20,814,455
Other Borrowings	-	-	5,961,950	5,961,950
Bank Overdrafts	208,580,540	-	-	208,580,540
Interest Payable on Bank Facilities	12,178,668	-	-	12,178,668
Total Due to Customers	893,578,469	695,495,194	5,961,950	1,595,035,613

28. DUE TO CUSTOMERS

Accounting Policies

Due to other customers include non-interest bearing deposits, savings deposits, term deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	2021 Rs.	2020 Rs.
Fixed Deposits	3,306,652,431	3,565,672,847
Savings Deposits	1,245,292,752	1,536,303,106
Total Due to Customers	4,551,945,183	5,101,975,953

28.1 Sri Lanka Deposit Insurance And Liquidity Support Scheme

Under the Direction No. 2 of 2010 Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of Rs. 1,000,000/- for each depositor. The Company has paid Rs. 6,605,953/- as the premium of the said Insurance scheme during the financial year under review (2020 - Rs. 6,898,474/-).

28.2 Contractual Maturity Analysis Of Customer Deposits

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,660,979,972	645,672,460	-	3,306,652,432
Savings Deposits	1,038,516,344	124,704,047	82,072,361	1,245,292,752
Total Due to Customers	3,699,496,316	770,376,507	82,072,361	4,551,945,184

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,467,672,652	1,098,000,195	-	3,565,672,847
Savings Deposits	1,306,513,761	135,226,451	94,562,895	1,536,303,106
Total Due to Customers	3,774,186,413	1,233,226,646	94,562,895	5,101,975,953

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



29. OTHER NON FINANCIAL LIABILITIES

Accounting Policy

These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

As at 31 March	2021 Rs.	2020 Rs.
Accrued Expenses	40,952,038	37,440,102
Others (Note 29.1)	239,812,653	59,712,891
Loan Risk Assurance Fund (Note 29.2)	1,787,409	1,830,000
Amount Due to Related Parties	-	237,594
	282,552,100	99,220,587

29.1 This balance included supplier payment payable balance Rs. 164,300,975/- as at 31 March 2021 (2020 - Rs. 2,275,000)

29.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2021. The actuarial valuation was performed by Piyal S Goonetilleke and Associates, Professional Actuary. The reversal of provision that resulted from the actuarial valuation has been recognised as income under 'Other Operating Income'. All loan customers who enrolled with this assurance program will be eligible for total payment of the outstanding loan amounts at the time of death or total disability. The actuarial valuation will serve as the basis for calculating the liability adequate for covering the outstanding loan balances of customers (with a loan less than or equaling Rs.250,000/-) in the event of a participant death or a total disability.

30. POST-EMPLOYMENT BENEFIT OBLIGATIONS

Accounting Policy

Employee benefit liability includes the provisions for retirement gratuity liability.

Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit actuarial cost method. Actuarial gains and losses are recognized as income or expense in other comprehensive income during the financial year in which it arises.

Basis of Measurement

The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below: In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Company's policy on salary revisions.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefit'. However, under the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Recognition Of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.



	2021 Rs.	2020 Rs.
30.1 Provision for Retirement Gratuity		
Balance at the beginning of the year	33,753,016	27,212,065
Amount Charge for the Year	12,491,938	10,733,365
Actuarial (Gains)/Losses	13,647,141	2,062,826
(Gain)/Loss Due to Changes in Assumptions	6,755,239	4,302,064
Payments Made During the Year	(10,818,721)	(10,557,304)
Balance at the End of the Year	55,828,613	33,753,016

As at 31 March	2021 Rs.	2020 Rs.
30.2 Expenses on Defined Benefit Plan		
Current Service Cost for the Year	9,211,145	7,628,469
Interest Cost for the Year	3,280,793	3,104,896
Actuarial (Gains)/ Losses (31.5)	13,647,141	2,062,826
(Gains)/ Losses Due to Changes in Assumptions	6,755,239	4,302,064
Total Expenses on Defined Benefit Plan	32,894,318	17,098,255

30.3 Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 March 2021 and 2020 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

30.4 Actuarial Assumptions

Year ended 31 March	2021	2020
Discount Rate	8.2%	9.7%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
Average Future Working Life	10.2 Years	9.5 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table.	Long Term 1987 Soc. Sec. Table.
Retirement age	Retirement age of 55 Years	Retirement age of 55 Years



30.5 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

30.6 Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2021.

30. POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTD.)

Increase/(decrease) in Discount Rate %	Increase/(decrease) in Salary Increment Rate %	Sensitivity Effect on Statement of Comprehensive Income Increase / (decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase/(decrease) Rs.
+1%		(4,601,795)	(4,601,795)
(-1%)		5,304,020	5,304,020
	+1%	4,973,399	4,973,399
	(-1%)	(4,414,810)	(4,414,810)

31. CURRENT TAX LIABILITIES

	2021 Rs.	2020 Rs.
Balance as at 1st April	(1,210,738)	(1,874,938)
Provision for the year	81,541,883	26,600,229
Less: Tax paid	(9,874,664)	(18,131,413)
Adjustment (ESC/WHT/Notional Tax etc.)	(16,791,156)	(7,804,616)
Balance as at 31st March	53,665,325	(1,210,738)

32. LEASE CREDITOR

	2021 Rs.	2020 Rs.
Balance as at 1 April 2019	171,735,097	204,560,106
Less- Adjustment on COVID 19 Concession	(5,457,977)	-
Additions	41,770,515	29,914,134
Interest Expenses	23,920,090	24,057,148
Payments	(70,768,771)	(86,796,291)
Balance as at end of the Year	161,198,954	171,735,097

32.1 Contractual Maturity Analysis of Lease Creditor

As at 31 March 2021	Within One Year Rs.	1 - 5 Years Rs.	Total Rs.
Lease Creditor	54,317,803	106,881,151	161,198,954
Total Lease Creditor	54,317,803	106,881,151	161,198,954



33. DEFERRED TAXATION**Accounting Policy**

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- (I) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (II) Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:
 - Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
 - Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of reporting date.

