

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March	2023 LKR	2022 LKR
<b>Income</b>	<b>2,597,491,955</b>	<b>1,930,409,278</b>
Interest Income	2,461,331,443	1,822,315,188
Interest Expenses	(1,221,614,731)	(562,116,108)
<b>Net Interest Income</b>	<b>1,239,716,712</b>	<b>1,260,199,080</b>
Net Fee and Commission Income	114,185,258	63,587,270
Other Operating Income	21,975,253	44,506,819
<b>Total Operating Income</b>	<b>1,375,877,224</b>	<b>1,368,293,170</b>
Impairment Charges for Loans and Other Losses	(63,092,109)	(192,618,588)
<b>Net Operating Income</b>	<b>1,312,785,115</b>	<b>1,175,674,582</b>
<b>Operating Expenses</b>		
Personnel Expenses	(464,026,483)	(440,417,817)
Depreciation of Property, Plant and Equipment	(29,034,587)	(33,428,444)
Amortisation of Right of Use Assets	(70,140,299)	(64,393,112)
Amortisation of Intangible Assets	(1,164,233)	(2,947,501)
Other Operating Expenses	(302,342,543)	(259,224,168)
<b>Operating Profit before Tax on Financial Services</b>	<b>446,076,970</b>	<b>375,263,540</b>
Tax on Financial Services	(145,945,075)	(106,552,907)
<b>Profit before Taxation</b>	<b>300,131,895</b>	<b>268,710,633</b>
Income Tax Expenses	(78,482,446)	(53,244,387)
<b>Profit for the Year</b>	<b>221,649,449</b>	<b>215,466,246</b>
<b>Other Comprehensive Income</b>		
Actuarial Gains/(Losses) on Defined Benefit Plans	(2,939,318)	3,420,601
Gain/(Loss) due to changes in Assumptions	(144,710)	32,703,154
Deferred Tax (Charge)/Reversal on above items	925,208	(4,334,851)
<b>Net Other Comprehensive Income/(Expenses) not to be Reclassified to Profit or Loss</b>	<b>(2,158,820)</b>	<b>31,788,904</b>
Surplus from Revaluation of Property, Plant & Equipment	-	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment	-	-
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>	<b>-</b>	<b>-</b>
<b>Other Comprehensive Income/(Expenses) for the Year, Net of Tax</b>	<b>(2,158,820)</b>	<b>31,788,904</b>
<b>Total Comprehensive Income for the Year</b>	<b>219,490,629</b>	<b>247,255,150</b>
Earning per Share- Basic / Diluted *	1.48	1.86
Dividend per Share	-	1.00

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

### SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

	As at 31.03.2023 (Audited)		As at 31.03.2022 (Audited)	
	Actual	Required	Actual	Required
<b>Regulatory Capital Adequacy</b>				
Tier 1 Capital Adequacy Ratio	32.75	8.50	28.55	7.00
Total Capital Adequacy Ratio	34.01	12.50	29.80	11.00
Capital Funds to Deposit Liabilities Ratio	53.66	10.00	67.45	10.00
<b>Quality of Loan Portfolio (%)</b>				
Gross Stage 3 Loans Ratio		18.87		17.67
Net Stage 3 Loans Ratio		17.19		15.25
Net Stage 3 Loans to Core Capital Ratio		51.96		48.68
Stage 3 Impairment Coverage ratio		10.76		16.20
Total Impairment Coverage ratio		4.12		4.91
<b>Profitability %</b>				
Net Interest Margin	11.01		12.67	
Return on Assets	1.94		2.13	
Return on Equity	6.56		7.85	
Cost to Income Ratio	73.60		66.28	
<b>Liquidity (%)</b>				
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	181.2		114.7	
Liquidity Assets to External Funds	15.9		9.0	
<b>Memorandum information</b>				
Number of Branches	51		51	
External Credit Rating	Lanka Ratings (SL) BB Stable		Fitch B+(lka);Outlook Stable	

