

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

Audited Financial Statements for the Year Ended 31st March 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 st March	2023 Rs. '000	2022 Rs. '000
Revenue	21,561,194	17,572,154
Interest income	20,133,427	15,194,413
Interest expense	12,577,015	6,156,858
Net interest income	7,556,412	9,037,555
Fee and commission income	242,015	311,128
Other operating income	1,185,752	2,066,613
Total operating income	8,984,179	11,415,296
Less: Impairment charges and other credit losses on financial assets	811,118	1,195,145
Net operating income	8,173,061	10,220,151
Less: Operating expenses		
Personnel expenses	1,806,530	1,772,596
Premises, equipment and establishment expenses	2,733,087	2,103,505
Other expenses	533,906	536,362
Total operating expenses	5,073,523	4,412,463
Operating profit before taxes on financial services	3,099,538	5,807,688
Less: Taxes on financial services	605,319	539,744
Profit before tax	2,494,219	5,267,944
Less: Income tax expense	867,336	1,655,864
Profit for the year	1,626,883	3,612,080
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Fair value changes in hedge reserve	248,464	(145,759)
Items that will not be reclassified to profit or loss		
Increase in revaluation surplus	-	284,076
Less: Deferred tax on revaluation	-	(68,178)
Change in deferred tax on revaluation due to rate change	(64,153)	-
Financial investments at FVOCI - net change in fair value	(264,618)	75,240
Less: Deferred tax on Financial investments at FVOCI	73,418	-
Net actuarial gain/(loss) on defined benefit plan	(100,835)	319,405
Total other comprehensive income	(107,724)	464,784
Total comprehensive income for the year	1,519,159	4,076,864
Earnings per share		
Basic earnings per share (Rs.)	23.29	51.75
Diluted earnings per share (Rs.)	22.73	51.14

Figures in brackets indicate deductions.

I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011.

Damith Tennakoon
Deputy CEO/Director/CFD

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements. Approved and signed for and on behalf of the Board.

J R Alastair Corera
Chairman
28th June 2023 Colombo

C M Nanayakkara
Managing Director/CEO



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STATEMENT OF FINANCIAL POSITION

As at 31 st March	2023 Rs. '000	2022 Rs. '000
Assets		
Cash and cash equivalents	3,267,193	2,023,974
Financial assets measured at fair value through profit or loss (FVTPL)	37,041	148,685
Derivative financial assets	925,656	1,121,320
Loans and receivables to banks	1,166,430	240,435
Deposits with financial institutions	7,218,324	8,292,576
Loans and receivables to customers	76,476,889	78,725,310
Other investment securities	7,519,968	6,576,030
Investment property	535,000	-
Property, plant and equipment	3,382,065	3,351,990
Intangible assets	265,691	136,078
Goodwill on amalgamation	45,225	156,489
Retirement benefit assets	331,313	407,807
Right-of-Use Assets	782,533	768,480
Other assets	3,212,383	3,470,809
Total assets	105,165,711	105,419,983
Liabilities		
Deposits from customers	62,875,226	52,216,802
Debt securities issued and subordinated debt	3,850,182	5,726,897
Other interest-bearing borrowings	16,610,517	24,964,628
Lease liabilities	832,102	802,503
Current tax liabilities	1,053,990	1,400,532
Deferred tax liabilities	403,901	630,110
Other liabilities	1,349,572	2,030,436
Total liabilities	86,975,490	87,771,908
Equity		
Stated capital	2,361,947	2,361,947
Reserves	4,531,003	2,829,785
Retained earnings	11,297,271	12,456,343
Total equity	18,190,221	17,648,075
Total liabilities and equity	105,165,711	105,419,983
Net assets value per share (Rs.)	260.40	252.63
Contingencies and commitments	4,550,869	4,547,705

INDEPENDENT AUDITOR'S REPORT to the Shareholders of Citizens Development Business Finance PLC Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Citizens Development Business Finance PLC (the "Company"), which comprise the statement of financial position as at 31st March 2023, 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 31st March 2023, and of its 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.

