ANNUAL REPORT 2017/18

OF PEOPLE AND THINGS

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

CDB

Your Friend

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ANNUAL REPORT 2017/18

OF PEOPLE AND THINGS...

It is a truism that people make things happen – a particularly apt statement to describe CDB's performance, progress and achievements to date. By "people" we encompass all stakeholders and by "things" we refer to both the tangible and the intangible. It is this harmonious blend between people and things that enabled us to create steadily increasing value, whilst reaching significant milestones as a responsible and respected corporate citizen, within a short time span. An integral part of our ethos, this winning combination of people and things has fortified our "present" while paving the way for a robust future.

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"BY EMBEDDING INTEGRATED THINKING INTO OUR ORGANISATION CULTURE, WE REMAIN DEEPLY COMMITTED TO CREATING SUSTAINED VALUE FOR OUR STAKEHOLDERS AND STRENGTHENING THE LONG-TERM SUSTAINABILITY OF OUR ORGANISATION. IT ALSO ENHANCES OUR DECISION MAKING PROCESS BOTH AT MANAGEMENT AND BOARD LEVELS DUE TO AVAILABILITY OF ACCURATE INFORMATION, IMPROVED GOVERNANCE, RISK MANAGEMENT AND IMPROVED COMMUNICATION."

– BOARD OF DIRECTORS

STRATEGIC OVERVIEW [GRI 102-51]

This is our Fifth Integrated Annual Report. Our aim is to give all our stakeholders a balanced and complete overview of our activities and ability to create and sustain value.
This report contains information about our impact, value creation related performance, and provides our stakeholders insight into the execution of our strategy in our financial year 1 April 2017 through 31 March 2018. It builds on the Integrated Annual Report 2016/17.

We also disclose our financial and non-financial results, strategy, governance external developments and the risks and opportunities faced by us, enabling our stakeholders to assess how we create value for the long-term.

INTEGRATED APPROACH

Each year, we strive to improve our integrated reporting. In this context, this year, we have attempted to develop the manner of utilising our six capitals to create increased value for our shareholders through our business model. The six capitals are as follows:

Financial capital: This includes the funds obtained from capital providers which enable us to conduct our business activities smoothly, adopting our corporate strategies. We obtain capital through shareholders, clients, retained earnings and reserves.

Human capital: Our investment in our employees to develop their competencies and capabilities as they play a key role in delivering an outstanding service to our clients.

Manufactured and intellectual capital: The investment in buildings, equipment and infrastructure which facilities our service delivery including our brand, IT systems, processes and product innovations.

Social and relationship capital: The relationships we nurture with customers, business partners, regulators and communities ensure that we remain socially relevant and lead to increased brand value.

Natural capital: The natural resources that we depend on to conduct our business operations. Although the direct impact we exert on the environment is limited due to the nature of our business, we remain cognisant in operating responsibly to ensure sustainability of the natural resources.

REPORT CONTENT [GRI 102-46, 102-48, 102-49]

We have disclosed only the key material aspects in the Annual Report 2017/18 to ensure the report is comprehensive yet concise. These topics are selected based on the reporting principles of materiality, sustainability context, balance, completeness and stakeholder inclusion.

There were no significant changes during the year and with respect to the last financial year and restatements with regards to the scope, boundary or measurement techniques. As in the previous year, this Annual Report covers sustainability impacts, risks and opportunities arising from financial operations within the Organisation. The content of the report is developed based on:

- This report has been prepared in accordance with the GRI Standards: core option [GRI 102-54]
- Sustainability impacts
- Stakeholder inclusiveness
- Risk report
- Corporate governance
- Financial results

MATERIALITY

This integrated Annual Report provides important financial and non-financial performance indicators focusing on material aspects. An aspect is considered material if it affects our ability to remain commercially viable and socially relevant to the communities in which we operate. The report presents the following:

- Our revised material matters
- The determination process of the revised material matters
- Material determinants and material drivers
- Prioritising material aspects
- Materiality matrix.

MATERIAL ASPECTS AND BOUNDARIES [GRI 102-4, 102-45]

Being a service oriented company, certain GRI indicators have been deemed inapplicable to us. We operate in Sri Lanka in the financial services sector. We have excluded our subsidiaries, CDB Micro Finance Limited and Unisons Capital Leasing Limited, from the non-financial section of this report, however, Consolidated Financial Statements have been taken into consideration. Additionally, non-core activities such as payroll services, security services, janitorial services and office equipment maintenance services were excluded from the scope of this report as well.

KEY FRAMEWORKS AND COMPLIANCE

This Integrated Report has been formulated based on the following principles and guideline:

- Financial Reporting
  - o Companies Act No. 07 of 2007
  - o Sri Lanka Financial Reporting Standards (SLFRS)
  - o Sri Lanka Accounting Standards (LKAS)
  - o Conceptual Framework for Financial Reporting

- Sustainability Reporting and Narrative Reporting
  - o Global Reporting Initiative (GRI)
  - o GHG Emission Reporting against WBCSD/WRI Scopes
  - o International Integrated Reporting (IR)
  - o "A Preparer's Guide to Integrated Corporate Reporting", published by The Institute of Chartered Accountants of Sri Lanka (ICASL)
  - o Smart Media Methodology (TM) for Integrated Reporting

- Corporate Governance and Risk Management
  - o Compliance Frameworks
  - o Finance Business Act No. 42 of 2011
  - o Finance Companies (Corporate Governance) Direction No. 03 of 2008
  - o CSE listing rules requirements

- Assurance
  - o Sri Lanka Auditing Standards
  - o Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than audits or review of historical financial information
  - o Accountability's AA1000 Assurance Standard 2008
  - o ISO 14064-1 Carbon Verification

REPORTING CYCLE [GRI 102-50, 102-52]

Our Annual Report 2017/18 covers 12 month period from 1 April 2017 to 31 March 2018 which is consistent with our usual annual reporting cycle for both financial reporting and sustainability reporting. The information provided in this report, as in the past, is in compliance with all applicable laws, regulations standards and guidelines for voluntary disclosures.

EXTERNAL ASSURANCE

We value the accuracy and reliability of all information and data contained in this Report, both financial and non-financial. Therefore, we have obtained the services of our external auditor, Messrs KPMG for appropriate assurance in this regard. Our Managing Director is responsible for sustainable practices and disclosures detailed in this Report and interacting with the external assurer of the Report.

DISTRIBUTION

Stakeholders can access our Annual Report through our website; www.cdb.lk and through the website of the Colombo Stock Exchange (CSE); www.cse.lk. Printed copies are available at all our CDB outlets.

QUERIES

We welcome your comments or inquiries on this Annual Report which could be addressed to:

Aroshi Ranatunga,
Head of Sustainability,
Citizens Development Business Finance PLC,
No. 123, Orabipasha Mawatha,
Colombo 10.
aroshi.ranatunga@cdbnet.lk

[GRI 102-3, 102-53]

ABOUT US

ESTABLISHED IN 1995, CDB IS THE 6TH LARGEST NON-BANKING FINANCIAL INSTITUTION IN SRI LANKA WITH AN ASSET BASE OF RS. 75 BN. AND MORE THAN 1,500 EMPLOYEES, IT HAS BEEN A JOURNEY OF MANY MILESTONES, ACHIEVEMENTS, AND PIONEERING INITIATIVES.

The passion and commitment to realising our vision centered on entrepreneurship, innovation and creating increased stakeholder value. Our efforts have been complemented by our evolving business model.

Our fundamentals are built on the strong beliefs of financial empowerment, social inclusivity and environmental consciousness which resonates through our business. Hence, at the core remains the intent to promote financial inclusion with access to finance for those at the grassroot level and be a net lender to the rural economy of our nation.

The fusion of strengths and our drive to reach new levels of dominance has enabled us to be the forefront of Sri Lanka's financial services industry as a total financial services provider. The innovative, diversified and constantly evolving range of products and services we offer, cater to the evolving requirements of our diverse customer base. Our impressive network of 71 outlets across the island, supported by cuttingedge technology, empowers our customers through the provision of advanced financial services. By building on our strengths and capabilities effectively we have come up the ranks and become one of the most reputed financial services providers in our nation.

Our most treasured asset is being a respected and responsible corporate citizen. This is built on the two pillars: our people and our customers. Recognised as a wholly people-centred organisation, built on human emotions, human passion and human spirit categorised as "EPS" our journey over the years brings into focus the long-standing relationships nurtured with our stakeholders.

We are a value-driven company, with a long-term, sustainable focus. Our endeavour to create increased value for our stakeholders is mirrored in our efforts to empower communities through the provision of financial services built on an ethical platform. Our commitment to conserving our planet is affirmed by the numerous eco-friendly business practices adopted under our flagship environmental project, *"Mihikathata Adaren"* which are detailed elsewhere in this Report. Social inclusivity is well evidenced through our flagship CSR projects of Act early for Autism Care, *Pariganaka Piyasa, Sisu Diri* scholarship scheme and CDB *Hithawathkam*.

As the custodians of public funds, a strong ethos of compliance, governance, transparency, accountability, and ethics are embedded in our business operations. This has been recognised by the numerous awards of excellence conferred on us both locally and internationally. Our strong disciplined culture has contributed to our financial stability and strength which is reflected in our record of financial performance.

The expertise and collective commitment of our team of employees has been the reason for the success of CDB. Their exemplary performance and expertise have been a tremendous strength to overcoming the numerous challenges faced over the years. The strategic actions we haves taken, with discipline and over time have created the prerequisites for sustainable growth and value generation in the years to come.

TRIPLE BOTTOM LINE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Key Performance Indicators	2017/18	2016/17	Change %
Financial performance (Rs. Mn.)			
Gross revenue	11,785	8,591	37
Net interest income	3,454	2,888	20
Net operating income	4,752	3,665	30
Profit before tax	1,687	1,228	37
Profit after tax	1,401	1,007	39
Financial position as at the year end (Rs. Mn.)			
Loans and receivables	59,438	43,189	38
Total Assets	75,502	53,934	40
Total Equity	7,152	6,241	15
Customer deposits	44,710	32,602	37
Financial ratios (%)			
Profitability perspective			
Operating profit margin	16.63	16.27	
Net interest margin	5.34	5.52	
Cost to income ratio (Excluding VAT on FS)	54.52	58.28	
Return on average assets (ROA) – after tax	2.17	1.93	
Investor perspective			
Earnings per share (Rs.)	25.80	18.53	
Earnings yield (%)	30.39	28.86	
Return on equity (ROE) % – after tax	20.92	17.83	
Dividend per share	5.00*	3.50	
Dividend yield (%)	5.89	5.45	
Dividend cover (Times)	5	5	
Dividend payout (%)	19.38	18.89	
Net asset value per share (Rs.)	131.71	114.93	
Market value per share – closing – voting (Rs.)	84.90	64.20	
Market value per share – closing – non-voting (Rs.)	74.00	48.10	
Market capitalisation (Rs. Mn.)	4,523	3357	
Price to earnings (Times)	3.29	3.46	
Statutory ratios (%)			
Capital adequacy			
Tier I (Minimum requirement – 5%)	10.64	12.32	
Tier I & II (Minimum requirement – 10%)	13.93	14.12	
Statutory liquidity ratio	14.37	13.03	
Non-performing loan ratio			
Gross NPL (Net of IIS)	3.07	3.08	
Net non-performing loans (Net of IIS and provisions)	0.89	1.05	

SLFRS 9 – "FINANCIAL INSTRUMENTS" EARLY ADOPTED

**Proposed*

SOCIAL HIGHLIGHTS

Introduction of a
SMART CLASS
concept via CDB *Pariganaka Piyasa*

RS. 28 MN.
Investment on Sustainability

Contribution of
RS. 100 TO THE AUTISM TRUST FUNDS
from every one million business secured

71
Touchpoints

RS. 14 BN.
Net lending outside western province

409 NOS.
Sisu Diri Scholars under CDB *Sisu Diri* scholarship programme

24%
out of total lending portfolio is attributable to females

ENVIRONMENTAL HIGHLIGHTS

CLIMATE NEUTRAL
MEASURE REDUCE OFFSET NOW

Reaffirmed our commitment to maintain the Zero Carbon operational stance by signing UNFCCC Climate Neutral Now Pledge

[https://unfccc.int/climate-action/climate-neutral-now/i-am-a-company-or-an-organization/climate-neutral-now-signatories]

ClimateSI

CARBON NEUTRAL STATUS

Across all physical touch points

ISO 14064-1 CARBON VERIFIED

for the 3rd consecutive year since 2015 when we became the first Financial Institution in South Asia

INITIATION OF AN ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

"GREEN NINJA" CDB QUIZ MASTER 2017

won the Best Sustainability Project at the Best Corporate Citizen Sustainability Awards 2017

SAVINGS FROM PAPER RECYCLING

803 Kgs
Wood saved

1,376 KWH
Energy saved

13,213 LITRES
Water saved

73 Kgs
Reduced Greenhouse gas emission

494 Kgs
Landfill saved

SAVINGS FROM ELECTRONIC WASTE RECYCLING

153 TREES
Fully-grown saved

670 GALLONS
Gasoline conserved

26,345 ALUMINIUM
Can recycled

5,727 PLASTIC
Bottles recycled

312 Kgs – OF E-WASTE PRESERVED
from land filling

1995

Incorporation

2001

Strategic refocus with the new management team

2004

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

2007

Profit after tax reached an all-time high of Rs. 50 Mn. and the total asset base reached Rs. 5 Bn.

2008

Initiated two flagship CSR projects

- CDB *Sisudiri* scholarship scheme for schoolchildren of three-wheeler owners
- CDB *Pariganaka Piyasa* to provide fully-equipped IT labs to underprivileged schools

2009/10

CDB became a public deposit taking institution

2010/11

CDB was 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

Became the first Non-Banking Financial Institution (NBFI) to initiate a core banking platform in Sri Lanka

Was conferred the prestigious award for Branding and Marketing Excellence at the fourth CMO Asia Awards hosted by the World Brand Congress in Singapore

Installed the first Automated Teller Machine (ATM) at the head office

The first NBFI to signup for 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 LACP, USA

2013/14

Secured our first foreign credit line of USD 6 Mn. from a Multilateral Agency of Belgian Investment Company for Developing Countries (BIO)

Our Annual Report 2013/14 won the Platinum Award 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

Won the Silver Award for overall excellence in Integrated Reporting at the CA Sri Lanka Annual Report Awards 2014 in recognition of compliance and governance

2014/15

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

Won the 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

Became 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

Optimising on our technological edge, ground work was laid to launch of CDB iNet, an online omni channel transactional platform

Launched the online vehicle trading platform "patpat.lk"

Became the First Runner-Up in the Best Corporate Citizen Sustainability Award 2016 (Turnover Less than 15 Bn. category)

Winner of the Best Sustainability Project for "GHG Emission Analysis"

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

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

Top Finalist at the Asia Sustainability Reporting Awards 2016 of CSR Works, Singapore

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

Operational footprint reached 69 outlets across the island

2017/18

First Runner-Up in the Best Corporate Citizen Sustainability Award 2017 (Turnover Less than 15 Bn. Category)

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

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

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

Received a Special Award for "Act Early for Autism Project" at Ian Dias Abeysinghe Memorial CSR Awards 2017

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

"Green Ninja" CDB Quiz Master 2017 wins the Best Sustainability Project award at the Best Corporate Citizen Sustainability Awards 2017

Recognised with a special award for "Act Early for Autism" project at the JASTECA Awards 2017

Silver Award at the CA Annual Report Awards 2017 (Finance and Leasing Companies Total Assets above 20 Bn.)

Pioneering CDBinet to enable fund transfers through the social media platforms such as Facebook, Whatsapp, Viber, Email messages and Text messages

Total assets surpassed Rs. 75 Bn.

Our reach expanded to 71 physical touch points

I BELIEVE, OUR STRONG COMMITMENT TO GOOD GOVERNANCE, ETHICS, INTEGRITY AND THE REMARKABLE TEAM OF EMPLOYEES TO EXECUTE THE COMPANY'S STRATEGIC VISION, POSITION YOUR COMPANY FOR ONGOING SUCCESS IN THE YEARS TO COME.

Since inception, your Company has fostered a culture of continuous improvement centered on operating excellence, founded on strong business ethics and integrity. Over the years, we continued to act responsibly achieving our strategic goals in a sustainable manner whilst consistently delivering increased value to all our stakeholders in the long-term.

[GRI 102-14]

Dear Shareholders,

On behalf of the Board of Directors, it is my privilege to present to you the Annual Report of CDB for the financial year ended 31 March 2018.

Your Company, having consolidated its gains over the past years, surpassed its previous year's performance to record exceptional financial results in 2017/18. CDB also received several awards and accolades for its outstanding performance on several fronts which I will refer to in the paragraphs to follow but it will be described in greater detail elsewhere in this report.

→ A CHALLENGING OPERATING ENVIRONMENT

It may be pertinent to briefly consider the operating environment that prevailed in the period in which your Company achieved these exceptional results. Sri Lanka's economic growth in 2017 slowed down to 3.1% from 4.5% in the previous year, mainly due to the contraction in some of the key sectors of the economy such as agriculture and construction. Adverse weather conditions leading to increased food and fuel imports contributed to the high import bill in 2017 and a widening of the trade deficit despite progress achieved in the export sector. Notwithstanding the heavy debt service payments, the Balance of Payments recorded a surplus mainly due to improved FDI inflows and to a greater extent, a higher net inflow of foreign debt capital. However, the Sri Lankan Rupee depreciated by 2% against the US Dollar.

There was an improvement in the performance of the financial sector with the NBFIs recording a moderate growth. The introduction of the Loan to Value direction (LTV) acted as a deterrent to growth in the sector particularly in the absence of a level playing field between the banking industry and the NBFI sector. The NBFI sector however remained strong with healthy capital levels and adequate liquidity buffers well above the regulatory minimum levels. Credit growth slowed down mainly due to reduced motor vehicle imports, higher interest rates and the less favourable economic climate.

The Central Bank continued to strengthen the supervision and regulatory framework for financial institutions and introduced stronger enforcement mechanisms to ensure stability in the sector.

→ A COMMENDABLE PERFORMANCE

Against a challenging environment, I am pleased to report that your Company recorded an excellent performance delivering increased profits and value additions, making significant progress as a leading and much respected financial institution in Sri Lanka.

Net Profit After Tax increased by 39% YoY to Rs. 1.4 Bn. and the Net Asset Value per Share recorded a 15% growth to reach Rs. 131.71. The asset base expanded to Rs. 76 Bn. reflecting a 40% increase from the previous financial year. Non-performing loans ratio continued to decline with improved operational efficiencies and speedy collections. In reporting these results, your Company chose to adopt SLFRS 9 in the financial year under review, though it becomes mandatory only in 2018/19.

Your Company made solid progress in advancing its digital initiatives by leveraging technology to cater to the changing needs, preferences and behaviour of customers in a business climate that is experiencing rapid technological advancement. Our product offering was diversified to drive increased value across our operations whilst our geographical reach increased to 71 branches islandwide.

On account of the improved performance, CDB's issuer rating was upgraded by ICRA Lanka from BBB to BBB+ with a stable outlook. Our visibility in the market continued to be reinforced through the effective marketing and communication campaigns launched throughout the year.

Your Company's debenture issue in March 2018 concluded successfully reflecting the high investor confidence in the Organisation. The recognition your Company received through the many local and international awards of excellence during the year, is a testament of the highest standards of integrity, transparency and commitment towards achieving good corporate governance practices.

→ SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

Since inception, your Company has fostered a culture of continuous improvement centered on operating excellence, founded on strong business ethics and integrity. Over the years, we continued to act responsibly achieving our strategic goals in a sustainable manner whilst consistently delivering increased value to all our stakeholders in the long-term. In doing so, we proactively support the UN Sustainable Development Goals (SDGs), to make a positive social, environmental and economic impact.

As mentioned before, we continued to deliver to our customers, an outstanding experience by proactively meeting their evolving financial needs. To our shareholders, we delivered superior and sustainable value by generating strong results and maintaining a healthy dividend payout ratio. Our Balance Sheet grew by 22% (5 years CAGR) whilst Shareholders' Funds increased by 23% to Rs. 7.2 Bn. I am pleased to announce that your Board has recommended a dividend of Rs. 5 per share which is a substantial increase over last year. The market value of a CDB share as at 31 March 2018 was Rs. 84.90 which is an increase of 32% over the previous year.

We deepened our commitment towards environmental sustainability by launching several green initiatives under the "*Mihikathata Adaren*" flagship environment campaign. Our contribution to society remained strong as we worked tirelessly to enhance the social benefits from our operations, supporting a variety of strategic community investments that is described in detail elsewhere in this Report. Our contribution to the Government revenue through the payment of taxes increased from Rs. 654 Mn. in the previous year to Rs. 804 Mn. in the year under review. Our talented and dedicated team of employees is one of the strongest assets of the Organisation. We continued to invest in extensive training and ongoing personal and professional development to adequately equip them to deliver their best in a high performing workplace.

More details of our sustainability initiatives are highlighted throughout this Report.

→ STRONG GOVERNANCE

Good Corporate Governance is the cornerstone of our corporate policy and we are committed to upholding the highest standards of corporate governance. As part of this commitment, we provide our employees the opportunity to fulfil their potential in a nurturing environment that encourages the right behaviour. I have been extremely well supported by my colleagues on the Board who bring balance and a wealth of skills and experience to your Company which complements the talents of our executive team. We continue to maintain oversight of the strategic, operational and compliance risks across the organisation.

→ A LOOK AHEAD

In the medium-term, Sri Lanka's economic growth trajectory is expected to gradually improve, with the implementation of Government's action plan to stabilise the economy and to make a conducive economic climate for both domestic and foreign investors.

We look forward to 2018/19 with great optimism. Your Company is amongst the largest six NBFIs in Sri Lanka with an excellent brand and a reputation that is a source of tremendous pride. I believe, our strong commitment to good governance, ethics, integrity and the remarkable team of employees to execute the Company's strategic vision, position your Company for ongoing success in the years to come.

Your Company will also launch its new strategic plan in the ensuing year that charts its course for the next four years leveraging technology to deepen customer loyalty, drive profitability and create increased value to all stakeholders.

→ APPRECIATION

As I conclude, I wish to express my gratitude to the Board of Directors for their consistent support, invaluable counsel and guidance. Mrs. Udayanthi Seneviratne stepped down from the Board in April this year. Personally and on behalf of the Board I wish to thank her for the valuable contribution she made as a Board Member serving in many of our Board Subcommittees.

I wish to express my sincere appreciation to our Management team and staff members for their deep dedication, commitment and hard work. I wish to specifically commend Mr. Mahesh Nanayakkara, our Managing Director and CEO for his exemplary leadership. My gratitude is extended to our shareholders for their steadfast support at all times and our customers for their valued patronage and loyalty. I greatly appreciate the valuable advice and guidance extended by the senior officials of the CBSL and other statutory institutions. I place on record my sincere appreciation to our Auditors, KPMG for their valuable professional advice and timely completion of the audit.

D H J Gunawardena
Chairman

4 June 2018
Colombo

THE NON-BANKING FINANCIAL INSTITUTIONS SECTOR IS PROGRESSING AMIDST AN AGGRESSIVE BUSINESS ENVIRONMENT. AT THE SAME TIME, THERE IS GROWING INTEREST BY ALL THE STAKEHOLDERS, REGULATORS AND INVESTORS IN PARTICULAR, IN THE WAY CORPORATES ARE BEING GOVERNED.

Good corporate governance leads to good business practices and good business practices lead to sustainability of the business.

We are cognizant of the fact that good corporate governance is as important as the strategy and that it impacts on all aspects of our enterprise, leading it to have a direct bearing on our performance. It is practice of good corporate governance that makes us fit for the purpose – the purpose of creating value for all the stakeholders sustainably in the short, medium and long term.

It is with due regard to these factors that we continue to report strategic growth and a noteworthy performance.

OUR DIGITAL STRATEGY IS AIMED AT TRANSFORMING OUR BUSINESS INTO A TECH-FIN INSTITUTION WITHIN THE NEXT 10 YEARS.

The ecosystem we are building to meet buyers and sellers who have the potential of becoming our future customers, contributed significantly towards generating new business opportunities in the financial year under review.

At the outset of my last year's review, I stated that 2016/17 was a year of transition and consolidation for CDB. Building on that foundation, the financial year 2017/18 has been a year of accelerated progress and growth for CDB. We have fast tracked our rate of growth across core financial benchmarks to record an exceptionally successful year. Significantly, this advancement has been underpinned by promising returns from our digital strategy, indicating that we are on track to achieve our objective of becoming a futuristic tech-fin company.

I would like to recall that in 2010, when we were a small Company with a balance sheet of around Rs. 7 Bn., we set a target to become a Rs. 100 Bn. balance sheet company by 2020. I am pleased to report that we have already overshot the Rs. 75 Bn. balance sheet mark by the end of the current financial year. In this light, we are confident of achieving our Rs. 100 Bn. target well ahead of 2020.

→ OUR PERFORMANCE

Against the backdrop of a GDP growth of 3.1% and single digit industry growth, CDB has managed to achieve an impressive asset growth of 40%, for total assets to surpass the Rs. 75 Bn. mark. We have accomplished a revenue increase of 37%, going beyond the Rs. 11 Bn. mark, net interest income is up 20% at Rs. 3.45 Bn. and our profit after tax is up 39% at Rs. 1.4 Bn. This is truly a spectacular financial performance and is also coupled with unprecedented new business initiatives (NBIs).

I must however, record that CDB's exceptionally high growth ratios are a result of growing from a smaller balance sheet base of about Rs. 54 Bn. at the beginning of the year and a slower balance sheet growth of 7% in the financial year 2016/17. In addition, market rates during the period under review came down by approximately 100 basis points, which was also a contributory factor to our growth. The recorded growth could also be considered in the context of some State Banks surpassing the Rs. 2 Tn. balance sheet size and some private sector commercial banks, surpassing the Rs. 1 Tn. balance sheet size.

From a financial and business performance perspective, our loan book grew by 38% recording Rs. 60 Bn. as at the year end, with loan approvals and disbursements recording Rs. 40 Bn. and Rs. 34 Bn. respectively, resulting in an increase of 73% and 76%, in comparison to the corresponding previous period.

Keeping pace, the deposit base also increased by 37% recording a figure of Rs. 44.7 Bn. at year end, while debt funding grew by 47%, recording a figure of Rs. 19 Bn. at year end.

While the Net Interest Margin (NIM) remained constant due to the accelerated pace of growth in assets towards the latter part of the financial year, a portfolio margin improved to 6.7% with new business enjoying a margin of 8.5% as at March 2018. The cost to income ratio of 55%, which could be considered high compared to the industry average, is mainly stemming from the lower NIM's. We expect NIM's to improve to around 7% during the financial year 2018/19, which will result in the cost to income ratio lowering to within the 45% range. The non-performing loans have remained stable at 3% although the value of the non-performing loans increased by about Rs. 500 Mn. This is mainly attributable to our credit portfolio for agricultural tractors being adversely impacted by extreme weather patterns and the increase in yard stocks due to our aggressive recovery approach, which together accounted for an increase of Rs. 330 Mn.

We achieved a return on equity of 20.92%, while our net book value per share came to Rs. 131.71, and earnings per share was Rs. 25.80.

→ STRATEGIC PROGRESS

Our performance during the year was propelled to a great extent by the rich dividends from our E-commerce and digital initiatives. Our digital strategy is aimed at transforming our business into a Tech-Fin Institution within the next 10 years. The ecosystem we are building to meet buyers and sellers who have the potential of becoming our future customers, contributed significantly towards generating new business opportunities in the financial year under review.

Our digital business model intends to attract new customer segments and is geared to be a customer on-boarding platform, through which we plan on rapidly expanding our client base and exploiting cross selling opportunities. With the encouraging outcomes we have experienced within a short period of time, we have now set a target to increase our client base from the present 200,000, to 1 million, within the next three years. To support this target, during the year under review, our Organisation structure was realigned. We have also deployed a new growth formula focusing an emergent strategy on one end, and a deliberate strategy on the other end, executing both disruptive and sustained initiatives.

Organisational realignments executed during the year, included the establishment of four new business zones and an additional unit within an existing branch, using available resources supporting capacity building and business growth. Our focus on growing our non-auto business resulted in our non-auto lending book increasing from 3% to 8% as a percentage of the total loan book. We coupled our internal realignment with a more structured approach to Customer Relationship Management (CRM), which has overall, enhanced the quality of customer care, adding value to the CDB brand.

While maintaining focus on our financial goals, we have continued with our CSR projects and sustainability efforts during the year. CDB is firmly committed to be a socially and environmentally conscious, responsible, public deposit taking corporate citizen, and our efforts in this regard are detailed in pages 96 to 99 During the year, we continued our collaboration with the Sri Lanka Association for Child Development (SLACD), to strengthen the Autism Trust Fund, to make sure that early detection and intervention in autism in Sri Lanka is on par with that of the developed world.

Another unflagging commitment has been towards our people. CDB has always been firm and clear that our people are everything to us. That's why we maintain that CDB is built on human emotions, human passion and human spirit, which we term our EPS.

→ PERFORMANCE OF SUBSIDIARY

Our 90.38% owned specialised leasing subsidiary, Unisons Capital Leasing Ltd. (UCL), recorded satisfactory progress during the year with the balance sheet growing to Rs. 1.7 Bn., from Rs. 693 Mn., with an after tax profit figure of Rs. 55 Mn., compared to the previous year's figure of Rs. 20 Mn.

UCL is well-positioned now to accelerate growth momentum and contribute towards Group results in a tangible manner.

→ GOOD GOVERNANCE

As a component of good governance practices, CDB opted for the early adoption of SLFRS 9 –"Financial Instruments" which has been detailed under Notes 3 and 4 to the Financial Statements on pages 225 to 233.

Further, as per the consultation paper by the Central Bank of Sri Lanka, on implementing the new capital adequacy framework for licensed finance companies and specialised leasing companies, some aspects of computation and the minimum threshold for capital adequacy ratios, have been revised. These changes will be accommodated as we move ahead with our growth plans. Given CDB's future aspirations, we will have a focused approach on balancing growth, dividend payout and capital ratios, to comply with regulatory requirements at all times.

→ OUTLOOK AND PLANS

With our balance sheet set to reach Rs. 100 Bn. ahead of the scheduled 2020 target year, we have revised our growth targets to a more ambitious level. We are now entering a new era of growth with a mission to change status from a disrupter within the financial intermediary business, into an incumbent company, and to become a Quarter Trillion Asset Base (Q-TAB) Company by 2024.

During the last 22 years we have evolved from a negative net worth company, into a company approaching a Rs. 100 Bn. asset base, overcoming massive challenges. As we move forward, we shall do so with the unwavering belief that "Strategy bets on people to succeed".

Our country is blessed with many opportunities and possibilities that we are yet to fully unleash, to bring prosperity to our people across all walks of life. The country's growth trajectory, that will continue into the next few decades, bodes well for our future generations.

In this journey to surpass the USD 5,000 per capita target by 2020, the aspirations of our people are also going through a rapid transformation. We, at CDB, are not only reaching out to meet these expectations, but to also elevate these aspirations to new heights and horizons. Our vision is to enable our communities to experience prestige and recognition beyond their imagination, as we commit ourselves to be their friend, with the promise of "We make luxury affordable".

→ APPRECIATIONS

I would like to take this opportunity to thank the Chairman and the Board of Directors for their strategic vision that has made the current success possible. A vision must be translated into reality, and this has been done with great success by the Management and staff of CDB and I appreciate their hard work and commitment. Our customers and business partners are the foundation of our past, present and future success and I am grateful for their loyalty and patronage. I look forward to a new financial year filled with new opportunities and look to the support of all our stakeholders to make our promise of prosperity, a reality.

W P C M Nanayakkara
Managing Director/Chief Executive Officer

4 June 2018
Colombo

STRATEGIC REPORT

THE HIGHLY COMPETITIVE AND EVOLVING NATURE OF OUR BUSINESS CONTEXT REQUIRES PROACTIVE RESPONSES TO ENSURE ORGANISATIONAL SUCCESS AND SUSTAINABLE VALUE CREATION. THEREFORE, IN A CHALLENGING ECONOMY AND DYNAMIC OPERATING ENVIRONMENT, OUR STRATEGY SUPPORTS OUR PLEDGE TO OUR STAKEHOLDERS. THIS SECTION HIGHLIGHTS KEY TRENDS, DEVELOPMENTS, OUR STAKEHOLDER INSIGHTS AND HOW WE USE THE RESOURCES AND EXPERTISE AT OUR DISPOSAL TO CREATE VALUE FOR OUR STAKEHOLDERS THROUGH OUR BUSINESS MODEL.

BUSINESS MODEL

VALUE ENABLERS
(INPUT)

FINANCIAL CAPITAL

- Equity capital
- Customer deposits and savings
- Corporate borrowings
- Debt securities
- Other liabilities

MANUFACTURED AND INTELLECTUAL CAPITAL

- Touch points
- Strategic partnerships
- Product and service innovation
- Digital initiatives

HUMAN CAPITAL

- Employee knowhow
- Corporate culture (tacit social order of the Company)
- Proactive and reactive capabilities of employees
- Strong leadership team

SOCIAL AND RELATIONSHIP CAPITAL

- Diversified products and services
- Ethical communication
- Regulatory compliance
- Business partnerships
- Investment on education
- Women empowerment
- Investment on rural youth

NATURAL CAPITAL

- Greenhouse gas emissions
- Initiation of a ESMS system
- Waste collection and management
- Bio-diversity conservation
- Tree planting and preservation

VALUE ADDITION
(PROCESS)

INPUT

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

PURPOSE

Enriching people's lives through extension of financial services

CORPORATE GOVERNANCE

VALUE CREATED (OUTPUT)

FINANCIAL CAPITAL

- Revenue – Rs. 11.78 Bn.
- Net Interest Income – Rs. 6.6 Bn.
- Profit after Tax – Rs. 1.4 Bn.
- Capital adequacy
  – Tier I – 10.64% Tier I & II – 13.93%
- Return on Equity – 20.92%
- Earnings Per Share – Rs. 25.80
- Return on Assets – 2.17%
- Net Assets per Share – Rs. 131.71

MANUFACTURED AND INTELLECTUAL CAPITAL

- Physical touch points expanded to 71
- 900,000+ one time users for patpat.lk
- Facilitate payment and transactions via social media

HUMAN CAPITAL

- Revenue per employee – Rs. 7.4 Mn.
- Training hours – 65,504
- Number of hazards – 0
- Investment in training & development – Rs. 17 Mn.
- Contribution to staff health insurance Rs. 31 Mn.

SOCIAL AND RELATIONSHIP CAPITAL

- Growth in loan book – 37%
- Growth in deposits – 37%
- Number of customers >200,000
- T & D on customer service – 30 Programmes
- Regulatory adherence – 100%
- Number of Sisudiri scholars – 409

NATURAL CAPITAL

- GHG emissions – 2,028 tCO_2e
- 2,028 Carbon credits purchased
- Manage environmental and social risks
- Knowledge creation and awareness through Green Ninja quiz competition
- Managing energy and water consumption

VALUE IMPACTS (OUTCOME)

FINANCIAL CAPITAL

- Dividend per Share Rs. 5.00 proposed
- Interest expense Rs. 6.6 Bn.
- Personnel Cost Rs. 1.04 Bn.
- Contribution to Government Rs. 764 Mn.
- Contribution to the society Rs. 28 Mn.

MANUFACTURED AND INTELLECTUAL CAPITAL

- Enhanced capability of product innovation and customer centricity
- Enhanced service delivery through streamlined business processes
- Convenience and connectivity

HUMAN CAPITAL

- Employee retention
- Employee satisfaction
- Work-life balance
- Succession plan
- Career advancements
- Personnel & professional development

SOCIAL AND RELATIONSHIP CAPITAL

- New products
- New outlets relocations
- New outlets opening
- Improved business partnerships
- Transparent business relationships
- Customer loyalty
- Responsible corporate citizen

NATURAL CAPITAL

- ISO 14064-1 carbon verified organisation
- Employee engagement for enhancing environmental saving initiatives
- Enhanced carbon neutral status across all physical touch points
- Sustainable focus on lending

VALUE SHARED (PROCESS)

- SHAREHOLDERS
- EMPLOYEES
- CUSTOMERS
- BUSINESS PARTNERS
- COMMUNITY
- ENVIRONMENT
- REGULATORS

OUR CAPITALS

Our relevance as a Non-Bank Financial Institution today and in the future and our ability to create long-term value are interrelated and fundamentally dependent on the forms of capital available to us (inputs), how we use them (value adding activities), our impact on them and the value we deliver (outputs and outcomes).

FINANCIAL

Our shareholders' equity and funding from investors, deposit holders and Banks that are used to support our business and operational activities including credit extension.

PAGE: 44

MANUFACTURE AND INTELLECTUAL

Manufactured capital include our business structure and operational processes, including our physical and digital infrastructure, our products, as well as our information technology that provides the framework and techniques of how we do business and create value Intellectual capital include our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships.

PAGE: 56

HUMAN

Our people, investing in their development and our collective knowledge, skill and experience to enable innovative and competitive solutions for our clients. Corporate Culture also play a huge part on the Human capital as culture is the tacit social order of the company.

PAGE: 66

SOCIAL AND RELATIONSHIPS

Our citizenship and strong stakeholder relationships, including the communities in which we operate, as we recognize the role that we play in building a sustainable financial eco system.

PAGE: 86

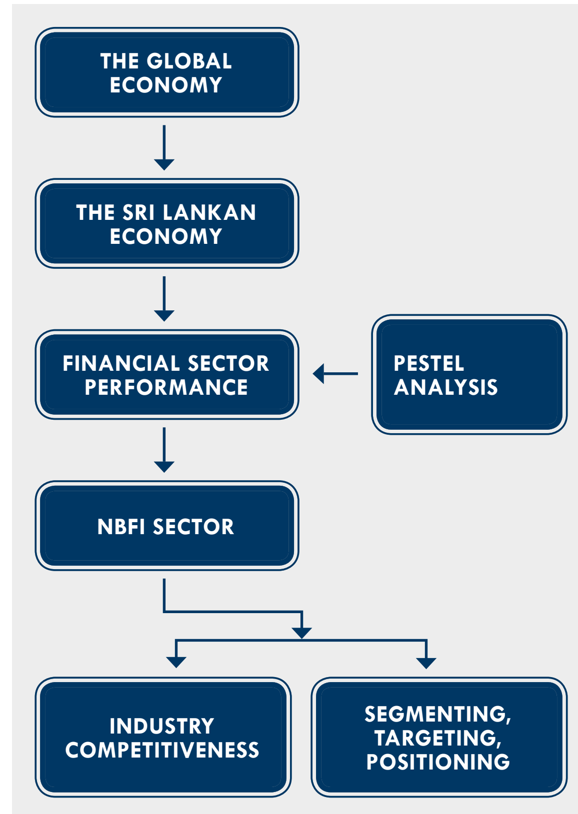
NATURAL

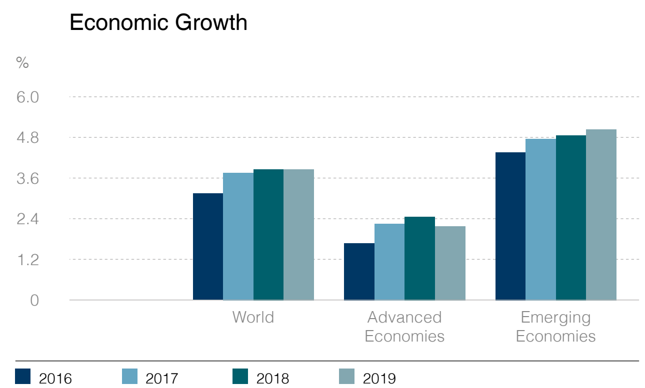
Our Impact on natural resources through our business and operational activities.

PAGE: 100

OPERATING ENVIRONMENT

THE GLOBAL ECONOMY





Source: IMF World Economic Outlook April 2018 Update
**Projection*

→ GLOBAL ECONOMIC GROWTH

According to the International Monetary Fund (IMF) in its World Economic Outlook Update in April 2018, world growth strengthened to 3.8% in 2017; the strongest since 2011. This is attributed to the notable rebound in global trade. The growth was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters.

The main developments during the year under review were:

→ GLOBAL MONETARY POLICY NORMALISATION

The favourable economic growth in developed markets enabled major central banks in the world, to initiate measures to remove the extraordinary monetary policy measures implemented post 2008 financial crisis. This initiative was spearheaded by the US Federal Reserve by implementing measures to shrink its balance sheet by increasing policy rates thrice during 2017 and once again in March 2018.

Global financial conditions continued to ease in 2017, despite the outlook of a tighter monetary policy. This was partly due to guidance provided by the major central banks, weakening US Dollar and rallies in global stock markets.

→ A GLOBAL SELL-OFF

January 2018 commenced well for global markets. There were continued inflows to emerging market sovereign issuances and a continuation of rallies in US and Asian equity benchmarks. However, in February 2018 the rise in US Treasury yields to multi-year highs sparked concern among equity investors, causing a sell-off in US equities that spread globally.

→ GEOPOLITICS AND PROTECTIONISM

While global markets seemed to recover from February's sell-off, the recovery was susceptible to political risks; especially those emanating from the White House, with President Trump announcing tariffs on certain imports, including certain Chinese imports. There is a concern in the markets that such action could spark a global trade war between USA and China.

→ EMERGING MARKETS

Emerging market and developing economies, recorded a growth of 4.8% in 2017 primarily due to acceleration in private consumption. Additionally, the rebound in export growth was particularly strong in emerging Asia, especially China.

China's GDP growth rate of 6.8% was ahead of India at 6.7%, giving the former the label of being the fastest growing emerging economy. The Indian economy, which grew at 7.1% in 2016, slowed in 2017 due to demonetisation in November 2016 and GST rollout on 1 July 2017. Core inflation picked up in India after falling sharply in the second quarter of 2017 due to one-off factors, whilst in China, core inflation remains broadly stable at about 2%.

Capital flows to emerging economies have remained resilient through the third quarter of 2017, with continued strength in non-resident portfolio inflows.

→ BRENT OIL PRICES ON THE RISE AGAIN

Brent oil prices rallied significantly during 2017, moving up to USD 70 from USD 50 per barrel by January 2018. This was due to the perception that the glut in the market would end in 2018, thus vindicating the efforts of the OPEC-led group of oil producing states that have been part of a production limitation agreement since end-2016. It is expected that Brent oil prices would remain within the USD 60-70 range in 2018.

→ FUTURE OUTLOOK

Global growth is expected to increase to 3.9% in 2018 and 2019, supported by strong momentum, favourable market sentiments, accommodative financial conditions, and the repercussions of expansionary fiscal policy in the United States.

Advanced economies are projected to grow at 2.5% in 2018 and by 2.2% in 2019. Growth in the United States, is expected to rise from 2.3% in 2017 to 2.9% in 2018, before moderating slightly to 2.7% in 2019. This upward revision reflects stronger-than-expected activity in 2017, firmer external demand, the higher public spending and the expected macroeconomic impact of the December 2017 tax reform.

Growth in emerging market and developing economies is projected to increase further to 4.9% in 2018 and 5.1% in 2019. Emerging Asia remains the most important engine of global growth, forecasted to continue growing at about 6½% during 2018/19. Growth in China is projected to soften slightly from 6.9% in 2017 to 6.6% in 2018 and to 6.4% in 2019.

Headline inflation in advanced economies is projected to increase to about 2% in 2018/19 from 1.7% in 2017, whilst in emerging market and developing economies, it is expected to increase to 4.6% in 2018, from 4.0% in 2017.

→ THE SRI LANKAN ECONOMY

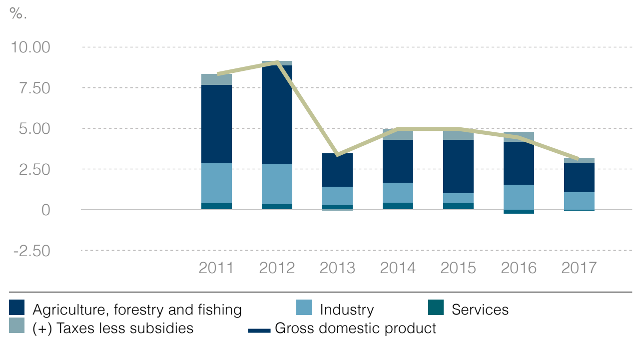
→ GROWTH

Sri Lanka's real GDP growth declined to 3.1% in 2017 from 4.5% in 2016. Agriculture-related activities recorded a contraction of 0.8% due to adverse weather conditions, which continued since 2016. As a result, the agriculture sector recorded negative quarterly growth rates in all quarters other than the fourth quarter of 2017.

Industry-related activities, which accounted for 26.8% of real GDP, grew by 3.9% in 2017, supported by, manufacturing activities, construction activities, and mining and quarrying. However, there was a notable decline in the growth of construction activities in 2017 that supported overall economic growth throughout the post conflict period, with the exception of 2015.

Service activities, which accounted for 56.8% of real GDP, grew by 3.2% in 2017, driven by the expansion in financial service activities, wholesale and retail trade and other personal service activities.

Weighted Average Sectoral breakdown of GDP growth (2010 base)

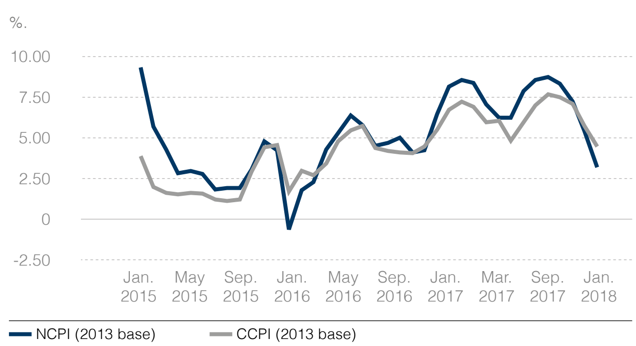


Source: Department of Census and Statistics

→ INFLATION

Headline inflation (CCPI, 2013=100) as measured by the Colombo Consumer Price Index (CCPI) remained high throughout 2017, largely due to supply side pressures stemming from adverse weather conditions and revisions of tax policies. However, there was a substantial reduction in headline inflation, which eased to 5.8% and 4.5% in January 2018 and February 2018 respectively. This was largely due to lower food inflation in the Maha harvesting season and the base effects of higher inflation during the same period last year. Headline inflation as measured by National Consumer Price Index (NCPI) followed a similar trend, declining from a high of 8% in 2017 to 3.2% in February 2018. Core inflation also declined to 3.5% and 2.0% on CCPI and NCPI respectively by February 2018.

Headline Inflation (Year on Year)



Source: Department of Census and Statistics

→ UNEMPLOYMENT

Unemployment rate further declined to 4.2% in 2017 from 4.4% in 2016 and the total number of employed persons increased to 8.2 million from 7.9 million the previous year. The female and youth unemployment rates declined significantly during the year. However, the number of employed persons engaged in the agriculture sector declined to 26.1% in 2017 on account of the subdued performance of the agriculture sector. Employment in industry and services sectors increased notably.

→ EXTERNAL SECTOR

Performance of the external sector improved gradually in 2017 with higher foreign exchange inflows to the financial account. Earnings from exports increased by 10.2% to USD 11,360 Mn. in 2017, supported by the restoration of the European Union's GSP+ facility, recovery in external demand, expansion in investment in export-related industries, increased commodity prices in the international market, conducive external trade policies together with strong institutional support and the favourable impact of the flexible exchange rate policy maintained by the Central Bank. The main export earnings generators were tea (20.5%), textiles and garments (3.0%), petroleum products (51.4%) and spices (28.1%). Import expenditure increased considerably by 9.4% in 2017, mainly due to higher imports related to inclement weather conditions and the firming of international commodity prices.

However, the trade deficit expanded during the year, due to the higher than expected expenditure on imports, particularly on fuel and rice imports, and the imports of gold. With the increase in interest payments and reinvested earnings by direct investment enterprises (DIEs), the deficit in the primary income account also widened during the year.

Inflows to the financial account increased substantially with the inflow of Foreign Directs Investments and other inflows from the Hambantota Port Project and the Colombo Port City project, proceeds of the ISB and a foreign currency term financing facility, equity inflows and the receipt of the third and fourth branches of the IMF-EFF. Due to the improvements in the external sector, the Balance of Payment (BOP) recorded an overall surplus in 2017, after recording overall deficits for two consecutive years. Sri Lanka's total foreign assets increased as well to USD 10.4 Bn. by end 2017, equivalent to 6.0 months of imports, from USD 8.4 Bn. at end of 2016.

Total external debt of Sri Lanka increased in 2017 mainly due to the increase in the outstanding debt stock of the Government. Sri Lankan Rupee maintained a stable external value during 2017 as a result of the market based exchange rate policy implemented by the CBSL.

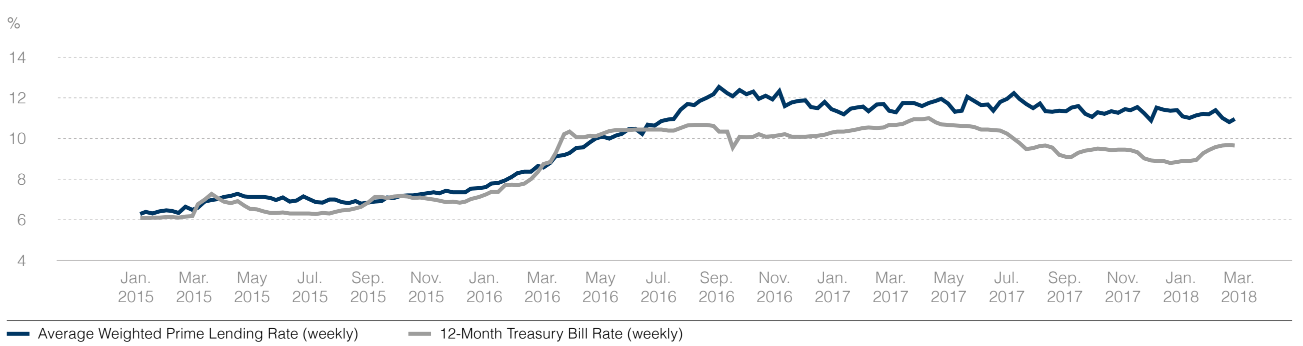
→ FISCAL PERFORMANCE

With the aim of reducing the budget deficit and lowering government's debt burden, the Government implemented a fiscal consolidation programme. Government revenue from non-tax revenue sources as a percentage of GDP declined to 13.8% in 2017 compared to 14.2% in 2016. Tax revenue on the other hand increased in nominal terms and also as a percentage of GDP, primarily due to amendments to VAT Act, including the increase of VAT to 15% during the latter part of 2016 and other reforms introduced to the Economic Service Charge (ESC) and NBT in 2017. The new Inland Revenue Act in particular, is expected to boost Government revenue with a broadened tax base and simplified tax structure driving further fiscal consolidation.

→ MONETARY POLICY

The Central Bank continued to maintain a tight monetary policy stance in 2017 to curtail heightened credit demand and inflation. After policy interest rates were raised by 25 basis points in March 2017, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank stood at 7.25% and 8.75%, respectively. In response to the monetary policy stance and the resultant high market interest rates, the growth of credit extended to the private sector decelerated to the desired level by end 2017.

Movement of key market rates



Source: Central Bank of Sri Lanka

→ RUPEE PERFORMANCE

The external value of the Sri Lankan Rupee remained relatively stable in 2017 with an overall depreciation of 2.0% against the US Dollar during the year. The depreciation pressure on the Rupee was high in the first quarter of 2017 and thereafter moderated with increased foreign investment to the Government Securities market and the Colombo Stock Exchange, the increase in the conversion of export proceeds, receipt of the proceeds from the ISB, the foreign currency term financing facility and disbursements of two tranches of the IMF-EFF programme.

→ FUTURE OUTLOOK

The Government's Vision 2025 unveils the future policy direction of Sri Lanka, envisioning to transform the nation into a hub of the Indian Ocean, with a knowledge-based, highly competitive, social-market economy. The annual real GDP growth is expected to gradually improve to around 6.0% to surpass USD 6,000 by 2022.

The external sector is projected to improve over the medium term with appropriate policy measures and positive developments on the external front, including the gradual recovery of export markets. This is expected to result in the narrowing of the trade deficit as a percentage of GDP from 11.0% in 2017 to 8.7% by 2022. The Government is expected to continue its focus on the revenue-based fiscal consolidation process in the medium term, with the budget deficit estimated to decline to 3.5% of GDP by 2020.

In addition, promoting a dynamic and resilient financial sector to lower vulnerabilities in the financial system remains a key priority for achieving objectives in relation to growth, employment and incomes in the future.

Sri Lanka successfully achieved the targets set by the IMF-EFF programme for 2017 which has led the nation to more stable macroeconomic environment. This momentum is being continued in 2018 to establish the envisaged economic reforms. The Government will also introduce comprehensive amendments to the Monetary Law Act (MLA) to strengthen Central Bank independence and facilitate the adoption of Flexible Inflation Targeting (FIT) as the monetary policy framework, in addition to other amendments to improve governance of the Central Bank, strengthen financial sector oversight and boost fiscal-monetary coordination. In this context, the IMF will continue to push towards reforming State-owned Enterprises (SOEs) while advocating a market pricing mechanism for fuel and electricity prices. Although the Government has made notable progress, particularly on the fiscal front, the continuity of the reforms hinges on a rather volatile political landscape.

Going forward, the high level of debt repayment, due from the second half of 2018 is a major concern which could affect the interest rates in the country. Further, the Central Bank's continuation of a more market determined exchange rate policy would result in the currency being influenced by external factors such as foreign fund flows as well our nation's capacity to fund its debt obligations. The other key areas of focus for the ensuing year would be the discussions on bilateral trade agreements with India, China, Bangladesh and Indonesia, the Free Trade Agreement signed with Singapore, trade liberalisation and Foreign Direct Investment into the country.

Therefore, the Sri Lankan economy remains more vulnerable to global factors in 2018 given the global focus on monetary policy normalisation and its impact on investor sentiment towards an emerging market like Sri Lanka.

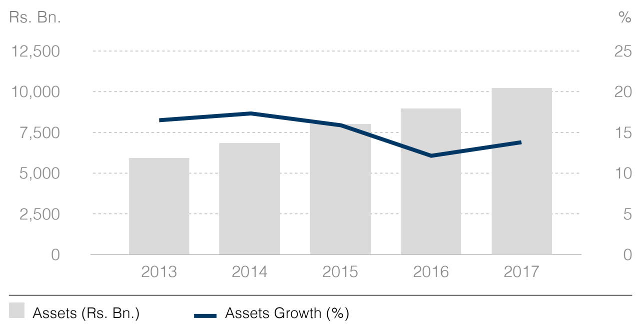
→ FINANCIAL SECTOR PERFORMANCE

→ BANKING SECTOR

→ ASSET BASE

Total assets of the banking sector comprising Licensed Commercial Banks and Licensed Specialised Banks increased by 14% year on year (YoY) to Rs. 10.3 Tn. at the end of 2017.

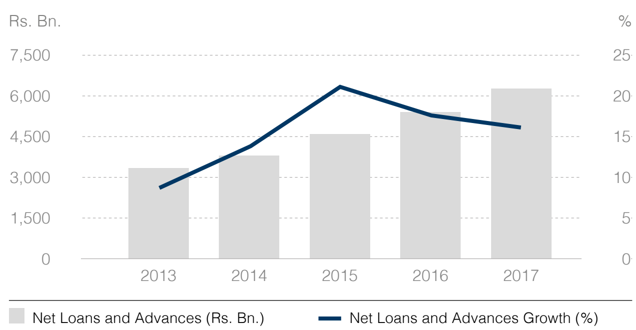
Assets – LCBs and LSBs



→ GROWTH IN LENDING

Total net loans which accounted for 61.7% of the asset base of the banking industry, swelled by 16% YoY to Rs. 6.35 Tn. as at the end of 2017. Loan growth slowed down from 17.7% in 2016 to 16.2% in 2017, due to a combination of factors including the tight monetary policy stance of the CBSL, the relatively tight fiscal policy adopted by the Government and the unfavourable weather conditions which curtailed Sri Lanka's economic activity. Having achieved a high growth rate in the corporate banking segment over the years, the banking sector is now aggressively pursuing opportunities in the retail and SME space. Whilst competition is healthy, this would create a challenging environment for non-banking financial institutions which largely caters to these markets.

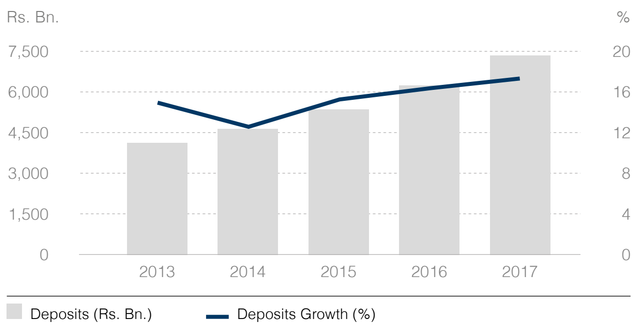
Net Loans – LCBs and LSBs



→ DEPOSITS AND BORROWINGS

The deposit base swelled by 18% YoY to Rs. 7.4 Tn. in 2017 from Rs. 6.3 Tn. recorded in 2016. Time deposits remained the highest contributor to the total deposit base accounting for 64%, reflecting a whopping 61% increase compared to 2016. This is attributed to a shift in consumer preference towards fixed deposits from short-term savings due to the increase in AWDR during the year.

Deposits – LCBs and LSBs

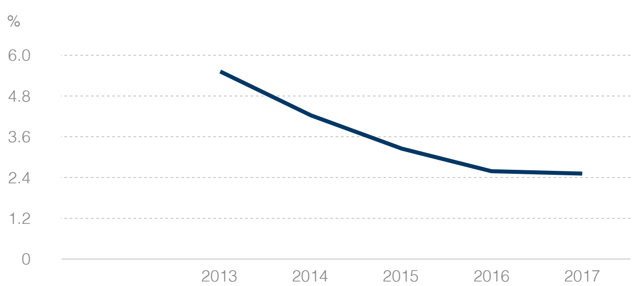


Total borrowings of the sector declined by 5% YoY to Rs. 1.6 Tn. as at end 2017.

→ ASSET QUALITY

Gross non-performing loans increased to Rs. 160.7 Bn. in 2017 compared to Rs. 142.3 Bn. in 2016. However, Gross NPA ratio declined marginally to 2.5% from 2.6% recorded in 2016, despite the adverse weather conditions and inflationary pressure on borrowers in certain months of 2017. This trend was reflected in the performance of gross and net NPA margins of the NBFI sector as well.

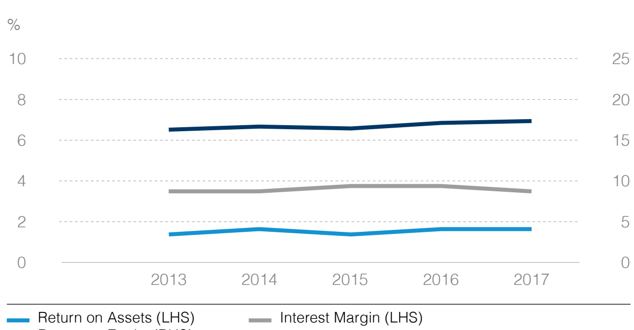
Gross NPA Ratio – LCBs and LSBs



→ PROFITABILITY

Profitability of the banking sector improved with Return on Equity (ROE) moving to up to 17.6% in 2017 compared to 17.3% in 2016. After-tax Return on Assets (ROA) increased to 1.42% from 1.36% in 2016. Profitability was driven by the growth in net interest income and fee-based income and efforts made by banks to curtail operational expenses. However, the increase in impairment charges put pressure on the sector during the year.

Profitability Indicators of the Banking Sector



→ KEY DEVELOPMENTS

The Central Bank continued to initiate prudential policy measures and regulations in order to enhance the safety and resilience of the banking sector during 2017. To support the implementation of the Basel III framework, banks and licensed specialised banks were required to enhance minimum capital requirements to Rs. 20 Bn. for locally incorporated licensed commercial banks and Rs. 7.5 Bn. for licensed specialised banks to meet this regulation by 31 December 2020. The banking sector was required to adhere to the second phase of the Basel III framework by 1 January 2018. Although key banks have enhanced their capital base to comply with the regulation, complying fully with the guidelines by 1 January 2019 remains a challenge. Therefore, banks that need to raise capital have planned for further equity issues in the first half of 2018.

In order to further strengthen risk management aspects of foreign currency borrowings by banks, a new policy was implemented, effective from 1 January 2018. The objective was to address the high dependence on foreign currency borrowings and resulting foreign exchange risks in licensed banks and to minimise the pressure on Sri Lanka's foreign reserves and exchange rate, resulting from large borrowings in foreign currency. Tighter regulations were also put in place for financial derivative transactions. Additionally, licensed banks were instructed to follow LTV ratios, when granting credit facilities for purchase or utilisation of motor vehicles by end-users, subject to certain exemptions.

There were many concerns of a potential real estate sector bubble and the resulting vulnerability to the banking sector in 2017. However, these concerns are somewhat allayed with the assurance from the CBSL and banking veterans that the exposure to the sector is manageable.

→ FUTURE OUTLOOK

Banks are expected to regain momentum in loan growth at more sustainable rates, with the anticipated low interest rate environment in the first half of 2018 and the multiple credit schemes being promoted by the Government.

Bank will focus more on fee-based income as net interest margins are likely to be under some pressure for most months of the year. Consequent to the debt repayment levy and other tax policies proposed by Budget 2018, the profitability of the NBFI sector will be affected to a certain extent. The debt repayment levy which is spread over 3 years is expected to absorb up to Rs. 20 Bn. of the banking sector's profits in 2018.

SLFRS 9 "Financial Instruments" which includes a forward-looking loan loss provisioning mechanism came to effect on 1 January 2018. This will affect the bottom-line of the banking sector due to the higher first-time provisions resulting from the change in the accounting standards. The CBSL continued to implement measures to strengthen the regulatory and supervisory framework of the banking sector and is proactively working with various stakeholders to finalise the new Banking Act in the near future.

Technology is transforming the financial services sector in a dynamic manner. "Fin-Tech" companies have been making headway in 2017 with a number of banks and telecommunication companies actively embracing this emerging area. This is expected to result in more a dynamic and competitive financial system.

→ PESTEL ANALYSIS OF FINANCIAL SECTOR

The banking and financial sector is the most dominant segment in the financial services industry. The resilience of the banks and finance companies continued to be strengthened through stringent regulatory measures adopted by the regulators during the year under review.

The sector was further characterised by low default ratio, regular intervention by Central Bank of Sri Lanka (CBSL) and pre-emptive adjustment of the monetary policy.

The policy makers of the banking and finance sector, comprise the CBSL, Ministry of Finance and the related Government and financial sector regulatory authorities. They worked assiduously to make the sector stronger and stable through stringent monitoring and improving of the regulatory governance.

Key Elements	Indicators	Impact
Political	Political instability: Certainty in the political environment will enhance the sector's growth	Medium
	Focus on Government regulations: Regulations on capital and liquidity	High
	Proposed budgetary measures: Implementation of new Inland Revenue Act.	High
Economic	Vulnerability in interest rates: High vulnerability in interest rates (especially increasing policy rates) may adversely affect the cost of funds of finance companies.	High
	Fluctuations in the exchange rate: Depreciation of Sri Lankan Rupee against major currencies.	Medium
	Skilled labour: Due to high brain drain, the availability of skilled labour reduces.	Low
Socio-cultural	Changes in life style: Lifestyles of Sri Lankans are changing rapidly. They are more knowledgeable and require sophisticated products of high quality. This has opened up more opportunities for finance companies to their expand business.	Medium
	Population: Increasing population may impact the branch expansion decisions. Due consideration should be given to population density and other demographic factors of each area.	Medium
Technology	ATM/E-banking: Latest developments in technology and telecommunication have propelled finance companies to adopt digitalisation and move away from brick and mortar branches to E-banking and mobile banking.	Medium
	Credit card facility: Wide use of credit cards has resulted in a cashless society. This is also called an electronic wallet.	Medium
Environment	Significant economic growth: Sri Lanka recorded an economic growth of 3.1% during 2017.	Medium
Legal	Legal aspects: Finance Regulation Act and the Central Bank of Sri Lanka (CBSL)	Medium

→ NON-BANK FINANCIAL INSTITUTIONS SECTOR (NBFI)

Licensed Finance Companies (LFC) and Specialised Leasing Companies (SLC) represented 7.8% of assets of Sri Lanka's financial system at the end of 2017. Total assets of the NBFI sector grew by 11.8% YoY to Rs. 1,355 Bn. in 2017. By the end of 2017, the sector comprised of 45 LFCs and 6 SLCs and an expanded network of 1,362 Branches islandwide.

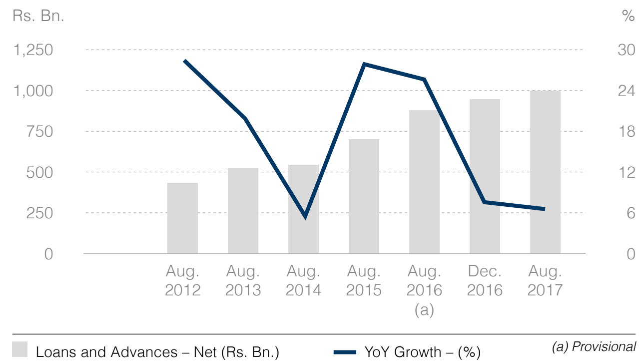
→ LOAN BOOK AND COMPOSITION

Loans and advances accounted for 78% of the total assets of the sector and contributed to 66% of the assets growth in 2017. Growth of loans and advances slowed down in 2017 from a high 21% YoY growth in 2016 to 9.8% in 2017 to record Rs. 1,057 Bn. as at the end of 2017. This was in response to the fiscal and macro prudential policy measures adopted by the CBSL to curtail excessive credit growth particularly in the motor vehicles sector through the imposition of the LTV ratios and high tariffs. The consequent slowdown in the finance lease and hire purchase portfolios are core business areas of the NBFI sector.

Additionally, the measured introduced by the Budget proposal of 2018, such as the introduction of higher taxes on premium vehicles and an increase in the tariffs on vehicles with higher engine capacities, further contributed to this slowdown in 2017. Total vehicle registrations declined by 9% in 2017 compared to the previous year. However, these measures encouraged NBFIs to diversify their lending portfolio by moving towards other secured lending activities.

Asset quality deteriorated as reflected in the increase in gross Non-Performing Loans (NPLs) portfolio by 24% YoY to Rs. 65.9 Bn. in 2017. This is largely due to the floods during the first half of 2017, nationwide drought and slowing down of the economy. The gross NPL ratio also increased to 5.9% in 2017 from 5.3% in 2016 due to the increase in gross NPLs and decline in the growth of the loan portfolio. Therefore, the total loan loss provisions increased by Rs. 7.4 Bn. to Rs. 42.2 Bn. on account of the increase in the specific provisions made for NPLs. Accordingly, the provision coverage ratio declined to 64.0% in 2017, compared to 65.7% 2016. Net NPL ratio also increased to 1.5% in 2017 from 1.2% in 2016. However, credit risk of the sector remained at manageable levels with the appropriate risk mitigation techniques adopted.

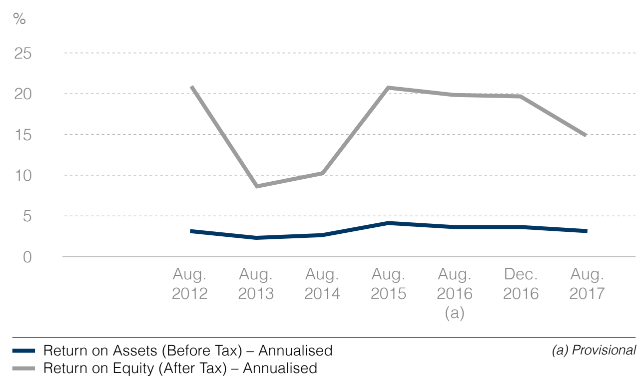
Loans and Advances – LFCs and SLCs



→ PROFITABILITY

The sector posted a profit after tax of Rs. 25.8 Bn., an 18.0% dip compared to the profit of Rs. 31.5 Bn. recorded in the year 2016. This was, mainly due to increased funding cost and higher loan loss provisions. Net interest margin also declined marginally to 7.7% in 2017 from 7.9% in 2016. Indicating the sign of stress towards the profitability of the sector, ROA declined by 80 basis points during the year to 3.2% whilst ROE declined by almost 700 basis points to 6.1% in 2017.

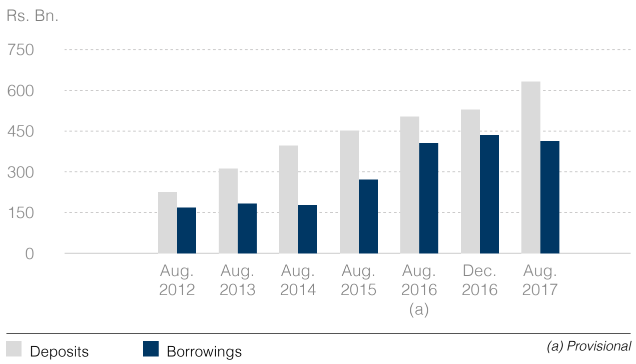
Profitability – LFCs and SLCs



→ FUNDING

Majority of the lending activities were funded through deposits and customer deposits became the major portion of liabilities in 2017 accounting for 50.7% of total liabilities of the sector. Sector borrowings and capital accounted for 29.2% and 12.5% of total liabilities respectively. There was a shift in the funding mix in 2017, as the expansion was largely funded through the customer deposit mobilisation. As a result, deposits grew by 29.4% to Rs. 686.7 Bn. in 2017 compared to the 10.4% growth in 2016.

Funding – LFCs and SLCs



→ DEVELOPMENTS IN THE SECTOR

The NBFI sector has come under stringent regulatory scrutiny by the CBSL on account of the several malpractices reported regarding the conduct of businesses, which are detrimental to the rights of customers and stability of the financial system. Therefore, CBSL initiated several prudential policy measures to strengthen the supervisory and regulatory framework of LFCs and SLCs with the view of enhancing the stability and soundness and increasing the customer confidence in the sector. The minimum core capital requirement of LFCs and SLCs was increased from Rs. 400 Mn. to Rs. 1 Bn. from 1 January 2018, and requirements of Rs. 1.5 Bn., Rs. 2.0 Bn. and Rs. 2.5 Bn. by 1 January 2019, 1 January 2020 and 1 January 2021 respectively. Further, a cap on deposits and borrowings was imposed on all LFCs and SLCs, which did not comply with the minimum core capital requirement and penalties were also imposed on non-compliances.

In order to combat unethical and fraudulent behaviour that impacts the credibility of the entire NBFI sector, CBSL will put in place a Financial Customer Protection Framework which will come into effect from April 2018, and would include an improved litigation mechanism for fraudulent activities and legal provisions against errant senior management.

In addition, the Central Bank is considering a directive which would require LFCs and SLCs to achieve a minimum Capital Adequacy Ratio (CAR) of 12%. Discussions are also underway to make it mandatory for all LFCs and SLCs to obtain credit ratings and be listed on the Colombo Stock Exchange (CSE) which would, in turn, ensure financial stability and operational excellence while creating healthy competition.

→ FUTURE OUTLOOK

Interest rates are expected to moderate to a certain extent during the first half of 2018 and deposit mobilisation of the NBFI sector is expected to grow at a faster pace. This is on account of the difference in yield of savings products between Banks and NBFIs which could stimulate deposit mobilisation in the NBFI sector.

The macro prudential measures adopted by the Central Bank to curtain excessive lending growth is likely to remain, despite the slowdown in credit growth in the NBFI sector. Despite the unfavourable policies towards the motor vehicle sector, the increase in the Loan to Value (LTV) ratio to 90% for electric vehicles is a positive development. In addition, it is envisaged that leasing and hire purchase portfolios of NBFIs would expand, based on the expectation of a more relaxed fiscal environment in 2018. However, the sector should continue to diversify its loan portfolio, strengthen its fee-based income through increased digital financial solutions, enhance customer service and control its operating costs. Given the increasingly challenging macroeconomic environment, it is imperative for companies to pay close attention to their non-performing advances which may come under further pressure.

The CBSL, in its Road Map 2018 has emphasised that the enhanced capital requirements for NBFIs have been introduced, partly to encourage greater market led consolidation in the sector and facilitate a strong and stable NBFI sector. Given that banks too are seeking to enhance their capital buffers to be compliant with Basel III requirements, it is envisaged that increased competition for capital would create a challenging environment which would propel LFCs and SLCs towards mergers and acquisitions in order meet this challenge.

→ INDUSTRY COMPETITIVENESS

We use the Porter's Five Forces Analysis to analyse industry competition and develop effective strategies based on industry attractiveness. Attractiveness in this context refers to the overall industry profitability. We can conclude that the non-bank financial industry is highly competitive based of the following analysis:

Threat of New Entrants – Low Potential NBFI Player	Barriers to entry	High	The industry is attractive because almost all the players in the industry have earned higher yields over the past decades. Additionally, the entry barriers that have been created by the Finance Ministry and the CBSL, the minimum capital requirement and strong and established brands have reduced the threat of new entrants.
	Capital requirements	High	
	Industry profitability	High	
	Buyer's switching cost	Medium	
	Customer loyalty to established brands	High	
Threat of Substitutes – High Banking and Insurance Industry	Ease of substitution	High	Players in the Banking and Finance industry provide a similar range of financial services compared to the non-bank financial institutions. Therefore, customers are able to find close substitutes of high quality.
	Customer switching cost	Moderate	
	Level of product differentiation	Low	
	Relative price performance of substitute	Moderate	
	Perceived service quality of substitutes	High	
Bargaining Power of Customers – High Lending customers	Availability of substitutes and alternatives	High	Customers are highly price sensitive. Therefore, the industry players adopt competitive marketing strategies whilst the customer has a high bargaining power due to the availability of similar range of substitutes and alternatives.
	Customer switching cost	Moderate	
	Level of product differentiation	Low	
	Buyer price sensitivity	High	
	Rivalry of industry players	High	
Bargaining Power of Suppliers – High Individual and Corporate Funding Sources	Availability of substitutes and alternatives to the suppliers	High	The ability to cater to customers' requirements is highly dependent on the availability of funds. Suppliers are extremely price sensitive and there are many investment alternatives available to them as well. Additionally, the rivalry among industry players, to obtain funds continues to be high. Therefore, bargaining power of the suppliers is high.
	Supplier switching cost	Moderate	
	Level of product differentiation	Low	
	Supplier price sensitivity	High	
	Rivalry of industry players	High	
	Dependency on suppliers	High	
Industry Rivalry – High 44 Non-bank financial Companies in the industry	Competition among peers	High	Every player in the industry strives to grow by adopting competitive marketing strategies to capture competitors' market share.
	Amount of advertising expenses	High	
	Powerful competitive strategy	High	
	Number of players	High	
	Level of product differentiation	Low	
	Customer switching cost	Moderate	

→ SEGMENTATION, TARGETING AND POSITIONING (STP) STRATEGY

Our operational and marketing efforts are determined through the Segmentation, Targeting and Positioning strategy.

→ MARKET SEGMENTATION

We use geographic and demographic factors such as location, behaviour patterns and customer preferences to segment our customers. Based on statistics published by the Central Bank of Sri Lanka, Sri Lanka's population in 2017 was 21.2 million with an annual growth rate of 1.1% and 60.6% comprised the working population. Colombo and Gampaha Districts had the highest population concentration. The gender ratio, male:female was 48.41%:51.59%, whilst population density was 338 per Km^2. Taking into account these factors we identify our target market segment.

→ TARGETING STRATEGY

Our aim is to fulfil diverse financial needs of our customers; both individuals and corporates who seek our services. Through innovation and adopting winning strategies we address most of our customer requirements whilst adhering to the applicable rules and regulations of the Central Bank of Sri Lanka. This enables us to create sustainable value whilst meeting customer expectations effectively.

→ POSITIONING OUR BRAND

Our brand reflects who we are and what we stand for. CDB is a much respected brand in Sri Lanka's financial services industry with a strong brand visibility. Over the years, we have built a strong platform for profitable and sustainable growth of the CDB brand. Driven by relentless pursuit of excellence, innovation and customer service we provide an unparallel product offering to our diverse customer segments.

The colours and lettering of the CDB logo enables customers to easily recall our brand.

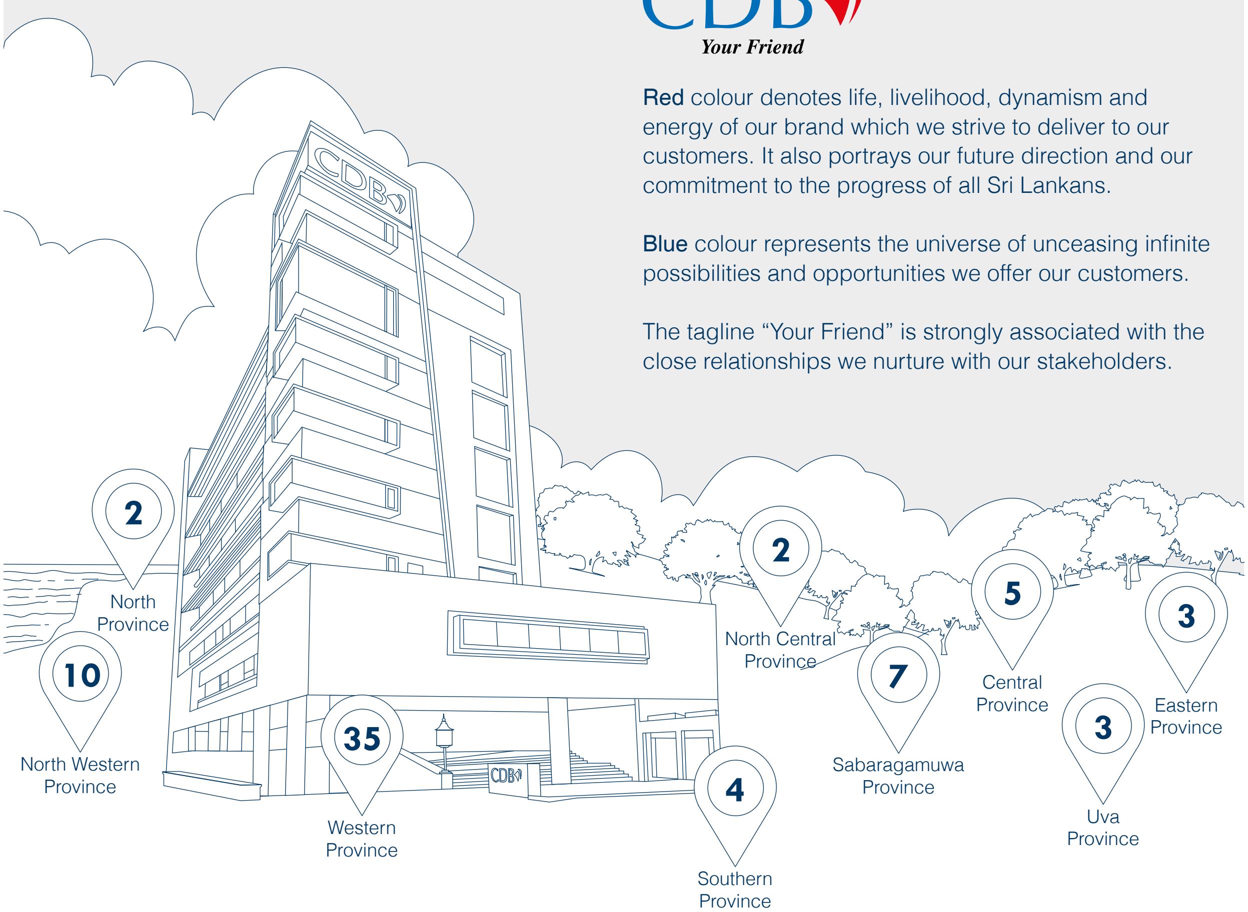
CDB *Your Friend*

Red colour denotes life, livelihood, dynamism and energy of our brand which we strive to deliver to our customers. It also portrays our future direction and our commitment to the progress of all Sri Lankans.

Blue colour represents the universe of unceasing infinite possibilities and opportunities we offer our customers.

The tagline "Your Friend" is strongly associated with the close relationships we nurture with our stakeholders.

GEOGRAPHICAL MARKET SEGMENTATION



WHAT OUR STAKEHOLDERS TELL US

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

STAKEHOLDER ENGAGEMENT

INTEGRITY | SIGNIFICANCE | COMPLETENESS | CORPORATE STAKEHOLDER ENGAGEMENT PRINCIPLES

↓

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?

Stakeholder	Key Concerns	CDB Response
Investors	• Sustainable growth and return • Financial strength and resilience • Risk management • Sustainability management performance	• Ensure optimal returns on investment • Strengthen Risk Assessment and Mitigation to Support Sustained Growth • Adhere to the Company's Code of Conduct through Management Oversight • Public Affairs Management and prompt response
Customers	• Customer experience • Convenience • Accessibility • Reliability	• Technology Driven Financial Solutions • Data Base Protection and Ensure High Confidentiality • Avert Unsolicited Communication and Intrusive Surveillance • Ensure Company Brand Values and Code of Conduct
Employees	• Development/career opportunities • Culture and Leadership • Transparency and openness • Healthy work environment	• Demonstrate Employee Productivity and Quality • Provide a Safe and Enriching Work Experience • Mould Future Leaders • Ensure Welfare and Well-being
Community	• Support and Safety • Education and Literacy • Ethical Sourcing • Societal Health and Well-being	• Contribute to Improving the Quality of Life • Investment on education • Provide Solutions for Rural Youth Empowerment • Supporting on Community Health and Well-being
Business Partners	• Strategic partnerships • Accountability	• Address Issues Related to Supplier Chain • Ensure Healthy Partnerships
Regulators	• Good Governance practices • Ethically Driven Business Model • Transparency	• Develop, Communicate and Promotes Good Governance and Ethical Behaviour at all Levels • Provide Timely and Accurate Information • Immediate Response to Queries Made by the Authorities
Environment	• Conservation Practices • Environmental Protection • Resource Efficiency	• Green House Gas Analysis and monitoring • Stakeholder awareness on best practices • Adopt Environmentally friendly Green Initiatives • Waste Management through Waste Minimisation

We value the close relationships we nurture with our stakeholders. By understanding their concerns we not only earn their trust and loyalty, but also we create increased stakeholder value.

COMMUNICATION · RESPONSIVENESS · TRANSPARENCY

PREPARATION AND ENGAGEMENT

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

MANAGE, EVALUATE AND LEAD

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

Stakeholder	How?	Mode and Frequency	Concern
Investors	• Open dialogue channels to clarify and get updated information • Discussions and reviews on business performance, targets, forecasts and industry benchmarks	• Annual Reports and Forums • Annual General Meeting • Interim financial statements • Corporate website • Announcement to CSE – Available when needed	• Review and monitor the performance of the company as it affects the sustainability of the stakeholders • Hold periodic meetings with stakeholders to understand their perspectives • Review any issues affecting the products and services of the Company in the marketplace • Identify and investigate emerging issues which are significant • Receive periodic reports on the status and effectiveness of the Business continuity plan • Oversee the risk management related to sustainability and the environment company interacts
Customers	• Annual customer surveys • Product Design, advertising and marketing • Island-wide outlet network	• Customer Relationship Unit • Dealer network • Media Advertisements and Website • Product launches	
Employees	• Regular updates on company performance • Encourage career development via lifelong learning programmes and internal/ external training • Comprehensive Integrated HR system	• Weekly Managers' meeting • Monthly Branch meetings • Weekly Regional Review meeting • Annual social events • Continuous Internal announcements • Annual Plan unveiling ceremony	
Community	• Health and well-being • Set up fully-fledged Smart Classrooms • Community development through investments	• Fast growing outlets • Investment on community well-being • Lending for rural economic development	
Business Partners	• Joint promotional campaigns	• Supplier screening • Individual meetings	
Regulators	• Compliance meetings • Regular discussions on regulatory matters • Adhere to all mandatory regulatory requirements	• Regular Directives and circulars • Ongoing Compliance forums, and discussions • Regular inspection of new rules and regulations	
Environment	• Adopt and publicise the green policies and practices followed by us, such as our emission reduction programme, paperless operations and recycling, energy saving devices and lighting, etc. • Conform with (and where possible, improve upon) all current environmental laws and regulations • Undertake and publicise relevant CSR projects	• Greenhouse Gas Emission analysis • Emission reduction • Paper recycling • Mobile mustering • E-waste recycling • Environmental cadet camp • Renewable energy Sound utilisation	

STAKEHOLDER MAPPING AND PRIORITISING

SUSTAINABILITY STEERING COMMITTEE

COMPOSITION OF THE STEERING COMMITTEE

	ASPECT	CDB RESPONSE	LED BY
INVESTOR	MAXIMISE SHAREHOLDER WEALTH	Secure our customers including data protection, confidentiality, customer privacy, preventing unsolicited communication and intrusive surveillance Provide a positive and satisfying customer experience by ensuring customer protection	CHIEF EXECUTIVE OFFICER
CUSTOMERS	COMBINED CONTENT STANDARDS & PRIVACY CUSTOMER PROMISE	Secure our customers including data protection, confidentiality, customer privacy, preventing unsolicited communication and intrusive surveillance Provide a positive and satisfying customer experience by ensuring customer protection	DGM – INNOVATION AND BUSINESS INTELLIGENCE
EMPLOYEES	HEALTH, SAFETY AND WELL-BEING	Ensure the safety and well-being of our employees Develop quality human capital assets base	GM – HR AND ADMINISTRATION
SOCIETY	SOCIAL INVESTMENT	Enhance the living standards of the society	DGM – MARKETING
GOVERNMENT AUTHORITIES AND BUSINESS PARTNERS	CORPORATE GOVERNANCE AND BUSINESS ETHICS SUPPLY CHAIN	Develop and communicate a framework that promotes good corporate governance and ethical behaviour at all levels Work with suppliers, service providers to address sustainability issues in the supply chain	CHIEF FINANCIAL OFFICER
ENVIRONMENT	ENVIRONMENT PROTECTION	Oversee the social investment fund to develop products and services that benefit society Reduce energy consumption and embed green thinking to the corporate culture	CHIEF FINANCIAL OFFICER

SUSTAINABILITY AND MATERIALITY

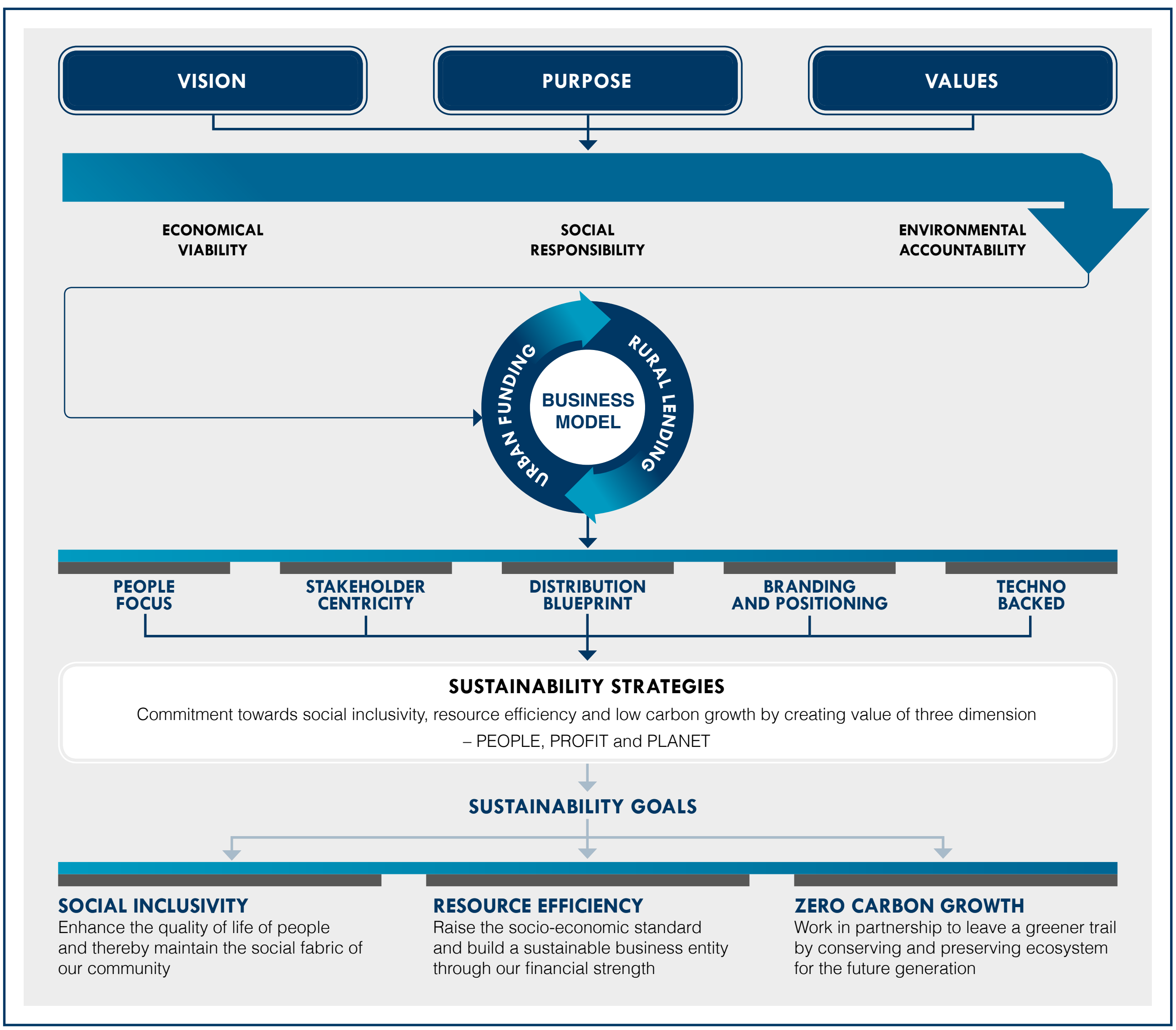
We seek to create long-term value for our stakeholders in a sustainable manner via our sustainability tripod. We believe that generating profits responsibly creates a lasting social and environmental impact. Therefore, we have aligned our sustainability strategy with our corporate goals in order to fulfil our responsibility towards employees, customers, business partners, environment, the communities and the regulators.

→ MANAGING SUSTAINABILITY

Sustainability is at the core of who we are and what we do and is one of our important corporate strategies. We are determined to make a positive difference, by pioneering new solutions whilst developing our business responsibly and achieving a sustainable profit growth.

Whilst creating increased value for our stakeholders, and for our Company we strive to reduce our environmental footprint. High standards of governance are critical to deliver our strategy, create long-term value and maintain our social licence to operate. The sustainability steering committee oversees our Company's sustainability agenda and support the governance and monitoring aspects as well.

We also conduct our business in a fair and responsible manner and implement appropriate measures to protect customers' information. We have zero tolerance for financial crime, including bribery and corruption. Additionally, we remain committed to responsible financing and promoting financial inclusion as part of our sustainability commitment.



OUR COMMITMENT TO UN SUSTAINABLE DEVELOPMENT GOALS

We contribute to a sustainable future. Through our strategic investments, we support the implementation of the UN Sustainable Development Goals (SDGs) which creates a framework for sustainable business practices at economic, social and environmental levels.

Being a net lender to the rural economy, we have net lent Rs. 14 Mn augmenting our goal of providing access to finance to the base of the pyramid markets, while astutely growing the urban funding and rural lending approach.

We extend our support to develop health care in our nation focusing on a national Autism Awareness Programme in collaboration with Sri Lanka Association for Child Development. CDB has funded a mass media communication campaign in three languages to prompt early identification and management of autism in children and also mooted the Autism Trust Fund.

We also provide medical facilities to all our staff members and their family members ensuring their health and wellbeing. During the year we have invested Rs. 31 Mn. on staff insurance and *"Suwa Sampatha"* medical scheme. Our benefit profile contains a comprehensive list of benefits such as Productivity and performance related bonuses, Staff loans at special interest rates, Staff loan schemes for children's education, Extended maternity leave, Career Breaks ,Death donation Schemes, Professional membership & examination fees reimbursement, OPD Claims ,Dental Care, Vision Care, Weight Loss Log, Life Insurance Coverage etc.

Women form the backbone of our nation's rural economy, as they play a significant role in the well-being of their families. In addition we promote the concept of diversity ensuring that it is free from discrimination based on gender, caste, creed, religion, race, marital status, nationality or age. *"Diri liya"* is geared to empower women through the provision of credit facilities on favourable terms to encourage them to take on more important roles in society. 24% of our disbursements is directed for female community and this is a great achievement as a responsible organisation. Out of our total workforce 26% is driven by female workers representing each level of the organisational hierarchy.

Our physical infrastructure enables all our staff members' access with electricity usage while converting our head office, mahara branch and mahara vehicle sales unit into alternative solar power energy source. In addition, over the last three years we have been investing in cleaner energy sources such as hydro power and hydro electric plants and have converted ourselves as a carbon conscious business entity.

The performance of our Organisation is elevated by a wide range of disciplines of our employees.

CDB is committed in creating a work environment enabling employees to work with pride and develop themselves. We also implement ethical management practices whilst complying with relevant laws and regulations. We work hard to respect and preserve human rights; our highest obligation as a top corporate citizen in Sri Lanka. Additionally, the growing demand for credit at the grassroot level of the economy would facilitate greater diversification of the loan portfolio to non-core products.

We contribute to uplift the quality of life of people by providing financial and non-financial aid at the time of a natural disaster.