33.1 Statement of Financial Position

As at 31 March	2021 Rs.	2020 Rs.
Deferred Tax Liabilities		
Accelerated depreciation for tax purposes	10,442,880	24,288,306
Finance leases	14,879,423	16,476,201
Right-of Use Assets	(4,412,787)	1,045,824
Revaluation Reserve	40,097,807	16,643,185
Total Deferred Tax Liabilities	61,007,323	58,453,516
Deferred Tax Assets		
Defined benefit plans - Profit or loss	13,398,867	9,450,844
Carry forward losses	-	-
Impairment Provision	27,210,164	29,975,947
Total Deferred Tax Assets	40,609,031	39,426,792
Net Deferred Tax Liabilities/(Assets)	20,398,293	19,026,724



33. DEFERRED TAXATION (CONTD.)**33.2 Statement of Profit or Loss**

Year ended 31 March	2021 Rs.	2020 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	23,454,622	-
Accelerated depreciation for tax purposes	(13,845,426)	(4,985,010)
Finance leases	(1,596,778)	(3,791,831)
Lease Creditor	(5,458,611)	1,045,824
Deferred Tax Income/(Expense)	2,553,807	(7,731,017)
Deferred Tax Assets		
Defined benefit plans - Profit or loss	(8,844,594)	(3,613,635)
Defined benefit plans - Other comprehensive income	4,896,571	1,782,169
Carry forwarded Impairment Expenses	2,765,783	11,713,222
Carry forward Loss on other operations	-	(8,181,922)
Deferred expenses to be claimed in income tax liability of future years	-	-
Deferred Tax Income/(Expense)	(1,182,239)	1,699,834
Net Deferred Tax Income/(Expense) - Statement of profit or loss	1,936,139	(4,249,013)
Net Deferred Tax Income/(Expense) - Statement of Other comprehensive income	564,571	1,782,169

Revised income tax rates proposed to the Inland Revenue Act, No. 24 of 2017 by Circular No. PN/IT/2020-03 (Revised), be implemented with effect from 01 January 2020. On 23 April 2021, CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for financial reporting period ending 26 March 2021. Accordingly, the Company applied 24% income tax rate for the determination of deferred tax in 2021 and recognised an adjustment to deferred tax liabilities amounting to Rs. 761,069 /- from reduction in tax rate.

34. STATED CAPITAL

As at 31 March	Number of Shares	2021 Rs.	Number of Shares	2020 Rs.
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	67,500,006	890,000,020	67,500,006	890,000,020
Issued during the year	36,641,500	804,137,026	-	-
At the end of the year	104,141,506	1,694,137,046	67,500,006	890,000,020

34.1 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.



35. RETAINED EARNINGS

	2021 Rs.	2020 Rs.
Balance as at beginning of the Year	195,476,359	118,686,006
Impact of adopting SLFRS 9 as at 1 April 2018	-	-
	195,476,359	118,686,006
Profit for the Year	183,356,743	101,716,342
Other Comprehensive Income	(15,505,809)	(4,582,721)
Transfer to Statutory Reserves Fund	(36,671,349)	(20,343,268)
Dividend Paid	-	-
Balance as at end of the Year	326,655,945	195,476,359

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

36. RESERVES**36.1 Statutory Reserve Fund**

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

36.2 Revaluation Reserve Fund

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment with net of differed tax on revaluation.

	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2019	47,062,857	42,796,761	80,247,859
Transfers to/(from) during the year	20,343,268	-	20,343,268
As at 31 March 2020	67,406,125	42,796,761	110,202,886
Transfers to/(from) during the year	36,671,349	-	36,547,491
Revaluation of Land & Building	-	13,718,000	13,718,000
As at 31 March 2021	104,077,474	56,514,761	160,592,235



37. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

	2021 Within 12 Months Rs.	2021 After 12 Months Rs.	2021 Total Rs.
Assets			
Cash and Cash Equivalents	130,870,989	-	130,870,989
Loans and Receivables	2,750,743,074	2,203,588,095	4,954,331,169
Lease Rentals Receivables	1,268,320,657	1,684,047,367	2,952,368,025
Financial Investments	374,591,188	-	374,591,188
Other Financial Assets	779,506	-	779,506
Other Non Financial Assets	99,226,178	-	99,226,178
Intangible Assets	-	5,055,287	5,055,287
Investment Property	-	215,678,750	215,678,750
Property, Plant and Equipment	-	160,884,369	160,884,369
Right-of-Use Assets	56,235,529	86,576,814	142,812,343
Total Assets	4,680,767,121	4,355,830,684	9,036,597,804
Liabilities			
Due to Banks and Other Institutions	1,018,152,760	711,471,350	1,729,624,109
Due to Customers	3,734,554,903	817,390,281	4,551,945,183
Other Non Financial Liabilities	280,699,706	1,852,393	282,552,100
Post Employment Benefit Liability	-	55,828,613	55,828,613
Current Tax Liabilities	53,665,325	-	53,665,325
Lease Creditor	54,317,803	106,881,151	161,198,954
Deferred Tax Liabilities	-	20,398,293	20,398,293
Total Liabilities	5,141,390,497	1,713,822,081	6,855,212,577
Net Assets/(Liability)	(460,623,376)	2,642,008,603	2,181,385,226

