

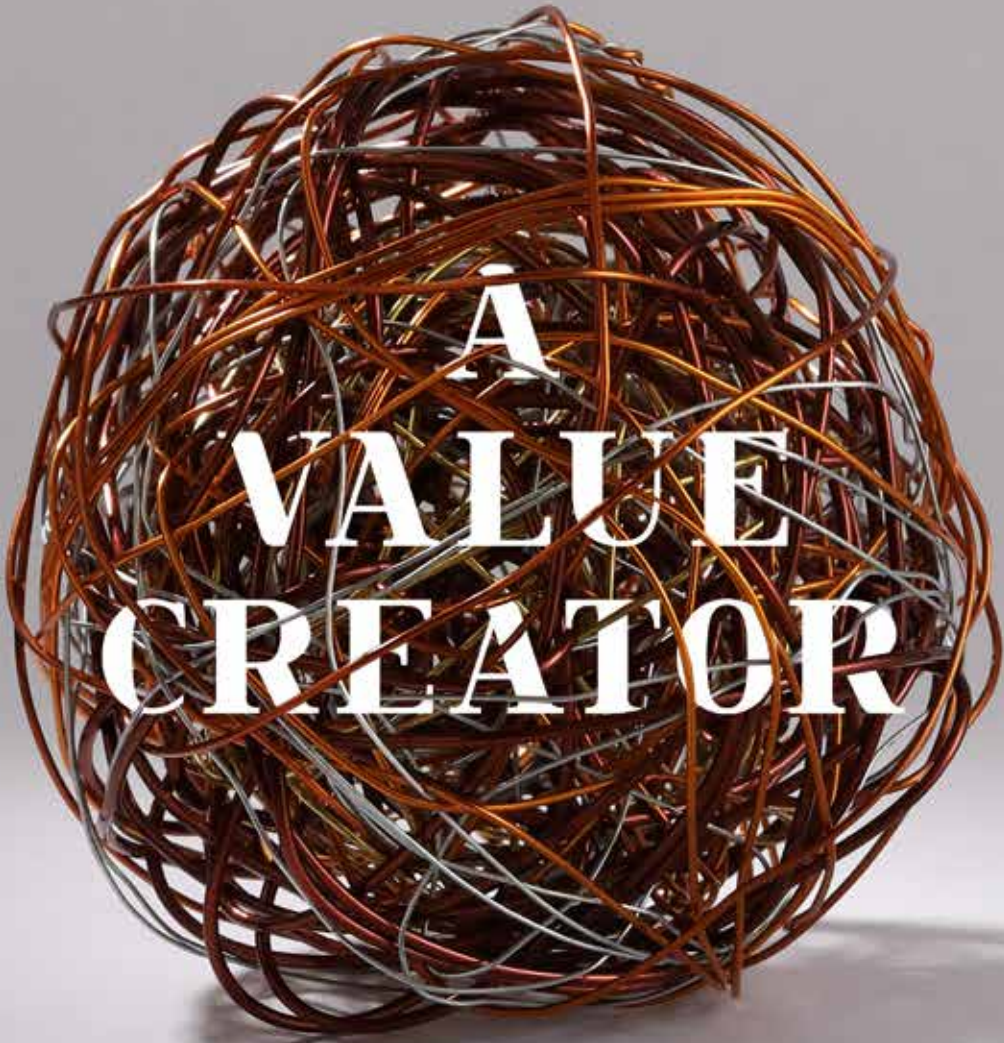
A
VALUE
CREATOR



A VALUE CREATOR

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC
ANNUAL REPORT 2016|17





A
VALUE
CREATOR

We've always been adept at pulling together the various 'strands' of enterprise – strategy, acumen, professionalism, transparency, ethics, empathy and more – **to create a business that delivers maximum value to the stakeholder.** Every single strand lends strength to the whole and from a disparate profusion of such strands, CDB moulds the individual value proposition for each stakeholder group, which forms the whole...value 'tree' of the Company.

Contents

P: 002 – 003

Our Fourth Integrated Report 04

Historical Milestones 06

Awards & Accolades 08

Highlights 10

Chairman's Message 13

CEO's Review 19

2 Strategic Report 26

2.1 Our Business Model	28
2.2 Operating Environment	30
2.2.1 The Global Economy	30
2.2.2 The Sri Lankan Economy	31
2.2.3 Financial Sector Performance	34
2.2.4 Non-Bank Financial Institutions Sector (NBFIS)	37
2.3 Stakeholders	42
2.3.1 Stakeholder Engagement	42
2.4 Sustainability and Materiality	49
2.4.1 Sustainability Sense	49
2.4.2 Materiality Matters	51
2.5 Operational Performances	55
2.5.1 Industry Performances Vs CDB	55
2.5.2 Deposits and Savings Mobilisation	55

Rs. 1 Bn
Profit After Tax

Rs. 8.6 Bn
Revenue

Rs. 54 Bn
Total Assets

3 Management Discussion and Analysis 60

3.1 Financial Capital	62
3.1.1 Key Financial Indicators	65
3.2 Manufactured and Intellectual Capital	70
3.2.1 Investments of Manufactured Capital	75
3.2.2 Customer Reach	75
3.2.3 Intellectual Capital Components	78
3.3 Human Capital	84
3.3.1 Our Human Capital Management	89
3.3.2 Human Capital Relationship Model	91
3.3.3 Talent Acquisition and On-boarding	92
3.3.4 Talent Management	95
3.3.5 Performance Management System (PMS)	96
3.3.6 Learning and Development	97
3.3.7 Employee Engagement	100
3.3.8 Rewards and Recognition	101
3.3.9 Diversity and Inclusion	104
3.4 Social and Relationship Capital	108
3.4.1 Social Relationships	113
3.4.2 Relationship with the Customers	120
3.4.3 Regulatory Developments	121
3.4.4 Relationship with Business Partners	122
3.5 Natural Capital	124
3.5.1 Environment Management	129
3.5.2 ISO 14064-1:2006 Carbon Verified	129
3.5.3 Reduction Strategies	132
3.5.4 Carbon Neutral Entity	137
3.6 Independent Assurance Report	138
3.7 GRI Content Index	140

4 Stewardship 144

4.1 Corporate Governance	146
4.4.1 The Board	152
4.4.2 Board Meetings	153
4.4.3 Board Diversity	154
4.4.4 CDB's Level of Compliance with Corporate Governance	154
4.2 Management of CDB	172
4.2.1 Board of Directors	172
4.2.2 Corporate Management Team	176
4.2.3 Management Team	180
4.3 Board Subcommittee Reports	185
4.3.1 Report of the Board Audit Committee	185
4.3.2 Integrated Risk Management Committee Report	188
4.3.3 Remuneration Committee Report	190
4.3.4 Nomination Committee Report	191
4.3.5 Credit Committee Report	192
4.3.6 Report of the Board Related Party Transactions Review Committee	193
4.4 Risk Report	195
4.4.1 Overview	197
4.4.2 Risks and Uncertainties vs Responses	198
4.4.3 Risk Governance	199
4.4.4 Enterprise Risk Management (ERM)	200
4.4.5 Value Creation vs Risk	200
4.4.6 Risk Management Process at CDB	202
4.4.7 Risk Universe for CDB	203
4.4.8 Key Risks vs Mitigation Strategies	203
4.5 Annual Report of the Board of Directors	221
4.6 Statement of Directors' Responsibility	229
4.7 Directors' Statement on Internal Control Over Financial Reporting	231

5 Financial Reports 234

5.1 Financial Calendar	236
5.2 Financial Statements – Table of Contents	237
5.3 Highlights	238
5.4 Independent Auditors' Report	240
5.5 Statement of Profit or Loss and Other Comprehensive Income	242
5.6 Statement of Financial Position	243
5.7 Statement of Changes in Equity	244
5.8 Statement of Cash Flows	248
5.9 Notes to the Financial Statements	250

6 Annexes 354

6.1 Investor Information	356
6.2 US\$ Accounts	365
6.3 Quarterly Statistics	367
6.4 Ten Year Statistical Summary	368
6.5 Our Reach	370
6.6 Glossary	372
6.7 Abbreviations	375
6.8 Basis of Ratio	376
6.9 Corporate Information	377
Notice of Meeting	378
Form of Proxy – (Voting Shareholders)	Enclosed
Form of Proxy – (Non-Voting Shareholders)	Enclosed

Rs. 6.2 Bn
Shareholders' Funds

Our Fourth Integrated Report

P: 004 – 005

“We are deeply committed to embedding integrated thinking into our Organisation’s culture as it creates sustained value for our stakeholders and ensures long-term sustainability of the Organisation. It also enhances our decision-making process, both at the Management and Board levels due to availability of accurate information, improved governance and risk management.”

– Board of Directors

Our third integrated annual report for financial year 2015/16 was well received with valuable feedback from our stakeholders. By adopting this approach in an advanced way, we have attempted to communicate more concisely and coherently on how our business strategy, corporate governance, risk management, capital performances and prospects in the context of our external environment, lead to creation of value over time.

Whilst being amongst the pioneers in the industry to adopt triple bottom line reporting, we firmly believe sustainability is an integral part of our overall performance and it cannot be separated from the overall discussion of the Company’s performance. The Report reflects our holistic thinking and the value creation process around the strategic imperatives.

Content Development

In keeping up with the requirement to keep this Report both comprehensive and concise, only key material aspects are disclosed in the Annual Report 2016/17.

There were no significant changes during the year and with respect to the last financial year and restatements, with regard to the scope, boundary or measurement techniques. Being an early adopter of GRI G4 guidelines, our previous report was based on GRI G4 ‘In accordance – Core’ option. This Report primarily covers sustainability impacts, risks and opportunities arising from financial operations within the Organisation.

The content of this Report was developed based on;

- GRI G4 guidelines – ‘In accordance-Core’ option
- Sustainability impacts
- Stakeholder inclusiveness
- Risk report
- Corporate governance
- Financial results

Materiality

This integrated Annual Report focuses on material developments and issues and provides important financial and non-financial performance indicators. A material development or issue is defined as one that affects our ability to remain commercially viable and socially relevant to the communities in which we operate. This Report presents –

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

Material Aspects and Boundaries

Since we are a service oriented company, which is only operating in Sri Lanka certain GRI G4 performance indicators have been deemed inapplicable. Our subsidiaries, CDB Micro Finance Limited, and Unisons Capital Leasing Limited, were excluded from this Report taking only the parent company for consideration.

Some of the non-core activities such as payroll services, security services, janitorial services and office equipment maintenance services were excluded.

Key Frameworks and Compliance

All frameworks which are important and relevant were adopted to provide an integrated assessment of the Company's ability to create value over time.

The following frameworks were used to compile this Report.

- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011
- Finance Companies (Corporate Governance) Direction No. 03 of 2008
- CSE listing rules requirements
- International Integrated Reporting <IR>
- Smart Media Methodology™ for Integrated Reporting
- Global Reporting Initiative (GRI)
- Sri Lanka Financial Reporting Standards (SLFRS)
- Sri Lanka Accounting Standards (LKAS)
- Conceptual Framework for Financial Reporting
- ISO 31000 Risk Management Standard
- COSO Framework

Reporting Cycle

Our Annual Report 2016/17 covers the 12 month period from 1st April 2016 to 31st March 2017 and is consistent with our usual annual reporting cycle for both, financial reporting and sustainability reporting. In addition, the information contained in this Report, as in the past, is in compliance with all applicable laws, regulations and standards as well as guidelines for voluntary disclosures.

Capital Formation

Our ability to create value depends on, how we use certain forms of capital and our impact on them. We apply the capital model to manage and assess our future value creation process and we aim to express the efforts taken in this regard. We discuss six capitals in this Report; two internal to the Company and four external to the Company.

Internal

- Financial capital
- Manufactured and Intellectual capital

External

- Human capital
- Social and Relationship capital
- Natural capital

External Assurance

Our Board of Directors and Corporate Management does not have any relationship with our External Auditor; Messrs KPMG. The Managing Director who is an Executive Director and a member of the Corporate Management team is responsible for sustainable practices and disclosures detailed in this Report and also for interacting with the external assurer of the Report.

The Report received an independent external verification from KPMG Sri Lanka, with regard to the financial data and performance indicators.

Distribution

The Report is available on our website; www.cdb.lk and in the Colombo Stock Exchange (CSE) website; www.cse.lk for all stakeholders.

Printed copies are available at all our CDB outlets.

Queries

For any clarifications on this Report we invite you to contact us:

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Finance PLC,
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Historical Milestones

P: 006 – 007

Since inception we have been operating as a distinctive financial institution in the country serving a broad spectrum of stakeholders.



1995

Incorporation

2001

- Strategic refocus with the new management team

2004

- Bottom line turnaround

2007

- Company profit after tax reached Rs. 50 Mn with a total assets base of Rs. 5 Bn

2009/10

- Became a public deposit taking institution
- Initiated two flagship CSR projects
 - CDB Sisudiri scholarship scheme for school children of three-wheeler owners
 - CDB Pariganaka Piyasa by setting up a fully-fledged IT lab



2010/11

- Listed on the Colombo Stock Exchange

2011/12

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

2012/13

- Providing a technological support for the future of CDB, the Company was the first Non-Banking Financial Institution (NBFI) to initiate core banking platforms
- Honoured with the Prestigious Award for Branding and Marketing Excellence at the fourth CMO Asia Awards hosted by the World Brand Congress held in Singapore
- Installed the first ATM at the Head Office
- Signed up for the Sri Lanka Interbank Payment System (SLIPS) through Commercial Bank of Ceylon PLC, the first ever to do so in the NBFIs

2013/14

- In a breakthrough transaction, CDB secured its first foreign line of credit, worth US \$ 6 Mn from a Multilateral Agency of Belgian Investment Company for Developing Countries (BIO)
- Platinum Award for our Annual Report 2013/14 at the League of American Communications Professionals (LACP) 2013, Vision Awards with the ranks of 42nd among top 100 Annual Reports worldwide, 17th among top 80 in Asia Pacific Region and the best In-House Annual Report in Asia Pacific Reg

2014/15

- Bronze Award for Service Brand of the Year at SLIM Brand Excellence Awards 2014
- Emphasis on compliance and governance was well rewarded as the Company won the Silver Award for overall excellence in Integrated Reporting at the CA Sri Lanka Annual Report Awards 2014
- Silver Award for People Development at the SLITAD People Development Awards 2014

2015/16

- Clinched the Best Corporate Citizen Sustainability Award (turnover less than Rs. 15 Bn category) and 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' recognised as the best Non-traditional Annual Report in the world and the Best in Sri Lanka at the ARC Awards 2015
- 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 with a total asset base of Rs. 50 Bn and total equity of Rs. 5 Bn
- Operational footprint comprising 62 outlets

2016/17

- First Runner up in the Best corporate Citizen Sustainability Award 2016 (Turnover Less than 15 Bn Category)
- Winner of the Best Corporate Citizen Sustainability Award 2016 for Best Project on 'GHG Emission Analysis'
- The sector Gold Award and overall Merit Award for Excellence in Corporate Governance at the National Business Excellence Awards 2016
- Silver Awards for CSR and Service Branch of the Year at SLIM Brand Excellence Awards 2016
- Top Finalist at the Asia Sustainability Reporting Awards 2016 by CSR Works, Singapore
- Runner Up at the ACCA Sustainability Reporting Awards 2016 (Financial Services & Insurance Sector)
- Operational Footprint of 69 outlets across the Island

Our services are spread across a range of financial services covering fixed deposits, savings accounts, leasing, hire purchase, trade finance/ bill discounting, business loans, guarantees, gold loan, debit cards, money exchange and margin trading. Our network of outlets consists of 69 locations with an extensive island-wide coverage via a dealer network, Area Development Officers (ADOs) and touch-point technology. We strive to be a net lender to the rural economy by promoting social inclusion and financial empowerment in the country.

Incorporated in 1995 with a dedicated staff of about 15 employees, we have expanded our operations gradually to become a challenging presence amongst the top non-banking financial institutions in Sri Lanka. Our staff strength has grown to 1,439 employees who are the backbone of our Organisation. We have always been a responsible corporate citizen with the highest level of respect to enterprise governance which goes beyond statutory and regulatory requirements.

In our efforts to add increased value to our stakeholders, our products are built on a responsible and ethical platform and are designed to promote economic empowerment. Our culture, which

animates all our work, drives every one of us to improve the experience we offer our customers every day. Our Board and experienced Management Team are focused on ensuring that our Company delivers effective product innovation and offers stand out customer service all the time.

Our commitment to preserving our planet is evident by being the first ISO 14064-1 carbon verified financial institution in South Asia by the Sri Lanka Carbon Fund (Pvt) Limited and also our flagship environmental project 'Mihikaththa Adaren'.

Over the years, we have grown in strength and stature to become a strong financial institution with an asset base of Rs. 54 Bn and a after tax profit of Rs. 1,007 Mn in financial year 2016/17. In the pages that follow you can read more about our operations that enabled us to become a respected and responsible business entity in Sri Lanka.

Awards & Accolades

P: 008 – 009



League American Communication Professionals Award 2015 (LACP) USA

Gold Award

Annual Report
Ranked 39 among the top 80 Annual Reports in the Asia-Pacific Region

ARC Award 2016 USA

Gold Award

Financial Data

ARC Award 2016 USA

Gold Award

Financial Data

ARC Award 2016 USA

Gold Award

Non-traditional Annual Report

CMA Award 2016

Ten Best Integrated Reports



Carbon Neutral Certificate

ISO 14064-1

Carbon Verification Certificate

Bronze Award

National HR Excellence Award

Institution of Personal Development (IPM) – Sri Lanka

Highlights

P: 010 – 011

Financial Highlights

Key Performance Indicators	2016/17	2015/16	Change %
Financial performance (Rs. Mn)			
Gross revenue	8,591	7,486	15
Net interest income	2,888	3,059	-6
Net operating income	3,665	3,498	5
Profit before tax	1,228	1,254	-2
Profit after tax	1,007	1,005	0
Position as at the year end (Rs. Mn)			
Loans and advances	43,189	38,539	12
Total assets	53,934	50,626	7
Shareholders' Fund	6,241	5,052	24
Customer deposits	32,602	30,888	6
Financial ratios (%)			
Profitability perspective			
Operating profit margin	16.27	19.01	
Net interest margin	5.52	6.90	
Cost to income ratio (Excluding VAT on FS)	58.28	53.24	
Return on average assets (ROA) – after tax	1.93	2.27	
Investor perspective			
Earnings per share (Rs.)	18.53	18.51	
Earnings yield (%)	28.86	24.68	
Return on equity (ROE) % – after tax	17.83	21.49	
Dividend per share	3.50	3.50	
Dividend yield (%)	5.45	4.67	
Dividend cover (Times)	5	5	
Dividend payout (%)	18.88	18.91	
Net Asset value per share (Rs.)	114.93	93.03	
Market value per share – closing – voting	64.2	75.00	
Market value per share – closing – non-voting	48.1	68.00	
Market capitalisation (Rs. Mn)	3,357	4,017	
Price to earnings (Times)	3.46	4.05	
Statutory ratios (%)			
Capital adequacy			
Tier I (Minimum requirement – 5%)	12.3	11.72	
Tier I & II (Minimum requirement – 10%)	14.1	11.74	
Statutory liquidity ratio	13.03	20.04	
Non-performing advances ratio			
Gross NPL (Net of IIS)	3.08	3.62	
Net non-performing loans (Net of IIS and provisions)	1.05	1.56	



Social Highlights

Rs. 10 Bn

Net lending outside Western Province



851 Nos.

New job opportunities across value chain



359 Nos.

Sisudiri Scholars under CDB Sisudiri Scholarship programme



8th CDB

Pariganaka Piyasa IT Lab Donation



Rs. 18 Mn

Investment on CSR



25%

Lending for women



Rs. 10 Mn

Allocation for Autism Trust Fund



69 Outlets





Environmental Highlights



Carbon Neutral Status



ISO 14064-1:2006
Carbon verified
Financial Institution



3 Solar Power backed locations



22%
Hybrid &
Electric vehicle
disbursements out of
total disbursements



13%
Decline of
disbursement in high
emission vehicles

Saving from Paper Recycling



Saving from Electronic Waste Recycling

→ **Trees 22**
Fully-grown saved

Trees 123 ←
Fully-grown saved

→ **40,583 litres**
Water saved

4,666 plastic ←
Bottles recycled

→ **1,277 kgs**
Reduced Greenhouse gas emission

21,466 aluminium ←
Cans recycled

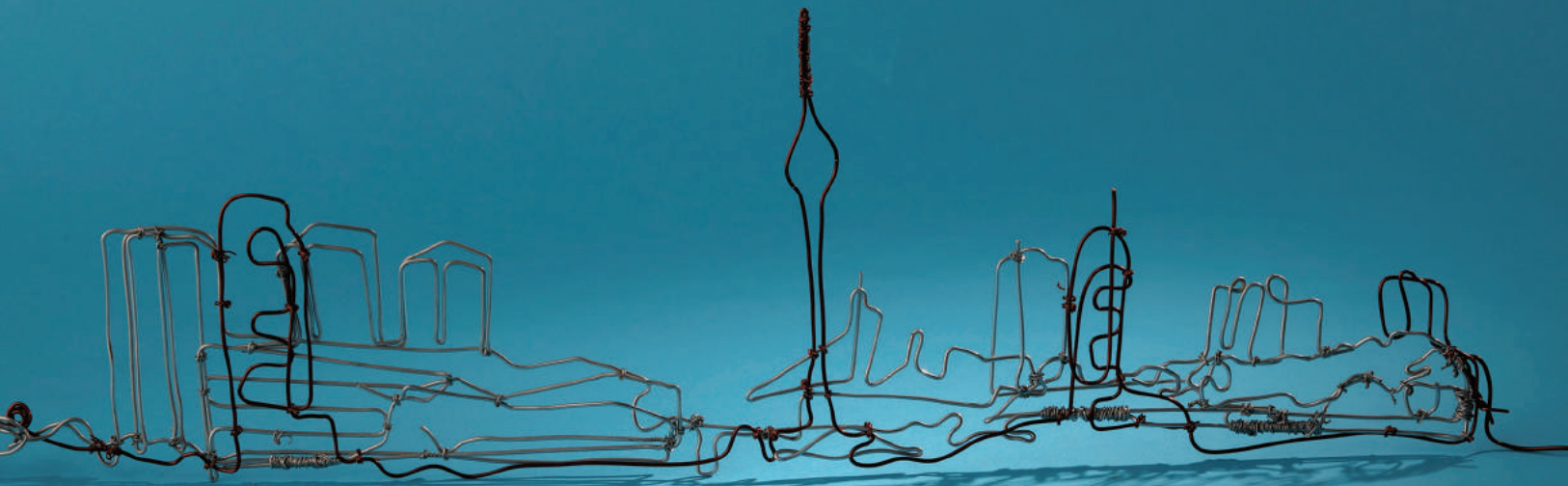
→ **2,241 litres**
Oil saving

546 gallons ←
Gasoline conserved

→ **5,108 kWhs**
Electricity saved

335 kgs ←
of E-waste preserved
from land filling equivalent
to 9 cubic metres of
land fill 3,188 lbs of
Carbon emissions averted

→ **4 m³**
Landfill saved





2016/17 has been a year of consolidation for CDB, during which essential steps were taken to position your Company for sustainable performance

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of CDB for the financial year ended 31st March 2017.