### STATEMENT OF FINANCIAL POSITION

As at 31 March	2023 LKR	2022 LKR
<b>Assets</b>		
Cash and Cash Equivalents	664,043,703	92,132,395
Financial Investments	576,027,374	532,667,038
Other Financial Assets	874,494	814,391
Financial Assets at Amortised Cost - Loans and Receivables	5,105,311,168	5,110,595,093
Financial Assets at Amortised Cost - Lease Rentals Receivables	4,674,862,363	4,768,166,996
Other Non Financial Assets	155,939,726	162,122,503
Investment Property	234,257,500	234,257,500
Property, Plant and Equipment	147,095,459	139,267,592
Right-of-use Lease Assets	105,241,220	129,533,191
Intangible Assets	4,686,053	4,927,786
Deferred Tax Assets	1,954,498	-
<b>Total Assets</b>	<b>11,670,293,558</b>	<b>11,174,484,484</b>
<b>Liabilities</b>		
Due to Banks and Other Institutions	1,508,114,678	2,320,184,829
Financial Liability at Amortised Cost - Due to Customers	6,193,431,026	4,729,097,119
Lease Liability	119,947,887	149,951,692
Other Non Financial Liabilities	291,925,223	596,809,388
Current Tax Liabilities	71,709,569	21,170,445
Post Employment Benefit Liability	35,677,457	32,066,158
Deferred Tax Liabilities	-	20,409,737
<b>Total Liabilities</b>	<b>8,220,805,840</b>	<b>7,869,689,368</b>
<b>Shareholders' Funds</b>		
Stated Capital	2,696,113,032	2,696,113,032
Reserves	182,448,021	171,365,549
Retained Earnings	570,926,665	437,316,534
<b>Total Shareholders' Funds</b>	<b>3,449,487,718</b>	<b>3,304,795,115</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>11,670,293,558</b>	<b>11,174,484,484</b>
Commitments and Contingencies	7,433,330	4,290,100
Net Assets Value per Share	23.06	22.09

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

(Sgd.) **Kalani Dharmadasa**  
Head of Finance

(Sgd.) **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:

(Sgd.) **Channa de Silva**  
Chairman

(Sgd.) **Dammika Ganegama**  
Senior Director

29 May 2023  
Colombo



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PNS/WDPL/MSK/AD

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

#### Report on the audit of the financial statements

#### OPINION

We have audited the financial statements of Sarvodaya Development Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### BASIS FOR OPINION

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

#### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<b>Allowances for impairment charges on financial assets at amortised cost - loans and receivables and lease rentals receivables:</b>	In addressing the adequacy of the allowances for impairment charges on financial assets at amortised cost - loans and receivables and lease rentals receivables, our audit procedures included the following key procedures:
As at 31 March 2023, allowances for impairment charges on financial assets at amortised cost - loans and receivables and lease rentals receivables net of allowances for impairment amounted to LKR 9,780 Mn and is disclosed in notes 20 & 21 to the financial statements.	<ul style="list-style-type: none"> <li>We assessed the alignment of the Company's impairment allowance computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.</li> <li>We evaluated the Internal controls over estimation of allowances for impairment charges, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management.</li> <li>We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company.</li> <li>In addition to the above, following procedures were performed</li> </ul>
This was a key audit matter due to the materiality of the reported allowances for impairment charges which involved complex calculations; degree of significant judgements and assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.	<b>For financial assets at amortised cost - loans and receivables and lease rentals receivables assessed on a collective basis for impairment:</b>
Key areas of significant judgments, estimates and assumptions used by management in the assessment of the allowances for impairment charges included the following:	<ul style="list-style-type: none"> <li>We tested key inputs as disclosed in Note 22, and the calculations used in the impairment allowances.</li> <li>We assessed whether judgements used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable. Our assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each scenario.</li> </ul>
Management overlays to incorporate the current economic contraction	We assessed the adequacy of the related financial statement disclosures set out in notes 20 & 21 of the financial statements
The Incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios.	Our audit procedures included the following:
Key areas of significant judgments, estimates and assumptions used by management in the assessment of the allowances for impairment charges included the following:	<ul style="list-style-type: none"> <li>We obtained an understanding of the Internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures.</li> <li>We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT system and relevant controls, including those related to user access and change management.</li> <li>We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks.</li> <li>We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.</li> </ul>
Accordingly, IT system and related internal controls over financial reporting were considered a key audit matter.	

#### OTHER INFORMATION INCLUDED IN THE 2023 ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

#### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### 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.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2965.

(Sgd.)

29 May 2023  
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA 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 FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajewani FCA, N M Sultaman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Pararavilane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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