	2020 Within 12 Months Rs.	2020 After 12 Months Rs.	2020 Total Rs.
Assets			
Cash and Cash Equivalents	73,226,394	-	73,226,394
Loans and Receivables	2,491,331,763	2,739,373,184	5,230,704,947
Lease Rental Receivable	546,437,643	1,156,409,853	1,702,847,496
Financial Investments	444,939,031	-	444,939,031
Other Financial Assets	164,535,666	-	164,535,666
Other Non Financial Assets	79,490,760	62,553,196	142,043,956
Intangible Assets	-	15,111,123	15,111,123
Investment Property	-	126,094,500	126,094,500
Property, Plant and Equipment	-	146,268,040	146,268,040
Right-of-Use Assets	-	169,444,369	169,444,369
Total Assets	3,799,961,257	4,415,254,263	8,215,215,520
Liabilities			
Due to Banks and Other Institutions	893,578,469	701,457,144	1,595,035,613
Due to Customers	3,774,186,413	1,327,789,541	5,101,975,953
Other Non Financial Liabilities	45,097,684	54,122,903	99,220,587
Post Employment Benefit Liability	-	33,753,016	33,753,016
Current Tax Liabilities	15,432,447	-	(1,210,738)
Lease Creditor	171,735,097	-	171,735,097
Deferred Tax Liabilities	-	2,383,540	19,026,724
Total Liabilities	4,728,295,013	2,119,506,143	7,019,536,253
Net Assets/(Liability)	(928,333,756)	2,295,748,121	1,195,679,267



38. COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 "Provisions contingent liabilities and Contingent Assets". Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

38.1 Contingent Liabilities

As at 31 March	2021 Rs.	2020 Rs.
Guarantees issues to other institution	2,250,000	4,225,000
Total contingent Liabilities	2,250,000	4,225,000

38.2 Commitments

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

38.3 Litigation Against the Company

As at 31 March	2021 Rs.	2020 Rs.
Cases pending against the Company	5,439,916	5,140,100
Total contingent Liabilities	5,439,916	5,140,100

Company did not have any significant contingent liabilities which requires disclosures in the Financial Statements of the Company as at the Statement of Financial Position date.

39. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	2021 Rs.	Carrying Amount Pledged 2020 Rs.	Included Under
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	200,635,188	325,043,547	Loans and Receivables
Rental receivable on SME Loan	Term Loan	658,861,762	1,098,333,229	Loans and Receivables
Rental receivable on Lease	Term Loan	417,597,464	453,579,866	Lease Rental Receivable
Rental receivable on Micro Business	Term Loan	5,190,828	-	Loans and Receivables
Rental receivable on Lease	Securitization	674,529,430	-	Lease Rental Receivable
		1,956,814,673	1,876,956,643	



40. EVENTS OCCURRING AFTER THE REPORTING DATE

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty in the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the company has strictly adhered to the guidelines and directions issued by both the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. Further, the Company has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL in addition to its own relief schemes. These relief measures include deferment of repayment terms of credit facilities and offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges. The closing date for the customer request is 15 July 2021.

There are no other events occurring after the reporting date which require adjustments to or disclosure in the financial statements.

41. RELATED PARTY TRANSACTIONS

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

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

41.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the board of directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

41.1.1 Key Management Personnel Compensation

Year ended 31 March	2021 Rs.	2020 Rs.
Short Term Employment Benefits	6,225,000	5,373,904
Directors Fees & Expenses	7,576,000	7,454,305
Total Key Management Personnel Compensation	13,801,000	12,828,209

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

41.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

41.1.2.1 Transaction with KMPs, and their Close Members of the Family

Year ended 31 March	2021 Rs.	2020 Rs.
Items in Statement of Financial Position		
Deposit accept during the year	785,000	585,000
Deposit repayment during the year	(832,347)	(979,547)
	(47,347)	(394,547)
Items in Statement of Profit or Loss		
Interest accrued during the period	29,753	18,812
	29,753	18,812



41.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

41.1.4 Transactions with Group Entities

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

41.1.4.1 Transactions with Parent Company

Sarvodaya Economic Enterprises Development (Gte) Ltd.

Year ended 31 March	2021 Rs.	2020 Rs.
Statement of Financial Position		
Transaction Made During the Year		
Loan Interest Paid during the Year	-	(1,866,840)
Deposit withdrawal during the year	-	2,000,000
	-	133,160

41.1.4.2 Transactions with Shareholders

Gentosa Total Assets Inc.

Year ended 31 March	2021 Rs.	2020 Rs.
Items in Statement of Financial Position		
Deposit Accepted during the period including interest capitalisation	16,042,952	52,796,499
Interest payable on Deposits	-	2,537,231
Capital Repayment during the Year	379,749,118	-
Interest Paid during the Year	9,824,287	-
	16,042,952	55,333,730
Items in Statement of Profit or Loss		
Interest Accrued During the Period	16,374,968	16,740,033
	16,374,968	16,740,033

42. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka. In terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 – Minimum Core Capital, a cap of Rs. 5.5 Bn on total deposits including accrued interest has been imposed by the Central Bank of Sri Lanka.