A Year of Consolidation

2016/17 has been a year of consolidation for CDB, during which essential steps were taken to position your Company for sustainable performance. Whilst driving consistent and predictable financial outcomes in the short-term, the ultimate objective was to position CDB for success over the longer term, to deliver greater value to each of our stakeholders. Accordingly our efforts during the year have been focused on several initiatives including responding to changing stakeholder expectations, keeping pace with digital transformation, further strengthening governance and compliance, building financial resilience and responding to the changing regulatory landscape.

The Operating Environment

In the backdrop of a slow global economic recovery Sri Lanka's economic growth was marginally behind last year. The authorities faced several fiscal challenges as foreign reserves dwindled amidst high foreign debt repayments without adequate non debt inflows such as FDIs. Despite improved earnings from tourism and higher worker remittances, the weak export performance and increased imports led to a widening of the trade deficit bringing about a Balance of Payment deficit for the 2nd consecutive year.

Pressure on the Sri Lankan rupee and concerns over tax reforms to be implemented in the coming year saw several investors divest government securities in the fourth quarter of 2016. Following the budget release, the investor concerns also spread to the Colombo Stock Exchange, whose main index dipped to its lowest level in late November, since early April 2016. Risks of a potential shift in investor sentiment were flagged by Fitch Ratings in February, when it downgraded Sri Lanka's long-term foreign and local currency issuer default ratings which discouraged FDI inflows to Sri Lanka.

Meanwhile the Central Bank of Sri Lanka (CBSL) initiated several measures to strengthen the supervision and regulatory framework for financial institutions to further enhance their safety and soundness and thereby promote public confidence in the sector. In particular, CBSL implemented prudential measures focused on cyber security, enhancing transparency and capital requirements under the Basel III Framework.

In the midst of challenging global and domestic market conditions, the financial sector exhibited resilience and continued to expand during the year. Assets of the financial sector grew, though at a slower pace than in the previous year largely due to tighter monetary conditions that prevailed in 2016. Asset quality recorded well below the industry average whereas capital and liquidity levels were well above the minimum statutory requirements.

Most Non-Banking Financial Institutions (NBFIs) performed well in the period under review. As a result of policy measures taken by government to curtail motor vehicle imports, companies in the LFCs/SLCs sector were seen to be gradually moving out from its core business of vehicle financing, to other loan products. The funding structure of NBFIs was also seen to be tilting towards bank borrowings and debenture issues; moving away from their excessive dependence on retail deposits.

Delivering Increased Value

Raised from humble beginnings, your Company is now a leading financial institution in Sri Lanka with a reputed brand and having more than 1400 employees operating in 69 locations. Over the years your Company has fostered a robust culture of professionalism, high ethical values and proactive risk management. In the year under review, important steps were taken to deliver greater value to our stakeholders, some of which are explained below.

Delivering consistent and strong results, your Company has continued to increase shareholder value and maintain a healthy dividend payout ratio. In the financial year under review, the Balance Sheet grew by 21.9% (CAGR) whilst Shareholders' Funds increased by 23.5% YoY to reach Rs. 6.24 Bn. I am pleased to announce that your Board has recommended a dividend of Rs. 3.50 per share.

With a view to delivering an outstanding experience to our customers many initiatives were taken during the year to enhance customer convenience and proactively meet their evolving financial needs. In particular, our investments in technology and data capabilities have transformed the experience of customers to be intuitive, personalised and relationship-focused. Our contribution to government revenue by way of taxes in the financial year amounted to Rs. 391 Mn. We have also strengthened the sustainability of your Company by further improving on governance, strengthening its systems to mitigate and manage risks and also diligently complying with applicable statutory and regulatory requirements.

Recognising our responsibility to make a positive difference in the communities in which we operate, we continued to enhance our contribution to society through various CSR initiatives reported elsewhere in this report. Our deep commitment to eco-accountability continued to gather momentum through the many green initiatives launched throughout the year.

The passion and commitment of our multi talented people are key enablers of our success. We have continued investing in them with more resources and training opportunities to reach their full potential. The record results delivered over the years were only possible owing to the hard work and loyalty of our staff.

Our Performance

Your Company maintained last year's profitability level by recording a Net Profit After Tax of Rs. 1 Bn. Net Asset Value per Share increased by 23.5% with the asset base swelling to Rs. 53.9 Bn and asset quality improving as evidenced by the reduction in NPL Ratio to 3.08% from 3.62% in the previous financial . Operational efficiencies increased with the collection ratio improving substantially and technological innovations being harnessed to increase productivity.

Our geographical reach was augmented by adding seven new branches which increased the total number of outlets to 69. Our market presence was also reinforced through effective marketing and communication campaigns launched throughout the year.

We continued to remain committed to pursuing excellence in corporate governance and risk management oversight with a focus on internal controls, policies and procedures. Our direct and frequent engagement with regulators and key stakeholders continued to enhance transparency and build confidence and trust. The recognition CDB received both locally and internationally by winning various awards of excellence during the financial year, is dealt with elsewhere in this report.

A Look into the Future

Sri Lanka's economic growth in the current year is not expected to increase beyond 5%, having been inhibited by the consequences of adverse weather conditions and various domestic challenges. However the restoration of the GSP Plus tariff concession and various initiatives being taken to attract FDIs are expected to increase investment and stimulate the economy to achieve higher rates of growth in the years to come.

As mentioned earlier in my report and in my previous report as well, the company needed the required space in the year under review, for the consolidation of its gains achieved over the last several years. We have since put in place a platform to create new capacity with which to achieve greater sustainable growth in profitability and shareholder wealth in the years ahead. I am optimistic that the ambitious targets set by management for itself to make CDB a bigger, better and stronger organisation, is achievable, given the commitment and dedication displayed by a dynamic management team and a multi talented workforce.

Your Board of Directors has an unwavering commitment towards good governance, regulatory compliance and the mitigation and management of strategic risks in its quest to foster a reputed brand that anchors everything we do.

Board Composition

Your Company has a continual focus on Board renewal, to ensure that your Board represents diversity of experience, gender and tenure. During the year we announced the appointment of Mrs. Udayanthi Seneviratne and Professor Sampath Amaratunge to the Board.

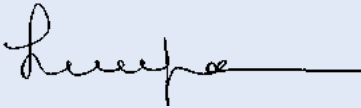
Mrs. Udayanthi Seneviratne is an Attorney-at-Law of the Supreme Court of Sri Lanka and has an active practice in Civil, Criminal and Appellate Courts of Sri Lanka.

Professor Sampath Amaratunge who is presently the Vice Chancellor of the University of Sri Jayawardenapura has a MA in Economics from the University of Colombo, a MSc in Economics of Rural Development from the Saga National University and a Ph.D. from the Kogoshima National University in Japan . He counts over 25 years as an academic at the University of Sri Jayawardenapura. We also welcome Mr. Dave De Silva as an Executive Director to the Board. Dave has been a Non-Executive Director since 2012.

Acknowledgement

In closing, I wish to express my gratitude to the Board of Directors for their sound advice, consistent support and guidance over the years. I wish to express my deep appreciation to our management team and staff members for their continuing commitment and dedication which is the cornerstone of our success. In particular, I wish to thank Mr. Mahesh Nanayakkara, our Managing Director and CEO for his exceptional leadership which, over the years, has made a lasting contribution to the strength of this Company.

My gratitude is extended to our shareholders for their confidence and trust in the company and our customers for their unwavering loyalty. I greatly appreciate the valuable advice and guidance extended by the senior officials of the Central Bank of Sri Lanka and other statutory institutions. I wish to place on record my sincere thanks to our auditors, KPMG for their valuable professional advice and timely completion of the audit.



D H J Gunawardena

Chairman

5th June 2017

Colombo



In our sustainability efforts, CDB has been strongly committed to fundamentals of corporate stewardship in its sustainability tripod of People, Profit and Planet

As a responsible corporate steward, CDB is an entity that has never lost sight of its ultimate goal of being a value creator. Each of our decisions and the sincerity that accompanies the actions of those decisions we make, have fundamentally accrued a reasoning for maximising stakeholder value. You will see this echoed vividly in the six capitals which we articulate in this Integrated Report, in which I am pleased to present the Review of Operations for the year ended 31st March 2017.

The year under review has been one of transition and consolidation for CDB, creating value as we have on our milestones, one of which was surpassing the Rs. 1 Bn mark in Profit After Tax for the second consecutive year. Despite volatility and changes experienced in the macro environment, our balance sheet structure, risk appetite framework and a compliance infused social and environmental consciousness has continued to give us a competitive advantage in an intensely competitive milieu.

How we fared

The upward incline of 400 basis points in market interest rates from January 2016 and further changes to the Loan to Value (LTV) ratio were key impacts on our business. However, our readiness and ability to always envisage external paradigms and threats and respond timely and speedily to these has seen us sustain a strong balance sheet encompassing a portfolio of quality assets.

As such, our Balance Sheet for year end reflected a growth of 7% recording Rs. 53.9 Bn, although Profit After Tax remained at Rs. 1 Bn, similar to last year. This PAT is commendable however as the Rs. 1 Bn bottom line figure was maintained despite negative growth in Net Interest Income of 6%, which is Rs. 171 Mn, interest income growing by 14% to Rs. 7.6 Bn and interest expenses inclining to Rs. 4.7 Bn, which is a growth of 31%. Significantly higher interest expenses, compared to the increase in interest income is attributed to multiple factors in the asset liability maturity trend. Customer behaviour for deposits due to rapid inclines in interest rates despite a much improved asset liability maturity management, part of debt funding being based on variable rates and limited scope of repricing the asset portfolio within the risk appetite framework were all dynamics that had to be factored in. Market competition, the contractual nature of asset and liability pricing also impacted the end result.