Our flagship CSR Project, CDB Pariganaka Piyasa and the CDB Sisudiri Scholarship Scheme are constructed on a platform of sustainable knowledge gain. In identifying schools in underprivileged and difficult areas in the island, we present fully equipped IT "Smart Class" with an investment of Rs. 1.5 Mn. to schools to encourage IT literacy, not only among students but among the community as well. The granting of scholarships worth of Rs. 3.1 Mn. to high achievers in Grade Five and O/Levels who are economically disadvantaged ensures continuance of their education and guarantees a qualitative contribution by these high achievers eventually to the national economy.

We provide access to safe and clean drinking and non-drinking water facilities to all our staff members and stakeholder groups we interact throughout our operational footprint. During the year we have consumed 4,635,000 liters of purified water throughout our network. We have invested in adequate infrastructure, providing sanitation facilities and encourage hygiene at every level of our operational footprint.

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OUR FUTURE PRIORITIES

STRENGTHEN FOUNDATION

We have built a strong foundation with a successful track record. In the process of achieving our long-term objectives, we will further strengthen our performance and organisation sustainability.

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.

MAXIMISE IMPACT

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

CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

We will continue to support the United Nations' Sustainable Development Goals (SDGs) and make a meaningful contribution towards building a sustainable nation.

We make certain access to safe, secure and affordable housing through our housing loan product for our customers.

"Mihikathata Adaren" is our flagship environmental sustainability project, which inculcates a sense of responsibility and affinity towards the environment. To connect people to nature, CDB initiated a green club names as G Squared (G^2) to act as green ambassadors at CDB. The club conducted a quiz competition for our staff members themed as "Green Ninja". As the first step to take urgent action to combat climate change and its impacts it is essential that people are aware of the things which happen around them. As an objectives of spreading awareness among all our staff members this quiz competition covered 100 questions under five themes of biodiversity, energy, water, climate change and waste management.

"Plant a Tree – Plant a Life" campaign is another flagship environmental project under *"Mihikathata Adaren"* concept. It is geared to inspiring the new generation to be more environmental conscious. The key objective of the project was to empower schoolchildren to conserve, repair and restore the tree coverage in their own school premises and rebuild local economies.

Over the last years we have improved the access to technology and knowledge for our stakeholders as it is an important way to share ideas and foster innovation. This interconnection has been done in terms of both internal and external entities promoting dialogue and exchanging knowledge, information and methods on everything we do.

We ensure reduce disparities in income by the adoption of sound policies to empower to promote economic inclusion of all regardless of gender, race or ethnicity. We have a sound human Resource policy, a remuneration committee in place ensuring equality among all in par with the industry standards.

Achieving business growth and sustainable development requires that we urgently reduce our carbon footprint by changing the way we consume our resources. Over the last three years we have been calculating our green house gas emission and have taken strategies to reduce the emission level of the company. The efficient management of our shared resources such as rainwater harvesting system, convert branches in to solar power, paper and e-waste recycle, convert to paperless operations are important elements have made possible in achieving this goal.

By promoting sustainable use of resources and by environmental conservation initiatives we support life below water.

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. 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 other stakeholders, and enhance shareholder value.

→ MATERIALITY

→ DEFINING MATERIALITY

We consider an aspect to be material if it substantially affects our Company's ability to create and sustain value over the short, medium and long-term. A critical evaluation process is followed in determining material aspects and the issues identified through the stakeholder engagement process. Accordingly, we assess external environmental factors, social issues and business risks and opportunities that may have a significant impact on our Company's business performance or substantively influence the assessments and decisions of our stakeholders.

→ REPORT SCOPE

The scope of the report is determined by identifying the objectives of materiality assessment. In particular we assess the internal and external issues that our stakeholders consider to be most relevant or material to our Company's ability to create value. We strive to align all aspects of our strategy with the expectations of our stakeholders because there is a strong connection between our sustainability commitment and our business strategy. In this context, materiality is assessed based on four aspects – economic, environmental, social and cultural impacts that would substantively influence the assessment and decisions of our stakeholders. Except for cultural aspects, the rest are concerns related to our external stakeholders.

→ OUR APPROACH [GRI 102-47]

We continually evaluate the dynamically changing operating environment to determine materiality. This is an ongoing process to ensure that our strategic focus areas remain relevant to changes in the environment in which we operate and the requirements of our stakeholders. Whilst certain trends require a long-term perspective, we take a broad view of the local and global operating environment when we assess our risks and opportunities.

Economic
Material Determinants
Build and nurture a sustainable organisation
Increase ease and convenience of financing
Balance the acceptable risk return appetite
Standardise service level for all stakeholders
Increase access to a variety of financial solutions
Material Drivers
Diversity of products and services offered
Increased accessibility through numerous customer touch points
Efficient and high quality IT platform
Standardise service excellence
Trust and safety
Initiate sustained growth transactions

MATERIAL MATTERS

BUSINESS ENVIRONMENT

Analysis key trends and developments in our operating environmental that could effect our Oraganisation in achieving its strategic objective

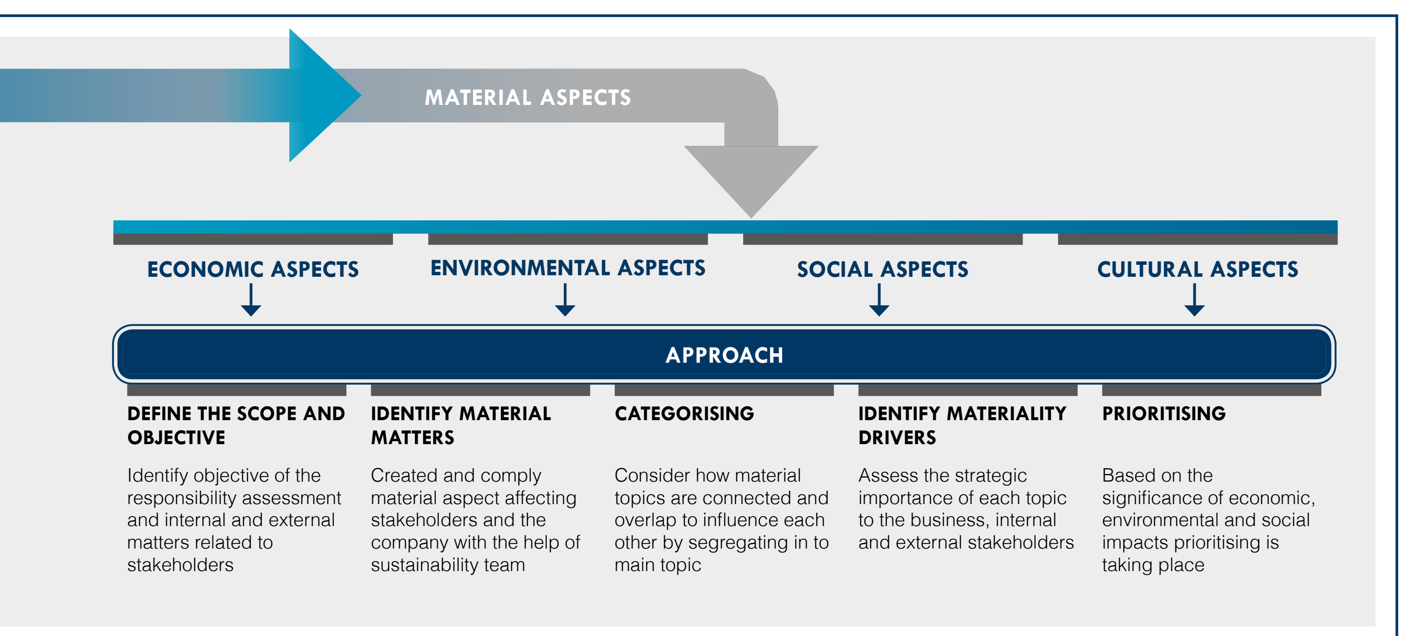
STAKEHOLDER ANALYSIS

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

RISKS AND UNCERTAINTIES

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

Social	Environmental	Cultural
Nurture an empowering environment	Inculcate a sense of responsibility and affinity towards the environment	Embed ethical transformation throughout the Company
Maintain a consistent investment strategy for community development	Infuse best green practices in each business activity and function	Encourage employee engagement
Responsible access to finance sources	Resource conservation	Practicing corporate values
Lend to advance social well-being and community development	Efficiency improvement	Consistent communication across all platforms
Be responsive to community needs and development	Compliance with environmental laws and regulations	Embed talent management
Build a performance driven culture	Zero carbon growth	Maintain high ethical standards
Develop new markets, revenue streams and customer bases	Contribute to behaviour change for a more sustainable future	Responsible lending
Contribute to strengthening social welfare	Reduce negative environmental impact	Fair treatment to all stakeholders
Enhance facilities for employee development	Employee awareness	Regulatory changes
Continuous customer education on proactive actions	Waste management practices	Building an innovative culture
Improve communication within and out of the Company	Non-renewable resources utilisation	Developing high performing and competent employees



→ PRIORITISING MATERIAL ASPECTS

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

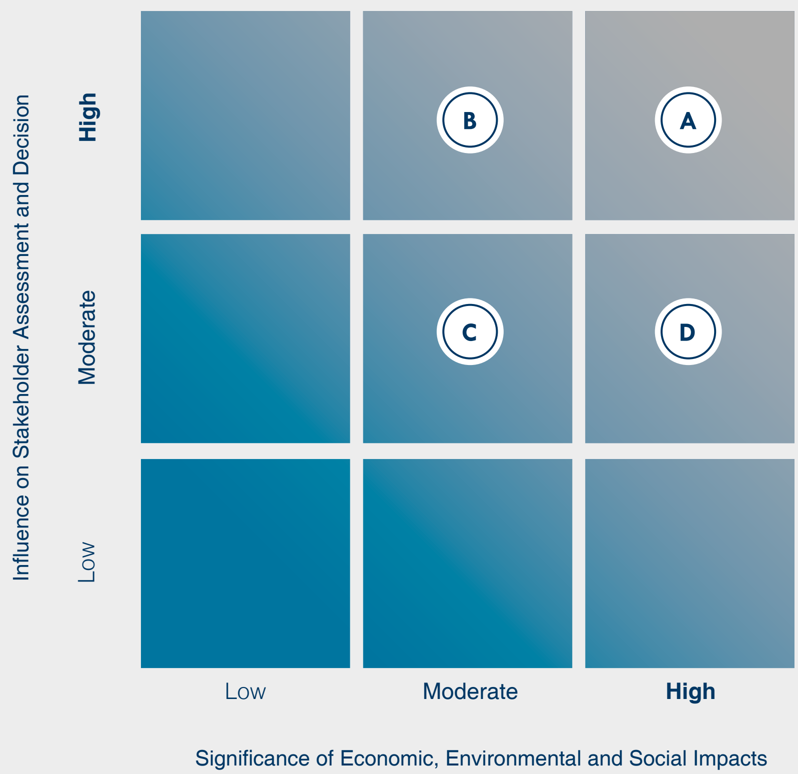
	GRI Standard/Aspect		Aspect Boundary							Materiality	
			Significance as per Sustainability Context	Internal			External				
				CDB	Employees	Customers	Community	Business Partners	Regulators	To CDB	To Stakeholders
	Economic										
H-H=A	GRI 201	Economic performance	H	▲	▲		▲	▲	▲	H	H
H-M=B	GRI 202	Market presence	M	▲	▲		▲		▲	M	H
M-M=C	GRI 203	Indirect economic impacts	M	▲			▲		▲	M	M
M-H=D	GRI 205	Anti-corruption	H	▲			▲			M	M
M-M=C	GRI 206	Anti-competitive behaviour	M	▲					▲	M	M
	Environmental										
M-M=C	GRI 302	Energy	M	▲						M	M
M-M=C	GRI 303	Water	M	▲	▲		▲			M	M
M-M=C	GRI 305	Emission	M	▲			▲		▲	M	M
M-M=C	GRI 306	Effluent and waste	M	▲						M	M
M-M=C	GRI 307	Environmental compliance	M	▲			▲		▲	M	M
M-M=C	GRI 308	Supplier environmental assessment	M	▲			▲	▲		M	M
	Social										
M-H=D	GRI 401	Employment	H	▲	▲			▲		H	M
M-M=C	GRI 402	Labour management relations	M	▲	▲					M	M
M-H=D	GRI 403	Occupational health and safety	H	▲	▲				▲	M	M
M-M=C	GRI 404	Training and education	M	▲	▲					M	M
M-M=C	GRI 405	Diversity and equal opportunity	M	▲	▲					M	M
M-M=C	GRI 406	Non-discrimination	M	▲						M	M
M-M=C	GRI 408	Child labour	M	▲						M	M
M-M=C	GRI 409	Forced or compulsory labour	M	▲						M	M
M-M=C	GRI 413	Local communities	M	▲						M	M
M-M=C	GRI 417	Marketing and labelling	M	▲		▲	▲			M	M
M-M=C	GRI 418	Customer privacy	M	▲		▲				M	M
M-M=C	GRI 419	Socio-economic compliance	M	▲					▲	M	M

H – High *M – Moderate* *L – Low* *▲ – Relevant to*

→ MATERIALITY MATRIX

The table below depicts the significant levels for each economic, environmental, social and cultural aspect from the point of our Organisation and our stakeholders. This applies the principles of stakeholder inclusiveness, in the context of sustainability, materiality and completeness and this enables to chart our course of sustainable value creation.

MATERIAL MATTERS



- A GRI 201-1, GRI 201-2, GRI 201-3, GRI 201-4
- B GRI 202-1, GRI 202-2
- C GRI 203-1, GRI 203-2, 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 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 308- 2, GRI 402-1, GRI 404-1, GRI 404-2, GRI 404-3, GRI 405-1, GRI 405-2, GRI 406-1, GRI 408-1, GRI 409-1, GRI 413-1, GRI 413-2, GRI 417-1, 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

BUSINESS REVIEW

→ DELIVERING ON OUR STRATEGY

Over the past years we have grown substantially and enhanced our capabilities to become a digitally driven, dynamic and a competitive financial solutions provider. We face the increasing competition by delivering an exceptional customer service. We do this by through stringent customer focus, accelerating our digital capabilities, transforming our operations, enhancing our innovative capabilities and through meticulous planning to deliver a superior customer experience across all our channels. Accordingly, we continued to invest in technology to provide digital solutions ranging from mobile solutions to automated services. Our aim is to be ahead of the curve and be a leader in responding to the changing needs of consumers using cutting-edge technology and efficient methods to improve operational efficiencies.

→ BREAKING THE REACH BARRIERS

The ability to accomplish our strategic objectives depends on how we react to competition and create our own competitive advantage. Having foreseen the changes in the competitive environment, we have created a set of exceptional standards in the industry. Through systematic review of our strengths and weaknesses we have been able to break barriers and create new opportunities in the market. Accordingly, we formulate business strategies focused on creating and sustaining a competitive advantage. Therefore, all our efforts are directed to delivering the best solutions to customers. Our brand is therefore in the forefront of meeting customer needs with sophisticated solutions offered with convenience.

→ RESOURCE OPTIMISATION AND REDIRECTION

Our strategic intent is to optimise resource utilisation. Therefore, in the previous financial year, we repositioned our human capital to derive optimal outcomes through better zonal representation of our employees. We introduced four new zones to our zonal structure to enhance our reach and to strengthen closer performance monitoring. Our strategies on expansion have opened up more avenues to achieve better results as well.

The synergies achieved through better resource management have resulted in achieving a sustainable bottom line performance. Our culture of professionalism, commitment to high ethics and proactive risk management has made a significant contribution to achieving a competitive edge in the market.

→ DECISION ANALYTICS AND HIGH-TECH ADVANCEMENTS

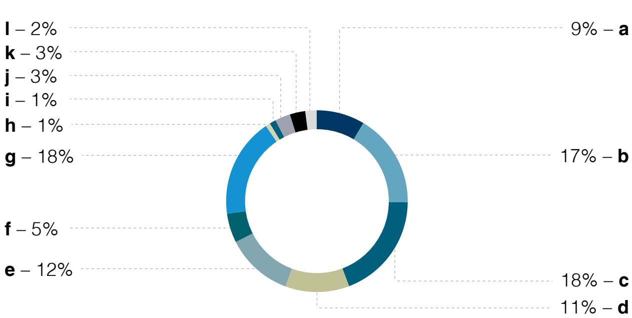
Creating value for our stakeholders has always been one of our key priority. Our organisational structure has been aligned to the business strategy focused of driving innovation. The complexity and volatility of the business environment has created further avenues to gain a competitive advantage.

→ EXPANDING GOLD LOAN PORTFOLIO AND TREASURY FUNCTION

Expansion of our gold loan portfolio enabled to achieve a 134% growth in advances which stood at Rs. 1.4 Bn. as at the end of the financial year 2017/18. By capitalising on our expanded branch network, we successfully grew the gold loan portfolio and customer base during the year. Further, through meticulous pricing and continuous follow-up, we effectively managed the price fluctuations and also maintained a healthy portfolio quality.

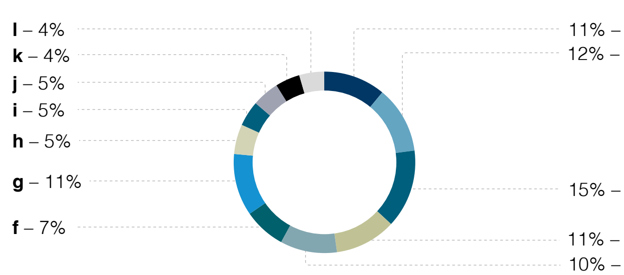
Treasury Department supports the business operations by managing the Company's assets and liabilities. It also plays a key role in managing market risk and interest rate risk and managing mismatches in assets and liabilities. By adopting prudent risk management strategies, the Treasury Department delivered commendable results during the financial year 2017/18. Accordingly, the investment portfolio stood at Rs. 7.7 Bn, accounting for 10% of total assets and generated a return of Rs. 558 Mn. The Treasury Department successfully optimised earnings whilst managing the liquidity level of our Company.

Zonal Contribution for Deposits



a – Zone 1 **b** – Zone 2 **c** – Zone 3 **d** – Zone 4 **e** – Zone 5
f – Zone 6 **g** – Zone 7 **h** – Zone 8 **i** – Zone 9 **j** – Zone 10
k – Zone 11 **l** – Zone 12

Zonal Contribution for Lending



a – Zone 1 **b** – Zone 2 **c** – Zone 3 **d** – Zone 4 **e** – Zone 5
f – Zone 6 **g** – Zone 7 **h** – Zone 8 **i** – Zone 9 **j** – Zone 10
k – Zone 11 **l** – Zone 12

→ CONTRIBUTION FROM OUR SUBSIDIARY – UNISONS CAPITAL LEASING LTD. (UCL)

There has been a significant improvement in profits of UCL compared to the previous financial year. Increased by a whopping 171% year on year to Rs. 54 Mn. in the financial year under review, recording a significant milestone. The increase in profit is attributed to growth in interest bearing assets comprising of leasing portfolio which recorded a remarkable 207% YoY growth to Rs. 1.5 Bn. UCL optimised its total operating expenses which also contributed to the increase in profit for the year under review. The implementation of effective strategies has enabled the Company to enhance its asset base. The gross non-performing loan (NPL) ratio declined to 1.76% in FY 2017/18 compared to 2.02% in FY 2016/17.

→ WAY FORWARD

Looking ahead, our aim is to optimise the opportunities of our high tech advancements, sophisticated business analytic systems and the expanded reach to provide an exceptional customer service. Despite the challenges in the external environment, our aim is to achieve sustainable growth and establish ourselves as a leading financial services institution.

→ TRANSITIONAL READINESS

Sri Lanka's financial services industry is a challenging, yet a growing sector. Non-traditional companies are a step ahead of financial institutions in offering innovative and convenient platforms to perform financial transactions. Customer expectations are evolving requiring a superior service delivered through technology. Therefore, we continued to respond to this challenge by offering new products, meeting regulatory challenges with new reporting capabilities and growing our asset base through new acquisitions.

We were geared to face not only predictable changes, but also unforeseen changes by implementing our strategic action plan. We also sharpened our focus to discover new opportunities in the face of challenges and made steady progress on our strategic delivery to achieve another stellar performance. We are well on our way to transforming into a digital platform, to deliver a flexible, seamless and speedy service.

Although, the transformation is challenging, we are compelled to make a strategic decision to reshape our business structure to be future-ready and ensure sustainable growth.

→ PREPARING FOR THE FUTURE

→ RESHAPING THE ORGANISATIONAL STRUCTURE

We are progressing toward implementing the "ecosystem thinking" by leveraging our relationships with customers and accessing client data via business intelligence platforms. Additionally, we have revamped our existing business structure with new roles, designations and responsibilities. Covering the areas such as emergent business and sales, emergent business technology and innovation and business intelligence. We have also enhanced our business infrastructure, culture and distribution network. (refer governance structure on page 124).

→ TRANSFORMATIONAL CHANGE – "THE ECOSYSTEM THINKING"

Digitalisation of business processes and the enhanced connectivity facilitates information to travel from one location to another at a faster, cheaper and improved manner. We are able to be top of the mind in our customer's mind, at the point a thought is generated in the customer's mind to make a financial transaction. This is facilitated by integrating the physical and digital environments. Our transformation strategy – "Ecosystem thinking"; connects life style ecosystem and social banking ecosystem by converging the retail financial and non-financial services with social media, mobile, analytics, and cloud technology. The ecosystem thinking is optimised when customer experience is simplified, connections are enhanced and compliance is strengthened, thus providing us a clear differentiation.

→ THE FUTURE LINK

Under the social lifestyle ecosystem, we provide the necessary information to facilitate consumers to evaluate options in real-life and make their own lifestyle decisions. The financial intermediary services are offered at the consumer's discretion. Once the consumers comes are on-board with us through our social lifestyle ecosystem and becomes our customer, the social banking ecosystem will help the customer to perform all real-life financial transaction using our social banking ecosystem.

→ SOCIAL BANKING ECOSYSTEM

Our social banking ecosystem is an interconnected set of services, enabling customers to fulfil a range of needs in a single integrated experience through digital banking. CDBiNet is the ultimate online banking experience offered to our valued customers, facilitating funds transfers to be made through social media platforms.

This is the first of its kind E-finance platform in Sri Lanka, which very simply allows any CDBiNet user who have a CDB Savings Account to transfer funds via social media platforms such as Facebook, whatsapp, viber, Imo, any email, without any bank account details of the recipient. The fund transfer via social platforms is yet another first for Sri Lanka which reflects our pioneering capability using technology, which adds to our ever expanding product and service portfolio. CDB savings account holders are eligible to use this facility. We continually strive to develop products that denote a bank-in-a-pocket concept by facilitating banking convenience anywhere anytime.

→ LIFE STYLE ECOSYSTEM

Identifying the future customer sentiments, our next digital wave is to stay connected to the smart home environment. This will pave the way for us to build a life style ecosystem across a range of industries including auto finance, communications, security and healthcare etc.

As the first phase, in our efforts to deliver affordable luxury, we launched the online vehicle trading platform "patpat.lk" in the previous financial year. Affordability and aspiration are the two key differentiators of this platform.

→ FOCUS ON THE EXPANSION DRIVE

Accessibility is key to our expansion drive. Therefore, we adapted advanced technologically driven platforms that offer hassle-free accessibility. Our physical infrastructure was increased to 71 branches during the year under review. The initial phase for setting up the life style and social banking ecosystems was laid by launching Patpat.lk platform which is one of Sri Lanka's most popular vehicle trading platforms and CDBiNet, which is an online Omni channel transactional platform with a 360 degree application for customer portfolios.

Seeing the immense potential, we have leveraged our synergies by integrating these platforms with our distribution and sales teams. Introducing a unique concept, we transformed all branch managers' cubicles into digital spaces to promote closer interaction with customers make proactive customer decisions. The customer relationship management (CRM) process is revolutionising our data analytic capabilities through adopting an aggressive approach to cross-selling and up-selling. This has stimulated the back office team to generate business. Our aim is therefore to incorporate new technologies and enhance customer trust, loyalty and our brand recognition.

MANAGEMENT DISCUSSION AND ANALYSIS

VALUE CREATION IS THE ESSENTIAL AIM OF OUR BUSINESS AND IT LINKS US AND OUR KEY STAKEHOLDER GROUPS. WE HAVE BEEN CONSISTENT IN DELIVERING BENEFITS TO OUR INVESTORS, CUSTOMERS, REGULATORS, BUSINESS PARTNERS, EMPLOYEES, SOCIETY AND ENVIRONMENT. TO ENSURE CONTINUED VALUE CREATION FOR OUR STAKEHOLDERS WE TAKE A LONG-TERM VIEW REGARDING INVESTMENTS IN INNOVATION, EMPLOYEE TRAINING, BRAND BUILDING AND CUSTOMER SERVICE THAT CREATES THE STAGE FOR US TO BE A FINANCIAL POWERHOUSE AND ACHIEVE LONG-TERM GROWTH AND PROFITABILITY.

FINANCIAL CAPITAL

TRUE PROFITABILITY TAKES INTO ACCOUNT THE WELL-BEING OF PEOPLE AND THINGS – A TRUISM THAT WE AT CDB TAKE VERY SERIOUSLY.

A business must focus on being profitable and naturally that is true of CDB as well. Even as we focus on improving our financial capital, however, we remain keenly aware of our impact on people and things.

FINANCIAL CAPITAL VALUE CREATION MODEL

INPUT

EQUITY CAPITAL OF RS. 7 BN.

CUSTOMER DEPOSITS RS. 45 BN.

CORPORATE BORROWINGS RS. 19 BN.

OTHER LIABILITIES RS. 4 BN.

RISK MANAGEMENT

LIQUIDITY MANAGEMENT

OUTPUT

COMPLIANCE

OUTPUT

- LOAN BOOK OF RS. 59.48 BN.
- LIQUIDITY FUND OF RS. 7.6 BN.
- INVESTMENT IN SUBSIDIARY RS. 509 MN.
- INVESTMENT IN PROPERTIES RS. 2 BN.

OUTCOME

- EPS of Rs. 25.80 DPS of Rs. 5.00 – (proposed)
- Payments to fund providers and other suppliers
- Rs. 1 Bn. in salaries and other benefits
- Direct and Indirect taxes to Government Rs. 804 Mn.
- Contribution to sustainability activities Rs. 28 Mn.

SLFRS – 9 "FINANCIAL INSTRUMENTS" EARLY ADOPTED

TOTAL ASSETS SURPASSED LAND MARK OF RS. 75 BN.

→ THE IMPACT OF CHALLENGING DOMESTIC MACROECONOMIC ENVIRONMENT

For the Sri Lankan economy financial year 2017/18 was a challenging year. Macroeconomic uncertainties combined with structural challenges and climatic calamities, resulted in continued lower levels of economic growth. This translated into volatility in currency, equity and debts markets during the latter part of the year. However, our businesses navigated all of these particularly well, testament to a mature Enterprise wide risk management framework. We anticipated many of these challenges in 2017 and we were prepared. We have to accept that the environment in which we operate is consistently evolving. To be both a successful and sustainable financial service provider we need to keep pace with economic, social, technological, regulatory, and industry developments.

→ KEY PERFORMANCE

Despite these challenges, during the financial year 2017/18 CDB continued to create value for all its stakeholders. Gross Income rose to Rs. 11.7 Bn. up by 37% mainly supported by fund-based activities. Net interest income (NII), the Company's main stream of revenue grew by 20% to Rs. 3.5 Bn. Profit after tax surpassed Rs. 1.4 Bn. while ROA recorded 2% and ROE stood at 21%.

Total Assets of the Company surpassed landmark of Rs. 75 Bn. as at 31 March 2018 with an unrivalled growth rate of 40%. This growth reflects the changes that have been taken place in business domain since financial year 2016/17.

The Sri Lanka non-bank financial institutions (NBFI) sector has approximately Rs. 1.2 Tn. in advances of which CDB has a 5% share. We also have a 6% share of the Rs. 687 Bn. deposit market in NBFI sector. These indicate the strength of our franchise and success of our financial intermediation.

→ SLFRS 9 "FINANCIAL INSTRUMENTS" EARLY ADOPTION

The Group has early adopted SLFRS 9 – "Financial instruments" issued in 2014 with a date of initial application of 1 April 2017. The requirements of SLFRS 9 – "Financial Instruments" represent a significant change from LKAS 39 – "Financial Instruments: Recognition and Measurement". The nature, effect and impact of the key changes to the Group Financial Statements resulting from its early adoption of SLFRS 9 – "Financial Instruments" are explained in following Notes to the Financial Statements.

1. Note 03 – Changes in Accounting Policies – page 225
2. Note 04 – Transition to SLFRS 9 – "Financial Instruments" page 228
3. Note 11 – Other Operating Income
4. Note 12 – Impairment Charges – Expected Credit Loss on Financial Assets

→ ONGOING VALUE CREATION FOR SHAREHOLDERS

Through our financial performance we demonstrate our commitment to deliver long-term value for our shareholders. Over the past five years, we increased our net assets value per share at a CAGR of 19% to Rs. 132 as of now. Our Tier 1 and Tier 1 and 2 Capital Ratios standing at 10.64% and 13.93% respectively as at 31 March 2018 are comfortably above the regulatory minimum of 5% and 10% respectively.

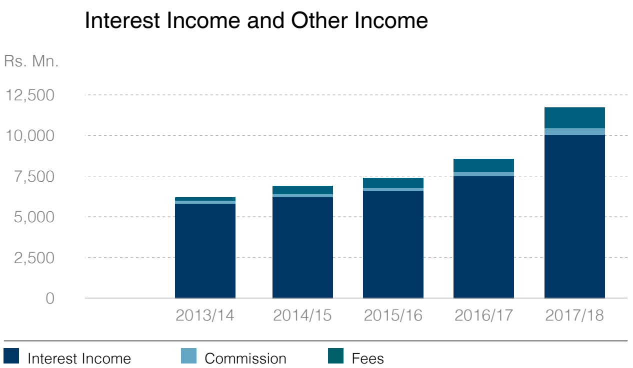
→ FINANCIAL PERFORMANCE HIGHLIGHTS

→ REVENUE

In the year under review, CDB's revenue surpassed Rs. 11.7 Bn., with a 37% growth amounting to Rs. 3.1 Bn. This was supported by a healthy growth of 33% in the fund-based interest income and 66% in the non-interest income. Strong growth achieved in the business volumes enabled this performance. Income from core business continued to be the main contributor to the revenue showcasing the focus we have on our core business activity of provision of financial services. Income from core business grew by 36% to Rs. 11 Bn. while non-core business activities reached Rs. 700 Mn. The mix of 94% to 6% between core business income and non-core business shows the focus of the core business strategy.

→ FUND-BASED OPERATIONS

→ INTEREST INCOME



Interest income which accounts for 86% of the total revenue surpassed Rs. 10 Bn. mark with a growth of 33% over the previous year. This was supported by strong growth in interest earning Asset by 40% and continued upward adjustment in interest rates. Gross yield on the advances continued to improve over the period to achieve a 205 basis point growth. Interest income from lease contracts continued to be the highest contributor showing a share more than 60% while interest income from hire purchases continued to decrease during the year under review. Share of income attributable to the core lending portfolio continued to represent 94% of the interest income while the other 6% represents interest earned on liquid assets investments.

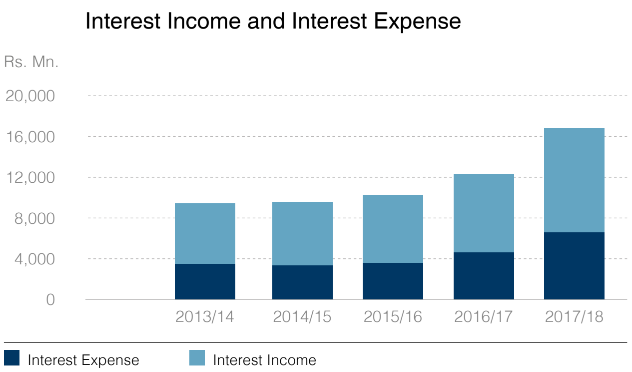
→ FEE-BASED OPERATIONS

→ NON-INTEREST INCOME

Non-interest income contributes to 14% of the total revenue. Two main contributors to non-interest income are commission income and fees collected on various product under different transactional activities. The contribution from non-interest income to revenue dominated by the commission income. Fee income has grown over last 5 years from 6.1% to 14% for 2017/18.

Non-Interest income continued to improve over the period and reached Rs. 1.6 Bn. from Rs. 1.0 Bn. a year before. This was partially contributed by the increase, in excess of 80%, in commission income supported by the strong growth in disbursements, in excess of 70%, over the period. Relative contribution of commission income to the revenue marginally increased during the year under review. Fee-based income continued to increase the contribution to the composition of non-interest revenue representing 76% of non-interest income. Company continued to introduce and improve the fee-based income sources including introduction of new products to support the growth in profitability and to reduce the reliance on fund-based income.

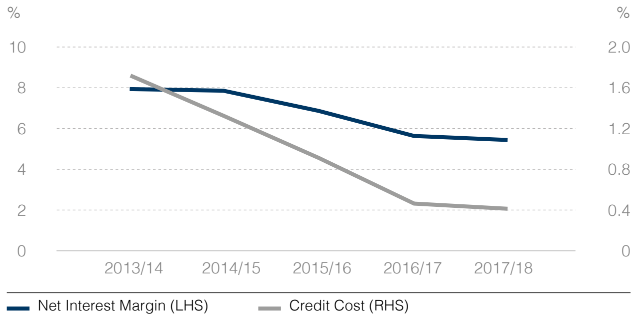
→ INTEREST EXPENSE



Interest expense grew by 42% compared to 31% growth last year. This was mainly due to the growth in the average interest-bearing liabilities to support the growth in the loan book. The maximum interest rates on deposit instruments payable by NBFI sector is governed by the interest rate direction of the CBSL and it is due to be revised two times a year. The revision took place in the mid 2017 resulted in a 144 basis point reduction. Owing to the revision of rates coupled with the maturity profile of the interest-bearing liabilities of the Company, the increasing trend in the average interest yield on interest bearing liabilities stabilised and started decreasing in the latter part of the financial year. 73% of interest attributable to customer deposits while balance 27% accounts for borrowing products. For the financial year 2017/18, interest expenses represented 66% of the interest income which was 62% for last year.

→ NET INTEREST MARGIN

Net Interest Margin – Financial Capital



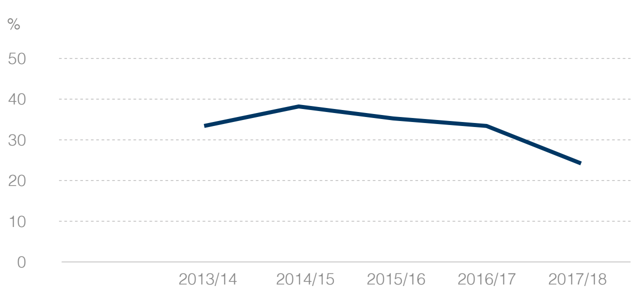
Net interest income reached Rs. 3.5 Bn. mark with a 20% growth. This was fuelled by the healthy growth achieved in the loan book over the last year. Company was able to narrow down the negative jaws in the net interest income during the year while showing monthly positive jaws at the latter part of the financial year.

Given that loans and advances are offered at fixed rates and the maturity profile of the deposit liabilities are short to medium term, the responsiveness of the interest rate fluctuations tends to have a lagging effect. However, CDB's current business model aims to achieve a right balance in the maturity mismatch of interest earning assets and interest bearing liabilities by introducing products with short-term maturity cycles such as gold loans.

Net interest margin (NIM) slightly reduced during the current financial year, partially affected by the accelerated asset growth recorded at the latter part of the financial year. In terms of Net Interests Margin, as shown in the graph, year 2017/18 shows the lowest. In one aspect the credit cost have shown a similar reduction over the period showcasing the risk return relationship. However, CDB is focus on rationalising its pricing decision at product level and to bring about the right mix of products in both lending and funding within our risk appetite to improve the net interest margin. With that strategy in place, Company continued to improve its gross margin over the period and reached nearly 7% by the last quarter of 2017/18. CDB's mindful of having the right composition of assets between earning and non-earning and to improve the asset utilisation efficiency.

→ OPERATING EXPENSES

Overheads to Revenue



Operating expenses increased by 23% mainly due to increase in staff cost, expenses related to digitalisation of the business and marketing related expenses. However, the total operating income increased in excess of the increase in operating expenses, signalling an improvement in efficiency of the Company in utilising its resources.

This is evident by the reduction in the overheads to revenue ratio which reduced by a significant 200 basis points within a year. We continuously improve on the efficiency level of generating revenue through incurring of overheads. A new and improved processes were introduced as part of the overall digital strategy which enabled us to increase the efficiency level by removing duplication of work etc.

The impact of the investments made on improving the infrastructure of the Company and cost incurred on staff development are expected to continue to improve the generation of revenue and improve the efficiency level of the Company. The cost to income ratio continued to reduce to 55% from 58% a year ago.

→ IMPAIRMENT CHARGES AND OTHER CREDIT LOSSES

Impairment charge for the year increased by 63% over the period partially owning to the early adoption of SLFRS 9 by the Company and also as a result of the increase in the portfolio of the Company. The deficit on disposal of repossessed contracts continued to reduce due to the continued improvements made in the credit evaluation and recovery follow-up processes. The gross Impairment charge attributable to the portfolio has increased by 3 folds. Analysis of impairment charge on loans and receivables to customers is given in Note 12.

→ TAXATION

The Company's Profit before Value Added Tax and Nation Building Tax on Financial Services and Taxation amounted to Rs. 1,960 Mn. (compared to Rs. 1,397 Mn. in 2017). After deducting Rs. 558 Mn. (compared to Rs. 390 Mn. in 2017) for taxation, the profit after tax for the year amounted to Rs. 1,401 Mn. (compared to Rs. 1,006 Mn. in 2017).

VAT on financial services for the year of assessment 2017/18 is Rs. 210 Mn. (2016/2017 was Rs. 130 Mn). This is an increase of 62% compared to the last year. This is mainly due to the volume increment in financial services such as leases and loan and advances.

Total tax actually paid by our financial operations amounted to Rs. 804 Mn. (2017 – Rs. 654 Mn.).

→ PROFITABILITY

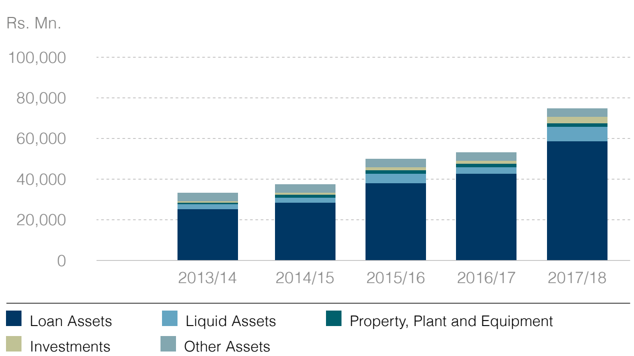
Profit for the year stood at Rs. 1.4 Bn. during the year under review. This is a 39% growth compared to last year. We have achieved this result under very tough economic conditions including natural disasters, changes to LTV rule, imposition of new duty structure for importation of vehicles. Despite accelerated growth in assets experienced in the latter part of the financial year the return on assets (ROA) improved to 2.2% from 1.9% a year ago. Return on equity also improved to 20.9% from 17.8% a year ago. The achievement of significant growth in the profitability in turbulent times provides testimony to the strength of the strategy adopted CDB.

→ INCOME AND PROFITABILITY

	2018	2017
Gross revenue	11,785	8,591
Net interest income	3,454	2,888
Profit after tax	1,401	1,006
Net interest margin (%)	5.3	5.5
Cost to income ratio (%)	55	58

→ ASSETS AND LENDING PORTFOLIO

Asset Composition



Total Assets of the Company surpassed Rs. 75 Bn. mark with a growth of 40% in 2017/18. This growth is a significant achievement given the growth rates of the sector being 11.8% only. It is noteworthy that the 90% of the increase in total assets was achieved through the increase in interest earning assets which in turn helped improve the net interest Income of the Company. Composition between income generating assets to non-income generating assets remained unchanged at a robust level of 92% to 8%, showing the Company's concentration on its core business activity.

Investments in liquid assets represent 12% of the balance sheet from 10% year ago. Liquid Assets maintained as part of CDBs liquidity risk management process which enabled compliance to the liquidity requirement in excess of the limit set by the Central Bank of Sri Lanka.

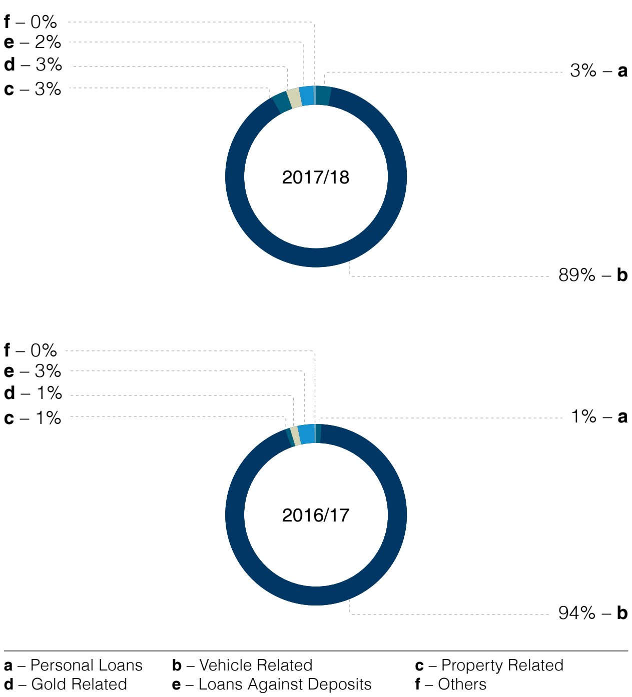
Investments in property, plant and equipment and other assets have reduced slightly to 6% as part of CDB's strategy to keep non-income earning assets at the lowest possible levels to improve the net interest income.

→ LOAN BOOK

We entered the financial year on a negative note on credit growth created through the stringent LTV ratio rule and the imposition of new tax structure on vehicles importation in addition to the very sluggish economic fundamentals. When Company entered the second quarter of the financial year, the negative impacts had warded off to a greater extent and the market had bounced back to a near normal condition. At the latter part of the financial year, LTV ratio on Hybrid and Electric vehicles was relaxed giving breathing space to the vehicle market.

Our loan book surpassed Rs. 60 Bn. mark with a 38% growth rate passing another milestone of CDBs history. The growth in absolute terms surpassed Rs. 16 Bn. mark for 2017/18. The achievement was supported by multifaceted delivery channels achieving a 76% growth in terms of business generation. Loan book continued to dominate by the lending secured by assets owing to the risk appetite of the Company.

Loan Book



Lending portfolio continued to dominate by the vehicle financing with a significant improvement in terms of diversification into non-vehicle categories of the business. Non-auto financing segment grew significantly with a growth rate of 240% during the year under review.

Key diversification products such as property financing, personal loans and gold related lending showed a steady progress during the year reaching a Rs. 5 Bn. portfolio at the year end. Those key segments contributed 7.8% of the total portfolio while vehicle financing accounted for almost 87.9% of the portfolio. As a part of the strategy to create a healthy portfolio, CDB continued to keep the focus of creating loan assets with monthly cash flows with the intention of improving the customer engagement with the facility focusing on the credit quality and with the aim to create a liquid loan book with regular cash flow generation.

→ NON-PERFORMING LOANS

NPL ratio remained unchanged during the year under review around 3% while the absolute value of the NPL increased by Rs. 500 Mn. This was mainly due to the increase in the NPL of Tractor financing which was badly affected by the bad weather condition that prevailed in the North East part of the country. The net NPL ratio stood at 0.89% with a provision coverage in excess of 70%.

CDB continued to focus on reducing the non-performing ratio on an ongoing basis. Loan book which is the single largest asset portfolio in the balance sheet accounts for 80% of the total assets. The combined effort of credit origination team and the recovery follow-up team has paid off by keeping the NPL ratio unchanged despite significant and continued increase experienced by the sector.

We have strengthened our recovery strategy and follow up, by establishing new recovery zones enabling closer monitoring.

→ SHAREHOLDERS' FUNDS

Shareholders' funds at the end of the year increased by 15% and stood at Rs. 7.1 Bn. This accounted for about 9% of the total assets of the Company. Net Asset value as at the year end stood at Rs. 132. During year, the Company transferred Rs. 280 Mn. from retained earnings to Statutory Reserve Fund as per CBSL direction No. 1 of 2003 Central Bank of Sri Lanka (Capital Funds) value addition to shareholders are define under Stakeholder section of this report.

→ CAPITAL ADEQUACY

The Company maintained capital adequacy ratio, with a core capital ratio of 10.64% (2016/17 – 12.32%) and a total capital ratio of 13.93% (2016/17 – 14.12%) whereas minimum requirement for core capital adequacy ratio and total capital adequacy ratio are 5% and 10% respectively. The Company issued Rs. 2 Bn. worth debentures during the year under review to strengthen the Total capital. Information related to capital adequacy have been disclosed under Note No. 51.

→ LIQUIDITY

CDB Maintain an internal liquidity ratio agreed at the ALCO which in turn help to comfortably achieve the minimum requirements set by CBSL. Maintaining an excessive level of liquid assets comes with a negative impact to the profitability as the liquidity qualifying assets classes yields relatively lower return. CDB takes a holistic view in managing liquid assets with a right mix of assets categories and tenor mix to optimise both liquidity and the profitability of the Company.

Some of the key indicators related to financial position, shareholder value and compliance are as follows:

ASSETS COMPOSITION AND EFFICIENCY

	2018 Rs.	2017 Rs.
Total assets	75,502	53,934
Loans and receivables	59,438	43,189
Customer deposits	44,710	32,602
Interest earning assets to interest bearing liabilities (%)	106.1	104.7
Gross non-performing loans (%)	3.07	3.08
Net non-performing loans (%)	0.89	1.05
Shareholder Value		
Total equity	7,152	6,241
Return on equity (%)	20.92	17.83
Net Asset Value per share (Rs.)	131.71	114.93
Market Capitalisation	4,523	3,357
Earnings per share (Rs.)	25.80	18.53
Price to earnings (Times)	3.29	3.46
Dividend per share (Rs.)	5.00	3.50
Dividend yield – Voting (%)	5.89	5.45
Dividend pay-out – Voting (%)	19.38	18.89
Statutory Compliance		
Tier 1 (%)	10.64	12.32
Tier 2 (%)	13.93	14.12
Statutory liquidity ratio	14.37	13.03

→ ECONOMIC VALUE ADDED [GRI 201-1]

Economic value added aim to provide a value creation and distribution analysis of the Company among its key stakeholders. As per below table, we have increased the generation of value added by 30% year on year which was distributed among the stakeholders and retained a healthy 26% for future growth of the Company. Retention has increased by 67% year on year basis allowing the Company to exponentially grow its value addition.

	2018 Rs.	2017 Rs.	%
Net interest income earned by providing financial services	3,454,321,060	2,887,698,338	
Cost of services	2,018,191,135	1,558,355,823	
	1,436,129,924	1,329,342,515	
Non-financial income	1,667,713,184	1,004,038,251	
Provision for bad debts	369,872,037	226,270,633	
Value added	2,733,971,071	2,107,110,133	30
Distribution of value added			
To employees			
Salaries, wages and other benefits	1,047,153,977	879,609,007	19
To providers of capital			
Dividend paid/proposed	271,526,035	190,068,224	0
To Government			
Value added tax on financial services, NBT and crop insurance Levy	272,696,079	169,916,213	
Income Tax	285,629,160	220,986,176	
	558,325,239	390,902,389	43
To expansion and growth			
Retained as reserves	620,426,841	435,228,620	67
Retained as depreciation	236,538,979	211,301,893	0
	2,733,971,071	2,107,110,133	

→ DEPOSITS AND BORROWINGS

Deposits continued to be the single most significant source of funds to CDB with the total deposit base reaching Rs. 45 Bn. Portfolio grew by an impressive rate of 37% over the past 12 months period. Company reduced its concentration on retail deposits during the year under review by increasing the contribution of term deposit portfolio by corporates to 15% from 7% a year ago.

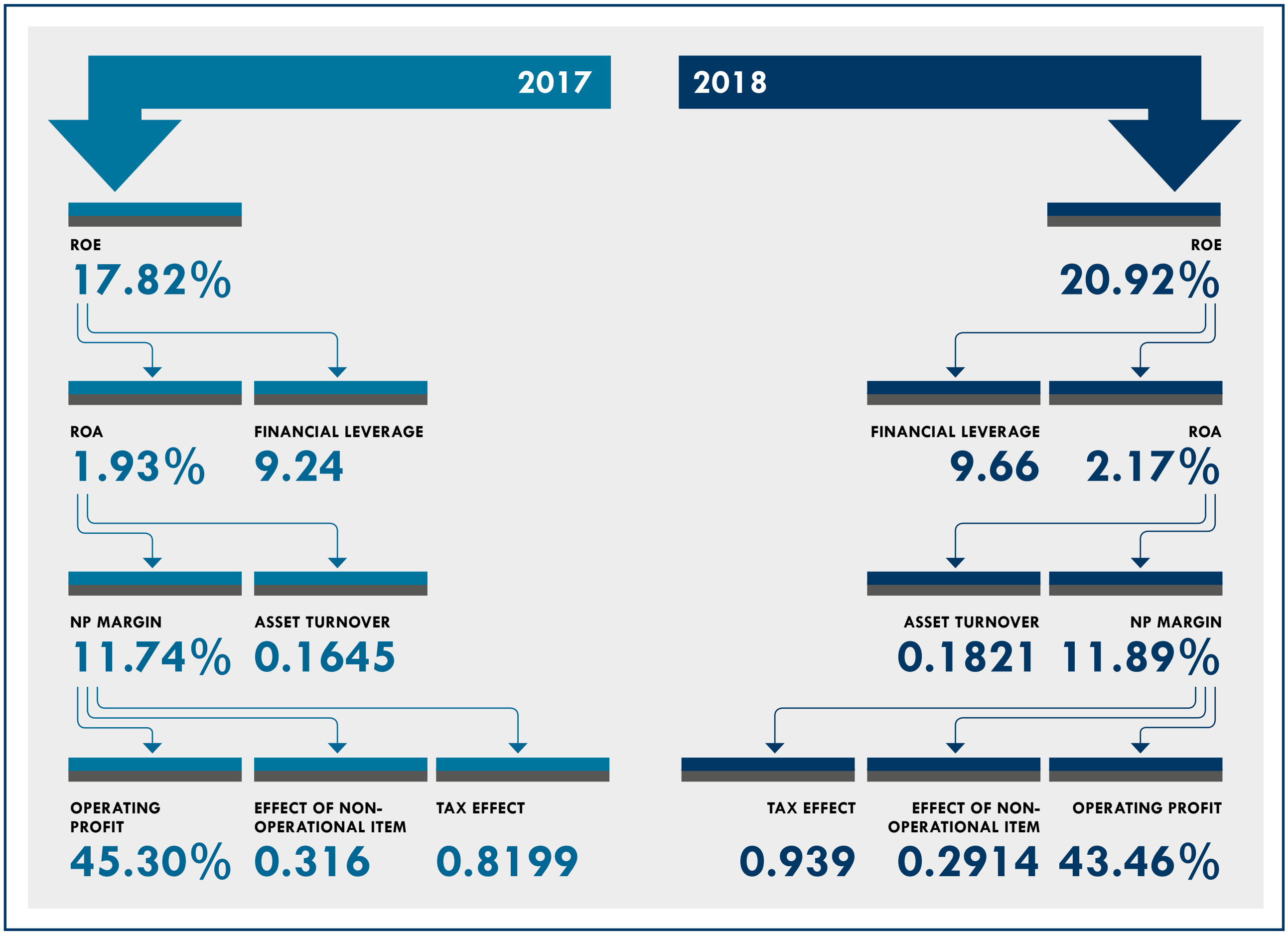
CDB continued its strategy in creating liability products with a higher maturity period and aiming to reduce the maturity mismatch that exists. Term deposits maturing in less than 12 months reduced to 49% from 55% a year ago. This strategy enabled the Company to manage the repricing risk of liability products internally against fixed rated longer tenure loans and advances granted by the Company.

CDB's savings portfolio continued to improve and reached Rs. 2 Bn. milestone with a 27% increase over the period. The borrowings portfolio increased by 47% along with fund raising through the issue of a new debenture. Composition between deposits and borrowings remained at 70:30 level showing the optimum mix of deposits and borrowings without sacrificing on the cost of funds etc.

→ DU PONT ANALYSIS

Du Pont Analysis is a statistical analytical tool which enables entities to have an in-depth understanding on the Company. This analysis focusses on providing a holistic view on the affairs of the Company with the objective of maximising the wealth of the shareholders. It focusses mainly on maximising the return of equity of the Company by simulating other related variables.

The three main pillars of the formula is to capture the funding structure of the Company via leverage, ability to generate revenue using assets of the Company and the related net profit margins. These three dimensions cover the core business of any entity.



ROA of CDB improved marginally over the last year despite having a downward adjustment in the operating margin, mainly supported by the effect of non-operational items and the reduction in taxation. Asset turnover also improved positively showcasing Company's ability and capacity to generate revenue efficiently using assets. Leverage represents the participation of equity holders in the overall funding mix. Equity multiplier increased marginally, stimulating the ROE. CDB's intention is to parallelly stimulate the non-profit margin giving special attention to operating profit margin and to maintain the equity multiplier around 8-9 times level to manage the risk of over leverage.

→ REVIEW OF QUARTERLY FINANCIAL STATEMENTS

Due to the economic uncertainties that prevailed at the beginning of the financial year, first quarter results showed a lower level of growth with 4.5% asset increase and a negative growth in terms of profit at a rate of (3%). This was due to the pressure on net interest income as a result of upward movement in interest rates and due to increase of overheads.

Second quarter showed a comparatively positive sign in terms of both asset creation and profitability where both indicators increased by 16% on a cumulative basis. This achievement was supported by the upward trend in the net interest income, improvement in other income generation and management of credit cost due to continuous improvement in credit quality. Improvement in the financial position was mainly fuelled by the loan book growth, funded by customer deposits keeping the corporate borrowing undrawn to keep the cost of funds at a lower level.

Third and fourth quarters were the most significant quarters for CDB with the highest level achievement both in terms of assets generation and profitability over its peer companies. Profit attributable to third quarter alone grew by as much as 80% purely supported by the key fundamental items such as net interest income and fee and commission income.

Final quarter was the spectacular quarters for CDB with a cumulative growth of the total assets reaching 40% while the growth in the net profit after tax reaching 38%. This ranked as the best performance among the peers. The marginal upturn in NPL ratio was also managed with a focussed approach on managing post disbursement follow-up action. Loan book and deposit base grew by 38% and 37% respectively and we successfully issued a listed debenture targeting to strengthen the Tier 2 capital at the later part of the fourth quarter.

→ CREDIT RATIOS

During the financial year, credit ratings of CDB were upgraded by the ICRA Lanka Limited from [SL]BBB (pronounced SL triple B) to [SL]BBB+ (pronounced SL triple B plus).

	2017/18	2016/17	2015/16	2014/15	2013/14
	(SL)BBB+	(SL)BBB	(SL)BBB	(SL)BBB	BBB/P2

→ LOOKING FORWARD

The global growth outlook being positive and with expectation of increasing it to 3.9% supported by favourable market sentiments and accommodative financial conditions. Advanced economies expected to grow around 2.5% which will stimulate the emerging economies notable the Asia to grow at higher pace.

Inland economic conditions expected to be brighter in the medium-term with the Government's vision become the knowledge hub of Indian Ocean. Revenue based fiscal consolidation adopted by the Government expected to continue in the medium-term. Given the growth objectives of the economy it is essential to promote a dynamic and robust financial sector to lower vulnerabilities in the financial system is a key priority.

Government foreign debt repayment due for next year expected to have an impact on the interest rates of the economy given the size of the repayment and the market driven exchange rate policy of the Government said to have volatility of the rates would be of major concern. However, Government is expecting a gradual recovery in the external sector with appropriate policy measures are being taken in the external front foreign direct investments expected to flow to the country. Therefore, Sri Lanka economy remains more vulnerable to global factors 2018 given the global focus on monetary policy normalisation and its impact on investor sentiment towards an emerging market like Sri Lanka.
In general, economic prospects of the country is expected to improve providing a favourable plat form for business.

In the face of fast growing competition from banks and peer companies we have relentless focus on three major priorities of being client centric, digitally enabled total financial services provider. Our commitment towards creating value for our stakeholders have receive recognition and endorsement throughout our journey of 22 years.

We will continue to excel in our financial performance with strong focus on improving NIM to a healthy level within out risk appetite and to manage the cost of credit and cost efficiency with a right mix of product offering based on digitally driven business model to deliver a robust level of Return to our shareholders.

MANUFACTURED AND INTELLECTUAL CAPITAL

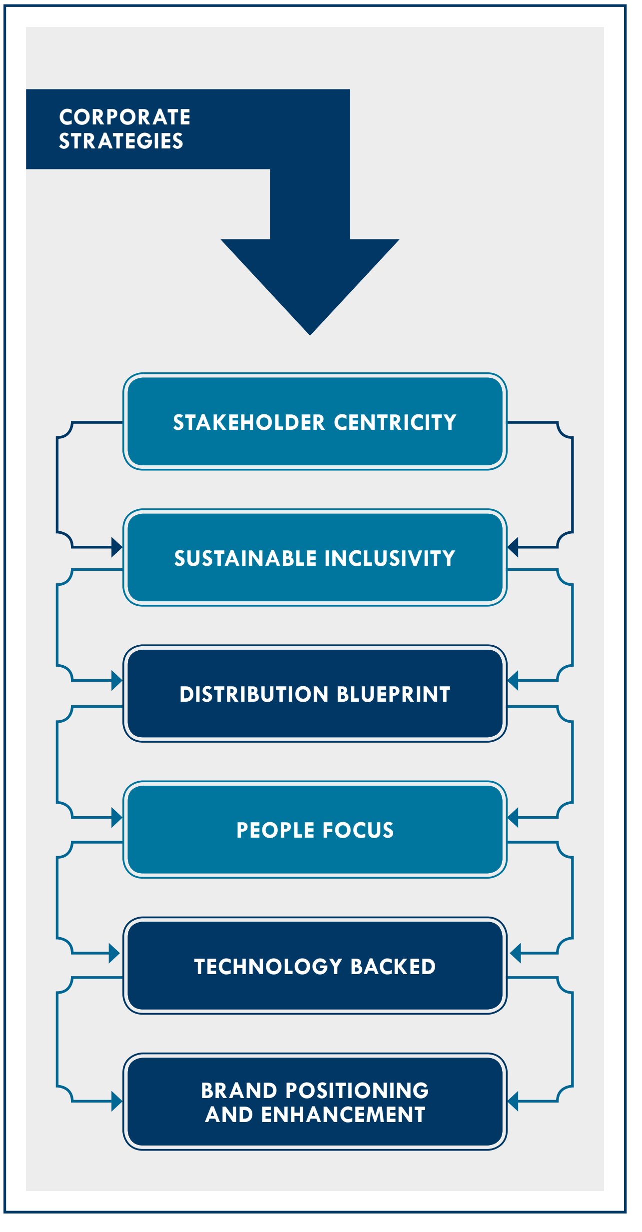
IT IS TRUE THAT PEOPLE MAKE THINGS HAPPEN, BUT IT IS THE QUALITY OF THOSE “THINGS” – BOTH TANGIBLE AND INTANGIBLE – THAT HAVE A PROFOUND IMPACT ON OUTCOMES.

At CDB, we make it a priority to ensure that our Manufactured and Intellectual Capital is on par with the top trends in the industry. This ensures that our stakeholders can enjoy the best of things as they continue to place their trust in us.

MANUFACTURED AND INTELLECTUAL CAPITAL STRENGTHENING SUSTAINABILITY

Manufactured capital is the investment on material goods and infrastructure of the organisation that contribute directly to provision of services. We identify manufactured capital as an important element for the sustainable development of our organisation. Through the efficient use of our manufactured capital, we are able to be responsive to market needs, be innovative and access our markets speedily.

Our investments in technology help to reduce inefficient usage of resources and extend an exemplary customer service that leads to increased customer satisfaction. Intellectual capital which is one of our key value drivers has made an immense contribution to the growth of our organisation over the years and enabled us to become one of the largest NBFIs in our nation.



MANUFACTURED AND INTELLECTUAL VALUE CREATION MODEL

INPUT

- PHYSICAL TOUCH POINTS
- VIRTUAL TOUCH POINTS
- STRATEGIC PARTNERSHIPS
- PRODUCT AND SERVICES INNOVATIONS
- PROCESS DEVELOPMENT
- BRAND FOCUS

ECOSYSTEM THINKING

OUTPUT

- PHYSICAL TOUCHPOINTS EXPAND TO 71 LOCATIONS
- 900,000+ ONETIME USERS PER ANNUM FOR PATPAT.LK
- FACILITATE PAYMENTS AND TRANSACTIONS VIA SOCIAL MEDIA PLATFORMS
- 90% ACHIEVEMENT FOR THE SET SLA ON PROCESSING TIME
- RS. 475 MN. COLLECTION VIA POINT OF SALES MACHINES
- “A” BRAND RATING WITH RS. 1,047 MN. BRAND VALUE

OUTCOME

- Enhanced service delivery through streaming business processes and effective system processes
- Enhanced capability of product innovation, creativity and customer centricity
- Convenience and connectivity
- Improved the quality of governance mechanism and risk mitigation framework
- Enhanced client experiences by changing outlook of physical sales points
- Exciting customers by new digital innovation

ENABLING FUND TRANSFER FACILITIES VIA SOCIAL MEDIA PLATFORMS

LAUNCH OF CDBINET MOBILE APP

→ INFRASTRUCTURE DEVELOPMENT

Manufactured capital is the stock of material goods and infrastructure owned, leased or controlled by the organisation that contribute directly to the provision of services. Aligned to the transformational change of our Company, we have strategised to strengthen our physical and digital reach, underpinned by our strategic pillars of sharpening business focus and enhancing customer experience.

We have categorised our manufactured and intellectual capitals into physical infrastructure which is tangible and virtual infrastructure which is intangible. The efficient use of these capitals enables us to be proactive and be future-ready through innovation and enhanced efficiency. We always strive to deliver an outstanding customer experience. Through the efficient use of our manufactured capital we deliver greater convenience to our customers and meet their evolving needs. This section details the manner in which we deploy our manufactured capital to deliver operational excellence and achieve sustainable growth.

Intellectual capital is one of our key drivers of growth which has enabled us to become a one of the largest financial institutions in Sri Lanka with a strong brand reputation.

Key Performance Indicators	2017/18	2016/17	2015/16	2014/15
Number of branches opened	2	0	7	3
Number of branches relocated	0	2	1	6
Investment in property, plant and equipment	352	522	108	320

→ PHYSICAL INFRASTRUCTURE

→ EXPANSION DRIVE

Our fast growing customer touch points including physical and digital platforms provide convenient access to customers. During the year under review, our physical touch points which includes our branch network was augmented to 71 outlets. At the same time we actively expanded our digital platform as well to offer greater convenience to customers. Integrating both the physical and digital platforms with our distribution and sales teams we realised optimal synergies. We also transformed all branch managers' cubicles into digital selling stations to create closer customer interaction leading to proactive customer decision-making.

CUSTOMER REACH

35 WESTERN PROVINCE

Aluthgama
Avissawella
Battaramulla
Boralesgamuwa
Dehiwala
Ela Kanda
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
Wellawatta

5 CENTRAL PROVINCE

Dambulla
Kandy
Katugastota
Matale
Nuwaraeliya

4 SOUTHERN PROVINCE

Ambalangoda
Galle
Matara
Tissamaharama

7 SABARAGAMUWA PROVINCE

Eheliyagoda
Embilipitiya
Kegalle
Kuruvita
Pelmadulla
Ratnapura
Warakapola

10 NORTH WESTERN PROVINCE

Chilaw
Giriulla
Kuliyapitiya
Kurunegala
Marawila
Mawathagama
Narammala
Nikaweratiya
Wariyapola
Wennappuwa

3 EASTERN PROVINCE

Ampara
Batticaloa
Trincomalee

2 NORTH CENTRAL PROVINCE

Anuradhapura
Kaduruwela

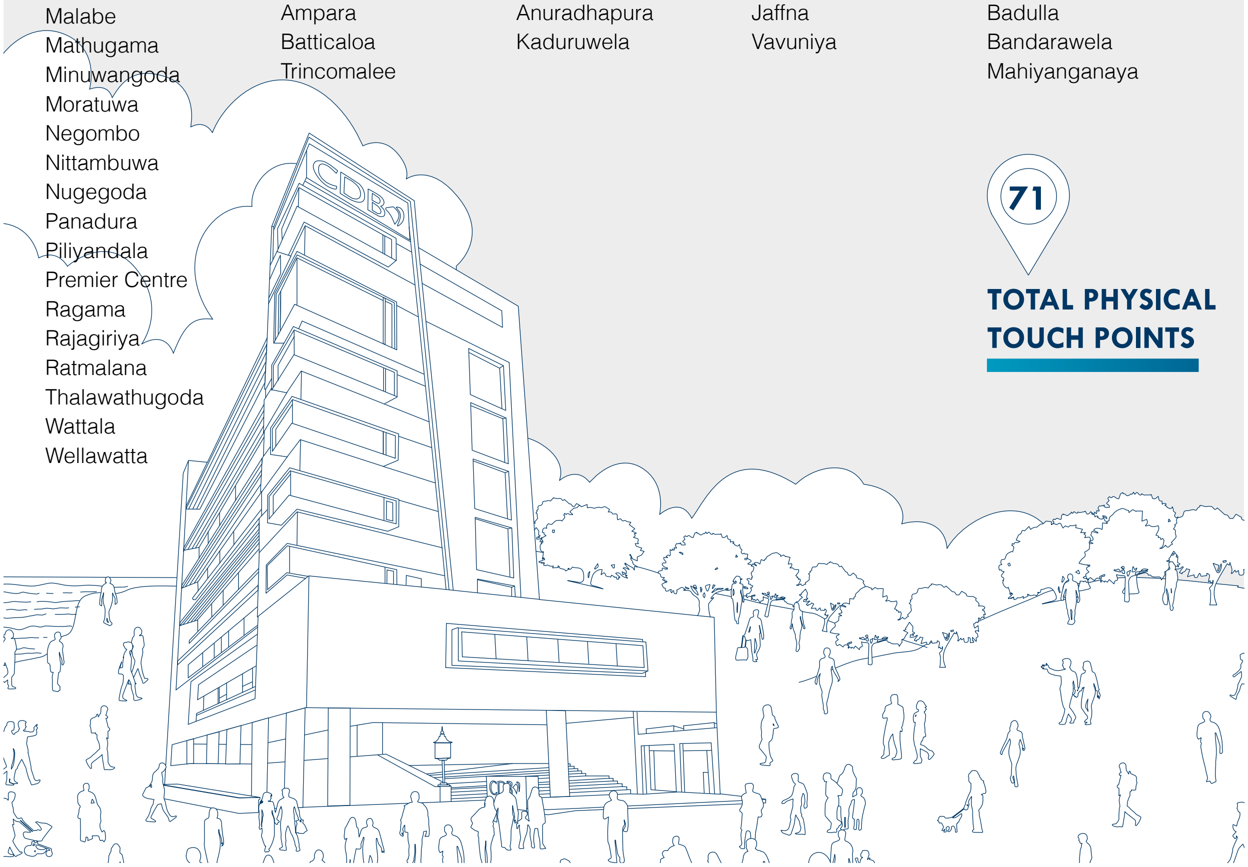
2 NORTHERN PROVINCE

Jaffna
Vavuniya

3 UVA PROVINCE

Badulla
Bandarawela
Mahiyanganaya

71 TOTAL PHYSICAL TOUCH POINTS



→ STATE-OF-THE-ART INTERIOR AND EXTERIOR

We continually strive to create a great ambiance in our branches, and strengthen our brand identity through the exterior of the branches. In order to extend our customers a consistent service of the highest quality, we standardised the interior and exterior of all our branches. Additionally, two new branches were added to our network during the year increasing the total to 71 as at the end of 2017/18.

→ POINT OF SALES (POS)

Service enhancement has been one of the key drivers of delivering a superior customer experience. In this context, point-of-sale (POS) machines were distributed to 70 branches. As a result, our total collection increased to Rs. 745 Mn. in 2017/18.

→ RENEWABLE ENERGY [GRI 302-5]

We have enhanced our renewable power generation capacity and are reaping the results of converting our Head Office, Mahara branch and Mahara vehicle sales unit to solar energy two years ago, under our "green" drive. We have thus contributed to environmental sustainability through this initiative.

→ TRANSPORTATION FACILITIES

To maintain cost efficiency, we use a combination of owned and rented vehicles for our transportation requirements. Therefore, in addition to using our company-owned mobile units, we use the services of a third party to rent vehicles monthly, on a fixed rate per kilometre.

→ IT INFRASTRUCTURE UPGRADE

Upgrading our IT infrastructure regularly is an important priority for us. This is because we believe that technology plays a vital role in service enhancement. Refreshing our technological infrastructure provides us flexibility, speed, enhanced connectivity which leads to securing new business initiatives and processes. It also enables us to keep pace with the changing market conditions. To optimise our IT platform and realise cost efficiencies, we enhanced our IT investment by Rs. 114 Mn. in the years under review, by evaluating our present IT infrastructure.

INTELLECTUAL CAPITAL VISION

Our Intellectual Capital Vision is to create a digitalised business and operational platform to service the dynamic needs of customers and to maximise customer engagement through digital technologies

INTELLECTUAL CAPITAL STRATEGY

Our Intellectual Capital Strategy is to support business transformation through our pillars of People, Processes and Technology.

COMMITMENT TO INTELLECTUAL CAPITAL

We are committed to investing in new technologies and business innovations which will enhance customer service and engagement.

INTELLECTUAL CAPITAL VALUES

- Capability
- Integrity
- Confidentiality
- Customer Service and Engagement
- Continuity

INTELLECTUAL CAPITAL POLICY

The Intellectual Capital Policy is a part of the information security policy which is built based on the Baseline Security Standard Guidelines issued by the Central Bank of Sri Lanka and the ISO 27001 Standard.

→ INTELLECTUAL CAPITAL

We encounter new opportunities and new challenges everyday which impacts our business operations. Digital revolution is a key challenge which has brought immense advantages by empowering people and providing immense options and information. Therefore, we have adapted cutting-edge technology into our business model to deliver increased value to our stakeholders. Accordingly, we provide great customer convenience and achieved increased productivity. We do this whilst safeguarding customer data and securing our systems against cyber threats.

Our intellectual capital includes all intangible assets that contribute to creating increased value of our Organisation. This not only provides us a competitive edge, but enables us to be future ready and meet stakeholder requirements effectively.

"Ecosystem thinking" has stimulated technological innovation, paving the way to offer an exceptional customer experience.

CDB ecosystem thinking is linked to our business strategy which connects financial services into everyday life scenarios. Accordingly, we have two levels in the ecosystem – "Social Lifestyle Ecosystem" and the "Social Banking Ecosystem".

Social lifestyle ecosystem facilitates consumers to evaluate real-life options and make lifestyle decisions. Once the consumers come on-board with us, we enable the customer to conduct all the financial transaction through our social lifestyle ecosystem. The financial intermediary services are offered on the discretion of the consumer.

→ VIRTUAL INFRASTRUCTURE

→ LIFE STYLE ECOSYSTEM – PATPAT.LK

"Patpat.lk" is an online vehicle trading platform which enables customers to buy, sell and lease or finance any vehicle at their convenience. Facilitating affordability and aspiration as the two key differentiates, we provide extensive options and increased value to customers through this platform.

983,128
One time users per annum (Nos.)

53,763,995
Page views per annum (Nos.)

9 Minutes
Average Session Duration

32%
Success rate of new visitors

4.51
Number of sessions per user

68%
Success rate of returning visitors

A few years ago, we took a strategic decision to invest in latest technology to achieve a competitive edge in the market. Accordingly, we automated our data processing function to realise increased efficiency and enhance convenience. Given below are the operational enablers which helped to make our ecosystem journey a reality.

→ SMARTOPS

With a view of facilitating faster and smoother business operations of the highest quality, our IT research and development team built this in-house ERP system. SmartOps connects all the departments of our network on a real time basis enabling the delivery of a seamless, speedy and smooth service to customers on a digital platform.

SmartOps

SMARTOPS STATISTICS

42,820 per annum
Number of disbursements made through kiosk service

173,927
Number of service requests solved

847
Number of delivery orders issued

1,047
Number of balance confirmations issued

288,905
Number of files couriered

→ CENTRALISED DATA PROCESS UNIT (CDPU)

A Central Data Processing Unit was established with a dedicated project team to deliver improved operational efficiencies, reduce overhead costs, offer a speedy customer service and achieve paperless data processing. The branch level marketing officers first scans and uploads the credit file through ERP-KIOSK system to CDP Unit, which commences the communication process via the corporate email system.

CDPU makes use of high speed scanning machines and IT equipment and the Unit was strengthened by recruiting ten out sourced staff members. Two additional staff members were transferred to the CDPU from the Documents Archiving and Scanning Unit. This has facilitated efficient processing and archiving of documents with the implementation of this high efficient mechanism it has enable to meet the file processing time service level agreement of two hours by 90%.

→ ORACLE BI

Oracle Business Intelligence at CDB is a comprehensive business intelligence platform which can perform numerous tasks including ad hoc queries, notifications and alerts, enterprise and financial reporting, scorecard and strategy management, business process innovation, search and collaboration, integrated systems management and 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 generating user-friendly reports to enable effective analysis.

→ "CUSTOMER CONNECT" – CUSTOMER RELATIONSHIP MANAGEMENT (CRM) SYSTEM

Customer Connect CRM system compiles customer data across different customer touchpoints such as our corporate website, telephone, marketing material and social media. It also provides valuable information regarding the customers to our client-service staff to offer an effective service through customer profiling. The customer information includes customers' personal information, purchase history, buying preferences and concerns which help to prioritise customers on a real-time basis.

→ CORE BANKING SYSTEMS

In order to obtain a competitive edge in the market, we migrated to a core banking system, which is an IT software application, especially designed for banking institutions. This migration brought in many tangible benefits to our Organisation such as increased convenience and efficiency. We are one of the first financial institutions in the NBFI sector to implement a core banking system and we implement this in our subsidiary as well, making it the first specialised leasing company in Sri Lanka to implement the core banking system. This implementation has enabled to realise great synergies for our Group.

→ CUSTOMER CARE CENTRE

We believe that good customer service enables to maintain a high level of customer retention. Therefore, we operate a 24x7 Call Centre which provides a trilingual service using advanced technology. Competent customer service agents are employed who are thoroughly trained on customer service aspects.

→ CREDIT CARD

Impulse buying has become prominent customer behaviour in the present times. Credit cards have proved to be an effective financial solution to meet the complex needs and wants of individuals. We intend to launch the CDB credit cards with attractive value additions to make our unique selling proposition helping to differentiate our brand and build a loyal customer base.

→ CORPORATE BRAND

The name "CDB" has been able to deliver the consistent message of "quality and trust" to all our stakeholders. This perception of "quality and trust" in a financial perspective has made it possible for us to achieve and operate one of the largest customer deposit bases in the NBFI sector operating in the country, which compromises a significant term deposits portfolio as well ensuring that the Organisation is able to create value to all our stakeholders by sourcing low cost funding through savings portfolio, to achieve more strategic objectives.

As a responsible public deposit taking institution, CDB believes that its corporate brand as one of its key intellectual assets that enabled us to mark out our presence in the competitive market that we operate in and to help unleash new market segments while communicating our diversified financial product portfolio to our valued customers. From the Organisations inception, we have heavily invested on improving our corporate brand.

As a result of our healthy investment on our corporate brand, we have been able to experience tangible results during the concluded financial year.

→ BRAND HEALTH CHECKS

Considering the value that the corporate brand plays in determining the future success of the Organisation, there would be brand health checks commissioned on a quarterly basis in order to assess the brand health and quality of the campaign, which will help us to ascertain brand equity to render new insights in building the corporate brand image.

→ OUTCOME

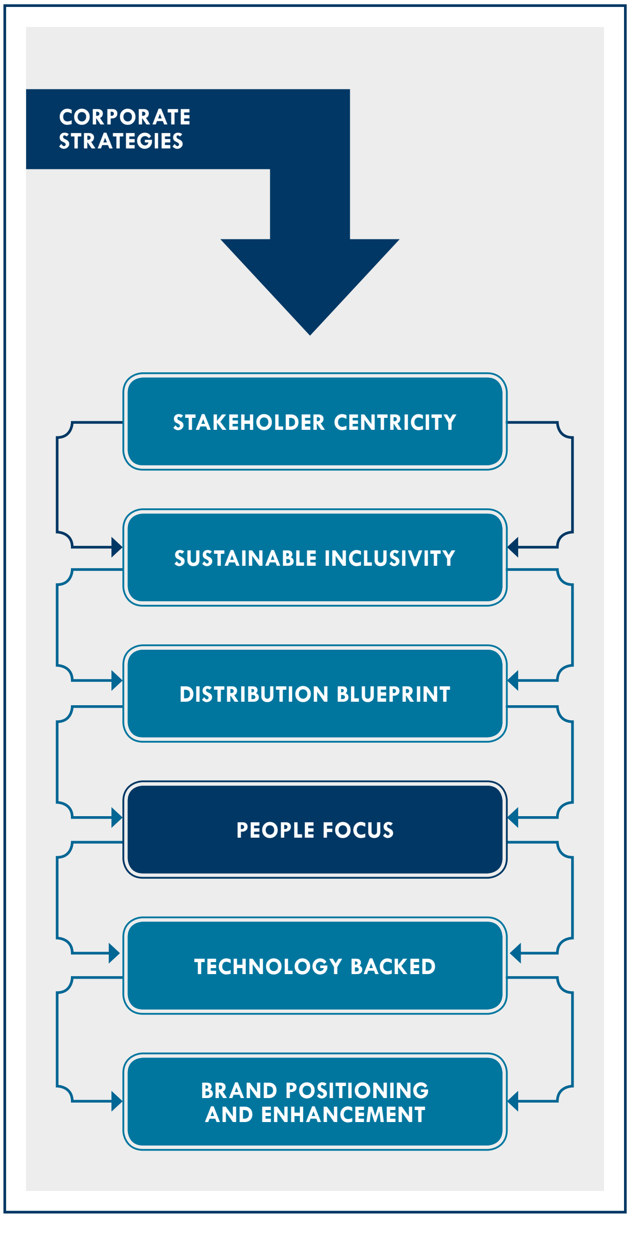
We have strategised to advance into a technology-backed business environment through business process restructuring in order to deliver increased value in building ecosystems. Therefore, this year transformational changes were effected in the fundamentals of our business process to deliver a high level of quality, open-up two new avenues for customer on boarding and enhance our expertise, determination and flair in changing social lifestyles and social transactions. This has lead us into conducting comprehensive customer profiling by predicting socio demographics attributes, characteristics, preferences, inclinations and prospects. It has also created avenues to offer a personalised customer service based on profile-driven engagement and deliver cross sell and up sell options across different channels. This has enabled to deliver a relevant user experience that enhances customer engagement and loyalty. The comprehensive analysis conducted via business intelligence platforms provides actionable insights to enhance customer segmentation and deploy the ideal influences across our different channels to create increased value for our customers and achieve sustainable business growth.

→ WAY FORWARD

The ecosystem approach would pave the way to improve customer experience by facilitating accurate predictions about customer behaviour. This would enable to identify opportunities throughout the customer's lifecycle and proactively capitalise on them. We are looking forward with optimism to our next phase of growth which would deliver enhanced value additions to all our stakeholders.

OUR EMPLOYEES PLAY A PIVOTAL ROLE IN OUR STORY “OF PEOPLE AND THINGS...,” ENSURING THAT OUR TANGIBLE AND INTANGIBLE ASSETS ARE OPTIMISED TO BENEFIT ALL STAKEHOLDERS.

Investing in our people has had a colossal and positive impact on the way other stakeholders perceive CDB, kicking off a chain reaction that is resulting in stronger stakeholder engagement.

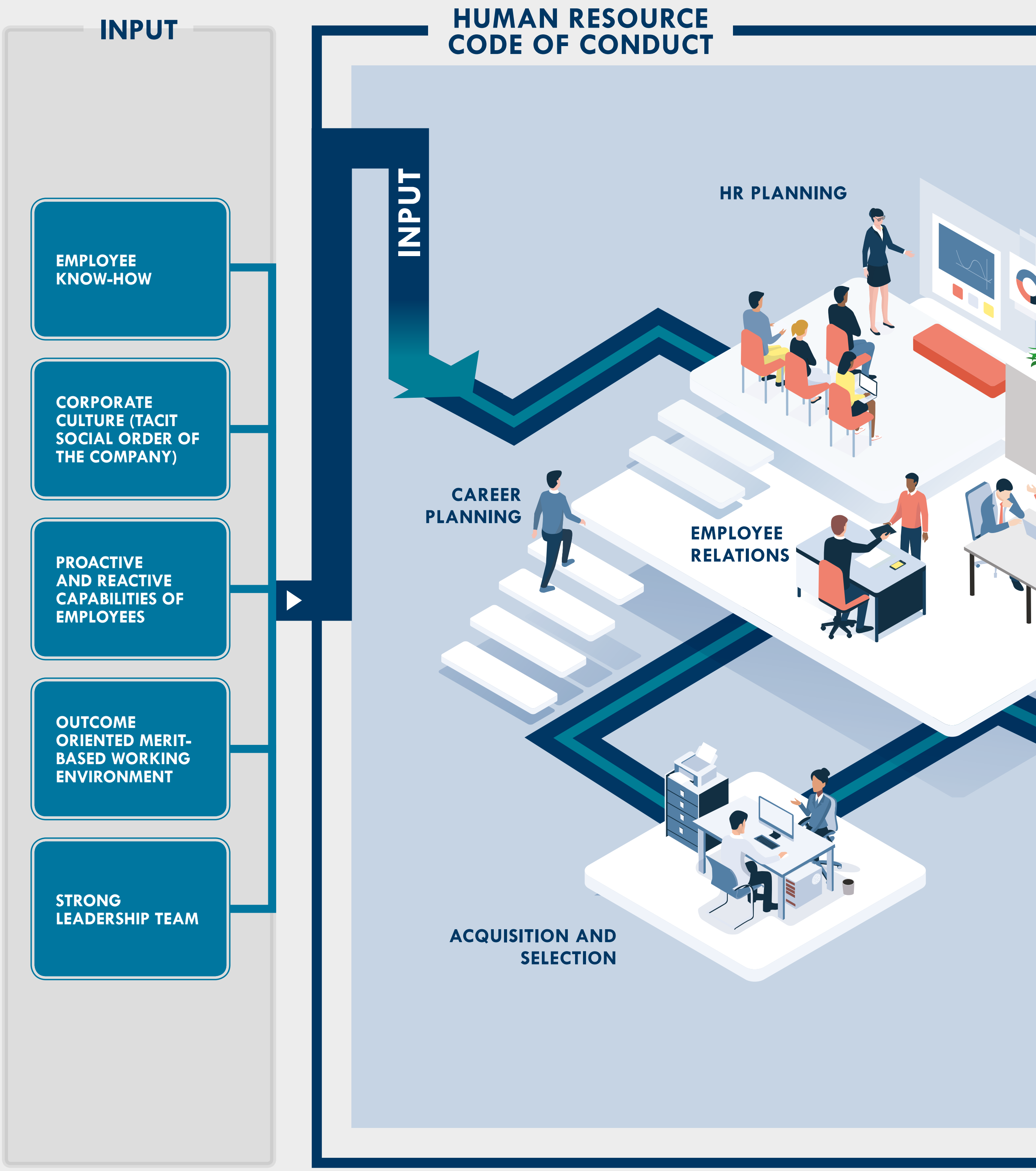


DEVELOPING OUR HUMAN RESOURCES

We nurture a culture which is performance oriented, innovative and drives continuous learning through our Human Capital values; HRCAP – Humanity, Relationships, Competencies, Aspirations and Performance.

Our workforce is diverse in the areas of social background, education, professional experience, gender, inclination towards sports and is multicultural. Forging engaged and collaborative working relationships with our diverse workforce has enriched our organisation culture, spurring winning practices and customs.

HUMAN CAPITAL VALUE CREATION MODEL [GRI 404-3]



OUTPUT

- **RS. 7.8 MN REVENUE PER EMPLOYEE**
- **65,504 TRAINING AND LEARNING HOURS**
- **RS. 17 MN. INVESTMENT IN TRAINING AND DEVELOPMENT**
- **ZERO HAZARDS AT WORKPLACE**
- **RS. 31 MN. INVESTMENT FOR STAFF INSURANCE AND *"SUWA SAMPATHA"* MEDICAL SCHEME**
- **RS. 402 MN. STAFF LOANS PROVIDED**
- **100% RECEIVE EMPLOYEE PERFORMANCE EVALUATION**

OUTCOME

- Employee retention and satisfaction
- Employee work-life balance and well-being
- Employee career growth and succession planning
- Personal and professional development
- Career opportunities and advancements to rural youth

UNIQUE CORPORATE CULTURE SUPPORTING A PEOPLE CENTRED WORKFORCE

PRIORITY IS GIVEN TO ENHANCE EMPLOYEE CAPABILITY AND EMPOWERMENT

→ PEOPLE-CENTRED APPROACH

We are a people-centred Organisation. CDB exists because of our 1,500 employees who work every day to add value to our customers. Investing in our people and creating an environment that empowers our people to perform distinctively and to excel is our approach.

→ STRATEGY BETS ON PEOPLE TO SUCCEED

Over the years, we integrated our HR initiatives gearing them to promote a culture of learning, collaboration, diversity, personal development, and transformation. These initiatives will certainly be even more relevant in engaging with new generation employees now entering the workforce.

→ ORGANISATION CULTURE

Culture is the tacit social order of the Organisation. It shapes attitudes and behaviours of employees in wide ranging and multiple ways. We encourage exploration, expansiveness and creativity. Work environment is outcome – oriented and merit-based. People aspire to achieve top performance. CDB team is united to drive for capability and success. Leadership team emphasise on goal accomplishment.

→ TRANSFORMATION INTO FIN-TECH

The emergence of Fin-Tech, digital interaction, artificial intelligence and agile work environments has prompted a shift in focus to understanding the key competencies of financial services will require in the future to transform business. The banking and financial service world is rapidly moving towards digitally enabled products and services with increasing prominence to fin-tech transformation. It awaited that a number of skills required will evolve, new skills will emerge and some skills will completely disappear. Key Future skills identified for financial services include skills in business intelligence, social media client services, digital innovation, cyber security, data mining, data security and client experience management. Resource allocation to our Human capital formation is strategically focus on these areas to enhance employee capability to change.

HUMAN CAPITAL VISION

Our vision under human capital is to be the employer of choice in Sri Lanka. This vision is founded on adding value to our Organisation by retaining the best talent, imparting of knowledge and developing employee skills by focusing on expected outcomes and providing exposure across the Company's key divisions.

HUMAN CAPITAL STRATEGY

Our human capital strategy encompasses acquiring, grooming, and retaining talent. We continuously enhance our performance standards to enable our employees to be key drivers of our organisational success. Hence, we nurture a high performance culture founded on core human values;
HRCAP – Humanity, Relationships, Competencies, Aspirations, and Performance.

COMMITMENT TO HUMAN CAPITAL

Our employees are well-equipped with the necessary skills and resources to support the strategic direction of our Organisation and they are given the necessary training to hone their talents to deliver the expected service standards.

HUMAN CAPITAL VALUES

Our values are part of our DNA and they guide the way we work with our stakeholders and with each other. Through humanity, relationships, competencies, aspirations and a focus on performance, we have created a vibrant company culture where people can thrive and succeed.

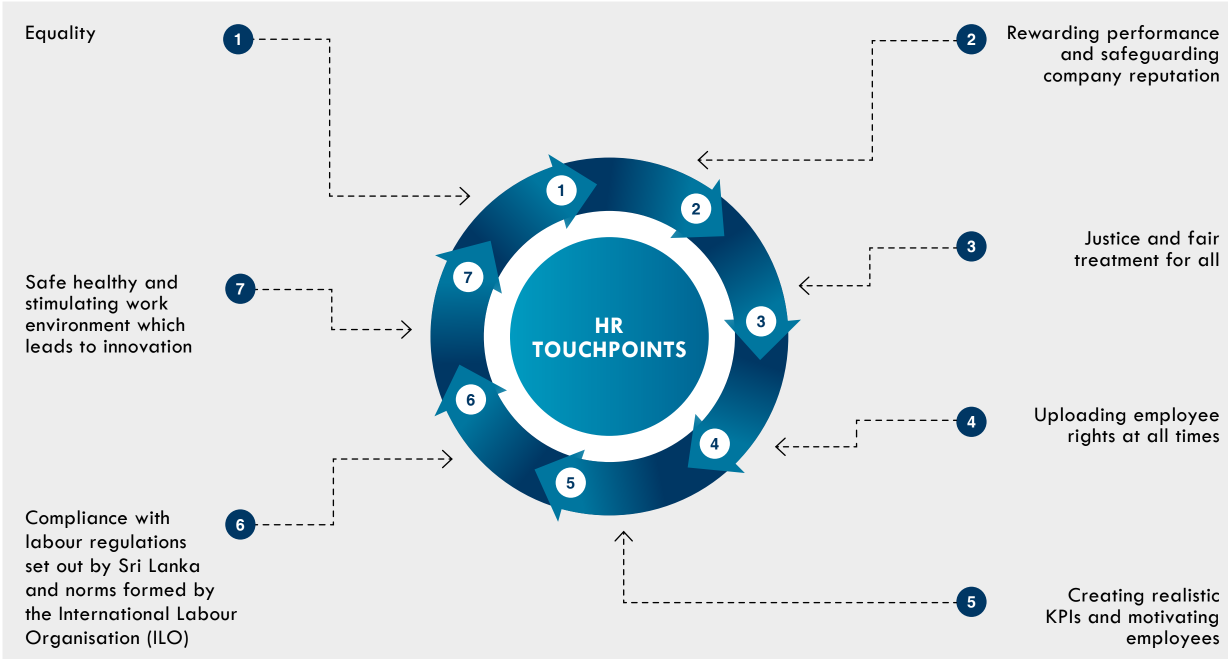
- Humanity – We work together as one team for the benefit of our Organisation
- Relationships – We promote a positive work culture by maintaining good working relationships, where everyone feels respected and supported.
- Competencies – Our employees are equipped with the appropriate skills to thrive in the workplace.
- Aspirations – Our employees continue to add significant value to the Organisation as they are empowered to reach higher career aspirations
- Performance – We promote a supportive environment which contributes towards increased productivity and performance

HUMAN CAPITAL POLICY

Our human capital policies and procedures are in compliance with the applicable laws and regulations of Sri Lanka. The HR policy manual is applicable to all staff members irrespective of gender, race, nationality, religion, political affiliation or any other criterion. These policies are applied to achieve the following outcomes:

- Provide direction and clarity to human capital administration and ensure continuity and consistency of policies
- Enhance internal customer service standards through improvement in internal and external communication
- Provide a thorough orientation and a point of reference to enable employees to understand their rights and carry out their responsibilities effectively

→ HR TOUCHPOINTS



→ KEY HUMAN CAPITAL INDICATORS [GRI 102-7, GRI 102-8]

Category	Key Human Capital Indicators	2017/18	2016/17	2015/16	2014/15
Employee strength	Total number of employees	**1,588**	1,439	1,136	1,167
	Male	**1,174**	1,075	851	856
	Female	**414**	364	316	280
Value created	Value added to employees (Rs. Mn.)	**961**	830	745	602
	Investment on staff insurance and *Suwa Sampatha* Medical Scheme (Rs. Mn.)	**31**	30.9	28.4	23
	Staff loans (Rs. Mn.)	**402**	346	272	185
Training and development	Total training hours	**65,504**	137,466	74,720	62,520
	Total training hours per employee	**41.24**	46	54	48
	Investment on training and development (Rs. Mn.)	**17**	11.5	17	13
Distribution	Western Province	**837**	734	588	605
	Outside Western Province	**751**	705	548	562

→ HUMAN CAPITAL MANAGEMENT

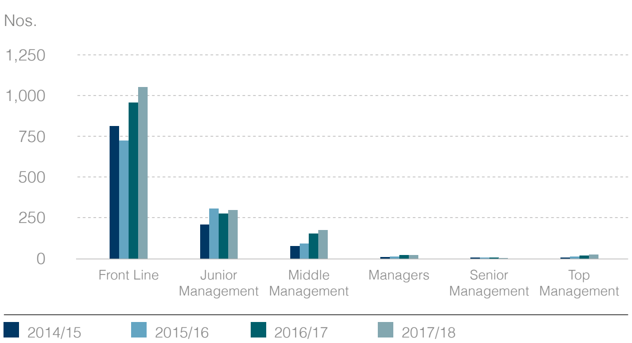
The success of our Organisation is driven by our team of skilled and dedicated employees. The way we lead and engage with our people, the way we work, and the way we are organised are important aspects of our human capital management. We have been strengthening our Organisation by investing in talent through recruitment, internal development, promotion and training. Our values are embedded in the standards, policies and guidance which we set out to help our people to perform.