42.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company has issued Rs 804 Mn shares during the year through a private placement. This private placement includes Rs 420 Mn shares issued to inactive Sarvodaya Shramadana Societies by converting their deposits. With reference to the Central Bank letter dated 9th July 2021, the action plan has been requested from the Company in relation to the above Rs 420 Mn shares. Therefore, the said Rs 420Mn shares have not been considered the Company's core capital as at 31 March 2021. Hence the Company has not met the minimum core capital requirement as at 31 March 2021.



43. COMPARATIVE INFORMATION

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

	As Reported Previously	Reclassification Rs.	Current Presentation Rs.	Current Classification Rs.
Statement of Financial Position				
Current Tax Liabilities	15,432,447	(16,643,185)	(1,210,738)	Current Tax Liabilities
Deferred Tax Liabilities	2,383,540	16,643,185	19,026,724	Deferred Tax Liabilities

- (a) During the financial year, deferred tax on value changes in investment property was reclassified under Defered Tax Liability for better presentation.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Inputs include quoted prices for identical instruments and are the most observable.
- Level 2 - Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.
- Level 3 - Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

Valuation framework

The Company has an established control framework for the measurement of fair values. The Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

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



44.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Company's estimate of assumptions that a market participant would make when valuing assets and liabilities.

Property, Plant & Equipment

Property, Plant & Equipment Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Non Financial Assets measured at fair value

Level 3 Fair Value Measurement

	2021		2020	
	Investment Property Rs.	Freehold Land Rs.	Investment Property Rs.	Freehold Land Rs.
Balance as at begging of the Year	126,094,500	18,050,000	118,594,500	25,550,000
Revaluation reserve credit to revaluation reserve	-	18,050,000	-	-
Total gain/(loss) recognised in profit or loss:	89,584,250	-		
Transfer during the Year	-	-	7,500,000	(7,500,000)
Balance at end on the Year	215,678,750	36,100,000	126,094,500	18,050,000

44.2 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

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

Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.



44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

As at 31 March 2021	Faire Value				Carrying Value Rs.
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	
Financial Assets					
Cash and Cash Equivalents	130,870,989			130,870,989	261,741,978
Loans and Receivables				5,011,615,239	5,011,615,239
Lease Rentals Receivables				3,405,226,261	3,405,226,261
Financial Investments		374,591,188	-	374,591,188	749,182,376
Other Financial Assets	-	779,506	-	779,506	1,559,012
	130,870,989	375,370,694	-	8,923,083,184	9,429,324,867
Financial Liabilities					
Due to Banks and Other Institutions	-	1,595,035,613	-	1,729,624,109	1,729,624,109
Due to Customers	-	-	4,551,945,183	4,551,945,183	4,551,945,183
	-	1,595,035,613	4,551,945,183	6,281,569,293	6,281,569,293

As at 31 March 2020	Faire Value				Carrying Value Rs.
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	
Financial Assets					
Cash and Cash Equivalents	73,226,394	-	-	73,226,394	73,226,394
Loans and Receivables	-	-	5,194,937,239	5,194,937,239	5,230,704,947
Lease Rentals Receivables	-	-	1,692,490,922	1,692,490,922	1,702,847,496
Financial Investments	444,939,031	-	444,939,031	444,939,031	
Other Financial Assets	-	164,535,666	-	164,535,666	164,535,666
	73,226,394	609,474,697	6,887,428,160	7,570,129,250	7,616,253,533
Financial Liabilities					
Due to Banks and Other Institutions	-	1,595,035,613	-	1,595,035,613	1,595,035,613
Due to Customers	-	-	5,101,975,953	5,101,975,953	5,109,040,104
	-	1,595,035,613	5,101,975,953	6,697,011,566	6,704,075,717



The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

45. RISK MANAGEMENT

45.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring through established risk limits and controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for prudently managing the risk exposures relating to his or her responsibilities. Company's risk strategy focuses on managing principal risks faced by the Company while striking a fair balance between the risk return trade-off. Based on the unprecedented impact on economy and financial services sector due to COVID-19 pandemic, a robust approach in risk management is considered as of paramount importance by the Company.

Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a subcommittee, Integrated Risk Management Committee (IRMC). The Board has delegated its authority to the IRMC for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC reviews and assess the Company's overall risks and to focus on policy recommendations and strategies and the Board of Directors are duly updated of its activities.

Risk Management Framework

At Sarvodaya Development Finance Limited the management of risk plays an integral part in all its business activities. The identification, evaluation, measurement, mitigation, decision making and control implementation, monitoring and reporting of risks associated with products, processes, systems and services of Sarvodaya Development Finance Limited is vital to the scope of risk management when fulfilling requirements of its customers and other stakeholders.

The risk management function of Sarvodaya Development Finance Company comes under the purview of the Director of Non Bank Supervision and the Integrated Risk Management Committee (IRMC) where its independent from the business lines. In the course of its business activities, Sarvodaya Development Finance Limited is constantly exposed to risks that include but are not limited to Credit Risk, Liquidity Risk, Market Risk, and Operational Risk.

Sarvodaya Development Finance Limited is aware of a wide spectrum of risks that it is exposed to, and provides attention to each and every risk factor that could hinder the achievement of the company's overall objectives. The risk management function therefore strives to manage the integrated risks by developing a companywide risk appetite and measures and controls to ensure that the risk taken is within the desired limits of the company .

