Citizens Development Business Finance PLC

Audited Financial Statements for the Year Ended 31 March 2018

STATEMENT OF FINANCIAL POSITION

As at 31 March	Company 2018 Rs.'000	Company 2017 Rs.'000	Group 2018 Rs.'000	Group 2017 Rs.'000
Assets				
Cash and cash equivalents	**2,974,825**	454,061	**3,039,663**	507,020
Financial assets measured at fair value through profit or loss (FVTPL)	**1,485,315**	163,041	**1,519,227**	163,041
Loans and receivables to banks	**1,425,000**	655,673	**1,475,356**	655,673
Deposits with licensed commercial banks	**2,392,827**	1,893,615	**2,392,827**	1,893,615
Loans and receivables to customers	**59,438,349**	43,189,010	**60,585,395**	43,605,197
Other investment securities	**2,471,305**	3,563,432	**2,476,583**	3,637,045
Investment in subsidiaries	**509,918**	509,918	**-**	-
Investment property	**20,198**	20,198	**20,198**	20,198
Property, plant and equipment	**2,029,222**	1,839,091	**2,042,777**	1,841,768
Intangible assets	**86,149**	65,684	**101,692**	84,568
Goodwill on consolidation	**-**	-	**244,180**	244,180
Other assets	**2,669,002**	1,580,562	**2,699,662**	1,581,148
Total assets	**75,502,110**	53,934,285	**76,597,560**	54,233,453
Liabilities				
Deposits from customers	**44,709,832**	32,601,836	**44,705,409**	32,590,453
Debt securities issued	**4,081,033**	2,075,631	**4,081,033**	2,075,631
Other interest bearing borrowings	**15,114,486**	10,957,017	**15,831,490**	11,117,538
Current tax Liabilities	**443,080**	178,702	**445,407**	179,108
Deferred tax liabilities	**860,819**	628,721	**887,200**	638,987
Retirement benefit obligation	**60,727**	15,794	**61,017**	15,861
Other liabilities	**3,079,734**	1,235,419	**3,326,267**	1,300,953
Total liabilities	**68,349,711**	47,693,120	**69,337,823**	47,918,531
Equity				
Stated capital	**1,185,062**	1,185,062	**1,185,062**	1,185,062
Reserves	**1,753,868**	2,402,088	**1,758,999**	2,406,392
Retained earnings	**4,213,469**	2,654,015	**4,279,468**	2,690,686
Total equity attributable to equity holders of the Company	**7,152,399**	6,241,165	**7,223,529**	6,282,140
Non-controlling interest	**-**	-	**36,208**	32,782
Total equity	**7,152,399**	6,241,165	**7,259,737**	6,314,922
Total liabilities and equity	**75,502,110**	53,934,285	**76,597,560**	54,233,453
Net Assets Value per Share (Rs.)	**131.71**	114.93	**133.02**	115.68
Contingencies and commitments	**103,047**	123,100	**103,047**	123,100

I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No 7 of 2007 and Finance Business Act No 42 of 2011.