In order to bolster our position as an attractive employer, we nurture a supporting and a motivating workplace where every employee can thrive. We engage with our employees fairly, ensuring they have the right training and skills to undertake their roles. We also promote a culture of diversity which enhances teams' performance and power of innovation. Through the offer of various opportunities, we create a working environment that is safe and hazard free, giving fair consideration to our employees' individual needs and respecting human rights. A minimum of four weeks notice is given to our employees on operational changes. [GRI 402-1]

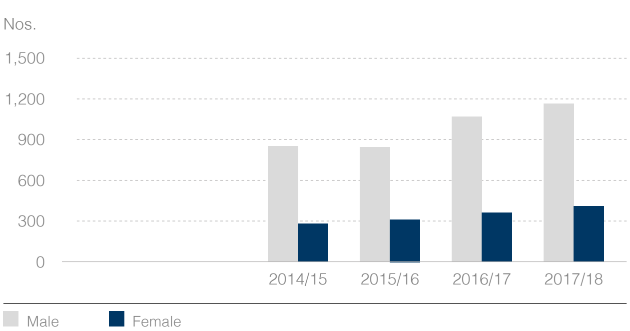
There are no collective bargaining agreements in our Company [GRI 102-41]. We do not entertain any sort of forced, compulsory or child labour at our Organisation and also do not build relationship with business partners who has such practices. [GRI 408-1, 409-1] During the year under review we did not encounter incident of forced or compulsory labour.

We have adopted a new HR Management approach to maximise the productivity of our Organisation by optimising the effectiveness of our employees. Shown below is the new structure based on the functions of the HR Department, with clear responsibilities and reporting structures to drive each function.

Total Employees by Employment Category



Total Employees by Gender



→ TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT CONTRACT BY REGION

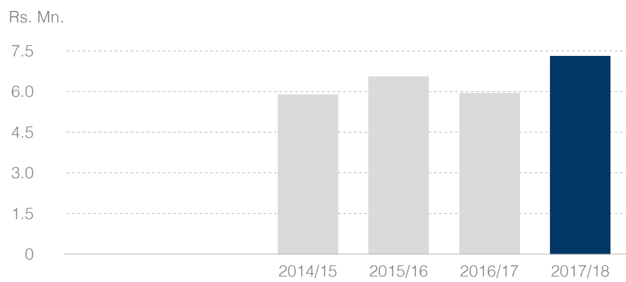
[GRI 102-08]

Province	Employee Type			Total
	Contract	Permanent	Probation	
Central	77	53	11	141
Eastern	33	6	4	43
North	20	15	1	36
North Central	33	12	0	45
North Western	118	57	10	185
Sabaragamuwa	77	48	9	134
Southern	69	37	11	117
Uva	36	11	3	50
Western	424	349	64	837
Total	887	588	113	1,588

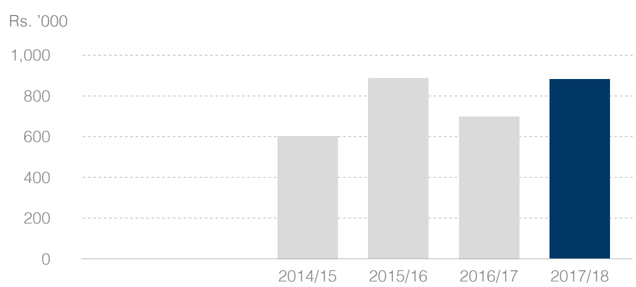
→ EMPLOYEE PRODUCTIVITY

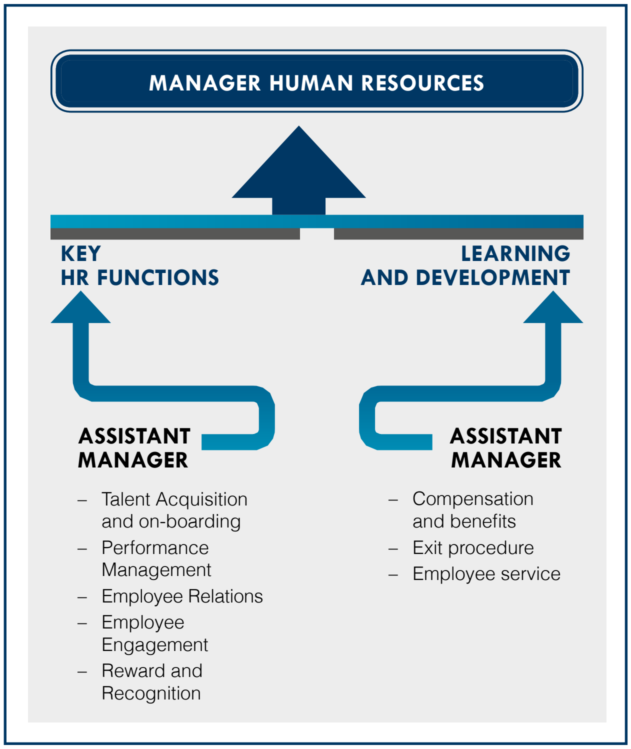
Employee productivity is an assessment of the efficiency of employees. We evaluate our employee productivity in terms of the revenue per employee and the profit per employee for a financial year.

Revenue per Employee



Profit per Employee





→ TALENT ACQUISITION AND ON-BOARDING

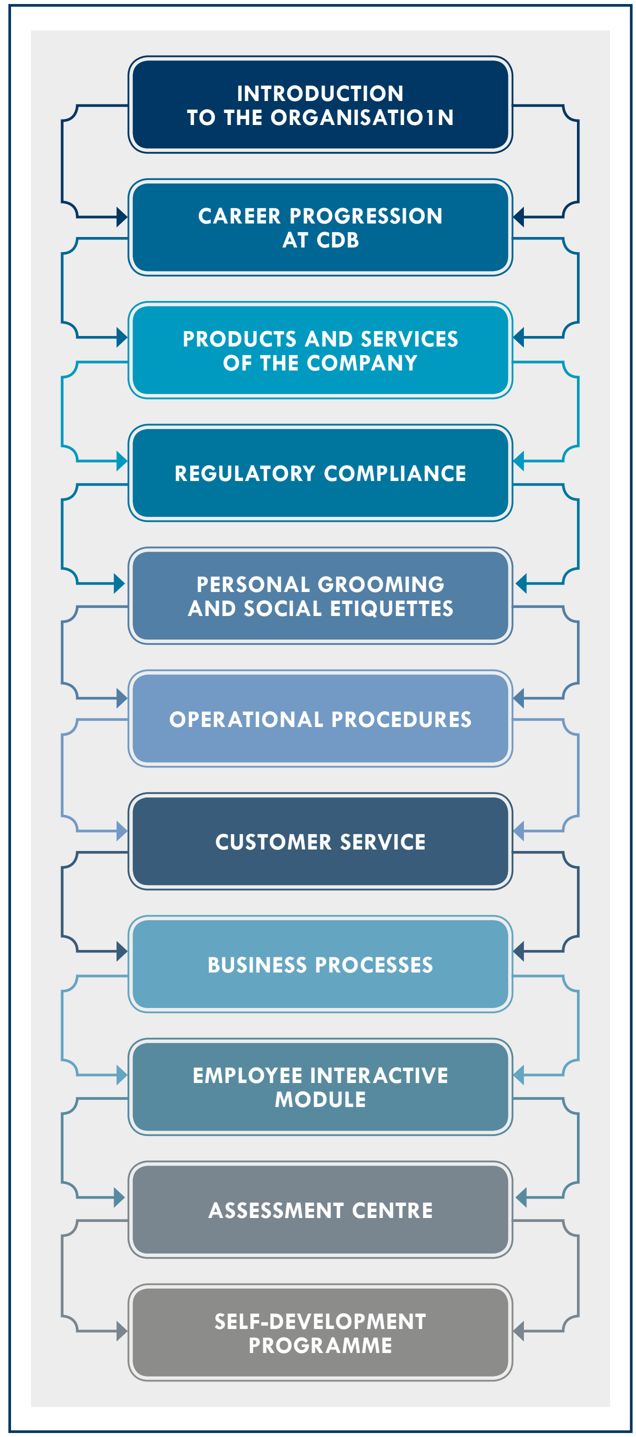
Our Organisation's success is driven by dedicated employees who possess the required knowledge and competencies. Therefore, we aim to attract the right talent for the right job. Our recruitment strategy is geared to empower youth in our nation by providing young school leavers and graduates employment opportunities in our Company. This helps to groom a loyal and highly-engaged team of employees who deliver an outstanding service. [GRI 202-2]

→ INDUCTION PROGRAMME

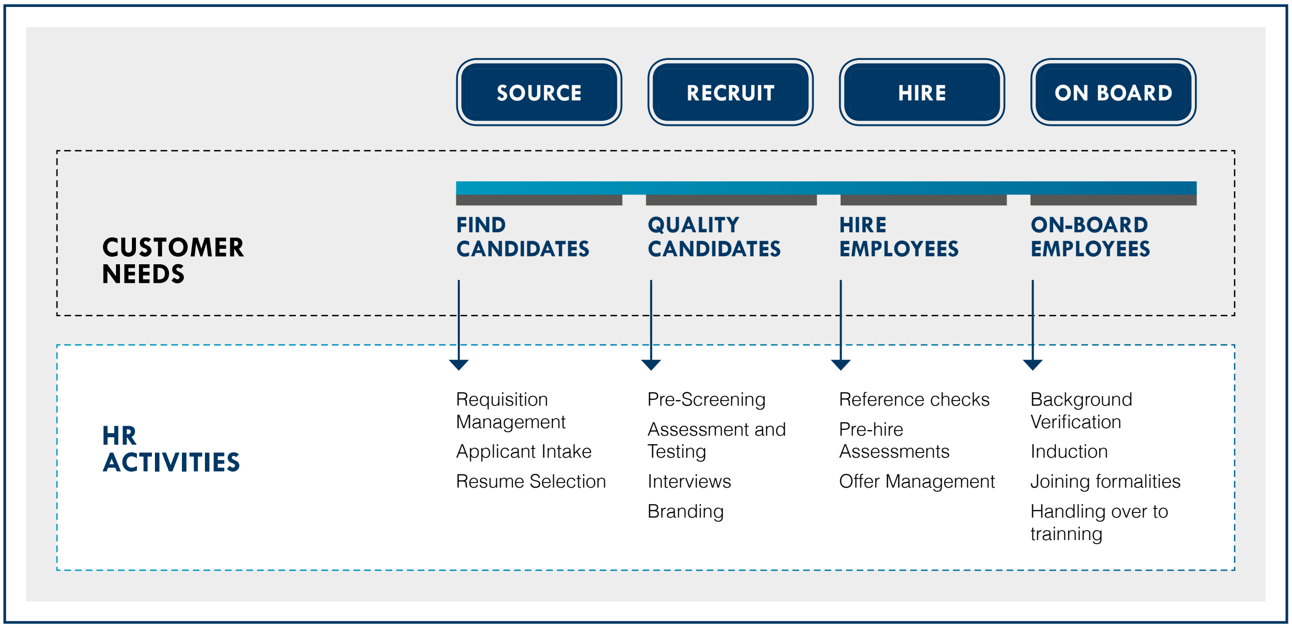
Every new recruit is taken through a thorough induction programme organised by the Company, as the first step towards gaining an employees' commitment. Induction is aimed at introducing the Organisation, its values, culture, people and acceptable working practices to the new recruit. Our aim is to develop our new recruits in a systematic way to generate mutually rewarding value.

We place a premium on the trust and confidence of our customers. As illustrated in our HR-Code of Conduct. We are an organisation that forbid corruption. Our compliance, audit risk, divisions ensure anti-corruption approaches using induction as tool of communication for the entry level employees. [GRI 205-1] It was communicated that there were no confirmed incidents of corruption and actions taken. [GRI 205-1, GRI 205-2, GRI 205-3]

During 2017/18, 12 induction programmes were conducted for our new recruits.



→ TALENT ACQUISITION MODEL

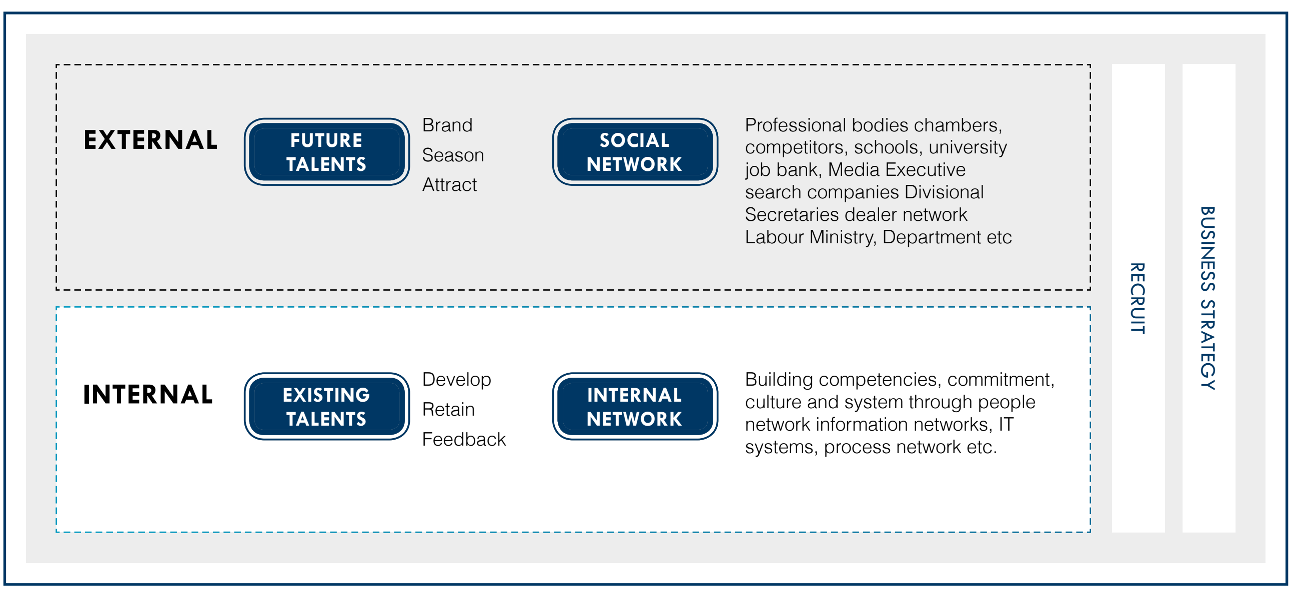


→ METHODS OF TALENT ACQUISITION

We acquire new talent to our Organisation through several methods as detailed below:

- Social Network – We maintain close relationships with entities like schools, universities, professional institutions, divisional secretariats and rural councils etc. Through these institutions we are able to recruit new talent with the required qualifications.
- Internal Network – Through our existing staffs' recommendation, we will select suitable candidates to join the CDB family.

→ SOURCES OF TALENT ACQUISITION



→ TALENT DEVELOPMENT AT CDB

METHODS OF DEVELOPING EMPLOYEE POTENTIAL

- Executive Development Programmes
- Succession Planning
- Career

QUALITIES OF AN EMPLOYEE WITH HIGH POTENTIAL

- Self-motivated
- Efficiently carry out responsibilities
- Consistent performance
- Capacity to grow

REWARDING HIGH POTENTIAL

- Empowerment through delegation of authority
- Foreign training opportunities
- Monetary and non-monetary rewards

→ TALENT ACQUISITION AVENUES

→ INTERNSHIP PLACEMENT

An internship programme is conducted for the undergraduates of Sri Lankan Universities by providing on-the-job training opportunities in our Company. The undergraduates are given a wide exposure in a competitive work environment through this programme.

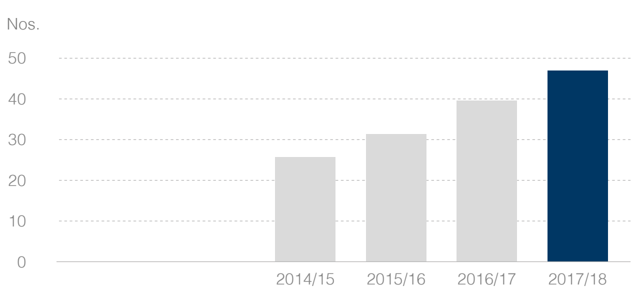
→ MANAGEMENT TRAINEE PROGRAMME

This is a two-year training programme for graduates to obtain exposure in different operational areas of our Organisation. The well-structured programme facilitates trainees to obtain comprehensive knowledge and experience of our business activities.

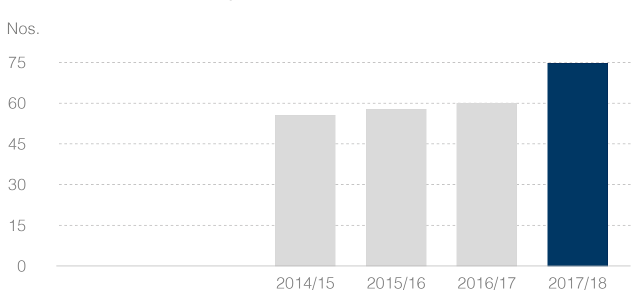
→ PLACEMENTS OF BUSINESS PROMOTION AGENTS (BPA)

The BPA programme is for students of higher education institutions selected through referrals from their respective institutions. The selected candidates are full-time students. Therefore, we provide an allowance which is helpful to cover their educational expenses.

Number of Internship Placements



Number of Management Trainee Placements



→ EVALUATION USING THE TALENT ATTRACTION MODEL

Our talent attraction process is evaluated using talent attraction model evaluation criteria which also facilitate the development of our talented employees. The evaluation confirmed that we have the right calibre of employees.

→ PERFORMANCE MANAGEMENT SYSTEM (PMS) [GRI 404-3]

PMS is conducted annually and biannually with one-to-one discussions with the immediate supervisor and under careful scrutiny. All employees are given performance and career development reviews [GRI 404-3]

→ GOAL SETTING

The Senior Management sets the CDB corporate goals at the budget review meeting every year. These goals are then broken down into departmental and individual goals. A 180^{0} feedback mechanism is adopted to direct employees towards the corporate goals and achieve greater collaboration.

→ MEASUREMENT

Employee competencies are assessed and rated under five criteria namely, above expectation, expected level, satisfactory, below expectation and far below expectation. We believe this is essential for individual performance.

→ PERFORMANCE APPRAISAL

The annual appraisal is linked to the annual assessment to ascertain the overall job knowledge of each employee. This helps to identify any bias in performance reviews and any other irregularities in appraisals.

→ REALIGNMENT OF KPIs

A transparent process is followed with mutual agreement between the supervisor and the subordinate to set the key performance indicators (KPIs) aligned to the corporate objectives. This ensures each division contributes to the achievement of the overall corporate objectives. The Appraisal Committees engage in PMS score justification and ensures a fair appraisal system in the Company.

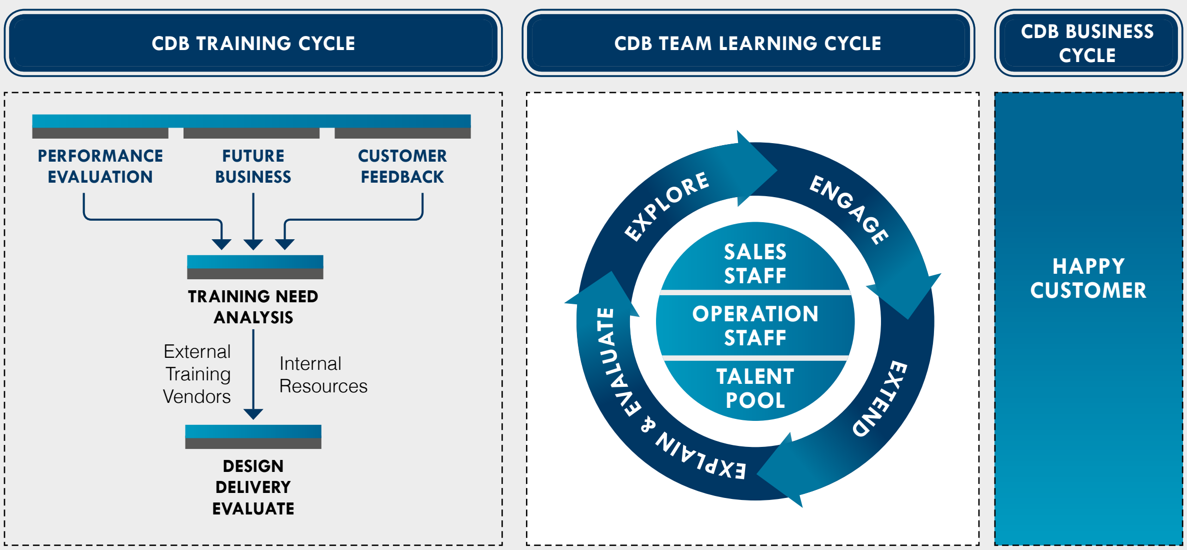
→ ASSESSMENT BASED KNOWLEDGE SYSTEM

The job knowledge of our employees is assessed through an annual examination. This is related to the PMS and helpful to determine performance bonuses and annual increments of employees. This test is now conducted online through our E-learning platform. The system has created informal study groups among peer groups for shared learning experiences and resulted in creating increased value for both the employees and the Organisation.

→ LEARNING AND DEVELOPMENT

Learning and development is an essential success factor for a strong company culture and also for the organisation sustainability. The skills and competencies of our employees are important for sustainable growth in profits and long-term success. Therefore, we have established a learning culture which enable a lifelong learning experience for our employees. This ensures “best fit talent” where the right talent is allocated to the right position at the right time which increases value creation. We have implemented a wide range of learning programmes focused on futuristic employee development and also on-the-job training which helps the employees to perform well within their respective job role. During the year under review, Rs. 17 Mn. were invested on training and development of our employees; this is a 30.4% growth compared to Rs. 11.5 Mn. which were invested in 2016/17. Each employee have received an average of 41.24 hours of training experience for the year.

LEARNING AND DEVELOPMENT MODEL



→ AVERAGE TRAINING HOURS BY GENDER AND EMPLOYMENT CATEGORY [GRI 404-1]

Gender	
Male	Female
41.24	41.24

Employee Category					
Front Line	Junior Management	Middle Management	Managers	Senior Management	Top Management
6.86	27.01	29.52	13.93	1.94	20.74

Internal and External Training Programmes [GRI 404-2,3]

Programme Type	Number of Participants	Number of Days per Programme	Number of Training Hours per Day per Individual	Male	Female	Training Hours	Number of Programmes
Induction programmes for all staff	644	3	9	370	274	41,901	12
Sales orientation: Sales staff	116	2	9	95	21	5,706	3
Training programmes for credit officers	152	1	4	98	54	608	2
Training programmes for lending sales staff	158	1	8	85	73	1,264	3
Training programmes for deposit sales staff	153	1	9	99	54	1,377	1
Technical training programmes for cashiers	235	1	8	101	134	1,880	2
Train the trainer programme	13	9	9	11	2	1,053	1
Training programmes for gold loan staff	145	1	8	94	51	880	2
Health awareness programmes	125	0.3	8	65	60	1,000	4
Sales Techniques and Service Training Programs for Sales Staff							
Outbound training programmes	121	2	24	70	51	2,904	2
Grooming and social etiquettes training programme	644	0.3	2	370	274	1,288	12
Leadership training programmes	156	1	8	94	62	1,248	4
Leadership training programme for branch heads	189	1	8	189	0	1,416	3
Executive leadership development programmes	30	2	16	20	10	480	2
Foreign training programmes	4	1	9	2	2	36	2
Other external programmes	1,088	1	2	501	501	2,176	54

Both local and foreign training opportunities are given to our employees to enhance their knowledge and skills. In addition, we conduct inbound and outbound training programmes as well.

→ OUTBOUND TRAINING

During the year under review, three outbound training sessions were conducted. These Outbound Trainings revolve around activities designed to improve leadership, communication skills, planning, change management, delegation, teamwork, and motivation. Participants are divided into teams and assigned tasks or activities for completion in a specified time.

Achievement, performance and behaviours during these activities are reviewed through a process of discussion called debriefing, to identify behaviours that enhance performance or lead to failure or decreased performance. Strategies are formulated to deal with factors that hinder, and these strategies are then put to use in the activities that follow, to test their effectiveness and ultimately help the participants learn to change behaviours or processes back at work.

The main focus with this Training approach is to impart learning on organisational needs such as Leadership, Strategic Thinking, Conflict Management, Team Building, Effective Communication, Quality Improvement, Mentoring and Skills Development.

→ IT TRAINING CENTRE

Our state-of-the-art IT Training Centre is equipped with a simulated branch experience to extend our trainees an on-site training experience. A branch-related working experience on a test environment with system access is given to trainees to acquire relevant technical skills. Trainee evaluation parameters are also embedded in the stimuli branch module for post training evaluation whilst a feedback is obtained from the trainee via an interview conducted by the Head of Training.

→ E-LEARNING PLATFORM

Our employees are given access to the CDB online knowledge sharing platform with an online certification programme, to log in and self-study. The employee can get certified through the E-learning portal and improve their knowledge. This has proved to be an effective learning and development model in our Organisation. Our annual assessment test is also conducted through this E-learning platform.

We have also given our employees the opportunity to study banking subjects in order to obtain qualifications such as IABF/DABF. This approach also allows our employees who are residing outside the city limits to pursue the qualification without physically attending the lectures. Since all modules are in English and Sinhala they have the luxury to select the language based on their preference.

→ TRAIN THE TRAINER PROGRAMME

Train the Trainer programme was introduced to form a panel of Trainers within the Company in order to train and develop our employees. Thirteen trainers selected from both Sales and Operations and they went through a series of training over a period of two months. This programme was conducted by Mr Dananjaya Hettiarachchi who is the world champion in public speaking and also one of the leading corporate trainers in the country. As a result of continuous learning these trainers developed a learning content which they currently deliver to all our new recruits during the Induction and Sales Training programme.

→ SALES ORIENTATION PROGRAMME

We have introduced a sales orientation programme to all employees who are joining the sales team. This training will happen during the first month after they join the Company. The purpose of this programme is to prepare the sales force by providing both product and practical knowledge before they enter into the financial market. This programme carried out by the Training and Development team and the panel of trainers we have formed as a result of the Train the Trainer programme.

→ EXECUTIVE DEVELOPMENT PROGRAMME

Our executive development programme is designed to enhance the skills and capabilities of our executives through learning and knowledge development and thereby grooming them to be future leaders who will lead the Company to success. The programme includes several learning aspects, including mentoring and on-the-job training.

→ TRAINING EVALUATION

The successes of our training programmes are measured using the following evaluation criteria.

TRAINING EVALUATION MODEL

CDB TRAINING CYCLE AND LEARNING CYCLE ← BUSINESS STRATEGY AND HAPPY CUSTOMER

LEVEL 1 Reaction	LEVEL 2 Learning	LEVEL 3 Behaviour	LEVEL 4 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.

→ EMPLOYEE SUCCESSION PLAN

"CDB's Succession Plan" is aimed to ensure stability and certainty in business continuity by having a talented pool of employees and grooming them to be future leaders. This includes projecting future employee requirement, determining job roles, assessing employee competencies and ensuring employee retention in tandem with the organisational goals.

Due to the rapid development of our Company, new vacancies in key positions crop up at a fast pace. To fill these vacancies speedily and effectively and ensure smooth business operations, we follow the CDB employee succession plan. Priority however, is given internal. [GRI 202-2]

Joined as	Branch in Charge	Head of Branch	Divisional Head	Zone Manager	Senior Management	Corporate Manager
Junior operation assistant	45	2			2	4
Trainee marketing executive		82		13	1	
Operations assistant			1			
Management trainee	24	2	3			1
Assistant manager					1	2

→ RETURN TO WORK AND RETENTION RATE AFTER PARENTAL (MATERNITY) LEAVE [GRI 401-3]

Description	2017/18	2016/17
Number of employees entitled to maternity leave	414	523
Number of employees who took maternity leave	18	16
Returned to work after parental leave	16	16
Employed after 12 months of returning to work	16	
Returned to work rate (%)	88.9	100

→ EMPLOYEE ENGAGEMENT

We conducted several activities during the year for employee engagement. Through these activities employees are able to display their talents as well as gain mental as well physical relaxation. They also help to gain employee loyalty and increase motivational level. Numerous events are conducted in four main categories including strategic, religious, employee inspiration and employee recognition and reward.

→ ANNUAL EVENTS

The Company's annual event calendar marks out the employee engagement annual agenda.

→ STRATEGIC EVENTS

→ PLAN UNVEILING CEREMONY

This ceremony is conducted to launch the Company's annual plan for the year with the participation of the Directors and Senior Management of the Organisation.

→ HAPPY CUSTOMER SESSION

Happy Customer Session is an innovative programme launched to receive employee suggestions to enhance customer satisfaction. This session gather all key staff members to generate vast variety of ideas to make our customer happy, ensuring our service delivery to offer an exemplary customer service. As such, we hold discussions with participants from all departments of the Organisation on improving customer service and implement innovative initiatives to delight our customers.

→ MYSTERY SHOPPER

This is a special monitoring mechanism to identify the effectiveness and efficiency of our operations. An independent person visits our branch network as a customer and inspects the branch service delivery. According to his/her satisfaction level, a rating is given, which is communicated at the said Happy Customer session. The ratings were also announced at the Happy Customer session conducted enabling the branch heads to enhance their customer service standards accordingly.

→ RELIGIOUS EVENTS

→ *VESAK BAKTHI* GEE

The *Vesak Bakthi* Gee event is organised annually to celebrate *Vesak*. Employees from the head office and branches participated in the event which was held at head office premises in the year under review. A *Vesak* lantern competition was also organised during the year.

→ *CELEBRATING THE SPIRIT OF RAMADAN*

The Iftar is the evening meal after sunset that concludes the daily fasting during the month of Ramadan. As we respect the individuals on the holy month of Ramadan, we annually host an "Iftar" at our head office premises inviting for our employees, represented by its board members. This event aimed to strengthen the corporation and developing team spirit among all staff.

→ *PIRITH* CHANTING CEREMONY

A *Pirith* chanting ceremony was organised at our head office premises to get the blessings of the Triple Gem during the year under review.

→ CHRISTMAS CAROLS

Christmas Carols were organised with the participation of our employees to celebrate the joy of Christmas.

→ EMPLOYEE INSPIRATION

→ STAFF GET-TOGETHER

An annual get-together was organised for our employees and their families, opening up opportunities to build stronger employee relationships and increase employee motivation.

→ TALENT SHOW

The employees were given the opportunity to showcase their talents at the CDB Annual Talent Show which is conducted to enhance their skills and capabilities. The show included a variety of songs, dance, drama, art and music.

→ EMPLOYEE RECOGNITION AND REWARDS

→ AWARDS DAY

High performing employees are recognised and rewarded each year at the CDB Annual Awards Day. Both monetary and non-monetary rewards are awarded to the winners. This is held under our "Strategy Bets on People to Succeed" concept.

→ TALENT FIRST POLICY

We consider employee talent to be the key driver of employee performance. Therefore, the "Talent First" concept was launched to assess employees based on their performance and reward high performers.

Recognition (Long-Term)	Recognition (Short-Term)
Recognition through Service	Performance bonus
Self-development and grooming	Annual/Mid-year bonus
Learning and development	Incentives for sales staff
Admiration	Idea factory

→ EMPLOYEE WELL-BEING [GRI 201-3, GRI 401-2]

We extend many facilities to our employees to enhance their well-being. These include the following:

- *Suwa Sampatha* Medical Scheme – This is a health screening and medical reimbursement scheme that encourage employees to take responsibility for their health. During the year under review, Rs. 31 Mn. was awarded under this scheme.
- Health Seminar – Three seminars covering healthy food habits, healthy food varieties for Diabetes patients and healthy food for heart patients were conducted during the year to enhance our employees' health and well-being. The seminars were conducted by experienced and specialised Doctors, with the participation of staff members.

Given below are some of the benefits given to our employees:

- Employee Share Ownership Plan
- Productivity and profit-related bonuses
- Staff loans at special interest rates
- Staff loan schemes related to children's education
- Travelling and accommodation allowances
- Professional membership and examination fees reimbursement
- Employee Life Insurance Coverage

→ MAINTAIN HIGHEST SAFETY STANDARDS

We are committed to maintaining a hazard-free working environment, to ensure employees' protection at work and enhance their productivity. Our head office and branch buildings are equipped with the necessary fire protection safeguards. Additionally, our employees are trained on facing certain emergencies such as fire by getting them to participate in a fire drill. A Building Management system is also prepared to safeguard employees and the workplace. We could ensure a hazard-free working environment during the year under review. [GRI 403-2]

→ EMERGENCY EVACUATION DRILL

CDB conducted its annual fire drill with the support of its internally trained emergency response team and Fire Service Department. Internally trained emergency response team consist of more than 80 members along with fire marshals, evacuation wardens, first aid teams, on scene commander and drill organising committee. The most obvious reason to embrace fire safety training in our workplace is to protect our employees and customers. A fire in the workplace can prove deadly, particularly if fire safety protocols have not been followed and staff are not trained. By training CDB employees, CDB has a team of people who know exactly what to do in the event of an emergency situation. Not only that they will be able to escape the building themselves, they'll also be able to guide customers to safety.

→ OUR POLICIES AND PROCEDURES

The policies and procedures of grievance handling procedure are developed in order to get just and fair solutions to problems that arise at the workplace.
Every employee is treated equally with the implementation of an unbiased and effective grievances and disputes resolution process.

→ WHISTLE-BLOWING POLICY

There is a clear avenue for employees to forward any complaints about a fraud, harassment or any other unethical and unlawful behaviour of any matter to the top management. The inspections are carried out irrespective of the employee's designation.

→ MODES OF COMMUNICATION

Employees are given all the relevant information to ensure effective working practices. We have developed an efficient internal communication process to exchange information among our employees in head office and branches. We use several modes of communication, including, the Intranet, company announcements, memorandums, regular meetings and so on.

→ DIVERSITY AND INCLUSION [GRI 405-1, GRI 406-1]

We want our people to feel engaged and inspired to be the best they can be. Together we create a high-performing, thriving organisation, where difference is celebrated. We believe our diversified team of employee is a key driver of success. We treat our employees fairly and equally and our work environment is free from any sort of discrimination. Therefore, we do not discriminate employees based on religion, gender, race, marital status, age or any other criteria. [GRI 406-1] This is assured through our documented non-discrimination policy. Our employees are given opportunities for promotions and rewards based solely on merit.

→ SPORTS AT CDB

We have teams representing a range of sports including netball, basketball, cricket, rugby, volleyball, badminton, football, and athletics as we encourage our people to grow in team building, caring and sharing. Our sportsmen and women are given special benefits such as flexible work hours, special allowances for food and beverage and subsistence and lodging allowances for practice sessions on weekdays. This has enriched the organisational culture due to the diversity brought in by these individuals.

→ OUR ACHIEVEMENTS

→ CRICKET

- Mercantile Six-A-Side Knockout Tournament (B Division) – Champions
- Mercantile League (D Division) – Champions

→ RUGBY

- Mercantile Rugby 2017 (Shield) – Champions (Plaque) – Runners-Up
- Finance House Tournament Rugby – Runners-Up
- Synergy Rugby Tournament – Champions

→ RUGBY GIRLS

- Mercantile Rugby Women's – 1st Runner-Up

→ NETBALL

- Sports Dot com (Girls) – Champions
  - (Mix) – Runners-Up
- Mercantile Knockout Tournament (B Division) – Champions
  - (Mix) – 1st Runners-Up
- Finance House Tournament (Girls) – Champions

→ VOLLEYBALL

- Finance House Tournament – 1st Runner-Up
- Mercantile Volleyball Tournament – 1st Runner-Up
- Finance House Volleyball – Runner-Up

→ BADMINTON

- 7th MBA Inter-Firm Team Doubles Badminton Championship 2017 June – Winners
- 34th MBA Novices Badminton Championship 2017 March – Qualified to 4th Round
- 33rd MBA Individual Badminton Championship 2016 November – Qualified to 3rd Round
- 33rd MBA Inter-Firm Badminton Championship – 2016 October – Qualified to Quarter Finals

→ BASKETBALL

- 2016 Mercantile League Tournament – Quarter Finals
- KDU 3*3 Tournament 2017 – Quarter Finals
- Mercantile 3*3 Tournament 2017 – Quarter Finals
- 2017 Mercantile League Tournament – Semi Finals

AWARDS AND ACCOLADES

Top finalist, Asia's Best CSR Communication within Annual Reports at the Asia Sustainability Reporting Awards 2017 of CSR Works, Singapore

Carbon Neutral Certificate

Certification of ISO 14064-1 Carbon Verification

Gold Award winner at the SLITAD Annual People Development Awards 2016/17

Silver award for written Text

Bronze winner for traditional annual report/Photography

Honors for financial data

at the 2017 International ARC Awards

Ian Dias Abeysinghe Memorial JASTECA CSR/Sustainability Special Award

Joint Winner – ACCA Sri Lanka Sustainability Reporting Awards 2017

First Runner up: Best Corporate Citizen Sustainability Award (less than 15Bn turnover category)

Winner: Best Sustainability Project Award 2017: Green Ninja CDB Quiz Master 2017

Special Award: "Act Early for Autism" project

at the Best Corporate Citizen Sustainability Awards 2017

Silver Award CA Annual Report Awards 2017 (Finance and Leasing Companies – Total Assets above 20Bn)

"Ten Best Integrated Reports" Excellence in Integrated Reporting Awards 2017 conducted by Certified Management Accountants of Sri Lanka

Winner: Non-Banking and Financial/Services Sector

Merit Award: Excellence in Performance Management (Organised by the National Chamber of Commerce of Sri Lanka)

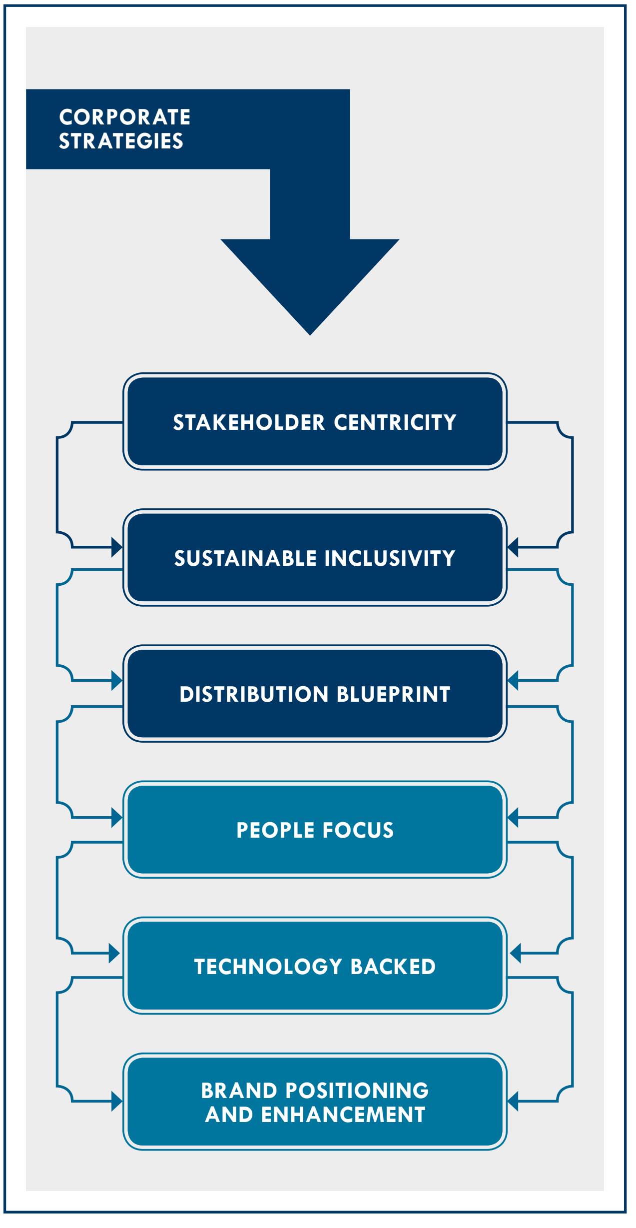
at the National Business Excellence Awards 2017

Joint Second Runner Up Best presented Annual Report Awards by the South Asian Federation of Accountants

SOCIAL AND RELATIONSHIP CAPITAL

NURTURING RICH, MUTUALLY BENEFICIAL RELATIONSHIPS WITH STAKEHOLDERS THROUGH INTANGIBLES SUCH AS SHARED VALUES AND COMMITMENTS IS OF PARAMOUNT IMPORTANCE TO US.

Our success depends on the fostering of “things” such as reputation and trust, for forging stronger relationships with the people for whom we deliver value and from whom we in turn derive value.



STRENGTHENING OUR RELATIONSHIPS

Sustainability of our organisation depends on our ability to nurture long-term relationships with our stakeholders who are essential for our value creation process. Therefore, as a responsible corporate citizen, we forge strong relationships with our stakeholders – customers, business partners, regulators and the community. By enhancing customer value and contributing to sustainable growth of communities, we act as a responsible corporate citizen.

SOCIAL AND RELATIONSHIP CAPITAL VALUE CREATION MODEL

INPUT

- DIVERSIFIED PRODUCTS AND SERVICES
- INVESTMENT IN SOCIAL WELLBEING
- INVESTMENT IN EDUCATION
- INVESTMENT IN RURAL ECONOMY
- BUSINESS PARTNERSHIPS

OUTPUT

- GROWTH IN LOAN BOOK 38%
- GROWTH IN DEPOSITS 37%
- RETURNING 68% OF REPEATING VISITORS TO PATPAT.LK
- VALUE CREATION ON COMMUNITY DEVELOPMENT
- RS. 14 BN. NET LENDING OUTSIDE WESTERN PROVINCE

OUTCOME

- Enhancement of standard of living
- Knowledge enhancement
- Improved business partnerships
- Transparent business relationships
- Customer loyalty
- Responsible corporate citizenship

INTRODUCTION OF A "SMARTCLASS" CONCEPT VIA CDB *"PARIGANAKA PIYASA"*

ESTABLISHMENT OF A "CUSTOMER CONNECT" CRM SYSTEM

→ RELATIONSHIP MANAGEMENT

Our role in **society** is defined by the services we provide and, especially, we engage with our stakeholders, including our **customers, business partners, regulators** and the community. Therefore, we forge strong and long-lasting relationships both internally and externally with our stakeholders as we understand that they are critical for the sustainability of our Organisation. Against this backdrop, matters such as ethics, integrity and transparency play a critical role in sustainable development of our Organisation. We understand that we have a valuable role to play in the development of communities where we operate and contribute to the development of our nation.

We provide a gamut of financial solutions to diverse customer segments across the island and support economic development of our nation. We also place high emphasis on ethical conduct, operating honestly and with integrity securing the trust of our stakeholders, which is integral to the long-term success of our business. We further enhance the positive impact of our business activities through our focused social investment initiatives that seek to build sustainable communities.

We have always put our stakeholders first. These relationships have led us to use the viewpoints of the main parties to help shape up our actionable ideas at an early stage. We simply listen and respond. This is where marketing and communication has flourished, as we have shared our financial knowledge with our customers, business partners, community and regulators empowered them with a diverse and visionary portfolio of products and services and ensured that they can make an informed choice with their investment. The interaction we have with them is built on trust.
We are accountable to them and hence any information we communicate is relevant, reliable and authentic. By putting their needs and aspirations first, we make sure that they are connected and their convenience level is high.

SOCIAL AND RELATIONSHIP CAPITAL VISION

Generating positive customer experiences and committed to build trust through prudent governance and ethical practices with the aim of becoming the financial powerhouse through the delivery of comprehensive financial solutions

SOCIAL AND RELATIONSHIP CAPITAL STRATEGY

- Customer centric approach
- Ethical business practices and advanced business partner relationships
- Technological advancements and catering to customer needs
- Fostering business partner relationships

OUR SOCIAL AND RELATIONSHIP CAPITAL VALUES

- Accountability
- Trust
- Honesty
- Responsibility

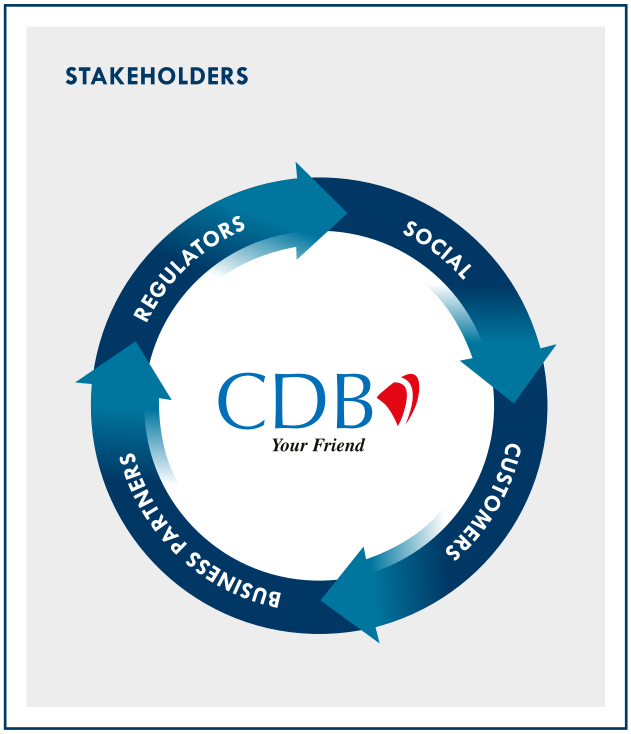
COMMITMENT TO OUR SOCIAL AND RELATIONSHIP CAPITAL

We offer a vast variety of financial solutions to our stakeholders while being responsible for what is delivered. We run through defined principles that guide our marketing communication with them. Therefore we are committed to build trust through responsible practices, transparent transactions and communication.

COMMUNICATION POLICY

We ensure material information is disclosed in a timely, consistent, and appropriate manner. By providing guidelines for the brand dissemination of material information we ensure every stakeholder is on the same page about the Company.

We ensure that all information material to the business and affairs of the Company is disclosed to our stakeholders satisfying the above mentioned objectives.

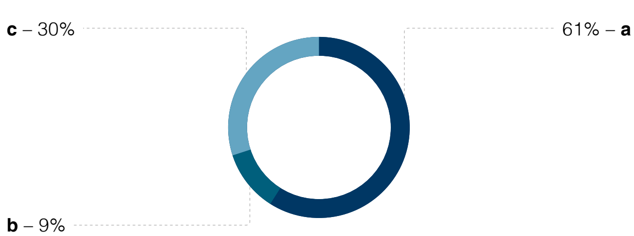


→ OUR CUSTOMERS

Our customers are at the heart of everything we do. Hence, constantly delighting our customers by generating positive customer experiences is an important priority for us at CDB. Our highly dedicated and competent staff members are equipped to deliver an outstanding service to customers every time. We also remain committed to building trust by adopting ethical practices through prudent governance. As we aim to become a financial powerhouse through the delivery of comprehensive financial solutions, we continually develop our internal capabilities and service standards to meet the rapidly changing customer expectations. Additionally, we proactively engage with our customers, providing them with the necessary tools to manage their finances efficiently and protect themselves against fraud and thereby ensure long-term, mutually rewarding relationships.

We have a diverse customer base spread across different segments and districts in Sri Lanka.

Customer Base 2017/18



a – Savings **b** – Term deposits **c** – Lending

→ ADDING VALUE TO OUR CUSTOMERS

We always strive to deliver a friendly, convenient and efficient service to our customers.

→ CUSTOMER RELATIONSHIP MANAGEMENT

The Customer Relationship Management Unit (CRMU) was established to strengthen the relationships we nurture with our customers. The following initiatives are implemented to enhance customer convenience.

→ CDB DOOR STEP SERVICE

CDB Door Step Service was launched to provide our services at the door step of the customer and thereby enhance customer convenience and deliver increased customer value. Services such as delivering and collection of applications and other documents including the delivery of FD certificates and savings passbooks are extended through this service.

→ ENHANCE CUSTOMER PRIVACY

[GRI 206-1, GRI 417-1, GRI 417-2, GRI 417-3, GRI 418-1]

Being a financial institution, we handle large volumes of sensitive information generated from a wide range of financial transactions. Hence, protecting customer privacy and maintaining a high level of confidentiality is one of our prime tasks.

We uphold the highest level of integrity and ethical standards in our daily operations and our systems, operating procedures and controls enable us to deliver optimal results whilst protecting customers from any adverse exposures. Additionally, we reduce any risk of fraud by following stringent risk management practices and adhering to relevant regulatory requirements. All our staff members adhere to a strict secrecy policy to which they are bound through the Code of Conduct. Additionally, our information technology platform is maintained in-house and is duly secured against malicious spyware. During the financial year under review, there were no complaints pertaining to breach of customer privacy or loss of customer data. [GRI 418-1] Legal actions for anti-competitive behaviour, antitrust and monopoly practices. [GRI 206-1]

→ BEING MORE FAMILIAR TO THE CUSTOMER

We increased our efforts to build close connections with customers during the year and create a more customer friendly ambience. Our employee designations were revised to reflect close customer connections.

→ CDB PREMIER, MANDATE AND SERVICES

CDB Premier is a platform created to extend an exceptional customer experience to our high net worth clients in order to ensure customer retention. Additionally, a Premier Mandate was developed setting out the eligibility criteria, service standards and processes to be followed by the branches and our Call Centre. Several loyalty programmes were launched to reward and increase customer loyalty. These included free movie tickets, seasonal hampers and trips to exciting locations in Sri Lanka.

→ HAPPY CUSTOMER SESSIONS

Happy customer sessions are conducted to generate new and innovative ideas that delight our customers and make them happy with our services. Representatives from all departments participated in these sessions.

→ KEY VALUE ADDITIONS DURING THE YEAR

[GRI 102-2, GRI 10.2-6]

1. Platinum Saver

This product was launched to maximise the returns of businessmen, by providing the highest interest rate on savings. Funds need to be transferred daily to the savings account from the business operations. A daily interest is added to the customer's savings balance. The funds can be transferred to the account via CDBiNet.

2. Quik Savings

CDB Quik Savings was launched to enable youth to achieve their aspired lifestyles. Quik Savings account holders are enabled to purchase a brand new mobile phone, a motorbike or a scooter at a low monthly instalment.

3. FD Seasonal Campaign

Seasonal campaigns for CDB *Dhana Surakum* Fixed Deposits were implemented during the festive seasons. Accordingly, attractive gift promotion with attractive interest rates were awarded to all fixed deposit holders who opened fixed deposits during the Sinhala Tamil new year in April and Christmas and the new year season in December. This was launched to attract new customers and enhance customer experience.

4. Gold Loan Land Consumer Promotion

In tandem with the relaunch of gold loans, valuable gifts were awarded to customers under the Gold Loan promotion campaign. A valuable eleven perch land was gifted to the first year winner, Ms Sumithra Nirmali of the Negombo branch. The second phase of the promotion will be launched in the ensuing financial year.

5. Scooty *Wasana* Campaign

Scooty Wasana campaign was launched with the objective of implementing consumer centric marketing communications campaigns for our three wheeler customers. Three Scooty Peps were awarded to three lucky customers during the three-month promotional period. This resulted in significant growth in business volumes and enhanced customer awareness about CDB leasing and related services offered for three wheeler leasing.

6. CDB *Kiwwoth Salli Thamai* – Dealer Loyalty Programme

The dealer loyalty programme was launched to propel three wheeler dealers to promote CDB leasing at the point of sale. Our best dealers were recognised and rewarded for their service whilst the programme provided visibility to dealers who promote CDB leasing, at three-wheeler dealer points. Many new dealers joined us as leasing partners as a result of the programme and our existing dealers were encouraged to conduct more business with us.

7. Activations Covering Gold Loans, Savings and Leasing

With the aim of increasing our reach amongst our existing as well as potential customers, several activation programmes were executed to promote the CDB brand in rural communities amalgamating our gold loans, savings and leasing products.

Accordingly, town storming sessions, promotions at the *"pola"* (local fair) and numerous other activation programmes were conducted to promote CDB as a total financial solutions provider, create awareness for our products and value propositions.

Activations were conducted to create visibility for our brand and position CDB as a strong corporate. We did picketing style promotional campaigns and three wheeler promotions in key cities which enabled us to create awareness and gain business leads.

8. Mudharabha Platinum Savings

An extension of Platinum Saver, Mudharabha Platinum Savings was introduced to the Islamic community, enabling Muslim businessmen to earn the highest profit on their income. The product is compliant with the Islamic Shari'ah law. Fund can be transferred via CDBiNet conveniently and securely.

Mudharabah Platinum Saver (Investment) is a contract between two parties; one providing the capital and the other providing specialised investment knowledge and expertise and managing the investment. Profits generated are shared between the two parties based on a pre-agreed ratio.

→ OUR BUSINESS PARTNERS

[GRI 102-9, GRI 102-10, GRI 204-1]

We maintain strong relationships with our business partners to secure the timely acquisition of goods and services in line with achieving our objectives. Best outcomes are derived from our strategic partnerships, when each partner delivers excellence in each respective service area. Hence, reciprocal relationships and mutual successes is shared with all our partners.

→ OUR APPROACH TOWARDS BUSINESS PARTNERS

Focus on Outcomes: Our key focus is to deliver end value to our customers and we consider each partner as an integral part in the value delivery process. We have dedicated staff members to manage relationships with each business partner and review the status of relationships on a regular basis.

Commitment: The level of commitment required from each party is taken into consideration when negotiating, as it directly contributes towards customer satisfaction. Therefore, we follow a stringent screening and selection process when selecting suppliers, dealers, brokers and other institutional suppliers. This process is executed by our Purchasing Committee, headed by the senior Corporate Management.

Collaboration: We believe collaborative partnerships have a higher rate of success. Therefore, we focus on forming strong alliances with our business partners instead of merging, when sharing of resources is not required.

Communication: Effective communication is essential to eliminate deviations between business partners. Therefore, we have identified key staff members to engage with external parties and we provide the necessary training in particularly, in the area of communication and interpersonal skills.

→ CREATING VALUE THROUGH STRATEGIC PARTNERSHIPS

Strategic Partnerships Creating Value

COMMUNITY

- Improved revenue streams and increased profitability
- Improved efficiency and effectiveness
- Speedy access to resources and new markets
- Directions for new business lines
- Better risk management

COMPANY

- Reduce long-term risk in the business environment
- Value chains leading to developments in the sector
- Increased viability for industry participants

SECTOR

- Skill development and increase in employment levels
- Develop sustainability solutions

→ OUR SOCIETY [GRI 102-12, GRI 413-2]

As a responsible corporate citizen, we contribute towards a sustainable society by promoting ethical business practices in our supplier chain, uplifting the communities and embarking on environmentally friendly initiatives. We strive to achieve this by embedding sustainable business practices into our operations. [GRI 413-2]

→ ADDING VALUE TO SOCIETY [GRI 413-1]

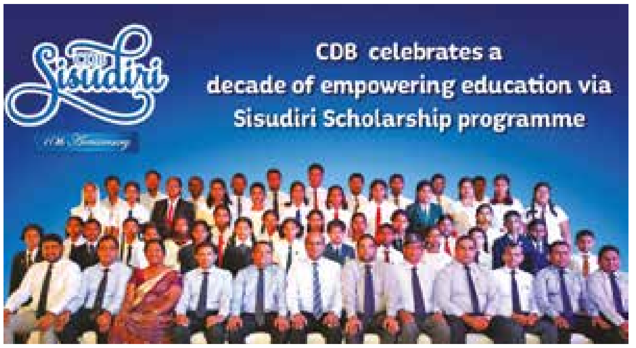
→ CSR – AUTISM AWARENESS PROGRAMME [GRI 203-2]

CDB and Sri Lanka Association for Child Development (SLACD) initiated an Autism Trust Fund to strengthen the Autism awareness in Sri Lanka. CDB is contributing Rs. 100 from every one million business secured. This island wide awareness campaign aims to ensure that every child with autism receives early detection and attention which helps to reduce the negative impact that Autism has on their lives. We have partnered this project due to the increased prevalence of Autism in Sri Lanka. Autism can be easily managed through early detection by creating more awareness among the public. Creating awareness will instigate timely interventions for early detection prompting an improvement in the child's functional outcome and also bring about a better understanding of the disorder.

As a second phase of the project, we set up mobile clinics to disseminate information about autism by involving our customers and the general public. SLACD organised two outreach programs in Pimbura and Rathnapura which were funded through the Autism Trust Fund. In collaboration with the SLACD, a poster campaign was also launched whilst Ampara General Hospital was given a Development Sensory Unit through our collaborative efforts through the Autism Trust Fund.

→ CDB *SISU DIRI* SCHOLARSHIP PROGRAMME [GRI 203-2]

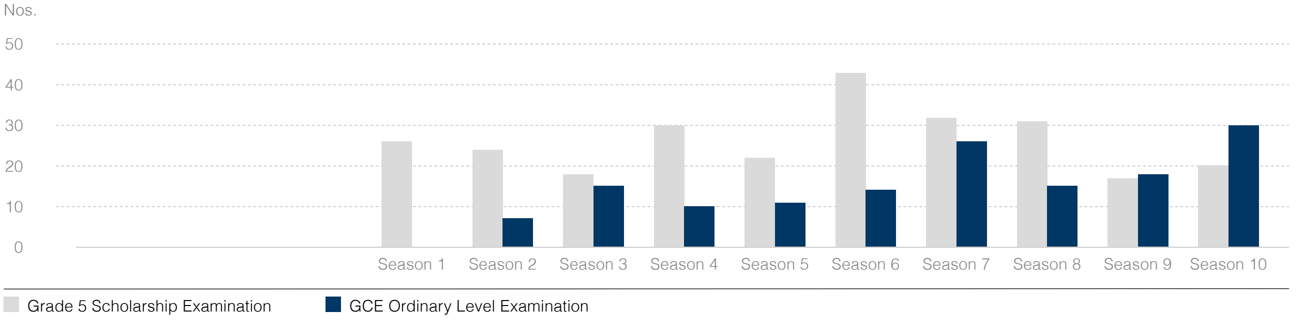
For the tenth consecutive year, we rewarded high performers of the Grade Five Scholarship examination and the GCE Ordinary Level examination through the CDB *Sisu Diri* Foundation. The scholarship recipients are children from low-income families, mainly of the three-wheeler owners. The recipients are selected through a transparent and unbiased selection process. An annual cash grant of Rs. 10,000 is awarded to high performers of the Grade 5 Scholarship examination until the completion of the Ordinary Level examination. High flyers of the Ordinary Level examination are awarded Rs. 15,000 per annum until the completion of the Advance Level examination. We are pleased to state that a total of 50 scholarships were awarded totalling Rs. 3.1 Mn. during the financial year.



→ NUMBER OF SCHOLARSHIPS

Sisudiri Season	Grade 5 Scholarship Examination	GCE Ordinary Level Examination	Total Scholarships
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

Number of Scholarships



→ CDB *PARIGANAKA PIYASA* [GRI 203-1]

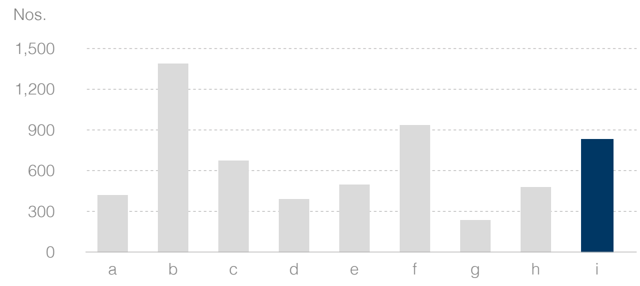
CDB presented a "smart classroom" as the 11th donation to Ra/Sri Saranajothi Tissa Vidyalaya located in the little town of Devipahala, Kuruvita in the Sabaragamuwa Province at an investment of Rs. 1.5 Mn. in 2017/18 financial year.

In our efforts to improve Information and Communication Technology (ICT) literacy among rural youth, to empower and enable them to adapt well into a future shaped by technology, we have donated a total of ten IT Laboratories to ten underprivileged schools across Sri Lanka over the past ten years.

We work in close collaboration with the Ministry of Education and the Zonal Education officials to shortlist prospective schools. We then conduct an impartial evaluation through a site visit. The selected school is given a brand new, fully-equipped IT laboratory with brand new computers with licensed software, computer tables, chairs, scanners, printers and multimedia facilities.

Year	School	District	Number of Students
2009/10	Nadigamvila Maha Vidyalaya	Hambantota	210
2010/11	Navankuli Maha Vidyalayam	Jaffna	700
2011/12	Ethawatuwawa Vidyalaya	Anuradhapura	340
2012/13	Swarnapradeepa Maha Vidyalaya	Kurunegala	200
2013/14	Kandapola Mahinda Maha Vidyalaya	Nuwara Eliya	250
2014/15	Kandayamotte Sinhala Vidyalaya	Kurunegala	472
2015/16	Lagineyala Kanishta Vidyalaya	Monaragala	120
2016/17	Kehelpannala Kanishta Vidyalaya	Kegalle	242
2017/18	Ra/Sri Saranajothi Tissa Vidyalaya	Ratnapura	420

Number of Students



a – Nadigamvila Maha Vidyalaya
b – Navankuli Maha Vidyalaya
c – Ethawatuwawa Vidyalaya
d – Swarnapradeepa Maha Vidyalaya
e – Kndapola Mahinda Maha Vidyalaya
f – Kandayamotte Sinhala Vidyalaya
g – Lagineyala Knishta Vidyalaya
h – Kehelpannala Kanishta Vidyalaya
i – Ra/Sr Saranajothi Tissa Vidyalaya

→ CDB *HITHAWATHKAM* – ENGAGING EMPLOYEES [GRI 203-2]

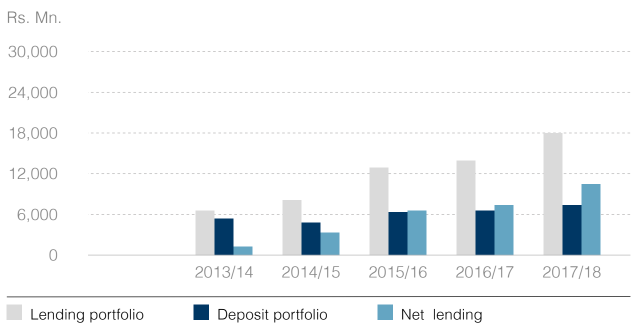
We strive to build and maintain the trust of the communities we empower and operate in. Therefore, we continually contribute towards their development, by building healthy, resilient and sustainable communities. During the year under review, our employees volunteered their efforts to actively participate in numerous CSR activities. By deploying sustainability representatives in every major geographical area we operate, we drive our sustainability initiatives, aligned to the core values of our Company.

→ EMPOWERING ENTREPRENEURS [GRI 203-2]

We endeavour to uplift and enrich the lives of people through the provision of financial products and services. During the year under review, we introduced Corporate Finance Services to upcoming entrepreneurs to enable them obtain working capital and conduct their business efficiently. Through the provision of a range of services included margin trading, start up financing, venture capital, debenture issue management, advisory services and capital financing provided under the Corporate Finance arm, we support entrepreneurs to grow and succeed beyond their expectations.

Additionally, we promote economic and social inclusivity, by offering an inclusive service to empower rural and underprivileged segments of the society. Therefore, we have a high lending concentration outside the Western Province. We continued to offer a range of products and services, targeting rural entrepreneurship with minimal collaterals and convenient instalments etc. Our net lending portfolio outside the Western Province stood at Rs. 14 Bn. reflecting an increase of 42.67% compared to the previous financial year.

Net Lending Outside the Western Province



[GRI 413-1]

Net Lending Outside the Western Province

	2017/18 Rs. Mn.	2016/17 Rs. Mn.	2015/16 Rs. Mn.	2014/15 Rs. Mn.	2013/14 Rs. Mn.
Lending portfolio	**24,444**	18,991	17,625	11,080	9,062
Deposit portfolio	**10,113**	8,946	8,569	6,498	7,356
Net lending	**14,331**	10,045	9,056	4,582	1,706

→ CDB SMB FRIDAY [GRI 203-2]

CDB SMB Friday

This was launched to provide visibility to our small and medium enterprise customers. We have provided a platform to create awareness about this important customer segment on social media through our corporate website. This has facilitated to create connections, promote their businesses and also nominate others to join the site.

→ PROMOTING RURAL YOUTH EMPLOYMENT [GRI 203-2]

We attract, retain and develop rural youth who are dynamic, passionate and committed. Our island-wide branch network and core values coupled with our organisational culture are geared towards this strategy. We have contributed towards Sri Lanka's social and economic upliftment by reducing youth migration to Colombo and other urban centres. This has also helped to avert numerous social problems that could arise in the country due to migration. There has been a steady increase in the composition of recruitments outside the Western Province.

→ DISASTER RELIEF PROGRAMMES [GRI 203-1]

We actively lend a helping hand to local communities. During the year under review, we extended our assistance to the flood victims in the Kalutara District by providing financial and non-financial donations. These donations were granted under two phases with the generous contributions of our staff members.

Phase 1

Rs. 4,750,000 was donated to repair 121 partly damaged houses and reconstruct 23 fully destroyed houses in Yatagampitiya and Athwelthota. Also Rs. 100,000 was donated to a family affected by the floods in Digana.

Phase 2

Gift vouchers to the value of Rs. 2,715,000 along with school bags, stationery and sanitary items were distributed among students affected by the floods.

→ CITIZENS WISDOM PATH [GRI 203-2]

A knowledge-based CSR initiative was launched during the year, by conducting a seminar for the Advanced Level students. This programme was conducted under the theme "Build beyond the future". A total of 310 Commerce stream students and 30 teachers from selected schools in Western Province participated in the seminar.

→ OUR REGULATORY RELATIONSHIPS [GRI 419-1]

We give utmost importance to good governance, ethics and compliance. As a financial services organisation in Sri Lanka, we abide by all the applicable local and international rules and regulations. We have set up a robust governance structure to oversee the sustainability agenda of our Company. Governance principles, accountability, transparency, ethics and values have been infused into our operations. Additionally, we continued to improve the monitoring and control mechanisms that govern these areas to ensure our sensitivity to socially accepted norms.

There were no complaints or legal actions pertaining to anti-competitive behaviour, antitrust or monopolistic practices instituted against our Company. We have neither been obliged to pay any significant fines nor been subjected to non-monetary sanctions for non-compliance with laws and regulations during the year. There were no complaints or legal actions instituted against the Company for non-compliance with any environmental or public health laws or regulations as well. [GRI 206-1]

→ OUR REGULATORY COMPLIANCE [GRI 419-1]

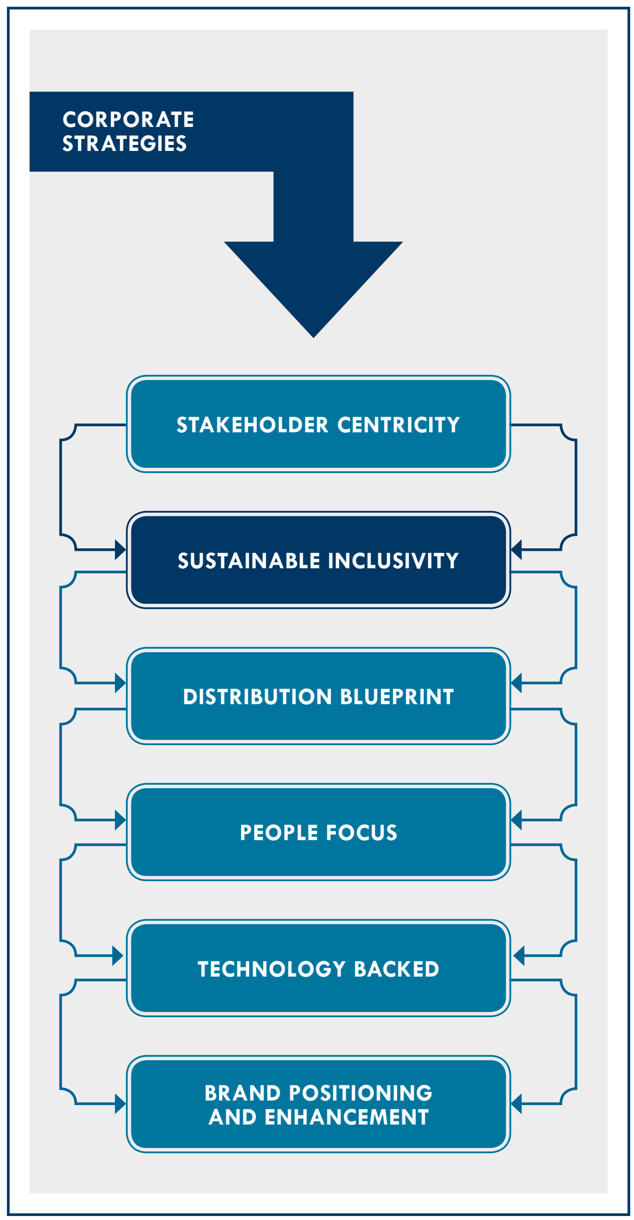
Regulator	Status
Central Bank of Sri Lanka (CBSL)	We complied with all the statutory requirements of CBSL; the regulator and governing body of all the financial institutions in Sri Lanka.
Securities and Exchange Commission of Sri Lanka (SEC)	We complied with the regulations of SEC and submitted financials in timely manner. SEC is the regulator of Colombo Stock Exchange that formulates rules for fair trading of securities for investor protection.
Colombo Stock Exchange (CSE)	The CSE is a self-regulatory organisation subject to the regulation and supervision of the SEC. We have ensured compliance with the rules and regulations of the CSE by timely submission of accurate financials.
Department of Inland Revenue (IRD)	We have a separate Tax Department to asses and monitor our indirect and direct taxes. All our tax obligations were discharged as required by the rules and regulations of the IRD.

[GRI 102-13]

NATURAL CAPITAL

THE FUTURE OF ALL PEOPLE DEPENDS ON THE WELL-BEING OF THE PLANET THROUGH THE PRUDENT USE OF THINGS – ESPECIALLY TANGIBLES SUCH AS NATURAL RESOURCES.

At CDB, we consider ourselves responsible stewards of our collective future. Knowing full well the consequences of depleting finite natural resources we make every effort to minimise our impact on the environment.



COLLABORATING FOR A GREENER TRAIL

At CDB, we seek ways to reduce or minimise the impact of our operations because we understand sustainability is vital for business success and responsible growth. Our commitment towards environmental protection is affirmed through the eco-friendly business practices adopted across our organisation. Therefore, in a bid to conserve energy, we have established policies and procedures that enable sustainable and efficient business operations, whilst creating awareness among our team members and our valued business partners.

Through our flagship environmental sustainability project; *"Mihikathata Adaren"* we inculcate a sense of responsibility and affinity towards the environment.

NATURAL CAPITAL VALUE CREATION MODEL

INPUT

- RENEWABLE POWER ENERGY SOLUTIONS
- TREE PLANTING AND PRESERVATION
- BIO DIVERSITY CONSERVATION
- WASTE COLLECTION AND MANAGEMENT
- FORMATION OF A G SQUARED (G^2) GREEN CLUB
- ADHERENCE TO ENVIRONMENTAL LAWS AND REGULATIONS

ENVIRONMENTAL AND SOCIAL MANAGEMENT POLICY

OUTPUT

- DIRECT AND INDIRECT EMISSION 2,028 tCO_2e
- OFFSET 2,028 tCO_2e BY INVESTING UN CERTIFIED EMISSION REDUCTIONS (CERS) FROM JORETHANG LOOP HYDRO ELECTRIC PROJECT
- MANAGE ENVIRONMENTAL AND SOCIAL RISK
- KNOWLEDGE CREATION AND AWARENESS THROUGH "GREEN NINJA" QUIZ COMPETITION
- MANAGING ENERGY AND WATER CONSUMPTION

OUTCOME

- Enhance Carbon Neutral Status across all the physical touch points
- Maintained the ISO 14064-1 carbon verified status
- Re-affirmed the commitment to maintain zero-carbon operation stance
- Sustainable focus on lending
- High level of employee engagement for green initiatives
- Enhancing environmental saving avenues

SIGNING OF UNFCCC "CLIMATE NEUTRAL NOW" PLEDGE

ISO 14064-1 CARBON VERIFIED AND CARBON NEUTRAL STATUS FOR THE 3RD CONSECUTIVE YEAR

→ CONNECTING PEOPLE TO NATURE

As a business we focus on creating value for both the Organisation and our stakeholders. In doing so, however, we make every effort to minimise our impact on the planet and its finite natural resources.

Today, the natural capital that supplies those benefits is at risk from unsustainable development such as the large scale conversion of forests and wetlands for agriculture, the pollution of soil, water and air, resource-hungry production and consumption and poor urban planning in our fast growing cities. Therefore our efforts are to preserve the ecological system.

"Mihikathata Adaren" is our flagship environmental sustainability project which instils in our people a sense of responsibility and affinity towards the environment.
It empowers us to be a team of "doers" taking affirmative action to conserve our natural world for future generations – and as a company, to champion the future health and well-being of the planet through green business operations.

Our environmental targets are ambitious and, in order to meet them, we have initiated (G^2) G Squared – Go Green Club with a greater purpose of *"connecting people to nature"* promoting eco-friendly business practices, preserving fragile ecosystems and conserving energy.

People play a vital role in protecting nature. It makes sense to go back and get connected with the nature so it helps to better understand problems such as climate change and come up with sustainable solutions. Many of our activities therefore carried under the flagship project highlight natural ways to solve environmental problems. This approach has always been with a pinch of high-tech or sophisticated systems and a much more with human engagement and involvement. Therefore promoting awareness of the importance of functioning ecosystems and the services they provide, and safeguarding them for future generations, has become critical elements in our environmental sustainability agenda.

However, in order to happen this, it is important that we understand the incentives that people have in order to get connected with the environment. Since we are looking for sustainable solutions connection with the nature this will be a continuous effort rather it has to be a one-time activity.

ENVIRONMENTAL CAPITAL VISION

Our Vision for the environment encompasses the whole Organisation coming together to mitigate our impact on the environment by conserving and preserving ecosystems for future generations as we surge forward towards our goal of being a zero-carbon blue-green entity.

ENVIRONMENTAL CAPITAL STRATEGY

At CDB, our Environmental Capital Strategy reflects our concern for the planet and focuses on ensuring that our impact on the environment is mitigated to every possible extent in order to ensure a sustainable future. Our trademark slogan *"Mihikathata Adaren"* is an apt symbol for our efforts.

COMMITMENT FOR ENVIRONMENTAL CAPITAL

We continue to forge ahead in our effort to responsibly manage the short-term and long-term impacts of our business on the environment. We promote the sustainable use of natural resources while offering quality products that meet the needs of customers.

CDB's efforts in managing environmental impacts are designed to help us to meet the expectations of our stakeholders, increase the long-term sustainability of the Company, reduce business risks, and also minimise operating costs.

ENVIRONMENTAL CAPITAL VALUES

Our people uphold the following Environmental Capital Values:

- Efficiency
- Conservation and Preservation
- Commitment
- Minimisation

ENVIRONMENTAL POLICY

A vital part of our corporate business strategy, our Environmental Capital Policy is focused on sustainability. It outlines how the Company will be doing its utmost to conduct business activities that respect and improve the lives of people and conserve the planet's resources.

The environmental policy provides a consistent framework to manage environmental initiatives across the Company. We strongly believe that giving due consideration to sustainability will improve resilience while strengthening the long-term sustainability of the Company.

CDB GREEN PLEDGE

I recognise that I need nature.

I recognise that nature gives me the air I breathe, the food I eat, the water I drink and much, much more.

I recognise that without people like me who raise our voices to protect the planet, we'll continue to take more from nature than nature can give.

I'm going to help turn the tide.

I pledge to protect the planet and to spread this message to my friends, family and neighbours, so they too can understand and appreciate nature's value.

→ KEY ENVIRONMENTAL INDICATORS [GRI 302-1]

		2017/18	2016/17	2015/16
Consumption	Electricity (units)	721,278	705,662	731,484
	Water (litres)	4,635,000	4,483,000	4,365,000
	Fuel for transportation (litres)	12,611	13,752	14,671
	Fuel for business travels (litres)	10,072	13,478	14,432
Emission Level	Scope I (tCO_2e)	345	168.41	
	Scope II (tCO_2e)	1,047	611.51	175.06
	Scope III (tCO_2e)	636	791.64	425.48
Recycling Efforts	e-Waste recycling			
	Saving of fully-grown trees (Nos.)	153	123	–
	Gasoline conserved (Gallons)	670	546	–
	Plastic bottles recycled	5,727	4,666	–
	Aluminium cans recycled	26,345	21,466	–
Meetings and Discussions	Sustainability meeting held	6	6	6
	G Squared meeting	24	22	–

→ ENVIRONMENTAL AND SOCIAL MANAGEMENT (ESM) POLICY

During the year under review, our approach focused on environmental sustainability and prudent management that minimises the negative impact of our business activities. As a result we developed an Environmental and Social Management Policy for the Company outlining our vision and mission with respect to the environment, society and our planned contributions to sustainable development. It articulates our commitment to integrating environmental and social considerations into business activities while contributing to sustainable development. In a nutshell it is a policy that serves as a brief declaration of our commitment to sustainable development and management of environmental and social issues.

The policy is in line with all the national laws and regulations relating to environmental and social safeguards. The policy outlines how CDB will put into practice its commitment to promote environmental and social responsibility by integrating such considerations into all its activities. It also establishes CDB's expectations for clients in line with its environmental and social issues, defining the respective roles and responsibilities of both in achieving sustainable outcomes in line with the policy. It also sets out performance requirements and strategic goals for promoting environmental and social benefits.

→ ENVIRONMENT AND SOCIAL MANAGEMENT SYSTEM (ESMS)

The Environmental and Social Management Policy of CDB serves as the bedrock upon which the objectives and procedures of the ESMS are anchored. During the year, we developed an environmental and social management system for the Company. It is now being implemented as a pilot study and includes procedures, management commitment, delineation of roles and responsibilities, and the necessary guidance for a financial organisation to follow when reviewing and managing the environmental and social issues and risks associated with its investments.

While protecting CDB from credit losses caused by the pollution or labour issues of our customers, our Environment and Social Management System is designed to help us manage the environmental and social impacts of our business portfolio.

Our Environment and Social Procedure outlines how we protect the environment and society as part of our investment operations. Procedures are normally step-by-step instructions focusing on what needs to be done and by whom at various stages of the investment cycle (including supervision), with reference to guidelines being made frequently.

The objectives of the ESMS are to help us:

- Better understand the environment and social risks in its portfolio
- Evaluate, mitigate and monitor these risks on a structural basis
- Maximise opportunities for environment and social benefits to arise
- Comply with national standards and applicable international covenants
- Establish a good reputation among clients, investors and other relevant stakeholders

→ ISO 14064-1:2006 CARBON VERIFIED

CDB was recognised as South Asia's very first ISO 14064-1 carbon verified financial institution by Sri Lanka Carbon Fund during the 2015/16 financial year. Aligned with the Company-wide ethos of reducing its carbon footprint, CDB continued its environmental efforts, becoming a fully carbon neutral entity for the third consecutive time.

Since the global focus on climate change and its effect on the environment has prompted corporates to evaluate the impact of their operations on the environment accordingly, our primary focus has been to contribute towards reducing the overall national green house gas (GHG) emissions and carbon footprint.

→ OUR CARBON FOOTPRINT CALCULATIONS

- Assessment Type: Green House Gas Assessment
- Standards Applied: ISO 14064-1:2006, IPCC 2006/revised guidelines GHG protocol developed by WRI and WBCSD
- Reporting Period: 01.01.2017 – 31.12.2017
- Base Year: 2015

Scopes of Green House Gas Emission

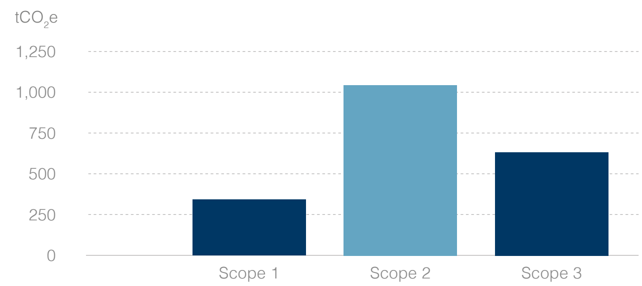
Scope I	CDB Response
Direct emissions within the organisational boundary are released from fuel combustion, refrigerant emissions, generation of electricity, steam, or heat in equipment, business travel or employee commuting in Company-owned or Company-leased vehicles.	• Refrigerant gas loss • Company-owned vehicles used for transportation • Company-owned vehicles used for business purposes • Emission from generators • Fire extinguisher
Scope II	**CDB Response**
Indirect GHG emissions are released by the production of electricity, steam, hot water and/or chilled water purchased.	• Purchased electricity
Scope III	**CDB Response**
Other indirect GHG emissions are released from all other activities outside of the organisational boundaries such as business travel, employee commuting, third party production or manufacture of materials and resources, outsourced activities, and/or combustion of fuel in boilers or furnaces and electricity, steam or chilled water use excluded from the organisational boundary.	• Emission from transport and distribution loss • Emissions from water consumption • Paper recycling • Overseas business travel • Employee commuting • Travelling for business purpose – Cabs

This study quantifies and reports the organisational level green house gas (GHG) emissions based on data received from CDB in accordance with ISO 14064-1 and GHG Protocol developed by World Resource Institute and World Business Council for Sustainable Development. All GHG emissions were reported as tonne of CO_2 equivalent (tCO_2e).

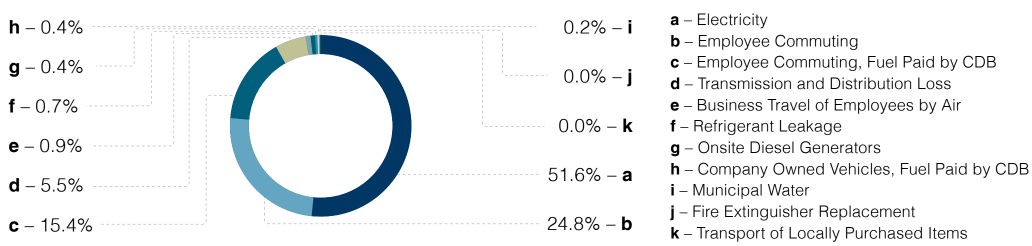
Scope	Emission Source	Total tCo_2e	Percentage of Total (%)
1	On site diesel generators	8.66	0.4
	Company-owned vehicles – business purpose	7.62	0.4
	Employee commuting – business purpose	313.28	15.5
	Refrigerant refilling	14.91	0.7
	CO_2 fire extinguisher	0.15	0.0
2	Grid connected electricity	1,046.78	51.6
3	Transmission and distribution loss	111.55	5.5
	Water consumption	3.54	0.2
	Business travel of employees via air	17.64	0.9
	Employee commuting – transpiration purpose	503.49	24.8
	Transport of locally purchased items	0.04	0.0
	Total	2,027.66	

We tracked the carbon dioxide emissions of all Company-owned vehicles, staff transportation, official air travel, fire extinguishers and energy consumption covering the entire network including the CDB Head Office. Our carbon footprint was evaluated at 2,028 tonnes of CO_2 equivalent, prompting the Company to institute measures that will further mitigate the impact it has on the environment. The Sri Lanka Climate Fund together with Sri Lanka Accredited Board audited and conducted the carbon verification process.

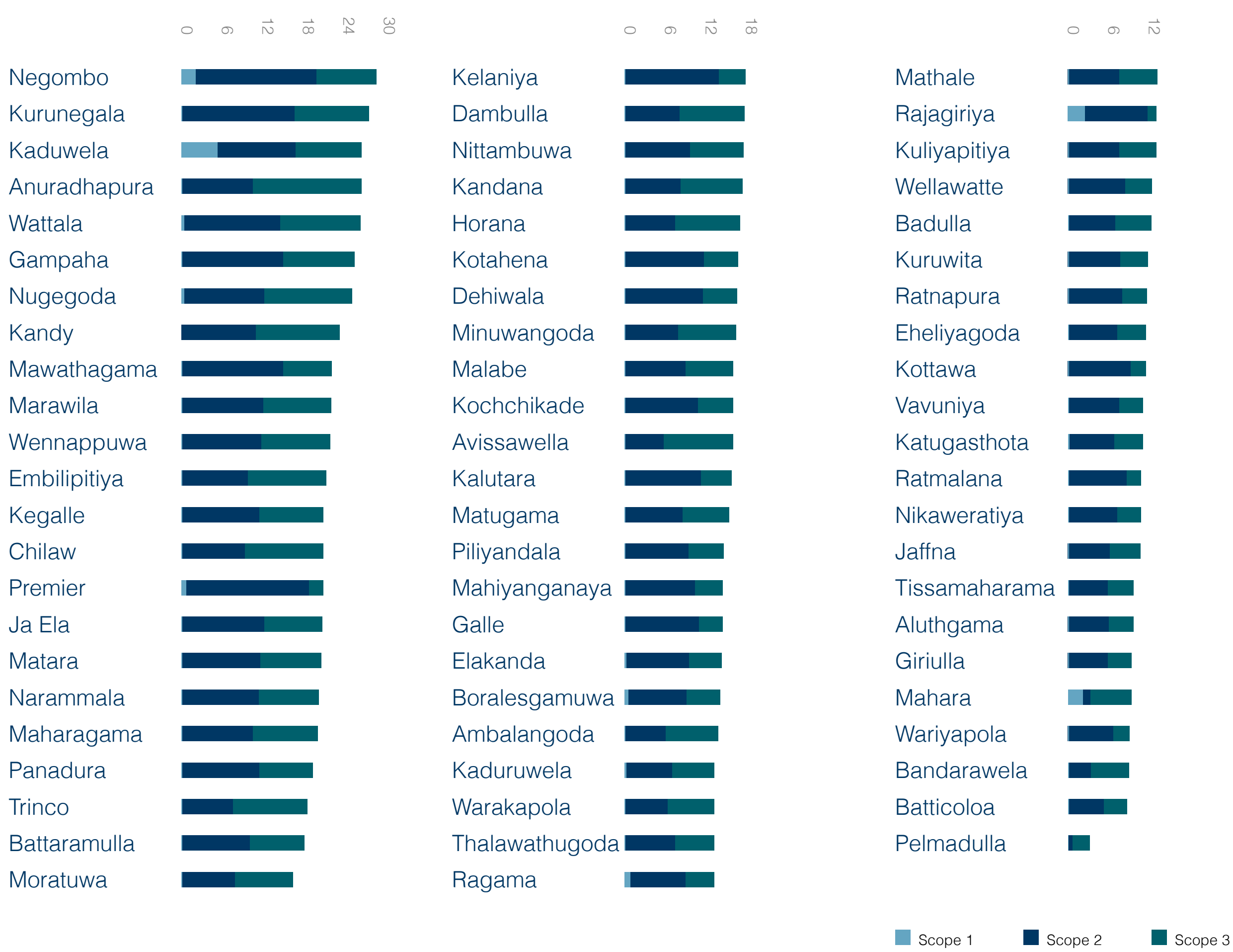
GHG Emissions for the year 2017



Total GHG Emissions by Category



Branch-wise GHG Emissions (tCO_2e)

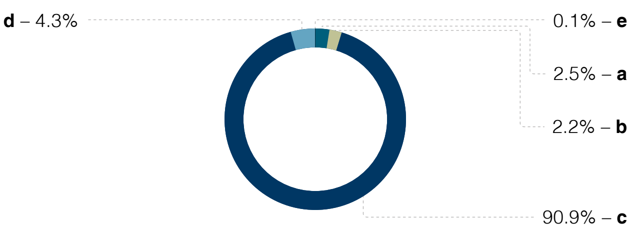


→ SCOPE I EMISSIONS [GRI 305-1]

Measuring Scope I and Scope II emissions calculation is a requirement under the GHG Protocol as these are considered to be the emissions a company has most ability to control. CDB's Scope I emissions consist of emission from on-site diesel generators, Company-owned vehicles for business purposes, employee commuting for business purposes, refrigerant refilling and CO_2 fire extinguishers. The majority of the Company's Scope I emissions are due to employees commuting for business purpose which accounts for 313.28 tCo_2e. Total carbon emissions under Scope I is 344.62 tCo_2e.

Scope	Emission Sources	Total	Percentage of Total tCo_2e (%)
I	On-site diesel generators	8.66	2.51
	Company-owned vehicles – business purpose	7.62	2.21
	Employee commuting – business purpose	313.28	90.91
	Refrigerant refilling	14.91	4.33
	CO_2 fire extinguisher	0.15	0.04
	Total	344.62	

Scope I



a – On-site diesel generators
b – Company-owned vehicles – Business Purpose
c – Employee commuting – Business Purpose
d – Refrigerant Refilling
e – CO_2 fire extinguishers

→ SCOPE II EMISSIONS [GRI 305-2]

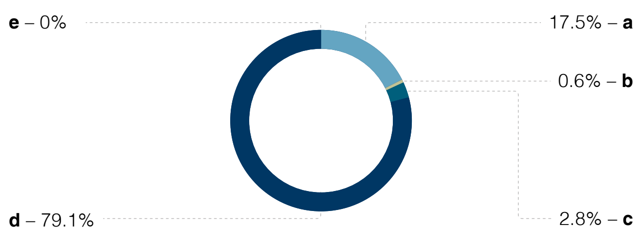
CDB's main electricity supply is from Ceylon Electricity Board. The Company has installed a rooftop solar power system at the Corporate Head Office through which energy is directly supplied to the system. Whenever a power failure occurs a diesel generator is used to generate standby power. CDB's Scope II emissions consist of purchased electricity emissions from the grid, which resulted in 1,046.78 tones of CO_2e.

→ SCOPE III EMISSIONS [GRI 305-3]

Under ISO 14064-1, reporting of Scope III emissions is optional. CDB has elected to report some relevant Scope III emissions, under our boundary and scope which is contributing a significant amount to our overall footprint.

Scope	Emission Sources	Total	Percentage of Total tCo_2e (%)
III	Transmission and distribution loss	111.55	17.5
	Water consumption	3.54	0.6
	Business travel of employees via air	17.64	2.8
	Employee commuting, not paid by CDB	503.49	79.1
	Transport of locally purchased items	0.04	0.0
	Total	636.26	

Scope III



a – Transmission and Distribution loss
b – Water consumption
c – Business travel of employees by air
d – Employee commuting – Transportation purpose
e – Transport of locally purchased items

Due to the nature of the products and services, we are considered to be a low contributor to GHG emissions. This simply inspires us to do more rather than less. We are committed to remaining a responsible corporate citizen and minimising our impact on the environment.

→ STRATEGIC MEASURES FOR EMISSION REDUCTION [GRI 302-4, GRI 305-5]

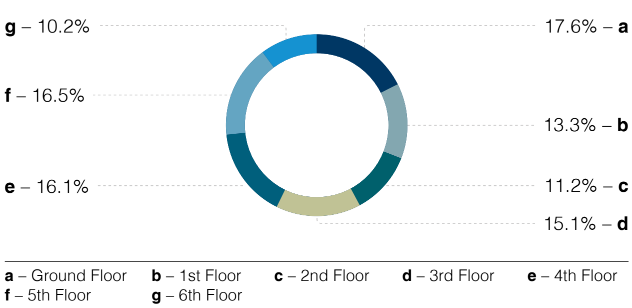
→ ENERGY AUDIT

For the first time, CDB performed an energy audit at its Head Office. As a first phase, this audit enabled us to look at new ways to improve our energy monitoring system. Such monitoring will in turn enhance our ability to report on energy consumption and costs while setting baselines and targets based on floor area. This initiative also paved the way for us to consider new energy saving opportunities for implementation and to verify energy savings and revise energy baselines and targets.

In addition, we were able to identify important aspects of the retrofit design process providing an opportunity to evaluate the facilities of our current building systems and their energy performance.

Through this study we were able to compute the distribution of energy among various end-users. Utility bill data and logged data were used in these calculations. Major floor-wise consumptions were recorded using sub meters present for historical monitoring of end-user energy consumption. Energy usage of the services in the facility is shown in the table and graph below:

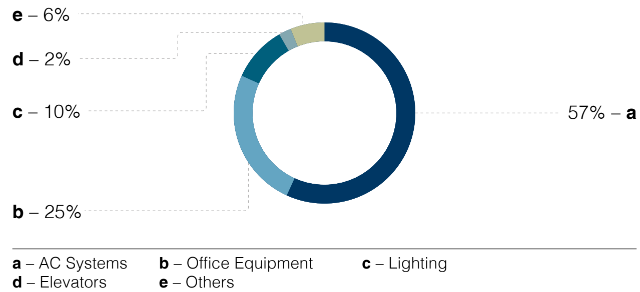
Energy Consumption for Air Conditioners



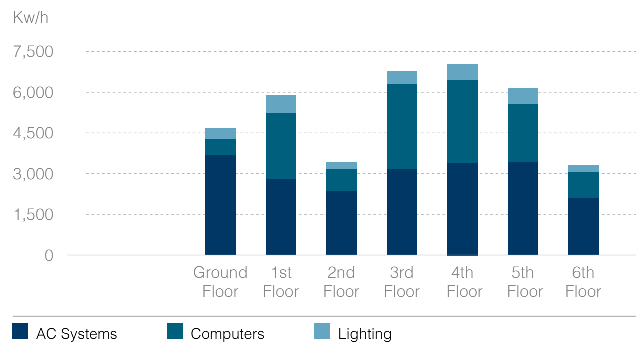
As a result of the energy audit, we were able to devise a priority plan with the help of the Facilities Management Division and implemented the following changes:

- Solving air conditioning and other issues: Switched to inverter air conditions under 22,000, 36,000 and 48,000 BTU capacities at more than 10 branches.
- Heat absorbing window films and roller blinders: Reduced heat build-up within the head office and branches.
- Demand management: Discussed, restructured and experimented with schedule for switching on air conditioners for greater energy efficiency.

Electricity Usage



Floor-wise Total Energy Consumption



→ G SQUARED = GO GREEN CLUB

The G Squared (G²), our Go Green Club was formed during the year under review with a focus of "Connecting People to Nature". It helps us reconnect with and strengthen our commitment to important initiatives such as environmental protection and awareness.