Sarvodaya Development Finance Limited has put in place structures and processes to address these risks which are vested to functional departments. Additionally the company has an IRMC which carry out independent risk evaluations both qualitative and quantitative and the results are shared with the Management team of Sarvodaya Development Finance Limited as well as the Board of Directors.

Three Lines of Defense

In achieving its goals, Sarvodaya Development Finance Limited deploys risk management and internal control structure referred to as the 'three lines of defense', where in roles between the line management, risk management and inspection /audit are segregated.

Risk Profile Dashboard

Sarvodaya Development Finance Company has established policy parameters on tolerance limits on a number of identified key risk indicators. These encompass compliance with CBSL and other regulatory frameworks. Credit Risk aspects are evaluated through numerous types of concentrations and asset quality levels whereas Market Risk aspects focus on liquidity and interest rate. The regulatory compliance to the sufficiency of capital requirement would evaluate the capital adequacy risk. Operational Risk aspects focus on major risk types developed under the Operational Risk Self Assessment (ORSA) exercise. The desired level under each indicator is being monitored against achievement on a regular basis to provide a clear perspective of the risk profile of the Sarvodaya Development Finance Company. Further, continuous assessment has been carried out to minimize any adverse impact of the COVID-19 pandemic through regular monitoring of sector exposure and formulating strategies to overcome possible future challenges.

Sarvodaya Development Finance Limited's Risk Appetite Framework

Within a volatile financial market, it is important to understand the accurate risk profile of the company. For starters the company has implemented simple risk appetite framework that helps to better understand and manage the risks through the development of action plan and through day-to-day business decisions.

Risk appetite defines the aggregate quantum of risk the company is willing to assume in different aspects of business. It is to achieve its strategic objectives while maintaining the desired risk profile. Tolerance limits have been set for certain risk. A limit system is adopted to translate the risk appetite of the company so that it is understood by the management and practical to implement, while catering to current levels of the operations.

Risk Management Unit (RMU)

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

Risk Measurement & Reporting

The Company's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to IRMC on a periodic basis.



45. RISK MANAGEMENT (CONTD.)

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

Assets and Liability Management Committee (ALCO)

ALCO is chaired by the CEO and has representatives from the Operation, Credit, Risk & Compliance and Finance & Planning Departments. The Committee meets regularly to monitor and manage the assets & liabilities of the Company and also to manage the overall liquidity position of the Company to ensure liquidity is maintained at healthy levels, whilst satisfying regulatory requirements. These decisions taken by the ALCO are further reviewed at IRMC.

Credit Committee

There are two Credit Committees, namely Board Credit Committee (BCC) and Management Credit Committee (MCC). BCC is comprised of three Non-Executive Independent Directors and the MCC is comprised of the CEO, AGM -Credit, AGM -Compliance(Acting Head of Risk), Chief Manager Finance and Senior Manager Recoveries. Board is the vested with the ultimate authority to approve credit facilities whereas BCC formulate credit policies for the company and overlooks the credit function by ensuring the asset quality whilst approving high value credit facilities. MCC is the supreme management level approving authority beyond the delegated authority of the CEO.

45.2 Credit Risk

Over view

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. The exposure to the credit risk is mainly derived from financial sector companies as the sector engage primarily in providing financing facilities to its customers. Credit risk is considered as Sarvodaya Development Finance Limited's major risk exposure. The Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

Credit Risk Management

The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The credit department and recoveries department are responsible for management of the companies' credit risk, including the formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the DA of the CEO.

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of qualitative as well as quantitative variables for the measurement of borrowers' risk. All internal risk ratings are tailored to various products namely SME Loans and Leasing. For accounting purposes, the Company uses a collective model for the recognition of losses on impaired financial Assets.

Collateral Management

The primary source of repayment of credit exposures is the cash flows while the collaterals obtained by the company act as a possible secondary recourse. Collateral generally include cash, marketable securities, properties, stocks, trade debtors, other receivables machinery and equipment and other physical or financial assets and are assessed at the inception, in accordance with the guidelines issued by the Central Bank of Sri Lanka

Clear guidelines are in place to determine the suitability of collateral in credit risk mitigation based on their different characteristics and for valuation, to ensure the collaterals will continue to provide the anticipated secondary source of repayment in an eventuality. The company has a panel of appointed professional valuers in order to obtain valuation of the properties, machinery and vehicles obtained as collateral.

Periodic estimation of values of collateral ensures that they will continue to provide the expected repayment source in an event where the primary source has not materialized. The collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/ or more frequent valuations.

The company also accepts personal guarantees, guarantees from other financial institutions and credit-worthy bodies as collateral for credit facilities. The financial strength of guarantors as against their cash flows, net worth, etc. is taken into consideration to establish their capacity to repay the facilities in case of a default.



Covid-19 Impact on credit risk

The outbreak of Covid-19 Pandemic has disrupted the regular business operations and economic activities locally and across the globe. This created serious economic effects in SME and retail segments causing stress on repayment, which elevated the credit risk. Adhering to the guidelines issued by the Central bank of Sri Lanka, the company offered relief measures to individuals and business by deferring payments and waiving off certain fees.

