Citizens Development Business Finance PLC

Audited Financial Statements for the Year Ended 31st March 2020

STATEMENT OF FINANCIAL POSITION

As at 31st March	Company 2020 Rs. '000	Company 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Assets				
Cash and cash equivalents	**1,347,303**	1,093,874	**1,391,919**	1,189,251
Financial assets measured at fair value through profit or loss (FVTPL)	**56,442**	1,687,004	**56,442**	1,727,013
Loans and receivables to banks	**3,671,353**	3,094,312	**3,691,374**	3,195,205
Deposits with financial institutions	**4,387,464**	6,719,704	**4,387,464**	6,719,704
Loans and receivables to customers	**71,218,455**	69,133,049	**72,422,827**	71,582,081
Other investment securities	**2,319,634**	1,313,861	**2,362,194**	1,319,177
Investment in subsidiaries	**509,918**	509,918	**–**	–
Investment property	**20,198**	20,198	**20,198**	20,198
Property, plant and equipment	**2,938,155**	2,369,187	**2,950,554**	2,384,016
Intangible assets	**80,146**	82,791	**92,837**	97,838
Right-of-use assets	**840,868**	–	**840,868**	–
Goodwill on consolidation	**–**	–	**244,180**	244,180
Other assets	**4,458,554**	3,408,541	**4,734,292**	3,499,958
Total assets	**91,848,490**	89,432,439	**93,195,149**	91,978,621
Liabilities				
Derivative financial liabilities	**60,440**	363,153	**60,440**	363,153
Deposits from customers	**43,327,576**	47,236,367	**43,305,775**	47,222,578
Debt securities issued	**5,092,096**	3,980,483	**5,092,096**	3,980,483
Other interest-bearing borrowings	**26,675,062**	24,509,877	**27,505,136**	26,473,852
Lease liabilities	**804,390**	–	**804,390**	–
Current tax liabilities	**1,519,031**	556,748	**1,603,146**	633,142
Deferred tax liabilities	**650,401**	1,357,419	**609,271**	1,336,061
Retirement benefit obligation	**28,931**	7,369	**28,931**	7,681
Other liabilities	**2,463,793**	2,755,620	**2,629,604**	3,091,402
Total liabilities	**80,621,720**	80,767,036	**81,638,789**	83,108,352
Equity				
Stated capital	**2,350,363**	1,185,062	**2,350,363**	1,185,062
Reserves	**2,295,877**	2,240,486	**2,301,336**	2,240,471
Retained earnings	**6,580,530**	5,239,855	**6,847,068**	5,399,141
Total equity attributable to equity holders of the Company	**11,226,770**	8,665,403	**11,498,767**	8,824,674
Non-controlling interest			**57,593**	45,595
Total equity	**11,226,770**	8,665,403	**11,556,360**	8,870,269
Total liabilities and equity	**91,848,490**	89,432,439	**93,195,149**	91,978,621
Net assets value per share (Rs.)	**160.86**	159.57	**164.76**	162.50
Contingencies and commitments	**503,323**	269,613	**503,323**	269,613

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/CFO

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.

Ranga Abeynayake
Chairman
15 July 2020, Colombo

C M Nanayakkara
Managing Director/CEO

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March	Company 2020 Rs. '000	Company 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Revenue	**16,653,775**	16,240,520	**17,362,985**	16,920,793
Interest income	**15,028,927**	14,174,517	**15,636,833**	14,681,763
Interest expense	**8,762,019**	8,949,018	**8,998,331**	9,184,258
Net interest income	**6,266,908**	5,225,499	**6,638,502**	5,497,505
Fee and commission income	**448,071**	510,937	**499,996**	681,984
Other operating income	**1,176,777**	1,555,066	**1,226,156**	1,557,046
Total operating income	**7,891,756**	7,291,502	**8,364,654**	7,736,535
Less: Impairment charges and other credit losses on financial assets	**1,409,895**	1,064,610	**1,552,731**	1,138,407
Net operating income	**6,481,861**	6,226,892	**6,811,923**	6,598,128
Less: Operating expenses				
Personnel expenses	**1,648,127**	1,354,366	**1,651,422**	1,413,444
Premises, equipment and establishment expenses	**1,823,277**	1,717,375	**1,876,438**	1,808,013
Other expenses	**520,346**	552,112	**553,031**	617,663
Total operating expenses	**3,991,750**	3,623,853	**4,080,891**	3,839,120
Operating profit before taxes on financial services	**2,490,111**	2,603,039	**2,731,032**	2,759,008
Less: Taxes on financial services	**421,335**	491,673	**459,109**	522,783
Profit before tax	**2,068,776**	2,111,366	**2,271,923**	2,236,225
Less: Income tax expense	**356,639**	401,173	**434,873**	428,111
Profit for the year	**1,712,137**	1,710,193	**1,837,050**	1,808,114
Profit attributable to:				
Equity holders of the Company	**1,712,137**	1,710,193	**1,825,033**	1,798,213
Non-controlling interest	**–**	–	**12,017**	9,901
Profit for the year	**1,712,137**	1,710,193	**1,837,050**	1,808,114
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net change in revaluation surplus:				
Increase in revaluation surplus	**–**	200,804	**–**	200,804
Less: Deferred tax on revaluation surplus	**–**	(56,225)	**–**	(56,225)
Equity investments at FVOCI - net change in fair value	**(38,726)**	–	**(38,915)**	–
Net actuarial gain/ (loss) on defined benefit plan	**62,061**	(70,242)	**62,061**	(70,108)
Total other comprehensive income	**23,335**	74,337	**23,146**	74,471
Total comprehensive income for the year	**1,735,472**	1,784,530	**1,860,196**	1,882,585
Total comprehensive income attributable to:				
Equity holders of the Company	**1,735,472**	1,784,530	**1,848,179**	1,872,671
Non-controlling interest	**–**	–	**12,017**	9,914
Total comprehensive income for the year	**1,735,472**	1,784,530	**1,860,196**	1,882,585
Earnings per share				
Basic/Diluted earnings per share (Rs.)	**24.53**	30.05*	**26.15**	31.60*

Figures in brackets indicate deductions.

