# IGNITION

Citizens Development Business Finance PLC

**Annual Report 2019/20**

CDB

Your Friend

# IGNITION

At CDB, our future-fit strategy is proving to be a boon for the Organisation and its stakeholder groups, even as uncertainty pervades multiple areas of our lives today.

Our people are ignited by the fire to do more, be more, and also give more of themselves. Our core values lend themselves well to being described within the metaphor of “an igniting flame”. We *persevere* – like an eternal flame; our *empathy* is like the shared warmth of fire; our *innovation* “fires up” the future; our *reliability* is an undying flame. It is in providing the “spark” that brings to life stakeholder undertakings that CDB sees its true calling.

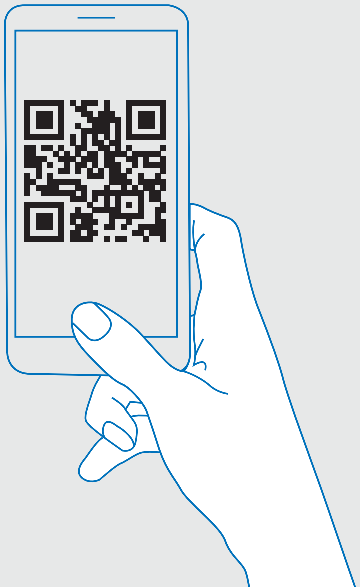
Whatever the future may bring, at CDB we remain fired up to continue creating value.

CDB
Your Friend

# Contents

The concise print version of the CDB Annual Report 2019/20 is identical to its PDF counterpart

Scan to view the online version
https://www.cdb.lk/AR2019-20/



# About our Annual Report

GRI 102-46, 102-47,102-48

This year we present our seventh integrated annual report, which has been structured to present a balanced and comprehensive assessment of our financial, social, and environmental impacts resulting from our value creating activities.

This Report aims to demonstrate the manner in which we integrate a strong ethical culture and appropriate conduct across the Company which is reflected in the way we treat our customers and partners, how we support and develop our people, and the manner in which we impact the societies and environment in which we operate.

This Report contains information about our strategy under which we manage our business, strategic corporate sustainability considerations and balance the competing needs of our stakeholders. It also includes our risk management, best governance practices and financial and non-financial performance inclusive of future prospects in the context of the surrounding economic, social, and environmental context for the year under review. We have given due consideration to sustainability reporting principles including Stakeholder Inclusiveness, Sustainability Context, Materiality and Completeness in determining the report content.

## Reporting period and boundary

GRI 102-50, 102-51, 102-52, 102-1, 102-45

The Report covers the operations of Citizens Development Business Finance PLC (CDB) identified as the "Company". The financial reports cover the operations of CDB and subsidiaries, Fortune Properties (Pvt) Limited and Unisons Capital Leasing Limited, identified as the "Company" individually and collectively as the "Group".

The Report covers the 12 month period from 1 April 2019 to 31 March 2020 which is consistent with our usual annual reporting cycle. The key financial aspects are discussed in the context of the Company as well as the Group, while non-financial aspects are discussed in the context of the Company unless stated otherwise. Our most recent report for the year ended 31 March 2019 is available on our website: http://www.cdb.lk.

## Key frameworks and compliance

GRI 102-45, 102-55, 102-54

This Report has been prepared in accordance with the Global Reporting Initiative's GRI Standards reporting framework "In Accordance – Core" for our sustainability priorities. In addition, the following laws, regulatory frameworks, standards, guidelines and protocols have been followed in preparation of this Report.

- The International Integrated Reporting Council (IIRC) Framework (www.theiirc.org)
- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- "A Preparer's Guide to Integrated Corporate Reporting", published by The Institute of Chartered Accountants of Sri Lanka (ICASL)
- Sustainable Development Goals (SDGs) – The UN initiative with 17 aspirational "Global Goals"
- Smart Media Methodology™ for Integrated Reporting

## Materiality

This Report focuses on those aspects that materially affect our ability to create value in the short, medium and long term. An aspect is considered material if it affects our ability to remain commercially viable and socially relevant. The materiality assessment process is discussed under the Materiality section on page 21.

## Precautionary principle GRI 102-11

We have applied the precautionary principle in relation to our social and environmental sustainability. As a responsible corporate citizen, we have taken necessary measures to mitigate the risks caused to society and environment through our actions.

## Navigating icons

### Stakeholders

Customers
Employees
Business partners
Community
Environment
Regulators
Investors

### Capitals

Financial capital
Institutional capital
Customer capital
Employee capital
Social capital
Natural capital
Business partner capital
Investor capital

## Improvements in reporting

The presentation and the content of the report has been improved this year, by demonstrating the connectivity between the sections by using navigating icons, presenting the linkages and trade-offs between the capitals and assessing the increase and decrease in value of capitals.

To enable an effective control environment and support the integrity of information used in decision-making and reporting we incorporate combined assurance whilst optimising all assurance services and risk functions. We have used interviews with Senior Management, internal sources of information and relevant external research reports to prepare this Report. An internal combined assurance review of the internal controls applied to the information gathering process was performed, together with reviews by Management and our compliance and internal audit functions, to ensure the accuracy of our reporting

## External assurance GRI 102-56

The Financial Statements and Non-Financial Information Sections included in this report have been audited by Messrs KPMG who have expressed an opinion on the true and fair view of the annual Financial Statements as shown on pages 206 to 317, reasonable assurance on the financial highlights on page 4 and limited assurance on the other highlights on page 5. The Independent Auditor's opinion on the Financial Statements is available in the Independent Auditor's Report on page 202 to 203 and the sustainability assurance report on pages 324 to 325.

## Queries GRI 102 -3, 102-53

We welcome your comments and suggestions on our Report.
Please direct your feedback to:

**Aroshi Ranatunga**
Head of Sustainability,
Citizens Development Business Finance PLC,
No. 123, Orabipasha Mawatha,
Colombo 10.

aroshi.ranatunga@cdb.lk

# Highlights

| Key performance indicators (Company) | 2019/20 | 2018/19 | % |
|---|---|---|---|
| **Financial performance (Rs. Mn.)** | | | |
| Gross revenue | 16,654 | 16,241 | 3 |
| Net interest income | 6,267 | 5,225 | 20 |
| Net operating income | 6,482 | 6,227 | 4 |
| Profit before tax | 2,069 | 2,111 | (2) |
| Profit after tax | 1,712 | 1,710 | 0.11 |
| **Position as at the year end (Rs. Mn.)** | | | |
| Loans and receivables from customers | 71,218 | 69,133 | 3 |
| Total assets | 91,848 | 89,432 | 3 |
| Total equity | 11,227 | 8,665 | 30 |
| Deposits from customers | 43,328 | 47,236 | (8) |
| **Financial ratios (%)** | | | |
| **Profitability perspective (%)** | | | |
| Operating profit margin | 14.95 | 16.03 | |
| Net interest margin | 6.91 | 6.34 | |
| Cost to income ratio (Excluding VAT on FS) | 50.58 | 49.70 | |
| Return on average assets (ROA) – after tax | 1.89 | 2.07 | |
| **Investor perspective** | | | |
| Earnings per share (Rs.) | 24.53 | 30.05* | |
| Earnings yield (%) | 34.02 | 38.98 | |
| Return on equity (ROE) (%) – after tax | 17.21 | 21.62 | |
| Dividend per share | – | 5.00 | |
| Dividend yield (%) | – | 6.49 | |
| Dividend cover (Times) | – | 6 | |
| Dividend payout (%) | – | 15.88 | |
| Net assets value per share (Rs.) | 160.86 | 159.57 | |
| Market value per share – closing – voting (Rs.) | 72.10 | 77.10 | |
| Market value per share – closing – non-voting (Rs.) | 44.80 | 61.10 | |
| Market capitalisation (Rs. Mn.) | 4,750 | 4,059 | |
| Price to earnings (Times) | 2.94 | 2.57 | |
| **Statutory ratios (%)** | | | |
| Capital adequacy | | | |
| Tier I (minimum requirement – 6.5%) | 10.25 | 8.09 | |
| Tier I and II (minimum requirement – 10.5%) | 13.29 | 11.07 | |
| Statutory liquidity ratio | 15.28 | 18.46 | |
| **Non-performing advances ratio (%)** | | | |
| Gross NPL (Net of IIS) | 7.54 | 6.68 | |
| Net NPL (Net of IIS and provisions) | 4.24 | 3.84 | |

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

Revenue

**Rs. 16,654 Mn.**

Profit after tax

**Rs. 1.7 Bn.**

Total assets

**Rs. 91.8 Bn.**

Loan book

**Rs. 71.2 Bn.**

Net assets value per share

**Rs. 160.86**

## Social and Environmental

**Rs. 29 Mn.+**
impact investment for social and environmental sustainability initiatives

**27%**
of the total lending portfolio is attributable to women

**Rs. 17.8 Bn.**
Net lending outside the Western Province

**Rs. 7.6 Mn.**
investment on Act Early for Autism project, carried out in partnership with SLACD

**609**
school children benefited from *"CDB Sisu Diri"* Scholarship programme

Top Finalist at Asia sustainability Reporting Awards 2019 for

- **Asia's best Carbon Disclosure**
- **Asia's best Community Reporting**
- **Asia's best Stakeholder Reporting**

**24%**
represents lending for hybrid and electric vehicles out of total lending portfolio

Committed to Biodiversity and Environment conservation through **"Life"** and **"*Thuruliya Wenuwen Api*"** projects

**Achieved net zero carbon emission stature through investing in 2,760 United Nations Certified Emission Reductions (CERs) in a clean energy project**

**ISO 14064-1 carbon verified** entity for the 5th consecutive year

## Employees

Total investment of
**Rs. 1.6 Bn.**
for employees

**CDB Green Ninja Quiz Competition** with more than 60% participation from outlets

Providing progressive learning opportunities for staff members through **"Citizens virtual university"** E-learning platform

**Best Employer Brand of the year 2019** by World HRD Congress

## Relationships

Among the **"Ten Best Corporate Citizens"** in Sri Lanka by Ceylon Chamber of Commerce

CDB ranked among the **"Business Today Top 30"** corporates in Sri Lanka

CDB among **50 most valuable Sri Lankan Brands** by Brand Finance Sri Lanka

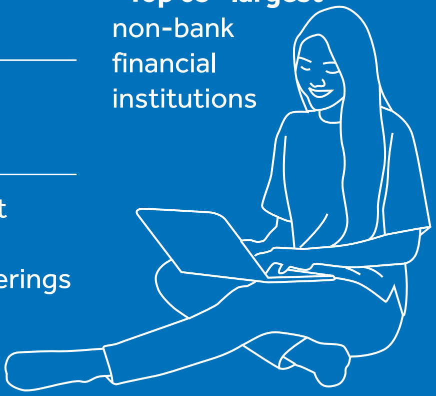
**71**
physical service points

24x7 customer contact centre with a range of innovative product offerings

Extending **patpat.lk** with the new vertical for property

Conferred an honourable mention as **one of the most admired companies** in Sri Lanka

Ranked among the **"Top 05" largest** non-bank financial institutions



# Key milestones in our journey

**1995**

Incorporation

**2001**

Strategic refocus with a new management team

**2004**

Achieved a turnaround in the bottom line with a profit after tax of Rs. 10 Mn.

**2007**

Initiated two flagship CSR projects:

CDB *Sisu Diri* Scholarship scheme for school children of threewheel owners

CDB Pariganaka Piyasa by setting up a fully-fledged IT lab in deserving schools

**2009/10**

Became a public deposit-taking institution

**2010/11**

Listed on the Colombo Stock Exchange

**2011/12**

Winner of the National Business Excellence Award in the Specialised Banking and Financial Services Sector

**2012/13**

CDB was the first Non-Bank Financial Institution (NBFI) to initiate core banking platforms

Honoured with the Prestigious Award for Branding and Marketing Excellence at the Fourth CMO Asia Awards hosted by the World Brand Congress held in Singapore

Installed the first ATM at the Head Office

The first NBFI to sign up for the Sri Lanka Interbank Payment System (SLIPS) through Commercial Bank of Ceylon PLC

Launched CDB Visa debit card in February 2013 and became the first NBFI to obtain approval from VISA international to operate VISA debit cards

First international recognition for the Annual Report by League of American Communication Professionals (LACP), USA

**2013/14**

In a breakthrough transaction, CDB secured its first foreign line of credit, worth USD 6 Mn. from the Multilateral Agency of Belgian Investment Company for Developing Countries (BIO)

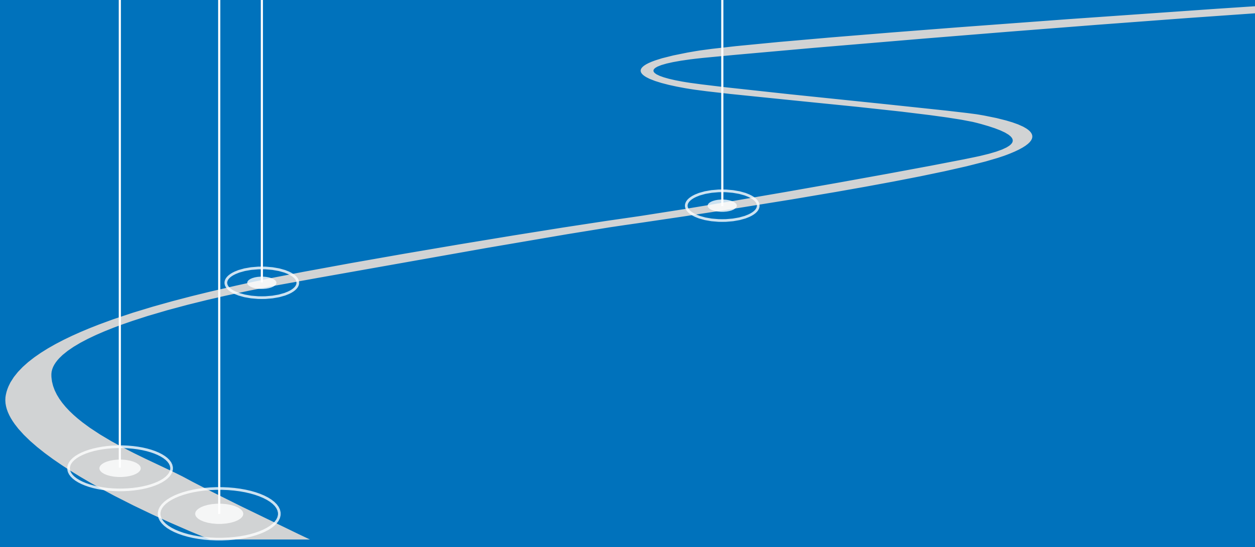
Received the Platinum Award for CDB Annual Report 2013/14 at the League of American Communications Professionals (LACP) 2013. Vision Awards and was ranked 42 among the Top 100 Annual Reports worldwide, 17 among Top 80 in the Asia Pacific Region and was recognised as the "Best In-House" Annual Report in the Asia Pacific region

**2014/15**

Bronze Award for Service Brand of the Year at SLIM Brand Excellence Awards 2014

Silver Award for overall excellence in Intergrated Reporting at the CA Sri Lanka Annual Report Awards 2014

Silver Award for People Development at the SLITAD People Development Awards 2014



## 2015/16

Clinched the Best Corporate Citizen Sustainability Award (turnover less than Rs. 15 Bn. category) and was recognised among the Top 10 best Corporate Citizens by the Ceylon Chamber of Commerce of Sri Lanka

CDB Annual Report 2014/15: The Name of the Game" was recognised as the best Non-Traditional Annual Report globally and the best in Sri Lanka at the ARC Awards 2015

Bacame the first ISO 14064-1 Carbon verified financial institution in South Asia by Sri Lanka Carbon Fund (Pvt) Limited

Clinched the Gold Award at the HRM Awards Secured the Silver Award in National Business Excellence Awards

Company profit after tax reached Rs. 1 Bn. total asset base reached Rs. 50 Bn. and total equity amounted to Rs. 5 Bn.

Operational footprint increased to 62 outlets

## 2016/17

First Runner-up in the Best corporate Citizen Sustainability Award 2016 (turnover less than Rs. 15 Bn. Category)

Winner of the Best Corporate Citizen Sustainability Award 2016 for best project on "GHG Emission Analysis"

The sector Gold Award and overall Merit Awards for Excellence in Corporate Governance at the National Business Excellence Awards 2016

Silver Awards for CSR and Service Branch of the Year at SLIM Brand Excellence Awards 2016

Top Finalist at the Asia Sustainability Reporting Awards (ASRA) 2016 by CSR Works, Singapore

Runner-Up at the ACCA Sustainability Reporting Awards 2016 (Financial Services and Insurance Sector)

## 2017/18

First Runner-up in the Best Corporate Citizen Sustainability Award 2017 (turnover less than Rs. 15 Bn. Category)

Winner of the Best Corporate Citizen Sustainability Award 2017 for the Best Project on CDB "Green Ninja Quiz Master 2017"

The sector Gold Award and overall Merit Award for Excellence in Performance Management at the National Business Excellence Awards 2017

Gold Award for People Development at the SLITAD People Development Awards 2017

Joint winner of the Finance Services and Insurance Category at the ACCA Sri Lanka Sustainability Reporting Awards 2017

Honoured with a special award for CDB Act Early for Autism Project at JASTECA CSR Awards

Joint Second Runner-Up (Financial Service Sector) at Best Presented Annual Report Awards and SAARC Anniversary for Corporate Governance Disclosures, 2016

## 2018/19

First ever online auction through patpat.lk and launch of patpat verticals of education and leisure

First in Sri Lanka to enable fund transfers through social media channels (CDB iTransfer)

First in Sri Lanka to launch credit card self care CDB iControl App

Online fixed deposit placement through the introduction of CDB iDeposit

CDB raised USD 60 Mn. through foreign funding for SMEs

Issue of CDB debenture valued at Rs. 928 Mn.

Migration of CDB Contact Centre from a traditional call centre to a 24/7 omnichannel with a trilingual contact centre solution

Launched patpat.lk mobile application

## 2019/20

Recognised as one of Sri Lanka's best-performing companies, ranked among the **"Business Today Top 30"** corporates in Sri Lanka

Conferred an Honourable Mention as one of the **Most Admired Companies in Sri Lanka** in 2019 by the International Chamber of Commerce Sri Lanka (ICCSL) in collaboration with the Chartered Institute of Management Accountants (CIMA) Sri Lanka and the Daily FT

Launch of **patpat.lk vertical** for property

Recognised among **ten Best Corporate Citizens in Sri Lanka** at the Best Corporate Citizens Sustainability Award 2019, by Ceylon Chamber of Commerce

For the 4th consecutive year, NBFI sector Gold Award winner at the **National Business Excellence Awards 2019** by the National Chamber of Commerce Sri Lanka

**"Best Employer Brand of the year 2019"** and award for **"Talent Management at Sri Lanka Best Employer Brand Awards 2019"** by the World HRD Congress

Secured the impressive "**Best Social Media Initiative of the Year, Sri Lanka**" award at the recently concluded Asian Banking and Finance Awards 2019

# 01 – OUR BUSINESS STRATEGY

**Historic moments of ignition:** Identifying that lightning was electrical

**Our strategy is the spark that ignites our value creation story, as we strive to deliver value just as we derive value from our stakeholders.**

At CDB, our foresight, flexibility and meticulous strategic planning and execution process have enabled us to navigate the increasingly complex operating context successfully over the years. As a result, we are equipped to successfully operate in the aftermath of the COVID-19 pandemic, safeguarding people's health and safety, guaranteeing business continuity, and honouring our commitments to stakeholders.

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# Letter from the Chairman

Since our inception, financial stability has remained our top priority and we have charted a path where innovation has become the life blood of the Organisation and disruption a characteristic of our persona.

GRI 102-14

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Annual Report and audited accounts of CDB for the financial year ended 31 March 2020.

## Resilience amid challenges

Despite a myriad challenges, the financial year 2019/20 marks another year of profitable operations, amply demonstrating the resilience of the Company. Your Company made tremendous progress in advancing its digital transformation strategy whilst delivering value to all its stakeholders. Against a backdrop of geopolitical uncertainties, the outbreak of the COVID-19 pandemic and an increasingly complex and demanding regulatory environment, we continued to grow and transform ourselves, inspired by our purpose of empowering aspirations of our stakeholders. We also took important steps to increase our engagement and leadership role in the area of sustainability.

The outbreak of the COVID-19 pandemic in the 4th quarter of the financial year created far-reaching, longer-term effects that have fundamentally reshaped many aspects of the macro economy, business life and customer behaviour. Our foresight, flexibility and proactive decision making have enabled us to keep our people, customers and communities, healthy and safe while ensuring continuity of our business operations. COVID-19 was a powerful catalyst that accelerated the migration to digital processes and services, by both consumers and businesses, as social distancing created a surge in demand for online commerce, contactless payments and digital cash transfers.

Even the most challenging moments present opportunities for those with determination and I am happy to state that we have been quick to capture such opportunities, assisted by our strong financial acumen, investments in digital infrastructure, extensive network and financial strength. We are also acquiring new capabilities to strengthen the key pillars of our organisation - technology, security, brand equity and talent.

Our people are the driving force behind CDB's success. Despite 2019 being a challenging year, the professionalism, expertise and dedication of our people enabled victory even in the most testing circumstances. I am very grateful to them for their hard work and their commitment to our customers, and the organisation.

## A challenging operating context

Macroeconomic forces are dramatically transforming our business fundamentals – how we serve our customers, how we work and how we interact with communities and the environment. The scale and complexity of these trends present both opportunities and challenges for sustainable business growth.

The Sri Lankan economy faced significant challenges in 2019 due to global and domestic developments. The spill-over effects of the Easter Sunday attacks, combined with the then prevailing political uncertainties, hindered economic activities and dampened business confidence. The Central Bank adopted an accommodative monetary policy to revive the economy amidst the prolonged economic slowdown, muted inflation, rapidly decelerating private sector credit growth, and the trend of easing monetary policy globally. The performance of the NBFI sector deteriorated during the year, with negative credit growth, declining profitability and increased NPLs.

## Our performance

Against the backdrop of a challenging operating environment, we recorded a robust performance posting a Group profit after tax (PAT) of Rs. 1.84 Bn., up 1.60% from last year. The net interest income swelled by 20.75% year on year, while the Group's asset base grew to Rs. 93.20 Bn., while the net assets value per share increased to Rs. 164.76, delivering value to our shareholders. However, the gross NPL increased to 7.57% reflecting the challenging operating context that prevailed during the year.

## A winning strategy

Since our inception, financial stability has remained our top priority, while we have also made innovation the life blood of the organisation, with disruption becoming a characteristic of our persona.

Transforming the channels of service delivery to meet customer needs is at the core of our growth strategy and is critical to our success. We have accelerated our digital transformation drive and our ICT strategy has facilitated innovate, pioneering, award-winning initiatives that are icons in the financial services sector, delivering an enhanced stakeholder value proposition. It has also transformed our business model to be future-ready and prepared us to operate in a crisis situation. The effectiveness of our strategy was witnessed during the COVID-19 crisis, when customers converted to novel ways of transacting through our IT platforms. Digitalisation has enhanced operational efficiency, facilitated cost efficiencies and enabled efficient regulatory compliance. Our revolutionary ICT initiatives such as CDBiNet and CDBiControl have put us ahead of our peers. I believe all relationships have an emotional component which connect people with the brand. Hence, even in a digital business model, it is imperative to infuse virtual experiences with the human touch.

## Delivering value to our stakeholders

We have long been recognised for our commitment towards corporate sustainability in our social, environmental and economic interactions and we remain committed to create long-term value for all stakeholders. As part of the Company's sustainability commitment, we have pledged support to the United Nations Sustainable Development Goals (UN SDGs). Our contributions to these goals are outlined in the our business impact section from pages 43 to 126.

Within CDB's "Your Friend" customer proposition, we have continued to enhance customer experiences at both digital and physical touch points. In addition, innovative solutions and new value added benefits have been introduced to augment our customer services requirements.

We make a positive impact on our industry and communities, engaging in programmes that support entrepreneurship and innovation, improving access to education for underprivileged children and enhancing health and wellbeing of communities. As a net lender to the rural economy, we enrich rural entrepreneurship and uplift rural financial strength, and thereby address inequalities, social exclusion and marginalisation of various groups.

Making steady progress in our environmental obligations we focused on reducing emissions, consuming responsibly, creating environmental awareness and preserving wildlife and habitats. A highlight for the year was the pledge to reduce single-use plastics across our network. For the fifth consecutive year, we remained a carbon-verified entity and have also invested in United Nations Certified Emission Reductions (CERs), which paves the way for us to sign the United Nations Framework Convention on Climate Change (UNFCCC) Climate Neutral Now Pledge.

As a core component of our sustainable business model, we continue to support the safety, health and wellbeing, and professional development of our people.

Further, as a responsible corporate citizen, we contributed Rs. 967 Mn. in the form of taxes and levies to the Government Treasury during the year under review.

## Enhanced governance

Strong corporate governance is the basis of our corporate success, growth and stability, while acting as the guidelines for Board members to fulfil their stewardship obligations. Our commitment to good governance extends beyond regulatory limitations towards the adoption of best practices and the Board is committed to safeguard the trust placed in CDB as a leading financial institution in Sri Lanka by establishing a modern governance system to support informed decision making. We continue to be fully compliant with all regulations, especially pertaining to operations during the pandemic.

## Awards and accolades

We are honoured by many accolades we have received that are a testament to our sound governance, institutional excellence, and our commitment to provide a wide range of lifestyle solutions for our customers.

CDB was ranked among the 10 Best Corporate Citizens for the third time at the Best Corporate Citizen Sustainability Awards 2019, hosted by the Ceylon Chamber of Commerce. CDB was also included in the Business Today Top 30 Corporates in Sri Lanka and received honourable mention as one of the Most Admired Companies in Sri Lanka, by the International Chamber of Commerce of Sri Lanka, in collaboration with the Chartered Institute of Management Accountants Sri Lanka and the Daily FT. At the National Business Excellence Awards 2019 (NBEA), CDB was awarded gold award in the Non-Bank Financial Services Sector. In recognition of transparent corporate disclosures and reporting, CDB was named the runner-up in the Finance and Insurance Sector Category at the ACCA Sustainability Reporting Awards. At the Asia Sustainability Reporting Awards 2018, CDB came in as the Top Finalist for Asia's Best Community Reporting, Asia's Best Stakeholder Reporting and Asia's Best Carbon Disclosures. At the CA Awards, CDB was awarded a silver award for Best Disclosures on Stakeholder Engagement.

## The way forward

As we face another challenging year of post-COVID recovery, a key aspect of our growth strategy will be to develop our digital capabilities to improve customer satisfaction, transform our product range, strengthen internal processes and expand customer touch points. We will drive business expansion within a governance framework that provides stability, prudence and effective oversight, to maintain CDB's unblemished track record and reputation as one of the most stable and ethical financial organisations in the country.

We are fortified by a sustainable business model, talented and dedicated people at every level of the organisation, an effective and clear strategy and a culture with heart and integrity at its core. Standing upon this solid platform, I am confident we will continue to create long-term value for our stakeholders to strengthen our position as a top-tier financial services organisation in the country.

## A note of gratitude

In conclusion, I extend my appreciations, on behalf of the Board, to our management team and staff and my deep appreciations are extended to our Managing Director/CEO Mahesh Nanayakkara for his inspired leadership. I am grateful to my colleagues on the Board for their strong and consistent support and insightful guidance. My sincere appreciations are extended to our customers for their valued patronage and loyalty, and our shareholders for the steadfast support at all times. I also wish to extend my thanks to the senior officials of the Central Bank of Sri Lanka for their valuable counsel and guidance and to our auditors, KPMG, for their valuable advice and timely completion of audits.

**Ranga Abeynayake**

Chairman

15 July 2020

# Message from the Managing Director/Chief Executive Officer

> **CDB will have an advantage in the post COVID business environment with our emerging strategy which is based on digital and e-commerce platforms, coupled with our unique brand positioning strategy and green sustainability focus.**

In the highly challenging environment of the financial year of 2019-20, I am pleased to report that CDB has remained true to its strategic vision, while sustaining a commendable financial performance. The current year also coincides with a historic milestone in our journey with our 25th anniversary falling on 7 September 2020.

## External environment and the COVID challenge

This financial year will go down in history as one of the most challenging years for the entire world and Sri Lanka is no exception. The Sri Lankan economy in particular was exceptionally handicapped by disruptions starting with the Easter attacks at the commencement of the financial year, and ending with the COVID -19 pandemic.

While COVID-19 gave rise to widespread negative impacts globally, Sri Lanka was fortunate that immediate action to contain the spread of COVID -19 was taken by its leadership. The selfless commitment to duty by our frontliners - doctors, medical staff, health authorities, tri-forces and the police ensured safety and adherence to stringent guidelines.

## CDB's COVID response

CDB as a team responded to the COVID-19 challenge by prioritising the health and safety of our team members and clients, and ensuring uninterrupted service during curfew and lockdown. Our Business Continuity Plan (BCP) guided the entire organisation's response.

We continued with our digital and e-commerce initiatives during the year under review, which became the key strength during the pandemic in ensuring seamless service at all times.

I am pleased to report that business activities have resumed ahead of our expectations. We recommenced our lending business in June and will be working on a budget with specific targets and goals from July 2020.

## Performance

I would like to clarify at the outset that Unisons Capital Leasing Ltd. (UCL), our specialized leasing subsidiary, was amalgamated with CDB on 18 May 2020, under the Central Bank's Financial Sector Consolidation Programme. Therefore, all figures discussed in my review are consolidated Group figures.

After the setback in April following the Easter attacks, our recovery has been faster and stronger than expected, although business volumes were impacted.

The Group balance sheet recorded a marginal growth of 1.32%, reaching Rs. 93.20 Bn. whilst the loan book also recorded a marginal growth of 1.17% for a value of Rs. 72.42 Bn. The deposit portfolio declined by 8.29% year-on-year, recording a year end figure of Rs. 43.31 Bn., mainly driven by the conscious decision to redeem some institutional deposits. This was offset by increased debt funding and equity. The rights issue targeted at strengthening the capital base was fully subscribed in June 2019, generating Rs. 1,019 Mn.

The Profit or Loss Account also echoed the balance sheet, recording a revenue growth of 2.61% for a revenue of Rs. 17.36 Bn., a net interest income growth of 20.75% at Rs. 6.64 Bn., and the profit after tax reached Rs. 1.84 Bn. with a growth of 1.60%.

The Net Interest Margin (NIM) improved to 7.17%, from 6.52% in the corresponding previous period, which resulted in the growth of the net interest income, despite the loan book recording only a marginal growth. The impact on the NIM was mainly due to the conscious efforts made towards rebalancing the composition of the loan book, coupled with cost of funds declining at a faster pace.

The Cost to Income Ratio further improved to 48.79% in the year under review. Loan disbursements during the year reached Rs. 28.91 Bn. reflecting a lower figure than the previous year's Rs. 34.16 Bn.

We continued to maintain a healthy balance sheet composition, where 90% of assets are in regular cash flow and income generating assets, including the asset backed loan book. In the liability side, the deposits to debt ratio stood at 57% to 43%. Tier I and II Capital adequacy ratios stood at 10.25% and 13.29% respectively, above the regulatory levels of 6.5% and 10.5% with year-end capital funds standing at Rs. 11.45 Bn. The year-end liquidity ratio stood at 15.28%, also well above the regulatory requirement of 10%.

The Non-Performing Loan (NPL) ratio on a gross basis, including the revolving yard stock, increased to 7.57%, from 6.59% one year ago. The NPL on a net basis, excluding the revolving yard stock, reflected a figure of 2.55%. The Return on Equity (ROE) was 17.99%, whilst the Return on Assets (ROA) was 1.98%. Earnings per Share (EPS) was Rs. 26.15 and the Net Book Value per share (NBV) was Rs. 164.76.

## Outlook for the future

Reopening of economies, including the Sri Lankan economy, have commenced with social distancing and other behavioural hygiene aspects emphasized by local health authorities and the World Health Organization (WHO). The world continues to await the good news of a vaccine, which is currently in the R&D stage and will take some time to enter mainstream markets.

Meanwhile, recovery from the economic fallout of COVID-19 will also take some time, with the most hard hit sectors being tourism and leisure, apparel and worker remittances. The Central Bank and the World Bank have both projected an economic contraction in 2020. However, we are confident of a faster recovery as many parts of world, including Sri Lanka, have already embarked on a reopening phase.

CDB will have an advantage in the post COVID business environment with our emerging strategy which is based on digital and e-commerce platforms, coupled with our unique brand positioning strategy and green sustainability focus. Although Sri Lanka is faced with daunting challenges where the key concern is debt repayment, and the country's three main foreign income earning sectors of tourism, apparel and worker remittances have been impacted significantly by the pandemic, we are confident the gradual recovery which commenced this quarter will lead to a stronger recovery by the last quarter of the current financial year.

We do not foresee any space for non-essential imports within the next 6 to 12 months, where vehicles will be at the bottom of the priority list. This will have a significant impact on our business. However, the silver lining will be sustainable practices and the expansion of the digital economy, which will create new opportunities. We will identify and respond to such opportunities to maintain our growth trajectory.

## Appreciations

As we successfully conclude a year filled with challenges, I look forward to a year that will bring new opportunities. I extend my sincere appreciations to the Chairman and Board of Directors for their invaluable guidance in navigating the sudden turbulences of the year, and I must also thank the management and my entire team for their unwavering dedication and commitment and for rallying around the CDB brand in the face of unprecedented challenges. I also thank our customers and all our business partners for their loyalty and support.

I take this opportunity to thank our former Chairman Hershel Gunewardena, who retired from the Board of CDB on 9 September 2019 upon reaching the age of 70. We are most grateful for his leadership as the Chairman from 1 January 2012 to 9 September 2019. I also welcome our new Chairman Ranga Abeynayeke who is no stranger to us, and has been a Non-Executive Director of our Board since 1 January 2012.

My appreciation to Non-Executive Independent Director Razik Mohamed who will be stepping down from the Board with effect from 16 August 2020 upon reaching 70 years of age. We express our gratitude to doctors, all healthcare staff, the tri forces and police for their selfless and heroic service which has enabled us to return to work within a short period of time. I am confident we can, together, strengthen each other in the new financial year.

**Mahesh Nanayakkara**

Managing Director/Chief Executive Officer

15 July 2020

## Our Vision

To be the financial powerhouse that will foster entrepreneurial innovation and workmanship towards building our Nation's economy to make sustained gains in living standards of Sri Lankans.

## Our Purpose

**Empowering aspirations**

Goals, hopes, dreams, ambitions; whatever you aspire to achieve, we exist to elevate your life.

## Our Values

**Reliable**

While being a respected, responsible, socially and environmentally-conscious, public deposit-taking Corporate Citizen working in an open and transparent manner in all our dealings, we strive to be the most reliable partner for our stakeholders.

**Innovation**

We are constantly innovating to stay relevant and valuable to our customers. We highly value and encourage thinking beyond traditional boundaries, embracing change, and exploring creative ways of empowering the aspirations of all our stakeholders.

**Perseverance**

The passion and perseverance of our team has brought CDB to the forefront of the industry and continues to be our driving force.

**Empathy**

We care for the well-being of our stakeholders while empowering their aspirations, with an aim of creating a more equitable society. We have never lost sight of our humble beginnings and continue to act with humility in everything we do.

# Organisational overview

In its journey of 24 years, CDB is ranked among the top five Non-Bank Financial Institutions in Sri Lanka with an asset base of Rs. 92 Bn. and a staff strength of over 1,700 employees. As one of the most innovative and successful NBFIs with a strong commitment to sustainability, we provide industry leading solutions to empower the aspirations of all our stakeholders. Our disciplined culture and foresight have enabled us to record a strong financial performance as reflected in the growth of our balance sheet and after tax profit over the last decade.

## Contributing to a sustainable world

Since inception, we have been a value-driven company, with a long-term sustainable focus. Acting responsibly and with integrity we continued to achieving our strategic goals in a sustainable manner whilst consistently delivering increased value to all our stakeholders. We continued to contribute to the UN Sustainable Development Goals (SDGs), making a positive social, environmental and economic impact. Our sustainable business model is operationalised through the three central tenets of social inclusivity, resource efficiency, and zero carbon growth. Our commitment to conserving our planet is affirmed by the numerous eco-friendly business practices adopted under our flagship environmental project, "Mihikathata Adaren". Our efforts for social inclusivity is well evidenced through our flagship CSR projects of CDB Act Early for Autism, CDB Smart Classsroom, CDB *Sisu Diri* scholarship scheme and CDB Hithawathkam. Our sustainable business model has not only generated admiration and emulation from all economic sectors, but attracted numerous accolades including being among the Top 10 Best Corporate Citizens in Sri Lanka by Ceylon Chamber of Commerce.

## Promoting financial inclusion through "Urban funding with rural lending"

Our sustainability fundamentals are built on driving financial inclusion and empowering communities with access to finance, especially those at the grassroots level. Our business model combines the "Urban funding with rural lending" concept to become a net lender to the rural economy by channelling funds through our island-wide multifaceted customer touchpoints. Thus we have enabled the rural communities to unlock new growth opportunities, enhance their quality of life and make an important contribution to economic growth of our Nation.

## Igniting customer aspirations

Having firmly entrenched our presence amongst the top five largest NBFIs in Sri Lanka, we have further reinforced our brand promise "Your Friend" and our purpose statement to "Empowering Aspirations". This reflects the strong capacity of our eco system thinking to support the elevating aspirations of our customers and other stakeholders through our unique customised value propositions. Through our customer onboarding channels via our e-commerce platforms, check-in products, and online onboarding combining our conventional direct channels of leasing and deposits, we are able to make luxury accessible and affordable to customers.

## Expanding our reach

Accessibility being the key to our expansion drive, we have adapted advanced technologically driven platforms to penetrate deeper into markets and reach new and emerging customer segments.

Our deep knowledge about markets coupled with innovative solutions and cutting-edge technology have created a competitive edge to achieve growth in a challenging operating context. Our patpat.lk platform which is Sri Lanka's most popular vehicle trading platform and CDBiNet, our omnichannel transactional platform have provided an unprecedented user experience to our customers.

## Our digital transformation thrust

To fast track our evolution into a next generation Fin-Tech company, we have embarked on our ambitious digital strategy. We have actively expanded our digital platforms to etch pathways of convenience for our customers and make financial solutions accessible for everyone. By placing technology at the forefront of our strategic business priority we have successfully integrated our financial solutions objectives into the digital space. This has paved the way to deliver a unique introductory platform to our range of products and services that would facilitate rapid expansion of the client base and cross selling opportunities and thereby achieve our target one million client base within the short to medium term.

The many digital financial solutions we have introduced exemplifies our digitalisation thrust to enhance customer satisfaction using technology and digital platforms. These include cutting-edge solutions such as CDBiTransfer, CDB iDeposit, CDB iControl which have delivered an exceptional customer experience.

## An entity of the highest repute

As a custodian of public funds, it is our utmost priority to safeguard the public deposits. Our commitment to highest levels of governance and adherence to best practices is a continuously evolving process to ensure the resilience and integrity of our organisation. Whilst launching new products and services to cater to the evolving needs of our customers, we adopt a holistic eco-system approach and further develop our strategy to deliver value to all our stakeholders within a governance framework that provides stability, prudence and effective oversight. This strengthens our position as a premier financial services provider in Sri Lanka.

We were recognised as one of Sri Lanka's best-performing companies, ranked among the 'Business Today Top 30' corporates in Sri Lanka, for the first time in its history. Further, adding to our continuous multiple accolades which showcase our holistic vision, best practices and sustainability drive, we were conferred an Honourable Mention as one of the Most Admired Companies in Sri Lanka in 2019. The award was presented by the International Chamber of Commerce Sri Lanka in collaboration with the Chartered Institute of Management Accountants (CIMA) Sri Lanka and the Daily FT.

## Pioneering spirit

Taking the focus of innovation as our primary tool in moving into a technologically driven future we provide innovative solutions to all our stakeholders to empower their aspirations. Having revolutionised and disrupted the financial services industry with radical technological innovations, we continue to be differentiated by our pioneering spirit, and continuous commitment to embrace innovations. Our journey thus far has been marked by many innovations in the industry such as the award winning e-commerce platform patapat.lk. By applying our ecosystem thinking we have molded our role into an incumbent entity providing lifestyle solutions to our customers.

# Scanning the external environment

## Global and Sri Lankan economic context

Global economic growth weakened throughout 2019, against a backdrop of prolonged uncertainty on Brexit, continuing US-China trade tensions, and reduced US fiscal stimulus. The global economic growth rate fell to its lowest level in a decade.

In addition, the first months of 2020 were marked by the spread of corona (COVID-19) virus-linked infections, posing the threat of significant disruption to global supply chains, global manufacturing, travel and tourism, investment and consumer spending. The International Monetary Fund (IMF) forecast the global economy in 2020 to experience its worst recession since the Great Depression, far worse than the Global Financial Crisis in 2007/08. Global growth is expected to contract by 3.0% in 2020, followed by an expansion of 5.8% in 2021.

Sri Lanka recorded a subdued economic growth of 2.3% in 2019, compared to the growth of 3.3% in 2018. The economy faced significant challenges in 2019, emanating from movements in the global economy as well as domestic developments including the Easter Sunday attacks. Both headline and core inflation moved broadly in the desired range of 4-6% during 2019.

The Central Bank of Sri Lanka (CBSL) adopted an accommodative monetary policy stance, to support the revival of economic activity and address the sluggish growth in credit extended to the private sector. Policies to curtail import expenditure resulted in a notable improvement in the trade and current account balances which together with significant inflows to the financial account, helped strengthen gross official reserves and stabilise the exchange rate in 2019.

As domestic economic activity started to show early responses to the policy measures, the outbreak of the COVID-19 pandemic triggered further uncertainties regarding economic performance in 2020.

The government announced several fiscal measures during the first quarter of 2020 amidst the spread of the COVID-19 outbreak including a series of tax concessions and other reforms. Several measures were introduced by the CBSL to ease the pressure on the exchange rate and prevent financial market panic due to the COVID-19 pandemic.

Given the interconnected nature of the global economy, Sri Lanka would experience spillover effects of the pandemic in the medium-term. The relief measures announced by the government and the CBSL are expected to ease the burden on businesses and individuals affected by this outbreak. Inflation is expected to be maintained within the 4-6% range over the medium-term.

## Sri Lankan banking sector

Amid a challenging operating context in 2019, Sri Lanka's financial system remained stable and resilient. The banking sector, accounting for 62% of the total asset base of the financial sector, recorded a moderate expansion in 2019 consequent to the impact of the low demand for credit and tightened credit screening in an environment of deteriorating credit quality. The quality of credit of the sector deteriorated further during the year with NPLs ratio increasing to 4.7% at end of 2019.

> **As domestic economic activity started to show early responses to the policy measures, the outbreak of the COVID-19 pandemic triggered further uncertainties regarding economic performance in 2020.**

The total asset base of the sector increased by 6.2% YoY and surpassed Rs. 12.5 Tn. by end-2019. Deposits which continued to be the main source of funding, increased to Rs. 9.2 Tn. as at end-2019.Term deposits continued to be the most attractive deposit product followed by savings and current account deposits. Current and Savings Account (CASA) ratio decreased to 31.4% in 2019. Total borrowings decreased by 4.8% due to the contraction in Sri Lanka rupee borrowings. Foreign currency borrowings too decreased during 2019.

The banking sector operated with a much higher level of liquidity, with more funds being directed to liquid assets during 2019. The Rupee and All Currency Liquidity Coverage Ratios of the banking industry were well above the regulatory minimum of 100%. Profit after tax of the banking industry contracted by 11.2% YoY.

The CBSL continued to introduce prudential policy measures and regulations with a view of facilitating business expansion of banks and enhancing the safety and soundness of the banking sector.

## Non-Bank Financial Institutions (NBFIs) sector

The NBFI sector comprised 42 Licensed Finance Companies (LFCs) and 4 Specialised Leasing Companies (SLCs) during 2019. The performance of the sector deteriorated during the year, with negative credit growth, declining profitability and increase in NPLs due to the unfavourable market conditions and sector weaknesses.

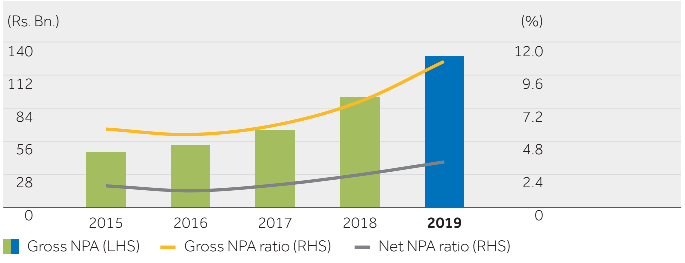
Total assets of the sector which represented 7.6% of Sri Lanka's financial system, expanded marginally by 0.1% YoY, compared to 5.6% recorded in 2018. 77.0% of the total assets consisted of loans and advances of which finance leases accounted for the major part, representing 52.9%. Reflecting the deterioration in the asset quality of the sector, the gross non-performing advances (NPA) ratio increased to 10.6% at end-December 2019, compared to 7.7% in the previous comparable period.

The sector remained resilient with capital maintained at healthy levels during the year. The total regulatory capital levels improved by Rs. 22.3 Bn. in 2019, mainly due to the enhancement of the minimum capital requirement by the CBSL to Rs. 2.0 Bn. by 1 January 2020 and Rs. 2.5 Bn. by 1 January 2021. As a result, the overall regulatory liquid assets available in the sector at end-December 2019 indicated a surplus of Rs. 41.6 Bn. as against the stipulated minimum requirement of Rs. 89.8 Bn.

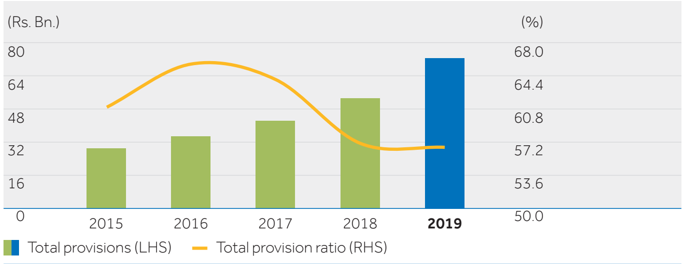
Customer deposits continued to dominate the major portion of liabilities, and increased assets were mainly funded through deposits, which accounted for 52.8% of the total liabilities of the sector. The deposit growth increased to 5.6%, while borrowings declined by 12.6% in 2019. The sector posted a profit after tax of Rs. 14.5 Bn. reflecting a decline of 31.9% YoY. This was due to the increased non-interest expenses and higher loan loss provisions.

Lending activities showed signs of slowing down during 2019. This was mainly in response to macro prudential policy measures to curtail importation of motor vehicles, directions of LTV ratios for credit facilities granted in respect of motor vehicles, higher market interest rates on lending and sluggish economic and commercial activities due to loss of business confidence. Credit provided by the LFCs and SLCs sector declined by 3.0% YoY in 2019, compared to the 7.6% growth in 2018.

### Non-performing loans



### Provision coverage of the LFCs and SLCs sector



*Source: Central Bank of Sri Lanka*

## Financial sector in the digital age

Digital transformation has changed almost every facet of modern life, and financial services sector is no different. Fin-tech challengers have redefined the marketplace and created new opportunities that were never imagined a few years ago. Most financial institutions have deployed an array of apps, AI and chatbots to improve the customer experience, whilst adopting innovative payments solutions, mobile and online banking, advanced recognition systems and the greater use of data.

Using information in meaningful and straightforward ways has become the new standard in the digital era. Mastering data and leveraging breakthroughs in technology such as cloud platforms, analytical capabilities, and augmented intelligence, have created levels of customer engagement and operational efficiency that were unimaginable before. Customers can expect a highly-personalised service determined by their individual requirements, instead of being based around a set of savings, borrowing and investment products.

Even as new entrants equipped with disruptive technology have begun to capture a significant portion of the market, financial services institutions need to embrace new business models that combine agility and security with trust at the heart of their strategies to maintain a competitive advantage. It is imperative to strike the right balance between what technology and data can enable to meet customers' expectations, with the need to actively address risks to their well-being, as well as protecting the financial system.

# Engaging with our stakeholders

GRI 102-40,102-42, 102-43,102-44

## Our stakeholder engagement process

### Corporate stakeholder engagement principles

- **Integrity**
- **Significance**
- **Completeness**
- **Communication**
- **Responsiveness**
- **Transparency**

### Stakeholder engagement approaches

**Think and plan**

- Who are our key stakeholders?
- What are their key concerns?
- What are our responsibilities?
- How can we prioritise them?

**Preparation and engagement**

- Why do we need to engage with stakeholders?
- How do we engage with them?

**Manage, evaluate and lead**

- What areas should be given more attention?
- How can we provide a sustainable framework for stewardship?
- Who provides leadership to the stakeholders?

| Key Stakeholders | Investors | Customers |
|---|---|---|
| Who they are and why they matter to us | Owners and capital providers who provide the needed capital for sustained business performance. | Our loyal depositors and lending customers who are the foundation of our business. Adopting a customer centric focus we strive to deliver an unparalleled customer experience which is essential for business growth. |
| Key concerns | • Sustainable growth and return<br>• Financial strength and resilience<br>• Risk management<br>• Sustainability management performance<br>• Increased share value<br>• Integrity of Board and management<br>• Goodwill of the company<br>• Safeguard asset quality<br>• Reinvest earnings | • Leverage customer experience<br>• Make luxury affordable<br>• Convenience and accessibility<br>• Reliability and confidentiality<br>• Real time information<br>• Assurance of privacy<br>• Innovative and tech savvy<br>• Financial solutions<br>• Ethical lending practices<br>• Speedy complaint resolution |
| Our response and responsibilities | • Ensure optimal returns on investment<br>• Strengthen risk assessment and mitigation to support sustained growth<br>• Adherence to the Company's Code of Conduct through management oversight<br>• Public affairs management and prompt response<br>• Sustainable business growth | • Innovative financial solutions<br>• Customer information protection<br>• Avert unsolicited communication and intrusive surveillance<br>• Ensure Company brand values and code of conduct<br>• Positive customer experiences<br>• Sustainable Environment and social risk screening prior to granting a credit facility |
| Method of engagement | • Open dialogue channels to clarify and get updated information<br>• Discussions and reviews on business performance, targets, forecasts and industry benchmarks<br>• Identify performance drivers, industry trends, opportunities and realign with business plans | • Annual customer surveys<br>• Product design, advertising and marketing<br>• Island-wide branch network<br>• Regular correspondence<br>• Access to ATMs and supporting services<br>• Customer care and complaints handling services<br>• Adhere to good governance and a robust framework with embedded controls |
| Mode and frequency of engagement | • Annual reports and forums<br>• Annual General Meeting<br>• Interim financial statements<br>• Corporate website<br>• Announcements to the CSE – Available when needed<br>• Media releases | • Online transaction platforms<br>• Customer relationship unit<br>• Dealer network<br>• Media advertisements<br>• Website and social media |

Asia Sustainability Reporting Awards
Asia's Best Stakeholder Reporting
FINALIST 2019
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| **Employees** | **Community** | **Business partners** | **Regulators** | **Environment** |
|---|---|---|---|---|
| The key source of competitive advantage and sustainable growth is our employees and their performance which is critical for business success and our strategic delivery. | Social networks in quest of a common interest which provides a unique support network for business. | Our suppliers who are a critical element of our value chain that create synergies for continuous operations. | Legislators and regulators who ensure healthy governance and a stable business context. | Indispensable resources and benefits, essential for our survival and economic activities, provided by the ecosystem which focuses on green recovery leading towards a green economy. |
| • Career development opportunities<br>• Culture and leadership<br>• Transparency and openness<br>• Healthy work environment<br>• Rewards and benefits<br>• Work-life balance<br>• Grievance handling | • Education and literacy<br>• Societal health and well-being<br>• Quality living standards<br>• Support and safety<br>• Impact investment<br>• Capacity building<br>• Ethical sourcing | • Strategic partnerships<br>• Sustainable consumption and production<br>• Transparency<br>• Accountability<br>• Sustainable supply chain<br>• Partner wealth maximisation<br>• Exclusions | • Good governance<br>• Ethically-driven business model<br>• Fair and transparent framework and work practices<br>• Legal compliance<br>• Promote voluntary compliance codes | • Sustainable Development Goals (SDGs)<br>• Clean Mobility and energy<br>• Conservation practices<br>• Environmental protection<br>• Resource efficiency<br>• Climate change risk mitigation |
| • Demonstrate employee productivity and quality<br>• Provide a safe and enriching work experience<br>• Groom future leaders and succession planning<br>• Employee well-being<br>• Promote and maintain harmonious relationships | • Contribute to improving the quality of life<br>• Investment on education<br>• Empower rural youth and SME<br>• Support community health and well-being<br>• Support for female economic empowerment<br>• Encourage thrift and saving | • Address issues related to supplier chain<br>• Ensure healthy partnerships<br>• Encourage sustainable sourcing<br>• Ensure sustainable consumption and production | • Develop, communicate, and promote good governance and ethical behaviour at all levels<br>• Provide timely and accurate information<br>• Immediate response to queries made by the authorities<br>• Ensure full compliance<br>• Comply with rules and regulations | • Educate and engage stakeholders in environment preservation<br>• Monitoring and analysis of carbon footprint of the Company's operations<br>• Environment and Social Management Policy to screen environment and social risks<br>• Stakeholder awareness on best practices through channels<br>• Green agents to create awareness<br>• Practice waste management<br>• Reduce energy consumption and pollution |
| • Regular updates on company performance<br>• Encourage career development via learning programmes and internal/external training<br>• Comprehensive Integrated HR system<br>• Annual events promoting work-life balance<br>• Safe work environment | • Child Health and well-being<br>• Child education and literacy programme<br>• Employee volunteering activities<br>• Supporting entrepreneurs through "SMB Friday"<br>• Community development through impact investments | • Joint promotional campaigns<br>• Sustainable sourcing<br>• Extended dealer network and marketing channels<br>• Annual supplier evaluations and feedback by procurement | • Compliance meetings<br>• Regular discussions on regulatory matters<br>• Adhere to all regulatory requirements<br>• Comply with all reporting standards and disclosures | • Adopt sustainable policies across the operational functions<br>• Conform with (and where possible, improve upon) environmental laws and regulations<br>• Undertake and publicise relevant social impacting investment through social projects<br>• Environment and Social Management System platform |
| • Formal and Informal meetings with employees<br>• Continuous Internal announcements<br>• Employee Engagement activities | • Annual employee volunteering activities<br>• Impact investment on projects<br>• Lending for rural economic development<br>• Website and social media | • Frequent Supplier screening<br>• Meetings when required<br>• Joint promotional Campaigns | • Regular directives and circulars<br>• Ongoing compliance forums, and discussions<br>• Regular inspection of new rules and regulations | • Annual carbon footprint analysis and energy audit<br>• Initiatives for awareness creation<br>• Ongoing Green Projects<br>• Ongoing Engagement activities |

## Stakeholder mapping and prioritising

| | | POWER | |
|---|---|---|---|
| | | High | Low |
| INTEREST | High | **Key players**<br>This is the group with both high power and high interest and is a very strong group that can propose new strategies effectively and drive change if they so wish. Any decisions by them could have a considerable impact on the operations. Therefore, we continuously engage with them and nurture a strong relationship. | **Keep informed**<br>These groups have a high level of interest in the business, even though the power they exercise is low they are able to build a strong foundation support for the Company. The strategy of engagement is to keep them informed and provide feedback and suggestions about the organisation. |
| | Low | **Keep satisfied**<br>These stakeholders exert high power through their decisions by influencing the direction of the business environment. However, they do not exercise a high interest in the company, they observe the business operations intimately, monitoring compliance, code of conduct and best practice to ensure the Company adheres to the relevant requirements. | **Minimal effort**<br>We do not have any stakeholders in this category with low power and low interest in the organisation. We continue to maintain an interest towards our stakeholders in every aspect of our business. We respond to their expectations and needs as they in turn, become partners in the progress of the Company. |

## Sustainability steering committee responsibilities

The Sustainability Steering Committee reviews and monitors performance of the Company. It holds periodic meetings with stakeholders to understand their perspectives and also identifies and investigates emerging issues. The Committee receives periodic reports on the status and the effectiveness of the business continuity plan and oversees risk management-related sustainability matters.

| | | Aspect | CDB response | Led by |
|---|---|---|---|---|
| Composition of the Sustainability Steering Committee | **Investors** | Sustainable shareholder returns | • Generate profits and ensure Sustainable returns for their investment | Chief Executive Officer |
| | **Customers** | World class customer service and experience | • Secure our customers including data protection, confidentiality, customer privacy, preventing unsolicited communication and intrusive surveillance<br>• Provide a positive and satisfying customer experience | DGM – Innovation and Business Intelligence |
| | **Employees** | Health, safety and employee well-being | • Ensure the safety and well-being of our employees<br>• Develop a quality human capital assets base | GM – HR and Administration |
| | **Community** | Societal well-being and social inclusiveness | • Enhance the living standards of the society | DGM – Marketing |
| | **Business partners** | Strategic sustainable business partnerships | • Build resilient, connected, and sustainable partnerships | Director – Sales |
| | **Regulators** | Corporate governance and ethical business practices | • Develop and communicate a framework that promotes good corporate governance and ethical behaviour at all levels<br>• Work with suppliers, service providers to address sustainability issues in the supply chain | Chief Financial Officer |
| | **Environment** | Environmental stewardship | • Develop a green recovery plan by reducing GHG emission of CDB operations and by embedding sustainability mind-set to leverage towards a green economy | Chief Financial Officer |

# Identifying materiality, risks and opportunities

GRI 103-1, 103-2, 103-3, 203-1, 203-2, 203-3

Materiality assessment process is a vital element in embedding integrated thinking into our Organisation. It ensures the long-term sustainability of our business and value creation for our stakeholders. Materiality analysis enables us to define key triple bottom line issues that are of significance for our businesses and stakeholders, both internal and external, in the short, medium and long-term. A topic is considered to be material if it substantively affects our ability to create and sustain value over the short, medium, and the long-term.

Materiality assessment process includes the assessment of external environmental factors and stakeholder relationships that may have a significant impact on our business performance or substantively influence the assessments and decisions of our stakeholders. The outcome of this process results in the corresponding environmental, social, and governance matters being identified and their impact on our operating environment being assessed. The identification and assessment of material matters helps to formulate our overall strategy and determine the strategic objectives. We follow a critical evaluation process to determine the material topics and issues identified through risk and uncertainty exposure analysis.

## Defining materiality

According to the International <IR> Framework, an aspect is considered to be material if it substantially affects our ability to create and sustain value. In determining the material aspects, we follow a critical evaluation process of our value creation process and the issues identified through the stakeholder engagement process. This includes assessing the business risks and opportunities, external environmental factors that affect our business and the social stability of our network.

## Report scope

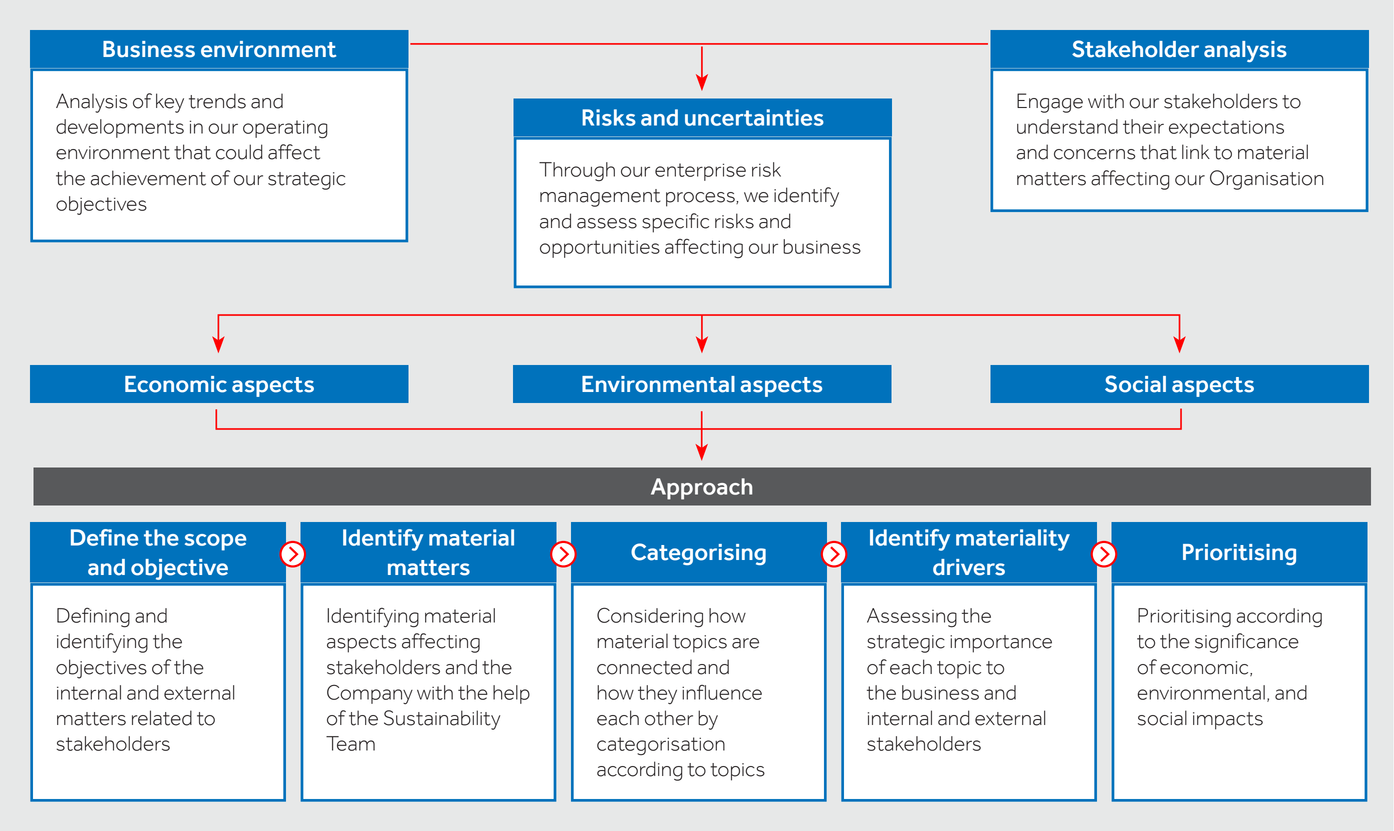
Materiality is assessed based on three aspects – economic, environmental, and social. The scope is defined by the objectives of materiality assessment, which includes the internal and external issues that matter most to our business and our stakeholders. Given the strong correlation between our sustainability commitment and our business strategy, we strive to align all aspects of our strategy with the expectations of our stakeholders.

## Our approach

GRI 102-47

We identify material aspects through the ongoing evaluation of the operating context, concerns raised by industry analysts and global and regional concerns. We closely engage with our stakeholders to understand their expectations and concerns and take into consideration any emerging risks and opportunities within our perspective as well. Although certain trends require a long-term perspective, we take a broad view of the local and global operating environment in monitoring our risks and opportunities.

The significance and risk exposure of each material aspect is determined through categorising each issue under a main topic. Material drivers are determined by assessing the strategic importance of the material aspect. Thereafter, the material aspects are prioritised based on its social, economic and environmental significance.



**Business environment**

Analysis of key trends and developments in our operating environment that could affect the achievement of our strategic objectives

**Risks and uncertainties**

Through our enterprise risk management process, we identify and assess specific risks and opportunities affecting our business

**Stakeholder analysis**

Engage with our stakeholders to understand their expectations and concerns that link to material matters affecting our Organisation

**Define the scope and objective**

Defining and identifying the objectives of the internal and external matters related to stakeholders

**Identify material matters**

Identifying material aspects affecting stakeholders and the Company with the help of the Sustainability Team

**Categorising**

Considering how material topics are connected and how they influence each other by categorisation according to topics

**Identify materiality drivers**

Assessing the strategic importance of each topic to the business and internal and external stakeholders

**Prioritising**

Prioritising according to the significance of economic, environmental, and social impacts

## Risks vs responses

↑ Risk exposure has increased

↔ No significant change in risk exposure

↓ Risk exposure has decreased

| Aspect | Challenges | Risk Exposure | CDB's Response |
|---|---|---|---|
| **Facing external risks/facing pandemic situations** | Achieving budgeted targets<br>Adhering to new working conditions<br>New cost structures/new budgets apart from traditional ones<br>Making resources available<br>Promote work from home | ↑ | Convening a team to take immediate responses.<br>Executing the Business Continuity plan.<br>Having secured initiatives for working from home.<br>Changing processes to suit the context while minimising risks.<br>Implementing proper health and safety measures.<br>Optimise existing resources. |
| **Maintaining sales volumes and profit margins** | | | |
| Increasing and maintaining business volumes are challenging in the NBFI sector due to intense competition from industry peers and banks offering similar products. | Decrease in market share<br>Unable to meet budgeted targets | ↑ | CDB is on a digital journey where the Company has already introduced break through products like "CDBitransfer" where a customer can transfer funds on any social media platform.<br>Diversified product/customer portfolio. |
| **Maintaining required capital adequacy and liquidity** | | | |
| Liquidity enables financial institutions to meet the short-term obligations. Capital adequacy is the availability of sufficient capital funds in relation to the risk exposures undertaken so that potential losses arising from credit risk, market risk, operational risk, etc. can be absorbed while supporting future business expansion. | Customer retention<br>Inability to meet the day to day obligations | ↑ | Capital adequacy and liquidity ratios are closely monitored at the ALCO meeting. Cash flow requirements are forecasted and decisions are taken at weekly Treasury meetings. Company successfully raised Rs. 1,019 Mn. via right issue during the financial year. |
| **Maintaining service quality** | | | |
| Service quality plays a vital role in the NBFI sector, and is a key differentiating factor because all players in the industry offer homogeneous products | Loosing customers<br>Loss of reputation | ↑ | Continuous training will be offered by leading professionals in the industry to serve customers.<br>A customer relationship management division is in operation to handle customer complaints in a systematic way ensuring a superior level of service quality around the clock. |
| **Maintaining a healthy non-performing ratio (NPL)** | | | |
| A healthy non-performing ratio indicates company's asset quality reducing provisions for loan losses and thereby increasing profits. | Increase of overheads incurred on management of the vehicle yard for repossessed vehicles<br>Reduction of profits<br>Negative impact affecting the credit rating | ↑ | NPLs were regularly monitored at different levels based on the days past dues.<br>CBSL direction to offer moratoriums to the customers who faced difficulties due to COVID-19 pandemic was handled efficiently and loan monitoring was made a priority based on risk levels.<br>During the financial year, special consideration was given to reduce the number of vehicles in the yard which contributed immensely to reducing the NPL ratio. |

| Aspect | Challenges | Risk Exposure | CDB's Response |
|---|---|---|---|
| **Retaining best employees**<br>Employees are the key to success in any organisation. Hence retaining employees is vital to achieve the corporate objectives. A company's course of actions pertaining to employees' succession planning, welfare, fair remuneration, training and development will result in employee loyalty towards the organisation and thereby reduce the turnover ratio. | Employee retention<br>Increasing staff related overheads | ↔ | A transparent continuous performance evaluation and communication performed across all divisions of CDB.<br>There are many events in CDB's calendar to ensure work life balance such as annual get-together, sports day, and the talent show.<br>A gala annual awards ceremony is organised to recognise and reward the best performing employees. |
| **Maintaining required level of compliance to regulatory authorities**<br>Licensed finance companies are under the supervision of Central Bank and several other regulatory bodies. Thus, it is vital to comply with regulations imposed by these authorities and ensure good corporate governance. | Regulatory constraints on possible future business development<br>Imposing of penalties | ↔ | A dedicated compliance officer is in place to ensure that CDB complies with rules and guidelines set by the various regulators.<br>At the monthly compliance meeting, the compliance status and new rules and regulations imposed are presented and discussed with the management covering all applicable divisions. |
| **Maintaining a competitive position in the industry**<br>Achieving a competitive position in the industry is challenging as NBFIs too will face immense competition from commercial banks especially with regard to offering competitive interest rates. | Meeting the evolving customer requirements<br>Loss of market share due to not having the first mover advantage in the industry | ↑ | CDB has introduced products to meet the changing needs of the customers creating a competition to other players. CDB maintains high standards when it comes to its service levels. |
| **Maintaining the cost structure**<br>Having an optimum cost structure would facilitate a financial institute to achieve the profit targets. Therefore, mechanisms should be implemented to control costs across the organisation. | Hindering profits<br>Long term sustainability of the business is in question | ↑ | CDB has invested heavily on business process improvements through IT platforms to efficiently conduct processes at minimum costs. Due to these initiatives we achieved significant cost efficiencies through a paperless working environment and better management of human resources.<br>Overheads are reviewed through variance analysis and presented to the Board at the monthly board meetings. |
| **Acquiring new technological proficiency**<br>IT is an essential platform for a company to achieve differentiation and face competition. Differentiation can be achieved in terms of service quality and product offer as well. | Managing new technological/ cyber risks<br>Reducing efficency<br>Losing competitor advantage<br>Not finding timely ways and means of reducing costs | ↑ | CDB has been very proactive in adopting and embracing new technological knowhow. We have focused on embedding AI based solutions to strengthen our decision making and adopting system based technologies like BOT to strengthen our processes which has enabled us to carry out operations effectively and efficiently. The core banking solution has enabled us to operate savings accounts, VISA debit cards and POS transactions which has created a differentiation in terms of products offer and service quality. |

*Further details in the risk report on page 127*

## Prioritising material aspects (GRI 102-47)

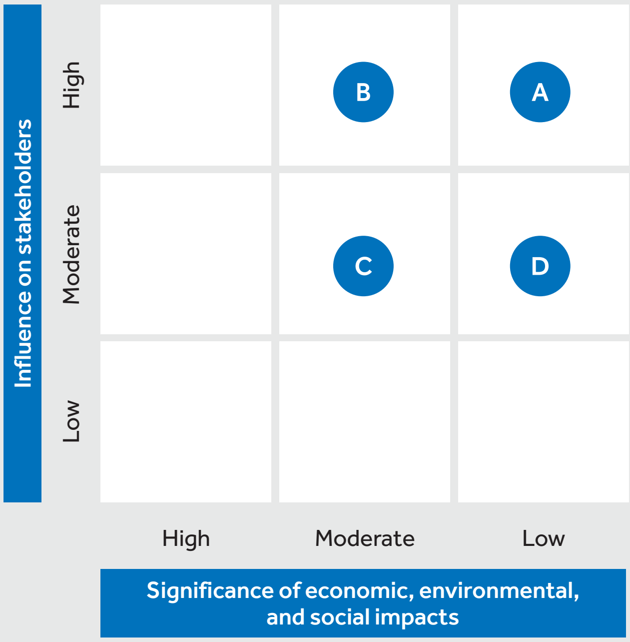
The information on the relevance of each material aspect and the respective material drivers are evaluated based on their significance to the stakeholders. The impacts are rated as high, moderate and low as shown in the table below:

| GRI Standard/Disclosure | | | Aspect boundary | | | | | | Materiality | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Significance as per sustainability context | | Internal | | External | | | | |
| | | | CDB | Employees | Customers | Community | Business partners | Regulators | To CDB | To stakeholders |
| **Economic** | | | | | | | | | | |
| GRI 201 | Economic performance | H | × | × | | × | × | × | H | H |
| GRI 202 | Market presence | M | × | × | | × | | × | M | H |
| GRI 205 | Anti-corruption | H | × | | | × | | | M | M |
| GRI 206 | Anti-competitive behaviour | M | × | | | | | × | | |
| **Environmental** | | | | | | | | | | |
| GRI 302 | Energy | M | × | | | | | | M | M |
| GRI 303 | Water and effluent | M | × | × | | × | | | M | M |
| GRI 304 | Biodiversity | M | × | | | × | | | M | M |
| GRI 305 | Emissions | M | × | | | × | | × | M | M |
| GRI 306 | Effluent and waste | M | × | | | | | | M | M |
| GRI 307 | Environmental compliance | M | × | | | × | | × | M | M |
| GRI 308 | Supplier environmental assessment | M | × | | | | × | | M | M |
| **Social** | | | | | | | | | | |
| GRI 401 | Employment | H | × | × | | | × | | H | M |
| GRI 402 | Labour management relations | M | × | × | | | | | M | M |
| GRI 403 | Occupational health and safety | H | × | × | | | | × | M | M |
| GRI 404 | Training and education | M | × | × | | | | | M | M |
| GRI 405 | Diversity and equal opportunity | M | × | × | | | | | M | M |
| GRI 406 | Non-discrimination | M | × | | | | | | M | M |
| GRI 407 | Freedom of association and collective bargaining | M | × | | | | | | M | M |
| GRI 408 | Child labour | M | × | | | | | | M | M |
| GRI 409 | Forced or compulsory labour | M | × | | | | | | M | M |
| GRI 413 | Local communities | M | × | | | | | | M | M |
| GRI 416 | Customer health and safety | | × | | × | | | | M | M |
| GRI 417 | Marketing and labelling | M | × | | × | × | | | M | M |
| GRI 418 | Customer privacy | M | × | | × | | | | M | M |
| GRI 419 | Socio-economic compliance | M | × | | | | | × | M | M |

H – High M – Moderate L – Low × – Relevant to

## Materiality matrix

The materiality matrix below showcases the significance of each aspect from the point of our Organisation and our stakeholders. Applying the principles of stakeholder inclusiveness, in the context of sustainability, materiality, and completeness helps to chart our course of sustainable value creation.



| | |
|---|---|
| A | GRI 201-1, GRI 201-2, GRI 201-3, GIR 201-4 |
| B | GRI 202-1, GRI 202-2 |
| C | GRI 206-1, GRI 302-1, GRI 302-2, GRI 302-3, GRI 302-4, GRI 302-5, GRI 303-1, GRI 303-2, GRI 303-3, GRI 303-5, GRI 304-3, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 305-6, GRI 305-7, GRI 306-1, GRI 306-2, GRI 306-3, GRI 306-4, GRI 306-5, GRI 307-1, GRI 308-1, GRI 402-1, GRI 403-9, GRI 403-10, GRI 404-1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 405-2, GRI 406-1, GRI 407-1, GRI 408-1, GRI 409-1, GRI 413-1, GRI 413-2, GRI 416-2, GRI 417-2, GRI 417-3, GRI 418-1, GRI 419-1 |
| D | GRI 205-1, GRI 205-2, GRI 205-3, GRI 401-1, GRI 401-2, GRI 401-3, GRI 403-1, GRI 403-2, GRI 403-3, GRI 403-4 |

# Engineering future-fit strategies

> **Because we had expanded our horizons by investing in innovative solutions and digital infrastructure, we were able to easily adapt our business model to the needs of the new normalcy, while making our operations, systems and processes even more robust and stakeholder friendly.**

Navigating an increasingly complex world characterised by challenging macroeconomic performance, rapid advance in technology, intense competition and dynamic regulatory environment, it is essential we adopt a strong strategic planning and analysis process to build a solid foundation for our Company. From humble beginnings, we have risen to be a top five non-bank financial institutions (NBFIs) in our Nation as a result of our exemplary governance and meticulous execution of our strategic plan. We strive to deliver sustainable value to all our stakeholders in the short, medium and long-term by executing our strategy built on a solid foundation by taking into account the operating context and its material aspects. To deliver balanced and sustainable outcomes for our customers, community, people and other stakeholders, we have integrated principles of sustainability into our strategy and all our operations. Innovation being a core corporate value of CDB, we focus on pioneering innovative solutions adopting digitalisation which also contributes towards a low carbon economy.

When the first signs emerged that a pandemic was in the making in Wuhan, China, in December 2019, we were quick to respond by preparing to mitigate any potential impact. In early March 2020, we mobilised Emergency Task Teams to get our workplace ready to meet this challenge.

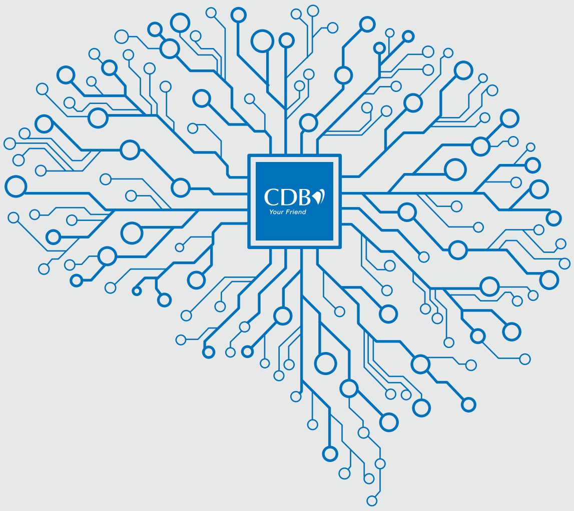
The pandemic has accelerated the transition to a digital future, including telework for team members and a greater demand for digital products and services. We have already taken the initial steps in this transformative journey, by applying our ecosystem thinking to changing our role from being a disruptor within the financial sector to providing lifestyle solutions to our customers. Because we had expanded our horizons by investing in innovative solutions and digital infrastructure, we were able to easily adapt our business model to the needs of the new scenario, while making our operations, systems and processes even more robust and stakeholder friendly.

We continued to adopt robust strategies with some new action plans for healthcare facilities across the operational network; nimble upgrades of our digital platforms providing an assurance to all stakeholders of our commitment to further enhance their experience.

The COVID-19 pandemic did not deter us from continuing with the projects that has already been commenced including the development of an AI model for making credit decisions, a process to handle customer requests pertaining to the debt moratorium on the CDB SmartOps ERP platform; and further strengthening cybersecurity, governance and risk assurance to enhance the security of the working environment while executing our day-to-day operations without any interruptions.

## Strategic overview

### The Tech-fin transformation



The world rapidly moving towards the "Fourth Industrial Revolution" is paving the way for transformative changes in the way we live and radically disrupting almost every business sector. Disruptive technologies and trends such as the Internet of Things (IoT), robotics, virtual reality (VR) and artificial intelligence (AI) are changing the way we live and work. Through our "ecosystem thinking" we have already taken giant steps by introducing digital financial solutions, improving our online integrated platforms, and utilising digital technology like AI, machine learning, and others. This has enabled us to expand our horizons, support innovative digital solutions, and integrate more of our customers to our social lifestyle ecosystem. Through this platform we offer our customers solutions to all of their financial and finance-related needs delivering a customer experience that is personal, instant, relevant and seamless.

# This emerging new normalcy enabled us to offer an uninterrupted service and solutions beyond customers' expectations with seamless customer interactions and with less need for mobility.

## One million customer base

Our customer base is diverse – they represent every strata and social segment of Sri Lanka. Driven by our motto "Your Friend," we strive to deliver an exceptional customer experience through our touchpoints and interactions with customers by offering personal, instant, relevant and seamless service from anywhere anytime. We do this by deepening our transaction based relationships with the customers, understanding them better, anticipating their evolving needs and fostering an innovation culture through cross selling approaches. Out of the millions of customers who transact with us, we aim to attract, serve, retain, and increase our customer base to reach one million within the next two to three years.

## A Quarter Trillion Asset Base (Q-TAB)

As a strong financial intermediary we have brought a revolutionary change to the traditional financial services through innovation and technology. However, the outbreak of the COVID-19 pandemic constitutes an unprecedented global macroeconomic shock where the depth of the downturn, and the timing and shape of the recovery remain uncertain. In such milieu, we are in the process of reviewing timeline for Quarter Trillion Asset Base (Q-TAB) target although the journey remains challenging in an uncertain macro-economic context.

**Strategic imperatives**

## Elevate customer aspirations

As a customer-centric organisation we constantly strive to elevate customer aspirations which in turn enables us to achieve our goal of a one million customer base. Balancing the needs of our diverse customer base, we deliver convenience through tailoring technological solutions whilst keeping at heart the need for human touch. Our financial solutions drive economic development of our Nation. We enable customers to face the future with confidence by providing the necessary tools to manage their finances and achieve their aspirations. Even as technology and digitalisation has changed lifestyles and customer expectations, we provide financial solutions to make luxury affordable to our customers by being where they are and when they want enabling faster and secure transactions. In return we have secured a loyal customer base and established long-lasting relationships based on trust.

## Expand inspired innovation

Our approach to innovation complements our long-term strategic objective of becoming Techfin company which provides lifestyle solutions to customers. Innovation which is essential to drive corporate growth is applicable to every aspect of our organisation. We aim to empower customers and provide a superior experience by providing a personal, instant, relevant and seamless experience. We do this by stimulating a culture that is open to new ideas and innovation.

## Expand employee engagement

Our strategic vision can only be realised through the collective effort of our people – our most valuable asset. Our strategy revolves around recruiting, developing and retaining a talented pool of employees who are highly engaged and motivated. Over the years, we have attracted the best talent to build a strong team that reflects diversity of the customers we serve. We engage and encourage our employees to connect with our organisational values and to perform to the best of their ability through a performance oriented culture founded on ethical and transparent behaviour. Our team of highly-competent and dedicated professionals drive CDB forward. Employee engagement has been expanded through our corporate culture, capacity building initiatives, our attractive benefits and incentive structure and implementing the corporate human resource policy.

## Emphasise organic growth

We have placed renewed emphasis on organic growth and value creation to achieve our target of a Quarter Trillion Asset Base. We have become a trusted leader in the financial services industry through operational excellence, integrity and our strategic vision. The success of our governance, strategy, and value creation is reflected in our excellent financial performance. Our core business segments continue to exceed expectation and our new and emerging business segments are recording a rapid growth.

## Endorse sustainable development

As a respected and responsible corporate citizen, we focus on elevating the economic status of our stakeholders, preserving the environment and uplifting the community. Our sustainability tripod is focused on creating value along three dimensions of People, Profit and Planet, encompassing social inclusivity, resource efficiency and low carbon growth. Whilst pledging our support to the United Nations' Sustainable Development Goals (UN SDGs), we have deeply integrated sustainability in our corporate culture and ethos. We understand that it is imperative to manage our environmental and societal impacts in a responsible manner to achieve our strategic objectives.

# Serving our stakeholders through the COVID-19 pandemic

When the first signs emerged that a pandemic was in the making, we were quick to respond to mitigate any potential impact, long before COVID-19 was declared a pandemic by the World Health Organisation (WHO). In early March 2020, we mobilised two Emergency Task teams to get our workplace ready to meet this challenge.

Our operational resilience was strengthened by priortitising critical processes and resource requirements, obtaining the needed IT infrastructure, setting up strong communication channels for continuous communication and implementing safety protocols across the network. Vigilance on cyber security risk was heightened as well.

## Safeguarding the CDB team

During the lockdown period we encouraged our staff who could work remotely to do so and all necessary facilities were provided. We developed electronic communication campaigns and conducted training sessions on work-related areas through CDB Virtual University to keep our team cohesiveness despite distancing.

An entire gamut of health and safety protocols were implemented with an initial investment of Rs. 9 Mn. These included the following:

- Installed wash basins for regular hand washing for customers and team members
- Personal protective equipment (PPE) were provided to the head office and outlets
  - 10,000+ disposable masks
  - 2,000+ gloves
  - 9,500+ reusable masks
  - Adequate quantity of sanitizers and infrared thermometers
- PPE for security officers
- Disinfectant rubber mats at the entrance to the buildings
- Transparent counter separators for customer interactions
- Cleaning and disinfecting branch premises at regular intervals
- Bags used for couriering disinfected at Head Office
- Provide private logistic facilities

## Establishing clear, consistent communication

- An employees' guide (CDB Standard Operating Procedure) was launched detailing best practices related to safety and health matters and operational guidelines for all staff members
- A HR hotline was established to attend on staff queries 24x7 and ensure psychological well-being of our employees during the lockdown
- The Public Health Inspector (PHI) conducted a session on health and safety to the staff members
- Created employee awareness and conducted education programmes on all aspects of coping with the lockdown situation
- The "CDB Active Ninja – Fight for Fit" staff health and well-being programme to ensure the mental and physical health of staff members
- All meetings were converted to virtual teleconference meetings through Microsoft Teams app
- Regular updates about management decisions are shared with team members through multiple channels

## Extending financial assistance

- Interim financial assistance totalling Rs. 24 Mn. was provided to 1,200+ staff members
- Granted paid leave to staff members during lockdown
- Concessions were given on their staff loans and advances commitments
- Rs. 1 Mn. was given as allowances to support the outsourced janitorial and security staff during the lockdown
- A special allowance was paid to agents at the Contact Centre for working around the clock

## Our customers

We have taken measures to facilitate our customers to conduct their financial transactions, remain in charge of their finances and provided a full range of daily financial support whilst extending extra help in these challenging times. We enhanced our digital services to facilitate this. Staying close to our customers and listening to their needs have enabled us to look for tailor-made solutions. The Contact Centre was at the forefront of our customer service.

## Service through a streamlined contact centre and extending digital support to our customers

- Facilitated and assisted easy customer registration with the CDBiNet online transactional platform
- Extending 24x7 customer service with Contact Centre agents operating from their homes on a shift basis
- 24x7 availability of fully fledged CDBiNet online transactional platform and patpat.lk e-commerce platform
- Streamlined customer onboarding to the CDBiNet digital platform
- Facilitated customers to secure their funds through CDB iDeposit – CDB online deposit placing platform by revising the limit from a minimum of Rs. 5,000/- to a maximum unlimited

## Relief measures to customers

- Monthly rentals for lending facilities due in March and April were given a grace period of two months
- ATM withdrawal fee was reduced on par with the rate of commercial banks with immediate effect from April 2020, for CDB customers.
- In line with the Circular No.04 and 05 of 2020 issued by the CBSL, we provided relief measures to assist our customers on their credit facilities enabling them to continue to take care of their families. A total of 42,674 customer requests were received related to the moratorium and all requests were processed as per the CBSL Circular. In addition to the above, we voluntarily granted a capital moratorium to 45,656 customers for two months amounting an interest income impact of Rs. 800 Mn.

## Consistent and transparent customer communication

- Customers could directly write to CDB management through a dedicated email - customercare@cdb.lk
- A special notice on debt relief moratorium was published in the CDB website
- Our digital products and our digital platforms were promoted on social media as solutions for managing finances
- Around-the-clock online communication channel was established with the Head of each Branch to maintain a consistent link, to create awareness, update, and share Management decisions with all customers through social media, emails and SMSs
- Created engaging content on social media on how to spend the lockdown in a positive manner to ease the tension of the customers and their families

## Serving customers sans interruption

- All outlets island wide were kept open from 8.30am to 3.00pm whilst outlets in Colombo, Gampaha and Kalutara districts were kept open from 9.30am to 3.00pm
- Staff were instructed to report to the branch closest to their home to provide an uninterrupted service to our customers
- Provided an uninterrupted customer service for all services pertaining to fixed deposits, gold loan advances, insurance and other support services
- Additional staff were allocated to facilitate a smooth customer service during rush hours
- Ensured sufficient cash is available in our ATMs at all times
- Closely monitoring the safety needs of customers during operational hours
- Debit and credit card operations were handled and monitored around-the-clock by a dedicated team working from home on a shift

## Regulators

### Contributing to an ethical, sustainable, and safe industry

In order to contribute to an ethical, sustainable, and safe industry, we coordinate with the regulators and have established communication protocol to respond to their urgent and ad hoc queries in order to safeguard the interest of the stakeholders and the industry.

- We continue to be fully compliant with all regulations, especially pertaining to operations during the pandemic
- Timely disclosure was made on the impact from COVID-19 to the Colombo Stock Exchange
- Adhered to all Government and medical health authorities' requirements in our day-to-day activities
- In accordance with the debt moratorium and a working capital loan extended by the CBSL for COVID-19 hit businesses, including self-employment businesses and individuals we implemented a range of initial measures to grant relief to our customers impacted by the pandemic

## Robust governance

- Ongoing surveillance of the status of the pandemic globally, regionally and locally
- Appropriate strategic actions were taken to implement Government directives and progress was carefully tracked.
- Poster campaigns were conducted to create awareness about COVID-19 scams
- Risk mitigation was given stringent attention.
- Stringent monitoring of daily transactions and security aspects to mitigate risks
- Taking remedial measures through regular warnings on possible intrusions and vulnerabilities to eliminate cyber crimes
- Changing the existing processes to ensure customer convenience whilst mitigating risks

## Our partners

We work diligently with our suppliers and external parties to continue our business operations whilst remaining strongly committed to all our agreements with our business partners. To deliver our services without any interruption to our customers, we continue to strengthen our relationships with our extended free subscription to advertise their products on our patpat.lk platform.

- Payments amounting to Rs. 263 Mn. were released to Insurance providers in the month starting from 20 March to 30 April 2020
- We used the in-house developed SmartOps ERP Platform to make payments to vendors
- Partnering with vendors to hire laptops and VPN dongles for remote users
- Arrangements were made with our mobile service partner for unlimited mobile connections
- Arrangements were made to ensure all general payments were made without a delay for essential services such as security, cleaning, and utilities
- Regular communication with our security service providers and issuing relevant monitoring guidelines to our security officers

## Our community

We are constantly looking for avenues to support our communities and respond to their needs during this pandemic.

- We made a donation of Rs. 10 Mn. to the Government to support the national effort to combat the COVID-19 pandemic
- A campaign was launched for every branch to select deserving families from their respective area and provide essential household items
- We also communicate with the communities, sharing important and relevant news from reliable sources such as the WHO and Government and health authorities of Sri Lanka
- "Stay at home" National campaign to encourage people to stay at home and healthy during the pandemic period

## Our environment

In our efforts to contribute to a sustainable environment and a healthy society during the time of crisis, we have taken measures to safeguard our environment, be environmentally conscious in our activities and contribute to a healthy society.

- We created awareness on climate change and environmental destruction as it is important as flattening the curve of the pandemic
- We strive to get the youth engaged and encourage them to be agents of change in protecting our planet
- "My victory garden," a home gardening competition was launched to promote sustainable consumption, encourage our employees to grow organic food and be engaged with the environment
- Eco-friendly Vesak celebration was promoted
- "Beat plastic pollution" competition was launched
- Sustainability bulletin was launched to keep our staff members updated on latest and important information on social and environmental sustainability
- In commemoration of environmentally important International Days, we shared e-flyers, educational videos, documentaries, statistics and facts through our Green Communication platform

# Sustainability at CDB

GRI 102-16

The COVID-19 pandemic which threatened lives and upended the world economy, had a profound impact on the environment and people. In a crisis where previously unthinkable approaches have become the new normal overnight, we keep up our sustainability momentum driving towards a green economy.

We understand that the long-term success of our Company is fundamentally intertwined with the futures of stakeholders. A future where our customers and employees have opportunities to realise their aspirations, communities to be thriving and the environment to be conserved. At the core of our growth strategy remains our sustainable value creation model where all aspects of our business is entrenched with sustainability principles. By combining "Urban Funding and Rural Lending" our positioning as a conscientious and formidable leader in the financial services industry will continue to be strengthened as the net lender to the rural economy.

Leading to a vital green recovery transition, CDB in essence, will continue to take actions to manage climate-related risks, further strengthen our social fabric touching the marginalised people who are at the base of the pyramid market and inspire economic activities that create value for communities. Our sustainability model therefore will continue to drive towards a green economy enhancing capabilities and resilience to deal with low-probability scenarios through CDB sustainability tripod of People, Profit and Planet, which is operationalised through three central tenets-social inclusivity, resource efficiency and low carbon growth.

As a responsible corporate entity, we truly recognise our commitment towards sustainability which goes beyond mere regulatory compliance to integrating sustainability deep into our corporate roots with the commitment at the highest level. It encompasses the length and breadth of our operations, our culture, and our belief that responsible generation of profits creates a lasting social and environmental impact.

From our founding, we remain committed to be a socially and environmentally conscious, respected, and responsible public deposit taking Corporate Citizen. Protecting people's finances is a key financial priority and we do this by adopting a prudent approach to financial management. Our commitment towards socially responsible profit generation is demonstrated through our financial objectives which extend beyond incremental profits, to encompass sustainable revenues, and sustainable long-term profitability.

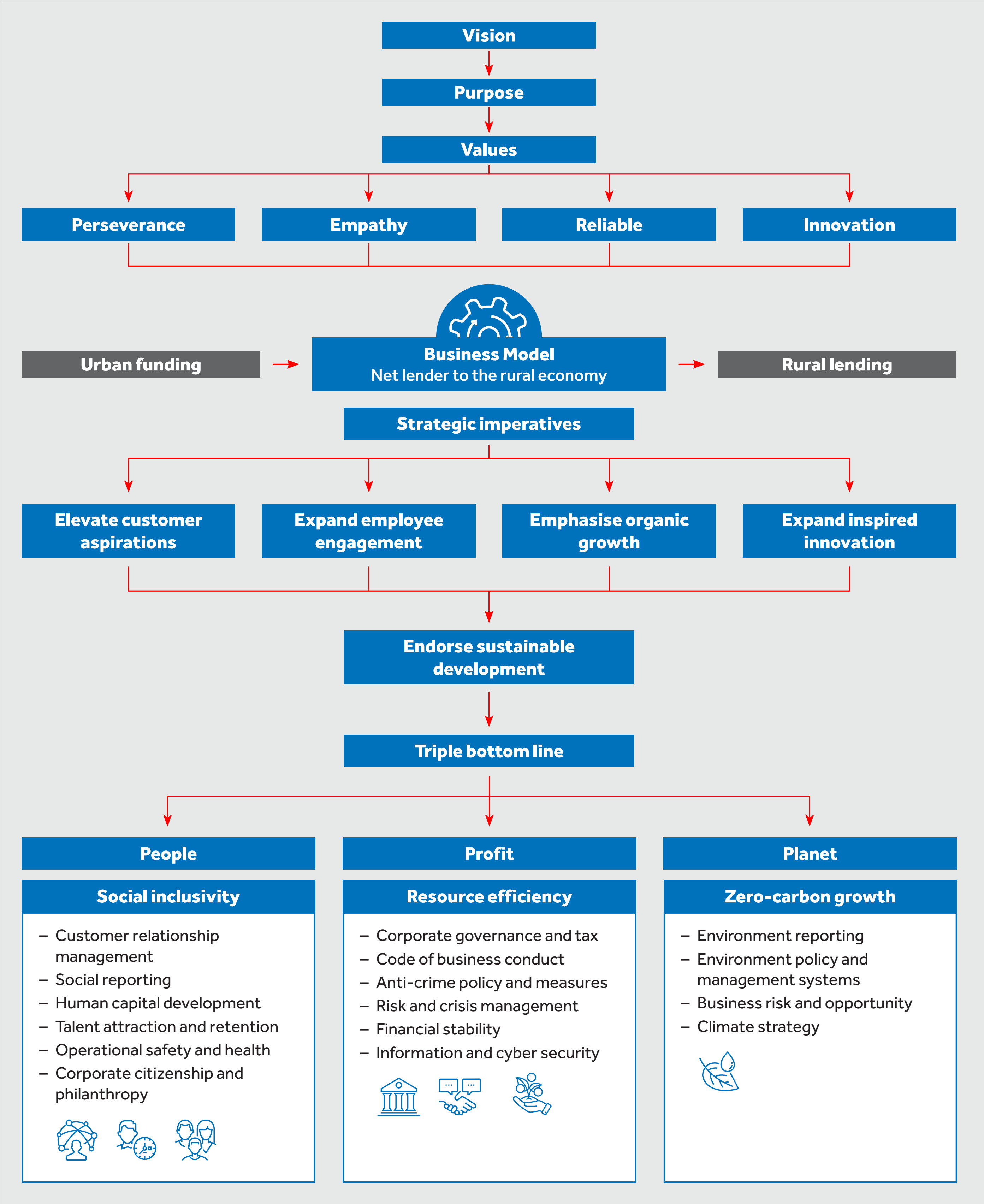
The growing strength of our balance sheet and continued improvement in our financial position reflect our financial stability and financial strength. Our purpose "empowering aspirations" showcases our tenacity to elevate the aspirations of our stakeholders, making luxury affordable, bringing prestige and recognition. This is in sync with our social sustainability and environmental stewardship. The CDB Sustainability Steering Committee provides oversight to the Company's sustainability policy and agenda of promoting financial inclusion. The Committee closely monitors our business conduct to ensure accountability, fairness and ethical behaviour whilst assuring privacy of customer data. Adopting ethical business practices, we maintain a zero tolerance towards financial crime, bribery and corruption.

> **We understand that the long-term success of our Company is fundamentally intertwined with the futures of stakeholders. A future where our customers and employees have opportunities to realise their aspirations, communities to be thriving and the environment to be conserved.**

Our commitment towards the United Nations Sustainable Development Goals (SDGs) is a company-wide approach initiated by the Board of Directors and implemented by the CDB team. Our efforts to advance sustainable development is reflected in our investments, our financial solutions and the practices we adopt. These are geared towards community development and environment conservation and thereby addressing the economic and social challenges of our time.

By sharing the value created for the benefit of all our stakeholders, we have aligned our goals to serve the long-term goals of society. We remain committed to creating lasting and meaningful value for all our stakeholders, which extends beyond financial profit. The COVID-19 pandemic that has affected millions of lives and businesses does not need to slow our journey towards sustainability. The pandemic highlights the importance of taking care of humanity and the planet – which, ultimately is good for the business.

## Sustainability value creation model



**Vision**

**Purpose**

**Values**

**Perseverance** | **Empathy** | **Reliable** | **Innovation**

**Urban funding** → **Business Model** Net lender to the rural economy → **Rural lending**

**Strategic imperatives**

**Elevate customer aspirations** | **Expand employee engagement** | **Emphasise organic growth** | **Expand inspired innovation**

**Endorse sustainable development**

**Triple bottom line**

### People

**Social inclusivity**

- Customer relationship management
- Social reporting
- Human capital development
- Talent attraction and retention
- Operational safety and health
- Corporate citizenship and philanthropy

### Profit

**Resource efficiency**

- Corporate governance and tax
- Code of business conduct
- Anti-crime policy and measures
- Risk and crisis management
- Financial stability
- Information and cyber security

### Planet

**Zero-carbon growth**

- Environment reporting
- Environment policy and management systems
- Business risk and opportunity
- Climate strategy

## CDB SDG Outlook

The UN SDGs and associated targets, collectively create an agenda to transform the world by overcoming barriers to economic, social and environmental progress by 2030. Of the 17 SDGs, we will deeply focus on identified eight goals, towards which we can make the greatest contribution.

We continuously strive to build a society that is just, equitable and inclusive with a commitment towards contributing to a sustained and inclusive economic growth, social development and environmental protection. This would benefit all, in particular the children and youth – the future generation of the world.

We support the implementation of the UN SDGs through our strategic investments and creating a framework for sustainable business practices at economic, social and environmental levels. We will continue to strengthen our performance and organisation sustainability in the process of achieving our long-term objectives focused on the following areas:

**1. Enhance employee engagement**

Our employees make a difference with their dedication, skills and knowledge and we aim to enhance and strengthen their commitment to sustainability.

**2. Contributing to sustainable development**

We will continue to support the UN SDGs and make a meaningful contribution towards building a sustainable Nation.

**3. Maximise impact**

We aim to strengthen our commitment to addressing major global challenges and maximise the positive impact of our operations, brands and technologies.

**SDG 15: LIFE ON LAND**

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

**SDG 12: RESPONSIBLE CONSUMPTION AND PRODUCTION**

Ensure sustainable consumption and production patterns

**SDG 7: AFFORDABLE AND CLEAN ENERGY**

Ensure access to affordable, reliable, sustainable and modern energy for all

**SDG 6: CLEAN WATER AND SANITATION**

Ensure availability and sustainable management of water and sanitation for all

**SDG 1: NO POVERTY**

End poverty in all its forms everywhere

**SDG 3: GOOD HEALTH AND WELL-BEING**

Ensure healthy lives and promote well-being for all at all ages

**SDG 4: QUALITY EDUCATION**

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

**SDG 5: GENDER EQUALITY**

Achieve gender equality and empower all women and girls

## SDG 1: NO POVERTY

End poverty in all its forms everywhere

- Contributed to Government revenue through the payment of taxes amounting to Rs. 967 Mn. for FY 2019/20.
- Facilitating equitable and fair access to a range of products and financial services (refer page 65).
- Providing livelihood opportunities to sustain living conditions of people predominantly in the base and mid-market segment by net lending Rs. 17.8 Bn. outside the Western Province as a "Net Lender to Rural Economy".
- Responsible investing – 2% of CDB's profit after tax is allocated for social and environment initiatives.
- Social impact investment of Rs. 24.2 Mn. for building community capacity through the following activities and programmes:
  - CDB "Act Early for Autism" focused on child health and well-being.
  - CDB "*Sisu Diri*" Scholarships and CDB Smart Classrooms project to enhance child education and literacy of under privileged children in Sri Lanka.
  - CDB "*Hithawathkam*" focused on encouraging employee volunteerism.
- Created 891 employment opportunities outside the Western Province and promoted job security, including the provision of decent work, respecting labour rights, improving skills and paying a living wage to enable employees to be free from poverty.
- Paid employees an equal and fair salary and bonus of Rs. 1.1 Bn. in FY 2019/20 for the work of equal value, taking into consideration the needs of employees and their families, the general pay rate in the country, the cost of living, other benefits, and the relative living standards of other social groups.
- Providing safe and friendly working conditions for women such as separate washrooms for men and women, drinking water facilities and tea/ coffee service throughout the day.
- Promoted 33 entrepreneurs and their start-ups through SMB Friday digitally developed entrepreneurial platform.
- Assessing adverse human rights impacts of suppliers.
- Supporting suppliers and business partners to honour human rights and meet sustainability criteria. Considering termination of relationships in the event the suppliers or business partners fail to meet their responsibilities of respecting human rights.
- Ensuring that no slavery, forced or bonded labour is undertaken within CDB operations and suppliers operations through the Environmental and Social Management System (ESMS), Procurement policy and Supplier Codes of Conduct.
- Implement nationally appropriate social protection systems by providing a fair salary and benefits, insurance covers to employees and their families, medical care and good work conditions.
- Rs. 54 Mn. worth insurance coverage were given to employees.
- To elevate aspirations, make luxury affordable and bring prestige and recognition to stakeholders, we continued developing innovative solutions such as patpat.lk, CDBiNet, CDBiTransfer, CDBiDeposit, CDBiControl app and investing in infrastructure that facilitates the access to basic services.

## SDG 3: GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages

- Providing health-care options to employees, encouraging healthy lifestyles and providing decent working conditions.
- A comprehensive range of health and safety protocols were implemented to ensure safety of staff members and customers who came to our office premises. These included maintaining physical distancing, temperature checks, shoe disinfectant rubber mats at entrances, transparent counter separators for customer interactions, providing personal protective equipment (PPE) for Security Officers, wash basins for regular hand washing, disinfecting branch premises, and providing private transportation facilities to employees. An initial investment of Rs. 9 Mn. was incurred to implement necessary safety protocols, inclusive of customer counters.
- Improving access to medicine by deploying 15 First Aid assistants for each floor of the Head Office and one member each for the 70 outlets
- "Active Ninja" – In collaboration with the Health and Wellness Unit of the University of Colombo, the employee health and well-being educational programme was launched to provide free medical services, resources and information to raise awareness about health issues and available services.
    - Conducted a Baseline Survey Questionnaire with the participation of 794 employees to assess the risk level of non-communicable diseases (NCDs).
    - Creating a healthy environment by placing weighing scales and BMI charts in each branch and every floor of the head office floors for employees.
    - 71 free medical tests were conducted for employees upon registration for the programme.
    - Individual consultation by a renowned nutritionist and dietician.
- In partnership with the Health and Wellness Unit of the University of Colombo a series of awareness programmes were conducted to educate our employees on healthy lifestyles and benefits available for health-care including flexible working and lifestyle education and to promote healthier lifestyles.
- Providing maternity and paternity leave, extending leave in the event of an illness or complication or risk of complications, providing facilities and flexible working hours to take care of the baby and developing appropriate family-friendly facilities for employees which extend beyond compliance.
- Maintaining a zero occupational disease rate, zero work-related fatalities and promoting safe and healthy surroundings with active mobility and sports for all employees.

## SDG 4: QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

### Employees

- Having in place a Corporate Sustainability commitment to meet our corporate responsibility to respect human rights.
- Respecting the universal right to work, providing equal opportunity to earn a living through work with freedom of choice and space to safeguard the rights of employees.
- Information about human rights, gender equality and sustainable development have been included in our Corporate internal policies, such as the Employee Code of Conduct and HR Policy. We have ensured that these policies are comprehensively shared and understood by all employees by increasing awareness and application.
- Aligning educational priorities in communities within our business operations and addressing challenges to education, we provide employment opportunities to youth in rural areas, support their education and provide training opportunities to increase their employability. During the year under review, 268 youth were recruited from outside the Western Province.
- Providing all our employees learning opportunities to enhance their knowledge and skills needed for sustainable development and pursue sustainable lifestyles. This process begins from the time they join the Company.
- Engaging with educational institutions to develop and support programmes for employee training, employment skills and educational development, and enhancing training skills
- Supporting employee education by providing an E-learning platform, library facilities.
- Reimbursing the examination and course fees to encourage employees to obtain extra qualifications or continue their education. During the year under review, educational reimbursements amounted to Rs. 3.1 Mn. was reimbursed.
- Average hours of training per employee for FY 2019/20 recorded at to 39 hours.
- Provided equal opportunity for 4 differently-abled employees to pursue their education.
- A total of 69,354 training hours were spent on training while providing overseas training to 17 staff members.

## Community

- Through CDB "Sisu Diri" scholarship programme and CDB Smart classroom programme, we ensure that all school children are able to complete their primary and secondary education which leads to relevant and effective learning outcomes.
- Respecting the universal right to education, we support children's right to education and facilitate education beyond the free education provided by the Government through the our Autism Awareness program – "Act Early for Autism", CDB "Sisu Diri" scholarship programme and the CDB "Smart Classroom" IT lab donation programme.
- The CDB "Act Early for Autism" awareness programme educate and engage midwives, children, parents and related public through outreach programmes.
- With aim of creating value through employee participation, we encourage and educate our employees to volunteer their time and effort to give back to the community through "CDB Hithawathkam".

## SDG 5: GENDER EQUALITY

Achieve gender equality and empower all women and girls

- End all forms of discrimination against women in our Company.
  - All employees received a regular performance and career development reviews during the reporting period
  - Average hours of training by Employee category (Please refer Employee capital, page 80)
  - Ratio of the basic salary and remuneration of women to men for each employee category (Please refer Employee capital, page 76)
  - Frequency of periodic equal pay reviews/audits, including basic pay, overtime and bonuses
  - Total number and rate of new employee hires during the reporting period, by age group, gender and category (Please refer Employee capital, on page 76)
  - There was no incidents of discrimination during the reporting period
  - Total number of employees who were entitled for maternity leave was 459 and 22 staff members took maternity leave during the year
  - 17 employees returned to work in the reporting period after maternal leave ended
  - Return to work and retention rates of employees that took maternal leave is 77.27%.
- Eliminate all forms of violence against all women and girls in the public and private sectors, including trafficking and sexual and other types of exploitation.
  - Establishing a zero-tolerance policy towards all forms of violence in the workplace and preventing sexual harassment.
  - Establishing policies, procedures, grievance mechanisms and support structures for employees to anonymously report incidences or suspected incidences of violence, exploitation or harassment, and having protection in place for whistle-blowers so that employees are free from fear of retribution.
  - Communicating our commitment to reduce gender-based violence both internally and externally. Raising awareness among employees about what constitutes harassment, trafficking or exploitation, and providing training on how to manage and prevent it.
- Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
  - Ensuring non-discrimination in employment through implementing gender-sensitive recruitment policies (Recruiting women for Sales and Operations, promoting women to managerial and executive positions and welcoming women to corporate Board of Directors)

## SDG 6: CLEAN WATER AND SANITATION

Ensure availability and sustainable management of water and sanitation for all

- Respecting the right to safe drinking water and sanitation through availability, accessibility, acceptability and quality of water.
- Providing safe and gender-separate toilets facilities to employees.
- Managing sanitary products, medical waste disposal and cleaning equipment storage, and providing sanitation and hygiene training to employees.
- Improving water performance and promoting reuse of fresh water through rainwater harvesting system.
- Sharing smart solutions with peers and promoting awareness in conserving water among employees.

## SDG 7: AFFORDABLE AND CLEAN ENERGY

Ensure access to affordable, reliable, sustainable and modern energy for all

- Implementing innovative modern delivery channels that contribute towards a low-carbon economy.
  - CDBiNet - First-of-its-kind e-finance platform in Sri Lanka which allows CDB savings account holders to transfer funds via social media platforms (Facebook, WhatsApp, Viber, Imo, email) or through a simple text message. This comes with a web browser and mobile application.
  - patpat.lk - An online e-commerce platform for vehicle trading and three vertical offerings of leisure, education and property.
  - SmartOps ERP Solution – facilitate real time operations across divisions and CDB outlets.
  - Centralised Data Processing Unit (CDPU) –Centrally operated archived paperless data processing system and Robotic Automation Process (RPA) initiation
  - Scaling up the energy systems of three outlets to solar power.
  - Integrate into the medium-term business strategy to invest and promote household renewable energy and increase our renewable energy consumption.
  - Collaborate with energy providers and relevant companies to scale-up both supply and demand of renewable energy and develop a district energy system.
  - Partner with suppliers to procure clean energy, increase share of renewable energy and support new business models to deliver sustainable and renewable energy.
- As at 31 March 2020 our energy efficient vehicle portfolio stood at 24%.
  - Mid-term plans to engage responsibly with the public sector to support in developing well-designed, stable policy frameworks and financing mechanisms to tackle market barriers (poor regulatory environment and limited market intermediaries) including providing finance assistance to generate affordable energy efficient vehicle technologies to Sri Lanka.
- Monitoring and reporting the amount of energy produced, purchased and consumed, according to source as per the annual carbon footprint analysis of the Company and the energy consumption was at 2.4 Mn. kWh.
- Collaborating with suppliers and peers to reduce energy consumption, setting energy efficiency standards, adopting cost-effective standards of technologies and promoting energy efficiency through regular "Energy Audits".
- Tracking and reporting energy usage, reduction and intensity over time and continuously striving to reduce energy consumption in our own operations, including using efficient lighting and efficient electrical appliances as a compulsory requirement under annual CDB GHG emission analysis process.
- Creating employee awareness on energy reduction and improving energy efficiency in households through competitions.

## SDG 12: RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns

- Incorporating sustainable development into our corporate vision, policies and strategies and developing sustainability targets and indicators across our operations.
  - CDB Purpose statement "Empowering Aspirations" ensures elevation of aspirations by making luxury affordable while bringing prestige and recognition.
  - Voluntary adoption of UN SDGs across the Company.
  - Development of innovative and sustainable products and services that reduce the environmental impact such as CDBiDeposit, CDBiTransfer, CDBiNet, CDBiControl app, patpat.lk the virtual trading platform and patpat app etc.
- Implement our mid-term goal of setting up the Citizens Sustainable Financing Unit to process sustainable financing requirements of our customers.
  - Establishing sustainable consumption programmes within the Company to create awareness.
  - Using renewable materials and energy-efficient technologies to reduce the burden on natural resources and decreasing biodiversity.
  - Investing in improving environmental performance and conducting training programmes in core business strategy and operations.
  - Raising consumer awareness and promoting consumer education to improve their willingness to engage in sustainable consumption.
- Understanding sustainable management in all operations through Environmental and Social Management policy and system (ESMS).
  - Avoiding or mitigating the foreseeable environmental, health and safety-related impact over the lifecycle of services and taking a precautionary approach to environmental challenges.
  - Monitoring human rights, social and environmental risk of the customers.
- Tracking and reporting waste generated and disposed, emissions of air pollutants including short-lived climate pollutants such as black carbon and methane and GHG, land pollution, water discharge and impacts of transportation through annual Carbon Footprint analysis.