The Company's risk management ensures and continuously monitors the portfolio delinquency levels and sector exposures are kept in a minimum level of risk whilst ensuring the return objectives of the company is achieved

45.2.1 Credit Quality by Class of Financial Assets

	2021 Neither Past Due Nor Impaired Rs.	2021 Past Due But Not Impaired Rs.	2021 Individually Impaired Rs.	2021 Collectively Impaired Rs.	2021 Total Rs.
Assets					
Cash and Cash Equivalents	130,870,989	-	-	-	130,870,989
Loans and Receivable (Gross) (Note 45.2.1.1)	539,822,681	-	-	4,750,285,607	5,290,108,288
Lease Rentals Receivables (Gross) (Note 45.2.1.1)	-	-	-	3,090,996,132	3,090,996,132
Financial Investments	374,591,188	-	-	-	374,591,188
Other Financial Assets	779,506	-	-	-	779,506
Total Financial Assets	1,046,064,364	-	-	7,841,281,739	8,887,346,103

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

45.2 Credit Risk

	2020 Neither Past Due Nor Impaired Rs.	2020 Past Due But Not Impaired Rs.	2020 Individually Impaired Rs.	2020 Collectively Impaired Rs.	2020 Total Rs.
Assets					
Cash and Cash Equivalents	73,226,394	-	-	-	73,226,394
Loans and Receivable (Gross)	492,268,426	-	-	5,031,726,130	5,523,994,556
Lease Rentals Receivables (Gross)	-	-	-	1,833,078,458	1,833,078,458
Financial Investments	444,939,031	-	-	-	444,939,031
Other Financial Assets	164,535,666	-	-	-	164,535,666
Total Financial Assets	1,174,969,517	-	-	6,864,804,588	8,039,774,105



45. RISK MANAGEMENT (CONTD.)

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

45.2.2 Analysis of Risk Concentration**45.2.2.1 Industry Analysis**

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

Sector	2021 Cash and Cash Equivalents Rs.	2021 Loans and Receivable Rs.	2021 Lease Rental Receivable Rs.	2021 Financial Investments Rs.	2021 Other Financial Assets Rs.	2021 Total Financial Assets Rs.
Agriculture & Fishing	-	1,139,850,651	1,059,840,070	-	-	2,199,690,721
Manufacturing	-	494,103,544	632,555,561	-	-	1,126,659,105
Tourism	-	28,465,587	3,362,102	-	-	31,827,689
Transport	-	14,405,210	153,133,507	-	-	167,538,718
Constructions	-	1,967,041,038	35,323,105	-	-	2,002,364,143
Trades	-	346,691,459	21,435,723	-	-	368,127,182
New Economy	-	6,369,685	9,341,320	-	-	15,711,005
Financial and Business Services	130,870,989	25,563,811	1,661,551	-	779,506	158,875,856
Infrastructure	-	45,083,426	902,685	-	-	45,986,111
Government	-	-	-	374,591,188	-	374,591,188
Other Services	-	1,247,234,309	1,166,864,367	-	-	2,414,098,676
Total	130,870,989	5,314,808,719	3,084,419,992	374,591,188	779,506	8,905,470,394

Sector	2020 Cash and Cash Equivalents Rs.	2020 Loans and Receivable Rs.	2020 Lease Rental Receivable Rs.	2020 Financial Investments Rs.	2020 Other Financial Assets Rs.	2020 Total Financial Assets Rs.
Agriculture & Fishing		354,731,368	21,213,332			375,944,700
Manufacturing		665,361,030	466,788,554			1,132,149,584
Tourism		32,716,148	2,987,497			35,703,645
Transport		21,085,695	182,516,944			203,602,639
Constructions		2,357,396,597	20,071,408			2,377,468,005
Trades		491,579,668	28,135,841			519,715,509
New Economy		23,184,189	11,008,741			34,192,930
Financial and Business Services	73,226,394	63,381,150	3,320,575		164,535,666	304,463,785
Infrastructure		53,155,077	381,429			53,536,506
Government			-	444,939,031		444,939,031
Other Services		1,531,416,588	1,049,091,303			2,580,507,891
Total	73,226,394	5,594,007,510	1,785,515,624	444,939,031	164,535,666	8,062,224,225

45.3 Liquidity Risk & Funding Management

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, the Company's management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing liquidity and funding to ensure future cash flows. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the asset and liability management committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.



ALCO meets at least once in two months and as and when necessary. ALCO is responsible for managing and controlling the overall liquidity of the company and reviews the impact of strategic decisions on Company's liquidity position.

During the Covid-19 pandemic the company implemented a comprehensive and proactive mechanism to ensure that liquid assets are well managed by the organization during periods of business disruptions and well addressed during the turbulent times. Management developed cash flows forecasts in order to monitor and absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement. I.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure. ALCO closely overlooks the changes and development related to the pandemic both locally and globally and incorporated them when making management decisions.