* Earnings per share for the period ended 31 March 2019 has been restated considering the effect of Rights Issue and the Scrip Dividend.

Independent Auditors' Report

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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") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2020, and the statement of comprehensive income (or 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 and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

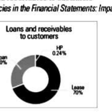
We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the 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.

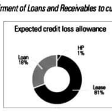
Key Audit Matters

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

1. Impairment of loans and receivables to customers

Refer to the accounting policies in the Financial Statements: Impairment of Loans and Receivables to customers, "Note 24" to the Financial Statements.





Risk Description

Impairment of loans and receivables to customers is a subjective area due to the level of judgment applied by management in determining impairment allowances.

From the Group'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.

The determination of the allowance for expected credit losses is heavily dependent on the external macro environment and statistical, internal credit risk management models. The Group'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.

We identified assessing impairment of loans and receivables to customers as a key audit matter because there is a high degree of complexity and judgment involved for the Group 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.

Our Responses

Our audit procedures included:

- 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;
- Challenging the validity of the models used and assumptions adopted in Group or 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.

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:

- Assessing the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the account to a non-performing loan;
- Re-performing credit assessments for the selected impaired loans and receivables by assessing the forecast of recoverable cash flows through inquiry, applying judgment and our own research. We evaluated the timing and means of realization of collateral and considered other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources. Where available, we made use of post reporting date information to evaluate credit quality with hindsight;
- Assessing the disclosures related to impairment of loans and receivables to customers and transition disclosures in the financial statements.

2. IT systems and controls over financial reporting

Risk Description

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 in particular areas of importance are system calculations, logic regarding significant accounts, including interest calculations, interfaces between business management systems and accounting systems and data migration from certain legacy systems to new systems.

We identified IT systems and controls over financial reporting as a key audit matter because the Group'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.

Our Responses

Our audit procedures included:

We used our own 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 Group'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 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 Group's compliance activities and assessing the consistency of data transmission and data migration;
- Assessing the availability and stability of key operating systems, taking into consideration the rapid development of businesses types and transactions volumes as well as IT projects that have a significant impact on business continuity.
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access right;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems;

3. Management assessment of material uncertainty relating to impact of COVID-19

Risk Description

The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the Directors have reviewed the Group's cash flow projections for the next 12 months, prepared by the management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, also taking into consideration the impact of COVID-19 global pandemic.

Note 2.12.1 (a) to the financial statements, described the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Group's future prospects, performance and cash flows. Further, the management considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We identified the management assessment of the COVID-19 event as a key audit matter because the cash flow projections referred to above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates. Therefore, the assessment requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential management bias.

Our Responses

Our audit procedures included:

- Assessing the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.
- Obtaining the Group's cash flow projections covering period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections.
- Evaluating the sensitivity of the projected available cash by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions.
- Inspecting the facility agreements for the Group's long-term loans to identify any financial covenants or similar terms and assessing the implication of these on the Group's liquidity.
- Assessing the adequacy of disclosures in the financial statements in relation to the going concern basis of accounting with reference to the requirements of the prevailing accounting standards.

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 auditor's 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.

In preparing the financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group'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 and the Group'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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 3707.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka, 15 July 2020

Selected Performance Indicators as per regulatory requirements

Indicator	Company As at 31-03-2020	Company As at 31-03-2019
Asset Quality (Rs. '000)		
Gross Non- Performing Accommodations	**5,405,326**	4,678,121
Gross Non- Performing Accommodations Ratio %	**7.54%**	6.68%
Net Non- Performing Accommodations Ratio %	**4.24%**	3.84%
Liquidity (Rs. '000)		
Required Minimum Amount of Liquid Assets	**3,362,939**	5,942,582
Available Amount of Liquid Assets	**8,674,662**	10,786,904
Required Minimum Amount of Government Securities	**2,700,775**	3,166,118
Available Amount of Government Securities	**4,140,960**	4,220,581
Capital Adequacy		
Core Capital (Tier 1 Capital)	**8,774,785**	6,631,751
Total Capital Base	**11,368,181**	9,067,690
Core Capital to Risk Weighted Assets Ratio (Minimum 6.5%)	**10.25%**	8.09%
Total Capital to Risk Weighted Assets Ratio (Minimum 10.5%)	**13.29%**	11.07%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	**26.24%**	19.20%
Profitability		
Net Interest Margin %	**6.91%**	6.34%
Return on Average Assets- After Tax %	**1.89%**	2.07%
Return on Average Equity- After Tax %	**17.21%**	21.62%
Memorandum Information		
Number of Employees	**1,789**	1,670
Number of Branches	**69**	59
Number of Service Centres	**1**	11
Number of Pawning Centres	**1**	1

CDB
Your Friend

No. 123, Orabipasha Mawatha, Colombo 10.
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.
Hotline: 011 7 388 388 ICRA LANKA "[SL] BBB+"