## SDG 15: LIFE ON LAND

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

- Conducting a variety of environmentally sustainable activities across our outlets and the communities in which we operate by the CDB Agents of Change through the "CDB Green Club" with the aim of "connecting people to nature".
- ISO 14064-1:2018 Carbon verification and a certified carbon neutral business entity with an annual disclosure of GHG emission data and material climate risk information.
- Collaborating with private sector institutions, the Biodiversity Sri Lanka (BSL), United Nations Global Compact (UNGC) and Sri Lanka Forest Department to restore and manage the degraded fern land adjacent to Kanneliya Forest Reserve, Halgahawala, Opatha, under the "Life project". This is because we understand the social and economic value of ecosystems, their aesthetic value and recreation and functions in supporting ecosystem processes.
  - Long-term plan to create a biodiversity credit accrual system for Sri Lanka by understanding the market opportunities for reducing GHG emissions from deforestation and degradation, related land-based carbon offsetting and certified forest products.
  - Total investment on biodiversity conservation Rs. 1.4 Mn.
- "Green Ninja – CDB Quiz Master" programme to create awareness in biodiversity and ecosystems amongst our employees and thereby integrate environmental sustainability into our corporate goals and targets.
- Contribute to sustainable management of forests through rehabilitating lands destroyed by business operations, and committing to reduce deforestation of degraded landscapes as we restore one acre of Wilpattu forest reserve.
- CDB annual "E-waste" and "Paper waste" recycling programmes to recycle waste generated and harmful chemicals used in our operations responsibly and assess and prevent the actual or potential negative impact on soil, wildlife, ecosystems and the food chain.
- Providing information to employees to reduce food waste and contribute towards a sustainable environment.
- Improving environmental literacy to build a grassroots movement to achieve SDGs by sharing E-flyers and videos among all staff members.

# 02 – OUR BUSINESS MODEL

**Historic moments of ignition:** Inventing the battery

**The invention that catalysed the industrial revolution is a characteristic of our business model, which powers our business strategy and drives positive change.**

Our business model drives our strategy and incorporates many industry leading products, services and applications that embrace and leverage technology. We have reengineered and adapted our business model to create sustainable value for our stakeholders even during a challenging operating context.

**INPUTS**

**Employee capital**

- Inventive and open-minded people
- Outcome-oriented, merit-based working environment
- Rs. 16.5 Mn. spent on training and development
- Recruitment and career progression policy

**Business partner capital**

- Transparent procurement policy
- Strategic partnership
- Sustainable sourcing

**Social capital**

- Commitment to social inclusivity
- Responsible and ethical business operations
- Motivating and enabling employees to effectively serve community needs
- Supporting the human capital development needs of the country

**Financial and Investor capital**

- Financial stability and strength
- Dividend policy
- Equity capital of Rs. 8.7 Bn.
- Deposits of Rs. 47.2 Bn.
- Borrowings of Rs. 29.1 Bn.
- Investor relations management

**Natural capital**

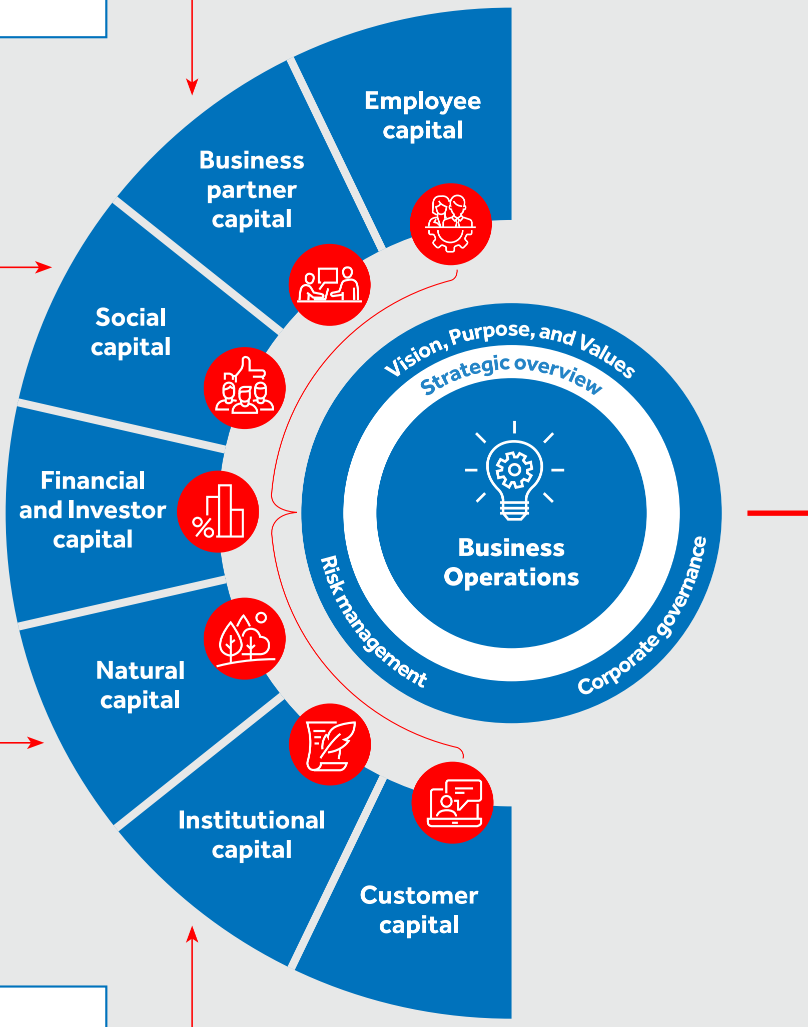
- United Nations Sustainable Development Goals (UNSDGs)
- Environment and Social Safeguard Policy
- CDB Green Pledge
- Demands for a sustainable business operations
- Resource conservation through 7R concepts

**Institutional capital**

- Strong corporate brand
- State-of-the-art core IT system
- Institutionalised knowledge
- Policies and procedures
- Drive towards innovation

**Customer capital**

- CRM system and communication
- Effective customer engagement
- New products and services
- Innovative digital products and platforms



## OUTPUTS

**Rs. 16.7 Bn.**
Revenue

**Rs. 1.7 Bn.**
Profit after tax

**Rs. 24.53**
Earnings per share

**1.89%**
Return on assets

**17.21%**
Return on equity

Brand value improved to **Rs. 1,849 Mn.**

Physical touch points expanded to **71**

**265,000+** customers

**24/7** trilingual contact center

Innovative product offerings

**950,000+** unique users per annum for patpat.lk

**1,400+** registered dealers in patpat.lk

**1,300+** Island-wide dealer points

**69,354** total number of training hours

**Rs. 16.5 Mn.** investment on traning through 115 training programmes, working out to 39 training hours per employee

**411** staff promotions

**Rs. 29.6 Mn.** invested in environment and social sustainability initiatives

**Rs. 17.8 Bn.** Net lending outside the Western Province

**Rs. 3.7 Mn.** contributed for the Autism Trust Fund

**2,760 $tCO_2e$** neutralized by investing in clean energy projects

## OUTCOMES

Increased profitability and liquidity through sound financial management and emphasis on organic growth

Elevated customer aspirations through innovation and customer centric business operations

Long-standing mutually beneficial strategic partnerships leading to trust and loyalty

A business entity that is innovative, sustainable, socially responsible, and environmentally friendly

Motivated and dedicated team with a positive attitude through expanded employee engagement

An equitable society through financial inclusion and entrepreneurial empowerment

ISO certified and carbon verified organisation through sustainable business practices

Contribution to a sustainable future committing towards UN Sustainable Development Goals

BUSINESS DOMAIN

OPERATING ENVIRONMENT

# 03 – OUR BUSINESS IMPACT

**Historic moments of ignition:** Inventing the light bulb

**As this light bulb brightened homes and workspaces in the late 1800s, we strive to illuminate the lives of our stakeholders including the environment and communities within which we operate.**

Our prudent approach to sustainability and growth through proactive responses to the current crisis has ensured our resilience on all fronts; our business, our culture and our morale.

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# Financial capital

Financial capital is most critical to our business of financial intermediation. It includes the pool of resources which is managed and facilitates the creation of value with other capitals. Our financial capital includes, debt, equity, and reserves.

Financial capital enables us to achieve sustainable growth and strengthen our position in the financial services industry. We enhance the value of our financial capital through strategic financial management.

A strong financial position is essential to strengthen the resilience and agility of our Organisation and deliver increased value to all our stakeholders.

## Highlights

**Rs. 71 Bn.+**
loan portfolio

**Rs. 75 Bn.+**
funding portfolio

**Rs. 11 Bn.+**
total equity

**90%**
income earning assets

**Rs. 15 Bn.**
interest income

**20%**
increase in net interest income

**Rs. 1.7 Bn.**
PAT

**Rs. 24.53**
EPS

## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

**Contribute towards poverty reduction by empowering customers through our financial solutions.**

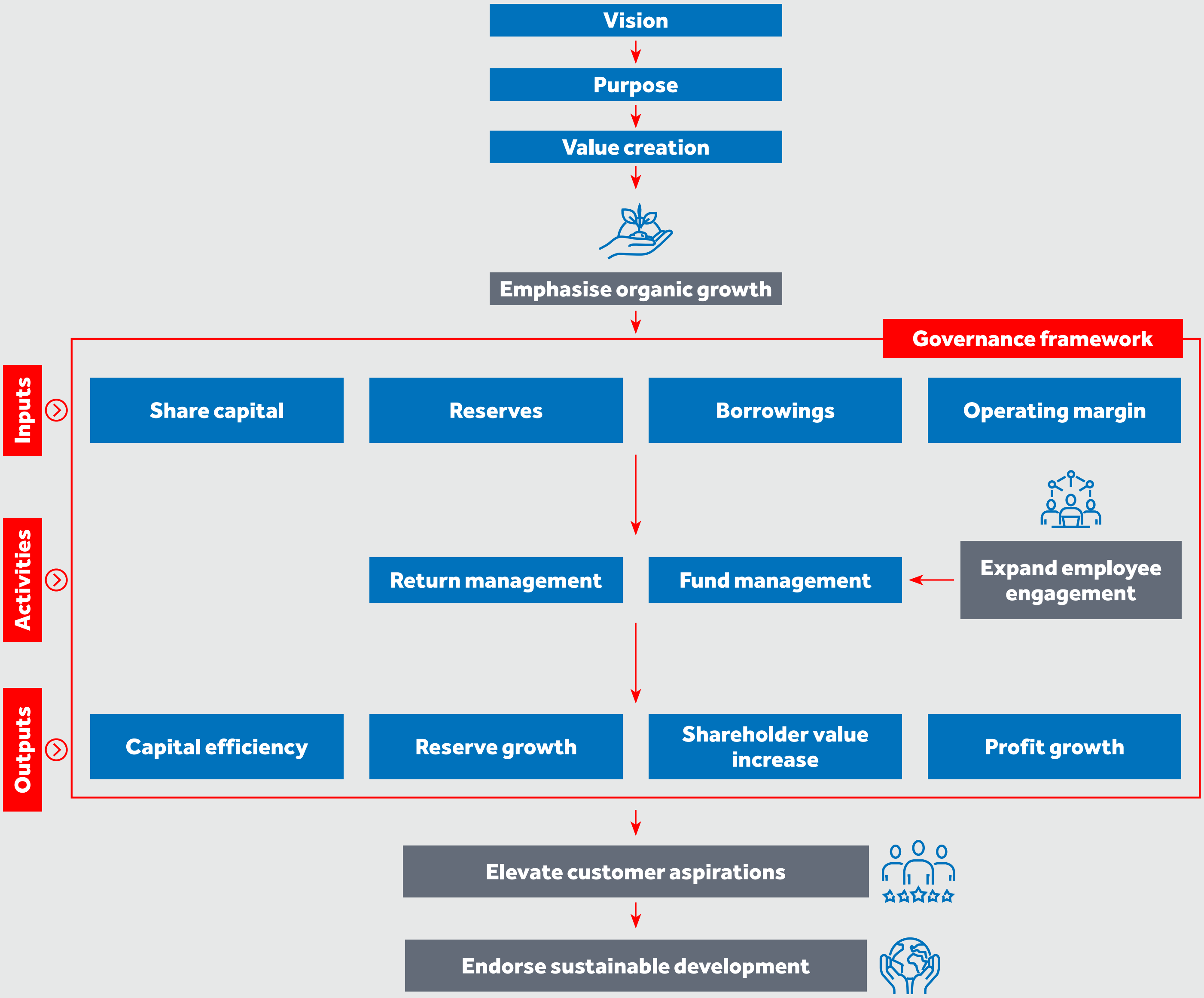
## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Business growth and increasing profit margins | Leverage digital channels to onboard customers, launch innovative products to cater to different needs of customers and maintain a healthy product mix. | Increase in loan book and operating profit margins<br>Sustained financial growth and performance |
| A healthy capital adequacy and liquidity position | Healthy returns and balanced dividend policy, diversified funding portfolio. | Strong capital ratios and liquidity ratios |
| Minimise the NPL ratio | Proactive recovery process, close monitoring of bad debts and efficient management of yard stocks. | Manage NPLs below industry average |
| Maintain a healthy cost income ratio | Efficient cost management, variance analysis and application of cost-conscious procedures across the Organisation. | Increased net profit margin and Return on Assets |

## Trade-offs – Financial capital impacts on other capitals

| | | | | | | |
|---|---|---|---|---|---|---|
| Impact | Investment in energy saving initiatives and augmenting digital channels contributes towards a low carbon economy. | Investments in physical and digital infrastructure improves customer convenience and enhances customer experience. | Investments in brand development and marketing and communications enhances the institutional capital of the Organisation. | During the year, Rs. 6.5 Mn. was invested to conduct promotions with our vehicle dealers, resulting in an increased sales and revenue and strong business partner relationships. | Investment in training and development enhances staff productivity which ultimately results in increased revenue generation. | Investments in CSR projects to address the grassroots level issues that exist in the community, build social capital. |

## How financial capital creates value



Sri Lankan economy encountered scores of challenges during the period under review. The financial year started with terror attacks on Easter Sunday, crippling several important sectors of the Sri Lankan economy. The situation was exacerbated in the third quarter with the economic and political uncertainty usually associated with the election times. The unprecedented consequences of COVID-19 pandemic which started impacting the Sri Lankan economy in mid March 2020 continues to wreak havoc across the globe to date.

Sri Lankan financial services industry too experienced a lacklustre credit growth coupled with a situation of deteriorating credit quality during the period under review. However, interest rates were heading towards a single digit during the period creating opportunities for the industry to improve credit growth. Company continued to record an above average overall performance during the period under review compared to the peers in the industry.

The earnings portfolio which represents over 90% of total assets which remain flat owning to the phenomenon of lower growth in business volumes experienced in the country. Consequently, total assets too grew only by 3% at a similar phase. Company started the financial year with an excess liquidity position which was gradually converted into loans and receivables to customers, thereby increasing the earnings yield of the Company. With the introduction of SLFRS 16 – "Leases" effective for financial years commencing on or after 1 January 2019, branch premises which were taken on long to medium-term leases had to be reported as an on balance sheet asset increasing the fixed assets component of the balance sheet.

Loan book growth was fuelled by both core products and non-core products reflecting better diversification of asset classes and minimised risk. Gold Loans recorded a significant growth which enabled us to improve short-term assets in the maturity profile.

Funding composition was improved by infusing long-term funding obtained during the year with the aim of reducing the maturity mismatch experienced in the less than one year bucket. However, we intend to have a healthy mix of customer deposits which are short term in nature in comparison to corporate borrowings which are long term. This is achieved while maintaining our weighted average cost of funds as low as possible.

Burden of interest expenses was also slightly reduced due to the improvements in the shareholders' funds and other liabilities during the year under review. Shareholders' funds improved due to improved internal generation of capital coupled with the infusion of capital by our shareholders by way of a Rights Issue.

Our Interest earning assets and interest bearing liabilities recorded a healthy 5-year CAGR of 18% and 19% respectively. Interest earning assets to interest bearing liabilities was maintained at 110%. Equity recorded a 5-year CAGR of 21%, reflecting value created for our shareholders.

**Net interest income which is the result of our core business activities grew by 20% showcasing the strength of our franchise and the health of our business strategy. This was supported by the healthy mix of assets and appropriate funding mix maintained by the Company in carrying on its business.**

NIM improved to 6.9% from 6.3% a year ago. We have been maintaining a healthy non-interest income stream too which recorded a 5-year CAGR of 20%.

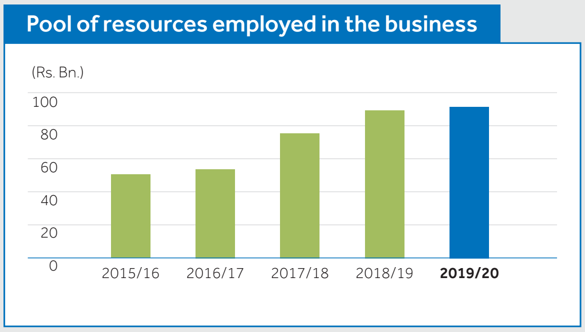
Revenue showed a 19% CAGR for the past five years, but grew only by 3% during the period under review owing to the sluggish growth in loans and receivables and decreasing interest rate trend. The income yield of the assets also declined marginally following the trend of decreasing market interest rates.

Credit cost increased by 32% due to deterioration in asset quality and economic factor adjustments to the statistical modelling parameters used for computing impairment charge to take into account uncertainties in the operating environment. Overheads and taxation however were managed at reasonable levels.

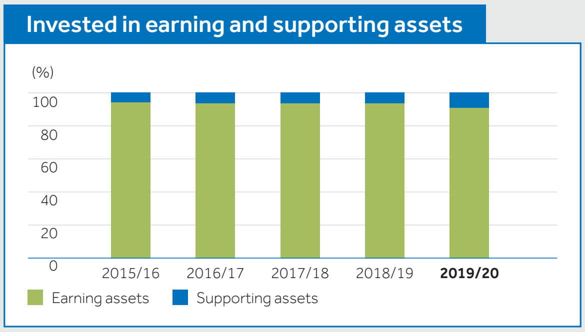
Profit after tax recorded a CAGR of 20% for the past five years. However, it can be viewed as a commendable achievement given the sub-optimal operating environment that prevailed in the country.

## Performance and movement of our profit and loss

### Pool of resources employed in the business

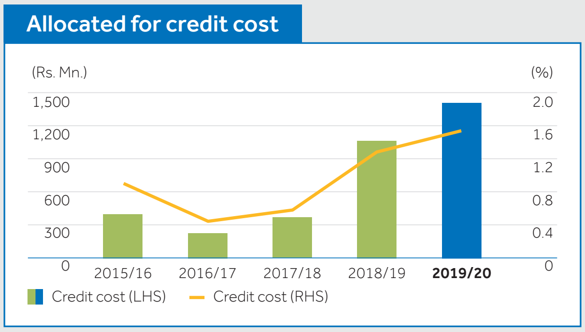


### Invested in earning and supporting assets

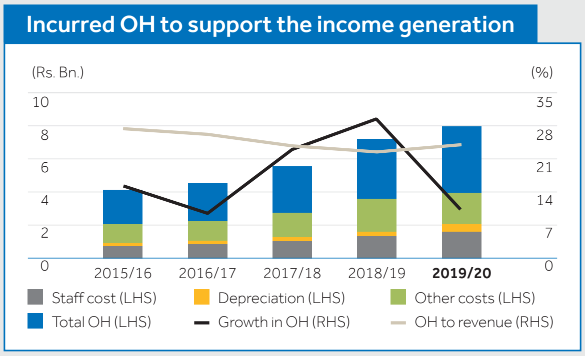


### Funded through interest bearing and other liabilities

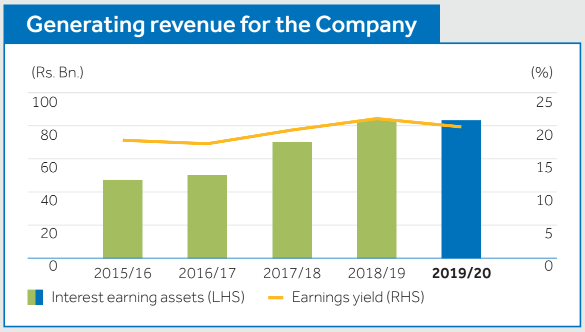
### Allocated for credit cost



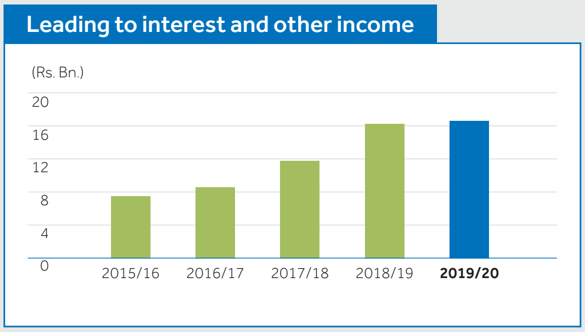
### Incurred OH to support the income generation



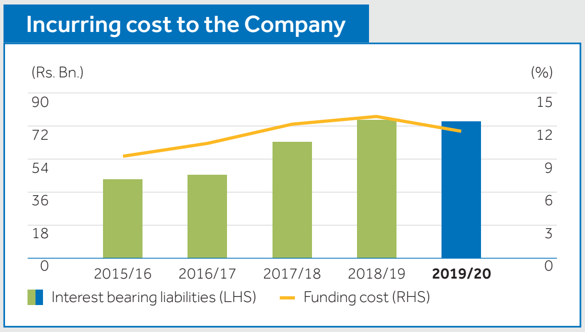
## Generating revenue for the Company



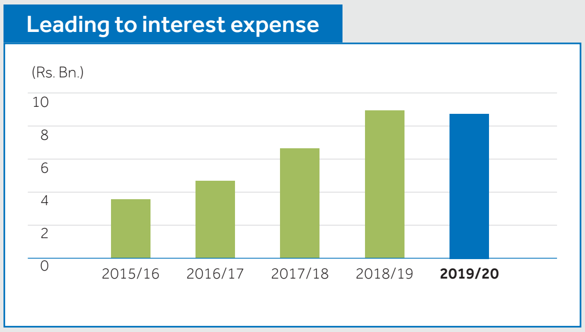
## Leading to interest and other income



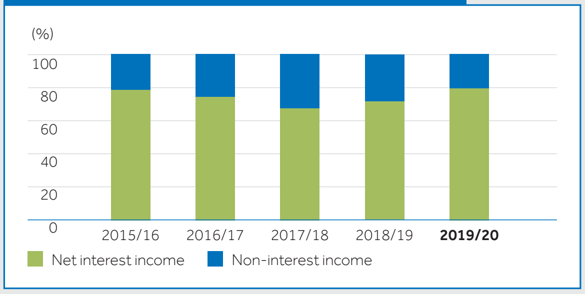
## Incurring cost to the Company



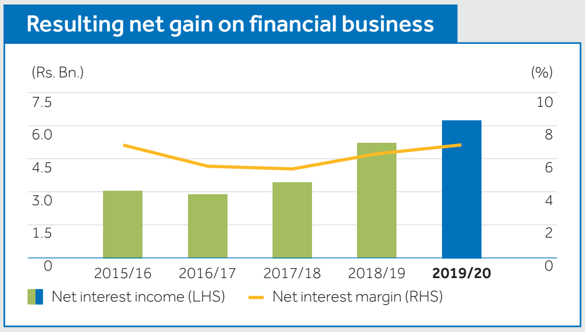
## Leading to interest expense



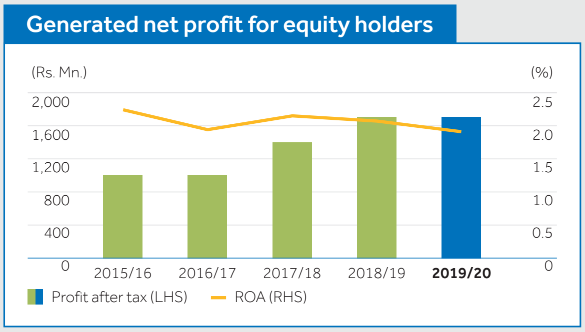
## Generated below composition of mainstream and supplementary income



## Resulting net gain on financial business

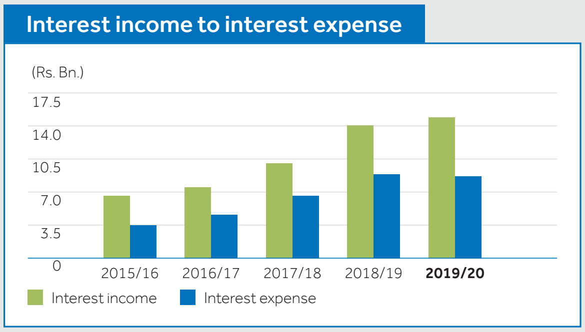


## Generated net profit for equity holders

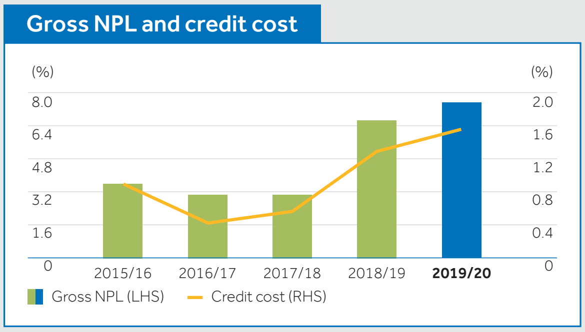


⊕ Plus ⊖ Minus ⊗ Multiplied ⊜ Equals

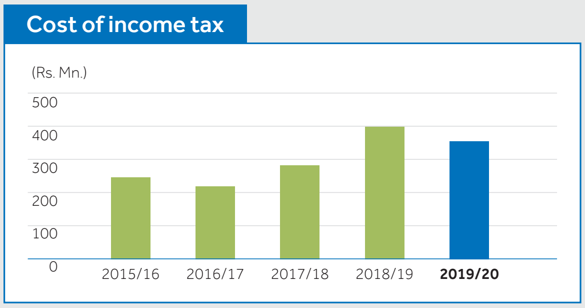
## Interest income to interest expense



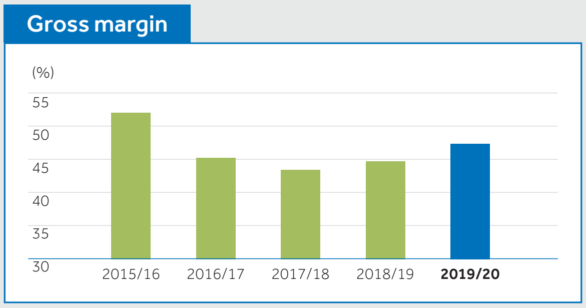
## Gross NPL and credit cost



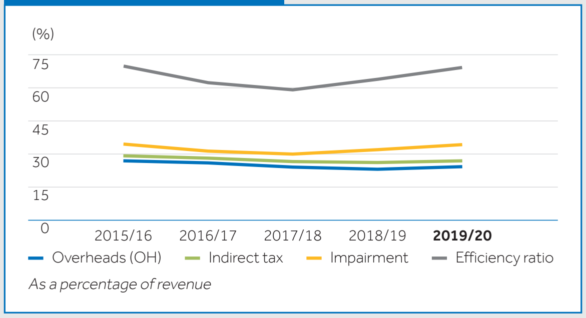
## Cost of income tax



## Gross margin

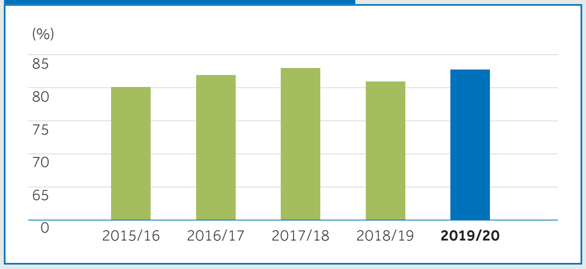


## Operational efficiency

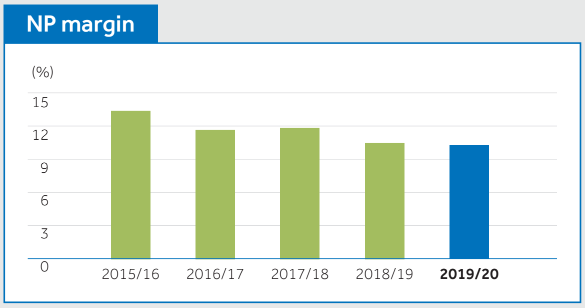


*As a percentage of revenue*

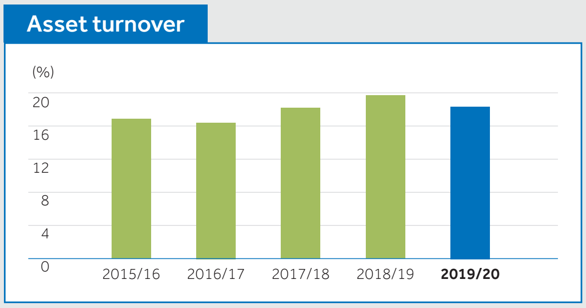
## Tax effect (PAT as a % of PBT)



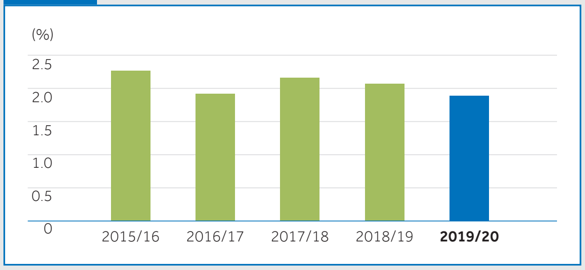
## NP margin



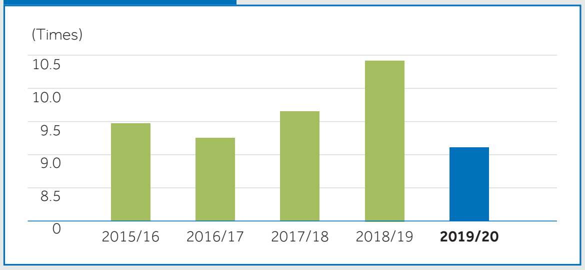
## Asset turnover



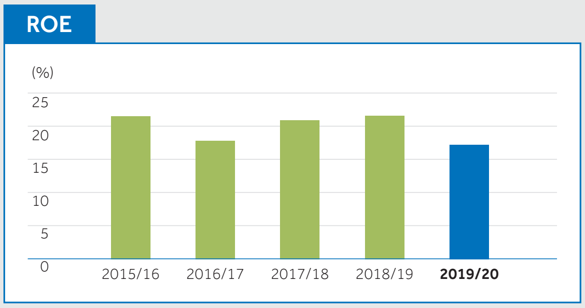
## ROA



## Financial leverage



## ROE



⊕ Plus ⊖ Minus ⊗ Multiplied ⊜ Equals

# Institutional capital

Institutional capital depicts the foundations on which our business is built – our unique identity, culture and core values, systems and processes, innovations, and investments in technology. It also includes our knowledge base, which encompasses the level of expertise and experience of our employees, our brand reputation which is a reflection of our values and our differentiation strategy and our governance structure that leads to operational excellence. These aspects form added value that enhances our value proposition and forms a valuable competitive advantage for us. Our product offering, systems and processes constitute an ecosystem that continues to evolve over time, enabling us to reach many milestones, spurring innovation and delivering an unparalleled customer experience.

Institutional capital interacts with different capitals to create value framing the overall institutional structure that guides representative learning and improvements. This leads to the accumulation of tacit knowledge, for superior learning and unlearning to create an unique core competency and deliver value of source of competitive advantage. Institutional capital enables us to be proactive and be future-ready strengthening the resilience and sustainability of our Organisation.

## Highlights

**Among top 30 corporates** in Sri Lanka by Business Today

Introduced ERP based file tracking system

Introduction of **QR codes** for merchants

**Bronze award** for Best advertising and marketing website for patpat.lk by BestWeb.lk awards

**"A+"**
brand rating with
**Rs. 1,849 Mn.**
brand value

Launch of the new **property vertical** on patpat.lk

**Automated seven work processes** through Robotic Process Automation

**Gold award** in the finance category for patpat.lk by Effie Awards Sri Lanka

## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

**Ensure sustainable consumption and production patterns.**

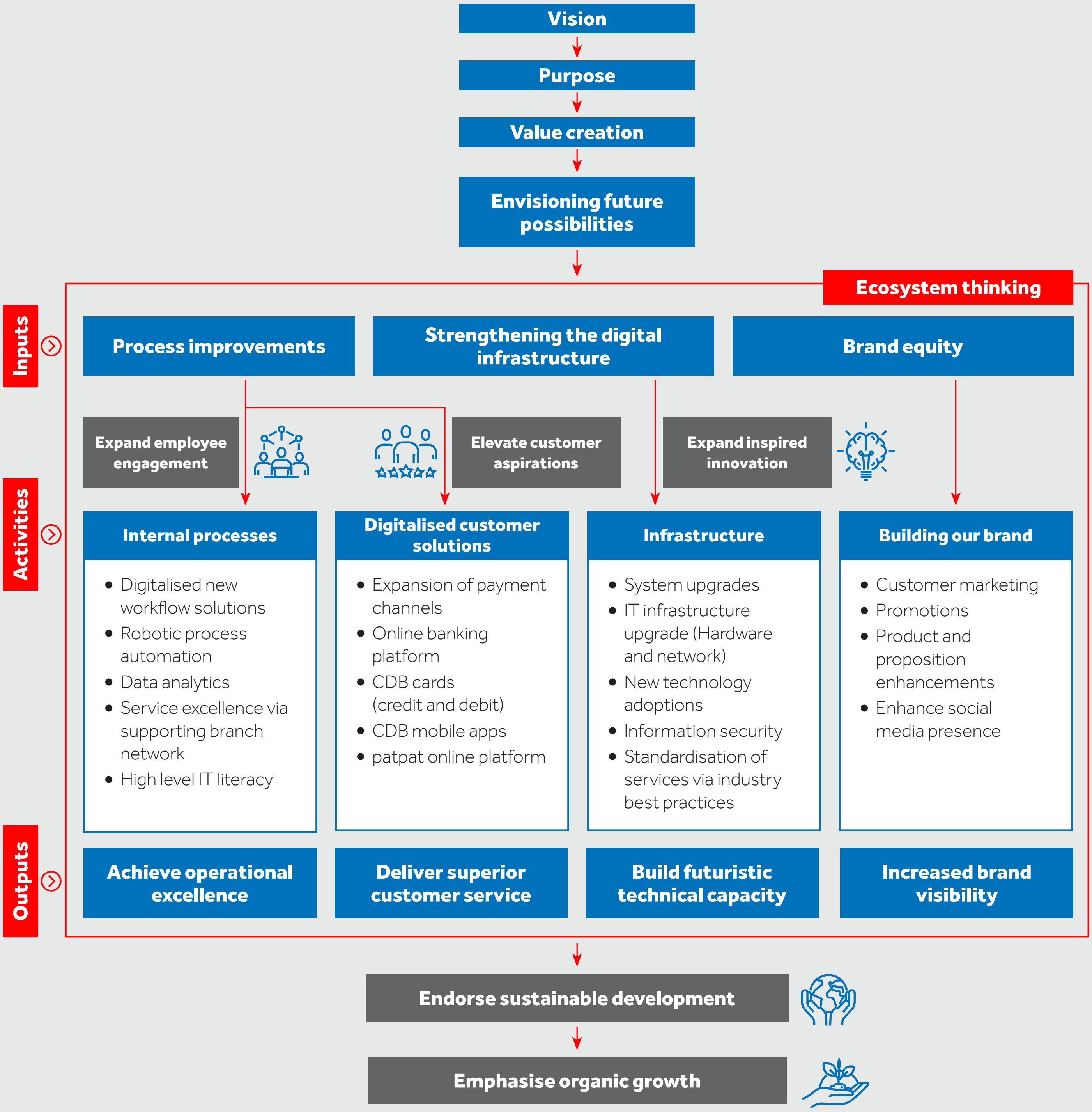
## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Providing differentiated solutions to customers | Revamp mobile applications to improve the user experience and satisfaction.<br>Upgraded the applications and systems to comply with the regulatory measures. | Being able to connect and onboard more customers through a number of channels especially through digital platforms. |
| Targeting the tech savvy generation | Introduced the patpat.lk property platform which is a key introduction to the CDB ecosystem.<br>Enabling users to track and manage their spend using the CDB iControl self-care app. | 894,201 new user registrations to the patpat.lk platform within the year. |
| Delivering supplier payments within a day | Introduction of the online payment system and document checking has enabled payments to suppliers within one day through the SmartOps ERP solution. | Increased the supplier satisfaction, loyalty and the retention rates. |
| Improving efficiency in the file tracking system | Introduction of QR codes for merchants and introduced ERP based file tracking system has enabled smooth and effective file tracking mechanism and branch wise scanning.<br>Introduced digital signatures for speedy document approval process.<br>Improved SmartOps Queue Management System. | Reduced waiting times and improved staff satisfaction.<br>Enabled payments to supplier with one day. |
| Enhance efficiency of repetitive tasks in manual processes | Strengthened data analytics to predict customer behaviour. | Automated processes and effective operational activities through robotic process automation. |
| Flag suspicious transactions related to money laundering | Establish Strong AML and Fraud surveillance<br>Daily risk monitoring. | Being able to identify and respond to suspicious transactions and report timely. |
| Strengthening IT infrastructure | New technology adaption.<br>Upgrading to a new technology infrastructure. | Effective, efficient IT operations.<br>Standardisation of services via industry best practices. |
| Improving data privacy and combating cyber crimes | Strengthened the security of internal systems.<br>Enabled security measures with the increase in remote working arrangements in the awake of the COVID-19 pandemic situation.<br>Staff awareness by IT Governance and Risk.<br>Cyber awareness for customers through CDB corporate website and via social media. | Increased the confidentiality, availability and integrity of data. |

## Trade-offs – Institutional capital impacts on other capitals

| | | | | | | |
|---|---|---|---|---|---|---|
| Impact | Financial capital enables investment in brand development, technology and process and system development. | We provide innovative solutions that enhance customer experience and resource optimisation. | Our efforts to enhance environmental sustainability has improved our brand image. | We collaborate with institutions and organisations to implement our digitalisation strategy. | Investment in employee training and development strengthens tacit knowledge and improves productivity. | Our efforts on building community capital strengths our brand image and drives stakeholder trust in the Organisation. |

## How institutional capital creates value



**Vision**

**Purpose**

**Value creation**

**Envisioning future possibilities**

**Ecosystem thinking**

**Inputs**

**Process improvements**

**Strengthening the digital infrastructure**

**Brand equity**

**Expand employee engagement**

**Elevate customer aspirations**

**Expand inspired innovation**

**Activities**

**Internal processes**

- Digitalised new workflow solutions
- Robotic process automation
- Data analytics
- Service excellence via supporting branch network
- High level IT literacy

**Digitalised customer solutions**

- Expansion of payment channels
- Online banking platform
- CDB cards (credit and debit)
- CDB mobile apps
- patpat online platform

**Infrastructure**

- System upgrades
- IT infrastructure upgrade (Hardware and network)
- New technology adoptions
- Information security
- Standardisation of services via industry best practices

**Building our brand**

- Customer marketing
- Promotions
- Product and proposition enhancements
- Enhance social media presence

**Outputs**

**Achieve operational excellence**

**Deliver superior customer service**

**Build futuristic technical capacity**

**Increased brand visibility**

**Endorse sustainable development**

**Emphasise organic growth**

## Value creation through CDB ecosystem thinking

Converging physical and digital environments, our transformation strategy – "Ecosystem" thinking, connects the lifestyle ecosystem and the social banking ecosystem. This is done by integrating financial and non-financial services with social media (digital presence), mobile, business and data analytics, and cloud solutions. Ecosystem strategies have paved the way to drive our key institutional objectives. Leveraging the latest technologies, we are replacing legacy digital channels, with next-generation platforms to reduce inefficiencies in resource utilisation and extend an exemplary customer service that leads to increased customer satisfaction and loyalty.

Investments and smart improvements of internal operations have optimised the employee ecosystem. To facilitate this transformation, our organisational structure have been revamped which has effected a cultural change within the Organisation. This encompass emerging business areas, technology, and business intelligence.

Customers are enabled to evaluate real-life options and make lifestyle decisions through the customer ecosystem. They are able to conduct all financial transactions through our social lifestyle ecosystem once they come onboard with us.

## Customer ecosystem

### Online trading platform: patpat.lk

patpat.lk, our online trading platform was initially launched to make auto leasing simple and seamless. The platform which is immensely popular has become one of the leading e-commerce platforms in Sri Lanka. The trading operations of patpat.lk has been diversified to other verticals such as leisure, education and property.

### Vehicle trading

"patpat.lk" app enables customer to acquire their dream vehicle in the fastest possible way with the best financial solutions. Customer have the option of searching based on affordability and with more enhanced vehicle options.

Customers who apply for a lease through patpat.lk receive priority service standards set by our leasing partners. This enables customers get an even better vehicle option with a speedy financial solution.

The added advantage of patpat.lk is that the customer is enabled to search based on the affordable monthly commitment and choose from a range of vehicles that suits their budget. Furthermore, customers can view their vehicle via a Desktop Viber option available with our island-wide dealers. The patpat mobile text message application has been introduced to extend our customer engagement on the platform.

### Leisure

Partnering a number of travel agencies who offer international and local destinations for reasonable and affordable monthly instalments.

### Educational

patpat.lk provides educational services as a vertical enabling users to browse through options and opportunities all in a single platform. They are enabled to find the right programme that suits their needs, goals, and preferences.

### Property

The newest addition to the platform is the vertical on property, which enables customers to find their dream property at an affordable price.

## Online transactional platforms

### CDB iNet

This first-of-its-kind revolutionary e-finance platform in Sri Lanka that allows CDB savings account holders to transfer funds via social media platforms. Taking customer convenience to higher realm, CDB iNet users can conduct a host of transactions including, payment of bills, transfer of funds, payment of monthly installments and opening new accounts without any hassle. Denoting bank-in-a-pocket concept, we continually strive to develop products that provide banking convenience anywhere anytime.

### CDB iDeposit

Customers enabled to place fixed deposits through CDB iDeposit on real time basis with the touch of a button using a smartphone or a computer on the CDB iNet platform.

### CDB iTransfer

CDB iTransfer facilitates convenient and secure transfer of funds through social media platforms. CDB iNet users having CDB Savings Account are enabled to transfer funds via social media platforms, without the bank account details of the recipient. This is yet another first for Sri Lanka showcasing our pioneering capability using technology, adding to our ever expanding revolutionary product and service portfolio.

### CDB Cards

Even as impulse buying has become a prominent customer behaviour in the present times, CDB cards have proved to be an effective financial solution to meet the complex needs and wants of individuals.

CDB credit cards were launched with attractive value additions that form our unique selling proposition differentiating our brand and enabling to build a loyal customer base. We have waived the life-time annual fee and extended attractive promotional offers to our cardholders empowering them to reach beyond their expectations and limits.

Powered by EMV technology CDB Visa Debit Cards will ensure every transaction that customer make is safe and more secure. The CDB Visa Debit Card which is linked to the savings account can be used both locally and internationally. We recently launched the PayWave technology enabled for contactless payments via debit cards (tap n' go).

### iControl self-care app

For the first time in Sri Lanka, we introduced the "iControl self-care app" to enable cardholders to have control over the credit card spend and manages the finances. Cardholders can set sublimits according to merchant category to make secure payments and manage their spending. Also the cardholder is enabled to block their lost or stolen card instantly through the app.

## Employee eco system

### SmartOps

Facilitating faster and smoother business operations of the highest quality, our in-house ERP system "SmartOps" developed by IT Research and Development connects all the departments within CDB network on a real time basis. This enables efficient customer service and automation of several back-office functions related to technology, services and human resources.

Today SmartOps has enabled employees to reach the next level in their work by reducing time spent on operational work. All bottlenecks in the Organisation are flagged with delayed time frame creating better visibility, tracking and transparency. It has facilitated digital signature based approval for majority of the operational sanctions and further optimised the queue management system. Our employees can conduct their operations with ease as information and approval of operations are available at their fingertips making their work effortless and stress free. This has greatly enhanced their work life balance leading to empowered aspirations.

| Performance Indicators | **2019/20** | 2018/19* |
|---|---|---|
| Number of delivery orders issued | **33,947** | 26,225 |
| Number of disbursements made through kiosk service | **40,059** | 46,974 |
| Number of balance confirmations issued | **1,762** | 1,669 |
| Number of files couriered | **254,779** | 287,231 |
| Number of service requests solved | **529,647** | 238,877 |

** 2018/19 figures are restated.*

## Centralised Data Process Unit (CDPU)

CDPU is an operational unit which replaced the decentralised outlet wide scanning, centralised the physical file sharing, enabled one-time auto scanning and archiving and uploading of credit files through SmartOps ERP Platform. The CDPU have resulted in improved operational efficiencies, reduced overheads, speedy customer service and paperless data processing. It has facilitated efficient processing and archiving of documents, enabling a 98% success rate in meeting the file processing time service level agreement of two hours.

The following operational efficiencies were achieved through the CDPU:

## Oracle Business Intelligence (ORACLE BI)

Oracle Business Intelligence is a comprehensive business intelligence platform which can perform numerous tasks including conducting ad hoc queries, sending notifications and alerts, enterprise and financial reporting, scorecard and strategic implementation, business process innovation, search and collaboration and integrated systems management and much more.

As a proactive detector, this provides a powerful, multi-step alert engine, close to real-time basis. It can also trigger workflows based on business events and notify stakeholders on their preferred medium and channel. This platform also turns insights into actions by triggering work processes within the business intelligence dashboards and generate user-friendly reports to enable effective analysis.

With the Oracle BI the branch can obtain approvals for security documents without any delay and the documents can be printed at the respective branch.

## Key value additions for CDB:

- Increased operational efficiency at branches
- Increased the number of reports provided by the system to analytical purposes for the departments

## Core banking systems

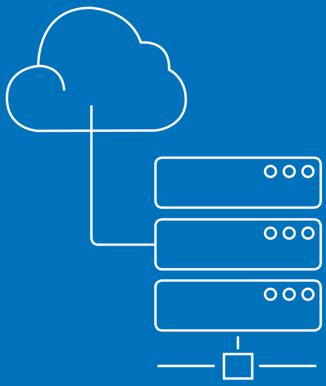
We migrated to a fully-fledged core banking system enabling to provide a bundle of innovative solutions to customers and obtain a competitive edge in the market. This has resulted in increased convenience and efficiency and we became the first Non-Banking Financial Institution (NBFI) to initiate a core banking platform in Sri Lanka.

## Data analytics

### Business intelligence tool

Data being a key asset, we have leveraged on the latest well-rated data analytics tools to handle large amounts of data to identify, develop and create new business strategies. The goal is to go beyond knowing what has happened to providing a best assessment of what will happen in the future. The tool enables employees to combine unequal data across various business applications within

- Dealer registration within one hour
- Execution of services within 30 minutes and some within a day
- The file processing time SLA of 2 hours by 98%
- Saving of time and costs using BOTs
- Creating a stress free working environments
- Enhanced transparency
- All manual work transformed into a file based system



- Flexi working hours based on peak hours
- Know application processing pending queues through SmartOps Queue Management System
- More secure and safe environment
- Eliminated the need for marketing staff to visit the head office by enabling file tracking and automated alerts

CDB to create a unified source of information that is useful for operations. It also helps to better understand trends and implement predictive analytics, providing greater visibility on historical and current data. The Business Intelligence Team play a critical role in driving the CDB's strategy and achieving its objectives by providing effective and timely business insights in an efficient manner. On the other hand, employees are also assessed by the predictive models at the time of interview then identify employee retention probability and evaluation of employees' performance.

### Key value additions for CDB:

- Examine customer default probability on Lending Facilities using credit scoring model
- Create customer scoring based on their past behaviour
- Examine employee behaviour to improve retention and performance rate
- Identify the future business requirement based on past behaviour
- Examine and incorporate macro-economic variable to the future outcome
- Support decision making across the organisation through statistics
- Enhance risk and compliance functions
- Create reports with analytical results, including dashboards and other forms of data visualisation
- Integrate data from various business applications and services

### Anti-Money Laundering (AML) tool

Newly acquired AML tool helps to detect errors and likely fraudulent transactions on a real time basis. Thereby, we are supported to comply with regulatory requirements. The analytics are mostly based on outlier detection methods by identify transactions that fall out of past transactional patterns. Highlighting anomalies can result in the discovery of fraud, manipulation and errors and results in business process improvements.

### Key value additions for CDB:

- Real-time continuous monitoring helps to minimise the risk of involvement in laundering of illicit money
- Flag unusual spike in activities or new transactions of dormant vendors, customers or accounts and check for gaps in number sequences
- Provide a graphical view of transactions, detect unusual trends and duplications

### Robotic Process Automation (RPA)

We marked a significant milestone by implementing a Robotic Process Automation (RPA) system which has the capacity to significantly streamline our operational processes in addition to enhancing the overall efficiency and effectiveness of the Organisation. This process will provide superior service to the customers via increased internal efficiencies while reducing manual labour and optimsing back-end processes. This is an important step in embracing the digital future of CDB. The multiple processes including customer onboarding, credit card operations, recovery, gold loan management, CRIB operations, Auto Finance and insurance have been automated through RPA technology.

RPA allows human resources to be released to higher valued tasks by transferring repetitive, monotonous and non-value driving tasks to robots and results in cost and time savings. The cost of a robot is one third of the cost of a person and there is an increase in productivity due to uninterrupted 24 x 7 x 365 service with continued learning and optimisation leading to significant increases in performance. RPA also improves overall operational efficiency by reducing the resolution time of any operation.

With robots on the job, CDB is geared to eliminate the human margin of error in repetitive tasks. With the capacity for unlimited attention, zero distractions and error-free calculations, robots offer an unparalleled expertise.

We have ensured that the use of Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR) technologies to assist in the extraction of data from documents will enable to implement the business process automation required to meet its objectives of increasing efficiency and reducing costs.

We also installed a tailor made UiPath RPA platform that ensured a best-fit scenario with our automation. We have a virtual workforce that can cost effectively transform our back-end without interfering with the underlying infrastructure, ensuring faster processes, efficiency gains and quicker time-to-market. Powered by RPA and supported by vendors, we are geared and empowered to overcome competitive challenges and strengthen our market position.

### Customer care centre

Good customer service enables to maintain a high level of customer retention. Our staff members are trained to provide the best possible service to our customers. Therefore, we operate a 24/7 Call Centre which provides a trilingual service using advanced technology. Our team members ensured our call centers had uninterrupted 24/7 access even during the COVID-19 lockdown and engaged with our customers to provide a superior service.

### Gold loan system

The newly launched gold loan module has simplified and streamlined the repetitive tasks in our gold loan operations. The system has improved utilisation of human resources and reduced paperwork by eliminating unnecessary documentation and minimising errors in processing transactions.

## Infrastructure development

### Physical infrastructure

We provide greater convenience to our customers through our physical and digital platforms. Our touch points continue to expand fast. We minimise customer movement by providing multiple hassle free touch points. We also continuously improve the branch ambiance, and strengthen our brand identity through the exterior of the branches.

We opened many of our branches across the Nation to serve our customers without disruption during the COVID-19 pandemic. This was due to our proactive decision making and preparedness to face any crisis.

## Point of Sales (POS)

To create a greater customer convenience and enhance our service we have distributed Point-of Sale (POS) machines to 71 branches in the year 2019/20. As a result, our total collection increased by Rs. 536 Mn. during the financial year under review.

## IT infrastructure upgrade

Digital revolution has brought immense opportunities to expand the digital platform in our Organisation. We have adopted cutting-edge technology into our operations to deliver an exceptional experience to our stakeholders. Our investments on digital infrastructure provides great customer experiences and an unparalleled service delivery, whilst safeguarding customer data and securing our systems against cyber threats.

With the pace of change, upgrading our existing IT infrastructure is an important priority as technology plays a vital role in service enhancement. An upgraded infrastructure leads to increased flexibility, efficiency, productivity and stronger security to new business initiatives and processes. We invested Rs. 86 Mn. to upgrade our existing IT infrastructure in 2019/20, to optimise our IT platform and realise cost efficiencies.

We aim to comply with regulatory measures to become a Regulated and Technology Driven (REGTEC) financial institution. The infrastructure upgrade will give us a strong IT operational setup and create a secured infrastructure and a strong control environment.

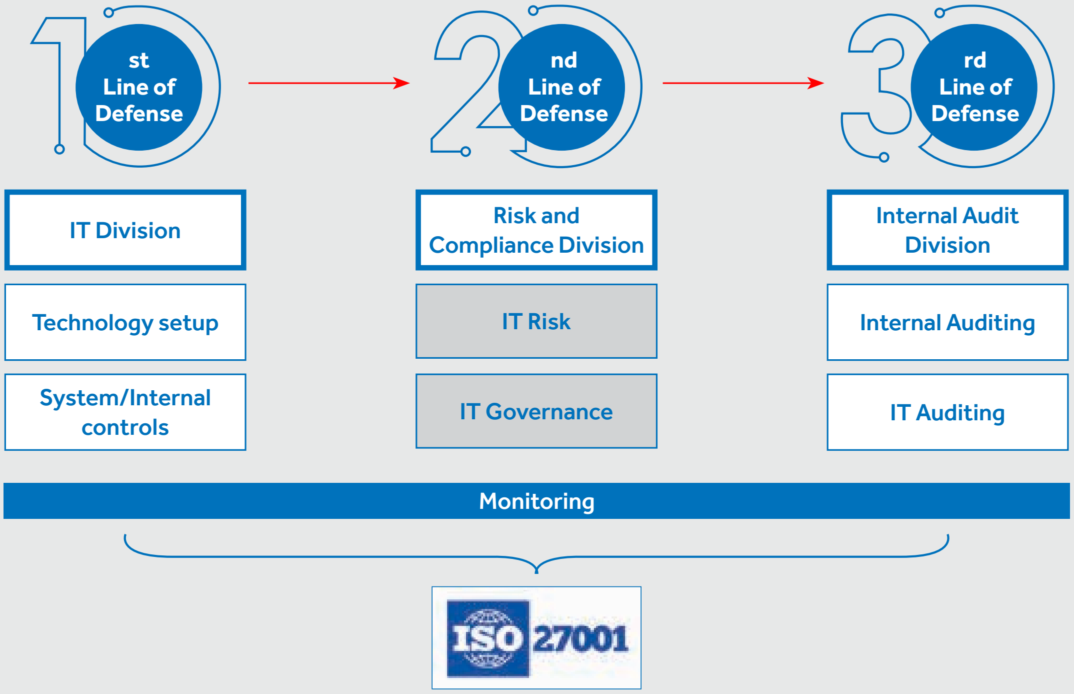
## Strengthening our IT Governance

As we intensify to invests in technology and digital capabilities to build scale and offer best-in-class experience CDB recognise the need to have a robust IT Governance framework to provide a balance mix of technology investments that are aligned with strategic and cross-functional business objectives. As part of this framework we have established the Information technology Steering Committee to promote and support the effective use of technology and information across the organisation. The primary purpose of this committee is to improve alignment between IT and business strategy, accountability for IT decision and finally value generation through ongoing evaluation of IT value and performance of IT services.

We have taken a holistic approach to step up the Information Security of our organisation. The ISO/IEC 27001:2013 information security standard was recertified for the second consecutive year in 2019/20. This confirms the fact that we have maintained information systems and protocols in accordance with global best practices, ensuring the highest levels of customer information security.

A comprehensive firewall and security policy management solution (for multi-vendor), are implemented to combat cyber security and to enhance the security architecture of the Group. ICT shared services have implemented a web application firewall to protect the application systems in tandem with the increasing use of web-based applications and the resulting increase in exposure to the World Wide Web.

## Technology three lines defence



## Our corporate culture

Our corporate culture is open transparent and conducive, derived from adhering to our values and our purpose. Our knowledge culture has been built by institutionalising learning of over two decades. We nurture a culture of utmost professionalism, teamwork, transparency, diversity, and respect between individuals. There is a culture of collaboration and collective decision-making amongst our diverse team of employees whilst being committed to ethical conduct. Having a strong compliance culture and promoting integrity-led behaviour form the foundation of our working culture. We also encourage innovation by encouraging out of the box thinking and its application that has enabled us to deliver trailblazing innovative products and services over the years.

## Our values

### Perseverance

The passion and perseverance of our team has brought CDB to the forefront of the industry and continues to be our driving force.

### Empathy

We care for the well-being of our stakeholders while empowering their aspirations, with an aim of creating a more equitable society. We have never lost sight of our humble beginnings and continue to infuse a sense of humility in all we do.

### Reliable

While being a respected, responsible, socially and environmentally conscious public deposit taking corporate citizen working in an open and a transparent manner in all our dealings, we strive to be the most reliable partner for our stakeholder.

### Innovation

We are constantly innovating to stay relevant and valuable to our customers. We highly value and encourage thinking beyond traditional boundaries, embracing change and exploring creative ways of empowering the aspirations of all our stakeholders.

## Ethics and integrity

At CDB, ethical leadership is a fundamental aspect and it is of paramount important to us. Ethical behaviour is internalised through our Code of Ethics which is central to how we operate and grow sustainably, refuting unethical behaviour, fraud and corruption. Ethical business practices are supported by the top management and is cascaded to the staff members in carrying out day-to-day business and is also guided by our values driven culture.

## Organisational knowledge

Organisational knowledge base is dependent upon the level of expertise and experience our employees accumulate during their service period at CDB. It is an invaluable source of intellectual capital owned by our employees and is difficult to document. 183 of our employees have served CDB for over 10 years or more and their experience has inevitably contributed to the knowledge expertise.

## The CDB Brand

The CDB brand is a key component of our intellectual capital which has enabled us to become one of the largest players in the financial services industry in Sri Lanka. Our brand which is associated with trust, quality and innovation, has facilitated us to deliver a diversified product offering to customers in a highly competitive market. Our investments in brand development have enhanced our brand image and reputation providing the platform to build strong customer relationships.

## Positioning our brand

CDB is a highly respected brand in Sri Lanka with a strong brand visibility. Our brand which reflects who we are and what we stand for have been meticulously built over the years to achieve sustainable growth. Our relentless pursuit of excellence, innovation, and customer service has propelled us to provide a unique value proposition to our customers. The visibility of our brand has been enhanced by the lettering and colours of our logo, facilitating customers to identify and recall our brand with ease.

CDB

*Your Friend*

**Red** colour denotes life, livelihood, dynamism and energy of our brand. This portray our future direction and our commitment to the progress of all Sri Lankans as we strive to deliver these attributes to our customers.

**Blue** colour represents the universe of increasing infinite possibilities and opportunities we offer our customers. The tagline "Your Friend" is strongly associated with the close relationship we nurture with our stakeholders.

## Strengthening our brand

Our brand reputation is a reflection of our values and our differentiation strategy comprising of technological excellence, customer service, effective customer relationship management, market presence, reliability, stability and a strong sense of responsibility. Our brand is one of our most critical and valuable assets, driving consumer preference and delivering value our stakeholders. We continue to invest, grow and evolve our brand.

## Awards and accolades

Awards and recognition received are a testament to our commitment to excellence, sustainability, governance and adopting best practices. Collectively, they contribute to strengthening the overall corporate image and reputation of our Company.

**Asia Sustainability Reporting Awards 2018**

Top Finalist –

Asia's Best community reporting

Asia's Best stakeholder reporting

Asia's Best carbon disclosure

**National Business Excellence Awards 2019 (NBEA)**

Gold award – Non-Bank Financial Services Sector Award

**Carbon verification certificate**

ISO 14064-1: 2006 Carbon Verified financial institution by Sri Lanka Climate Fund (Pvt) Ltd.

**ACCA Sustainability Reporting Award**

Runner Up – Finance services and Insurance category By ACCA Sri Lanka

**CA Award**

Silver Award – Best disclosure on Stakeholder Engagement

**Bronze Award – Best Advertising and Marketing Website**

**SLT Zero One Awards – 2nd Runner Up – Best Digital – Integrated Campaign (Financial Sector) for CDBiNet**

**SLT Zero One Awards – 2nd Runner Up – Best Website or Microsite (Financial Sector) for www.cdb.lk**

**SLT Zero One Awards – Winner – Best Digital – Enabled product/service (Financial Sector) for patpat.lk**

**Most Admired companies in Sri Lanka**
Honourably mentioned

**Carbon neutral certificate**
By Climate Smart Initiative (Pvt) Limited

**Best Corporate Citizen Sustainability Award 2019**
Among ten best Corporate Citizens in Sri Lanka

**ISO/IEC 27001: 2013**
Information Security in Provisioning of IT
Operations and Data Center Management

**Best Employer brand awards 2019**
Best Employer Brand Award

**Effie Awards Sri Lanka 2019**
Gold award – Finance Category for patpat.lk
Organised by Sri Lanka Institute of Marketing (SLIM)

**Business Today Top 30**
CDB Amongst the Top 30
Corporates in Sri Lanka

**Best Employer brand awards 2019**
Award for Talent Management

## Future outlook

Our aim is to provide a world class convenience to all our customers and gradually achieve operational excellence through our digitalisation drive. We will continue to offer innovative channels for customers to conduct financial transactions by adopting advanced technologies and disruptive thinking through digitalisation. Our vision to transform into a technology-backed business through a business process restructuring which was initiated several years ago. These transformational changes were effected to deliver affordable, accessible and efficiently delivered solutions to deliver increased value to our customers through products that contribute to people's quality of life and enterprise development. We will maintain our leadership position and continue to enhance our network and deploy new market leading technologies with the already cemented CDB brand and culture.

Our customer profiling conducted via business intelligence platforms has facilitated us to provide a relevant user experience that enhances customer engagement and loyalty. The comprehensive analysis will increase value for our customers and achieve sustainable business growth by providing actionable insights to enhance customer segmentation and deploy the ideal influences across our different channels. CDB has also been able to take key decisions timely with the help of these vital initiatives.

The implementation of the IT infrastructure project will continue to facilitate the availability and easy access to all applications and solutions running in CDB. We will further strengthen security by the deployed SIEM (Security information and event management) and perform real-time analysis of security alerts generated by applications and network. This will complement the IT Infrastructure project and will facilitate regulatory reporting immensely.

We will be further, capitalise AI (Artificial Intelligence) for data automation and other tasks previously performed by legacy systems and users. The Robotic Process Automation would further increase the efficiency and effectiveness of our internal operations and accuracy of data. We will launch cloud solutions to streamline our applications, services and other digital resources in the ensuing year.

# Customer capital

Our value creation hinges on the ultimate delivery of value to our customers. The strength and quality of our customer relationships significantly affect our long-term sustainability. In a highly competitive industry, we strive to differentiate our brand by the quality of our customer service that results in high customer retention and loyalty.

Delivering fair outcomes for customers is a priority, starting with products and services that are well-designed, catering to specific customer requirements and supported by clear and concise information. We factor in customer interests into our business strategies, to deliver an exceptional customer experience. We also deal with customer issues in a fast, fair, and efficient way and efficient procedures and processes are in place to handle client complaints.

In making luxury affordable as per our brand promise, we constantly innovate and develop our range of financial products and services to enhance customer satisfaction and experience. Our products cater to every life stage of our customers. In particular, with the technological disruption and smart financial engineering, we aim to meet the aspirations of lower and middle income segments and thereby elevate their living standards, giving them a feeling of prestige and recognition by empowering their aspirations.

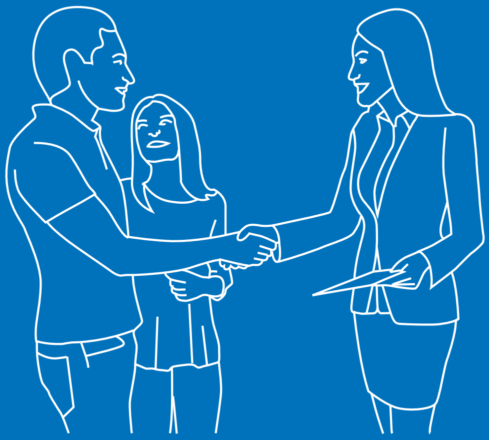
## Highlights

**265,000+**
Total customer base

**950,000+**
patpat.lk unique users

Extension of patpat.lk with the
**new vertical for property**

**33%** female customers out of total customer base



**71** service points covering 21 districts in the country

Out of the total training budget **20%** invested for customer service training

**51%** of branches are located out- side Western province

Focus on making **luxury affordable** through smart financial engineering and sustainable initiatives

## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

1 NO POVERTY

**Contribute towards poverty reduction by empowering customers through our financial solutions.**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

**Ensure sustainable consumption and production patterns.**

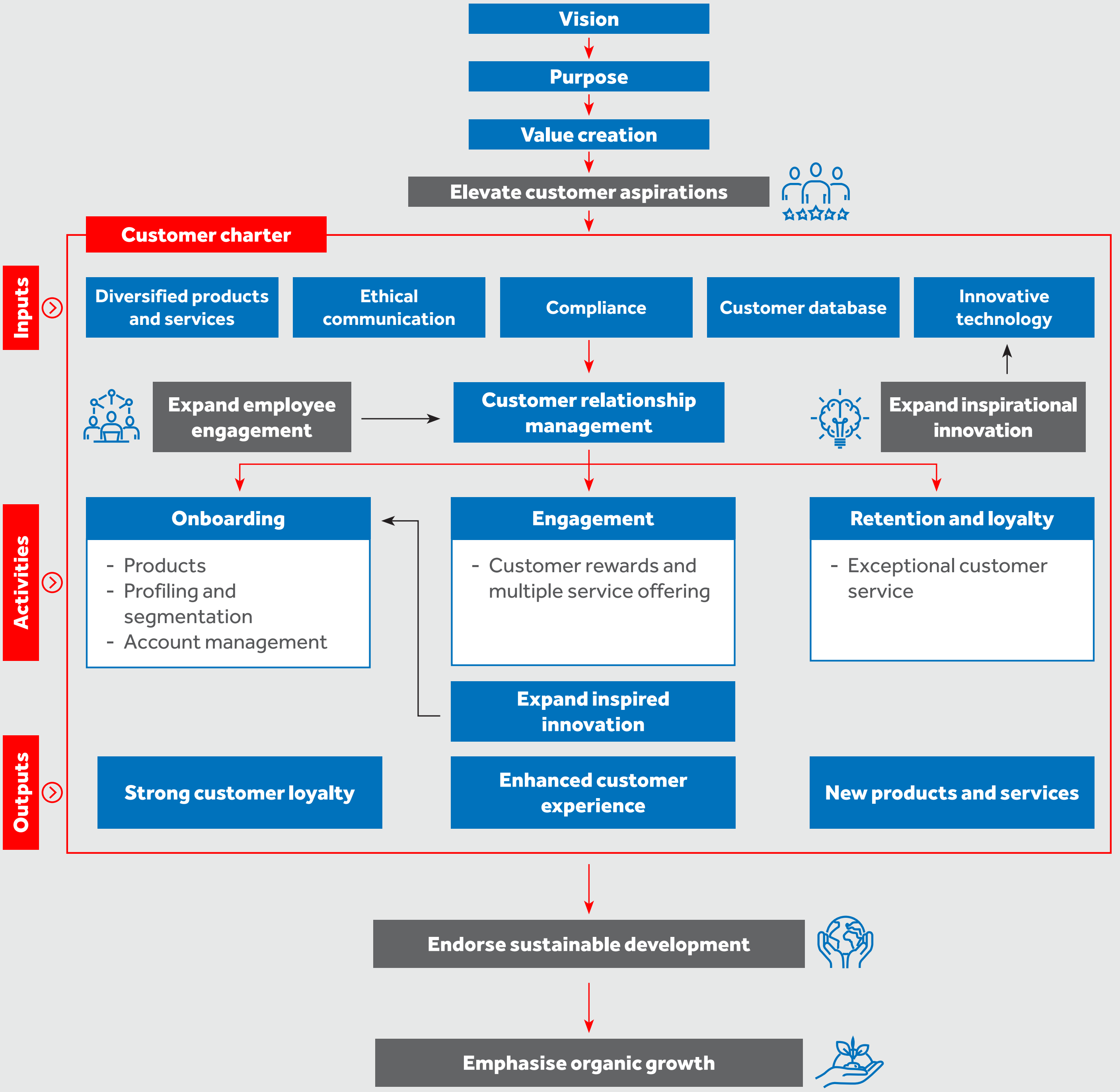
## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Increase customer onboarding | Adopting modern technology to make our operations more simplified and convenient. Implementing an "Account Manager" concept and offering a suite of financial solutions to fulfil customers' financial needs. | Enabling more customers to achieve their aspirations through our value proposition. |
| Augment our reach and customer loyalty | Our unique relationship with our customers, the use of cutting-edged technology, and our agile business model have equipped us to enhance customer loyalty.<br>We also focus on simplicity, transparency, clarity and empathy in our customer engagement and provide a range of benefits to customers. | Providing more channels of transacting with ease, security and convenience for customers.<br>Elevation of our visibility, enhanced customer convenience, and a higher customer experience. |
| Increase customer usage of our digital products and channels | By integrating our robust IT infrastructure and innovation we have established a multi- delivery channel for customers to access our products with ease and convenience 24/7, 365 days of the year. These state-of-the-art digital platforms offer a fast, efficient and seamless service to customers. | Increased customer usage of our digital channels and digital products. |

## Trade-offs – Customer capital impacts on other capitals

| | | | | | |
|---|---|---|---|---|---|
| Impact | Building customer capital requires significant investments in brand promotions, marketing communications and service delivery. | Collaborating with vehicle dealers and other business partners to offer a comprehensive suite of financial solutions to customers. | Investment in digital delivery channels and offering an exceptional customer experience enhances the brand reputation. | Promoting environmental consciousness in our customers by promoting environmentally friendly products and encouraging customers to reduce their carbon footprint builds natural capital. | Extending credit facilities to spur income generating activities and to bring about the desired positive change in the socio-economic and cultural life of rural people builds social capital. |

## How customer capital creates value



Vision

Purpose

Value creation

Elevate customer aspirations

**Customer charter**

**Inputs**

- Diversified products and services
- Ethical communication
- Compliance
- Customer database
- Innovative technology

Expand employee engagement

Customer relationship management

Expand inspirational innovation

**Activities**

**Onboarding**

- Products
- Profiling and segmentation
- Account management

**Engagement**

- Customer rewards and multiple service offering

**Retention and loyalty**

- Exceptional customer service

Expand inspired innovation

**Outputs**

- Strong customer loyalty
- Enhanced customer experience
- New products and services

Endorse sustainable development

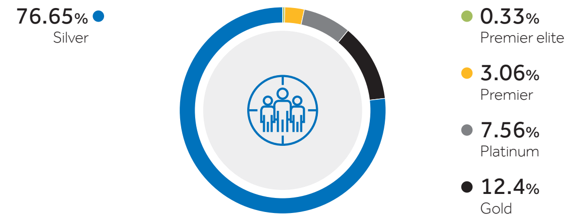
Emphasise organic growth

## Customer relationship management

GRI 103-1, 103-2, 103-3

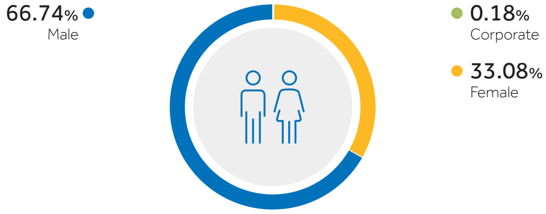
At CDB, we adopt customer management activities that are geared to ensure to be a one-stop provider of financial services shifting from a transaction oriented mode to a relationship oriented mode. CDB's Customer Relationship Division handles all activities pertaining to delivery of an exceptional customer experience enhancing customer trust. The value proposition we offer to customers comprises three main areas including customer onboarding, customer engagement, and customer retention and loyalty. We have adopted an "Account Manager" concept to create lasting relationships with our customers focusing to offer a personalised service, meticulously attend to their financial needs and provide the best financial solutions that cater to their specific requirements.

### Customer profile by segment



### Customer profile by age

### Customer profile by gender



### Customer profile by region

## Customer onboarding

GRI 102-6, 417-3

In our endeavour to offer a premium experience to our customers, we have designed our products to elevate the lifestyles and customer aspirations. By integrating our robust IT infrastructure and innovation we have established a multi-delivery channel for customers to access our products with ease and convenience 24/7, 365 days of the year. We maintain a high level of transparency and integrity which is essential to gain customer trust and loyalty. All essential information required by the customer is displayed at all our branches and the head office and the customer is given direction on how to source further information when needed. To make the customer onboarding process smoother and efficient, we have adopted modern technology to make our operations more simplified and convenient to customers. To enable customers to open savings accounts at the customer's doorstep, a common application was introduced where the sales officer can create the client code and open the savings account accessing the Enterprise Resource Planning (ERP) system through their mobile devices.

## Corporate communication

### CDB welcome pack

A welcome pack with a welcome note, debit card, debit card description, and business card of the relationship officer will be given when onboarding our Premier Elite, Premier and Platinum segment customers.

### Sales material

The CDB corporate profile gives an insight about our Company to new customers. This includes information about our history, stability, technological transformation and the lifestyle based product portfolio offered to different customer segments.

In our drive to achieve the one million customer base we have executed the customer on boarding process through Sales Toolkit, Sales Manual and corporate profile docket.

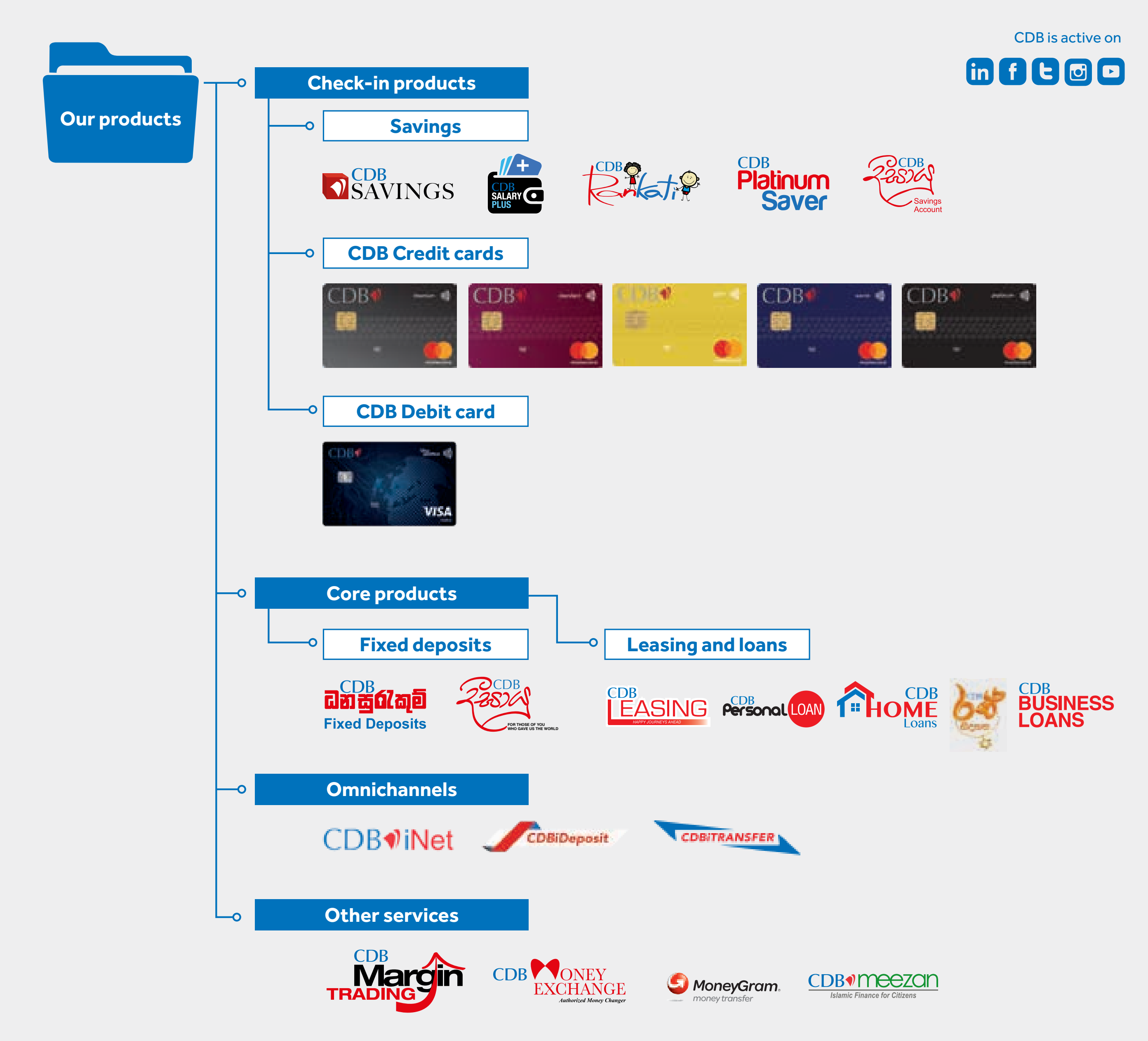
The sales toolkit and sales manual provides clear instructions to the sales officers about achieving CDB's strategic objective of onboarding one million customers. A series of collaterals were selected focusing lifestyle based products such as CDB credit cards.

The sales tool kit comprises three main documents containing carefully curated information to support and induce confidence in our sales staff to onboard new customers and introduce our range of products which would enable the customers to obtain the needed financial assistance to achieve their aspirations.

The sales manual includes classification of customers and the range of products available to each customer segment. The manual helps to maintain a high success rate in onboarding customers by providing the sales staff with the proper information to sell the right product to the right customer. The sales kit has proven to be an effective tool in identifying and onboarding new customers to CDB. The sales tool kit has enabled the sales force to break free from conventional ways of selling to offering a suite of customised lifestyle solutions.

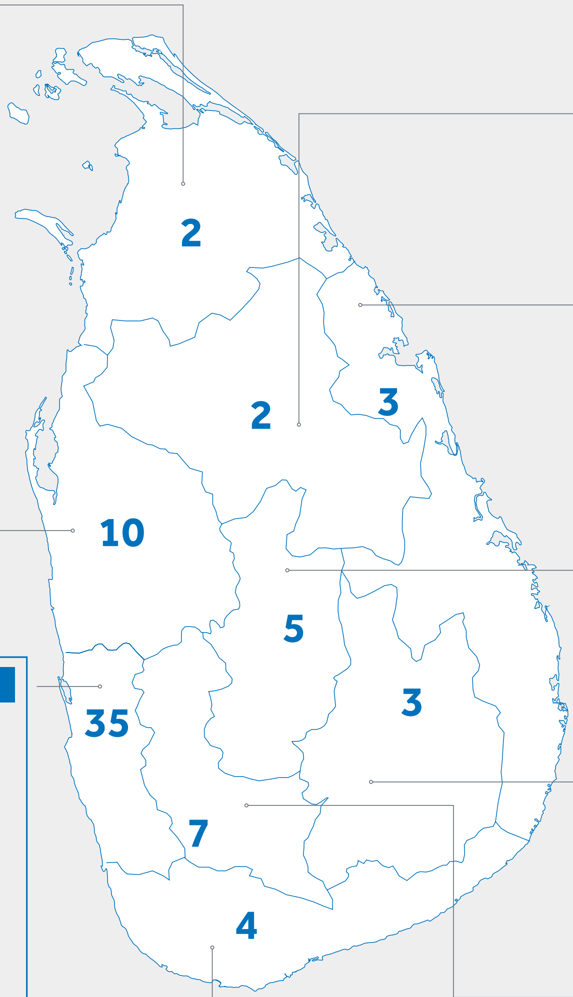
## Product portfolio

GRI 102-2



## Customer touchpoints map

GRI 102-4, 102-6



**Northern**

- Jaffna
- Vavuniya

**North Western**

- Chilaw
- Giriulla
- Kuliyapitiya
- Kurunegala
- Marawila
- Mawathagama
- Narammala
- Nikaweratiya
- Wariyapola
- Wennappuwa

**Western**

- Aluthgama
- Avissawella
- Battaramulla
- Boralesgamuwa
- Dehiwala
- Elakanda
- Gampaha
- Head office
- Horana
- Ja-Ela
- Kaduwela
- Kalutara
- Kandana
- Kelaniya
- Kochchikade
- Kotahena
- Kottawa
- Mahara
- Maharagama
- Malabe
- Mathugama
- Minuwangoda
- Moratuwa
- Negombo
- Nittambuwa
- Nugegoda
- Panadura
- Piliyandala
- Premier Centre
- Ragama
- Rajagiriya
- Ratmalana
- Thalawathugoda
- Wattala
- Wellawatte

**Southern**

- Ambalangoda
- Galle
- Matara
- Tissamaharama

**North Central**

- Anuradhapura
- Kaduruwela

**Eastern**

- Ampara
- Batticaloa
- Trincomalee

**Central**

- Dambulla
- Kandy
- Katugastota
- Matale
- Nuwara Eliya

**Uva**

- Badulla
- Bandarawela
- Mahiyanganaya

**Sabaragamuwa**

- Eheliyagoda
- Embilipitiya
- Kegalle
- Kuruvita
- Pelmadulla
- Ratnapura
- Warakapola

## Expanding and improving our reach

Accessibility is an important aspect of fostering customer relationships. Our customer contact channels include our island-wide physical presence, digital presence via the corporate website and mobile apps and the omnichannel network.

Our island-wide reach includes 71 outlets across all provinces of Sri Lanka (51% of outlets located outside Western province). We continued to expand our presence to gain more visibility and accessibility through relocations of branches and service centres according the CDB relocation plan. This process has increased our visibility, enhanced customer convenience, and provided a spacious, customer-friendly ambiance with modern infrastructure to deliver a higher customer experience.

The branch interiors have been refurbished with a contemporary, state-of-the-art design which includes, elegant counters, stylish flooring and comfortable seating areas and adoption of cutting-edge technology to facilitate seamless end-to-end financial solutions.

Following the relocation and revamping of branches, the interior of every branch has got a state-of-the-art contemporary ambiance in conformance with CDB's standardised branch interior guidelines.

In tandem with the elevating lifestyle of customers we have aligned our products, further improved the look and feel of our branches, and implemented lifestyle-based product communications at branches. All branch branding guidelines and communications have been standardised as well.

During the year, the Moratuwa and Kottawa branches were revamped whilst branches in Kandy, Dehiwala, Maharagama, and Boralesgamuwa were relocated.

## Empowering customer aspirations through digital technology

### CDB iDeposit

This is a feature added on to the CDBiNet- CDB's revolutionary e-finance platform to facilitate CDBiNet customers to open fixed deposits using their mobile devices or a desktop computer. Non-CDB customers can simply open an iDeposit by submitting their details through the CDB website and one of our customer service representatives will visit the customer's location and assist in registering for a CDBiNet account. This service has created increased value to our customers.

### CDB iTransfer

This is the first of its kind social media fund transfer initiative in Sri Lanka, which facilitates customers to transfer funds through Facebook, WhatsApp, Viber, email, and even by SMS on real time basis from anywhere, anytime. This is an instant, secure mode of funds transfer that harnesses the convenience and ease of social media to move towards transferring funds without even knowing the recipient's bank details.

### CBD iControl self-care app

The CDB iControl app empowers CDB cardholders to take complete control of their CDB credit card spend. Some of the interesting features of the app are given below:

- Track credit card spend with graphical data presentation
- Set sub-limits on spend categories to manage finances better
- Block a lost or stolen card instantly
- Select countries and merchant categories to secure payments

### CDB credit cards

Following our brand promise to make luxury affordable, the CDB credit cards were launched customised to lifestyle needs. CDB credit cards includes a wide range of categories including CDB World, Platinum, Titanium, Gold, and Standard with a lifetime waiver on annual fee.

### patpat.lk e-commerce platform

The patpat.lk e-commerce platform specialised in vehicles with an option to search based on visitor's preferred monthly instalment was expanded to include leisure, education and property as well. Visitors are able to apply for a fast loan facility to purchase their preferred vehicle, visit their travel destination, pursue an educational qualification or buy property. The platform is one of the most affordable and convenient platforms that has established a strong partner network, built an unmatched ad inventory, introduced best deals for customers and offered instalment payment options. We will continue to add more verticals to make patpat.lk the one-stop e-commerce platform that caters to every lifestyle need of customers. The page views for 2019/20 was 38,833,307and onetime users of patpat.lk amounted to 950,846.

The patpat.lk mobile app was launched with the assurance of closing a deal within 15 minutes. This has added greater customer convenience and delivered increased customer value to both our existing customers and new customers. The patpat.lk mobile app reached over 150,000 downloads and the number of app users were more than 50,000 in 2019/20. Number of registered dealers increased to over 1,400.

### Social media and corporate website

Our ecosystem thinking has revolutionised the manner in which we communicate with our customers and the manner in which customers engage with us.

Social media and other modern communication methods have become a powerful enabler of our operations enhancing our communications to suit the elevated customer lifestyles. Whilst revamping our CDB website and we have implemented Google analytics to track the performance of the website. The feedback posted by customers on these platforms forms a valuable source to better understand customer requirements.

During the year 2019/20, over 2.1 million users engaged with us and we have reached more than 4,000 000 individuals through social media. More than 200,000 visited our corporate website during this period. We will continue to seek new opportunities to reach customers through these platforms.

## Improving customer engagement, retention, and loyalty

Engaged customers form an important aspect of our business because the customer's emotional connection with the CDB brand lead to more customer activity, brand promotion and customer loyalty. We actively engage with our customers in the delivery of our products and services by delivering an exceptional customer experience. We focus on simplicity, transparency, clarity and empathy when we interact with customers. We engage with our customers in numerous ways including offering many benefits and incentives through our physical and virtual touchpoints to increase customer loyalty and retention.

## "Happy customer" residential conference

We conducted our annual happy customer residential conference during the year under the theme "Let's rethink to revamp" with the participation of representatives from all departments and branches. The purpose was to generate new ideas to improve customer service. The focus areas for the year were introducing CDB to new prospects, engaging customers, selling by using effective marketing tools, efficient utilisation of resources, and launching innovative services.

## Customer Service Steering Committee

The Committee which comprises Heads of Customer Relationship Management (CRM), Human Resources, and the Contact Centre meets once a month to discuss on action plans to address complaints, requests and feedback received by the customers. The identified action points are reported to the relevant division and required actions are taken to deliver a delightful customer experience. Through this Committee all the high risk complaints were tracked and monitored and necessary actions were taken.

## Suggestions and feedback

Employees are able to forward suggestions and provide feedback to improve customer service through the CDB Enterprise Resource Planning (ERP) solution. Employees are able to express their views on products, internal processes, or make any other general comments. The feedback is directed to the relevant division by the Head of CRM. The progress of the suggestions and implementation is communicated to the staff.

## Mystery customer survey

Mystery customer is a market research implemented to evaluate the level of customer service, quality, and consistency extended by the front office staff of our branch network. Mystery customer survey is a qualitative research undertaken through an observation tracker for each branch. Individual performance is assessed based on customer care, selling skills, knowledge, and interpersonal skills while Company performance is assessed based on facilities, documentation, branch ambience, and overall aspect of CDB. The survey is conducted for all branches and patpat.lk inquiries. The survey for patpat.lk is conducted on an ongoing basis. This survey was conducted in all 71 outlets, allocating three visits per branch. To facilitate quick decision-making, the results of the survey are updated to an online dashboard within 24 hours.

## Operating an efficient contact centre

GRI 418-1

We consider it vital to listen and respond to all customer inquiries, complaints and requests to build relationships of trust. The dedicated 24/7 customer contact centre is the focal point of contact for customers to make inquiries, requests, complaints, and provide feedback. This is an omnichannel contact centre with sophisticated connectivity and efficient queuing mechanism with call history on agent interface, predictive dialling facility, call barging/call whispering and real-time monitoring facilities. A call back service has been implemented to abandoned calls to ensure a call back within an hour of the call. All nine hotlines including the CDB hotline, UCL, patpat.lk hotline, CDB Premier, debit card service hotline, credit card service hotline, general hotline, autism help line and missed call service hotline are handled by the call centre.

The contact centre handles the operations of the in-house contact centre and the operations of the following centres:

- Inbound call centre – handling nine hotline numbers
- Outbound call centre – facility and credit card verification
- Service management – Back office operations, complaint handling and call monitoring

Customers can forward their complaints directly to a staff member, by calling the hotline, by writing or emailing. All complaints made to the contact centre are initially handled and received by agents who direct them to relevant departments. The complaints are followed up by the respective agent of contact centre and an interim reply is given within 24 hours.

Complaints received are categorised into two segments namely normal complaints and high risk complaints. Normal complaints are simple complaints, which can be resolved by the front line staff who receive the complaint. High risk complaints need to be resolved with the intervention of the Departmental Head or Senior Management. All the high risk complaints received during a month are presented to the monthly Customer Service Steering Committee meeting by the Head of the Contact Centre.

A toll free "Missed Call Service" was implemented in branches enabling customers to contact the CDB contact centre through the dedicated hotline: +94 11 712 1111. Customers can give a missed call and the contact centre will revert to the customer directly.

During the year, the customer service week was celebrated under the theme "The Magic of Service". Several activities were organised to improve customer service standards of the contact centre. We also select a "Customer service star of the month" to motivate our employees to provide a better service. The selection of the "Employee of the year" from the contact centre is aimed to reward and recognise their hard work.

| Target | Action | Achievement |
|---|---|---|
| Service level of the Contact Centre to exceed 80% | 1. Staff according to identified peak times<br>2. Monitor and track the performance of the agent | **82%** |
| Abandon level to be less than 5% | 1. Reduce average call time<br>2. Stay positive and reward best practice<br>3. Use wallboards and team broadcasts | **7%** |
| Maintain a high quality of service (Zero customer complaints on contact centre operations reported to higher management) | 1. Respond within 24 hours<br>2. Improve internal communications<br>3. Enhance training programmes<br>4. Reduce average call time | **100%** |
| Call Centre agent attrition rate to be less than 15% | 1. Enhance training programmes<br>2. Build and maintain a positive working environment that attracts and retains staff | **14%** |

## Customer service training

We ensure that all employees that has direct interaction with customers are well trained on the skills required to provide a memorable customer experience. We believe an exceptional customer experience is a competitive advantage. During the year, we conducted an external customer service training programme by one of the best trainers in the country for the staff of the contact centre and the recovery contact centre. Several internal training sessions were conducted as well. An induction training programme is conducted for the new recruits to the contact centre. Eight customer service training programmes were conducted with an investment of Rs. 3.27 Mn. for more than 400 employees.

### Contact centre training process

**Inbound**

- Handling of Hotline calls
- Two weeks comprehensive training
- Observation under senior staff
- Dummy call check
- Product and service training

**Outbound**

- Handling outbound calls
- Dummy call check
- Observation under senior staff
- Product and service training

**Service management**

- Customer care email
- Permanent employees

## Business process re-engineering

Our internal systems and processes have been streamlined to deliver increased value to our stakeholders. Different aspects that hinder the smooth running of the Organisation such as bottlenecks, repetitions, and redundancies were identified to ensure service excellence. Changes were effected to improve communication between different departments and the branch network and the stakeholders involved.

During the year, we undertook Robotic Process Automation (RPA) in streamlining our business processes and in alignment with the ongoing digital transformation strategy. This was mainly focused on customer on boarding, data entry and evaluation and supporting processes for delivering customer requirements. Although we are in the initial stage of the process, it has helped to improve the accuracy of the processes and data entry and enabled us to fully comply with the defined Service Level Agreements (SLAs), streamline the work flow and facilitated scalability and flexibility in operations. This would enable us to achieve our ultimate goal of higher customer satisfaction through improved customer service. Further this would facilitate efficient provision of services resulting in increased customer convenience. System improvements effected to the insurance system, credit facility due date change and crib automation has ensured the accuracy and facilitated an efficient service to customers within system compliance framework. These improvements have resulted in reduced turnaround times and address customer complaints efficiently.

A common application was introduced for customer onboarding and savings account opening. We have streamlined client creation and account opening through RPA. This will enable our marketing staff to onboard new customers at the customer's door step. The initiations with the RPA will also enable our branch staff to allocate more time to interact with customers and identify their needs and provide an excellent customer service.

## Marketing campaigns, promotions, and marketing communications

GRI 206-1

As a responsible corporate entity, we support our customers to make informed decisions. Implementing a clear marketing and branding strategy, we conduct all our communications in a transparent manner maintaining ethical marketing practices. We disclose relevant information in terms of product and services in three languages (English, Sinhala and Tamil).

Our marketing communications are conducted primarily using technology through digital marketing, outdoor media, digital screens, cinema screens, and traditional advertising on media.

The success of our branding strategy is reflected in our rankings, when CDB was ranked amongst the 'Business Today Top 30' corporates in Sri Lanka and the top 50 brands by "LMD Brands Annual 2019".

## Special promotions and campaigns

### Lifestyle-focused fixed deposits

In tandem with the lifestyle focused product promotions, our fixed deposits (FDs) are promoted emphasising the freedom and stability brought about by financial security through our FDs. Opening FDs have been made easier through our online fixed deposits – CDBiDeposit.

### Gold Loan

CDB Gold Loan launched a sustenance campaign to create awareness and maintain brand presence. The campaign which includes a gift promotion and an attractive interest rate have increased brand visibility on media and outdoor communications done through short-duration campaigns.

### *Platinum* Saver

The "*Sara Poliya*" tactical campaign was launched for CDB Platinum Saver to onboard small and medium entrepreneurs with bulk cash. The campaign which was conducted through the press, outdoor branding, branch branding, and digital communications focused on the feature of daily high interest rate. The campaign was strengthened with "Platinum Drive" the ground-level activation through the engagement of our staff.

### CDB Leasing branded dealer boards

Close relationships are maintained with vehicle dealers across the island, especially in vehicle hubs through ongoing engagement of our sales staff. We have strategically put up CDB Leasing branded dealer boards at dealer points to maintain our brand presence across vehicle dealers.

## Customer privacy

GRI 418-1

Protecting customer information that we request for and store, is of paramount importance to us. We understand the consequences of a breach in data security and customer privacy which would result in violation of trust and hugely impact stakeholder confidence in our competence. We have invested heavily on latest technology to combat cybercrime whilst training our staff on protecting customer information under the CBSL guidelines on customer protection. Information security features are in place including, limited access, passwords, segregation of duties, data backup systems, signing of non-disclosure agreements, limited out bound mail access, and fire walls. Our Risk Management Committee, Compliance Department, and Internal Auditors have further strengthened customer privacy, in particular the security of customers' deposits, information, and rights. No complaints were reported with regard to breach of customer privacy or misuse of customer information during the year under review.

## Compliance

GRI 206-1 GRI 416-2 GRI 417-2,417-3

CDB's customer charter protects the rights of customers and facilitate an exceptional customer experience. During the period under review, there were no instances of non-compliance related to product and service labelling or marketing communication guidelines. There were no Incidents of non-compliance pertaining to anti-competitive behaviour, anti-trust, and monopoly practices as well. Further, there were no substantiated complaints pertaining to breaches of customer privacy and losses of customer data. No incidents of non-compliance concerning the health and safety impacts of products and services were recorded.

### Future outlook

The upcoming financial year marks a special milestone for CDB as we celebrate our 25th anniversary and our remarkable journey of being the 5th largest NBFI in Sri Lanka. We will continue to strengthen our brand and accelerate our marketing communications and CRM strategy. In the ensuing year, CDB corporate brand will be repositioned with a compelling insight-driven corporate campaign. We will accelerate deposits franchise by reinforcing selected offerings, fast-track new customer onboarding by increasing awareness and internalisation. We will elevate our market presence and promote CDB leasing as a "trend-setter".

Even as we use selective targeted above-the-line (ATL) mediums to reach potential target audience we will accelerate digital communications targeting millennials. Whilst promoting our digitalised products and services special focus will be given to mobile marketing as mobile devices are expected to be the "2nd screen" for the consumer with the growing smart mobile penetration.

Public relations will be given emphasis to reinforce CDB as a trusted and responsible corporate citizen by amplifying sustainable business practices and positioning CDB as a thought leader in the industry.

We will also strengthen customer relationship management (CRM) by launching a customer life cycle value based rewards system, conducting a net promoter score survey and converting our sales app to a fully-fledged CRM system. We will accelerate our onboarding strategy to realise our objective of reaching one million customers by 2024.

# Employee capital

GRI 102-8,103-1,103-2,103-3

Employee capital is a primary driver of our earnings, productivity, value creation, and long-term sustainability.

We strive to create a work environment in which our people feel deeply connected to our purpose, are recognised for delivering against our strategic objectives and are customer centric in everything that they do. We empower them to make the most of every opportunity to embrace new ways of working and learn new skills to remain relevant and realise their full potential. Our employees are encouraged to speak up and feel heard as well.

In making an impact on our customers, the society, and environment at large, our talent is of key importance. It is the quality, ingenuity, and diligence of our people that determine the value that we are able to create. Our ability to attract, develop and retain the right people is therefore a key success factor for our business and long-term sustainability.

Our holistic approach to management of employee capital is founded on core pillars of the organisational culture, leadership, talent management and people-centric approach. This framework continually strives towards ensuring diversity, encouraging and facilitating innovation and excellence and responding to the evolving dynamics brought about by the rapid digital transformation of the industry. Our strategy is focused on allocating productive talent across processes, redeployment of employees without impacting employment opportunities and enhancing employee engagement.

## Highlights

**Rs. 9.3 Mn.**
revenue
per employee

**Rs. 54 Mn.**
investment on
staff insurance
and medical benefits

**411**
staff promotions
during the year

Young and agile
team with an average age of
**28 years**

**69,354**
total training hours

**39 hours (avg.)**
training hours per employee

**Rs. 16.5 Mn.**
Total investment on
training and development

Staff loans amounting to
**Rs. 290 Mn.**
at concessionary rates

**Rs. 1.6 Bn.**
investment on staff benefits

Launched **"Active Ninja – Fight for fit"**
employee health and
well-being programme

## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

Contributing towards poverty elimination by providing direct and indirect employment opportunities.

Providing local and international learning experience and development avenues for staff.

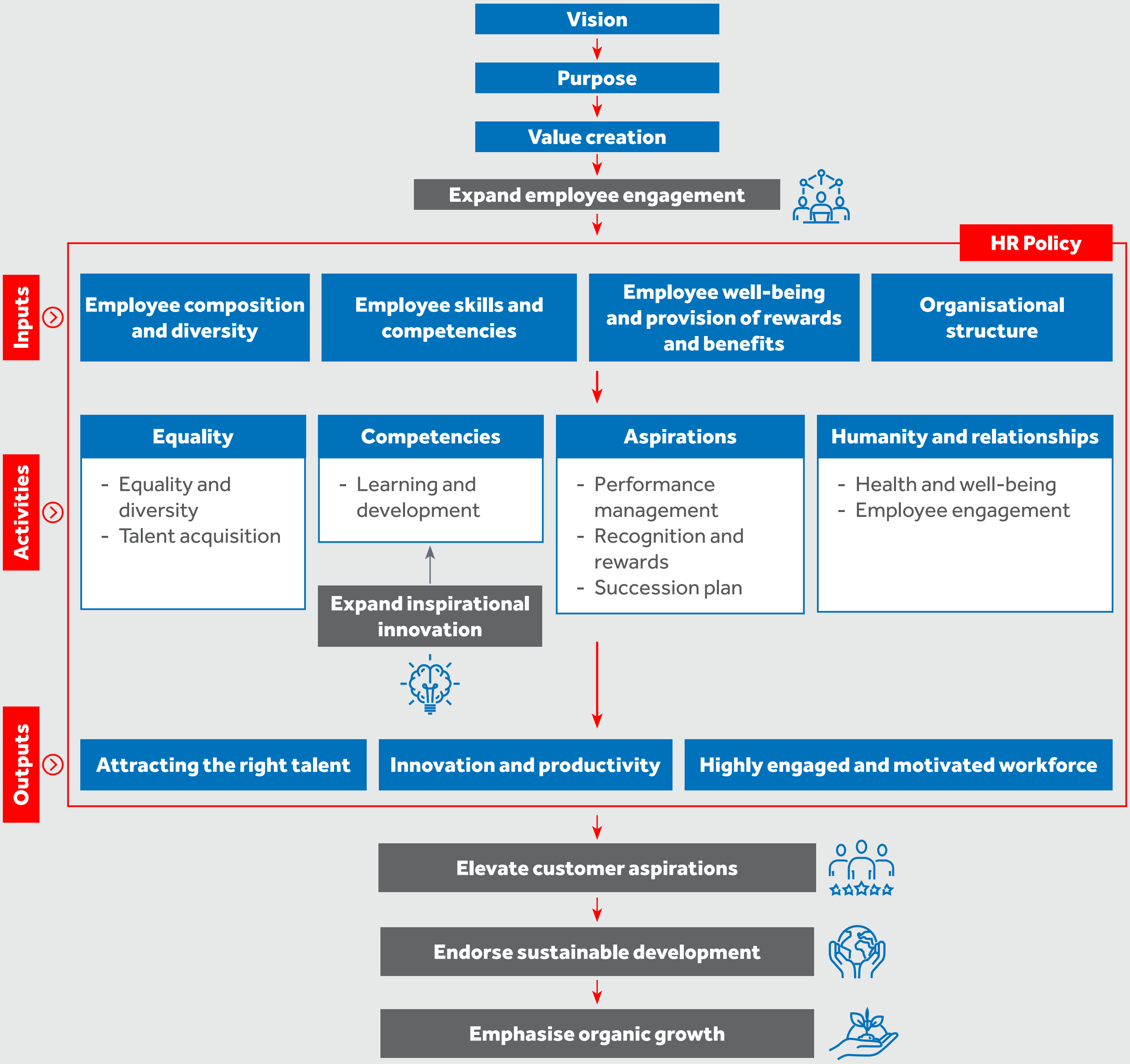
## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Strengthening diversity and inclusion | Creating an inclusive work environment with gender, cultural and generational diversity.<br>All promotions, confirmations, and performance appraisals are strictly conducted on merit basis.<br>Providing equal opportunities to all and nurturing a team spirit within the Organisation. | Create a sense of belonging and a safe working environment where every staff member respects the diversity and promotes respects inclusivity.<br>Fulfil diverse financial solutions of customers through best mix of talented people.<br>A performance driven culture. |
| Attracting and retaining the best talent | Attracting the right talent and providing clear career opportunities through graduate internship and other learning programmes.<br>Introduced training programmes for unemployed youth to facilitate entrance to the world of work, address challenges to educational advancement, and develop the required skills needed by CDB.<br>Enhancing employee engagement, effective communication and recognising and rewarding high performers.<br>The identification of potential successors for executive roles forms an integral part of our annual performance review process. | Having a motivated and loyal team of employees who enhance productivity.<br>Nurture an inclusive workforce and workplace which will create a solid human capital base with future-fit and competent employees. |
| Developing capacity | Encourage continuous learning and development to ensure our people are equipped to meet the demands of a rapidly changing and increasingly digital world of work.<br>Enhancing the skills and competencies of the staff through local and international learning and development programmes.<br>Provide ongoing opportunities for senior executives and managers to gain international exposure.<br>Rs. 16.5 Mn. was invested in training and development at all levels, enabling to build a strong succession pipeline of future leaders. | Highly engaged and motivated workforce which will spur innovation and productivity. |

## Trade-offs – Employee capital impact on other capitals

| | | | | | |
|---|---|---|---|---|---|
| Impact | Investment in staff development and staff engagement has short-term adverse effect on financial capital but creates a positive long-term financial impact through productivity improvement and increased profit generation through a highly engaged motivated workforce. | Motivated team of employees delivers a high customer experience. | Increase in tacit knowledge and improved efficiency through training and development. | Employees actively engaging in sustainability initiatives through the CDB Green Club contribute towards building natural capital. | Employees engaging in CSR activities enable to build social capital. |

## How employee capital creates value



**Vision**

**Purpose**

**Value creation**

**Expand employee engagement**

**HR Policy**

**Inputs**

- **Employee composition and diversity**
- **Employee skills and competencies**
- **Employee well-being and provision of rewards and benefits**
- **Organisational structure**

**Activities**

**Equality**
- Equality and diversity
- Talent acquisition

**Competencies**
- Learning and development

**Expand inspirational innovation**

**Aspirations**
- Performance management
- Recognition and rewards
- Succession plan

**Humanity and relationships**
- Health and well-being
- Employee engagement

**Outputs**

- **Attracting the right talent**
- **Innovation and productivity**
- **Highly engaged and motivated workforce**

**Elevate customer aspirations**

**Endorse sustainable development**

**Emphasise organic growth**

## How we create value

A key aspect of our employee value proposition is attracting the right talent who integrates seamlessly with the Company's culture and values. We create value for our employees by nurturing a robust and inclusive work culture where every employee has access to a secure working environment with opportunities for personal and professional growth. The provision of incentives and benefits in addition to promoting employee health and well-being are important aspects that create employee value.

## Promoting equality

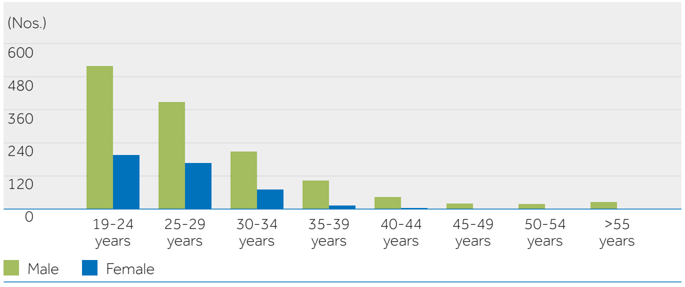
### Equality and diversity

GRI 405-1, 406-1

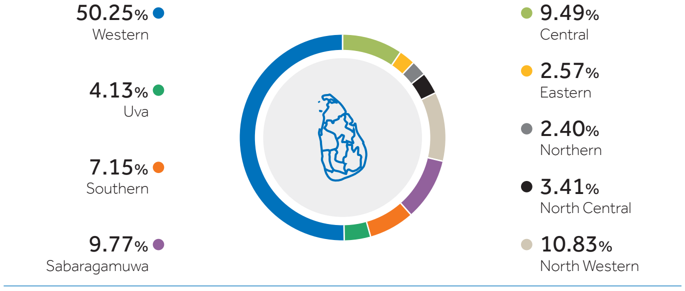
A diverse culture comprising people with different cultural backgrounds, education and experience is essential to provide a superior quality of service. We have made great efforts in improving the diversity of our workforce by establishing an environment for people of all diverse backgrounds to feel completely accepted and have full opportunity to excel and grow at CDB.

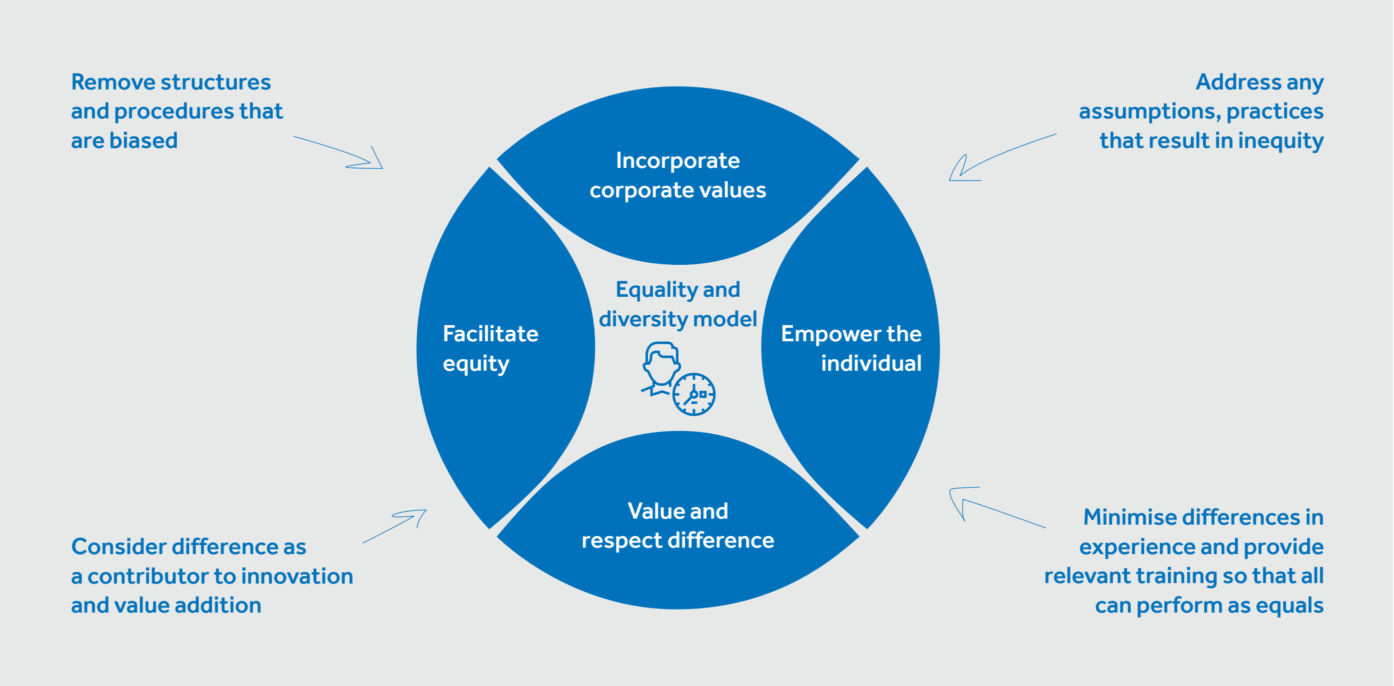
Diversity and inclusion are important aspects of our HR strategy. We need a diverse workforce to help us understand and respond to the diverse needs of our customers because we believe that diversity of perspective, background and experience within the Company will nurture creativity and innovation. As a non-discriminatory and equal opportunity employer we endeavour to continuously foster, inculcate and support an enabling an inclusive environment, which promotes a content and productive workforce. Company's anti-discrimination policy ensures all employees are treated equally with respect, unbiased towards race, religion, gender, age and disability among others. All recruitments, promotions and confirmations are conducted solely on the basis of merit.

### Age analysis of employees – 2019/20

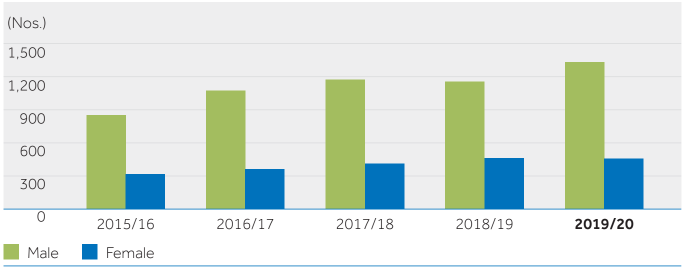


### Employees by region – 2019/20

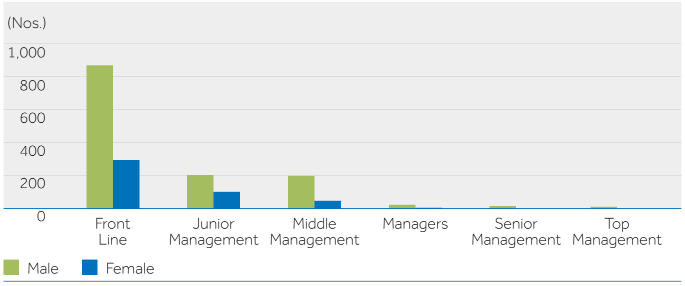




### Total employees by gender



### Distribution by employee category and gender (2019/20)



## Ratio of basic salary and remuneration by employee category

GRI 405-2

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Front line | **0.75** | **1** | 1.08 | 1 |
| Junior management | **0.94** | **1** | 1.03 | 1 |
| Middle management | **1.00** | **1** | 0.98 | 1 |
| Managers | **1.16** | **1** | 1.15 | 1 |
| Senior management | **0.98** | **1** | 0.97 | 1 |

The remuneration ratio between men and women at entry level is 1:1. Nevertheless this ratio may change due to increase of salary with promotions and due to different service periods of employees in the Company.

### Analysis by type of employment – 2019/20

## Talent acquisition

## Attracting talent

GRI 401-1, GRI 202-2

Talent acquisition is an important aspect of our corporate strategy; recruiting the right talent and grooming them to take up leadership positions within the Company. Our recruitment policy is geared to make hiring more productive and efficient facilitating organisational growth. Therefore, we focus on providing employment opportunities to school leavers and graduates and thereby empowering youth. Recruiting young talent has been a successful strategy as we have efficiently groomed a workforce who have seamlessly integrated into our corporate culture and embraced the numerous opportunities in our workplace. We provide a comprehensive learning and development opportunities to our new recruits throughout their career at CDB.

Talent acquisition is a continuous process based on the Company's strategic plan to find the right talent and skills for specific job roles. As a diverse and an equal opportunity employer, all recruitments to CDB are based on merit through fair and open competition without, favouritism or discrimination. Within the year we added 500 new recruits to our team. In the event of a vacancy, we first consider internal placements and promotions to tap into suitable candidates to fill vacancies before sourcing external candidates. 100% of our senior management was hired locally. We use the digital media to communicate job vacancies to ensure effective reach to potential candidates. We also retain an excellent candidate pool to fill up vacancies without delays. E-resource centres were established in leading universities to source graduates that make up the pool of suitably qualified candidates.