The Club encourages all of us to get outdoors and into nature, to appreciate its beauty and its importance, and to take forward the call to protect the earth that we share.

Our daily lives make a big impact on our environment, and we are now beginning to look to nature to find solutions to our environmental problems. The Club paves the way for each of us to realise and be aware of our responsibility to care for nature and protect the earth and also, to become agents for change. The Club represent with cross functional team members from each division and branches.

→ GREEN NINJA – CDB QUIZ MASTER 2017

The Green Ninja CDB Quiz Master 2017 initiative highlights our deepening focus on environmental sustainability fundamentals such as green practices that lead to a healthy planet. The quiz resulted in the sharing of knowledge, encouraging leadership and enabling the holistic growth of individuals, communities and the nation. This proud initiative is organised by the G Squared=Go Green Club.

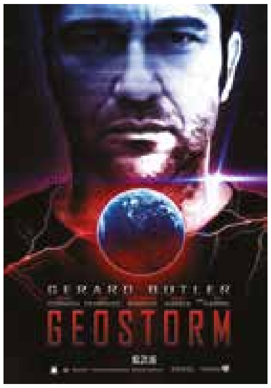
The objective of the quiz was to spread the environmental message throughout our operational network by inviting each individual to take responsibility for their actions, inculcating the ethos of conservation and infusing a greener culture aligned with CDB's sustainability agenda.

Through this quiz, green messages are rolled out to the members across all CDB branches. The quiz consists of three rounds including the Grand Finale with over 100 participants representing 80% of the employee network. The winners are presented with eco-friendly trophies in keeping with the best green practices.

As a result of this quiz the levels of environmental awareness and knowledge within CDB rose to outstanding heights. The teams answered a multitude of questions on five themes: Water, waste management, energy, bio diversity and climate change. These themes were provided by BioDiversity Sri Lanka Platform.

→ GREEN MOVIE BREAK

On a monthly basis, during the year, the club screened several movies with an environmental theme for our staff members. The objective of this initiative was to ignite a greater passion for environmental issues facing the world today.



→ PLANT A TREE – PLANT A LIFE: ECOSYSTEM RESTORATION

In our experience, tree-planting has been an extremely positive way to galvanise children into action regarding pressing environmental issues. The "Plant a Tree – Plant a Life" campaign is conducted under the flagship environmental project of *Mihikathata Adaren*, inspiring the new generation to be more environmentally conscious.

The key aim of the project was to empower schoolchildren at Presidents' College, Veyangoda to conserve, repair and restore the tree coverage in their own school premises and rebuild local economies.

For the seventh consecutive year, we conducted this programme and also we supported team *"Thuru"* who is in a mission to plant two million trees by end 2018. We also made a commitment to carry out tree planting events during every quarter of the next financial year.

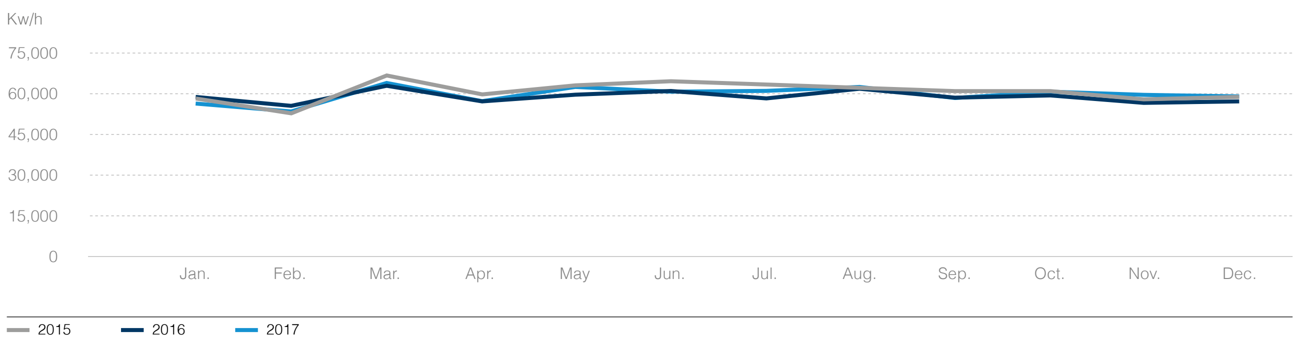
→ REDUCE

→ ELECTRICITY CONSUMPTION

To inculcate an energy conserving culture we pasted awareness stickers on each employee laptop and personal computer and monitored energy use.

For the first time, we celebrated Earth Hour by switching off the lights at the CDB Head Office for an hour to show our commitment to the environment. At CDB, we are keenly aware that the actions we take and the energy we use has an impact on the world. [GRI 302-4]

Electricity Consumption

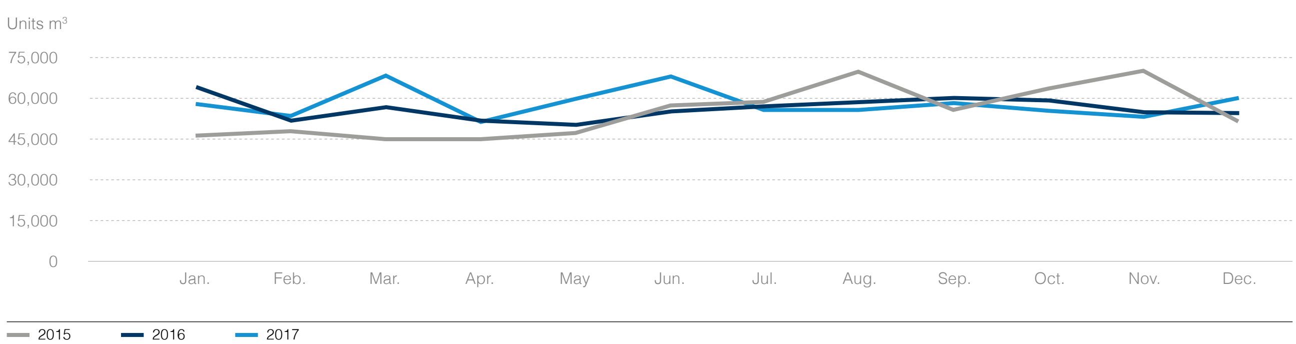


[GRI 302-1]

→ WATER CONSUMPTION

Our water usage is mainly for drinking and sanitary purposes. We continuously encourage our employees to conserve this natural resource by conducting awareness programmes and displaying water saving tags and notices in washrooms, pantries and common rooms. We have also installed fittings in our wash rooms which optimise water usage.

Water Consumption



→ RAINWATER HARVESTING SYSTEM

At CDB, we use rainwater harvesting technology installed on the Head Office rooftop to collect and store rainwater. A total of seven water tanks with 1000l capacity are used for this purpose. Rainwater is collected through gutters which drain into the collection vessel through down-pipes. This water is used for gardening purposes and also conveyed to the storage container for domestic use. As the rooftop is the main catchment area, reasonably pure rainwater can be collected and roof catchments are cleaned regularly to maintain the quality of the water.

→ WASTE MANAGEMENT [GRI 306-2]

At CDB, we focus on the sustainable elimination of waste in all forms. Controlling inputs is a key strategy in managing waste. For this reason we constantly promote reuse and recycling. Since we produce minimal effluents, our policies and efforts centre on the management of emissions and waste.

→ REUSE

To make employees more aware of the importance of conserving paper and energy CDB installed signs that illustrate simple, common-sense processes that can have a big impact on the environment. This includes reminders about printing on both sides of a paper, the correct way to print letterheads, using the shredder if both sides of a paper have been etc. These signs are posted within readable distance of each photocopier, printer and shredder.

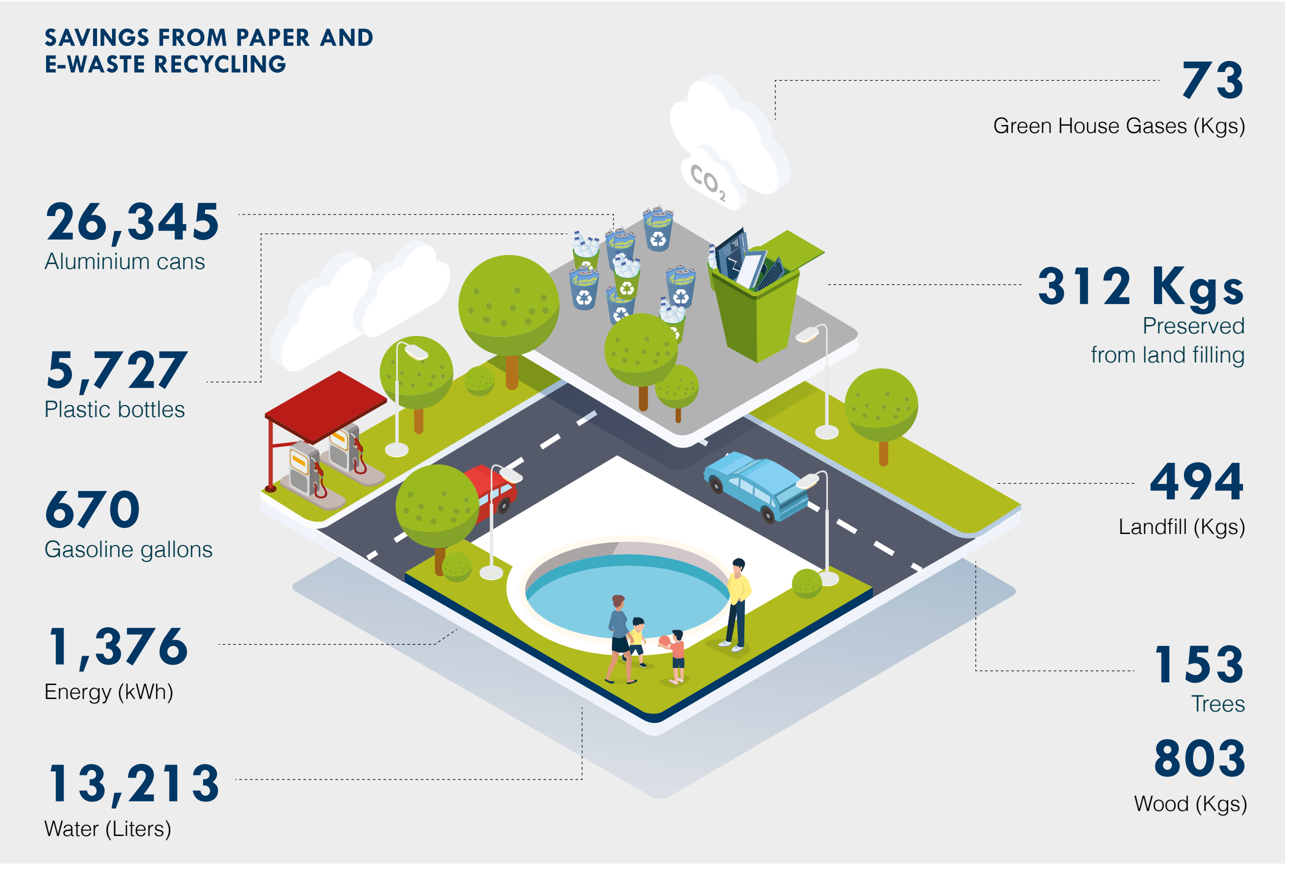
→ REPLACE

We made a choice to shift to CDB-branded glass water bottles for all employees. This initiative supports the environment as well as the health and well-being of our people. The CDB 5S team removed all plastic water bottles throughout the premises and replaced them with glass bottles as they can be recycled. Glass bottles are also free of the hazardous chemicals that are sometimes released through plastic or aluminium bottles.

→ RECYCLE

→ E-WASTE

Our E-waste recycling project was initiated in collaboration with Green Link, during the year under review. Through this project we are able to dispose of electronic waste in a safe manner, causing minimal harm to the environment. We initiated a new green movement titled "E-waste collection week" with the support and active participation of the Company Directors, corporate management members, and senior managers.



→ PAPER

For the seventh consecutive year, a waste paper recycling project was conducted at our head office. This time we partnered with Green Links contributing to saving trees and reducing energy expended in the paper manufacturing process. The project has also paved the way to make use of waste paper more effectively with minimum impact to the environment.

→ LEVERAGING TECHNOLOGY

→ ERP PLATFORM

A successful in-house development by CDB's IT Division, the SmartOps Enterprise resource planning (ERP) system has had a positive impact on Company financials and the environment. It interconnects all departments within our CDB network on a real time basis, allowing us to offer better customer service by using a system of interconnected, integrated applications to manage the business and automate many back office functions related to technology, services and human resources. From a sustainable perspective this system helps us to conserve paper as it helps streamline and automate transactions.

→ E-LEARNING PLATFORM

While training is a necessary cost for any business, traditional classroom-based training has been gradually losing its appeal. Following industry trends we championed greater use of our E-learning platform during the year under review. This has greatly reduced our environmental impact and costs for items such as travel for attendees, extensive use of paper, and venue hire. At the same time it is allowing our people to learn at their own pace and convenience.

→ GREEN LENDING

To reduce overall emissions we began promoting the leasing of hybrid and electric vehicles and reduced our focus on three-wheelers in the total lending portfolio. The main reason for the latter was the lack of a dedicated lubrication system for three wheelers, which results in engines not lasting long and using fuel inefficiently. The burning of lubricating oil and the exhaust of unburnt fuel also means that three-wheelers cause greater pollution than other vehicles.

→ GREEN PARTNERSHIPS [GRI 307-1]

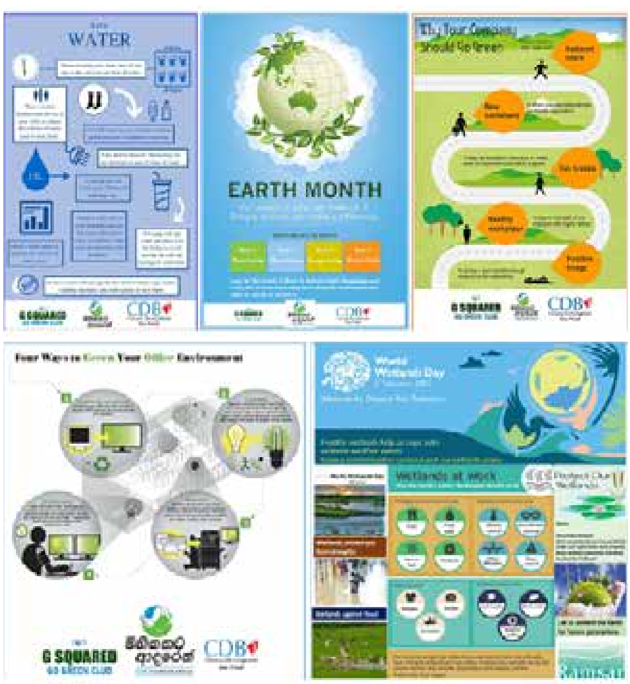
To reduce carbon emissions, be more effective in biodiversity conservation and integrate environmentally-conscious practices in our core business, we partnered with Sri Lanka Climate Fund, Climate Smart Initiative (Pvt) Ltd. and Sri Lanka Business and Biodiversity Platform, together with the Ceylon Chamber of Commerce, IUCN (International Union for the Conservation of Nature) Sri Lanka and Dilmah Conservation.

These entities provide us with the tools for fostering dialogue on conservation which in turn helps us to reach our ultimate goal of low carbon growth. Our goal is to become a knowledge-sharing entity on biodiversity conservation while promoting discussion on this important subject and improving the exchange of knowledge, information and methods of conservation.

These collaborations have lead us to be more compliant with environmental laws and regulation by providing guidelines whenever possible. Therefore, we have ensured our green journey is complied with all regulatory requirements. [GRI 307-1]

→ GREEN COMMUNICATION

We regularly communicate the importance of environmental conservation with employees using the intranet and other media. Useful tips on saving energy, water, and paper; and methods to live a more sustainable life are directed at employees in order to drive sustainability. We continue to promote energy conservation by creating awareness and introducing energy efficient infrastructure and equipment.



→ CARBON NEUTRAL STATUS

We take great pride in the strong sustainable business model that we have built over the years. Our eco-friendly efforts have already created a buzz around the CDB brand with our Organisation being hailed as a responsible corporate citizen that takes pains to provide stakeholders with sustainable solutions.

CDB was certified as a "Carbon Neutral Business Entity" by the Climate Smart Initiatives (Pvt) Ltd. Our partnership with them has resulted in knowledge sharing and support to offer customers and the community a unique environmentally-sensitive offering. We continue to exert a positive influence over stakeholders through the many roles we play in society – for instance, as a responsible corporate citizen, a reliable financier, and a trustworthy employer.

CDB is proud to be a carbon neutral organisation, having offset our carbon footprint by purchasing United Nations Certified Emission Reductions (CERs) from Jorethand Loop Hydroelectric Projects registered under the UN Clean Development Mechanism (Reg 1326). This enables us to technically neutralise the impact the Company has had on the environment through its CO_2 emissions.

At CDB, sustainability is not an abstract concept. It is a way of life – an ethos that we hold dear in every aspect of the business. It is a heightened awareness of our responsibility for stewardship that has spilled over into the private spheres of our lives, where as individuals in our communities, we strive to make a difference for the better.

As we forge ahead into the future, we will strive to create even greater awareness among all our stakeholders about the need for preserving the environment for future generations. We will focus on providing our customers with effective green products and run our business in a sustainable manner.

Stewardship of our Natural Capital is a responsibility we will continue to take very seriously, not just now, but in the years to come.

INDEPENDENT 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 2018. The Sustainability Indicators are included in the Citizens Development Business Finance PLC's Integrated Annual Report for the year ended 31 March 2018 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Financial highlights presented under "Triple Bottom Highlights"	6

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Non-financial highlights presented under "Triple Bottom Line Highlights"	6-7
Information provided on following stakeholder groups.	
• Investors – Financial Capital	44-55
• Customers – Manufactured and Intellectual Capital and Social and Relationship Capital	56-65 and 86-99
• Employees – Human Capital	66-85
• Business Partners, Regulators and Society – Social and Relationship Capital	86-99
• Environment – Natural Capital	100-115

→ 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 2018 are, in all material respects, prepared and presented in accordance with the GRI Standards.

→ LIMITED ASSURANCE SUSTAINABILITY INDICATORS

Based on the limited assurance procedures performed and the 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 2018, have not in all material respects, been prepared and presented in accordance with the GRI Standards.

→ 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 GRI Standards.

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 judgement, 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 GRI Standards, 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 GRI Standards 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.

KPMG

CHARTERED ACCOUNTANTS

Colombo
4 June 2018

GRI CONTENT INDEX [GRI 102-55]

Global Reporting Initiative (GRI) Content Index for "in accordance" – Core

GRI Standard/ Disclosure	Disclosure	Page Number(s) and/URL(S)	Comments
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016			
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Disclosure 102-1	Name of the organisation	371	Corporate Information
Disclosure 102-2	Activities brands, products and services	93-94	Key Value additions during the year
Disclosure 102-3	Location of headquarters	4	Queries
Disclosure 102-4	Location of operations	4	Material aspects and boundaries
Disclosure 102-5	Ownership and legal form	371	Corporate Information
Disclosure 102-6	Markets served	93-94	Key Value additions during the year
Disclosure 102-7	Scale of the organization	72	Key Human Capital Indicators
Disclosure 102-8	Information on employees and other workers	72	Key Human Capital Indicators
Disclosure 102-9	Supply chain	95	Our Business Partners
Disclosure 102-10	Significant changes to the organization and its supply chain	95	Our Business Partners
Disclosure 102-11	Precautionary principle or approach	186	Operational Risk
Disclosure 102-12	External initiatives	96	Our Society
Disclosure 102-13	Membership of associations	99	Our regulatory compliance
Strategy			
Disclosure 102-14	Statement from senior decision maker	10	Chairman's Message
Ethics and Integrity			
Disclosure 102-16	Values, principles, standards and norms of behaviour	18	Business Model
Governance			
Disclosure 102-18	Governance structure	124	CDB Group Organisation Structure
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Disclosure 102-22	Composition of the highest governance body and its committees	124	CDB Group Organisation Structure
Disclosure 102-23	Chair of the highest governance body	126	Board of Directors
Disclosure 102-24	Nominating and selecting the highest governance body	165	Nomination Committee Report
Disclosure 102-25	Conflicts of interest	167	Report of the Board Related Party Transactions Review Committee
Disclosure 102-35	Remuneration policies	164	Remuneration Committee Report
Disclosure 102-36	Process for determining remuneration	164	Remuneration Committee Report
Stakeholder Engagement			
Disclosure 102-40	List of stakeholder groups	30-31	What Our Stakeholders Tell Us
Disclosure 102-41	Collective bargaining agreements	73	Human Capital Management
Disclosure 102-42	Identifying and selecting stakeholders	30-31	What Our Stakeholders Tell Us
Disclosure 102-43	Approach to stakeholder engagement	30-31	What Our Stakeholders Tell Us
Disclosure 102-44	Key topics and concerns raised	30-31	What Our Stakeholders Tell Us
Disclosure 102-45	Entities included in the Consolidated Financial Statements	4	Material Aspects and Boundaries
Reporting Practice			
Disclosure 102-46	Define report content and topic boundaries	3-4	Report Content And Material Aspects and Boundaries
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Disclosure 102-48	Restatements of information	3	Report Content
Disclosure 102-49	Changes in reporting	3	Report Content
Disclosure 102-50	Reporting period	4	Reporting Cycle
Disclosure 102-51	Date of most recent report	3	Strategic Overview
Disclosure 102-52	Reporting cycle	4	Reporting Cycle
Disclosure 102-53	Contact point for questions regarding the report	4	Queries
Disclosure 102-54	Claims of reporting in accordance with GRI Standards	3	Report Content
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Disclosure 102-56	External assurance	116-117	Independent Assurance Report
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GRI 103: Management Approach 2016			
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Disclosure 103-2	The management approach and its components	33	Managing Sustainability
Disclosure 103-3	Evaluation of the management approach	33	Managing Sustainability
GRI 201: Economic Performance			
Disclosure 201-1	Direct economic value generated and distributed	52-53	Economic value added
Disclosure 201-3	Define benefit plan obligations and other retirement plans	82	Employee wellbeing
Disclosure 201-4	Financial assistance received from government	–	No financial assistance received from the government
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	33	Managing Sustainability
Disclosure 103-2	The management approach and its components	33	Managing Sustainability
Disclosure 103-3	Evaluation of the management approach	33	Managing Sustainability
GRI 202: Market Presence 2016			
Disclosure 202-1	Ratios of standard entry level wage by gender compared to local minimum wage	–	No minimum wage levels
Disclosure 202-2	Proportion of senior management hired form the local community	74	Talent acquisition and on boarding
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	33	Managing Sustainability
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Disclosure 103-3	Evaluation of the management approach	33	Managing Sustainability

GRI Standard/ Disclosure	Disclosure	Page Number(s) and/URL(S)	Comments
GRI 204: Procurement Practices 2016			
Disclosure 204-1	Proportion of spending on local suppliers	95	Our business partners
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	74	Induction programme
Disclosure 103-2	The management approach and its components	74	Induction programme
Disclosure 103-3	Evaluation of the management approach	74	Induction programme
GRI 205: Anti Corruption 2016			
Disclosure 205-1	Operations assessed for risks related to corruption	74	Induction programme
Disclosure 205-2	Communication and training about anti-corruption policies and procedures	74	Induction programme
Disclosure 205-3	Confirm incidents of corruption and actions taken	74	Induction programme
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
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Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision
GRI 206: Anti- Competitive Behaviour 2016			
Disclosure 206-1	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	92	Enhance customer privacy
GRI 300: Environmental			
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Disclosure 103-3	Evaluation of the management approach	105	Environmental Capital Vision
GRI 302- Energy 2016			
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Disclosure 302-5	Reductions in energy requirements of products and services	62	Renewable Energy
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	105	Environmental Capital Vision
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GRI 305: Emissions 2016			
Disclosure 305-1	Direct (Scope 1) GHG Emissions	109	Scope I
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Disclosure 305-3	Other indirect (Scope 3) emissions	109	Scope III
Disclosure 305-5	Reduction of GHG emissions	110	Strategic measures for emission reduction
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	105	Environmental Capital Vision
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Disclosure 103-3	Evaluation of the management approach	105	Environmental Capital Vision
GRI 306: Effluents and Waste 2016			
Disclosure 306-2	Waste by type and disposal method	113	Waste management
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	105	Environmental Capital Vision
Disclosure 103-2	The management approach and its components	105	Environmental Capital Vision
Disclosure 103-3	Evaluation of the management approach	105	Environmental Capital Vision
GRI 307: Environmental Compliance 2016			
Disclosure 307-1	Non-compliance with environmental laws and regulations	115	Green partnerships
GRI 400: Social			
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	66-70	Human Capital
Disclosure 103-2	The management approach and its components	66-70	Human Capital
Disclosure 103-3	Evaluation of the management approach	66-70	Human Capital
GRI 401: Employment 2016			
Disclosure 401-1	New employee hires and employee turnover	74	Talent acquisition and on boarding
Disclosure 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	82	Employee wellbeing
Disclosure 401-3	Parental leave	80	Return to work and retention rate after parental leave
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	66-70	Human Capital
Disclosure 103-2	The management approach and its components	66-70	Human Capital
Disclosure 103-3	Evaluation of the management approach	66-70	Human Capital
GRI 402: Labour/management relations 2016			
Disclosure 402-1	Minimum notice periods regarding operational changes	73	Human capital managements
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	66-70	Human Capital
Disclosure 103-2	The management approach and its components	66-70	Human Capital
Disclosure 103-3	Evaluation of the management approach	66-70	Human Capital
GRI 404: Training and education 2016			
Disclosure 404-1	Average hours of training per year per employee	77	Average hours of training per year per employee
Disclosure 404-2	Programmes for upgrading employee skills and transition assistance programmes	78	Internal and external training programme
Disclosure 404-3	Percentage of employees receiving regular performance and career development reviews	68-69	Human capital value creation model
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-2	The management approach and its components	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision

GRI Standard/ Disclosure	Disclosure	Page Number(s) and/URL(S)	Comments
GRI 405: Diversity and equal opportunity 2016			
Disclosure 405-1	Diversity of governance bodies and employees	82	Diversity and inclusion
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-2	The management approach and its components	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision
GRI 406: Non-discrimination 2016			
Disclosure 406-1	Incidents of discrimination and corrective actions taken	82	Diversity and Inclusion
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
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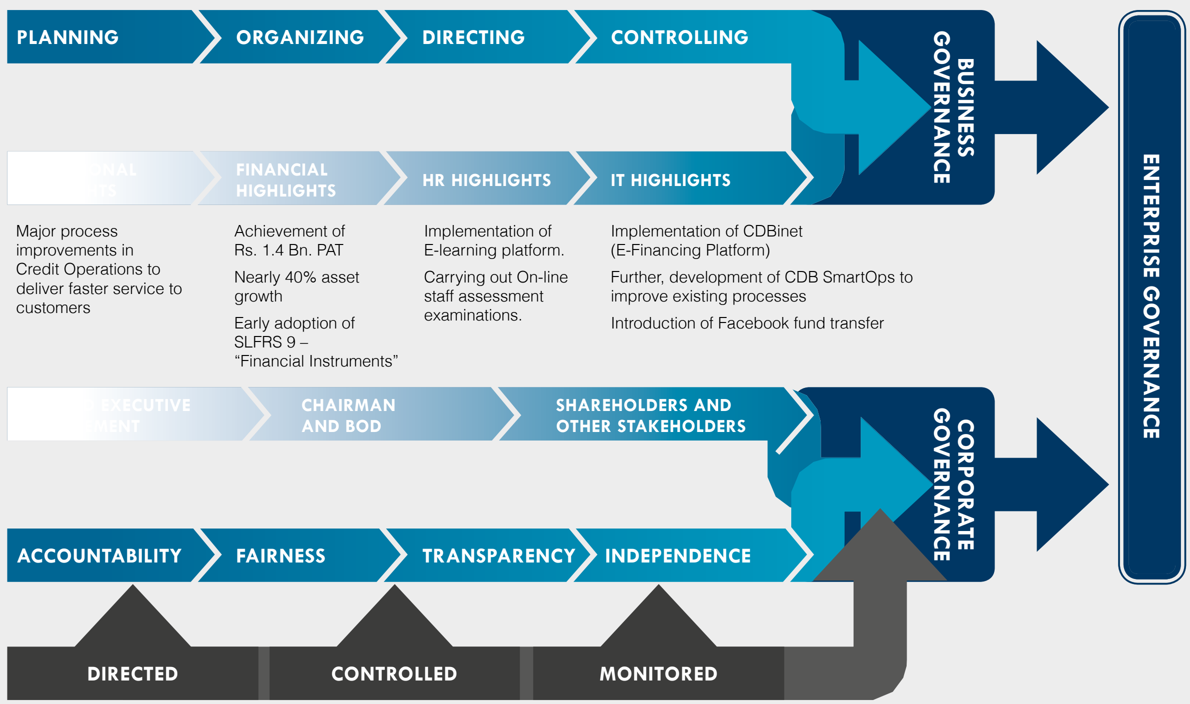
GRI 408: Child labour 2016			
Disclosure 408-1	Operations and suppliers at significant risk for incidents of child labour	73	Human Capital Managements
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-2	The management approach and its components	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision
GRI 409: Forced or compulsory labour 2016			
Disclosure 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	73	Human Capital Managements
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-2	The management approach and its components	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision
GRI 413: Local communities 2016			
Disclosure 413-1	Operations with local community engagement, impact assessments, and development programmes	96	Our society
Disclosure 413-2	Operations with significant actual and potential negative impacts on local communities	96	Our society
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-2	The management approach and its components	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision
GRI 416: Customer health and safety 2016			
Disclosure 416-1	Assessment of the health and safety impacts of product and service categories	–	Cannot be assessed
Disclosure 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	–	Cannot be assessed
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	92	Enhance Customer Privacy
Disclosure 103-2	The management approach and its components	92	Enhance Customer Privacy
Disclosure 103-3	Evaluation of the management approach	92	Enhance Customer Privacy
GRI 417: Marketing and labelling 2016			
Disclosure 417-1	Requirements for product and service information and labelling	92	Enhance customer privacy
Disclosure 417-2	Incidents of non-compliance concerning product and service information and labelling	92	Enhance customer privacy
Disclosure 417-3	Incidents of non-compliance concerning marketing communications	92	Enhance customer privacy
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	92	Enhance Customer Privacy
Disclosure 103-2	The management approach and its components	92	Enhance Customer Privacy
Disclosure 103-3	Evaluation of the management approach	92	Enhance Customer Privacy
GRI 418: Customer privacy 2016			
Disclosure 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	92	Enhance customer privacy
GRI 103: Management Approach 2016			
Disclosure 103-1	Explanation of the material topic and its boundary	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-2	The management approach and its components	71, 91	Human Capital, Social and Relationship Capital Vision
Disclosure 103-3	Evaluation of the management approach	71, 91	Human Capital, Social and Relationship Capital Vision
GRI 419: Socioeconomic compliance 2016			
Disclosure 419-1	Non-compliance with laws and regulations in the social and economic area	99	Our regulatory relationship

STEWARDSHIP

THE REPUTATION OF OUR BUSINESS AND VALUE OF OUR BRAND IS BUILT ON OUR LONG-STANDING COMMITMENT TO BEING A RESPONSIBLE, TRANSPARENT AND ETHICAL BUSINESS, AND SECURING AND MAINTAINING THE TRUST OF OUR DIVERSE STAKEHOLDERS. WE ARE COMMITTED TO CONDUCTING THE COMPANY'S BUSINESS ETHICALLY AND IN ACCORDANCE WITH THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE.
THIS SECTION ELABORATES OUR APPROACH TO RESPONSIBLE STEWARDSHIP.

CORPORATE GOVERNANCE

CDB ENTERPRISE GOVERNANCE FRAMEWORK



CDB ENTERPRISE GOVERNANCE

CDB considers enterprise governance as one of the most critical components of creating value to our stakeholders. Hence, the above diagram clearly illustrates how CDB balances both business and corporate governance in order to create maximum value to stakeholders. In creating such value, CDB always strive to implement the right processes, structures and relational mechanisms which in turn would achieve the set Objectives of the Organisation.

Enterprise governance constitutes the entire accountability framework of CDB. There are two dimensions of enterprise governance – conformance (i.e., Corporate Governance) and performance (i.e., Business Governance).

Mainly CDB's Corporate Governance covers areas such as Board structure and roles of the Board. Further, Board uses well-established oversight mechanisms to ensure that CDB at all times maintains 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 would come from operational aspects, financial aspects and also from IT.

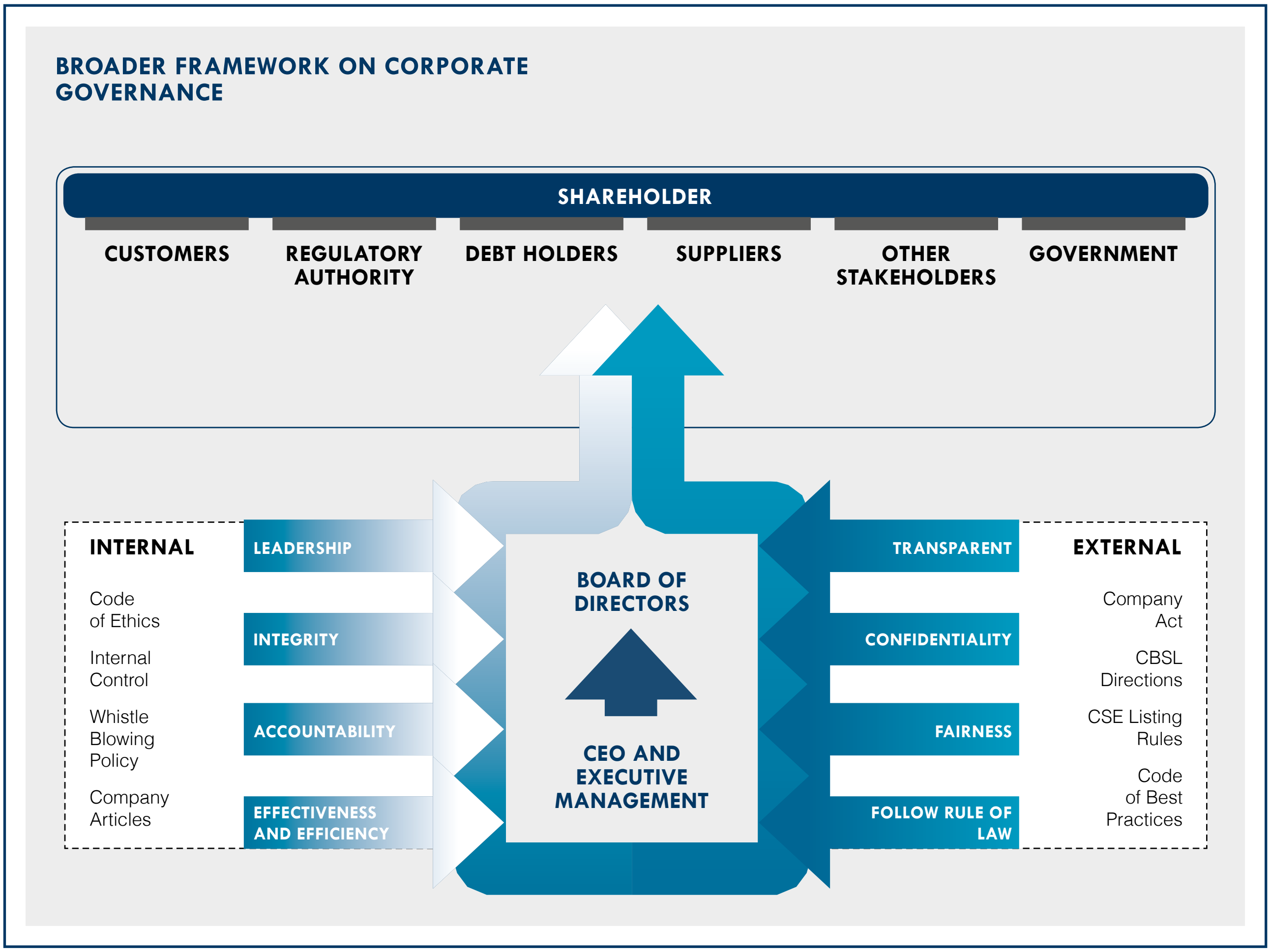
CORPORATE GOVERNANCE

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. 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 other stakeholders, and enhance shareholder value.

Further, CDB's Board of Directors is always working to bolster the effectiveness of the Organisation governance models in order to create the above stated value to its stakeholders. CDB's Board whenever requires strengthens its governance frameworks and policies and reasserts its governance roles, and further clarifies the responsibilities of other Board committees. At the same time, CDB allocates resources to Senior Management to enhance the governance frameworks whenever necessity arises.

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", "Whistleblowing 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.

Below diagram depicts the Detailed Corporate Governance Framework followed by CDB:

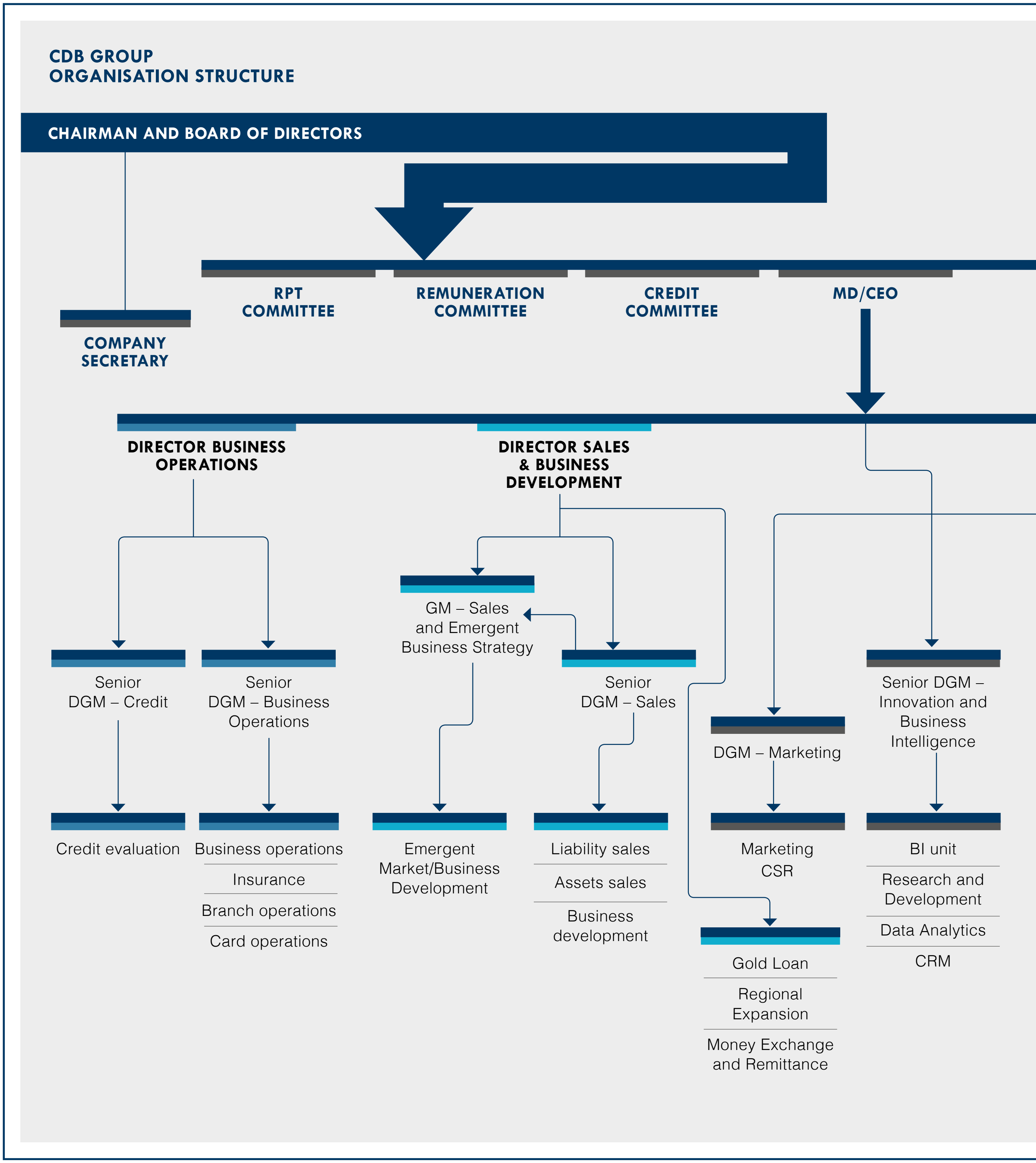


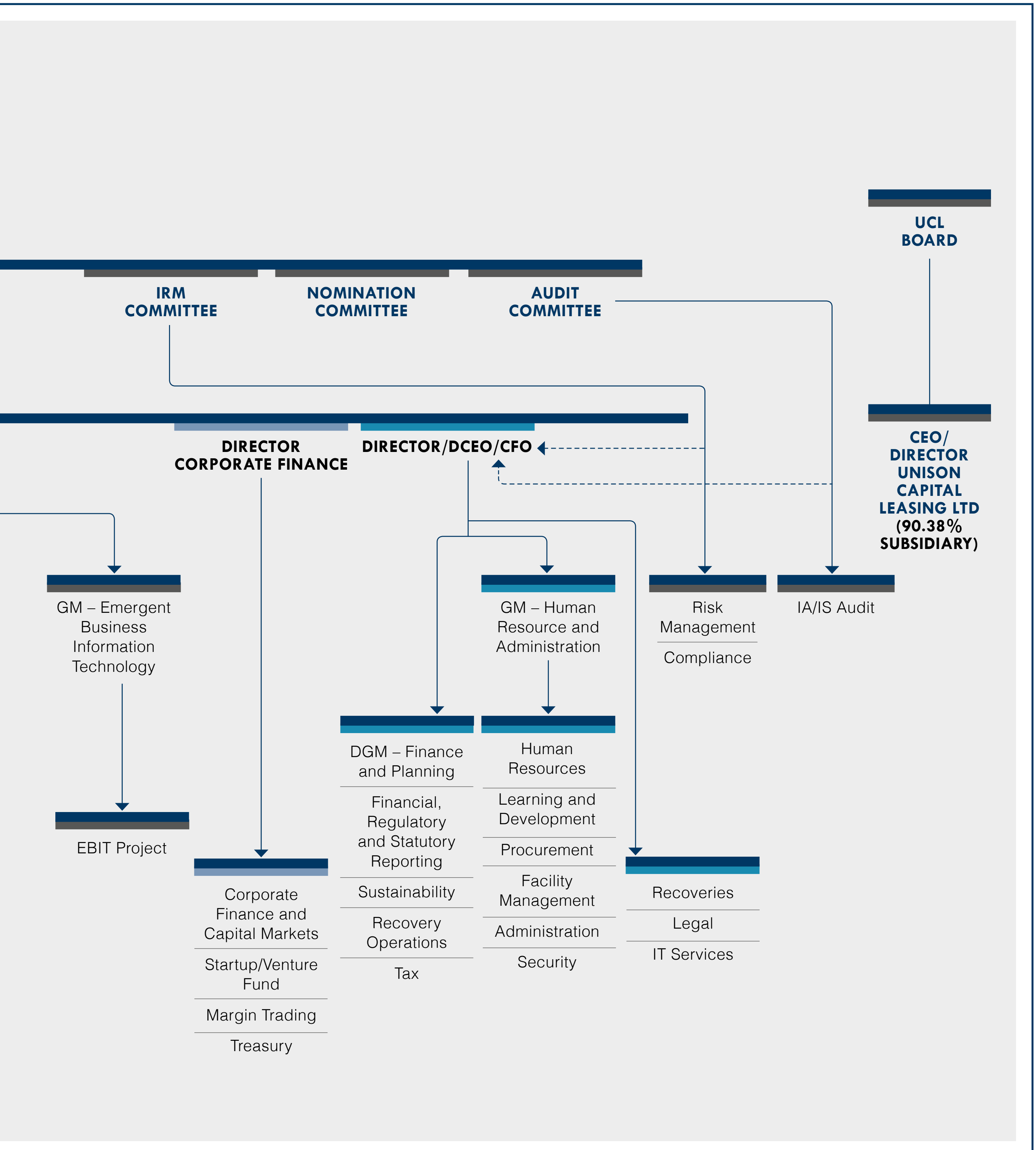
Above diagram clearly illustrates the Company's level of accountability and transparency to its stakeholders by covering all aspects such as financial reporting, level of disclosures and respecting the rights and needs of stakeholders.

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 defense model which helps mitigate risk exposures of CDB in an effective and efficient manner.

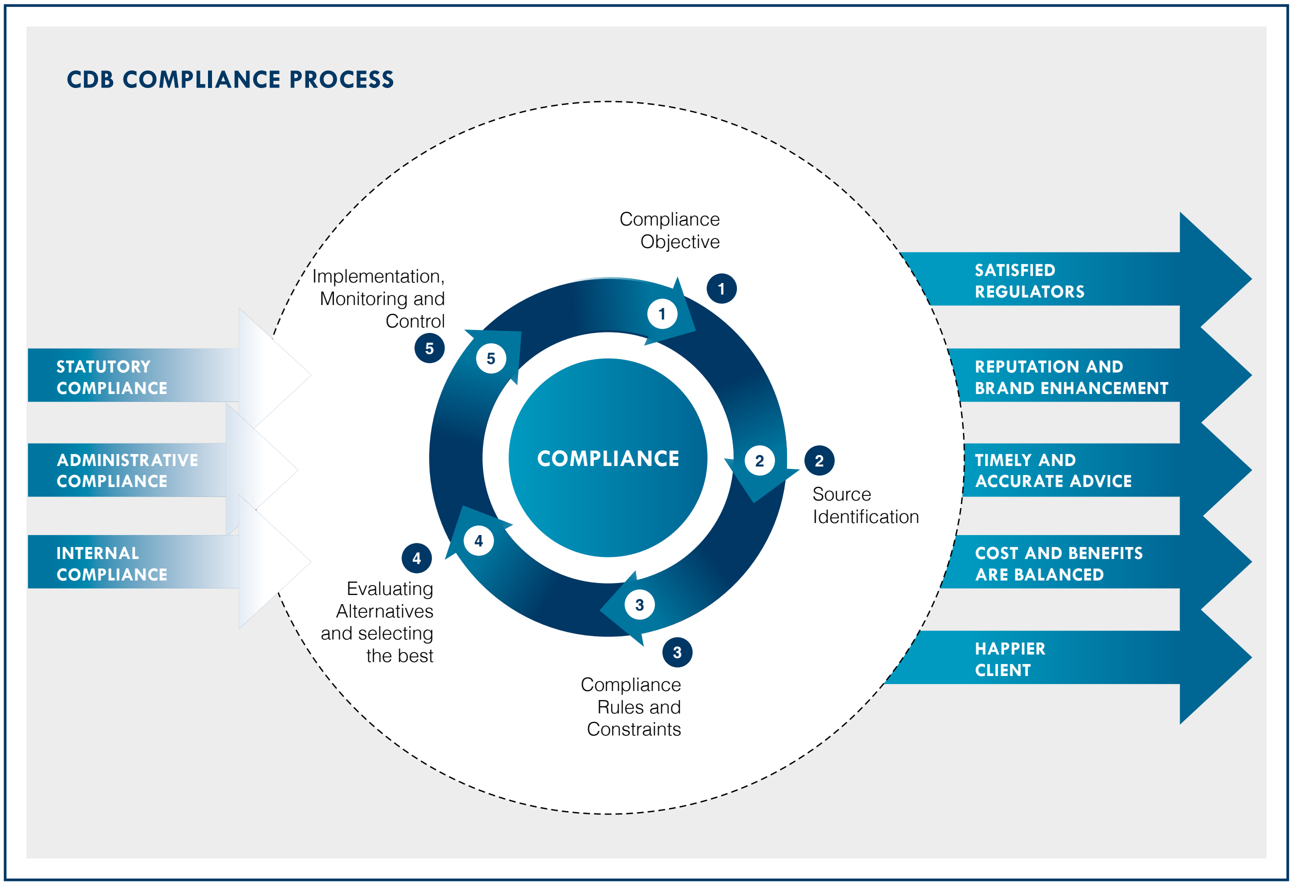
With all these aspects, CDB strives to add value to its stakeholders through efficient and effective ways of utilising the resources and thereby introducing state-of-the-art technology, providing low cost financial services and unmatched customer service to its valued customers.

Set out below is the current Governance Structure: [GRI 102-18, GRI 102-19, GRI 102-22]




UCL
BOARD
IRM
COMMITTEE
NOMINATION
COMMITTEE
AUDIT
COMMITTEE
DIRECTOR
CORPORATE FINANCE
DIRECTOR/DCEO/CFO
CEO/
DIRECTOR
UNISON
CAPITAL
LEASING LTD
(90.38%
SUBSIDIARY)
GM – Emergent Business Information Technology
GM – Human Resource and Administration
Risk Management
Compliance
IA/IS Audit
EBIT Project
DGM – Finance and Planning
Financial, Regulatory and Statutory Reporting
Sustainability
Recovery Operations
Tax
Human Resources
Learning and Development
Procurement
Facility Management
Administration
Security
Corporate Finance and Capital Markets
Startup/Venture Fund
Margin Trading
Treasury
Recoveries
Legal
IT Services

Below diagram on CDB compliance process depicts the strengthen of our Corporate Governance Process:



Compliance in Financial Institutions is increasingly getting sophisticated with growing regulatory demands. Hence, CDB has devoted substantial resources in to compliance.

CDB's approach on certain aspects of compliance has gradually changed from rule based to risk based. Above diagram clearly illustrates the CDB's Compliance function and how it can support the organisation's ultimate objective of creating value to its stakeholders.

BOARD OF DIRECTORS [GRI 102-23]

Chairman
D H J Gunawardena

Executive Directors
C M Nanayakkara
T M D P Tennakoon
R H Abeygoonewardena
S V Munasinghe
D A De Silva

Non-Executive Directors
P A J Jayawardena
S R Abeynayake
Prof A Dharmasiri
Prof S P P Amaratunge
Razik Mohamed
U R Seneviratne (resigned w.e.f. 23 April 2018)

THE BOARD

Good governance is essential for the long-term survival 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.

Day by day financial services are becoming so complex that its risks cannot be monitored only by the regulator. CDB believes that the safety and soundness of finance sector requires the 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, Board sets the overall strategy for CDB and supervises executive management. It also ensures that good corporate governance policies and practices are implemented within the 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 11 members whose biographical details are set out in the Board of Directors and Corporate Management section of this Annual Report. Updated biographical details of each Director are also available on the Company's website.

Day-to-day operation of the businesses of the Company is delegated to the Management who is led by the Executive Directors. They are being 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 it thinks appropriate.

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.

ROLES OF CHAIRMAN AND MD/CEO

- The Chairman is a Non-Executive Director who leads the Board ensuring that it works effectively and acts in the best interest of the Organisation.
- MD/CEO is accountable to the Board for the exercise of authorities delegated by the Board and for the performance of the Organisation.

Chairman's Responsibilities	MD/CEO's Responsibilities
To keep abreast generally of the activities of the Company and its management;	Developing and implementing CDB's strategy for consideration and approval by the Board;
In concert with the CEO, to develop and set the agendas for meetings of the Board;	Developing and recommending budgets to the Board to support CDB's mid and long-term strategy;
To call special meetings of the Board where appropriate;	Monitoring and reporting to the Board on the performance of CDB and its compliance with applicable legal and regulatory obligations;
To sit on other committees of the Board where appropriate as determined by the Board;	Ensuring that CDB operates within the approved risk appetite; and
To ensure that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements; and	Ensuring proper succession planning of the Executive Team and assessing their performance.
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.	

BOARD HIGHLIGHTS FOR THE FY 2017/18

- Board initiated to formulate a strategy for 2025 with the assistance of an external consultancy firm.
- Launch of CDB I Net Online Financial Service plat form.
- Lunch of CDB E-Learning plat form.
- Reviewed Risk Reports and risk tolerance levels.
- Reviewed monthly financial reports, including details of performance against budget and CDB's financial position.

BOARD MEETINGS

The Board meets once a month and holds additional meetings as and when the Board thinks appropriate.

Twelve Board meetings were held during the FY 2017/18. Notice of not less than 14 days was given to Directors for the regular Board meetings. Draft agenda for Board meetings were prepared by the Company Secretary and were 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 were uploaded to the Boardpac in full, not less than seven business days before the intended date of the Board meeting.

Minutes of Board meetings were prepared by the Company Secretary with details of decisions reached and any concerns raised. The draft minutes were sent to all Directors within a reasonable time after each meeting for their comments before being formally signed by the Chairman of the meeting. Copies of the final version of minutes of the Board meetings were 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 2017/18, 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. Apart from above, audit committee and IRMC meeting minutes were submitted to the board on a quarterly basis.

Directors of CDB play an active role when participating in the Company's meetings by contributing their professional opinions and active participation in discussions. The attendance record of each of the Directors for the Board meetings held during FY2017/18 is as follows:

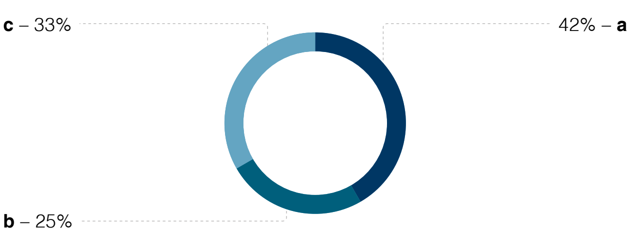
Name of the Director	Age	Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings											
	As at 31.03.2018					26.04.2017	17.05.2017	21.06.2017	28.07.2017	23.08.2017	27.09.2017	18.10.2017	22.11.2017	13.12.2017	17.01.2018	14.02.2018	28.03.2018
Mr D H J Gunawardena	68		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr C M Nanayakkara	49	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr R H Abeygoonewardena	48	✓			✓	✓	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr T M D P Tennakoon	50	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr S V Munasinghe	47	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr P A J Jayawardena	57		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr S R Abeynayake	50		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr D A de Silva	48	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Prof A Dharmasiri	50		✓	✓		×	✓	✓	✓	✓	✓	✓	×	✓	✓	✓	✓
Mr Razik Mohamed	67		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms U R Seneviratne*	44		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Prof S P P Amaratunge	53		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

**Ms. U R Seneviratne resigned from CDB Board w.e.f. 23 April 2018*

BOARD DIVERSITY

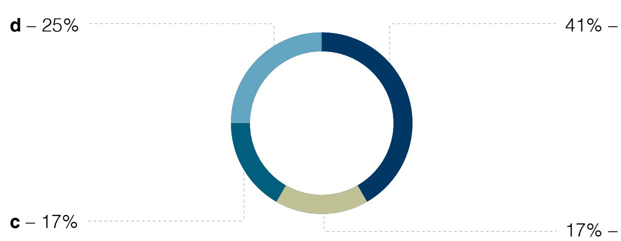
CDB always believes that a truly diverse Board in terms of their skills, industrial experience, background, race, gender and other qualities is immensely useful. These differences are taken into account when determining the optimum composition of the Board. Below analysis will further support the above statement.

Board Composition



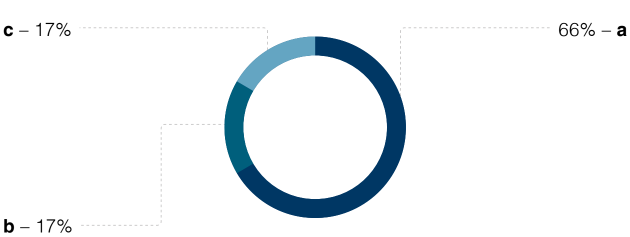
a – Executive Directors **b** – Non-Executive Directors
c – Independent Non-Executive Directors

Professional Experience



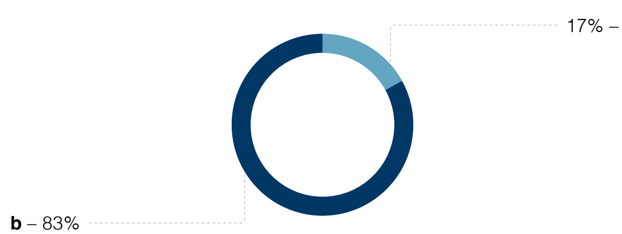
a – Management Accounting **b** – Accounting and Finance
c – HR and Legal **d** – General Management

Age as at 31 March 2018



a – 40-50 **b** – 51-60 **c** – 61-70

Length of tenure of Directors as at 31 March 2018



a – 0-5 years **b** – Over 5 years

CDB'S LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE

CDB has complied with the provisions in all the applicable codes and directions on corporate governance. Accordingly, the Company is in compliance with the "Code of Best Practice on Corporate Governance 2017" issued by the Institute of Chartered Accountants of Sri Lanka the ICASL as well as the finance companies (Corporate Governance) Direction No. 03 of 2008 and Subsequent amendments issued by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

SECTION I

STATEMENT OF COMPLIANCE

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 Cyber security
H. Environment, Society and Governance (ESG)

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance

A. DIRECTORS

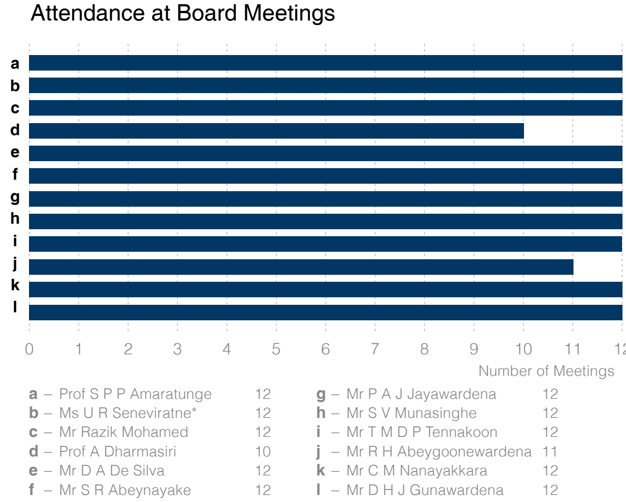
A.1 THE BOARD

THE COMPANY SHOULD BE HEADED BY A BOARD, WHICH SHOULD DIRECT, LEAD AND CONTROL THE COMPANY

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 degree of integrity and independent judgement. Their leadership skills, direction provided 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.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
Board meetings	A.1.1	Compliant	Board meetings 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.

Attendance at Board Meetings



Resigned w.e.f. 23 April 2018

Please refer "Number of Meetings held and attendance" table given on page 128 on the Annual Report.

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. 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 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 the 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 has 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 owned to the Company are discharged accordingly. In addition to attending Board meetings, they have attended Subcommittee meetings and also have made decisions via circular resolutions where necessary. The Board Subcommittees include: – Audit Committee, – Integrated Risk Management Committee, – Credit Committee, – Remuneration committee, – Nomination Committee. – Board Related Party Transaction review Committee. Further additional meetings and discussions are held with the Management whenever the need arises.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
Resolutions to be Presented	A1.7	Compliant	One-third of Directors can call for a resolution to be presented to the Board.
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 regard, the Directors have recognised the need for continuous training, expansion of knowledge and to take part 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. The Directors have attended number of meetings with the Corporate Management Team to familiarise themselves with the Company strategy, operation and internal control. Director Training Focus Area 2017/18: • Taxation • Governance • Cyber Security etc. • SLFRSs

A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

There is a clear separation in the duties of the Chairman and the 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/Chief Executive Officer 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 the 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 authority for strategic and operational decisions 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 Herschel Gunawardena is given on page 148.

Role of the Chairman	A.3.1	Compliant	The Chairman's main role is to lead and manage the Board and ensuring effectiveness in all aspects of its role. The Chairman of CDB is a Non-Executive Director. The Chairman's role encompasses that – • The views of Directors on issues under consideration are ascertained. • The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. • All Directors are encouraged to make an effective contribution within their respective capabilities, for the benefit of the Company. • A balance of power between Executive and Non-Executive Directors is maintained. • Representing the views of the Board to the public.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance

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.

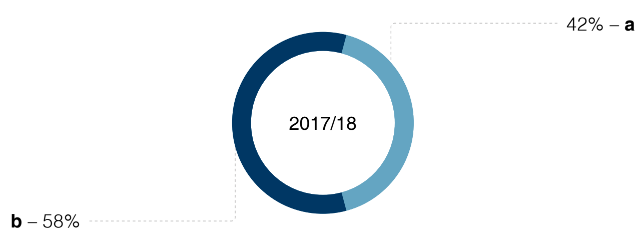
Availability of sufficient financial acumen and knowledge	A.4	Compliant	The Chairman is a Fellow Member of the Chartered Institute of Management Accountants of UK while MD/CEO is also a member of the Chartered Institute of Management Accountants of UK. In addition, the Board includes two members of The Institute of Chartered Accountants of Sri Lanka and three members of the Chartered Institute of Management Accountants of UK. Directors profiles are given on page 148 to 151.

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	For the FY 2017/18 Seven of the twelve Directors are Non-Executives (NED) which is well above the minimum prescribed by this code which is three NEDs or NEDs 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.

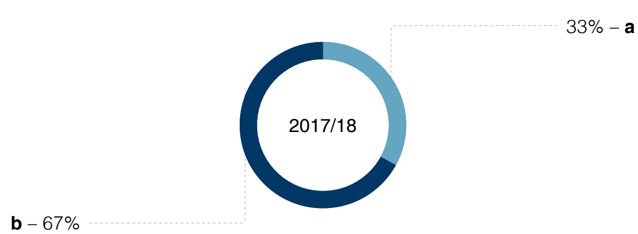
Executive Vs Non-Executive Directors



a – Executive Directors **b** – Non-Executive Directors

Independent Directors	A.5.2	Compliant	For the FY 2017/18 four out of seven Non-Executive Directors are independent

Independent Vs Non-Independent Directors



a – Independent Directors **b** – Non-Independent Directors

Independence evaluation review	A.5.3	Compliant	All Independent Directors are independent of management and free of any business or other relationship that could impair their independence.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
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 – Prof A S Dharmasiri Prof Sampath Amaratunge Mr Razik Mohamed Ms Udayanthi Senevirathna (Resigned from the Board w.e.f. 23 April 2018)
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 had 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 Executive Directors, on a need basis.
Recording of concerns 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 127 to 128 for Board meeting write up.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
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 & 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 165 for the details of Nomination Committee and its composition.
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. Further, the required information is published in newspapers for information of the interested parties.
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 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 subject 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, there were no any resignations. However, w.e.f. 23 April 2018 Ms U R Seneviratne resigned from the Director Board.
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 & 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 164 for the "Report of the Remuneration Committee" in the Annual Report for details of the criteria considered for performance evaluation of the Board.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance

A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS

The Code requires that the details in respect of each Director 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 148 to 151)

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 pre-set 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.

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.

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. 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 & B.1.3	–	The following Non-Executive Directors served on the Remuneration Committee during the financial year. Mr S R Abeynayake – Committee Chairman Mr Razik Mohamed Prof A S Dharmasiri Above committee composition is in compliant as per SEC regulations
Remuneration of Non-Executive Directors	B.1.4	Compliant	The Board as a whole decides the remuneration of the Non-Executive Directors. 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.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
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.

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.

Disclosure of Directors' remuneration in the Annual Report.	B.3.1	Compliant	Refer the Remuneration Committee Report on page 164 for disclosure on the names of the Remuneration Committee members and the remuneration policy of the Company. Also refer the Note 45.2 to the Financial Statements on page 307 for the aggregate remuneration paid to Executive and Non-Executive Directors.

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 sent to shareholders	C.1.1	Compliant	Company ensures that all the notices relevant for AGM is disseminated well before the meeting and as per the stipulated regulatory periods.
Separate resolutions 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.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
Availability of all Board Subcommittees Chairmen at the AGM	C.1.4	Compliant	Chairman of the Company ensures that 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 for 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 2.7	Compliant	The Company has implemented the relevant communication channels, disclosed the policy and methodology and other requirement 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 to 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 would materially affect CDB's net asset base. Transactions, 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 Transactions Review 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 2018 and at the end of each Quarter of 2017/18. 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, and the Securities and 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 as required by the direction. Please refer pages 191 to 198 for Directors Report.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
Statement of Directors' and Auditors' Responsibility for the Financial Statements, Report/Statement on Internal Control.	D.1.5	Compliant	The Statement of Directors' Responsibility for Financial Reporting is given in this Annual Report as required by the direction, and Auditors 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.

Review of risks facing the Company and evaluation of the Internal Control system.	D.2.1 & 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: (i) Audits are conducted by the Internal Audit Department, in areas involving high risks as identified in the annual internal audit plan. (ii) A structured process is in place for loss reporting, control exception reporting and compliance breach reporting. (iii) A comprehensive checklist is used for follow up on the status of implementation of all audit recommendations. (iv) Periodic Branch Audits are performed on the Company's branch operations. 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 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.

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.

Corporate Governance Principles	CA Sri Lanka Code Reference	Compliance Status	CDB's Level of Compliance
Composition of the Audit Committee	D.3.1	–	The Company's Audit Committee consists of three members all of whom are Non-Executive Directors. The Committee operates within clearly defined terms of reference. 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 160 to 161 for Audit Committee Report. Further, committee composition is compliant as per SEC regulations.
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. Further, Audit Committee is guided by clearly defined terms of reference.
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 page 167 and the RPT on pages 306 to 308.

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 Board structure and composition.

F. OTHER INVESTORS

F.1 INVESTING/DIVESTING DECISIONS

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 CYBER SECURITY

G.1 THE BOARD SHOULD HAVE A PROCESS TO IDENTIFY CYBER SECURITY RISK FACE BY THE COMPANY AND CONTROLS TO MITIGATE SUCH RISK

Process of mitigating Cyber Security threats	G.1 to G.5	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 carried out several board presentations on the findings and Local/Global best practices. Refer Risk report on pages 169 to 190 and the Audit Committee Report on pages 160 to 161 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 to H.1.1	Compliant	Please refer report on the Natural Capital on page 102.
Environmental Factors	H.1.2 to H.1.2.1	Compliant	Please refer report on the Natural Capital on page 102.
Social Factors	H.1.3 to H.1.3.1	Compliant	Please refer report on the Natural Capital on page 102.
Governance	H.1.4 to H.1.4.1	Compliant	Please refer report on the Natural Capital on page 102.
Board Role on ESG Factors	H.1.5 to H.1.5.1	Compliant	Please refer Key Framework and Compliance Report on pages 3 to 4.

SECTION II

STATEMENT OF COMPLIANCE

FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 03 OF 2008 AS AMENDED BY FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 04 OF 2008

The Monetary Board of the Central Bank of Sri Lanka issued the above Direction which applies to every finance company licensed in terms of Section II of the Finance Business Act No. 42 of 2011 and came into operation with effect from 1 January 2009.

Corporate Governance Principles	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 that the CEO and the 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.
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. Conflicts of Interest	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 fitness and propriety to hold office as Directors of the Company.
3. MEETING OF THE BOARD			
9. Board Meeting	3. (1)	Compliant	The Board 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 7 days of notice for regular Board meetings. For all other meetings a reasonable notice period is given.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
12. Non-attendance of Directors	3. (4)	Compliant	Such an instance has not arisen in the Company.
13. Board Secretary	3. (5)	Compliant	Please refer Section A.1.4 of CA Sri Lanka Code compliance table.
14. Agenda and Minutes of the Meetings	3. (6) & 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 details.	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.
4. THE BOARD'S COMPOSITION			
17. Number of Directors	4. (1)	Compliant	The Board comprises twelve Directors as at 31 March 2018. Ms U R Seneviratne resigned from the Board w.e.f. 23 April 2018.
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 or 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 five Executive Directors.
20. Independent Non-Executive Directors	4. (4)	Compliant	Four out of twelve Directors are Independent Non-Executive Directors. Ms U R Seneviratne resigned from the Board w.e.f. 23 April 2018.
21. Alternative Director	4. (5)	Compliant	This situation has not 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.
25. Appointment of new Directors	4. (9)	Compliant	The Board collectively assesses the composition of the Board and makes appointments as necessary.
26. Appointment to fill a casual vacancy	4. (10)	Compliant	No such event occurred during the financial year 2017/18.
27. Resignation/removal of a Director	4. (11)	Compliant	No such event occurred during the Financial Year 2017/18. However, Ms U R Seneviratne resigned from the Board w.e.f. 23 April 2018.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
5. CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS			
28. Directors over 70 years of age	5. (1)	Compliant	This situation has not arisen.
29. Holding 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) & 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 the MD/CEO	7. (1)	Compliant	The roles of the Chairman and the Chief Executive Officer are separated.
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 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 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.
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.
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 conflicts of interest, that may arise, in transacting with related parties as per the definition of this Direction and Sri Lanka Accounting Standard – LKAS 24 – "Related Party Transactions". Further, Board ensures that there are no related party benefits from favourable treatment. Further, all the related party transactions (if any) are reviewed by the BRPT Review Committee.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
10. DISCLOSURES			
38. Financial reporting, statutory and regulatory reporting	10. (1)	Compliant	Financial Statements for the year ended 31 March 2018 are in conformity with all rules and regulatory requirements and also published in the newspapers in all three languages.
39. Minimum disclosures in the Annual Report	10. (2)	Compliant	All required disclosures have been made in the Annual Report.
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 helping 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	191 to 198
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	222
		Annual Report of the Board of Directors	191 to 198
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 Relations	350 to 358
7.6 (iv)	The public holding percentage	Investor Relations	350 to 358
7.6 (v)	A statement of each Director's and Chief Executive Officer's holding in shares and the percentage of such shares held	Annual Report of the Board of Directors	191 to 198
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk Management Report	169 to 190
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	222 to 317
7.6 (ix)	Number of shares representing the Entity's stated capital	Annual Report of the Board of Directors, Investor Relations	191 to 198
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 Relations	350 to 358
7.6 (xi)	Ratios and market price information: Equity Debt Any changes in credit rating	Investor Relations	350 to 358

Rule No.	Disclosure Requirement	Section Reference	Page Reference
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	222 to 317
7.6 (xiii)	Details of funds raised through Public Issues, Rights and Private Placements during the year	Investor Relations	350 to 358
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	122 to 147
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 147 for compliance with Section 09.	306 to 308

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 2017/18, Seven of the twelve Directors are 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 2017/18 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 page 191 to 198.
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 resume of each Director should be published in the Annual Report including the areas of expertise	Compliant	Please refer pages 148 to 151 for Directors profiles.
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	Compliant	No new appointments to the Board during the FY 2017/18.

Rule Reference	Requirement	Compliance Status	Details
7.10.5	A listed company shall have a Remuneration Committee	Compliant	Refer the Remuneration Committee Report on page 164 to 165 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 164 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 164 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 164 for disclosure on the names of the remuneration committee members
	(ii) A statement of Remuneration Policy	Compliant	Refer the Remuneration Committee Report on page 164 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 307 on KMP compensation.
7.10.6	A listed company shall have an Audit Committee	Compliant	Refer Board Audit Committee Report on pages 160 to 161.
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 two 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 Fellow Member of Chartered Management Accountants, UK.
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 160 to 161.

Rule Reference	Requirement	Compliance Status	Details
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 160 to 161.
	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 160 to 161.
	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 160 to 161.

"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 – since January 2016 ("the Code") issued by the Securities and Exchange Commission of Sri Lanka, the Related Party Transactions Review Committee 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 Transactions Note in the Financial Statements	306 to 308
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 Transactions Note in the Financial Statements	306 to 308
9.3.2 (c)	Annual Report shall contain a report compiled by the RPT Review Committee including followings: • Names of the Directors who are in the Committee • Statement with regard to related party transactions reviewed during the financial year • Number of times the Committee has met during the financial year • Policies and procedures adopted by the RPT Committee	BRPT Review Committee Report	167 to 168

MANAGEMENT OF CDB

BOARD OF DIRECTORS

1

Herschel Gunawardena
Chairman

Mr Gunawardena was appointed to the Board on 1 January 2012. He is a Fellow of the Chartered Institute of Management Accountants, UK and a Chartered Global Management Accountant. He counts over 45 years experience in diverse fields including shipping, airline, automobile, mining and export & import trading; of which 20 years was general management experience. Mr Gunawardena is an Independent Non-Executive Director of Ceylinco Insurance PLC and a Non-Executive Director of Ceylinco Life Insurance Limited, Pelwatte Dairy Industries Limited and the Non-Executive Chairman of TechIncglobal Advisory (Pvt) Limited. He is also a Director of Hunter and Company PLC, Lanka Canneries (Pvt) Limited and Heath and Company (Ceylon) Limited.

2

Mahesh Nanayakkara
Managing Director/Chief Executive Officer

Having joined CDB in early 2001, Mahesh Nanayakkara was appointed to the CDB Board in 2004 and todate, counts over 28 years' experience in banking and financial services. He holds a B.Sc. in Business Administration from the University of Sri Jayewardenepura and an MBA in Business Administration from the Postgraduate Institute of Management of the University of Sri Jayewardenepura. He is also a Fellow of the Chartered Institute of Management Accountants, UK and has attended Executive Development Programmes at Harvard Business School (HBS) Boston, USA. Mahesh also functions as the Chairman of Unisons Capital Leasing Limited, a specialised leasing subsidiary of CDB. 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 setting up an Employee Share Ownership Plan (ESOP) for CDB when the Net Assets of the Company stood at almost zero, prompting benefits to over 200 team members across the organization. Firmly believing in inclusive economic development, his vision is to moot a development model for Sri Lanka based on a Social Market Economy and an asset owning growing middle class. Possessing an anti-corporate raider mindset, he firmly advocates life long career commitments in his management teams, pushing their passions and optimising capability to build corporates that have a participation of equity, which he believes is a sustainable wealth creation process and a strategy to found an eco-system that transforms brain drain to brain gain. These ideologies are well exampled by eleven senior team members of CDB being among the top 20 shareholders of the Company, which may also be the only such instance of a corporate listed on the Colombo Stock Exchange having its employees among top shareholders. Mahesh was instrumental in establishing the Autism Trust Fund, a collaboration between CDB and Sri Lanka Association for Child Development (SLACD) which focuses on the early detection and intervention of autism in Sri Lanka, similar to initiatives prevalent in the developed world.

3

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 brings with him experience in the fields of agriculture, apparel, construction, packaging, transport and travel. He was the President of the Lions Club of Cinnamon Gardens from 2009-2010 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 (ICASL). He serves as a nominee of CA Sri Lanka panel that recruits Accountants to Public Institutions. He also serves on the panel that assesses the suitability of private and public sector companies to be included as training organisations, approved by The Institute of Chartered Accountants of Sri Lanka. He also represents the ICASL 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.

4

Ranga Abeynayake
Non-Executive Director

Mr Abeynayake was appointed to the Board in January 2012. He holds an MBA from the Postgraduate Institute of Management (PIM) in Colombo and is a Fellow of The Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka. He counts over 18 years experience in accounting, finance, treasury management and strategic planning. Mr Abeynayake is an Executive Director of Ceylinco Life Insurance Limited and also serves as its Deputy Chief Financial Officer. He has been a Board member of Ceylinco Insurance PLC since 2011.

5

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 50 articles in international and national refereed journals and proceedings.

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

Joe Jayawardena
Non-Executive Directorn

Mr Jayawardena was appointed to the Board in 2011. He is a Fellow Member 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.

7

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 Honorary President of the Institute of Personnel Management (IPM), Sri Lanka and a 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 has over 25 years of both private and public sector experience including Unilever and Nestle. He has engaged in consultancies in over fifteen countries in Africa, Asia and the Middle East.

He is a Commonwealth AMDISA Doctoral Fellow, Fulbright Postdoctoral Fellow and Commonwealth Postdoctoral Fellow. He holds a Ph.D. and an MBA from the Postgraduate Institute of Management and a B.Sc. 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 six 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, and 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.”

Mr Tennakoon was appointed to the Board in April 2011. He is a Fellow of the Chartered Institute of Management Accountants, UK and a Chartered Global Management Accountant. He counts over 26 years experience in banking, finance and life insurance.

8

Damith Tennakoon
Director/Deputy Chief Executive Officer/ Chief Financial Officer

Mr Abeygoonewardena was appointed to the Board in 2011. He is a Fellow of the Chartered Institute of Management Accountants, UK and an Associate Member of the Institute of Certified Management Accountants of Sri Lanka. Mr Abeygoonewardena counts over 23 years experience in the financial services industry and 3 years in the manufacturing industry. He is a Non-Executive Director of Unisons Capital Leasing Limited as well.

9

Roshan Abeygoonewardena
Executive Director – Corporate Financer

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 on 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 22 years experience in financial services, oil and gas, telecom infrastructure and pharmaceutical industries.

10

Dave De Silva
Executive Director – Business Operations

Mr Munasinghe was appointed to the Board on April 2011. He holds an MBA from the Federation University of Australia. He counts over 25 years experience in the leasing industry. He was instrumental in setting up leasing operations at CDB including credit evaluations, recoveries, operations and marketing. He is an Non-Executive Director of Unisons Capital Leasing Limited as well.

11

Sasindra Munasinghe
Executive Director/Sales and Business Development

CORPORATE MANAGEMENT TEAM

1 Mahesh Nanayakkara
Managing Director/Chief Executive Officer

2 Damith Tennakoon
Director/Deputy Chief Executive Officer/ Chief Financial Officer

3 Roshan Abeygoonewardena
Director – Corporate Finance

4 Dave De Silva
Director – Business Operations

5 Sasindra Munasinghe
Director – Sales and Business Development

6 Karthik Elangovan
Unisons Capital Leasing Limited – Director/Chief Executive Officer

Mr Karthik 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 also holds a National Diploma in Human Resource Management (IPM) and is a Chartered Global Management Accountant (CGMA) as well. Mr Karthik joined CDB as Assistant Manager – Marketing in July 2004 and was responsible for the development of the CDB Brand. He is a member of the corporate management team and currently serves as the Director/CEO of Unisons Capital Leasing Limited (UCL), which is a subsidiary of CDB. He was the President of SLIM (Sri Lanka Institute of Marketing) for the year of 2017/18.

7

Mr Heenkenda holds an MBA from University of Wales, UK and is a Practicing Marketer and a member of Chartered Institute of Marketing (MCIM) and Sri Lanka Institute of Marketing (MSLIM). He also holds the Chartered Certificate of Risk in Financial Services from the Chartered Institute of Securities and Investment, UK. Mr Heenkenda is an Associate Member of Chartered Institute of Securities & Investment (ACIS) and the Certified Professional Marketer (CPM) of the Asia Marketing Federation. He has followed an Executive Education Programme at Harvard Business School (Boston) as well. He was awarded the “Outstanding Manager of the Year” award at SLIM-NASCO 2010 – highest national sales recognition. He counts over 19 years service at CDB with experience in corporate planning, branding, digital strategy and franchise operations.

Maduranga Heenkenda
General Manager –
Emergent Business Strategy and Sales

Mr Imdaad holds an MSc in Business Information Systems from the Sri Lanka Institute of Information Technology (SLIIT). He is a member of the British Computer Society. He counts over 20 years in the Financial Services and Information Technology industries. Mr Imdaad has extensive experience in Digital Banking and e-Commerce Platforms, Payment Card Platforms, Management Information Systems, Software Engineering and Project Management.

8

Naguib Imdaad
General Manager –
Emergent Business Information Technology (EBIT)

9

Ms Kodagoda is an Associate Member of the Sri Lanka Institute of Credit Management. She counts over 21 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 21 years.

Nayanthi Kodagoda
General Manager –
HR and Administration

Mr Dassanayake holds a BCom (Sp) from the University of Colombo and an MBA from the University of Sri Jayewardenepura. He is an Associate Member of the Chartered Institute of Management Accountants, UK and a Chartered Global Management Accountant as well. He has served CDB for over 12 years. Prior to his appointment as Deputy General Manager – Innovation and business intelligence, he was attached to finance division.

10

Hasitha Dassanayake
Senior Deputy General Manager –
Innovation and Business Intelligence

11

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 11 years experience in well-recognised multinational companies. Mr Kotigala has served CDB for over 11 years.

12

Ranjith Gunasinghe
Senior Deputy General Manager – Operations

Mr Gunasinghe holds 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 16 years.

13

Ruwan Chandrajith
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 15 years of experience in financial management and auditing and has served CDB for over 8 years.

14

Darshana Jayasinghe
Deputy General Manager – Marketing

Mr Jayasinghe is a Chartered Marketer. A member of the Chartered Institute of Marketing of UK and the Vice President of Marketing Alumna 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 University of Sri Jayewardenepura. He joined CDB as Senior Assistant General Manager – Marketing in December 2016 and has given the responsibility of developing the corporate brand and communications strategy for CDB.

15

Sudath Fernando
Senior Deputy General Manager – Credit/Leasing

Mr Fernando counts 27 years experience in banking and finance business industry. He has served CDB for over 9 years.

MANAGEMENT TEAM

1

Nadee Silva
Senior Assistant General Manager –
Business Development

2

Prasad Ranasinghe
Senior Assistant General Manager –
Business Development
BCom (Sp) Sri Jayewardenepura, MBA (Aus)

3

Herath Dharmadasa
Assistant General Manager –
Business Development
BA (Sp) Peradeniya, MBA (UK)

4

Dassana Chandrananda
Assistant General Manager –
Business Development
AM – SLIM, MBA (UK)

5

Ravindra Abeysekara
Assistant General Manager –
Post Disbursement Follow-up
MCICM (UK), AICM (SL), ACPM

6

Sanjeewa Ranathunga
Assistant General Manager – Post Disbursement Follow-up
AICM (SL), ACPM, AUKAP (UK), Diploma in Agriculture

7

Aruni Panagoda
Assistant General Manager – Insurance
AICM (SL)

8

Ashad Weerabangsa
Senior Manager – Branch Operations
AICM (UK), NDTHRD (IPM, SL), AIB (SL), DCM (IBSL)

9

J L Priyantha
Assistant General Manager – Auto Finance Portfolio Sales
BSc, MBA (PIM)

10

Heshan Bandara
Senior Manager – Risk
MBA (SJP), BBA (Hons.) (Col.), ACMA, CGMA

11

Lalith Peiris
Senior Manager – Liability Portfolio Sales
MBA (Mkt.) (Sp) UK, MSLIM, MABE UK,
SLIM NASCO Gold Award Winner 2017
(Territory Manager Category)

12

Mahesh Pathmalal
Senior Manager –
Enterprise Risk Management
BSc Mgt. (Pub.) (Sp)
Sri Jayewardenepura, ACA

13

Rizvi Mohomed
Senior Manager – Informations System
MBCS UK, P.DIP IS (SLIIT)

14

Sarath Kumara
Senior Manager – Credit Operations
BB Mgt. Accountancy (Sp)

15

Subash Kumar
Senior Manager –
Business Development
PGDF (SLIM), MSLIM

16

Aravinda Perera
Manager – Business Development
MBA (UK), AM SLIM
(Associated Member of SLIM)

17

Bandula Kumara
Manager – Business Development

18

Chamil Silva
Manager – Business Development

19

Chamath Siriwardana
Manager – Financial Reporting and Planning
BSc Accounting (Sp) (1st Class), Gold Medal Winner, ACA, ACCA, ACCA World Prize Winner

20

Darshana Amerasinghe
Manager – Compliance and Tax
ACA, ACMA, BBA (Hons) UK

21

Dilruk Abeydiwakara
Manager – IT Operations
BSc (MIS) (Hons) – National University of Ireland, MSc (IT) – National University of Ireland

22

Eranga Gunaratne
Manager – Human Resources
MBA (Pera.), BSc (Phy), PQHRM (IPM), NDTHRD (IPM)

23

Garry Reith
Manager – Business Development
MBA – UK, AM SLIM
(Associated Member of SLIM)

24

Laavanya Paheerathan
Manager – Legal
LLB (Lond), Attorney-at-Law, Notary Public, Commissioner for Oaths, Professional Certificate (Communication Skills)

25

Nuwan De Silva
Manager – Finance Operations
BBA Accounting (Sp), ACMA, CGMA

26

Priyangani Wickramage
Manager – Repossess Vehicle Unit
BA (Sp) University of Colombo, AICM (Sri Lanka)

27

Rangana Pragnarathna
Manager – Business Development

28

Yenara Udayanga
Manager – Business Development

29

Tharanga Udawaththa
Manager – Information Security
BSc (Hons) (IT) MSc (Artificial Intelligence) RHCE CCNP, CNP

30

Tharanga Suraweera
Manager – Business Development
PCM/NDSM – SLIM

BOARD SUBCOMMITTEE REPORTS

REPORT OF THE BOARD AUDIT COMMITTEE

→ 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 whom are members of recognised professional bodies and possess wide ranging financial, commercial and management experience. The Chairman of the Committee is a Fellow member of the Chartered Institute of Management Accountants (UK). Two members of the Committee are Independent Non-Executive Directors. The biographical details of the members of the Audit Committee, are set out in the Directors Profiles section of the Annual Report.
Mr D H J Gunawardena functions as the Chairman of the Audit Committee.

→ MEETINGS

The Board Audit Committee held six meetings during the period under review which included two meetings with the External Auditors in the absence of the Executive Directors and the 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 the 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 D H J Gunawardena	6	6
Mr R Mohamed	6	6
Ms U R Seneviratne (Resigned w.e.f. 23 April 2018)	6	6

Prof Ajantha Dharmasiri (Appointed to the committee w.e.f. 25 April 2018)

→ TERMS OF REFERENCE

The scope and responsibilities of the Board Audit Committee emanates from its Terms of Reference. The Board periodically reviews the Terms of Reference of the Committee. 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 OF THE AUDIT COMMITTEE

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 financial reporting system in place are 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 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 and objectivity and the effectiveness of the audit process.

(vi) Ensure that sound corporate governance practices are upheld within the Company.

→ REPORTING TO THE BOARD

The minutes of the committee meetings are tabled at Board meetings every quarter, enabling all Board members to have access to them.

→ ACTIVITIES IN THE FINANCIAL YEAR 2017/18

The Committee carried out the following activities:

→ FINANCIAL REPORTING

The Committee reviewed the interim and year-end financial statements and ensured that approval is obtained from the Board, prior to their publication. The Committee considered reports from the External Auditors, KPMG, on the scope of the annual audit and later, with regard to its outcome. These reviews facilitated the work of the Committee to monitor compliance with SLFRS/LKAS and the other related legislation and also to ensure the integrity of the information provided to the Company's stakeholders.

The Committee continuously monitored the progress of implementation of SLFRS 9 on "Financial Instruments" and finally the committee recommended the early adoption of SLFRS 9 issued in 2014 with a date of initial application of 1 April 2017.

→ RISK MANAGEMENT AND INTERNAL CONTROL

The Committee reviewed the process by which CDB evaluated its control environment, its risk assessment process and the way in which significant business risks were managed. It also considered the Internal Audit Department's reports on the effectiveness of internal controls, frauds including unauthorised transactions involving employees of the Company and took corrective action in this regard. The Committee continues to strengthen the internal controls of the Company where necessary.

→ EXTERNAL AUDITORS

The Committee reviewed the services provided by the External Auditors, KPMG, to evaluate their independence and objectivity. It also reviewed and approved the scope of non-audit services provided by the External Auditors, to ensure that their independence was not in any way compromised.

The Management Letter issued by the External Auditors in respect of the financial year ended 31 March 2017 was reviewed 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 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 incidents which could have had a negative impact on the effectiveness of the external audit.

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 2019, subject to the approval of shareholders at the forthcoming Annual General Meeting.

→ INTERNAL AUDIT

The Committee monitored and reviewed the scope, extent and effectiveness of the activities of the Internal Audit Department. The Committee engaged in the discussion and review of the internal audit plan for the year, along with its resource requirements. During the year the Committee also reviewed the audit reports covering matters pertaining to branches, departments, IS 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 provided advice to Corporate Management on the precautionary measures that were necessary with regard to significant audit findings. Internal audit reports were made available to the External Auditors as well. The Committee has had sufficient interaction with the Head of Internal Audit throughout the year.

→ STATUTORY AND REGULATORY COMPLIANCE

The Committee reviewed the procedures established by the Management for compliance with the requirements of various regulatory bodies. The Compliance Officer submitted a report to the Audit Committee on a quarterly basis, indicating the extent to which CDB was in compliance with mandatory statutory requirements. Due compliance with all requirements are monitored through this process.

→ WHISTLEBLOWING POLICY

The Company's Whistle-blowing Policy was put in place and followed up by educating and encouraging all members of staff to practice 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 fair and 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.

→ EVALUATION OF THE COMMITTEE

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.

→ CONCLUSION

Based on the review of reports submitted by the External and Internal Auditors, the information obtained by the Committee and having examined 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.

D H J Gunawardena
Chairman
Audit Committee

4 June 2018
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Integrated Risk Management Committee (IRMC) plays a pivotal role for the Board to fulfil its oversight responsibilities with respect to deciding risk appetite and ensuring that significant risks are competently managed with regard to CDB and its subsidiary, Unisons Capital Leasing Ltd. (UCL).

→ COMPOSITION OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee comprises of the following members:

- Mr Razik Mohamed
  Chairman/Independent Non-Executive Director
- Ms Udayanthi Senevirathne
  Independent Non-Executive Director*
- Mr Mahesh Nanayakkara
  Executive Director/MD/CEO
- Mr Damith Tennekoon
  Executive Director/Deputy CEO/CFO
- Mr Roshan Abeygoonewardena
  Executive Director – Corporate Finance
- Mr Sasindra Munasinghe
  Executive Director – Sales
- Mr Dave de Silva
  Executive Director – Business Operations
- Mr Heshan Bandara
  Senior Manager – Risk
  Functions as Secretary to the Committee

**Resigned with effect of 23 April 2018*

Profiles of the above committee members are given on pages 148 to 151.

→ CHARTER OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee was established as a Committee 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

Governance structure of the IRMC comprises of representatives from the Board, IRMC, Risk Management Division, Internal Audit and Compliance Division (refer pages 124 to 125 for the governance structure).

→ COMMITTEE MEETINGS AND METHODOLOGY

Four meetings were held during the financial year under review. All key risks such as credit, operational, market, liquidity and strategic risks were assessed on a monthly basis through a risk dashboard which contains risk indicators covering each of the risk areas. The risk dashboard together with meeting minutes were referred to the Board on a quarterly basis.

→ ATTENDANCE

Name of the Member	Meetings Held			
	22 Jun. 2017	20 Sep. 2017	19 Dec. 2017	16 Mar. 2018
Mr Razik Mohamed	√	√	√	√
Ms Udayanthi Senevirathne*	√	√	√	√
Mr Mahesh Nanayakkara	√	√	√	√
Mr Damith Tennekoon	√	√	√	√
Mr Roshan Abeygoonewardena	√	√	√	√
Mr Sasindra Munasinghe	√	√	√	√
Mr Dave de Silva	√	√	√	√

**Resigned with effect from 23 April 2018*

→ COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

TRIGGER POINTS

10 trigger points were reviewed and changed to reflect the prevailing context.

→ REPORTING RISKS

Through the established mechanism of risk reporting via the ERP system was further strengthen by rewarding 26 staff members whom reported significant risk areas to the risk management division. All together 37 possible risks were reported via the ERP system.

→ NEW PRODUCTS/PROCESSES/PROPOSALS

Facilities which are over Rs. 100 Mn. were referred to the Risk Management Division and an independent review was done covering various risk areas. Also, the 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

Risk monitoring will be carried out through the exceptional reports generated using Oracle Business Intelligence tool. During the financial year, 15 new exceptional reports were developed covering various processes to identify suspicious transactions.

→ BUSINESS CONTINUITY PLAN (BCP) AND DISASTER RECOVERY (DR)

Annual comprehensive fire drill has been conducted at CDB Head Office with the support of Colombo Fire Service Department. Also, during the financial year under review, steps were taken to test the DR system linking with the live Corebank system to ensure switching to operations as soon as possible in the event of a disaster.

→ UPDATES FROM COMMITTEES

The Committee also reviewed updates from the three management committees which were also involved in risk management namely Asset Liability Committee, Compliance Committee and Credit Committee.

→ BOARD REPORTING

The Board was updated on a quarterly 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 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.

Razik Mohamed
Chairman
Integrated Risk Management Committee

4 June 2018
Colombo

REMUNERATION COMMITTEE REPORT [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

Profiles of the above committee members are given on pages 148 to 151.

→ 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 caliber 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 the 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

The 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 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, Chief Financial Officer and Chief Operating Officer attend meeting by invitation and assist by providing relevant information. However they were not involve in their own compensation packages or other matters relating to them were 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.

S R Abeynayake
Chairman
Remuneration Committee

4 June 2018
Colombo

NOMINATION COMMITTEE REPORT [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
  Managing Director/Chief Executive Officer
- Prof Ajantha Dharmasiri
  Non-Executive Independent Director

Profiles of the above committee members are given on page 148 to 151.

→ 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 processing 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 where ever necessary.

Profiles of the above committee members are given on pages 148 to 151.

→ 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.

→ 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.

(sgd)
P A J Jayawardena
Chairman
Nomination Committee

4 June 2018
Colombo

CREDIT COMMITTEE REPORT

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 Credit Committee consists of the following members:

- Mr W P C M Nanayakkara
  Managing Director/Chief Executive Officer
- Mr T M P D Tennakoon
  Executive Director/Deputy Chief Executive Officer/
  Chief Financial Officer
- Mr S V Munasinghe
  Executive Director – Sales
- Mr R H Abeygoonawardane
  Executive Director – Corporate Finance
- Mr D A De Silva
  Executive Director – Business Operations

Profiles of the above committee members are given on pages 148 to 151.

→ COMPANY CREDIT POLICY

The Board of Directors have approved credit policy framework, 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.

→ ROLES AND RESPONSIBILITIES

- Overseeing the credit management of the Company including reviewing of internal credit policies.
- Analysis and review of credit risk control techniques and external risks associate with credit policies of the Company.
- 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.