Damith Tennakoon
Deputy CEO/Director/Chief Financial Officer

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

D H J Gunawardena
Chairman
4 June 2018, Colombo

C M Nanayakkara
Managing Director/Chief Executive Officer

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March	Company 2018 Rs. '000	Company 2017 Rs.'000	Group 2018 Rs. '000	Group 2017 Rs. '000
Revenue	**11,784,862**	8,591,219	**12,049,986**	8,703,057
Interest income	**10,117,149**	7,587,180	**10,320,089**	7,685,823
Interest expense	**6,662,828**	4,699,482	**6,705,127**	4,707,708
Net interest income	**3,454,321**	2,887,698	**3,614,962**	2,978,115
Fee and commission income	**405,986**	219,504	**464,591**	232,631
Other operating income	**1,261,727**	784,535	**1,265,306**	784,603
Total operating income	**5,122,034**	3,891,737	**5,344,859**	3,995,349
Less: Impairment charges and other credit losses on financial assets	**369,872**	226,271	**396,102**	232,206
Net operating income	**4,752,162**	3,665,466	**4,948,757**	3,763,143
Less: Operating expenses				
Personnel expenses	**1,047,154**	879,609	**1,083,585**	901,958
Premises, equipment and establishment expenses	**1,336,545**	1,097,754	**1,358,788**	1,112,627
Other expenses	**408,950**	290,686	**448,772**	316,153
Total operating expenses	**2,792,649**	2,268,049	**2,891,145**	2,330,738
Operating profit before value added tax (VAT), nation building tax (NBT) on financial services and crop insurance levy (CIL)	**1,959,513**	1,397,417	**2,057,612**	1,432,405
Less: Value added tax and other taxes	**272,696**	169,916	**293,398**	172,626
Profit before tax	**1,686,817**	1,227,501	**1,764,214**	1,259,779
Less : Income tax expense	**285,629**	220,986	**310,063**	234,695
Profit for the year	**1,401,188**	1,006,515	**1,454,151**	1,025,084
Profit attributable to:				
Equity holders of the Company	**1,401,188**	1,006,515	**1,448,875**	1,022,774
Non-controlling interest	**-**	-	**5,276**	2,310
Profit for the year	**1,401,188**	1,006,515	**1,454,151**	1,025,084
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Increase in revaluation surplus	**59,638**	328,071	**59,638**	328,071
Deferred tax on revaluation surplus	**(168,387)**	-	**(168,387)**	-
Net actuarial loss on defined benefit plan	**(4,969)**	(25,935)	**(5,024)**	(25,935)
	(113,718)	302,136	**(113,773)**	302,136
Items that are or may be reclassified subsequently to profit or loss				
Net gain on available-for-sale financial assets	**-**	70,613	**-**	72,275
	-	70,613	**-**	72,275
Total other comprehensive income	**(113,718)**	372,749	**(113,773)**	374,411
Total comprehensive income for the year	**1,287,470**	1,379,264	**1,340,378**	1,399,495
Total comprehensive income attributable to:				
Equity holders of the Company	**1,287,470**	1,379,264	**1,335,107**	1,397,025
Non-controlling interest	**-**	-	**5,271**	2,470
Total comprehensive income for the year	**1,287,470**	1,379,264	**1,340,378**	1,399,495
Earnings per share				
Basic/Diluted earnings per share (Rs.)	**25.80**	18.53	**26.68**	18.83
Dividend per share				
Dividend per ordinary share (Gross) (Rs.)	**5.00**	3.50		

Independent Auditors' Report

KPMG
(Chartered Accountants)
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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 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 222 to 347 of the annual report.

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 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

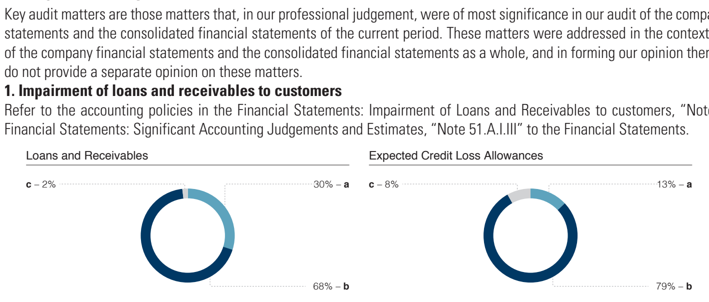
We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the 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: Significant Accounting Judgements and Estimates, "Note 51.A.I.III" to the Financial Statements.



Composition of Loans and Receivables and Expected Credit Loss Allowances;

Risk Description

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

From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment allowances for loans and receivables to customers were those where impairments were derived from internally developed statistical models, where the loans and receivables to customers were unsecured or where the loans and receivables to customers were subject to potential collateral shortfalls.

The determination of the allowance for expected credit losses is heavily dependent on the external macro environment and statistical, internal credit risk management models. The Group's expected credit losses for loans and receivables to customers are derived from the statistical models which are based on internally computed data comprising qualitative and quantitative factors including past due information and also incorporating forward-looking information.

We identified assessing impairment of loans and receivables to customers as a key audit matter because there is a high degree of complexity and judgement involved for the Company in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

Our responses

Our audit procedures included:

- Assessing the design, implementation and operating effectiveness of key internal controls over the approval of new lending facilities against the Company lending policies, recording, monitoring of counter party credit quality and restructuring of loans and receivables to customers, the process of the measurement of impairment allowances for loans and receivables to customers.
- Challenging the validity of the models used and assumptions adopted in Group or Company calculation of the impairment allowances by critically assessing:
  – Input parameters involving management judgement;
  – the overdue statistical data for the loan and receivable portfolios; and
  – Historical loss parameters used.
  considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgement applied in the use of economic factors and forward looking information and assessing key internal controls over the input of underlying data into the models.
- Assessing the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the account to a non-performing loan;
- Re-performing credit assessments for the selected impaired loans and receivables by assessing the forecast of recoverable cash flows through inquiry, applying 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;

2. IT systems and controls over financial reporting

Risk Description

Automated accounting procedures and IT environment controls, which include IT governance, controls over programme development and changes, access to programmes and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting in particular areas of importance are system calculations, logic regarding significant accounts, including interest calculations, interfaces between business management systems and accounting systems and data migration from certain legacy systems to new systems.