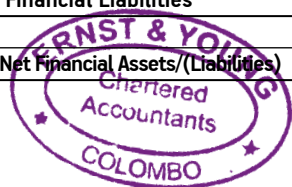
Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

45.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

As at 31 March 2021	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	130,870,989	-	-	-	-	130,870,989
Loans and Receivables	552,261,393	1,237,591,845	1,509,830,199	2,707,493,996	-	6,007,177,434
Lease Rentals Receivable	123,172,283	579,904,815	1,155,513,651	2,362,771,220	125,405	4,221,487,374
Financial Investments	-	298,608,188	75,983,000	-	-	374,591,188
Other Financial Assets	-	276,735	502,771	-	-	779,506
Total Financial Assets	806,304,665	2,116,381,583	2,741,829,621	5,070,265,216	125,405	10,734,906,490
Financial Liabilities						
Due to Banks and Other Institutions	248,436,128	223,244,504	546,472,128	704,011,325	7,460,025	1,729,624,109
Due to Customers	1,144,722,764	1,030,224,505	1,559,607,634	735,317,919	82,072,361	4,551,945,183
Total Financial Liabilities	1,393,158,891	1,253,469,008	2,106,079,763	1,439,329,244	89,532,386	6,281,569,293
Total Net Financial Assets/(Liabilities)	(586,854,226)	862,912,575	635,749,859	3,630,935,972	(89,406,981)	4,453,337,198

As at 31 March 2020	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	73,226,394	-	-	-	-	73,226,394
Loans and Receivables	478,898,287	704,914,996	1,305,518,480	2,739,373,184	-	5,228,704,947
Lease Rentals Receivable	50,653,069	137,948,513	357,836,062	1,156,409,852	-	1,702,847,496
Financial Investments	-	366,058,986	78,880,044	-	-	444,939,030
Other Financial Assets	-	163,796,793	738,873	-	-	164,535,666
Total Financial Assets	602,777,750	1,372,719,288	1,742,973,459	3,895,783,036	-	7,614,253,533
Financial Liabilities						
Due to Banks and Other Institutions	220,759,208	325,901,647	346,917,615	695,495,194	5,961,950	1,595,035,614
Due to Customers	1,264,246,886	1,359,994,966	1,149,944,561	1,233,226,646	94,562,895	5,101,975,954
Total Financial Liabilities	1,485,006,094	1,685,896,613	1,496,862,176	1,928,721,840	100,524,845	6,697,011,568
Total Net Financial Assets/(Liabilities)	(882,228,343)	(313,177,324)	248,111,283	1,967,061,196	(100,524,845)	919,241,967



45. RISK MANAGEMENT (CONTD.)

45.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2021.

45.3.2.1 Operational Risk

Overview

The operation risk management is the responsibility of all the staff in the company. The accountability of managing operation risk lies with the management committee members. They are responsible for maintaining an over sight over operational risk, and internal controls and covering all businesses and operations pertaining to the Company.

After reviewing the audit reports the Integrated Risk Management Committee has identified certain common KRI that is affecting the branch operations. These risks that have been identified are critically reviewed regularly with the help of Internal Audit Department.

The Company has introduced and implemented a comprehensive BCP and DR policy. The BCP and DR policy is supported by a BCP and DR plan to ensure that SDF has the capability to handle failure of system, disaster at branches and disruption of business.

Regulators are primarily interested in protecting the rights of customers. Greater attention has been given to risk appetite and mitigation both at Company and service-line levels. the fundamental data underlying record-keeping and the risk associated with their retention has been over looked by Operations and Information Technology.

45.3.2.2 Market Risk

Overview

Market risk is the potential of an adverse impact on Company's earnings or capital due to changes in interest rates. During the normal course of its business, company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the company to market risk in varying degrees.

Market Risk Management

Risk Management Framework ensures the appropriate management of the market risks within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact Company's profitability, capital or the risk profile.

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the company risk management process functions in compliance with the Investment Policy and Asset and Liability Policy . Investment Policy and Asset and Liability Policy alone with Integrated Risk Management Framework (IRMF) and Stress Testing Guidelines also define exposure limits and procedures within which such transactions are required to be undertaken. Market risk limits set out in the above policies are regularly reviewed by Asset and Liability Management Committee (ALCO) and Integrated Risk Management Committee (IRMC).

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimize overall market risk exposures within the overall risk appetite of the company. In this regard, the major functions carried out by ALCO include:

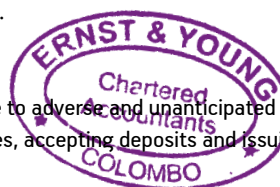
- proactive managing of liquidity risk profile of the company
- articulating interest rate review of the company
- monitoring asset and liability gaps, and rate shock results on Net Interest Income (NII) to initiate appropriate measures such as changing interest rate structure.

Functionalities of Market Risk Management

The Market Risk Management is done by Finance and Planning which is responsible for coordinating and performing Market Risk Management activities including measuring, monitoring and reporting of market risk exposures, and reviewing Company's market risk related policies and exposure limits at least annually. It also provides independent reviews on market risks associated with new investment proposals and products, thus facilitating efficient decision-making through optimizing risk-return trade off. The Company has made a strategic decision to maintain a risk appetite moderately above competitor rates since it allows the best potential for creating shareholder value at an acceptable risk level. The Company manages the volatility and potential downward risk through diversification.

45.5.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities, namely the granting of credit facilities, accepting deposits and issuing debt instruments.



Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; and basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. The Company's exposure to interest rate risk is primarily associated with factors such as:

- Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio;
- Yield curve risk arising from unanticipated shifts of the market yield curve;

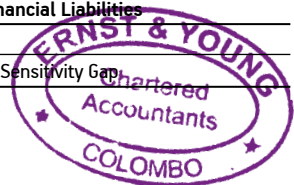
Interest rate risk is managed principally through minimizing interest rate sensitive asset/liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly. Regularly monitoring of Net interest margin took place to be vigilant and proactive towards the Covid-19 relief measures introduced by the government pertaining to interest rates.