## New hires based on age and gender

| | Male | Female | Total |
|---|---|---|---|
| Under 30 years | 354 | 111 | 465 |
| 30-50 years | 23 | 1 | 24 |
| Over 50 years | 11 | – | 11 |

## New hires based on employment category

| Category | Number of employees |
|---|---|
| Front line | 478 |
| Junior management | 10 |
| Middle management | 10 |
| Managers | 1 |
| Senior management | – |
| Top management | 1 |
| Total | 500 |

### New hires based on region – 2019/20

## Talent acquisition model

| | Source | Recruit | Hire | Onboard |
|---|---|---|---|---|
| **Customer needs** | Find candidates | Quality candidates | Hire employees | Onboard employees |
| **HR activities** | – Requisition management<br>– Applicant intake<br>– Resume selection | – Pre-screening<br>– Assessment and testing<br>– Interviews<br>– Branding | – Reference checks<br>– Pre-hire assessment<br>– Offer management | – Background verification<br>– Induction<br>– Joining formalities<br>– Handling over to training |

## Sources of talent acquisition

**External**

**Future talents**

- Attract

**Social network**

- Professional educational bodies
- Schools
- Job banks

**Internal**

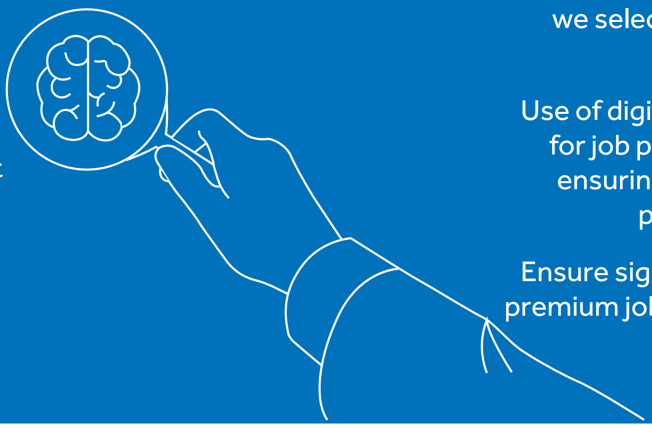
**Existing talents**

- Retain

**Internal network**

- Competencies
- Talent pool
- People network

## Key highlights in talent acquisition



Accquring digital platforms to screen candidates who apply for numerous vacancies

Reducing candidate screening time

Estabilish solid recruitment sources to ensure timely talent acquisition

Reduce recruitment lead time through identification of gaps in actual and required cardre

Estabilish strict, yet successful assessment centres to hire graduates to ensure that we select the most suitable candidates

Use of digital and social media for job posting, and thereby ensuring excellent reach to potential candidates

Ensure significant presence in premium job fairs by acting as a financial partner

## Investing in young talent

Several initiatives have been developed to nurture the youth of our nation by enhancing their skills and providing valuable experience through management training programmes and internships. We also extend financial support to our employees to obtain professional qualifications. During the year we launched a targeted employee engagement programme for management trainees.

## Internships

47 interns gained valuable workplace experience through our internship programme which provides practical and workplace experience to develop their skills and gain a greater knowledge of the industry, whilst being paid a salary.

## Graduates

A total of 54 Sri Lankan graduates are participating in our management training programme which provides comprehensive exposure and a thorough training experience. The programme is geared to develop young talent to face the future with confidence.

## Part-time workers

Accommodating the new trend of part-time employment in the workplace, we employ 12 undergraduates as part time employees. Creating a win-win situation, opportunities were provided for part-timers to gain work experience and earn whilst pursuing their studies.

## Course fee reimbursement

We supported 95 employees to complete their professional qualifications in management, accounting, banking, human resources and information technology, by reimbursing their course fees. The total investment amounted to Rs. 3.1 Mn.

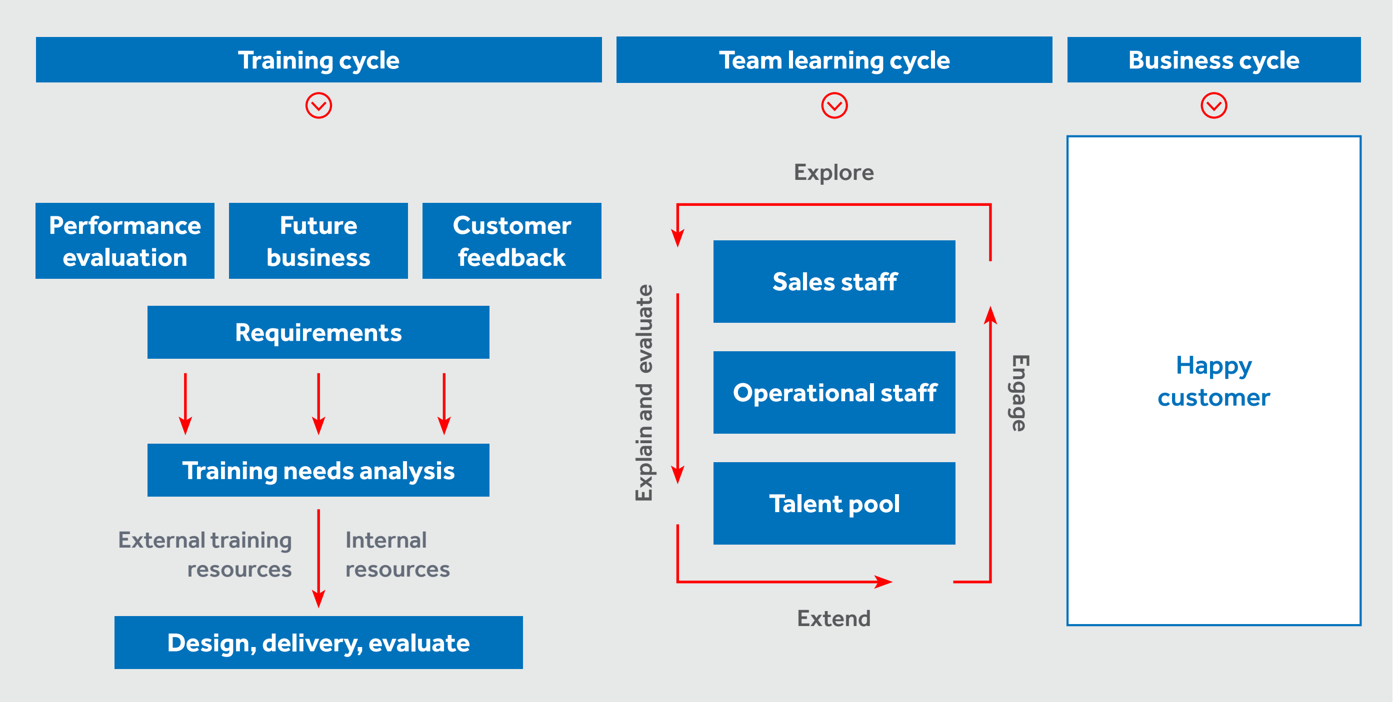
## Enhancing competencies

## Learning and development

GRI 404-1

Continuous investments are made on professional and personal development and career progression of our employees. This provides strong impetus for employee engagement and has enhanced their level of professionalism. Employee development enables us to maintain our competitive edge in the industry, enhance our service standards and achieve institutional excellence. Our wide range of learning and development programmes includes workshops, digital learning, on-the-job training, foreign and outbound training. All training programmes are conducted based on a training-need analysis which is prepared by taking into account performance management, future business potential, and customer feedback. CDB e-learning platform, service excellence, sales orientation, executive development, and other such specialised programmes were conducted during the year. Rs.16.5 Mn. was invested on employee development in 2019/20 and each employee underwent an average of 39 hours of training.

## CDB Learning and development model



## Training interventions

GRI 404-2

| Objective | Actions taken |
|---|---|
| Deliver an exceptional service quality | • Service excellence programme for all branch front line staff covering 2,240 training hours<br>• "Service Mantra", Service leadership programmes for all Branch-In-Charge officers and managers covering 2,528 training hours.<br>• Training sessions conducted by world famous professional trainers on service excellence.<br>• Eight customer service training programmes with an investment of Rs. 3.27 Mn. for over 400 employees who directly engage with customers. |
| Develop future fit leaders | • Developing front line and second line leadership by sending employees for foreign seminars and conferences, in multiple countries covering more than 350 training hours to gather global knowledge to be geared for future requirements.<br>• To provide a sustainable and an effective learning path, initiated a new systematic learning programme to ensure continuous professional development for a team of 89 employees conducted in three batches. |
| Drive for excellence | • Introduced "Certificate and Credit Structuring and Evaluations"- a customised short-term credit certificate course in collaboration with Institute of Bankers of Sri Lanka (IBSL) to enhance the credit knowledge of CDB branch managers and senior sales staff. This is the first time IBSL has customised a certificate course for a third party. A total of 40 employees completed the programme in the first batch.<br>• Successfully conducted compliance awareness building programmes in collaboration with Ernst & Young Chartered Accountants. |
| Tech supported learning and development | • Used e-learning to provide extensive learning opportunities to employees, by enabling them to access basic operations guides, and effectively evaluating the effectiveness of training received by employees through quiz competitions.<br>• During the COVID-19 pandemic period this platform provided outstanding support in terms of keeping the employees engaged. |

## Training programmes

GRI 404-2

| Training programme | Number of participants | Male | Female | Training hours | Number of programmes |
|---|---|---|---|---|---|
| Anti-money laundering awareness building programme | 247 | 77 | 170 | 741 | 3 |
| Certificate of credit structuring and credit appraisal | 40 | 39 | 1 | 1,600 | 1 |
| Continuous professional development programme | 89 | 87 | 2 | 712 | 3 |
| Customer service excellence programme | 438 | 192 | 246 | 4,768 | 8 |
| Fire Marshal training | 14 | 13 | 1 | 336 | 1 |
| Foreign training | 17 | 13 | 4 | 376 | 5 |
| Induction programme | 643 | 564 | 79 | 10,288 | 11 |
| Out bound training programme | 52 | 33 | 19 | 832 | 1 |
| Sales orientation programme | 391 | 390 | 1 | 6,256 | 11 |
| Technical skills development programme | 192 | 72 | 120 | 1,556 | 5 |
| Training programme for branch heads | 16 | 15 | 1 | 128 | 1 |
| Seminars, conference and workshops | 121 | 95 | 26 | 960.5 | 41 |
| Management trainee programme | 40 | 28 | 12 | 19,200 | 12 |
| Trainee marathon | 135 | 42 | 93 | 21,600 | 12 |

### Training evaluation model

**CDB training cycle and learning cycle** ← **Business strategy and happy customer**

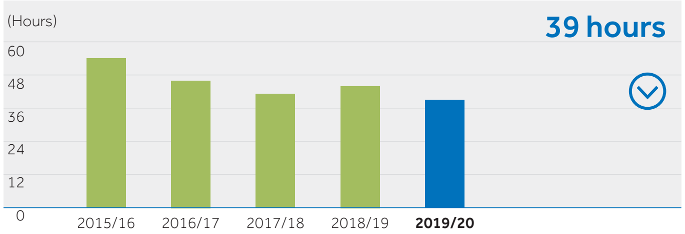
| Level 01 – Reaction | Level 02 – Learning | Level 03 – Behaviour | Level 04 – Result |
|---|---|---|---|
| Effectiveness of the training is measured using feedback forms, verbal reactions and post training surveys. | Learning objectives are established prior to each training session and the effectiveness is measured through achievements of these objectives. | The effectiveness of the training programme is measured based on trainees practical application of the learned knowledge. | Results are assessed based on resultant favourable impacts business. Employees and company's bottom line. |

## Average training hours by category

GRI 404-1

| Employee category | Average training hours |
|---|---|
| Front line | 31.60 |
| Junior management | 9.92 |
| Middle management | 14.50 |
| Managers | 13.74 |
| Senior management | 9.19 |
| Top management | 15.43 |

### Average training hours per employee



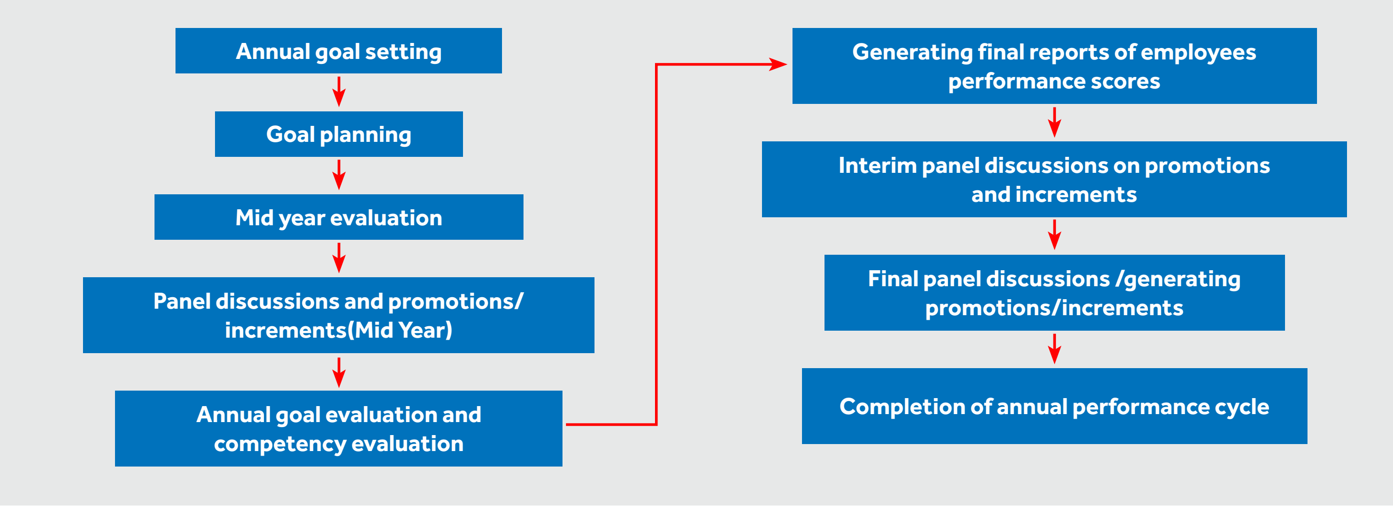
## Fuelling aspirations

### Performance management

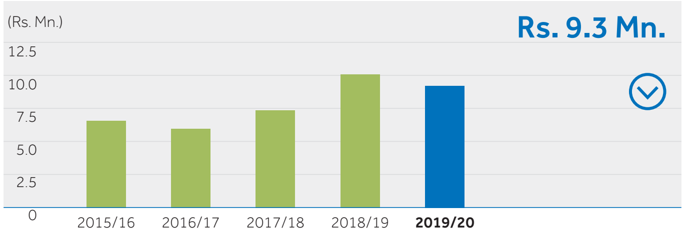
GRI 404-3

CDB's performance management system ensures that all employees of the Company undergo regular appraisals. This is a key component of employee engagement that results in productivity improvements, enhanced profitability and reduced employee turnover for the Company. We have an effective performance management system which helps to align our employees and the operations with the corporate strategy. The appraisal process encourages employees to contribute to the organisation in a productive manner. The corporate objectives are broken down into key performance indicators (KPIs) which are further cascaded down to departmental and individual KPIs. The achievement of individual KPIs results in achievement of the overall corporate objectives.
All our employees received regular performance reviews during the year.

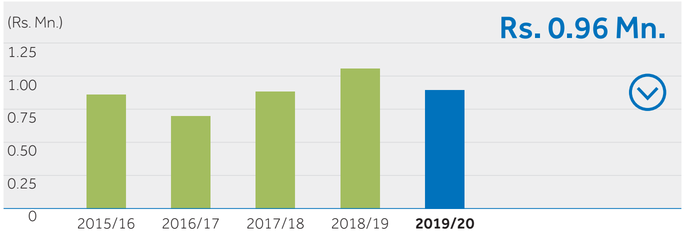
## Our performance review process



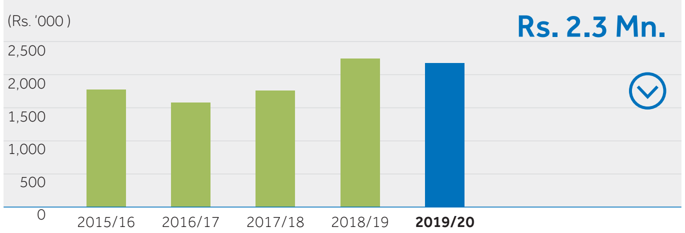
### Revenue per employee



### Profit per employee



### Operational cost per employee



## Recognition and rewards

Employee recognition is another important aspect of employee engagement. The top performers of the Company are selected and recorgnised at the CDB Awards Day conducted annually and biannually. The reward and recognition process at CDB is aligned to the overall corporate objectives. The transparent selection process includes a stringent impartial nomination process, voting process and a selection criteria. Employees who have made an immense contribution to organisation value creation, are recognised and rewarded. Further during the year 411 employees were promoted recognising their performance, skills and experience irrespective of age, gender, or religion.

During the NASCO Awards organised by Sri Lanka Institute of Marketing (SLIM), team CDB secured 2 Gold awards, 2 Silver awards, 3 Bronze awards and a merit award under the Industry Category of Financial Service Provider.

Malith Fernando – Sales Supervisors/Sales Executives – Gold Award
Bandula Kumara – Territory Manager – Silver Award
Dilshara Jayakodi – Front Liner – Gold Award
Dhameshi Perera – Front Liner – Merit Award
Suneth Senadheera – National Sales Manager – Bronze Award
Jeewan Maheepala – Territory Manager – Bronze Award
Narada Undugoda – Sales Supervisors – Bronze Award

## Promotions based on employee category and gender

| | 2019/20 | | 2018/19 | | 2017/18 | |
|---|---|---|---|---|---|---|
| Category | Male | Female | Male | Female | Male | Female |
| Board of directors | **0** | **0** | 0 | 0 | 0 | 0 |
| Senior management | **6** | **0** | 9 | 2 | 2 | 2 |
| Middle management | **40** | **17** | 53 | 12 | 71 | 14 |
| Junior Management | **70** | **33** | 71 | 27 | 63 | 21 |
| Front Line | **170** | **75** | 58 | 54 | 48 | 39 |
| Total | **286** | **125** | 191 | 95 | 184 | 76 |

## Ensuring a high performance team through succession planning

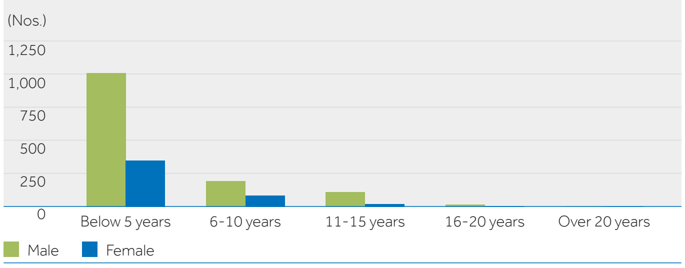
Our succession plan complements the performance management process and ensures that key positions are filled with competent individuals from within the Company. Succession plan includes proactive assessment of employee skills and job requirements and thereafter initiating of targeted training and development programmes to fill any identified gaps. When a new employee is recruited, they are groomed for future leadership positions by envisioning their potential. This process also helps in employee retention as we map clear career paths and allocate resources for employees to advance in their career.

| Approach to our employee succession plan Joined as | Branch in Charge | Head of Branch | Zone Manager | Senior Management | Corporate Manager |
|---|---|---|---|---|---|
| Junior operation assistant | 31 | 6 | 0 | 15 | 1 |
| Trainee marketing executive | 1 | 47 | 11 | 3 | 0 |
| Operations assistant | 0 | 0 | 0 | 0 | 0 |
| Management trainee | 36 | 1 | 0 | 6 | 1 |
| Assistant/ Deputy manager | 0 | 10 | 0 | 11 | 2 |

## Service loyalty

The success of our employee engagement initiatives are reflected in employee retention. Our team of employees are loyal, motivated and engaged. They are committed to achieving the strategic objectives of CDB. We monitor and address reasons for employee exits which enables to determine areas that needs improvements. We give due attention to employee – employer relationships to improve employee retention and increase employee satisfaction.

### Service analysis (2019/20)



## Return to work and retention rate after parental leave

GRI 401-3

| | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|
| Number of employees entitled to maternity leave | **459** | 462 | 414 | 523 |
| Number of employees who took maternity leave | **22** | 20 | 18 | 16 |
| Returned to work after maternity leave | **17** | 20 | 16 | 16 |
| Returned to work rate (%) | **77.27** | 100 | 88.9 | 100 |

## Health and well-being

GRI 401-2

**"Active Ninja – Fight for Fit"** employee health screening programme

This programme was launched during the year to promote good physical health among our staff members which would help to reduce their risk of chronic diseases, improve work life balance, and enhance mental health and self-esteem. As the first step we conducted five seminars under different topics, which improved the knowledge of our employees on health and well-being. Furthermore, a health corner was established at all the branches and the head office, facilitating our employees to keep track on their BMI.

As the next step of the programme, employees were given the opportunity to undergo a medical check-up and staff members with health risks will be directed to a doctor for consultation. All CDB employees are eligible for this programme at no cost to the employee.

GRI 201-3, 401-2

We place significant emphasis on the health and well-being of our people. We are committed to bringing out the best in our employees by establishing and maintaining a work environment that promotes positive well-being and healthy lifestyle choices.

During the year, 11 staff members were given accident paid leave. We also employ four differently abled staff members and we have made special provisions for them to work with ease and comfort. A special travelling allowance is paid to ensure convenience and safety as well.

Considering the physical, emotional, and financial welfare of our employees, we extend a range of financial and non-financial benefits as follows:

### Medical

- Reimbursement of hospitalisation expenses of employees or a nominated family member through the "*Suwa Sampatha*" medical scheme
- Outpatient medical reimbursements which include OPD medical expenses, spectacles cover, special tests and scans for the employees and their families
- Group life insurance cover with a death cover and critical illness cover for all CDB staff
- Medical tests for managerial level employees at regular intervals

### Well-being

- CDB sports teams – Encouraging and rewarding team members for demonstrating and enhancing their talents in sports such as Rugby, Cricket, Basketball, Netball, Volleyball, Badminton and Athletics
- CDB gym – A modern fully equipped gymnasium provided free of charge for employees
- CDB Welfare Club to address welfare needs of employees

### Financial assistance

- Staff loan schemes such as housing loans, vehicle loans and personal loans at special concessionary interest rates
- Fuel reimbursement, travelling and accommodation reimbursement
- Death donation scheme in the event of the death of an immediate family member
- Productivity and profit related bonuses

### Educational benefits

- Reimbursement of professional membership and examination fees
- Honorarium for completion of professional exams and qualifications
- Staff library facility at the head office
- e-learning platform with integrated online services for staff members
- Speechcraft programme to build the public speaking skills of employees
- An exclusive CDB Toastmasters club affiliated to Toastmasters International

# We strive to create a work environment in which our people feel deeply connected to our purpose, are recognised for delivering against our strategic objectives and are customer centric in everything that they do.

## Safe working environment

GRI 102-41, 403-2, 403-9, 403-10, 407-1, 408-1, 409-1

We understand our moral obligation to provide a safe working environment that ensure health and safety of our employees. Whilst meeting all the requirements for employee safety stipulated by the Sri Lankan labour laws, we strive to move beyond to maintain a hazard free, favourable working environment for all employees. There were no accidents, work related injuries or work related ill health reported within our business premises during the year.

Our head office and branch premises are equipped with fire protection safeguards and all employees are given emergency preparedness training. An emergency evacuation drill is conducted annually and a team of 44 employees are trained as emergency response agents including fire marshals, evacuation wardens, first aid teams, drill organisers and on-scene commanders.

Further our grievance handling policy helps to solve grievances raised by employees. The HR team is committed to solve any reported grievance as fast as possible.

We do not have collective bargaining agreements in the Company. As a responsible organisation, we do not condone child labour, forced or compulsory labour and we do not engage with business partners who follow such practices.

## Measures to promote a safe working environment

We have instituted the following measures to ensure a safe working environment:

- Emergency evacuation drill
- Fire protection safeguards in all branches and the head office
- Hi-tech alarming and CCTV camera system in all branches and head office
- Grievance handling policy
- Whistle-blowing policy
- Anti-harassment and anti-discrimination policy
- Deploy trained security officers at head office and all branches through professional security firms
- First aid boxes are made available in all branches and on each floor at the head office
- Annual fire and first aid training to all fire wardens and first aid workers

## Engaging with our people

GRI 402-1

A high emphasis is placed on employee engagement within CDB and it is a strategic priority as well. We believe that great customer experience is driven by great employee experience. Therefore, we create an environment with an enhanced perception of employee wellness and satisfaction resulting in employees giving of their best and are motivated to achieve organisational goals. It is an open, stress-free, and a motivating environment where employees are happy to come to work every day.

A minimum of four weeks' notice is given to employees on operational changes. The efficient communication process at CDB facilitates smooth exchange of information. Our employee communication channels include, the intranet, meetings, discussions, announcements, events, and SMS groups. Further, we focus on digital engagement platforms that are match the attitudes and thinking of our young and agile team. Several employee engagement events are organised each year to promote camaraderie and well-being of the staff. These include:

- Kick off strategic business plan unveiling ceremony
- Staff engagement events – Annual get together, Green family activities, Green Ninja Quiz, CDB Anniversary celebration with the blessing of different faiths, International Women's Day Celebration, Special employee engagement programme for management trainees to promote active engagement in the workplace and sharpen their team effort, presentation skills, personality development and organisational understanding
- Clubs and societies – Green Club, Toastmasters' Club, Welfare Club and Fire Fighters and First Aiders

## Sports at CDB

Participating in sporting events creates an engaged team of employees and enriches our organisational culture. We encourage and support our sports men and women by providing special benefits such as flexible working hours, special expense reimbursement for food, and lodging when attending practices and tournaments.

## Sports achievements

### Table tennis

Mercantile open table tennis singles championship 2019

- Open mens singles runner-up – Lakshitha Chathuranga
- Open mens doubles runner-up – Lakshitha and Chamath
- Open novices mens singles champion – Chamath Dimantha

Mercantile table tennis knockout team tournament 2019

- Men's team "A" Division – Runner-up
- Women's team "C" Division – 2nd Runner-up

Mercantile table tennis league team tournament 2019

- Men's team "B" Division – Runners-up

### Rugby

Mercantile Rugby Tournament

- Runner-up
- Best women's player – Eshani Obeysekara

### Net Ball

Mercantile Knockout Tournament

- Girl's A Division – 3rd place
- Mix – Runner-up

Mercantile League Tournament

- Girl's A Division – 3rd Place
- Mix – Runner-up

Finance House Tournament – Champions

### Badminton

37th MBA Novices Badminton Championship 2020 March

- Men's Singles 4th Place – Tharaka Weerasinghe
- Mixed Doubles 3rd Place – Tharaka Weerasinghe and Nirodya Perera

9th MBA Inter firm Doubles Team Badminton Championship 2019 December

- CDB Team Quarter Finals

36th MBA Novices Badminton Championship 2019 June

- Men's Singles 2nd Place – Pubudu Mallikarachchi
- Men's Singles 4th Place – Eshan Vidanapathirana
- Men's Doubles 4th Place – Eshan Vidanapathirana and Gayan Indunil

### Cricket

- Took part at the mercantile "B" Division League

### Basket ball

- Mercantile League Tournament "C" Division Runners-up

### Athletic

Secured two Gold medals, two Silver medals, and six Bronze medals at the 36th Mercantile Athletics Meet.

- 400m Hurdles Gold –
  Sattambi Rakalage Done Nadeeka Geethani Perera
- Triple Jump Silver –
  Sattambi Rakalage Done Nadeeka Geethani Perera
- 400m Hurdles – Champion Bronze –
  Selvakumar Naveena
- Shot Put – Champion Bronze –
  Thalapathpitiye Wijesinghe Archchilage Bhakthi Mahinsa Wijesinghe
- Champion 400m Hurdles Silver –
  Venija Paramalingam
- Shot Put – Novice Bronze –
  Kaveesha Ekanayaka
- Over 30 – 400m Bronze –
  Chathura Uddika Bandara Wekadapola
- Champion – Hammer Throw Gold –
  Galmangoda Guruge Lasitha Randeera De Silva
- 100*4 Novice Girls – Bronze
  Magalage Nirodya Prasadini Perera
  Kuda Kuruduwage Kasunika Sewwandi
  Thalwaththage Dona Ruhansi Nimna
  Rathnayake Mudiyanselage Anjela Rosary
- 100*4 Novice Boys Bronze –
  Abdul Razeek Mohamed Rijaz
  Ignatius Anton Ronald
  Pasindu Madushan Keegal
  Polpitiyalage Visuka Gayashan

### Future outlook

We have a team of highly skilled, loyal, committed professionals at the helm and at every strata of our Organisation. We will continue to nurture our team to become future leaders, even as our efforts in creating a culture of learning and development has yielded substantial results.

We will specially focus on gearing our staff to adapt to the digital transformation of our Company by providing training to expand the current skills and competencies. As a people-centric company we will continue to nurture a skilled, engaged and competent workforce, create a motivating and inclusive environment with open communication and equal opportunity.

We have recognised the need to pre-empt and plan for future skills requirements as the work roles and work practices are continuously evolving. We will systematically strengthen competencies of our staff in a manner that every employee is able to engage their current skills and be groomed for future job roles. Our people will remain a key differentiator and we will continue to invest in developing our staff who would fully contribute towards the Company's strategic journey.

# Social capital

GRI 102-12, 103-1,103-2,103-3,413-1

The long-term success of our Orgainisation is fundamentally interwoven with the futures of those around us. We are better positioned to create economic, social, and environmental value, when the world around us thrives, which, in turn, benefits everyone. Our social sustainability and environmental stewardship is in sync with our corporate purpose - "empowering aspirations," which showcase our tenacity to elevate the aspirations of our stakeholders, making luxury affordable, bringing prestige and recognition.

Our sustainability focus is aligned with the internationally accepted sustainability tripod of People, Profit, and Planet, and encompasses social inclusivity, resource efficiency and low carbon growth. Our responsibility towards sustainability goes beyond mere regulatory compliance to integrating sustainability deep into our corporate DNA with the commitment at the highest level. It encompasses the length and breadth of our operations, our culture, and our belief that responsible generation of profits creates a lasting social and environmental impact.

Guided by our sustainability policy, we are dedicated to touching the lives of local communities through our outreach CSR which reaches beyond inclusive finance. Our range of sustainability initiatives for the benefit of the community and adding value to society are centred on child health and well-being, child education and literacy, employee volunteerism and empowerment of youth, women, and entrepreneurs. These programmes are conducted to address the grass root level issues that exist in the community.

## Highlights

Net lending outside the Western Province

**Rs. 17.8 Bn.**

**609**

CDB *Sisu Diri* Scholars under the CDB *Sisu Diri* scholarship programme

**27%**

Lending to women

Contribution of Rs. 100 to the Autism trust fund from each Rs. 1 Mn. business secured, reached

**Rs. 3.7 Mn.**

**33**

entrepreneurs and small businesses featured through CDB SMB Friday platform

Employee volunteering efforts through

**14 projects**

for social sustainability

In partnership with SLACD, opened the second state-of-the-art Children's Intervention Centre at the Anuradhapura Teaching Hospital with an investment of

**over Rs. 6.9 Mn.**

**Rs. 24.2 Mn.**

invested to create a social impact

Asia Sustainability Reporting Awards
Asia's Best Community Reporting
FINALIST 2019
asra

## Related stakeholders

## Our contribution to UN’s Sustainable Development Goals

| | |
|---|---|
| 1 NO POVERTY | **Supporting entrepreneurship through inclusive financing and spurring rural development.** |
| 3 GOOD HEALTH AND WELL-BEING | **Promoting good health and well-being through “Act early for Autism” project.** |
| 4 QUALITY EDUCATION | **Supporting education through the *Sisu Diri* scholarship programme and the smart classroom project.** |
| 5 GENDER EQUALITY | **Achieve gender equality and empower all women and girls.** |

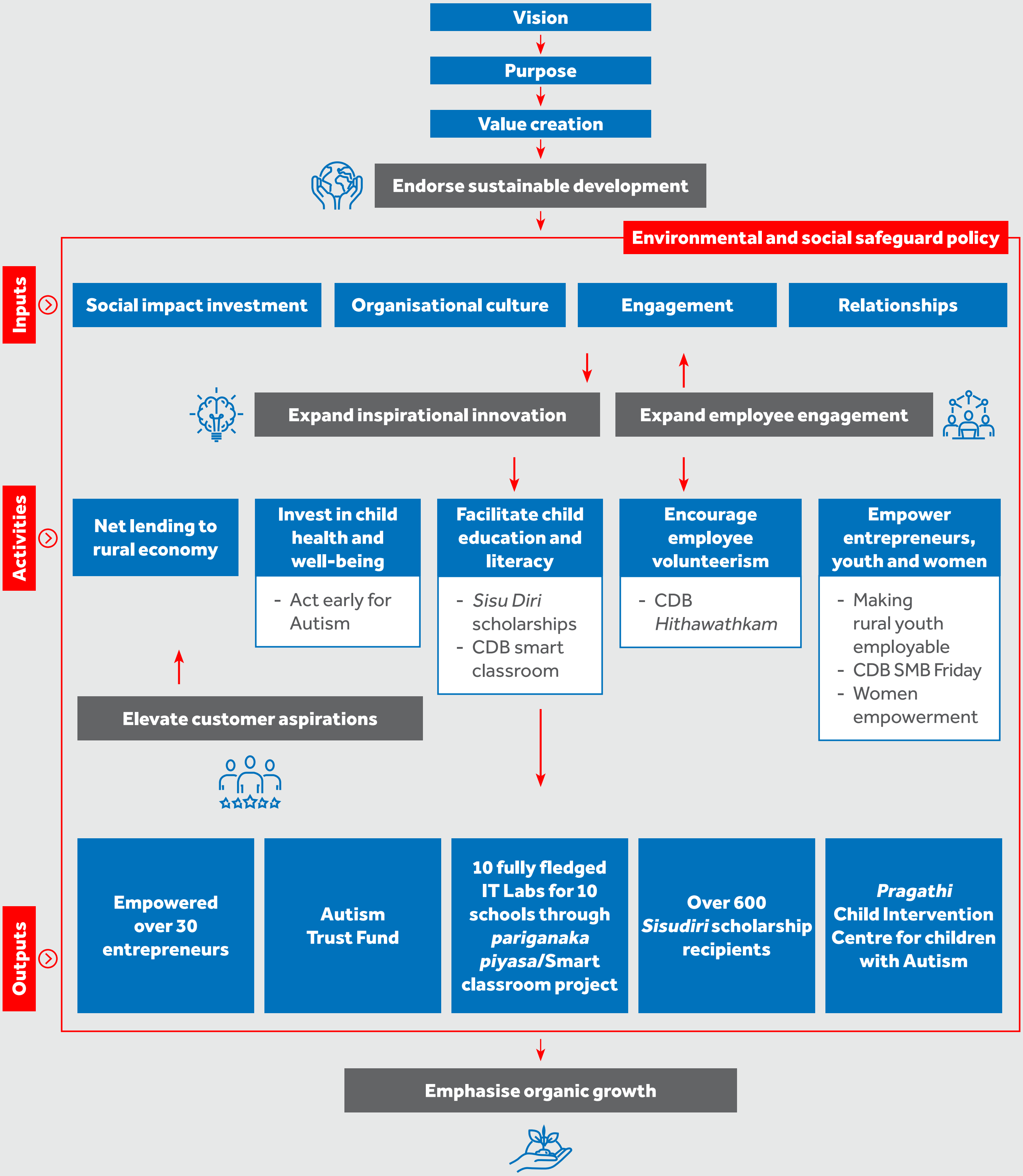
## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Selecting the most deserving beneficiaries for scholarships and smart classrooms | The recipients are scanned through a precise inspection process and selection through a transparent and unbiased process with the support of respective government authorities. | Over 600 students have been enabled to successfully complete their school education over the years.<br>10 schools have received fully fledged IT Labs through *pariganaka piyasa*/smart classrooms to pursue their ICT literacy. |
| Nurturing an entrepreneurial culture | “CDB SMB Friday” programme was initiated to encourage, promote and digitally empower small businesses. | Gave visibility and empowered over 30 entrepreneurs in 2019/20 to promote their business/products to a wider community |
| Improving employee volunteerism impact | Linking employee performance for volunteering their time for community development. | 14 community projects were conducted through employee volunteerism project of "CDB *Hithawathkam*" |

## Trade-offs – Social capital impact on other capitals

| | | | | | |
|---|---|---|---|---|---|
| Impact | Building social capital requires significant investments of financial capital. Over Rs. 24.2 Mn. was invested in building social capital through the numerous CSR activities. | We encourage our employees to engage in our corporate CSR initiatives which improves their work-life balance and camaraderie. | In our efforts to delivering value to the communities in which we operate through our CSR activities, we build our Institutional capital through strengthening of our brand image and reputation. | Integrating environmental concerns into our social capital helps to build natural capital. | We collaborate with business partners to build social capital. For example we collaborate with the Sri Lanka Association for Child Development (SLACD) for our Autism project. |

## How social capital creates value



**Vision**

**Purpose**

**Value creation**

**Endorse sustainable development**

**Environmental and social safeguard policy**

**Inputs**

- **Social impact investment**
- **Organisational culture**
- **Engagement**
- **Relationships**

**Expand inspirational innovation**

**Expand employee engagement**

**Activities**

**Net lending to rural economy**

**Invest in child health and well-being**
- Act early for Autism

**Facilitate child education and literacy**
- *Sisu Diri* scholarships
- CDB smart classroom

**Encourage employee volunteerism**
- CDB *Hithawathkam*

**Empower entrepreneurs, youth and women**
- Making rural youth employable
- CDB SMB Friday
- Women empowerment

**Elevate customer aspirations**

**Outputs**

- **Empowered over 30 entrepreneurs**
- **Autism Trust Fund**
- **10 fully fledged IT Labs for 10 schools through *pariganaka piyasa*/Smart classroom project**
- **Over 600 *Sisudiri* scholarship recipients**
- ***Pragathi* Child Intervention Centre for children with Autism**

**Emphasise organic growth**

## Spurring rural development as a net lender to the rural economy

The rural sector is a vital contributor to Sri Lanka's economic development, with 72% of total Sri Lankans residing in the rural sector. The contribution of rural areas is significant in terms of supply of food to the growing population and provision of raw materials for industries in the Nation. As per the report "Economic and Social Statistics of Sri Lanka 2019" of the Department of Statistics of the Central Bank of Sri Lanka, the provincial Gross Domestic Product outside the Western Province continued to grow, accounting for 62% of total GDP in 2018 reflecting the unequal distribution, thus broadening the regional disparity.

| GDP share | 2018 % | 2017 % | 2016 % | 2015 % | 2014 % |
|---|---|---|---|---|---|
| Western province | 38.5 | 37.2 | 37.8 | 39.9 | 41.5 |
| Outside Western province | 61.5 | 62.8 | 62.2 | 60.1 | 58.5 |

*Source: Table 4 statistical appendix, Central Bank Annual Report 2019, available at https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2019/en/15_Appendix.pdf*

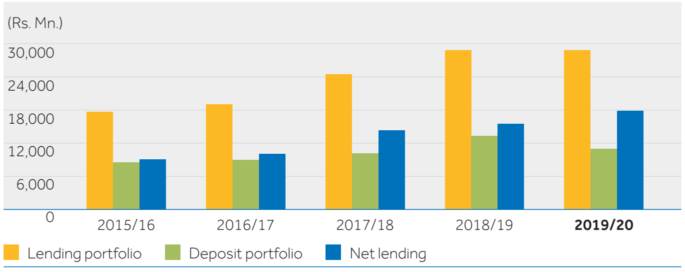
To overcome the regional disparity, the Government established cooperative rural banks with the purpose of uplifting the living standard of citizens by providing assistance through credit facilities, mainly for income generating activities.

At CDB, our business model combines "Urban Funding and Rural Lending". We fuse this model with sustainable practices to enrich people's lives and position ourselves as a conscientious and formidable leader in the financial services industry by becoming a Net Lender to the Rural Economy, touching the poorest and marginalised people who are at the base of the pyramid market. We strive to be a role model for community led sustainability by enriching rural entrepreneurship and uplifting rural financial strength, and thereby address inequalities, social exclusion and marginalisation of various population groups. We also strive to foster personal growth, connection and innovation which are essential to create healthier communities. We stand ahead of the curve with a considerable net lending position to the rural economy while cooperative rural banks hold a net deposit position.

| GDP share | 2018 Rs. Mn. | 2017 Rs. Mn. | 2016 Rs. Mn. | 2015 Rs. Mn. | 2014 Rs. Mn. |
|---|---|---|---|---|---|
| Western province | 72,788 | 55,488 | 49,770 | 45,130 | 37,757 |
| Outside Western province | 124,640 | 102,249 | 91,810 | 87,157 | 84,640 |
| Net lending | (51,852) | (46, 761) | (42,020) | (42,027) | (46,883) |

*Source: Table 4.12 – Economic and Social Statistics of Sri Lanka 2019, Department of Statistics, Central Bank of Sri Lanka.*

### Net lending outside the Western Province



### Net lending position of CDB outside the Western Province

| | **2019/20 Rs. Mn.** | 2018/19 Rs. Mn. | 2017/18 Rs. Mn. | 2016/17 Rs. Mn. | 2015/16 Rs. Mn. |
|---|---|---|---|---|---|
| Lending portfolio | **28,744** | 28,822 | 24,444 | 18,991 | 17,625 |
| Deposit portfolio | **10,931** | 13,302 | 10,113 | 8,946 | 8,569 |
| Net lending | **17,813** | 15,520 | 14,331 | 10,045 | 9,056 |

## Child health and well-being

### Supporting child health and well-being through the "Act early for Autism" programme

**Project:** One in hundred children are diagnosed with Autism Spectrum Disorder in Sri Lanka. Therefore, in order to promote early detection and timely intervention, we launched the Autism Awareness project in collaboration with Sri Lanka Association for Child Development (SLACD) in 2016, in commutation of our 20th anniversary. Our aim was to ensure that every child with autism receives early detection and timely intervention which will significantly reduce the negative impact that autism has on their lives. We invested in a three phase project to highlight the disorder that for the most part remained under the radar. An Autism Trust Fund was set up allocating Rs. 10 Mn. and a dedicated hotline at the CDB Customer Care Centre to create a holistic support framework for families to obtain information and assistance. Additionally, placing autism under the spotlight, we launched a mass media campaign, a trilingual poster campaign and outreach programmes, establish a therapeutic play area at Ampara District hospital coupled with an Autism awareness walk, screened a movie specifically for children with Autism at rural hospitals across the nation to create public awareness.

### Brand new children's intervention centre at Anuradhapura Teaching Hospital

To commemorate the World Children's Day in 2019, we opened a state-of-the-art Children's Intervention Centre at the Anuradhapura Teaching Hospital in collaboration with SLACD. The Centre which was set up with an investment of over Rs. 6.9 Mn. was aptly named "*Pragathi*" as it is specifically designed and equipped to ensuring a higher quality of life for children with autism and other neurodevelopmental conditions through best treatment options to improve their learning and development.

It is important for children with autism to be assessed and managed by a team of professionals after thorough observation with utmost care and patience. To execute this, it is imperative for doctors, parents and the children to have their very own space. Additionally, the parents of children with "Autism Spectrum Disorder" are faced with unique challenges when providing care. Therefore, the doctors at the "*Pragathi*" Intervention Centre also focus on educating parents on the specific treatment procedures which need to be carried out within a home setting. The "*Pragathi*" Intervention Centre is equipped with one way mirror, sensory room, gross motor room for general physical skills development and toilet training facilities to assess and treat the children as required.

## Introduction of family sponsorship scheme for staff members and customers

We have created a platform for our staff members and customers to actively engage with the Autism project through sponsoring a family with an Autistic child. The monthly contribution to the family sponsorship scheme range from Rs. 1,000 to Rs. 3,000 depending on their preference.

**Aim:** Parents being the primary caregivers should have the ability to recognise the signs and symptoms of autism and respond appropriately to bring them to near normal stage and to reduce the negative impact it can have on their lives. The project is implemented to achieve the following objectives:

- To ensure that every child with autism receives timely intervention
- To reduce the negative impact on their lives
- To improve cognitive, behavioural and inter-personal development of every child with autism
- To create an equitable society
- To make parents, teachers, general public aware on the importance of early detection of Autism

**Partners:** This project is carried out in partnership with Sri Lanka Association for Child Development (SLACD) who has the necessary expertise in this area.

### Achievements and impact:

- We contribute Rs. 100 to the Fund from every one million rupees of new business secured. During the year Rs. 3.7 Mn. was contributed to the Fund by us.
- Outreach programmes organised by CDB and SLACD were conducted in Pimbura, Ratnapura, Colombo, Anuradhapura for first point of contact – doctors, medical officers, public health midwives and other health care professionals.
- Total investment on Autism project during the year was Rs. 7.6 Mn.
- Introduced a family sponsorship scheme for staff members and customers
- Established Pragathi children's intervention centre at Anuradhapura teaching hospital

## Providing a lifetime experience for children from underprivileged families

**Project:** 65 children from Walpita Vidyalaya – Medawachchiya, were given the opportunity to experience the best day of their lives thus far, through a spend-the-day organised by us. We were able to put a smile on their faces and provide them an experience of a lifetime. The day kicked started with a fun magic show, followed by a 9D movie experience. They also enjoyed a buffet lunch and were presented with gift packs which included stationary, sweet packs and toys and they were taken for a Colombo city tour in a double decker bus. All the children were very grateful and happy as they have not had such an experience before. The total investment of this project was Rs. 1.6 Mn.

**Aim:** To enhance the quality of life of less fortunate children

**Partners:** CDB welfare team

**Achievements and impact:** Provided a life time experience to 65 less fortunate children in a rural village which they would treasure as a valuable childhood memory.

## Supporting education through "*Sisu Diri*" scholarship programme

**The project:** We recognised the high achievers of Grade Five Scholarship Examination and the GCE Ordinary Level Examinations through the *Sisu Diri* scholarship programme held for the 12th consecutive year. A total of 100 scholarships were granted to children from low-income families to the total value of Rs. 1.2 Mn. during the financial year under review. The children were selected through a transparent and unbiased selection process. High performers of Grade Five Scholarship Examination receive an annual cash grant of Rs. 10,000 until they complete the Ordinary Level Examination and high achievers of the GCE Ordinary Level Examination are granted Rs. 15,000 per annum until they complete the GCE Advanced Level Examination.

**Aim:** Recognise and nurture the talents of schoolchildren by helping them to access proper education and acquire the skills they need to strengthen their employability and also reduce the school dropout rate due to financial difficulties. Further we strive to support the human capital development needs of Sri Lanka and create an equitable society.

**Partners:** Ministry of Education for verifying scholarship receivers.

**CDB's contribution to the Nation by supporting education through the *Sisu Diri* scholarship programme is to create future leaders.**

## Achievements and impact:

We have awarded a total of 609 scholarships, since the inception of this programme.

| *Sisu Diri* season | Grade 5 Scholarship Examination | GCE Ordinary Level Examination | Total scholarships granted |
|---|---|---|---|
| Season 1 | 26 | – | 26 |
| Season 2 | 24 | 7 | 31 |
| Season 3 | 18 | 15 | 33 |
| Season 4 | 30 | 10 | 40 |
| Season 5 | 22 | 11 | 33 |
| Season 6 | 43 | 14 | 57 |
| Season 7 | 32 | 26 | 58 |
| Season 8 | 31 | 15 | 46 |
| Season 9 | 17 | 18 | 35 |
| Season 10 | 20 | 30 | 50 |
| Season 11 | 60 | 40 | 100 |
| Season 12 | 60 | 40 | 100 |

## Employee volunteerism

### Promoting community development through "CDB *Hithawathkam*"

**The project:** This is an integrated community engagement plan, which encourage employee volunteerism and a channel to support our communities. Our employees are required to initiate a sustainable CSR project under this plan in collaboration with their respective branch or division. Employees can jointly develop the CSR project, prepare the project plan to get the required approval from the Senior Management. The best sustainability project is selected at the end of the year and the respective team is recognised at the CDB Annual Awards Ceremony. Staff members are required to apply for the award by preparing an evaluation report and submitting it to the Sustainability Division. This initiative was taken to encourage employee volunteerism and employee engagement for community work.

Other than the projects conducted by branches and divisions, all the Branch officers in charge collaborated and donated a fully equipped outdoor play area to Senanigama Pradeshiya Vidyalaya and a tree planting campaign was conducted at the school as an extension to the CDB *Hithawathkam* project. This was conducted voluntarily by the staff members, showcasing the positive mindset created within CDB through "CDB *Hithawathkam*".

**Aim:** To inculcate a spirit of volunteerism and empathy in our staff members about the less fortunate people in our community and to deploy social sustainability representatives across the island.

**Partners:** CDB Team

**Achievements and Impact:** Each project was different and the employees have come up with innovative projects to create a greater impact to serve their community. During this year under review, our staff members were able to conduct 14 CSR projects. Most of the projects were scheduled to be conducted during the month of March and we were unable to conduct these projects as scheduled due to COVID-19 pandemic. We will continue this project in the future, heightening our efforts to create a greater positive social impact.

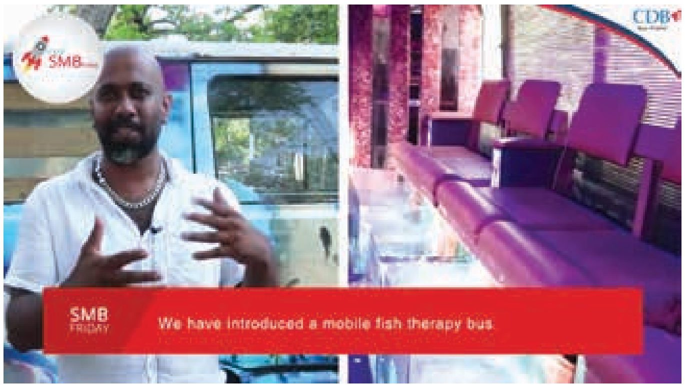
### Promoting entrepreneurship through "CDB SMB Friday"

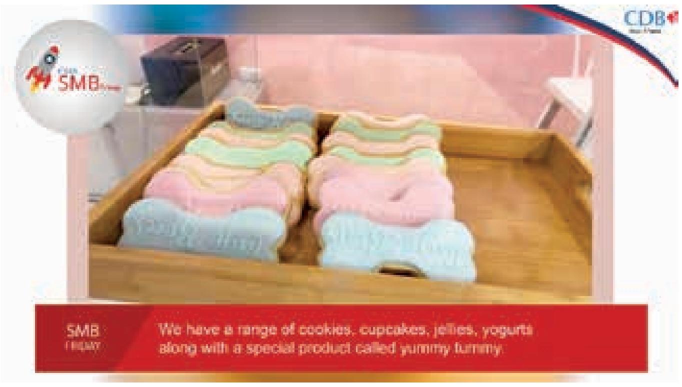
**The project:** This is a platform created to help small businesses and entrepreneurs to increase their visibility through our social media channels and our corporate website. Every Friday, a business is featured in our channels which includes a summary of their unique story, special features of their products or services and contact information which is presented in an attractive manner.

**Aim:** Empowering the aspirations of small and medium businesses by giving a boost on digital media to provide more visibility.

**Partners:** CDB SMB Friday team

**Achievements and impact:** During the year we featured 33 entrepreneurs with an investment of Rs. 1.8 Mn. The average number of views for a video was 35,000.





## Empowering youth, women, and entrepreneurs

### Making rural youth employable

We believe, full engagement of youth is essential to build a sustainable world. Even though population is growing at a rapid pace, employment opportunities remain limited for young people, especially in rural areas of Sri Lanka. Therefore, our internship and Management Trainee programmes are geared to provide life changing learning opportunities for young people who are passionate, dynamic, and committed. We also strive to reduce rural migration to urban areas through our island-wide branch network, our values, and our organisational culture. During the year 34 internship and 37 management trainee opportunities were provided to youth outside the Western Province and 54% of the new hires were from outside Western Province.

### Women empowerment

Women constitute half the population of Sri Lanka, and they make an enormous contribution to our economy, whether in business, as entrepreneurs, employees, or by doing unpaid care work at home. Investing in women empowerment sets a direct path towards not only inclusive economic growth but gender equality and poverty eradication in our nation.

We empower women through our core business of provision of financial services. This includes extending loans to start new businesses, expand existing ventures, and reinvest their returns which would spur the development of small businesses. During the year under review, 27% of our lending were extended to women.

### Helping broader community during challenging times

Sustainability has been integrated deep into the corporate DNA of CDB, encompassing the length and breadth of our operations, our culture, and our values. We have always extended a helping hand to uplift the communities and improve their quality of life.

Sri Lankan economy and society was greatly affected by the Easter Sunday attacks that made a huge impact to all citizens. We contributed Rs. 5 Mn. to the fund set up by His Eminence. Malcolm Cardinal Ranjith to help the victims of this unfortunate tragedy.

The COVID-19 pandemic has placed a great pressure on the community and the impact of the pandemic is being felt by all businesses and communities globally. With the objective of helping the broader community during this pandemic time, we donated Rs. 10 Mn. towards building a Quarantine Centre to support the national effort to combat the pandemic. The funds were presented to Lt. Gen. Shavendra Silva, the Head of the National Operation Centre for Prevention of COVID-19 Outbreak (NOCPCO), Chief of Defence Staff and Commander of Sri Lanka Army. In addition, a project was initiated at every branch to select deserving families from their locality and support them with their needed provisions. Funds were allocated for each branch for this purpose.

## Future outlook

We will accelerate on our social responsibility and make a positive impact when meeting the needs of the community in a manner that is sustainable and fit for the future.

Our main objective is to contribute towards the UN Sustainable Development Goals which is directly linked to our Social Capital. We understand that access to quality education is a right of every child and the solution to many economic and social problems in our nation. We will continue to be a role model for community-led sustainability by enhancing the quality of life of communities, sharing knowledge and enabling growth opportunities.

Our social value creation is the springboard to our next stage of sustainable development best practices. This will include creating an empowering environment for our people, and all other stakeholders to ensure mutual growth through our association and being a corporate steward to the community, responsive to their needs and imbuing development into communities. We will continue to deliver on our social relationship commitments and play an active role for the betterment of communities across the island. We will work relentlessly towards achieving the objectives of each project and increase our investment in all our social impact creation programmes. Further, we will build collaborations with special partners who will support us to bring effective solutions to social issues and widen our impact on society.

# Natural capital

GRI 103-1

Our commitment to environmental stewardship is reflected through our multifaceted approach to responsible and sustainable financing, eco innovation and integration of environmental considerations. This is a perfect mix of both sophisticated systems and human engagement.

Governed by the environmental and social management policy we remain strongly committed towards transforming into a zero-carbon business model. Environmental sustainability is a way of life at CDB. We collaborate with our employees, customers, business partners and private/public institutions towards sustainable development and safeguarding the environment.

We combine our digital expertise with sustainable practices to promote and elevate our sustainability considerations. We understand the importance of human engagement and involvement in environmental conservation. Therefore, we adopt a people based environmental approach in carbon management, biodiversity conservation and creating environmental awareness. We have made these areas of utmost priority across every operation within our Organisation.

Over the years, we have heightened our commitment towards environmental sustainability, reaching a number of milestones, including being the first-ever financial institution in South Asia to be accredited by the Sri Lanka Carbon Fund. We will continue to take affirmative action to conserve our planet for future generations and champion environmental conservation through our green business operations.

## Highlights

**Rs. 1.3 Mn.**
investment on Carbon Management

Invested
**Rs. 2.7 Mn.**
to create awareness on environmental sustainability

**100%**
paper recycling at Head office

**Rs. 1.4 Mn.**
investment on Biodiversity conservation

Carbon footprint
**2,760 $tCO_2$**

**2.4 Mn kWh**
Energy consumption

**22,899 $M^3$**
water consumption

**ISO 14064 – 1**
carbon verified for the 5th consecutive year and a carbon neutral business entity

2nd year of “Life” project to restore 1 ha block of land adjacent to Kanneliya forest reserve, Halgahawala, Opatha partnering with BSL, the Forest Department, and IUCN Sri Lanka

Reforestation of Wilpattu National Park in collaboration with the *“Thuruliya Wenuwen Api”* national tree planting project driven by the Sri Lanka Army

Creating awareness and sharing knowledge through Green Ninja Quiz Master 2019

Committing to CDB plastic free pledge by all staff members

**110 members**
G Squared Go Green Club

Commitment to maintain the Zero Carbon operation by signing UNFCCC Climate Neutral Now Pledge

Resource conservation through 7R concept

## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

**6 CLEAN WATER AND SANITATION**

Contributing to water conservation by reducing water wastage across our branch network and implementing rainwater harvesting.

**7 AFFORDABLE AND CLEAN ENERGY**

Inculcating an energy conservation culture in our Organisation and implementing energy conservation measures across the network.

**12 RESPONSIBLE CONSUMPTION AND PRODUCTION**

Managing the direct environmental impact of our operations, promoting resource conservation and responsible waste management.

**15 LIFE ON LAND**

Contributing towards environment and biodiversity conservations through our commitment to reforestation projects.

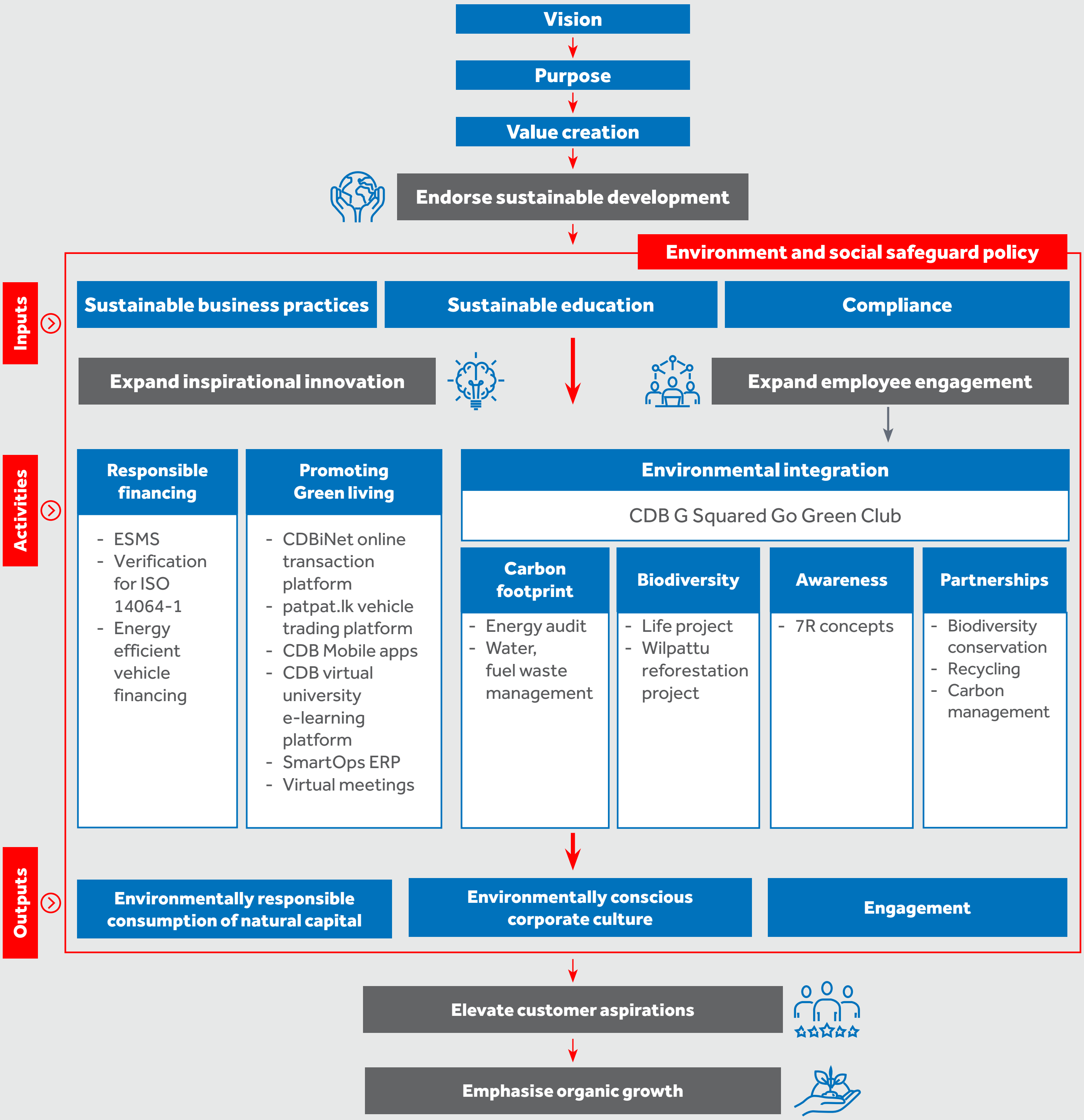
## Our strategic focus (GRI 103-2, 103-3)

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Transition to a low carbon economy | Responsible financing and investment. Exploring avenues to promote clean financing and investments of sustainable infrastructure.<br>Promote online platform of transacting in tandem with our digital transformation strategy.<br>Environmentally responsible consumption of natural capital. | Strengthened corporate sustainability and contribution towards climate action. |
| Inculcating stakeholder wide environmental sustainability mind-set | Efficient management of energy, environmental education, awareness and engagement on climate emergency, environmental protection, responsible consumption, waste management and efficient energy management.<br>Proactive environmental integration. | Creating an environmentally conscious corporate culture and grooming future sustainability leaders who will proactively act on environment conservation. |

## Trade-offs – Natural capital impacts on other capitals

| | | | | | | |
|---|---|---|---|---|---|---|
| Impact | Implementing measures for environmental conservation requires significant financial investments, however these measures help to reduce the energy cost in the medium to long term. | We strive to increase customer focus on environmental conservation. | Our efforts to strengthen environmental sustainability enhances our brand reputation as a responsible corporate, builds integrity and increases the trust in our Organisation. | We collaborate with institutions and organisations to implement our environmental sustainability initiatives. We also integrate environmental concerns into our customer and supplier evaluation process. | We constantly educate and engage our employees with the purpose of connecting people to nature which improves their work-life balance and sustainable living and well-being. The CDB Green Ninja Quiz Master, Green Family events and CDB single use of plastic free pledge helps to drive an environmental sustainability further. | We build social capital through contributing to environmental sustainability initiatives in the communities such as the "Plant a tree, plant a life" initiative. |

## How natural capital creates value



**Vision**

**Purpose**

**Value creation**

**Endorse sustainable development**

**Environment and social safeguard policy**

**Inputs**

**Sustainable business practices**

**Sustainable education**

**Compliance**

**Expand inspirational innovation**

**Expand employee engagement**

**Activities**

**Responsible financing**
- ESMS
- Verification for ISO 14064-1
- Energy efficient vehicle financing

**Promoting Green living**
- CDBiNet online transaction platform
- patpat.lk vehicle trading platform
- CDB Mobile apps
- CDB virtual university e-learning platform
- SmartOps ERP
- Virtual meetings

**Environmental integration**

CDB G Squared Go Green Club

**Carbon footprint**
- Energy audit
- Water, fuel waste management

**Biodiversity**
- Life project
- Wilpattu reforestation project

**Awareness**
- 7R concepts

**Partnerships**
- Biodiversity conservation
- Recycling
- Carbon management

**Outputs**

**Environmentally responsible consumption of natural capital**

**Environmentally conscious corporate culture**

**Engagement**

**Elevate customer aspirations**

**Emphasise organic growth**

## Responsible and sustainable financing

GRI 307-1

As a responsible financier, we always manage the environmental and social risks when promoting new business opportunities. Our responsible and sustainable financing approach is twofold - management of environmental and social risk and the promotion of new business opportunities. We offer responsible and inclusive financial services (loans, leases, etc.) to enable positive social and environmental development by promoting environmental protection, social justice, and economic prosperity. Further, we have ensured our Green journey is complied with all environmental laws and regulations.

## Environmental and Social Risk Management System (ESMS)

GRI 307-1

We have implemented a transparent ESMS which is integrated to our credit evaluation process to showcase our commitment to integrating environmental and social (E&S) aspects to all our business activities. For low and moderate environmental and social risk transactions, few assessments are required, while more complex requirements are applied to sizeable and high-risk transactions. This has contributed towards an effective and holistic implementation, monitoring, and evaluation of the sustainable performance of CDB.

**Environment and social safeguard policy**

Defines our stance and responsibility towards the environment and society and the objectives of our ESMS. The policy is approved and strongly supported by the top management and is set out on a written document trilingually.

**E&S Manual of practices and procedures exclusion list**

This exclusion list is set out in the manual of ESMS practices and procedures. It includes specific activities that we do not extend financing due to the related adverse E&S impacts.

The manual provides a set of instructions to screen lending activities. In any issue arises in relation to ESMS, we work cordially with the customers to resolve the issue and reduce the impact on the society and the environment.

**Risk categorisation model**

The model classifies E&S risks, their potential impacts, the level of due diligence and the extent of mitigation planning required for each level. E&S risk levels range from low to high with three risk categories (A, B, and C) which depend on the type and size of the financial transaction and the location and magnitude of potential impacts.

**E&S due diligence procedure**

Following risk categorisation, the E&S due diligence procedure sets out the steps to identify, evaluate, mitigate, and monitor the risks during the appraisal process, based on the assumed level.

## Carbon verification for ISO 14064-1:2018

GRI 305-1, 305-4, 305-5

| | |
|---|---|
| Assessment type: | Green House Gas Assessment |
| Standard applied: | ISO 14064-1: 2018 Greenhouse gases – Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals |
| Reporting period: | 01.01.2019 – 31.12.2019 |
| Base year: | 2017 |
| Scope (operational boundary): | CDB head office and all 71 outlets |

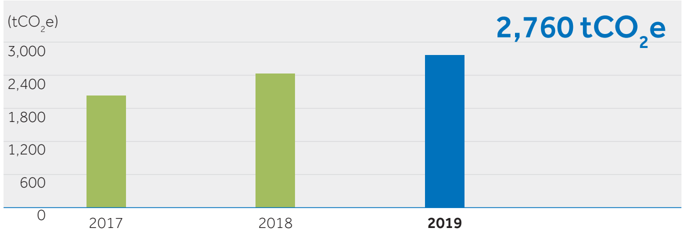
Carbon reporting enables us to analyse, assess and manage all resulting greenhouse gas (GHG) emissions as result of our business operations. It also helps us to track the progress of schemes designed to reduce our energy use and emissions and optimise our energy consumption. In our efforts to become a carbon neutral company we embarked on the carbon footprint calculation journey in the year 2015, recognising CDB as the first ISO 14064-1 carbon verified financial institution in South Asia by Sri Lanka Carbon Fund in 2015/16.

This year, we shifted from ISO 14064-1:2016 to 14064-1:2018 standard, reporting on direct and indirect emissions covering the islandwide operations. This verification was awarded by Sri Lanka Climate Fund (Pvt) Ltd., under the Ministry of Mahaweli Development, providing a reasonable level of assurance on the accuracy and completeness of the measurement of emissions.

| Category | Emission source | 2019/20 |
|---|---|---|
| Direct | Stand-by diesel generators – Onsite diesel generators | 12.09 |
| | Refrigerant leakage | 50.14 |
| | Fire extinguishers | 0.007 |
| | Company owned vehicles – fuel paid by CDB | 60.96 |
| | Employee commuting – fuel paid by CDB | 336.77 |
| Indirect | Grid connected electricity | 1,388.40 |
| | Business travel of employees via air | 43.03 |
| | Employee commuting, Not paid by the Company | 736.17 |
| | Municipal water | 4.68 |
| | Waste disposal | 0.48 |
| | Transmission and distribution loss | 126.33 |
| | Waste transportation | 0.09 |
| | Transport of locally purchased items | 0.16 |
| Total | | 2,759.32 |

**The carbon footprint is calculated for the period of 1 January 2019 to 31 December 2019.*

### Total carbon footprint over three years



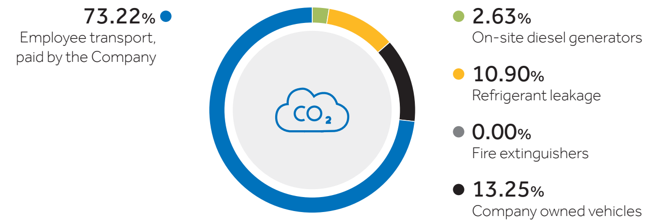
GRI 305-4

Our carbon emission ($tCO_2e$) to generate one million rupee turnover is 0.17. Despite the measures implemented to reduce emission, our total emissions have increased gradually over the years with business expansion. However the growth percentage has reduced overtime which motivated us to further heighten our efforts on emission reduction and minimise our environmental impact.

## Direct emissions GRI 305-1

Direct emissions are emissions from sources that are controllable by our Organisation. These include emissions by onsite diesel generators, refrigerant leakage, fire extinguishers, company owned vehicles fuel paid by the Company and employee transport paid by the Company. Direct emission makes the least contribution of 459.97 (tCO2e) which is 17 % from the total.

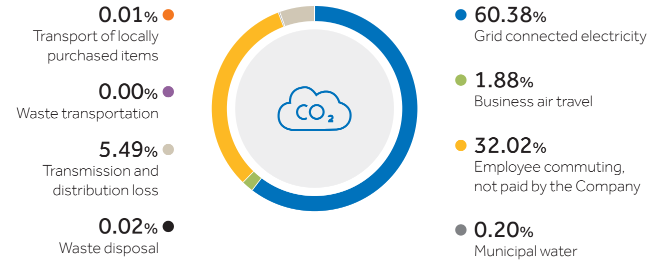
### Total distribution of carbon footprint by direct sources



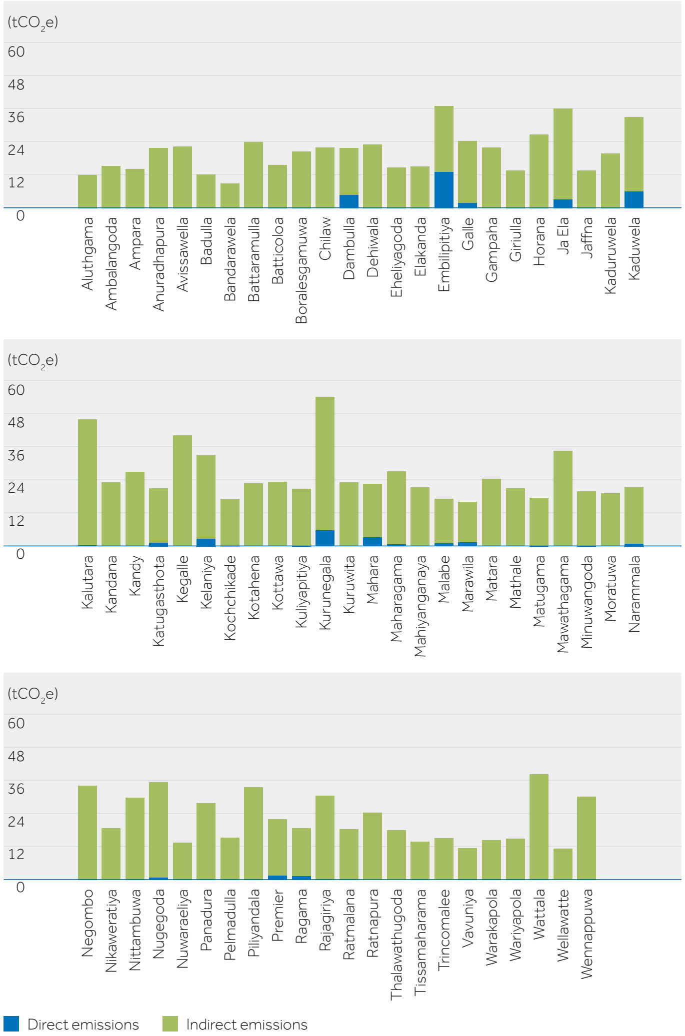
## Indirect emissions GRI 305-2, 305-3

Indirect emissions are a consequence of the activities of our Organisation, but occur at sources owned or controlled by another entity. Indirect emissions makes a greater contribution to our total GHG emissions, compared to direct emissions. Highest contributor to our Company's indirect emissions is electricity generated from the grid. We have initiated measures to save energy across the Company to reduce the GHG emissions.

### Total distribution of carbon footprint by Indirect sources



### Branch wise – GHG Emissions



## Certified carbon neutral company

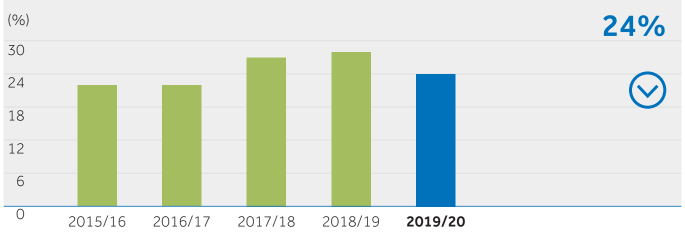
CDB was certified as a "carbon neutral business entity" by the Climate Smart Initiatives (Pvt) Ltd., for the fifth consecutive year. We have invested in United Nations Certified Emission Reductions (CERs) in a clean energy project at Peddapuram, registered under UN Clean Development Mechanism. This is a noteworthy achievement in our sustainability journey which paves the way for us to sign the UNFCCC Climate Neutral Now Pledge. The pledge represents a global community of organisations committing to becoming climate neutral by the second half of the 21st century. Climate Neutral Now calls on organisations and individuals to measure, reduce and report GHG emissions and those which cannot be avoided are compensated with UN-certified emission reductions. Further, with our efforts of becoming a carbon neutral entity, CDB was a finalist of Asia Sustainability Reporting Awards in the category of Asia's Best Carbon Disclosure.

Asia Sustainability Reporting Awards
Asia's Best Carbon Disclosure
FINALIST 2019

## Energy efficient vehicle financing

Although vehicle financing does not exert a direct environmental impact, the emissions from vehicles increase GHGs leading to increased air pollution. Under our green lending initiatives, we promote leasing of hybrid and electric vehicles which emit low emissions and are high in fuel efficiency. Controls have been imposed on financing three wheelers due to higher emissions. We strive to promote environmental consciousness in our customers by promoting environmentally friendly products and encouraging customers to reduce their own carbon footprint.

### Hybrid and EV portfolio



## Digital transition to promote green living

Innovation and technology play a vital role in our efforts to reduce our environmental impacts from our operations. We encourage our customers to use our digital, mobile and online transaction platforms to conduct their financial transactions which contribute towards carbon footprint reduction.

**Use of innovative technology**

**External efficiency**

- Online transactional platform (CDB iNet)
  - CDB iTransfer
  - CDB iDeposit
- Online trading platform (patpat.lk)
  - Vehicles
  - Education
  - Leisure
  - Property
- Mobile apps
  - CDB iNet
  - CDB iControl
  - patpat.lk

**Internal efficiency**

- Central Data Processing Unit (CDPU)
- Robotic Process Automation (RPA)
- SmartOps ERP platform
- Citizens Virtual University
- Virtual meetings

## Improving internal efficiencies

GRI 302-5

**Central Data Processing Unit (CDPU)** is the operational unit of CDB which replaced decentralised scanning of branches and physical file sharing. Operations have been centralised through the CDPU, facilitating one time auto scanning and archiving and uploading of credit files through **SmartOps**- the in-house developed ERP Platform. These initiatives have reduced the movement of paper across different divisions and have enhanced efficiency. Further, during the year we adopted **Robotic Process Automation (RPA)** to streamline operations in data entry and processing across branches and head office and in near future this will be used for data evaluation as well.

This was initiated in par with the digital transformation strategy and it resulted in achieving cost efficiencies, eliminating errors and streamlining our operations. Further, due to these improvements, divisional structures were streamlined and enabled to convert identified inefficient process flows to efficient process flows. Moving forward CDB will use RPA for client account creation and for other identified paper based operational processes. RPA has resulted in reduced energy consumption, low waste generation, low emission levels and optimised resource utilisation.

Our "Virtual University" – CDB e-learning platform facilitates the CDB team to engage in distance learning. This eliminates the need for staff members to travel to training locations, thereby contributing to saving time, costs and improving productivity. Learning materials for respective training and developmental programmes are made available on this platform with easy access for the participants.

The use of "Virtual meeting" through Microsoft Teams has enabled remote working facility, get connected online and conduct business meetings with employees from different locations without the need for employee commuting. This has greatly increased productivity and efficiency levels within the Company and achieve cost efficiencies.

## Enhancing external efficiencies

GRI 302-5

We have placed digital technology in the forefront of our strategic priorities to make our financial services accessible, affordable, and sustainable. Technology has enabled us to reach a wider customer base including the unbanked and underserved communities. Our digital platforms which optimise customer interactions include, CDBiNet – online transaction platform, patpat.lk – the e-commerce platform and mobile apps. These have significantly contributed to reducing the environmental impact. Please refer Customer capital section on page 67 for the details of our digital platforms.

## Environmental integration and engagement

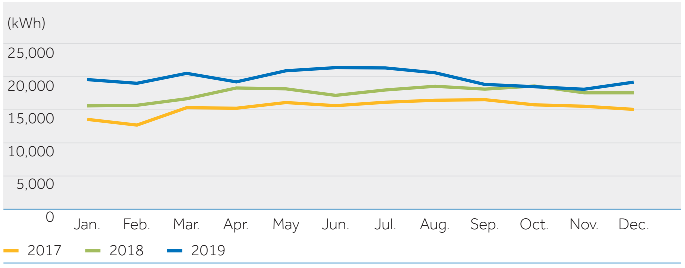
### Energy management

GRI 302-1, 302-4

We believe in "what you measure, you manage". As a responsible financial service provider, we strive to reduce our energy consumption whilst measuring and monitoring our energy usage. Through the annual energy audit, we educate our employees on energy conservation and have given targets for all our branches to reduce their energy consumption levels.

Necessary measures were taken to reduce energy consumption of high energy consuming branches. Energy performance of our physical touchpoints were evaluated to optimise energy usage. In addition to monitoring and control, measures were implemented to improve lighting efficiency, use energy efficient office equipment, confine the air conditioning space and install on-site renewable energy improvements to reduce energy consumption.

### Electricity consumption over the years



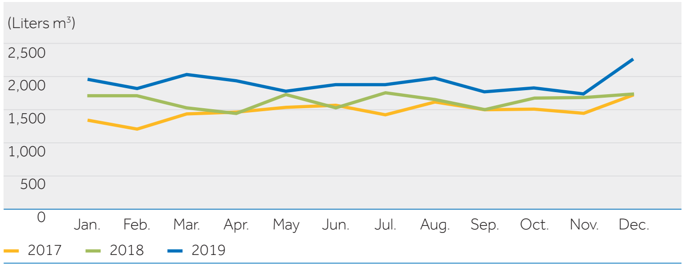
## Water management

GRI 303-5

We use water mainly for drinking and sanitary purposes. We are not a water intensive business organisation and our operations have no significant negative impact on natural water bodies or related habitats. However, we understand that access to quality water is increasingly becoming scarce. Therefore, we conduct regular checks and attend on any water leakages, optimise cooling towers, use low flow toilets and wash rooms that optimise water and usage. We also educate our staff on the importance of water conservation by conducting awareness programs and displaying water saving tags and notices in wash rooms, pantry and common room areas.

Rainwater harvesting technology is adopted to collect and store rainwater from the rooftop of our corporate office which is the main catchment area. The water is stored in seven water tanks each with a 1,000 litre capacity. The water is purified and used to water the garden and for other purposes. GRI 306-5

### Water consumption over the years

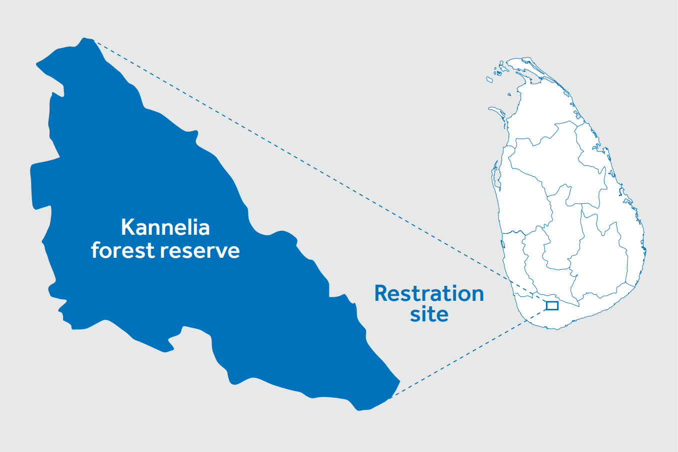


## Biodiversity conservation

### Commitment to reforestation – "LIFE Project"

GRI 304-3

**The project:** This is a landmark public-private initiative to restore one hectare of a degraded land in Halgahawala, Opatha, adjacent to Kanneliya rain forest. The project which would take place over a period of five years, has more value additions than a traditional tree planting campaign. The restoration program has a high survival rate as it includes a stringent monitoring and a gap filling plan.



**Aim:** To develop a biodiversity credit accrual system in par with international standards which would enable biodiversity conservation project owners to generate accruable non-carbon credits. The partners involved in this project will be the first to earn such credits from engaging in restoration activities in Sri Lanka. The credit accruals will be recorded in a "bio register" and can be set off against the biodiversity footprint. The process will be carried out by experts in the field.

**Partners:** This project is done in partnership with Biodiversity Sri Lanka, the Forest Department and International Union for Conservation of Nature (IUCN) Sri Lanka and nine private sector partners.

### Achievements and impact:

**Year 1**

- Obtained research approval for the project from the Forest Department
- Demarcated the boundaries of the project site
- Used modern technology to set up the site's baseline: Drone-photographing
- Developed a footpath to the project site
- Fenced the project site
- Established a fire belt around the project site

- Land prepared for planting
- Planted 3,550 shade plants
- Established a community nursery programme
- Established the Project Steering Committee
- Completed initial documentation of the Biodiversity Credit Accrual System

**Year 2**

- Construction of the field station
- Renewal of the research permit from the Forest Department
- Establishment and maintenance of a field plant nursery
- Strengthening and maintenance of the fence around the site
- Soil conservation and improvement
- Land preparation and maintenance

- Obtaining plants from the Forest Department and other sources
- Ecological monitoring (including a soil test from the first year)
- Maintenance of the fire belt
- Drone photographing
- Field visit of project partners/volunteer programmes
- Establishing the Biodiversity Credit Accrual System (BCAS)

## Commitment to reforestation – Wilpattu National Park

**The project:** Restore one acre of land at Wilpattu National Park in collaboration with the "*Thuruliya Wenuwen Api*" national tree planting project driven by the Sri Lanka Army. The project was initiated by the Sri Lanka Army (SLA) seeking private-public partnerships to regain a large swathe of forest in the Wilpattu National Park (WNP).

**Aim:** Prevent and mitigate the damage inflicted on our fragile ecosystem, as Sri Lanka goes through rapid socio-economic development. Since Wilpattu is an important ecosystem, our aim is increase the forest density within the Wilpattu National Reserve.

**Partners:** The project conducted in partnership with "*Thuruliya Wenuwen Api*" the national tree planting project by Sri Lanka Army (SLA).

**Achievements and impact:** The project was carried out by continuously supplying the needed plants, fertiliser, water tanks, mud pots for drip irrigation system, compost and items needed to build fences etc. We aim to expand this project through voluntary commitment of our employees to support the forest cover in Sri Lanka.

## Agents of Change – CDB G Squared Go Green Club

CDB G Squared – Go Green Club was initiated to connect people to nature by promoting eco-friendly business practices, preserving fragile ecosystems and conserving energy. The Club comprises nature lovers of CDB who are energetic, passionate, and proactive. All our green projects, including CDB environmental awareness programmes and environmental conservation projects are conducted successfully by the members of the Club. There are 110 members from across the branches and divisions who create an enthusiasm for participation in green projects among the staff members.

### CDB single use of plastic free pledge

**The project:** All CDB staff members committed to the CDB single use of plastic free pledge to commemorate the World Environment Day. A presentation was conducted by the CDB Green Club members to educate the staff members on the adverse effects of single use of plastic usage on the planet and the importance of committing to the pledge. All divisions and the branches of the Company committed to the pledge and every branch signed the pledge on world environmental day.

**Aim:** To minimise the use of single use of plastics and polythene at CDB by making the staff members aware of its negative effects on the planet.

**Partners:** CDB G Squared Go Green Club

**Achievements and impact:** The pledge was well received by the staff members and the presentation was shared among the branch network. As a result we have completely eliminated the use of plastic water bottles and plastic food containers at all CDB events and also the use of plastics decorations across the network for any cultural or religious festival or any event.

**Environmental sustainability is a way of life at CDB. We collaborate with our employees, customers, business partners and private/ public institutions towards sustainable development and safeguarding the environment.**

### Green Ninja CDB Quiz Master

**The project:** This is an annual quiz conducted to share knowledge related to environmental sustainability. The event is used as a platform to create awareness about environmental issues and practices among staff members. This quiz is conducted under the themes - energy, water, biodiversity, and waste management. Four members from each branch and division are invited to take part in the quiz. Mock question papers, study material and information are shared with the staff through the intranet and the e-learning platforms to prepare for the quiz.

**Aim:** To connect people with nature by infusing a green culture and spreading green awareness across the network. We also strive to make every individual responsible towards environmental conservation by initiatives which can be implemented in their households and in the Company.

**Partners:** Biodiversity Sri Lanka (BSL) and environmental educators who assist in preparation of questions and judging the final round of the quiz.

**Achievements and impact:** A total of 143 staff members competed in 36 teams of whom 64% were from the branches and the balance 36% from the head office. 36% of participant were from outside the Western Province. More than 200 spectators viewed the grand finale. There is a healthy progress in awareness and empathy towards the environment with many staff members engaged in green projects of the Club.

## Green stalls at CDB head office

**The project:** Green stalls were opened in the head office rooftop on world environmental day, to familiarise our employees on green products which are available in the market and can be easily bought. The green products are good alternatives for plastic products. Our employees were encouraged to make wise choices in purchasing green products and reusing, which would benefit our planet.

**Aim:** To make our employees aware about the green choices and encourage them to change their lifestyle to make a positive impact on the environment.

**Partners:** Suppliers of green products who conducted stalls - Simply Eco Sri Lanka and Plusarch up-cycling.

**Achievements and impact:** Many employees got to know about environmental friendly options available in the market and make lifestyle changes which are environmental friendly. We have planned to have such stalls regularly giving the opportunity for our employees to purchase the green products.

We will be launching a campaign themed, "buy the change you want" to promote these products. The employees are facilitated to buy any of the products by simply sending us an email and we courier the product to the relevant branch. The cost of the product will be deducted from their salary.

## Green communication

**The project:** Circulating the sustainability Bulletin and e-flyers among all our staff members through internal announcement, Green Ninja FB Group and WhatsApp group in an effort to raise awareness, encourage green communication, knowledge sharing, keep the staff updated on latest and important information on environmental issues and what we can do to preserve environment.

International days are celebrated to mark events or topics to create awareness and to take actions on the subject matter and create awareness. On environmentally important international days, we shared posts, educational videos, documentaries statistic and facts through our Green Ninja FB group. Further we share e-flyers as CDB announcements among all staff members in celebrating these international days.

**Aim:** Create awareness amongst our staff members about environmental challenges faced by the world. Further to educate our staff members on issues of concern and promote action through awareness. We believe environmental literacy is essential to tackle climate change, and build resilient communities.

**Partners:** CDB G-Squared Go Green Club

**Achievements and impact:** Increased awareness level of our staff members. This was showcased through the Green Ninja Quiz competition and increased participate rate of staff members for Green Club initiatives.

Green ideas to spread the love

1. Send an e-Valentine in lieu of a paper Valentine.
2. Give organic or locally grown flowers, a potted plant, a tree seedling instead of the traditional bouquet of flowers to your love bird.
3. Give organic or fair-trade chocolates produced in an eco-friendly manner.
4. Make a donation to an environmental organization on behalf of your Valentine.
5. Make your own romantic meal with locally grown ingredients.
6. Commit to going green at work and home.

## Green networking platforms

**Platforms:** The message of environmental friendly living is ingrained in our staff members using digital channels. Information on energy conservation, climate change and other important topics are disseminated through these different platforms.

Once a week a green video is uploaded to digital display screens placed on each floor of the head office. Movies on the theme of the environment are screened by the CDB Green Club to create awareness on global environmental problems. e-flyers on environmentally important international days, Environmental sustainability related facts and figures are regularly shared among all the staff members through internal announcements.

Company's Green Family' WhatsApp group and Green Ninja FB Group shares discussions, flyers and other related material amongst the members. During the COVID lockdown period these methods were very useful and optimally utilized to engage with our staff members. We were able to successfully conduct "My victory garden" competition, Beat plastic pollution competition" and Eco friendly Vesak celebration activities through these platforms.

**Aim:** To expand the reach to all our staff members and share information on accessible and interesting platforms.

**Partners:** CDB G-Squared Go Green Club

**Achievements and impact:** E-flyers were shared during the financial year and many active participants shared their ideas on the Green Family WhatsApp group. The knowledge of our staff members on environmental issues, climate change and environmental conservation was commendable which was showcased at the CDB Green Ninja Quiz.


Citizens Development Business Finance PLC
May 6

HURRY UP!! 😀
Post your home garden pictures before 30th April
#MyVictoryGarden
#HomeGardeningChallenge

Have you ever heard of 'circular economy'? This is what is looks like

Massive amounts of water wasted to produce water!?! 😮 Do you hydrate with a reusable bottle or are you part of the problem?

## Conservation wheel GRI 306-2

This showcase the environmental friendly measures implemented across our Company.

### Reduce

**Energy:** Saving energy and reducing our contribution to GHG emissions has been our goals as we move towards being a zero carbon entity. We strive to save energy in the organisation in many ways by updating our office equipment and adjusting the office environment though solar backing systems, conducting regular energy audits and replacing energy efficient light bulbs.

**Water:** To create awareness on water saving and encourage our staff to act proactively, water saving tips and messages are displayed across our office premises. Also E flyers and videos with facts and figures were shared among our staff members. Our aim was to sensitize our staff members and create awareness about water conservation so that they will always consume it responsibly and take actions against water wastage.

**Materials:** Being a service oriented company, the materials used mainly consist of paper. Our aim is to reduce our paper consumption through use of innovative technology, simplifying and automation of processes, digitalisation and other lean management initiatives.

**Waste:** Maintain waste disposal records at head office for better management and disposal of waste. We also educate our staff to reduce waste including food waste as responsible waste management is essential to reduce environmental footprint. Further we will continue to invest in sustainable equipment to minimise wastage.

| Type of waste item | Disposal frequency | Weight (kg) | Disposal method |
|---|---|---|---|
| Waste paper | Ad hoc | 2255 | Collected from head office, stored in the basement and sent for recycling through Green Links (Pvt) Ltd. |
| E-waste | Ad hoc | 590 | Collected as and when required and disposed through Green Links (Pvt) Ltd. |
| Food waste | Once in two days | 13,119 | Collected every two day by the owner of a farm |
| Damaged office equipment | Upon request by respective division/branch | Not weighted | Such items will be collected at a single location in the head office and disposed through a registered supplier |
| Polythene | Daily | Not weighted | Collected daily and disposed through CMC garbage disposal method |

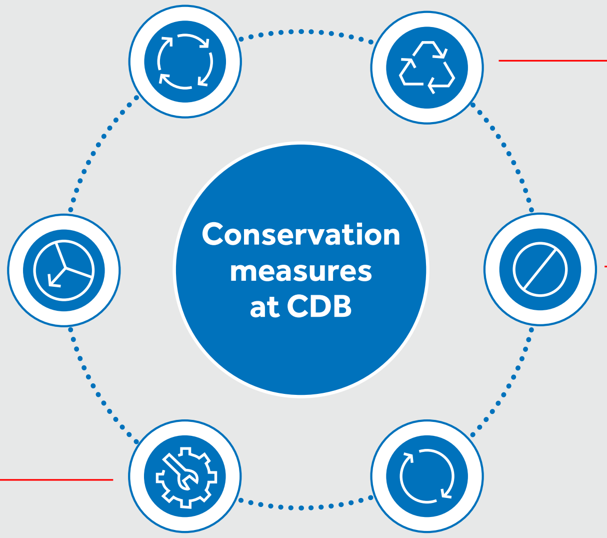
### Repair

Photocopiers/Printers/fax machines: We strive to maximise the use of our office equipment to ensure all our equipment and machines are in a good condition and are maintained regularly.

## Replace

**Air Conditioners:** A decision has been made to replace all conventional air conditioners with inverter air conditioners under 22,000, 36,000 and 48,000 BTU capacities and regularly maintain to minimise any gas leakages.

**Light bulbs:** All replacements of light bulbs are with energy efficient LED lights.



## Reuse

**Paper:** We take great effort to reduce paper usage in all our operational activities. Our staff members are made aware about optimal usage of paper by displaying awareness tags near printing and photocopy machines.

**Rainwater:** Rain water is collected and reused through the rain water harvesting system installed at our head office.

**Glass water bottles:** Glass water bottles are provided for all employees for their personal use at the office premises. To accommodate business meetings we have partnered with American Water Suppliers to source the glass water bottles.

## Recycle

**Paper and e-waste:** We have tied up with Green Links Lanka for proper disposal of e-waste and recycling of paper and thereby contribute towards saving of trees and lesser GHG emissions to the environment. We continued collecting e-waste from our employees through e-waste week project reducing the release of toxic material to the environment and reducing land fill from such waste.

### Savings from recycling

Saving of **272** fully grown trees

**4,547** liters of Petrol

**10,245** plastic bottles recycled

**E-waste recycling**

**95,699 litres** of water conserved

**473 Kg** of greenhouse gas emissions reduced

**5,513 Kg** of wood preserved

**3,382 Kg** of land fill avoided

**9,397 KWh** of energy saved

**Paper waste recycling**

**Employee ID card:** To minimise the usage of plastic in every way possible, we have introduced a recyclable and rewritable ID card for all staff members.

## Refuse and Reject

**Plastic:** As a continuous practice we minimise the use of disposable plastic products as much as possible. Through the CDB plastic free pledge, every staff member has made a commitment to reduce their usage of plastic and eliminated the use of plastic bottles in all our corporate events and programmes. Further, we strive to minimize the use of plastic decorations for any of the company events.

**Even as we believe there is more room for improvement, we have adopted best environmental practices as we strive to do our utmost to conserving our planet.**

## Green Partnerships

Over the years we have sought out to build up partnerships that add value to our conservation efforts, resource efficiency agenda and to create awareness on conservation. We have partnered with Bio Diversity Sri Lanka (BSL) for our conservation efforts. Green Links (Pvt) ltd is our partner for paper and e-waste management. Further we have also partnered with Climate Smart Initiatives (Pvt) Ltd for our GHG management, Sri Lanka Climate Fund for verification of GHG and The Energy Team Solutions (Pvt) Ltd for energy management. Also during the year, the Wilpattu reforestation project was carried out in partnership with "*Thuruliya wenuwen api* project" initiated by the Sri Lanka Army.

## Future outlook

We have set ourselves ambitious environmental sustainability targets. At CDB we take every possible effort to reducing our operational footprint on the environment. In our actions we strive to set the bar for environmental sustainability in the industry. Even as we believe there is more room for improvement, we have adopted best environmental practices as we strive to do our utmost to conserving our planet.

We will focus on creating awareness on conservation and preservation of the environment. We believe that this focus would create the greatest impact on our stakeholders in creating a sustainable environment and in delivering impactful solutions to issues such as climate change, waste, water, biodiversity, and energy management.

Our environmental sustainability agenda will be focused on a few specific UN SDGs propelling us to move beyond our conventional thinking to achieve a greater purpose in our business focus. We are in the process of developing measurable targets to contribute towards these SDGs as a part of our value creation journey.

# Business partner capital

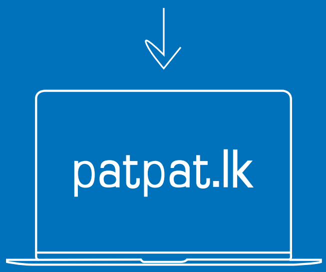
Our partners are a vital cog in our value chain and is essential for the continuity of our business. We maintain expedient relationships which are professional, transparent and fair to ensure operational excellence at all times. The value we ultimately deliver hinges on business partners providing us the right expectations of quality, competitiveness, timeliness, availability and cost benefits. Our sustenance is ensured to a certain extent by building mutually beneficial and consistent relationships with our business partners which is a source of competitive advantage.

## Highlights

**1300+**
dealer points across Sri Lanka

**1,400+** registered dealers on patpat.lk – CDB vehicle trading platform

Conducted
**500+** monthly promotions for partnering with a number of motor dealers



**104,000+**
number of Advertisement posted on patpat.lk

## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

**Promote resource conservation and environmental conservation through supplier screening and evaluation.**

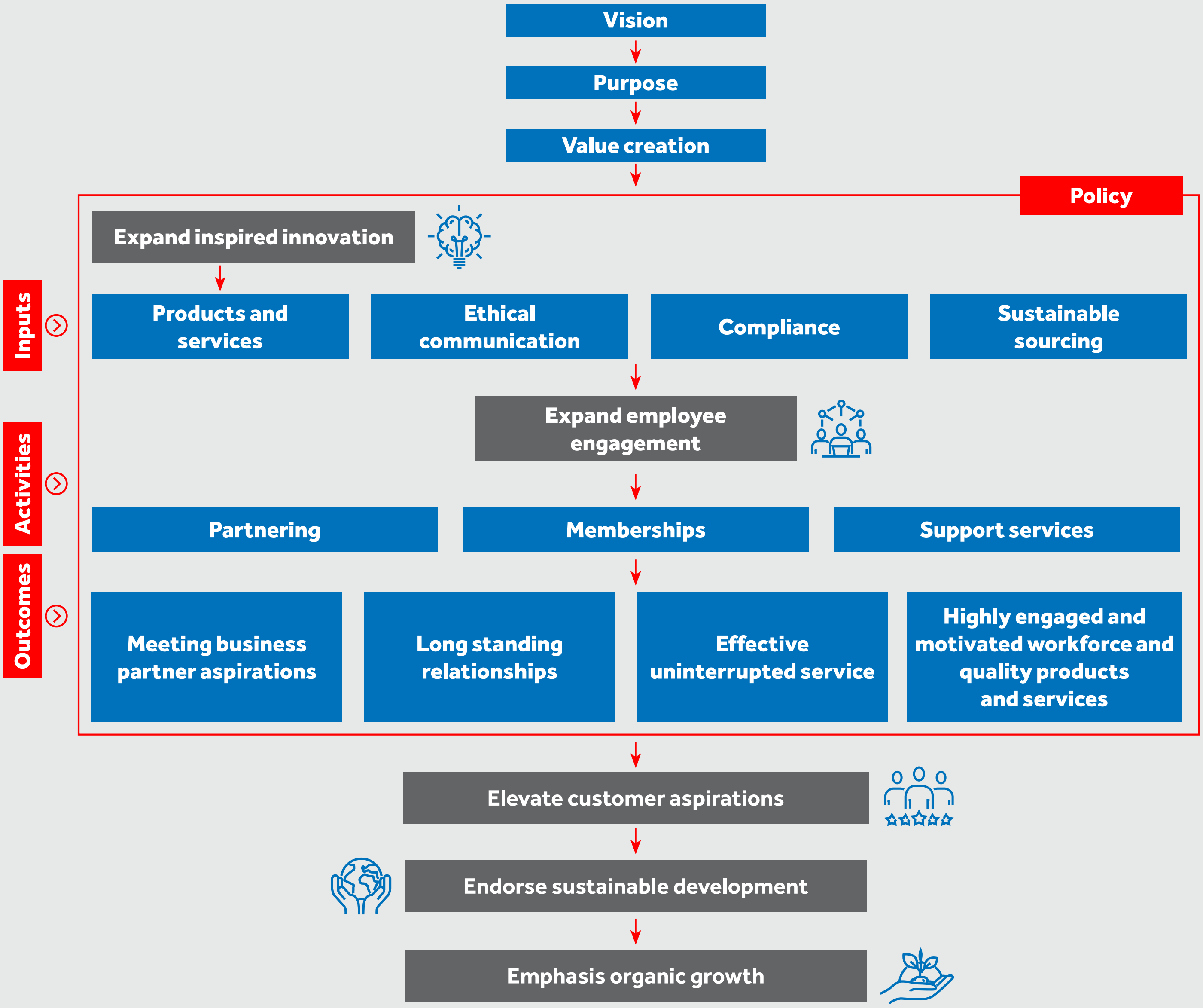
## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Building strong business partner relationships | Managing the business partner portfolio with the focus of establishing long-standing mutually beneficial partnerships through strong business relationships.<br>Continuous assessment of business partner expectations and proactive conflict resolution to strengthen positive synergies. | Meeting business partner aspirations resulting in delivery of quality products and services to enhance customer satisfaction.<br>Building a strong brand reputation from the perspective of business partners and customers. |
| Responsible sourcing and sustainable supply chain | Stringent customer screening and evaluation. | Effective and uninterrupted sourcing that guarantee consistent delivery of quality products and services in a sustainable manner. |
| Improving quality and speed of service | Our marketing staff are given extensive training starting from induction training.<br>Integrating technology such as automated CRIB reports and online approvals based on the documents uploaded by the marketing officer at the dealer point. | Equipping our marketing staff to deliver a service of the highest quality at the customer's door step.<br>Increased efficiency and speed of service. |

## Trade-offs – Business partner capital impacts on other capitals

| | | | | | |
|---|---|---|---|---|---|
| Impact | Building business partner relationships requires significant investments of financial capital other than human capital. Financial capital is mainly expended to conduct sales promotions and for dealer branding. During the year, Rs. 6.5 Mn. was invested to conduct promotions with our vehicle dealers. | Dealer promotions led to an increase in our customer base through the new leads generated. | In our commitment to responsible sourcing we conduct a stringent supplier evaluation. This helps to build our institutional capital through strengthening the compliance, reputation and integrity of our Organisation. | Integrating environmental and social concerns into our supplier evaluation process helps to build natural capital. | We build social capital through employment generation across our supply chain. |

## How business partner creates value



Vision

Purpose

Value creation

Policy

Inputs

Activities

Outcomes

Expand inspired innovation

Products and services

Ethical communication

Compliance

Sustainable sourcing

Expand employee engagement

Partnering

Memberships

Support services

Meeting business partner aspirations

Long standing relationships

Effective uninterrupted service

Highly engaged and motivated workforce and quality products and services

Elevate customer aspirations

Endorse sustainable development

Emphasis organic growth

## Creating uninterrupted value

We maintain strong relationships with our business partners to secure timely acquisition of goods and services in order to create uninterrupted value for our stakeholders. We derive the best outcomes when each partner delivers excellence in each respective service area. Hence, we share reciprocal relationships and mutual successes with all our partners.

We have created the right environment for prospering mutually beneficial relationships by honouring our obligations, and conducting our business in an open, ethical and transparent manner which is valued by our business partners, leading to strengthening of our relationships.

We have embedded ethical procurement practices to our business processes whilst enhancing organisational performances through cost-effective procurement of quality products. We give preference to local suppliers and all suppliers are given equal opportunity to participate in responding to our requirements.

Greater convenience was delivered to our customers through our business partners in technology and other services. They have enabled us to achieve resource efficiency in numerous ways, through the availability of the island-wide ATM network, outsourced staff for better use of resources, and joint promotional campaigns.

As an ethical organisation following best practices, we adopt a stringent and transparent screening process in selecting suppliers and maintaining supplier relationships. It is essential that our business partners conform to the specific standard of conduct set by us and also conform to the relevant environmental and social aspects. Their core values should fundamentally complement our own and must embrace best practices as well. This provides the best platform to build sustainable productive relationships. In the event of any breach or concern, we work through open productive lines of dialogue to iron out the concerns and inculcate sustainability values and best practices.

## Selecting our business partners

GRI 308-1

It is mandatory for all the suppliers to be registered with us and complete the necessary background checks before initiating a relationship. We closely evaluate the details of our suppliers and partners, and obtain management approval before initiating the relationship. Further, we conduct regular evaluations to ensure our strategic objectives are achieved through our business partner relationships. We give priority to local suppliers provided they meet the required standards.

Our Purchasing Committee selects suppliers, and the selection is validated according to Transaction Authorisation limits.

We evaluate the following criteria associated with suppliers and business partners in the selection process:

- Compliance to applicable laws and regulations
- Compliance to relevant certifications and standards
- Adherence to environmental and social specifications
- Quality standards
- Cost competitiveness
- Reliability
- On-time delivery
- Past performance
- Customer reviews

## Meeting business partner aspirations

Our procurement policy formalises the approach to establish mutually beneficial, long-standing relationships. Conducting our business with a high level of integrity, transparency and in compliance with relevant rules and regulations, we have established strong relationships based on trust with our business partners.

At the point of initiating the relationship, the objectives and the expectation of the partners are discussed along with the terms to build a successful relationship. We deliver the expectations of our business partners and secure strong relationships through clear identification of the business partner expectations, proactive resolution of conflicts and by upholding our obligations. The feedback from our business partners helps us to identify areas of improvement, enhance business partner experience and nurture long lasting mutually benefiting relationships.

## A sustainable supply chain

GRI 102-9, 102-10

Our value creation process is facilitated by our business partners who are an essential part of our supply chain. We engage with our business partners to build trusting relationships from which we can mutually benefit and to ensure they are performing to our standards and conducting business to our expectations. If our supply chain is not sufficiently resilient to events that affect our operations, then this could result in significant financial and reputational damage. Hence, we have taken appropriate measures to ensure the sustainability of our supply chain.

## Supplier registration process for continuity of the supply chain

**Selection**

Calling of applications by the Procurement Division for registration of new and existing suppliers

**Evaluation**

Evaluation of suppliers by the Procurement Division based of evaluation criteria

**Recommendations**

Obtain recommendations of suppliers from relevant divisions such as Technical, IT division etc.

**Approval**

Obtain approval from the Purchasing Committee for supplier registration

**Processing**

Processing of the registration by the relevant department, either , Administration, Procurement or Facility Management Division

**Register**

Register the supplier in our data base

## Our strategic partnerships

In a bid to secure mutual benefits and achieve our strategic objectives, we entered into several strategic partnerships in diverse areas of business. Motor vehicle leasing being a key segment of our business we consider vehicle dealers and insurance companies as our important business partners. Valuing their relationship, we have nurtured long standing, cordial relationships with several vehicle suppliers and insurance companies. We conduct promotional activities in collaboration with our branches to secure a solid customer base. Our customers are offered a range of benefits through these partnerships. These include the opportunity of dealing with strong and trustworthy brands with guarantees and complementaries offered by both parties through mutual agreement.

During the financial year 2019/20, we conducted over 5,000 promotions covering all the dealers islandwide. In addition, the following events and promotions were organised adding a new trend to the market first time.

- Weekend promotions covering all main vehicle hubs islandwide
- Islandwide – one day campaign targeting all car sale dealers and principle dealers in main vehicle hubs in Kurunegala, Katugathota, Kiribathgoda, Kohuwala and Negombo to enhance our brand visibility and generate leads, which have strengthened our partnerships with dealers. These campaigns have resulted in generating tangible business volumes and creating new business trends and opportunities in which we will have the first mover advantage in the market.
- Conducted a "Dealer Awards Night". A campaign was conducted in Kurunegala, Kandy and Kegalle targeting three wheeler dealers. This enabled to canvass a high volume of business.
- Two vehicle parades were organised in collaboration with Associated Motor Ways (Private) Ltd. (AMW) and MICRO to promote new vehicle models. This led to generation of leads and increased visibility for the CDB brand.
- A marketing promotional campaign themed - "CDB Kiwwoth Salli Thamai" was conducted to motivate three wheel dealers to recall our brand.

**We have created the right environment for prospering mutually beneficial relationships by honouring our obligations, and conducting our business in an open, ethical and transparent manner which is valued by our business partners, lending to strengthening of our relationships.**

We have enabled our customers to access the extensive island-wide ATM network of Commercial Bank of Ceylon PLC (COMB) by entering into a special partnership with them. We also work with number of correspondent banks to run our financial operations smoothly on a daily basis. Further we have been a sub-agent of MoneyGram network and Western Union.

We have entered into strategic partnerships facilitate our worldwide connectivity and enable our customers to access global payment platforms. We have partnered with international partners establishing trusted long standing partnerships for our credit and debit cards processing and monitoring.

### Efficient support services

There are several international and local partners who are vital cogs in our ecosystem of business partners. They have extensive expertise on our core activities and are essential for the smooth functioning of our operations. We value their relationship. Our reputation is built upon trust they have in us through our rigorous adherence to all industry regulations, our commitment to transparency and ethical business practices, and the discharging of our debt obligations in a timely manner.

We have engaged the services of outsourced staff to our IT and Scanning Divisions through outsourcing partners, enabling us to be efficient and cost–effective in our resource utilisation. We have also outsourced operations, such as security, janitorial, logistics, courier, waste management, maintenance of office equipment and machine servicing to specialist companies. This helps us to function smoothly and engage in daily business operations effectively.

Most of these service providers are local and we engage with them regularly and recognise their efforts and the services they provide. We continue to benefit from having long standing relationships with every one of these service providers.

We pay for the services of our utility service providers (electricity, water, telephone and Internet services) promptly, which secures our relationship with them, together with uninterrupted service.

### Memberships and associations

GRI 102-13

We maintain membership of several industry organisations, professional institutes, associations and societies. We actively engage in these forums to enhance industry standards, enable networking, provide opportunities for employees to benefit from activities offered by these organisations, whilst contributing our best to resolve any industry issues. This also provides an ideal opportunity to engage with our stakeholders and build stronger relationships.

### Future outlook

Our goal is to strengthen our existing relationships with our business partners and secure mutual benefits. We will continue to engage outsourced suppliers and service providers to maximise the value delivered to all our stakeholders and to improve operational excellence. We will continuously improve business partner experience and initiate new partnerships to create increased value.

# Investor capital

CDB's investors are a key stakeholder in its value creation process. Our investors constitute individuals and groups who provide us with the financial capital for investments and development. They also play an integral role in shaping our corporate behaviour on socio-environmental and governance aspects. In return, we strive to maximise our investor wealth by providing sustainable, long-term returns which is our primary objective. We nurture our relationships with investors through regular engagement, mutual trust and accountability.

By maintaining a sustainable growth over the years, we have retained the trust of our investors. The momentum of the healthy financial returns we have maintained in the financial year 2019/20 will continue in the future. Some of the key financial indicators and detailed discussions can be found in the financial capital section.

Our investors are kept informed through CDB investor forums, CSE announcements, press releases and others. Fair disclosure of information and timely bilateral communication also helps to keep our investors informed. Through announcements in the CSE, our shareholders were notified of quarterly results, dividend declarations and resignation and appointment of Directors. We have dedicated a section for our investors in the CDB website, which includes Annual Reports and other important information.