→ 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 twice a year to review overall credit strategy of the Company. All other meetings were conducted to review and approve credit proposals recommended by the Management.

W P C M Nanayakkara
Chairman
Credit Committee

4 June 2018
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 Committee as at the end of the financial year 2017/18 consisted of the following members:

- Mr Razik Mohamed
  Committee Chairman/Independent Non-Executive Director
- Prof Ajantha Dharmasiri
  Independent Non-Executive Director
- Mr Damith Tennakoon
  Deputy CEO/Executive Director – Chief Financial Officer
- Mr Roshan Abeygoonewardena
  Executive Director – Corporate Finance
- Mr Tharinda Darshana Amerasinghe
  Compliance Officer, functions as the Secretary of the Committee

Profiles of the above committee members are given on pages 148 to 151.

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 explained 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 2017/18 the Committee held four meetings. Attendance by the Committee members at each of these meetings is given below.

→ REVIEW OF TRANSACTIONS FOR THE FINANCIAL YEAR 2017/18

All related party transactions that had taken place during 2017/18 were reviewed by the BRPTRC. 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 year are disclosed in the Audited Financial Statements. Please refer page 306 for related party transactions published in the Note 45 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 2017/18 is given on page 198 of this Annual Report.

Razik Mohamed
Chairman
Board Related Party Transactions Review Committee

4 June 2018
Colombo

→ COMMITTEE MEETINGS

The attendance of the members of the Committee was as follows for the FY 2017/18:

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	Deputy CEO/Executive Director/Chief Financial Officer	4	4
Mr Roshan Abeygoonewardena	Executive Director – Corporate Finance	4	4
Mr Tharinda Darshana Amerasinghe	Compliance Officer, functions as the Secretary of the Committee	4	4

RISK REPORT [GRI 102-11]

→ STRATEGY TOWARDS MANAGING RISK AT CDB

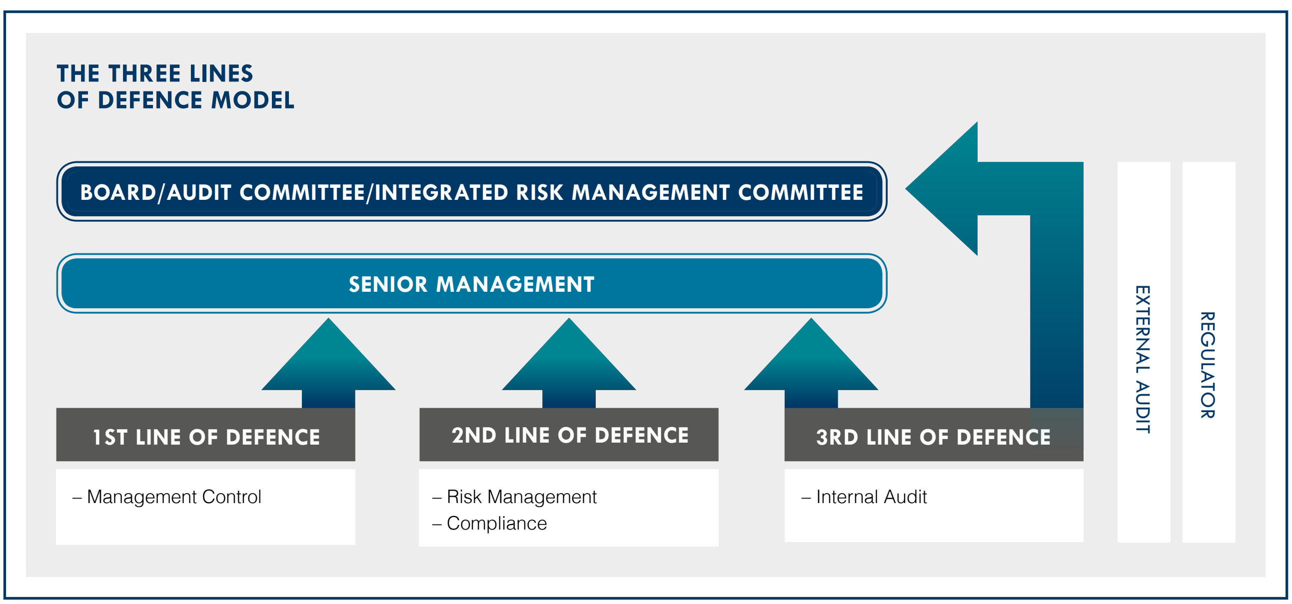
CDB's risk strategy aims to instil conscious risk taking throughout the Organisation as we pursue our identified growth opportunities. CDB has a well-developed risk management framework and a clear risk appetite, which describe the levels of risk we are willing to accept in executing the strategies, ensuring a consistent approach to managing risk.

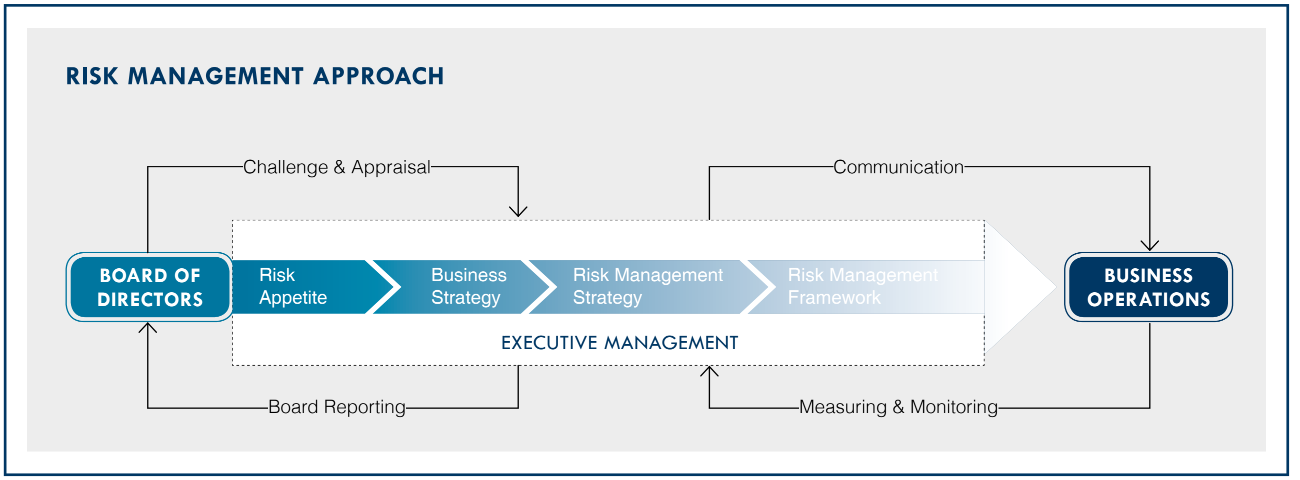
We take a holistic and forward-looking view of the risks we face, continuously focusing on both current and emerging risks. This is critical to our long-term sustainability, enabling us to deliver what matters most to our clients in balance with our obligations to our other stakeholders, thereby protecting Company's reputation. In order to ensure CDB creates value to its stakeholders, we need to ensure that we manage risks across the Organisation. CDB's risk philosophy is mainly derived from the Three Lines of Defence as depicted below:

1st Line of defence comprises line managers who are responsible for identifying, managing, and reporting risks complying with procedures set. 2nd Line of Defence comprises risk managers who are responsible for independently identifying and assessing all types of risks and ensuring effective and efficient performance of the risk management framework. Finally, the Internal Audit Division which falls in to 3rd Line of Defence is responsible for independent assurance of the robustness of the different risk management processes, methodologies and ensuring that the proper control mechanisms are in place in mitigating various risks.

RISK MANAGEMENT APPROACH

Board appointed Risk Management Committee is operating with the objective of assisting the Board in its oversight of the risk management function, enabling the members of the Board to assess the effectiveness and the appropriateness of the risk management strategies put into place by the top management and their alignment with the CDB's business strategy, enterprise risk management strategy and the risk appetite which is set at the Board level.





→ RISKS AND UNCERTAINTIES VS RESPONSES [GRI 102-15]

⇧ Risk exposure has increased

⇔ No significant change in risk exposure

⇩ Risk exposure has reduced

Area	Consequences of Failure to Manage Risk	Risk Exposure	CDB's Response
Maintaining business growth and profit margins Maintaining business volumes is very challenging as CDB is operating in the Non-Banking Financial Institutions (NBFI) sector which comprises many players which are offering homogeneous products. With the regulatory decision to restrict loan to value ratios affecting the industry throughout, it was always a challenge to increase and maintain business volumes.	Loosing of market share Not achieving budgeted targets	⇧	Being an innovative financial services provider, CDB always offers customers with innovative products to suit the requirements. Our strategies are based on customer focus which has immensely facilitated us in capturing market share during last financial year. With new technology based initiatives we have reached every corner of Sri Lanka to provide financial assistance. During the year we maintained a diversified product mix which comprises low as well as high yielding assets which has facilitated us to enhance our margins.
Maintaining required capital adequacy and liquidity 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. Liquidity is the ability of a company to meet the short-term obligations.	Hinders growth/ expansion Inability to meet the day-to-day obligations	⇔	Cash flow requirements are periodically forecasted and decisions are made at weekly treasury meetings. Risk division monitors these statutory ratios and alerts the Management whenever there appears to be a stress scenario.
Maintaining service quality When it comes to NBFI sector, service quality plays a vital role as it is a differentiating factor because all players in the industry offer homogeneous products.	Loss of customers Loss of reputation due to failure to maintain required service levels	⇔	Staff is continuously exposed to training by leading professionals in the industry to serve customers where they will be delighted by the service offered by CDB. A Customer Care Division is in operation to deal with customer complaints and to handle those in a systematic way.

Area	Consequences of Failure to Manage Risk	Risk Exposure	CDB's Response
Maintaining a healthy non-performing loans (NPL) ratio Non-performing loans ratio indicates a financial company's asset quality. A low NPL ratio indicates potential for smaller losses, while a higher NPL ratio indicates potential for larger losses for the Company as it may require higher levels of impairment provisioning and write-off of bad loans.	Reducing profits Increase of overheads incurred on yard management Negative impact on the credit rating	⇔	NPLs were closely monitored by categorising them into different baskets based on the age Yard stock was maintained at manageable level.
Retaining best employees A company's decisions with regard to its employees' succession planning, welfare, fair remuneration, training, and development etc will result in employee loyalty towards the Organisation and thereby reducing the turnover ratio.	Loosing of talented staff Increasing staff overheads when recruiting new staff	⇔	CDB recognises and rewards the best performing employees via its grand annual awards ceremony. There are many staff events organised by the Welfare and Recreation Club of CDB such as sports day, staff get-together, Vesak *bakthi gee*, Christmas carols, talent shows etc to ensure the work-life balance. A lot of opportunities have been made available for staff training and development, which will be identified via our performance evaluation and talent management process.
Compliance with the rules and regulations as envisaged by regulatory authorities Being supervised by the Central Bank and listed in the Colombo Stock Exchange, it is vital for NBFIs to comply with the relevant rules and regulations imposed by these authorities both to the letter of the law and the spirit of the law which ensures good corporate governance.	Regulatory constraints on possible future business development and increased operating costs Complexity increases risk of non-compliance, with possible financial consequences or reputational damage	⇔	A dedicated Compliance Officer has been appointed who is responsible for ensuring that CDB complies with rules and guidelines set by various regulators. Compliance meeting is held on a monthly basis to assess the compliance status, new rules and regulations imposed etc., minutes of which is submitted to the Management. A compliance report will be submitted to the Board on a monthly basis.
Maintaining a competitive position in the industry While facing immense competition from its own industry peers and also from commercial banks specially with regard to offering competitive interest rates, CDB faces many challenges to achieve a competitive position in the industry.	Loosing of market share due to not been a first mover in the industry Loosing customers as a result of not meeting customer requiremnts	⇧	By introducing innovative products via innovative technological platforms, CDB strives to be a trend setter in the industry by being a differentiator in providing financial services.
Maintaining the cost structure Cost management plays a pivotal role when it comes to achieving set profit targets. There should be a mechanism to control costs across the Organisation.	Increase of overheads will lower profits	⇧	Having a right balance in the asset composition with high yielding products to enhance margins. Overheads are reviewed by conducting variance analysis and findings are presented at Board meetings.
Acquiring new technological proficiency For a company to achieve the differentiation, IT provides an essential platform. If an organisation can adhere to new technology, it can surely achieve a higher degree of differentiation and successfully face the competition.	Reducing efficency Losing competitor advantage Not finding timely ways and means of managing costs	⇧	CDB is equipped with several IT enabled systems which have facilitated in carrying out day-to-day business operations efficiently and effectively. CDB has taken initiatives to come up with new technological moves to reach every part of the nation via Internet.

→ CDB RISK INTERACTIONS

STAKEHOLDERS

- CUSTOMERS
- EMPLOYEES
- REGULATORY BODIES
- ENVIRONMENT
- SOCIETY

KEY BUSINESS ACTIVITIES

- Lend money to clients
- source funding from client deposits and other funders
- Net fee and commission revenue
- Revenue from other sources linked to core businesses, as well as strategic investment
- Investing in our operations
- Investing in our people

NET INTEREST INCOME | **FEE & OTHER INCOME** | **OPERATING EXPENSES & STAFF COST**

INCOME | **EXPENCES**

RISK AREAS

HOW WE MITIGATE RISK

- Specific limits, authorization levels, credit evaluation parameters, system limits etc will be set based on an agreed framework
- We maintain an investment and credit dashboard which provides information pertaining to Weighted Average Borrowing Rate and Weighted Average Lending Rate on a daily basis. Interest rate movements are given a special emphasis at the ALCO meetings
- We have a dedicated team placed at the customer care division to ensure an effective and efficient process in dealing with customer complaints/ concerns etc.
- On a weekly basis, treasury meetings are held to discuss about the liquidity position with the CEO together with key personnel from finance and treasury divisions.
- Policies and exposure limits are set to monitor market risks on a daily basis by Treasury and Risk departments
- Proper in-house training and also external training and foreign training is provided based on the training needs

Credit Risk · Interest rate risk · Business and reputational risk · Liquidity risk · Market risk · Operational risk, including compliance, environmental and/or social risk

→ THE RISK PROFILE OF CDB AT A GLANCE

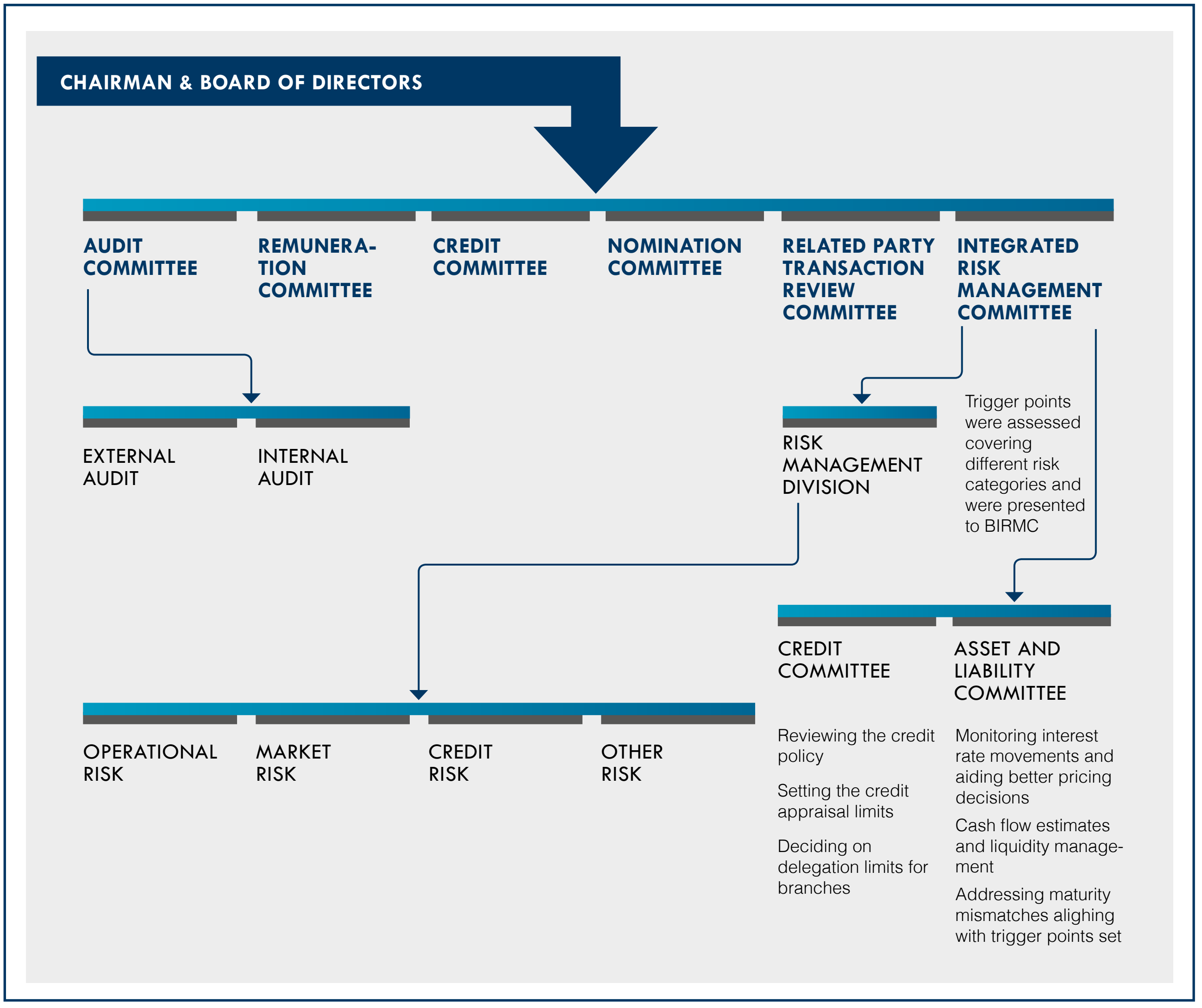
With a credit rating of BBB+ (stable outlook), CDB operates with a moderate risk appetite. Since the inception of its operations, Company has now become one of the stable NBFIs in the country with a solid deposit base and a comfortable level of liquidity. Given below is the risk profile in a nutshell:

Risk Type	How We Manage Risks	Risk Exposure
Credit risk The failure to meet their financial or contractual obligations when due.	Reduced our exposures to certain products, and conversely increased our risk appetite for others, in line with our business plans. The NPL ratio for the financial year under review was 3.07% (2016/17: 3.08%). Enhanced the effectiveness of our collections capability.	⇔
Funding and liquidity risk Failure to maintain or generate sufficient cash resources to meet its day-to-day obligations.	Successfully maintained a liquidity ratio in excess of the 10% minimum regulatory requirement. Further enhanced our systems to ensure compliance with liquidity regulations, focusing specifically on daily liquidity reporting. Cash flow predictions on a weekly basis via treasury meetings to ensure we meet the required level of liquidity to carry out the business activities.	⇔
Market risk The risk of a change caused by adverse movements in market interest rates.	Monitoring of interest rate movements on a daily basis and timely adjustments to the asset repricing. Reviewing of maturity mismatches and proposing action plans to be implemented in a stress scenario. At monthly Asset Liability Committee (ALCO) meetings, asset liability composition, weighted average rates etc is reviewed.	⇔
Operational risk The risk of potential loss that may be suffered as a result of the inadequacy of, or failure in, internal processes, people, and systems or from external events which includes: Internal frauds External fraud Employment practices and workplace safety Clients, products, and business practice Damage to physical assets Business disruption and systems failures Execution, delivery, and process management	Availability of a Disaster Recovery Plan. Process was in place to obtain ISO 27001. Developing risk registers covering various processes. Conducting spot audits covering branch cash operations/gold loan articles. Conducting detailed audits at regular intervals. Information system audits conducted on a quarterly basis by external parties Conducting vulnerability assessments through third party experts on a quarterly basis. "Assurance net" will form an avenue to discuss and report various risk areas at the monthly managers' meeting.	⇩
Strategic Risk This is the risk that the Companies future business plans and strategies are inadequate to prevent financial loss or protect the Company's competitive position and shareholder returns.	Providing risk analysis for new products/processes/proposals Aligning business strategy with enterprise risk management strategy	⇩
Reputational Risk Damage to the Company's image due to potential or actual events which may impair the profitability and/or sustainability of its business.	Continued to improve stakeholder engagement processes Proper customer complaints handling procedure with management involvement	⇩

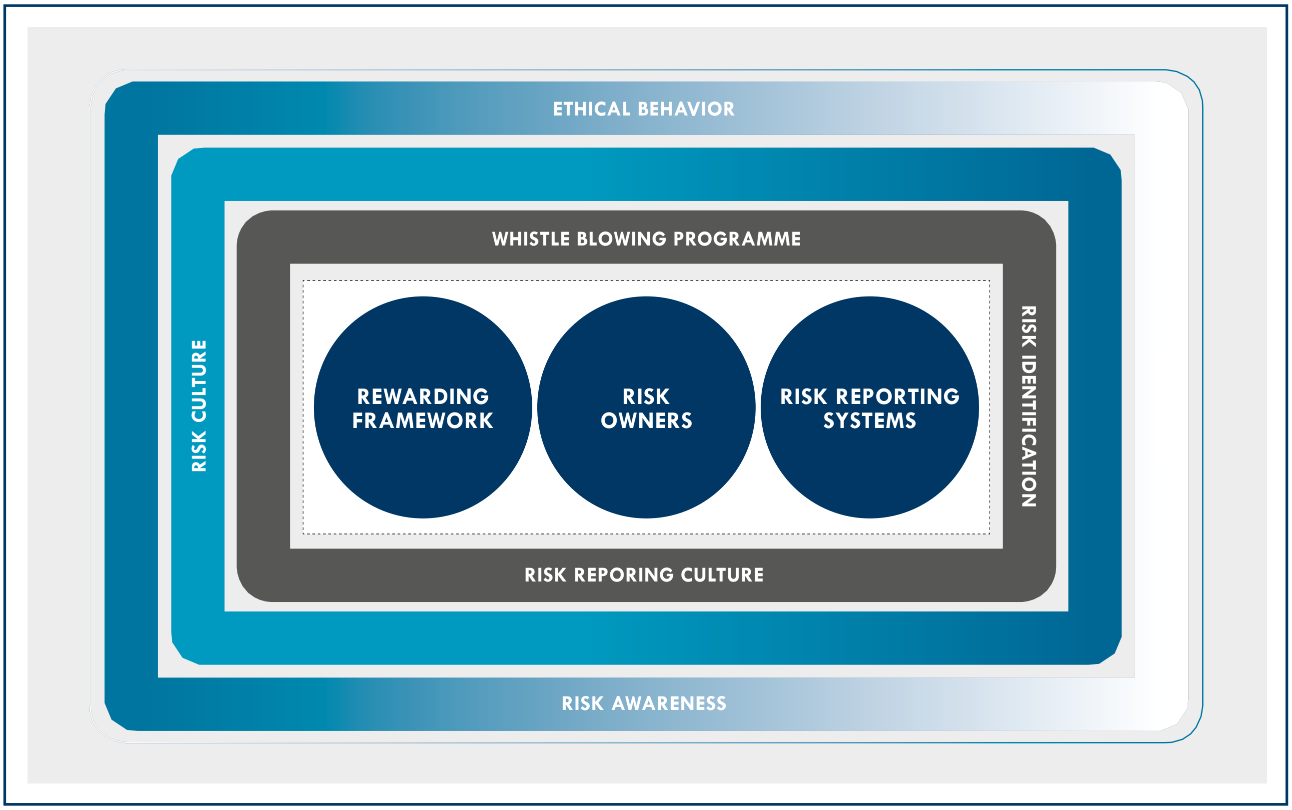
→ RISK GOVERNANCE

Policies and frameworks are the avenues where Board supported by Board Committees discharge their duties and oversight responsibilities. With a system of internal controls functioning throughout the entity, Executive Management, together with a number of subcommittees, manages the business. This mechanism helps to promote an awareness of risk and good governance in every area of the business and imparts a culture of compliance. The responsibility for ensuring that risks are adequately identified, measured, managed, and monitored and that good governance is maintained remains at the Board level.

→ GOVERNANCE STRUCTURE



→ RISK CULTURE AT CDB



At CDB, the strength lies with our risk culture which is the determinant factor which derives how effective we are at managing risk across the Organisation. 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. We have identified and given the responsibility of a risk owner with regard to operations they are engaged in. Increased capacity in risk roles and our focus on embedding CDB's values and principles, related policies, compliance training programmes and a whistle-blowing programme, have resulted in meaningful behavioural changes and empowered our employees to act with confidence in doing the right business the right way. This is visible with the number of risks identified by our 1st Line of Defence and communicated on a frequent basis to the Risk Management Division. The Three Lines of Defence model, which promotes transparency, accountability, and consistency through clear identification and segregation of duties, has reinforced our efforts in this regard.

CDB "ASSURANCE NET"

In order to make everyone responsible for managing risk at CDB, we have a mechanism which will facilitate bringing all in to the same page and thereby assuring key risks are managed and any suspicious activity is been communicated. Whenever, our spot auditors visit a particular branch, it will be communicated to all the recipients in the assurance net where if they have any doubtful transaction, they can clarify at that time itself. At the monthly managers' meeting, this will be included in the agenda and any risk matter arises is discussed with the top management.

Gross NPL   Net NPL   Trigger Point

→ RISK MANAGEMENT PROCESS

	Update for 2017/18
Risk Identification	Conducted frequent meetings with the risk owners Enabled risk reporting via the ERP system 37 risk areas were reported through risk identification system Rewarded 26 staff members for reporting high risk areas
Risk Assessment	Risk areas identified via the risk register/risk identification system were assessed, considering the likelihood and the impact and mitigation actions were taken accordingly.
Risk Treatment	A direct communication line was enabled during the financial year with Intellect India (core bank service provider) to directly report system related risk areas by logging into their Isolve System.
Risk Monitoring	During the financial year under review, 15 new exceptional reports were developed. Risk areas identified via risk register were referred to relevant risk owner/department head and continuously monitored to ensure risks were mitigated.
Risk Reporting	A summary of the identified risks, assessments, and strategies employed to minimise risks and monitoring mechanism is presented at the quarterly IRMC meetings/board meetings. A detailed discussion is carried out by the Committee and suggestions are also put into practice through the Risk Department to strengthen the risk management process.

→ KEY RISKS VS MITIGATION STRATEGIES

→ CREDIT RISK

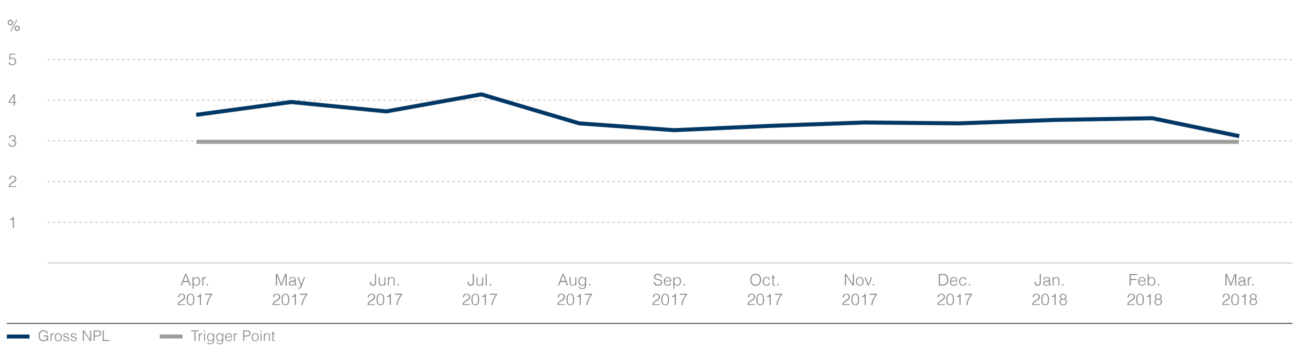
→ UPDATE FOR 2017/18

- Implemented Risk scoring system in LOS for the better understanding of the client's risk profile
- Submission of vehicle/machinery photos of all auto finance facilities to H/O Credit evaluation made mandatory.
- Changed the divisional structure which enables developing multi-tasking credit officers.

→ DEFAULT RISK

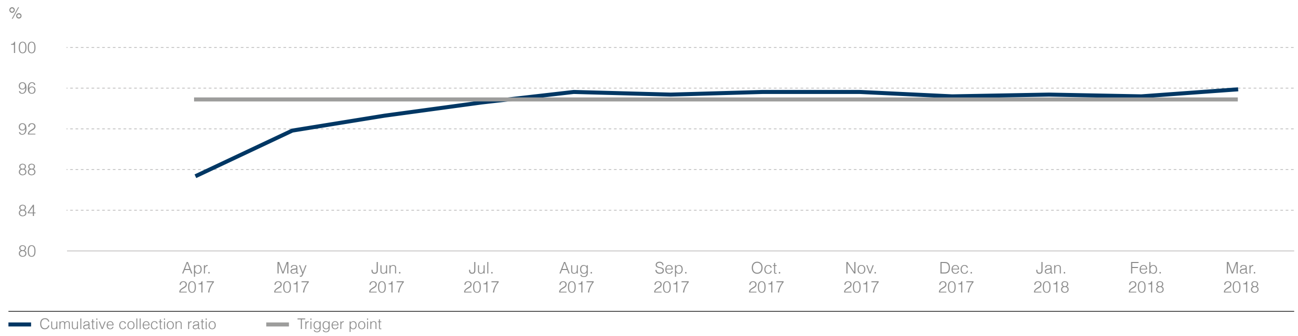
Default risk materialises when a borrower fails to repay his/her loan obligations in a timely manner.

Gross NPL



Gross NPL and Net NPL ratios remained almost at the same levels compared with the last financial year when ratios stood at 3.07% and 0.89% respectively. With the implementation of the Loan to Value ratio, amount financed for vehicle related loans was reduced and this in turn enhanced the borrowers' capability to honour their obligations which made a positive impact on financial institutions' NPLs. In addition, yard stock was one of the main contributors to the higher NPLs at CDB and with the strategies put into place during the year, CDB could maintain it at reasonable levels. Accordingly, the value of the yard stock was Rs. 666 Mn. compared to Rs. 518 Mn. recorded during 2016/17 financial year and NPL ratio excluding the yard stock was 1.98%. During the financial year cumulative collection ratio decreased to 96.10% when compared to 97.45% last year. Collection ratios showed a low figure at the dawn of the financial year but with the strategies put into place, we could improve it.

Cumulative Collection Ratio



→ STRESS TESTING

→ IMPACT ON COMPANY CAPITAL ADEQUACY RATIO (CAR) AND NON-PERFORMING LOANS (NPL) RATIO FROM THE CHANGES IN NPAs (NON-PERFORMING ADVANCES)

Base Case	
Capital Adequacy Ratio (CAR %)	13.93
Capital Base (Rs. '000)	8,792,223
Total Risk Weighted Assets (Rs. '000)	63,123,433
NPL Ratio (%)	3.07
Total Non-Performing Assets (Rs. '000)	1,866,028
Total Performing Assets (Rs. '000)	58,896,058

→ IMPACT ON COMPANY CAR DUE TO CHANGES IN NPAs

	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock (%)	5	10	15
Total NPAs (Rs. '000)	1,866,028	1,866,028	1,866,028
Increase in NPA (Rs. '000)	93,301	186,603	279,904
Revised Capital (Rs. '000)	8,698,922	8,605,620	8,512,319
Risk weighted assets (Rs. '000)	63,123,433	63,123,433	63,123,433
Revised CAR (%)	13.78	13.63	13.49

A 5% shock on the capital base due to increase in NPAs will reduce the CAR to 13.78%.

→ IMPACT ON COMPANY NPL FROM THE CHANGES OF NPAs

	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock (%)	5	10	15
Total NPAs Portfolio (Rs. '000)	1,866,028	1,866,028	1,866,028
Increase in NPA (Rs '000)	93,301	186,603	279,904
Revised NPAs (Rs. '000)	1,959,329	2,052,631	2,145,932
Total Loan Portfolio (Rs.'000)	60,762,086	60,762,086	60,762,086
Revised NPL (%)	3.22	3.38	3.53

NPL ratio will increase from 3.07% to 3.22% if NPAs increased due to a shock of 5%.

→ MANAGING DEFAULT RISK

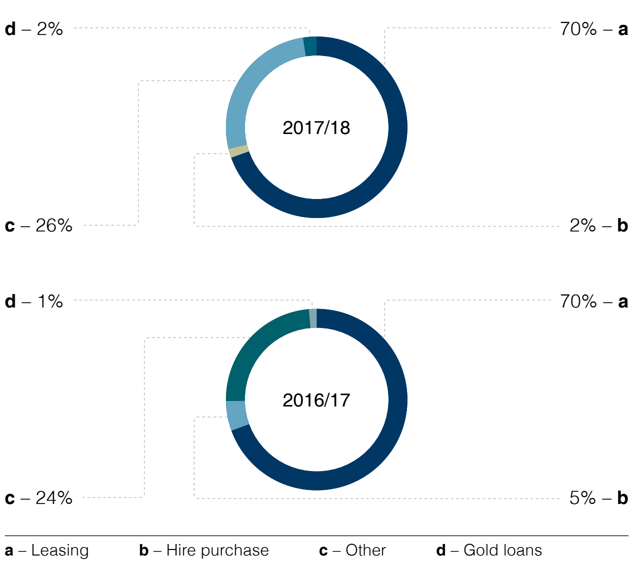
A detailed analysis is done by calculating the ratio product-wise, branch-wise etc. with the ratios being monitored on a monthly basis. Through ALCO meeting, market developments and economic conditions are monitored and amendments are done to credit policies as and when needed to attract a quality loan portfolio. Under the post disbursement and follow up division a provision management team has been assigned to closely evaluate and monitor non-performing advances and ensure that facilities are not moving to default status. Credit Evaluation Department's structure was revamped to enhance the quality of the evaluation process to better meet the enhanced business volumes.

Collection ratio is highlighted as a key risk indicator in the risk dashboard to monitor default risk and is reviewed in monthly meetings. Collection ratio is computed covering age-wise, branch-wise and area-wise receivables and strategies are deployed to improve collection ratio which is monitored on a daily basis by the Recoveries Department. Also, collection ratio is computed separately as first rental collection ratio and borrowers who are defaulting at early stages are identified and given a high consideration. Credit evaluations are mostly done via centralised operations and for some products it is decentralised at branch level. There are clear authorisation limits set in the system and a detailed analysis of the credit evaluation officers is carried out on a monthly basis.

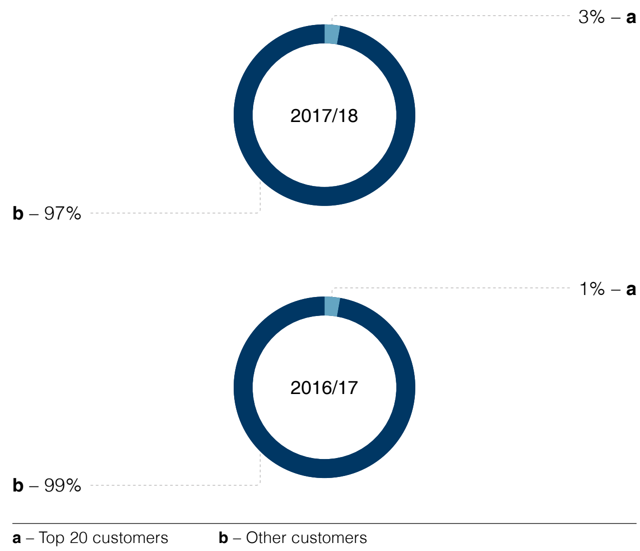
→ CONCENTRATION RISK

An organisation may be exposed to concentration risk due to uneven exposure to a particular product, group, geography or counterparties

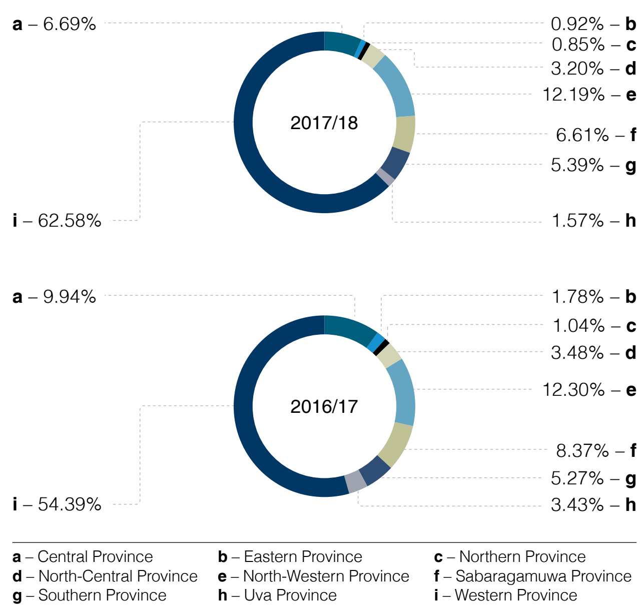
Lending Product Mix



Lending Concentration – Top 20 customers

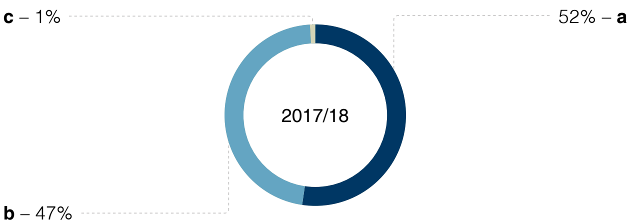


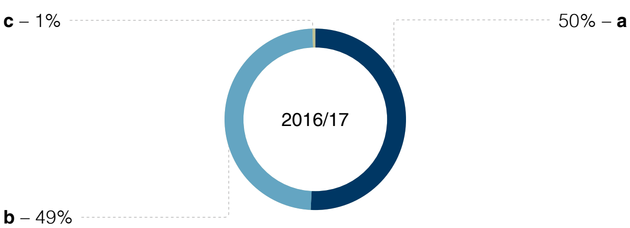
Geographical Concentration of Lending



Our lending product mix shows a high concentration on leasing. Product diversification strategies are in place to reduce this concentration risk. New product segments include property backed loans, personal loans and gold loans.

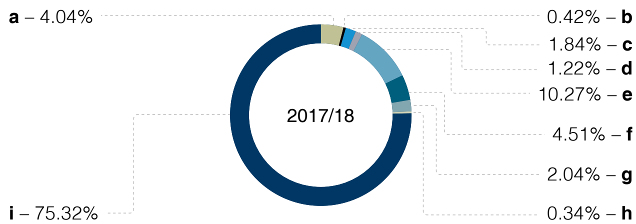
Fixed Deposit Product Mix

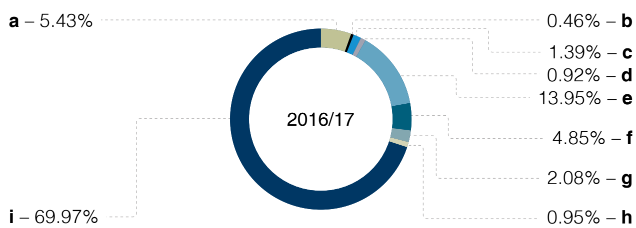




a – Dhana Surekum **b** – CDB Deeghayu **c** – Mudarabah

Geographical Concentration of Fixed Deposits

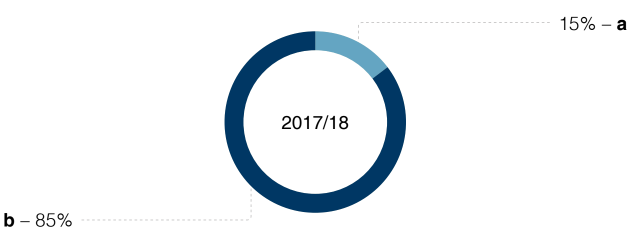




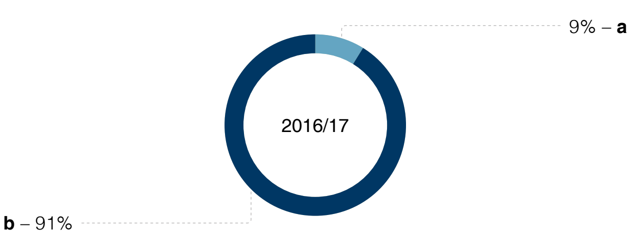
a – Central Province **b** – Eastern Province **c** – Northern Province
d – North-Central Province **e** – North-Western Province **f** – Sabaragamuwa Province
g – Southern Province **h** – Uva Province **i** – Western Province

Concentration of fixed deposit products are mainly on *Dhana Surekum* and CDB *Deegau*; each representing around 50%. Plans are afoot to reduce this concentration by enhancing the savings portfolio.

Fixed Deposit Concentration – Top 20 customers

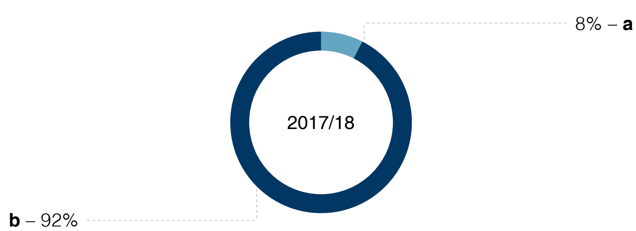


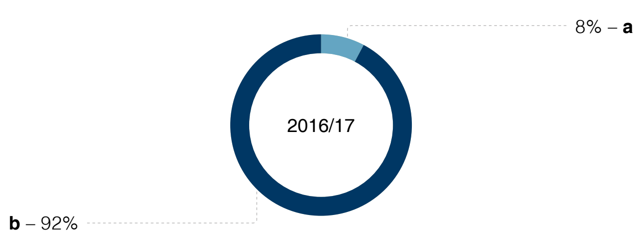
a – Top 20 Customers **b** – Other Customers



a – Top 20 Customers **b** – Other Customers

Savings Concentration Risk – Top 20 Customers

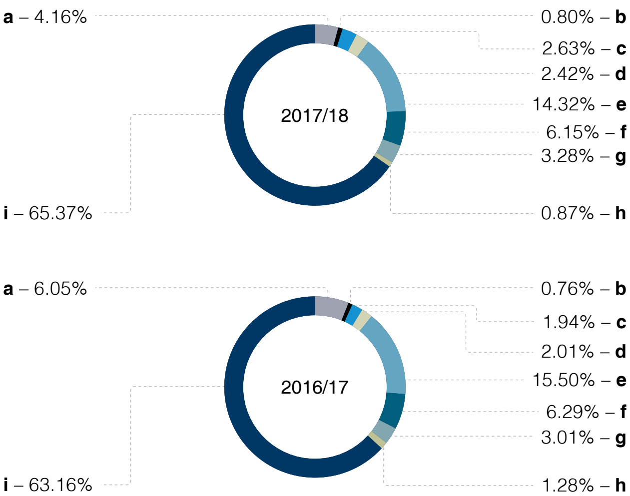




a – Top 20 Customers **b** – Other Customers

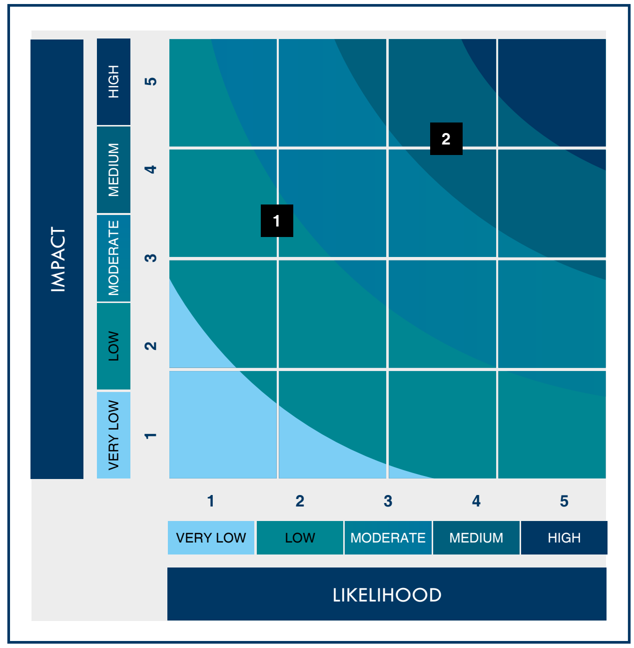
Top 20 customers accounting for only 8% of savings in both financial years is a favourable position in terms of concentration risk.

Geographical Concentration of Savings



a – Central Province **b** – Eastern Province **c** – Northern Province
d – North-Central Province **e** – North-Western Province **f** – Sabaragamuwa Province
g – Southern Province **h** – Uva Province **i** – Western Province

→ CREDIT RISK HEAT MAP



No.	Risk Type	Likelihood	Impact	Risk Level
1.	Default Risk	2	4	Low
2.	Concentration Risk	4	4	Medium

→ MANAGING CONCENTRATION RISK

CDB's exposure to vehicle segments were brought down with the increased levels of disbursements focusing on property backed loans, personal loans, gold loans, loans on consumables etc. With the implementation of the Loan to Value ratio, several measures were taken from the 2016/17 financial year to reduce the concentration CDB had on vehicle related loans. Vehicle loan concentration was prevailing around 95% level for monthly disbursements which was brought down to around 80-85% level with the strategies in place. Concentration of monthly disbursements is calculated and shown in the risk dashboard and closely monitored at the IRM meetings.

→ CREDIT RISK TRIGGER POINTS

Criteria	Target Level	Current Position (as at 31 March 2018)	Risk Exposure Compared to 2016/17
NPL Ratio (%)	3%	3.07%	⇔
Cumulative Collection Ratio (%)	>94%	96.10%	⇔

→ MARKET RISK

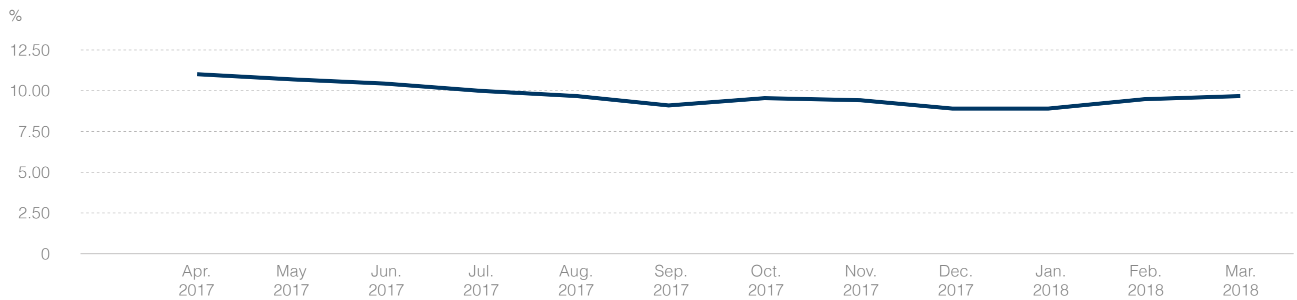
→ UPDATE FOR 2017/18

- Trigger points set for weighted average lending and deposits were changed to reflect the market rate movement
- A trigger point was introduced to monitor the amount of gold loans in relation to the loan book

→ INTEREST RATE RISK

Interest rate risk is the most important aspect of market risk. CDB is operating in the financial services industry and hence interest rates determine the weighted average rate movement. Fluctuations of interest rates in the market may create interest rate risk where it will result in repricing of CDB's liabilities. CDB's liabilities comprises mainly customer deposits and corporate borrowings. Since most of the deposits are on short-term basis, fluctuation in the interest rates will result in repricing of deposit liabilities faster than the assets which will lead to maturity gap which needs to be managed in an effective way.

Treasury Bill Rates (Gross)



→ MANAGING INTEREST RATE RISK

Interest rate movements are given a special emphasis at the ALCO meetings and forecasts are done based on the movements in the interest rates. Also, we maintain an investment and credit dashboard which provides information pertaining to Weighted Average Borrowing Rates and Weighted Average Lending Rates on a monthly basis. At the monthly ALCO meeting, aspects like reviewing of interest rates, repricing of assets, cash flow projections and reviewing of assets and liability composition are looked into. Maturity mismatches, analysis on rate sensitive assets and liabilities will be monitored based on the trigger points set. Assets with slower maturities and liabilities with higher maturities will be used to manage the mismatches.

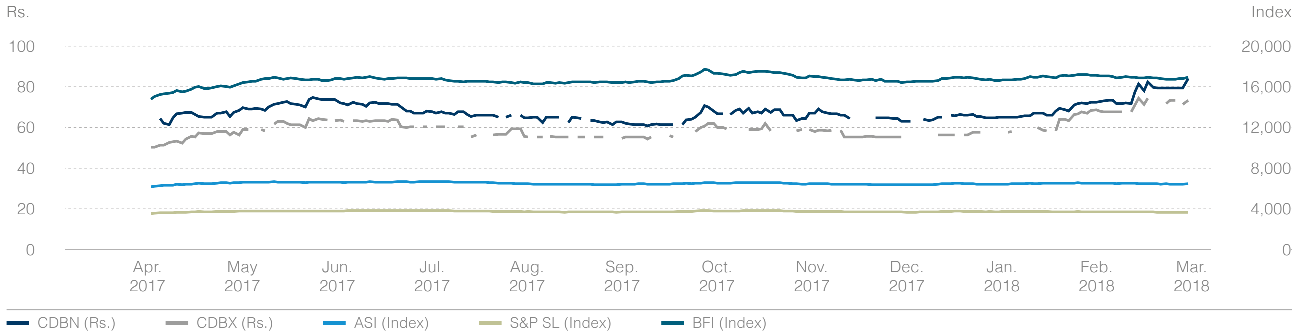
→ INTEREST EARNING ASSETS/LIABILITIES GAP ANALYSIS (RS. '000)

Interest Earning Assets/Liabilities	Up to 1 Month	2-3 Months	4-6 Months	7-12 Months	Over 12 Months
Interest Earning Assets/Liabilities					
Interest earning assets	8,882,839	4,245,689	5,877,688	10,984,711	37,221,870
Financial Investments – Held for trading	1,485,315				
Deposits in commercial banks	216,481	294,250	562,938	1,319,158	
Loans and advances	5,349,920	3,400,273	4,816,040	8,901,656	36,970,461
Financial Investments – Held to maturity	406,123	551,166	498,710	763,897	251,409
Financial Investments – Loans and receivables	1,425,000				
Interest Earning Liabilities	7,162,666	10,122,981	11,044,136	13,590,055	21,985,511
Borrowings	507,830	1,092,643	1,437,992	3,448,576	12,708,476
Deposits from customers	6,654,836	9,030,337	9,606,144	10,141,479	9,277,035
Net rate sensitive assets/(liabilities)	1,720,173	(5,877,291)	(5,166,448)	(2,605,344)	15,236,359

→ EQUITY PRICE RISK

Risk of falling fair value of equities as a result of fluctuations in equity prices.

Performace of CDB shares Vs CSE indices



CDBN and CDBX price have increased by 32% and 54% compared to the closing prices of 2016/17.

→ STRESS TESTING ON HIGHEST SHARE INVESTMENT (RS. '000)

Quoted Shares	2017/18			2016/17		
	Number of Shares	**Cost**	**Market Value**	Number of Shares	Cost	Market Value
Ceylinco Insurance PLC	663,624	240,614	1,194,523	638,012	204,089	1,034,214

→ SHOCK – DECREASE OF SHARE PRICE (RS. '000)

Quoted Shares	Decrease	New Market Value
1% decrease	11,945	1,182,578
3% decrease	35,836	1,158,688
5% decrease	59,726	1,134,797

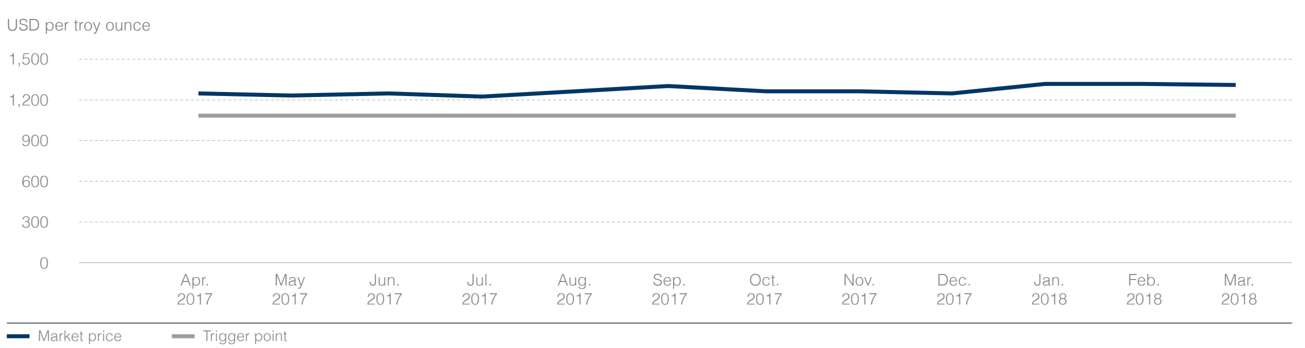
→ MANAGING EQUITY PRICE RISK

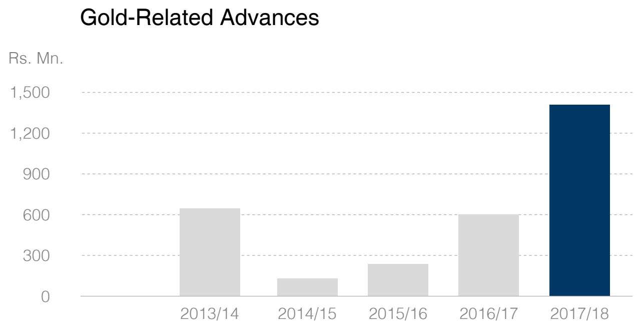
Fluctuations of the stock prices are monitored on a daily basis by the Corporate Finance Division/Finance Division and referred to management.

→ COMMODITY PRICE RISK

CDB faces commodity price risk as a result of engaging in providing loans against gold articles. Gold prices rose a second year running in 2017, ending December at the highest annual close in US Dollar terms since the peak of 2012. Having risen 9.1% in 2016, gold finished 11.9% higher again in 2017, its strongest gain since 2010. Through 2017 as a whole the annual average gold price was USD 1,257.09 per ounce. A wilting US Dollar, political tensions, and receding concerns over the impact of US interest rate hikes fed into this rally.

International Gold Prices





→ MANAGING COMMODITY PRICE RISK

As depicted in the gold loan advances graph, the advances increased by 134% to record a figure of Rs. 1,410 Mn. compared to the figure of Rs. 603 Mn. recorded in 2016/17. Whenever Gold Loan Division opts to increase advance values, they will refer it to the Risk Division and based on the analysis provided they will arrive at the optimum advance values which can be granted. Risk Division daily monitors the gold prices and exchange rate fluctuations. If there are any major fluctuations for 2-5 days, special meetings are arranged and immediate revision of strategies is put in place.

Risk Division conducts stress testing to monitor extreme scenarios covering the total base. Example: level of losses which can be incurred by CDB, if gold prices come down. A trigger point is set in the risk dashboard and is reviewed with price fluctuations.

→ STRESS TESTING: IMPACT ON GOLD LOAN PORTFOLIO DUE TO THE DECREASE OF GOLD LOAN PRICES

Base Case	
International Gold Price Average March 2018 ($ per tray ounce)	1,325
Gold Loan Portfolio (Rs. '000)	1,410,496

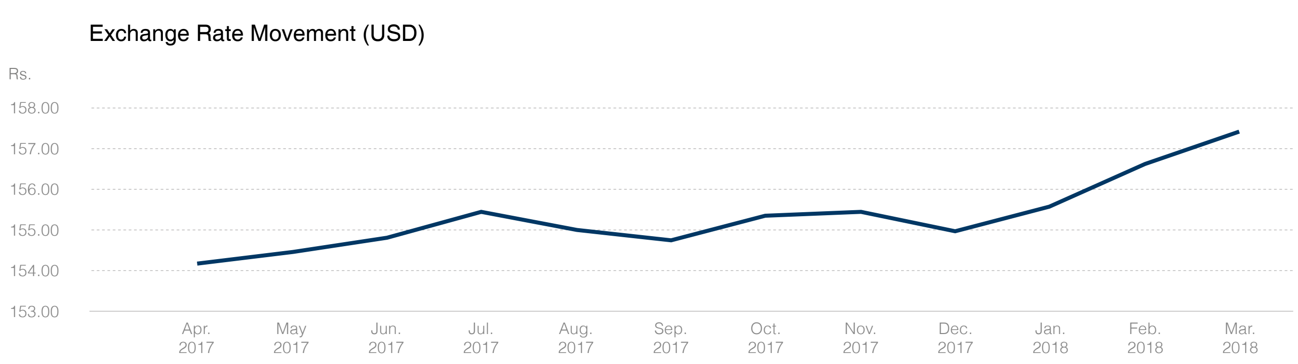
	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock (%)	5	10	15
Price after Shock ($ per tray ounce)	1,259	1,193	1,126
(Loss)/Profit on Portfolio after Shock (Rs. '000)	412,294	320,420	227,155

**Breakeven international price would be $ 963 per tray ounce*

→ EXCHANGE RATE RISK

Exchange rate fluctuations may result in losses due to fall in value of currencies.

Exchange rate fluctuations may have an impact on the money exchange business that we are engaged in. We need to monitor exchange rate fluctuations in the markets with regard to different currencies and should take timely actions to mitigate losses.



→ HIGHEST CURRENCY STOCKS OF CDB

Currency	Amount	Market Rate* Rs.	Total Value Rs. '000
USD	88,457	154	13,595
EUR	58,773	189	11,104

* CBSL Average Rate

→ SHOCK – STRENGTHENING/WEAKENING OF CURRENCIES

Currency	Shock (%)	Strengthening Rs. '000	Weakening Rs. '000
USD	1	(136)	136
EUR	1	(111)	111
USD	3	(408)	408
EUR	3	(333)	333
USD	5	(680)	680
EUR	5	(555)	555

→ MANAGING EXCHANGE RATE RISK

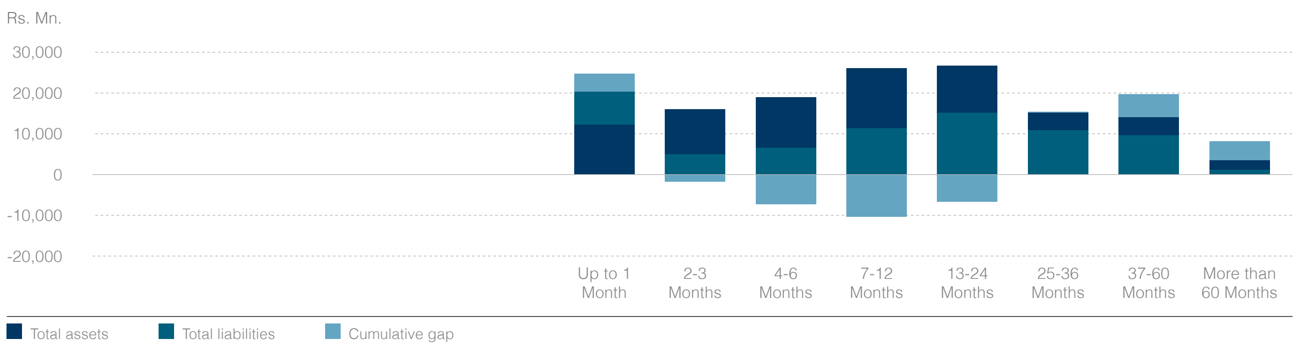
On a daily basis, exchange rate fluctuations are monitored and the impact it can create on areas like commodity prices/ currency stock is assessed and communicated to money remittance and gold loan divisions.

→ LIQUIDITY RISK

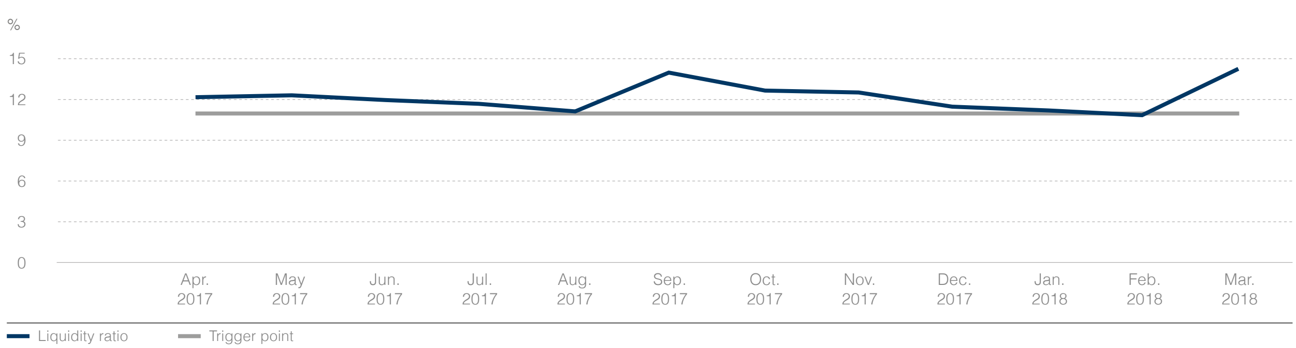
Being a public deposit taking institution, managing liquidity risk is one of the key aspects. In order to honour day-to-day obligations, a minimum level of liquidity should be maintained by a financial institution as conveyed by the regulator.

Direction	As at 31 March 2018	As at 31 March 2017
Maintain minimum holding of liquid asset based on the outstanding value of the time deposits mobilised by the Company (%)	14.37	13.03
Required minimum amount of liquid assets (Rs. '000)	4,994,271	3,648,520
Available amount of liquid assets (Rs. '000)	7,032,569	4,650,390

Maturity Gap



Liquidity Ratio



→ STRESS TESTING: IMPACT ON LIQUIDITY RATIO DUE TO FALL IN DEPOSIT LIABILITIES

Base Case	
Liquidity ratio (%)	14.37
Liquid assets (Rs. '000)	7,032,569
Total deposit liabilities (Rs. '000)	48,948,505

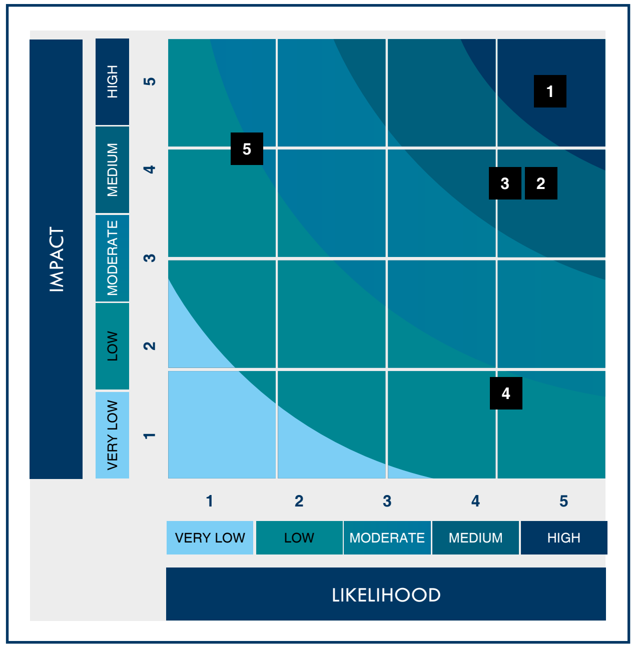
	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock (%)	4	8	12
Liquid assets (Rs. '000)	7,032,569	7,032,569	7,032,569
Deposit liabilities (Rs. '000)	48,948,505	48,948,505	48,948,505
Fall in deposit liabilities (Rs. '000)	1,957,940	3,915,880	5,873,821
Revised liabilities (Rs. '000)	46,990,565	45,032,625	43,074,684
Revised liquid assets (Rs. '000)	5,074,629	3,116,689	1,158,748
Ratio after shock (%)	10.80	6.92	2.69

→ MANAGING LIQUIDITY RISK

CDB's Treasury Department plays the vital role when it comes to managing liquidity position in the Company. Meetings are held on a weekly basis to discuss about the liquidity position with the CEO together with key personnel from Finance and Treasury Divisions. ALCO meetings form an avenue to prepare cash flows and determine the cash requirement/ excess and thereby taking appropriate investment/borrowing decisions. Decisions on contingency plans will also add value to face a stressed liquidity scenario, which is key to survive in such a situation.

From Treasury Department, a liquidity report is prepared on a daily basis and conveyed to Key Management Personnel. In the risk dashboard, liquidity ratio is taken as a KRI and if any alarming situation arises, Risk Division will communicate the same to Treasury and Corporate Finance Divisions.

→ MARKET RISK HEAT MAP



No.	Risk Type	Likelihood	Impact	Risk Level
1	Interest rate risk	5	5	High
2	Equity price risk	5	4	Medium
3	Commodity price risk	5	4	Medium
4	Exchange rate risk	5	2	Low
5	Liquidity risk	2	5	Low

→ MARKET RISK TRIGGER POINTS

Criteria	Target Level	**Current Position (as at 31 March 2018)**	Risk Exposure Compared to 2016/17
Liquidity ratio (%)	10	14.37	⇔
Maturity gap of 1 year basket	Below 15%	13.54	⇩
Gold price – Unit per troy ounce (24KT) in USD	1,000	1,325	⇩

→ OPERATIONAL RISK [GRI 102-11]

→ UPDATE FOR 2017/18

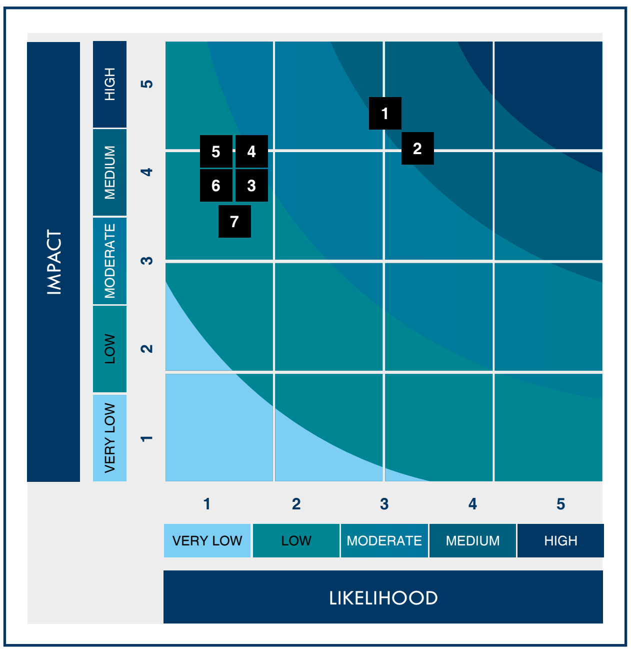
- 37 risk were reported to Risk Management Division and 26 staff members were rewarded for identifying significant risks.
- A comprehensive fire drill was conducted with collaborating of Colombo fire services department.

Due to losses stemming from inadequate or failed internal processes, people and systems or from external events, operational risk may arise. Basel II has projected seven types of operational risks that banks and financial institutions should bring into focus:

Risk Type	How We Manage
Internal Fraud – Acts of fraud committed internally in an organisation go against its interest.	• Spot audits covering branch cash operations, gold articles • Detailed audits on an annual basis • Exceptional reports run on a daily basis to capture any unauthorised transactions/procedure violations
External Fraud – These are fraudulent activities committed by third parties.	• System audits are conducted by external parties on a quarterly basis • External assurance on new digital initiatives before going ahead • Vulnerability assessments through external parties • IT Department regularly monitors firewall/proxy logs to capture unauthorised internet activities
Employment Practices and Workplace Safety – Non-compliance to employment or health-and-safety laws and regulations	• Staff comprises first aiders/fire fighters • Regular fire drills are held and training provided to act upon in an emergency situation • Safety measures are available and necessary maintenance are conducted in a timely manner
Clients, Products, and Business Practice – Failing to meet promises made to clients such as market manipulation, improper way of doing business, over promise and under delivery, misuse of confidential information etc.	• Introduction of new products to suit the customer needs through proper market research • Clear guidelines and procedure manuals are uploaded to intranet for staff reference • Adequate measures are taken for information security
Damage to Physical Assets – Damages caused to physical assets due to natural disasters or other events like terrorism.	• Business Continuity Plan (BCP) is in place to face in an emergency situation which will halt the head office operations • Disaster Recovery (DR) plan is available and tested to start system operations as soon as possible in the event of a disaster striking • Periodically presentations are done at the IRMC meetings on the progress of BCP • Comprehensive fire drills are conducted at CDB head office with the support of Colombo Fire Service Department

Risk Type	How We Manage
Business Disruption and Systems Failures – Disruptions and loss of business continuity due to power failures, software failures, hardware failures	• System down times are monitored and corrective actions are taken • Software licenses are obtained on a timely manner • IT Department conducts a daily health check of operating system, hardware, database level alert logs covering both DR and production • Restoring a tape backup on a monthly basis in order to verify the functionality of restored tape and the connected application • Regularly conduct information system vulnerability assessments through external parties in order to measure the validity of the precautionary actions taken by CDB in relation to information security aspects
Execution, Delivery, and Process Management – Failure in delivery, executing transactions due to data entry errors, accounting errors etc.	• Daily monitoring of exceptional reports to identify any error postings, entry errors etc. • Risk Department continuously conducts risk analysis on processes and prepares a risk register which consists of risks faced by each and every department

→ OPERATIONAL RISK HEAT MAP



No.	Risk Type	Likelihood	Impact	Risk Level
1.	Internal fraud	3	5	Medium
2.	External fraud	3	5	Medium
3.	Employment practices and workplace safety	2	4	Low
4.	Clients, products, and business practice	2	5	Low
5.	Damage to physical assets	2	5	Low
6.	Business disruption and systems failures	2	4	Low
7.	Execution, delivery, and process management	2	4	Low

→ OTHER RISKS

- Introduction of a Environmental and Social Management System (ESMS) to mitigate environmental and social risks.
- Third party risk review assessment for all new IT platforms introduced in the financial year under review.

→ REPUTATION RISK

Financial institutions are exposed to reputation risk when stakeholders have a negative perception due to reasons such as not receiving expected service level, breaching the customer trust due to various reasons, failing to protect customer privacy, failing to maintain healthy internal control/risk management strategies etc. As a public deposit taking institute, if its reputation gets tarnished it may even lead to a shutting down of business operations.

→ MANAGING REPUTATIONAL RISK

We have a dedicated team placed at the Customer Care Division to ensure an effective and efficient process in dealing with customer complaints/concerns etc. Most importantly, CDB's Management considers Customer Care Division as an avenue to improve aspects of our customer service and also from the risk perspective it performs as a risk identification mechanism. Monthly risk dashboard prepared by the Risk Division will cover a trigger point for customer complaints and will be presented in detail at the quarterly IRMC meetings.

Also, other mechanisms involved in getting stakeholder opinion are staff surveys/suggestion scheme, investor feedback at Annual General Meeting etc.

→ STRATEGIC RISK

Strategic risk arises due to taking of inappropriate decisions, poor planning, inability to adapt to change in the environment etc.

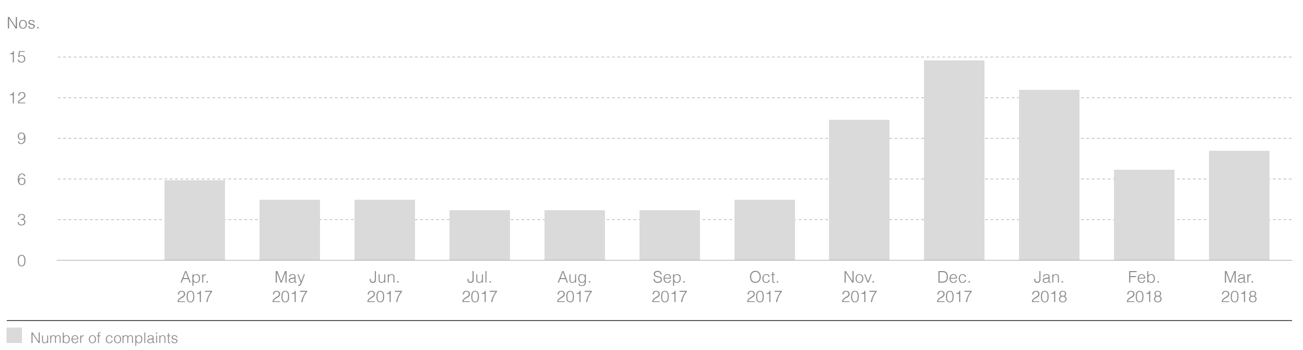
→ MANAGING STRATEGIC RISK

There are several dashboards in place to monitor the performance on a daily, weekly, and monthly basis and various sensitivity analysis and financial analysis are carried out at ALCO, Finance Committee etc. meetings to ensure the Company is on the track to achieve the targets set.

There will be a session run biannually to review the key performance areas with the budgeted targets set at the beginning of the financial year. Also, several trigger points are included in the risk dashboard to ensure that the Company is moving ahead as to the set targets and any deviations are referred to the Board.

New products/processes will be referred to Risk Division for a risk analysis and before it reaches the approval of the Management, there will be a comprehensive risk analysis carried out covering various risk areas which will aid the Management to take wise decisions and thereby mitigating strategic risks.

Customer complaints



→ PEOPLE RISK

People risk will arise due to not adhering to pre-set guidelines, losing the skilled long serving employees and lack of appropriate human resources. CDB has always believed on “Strategy bets on people to succeed” thus making people as its unique feature to achieve great milestones. Hence managing people risk, should be considered as a significant aspect.

→ MANAGING PEOPLE RISK

CDB's employees are provided with proper in-house training, external training and foreign training based on the training needs identified at the performance appraisals. Most of the training programmes are conducted by renowned persons from the industry while there are leadership development programmes like speech craft programmes which are available within the Company.

CDB promotes an open door policy when it comes to grievance handling and any employee can even meet the MD/CEO and can convey any matter at any given time. Department meetings and yearly sessions such as breakfast meeting with the CEO is arranged to have open discussions with staff members.

We promote work-life balance through various programmes like sports day, get-togethers etc. CDB talent show is organised to bring staff talents with regard to singing, acting, photography, drawing etc. also, we do recognise our exceptional performers by way of organising a gala event and award them with awards, foreign tours etc.

→ COMPLIANCE RISK

We have adopted a rigorous and proactive approach when complying with requirements of various regulatory authorities. As a public deposit taking institution, CDB is regulated by the Central Bank of Sri Lanka which issue rules and guidelines applicable to NBFIs. CDB also has proactive ongoing engagements with the relevant regulatory and Government authorities to try to understand, ahead of time, what the possible specific interventions could be and to prepare for them in order to minimise the effect of additional and amended laws and regulations. Failing to adhere to any compliance requirement will expose CDB to compliance risk.

→ MANAGING COMPLIANCE RISK

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 about the newly formed rules and guidelines. The responsibility in submitting of weekly, monthly, quarterly, and annual (Financial Data) reports to the Central Bank of Sri Lanka (CBSL) lies with the Compliance Division. With regard to Anti-Money Laundering (AML), we have implemented several initiatives such as:

- Screening of Customers against local and global sanction lists through online compliance tool.
- Conducted training/awareness sessions to branch staff on new developments in AML regulations.
- In collaboration with Internal Audit Division, formulated AML audit programme and carried out AML audits.

Criteria	Trigger Point	**Current Position (as at 31 March 2018)**	Risk Exposure Compared to 2016/17
Capital Adequacy – Tier I (%)	5	10.64	⟺
Capital Adequacy – Tier I and Tier II (%)	10	13.93	⟺
Capital Funds to Deposit Liabilities (%)	10	19.67	⟺

→ ENVIRONMENTAL AND SOCIAL RISKS

These risks can arises due to potential negative consequences to a business that results from its impacts (or perceived impacts) on the natural environment or communities of people. As a carbon conscious entity, we are committed to preserve our environment and also to enhance peoples' standard of living through initiating various corporate social responsibility initiatives.

→ MANAGING ENVIRONMENT AND SOCIAL RISKS

During the year under review, an Environment and Social Risk Management System (ESMS) was introduced with the consulting of Climate SI to better assess the environment and social risks of the facilities we disburse. The process was embedded to our credit evaluation system and steps were taken to refer high risk facilities to sustainability and risk divisions to provide independent assurance on the risk levels.

CYBER RISKS

Cyber risks can be considered as risks which arises due to failure of an organisation's information technology systems. Technology plays a pivotal role when it comes to achieving competitive advantage over rivals and firms are compelled to embrace various technological knowhow which will expose them to cyber risks if effective and efficient controls are not put into place. CDB which is always embrace new technological platforms, should consider managing cyber risks as it will immensely impact the reliability placed in by our customers towards expending these technological platforms.

HOW WE MANAGE CYBER RISKS

Necessary testing will be carried out before these technological platforms are put on to live mode by referring it to IS Auditors and also, we conduct vulnerability assessments of our technology platforms on a quarterly basis through external experts. They will highlight if there are any vulnerabilities and same will be communicated to the top Management and Board after each assessment.

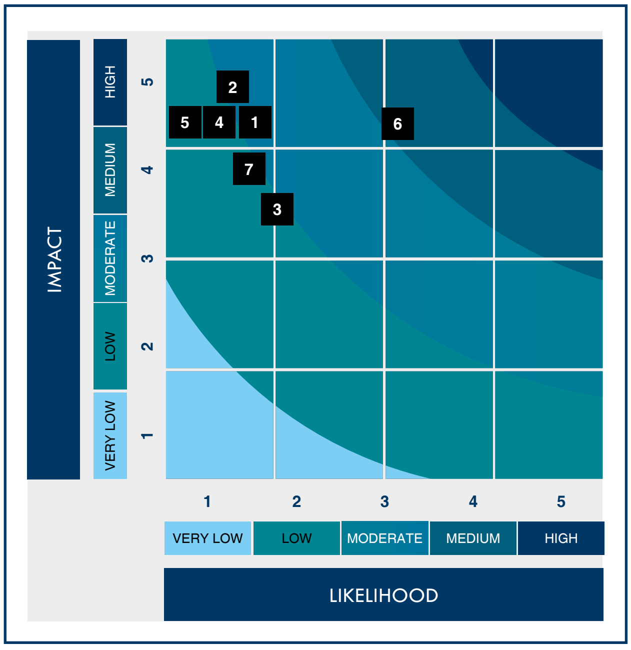
CONDUCT AND CULTURE RISK

Conduct risk is the risk of improper, unlawful or unethical behaviour or action that may have a negative impact on an organisation's clients or counterparties or the fair and effective operation of the industry a company operates in. Risk culture can be considered as a system of values and behaviours present in an organisation that shapes risk decisions of management and employees.

HOW WE MANAGE CONDUCT AND CULTURE RISK

CDB's approach to conduct risk management is essential to the way we do our day-to-day business. It is based on sustainable practices and integrated in how staff manage their responsibilities and conduct themselves. With the introduction of customer protection framework by CBSL, will enable us to focus more in these areas and to mitigate conduct risk. We have grown a risk culture where staff members tend to report risks. Culture is enriched with a rewarding framework which we have developed with the guidelines set out in whistle-blowing policy and as a result, staff at CDB are keener to identify risks and report it via our ERP system.

→ HEAT MAP FOR OTHER RISKS



No.	Risk Type	Likelihood	Impact	Risk Level
1.	Reputation Risk	2	5	Low
2.	Strategic Risk	2	5	Low
3.	People Risk	2	4	Low
4.	Compliance Risk	2	5	Low
5.	Environmental and Social Risk	2	5	Low
6.	Cyber Risk	3	5	Medium
7.	Conduct and Culture Risk	2	5	Low

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 2018 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 4 June 2018.

→ OVERVIEW OF THE COMPANY

The Citizens Development Business Finance PLC (CDB) is a Licensed Finance Company licensed 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.

ICRA Lanka Limited has assigned [SL] BBB+ credit rating to the Company.

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 18 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 Deposits, Savings Deposits, Personal Finance Leasing, Hire Purchase Financing, Pawning, Corporate and Retail Credit, Dealing with Government Securities, Foreign Exchange Dealership, Money Exchange Dealership, Islamic Finance, 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

Citizens Development Business Finance PLC has two Subsidiaries as at 31 March 2018. Names of the Subsidiaries and their principal business activities areas tabulated bellow:

Entity	Principal Business Activities
CDB Micro Finance Limited	CDB Micro Finance Limited is a fully on 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. 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. Registration Number PB 589

→ CHANGES TO THE GROUP STRUCTURE

There were no changes to the Group Structure during the financial year ended 31 March 2018.

→ 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 10 to 12 the Managing Director's Review on pages 14 to 16 the Management Discussion on pages 43 to 120 and Financial Review on pages 45 to 55 present an overall appraisal of the business operations, financial performance and the overall financial position of the Company and the Group.

→ FUTURE DEVELOPMENTS

The Company intends to continue to pursue a strategy of enhancing the product portfolio having in mind the needs of the stakeholders. In order to achieve this and reach out to the public, the Company has focused on digital transformation in sales channel developments and new product development along with transformation of business processes to cater stakeholder needs in the near future.

→ 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 203 to 344.

→ 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 203 to 344 have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (SLAS) 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 199 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 2018, and the Auditors' Report issued thereon is given on page 210 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 2018 are prepared in accordance with the revised Sri Lanka Accounting Standards. The significant accounting policies adopted in the preparation of the Financial Statements of the Group and the Company is given on pages 203 to 244.

Board of Directors has approved the early adoption of SLFRS 9 – "Financial Instruments" standard by replacing the existing Standard of LKAS 39 – "Financial Instruments: Recognition and Measurement" with effect from financial year ended 1 April 2017.

→ 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 2017/18 and 2016/17 were as follows:

	Company		Group	
Year ended 31 March	**2018 Rs. Mn.**	2017 Rs. Mn.	**2018 Rs. Mn.**	2017 Rs. Mn.
Composition				
Revenue	**11,785**	8,591	**12,050**	8,703
Interest income	**10,117**	7,587	**10,320**	7,686
Non-interest income	**1,668**	2,888	**1,730**	2,978
Net operating income	**4,752**	3,665	**4,949**	3,763

Details are given in the Income Statements of the Financial Statements.

→ PROFIT AND APPROPRIATIONS – COMPANY

	Company		Group	
Year ended 31 March	**2018 Rs. Mn.**	2017 Rs. Mn.	**2018 Rs. Mn.**	2017 Rs. Mn.
Profit before tax	**1,687**	1,228	**1,764**	1,260
Provision for taxation	**286**	221	**310**	235
Net profit	**1,401**	1,007	**1,454**	1,025
Retained earnings brought forward	**2,654**	2,065	**2,690**	2,086
Impact of adopting SLFRS 9 – "Financial Instruments" (Transition date)	**634**	–	**618**	–
Profit available for appropriation	**4,689**	3,072	**4,762**	3,111
Appropriations				
Statutory reserve fund (SRF)	**280**	201	**283**	202
Transfer from (out)				
Re measurement of define benefit liability	**(5)**	(26)	**5**	(26)
Final cash dividend paid	**190**	190	**190**	190
Non-controlling interest share of profit			**(5)**	
Balance carried forward	**4,213**	2,654	**4,279**	2,690
Dividend proposed/paid	**272**	190	**272**	190

→ INCOME TAX EXPENSE

The income tax rate applicable to the Company for the year 2017/18 is 28% (2016/17 – 28%). The Company is also subject to tax on value added on financial services at the rate of 15%. (2016/17 – 15%).

The information on income tax expenses of the Company and Group is given in Note 15 to the Financial Statements on page 248.

→ DIVIDENDS ON ORDINARY SHARES

The Board of Directors recommends a first and final cash dividend of Rupees Five Rs. 5.00 per share on both its 46,299,223 voting ordinary shares and 8,005,984 non-voting ordinary shares aggregating to a sum of Rupees Two Hundred and Seventy One Million Five Hundred and Twenty Six Thousand Thirty Five as the first and final dividend for the financial year 2017/18.

The Board was satisfied that the Company would meet the solvency test after the declaration of the aforesaid dividend and required the Company Secretary to obtain a solvency certificate from the Company's Auditors to that effect. The Board authorised the distribution in terms of Section 56 of the Companies Act No. 07 of 2007. The said dividend will, subject to the approval by the shareholders be payable by the 7th market day of the Annual General Meeting.

In compliance with Finance Companies Guideline No. 1 of 2013, the Company has obtained the approval of the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the proposed dividend.

→ STATED CAPITAL AND RESERVES

A summary of Company and Group Stated Capital and reserves are given below. The information on the composition and movement of stated capital and reserves are given in the Statement of Changes in Equity on pages 216 to 219.

Year ended 31 March	Company		Group	
	2018 Rs. Mn.	2017 Rs. Mn.	**2018 Rs. Mn.**	2017 Rs. Mn.
Composition				
Stated capital	1,185	1,185	1,185	1,185
Revaluation reserve	433	542	433	542
Statutory reserve fund (SRF)	1,321	1,041	1,326	1,043
AFS reserve	–	820	–	822
Retained earnings	4,213	2,654	4,279	2,690
Sub total	7,152	6,241	7,223	6,282
Non-controlling Interest	–	–	36	33
Total equity	7,152	6,241	7,259	6,315

→ 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 345 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. 352 Mn. and Rs. 364 Mn. respectively. (2016/17 Group: Rs. 108 Mn. Company: Rs. 109 Mn. Details are given in Notes 27 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 2018, and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of the freehold properties owned by the Company are given in Note 27.1 to the Financial Statements.

→ STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31 March 2018 was 1,185,061,645 consisting of ordinary voting shares of Rs. 46,299,223 and ordinary non-voting shares of 8,005,984 (2016/17 – Rs. 1,185,061,645 consisting of ordinary voting shares of 46,299,223 and ordinary non-voting shares of 8,005,984).

The debentures of the Company as at 31 March 2018 was Rs. 4,000 Mn. consisting of 40 million debentures at Rs. 100 (2016/17 – Rs. 2,000,000,000).

→ ISSUE OF SHARES AND DEBENTURES

The Company has not issued voting or non-voting shares during the year. However, Company has issued 20 million debentures amounting to Rs. 2 Bn. during the Financial Year.

→ 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 350 to 358.

→ SHAREHOLDING

There were 2,042 registered voting shareholders and 1,795 non-voting shareholders as at 31 March 2018. The details of Top Twenty Shareholders, public holding, analysis of distribution of shareholders and market information of the shares are given under the Investor Relations Section on pages 350 to 358 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 360.

→ 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 31 March 2018 comprised of 12 Directors with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the "Board of Directors' Profile" on pages 148 to 151 of this Annual Report.

Names of the persons holding office as Directors of the Company at 31 March 2018 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:

Name	Date of Appointment	Other Information
Mr D H J Gunawardena	01.01.2012	Chairman Non-Executive Director
Mr W P C M Nanayakkara	01.02.2004	Executive Director/Chief Executive Officer/Managing Director
Mr R H Abeygoonewardena	01.04.2011	Executive Director/Corporate Finance
Mr S R Abeynayake	01.01.2012	Non-Executive Director
Prof S P P Amarathunga	20.10.2016	Non-Executive Independent Director
Prof Ajantha Dharmasiri	01.02.2012	Non-Executive Independent 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/Senior Director
Mr S V Munasinghe	01.04.2011	Executive Director/Sales and Business Development
Mr T M D P Tennakoon	01.04.2011	Executive Director/Deputy Chief Executive Officer/Chief Financial Officer
Ms U R Senavirathna*	01.07.2016	Non-Executive Independent Director

**Ms U R Senevirathna has resigned as an Independent Non-Executive Director with effect from 23 April 2018. At the time of resignation she does not hold shares in the Company.*

RE-ELECTION OF DIRECTORS BY ROTATION

In terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company, Prof Ajantha Dharmasiri, W P C M Nanayakkara, Mr T M D P Tennakoon Mr Razik Mohamed retire by rotation and being eligible, offer themselves for re-election.

DIRECTORS OF SUBSIDIARIES

The Names of the Directors of the Subsidiary Companies of CDB Micro Finance Company Limited and Unisons Capital Leasing Limited as at 31 March 2018:

Subsidiary	Name	Other Information
CDB Micro Finance Company Limited	Mr T M D P Tennakoon	Chairman/Non-Executive Director
	Mr C M Nanayakkara	Non-Executive Director
	Mr D A De Silva	Non-Executive Director
	Mr M B Heenkenda	Non-Executive Director
	Mr Imdaad Naguib	Non-Executive Director
	Ms N Kodagoda	Non-Executive Director
Unisons Capital Leasing Limited	Mr C M Nanayakkara	Chairman/Non-Executive Director
	Mr R H Abeygoonewardena	Non-Executive Director
	Mr S V Munasinghe	Non-Executive Director
	Mr Karthik Elangovan	Executive Director/Chief Executive Officer
	Dr J P Wansapura	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 D H J Gunawardena – Chairman – Non-Executive Director Mr Razik Mohamed – Member – Non-Executive Independent Director Ms U R Senevirathna – Member – Non-Executive Independent Director (Resigned w.e.f. 23 April 2018) Prof Ajantha Dharmasiri Non-Executive Independent Director (Appointed w.e.f. 25 April 2018)
Integrated Risk Management Committee	Mr Razik Mohamed – Chairman – Non-Executive Independent Director Mr D A De Silva – Member – Executive Director Mr W P C M Nanayakkara – Member – Executive Director Mr R H Abeygoonewardena – Member – Executive Director Mr S V Munasinghe – Member – Executive Director Mr T M D P Tennakoon – Member – Executive Director Ms U R Senevirathna – Member – Non-Executive Independent Director (Resigned w.e.f. 23 April 2018)
Remuneration Committee	Mr S R Abeynayake – Chairman – Non-Executive Director Mr Razik Mohamed – Member – Non-Executive Independent Director Prof Ajantha Dharmasiri – Member – Non-Executive Independent Director
Nomination Committee	Mr P A J Jayawardena – Chairman – Non-Executive Director Prof Ajantha Dharmasiri – Member – Non-Executive Independent Director Mr W P C M Nanayakkara – Member – Executive Director
Credit Committee	Mr W P C M Nanayakkara – Chairman – Executive Director Mr R H Abeygoonewardena – Member – Executive Director Mr S V Munasinghe – Member – Executive Director Mr T M D P Tennakoon – Member – Executive Director Mr D A De Silva – Member – Executive Director
Related Party Transactions Review Committee	Mr Razik Mohamed – Chairman – Non-Executive Independent Director Prof Ajantha Dharmasiri – Member – Non-Executive Independent Director Mr R H Abeygoonewardena – Member – Executive Director Mr T M D P Tennakoon – 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 305 and 306 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 45 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

	Voting		Non-Voting	
Year ended 31 March	2018	2017	2018	2017
Mr D H J Gunawardena	–	–	–	–
Mr W P C M Nanayakkara	1,813,243	1,677,512	44	44
Mr R H Abeygoonewardena	922,240	922,240	7,579	7,579
Mr S R Abeynayake	–	–	–	–
Prof S P P Amarathunga	–	–	–	–
Prof Ajantha Dharmasiri	–	–	–	–
Mr D A De Siva	–	–	–	–
Mr P A J Jayawardena	500	–	–	–
Mr Razik Mohamed	–	–	–	–
Mr S V Munasinghe	1,000,100	1,000,100	–	–
Mr T M D P Tennakoon	1,067,733	1,067,733	7,262	7,262
Ms U R Senevirathna (Resigned) w.e.f 23 April 2018	–	–	–	–

→ DIRECTORS' INTEREST IN DEBENTURES

There were no debentures registered in the name of any Directors at 31 March 2018. However, Mr D H J Gunawardena and S R Abeynayake are Directors of Ceylinco Insurance PLC, where Rs. 250 Mn. debentures are registered under Ceylinco Life Insurance Limited. Ceylinco Life Insurance Limited is a Fully-own Subsidiary of Ceylinco Insurance PLC.

Directors' shareholdings in ordinary voting shares, ordinary on-voting shares and Directors' interest in debentures have not changed subsequent to the reporting date, and up to 15 May 2018 the date being two weeks prior to the date of Notice of the Annual General Meeting.

→ DIRECTORS' INTEREST IN SHARES AND DEBENTURES OF SUBSIDIARIES

There were no debentures registered in the name or any Director as at 31 March 2018 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 2018 are given in Note 45 to the Financial Statements on pages 306 to 309 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 2018 was 1,588.

→ 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. 28 Mn. for its CSR activities in terms of the resolution passed at the last Annual General Meeting.

→ SUBSIDIARIES

During the year under review, CDB Micro Finance Company 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 Note 21.2 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 confirms such compliance to the Board on a 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.

→ RELATED PARTY TRANSACTIONS

Section 7.6 (xvi) of Colombo Stock Exchange 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 45 on pages 306 to 309 of this Annual Report.

→ APPOINTMENT OF AUDITORS

The Financial Statements for the year ended 31 March 2018 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. 9 Mn. as audit fee for the year ended 31 March 2018 which has been approved by the Board. The Directors recommend their reappointment.

→ NOTICE OF THE MEETING

Notice relating to 22nd 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,

D H J Gunawardena
Chairman

W P C M Nanayakkara
Managing Director

SSP Corporate Services (Pvt) Limited
Company Secretary

4 June 2018
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 page 210.

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;
- Code of best practices on Corporate Governance 2017; 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 (SLFRS/LKAS);
- 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, checks, risk assessment tests and financial, and other controls to mitigate, prevent and detect fraud and other irregularities.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of dividends paid and payable (Proposed) conforming to the Section 57 of the Companies Act No. 07 of 2007.

Further, the Board of Directors wishes to confirm that the Company has met requirements under the Section 07 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 Messres 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,

D H J Gunawardena
Chairman

W P C M Nanayakkara
Managing Director

4 June 2018
Colombo

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

→ RESPONSIBILITY

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 Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Citizens Development Business Finance PLC. ("Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board.

