

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

Audited Financial Statements for the Year Ended 31st March 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 st March	2021 Rs. '000	2020 Rs. '000 *Restated
Revenue	16,622,791	17,362,985
Interest income	14,877,242	15,636,833
Interest expense	7,282,499	8,996,331
Net interest income	7,594,743	6,639,502
Fee and commission income	406,234	499,996
Other operating income	1,339,315	1,226,156
Total operating income	9,340,292	8,364,654
Less: Impairment charges and other credit losses on financial assets	1,421,500	1,552,731
Net operating income	7,918,792	6,811,923
Less: Operating expenses		
Personal expenses	1,402,328	1,651,422
Premises, equipment and establishment expenses	1,896,625	1,876,438
Other expenses	530,885	553,031
Total operating expenses	3,829,838	4,080,891
Operating profit before taxes on financial services	4,088,954	2,731,032
Less: Taxes on financial services	622,001	459,109
Profit before tax	3,466,953	2,271,923
Less: Income tax expense	909,999	434,873
Profit for the year	2,556,954	1,837,050
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Change in deferred tax on revaluation	32,087	-
Equity investments at FVOCI - net change in fair value	68,116	(38,915)
Net actuarial gain/(loss) on defined benefit plan	(74,806)	62,061
Total other comprehensive income	25,397	23,146
Total comprehensive income for the year	2,582,351	1,860,196
Earnings per share		
Basic/Diluted earnings per share (Rs.)	36.64	26.32

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.

Denish Dissanayake
 Director in Charge
 Director in Charge
 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. Abasiri
 J.R. Abasiri
 10 June 2021 Colombo
 C.M. Nenevickars
 Managing Director/CEO

KPMG
 (Chartered Accountants)
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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 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 31st March 2021, 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 (SLAuS). 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.

Impairment of loans and receivables to customers
 Refer to the "Note 212" (Use of Judgment and Estimates), "Note 122" (Impairment of loans and receivables to customers) and "Note 214" (Loans and receivables to customers) in the financial statements.

Risk Description
 As at 31st March 2021, 80% of its total assets of the Company consisted of loan and receivables to customers totaling to Rs. 75 Bn, net of impairment allowance of Rs. 37.4 Bn. Impairment of loans and receivables to customers is a subjective area due to the level of judgment applied by management in determining impairment allowances.

Our Response
 Our audit procedures included:
 Assessing the design, implementation and operating effectiveness of key internal controls over the oversight of statistical data for the loan and receivable portfolios; and
 Reconciling the consistency of judgment applied in the use of economic factors and forward macroeconomic indicators key internal controls over the input of underlying data into the models.

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.

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.

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 the audit conducted in accordance with SLAuS 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 SLAuS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk 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.

STATEMENT OF FINANCIAL POSITION

	As at 31 st March 2021 Rs. '000	As at 31 st March 2020 Rs. '000 *Restated	As at 01 st April 2019 Rs. '000 *Restated
Assets			
Cash and cash equivalents	2,090,500	1,391,919	1,189,251
Financial assets measured at fair value through profit or loss (FVTPL)	160,639	-	1,727,013
Derivative financial assets	198,046	-	-
Loans and receivables to banks	2,986,711	3,691,374	3,195,205
Deposits with financial institutions	3,003,275	4,387,464	6,719,704
Loans and receivables to customers	75,058,331	72,422,827	71,582,061
Other investment securities	2,669,959	2,362,194	1,319,177
Investment property	20,198	20,198	20,198
Property, plant and equipment	3,090,338	2,950,554	2,384,016
Intangible assets	116,476	92,837	97,838
Goodwill on amalgamation	244,180	244,180	244,180
Right-of-Use Assets	797,001	840,868	-
Other assets	3,915,306	4,734,292	3,499,958
Total assets	94,330,969	93,195,149	91,978,621
Liabilities			
Derivative financial liabilities	13,142	60,440	363,153
Deposits from customers	48,999,341	43,305,775	47,222,578
Debt securities issued	5,089,839	5,092,096	3,980,483
Other interest-bearing borrowings	21,719,986	27,505,136	26,473,852
Lease liabilities	810,882	804,390	-
Current tax liabilities	1,220,992	1,603,146	633,142
Deferred tax liabilities	376,460	609,271	1,338,061
Retirement benefit obligation	9,098	28,931	7,681
Other liabilities	2,039,209	2,629,694	3,091,402
Total liabilities	80,278,749	81,638,789	83,108,352
Equity			
Stated capital	2,350,363	2,350,363	1,185,062
Reserves	2,495,581	2,301,317	2,240,471
Retained earnings	9,206,276	6,904,680	5,444,736
Total equity	14,052,220	11,556,360	8,870,269
Total liabilities and equity	94,330,969	93,195,149	91,978,621
Net assets value per share (Rs.)	201.34	165.58	127.09
Contingencies and commitments	2,704,783	503,323	269,613

* Comparative information for the year ended 31st March 2020 and 01st April 2019 have been restated to reflect the effect of amalgamation.

IT systems and controls over financial reporting

Risk Description	Our Response
Automated accounting procedures and IT environment controls, which include IT governance, controls over program development and changes, access to programs 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 used KPMG IT specialists to perform audit procedures over IT systems and controls over financial reporting, which included: <ul style="list-style-type: none"> 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, including operational reporting. Examining the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Evaluating the design, implementation and operating effectiveness of the significant controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, including operational reporting. Assessing the availability and stability of key operating systems, taking into consideration the audit objectives, 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 thereon, we are required to communicate that.
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 complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.	<ul style="list-style-type: none"> Assessing the availability and stability of key operating systems, taking into consideration the audit objectives, 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 thereon, we are required to communicate that. 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;

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.

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.

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 the audit conducted in accordance with SLAuS 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 SLAuS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk 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 we consider to be 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 183 (6) 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.

CHARTERED ACCOUNTANTS
 Sri Lanka, 10th June 2021

Selected Performance Indicators as per regulatory requirements	Company	
	As at 31-03-2021	As at 31-03-2020
Asset Quality (Rs. 000)		
Gross Non-Performing Accommodations	5,412,289	5,405,326
Gross Non-Performing Accommodations Ratio	7.00%	7.54%
Net Non-Performing Accommodations Ratio	2.11%	4.24%
Net Non-Performing Loans to Core Capital Ratio	13.35%	43.43%
Provision Coverage Ratio	68.12%	38.34%
Liquidity (Rs. 000)		
Required Minimum Amount of Liquid Assets	3,201,119	3,362,939
Available Amount of Liquid Assets	7,361,866	8,674,662
Required Minimum Amount of Government Securities	2,831,945	2,700,775
Available Amount of Government Securities	3,232,224	4,140,960
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	259.96%	257.85%
Liquid Assets to External Funds*	9.71%	11.55%
Capital Adequacy		
Core Capital (Tier 1 Capital)	10,888,267	8,774,785
Total Capital Base	13,800,144	11,368,181
Core Capital to Risk Weighted Assets Ratio (Minimum 6.5%)	12.19%	10.25%
Total Capital to Risk Weighted Assets Ratio (Minimum 10.5%)	15.34%	13.39%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	28.10%	26.24%
Profitability		
Net Interest Margin	8.10%	6.91%
Return on Average Assets- After Tax	2.73%	1.89%
Return on Average Equity- After Tax	19.97%	17.99%
Cost to Income Ratio	41.00%	48.79%
Memorandum information		
External Credit Rating	BBB+	BBB+
Number of Employees	1,738	1,789
Number of Branches	70	69
Number of Service Centers	1	1
Number of Paving Centers	-	-

* External Funds include Deposits and Borrowings