CDB meanwhile posted a revenue of Rs. 8.6 Bn which is a growth of 15%. Net Operating Income moved upwards to Rs. 3.7 Bn, a growth of 5%, attributed to the reduction of Rs. 173 Mn in impairment charges and other credit losses. Total overheads inclined by 9%, with Cost to Income Ratio also reaching 58%, largely due to a contracting net interest margin to 5.52% from last year's 6.90%. An upward movement of 24% was seen in Capital Funds. ROE is recorded at 17.83%, while ROA stands at 1.93%. EPS stands at Rs. 18.53. Net Asset Value per Share is Rs. 115.

The Loan Book saw a growth trajectory of 12% to be posted at Rs. 43 Bn, while the deposit portfolio with its growth of 6%, notched Rs. 32.6 Bn. The non-auto component of the Loan Book represents 7% compared to last year's 5%. Based on a strategic decision made last year, the Loan Book's 3W component was further reduced to 21% from the 27% reflected last year end.

Due to CDB's uncompromising stance on adhering stringently to regulatory diktats, the unrelenting focus on capital adequacy has seen Tier One and Tier Two detailed well above statutory requirements. While liquidity stands at 13.03% by end this year, Tier One and Tier Two are 12.32% and 14.12% respectively, compared to the regulatory directives of 10%, 5% and 10%.

Gross Non-performing loans further improved to 3.08% compared to last year's 3.62%. This reflects definite improvement in the Net Non-performing loans of 1.05% from 1.56%.

A strong characteristic that CDB espouses is one of readiness. This is well observed in CDB's ability to absorb the volatility experienced in market rates and adjustments affected to new LTV ratios without materially changing our risk appetite, positing minimum impact to our bottom line. We are confident that our envisaged goals will once more be aligned to our growth trajectory, now that we have implemented strategic changes to our approach.

Strategies included CDB's re-entry into the registered (used) Three Wheeler market, as the 25% LTV threshold on new Three Wheelers had substantially contracted the size of the new Three Wheeler market. Systems are now well established to ensure stringent controls in collection and portfolio quality. The gold-backed lending portfolio, which saw an impressive increase from Rs. 232 Mn to Rs. 603 Mn due to an aggressive relaunch, will undeniably see the fruition of initiatives taken in the next financial year. A 10% ceiling on the gold loan portfolio, in relation to the total Loan Book, will be imposed for astute risk management.

In the light of trends experienced, we are cautiously growing our property backed lending and personal loan portfolios, which have both shown promise. We envisage launching our credit card next year, for which the groundwork has already been completed.

Our specialised leasing subsidiary in which CDB holds 90.38% shareholding, Unisons Capital Leasing Limited (UCL) showcased an impressive performance during the year. It is just one year since the Company was re branded, since being acquired in October 2014. The noteworthy results we have seen since then will prompt UCL to contribute significantly to the Group's results in the future. This paradigm began this year with UCL notching Rs. 20 Mn in Profit After Tax and showcasing a significant increase in its balance sheet to Rs. 693 Mn from Rs. 370 Mn.

Being accessible

Accessibility is key to our expansion drive and CDB has implemented myriad channels that include technologically driven platforms to enable hassle-free accessibility. We brought our total branch network to 69 this year with the opening of seven new branches, thereby increasing our physical touchpoints. Optimising on our technological edge, groundwork was laid for the launch of CDBiNet, an online omni channel transactional platform with a 360 degree application for customer portfolios in 1Q of the next FY. This platform facilitates management and maintenance of personal portfolios including online account opening facilities, online fund transfers to any bank via the Common Electronic Fund Transfer System (CEFTS) and online utility bill settlements.

The highly successful online vehicle trading platform Patpat.lk launched this year, now one of the best performing vehicle trading portals in the country, is owned by a fully owned subsidiary of CDB. Seeing the immense promise this strategy holds, we will be leveraging on the synergies we now possess, integrating this platform with our distribution and sales teams. This will undeniably exceed customer expectations and thus expand our market share in automobile financing, given the significant advantage of rapid response through 24x7 customer service and online solutions to suit every budget.

Customer experiences are also constantly being elevated. Introducing a unique concept, CDB will be transforming all branch managers' cubicles into digital spaces. This is aimed at prompting closer interaction with customers including proactive customer decision making.

Similarly, customer relationship management (CRM) features are also being augmented. Initiating new concepts, some of which will revolutionise CRM in any NBFI, we use data analytics, loyalty rewards schemes and the deployment of specialised software covering the full relationship cycle of the customer from the birth of the relationship and aiming for lifetime value creation. We also employ aggressive approaches in cross-selling and up selling, while stimulating the back office team to generate business. Our intention is to transcend focus from transactional orientation to relationship orientation.

A Responsible Consciousness

Given our value creating ethos, CDB's entire persona is one of corporate stewardship, a trait which has been rewarded on numerous occasions including being named among the Ten Best Corporate Citizens in Sri Lanka. This unrelenting passion to 'Do Good' sustainably has driven us to take on projects, both social and environmental affirming positive impacts

continually. For example, 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, CDB presents fully equipped IT laboratories to schools to encourage IT literacy, not only among students but among the community as well. The granting of scholarships 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.

Building our corporate social responsibility ethos on the triad of People, Planet, Profit, CDB which is the first Carbon Verified Financial Institution in South Asia by the Sri Lanka Carbon Fund, is extremely enthusiastic on cascading the message of environmental consciousness and green practices to stakeholders. As an example of our green commitment, CDB Mihikathata Adaren, CDB's flagship environment programme uses novel initiatives such as the environmental cadet camp, solar power backed locations, hybrid lending, G Squared-Go Green Club to cascade green messages among the young.

With employee volunteerism very high on CDB's HR Agenda, CDB Hithawathkam gives CDB a well-deserved spot in the limelight among some of the best corporate stewards in the country. One of our biggest CSR initiatives this year is in collaboration with the Sri Lanka Association for Child Development. Focusing on a national Autism Awareness Programme, CDB 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. Total investment for corporate social responsibility amounted to Rs. 18.3 Mn.

Our CSR projects are explained in greater detail from pages 106 - 123 in this report.

With People, Planet, Profit being fundamental to our business, we are very mindful that in building a robust and stable business, our contribution to the broader context of development will naturally be more incisive. Our sustainability agenda therefore is based on CDB being a respected and socially and environmentally conscious public deposit taking corporate citizen. We will continue to be focused on inclusive economic development. Being a net lender to the rural economy, we will augment our goal of providing access to finance to the base of the pyramid markets, while astutely growing the urban funding and rural lending approach. Another tangible goal we have contextualised is to double our balance sheet by 2020. We will augment our green best practices by prompting the lowest possible GHGs.

Uncompromisingly compliant

Judging by the unrelenting focus we have on compliance in every sphere, the external assurances we obtain affirms our commitment to always remain uncompromisingly compliant. The fact that we are continually recognised with laurels is ample proof. CDB was adjudged winner at the National Business Excellence Awards in the NBFBI Sector and gained kudos for our 2015/16 Annual Report both locally and globally. Our accolades are detailed further in page 9 of this report.

We remain intensely cognizant of our responsibility of being a custodian of public funds. You will find comprehensive details of our governance, risk management and assurance initiatives, all of which have been adjudged as being beyond regulatory and statutory diktats later in this report. In synopsis, we follow the framework of the three defense level approach, further supplemented through an in-house developed framework which embeds a coordinated and integrated structure. This year also saw the implementation of an online subscription based global client screening software and a risk based KYC alert framework. CDB also seeks external expertise in IT risk and penetration testing.

24

Appreciations

Being a value creator is by no means an easy task. It involves the holistic commitment, motivation and absolute ownership of our team, which has been the driving force at CDB. I strongly believe that our customers drive our vision with their continued loyalty and confidence for which I'm very thankful for. To our valued business partners and the communities we work with, our deepest appreciation for giving us the motivation to continue our sustainable best practices.

I record my deep appreciation to the Chairman and Board of Directors who have continually given me guidance and counsel in spearheading CDB.

My team and I now look forward to another exciting year of value creation, taking CDB's goals to newer heights.

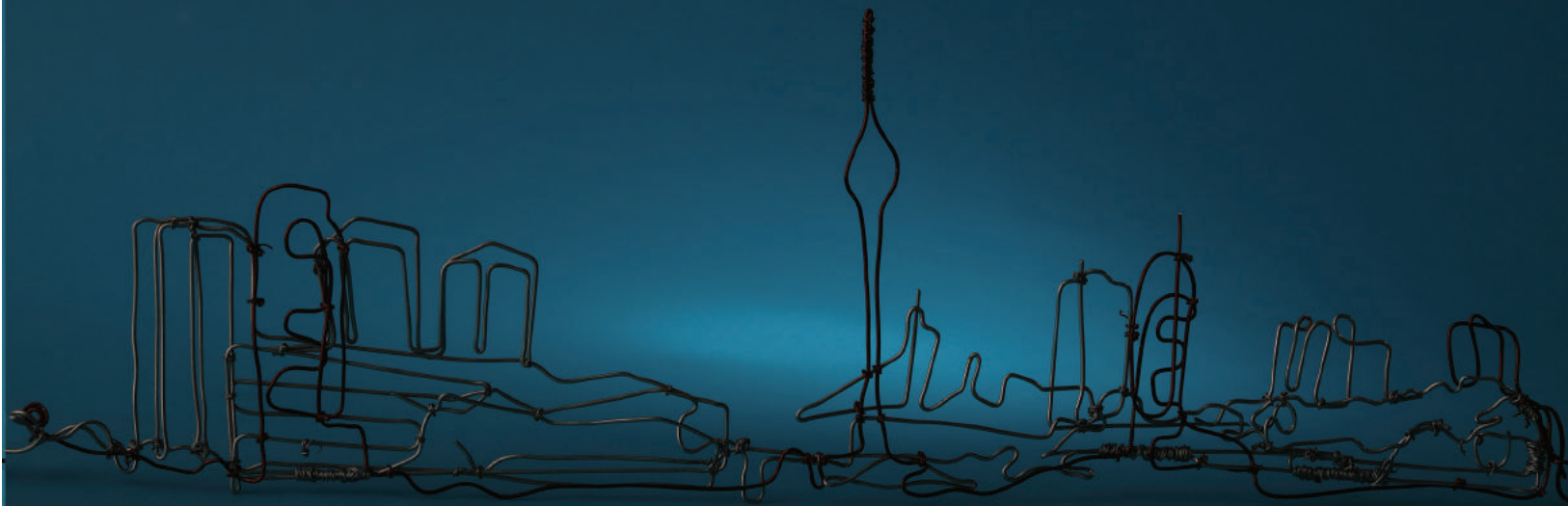


W P C M Nanayakkara

Managing Director/Chief Executive Officer

5th June 2017

Colombo



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2.1

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2.5

→ **Our Business Model** 28

→ **Operating Environment** 30

→ **Stakeholders** 42

STRATEGIC REPORT

→ **Operational Performances** 55

→ **Sustainability and Materiality** 49

2.1 Our Business Model

P: 028 – 029

Value Enablers (Inputs)