## Highlights

| | **2019/20** | 2018/19 |
|---|---|---|
| Price earnings ratio (Times) | **2.94** | 2.57 |
| Price to Book value (Times) | **0.45** | 0.48 |
| Return on Equity (%) | **17.21** | 21.62 |
| Earnings Yield (%) | **34.02** | 38.98 |
| Net interest margin (%) | **6.91** | 6.34 |
| Operating profit margin (%) | **14.95** | 16.03 |
| Return on Assets (%) | **1.89** | 2.07 |
| Debt/Equity (%) | **6.77** | 8.78 |
| Quick Assets Ratio (Times) | **0.85** | 0.87 |
| Interest Cover (Times) | **1.24** | 1.24 |
| Dividend Yield (%) | **–** | 6.49 |
| Dividend pay-out (%) | **–** | 15.88 |
| Dividend Cover (Times) | **–** | 6.30 |
| PAT Growth rate (%) | **0.11** | 22.05 |

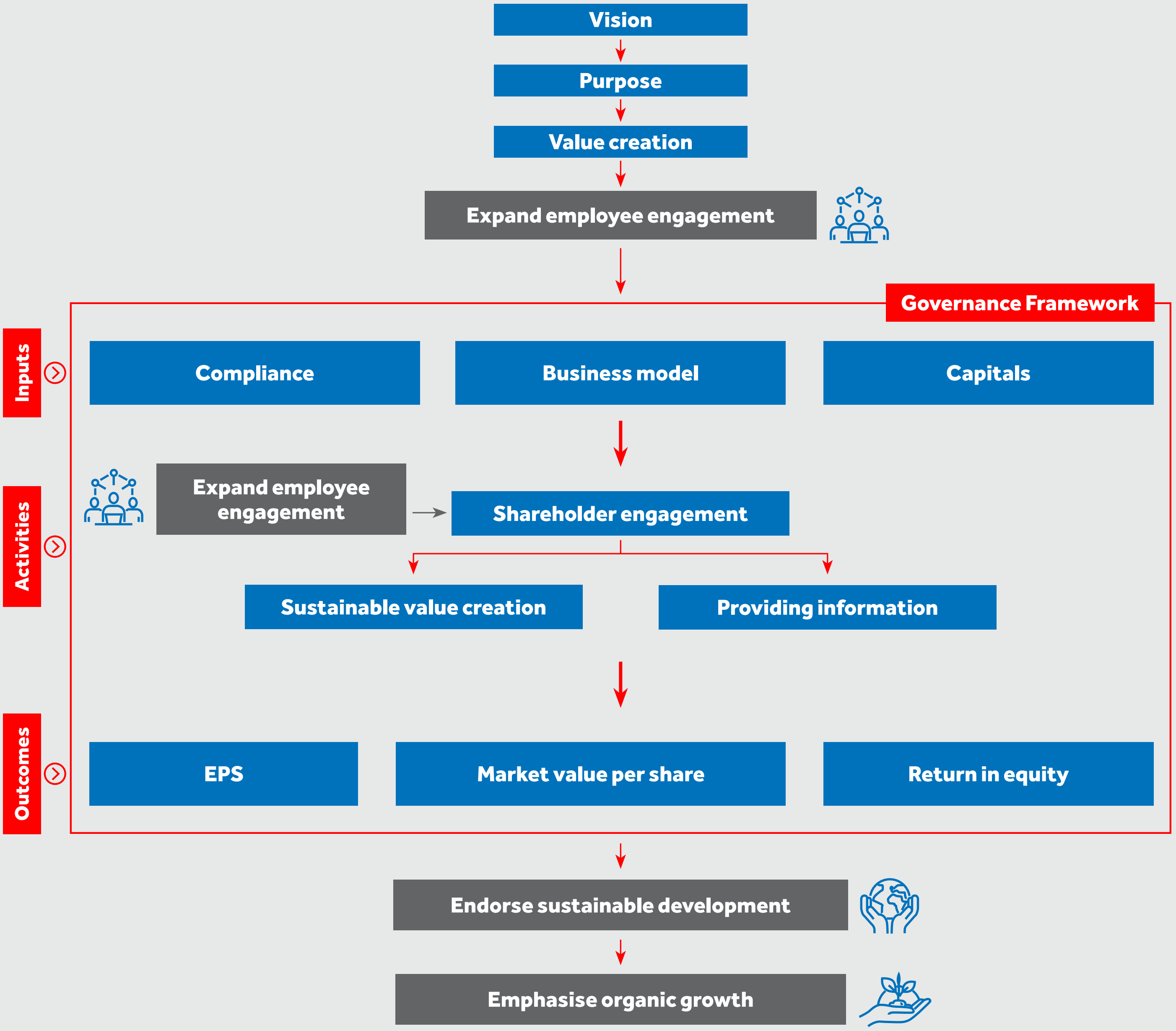
## Related stakeholders

## Our contribution to UN's Sustainable Development Goals

**Supporting entrepreneurship through inclusive financing and spurring rural development.**

## Our strategic focus

| Strategic focus | Management approach | Outcomes |
|---|---|---|
| Delivering sustainable return to investors | We provide consistent and sustainable returns to our shareholders through our business model. | We have created consistent value for our investors with a continuous growth momentum.<br>EPS for 2019/20 increased to Rs. 24.53. |
| Provision of information for investors decision making | We adopt good governance to ensure compliance and submit relevant and timely information to the regulators and investors. | We have provided relevant and reliable information on timely basis to our investor. |
| Balancing short-term value delivery and long-term valuation creation | We provide a reasonable dividend pay-out value benchmarked with our peers.<br>We take a long-term perspective based on capital appreciation trend on our retained profits. | Sustainable dividend history. |



## Capital market performance

The Colombo Stock Exchange (CSE) accommodated 306 companies amounting to a market capitalisation of Rs. 2,128 Bn. as at 31 March 2020. This reflects an decrease of 18% YoY, compared to the market capitalization of Rs. 2,606 Bn. in 2018/19. All Share Price Index (ASPI) and S&P Sri Lanka 20 Index (S&P SL 20) stood at 4,572 and 1,947 respectively. A steady growth momentum is expected, considering the share movement trend of CDB. During the financial year CDB share price reaching a capital appreciation of CDB.N and CDB.X by 31% and 29% respectively. CDB.N was trading between Rs. 65.80 – Rs. 101.10 and CDB.X was trading between Rs. 43.00 - Rs. 78.90.

We have maintained a positive and effective communication with investors and shareholders over the period, leading to enhanced relationships and performance of the Organisation. We have connected with the investors through online and offline communication, in order to ensure fair and timely disclosures, and provide relevant information.

## Stock Exchange Listing

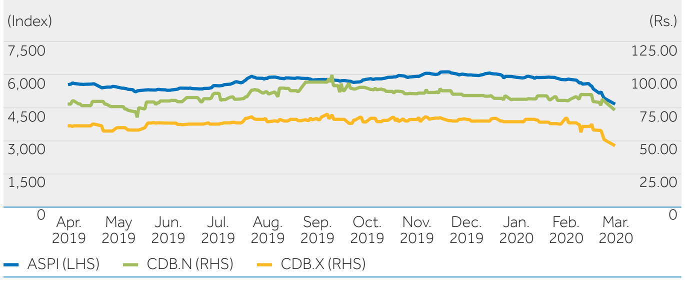
The issued ordinary shares of Citizens Development Business Finance PLC are listed on the Main Board of the Colombo Stock Exchange.

The unaudited Interim Financial Statements for the three quarters in the financial year 2019/20 have been submitted to the Colombo Stock Exchange within the stated 45 day period. The unaudited Interim Financial Statements for the final quarter was submitted to the CSE within the stated 60 days from the Statement of Financial Position date.

## Overall share market

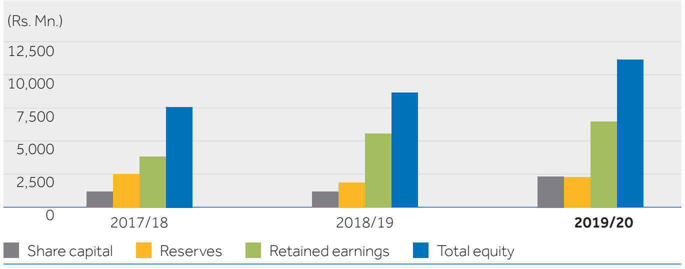
As at 31 March 2020 the CSE accommodated 306 companies with a market capitalisation of Rs. 2,128 Bn. reflecting an decrease of 18% compared to Rs. 2,606 Bn. in the previous year.

### Comparison of CDB share movement with ASPI



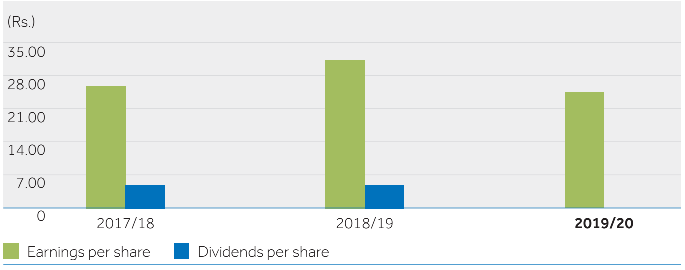
## Financial information

### Movement in total equity, share capital and reserves

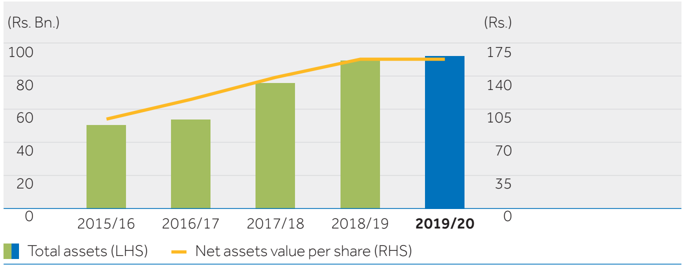


| | 31 March 2020 |
|---|---|
| All Share Price Index (ASPI) | 4,572 |
| S&P Sri Lanka 20 Index (S&P SL 20) | 1,947 |
| Market capitalisation (Rs. Bn.) | 2,128 |

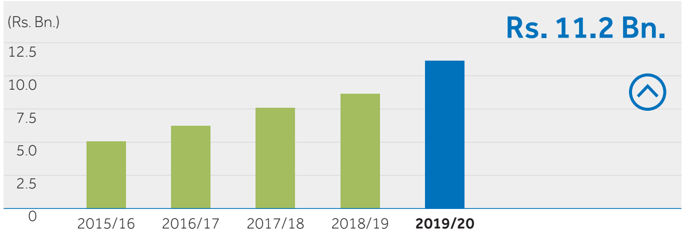
### Movement of DPS and EPS



### Total assets and net assets value per share



### Shareholders' funds



## Ratio

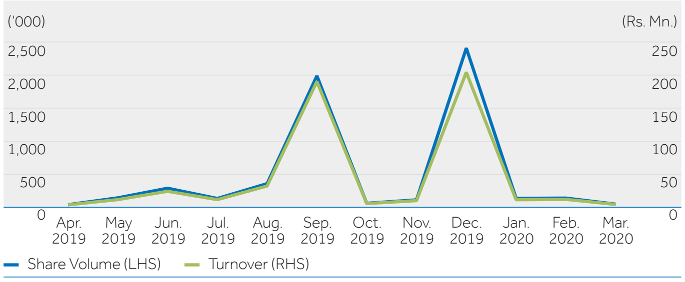
| | 2019/20 |
|---|---|
| Debt/Equity Ratio (Times) | 6.77 |
| Quick Asset Ratio (Times) | 0.85 |
| Interest Cover (Times) | 1.24 |

## Share price

| | Voting | | Non -Voting | |
|---|---|---|---|---|
| | **2019/20** | 2018/19 | **2019/20** | 2018/19 |
| High | **101.10** | 94.00 | **78.90** | 82.50 |
| Low | **65.80** | 76.10 | **43.00** | 61.00 |
| Last traded | **72.10** | 77.10 | **44.80** | 61.10 |

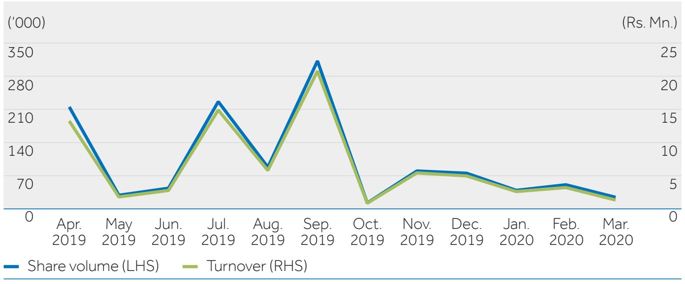
## Performance of the share

### Voting share performance



During the financial, year 5.6 million shares were traded through 1,401 transactions and recorded an average daily turnover of Rs. 2.2 Mn.

### Non-voting share performance



During the financial, year 1.17 million shares were traded through 1,267 transactions and recorded an average daily turnover of Rs. 0.33 Mn.

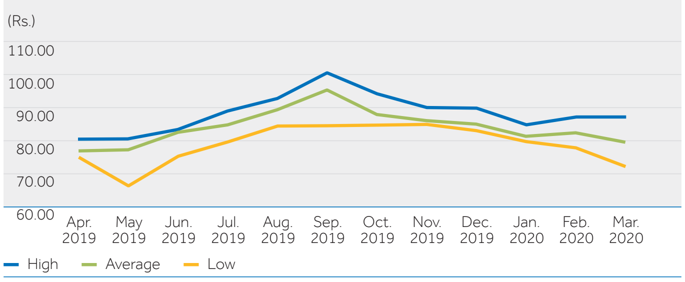
## Share trading Information

| Annual transaction information | Ordinary voting share | | | | |
|---|---|---|---|---|---|
| | **2019/20** | 2018/19 | 2017/18 | 2016/17 | 2015/16 |
| Number of transactions | **1,401** | 1,970 | 3,330 | 2,965 | 2,696 |
| Number of share traded | **5,647,980** | 2,735,334 | 7,354,042 | 4,453,153 | 6,958,625 |
| Value of share traded (Rs.) | **500,892,517** | 229,888,715 | 508,655,792 | 351,201,140 | 695,635,543 |

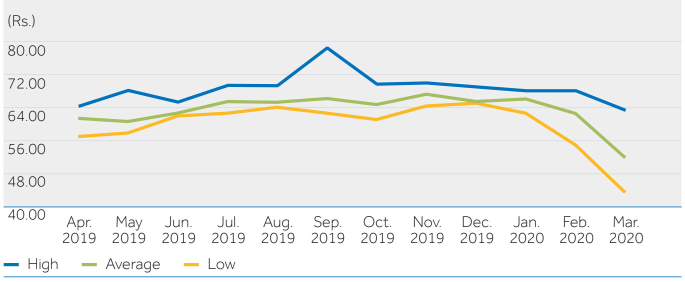
| Annual transaction information | Ordinary non-voting share | | | | |
|---|---|---|---|---|---|
| | **2019/20** | 2018/19 | 2017/18 | 2016/17 | 2015/16 |
| Number of transactions | **1,267** | 789 | 1,261 | 1,200 | 1,846 |
| Number of share traded | **1,175,929** | 755,533 | 1,172,546 | 1,601,961 | 3,081,158 |
| Value of share traded (Rs.) | **76,157,195** | 55,384,111 | 70,699,527 | 116,268,214 | 280,559,777 |

## Share price movement

### Share price movement – Ordinary voting



### Share price movement – Ordinary non-voting



## Quarterly summary

| Period – voting | High (Rs.) | Low (Rs.) | Close (Rs.) | Trade volume | Share volume | Turnover (Rs.) | Days traded |
|---|---|---|---|---|---|---|---|
| 2019/20 - Q4 | 87.00 | 72.00 | 72.10 | 307 | 244,777 | 19,929,072 | 39 |
| 2019/20- Q3 | 94.40 | 83.50 | 83.90 | 238 | 2,553,645 | 217,182,407 | 52 |
| 2019/20 - Q2 | 101.10 | 79.90 | 94.10 | 476 | 2,450,773 | 231,684,370 | 57 |
| 2019/20 - Q1 | 83.00 | 65.80 | 81.40 | 380 | 398,785 | 32,096,668 | 51 |
| Year | 101.10 | 65.80 | 72.10 | 1,401 | 5,647,980 | 500,892,517 | 199 |

| Period – Non-voting | High (Rs.) | Low (Rs.) | Close (Rs.) | Trade volume | Share volume | Turnover (Rs.) | Days traded |
|---|---|---|---|---|---|---|---|
| 2019/20 - Q4 | 67.90 | 43.00 | 44.80 | 190 | 104,062 | 6,428,974 | 32 |
| 2019/20- Q3 | 69.90 | 61.40 | 67.50 | 269 | 159,129 | 10,613,960 | 51 |
| 2019/20 - Q2 | 78.90 | 63.00 | 63.60 | 501 | 630,488 | 41,719,283 | 56 |
| 2019/20 - Q1 | 68.00 | 57.10 | 63.10 | 307 | 282,250 | 17,394,978 | 47 |
| Year | 78.90 | 43.00 | 44.80 | 1,267 | 1,175,929 | 76,157,195 | 186 |

## Market capitalisation

| As at 31 March 2020 | Number of shares | MPS | **2019/20** | 2018/19 |
|---|---|---|---|---|
| Voting | 59,449,080 | 72.10 | **4,286,278,668** | 3,569,670,093 |
| Non-voting | 10,343,668 | 44.80 | **463,396,326** | 489,165,622 |
| Total | | | **4,749,674,994** | 4,058,835,715 |

## Floating adjusted market capitalisation

| | Number of shares | MPS | Market capitalisation Rs. | Percentage of public holders | Floating adjusted market capitalisation Rs. |
|---|---|---|---|---|---|
| Voting share | 59,449,080 | 72.10 | 4,286,278,668 | 45.15% | 1,935,254,819 |
| Non-voting share | 10,343,668 | 44.80 | 463,396,326 | 76.51% | 354,544,529 |
| Total | | | 4,749,674,994 | | 2,289,799,348 |

The float adjusted market capitalisation of the Company falls under Option 3 of Rule 7.13.1 (a) of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

## Shareholder analysis

## Ordinary voting – Composition according to shareholding

| | Resident | | | Non-resident | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Shareholdings | Number of shareholders | Number of shares | Percentage (%) | Number of shareholders | Number of shares | Percentage (%) | Number of shareholders | Percentage (%) | Number of shares | Percentage (%) |
| 1 to 1,000 Shares | 1,085 | 203,243 | 0.34 | 4 | 511 | – | 1,089 | 58.17 | 203,754 | 0.34 |
| 1,001 to 10,000 Shares | 559 | 1,467,947 | 2.47 | 3 | 8,770 | 0.01 | 562 | 30.02 | 1,476,717 | 2.48 |
| 10,001 to 100,000 Shares | 176 | 5,248,530 | 8.83 | 2 | 33,543 | 0.06 | 178 | 9.51 | 5,282,073 | 8.89 |
| 100,001 to 1,000,000 Shares | 30 | 7,263,730 | 12.22 | – | – | – | 30 | 1.60 | 7,263,730 | 12.22 |
| Over 1,000,000 Shares | 13 | 45,222,806 | 76.07 | – | – | – | 13 | 0.69 | 45,222,806 | 76.07 |
| | 1,863 | 59,406,256 | 99.93 | 9 | 42,824 | 0.07 | 1,872 | | 59,449,080 | 100.00 |

## Composition of voting shareholders

| Categories of shareholders | **2019/20** | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| | **Number of shareholders** | **Number of shares** | **Holding %** | Number of shareholders | Number of shares | Holding % |
| Individual | **1,771** | **8,735,165** | **14.69** | 1,842 | 10,552,417 | 22.79 |
| Institutional | **101** | **50,713,915** | **85.31** | 99 | 35,746,806 | 77.21 |
| | **1,872** | **59,449,080** | **100.00** | 1,941 | 46,299,223 | 100.00 |

## Ordinary Non-voting – Composition according to shareholding

| | Resident | | | Non-resident | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Shareholdings | Number of shareholders | Number of shares | Percentage (%) | Number of shareholders | Number of shares | Percentage (%) | Number of shareholders | Percentage (%) | Number of shares | Percentage (%) |
| 1 to 1,000 Shares | 1,477 | 181,193 | 1.75 | 4 | 916 | 0.01 | 1,481 | 85.31 | 182,109 | 1.76 |
| 1,001 to 10,000 Shares | 171 | 582,031 | 5.63 | 1 | 7,046 | 0.07 | 172 | 9.91 | 589,077 | 5.70 |
| 10,001 to 100,000 Shares | 60 | 2,043,480 | 19.76 | – | – | – | 60 | 3.46 | 2,043,480 | 19.76 |
| 100,001 to 1,000,000 Shares | 19 | 4,628,753 | 44.75 | 2 | 216,018 | 2.09 | 21 | 1.21 | 4,844,771 | 46.84 |
| Over 1,000,000 Shares | 2 | 2,684,231 | 25.95 | – | – | – | 2 | 0.12 | 2,684,231 | 25.95 |
| | 1,729 | 10,119,688 | 97.84 | 7 | 223,980 | 2.17 | 1,736 | | 10,343,668 | 100.00 |

## Composition of non-voting shareholders

| Categories of shareholders | **2019/20** | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| | **Number of shareholders** | **Number of shares** | **Holding %** | Number of shareholders | Number of shares | Holding % |
| Individual | **1,649** | **4,783,572** | **46.25** | 1,654 | 3,764,332 | 47.02 |
| Institutional | **87** | **5,560,096** | **53.75** | 82 | 4,241,652 | 52.98 |
| | **1,736** | **10,343,668** | **100.00** | 1,736 | 8,005,984 | 100.00 |

## Information on share capital movement

| Year | Details | Share Type | Basis | Number of shares issue | Number of voting shares issues (after issue) | Number of non-voting shares issues (after issue) | New Capital raised |
|---|---|---|---|---|---|---|---|
| | Prior to Introduction | Voting shares | | | 39,685,048 | | |
| 2010 | Introduction | | | | 39,685,048 | | |
| 2011 | Right Issue | Voting shares at Rs. 70.00 | 1 for every 6 voting shares | 6,614,175 | 46,299,223 | | 462,992,250 |
| | Rights Issue | Non-voting shares at Rs. 45.00 | 1 for every 7 voting shares | 5,669,293 | 46,299,223 | 5,669,293 | 255,118,185 |
| 2012 | Scrip issue | Non-voting shares | 1 for every 22.222224 voting shares and non-voting shares | 2,336,691 | 46,299,223 | 8,005,984 | |
| 2019 | Right issue | Voting shares at Rs. 77.00 | 1 for every 4 voting shares | 11,574,805 | 57,874,028 | 8,005,984 | 891,259,985 |
| | Rights issue | Non-voting shares at Rs. 64.00 | 1 for every 4 non-voting shares | 2,001,496 | 57,874,028 | 10,007,480 | 128,095,744 |
| 2019 | Scrip issue | Voting shares | 0.02721519 new share for every one existing voting shares issued | 1,575,052 | 59,449,080 | 10,007,480 | |
| | Scrip issue | Non-voting shares | 0.03359375 new share for every one existing non-voting shares issued | 336,188 | 59,449,080 | 10,343,668 | |

*Note: Ordinary voting shares held under CDB ESPO Trust Fund (Pvt) Limited were distributed among its beneficiaries (entitles employees) on 2 March 2016.*

## List of 20 major shareholders based on their shareholdings as at 31 March 2020

### Ordinary voting shares

| No. | Name | Shareholding | (%) |
|---|---|---|---|
| 1. | Ceylinco Life Insurance Limited Account No.1 | 20,605,950 | 34.66 |
| 2. | Janashakthi Insurance PLC –Shareholders | 3,044,855 | 5.12 |
| 3. | Janashakthi Insurance PLC – Non-Par | 2,972,453 | 5.00 |
| 4. | People's Leasing & Finance PLC/Asia Management Consultancy (Private) Limited | 2,444,169 | 4.11 |
| 5. | People's Leasing & Finance PLC/Mr W P C M Nanayakkara | 2,399,957 | 4.04 |
| 6. | Ceylinco Insurance PLC A/C No 2 (General Fund) | 2,379,654 | 4.00 |
| 7. | Citizens Development Business Finance PLC A/C 02 (CDB Employee Gratuity Fund) | 2,194,152 | 3.69 |
| 8. | Seylan Bank PLC/Janashakthi PLC | 2,173,952 | 3.66 |
| 9. | Commercial Bank Of Ceylon PLC/Janashakthi Limited | 1,662,584 | 2.80 |
| 10. | Asia Management Consultancy (Private) Limited | 1,526,160 | 2.57 |
| 11. | People's Leasing & Finance PLC/Mr S V Munasinghe | 1,316,247 | 2.21 |
| 12. | People's Leasing & Finance PLC/Mr R H Abeygoonewardena & Mrs V F Abeygoonewardena | 1,301,785 | 2.19 |
| 13. | Seylan Bank PLC/Tennakoon Mudiyanselage Damith Prasanna Tennakoon | 1,200,888 | 2.02 |
| 14. | Ceylinco Life Insurance Limited Account No.3 | 892,146 | 1.50 |
| 15. | People's Leasing & Finance PLC/Mr H M L M B Heenkenda | 606,390 | 1.02 |
| 16. | Mr E Karthik | 551,486 | 0.93 |
| 17. | People's Leasing & Finance PLC/Mrs N D Kodagoda | 503,972 | 0.85 |
| 18. | People's Leasing & Finance PLC/Mr H K Dassanayake | 349,115 | 0.59 |
| 19. | People's Leasing & Finance PLC/Mr I M Kotigala | 327,798 | 0.55 |
| 20. | Nation Development Bank PLC/Asia Management Consultancy | 325,000 | 0.55 |
|  | Subtotal of top 20 share holders | 48,778,713 | 82.05 |
|  | Others | 10,670,367 | 17.95 |
|  | Total | 59,449,080 | 100.00 |

The percentage of shares held by the public as at 31 March 2020 was 45.15% (with 1,862 public shareholders).

### Ordinary non-voting shares

| No. | Name | Shareholding | (%) |
|---|---|---|---|
| 1. | Deutsche Bank AG As Trustee for JB Vantage Value Equity Fund | 1,381,493 | 13.36 |
| 2. | J B Cocoshell (Pvt) Ltd. | 1,302,738 | 12.59 |
| 3. | Citizens Development Business Finance PLC A/C 02 (CDB Employee Gratuity Fund) | 804,625 | 7.78 |
| 4. | Mr Amarakoon Mudiyanselage Weerasinghe | 635,095 | 6.14 |
| 5. | Mr Yusuf Husseinally Abdulhussein | 315,554 | 3.05 |
| 6. | People's Leasing & Finance PLC/Mr H M Abdulhussein | 274,402 | 2.65 |
| 7. | Miss Rukaiya Husseinally Abdulhussein | 260,653 | 2.52 |
| 8. | Essajee Carimjee Insurance Brokers (Pvt) Ltd. | 260,520 | 2.52 |
| 9. | Mr Murtaza Ali Jafferjee | 256,380 | 2.48 |
| 10. | Askold (Private) Limited | 248,062 | 2.40 |
| 11. | Mr Abbasally Nuruddin Esufally | 217,551 | 2.10 |
| 12. | Mr Malik Joseph Fernando | 216,020 | 2.09 |
| 13. | Mr Murtazaali Abidhussen Hassanaly Esufally | 165,375 | 1.60 |
| 14. | Mr Dueleep Fairlie Georgedalpethado/Mrs H F A K D Fonseka | 146,258 | 1.41 |
| 15. | Seylan Bank PLC/Tennakoon Mudiyanselage Damith Prasanna Tennakoon | 141,165 | 1.36 |
| 16. | Mr Sabapathi Mudiyanselage Pradeep Lal Jayaratne | 133,966 | 1.30 |
| 17. | Mr Isanka Madhawa Kotigala | 119,060 | 1.15 |
| 18. | Mr Senarathna Samarathunga Ruwan Nishantha Chandrajith | 117,309 | 1.13 |
| 19. | Gold Investment Limited. | 108,009 | 1.04 |
| 19. | Mr Mukesh Abeykumar Valabhji | 108,009 | 1.04 |
| 19. | Jafferjees Investments (Pvt) Ltd. | 108,009 | 1.04 |
|  | Subtotal of top 20 share holders | 7,320,253 | 70.77 |
|  | Others | 3,023,415 | 29.23 |
|  | Total | 10,343,668 | 100.00 |

The percentage of shares held by the public as at 31 March 2020 was 76.51% (with 1,721 public shareholders).

## Directors' and Chief Executive Officer's Shareholding as at 31 March 2020

### Ordinary Voting Shares

| No. | Name | Shareholding |
|---|---|---|
| 1. | Mr W P C M Nanayakkara | 1,283 |
| 2. | People's Leasing & Finance PLC/Mr W P C M Nanayakkara | 2,399,957 |
| 3. | Mr T M D P Tennakoon | – |
| 4. | Assetline Leasing Company Ltd./Mr T M D P Tennakoon | 170,151 |
| 5. | Seylan Bank PLC/Tennakoon Mudiyanselage Damith Prasnna Tennakoon | 1,200,888 |
| 6. | Mr S V Munasinghe | – |
| 7. | People's Leasing & Finance PLC/Mr S V Munasinghe | 1,316,247 |
| 8. | Mr R H Abeygoonewardena/Mrs V F Abeygoonewardena | 5,652 |
| 9. | People's Leasing & Finance PLC/Mr R H Abeygoonewardena & Mrs V F Abeygoonewardena | 1,301,785 |
| 10. | Mr P A J Jayawardena | 513 |
| 11. | Mr S R Abeynayake | – |
| 12. | Mr D A De Silva | – |
| 13. | Dialog Finance PLC/Mr D A De Silva | 117,550 |
| 14. | Dr A Dharmasiri | – |
| 15. | Mr R Mohamed | – |
| 16. | Senior Prof S P P Amaratunge | – |
| 17. | Mr J R A Corera | 1,027 |
| 18. | People's Leasing & Finance PLC/Mr J R A Corera | 21,622 |
| 19. | Mr J P Abhayaratne | – |
| 20. | Mr E Karthik | 551,486 |
| | | 7,088,161 |

### Ordinary Non-voting Shares

| No. | Name | Shareholding |
|---|---|---|
| 1. | Mr W P C M Nanayakkara | 56 |
| 2. | Mr T M D P Tennakoon | – |
| 3. | Seylan Bank PLC/Tennakoon Mudiyanselage Damith Prasanna Tennakoon | 141,165 |
| 4. | Mr S V Munasinghe | – |
| 5. | Mr R H Abeygoonewardena/Mrs V F Abeygoonewardena | 99,653 |
| 6. | People's Leasing & Finance PLC/Mr R H Abeygoonewardena & Mrs V F Abeygoonewardena | 62,850 |
| 7. | Mr P A J Jayawardena | 22 |
| 8. | Mr S R Abeynayake | – |
| 9. | Mr D A De Silva | – |
| 10. | Dr A Dharmasiri | – |
| 11. | Mr R Mohamed | – |
| 12. | Mr S P P Amaratunge | – |
| 13. | Mr J R A Corera | 10,335 |
| 14. | Mr J P Abhayaratne | – |
| 15. | Mr E Karthik | – |
| | | 314,081 |

## Rights issue

**Rights issue of 11,574,805 new ordinary voting shares each issued at Rs. 77/- per share and 2,001,496 new ordinary non-voting shares each issued at Rs. 64/- per share**

During the year, Company issued a right issue one new (1) Ordinary Voting Share each for every four (4) Ordinary Voting Shares held by the shareholders by Issue of 11,574,805 new Ordinary Voting Shares, at a price of Rs. 77/- per share . Further one new (1) Ordinary Non-voting Share each for every four (4) Ordinary Non-voting Shares held by the shareholders by Issue of 2,001,496 new Ordinary Non-voting Shares, at a price of Rs. 64/- per share. Company raised total of Rs. 1,019,355,729. CSE granted the principal approval for the proposed Rights Issue on 30 April 2019. The ordinary resolution pertaining to the Right Issue was passed at the Extraordinary General Meeting held on 28 May 2019. Accordingly XR date and last date of payment and acceptance was 29 May 2019 and 19 June 2019 respectively where right issue was oversubscribed. The main objectives of the proposed Rights issue was to strengthen the Tier 1 capital while supporting to the company's asset growth.

## Right issue movement

| Share type | Total number of Issued shares Prior right issue | Basis | Share type | Number of shares issues (After issue)** | New capital raised ** Rs. |
|---|---|---|---|---|---|
| Voting Share | 46,299,223 | 1 for every 4 voting shares | Voting shares at Rs. 77.00 | 11,574,805 | 891,259,985 |
| Non-Voting Share | 8,005,984 | 1 for every 4 voting shares | Non-Voting shares at Rs. 64.00 | 2,001,494 | 128,095,744 |

## Information on listed debentures movement

| Opening balance as at 01.04.2018 (Rs.) | During the year issue | | | | During the year maturity | | | | Closing balance as at 31.03.2019 Rs. |
|---|---|---|---|---|---|---|---|---|---|
| | Type | Rate % | Value | Total Value | Type | Rate % | Value | Total value | |
| 4,000,000,000 | A (Semi Annual) | 15.00 | 259,180,000 | 927,770,000 | A | 16.00 | 665,360,000 | 1,000,000,000 | 3,927,770,000 |
| | B (Annual) | 15.50 | 668,590,000 | | B | 15.50 | 310,360,000 | | |
| | | | | | C | 15.00 | 24,280,000 | | |

| Opening balance as at 01.04.2019 (Rs.) | During the year issue | | | | During the year maturity | | | | Closing balance as at 31.03.2020 Rs. |
|---|---|---|---|---|---|---|---|---|---|
| | Type | Rate % | Value | Total Value | Type | Rate % | Value | Total value | |
| 3,927,770,000 | A (Semi Annual) | 13.43 | 387,900,000 | 1,075,200,000 | | | | | 5,002,970,000 |
| | B (Annual) | 13.88 | 687,300,000 | | | | | | |

## Subordinated listed rated unsecured redeemable debenture issue December 2019

Corporate Finance division structured and managed the Rated, Subordinated, Listed, Redeemable, unsecured debenture issue with initial issue of 5 million Debentures with an option to increase by a further 5 million debentures in the event of an oversubscription with a further option to issue 2.5 million debentures in the event of an oversubscription of the second tranche at the par value of Rs. 100/- each to raise up to totalling of Rs. 1,250 Mn. of CDB. The initial issue was oversubscribed on the opening day and out of the total issue, Rs. 1.0752 Bn. was subscribed where Rs. 387.9 Mn. were allotted under type A (13.43% payable semi-annually) and Rs. 687.3 Mn. were allotted under type B (13.88% payable Annually) on 10 December 2019.

## Information on listed debentures

### Debenture issue June 2016 – June 2021

| | | | | | | Interest rate | | |
|---|---|---|---|---|---|---|---|---|
| Listing | Debenture description | Type | Interest payment frequency | Tenor (years) | Issued quantity as at 31.03.2019 | Coupon rate (per annum) (%) | Annual effective rate (%) | Comparable government security yield (%) |
| Listed Debenture (Rs. 100) | Rated Subordinated Guaranteed Redeemable Debenture | A | Semi-annually | 5 | 9,983,700 | 12.75 | 13.16 | 9.8 |
| | | B | Semi-annually | 5 | 16,300 | *6 Months Net T.Bill rate (net of tax plus 1.5%) | – | 9.8 |

**Type B will have ceiling rate of 15%( AER 15.56%) and a floor of 10% (AER 10.25%)*

### Debenture issue March 2018 – March 2023

| | | | | | | Interest rate | | |
|---|---|---|---|---|---|---|---|---|
| Listing | Debenture description | Type | Interest payment frequency | Tenor (years) | Issued quantity as at 31.03.2019 | Coupon rate (per annum) (%) | Annual effective rate (%) | Comparable government security yield (%) |
| Listed Debenture (Rs. 100) | Rated Subordinated Listed Unsecured Redeemable Debenture | A | Semi-annually | 5 | 10,669,900 | 13.75 | 14.22 | 9.8 |
| | | B | Annually | 5 | 9,330,100 | 14.20 | 14.20 | 9.8 |

## Debenture issue January 2019 – January 2024

| | | | | | | Interest rate | | |
|---|---|---|---|---|---|---|---|---|
| Listing | Debenture description | Type | Interest payment frequency | Tenor (years) | Issued quantity as at 31.03.2019 | Coupon rate (per annum) (%) | Annual effective rate (%) | Comparable government security yield (%) |
| Listed Debenture (Rs. 100) | Rated Subordinated Listed Unsecured Redeemable Debenture | A | Semi-annually | 5 | 2,591,800 | 15.00 | 15.56 | 9.8 |
| | | B | Annually | 5 | 6,685,900 | 15.50 | 15.50 | 9.8 |

## Debenture issue December 2019 – December 2024

| | | | | | | Interest rate | | |
|---|---|---|---|---|---|---|---|---|
| Listing | Debenture description | Type | Interest payment frequency | Tenor (years) | Issued quantity as at 31.03.2019 | Coupon rate (per annum) (%) | Annual effective Rate (%) | Comparable government security yield (%) |
| Listed Debenture (Rs. 100) | Rated Subordinated Listed Unsecured Redeemable Debenture | A | Semi-annually | 5 | 3,879,000 | 13.43 | 13.88 | 9.8 |
| | | B | Annually | 5 | 6,873,000 | 13.88 | 13.88 | 9.8 |

## Market prices for the year ended 31 March 2020

### Rated subordinated guaranteed redeemable debentures June 2016 – June 2021

| Debenture type | Highest price Rs. | Lowest price Rs. | Last traded Rs. |
|---|---|---|---|
| Type A | 100.39 | 95.00 | 100.26 |
| Type B | | Not traded | |

### Subordinated listed rated unsecured redeemable debentures March 2018 – March 2023

| Debenture type | Highest price Rs. | Lowest price Rs. | Last traded Rs. |
|---|---|---|---|
| Type A | 100.94 | 100.94 | 100.94 |
| Type B | 103.00 | 100.12 | 103.00 |

### Subordinated listed rated unsecured redeemable debentures January 2019 – January 2024

| Debenture type | Highest price Rs. | Lowest price Rs. | Last traded Rs. |
|---|---|---|---|
| Type A | | Not traded | |
| Type B | 101.50 | 100.50 | 101.50 |

### Subordinated listed rated unsecured redeemable debentures December 2019 – December 2024

| Debenture type | Highest price Rs. | Lowest price Rs. | Last traded Rs. |
|---|---|---|---|
| Type A | | Not traded | |
| Type B | | Not traded | |

## Current yield and yield to maturity

### Guaranteed listed rated unsecured redeemable debentures June 2016 – June 2021

| Debenture type | Current yield<br>% | Yield to maturity<br>% |
|---|---|---|
| Type A | 12.97 | 14.66 |
| Type B | Not traded | |

### Subordinated listed rated unsecured redeemable debentures March 2018 – March 2023

| Debenture type | Current yield<br>% | Yield to maturity<br>% |
|---|---|---|
| Type A | 14.42 | 16.06 |
| Type B | 15.68 | 18.36 |

### Subordinated listed rated unsecured redeemable debentures January 2019 – January 2024

| Debenture type | Current yield<br>% | Yield to maturity<br>% |
|---|---|---|
| Type A | Not traded | |
| Type B | 17.53 | 19.71 |

### Subordinated listed rated unsecured redeemable debentures December 2019 – December 2024

| Debenture type | Current yield<br>% | Yield to maturity<br>% |
|---|---|---|
| Type A | Not traded | |
| Type B | Not traded | |

## Disclosure on utilisation of funds via capital market

### Debenture issue June 2016

| Objective number | Objective as per Prospectus | Amount allocated as per Prospectus in Rs. | Proposed date of utilisation as per Prospectus | Amount allocated from proceeds in Rs. (A) | Percentage of total proceeds | Amounts utilised in Rs. (B) | Percentage of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s etc) |
|---|---|---|---|---|---|---|---|---|
| 1 | To expand the leasing portfolio | Rs. 1 Bn. | Within the 06 months from date of cash receipt | Rs. 1 Bn. | 100 | Rs. 1 Bn. | 100 | N/A |
| 2 | Improve the Tier II Capital base thus, increasing the Capital Adequacy Ratio (CAR) | | With effect from the closure of issue | | | | | |
| 3 | Reduce the Assets and Liability mismatch | | Within 12 months from date of cash receipt | | | | | |

## Debenture Issue March 2018

| Objective number | Objective as per Prospectus | Amount allocated as per Prospectus in Rs. | Proposed date of utilisation as per Prospectus | Amount allocated from proceeds in Rs. (A) | Percentage of total proceeds | Amounts utilised in Rs. (B) | Percentage of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s etc) |
|---|---|---|---|---|---|---|---|---|
| 1 | Supporting the general business growth opportunities of the Company | Rs. 2 Bn. | Within the 06 months from date of cash receipt | Rs. 2 Bn. | 100 | Rs. 2 Bn. | 100 | N/A |
| 2 | Improving the Capital Adequacy of the Company's Balance Sheet, by strengthening its Tier II Capital | | With effect from the closure of issue | | | | | |
| 3 | Reducing the mismatch of maturity periods between assets and liabilities | | Within 12 months from date of cash receipt | | | | | |

## Debenture Issue January 2019

| Objective number | Objective as per Prospectus | Amount allocated as per Prospectus in Rs. | Proposed date of utilisation as per Prospectus | Amount allocated from proceeds in Rs. (A) | Percentage of total proceeds | Amounts utilised in Rs. (B) | Percentage of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s etc) |
|---|---|---|---|---|---|---|---|---|
| 1 | Supporting the general business growth opportunities of the Company | Rs. 927,770,000 | Within the 06 months from date of cash receipt | Rs. 927,770,000 | 100 | Rs. 927,770,000 | 100 | N/A |
| 2 | Improving the Capital Adequacy of the Company's Balance Sheet, by strengthening its Tier II Capital | | With effect from the closure of issue | | | | | |
| 3 | Reducing the mismatch of maturity periods between assets and liabilities | | Within 12 months from date of cash receipt | | | | | |

## Debenture Issue December 2019

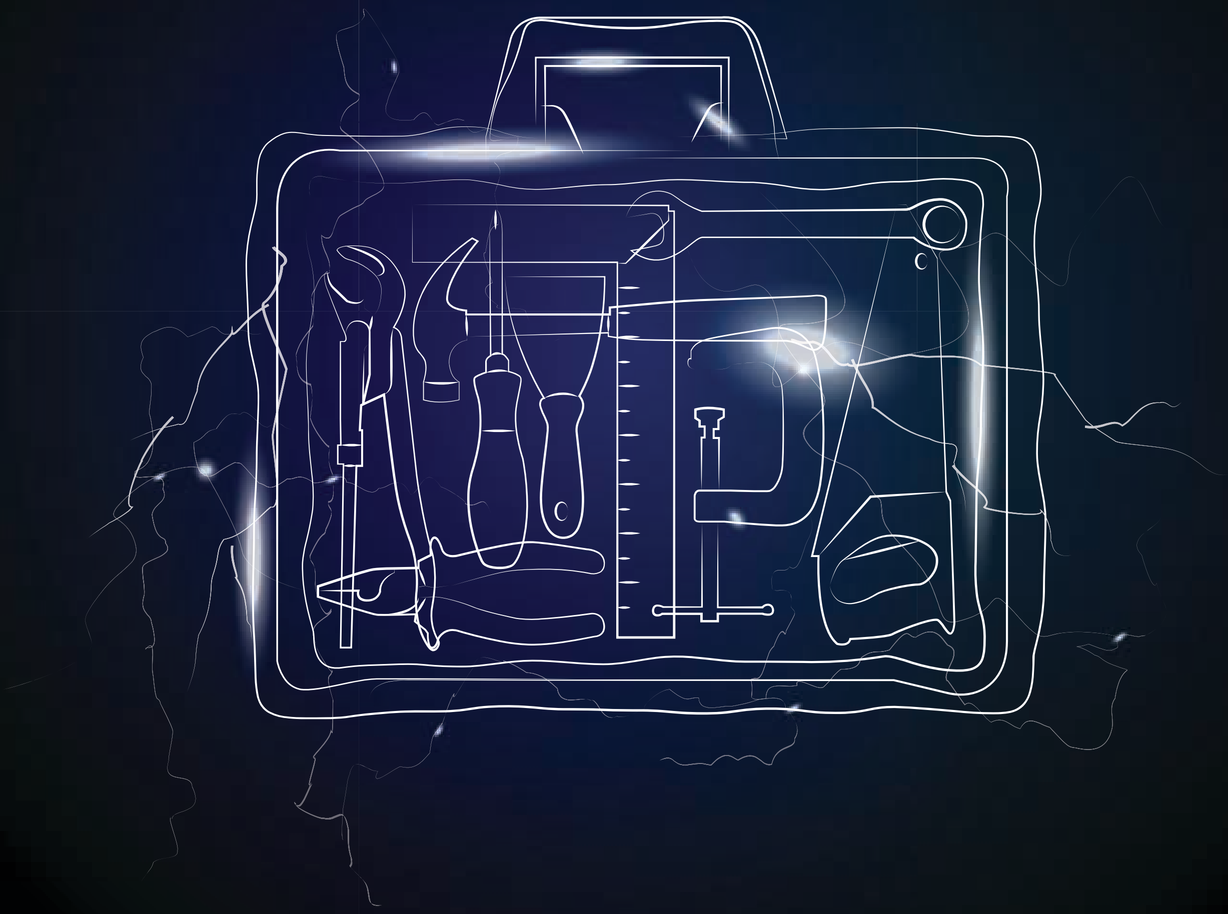
| Objective number | Objective as per Prospectus | Amount allocated as per Prospectus in Rs. | Proposed date of utilisation as per Prospectus | Amount allocated from proceeds in Rs. (A) | Percentage of total proceeds | Amounts utilised in Rs. (B) | Percentage of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s etc) |
|---|---|---|---|---|---|---|---|---|
| 1 | Supporting the general business growth opportunities of the Company | Rs. 1,075,200,000 | Within the 06 months from date of cash receipt | Rs. 1,075,200,000 | 100 | Rs. 1,075,200,000 | 100 | N/A |
| 2 | Improving the Capital Adequacy of the Company's Balance Sheet, by strengthening its Tier II Capital | | With effect from the closure of issue | | | | | |
| 3 | Reducing the mismatch of maturity periods between assets and liabilities | | Within 12 months from date of cash receipt | | | | | |

## Credit rating

ICRA Lanka Limited has assigned a "BBB+ (negative); outstanding" on long and short term corporate credit rating of the Company. Credit ratings obtained for listed debentures are as follows:

| Instrument | Rated amount (Rs. Mn.) | Rating action |
|---|---|---|
| Issuer rating | N/A | [SL]BBB+ (Negative); Outstanding |
| Subordinated, unsecured, listed redeemable debentures programme | 1,250 | [SL]BBB (Negative); Assigned |
| Subordinated, unsecured, listed redeemable debentures programme | 928 | [SL]BBB (Negative); Outstanding |
| Trust certificates programme of Citizens Development Business Finance PLC Trust-03 | 628 | [SL]A-(SO) (Negative); Outstanding |
| Subordinated, unsecured, listed redeemable debentures programme | 2,000 | [SL]BBB (Negative); Outstanding |
| Subordinated guaranteed listed redeemable debentures | 1,000 | [SL]A-(SO) (Stable); Outstanding |

# 04 – RISK MANAGEMENT



**Historic moments of ignition:** Inventing x-rays

**Just as x-rays eventually revolutionised security, our significant investment in risk management has improved our resilience, ensuring we are well equipped to anticipate and mitigate risks.**

Our prudent and disciplined approach to risk management propels us to model and anticipate a wide range of scenarios, covering unlikely but plausible events. Our significant investments in risk management and compliance have made us stronger and more resilient, even in the face of the current pandemic.

## Strategy towards managing risk at CDB

As a player in the financial services industry, risk management is an integral part of our operations. We understand that sustainability of our operations and provision of superior returns to our stakeholders mainly depends on effective management of our risks. Hence, we have adopted a company-wide risk management framework that helps identification, management and reporting of all the risks likely to impact our operations.

The evolving challenges faced by corporates have prompted them to move from a conventional risk management approach to more robust and organisation wide risk approach. Thereby, CDB has positioned its Internal Audit, Information System Audit and Risk Management under the Enterprise Risk Management Framework (ERMF) by considering the synergetic effects of these three closely related functions.

## Enterprise risk management approach

Enterprise Risk Management (ERM) is a group of structured and consistent risk management processes that are applied across the Company. The ERM process at CDB identifies, assesses, prioritises, and provides a formal structure for the internal and external risks that impact the Organisation. These activities are grouped under various risk categories commonly termed as the risk universe, with clear accountability for management and oversight of such risks considering the "Three Lines of Defence model". The ERM process is constructed around a formal approach that is aligned with the CDB's profile and strategic objectives. It is enhanced by an effective governance criteria such as formalising roles within the Company, active committees, policies and procedures, reporting, communication and technology.

**Risk strategy and appetite**

The strategy is set within the parameters of appetite an agreed risk. The risk strategy is developed alongside the business strategy. The risk appetite defines the nature and amount of risk the Company is willing to take to achieve strategic objectives.

**ERM framework**

CDB's approach to managing risk is outlined in the ERMF. The following foundations underpin the same:

- A robust and consistent governance structure.
- Well defined material risk categories known as CDB risk universe.
- A "Three Lines of Defence model" with clear accountability for managing and overseeing.
- A comprehensive process to evaluate, respond to and monitor risks.

**Risk universe – All risks matrix**

| | | | | |
|---|---|---|---|---|
| Credit risk | Funding and liquidity risk | Operational risk | Compliance risk | Strategic risk |
| Reputational risk | Market risk | Cyber risk | Conduct and culture risk | Climate change risk |

**Risk operating model**

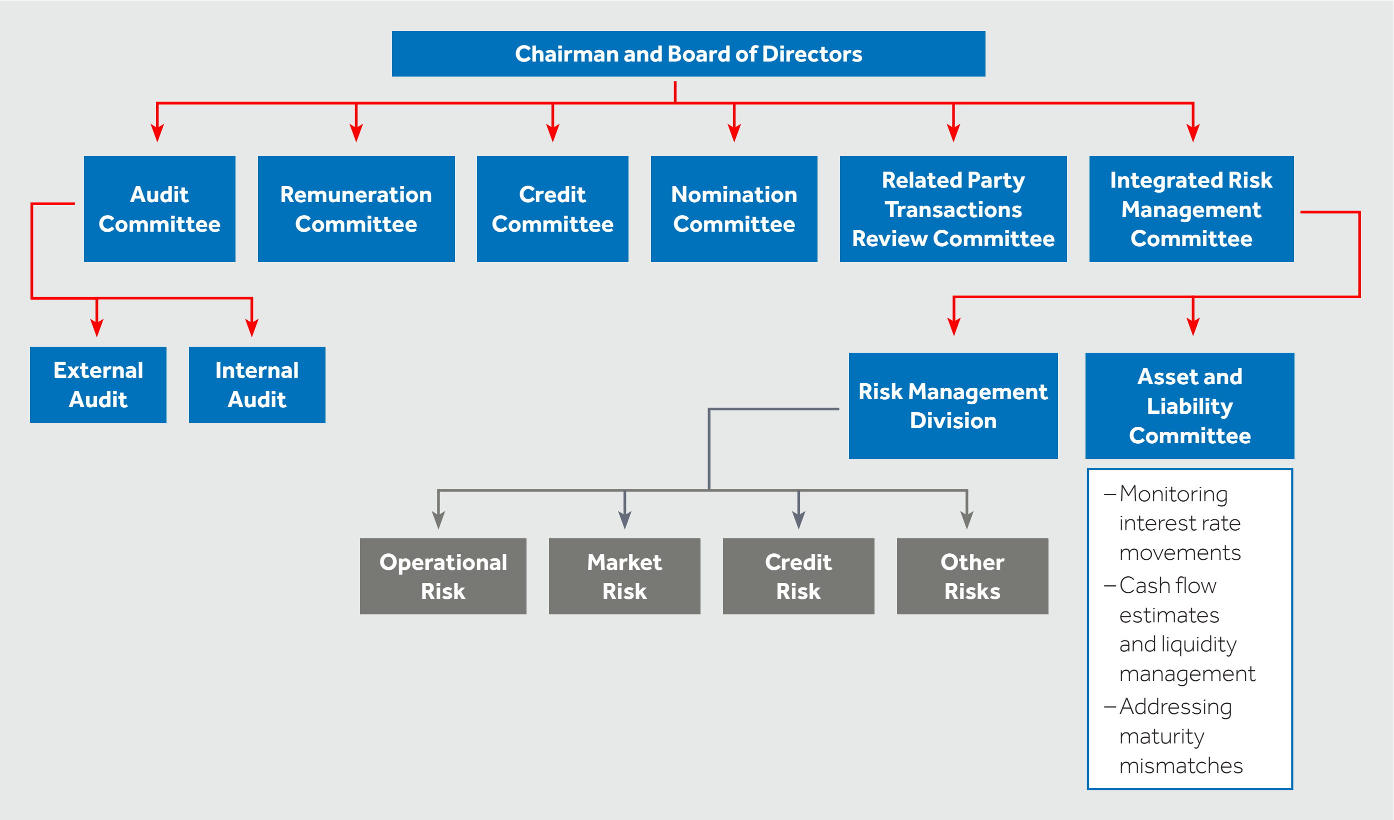
The Company applies a "Three Lines of Defence model" to govern risk across all businesses and functions.

| 1st line | 2nd line | 3rd line |
|---|---|---|
| Process and control owners in customer facing segments and functions who are responsible for managing end-to-end risks and controls in their businesses. | Independent risk, compliance, legal and control functions who formulate risk and control policies, and review the first line's adherence to these. | Internal audit function tests and reviews controls to determine lines execute their responsibilities effectively and consistently. |

<table>
<tr><th>Identification</th><th>Assessment</th><th>Treatment</th><th>Monitoring</th><th>Reporting</th></tr>
<tr><td colspan="5">Update for 2019/20</td></tr>
<tr><td>– 43 risk areas were reported through risk identification system (SmartOps)<br>– Rewarded staff members for reporting high risk areas</td><td>– Risk areas identified via the risk register/risk identification system were assessed, considering the likelihood and the impact and mitigation actions were taken accordingly</td><td>– Treatment plans for identified risks, improvements to existing controls were made for 6 separate divisions within the year under review</td><td>– During the financial year under review, 7 new exceptional reports were developed.</td><td>– A summary of the identified risks, assessments, and strategies employed to minimize risks and monitoring mechanism is presented at the quarterly IRMC meetings/ board meetings</td></tr>
</table>

## Governance structure

Risk governance applies the principles of good governance to risk identification, assessment, management and communication. The Board Integrated Risk Management Committee (BIRMC) which is headed by an Independent Non-Executive Director has the overall responsibility for ensuring an effective risk management framework is implemented across the Organisation. The BIRMC is also responsible for keeping the Board informed about the risk levels faced by CDB.



## CDB assurance net

This is a comprehensive risk identification and communication tool where discussions are held on a monthly basis at the Managers Meeting. All Departmental Heads are present at this meeting in which significant time is allocated to discussing matters related to risk faced in each respective area of responsibility. Any risk which is communicated, is discussed in detailed and mitigation actions are agreed.

## Risk reporting culture

Our ability to build and maintain a strong risk culture, prioritising resilience for the effective management of risk across Company has been reinforced by the "Three Lines of Defence model". There has been a consistent improvement in our risk culture in recent years, founded on risk awareness, compliance with laws and regulations, and ethical behaviour. The manner in which we have pitched the importance of risk identification and risk management in our employees' mind set is unique to us. Our employees perceive risk management as a value adding activity rather than an issue reporting activity. This is done in a rewarding framework where employees reporting best risk areas and identifying forged documents are rewarded and an appreciation letter which is included in the employee's personal file.

## Snapshot of the year

Sri Lanka recorded an economic growth of 2.3% in 2019, down by 0.3% YoY (2018:3.2%). The Nation which was recovering from the adverse impact created by the Easter Sunday attacks, was further impacted by the COVID-19 pandemic. The entire world is expected to face the worst recession in history. Interest rates were reduces significantly to facilitate economic growth via enhanced credit growth which increased market liquidity. Amidst the tough economic conditions, both banking and non-banking financial institution faced low collections which resulted in increasing NPLs. Amidst the challenges, CDB could maintain NPL at healthy levels compared to industry ratios. The NPL ratio increased by less than 1% to 7.54%. The provisions for loan losses stood at Rs. 2.5 Bn. reflecting an increase of 20% YoY. CDB posted a profit after tax of Rs. 1.7 Bn. in par with previous financial year navigating through a challenging context.

## COVID-19 - risks, challenges and responses

On 12 January 2020, the World Health Organisation (WHO) confirmed that a novel coronavirus was the cause of a respiratory illness in a cluster of people in Wuhan City, Hubei Province, China, who had initially come to the attention of the WHO on 31 December 2019. It took no time till the virus got transferred to many countries around the world with Italy and Iran showing serious death rates initially. Soon entire world was in a lock down situation alarming a recession worldwide. The first case of the virus was confirmed in Sri Lanka on 27 January 2020. Holidays were declared by the Government from latter part of March which lengthened to a 52 day lockdown which was lifted on 11 June 2020.

COVID-19 brought severe impact to NBFI sector which was trying to rise from the impact created by the Easter Sunday attacks. The moratoriums provided by the government impacted their collections and with no growth in their loan books and NPLs moving from bad to worse. Liquidity was also a major concern where the Central Bank of Sri Lanka (CBSL) in latter part of March issued a Direction revising the minimum threshold levels for liquidity maintenance.

## Snapshot of key risks and mitigation strategies

### Credit risk

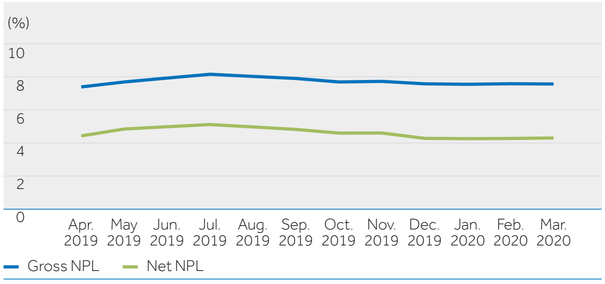
The failure of obligors to meet their financial or contractual obligations when due.

CDB managed the NPL ratio within an acceptable level of 7.54% (Gross) as at 31 March 2020 whilst the industry NPL was more than 10%. Cumulative collection ratio stood at 92.35%. Sri Lanka was significantly affected by the Eater Sunday attacks in April 2019 which caused the economy of Sri Lanka to contract significantly. The constitutional crisis in the later part of 2019 worsened the operating environment resulting in low investor confidence, low foreign direct investments (FDIs) and ultimately Sri Lanka recording a 2.3% growth in 2019.

### Default risk

**Key highlights in 2019/20**

**Gross NPL and Net NPL**



Reducing the yard stocks were given a high consideration via allocating resources to dispatch high number of vehicles on a daily/weekly basis. There was a significant reduction in the yards stocks from 1.9 Bn. to 1.5 Bn. which was one of the main contributors to reducing NPLs during the financial year under review.

Also, car points were opened in strategic locations to sell off vehicles which were sized which facilitated reducing the yard stocks.

**Future focus**

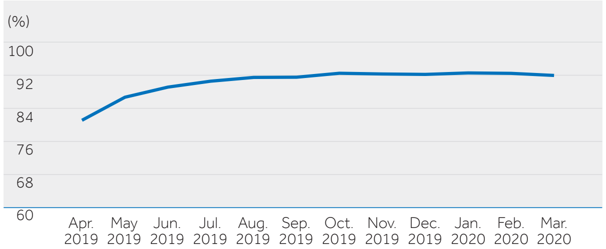
Sri Lanka which was rising up after a very challenging 2019 was further challenged by the COVID-19 pandemic in the first quarter of 2020, causing the whole world to face a recession, caused many death worldwide and put the world into a lockdown to control the virus spread.

CDB will continue with the initiated strategies to manage NPL ratios within acceptable levels.

NPLs will be monitored giving special consideration to products and sectors etc. to identify those prone to high NPLs.

With the support of business intelligence and improved automated processes, focus on recoveries through enhanced systems, processes and analytics will be strengthened.

### Cumulative collection ratio



Collections were monitored, segregated and innovative ways were adopted to enhance collection in each category.

Call Centre was expanded by providing necessary resources to strengthen collections.

**Stress testing: Impact on company Capital Adequacy Ratio (CAR) and Non-Performing Loans (NPL) ratio from the changes in Non-Performing Loans (NPLs)**

### Base case

| | |
|---|---|
| Capital Adequacy Ratio (CAR %) | 13.29 |
| Capital Base (Rs. '000) | 11,368,181 |
| Total Risk Weighted Assets (Rs. '000) | 85,570,592 |
| NPL Ratio (%) | 7.54 |
| Total Non-Performing Assets (Rs. '000) | 5,405,326 |
| Total Performing Assets (Rs. '000) | 66,290,128 |

### Impact on company's CAR from the changes in NPLs

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---|---|---|---|
| Magnitude of shock (%) | 5 | 10 | 15 |
| Total NPLs (Rs. '000) | 5,405,326 | 5,405,326 | 5,405,326 |
| Increase in NPLs (Rs. '000) | 270,266 | 540,533 | 810,799 |
| Revised capital (Rs. '000) | 11,097,915 | 10,827,648 | 10,557,382 |
| RWA (Rs. '000) | 85,570,593 | 85,570,593 | 85,570,593 |
| Revised CAR (%) | 12.97 | 12.65 | 12.34 |

A 5% shock on the capital base due to increase in NPLs will reduce the CAR to 12.97%.

### Impact on company NPL Ratio from the changes in NPLs

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---|---|---|---|
| Magnitude of shock (%) | 5 | 10 | 15 |
| Total NPLs portfolio (Rs. '000) | 5,405,326 | 5,405,326 | 5,405,326 |
| Increase in NPL (Rs. '000) | 270,266 | 540,533 | 810,799 |
| Revised NPLs (Rs. '000) | 5,675,592 | 5,945,859 | 6,216,125 |
| Total loan portfolio (Rs. '000) | 71,695,454 | 71,695,454 | 71,695,454 |
| Revised NPL (%) | 7.92 | 8.29 | 8.67 |

NPL ratio will increase from 7.54% to 7.92% if NPLs increased due to a shock of 5%.

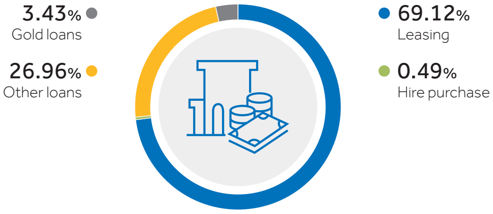
## Concentration risk

Concentration risk materialises as a result of significant exposure to group of counterparts whose likelihood of default is high. Group of counterparts could be segmented based on a particular product, geography or sector etc. Concentration of monthly disbursements product wise is taken as a key indicator in managing concentration risk in a risk dashboard which was discussed in detailed manner at quarterly Integrated Risk Committee Meetings.

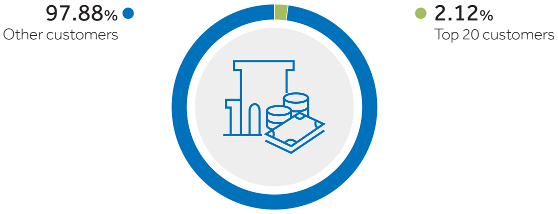
## Key highlights in 2019/20

### Lending product mix – 2019/20

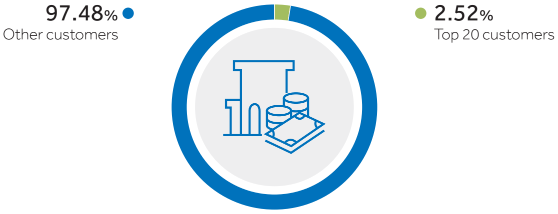
### Lending product mix – 2018/19



### Lending concentration risk – Top 20 – 2019/20

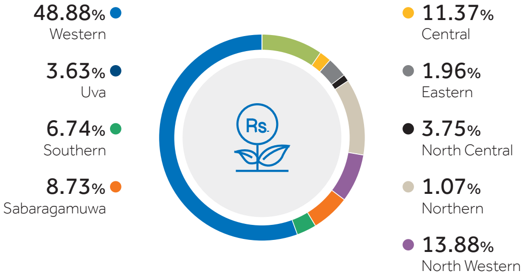


### Lending concentration risk – Top 20 – 2018/19

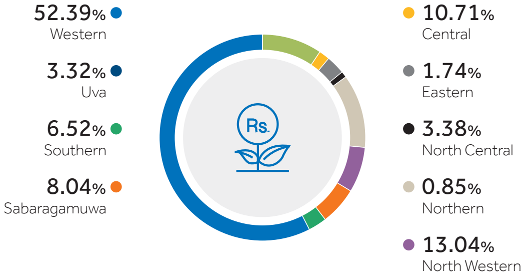


Top 20 customers represent only 2% out of the total lending portfolio and there is no significant variation in terms of the centration.

### Lending geographical concentration – 2019/20



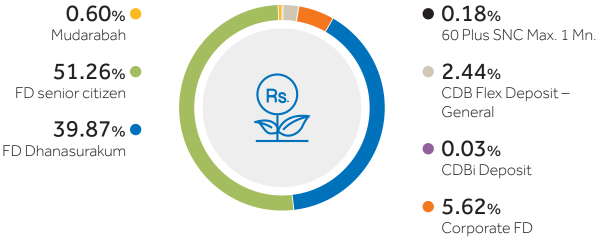
### Lending geographical concentration – 2018/19



Most of the lending is concentrated in the Western Province (49%). There is not much variation compared to the previous financial year 2018/19.

### Fixed deposit product mix – 2019/20

### Fixed deposit product mix – 2018/19



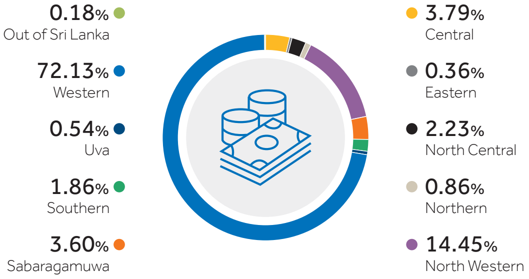
Products we have at CDB mainly comprises of Dhanasurakum, Deegayu, CDB Flex Deposits and Mudarabah. Significant concentration is on Dhanasurakum and Deegayu products

### Fixed deposit concentration risk – Top 20 – 2019/20

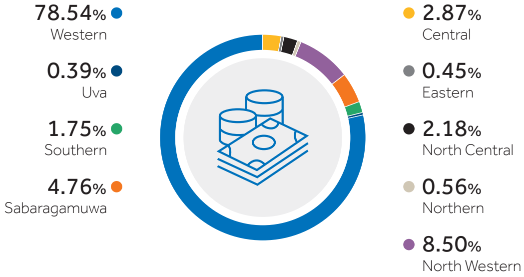
### Fixed deposit concentration risk – Top 20 – 2018/19

We can observe a drop from 12.40% (2018/19) to 10.69% (2019/20) considering top 20 fixed deposit customers' concentration.

### Deposits geographical concentration – 2019/20



### Deposits geographical concentration – 2018/19



Fixed deposits are mainly obtained from urban provinces like Western and North Western Provinces which comprises almost 85% of the total deposit base.

### Savings concentration risk – Top 20 – 2019/20

### Savings concentration risk – Top 20 – 2018/19

Top 20 customers represent almost 7% of the total savings portfolio.

### Deposits geographical concentration – 2019/20

### Deposits geographical concentration – 2018/19

| Criteria | Trigger point | Current position (as at 31.03.2020) | Risk exposure compared to 2018/19 |
|---|---|---|---|
| NPL ratio (%) | Below 5 | 7.54 | 6.68 |
| Cumulative collection ratio (%) | >94 | 92.35 | 93.33 |

**Future focus**

**In order to bring down CDB's exposure to vehicle segments, we will continue to focus on other products like property backed loans, credit cards, personal loans, gold loans etc.**

**Also, with the pandemic situation, most of the business models have changed and the world will be focusing on green financing and green lending. CDB too in its journey towards this, will diversify into green products through implementing its strategies.**

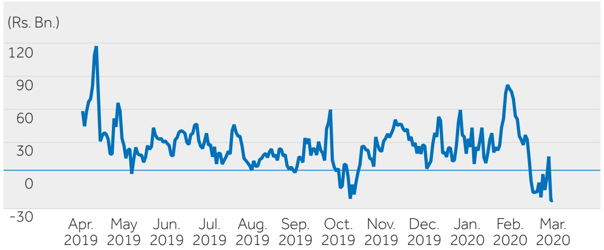
## Funding and liquidity risk

Failure to maintain or generate sufficient cash resources to meet its day today obligations.

Market liquidity was positive during most months of financial year 2019-20. Credit growth was not conducive due to the negative economic factors which resulted in a negative credit growth in NBFI sector (-2.7% December 2019). Our strong balance sheet structure immensely contributed to face challenging situations especially our deposit/borrowing composition which is 45%/35%. On the other hand most of the NBFIs are significantly concentrating on customer deposit (65%-70%). This will facilitate us to manage our liquidity positions with less maturities in terms of deposits.

**Key highlights in 2019/20**

### Overnight liquidity



Following the COVID-19 pandemic the CBSL has taken measure to bring down Statutory Reserve Ratio (SRR) to 2% which has resulted in high liquidity levels in the market. A direction was also issued to bring down the liquidity buffer levels of NBFIs to facilitate them to face any stress situations.

A weekly treasury meeting was conducted focusing mainly on cash flow projections to ensure we meet the short-term obligations.

Liquidity ratio is taken as a Key Risk Indicator (KRI) in the risk dashboard which will be evaluated on a monthly and quarterly basis at the IRM Committee. A high threshold is kept (13%) apart from the statutory requirement (10%) to effectively manage liquidity risks at CDB.

| Direction | As at 31 March 2020 | As at 31 March 2019 |
|---|---|---|
| Maintain minimum holding of liquid asset based on the outstanding value of the time deposits mobilised by the company (%) | 15.28 | 18.46 |
| Required minimum amount of liquid assets (Rs. '000) | 3,362,939 | 5,942,582 |
| Available amount of liquid assets (Rs. '000) | 8,674,662 | 10,786,904 |

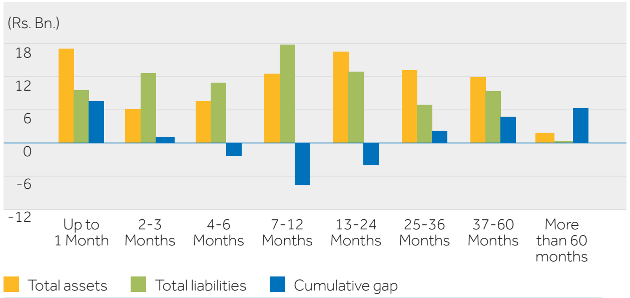
**Future focus**

**Borrowing repayments and deposit maturities will be closely monitored and required action will be taken to obtain the necessary funding based on cash flow predictions.**

**We will focus on having optimum liquidity level to ensure compliance with existing as well as new statutory ratios.**

**Contingency funding plans are designed and discusses at ALCO meetings to ensure minimum impact and safely navigate in the event of a liquidity crisis.**

## Maturity gap



One year maturity gap amounted to 8.25% which has decreased compared to previous year's level of 7.17% but remains at healthy levels mainly due to the liquidity buffers CDB maintains.

## Stress Testing – Impact on liquidity ratio due to fall in liquid assets

### Base case

| | |
|---|---|
| Liquidity Ratio (%) | 15.28 |
| Liquid Assets (Rs. '000) | 8,674,662 |
| Total Deposit Liabilities (Rs. '000) | 56,761,875 |

### Impact on liquidity ratio due fall of liquid liabilities

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---|---|---|---|
| Magnitude of Shock (%) | 4 | 8 | 12 |
| Liquid assets (Rs. '000) | 8,674,662 | 8,674,662 | 8,674,662 |
| Fall in Liquid Assets | 346,986 | 693,972.96 | 1,040,959 |
| Deposit Liabilities (Rs. '000) | 56,761,875 | 56,761,875 | 56,761,875 |
| Revised Liquid Assets | 8,327,676 | 7,980,689 | 7,633,703 |
| Ratio after shock (%) | 14.67 | 14.06 | 13.45 |

A 4% shock in Liquid assets will result in liquidity ratio decreasing to 14.67%.

## Market risk

The risk of a change caused by adverse movements in market interest rates.

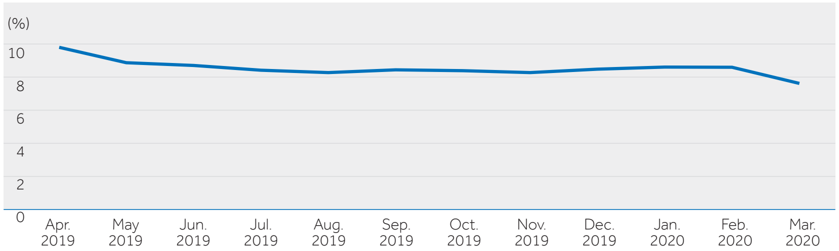
With the objective of enhancing credit growth, the CBSL continues to reduce policy rates where Standard Deposit Facility Rate was brought to 6.25% basis points and also Standard Lending Facility Rate was brought down to 7.25% at the monetary policy review which was held on 16 March 2020.

## Interest rate risk

### Key highlights in 2019/20

Interest rate risk represents exposures to instruments where values vary with the level or volatility of interest rates. In a NBFI, the liability side of its balance sheet mainly comprises short-term customer deposits where fluctuations in interest rates will result in re-pricing of deposit liabilities faster than the assets, thus reducing the margins.

### Treasury bill rates (Gross)



Interest rates, margins, asset liability composition, weighted average rates etc., have been reviewed at the monthly ALCO meetings.

Reviewed maturity mismatches, conducted stress testing and presented at monthly ALCO meetings based on the CBSL guidelines of behavioural and contractual.

### Future focus

**Continue to monitor and manage market risk elements in the context of future market volatility, including monetary policy decisions and rating changes.**

**To conduct stress testing focusing on rate changes and the impact it can create on margins.**

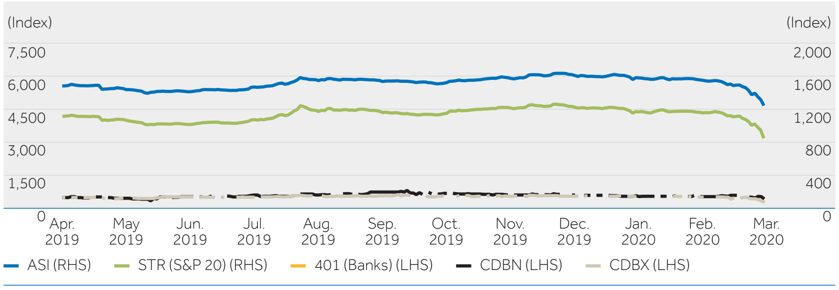
**Continue to monitor appropriate pricing is embedded with right composition to achieve desired margins.**

## Equity price risk

### Key highlights in 2019/20

Equity price risk is the potential risk of fair value of equities falling as a result of fluctuations in equity prices. CDB is exposed to equity price risk as we have invested in a share portfolio comprising different stocks relating to different industries.

### Performance of CDB shares Vs CSE indexes



Corporate Finance Division monitors fluctuations of stock prices on daily basis.

At monthly investment committee meeting, decision are taken on investing/divesting of investments.

### Future focus

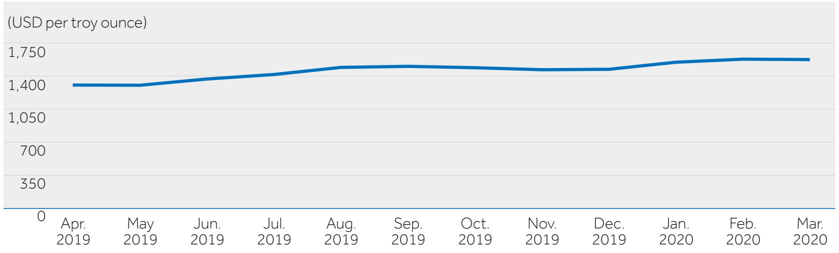
Continue to monitor global/local context and invest in stocks to obtain maximum gains while taking prudent decisions on a timely basis.

## Commodity price risk

### Key highlights in 2019/20

Commodity price changes can cause financial losses for the buyers or producers of a commodity. CDB is exposed to commodity price risk as we have granted gold backed loans which represents 6.36% from our total loan book.

### International gold price

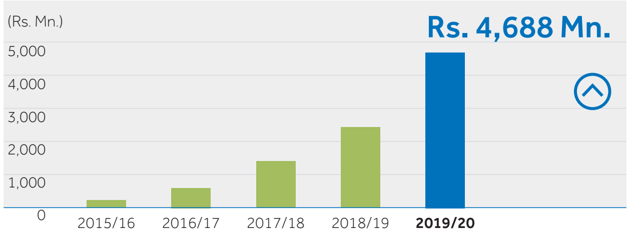


Gold prices surged due to geopolitical concerns during 2019 and will achieve record breaking figures as the world being impacted due to COVID-19 outbreak. As the Federal reserve in a statement mentioned that they do not consider increasing policy rates till 2022, it will surely result in many positives for gold investors. But from a risk perspective, high prices will anyway be a risk for a financial institution which are engaged in granting gold loan as prices may slash whenever the geopolitical status or if a vaccine is found for the virus.

### Future focus

Continue to monitor international gold prices and if there is a significant fluctuation in prices, immediate actions will be taken to revise advances.

## Gold loan portfolio



Gold loan portfolio increased by 92% at the end of the financial year to Rs. 4.7 Bn. compared to 2018/19.

Gold Loan Division refers the gold loan advance adjustment memorandum to the Risk Division for recommendation and based on updated market prices, the Risk Division conducts stress testing and profitability analysis and suggest optimum advance values which can be granted.

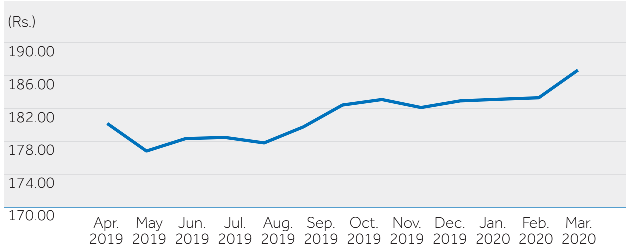
## Exchange rate risk

### Key highlights in 2019/20

Exchange rate fluctuations may have an impact on the value of foreign currency related assets/contracts where a financial institution has engaged with. With the objective of being a total financial institution in the country, we conduct money exchange services where the CDB is exposed to exchange rate risk.

The exchange rate, which remained relatively stable in 2019, came under significant pressure due to both domestic and external factors created with COVID pandemic which resulted in the depreciation of the Lankan rupee to Rs. 192.65 which was a 4.7% depreciation at the end of March 2020.

### LKR/USD movement



## Operational risk

The loss resulting from inadequate or failed procedures, systems or policies.

Operational risk definition cover a myriad of non-financial risks, including conduct risk, fraud, cyber, privacy, unauthorised lending/borrowing activities and information security. There are seven types of operational risks that banks and financial institutions should bring in to focus according to Basel II which includes: Internal Fraud, External Fraud, Employment Practices and Workplace Safety, Clients, Products, and Business Practice, Business Disruption and Systems Failures, Damage to Physical Assets, Execution/Delivery and Process Management.

### Internal fraud ⊖

Unexpected financial, material or reputational loss as a result of fraudulent action of persons internal to the firm.

**Key highlights in 2019/20**

- Regular spot audits were carried out covering each and every branch
- Detailed audits were conducted on a regular basis covering every business operations
- Efficient monitoring mechanism are in place to capture any unauthorised transactions/procedure violations through exceptional reports on a daily basis conducted by the Risk Division
- Continues initiatives were aligned to enhance a risk reporting culture embedded with rewards

**Future focus**

Get the support of BI to get AI based models and data analytics to establish client behaviour and further enhance our prediction, detection, prevention, and response capabilities in fraud identification.

Continuously make arrangements to enhance a risk reporting culture.

### External fraud ⌃

Impact from fraudulent activities committed by external parties to the firm.

**Key highlights in 2019/20**

- Strengthened the IT governance framework
- Specialised external parties were assigned to carry out system audits
- New digital initiatives were referred to internal risk assessments via the Risk Division and also to external parties for their independent risk assessment of the functions before implementation
- Several vulnerability assessments were carried out by internal and external parties giving special consideration on escalating cyber threats during the COVID-19 period.

**Future focus**

Continue to monitor cyber risks and IT risks stemming from new and continuously changing IT platforms/ external context changes.

Continue to focus on fraud and technology risks, driven by the pace of technological evolution experienced during recent past.

### Employment practices and workplace safety ⌃

Non-compliance to ethical practices related to employment or health-and-safety laws and regulations.

**Key highlights in 2019/20**

- Fire fighters of CDB staff were given continuous training during the financial year under review.
- Many safety protocols were implemented in the head office and branches following the COVID-19 pandemic.

**Future focus**

We will continue to adhere to working guidelines implemented following the COVID-19 outbreak to safeguard our team members.

### Clients, products, and business practice

Risk of engaging in malpractices which are against the interests of our stakeholders such as market manipulation, improper way of doing business, over promise, under delivery and misuse of confidential information etc.

**Key highlights in 2019/20**

- Created employee awareness on information security aspects throughout the company using the intranet and emails.
- Renewed the ISO certificate on information security (ISO 27001:2013) for the financial year under review.

**Future focus**

Continue to create awareness among team members about information security aspects and will continue to invest on training and development specially focusing on customer service.

### Damage to physical assets

Potential losses arising due to damages to physical assets as a result of natural disasters or terrorist activities.

**Key highlights in 2019/20**

- BCP initiatives were evaluated at IRMC meetings.
- Access controls and enhanced awareness among staff on safety measures.

**Future focus**

To conduct fire drills with the support of Colombo fire service department.

Enhance the security surveillance across the head office and branch network to strengthen the security aspects.

### Business disruption and systems failures

Disruptions and threat to business continuity due to power failures, software failures, hardware failures etc.

**Key highlights in 2019/20**

- Our eco system capabilities enabled us to work from home, which was extremely useful during the lockdown period.
- System down times were thoroughly monitored to effect immediate corrective actions.
- Detailed discussions on risk aspects covering systems, renewal of software licenses were carried out at the monthly IT steering committee/monthly compliance meeting.
- Daily health check of operating system, hardware, database level alert logs covering both DR and production by IT department were carried out.

**Future focus**

Implement Radio-Ferquency Intergrated Circuite (RFIC)/Optical Character Recogniton (OCR) technology to detect movement of yard stocks.

Successfully implement the new infrastructure upgrade which will facilitate enhanced performance as well as system security features.

Continue to invest on secure remote working solutions to strengthen workforce resilience.

Implement an IT Service Management framework.

## Execution, delivery, and process management

Not meeting service standards due to human errors and process omissions.

**Key highlights in 2019/20**

- Monitored more than 70 exceptional reports covering all types of transactions on a daily basis by the Risk Division.
- Comprehensive risk analyses were carried out covering business operation by the Risk Division with special emphasis on process improvements to minimise human errors.

**Future focus**

Continue to develop more exceptional reports to strengthen monitoring aspects.

To increase the frequency of conducting risk analysis to identify process weaknesses.

## Strategic risk

Strategic risk may materialise due to lack of adaptability due to the changing business context, incorrect decisions made and poor planning etc.

**Key highlights in 2019/20**

KRIs are included in the risk dashboard covering strategic risk and evaluated to identify significant deviations against budgeted and to obtain necessary actions at IRMC meetings.

New products/new processes introduced were referred to the Risk Division and evaluated covering various risk categories.

Through daily generated performance dash boards, Management can ascertain on our target achievement. Various sensitivity analyses and financial analyses are carried out by ALCO and Finance Committee Meetings to ensure we are on the right track to achieve the targets.

**Future focus**

Continue to use BI data and analytics to enhance decision making.

With the newly articulated Robotic Process Automation (RPA)/OCR/Artificial Intelligence (AI) technologies, more time will be made available to implement value adding initiatives and make prudent decisions.

## Reputational risk

Damage to the Company's image due to potential or actual events which may impair the profitability and/or the sustainability of its business.

**Key highlights in 2019/20**

Implementation of toll free 'Missed call service' to encourage customers to share their feedback (suggestions and complaints) with Customer Care agent.

New IVR system to recognise and prioritise customers with urgent requirements (e.g.: lost card).

Adhered to "Work From Home" contingency plan due to COVID-19 outbreak and maintained 24×7 operations in trilingual languages.

Training and development programmes conducted through external professional trainers for the Contact Centre agents to improve their knowledge and capabilities on delivering a quality customer service.

**Future focus**

Continued to expand customer awareness about the missed call service to improve customer engagement on the process.

Advance IVR development to automate frequently asked questions.

Continue to maintain smooth operations when switching to contingency operations from normal operations.

Continue to enhance product knowledge and improve service quality of the Contact Centre agents through more activities and training and development programmes.

## Compliance Risk (GRI 205-1, 205-2,205-3)

The risk of legal or regulatory sanction, financial loss or damage impacting the reputation of the company as a result of its failure to comply with laws, regulations, codes of conduct and standards. We see compliance risk as integrity risk, because a company's reputation is closely connected with its adherence to principles of integrity and fair dealing.

### Key highlights in 2019/20

Initiation of a compliance culture across the Organisation by appointing Compliance Representatives from each department to ensure high level of compliance within the Organisation.

Purchasing of customer screening tool and a transaction monitoring tool to strengthen ongoing compliance surveillance.

Carrying out comprehensive Anti-Money Laundering Training Sessions to Branch Staff.

Compiling and obtaining Board approval for CDB Board Charter.

A compliance meeting is held with the Management on a monthly basis to review the compliance status of the current rules and guidelines and to communicate the newly formulated rules and guidelines.

Obtaining the CBSL clearance to convert existing service centers to fully fledged branches.

| Criteria | Trigger point | Current position (as at 31.03.2020) | Risk exposure compared to 2019/20 |
|---|---|---|---|
| Capital adequacy – Tier I (%) | 6.50 | 10.25 | 8.09 |
| Capital adequacy – Tier I & II (%) | 10.50 | 13.29 | 11.07 |
| Capital funds to deposit liabilities (%) | 10 | 26.24 | 19.20 |

### Future focus

To obtain a comprehensive Anti-Money Laundering software to further strengthen compliance surveillance.

Initiate compliance questionnaires through e-learning platform to test staff knowledge related to compliance regulations.

## Cyber risks

Can be defined as any risk associated with financial loss, disruption to operations or damage to an organisation's reputation from a negative event impacting the organisation's information and/or information systems. In order to execute innovation while maintaining trust in the digital economy, financial institutions need to pursue two parallel strategies – cyber risk agility and resilience.

### Key highlights in 2019/20

Proved the effectiveness of our security awareness/culture as multiple phishing attempts were detected at all levels of the organisation.

Creating of a Cyber Defense Team to alert, report and take quick security incident measures to rectify an incident.

Carried out a security awareness poster campaign internally and also via the corporate website.

Conducted both internal and external penetration tests by deploying external service providers from time to time (per quarter) to ensure the systems are resilient to cyber-attacks.

### Future focus

Further strengthen our email security infrastructure.

Continue to invest on security awareness/culture.

Commenced work on developing a new data classification framework.

## Conduct and culture risk

Improper, unlawful or unethical behaviour or action that may have a negative impact on clients or counterparties or the fair and effective operation of the industry can be considered as conduct risk. Risk culture can be considered as a system of values and behaviours present in an organisation that shapes risk decisions of management and employees.

### Key highlights in 2019/20

Continued to grow a risk culture where staff members tend to report risks which are enriched with a rewarding framework in line with the whistle-blowing policy.

Customer protection framework introduced by the CBSL is embedded in our communication aspects to assure transparency.

### Future focus

Will continue to enhance the risk reporting culture and make team members aware about the importance of risk reporting and its benefits.

## Climate change risk

Climate change risk is also recognised as one of material risks facing the company. We are strengthening our ESG governance to ensure adequate oversight and improve our ESG risk management systems, which will embed climate-related risk into risk identification, classification, evaluation, analysis, monitoring and reporting.

### Key highlights in 2019/20

**Environmental and Social (E&S) Management Risk**

Strengthening our environmental and social risk policy with national laws and standards sets out the principles under which we identify, measure, manage and report on E&S risk.

Rigorous follow up on our exclusion list for which we will not provide lending facilities.

Monitor all transactions related to medium and high risk projects to ensure clients meet their E&S commitments.

**Reducing our direct environmental footprint**

Working towards a sustainability resilient plan to transit from carbon-intensive activities to low carbon activities.

We remain committed to measuring and reducing our direct carbon footprint for the 5th consecutive year.

Energy management by incorporating behaviour change in our facilities, retrofitting lighting systems with LED and optimising our use of floor space to substantially reduce our purchased electricity.

We have a reliable source of water supply through rainwater harvesting at our head office premises when there is an interruption to water supply from the Municipality and this helps to minimise water wastage.

We effectively manage our waste through reusing and recycling. Our waste includes paper and e-waste, which is mostly recycled, and wet waste which is sent to piggeries.

### Future focus

We continue to develop our climate related risk strategy.

We further encourage our customers to meet relevant internationally accepted environmental and social risk standards and to develop action plans to close any gaps between these and their current performance.

Continue to work with industry experts and other stakeholders to play our part in a just transition to a lower-carbon economy.

Expect to deliver sustainable and impactful lending and investment expertise to our clients and stakeholders across a broad range of growth themes.

Require to install water meters in our strategic facilities, to enable accurate monitoring of water usage.

Working towards prohibiting single use of plastic within office premises, reducing plastic packaging, bottles and cups, and replacing with glass bottles.

# 05 – GOVERNANCE REPORT

**Historic moments of ignition:** Inventing the radar concept

**This revolutionary detection system is comparable to our sound governance structure which provides us with effective oversight of our business and its level of compliance.**

Our robust governance structure and adoption of global good practices provides stability, prudence and effective oversight. This has strengthened the soundness of our Organisation and be fully compliant with the increasingly complex and demanding regulatory environment. In particular, we continued to be fully compliant with all regulations, especially pertaining to operations during the pandemic.

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# Board of Directors


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### 1. Ranga Abeynayake

### Chairman, Non-Executive Director

Mr Ranga Abeynayake was appointed as a Non-Executive Director in January 2012 and became the Chairman of the Board in September 2019.

He holds an MBA from the Postgraduate Institute of Management (PIM) in Colombo. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.

He counts over 20 years of experience in Accounting, Corporate Finance, Treasury Management, Risk Management and Strategic Planning.

He is an Executive Director of Ceylinco Life Insurance Limited and also serves as Deputy Chief Financial Officer of the Company. He is a Director of Ceylinco Insurance PLC and Serene Resorts Limited.

### 2. Mahesh Nanayakkara

### Managing Director/ Chief Executive Officer

Mr Nanayakkara joined CDB in 2001 and counts thirty years experience in financial services. He successfully spearheaded a dynamic team of young professionals who were instrumental in transforming CDB from a negative net worth company to the dynamic entity it is today. He was instrumental in establishing the Autism Trust Fund, a collaboration between CDB and the Sri Lanka Association for Child Development (SLACD) which focuses on the early detection and intervention of autism in Sri Lanka.

### 3. Prof Ajantha Dharmasiri

### Independent Non-Executive Director

Prof Ajantha Dharmasiri, Professor in Management, is the Director and the Chairman of the Board of Management of the Postgraduate Institute of Management, University of Sri Jayewardenepura. He is the Immediate Past President the Chartered Institute of Personnel Management (CIPM), Sri Lanka and was the Vice President of the Asia Pacific Federation of Human Resource Management (APFHRM). He also serves as an Adjunct Professor at the Price College of Business, University of Oklahoma, USA. He counts for three decades of experience both in the private and public sectors including Unilever and Nestle. He has engaged in consultancies in almost twenty countries in Africa, Asia and the Middle East. He is a Commonwealth AMDISA Doctoral Fellow, Fulbright Postdoctoral Fellow and a Commonwealth Postdoctoral Fellow. He holds a PhD and an MBA from the Postgraduate Institute of Management and a BSc in Electrical Engineering from the University of Moratuwa. He is a Chartered Electrical Engineer, a Fellow of the Chartered Institute of Management, UK and an Independent Director of several Boards. Being an author of eight books and editor of the longest publishing management journal in Sri Lanka, he has won many accolades including Gold medals for best papers in two international management conferences, Emerald best paper award in 2014, and in 2010 the platinum award by the Alumni of the Postgraduate Institute of Management (PIMA) for outstanding academic contribution. He also won the prestigious IPM Lifetime Gold Award 2014, the highest honour for an HR professional in Sri Lanka. Prof Dharmasiri likes to identify himself as one who transitioned from being an "Engineer of Electrical" to an "Engineer of Hearts and Minds".

### 4. Razik Mohamed

### Independent Non-Executive Director

Mr Mohamed was appointed to the Board in 2012. He counts over 40 years experience in Finance and Management, both in Sri Lanka and overseas. He was the President of the Lions Club of Cinnamon Gardens 2009/10 and is currently the Counsellor of The Institute of Chartered Accountants of Sri Lanka's Students Gavel Club, affiliated with Toastmasters International. Mr Mohamed is a member of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). He serves on the panel that assesses the suitability of organisations for training under the curriculum of The Institute of Chartered Accountants of Sri Lanka. He also represents the (CA Sri Lanka) in the Organisation of Professional Associations (OPA). Mr Mohamed is a committed social worker and has served for three years as Honorary Secretary of the National Council for Child and Youth Welfare and continues to be a Life member.

### 5. Senior Prof Sampath Amaratunge

### Independent Non-Executive Director

Prof Amaratunge was appointed to the Board in October 2016. He holds a BA (Hons) in Economics and a MA in Economics from the University of Colombo. He also holds an MSc in Economics of Rural Development from the Saga National University and a PhD from Kogoshima National University in Japan. He was appointed as the Vice-Chancellor of the University of Sri Jayewardenepura twice and was the Dean of the Faculty of Management Studies and Commerce. Prof Amaratunge counts over 25 years as an academic at the University of Sri Jayewardenepura. He has published more than 75 articles in international and national refereed journals and proceedings.

He was appointed as the Chairman of the University Grants Commission by His Excellency the President of Sri Lanka with effect from the 3 January 2020. As of year 2019, he was appointed the Chairman of the Committee of Vice Chancellors and Directors Sri Lanka (CVCD) for the year 2019. Prof Amaratunge was also a recipient of the prestigious Research Excellence Award 2002, awarded by the Kyushu Society of Rural Economics, Japan. He is an expert in the field of Economics with special reference to Rural Development. From 2012 to 2014, Prof Amaratunge served as a member of the University Grants Commission (UGC) of Sri Lanka and several other commissions. He was the youngest professor ever appointed to the UGC. Prof Amaratunge was the Chairman of the Federation of University Teachers Associations (FUTA) of Sri Lanka from 2009 to 2012 and holds directorships in two other listed corporates as well.

### 6. Alastair Corera

### Independent Non-Executive Director

Mr Alastair Corera is an Executive Director of Orion Fund Management (Pvt) Ltd., a position he has held since 2006. Previously, he was at Fitch Ratings Lanka Ltd. where he headed the Financial Institutions team and was its Country Head from 2004 to 2006. Prior to that he was General Manager at Forbes ABN AMRO Securities (Pvt) Ltd. Mr Corera is a Chartered Financial Analyst, USA and a Fellow of the Chartered Institute of Management Accountants, UK.

### 7. Joe Jayawardena

### Non-Executive Director

Mr Jayawardena was appointed to the Board in 2011. He is a Fellow of Life Underwriter Training Council, USA and a Member of the Chartered Insurance Agency. He joined Ceylinco Insurance PLC in 1994 and serves as General Manager – Business Development.

### 8. Jagath Priyantha Abhayaratne

### Non-Executive Director

Mr Abhayaratne is the General Manager Operations at Ceylinco Life Insurance PLC, where he has been serving for over 14 years. He counts over 30 years experience in the Insurance Industry. Mr Abhayaratne holds an MBA from the Metropolitan (University Dublin Ireland) and a Bachelor's Degree in Business Administration from Newport University, USA. He holds a Certificate in Insurance Chartered Insurance Institute, UK and a Diploma in Business Administration, UK.

### 9. Damith Tennakoon

### Executive Director/Deputy CEO/ CFO

He is a Fellow of the Chartered Institute of Management Accountants, UK and a Chartered Global Management Accountant. He counts over 25 years of experience in Finance, Treasury, Risk management, Compliance, Recovery and Strategic Planning.

### 10. Roshan Abeygoonewardena

### Executive Director – Corporate Finance

Mr Abeygoonewardena was appointed to the Board in 2011. He is a Fellow of the Chartered Institute of Management Accountants, UK and a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka. Mr Abeygoonewardena counts over 27 years experience in the financial services industry and three years in the manufacturing industry. He is the present Chairman of the Finance Houses Association of Sri Lanka (FHASL), the apex body for the Non-Bank Financial Institutions in Sri Lanka.

### 11. Dave Anthony De Silva

### Executive Director – Business Operations

Mr De Silva was appointed to the Board on 1 January 2012 as an Independent Non-Executive Director and thereafter appointed as Executive Director – Business Operations in October 2016. He holds a Bachelor of Business Administration Degree from the University of Sri Jayewardenepura and is an Associate Member of the Chartered Institute of Management Accountants, UK. He counts over 24 years experience in financial services, oil and gas, telecom infrastructure and pharmaceutical industries.

### 12. Sasindra Munasinghe

### Executive Director – Sales and Business Development

Mr Munasinghe was appointed to the Board in April 2011. He holds an MBA from the Federation University of Australia. He counts over 27 years experience in the Leasing Industry. He was instrumental in setting up leasing operations at CDB including credit evaluations, recoveries, operations and marketing.

### 13. Elangovan Karthik

### Executive Director/Chief Officer Corporate Affairs

Mr Elangovan is a Chartered Marketer, a Fellow of the Chartered Institute of Marketing of UK and a Practicing Marketer of SLIM. He holds a BSc. in Management from the University of Sri Jayewardenepura and an MBA from the Postgraduate Institute of Management (PIM). He was conferred the Honorary Fellow of the Institute of Marketing of Malaysia. He has attended Executive Development Programmes at Harvard Business School (HBS) Boston, USA. He also holds a National Diploma in Human Resource Management (IPM) and is a Chartered Global Management Accountant (CGMA) as well. Mr Karthik was appointed to the Board w.e.f. 1 July 2020.

# Corporate management team


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### 1. Mahesh Nanayakkara

### Managing Director/Chief Executive Officer

Refer page 145 for the profile.

### 2. Damith Tennakoon

### Executive Director/Deputy Chief Executive Officer/ Chief Financial Officer

Refer page 146 for the profile.

### 3. Roshan Abeygoonewardena

### Executive Director – Corporate Finance

Refer page 146 for the profile.

### 4. Dave De Silva

### Executive Director – Business Operations

Refer page 146 for the profile.

### 5. Sasindra Munasinghe

### Executive Director – Sales and Business Development

Refer page 146 for the profile.

### 6. Elangovan Karthik

### Executive Director/Chief Officer Corporate Affairs

Refer page 146 for the profile.

### 7. Nayanthi Kodagoda

### Senior General Manager – HR and Administration

Ms Kodagoda is an Associate Member of the Sri Lanka Institute of Credit Management. She counts over 24 years experience in the Finance Business Industry and is an expert in the operational aspects of Finance, HR, Credit Administration and Branch Operations. Ms Kodagoda has served CDB for 24 years.

### 8. Hasitha Dassanayake

### General Manager – Innovation and Business Intelligence

Mr Dassanayake holds an honours degree of Bachelor of Commerce from University of Colombo and an MBA from University of Sri Jayewardenepura and the Postgraduate Institute of Management (PIM). He is an Associate Member of the Chartered Institute of Management Accountants (UK) and a Chartered Global Management Accountant (CGMA). He counts over 14 years experience at CDB.

### 9. Chaminda Jayawardana

### General Manager – Recoveries

Mr Jayawardana holds an MBA from Open University of Malaysia and an Intermediate Diploma in Banking. He counts over 30 years experience in the Finance Business Industry.

### 10. Isanka Kotigala

### Senior Deputy General Manager – Sales

Mr Kotigala holds an MBA from the University of Wales. He has gained both local and international experience prior to joining CDB. He counts over 8 years experience in well-recognised multinational companies. Mr Kotigala has served CDB for over 13 years.

### 11. Sudath Fernando

### Senior Deputy General Manager – Leasing/Credit

Mr Fernando counts 29 years experience in the Banking and Finance Business Industry. He has served CDB for over 11 years.

### 12. Ranjith Gunasinghe

### Senior Deputy General Manager – Risk and Compliance

Mr Gunasinghe holds Master of Financial Economics (MFE) from the University of Colombo, an MBA from the University of Southern Queensland, Australia, and a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka. He is a Certified Professional Marketer of the Asia Marketing Federation and holds a Postgraduate Diploma in Marketing from Sri Lanka Institute of Marketing (SLIM). He counts over 20 years experience in the Finance Business Industry and has served CDB for over 18 years.

### 13. Ruwan Chandrajith

### Senior Deputy General Manager – Finance and Planning

Mr Chandrajith holds a BSc (Accountancy) (Sp) from the University of Sri Jayewardenepura. He is an Associate Member of The Institute of Chartered Accountants of Sri Lanka. He counts nearly 17 years experience in Financial Management and Auditing and has served CDB for over 10 years.

### 14. Darshana Jayasinghe

### Deputy General Manager – Marketing

Mr Jayasinghe is a professional Marketer with over 13 years in Strategic Marketing, Marketing Communications and Sales Management. He is a Chartered Marketer of the Chartered Institute of Marketing, UK and the President of Marketing Alumni of University of Sri Jayewardenepura.

He holds a Masters in Business Studies from the University of Colombo and 1st Class Bachelor's Degree in Marketing Management from the University of Sri Jayewardenepura.

# Management team


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**1. Herath Dharmadasa**
Senior Assistant General Manager – Business Development

**2. Aruni Panagoda**
Senior Assistant General Manager – Insurance

**3. J L Priyantha**
Senior Assistant General Manager – Auto Finance Portfolio Sales

**4. Prasad Ranasinghe**
Senior Assistant General Manager – Non-Auto Finance

**5. Sanjeewa Ranathunga**
Senior Assistant General Manager – Post Disbursement Follow-up

**6. Nadee Silva**
Senior Assistant General Manager – Business Development

**7. Heshan Bandara**
Assistant General Manager – Risk

**8. Dassana Chandrananda**
Assistant General Manager – Business Development

**9. Sarath Kumara**
Assistant General Manager – Business Operations

**10. Mahesh Pathmalal**
Assistant General Manager – Internal Audit

**11. Lalith Peiris**
Assistant General Manager – Liability portfolio

**12. Aravinda Perera**
Assistant General Manager – Business Development

**13. Ashad Weerabangsa**
Assistant General Manager – Branch Operations

**14. Dilruk Abeydiwakara**
Senior Manager – IT Operations

**15. Darshana Amarasinghe**
Senior Manager – Compliance

**16. Nuwan De Silva**
Senior Manager – Finance Operations

**17. Steve Gabriel**
Senior Manager – Credit Cards

**18. Eranga Gunaratne**
Senior Manager – Human Resources

**19. Rizvi Kareem**
Senior Manager – Information Technology

**20. Bandula Kumara**
Senior Manager – Business Development

**21. Suneth Senadheera**
Senior Manager – Digital Business

**22. Chamath Siriwardana**
Senior Manager – Financial Reporting & Planning

**23. Ravindran Subashkumar**
Senior Manager – Business Development

**24. Tharanga Udawaththa**
Senior Manager – IT Network and Security

**25. Priyangani Wickramage**
Senior Manager – Operations

**26. Yenara Udayanga**
Senior Manager – Business Development

**27. Laavanya Paheerathan**
Manager – Legal

**28. Rangana Pragnarathna**
Manager – Business Development

**29. Aroshi Ranatunga**
Manager – Sustainability

**30. Garry Reith**
Manager – Business Development

**31. Nadarajah Sasigar**
Manager – Business Development

**32. Chamil Silva**
Manager – Operations

**33. Tharanga Suraweera**
Manager – Business Development

**34. Lahiru Thrikawala**
Manager – Recoveries

**35. Asenath Wijeratne**
Manager – Business Development

# Corporate governance

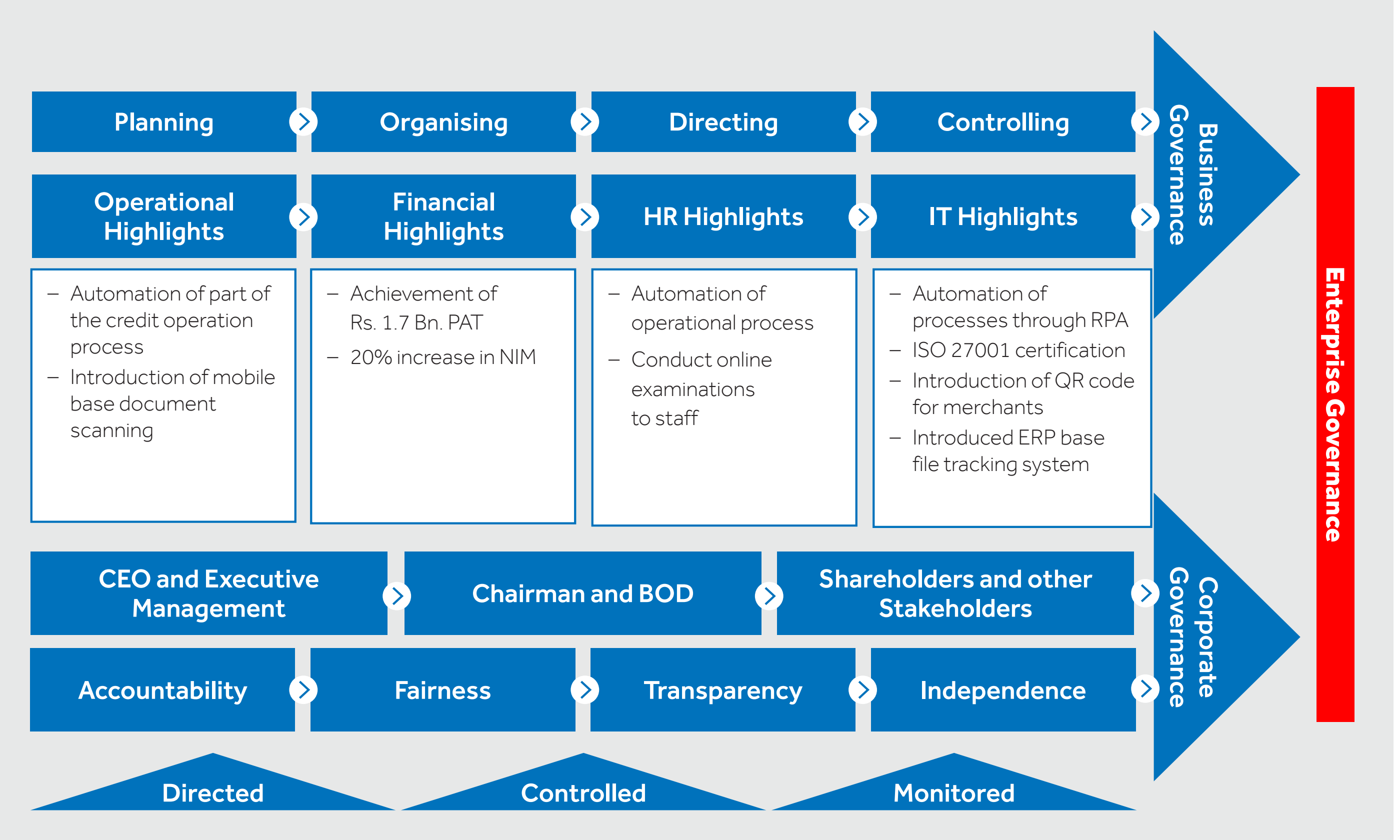
GRI 102-18, 102-19, 102-22

## CDB enterprise governance

As a responsible organisation, CDB has identified "creating value to stakeholder" as one of its objectives. Accordingly, "enterprise governance" has been considered as one of the most critical component of creating value to stakeholders of CDB. In creating such value, CDB always strives to implement the right processes, structures, and relational mechanisms which in turn would achieve the established objective of the Organisation.

Enterprise governance constitutes the entire accountability framework of CDB. Conformance (i.e. corporate governance) and performance (i.e. business governance) are the two dimensions that need to be balanced. Following diagram illustrates how CDB balances two dimensions to reach enterprise governance of the Organisation.

### CDB Enterprise Governance Framework



Corporate governance at CDB mainly covers areas such as the Board structure and roles. Further, Board uses well established oversight mechanisms to ensure that CDB at all times maintain a good corporate governance culture.

As the second part of enterprise governance, Business governance focuses on creating value to its stakeholders by effectively utilising the resources. These value creations emanate from operational aspects, financial aspects and also from IT.

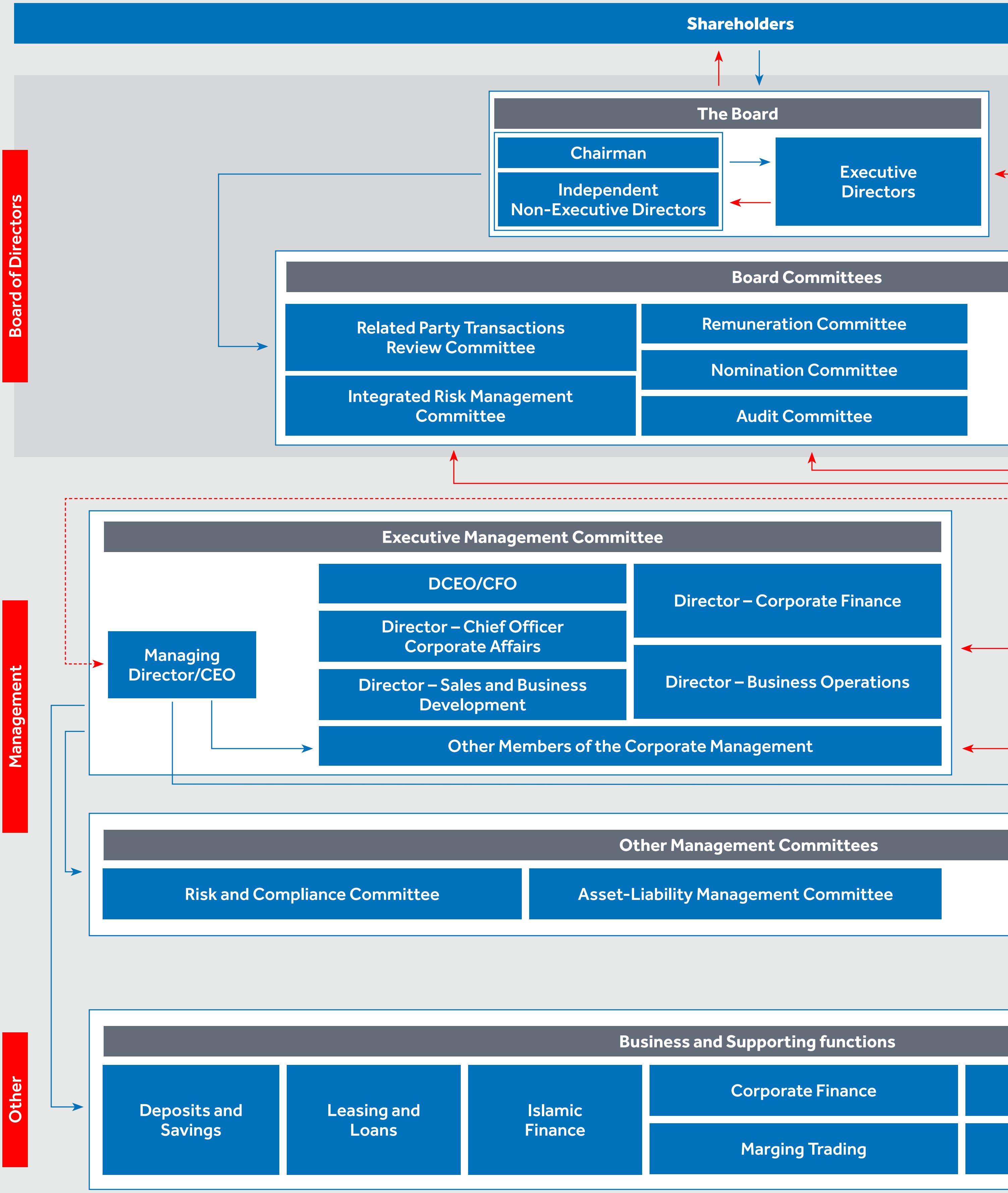
## Corporate governance

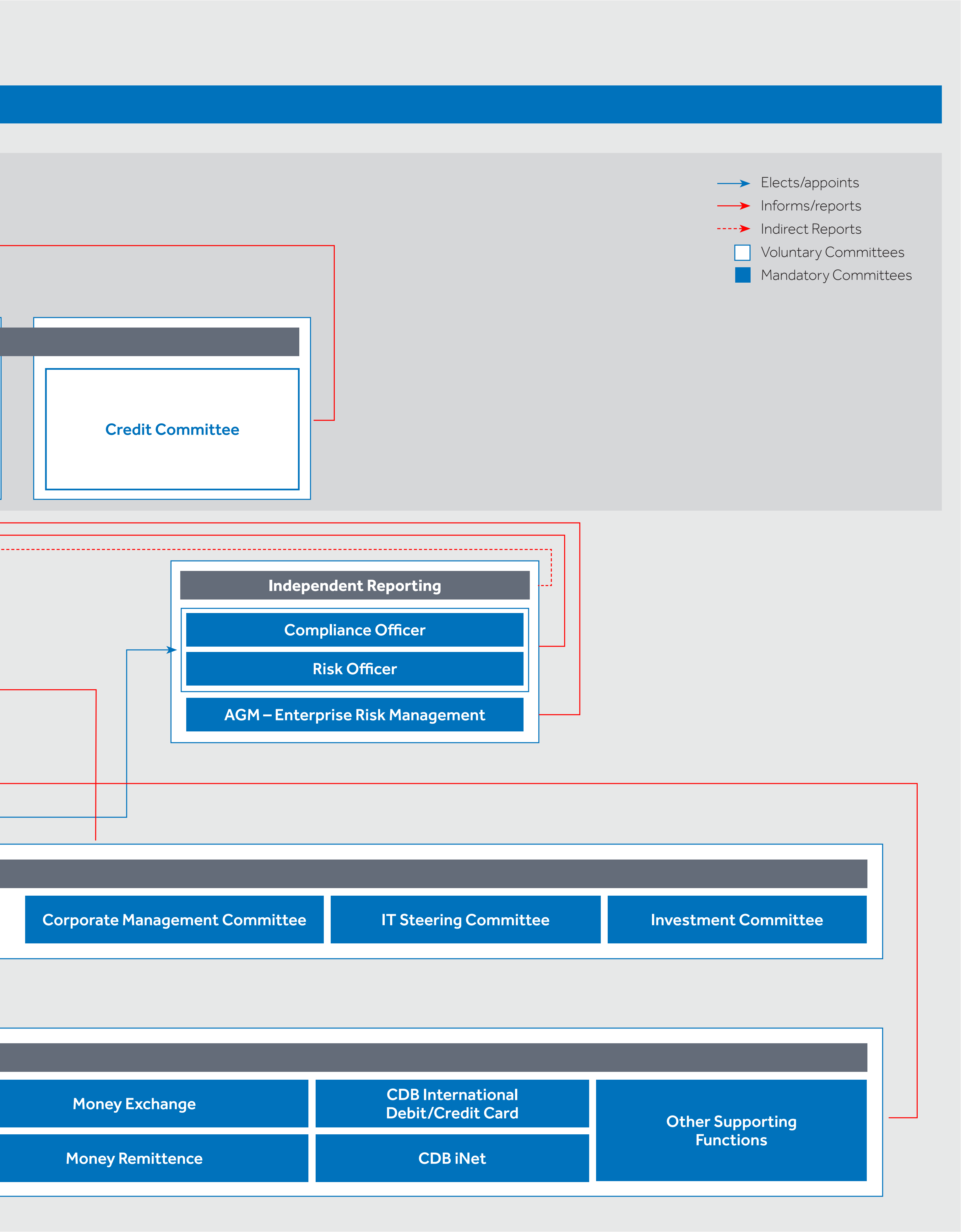
It is essential to execute good corporate governance practices to create value to its shareholders and to maintain healthy relationship between shareholders and the Management. Balancing the desires between owners and Management of the Company would not be easy without good corporate governance.