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 pertaining to Internal Control over Financial Reporting. The management is continuously in the process of enhancing the documentation of the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Auditors of the Company for suitability of design and effectiveness on an ongoing basis.

Consequent to full convergence of Sri Lanka Accounting Standards with International Financial Reporting Standards that became effective from financial year beginning 1 April 2012, the Company implemented a process to make required adjustments to the Financial Statements prepared under previous Accounting Standards. The process for making necessary adjustments was based on excels application. The Board recognises the importance of integrating these requirements to existing accounting system to more effectively comply with the requirements of recognition, measurement, classification and disclosures of financial instruments and the necessary steps in this regard will be taken in the future.

→ CONFIRMATION

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding 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 Regulatory Requirements of the Central Bank of Sri Lanka.

→ REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Company for the year ended 31 March 2018 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.

By order of the Board,

D H J GUNAWARDENA
Audit Committee
Chairman

W P C M NANAYAKKARA
Managing Director/CEO

DAMITH TENNAKOON
Director/CFO/Deputy CEO

4 June 2018
Colombo

FINANCIAL REPORTS

THIS SECTION INCLUDES A DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE OF OUR GROUP FOR THE YEAR 2017/18 IN COMPARISON TO 2016/17. WE HAVE DELIVERED A STRONG FINANCIAL PERFORMANCE THIS YEAR WHILE CONTINUING TO INVEST EXTENSIVELY IN THE EXPANSION OF OUR BUSINESS AND NETWORK.

FINANCIAL CALENDAR

Dividend Payments	
Final dividend for the year ended 31 March 2017 paid on	Tuesday, 11 July 2017
Final dividend for the current year to be proposed on	Saturday, 30 June 2018
Final dividend for the current year to be paid on*	Thursday, 12 July 2018

*** Subject to confirmation by shareholders at Annual General Meeting.*

	2017/18	2018/19 (Proposed)
Audited Financial Statements and Annual General Meeting		
Annual Report Publication	Monday, 4 June 2018	Monday, 3 June 2019
Annual General Meeting	Saturday, 30 June 2018	Friday, 28 June 2019
Interim Financial Statements to CSE**		
Quarter ended 30 June	Thursday, 10 August 2017	Monday, 13 August 2018
Quarter ended 30 September	Tuesday, 14 November 2017	Monday, 12 November 2018
Quarter ended 31 December	Wednesday, 14 February 2018	Tuesday, 12 February 2019
Quarter ended 31 March	Wednesday, 30 May 2018	Monday, 20 May 2019

*** In terms of the Rule 7.4 of the CSE and as per the requirements of the Central Bank of Sri Lanka*

	2017	2018 (Proposed)
Six Months Financial Statements		
Year ended 31 March	Thursday, 22 June 2017	Friday, 22 June 2018
Six months ended 30 September	Thursday, 23 November 2017	Friday, 23 November 2018

*** In terms of the requirements in direction No. 2 of 2006 Central Bank of Sri Lanka.*

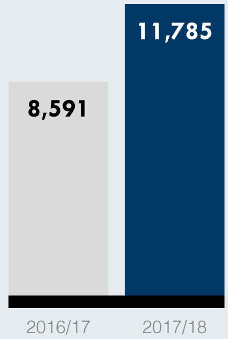
30 MAY 2018	**04 JUN 2018**	**30 JUN 2018**	**13 AUG 2018**	**12 NOV 2018**	**12 FEB 2019**
Unaudited Financial Statements	Audited Financial Statements	Annual General Meeting	Quarterly Financial Statements	Quarterly Financial Statements	Quarterly Financial Statements

FINANCIAL STATEMENTS – TABLE OF CONTENTS

HIGHLIGHTS

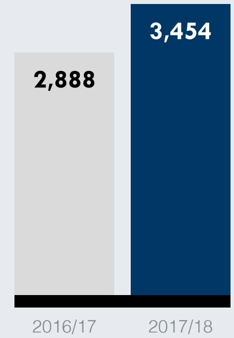
Revenue
Rs. Mn.

37%



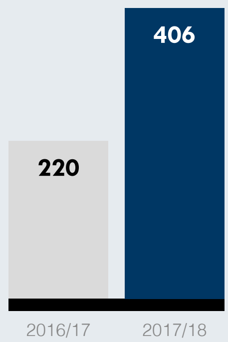
Net Interest Income
Rs. Mn.

20%



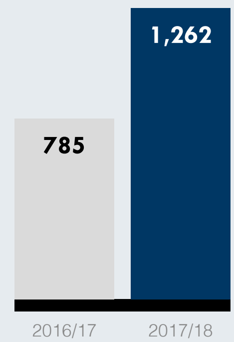
Fee and Commission Income
Rs. Mn.

85%



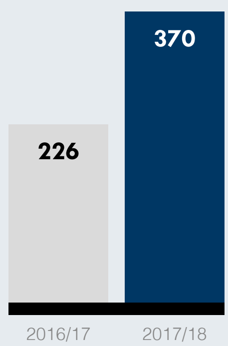
Other Operating Income
Rs. Mn.

61%



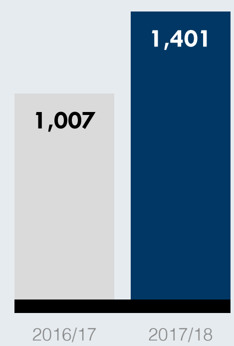
Impairment Charges and Other Credit Losses
Rs. Mn.

63%



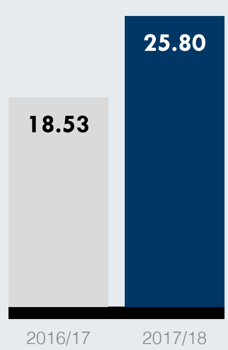
Profit After Tax
Rs. Mn.

39%



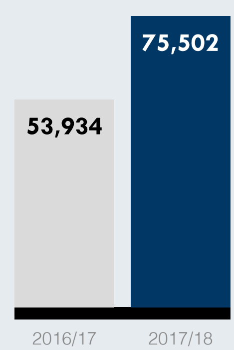
Earnings per Share
Rs.

39%



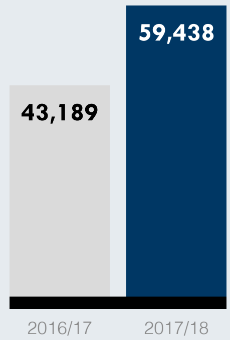
Total Assets
Rs. Mn.

40%



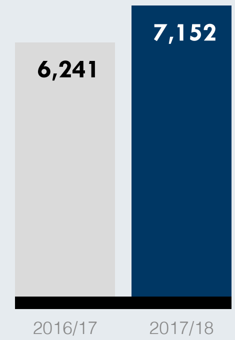
Loans and Receivables to Customers
Rs. Mn.

38%



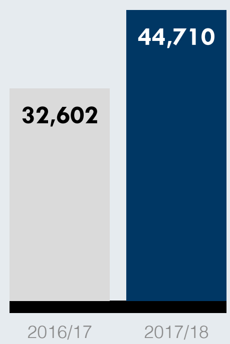
Equity
Rs. Mn.

15%



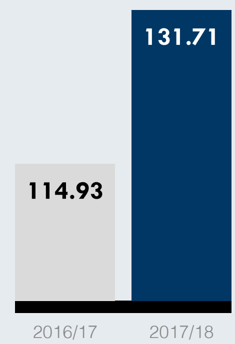
Deposits from Customers
Rs. Mn.

37%

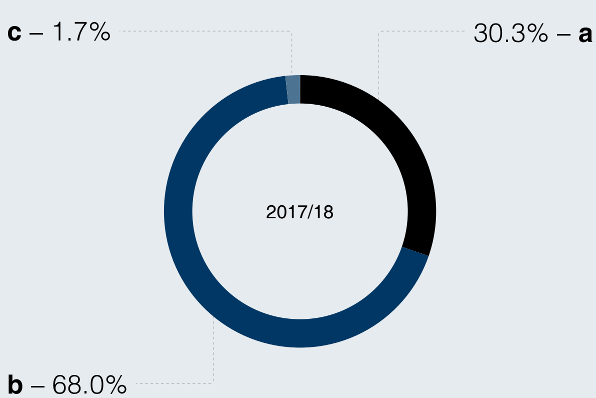


Net Asset value per share
Rs.

15%

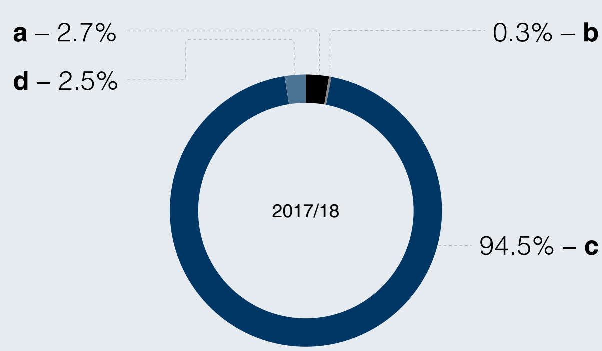


Loans and Receivables – Product Wise
Rs. Mn.



a – Loans and Receivables to Customers
b – Finance Lease Receivables
c – Hiring Contracts

Revenue – Product Wise
Rs. Mn.



a – Deposits with Licensed Commercial Banks
b – Loans and Receivables to Banks
c – Loans and Receivables to Customers
d – Investment Securities

EARLY ADOPTION OF SLFRS 9 – "FINANCIAL INSTRUMENTS"

IMPACT AREAS

The Group has elected to early adopt SLFRS 9 – "Financial Instruments" with effect from 1 April 2017. SLFRS 9 –"Financial Instruments" changes the way that the Goup classifies and measures financial assets and most notably the manner the Group estimates its impairment on financial assets based on expected credit losses (ECL). In here we have provided a summary of how the early adoption of SLFRS 9 "Financial Instruments" will affect on Company's policies relating to financial instruments.

CLASSIFICATION OF FINANCIAL ASSETS

SLFRS 9 – "Financial Instruments" contains a new classification and measurement approach for financial assets which reflect the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 – "Financial Instruments" contains three initial recognition categories for financial assets namely financial assets measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) which replaces the existing categories in LKAS 39 – "Financial Instrument: Recognition and Measurement"

CLASSIFICATION OF FINANCIAL LIABILITIES

SLFRS 9 "Financial Instruments" largely retains the existing requirement in LKAS 39 – "Financial Instruments: Recognition and Measurement" for the classification of Financial Liabilities

IMPAIRMENT OF LOANS AND RECEIVABLES

SLFRS 9 – "Financial Instruments" replaces the "Incurred Loss" model in LKAS 39 "Financial Instrument: Recognition and Measurement" with a forward-looking "Expected Credit Loss" (ECL) model. This will require considerable judgment over how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

IMPAIRMENT OF OTHER FINANCIAL ASSETS

The new model applies to other financial assets measured at amortised cost and debt investments at FVOCI. ECL does not apply to equity investments and need to be measured at fair value.

HEDGE ACCOUNTING

The new hedge accounting requirements in SLFRS 9 – "Financial Instruments" are widely considered to represent a significant improvement compared to the complex and rules-based requirements in LKAS 39 – 'Financial Instruments: Recognition and Measurement'. SLFRS 9 "Financial Instruments" is more principles-based, provides a better link to risk management and treasury operations and should result in more hedging strategies qualifying for hedge accounting.

IMPACT

Investments in equity instruments are always measured at fair value. For all 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 not made, the equity instrument should be classified as FVTPL. The Group has only applied irrevocable option for unquoted equity instruments.

The Group has not applied the irrevocable option given in the standard for the quoted equity instruments that recorded in the financial statement as at the transition date. Accordingly, all the quoted equity instruments that were classified under held for trading and available for sale have been catagorised under FVTPL.

IMPACT

No significant effect on Group's accounting policies for classification of Financial Liabilities

IMPACT

The Group uses dual measurement approach under which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Group considers that a significant increase in credit risk occurs when as an asset is equal more than 90 days past due. Where there is a significant increase in credit risk, Group uses lifetime ECL model to assess loss allowances instead of 12 month ECL model. Group considers the indications of credit default does not occur equal or later than 180 days which is in line with the regulatory definition of default.

For credit impaired loans and receivables (Stage three), interest is recognised based on net of loss allowance.

IMPACT

The Group recognises loss allowances for ECL on other financial assets measured at amortised cost and debt investments at FVOCI. Group measures loss allowance at an amount equal to life time ECL, except for debt 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".

IMPACT

No impact since the Group has not applied any hedge accounting for the reporting periods covered in this annual report.

Transition Impact on Group's Net Assets

Rs. 205 Mn.

**Detailed transition impact is given in Note 3 and 4 to the financial statements*

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.

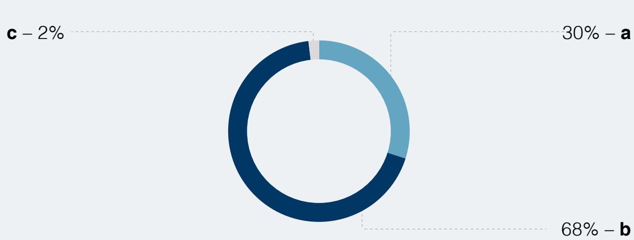
KEY AUDIT MATTERS

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

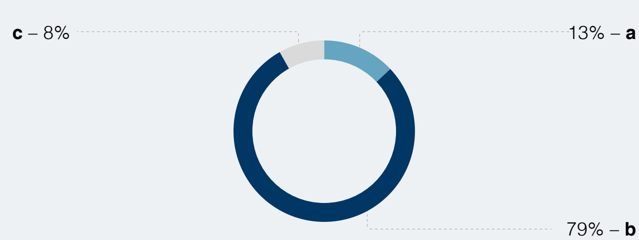
Refer to the accounting policies in the Financial Statements: Impairment of Loans and Receivables to customers, "Note 24" to the Financial Statements: Significant Accounting Judgements and Estimates, "Note 51.A.I.III" to the Financial Statements.

Loans and Receivables



a – Loans **b** – Leases **c** – Hire Purchase

Expected Credit Loss Allowances



a – Loans **b** – Leases **c** – Hire Purchase

Composition of Loans and Receivables and Expected Credit Loss Allowances;

Risk Description	Our responses
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 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	Our Responses
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 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	Our Responses
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.	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 mistatement 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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		COMPANY		GROUP	
For the year ended 31 March	Note	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Revenue	8	11,784,862	8,591,219	12,049,986	8,703,057
Interest income	9.1	10,117,149	7,587,180	10,320,089	7,685,823
Interest expense	9.2	6,662,828	4,699,482	6,705,127	4,707,708
Net interest income	9	3,454,321	2,887,698	3,614,962	2,978,115
Fee and commission income	10	405,986	219,504	464,591	232,631
Other operating income	11	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	12	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	13.1	1,047,154	879,609	1,083,585	901,958
Premises, equipment and establishment expenses	13.2	1,336,545	1,097,754	1,358,788	1,112,627
Other expenses	13.3	408,950	290,686	448,772	316,153
Total operating expenses	13	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	14	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	15	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.)	16	25.80	18.53	26.68	18.83
Dividend per share					
Dividend per ordinary share (Gross) (Rs.)	17	5.00*	3.50		

The notes to the Financial Statements on pages 222 to 347 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

**The Board has proposed a first and final dividend of Rs. 5.00 per share.*

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Assets					
Cash and cash equivalents	20	**2,974,825**	454,061	**3,039,663**	507,020
Financial assets measured at fair value through profit or loss (FVTPL)	21	**1,485,315**	163,041	**1,519,227**	163,041
Loans and receivables to banks	22	**1,425,000**	655,673	**1,475,356**	655,673
Deposits with licensed commercial banks	23	**2,392,827**	1,893,615	**2,392,827**	1,893,615
Loans and receivables to customers	24	**59,438,349**	43,189,010	**60,585,395**	43,605,197
Other investment securities	25	**2,471,305**	3,563,432	**2,476,583**	3,637,045
Investment in subsidiaries	26	**509,918**	509,918	**–**	–
Investment property	27	**20,198**	20,198	**20,198**	20,198
Property, plant and equipment	28	**2,029,222**	1,839,091	**2,042,777**	1,841,768
Intangible assets	29	**86,149**	65,684	**101,692**	84,568
Goodwill on consolidation	30	**–**	–	**244,180**	244,180
Other assets	31	**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	32	**44,709,832**	32,601,836	**44,705,409**	32,590,453
Debt securities issued	33	**4,081,033**	2,075,631	**4,081,033**	2,075,631
Other interest-bearing borrowings	34	**15,114,486**	10,957,017	**15,831,490**	11,117,538
Current tax liabilities	35	**443,080**	178,702	**445,407**	179,108
Deferred tax liabilities	36	**860,819**	628,721	**887,200**	638,987
Retirement benefit obligation	37	**60,727**	15,794	**61,017**	15,861
Other liabilities	38	**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	39	**1,185,062**	1,185,062	**1,185,062**	1,185,062
Reserves	40	**1,753,868**	2,402,088	**1,758,999**	2,406,392
Retained earnings	41	**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	42	**–**	–	**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.)	43	**131.71**	114.93	**133.02**	115.68
Contingencies and commitments	44	**103,047**	123,100	**103,047**	123,100

The notes to the Financial Statements on pages 222 to 347 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

D H J Gunawardena
Chairman

C M Nanayakkara
Managing Director/CEO

4 June 2018
Colombo

FINANCIAL REPORTS

STATEMENT OF CHANGES IN EQUITY

COMPANY

	Stated Capital Rs. '000
Balance as at 1 April 2016	1,185,062
Total comprehensive income for the year 2016/17	
Profit for the year	
Other comprehensive income for the year (net of tax)	
Remeasurement of defined benefit liability/(asset) (Refer Note 37)	
Increase in revaluation surplus (Refer Note 40.1)	
Net change in available-for-sale financial assets (Refer Note 40.2)	
Total comprehensive income for the year 2016/17	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2015/16	
Net transfers during the year (Refer Note 40.3)	
Total transactions with equity holders	–
Balance as at 31 March 2017	1,185,062
Impact of adopting SLFRS 9 – "Financial Instruments" as at 1 April 2017 (Refer Note 4)	
Restated Balance as at 1 April 2017	1,185,062
Total comprehensive income for the year 2017/18	
Profit for the year	
Other comprehensive income for the year (net of tax)	
Remeasurement of defined benefit liability/(asset) (Refer Note 37)	
Increase in revaluation surplus (Refer Note 40.1)	
Deferred tax on revaluation surplus (Refer Note 40.1)	
Total comprehensive income for the year 2017/18	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2016/17	
Net transfers during the period (Refer Note 40.3)	
Total transactions with equity holders	–
Balance as at 31 March 2018	1,185,062

The Notes to the Financial Statements on pages 222 to 347 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

Reserves				
Revaluation Reserve Rs. '000	Available-for-Sale Reserve Rs. '000	Statutory Reserve Fund Rs. '000	Retained Earnings Rs. '000	Total Equity Rs. '000
213,673	749,096	839,332	2,064,806	5,051,969
			1,006,515	1,006,515
			(25,935)	(25,935)
328,071				328,071
	70,613			70,613
328,071	70,613	–	980,580	1,379,264
			(190,068)	(190,068)
		201,303	(201,303)	–
–	–	201,303	(391,371)	(190,068)
541,744	819,709	1,040,635	2,654,015	6,241,165
	(819,709)		633,541	(186,168)
541,744	–	1,040,635	3,287,556	6,054,997
			1,401,188	1,401,188
			(4,969)	(4,969)
59,638				59,638
(168,387)				(168,387)
(108,749)	–	–	1,396,219	1,287,470
			(190,068)	(190,068)
		280,238	(280,238)	–
–	–	280,238	(470,306)	(190,068)
432,995	–	1,320,873	4,213,469	7,152,399

GROUP

	Stated Capital Rs. '000
Balance as at 1 April 2016	1,185,062
Total comprehensive income for the year 2016/17	
Profit for the year	
Other comprehensive income for the year (net of tax)	
Remeasurement of defined benefit liability/(asset) (Refer Note 37)	
Increase in revaluation surplus (Refer Note 40.1)	
Net change in available-for-sale financial assets (Refer Note 40.2)	
Total comprehensive income for the year 2016/17	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2015/16	
Net transfers during the year (Refer Note 40.3)	
Changes in non-controlling interest	
Total transactions with equity holders	–
Balance as at 31 March 2017	1,185,062
Impact of adopting SLFRS 9 – "Financial Instruments" as at 1 April 2017 (Refer Note 4)	
Restated Balance as at 1 April 2017	
Total comprehensive income for the year 2017/18	1,185,062
Profit for the year	
Other comprehensive income for the year (net of tax)	
Remeasurement of defined benefit liability/(asset) (Refer Note 37)	
Increase in revaluation surplus (Refer Note 40.1)	
Deferred tax revaluation on surplus (Refer Note 40.1)	
Total comprehensive income for the year 2017/18	
Transactions with equity holders of the Company	–
Dividends to equity holders for year – 2016/17	
Net transfers during the period (Refer Note 40.3)	
Changes in non-controlling interest	
Total transactions with equity holders	–
Balance as at 31 March 2018	1,185,062

The Notes to the Financial Statements on pages 222 to 347 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

Reserves						
Revaluation Reserve Rs. '000	Available-for-Sale 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
213,673	749,625	840,594	2,086,229	5,075,183	30,488	5,105,671
			1,022,774	1,022,774	2,310	1,025,084
			(25,935)	(25,935)	–	(25,935)
328,071				328,071		328,071
	72,115			72,115	160	72,275
328,071	72,115	–	996,839	1,397,025	2,470	1,399,495
			(190,068)	(190,068)	(176)	(190,244)
		202,314	(202,314)	–		
–	–	202,314	(392,382)	(190,068)	(176)	(190,244)
541,744	821,740	1,042,908	2,690,686	6,282,140	32,782	6,314,922
	(821,740)		618,090	(203,650)	(1,644)	(205,294)
541,744	–	1,042,908	3,308,776	6,078,490	31,138	6,109,628
			1,448,875	1,448,875	5,276	1,454,151
			(5,019)	(5,019)	(5)	(5,024)
59,638				59,638		59,638
(168,387)				(168,387)		(168,387)
(108,749)	–	–	1,443,856	1,335,107	5,271	1,340,378
			(190,068)	(190,068)	(201)	(190,269)
		283,096	(283,096)	–		–
				–	–	–
–	–	283,096	(473,164)	(190,068)	(201)	(190,269)
432,995	–	1,326,004	4,279,468	7,223,529	36,208	7,259,737

STATEMENT OF CASH FLOWS

ACCOUNTING POLICY

The Cash Flow Statement has been prepared using the "Direct Method" of preparing cash flows in accordance with the LKAS 7 – "Statement of Cash Flows". 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 change 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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Cash flow from operating activities				
Interest receipts	10,071,310	7,539,230	10,331,714	7,645,620
Commission receipts	354,773	234,890	386,076	247,842
Other income receipts	1,126,899	765,886	1,128,335	767,258
Interest payments	(5,708,843)	(4,727,522)	(5,784,897)	(4,740,024)
Fee and business promotion expenses	(99,364)	(67,036)	(99,364)	(80,473)
Employee related payments	(1,007,190)	(842,787)	(1,046,447)	(865,068)
Supplier payments	(1,099,450)	(1,051,732)	(1,123,487)	(1,079,705)
Financial expenses	(21,183)	(27,768)	(24,334)	(27,497)
Operating profit before changes in operating assets	3,616,952	1,823,161	3,767,596	1,867,953
(Increase)/Decrease in operating assets				
Investments in licensed commercial bank and other financial institutions	(455,156)	2,020,761	(455,156)	2,062,075
Investments in Government securities	(709,631)	(177,737)	(721,381)	(177,737)
Net funds advanced to customers	(16,001,860)	(4,828,411)	(16,900,485)	(5,125,891)
Changes in other short-term assets	(1,045,178)	(241,336)	(1,134,795)	(248,573)
Inventories	7,952	(103,843)	7,952	(103,843)
	(14,586,921)	(1,507,405)	(15,436,269)	(1,726,016)
Increase/(Decrease) in operating liabilities				
Borrowings	3,683,083	(344,668)	4,526,347	(45,529)
Deposits from customers	11,628,396	1,742,182	11,627,538	1,742,182
	15,311,479	1,397,514	16,153,885	1,696,653
Net Cash Generated/(used in) from operating activities	724,558	(109,891)	717,616	(29,363)
Gratuity paid/Contribution to plan asset	–	(90,273)	–	(90,273)
Taxation	(39,709)	(85,439)	(42,647)	(97,421)
	684,849	(285,603)	674,969	(217,057)
Cash flow from investing activities				
Dividend receipts	20,411	16,428	21,129	16,882
Investment in financial assets measued at FVOCI	(176,343)	(44,236)	(176,343)	(44,236)
Investment in quoted shares – Available for sale	–	(43,006)	–	(43,006)
Purchase of property, plant and equipment	(390,797)	(117,236)	(403,690)	(135,561)
Proceeds from sale of property, plant and equipment	6,000	11,025	6,000	11,025
Net Cash (used in)/ from investing activities	(540,729)	(177,025)	(552,904)	(194,896)

For the Year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Cash flow from financing activities				
Dividend paid	(190,068)	(190,068)	(190,269)	(191,894)
Net change in debentures	2,005,402	1,031,496	2,005,402	1,031,496
Net cash inflows/(out flows) from financing activities	1,815,334	841,428	1,815,133	839,602
Net Increase/(Decrease) in cash and cash equivalents	1,959,454	378,800	1,937,198	427,649
Cash and cash equivalents at the beginning of the year	245,627	(133,173)	296,180	(131,469)
Cash and cash equivalents at the end of the year	2,205,081	245,627	2,233,378	296,180
Cash and cash equivalents at the beginning of the year				
Cash at bank and cash in hand	454,061	722,351	507,020	729,789
Bank overdrafts	(208,434)	(855,524)	(210,840)	(861,258)
	245,627	(133,173)	296,180	(131,469)
Cash and cash equivalents at the end of the year				
Cash at bank and cash in hand	2,974,825	454,061	3,039,663	507,020
Bank overdrafts	(769,744)	(208,434)	(806,285)	(210,840)
	2,205,081	245,627	2,233,378	296,180

The notes to the Financial Statements on pages 222 to 347 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 2018 – 1,588 (2017 – 1,439). Refer page 371 for more details on corporate information

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATION

Entity	Principal Business Activities	Holding Percentage 2017/18	Holding Percentage 2016/17
Company			
Citizens Development Business Finance PLC	Company provides a vast range of financial services which includes accepting term and savings deposits, leasing, hire purchase and loan facilities, gold loan, foreign exchange, foreign remittances, issuance of international debit cards, margin trading, Islamic finance products and other financial services.		
Subsidiaries			
CDB Micro Finance Limited	Financial services	100%	100%
Unisons Capital Leasing Limited (formerly known as Laugfs Capital Limited)	Company provides financial services including leasing, personal loan and term-loan	90.38%	90.38%

The holding percentages of 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 2018 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.

As illustrated in Note 3 and 4, the Group has elected to early adopt SLFRS 9 – "Financial Instruments" issued in 2014 with the date of initial application on 1 April 2017.

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 2018 were authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on 5 June 2018.

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 37	37	300
Freehold land	Fair value	28	284
Policy applicable from 1 April 2017			
Financial assets measured at fair value through profit or loss (FVTPL)	Fair value	21	267
Debt investments measured at fair value through other comprehensive income (FVOCI)	Fair value	25	277
Equity investments measured at fair value through other comprehensive income (FVOCI)	Fair value	25	277
Policy applicable before 1 April 2017			
Held-for-trading financial assets	Fair value	21	267
Available-for-sale financial assets	Fair value	25	277

Group has elected to early adopt SLFRS 9 – "Financial Instruments" with effect from 1 April 2017.

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.

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 set off 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 (SLFRS/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.

(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 & 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) COMMITMENT AND CONTINGENCIES

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.

(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.

POLICY APPLICABLE FROM 1 APRIL 2017

(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 determine 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. (Refer Note 12 for the detailed ECL Policy).

POLICY APPLICABLE BEFORE 1 APRIL 2017

(J) IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

The Group reviews its individually significant loans and receivables at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss. In particular, Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and receivables that have been assessed individually are considered as individually significant and all other loans and receivables are assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

The collective assessment takes account of data from the loan portfolio and judgement on the effect of concentrations of risks and economic data.

(K) IMPAIRMENT LOSSES ON AVAILABLE-FOR-SALE INVESTMENT

The Group reviews its available-for-sale investments at the end of each Reporting period to assess whether they are impaired.

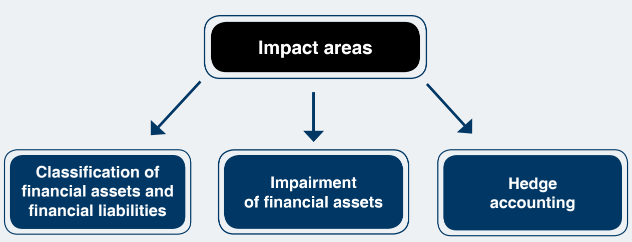
The Group determines that there are an impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3. CHANGES IN ACCOUNTING POLICIES

SLFRS 9 – "FINANCIAL INSTRUMENTS"

The Group has elected to early adopt SLFRS 9 – "Financial Instruments" issued in 2014 with a date of initial application of 1 April 2017. The requirements of SLFRS 9 – "Financial Instruments" represent a significant change from LKAS 39 – "Financial Instruments: Recognition and Measurement".

The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of SLFRS 9 – "Financial Instruments" are summarised below:



I. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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. SLFRS 9 –"Financial Instruments" eliminates the previous LKAS 39 – "Financial Instruments: Recognition and Measurement" categories of held for trading, held to maturity, loans and receivables and available for sale. 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

(a) 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.

(c) Equity investments

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: Recognition & measurement" . 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.

Changes to the classification and measurement of financial assets after application of SLFRS 9 – "Financial Instruments" is given below:

LKAS 39	SLFRS 9 – Treatment
Financial assets that are classified as held-for-trading measured at fair value	Measured at FVTPL
Loans and receivables to customers measured at amortised cost	Measured at amortised cost
Held-to-maturity investment securities measured at amortised cost	Measured at amortised cost
Quoted equity securities classified as available for sale	Measured at FVTPL
Unquoted equity securities classified as available for sale	Irrevocably elected to present subsequent changes in fair value in OCI.

SLFRS 09 – "Financial Instruments" largely retains the existing requirement in LKAS 39 – "Financial Instruments: Recognition and Measurement" for the classification of financial liabilities. Accordingly there is no significant effect on the Group's accounting policies for classification of financial liabilities.

II. IMPAIRMENT OF FINANCIAL ASSETS

SLFRS 9 – "Financial Instruments" replaces the "Incurred Loss" model in LKAS 39 – "Financial Instruments: Recognition and Measurement" with a forward-looking "Expected Credit Loss" (ECL) model. The new model applies to financial assets that are not measured at FVTPL, including loans and receivables, and all other debt securities. ECL does not apply to equity investments and need to be measured at fair value.

LOANS AND RECEIVABLES

Under ECL model Group uses a dual measurement approach, under which the loss allowance is measured as either 12-month ECL or lifetime ECL. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Special rules apply to assets that are credit-impaired.

Key changes in the Group's accounting policy for expected losses of financial assets are listed below:

The Group applies three-stage approach to measuring expected credit losses (ECL) on Loans and receivables and other financial assets measured at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

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 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".

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in impairment model prescribed in SLFRS 9 – "Financial Instruments" which uses combination of both qualitative factors and backstop based on delinquency. Group consider that a significant increase in credit risk occurs no later than when an asset is equal or more than 90 days past due. Where there is a significant increase in credit risk Group uses lifetime ECL model to assess loss allowances instead of 12–month ECL model.

The indications of credit impairments are as similar to LKAS 39 – "Financial Instruments: Recognition and Measurement". The Group considers the indications of credit default does not occur equal or later than 180 days which is in line with the regulatory definition of default.

The key inputs used for measurement of ECL is likely to be the term structures of the following variables:

Group has used these parameters from internally–developed statistical models using historical data. All inputs were adjusted to reflect forward-looking information and future economic scenarios.

Refer Note 51 (Financial Risk Management) for more details on inputs, assumptions and techniques used for estimating ECL.

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.

III. HEDGE ACCOUNTING

The new general hedge accounting model in SLFRS 9 – "Financial Instruments". This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward – looking approach to assessing hedge effectiveness. SLFRS 9 – "Financial Instruments" require extensive new disclosures in particular about hedge accounting.

The general hedge accounting requirements of SLFRS 9 – "Financial Instruments" retain the three types of hedge accounting mechanisms in LKAS 39 – "Financial Instruments: Recognition and Measurement". However, greater flexibility has been introduced to the types of transactions eligible

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 homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Group forecast PD by incorporating forward looking economic variables (Unemployment, GDP growth, inflation, interest rate and using lag effect of these variables).
Loss Given Default (LGD)	LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.
Exposure at default (EAD)	EAD represents the expected exposure in the event of a default. The Group 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 hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is no longer required.

The changes to hedge accounting has no significant impact on the Group's Financial statements since the Group has not applied any hedge accounting for the reporting periods covered under this Annual Report.

4. TRANSITION TO SLFRS 9 – "FINANCIAL INSTRUMENTS"

Changes in accounting policies resulting from the adoption of SLFRS 9 – "Financial Instruments" have been applied retrospectively, except as described below:

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 – "Financial Instruments" are recognised in retained earnings and reserves as at 1 April 2017. Accordingly, the information presented for 2016/17 does not reflect the requirements of SLFRS 9 –"Financial Instruments" and therefore is not comparable to the information presented for 2017/18 under SLFRS 9 – "Financial Instruments".

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

– The determination of the business model within which a financial asset is held.
– The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
– If a debt security had low credit risk at the date of initial application of SLFRS 9 – "Financial Instruments", then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Accordingly, the Group has disclosed the accounting policies under SLFRS 9 – "Financial Instruments" along with disclosures prescribed in SLFRS 7 – "Financial Instruments: Disclosures" that would apply from the date of initial application which is 1 April 2017.

Accounting policies as per LKAS 39 – "Financial Instruments: Recognition and Measurement" and related disclosures as per SLFRS 7 – "Financial Instruments Disclosures" for the comparative period is also presented after the SLFRS 9 – "Financial Instruments" accounting policies.

IMPACT OF ADOPTING SLFRS 9 – "FINANCIAL INSTRUMENTS"

The following table summarises the impact, net of tax, of transition to SLFRS 9 – "Financial Instruments" on reserves and retained earnings as at 1 April 2017.

Company	Retained Earnings Rs. '000	Available-for-Sale Reserve Rs. '000
Closing balance as per LKAS – 39 (31 March 2017)	2,654,015	819,709
Impact on reclassification and remeasurments:		
Classification of quoted equity securities as financial assets measured at FVTPL	819,709	(819,709)
Impact on recognition of expected credit losses:		
Expected credit losses under SLFRS 9 for		
– Loans and receivable to customers	(185,818)	
– Deposits with licensed commercial banks	(347)	
– Other Investment Securities (Debt) measured at amortised cost	(3)	
Opening balance as per SLFRS – 9 Initial Application (1 April 2017)	3,287,556	–

Group	Retained Earnings Rs. '000	Available-for-Sale Reserve Rs. '000	Non-Controlling Interest Rs. '000
Closing balance as per LKAS 39 (31 March 2017)	2,690,686	821,740	32,782
Impact on reclassification and remeasurments:			
Classification of quoted equity securities as financial assets measured at FVTPL	821,544	(821,740)	196
Impact on recognition of expected credit losses:			
Expected credit losses under SLFRS 9 for			
– Loans and receivable to customers	(203,091)		(1,839)
– Deposits with licensed commercial banks	(360)		(1)
– Other Investment Securities (Debt) measured at amortised cost	(3)		
Opening balance as per SLFRS 9 Initial Application (1 April 2017)	3,308,776	–	31,138

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES ON THE DATE OF INITIAL APPLICATION OF SLFRS 9 – "FINANCIAL INSTRUMENTS"

The following table shows the original measurement categories as per LKAS 39 – "Financial Instruments: Recognition and Measurement" and the new measurement categories as per SLFRS 9 – "Financial Instruments" along with their carrying amounts for each class of the Group's financial assets and financial liabilities as at 1 April 2017:

FINANCIAL ASSETS

Company	Note	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs. '000	New Carrying Amount as nper SLFRS 9 Rs. '000
Financial assets measured at FVTPL	21				
Government Securities		Held-for-trading measured at fair value	Measured at FVTPL	99,103	99,103
Quoted equity investments		Held-for-trading measured at fair value	Measured at FVTPL	63,938	1,098,152
Loans and receivables to banks	22	Loans and Receivables measured at amortised cost	Measured at amortised cost	655,673	655,673
Deposits with licensed commercial banks	23	Loans and Receivables measured at amortised cost	Measured at amortised cost	1,893,615	1,893,268
Loans and receivables to customers	24	Loans and Receivables measured at amortised cost	Measured at amortised cost	43,189,010	43,003,192
Other investment securities	25				
Debt investments		Held-to-maturity measured at amortised cost	Measured at amortised cost	2,529,218	2,529,215
Quoted equity investments		Available-for-sale measured at Fair Value	Measured at FVTPL	1,034,214*	–
Unquoted equity investments		Available-for-sale measured at Fair Value	Irrevocably elected to Measure at FVOCI	–	–
Total financial assets				**49,464,771**	**49,278,603**

** Quoted equity instruments that were classified under available-for-sale have been categorised under financial assets measured at FVTPL*

Group	Note	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs. '000	New Carrying Amount as per SLFRS 9 Rs. '000
Financial assets measured at FVTPL	21				
Government Securities		Held-for- trading measured at fair value	Measured at FVTPL	99,103	99,103
Quoted equity investments		Held-for-trading measured at fair value	Measured at FVTPL	63,938	1,128,035
Loans and receivables to banks	22	Loans and Receivables measured at amortised cost	Measured at amortised cost	655,673	655,673
Deposits with licensed commercial banks	23	Loans and Receivables measured at amortised cost	Measured at amortised cost	1,893,615	1,893,268
Loans and receivables to customers	24	Loans and Receivables measured at amortised cost	Measured at amortised cost	43,605,197	43,402,106
Other Investment Securities	25				
Debt investments		Held-to-maturity measured at amortised cost	Measured at amortised cost	2,572,824	2,572,821
Quoted equity investments		Available-for-sale measured at Fair Value	Measured at FVTPL	1,064,097	–
Unquoted equity investments		Available-for-sale measured at Fair Value	Measured at FVOCI	124	124
Total financial assets				49,954,571	49,751,130

FINANCIAL LIABILITIES

Company	Note	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs. '000	New Carrying Amount as per SLFRS 9 Rs. '000
Deposits from customers	32	Other financial liabilities measured at amortised cost	Other financial Liabilities measured at amortised cost	32,601,836	32,601,836
Debt securities issued	33	Other financial liabilities measured at amortised cost	Other financial Liabilities measured at amortised cost	2,075,631	2,075,631
Other interest bearing borrowings	34	Other financial liabilities measured at amortised cost	Other financial Liabilities measured at amortised cost	10,957,017	10,957,017
Total financial liabilities				45,634,484	45,634,484

Group	Note	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs. '000	New Carrying Amount as per SLFRS 9 Rs. '000
Deposits from customers	32	Other financial liabilities measured at amortised cost	Other financial Liabilities measured at amortised cost	32,590,453	32,590,453
Debt securities issued	33	Other financial liabilities measured at amortised cost	Other financial Liabilities measured at amortised cost	2,075,631	2,075,631
Other interest bearing borrowings	34	Other financial liabilities measured at amortised cost	Other financial Liabilities measured at amortised cost	11,117,538	11,117,538
Total financial liabilities				45,783,622	45,783,622

The Group's accounting policies on the classification of financial instruments under SLFRS 9 – "Financial Instruments" are set out in Note 18. The application of these policies resulted in the reclassifications set out in the table above explained below:

Financial Assets	Note	Explanations
Financial assets measured at FVTPL	21	
Government Securities		Under LKAS 39 – "Financial Instruments: Recognition and Measurement", held-for-trading Government Securities were categorised as at FVTPL since the asset is held within a business model whose objective is achieved by selling financial assets.
Equity investments		Under LKAS 39 – "Financial Instruments: Recognition and Measurement", held for trading equity securities were categorised as at FVTPL because they were managed on a fair value basis and their performance was monitored on that basis. These assets have been classified as financial assets measured at FVTPL under SLFRS 9 – "Financial Instruments".
Loans and receivables to banks	22	Loans and receivables to banks, deposits with licensed commercial banks and loans and receivables to customers which were categorised as loans and receivables under LKAS 39 – "Financial Instruments: Recognition and Measurement", are now classified at amortised cost. The Group hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.
Deposits with licensed commercial banks	23	
Loans and receivables to customers	24	
Other Investment securities	25	
Debt Investments		Debt investment that were previously classified as held-to-maturity are now categorised at amortised cost. The Group hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.
Quoted equity investments		Available-for-sale quoted equity securities have been categorised as financial assets measured at FVTPL. Investments in equity instruments are always measure at fair value unless otherwise entity has taken irrecoverable option to present changes in fair value in OCI.
Unquoted equity investments		Available-for-sale unquoted equity securities represent investments that were acquired for statutory purpose. As permitted by SLFRS 9 – "Financial Instruments", the Group has elected to use the irrecoverable option to present fair value changes in OCI.

The following table reconciles the carrying amounts of financial assets as per LKAS 39 – "Financial Instruments: Recognition and Measurement", to the carrying amounts as per SLFRS 9 – "Financial Instruments", on transition to SLFRS 9 – "Financial Instruments", on 1 April 2017.

Company Classification as per SLFRS 9	Note	LKAS 39 Carrying Amount as at 31 March 2017 Rs. '000	Change in Classification Rs. '000	Remeasurement Rs. '000	SLFRS 9 Carrying Amount as at 1 April 2017 Rs. '000
Financial assets at FVTPL					
Government securities	21				
Brought forward: Held for trading		99,103			
Remeasurement/Reclassification					
Carried forward: FVTPL					99,103
Equity investments	21				
Brought forward: Held for trading		63,938			
Remeasurement/Reclassification			1,034,214		
Carried forward: FVTPL					1,098,152
Equity investments	25				
Brought forward: Available for sale (AFS)		1,034,214			
Reclassification from AFS			(1,034,214)		
Carried forward: FVTPL					–
Total financial assets at FVTPL					**1,197,255**
Financial assets at amortised cost					
Loans and receivables to banks	22				
Brought forward: loans and receivables		655,673			
Remeasurement/Reclassification				–	
Carried forward: amortised cost					655,673
Deposits with licensed commercial banks	23				
Brought forward: Loans and receivables		1,893,615			
Remeasurement of ECL				(347)	
Carried forward: Amortised cost					1,893,268
Loans and receivables to customers	24				
Brought forward: Loans and receivables		43,189,010			
Remeasurement of ECL				(185,818)	
Carried forward: Amortised cost					43,003,192
Debt securities measured at amotised cost (other investment securities)	25				
Brought forward: Held to maturity		2,529,218			
Remeasurement of ECL				(3)	
Carried forward: Amortised cost					2,529,215
Total financial assets at amortised cost					**48,081,348**
Financial assets at FVOCI					
Unquoted equity investments (other investment securities)	25				
Brought forward: Available for sale		–			
Remeasurement/Reclassification					
Carried forward: FVOCI					–
Total financial assets at FVOCI					–

Group Classification as per SLFRS 9	Note	LKAS 39 Carrying Amount as at 31 March 2017 Rs. '000	Change in Classification Rs. '000	Remeasurement Rs. '000	SLFRS 9 Carrying Amount as at 1 April 2017 Rs. '000
Financial assets at FVTPL					
Government securities	21				
Brought forward: Held for trading		99,103			
Remeasurement/Reclassification					
Carried forward: FVTPL					99,103
Equity investments	21				
Brought forward: Held for trading		63,938			
Remeasurement/Reclassification			1,064,097		
Carried forward: FVTPL					1,128,035
Equity investments	25				
Brought forward: Available for sale		1,064,097			
Reclassification from AFS			(1,064,097)		
Carried forward: FVTPL					–
Total financial assets at FVTPL					1,227,138
Financial assets at amortised cost					
Loans and receivables to banks	22				
Brought forward: Loans and receivables		655,673			
Remeasurement/Reclassification					
Carried forward: Amortised cost					655,673
Deposits with licensed commercial banks	23				
Brought forward: Loans and receivables		1,893,615			
Remeasurement of ECL				(347)	
Carried forward: Amortised cost					1,893,268
Loans and receivables to customers	24				
Brought forward: Loans and receivables		43,605,197			
Remeasurement of ECL				(203,091)	
Carried forward: Amortised cost					43,402,106
Debt securities measured at amotised cost (other investment securities)					
Brought forward: Held to maturity		2,572,824			
Remeasurement of ECL				(3)	
Carried forward: Amortised cost					2,572,821
Total financial assets at amortised cost					48,523,868
Financial assets at FVOCI					
Unquoted equity investments (other investment securities)	25				
Brought forward: Available for sale		124			
Remeasurement/Reclassification					
Carried forward: FVOCI					124
Total financial assets at FVOCI					124

Other than the accounting policy changes mentioned above (SLFRS 9 – "Financial Instruments") The Group has consistently applied the accounting policies (unless otherwise indicated) to all periods presented in these Consolidated Financial Statements:

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued a number of New Accounting Standards (SLFRSs/LKASs) and amendments to standards which are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has early adopted SLFRS 9 – "Financial Instruments" issued in 2014 with a date of initial application of 1 April 2017. However, the Group has not early adopted the following new or amended standards 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
SLFRS 15 – "Revenue from Contracts with Customers"	SLFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Entities will apply five-step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group has completed the initial review on potential impact over fee and commission income on its Consolidated Financial Statements. The initial review indicates that SLFRS 15 will not have a material impact on the timing of recognition or measurement. The Group expects to complete a detailed impact assessment on near future.
SLFRS 16 – "Leases"	SLFRS 16 eliminates the current dual accounting model for lessees and introduces a single, on balance sheet lease accounting model for leases. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessor continue to classify leases as finance or operating leases. SLFRS 16 replaces existing leases guidance, including LKAS 17 – "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC – 15 "Operating Leases – Incentives" and SIC – 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entitles that apply SLFRS 15 at or before the date of initial application of SLFRS 16.	No significant impact is expected for the Group's finance leases and the group has started an initial assessment of the potential impact on its Consolidated Financial Statements.

NEW ACCOUNTING STANDARDS/AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

The following amended in international accounting standards and interpretations are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- IFRIC 22 – "Foreign Currency Transactions and Advance Consideration"
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)
- IFRIC 23 – "Uncertainty over Income Tax Treatments"

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 CDB Micro Finance 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 CDB (the Parent) in the form of cash dividend or repayment of loans and advances. CDB 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 acquiree'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 where 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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Interest income (Refer Note 9)	**10,117,149**	7,587,180	**10,320,089**	7,685,823
Fee and commission income (Refer Note 10)	**405,986**	219,504	**464,591**	232,631
Other operating income (Refer Note 11)	**1,261,727**	784,535	**1,265,306**	784,603
Total revenue	**11,784,862**	8,591,219	**12,049,986**	8,703,057

9. NET INTEREST INCOME

SLFRS 9 – "FINANCIAL INSTRUMENTS" – KEY TRANSITION IMPACTS ON INTEREST INCOME

- For credit impaired loans and receivables (Stage three) interest revenue is recognised based on net of loss allowance.

Refer Notes 3 and 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

POLICY APPLICABLE FROM 1 APRIL 2017

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 credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For 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 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 3.

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 trading assets and liabilities

POLICY APPLICABLE BEFORE 1 APRIL 2017

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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees 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 liability.

Interest income and expense presented in the Statement of Profit or Loss include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis. Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

	COMPANY		GROUP	
For the year ended 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Interest income (Refer Note 9.1)	10,117,149	7,587,180	10,320,089	7,685,823
Less: Interest expense (Refer Note 9.2)	(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

9.1 INTEREST INCOME

	COMPANY		GROUP	
For the year ended 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Placements with banks	276,967	204,857	285,517	207,677
Loans and receivables to banks	28,011	19,571	28,011	19,571
Loans and receivables to customers (Refer Note 9.1.1)	9,558,453	7,143,980	9,752,843	7,239,724
Other financial investments (Refer Note 9.1.2)	253,718	218,772	253,718	218,851
Total interest income	10,117,149	7,587,180	10,320,089	7,685,823

9.1.1 INTEREST ON LOANS AND RECEIVABLES TO CUSTOMERS

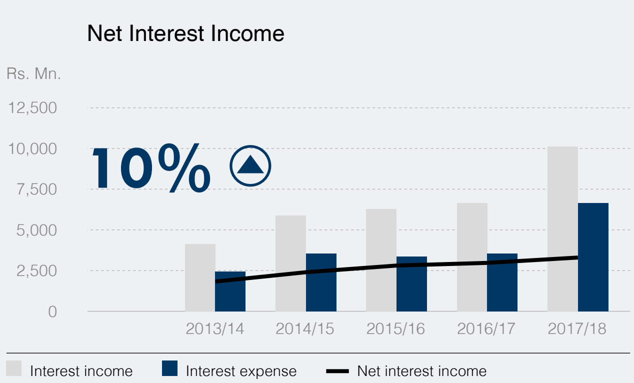
	COMPANY		GROUP	
For the year ended 31 March	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Finance leases	6,409,114	5,032,340	6,640,370	5,108,734
Stock out on hire	305,270	599,044	306,323	603,889
Loans and advances	2,380,759	1,280,971	2,342,840	1,295,476
Ijara profit income	248,195	113,435	248,195	113,435
Murabaha profit income	215,115	118,190	215,115	118,190
Total interest income from loans and receivables to customers	9,558,453	7,143,980	9,752,843	7,239,724

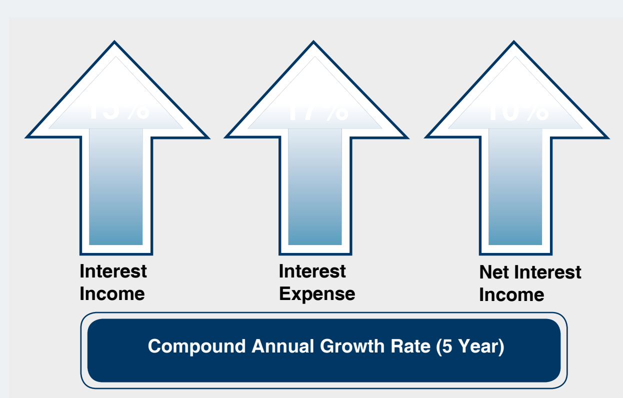
9.1.2 INTEREST ON OTHER FINANCIAL INVESTMENTS

	COMPANY		GROUP	
For the year ended 31 March	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Government Treasury bond investments	12,480	12,690	12,480	12,690
Government Treasury bill investments	240,160	204,928	240,160	204,928
Corporate bond investments	1,078	1,154	1,078	1,154
Other investments	–	–	–	79
Total interest income from other financial investments	253,718	218,772	253,718	218,851

9.2 INTEREST EXPENSE

	COMPANY		GROUP	
For the year ended 31 March	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Term deposits from customers	4,700,073	3,066,537	4,700,073	3,069,593
Savings deposits from customers	117,698	103,423	117,698	103,423
Mudharabah investments from customers	37,847	15,624	37,847	15,623
Debentures	291,654	266,249	291,654	266,249
Foreign borrowings	8,914	43,043	8,914	43,043
Other borrowings	1,506,642	1,204,606	1,548,941	1,209,777
Total interest expenses	6,662,828	4,699,482	6,705,127	4,707,708





ANALYSIS OF NET INTEREST INCOME

Below analysis shows the yield of each core income generating portfolios (lending and investment) and expenses generating portfolios (funding excluding equity) together with the income/expense generated during the year under review.

INTEREST INCOME YIELD

For the year ended 31 March 2018	COMPANY			GROUP		
	Interest Income Rs. '000	Average Assets Rs. '000	Yield %	Interest Income Rs. '000	Average Assets Rs. '000	Yield %
Interest Income Categories						
Placements with banks	276,967	2,143,221	12.9	285,517	2,143,221	13.3
Loans and receivables to banks	28,011	1,040,336	2.7	28,011	1,065,514	2.6
Loans and receivables to customers	9,558,453	51,313,680	18.6	9,752,843	52,095,296	18.7
Other financial investments	253,718	3,841,547	6.6	253,718	3,892,257	6.5
Total interest income	10,117,149	58,338,784	17.3	10,320,089	59,196,288	17.4

For the year ended 31 March 2017	COMPANY			GROUP		
	Interest Income Rs. '000	Average Assets Rs. '000	Yield %	Interest Income Rs. '000	Average Assets Rs. '000	Yield %
Interest Income Categories						
Placements with banks	204,857	1,747,897	11.7	207,677	1,751,963	11.9
Loans and receivable to banks	19,571	1,811,771	1.1	19,571	1,817,399	1.1
Loans and receivable to customers	7,143,980	40,863,965	17.5	7,239,724	41,179,381	17.6
Other financial investments	218,772	3,560,256	6.1	218,851	3,608,247	6.1
Total interest income	7,587,180	47,983,889	15.8	7,685,823	48,356,990	15.9

INTEREST EXPENSE YIELD

For the year ended 31 March 2018	COMPANY			GROUP		
	Interest Expense Rs. '000	Average Liabilities Rs. '000	Cost %	Interest Expense Rs. '000	Average Liabilities Rs. '000	Cost %
Interest Expense Categories						
Term deposits from customers	4,700,073	36,609,931	12.8	4,700,073	36,604,240	12.8
Savings deposits from customers	117,698	1,778,965	6.6	117,698	1,776,754	6.6
Mudharabah investments from customers	37,847	266,937	14.2	37,847	266,937	14.2
Debentures	291,654	3,078,332	9.5	291,654	3,078,332	9.5
Foreign borrowings	8,914	105,401	8.5	8,914	210,802	4.2
Other borrowings	1,506,642	12,930,350	11.7	1,548,941	13,369,113	11.6
Total interest expense	6,662,828	54,769,916	12.2	6,705,127	55,306,178	12.1

For the year ended 31 March 2017	COMPANY			GROUP		
	Interest Expense Rs. '000	Average Liabilities Rs. '000	Cost %	Interest Expense Rs. '000	Average Liabilities Rs. '000	Cost %
Interest Expense Categories						
Term deposits from customers	3,066,537	30,053,833	10.2	3,069,593	30,006,759	10.2
Savings deposits from customers	103,423	1,568,107	6.6	103,423	1,567,601	6.6
Mudharabah investments from customers	15,624	122,824	12.7	15,624	122,824	12.7
Debentures	266,249	1,559,883	17.1	266,249	1,559,883	17.1
Foreign borrowings	43,043	314,999	13.7	43,043	314,999	13.7
Other borrowings	1,204,606	10,814,352	11.1	1,209,776	10,898,561	11.1
Total interest expense	4,699,482	44,433,998	10.6	4,707,708	44,470,627	10.6

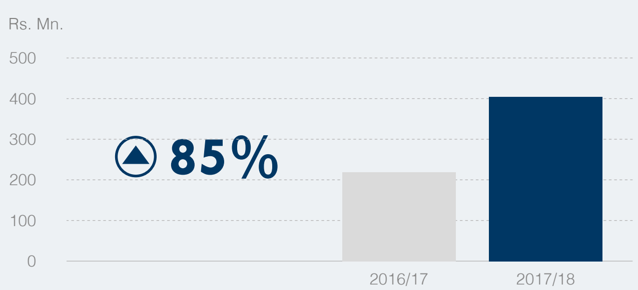
10. FEE AND COMMISSION INCOME

ACCOUNTING POLICY

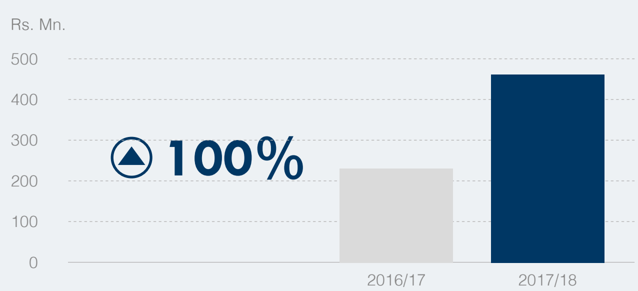
Fees and commission that are integral to the effective interest rate on financial asset or liability are included in the effective interest rate of respective asset or liability. Fees and commission income, including commission, service fees are recognised as the related services are performed.

For the year ended 31 March	COMPANY		GROUP	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Insurance commission	**402,690**	216,798	**402,690**	216,798
Guarantee/lending-related commission income	**593**	605	**59,198**	13,732
Commission on money remittances	**329**	344	**329**	344
Commission on debit card transactions	**2,374**	1,757	**2,374**	1,757
Total fee and commission income	**405,986**	219,504	**464,591**	232,631

Fee and Commission Income – Company



Fee and Commission Income – Group



11. OTHER OPERATING INCOME

SLFRS 9 – "FINANCIAL INSTRUMENTS" – KEY TRANSITION IMPACTS ON OTHER OPERATING INCOME

- Quoted equity investments classified under held for trading and available for sale as per LKAS 39 – "Financial Instruments: Recognition and Measurement" are now categorised under financial assets measured at FVTPL and dividend income from quoted equity investments are now shown as a single line item.

Refer Notes 3 and 4 for more details on transition to SLFRS 9.

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 on cash basis.

POLICY APPLICABLE FROM 1 APRIL 2017

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 instruments measured at FVTPL.

POLICY APPLICABLE BEFORE 1 APRIL 2017

Dividend income from available-for-sale and held-for-trading financial assets, 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 financial assets classified as held for trading.

For the year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Dividend income from equity investments measured at FVTPL	20,411	–	21,129	–
Dividend income from AFS equity investments	–	14,396	–	13,200
Dividend income from trading equity investments	–	1,955	–	1,955
Other net income from trading portfolio (Refer Note 11.1)	130,937	9,898	134,965	9,898
Profit on sale of fixed assets	2,700	5,456	2,700	5,456
Other operating income	529,495	296,819	528,328	298,084
Income from early settlement of lending facilities	578,892	456,503	578,892	456,502
Foreign exchange loss	(708)	(492)	(708)	(492)
Total other operating income	1,261,727	784,535	1,265,306	784,603

11.1 OTHER NET INCOME FROM TRADING PORTFOLIO

For the year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Trading income – Treasury bonds	9,926	12,582	9,926	12,582
Realised gain from trading securities	1,028	527	1,028	527
Mark to market adjustment				
Treasury bonds (Refer Note 21.1)	8,266	(882)	8,266	(882)
Equity securities (Refer Note 21.2.1)	111,717	(2,329)	115,745	(2,329)
Total net income from trading portfolio	130,937	9,898	134,965	9,898

12. IMPAIRMENT CHARGES AND OTHER CREDIT LOSSES ON FINANCIAL ASSETS

SLFRS 9 – "FINANCIAL INSTRUMENTS" – KEY TRANSITION IMPACTS ON IMPAIRMENT

- The Group recognises loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

Refer Notes 3 and 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

POLICY APPLICABLE FROM 1 APRIL 2017

The Group recognises loss allowances for ECL on loans and receivables other financial assets measured at amortised cost.

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 equity investments.

Loans and receivables to customers

The Group measures loss allowances using both lifetime ECL and 12 month 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 equal more than 90 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 equal or more than 180 days past due.

12-month 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 ECL is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL

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 financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised 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 180 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.

Other financial assets measured at amortised cost

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month 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

POLICY APPLICABLE BEFORE 1 APRIL 2017

Non-derivative financial assets

Financial assets not classified as at FVTPL, were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence of impairment

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost

The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

EXPECTED CREDIT LOSSES (ECL) AS PER SLFRS 9 – "FINANCIAL INSTRUMENTS" (APPLICABLE FROM 1 APRIL 2017)

For the year ended 31 March	COMPANY 2018 Rs. '000	GROUP 2018 Rs. '000
Expected credit losses (ECL)		
Loans and receivables to customers		
Finance leases receivables	283,839	317,727
Hiring contracts	10,665	10,155
Loans and advances	37,840	30,700
	332,344	358,582
Other financial assets measured at amortised cost	(89)	(97)
Net deficit from disposal of leased assets	37,617	37,617
Total impairment charges on financial assets	369,872	396,102

Refer Note 24.2 for more details on allowance for impairment/ECL (Note 51. A. I.III) .
Refer Note 51 for more details on inputs, assumptions and techniques used for estimating ECL.

IMPAIRMENT CHARGES AS PER LKAS 39 – "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" (APPLICABLE BEFORE 1 APRIL 2017)

For the year ended 31 March	COMPANY 2017 Rs. '000	GROUP 2017 Rs. '000
Collective impairment charges/(reversal)		
Finance lease receivables	30,567	36,502
Hiring contracts	(15,117)	(15,117)
Loans and advances	(6,364)	(6,364)
Individual Impairment charge/(reversal)	–	–
Finance lease receivables	64,775	64,775
Hiring contracts	20,014	20,014
Loans and advances	(16,589)	(16,589)
Net deficit from disposal of leased assets	148,985	148,985
Total impairment charges on financial assets	226,271	232,206

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 to the income in arriving at the profit for the year.

For the year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Personnel expenses (Refer Note 13.1)	1,047,154	879,609	1,083,585	901,958
Premises, equipment and establishment expenses (Refer Note 13.2)	1,336,545	1,097,754	1,358,788	1,112,627
Other expenses (Refer Note 13.3)	408,950	290,686	448,772	316,153
Total operating expense	2,792,649	2,268,049	2,891,145	2,330,738

13.1 PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expense include salaries and bonus, terminal benefit charges 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 realiable 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 37. 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

Over 15 years Service – 1 ½ months basic salary for each year of service

Defined Contribution Plan

Employees' Provident Fund:

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Employees' Provident Fund while the Group entities and their employees contribute the same percentages to 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 2018.

Personnel expenses includes the following significant items:

For the year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Salary and Bonus	**715,616**	562,140	**746,896**	581,402
Employees' defined benefit plan service expenses (Refer Note 37)	**39,964**	36,822	**40,132**	36,889
Contribution to employees provident fund and trust fund	**81,393**	69,065	**85,277**	71,522
Directors' emoluments	**115,788**	86,366	**116,888**	86,366

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 land.

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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Depreciation and amortisation	**236,539**	211,302	**276,360**	214,791
Contribution to deposit insurance scheme of CBSL	**56,683**	41,830	**56,683**	41,830
Legal expense and professional charges	**43,231**	22,930	**43,231**	25,591
Auditor's remuneration				
Audit fees and expenses	**5,413**	2,050	**5,961**	2,500
Audit-related fees and expenses	**2,006**	1,200	**2,006**	1,200
Non-audit services	**1,507**	3,376	**1,507**	3,378

13.3 OTHER EXPENSES

Other expenses includes the following significant items:

	COMPANY		GROUP	
For the year ended 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Advertising and communication	**283,009**	192,106	**283,009**	205,873
Activities on corporate social responsibility	**28,000**	18,388	**28,075**	18,488

14. VALUE ADDED TAX (VAT), NATION BUILDING TAX (NBT) AND CROP INSURANCE LEVY (CIL)

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 is the accounting profit before VAT and income tax adjusted for economic depreciation and benefits paid 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 2018 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 used for the purpose of VAT on financial services.

NBT on financial services rate applied during the financial year ended 31 March 2018 was 2%.

Crop Insurance Levy

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.

	COMPANY		GROUP	
For the year ended 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Value added tax on financial services (VAT)	**210,492**	130,390	**231,194**	133,099
Nation building tax on financial services (NBT)	**48,183**	24,335	**48,183**	24,336
Crop insurance levy (CIL)	**14,021**	15,191	**14,021**	15,191
Total VAT, NBT and CIL	**272,696**	169,916	**293,398**	172,626

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.

For the year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Current income tax expense (Refer Note 15.1)	227,174	129,817	235,492	135,328
Changes in provision estimates of prior years	(5,256)	(57,788)	(5,256)	(57,780)
Deferred tax expense (Refer Note 36.2)	63,711	148,957	79,827	157,147
Income tax charge for the year	285,629	220,986	310,063	234,695

Income tax rate applicable for the Company and its subsidiaries for the financial year 2016/17 and 2017/18 is 28%.

15.1 RECONCILIATION BETWEEN INCOME TAX EXPENSES AND THE ACCOUNTING PROFIT

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the schedule specified below:

For the year ended 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Accounting profit before tax	1,686,817	1,227,501	1,766,100	1,261,429
Tax expenses as per accounting profit (28%)	472,309	343,700	494,508	353,200
Adjustments				
Tax effect of capital portion of lease rentals	1,647,643	1,787,756	1,721,966	1,787,757
Income from non-taxable sources	(127,847)	(83,948)	(129,176)	(83,948)
Tax effect of disallowed expenses	289,763	191,749	310,338	224,016
Tax effect of deductible expenses and tax losses	(2,054,694)	(2,097,426)	(2,162,144)	(2,133,340)
Tax effect on qualifying payments	–	(12,014)	–	(12,357)
Tax on business profit (Based on taxable profit)	227,174	129,817	235,492	135,328
Prior period under/(over) provision (Refer Note 35.1)	(5,256)	(57,788)	(5,256)	(57,780)
Deferred tax expenses (Refer Note 36.2)	63,711	148,957	79,827	157,147
Income tax expense	285,629	220,986	310,063	234,695

BUSINESS-WISE BREAKUP OF INCOME TAX EXPENSE IN THE INCOME STATEMENT IS AS FOLLOWS:

			COMPANY			GROUP
Year of Assessment 2017/18	Leasing Business Rs. '000	Other Business Rs. '000	Total Rs. '000	Leasing Business Rs. '000	Other Business Rs. '000	Total Rs. '000
Accounting profit before tax	1,254,238	432,579	1,686,817	1,318,525	447,575	1,766,100
Adjustments						
Capital portion of leasing rental due	5,884,440	–	5,884,440	6,149,877	–	6,149,877
Non-taxable income/losses	(422,547)	(34,048)	(456,595)	(422,547)	(38,794)	(461,341)
Disallowable expenses	530,477	504,392	1,034,868	597,918	510,428	1,108,346
Allowable expenses	(10,700,159)	(91,586)	(10,791,744)	(11,086,982)	(72,996)	(11,159,978)
Total statutory income	(3,453,551)	811,337	(2,642,214)	(3,443,209)	846,213	(2,596,996)
Qualifying payments						
Carried forward tax losses – Set off				–	(5,170)	
Taxable income		811,337			841,043	
Income tax rate (%)		28			28	
Income tax		227,174			235,492	
Effective tax rate (Based on accounting profit before tax) (%)		53			53	

			COMPANY			GROUP
Year of Assessment 2016/17	Leasing Business Rs. '000	Other Business Rs. '000	Total Rs. '000	Leasing Business Rs. '000	Other Business Rs. '000	Total Rs. '000
Accounting profit before tax	895,366	332,135	1,227,501	921,956	339,473	1,261,429
Adjustments						
Capital portion of leasing rental due	6,384,847	–	6,384,847	6,475,252	–	6,475,252
Non-taxable income/losses	(281,719)	(18,115)	(299,833)	(288,611)	(23,430)	(312,041)
Disallowable expenses	417,643	267,178	684,817	428,693	284,831	713,524
Allowable expenses	(8,635,680)	(74,654)	(8,710,334)	(8,755,609)	(74,654)	(8,830,263)
Total statutory income	(1,219,543)	506,544	(713,002)	(1,218,319)	526,220	(692,099)
Qualifying payments		(42,907)			(42,907)	
Carried forward tax losses – Set off						
Taxable income		463,637			483,313	
Income tax rate (%)		28			28	
Income tax		129,817			135,328	
Effective tax rate (%)		39			40	

15.2 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 2018 Rs. '000	COMPANY 2017 Rs. '000
Direct Taxes		
Value added tax on financial services	180,225	101,182
Nation building tax on financial services	24,030	18,069
Crop insurance levy	14,021	15,191
Economic service charge	93,784	75,866
Income tax	39,709	85,439
Indirect Taxes (Collected and Paid)		
Value added tax	151,050	106,887
Nation building tax	13,913	8,447
Stamp duty	171,477	124,164
Withholding tax on dividend and interest	87,696	93,586
PAYE tax	28,259	24,707
Total taxes paid during the financial year	804,164	653,538

15.3 NEW TAX PROVISIONS BASED ON INLAND REVENUE ACT NO. 24 OF 2017

Inland Revenue Act No. 24 of 2017 came into operations on 1 April 2018 and transitional provisions have been issued recently. This note highlights key tax impacts aroused from the new act with effect from 1 April 2018.

- Claiming capital allowance on leased assets will not be allowable for the lease granted on or after 1 April 2018
- Interest income on leasing contracts will be treated as a taxable receipt for income tax purpose
- Gains from realisation of capital assets of a business will be taxable at 28%
- Gains from realisation of investment assets will be taxable at 10%

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 potentially dilutive ordinary shares.

BASIC EARNINGS PER SHARE

For the year ended 31 March	COMPANY 2018	COMPANY 2017	GROUP 2018	GROUP 2017
Amount used as numerator:				
Net profit attributable to equity holders of parent (Rs.)	1,401,187,936	1,006,514,950	1,448,874,204	1,022,774,435
Amount used as denominator:				
Weighted average number of ordinary shares	54,305,207	54,305,207	54,305,207	54,305,207
Basic earnings per ordinary shares (Rs.)	25.80	18.53	26.68	18.83

DILUTED EARNINGS PER SHARE

There were no potentially dilutive ordinary shares as at 31 March 2018 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

17. DIVIDEND PER SHARE (DPS)

ACCOUNTING POLICY

Provision for final dividend and interim dividend (Scrip) are 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	2018 (Proposed)	2017
Amount used as numerator:		
Gross dividend (Rs.)	271,526,035	190,068,225
Amount used as denominator:		
Number of shares	54,305,207	54,305,207
Dividend per share (Rs.)	5.00	3.50

	COMPANY	
For the year ended 31 March	2018 (Proposed)	2017
Net dividend paid to ordinary shareholders (Rs.)	233,512,390	171,061,403
Withholding tax deducted at source (Rs.)	38,013,645	19,006,822
Gross dividend (Rs.)	271,526,035	190,068,225
Gross dividend per share (Rs.)	5.00	3.50
Dividend payout ratio (%)	19.38	18.89

First and final dividend of Rs. 3.50 per share for voting and non-voting ordinary shares for the year ended 31 March 2017 was paid on 11 July 2017.

The Board has proposed a first and final dividend of Rs. 5.00 per share for its voting and non-voting ordinary shares.
In accordance with the provisions of the LKAS 10 – "Event after the Reporting Period". This proposed dividend has not been recognised as a liability in the Financial Statements for the year ended 31 March 2018.

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.

With holding tax for dividend income with effect from 1 April 2018 is 14% (before 1 April 2018 – 10%).

18. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

ACCOUNTING POLICY

The Group has elected to early adopt SLFRS 9 – "Financial Instruments" issued in July 2014 with a date of initial application of 1 April 2017. The requirement of SLFRS 9 – "Financial Instruments" represent a significant change from LKAS 39 – "Financial Instruments: Recognition and Measurement".

The Nature and effect of the key classification changes of financial assets and liabilities which affecting to the Group's accounting policies are given below:

i. Recognition and initial measurement

POLICY APPLICABLE FROM 1 APRIL 2017

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.

POLICY APPLICABLE BEFORE 1 APRIL 2017

The Group initially recognises all financial assets and liabilities on becoming party to the contractual provisions of the instruments. However, for financial assets/liabilities held at fair value through profit or loss any changes in fair value from the trade date to settlement date is accounted in the Consolidated Statement of Income while for available-for-sale financial assets any changes in fair value from the trade date to settlement date is accounted in the Statement of Other Comprehensive Income.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

All financial assets and liabilities are initially recognise, except for regular way purchase, on the trade date and any regular way transactions are recognise on the settlement date which was established by the regulator or the market conventions.

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on valuation technique whose variables include only data from observable markets the Group recognises the difference between transaction price and fair value in interest income and respective expenses. In case where fair value is determined using data which is not observable, the difference between the transaction price and model value is recognised in the Statement of Profit or Loss when the input becomes observable or when the instrument is derecognised.

The Day 1 loss arising in the case of loans granted to employees at concessionary rates under uniform applicable schemes is deferred and amortised using effective interest rates over the remaining service period of the employees or tenure of the loan whichever is shorter. The subsequent measurement of financial assets depends on their classification.

ii. Classification

POLICY APPLICABLE FROM 1 APRIL 2017

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; 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.
- 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 held for trading, 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

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.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

POLICY APPLICABLE BEFORE 1 APRIL 2017

Financial Assets

The Group classified its financial assets into one of the following categories:

- Held for Trading (HFT)
- Loans and receivables
- Held to Maturity (HTM)
- Available for Sale (AFS)

Held-for-trading Financial Assets

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Loans and Receivables from Customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

Loans and advances, bills of exchange, commercial papers and lease receivables are classified as loans and receivables.

When the Company is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to ownership of the assets to the lessee, the arrangement is classify as finance lease. Amount receivable under finance lease, hire purchase and loans net of prepaid rentals, unearned lease income and provision for impairment are classified as loans and receivables from customers and are presented in the loans and receivable to customers.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

Tainting Rule

A sale or reclassification of more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sale or reclassification that are so close to maturity that changes in the market rate of interest would not have a significant effect on that financial assets fair value.
- sale or reclassification attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-sale Financial Assets

Available for sale (AFS) investments are non-derivative investments that were designated as available for sale or are not classified as another category of financial assets.

Financial liabilities

The Group initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost

iii. Reclassifications

POLICY APPLICABLE FROM 1 APRIL 2017

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.

POLICY APPLICABLE BEFORE 1 APRIL 2017

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted subsequent to initial recognition.

Held-for-trading non-derivative financial assets are transferred out of the held-for-trading category in the following circumstances:

- to the available-for-sale category where in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near future.
- to the loans and receivable category where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity. Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is transferred to the Profit or Loss at the point of derecognition.

iv. Derecognition

POLICY APPLICABLE BOTH FROM AND BEFORE 1 APRIL 2017

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.

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.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

Before 1 April 2017, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

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

POLICY APPLICABLE BOTH FROM AND BEFORE 1 APRIL 2017

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

POLICY APPLICABLE BOTH FROM AND BEFORE 1 APRIL 2017

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 AS PER SLFRS 9 – "FINANCIAL INSTRUMENTS"

COMPANY

As at 31 March 2018	Note	Classification of Financial Assets – Fair Value through Profit or Loss Rs. '000	Classification of Financial Assets – Fair Value through OCI Rs. '000	Classification of Financial Assets – Amortised Cost Rs. '000	Financial Liabilities measured at Amortised Cost Rs. '000	Total Rs. '000
Cash and cash equivalents	20			2,974,825		2,974,825
Financial assets measured at FVTPL	21	1,485,315				1,485,315
Loans and receivables to banks	22			1,425,000		1,425,000
Deposits with licensed commercial banks	23			2,392,827		2,392,827
Loans and receivables to customers	24			59,438,349		59,438,349
Other Investment securities	25			2,471,305		2,471,305
Total financial assets		1,485,315	–	68,702,306		70,187,621
Other non-financial assets						5,314,489
Total assets						75,502,110
Deposits from customers	32				44,709,832	44,709,832
Debt securities issued	33				4,081,033	4,081,033
Other interest-bearing borrowings	34				15,114,486	15,114,486
Total financial liabilities		–	–	–		63,905,351
Other non-financial liabilities						4,444,360
Total liabilities						68,349,711

GROUP

As at 31 March 2018	Note	Classification of Financial Assets – Fair Value through Profit or Loss Rs. '000	Classification of Financial Assets – Fair Value through OCI Rs. '000	Classification of Financial Assets – Amortised Cost Rs. '000	Financial Liabilities measured at Amortised Cost Rs. '000	Total Rs. '000
Cash and cash equivalents	20			3,039,663		3,039,663
Financial assets measured at FVTPL	21	1,519,227				1,519,227
Loans and receivables to banks	22			1,475,356		1,475,356
Deposits with licensed commercial banks	23			2,392,827		2,392,827
Loans and receivables to customers	24			60,585,395		60,585,395
Other Investment securities	25		124	2,476,459		2,476,459
Total financial assets		1,519,227	124	69,969,700		71,488,927
Other non-financial assets						5,108,633
Total assets						76,597,560
Deposits from customers	32				44,705,409	44,705,409
Debt securities issued	33				4,081,033	4,081,033
Other interest-bearing borrowings	34				15,831,490	15,831,490
Total financial liabilities		–	–	–	64,617,932	64,617,932
Other non-financial liabilities						4,719,891
Total liabilities						69,337,823

CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AS PER LKAS 39 – "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT"

								COMPANY
As at 31 March 2017	Note	Classification of Financial Assets					Financial Liability measured at Amortised Cost	Total
		Fair Value through Profit or Loss Rs. '000	Available for Sale Rs. '000	Loans and Receivable Rs. '000	Held to Maturity Rs. '000	Other Amortised Cost Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	20			454,061				454,061
Financial instrument held for trading	21	163,041						163,041
Loans and receivables to banks	22			655,673				655,673
Deposits with licensed commercial banks	23			1,893,615				1,893,615
Loans and receivables to customers	24			43,189,010				43,189,010
Investment securities	25		1,034,214		2,529,218			3,563,432
Total financial assets		163,041	1,034,214	46,192,359	2,529,218	–		49,918,832
Other non-financial assets								4,015,453
Total assets								53,934,285
Deposits from customers	32						32,601,836	32,601,836
Debt securities issued	33						2,075,631	2,075,631
Other interest-bearing borrowings	34						10,957,017	10,957,017
Total financial liabilities		–	–	–	–		45,634,484	45,634,484
Other non-financial liabilities								2,058,637
Total liabilities						–	45,634,484	47,693,121

								GROUP
As at 31st March 2017	Note	Classification of Financial Assets					Financial Liability measured at Amortised Cost	Total
		Fair Value through Profit or Loss Rs. '000	Available-for-Sale Rs. '000	Loans and Receivable Rs. '000	Held-to-Maturity Rs. '000	Other Amortised Cost Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	20			507,020				507,020
Financial instrument held-for-trading	21	163,041						163,041
Loans and receivables to banks	22			655,673				655,673
Deposits with licensed commercial banks	23			1,893,615				1,893,615
Loans and receivables to customers	24			43,605,197				43,605,197
Investment securities	25		1,064,221		2,572,824			3,637,045
Total financial assets		163,041	1,064,221	46,661,505	2,572,824	–		50,461,591
Other non-financial assets								3,771,862
Total assets								54,233,453
Deposits from customers	32					32,590,453		32,590,453
Debt securities issued	33					2,075,631		2,075,631
Other interest-bearing borrowings	34					11,117,538		11,117,538
Total financial liabilities		–	–	–	–	45,783,622		45,783,622
Other non-financial liabilities								2,134,909
Total liabilities						45,783,622		47,918,531

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 measurers 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.

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, Product Control assesses 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 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Assets disclosed at fair value – Fair value hierarchy (Refer Note 19.D)	2,340,353	1,980,355	2,374,389	2,010,362
Assets not disclosed at fair value – Fair value hierarchy (Refer Note 19.F)	73,161,757	51,953,930	74,223,171	52,223,091
Total Assets	75,502,110	53,934,285	76,597,560	54,233,453
Liabilities not disclosed at fair value – Fair value hierarchy (Refer Note 19.F)	68,349,711	47,693,120	69,337,823	47,918,531
Total Liabilities	68,349,711	47,693,120	69,337,823	47,918,531

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.

		COMPANY				GROUP			
As at 31 March 2018	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		110,135			110,135	110,135			110,135
– Equity instruments – Quoted shares		1,375,180			1,375,180	1,409,092			1,409,092
Other investment securities measured at FVOCI	25								
– Equity instruments – Unquoted shares								124	124
Total financial assets at fair value		1,485,315	–	–	1,485,315	1,519,227	–	124	1,519,351
Other non-financial assets									
Property, plant and equipment – freehold land	28			855,038	855,038			855,038	855,038
Total non-financial assets at fair value		–	–	855,038	855,038	–	–	855,038	855,038
Total assets at fair value		1,485,315	–	855,038	2,340,353	1,519,351	–	855,038	2,374,389

As at 31 March 2017	Note	COMPANY Level 1 Rs. '000	COMPANY Level 2 Rs. '000	COMPANY Level 3 Rs. '000	COMPANY Total Rs. '000	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total Rs. '000
Financial assets									
Financial instrument held for trading	21								
– Government securities – Treasury bonds		99,103			99,103	99,103			99,103
– Equity instruments – Quoted shares		63,938			63,938	63,938			63,938
Investment securities available for sale	25								
– Equity instruments – Quoted shares		1,034,214			1,034,214	1,064,097			1,064,097
– Equity instruments – Unquoted shares								124	124
Total financial assets at fair value		1,197,255	–	–	1,197,255	1,227,138	–	124	1,227,262
Other non-financial assets									
Property, plant & equipment – Freehold land	28			783,100	783,100			783100	783,100
Total non-financial assets at fair value		–	–	783,100	783,100	–	–	783,100	783,100
Total assets at fair value		1,197,255	–	783,100	1,980,355	1,227,138	–	783,224	2,010,362

Company holds unquoted shares of Rs. 24 Mn. as at the end of the year 2017 categorised under financial assets measured at FVOCI whose fair value cannot be measured reliably and fully impaired.

Note 28 provides information on significant unobservable inputs used as at 31 March 2018 in measuring fair value of freehold land categorised under Level 3 and fair value reconciliation can be found out 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 2016	455,029	455,029
Purchases/Additions	–	–
Settlements/Disposals	–	–
Gain or loss to profit or loss	–	–
Gain or loss to OCI	328,071	328,071
Balance as at 31 March 2017	783,100	783,100
Balance as at 1 April 2017	783,100	783,100
Purchases/Additions	15,600	15,600
Settlements/Disposals	(3,300)	(3,300)
Gain or loss to profit or loss	–	–
Gain or loss to OCI	59,638	59,638
Balance as at 31st March 2018	855,038	855,038

19.E.II UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE

Refer Note 28.1 for information about significant unobservable inputs used at 31 March 2018 and 2017 in measuring financial instruments categorised as 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:

Property, Plant and Equipment – Freehold land	Effect on Total Comprehensive Income	
	Favourable	Unfavourable
	1% Increase in Fair Value Rs. '000	1% Decrease in Fair Value Rs. '000
2018	8,550	(8,550)
2017	7,831	(7,831)

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 2018	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	2,974,825			2,974,825	2,974,825
Loans and receivables to banks	22			1,425,000	1,425,000	1,430,174
Deposits with commercial banks	23			2,392,827	2,392,827	2,463,082
Loans and receivables to customers	24			59,438,349	59,438,349	60,452,642
Other investment securities	25					
– Treasury bills		2,341,916			2,341,916	2,342,477
– Treasury bonds		124,289			124,289	120,492
– Corporate debentures			5,100		5,100	5,101
Investment property	27			20,198	20,198	54,000
Other assets					4,439,252	4,439,252
Total assets not at fair value		5,441,030	5,100	63,276,375	73,161,757	74,282,045
Liabilities						
Deposits from customers	32			44,709,832	44,709,832	44,891,957
Debt securities issued	33			4,081,033	4,081,033	4,325,895
Other interest-bearing borrowings	34			15,114,486	15,114,486	15,168,376
Other liabilities					4,444,360	4,444,360
Total liabilities not at fair value		–	–	63,905,351	68,349,711	68,830,588

		COMPANY				
As at 31 March 2017	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	454,061			454,061	454,061
Loans and receivables to banks	22			655,673	655,673	654,558
Deposits with commercial banks	23			1,893,615	1,893,615	1,897,116
Loans and receivables to customers	24			43,189,010	43,189,010	44,690,656
Investment securities held to maturity	25					
– Treasury bills		2,394,764			2,394,764	2,476,179
– Treasury bonds		124,276			124,276	116,923
– Corporate debentures			10,178,435		10,178	9,327
Investment property	27			20,198	20,198	48,000
Other assets					3,212,155	3,212,155
Total assets not at fair value		2,973,101	10,178,435	45,758,496	51,953,930	53,558,975
Liabilities						
Deposits from customers	32			32,601,836	32,601,836	33,652,355
Debt securities issued	33			2,075,631	2,075,631	2,200,169
Other interest-bearing borrowings	34			10,957,017	10,957,017	10,944,480
Other liabilities					2,058,636	2,058,636
Total liabilities not at fair value		–	–	45,634,484	47,693,120	48,855,640

		GROUP				
As at 31 March 2018	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	3,039,663			3,039,663	3,039,663
Loans and receivables to banks	22			1,475,356	1,475,356	1,480,530
Deposits with commercial banks	23			2,392,827	2,392,827	2,463,082
Loans and receivables to customers	24			60,585,395	60,585,395	61,599,688
Other investment securities	25					
– Treasury bills		2,341,916			2,341,916	2,342,477
– Treasury bonds		129,443			129,443	125,646
– Corporate debentures			5,100		5,100	5,100
Investment property	27			20,198	20,198	54,000
Other assets					4,233,273	4,233,273
Total assets not at fair value		5,511,022	5,100	64,473,776	74,223,171	75,343,459
Liabilities						
Deposits from customers	32			44,705,409	44,705,409	44,887,534
Debt securities issued	33			4,081,033	4,081,033	4,325,895
Other interest-bearing borrowings	34			15,831,490	15,831,490	15,885,379
Other liabilities					4,719,891	4,719,891
Total liabilities not at fair value		–	–	64,617,932	69,337,823	69,818,699

As at 31 March 2017	Note	GROUP 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	507,020			507,020	507,020
Loans and receivables to banks	22			655,673	655,673	654,558
Deposits with commercial banks	23			1,893,615	1,893,615	1,897,116
Loans and receivables to customers	24			43,605,197	43,605,197	45,106,843
Investment securities held-to-maturity	25					
– Treasury bills		2,433,370			2,433,370	2,514,785
– Treasury bonds		129,276			129,276	129,276
– Corporate debentures			10,180		10,178	9,327
Investment property	27			20,198	20,198	48,000
Other assets					2,968,564	2,968,564
Total assets not at fair value		3,069,666	10,180	46,174,683	52,223,091	53,835,489
Liabilities						
Deposits from customers	32			32,590,453	32,590,453	33,640,972
Debt securities issued	33			2,075,631	2,075,631	2,200,169
Other interest-bearing borrowings	34			11,117,538	11,117,538	11,105,001
Other liabilities					2,134,909	2,134,909
Total liabilities not at fair value		–	–	45,783,622	47,918,531	49,081,051

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 commercial banks	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
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 subsidiary	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.

RECLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

There were no significant reclassifications have been made during the reporting periods of 2017/18 and 2016/17, other than the reclassifications mentioned under transition Note (Refer Note 4).

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 are repayable on demand and form 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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Local currency in hand	**328,349**	246,602	**331,948**	249,958
Foreign currency in hand	**28,373**	15,256	**28,373**	15,256
Demand/savings deposit balances with financial institutions	**2,618,103**	192,203	**2,679,342**	241,806
Total cash and cash equivalents	**2,974,825**	454,061	**3,039,663**	507,020

Maturity analysis of cash and cash equivalents is given in Note 49.

21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

SLFRS 9 – "FINANCIAL INSTRUMENTS" – KEY TRANSITION IMPACTS ON FINANCIAL ASSETS MEASURED AT FVTPL

- All quoted equity securities that were classified under held for trading and available for sale have been categorised under financial assets measured at FVTPL.

Refer Notes 3 and 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

Financial assets measured at FVTPL comprise with financial asset classified as held for trading (Before 1 April 2017) and financial assets measured at FVTPL (from 1 April 2017).

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.

POLICY APPLICABLE FROM 1 APRIL 2017

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.

POLICY APPLICABLE BEFORE 1 APRIL 2017

Recognition

Financial assets classified as held for trading are measured initially at fair value and transaction costs that are directly attributable to its acquisition or issue is charged to profit or loss.

Measurement

Financial assets classified as held for trading 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.

Classification of financial asset are given in Note 18

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Government securities (Refer Note 21.1)	110,135	99,103	110,135	99,103
Quoted equity investments (Refer Note 21.2)	1,375,180	63,938	1,409,092	63,938
Total financial assets measured at FVTPL	1,485,315	163,041	1,519,227	163,041

Maturity analysis of cash and cash equivalents is given in Note 49.

21.1 GOVERNMENT SECURITIES

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Amortised cost as at 31 March	101,869	99,985	101,869	99,985
Gain/(loss) from mark to market valuation	8,266	(882)	8,266	(882)
Fair value as at 31 March	110,135	99,103	110,135	99,103

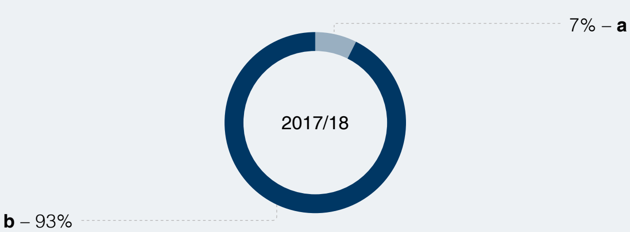
**Government Securities include Treasury Bonds.*

21.2 QUOTED EQUITY INVESTMENTS

As at 31 March 2018	Sector as per CSE Classification	Number of Shares	Market Price	Market Value Rs. '000	Cost of the Investment Rs. '000	Mark to Market Gain Rs. '000
Investments by the Company						
Ceylinco Insurance PLC – voting	Bank, Finance and Insurance	663,624	1,800	1,194,523	240,614	953,910
Commercial Bank of Ceylon PLC – voting	Bank, Finance and Insurance	72,950	136	9,907	10,034	(127)
Sampath Bank PLC – voting	Bank, Finance and Insurance	200	300	60	67	(7)
Union Bank of Colombo PLC – voting	Bank, Finance and Insurance	50,000	13	640	657	(17)
John Keells Holdings PLC – voting	Diversified Holdings	120,480	160	19,228	18,087	1,142
Aitken Spence PLC – voting	Diversified Holdings	344,146	51	17,413	18,883	(1,469)
Melstacorp PLC – voting	Diversified Holdings	28,919	58	1,683	1,733	(50)
Ceylon Hospitals PLC (Durdans) – voting	Health and Care	38,167	79	3,023	3,432	(409)
Ceylon Hospitals PLC (Durdans) – non-voting	Health and Care	68,670	73	4,979	4,804	174
John Keells Hotels PLC – voting	Hotels	108,168	9	1,006	1,273	(268)
Asian Hotels & Properties PLC – voting	Hotels	281,341	50	14,123	15,473	(1,350)
Dolphin Hotels PLC – voting	Hotels	94,037	26	2,445	3,106	(661)
The Kingsbury PLC – voting	Hotels	10,000	18	180	158	22
The Lighthouse Hotel PLC – voting	Hotels	5,000	40	199	228	(29)
Overseas Realty (Ceylon) PLC – voting	Land and Property	200,000	18	3,620	4,343	(723)
Chevron Lubricants Lanka PLC – voting	Manufacturing	101,012	105	10,555	12,144	(1,589)
Teejay Lanka PLC – voting	Manufacturing	339,590	32	10,833	12,823	(1,990)
Regnis Lanka PLC – voting	Manufacturing	145,315	100	14,561	19,226	(4,665)
Bairaha Farms PLC – voting	Manufacturing	115,735	135	15,578	18,602	(3,024)
Ceylon Grain Elevators PLC – voting	Manufacturing	818	72	58	57	1
Three Acre Farms PLC – voting	Manufacturing	131,739	112	14,755	16,165	(1,411)
Swisstek (Ceylon) PLC – voting	Manufacturing	390,726	59	23,170	25,554	(2,384)
ACL Cables PLC – voting	Manufacturing	308,263	41	12,638	17,115	(4,476)
Distilleries Company of Sri Lanka PLC – voting	Beverage, Food & Tobacco	118	8	1	1	(0)
				1,375,180	444,579	930,601
Investments by Subsidiaries						
Ceylinco Insurance PLC	Bank, Finance and Insurance	18,840	1,800	33,912	26,191	7,721
Total equity investments of the Group				1,409,092	470,770	938,322

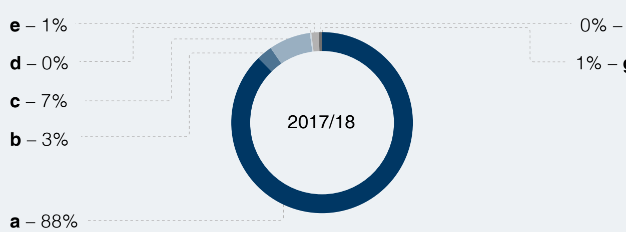
As at 31 March 2017	Sector as per CSE Classification	Number of Shares	Market Price	Market Value Rs. '000	Cost of the Investment Rs. '000	Mark to Market Gain Rs. '000
Commercial Bank of Ceylon PLC – Voting	Bank Finance and Insurance	70,185	130	9,152	11,135	(1,983)
NDB Bank PLC – Voting	Bank Finance and Insurance	17,648	140	2,464	3,892	(1,428)
John Keells Holdings PLC – Voting	Diversified Holdings	139,285	138	19,206	19,424	(217)
Chevron Lubricants Lanka PLC – Voting	Manufacturing	27,000	170	4,590	4,894	(304)
Lanka IOC PLC – Voting	Manufacturing	10,000	29	290	378	(88)
Teejay Lanka PLC – Voting	Manufacturing	50,000	37	1,850	2,226	(376)
Regnis (Lanka) PLC – Voting	Manufacturing	28,000	135	3,777	3,983	(206)
Bairaha Farms PLC – Voting	Manufacturing	21,023	160	3,368	3,745	(378)
Ceylon Grain Elevators PLC – Voting	Manufacturing	36,250	69	2,498	2,946	(449)
Three Acre farms PLC – Voting	Manufacturing	4,969	128	638	615	22
Swisstek (Ceylon) PLC – Voting	Manufacturing	30,000	66	1,968	1,987	(19)
Overseas Reality (Ceylon) PLC – Voting	Land and Property	200,000	20	4,040	4,343	(303)
John Keels Hotels PLC – Voting	Hotels	108,168	10	1,082	1,273	(192)
The Kingsbury PLC – Voting	Hotels	36,985	16	573	573	(0)
Asian Hotels & Properties PLC – Voting	Hotels	102,645	56	5,696	5,754	(57)
Dolphin Hotels PLC – Voting	Hotels	14,037	35	496	482	14
Ceylon Hospitals PLC – Voting	Health and Care	24,995	90	2,250	2,280	(30)
Total equity investments of the Group				63,938	69,931	(5,993)

Financial Instruments Measured at FVTPL



a – Government Securities **b** – Equity Investments

Sector-wise analysis of equity investments



a – Bank Finance and Insurance
b – Diversified Holdings
c – Manufacturing
d – Lands and Properties
e – Hotels
f – Health and Care
g – Beverage Food and Tobacco

The Company has not pledged any of the above financial assets as collateral for any liability or contingent liability.