Financial Capital

- Equity capital – Rs. 6.2 Bn
- Customer deposits and savings – Rs. 32.6 Bn
- Corporate borrowings – Rs. 10.9 Bn
- Debt securities – Rs. 2 Bn

Manufactured and Intellectual Capital

- Property, plant & equipment
- Research and development
- Product innovation and service enhancement
- Process development
- Systems of internal controls
- Digitalisation
- Brand equity
- Accessibility

Human Capital

- Skills of staff and management team
- Staff strength
- Gender diversity
- Learning and development
- Health and wellness
- Experience of staff and management team
- Effort and motivation
- Talent attraction

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

- Energy savings initiatives
- GHG emission analysis
- Recycling efforts
- Green awareness and campaign
- Water management
- Tree planting
- Investment on renewable energy

Inputs

Value Addition (Process)

Outputs

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

Business Processes

Corporate Strategies

- People focused
- Stakeholder centricity
- Distribution blueprint
- Sustainable inclusivity
- Branding and positioning
- Techno backed

69 Branch & Service Outlets

Products & Value Added Services

Process

Value Created (Output)



- Revenue – Rs. 8.6 Bn
- Net Interest Income – Rs. 2.9 Bn
- Profit after Tax – Rs. 1 Bn
- Capital adequacy
 - Tier I – 12.3%
 - Tier I & II – 14.1%
- Return on Equity – 17.83%
- Earnings Per Share – Rs. 18.53
- Return on Assets – 1.93%
- Net Assets per Share – Rs. 114.93



- Investment in property, plant & equipment – Rs. 108 Mn
- System downtime – 0.1%
- IT systems upgrading – Rs. 11.45 Mn
- 3 ICT Training programmes
- 5 IT Audits conducted



- Revenue per employee – Rs. 6.6 Mn
- Training hours – 131,874
- Number of hazards – 0
- Investment in training & development – Rs. 11.5 Mn
- Investment on *Suwa Sampatha* and Staff Insurance – Rs. 30.9 Mn



- Growth in loan book – 12%
- Growth in deposits – 6%
- Number of customers >200,000
- T & D on customer service – 28 Programmes
- Regulatory adherence – 100%
- Number of *Sisudiri* scholars – 359



- GHG emission – 1,572 tCO₂e
- 1,572 of Carbon credit purchased
- 22% Hybrid and Electric vehicle disbursement out of total lending
- Awareness for schoolchildren – 210
- Water consumption – 4,483m³
- Electricity consumption – 705,662 kWh



Value Impacts (Outcomes)

- Dividend per Share Rs. 3.50 proposed
- Interest expense Rs. 4.7 Bn
- Personnel Cost Rs. 880 Mn
- Contribution to Government Rs. 391 Mn
- Contribution to the society Rs. 18.3 Mn

- Enhanced service delivery
- Product innovation
- Effective system processes
- Risk mitigation
- Wider reach

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

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

- Carbon Neutral entity
- ISO 14064-1 carbon verified organisation
- Rainwater harvesting system
- Green conservation and preservation
- 3 Solar power-backed locations

Value Shared (Stakeholders)



Shareholders



Employees



Customers



Community
Regulators



Fund
Providers



Environment

2.2 Operating Environment

P: 030 – 041

IMF estimates world economic growth to increase to 3.5% in 2017 and 3.6% in 2018. Growth in advanced economies is expected to be 2.0% in 2017 and 2018.

2.2.1 The Global Economy

2.2.1.1 Growth

International Monetary Fund (IMF) estimates world economic growth was 3.1% in 2016. Economic activity has gained momentum in the second half of 2016, especially in advanced economies.

2.2.1.2 Emerging Markets

Economic performance across emerging markets and developing economies remained mixed. Growth in China remained strong, reflecting continued policy support, whilst activity in India slowed down due to the impact of the currency exchange initiative. In general, activity remained weak in fuel and non-fuel commodity exporters, while geopolitical factors held back growth in parts of the Middle East and Turkey.

2.2.1.3 Commodity Rally

Commodity prices have strengthened alongside the improvement in economic activity. Oil prices have continued to rise by 21.2%, following the agreement by the

Organisation of the Petroleum Exporting Countries (OPEC) to cut oil production. Natural gas prices have increased in Europe due to supply tightening and higher oil prices. Following Government-led reductions in coal production in China and outages in Australia, coal prices have rallied by 21.0%. Non-fuel commodities such as metal prices and agricultural commodity prices increased by 23.6% and 4.3% respectively.

2.2.1.4 Future Outlook

IMF estimates world economic growth to increase to 3.5% in 2017 and 3.6% in 2018. Growth in advanced economies is expected to be 2.0% in 2017 and 2018. Growth in emerging market and developing economies is forecast to rise to 4.5% and 4.8% respectively in 2017 and 2018. In particular, China is projected to grow by 6.6% in 2017, slowing to 6.0% in 2018 on account of the continued policy support in the form of strong credit growth and reliance on public investment to achieve growth targets. Growth in Asia is projected to remain robust, with an anticipated 7.2% growth in India 2017.

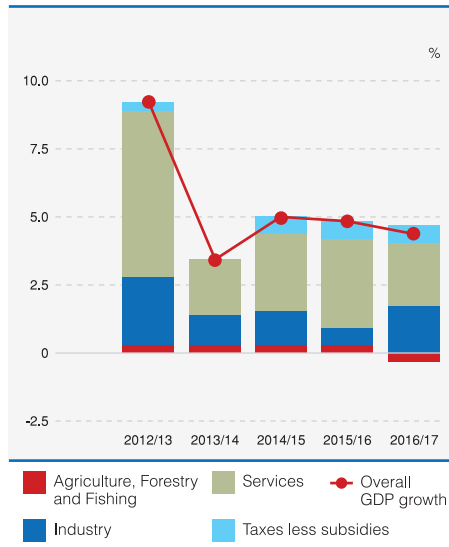
2.2.2 The Sri Lankan

Economy

2.2.2.1 Growth

Sri Lankan economy grew at a slower rate of 4.4% in 2016 in real terms, in comparison to 4.8% in the previous year, largely due to unfavourable weather conditions which affected the Agriculture sector and sluggish global economic recovery. Service related activities constituted 56.5% of real GDP and grew by 4.2% YoY, largely supported by the expansion in financial services (12.4% growth).

Weighted Average Sectoral Breakdown of GDP Growth



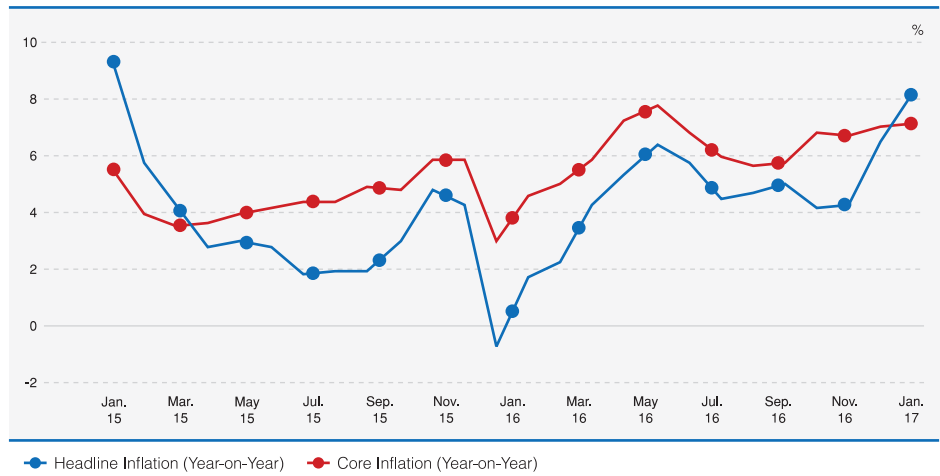
2.2.2.2 Inflation

Inflation remained low in the first four months of the year and increased thereafter to record an annual average of 4.0% in 2016 (both National Consumer Price Index (NCPI, 2013 = 100) and Colombo Consumer Price Index (CCPI, 2013 = 100) based). NCPI based core inflation stood at 6.7% by end 2016, which was higher than 5.8% recorded at end 2015. Year-on-Year core inflation based on the CCPI, declined from 6.7% at end 2015 to 5.8% by end 2016. Adverse weather conditions, tax adjustments and rising international commodity prices increased demand pressures of the economy, causing core inflation to remain at elevated levels in 2016.

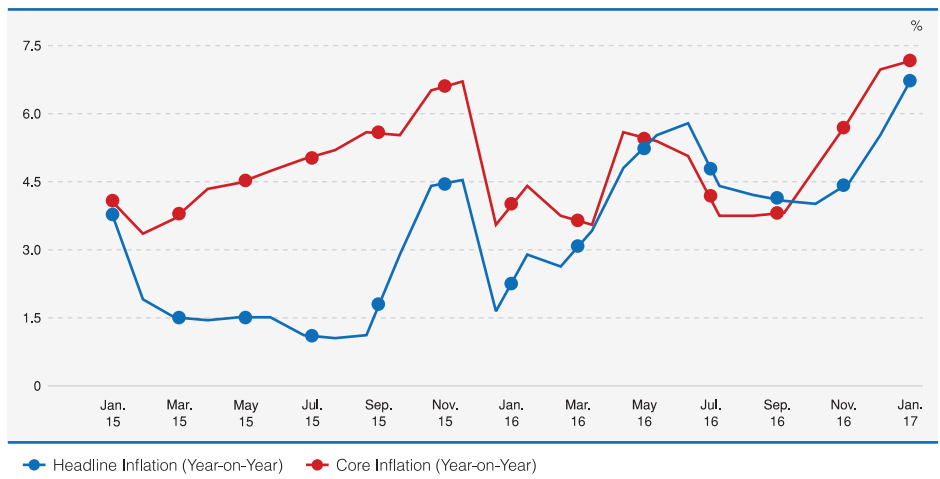
Headline Inflation (Year-on-Year)



National Consumer Price Index (NCPI) – 2013 base



Colombo Consumer Price Index (CCPI) – 2013 Base



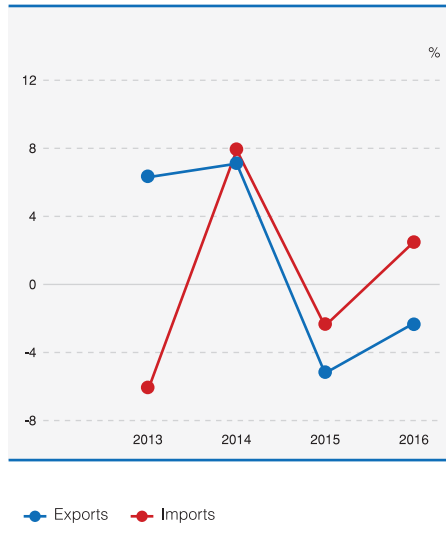
2.2.2.3 Unemployment

The unemployment rate declined to 4.4% in 2016 from 4.7% in 2015. Female unemployment rate reduced from 7.6% in 2015 to 7.0% in 2016, whilst the male unemployment rate dipped from 3.0% in 2015 to 2.9% in 2016.