We believe that sound and effective corporate practices are fundamental to the smooth, effective, and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value. Therefore, CDB is committed to maintaining a high standard of corporate governance practices within the Organisation and devotes considerable effort to identify and formalise best practices. The Board is required to comply with external/internal and mandatory/voluntary practices for continuous commitment to improve compliance with corporate governance standards.

Further, CDB's Board of Directors always works to bolster the effectiveness of the Organisation governance models in order to create the above stated value to its stakeholders. The Board whenever requires strengthen their governance frameworks and policies and reasserted their governance roles whilst further clarifying the responsibilities of other Board committees. At the same time CDB allocates resources to Senior Management to enhance the governance frameworks whenever the necessity arises.

Given below is the current Governance Structure: GRI 102-23

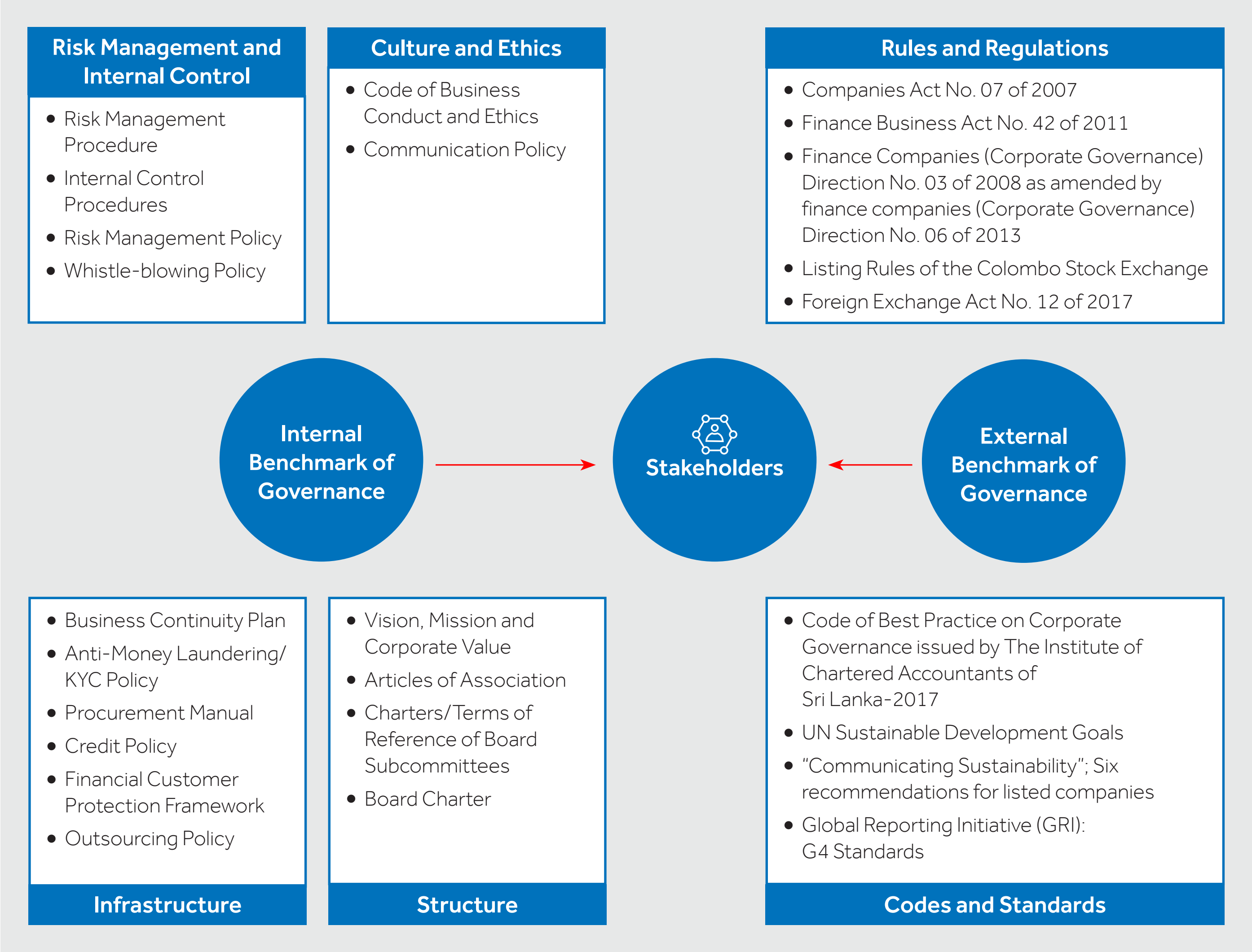



Elects/appoints
Informs/reports
Indirect Reports
Voluntary Committees
Mandatory Committees
Credit Committee
Independent Reporting
Compliance Officer
Risk Officer
AGM – Enterprise Risk Management
Corporate Management Committee
IT Steering Committee
Investment Committee
Money Exchange
CDB International Debit/Credit Card
Other Supporting Functions
Money Remittence
CDB iNet

CDB always strives to adopt the best practices of corporate governance framework which is accepted globally in an effort to promote transparency and disclosure. CDB has imposed external benchmarks to govern the Company with various laws and regulations imposed by regulatory bodies of the industry where it operates.

Internally, comprehensive guidelines, policies and procedures have been formulated by the Board in support of the CDB's corporate governance framework including the "Guidelines on Internal Control System", "Corporate Policy on Staff Responsibility", "Whistle-blowing Policy", "Communication Policy", and the terms of reference for various Board committees. These documents are reviewed regularly by the Board and the relevant Board committees and are updated in line with the amendments of applicable legislations and rules as well as the current market practices.

## Corporate Governance Framework



**Risk Management and Internal Control**
- Risk Management Procedure
- Internal Control Procedures
- Risk Management Policy
- Whistle-blowing Policy

**Culture and Ethics**
- Code of Business Conduct and Ethics
- Communication Policy

**Rules and Regulations**
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011
- Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by finance companies (Corporate Governance) Direction No. 06 of 2013
- Listing Rules of the Colombo Stock Exchange
- Foreign Exchange Act No. 12 of 2017

**Internal Benchmark of Governance**

**Stakeholders**

**External Benchmark of Governance**

- Business Continuity Plan
- Anti-Money Laundering/ KYC Policy
- Procurement Manual
- Credit Policy
- Financial Customer Protection Framework
- Outsourcing Policy

**Infrastructure**

- Vision, Mission and Corporate Value
- Articles of Association
- Charters/Terms of Reference of Board Subcommittees
- Board Charter

**Structure**

- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka-2017
- UN Sustainable Development Goals
- "Communicating Sustainability"; Six recommendations for listed companies
- Global Reporting Initiative (GRI): G4 Standards

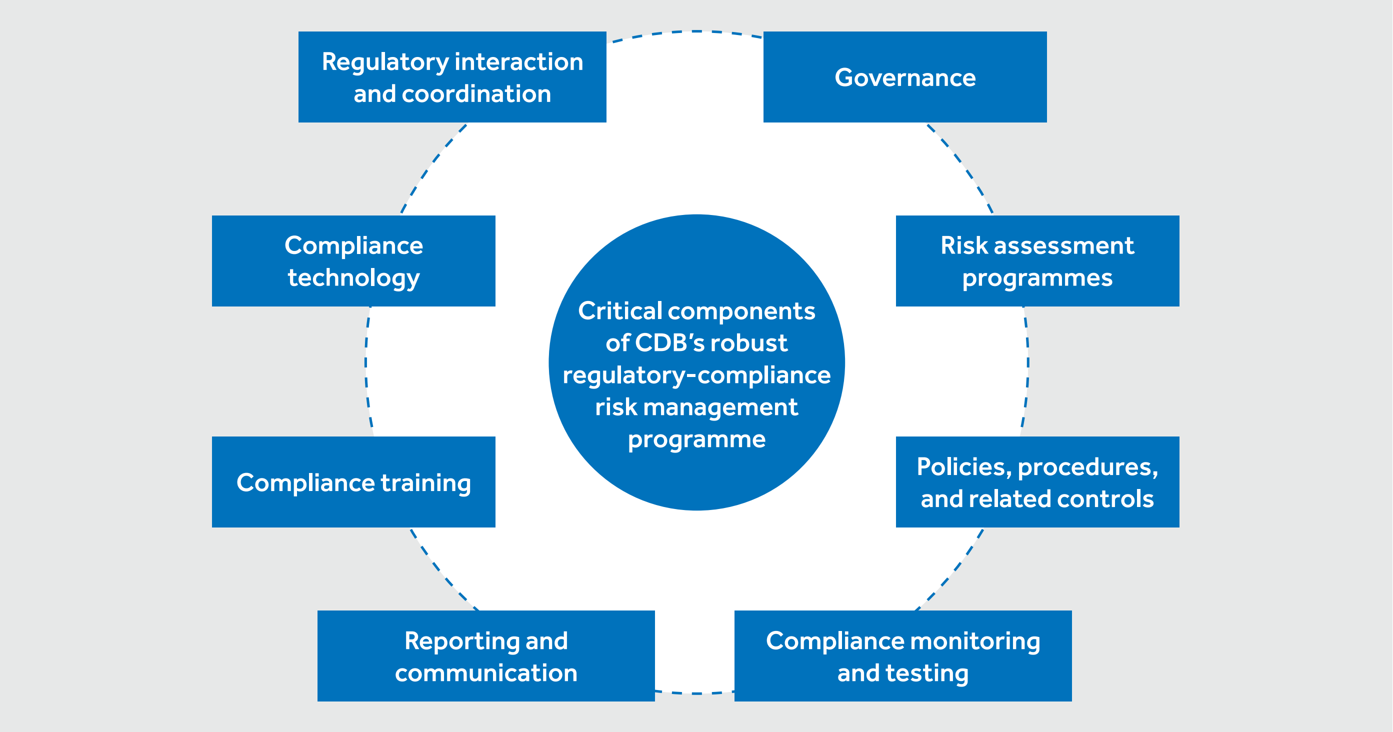
**Codes and Standards**

## Compliance at CDB

As a company operating in the financial services industry, CDB faces numerous compliance requirements in order to protect customers, businesses, and in general, SrI Lanka's financial system. Therefore, CDB considers compliance as an integral part of the Organisation.

Since compliance in financial institutions is becoming increasingly sophisticated with the growing regulatory demands, CDB has devoted substantial resources to ensure compliance. Mainly, the Compliance Division enforces compliance across the Organisation, whilst all employees are responsible to carry out their functions with a compliance mind set to ensure that CDB adheres with all regulatory requirements applicable to licensed finance companies in Sri Lanka. The diagram below illustrates CDB's eight-step compliance framework that further strengthened its corporate governance process and compliance in 2019/20.

## Compliance Risk Management Programme



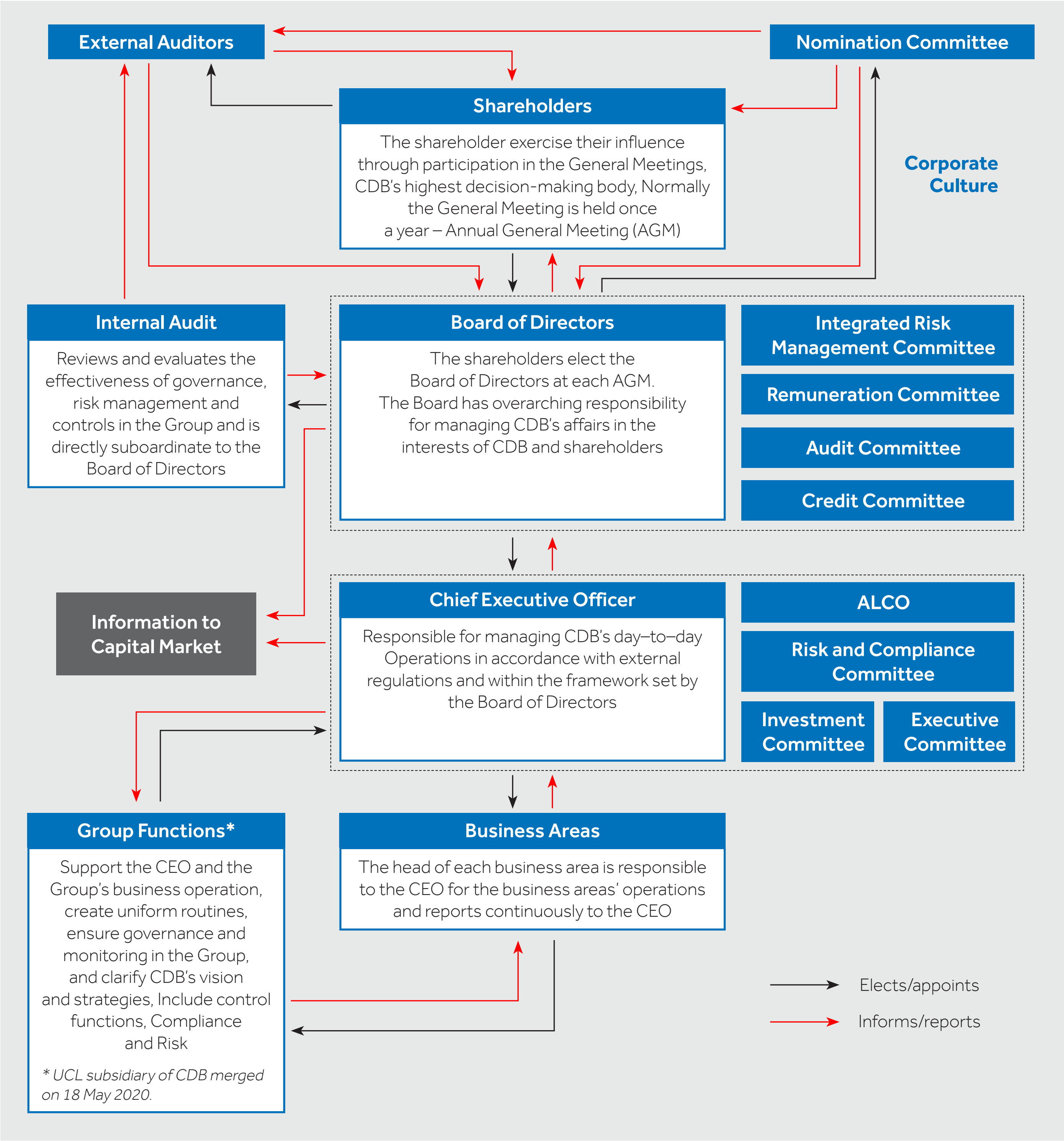
CDB's approach on certain aspects of compliance has gradually changed from rule based to risk based. Above diagram clearly demonstrates the CDB's compliance function and how it can support the Organisation's ultimate objective of creating value to its stakeholders.

## Compliance related highlights during the financial year 2019/20

| | |
|---|---|
| Regulatory interaction and coordination | Compliance Division proactively monitors the regulatory implications introduced and circulated by CBSL, FIU, SEC, CSE etc. |
| Governance | Compliance Division was further strengthened by appointing a member of Corporate Management team as the Head of the Department. At the same time Governance within the Organisation was strengthened by appointing Compliance representatives across all the departments to ensure regulatory compliance.<br>Apart from the above initiatives "CDB Board Charter" was presented to the Board and approval was obtained for the same. |
| Risk assessment programme(s) | Risk assessment programmes was initiated during the financial year by the Compliance Division as a part of the "Compliance Culture" creation. The Internal Audit Department carries out audit on the Compliance Division annually as well. |
| Policies, procedures, and related controls | Compliance policy and procedure was reviewed by the Compliance Division in 2019 and has been approved by the Board in order to streamline the process. |
| Compliance monitoring and testing | Technology is incorporated by CDB to update the compliance, monitoring and testing mechanisms wherever possible in order to be in line with current industry practices. Forestpin System is used for Suspicious Transaction monitoring purpose. An internal Suspicious Transaction Reporting (STR) mechanism has been built to direct identified suspicious transactions to the Compliance Division for further investigation. Moreover, the Company uses a customer screening online tool to assess customers prior to onboarding against sanctioned lists, adverse media exposure, and other potential risks and liabilities. |
| Reporting and communication | Compliance Department pioneered in creating a Compliance Culture within the Organisation by appointing Compliance Representative across all the departments. Two-way communication has been built between the Compliance Division and Compliance Representatives. |
| Compliance training | Officers engaged in the functions of Branch Operations, Deposit Operations, Credit Operations as well as the officers at the Compliance Division were provided with effective training programmes on Anti-Money Laundering and Counter Terrorist Financing conducted by the CBSL and EY. At the same time compliance training session has been incorporated to Induction programme of the Organisation. |

CDB's stewardship is mainly established by the Board and the Corporate Management through clearly defined objectives, strategies, and responsibilities. Further, CDB currently practices Three Lines of Defence theory which enables to mitigate risk exposed by CDB in an effective and an efficient manner. With all these aspects CDB strives to add value to its stakeholders through efficient utilisation of resources, adopting state-of-the-art technology, providing low cost financial services and an unmatched customer service to its valued customers.

## Detailed Corporate Governance Structure followed by CDB



**Shareholders**

The shareholder exercise their influence through participation in the General Meetings, CDB's highest decision-making body, Normally the General Meeting is held once a year – Annual General Meeting (AGM)

**Internal Audit**

Reviews and evaluates the effectiveness of governance, risk management and controls in the Group and is directly suboardinate to the Board of Directors

**Board of Directors**

The shareholders elect the Board of Directors at each AGM. The Board has overarching responsibility for managing CDB's affairs in the interests of CDB and shareholders

**Chief Executive Officer**

Responsible for managing CDB's day–to–day Operations in accordance with external regulations and within the framework set by the Board of Directors

**Group Functions***

Support the CEO and the Group's business operation, create uniform routines, ensure governance and monitoring in the Group, and clarify CDB's vision and strategies, Include control functions, Compliance and Risk

** UCL subsidiary of CDB merged on 18 May 2020.*

**Business Areas**

The head of each business area is responsible to the CEO for the business areas' operations and reports continuously to the CEO

| Board Subcommittees and Management Committees | Mandate |
|---|---|
| **Board Subcommittees** | |
| Integrated Risk Management Committee | Oversight responsibility for all areas of risk management including credit, market, operational, liquidity, cyber/ IT and strategic risks and ensures compliance with the entirety of the risk management policy framework and compliance with laws and regulations |
| Remuneration Committee | Monitors, evaluates, and prepares remuneration issues |
| Audit Committee | Identifies any deficiencies in routines and the organisation in terms of governance, risk management and control |
| Related Party Transactions Review Committee | Review in advance all proposed related party transactions of the Company in order to ensure that related parties are treated on par with other shareholders and constituents of CDB |
| Nomination Committee | The shareholder's governing body that nominates Board members and the Auditors and proposes their fees |
| Credit Committee | Formulates, reviews and revises policies and procedures for granting credit facilities, to be submitted for the approval of the Board of Directors whilst ensuring compliance with all statutory and regulatory requirements |
| **Management Committees** | |
| Corporate Management Committee | This is the highest management level committee in CDB. This Committee reviews the entire performance of CDB, with a view of formulating strategies and issuing directions to manage deviations |
| IT Steering Committee | Directs, reviews and approves IT strategic plans |
| Risk and Compliance Committee | Reviews overall risk and compliance at CDB |
| Asset-Liability Management Committee | Reviews the funding strategy, liquidity management, assets mismatch as well as market risk exposures, management of liquidity risk and interest rate risks as primary objectives and manages various financial risks of the Bank |
| Investment Committee | Assist the Board of Directors to discharge its statutory duties and its oversight responsibilities in relation to investment activities |

## Board of Directors

### Chairman
S R Abeynayake

### Non-Executive Directors
P A J Jayawardena
Prof A S Dharmasiri
Senior Prof S P P Amaratunge
Razik Mohamed
J R A Corera
J P Abhayaratne
D H J Gunawardena (Retired on 9th September 2019)

### Executive Directors
C M Nanayakkara
T M D P Tennakoon
R H Abeygoonewardena
S V Munasinghe
D A De Silva
E Karthik (Appointed w. e. f. 1 July 2020)

## The Board

Good governance is essential for the long-term sustainability and success of a financial institution. Therefore, CDB considers this success greatly depends on the skills, experience, and knowledge of its Board of Directors and the Executive Management.

Financial services are becoming increasingly complex, that the risks cannot be monitored only by the regulator. CDB believes that the safety and soundness of the finance sector requires upfront involvement of the Board of Directors.

Whilst protecting the safety and soundness of the industry, one of the primary roles of the CDB Board is to protect and enhance long-term shareholder value. Further, the Board sets the overall strategy for CDB and provides oversight to the Executive Management. The Board also ensures good corporate governance policies and practices are implemented within CDB. In the course of discharging its duties, the Board acts in good faith, with due diligence and care, and in the best interests of the Company and its shareholders.

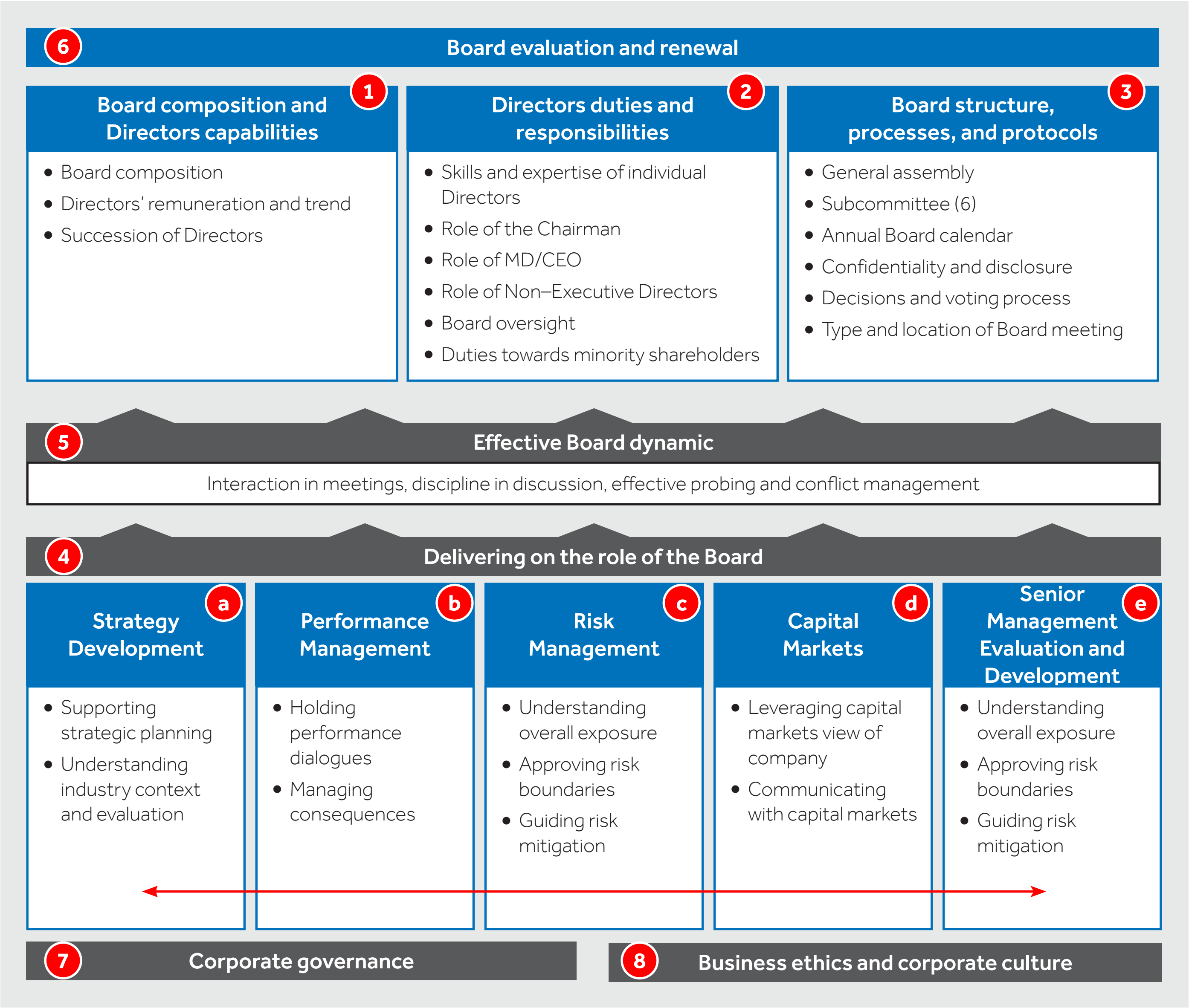
The Board currently comprises 13 members whose profiles are set out in the Board of Directors and Corporate Management section of this Annual Report. Updated profiles of each Director are also available on the CDB website.

Day-to-day operations of the business of the Company are delegated to the Management who is led by the Executive Directors. They are closely monitored by the Board and are accountable for the performance of the Company as measured against the corporate goals and business targets set by the Board.

Furthermore, the Board has separate and independent access to the Senior Management and the Company Secretary at all times. With prior request to the Company Secretary, the Board is given access to independent professional advice any time when appropriate.

The shareholders, regulators, and other stakeholders of the Organisation have increasingly been interested in the effectiveness and accountability in the Board evaluation processes. As a result the Board also seeks to enhance their effectiveness to fulfil the stakeholders' expectations by establishing an effective Board evaluation process. In ensuring good corporate governance, the following framework has been designed and implemented for the Board evaluation process. This is not just a simple process to assess the Board, committees, and its members on the performance of their respective duties and responsibilities but it is a rigorous test to assess the short-term and long-term effectiveness of Board's composition, dynamics, operations and structure. Eight dimensions of the framework are the critical components that define an effective Board on which the evaluations are based on.

## The Board Evaluation Framework of CDB



⑥ **Board evaluation and renewal**

① **Board composition and Directors capabilities**
- Board composition
- Directors' remuneration and trend
- Succession of Directors

② **Directors duties and responsibilities**
- Skills and expertise of individual Directors
- Role of the Chairman
- Role of MD/CEO
- Role of Non–Executive Directors
- Board oversight
- Duties towards minority shareholders

③ **Board structure, processes, and protocols**
- General assembly
- Subcommittee (6)
- Annual Board calendar
- Confidentiality and disclosure
- Decisions and voting process
- Type and location of Board meeting

⑤ **Effective Board dynamic**

Interaction in meetings, discipline in discussion, effective probing and conflict management

④ **Delivering on the role of the Board**

ⓐ **Strategy Development**
- Supporting strategic planning
- Understanding industry context and evaluation

ⓑ **Performance Management**
- Holding performance dialogues
- Managing consequences

ⓒ **Risk Management**
- Understanding overall exposure
- Approving risk boundaries
- Guiding risk mitigation

ⓓ **Capital Markets**
- Leveraging capital markets view of company
- Communicating with capital markets

ⓔ **Senior Management Evaluation and Development**
- Understanding overall exposure
- Approving risk boundaries
- Guiding risk mitigation

⑦ **Corporate governance**

⑧ **Business ethics and corporate culture**

The posts of Chairman and Chief Executive Officer of the Company are separate to ensure a clear distinction between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business.

## Responsibilities of Chairman and Chief Executive Officer

### Chairman's responsibilities

- To keep abreast of the activities of the Company and its Management in general
- To develop and set the agendas for meetings of the Board in collaboration with the CEO
- To call special meetings of the Board where appropriate
- To sit on other committees of the Board where appropriate as determined by the Board
- To ensure that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements
- To assess and make recommendations to the Board annually regarding the effectiveness of the Board as a whole, the Committees of the Board and individual Directors

### MD/CEO responsibilities

- Developing CDB's strategy for consideration and approval by the Board and its implementation thereafter
- Developing and recommending budgets to the Board to support CDB's mid and long-term strategy
- Monitoring and reporting to the Board on the performance of CDB and its compliance with applicable legal and regulatory obligations
- Ensuring that CDB operates within the approved risk appetite
- Ensuring proper succession planning of the Executive Team and assessing their performance

## Board meetings

The Board meets once a month and holds additional meetings as and when the Board thinks necessary.

Twelve Board meetings were held during the FY 2019/20. Notice of not less than 14 days was given to Directors for the regular Board meetings. Draft agenda for Board meetings is prepared by the Company Secretary and is circulated to all Directors for comments before each meeting. Directors were given an opportunity to include any other matters in the agenda. The agenda, together with Board Papers is uploaded in the Board Pac in full, not less than seven business days before the intended date of the Board meeting.

Minutes of Board meetings are prepared by the Company Secretary with details of decisions reached and any concerns raised. The draft minutes are sent to all Directors within a reasonable period of time after each meeting for their comment before being formally signed by the Chairman of the meeting. Copies of the final version of minutes of the Board meetings are sent to the Directors for information and record.

At each regular Board meeting, Executive Directors of the Company made presentations to the Board on various aspects, including the business performance, financial performance, corporate governance and outlook, etc.

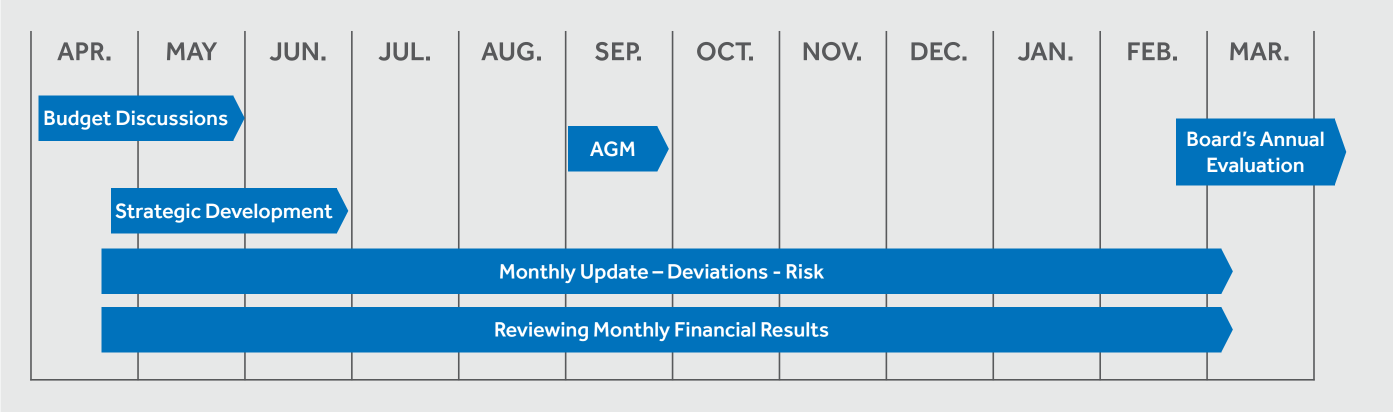
Throughout FY 2019/20, Directors of the Company also participated in the consideration and approval of matters of the Company by way of written resolutions circulated to them. Supporting written materials were provided in the circulation and verbal briefings were given by the subject Executive Directors or the Company Secretary when required.

Directors of CDB play an active role while participating in the Company's meetings through contribution of their professional opinions and actively engaging in discussions. The attendance record of each of the Directors for the Board meetings held during FY 2019/20 has been given below:

| Name of the Director | Age | Executive | Non-Executive | Independent | Non-Independent | Attendance at Board meetings | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 31/03/2020 | | | | | 23/04/2019 | 22/05/2019 | 19/06/2019 | 24/07/2019 | 21/08/2019 | 12/09/2019 | 16/10/2019 | 20/11/2019 | 18/12/2019 | 29/01/2020 | 12/02/2020 | 31/03/2020 |
| 1. Mr D H J Gunawardena* | 70 | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | – | – | – | – | – | – | – |
| 2. Mr C M Nanayakkara | 51 | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3. Mr R H Abeygoonewardena | 50 | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4. Mr T M D P Tennakoon | 52 | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ |
| 5. Mr S V Munasinghe | 49 | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 6. Mr P A J Jayawardena | 59 | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ | ✗ | ✓ |
| 7. Mr S R Abeynayake | 52 | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 8. Mr D A De Silva | 50 | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 9. Prof A S Dharmasiri | 52 | | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 10. Mr Razik Mohamed | 69 | | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 11. Senior Prof S S P Amaratunge | 55 | | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 12. Mr J R A Corera** | 52 | | ✓ | ✓ | | – | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 13 Mr J P Abhayaratne*** | 55 | | ✓ | | ✓ | – | – | – | – | – | – | – | – | – | ✓ | ✓ | ✓ |

**Retired on reaching 70 years of age on 9 September 2019* *** Appointed w.e.f. 16 May 2019* **** Appointed w.e.f. 1 January 2020*

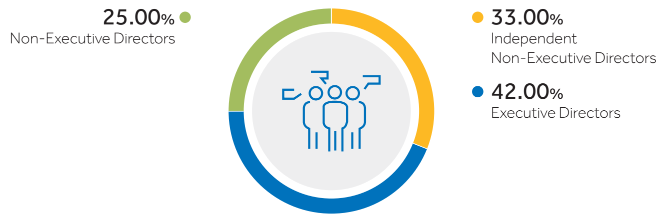
## Board work for FY 2019/20



## Board diversity

CDB always believes that diversity of the Board will benefit the Company in terms of diversity of skills, industrial experience, background, race, gender, and other qualities of members of the Board. These differences will be taken into account in determining the optimum composition of the Board. The graph below depicts the composition of the Board in terms of Executive, Non-Executive and Independent Non-Executive Directors.

### Board composition



## Age

### Board composition by age as at 31 March 2020

### Professional experience

### Board composition by length of tenure as at 31 March 2020

## CDB's level of compliance with corporate governance GRI 419-1

In our endeavour to strengthen governance at CDB for the year ended 31 March 2020, we complied with the provisions in all applicable codes and directions on corporate governance. Accordingly, CDB has adopted and is in compliance with voluntary requirements outlined in the "Code of Best Practice on Corporate Governance 2017", issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) along with the mandatory requirements of Direction No. 03 of 2008 (Corporate Governance) and subsequent amendments issued by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011 and Listing Rules of Colombo Stock Exchange.

# Section I

## Statement of Compliance

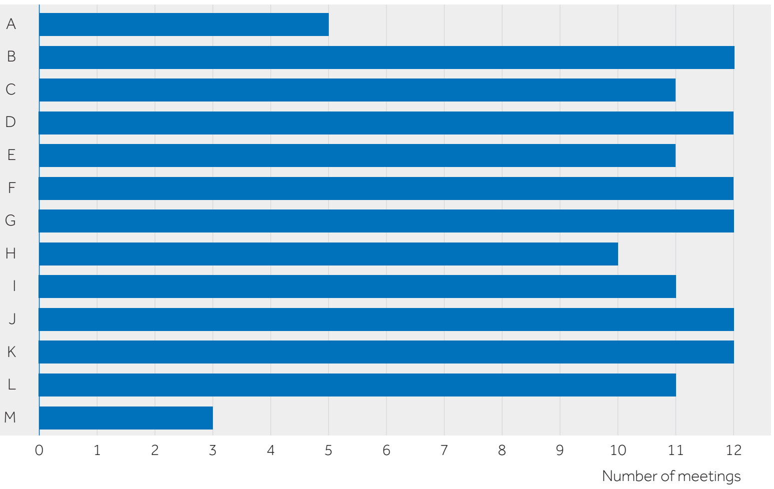
## The Code of Best Practice on Corporate Governance 2017, issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka Code)

The disclosures below reflect CDB's level of conformance to the "Code of Best Practice on Corporate Governance 2017" Issued by The Institute of Chartered Accountants of Sri Lanka, which comprises eight fundamental principles relating to the following aspects:

A. Directors
B. Directors' Remuneration
C. Relations with Shareholders
D. Accountability and Audit
E. Institutional Investors and
F. Other Investors
G. Internet of Things and Cybersecurity
H. Environment, Society and Governance (ESG)

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| **A Directors** | | | |
| **A.1 The Board** | | | |
| **The Company should be headed by a Board, which should direct, lead and control the Company**<br>The Board consists of professionals in Finance, Accounting, Management, Information Technology, Marketing, Human Resources, and Business Leaders. All Directors possess the skills and experience and knowledge complemented with a high sense of integrity and independent judgement. Their leadership skills, guidance, and controls put in place ensure the achievement of the objectives of the Company set out in the corporate plan and the budget which aims to satisfy the expectations of all stakeholders. | | | |
| Board meetings | A.1.1 | Compliant | Board meeting are held monthly mainly to review the performance of the Company and other matters referred to the Board by the heads of respective divisions, while special Board meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders.<br>Please refer "Number of meetings held and attendance" table given on page 159 on the Annual Report. |

### Attendance of Board meetings



A – Mr D H J Gunawardena*
B – Mr S R Abeynayake
C – Mr C M Nanayakkara
D – Mr R H Abeygoonewardena
E – Mr T M D P Tennakoon
F – Mr S V Munasinghe
G – Mr D A De Silva
H – Mr P A J Jayawardena
I – Prof A Dharmasiri
J – Mr Razik Mohamed
K – Senior Prof S P P Amaratunge
L – Mr J R A Corera**
M – Mr J P Abhayaratne***

** Retired on reaching 70 years of age on 9 September 2019*
***Appointment w.e.f. 16 May 2019*
****Appointment w.e.f. 1 January 2020*

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Responsibilities of the Board | A.1.2 | Compliant | The Board is collectively responsible for the success of the Company. The Board formulates the business strategy and ensures that MD/CEO and Management Team possess the skills, experience, and knowledge to implement the strategy. It also ensures that effective systems are in place to secure integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations. The Independent Directors are responsible for bringing independent judgement to decisions made by the Board.<br>The Board is satisfied with the integrity of financial information and the robustness of the financial controls and system of risk management of the Company. |
| Compliance with laws and access to independent professional advice | A.1.3 | Compliant | The Board collectively as well the Directors individually, recognised their duty to comply with the laws of the country which are applicable to the Company. The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with all applicable laws and regulations. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Company's expense. This will be coordinated through the Board Secretary, as and when it is required. In addition, the Board is assisted by several Board subcommittees on various matters. |
| Advice and services of the Company Secretary | A.1.4 | Compliant | All secretarial matters for which clarification is needed by the Board are referred to the Company Secretary who has the required qualifications as set out in the Companies Act. Company Secretary provides all information after obtaining necessary professional advice, whenever required to do so. All Board members have access to the Company Secretary to ensure that proper Board procedures are followed and that all applicable rules and regulations are complied with. Consent of all Board members is required for the removal of the Company Secretary. |
| Independent judgement of Directors | A.1.5 | Compliant | None of the Directors have held executive responsibilities in their capacity as Non-Executive Directors. The Non-Executive Directors do not have any business interests that could materially interfere with the exercise of their independent judgement. Directors are required to disclose all transactions with the Company, including those of their close family members as required by the relevant Sri Lanka Accounting Standards and the Companies Act, and these requirements have been complied with. |
| Dedication of adequate time and effort for matters of the Board | A.1.6 | Compliant | The Board members dedicate adequate time and effort to fulfil their duties as Directors of the Company (both before and after the Board meetings) to ensure that the duties and responsibilities owed to the Company are discharged accordingly. In addition to attending Board meeting, they have attended Subcommittee meetings and also have made decisions via circular resolutions where necessary. The Board Subcommittees include:<br>– Audit Committee,<br>– Integrated Risk Management Committee,<br>– Credit Committee,<br>– Remuneration committee,<br>– Nomination Committee,<br>– Board Related Party Transaction Review Committee<br>Further additional meetings and discussions are held with the Management whenever the need arises. |
| Resolutions to be presented | A.1.7 | Compliant | One-third of Directors can call for a resolution to be presented to the Board. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Training for new and existing Directors | A.1.8 | Compliant | Both new and existing Directors of the Company are provided guidelines on general aspects of directorship and industry specific matters. In this regards, the Directors have recognised the need for continuous training, expansion of knowledge and to participate in such professional development as and when they consider necessary which would assist them to carry out duties as Directors. During the year, presentations were made to the Board/Board Subcommittees by the Company from time to time on industry specific matters and regulatory updates.<br>The Directors have attended a number of meetings with the Corporate Management Team to familiarise themselves with the Company strategy, operation and internal control.<br>Director training focus areas for 2019/20 were<br>• Taxation<br>• Governance<br>• Cybersecurity<br>• Cambridge Intellect Leadership Programme |

### A.2 Chairman and Chief Executive Officer (CEO)

There is a clear separation in the duties of the Chairman and Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions.

The roles of the Chairman and the MD/CEO are functioning separately in the Company. The Chairman is responsible for leading, directing and managing the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The MD/CEO's role is primarily to conduct the business operations of the Company with the help of the Corporate Management.

| | | | |
|---|---|---|---|
| Division of responsibilities of the Chairman and MD/CEO | A.2.1 | Compliant | The role of the Managing Director and Chairman are not combined. The Chairman is a Non-Executive Director while the Managing Director serves as an Executive Director of the Company. This is to ensure a balance of power in strategic and operational decisions authority such that no one possesses unfettered powers of decisions. |

### A.3 Chairman's role

The Chairman's main role is to lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully. He preserves order and facilitates the effective discharge of the Board function.

The profile of Mr S R Abeynayake is given on page 145.

| | | | |
|---|---|---|---|
| Role of the Chairman | A.3.1 | Compliant | The Chairman's main role is to lead and manage the Board and ensure effectiveness in all aspects of its role. The Chairman of the CDB is a Non-Executive Director. The Chairman's role encompasses that,<br>• The views of Directors on issues under consideration are ascertained<br>• The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders<br>• All Directors are encouraged to make an effective contribution within their respective capabilities, for the benefit of the Company<br>• A balance of power between Executive and Non-Executive Directors is maintained<br>• Representing the views of the Board to the public |

### A.4 Financial acumen

The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.

There are a sufficient number of Board members who possess finance qualifications and experience in the Financial Services Industry and provide significant input in matters concerning this area.

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Availability of sufficient financial acumen and knowledge | A.4.1 | Compliant | The Chairman is a fellow member of The Institute of Chartered Accountants of Sri Lanka while MD/CEO is a member of the Chartered Institute of Management Accountants of UK. In addition, the Board includes one member of The Institute of Chartered Accountants of Sri Lanka and four members of the Chartered Institute of Management Accountants of UK. Directors' profiles are given on pages 145 to 146. |

### A.5 Balance of the Board

The Code recommends having a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision-making.

| | | | |
|---|---|---|---|
| Presence of Non-Executive Directors | A.5.1 | Compliant | During the FY 2019/20, seven of the twelve Directors are Non-Executives (NED) which is well above the minimum prescribed by this Code which is two NEDs or equivalent to one third of the total number of Directors, whichever is higher. This ensures that the views of NEDs carry a significant weight in the decisions made by the Board.<br>**Executive Directors Vs Non-Executive Directors**<br><br> |
| Independent Directors | A.5.2 | Compliant | During the FY 2019/20, four out of seven Non-Executive Directors are Independent as defined by the Code.<br>**Independent Vs Non-Independent Directors**<br><br> |
| Independence evaluation review | A.5.3 | Compliant | All four Independent Directors are independent of management and free of any business or other relationship that could impair their independence. |
| Signed declaration of Independence | A.5.4 | Compliant | All Non-Executive Directors of the Company have made written submissions as regards their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule K of the Code. |
| Determination of independence of the Directors by the Board | A.5.5 | Compliant | The Board has determined the independence of Directors based on the declarations submitted by the NEDs, as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-executive Directors are:<br>Prof A S Dharmasiri<br>Senior Prof S P P Amaratunge<br>Mr Razik Mohamed<br>Mr J R A Corera (Appointed w.e.f. 16 May 2019) |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Appointment of Alternative Director | A.5.6 | Compliant | Where the alternative Director is appointed, requirements of the Code have been compliant |
| Senior Independent Director | A.5.7 | Compliant | The Company has designated Prof A S Dharmasiri as the Senior Independent Director, to meet the requirement under this Code and under Section 7 (2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the CBSL. |
| Confidential discussion with the Senior Independent Director | A.5.8 | Compliant | Confidential discussions are held with the Senior Independent Director, whenever the need arises. |
| Meeting of Non-Executive Directors | A.5.9 | Compliant | Chairman meets with the Non-Executive Directors without the presence of MD/CEO, on a need basis. |
| Recording of concern in Board minutes | A.5.10 | N/A | There were no concerns raised by the Directors during the year, which needed to be recorded in the Board meeting minutes. |

## A.6 Supply of information

Management is required to provide time bound information in a form which does not compromise quality to enable the Board to discharge its duties. Financial and non-financial information is analysed and presented to the Board to make informed and accurate decisions.

| | | | |
|---|---|---|---|
| Information to the Board by the Management | A.6.1 | Compliant | The Board was provided with timely and appropriate information by the Management by way of Board Papers and proposals. The Board sought additional information as and when required. Corporate and Senior Management made presentations on issues of importance. The Chairman ensured that all Directors were briefed on matters arising from Board meetings. The Directors have free and open contact with Corporate and Senior Management of the Company. |
| Adequate time for effective Board meetings | A.6.2 | Compliant | Board was provided with timely and appropriate information by the Management by way of Board Papers and proposals. The Board sought additional information as and when necessary. Further, refer pages 159 to 160 for Board meetings. |

## A.7 Appointments to the Board

In terms of the Company's Articles of Association the majority shareholder is entitled from time to time, by writing under the hand of its Chairman, to make appointments of new Directors. The said appointments are notified to the Board of Directors immediately. In identifying suitable candidates for appointment as Executive and Non-Executive Directors, professional qualifications, business experience and personal qualities are taken into consideration.

| | | | |
|---|---|---|---|
| Nomination Committee and assessment of Board composition | A.7.1 and A.7.2 | Compliant | Board as a whole annually assesses Board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment should be taken into account when new Board appointments are considered and when incumbent Directors come up for re-election. Refer page 181 for the details of Nomination Committee and its composition.<br>During the financial year 2019/20, an Independent Non-Executive Director Mr J R A Corera and Non-Independent Non-Executive Director Mr J P Abhayaratne were appointed to the Board w.e.f. 16 May 2019 and 1 January 2020 respectively.<br>Apart from above Mr E Karthik has been appointed to the Board w.e.f. 1 July 2020 as an Executive Director. |
| Disclosure of details of new Directors to shareholders | A.7.3 | Compliant | When the new Directors were appointed to the Board, a brief résumé of each such Director including the nature of his/ her experience, the names of companies in which the Director holds directorship, membership, in the Board Subcommittees etc., are informed to the Central Bank of Sri Lanka and Colombo Stock Exchange in addition to disclosing this information in the Annual Report. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|

## A.8 Re-election

The Code requires all Directors to submit themselves for re-election at regular intervals and at least once in every three years. It also requires that all Non-Executive Directors to be appointed for a specific term and subject to re-election.

| | | | |
|---|---|---|---|
| Appointment of Non-Executive Directors | A.8.1 | Compliant | Articles of Association of the Company requires, each Non-Executive Director to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors are subjected to prior review by the full Board. |
| Re-election by the shareholders | A.8.2 | Compliant | Refer comment above. |
| Resignation of Director | A.8.3 | Compliant | During the financial year no resignations took place. However, Mr D H J Gunawardena retired on reaching 70 years on 9 September 2019. |

## A.9 Appraisal of Board performance

The Board periodically appraises its own performance against the preset targets in order to ensure that the Board responsibilities are satisfactorily discharged

| | | | |
|---|---|---|---|
| Annual appraisal of Board performance and that of its committees | A.9.1 and A.9.2 | Compliant | The Board annually evaluated its performance against the annual objectives set at the beginning of the year. The performance of Board subcommittees was also evaluated against the objectives of the respective Subcommittees. |
| Level of contribution, engagement of each Director at the time of re-election | A.9.3 | Compliant | Board already have a robust process to review the participation, contribution, and engagement of each Director at the time of re-election. |
| Disclosure of criteria used for the performance evaluation | A.9.4 | Compliant | Refer page 182 for the "Report of the Remuneration Committee" in Annual Report for details of the criteria considered for performance evaluation of the Board. |

## A.10 Disclosure of information in respect of Directors

The Code requires that the details in respect of each Director to be disclosed in the Annual Report for the benefit of the shareholders.

| | | | |
|---|---|---|---|
| Details in respect of Directors | A.10.1 | Compliant | Details of Directors are given in this annual report. (Refer pages 144 to 146) |

## A.11 Appraisal of CEO

The Code requires the Board to assess the performance of the Chief Executive Officer (CEO) at least annually to ascertain the degree to which the CEO met the preset financial and non-financial targets.

| | | | |
|---|---|---|---|
| Financial and non-financial targets for CEO | A.11.1 | Compliant | MD/ CEO's performance objectives are aligned with the business sustainability of the Company. The performance targets for the MD/CEO are set at the commencement of every financial year by the full Board which are in line with, medium and long-term objectives of the Company. |
| Annual evaluation of the performance of CEO | A.11.2 | Compliant | There is an ongoing process to evaluate the performance of MD/CEO against the financial and non-financial targets set as described above which is followed by a formal annual review by the Board at the end of each financial year. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|

## B Directors' remuneration

### B.1 Remuneration procedures

The Code requires companies to have a formal and transparent procedure for developing policies on executive remuneration and fixing the remuneration packages of individual Directors and also recommends that no Director should be involved in deciding his/her remuneration in order to avoid the self-review threat.

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Remuneration Committee | B.1.1 | Compliant | The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management, and for making all relevant disclosures.<br>The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD/CEO. The MD/CEO participates in meetings by invitation in deciding the remuneration of the Corporate Management in order to recruit, retain, and motivate the Corporate Management Team. |
| Composition of the Remuneration Committee | B.1.2 and B.1.3 | Compliant | The following Non-Executive Directors served on the Remuneration Committee during the financial year.<br>Mr S R Abeynayake – Committee Chairman<br>Mr Razik Mohamed<br>Prof A S Dharmasiri |
| Remuneration of Non-Executive Directors | B.1.4 | Compliant | The Board as a whole decides the remuneration of the Non-Executive Directors.<br>The Non-Executive Directors receive a fee for being a Director of the Board and additional fee for either chairing or being a member of a Committee, working on special Committees and/or serving on Subsidiary Boards. They do not receive any performance-related incentive payments. |
| Consultation of the Chairman and access to professional advice | B.1.5 | Compliant | Inputs of the Chairman are obtained by his involvement as a member of the said subcommittee. External professional advice is sought by the Remuneration Committee, on a need basis through the Board Secretary. |

### B.2 The level and make up of remuneration

Levels of remuneration of both Executive and Non- Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. The proportion of remuneration of Executive Directors is linked to corporate and individual performance.

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Level and make up of remuneration | B.2.1 to B.2.9 | Compliant | The Board is mindful of the fact that the remuneration of Executive and the Non-Executive Directors should reflect the expectation of the Company and sufficient enough to attract and retain the quality of Directors needed to run the Company. The remuneration package of the MD/CEO is structured to link rewards to corporate and individual performance. The Company's remuneration framework for the CEO is designed to create and enhance value for all CDB's stakeholders and to ensure that there is strong alignment between the short-term and long-term interests of the Company. |
| Remuneration of the Non-Executive Directors | B.2.10 | Compliant | Non-Executive Directors receive a nominal fee in line with the market practices as disclosed in this Annual Report. Non-Executive Directors do not participate in performance-related incentive schemes. |

### B.3 Disclosure of remuneration

The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the remuneration policy.

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Disclosure of Directors' remuneration in the Annual Report. | B.3.1 | Compliant | Refer the Remuneration Committee Report on page 182 for disclosure on the names of the Remuneration Committee members and the remuneration policy of the Company.<br>Also refer the Note 47 to the Financial Statement on page 284 for the aggregate remuneration paid to Executive and Non-Executive Directors. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| **C. Relations with shareholders** | | | |
| **C.1 Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings** | | | |
| The Code requires the Board to use the Annual General Meeting to communicate with shareholders and encourage their active participation. In this regard all shareholders of the Company receive the Notice of Meeting within the statutorily due dates. | | | |
| Arranging notice of AGM and related papers to be sent to shareholders | C.1.1 | Compliant | Company ensures that all the notices relevant for the AGM are disseminated well before the Meeting and as per the stipulated regulatory time line. |
| Separate resolution for all separate issues | C.1.2 | Compliant | Separate resolutions are proposed for all substantially separate issues to provide shareholders with the opportunity to deal with each significant matter separately. This mechanism promotes better stewardship while assuring the transparency in all activities of the Company. |
| Use of proxy votes | C.1.3 | Compliant | The Company has an effective mechanism to record all proxy votes and proxy votes lodged for each resolution prior to the General Meeting. |
| Availability of all Chairmen of Board Subcommittees at the AGM | C.1.4 | Compliant | Chairman of the Company ensures that the Chairmen of all Board appointed Subcommittees are present at the AGM to answer the questions under their purview. |
| Adequate notice of the AGM to shareholders together with the summary of the procedure | C.1.5 | Compliant | A Form of Proxy and a copy of the Annual Report are dispatched to all shareholders together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice to shareholders. This provides opportunity to all shareholders to attend the AGM based on their voting status and obtain clarifications for the matters of interest to them. |
| **C.2 Communication with shareholders** | | | |
| The Board is required to implement effective communication with shareholders. | | | |
| Communication with shareholders | C.2.1 to C2.7 | Compliant | The Company has implemented the relevant communication channels, disclosed the policy and methodology and other requirements of the Code for communication with shareholders. |
| **C.3 Major and Material transactions** | | | |
| Directors are required to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company. | | | |
| Major transactions | C.3.1 and C.3.2 | Compliant | During the year there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affected CDB's net asset base. Transaction, if any, which materially affect the net assets of the Company, will be disclosed in the quarterly/annual Financial Statements. Further, all these transactions (if any, during the financial year) are reviewed by the Board-Related Party Transaction Committee headed by an Independent Non-Executive Director of CDB. |
| **D. Accountability and audit** | | | |
| **D.1 Financial and business reporting** | | | |
| The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects. | | | |
| Reports to public and , Regulatory and Statutory reporting | D.1.1 to D.1.3 | Compliant | CDB has reported a true and fair view of its financial position and performance for the year ended 31 March 2020 and at end of each Quarter of 2019/20. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| | | | In the preparation of Financial Statements, CDB had strictly complied with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto. They are prepared and presented in conformity with Sri Lanka Accounting Standards. CDB has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Securities and the Exchange Commission of Sri Lanka. |
| Directors report in the Annual report | D.1.4 | Compliant | The Directors' Report given in this Annual Report covers all areas of this section as required by the direction. Please refer pages 186 to 192 for the Director's Report. |
| Statement of Directors' and Auditors responsibility for the financial statements, Report/ Statement on Internal Controls | D.1.5 | Compliant | The Statement of Directors' Responsibility for Financial Reporting is given in this Annual Report as required by the direction, and Auditor's reporting responsibility is given in their audit report on the financial statements in this Annual Report. |
| Management Discussion and Analysis | D.1.6 | Compliant | The Management Discussion and Analysis Report is given in this Annual Report as required by the direction. |
| Declaration by the Board that the business is a going concern and summoning an EGM to notify serious loss of capital | D.1.7 | Compliant | This is given in the Directors' Report. Further, likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified. |
| Disclosure of Related Party Transactions | D.1.8 | Compliant | Relevant related party transactions are adequately and accurately disclosed in the Annual Report. Further, all the related party transactions are reviewed by the BRPTR Committee. |

### D.2 Risk Management and Internal Control

The Code requires the Board to have a process of risk management and a sound system of internal controls to safeguard shareholders' investments and the Company's assets.

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| Review of risks facing the Company and evaluation of the Internal Control System. | D.2.1 and D.2.5 | Compliant | The Company has established a comprehensive framework of policies and procedures for risk management and internal controls, which are regularly reviewed and updated. The Company's Audit Committee ensures that there is an effective internal control and financial reporting system by adopting the following measures:<br>(i) Audits are conducted by the Internal Audit Department, in areas involving high risks as identified in the annual internal audit plan.<br>(ii) A structured process is in place for loss reporting, control exception reporting and compliance breach reporting.<br>(iii) A comprehensive checklist is used for follow on the status of implementation of all audit recommendations.<br>(iv) Periodic Branch Audits are performed on the Company's branch operations.<br>The Company obtained the External Auditor's certification on the effectiveness of the internal control mechanism on financial reporting. |
| Internal audit function. | D.2.3 | Compliant | The Company already has its own in-house Internal Audit Department, which is responsible for the internal audit function. |
| Reviews of the process and effectiveness of risk management and internal controls | D.2.4 | Compliant | The Audit Committee carries out reviews of the process and effectiveness of risk management, internal controls and reports to the Board on a regular basis. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|

## D.3 Audit Committee

The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's External Auditor.

| | | | |
|---|---|---|---|
| Composition of the Audit Committee | D.3.1 | Compliant | The Company's Audit Committee consists of three members all of whom are Non-Executive Independent Directors. The Committee operates within clearly defined terms of reference.<br>Details of the members, invitees and the Secretary of the Committee are found in the Audit Committee Report in this Annual Report. Please refer pages 178 to 179 for the Audit Committee Report. |
| Duties of Audit Committee - Ensuring the objectivity and independence of External Auditors and terms of reference of the Audit Committee | D.3.2 | Compliant | The Committee maintains an appropriate relationship with the External Auditors, KPMG (Chartered Accountants) to ensure their objectivity and independence. The payments to External Auditors for audit and non audit services are disclosed in the Directors' Report of this Annual Report. In addition, the Company has established an internal audit function which operates independently and has direct access to the Audit Committee. The External Auditors do not have any relationship (other than that of Auditor) and any interest in the Company. |
| Disclosure of the Audit Committee | D.3.3 | Compliant | Names of the members of the Audit Committee and the scope of the Committee are given in this Annual Report under the Audit Committee Report. |

## D.4 Related Party Transaction Review Committee

The Board should establish a procedure to ensure that the Company does not engage in transactions with "related parties" in a manner that would grant such parties "more favourable treatment" than that accorded to third parties in the normal course of business.

| | | | |
|---|---|---|---|
| Related Party Transaction Review Committee | D.4.1 to D.4.3 | Compliant | Please refer the BRPTRC note on pages 184 to 185 and the RPT on pages 284 to 287. |

## D.5 Code of Business Conduct and Ethics

The Company should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management Team.

| | | | |
|---|---|---|---|
| Code of Business Conduct and Ethics | D.5.1 to D.5.3 | Compliant | Company has developed a Code of Business Conduct and Ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with applicable laws and regulations and encouraging the reporting of any illegal or unethical behaviour etc. |
| Affirmation by the Chairman that there is no violation of the Code of Conduct and Ethics | D.5.4 | Compliant | Refer the Chairman's Statement in the Annual Report for details. |

## D.6 Corporate governance disclosure

The Company should disclose the extent of adoption of best practices in corporate governance.

| | | | |
|---|---|---|---|
| Disclosure of corporate governance | D.6.1 | Compliant | This requirement is met through the presentation of this Report. |

| Corporate governance principles | CA Sri Lanka Code reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| **E. Institutional investors** | | | |
| **E.1 Shareholder voting** | | | |
| Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice. | | | |
| Communication with shareholders | E.1.1 | Compliant | Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership. |
| **E.2 Evaluation of governance disclosures** | | | |
| Institutional investors are encouraged to give due weight to all relevant factors in the Board structure and composition. | | | |
| **F. Other investors** | | | |
| **F.1 Investing/Divesting decision** | | | |
| Individual shareholder | F.1 | Compliant | Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. |
| **F.2 Shareholder Voting** | | | |
| Individual shareholders voting | F.2 | Compliant | Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights. |
| **G. Internet of things and Cybersecurity** | | | |
| **G.1 The Board should have a process to identify Cybersecurity risk faced by the Company and controls to mitigate such risks** | | | |
| Process of mitigating Cybersecurity threats | G.1 | Compliant | During the financial year, CDB carried out internal and external IT vulnerability test with the assistance of external parties in order to mitigate cyber security threats. Further, these external parties conducted several Board presentations on the findings and on local/global best practices.<br>Refer Risk Management Report on pages 127 to 142 and the Institutional Capital on page 50 for further details on risk mitigation factors. |
| **H. Environment, society and governance (ESG)** | | | |
| **H.1 ESG reporting** | | | |
| ESG is a business approach that creates long-term stakeholder value by embracing opportunities and managing risks derived from economic, environmental, and social developments and their potential implications and impacts on the business activities of the entity. | | | |
| ESG reporting | H.1 and H.1.1 | Compliant | Please refer Report on the Natural Capital on pages 95 to 108. |
| Environmental factors | H.1.2 and H.1.2.1 | Compliant | Please refer Report on the Natural Capital on pages 95 to 108. |
| Social factors | H.1.3 and H.1.3.1 | Compliant | Please refer Report on the Natural Capital on pages 95 to 108. |
| Governance | H.1.4 and H.1.4.1 | Compliant | Please refer Report on the Natural Capital on pages 95 to 108. |
| Board role on ESG factors | H.1.5 and H.1.5.1 | Compliant | Please refer Key Framework and Compliance Report on pages 151 to 177. |

# Section II

## Statement of Compliance

## Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by Finance Companies (Corporate Governance) Direction No. 06 of 2013

The Monetary Board of the Central Bank of Sri Lanka has issued the above Direction which shall apply to every finance company licensed in terms of Section 02 of the Finance Business Act No. 42 of 2011 and shall come into operation with effect from 1 January 2009.

| Corporate governance principle | CBSL rule reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| **2. The responsibilities of the Board of Directors** | | | |
| 1. Strengthening the safety and soundness of the Company | 2. (1) | Compliant | The Board formulates the business strategy and ensures the CEO and the Management Team possesses the skills, experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations. |
| 2. Chairman and CEO | 2. (2) | Compliant | The Chairman is a Non-Executive Director. The Chief Executive Officer is in charge of the overall management of the Company. |
| 3. Independent professional advice for Directors | 2. (3) | Compliant | Please refer Section A.1.3 of the CA Sri Lanka Code compliance table. |
| 4. Conflict of interests | 2. (4) | Compliant | Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to CDB and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his/her interest and unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings. |
| 5. Formal schedule of matters | 2. (5) | Compliant | The Board has a formal schedule of matters reserved to it. |
| 6. Situation of insolvency | 2. (6) | Compliant | No such situation has arisen during the year. |
| 7. Corporate Governance Report | 2. (7) | Compliant | This report addresses the requirement. |
| 8. Annual self-assessment by the Directors | 2. (8) | Compliant | The Directors provide an annual self-assessment to the Board to assess the fit and propriety to hold office as Directors of the Company. |
| **3. Meeting of the Board** | | | |
| 9. Board meeting | 3. (1) | Compliant | The Board has met 12 times during the financial year under review and has ensured that the performance of the Company for the financial year under review has been duly assessed at those meetings. |
| 10. Inclusion of proposals by all Directors in the agenda | 3. (2) | Compliant | The Company Secretary facilitates any request made by the Directors at the meeting or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion. |
| 11. Notice of meetings | 3. (3) | Compliant | Directors are given adequate time and at least seven days of notice for regular Board meetings. For all other meetings a reasonable notice period is given. |
| 12. Non-attendance of Directors | 3. (4) | Compliant | Such a situation had not been arisen in the Company. |
| 13. Board Secretary | 3. (5) | Compliant | Please refer Section A.1.4. of the CA Sri Lanka Code compliance table. |
| 14. Agenda and minutes of the meetings | 3. (6) and 3. (8) | Compliant | The Company Secretary prepares the agenda and keeps the minutes of meetings. |
| 15. Access to Secretary by Directors | 3. (7) | Compliant | All the Directors have access to the Secretary and records of Board meetings. |
| 16. Minutes of Board meetings shall be recorded in sufficient detail | 3.(9) | Compliant | Minutes of all meetings are duly recorded in sufficient detail and retained by the Company Secretary under the supervision of the Chairman. |

| Corporate governance principle | CBSL rule reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| **4. The Board's composition** | | | |
| 17. Number of Directors | 4. (1) | Compliant | The Board comprises 13 Directors. |
| 18. Subject to transitional provisions contained herein and subject to para 5. (1) of this direction, the total period of service of the Director other than a Director who holds the position of CEO of Executive Director shall not exceed nine years. | 4. (2) | Compliant | The total period of service of all Non-Executive Directors does not exceed the nine-year period. |
| 19. Appointment of an employee as a Director | 4. (3) | Compliant | The Company has six Executive Directors.<br>Mr E Karthik has been appointed as an Executive Director w.e.f. 1 July 2020. |
| 20. Independent Non-Executive Director | 4. (4) | Compliant | Four out of thirteen Directors are Independent Non-Executive Directors. |
| 21. Alternative Director | 4. (5) | Compliant | This situation has not been arisen. |
| 22. Credibility, skills and experience of Non-Executive Directors | 4. (6) | Compliant | Profiles of the Non-Executive Directors are included in this Annual Report. |
| 23. Presence of Non-Executive Directors in Board meetings | 4. (7) | Compliant | One half of the quorum was Non-Executive Directors in all meetings held. |
| 24. Details of Directors | 4. (8) | Compliant | Details of Directors are included in this Annual Report. Please refer pages 144 and 146. |
| 25. Appointment of new Directors | 4. (9) | Compliant | The Board collectively assesses the composition of the Board and makes appointments as necessary.<br>During the financial year 2019/20, an Independent Non-Executive Director Mr J R A Corera and a Non-Independent Non-Executive Director Mr J P Abhayaratne were appointed to the Board w.e.f. 16 May 2019 and 1 January 2020 respectively.<br>Further, Mr E Karthik was appointed to the Board w.e.f. 1 July 2020 as an Executive Director. |
| 26. Appointment to fill a casual vacancy | 4. (10) | Compliant | No such event occurred during the financial year 2019/20. |
| 27. Resignation/removal of a Director | 4. (11) | Compliant | During the financial year, Mr D H J Gunawardena retired on reaching 70 years of age on 9 September 2019. |
| **5. Criteria to assess the fitness and propriety of Directors** | | | |
| 28. Directors over 70 years of age | 5. (1) | Compliant | During the financial year, Mr D H J Gunawardena retired on reaching 70 years of age on 9 September 2019. |
| 29. Holding in office in more than 20 companies | 5. (2) | Compliant | No Director holds such positions. |
| **6. Management function delegated by the Board** | | | |
| 30. Delegation of work to the management and review of delegation process | 6. (1) and 6. (2) | Compliant | The Board annually evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions. |
| **7. The Chairman and Chief Executive Officer** | | | |
| 31. Division of responsibilities of the Chairman and MD/CEO | 7. (1) | Compliant | The roles of the Chairman and the Chief Executive Officer are separated. |

| Corporate governance principle | CBSL rule reference | Compliance status | CDB's level of compliance |
|---|---|---|---|
| 32. Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented term of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report. | 7. (2) | Compliant | Chairman is a Non-Executive Director. Nevertheless, the Board designated Prof A S Dharmasiri (Independent Non-Executive Director) as the Senior Director. |
| 33. Relationship between Chairman and CEO and other Directors | 7. (3) | Compliant | There are no material relationships between the Chairman/the CEO and/or other members of the Board which will impair their respective roles. |
| 34. Role of the Chairman | 7. (4) to 7.(10) | Compliant | Please refer Section A.3 of the CA Sri Lanka Code compliance table. Further refer page 163. |
| 35. Role of the Chief Executive Officer | 7.(11) | Compliant | Please refer section A.2.1 of the CA Sri Lanka Code of compliance table. Further refer page 163. |
| **8. Board appointed committees** | | | |
| 36. Board appointed two subcommittees. | 8. | Compliant | Audit Committee and Integrated Risk Management Committee are functioning as per the requirements of this direction. |
| **9. Related party transactions** | | | |
| 37. Avoiding conflict of interest in related party transactions and favourable treatment | 9. (2) to 9. (4) | Compliant | Steps have been taken by the Board to avoid any conflict of interests, that may arise, in transacting with related parties as per the definition of this Direction and Sri Lanka Accounting Standard- LKAS 24 on "Related Party Transactions". Further, the Board ensures that there are no related party benefits from favourable treatment. Further, all the related party transactions (if any) are reviewed by the BRPTR Committee. |
| **10. Disclosures** | | | |
| 38. Financial reporting, statutory and regulatory reporting | 10. (1) | Compliant | Financial Statements for the year ended 31 March 2020 are in conformity with all rules and regulatory requirements and also published in the newspapers in all three languages. |
| 39. Minimum disclosure in the Annual Report | 10. (2) | Compliant | All required disclosures have been made in the Annual Report. Please refer pages 151 to 196. |
| **11. Transitional provisions** | | | |
| 40. Transitional and other general provisions | 11. (1) to 11. (6) | Compliant | The Company has complied with transitional provisions when applicable. |

## Report on compliance with the rules on the content of the Annual Report according to Section 7.6 of the Listing Rules of the Colombo Stock Exchange (Listing rules)

Colombo Stock Exchange (CSE) Listing Rules aim to boost the confidence of investors of the companies by requiring the companies to publish accurate information on a timely basis to evaluate companies and help investors to make wise decisions on investing. These rules also depict governance rules which should be adhered to by all listed companies. Level of compliance by CDB with such rules is highlighted in the following table:

| Rule No. | Disclosure requirement | Section reference | Page reference |
|---|---|---|---|
| 7.6 (i) | Name of persons who held the positions of Directors during the financial year | Annual Report of the Board of Directors | 186-192 |
| 7.6 (ii) | Principal activities of the Entity and its subsidiaries during the year and any changes therein | Notes to the Financial Statements – Reporting Entity<br>Annual Report of the Board of Directors | 214-317<br>186-192 |
| 7.6 (iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentages of such shares held | Investor Capital | 114-126 |
| 7.6 (iv) | The public holding percentage | Investor Capital | 120 |
| 7.6 (v) | A statement of each Director's and Chief Executive Officer's shareholding and the percentage of such shares held | Annual Report of the Board of Directors | 186-192 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors of the Entity | Risk Management Report | 128-142 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations of the Entity | N/A | N/A |
| 7.6 (viii) | Extent, locations, valuations, and the number of buildings of the Entity's land holdings and investment properties | Notes to the Financial Statements | 214-317 |
| 7.6 (ix) | Number of shares representing the Entity's stated capital | Annual Report of the Board of Directors,<br>Investor Capital | 214-317<br>114-126 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings | Investor Capital | 120 |
| 7.6 (xi) | Ratios and market price information:<br>Equity<br>Debt<br>Any changes in credit rating | Investor Capital | 114 |
| 7.6 (xii) | Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value | Notes to the Financial Statements | 214-317 |
| 7.6 (xiii) | Details of funds raised through Public Issues, Rights and Private Placements during the year | Investor Capital | 119 |
| 7.6 (xiv) | Information in respect of Employee Share Option Schemes and Employee Share Purchase Schemes | N/A | N/A |
| 7.6 (xv) | Disclosure pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Rules | Corporate Governance | 176-177 |
| 7.6 (xvi) | Disclosure on related party transactions exceeding 10% of the equity or 5% of the total assets whichever is lower, of the Entity as per the latest Audited Financial Statements. | Refer Notes to the Financial Statements in relation to related party transactions. Further, refer page 177 for compliance with section 9. | |

## Compliance Requirements on Corporate Governance Rule 7.10 of the Listing Rules

The Continuing Listing Rule Section 7.10 of the Colombo Stock Exchange (CSE) mandates companies listed on the Colombo Stock Exchange to publish a table in the Annual Report, confirming that as at the date of the Annual Report they comply with the corporate governance rules. The rule addresses the following areas;

A. Non-Executive Directors,

B. Independent Directors,

C. Disclosures relating to Directors,

D. Remuneration Committee,

E. Audit Committee.

| Rule reference | Requirement | Compliance status | Details |
|---|---|---|---|
| 7.10.1 (a) | Two or one third of the Directors, whichever is higher, should be Non-Executive Directors | Compliant | For the FY 2019/20, seven of the twelve Directors were Non-Executives (NED), which is more than the requirement of the rule. |
| 7.10.2 (a) | Two or one third of Non-Executive Directors, whichever is higher, should be independent | Compliant | For the FY 2019/20 four out of seven Non-Executive Directors are Independent. |
| 7.10.2 (b) | Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format | Compliant | All Non-Executive Directors submitted the requisite declarations during the year under review. |
| 7.10.3 (a) | Names of Independent Directors should be disclosed in the Annual Report | Compliant | Please refer Annual Report of the Board of Directors on pages 186 to 192. |
| 7.10.3 (b) | In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report | N/A | No such determination was required to be made by the Board, as all the Independent Directors of the Company met the specified criteria. |
| 7.10.3 (c) | A brief résumé of each Director should be published in the Annual Report including the areas of expertise | Compliant | Please refer pages 144 to 146 for Directors profiles. |
| 7.10.3 (d) | A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public | Compliant | During the financial year 2019/20, an Independent Non-Executive Director Mr J R A Corera and Non-Independent Non-Executive Director Mr J Abeyrathna were appointed to the Board w.e.f. 16 May 2019 and 1 January 2020 respectively. Further, Mr E Karthik was appointed to the Board on 1 July 2020 as an Executive Director. |
| 7.10.5 | A listed company shall have a Remuneration Committee | Compliant | Refer the Remuneration Committee Report on page 182 for disclosure on the names of the Remuneration Committee members and the Remuneration Policy of the Company. |
| 7.10.5 (a) | The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher | Compliant | Refer the Remuneration Committee Report on page 182 for disclosure on the names of the Remuneration Committee members. |
| 7.10.5 (b) | Functions of the Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors | Compliant | Refer the Remuneration Committee Report on page 182 for disclosure on the names of the Remuneration Committee members and the Remuneration Policy of the Company. |
| 7.10.5 (c) | The Annual Report shall set out: | | |
| | (i) The names of the Directors that comprise the Remuneration Committee | Compliant | Refer the Remuneration Committee Report on page 182 for disclosure on the names of the Remuneration Committee members. |
| | (ii) A statement of Remuneration Policy | Compliant | Refer the Remuneration Committee Report on page 182 for disclosure on the names of the Remuneration Committee members and the Remuneration Policy of the Company. |
| | (iii) Aggregate remuneration paid to Executive and Non-Executive Directors | Compliant | Please refer page 284 on Key Management Personnel (KMP) compensation. |

| Rule reference | Requirement | Compliance status | Details |
|---|---|---|---|
| 7.10.6 | A listed company shall have an Audit Committee | Compliant | Refer Board Audit Committee Report on pages 178 to 179. |
| 7.10.6 (a) | The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher | Compliant | The Audit Committee comprised three Non-Executive Directors of whom all were independent. |
| | The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings | Compliant | Both the Chief Executive Officer and the Chief Financial Officer attended the Audit Committee meetings by invitation. |
| | The Chairman or one member of the Committee should be a member of a recognised professional accounting body | Compliant | The Chairman of the Committee is a Member of The Institute of Chartered Accountants of Sri Lanka. |
| 7.10.6 (b) | The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules. | Compliant | Refer Board Audit Committee Report on pages 178 to 179. |
| 7.10.6 (c) | The Annual Report shall set out; | | |
| | The names of the Directors who comprise the Audit Committee | Compliant | Refer Board Audit Committee Report on pages 178 to 179. |
| | The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination | Compliant | Refer Board Audit Committee Report on pages 178 to 179. |
| | A report by the Audit Committee setting out the manner of compliance of the functions set out in Section 7.10 of the Listing Rules | Compliant | Refer Board Audit Committee Report on pages 178 to 179. |

## "Report on compliance with the rules on the content of the Annual Report in Section 9.3.2 of the Listing Rules of the Colombo Stock Exchange (Related Party Transactions)"

With the compulsory adoption of the Code of Best Practices on Related Party Transactions (RPT) – since January 2016 ("the Code") issued by the Securities and Exchange Commission of Sri Lanka, the Related Party Transactions Review Committee (RPTR) was established with the approval of the Board of Directors of CDB to ensure strict compliance with the rules and regulations governing related party transactions for listed entities.

| Rule No. | Disclosure requirement | Section reference | Page reference |
|---|---|---|---|
| 9.3.2 (a) | In the case of Non-recurrent Related Party Transactions, if aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets, whichever is lower, of the Listed Entity according to the latest Audited Financial Statements | Related Party Transaction Note in the Financial Statements | 284 |
| 9.3.2 (b) | In the case of Recurrent Related Party Transactions, if the aggregate value of the Recurrent Related Party Transactions exceeds 10% of the Net revenue/income as per the latest Audited Financial Statements | Related Party Transaction Note in the Financial Statements | 284 |
| 9.3.2 (c) | Annual Report shall contain a report compiled by the RPTR Committee including followings:<br>• Names of the Directors who are in the Committee<br>• Statement with regard to related party transactions reviewed during the financial year<br>• Number of times the Committee has met during the financial year<br>• Policies and procedures adopted by the RPT Committee<br>• Note on the summary of related party transactions for the FY 2019/20 presented to the Board. | BRPT Review Committee Report | 184 |

# Report of the Board audit committee

## Terms of reference of the committee

The scope and responsibilities of the Board Audit Committee emanates from its Terms of Reference which is periodically reviewed and revised with the concurrence of the Board of Directors. The process ensures that new developments and concerns are adequately addressed. The Terms of Reference of the Committee was last reviewed and approved by the Board in June 2019. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Board Audit Committee also assists the Board in its general oversight of financial reporting, internal controls and functions relating to internal and external audits.

## Role and responsibilities

The main objective of the Audit Committee is to assist the Board of Directors in exercising its fiduciary responsibilities towards its stakeholders. The Committee is empowered by the Board to:

(i) Ensure that the financial reporting system in place is effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities and other stakeholders.

(ii) Review the Annual Financial Statements and Interim Financial Statements prior to publication to ensure compliance with statutory and regulatory requirements, accounting standards and accounting policies which are consistently applied.

(iii) Evaluate the adequacy, effectiveness of Risk Management Systems and Internal Controls of the Company.

(iv) Assess the independence and review adequacy of the scope, functions and resources of the Internal Audit Department.

(v) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit process.

(vi) Ensure that sound corporate governance practices are upheld within the Company.

## Composition of the Board Audit Committee

The Audit Committee appointed by and responsible to the Board of Directors of Citizens Development Business Finance PLC consists of three Non-Executive Directors all of them are members of recognised professional bodies and possess wide ranging financial, commercial, and management experience. The biographical details of the members of the Audit Committee are set out in the Directors' profiles section of the Annual Report. Mr Razik Mohamed functions as the Chairman of the Audit Committee who is an Associate member of The Institute of Chartered Accountants of Sri Lanka.

## The Committee members as at 31 March 2020

- Mr Razik Mohamed: Independent, Non-Executive Director
- Prof A S Dharamasiri: Independent, Non-Executive Director
- Mr J R A Corera: Independent, Non-Executive Director (Appointed to the Committee w.e.f. 12 September 2019)

## Meetings

The Board Audit Committee held seven meetings during the period under review which included two meetings with the External Auditors without the presence of the Executive Directors and Management. The quorum for a meeting of the Committee is two Audit Committee members.

The Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and other Executive Directors attend meetings of the Committee by standing invitation. The Committee also invited members of the Senior Management of the Company to participate in the meetings from time to time on a need basis. The External Auditors also attend meetings whenever they are invited to be present.

The Head of Internal Audit functions as the Secretary to the Audit Committee. Proceedings of these meetings with adequate details of matters discussed are regularly reported to the Board.

The attendance of the Committee members at the meetings was as follows:

| Name of the Director | Eligibility | Attendance |
|---|---|---|
| Mr Razik Mohamed | 7 | 7 |
| Mr D H J Gunawardena | 4 | 4 |
| Prof A S Dharamasiri | 7 | 7 |
| Mr J R A Corera | 3 | 3 |

## Reporting to the Board

The minutes of the Committee meetings are tabled at Board meetings at least every quarter, enabling all Board members to have access to them.

## Activities in the financial year 2019/20

The Committee carried out the following activities:

### Financial reporting

The Committee reviewed the interim and year-end Financial Statements and obtained the approval of the Board, prior to their publication. These reviews facilitated the Committee to monitor compliance with SLFRSs/LKASs and the other regulations and also to ensure the integrity of the information provided to the Company's stakeholders.

The Committee reviewed the impact of adopting new accounting standards, the accounting treatment of significant risks and uncertainties and key estimates and judgements, material to the Company's financial reporting and whether disclosures made in the published Financial Statements were adequate and appropriate. Accordingly, the Committee closely monitored the implementation of the Sri Lanka Accounting Standard – SLFRS 16 on "Leases" issued by CA Sri Lanka which became effective from 1 January 2019.

The Committee encourages to continuously strengthen the processes, internal controls, management information system, risk management and reports required for validation and compliance in line with SLFRS 9 on "Financial Instruments".

### Internal control over financial reporting

In line with the Section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Company is required to comply the said direction and assess the effectiveness of the internal control over financial reporting as at 31 March 2020.

Internal Audit Department of the Company carried out a series of walk-through tests to establish their adequacy of documented processes and made appropriate recommendations where necessary. Based on the Internal Auditors' assessments, the Board has concluded that as at 31 March 2020, the Company's internal control over financial reporting was effective.

## Internal audit

The Committee approved the Internal Audit Plan for the financial year and also monitored and reviewed the scope, extent and effectiveness of the activities of the Internal Audit Department. The Committee also reviewed and monitored the progress of the Internal Audit Plan during the financial year, along with its resource requirements. The Committee has had sufficient interaction with the Head of Internal Audit throughout the year.

During the year the Committee also reviewed the audit reports covering matters pertaining to financial reporting, branches, departments, information system audits and special investigations and also followed up the implementation of audit recommendations. Audit findings presented in the reports were prioritised based on the level of risk involved. The Audit Committee advised the Corporate Management to take precautionary measures on significant audit findings. Internal audit reports were made available to the External Auditors as well.

## External Auditors

The Audit Committee assisted the Board in engaging the External Auditors for the audit service in compliance with regulatory provisions. The Committee also reviewed the non-audit services provided by the External Auditors to ensure that they do not lead to impairment of the External Auditors' independence and objectivity.

The Management Letter issued by the External Auditors in respect of the financial year ended 31 March 2019 was considered by the Committee and corrective action is being pursued wherever such action is warranted.

Prior to commencement of the annual audit, the Committee discussed with the External Auditors, their audit plan, audit approach, and matters relating to the nature and scope of the audit.

The Committee met the External Auditors on two occasions during the financial year without the Executive Directors and the Management being present, to ensure that there was no limitation of scope in relation to the Audit and to allow for full disclosure of any matters, which could have had a negative impact on the effectiveness of the external audit. The Committee concluded that there was no such cause for concern.

The Committee also reviewed the service period of the engagement of the External Audit Partner to ensure that it has not exceeded five years.

The Audit Committee having considered the independence and performance of the External Auditors KPMG (Chartered Accountants) recommend that they be reappointed as the Company's statutory auditors for the financial year ending 31 March 2021, subject to the approval of shareholders at the forthcoming Annual General Meeting.

## Statutory and regulatory compliance

The Committee reviewed the procedures established by Management for compliance with the requirements of the regulatory bodies. The Compliance Officer submitted a report to the Audit Committee on a quarterly basis, indicating the extent to which the Company was in compliance with mandatory statutory requirements. Due compliance with all requirements are monitored through this process. Further, Internal Audit Department of the Company performs the independent test checks on regulatory compliance requirements.

## Whistle-blowing Policy

The Company's Whistle-blowing Policy was put in place and all members of staff were educated and encouraged to resort to whistle-blowing if they had reasonable grounds to believe that there were wrong doings or other improprieties. All appropriate procedures are in place to conduct independent investigations into incidents reported through this process or if identified through other means. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. Even anonymous complaints are investigated. This process is monitored by the Board Audit Committee.

## Board Audit Committee evaluation

An independent evaluation of the effectiveness of the Committee was carried out by the members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Company, the Committee has been rated as highly effective.

## Appreciation

During the year, Mr D H J Gunawardena – Non-Executive Director resigned from the Committee as he ceased to be a member of the Director Board of the Company with effect from 9 September 2019, on reaching 70 years of age. The Committee wishes to thank Mr D H J Gunawardena for his valuable contribution over the years.

## Conclusion

Based on the review of reports submitted by the External and Internal Auditors, the information obtained by the Committee and after examination of the adequacy and effectiveness of the internal controls which have been designed to provide a reasonable assurance to Directors that the assets of the Company are safeguarded, the Audit Committee is satisfied that the financial position of the Company is regularly monitored and that steps are being taken to continuously improve the control environment in which the Company operates.

**Razik Mohamed**
Chairman

Board Audit Committee
15 July 2020
Colombo

# Report of the integrated risk management committee

Integrated Risk Management Committee (IRMC) lends a hand to the Board in fulfilling their oversight responsibilities with respect to deciding risk appetite and ensuring that significant risks are competently managed. It clearly sets out the membership, source of authority, duties, and responsibilities.

## Composition of the Board Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee comprises the following members:

- Mr Alastair Corera – Chairman, Independent Non-Executive Director (appointed with effect from 12 September 2019)
- Mr Razik Mohamed – Independent Non-Executive Director
- Mr Mahesh Nanayakkara – Executive Director /MD/CEO
- Mr Damith Tennakoon – Director/ Deputy CEO/CFO
- Mr Roshan Abeygoonewardena – Executive Director – Corporate Finance
- Mr Sasindra Munasinghe – Executive Director – Sales and Business Development
- Mr Dave De Silva – Executive Director – Business Operations
- Mr Heshan Bandara – (AGM – Risk) functions as Secretary to the Committee

## Charter of the Board Integrated Risk Management Committee

The Integrated Risk Management Committee was established as a Subcommittee of the Board in compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka.

## Governance of IRMC

The IRMC's governance structure comprises representatives from the Board, IRMC, Risk Management Division, Internal Audit and Compliance Division (refer pages 152 to 153 for the governance structure).

## Committee meetings and methodology

Four meetings were held during the financial year under review where the risk level of CDB was assessed. A monthly risk dashboard, covering key risks such as credit, operational, market, liquidity and strategic risks is tabled and discussed. The risk dashboard together with meeting minutes were referred to the Board on a quarterly basis.

## Attendance

| Name of the member | Meetings held | | | |
|---|---|---|---|---|
| | 03.07.2019 | 08.10.2019 | 06.12.2019 | 10.03.2020 |
| Mr Alastair Corera* | | | √ | √ |
| Mr Razik Mohamed | √ | √ | √ | √ |
| Mr Mahesh Nanayakkara | √ | √ | √ | √ |
| Mr Damith Tennakoon | √ | √ | √ | √ |
| Mr Roshan Abeygoonewardena | √ | √ | √ | √ |
| Mr Sasindra Munasinghe | √ | √ | √ | √ |
| Mr Dave De Silva | √ | √ | √ | √ |

**Appointed with effect from 12 September 2019*

## Committee activities during the financial year

### Trigger points

Trigger points were discussed at the quarterly meetings and was changed to reflect the prevailing context.

### Reporting risks

43 risk areas were reported via the ERP system (SmartOps) which is the mechanism which was introduced by Risk Management Division with the help of IT division making it possible especially for operational level employees to escalate various risk they identify in their day-to-day work. This was carried out with a rewards framework which has immensely contributed to the establishment of a strong risk reporting culture.

### New products/processes/proposals

New products/processes which were introduced during the year were referred to the Risk Management Division and the same were evaluated from the risk perspective in order to ensure that all risk areas with regard to that particular process/product are addressed.

### Risk monitoring

Exceptional reports generated via the Oracle database were used for risk monitoring purpose and during the financial year seven new exceptional reports were developed covering various processes to identify suspicious transactions and procedure violations.

### Updates from committees

The Committee also reviewed updates from the management committees which were also involved in risk management namely Asset-Liability Committee, and Credit Committee.

### Board reporting

The Board was updated on a regular basis on the performance of identified risk indicators and prudential limits defined and approved by the Board.

### Stress testing

Stress testing was done to assess the appropriateness of the trigger points for the next quarter/ financial year and to reflect the prevailing business context.

### Committee evaluation

The Committee evaluates its performance annually and was satisfied that it had functioned effectively in the past year.

**Alastair Corera**
Chairman
Integrated Risk Management Committee

15 July 2020
Colombo

# Report of the nomination committee

GRI 102-24

## Composition of the Committee

The Board appointed Nomination Committee consists of a majority of Non-Executive Directors and is chaired by a Non-Executive Director. The members of the Committee have wide range of experience and knowledge of the business acumen.

Committee members are:

- Mr P A J Jayawardena (Chairman /Non-Executive Director)
- Mr C M Nanayakkara (Executive Director)
- Mr S R Abeynayake (Non-Executive Independent Director)

## Independence of the Committee

The Committee is independent of the Management and is totally free from any business, personnel or any other relationships that may interfere in making independent judgements.

## Terms of reference of the Committee

- Identify and recommend suitable candidates as Directors to the Board considering succession plan and requirement of the Board and its subsidiary companies.
- Regularly review the structure, size and composition of the Board.
- Ensure the Board consists of persons possessing a good knowledge, experience and entrepreneurial skills to advance the effectiveness of the Board.
- Review the Charter for the appointment and reappointment of Directors to the Board and recommend amendments wherever necessary.

## Key functions performed during the year under review:

- Considered and promoted Board diversity and effectiveness,
- Evaluated and recommended changes to the Board where necessary,
- Evaluated and recommended the suitable internal and external candidates to higher levels of the Management,
- Abiding by the principles of good governance and recommended best practices.

## New appointments to the Board during the financial year

- Committee recommended to appoint Mr J P Abhayaratne as an Non-Executive Director subject to Central Bank of Sri Lanka Approval.

## Meetings

The Committee formally met once during the year under review.

## The year ahead

The Committee would continue to propose policies and best practices to attract and retain the best talent to the Company by providing them fair and equal opportunities.

**P A J Jayawardena**
Chairman
Nomination Committee

15 July 2020
Colombo

# Report of the remuneration committee

GRI 102-35, 102-36

## Composition of the Committee

The Board appointed Remuneration Committee consists of a majority of Independent Non-Executive Directors and is chaired by a Non-Executive Director. The members of the Committee have wide range of experience and knowledge of the business and industry.

Committee members are:

- Mr S R Abeynayake Chairman (Non-Executive Director)
- Mr Razik Mohamed (Non-Executive Independent Director)
- Prof Ajantha Dharmasiri (Non-Executive Independent Director)

## Independence of the Committee

The Committee is independent of the Management and is totally free from any business, personnel or any other relationships that may interfere in making independent judgements.

## Company remuneration policy

Company's remuneration policy aims to recruit, retain and motivate high calibre personnel at Board and Executive levels who possess appropriate professional, managerial and operational expertise required to achieve Company's short-term and long-term objectives. The remuneration policy attempts to guarantee that the total remuneration package is sufficiently competitive to attract the best spirit for the Company.

The Company's remuneration framework has been designed, incorporating the newly developed Human Resource Information System to enhance value for stakeholders of Company as well as to align the inspiration of the executives with the short and long-term interests of the Company. In designing competitive compensation packages, the policy is to appreciate and reward high performers while consciously balancing the short-term performance with medium to long-term commitment to the Company.

## Purpose

Remuneration Committee recommends adoption of a market-oriented remuneration policy for its staff and ensure the selection of the best talent and create incentives for staff for their performance and loyalty. The Committee also reviews the recruitment, evaluation of employee performance, incentive schemes, bonus policy of the Company, rewarding and promotions policy of the Senior Management and Executive Officers of the Company. The succession plan policy in place and its effectiveness is critically evaluated by the Committee. The Committee evaluates the performance of the CEO and Key Management Personnel against predetermined set targets and goals to determine the basis for recommending the basis for rewarding, increments and other benefits.

It considers such other matters relating to remuneration policies or practices as the Board, may from time to time bring to its attention of the Committee.

Further the Committee consciously evaluates the appropriateness of the current remuneration policy adopted by the Company for its suitability and appropriateness.

## Key functions performed during the year under review

- Recommended revision of remuneration packages based on performance, cost of living and comparative industry norms,
- Evaluate and recommended the individual remuneration packages of Managing Director/CEO and Executive Directors,
- Abiding by the principles of good governance and recommended best practices.

## Meetings

The Committee formally met once during the year under review. The Chief Executive Officer and Chief Financial Officer attend meetings by invitation and assist in there by providing relevant information. However, they were not involve in their own compensation packages or other matters relating to them reviewed.

## The year ahead

The Committee would continue to propose remuneration policies and best practices to attract and retain the best talent to the Company.

**Ranga Abeynayake**
Chairman
Remuneration Committee

15 July 2020
Colombo

# Report of the credit committee

The Credit Committee of the Company will direct the Company's credit strategy, credit policy and other lending guidelines in order to achieve the Company's overall corporate strategy.

## Composition of the Committee

The Board appointed Credit Committee consists of Executive Directors chaired by MD/CEO. The members of the Committee have a wide range of expertise and knowledge in credit management. The Committee consists of the following members:

- Mr Mahesh Nanayakkara – Managing Director/ Chief Executive Officer
- Mr Damith Tennakoon – Director/Deputy CEO/CFO
- Mr Dave De Silva – Executive Director – Business Operations
- Mr Roshan Abeygoonewardena – Executive Director – Corporate Finance
- Mr Sasindra Munasinghe – Executive Director – Sales and Business Development

## Company credit policy

The Board of Directors have approved the credit policy of the Company, where all product guidelines and exposure limits have been highlighted. The credit policy of the Company is the communication tool of the Company's credit strategy and the objective of which is to ensure the credit quality of the Company's credit portfolio is at its highest.

## Main responsibilities of the Credit Committee

- Overseeing the credit management of the Company including reviewing of internal credit policies.
- Analysis and review of credit control techniques and external risks associated with credit policies of the Company.
- Provide credit guidance and conduct a more intensive and comprehensive credit analysis when necessary.
- Review and approve credit proposals in line with Board approved credit policies and standards, where required recommended credit requests for Board approval.
- Ensure compliance of all regulatory and statutory requirements prescribed by regulatory and supervisory authorities.
- Set lending directions based on the current economic environment.
- Ensure post credit monitoring and post reviews are performed where necessary.

## Accountability of the Credit Committee

Accountability of Credit Committee can be delivered through the minutes of Credit Committee meeting, circulated decision-memorandum, and periodic Credit Committee reports.

## Methodology used by Credit Committee

- The Committee approves credit proposals based on limits set by the Board. Credit proposals and other credit reports intended for Board approval are examined.
- Credit proposals are evaluated in line with the Company's risk appetite and credit policies.
- Members of the Corporate Management of the Company are invited to participate at the meetings as and when required.
- Monitor the resulting shifts in the composition and the quality of the portfolio and recommended new exposure limits for each sectors/product lines as appropriate.

## Committee meetings

Meetings are taken up quarterly to review overall credit strategy of the Company. All other meetings were conducted to review and approve credit proposals recommended by the Management.

## Activities during 2019/20

The Committee approved the credit proposals and other specific reports which prerequisite the approval of the Board in line with the credit policies and credit risk appetite of the Company in order to ensure the efficient and effective performance over the credit direction of the Company.

## Focus for 2020/21

- Maintaining a healthy credit book while enabling the risk appetite.
- Proactive risk management, strengthen internal controls and management information systems with respect to credit aspects of the Company.
- Continuous monitoring on the adherence to Board approved credit policy.

**W P C M Nanayakkara**
Chairman
Credit Committee

15 July 2020
Colombo

# Report of the Board related party transactions review committee

GRI 102-25

The Board established the Board Related Party Transactions Review Committee (BRPTRC) in terms of the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (the "Code") and Section 9 of the Listing Rules of the Colombo Stock Exchange (the "Rules"). The Board Related Party Transactions Review Committee comprises two Independent-Non Executive Directors and two Executive Directors. The following Members serve on the Committee:

The Committee as at the end of the financial year 2019/20 consisted of the following members:

- Mr Razik Mohamed
  (Committee Chairman/Independent Non-Executive Director)
- Prof Ajantha Dharmasiri
  (Independent Non-Executive Director)
- Mr Damith Tennakoon
  (Director/Deputy Chief Executive Officer/Chief Financial Officer)
- Mr Roshan Abeygoonewardena
  (Director – Corporate Finance)

The above composition is in compliance with the provisions of the Code regarding the composition of the Board Related Party Transactions Review Committee.

## Objectives

This Committee's primary objectives are to:

- Consider, review, evaluate and provide oversight of related party transactions of all types and to approve, ratify, disapprove or reject a related party transaction.
- Determine whether the related party transaction is fair and in the best interest of CDB.
- Review, revise, formulate and approve policies on related party transactions.
- At least once a year conduct a review of all related party transactions concluded throughout the Group.

In carrying out its mandate the BRPTRC must at least consider the following matters:

**Transaction and transacting parties:** the nature and scope and identity of all the parties involved in the transaction or relationship in order to determine whether it is a related party transaction or not.

**Related party:** a full description of the nature, extent and scope of the related party's interest in the transaction including the related party's position or relationship with, or ownership in, a company, partnership or other legal entity that is party to or has an interest in the transaction.

**Terms and conditions:** whether the terms of the transaction or relationship are not less favourable than terms generally offered to an unrelated third party given the same facts and circumstances.

**Purpose and rationale:** consideration must be given to the business purpose, timing, rationale and benefits of the transaction or relationship.

**Value:** the monetary value of the related party's interest in the transaction must be accurately ascertained.

**Valuation method:** the method used to determine the value of the transaction.

Scope of the Committee includes:

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures;
- Reviewing in advance all proposed related party transactions of the Company except those explicitly exempted in the Code under Rule 27;
- Determining whether related party transactions that are to be entered into by the Company require the approval of the Board or shareholders of the Company;
- If related party transactions are "recurrent in nature" the Committee establishes set of guidelines for Senior Management as explain in the Code to follow in its ongoing dealings with the relevant related party.
- Ensuring that no Director of the Company shall participate in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the related party transaction to the Committee.
- If there is any potential conflict in any related party transaction, the Committee may recommend the creation of a special committee (including independent consultant if necessary) to review and approve the proposed related party transaction.
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the Code are made in a timely and detailed manner.

## Meetings

During 2019/20 the Committee held four (4) meetings. Attendance by the Committee members at each of these meetings is given in the table on page 185 of the Annual Report.

## Review of transactions for the financial year 2019/20

All related party transactions that had taken place during 2019/20 were reviewed by the BRPTR. There were no non- recurrent or recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange. Further, all the related party transactions which occurred during the financial year are disclosed in the audited financial statements and reported to Board on 20 May 2020. Please refer page 284 for RPTs published in the Note 47 to the Financial Statements.

## Declaration

A declaration by the Board of Directors in the Annual Report as a negative statement that no related party transaction falling within the ambit of the Listing Rules was entered into by the Company during 2019/20 is given on page 192 of the Annual Report.

**Razik Mohamed**
Chairman
Board Related Party Transactions Review Committee

15 July 2020
Colombo

## Committee meetings

The attendance of the members of the Committee was as follows for the FY 2019/20:

| Name of the Directors/KMPs | Designation | Total Number of meetings eligible to attend | Number of meetings attended |
|---|---|---|---|
| Mr Razik Mohamed | Committee Chairman/Independent Non-Executive Director | 4 | 4 |
| Prof Ajantha Dharmasiri | Independent Non-Executive Director | 4 | 4 |
| Mr Damith Tennakoon | Director/Deputy Chief Execute Officer/ Chief Financial Officer | 4 | 4 |
| Mr Roshan Abeygoonewardena | Director – Corporate Finance | 4 | 4 |

# Annual Report of the Board of Directors

## General

The Directors of Citizens Development Business Finance PLC have pleasure in presenting to the shareholders this report together with the Audited Financial Statements and Audited Group Financial Statements for the year ended 31 March 2020 of the Company and the Group together with the Auditors' Report on those Financial Statements, confirming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and amendments thereto and the Directions issued on the same. The details set out herein provide appropriate information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Direction No. 03 of 2008 (Finance Companies – Corporate governance) issued under the Finance Business Act No. 42 of 2011 and subsequent amendments thereto, disclosure requirements under the Listing Rules of the Colombo Stock Exchange and recommended best practices on corporate governance. This report was approved by the Board of Directors on 15 July 2020.

## Overview of the Company

The Citizens Development Business Finance PLC (CDB) is a licensed finance company registered under the Finance Business Act No. 42 of 2011 and was incorporated as a public limited liability company on 7 September 1995 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 under the Company Registration Number PB 232 PQ. The Company is registered under the Finance Leasing Act No. 56 of 2000 and also approved Credit Agency registered under Mortgage Act No. 56 of 2000.

The ordinary voting shares and ordinary non-voting shares of the Company are quoted on the Main Board of the Colombo Stock Exchange.

The registered office of the Company is at No. 123, Orabipasha Mawatha, Colombo 10, at which the Company's Head Office is also situated.

## Vision, purpose, and corporate conduct

The Company's vision and purpose are given on page 14. In achieving its vision and purpose, all Directors, Management and employees conduct their activities to the highest level of ethical standards and integrity as set out in the Code of Ethics.

## Principal activities of the Company and its subsidiary

### Company – Citizens Development Business Finance PLC

The principal activities of the Company continue to be finance business and related activities such as accepting term and savings deposits, leasing, hire purchase, loan facilities, gold loan,foreign exchange, foreign remittances, issuance of international debit cards, credit cards, margin trading, Islamic finance products and other financial services. There have been no significant changes in the nature and main business activities of the Company and the Group during the year under review.

### Subsidiaries

CDB Finance PLC has two subsidiaries as at 31 March 2020. Names of the subsidiaries and their principal business activities areas tabulated below:

| Entity | Principal business activities |
|---|---|
| Fortune Properties Limited (Formerly known as CDB Micro Finance Limited) | Fortune Properties Limited (Formerly known as CDB Micro Finance Limited) is a fully-owned subsidiary of CDB and it was established for the purpose of accommodating micro credit facilities. However, since January 2009, there has not been any business operations.<br>Registration Number PB 3296 |
| Unisons Capital Leasing Limited | Unisons Capital Leasing Limited (UCL) is registered under the Finance Leasing Act No. 56 of 2000 and was incorporated as a public limited liability company on 24 August 1991 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.<br>Registration Number 589<br>However, this company has merged with Citizens Development Business Finance PLC with effect from 18 May 2020 in line with Non-Bank Financial Institutions consolidation plan initiated by Central Bank of Sri Lanka. |

## Changes to the Group structure

Unisons Capital Leasing Limited (UCL) is being merged with Citizens Development Business Finance PLC with effect from 18 May 2020. Management intends to merge Fortune Properties Limited as well and expect to complete the merge process within this financial year. There were no changes to the Group structure during the financial year ended 31 March 2020 other than mentioned above.

## Review of operations

A review of Company's business and its performance during the year with comments on financial results and future developments contained in the Chairman's Review on pages 9 to 11 and the Managing Director's Review on pages 12 to 13 and the Management Discussion on pages 42 to 126 and Financial Review on pages 198 to 317 present an overall appraisal of the business operations, financial performance and the overall financial position of the Company and the Group.

## Growth expectations

Company will have an advantage in the post COVID business environment with our emerging strategy focussing on digital and e-commerce platforms, coupled with our unique brand positioning strategy and sustainability focus. However, it is little early to comment on specific growth targets at this point considering the on going global health crisis.

## Financial Statements of the Company and the Group

The Financial Statements of the Company and the Group, which are duly certified by the Chief Financial Officer and approved by the Audit Committee and the Board of Directors and signed by the Chairman and the Managing Director as per the requirements of the Companies Act No. 07 of 2007 and appear on pages 198 to 317.

## Directors' responsibility for financial reporting

The Directors are responsible for the preparation of the Financial Statements of the Company and the Group and for ensuring that the Financial Statements have been presented in accordance with the Sri Lanka Accounting Standards and to provide the information required by the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. The Directors are of the view that the Financial Statements appearing on pages 198 to 317 have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and amendments thereto.

The Statement of Directors' Responsibility for Financial Reporting appearing on page 193 forms an integral part of this Report.

## Auditors' report

The Company's Auditors, Messrs KPMG performed the audit on the Consolidated Financial Statements for the year ended 31 March 2020, and the Auditors' Report issued thereon is given on pages 202 to 205 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

## Accounting policies and changes during the year

The Financial Statements for the year ended 31 March 2020 are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs). The significant accounting policies adopted in the preparation of the Financial Statements of the Group and the Company is given on pages 198 to 317. The Group has consistently applied accounting policies as set out in these Financial Statements, except for changes arising out of transition to SLFRS 16 – "Leases".

## Review of the financial performance during the year

The Chairman's Statement, Chief Executive Officer's Report and the Management Discussion and Analysis give details of the operations of the Company and the Group, and key strategies that were adopted during the year under review.

## Financial results

### Income

Interest income represents the Company's main income. The total income for the year 2019/20 and 2018/19 were as follows:

| | Company | | Group | |
|---|---|---|---|---|
| Year ended 31 March | **2020 Rs. Mn.** | 2019 Rs. Mn. | **2020 Rs. Mn.** | 2019 Rs. Mn. |
| **Composition** | | | | |
| Revenue | **16,654** | 16,240 | **17,363** | 16,921 |
| Interest Income | **15,029** | 14,175 | **15,637** | 14,682 |
| Non-interest income | **1,625** | 2,065 | **1,726** | 2,239 |
| Total operating income | **7,892** | 7,292 | **8,365** | 7,736 |

Details are given in the Income Statements of the Financial Statements.

## Profit and appropriations

| | Company | | Group | |
|---|---|---|---|---|
| Year ended 31 March | **2020 Rs. Mn.** | 2019 Rs. Mn. | **2020 Rs. Mn.** | 2019 Rs. Mn. |
| Profit before tax | **2,069** | 2,111 | **2,272** | 2,236 |
| Provision for taxation | **357** | 401 | **435** | 428 |
| Net profit | **1,712** | 1,710 | **1,837** | 1,808 |
| Non-controlling interest | **–** | – | **12** | 10 |
| Total other comprehensive income | **23** | 74 | **23** | 74 |
| Total comprehensive income | **1,735** | 1,640 | **1,860** | 1,728 |
| Retained earnings brought forward | **5,420** | 4,213 | **5,399** | 4,279 |
| Profit available for appropriation | **1,774** | 1,640 | **1,887** | 6,007 |
| **Appropriations** | | | | |
| Statutory Reserve Fund (SRF) Fair value reserve transfer | **94** | 342 | **100** | 336 |
| Dividend paid | **339** | 271 | **339** | 272 |
| Balance carried forward | **6,581** | 5,240 | **6,847** | 5,399 |

## Income tax expense

The income tax rate applicable to the Company for the year 2019/20 is 28% (2018/19 – 28%). The Company is also subject to tax on value added on financial services at the rate of 15 %. (2018/19 – 15%).

The information on income tax expenses of the Company and Group is given in Note 15 to the Financial Statements on pages 230 to 231.

## Proposed dividends on ordinary shares

The Company has not proposed any dividend for the financial year ended 31 March 2020, considering the prevailing economic conditions due to COVID-19 Pandemic.

## Reserves

A summary of Company and Group reserves is given below. The information on the composition and movement of reserves is given in the Statement of Changes in Equity on pages 208 to 211.

| | Company | | Group | |
|---|---|---|---|---|
| Year ended 31 March | **2020 Rs. Mn.** | 2019 Rs. Mn. | **2020 Rs. Mn.** | 2019 Rs. Mn. |
| **Composition** | | | | |
| Revaluation reserve | **578** | 578 | **578** | 578 |
| Statutory reserve fund (SRF) | **1,749** | 1,663 | **1,754** | 1,663 |
| Retained profit | **6,581** | 5,240 | **6,847** | 5,399 |
| Fair value reserve | **(30)** | – | **(30)** | – |
| Total | **8,878** | 7,481 | **9,149** | 7,640 |

## Minimum capital requirement

The Company ensures that it maintains the statutory requirement on minimum capital, to mitigate the liquidity, credit and other associate risks and safeguard the depositors, thus ensuring the sustainability of the Company and the industry as a whole. The information on minimum capital requirement is given on page 317 of this Annual Report.

## Capital expenditure

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Group and the Company amounted to Rs. 825 Mn. and Rs. 826 Mn. respectively. (2018/19 Group: Rs. 390 Mn. Company: Rs. 387 Mn. Details are given in Notes 28 and 29 to the Financial Statements.

## Market value of freehold property

All freehold land of the Company were revalued by a professionally qualified independent valuer as at 31 March 2019, and not performed external independent valuation as at 31 March 2020. However, the Directors are of the opinion that the revalued amounts are in line with of the current market values of such properties and no indications to identify significant changes to fair values as at 31 March 2020. The details of the freehold properties owned by the Company are given in Note 15 to the Financial Statements.

## Stated capital and debentures

The stated capital of the Company as at 31 March 2020 was 2,350,362,616 consisting of ordinary voting shares of 59,449,080 and ordinary non-voting shares of 10,343,668 (2018/19 – Rs. 1,185,061,645/- consisting of ordinary voting shares of 46,299,223 and ordinary non-voting shares of 8,005,984).

The issued debentures of the Company as at 31 March 2020 was Rs. 5,002,970,000/- consisting of 50,029,700 debentures at Rs. 100/-. (2018/19 – Rs. 3,000,000,000/- consisting of 30,000,000) debentures at Rs. 100/-. The movement of the debentures for the financial year is disclose in Financial Statement Note 35.1 on page 270.

## Share information

Information relating to earnings, dividend, net assets, market value per share, trading of the shares and movement in number of shares of the entity is given in the Investor Relation section on pages 114 to 126.

## Shareholding

There were 1,872 registered voting shareholders and 1,736 non-voting shareholders as at 31 March 2020. The details of Top Twenty Shareholders, public holding, analysis of distribution of shareholders and market information of the shares are given under the Investor Capital section on pages 114 to 126 of this Annual Report.

Information relating to earnings, dividend, net assets per share, and market value per share are given in Financial Highlights on page 4.

## Equitable treatment to all shareholders

The Company has no restrictions with regard to shareholders carrying out analysis or obtaining independent advice regarding their investment in the Company and has made all endeavours to ensure equitable treatment to all the shareholders.

## Information on Directors of the Company and the Group

The Board of Directors of the Company as at this report date, comprised 13 Directors with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the "Board of Directors" – Profiles' on pages 144 to 146 of this Annual Report.