Key Audit Matters

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

Risk Description	Our Response
Allowance for impairment of loans and receivables to customers	
Refer to the "Note 2.12" (Use of Judgements and Estimates), "Note 12" (Impairment of loans and receivables to customers) and "Note 24" (Loans and receivables to customers) to the Financial Statements	
As at 31 March 2023, 73% of its total assets of the Company consisted of loan and receivables to customers totaling to Rs. 76.47 Bn, net of impairment allowance of Rs. 4.93 Bn. Impairment of loans and receivables to customers is a subjective area due to the level of judgement applied by management in determining impairment allowances.	Our audit procedures included: Obtaining and understanding of an assessing the design, implementation and operating effectiveness of key internal controls over the approval of new lending facilities against the Company lending policies, recording, monitoring of counter party credit quality and restructuring of loans and receivables to customers, the process of the measurement of impairment allowances for loans and receivables to customers;
From the Company's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment allowances for loans and receivables to customers were those where impairments were derived from internally developed statistical models, where the loans and receivables to customers were unsecured or where the loans and receivables to customers were subject to potential collateral shortfalls.	Challenging the validity of the models used and assumptions adopted in Company calculation of the impairment allowances by critically assessing: • Input parameters involving management judgment; • The overdue statistical data for the loan and receivable portfolios; and • Historical loss parameters used.
The determination of the allowance for expected credit losses is heavily dependent on the external macro environment and reliant on data and a number of estimates related to statistical models. The Company's expected credit losses for loans and receivables to customers are derived from the statistical models which are based on internally computed data comprising qualitative and quantitative factors including past due information and also incorporating forward looking information.	Considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgment applied in the use of economic factors and forward looking information and assessing key internal controls over the input of underlying data into the models;
The prevailing uncertain and volatile macroeconomic environment in the country meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Company in calculating the ECL, and the associated audit risk.	Assessing the economic factors used in the models to market information to assess whether they were aligned with market and economic development;
The disclosures regarding the Company's application of SLFRS 9 and SLFRS 7 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.	Assessing the ongoing effectiveness of the significant increase in credit risk criteria and independently calculated the loans' stage;
We identified assessing impairment of loans and receivables to customers as a key audit matter because there is a high degree of complexity and judgement involved for the Company in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions	Working with KPMG specialists, we assessed the reasonability of the adjustments made by the Company to the forward-looking macroeconomic factors and assumptions used in the ECL model;
	Assessing the completeness and reasonableness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Company's assessment.
	Evaluating the appropriateness of the accounting policies based on the requirements of the accounting standards, our business understanding and industry practice;
	Assessing the appropriateness of the Company's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.

IT systems and controls over financial reporting	
Risk Description	Our Response
Automated accounting procedures and IT environment controls, which include IT governance, controls over programme changes, access to programmes and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting. Key areas of importance are system calculations, logic regarding significant accounts, including interest calculations, interfaces between business management systems and accounting systems.	Our audit procedures included: We worked with KPMG IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included: • Assessing the design, implementation and operating effectiveness of key internal controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, particularly financial reporting; • Examining the framework of governance over the Company's IT organisation and the controls over changes, access to programmes and data and IT operations, including compensating controls where required; • Evaluating the design, implementation and operating effectiveness of the significant accounts-related IT process controls by assessing the operating effectiveness of IT Application Controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Company's compliance activities; • Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights; • Testing preventative controls designed to enforce segregation of duties between users within particular systems;
We identified IT systems and controls over financial reporting as a key audit matter because the Company's financial accounting and reporting systems are fundamentally reliant on IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.	

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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 identified above when it becomes available 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. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate that fact.

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 judgement and maintain professional scepticism 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.

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 3272 (FCA).

KPMG

CHARTERED ACCOUNTANTS Colombo,
Sri Lanka, 28th June 2023

Selected Performance Indicators as per regulatory requirements	Company	
	As at 31-03-2023	As at 31-03-2022
Indicator		
Asset Quality (Rs. '000)*		
Gross Non-Performing Accommodations	8,755,534	6,103,002
Gross Non-Performing Accommodations Ratio	10.99%	7.48%
Net Non-Performing Accommodations Ratio	5.12%	1.78%
Net Non-Performing Loans to Core Capital Ratio	26.49%	9.72%
Provision Coverage Ratio	56.30%	77.55%
Liquidity (Rs. '000)		
Required Minimum Amount of Liquid Assets	7,381,141	6,426,391
Available Amount of Liquid Assets	11,705,814	8,874,907
Required Minimum Amount of Government Securities	4,317,212	4,049,192
Available Amount of Government Securities	6,105,510	4,977,408
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	158.59%	138.10%
Liquid Assets to External Funds**	14.05%	10.74%
Capital Adequacy		
Core Capital (Tier 1 Capital)	14,445,941	14,091,706
Total Capital Base	15,438,459	15,870,325
Core Capital to Risk Weighted Assets Ratio (Minimum 10%)	16.23%	15.16%
Total Capital to Risk Weighted Assets Ratio (Minimum 14%)	17.35%	17.07%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	24.55%	30.39%
Profitability		
Net Interest Margin	7.18%	9.05%
Return on Average Assets- After Tax (Annualised)	1.55%	3.62%
Return on Average Equity- After Tax (Annualised)	9.08%	22.79%
Cost to Income Ratio	56.47%	38.65%
Memorandum information		
Number of Employees	1,683	2,073
Number of Branches	71	70
Number of Service Centres	-	1
External Credit Rating	BBB (Ika) / RWN	(SL) BBB+

*Asset quality ratios have computed based on 120 days past due basis

** External funds includes deposits and borrowings

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Registration No.PB232PQ.

Date of incorporation: 07th September 1995.

Licensed by the Monetary Board of

the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

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