2.2.2.4 External Sector

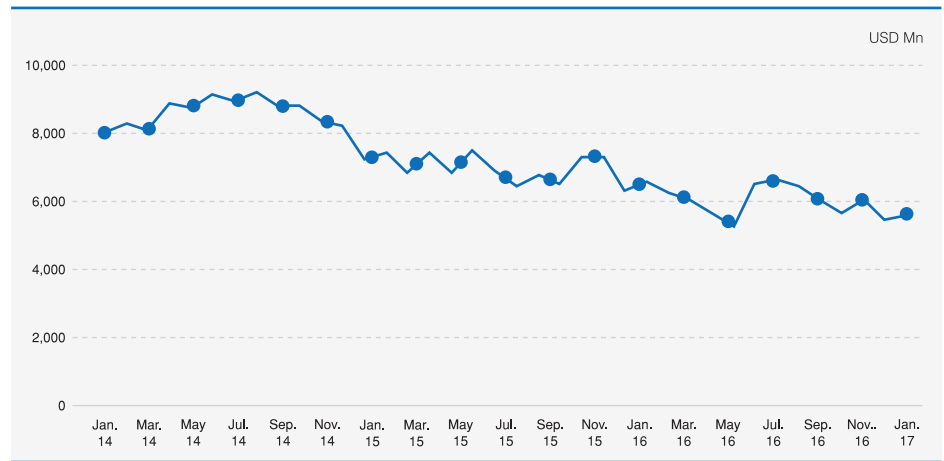
Performance of Sri Lanka's external sector remained subdued in 2016, with foreign exchange outflows exceeding the moderate inflows during the year. This was largely attributed to the monetary policy normalisation in the USA, subdued external demand due to the slow pace of economic recovery in several advanced economies and emerging market economies and persisting geopolitical tensions in the Middle East. Earnings from exports, contracted for the second consecutive year in 2016 with a contraction in agricultural and industrial export earnings.

Year-on-Year Growth in Imports and Exports



A deficit of USD 500 Mn was recorded in the overall balance of payments in 2016 whilst the gross reserve asset position declined to USD 6.0 Bn by end 2016, compared to USD 7.3 Bn at end 2015. As a result, the Rupee depreciated by 3.83% against the US dollar in 2016.

Gross Official Reserves



2.2.2.5 Fiscal Performance

The budget deficit was reduced to 5.4% of GDP (Rs. 640.3 Bn), mainly due to enhanced Government revenue collection and reduction in Government expenditure as a percentage of GDP. Accordingly, Government revenue, as a percentage of GDP, increased for the second consecutive year to 14.2% in 2016 from 13.3% in 2015.

Total expenditure and net lending, as a percentage of GDP, declined to 19.7% in 2016 from 20.9% in 2015. This reflected the decline in recurrent expenditure as well as capital expenditure and net lending.

The overall budget deficit was largely financed from foreign sources, amounting to 61.2% of total financing.

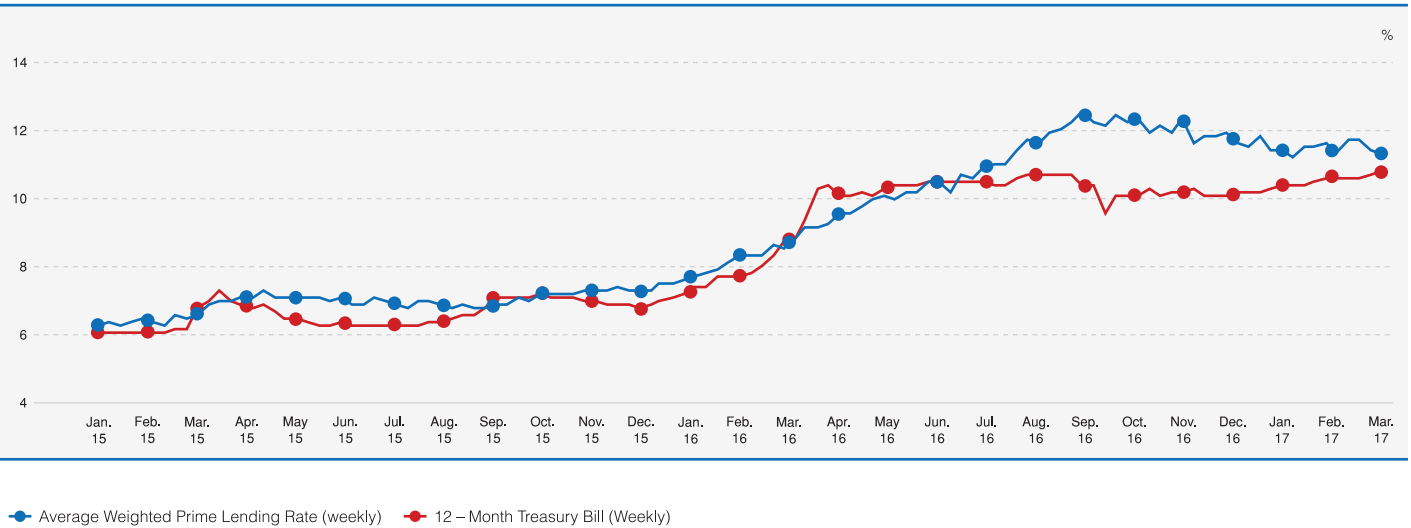
2.2.2.6 Monetary Policy

Market interest rates adjusted upwards, reflecting tight monetary conditions in the economy in 2016. Reserve money recorded a high growth of 27.1% YoY by end 2016, compared to 16.5% in 2015; an increase of Rs. 182.7 Bn in absolute terms.

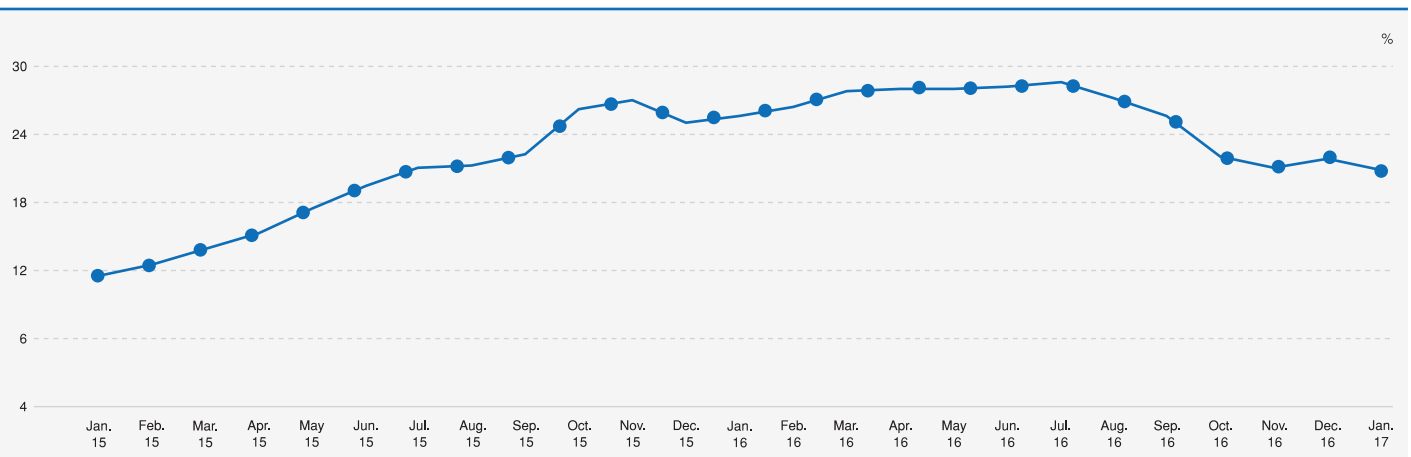
Underpinned by the expansion in credit to both Government and Private sectors, Broad money supply (M2b) continued to increase by 18.4% by end December 2016.

Credit extended to the private sector by commercial banks, continued to expand during 2016, whilst a slowdown was observed towards the year end.

Movement of Key Market Rates



Year-on-Year- Growth in Credit to the Private Sector



2.2.2.7 Rupee Performance

The external value of the Sri Lankan Rupee continued to depreciate in 2016; by 0.82% in the first half of the year and by 3.04% in the second half. The Rupee depreciated by 3.83% against the US Dollar from Rs. 144.06 in 2015, to Rs. 149.80 in 2016. The annual average exchange rate depreciated by 6.64% to Rs. 145.60 against the US Dollar in 2016.

In addition, the Rupee depreciated against all major currencies, except against the Sterling Pound, which depreciated substantially, following the Brexit vote in June 2016.

2.2.2.8 Future Outlook

The Sri Lankan economy is projected to grow at a moderate rate of around 5.0% in 2017, amid unfavourable weather conditions and is expected to improve gradually thereafter to record an annual growth rate of 7.0% by 2020. The private sector is expected to play a key role in achieving the higher growth momentum by increased private sector investments. Foreign investments are expected to make a higher contribution, with particular emphasis on service related activities and export oriented industries.

In the medium-term, the external sector is projected to gradually improve with the adoption of appropriate policy measures to ensure external sector stability. Accordingly, the external current account deficit is expected to improve steadily with the projected developments in the external sector. Exports are projected to increase at a higher rate than imports, resulting in a narrower trade deficit in the medium-term.

The conduct of monetary policy of the Central Bank will be based on a Flexible Inflation Targeting (FIT) framework, geared to maintain price stability with due attention to real sector stability in the context of exchange rate flexibility.

2.2.3 Financial Sector Performance

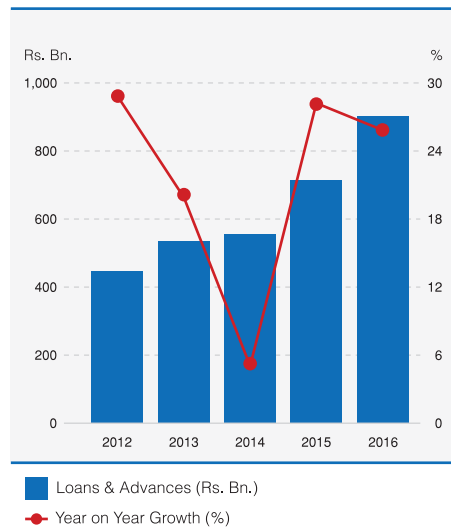
2.2.3.1 Banking Sector

The banking sector maintained its capital and liquidity levels well above the statutory minimum requirements, while assets recorded a lower YoY growth of 12% in 2016, compared to 15.9% growth in 2015. The asset base swelled by Rs. 969 Bn to surpass Rs. 9 Tn by end December 2016.