Names of the persons holding office as Directors of the Company at the reporting date and the names of persons who ceased to hold office as Directors of the Company during the year, as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

### Directors holding office as at the reporting date

| Name | Date of appointment | Other information |
|---|---|---|
| Mr S R Abeynayake | 01.01.2012 | Chairman/Non-Executive Director |
| Mr W P C M Nanayakkara | 01.02.2004 | Executive Director/Chief Executive Officer/Managing Director |
| Mr T M D P Tennakoon | 01.04.2011 | Executive Director/Deputy Chief Executive Officer/Chief Financial Officer |
| Mr R H Abeygoonewardena | 01.04.2011 | Executive Director – Corporate Finance |
| Prof Ajantha Dharmasiri | 01.02.2012 | Non-Executive Independent Director/Senior Director |
| Mr D A De Silva | 01.01.2012 | Executive Director – Business Operations |
| Mr P A J Jayawardena | 26.10.2011 | Non-Executive Director |
| Mr Razik Mohamed | 01.07.2012 | Non-Executive Independent Director |
| Mr S V Munasinghe | 01.04.2011 | Executive Director – Sales and Business Development |
| Senior Prof S P P Amarathunga | 20.10.2016 | Non-Executive Independent Director |
| Mr J R A Corera | 16.05.2019 | Non-Executive Independent Director |
| Mr E Karthik | 01.07.2020 | Executive Director/Chief Officer Corporate Affairs |
| Mr J P Abhayarathne | 01.01.2020 | Non-Executive Director |

Names of persons who ceased to hold office as Directors of the Company during the year,

Mr D H J Gunawardena former Chairman and Non-Executive Director retired upon reaching age of 70 on 9 September 2019 in line with Corporate Governance Direction No. 03 of 2008 issued by Central Bank of Sri Lanka.

## Re-election of Directors by rotation

In terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company, Mr S R Abeynayake, and Senior Prof S P P Amarathunga, retires by rotation and being eligible, offer themselves for re-election at the Annual General Meeting as a Director.

In terms of Articles 24 (2) of the Articles of Association of the Company, Mr J P Abeyrathne and Karthik Elangovan retires by rotation and being eligible, offer themselves for re-election at the Annual General Meeting as a Director.

Names of the Directors of the subsidiary companies of Fortune Properties Limited (Formerly known as CDB Micro Finance Limited and Unisons Capital Leasing Limited as at 31 March 2020.

| Subsidiary | Name | Other information |
|---|---|---|
| Fortune Properties Limited | Mr T M D P Tennakoon | Non-Executive Director |
| | Mr S V Munasinghe | Non-Executive Director |
| Unisons Capital Leasing Limited (Merged with CDB w.e.f. 18 May 2020) | Mr W P C M Nanayakkara | Chairman /Non-Executive Director |
| | Mr R H Abeygoonewardena | Non-Executive Director |
| | Mr S V Munasinghe | Non-Executive Director |
| | Mr Elangovan Karthik | Executive Director/Chief Executive Officer |
| | Dr J P Wanasapura | Non-Executive Independent Director |
| | Ms R Perera | Non-Executive Independent Director |

## Register of Directors and secretaries

As required under Section 223 (1) of the Companies Act, the Company maintains a Register of Directors and Secretaries which contains information of each Director and the Secretary.

## Board Subcommittees

The Board of Directors while assuming the overall responsibility and accountability for the management of the Company has also appointed Board Subcommittees to ensure oversight and control over certain affairs of the Company, conforming to Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka issued under the Finance Business Act No. 42 of 2011 and adopting the best practices accordingly.

## Board Subcommittee composition

| | |
|---|---|
| Audit Committee | Mr Razik Mohamed<br>*Chairman/Non-Executive Independent Director*<br>Prof Ajantha Dharmasiri<br>*Member – Non-Executive Independent Director*<br>Mr J R A Corera<br>*Member – Non-Executive Independent Director*<br>Mr D H J Gunawardena<br>Former *Chairman/Non-Executive Director held the position of audit Committee Chairman until his retirement date of 9 September 2019* |
| Integrated Risk Management Committee | Mr J R A Corera<br>*Chairman/Non-Executive Independent Director*<br>Mr Razik Mohamed<br>*Member – Non-Executive Independent Director*<br>Mr D A De Silva<br>*Member – Executive Director*<br>Mr W P C M Nanayakkara<br>*Member – Executive Director*<br>Mr R H Abeygoonewardena<br>*Member – Executive Director*<br>Mr S V Munasinghe<br>*Member – Executive Director*<br>Mr T M D P Tennakoon<br>*Member – Executive Director* |
| Remuneration Committee | Mr S R Abeynayake<br>*Chairman/Non-Executive Director*<br>Mr Razik Mohamed<br>*Member – Non-Executive Independent Director*<br>Prof Ajantha Dharmasiri<br>*Member – Non-Executive Independent Director* |
| Nomination Committee | Mr P A J Jayawardena<br>*Chairman/Non-Executive Director*<br>Mr S R Abeynayake<br>*Member – Non-Executive Director*<br>Mr W P C M Nanayakkara<br>*Member – Executive Director* |

| | |
|---|---|
| Credit Committee | Mr W P C M Nanayakkara<br>*Chairman/Executive Director*<br>Mr R H Abeygoonewardena<br>*Member – Executive Director*<br>Mr S V Munasinghe<br>*Member – Executive Director*<br>Mr T M D P Tennakoon<br>*Member – Executive Director*<br>Mr D A De Silva<br>*Member – Executive Director* |
| Related Party Transactions Review Committee | Mr Razik Mohamed<br>*Chairman/Non-Executive Independent Director*<br>Prof Ajantha Dharmasiri<br>*Member – Non-Executive Independent Director*<br>Mr R H Abeygoonewardena<br>*Member – Executive Director*<br>Mr T M D P Tennakoon<br>*Member – Executive Director* |

## Directors meetings

The details of Directors meetings which comprise Board meeting and Board Subcommittee meetings and the attendance of Directors at these meetings are given in Corporate Governance section of the Annual Report.

## The interest register of the Company and Directors interests in contracts or proposed contracts

## The interest register of the Company

The Interest Register is maintained by the Company as required by the Companies Act No. 07 of 2007. All Directors have made declarations as required by Section 192 (1) and (2) of the Companies Act No. 07 of 2007. All related entries were made in the Interest Register for the year under review. Information pertaining to Directors' interest in transactions, their remuneration and their share ownership are disclosed in the Interest Register. The Interest Register is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

## Directors' interests in contracts or proposed contracts

Directors' interests in contracts or proposed contracts with the Company both direct and indirect are disclosed on pages 284 and 287 under the Related Party Transactions. These interests have been declared at Directors' meeting. As a practice, Directors have refrained from voting on matters in which they have an interest. Directors have no direct or indirect interest in any other contracts or proposed contracts with the Company.

## Related party transactions

Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standards - LKAS 24 "Related Party Disclosures" which is adopted in preparation of the Financial Statements. This disclosure is given in Note 47 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

## Directors' dealings in shares and debentures

Directors' interest in ordinary voting/ non-voting shares of the Company

| Name | Voting | | Non-Voting | |
|---|---|---|---|---|
| | **31.03.2020** | 31.03.2019 | **31.03.2020** | 31.03.2019 |
| Mr S R Abeynayake | **–** | – | **–** | – |
| Mr P C M Nanayakkara | **2,401,240** | 1,870,099 | **56** | 44 |
| Mr R H Abeygoonewardena | **1,307,437** | 1,029,500 | **162,503** | 7.579 |
| Dr Ajantha Dharmasiri | **–** | – | **–** | – |
| Mr D A De Siva | **117,550** | – | **–** | – |
| Mr P A J Jayawardena | **513** | 500 | **22** | 22 |
| Mr Razik Mohamed | **–** | – | **–** | – |
| Mr S V Munasinghe | **1,316,247** | 1,025,100 | **–** | – |
| Mr T M D P Tennakoon | **1,371,039** | 946,240 | **141,165** | 7,262 |
| Senior Prof S P P Amarathunge | **–** | – | **–** | – |
| Mr J R A Corera | **22,649** | 17,840 | **10,335** | 10,000 |
| Mr J P Abhayaratne | **–** | – | **–** | – |
| Mr Karthik Elangovan | **503,972** | – | **429,500** | – |

## Directors' interest in debentures

Following Director has subscribed for Company debentures as indicated below as at 31 March 2020.

Mr R H Abeygoonewardena Rs. 4 Mn. (31 March 2019 – Rs. 4 Mn.)

Except for above there were no debentures registered in the name of other Directors as at 31 March 2020.

## Directors interest in shares and debentures of subsidiaries

There were no debentures registered in the name or any Director as at 31 March 2020 or any or its subsidiaries.

## Remuneration and other benefits of Directors

Remuneration and other benefits of Directors in respect of the Company and the Group for the financial year ended 31 March 2020 are given in Note 47 to the Financial Statements on page 284 to 287 as required by the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

## Employment

The Company employment policies are based on recruiting the best people, providing them training to enhance their skills, recognition of distinctive skills and competencies of each individual while offering equal career opportunities regardless of gender, race or religion and to retain them with the Company as long as possible. The number of persons employed by the Company as at 31 March 2020 was 1,789.

## Human resources

The strategies practiced by the Human Resources team has ensured efficient, effective and productive workforce. The Human Resources team encourages employees to discuss operational and strategic issues with their line management and to make suggestions which would improve the Company's performance.

## Performance management

The process has implement to Evaluating the contribution of our employees enables us to reward our people for superior performance and identify and address their development needs. The Company approach to performance management is to ensure that employees have common understanding of the Company's strategy and how it integrate to business units and individual goals.

## Succession planning and talent management

Succession planning and talent management should be treated as continuous practice whereby management and Board prepared for transitions at any time at a multiple level throughout the Company. This includes not only the Key Management Personnel level but also their direct reporting lines and other critical positions.

## Environmental protection

Company has not engaged in any activities detrimental to the environment. The Company applies very high standards to protect and nurture the environment in which it operates and ensures strict adherence to all environment laws and practices.

## Statutory reporting and payments

### Statutory payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.

### Statutory reporting and payments

The Directors to the best of their knowledge and belief are satisfied that all reporting relating to the Government and other regulatory institutions have been reported up to date. The Directors to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and other regulatory institutions and related to the employees have been made on time.

## Outstanding litigation

The Directors to the best of their knowledge and belief confirm that the litigation currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company.

## Events occurring after the reporting date

All material events occurring after the Reporting date reconsidered and where necessary, adjusted to or disclosed in the Financial Statements.

## Going concern

The Board of Directors after considering the financial position, operating conditions, regulatory and other factors has a reasonable expectation that the Company and its subsidiary possess adequate resources to continue its operations without any disruption in the foreseeable future. Accordingly, the Financial Statements of the Company and its subsidiary are prepared based on the going concern concept.

## The total amount of expenses paid in respect of corporate social responsibility (CSR) activities and donations by the Company and the Group Company

During the year, the Company has made donations amounting to Rs. 29.6 Mn. for its CSR activities in terms of the resolution passed at the last Annual General Meeting.

## Subsidiaries

During the year under review, Fortune Properties Limited as well as Unisons Capital Leasing Limited has not made any donations.

This information forms an integral part of the Report of the Directors as required by Section 168 (1) (g) of the Companies Act No. 07 of 2007.

## Significant shareholdings in other organisations other than subsidiaries

The Company continues to hold the 3.19 % shareholding in Ceylinco Insurance PLC. Details are given in the Note 25 to the Financial Statements.

## Risk management and internal control

### Risk management

The Directors have established a comprehensive risk management framework which identifies the risks faced by the Company, evaluates the impact of the risks and mitigates the risks. The Directors review this process through the Audit Committee and the Risk Management Committee.

### Internal control

The Board of Directors has established an effective internal control which ensures that the assets of the Company are safeguarded and appropriate systems are in place to minimise and detect fraud, errors, and other irregularities. The system ensures that Company adopts procedures which results in financial and operational effectiveness and efficiency.

### Corporate governance

The Board of Directors are dedicated in maintaining an effective corporate governance framework, which ensures that the Company complies with the Code of Best Practices on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka, the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Directors declare that –

(a) the Company complied with all applicable laws and regulations in conducting its business,

(b) The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested,

(c) The Company has made all endeavours to ensure the equitable treatment of shareholders,

(d) The business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors have reviewed the business plans and are satisfied that the Company has adequate resources to continue its operations in the near future, and

(e) Have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence herewith.

## Compliance with laws and regulations

The Company and the Group have not engaged in any activity contravening the relevant laws and regulations. The Compliance Officer is responsible for ensuring compliance with the provisions in various laws and regulations and confirm such compliance to the Board on monthly basis.

There are no significant orders/concerns passed by the Regulators/Courts which would impact the going concern status of the Company and its future operations.

## Disclosure on the Affairs of the Company Related Party Transactions

Section 7.6 (xvi) of CSE Listing Rules There are no related party transactions which exceed 10% of the equity or 5% of the total assets, whichever is lower, and the Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions. However, the Directors have disclosed the transactions that could be classified as related party transactions which are adopted in the presentation of the Financial Statements and accordingly given in Note 47 on pages 284 to 287 of this Annual Report and the summary of the said transactions carried out during the financial year is presented to the Board on 20 May 2020.

## Appointment of auditors

The Financial Statements for the year ended 31 March 2020 have been audited by Messrs KPMG, Chartered Accountants who offer themselves for reappointment. The retiring Auditors Messrs KPMG, Chartered Accountants have signified their willingness to continue in office and a resolution relating to their reappointment and authorising Directors to fix their remuneration as recommended by the Board will be proposed at the forthcoming Annual General Meeting.

The Board further confirms that the retiring Auditors, KPMG Chartered Accountants are listed in the approved panel of External Auditors in terms of the guideline issued by the Monetary Board of Central Bank of Sri Lanka under Section 30 (2) of the Finance Business Act No. 42 of 2011.

The Auditors have been paid a fee of Rs. 6.4 Mn. as audit fee for the year ended 31 March 2020 which has been approved by the Board. The Directors recommend their reappointment.

## Notice of the meeting

Notice relating to 24th Annual General Meeting of the Company is enclosed herewith.

## Acknowledgements of the contents of the report

The Board of Directors does hereby acknowledge the contents of this Annual Report as per the requirement of Section 168 (1) (k) of the Companies Act No. 07 of 2007.

Signed in accordance with the resolution adopted by the Directors.

By Order of the Board,

**Ranga Abeynayaka**
Chairman

**W P C M Nanayakkara**
Managing Director/Chief Executive Officer

*(sgd.)*
**SSP Corporate Services (Pvt) Limited**
Company Secretary

15 July 2020
Colombo

# Statement of Directors' responsibility

The responsibility of the Directors in relation to the Financial Statements of the Citizens Development Business Finance PLC (Company) and the Consolidated Financial Statements of the Company and its Subsidiaries (Group) are set out in the following statement. The responsibility of the Auditors in relation to the Financial Statements is set out in the Report of the Auditors given on pages 202 to 205.

These Financial Statements are prepared in compliance and conformity with the requirements of the following rules, regulations, and guidelines.

- Companies Act No. 07 of 2007;
- Finance Business Act No. 42 of 2011;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Listing Rules of the Colombo Stock Exchange;
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka; and
- Directions, Rules, Determinations, Notices, and Guidelines issued under the Finance Business Act No. 42 of 2011 by the Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka.

In preparing these Financial Statements, the Directors are required to ensure that –

- The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained;
- The Financial Statements are presented in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs);
- Reasonable and prudent judgements and estimates have been used so that the form and substance of transactions are appropriately reflected;
- These Financial Statements provide the information required by and otherwise comply with the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

In terms of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that the Company and the Group keep proper books of accounts and prepare Financial Statements that give true and fair view of the state of affairs of the Company and the Group as at the end of each Financial year and of the Statement of Income of the Company and the Group for each financial year and place them before General Meeting.

The Financial Statements comprise the Statement of Financial Position, Statement of Comprehensive Income, and Statement of Changes in Equity, Cash Flow Statement and the Notes to the Financial Statements. The Directors have taken reasonable measures to safeguard the assets of the Company and the Group and to prevent and detect frauds and other irregularities. Accordingly, the Directors have taken steps to establish appropriate systems of internal controls comprising of internal audit reviews, risk assessment tests and financial and other controls to mitigate, prevent and detect fraud and other irregularities.

Further, the Board of Directors wishes to confirm that the Company has met requirements under the Section 7 of the continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange where applicable.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue.

The Company's External Auditors Messrs KPMG were reappointed, in terms of the Companies Act No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting. They carried out reviews, and sample checks on the system of internal controls as they considered required and appropriate and necessary for expressing an opinion on the Financial Statements and internal controls. They were provided with every opportunity to undertake the inspections they considered appropriate.

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiary, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiary, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the reporting date have been paid or where relevant, provided.

The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors, reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operation for the foreseeable future. Accordingly, we continue to adopt the going concern basis in preparing the Financial Statements.

By Order of the Board,

**Ranga Abeynayake**
Chairman

**W P C M Nanayakkara**
Managing Director

15 July 2020
Colombo

# Directors' statement on internal control over financial reporting

## Requirement

In line with the Section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, and Principle D1.5 of Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka, the Board of Directors presents this report on Internal Control mechanisms of Citizens Development Business Finance PLC ("the Company") over Financial Reporting.

## Responsibility

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the Internal Controls in place at Citizens Development Business Finance PLC ("the Company"). However, such a system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the business objectives and policies of the Company. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of Internal Controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board in accordance with the guidance for Directors of the Company on the "Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka. As per the said guidance, significant processes affecting significant accounts of the Company were assessed along with the key areas of the Company.

The Board is of the view that the system of Internal Control over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

## Key features of the process adopted in applying and reviewing the design and effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Establishment of Board Subcommittees to assist the Board in ensuring the effectiveness of the Company's day to day operations and to ensure that all such operations are carried out in accordance with the corporate objectives, strategies and the annual budget as well and the policies and business directions that have been approved.
- Policies /Procedures are developed covering all functional areas of the Company and these are approved by the Board or Board – approved committees. Such policies and procedures are reviewed and approved periodically.
- Internal Audit Department of the Company checks for compliance with policies and procedures and the effectiveness of the Internal Control system on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. The annual audit plan is reviewed and approved by the Board Audit Committee. Audits are carried out on majority of departments/ units and branches. The frequency of these audits are determined by the level of risk assessed. The findings of the audits are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Company reviews Internal Control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The Board Audit Committee reviews the effectiveness of internal audit functions with particular emphasis on the scope of audits and the quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a quarterly basis. Further, details of the activities undertaken by the Board Audit Committee are set out in the Board Audit Committee Report of this Annual Report.
- The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Company.
- Operational Committees have also been established with appropriate empowerment to ensure effective management and supervision of the Company's core areas of the business operations. These Committees include the Assets and Liability Management Committee, Credit Committee, Treasury Committee and Information Technology Steering Committee.

In assessing the Internal Control System over Financial Reporting, identified officers of the Company were assigned to collate all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.

The Company has early adopted SLFRS 9 – "Financial Instruments" which issued in 2014 with a date of initial application of 1 April 2017. Since adoption of this standard, progressive improvements on processes to comply with new requirements of classification, estimation of expected credit losses and disclosure were made whilst, further strengthening of processes will take place pertaining to expected credit loss estimation and financial statement disclosures.

The Company also adopted Sri Lanka Accounting Standard – SLFRS 16 "Leases" which became effective for the financial reporting periods beginning on or after 1 January 2019.

Further, adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to this new standard.

The Comments made by the External Auditors in connection with internal control system over financial reporting in previous year were reviewed during the year and appropriate steps have been taken to implement the recommendations.

## Confirmation

Backed by the internal audit, system audit and Risk Management Division's continued review and verification of the suitability and effectiveness of pre-existing procedures and controls, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide a reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards, and comply with regulatory requirements including the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

## Review of the statement by external auditors

The External Auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control over Financial Reporting for the year ended 31 March 2020 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control System over Financial Reporting of the Company. Their independent assurance report on the "Directors' Statement on Internal Control over Financial Reporting" is given on page 196 of this Annual Report.

By order of the Board

**Ranga Abeynayake**
Chairman

**Razik Mohamed**
Chairman – Audit Committee

**W P C M Nanayakkara**
Managing Director/CEO

**T M D P Tennakoon**
Director/Deputy CEO/Chief Financial officer

15 July 2020
Colombo

# Auditor's assurance report on the Directors' statement on internal control

KPMG
(Chartered Accountants)
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The Board of Directors of Citizens Development Business Finance PLC

## Report on the Directors' statement on internal control

We were engaged by the Board of Directors of Citizens Development Business Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 March 2020.

## Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008, by the Institute of Chartered Accountants of Sri Lanka.

## Our independence and quality control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Auditor's responsibilities

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the License Finance Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that the auditor's plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

## Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

(a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

(b) Reviewed the documentation prepared by the Management to support their Statement made.

(c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.

(c) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

(f) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on the auditor's judgment, having regard to the auditor's understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

## Auditor's conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process, the Board of Directors have adopted in the review of the design and effectiveness of internal control of the License Finance Company.

**Chartered Accountants**

Colombo, Sri Lanka
15 July 2020

# 06 – FINANCIAL REPORTS

**Historic moments of ignition:** Inventing the computer

**Similar to how this machine eventually amplified our ability to compute complex calculations, our investment in digital infrastructure has contributed to our sustained financial performance.**

We continued to record a resilient performance against a backdrop of challenging and volatile geopolitical and economic conditions. The sustained financial performance is a testament of our strong financial acumen, investments in digital infrastructure, extensive network and exemplary team.

# Financial Calendar

**Dividend Payments**

| | |
|---|---|
| Final dividend for the year ended 31 March 2019 paid on | Monday, 30 September 2019 |

| | 2019/20 | 2020/21 (Proposed) |
|---|---|---|
| **Audited Financial Statements and Annual General Meeting (AGM)** | | |
| Audited Financial Statements | **Wednesday, 15 July 2020** | Tuesday, 1 June 2021 |
| Annual General Meeting | **Monday, 31 August 2020** | Wednesday, 30 June 2021 |
| **Interim Financial Statements to CSE*** | | |
| Quarter ended 30 June | **Tuesday, 13 August 2019** | Wednesday, 12 August 2020 |
| Quarter ended 30 September | **Thursday, 17 October 2019** | Wednesday, 11 November 2020 |
| Quarter ended 31 December | **Wednesday, 12 February 2020** | Friday, 12 February 2021 |
| Quarter ended 31 March | **Friday, 29 May 2020** | Friday, 28 May 2021 |

** In terms of the Rule 7.4 of the CSE and as per the requirements of the Central Bank of Sri Lanka.*

| | Newspaper | 2019 | 2020 (Proposed) |
|---|---|---|---|
| **Six Months Financial Statements**** | | | |
| Year ended 31 March (Audited) | Lankadeepa | **Saturday, 3 August 2019** | Tuesday, 28 July 2020 |
| | Virakesari | **Saturday, 3 August 2019** | Tuesday, 28 July 2020 |
| | DailyFT | **Saturday, 3 August 2019** | Tuesday, 28 July 2020 |
| Six months ended 30 September (Unaudited) | Lankadeepa | **Wednesday, 27 November 2019** | Monday, 23 November 2020 |
| | Virakesari | **Wednesday, 27 November 2019** | Monday, 23 November 2020 |
| | DailyFT | **Wednesday, 27 November 2019** | Monday, 23 November 2020 |

*** In terms of the requirements in Direction No. 2 of 2006, Central Bank of Sri Lanka.*

Friday, 29 May 2020
**Unaudited Financial Statements**

Wednesday, 15 July 2020
**Audited Financial Statements**

Tuesday, 28 July 2020
**Audited Financial Statements published on Newspapers**

Monday, 31 August 2020
**Annual General Meeting**

Wednesday, 12 August 2020
**Quarterly Financial Statements**

Wednesday, 11 November 2020
**Quarterly Financial Statements**

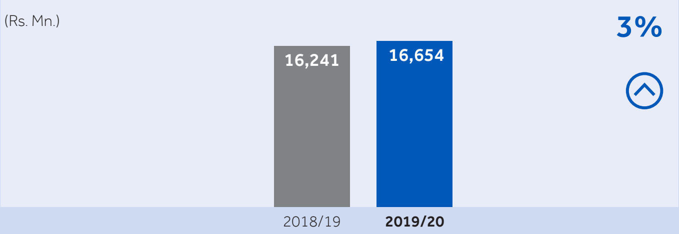
Friday, 12 February 2021
**Quarterly Financial Statements**

Friday, 28 May 2021
**Quarterly Financial Statements**

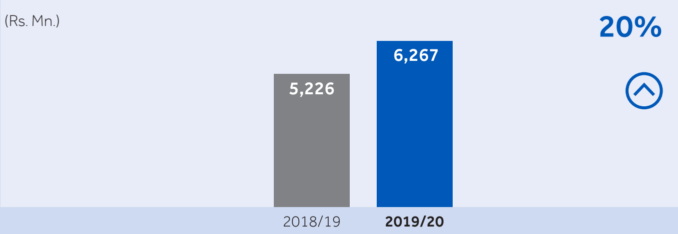
# Financial Statements – Table of Contents

# Highlights

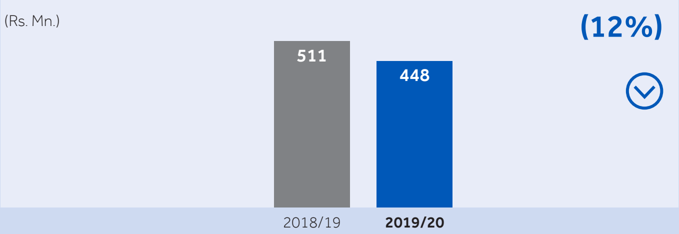
### Revenue



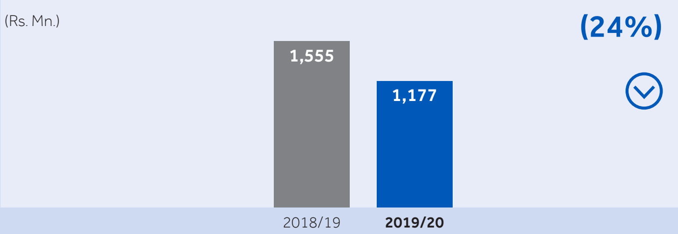
### Net interest income



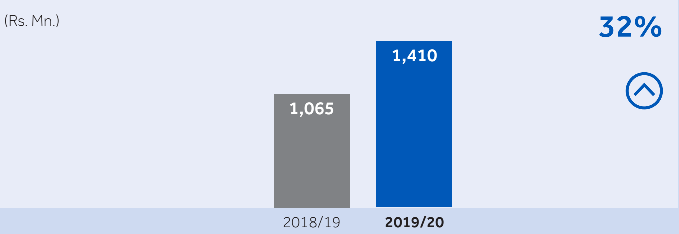
### Fee and commission income



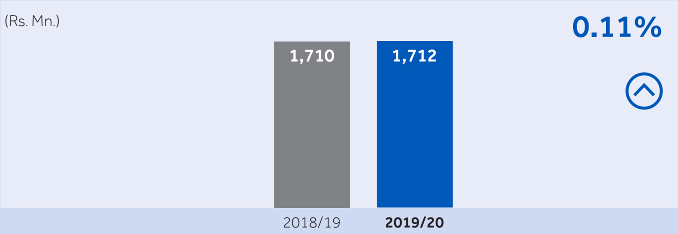
### Other operating income



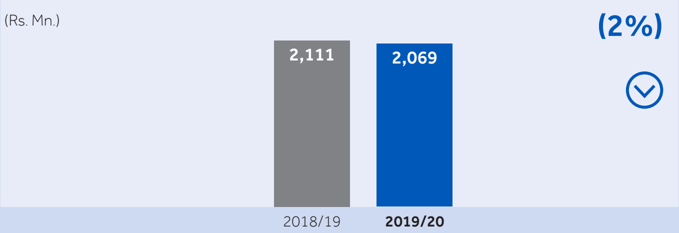
### Impairment charges



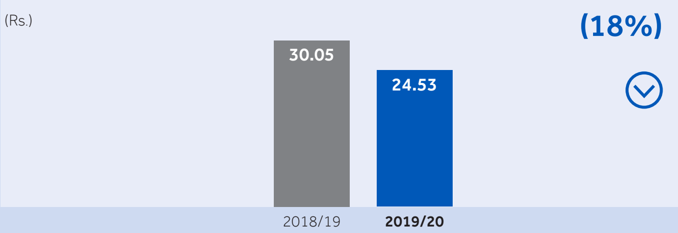
### Profit after tax



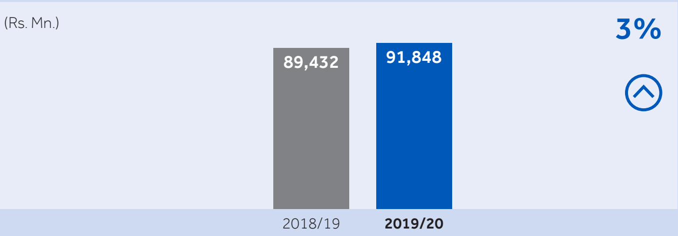
### Profit before tax



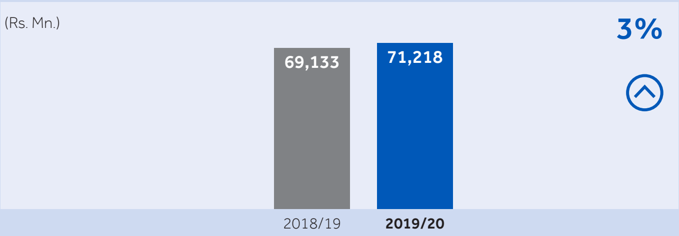
### Basic earnings per share



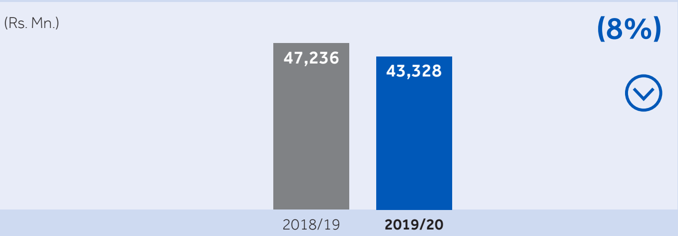
## Total assets



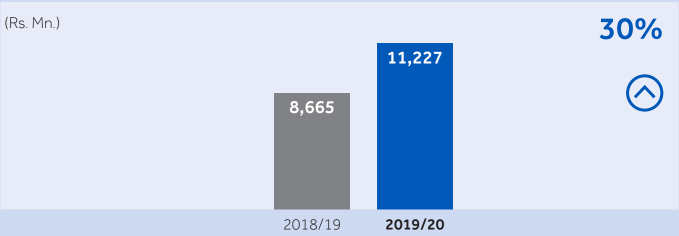
## Loans and advances to customers



## Deposits from customers



## Equity



## Interest income – Product wise

## Loans and receivables – Product wise

# Independent Auditor's Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

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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 31 March 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 31 March 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 judgement, 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.

#### Loans and receivables to customers

#### Expected credit loss allowance

| Risk Description | Our Responses |
|---|---|
| Impairment of loans and receivables to customers is a subjective area due to the level of judgment applied by management in determining impairment allowances.<br>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.<br>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.<br>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 audit procedures included:<br>• 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;<br>• Challenging the validity of the models used and assumptions adopted in Group or Company calculation of the impairment allowances by critically assessing:<br>– Input parameters involving management judgment;<br>– the overdue statistical data for the loan and receivable portfolios; and<br>– Historical loss parameters used.<br>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:<br>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;<br>Re-performing credit assessments for the selected impaired loans and receivables by assessing the forecast of recoverable cash flows through inquiry, applying judgement and our own research. We evaluated the timing and means of realisation 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;<br>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 | Our Responses |
|---|---|
| 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.<br>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 audit procedures included:<br>We used our own IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included:<br>• 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;<br>• Examining the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required;<br>• 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;<br>• 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.<br>• 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;<br>• 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 | Our Responses |
|---|---|
| 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.<br>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.<br>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 audit procedures included:<br>● 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.<br>● 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.<br>● 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.<br>● 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.<br>● 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.

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 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 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

# Statement of Profit or Loss and Other Comprehensive Income

| For the year ended 31 March | Note | COMPANY | | GROUP | |
|---|---|---|---|---|---|
| | | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| **Revenue** | 8 | 16,653,775 | 16,240,520 | 17,362,985 | 16,920,793 |
| Interest income | 9.1 | 15,028,927 | 14,174,517 | 15,636,833 | 14,681,763 |
| Less: Interest expense | 9.2 | 8,762,019 | 8,949,018 | 8,998,331 | 9,184,258 |
| **Net interest income** | 9 | 6,266,908 | 5,225,499 | 6,638,502 | 5,497,505 |
| Fee and commission income | 10 | 448,071 | 510,937 | 499,996 | 681,984 |
| Other operating income | 11 | 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 | 12 | 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 | 13.1 | 1,648,127 | 1,354,366 | 1,651,422 | 1,413,444 |
| Premises, equipment and establishment expenses | 13.2 | 1,823,277 | 1,717,375 | 1,876,438 | 1,808,013 |
| Other expenses | 13.3 | 520,346 | 552,112 | 553,031 | 617,663 |
| **Total operating expenses** | 13 | 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 | 14 | 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 | 15 | 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**<br>**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.) | 16 | 24.53 | 30.05* | 26.15 | 31.60* |

The Notes to the Financial Statements on pages 214 to 317 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

** Earnings per share for the year ended 31 March 2019 has been restated considering the effect of Rights Issue and the Scrip Dividend (Refer Note 16).*

# Statement of Financial Position

| | | COMPANY | | GROUP | |
|---|---|---|---|---|---|
| As at 31 March | Note | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| **Assets** | | | | | |
| Cash and cash equivalents | 20 | 1,347,303 | 1,093,874 | 1,391,919 | 1,189,251 |
| Financial assets measured at fair value through profit or loss (FVTPL) | 21 | 56,442 | 1,687,004 | 56,442 | 1,727,013 |
| Loans and receivables to banks | 22 | 3,671,353 | 3,094,312 | 3,691,374 | 3,195,205 |
| Deposits with financial institutions | 23 | 4,387,464 | 6,719,704 | 4,387,464 | 6,719,704 |
| Loans and receivables to customers | 24 | 71,218,455 | 69,133,049 | 72,422,827 | 71,582,081 |
| Other investment securities | 25 | 2,319,634 | 1,313,861 | 2,362,194 | 1,319,177 |
| Investment in subsidiaries | 26 | 509,918 | 509,918 | – | – |
| Investment property | 27 | 20,198 | 20,198 | 20,198 | 20,198 |
| Property, plant and equipment | 28 | 2,938,155 | 2,369,187 | 2,950,554 | 2,384,016 |
| Intangible assets | 29 | 80,146 | 82,791 | 92,837 | 97,838 |
| Right-of-use assets | 30 | 840,868 | – | 840,868 | – |
| Goodwill on consolidation | 31 | – | – | 244,180 | 244,180 |
| Other assets | 32 | 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 | 33 | 60,440 | 363,153 | 60,440 | 363,153 |
| Deposits from customers | 34 | 43,327,576 | 47,236,367 | 43,305,775 | 47,222,578 |
| Debt securities issued | 35 | 5,092,096 | 3,980,483 | 5,092,096 | 3,980,483 |
| Other interest-bearing borrowings | 36 | 26,675,062 | 24,509,877 | 27,505,136 | 26,473,852 |
| Lease liabilities | 30 | 804,390 | – | 804,390 | – |
| Current tax liabilities | 37 | 1,519,031 | 556,748 | 1,603,146 | 633,142 |
| Deferred tax liabilities | 38 | 650,401 | 1,357,419 | 609,271 | 1,336,061 |
| Retirement benefit obligation | 39 | 28,931 | 7,369 | 28,931 | 7,681 |
| Other liabilities | 40 | 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 | 41 | 2,350,363 | 1,185,062 | 2,350,363 | 1,185,062 |
| Reserves | 42 | 2,295,877 | 2,240,486 | 2,301,336 | 2,240,471 |
| Retained earnings | 43 | 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 | 44 | – | – | 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.)** | 45 | 160.86 | 159.57 | 164.76 | 162.50 |
| **Contingencies and commitments** | 46 | 503,323 | 269,613 | 503,323 | 269,613 |

The Notes to the Financial Statements on pages 214 to 317 form an integral part of these Financial Statements.

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

**C M Nanayakkara**
Managing Director/CEO

15 July 2020
Colombo

# Statement of Changes in Equity

## COMPANY

| | Stated Capital Rs. '000 |
|---|---|
| **Balance as at 31 March 2018** | 1,185,062 |
| Total comprehensive income for the year 2018/19 | |
| Profit for the year | |
| Other comprehensive income for the year | |
| Net change in revaluation surplus: (Refer Note 42.1) | |
| Increase in revaluation surplus | |
| Less: Deferred tax on revaluation surplus | |
| Net actuarial gain/(loss) on defined benefit plan (Refer Note 39) | |
| **Total comprehensive income for the year 2018/19** | – |
| **Transactions with equity holders of the Company** | |
| Dividends to equity holders for the year – 2017/18 | |
| Transfers during the year (Refer Note 42.2) | |
| **Total transactions with equity holders** | – |
| **Balance as at 31 March 2019** | 1,185,062 |
| **Balance as at 1 April 2019** | **1,185,062** |
| **Total comprehensive income for the year 2019/20** | |
| Profit for the year | |
| Rights issue | **1,019,356** |
| Other comprehensive income for the year | |
| Equity investments at FVOCI – Net change in fair value | |
| Net actuarial gain/(loss) on defined benefit plan (Refer Note 39) | |
| **Total comprehensive income for the year 2019/20** | **1,019,356** |
| **Transactions with equity holders of the Company** | |
| Dividends to equity holders for the year – 2018/19 – Cash | |
| Dividends to equity holders for the year – 2018/19 – Scrip | **145,945** |
| Transfers during the year (Refer Note 42.2 and 42.3) | |
| **Total transactions with equity holders** | **145,945** |
| **Balance as at 31 March 2020** | **2,350,363** |

The Notes to the Financial Statements on pages 214 to 317 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

| Reserves | | | | |
|---|---|---|---|---|
| Revaluation Reserve Rs. '000 | Fair Value Reserve Rs. '000 | Statutory Reserve Fund Rs. '000 | Retained Earnings Rs. '000 | Total Equity Rs. '000 |
| 432,995 | – | 1,320,873 | 4,213,469 | 7,152,399 |
| | | | 1,710,193 | 1,710,193 |
| 200,804 | | | | 200,804 |
| (56,225) | | | | (56,225) |
| | | | (70,242) | (70,242) |
| 144,579 | – | – | 1,639,951 | 1,784,530 |
| | | | (271,526) | (271,526) |
| | | 342,039 | (342,039) | – |
| – | – | 342,039 | (613,565) | (271,526) |
| 577,574 | – | 1,662,912 | 5,239,855 | 8,665,403 |
| **577,574** | **–** | **1,662,912** | **5,239,855** | **8,665,403** |
| | | | 1,712,137 | 1,712,137 |
| | | | | 1,019,356 |
| | (38,726) | | | (38,726) |
| | | | 62,061 | 62,061 |
| – | (38,726) | – | 1,774,198 | 2,754,828 |
| | | | (169,703) | (169,703) |
| | | | (169,703) | (23,758) |
| | 8,510 | 85,607 | (94,117) | – |
| – | 8,510 | 85,607 | (433,523) | (193,461) |
| 577,574 | (30,216) | 1,748,519 | 6,580,530 | 11,226,770 |

## GROUP

| | Stated Capital Rs. ’000 |
|---|---|
| **Balance as at 1 April 2018** | 1,185,062 |
| Total comprehensive income for the year 2018/19 | |
| Profit for the year | |
| Other comprehensive income for the year | |
| Net change in revaluation surplus: (Refer Note 42.1) | |
| Increase in revaluation surplus | |
| Less: Deferred tax on revaluation surplus | |
| Net actuarial gain/(loss) on defined benefit plan (Refer Note 39) | |
| **Total comprehensive income for the year 2017/18** | – |
| **Transactions with equity holders of the Company** | |
| Dividends to equity holders for the year – 2017/18 | |
| Transfers during the year (Refer Note 42.2) | |
| **Total Transactions with equity holders** | – |
| **Balance as at 31 March 2019** | 1,185,062 |
| **Balance as at 1 April 2019** | **1,185,062** |
| **Total comprehensive income for the year 2019/20** | |
| Profit for the year | |
| Rights issue | **1,019,356** |
| Other comprehensive income for the year | |
| Equity investments at FVOCI – Net change in fair value | |
| Net actuarial gain/(loss) on defined benefit plan (Refer Note 39) | |
| **Total comprehensive income for the year 2019/20** | **1,019,356** |
| **Transactions with equity holders of the Company** | |
| Dividends to equity holders for the year – 2018/19 – Cash | |
| Dividends to equity holders for the year – 2018/19 – Scrip | **145,945** |
| Transfers during the year (Refer Note 42.2 and 42.3) | |
| **Total transactions with equity holders** | **–** |
| **Balance as at 31 March 2020** | **2,350,363** |

The Notes to the Financial Statements on pages 214 to 317 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

| Reserves | | | | | | |
|---|---|---|---|---|---|---|
| Revaluation Reserve Rs. '000 | Fair Value Reserve Rs. '000 | Statutory Reserve Fund Rs. '000 | Retained Earnings Rs. '000 | Shareholders' Equity Rs. '000 | Non-Controlling Interest Rs. '000 | Total Equity Rs. '000 |
| 432,995 | – | 1,326,004 | 4,279,468 | 7,223,529 | 36,208 | 7,259,737 |
| | | | 1,798,213 | 1,798,213 | 9,901 | 1,808,114 |
| 200,804 | | | | 200,804 | | 200,804 |
| (56,225) | | | | (56,225) | | (56,225) |
| | | | (70,121) | (70,121) | 13 | (70,108) |
| 144,579 | – | – | 1,728,092 | 1,872,671 | 9,914 | 1,882,585 |
| | | | (271,526) | (271,526) | (527) | (272,053) |
| | | 336,893 | (336,893) | | | |
| – | – | 336,893 | (608,419) | (271,526) | (527) | (272,053) |
| 577,574 | – | 1,662,897 | 5,399,141 | 8,824,674 | 45,595 | 8,870,269 |
| **577,574** | **–** | **1,662,897** | **5,399,141** | **8,824,674** | **45,595** | **8,870,269** |
| | | | **1,825,033** | **1,825,033** | **12,017** | **1,837,050** |
| | | | | **1,019,356** | | **1,019,356** |
| | **(38,896)** | | | **(38,896)** | **(19)** | **(38,915)** |
| | | | **62,061** | **62,061** | | **62,061** |
| **–** | **(38,896)** | **–** | **1,887,094** | **2,867,554** | **11,998** | **2,879,552** |
| | | | **(169,703)** | **(169,703)** | | **(169,703)** |
| | | | **(169,703)** | **(23,758)** | | **(23,758)** |
| | **8,510** | **91,251** | **(99,761)** | | | |
| **–** | **8,510** | **91,251** | **(439,167)** | **(193,461)** | **–** | **(193,461)** |
| **577,574** | **(30,386)** | **1,754,148** | **6,847,068** | **11,498,767** | **57,593** | **11,556,360** |

# Statement of Cash Flows

## ACCOUNTING POLICY

In accordance with LKAS 7 – "Statement of Cash Flows". The Statement of cash flows has been prepared using the "Direct Method". Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The cash and cash equivalents include cash in hand, balances with banks, money at call and money market funds.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| **Cash flow from operating activities** | | | | |
| Interest receipts | 14,198,019 | 14,091,470 | 14,726,601 | 14,631,161 |
| Commission receipts | 180,180 | 177,240 | 279,470 | 285,118 |
| Other income receipts | 1,847,563 | 1,424,025 | 2,001,955 | 1,446,721 |
| Interest payments | (8,575,287) | (8,753,486) | (8,885,054) | (8,938,263) |
| Fee and business promotion expenses | (388,168) | (478,818) | (402,989) | (550,997) |
| Employee related payments | (1,475,508) | (1,297,965) | (1,491,723) | (1,367,125) |
| Supplier payments | (2,229,179) | (1,947,820) | (2,439,758) | (1,991,487) |
| Financial expenses | (24,084) | (73,294) | (27,646) | (76,387) |
| Operating profit before changes in operating assets | 3,533,536 | 3,141,352 | 3,760,856 | 3,438,741 |
| (Increase)/Decrease in operating assets | | | | |
| Investments in financial institutions | 1,755,199 | (5,996,188) | 1,755,199 | (5,996,188) |
| Investments in Government securities | 137,437 | (28,877) | 137,437 | (79,415) |
| Net funds advanced to customers | (2,723,478) | (10,675,989) | (1,914,005) | (12,172,564) |
| Changes in other short-term assets | (849,167) | (387,363) | (804,725) | (407,076) |
| Changes in inventories | 1,748 | (17,164) | 1,748 | (17,164) |
| | 1,855,275 | (13,964,229) | 2,936,510 | (15,233,666) |
| Increase/(Decrease) in operating liabilities | | | | |
| Net borrowings | 1,102,685 | 9,758,545 | 75,239 | 11,070,188 |
| Net deposits from customers | (4,095,521) | 2,331,003 | (4,095,521) | 2,331,003 |
| | (2,992,836) | 12,089,548 | (4,020,282) | 13,401,191 |
| Net cash generated from/(used in) operating activities | (1,137,561) | (1,874,681) | (1,083,772) | (1,832,475) |
| Contribution to plan asset | (85,000) | (180,000) | (85,000) | (180,000) |
| Taxation | (15,968) | – | (15,968) | (2,025) |
| | (1,238,529) | (2,054,681) | (1,184,740) | (2,014,500) |
| **Cash flow from investing activities** | | | | |
| Dividend receipts | 27,585 | 38,041 | 28,525 | 38,874 |
| Proceed from the rights issue | 1,019,356 | – | 1,019,355 | – |
| Investment in other investment securities | 386,484 | 1,157,443 | 319,032 | 1,157,443 |
| Purchase of property, plant and equipment | (824,835) | (393,954) | (825,428) | (399,454) |
| Proceeds from sale of property, plant and equipment | 5 | 5,559 | 5 | 5,559 |
| Net cash from/(used in) investing activities | 608,595 | 807,089 | 541,490 | 802,422 |

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| **Cash flow from financing activities** | | | | |
| Dividend paid | (193,461) | (271,526) | (193,461) | (277,531) |
| Net change in debentures | 1,111,613 | (100,550) | 1,111,613 | (100,550) |
| Net cash inflows/(outflows) from financing activities | 918,152 | (372,076) | 918,152 | (378,081) |
| Net increase/(decrease) in cash and cash equivalents | 288,218 | (1,619,668) | 274,902 | (1,590,159) |
| Cash and cash equivalents at the beginning of the year | 585,413 | 2,205,081 | 643,219 | 2,233,378 |
| Cash and cash equivalents at the end of the year | 873,631 | 585,413 | 918,121 | 643,219 |
| **Cash and cash equivalents at the beginning of the year** | | | | |
| Cash at bank and cash in hand | 1,093,874 | 2,974,825 | 1,189,251 | 3,039,663 |
| Bank overdrafts | (508,461) | (769,744) | (546,032) | (806,285) |
| | 585,413 | 2,205,081 | 643,219 | 2,233,378 |
| **Cash and cash equivalents at the end of the year** | | | | |
| Cash at bank and cash in hand | 1,347,303 | 1,093,874 | 1,391,919 | 1,189,251 |
| Bank overdrafts | (473,672) | (508,461) | (473,798) | (546,032) |
| | 873,631 | 585,413 | 918,121 | 643,219 |

The Notes to the Financial Statements on pages 214 to 317 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

# Notes to the Financial Statements

GRI 102-5

## 1. Reporting entity

### 1.1 Corporate information

Citizens Development Business Finance PLC ("CDB") is a public limited liability company listed on the Main Board of the Colombo Stock Exchange, incorporated on 7 September 1995 (Domiciled) in Sri Lanka. The Registered Office is situated at No. 123, Orabipasha Mawatha, Colombo 10. The Company was re-registered under the new Companies Act No. 07 of 2007.

CDB is licensed by Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, and also registered under the Finance Leasing Act No. 56 of 2000 and Consumer Credit Act No. 29 of 1982.

CDB is an approved credit agency under Mortgage Act No. 06 of 1949 and Trust Receipt Ordinance No. 12 of 1947.

The staff strength of the Company as at 31 March 2020 – 1,789 (2019 – 1,618).

### 1.2 Principal activities and nature of operation

| | | Holding percentage | |
|---|---|---|---|
| Entity | Principal business activities | 2019/20 | 2018/19 |
| **Company** | | | |
| Citizens Development Business Finance PLC | Company provides a vast range of financial services which includes accepting term and savings deposits, leasing, hire purchase, loan facilities, gold loan, foreign exchange, foreign remittances, issuance of international debit cards, credit cards, margin trading, Islamic finance products and other financial services. | | |
| **Subsidiaries** | | | |
| Fortune Properties Limited (formerly known as CDB Micro Finance Limited) | Company provides financial services for property development. | 99.98% | 99.98% |
| Unisons Capital Leasing Limited | Company provides financial services including leasing personal loan and term-loan. | 90.38% | 90.38% |

Informations relating to the subsidiaries are disclosed in Note 26 to the Financial Statements. There were no significant changes in the nature of the principal activities of the Company and the Group during the financial period under review.

## 2. Basis of preparation

### 2.1 Consolidated Financial Statements

The Consolidated Financial Statements of CDB for the year ended 31 March 2020 include the Company (Parent) and its subsidiaries ("together referred to as the Group").

The individual Financial Statements of the companies in the Group have a common financial year which ends on 31 March.

CDB does not have an identifiable parent of its own.

### 2.2 Statement of compliance

The Consolidated Financial Statements of the Group and the Financial Statements of the Company which comprise Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendments thereto and provides appropriate disclosures required by the Listing Rules of the Colombo Stock Exchange.

### 2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and its subsidiaries as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges this responsibility as set out in the Report of the Directors under "Directors' Responsibility for Financial Statements".

Financial Statements include the following components:

- Information on the financial performance of the Group and Company for the year under review.
- Information on the financial position of the Group and the Company as at the year end.
- Information showing all changes in shareholders' equity during the year under review of the Group and the Company.
- Information to the users on the movement of the cash and cash equivalents of the Group and the Company.
- Notes to the Financial Statements including the accounting policies and other explanatory notes.

### 2.4 Approval of Financial Statements by Directors

The Consolidated and Company's Financial Statements for the year ended 31 March 2020 were authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on 15 July 2020.

## 2.5 Basis of measurement

The Consolidated Financial Statements have been prepared on a historical cost basis except for the following material items:

| Item | Basis of measurement | Note | Page |
|---|---|---|---|
| Retirement benefit obligation | Fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 39 | 39 | 277 |
| Freehold land | Fair value | 28 | 259 |
| Financial assets measured at fair value through profit or loss (FVTPL) | Fair value | 21 | 246 |
| Debt investments measured at fair value through other comprehensive income (FVOCI) | Fair value | 25 | 253 |
| Equity investments measured at fair value through other comprehensive income (FVOCI) | Fair value | 25 | 253 |

## 2.6 Functional and presentation currency

Items included in the Financial Statements of the Group and the Company are measured using the currency of the primary economic environment in which the Company operates. Financial Statements are presented in Sri Lankan Rupees, which is the Company's and its Subsidiary's functional currency. There was no change in the Group's presentation and functional currency during the year under review.

## 2.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by an Accounting Standard or interpretation, and as specifically disclosed in the Accounting Policies of the Group. This is the first set of financial statements in which SLFRS 16 – "Leases" has been applied and related changes to significant accounting policies described in Note 30.

## 2.8 Materiality and aggregation

Each material class of similar items are presented separately in the Financial Statement. Items which dissimilar in nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 – "Presentation of Financial Statements".

## 2.9 Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by accounting standards.

## 2.10 Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position only where there is a legal right to setoff the recognised amounts and it intents either to settled on a net basis or to realise the asset and settle the liability simultaneously.

## 2.11 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated.

## 2.12 Use of estimate and judgement

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKAS) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amount may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in Notes below:

### 2.12.1 Assumptions and estimation uncertainties

### (a) Going concern

The Management has made as assessment of 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, Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

During the preparation of financial statements for the year ended 31 March 2020 management has made an assessment of an entity's ability to continue as a going concern using the all available information about the future and capturing the current economic uncertainties and market volatility caused by the COVID-19 outbreak. Please refer Note 53 for more details.

### (b) Fair value of financial instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The valuation of financial instruments is described in more detail in Note 19. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

### (c) Useful Life of property, plant and equipment

The Group reviews the residual values, useful life and method of depreciation for Property, Plant and Equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rate, methods and hence subject to uncertainty.

### (d) Impairment on cash-generating unit

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the "value in use" of such individual assets or the cash-generating units. Estimating value in use requires Management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate which reflects the current market assessment of the rate of money and risk specific to the assets in order to calculate the present value of the relevant cash flows.

This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

### (e) Deferred tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. Significant Management judgements are required to determine the amount of deferred tax assets/liabilities that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### (f) Revaluation of property, plant and equipment

The Group measures land at revalued amounts with changes in fair value being recognised in equity through other comprehensive income. The Group engages independent professional valuer to assess fair value of land. The key assumptions used to determine fair value is provided in Note 28.1.

### (g) Contingencies and commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events on present obligations where the transfer of economic benefit is not probable or can't be reliably measured.

Summary of legal cases against the Company have been disclosed in the Notes to the Financial Statements. However, based on the available information and the available legal advice, the Company do not expect the outcome of any action to have any material effect on the financial position of the Company.

Commitments of the Group are disclosed in Note 46.

### (h) Provision for employee defined benefit obligation

The provision for defined benefits obligations and the related charge for the year is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rate, future salary increase, mortality rate etc. All the assumption are reviewed at each reporting date. Due to the long-term nature of such obligation, these estimates are subject to significant uncertainty.

### (i) Expected Credit Losses (ECL) on financial assets

The Group measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL Group determines whether the credit risk of a financial asset has increased significantly since initial recognition. For this the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, informed credit assessment and including forward-looking information.

### (j) Expected Credit Losses (ECL) on other financial assets measured at amortised cost

The new model of ECL applies to other financial assets measured at amortised cost as well. Group measures loss allowance at an amount equal to life time ECL, except those investments that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". The Group uses information from external credit agencies as inputs to the ECL calculation and adjust to reflect forward looking information and economic scenarios.

## 3. Changes in accounting policies

The Group has consistently applied the Accounting Policies as set out in these Financial Statements, except for changes arising out of transition to SLFRS 16 as set out below:

### 3.1 SLFRS 16 – "Leases"

The Group initially applied SLFRS 16 – "Leases" from 1 April 2019. The Group applied SLFRS 16 – "Leases" using the modified retrospective approach (Option B) under which no cumulative effect on initial application is recognised in retained earnings as at 1 April 2019. Accordingly, the comparative information presented for 31 March 2019 is not restated – i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below:

### 3.1.1 Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in SLFRS 16 –"Leases", the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied SLFRS 16 –"Leases", only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16 –"Leases". Therefore, the definition of a lease under SLFRS 16 –"Leases" was applied only to contracts entered into or changed on or after 1 April 2019.

### 3.1.2 As a lessee

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SLFRS 16 –"Leases", the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Previously, the Group classified property leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment)
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

### 3.2 Leases classified as operating leases under LKAS 17

As a lessee, the Group leases many properties for branch operations and on transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

### 3.3 Leases classified as finance leases under LKAS 17

These leases were classified as finance leases under LKAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 were determined at the carrying amount of the lease asset and lease liability under LKAS 17 immediately before that date. However the Group did not had any finance lease assets recognized under LKAS 17 at the date of transition.

### 3.3.1 As a lessor

The accounting by lessors under the new standard is substantially unchanged from accounting in LKAS 17 and lessors continues to classify all leases using the same classification principle as in LKAS 17. Group has not leased out own properties or any other assets at the date of transition.

## 4. Impact on transition to SLFRS 16 – "Leases"

On transition to SLFRS 16 –"Leases", the Group recognised additional right-of-use assets and additional lease liabilities in the statement of financial position. The impact on transition as at 1 April 2019 is summarised below:

| Lease liabilities | Rs. '000 |
|---|---|
| Operating Lease Commitments as at 31 March 2019 | 1,280,775 |
| Discounted using incremental borrowing rate at 31 March 2019 | 827,961 |
| Lease liabilities recognised as at 1 April 2019 | 827,961 |

| Right-of-use assets | Rs. '000 |
|---|---|
| Lease liabilities recognised as at 1 April 2019 | 827,961 |
| Add: Prepaid rentals as at 31 March 2019 | 17,725 |
| Right-of-use assets recognised as at 1 April 2019 | 845,686 |

Right-of-use assets are presented separately from other assets on the Statement of Financial Position and similarly, lease liabilities are presented separately from other liabilities on the Statement of Financial Position.

## 5. New accounting standards issued but not yet effective

Group has not applied the following new standards or amendments in preparing these Consolidated Financial Statements. The new standards and amendments listed below are those that could potentially have an impact on the Group's performance, financial position or disclosures:

| Accounting standard | Summary of requirements | Possible impact on financial statements |
|---|---|---|
| Amendments to References to Conceptual Framework in IFRS Standards | The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures.<br>The new conceptual framework is effective for annual periods beginning on or 1 January 2020. | Group is not expecting a significant impact arising from the new conceptual framework. |
| Interest rate benchmark reforms. (Amendments to SLFRS 9, LKAS 39, and SLFRS 7) | Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency. There remain many uncertainties associated with the IBOR transition, including the prospective. | Group is in the process of assessing the possible impact. |
| Definition of a business (Amendments to SLFRS 3) | Amendments to SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. Therefore, whether or not an acquired set of activities and assets is a business, is a key consideration in determining how the transaction should be accounted for. Prior to the amendments, SLFRS 3 stated that a business consists of inputs and processes applied to those inputs that have the ability to create outputs, although outputs are not necessarily required for an integrated set to qualify as a business. | Group is in the process of assessing the possible impact. |

## 6. General accounting policies

### 6.1 Basis of consolidation

The Financial Statements of the Group represent the consolidation of the Financial Statements of the Company and its Subsidiaries Fortune Properties Limited and Unisons Capital Leasing Limited.

"Subsidiaries" are investees controlled by the Parent. As per the SLFRS 10 – "Consolidated Financial Statements", the Parent "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g., those resulting from a lending relationship) become substantive and lead to the Parent having power over an investee. The Financial Statements of subsidiaries are included in the Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The Consolidated Financial Statements incorporating all Subsidiaries in the Group are prepared to a common financial year ending 31 March, using uniform accounting policies for like transactions and events in similar circumstances are applied consistently.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Company (the Parent) in the form of cash dividend or repayment of loans and advances. The Company does not own any Associate or Joint Venture Company as at the reporting date.

### 6.1.1 Acquisition method and goodwill

As per the SLFRS 3 – "Business Combinations" acquisition date is the date on which it obtains control of the acquiree. As at this date identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree, are recognised separately from goodwill in the Group's Financial Statements. All assets acquired and liabilities assumed in a business combination are measured at acquisition date fair value.

Goodwill is measured as the difference between the aggregate value of the consideration transferred, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously-held equity interest in the acquiree, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

### 6.1.2 Transactions eliminated on consolidation

All intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### 6.1.3 Non-controlling interest

Non-controlling interest is measured at their proportionate share of acquirer's identifiable net assets at the date of acquisition. Changes in the Group's interest in a Subsidiary that do not result in a loss of control are accounted for as equity transactions.

### 6.1.4 Loss of control

When the Group loses control over a Subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost and is accounted depending on the level of control retained.

### 6.2 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. All differences arising on non-trading activities are taken to "Other Operating Income" in the Statement of Profit or Loss. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Unrealised gains and losses are dealt under "Other Operating Income" in the Statement of Profit or Loss.

## 7. Specific accounting policies

Set out below is an index of the specific accounting policies, the details of which are available on the pages that follow:

## 8. Revenue

### ACCOUNTING POLICY

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Interest income (Refer Note 9) | 15,028,927 | 14,174,517 | 15,636,833 | 14,681,763 |
| Fee and commission income (Refer Note 10) | 448,071 | 510,937 | 499,996 | 681,984 |
| Other operating income (Refer Note 11) | 1,176,777 | 1,555,066 | 1,226,156 | 1,557,046 |
| Total revenue | 16,653,775 | 16,240,520 | 17,362,985 | 16,920,793 |

## 9. Net interest income

### ACCOUNTING POLICY

Interest income and expense are recognised in Statement of Profit or Loss using the effective interest rate (EIR) method.

#### Effective Interest Rate (EIR)

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

#### Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

#### Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For credit-impaired financial assets (Stage three) Interest revenue is calculated on the net carrying amount that is reduced for expected credit losses.

For information on when financial assets are credit-impaired, see Note 12.

#### Presentation

Interest income and expense presented in the statement of profit or loss include

- Interest on financial assets and financial liabilities measured at amortised cost
- Interest income and expense on all assets and liabilities measured at fair value

| For the year ended 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 | GROUP 2020 Rs. '000 | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Interest income (Refer Note 9.1) | **15,028,927** | 14,174,517 | **15,636,833** | 14,681,763 |
| Less: Interest expense (Refer Note 9.2) | **(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 |

## 9.1 Interest income

| For the year ended 31 March | COMPANY **2020 Rs. '000** | COMPANY 2019 Rs. '000 | GROUP **2020 Rs. '000** | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Placements with financial institutions | **508,203** | 422,733 | **518,845** | 434,952 |
| Loans and receivables to banks | **327,442** | 169,749 | **327,442** | 174,837 |
| Loans and receivables to customers (Refer Note 9.1.1) | **14,134,404** | 13,410,273 | **14,731,668** | 13,900,212 |
| Other financial investments (Refer Note 9.1.2) | **58,878** | 171,762 | **58,878** | 171,762 |
| **Total interest income** | **15,028,927** | 14,174,517 | **15,636,833** | 14,681,763 |

## 9.1.1 Interest on loans and receivables to customers

| For the year ended 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 | GROUP 2020 Rs. '000 | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Finance leases | **10,057,132** | 9,272,247 | **10,702,226** | 9,824,268 |
| Stock out on hire | **53,492** | 294,454 | **53,492** | 294,514 |
| Loans and advances | **3,320,488** | 3,098,483 | **3,272,658** | 3,036,341 |
| Ijara profit income | **377,359** | 420,136 | **377,359** | 420,136 |
| Murabaha profit income | **325,933** | 324,953 | **325,933** | 324,953 |
| **Total interest income from loans and receivables to customers** | **14,134,404** | 13,410,273 | **14,731,668** | 13,900,212 |

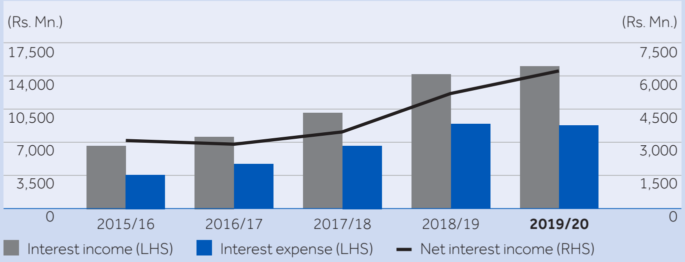
## 9.1.2 Interest on other financial investments

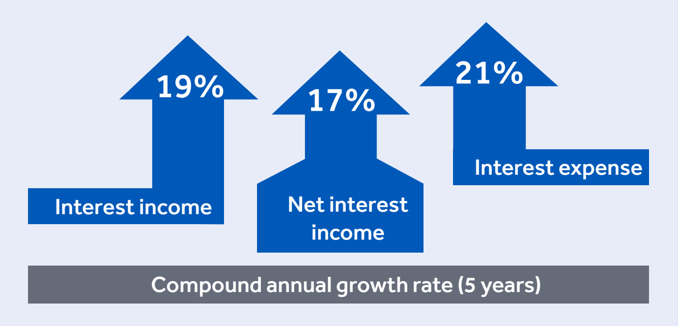
| For the year ended 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 | GROUP 2020 Rs. '000 | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Government Treasury Bond investments | **10,405** | 10,840 | **10,405** | 10,840 |
| Government Treasury Bill investments | **40,493** | 159,921 | **40,493** | 159,921 |
| Corporate bond investments | **286** | 405 | **286** | 405 |
| Other investments | **7,694** | 596 | **7,694** | 596 |
| **Total interest income from other financial investments** | **58,878** | 171,762 | **58,878** | 171,762 |

## 9.2 Interest expense

| For the year ended 31 March | COMPANY<br>2020<br>Rs. '000 | COMPANY<br>2019<br>Rs. '000 | GROUP<br>2020<br>Rs. '000 | GROUP<br>2019<br>Rs. '000 |
|---|---|---|---|---|
| Term deposits from customers | 5,007,144 | 5,593,615 | 5,007,144 | 5,593,615 |
| Savings deposits from customers | 136,447 | 131,970 | 136,447 | 131,970 |
| Mudharaba investments from customers | 27,218 | 30,558 | 27,218 | 30,558 |
| Debentures | 603,024 | 548,732 | 603,024 | 548,732 |
| Foreign borrowings | 950,948 | 273,094 | 950,948 | 273,094 |
| Other borrowings | 2,037,238 | 2,371,049 | 2,273,550 | 2,606,289 |
| **Total interest expenses** | **8,762,019** | 8,949,018 | **8,998,331** | 9,184,258 |

### Net interest income





## 10. Fee and commission income

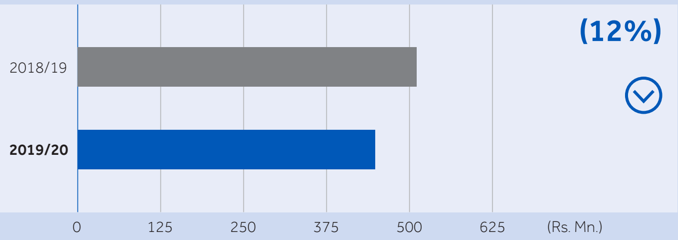
### ACCOUNTING POLICY

Fees and commission that are integral to the effective interest rate on financial asset or liability are included in the effective interest rate of respective asset or liability. Fees and commission income, including commission, service fees are recognised as the related services are performed. All fee and commissions are recognised on financial statement once the related service is performed.

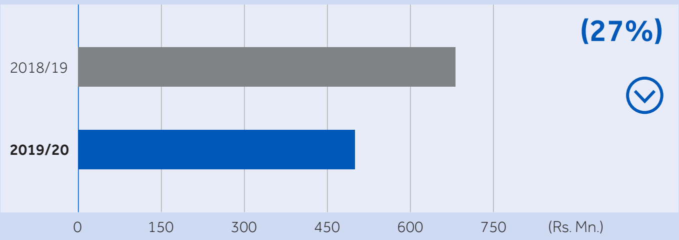
A contract with a customer that results in a recognised financial instrument in the Group's Financial Statements may be partially in the scope of SLFRS 9 and SLFRS 15. If this is the case the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

| For the year ended 31 March | COMPANY<br>2020<br>Rs. '000 | COMPANY<br>2019<br>Rs. '000 | GROUP<br>2020<br>Rs. '000 | GROUP<br>2019<br>Rs. '000 |
|---|---|---|---|---|
| Insurance commission | 443,511 | 507,216 | 486,044 | 641,629 |
| Guarantee/lending-related commission income | 692 | 630 | 10,084 | 37,264 |
| Commission on money remittances | 183 | 234 | 183 | 234 |
| Commission on debit card transactions | 3,685 | 2,857 | 3,685 | 2,857 |
| **Total fee and commission income** | **448,071** | 510,937 | **499,996** | 681,984 |

### Fee and commission income – Company



### Fee and commission income – Group



## 11. Other operating income

### ACCOUNTING POLICY

Profit/loss from sale of fixed assets is recognised in the period in which the sale occurs and is classified as other income/expense.

Income from early settlement and other income is recognised once the contract is derecognised due to closure.

Dividend income from equity investments at FVTPL is recognised in the Statement of Profit or Loss on an accrual basis when the Group's right to receive the dividend is established.

Other net income on trading portfolio comprises unrealised gains and losses from changes in fair value and realised gains from equity and debt instruments measured at FVTPL.

Foreign exchange gain/loss includes gain and losses from foreign transactions and fair value changes in the derivative contracts.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Dividend income from quoted equity investments | 27,585 | 38,041 | 28,524 | 33,924 |
| Other net income from trading portfolio (Refer Note 11.1) | (57,776) | 181,642 | (60,351) | 187,739 |
| Profit on sale of fixed assets | 4,005 | 5,559 | 4,005 | 5,559 |
| Other operating income | 1,238,001 | 786,430 | 1,267,034 | 786,430 |
| Income from credit cards | 23,407 | 1,591 | 23,407 | 1,591 |
| Income from early settlement of lending facilities | 652,795 | 628,765 | 674,777 | 628,765 |
| Foreign exchange gain/(loss) (Refer Note 11.2) | (711,240) | (86,962) | (711,240) | (86,962) |
| **Total other operating income** | 1,176,777 | 1,555,066 | 1,226,156 | 1,557,046 |

### 11.1 Other net income from trading portfolio

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Trading income – Treasury Bonds | 4,361 | 8,830 | 4,361 | 8,830 |
| Realised gain from trading securities | 6,687 | (4,530) | 6,687 | (4,530) |
| **Mark to market adjustment** | | | | |
| Treasury Bonds (Refer Note 21.1) | 2,810 | 52 | 2,810 | 52 |
| Equity securities | (71,634) | 177,290 | (74,209) | 183,387 |
| **Total net income from trading portfolio** | (57,776) | 181,642 | (60,351) | 187,739 |

### 11.2 Foreign exchange gain/(loss)

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Foreign exchange gain/(loss) on transactions* | 48,547 | 13,691 | 48,547 | 13,691 |
| **Derivative financial instruments** | | | | |
| Exchange gain/loss on foreign borrowings | (812,500) | 262,500 | (812,500) | 262,500 |
| Fair value changes in derivative contracts | 52,713 | (363,153) | 52,713 | (363,153) |
| **Total foreign exchange gain/loss** | (711,240) | (86,962) | (711,240) | (86,962) |

** Foreign exchange gain/loss on transaction represent exchange differences arising from settlement of monetary items and retranslation of monetary items.*

## 12. Impairment charges and other credit losses on financial assets

### ACCOUNTING POLICY

The Group recognises loss allowances for ECL on loans and receivables, other financial assets measured at amortised cost and debt investments at FVOCI.

Accordingly this note covers expected loss allowances for

- Loans and receivables to customers
- Other financial assets measured at amortised cost

No impairment loss is recognised on investments in equity instruments classified under FVTPL.

### Loans and receivables to customers

The Group measures loss allowances using both lifetime ECL and 12 months ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 150 days past due.

12 months ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

### Measurement of ECLs

ECL are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECL are discounted at the effective interest rate of the respective financial asset.

### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 150 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties

### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

### Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

### Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

## ACCOUNTING POLICY

### Other financial assets measured at amortised cost and debt investments at FVOCI

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12 months ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade".

This policy is applicable to loans and receivables to banks, deposits with licensed commercial banks and other investment securities measured at amortised cost as well.

### Expected credit loss assessment due to COVID-19

Company has used audited Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment computed in 31 December 2019 to assess the expected credit losses as at 31 March 2020 due to uncertainties and lack of sufficient information available to make any adjustments to factor the impact of COVID-19. However the Company has increased the weightage assigned to worst case scenario as at 31 March 2020 to capture potential impact of COVID-19.

## Expected Credit Losses (ECL) as per SLFRS 9 – "Financial instruments"

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Expected credit losses (ECL) | | | | |
| Loans and receivables to customers | | | | |
| Finance leases receivables | 503,436 | 428,426 | 568,563 | 504,361 |
| Hiring contracts | (29,080) | (51,259) | (29,080) | (51,415) |
| Loans and advances | (66,667) | 351,479 | (67,549) | 349,498 |
| | 407,689 | 728,646 | 471,934 | 802,444 |
| Other financial assets measured at amortised cost | – | – | – | – |
| Net deficit from disposal of leased assets | 1,002,206 | 335,964 | 1,080,797 | 335,963 |
| **Total impairment charges on financial assets** | 1,409,895 | 1,064,610 | 1,552,731 | 1,138,407 |

*Refer Note 24.2 for more details on allowance for impairment and other credit losses.*

*Refer Note 53.A.I for more details on inputs, assumptions and techniques used for estimating ECL.*

## 13. Operating expenses

## ACCOUNTING POLICY

All the expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged in arriving at the profit for the year.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Personnel expenses (Refer Note 13.1) | 1,648,127 | 1,354,366 | 1,651,422 | 1,413,444 |
| Premises, equipment and establishment expenses (Refer Note 13.2) | 1,823,277 | 1,717,375 | 1,876,438 | 1,808,013 |
| Other expenses (Refer Note 13.3) | 520,346 | 552,112 | 553,031 | 617,663 |
| **Total operating expense** | 3,991,750 | 3,623,853 | 4,080,891 | 3,839,120 |

## 13.1 Personnel expenses GRI 201-3

### ACCOUNTING POLICY

Personnel expense include salaries and bonus, terminal benefit expenses and other employee related expenses.

The provision 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 on the amount of the obligation.

#### Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term benefits as a result of past service provided and where the Group has legal or constructive obligation to pay.

#### Defined benefit plans – Retiring gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit obligation is calculated annually using the Projected Unit Credit method as specified by the Sri Lanka Accounting Standard LKAS 19 – "Employee Benefits" and valuation of the defined benefit obligation is carried out by a qualified actuary. The key assumptions used in determining the defined benefit obligations are given in Note 39. Actuarial gains or losses are recognised in the Other Comprehensive Income in the period in which they arise. The defined benefit obligation recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. When the benefits of a plan are changed, the portion of the changed benefit relating to past service by employees is recognised in the Statement of Profit or Loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in Statement of Profit or Loss.

Gratuity payments are being made by the Group according to the Payment of Gratuity Act No. 12 of 1983. As per the present policy of the Company the employees are entitled to payment of gratuity as follows:

5-10 years Service – ½ month basic salary for each year of service

10-15 years Service – 1 month basic salary for each year of service

15-20 years Service – 1 ½ months basic salary for each year of service

Over 20 years Service – 2 months basic salary for each year of service

#### Defined contribution plan

##### Employees' Provident Fund:

The Group and employees contribute 12% and 8% respectively on the salary of each employee to the approved Employees' Provident Fund.

##### Employees' Trust Fund:

The Company/Group contributes 3% of the salary of each employee to the Employees' Trust Fund.

#### Share based payment plans

The Group does not have any share based payment transactions in force as at 31 March 2020.

Personnel expenses includes the following significant items:

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Salary and bonus | **1,106,888** | 956,040 | **1,106,888** | 1,004,910 |
| Employees' defined benefit plan service expenses (Refer Note 39) | **168,623** | 56,401 | **168,623** | 56,556 |
| Contribution to employees' provident fund and trust fund | **120,613** | 102,899 | **120,613** | 108,836 |
| Directors' emoluments | **206,061** | 175,541 | **207,561** | 178,041 |

## 13.2 Premises, equipment and establishment expenses

### ACCOUNTING POLICY

#### Depreciation of property, plant and equipment

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets, except for which are disclosed separately. Depreciation is determined separately for each significant component of an item of Property, Plant and Equipment. Management reviews the assets residual value, useful life and depreciation method at each reporting date. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Companies within the Group use the same depreciation rates and policies.

Freehold buildings – 2.5%
Motor vehicles – 20%
Computer equipment – 20%
Office equipment – 20%
Furniture and fittings – 20%

Depreciation is not provided for freehold lands.

#### Amortisation of intangible assets

Intangible assets are amortised on a straight-line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. The estimated useful life of software is eight years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### Changes in estimates

Useful lives and residual values of the assets are reassessed at each reporting date and adjust if appropriate. During the year Group conducted an operational review and no estimates were revised.

Premises, equipment and establishment expenses includes the following significant items:

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Depreciation and amortisation | 424,079 | 265,818 | 429,458 | 270,422 |
| Contribution to deposit insurance scheme of CBSL | 64,796 | 68,318 | 64,796 | 68,318 |
| Legal expense and professional charges | 78,739 | 51,954 | 78,829 | 56,574 |
| Regulatory fines | – | 2,000 | – | 2,000 |
| **Auditor's remuneration** | | | | |
| Audit fees and expenses | 6,375 | 7,548 | 7,358 | 8,128 |
| Audit-related fees and expenses | 2,796 | 2,478 | 2,796 | 2,478 |
| Non-audit services | 1,088 | 385 | 1,088 | 835 |

## 13.3 Other expenses

Other expenses includes the following significant items:

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Advertising and communication | 322,900 | 374,860 | 337,721 | 388,824 |
| Activities on corporate social responsibility | 29,587 | 24,010 | 29,587 | 24,128 |

## 14. Taxes on financial services

### ACCOUNTING POLICY

#### Value Added Tax (VAT) on financial services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) 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, NBT on financial services, and income tax adjusted for economic depreciation and emoluments to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT on financial services rate applied during the financial year ended 31 March 2020 was 15%.

#### Nation Building Tax (NBT) on financial services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto. NBT on financial services is calculated based on the value addition calculated for the purpose of VAT on financial services.

NBT on financial services rate applied during the financial year up to 1 December 2019 was 2%. As per the notice dated 29 November 2019 published by the Department of Inland Revenue NBT on Financial Services was abolished with effect from 1 December 2019.

#### Crop Insurance Levy (CIL)

Section 14 of the Finance Act No. 12 of 2013 impose a Crop Insurance Levy on finance companies and accordingly the Company is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund with effect from 1 April 2013.

#### Debt Repayment Levy (DRL)

As per the Finance Act No. 35 of 2018, Debt Repayment Levy (DRL) has introduced to the Finance industry. DRL will be charged at 7% on the value addition calculated for the purposes of VAT on Financial services and should be paid on monthly basis. This was effective from 1 October 2018. As per the notice dated 20 January 2020 published by the Department of Inland Revenue DRL was abolished with effect from 1 January 2020.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Value added tax on financial services (VAT) | 273,000 | 345,739 | 306,967 | 373,163 |
| Nation building tax on financial services (NBT) | 25,500 | 58,843 | 29,307 | 62,529 |
| Crop insurance levy (CIL) | 21,000 | 17,435 | 21,000 | 17,435 |
| Debt repayment levy (DRL) | 101,835 | 69,656 | 101,835 | 69,656 |
| **Total taxes on financial services** | 421,335 | 491,673 | 459,109 | 522,783 |

## 15. Income tax expense

### ACCOUNTING POLICY

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

#### Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of previous years.

#### Deferred tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted as at the reporting date. Deferred tax liabilities are not recognised for the following temporary differences:

The initial recognition of assets and liabilities in a transaction that is not business combination and that affects neither accounting nor taxable profit nor differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

#### Economic service charge

As per the provisions of the Economic Service Charge Act No. 13 of 2006 and amendments thereto, currently, ESC is payable at 0.50% on "Liable Turnover" and deductible from the income tax payments. Unclaimed ESC, if any can be carried forward and set off against the income tax payable as per relevant provisions of the Act. As per notice dated 31 December 2019 published by the Department of Inland Revenue ESC was abolished with effect from 1 January 2020.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Current income tax expense (Refer Note 15.2) | **1,141,745** | – | **1,237,496** | 74,678 |
| Changes in provision estimates of prior periods | **(78,088)** | (39,202) | **(75,834)** | (39,202) |
| Deferred tax expense (Refer Note 38.2) | **(707,018)** | 440,375 | **(726,789)** | 392,635 |
| Income tax charge for the year | **356,639** | 401,173 | **434,873** | 428,111 |

### 15.1 Tax provisions based on Inland Revenue Act No. 24 of 2017

Department of Inland Revenue has published a notice dated 8 April 2020 to reduce the Income tax rate from 28% to 24% with effect from 1 January 2020. However, Income tax expenses of the company has been recorded for on the taxable income at the rate 28% for entire year and subsidiary has recorded 24% on taxable income for the three months ended 31 March 2020.

## 15.2 Reconciliation between income tax expenses and the accounting profit

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rate is given below:

| For the year ended 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 | GROUP 2020 Rs. '000 | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Accounting profit before tax | **2,068,776** | 2,111,366 | **2,271,921** | 2,241,227 |
| Tax expenses as per accounting profit | **579,257** | 591,182 | **634,106** | 627,544 |
| **Adjustments** | | | | |
| Tax effect of capital portion of lease rentals | **1,408,736** | 1,925,010 | **1,504,799** | 2,043,333 |
| Income from non-taxable sources | **(377,120)** | (203,658) | **(377,374)** | (203,658) |
| Tax effect of disallowed expenses | **800,230** | 537,100 | **841,234** | 577,673 |
| Tax effect of deductible expenses and tax losses | **(1,269,358)** | (2,849,636) | **(1,365,269)** | (2,970,214) |
| **Tax on business profit (Based on taxable profit)** | **1,141,745** | –* | **1,237,496** | 74,678 |
| Prior period under/(over) provision (Refer Note 37.1) | **(78,088)** | (39,202) | **(75,834)** | (39,202) |
| Deferred tax expenses (Refer Note 38.2) | **(707,018)** | 440,375 | **(726,789)** | 392,635 |
| **Income tax expense** | **356,639** | 401,173 | **434,873** | 428,111 |

**With the utilisation of brought forwarded tax losses there is no income tax liability for the year ended 31 March 2019.*

## 15.3 Summary of the taxes paid during the year

We have paid following direct and indirect taxes to the Government of Sri Lanka during the financial year:

| For the year ended 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 |
|---|---|---|
| **Direct taxes** | | |
| Value added tax on financial services | **254,083** | 253,985 |
| Nation building tax on financial services | **19,043** | 33,865 |
| Crop insurance levy | **17,121** | 17,102 |
| Economic service charge | **62,623** | 77,197 |
| Income tax | **15,968** | – |
| Debt repayment levy | **96,426** | 70,789 |
| **Indirect taxes (Collected and paid)** | | |
| Value added tax | **59,923** | 89,650 |
| Nation building tax | **6,199** | 10,152 |
| Stamp duty | **159,002** | 185,203 |
| Withholding tax on dividend and interest | **229,573** | 286,959 |
| PAYE tax | **46,901** | 46,594 |
| Total taxes paid during the financial year | **966,862** | 1,071,496 |

## 16. Earnings Per Share (EPS)

### ACCOUNTING POLICY

The Company computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding.

Diluted EPS is computed by dividing the profit or loss attributable to ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

### Basic earnings per share

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 | 2019 | 2020 | 2019 |
| Amount used as numerator: | | | | |
| Net profit attributable to equity holders of parent (Rs.) | 1,712,136,069 | 1,710,193,456 | 1,825,032,934 | 1,798,213,430 |
| Amount used as denominator: | | | | |
| Weighted average number of ordinary shares | 69,792,748 | 54,305,207 | 69,792,748 | 54,305,207 |
| Basic earnings per ordinary share (Rs.) | 24.53 | 30.05* | 26.15 | 31.60* |

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

### Diluted earnings per share

There were no potentially dilutive ordinary shares as at 31 March 2020 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

### Restated earnings per share

The Company made a right issue of 11,574,805 new ordinary voting shares and 2,001,496 ordinary non-voting shares. Further Company paid a scrip dividend of 1,575,052 ordinary voting shares and 336,188 ordinary non-voting shares of the Company and have been listed with effect from 30 September 2019 in the proportion of 0.02721519: 1 and 0.03359375: 1 respectively. As per LKAS 33 – "Earning per share", EPS of the comparative period (2018/19) has been restated considering the above effects.

## 17. Dividend Per Share (DPS)

### ACCOUNTING POLICY

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors, and approved by the shareholders. However interim cash dividend is recognised when the Board approves such dividend in accordance with Companies Act No. 07 of 2007.

| | COMPANY | |
|---|---|---|
| For the year ended 31 March | 2020 (Proposed) | 2019 |
| Gross dividend per share (Rs.) | – | 5.00 |
| Dividend payout ratio (%) | – | 19 |

The Company has paid a first and final dividend of Rs. 5 per share for its voting and non-voting ordinary shares for the year ended 31 March 2019. This was paid in the form of a cash dividend of Rs. 2.50 and in the form of a scrip dividend of Rs. 2.50.

### Withholding tax on dividend distributed by the Company

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

Withholding tax rate for dividend paid during the year 2019/20 was 14%.

## 18. Classification of financial assets and financial liabilities

### ACCOUNTING POLICY

#### i. Recognition and initial measurement

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. For an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial assets depends on their classification.

#### ii. Classification

#### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows (Business Model Assessment) and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. (SPPI Test)

- A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
  - the asset is held within a business model whose objective is achieved by both collecting;
  - Contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not measured at FVTPL (default option), the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level a because this best reflects the way the business is managed and information is provided to management. The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated –
- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### Assessment whether contractual cash flows are solely payments of principal and interest (SPPI Test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

## ACCOUNTING POLICY

### Classification and measurement of financial assets as per SLFRS 9 – "Financial Instruments"

SLFRS 9 – "Financial Instruments" contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under SLFRS 9 – "Financial Instruments" is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Under SLFRS 9 – "Financial Instruments", derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

### vi. Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### (b) Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### I. Equity instruments

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of "equity" from the perspective of the issuer as defined in LKAS 32 – "Financial instrument: Presentation". For all other equity instruments, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

- All the equity instrument for which the irrecoverable option is not made should be measured at fair value through profit or loss.

### (d) Other

All other financial assets are classified as financial assets measured at FVTPL.

### Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

### iii. Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

An entity shall not reclassify any financial liability.

### iv. Derecognition

### Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 April 2017 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities . Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

## ACCOUNTING POLICY

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

### Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

### v. Modifications of financial assets and financial liabilities

### Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

### Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

### vi. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

## Classification of financial assets and liabilities

COMPANY

| As at 31 March 2020 | | Classification of financial assets | | | Classification of financial liabilities | | Total |
|---|---|---|---|---|---|---|---|
| | Note | Fair value through profit or loss Rs. '000 | Fair value through OCI Rs. '000 | Amortised cost Rs. '000 | Fair value through profit or loss Rs. '000 | Amortised cost Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 20 | | | 1,347,303 | | | 1,347,303 |
| Financial assets measured at FVTPL | 21 | 56,442 | | | | | 56,442 |
| Loans and receivables to banks | 22 | | | 3,671,353 | | | 3,671,353 |
| Deposits with financial institutions | 23 | | | 4,387,464 | | | 4,387,464 |
| Loans and receivables to customers | 24 | | | 71,218,455 | | | 71,218,455 |
| Other investment securities | 25 | | 1,392,259 | 927,375 | | | 2,319,634 |
| **Total financial assets** | | 56,442 | 1,392,259 | 81,551,950 | | | 83,000,651 |
| Other non-financial assets | | | | | | | 8,847,839 |
| **Total assets** | | | | | | | 91,848,490 |
| Derivative financial liabilities | 33 | | | | 60,440 | | 60,440 |
| Deposits from customers | 34 | | | | | 43,327,576 | 43,327,576 |
| Debt securities issued | 35 | | | | | 5,092,096 | 5,092,096 |
| Other interest-bearing borrowings | 36 | | | | | 26,675,062 | 26,675,062 |
| Lease liabilities | 30 | | | | | 804,390 | 804,390 |
| **Total financial liabilities** | | | | | 60,440 | 75,899,124 | 75,959,564 |
| Other non-financial liabilities | | | | | | | 4,662,156 |
| **Total liabilities** | | | | | | | 80,621,720 |

GROUP

| As at 31 March 2020 | | Classification of financial assets | | | Classification of financial liabilities | | Total |
|---|---|---|---|---|---|---|---|
| | Note | Fair value through profit or loss Rs. '000 | Fair value through OCI Rs. '000 | Amortised cost Rs. '000 | Fair value through profit or loss Rs. '000 | Amortised cost Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 20 | | | 1,391,919 | | | 1,391,919 |
| Financial assets measured at FVTPL | 21 | 56,442 | | | | | 56,442 |
| Loans and receivables to banks | 22 | | | 3,691,374 | | | 3,691,374 |
| Deposits with financial institutions | 23 | | | 4,387,464 | | | 4,387,464 |
| Loans and receivables to customers | 24 | | | 72,422,827 | | | 72,422,827 |
| Other investment securities | 25 | | 1,429,627 | 932,567 | | | 2,362,194 |
| **Total financial assets** | | 56,442 | 1,429,627 | 82,826,151 | | | 84,312,220 |
| Other non-financial assets | | | | | | | 8,882,929 |
| **Total assets** | | | | | | | 93,195,149 |
| Derivative financial liabilities | 33 | | | | 60,440 | | 60,440 |
| Deposits from customers | 34 | | | | | 43,305,775 | 43,305,775 |
| Debt securities issued | 35 | | | | | 5,092,096 | 5,092,096 |
| Other interest – bearing borrowings | 36 | | | | | 27,505,136 | 27,505,136 |
| Lease liabilities | 30 | | | | | 804,390 | 804,390 |
| **Total financial liabilities** | | | | | 60,440 | 76,707,397 | 76,767,837 |
| Other non-financial liabilities | | | | | | | 4,870,952 |
| **Total liabilities** | | | | | | | 81,638,789 |

|  |  |  |  |  |  |  | COMPANY |
|---|---|---|---|---|---|---|---|
| As at 31 March 2019 |  | Classification of financial assets |  |  | Classification of financial liabilities |  | Total |
|  | Note | Fair value through profit or loss Rs. '000 | Fair value through OCI Rs. '000 | Amortised cost Rs. '000 | Fair value through profit or loss Rs. '000 | Amortised cost Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 20 |  |  | 1,093,874 |  |  | 1,093,874 |
| Financial assets measured at FVTPL | 21 | 1,687,004 |  |  |  |  | 1,687,004 |
| Loans and receivables to banks | 22 |  |  | 3,094,312 |  |  | 3,094,312 |
| Deposits with financial institutions | 23 |  |  | 6,719,704 |  |  | 6,719,704 |
| Loans and receivables to customers | 24 |  |  | 69,133,049 |  |  | 69,133,049 |
| Other investment securities | 25 |  |  | 1,313,861 |  |  | 1,313,861 |
| **Total financial assets** |  | 1,687,004 | – | 81,354,800 |  |  | 83,041,804 |
| Other non-financial assets |  |  |  |  |  |  | 6,390,635 |
| **Total assets** |  |  |  |  |  |  | 89,432,439 |
| Derivative financial liabilities | 33 |  |  |  | 363,153 |  | 363,153 |
| Deposits from customers | 34 |  |  |  |  | 47,236,367 | 47,236,367 |
| Debt securities issued | 35 |  |  |  |  | 3,980,483 | 3,980,483 |
| Other interest – bearing borrowings | 36 |  |  |  |  | 24,509,877 | 24,509,877 |
| **Total financial liabilities** |  |  |  |  | 363,153 | 75,726,727 | 76,089,880 |
| Other non-financial liabilities |  |  |  |  |  |  | 4,677,156 |
| **Total liabilities** |  |  |  |  |  |  | 80,767,036 |

|  |  |  |  |  |  |  | GROUP |
|---|---|---|---|---|---|---|---|
| As at 31 March 2019 |  | Classification of financial assets |  |  | Classification of financial liabilities |  | Total |
|  | Note | Fair value through profit or loss Rs. '000 | Fair value through OCI Rs. '000 | Amortised cost Rs. '000 | Fair value through profit or loss Rs. '000 | Amortised cost Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 20 |  |  | 1,189,251 |  |  | 1,189,251 |
| Financial assets measured at FVTPL | 21 | 1,727,013 |  |  |  |  | 1,727,013 |
| Loans and receivables to banks | 22 |  |  | 3,195,205 |  |  | 3,195,205 |
| Deposits with financial institutions | 23 |  |  | 6,719,704 |  |  | 6,719,704 |
| Loans and receivables to customers | 24 |  |  | 71,582,081 |  |  | 71,582,081 |
| Other investment securities | 25 |  | 124 | 1,319,053 |  |  | 1,319,177 |
| **Total financial assets** |  | 1,727,013 | 124 | 84,005,294 |  |  | 85,732,431 |
| Other non-financial assets |  |  |  |  |  |  | 6,246,190 |
| **Total assets** |  |  |  |  |  |  | 91,978,621 |
| Derivative financial liabilities | 33 |  |  |  | 363,153 |  | 363,153 |
| Deposits from customers | 34 |  |  |  |  | 47,222,578 | 47,222,578 |
| Debt securities issued | 35 |  |  |  |  | 3,980,483 | 3,980,483 |
| Other interest – bearing borrowings | 36 |  |  |  |  | 26,473,852 | 26,473,852 |
| **Total financial liabilities** |  |  |  |  | 363,153 | 77,676,913 | 78,040,066 |
| Other non-financial liabilities |  |  |  |  |  |  | 5,068,286 |
| **Total liabilities** |  |  |  |  |  |  | 83,108,352 |

## 19. Fair value measurement of financial instruments

### ACCOUNTING POLICY

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the assets or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants' would take into account in pricing a transaction.

The best evidence of the fair value of financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only date from observable markets, then the financial instrument is initially measured at a fair value, adjusted to defer the deference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. These portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfer between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### Accounting estimates

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

## ACCOUNTING POLICY

### 19.a Valuation models

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

**Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

**Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premier used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value and management uses judgement to select the most appropriate point in the range.

The Group's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the "waterfall" applicable to the security and discounted at a risk-adjusted rate.

The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

### 19.b Valuation control framework

The Group has established a control framework with respect to the measurement of fair value which is independent from the Treasury Division and followings are the some specific controls exists:

- verification of observable pricing;
- re performance of model valuations;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value of measurement of Level 3 instruments compared with the previous month.

When third party information, such as broker quotes or pricing services, is used to measure fair value and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price is an active market for an identical instrument;
- when prices of similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Audit Committee.

## 19.c Valuation summary

| As at 31 March | COMPANY |  | GROUP |  |
|---|---|---|---|---|
|  | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Assets disclosed at fair value – Fair value hierarchy (Refer Note 19.d) | 3,317,568 | 2,921,404 | 3,354,936 | 2,961,537 |
| Assets not disclosed at fair value – Fair value hierarchy (Refer Note 19.f) | 88,530,922 | 86,511,035 | 89,840,213 | 89,017,084 |
| **Total assets** | 91,848,490 | 89,432,439 | 93,195,149 | 91,978,621 |
| Liabilities disclosed at fair value – Fair value hierarchy (Refer Note 19.d) | 60,440 | 363,153 | 60,440 | 363,153 |
| Liabilities not disclosed at fair value – Fair value hierarchy (Refer Note 19.f) | 80,561,280 | 80,403,883 | 81,578,349 | 82,745,199 |
| **Total liabilities** | 80,621,720 | 80,767,036 | 81,638,789 | 83,108,352 |

## 19.d Financial instruments disclosed at fair value – Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position. The fair values include any differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

| As at 31 March 2020 | Note | COMPANY |  |  |  | GROUP |  |  |  |
|---|---|---|---|---|---|---|---|---|---|
|  |  | Level 1<br>Rs. '000 | Level 2<br>Rs. '000 | Level 3<br>Rs. '000 | Total<br>Rs. '000 | Level 1<br>Rs. '000 | Level 2<br>Rs. '000 | Level 3<br>Rs. '000 | Total<br>Rs. '000 |
| **Financial assets** |  |  |  |  |  |  |  |  |  |
| Financial assets measured at FVTPL | 21 |  |  |  |  |  |  |  |  |
| – Government securities – Treasury Bonds |  | 56,442 |  |  | 56,442 | 56,442 |  |  | 56,442 |
| – Equity instruments – Unquoted shares |  |  |  |  |  |  |  | 124 | 124 |
| Other investment securities measured at FVOCI | 25 |  |  |  |  |  |  |  |  |
| – Equity instruments – Quoted shares |  |  | 1,392,259 |  | 1,392,259 |  | 1,429,503 |  | 1,429,503 |
| **Total financial assets disclosed at fair value** |  | 56,442 | 1,392,259 | – | 1,448,701 | 56,442 | 1,429,503 | 124 | 1,486,069 |
| **Other non-financial assets** |  |  |  |  |  |  |  |  |  |
| Property, plant and equipment – Freehold land | 28 |  |  | 1,868,867 | 1,868,867 |  |  | 1,868,867 | 1,868,867 |
| **Total non-financial assets at fair value** |  | – | – | 1,868,867 | 1,868,867 | – | – | 1,868,867 | 1,868,867 |
| **Total assets at fair value** |  | 56,442 | 1,392,259 | 1,868,867 | 3,317,568 | 56,442 | 1,429,503 | 1,868,991 | 3,354,936 |
| **Financial liabilities** |  |  |  |  |  |  |  |  |  |
| Derivative financial liabilities |  |  | 60,440 |  | 60,440 |  | 60,440 |  | 60,440 |
| **Total financial liabilities disclosed at fair value** |  | – | 60,440 | – | 60,440 | – | 60,440 | – | 60,440 |

## Fair value measurement of quoted equity instruments due to COVID-19

As per the guidelines issued by CA Sri Lanka and the provisions of SLFRS 13 – Fair value measurement, there is an impossibility to derive the fair value of quoted equity instruments as at 31 March 2020 due to unavailability of reliable information and distress market conditions. Accordingly alternative valuation technique was used in determining the market prices of equity investments as at 31 March 2020. These equity investments are classified under Level 2.

| | | COMPANY | | | | GROUP | | | |
|---|---|---|---|---|---|---|---|---|---|
| As at 31 March 2019 | Note | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| **Financial assets** | | | | | | | | | |
| Financial assets measured at FVTPL | 21 | | | | | | | | |
| – Government securities – Treasury bonds | | 107,423 | | | 107,423 | 107,423 | | | 107,423 |
| – Equity instruments – Quoted shares | | 1,579,581 | | | 1,579,581 | 1,619,590 | | | 1,619,590 |
| Other investment securities measured at FVOCI | 25 | | | | | | | | |
| – Equity instruments – Unquoted shares | | | | | | | | 124 | 124 |
| **Total financial assets disclosed at fair value** | | 1,687,004 | – | – | 1,687,004 | 1,727,013 | – | 124 | 1,727,137 |
| **Other non-financial assets** | | | | | | | | | |
| Property, plant and equipment – Freehold land | 28 | | | 1,234,400 | 1,234,400 | | | 1,234,400 | 1,234,400 |
| **Total non-financial assets at fair value** | | – | – | 1,234,400 | 1,234,400 | – | – | 1,234,400 | 1,234,400 |
| **Total assets disclosed at fair value** | | 1,687,004 | – | 1,234,400 | 2,921,404 | 1,727,013 | – | 1,234,524 | 2,961,537 |
| **Financial liabilities** | | | | | | | | | |
| Derivative financial liabilities | | | 363,153 | | 363,153 | | 363,153 | | 363,153 |
| **Total financial liabilities disclosed at fair value** | | – | 363,153 | – | 363,153 | – | 363,153 | – | 363,153 |

Company holds unquoted shares of Rs. 24 Mn. as at the reporting date 31 March 2020 categorised under financial assets measured at FVOCI whose fair value cannot be measured reliably and fully impaired.

Note 28.1 provides information on significant unobservable inputs used as at 31 March 2020 in measuring fair value of freehold land categorised under Level 3 and fair value reconciliation can be found in Statement of Changes in Equity.

## 19.e Level 3 fair value measurements

### 19.e.i Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| | Property, plant and equipment – freehold land | |
|---|---|---|
| | COMPANY | GROUP |
| | Rs. '000 | Rs. '000 |
| **Balance as at 1 April 2018** | 855,038 | 855,162 |
| Purchases/Additions | 181,999 | 181,999 |
| Disposals during the year | (3,441) | (3,441) |
| Revaluation surplus | 200,804 | 200,804 |
| **Balance as at 31 March 2019** | 1,234,400 | 1,234,524 |
| **Balance as at 1 April 2019** | 1,234,400 | 1,234,524 |
| Purchases/Additions | 634,467 | 634,467 |
| Disposals during the year | – | – |
| Revaluation surplus | – | – |
| **Balance as at 31 March 2020** | 1,868,867 | 1,868,991 |

### 19.e.ii Unobservable inputs used in measuring fair value

Refer Note 28.1 for information about significant unobservable inputs used in 31 March 2020 to measure the fair value of freehold lands categorised under Level 3 in the fair value hierarchy.

## 19.e.iii The effect of unobservable inputs on fair value measurement

Table below shows the effect of changes in assumptions used above for fair value determination:

| | Effect on total comprehensive income | |
|---|---|---|
| | Favourable | Unfavourable |
| Property, plant and equipment – Freehold land | 1% Increase in fair value Rs. '000 | 1% Decrease in fair value Rs. '000 |
| **2019/20** | **18,689** | **(18,689)** |
| 2018/19 | 12,344 | (12,344) |

## 19.e.iv Recurring and non-recurring basis valuation

The Group is using recurring basis valuation for assets categorised under Level 3 and details relating to fair valuation is given in Note 28.1.

## 19.f Assets and liabilities not disclosed at fair value – Fair value hierarchy

The following table sets out the fair values of financial instruments not measured at fair value and analysed them by the level in the fair value hierarchy into which each fair value measurement is categorised. The fair values in the table below are stated as at 31 March and may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument:

| | | | | | | COMPANY |
|---|---|---|---|---|---|---|
| As at 31 March 2020 | Note | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | 1,347,303 | | | 1,347,303 | 1,347,303 |
| Loans and receivables to banks | 22 | | | 3,671,353 | 3,671,353 | 3,671,428 |
| Deposits with financial institutions | 23 | | | 4,387,464 | 4,387,464 | 4,389,302 |
| Loans and receivables to customers | 24 | | | 71,218,455 | 71,218,455 | 72,662,540 |
| Other investment securities | 25 | | | | | |
| – Treasury Bills | | 469,607 | | | 469,607 | 467,201 |
| – Treasury Bonds | | 108,401 | | | 108,401 | 107,504 |
| – Promissory notes and unit trusts | | | | 349,367 | 349,367 | 349,367 |
| Investment property | 27 | | | 20,198 | 20,198 | 54,000 |
| Other assets | | | | | 6,958,774 | 6,958,774 |
| **Total assets not disclosed at fair value** | | 1,925,311 | – | 79,646,837 | 88,530,922 | 90,007,419 |
| **Liabilities** | | | | | | |
| Deposits from customers | 34 | | | 43,327,576 | 43,327,576 | 47,314,689 |
| Debt securities issued | 35 | | | 5,092,096 | 5,092,096 | 5,092,096 |
| Other interest-bearing borrowings | 36 | | | 26,675,062 | 26,675,062 | 26,675,062 |
| Lease liabilities | | | | 804,390 | 804,390 | 804,390 |
| Other liabilities | | | | | 4,662,156 | 4,662,156 |
| **Total liabilities not disclosed at fair value** | | – | – | 75,899,124 | 80,561,280 | 84,548,393 |

| | | | | | | COMPANY |
|---|---|---|---|---|---|---|
| As at 31 March 2019 | Note | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | 1,093,874 | | | 1,093,874 | 1,093,874 |
| Loans and receivables to banks | 22 | | | 3,094,312 | 3,094,312 | 3,094,320 |
| Deposits with financial institutions | 23 | | | 6,719,704 | 6,719,704 | 6,747,078 |
| Loans and receivables to customers | 24 | | | 69,133,049 | 69,133,049 | 70,099,610 |
| Other investment securities | 25 | | | | | |
| – Treasury Bills | | 1,200,370 | | | 1,200,370 | 1,192,064 |
| – Treasury Bonds | | 108,391 | | | 108,391 | 109,269 |
| – Corporate debentures | | | 5,100 | | 5,100 | 5,101 |
| Investment property | 27 | | | 20,198 | 20,198 | 54,000 |
| Other assets | | | | | 5,136,037 | 5,136,037 |
| **Total assets not disclosed at fair value** | | 2,402,635 | 5,100 | 78,967,263 | 86,511,035 | 87,531,353 |
| **Liabilities** | | | | | | |
| Deposits from customers | 34 | | | 47,236,367 | 47,236,367 | 47,318,780 |
| Debt securities issued | 35 | | | 3,980,483 | 3,980,483 | 3,980,483 |
| Other interest-bearing borrowings | 36 | | | 24,509,877 | 24,509,877 | 24,509,877 |
| Other liabilities | | | | | 4,677,156 | 4,677,156 |
| **Total liabilities not disclosed at fair value** | | – | – | 75,726,727 | 80,403,883 | 80,486,296 |

| | | | | | | GROUP |
|---|---|---|---|---|---|---|
| As at 31 March 2020 | Note | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | 1,391,919 | | | 1,391,919 | 1,391,919 |
| Loans and receivables to banks | 22 | | | 3,691,374 | 3,691,374 | 3,691,449 |
| Deposits with financial institutions | 23 | | | 4,387,464 | 4,387,464 | 4,389,302 |
| Loans and receivables to customers | 24 | | | 72,422,827 | 72,422,827 | 73,866,912 |
| Other investment securities | 25 | | | | | |
| – Treasury Bills | | 469,607 | | | 469,607 | 467,201 |
| – Treasury Bonds | | 113,593 | | | 113,593 | 112,696 |
| – Promissory notes and unit trusts | | | | 349,367 | 349,367 | 349,367 |
| Investment property | 27 | | | 20,198 | 20,198 | 54,000 |
| Other assets | | | | | 6,993,864 | 6,993,864 |
| **Total assets not disclosed at fair value** | | 1,975,119 | – | 80,871,230 | 89,840,213 | 91,316,710 |
| **Liabilities** | | | | | | |
| Deposits from customers | 34 | | | 43,305,775 | 43,305,775 | 47,292,888 |
| Debt securities issued | 35 | | | 5,092,096 | 5,092,096 | 5,092,096 |
| Other interest-bearing borrowings | 36 | | | 27,505,136 | 27,505,136 | 27,505,136 |
| Lease liabilities | | | | 804,390 | 804,390 | 804,390 |
| Other liabilities | | | | | 4,870,952 | 4,870,952 |
| **Total liabilities not disclosed at fair value** | | – | – | 76,707,397 | 81,578,349 | 85,565,462 |

| | | GROUP | | | | |
|---|---|---|---|---|---|---|
| As at 31 March 2019 | Note | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | 1,189,251 | | | 1,189,251 | 1,189,251 |
| Loans and receivables to banks | 22 | | | 3,195,205 | 3,195,205 | 3,195,213 |
| Deposits with financial institutions | 23 | | | 6,719,704 | 6,719,704 | 6,747,078 |
| Loans and receivables to customers | 24 | | | 71,582,081 | 71,582,081 | 72,548,643 |
| Investment securities | 25 | | | | | |
| – Treasury bills | | 1,205,562 | | | 1,205,562 | 1,197,256 |
| – Treasury bonds | | 108,391 | | | 108,391 | 109,269 |
| – Corporate debentures | | | 5,100 | | 5,100 | 5,101 |
| Investment property | 27 | | | 20,198 | 20,198 | 54,000 |
| Other assets | | | | | 4,991,592 | 4,991,592 |
| Total assets not disclosed at fair value | | 2,503,204 | 5,100 | 81,517,188 | 89,017,084 | 90,037,403 |
| **Liabilities** | | | | | | |
| Deposits from customers | 34 | | | 47,222,578 | 47,222,578 | 47,304,991 |
| Debt securities issued | 35 | | | 3,980,483 | 3,980,483 | 3,980,483 |
| Other interest-bearing borrowings | 36 | | | 26,473,852 | 26,473,852 | 26,473,852 |
| Other liabilities | | | | | 5,068,286 | 5,068,286 |
| Total liabilities not disclosed at fair value | | – | – | 77,676,913 | 82,745,199 | 82,827,612 |

## 19.f.i Methodology

The fair value calculated in this section are only for disclosure purposes and do not have any impact on the Group's reported financial position and performance. The following section consist with the methodologies and assumptions used in determining fair value for financial instruments not disclosed at fair value in the face of Financial Statements:

| Asset/Liability | Methodology and assumptions |
|---|---|
| Cash and cash equivalents | Carrying value of the financial instruments which are typically short-term in nature and which are repriced to current market rates frequently are considered reasonable approximation to fair value. |
| Loans and receivables to banks | Carrying value of the financial instruments which are typically short-term in nature and which are repriced to current market rates frequently are considered reasonable approximation to fair value. |
| Deposits with financial institutions | The fair value of deposits with banks is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. |
| Loans and receivables to customers | Where available, fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes incurred credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral dependent impaired loans, the fair value is measured based on the value of the underlying collateral. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as vintage, LTV ratios, the quality of collateral, product and borrower type, prepayment and delinquency rates and default probability. |
| Investment securities at amortised cost | The fair value of investment securities at amortised cost is estimated by applying the active market prices for similar or identical instruments. Discounted cash flow techniques are used to arrive at the value of these instruments by using observable market rates as valuation inputs. |

| Asset/Liability | Methodology and assumptions |
|---|---|
| Investment property | Fair value has been determined by using market comparable method which considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location condition of specific property. |
| Investment in subsidiaries | In absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and performance, risk profile, prospectus and other factors, incorporated valuation model as well as by reference to market valuations for similar entities quoted in the active market. |
| Deposits from customers | The fair value of deposits from customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. |
| Debt securities issued | Discounted cash flow techniques are used to arrive at the value of these instruments by using observable market rates as valuation inputs. |
| Other interest-bearing borrowings | Discounted cash flow techniques are used to arrive at the value of these instruments by using observable market rates as valuation inputs. |
| Equity investments measured at FVOCI | As per the CA Sri Lanka guideline, 31 December 2019 closing price was considered as the benchmark value for determining maximum value of shares. A discount of 5% to 15% was used to capture the potential systematic risk related priced decline after 31 December 2019 along with the COVID-19 impact. |

### Reclassification of financial assets and liabilities

As per the guidelines issued by CA Sri Lanka a one off option is provided to reclassify equity portfolio from fair value through profit or loss (FVTPL) to fair value through other comprehensive income (FVOCI). Accordingly as at 1 January 2020 the Group has reclassified equity portfolio held under FVTPL to FVOCI.

Other than mentioned above there were no any other significant reclassifications for the reporting periods of 2019/20 and 2018/19.

## 20. Cash and cash equivalents

### ACCOUNTING POLICY

Cash and cash equivalents include cash in hand and balance with banks. They are brought to account at the face value or the gross value where appropriate.

Bank overdraft that is repayable on demand and forms an integral part of the Company's cash resources and it is only included as a component of cash equivalents for the purpose of the Cash Flow Statements.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Local currency in hand | **744,829** | 523,628 | **744,844** | 523,771 |
| Foreign currency in hand | **85,826** | 46,873 | **85,826** | 46,873 |
| Demand/savings deposit balances with Banks | **516,648** | 523,373 | **561,249** | 618,607 |
| **Total cash and cash equivalents** | **1,347,303** | 1,093,874 | **1,391,919** | 1,189,251 |

Maturity analysis of cash and cash equivalents is given in Note 51.

## 21. Financial assets measured at Fair Value through Profit or Loss (FVTPL)

### ACCOUNTING POLICY

Financial assets measured at FVTPL are those assets that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets are those assets that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

#### Recognition

Financial assets measured at FVTPL are measured initially at fair value and transaction costs that are directly attributable to its acquisition or issue is charge to profit or loss.

#### Measurement

Financial assets measured at FVTPL are subsequently recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss.

Interest and dividend income are recorded in "Interest income" net gains/(losses) from trading recorded in the income statement.

No impairment loss is recognised on equity instruments classified as financial assets measured at FVTPL.

Classification of financial asset are given in Note 18.

| As at 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 | GROUP 2020 Rs. '000 | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Government securities (Refer Note 21.1) | 56,442 | 107,423 | 56,442 | 107,423 |
| Quoted equity investments (Refer Note 21.2) | – | 1,579,581 | – | 1,619,590 |
| **Total financial assets measured at FVTPL** | 56,442 | 1,687,004 | 56,442 | 1,727,013 |

As per the guidelines issued by CA Sri Lanka a one off option is provided to reclassify equity portfolio from FVTPL to FVOCI. Accordingly as at 1 January 2020 the Group has reclassified equity portfolio held under FVTPL to FVOCI amounting to Rs. 1,411 Mn.

Maturity analysis of financial assets measured at FVTPL is given in Note 51.