21.2.1 RECONCILIATION FOR MARK TO MARKET ADJUSTMENT ON QUOTED EQUITY INVESTMENTS

	COMPANY		GROUP	
	2018 Rs. '000	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Market value of the equity instruments as at 1 April	**63,938**	21,963	**63,938**	21,963
Changes in classification of available-for-sale equity securities to FVTPL (Refer Note 4)	**1,034,214**	–	**1,064,097**	–
Additions and disposals in equity investments during the year	**165,311**	44,304	**165,312**	44,304
Amortised cost as at 31 March	**1,263,463**	66,267	**1,293,347**	66,267
Market value of the equity investments as at 31 March	**1,375,180**	63,938	**1,409,092**	63,938
Mark to market gain during the year	**111,717**	(2,329)	**115,745**	(2,329)

22. LOANS AND RECEIVABLES TO BANKS

SLFRS 9 - "FINANCIAL INSTRUMENTS" – KEY TRANSITION IMPACTS ON LOANS AND RECEIVABLES TO BANKS

- The Group recognises loss allowances for ECL on other financial assets subsequently measured at amortised cost.

Refer Notes 3 & 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

Group classify 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.

POLICY APPLICABLE FROM 1 APRIL 2017

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 lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date. Refer Note for further details on ECL policy.

POLICY APPLICABLE BEFORE 1 APRIL 2017

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.

Impairment

This was annually tested for impairment based on indications there were no any impairment indications were identified with regard to repurchase agreements during last financial year.

Classification of financial assets are given in Note 18.

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Securities purchased under resale agreements – Treasury bills	1,425,000	655,673	1,475,356	655,673
Less : Allowance for expected credit losses	–	–	–	–
Net loans and receivables to banks	1,425,000	655,673	1,475,356	655,673

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 49.

23. DEPOSITS WITH LICENSED COMMERCIAL BANKS

SLFRS 9 – "FINANCIAL INSTRUMENTS" - KEY TRANSITION IMPACTS ON DEPOSITS WITH LICENSED COMMERCIAL BANKS

- The Group recognises loss allowances for ECL on other financial assets subsequently measured at amortised cost.

Refer Notes 3 & 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

Deposits with licensed commercial banks comprises the fixed deposits with licensed commercial banks.

POLICY APPLICABLE FROM 1 APRIL 2017

Recognition

Deposits with licensed commercial banks are measured initially at fair value plus transaction costs.

Measurement

Deposits with licensed commercial 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 lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date. Refer Note for further details on ECL policy.

POLICY APPLICABLE BEFORE 1 APRIL 2017

Recognition

Deposits with licensed commercial banks are measured initially at fair value plus transaction costs.

Measurement

Deposits with licensed commercial 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.

Classification of financial assets are given in Note 18.

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Term Deposits with Banks	2,393,088	1,893,615	2,393,088	1,893,615
Less: Allowance for expected credit losses	(261)	–	(261)	–
Total deposits with licensed commercial banks	2,392,827	1,893,615	2,392,827	1,893,615

Maturity analysis of deposits with licensed commercial banks is given in Note 49.

24. LOANS AND RECEIVABLES TO CUSTOMERS

SLFRS 9 - "FINANCIAL INSTRUMENTS" - KEY TRANSITION IMPACTS ON LOANS & RECEIVABLES TO CUSTOMERS

- The Group recognises loss allowances for ECL on other financial assets subsequently measured at amortised cost.

Refer Notes 3 & 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

Amount receivable under finance lease, hire purchase and loans net of prepaid rentals, unearned lease income and provision for impairment are presented in the loans and receivable to customers.

POLICY APPLICABLE FROM 1 APRIL 2017

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 loss (ECL).

POLICY APPLICABLE BEFORE 1 APRIL 2017

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 provision for impairment. 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.

Impairment

Refer Note 12 for impairment policy based on incurred loss.

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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Gross loans and receivables to customers	60,774,005	44,083,714	61,978,196	44,511,697
Less: Allowance for impairment and other credit losses (Refer Note 24.2)	(1,335,656)	(894,704)	(1,392,801)	(906,500)
Net loans and receivables to customers (Refer Note 24.1)	59,438,349	43,189,010	60,585,395	43,605,197

Maturity analysis of loans and receivables from customers is given in Note 49 and pre terminations may cause actual maturities differ from contractual maturities.

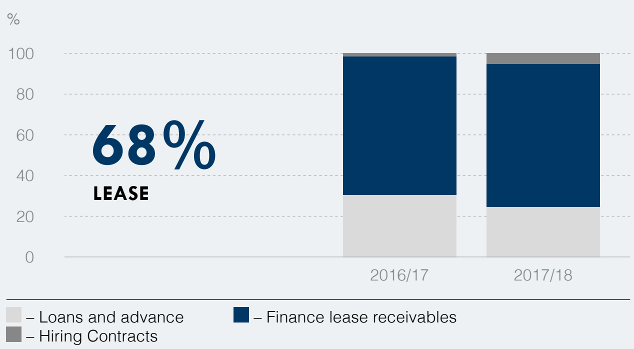
24.1 ANALYSIS

PRODUCT-WISE ANALYSIS

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Loan and advances to customers (Refer Note 24.1.1)	18,420,432	10,985,458	18,057,689	10,915,405
Finance lease receivables (Refer Note 24.1.2)	41,301,219	30,683,566	42,865,115	31,167,984
Hiring contracts (Refer Note 24.1.3)	1,052,354	2,414,690	1,055,392	2,428,308
Gross loans and receivables to customers	60,774,005	44,083,714	61,978,196	44,511,697
Less: Allowance for impairment and other credit losses (Refer Note 24.2)	(1,335,656)	(894,704)	(1,392,801)	(906,500)
Net loans and advances to customers	59,438,349	43,189,010	60,585,395	43,605,197

Further analysis on loans and receivables to customers is given in Note 51 (Financial Risk Management)

Product wise Analysis of Loan Portfolio



24.1.1 LOANS AND ADVANCES TO CUSTOMERS

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Short-term loans	1,644,269	1,371,913	1,644,269	1,371,913
Term and vehicle loans	14,963,933	8,664,878	14,601,190	8,594,825
Staff loans	401,734	346,061	401,734	346,061
Gold related lending	1,410,496	602,606	1,410,496	602,606
Gross loans and advances to customers	18,420,432	10,985,458	18,057,689	10,915,405
Less: Allowance for impairment and other credit losses (Refer Note 24.2)	(169,972)	(90,016)	(181,024)	(99,684)
Net loans and advances to customers	18,250,460	10,895,442	17,876,665	10,815,721

24.1.2 FINANCE LEASE RECEIVABLE

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Gross investment in finance leases				
Receivable within one year	20,993,837	12,634,034	21,819,453	12,926,811
Receivable after one year before five years	36,020,632	25,246,421	37,281,376	25,670,358
Receivable after five years	605,694	3,399,320	669,892	3,399,320
Total finance lease receivables	57,620,163	41,279,775	59,770,721	41,996,489
Unearned finance income	(16,318,944)	(10,596,209)	(16,905,606)	(10,828,505)
Gross finance leases receivables	41,301,219	30,683,566	42,865,115	31,167,984
Less: Allowance for impairment and other credit losses (Refer Note 24.2)	(1,059,707)	(757,842)	(1,105,644)	(759,745)
Net finance lease receivables	40,241,512	29,925,724	41,759,471	30,408,239

24.1.3 HIRING CONTRACTS

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Gross investment in hiring contracts	1,052,354	2,414,690	1,055,392	2,428,308
Less: Allowance for impairment and other credit losses (Refer Note 24.2)	(105,977)	(46,846)	(106,133)	(47,071)
Net investment in hiring contracts	946,377	2,367,844	949,259	2,381,237

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	2018			
	Loans and Advances	Finance Lease	Hiring Contracts	Total
Balance as at the beginning of the year (as per LKAS 39)	90,016	757,842	46,846	894,704
Impact of adopting SLFRS 9 – "Financial Instruments"	42,116	18,026	48,466	108,608
Balance as at the beginning of the year (as per SLFRS 9)	132,132	775,868	95,312	1,003,312
Charge/(Reversal) for the year	37,840	283,839	10,665	332,344
Balance as at the end of the year	169,972	1,059,707	105,977	1,335,656

	GROUP			
As at 31 March	2018			
	Loans and Advances	Finance Lease	Hiring Contracts	Total
Balance as at the beginning of the year (as per LKAS 39)	99,684	759,745	47,071	906,500
Impact of adopting SLFRS 9 – "Financial Instruments"	50,640	28,172	48,907	127,719
Balance as at the beginning of the year	150,324	787,917	95,978	1,034,219
Charge/(Reversal) for the year	30,700	317,727	10,155	358,582
Balance as at the end of the year	181,024	1,105,644	106,133	1,392,801

Refer Notes 3 & 4 for more details on transition to SLFRS 9.
Refer Note 51 for more details on inputs, assumptions and techniques used for estimating ECL (51. A. III)

MOVEMENTS IN ALLOWANCE FOR EXPECTED CREDIT LOSSES (STAGE TRANSITION)

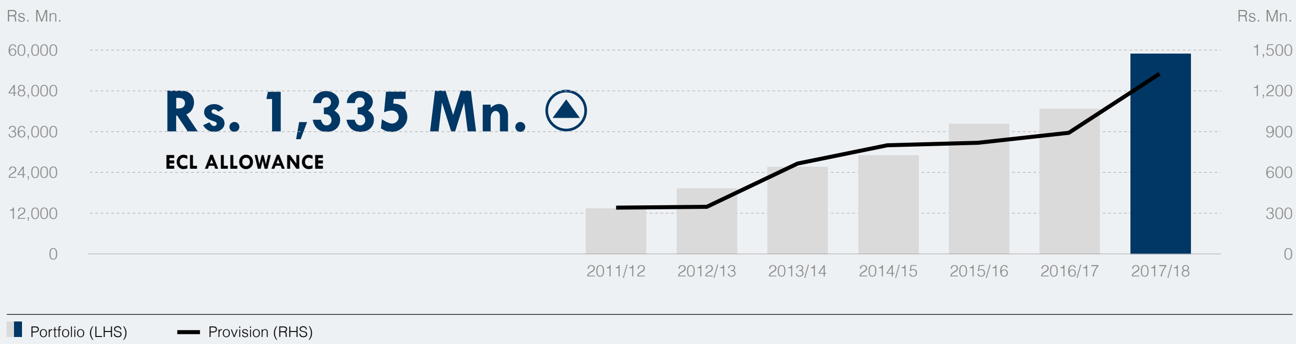
Company	2018			
	Stage 1: 12-month ECL Rs. '000	Stage 2: Lifetime ECL not credit-impaired Rs. '000	Stage 3: Lifetime ECL credit-impaired Rs. '000	Total ECL Rs. '000
Balance as at the beginning of the year (as per SLFRS 9)	298,260	190,935	514,117	1,003,312
Changes due to loans and receivables recognised in opening balance that have:				
Transferred from 12 month ECL	(36,369)	32,367	4,002	–
Transferred from lifetime ECL not credit-impaired	63,871	(91,096)	27,225	–
Transferred from lifetime ECL credit-impaired	5,204	1,840	(7,044)	–
Net remeasurement of loss allowance	17,562	167,062	147,720	332,344
Balance as at the end of the year	348,528	301,108	686,020	1,335,656

Group	2018			
	Stage 1: 12-month 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 (as per SLFRS 9)	298,260	190,935	545,024	1,034,219
Changes due to loans and receivables recognised in opening balance that have:				
Transferred from 12 month ECL	(36,369)	32,367	4,002	–
Transferred from lifetime ECL not credit-impaired	63,871	(91,096)	27,225	–
Transferred from lifetime ECL credit-impaired	5,204	1,840	(7,044)	–
Net remeasurement of loss allowance	24,128	172,735	161,720	358,582
Balance as at the end of the year	355,093	306,781	730,927	1,392,801

PROVISION FOR IMPAIRMENT CHARGES PER LKAS 39 – "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT"

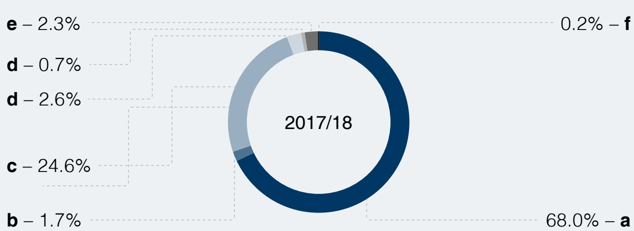
	COMPANY	GROUP
As at 31 March	2017 Rs. '000	2017 Rs. '000
Individual allowance for impairment		
Balance as at the beginning of the year	233,452	233,452
Charge/(reversal) for the year	68,200	68,200
Balance as at the end of the year	301,652	301,652
Collective allowance for impairment		
Balance as at the beginning of the year	583,966	589,826
Charge/(reversal) for the year	9,086	15,022
Balance as at the end of the year	593,052	604,848
Total allowance for impairment	894,704	906,500

24.3 ALLOWANCE FOR IMPAIRMENT AGAINST THE LOAN PORTFOLIO (COMPANY)



24.4 ANALYSIS OF LOANS AND ADVANCES TO CUSTOMERS (COMPANY)

Product Concentration

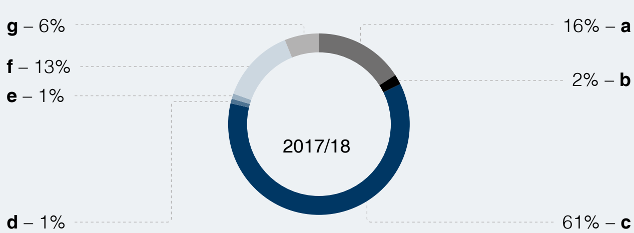


a – Leasing **b** – Hire purchase **c** – Vehicle and term loans
d – Loans against deposits **e** – Staff loans **f** – Gold related lending

68%

LEASING

Asset Concentration

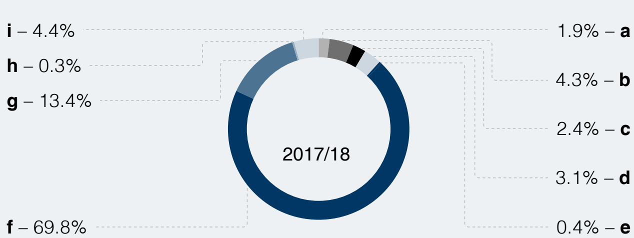


a – Three wheelers
b – Mini trucks
c – Motor cars and other light vehicles
d – Machinery
e – Motor coaches and buses
f – Other
g – Motor lorries and other heavy vehicles

61%

MOTOR CARS AND OTHER LIGHT VEHICLES

Sector Concentration



a – Agricultural
b – Commercial
c – Financial services
d – Housing and property development
e – Industrial
f – Transport
g – Service
h – Tourism
i – Other

70%

TRANSPORT SECTOR

Refer Note 51.A.IV for further analysis on portfolio concentration.

25. OTHER INVESTMENT SECURITIES

SLFRS 9 - "FINANCIAL INSTRUMENTS" - KEY TRANSITION IMPACTS ON OTHER INVESTMENT SECURITIES

- Quoted equity securities classified under available-for-Sale investments as per LKAS - 39 "Financial Instruments: Recognition and Measurement" has been reclassified to financial assets measured at FVTPL.
- For unquoted equity investments Group has irrevocably elect to present subsequent changes in FVOCI.
- Debt instruments which were classified under held to maturity under LKAS - 39 'Financial Instrument: Recognition and Measurement' would be measured at amortised cost.

Refer Notes 3 & 4 for more details on transition to SLFRS 9.

ACCOUNTING POLICY

Other Investment securities comprise with debt investments at amortised cost and equity investments at FVOCI under SLFRS 9 - "Financial Instruments" and financial assets at Held-to-maturity and Available-for-Sale investments under LKAS 39 - "Financial Instruments: Recognition and Measurements".

POLICY APPLICABLE FROM 1 APRIL 2017

Recognition

- Debt investments measured at amortised cost are initially measured at fair value plus incremental direct transaction costs.
- 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 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. Refer Note 11 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 held-for-trading. 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 of 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.

No impairment loss is recognised on investments in equity instruments.

POLICY APPLICABLE BEFORE 1 APRIL 2017

Recognition

- Held-to-maturity investments are measured initially at fair value plus transaction costs.
- Available-for-sale investments are measured initially at fair value plus transaction costs.

Measurement

Held-to-maturity investments

Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale investments

Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income on AFS financial assets is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in Statement of Profit or Loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to Statement of Profit or Loss as a reclassification adjustment.

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Debt investments measured at amortised cost (Refer Note 25.1)	2,471,305	–	2,476,459	–
Unquoted equity investments measured at FVOCI (Refer Note 25.2)	–	–	124	–
Held-to-maturity investments (Refer Note 25.3)	–	2,529,218	–	2,572,824
Available-for-sale investments (Refer Note 25.4)	–	1,034,214	–	1,064,221
Total other investment securities	2,471,305	3,563,432	2,476,583	3,637,045

Classification of financial assets is given in Note 18.

Maturity analysis of cash and other investment securities is given in Note 49.

25.1 DEBT INVESTMENTS MEASURED AT AMORTISED COST

	COMPANY	GROUP
As at 31 March	**2018 Rs. '000**	**2018 Rs. '000**
Treasury bills	2,341,916	2,341,916
Treasury bonds	124,289	129,443
Corporate debentures (Refer Note 25.1.1)	5,100	5,100
Debt investments at amortised cost	2,471,305	2,476,459

No Expected credit losses were recognised for government securities since those are rated as risk-free investments.

25.1.1 CORPORATE DEBENTURES MEASURED AT AMORTISED COST

	COMPANY	GROUP
Name of the Company	**2018 Rs. '000**	**2018 Rs. '000**
Sampath Bank PLC	5,101	5,101
Less: Provision for expected losses	(1)	(1)
Total corporate debentures	5,100	5,100

25.2 UNQUOTED EQUITY INVESTMENTS MEASURED AS AT FVOCI

	COMPANY				
	2018				
As at 31 March	Number of Shares	Cost at Acquisition '000	Cost '000	Carrying Amount '000	Fair Value '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	–	–

	GROUP				
	2018				
As at 31 March	Number of Shares	Cost at Acquisition '000	Cost '000	Carrying Amount '000	Fair Value '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

These unquoted investments were fully-provided when it comes to last financial year ended 31 March 2017.

25.3 HELD-TO-MATURITY INVESTMENTS

	COMPANY	GROUP
As at 31st March	2017 Rs. '000	2017 Rs. '000
Treasury bills	2,394,764	2,433,370
Treasury bonds	124,276	129,276
Corporate debentures (Refer Note 25.3.1)	10,178	10,178
Total held-to-maturity investments	2,529,218	2,572,824

25.3.1 CORPORATE DEBENTURES

	COMPANY	GROUP
As at 31 March	2017 Rs. '000	2017 Rs. '000
Name of the Company		
Sampath Bank PLC	5,102	5,102
Seylan Bank PLC	5,076	5,076
Total corporate debentures	10,178	10,178

25.4 AVAILABLE-FOR-SALE INVESTMENTS

As at 31 March	COMPANY 2017 Rs. '000	GROUP 2017 Rs. '000
Quoted equity investments (Refer Note 25.4.1)	1,034,214	1,064,097
Unquoted equity investments	24,665	24,789
	1,058,879	1,088,886
Less: Impairment loss on available-for-sale investments	(24,665)	(24,665)
Total available-for-sale investments	1,034,214	1,064,221

25.4.1 EQUITY INVESTMENTS

As at 31 March	COMPANY			GROUP		
	2017			2017		
	No. of Shares	Cost at Acquisition Rs. '000	Carrying Amount Rs. '000	No. of Shares	Cost at Acquisition Rs. '000	Carrying Amount Rs. '000
Quoted shares						
Ceylinco Insurance PLC - Ordinary shares	638,012	204,089	1,034,214	656,852	231,725	1,064,097
Unquoted shares						
Middleway Limited - Ordinary shares	416,455	4,165	4,165	416,455	4,165	4,165
Middleway Limited - Preference shares	2,050,000	20,500	20,500	2,050,000	20,500	20,500
Credit Information Bureau of Sri Lanka (CRIB)	–	–	–	100	124	124
Less: provision for impairment			(24,665)			(24,665)
Total available-for-sale investments			1,034,214			1,064,221

25.4.2 MOVEMENT IN EQUITY INVESTMENTS

As at 31 March	COMPANY 2017 Rs. '000	GROUP 2017 Rs. '000
Balance as at 1 April	920,594	948,940
Add: Acquisitions of shares during the year	43,007	43,007
Less: Disposals during the year	–	–
Mark to market adjustment	70,613	72,274
Balance as at the end of the year	1,034,214	1,064,221

25.5 RECLASSIFICATION OF INVESTMENT SECURITIES

During the year Group has not reclassified any investment securities other than the category changes mentioned under transition note (Refer Note 4).

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 reassessess 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	**2018 Rs. '000**	2017 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

	2018		2017	
As at 31 March	Ownership %	Cost Rs. '000	Ownership %	Cost Rs. '000
CDB Microfinance Limited	100.00	5,000	100.00	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

All Subsidiaries are not quoted in Colombo Stock Exchange. Summarised Financial Statements of subsidiaries are given in Note 26.2.

24 October 2014 CDB acquired Laughs Capital Limited (Unisons Capital Leasing Limited) and became a subsidiary with 86.26% share ownership and now it has increased up to 90.38%.

PROVISION FOR IMPAIRMENT

The Directors valuation of investments in subsidiaries has been carried out on cash flow basis as at 31 March 2018 and accordingly Company has recognised an impairment charge of Rs. 2.25 Mn against the investment in CDB Micro Finance Limited. (In 2017 Rs. 2.25 Mn).

Present value of the expected cash flows of Unisons Capital Leasing Limited exceeds its carrying value and thus no impairment was recognised.

Refer Note 30.1 for impairment of goodwill acquired.

26.2 SUMMARISED FINANCIAL INFORMATION OF SUBSIDIARIES

Summarised financial information of Unisons Capital Leasing Limited with significant non-controlling interest is given below:

For the year ended 31 March	Unisons Capital Leasing Limited	
	2018 Rs. '000	2017 Rs. '000
Revenue	309,824	120,912
Net operating income	198,480	99,327
Less: Operating expenses	(119,197)	(65,399)
Profit before tax	79,283	33,928
Taxation	(24,435)	(13,708)
Profit after tax	54,848	20,220
Other comprehensive income (net of tax)	(55)	1,661
Total comprehensive income	54,793	21,881

As at 31 March	Unisons Capital Leasing Limited	
	2018 Rs. '000	2017 Rs. '000
Loans and receivables to customers	1,532,830	518,456
Financial Investments	39,189	73,613
Property, plant and equipment and intangible assets	29,096	21,561
Other assets	147,667	78,975
Total assets	1,748,782	692,605
Due to banks	1,045,654	168,255
Debt issued and other borrowed funds	93,676	94,535
Other liabilities	238,771	92,714
	1,378,101	355,504
Total equity	370,681	337,101
Total liabilities and equity	1,748,782	692,605

For the year ended 31 March	Unisons Capital Leasing Limited	
	2018 Rs. '000	2017 Rs. '000
Cash flows from operating activities	(9,715)	13,139
Cash flows from investing activities	(23,924)	34,826
Net increase in cash and cash equivalents	(33,639)	47,965

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. 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 20% or more than 20% of the voting shares of another entity which should be classify 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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 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 unlimited useful life.

No provision for impairment was recognised for the year ended 31 March 2018 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 properties 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 independent valuers provide the fair values of the Company's investment property at the reporting period end.

Property	Extent (perches)	Date of Valuation	Cost	Fair Value	
				2018	2017
			Rs. '000	Rs. '000	Rs. '000
Land – Biyagama	120	12 May 2018	20,198	**54,000**	48,000

Valuer	Valuation Technique	Significant Unobservable Inputs	Sensitivity
A R Ajith Fernando (FRICS). Chartered Valuation Surveyor	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 range of value for the properties in the area range from Rs. 350,000/- to Rs. 450,000/- 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 the 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.

The Group revalued all of its freehold land as at 31 March 2018. Method and significant assumptions including unobservable market inputs employed is given in Note 28.1.

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 the Statement of Profit or Loss Income 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. The 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 deprecation of property, plant and 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 the 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 (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) 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.

	Land Rs. '000	Building Rs. '000	Furniture and Fittings Rs. '000	Computer Equipments Rs. '000	Office Equipments Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
							COMPANY
Cost/Valuation							
Balance as at 1 April 2017	783,100	639,534	506,777	306,721	208,744	172,085	2,616,961
Additions during the year	15,600	15,599	149,638	151,117	12,821	7,122	351,897
Revaluation surplus	59,638						59,638
Disposal during the year	(3,300)					(1,975)	(5,275)
Balance as at 31 March 2018	**855,038**	**655,133**	**656,415**	**457,838**	**221,565**	**177,232**	**3,023,221**
Accumulated Depreciation							
Balance as at 1 April 2017	–	37,929	316,061	215,705	139,480	68,695	777,870
Charged during the year		16,021	96,659	45,045	26,297	34,082	218,104
Disposal during the year						(1,975)	(1,975)
Balance as at 31 March 2018	**–**	**53,950**	**412,720**	**260,750**	**165,777**	**100,802**	**993,999**
Carrying Value							
Balance as at 31 March 2018	**855,038**	**601,183**	**243,695**	**197,088**	**55,788**	**76,430**	**2,029,222**
Balance as at 31 March 2017	783,100	601,605	190,716	91,016	69,264	103,390	1,839,091

	Land Rs. '000	Building Rs. '000	Furniture and Fittings Rs. '000	Computer Equipments Rs. '000	Office Equipments Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
							GROUP
Cost/Valuation							
Balance as at 1 April 2017	783,100	639,534	507,108	313,736	210,382	172,737	2,626,597
Additions during the year	15,600	15,599	153,293	152,781	20,076	7,122	364,471
Revaluation surplus	59,638						59,638
Disposal during the year	(3,300)					(1,975)	(5,275)
Balance as at 31 March 2018	**855,038**	**655,133**	**660,401**	**466,517**	**230,458**	**177,884**	**3,045,431**
Accumulated Depreciation							
Balance as at 1 April 2017	–	37,929	316,171	221,762	139,923	69,044	784,829
Charged during the year		16,021	96,873	45,724	27,002	34,180	219,800
Disposal during the year						(1,975)	(1,975)
Balance as at 31 March 2018	**–**	**53,950**	**413,044**	**267,486**	**166,925**	**101,249**	**1,002,654**
Carrying Value							
Balance as at 31 March 2018	**855,038**	**601,183**	**247,357**	**199,031**	**63,533**	**76,635**	**2,042,777**
Balance as at 31 March 2017	783,100	601,605	190,937	91,974	70,459	103,693	1,841,768

Maturity Analysis of property, plant and equipment given in Note 49.

28.1 REVALUED PROPERTIES

Details of the revalue properties is as follows:

Property as at 31 March 2018	Extent (Perches)	Date of Valuation	COMPANY Rs. '000	GROUP Rs. '000
Land - No. 123, Orabipasha Mawatha, Colombo 10	85.20	7 May 2018	681,600	681,600
Land - No. 377/2, Kandy Road, Mahara, Kadawatha	39.00	8 May 2018	78,000	78,000
Land - No. 79, Mihindu Mawatha, Kadawatha	76.00	8 May 2018	68,400	68,400
Land - Madapatha, Piliyandala	32.68	11 May 2018	11,438	11,438
Land - No. 119, Galle Road, Moratuwa	5.20	6 February 2018	15,600	15,600
			855,038	855,038

Property as at 31 March 2017	Extent (Perches)	Valuation	COMPANY Rs. '000	GROUP Rs. '000
Land - No. 123, Orabipasha Mawatha, Colombo 10	85.20	15 May 2017	639,000	639,000
Land - No. 377/2, Kandy Road, Mahara, Kadawatha	39.00	19 May 2017	70,200	70,200
Land - No. 79, Mihindu Mawatha, Kadawatha	76.00	17 May 2017	60,800	60,800
Land - Madapatha, Piliyandala	43.68	15 May /2017	13,100	13,100
			783,100	783,100

Valuer	Valuation Technique	Significant unobservable inputs	Sensitivity
Land - No. 123, Orabipasha Mawatha, Colombo 10			
A R Ajith Fernando (FRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference range of value for the properties in the area range from Rs. 7,500,000/- to Rs. 8,500,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value gets higher.
Land - No. 377/2, Kandy Road, Mahara, Kadawatha			
A R Ajith Fernando (FRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference range of value for the properties in the area range from Rs. 1,800,000/- to Rs. 2,000,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value gets higher.
Land - No. 79, Mihindu Mawatha, Kadawatha			
A R Ajith Fernando (FRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference range 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 gets higher.
Land - Madapatha, Piliyandala			
A R Ajith Fernando (FRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference range of value for the properties in the area range from Rs. 300,000/- to Rs. 350,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value gets higher.
Land - No. 119, Galle Road, Moratuwa			
K T Nihal BSc Estate Management and Valuation Associate member of the Institute of Valuers of Sri Lanka. Incorporated valuer	Market Comparable Method*	The reference range 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 gets higher.

**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.*

28.2 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.

28.3 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.

28.4 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

There were no significant amount of fully depreciated assets available within the Group as at the reporting date.

28.5 TEMPORARY IDLE PROPERTY, PLANT AND EQUIPMENT

There were no any temporary idle property, plant and equipment as at the reporting date.

28.6 PROPERTY, PLANT AND EQUIPMENT RETIRED FROM ACTIVE USE

There were no property plant and equipment retired from active use as at the reporting date.

28.7 BORROWING COST

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the year.

28.8 NUMBER OF BUILDINGS IN LANDS HELD BY THE COMPANY

There are four buildings in the following lands hold by the Company

- Land – No. 123, Orabipasha Mawatha, Colombo 10
- Land – No. 79, Mihindu Mawatha, Kadawatha
- Land – No. 377/2, Kandy Road, Mahara, Kadawtha
- Land – No. 119, Galle Road, Moratuwa

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 it's 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.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Cost				
Balance as at the beginning of the year	122,084	110,629	145,873	116,979
Additions during the year	38,901	11,455	39,219	28,894
Disposals during the year	–	–	–	–
Balance as at the end of the year	160,985	122,084	185,092	145,873
Accumulated amortisation				
Balance as at the beginning of the year	56,400	42,310	61,305	45,615
Charge during the year	18,436	14,090	22,095	15,690
Disposals during the year	–	–	–	–
Balance as at the end of the year	74,836	56,400	83,400	61,305
Carrying Value				
Balance as at the end of the year	86,149	65,684	101,692	84,568

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 49.

30. 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.

As at 31 March	GROUP 2018 Rs. '000	GROUP 2017 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

30.1 IMPAIRMENT TESTING 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 2017/18 (2016/17 - Nil) because the recoverable amount of this CGUs was determined to be higher than its carrying amount.

The key assumptions used in the calculation of value in use were as follows.

As at 31 March	**2018** %	2017 %
Discount rate*	**13.25**	13.00
Growth in terminal value**	**7**	7
Growth in budgeted profit before tax (Average of next five years)***	**20**	20

**The discount rate was based on the cost of capital of CDB.*
***Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the lower of the nominal GDP rate adjusted to reflect the Company specific performance strategies and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by the Management.*
**** Budgeted profit after tax was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was predicted taking into account the average growth levels experienced over the past five years and the estimated growth for the next five years.*

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of either CGU to decline below the carrying amount.

SENSITIVITY

The following changes to the key assumptions in the value in use calculation would be necessary in order to reduce headroom to nil:

Discount rate	Increase by 2.02%
Growth in terminal value	Decrease by 11.7%
Growth in budgeted profit before tax (Average of next five years)	Decrease by 5.7%

**Headroom – The gap between fair value and the carrying amount of investment in subsidiary.

The following table illustrate the effect on value in use due to a reasonable possible changes to key assumptions.

As at 31 March	1%	
	Increase %	Decrease %
Discount rate	**-17.40**	41.41
Growth in terminal value	**8.68**	-14.96
Growth in budgeted profit before tax (Average of next five years)	**6.16**	-12.11

31. 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 new vehicles purchased for the purpose of lease out under finance leases and 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.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Tax recoverable	210,095	54,054	215,549	57,211
Insurance premium receivable	1,868,916	970,003	1,868,916	970,003
Insurance commission receivable	77,309	26,096	82,354	26,096
Unamortised cost on staff loans	125,214	109,279	125,214	109,279
Vehicle stock	2,212	2,212	2,212	2,212
Gift stock	20,791	27,154	20,791	27,154
Other stocks	1,475	3,063	1,475	3,063
Other receivables and advances	362,990	388,701	383,151	386,130
Total other assets	2,669,002	1,580,562	2,699,662	1,581,148

Maturity analysis of other assets is given in Note 49.

32. DEPOSITS FROM CUSTOMERS

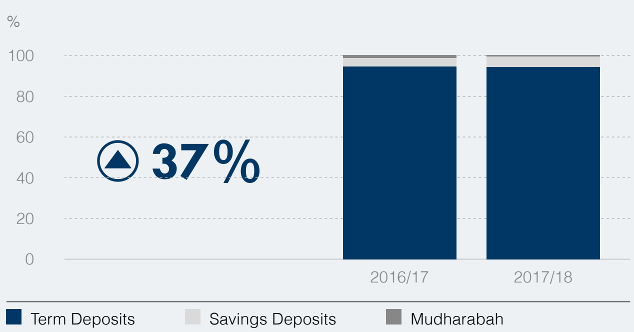
ACCOUNTING POLICY

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.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Term deposits	42,331,249	30,888,614	42,331,249	30,888,614
Savings deposits	1,990,413	1,567,518	1,985,990	1,556,135
Mudharabah	388,170	145,704	388,170	145,704
Total deposits from customers	44,709,832	32,601,836	44,705,409	32,590,453

Maturity analysis of deposits from customers is given in Note 49 and pre-termination of fixed deposits and renewal of fixed deposits may cause actual maturities differ from contractual maturities.

Composition of Customer Deposits



95%

TERM 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.

33. 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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Listed debentures (Refer Note 33.1)	**4,081,033**	2,075,631	**4,081,033**	2,075,631
Total debt securities issued	**4,081,033**	2,075,631	**4,081,033**	2,075,631

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 2018 (2017 – Nil)

Maturity analysis of debt securities issued is given in Note 49

33.1 DETAILS OF DEBENTURES ISSUED

Debenture Issue - 2013
Five million (5,000,000) Subordinated, Listed, Rated (BBB-), Unsecured, Redeemable debentures at a price of Rs. 100/= each with the option to issue up to a further 5,000,000 debentures in the event debentures are oversubscribed.

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
Ten million (10,000,000) Subordinated, Listed, Rated (BBB), Unsecured, Redeemable debentures at a price of Rs. 100/= each with the option to issue up to a further 10,000,000 debentures in the event debentures are oversubscribed.

Description	Face Value	Amortised Cost		Allotment Date	Maturity Date	Term	Interest Rate	Repayment Term
		2018	2017			(Years)	%	
	Rs. '000	**Rs. '000**	Rs. '000					
Issued in 2013								
Type A	665,360	**699,574**	695,864	19 December 2013	19 December 2018	5	16	Annually
Type B	310,360	**327,202**	324,134	19 December 2013	19 December 2018	5	15.50	Semi annually
Type C	24,280	**24,450**	24,400	19 December 2013	19 December 2018	5	15	Quarterly
	100,000	**1,051,226**	1,044,398					
Issued in 2016								
Type A	998,370	**1,026,094**	1,029,522	3 June 2016	3 June 2021	5	12.75	Semi annually
Type B	1,630	**1,683**	1,711	3 June 2016	3 June 2021	5	6 month Net T-Bill Rate (net of tax) plus 1.5%	Semi annually
	1,000,000	**1,027,777**	1,031,233					
Issued in 2018								
Type A	1,066,990	**1,068,053**	–	28 March 2018	28 March 2023	5	13.75	Semi annually
Type B	933,010	**933,977**	–	28 March 2018	28 March 2023	5	14.20	Annually
	2,000,000	**2,002,030**	–					
Total debt securities issued	4,000,000	4,081,033	2,075,631					

33.2 UTILISATION OF FUNDS RAISED VIA CAPITAL MARKET

Objective as per Prospectus Debt securities issued	Amount Allocated as per Prospectus in Rs. Bn.	Proposed Date of Utilisation as per Prospectus	Amount Allocated from Proceeds in Rs. Bn. (A)	% of total Proceeds	Amounts utilised in Rs. Bn. (B)	% of Utilisation against Allocation (B/A)
Issued in 2013						
Finance the Company's anticipated future business growth						
Reduce the asset and liability mismatch	1	Within the next 12 months from the date of allotment	1	100	1	100
Strengthen the Tier 2 capital base						
Issued in 2016						
Finance the Company's anticipated future business growth						
Strengthen the Tier 2 capital base	1	Within the next 12 months from the date of allotment	1	100	1	100
Reduce the asset and liability mismatch						
Issued in 2018**						
Supporting the general business growth opportunities of the Company						
Reduce the asset and liability mismatch	2	Within the next 12 months from the date of allotment	2	100	–	–
Strengthen the Tier 2 capital base						

**Debenture was issued on 28 March 2018 and utilisation percentages are not computed as at the reporting date.

34. 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.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Due to banks (Refer Note 34.1)	12,634,628	7,836,376	13,258,008	7,902,362
Due to foreign institutional lenders (Refer Note 34.2)	–	210,802	–	210,802
Securitisation (Refer Note 34.3)	2,475,326	2,866,336	2,475,326	2,866,336
Commercial papers (Refer Note 34.4)	–	38,971	–	38,971
Other borrowings	4,532	4,532	98,156	99,067
	15,114,486	10,957,017	15,831,490	11,117,538

Maturity analysis of debt securities issued is given in Note 49.

34.1 DUE TO BANKS

As at 31 March	Loan obtained	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Seylan Bank PLC – Term Loan 1	100,000	50,749	59,730	50,749	59,730
Seylan Bank PLC – Term Loan 2	200,000	92,138	111,228	92,138	111,228
Seylan Bank PLC – Term Loan 3	1,000,000	518,880	719,187	518,880	719,187
Seylan Bank PLC – Term Loan 4	2,000,000	1,238,616	1,633,333	1,238,616	1,633,333
Seylan Bank PLC – Term Loan 5	1,000,000	736,475	943,153	736,475	943,153
Seylan Bank PLC – Term Loan (Revolving)	950,000	954,069	500,193	954,069	500,193
Seylan Bank PLC – Term Loan 7	500,000	493,773	–	493,773	–
Sampath Bank PLC – Term Loan 1	1,010,000	249,665	589,135	249,665	589,135
Sampath Bank PLC – Term Loan 2	450,000	56,491	168,789	56,491	168,789
Sampath Bank PLC – Term Loan 3	1,100,000	1,058,665	–	1,058,665	–
Sampath Bank – Short–Term Loans	350,000	–	347,627	–	347,627
Sampath Bank PLC – Short–Term Loans	500,000	499,758	–	499,758	–
Sampath Bank – Term Loan UCL	–	–	–	38,873	65,986
Hatton National Bank PLC– Term Loan 1	1,000,000	821,686	–	821,686	–
Hatton National Bank PLC – Term Loan 2	750,000	251,874	443,133	251,874	443,133
Hatton National Bank PLC – Term Loan (Revolving)	1,500,000	1,506,425	994,249	1,506,425	994,249
Hatton National Bank PLC – Term Loan 3	200,000	164,337	–	164,337	–
Hatton National Bank PLC – Term Loan UCL	–	–	–	163,125	–
Nations Trust Bank PLC – Term Loan 1	750,000	481,210	730,297	481,210	730,297
Nations Trust Bank PLC – Term Loan 2	500,000	502,142	–	502,142	–
Nations Trust Bank PLC – Short–Term Loan	200,000	200,857	–	200,857	–
Nations Trust Bank PLC – Term Loan (Revolving)	100,000	–	101,004	–	101,004
Commercial Bank of Ceylon PLC – Term Loan 1	300,000	267,809	–	267,809	–
Nations Development Bank PLC – Term Loan 1	500,000	502,142	–	502,142	–
Nations Development Bank PLC – Term Loan 2	1,000,000	1,004,283	–	1,004,283	–
MCB Bank Limited – Term Loan 1	200,000	156,186	–	156,186	–
National Savings Bank – Term Loan 1	500,000	460,297	–	460,297	–
Bank of Ceylon – Term Loan	500,000	366,101	495,318	366,101	495,318
Rural Bank – UCL	–	–	–	421,382	–
Total due to banks	–	12,634,628	7,836,376	13,258,008	7,902,362

34.2 DUE TO FOREIGN INSTITUTIONAL LENDERS

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Belgian investment company for developing countries	–	210,802	–	210,802
Total due to foreign institutional lenders	–	210,802	–	210,802

This includes the USD 6 Mn. credit facility obtained from Belgian investment company for developing countries on 15 October 2013 and this is fully-settled when it comes to current reporting period end.

34.3 SECURITISATION

Details of securitisation as at 31 March is as follows:

Issue No.	Face Value (Rs. '000)	Maximum Period (Months)	Trustee	Balance as at 31 March 2018 Rs. '000	Security
D12	1,000,000	48	Deutsche Bank AG	168,551	Mortgage over lease and hire purchase receivables
D13	900,400	48	Deutsche Bank AG	170,385	Mortgage over lease and hire purchase receivables
D14	1,500,000	33	Deutsche Bank AG	88,084	Mortgage over lease and hire purchase receivables
D15	1,000,000	60	Deutsche Bank AG	514,417	Mortgage over lease and hire purchase receivables
D16	1,000,000	60	HNB	189,304	Mortgage over lease and hire purchase receivables
D2	1,389,231	36	HNB	1,132,463	Mortgage over lease and hire purchase receivables
D17	400,000	36	HNB	212,122	Mortgage over lease and hire purchase receivables
Total securitisation				2,475,326	

Details of securitisation as at 31 March is as follows:

Issue No.	Face Value (Rs. '000)	Maximum Period (Months)	Trustee	Balance as at 31 March 2017 Rs. '000	Security
D12	1,000,000	48	Deustsche Bank AG	462,927	Mortgage over lease and hire purchase receivables
D13	900,400	48	Deustsche Bank AG	441,885	Mortgage over lease and hire purchase receivables
D14	1,500,000	33	Deustsche Bank AG	638,590	Mortgage over lease and hire purchase receivables
D15	1,000,000	60	Deustsche Bank AG	565,181	Mortgage over lease and hire purchase receivables
D16	1,000,000	60	HNB	757,753	Mortgage over lease and hire purchase receivables
Total securitisation				2,866,336	

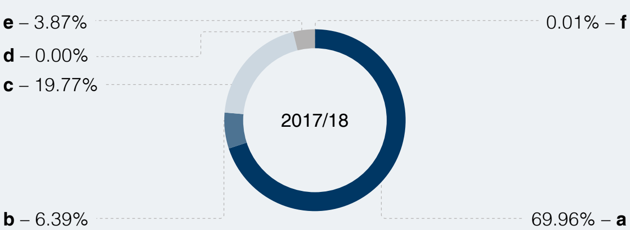
34.4 COMMERCIAL PAPERS

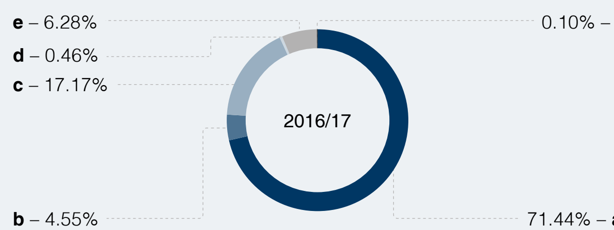
As at 31 March 2017	Investment Date	Maturity Date	Rate %	Invested Amount Rs. '000	Maturity Amount Rs. '000	Amortised Cost Company Rs. '000	Amortised Cost Group Rs. '000
Commercial paper 01	31 March 2017	1 May 2017	13.00	38,957	39,387	38,971	38,971
Total commercial papers						38,971	38,971

34.5 ANALYSIS OF INTEREST BEARING FUNDING MIX

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Deposits	44,709,832	32,601,836	44,705,409	32,590,453
Debentures	4,081,033	2,075,631	4,081,033	2,075,631
Bank borrowings	12,634,628	7,836,376	13,258,008	7,902,362
Foreign borrowings	–	210,802	–	210,802
Securitisation	2,475,326	2,866,336	2,475,326	2,866,336
Others	4,532	43,503	98,156	138,038
Total funds	63,905,351	45,634,484	64,617,932	45,783,622

Analysis of Funding Mix – Company





a – Deposits **b** – Debentures **c** – Bank borrowings **d** – Foreign borrowings **e** – Securitisation **f** – Others

35. 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 are exist, with respect to the tax laws which are applicable.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
VAT on financial services	44,384	6,120	44,384	6,120
Withholding tax payable	10,223	21,584	10,223	21,584
Provision for income tax (Refer Note 35.1)	286,759	104,550	289,086	104,955
Provision for Nation Building Tax (NBT)	13,285	2,190	13,285	2,191
Stamp duty payable	88,429	44,258	88,429	44,258
Total current tax liabilities	443,080	178,702	445,407	179,108

35.1 PROVISION FOR INCOME TAX

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Balance as at the beginning of the year	104,550	62,672	104,955	64,559
Current tax for the year (Refer Note 15)	227,174	129,817	235,492	135,328
Over provision in respect of prior periods (Refer Note 15)	(5,256)	(57,788)	(5,256)	(57,780)
Self-assessment payment of tax	(39,709)	(30,151)	(46,105)	(37,152)
Balance as at the end of the year	286,759	104,550	289,086	104,955

36. 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.

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 for more details on taxation.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Deferred tax assets	2,485,470	1,526,282	2,511,892	1,538,947
Deferred tax liabilities	(1,624,651)	(897,561)	(1,624,692)	(899,960)
Total net deferred tax	860,819	628,721	887,200	638,987

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 debt securities issued is given in Note 49.

36.1 SUMMARY OF NET DEFERRED TAX LIABILITY

	COMPANY			
	2018		2017	
	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	327,725	91,763	407,855	114,199
Accelerated depreciation for tax purposes – leased assets	7,947,574	2,225,321	5,043,153	1,412,083
Deferred tax on revaluation surplus	601,382	168,386	–	–
	8,876,681	2,485,470	5,451,008	1,526,282
Deferred Tax Assets on:				
Unutilised tax losses	(5,802,326)	(1,624,651)	(3,205,576)	(897,561)
	(5,802,326)	(1,624,651)	(3,205,576)	(897,561)
Net deferred tax liability	3,074,355	860,819	2,245,432	628,721

	GROUP			
	2018		2017	
	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	338,412	94,755	415,327	116,291
Accelerated depreciation for tax purposes – leased assets	8,031,250	2,248,750	5,080,913	1,422,656
Deferred tax on revaluation surplus	601,382	168,387	–	–
	8,971,044	2,511,892	5,496,240	1,538,947
Deferred Tax Assets on:				
Unutilised tax losses	(5,802,325)	(1,624,650)	(3,214,078)	(899,941)
Tax effect on defined benefit plans	(149)	(42)	(67)	(19)
	(5,802,474)	(1,624,692)	(3,214,145)	(899,960)
Net deferred tax liability	3,168,570	887,200	2,282,095	638,987

36.2 MOVEMENT OF NET DEFERRED TAX LIABILITY

	COMPANY					
	2018			2017		
	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	628,721	–	–	479,764	–	–
Changes in Net Liability:						
Accelerated depreciation for tax purposes – Owned assets	(22,435)	(22,435)	–	35,536	35,536	–
Accelerated depreciation for tax purposes – Leased assets	813,237	813,237		397,761	397,761	–
Unutilised tax losses	(727,090)	(727,090)	–	(333,882)	(333,882)	–
Qualifying investments and others	–	–	–	36,880	36,880	–
Tax effect on defined benefit plans	–	–	–	12,662	12,662	–
Revaluation Surplus	168,386	–	168,386	–	–	–
Total effect on total comprehensive income	–	63,711	168,386	–	148,957	–
Net deferred tax liability as at 31 March	860,819			628,721		

	GROUP					
	2018			2017		
	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	638,987	–	–	481,840	–	–
Changes in Net Liability:						
Accelerated depreciation for tax purposes – Owned assets	(21,536)	(21,536)	–	36,340	36,340	–
Accelerated depreciation for tax purposes – Leased assets	826,202	826,202	–	404,831	404,831	–
Unutilised tax losses	(724,709)	(724,709)		(333,547)	(333,547)	–
Qualifying investments and others	–	–	–	36,880	36,880	–
Tax effect on defined benefit plans	(130)	(130)	–	12,643	12,643	–
Revaluation Surplus	168,386	–	168,386	–	–	–
Total effect on total comprehensive income		79,827	168,386		157,147	–
Net deferred tax liability as at 31 March	887,200			638,987		

36.3 DEFERRED TAX ON REVALUATION SURPLUS

Inland Revenue Act No. 24 of 2017 came into operation on 1 April 2018 and transitional provision have been issued recently. 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).

37. 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 probabale that an outflow of economic benefits will be required to settle the obligation.

Refer Note 13.1 for Group's policy on Retirement Benefit Obligation.

	COMPANY					
	2018			2017		
	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 the year	293,235	277,441	15,794	246,336	193,299	53,037
Recognised in Profit or Loss						
Current service cost	38,227	–	38,227	31,518	–	31,518
Interest cost/Income	32,256	30,518	1,737	24,634	19,330	5,304
	70,483	30,518	39,964	56,152	19,330	36,822
Recognised in Other Comprehensive Income						
Actuarial gain/loss	17,206	12,238	4,969	474	(25,461)	25,935
	17,206	12,238	4,969	474	(25,461)	25,935
Others						
Contributions made during the year	–	–	–	–	100,000	(100,000)
Benefits paid by the plan asset	(6,826)	(6,826)	–	(9,727)	(9,727)	–
Total net defined benefit obligation as at end of the year	374,098	313,371	60,727	293,235	277,441	15,794

	GROUP					
	2018			2017		
	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	293,302	277,441	15,861	246,336	193,299	53,037
Recognised in Profit or Loss						
Current service cost	38,395	–	38,395	31,585	–	31,585
Interest cost/Income	32,255	30,518	1,737	24,634	19,330	5,304
	70,650	30,518	40,132	56,219	19,330	36,889
Recognised in Other Comprehensive Income						
Actuarial gain/loss	17,262	12,238	5,024	474	(25,461)	25,935
	17,262	12,238	5,024	474	(25,461)	25,935
Others						
Contributions made during the year	–	–	–	–	100,000	(100,000)
Benefits paid by the plan asset	(6,826)	(6,826)	–	(9,727)	(9,727)	–
Total net defined benefit obligation as at the end of the year	374,388	313,371	61,017	293,302	277,441	15,861

Maturity analysis of retirement benefit obligation is given in Note 49.

37.1 PLAN ASSETS

Plan assets comprise the followings.

	COMPANY		GROUP	
As at 31 March	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Cash and cash equivalents	1,067	100,865	1,067	100,865
Equity securities	145,078	110,731	145,078	110,731
Term deposits	167,226	65,845	167,226	65,845
Total plan assets	313,371	277,441	313,371	277,441

All investments of equity securities mentioned above are quoted investments.

37.2 ACTUARIAL VALUATION

An actuarial valuation of the retirement benefit obligation was carried out as at 31 March 2018 by Actuarial & Management Consultants (Private) Limited, a firm of professional actuaries. The valuation method used by the actuary is the "Projected Unit Credit Method", the method recommended by LKAS 19 – "Employee Benefits".

ACTUARIAL ASSUMPTIONS

Assumption	Description		2018	2017
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		11%	11%
Future salary growth	Normal annual salary increment rate per employee was considered		10%	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
Discount rate	1% increase	377,030	158
	1% decrease	371,166	(316)
Future salary growth	1% increase	377,921	3,823
	1% decrease	370,275	(3,823)

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

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
With in next year	9,352	7,331	9,352	7,333
Between 2 and 5 years	46,762	36,654	47,053	36,663
Beyond 5 years	317,984	249,250	317,983	249,306
Total benefits	374,098	293,235	374,388	293,302

This shows the distribution of retirement benefits liabilities based on current provisions during the future periods considering statutory retirement age.

38. 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.

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Accrued expenses	95,845	95,016	152,198	158,360
Supplier payable	1,286,950	224,186	1,400,265	224,186
Insurance premium payable	567,899	395,946	597,516	395,946
Bank overdrafts	769,744	208,434	806,285	210,840
Rentals received in advance from loans and advances to customers	320,842	285,016	320,842	285,016
Other Liabilities	38,454	26,821	49,161	26,605
Total other liabilities	3,079,734	1,235,419	3,326,267	1,300,953

Maturity analysis of other liabilities is given in Note 49.

39. 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			
	2018		2017		2018		2017	
	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								
Voting	–	–	–	–	–	–	–	–
Non-Voting	–	–	–	–	–	–	–	–
Balance as at the end 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
Composition of Number of Shares								
Voting	46,299,223	859,843	46,299,223	859,843	46,299,223	859,843	46,299,223	859,843
Non-Voting	8,005,984	325,219	8,005,984	325,219	8,005,984	325,219	8,005,984	325,219
Total stated capital	54,305,207	1,185,062	54,305,207	1,185,062	54,305,207	1,185,062	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.

40. RESERVES

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Revaluation reserve (Refer Note 40.1)	**432,995**	541,744	**432,995**	541,744
Available-for-sale reserve (Refer Note 40.2)	**–**	819,709	**–**	821,740
Statutory reserve fund (Refer Note 40.3)	**1,320,873**	1,040,635	**1,326,004**	1,042,908
Total reserves	**1,753,868**	2,402,088	**1,758,999**	2,406,392

40.1 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	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at the beginning of the year	**541,744**	213,673	**541,744**	213,673
Surplus on revaluation of lands during the year	**59,638**	328,071	**59,638**	328,071
Deferred tax on revaluation surplus*	**(168,387)**	–	**(168,387)**	–
Balance as at the end of the year	**432,995**	541,744	**432,995**	541,744

**Inland Revenue Act No. 24 of 2017 came into operation on 1 April 2018 and transitional provisions have been issued recently. 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).*

The Company has revalued its lands during May 2018 by A R Ajith Fernando (FRICS) Chartered Valuation Surveyor who is an Independent Valuer. The fair value was arrived by referring to the market value of the lands situated in the respective area.

40.2 AVAILABLE-FOR-SALE RESERVE

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available for sale until such investments are recognised or impaired.

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at the beginning of the year	**819,709**	749,096	**821,740**	749,625
Change in classification of quoted equity securities as financial assets measured at FVTPL	**(819,709)**	–	**(821,740)**	–
Net change in available-for-sale financial assets	**–**	70,613		72,115
Balance as at the end of the year	**–**	819,709	**–**	821,740

40.3 STATUTORY RESERVE FUND

Statutory reserve fund is maintained by the Group in order to meet the legal requirements.

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at the beginning of the year	**1,040,635**	839,332	**1,042,908**	840,594
Transfers during the year	**280,238**	201,303	**283,096**	202,314
Balance as at the end of the year	**1,320,873**	1,040,635	**1,326,004**	1,042,908

This 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 20% of its net profit after taxation to the reserve fund as Company's capital funds to deposit liabilities, belongs to less than 25% but not less than 10% category.

41. RETAINED EARNINGS

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Balance as at the beginning of the year	**2,654,015**	2,064,806	**2,690,686**	2,086,229
Impact of adopting SLFRS 9 – "Financial Instruments"	**633,541**	–	**618,090**	–
Restated Balance as at the beginning of the year	**3,287,556**	2,064,806	**3,308,776**	2,086,229
Profit for the Period	**1,401,188**	1,006,515	**1,448,875**	1,022,774
Remeasurement of defined benefit liability/(asset) (net of tax)	**(4,969)**	(25,935)	**(5,019)**	(25,935)
Dividends to equity holders for year	**(190,068)**	(190,068)	**(190,068)**	(190,068)
Net Transfers during the period	**(280,238)**	(201,303)	**(283,096)**	(202,314)
Balance as at the end of the year	**4,213,469**	2,654,015	**4,279,468**	2,690,686

42. NON-CONTROLLING INTEREST

Non-controlling interest represented 9.62% of net assets of the Unisons Leasing Limited as at 31 March 2018.

As at 31 March	2018 Rs.	2017 Rs.
Balance as at the beginning of the year	32,782	30,488
Impact of adopting SLFRS 9 – "Financial Instruments"	(1,644)	–
Restated Balance as at the beginning of the year	31,138	30,488
Profit for the year	5,276	2,310
Other comprehensive income for the year	(5)	160
Dividend paid	(201)	(176)
Non-controlling interest acquired by parent	–	–
Balance as at the end of the year	36,208	32,782

In 2016 Company subscribed to the rights issue of its subsidiary company Unisons Capital Leasing Limited and purchased 7.8 million shares, increasing the holding percentage to 90.38%.

43. NET ASSETS VALUE PER SHARE

	COMPANY		GROUP	
As at 31 March	2018	2017	2018	2017
Numerator				
Total equity attributable to equity holders (Rs.)	7,152,398,259	6,241,164,500	7,223,529,000	6,282,139,886
Denominator				
Total number of shares	54,305,207	54,305,207	54,305,207	54,305,207
Net assets value per share (Rs.)	131.71	114.93	133.02	115.68

44. 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 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.

	COMPANY		GROUP	
As at 31 March	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Contingencies				
– Contingent liabilities/(assets)	–	–	–	–
Commitments				
– Capital commitments (Refer Note 44.1)	103,047	123,100	103,047	123,100
Total contingencies and commitments	103,047	123,100	103,047	123,100

44.1 CAPITAL COMMITMENTS

As at 31 March	COMPANY 2018 Rs. '000	COMPANY 2017 Rs. '000	GROUP 2018 Rs. '000	GROUP 2017 Rs. '000
Commitments in Relation to Property, Plant and Equipment				
– Approved and contracted for	40,103	20,600	40,103	20,600
– Approved but not contracted for	2,082	3,500	2,082	3,500
Commitments in Relation to Intangible Assets				
– Approved and contracted for	60,862	99,000	60,862	99,000
– Approved but not contracted for				
Total capital commitments	103,047	123,100	103,047	123,100

44.2 CONTINGENCIES AND COMMITMENTS OF SUBSIDIARIES AND ASSOCIATES

Subsidiaries of the Company do not have any contingencies or commitments as at the reporting date.

45. 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.

45.1 PARENT AND ULTIMATE CONTROLLING PARTY

The Company (CDB) does not have an identifiable parent of its own.

45.2 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. 1. Unisons Capital Leasing Limited 2. CDB Microfinance Limited

45.2.1 COMPENSATION OF KMP

	COMPANY		GROUP	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Short-term employment benefits	115,788	86,366	116,888	86,366
Total compensation	115,788	86,366	116,888	86,366

45.2.2 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	**2018 Rs. '000**	2017 Rs. '000
Assets		
Loans and receivables	–	–
Other credit facilities	–	–
Total assets	–	–
Liabilities		
Deposits placed by KMP and CFM	40,132	35,166
Other credit facilities		–
Total liabilities	40,132	35,166
Commitments and contingencies		–
Total outstanding balance	40,132	35,166

For the year ended 31 March	2018 Rs. '000	2017 Rs. '000
Interest income	–	–
Interest expense	3,816	4,968
Total transactions during the year		

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	2018	2017
Number of ordinary shares (Voting) held	4,668,085	4,159,663
Number of ordinary shares (Non-Voting) held	14,885	14,907
Cash dividends paid (Rs. '000)	16,390	14,611
Scrip dividends paid (Rs. '000)	–	–

45.3. 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:

CDB MICROFINANCE COMPANY LIMITED

Statement of Financial Position

As at 31 March	2018 Rs. '000	2017 Rs. '000
Receivable for expenses incurred by CDB	–	485

UNISIONS CAPITAL LEASING LIMITED (UCL)

Summary of Transactions

For the year ended 31 March	2018 Rs. '000	2017 Rs. '000
Savings		
Opening balance	19,267	1,012
Deposits during the year	817,126	433,561
Withdrawals during the year	(832,826)	(415,830)
Interest credited	857	524
Closing balance at the year end	4,424	19,267
Fixed Deposits		
Opening balance	–	82,766
Deposits during the year	–	–
Withdrawals during the year	–	(84,057)
Interest credited	–	1,291
Closing balance at the year end	–	–

For the year ended 31 March	2018 Rs. '000	2017 Rs. '000
Credit Facilities		
Term Loan		
Opening balance	4,398	–
Loans granted during the year	50,000	50,000
Interest income	8,162	3,626
Loan settlements	(21,933)	(49,228)
Closing balance at the year end	40,627	4,398
Securitisations		
Opening balance	97,856	–
Loans granted during the year	350,000	100,000
Interest income	34,654	5,868
Loan settlements	(137,353)	(8,012)
Closing balance at the year end	345,157	97,856

For the year ended 31 March	2018 Rs.	2017 Rs.
Inter company current account balance	725	17,383
Reimbursement of expenses of shared services by UCL	31,005	9,907

COMMITMENTS AND CONTINGENCIES

For the year ended 31 March	2018 Rs. '000	2017 Rs. '000
Undrawn facilities	–	–
Other commitments	–	–

45.4 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	2018 Rs. '000	2017 Rs. '000
Ceylinco Life Insurance Limited	33.54%	Mr D H J Gunawardena Mr S R Abenayake	As at 31 March		
			Loans and receivables	–	–
			Deposits	250,000	250,000
			Debentures	99,770	99,770
			Other liabilities	–	–
			Commitments and contingencies	–	–
			Total	340,770	349,770

46. LITIGATION AGAINST THE COMPANY

ACCOUNTING POLICY

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Group has established formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated group makes adjustment to the accounts for any adverse effect, if any, which the claim may have on groups' financial position. As at the reporting date group had unresolved legal claim as explain 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 filled by a customer in Anuradhapura District Court bearing No. 26288/M for the recovery of Rs. 16,952,175/- and interest thereon citing CDB as the second and third defendant. The case was fixed for trial on 07 September 2018.

B. Court action has been filled by a customer in Anuradhapura District Court bearing No. 27176/M for the recovery of Rs. 200,000/- and interest thereon citing CDB as the defendant. The case was fixed for trial on 10 September 2018.

C. Court action has been filled by a customer in Commercial High Court bearing No. CHC505/15MR for the recovery of Rs. 6,000,000/- and interest thereon citing CDB as the defendant. The case was fixed for trial on 29 June 2018.

D. Court action has been filled by a customer in Commercial High Court bearing No. CHC 88/16/MR for the recovery of Rs. 10,400,000/- and interest thereon citing CDB as the defendant. The case is called for trial on 02 July 2018.

E. Court action has been filled by a customer in Anuradhapura District Court bearing No. 27744/M for the recovery of Rs. 1,500,000/- and interest thereon citing CDB as the second defendant. The case is called for Replication on 03 August 2018.

F. Court action has been filled by a customer in Commercial High Court bearing No. CHC 136/2016 for the recovery of Rs. 13,037,400/- and interest thereon citing CDB as the defendant. The case is fixed for trial on 28 June 2018.

G. Court action has been filled by a third party in Colombo district court bearing No. CLM156/15 in relation to a land purchased by CDB requiring to restore the purchase transaction in to its original position. The case will be called to for trial on 11 June 2018.

H. Court action has been filled by two customers jointly in Anuradhapura District Court bearing No. 27815/M for the recovery of Rs. 4,700,000/- and interest thereon citing CDB as the fifth defendant. The case is called for Replication on 18 May 2018.

I. Court action has been filled by a customer in Anuradhapura District Court bearing No. 27816/M for the recovery of Rs. 6,600,000/- and interest thereon citing CDB as the fifth defendant. The case is called for Replication on 18 May 2018

J. There are 7 pending cases bearing Nos DSP37/13,DSP 513/15,DSP 14/16, MR552, 14956 MR, 597/17M, 28947M related to lending facilities claiming a total sum of Rs. 18.756 Mn. which are at the hearing stage.

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.

47. EVENTS THAT OCCURRED AFTER THE REPORTING DATE

ACCOUNTING POLICY

Events after the reporting date are those favorable and unfavorable 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 LKAS 10 - “Events after the Reporting Period”.

PROPOSED DIVIDENDS

The Board of Directors has recommended a dividend of five rupees (Rs. 5.00) per share on both 46,299,223 voting ordinary shares and 8,005,984 non-voting ordinary shares aggregating to a sum of rupees two hundred seventy one million five hundred twenty six thousand thirty five (Rs. 271,526,035) as the first and final dividend for the financial year ended 31 March 2018, subject to approval of the Central Bank of Sri Lanka and to be approved by the shareholders at the Annual General Meeting.

There were no other events except above occurring after the reporting date which require disclosures adjustments to the financial statements.

RESIGNATION OF DIRECTOR

Ms U R Senevirathne has resigned as an independent non-executive director with effect from 23 April 2018

48. 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 intersegment sales or transfers, is 10 per cent 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 per cent 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 per cent 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 per cent 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 per cent 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 2018 and comparative figures.

								COMPANY
	Lease and Stock Out on Hire		Loans and Advances		Other		Total	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Interest income	**6,962,579**	5,744,819	**2,595,874**	1,399,161	**558,696**	443,200	**10,117,149**	7,587,180
Non-interest income	**–**	–	**–**	–	**1,667,713**	1,004,038	**1,667,713**	1,004,039
Segmented revenue	**6,962,579**	5,744,819	**2,595,874**	1,399,161	**2,226,409**	1,447,238	**11,784,862**	8,591,219
Interest cost	**3,936,446**	3,090,958	**1,467,634**	863,249	**1,258,748**	745,275	**6,662,828**	4,699,482
Charges for impairment and other credit losses	**332,121**	249,223	**37,840**	(22,952)	**(89)**	–	**369,872**	226,271
Segment contribution	**2,694,012**	2,404,638	**1,090,400**	558,864	**967,750**	701,963	**4,752,162**	3,665,466
Unallocated expenses				–		–	**2,792,649**	2,268,049
VAT on financial services, NBT and crop insurance levy				–		–	**272,696**	169,916
Profit from before tax				–		–	**1,686,817**	1,227,501
Income tax expenses				–		–	**(285,629)**	(220,986)
Profit for the period				–		–	**1,401,188**	1,006,515
Segment assets	**41,187,889**	32,243,608	**18,250,460**	10,945,401	**10,749,273**	6,785,679	**70,187,622**	49,974,688
Unallocated assets	**–**	–	**–**	–	**–**	–	**5,314,488**	3,959,597
Total assets	**41,187,889**	32,243,608	**18,250,460**	10,945,401	**10,749,273**	6,785,679	**75,502,110**	53,934,285

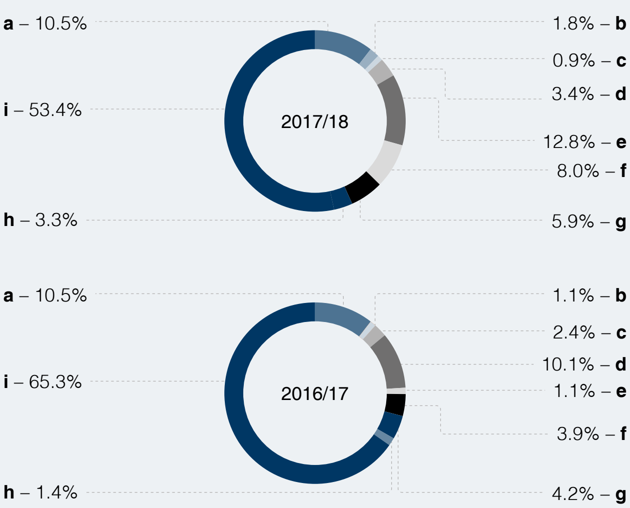
								GROUP
	Lease and Stock Out on Hire		Loans and Advances		Other		Total	
As at 31 March	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Interest income	**7,194,888**	5,831,665	**2,557,955**	1,406,323	**567,246**	447,835	**10,320,089**	7,685,823
Non-interest income	**–**	–	**–**	–	**1,729,897**	1,017,234	**1,729,897**	1,017,234
Segmented revenue	**7,194,888**	5,831,665	**2,557,955**	1,406,323	**2,297,143**	1,465,079	**12,049,986**	8,703,057
Interest cost	**4,003,543**	3,187,038	**1,423,355**	919,483	**1,278,228**	601,187	**6,705,126**	4,707,708
Charges for impairment and other credit losses	**365,499**	286,999	**30,701**	(54,793)	**(97)**	–	**396,103**	232,206
Segment contribution	**2,825,846**	2,357,628	**1,103,899**	541,633	**1,019,012**	863,882	**4,948,757**	3,763,143
Unallocated expenses						–	**2,891,144**	2,330,738
VAT on financial services, NBT and crop insurance levy						–	**293,398**	172,626
Profit from before tax						–	**1,764,215**	1,259,779
Income tax expenses						–	**310,064**	234,695
Profit for the period						–	**1,454,151**	1,025,084
Segment assets	**42,708,731**	32,739,517	**17,876,664**	10,865,680	**10,903,656**	5,122,112	**71,489,051**	48,727,309
Unallocated assets						–	**5,108,508**	5,506,144
Total assets	**42,708,731**	32,739,517	**17,876,664**	10,865,680	**10,903,656**	5,122,112	**76,597,559**	54,233,453

GEOGRAPHICAL SEGMENTS

Revenue segmented based on the geographical location of the Asset/Branch is provided below.:

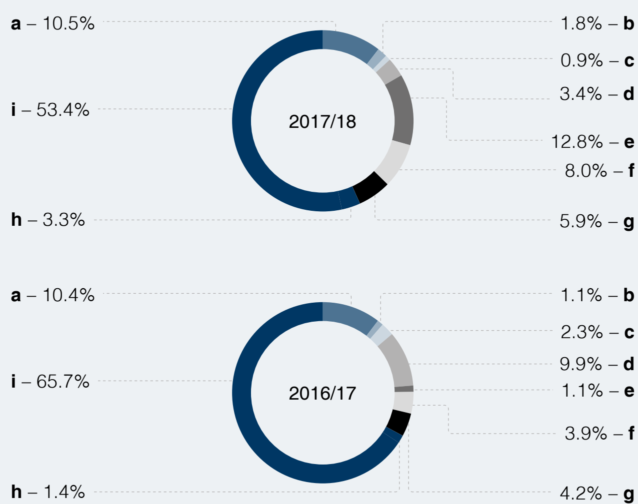
As at 31 March	COMPANY		GROUP	
Revenue – Province-wise	**2018 Rs. '000**	2017 Rs. '000	**2018 Rs. '000**	2017 Rs. '000
Central	**1,238,336**	904,364	**1,266,195**	904,364
Eastern	**207,583**	93,042	**212,253**	93,042
Northern	**111,570**	203,500	**114,080**	203,500
North Central	**401,785**	863,762	**410,824**	863,762
North Western	**1,497,183**	97,387	**1,530,865**	97,387
Sabaragamuwa	**945,954**	336,481	**967,235**	336,481
Southern	**698,781**	361,358	**714,502**	361,358
Uva	**392,942**	121,907	**401,783**	121,907
Western	**6,290,728**	5,609,418	**6,432,249**	5,721,256
Total Revenue	11,784,862	8,591,219	12,049,986	8,703,057

Province Wise Revenue – Company



a – Central Province **b** – Eastern Province **c** – Northern Province
d – North-Central Province **e** – North-Western Province **f** – Sabaragamuwa Province
g – Southern Province **h** – Uva Province **i** – Western Province

Province Wise Revenue – Group



a – Central Province **b** – Eastern Province **c** – Northern Province
d – North-Central Province **e** – North-Western Province **f** – Sabaragamuwa Province
g – Southern Province **h** – Uva Province **i** – Western Province

49. 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, laibilities and share holders' funds is detailed below:

MATURITY ANALYSIS AS AT 31 MARCH 2018

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
Assets					
Cash and cash equivalents	20	2,974,825	–	–	–
Financial assets measured at FVTPL	21	1,485,315	–	–	–
Loans and receivables to banks	22	1,425,000	–	–	–
Deposits with licensed commercial banks	23	216,481	294,250	562,938	1,319,158
Loans and receivables to customers	24	5,349,920	3,400,273	4,816,040	8,901,656
Other investment securities	25	406,123	551,166	498,710	763,897
Investment in subsidiaries	26	–	–	–	–
Investment property	27	–	–	–	–
Property, plant and equipment	28	–	–	–	–
Intangible assets	29	–	–	–	–
Other assets	31	480,898	810,487	832,480	545,137
Total assets		12,338,562	5,056,176	6,710,168	11,529,848
Percentage of total assets		16.34	6.70	8.89	15.27
Cumulative percentage		16.34	23.04	31.93	47.20
Liabilities					
Deposits from customers	32	6,654,836	9,030,337	9,606,144	10,141,479
Debt securities issued	33	–	–	–	1,020,258
Other interest-bearing borrowings	34	507,830	1,092,644	1,437,992	2,428,318
Current tax liabilities	35	–	506,791	–	–
Deferred tax liabilities	36	57,851	46,177	65,822	119,899
Retirement benefit obligation	37	–	60,727	–	–
Other liabilities	38	790,779	284,204	1,139,151	865,600
Total liabilities		8,011,296	11,020,880	12,249,109	14,575,554
Shareholders' funds					
Stated capital	39	–	–	–	–
Reserves	40	–	–	–	–
Retained earnings	41	–	–	–	–
Total equity		–	–	–	–
Total equity and liabilities		8,011,296	11,020,880	12,249,109	14,575,554
Percentage of total liabilities equity		10.61	14.60	16.22	19.30
Cumulative percentage		10.61	25.21	41.43	60.74
Maturity gap		4,327,266	(5,964,704)	(5,538,941)	(3,045,706)
Cumulative gap		4,327,266	(1,637,438)	(7,176,379)	(10,222,085)
Asset/Liability gap – Cumulative percentage		5.73	(2.17)	(9.50)	(13.54)

Maturity Period					
13-24 Months Rs. '000	25-36 Months Rs. '000	37-60 Months Rs. '000	More than 60 months Rs. '000	Unclassified Rs. '000	Total Rs. '000
–	–	–	–	–	2,974,825
–	–	–	–	–	1,485,315
–	–	–	–	–	1,425,000
–	–	–	–	–	2,392,827
14,973,940	11,035,800	9,679,273	1,281,447	–	59,438,349
149,879	–	101,530	–	–	2,471,305
–	–	–	–	509,918	509,918
–	–	–	–	20,198	20,198
–	–	–	–	2,029,222	2,029,222
–	–	–	–	86,149	86,149
–	–	–	–	–	2,669,002
15,123,819	11,035,800	9,780,803	1,281,447	2,645,487	75,502,110
20.03	14.62	12.95	1.70		
67.23	81.84	94.80	96.50		
7,060,935	1,179,722	993,929	42,450	–	44,709,832
–	–	1,020,258	2,040,517	–	4,081,033
4,215,904	2,961,161	2,225,854	244,783	–	15,114,486
–	–	–	–	–	506,791
205,202	151,593	132,960	17,604	–	797,108
–	–	–	–	–	60,727
–	–	–	–	–	3,079,734
11,482,041	4,292,476	4,373,001	2,345,354	–	68,349,711
–	–	–	–	1,185,062	1,185,062
–	–	–	–	1,473,630	1,473,630
–	–	–	–	4,493,707	4,493,707
–	–	–	–	7,152,399	7,152,399
11,482,041	4,292,476	4,373,001	2,345,354	7,152,399	75,502,110
15.21	5.69	5.79	3.11		
75.94	81.63	87.42	90.53		
3,641,778	6,743,324	5,407,802	(1,063,907)	(4,506,912)	–
(6,580,307)	163,017	5,570,819	4,506,912	0	0
(8.72)	0.22	7.38	5.97	0	

MATURITY ANALYSIS AS AT 31 MARCH 2017

Assets/Liabilities	Note	Maturity Period			
		Up to 1 Month '000	2-3 Months '000	4-6 Months '000	7-12 Months '000
Assets					
Cash and cash equivalents	20	454,061	–	–	–
Financial instruments held-for-trading	21	163,041	–	–	–
Loans and receivables to banks	22	655,673	–	–	–
Deposits with licensed commercial banks	23	547,883	387,543	323,726	634,463
Loans and receivables from customers	24	3,592,711	2,678,898	3,622,863	6,729,470
Investment securities	25	423,546	98,951	486,487	1,390,859
Investment in subsidiaries	26	–	–	–	–
Investment property	27	–	–	–	–
Property, plant and equipment	28	–	–	–	–
Intangible assets	29	–	–	–	–
Other assets	31	269,153	421,865	417,910	471,633
Total assets		6,106,068	3,587,257	4,850,986	9,226,425
Percentage of total assets		11.32	6.65	8.99	17.11
Cumulative percentage		11.32	17.97	26.97	44.07
Liabilities					
Deposits from customers	32	6,839,274	7,064,568	4,855,721	6,205,781
Debentures	33	–	–	–	–
Other interest-bearing borrowings	34	409,059	991,174	1,377,639	2,944,404
Current tax liabilities	35	–	178,702	–	–
Deferred tax liabilities	36	45,749	32,105	47,290	90,481
Retirement benefit obligation	37	–	15,794	–	–
Other liabilities	38	527,704	405,136	289,589	12,990
Equity					
Stated capital	39	–	–	–	–
Reserves	40	–	–	–	–
Retained earnings	41	–	–	–	–
Total equity and liabilities		7,821,786	8,687,479	6,570,239	9,253,656
Percentage of total liabilities (%)		14.50	16.13	12.18	17.16
Cumulative percentage (%)		14.50	30.63	42.81	59.97
Maturity gap		(1,715,718)	(5,100,222)	(1,719,253)	(27,231)
Cumulative gap		(1,715,718)	(6,827,776)	(8,547,030)	(8,574,260)
Asset/Liability gap – Cumulative percentage (%)		(3.18)	(12.64)	(15.83)	(15.88)

Maturity Period					(Rs.)
13-24 Months '000	25-36 Months '000	37-60 Months '000	More than 60 months '000	Unclassified '000	Total '000
–	–	–	–	–	454,061
–	–	–	–	–	163,041
–	–	–	–	–	655,673
–	–	–	–	–	1,893,615
11,090,166	8,354,552	7,072,274	48,076	–	43,189,010
15,883	5,100	64,256	1,078,350	–	3,563,432
–	–	–	–	509,918	509,918
–	–	–	–	20,198	20,198
–	–	–	–	1,839,091	1,839,091
–	–	–	–	65,684	65,684
–	–	–	–	–	1,580,562
11,106,049	8,359,652	7,136,530	1,126,427	2,434,891	53,934,285
20.59	15.50	13.23	2.09	4.51	–
64.67	80.17	93.40	95.49	100.00	
5,442,046	1,134,532	1,059,913	–	–	32,601,836
1,037,816	–	1,037,816	–	–	2,075,631
2,494,920	1,579,581	1,160,241	–	–	10,957,017
–	–	–	–	–	178,702
161,927	129,722	108,961	12,486	–	628,721
–	–	–	–	–	15,794
–	–	–	–	–	1,235,419
–	–	–	–	1,185,062	1,185,062
–	–	–	–	2,402,088	2,402,088
–	–	–	–	2,654,015	2,654,015
9,136,709	2,843,835	3,366,931	12,486	6,241,165	53,934,285
16.94	5.27	6.24	0.00	11.57	
76.91	82.18	88.43	88.43	100.00	
1,969,340	5,515,817	3,769,599	1,113,941	(3,806,274)	
(6,604,920)	(1,089,103)	2,680,497	3,806,273	0	
(12.22)	(2.00)	4.99	7.06	0	

50. 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.

The comparative information is reclassified wherever necessary to confirm to the current year's presentation and details are given below:

STATEMENT OF PROFIT OR LOSS

		COMPANY		GROUP	
	Note	**Reclassified**	As disclosed in 2016/17	**Reclassified**	As disclosed in 2016/17
Other net income from trading portfolio	10	9,898	11,853	9,898	11,853
Dividend income from trading equity investment		1,955	–	1,955	–

There were no reclassifications during the year other than the ones which have mentioned above and reclassifications mentioned under transition note (Refer Note 4).

51. 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 Group's risk management framework. The Board of Directors has established the Group Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, 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 Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group 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 Group Audit Committee.

The group has exposure to the following risks from the financial instruments:

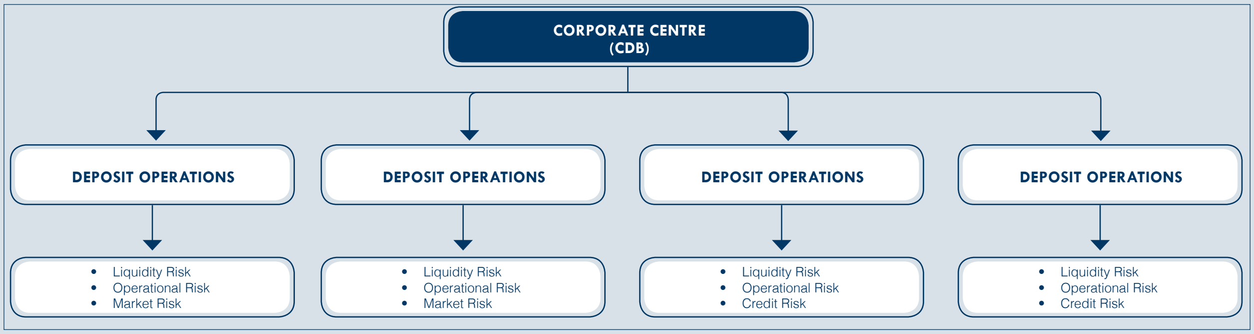
A. Credit Risk

B. Liquidity Risk

C. Market Risk

D. Operational Risk

The chart below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of the regulatory capital within the Group.



This note presents the information about the Group's objectives, policies and processes for measuring and managing risk.

A. CREDIT RISK

"Credit risk" is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group 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.

i. Settlement Risk

The Group'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 Group 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 he Group risk.

ii. Management of credit risk

The principal objective of risk management is to maintain strong risk culture across the group 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 Group Delegated Credit Committee (DCC). A separate Credit evaluation department, reporting to the Group Credit Committee, is responsible for managing the Group'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 Group Credit, the Head of Group Credit, the Group Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk: Group 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 Group 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 Group in the management of credit risk.

Companies in the group is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk Officer who reports on all credit-related matters to local management and the Group 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 Group Credit processes are undertaken by Internal Audit.

B. LIQUIDITY RISK

"Liquidity risk" is the risk that the Group 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 group's liquidity risk management framework is to ensure that the group can fulfill its payment obligations at all times and can manage liquidity and funding risk within risk appetite.

The Group's board of directors sets the Group'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 Group's liquidity policies and procedures. Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group'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 Group's reputation.

The key elements of the Group'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 Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Group'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 Group 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 liqudity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors complince 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 Group 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).

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 Group's income or the value of its holdings of financial instruments.

i. Management of market risk

The objective of the Group's market risk management is to manage and control market risk exposures with inacceptable parameters to ensure the Group'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 Group 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 reprising 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 Group Market Risk, but is not currently significant in relation to the overall results and financial position of the Group. In respect of foreign currency, the Group 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 Group entities.

D. OPERATIONAL RISK

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Board of directors has delegated responsibility for operational risk to its Group 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 Group 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 Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Group Operational Risk Committee, with summaries submitted to the Audit Committee and senior management of the Group.

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 Group. 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.

For more information refer integrated risk management framework on page 169.

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 impairment/expected credit losses against those assets.

A I.I EXPECTED CREDIT LOSSES (APPLICABLE FROM 1 APRIL 2017)

With the adoption of SLFRS 9 – "Financial Instruments" the Company manages credit quality using a three stage approach which is inline with the new standard requirements as well.

Stage One : 12-month expected credit losses (ECL)
Stage Two : Lifetime expected credit losses (ECL) – Not credit impaired
Stage Three : Lifetime expected credit losses (ECL) – Credit impaired

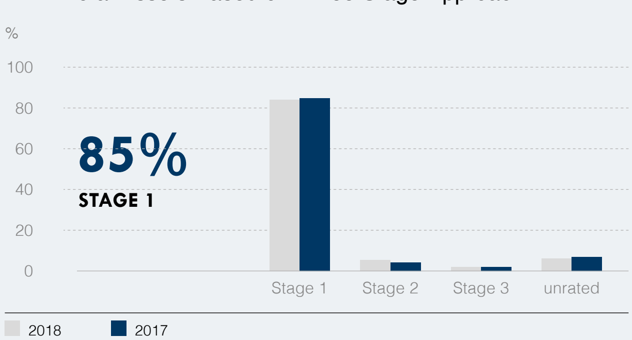
Explanation of the terms: 12-month ECL, lifetime ECL included in Note 3 (Changes in Accounting Policies)

Table below shows the classification of assets and liabilities based on the above-mentioned three stage model.

	Note	12-month ECL Rs. '000	Life Time ECL – Not Credit Impaired Rs. '000	Life Time ECL – Credit Impaired Rs. '000	Unclassified Rs. '000	Total Rs. '000
As at 31 March 2018						
Cash and cash equivalents	20	2,974,825	–	–	–	2,974,825
Financial assets measured at FVTPL	21	1,485,315	–	–	–	1,485,315
Loans and receivables to banks	22	1,425,000	–	–	–	1,425,000
Deposits with licensed commercial banks	23	2,392,827	–	–	–	2,392,827
Loans and receivables to customers	24	53,469,776	4,277,626	1,690,947	–	59,438,349
Other investment securities	25	2,471,305	–	–	–	2,471,305
Other non-financial assets		–	–	–	5,314,489	5,314,489
Total assets		64,219,048	4,277,626	1,690,947	5,314,489	75,502,110
As at 31 March 2017						
Cash and cash equivalents	20	454,061	–	–	–	454,061
Financial assets measured at FVTPL	21	163,041	–	–	–	163,041
Loans and receivables to banks	22	655,673	–	–	–	655,673
Deposits with licensed commercial banks	23	1,893,615	–	–	–	1,893,615
Loans and receivables to customers	24	39,510,221	2,480,897	1,197,892	–	43,189,010
Other investment securities	25	3,563,432	–	–	–	3,563,432
Other non-financial assets		–	–	–	4,015,453	4,015,453
Total assets		46,240,043	2,480,897	1,197,892	4,015,453	53,934,285

** Comparatives for 2016/17 also presented using three stage approach for comparison purpose.*

Total Assets Based on Three Stage Approach



A I.II DEFINITION OF PAST DUE (APPLICABLE BEFORE 1 APRIL 2017)

As per LKAS 39 – "Financial Instruments: Recognition and Measurement" the Company manages credit quality of financial assets using internal credit grading based on days past due. The table below shows past due assets. The Company considers that any amount uncollected one month or more beyond their contractual due date as "Past due":

	Note	Neither Past due not Impaired Rs. '000	Past due but not Impaired Rs. '000	Credit Impaired Rs. '000	Unclassified Rs. '000	Total Rs. '000
As at 31 March 2018						
Cash and cash equivalents	20	2,974,825	–	–	–	2,974,825
Financial assets measured at FVTPL	21	1,485,315	–	–	–	1,485,315
Loans and receivables to banks	22	1,425,000	–	–	–	1,425,000
Deposits with licensed commercial banks	23	2,392,827	–	–	–	2,392,827
Loans and receivables to customers	24	39,206,796	18,540,606	1,690,947	–	59,438,349
Other investment securities	25	2,471,305	–	–	–	2,471,305
Other non-financial assets		–	–	–	5,314,489	5,314,489
Total assets		49,956,068	18,540,606	1,690,947	5,314,489	75,502,110

**2017/18 figures also shown as per LKAS 39 requirements for comparison purpose.*

	Note	Neither Past due not Impaired Rs. '000	Past due but not Impaired Rs. '000	Credit Impaired Rs. '000	Unclassified Rs. '000	Total Rs. '000
As at 31 March 2017						
Cash and cash equivalents	20	454,061	–	–	–	454,061
Financial assets measured at FVTPL	21	163,041	–	–	–	163,041
Loans and receivables to banks	22	655,673	–	–	–	655,673
Deposits with licensed commercial banks	23	1,893,615	–	–	–	1,893,615
Loans and receivables to customers	24	28,271,874	14,567,159	349,977	–	43,189,010
Other investment securities	25	3,563,432	–	–	–	3,563,432
Other non-financial assets		–	–	–	4,015,453	4,015,453
Total assets		35,001,696	14,567,159	349,977	4,015,453	53,934,285

A.I.III AMOUNTS ARISING FROM EXPECTED CREDIT LOSSES (ECL) (APPLICABLE FROM 1 APRIL 2017)

This note highlights inputs, assumptions, and techniques used for estimating expected credit losses (ECL) as per SLFRS 9 – "Financial Instruments".

A.I.III.I 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.

A.I.III.II 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 forbearance
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

A.I.III.III 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.

A.I.III.IV 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 equal or more than 90 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.

A.I.III.V 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.

A.I.III.VI 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 equal more than 180 days on any material credit obligation to the Company. In determination of default the Company largely aligns with the regulatory definition of default which is 180 days and above.

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.

A.I.III.VII 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	

A.I.III.VIII 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-month 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.

A.I.III.IX 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-month ECL, lifetime ECL and credit-impaired are included in Note 3. Comparative amounts for 2016/17 represent restated credit loss allowances measured on the basis of SLFRS 9 – "Financial Instruments".

A.I.IV MOVEMENTS IN ALLOWANCE FOR EXPECTED CREDIT LOSSES (STAGE TRANSITION)

Company	2018			
	Stage 1: 12-month 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 (as per SLFRS 9)	298,260	190,935	514,117	1,003,312
Changes due to loans and receivables recognised in opening balance that have:				
Transferred from 12 month ECL	(36,369)	32,367	4,002	–
Transferred from lifetime ECL not credit-impaired	63,871	(91,096)	27,225	–
Transferred from lifetime ECL credit-impaired	5,204	1,840	(7,044)	–
Net remeasurement of loss allowance	17,562	167,062	147,720	332,344
Balance as at the end of the year	348,528	301,108	686,020	1,335,656

A.I.V 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 2018	12 Month ECL Rs. '000	Lifetime ECL – Not Credit Impaired Rs. '000	Lifetime ECL – Credit Impaired Rs. '000	Total Rs. '000
Grade 1 – Low Risk	30,892,224	–	–	30,892,224
Grade 2 – Low Risk	9,999,918	–	–	9,999,918
Grade 3 – Low Risk	8,699,446	–	–	8,699,446
Grade 4 – Low Risk	4,226,716	–	–	4,226,716
Grade 5 – Watch List	–	2,423,798	–	2,423,798
Grade 6 – Watch List	–	1,067,248	–	1,067,248
Grade 7 – Watch List	–	1,087,688	–	1,087,688
Grade 8 – Default	–		2,376,967	2,376,967
Gross loans and receivables to customers	53,818,304	4,578,734	2,376,967	60,774,005
Expected credit loss allowance	(348,528)	(301,108)	(686,020)	(1,335,656)
Net loans and receivables to customers	53,469,776	4,277,626	1,690,947	59,438,349

A.I.VI STAGE TRANSITION ON LOANS AND RECEIVABLES TO CUSTOMERS (APPLICABLE FROM 1 APRIL 2017)

The following table shows the net loans and receivables to customers based on 3 stage approach:

As at 31 March 2018	12 Month 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 2017	39,510,221	2,480,897	1,197,892	43,111,800*
Changes due to loans and receivables recognised in opening balance that have –				
– Transferred from 12-month ECL	(2,816,032)	2,474,023	342,009	–
– Transferred from lifetime ECL not credit-impaired	917,723	(1,224,125)	306,402	–
– Transferred from lifetime ECL credit-impaired	25,244	8,251	(33,495)	–
– Financial assets that have been derecognised	(6,943,230)	(887,306)	(296,405)	(8,126,941)
– Net change in expected credit loss allowance	(50,267)	(110,173)	(171,904)	(332,344)
Other net changes in portfolio	22,826,117	1,536,059	346,448	24,785,834
Balance as at 31 March 2018	53,469,776	4,277,626	1,690,947	59,438,349

**As per SLFRS 9 – "Financial Instruments" for credit impaired loans and receivables interest should be recognised net of loss allowance. Accordingly, there is Rs. 77 Mn. impact on interest receivable as at 1 April 2017.*

A.I.VII ALLOWANCE FOR IMPAIRMENT (APPLICABLE BEFORE 1 APRIL 2017)

The Company established an allowance for impairment losses on assets carried at amortised cost/available for sale that represents its estimate of incurred losses in its loan and investment debt/equity security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and for assets measured at amortised cost. A collective loan loss allowance established for Company's of homogeneous assets as well as for individually significant exposures that were subject to individual assessment of impairment but not found to be individually impaired. Assets carried at fair value through profit or loss is not subject to impairment testing as the measure of fair value reflects the credit quality of each asset. In developing the incurred loss model Company has used historical data of the Company adjusted for the changes in the economic conditions as appropriate.