We identified IT systems and controls over financial reporting as a key audit matter because the Group's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base

Our Responses

Our audit procedures included:

We used our own IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included:

- assessing the design, implementation and operating effectiveness of key internal controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, particularly financial reporting;
- examining the framework of governance over the Group's IT organisation and the controls over programme development and changes, access to programmes and data and IT operations, including compensating controls where required;
- evaluating the design, implementation and operating effectiveness of the significant accounts-related IT process controls by assessing the operating effectiveness of IT Application Controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Group's compliance activities and assessing the consistency of data transmission and data migration;
- Assessing the availability and stability of key operating systems, taking into consideration the rapid development of businesses types and transactions volumes as well as IT projects that have a significant impact on business continuity;
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access right;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems.

3. Early Adoption of SLFRS 9

Risk Description

SLFRS 9 – "Financial Instruments" which replaces "LKAS 39 – Financial Instruments: Recognition and Measurement" in three phases as follows:

Phase 1 – Classification and measurement of financial assets and financial liabilities;
Phase 2 – Impairment methodology; and
Phase 3 – Hedge accounting.

SLFRS 9 is effective from 1 January 2018, (for the Group SLFRS 9 is applicable from 1 April 2018) the Group has early adopted SLFRS 9 ahead of its mandatory effective date of 1 April 2018. As permitted by SLFRS 9, the requirements have been applied retrospectively without restating comparatives.

Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 March 2017 and 1 April 2017 has been recognised in the opening retained earnings.

The key changes arising from early adoption of SLFRS 9 are that the Group's credit losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Group's financial assets and liabilities, which are detailed in note 3 and 4 to the consolidated financial statements. There were no significant changes arising from the early adoption of the hedge accounting requirements of SLFRS 9.

Our Responses

With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following;

- We read the Group's SLFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of SLFRS 9;
- We obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are "solely payments of principal and interest" performed by the Group; and
- We checked the appropriateness of the opening balance adjustments.

With respect to impairment methodology, our audit procedures are described in Key Audit Matter 1 Impairment of Loans and Receivables to customers.

With respect to hedge accounting, there is no impact for the Group.

We assessed the financial statement disclosures arising on early adoption of SLFRS 9 to determine if they were in accordance with the requirements of the Standard. Refer to the accounting policies, critical accounting estimates and judgements, disclosures of loans and receivables and credit risk management in Note 3, 4, 12, 24 and 51 to the Group financial statements.

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 performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's 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 auditors' report is 3707.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
4 June 2018

Selected Performance Indicators

Indicator	Company As at 31-03-2018	Company As at 31-03-2017
Asset Quality (Rs. 000)		
Gross Non- Performing Accommodations	1,866,028	1,347,155
Gross Non- Performing Accommodations Ratio %*	3.07%	3.08%
Net Non- Performing Accommodations Ratio %*	0.89%	1.05%
Liquidity (Rs. 000)		
Required Minimum Amount of Liquid Assets	4,994,271	3,648,520
Available Amount of Liquid Assets	7,032,569	4,650,390
Required Minimum Amount of Government Securities	2,468,228	2,250,269
Available Amount of Government Securities	3,660,306	2,945,424
Capital Adequacy (Rs. 000)		
Core Capital (Tier 1 Capital)	6,719,404	5,699,421
Total Capital Base	8,792,223	6,527,801
Core Capital to Risk Weighted Assets Ratio (Minimum 5%)	10.64%	12.32%
Total Capital to Risk Weighted Assets Ratio (Minimum 10%)	13.93%	14.12%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	20.84%	21.65%
Profitability		
Net Interest Margin	5.34%	5.52%
Return on Average Assets- After Tax	2.17%	1.93%
Return on Average Equity- After Tax	20.92%	17.83%
Memorandum information		
Number of Employees	1,588	1,439
Number of Branches	59	57
Number of Service Centres	11	11
Number of Pawning Centres	1	1

* As per Regulatory requirements

Your Friend

No. 123, Orabipasha Mawatha, Colombo 10.
Registration No. PB232PQ
Date of incorporation: 07 September 1995

Licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

Hotline: 011 7 388 388 **ICRA LANKA "[SL] BBB+"**

2017/18 Annual Report can be accessed on our website www.cdb.lk