### 21.1 Government securities

| As at 31 March | COMPANY 2020 Rs. '000 | COMPANY 2019 Rs. '000 | GROUP 2020 Rs. '000 | GROUP 2019 Rs. '000 |
|---|---|---|---|---|
| Amortised cost | 53,632 | 107,371 | 53,632 | 107,371 |
| Gain/(loss) from mark to market valuation | 2,810 | 52 | 2,810 | 52 |
| **Fair value** | 56,442 | 107,423 | 56,442 | 107,423 |

** Government securities include treasury bonds.*

## 21.2 Quoted equity investments

| As at 31 March 2019 | Sector as per CSE classification | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of the investment Rs. '000 | Mark to market gain/(loss) Rs. '000 |
|---|---|---|---|---|---|---|
| **Investments by the Company** | | | | | | |
| Ceylinco Insurance PLC – Voting | Bank, Finance and Insurance | 663,624 | 2,124 | 1,409,272 | 240,614 | 1,168,658 |
| Commercial Bank of Ceylon PLC – Voting | Bank, Finance and Insurance | 178,725 | 99 | 17,641 | 23,849 | (6,208) |
| Sampath Bank PLC – Voting | Bank, Finance and Insurance | 210 | 180 | 38 | 70 | (32) |
| Union Bank of Colombo PLC – Voting | Bank, Finance and Insurance | 55,101 | 11 | 606 | 722 | (116) |
| John Keells Holdings PLC – Voting | Diversified Holdings | 1,054 | 94 | 99 | 120 | (21) |
| Aitken Spence PLC – Voting | Diversified Holdings | 190,096 | 156 | 29,655 | 28,383 | 1,272 |
| Melstacorp PLC – Voting | Diversified Holdings | 344,146 | 41 | 14,110 | 18,883 | (4,773) |
| Ceylon Hospitals PLC (Durdans) – Voting | Health and care | 112,698 | 36 | 4,057 | 6,196 | (2,139) |
| Ceylon Hospitals PLC (Durdans) – Non-Voting | Health and care | 38,167 | 73 | 2,790 | 3,432 | (642) |
| John Keells Hotels PLC – Voting | Hotels | 1,631 | 68 | 111 | 115 | (4) |
| Asian Hotels & Properties PLC – Voting | Hotels | 108,168 | 8 | 811 | 1,273 | (462) |
| Dolphin Hotels PLC – Voting | Hotels | 260,791 | 42 | 10,927 | 13,993 | (3,066) |
| The Kingsbury PLC – Voting | Hotels | 288,762 | 13 | 3,697 | 4,095 | (398) |
| The Lighthouse Hotel PLC – Voting | Hotels | 5,000 | 26 | 128 | 228 | (100) |
| Overseas Realty (Ceylon) PLC – Voting | Land and property | 17,236 | 63 | 1,079 | 1,116 | (37) |
| Chevron Lubricants Lanka PLC – Voting | Manufacturing | 80,000 | 30 | 2,432 | 2,536 | (104) |
| Teejay Lanka PLC – Voting | Manufacturing | 150,005 | 64 | 9,585 | 19,545 | (9,960) |
| Regnis Lanka PLC – Voting | Manufacturing | 142,330 | 120 | 17,065 | 22,185 | (5,120) |
| Bairaha Farms PLC – Voting | Manufacturing | 171,520 | 52 | 8,936 | 11,071 | (2,135) |
| Ceylon Grain Elevators PLC – Voting | Manufacturing | 161,666 | 98 | 15,892 | 19,474 | (3,582) |
| Three Acre Farms PLC – Voting | Manufacturing | 482,121 | 35 | 16,778 | 29,924 | (13,146) |
| Swisstek (Ceylon) PLC – Voting | Manufacturing | 327,864 | 32 | 10,590 | 17,311 | (6,721) |
| ACL Cables PLC – Voting | Manufacturing | 118 | 15 | 2 | 1 | 1 |
| Distilleries Company of Sri Lanka PLC – Voting | Beverage, food and tobacco | 200,000 | 16 | 3,280 | 4,343 | (1,063) |
| **Total equity investments of the Company** | | | | 1,579,581 | 469,479 | 1,110,102 |
| **Investments by subsidiaries** | | | | | | |
| Ceylinco Insurance PLC – Voting | Bank, Finance and Insurance | 18,840 | 2,124 | 40,009 | 26,191 | 13,818 |
| **Total equity investments of the Group** | | | | 1,619,590 | 495,670 | 1,123,920 |

The Company has not pledged any of the above financial assets as collateral for any liability or contingent liability.

## 22. Loans and receivables to banks

### ACCOUNTING POLICY

Group classifies non-derivative financial assets with fixed or determinable payments that are not quoted in an active market under loans and receivables to banks. Accordingly, Loans and receivables to banks comprise repurchase agreements with banks.

#### Recognition

Loans and receivables to banks are measured initially at fair value plus transaction costs.

#### Measurement

Loans and receivables to banks are subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking into account any discount or premium on acquisition and other fees and cost that are an integral part of EIR.

#### Expected credit losses

The Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. Group measures loss allowance at an amount equal to life time ECL, except financial investments that are determined to have low credit risk at the reporting date.

Classification of financial assets are given in Note 18.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Securities purchased under resale agreements – Treasury Bills | 3,671,353 | 3,094,312 | 3,691,374 | 3,195,205 |
| Less: Allowance for expected credit losses | – | – | – | – |
| **Net loans and receivables to banks** | 3,671,353 | 3,094,312 | 3,691,374 | 3,195,205 |

No expected credit losses (ECL) were recognised for Government securities since those are rated as risk free investments.

Maturity analysis of loans and receivables to banks is given in Note 51.

## 23. Deposits with financial institutions

### ACCOUNTING POLICY

Deposits with financial institutions comprises the fixed deposits with licensed commercial banks and other financial institutions.

#### Recognition

Deposits with financial institutions are measured initially at fair value plus transaction costs.

#### Measurement

Deposits with licensed financial institutions subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking into account any discount or premium on acquisition and other fees and cost that are an integral part of EIR.

#### Expected credit losses

The Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. Group measures loss allowance at an amount equal to life time ECL, except financial investments that are determined to have low credit risk at the reporting date.

Classification of financial assets are given in Note 18.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Term deposits with financial institutions | 4,387,725 | 6,719,965 | 4,387,725 | 6,719,965 |
| Less: Allowance for expected credit losses | (261) | (261) | (261) | (261) |
| **Total deposits with financial institutions** | 4,387,464 | 6,719,704 | 4,387,464 | 6,719,704 |

Maturity analysis of deposits with financial institutions is given in Note 51.

## 24. Loans and receivables to customers

### ACCOUNTING POLICY

Amount receivable under finance lease, hire purchase and loans net of prepaid rentals, unearned lease income and allowance for expected credit losses are presented in the loans and receivable to customers.

#### Recognition

Loans and receivables to customers are measured initially at fair value plus transaction costs.

#### Measurement

After initial recognition loans and receivables from customers are subsequently measured at amortised cost using the effective interest rate less loss allowance based on expected credit losses. Amortised cost is calculated by taking into account any fee and cost that are integral part of EIR. The amortisation is included in interest income in the Statement of Profit or Loss.

#### Expected credit losses

Refer Note 12 for impairment policy based on expected credit losses (ECL).

Classification of financial assets are given in Note 18.

Loans and receivables from customers are carried at amortised cost in the Statement of Financial Position.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Gross loans and receivables to customers | 73,690,446 | 71,197,351 | 75,090,006 | 73,777,326 |
| Less: Allowance for impairment and other credit losses (Refer Note 24.2) | (2,471,991) | (2,064,302) | (2,667,179) | (2,195,245) |
| **Net loans and receivables to customers (Refer Note 24.1)** | 71,218,455 | 69,133,049 | 72,422,827 | 71,582,081 |

Maturity analysis of loans and receivables from customers is given in Note 51 and pre terminations may cause actual maturities differ from contractual maturities.

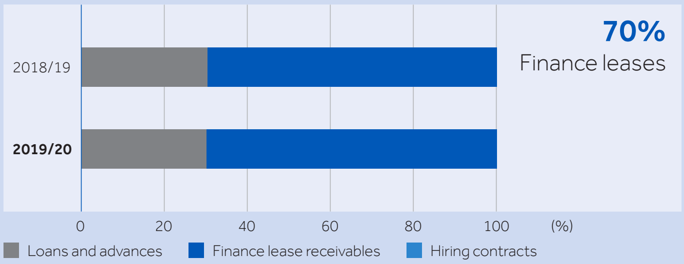
### 24.1 Analysis

### Product-wise analysis

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Loans and advances to customers (Refer Note 24.1.1) | 22,245,604 | 21,639,934 | 22,010,849 | 21,218,968 |
| Finance lease receivables (Refer Note 24.1.2) | 51,264,518 | 49,211,534 | 52,898,212 | 52,212,475 |
| Hiring contracts (Refer Note 24.1.3) | 180,324 | 345,883 | 180,945 | 345,883 |
| Gross loans and receivables to customers | 73,690,446 | 71,197,351 | 75,090,006 | 73,777,326 |
| Less: Allowance for impairment and other credit losses (Refer Note 24.2) | (2,471,991) | (2,064,302) | (2,667,179) | (2,195,245) |
| **Net loans and advances to customers** | 71,218,455 | 69,133,049 | 72,422,827 | 71,582,081 |

Further analysis on loans and receivables to customers is given in Note 53 (Financial Risk Management).

**Product-wise analysis of loan portfolio**



## 24.1.1 Loans and advances to customers

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Short-term loans | 1,705,220 | 1,761,343 | 1,705,220 | 1,761,343 |
| Term and vehicle loans | 15,088,760 | 16,933,883 | 14,854,005 | 16,512,917 |
| Staff loans | 567,573 | 475,149 | 567,573 | 475,149 |
| Gold-related lending | 4,687,708 | 2,439,859 | 4,687,708 | 2,439,859 |
| Credit card | 196,343 | 29,700 | 196,343 | 29,700 |
| **Gross loans and advances to customers** | 22,245,604 | 21,639,934 | 22,010,849 | 21,218,968 |
| Less: Allowance for impairment and other credit losses (Refer Note 24.2) | (454,784) | (521,451) | (462,973) | (530,522) |
| **Net loans and advances to customers** | 21,790,820 | 21,118,483 | 21,547,876 | 20,688,446 |

## 24.1.2 Finance lease receivable

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| **Gross investment in finance leases** | | | | |
| Receivable within one year | 24,119,751 | 21,488,948 | 24,827,300 | 23,382,777 |
| Receivable after one year before five years | 45,131,326 | 45,439,900 | 46,455,245 | 47,611,905 |
| Receivable after five years | 1,035,775 | 1,294,970 | 1,066,159 | 1,296,452 |
| **Total finance lease receivables** | 70,286,852 | 68,223,818 | 72,348,704 | 72,291,134 |
| Unearned finance income | (19,022,334) | (19,012,284) | (19,450,492) | (20,078,659) |
| **Gross finance lease receivables** | 51,264,518 | 49,211,534 | 52,898,212 | 52,212,475 |
| Less: Allowance for impairment and other credit losses (Refer Note 24.2) | (1,991,569) | (1,488,133) | (2,178,568) | (1,610,005) |
| **Net finance lease receivables** | 49,272,949 | 47,723,401 | 50,719,644 | 50,602,470 |

## 24.1.3 Hiring contracts

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Gross investment in hiring contracts | 180,324 | 345,883 | 180,945 | 345,883 |
| Less: Allowance for impairment and other credit losses (Refer Note 24.2) | (25,638) | (54,718) | (25,638) | (54,718) |
| **Net investment in hiring contracts** | 154,686 | 291,165 | 155,307 | 291,165 |

## 24.2 Allowance for impairment and other credit losses

## Provision for Expected Credit Losses (ECL) as per SLFRS 9 – "Financial instruments"

| | | | | COMPANY |
|---|---|---|---|---|
| As at 31 March | 2020 | | | |
| | Loans and advances | Finance lease | Hiring contracts | Total |
| Balance as at the beginning of the year | 521,451 | 1,488,133 | 54,718 | 2,064,302 |
| Charge/(Reversal) for the year | (66,667) | 503,436 | (29,080) | 407,689 |
| **Balance as at the end of the year** | 454,784 | 1,991,569 | 25,638 | 2,471,991 |

| | | | | GROUP |
|---|---|---|---|---|
| As at 31 March | 2020 | | | |
| | Loans and advances | Finance lease | Hiring contracts | Total |
| Balance as at the beginning of the year | 530,522 | 1,610,005 | 54,718 | 2,195,245 |
| Charge/(Reversal) for the year | (67,549) | 568,563 | (29,080) | 471,934 |
| **Balance as at the end of the year** | 462,973 | 2,178,568 | 25,638 | 2,667,179 |

| | | | | COMPANY |
|---|---|---|---|---|
| As at 31 March | 2019 | | | |
| | Loans and advances | Finance lease | Hiring contracts | Total |
| Balance as at the beginning of the year | 169,972 | 1,059,707 | 105,977 | 1,335,656 |
| Charge/(Reversal) for the year | 351,479 | 428,426 | (51,259) | 728,646 |
| **Balance as at the end of the year** | 521,451 | 1,488,133 | 54,718 | 2,064,302 |

| | | | | GROUP |
|---|---|---|---|---|
| As at 31 March | 2019 | | | |
| | Loans and advances | Finance lease | Hiring contracts | Total |
| Balance as at the beginning of the year | 181,024 | 1,105,644 | 106,133 | 1,392,801 |
| Charge/(Reversal) for the year | 349,498 | 504,361 | (51,415) | 802,444 |
| **Balance as at the end of the year** | 530,522 | 1,610,005 | 54,718 | 2,195,245 |

Refer Note 53.A.I for more details on inputs, assumptions and techniques used for estimating ECL.

## Movements in allowance for expected credit losses (stage transition)

| | 2020 | | | |
|---|---|---|---|---|
| COMPANY | Stage 1: 12 months ECL Rs. '000 | Stage 2: lifetime ECL not credit-impaired Rs. '000 | Stage 3: lifetime ECL credit-impaired Rs. '000 | Total ECL Rs. '000 |
| Balance as at the beginning of the year | 573,250 | 423,234 | 1,067,818 | 2,064,302 |
| **Changes due to loans and receivables recognised in opening balance that have:** | | | | |
| Transferred from 12 months ECL | (83,417) | 63,358 | 20,059 | – |
| Transferred from lifetime ECL not credit-impaired | 78,266 | (155,910) | 77,644 | – |
| Transferred from lifetime ECL credit-impaired | 18,618 | 9,888 | (28,506) | – |
| Net remeasurement of loss allowance | (49,536) | 95,229 | 361,996 | 407,689 |
| **Balance as at the end of the year** | 537,181 | 435,799 | 1,499,011 | 2,471,991 |

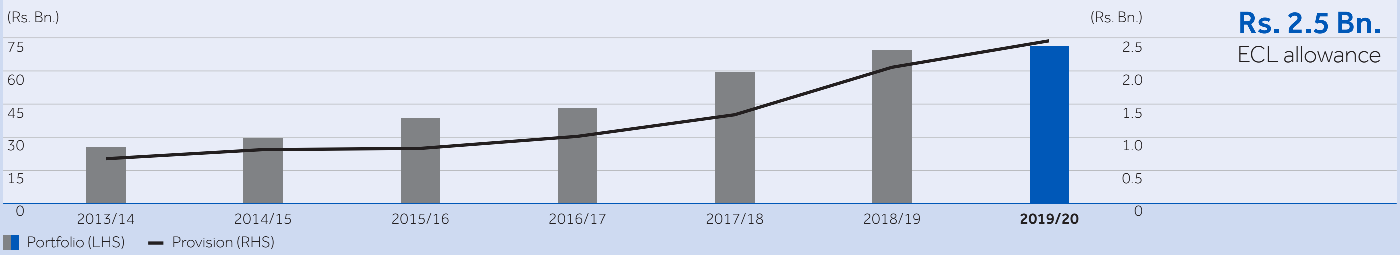
| GROUP | 2020 | | | |
|---|---|---|---|---|
| | Stage 1: 12 months ECL Rs. '000 | Stage 2: lifetime ECL not credit-impaired Rs. '000 | Stage 3: lifetime ECL credit impaired Rs. '000 | Total ECL Rs. '000 |
| Balance as at the beginning of the year | 593,675 | 444,670 | 1,156,900 | 2,195,245 |
| **Changes due to loans and receivables recognised in opening balance that have:** | | | | |
| Transferred from 12 months ECL | (83,417) | 63,358 | 20,059 | – |
| Transferred from lifetime ECL not credit-impaired | 78,266 | (155,910) | 77,644 | – |
| Transferred from lifetime ECL credit-impaired | 18,618 | 9,888 | (28,506) | – |
| Net remeasurement of loss allowance | (49,536) | 95,229 | 426,241 | 471,934 |
| **Balance as at the end of the year** | 557,606 | 457,235 | 1,652,338 | 2,667,179 |

| COMPANY | 2019 | | | |
|---|---|---|---|---|
| | Stage 1: 12 months ECL Rs. '000 | Stage 2: lifetime ECL not credit-impaired Rs. '000 | Stage 3: lifetime ECL credit impaired Rs. '000 | Total ECL Rs. '000 |
| Balance as at the beginning of the year | 348,528 | 301,108 | 686,020 | 1,335,656 |
| **Changes due to loans and receivables recognised in opening balance that have:** | | | | |
| Transferred from 12 months ECL | (45,958) | 32,957 | 13,001 | – |
| Transferred from lifetime ECL not credit impaired | 57,882 | (130,374) | 72,492 | – |
| Transferred from lifetime ECL credit impaired | 11,120 | 7,893 | (19,013) | – |
| Net remeasurement of loss allowance | 201,678 | 211,650 | 315,318 | 728,646 |
| **Balance as at the end of the year** | **573,250** | **423,234** | **1,067,818** | **2,064,302** |

| GROUP | 2019 | | | |
|---|---|---|---|---|
| | Stage 1: 12 months ECL Rs. '000 | Stage 2: lifetime ECL not credit-impaired Rs. '000 | Stage 3: lifetime ECL credit impaired Rs. '000 | Total ECL Rs. '000 |
| Balance as at the beginning of the year | 348,527 | 301,108 | 743,166 | 1,392,801 |
| **Changes due to loans and receivables recognised in opening balance that have:** | | | | |
| Transferred from 12 months ECL | (45,958) | 32,957 | 13,001 | – |
| Transferred from lifetime ECL not credit-impaired | 57,882 | (130,374) | 72,492 | – |
| Transferred from lifetime ECL credit-impaired | 11,120 | 7,893 | (19,013) | – |
| Net remeasurement of loss allowance | 222,104 | 233,086 | 347,254 | 802,444 |
| **Balance as at the end of the year** | 593,675 | 444,670 | 1,156,900 | 2,195,245 |

## 24.3 Allowance for impairment against the loan portfolio (Company)

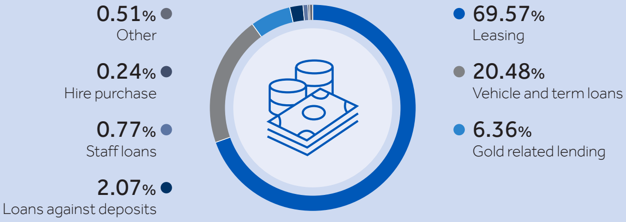
### Allowance for impairment against the loan portfolio



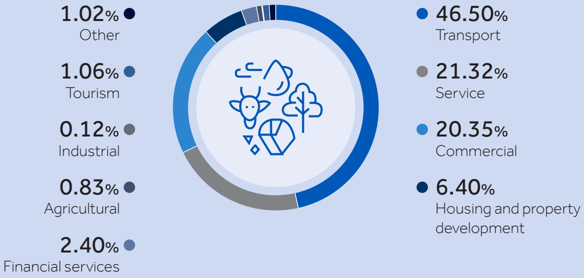
**Rs. 2.5 Bn.**
ECL allowance

## 24.4 Analysis of loans and receivables to customers (Company)

### Product concentration



### Sector concentration



### Asset concentration – Company

## 25. Other investment securities

### ACCOUNTING POLICY

Other Investment securities comprise with debt investments measured at amortised cost and equity investments measured at FVOCI.

#### Recognition

#### Debt investment securities measured at amortised cost

Debt investments measured at amortised cost are initially measured at fair value plus incremental direct transaction costs.

#### Debt investment securities measured at FVOCI

Debt investments measured at FVOCI are initially measured at fair value plus incremental direct transaction costs.

#### Measurement

#### Debt investments measured at amortised cost

Debt investments subsequently measured at their amortised cost using the effective interest method.

The Group recognises loss allowances for ECLs on assets subsequently measured at amortised cost. Group measures loss allowance at an amount equal to life time ECL, except financial investments that are determined to have low credit risk at the reporting date. Refer Note 12 for further details on ECL policy.

#### Debt investments measured at FVOCI

For debt investments measured at FVOCI, gains and losses are recognised in OCI except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method
- ECL and reversals
- Foreign exchange gains and losses

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

#### Equity investments at FVOCI

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not FVTPL. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Classification of financial assets is given in Note 18.

No impairment loss is recognised on equity investments classified quoted under FVOCI.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Debt investments measured at amortised cost (Refer Note 25.1) | 927,375 | 1,313,861 | 932,567 | 1,319,053 |
| Unquoted equity investments measured at FVOCI (Refer Note 25.2) | – | – | 124 | 124 |
| Quoted equity investments measured at FVOCI (Refer Note 25.3) | 1,392,259 | – | 1,429,503 | – |
| **Total other investment securities** | 2,319,634 | 1,313,861 | 2,362,194 | 1,319,177 |

Maturity analysis of other investment securities is given in Note 51.

## 25.1 Debt investments measured at amortised cost

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Treasury Bills | 469,607 | 1,200,370 | 469,607 | 1,205,562 |
| Treasury Bonds | 108,401 | 108,391 | 113,593 | 108,391 |
| Corporate debentures | – | 5,100 | – | 5,100 |
| Unit trusts | 222,763 | – | 222,763 | – |
| Promissory notes | 126,604 | – | 126,604 | – |
| **Debt investments measured at amortised cost** | 927,375 | 1,313,861 | 932,567 | 1,319,053 |

## 25.2 Unquoted equity investments measured as at FVOCI

| | COMPANY | | | | |
|---|---|---|---|---|---|
| | 2020 | | | | |
| As at 31 March | Number of shares | Cost at acquisition Rs. '000 | Cost Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| **Unquoted shares** | | | | | |
| Middleway Limited – Ordinary shares | 416,455 | 4,165 | 4,165 | – | – |
| Middleway Limited – Preference shares | 2,050,000 | 20,500 | 20,500 | – | – |
| **Total unquoted equity investments** | | | 24,665 | – | – |

These unquoted investments were fully impaired.

| | GROUP | | | | |
|---|---|---|---|---|---|
| | 2020 | | | | |
| As at 31 March | Number of shares | Cost at Acquisition Rs. '000 | Cost Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| **Unquoted shares** | | | | | |
| Middleway Limited – Ordinary shares | 416,455 | 4,165 | 4,165 | – | – |
| Middleway Limited – Preference shares | 2,050,000 | 20,500 | 20,500 | – | – |
| Credit Information Bureau of Sri Lanka (CRIB) | 100 | 1 | 124 | 124 | 124 |
| **Total unquoted equity investments** | | | 24,789 | 124 | 124 |

### 25.3 Quoted equity investments measured as at FVOCI

| As at 31 March 2020 | Sector as per CSE classification | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of the investment Rs. '000 | Mark to market gain/(loss) Rs. '000 |
|---|---|---|---|---|---|---|
| **Investments by the Company** | | | | | | |
| Ceylinco Insurance PLC – Voting | Bank, Finance and Insurance | 663,624 | 1,977 | 1,311,894 | 240,615 | 1,071,279 |
| Commercial Bank of Ceylon PLC – Voting | Bank, Finance and Insurance | 112,300 | 94 | 10,607 | 13,748 | (3,141) |
| Sampath Bank PLC – Voting | Bank, Finance and Insurance | 218 | 150 | 33 | 13,748 | (13,715) |
| National Development Bank PLC – Voting | Bank, Finance and Insurance | 1,105 | 94 | 104 | 124 | (20) |
| John Keells Holdings PLC – Voting | Diversified Holdings | 6,013 | 136 | 816 | 930 | (114) |
| Aitken Spence PLC – Voting | Diversified Holdings | 41,468 | 46 | 1,926 | 1,848 | 78 |
| Melstacorp PLC – Voting | Diversified Holdings | 207,584 | 38 | 7,892 | 8,800 | (908) |
| Asian Hotels & Properties PLC – Voting | Hotels | 560,434 | 40 | 22,196 | 22,941 | (745) |
| The Kingsbury PLC – Voting | Hotels | 471,706 | 12 | 5,852 | 6,268 | (416) |
| Teejay Lanka PLC – Voting | Manufacturing | 486,818 | 36 | 17,390 | 20,023 | (2,633) |
| Regnis Lanka PLC – Voting | Manufacturing | 6,824 | 84 | 572 | 889 | (317) |
| Bairaha Farms PLC – Voting | Manufacturing | 1,516 | 93 | 141 | 227 | (86) |
| Ceylon Grain Elevators PLC – Voting | Manufacturing | 58,027 | 68 | 3,928 | 4,060 | (132) |
| Three Arces Farms PLC – Voting | Manufacturing | 44,440 | 114 | 5,049 | 4,920 | 129 |
| Swisstek (Ceylon) PLC – Voting | Manufacturing | 10,862 | 42 | 456 | 609 | (153) |
| ACL Cables PLC – Voting | Manufacturing | 355 | 39 | 14 | 18 | (4) |
| Distilleries Company of Sri Lanka PLC – Voting | Beverage, Food & Tobacco | 118 | 16 | 2 | 1 | 1 |
| Lion Brewery PLC – Voting | Beverage, Food & Tobacco | 5,140 | 577 | 2,965 | 2,837 | 128 |
| Overseas Realty (Ceylon) PLC – Voting | Land and Property | 27,007 | 14 | 391 | 586 | (195) |
| Dialog Axiata PLC – Voting | Communication | 3,000 | 10 | 31 | 26 | 5 |
| **Total equity investments of the Company** | | | | 1,392,259 | 343,218 | 1,049,041 |
| **Investments by subsidiaries** | | | | | | |
| Ceylinco Insurance PLC – Voting | Bank Finance and Insurance | 18,840 | 2,124 | 37,244 | 26,191 | 11,053 |
| **Total equity investments of the Group** | | | | 1,429,503 | 369,409 | 1,060,094 |

### 25.4 Reclassification of investment securities

As per the guidelines issued by CA Sri Lanka a one off option is provided to reclassify equity portfolio from FVTPL to FVOCI. Accordingly as at 1 January 2020 the Group has reclassified equity portfolio held under FVTPL to FVOCI.

The following table reconciles the carrying amounts of financial asset at the point of reclassification:

| | Carrying amount as at 31 December 2019 Rs. '000 | Change in classification Rs. '000 | Carrying amount as at 1 January 2020 Rs. '000 |
|---|---|---|---|
| **Financial assets measured at FVTPL** | | | |
| **Quoted equity investments** | | | |
| Brought forward balance | 1,410,593 | | |
| Reclassification | | (1,410,593) | |
| **Carried forward balance** | | | – |
| **Financial assets measured at FVOCI** | | | |
| **Quoted equity investments** | | | |
| Brought forward balance | – | | |
| Reclassification | | 1,410,593 | |
| **Carried forward balance** | | | 1,410,593 |

Other than mentioned above there were no any other significant reclassifications for the reporting periods of 2019/20 and 2018/19.

## 26. Investments in subsidiaries

### ACCOUNTING POLICY

Subsidiaries are investees controlled by the Group. The Group "Controls" an investee if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The cost of an acquisition is measured at fair value of the consideration of acquired identifiable assets, liabilities and contingent liabilities are at the date of acquisition.

Subsequent to the initial measurement the Company continues to recognise the investment in subsidiaries at cost. However, the Group reassesses any impairment indications at each reporting dates and adjusts accordingly.

The Financial Statement of all subsidiaries included the Consolidated Financial Statements from the date on which control commences until the date control ceases. At each reporting date, the Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more control elements.

All subsidiaries in the Group have a common financial year which ends on 31 March. Financial Statements of the subsidiaries are prepared using uniform and consistent accounting policies and all intra-group balances, unrealised gains and losses resulting from intra-group transactions, intra-group income and expenses eliminated in full.

The Group does not have a significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework within which subsidiary operates.

| | COMPANY | |
|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Balance as at the beginning of the year | 512,172 | 512,172 |
| Acquisitions made during the year | – | – |
| Disposals made during the year | – | – |
| | 512,172 | 512,172 |
| Less: Provision for impairment | (2,254) | (2,254) |
| **Net investment in subsidiaries** | 509,918 | 509,918 |

## 26.1 Group structure

| | 2020 | | 2019 | |
|---|---|---|---|---|
| As at 31 March | Ownership<br>% | Cost<br>Rs. '000 | Ownership<br>% | Cost<br>Rs. '000 |
| Fortune Properties Limited | 99.98 | 5,000 | 99.98 | 5,000 |
| Unisons Capital Leasing Limited | 90.38 | 507,172 | 90.38 | 507,172 |
| | | 512,172 | | 512,172 |
| Less: Provision for impairment | | (2,254) | | (2,254) |
| **Net investment in subsidiaries** | | 509,918 | | 509,918 |

Both subsidiaries are not listed in the Colombo Stock Exchange. Summarised Financial Statements of subsidiaries are given in Note 26.2.

24 October 2014 CDB acquired Laugfs Capital Limited (Unisons Capital Leasing Limited) and became a subsidiary with 86.26% share ownership and now it has increased up to 90.38%.

CDB Micro Finance Limited have changed the name to Fortune Properties Limited with effect from 25 June 2018.

### Amalgamation of Unisons Capital Leasing Limited and Fortune Properties Limited

Central Bank of Sri Lanka (CBSL) requires the Company to amalgamate Unisons Capital Leasing Limited and Fortune Properties Limited where the Company shareholding is 90.38% and 99.98% respectively. Accordingly, the Board of Directors of the Company resolved on 8 April 2019 to initiate the process of amalgamation and subsequent to the amalgamation Citizens Development Business Finance PLC will be the surviving entity. Unisons Capital Leasing Limited has amalgamated with Citizens Development Business Finance PLC in accordance with the provisions of Part VIII of the Companies Act No. 7 of 2007 with effect from 18 May 2020 and shall continue as Citizens Development Business Finance PLC. Amalgamation of Fortune Properties Limited with Citizens Development Business Finance PLC is still in process and has not been finalised yet.

## Provision for already impairment

The Directors valuation of investments in subsidiaries has been carried out on cash flow basis as at 31 March 2020 and accordingly Company has recognised an impairment charge of Rs. 2.25 Mn. against the investment in Fortune Properties Limited formerly known an CDB Micro Finance Limited (In 2019 Rs. 2.25 Mn.).

Present value of the expected cash flows of Unisons Capital Limited exceeds its carrying value and thus no impairment was recognised.

## 26.2 Summarised financial information of subsidiaries

Summarised financial information of Unisons Capital Leasing Limited with significant non-controlling interest is given below:

| | Unisons Capital Leasing Limited | |
|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Revenue | 764,829 | 744,850 |
| Net operating income | 389,763 | 376,188 |
| Less: Operating expenses | (186,618) | (246,327) |
| **Profit before tax** | 203,145 | 129,861 |
| Taxation | (78,233) | (26,938) |
| **Profit after tax** | 124,912 | 102,923 |
| Other comprehensive income (net of tax) | (190) | 134 |
| **Total comprehensive income** | 124,722 | 103,057 |

| | Unisons Capital Leasing Limited | |
|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Loans and receivables to customers | 1,630,555 | 2,879,070 |
| Financial Investments | 103,862 | 45,324 |
| Property, plant and equipment and intangible assets | 25,089 | 29,875 |
| Other assets | 182,782 | 348,354 |
| **Total assets** | 1,942,288 | 3,302,623 |
| Due to banks | 911,218 | 2,265,215 |
| Debt issued and other borrowed funds | 173,458 | 185,759 |
| Other liabilities | 264,630 | 383,390 |
| | 1,349,306 | 2,834,364 |
| Total equity | 592,982 | 468,259 |
| **Total liabilities and equity** | 1,942,288 | 3,302,623 |

| | Unisons Capital Leasing Limited | |
|---|---|---|
| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Cash flows from operating activities | (108,194) | 283,437 |
| Cash flows from investing activities | 81,218 | (55,169) |
| Cash flows from financing activities | – | (184,933) |
| **Net increase in cash and cash equivalents** | (26,976) | 43,335 |

## 26.3 Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. In general significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

The Group doesn't hold any significant influence on another entity which could be classified as investment in associates.

## 27. Investment property

### ACCOUNTING POLICY

#### Recognition

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties are recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

#### Measurement

Investment properties are initially measured at its cost and transaction costs shall be included in the initial measurement. Subsequent to the initial recognition the investment properties are stated at cost model which is in accordance with LKAS 16 – “Property, Plant and Equipment”.

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal. The land is non-depreciated. Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses.

However entity measure the fair value of investment property for the purpose of disclosure and the Company obtain a valuation by an independent valuer who holds recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

#### Transfers to/from investment property

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by commencement of owner occupation, for a transfer from investment property to owner occupied property, commencement of development with a view to sale, for a transfer from investment property to inventories, end of owner occupation, for a transfer from owner-occupied property to investment property; or commencement of an operating lease to another party, for a transfer from inventories to investment property.

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property.

Any gain arising on remeasurement is recognised in Statement of Profit or Loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in revaluation reserve in equity. Any loss is recognised immediately in the Statement of Profit or Loss.

#### Derecognition

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Balance as at the beginning of the year | **20,198** | 20,198 | **20,198** | 20,198 |
| Acquisitions during the year | **–** | – | **–** | – |
| Disposals during the year | **–** | – | **–** | – |
| | **20,198** | 20,198 | **20,198** | 20,198 |
| Less: Provision for impairment | **–** | – | **–** | – |
| **Balance as at the end of the year** | **20,198** | 20,198 | **20,198** | 20,198 |

Investment property comprises land acquired by the Company and held for capital appreciation purpose.

No depreciation is recognised since the land has an infinite useful life.

No provision for impairment was recognised for the year ended 31 March 2020 since fair value is higher than the carrying amount of the property. (Refer Note 27.1)

## 27.1 Fair valuation of investment property

The fair values of investment property were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The fair values of the Company's investment property at the reporting period end is as follows.

| Property | Extent (perches) | Date of valuation | Cost | Fair value | |
|---|---|---|---|---|---|
| | | | | 2020 | 2019 |
| | | | Rs. '000 | Rs. '000 | Rs. '000 |
| Land – Biyagama | 120 | 10 April 2019 | 20,198 | 54,000 | 54,000 |

| Valuer | Valuation technique | Significant unobservable inputs | Sensitivity |
|---|---|---|---|
| A R Ajith Fernando (FRICS). Chartered Valuation Surveyor, B.Sc Estate Management (London), Diploma in Valuation (SL). | Market Comparable Method - Valuation of the property have been arrived at with reference prevailing land sales and in the area adjusted for the specific conditions of the above property. | The reference rage of value for the properties in the area range from Rs. 400,000/- to Rs. 500,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |

## 28. Property, plant and equipment

### ACCOUNTING POLICY

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

#### Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

#### Measurement

An item of property, plant and 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 asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

#### Cost model

The Group applies cost model to property, plant and equipment except for freehold land and records at cost of purchase or construction together with any directly attributable expenses thereon less accumulated depreciation and any accumulated impairment losses.

#### Revaluation model

The Group applies the revaluation model to the freehold land. Revaluation is performed annually and if material value difference is observed such difference is taken to revaluation reserve. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land of the Group is revalued to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Profit or Loss or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves.

Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Group revalued all of its free hold land as at 31 March 2019. Method and significant assumptions including unobservable market inputs employed in estimating fair value is given in Note 28.1.

Group has not performed an external independent valuation to determine the fair value of the free hold land as at 31 March 2020 and based on the management assessment there were no indications to identify significant fair value changes as at 31 March 2020.

## ACCOUNTING POLICY

### Subsequent cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised. The costs of day-to-day servicing of property, plant and equipment are charged to the Statement of Profit or Loss as incurred. Costs incurred in using or redeploying an item are not included under carrying amount of an item.

### Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in Statement of Profit or Loss when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

### Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets, except for which are disclosed separately. Depreciation is determined separately for each significant component of an item of property, plant and equipment. Management reviews the assets residual value, useful life and depreciation method at each reporting date. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Companies within the Group use the same depreciation rates and policies:

| | |
|---|---|
| Freehold buildings | 2.5% |
| Motor vehicles | 20% |
| Computer equipment | 20% |
| Office equipment | 20% |
| Furniture and fittings | 20% |

Depreciation is not provided for freehold land.

### Useful life time of property, plant and equipment

The Company reviews the residual values, useful lives and method of depreciation of property, plant & equipment at reach reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

### Capital work-in-progress

Capital work-in-progress is stated at cost less any accumulated impairment losses. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management.

### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 23.

(LKAS 23) - "Borrowing Costs". A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

### Impairment of individual assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU subject to an operating segment ceiling test. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate asset is allocated. Impairment losses are recognised in Statement of Profit or Loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Assets impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

COMPANY

| | Land<br>Rs. '000 | Buildings<br>Rs. '000 | Furniture and fittings<br>Rs. '000 | Computer equipment<br>Rs. '000 | Office equipment<br>Rs. '000 | Motor vehicles<br>Rs. '000 | Capital Work in Progress<br>Rs. '000 | Total<br>Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | | | | |
| Balance as at 1 April 2019 | 1,234,400 | 655,133 | 773,230 | 486,251 | 229,382 | 218,189 | – | 3,596,585 |
| Additions during the year | 634,467 | | 82,397 | 21,392 | 10,756 | 40,625 | 14,737 | 804,374 |
| Disposal during the year | | | (348) | | | (6,400) | | (6,748) |
| **Balance as at 31 March 2020** | **1,868,867** | **655,133** | **855,279** | **507,643** | **240,138** | **252,414** | **14,737** | **4,394,211** |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at 1 April 2019 | – | 70,328 | 517,847 | 320,750 | 190,404 | 128,069 | – | 1,227,398 |
| Charged during the year | | 16,378 | 99,449 | 58,008 | 18,537 | 42,860 | | 235,232 |
| Disposal during the year | | | (174) | | | (6,400) | | (6,574) |
| **Balance as at 31 March 2020** | **–** | **86,706** | **617,122** | **378,758** | **208,941** | **170,929** | **–** | **1,456,056** |
| **Carrying value** | | | | | | | | |
| **Balance as at 31 March 2020** | **1,868,867** | **568,427** | **238,157** | **128,885** | **31,197** | **87,885** | **14,737** | **2,938,155** |
| Balance as at 31 March 2019 | 1,234,400 | 584,805 | 255,383 | 165,501 | 38,978 | 90,120 | – | 2,369,187 |

GROUP

| | Land<br>Rs. '000 | Buildings<br>Rs. '000 | Furniture and fittings<br>Rs. '000 | Computer equipment<br>Rs. '000 | Office equipment<br>Rs. '000 | Motor vehicles<br>Rs. '000 | Capital Work in Progress<br>Rs. '000 | Total<br>Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | | | | |
| Balance as at 1 April 2019 | 1,234,400 | 655,133 | 777,581 | 496,666 | 239,648 | 218,841 | – | 3,622,269 |
| Additions during the year | 634,467 | | 82,397 | 21,392 | 10,865 | 40,625 | 14,737 | 804,483 |
| Disposal during the year | | | (348) | | | (6,400) | | (6,748) |
| **Balance as at 31 March 2020** | **1,868,867** | **655,133** | **859,630** | **517,888** | **250,683** | **253,066** | **14,737** | **4,420,004** |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at 1 April 2019 | – | 70,328 | 518,579 | 328,204 | 192,528 | 128,614 | – | 1,238,253 |
| Charged during the year | | 16,378 | 99,884 | 58,963 | 19,588 | 42,958 | | 237,771 |
| Disposal during the year | | | (174) | | | (6,400) | | (6,574) |
| **Balance as at 31 March 2020** | **–** | **86,706** | **618,289** | **387,167** | **212,116** | **165,172** | **–** | **1,469,450** |
| **Carrying value** | | | | | | | | |
| **Balance as at 31 March 2020** | **1,868,867** | **568,427** | **241,341** | **130,891** | **38,397** | **87,894** | **14,737** | **2,950,554** |
| Balance as at 31 March 2019 | 1,234,400 | 584,805 | 259,002 | 168,462 | 47,120 | 90,227 | – | 2,384,016 |

Maturity Analysis of property, plant and equipment given in Note 51.

## 28.1 Revalued properties

The fair values of property, plant and equipment were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

Details of the revalued properties is as follows:

| | | | COMPANY | GROUP |
|---|---|---|---|---|
| Property as at 31 March 2020 | Extent (Perches) | Date of valuation | Rs. '000 | Rs. '000 |
| Land - No. 123, Orabipasha Mawatha, Colombo 10 | 85.20 | Saturday, 6 April 2019 | 852,000 | 852,000 |
| Land - No. 377/2, Kandy Road, Mahara, Kadawatha | 39.00 | Saturday, 6 April 2019 | 97,500 | 97,500 |
| Land - No. 79, Mihindu Mawatha, Kadawatha | 76.00 | Saturday, 6 April 2019 | 76,000 | 76,000 |
| Land - Madapatha, Piliyandala Lot 1A | 11.85 | Tuesday, 7 May 2019 | 4,700 | 4,700 |
| Land - Madapatha, Piliyandala Lot X | 11.00 | Tuesday, 7 May 2019 | 4,100 | 4,100 |
| Land - No. 119, Galle Road, Moratuwa | 5.20 | Sunday, 12 May 2019 | 16,900 | 16,900 |
| Land - No. 79, Colombo Road, Kurunegala – Front | 23.00 | Saturday, 11 May 2019 | 174,800 | 174,800 |
| Land - No. 79, Colombo Road, Kurunegala – Rear | 2.10 | Saturday, 11 May 2019 | 8,400 | 8,400 |
| | | | 1,234,400 | 1,234,400 |

| Valuer | Valuation technique | Significant unobservable inputs | Sensitivity |
|---|---|---|---|
| **Land - No. 123, Orabipasha Mawatha, Colombo 10** | | | |
| A R Ajith Fernando (FRICS), Chartered Valuation Surveyor, BSc Estate Management (London), Diploma in Valuation (SL) | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 9,500,000/- to Rs. 10,000,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - No. 377/2, Kandy Road, Mahara, Kadawatha** | | | |
| A R Ajith Fernando (FRICS), Chartered Valuation Surveyor, BSc Estate Management (London), Diploma in Valuation (SL) | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 2,400,000/- to Rs. 2,500,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - No. 79, Mihindu Mawatha, Kadawatha** | | | |
| A R Ajith Fernando (FRICS), Chartered Valuation Surveyor, BSc Estate Management (London), Diploma in Valuation (SL) | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 900,000/- to Rs. 1,000,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - Madapatha Lot 1A, Piliyandala** | | | |
| A R Ajith Fernando (FRICS), Chartered Valuation Surveyor, BSc Estate Management (London), Diploma in Valuation (SL) | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 350,000/- to Rs. 400,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - Madapatha Lot X, Piliyandala** | | | |
| A.R.Ajith Fernando (FRICS), Chartered Valuation Surveyor, BSc Estate Management (London), Diploma in Valuation (SL) | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 350,000/- to Rs. 400,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - No. 119, Galle Road, Moratuwa** | | | |
| K T Nihal, BSc Estate Management and Valuation, Associate member of Institute of Valuers in Sri Lanka. Incorporated Valuer | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 2,500,000/- to Rs. 3,500,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - No. 79, Colombo Road, Kurunegala – Front** | | | |
| K T Nihal, BSc Estate Management and Valuation, Associate Member of Institute of Valuers in Sri Lanka, Incorporated valuer | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 7,000,000/- to Rs. 8,000,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |
| **Land - No. 79, Colombo Road, Kurunegala – Rear** | | | |
| K T Nihal, BSc Estate Management and Valuation, Associate Member of Institute of Valuers in Sri Lanka, Incorporated valuer | Market Comparable Method* | The reference rage of value for the properties in the area range from Rs. 3,000,000/- to Rs. 4,000,000/- per perch. | Estimated fair value would increase if the market value of the per perch land value increases. |

**Market Comparable Method - Valuation of the property have been arrived at with reference prevailing land sales and in the area adjusted for the specific conditions of the above property. Valuation guideline CA*

Valuer has been selected with reference to the "guideline on property, plant and equipment and biological assets valuation" for the purpose of financial reporting issued by CA Sri Lanka.

## 28.2 Cost of the revalued properties

| Property as at 31 March 2020 | Cost<br>Rs. '000 |
|---|---|
| Land - No. 123, Orabipasha Mawatha, Colombo 10 | 196,628 |
| Land - No. 377/2, Kandy Road, Mahara, Kadawatha. | 15,234 |
| Land - No. 79, Mihindu Mawatha, Kadawatha. | 23,000 |
| Land - Madapatha, Piliyandala Lot 1A | 1,635 |
| Land - Madapatha, Piliyandala Lot X | 1,528 |
| Land - No. 119, Galle Road, Moratuwa | 15,600 |
| Land - No. 79, Colombo Road, Kurunegala | 181,999 |
| Total cost of the revalued properties | 435,624 |

Above table includes the original cost of the properties which carries at revalued amounts as at 31 March 2020.

## 28.3 Title restriction on property, plant and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Group as at the reporting date.

## 28.4 Compensation from third parties for property, plant and equipment

There were no compensation received or pending for property plant and equipment as at the reporting date.

## 28.5 Fully depreciated property, plant and equipment

The Company is having Rs. 166 Mn. fully depreciated assets available within the Group as at the reporting date.

## 28.6 Temporary idle property, plant and equipment

There were no any temporary idle property, plant and equipment as at the reporting date.

## 28.7 Property, plant and equipment retired from active use

There were no property plant and equipment retired from active use as at the reporting date.

## 28.8 Borrowing cost

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the year.

## 28.9 Number of buildings in lands held by the Company

There are four buildings in the following lands, held by the Group

- Land - No. 123, Orabipasha Mawatha, Colombo 10
- Land - No. 79, Mihindu Mawatha, Kadawatha
- Land - No. 377/2, Kandy Road, Mahara, Kadawatha
- Land - No. 119, Galle Road, Moratuwa

## 28.10 Property, plant and equipment pledged as securities

Lot X in Plan No. 4359 located in No. 63, Ananda Kumaraswamy Mawatha, Kollupitiya purchased during the year 2019/20 for a value of Rs. 634 Mn. has pledged as a security for bank borrowings. Other than that there were no any properties pledge as a security as at the reporting date.

## 29. Intangible assets

### ACCOUNTING POLICY

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

#### Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

#### Computer software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and its 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.

#### (a) Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

#### (b) Amortisation

Intangible assets are amortised on a straight-line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. The estimated useful life of software is eight years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### Derecognition

An intangible asset shall be derecognised on disposal; or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| **Cost** | | | | |
| Balance as at the beginning of the year | **178,938** | 160,985 | **204,941** | 185,092 |
| Additions during the year | **21,120** | 17,953 | **21,605** | 19,943 |
| Disposals during the year | **–** | – | | (94) |
| **Balance as at the end of the year** | **200,058** | 178,938 | **226,546** | 204,941 |
| **Accumulated amortisation** | | | | |
| Balance as at the beginning of the year | **96,147** | 74,836 | **107,103** | 83,400 |
| Charge during the year | **23,765** | 21,311 | **26,606** | 23,715 |
| Disposals during the year | **–** | – | | (12) |
| **Balance as at the end of the year** | **119,912** | 96,147 | **133,709** | 107,103 |
| **Carrying value** | | | | |
| Balance as at the end of the year | **80,146** | 82,791 | **92,837** | 97,838 |

Intangible assets comprise computer software and licenses acquired by the Company to be used in its operation.

There is no restrictions on the title of the intangible assets of the Group as at the reporting date. Further, there were no items pledged as securities. There were no capitalised borrowing cost during the financial year.

As at the reporting date, the Group does not have development costs capitalised as an internally-generated intangible assets and no software under development.

Maturity analysis of intangible assets is given in Note 51.

## 30. Right-of-use assets and lease liabilities

### ACCOUNTING POLICY

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

#### Policy applicable from 1 April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 April 2019.

#### As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### Policy applicable before 1 April 2019

For contracts entered into before 1 April 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

## ACCOUNTING POLICY

### As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

### Presentation

As per SLFRS 16 Right-of-use assets are either presented separately from other assets on the balance sheet or disclosed separately in the notes. Similarly, lease liabilities are either presented separately from other liabilities on the balance sheet or disclosed separately in the notes.

The Company has elected to present Right-of-use assets separately from other assets on the Statement of financial position. Similarly, lease liabilities are presented separately from other liabilities on the Statement of financial position. Depreciation expense and interest expense cannot be combined in the income statement. In the cash flow statement, principal payments on the lease liability are presented within financing activities; interest payments are presented based on an accounting policy election in accordance with LKAS 7 Statement of Cash Flows.

## 30.1 Right-of-use assets movement during the year

| | COMPANY | GROUP |
|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2020<br>Rs. '000 |
| **Right-of-use asset** | | |
| Balance as at the beginning of the year | – | – |
| Effect of SLFRS 16 adoption as at 1 April 2019 | 827,961 | 827,961 |
| Additions and improvements during the year | 309,823 | 309,823 |
| Disposals during the year | (131,834) | (131,834) |
| **Balance as at the end of the year** | 1,005,950 | 1,005,950 |
| **Accumulated depreciation** | | |
| Balance as at the beginning of the year | – | – |
| Charge during the year | 165,082 | 165,082 |
| **Balance as at the end of the year** | 165,082 | 165,082 |
| **Carrying value** | | |
| **Balance as at the end of the year** | 840,868 | 840,868 |

## 30.2 Lease liabilities movement during the year

| | COMPANY | GROUP |
|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2020<br>Rs. '000 |
| **Lease liabilities** | | |
| Balance as at the beginning of the year | – | – |
| Effect of SLFRS 16 adoption as at 1 April 2019 | 845,686 | 845,686 |
| Additions and improvements during the year | 154,854 | 154,854 |
| Disposals during the year | (104,292) | (104,292) |
| Accretion of interest during the year | 108,089 | 108,089 |
| Payments during the year | (199,947) | (199,947) |
| **Balance as at the end of the year** | 804,390 | 804,390 |

## 30.3 Amounts recognised in profit or loss

| For the year ended 31 March | COMPANY<br>2020<br>Rs. '000 | GROUP<br>2020<br>Rs. '000 |
|---|---|---|
| 2019/20 – Leases under SLFRS 16 | | |
| Depreciation of Right-of-use assets | 165,082 | 165,082 |
| Interest on lease liabilities | 108,089 | 108,089 |
| | 273,171 | 273,171 |
| 2018/19 – Leases under LKAS 17 | | |
| Operating lease rent expense | 201,622 | 201,622 |
| | 201,622 | 201,622 |

## 30.4 Amounts recognised in statement of cash flows

| For the year ended 31 March | COMPANY<br>2020<br>Rs. '000 | GROUP<br>2020<br>Rs. '000 |
|---|---|---|
| Total cash outflow for leases | (199,947) | (199,947) |

## 30.5 Maturity analysis – Contractual undiscounted cash flows

| For the year ended 31 March | COMPANY<br>2020<br>Rs. '000 | GROUP<br>2020<br>Rs. '000 |
|---|---|---|
| Less than one year | 188,056 | 188,056 |
| Between one and five years | 577,484 | 577,484 |
| More than five years | 188,638 | 188,638 |
| Total undiscounted cash flows | 954,178 | 954,178 |

## 31. Goodwill on consolidation

### ACCOUNTING POLICY

Goodwill is initially measured being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable asset acquired and liabilities assumed. Subsequent to initial recognition, Goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

#### Impairment test for goodwill

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss.

| | GROUP | |
|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Balance as at the beginning of the year | 244,180 | 244,180 |
| Additions during the year | – | – |
| Disposal during the year | – | – |
| Balance as at the end of the year | 244,180 | 244,180 |

## 31.1 Impairment test on goodwill

Goodwill acquired through business combination is tested for impairment annually as at the reporting date.

For the purpose of impairment testing subsidiary company was considered as a separate cash-generating unit (CGU) and the recoverable amounts of the CGU have been calculated based on its value in use. The value in use is determined by discounting the future cash flows expected to be generated from the continuing use of the CGU. No impairment loss was recognised during 2019/20 (2018/19 – Nil) because the recoverable amount of this CGUs was determined to be higher than its carrying amount.

## 31.2 Amalgamation of Unisons Capital Leasing Limited and Fortune Properties Limited

Unisons Capital Leasing Limited has amalgamated with Citizens Development Business Finance PLC in accordance with the provisions of Part VIII of the Companies Act No. 7 of 2007 with effect from 18 May 2020 and shall continue as Citizens Development Business Finance PLC. Amalgamation of Fortune Properties Limited with Citizens Development Business Finance PLC is still in process and has not been finalised as yet.

## 32. Other assets

### ACCOUNTING POLICY

Other assets mainly comprise recoverable tax, insurance premium receivable, insurance commission receivable, advance payments and inventory carried at historical cost.

#### Inventories

Inventories include mainly the gift items purchased for the savings value added scheme. Those inventories are valued at cost or net realisable value whichever is lower. The cost of an inventory is the purchase price. Net realisable value is the estimated realisable value less estimated cost necessary to make the sale.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Tax recoverable | **394,138** | 286,953 | **394,138** | 289,097 |
| Insurance premium receivable and capitalised charges | **2,974,727** | 2,277,378 | **3,025,096** | 2,277,378 |
| Insurance commission receivable | **212,758** | 172,651 | **235,804** | 172,651 |
| Unamortised cost on staff loans | **142,009** | 139,915 | **142,009** | 139,915 |
| Gift stock | **8,124** | 23,584 | **8,124** | 23,584 |
| Other stocks | **14,607** | 18,059 | **14,607** | 18,059 |
| Other receivables and advances | **712,191** | 490,001 | **914,514** | 579,274 |
| Total other assets | **4,458,554** | 3,408,541 | **4,734,292** | 3,499,958 |

Maturity analysis of other assets is given in Note 51.

## 33. Derivative financial liabilities

### ACCOUNTING POLICY

Derivative contract is a financial instrument or other contract with all three of the following characteristics.

(a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying").

(b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) It is settled at a future date.

A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume or other units specified in the contract. However, a derivative instrument does not require the holder or writer to invest or receive the notional amount at the inception of the contract. Alternatively, a derivative could require a fixed payment or payment of an amount that can change (but not proportionally with a change in the underlying) as a result of some future event that is unrelated to a notional amount.

Derivatives are recorded at fair value with corresponding gains or losses are recognised in net gains/(losses) on trading in the Income Statement.

Derivative financial liabilities are classified as fair value through profit or loss if they are acquired principally for the purpose of selling or repurchasing it in the near term.

Derivative financial instruments are subject to hedge accounting if those instruments are satisfying the hedge effectiveness criteria.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Forward exchange contracts | 60,440 | 363,153 | 60,440 | 363,153 |
| Total derivative financial liabilities | 60,440 | 363,153 | 60,440 | 363,153 |

Maturity analysis of derivative financial liabilities is given in Note 51.

Company has entered into two short-term forward contracts to cover the exchange rate risk exposed from the foreign borrowings obtained from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) and BlueOrchard Microfinance Fund.

Refer Note 36.2 for more details on foreign borrowings.

## 34. Deposits from customers

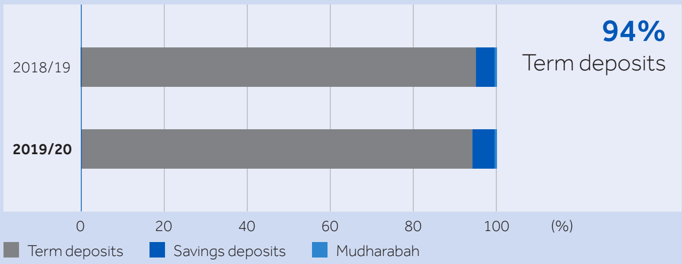
### ACCOUNTING POLICY

These include savings deposits and term deposits. Customer deposits are initially recognised at fair value net of transaction cost. Subsequent to initial recognition deposits are measured at their amortised cost using the effective interest rate (EIR) method. Interest paid/payable on these deposits is recognised in the Statement of Profit or Loss.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Term deposits | 40,782,693 | 44,944,577 | 40,782,693 | 44,944,577 |
| Savings deposits | 2,289,238 | 2,027,771 | 2,267,437 | 2,013,982 |
| Mudharabah | 255,645 | 264,019 | 255,645 | 264,019 |
| **Total deposits from customers** | 43,327,576 | 47,236,367 | 43,305,775 | 47,222,578 |

Maturity analysis of deposits from customers is given in Note 51 and pre-termination of fixed deposits and renewal of fixed deposits may cause actual maturities differ from contractual maturities.

### Composition of customer deposits



## Deposit insurance scheme

As per the Direction No. 01 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 1 October 2010 all licensed finance companies are required to pay an insurance premium calculated at the rate of 0.15% per annum payable monthly for all eligible deposits as at the end of the month. Eligible deposits includes all the time deposits held by CDB except for –

a. Deposit liabilities to member institutions

b. Deposit liabilities to the Government of Sri Lanka inclusive of Ministries, Departments and Local Governments.

c. Deposit liabilities to Directors, Key Management Personnel and other related parties as defined by the Finance Companies Act (Corporate Governance) Direction No. 03 of 2008.

d. Deposit liabilities held as collateral against any accommodation granted.

e. Deposits falling within the meaning of abandoned property in terms of the Finance Companies Act, Funds which have been transferred to the Central Bank of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

## 35. Debt securities issued

### ACCOUNTING POLICY

Debt securities issued include debentures issued by the Company. Subsequent to the initial recognition these are measured at amortised cost using EIR method in the Statement of Financial Position. Interest paid/payable (Effective interest rate method) on debt securities is recognised in the Statement of Profit or Loss.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Listed debentures (Refer Note 35.1) | 5,092,096 | 3,980,483 | 5,092,096 | 3,980,483 |
| Total debt securities issued | 5,092,096 | 3,980,483 | 5,092,096 | 3,980,483 |

Debt securities issued would be subordinated to the claims of depositors and all other creditors of the issuer in the event of the winding-up of the issuer.

The Group has not had any defaults of principal or interest or other breaches with respect to any subordinated liability during the year ended 31 March 2020 (2019 – Nil)

Maturity analysis of debt securities issued is given in Note 51.

### 35.1 Details of listed debentures issued

**Debenture issue – 2016**

Ten million (10,000,000) Subordinated, Listed, Rated (A-), Guaranteed, Redeemable debentures at a price of Rs. 100/- each.

**Debenture issue – 2018**

Initial issue of ten million (10,000,000) Subordinated, Listed, Rated (BBB), Unsecured, Redeemable debentures at a price of Rs. 100/- each with an option to issue up to a further ten million (10,000,000) debentures in the event of an oversubscription of the initial issue.

**Debenture issue – 2019 January**

Five million (5,000,000) Subordinated, Listed, Rated (BBB), Unsecured, Redeemable debentures at a price of Rs. 100/- each with the option to increase by a further Five million (5,000,000) debentures in the event of an oversubscription with a further option to issue two million five hundred thousand (2,500,000) debentures.

**Debenture issue – 2019 December**

Initial issue of Five million (5,000,000) Subordinated, Unsecured, Listed, Redeemable, Rated (BBB) debentures at a price of Rs. 100/- each with the option to issue two million five hundred thousand (2,500,000) debentures in the event of an oversubscription of the initial issue.

| Description | Face value | Amortised cost | | Allotment date | Maturity date | Term | Interest rate | Repayment term |
|---|---|---|---|---|---|---|---|---|
| | | 2020 | 2019 | | | (Years) | % | |
| | Rs. '000 | Rs. '000 | Rs. '000 | | | | | |
| **Issued in 2016** | | | | | | | | |
| Type A | 998,370 | **1,035,224** | 1,035,950 | 3 June 2016 | 2 June 2021 | 5 | 12.75 | Semi-annually |
| Type B | 1,630 | **1,702** | 1,703 | 3 June 2016 | 2 June 2021 | 5 | 6-months Net T-Bill Rate (net of tax) plus 1.50% (Maximum of 15% per annum) | Semi-annually |
| | 1,000,000 | **1,036,926** | 1,037,653 | | | | | |
| **Issued in 2018** | | | | | | | | |
| Type A | 1,066,990 | **1,063,096** | 1,064,439 | 28 March 2018 | 27 March 2023 | 5 | 13.75 | Semi-annually |
| Type B | 933,010 | **929,663** | 930,833 | 28 March 2018 | 27 March 2023 | 5 | 14.20 | Annually |
| | 2,000,000 | **1,992,759** | 1,995,272 | | | | | |
| **Issued in 2019 (January)** | | | | | | | | |
| Type A | 259,180 | **264,400** | 264,593 | 31 January 2019 | 30 January 2024 | 5 | 15.00 | Semi-annually |
| Type B | 668,590 | **682,526** | 682,965 | 31 January 2019 | 30 January 2024 | 5 | 15.50 | Annually |
| | 927,770 | **946,926** | 947,558 | | | | | |
| **Issued in 2019 (December)** | | | | | | | | |
| Type A | 387,900 | **402,087** | – | 10 December 2019 | 9 December 2024 | 5 | 13.43 | Semi-annually |
| Type B | 687,300 | **713,398** | – | 10 December 2019 | 9 December 2024 | 5 | 13.88 | Annually |
| | 1,075,200 | **1,115,485** | – | | | | | |
| **Total debt securities issued** | | **5,092,096** | 3,980,483 | | | | | |

## 35.2 Utilisation of funds raised via capital market

| Objective as per prospectus | Amount allocated as per prospectus in Rs. | Proposed date of utilisation as per prospectus | Amount allocated from proceeds in Rs. (A) | Total proceeds % | Amounts utilised in Rs. (B) | Utilisation against Allocation (B/A) % |
|---|---|---|---|---|---|---|
| **Issued in 2016** | | | | | | |
| Finance the Company's anticipated future business growth | 1 Bn. | Within the next 12 months from the date of allotment | 1 Bn. | 100 | 1 Bn. | 100 |
| Strengthen the Tier II capital base | | | | | | |
| Reduce the asset and liability mismatch | | | | | | |
| **Issued in 2018** | | | | | | |
| Supporting the general business growth opportunities of the Company | 2 Bn. | Within the next 12 months from the date of allotment | 2 Bn. | 100 | 2 Bn. | 100 |
| Reduce the asset and liability mismatch | | | | | | |
| Strengthen the Tier II capital base | | | | | | |
| **Issued in 2019 (January)** | | | | | | |
| Supporting the general business growth opportunities of the Company | 927.77 Mn. | Within the next 12 months from the date of allotment | 927.77 Mn. | 100 | 927.77 Mn. | 100 |
| Reduce the asset and liability mismatch | | | | | | |
| Strengthen the Tier II capital base | | | | | | |
| **Issued in 2019 (December)** | | | | | | |
| Supporting the general business growth opportunities of the Company | 1,075.2 Mn. | Within the next 12 months from the date of allotment | 1,075.2 Mn. | 100 | 1,075.2 Mn. | 100 |
| Reduce the asset and liability mismatch | | | | | | |
| Strengthen the Tier II capital base | | | | | | |

## 36. Other interest-bearing borrowings

### ACCOUNTING POLICY

These represent borrowings from financial institutions, due to foreign institutions, securitisation, commercial papers and other borrowings. These facilities are initially recognised at fair value net of transaction cost. Subsequent to initial recognition borrowings are measured at their amortised cost using the effective interest method. Amortised cost is computed by taking into account any discount or premium identified at initial recognition which are an integral part of EIR. Interest paid/payable on these borrowings are recognised in profit or loss.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Due to banks (Refer Note 36.1) | **13,149,388** | 11,908,910 | **13,806,004** | 13,687,126 |
| Due to foreign institutional lenders (Refer Note 36.2) | **10,550,655** | 9,935,782 | **10,550,655** | 9,935,782 |
| Securitisation (Refer Note 36.3) | **2,975,019** | 2,660,653 | **2,975,019** | 2,660,653 |
| Other borrowings | **–** | 4,532 | **173,458** | 190,291 |
| Total other interest-bearing borrowings | **26,675,062** | 24,509,877 | **27,505,136** | 26,473,852 |

Maturity analysis of other interest – bearing borrowings is given in Note 51.

## 36.1 Due to banks

| | | COMPANY | | GROUP | |
|---|---|---|---|---|---|
| As at 31 March | Loan obtained<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Bank of Ceylon – Term Loan | 500,000 | **115,301** | 241,899 | **115,301** | 241,899 |
| Commercial Bank of Ceylon PLC – Term Loan 1 | 300,000 | **106,660** | 186,858 | **106,660** | 186,858 |
| DFCC Bank PLC – Term Loan 1 | 500,000 | **260,393** | 385,451 | **260,393** | 385,451 |
| DFCC Bank PLC – Term Loan 2 | 300,000 | **–** | 323,483 | **–** | 323,483 |
| Hatton National Bank PLC – Term Loan 1 | 1,000,000 | **–** | 460,801 | **–** | 460,801 |
| Hatton National Bank PLC – Term Loan 2 | 750,000 | **–** | 63,556 | **–** | 63,556 |
| Hatton National Bank PLC – Term Loan 3 | 200,000 | **–** | 92,092 | **–** | 92,092 |
| Hatton National Bank PLC – Term Loan 4 | 1,000,000 | **362,480** | 697,873 | **362,480** | 697,873 |
| Hatton National Bank PLC – Term Loan 5 | 1,000,000 | **810,710** | – | **810,710** | – |
| Hatton National Bank PLC – Term Loan (Revolving) | 300,000 | **–** | 300,829 | **–** | 300,829 |
| Hatton National Bank PLC – Term Loan (Revolving) | 700,000 | **699,881** | | **699,881** | |
| MCB Bank Limited – Term Loan 1 | 200,000 | **21,909** | 88,775 | **21,909** | 88,775 |
| National Savings Bank – Term Loan 1 | 500,000 | **124,725** | 291,699 | **124,725** | 291,699 |
| National Savings Bank – Term Loan 2 | 500,000 | **473,534** | – | **473,534** | – |
| Nations Trust Bank PLC – Term Loan 1 | 500,000 | **167,632** | 335,728 | **167,632** | 335,728 |
| Nations Trust Bank PLC – Term Loan 2 | 750,000 | **605,439** | – | **605,439** | – |
| Nations Trust Bank PLC – Term Loan 3 | 750,000 | **–** | 229,174 | **–** | 229,174 |
| Sampath Bank PLC – Term Loan 1 | 1,100,000 | **484,258** | 784,708 | **484,258** | 784,708 |
| Sampath Bank PLC – Term Loan 2 | 1,500,000 | **1,001,336** | 1,353,601 | **1,001,336** | 1,353,601 |
| Sampath Bank PLC – Term Loan 3 | 1,000,000 | **1,007,350** | – | **1,007,350** | – |
| Seylan Bank PLC – Term Loan 1 | 1,000,000 | **116,068** | 317,254 | **116,068** | 317,254 |
| Seylan Bank PLC – Term Loan 2 | 2,000,000 | **431,680** | 832,557 | **431,680** | 832,557 |

| | | COMPANY | | GROUP | |
|---|---|---|---|---|---|
| As at 31 March | Loan obtained Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Seylan Bank PLC – Term Loan 3 | 1,000,000 | 335,865 | 538,061 | 335,865 | 538,061 |
| Seylan Bank PLC – Term Loan 4 | 500,000 | 292,943 | 393,365 | 292,943 | 393,365 |
| Seylan Bank PLC – Term Loan 5 | 1,000,000 | 666,442 | 866,155 | 666,442 | 866,155 |
| Seylan Bank PLC – Term Loan 6 | 400,000 | 340,252 | – | 340,252 | – |
| Seylan Bank PLC – Term Loan 7 | 1,500,000 | 1,380,880 | – | 1,380,880 | – |
| Seylan Bank PLC – Short - Term Loan | 200,000 | 200,000 | | 200,000 | |
| Union Bank PLC – Term Loan 1 | 500,000 | 281,051 | 405,976 | 281,051 | 405,976 |
| Nations Devlopment Bank PLC – Term Loan 1 | 500,000 | 560,590 | 539,083 | 560,590 | 539,083 |
| Nations Devlopment Bank PLC – Term Loan 2 | 1,000,000 | 1,132,481 | 1,078,761 | 1,132,481 | 1,078,761 |
| Nations Devlopment Bank PLC – Term Loan 3 | 1,000,000 | 1,169,528 | 1,101,171 | 1,169,528 | 1,101,171 |
| Loans obtained by – Subsidiaries | | | | 1,139,238 | 1,778,216 |
| **Total due to banks** | | 13,149,388 | 11,908,910 | 14,288,626 | 13,687,126 |

## 36.2 Due to foreign institutional lenders

| | | COMPANY | | GROUP | |
|---|---|---|---|---|---|
| As at 31 March | Loan obtained Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Belgian Investment Company for Developing Countries (BIO) | 1,597,500 | 1,024,894 | 1,217,159 | 1,024,894 | 1,217,159 |
| Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V. (FMO) | 4,562,500 | 4,856,809 | 4,418,812 | 4,856,809 | 4,418,812 |
| BlueOrchard Microfinance Fund | 4,487,500 | 4,668,952 | 4,299,811 | 4,668,952 | 4,299,811 |
| **Total due to foreign institutional lenders** | **10,647,500** | 10,550,655 | 9,935,782 | 10,550,655 | 9,935,782 |

## 36.3 Securitisation

Details of securitisation as at 31 March 2020 is as follows:

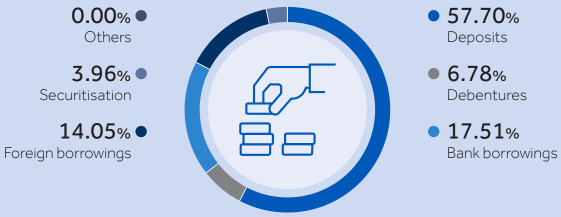
| Issue No. | Face value (Rs. '000) | Maximum period (Months) | Trustee | Balance as at 31 March 2020 Rs. '000 | Security |
|---|---|---|---|---|---|
| D2 | 200,000 | 36 | HNB | 39,663 | Mortgage over lease and hire purchase receivables |
| D3 | 1,321,170 | 36 | HNB | 188,217 | Mortgage over lease and hire purchase receivables |
| D4 | 750,000 | 60 | Deutsche Bank | 94,198 | Mortgage over lease and hire purchase receivables |
| D5 | 250,000 | 60 | Deutsche Bank | 16,020 | Mortgage over lease and hire purchase receivables |
| D18 | 50,000 | 36 | HNB | 61,006 | Mortgage over lease and hire purchase receivables |
| D19 | 628,000 | 36 | HNB | 417,994 | Mortgage over lease and hire purchase receivables |
| D20 | 160,000 | 36 | HNB | 60,787 | Mortgage over lease and hire purchase receivables |
| D21 | 290,000 | 36 | HNB | 155,882 | Mortgage over lease and hire purchase receivables |
| D22 | 240,000 | 24 | People's Bank | 127,232 | Mortgage over lease and hire purchase receivables |
| D24 | 40,000 | 24 | People's Bank | 5,908 | Mortgage over lease and hire purchase receivables |
| D25 | 200,000 | 36 | HNB | 18,056 | Mortgage over lease and hire purchase receivables |
| D26 | 1,000,000 | 36 | HNB | 90,330 | Mortgage over lease and hire purchase receivables |
| D27 | 300,000 | 36 | HNB | 367,808 | Mortgage over lease and hire purchase receivables |
| D28 | 500,000 | 20 | HNB | 535,276 | Mortgage over lease and hire purchase receivables |
| D29 | 750,000 | 28 | HNB | 796,642 | Mortgage over lease and hire purchase receivables |
| **Total securitisation** | | | | 2,975,019 | |

Details of securitisation as at 31 March 2019 is as follows:

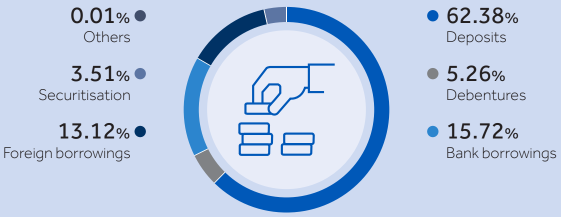
| Issue No. | Face value (Rs. '000) | Maximum period (Months) | Trustee | Balance as at 31 March 2019 Rs. '000 | Security |
|---|---|---|---|---|---|
| D1 | 900,400 | 48 | Deutsche Bank | 10,079 | Mortgage over lease and hire purchase receivables |
| D2 | 200,000 | 36 | HNB | 154,008 | Mortgage over lease and hire purchase receivables |
| D3 | 1,321,170 | 36 | HNB | 605,209 | Mortgage over lease and hire purchase receivables |
| D4 | 750,000 | 60 | Deutsche Bank | 272,540 | Mortgage over lease and hire purchase receivables |
| D5 | 250,000 | 60 | Deutsche Bank | 61,053 | Mortgage over lease and hire purchase receivables |
| D18 | 50,000 | 36 | HNB | 53,687 | Mortgage over lease and hire purchase receivables |
| D19 | 628,000 | 36 | HNB | 548,912 | Mortgage over lease and hire purchase receivables |
| D20 | 210,000 | 36 | HNB | 161,062 | Mortgage over lease and hire purchase receivables |
| D21 | 290,000 | 36 | HNB | 245,238 | Mortgage over lease and hire purchase receivables |
| D22 | 250,000 | 24 | People's Bank | 259,748 | Mortgage over lease and hire purchase receivables |
| D23 | 163,000 | 24 | People's Bank | 258,247 | Mortgage over lease and hire purchase receivables |
| D24 | 40,000 | 24 | People's Bank | 30,870 | Mortgage over lease and hire purchase receivables |
| **Total securitisation** | | | | 2,660,653 | |

## 36.4 Analysis of interest-bearing funding mix

### Funding mix – Company 2019/20



### Funding mix – Company 2018/19



## 37. Current tax liabilities

### ACCOUNTING POLICY

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Refer Note 15 for more details on taxation.

The Company and the Group are subject to income taxes and other taxes including VAT and NBT on financial services. Significant judgement is required to determine the total provision for current and other taxes since uncertainties exist, with respect to the tax laws which are applicable.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| VAT on financial services | 151,088 | 137,931 | 151,936 | 141,214 |
| Withholding tax payable | 46 | 35,266 | 46 | 35,266 |
| Provision for income tax (Refer Note 37.1) | 1,307,144 | 228,214 | 1,385,377 | 299,244 |
| Other taxes on financial services | 60,753 | 155,337 | 65,787 | 157,418 |
| **Total current tax liabilities** | 1,519,031 | 556,748 | 1,603,146 | 633,142 |

Maturity analysis of current tax liabilities is given in Note 51.

## 37.1 Provision for income tax

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Balance as at the beginning of the year | 228,214 | 286,759 | 299,244 | 289,086 |
| Current tax for the year (Refer Note 15) | 1,141,745 | – | 1,237,496 | 74,678 |
| Over provision in respect of prior periods (Refer Note 15) | (78,088) | (39,202) | (75,834) | (39,202) |
| Self-assessment payment of tax/ESC recovered | 15,273 | (19,343) | (75,529) | (25,318) |
| **Balance as at the end of the year** | 1,307,144 | 228,214 | 1,385,377 | 299,244 |

## 38. Deferred tax assets and liabilities

### ACCOUNTING POLICY

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably , and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group and the Company are subject to income taxes and other taxes including VAT and NBT on financial services. Significant judgement is required to determine the amount of deferred tax assets and liabilities.

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. Significant management judgements are required to determine the amount of deferred tax assets/liabilities that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Refer Note 15 fore more details on taxation.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Deferred tax liabilities | 650,401 | 2,068,260 | 650,401 | 2,046,989 |
| Deferred tax assets | – | (710,841) | (41,130) | (710,928) |
| **Total net deferred tax liabilities** | 650,401 | 1,357,419 | 609,271 | 1,336,061 |

Net deferred tax assets/liabilities of one entity cannot be set-off against another entity's assets/liabilities since there is no legally enforceable right to set-off. Therefore net deferred tax assets and liabilities of different entities are separately recognised in the Statement of Financial Position.

Maturity analysis of deferred tax asset and liabilities are given in Note 51.

## 38.1 Summary of net deferred tax liability

COMPANY

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Temporary difference Rs. '000 | Tax effect Rs. '000 | Temporary difference Rs. '000 | Tax effect Rs. '000 |
| **Deferred tax liabilities on:** | | | | |
| Accelerated depreciation for tax purposes – owned assets | 538,197 | 150,695 | 416,295 | 116,562 |
| Accelerated depreciation for tax purposes – leased assets | 982,479 | 275,094 | 6,168,164 | 1,727,086 |
| Deferred tax on revaluation surplus | 802,185 | 224,612 | 802,185 | 224,612 |
| | 2,322,861 | 650,401 | 7,386,644 | 2,068,260 |
| **Deferred tax assets on:** | | | | |
| Unutilised tax losses | | | (2,538,718) | (710,841) |
| | | | (2,538,718) | (710,841) |
| **Net deferred tax liability** | 2,322,861 | 650,401 | 4,847,926 | 1,357,419 |

GROUP

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Temporary difference Rs. '000 | Tax effect Rs. '000 | Temporary difference Rs. '000 | Tax effect Rs. '000 |
| **Deferred tax liabilities on:** | | | | |
| Accelerated depreciation for tax purposes – owned assets | 545,034 | 152,609 | 431,128 | 120,716 |
| Accelerated depreciation for tax purposes – leased assets | 828,750 | 232,050 | 6,077,362 | 1,701,661 |
| Deferred tax on revaluation surplus | 802,185 | 224,612 | 802,185 | 224,612 |
| | 2,175,969 | 609,271 | 7,310,675 | 2,046,989 |
| **Deferred tax assets on:** | | | | |
| Unutilised tax losses | | | (2,538,718) | (710,841) |
| Tax effect on defined benefit plans | | | (312) | (87) |
| | | | (2,539,030) | (710,928) |
| **Net deferred tax liability** | 2,175,969 | 609,271 | 4,771,645 | 1,336,061 |

## 38.2 Movement of net deferred tax liability

COMPANY

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Total movement Rs. '000 | Effect on income statement Rs. '000 | Effect on other comprehensive income Rs. '000 | Total movement Rs. '000 | Effect on income statement Rs. '000 | Effect on other comprehensive income Rs. '000 |
| Net deferred tax liability as at 1 April | 1,357,419 | | | 860,819 | | |
| **Changes in net liability:** | | | | | | |
| Accelerated depreciation for tax purposes – Owned assets | 34,133 | 34,133 | | 24,800 | 24,800 | |
| Accelerated depreciation for tax purposes – Leased assets | (1,451,992) | (1,451,992) | | (498,235) | (498,235) | |
| Unutilised tax losses | 710,841 | 710,841 | | 913,810 | 913,810 | |
| Revaluation surplus | | | | 56,225 | | 56,225 |
| **Total effect on total comprehensive income** | | (707,018) | | | 440,375 | 56,225 |
| **Net deferred tax liability as at 31 March** | 650,401 | | | 1,357,419 | | |

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Total movement Rs. '000 | Effect on income statement Rs. '000 | Effect on other comprehensive income Rs. '000 | Total movement Rs. '000 | Effect on income statement Rs. '000 | Effect on other comprehensive income Rs. '000 |
| Net deferred tax liability as at 1 April | 1,336,061 | | | 887,200 | | |
| **Changes in net liability:** | | | | | | |
| Accelerated depreciation for tax purposes – Owned assets | 31,894 | 31,894 | | 25,960 | 25,960 | |
| Accelerated depreciation for tax purposes – Leased assets | (1,469,611) | (1,469,611) | | (547,088) | (547,089) | |
| Unutilised tax losses | 710,841 | 710,841 | | 913,810 | 913,810 | |
| Tax effect on defined benefit plans | 87 | 87 | | (46) | (46) | |
| Revaluation surplus | | | | 56,225 | | 56,225 |
| **Total effect on total comprehensive income** | | (726,789) | | | 392,635 | 56,225 |
| **Net deferred tax liability as at 31 March** | 609,271 | | | 1,336,061 | | |

## 39. Retirement benefit obligation

### ACCOUNTING POLICY

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Plan asset comprises the assets held by a long-term employee benefit fund that is legally separate from the reporting entity and exists solely to pay or fund employee benefits.

Refer Note 13.1 for Group's policy on retirement benefit obligation.

| | COMPANY | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Defined benefit obligation Rs. '000 | Fair value of plan asset Rs. '000 | Net defined benefit liability Rs. '000 | Defined benefit obligation Rs. '000 | Fair value of plan asset Rs. '000 | Net defined benefit liability Rs. '000 |
| Balance as at the beginning of the year | 513,950 | 506,581 | 7,369 | 374,098 | 313,371 | 60,727 |
| **Recognised in profit or loss** | | | | | | |
| Current service cost | 167,813 | | 167,813 | 49,721 | | 49,721 |
| Interest cost/Income | 56,534 | 55,724 | 810 | 41,151 | 34,471 | 6,680 |
| | 224,347 | 55,724 | 168,623 | 90,872 | 34,471 | 56,401 |
| **Recognised in other comprehensive income** | | | | | | |
| Actuarial gain/loss | (54,228) | 7,833 | (62,061) | 61,406 | (8,835) | 70,241 |
| | (54,228) | 7,833 | (62,061) | 61,406 | (8,835) | 70,241 |
| **Others** | | | | | | |
| Contributions made during the year | | 85,000 | (85,000) | | 180,000 | (180,000) |
| Benefits paid by the plan asset | (41,067) | (41,067) | – | (12,427) | (12,427) | |
| Total net defined benefit obligation as at end of the year | 643,002 | 614,071 | 28,931 | 513,949 | 506,580 | 7,369 |

| | | | | | | GROUP |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Defined benefit obligation Rs. '000 | Fair value of plan asset Rs. '000 | Net defined benefit liability Rs. '000 | Defined benefit obligation Rs. '000 | Fair value of plan asset Rs. '000 | Net defined benefit liability Rs. '000 |
| Balance as at the beginning of the year | 514,261 | 506,581 | 7,681 | 374,388 | 313,371 | 61,017 |
| **Recognised in profit or loss** | | | | | | |
| Current service cost | 167,502 | – | 167,501 | 49,877 | | 49,877 |
| Interest cost/income | 56,534 | 55,724 | 810 | 41,150 | 34,471 | 6,679 |
| | 224,035 | 55,724 | 168,311 | 91,027 | 34,471 | 56,556 |
| **Recognised in other comprehensive income** | | | | | | |
| Actuarial gain/loss | (54,228) | 7,833 | (62,061) | 61,273 | (8,835) | 70,108 |
| | (54,228) | 7,833 | (62,061) | 61,273 | (8,835) | 70,108 |
| **Others** | | | | | | |
| Contributions made during the year | | 85,000 | (85,000) | | 180,000 | (180,000) |
| Benefits paid by the plan asset | (41,067) | (41,067) | – | (12,427) | (12,427) | |
| Total net defined benefit obligation as at end of the year | 643,002 | 614,071 | 28,931 | 514,261 | 506,580 | 7,681 |

Maturity analysis of retirement benefit obligation is given in Note 51.

## 39.1 Plan assets

Plan assets comprise the followings and all equity investments are quoted:

| | | COMPANY | | GROUP |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Cash and cash equivalents | 8,239 | 11,118 | 8,239 | 11,118 |
| Quoted equity securities | 238,402 | 131,750 | 238,402 | 131,750 |
| Term deposits | 367,430 | 363,712 | 367,430 | 363,712 |
| **Total plan assets** | 614,071 | 506,580 | 614,071 | 506,580 |

## 39.2 Actuarial valuation

An actuarial valuation of the retirement benefit obligation was carried out as at 31 March 2020 by Actuarial and Management Consultants (Private) Limited, a firm of professional actuaries. The valuation method used by the actuaries is the "Projected Unit Credit Method", the method recommended by LKAS 19 – "Employee Benefits".

### Actuarial assumptions

| Assumption | Description | | 2020 | 2019 |
|---|---|---|---|---|
| **Non-financial assumptions** | | | | |
| Mortality | A 1967/70 mortality table issued by the Institute of Actuaries, London | | A 67/70 | A 67/70 |
| Staff turnover | The probability of employee leaving the organisation other than death, illness and normal retirement | Permanent | 6% | 6% |
| | | Contract | 54% | 54% |
| Normal retirement age | Age which employee is normally retired | | 55 years | 55 years |
| **Financial assumptions** | | | | |
| Discount rate | Determined based on the long-term Government Bond rate and expected inflation in long-term | | 10% | 11% |
| Future salary growth | Normal annual salary increment rate per employee was considered | | 8% | 10% |

## Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions (financial), holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| Assumption | Change | Adjusted present value of net defined benefit liability ('000) | Net Effect on present value of defined benefit liability ('000) |
|---|---|---|---|
| Discount rate | 1% increase | 593,731 | 49,271 |
|  | 1% decrease | 699,472 | (56,470) |
| Future salary growth | 1% increase | 702,800 | (59,798) |
|  | 1% decrease | 590,104 | 52,898 |

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

## Expected benefits to be paid out in future years

|  | COMPANY |  | GROUP |  |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Within next year | **25,843** | 21,739 | **25,843** | 21,739 |
| Between 2 and 5 years | **277,231** | 200,819 | **277,231** | 201,130 |
| Beyond 5 years | **339,928** | 291,391 | **339,928** | 291,392 |
| **Total benefits** | **643,002** | 513,949 | **643,002** | 514,261 |

## 40. Other liabilities

### ACCOUNTING POLICY

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Other liabilities mainly comprise accrued expenses, supplier payable, insurance premium payable, bank overdrafts, rental received in advance and etc.

|  | COMPANY |  | GROUP |  |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Accrued expenses | **376,596** | 214,266 | **378,148** | 227,035 |
| Supplier payable | **599,621** | 679,261 | **601,654** | 731,595 |
| Insurance premium payable | **336,881** | 599,587 | **336,881** | 599,587 |
| Bank overdrafts | **473,672** | 508,461 | **473,798** | 546,032 |
| Rentals received in advance from loans and advances to customers | **448,205** | 593,695 | **448,205** | 593,695 |
| Other liabilities | **228,818** | 160,350 | **390,918** | 393,458 |
| **Total other liabilities** | **2,463,793** | 2,755,620 | **2,629,604** | 3,091,402 |

Maturity analysis of other liabilities is given in Note 51.

## 41. Stated capital

### Ordinary shares

Ordinary shares of the Company are recognised at the amount paid per ordinary shares net of directly attributable issue cost.

| | COMPANY | | | | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2020 | | 2019 | |
| | Number of shares | Value Rs. '000 | Number of shares | Value Rs. '000 | Number of shares | Value Rs. '000 | Number of shares | Value Rs. '000 |
| Balance as at the beginning of the year | 54,305,207 | 1,185,062 | 54,305,207 | 1,185,062 | 54,305,207 | 1,185,062 | 54,305,207 | 1,185,062 |
| **Issued during the year** | | | | | | | | |
| Rights Issue – Voting | 11,574,805 | 891,260 | – | – | 11,574,805 | 891,260 | – | – |
| Rights Issue – Non Voting | 2,001,496 | 128,096 | – | – | 2,001,496 | 128,096 | – | – |
| Scrip Dividend – Voting | 1,575,052 | 124,429 | – | – | 1,575,052 | 124,429 | – | – |
| Scrip Dividend – Non Voting | 336,188 | 21,516 | – | – | 336,188 | 21,516 | – | – |
| Balance as at the end of the year | 69,792,748 | 2,350,363 | 54,305,207 | 1,185,062 | 69,792,748 | 2,350,363 | 54,305,207 | 1,185,062 |
| **Composition of number of shares** | | | | | | | | |
| Voting | 59,449,080 | 1,875,532 | 46,299,223 | 859,843 | 59,449,080 | 1,875,532 | 46,299,223 | 859,843 |
| Non-voting | 10,343,668 | 474,831 | 8,005,984 | 325,219 | 10,343,668 | 474,831 | 8,005,984 | 325,219 |
| **Total stated capital** | 69,792,748 | 2,350,363 | 54,305,207 | 1,185,062 | 69,792,748 | 2,350,363 | 54,305,207 | 1,185,062 |

### Rights, preferences and restrictions of ordinary shares

The shares of the Citizens Development Business Finance PLC are quoted on the Main Board of Colombo Stock Exchange.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

All shares rank equally with regard to the Company's residual assets.

### Rights issue

On 26 March 2019 the Company announced a right issue of 11,574,805 new ordinary voting shares on the basis of one new ordinary voting share for every four ordinary voting shares held at the price of Rs. 77/- and 2,001,496 new ordinary non-voting shares on the basis of one new ordinary non-voting share for every four ordinary non-voting shares held at the price of Rs. 64/-.

The right issue was approved by the shareholders at the extra ordinary general meeting (EGM) held on 28 May 2019, and allotment was made on 27 June 2019.

### Scrip Dividend

Company paid a scrip dividend of 1,575,052 ordinary voting shares and 336,188 ordinary non-voting shares of the Company and have been listed with effect from 30 September 2019 in the proportion of 0.02721519: 1 and 0.03359375: 1 respectively.

## 42. Reserves

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Revaluation reserve (Refer Note 42.1) | 577,574 | 577,574 | 577,574 | 577,574 |
| Fair value reserve (Refer Note 42.3) | (30,216) | | (30,386) | |
| Statutory reserve fund (Refer Note 42.2) | 1,748,519 | 1,662,912 | 1,754,148 | 1,662,897 |
| **Total reserves** | 2,295,877 | 2,240,486 | 2,301,336 | 2,240,471 |

## 42.1 Revaluation reserve

This revaluation reserve relates to revaluation of freehold land and represent the fair value changes as at the reporting date.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Balance as at the beginning of the year | 577,574 | 432,995 | 577,574 | 432,995 |
| Surplus on revaluation of lands during the year | – | 200,804 | – | 200,804 |
| Deferred tax on revaluation surplus* | – | (56,225) | – | (56,225) |
| **Balance as at the end of the year** | 577,574 | 577,574 | 577,574 | 577,574 |

**Inland Revenue Act No. 24 of 2017 came into operation on 1 April 2018 along with the transitional provisions. Accordingly on the revaluation surplus of resulting capital and investment assets, deferred tax liabilities will arise and measured at the applicable tax rate of 28% (Capital Assets).*

## 42.2 Statutory reserve fund

Statutory reserve fund is maintained by the Group in order to meet the legal requirements.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Balance as at the beginning of the year | 1,662,912 | 1,320,873 | 1,662,897 | 1,326,004 |
| Transfers during the year | 85,607 | 342,039 | 91,251 | 336,893 |
| **Balance as at the end of the year** | 1,748,519 | 1,662,912 | 1,754,148 | 1,662,897 |

The Reserve Fund is maintained in compliance with Direction No. 1 of 2003 Central Bank of Sri Lanka (Capital Funds) issued to finance companies.

As per the said Direction, every licensed finance company shall maintain a reserve fund and transfer to such reserve fund out of the net profits of the each year after due provisions has been made for taxation and bad and doubtful debts on following basis:

| Capital funds to deposit liabilities | Percentage of transfer to reserve fund (%) |
|---|---|
| Not less than 25% | 5 |
| Less than 25% and not less than 10% | 20 |
| Less than 10% | 50 |

Accordingly, the Company has transferred 5% of its net profit after taxation to the reserve fund as Company's capital funds to deposit liabilities, belongs to not less than 25% category.

## 42.3 Fair value reserve

This fair value reserve relates to fair value adjustments of equity investments measured at fair value through other comprehensive income.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Balance as at the beginning of the year | – | – | – | – |
| Net change in fair value during the year | (38,726) | – | (38,896) | – |
| Net transfers during the year | 8,510 | – | 8,510 | – |
| **Balance as at the end of the year** | (30,216) | – | (30,386) | – |

## 43. Retained earnings

| As at 31 March | COMPANY<br>2020<br>Rs. '000 | <br>2019<br>Rs. '000 | GROUP<br>2020<br>Rs. '000 | <br>2019<br>Rs. '000 |
|---|---|---|---|---|
| Balance as at the beginning of the year | **5,239,855** | 4,213,469 | **5,399,141** | 4,279,468 |
| Profit for the period | **1,712,137** | 1,710,193 | **1,825,033** | 1,798,213 |
| Remeasurement of defined benefit liability/(asset) (net of tax) | **62,061** | (70,242) | **62,061** | (70,121) |
| Dividends to equity holders | **(339,406)** | (271,526) | **(339,406)** | (271,526) |
| Net Transfers during the period | **(94,117)** | (342,039) | **(99,761)** | (336,893) |
| **Balance as at the end of the year** | **6,580,530** | 5,239,855 | **6,847,068** | 5,399,141 |

## 44. Non-controlling interest

Non-controlling interest represented 9.62% of net assets of the Unisons Capital Leasing Limited as at 31 March 2020.

| As at 31 March | 2020<br>Rs. | 2019<br>Rs. |
|---|---|---|
| Balance as at the beginning of the year | **45,595** | 36,208 |
| Profit for the year | **12,017** | 9,901 |
| Other comprehensive income for the year | **(19)** | 13 |
| Dividend paid | **–** | (527) |
| **Balance as at the end of the year** | **57,593** | 45,595 |

In 2016 Company subscribed to the rights issue of its Subsidiary Company Unisons Capital Leasing Limited and purchased 7.8 Mn. shares, increasing the holding percentage to 90.38%.

## 45. Net assets value per share

| As at 31 March | COMPANY<br>2020 | <br>2019 | GROUP<br>2020 | <br>2019 |
|---|---|---|---|---|
| **Numerator** | | | | |
| Total equity attributable to equity holders (Rs.) | **11,226,766,623** | 8,665,402,614 | **11,498,763,623** | 8,824,673,614 |
| **Denominator** | | | | |
| Total number of shares | **69,792,748** | 54,305,207 | **69,792,748** | 54,305,207 |
| **Net assets value per share (Rs.)** | **160.86** | 159.57 | **164.76** | 162.50 |

## 46. Contingencies and commitments

### ACCOUNTING POLICY

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events on present obligations where the transfer of economic benefit is not probable or can't be reliably measured.

Summary cases against the Group have been disclosed in the Notes to the Financial Statements. However, based on the available information and the available legal advice, the Group do not expect the outcome of any action to have any material effect on the financial position of the Group.

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| **Contingencies** | | | | |
| – Contingent liabilities/(assets) | – | – | – | – |
| **Commitments** | | | | |
| – Undrawn commitments (Refer Note 46.1) | 500,503 | 185,145 | 500,503 | 185,145 |
| – Capital commitments (Refer Note 46.2) | 2,820 | 84,468 | 2,820 | 84,468 |
| **Total contingencies and commitments** | 503,323 | 269,613 | 503,323 | 269,613 |

Refer Note 48 for litigations against the Company.

### 46.1 Undrawn commitments

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Direct credit facilities | 500,503 | 185,145 | 500,503 | 185,145 |
| **Total undrawn commitments** | 500,503 | 185,145 | 500,503 | 185,145 |

The Company started offering credit card facilities during the last financial year (2018/19) and direct credit facilities includes undrawn credit card balances as at the reporting date.

### 46.2 Capital commitments

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| **Commitments in relation to property, plant and equipment** | | | | |
| – Approved and contracted for | – | – | – | – |
| – Approved but not contracted for | – | 24,510 | – | 24,510 |
| **Commitments in relation to intangible assets** | | | | |
| – Approved and contracted for | 2,820 | – | 2,820 | – |
| – Approved but not contracted for | – | 59,958 | – | 59,958 |
| **Total capital commitments** | 2,820 | 84,468 | 2,820 | 84,468 |

### 46.3 Contingencies and commitments of subsidiaries and associates

Subsidiaries of the Company do not have any significant contingencies or commitments as at the reporting date.

## 47. Related party disclosures

### ACCOUNTING POLICY

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per LKAS 24 - "Related Party Disclosures". The details are reported below.

The pricing applicable to such transaction is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company/Group and its unrelated customers with similar credit rating. However, the Key Management Personnel (KMP) are entitle to the scheme of benefits which all the other staff members are uniformly entitled.

### 47.1 Parent and ultimate controlling party

The Company (CDB) does not have an identifiable parent of its own.

### 47.2 Transactions with Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

| KMP of the Company | The Board of Directors (Including Executive Directors and Non-Executive Directors) of the Company has been Classified as KMP of the Company |
|---|---|
| KMP of the Group | As the Company is the ultimate parent of the subsidiaries listed below. The Board of Directors of the Company has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Company (including Executive Directors and Non-Executive Directors) are also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Company have been classified as the KMP only for that respective Subsidiary.<br>1. Unisons Capital Leasing Limited<br>2. Fortune Properties Limited (formerly known as CDB Micro Finance Limited) |

### 47.2.1 Compensation of KMP

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| Short-term employment benefits | 206,061 | 175,541 | 207,561 | 178,041 |
| **Total compensation** | 206,061 | 175,541 | 207,561 | 178,041 |

### 47.2.2 Transactions, Arrangements and Agreements Involving KMP and their Close Family Members (CFM)

CFM of KMP are those family members who may be expected to influence or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children of the KMPs domestic partner and dependents of the KMPs domestic partner. CFM are related party to the Group/Company. Aggregate value of the transactions with KMPs and their CFMs are described below:

| | Year end balance | |
|---|---|---|
| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
| **Assets** | | |
| Loans and receivables | – | – |
| Other credit facilities | – | – |
| **Total assets** | – | – |
| **Liabilities** | | |
| Deposits placed by KMP and CFM | 55,332 | 36,160 |
| Other credit facilities | – | – |
| **Total liabilities** | 55,332 | 36,160 |
| **Commitments and contingencies** | – | – |
| **Total outstanding balance** | 55,332 | 36,160 |

| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|
| Interest income | – | – |
| Interest expense | 5,702 | 3,847 |
| **Total transactions during the year** | 5,702 | 3,847 |

No losses have been recorded against loan balances outstanding with KMP during the period and no provisions have been made for impairment losses against such balances as at the reporting date.

## Dividend paid to KMP and CFM

| For the year ended 31 March | 2020 | 2019 |
|---|---|---|
| Number of ordinary shares (Voting) held | 6,530,675 | 4,927,552 |
| Number of ordinary shares (Non-voting) held | 314,081 | 24,907 |
| Cash dividends paid (Rs. '000) | 12,527 | 36,246 |
| Scrip dividends paid (Rs. '000) | 12,527 | – |

*Above figures were computed considering the KMPs and CFMs of the Company as at 31 March 2020.*

Mr Ranga Abeynayake, Non-Executive Director has been appointed the Chairman of the Board with effect from 9 September 2019, in place of Mr D H J Gunawardena who has given notice to the Board of Directors of the Company that he will cease to be the Chairman and Non-Executive Director of the Company with effect from 9 September 2019, on reaching 70 years of age.

Mr Jagath Priyantha Abhayaratne has been appointed as a Non-Executive Director of the Company with effect from 1 January 2020.

Mr Elangovan Karthik has been appointed as a Executive Director of the Company with effect from 1 July 2020.

## 47.3 Transactions with Group Companies

The Group entities include the two subsidiaries mentioned in Note 26.1. Aggregate value of the transactions with subsidiaries are described below:

### Fortune Properties Limited

Statement of Financial Position

| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|
| Receivable for expenses incurred by CDB | – | – |

### Unisons Capital Leasing Limited (UCL)

Summary of transactions

| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|
| **Savings** | | |
| Opening balance | 13,789 | 4,424 |
| Deposits during the year | 1,442,086 | 2,253,269 |
| Withdrawals during the year | (1435,029) | (2,244,815) |
| Interest credited | 955 | 911 |
| Closing balance at the year end | 21,801 | 13,789 |
| **Fixed deposits** | | |
| Opening balance | – | – |
| Deposits during the year | – | – |
| Withdrawals during the year | – | – |
| Interest credited | – | – |
| Closing balance at the year end | – | – |
| **Credit facilities** | | |
| **Term loan** | | |
| Opening balance | 221,025 | 40,627 |
| Loans granted during the year | – | 200,000 |
| Interest income | 39,024 | 12,685 |
| Loan settlements | (105,915) | (32,287) |
| Closing balance at the year end | 154,134 | 221,025 |
| **Securitisations** | | |
| Opening balance | 228,402 | 345,157 |
| Loans granted during the year | – | – |
| Interest income | 41,105 | 52,777 |
| Loan settlements | (169,165) | (169,532) |
| Closing balance at the year end | 100,342 | 228,402 |

| For the year ended 31 March | 2020<br>Rs. | 2019<br>Rs. |
|---|---|---|
| Intercompany current account balance | 15,819 | 9,464 |
| Reimbursement of expenses of shared services by UCL | 2,260 | 39,127 |

## Commitments and contingencies

| For the year ended 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|
| Undrawn facilities | – | – |
| Other commitments | – | – |

## 47.4 Transactions with other related entities

Other related entities include significant investors that have nominated Board members or having common directorships with CDB and their respective entity.

| Related company | Holding % | Common Directors | Nature of transaction | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|---|---|---|
| Ceylinco Life Insurance Limited | 34.66% | Mr S R Abenayake | As at 31 March | | |
| | | | Loans and receivables | – | – |
| | | | Deposits | 500,000 | 500,000 |
| | | | Debentures | – | 100,000 |
| | | | Other liabilities | – | – |
| | | | Commitments and contingencies | – | – |
| | | | Total | 500,000 | 600,000 |

## 48. Litigation against the Company

### ACCOUNTING POLICY

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Provision for legal matters typically require a higher degree of judgement. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty involved. Group has established a formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated Group make adjustments to the accounts for any adverse effect, if any, which the claim may have on Group's financial position. As at the reporting date Group had unresolved legal claim as explained below. The significant unresolved legal claims against the Company for which legal advisor of the Company is of the opinion that there is a probability that the action will not succeed. Accordingly no provision has been made in these Financial Statements.

A. Court action has been filed by a customer in Anuradhapura District Court bearing no 26288/M for the amount of Rs.16,952,175/- citing CDB as the second and third defendant. The case is fixed for Trial on 20 July 2020.

B. Court action has been filed by a customer in Commercial High Court bearing No. CHC505/15/MR for the amount of Rs. 8,000,000/- citing CDB as the defendant. The case will be called on 9 June 2020 for steps by Plaintiff for EQD Report

C. Court action has been filed by a customer in Commercial High Court bearing No. CHC 88/16/MR for the amount of Rs. 10,400,000/- citing CDB as the defendant. The case is fixed for trial on 14 July 2020

D. Court action has been filed by a customer in Anuradhapura District Court bearing No. 27744/M for the amount of Rs. 2,000,000/- citing CDB as the second defendant. The case is fixed for Trial on 8 September 2020.

E. Court action has been filed by a customer in Commercial High Court bearing No. CHC 136/2016/MR for the amount of Rs. 20,000,000/- citing CDB as the defendant. The case is fixed for further trial on 15 June 2020

F. Court action has been filed by two customers jointly in Anuradhapura District Court bearing No. 27815/M for the amount of Rs. 6,600,000/- citing CDB as the fifth defendant. The case is fixed for Trial on 8 September 2020.

G. Court action has been filed by a customer in Anuradhapura District Court bearing No. 27816/M for the amount of Rs. 4,700,000/- citing CDB as the fifth defendant. The case is fixed for Trial on 8 September 2020

H. Court action has been filled by a third party in Colombo District Court bearing No. CLM156/15 for the amount of Rs. 45 Mn in relation to a land purchased by CDB requiring to restore the purchase transaction in to its original position. This case is laid by until a decision is arrived in Case No. WP/HCCA/COL/128/2017/LA

I. There are 11 pending cases bearing DSP37/13 and DSP 14/16 in the District Court of Kandy, DSP 513/15 and DTR/8/2018 in the District Court of Colombo, , MR 552 in the District Court of Dambulla, 597/17M in the District Court of Jaffna, 28947M in the District Court of Anuradhapura, 2068/SP in the District Court of Kuliyapitiya, 10637/MR in the District Court of Kegalle, 2371/19/ Claim in the District Court of Horana and CL/148 in the District Court of Chilaw relating to lending facilities claiming a total sum of Rs. 38,132,000 which are at the hearing stage.

J. There is a case bearing No. 9975 in the District Court of Horana citing CDB as the fourth Defendant due to an accident caused by a vehicle leased by CDB claiming a sum of Rs. 20,420,000 and there are two cases bearing Nos. HCR/18/2019 and HCR/21/2019 in the High Court of Kurunegala citing CDB as the third Defendant for transportation of illegal goods in the vehicle leased by CDB.

Other than matters disclosed above there were no material capital commitments and contingent liabilities that require adjustment to or disclosure in the Financial Statements as at the reporting date.

## 49. Events that occurred after the reporting date

### ACCOUNTING POLICY

Events after the reporting date are those favourable and unfavourable events that occur between the reporting date and the date when Financial Statements are authorised for issue.

All material events after the reporting date have been considered and where appropriate adjustments to/or disclosures have been made in the respective Notes to the Financial Statements.

#### Dividend payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared 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.

Dividends 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 Standard 10 – (LKAS 10) "Events after the Reporting Period".

### Amalgamation of Unisons Capital Leasing Limited and Fortune Properties Limited

Central Bank of Sri Lanka (CBSL) requires the Company to amalgamate Unisons Capital Leasing Limited and Fortune Properties Limited where the Company shareholding is 90.38% and 99.98% respectively. Unisons Capital Leasing Limited has amalgamated with Citizens Development Business Finance PLC in accordance with the provisions of Part VIII of the Companies Act No 7 of 2007 with effect from 18 May 2020 and shall continue as Citizens Development Business Finance PLC. Amalgamation of Fortune Properties Limited with Citizens Development Business Finance PLC is still in process and has not been finalized as yet.

## 50. Segmental analysis

### ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

#### Reportable segments

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:

its reported revenue, from both external customers and inter segment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or

the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or

its assets are 10% or more of the combined assets of all operating segments.

Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principles of the standard, the segments have similar economic characteristics and are similar in various prescribed respects.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the entity's revenue is included in reportable segments.

For the Management purposes, the Group has identified four operating segments based on products and services, as follows:

- Leasing and stock out on hire
- Loans and advances
- Others

| Operating segment | Type of the product and services offered |
|---|---|
| Leasing and stock out on hire | Finance lease business and hire purchases of the Company as well as its subsidiaries included here. |
| Loans and advances | Loans and advances given to customers other than leasing and hire purchases of the Company as well as its subsidiaries included here. |
| Others | Other products and services which is not included in above two segments included here. |

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following tables presents the income, profit, asset and liability information on the Company's and Group's strategic business divisions for the year ended 31 March 2020 and comparative figures.

COMPANY

| As at 31 March | Lease and stock out on hire | | Loans and advances | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| Interest income | 10,487,983 | 9,986,837 | 3,646,421 | 3,423,710 | 894,523 | 765,970 | 15,028,927 | 14,174,517 |
| Non-interest income | | | | | 1,624,848 | 2,065,729 | 1,624,848 | 2,066,003 |
| **Segmented revenue** | 10,487,983 | 9,986,837 | 3,646,421 | 3,423,710 | 2,519,371 | 2,829,973 | 16,653,775 | 16,240,520 |
| Interest cost | 5,518,023 | 5,503,049 | 1,918,485 | 1,886,568 | 1,325,512 | 1,559,401 | 8,762,019 | 8,949,018 |
| Charges for impairment and other credit losses | 713,130 | 713,130 | 351,480 | 351,480 | | – | 1,409,895 | 1,064,610 |
| **Segment contribution** | 4,256,830 | 3,770,658 | 1,376,456 | 1,185,662 | 1,193,859 | 1,270,572 | 6,481,861 | 6,226,892 |
| Unallocated expenses | | | | | | | 3,991,750 | 3,623,853 |
| Taxes on financial services | | | | | | | 421,335 | 491,673 |
| Profit from before tax | | | | | | | 2,068,776 | 2,111,366 |
| Income tax expenses | | | | | | | (356,639) | (401,173) |
| **Profit for the year** | | | | | | | 1,712,137 | 1,710,193 |
| Segment assets | 49,427,634 | 48,014,566 | 21,790,820 | 21,118,483 | 11,782,196 | 14,418,673 | 83,000,650 | 83,551,722 |
| Unallocated assets | | | | | | | 8,847,840 | 5,880,717 |
| **Total assets** | 49,427,634 | 48,014,566 | 21,790,820 | 21,118,483 | 11,782,196 | 14,418,673 | 91,848,490 | 89,432,439 |

## 51. Maturity analysis

### ACCOUNTING POLICY

The Company has disclosed an analysis of assets and liabilities in to relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date.

Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets, liabilities and share holders' funds is detailed below:

### Maturity analysis as at 31 March 2020

| Assets/Liabilities | | Maturity period | | | | |
|---|---|---|---|---|---|---|
| | Note | Up to 1 month Rs. '000 | 2-3 months Rs. '000 | 4-6 months Rs. '000 | 7-12 months Rs. '000 | 13-24 months Rs. '000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | 1,347,303 | | | | |
| Financial assets measured at FVTPL | 21 | 56,442 | | | | |
| Loans and receivables to banks | 22 | 3,671,353 | | | | |
| Deposits with financial institutions | 23 | 456,525 | 1,014,921 | 1,254,878 | 1,661,140 | |
| Loans and receivables to customers | 24 | 10,517,120 | 3,537,550 | 4,980,307 | 9,488,963 | 16,348,112 |
| Other investment securities | 25 | 224,973 | 127,862 | | 468,499 | 62,615 |
| Investment in subsidiaries | 26 | | | | | |
| Investment property | 27 | | | | | |
| Property, plant and equipment | 28 | | | | | |
| Intangible assets | 29 | | | | | |
| Right of use asset | 30 | 14,920 | 29,840 | 44,598 | 86,248 | 164,173 |
| Other assets | 32 | 879,932 | 1,437,958 | 1,286,774 | 853,890 | |
| **Total assets** | | 17,168,568 | 6,148,131 | 7,566,557 | 12,558,740 | 16,574,900 |
| **Percentage of total assets (%)** | | 18.69% | 6.69% | 8.24% | 13.67% | 18.05% |
| **Cumulative percentage (%)** | | 18.69% | 25.39% | 33.62% | 47.30% | 65.34% |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 33 | 60,440 | | | | |
| Deposits from customers | 34 | 7,585,536 | 7,552,346 | 7,498,688 | 12,694,697 | 5,056,932 |
| Debt securities issued | 35 | | | | | 1,017,815 |
| Other interest-bearing borrowings | 36 | 1,225,723 | 3,291,596 | 2,410,678 | 4,286,612 | 6,582,999 |
| Lease liabilities | 30 | 14,273 | 28,546 | 42,663 | 82,505 | 157,051 |
| Current tax liabilities | 37 | | 1,519,031 | | | |
| Deferred tax liabilities | 38 | 64,232 | 32,257 | 46,976 | 89,558 | 159,806 |
| Retirement benefit obligation | 39 | | 28,931 | | | |
| Other liabilities | 40 | 643,007 | 214,425 | 963,084 | 643,273 | |
| **Total liabilities** | | 9,593,211 | 12,667,136 | 10,962,089 | 17,796,649 | 12,974,603 |
| **Shareholders' funds** | | | | | | |
| Stated capital | 41 | | | | | |
| Reserves | 42 | | | | | |
| Retained earnings | 43 | | | | | |
| **Total equity** | | | | | | |
| **Total equity and liabilities** | | 9,593,211 | 12,667,136 | 10,962,089 | 17,796,645 | 12,974,603 |
| **Percentage of total liabilities and equity (%)** | | 10.44% | 13.79% | 11.93% | 19.38% | 14.13% |
| **Cumulative percentage (%)** | | 10.44% | 24.24% | 36.17% | 55.55% | 69.67% |
| **Maturity gap** | | 7,575,357 | (6,519,005) | (3,395,532) | (5,237,905) | 3,600,297 |
| **Cumulative gap** | | 7,575,357 | 1,056,352 | (2,339,180) | (7,577,085) | (3,976,788) |
| Asset/Liability gap – Cumulative percentage (%) | | 8.25% | 1.15% | (2.55%) | (8.25%) | (4.33%) |

| Maturity period | | | | | Assets/Liabilities |
|---|---|---|---|---|---|
| 25-36 months<br>Rs. '000 | 37-60 months<br>Rs. '000 | More than 60 months<br>Rs. '000 | Unclassified<br>Rs. '000 | Total<br>Rs. '000 | |
| | | | | | **Assets** |
| | | | | 1,347,303 | Cash and cash equivalents |
| | | | | 56,442 | Financial assets measured at FVTPL |
| | | | | 3,671,353 | Loans and receivables to banks |
| | | | | 4,387,464 | Deposits with financial institutions |
| 13,010,430 | 11,728,418 | 1,607,555 | | 71,218,455 | Loans and receivables to customers |
| 43,426 | | | 1,392,259 | 2,319,634 | Other investment securities |
| | | | 509,918 | 509,918 | Investment in subsidiaries |
| | | | 20,198 | 20,198 | Investment property |
| | | | 2,938,155 | 2,938,155 | Property, plant and equipment |
| | | | 80,146 | 80,146 | Intangible assets |
| 137,649 | 175,225 | 188,215 | | 840,868 | Right of use asset |
| | | | | 4,458,554 | Other assets |
| 13,191,505 | 11,903,643 | 1,795,770 | 4,940,676 | 91,848,490 | **Total assets** |
| 14.36% | 12.96% | 1.96% | 5.38% | | **Percentage of total assets (%)** |
| 79.71% | 92.67% | 94.62% | 100.00% | | **Cumulative percentage (%)** |
| | | | | | **Liabilities** |
| | | | | 60,440 | Derivative financial liabilities |
| 1,119,069 | 1,753,554 | 66,754 | | 43,327,576 | Deposits from customers |
| | 4,074,281 | | | 5,092,096 | Debt securities issued |
| 5,573,287 | 3,304,167 | | | 26,675,062 | Other interest-bearing borrowings |
| 131,678 | 167,624 | 180,050 | | 804,390 | Lease liabilities |
| | | | | 1,519,031 | Current tax liabilities |
| 127,204 | 114,668 | 15,700 | | 650,401 | Deferred tax liabilities |
| | | | | 28,931 | Retirement benefit obligation |
| | | | | 2,463,793 | Other liabilities |
| 6,951,238 | 9,414,294 | 262,504 | | 80,621,720 | **Total liabilities** |
| | | | | | **Shareholders' funds** |
| | | | 2,350,363 | 2,350,363 | Stated capital |
| | | | 2,295,877 | 2,295,877 | Reserves |
| | | | 6,580,530 | 6,580,530 | Retained earnings |
| | | | 11,226,770 | 11,226,770 | **Total equity** |
| 6,951,238 | 9,414,294 | 262,504 | 11,226,770 | 91,848,490 | **Total equity and liabilities** |
| 7.57% | 10.25% | 0.29% | 12.22% | 10.44% | **Percentage of total liabilities and equity (%)** |
| 77.24% | 87.49% | 87.78% | 100.00% | 10.44% | **Cumulative percentage (%)** |
| 6,240,267 | 2,489,349 | 1,533,266 | (6,286,094) | | **Maturity gap** |
| 2,263,479 | 4,752,828 | 6,286,094 | | | **Cumulative gap** |
| 2.46% | 5.17% | 6.84% | 0.00% | 0.00% | Asset/Liability gap – Cumulative percentage (%) |

## Maturity analysis as at 31 March 2019

| Assets/Liabilities | Note | Maturity period | | | | |
|---|---|---|---|---|---|---|
| | | Up to 1 month Rs. '000 | 2-3 months Rs. '000 | 4-6 months Rs. '000 | 7-12 months Rs. '000 | 13-24 months Rs. '000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 20 | 1,093,874 | | | | |
| Financial assets measured at FVTPL | 21 | 1,687,004 | | | | |
| Loans and receivables to banks | 22 | 3,094,312 | | | | |
| Deposits with financial institutions | 23 | 1,548,786 | 1,456,776 | 1,895,046 | 1,819,096 | |
| Loans and receivables to customers | 24 | 7,194,849 | 3,221,121 | 4,544,158 | 9,114,861 | 16,084,306 |
| Other investment securities | 25 | 500,905 | | 655,716 | 64,968 | |
| Investment in subsidiaries | 26 | | | | | |
| Investment property | 27 | | | | | |
| Property, plant and equipment | 28 | | | | | |
| Intangible assets | 29 | | | | | |
| Other assets | 32 | 664,670 | 1,095,042 | 1,020,602 | 628,227 | |
| **Total assets** | | 15,784,400 | 5,772,939 | 8,115,522 | 11,627,152 | 16,084,306 |
| **Percentage of total assets (%)** | | 17.65 | 6.46 | 9.07 | 13.00 | 17.98 |
| **Cumulative percentage (%)** | | 17.65 | 24.10 | 33.18 | 46.18 | 64.16 |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 33 | 363,153 | | | | |
| Deposits from customers | 34 | 7,492,165 | 8,583,068 | 7,908,954 | 13,754,864 | 7,203,717 |
| Debt securities issued | 35 | | | | | |
| Other interest-bearing borrowings | 36 | 479,167 | 1,105,160 | 1,470,601 | 2,788,604 | 6,694,664 |
| Current tax liabilities | 37 | | 556,748 | | | |
| Deferred tax liabilities | 38 | 110,416 | 65,897 | 92,313 | 178,545 | 324,692 |
| Retirement benefit obligation | 39 | | 7,369 | | | |
| Other liabilities | 40 | 670,428 | 259,205 | 1,048,372 | 777,615 | |
| **Total liabilities** | | 9,115,329 | 10,577,447 | 10,520,240 | 17,499,628 | 14,223,073 |
| **Shareholders' funds** | | | | | | |
| Stated capital | 41 | | | | | |
| Reserves | 42 | | | | | |
| Retained earnings | 43 | | | | | |
| **Total equity** | | | | | | |
| **Total equity and liabilities** | | 9,115,329 | 10,577,447 | 10,520,240 | 17,499,628 | 14,223,073 |
| **Percentage of total liabilities and equity (%)** | | 10.19 | 11.83 | 11.76 | 19.57 | 15.90 |
| **Cumulative percentage (%)** | | 10.19 | 22.02 | 33.78 | 53.35 | 69.25 |
| **Maturity gap** | | 6,669,071 | (4,804,508) | (2,404,718) | (5,872,476) | 1,861,233 |
| **Cumulative gap** | | 6,669,071 | 1,864,563 | (540,155) | (6,412,631) | (4,551,398) |
| Asset/Liability gap – Cumulative percentage (%) | | 7.46 | 2.08 | (0.60) | (7.17) | (5.09) |

| Maturity period | | | | | Assets/Liabilities |
|---|---|---|---|---|---|
| 25-36 months<br>Rs. '000 | 37-60 months<br>Rs. '000 | More than 60 months<br>Rs. '000 | Unclassified<br>Rs. '000 | Total<br>Rs. '000 | |
| | | | | | **Assets** |
| | | | | 1,093,874 | Cash and cash equivalents |
| | | | | 1,687,004 | Financial assets measured at FVTPL |
| | | | | 3,094,312 | Loans and receivables to banks |
| | | | | 6,719,704 | Deposits with financial institutions |
| 13,482,642 | 13,493,690 | 1,997,422 | | 69,133,049 | Loans and receivables to customers |
| 54,484 | 37,788 | | | 1,313,861 | Other investment securities |
| | | | 509,918 | 509,918 | Investment in subsidiaries |
| | | | 20,198 | 20,198 | Investment property |
| | | | 2,369,187 | 2,369,187 | Property, plant and equipment |
| | | | 82,791 | 82,791 | Intangible assets |
| | | | | 3,408,541 | Other assets |
| 13,537,126 | 13,531,478 | 1,997,422 | 2,982,094 | 89,432,439 | **Total assets** |
| 15.14 | 15.13 | 2.23 | | | **Percentage of total assets (%)** |
| 79.30 | 94.43 | 96.67 | | | **Cumulative percentage (%)** |
| | | | | | **Liabilities** |
| | | | | 363,153 | Derivative financial liabilities |
| 1,422,151 | 842,342 | 29,106 | | 47,236,367 | Deposits from customers |
| 1,013,421 | 2,967,062 | | | 3,980,483 | Debt securities issued |
| 4,873,619 | 7,098,062 | | | 24,509,877 | Other interest-bearing borrowings |
| | | | | 556,748 | Current tax liabilities |
| 272,422 | 272,661 | 40,473 | | 1,357,419 | Deferred tax liabilities |
| | | | | 7,369 | Retirement benefit obligation |
| | | | | 2,755,620 | Other liabilities |
| 7,581,613 | 11,180,127 | 69,579 | | 80,767,036 | **Total liabilities** |
| | | | | | **Shareholders' funds** |
| | | | 1,185,062 | 1,185,062 | Stated capital |
| | | | 2,240,486 | 2,240,486 | Reserves |
| | | | 5,239,855 | 5,239,855 | Retained earnings |
| | | | 8,665,403 | 8,665,403 | **Total equity** |
| 7,581,613 | 11,180,127 | 69,579 | 8,665,403 | 89,432,439 | **Total equity and liabilities** |
| 8.48 | 12.50 | 0.08 | 9.69 | | **Percentage of total liabilities and equity (%)** |
| 77.73 | 90.23 | 90.31 | 100.00 | | **Cumulative percentage (%)** |
| 5,955,513 | 2,351,351 | 1,927,843 | (5,683,309) | | **Maturity gap** |
| 1,404,115 | 3,755,466 | 5,683,309 | | | **Cumulative gap** |
| 1.57 | 4.20 | 6.35 | | | Asset/Liability gap – Cumulative percentage (%) |

## 52. Comparative information

### ACCOUNTING POLICY

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous periods for all the amounts reported in the Financial Statements to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

Comparative information is reclassified whenever necessary to conform with the current year's classification in order to provide better presentation.

### Statement of profit or loss

| For the year ended 31 March | Note | COMPANY Reclassified in 2019/20 | COMPANY As disclosed in 2018/19 | GROUP Reclassified in 2019/20 | GROUP As disclosed in 2018/19 |
|---|---|---|---|---|---|
| Income from Credit Cards | 11 | 1,591 | – | 1,591 | – |
| Credit card interest income | 9.1.1 | – | 274 | – | 274 |
| Credit card fee income | 10 | – | 1317 | – | 1317 |

### Reclassification of equity portfolio

As per the guidelines issued by CA Sri Lanka a one off option is provided to reclassify equity portfolio from FVTPL to FVOCI. Accordingly, the Group has reclassified equity portfolio held under FVTPL to FVOCI with effect from 1 January 2020. Last year comparatives have not been reclassified.

Other than mentioned above there were no any other significant reclassifications have been made during the reporting periods of 2019/20 and 2018/19.

## 53. Financial risk management

### FINANCIAL RISK MANAGEMENT FRAMEWORK

#### Introduction and overview

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Company Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company Audit Committee oversees how Management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company Audit Committee.

The Company has exposure to the following risks from the financial instruments:

A. Credit risk

B. Liquidity risk

C. Market risk

D. Operational risk

The significance of risk is assessed within the context of the Company as a whole and is measured based on allocation of the regulatory capital within the Company.

This Note presents the information about the Company's objectives, policies and processes for measuring and managing risk.

#### The Impact of COVID-19

On 11 March 2020 World Health Organisation ("WHO") declared COVID-19 as a global pandemic and since the outbreak continues to spread Sri Lankan Government also resorted to varying levels of public health measures, including movement restrictions, nationwide curfews, travel bans and border closures to tackle the pandemic. These measures are having a huge impact on people's lives, families and communities whilst having significant consequences on national economies and global trade. Coronavirus disrupts global supply chains, distribution channels and demand. However these data signals a higher possibility of a global recession.

## FINANCIAL RISK MANAGEMENT FRAMEWORK

During the period of lockdown, we ensured to adhere to Government guidelines and directives issued from time to time whilst deploying technology solutions to ensure continuity of the business and also adopting work from home option. We continuously engaged with our customers with our digital financial services platform (CDBiNet), our 24X7X365 call centre, ATM access, credit and debit cards and other social media channels to ensure uninterrupted engagement with our customers and other connected parties during the curfew period.

The government and the Central bank decided to introduce number of relief measures to support businesses and individuals affected by the outbreak of COVID-19 which include deferment of repayment terms under debt moratorium, offering concessionary interest rates to eligible loan products and waiving off certain fees and charges. On the other hand Central Bank of Sri Lanka (CBSL) decided to introduce number of measures to provide flexibility to NBFIs including relaxation of regulatory requirements as well.

Accordingly the Company has taken all the relief measures in line with the directives issued by Central Bank of Sri Lanka.

### Future outlook and going concern

According to Fitch Ratings Lanka Limited the coronavirus outbreak and the resultant prolonged business disruptions will put additional pressure and bring multiple challenges on Sri Lankan finance and leasing companies' (FLCs) in terms of profitability, asset quality, muted loan growth, margin compression and lower interest rates, and rising loan-impairment charges due to asset-quality pressures. The ultimate economic and financial market implications of the outbreak are unclear and estimating the exact impact COVID-19 is a challenge. Simply, there are too many unknowns such as rate of infection and immunity, policy response, demand-supply dynamics, reaction of firms etc. However, with the support of Company's Enterprise Risk Management Framework the Company is proactively analysing various possible scenarios in a more descriptive manner.

However after a lockdown period over a month, The Company has experiencing positive transition and recovery with the recommencement of business activities.

During the preparation of financial statements for the year ended 31 March 2020 management has made an assessment of an entity's ability to continue as a going concern using the all available information about the future and capturing the current economic uncertainties and market volatility caused by the COVID-19 outbreak. When making that assessment, management considered the existing and anticipated effects of the COVID-19 outbreak on the entity's business activities considering the measures taken by the government and central bank to provide relief to affected entities and relaxation of regulatory requirements. During this exercise Management has paid special attention to below factors

- Management has used best estimates to identify the risk factors in different possible outcomes in current economic uncertainty and market volatility caused by the COVID-19 outbreak
- Evaluation of plans to mitigate events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Assessment of the availability of finance and ensure these plans are achievable and realistic despite of having difficulties in collections of dues and the difficulties in getting funding lines from banks and other financial institutions. Based on the assessment conducted it was concluded that the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.

The Company has made the assessment of going concern considering a wide range of factors in multiple scenarios such as best case, most likely and worst case. The major factors include retention and renewal of deposits, relaxation of regulatory aspects, profitability based on income and cost management projections, excess liquidity, strengthening recovery actions, undrawn loan facilities and potential funding lines.

Having evaluated the above by the Management concludes that the Company has adequate resources to continue as a going concern and the Company is monitoring the impacts on its operations arising in post COVID environment.

### Financial reporting impact due to COVID-19

Guidance notes on accounting considerations of the COVID-19 outbreak issued by Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has provided following measures which have been applied in preparation of these interim financial statements ;

#### Expected credit loss assessment

Company has used Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment computed in 31 December 2019 to assess the expected credit losses as at 31 March 2020 due to uncertainties and lack of sufficient information available to make any adjustments to factor the impact of COVID-19. However the Company has increased the weightage assigned to worst case scenario as at 31 March 2020 to capture potential impact of COVID-19.

#### Reclassification of debt and equity portfolios

As per the guidelines issued by CA Sri Lanka a one off option is provided to reclassify equity portfolio as at 1 January 2020. Accordingly the Company has reclassified equity portfolio held under fair value through profit or loss to fair value through other comprehensive income.

#### Fair value measurement of Financial Assets

As per the guidelines issued by CA Sri Lanka and the provisions in SLFRS 13 – Fair value measurement, there is an impossibility to derive the fair value of financial assets as at 31 March 2020 due to unavailability of reliable information and distress prices. Accordingly alternative valuation technique was used when determining the market prices of equity securities as at 31 March 2020.

New measures taken by the Company under risk management consideration due to the impact of COVID-19 is disclosed in the Note 51 to the Financial Statements.

# FINANCIAL RISK MANAGEMENT FRAMEWORK

## A. CREDIT RISK

"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 receivables to customers and other banks, and investment debt securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk including contingent or potential credit exposure (such as individual obligor default risk, country and sector risk).

The market risk in respect of changes in value in trading assets arising from changes in market credit spreads is managed as a component of market risk; for further details,see (C) below.

The COVID-19 has caused interruptions in economic activities and this has caused financial stress among our lending customers in the short term. Management has already granted debt moratoriums and other reliefs for affected customers as per CBSL directions and have strengthened the recovery process to ensure customers who were not affected by COVID-19 are paid their dues in regular manner.

Management has already identified some economic segments like tourism and apparel which are badly affected and the Company is comfortable with the existing sector concentration and will avoid accumulation of exposures to risky economic sectors.

i. Settlement risk

The Company's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligation to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from the Company risk committee.

### ii. Management of credit risk

The principal objective of risk management is to maintain strong risk culture across the Company which is responsible for leading and robust risk policies and control framework to reinforcement and challenge in defining, implementing and controlling evaluating our risk appetite under both actual and simulated scenarios and to establish independent evaluation of cost and their mitigation.

In order to achieve this the Board of Directors has delegated responsibility for the oversight of credit risk to its Company Delegated Credit Committee (DCC).

A separate Credit evaluation department, reporting to the Company Credit Committee, is responsible for managing the Company's credit risk, including the following:

- 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.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Company credit, the Head of Company credit, the Company Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk: Company Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Company Credit Committee, which may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Companies in the Company is required to implement Company credit policies and procedures, with credit approval authorities delegated from the Company Credit Committee. Each business unit has a Chief Credit Risk Officer who reports on all credit-related matters to local management and the Company Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Company credit processes are undertaken by internal audit.

## B. LIQUIDITY RISK

"Liquidity risk" is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

### i. Management of liquidity risk

The objective of the Company's liquidity risk management framework is to ensure that the Company can fulfill its payment obligations at all times and can manage liquidity and funding risk within risk appetite.

## FINANCIAL RISK MANAGEMENT FRAMEWORK

The Company's Board of Directors sets the Company's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to Asset and Liability Committee (ALCO). ALCO approves the Company's liquidity policies and procedures. Treasury manages the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Company and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The key elements of the Company's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Company's financial assets and financial liabilities, and the extent to which the Company's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Company's liquidity position.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Company as a whole. The liquidity requirements of business units and subsidiaries are met through loans from Central Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

If an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, then the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in coordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries with local regulatory limits on daily basis.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Company specific events (e.g., a rating downgrade) and market-related events (e.g., prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

With COVID-19, the Company has established more firm process to manage liquidity with the close supervision of Assets and Liability Management Committee (ALCO). Company closely monitoring the latest impact arsing in post COVID environment and continued to keep its risk management measures to respond these changing circumstances. The Company is comfortable with its existing buffer of liquid assets and funding lines available at the moment. ALCO closely monitors asset liability compositions ongoing basis to response any resulting risk while mitigating any adverse effect.

## C. MARKET RISK

"Market risk" is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Company's income or the value of its holdings of financial instruments.

### i. Management of market risk

The objective of the Company's market risk management is to manage and control market risk exposures with inacceptable parameters to ensure the Company's solvency while optimising the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risking aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Company Market Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

### ii . Exposure to market risk

The principal risk to which portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities. Equity price risk is subject to regular monitoring by Company market risk, but is not currently significant in relation to the overall results and financial position of the Company. In respect of foreign currency, the Company monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of Company entities.

## D. OPERATIONAL RISK

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

## FINANCIAL RISK MANAGEMENT FRAMEWORK

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, Company policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Company Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the Company Operational Risk Committee, with summaries submitted to the Audit Committee and Senior Management of the Company.

### Interest rates due to COVID-19

The Management of the Company is closely analysing the impact on net interest margin resulting from relief measures announced by CBSL to support businesses and individuals affected due to COVID-19.

### Exchange rates due to COVID-19

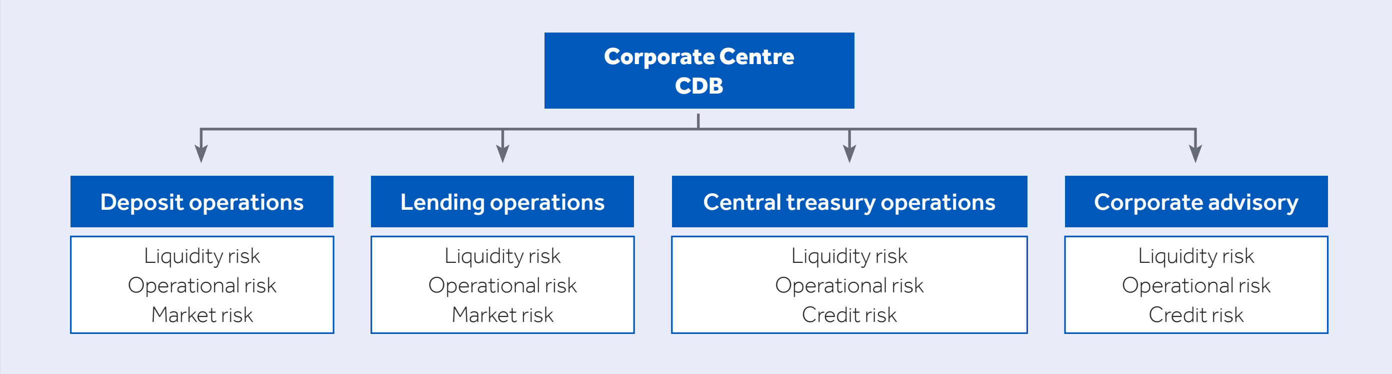
The Sri Lankan Rupee recorder a sharp depreciation against the US Dollar in March 2020 after the pandemic management analyses the impact on foreign exchange movement on regular basis.

### Equity prices due to COVID-19

The economic fallout and closure of the share market due to COVID-19 pandemic resulted in sharp losses in share market indexes. However, indexes are gradually recovering and management is monitoring the equity price movements on regular basis.

### Integrated risk management division

Primarily, business divisions and respective risk owners are responsible for risk management. The risk management division acts as the Second Line of Defence in managing the risks faced by the Company. Division has taken leadership in building a strong risk culture which is embedded through clear and consistent communication and appropriate training for all employees. Chief Risk Officer reports risk identified through robust risk reporting tool, risk measurement techniques, stress testing and other risk measures to the Corporate Management Team.



## Financial risk review of the Company

This presents information about the Company's exposure to financial risks and the Company's management of capital.

## A. Credit risk

### A I. Credit quality analysis

The tables below sets out information about the credit quality of financial assets held by Company net of allowance for expected credit losses against those assets.

### Expected Credit Losses (ECL)

As per SLFRS 9 – "Financial Instruments" the Company manages credit quality using a three stage approach.

Stage One : 12 months expected credit losses (ECL)
Stage Two : Life time expected credit losses (ECL) – Not credit impaired
Stage Three : Lifetime expected credit losses (ECL) – Credit impaired

Explanation of the terms: 12 months ECL, lifetime ECL included in Note 3 (Changes in Accounting Policies)

## Stage 1:12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months from the reporting date is recognised.

## Stage 2: Lifetime ECL – Not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

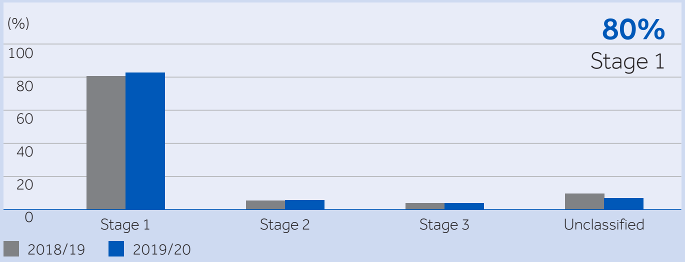
## Stage 3: Lifetime ECL – Credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under LKAS 39 -"Financial Instruments: Recognition and Measurement".

Table below shows the classification of assets and liabilities based on the above-mentioned three stage model:

| | Note | 12 months ECL<br>Rs. '000 | Life Time ECL – Not credit impaired<br>Rs. '000 | Life time ECL – Credit impaired<br>Rs. '000 | Unclassified<br>Rs. '000 | Total<br>Rs. '000 |
|---|---|---|---|---|---|---|
| **As at 31 March 2020** | | | | | | |
| Cash and cash equivalents | 20 | 1,347,303 | | | | 1,347,303 |
| Financial assets measured at FVTPL | 21 | 56,442 | | | | 56,442 |
| Loans and receivables to banks | 22 | 3,671,353 | | | | 3,671,353 |
| Deposits with financial institutions | 23 | 4,387,464 | | | | 4,387,464 |
| Loans and receivables to customers | 24 | 61,517,406 | 5,794,734 | 3,906,315 | | 71,218,455 |
| Other investment securities | 25 | 2,319,634 | | | | 2,319,634 |
| Other non-financial assets | | | | | 8,847,839 | 8,847,839 |
| **Total assets** | | 73,299,602 | 5,794,734 | 3,906,315 | 8,847,839 | 91,848,490 |
| **As at 31 March 2019** | | | | | | |
| Cash and cash equivalents | 20 | 1,093,874 | | | | 1,093,874 |
| Financial assets measured at FVTPL | 21 | 1,687,004 | | | | 1,687,004 |
| Loans and receivables to banks | 22 | 3,094,312 | | | | 3,094,312 |
| Deposits with financial institutions | 23 | 6,719,704 | | | | 6,719,704 |
| Loans and receivables to customers | 24 | 60,572,991 | 4,949,755 | 3,610,303 | | 69,133,049 |
| Other investment securities | 25 | 1,313,861 | | | | 1,313,861 |
| Other non-financial assets | | | | | 6,390,635 | 6,390,635 |
| **Total assets** | | 74,481,746 | 4,949,755 | 3,610,303 | 6,390,635 | 89,432,439 |

## Total assets based on three stage approach



## Amounts arising from Expected Credit Losses (ECL)

This note highlights inputs, assumptions, and techniques used for estimating expected credit losses (ECL) as per SLFRS 9 – "Financial Instruments".

## Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company historical experience and expert credit assessment and including forward-looking information.

## Credit risk

Assessment of credit risk is based on a variety of data by applying experienced credit judgement. Credit risk is evaluated using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is assessed at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade based on 3-stage model. The monitoring typically involves use of the following data:

| Corporate exposures | Retail exposures | All exposures |
|---|---|---|
| Information obtained during periodic review of customer files – e.g. Audited financial statements, management accounts, budgets and projections. | Internally collected data on customer behaviour | Payment record – this includes overdue status as well as a range of variables about payment ratios |
| Data from credit reference agencies, press articles, changes in external credit ratings | Affordability metrics | Requests for and granting of for bearance |
| Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities | External data from credit reference agencies including industry-standard credit scores | Existing and forecast changes in business, financial and economic conditions |

## Generating the term structure of probability of default (PD)

Date past due has taken as the primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by the type of product and the borrower. For some portfolios, information gathered from external credit agencies is also used. (Debt Investments)

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

Using variety of external actual and forecasted information, the Company formulates a "base case" view of the future direction of relevant economic variables (GDP growth, inflation, interest rates and unemployment, with lag effect of these variables) as well as a representative range (Best Case and Worst Case) of other possible forecast scenarios. The Company then uses these forecasts to adjust its estimates of PDs.

## Determining whether credit risk has increased significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – "Financial Instruments". The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully-reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

## Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly by analysing both qualitative and based on the delinquency status before the modification of terms of the contract.

The Company renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default.

## Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the borrower is past due more than 150 days on any material credit obligation to the Company. In determination of default the Company largely aligns with the regulatory definition of default.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative – e.g., breaches of covenant;
- quantitative – e.g., overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

## Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Using variety of external actual and forecasted information, the Company formulates a "base case" view of the future direction of relevant economic variables as well as a representative range (Best Case and Worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The Economic variables used by the Company based on the statistical significance include the followings:

| | |
|---|---|
| Unemployment rate | Base case scenario along with two other scenarios has been used (Best Case and Worst Case) |
| Interest rate | |
| GDP Growth rate | |
| Inflation rate | |

## Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

### Probability of Default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

### Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, product category and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

### Exposure at Default (EAD)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract. For some financial assets, EAD is determined by considering contractual cash flows, prepayments and other factors.

As described above, and subject to using a maximum of a 12 months PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The groupings are subject to regular review to ensure that exposures within a particular company remain appropriately homogeneous.

## Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Explanation of the terms: 12 months ECL, lifetime ECL and credit impaired are included in Note 3.

## Movements in allowance for expected credit losses (Stage transition)

| | 2020 | | | |
|---|---|---|---|---|
| COMPANY | Stage 1: 12 months ECL Rs. '000 | Stage 2: Lifetime ECL not credit impaired Rs. '000 | Stage 3: Lifetime ECL credit impaired Rs. '000 | Total ECL Rs. '000 |
| Balance as at the beginning of the year | 573,250 | 423,234 | 1,067,818 | 2,064,302 |
| **Changes due to loans and receivables recognised in opening balance that have:** | | | | |
| Transferred from 12 months ECL | (83,417) | 63,358 | 20,059 | – |
| Transferred from lifetime ECL not credit impaired | 78,266 | (155,910) | 77,644 | – |
| Transferred from lifetime ECL credit impaired | 18,618 | 9,888 | (28,506) | – |
| Net measurement of loss allowance | (49,536) | 95,229 | 361,996 | 407,689 |
| **Balance as at the end of the year** | 537,181 | 435,799 | 1,499,011 | 2,471,991 |

| | 2019 | | | |
|---|---|---|---|---|
| COMPANY | Stage 1: 12 months ECL Rs. '000 | Stage 2: Lifetime ECL not credit impaired Rs. '000 | Stage 3: Lifetime ECL credit impaired Rs. '000 | Total ECL Rs. '000 |
| Balance as at the beginning of the year | 348,528 | 301,108 | 686,020 | 1,335,656 |
| **Changes due to loans and receivables recognised in opening balance that have:** | | | | |
| Transferred from 12 months ECL | (45,958) | 32,957 | 13,001 | – |
| Transferred from lifetime ECL not credit-impaired | 57,882 | (130,374) | 72,492 | – |
| Transferred from lifetime ECL credit-impaired | 11,120 | 7,893 | (19,013) | – |
| Net measurement of loss allowance | 201,678 | 211,650 | 315,318 | 728,646 |
| **Balance as at the end of the year** | 573,250 | 423,234 | 1,067,818 | 2,064,302 |

## Loans and receivables to customers – Credit grade based on delinquency

The following table shows the loans and receivables to customers based on delinquency and expected credit losses for each stage of loss allowances:

| As at 31 March 2020 | 12 months ECL Rs. '000 | Lifetime ECL – Not credit impaired Rs. '000 | Lifetime ECL – Credit impaired Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|
| Grade 1 – Low risk | 32,226,947 | | | 32,226,947 |
| Grade 2 – Low risk | 9,951,752 | | | 9,951,752 |
| Grade 3 – Low risk | 12,689,607 | | | 12,689,607 |
| Grade 4 – Low risk | 7,186,281 | | | 7,186,281 |
| Grade 5 – Watch list | | 3,116,501 | | 3,116,501 |
| Grade 6 – Watch list | | 1,736,127 | | 1,736,127 |
| Grade 7 – Watch list | | 1,377,905 | | 1,377,905 |
| Grade 8 – Default | | | 5,405,326 | 5,405,326 |
| Gross loans and receivables to customers | 62,054,587 | 6,230,533 | 5,405,326 | 73,690,446 |
| Expected credit loss allowance | (537,181) | (435,799) | (1,499,011) | (2,471,991) |
| **Net loans and receivables to customers** | 61,517,406 | 5,794,734 | 3,906,315 | 71,218,455 |

| As at 31 March 2019 | 12 months ECL Rs. '000 | Lifetime ECL – Not credit impaired Rs. '000 | Lifetime ECL – Credit impaired Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|
| Grade 1 – Low risk | 34,429,694 | | | 34,429,694 |
| Grade 2 – Low risk | 10,178,701 | | | 10,178,701 |
| Grade 3 – Low risk | 10,361,417 | | | 10,361,417 |
| Grade 4 – Low risk | 6,176,429 | | | 6,176,429 |
| Grade 5 – Watch list | | 2,666,626 | | 2,666,626 |
| Grade 6 – Watch list | | 1,501,268 | | 1,501,268 |
| Grade 7 – Watch list | | 1,205,095 | | 1,205,095 |
| Grade 8 – Default | | | 4,678,121 | 4,678,121 |
| Gross loans and receivables to customers | 61,146,241 | 5,372,989 | 4,678,121 | 71,197,351 |
| Expected credit loss allowance | (573,250) | (423,234) | (1,067,818) | (2,064,302) |
| **Net loans and receivables to customers** | 60,572,991 | 4,949,755 | 3,610,303 | 69,133,049 |

## Stage transition on loans and receivables to customers

The following table shows the net loans and receivables to customers based on 3-stage approach:

| As at 31 March 2020 | 12 months ECL Rs. '000 | Lifetime ECL – Not credit impaired Rs. '000 | Lifetime ECL – Credit impaired Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|
| **Loans and receivables to customer** | | | | |
| Balance as at 1 April 2019 | **60,572,991** | **4,949,755** | **3,610,303** | **69,133,049** |
| **Changes due to loans and receivables recognised in opening balance that have –** | | | | |
| Transferred from 12 months ECL | **(4,840,353)** | **3,758,637** | **1,081,716** | **–** |
| Transferred from lifetime ECL not credit impaired | **1,082,954** | **(1,992,423)** | **909,469** | **–** |
| Transferred from lifetime ECL credit impaired | **91,370** | **48,313** | **(139,683)** | **–** |
| Financial assets that have been derecognised | **(11,754,086)** | **(2,420,287)** | **(1,016,573)** | **(15,190,946)** |
| Net change in expected credit loss allowance | **49,536** | **(95,229)** | **(361,996)** | **(407,689)** |
| Other net changes in portfolio | **16,314,994** | **1,545,968** | **(176,921)** | **17,684,041** |
| **Balance as at 31 March 2020** | **61,517,406** | **5,794,734** | **3,906,315** | **71,218,455** |

| As at 31 March 2019 | 12 months ECL Rs. '000 | Lifetime ECL – Not credit impaired Rs. '000 | Lifetime ECL – credit impaired Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|
| **Loans and receivables to customer** | | | | |
| Balance as at 1 April 2018 | 53,469,776 | 4,277,626 | 1,690,947 | 59,438,349 |
| **Changes due to loans and receivables recognised in opening balance that have –** | | | | |
| Transferred from 12 months ECL | (4,288,361) | 3,206,382 | 1,081,979 | – |
| Transferred from lifetime ECL not credit impaired | 921,965 | (1,947,440) | 1,025,475 | – |
| Transferred from lifetime ECL credit impaired | 49,569 | 38,927 | (88,496) | – |
| Financial assets that have been derecognised | (11,037,177) | (2,106,787) | (525,717) | (13,669,681) |
| Net change in expected credit loss allowance | (201,678) | (211,650) | (315,318) | (728,646) |
| Other net changes in portfolio | 21,658,897 | 1,692,697 | 741,433 | 24,093,027 |
| **Balance as at 31 March 2019** | 60,572,991 | 4,949,755 | 3,610,303 | 69,133,049 |

## Maximum exposure to credit risk – based on aging

Table below shows the maximum exposure to credit risk based on the aging of each instrument:

| | Loans and receivables to customers | | Loans and receivables to banks | | Deposits with financial institutions | | Other investment securities and financial assets measured at FVTPL | |
|---|---|---|---|---|---|---|---|---|
| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 | 2020 Rs. '000 | 2019 Rs. '000 |
| **Financial assets measured at amortised cost** | | | | | | | | |
| 0 days | 42,178,699 | 44,608,395 | 3,671,353 | 3,094,312 | 4,387,725 | 6,719,965 | 2,319,635 | 1,313,862 |
| 0-30 days | 12,689,607 | 10,361,417 | | | | | | |
| 31-60 days | 7,186,281 | 6,176,429 | | | | | | |
| 61-90 days | 3,116,501 | 2,666,626 | | | | | | |
| 91-120 days | 1,736,127 | 1,501,268 | | | | | | |
| 121-150 days | 1,377,905 | 1,205,095 | | | | | | |
| Above 150 days | 5,405,326 | 4,678,121 | | | | | | |
| **Total gross amount** | 73,690,446 | 71,197,351 | 3,671,353 | 3,094,312 | 4,387,725 | 6,719,965 | 2,319,635 | 1,313,862 |
| Allowance for impairment | (2,471,991) | (2,064,302) | – | – | (261) | (261) | (1) | (1) |
| **Net carrying amount** | 71,218,455 | 69,133,049 | 3,671,353 | 3,094,312 | 4,387,464 | 6,719,704 | 2,319,634 | 1,313,861 |
| **Financial assets measured at FVTPT** | | | | | | | | |
| 0 days | | | | | | | 56,442 | 1,687,004 |
| **Total gross amount** | | | – | – | – | – | 56,442 | 1,687,004 |
| Allowance for impairment | | | | | | | – | – |
| **Net carrying amount** | – | – | – | – | – | – | 56,442 | 1,687,004 |
| **Maximum exposure** | 71,218,455 | 69,133,049 | 3,671,353 | 3,094,312 | 4,387,464 | 6,719,704 | 2,376,076 | 3,000,865 |

*Age represents the period in days which any amount uncollected or due beyond their contractual due date. For rescheduled loans age is calculate based on the initial due date of the original contract.*

## A.II Impaired financial instruments

### Impaired loans and receivables and other financial instruments

The Company regards a loan and receivable or a other financial instrument impaired when there is an objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s). As per SLFRS 9 – "Financial Instruments" stage three assets are considered as credit impaired.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

| As at 31 March | 2020 Rs. '000 | 2019 Rs. '000 |
|---|---|---|
| **Impaired financial instruments** | | |
| Loans and receivables to customers | 3,356,435 | 2,475,371 |
| **Total credit impaired value** | 3,356,435 | 2,475,371 |

### Loans and receivables with renegotiated terms and the Company's forbearance policy

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

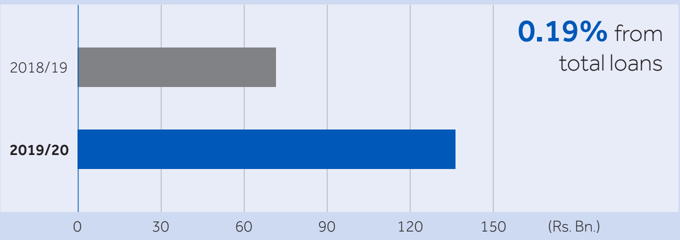
The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default, there is evidence that the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

The table below set out information about the loans and receivables with renegotiated terms:

| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|
| Gross carrying amount | 136,756 | 71,631 |
| Total gross loans and receivables | 73,690,446 | 71,197,351 |
| Percentage of renegotiated loans (%) | 0.19 | 0.10 |

### Renegotiated facilities



## Write-off policy

The Company writes-off a loan or an investment debt/equity security balance and any related allowances for impairment losses, when it determines that the loans security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The Company's policy is to pursue timely realisation of the collateral in an orderly manner.

## A.III Collateral held and other credit enhancements

The Company holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against types of loans and receivables.

## Collateral held

| As at 31 March | Note | Percentage of exposure that is subject to collateral requirements<br>2020<br>% | <br>2019<br>% | Type of collateral Held |
|---|---|---|---|---|
| **Loans and receivables to banks** | | | | |
| Securities purchased under resale agreements | 22 | 100 | 100 | Marketable Securities |
| **Loans and receivable to customers** | | | | |
| Lease and hiring contracts | 24 | 100 | 100 | Vehicles |
| Mortgage loan | 24 | 100 | 100 | Property and equipment |
| Personal loans and staff loans | 24 | – | – | Vehicles and guarantors |
| Loans against deposits | 24 | 100 | 100 | Lien deposits |
| Gold loans | 24 | 100 | 100 | Pawning articles |

## A.IV Concentration of credit risk

Company reviews the on regular basis its concentration of credit granted in each of the products offered. The diversification was made to ensure that an acceptable level of risk in line with the risk appetite of the Company is maintained. The diversification decision was made at the ALCO, where it sets targets and present strategies to the Management and optimising the diversification. The product development team of the Company is advised on the strategic decisions taken in diversification of the portfolio to align their product development activities accordingly.

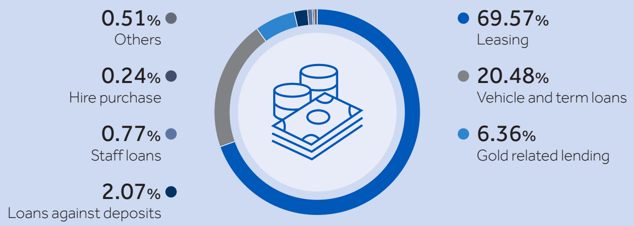
The Company monitors concentration of credit risk by product, by sector and by geographical location. An analysis of concentrations of credit risk from loan and receivable to customers and other financial investments is shown below:

## Product concentration

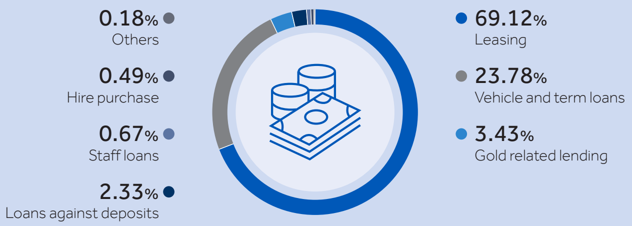
The Company monitors concentration of credit risk by product categories and analysis is shown below:

| | COMPANY | | | |
|---|---|---|---|---|
| As at 31 March | 2020 | | 2019 | |
| | Rs. '000 | % | Rs. '000 | % |
| Leasing | 51,264,518 | 69.6 | 49,211,534 | 69.1 |
| Vehicle and term loans | 15,088,760 | 20.5 | 16,933,883 | 23.8 |
| Gold-related lending | 4,687,708 | 6.4 | 2,439,859 | 3.4 |
| Loans against deposits | 1,524,697 | 2.1 | 1,661,782 | 2.3 |
| Staff loans | 567,573 | 0.8 | 475,149 | 0.7 |
| Hire purchase | 180,323 | 0.2 | 345,883 | 0.5 |
| Other | 376,867 | 0.5 | 129,261 | 0.2 |
| Gross loans and receivables to customers | 73,690,446 | | 71,197,351 | |

### Product concentration – 2019/20



### Product concentration – 2018/19

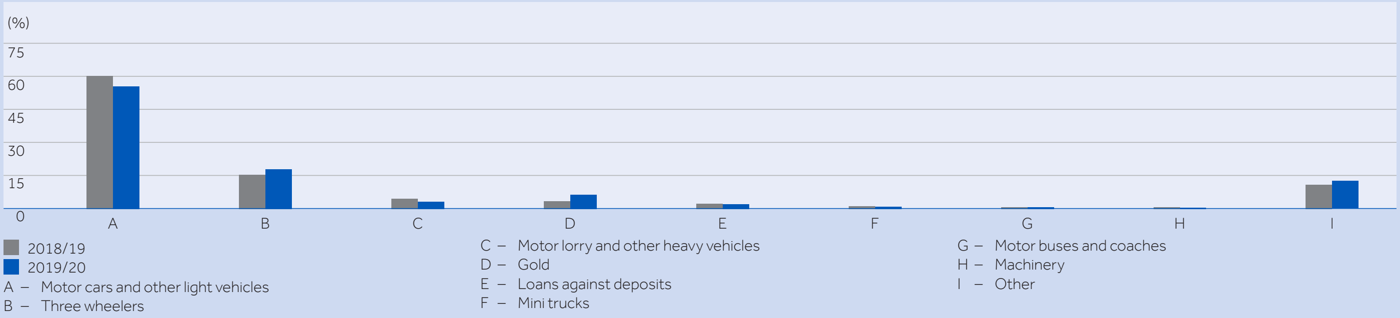


## Asset concentration

The Company monitors concentration of credit risk by asset categories and an analysis is shown below:

| | COMPANY | | | |
|---|---|---|---|---|
| As at 31 March | 2020 | | 2019 | |
| | Rs. '000 | % | Rs. '000 | % |
| Motor cars and other light vehicles | 41,083,232 | 55.8 | 43,028,983 | 60.4 |
| Three wheelers | 13,195,055 | 17.9 | 11,038,154 | 15.5 |
| Motor lorries and other heavy vehicles | 2,365,912 | 3.2 | 3,232,488 | 4.5 |
| Gold articles | 4,687,708 | 6.4 | 2,439,859 | 3.4 |
| Loans against deposits | 1,524,697 | 2.1 | 1,661,782 | 2.3 |
| Mini trucks | 694,322 | 0.9 | 885,776 | 1.2 |
| Motor buses and motor coach | 501,584 | 0.7 | 559,601 | 0.8 |
| Machineries | 333,215 | 0.5 | 463,408 | 0.7 |
| Other | 9,304,721 | 12.6 | 7,887,300 | 11.1 |
| Gross loans and receivables to customers | 73,690,446 | | 71,197,351 | |

### Asset concentration



## Geographical concentration

Company reviews its geographical diversification on regular basis at the ALCO and sets long-term target in achieving a geographical well-diversified credit portfolio. Group's strategy on geographical diversification was executed through the establishment of a distribution network for the Company. The geographical concentration is considered when selecting prospective locations for new branches as well. The credit concentration of the economy is mostly affected by the wealth distribution of the country where high concentration was seen in the Western Province.

| As at 31 March | 2020<br>Rs. '000 | % | 2019<br>Rs. '000 | % |
|---|---|---|---|---|
| Western | 36,019,040 | 48.9 | 37,300,789 | 52.4 |
| North Western | 10,225,533 | 13.9 | 9,284,789 | 13.0 |
| Central | 8,378,402 | 11.4 | 7,625,629 | 10.7 |
| Sabaragamuwa | 6,432,349 | 8.7 | 5,721,287 | 8.0 |
| Southern | 4,965,088 | 6.7 | 4,643,840 | 6.5 |
| North Central | 2,763,974 | 3.8 | 2,408,146 | 3.4 |
| Uva | 2,678,379 | 3.6 | 2,364,262 | 3.3 |
| Eastern | 1,442,100 | 2.0 | 1,241,648 | 1.7 |
| North | 785,581 | 1.1 | 606,961 | 0.9 |
| Gross loans and receivables to customers | 73,690,446 | | 71,197,351 | |

## Sector-wise analysis of credit exposures

Company manages its credit exposure to a single industry by regularly reviewing the portfolio. As there is more concentration on the vehicle-related financing of the Company there is an inherent concentration on the transportation sector.

Company has set targets to bring down the exposures to each industry to a level accepted by the Group based on its risk appetite.

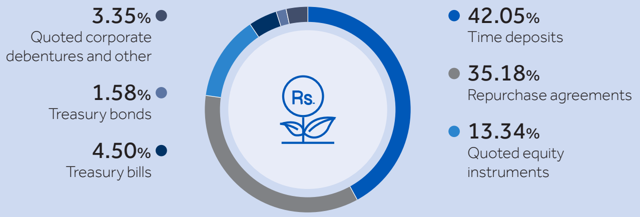
| As at 31 March | 2020<br>Rs. '000 | % | 2019<br>Rs. '000 | % |
|---|---|---|---|---|
| Transport | 34,263,452 | 46.5 | 47,118,172 | 66.2 |
| Service | 15,708,589 | 21.3 | 11,991,546 | 16.8 |
| Commercial | 14,998,052 | 20.4 | 4,884,802 | 6.9 |
| Housing and property development | 4,725,235 | 6.4 | 3,130,332 | 4.4 |
| Financial services | 1,769,931 | 2.4 | 1,667,862 | 2.3 |
| Agricultural | 608,228 | 0.8 | 850,103 | 1.2 |
| Industrial | 86,558 | 0.1 | 186,526 | 0.3 |
| Tourism | 779,534 | 1.1 | 696,817 | 1.0 |
| Other | 750,867 | 1.0 | 671,191 | 0.9 |
| Gross loans and receivables to customers | 73,690,446 | | 71,197,351 | |

## Concentration of other financial investments

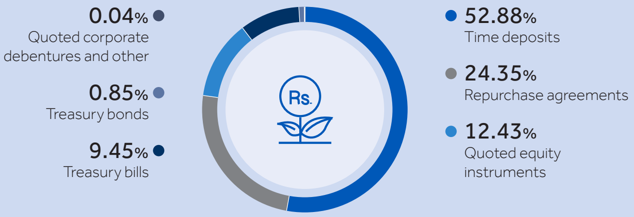
Company manages its credit exposure to a single investment security by regularly reviewing the investment portfolio. This analysis includes all the financial investments classified under financial assets measured at FVTPL, loans and receivables to banks, deposits with financial institutions and other investment securities.

| As at 31 March | 2020<br>Rs. '000 | % | 2019<br>Rs. '000 | % |
|---|---|---|---|---|
| Time deposits | 4,387,464 | 42.0 | 6,719,704 | 52.9 |
| Securities purchased under resale agreements | 3,671,353 | 35.2 | 3,094,312 | 24.4 |
| Quoted equity instruments | 1,392,259 | 13.3 | 1,579,581 | 12.4 |
| Treasury bills | 469,607 | 4.5 | 1,200,370 | 9.4 |
| Treasury bonds | 164,843 | 1.6 | 108,391 | 0.9 |
| Other investments in debt securities | 349,367 | 3.3 | 5,100 | 0.0 |
| Total other financial investments | 10,434,893 | | 12,707,458 | |

### Investment concentration – 2019/20



### Investment concentration – 2018/19



## A.V Offsetting financial assets and liabilities

The disclosure set out in the table below include financial assets and liabilities that are offset in the Company's Statement of Financial Position or that are subject to an enforceable master netting arrangement or similar financial agreements. Similar financial agreements include sale and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

Master netting arrangements do not meet the criteria for offsetting in the Statement of Financial Position until event of default is occurred.

Table below shows financial assets subject to offsetting, enforceable master netting agreements and similar agreements:

| As at 31 March 2020 | Gross amount recognised in financial assets Rs. '000 | Gross amount recognised in financial liabilities | | Net exposure Rs. '000 | Underlying security |
|---|---|---|---|---|---|
| | | Offset in Statement of Financial Position Rs. '000 | Not offset in Statement of Financial Position Rs. '000 | | |
| **Types of financial assets** | | | | | |
| Securities purchased under resale agreements | 3,671,353 | | 3,671,353 | | Treasury bills |
| Loans and receivables to customers | 1,524,697 | | 1,524,697 | | Term deposits |

| As at 31 March 2019 | Gross Amount recognised in financial assets Rs. '000 | Gross amount recognised in financial liabilities | | Net exposure Rs. '000 | Underlying security |
|---|---|---|---|---|---|
| | | Offset in Statement of Financial Position Rs. '000 | Not offset in Statement of Financial Position Rs. '000 | | |
| **Types of financial assets** | | | | | |
| Securities purchased under resale agreements | 3,094,312 | | 3,094,312 | | Treasury bills |
| Loans and receivables to customers | 1,661,782 | | 1,661,782 | | Term deposits |

## B. Liquidity risk

### B.I Exposure to liquidity risk

The key ratio used by the Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, "net liquid assets" includes cash and cash equivalents and investment-grade debt securities for which there is a active and liquid market. Details of the reported Company ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

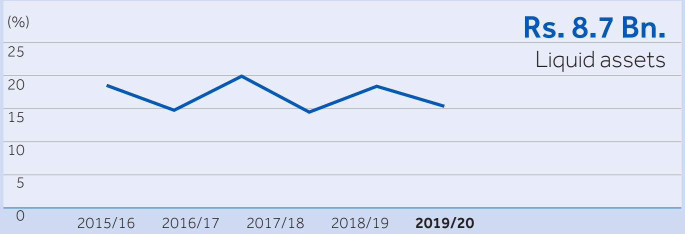
| As at 31 March | 2020 % | 2019 % |
|---|---|---|
| As at 31 March | 15.28 | 18.46 |
| Average for the period | 15.39 | 14.51 |
| Maximum for the period | 16.31 | 19.28 |
| Minimum for the period | 14.60 | 10.27 |

## Minimum liquidity requirement

As per the Direction 4 of 2013 of Central Bank of Sri Lanka, every finance company shall maintain minimum holding of liquid assets. The table below sets out the components of the Company's holding of liquid assets:

| As at 31 March | 2020<br>Rs. '000 | 2019<br>Rs. '000 |
|---|---|---|
| Required minimum amount of liquid assets | 3,362,939 | 5,942,582 |
| Total liquid assets | 8,674,662 | 10,786,904 |
| Excess liquidity | 5,311,723 | 4,844,322 |

## Liquidity ratio



Rs. 8.7 Bn.
Liquid assets

## B.II Maturity analysis for financial liabilities and financial assets

Detailed maturity analysis is given in Note 51.

The amounts shown in the maturity analysis above have been compiled by applying discounted cash flows which exclude future interest which is applicable. Some estimated maturities will be vary due to changes in contractual cashflows such as early repayment option of loans and receivables. As a part of the management of liquidity risk arising from financial liabilities, the Company holds liquid assets comprising cash and cash equivalents and debt securities which can be readily sold to meet liquidity requirements.

The table below sets out the carrying amounts of Company's non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date:

|  |  | More than 12 months |  |
|---|---|---|---|
| As at 31 March | Note | 2020<br>(Rest.)<br>Rs. '000 | 2019<br>(Rest.)<br>Rs. '000 |
| **Financial assets** |  |  |  |
| Loans and receivables to customers | 24 | 42,694,515 | 45,058,060 |
| Other investment securities | 25 | 1,498,300 | 92,272 |
| **Total financial assets** |  | 44,192,815 | 45,150,332 |
| **Financial liabilities** |  |  |  |
| Deposits from customers | 34 | 7,996,309 | 9,497,315 |
| Debt securities issued | 35 | 5,092,096 | 3,980,484 |
| Other interest-bearing liabilities | 36 | 15,460,452 | 18,666,345 |
| **Total financial liabilities** |  | 28,548,857 | 32,144,144 |

## B.III Liquidity reserves

The table below sets out the components of the Company's liquidity reserves:

| As at 31 March | 2020<br>Rs. | <br>% | 2019<br>Rs. | <br>% |
|---|---|---|---|---|
| Cash and balances with other banks | 1,096,141 | 12.60 | 874,432 | 1.2 |
| Other cash and cash equivalents | 3,437,561 | 39.63 | 5,691,891 | 8.0 |
| Investments in Government securities | 4,140,960 | 47.77 | 4,220,581 | 5.9 |
| **Total liquidity reserves** | 8,674,662 |  | 10,786,904 |  |

## B.IV Financial assets available for future funding

The table below sets out the availability of the Company's financial assets to support future funding.

| As at 31 March 2020 | Note | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|---|
| | | Pledge as a collateral Rs. '000 | Other* Rs. '000 | Available as collateral Rs. '000 | Other** Rs. '000 | Total Rs. '000 |
| Cash and cash equivalents | 20 | | | | 1,347,303 | 1,347,303 |
| Financial assets measured at FVTPL | 21 | | | | 56,442 | 56,442 |
| Loans and receivables to banks | 22 | | | | 3,671,353 | 3,671,353 |
| Deposits with financial institutions | 23 | 949,903 | | 3,437,561 | | 4,387,464 |
| Loans and receivables to customers | 24 | 2,492,397 | | 64,049,707 | 4,676,351 | 71,218,455 |
| Other investment securities | 25 | | | – | 2,319,634 | 2,319,634 |
| Non-financial assets | | – | | 8,847,839 | | 8,847,839 |
| **Total assets** | | **3,442,300** | | **76,335,107** | **12,071,083** | **91,848,490** |

** Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.*

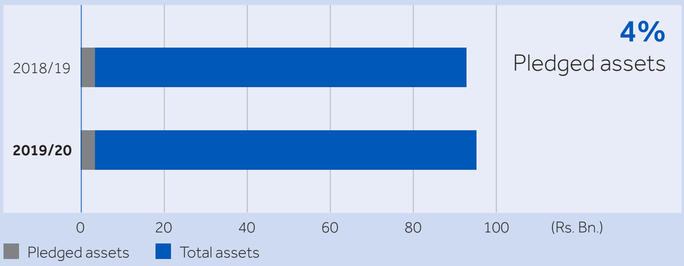
*** Represents assets that are not restricted for use as collateral, but the Company would not consider them as readily available to secure funding in the normal course of business.*

| As at 31 March 2019 | Note | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|---|
| | | Pledge as a collateral Rs. '000 | Other* Rs. '000 | Available as collateral Rs. '000 | Other** Rs. '000 | Total Rs. '000 |
| Cash and cash equivalents | 20 | | | | 1,093,874 | 1,093,874 |
| Financial assets measured at FVTPL | 21 | | | | 1,687,004 | 1,687,004 |
| Loans and receivables to banks | 22 | | | | 3,094,312 | 3,094,312 |
| Deposits with financial institutions | 23 | 818,298 | | 5,901,406 | | 6,719,704 |
| Loans and receivables to customers | 24 | 5,052,570 | | 59,404,128 | 4,676,351 | 69,133,049 |
| Other investment securities | 25 | | | | 1,313,861 | 1,313,861 |
| Non-financial assets | | | | 6,390,635 | | 6,390,635 |
| **Total assets** | | 5,870,868 | – | 71,696,169 | 11,865,402 | 89,432,439 |

** Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.*

*** Represents assets that are not restricted for use as collateral, but the Company would not consider them as readily available to secure funding in the normal course of business.*

### Financial assets pledged as collateral



# C. Market risk

## C. I. Exposure to market risk

The table below sets out the allocation of Company's assets and liabilities subject to market risk between trading and non-trading assets.

| As at 31 March 2020 | Note | Carrying amount<br>Rs. '000 | Market risk measure<br>Trading assets<br>Rs. '000 | Market risk measure<br>Non-trading Assets<br>Rs. '000 |
|---|---|---|---|---|
| **Assets subject to market risk** | | | | |
| Cash and cash equivalents | 20 | 1,347,303 | | 1,347,303 |
| Financial assets measured at FVTPL | 21 | 56,442 | 56,442 | |
| Loans and receivables to banks | 22 | 3,671,353 | | 3,671,353 |
| Deposits with financial institutions | 23 | 4,387,464 | | 4,387,464 |
| Loans and receivables to customers | 24 | 71,218,455 | | 71,218,455 |
| Other investment securities | 25 | 2,319,634 | | 2,319,634 |
| **Total assets subject to market risk** | | 83,000,651 | 56,442 | 82,944,209 |
| **Liabilities subject to market risk** | | | | |
| Derivative financial liabilities | 33 | 60,440 | 60,440 | |
| Deposits from customers | 34 | 43,327,576 | | 43,327,576 |
| Debt securities issued | 35 | 5,092,096 | | 5,092,096 |
| Other interest-bearing liabilities | 36 | 26,675,063 | | 26,675,063 |
| **Total liabilities subject to market risk** | | 75,155,174 | 60,440 | 75,094,734 |

| As at 31 March 2019 | Note | Carrying amount<br>Rs. '000 | Market risk measure<br>Trading assets<br>Rs. '000 | Market risk measure<br>Non-trading assets<br>Rs. '000 |
|---|---|---|---|---|
| **Assets subject to market risk** | | | | |
| Cash and cash equivalents | 20 | 1,093,874 | | 1,093,874 |
| Financial assets measured at FVTPL | 21 | 1,687,004 | 1,687,004 | |
| Loans and receivables to banks | 22 | 3,094,312 | | 3,094,312 |
| Deposits with financial institutions | 23 | 6,719,704 | | 6,719,704 |
| Loans and receivables to customers | 24 | 69,133,049 | | 69,133,049 |
| Other investment securities | 25 | 1,313,861 | | 1,313,861 |
| **Total assets subject to market risk** | | 83,041,804 | 1,687,004 | 81,354,800 |
| **Liabilities subject to market risk** | | | | |
| Derivative financial liabilities | 33 | 363,153 | 363,153 | |
| Deposits from customers | 34 | 47,236,367 | | 47,236,367 |
| Debt securities issued | 35 | 3,980,483 | | 3,980,483 |
| Other interest-bearing liabilities | 36 | 24,509,877 | | 24,509,877 |
| **Total liabilities subject to market risk** | | 76,089,880 | 363,153 | 75,726,727 |

## C.II. Value at Risk (VaR)

Value at risk (VaR) is a statistical technique used to quantify the level of financial risk within a company or investment portfolio over a specific time period. It estimates how much a set of investments might lose in given normal market conditions.

VaR has been implemented in the Company to measure the market risk exposure of our trading assets on monthly basis. Company calculates VaR monthly using 95% confidential level and one month holding period. Our VaR Model is based on variance-covariance method which calculates portfolio's maximum loss by analysing historic market prices.

A summary of VaR positions as at 31 March 2020 and 2019 is given below:

| 2020 | Carrying amount Rs. '000 | Portfolio value Rs. '000 | Risk adjusted Portfolio value Rs. '000 | Value at risk Rs. '000 |
|---|---|---|---|---|
| **Financial assets measured at FVTPL** | | | | |
| Government securities | 56,442 | 50,000 | 54,364 | 4,364 |
| **Total financial assets measured at FVTPL** | 56,442 | 50,000 | 54,364 | 4,364 |

| 2019 | Carrying amount Rs. '000 | Portfolio value Rs. '000 | Risk adjusted Portfolio value Rs. '000 | Value at risk Rs. '000 |
|---|---|---|---|---|
| **Financial assets measured at FVTPL** | | | | |
| Government securities | 107,423 | 100,000 | 108,726 | 8,726 |
| Quoted equity instruments | 1,579,581 | 469,479 | 547,650 | 78,171 |
| **Total financial assets measured at FVTPL** | 1,687,004 | 569,479 | 656,376 | 86,897 |

## C.III Exposure to interest rate risk

Interest rate risk exists in interest-bearing assets, due to the possibility of a change in the asset's value resulting from the variability of interest rates. Since interest rate risk management has become imperative, CDB takes proactive measures to manage the exposure by forecasting the rate fluctuations. We perform scenario analysis in the course of observing liquidity position, market movements and reprise products-based thereon.

The following table exhibits the gap between the interest-earning financial assets and interest-bearing financial liabilities of the Company:

| As at 31 March 2020 | | | Maturity | | | |
|---|---|---|---|---|---|---|
| | Note | Carrying amount Rs. '000 | Less than 12 months Rs. '000 | 1-2 years Rs. '000 | 2-5 years Rs. '000 | More than 5 years Rs. '000 |
| **Interest-bearing assets** | | | | | | |
| Financial assets measured at FVTPL | 21 | 56,442 | 56,442 | | | |
| Loans and receivables to banks | 22 | 3,671,353 | 3,671,353 | | | |
| Deposits with financial institutions | 23 | 4,387,464 | 4,387,464 | | | |
| Loans and receivables to customers | 24 | 71,218,455 | 28,523,938 | 16,348,112 | 24,738,848 | 1,607,557 |
| Other investment securities | 25 | 2,319,634 | 821,335 | 62,615 | 43,426 | 1,392,258 |
| **Total interest-bearing assets** | | 81,653,348 | 37,460,532 | 16,410,727 | 24,782,274 | 2,999,815 |
| **Interest-bearing liabilities** | | | | | | |
| Derivative financial liabilities | 33 | 60,440 | 60,440 | | | |
| Deposits from customers | 34 | 43,327,576 | 35,331,269 | 5,056,932 | 2,872,623 | 66,752 |
| Debt securities issued | 35 | 5,092,096 | | 1,017,815 | 4,074,281 | |
| Other interest-bearing borrowings | 36 | 26,675,062 | 11,214,611 | 6,582,999 | 8,877,452 | |
| **Total interest-bearing liabilities** | | 75,155,174 | 46,606,320 | 12,657,746 | 15,824,356 | 66,752 |
| **Net interest-bearing assets gap** | | 6,498,174 | (9,145,788) | 3,752,981 | 8,957,918 | 2,933,063 |

| As at 31 March 2019 | | | Maturity | | | |
|---|---|---|---|---|---|---|
| | Note | Carrying amount Rs. '000 | Less than 12 months Rs. '000 | 1-2 years Rs. '000 | 2-5 years Rs. '000 | More than 5 years Rs. '000 |
| **Interest-bearing assets** | | | | | | |
| Financial assets measured at FVTPL | 21 | 1,687,004 | 1,687,004 | | | |
| Loans and receivables to banks | 22 | 3,094,312 | 3,094,312 | | | |
| Deposits with financial institutions | 23 | 6,719,704 | 6,719,704 | | | |
| Loans and receivables to customers | 24 | 69,133,049 | 24,074,988 | 16,084,306 | 26,976,332 | 1,997,423 |
| Other investment securities | 25 | 1,313,861 | 1,221,589 | | 92,272 | |
| **Total interest-bearing assets** | | 81,947,930 | 36,797,597 | 16,084,306 | 27,068,604 | 1,997,423 |
| **Interest-bearing liabilities** | | | | | | |
| Derivative financial liabilities | 33 | 363,153 | 363,153 | | | |
| Deposits from customers | 34 | 47,236,367 | 37,739,052 | 7,203,717 | 2,293,598 | |
| Debt securities issued | 35 | 3,980,483 | | | 3,980,483 | |
| Other interest-bearing borrowings | 36 | 24,509,877 | 5,843,532 | 6,694,664 | 11,971,681 | |
| **Total interest-bearing liabilities** | | 76,089,880 | 43,945,737 | 13,898,381 | 18,245,762 | |
| **Net interest-bearing assets gap** | | 5,858,050 | (7,148,140) | 2,185,925 | 8,822,842 | 1,997,423 |

## Interest rate sensitivity

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that considered are increase and decrease in interest rate by 100 basis points. This analysis assumes the financial position and performance is constant over the remaining financial year and movement of interest rate is immediate.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | 100 bp | | 100 bp | |
| | Increase Rs. | Decrease Rs. | Increase Rs. | Decrease Rs. |
| Sensitivity of projected net interest income | **64,982** | **(64,982)** | 58,581 | (58,581) |
| Sensitivity of reported net assets | **64,982** | **(64,982)** | 58,581 | (58,581) |

## C.IV Exposure to currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Intention of managing currency risk is to curtail the currency losses incurred due to foreign currency transactions. CDB oversees the exposure by co-ordinating and being in line with the rates of forex dealing unit. We take initiatives to control the currency stocks in different currencies by exchanging and converting them in the best and a more profitable manner to compose a gain. Future Forex market movements and trends are considered when deciding rates to offer the customers and always intend to maintain in sequence with the Central Bank rate predictions to make the business more competitive.

Foreign currency exposures of the Company is shown below:

| As at 31 March | 2020 | | | 2019 | | | |
|---|---|---|---|---|---|---|---|
| | Amount | Rate | Value Rs. '000 | Amount | Rate LKR | Value Rs. '000 | Net exposure Increase/ decrease (%) |
| EUR | **176,215** | **187.36** | **33,015** | 50,000 | 194.30 | 9,715 | 240 |
| USD | **6,312** | **130.80** | **826** | 130,060 | 174.17 | 22,652 | (96) |
| AUD | **6,339** | **230.01** | **1,458** | 30,812 | 122.18 | 3,765 | (61) |
| GBP | **52,238** | **205.27** | **10,723** | 9,773 | 226.51 | 2,214 | 384 |
| CAD | **14,317** | **131.25** | **1,879** | 5,973 | 128.87 | 770 | 144 |
| SGD | **38,034** | **114.19** | **4,343** | 4,406 | 127.84 | 563 | 671 |

## Exchange rate sensitivity

The management of exchange rate risk by monitoring the sensitivity of the Company's financial performance to various standard and non-standard exchange rate scenarios. Standard scenarios that considered are increased and decreased in exchange rate by 1% to 5%. This analysis assumes the exchange reserve position is constant over the remaining financial year as well.

Subsequent sensitivity analysis shows changes in LKR, against foreign currencies which would have increased/(decreased) impact to Company's financial performance.

| As at 31 March | Shock | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | % | Strengthening Rs. '000 | Weakening Rs. '000 | Strengthening Rs. '000 | Weakening Rs. '000 |
| EUR | 1 | **3,302** | **(3,302)** | 97 | (97) |
| USD | 1 | **83** | **(83)** | 227 | (227) |
| EUR | 3 | **146** | **(146)** | 291 | (291) |
| USD | 3 | **1,072** | **(1,072)** | 680 | (680) |
| EUR | 5 | **188** | **(188)** | 486 | (486) |
| USD | 5 | **434** | **(434)** | 1,133 | (1,133) |

## C.V Exposure to equity price risk

Equity price risks arises as a result of fluctuations in market prices of individual equities and management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

The following table exhibits the impact on financial performance and net assets due to a shock of 10% on equity price.

| As at 31 March | 2020 | | 2019 | |
|---|---|---|---|---|
| | Financial assets measured at FVTPL/ FVOCI Rs. '000 | Total Rs. '000 | Financial assets measured at FVTPL Rs. '000 | Total Rs. '000 |
| Market value of quoted equity instruments as at 31 March | **1,392,259** | **1,392,259** | 1,579,581 | 1,579,581 |

## Equity price sensitivity

The management of equity price risk is done by monitoring various standard and non-standard equity price scenarios and analysis is given below:

| As at 31 March | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| Shock Levels | Impact on profit Rs. '000 | Impact on OCI Rs. '000 | Impact on net assets Rs. '000 | Impact on profit Rs. '000 | Impact on OCI Rs. '000 | Impact on net assets Rs. '000 |
| 10% shock (Increase) | **–** | **139,226** | **139,226** | 157,958 | – | 157,958 |
| 10% shock (Decrease) | **–** | **(139,226)** | **(139,226)** | (157,958) | – | (157,958) |

## C.VI Exposure to gold price risk

Gold price risks arises as a result of fluctuations in market gold prices and Management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

| As at 31 March | Total net weight of pawning articles (in Grams) | Market price per gram* | Total market value Rs. '000 | Gold loan receivable amount Rs. '000 | Value excess Rs. '000 |
|---|---|---|---|---|---|
| **2020** | **755,991** | **9,810** | **7,416,622** | **4,687,708** | **2,728,914** |
| 2019 | 495,450 | 7,312 | 3,622,934 | 2,439,859 | 1,183,075 |

** Gold prices were extracted from Central Bank of Sri Lanka*

## Gold price sensitivity

The following table exhibits the impact on market value of the gold stock held due to a shock of 10% on gold price:

| As at 31 March | 2020 | | 2019 | |
|---|---|---|---|---|
| Shock Levels | Impact on market value Rs. '000 | Impact on value excess Rs. '000 | Impact on market value Rs. '000 | Impact on value excess Rs. '000 |
| 10% shock (Increase) | 741,662 | 741,662 | 362,293 | 362,293 |
| 10% shock (Decrease) | (741,662) | (741,662) | (362,293) | (362,293) |

## C.VII Exposure to Government security price risk

Government Security price risks arises as a result of fluctuations in market prices of Government securities and Management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

The following table exhibits the impact on financial performance and net assets due to a shock of 10% on Government Security Price.

| As at 31 March | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Financial Assets measured at (FVTPL) Rs. '000 | Other financial assets Rs. '000 | Total Rs. '000 | Financial assets measured at FVTPL Rs. '000 | Other financial assets Rs. '000 | Total Rs. '000 |
| Government securities | 56,442 | 578,008 | 634,450 | 107,423 | 1,308,761 | 1,416,184 |

## Government security price sensitivity

The following table exhibits the impact on market value of the Government securities held due to a shock of 10% on market price:

| As at 31 March | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| Shock Levels | Impact on profit Rs. '000 | Impact on OCI Rs. '000 | Impact on net assets Rs. '000 | Impact on profit Rs. '000 | Impact on OCI Rs. '000 | Impact on net assets Rs. '000 |
| 10% shock (Increase) | 5,525 | – | 5,525 | 12,510 | – | 12,510 |
| 10% shock (Decrease) | (5,525) | – | (5,525) | (12,510) | – | (12,510) |

## Rates on Government securities as per Central Bank of Sri Lanka 2019/20 – during the year

| Shock Levels | Last traded rate as at 31 March 2020 % | Minimum rate % | Maximum rate % | Last traded rate as at 31 March 2019 % |
|---|---|---|---|---|
| **Treasury Bills** | | | | |
| 91 Days | 7.00 | 7.00 | 9.24 | 9.39 |
| 181 Days | 7.25 | 7.25 | 9.50 | 9.67 |
| 364 Days | 7.50 | 7.50 | 10.15 | 10.40 |
| **Treasury Bonds** | | | | |
| 5 Years | 9.27 | 9.27 | 11.04 | 11.04 |
| 8 Years | 9.40 | 9.40 | 11.24 | 11.24 |

## D. Capital management

Central Bank of Sri Lanka (CBSL) has introduce a New Capital Adequacy Framework intended to foster a strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities by repealing the earlier Direction No. 02 of 2006.

Under the earlier Direction risk confined only to credit risk and no capital requirements for other risks such as market and operational risk. With the introduction of new capital Adequacy Direction No. 03 of 2019, it provides for maintenance of capital adequacy ratios on a more risk sensitive focus covering credit risk and operational risks under basic approach available in Basel II accord.

The minimum requirement for core capital adequacy ratio and total capital adequacy ratio are 6.5 % and 10.5% respectively for assets less than 100 Bn. LFCs.

The core capital represents the permanent shareholders equity and reserves created or increased by appropriations of retained earnings or other surpluses and the total capital includes in addition to the core capital the revaluation reserves, general provisions/ impairment allowances and unsecured subordinated debts.

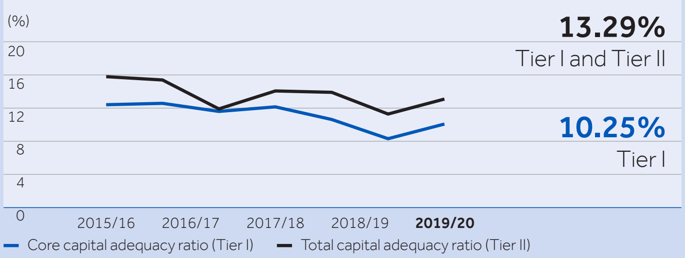
The risk-weighted assets have been calculated by multiplying the value of each category of asset using the risk weight specified by the Central Bank of Sri Lanka for credit risk and the basic indicator approach is used for operational risk.

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company and its individually-regulated operations have complied with all externally imposed capital requirements.

## D.I Capital adequacy ratio

| | | | 2020<br>% | 2019<br>% |
|---|---|---|---|---|
| Core capital adequacy ratio (Tier I) | Core capital | *100% | 10.25 | 8.09 |
| | Risk-weighted assets | | | |
| Total capital adequacy ratio (Tier II) | Capital base | *100% | 13.29 | 11.07 |
| | Risk-weighted assets | | | |

### Capital adequacy ratios



## D.II Capital allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be fixed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Company risk and Company credit and is subject to review by the Company ALCO.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Company to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies with other operations and activities, the availability of Management and other resources, and the fit of the activity with the Company's longer-term strategic objectives. The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

# 07 – SUPPLEMENTARY REPORTS

# USD accounts

## Statement of Profit or Loss and Other Comprehensive Income

Given below are the set of Financial Statements of the Company and the Group presented using USD denomination as at the reporting date based on the guidelines stated in LKAS 21 – "The effect of changes in foreign exchange rates".

| | COMPANY | | GROUP | |
|---|---|---|---|---|
| For the year ended 31 March | 2020 US$ | 2019 US$ | 2020 US$ | 2019 US$ |
| **Revenue** | 87,421,391 | 85,252,074 | 91,144,278 | 88,823,060 |
| Interest income | 78,892,005 | 74,408,351 | 82,083,113 | 77,071,060 |
| Less: Interest expense | 45,994,850 | 46,976,473 | 47,235,333 | 48,211,328 |
| **Net interest income** | 32,897,155 | 27,431,879 | 34,847,780 | 28,859,732 |
| Net fee and commission income | 2,352,079 | 2,688,998 | 2,624,651 | 3,586,882 |
| Other operating income | 6,177,307 | 8,154,725 | 6,436,514 | 8,165,118 |
| **Total operating income** | 41,426,541 | 38,275,601 | 43,908,945 | 40,611,732 |
| Less : Impairment charges and other credit losses on financial assets | 7,401,024 | 5,588,504 | 8,150,819 | 5,975,890 |
| Net operating income | 34,025,517 | 32,687,097 | 35,758,126 | 34,635,843 |
| **Less:** | | | | |
| Personnel expenses | 8,651,585 | 7,109,533 | 8,668,882 | 7,419,654 |
| Premises, equipment and establishment expenses | 9,571,008 | 9,015,092 | 9,850,068 | 9,490,882 |
| Other expenses | 2,731,475 | 2,898,226 | 2,903,050 | 3,242,325 |
| **Total operating expenses** | 20,954,068 | 19,022,851 | 21,422,000 | 20,152,861 |
| Operating profit before taxes on financial services | 13,071,449 | 13,664,246 | 14,336,126 | 14,482,982 |
| Less: Taxes on financial services | 2,211,731 | 2,580,961 | 2,410,021 | 2,744,268 |
| Profit before tax | 10,859,718 | 11,083,285 | 11,926,105 | 11,738,714 |
| Less : Income tax expense | 1,872,123 | 2,105,895 | 2,282,798 | 2,247,302 |
| **Profit for the year** | 8,987,595 | 8,977,390 | 9,643,307 | 9,491,412 |
| **Profit attributable to:** | | | | |
| Equity holders of the Company | 8,987,595 | 8,977,391 | 9,580,225 | 9,439,438 |
| Non-controlling interests | | | 63,082 | |
| Profit for the year | 8,987,595 | 8,977,391 | 9,643,307 | 9,491,412 |
| **Other comprehensive income** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| **Net change in revaluation surplus** | | | | |
| Increase in revaluation surplus | | 1,054,090 | | |
| Less: Deferred tax on revaluation surplus | | (295,144) | | |
| Equity investments at FVOCI – Net change in fair value | (203,286) | | (204,278) | |
| Net actuarial loss on defined benefit plans | 325,780 | (368,725) | 325,780 | (368,021) |
| **Total other comprehensive income** | 122,494 | 390,221 | 121,502 | 390,924 |
| **Total comprehensive income for the year** | 9,110,089 | 9,367,610 | 9,764,809 | 9,882,336 |
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of the company | 9,110,089 | 9,367,610 | 9,701,727 | 9,830,294 |
| Non-controlling interests | | | 63,082 | |
| **Total comprehensive income** | 9,110,089 | 9,367,610 | 9,764,809 | 9,882,336 |
| **Earnings per share** | | | | |
| Basic/Diluted earnings per share | 0.13 | 0.16* | 0.14 | 0.17* |

** Earning per share for the year ended 31 March 2019 has been restated considering the effect of Right Issue and the Scrip Dividend.*

# Consolidated Statement of Financial Position

| For the year ended 31 March | COMPANY 2020 US$ | COMPANY 2019 US$ | GROUP 2020 US$ | GROUP 2019 US$ |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 7,072,457 | 5,742,121 | 7,306,661 | 6,242,788 |
| Financial instruments measured at FVTPL | 296,283 | 8,855,664 | 296,283 | 9,065,685 |
| Loans and receivables to Banks | 19,272,194 | 16,243,108 | 19,377,291 | 16,772,730 |
| Deposits with financial institutions | 23,031,307 | 35,274,037 | 23,031,307 | 35,274,037 |
| Loans and receivables from customers | 373,850,157 | 362,903,139 | 380,172,320 | 375,758,950 |
| Other investment securities | 12,176,559 | 6,896,908 | 12,399,971 | 6,924,812 |
| Investment in subsidiaries | 2,676,735 | 2,676,735 | – | – |
| Investment property | 106,026 | 106,026 | 106,026 | 106,027 |
| Property, plant and equipment | 15,423,386 | 12,436,677 | 15,488,472 | 12,514,520 |
| Right-of-use assets | 420,714 | – | 487,333 | – |
| Intangible assets | 4,414,005 | 434,598 | 4,414,005 | 513,585 |
| Goodwill on consolidation | – | – | 1,281,785 | 1,281,784 |
| Other assets | 23,404,481 | 17,892,609 | 24,851,928 | 18,372,489 |
| **Total assets** | 482,144,304 | 469,461,622 | 489,213,382 | 482,827,407 |
| Trading liabilities | | | | |
| Derivative financial liabilities | 317,270 | 1,906,315 | 317,270 | 1,906,315 |
| Deposits from customers | 227,441,344 | 247,959,932 | 227,326,903 | 247,887,549 |
| Debt securities issued | 26,730,163 | 20,894,924 | 26,730,163 | 20,894,924 |
| Other interest bearing borrowings | 140,026,572 | 128,660,772 | 144,383,916 | 138,970,352 |
| Lease liabilities | 4,222,520 | – | 4,222,520 | – |
| Current tax liabilities | 7,973,916 | 2,922,562 | 8,415,465 | 3,323,580 |
| Deferred tax liabilities | 3,414,178 | 7,125,559 | 3,198,273 | 7,013,444 |
| Retirement benefit obligation | 151,869 | 38,682 | 151,869 | 40,320 |
| Other liabilities | 12,933,297 | 14,465,196 | 13,803,696 | 16,227,832 |
| **Total liabilities** | 423,211,129 | 423,973,942 | 428,550,075 | 471,858,014 |
| Equity | | | | |
| Stated capital | 12,337,864 | 6,220,798 | 12,337,864 | 6,220,798 |
| Reserves | 12,051,848 | 11,761,081 | 12,080,504 | 11,761,003 |
| Retained earnings | 34,543,463 | 27,505,801 | 35,942,614 | 28,341,948 |
| **Total equity attributable to equity holders of the Company** | 58,933,175 | 45,487,680 | 60,360,982 | 46,323,748 |
| Non-controlling interest | – | – | 302,325 | 239,344 |
| **Total equity** | 58,933,175 | 45,487,680 | 60,663,307 | 46,563,092 |
| **Total liabilities and equity** | 482,144,304 | 469,461,622 | 489,213,382 | 482,827,407 |
| Net assets value per share | 0.84 | 0.84 | 0.86 | 0.85 |

# Quarterly statistics

| | COMPANY | | | | COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019/20<br>Rs. '000 | | | | 2018/19<br>Rs. '000 | | | |
| | 30.06.2019 | 30.09.2019 | 31.12.2019 | 31.03.2020 | 30.06.2018 | 30.09.2018 | 31.12.2018 | 31.03.2019 |
| **Statement of profit or loss** | | | | | | | | |
| Revenue | 4,000,851 | 4,069,339 | 4,344,988 | 4,226,238 | 3,586,980 | 4,224,459 | 4,339,334 | 4,089,719 |
| Net interest income | 1,418,439 | 1,494,295 | 1,648,298 | 1,786,012 | 1,136,406 | 1,308,458 | 1,510,300 | 1,270,608 |
| Total operating income | 2,329,223 | 2,222,281 | 2,153,745 | 2,056,770 | 1,500,962 | 2,015,390 | 2,026,835 | 1,748,287 |
| Net operating income | 1,233,482 | 1,597,846 | 1,706,658 | 1,870,724 | 1,296,897 | 1,472,563 | 1,669,107 | 1,788,297 |
| Non-interest expenses | 997,063 | 1,136,584 | 1,218,380 | 988,430 | 823,826 | 922,772 | 1,009,117 | 868,139 |
| Profit before tax | 236,419 | 461,262 | 488,278 | 882,294 | 400,970 | 448,228 | 506,514 | 755,625 |
| Income tax expense | (38,088) | 115,000 | 120,000 | 159,727 | 80,224 | 105,861 | 129,088 | 86,000 |
| Profit for the period | 274,507 | 346,262 | 368,278 | 722,567 | 320,746 | 342,367 | 377,426 | 669,625 |
| **Statement of financial position** | | | | | | | | |
| Total assets | 89,706,161 | 90,541,360 | 90,294,543 | 91,974,729 | 78,978,338 | 82,259,800 | 87,968,467 | 89,430,442 |
| Loans and advances to customers | 69,651,600 | 71,118,408 | 70,024,026 | 71,296,884 | 63,986,309 | 67,229,926 | 68,661,421 | 69,133,048 |
| Deposits and borrowings | 74,733,780 | 74,704,804 | 74,800,656 | 75,155,177 | 67,597,965 | 70,207,006 | 76,165,951 | 76,089,881 |
| Shareholder's funds | 9,953,265 | 10,100,066 | 10,462,344 | 11,140,185 | 7,468,660 | 7,535,018 | 7,867,291 | 8,665,403 |
| **Key ratios** | | | | | | | | |
| Net assets value per share (Rs.) | 146.63 | 144.72 | 149.91 | 159.62 | 137.53 | 138.75 | 144.87 | 159.57 |
| Return on average shareholders' equity (Annualise %) (%) | 11.79 | 13.23 | 13.79 | 17.28 | 17.55 | 18.06 | 18.47 | 21.62 |
| Non-performing loans ratio (Net of IIS and impairment charges) (%) | 4.83 | 4.85 | 4.18 | 4.13 | 2.32 | 3.46 | 3.93 | 3.84 |
| **Capital adequacy** | | | | | | | | |
| Tier I (%) | 9.35 | 9.51 | 9.89 | 10.04 | 9.93 | 8.30 | 8.32 | 7.80 |
| Tier II (%) | 12.05 | 12.17 | 13.84 | 13.04 | 12.66 | 11.06 | 10.75 | 11.05 |

# Economic value added statement GRI 201-1

Economic value added statement is provided with the aim of disclosing value creation and value distribution of the Company among its key stakeholders.

| | 2019/20<br>Rs. '000 | 2018/19<br>Rs. '000 | Increase<br>% |
|---|---|---|---|
| **Value created** | | | |
| Interest income | 15,028,927 | 14,174,517 | |
| Fee commission income | 448,071 | 512,254 | |
| Other operating income | 1,176,777 | 1,553,749 | |
| **Total direct economic value generated** | 16,653,775 | 16,240,520 | 3% |
| **Value distributed** | | | |
| Operating costs | 3,723,931 | 3,310,087 | |
| To the employees as salaries wages and other benefits | 1,648,127 | 1,354,366 | |
| To the government as income tax and taxes on financial services | 777,974 | 892,846 | |
| To providers of capital as dividend | – | 193,461 | |
| To society as corporate social responsibility | 29,587 | 24,010 | |
| To depositors and lenders as interest payments | 8,762,019 | 8,949,018 | |
| **Total economic value distributed** | 14,941,638 | 14,723,788 | 1% |
| Economic value retained | 1,712,137 | 1,516,732 | 13% |

# Ten year statistical summary

| | 2019/20<br>Rs. '000 | 2018/19<br>Rs. '000 | 2017/18<br>Rs. '000 | 2016/17<br>Rs. '000 |
|---|---|---|---|---|
| **Operating results** | | | | |
| Income | **16,653,775** | 16,240,520 | 11,784,862 | 8,591,218 |
| Interest income | **15,028,927** | 14,174,517 | 10,117,149 | 7,587,180 |
| Interest expenses | **8,762,019** | 8,949,018 | 6,662,828 | 4,699,482 |
| Non-interest income | **1,624,848** | 2,066,003 | 1,667,713 | 1,004,038 |
| Operating expenses (Including VAT) | **5,822,980** | 5,180,136 | 3,435,217 | 2,664,235 |
| Profit/(loss) before income tax | **2,068,776** | 2,111,366 | 1,686,817 | 1,227,501 |
| Income tax on profit | **356,639** | 401,173 | 285,629 | 220,986 |
| Profit/loss after taxation | **1,712,137** | 1,710,193 | 1,401,188 | 1,006,515 |
| **Liabilities and shareholders' funds** | | | | |
| Customer deposits | **43,327,576** | 47,236,367 | 44,709,832 | 32,601,836 |
| Borrowings | **32,631,988** | 28,853,513 | 19,195,517 | 13,032,648 |
| Other liabilities | **4,011,755** | 3,319,737 | 3,583,543 | 1,429,915 |
| Deferred taxation | **650,401** | 1,357,419 | 860,819 | 628,721 |
| Shareholders' funds | **11,226,770** | 8,665,403 | 7,152,399 | 6,241,165 |
| Total liabilities and shareholders' funds | **91,848,490** | 89,432,439 | 75,502,110 | 53,934,285 |
| **Assets** | | | | |
| Loans and receivables to customers (Net) | **71,218,455** | 69,133,049 | 59,438,349 | 43,189,010 |
| Cash and short term funds | **11,782,196** | 13,906,755 | 10,749,272 | 5,695,608 |
| Property, plant and equipment | **2,938,155** | 2,369,187 | 2,029,222 | 1,839,091 |
| Other assets | **5,909,684** | 4,021,448 | 3,285,267 | 3,210,576 |
| Total assets | **91,848,490** | 89,430,439 | 75,502,110 | 53,934,285 |
| **Ratios** | | | | |
| Growth in income (%) | **3** | 38 | 37 | 15 |
| Growth in interest expenses (%) | **(2)** | 34 | 42 | 31 |
| Growth in operating expenses (Including VAT) | **12** | 51 | 29 | 1 |
| Growth in profit after tax (%) | **0.11** | 22 | 39 | 1 |
| Growth in total assets (%) | **3** | 18 | 40 | 7 |
| Earnings per share (Rs.) | **24.53** | 30.05 | 25.80 | 18.53 |
| Return on average assets (%) | **1.89** | 2.07 | 2.17 | 1.93 |
| Dividend per share (Rs.) | **–** | 5.00 | 5.00 | 3.50 |

| 2015/16 Rs. '000 | 2014/15 Rs. '000 | 2013/14 Rs. '000 | 2012/13 Rs. '000 | 2011/12 Rs. '000 | 2010/11 Rs. '000 |
|---:|---:|---:|---:|---:|---:|
| | | | | | |
| 7,486,004 | 6,907,077 | 6,267,086 | 4,389,593 | 2,892,653 | 2,264,997 |
| 6,647,024 | 6,251,533 | 5,895,604 | 4,087,387 | 2,555,433 | 1,731,159 |
| 3,588,413 | 3,381,455 | 3,553,403 | 2,386,570 | 1,311,936 | 912,786 |
| 838,980 | 655,544 | 481,482 | 302,206 | 337,220 | 494,864 |
| 2,643,648 | 2,574,201 | 2,093,715 | 1,378,740 | 1,048,410 | 751,966 |
| 1,253,944 | 951,420 | 729,968 | 624,282 | 532,307 | 561,271 |
| 248,790 | 249,686 | 168,755 | 135,118 | 13,840 | 29,461 |
| 1,005,154 | 701,734 | 561,213 | 489,164 | 518,467 | 531,810 |
| | | | | | |
| 30,887,693 | 27,079,134 | 24,518,193 | 17,771,173 | 11,699,663 | 7,700,659 |
| 12,345,820 | 4,824,245 | 4,314,338 | 2,763,083 | 2,155,694 | 1,027,654,377 |
| 1,861,067 | 1,526,248 | 1,213,714 | 922,665 | 456,069 | 493,578,084 |
| 479,764 | 282,079 | 145,383 | 31,912 | – | – |
| 5,051,968 | 4,302,003 | 3,576,914 | 2,965,098 | 2,302,503 | 1,098,702 |
| 50,626,312 | 38,013,709 | 33,768,542 | 24,453,931 | 16,613,929 | 10,390,593 |
| | | | | | |
| 38,538,920 | 29,378,799 | 25,724,945 | 19,450,587 | 13,469,076 | 8,081,942 |
| 7,765,844 | 4,734,541 | 3,168,727 | 1,540,598 | 626,231 | 320,139 |
| 1,606,958 | 1,421,343 | 1,004,471 | 657,718 | 470,980 | 237,822 |
| 2,714,590 | 2,479,026 | 3,870,400 | 2,805,028 | 2,047,642 | 1,750,690 |
| 50,626,312 | 38,013,709 | 33,768,542 | 24,453,931 | 16,613,929 | 10,390,593 |
| | | | | | |
| 8 | 8 | 45 | 52 | 28 | 17 |
| 6 | (5) | 49 | 82 | 44 | (23) |
| 3 | 23 | 52 | 32 | 39 | 21 |
| 43 | 25 | 15 | (6) | (3) | 568 |
| 33 | 13 | 38 | 47 | 60 | 53 |
| 18.51 | 12.92 | 10.33 | 9.99 | 10.28 | 12.76 |
| 2.27 | 1.96 | 1.93 | 2.38 | 3.84 | 6.30 |
| 3.50 | 3.50 | 3.00 | 2.75 | 2.50 | 2.00 |

# Sustainability assurance report

GRI 102-56

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## INDEPENDENT ASSURANCE REPORT TO CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

We have been engaged by the directors of Citizens Development Business Finance PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 March 2020. The Sustainability Indicators are included in Citizens Development Business Finance PLC's Integrated Annual Report for the year ended 31 March 2020 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

| Assured Sustainability Indicators | Integrated Annual Report Page |
|---|---|
| Financial Highlights | 04 |

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

| Limited Assurance Sustainability Indicators | Integrated Annual Report Page |
|---|---|
| Non-Financial Highlights | 05 |
| Information provided on following capitals | |
| Financial Capital | 43-49 |
| Institutional Capital | 50-60 |
| Customer Capital | 61-71 |
| Employee Capital | 72-86 |
| Social Capital | 87-94 |
| Natural Capital | 95-108 |
| Business Partner Capital | 109-113 |
| Investor Capital | 114-126 |

## Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 March 2020 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 March 2020, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

## Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

## Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

## Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

## Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

## Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS
Colombo

15 July 2020

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# Glossary

### A

**Accounting Policies**

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

**Accrual Basis**

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

**Actuarial Gain/Loss**

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

**Amortisation**

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Amortised Cost**

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

**Associate**

An entity over which the investor has significant influence.

**Available-for-Sale (AFS) Financial Investments**

All non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, financial investments – Held-to-maturity and financial investments at fair value through profit or loss.

### B

**Basis Point (bp)**

One-hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

### C

**Capital Adequacy Ratio**

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

**Cash Equivalents**

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash Generating Unit (CGU)**

The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

**Collectively Assessed Loan Impairment Provisions**

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

**Commitments**

Credit facilities approved but not yet utilised by the clients as at the reporting date.

**Contingencies**

A condition or situation, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

**Corporate Governance**

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision f executive actions and accountability to owners and others.

**Correspondent Bank**

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

**Cost/Income Ratio**

Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income.

**Credit Rating**

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

**Credit Risk**

Risk of financial loss to the Bank, if a customer or counter party to a financial instrument fails to meet its contractual obligations and arises principally from the loans and advances to customers and other banks and investment in debt securities.

### D

**Deferred Taxation**

Sum set aside in the Financial Statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

**Derivatives**

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. interest rate) that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

**Dividend Cover**

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

**Dividend Yield**

Dividend earned per share as a percentage of its market value.

### E

**Earnings per Ordinary Share (EPS)**

The profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

**Effective Interest Rate (EIR)**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**Effective Tax Rate (ETR)**

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

**Equity Method**

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

**Expected Credit Lossess**

This is the method of providing for impairment of financial assets held at amortised cost.

### F

**Fair Value**

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.

**Fair Value through Profit or Loss Investments**

A financial asset/liability acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

**Finance Lease**

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

**Financial Instrument**

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### G

**Global Reporting Initiative (GRI)**

The GRI is an international independent standards organisation that helps businesses, Governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

**Group**

A parent and all its subsidiaries.

**Guarantees**

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

## H

### Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

### Held-to-Maturity (HTM) Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

## I

### Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

### Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

### Interest Rate SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

### Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest-bearing liabilities.

### Investment Properties

Property (land or a building – or part of a building – or both) held (by the owner or by the lessee for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

## K

### Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

## L

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

### Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available-for-sale on initial recognition.

### Loan-to-Value Ratio (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

### Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

## M

### Market Capitalisation

The value of an entity obtained by multiplying the number of ordinary shares in issue multiplied by its market value as at a date.

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

### Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## N

### Net Interest Income (NII)

The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### Net Interest Margin (NIM)

The margin is expressed as net interest income divided by average interest earning assets.

### Non-Controlling Interest (NCI)

Equity in a Subsidiary not attributable, directly or indirectly, to a parent.

## O

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## P

### Parent

An entity that controls one or more entities.

### Price Earnings Ratio (P/E Ratio)

Market price of a share divided by the earnings per share.

### Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

### Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

## R

### Related Parties

One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Related Party Transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

### Return on Average Equity (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

### Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

## S

### Segment Reporting

Disclosure of bank's assets, income and other information, broken down by activity and geographical area.

### Subsidiary

An entity that is controlled by another entity.

### Substance Over Form

The consideration that the accounting treatment and presentation of Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## T

### Tier I Capital (Core Capital)

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital (Supplementary Capital)

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

# Branch network

| No. | Branch | Branch Locations | Contact No. |
|---|---|---|---|
| 1 | Aluthgama | No. 377, Galle Road, Aluthgama | 034-2291136 |
| 2 | Ambalangoda | No. 61, New Road, Amabalangoda | 091-2254271 |
| 3 | Ampara | No. 66, D.S. Sennanayaka Street, Ampara | 063-2222150 |
| 4 | Anuradhapura | No. 521/20, Maithripala Senenayake Mawatha, New Town, Anuradhapura | 025-2234000/025-2226609 |
| 5 | Avissawella | No. 23, Colombo Road, Avissawela | 036-2235220 |
| 6 | Badulla | No. 22, Bank Road, Badulla | 055-2225533 |
| 7 | Bandarawela | No. 344, Badulla Road, Bandarawela | 057-2221484 |
| 8 | Battaramulla | No. 97/1, Main Street, Battaramulla | 011-2869944/011-2869949 |
| 9 | Batticaloa | No. 601/D, Trincomalee Road, Batticaloa | 065-2228490 |
| 10 | Boralesgamuwa | No. 35/1 and 35, Dehiwala Road, Boralesgamuwa | 011-2509306 |
| 11 | Chilaw | No. 80, Colombo Road, Chilaw | 032-2220646 |
| 12 | Dambulla | No. 687, Anuradapura Road, Dambulla | 066-2284088/066-2284188 |
| 13 | Dehiwala | No.119, Galle Road, Dehiwela | 011-2761443/011-2761442 |
| 14 | Eheilyagoda | No. 114, Main Road, Eheilyagoda | 036-2259951 |
| 15 | Ela Kanda | No. 30, Hendala Road, Ela Kanda | 011-2930986 |
| 16 | Embilipitiya | No. 21, Main Street, Embilipitiya | 047-2261961/047-2261962 |
| 17 | Galle | No. 99, Sea Street, Galle | 091-2227501/091-2227502 |
| 18 | Gampaha | No. 114, Colombo Road, Gampaha | 033-2233774/033-2223637 |
| 19 | Giriulla | No. 52, Negombo Road, Giriulla | 037-2288183 |
| 20 | Head Office | No. 123, Orabipasha Mawatha, Colombo 10 | 011-2429800/0117388388 |
| 21 | Horana | No. 119/A, Panadura Road, Horana | 034-2266188/034-2266177 |
| 22 | Ja-Ela | No. 195/A, Negombo Road, Ja-Ela | 011-2228228 |
| 23 | Jaffna | No. 208, Stanly Road, Jaffna | 021-2221585/021-2221586 |
| 24 | Kaduruwela | No. 660, Main street, Kaduruwela | 027-2226710/027-2226720 |
| 25 | Kaduwela | No. 102, Colombo Road, Kaduwela | 011-2538888 |
| 26 | Kalutara | No. 296, Main Street, Kalutara | 034-2224400 |
| 27 | Kandana | No. 37/1, Negombo Road, Kandana | 011-2237645 |
| 28 | Kandy | No. 32, Cross Street, Kandy | 081-2204600/081-2204246 |
| 29 | Katugastota | No. 468, Katugastota Road, Katugastota | 081-2212517 |
| 30 | Kegalle | No. 227, Kandy Road, Kegalle | 035-2222442/035-2222599 |
| 31 | Kelaniya | No. 159, Kandy Road, Kiribathgoda | 011-2910202/011-2913501-502 |
| 32 | Kochchikade | No. 176, Chilaw Road, Kochchikade | 031-2278695 |
| 33 | Kotahena | No. 30, Sri Ramanandhan Mawatha, Kotahena | 011-2422465/011-2422466 |
| 34 | Kottawa | No. 35/1, High Level Road, Kottawa | 011-2782706 |
| 35 | Kuliyapitiya | No. 259, Madampe Road, Kuliyapitiya | 037-2281825 |
| 36 | Kurunegala | No. 54, Colombo Road, Kurunegala | 037-2221625/037-2234444 |
| 37 | Kuruwita | No. 85, Colombo Road, Kuruwita | 045-2263371 |
| 38 | Mahara | No. 337/2, Mahara, Kadawatha | 011-2925000 |
| 39 | Maharagama | No. 181, High Level Road, Maharagama | 011-2845945 |
| 40 | Mahiyanganaya | No. 1, Padiayatalawa Road, Mahiyanganaya | 0552258322 |
| 41 | Malabe | No. 838/04, New Kandy Road, Malabe | 011-2078651/011-2078652 |
| 42 | Marawila | No. 63, Chilaw Road, Marawila | 032-2250930 |
| 43 | Matale | No.115/117, Trincomalee Road, Matale | 066-2226545 |
| 44 | Matara | No. 6, Station Road, Matara | 041-2226655/041-2229955 |
| 45 | Mathugama | No. 190, Aluththgama Road, Mathugama | 034-2248888 |
| 46 | Mawathagama | No. 29, Kurunegala Road, Mawathagama | 037-2296470 |

| No. | Branch | Branch Locations | Contact No. |
|---|---|---|---|
| 47 | Minuwangoda | No. 8/A, Siriwardena Mawatha, Minuwangoda | 011-2298864 |
| 48 | Moratuwa | No. 760, Galle Road, Moratuwa | 011-2642309/011-2642310 |
| 49 | Narammala | No. 95, Kurunegala Road, Narammala | 037-2249525 |
| 50 | Negombo | 129, St Joseph Street, Negombo | 031-2231391/031-2224040 |
| 51 | Nikaweratiya | No.113,Puttalam Road, Nikaweratiya | 037-2260387 |
| 52 | Nittambuwa | No. 2/1, Kandy Road, Nittabuwa | 033-2296969 |
| 53 | Nugegoda | No. 70/A, Stanley Thilakarathna Mawatha, Nugegoda | 011-2828312/011-2828313 |
| 54 | Nuwara Eliya | No. 120, Kandy Road, Nuwara Eliya | 052-2224728 |
| 55 | Panadura | No. 383, Galle Road, Panadura | 038-2237327 |
| 56 | Pelmadulla | No. 11, Main Street, Palmadulla | 045-2274428 |
| 57 | Piliyandala | No. 92, Moratuwa Road, Piliyandala | 011-2614425 |
| 58 | Premier Centre | No. 101, Dharmapala Mawatha, Colombo 7 | 011-2332150 |
| 59 | Ragama | No. 26/05 & 26/06, Kadawatha Road, Ragama | 011-2952492 |
| 60 | Rajagiriya | No. 340, 340 1/1 & 340 2/1, Kotte Road, Welikada, Rajagiriya | 011-2078216/0112078218 |
| 61 | Ratmalana | No. 105, Galle Road, Mount Lavinia | 011-2710056 |
| 62 | Rathnapura | No. 89, Bandaranayaka Mawatha, Rathnapura | 045-2226636 |
| 63 | Thalawatugoda | No. 706, Madiwela Road, Thalawatugoda | 011-2773718 |
| 64 | Tissamaharama | No. 47, Hambanthota Road, Thissamaharama | 047-2239655 |
| 65 | Trincomalee | No. 266, 268 Central Road,Trincomalee | 026-2226945/026-2226946 |
| 66 | Vavuniya | No. 11, Horowpathana Road, Vavuniya | 024-2225862 |
| 67 | Warakapola | No. 9, Main Street, Warakapola | 035-2268281 |
| 68 | Wariyapola | No. 77, Puttalam Road, Wariyapola | 0372057708 |
| 69 | Wattala | No. 237, Negambo Road, Wattala | 011-2981133 |
| 70 | Wellawatta | No. 288, Galle Road, Wellawatta | 011-2364699 |
| 71 | Wennappuwa | Sterling Building, Chilaw Road, Wennappuwa | 031-2245245 |

# Abbreviations

| | |
|---|---|
| AGM | Annual General Meeting |
| AFS | Available-for-sale |
| ALCO | Assets and Liabilities Committee |
| BAC | Board Audit Committee |
| BCC | Board Credit Committee |
| BCP | Business Continuity Plan |
| BHRRC | Board Human Resources & Remuneration Committee |
| BIRMC | Board Integrated Risk Management Committee |
| BNC | Board Nomination Committee |
| BRPTRC | Board Related Party Transactions Review Committee |
| CAR | Capital Adequacy Ratio |
| CASL | Institute of Chartered Accountants of Sri Lanka |
| CBSL | Central Bank of Sri Lanka |
| CCF | Credit Conversion Factor |
| CEO | Chief Executive Officer |
| CFM | Close Family Members |
| CFO | Chief Financial Officer |
| COO | Chief Operating Officer |
| CRO | Chief Risk Officer |
| CSE | Colombo Stock Exchange |
| DRP | Disaster Recovery Plan |
| EGM | Extraordinary General Meeting |
| ESOP | Employee Share Ownership Plan |
| EVE | Economic Value of Equity |
| EAD | Exposure at Default |
| ECL | Expected Credit Losses |
| FIS | Fixed Income Securities |
| FS | Financial Statements |
| FX | Foreign Exchange |
| FY | Financial Year |
| FVTPL | Fair Value Through Profit or Loss |
| GDP | Gross Domestic Product |
| GOSL | Government of Sri Lanka |

| | |
|---|---|
| GRI | Global Reporting Initiative |
| HFT | Held-for-trading |
| HR | Human Resources |
| HTM | Held-to-maturity |
| IMF | International Monetary Fund |
| IRMD | Integrated Risk Management Department |
| IRR | Interest Rate Risk |
| KRI | Key Risk Indicators |
| KMP | Key Management Personnel |
| LCB | Licensed Commercial Bank |
| LCR | Liquidity Coverage Ratio |
| LSB | Licensed Specialised Bank |
| LGD | Loss Given Default |
| LKAS | Sri Lanka Accounting Standards |
| LTV | Loan to Value Ratio |
| NFR | Net Flow Rate |
| NII | Net Interest Income |
| NIM | Net Interest Margin |
| NPA | Non-Performing Assets |
| NPL | Non-Performing Loans |
| OCI | Other Comprehensive Income |
| PAT | Profit After Tax |
| PBT | Profit Before Tax |
| PD | Probability of Default |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RPT | Related Party Transactions |
| RWA | Risk Weighted Assets |
| SEC | Securities and Exchange Commission of Sri Lanka |
| SLFRS | Sri Lanka Financial Reporting Standards |
| SME | Small and Medium Enterprise |
| SLAR | Statutory Liquid Assets Ratio |
| VaR | Value at Risk |
| YoY | Year-on-Year |

# Basis of ratios

| Ratio | Definition |
|---|---|
| Earnings per share (EPS) (Rs.) | Profit/loss attributable to ordinary shareholders<br>Average number of shares |
| Net assets value per share (NAPS) (Rs.) | Total shareholders' equity<br>Average number of shares |
| Market capitalisation (Rs.) | Market price per share x Number of shares |
| Price earnings (PE) (Times) | Market price per share<br>Earnings per share |
| Dividend per Share (Rs.) | Total Gross Dividend (Proposed)<br>Number of Shares as at the reporting date |
| Dividend yield (%) | Dividend per ordinary share x 100<br>Market price per share |
| Dividend cover (Times) | Profit/loss attributable to ordinary shareholders<br>Total dividend paid to shareholders |
| Dividend payout (%) | Total dividend paid to shareholders x 100<br>Profit/loss attributable to ordinary shareholders |
| Earnings yield (%) | Earnings per share x 100<br>Market price per share |
| Return on equity (ROE) (%) | Profit/loss attributable to ordinary shareholders x 100<br>Average shareholders' equity |
| Return on asset (ROA) (%) | Profit/loss attributable to ordinary shareholders x 100<br>Average total assets |
| Debt to equity (Times) | Borrowings<br>Total shareholders' equity |
| Cost to income ratio (%)<br>(Excluding VAT on FS) | Total operating cost without VAT on financial services x 100<br>Total operating income |
| Operating profit margin (%) | Operating profit before VAT on financial services x 100<br>Total Revenue |
| Net interest margin (%) | Net interest income x 100<br>Average total assets |
| Provision cover | Provisions<br>Accelerated Non-performing assets |
| Price to book value (PBV) (Times) | Market price per share<br>Net assets per share |
| Total impairment provision to gross portfolio (%) | Total impairment provision x 100<br>Gross loans and receivables |
| Non-performing ratio | Gross non-performing portfolio x 100<br>Gross loans and receivables |
| Interest Cover | Profit before tax + Interest expense<br>Interest expense |
| Quick Asset Ratio | Current assets - Inventories<br>Current liabilities |

# Notice of meeting

**CITIZENS DEVELOPMENT BUSINESS FINANCE PLC – PB 232 PQ**

NOTICE IS HEREBY GIVEN THAT THE TWENTY FOURTH ANNUAL GENERAL MEETING OF CITIZENS DEVELOPMENT BUSINESS FINANCE PLC WILL BE HELD ON 31 AUGUST 2020 AT CDB CORPORATE OFFICE, LEVEL 02, WISDOM AUDITORIUM AT 10.00AM.

## Agenda

1. To receive the Annual Report of the Board of Directors on the Affairs of the Company and the Audited Financial Statements for the year ended 31 March 2020 with the Report of the Auditors thereon.
2. To re-elect Mr S R Abeynayake, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.
3. To re-elect Senior Prof S P P Amaratunge, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.
4. To re-elect Mr J P Abhayaratne, who in terms of Article 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.
5. To re-elect Mr E Karthik, who in terms of Article 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.
6. To authorise the Directors to determine Contributions to Charities and other donations for the ensuing year.
7. To re-appoint Messrs KPMG, Chartered Accountants as Auditors and authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD OF DIRECTORS OF
**CITIZENS DEVELOPMENT BUSINESS FINANCE PLC**
S S P CORPORATE SERVICES (PRIVATE) LIMITED

*sgd.*
SECRETARIES
Date: 27 July 2020

**Note:**

*A member is entitled to appoint a proxy to attend and vote instead of himself/herself and a Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office of the Secretaries, No. 101, Inner Flower Road, Colombo 03 not less than 48 hours before the time fixed for the holding of the AGM.*

*Please refer the "Circular to Shareholders" dated 27 July 2020 and follow the instructions to join the meeting physically or virtually.*

**Security Check:**

The shareholders/proxyholders are kindly requested to bring their National Identity Card/Passport/Driving license or any other accepted form of identification and produce same at the time of registration.

# Corporate information

## Name of the Company

Citizens Development Business Finance PLC

## Legal Form

A public quoted company incorporated in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.

The Company is licensed under the Finance Business Act No. 42 of 2011. The Company is registered under the Finance Leasing Act No. 56 of 2000 and CDB is an approved credit agency under mortgage Act No. 06 of 1949 and Trust Receipt Ordinance No. 12 of 1947.

## Date of Incorporation

7 September 1995

## Registration No

PB 232 PQ

## Accounting Year

31 March

## Board of Directors

**S R Abeynayake**
MBA (Sri J), FCA, FCMA
*Chairman/Non-Executive Director*

**W P C M Nanayakkara**
BSc (Mgt.), FCMA (UK), MBA (Sri J), CGMA
*Managing Director/Chief Executive Officer/ Executive Director*

**R H Abeygoonewardena**
FCMA (UK), ACMA (Sri), MCPM, CGMA
*Executive Director/Director – Corporate Finance*

**J P Abhayaratne**
MBA, BSc (Admin)
*Non-Executive Director*
*(w.e.f. 1 January 2020)*

**Prof S P P Amaratunge**
BA Econ (Sp) (Sri J); MA Econ (Colombo); MSc Econ. of Rural Dev. (Saga. Japan); PhD (Kagoshima, Japan)
*Non-Executive Independent Director*

**Joseph Rene Alastair Corera**
CFA (USA), FCMA (UK)
*Independent Non-Executive Director*

**Prof Ajantha Dharmasiri**
BSc Eng, MBA (Sri J), PhD (Sri J), MCMI (UK)
*Senior Independent Non-Executive Director*

**D A De Silva**
BSc (Hons), ACMA, CGMA
*Executive Director/Director – Business operations*

**Elangovan Karthik**
FCIM, FSLIM, BSc (Mgt.), MBA (PIM), CGMA
*Executive Director (w.e.f. 1 July 2020)*

**P A J Jayawardena**
LUTCF (USA), CIAM, CMFA
*Non-Executive Director*

**Razik Mohamed**
ACA
*Independent Non-Executive Director*

**S V Munasinghe**
MBA (Fed. Uni. Aus)
*Executive Director/Director – Sales and Business Development*

**T M D P Tennakoon**
FCMA (UK), CGMA
*Executive Director/Chief Financial Officer/ Deputy CEO*

## Registered Address of Head Office

No. 123, Orabipasha Mawatha,
Colombo 10, Sri Lanka.
Phone: +94 11 738 8388
Fax: +94 11 242 9888
Email: cdb@cdb.lk
Web: www.cdb.lk

## Company Secretary

**SSP Corporate Services (Pvt) Limited**
101, Inner Flower Road, Colombo 03
Phone: +94 11 257 3894, +94 11 257 6871
Fax: +94 11 257 3609
Email: sspec@sltnet.lk

## External Auditors

**KPMG**
Chartered Accountants
32 A, Sir Mohamed Macan Marker Mawatha,
Colombo 03, Sri Lanka.
Phone: +9411 542 6426

## Lawyer

**Nithya Partners**
No. 97 A, Galle Road,
Colombo 03, Sri Lanka

## Bankers

Bank of Ceylon
Commercial Bank of Ceylon PLC
Deutsche Bank
Hatton National Bank PLC
National Development Bank PLC
Nations Trust Bank PLC
DFCC Bank PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Union Bank PLC

## Credit Rating Agency

ICRA Lanka Limited

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CDB

*Your Friend*

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www.cdb.lk