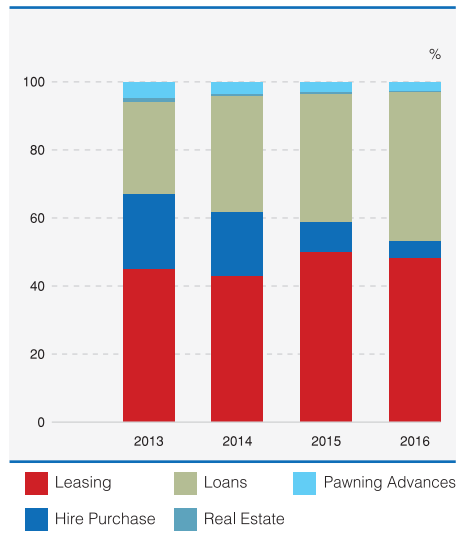
2.2.3.2 Loan Book and Funding

The asset portfolio expanded by 17.5% YoY in 2016, compared to the 17.5% increase in 2015, largely due to the expansion in the loan portfolios. The asset portfolio mainly comprised loans and advances, which accounted for 61.2% of the banking assets.

Loans & Advances – LFCs & SLCs

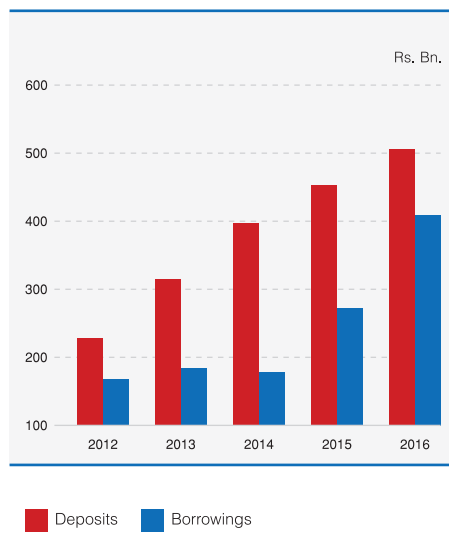


Composition of Gross Loans and Advances



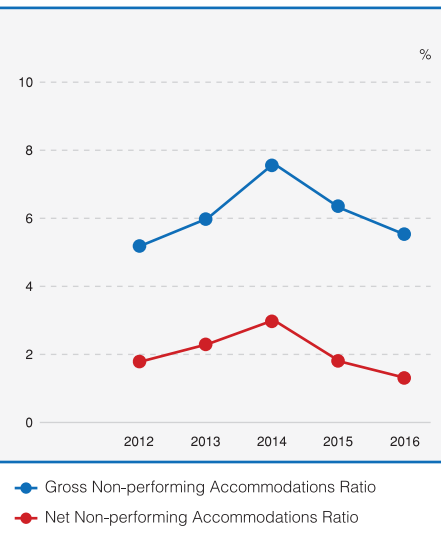
Approximately, 91.8% of the increase in the loan portfolio is attributed to the increase in Rupee loans. Pawning portfolio contracted during the year, whilst the leasing portfolio expanded by a marginal 3.3% YoY. The investments portfolio contracted to 25.1% of the asset portfolio on account of a negative growth of 3.3% during 2016.

Funding – LFCs & SLCs

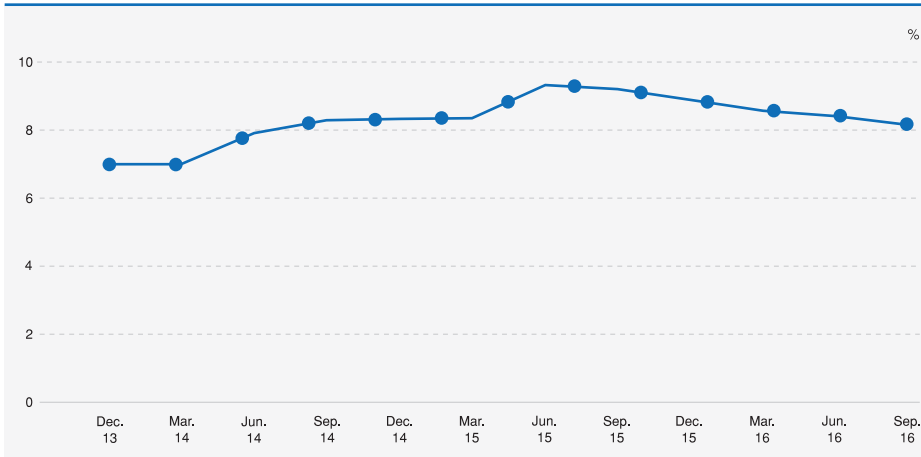


Customer deposits continued to be the major source of liabilities accounting for 69.6% of total liabilities of the banking sector. Time deposits increased by 23.8% in 2016, compared to the increase of 13.9% in 2015. The current accounts and savings accounts (CASA) ratio decreased to 37.1% by end 2016 from 40.3% in 2015, reflecting a decline in low cost funding. Total borrowings of the banking sector recorded a negative growth of 3.5% in 2016, due to the dip in foreign borrowings by Rs. 47.8 Bn and Rupee borrowings by Rs. 14.2 Bn. However, foreign currency borrowings accounted for 60.7% of total borrowings in 2016.

Non-performing Accommodations Ratio – LFCs & SLCs

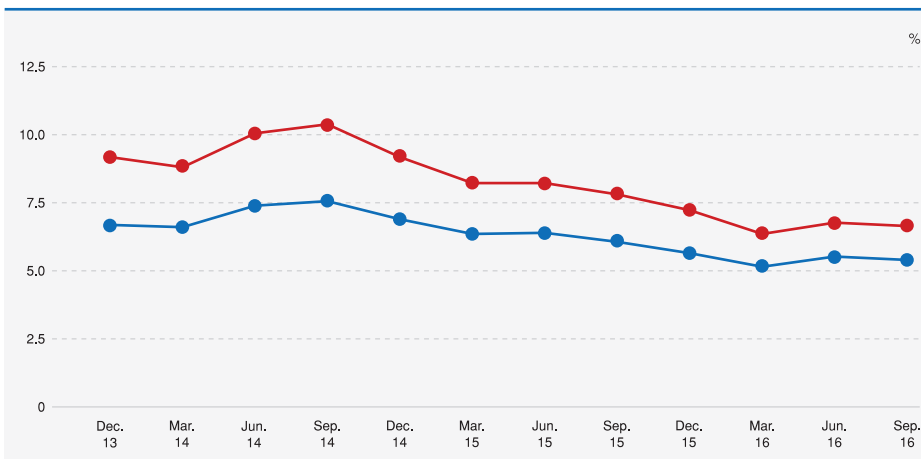


Net Interest Margin (NIM)



Meanwhile, asset quality improved as reflected by the Non-Performing Loan (NPL) ratio, which recorded its lowest level for the last two decades.

LFC – NPLs

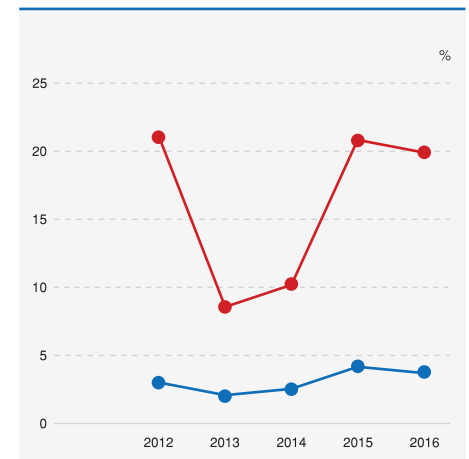


● Gross Non Performing Advances to Total Advances ● Net Non Performing Advances to Total Advances

2.2.3.3 Profitability

Profit after tax (PAT) stood at Rs. 116 Bn in 2016, reflecting an increase of 19.5% YoY. Accordingly, ROE increased by 110% YoY to 17.3%, whilst ROA increased marginally to 1.4% in 2016 from 1.3% in 2015. The increase in PAT is attributed to the increase in interest income of the banking sector.

Profitability – LFCs & SLCs



● Return on Assets (Before Tax) – Annualised
● Return on Equity (After Tax) – Annualised

2.2.3.4 Future Outlook

The 70% of maximum loan-to-value (LTV) ratio imposed by the Central Bank of Sri Lanka in September 2015 for vehicle leasing, curtailed the ability of the banks to expand their leasing portfolio in 2016. With the further revision of the LTV ratio by the Monetary Board with effect from 16th January 2017, a further contraction in the leasing portfolio of most private sector banks is expected to continue. Furthermore, the proposed new Inland Revenue Act and the proposed removal of notional tax credit on interest income would affect banks' profitability as well.

The regulatory and supervisory framework is expected to be strengthened further by the CBSL. The directions on Basel III minimum capital requirements, which will be carried out from 1st July 2017, will impact the banking sector as well.







2.2.3.5 PESTEL Analysis of the Finance Industry

The Banking and Finance Industry in Sri Lanka

The banking and finance industry remains the most dominant segment in the finance sector. Banks and finance companies have continued to grow with low default ratios under the strong governance of the Central Bank of Sri Lanka (CBSL) and the adoption of pre-emptive adjustments to monetary policy.

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

The PESTEL Framework

Key Elements	Indicators	Impact
Political 	Political Stability Certainty in the political environment will enhance the sector's growth	Medium Risk
	Focus on Government Regulations Stringent regulations on capital, liquidity and loan to value ratio (LTV)	Medium Risk
	Proposed Budgetary Measures Increase in withholding Tax (WHT) rates, removal of notional tax credit, introduction of financial transaction levy	High Risk
Economic 	Interest Rates Vulnerability High vulnerability in interest rates (especially increasing policy rates) might impede the cost of borrowing of bank and NBFIs	High Risk
	Exchange Rate Fluctuations Depreciation of the Rupee against major currencies	Low Risk
	Skilled Labour Shortage of skilled labour due to high brain drain	Medium Risk
Socio-cultural 	Changes in Life Style Life styles of Sri Lankans are changing rapidly. They are more knowledgeable and require quality products. This has opened up more opportunities for finance companies	Medium Risk
	Population Increasing population rate has an impact on opening new branches	Medium Risk
Technology 	ATM/E-banking Latest developments in technology and telecommunications have encouraged finance companies to move from a physical branch concept to virtual branch (i.e. e-banking/ Mobile banking platform).	Medium Risk
	Debit/Credit Card Debit/Credit cards have encouraged a cashless society – an electronic wallet.	Medium Risk
Environment 	Significant Economic Growth Sri Lankan economy has registered a high growth rate of 6.1% during 2010-2015. Finance sector has been the key contributor.	Medium Risk
Legal 	Major Legal Aspects of the Finance Industry The two main aspects are: Finance Regulation Act and the Central Bank of Sri Lanka (CBSL)	Medium Risk

2.2.4 Non-Bank Financial Institutions Sector (NBFI)

Licensed Finance Companies (LFC) and Specialised Leasing Companies (SLC) recorded a strong performance in terms of asset growth and expansion of the branch network during 2016. The sector comprised 46 LFCs, 7 SLCs and 1,313 branches, of which 886 branches were located outside the Western Province. There was a gradual shift in the sector from its core business of vehicle financing to other loan products.