A.I.VIII IMPAIRMENT OF LOANS AND RECEIVABLES TO CUSTOMERS (APPLICABLE BEFORE 1 APRIL 2017)

The following table shows the loans and receivables to customers net of individual and collective impairment provision:

For the year ended 31 March	2017 Rs. '000
Individually significant loans and receivables – Impaired	559,376
Less: Allowance for individual impairment	(301,652)
	257,724
Individually not significant loans and receivables to customers and individually non-impaired customers (Gross)	43,524,338
Less: Allowance for collective impairment	(593,052)
	42,931,286
Total gross loans and receivable from customers	44,083,714
Less: Allowance for individual impairment	(301,652)
Less: Allowance for collective impairment	(593,052)
Net loans and receivable from customers	43,189,010

A.I.IX COLLECTIVE IMPAIRMENT OF LOANS AND RECEIVABLES TO CUSTOMERS – BASED ON AGING (APPLICABLE BEFORE 1 APRIL 2017)

As at 31 March	2017		
Aging**	Gross Loans Rs. '000	Impairment Rs. '000	Impairment %
0-30 Days	30,155,654	49,614	0.2
31-60 Days	6,433,366	35,212	0.5
61-90 Days	3,130,770	36,939	1.2
91-120 Days	1,565,092	46,464	3.0
121-150 Days	627,272	47,435	7.6
151-180 Days	486,319	65,852	13.5
Above 180 Days	1,125,865	311,536	27.7
	43,524,338	593,052	
Net loans and receivables (Collective customers)		42,931,286	

*** 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.I.X MAXIMUM EXPOSURE TO CREDIT RISK – BASED ON AGING

Table below shows the maximum exposure to credit risk based on the aging of each instrument:

As at 31 March	Loans and Receivables to Customers		Loans and Receivables to Banks		Deposits with Licensed Commercial Banks		Other Investment Securities and Financial Assets Measured at FVTPL	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Financial assets at amortised cost								
0-30 Days	40,892,143	30,715,029	1,425,000	655,673	2,393,088	1,893,615	2,471,306	2,529,218
31-60 Days	4,226,716	6,433,366						
61-90 Days	8,699,446	3,130,770						
91-120 Days	2,423,798	1,565,092						
121-150 Days	1,067,248	627,272						
151-180 Days	1,087,687	486,319						
Above 180 Days	2,376,967	1,125,866						
Total gross amount	60,774,005	44,083,714	1,425,000	655,673	2,393,088	1,893,615	2,471,306	2,529,218
Allowance for impairment	(1,335,656)	(894,704)	–	–	(261)	–	(1)	–
Net carrying amount	59,438,349	43,189,010	1,425,000	655,673	2,392,827	1,893,615	2,471,305	2,529,218
Financial assets at FVOCI (From 1 April 2017) Available for Sale (Before 1 April 2017)								
Total gross amount			–	–	–	–	–	1,058,879
Allowance for impairment								(24,665)
Net carrying amount	–	–	–	–	–	–	–	1,034,214
Financial assets measured at FVTPL								
Total gross amount			–	–	–	–	1,485,315	163,041
Allowance for impairment							–	–
Net carrying amount	–	–	–	–	–	–	1,485,315	163,041
Maximum exposure	59,438,349	43,189,010	1,425,000	655,673	2,392,827	1,893,615	3,956,620	3,716,473

Age represents the period in days which any amount uncollected or due beyond their contractual due date. For rescheduled loans age is calculated based on the initial due date of the original contract.

A.I.XI CREDIT RATINGS OF FINANCIAL INSTRUMENTS

Table below sets out the credit quality of financial investments based on the instruments' credit ratings.

		COMPANY	
As at 31 March	Note	2018 Rs. '000	2017 Rs. '000
Financial assets measured at FVTPL			
Equity investments	21	1,375,180	63,938
Government securities	21	110,135	99,103
		1,485,315	163,041
Loans and receivables to banks			
Securities purchased under resale agreements	22	1,425,000	655,673
		1,425,000	655,673
Deposits with licensed commercial banks	23		
Term deposits			
Rated AA+		58,372	109,238
Rated AA		–	114,943
Rated AA-		463,310	153,815
Rated A+		807,648	650,525
Rated A		–	117,866
Rated A-		955,545	
Rated BB+		107,952	
Rated BB-		–	644,350
Rated BBB-		–	102,878
		2,392,827	1,893,615

A.II IMPAIRED FINANCIAL INSTRUMENTS

A.II.I 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 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	2018 Rs. '000	2017 Rs. '000
Impaired Financial Instruments		
Loans and receivables to customers	1,690,947	1,197,892
Other investment securities	–	–
Total impaired value	1,690,947	1,197,892

A.II.II PROVISION FOR IMPAIRED LOANS AND RECEIVABLES AND DEBT SECURITIES (APPLICABLE BEFORE 1 APRIL 2017)

Reconciliation of changes in the carrying amount of individual impairment provision of the Company are as follows:

For the year ended 31 March	2017 Rs. '000
Loans and receivables to customers	
Impaired loans and receivables to customers as at 1 April	233,452
Newly classified as impaired during the year	222,513
Transferred to not impaired during the year	(154,313)
Net payment, write-off, recoveries and disposals during the year	–
Impaired loans and receivables to customers as at 31 March	301,652

	2017 Rs. '000
Other Financial Instruments	
Impaired unquoted equity securities as at 1 April	24,665
Newly-classified as impaired during the year	–
Transferred to not impaired during the year	–
Net payment, write-off, recoveries and disposals during the year	–
Impaired unquoted equity securities as at 31 March	24,665

For the details of impairment allowances, refer Note 24.2.

A.II.III 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.

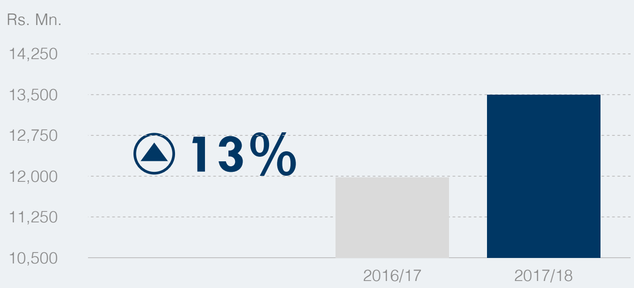
The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default, there is evidence that the debtor is currently in default on its debt or if there is a high risk of default, there is 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	2018 Rs. '000	2017 Rs. '000
Loans with Renegotiated Terms		
Gross carrying amount	13,514	11,986
Total gross loans and receivables	60,774,005	44,083,714
Percentage of renegotiated loans (%)	0.02	0.03

Renegotiated facilities



A.II.IV 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.

A.III.I COLLATERAL HELD

As at 31 March	Note	Percentage of Exposure that is Subject to Collateral Requirements		Type of Collateral Held
		2018 %	2017 %	
Loans and receivables to banks				
Repurchase 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 Equipments
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.III.II LOAN-TO-VALUE RATIO

The table below stratify credit exposure from loans and receivables to customers by range of loan-to-vale (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral:

As at 31 March	Note	2018 Rs.	%	2017 Rs.	%
LTV ratio – Finance leases					
Less than 50%	19	7,118,679	14	1,736,108	6
51%-70%	19	22,452,481	43	10,775,323	35
71%-90%	19	16,152,647	31	12,344,759	40
More than 90%	19	6,335,135	12	5,827,377	19
Total		52,058,942		30,683,567	
LTV ratio – Hiring contracts					
Less than 50%	19	197,979	8	172,719	7
51%-70%	19	584,053	24	540,071	22
71%-90%	19	1,315,547	53	1,354,506	57
More than 90%	19	365,414	15	347,394	14
Total		2,462,993		2,414,690	
LTV ratio – Other loans					
Less than 50%	19	9,339,964	49	4,109,432	45
51%-70%	19	5,943,330	31	3,442,111	38
71%-90%	19	2,107,586	11	987,319	11
More than 90%	19	1,818,371	9	541,476	6
Total		19,209,251		9,080,338	

Gold-related lending and part of the short-term loans such as loan against term deposits not included in other loans LTV analysis.

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.

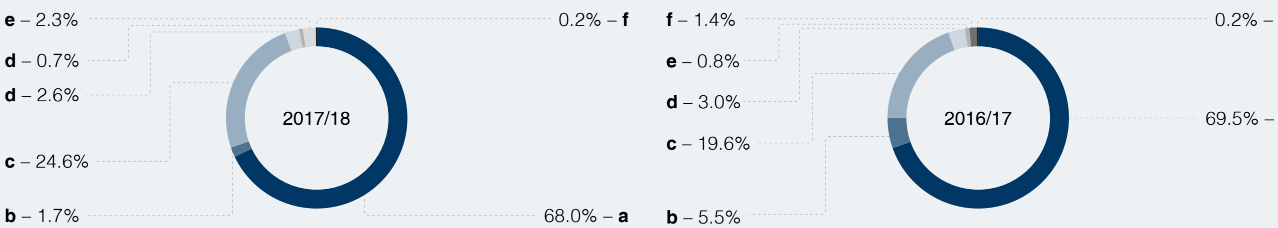
The Company monitors concentration of credit risk by product, by sector and by geographical location. An analysis of concentrations of credit risk from loan and receivable to customers and other financial investments are shown below:

A.IV.I CONCENTRATION OF LOANS AND RECEIVABLES

A.IV.I.I PRODUCT CONCENTRATION

	COMPANY			
As at 31 March	2018 Rs. '000	%	2017 Rs. '000	%
Leasing	41,301,219	68.0	30,683,566	69.5
Hire purchase	1,052,354	1.7	2,414,690	5.5
Vehicle and term loans	14,963,933	24.5	8,635,588	19.6
Loans against deposits	1,552,129	2.6	1,314,222	3.0
Staff loans	401,734	0.7	346,060	0.8
Gold related lending	1,410,496	2.3	602,606	1.4
Other	92,140	0.2	86,982	0.2
Gross loans and receivables to customers	60,774,005		44,083,714	

Product Concentration



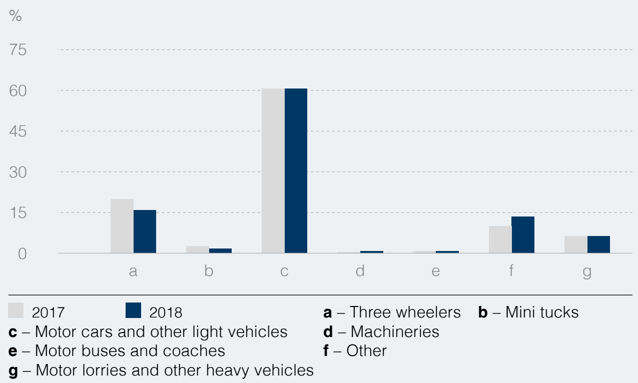
a – Leasing **b** – Hire purchase **c** – Vehicle and term loans **d** – Loans against deposits **e** – Staff loans **f** – Gold related lending

A.IV.I.II ASSET CONCENTRATION

The Company monitors concentration of credit risk by asset categories and an analysis is shown below:

	COMPANY			
As at 31 March	2018 Rs. '000	%	2017 Rs. '000	%
Three wheeler	9,666,999	15.9	8,686,167	19.7
Mini truck	1,098,790	1.8	1,106,092	2.5
Motor cars and other light vehicles	37,068,460	61.0	26,872,552	61.0
Machinery	496,120	0.8	101,338	0.2
Motor coach and bus	567,347	0.9	312,849	0.7
Motor lorry and other heavy vehicles	3,714,902	6.1	2,642,698	6.0
Other	8,161,387	13.5	4,362,018	9.9
Gross loans and receivables to customers	60,774,005		44,083,714	

Asset Concentration – Company



61%

MOTOR CARS & OTHER LIGHT VEHICLES

A.IV.I.III. 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	2018 Rs. '000	%	2017 Rs. '000	%
Central	6,386,045	10.5	4,381,218	9.9
Eastern	1,070,496	1.8	783,606	1.8
North	575,362	0.9	459,760	1.0
North Central	2,071,989	3.4	1,533,106	3.5
North Western	7,720,907	12.7	5,421,808	12.3
Sabaragamuwa	4,878,241	8.0	3,688,050	8.4
Southern	3,603,583	5.9	2,325,465	5.3
Uva	2,026,386	3.3	1,513,471	3.4
Western	32,440,996	53.5	23,977,230	54.4
Gross loans and receivables to customers	60,774,005		44,083,714	

A.IV.I.IV 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.

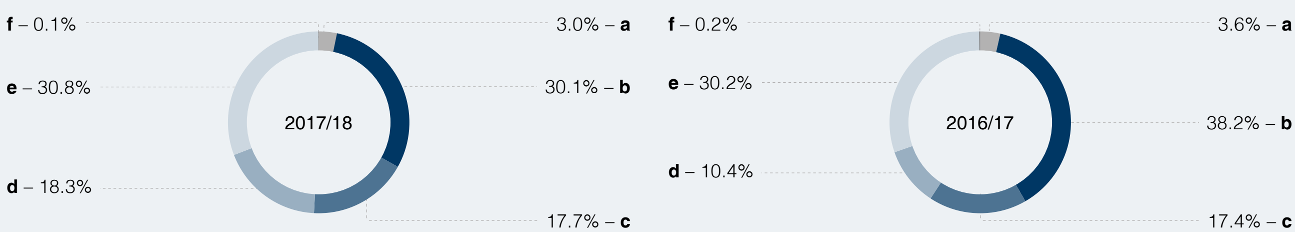
As at 31 March	2018 Rs. '000	%	2017 Rs. '000	%
Agricultural	1,179,808	1.9	1,287,418	2.9
Commercial	2,602,429	4.3	1,458,754	3.3
Financial services	1,430,638	2.4	1,032,404	2.3
Housing and property development	1,906,196	3.1	845,832	1.9
Industrial	229,388	0.4	120,024	0.3
Transport	42,427,408	69.8	34,610,866	78.5
Service	8,123,355	13.4	2,182,824	5.0
Tourism	199,346	0.3	89,657	0.2
Other	2,675,437	4.4	2,455,936	5.6
Total gross loans and receivables to customers	60,774,005		44,083,715	

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 licensed commercial banks and other investment securities.

As at 31st March	2018 Rs. '000	%	2017 Rs. '000	%
Treasury bonds	234,424	3.0	223,379	3.6
Treasury bills	2,341,916	30.1	2,394,764	38.2
Quoted equity instruments	1,375,180	17.7	1,098,152	17.4
Repurchase agreements	1,425,000	18.3	655,673	10.4
Time deposits	2,392,827	30.8	1,893,615	30.2
Quoted corporate debentures	5,100	0.1	10,178	0.2
Total other financial investments	7,774,447		6,275,761	

Investment Concentration



a – Treasury Bonds **b** – Treasury Bills **c** – Quoted Equity Instruments
d – Repurchase Agreements **e** – Time Deposits **f** – Quoted Corporate Debentures

A.IV. 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 untill event of default is occurred.

Table below shows financial assets subject to offsetting, enforceable master netting agreements and similar agreements:

2018	Gross Amount Recognised in Financial Assets	Gross Amount Recognised in Financial Liabilities		Net Exposure	Underlying Security
		Offset in Statement of Financial Position	Not Offset in Statement of Financial Position		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Types of financial assets					
Reverse sale and repurchase agreements	1,425,000	–	1,425,000	–	Treasury Bills
Loans and receivables to customers	1,552,129		1,552,129	–	Term Deposits

2017	Gross Amount Recognised in Financial Assets	Gross Amount Recognised in Financial Liabilities		Net Exposure	Underlying Security
		Offset in Statement of Financial Position	Not Offset in Statement of Financial Position		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Types of financial assets					
Reverse sale and repurchase agreements	655,673		655,673	–	Treasury bills
Loans and receivables to customers	1,314,222		1,314,222	–	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:

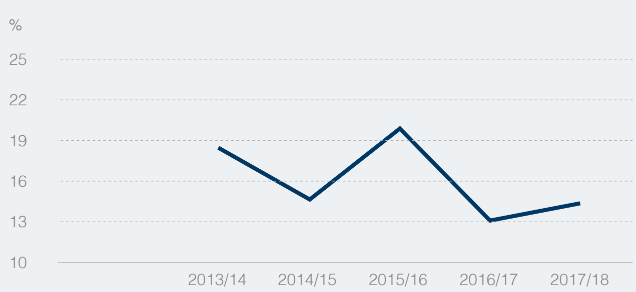
As at 31 March	2018 %	2017 %
As at 31 March	14.37	13.03
Average for the period	12.21	14.78
Maximum for the period	14.37	21.00
Minimum for the period	10.85	12.05

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	2018 Rs. '000	2017 Rs. '000
Required minimum amount of liquid assets	4,994,271	3,648,520
Total liquid assets	7,032,569	4,650,390
Excess liquidity	2,038,298	1,001,870

Liquidity Ratio



Rs. 7 Bn.

LIQUID ASSETS

B.II. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES AND FINANCIAL ASSETS

Detailed Maturity Analysis is given in Note 49.

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:

As at 31 March	Note	More than 12 Months 2018 Rs. '000	2017 Rs. '000
Financial assets			
Loans and receivables to customers	24	36,970,460	26,565,069
Other investment securities	25	251,409	1,163,589
Total financial assets		37,221,869	27,728,658
Financial liabilities			
Deposits from customers	32	9,277,036	7,636,491
Debt securities issued	33	3,060,775	2,075,632
Other interest-bearing liabilities	34	9,647,702	5,234,742
Total financial liabilities		21,985,513	14,946,865

B.III. LIQUIDITY RESERVES

The table below sets out the components of the Company's liquidity reserves:

As at 31 March	2018 Rs.	%	2017 Rs.	%
Cash and balances with other banks	2,217,984	32	420,401	9
Other cash and cash equivalents	1,154,279	16	1,284,565	28
Investments in Government Securities	3,660,306	52	2,945,424	63
Total liquidity reserves	7,032,569		4,650,390	

B.IV. FINANCIAL ASSETS AVAILABLE FOR FUTURE FUNDING

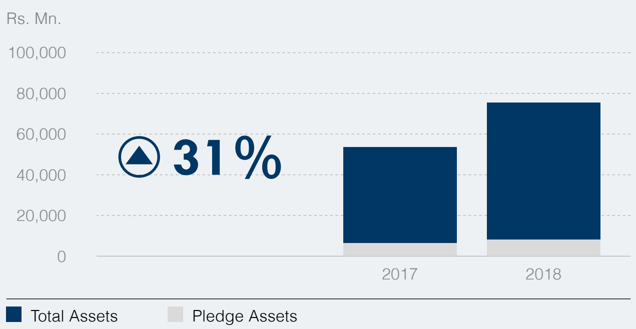
The table below sets out the availability of the Company's financial assets to support future funding.

As at 31 March 2018	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				2,974,825	2,974,825
Financial assets measured at FVTPL	21				1,485,315	1,485,315
Loans and receivables to banks	22				1,425,000	1,425,000
Deposits with licensed commercial banks	23	779,243		1,613,584		2,392,827
Loans and receivables from customers	24	7,189,632		48,792,219	3,456,498	59,438,349
Other investment securities	25				2,471,305	2,471,305
Non-financial assets		142,885		5,171,603		5,314,489
Total assets		8,111,760	–	55,577,406	11,812,943	75,502,110

As at 31 March 2017	Note	Encumbered Pledge as a Collateral Rs. '000	Encumbered Other* Rs. '000	Unencumbered Available as Collateral Rs. '000	Unencumbered Other** Rs. '000	Total Rs. '000
Cash and cash equivalents	20				454,061	454,061
Financial assets measured at FVTPL	21				163,041	163,041
Loans and receivables to banks	22				655,673	655,673
Deposits with licensed commercial banks	23	637,751		1,255,864		1,893,615
Loans and receivables from customers	24	5,400,400		35,468,030	2,320,580	43,189,010
Investment securities	25			1,034,214	2,529,218	3,563,432
Non-financial assets		170,958		3,844,495		4,015,453
Total assets		6,209,109	-	41,602,603	6,122,573	53,934,285

** 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



Rs. 8 Bn.

PLEDGE ASSETS

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 2018	Note	Carrying Amount Rs. '000	Market Risk Measure Trading Assets Rs. '000	Market Risk Measure Non-Trading Assets Rs. '000
Assets subject to market risk				
Cash and cash equivalents	20	2,974,825		2,974,825
Financial assets measured at FVTPL	21	1,485,315	1,485,315	
Loans and receivables to banks	22	1,425,000		1,425,000
Deposits with licensed commercial banks	23	2,392,827		2,392,827
Loans and receivables to customers	24	59,438,349		59,438,349
Other investment securities	25	2,471,305		2,471,305
Total Assets		70,187,621	1,485,315	68,702,306
Liabilities subject to market risk				
Deposits from customers	32	44,709,832		44,709,832
Debt securities issued	33	4,081,033		4,081,033
Other interest-bearing liabilities	34	15,114,486		15,114,486
Total liabilities		63,905,351		63,905,351

As at 31 March 2017	Note	Carrying Amount	Market Risk Measure	
			Trading Assets	Non-Trading Assets
		Rs. '000	Rs. '000	Rs. '000
Assets subject to market risk				
Cash and cash equivalents	20	454,061	–	454,061
Financial assets measured at FVTPL	21	163,041	163,041	–
Loans and receivables to banks	22	655,673	–	655,673
Deposits with licensed commercial banks	23	1,893,615	–	1,893,615
Loans and receivables to customers	24	43,189,010	–	43,189,010
Other investment securities	25	3,563,432	1,034,214	2,529,218
Total assets		49,918,832	1,197,255	48,721,577
Liabilities subject to market risk				
Deposits from customers	32	32,601,836	–	32,601,836
Debt securities issued	33	2,075,631	–	2,075,631
Other interest-bearing liabilities	34	10,957,017	–	10,957,017
Total liabilities		45,634,484	–	43,558,854

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 2018 and 2017 is given below:

2018		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	21	110,135	100,000	105,933	5,933
Equity instruments		1,375,180	444,579	470,955	26,376
Total trading financial assets		1,485,315	544,579	576,888	32,309

2017		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	21	99,103	100,000	107,882	7,882
Equity instruments		63,938	69,931	74,080	4,149
Total trading financial assets		163,041	169,931	181,962	12,031

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 reprice 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 2018	Note	Carrying Amount Rs. '000	Maturity 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	1,485,315	1,485,315			
Loans and receivables to banks	22	1,425,000	1,425,000			
Deposits with licensed commercial banks	23	2,392,827	2,392,827			
Loans and receivables to customers	24	59,438,349	22,467,889	14,973,940	20,715,073	1,281,447
Other investment securities	25	2,471,305	2,219,896	149,879	101,530	–
Total interest-bearing assets		67,212,796	29,990,927	15,123,819	20,816,603	1,281,447
Interest-bearing liabilities						
Deposits from customers	32	44,709,832	35,432,796	7,060,935	2,173,651	42,450
Debt securities issued	33	4,081,033	1,020,258		1,020,258	2,040,517
Other interest-bearing liabilities	34	15,114,486	5,466,784	4,215,904	5,187,015	244,783
Total interest-bearing liabilities		63,905,351	41,919,838	11,276,839	8,380,924	2,327,750
Net interest-bearing assets gap		3,307,445	(11,928,911)	3,846,980	12,435,679	(1,046,303)

As at 31 March 2017	Note	Carrying Amount Rs. '000	Maturity 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	99,103	99,103			
Loans and receivables to banks	22	655,673	655,673			
Deposits with licensed commercial banks	23	1,893,615	1,893,615			
Loans and receivables to customers	24	43,189,010	16,623,941	11,090,166	15,426,825	48,077
Other investment securities	25	3,563,432	2,399,842	15,883	69,356	1,078,351
Total Interest-bearing assets		49,400,833	21,672,174	11,106,049	15,496,181	1,126,428
Interest-bearing liabilities						
Deposits from customers	32	32,601,836	24,965,345	5,442,045	2,194,444	
Debt securities issued	33	2,075,631	–	1,037,816	1,037,816	
Other interest-bearing liabilities	34	10,957,017	5,722,276	2,494,920	2,739,822	
Total interest-bearing liabilities		45,634,484	30,687,621	8,974,781	5,972,082	–
Net interest-bearing asset gap		3,766,349	(9,015,447)	2,131,268	9,524,099	1,126,428

C.III.I. 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.

	2018		2017	
	100 bp		100 bp	
	Increase Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.
Sensitivity of projected net interest income	33,074	(33,074)	31,032	(31,032)
Sensitivity of reported net assets	33,074	(33,074)	31,032	(31,032)

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	2018			2017			
Currency	Amount in Foreign Currency	Rate LKR	Value Rs. '000	Amount in Foreign Currency	Rate LKR	Value Rs. '000	Net Exposure Increase/ Decrease (%)
USD	88,457	152.69	13,507	68,606	151.73	10,410	32
SGD	3,278	108.79	357	2,102	108.49	228	55
GBP	7,254	180.70	1,311	2,937	189.53	557	141
EUR	58,773	173.40	10,191	17,090	162.03	2,769	272
CAD	4,395	115.24	506	2,906	113.69	330	53
AUD	22,019	113.58	2,501	8,298	115.97	962	160
			28,373			15,256	

C.IV.I 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	2018		2017	
	%	Strengthening Rs. '000	Weakening Rs. '000	Strengthening Rs. '000	Weakening Rs. '000
USD	1	138	(138)	104	(104)
EUR	1	113	(113)	28	(28)
USD	3	413	(413)	208	(208)
EUR	3	338	(338)	55	(55)
USD	5	688	(688)	520	(520)
EUR	5	563	(563)	138	(138)

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	2018		2017		
	Financial Assets Measured at FVTPL Rs. '000	**Total Rs. '000**	Held for Trading Rs. '000	Available for Sale Rs. '000	Total Rs. '000
Market value of quoted equity instruments as at 31 March	**1,375,180**	**1,375,180**	63,938	1,034,214	1,098,152

C.V.I 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	2018			2017		
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)	**137,518**	**–**	**137,518**	6,394	103,421	109,815
10% shock (Decrease)	**(137,518)**	**–**	**(137,518)**	(6,394)	(103,421)	(109,815)

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
2018	**322,857**	**6,535**	**2,109,935**	**1,410,496**	**699,439**
2017	154,516	6,102	942,877	602,606	340,271

** Gold prices were extracted from UK Bn. – 22K*

C.VI.I 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	2018		2017	
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)	**210,994**	**210,994**	94,288	(94,288)
10% shock (Decrease)	**(210,994)**	**(210,994)**	(94,288)	94,288

C.V 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 31st March	2018			2017		
	Financial Assets Measured at FVTPL Rs. '000	Other Financial Assets Rs. '000	Total Rs. '000	Held for Trading Rs. '000	Held for Maturity Rs. '000	Total Rs. '000
Government Securities	110,135	2,466,205	2,576,340	99,103	2,519,040	2,618,143

C.VI.I. GOVERNMENT SECURITY PRICE SENSITIVITY

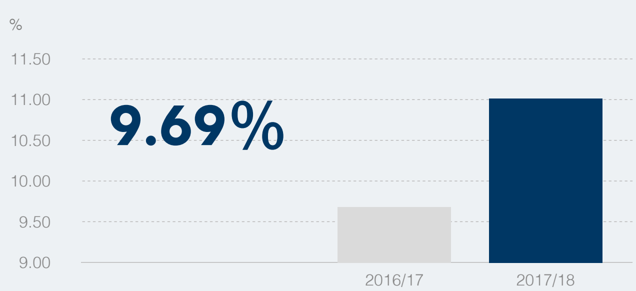
The following table exhibits the impact on market value of the Government Securities held due to a shock of 10% on market price:

As at 31 March	2018		
Shock Levels	Impact on Profit Rs. '000	Impact on OCI Rs. '000	Impact on Net Assets Rs. '000
10% shock (Increase)	257,634	–	257,634
10% shock (Decrease)	(257,634)	–	(257,634)

C.VI.II. RATES ON GOVERNMENT SECURITIES AS PER CBSL – DURING THE YEAR

Shock Levels	Last traded Rate as at 31 March 2018 %	Minimum Rate %	Maximum Rate %	Last Traded Rate as at 31 March 2017 %
Treasury Bills				
91 Days	8.17	7.69	9.73	9.63
181 Days	8.52	7.95	10.79	10.62
364 Days	9.69	8.80	11.11	10.98
Treasury Bonds				
3 Years	9.85	9.55	9.85	11.62
7 Years	10.34	10.34	12.92	13.14

364 Days – Treasury Bill Rate



D. CAPITAL MANAGEMENT

D.I REGULATORY CAPITAL ADEQUACY

Capital adequacy is a measure of financial institutions financial strength and stability of a company. This widely accepted concept tries to specify the limit up to which a business can expand in terms of its risk-weighted assets. Finance companies in pursuit of business expansion, could engage themselves in activities that regularly change their risk profile. In light of this, regulatory capital requirements have been established to avoid undue expansion beyond specified limits keeping a hold on companies' exposure to risk. Capital serves as a comfort to absorb unexpected losses, providing a degree of security to depositors and other key stakeholders.

This measure has been introduced by the Central Bank of Sri Lanka to protect the interest of the various stakeholders of the Company, while ensuring the maintenance of confidence and stability of the financial system.

The capital adequacy ratio is calculated as a percentage of companies' capital to its risk-weighted assets as specified by the Direction No. 02 of 2006, Finance Companies (Risk-Weighted Capital Adequacy Ratio) and there are two measures to define the capital adequacy of the Company, namely, core capital to risk-weighted asset ratio and total capital to risk-weighted assets ratio.

The minimum requirement for core capital adequacy ratio and total capital adequacy ratio are 5% and 10% respectively.

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 and other hybrid capital instruments 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.

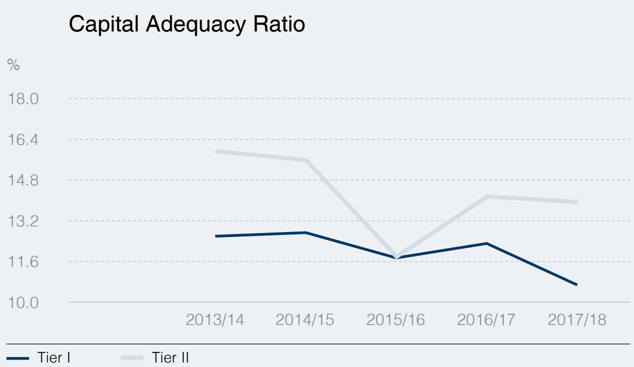
Details of the computation of Company's capital adequacy and the resulting ratios are given below:

As at 31 March	Balance 2018 Rs. '000	Balance 2017 Rs. '000	Risk Factor 2018 %	Risk Factor 2017 %	Risk-Weighted Balance 2018 Rs. '000	Risk-Weighted Balance 2017 Rs. '000
Risk-Weighted Assets Computation						
Assets						
Cash and Bank Balances	2,974,825	454,061		–		–
Investment in Government Securities	4,001,340	3,273,816		–		–
Bank deposits	2,392,827	1,893,615	20	20	478,565	378,723
Loans against fixed deposits	1,552,129	1,314,222		–		–
Loans against gold and jewellery	1,410,496	602,606		–		–
Loans and advances	56,475,724	41,272,182	100	100	56,475,724	41,272,182
Other investment	1,364,573	1,086,536	100	100	1,364,573	1,086,536
Other assets	2,689,200	1,600,760	100	100	2,689,200	1,600,760
Fixed assets	2,115,371	1,904,775	100	100	2,115,371	1,904,775
Total Risk-Weighted Assets	74,976,485	53,402,573			63,123,433	46,242,976
Capital Base Computation						
Capital Base						
Core Capital						
Stated capital					1,185,062	1,185,062
Reserve fund					1,320,873	1,040,635
General and other free reserve					–	819,709
Published retained earnings					4,213,469	2,654,015
Total core capital					6,719,404	5,699,421
Supplementary Capital						
Eligible approved unsecured subordinated term debts					2,598,445	1,360,092
Total Supplementary Capital					2,598,445	1,360,092
Total Capital					9,317,849	7,059,513
Deductions:						
Equity investments in unconsolidated financial and banking subsidiaries					(509,918)	(509,918)
Investments in capital of other financial associates/banks					(15,708)	(21,794)
Capital Base					8,792,223	6,527,801

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.II CAPITAL ADEQUACY RATIO

			2018 %	2017 %
Core capital adequacy ratio (Tier I)	Core Capital	*100%	10.64	12.32
	Risk-Weighted Assets			
Total capital adequacy ratio (Tier I & II)	Capital Base	*100%	13.93	14.12
	Risk-Weighted Assets			



10.64%

TIER I

13.93%

TIER I & II

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.

ANNEXES

IN THIS SECTION YOU WILL FIND FURTHER REFERENCE MATERIAL ON FINANCIAL AND OPERATIONAL ASPECTS SUCH AS SHAREHOLDER INFORMATION AND OUR REACH. WE HAVE ALSO INCLUDED A GLOSSARY OF TERMS WE USE IN THIS REPORT INCLUDING A LIST OF ABBREVIATIONS.

INVESTOR INFORMATION

As at 31 March 2018 the Colombo Stock Exchange (CSE) accommodated 301 companies with a market capitalisation of Rs. 3,033 Bn. which shows an increase of 14% compared to previous year of Rs. 2,663 Bn. All Share Price Index (ASPI) and S&P Sri Lanka 20 Index (S&P SL 20) stood at 6,476.78 and 3,650.10 respectively. Considering the share movement of CDB, its likely retain a steady growth momentum with a continuous growth and rising stronger throughout the future. Over the past 12 months CDB's share price outperformed the market where CDB voting shares and CDB non-voting shares have seen a hike of 42.5% and 65.7% respectively. CDB voting shares had been trading between Rs. 60.20 – Rs. 92.80 and CDB non-voting shares had been trading between Rs. 52.00 – Rs. 80.00.

Over the period the company has maintain a positive and effective communication with the investors and shareholders which has enhanced the relationship and the performance of the organisation. In order to ensure fair and timely disclosure CDB has connected and empowered them through online and offline communication and has provide the relevant information.

To witness the positive connection with its stake holders CDB annually holds the investor forum with the objective of highlighting the company's growth performance.
5th CDB Investor Forum was held on 5 December 2017 at the Jetwing Colombo Seven with a wider participation from stock brokers, investment bankers and portfolio managers.

5th CDB Investor Forum

→ STOCK EXCHANGE LISTING

The issued of ordinary shares of the 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 2017/18 have been submitted to the Colombo Stock Exchange within the stated 45 days period. The unaudited Interim Financial Statements for the final quarter was submitted to the Colombo Stock Exchange within the stated 60 days from the statement of financial position date.

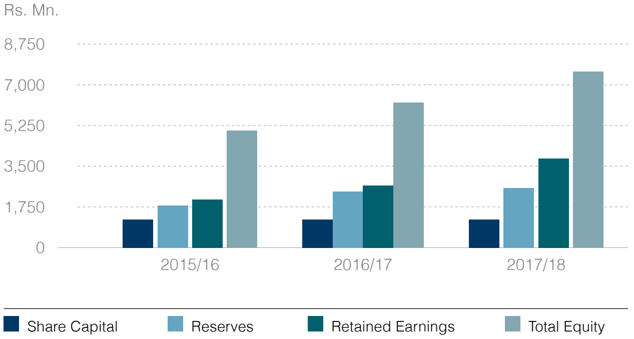
→ OVERALL SHARE MARKET

As at 31 March 2018 the Colombo Stock Exchange (CSE) accommodated 301 companies with a market capitalisation of Rs. 3,033 Bn which shows an increase of 14% compared to previous year of Rs. 2,663 Bn.

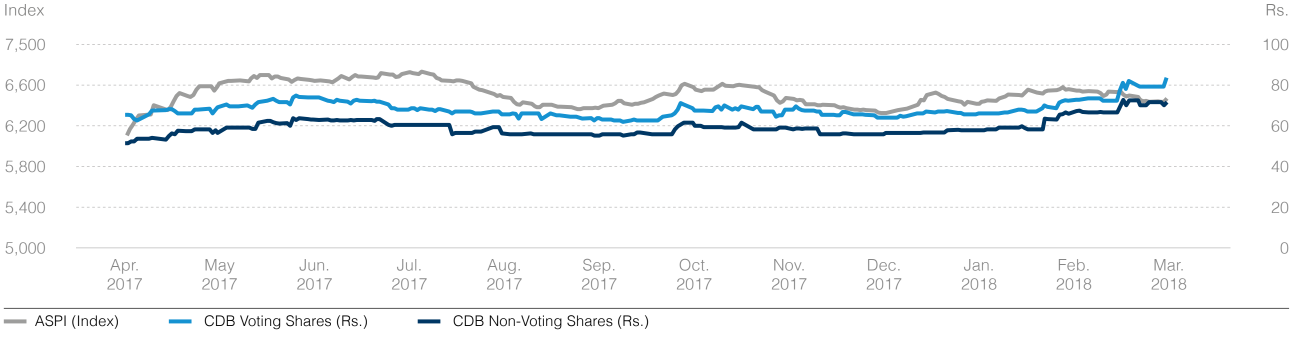
	31 March 2018
All Share Price Index (ASPI)	6,476.78
S&P Sri Lanka 20 Index (S&P SL 20)	3,650.10
Market Capitalisation (Rs. Bn)	3,033.00

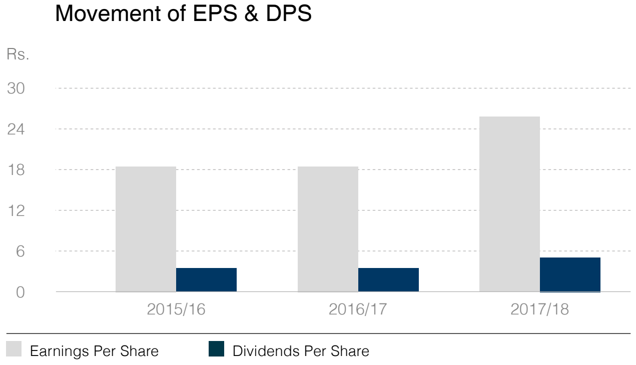
→ FINANCIAL INFORMATION

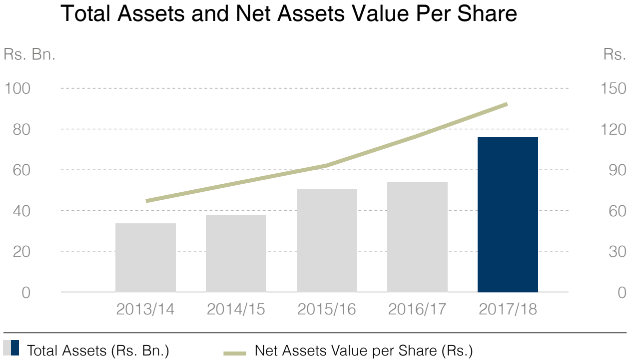
Movement in Total Equity,
Share Capital and Reserves

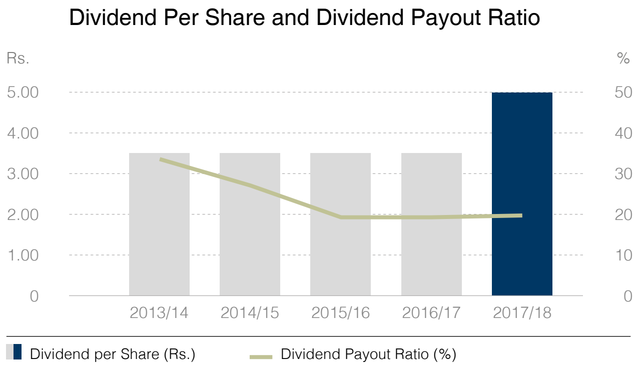


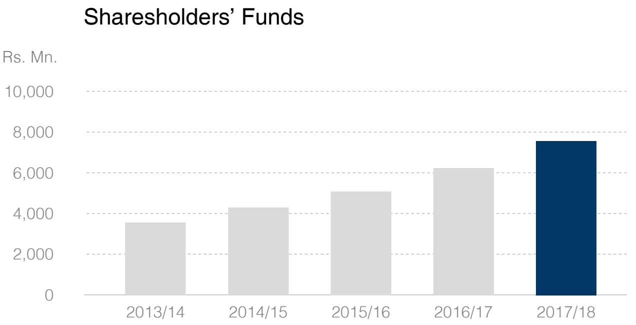
Comparison of CDB Share Movement with ASPI











→ DIVIDENDS

For the financial year ended 31 March 2018, CDB declared a cash dividend of Rs. 5.00 for both voting and non-voting shares of 46,299,223 and 8,005,984 respectively, which was aggregated to sum of Rs. 271,526,035/-.

→ CASH AND SCRIP DIVIDENDS

	2017/18 Rs.	2016/17 Rs.	2015/16 Rs.	2014/15 Rs.	2013/14 Rs.
Final – Cash Dividend	5.00	3.50	3.50	3.50	3.00
Scrip Dividend	–	–	–	–	–
Total Dividend	5.00	3.50	3.50	3.50	3.00

**Proposed dividend for this year would be a cash dividend of Rs. 5.00 per share which needs to be approved by the shareholders at the AGM.*

→ CDB SHARE

→ SHARE PRICE INFORMATION

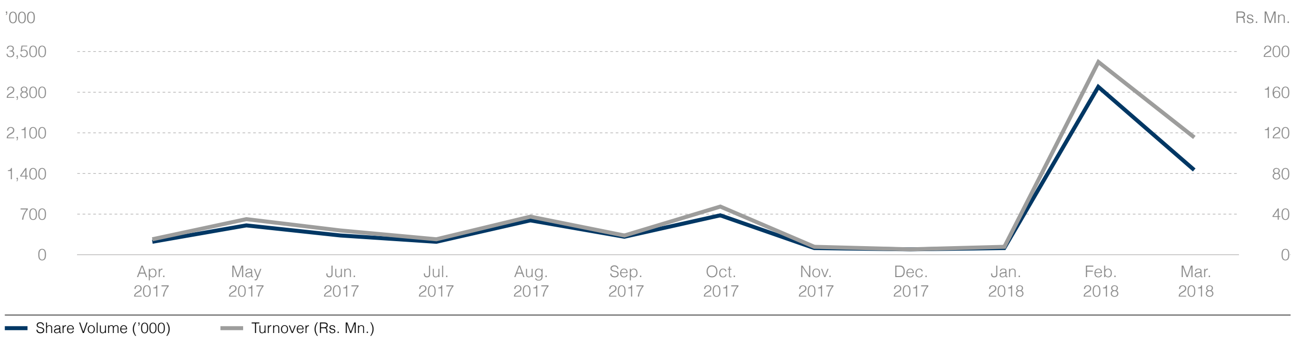
Prices	Voting		Non-Voting	
	2017/18 Rs.	2016/17 Rs.	**2017/18 Rs.**	2016/17 Rs.
High	**85.00**	91.00	**76.00**	79.90
Low	**60.10**	56.10	**49.90**	48.00
Last Traded	**84.90**	64.20	**74.00**	48.10

→ RATIOS

	2017/18	2016/17		**2017/18**	2016/17
Price earnings ratio (Times)	3.29	3.46	Debt/Equity (Times)	8.93	7.31
Price to Book value (Times)	0.64	0.56	Quick Asset Ratio (Times)	0.75	0.73
Return on Equity (%)	20.92	17.83	Interest Cover (Times)	1.78	1.67
Earnings Yield per share (%)	30.39	29	Dividend Yield (%)	5.89	5.45
Net interest margin (%)	5.34	5.52	Dividend pay-out (%)	19.38	18.89
Operating profit margin (%)	16.63	16.27	Dividend Cover (Times)	5.16	5.29
Return on Asset (%)	2.17	1.93	Profitability Growth rate (%)	39.21	0.14

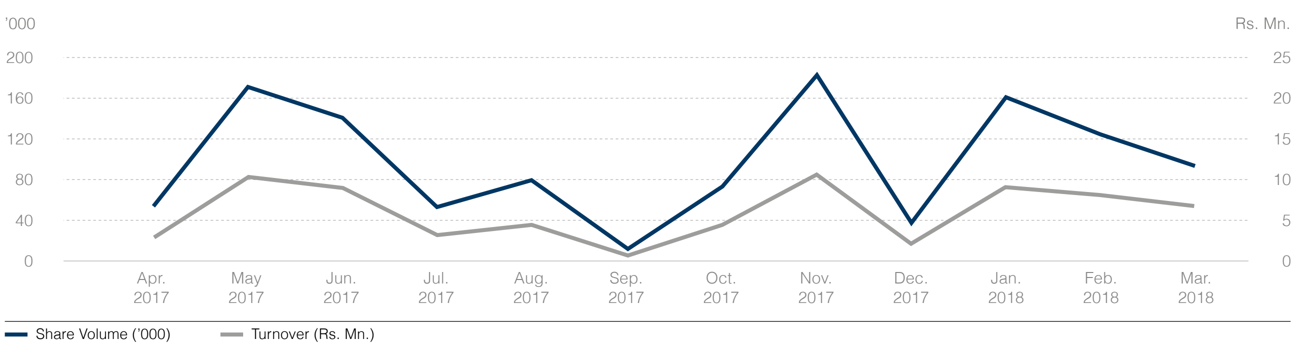
→ CDB SHARE PERFORMANCE DURING THE YEAR

Voting Share Performance



During the financial year 7.3 million shares were traded through 3,330 transactions and recorded an average daily turnover of Rs. 2.2 Mn.

Non-Voting Share Performance



During the financial year 1.2 million shares were traded through 1,261 transactions and recorded an average daily turnover of Rs. 0.4 Mn.

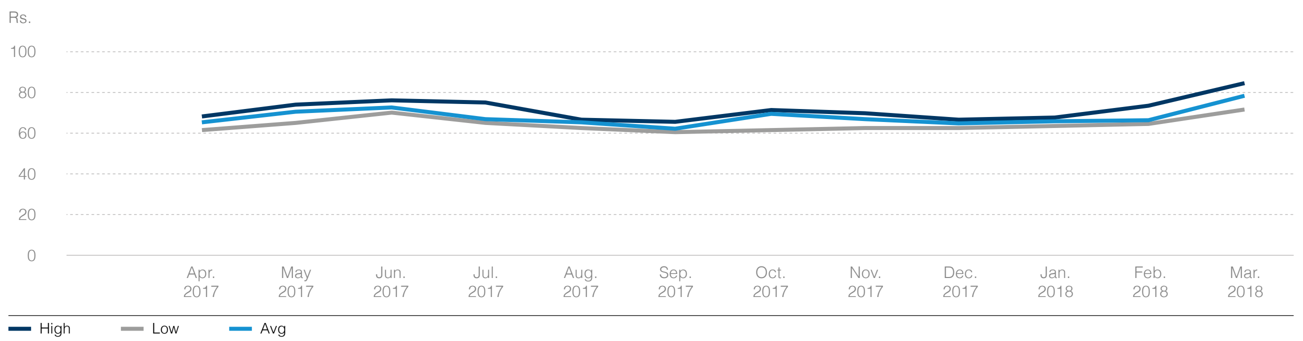
→ SHARE TRADING INFORMATION

Annual Transaction Information	Ordinary Voting Share 2017/18	2016/17	2015/16	2014/15	2013/14
Number of Transactions	3,330	2,965	2,696	5,264	2,233
Number of Shares Traded	7,354,042	4,453,153	6,958,625	14,705,064	2,522,678
Value of Shares Traded (Rs.)	508,655,792	351,201,140	695,635,543	1,262,908,176	113,669,908

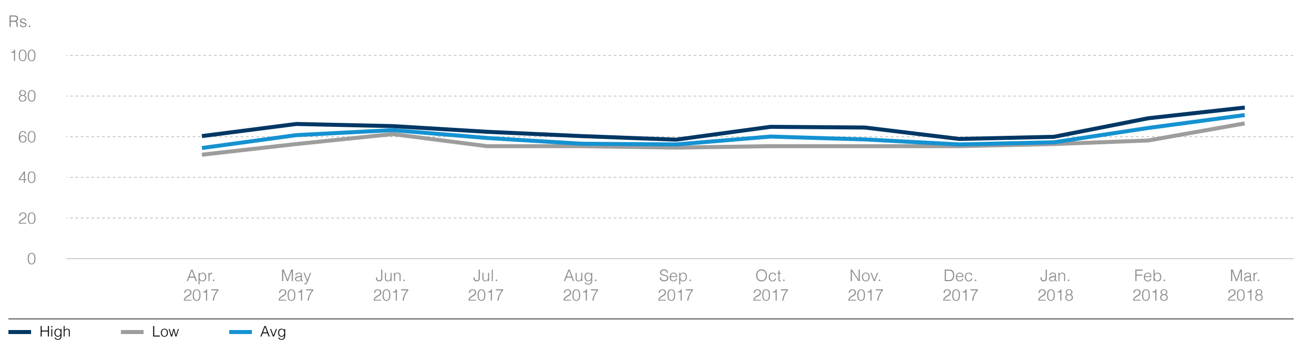
Annual Transaction Information	Ordinary Non-Voting Share 2017/18	2016/17	2015/16	2014/15	2013/14
Number of Transactions	1,261	1,200	1,846	4,038	1,595
Number of Shares Traded	1,172,546	1,601,961	3,081,158	4,491,996	2,164,520
Value of Shares Traded (Rs.)	70,699,527	116,268,214	280,559,777	296,610,356	77,314,979

→ 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 Nos.	Share Volume Nos.	Turnover Rs.	Days Traded
2017/18 – Q4	85.00	63.30	84.90	1,094	4,418,452	310,400,042	57
2017/18 – Q3	71.00	61.00	63.40	534	838,096	57,333,655	53
2017/18 – Q2	74.80	60.10	61.00	607	1,080,698	69,620,836	58
2017/18 – Q1	76.00	61.00	71.50	1,095	1,016,796	71,301,259	56
Year	85.00	60.10	84.90	3,330	7,354,042	508,655,792	224

Period – Non-Voting	High Rs.	Low Rs.	Close Rs.	Trade Volume Nos.	Share Volume Nos.	Turnover Rs.	Days Traded
2017/18 – Q4	76.00	56.00	74.00	337	373,827	23,557,171	44
2017/18 – Q3	67.00	55.00	56.00	263	291,381	16,939,287	43
2017/18 – Q2	62.00	54.00	55.80	168	145,561	8,274,382	46
2017/18 – Q1	66.50	49.90	63.90	493	361,777	21,928,687	52
Year	76.00	49.90	74.00	1,261	1,172,546	70,699,527	185

→ MARKET CAPITALISATION

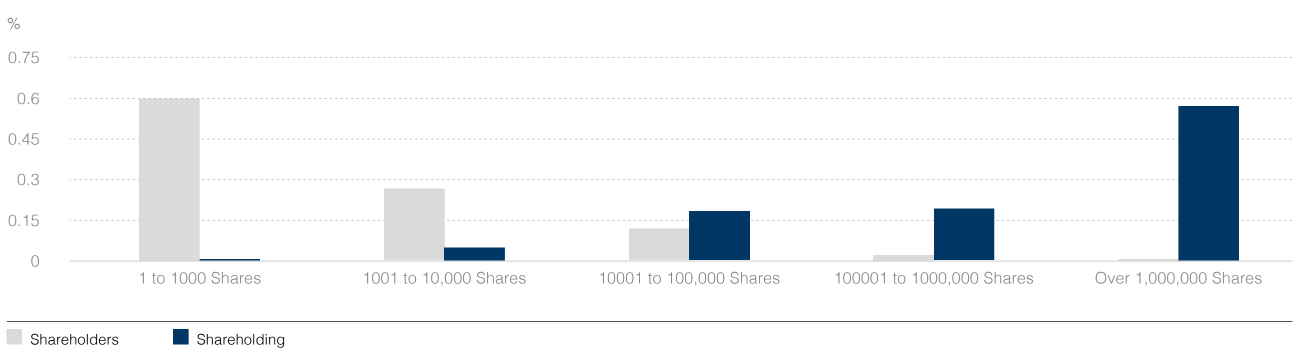
As at 31st March	Number of Shares	MPS	**2017/18**	2016/17
Voting	46,299,223	84.90	**3,930,804,033**	2,972,410,117
Non-Voting	8,005,984	74.00	**592,442,816**	385,087,830
Total			**4,523,246,849**	3,357,497,947

→ SHAREHOLDER ANALYSIS

→ ORDINARY VOTING – COMPOSITION ACCORDING TO SHAREHOLDING

Shareholdings	Resident			Non-Resident			Total			
	Number of Shareholders	Number of Shares	%	Number of Shareholders	Number of Shares	%	Number of Shareholders	%	Number of Shares	%
1 – 1,000 Shares	1,272	398,203	0.86	4	1,305	–	1,276	62.49	399,508	0.86
1,001 – 10,000 Shares	518	1,998,266	4.32	3	10,000	0.02	521	25.51	2,008,266	4.34
10,001 – 100,000 Shares	206	6,994,832	15.11	3	73,940	0.16	209	10.24	7,068,772	15.27
100,001– 1,000,000 Shares	27	7,527,107	16.26	–	–	–	27	1.32	7,527,107	16.26
Over 1,000,000 Shares	9	29,295,570	63.27	–	–	–	9	0.44	29,295,570	63.27
	2,032	46,213,978	99.82	10	85,245	0.18	2,042		46,299,223	100.00

Respective Shareholding Vs Number of Shareholder – Voting



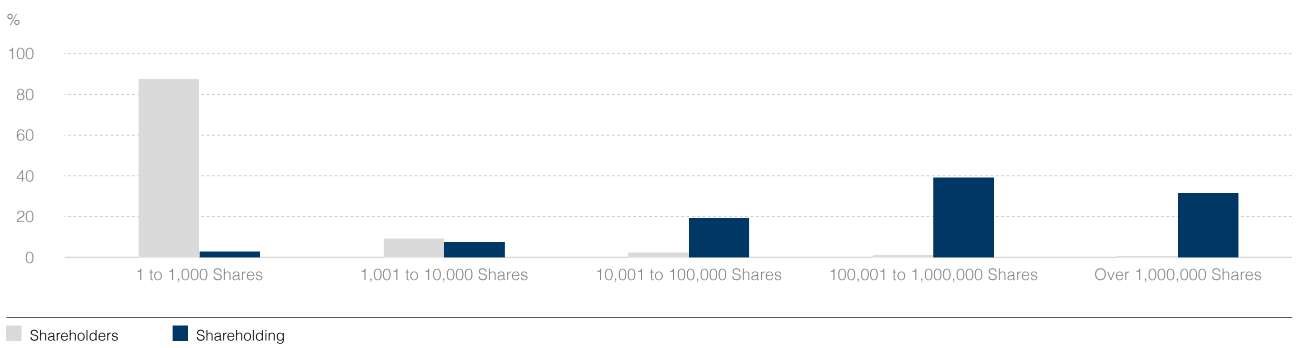
→ COMPOSITION OF SHAREHOLDERS

Categories of Shareholders	**2017/18**			2016/17		
	Number of Shareholders	**Number of Shares**	**Holding %**	Number of Shareholders	Number of Shares	Holding %
Individual	1,703	3,552,369	44.37	1747	3,495,329	43.66
Institutional	92	4,453,615	55.63	97	4,510,655	56.34
	1,795	8,005,984	100.00	1,844	8,005,984	100.00

→ ORDINARY NON-VOTING – COMPOSITION ACCORDING TO SHAREHOLDING

Shareholdings	Resident			Non-Resident			Total			
	Number of Shareholders	Number of Shares	%	Number of Shareholders	Number of Shares	%	Number of Shareholders	%	Number of Shares	%
1 – 1,000 Shares	1,561	214,572	2.68	5	1,889	0.02	1,566	87.25	216,461	2.70
1,001 – 10,000 Shares	165	610,438	7.62	–	–	–	165	9.19	610,438	7.62
10,001 – 100,000 Shares	46	1,549,620	19.36	–	–	–	46	2.56	1,549,620	19.36
100,001 – 1,000,000 Shares	14	2,920,557	36.48	2	208,998	2.61	16	0.89	3,129,555	39.09
Over 1,000,000 Shares	2	2,499,910	31.23	–	–	–	2	0.11	2,499,910	31.23
	1,788	7,795,097	97.37	7	210,887	2.63	1,795		8,005,984	100.00

Respective Shareholding Vs Number of Shareholders – Non-Voting



→ COMPOSITION OF SHAREHOLDERS

Categories of Shareholders	2017/18			2016/17		
	Number of Shareholders	**Number of Shares**	**Holding %**	Number of Shareholders	Number of Shares	Holding %
Individual	1,703	3,552,369	44.37	1,747	3,495,329	43.66
Institutional	92	4,453,615	55.63	97	4,510,655	56.34
	1,795	8,005,984	100.00	1,844	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 Rs.
	Prior to Introduction	Voting shares			39,685,048		
2010	Introduction				39,685,048		
2011	Right Issue	Voting shares @ Rs. 70.00	1 for every 6 voting shares	6,614,175	46,299,223		462,992,250
	Rights Issue	Non-voting shares @ 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	

Note – Ordinary non-voting shares held under CDB Esop Trust Fund (Pvt) Limited were distributed among its beneficiaries (entitled employees) on 2 March 2016.

→ LIST OF 20 MAJOR SHAREHOLDERS' BASED ON THEIR SHAREHOLDINGS AS AT 31 MARCH 2018

→ ORDINARY VOTING SHARES

No.	Name	Shareholding	Percentage %
1.	Ceylinco Life Insurance Limited Account No. 1	15,529,116	33.54
2.	Janashakthi Insurance PLC – Equity Fund	2,371,348	5.12
3.	Janashakthi Insurance PLC (Policyholders)	2,314,961	5.00
4.	Ceylinco General Insurance Limited	1,853,287	4.00
5.	People's Leasing & Finance PLC /Mr W P C M Nanayakkara	1,812,883	3.92
6.	Citizens Development Business Finance PLC A/C No. 02 (CDB Employee Gratuity Fund)	1,708,816	3.69
7.	People's Leasing & Finance PLC/Asia Management Consultancy (Private) Limited	1,605,059	3.47
8.	Ceylinco Life Insurance Limited Account No. 3	1,100,000	2.38
9.	People's Leasing & Finance PLC/Mr S V Munasinghe	1,000,100	2.16
10.	Seylan Bank PLC/Mr Tennakoon Mudiyanselage Damith Prasanna Tennakoon	935,258	2.02
11.	Peoples's Leasing & Finance PLC/ Mr R H and Mrs V F Abeygoonewardena	917,837	1.98
12.	First Capital Limited	570,247	1.23
13.	Mr Warnakula Weerasooriya Kingsly Malcom Weerasooriya	487,803	1.05
14.	Mr Heenkenda Mudiyanselage Lucksri Maduranga Bandara Heenkenda	472,260	1.02
15.	Mr Elangovan Karthik	429,500	0.93
16.	People's Leasing & Finance PLC/Mrs N D Kodagoda	392,496	0.85
17.	Mr Hasitha Kaushalya Dassanayake	285,653	0.62
18.	Mr Isanka Madhawa Kotigala	256,224	0.55
19.	People's Leasing & Finance PLC/Mr M N M Imdaad	247,782	0.54
20.	Mr Kuruppu Arachchige Don Ranjith Gunasinghe	227,167	0.49
	Subtotal of Top 20 Shareholders	34,517,797	74.55
	Others	11,781,426	25.45
	Total	46,299,223	100.00

The percentage of shares held by the public as at 31 March 2018 is 46.01% (with 2,030 public shareholders)

→ ORDINARY NON-VOTING SHARES

No.	Name	Shareholding	Percentage %
1.	Deutsche Bank AG as Trustee for J B Vantage Value Equity Fund	1,336,592	16.69
2.	J B Cocoshell (Private) Limited	1,163,318	14.53
3.	Mr Amarakoon Mudiyanselage Weerasinghe	614,454	7.67
4.	People's Leasing & Finance PLC/Mr H M Abdulhussein	310,944	3.88
5.	Askold (Private) Limited	240,000	3.00
6.	Mr Husein Nuruddin Esufally	208,999	2.61
7.	Mr Malik Joseph Fernando	208,999	2.61
8.	Mr Yusuf Husseinally Abdulhussein	205,032	2.56
9.	Essajee Carimjee Insurance Brokers (Pvt) Ltd	161,683	2.02
10.	Mr Abbasally Nuruddin Esufally	160,000	2.00
11.	Mr Murtazaali Abidhussen Hassanaly Esufally	160,000	2.00
12.	Mr Gulzar Hussein Ibrahim Jafferjee(Deceased)	156,749	1.96
13.	Miss Rukaiya Husseinally Abdulhussein	156,182	1.95
14.	Seylan Bank PLC/S R Fernando	131,051	1.64
15.	Jafferjees Investments (Private) Limited	104,499	1.31
16.	Gold Investment Limited	104,499	1.31
17.	Mr Mukesh Abhaykumar Valabhji	104,499	1.31
18.	Commercial Bank of Ceylon PLC A/C No. 04	101,965	1.27
19.	Lakdhanavi Limited	100,000	1.25
20.	Seylan Bank PLC/Mr Duleep Nissanka Daluwatte	83,493	1.04
	Subtotal of Top 20 Shareholders	5,812,958	72.61
	Others	2,193,026	27.39
	Total	8,005,984	100.00

The percentage of shares held by the public as at 31 March 2018 is 85.26% (with 1,788 public shareholders)

→ DECEMBER 2013 – DECEMBER 2018

Listing	Debenture Description	Type	Interest Payment Frequency	Tenor (years)	Issued Quantity as at 31.03.2018	Interest Rate		Comparable Government Security Yield
						Coupon Rate (Per Annum) (%)	Annual Effective Rate (%)	
Listed Debenture (Rs. 100.00)	Subordinated Listed Rated Unsecured Redeemable Debenture	A	Annually	5	6,653,600	16.00	16.00	10.32
		B	Semi-annually	5	3,103,600	15.50	16.10	10.32
		C	Quarterly	5	242,800	15.00	15.87	10.32

→ JUNE 2016 – JUNE 2021

Listing	Debenture Description	Type	Interest Payment Frequency	Tenor (years)	Issued Quantity as at 31.03.2018	Interest Rate		Comparable Government Security Yield
						Coupon Rate (Per Annum) (%)	Annual Effective Rate (%)	
Listed Debenture (Rs. 100)	Rated Subordinated Guaranteed Redeemable Debenture	A	Annually	5	9,983,700	12.75	13.16	10.32
		B	Semi-annually	5	16,300	6 Months Net T.Bill rate (net of tax plus 1.5%)	–	10.32

→ MARCH 2018 – MARCH 2023

Listing	Debenture Description	Type	Interest Payment Frequency	Tenor (years)	Issued Quantity as at 31.03.2018	Interest Rate		Comparable Government Security Yield
						Coupon Rate (Per Annum) (%)	Annual Effective Rate (%)	
Listed Debenture (Rs. 100.00)	Rated Subordinated Listed Unsecured Redeemable Debenture	A	Semi-annually	5	10,669,900	13.75	14.22	10.32
		B	Annually	5	9,330,100	14.20	14.20	10.32

→ CURRENT YIELD AND YIELD TO MATURITY

→ SUBORDINATED LISTED RATED UNSECURED REDEEMABLE DEBENTURES DECEMBER 2013 – DECEMBER 2018

Debenture Type	Current Yield (%)	Yield to Maturity (%)
Type A	15.96	15.60
Type B	NOT TRADED	–
Type C	NOT TRADED	–

→ GUARANTEED LISTED RATED UNSECURED REDEEMABLE DEBENTURES JUNE 2016 – JUNE 2021

Debenture Type	Current Yield (%)	Yield to Maturity (%)
Type A	NOT TRADED	–
Type B	NOT TRADED	–

→ GUARANTEED LISTED RATED UNSECURED REDEEMABLE DEBENTURES MARCH 2018 – MARCH 2023

Debenture Type	Current Yield (%)	Yield to Maturity (%)
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 Rupees	Proposed Date of Utilisation as per Prospectus	Amount Allocated from Proceeds in Rupees (A)	% of Total Proceeds	Amounts Utilised in Rupees (B)	% of Utilisation Against Allocation (B/A)	Clarification if not Fully Utilised Including where the Funds are Invested (e.g.: whether lent to related party/s etc.)
1.	To expand the leasing portfolio		Within the 6 months from date of cash receipt					
2.	Improving the Capital Adequacy of the Company's Balance Sheet, by strengthening its Tier II Capital	Rs. 1 Bn	With effect from the closure of issue	Rs. 1 Bn	100	Rs. 1 Bn	100	N/A
3.	Reducing the mismatch of maturity periods between assets and liabilities		Within the 12 months from date of cash receipt					

→ UTILIZATION OF FUNDS RAISED VIA CAPITAL MARKET

→ DEBENTURE ISSUE MARCH 2018

Objective Number	Objective as per Prospectus	Amount Allocated as per Prospectus in Rupees	Proposed Date of Utilisation as per Prospectus	Amount Allocated from Proceeds in Rupees (A)	% of Total Proceeds	Amounts Utilised in Rupees (B)	% of Utilisation Against Allocation (B/A)	Clarification if not Fully Utilised Including where the Funds are Invested (e.g.: whether lent to related party/s etc.)
1.	Supporting the general business growth opportunities of the Company		Within the 6 months from date of cash receipt					
2.	Improving the Capital Adequacy of the Company's Balance Sheet, by strengthening its Tier II Capital	Rs. 2 Bn.	With effect from the closure of issue	Rs. 2 Bn	100	*	*	*
3.	Reducing the mismatch of maturity periods between assets and liabilities		Within the 12 months from date of cash receipt					

** Debenture was allotted on 28 March 2018. Therefore the utilisation of funds is not computed as at the reporting date since only three days passed from the date of allotment. The remaining funds have already been invested in Treasury Bills temporarily, where the Company intends to fully utilise the funds within 12 months.*

→ CONSOLIDATED 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 US$ denomination as at the reporting date based on the guidelines sets in LKAS 21 – "The effect of change in Foreign Exchange rates".

		COMPANY		GROUP	
For the year ended 31 March	Notes	2018 US$	2017 US$	2018 US$	2017 US$
Revenue	8	76,674,447	56,621,752	78,399,384	57,358,843
Interest income	9.1	65,824,003	50,004,483	67,144,363	50,654,607
Interest expense	9.2	43,349,566	30,972,661	43,624,766	31,026,879
Net interest income	9	22,474,438	19,031,822	23,519,596	19,627,729
Fee and commission income	10	2,641,421	1,446,671	3,022,713	1,533,187
Other operating income	11	8,209,023	5,170,598	8,232,308	5,171,049
Total operating income		33,324,881	25,649,091	34,774,617	26,331,965
Less: Impairment charges and other credit losses on financial assets	12	2,406,454	1,491,272	2,577,112	1,530,390
Net operating income		30,918,427	24,157,820	32,197,505	24,801,575
Less:					
Personnel expenses	13.1	6,812,973	5,797,199	7,050,000	5,944,491
Premises, equipment and establishment expenses	13.2	8,695,801	7,234,918	8,840,523	7,332,941
Other expenses	13.3	2,660,705	1,915,808	2,919,786	2,083,659
Total operating expenses	13	18,169,480	14,947,925	18,810,309	15,361,091
Operating profit before value added tax on financial services (VAT), nation building tax (NBT) and crop insurance levy (CIL)		12,748,947	9,209,895	13,387,196	9,440,484
Less: Value added tax and other taxes	14	1,774,210	1,119,859	1,908,899	1,137,716
Profit before tax		10,974,737	8,090,036	11,478,298	8,302,768
Less: Income tax expense	15	1,858,355	1,456,444	2,017,331	1,546,792
Profit for the year		9,116,382	6,633,592	9,460,967	6,755,976
Profit attributable to:					
Equity holders of the Company		9,116,382	6,633,592	9,426,638	6,740,753
Non-controlling interest		–	–	34,329	15,223
Profit for the year		9,116,382	6,633,592	9,460,967	6,755,976
Other comprehensive income (net of tax)					
Items that will not be reclassified to profit or loss					
Increase in revaluation surplus		388,016	2,162,203	388,016	2,162,203
Deferred tax on revaluation surplus		(1,095,556)	–	(1,095,556)	–
Net actuarial loss on defined benefit plans		(32,327)	(170,929)	(32,687)	(170,929)
		(739,868)	1,991,274	(740,228)	1,991,274
Items that are or may be reclassified subsequently to profit or loss					
Net gain on available-for-sale financial assets					
Net change in revaluation surplus		–	465,388	–	476,336
		–	465,388	–	476,336
Total other comprehensive income		(739,868)	2,456,662	(740,228)	2,467,610
Total comprehensive income for the year		8,376,515	9,090,254	8,720,739	9,223,586
Total comprehensive income attributable to:		–	–	–	–
Equity holders of the Company		8,376,515	9,090,254	8,686,445	9,207,309
Non-controlling interests		–	–	34,294	16,277
Total comprehensive income		8,376,515	9,090,254	8,720,739	9,223,586
Earnings per share					
Basic earnings per share/Diluted earnings per share	16	0.17	0.12	0.17	0.12

→ CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		COMPANY		GROUP	
For the year ended 31 March	Notes	2018 US$	2017 US$	2018 US$	2017 US$
Assets					
Cash and cash equivalents	20	19,354,749	2,992,558	19,776,597	3,341,596
Financial Instruments measured at FVTPL	21	9,663,729	1,074,548	9,884,366	1,074,548
Loans and receivables to banks	22	9,271,308	4,321,313	9,598,936	4,321,313
Deposits with licensed commercial banks	23	15,568,168	12,480,162	15,568,165	12,480,162
Loans and receivables from customers	24	386,716,651	284,643,841	394,179,538	287,386,787
Other investment securities	25	16,078,760	23,485,349	16,113,097	23,970,507
Investment in subsidiaries	26	3,317,617	3,360,692	–	–
Investment property	27	131,412	133,118	131,412	133,118
Property, plant and equipment	28	13,202,485	12,120,816	13,290,677	12,138,456
Intangible assets	29	560,504	432,901	661,627	557,358
Goodwill on consolidation	30	–	–	1,588,679	1,609,302
Other assets	31	17,365,007	10,416,939	17,564,489	10,420,801
Total assets		491,230,390	355,462,236	498,357,580	357,433,947
Trading Liabilities					
Deposits from customers	32	290,890,254	214,867,434	290,861,477	214,792,417
Debt securities issued	33	26,551,938	13,679,768	26,551,939	13,679,768
Other Interest-bearing borrowings	34	98,337,577	72,213,911	103,002,537	73,271,848
Current tax liabilities	35	3,297,275	1,177,766	2,897,899	1,180,436
Deferred tax liabilities	36	5,186,130	4,143,684	5,772,284	4,211,341
Retirement benefit obligation	37	395,099	104,091	396,988	104,534
Other liabilities	38	20,037,320	8,142,223	21,641,295	8,574,135
Total liabilities		444,695,593	314,328,878	451,124,418	315,814,480
Equity					
Stated capital	39	7,710,225	7,810,332	7,710,228	7,810,332
Reserves	40	9,587,702	15,831,331	11,444,366	15,859,699
Retained earnings	41	29,236,869	17,491,696	27,842,993	17,733,382
Total equity attributable to equity holders of the Company		46,534,797	41,133,359	46,997,586	41,403,413
Non-controlling interests	42	–	–	235,576	216,055
Total equity		46,534,797	41,133,359	47,233,162	41,619,468
Total liabilities and equity		491,230,390	355,462,236	498,357,580	357,433,947
Net assets value per share	43	0.85	0.76	0.86	0.76
Contingencies and commitments	44	846	811	846	811

QUARTERLY STATISTICS

	COMPANY				COMPANY			
	2017/18 Rs. '000				2016/17 Rs. '000			
	30.06.2017	30.09.2017	31.12.2017	31.03.2018	30.06.2016	30.09.2016	30.12.2016	31.03.2017
Statement of Profit or Loss								
Revenue	2,402,799	2,831,836	3,119,388	3,430,839	2,033,995	2,067,573	2,168,481	2,321,170
Net Interest Income	717,593	810,933	938,139	987,656	744,777	700,743	691,469	750,710
Total Operating Income	287,480	417,172	405,329	4,012,053	232,066	240,954	257,581	273,437
Net Operating Income	991,862	1,212,904	1,217,358	1,330,038	881,861	909,480	905,469	968,656
Non-interest Expenses	717,250	827,110	802,153	718,832	604,556	622,364	684,859	526,186
Profit Before Tax	274,612	385,794	415,205	611,206	277,304	287,116	220,611	44,234
Income Tax Expense	63,473	80,717	100,981	40,458	60,675	59,305	45,993	55,013
Profit for the Period	211,139	305,077	314,225	570,747	216,629	227,811	174,618	387,457
Statement of Financial Position								
Total Assets	56,394,954	63,073,631	67,304,227	75,502,110	50,433,138	49,428,372	51,420,429	53,934,285
Loans and Advances to Customers	45,311,120	50,315,862	54,493,084	59,438,349	38,930,028	39,918,333	42,042,975	43,189,010
Deposits and Borrowings	47,327,255	53,702,475	57,029,097	63,905,351	42,759,890	41,797,978	43,122,860	45,634,484
Shareholders' Funds	6,447,104	6,427,092	6,867,565	7,152,399	5,227,915	5,235,912	5,464,955	6,241,165
Key Ratios								
Net Assets Value per Share (Rs.)	118.72	118.35	126.46	131.71	96.27	96.42	100.63	114.93
Return on Average Shareholders' Equity (Annualise%) (%)	13.31	16.30	16.89	92	16.86	17.30	15.70	17.83
Non-Performing Loans Ratio (Net of IIS and Impairment Charges) (%)	1.79	1.73	1.54	0.89	1.79	1.70	1.90	1.30
Capital Adequacy								
Tier I (%)	12.16	11.00	10.93	10.64	11.90	11.80	11.80	12.32
Tier I & II (%)	13.47	12.19	11.73	13.93	14.30	14.10	13.60	14.12

TEN YEAR STATISTICAL SUMMARY

	2017/18 Rs. '000	2016/17 Rs. '000	2015/2016 Rs. '000
Operating Results			
Income	11,784,862	8,591,218	7,486,004
Interest Income	10,117,149	7,587,180	6,647,024
Interest Expenses	6,662,828	4,699,482	3,588,413
Non-Interest Income	1,667,713	1,004,038	838,980
Operating Expenses (Including VAT)	3,435,217	2,664,235	2,643,648
Profit/(Loss) Before Income Tax	1,686,817	1,227,501	1,253,944
Income Tax on Profit	285,629	220,986	248,790
Profit/Loss After Taxation	1,401,188	1,006,515	1,005,154
Liabilities and Shareholders' Funds			
Customer Deposits	44,709,832	32,601,836	30,887,693
Borrowings	19,195,517	13,032,648	12,345,820
Other Liabilities	3,583,543	1,429,915	1,861,067
Deferred Taxation	860,819	628,721	479,764
Shareholders' Funds	7,152,399	6,241,165	5,051,968
Total Liabilities and Shareholders' Funds	75,502,110	53,934,285	50,626,312
Assets			
Loans and Receivables to Customers (Net)	59,438,349	43,189,010	38,538,920
Cash and Short-Term Funds	10,749,272	5,695,608	7,765,844
Property, Plant & Equipment	2,029,222	1,839,091	1,606,958
Other Assets	3,285,267	3,210,576	2,714,590
Total Assets	75,502,110	53,934,285	50,626,312
Ratios			
Growth in Income (%)	37	15	8
Growth in Interest Expenses (%)	42	31	6
Growth in Other Expenses (%)	29	3	3
Growth in Profit After Tax (%)	39	1	43
Growth in Total Assets (%)	40	7	33
Earnings per Share (Rs.)	25.80	18.53	18.51
Return on Average Assets (%)	2.17	1.93	2.27
Dividend per Share (Rs.)	5.00**	3.50	3.50

** 15 Month period*
*** Proposed Dividend*

2014/15 Rs. '000	2013/14 Rs. '000	2012/13 Rs. '000	2011/12 Rs. '000	2010/11 Rs. '000	2009/10* Rs. '000	2008 Rs. '000
6,907,077	6,267,086	4,389,593	2,892,653	226,023	1,898,899	1,638,455
6,251,533	5,895,604	4,087,387	2,555,433	1,731,159	1,794,819	1,496,220
3,381,455	3,553,403	2,386,570	1,311,936	912,786	1,190,635	1,092,348
655,544	481,482	302,206	337,220	494,864	104,080	142,235
2,574,201	2,093,715	1,378,740	1,048,410	751,966	619,525	474,869
951,420	729,968	624,282	532,307	561,271	88,740	71,238
249,686	168,755	135,118	13,840	29,461	9,163	5,948
701,734	561,213	489,164	518,467	531,810	79,577	65,290
27,079,134	24,518,193	17,771,173	11,699,663	7,700,659	4,837,876	–
4,824,245	4,314,338	2,763,083	2,155,694	1,027,654,377	828,926	5,684,699
1,526,248	1,213,714	922,665	456,069	493,578,084	495,787	676,793
282,079	145,383	31,912	–	–	–	–
4,302,003	3,576,914	2,965,098	2,302,503	1,098,702	513,215	433,638
38,013,709	33,768,542	24,453,931	16,613,929	10,390,593	6,675,804	6,795,130
29,378,799	25,724,945	19,450,587	13,469,076	8,081,942	5,035,084	5,634,300
4,734,541	3,168,727	1,540,598	626,231	320,139	851,278	529,210
1,421,343	1,004,471	657,718	470,980	237,822	200,670	198,647
2,479,026	3,870,400	2,805,028	2,047,642	1,750,690	588,772	432,973
38,013,709	33,768,542	24,453,931	16,613,929	10,390,593	6,675,804	6,795,130
8	45	52	28	17	16	55
-5	49	82	44	–23	9	63
30	52	32	33	21	30	42
25	15	–6	–3	568	22	32
13	38	47	60	53	–2	26
12.92	10.33	9.99	10.28	12.76	1.6	2.51
1.96	1.93	2.38	3.84	6.3	1.18	1.07
3.50	3.00	2.75	2.50	2.00	0.50	–

OUR REACH

Branch	Branch Locations	Contact No.
Head Office	No. 123, Orabipasha Mawatha, Colombo 10	011-2429800/011-7388388
Aluthgama	No. 377, Galle Road, Aluthgama	034-2291136
Ambalangoda	No. 61, New Road, Ambalangoda	091-2254271
Ampara	No. 66, D S Senanayake Street, Ampara	063-2222150
Anuradhapura	No. 552/D, Maithripala Senanayake Mawatha, Anuradhapura	025-2234000/025-2226609
Avissawella	No. 23, Colombo Road, Avissawella	036-2235220
Badulla	No. 22, Bank Road, Badulla	055-2225533
Bandarawela	No. 344, Badulla Road, Bandarawela	057-2221484
Battaramulla	No. 97/1, Main Street, Battaramulla	011-2869944/011-2869949
Batticaloa	No. 601/D, Trincomalee Road, Batticaloa	065-2228490
Boralesgamuwa	No. 28 A, Maharagama Road, Boralesgamuwa	011-2509306
Chilaw	No. 25/1, Colombo Road, Chilaw	032-2220646
Dambulla	No. 687, Anuradhapura Road, Dambulla	066-2284088
Dehiwala	No. 103, Galle Road, Dehiwala	011-2761443/011-2761442
Eheliyagoda	No. 114, Main Road, Eheliyagoda	036-2259951
Elakanda	No. 30, Hendala Road, Elakanda	011-2930986
Embilipitiya	No. 21, Main Street, Embilipitiya	047-2261961/047-2261962
Galle	No. 99, Sea Street, Galle	091-2227501/091-2227502
Gampaha	No. 114, Colombo Road, Gampaha	033-2233774/033-2223637
Giriulla	No. 52, Negombo Road, Giriulla	037-2288183
Horana	No. 119/A, Panadura Road, Horana	034-2266177/034-2266188
Ja-Ela	No. 195/A, Negambo Road, Ja-Ela	011-2228228
Jaffna	No. 208, Stanley Road, Jaffna	021-2221585/021-2221586
Kaduruwela	No. 660, Main Street, Kaduruwela	027-2226710/027-2226720
Kaduwela	No. 102, Colombo Road, Kaduwela	011-2538888
Kalutara	No. 296, Main Street, Kalutara	034-2224400
Kandana	No. 37/1, Negombo Road, Kandana	011-2237645
Kandy	No. 110, Yatinuwara Veediya, Kandy	081-2204600/081-2204246
Katugastota	No. 468, Katugastota Road, Katugastota	081-2212517/081-2212516
Kegalle	No. 227, Kandy Road, Kegalle	035-2222442/035-2222599
Kelaniya	No 159, Kandy Road, Kiribathgoda	011-2913501/ 011-2913502/011-2910202
Kochchikade	No. 176, Chilaw Road, Kochchikade	031-2278695
Kotahena	No. 30, Sri Ramanadan Mawatha, Kotahena	011-2422465/011-2422466
Kottawa	No. 35/1, High Level Road, Kottawa	011-2782706
Kuliyapitiya	No. 259, Madampe Road, Kuliyapitiya	037-2281825
Kurunegala	No. 54, Colombo Road, Kurunegala	037-2234444
Kuruwita	No. 85, Colombo Road, Kuruwita	045 2263371

Branch	Branch Locations	Contact No.
Mahara	No. 337/2, Mahara, Kadawatha	011-2925000
Maharagama	No. 249, Highlevel Road, Maharagama	011-2845945
Mahiyanganaya	No. 01, Padiyathalawa Road, Mahiyanganaya	055-2258322
Malabe	No. 838/04, New Kandy Road, Malabe	011-2078651/011-2078652
Marawila	No. 63, Chilaw Road, Marawila	032-2250930
Matale	No. 115/117, Trincomalee Road, Matale	066-2226545
Matara	No. 06, Station Road, Matara	041-2226655/041-2229955
Matugama	No. 190, Aluthgama Road, Matugama	034-2248888
Mawathagama	No. 29, Kurunegala Road, Mawathagama	037-2296470
Minuwangoda	No. 18/A, Siriwardena Mawatha, Minuwangoda	011-2298864
Moratuwa	No. 760, Galle Road, Moratuwa	011-2642309/011-2642310
Narammala	No. 95, Kurunegala Road, Narammala	037-2249525/037-2249595
Negombo	No. 129, St. Joseph Street, Negombo	031-2224040
Nikaweratiya	No. 113, Puttalam Road, Nikaweratiya	037-2260387
Nuwara Eliya	No. 120, Kandy Road, Nuwara Eliya	052-2224728
Nittambuwa	No. 2/1, Colombo Road, Nittambuwa	033-2296969
Nugegoda	No. 143/C, Highlevel Road, Nugegoda	011-2828313/011-2828312
Panadura	No. 383, Galle Road, Panadura	038-2237327
Pelmadulla	No. 11, Main Street, Pelmadulla	045-2274428
Piliyandala	No. 77/1, Moratuwa Road, Piliyandala	011-2614425
Premier Center	No. 101, Dharmapala Mawatha, Colombo 07	011-2332150/011-2332180
Ragama	No. 26/05 & 26/06, Kadawatha Road, Ragama	011-2952492
Rajagiriya	No. 1424, Kotta Road, Rajagiriya	011-2078218/011-2078216
Ratmalana	No. 304, Galle Road, Ratmalana	011-2710056
Ratnapura	No. 89, Bandaranayake Mawatha, Ratnapura	045-2226636
Thalawathugoda	No. 706, Madiwela Road, Thalawathugoda	011-2773718
Tissamaharama	No. 47, Hambanthota Road, Tissamaharama	047-2239655
Trincomalee	No. 266, 268, Central Road ,Trincomalee	026-2226945/026-2226946
Vavuniya	No. 11, Horowpathana Road, Vavuniya	024-2225862
Warakapola	No. 09, Main Street, Warakapola	035-2268281
Wariyapola	No. 77, Puttalam Road, Wariyapola	037-2057708
Wattala	No. 237, Negambo Road, Wattala	011-2981133
Wellawatta	No. 416, Galle Road, Colombo 06	011-2364699
Wennappuwa	Sterline Building, Chilaw Road, Wennappuwa	031-2245245

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-hundreth 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.

ABBREVIATIONS

AGM	Annual General Meeting
AFS	Available-for-sale
ALCO	Assets & 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
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
KCRI	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
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 / Average number of shares
Net assets value per share (NAPS) (Rs.)	Total shareholders' equity / Average number of shares
Market capitalisation (Rs.)	Market price per share x Number of shares
Price earnings (PE) (Times)	Market price per share / Earnings per share
Dividend per Share (Rs.)	Total Gross Dividend (Proposed) / Number of Shares as at the reporting date
Dividend yield (%)	Dividend per ordinary share x 100 / Market price per share
Dividend cover (Times)	Profit/loss attributable to ordinary shareholders / Total dividend paid to shareholders
Dividend payout (%)	Total dividend paid to shareholders x 100 / Profit/loss attributable to ordinary shareholders
Earnings yield (%)	Earnings per share x 100 / Market price per share
Return on equity (ROE) (%)	Profit/loss attributable to ordinary shareholders x 100 / Average shareholders' equity
Return on asset (ROA) (%)	Profit/loss attributable to ordinary shareholders x 100 / Average total assets
Debt to equity (Times)	Borrowings / Total shareholders' equity
Cost to income ratio (%) (Excluding VAT on FS)	Total operating cost without VAT on financial services x 100 / Total operating income
Interest cover (Times)	Profit before interest and tax / Interest expenses
Operating profit margin (%)	Operating profit before VAT on financial services x 100 / Total Revenue
Net interest margin (%)	Net interest income x 100 / Average total assets
Provision cover	Provisions / Accelerated Non-performing assets
Price to book value (PBV) (Times)	Market price per share / Net assets per share
Total impairment provision to gross portfolio (%)	Total impairment provision x 100 / Gross loans and receivables
Non-performing ratio	Gross non-performing portfolio x 100 / Gross loans and receivables
Gross non-performing advances ratio (%)	Non-performing portfolio (net of interest in suspense) x 100 / Gross portfolio (net of interest in suspense)
Interest Cover	Interest expense on borrowings / Profit after tax + interest expense on borrowings

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 Consumer Credit Act No. 29 of 1982.

DATE OF INCORPORATION

7 September 1995

REGISTRATION NO

PB 232 PQ

ACCOUNTING YEAR

31 March

BOARD OF DIRECTORS

D H J Gunawardena
FCMA (UK), CGMA
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

S R Abeynayake
MBA (Sri J), FCA, FCMA
Non-Executive Director

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

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
Independent Non-Executive Director

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
Tel: +94117388388
Fax: +94112429888
Email: cdb@cdb.lk
Web: www.cdb.lk

COMPANY SECRETARY

SSP Corporate Services (Pvt) Limited
101, Inner Flower Road, Colombo 03
Tel: +94112573894, +94112576871
Fax: +942573609
Email: sspec@sltnet.lk

EXTERNAL AUDITORS

KPMG
Chartered Accountants
32 A, Sir Mohamed Macan Marker Mawatha,
Colombo 03, Sri Lanka
Tel: +9115426426

LAWYER

Nithya Partners
No. 97 A, Galle Road,
Colombo 03, Sri Lanka

BANKERS

Bank of Ceylon
Commercial Bank of Ceylon PLC
Deutsche Bank
Habib Bank Limited
Hatton National Bank PLC
National Development Bank PLC
Nations Trust Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC

CREDIT RATING

(SL) BBB+ (With stable outlook) ICRA Lanka Limited

NOTICE OF MEETING

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC – PB 232 PQ

Notice is hereby given that the Twenty-Second Annual General Meeting of Citizens Development Business Finance PLC will be held on 30 June 2018 at Union Ballroom, Hilton Colombo Residences, PO Box 2000, No. 200, Union Place, Colombo 2, at 9.00 a.m.

AGENDA

1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31 March 2018 with the Report of the Auditors thereon.
2. To declare a first and final dividend of Rs. 5 per share on both its voting ordinary shares and non-voting ordinary shares as recommended by the Board of Directors for the financial year ended 31 March 2018.
3. To re-elect Prof A Dharmasiri, 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 W P C M Nanayakkara, 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.
5. To re-elect Mr T M D P Tennakoon, 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.
6. To re-elect Mr Razik Mohamed, who in terms of Article 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.
7. To authorise the Directors to determine Contributions to Charities and other donations for the ensuing year.
8. To reappoint 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

Secretaries
4 June 2018

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.

Security Check:
The shareholders/proxy holders 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.

FORM OF PROXY (VOTING SHAREHOLDERS)

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC – PB 232 PQ

I/We, ………..…………………………....………………………........................………………… (NIC No. ……….....................…………….)

of ………………......……………………………..………..………………........………. being a member/members of Citizens Development

Business Finance PLC hereby appoint Mr/Mrs/Ms ………..................………...……

(NIC No. ………....................…………….) of ………..................…………...…… whom failing,

Mr Don Herschel Jayaprithi Gunawardana	whom failing
Mr Weligama Palliyaguruge Claud Mahesh Nanayakkara	whom failing
Mr Tennakoon Mudiyanselage Damith Prasanna Tennakoon	whom failing
Mr Roshan Hasantha Abeygoonewardena	whom failing
Mr Sasindra Virajith Munasinghe	whom failing
Mr Prasad Asanka Joseph Jayawardena	whom failing
Mr Sri Ranga Abeynayake	whom failing
Mr Dave Anthony De Silva	whom failing
Prof Ajantha Dharmasiri	whom failing
Mr Razik Mohamed	whom failing
Prof Sampath Priyantha Perera Amaratunge	

as my/our proxy to represent me/us and vote for me/us on my/our behalf at the Twenty-Second Annual General Meeting of the Company to be held on the 30 day of June 2018 and at any adjournment thereof.

	FOR	AGAINST
1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31 March 2018 with the Report of the Auditors thereon.		
2. To declare a first and final dividend of Rs. 5 per share on both its voting ordinary shares and non-voting ordinary shares as recommended by the Board of Directors for the financial year ended 31 March 2018.		
3. To re-elect Prof A Dharmasiri, 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 W P C M. Nanayakkara, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires.		
5. To re-elect Mr T M D P Tennakoon, 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.		
6. To re-elect Mr Razik Mohamed, who in terms of Articles 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.		
7. To authorise the Directors to determine Contributions to Charities and other donations for the ensuing year.		
8. To reappoint Messrs KPMG, Chartered Accountants as Auditors and authorise the Directors to determine their remuneration.		

Signed this ……………………….. day of …………………. Two Thousand and Eighteen.

……………………………

Signature/s of Shareholder/s

Notes

(i) Instructions as to completion of this Form of Proxy are given overleaf.

*(ii) *Please delete the inappropriate words.*

INSTRUCTIONS AS TO COMPLETION

1. The full name, address and the NIC numbers of the Proxy holder and the shareholder appointing the Proxy holder should be entered legibly in the Form of Proxy.
2. Please indicate with a "X" in the cages provided how your Proxy is to vote on the Resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.
3. Every alteration or addition to the Proxy Form must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
4. The completed Form of Proxy should 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.
5. If the Form of Proxy is signed by an Attorney, the respective Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.
6. If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal (if any), or signed by its Attorney or by an officer on behalf of the company/corporate body in accordance with its Articles of Association/statute.

FORM OF PROXY (NON-VOTING SHAREHOLDERS)

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC – PB 232 PQ

I/We, …………………………………………………………………………………………………… (NIC No. ……………………………………)

of …………………………………………………………………………………………….. being a member/members of Citizens Development

Business Finance PLC hereby appoint Mr/Mrs/Ms. ………………………………………………………………………………………………

(NIC No. ……………………………………) of ……………………………………………………………………………………… whom failing,

Mr Don Herschel Jayaprithi Gunawardana	whom failing
Mr Weligama Palliyaguruge Claud Mahesh Nanayakkara	whom failing
Mr Tennakoon Mudiyanselage Damith Prasanna Tennakoon	whom failing
Mr Roshan Hasantha Abeygoonewardena	whom failing
Mr Sasindra Virajith Munasinghe	whom failing
Mr Prasad Asanka Joseph Jayawardena	whom failing
Mr Sri Ranga Abeynayake	whom failing
Mr Dave Anthony De Silva	whom failing
Prof Ajantha Dharmasiri	whom failing
Mr Razik Mohamed	whom failing
Prof Sampath Priyantha Perera Amaratunge	

as my /our proxy to represent me/us and speak at the Twenty-Second Annual General Meeting of the Company to be held on the 30 day of June 2018 and at any adjournment thereof.

Signed this ……………………….. day of …………………. Two Thousand and Eighteen.

……………………………
Signature/s of Shareholder/s

Notes
(i) Instructions as to completion of this Form of Proxy are given overleaf.
*(ii) *Please delete the inappropriate words.*
(iii) Shareholders of non-voting shares are entitled only to attend and speak at the meeting.

INSTRUCTIONS AS TO COMPLETION

1. The full name, address and the NIC number of the Proxy holder and the shareholder appointing the Proxy holder should be entered legibly in the Form of Proxy.
2. Every alteration or addition to the Proxy Form must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
3. The completed Form of Proxy should 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.
4. If the Form of Proxy is signed by an Attorney, the respective Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.
5. If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal (if any), or signed by its Attorney or by an officer on behalf of the company/corporate body in accordance with its Articles of Association/statute.

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GSARN© www.gsarn.org Global Standard Annual Report Number©
LKA8773CDBXX0170180E104

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