45.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

Year ended 31 March 2021	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Assets							
Cash and Cash Equivalents	83,332,388	-	-	-	-	47,538,601	130,870,989
Loans and Receivables	1,789,853,238	1,509,830,199	2,546,039,509	161,454,487	-	-	6,007,177,434
Lease Rentals Receivable	703,077,098	1,155,513,651	1,490,598,379	872,172,841	125,405	-	4,221,487,374
Financial Investments	298,608,188	75,983,000	-	-	-	-	374,591,188
Other Financial Assets	276,735	502,771	-	-	-	-	779,506
Total Financial Assets	2,579,215,528	1,898,551,285	2,971,787,753	908,596,136	117,677	47,538,601	8,412,940,877
Financial Liabilities							
Due to Banks and Other Institutions	450,453,638	546,472,128	561,965,468	142,045,857	1,398,075	27,288,943	1,729,624,109
Due to Customers	2,025,338,148	1,559,607,634	606,377,716	128,940,204	82,072,361	149,609,120	4,551,945,183
Total Financial Liabilities	2,475,791,787	2,106,079,763	1,168,343,183	270,986,061	83,470,436	176,898,063	6,281,569,293
Interest Sensitivity Gap	103,423,741	(207,528,478)	1,803,444,569	637,610,075	(83,352,759)	(129,359,462)	2,131,371,584

Year ended 31 March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Assets							
Cash and Cash Equivalents	39,136,396	-	-	-	-	34,089,998	73,226,394
Loans and Receivables	1,183,813,283	1,307,518,480	2,213,360,650	526,012,534	-	-	5,230,704,947
Lease Rentals Receivables	188,601,581	357,836,062	831,811,154	324,598,698	-	-	1,702,847,495
Financial Investments	366,058,986	78,880,044	-	-	-	-	444,939,030
Other Financial Assets	163,796,793	738,873	-	-	-	-	164,535,666
Total Financial Assets	1,941,407,039	1,744,973,459	3,045,171,804	850,611,232	-	34,089,998	7,616,253,532
Financial Liabilities							
Due to Banks and Other Institutions	546,660,854	346,917,615	555,495,194	140,000,000	-	5,961,950	1,595,035,613
Due to Customers	2,624,241,851	1,149,944,561	1,035,344,058	197,882,588	94,562,895	-	5,101,975,953
Total Financial Liabilities	3,170,902,705	1,496,862,176	1,590,839,252	337,882,588	94,562,895	5,961,950	6,697,011,566
Interest Sensitivity Gap	(1,229,495,666)	248,111,283	1,454,332,552	512,728,644	(94,562,895)	28,128,048	919,241,966



ANNEXURE G – DETAILS OF SHARE ALLOTMENTS MADE TO SHAREHOLDERS (OTHER THAN SARVODAYA SOCIETIES) UNDER THE PROSPECTUS DATED AUGUST 24, 2020

Sarvodaya Development Finance Limited
Initial Public Offering

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Shareholder Name	Number of Shares held Prior to Share Issuance	Number of Shares Allotted	Value of Allotment @ LKR 22/-	Date of Allotment	Shareholding Post Issuance	% of Holding Post Issuance
Sarvodaya Economic Enterprises Development Services (Gte) Limited	54,000,000	-	-		54,000,000	51.855%
Gentosha Total Aets Consulaitng Inc	13,500,004	-	-		13,500,004	12.964%
Senthilverl Holding (Pvt) Ltd		6,900,000	151,800,000	27.01.2021	6,900,000	6.626%
Lanka Jathika Sarvodaya Sharamadana Sangamaya (Inc.)		4,645,000	102,190,000	25.02.2021	4,645,000	4.460%
Mr. W T D Ganegama/ N H Ariyaratne		365,000	8,030,000	25.02.2021	365,000	0.350%
Mr C W Perera		230,000	5,060,000	25.02.2021	230,000	0.221%
Mrs G R De Silva		230,000	5,060,000	25.02.2021	230,000	0.221%
Dr. V S Ariyaratne	1	40,000	880,000	02.10.2020	40,001	0.038%
		157,000	3,454,000	09.02.2021	157,000	0.151%
Mr. Ginige Channa Ajith De Silva		140,000	3,080,000	28.08.2020	140,000	0.134%
Mr. Weliwattage Shakila Perera Wijewardena	1	100,000	2,200,000	28.08.2020	100,001	0.096%
Mr. Thudugala		100,000	2,200,000	25.02.2021	100,000	0.096%
Dr. Ahangamage Tuder Ariyaratne/ Mrs. Neetha Dhammachari Ariyaratne		100,000	2,200,000	09.09.2020	100,000	0.096%
Sarvodaya Shanthisena Sansadaya		86,000	1,892,000	25.02.2021	86,000	0.083%
Mrs. Semage Senani Subodhini Wijewardena		90,000	1,980,000	28.08.2020	90,000	0.086%
Sarvodaya Suwasetha Sewa Samithiya		69,000	1,518,000	09.02.2021	69,000	0.066%
Mr. Jayanetti Koralage Don Nilantha Pushpakumara		50,000	1,100,000	25.09.2020	50,000	0.048%
Mr. Vignarajah K C		23,000	506,000	25.02.2021	23,000	0.022%
Mrs. Vignarajah S		5,000	110,000	25.02.2021	5,000	0.005%
Ikbal Aboobacker Shammer		227,000	4,994,000	25.02.2021	227,000	0.218%
Total	67,500,006	13,557,000	298,254,000		81,057,006	77.837%

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