2.2.4.1 Loan Book and its Composition

The total assets of the sector grew by 21.7% YoY to Rs. 1,211.9 Bn in 2016. The increase in assets was mainly funded by borrowings and the balance by deposits, equity capital and other liabilities, which represented 23.3%, 10.6% and 8.4% of total borrowings respectively.

Credit growth moderated during the first quarter of 2016, due to macroprudential measures implemented with respect to the lending on motor vehicles in the form of a loan-to-value ratio (LTV). However, credit growth accelerated with the increased exposure to other lending products, during the second half of 2016, resulting in an overall 21% expansion of credit as at end 2016.

2.2.4.2 Profitability

Profit after tax of the sector increased to Rs. 31.5 Bn, compared to Rs. 15.2 Bn in 2015. This was on account of increased business volumes, improved other income and enhanced operational efficiency. Net interest income increased at a slower rate of 12.0% compared to 30% in 2015, due to increased funding cost.

Due to increased profits, ROA increased from 3.0% in 2015 to 4.0% in 2016 and ROE from 12.4% in 2015 to 23.1% in 2016.

2.2.4.3 Funding

There was a gradual shift towards bank borrowings over the past two years due to flexibility and cost factor. This has changed the sector's overall funding structure by an increase in the share of borrowings to 36.2% in 2016 from 31.6% in 2015. The share of deposits, decreased to 43.8% in 2016 from 48.3% in 2015.

Accordingly, deposits recorded a moderate growth of 10.5% to Rs. 531 Bn in 2016, compared to a 16.1% growth the previous year. Deposit mobilisation was mainly through time deposits which accounted of 95.6% of total deposits.

2.2.4.4 Developments of the Sector

The increase in Financial Services Value Added Tax from 11%-15% impacted the profitability of the sector during the year.

The Monetary Board of the CBSL approved a resolution to repay depositors of few distressed finance companies. Some of the foreign investors have expressed their interest to infuse capital to troubled finance companies, which is expected to create a positive outcome. Further, the Department of Supervision of Non-Bank Financial Institutions of CBSL, will not issue new licenses for finance companies in order to boost market value for existing licenses. This is expected to encourage new investors.

A 'Resolution Division' was set up in 2016 to expedite the process of addressing financial problems of distressed companies. Furthermore, the CBSL expects to set up an 'Enforcement Division' to introduce legal actions against the management of the distressed companies who are held responsible and also to recover funds. Additionally, the Ministry of Finance has received the approval of the Cabinet of Ministers to set up the 'Financial Assets Management Agency' (FAMA) to resolve distressed assets of troubled finance companies and assist in the restructuring process. These initiatives are expected to enhance the public confidence and stability of the financial sector.

2.2.4.5 Future Outlook

The growth in the NBFI sector is expected to continue through diversification of the traditional loan portfolio, comprising finance leasing to non-core business products such as term loans, factoring and micro-finance loans. Macroprudential and fiscal measures imposed on importation and lending of motor vehicles would prompt the sector to diversify their portfolios further. Additionally, the growing demand for credit at the grass-root level of the economy would facilitate greater diversification of the loan portfolio to non-core products.

NBFIs are expected to access funds through the banking system instead of retail deposits due to cost effectiveness. The capital levels of NBFIs would be strengthened further, in terms of quantity as well as quality with the enhanced minimum capital requirements and the implementation of appropriate measures in line with Basel II and III Capital Adequacy Framework.

2.2.4.6 Industry Competitiveness

Porter's five forces analysis is a strategic model that attempts to analyse the level of competition within an industry and support organisations to develop strategies based on the level of the industry attractiveness. Attractiveness in our context refers to the overall industry profitability. Based on our analysis, it can be concluded that the non-banking financial industry is highly competitive. The analysis is given below:

Threat of New Entrants – Low

Potential NBFI Player



Barriers to entry	⬆️	High	The industry is attractive as most players in the industry have earned higher yields in the past decades. On the other hand entry barriers created by the Ministry of Finance and the Central Bank of Sri Lanka together with regulated minimum capital requirements and strongly established brands reduces the threat of new entrants.
Capital requirements	⬆️	High	
Industry profitability	⬆️	High	
Buyer's switching cost	⬇️	Low	
Customer loyalty to established brands	⬆️	High	

Threat of Substitutes – High

Banking and Insurance Industry



Ease of substitution	⬆️	High	Players in the banking and insurance industries also provide a similar range of financial services compared to non-banking financial institutions. Hence, customers can find close substitutes with higher level of service 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	Industry players are following competitive marketing strategies since customers are highly price sensitive. Customer negotiations are high due to 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	Ability to cater to customers is highly dependent on the availability of funds. The number of investment alternatives available to the suppliers are high and they are price sensitive as well. Rivalry of industry players to obtain funds continues to be high. This scenario enriches the bargaining power of the suppliers.
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

46 Non-bank Financial Companies in the Industry



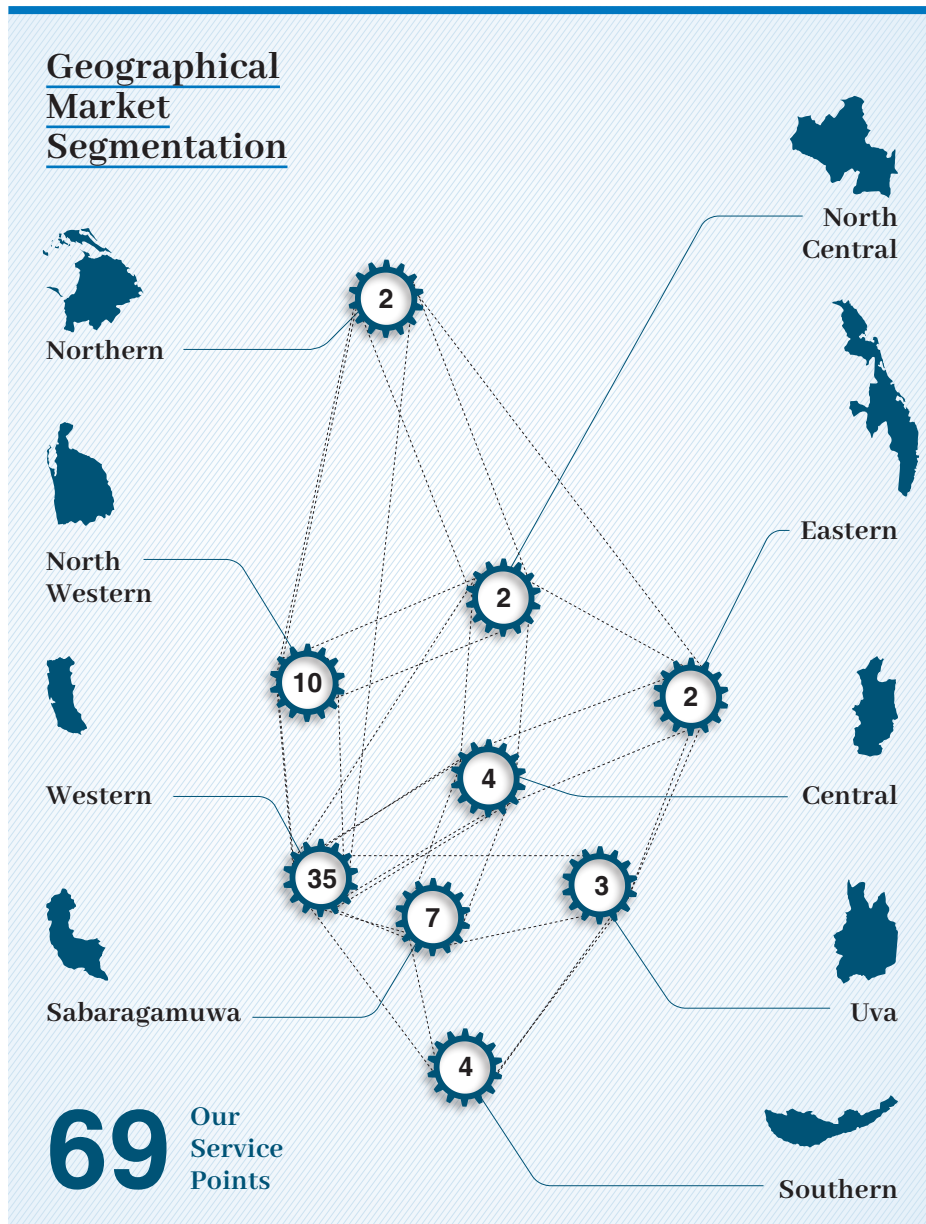
Competition between peers	⬆️	High	Each and every player in the industry strives to grow by capturing the market share of competitors by using competitive marketing strategies.
Level of advertising expense	⬆️	High	
Powerful competitive strategy	⬆️	High	
Number of players	⬆️	High	
Level of product differentiation	⬇️	Low	
Customer switching cost	⬇️	Low	

2.2.4.7 Segmentation, Targeting and Positioning (STP) Strategy

Segmentation, Targeting and Positioning are a key strategies that help to determine our operational and marketing efforts.

Market Segmentation

Our customers are segregated based on geographic and demographic factors such as location, behaviour patterns and based on preferences. Based on the social economic date published by Central Bank of Sri Lanka in 2016, Sri Lanka's population was 20.96 million with an annual growth rate of 0.9%. It is noteworthy to mention that Colombo and Gampaha Districts have the highest population in Sri Lanka and the gender ratio was 47.1% males and 52.9% females whilst the population density was 334 per Km². Of the population, 60.6% accounted for the working population. Taking into account the above factors and other important segregation criteria, we identify our target market segment.



Targeting Strategy

Out of the different customer segments, we identify the most attractive segment; which is our target segment. We aim to fulfil the financial needs of all our customers, both individuals and corporates who seek our services. However, being a non-banking financial institution, we are bound by the rules and regulations of the Central Bank of Sri Lanka. Therefore, we adopted innovative and effective strategies to address most of our customer requirements within the boundaries. We believe that our products and services offer meets customer expectations effectively and drive sustainable value as well.

Positioning the Brand

Our brand enables us to be visible in our customer's minds and also to get a competitive advantage in the market.



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

Red colour denotes life, livelihood, dynamism and energy – the traits that we essentially attempt to deliver to our customers. It also portrays our way forward and our commitment to the progress of all Sri Lankans.

Blue colour represents the universe of unceasing infinite possibilities and opportunities.

'**Citizens**', reflects our commitment to serve people from all walks of life. 'Development' denotes our entrepreneurial mindset and focus on economic development.

The tagline '**Your friend**' is strongly associated with the close relationships we nurture with our stakeholders.



To grow our **'value tree'** we need **'land'** – fertile ground that can, with industriousness and enterprise, grow a fruitful Company which creates and distributes value to its stakeholders. **We are extremely grateful to the investor community, providers of the 'land'...the capital...**that we work to produce the 'fruits' of value creation for our all stakeholders.



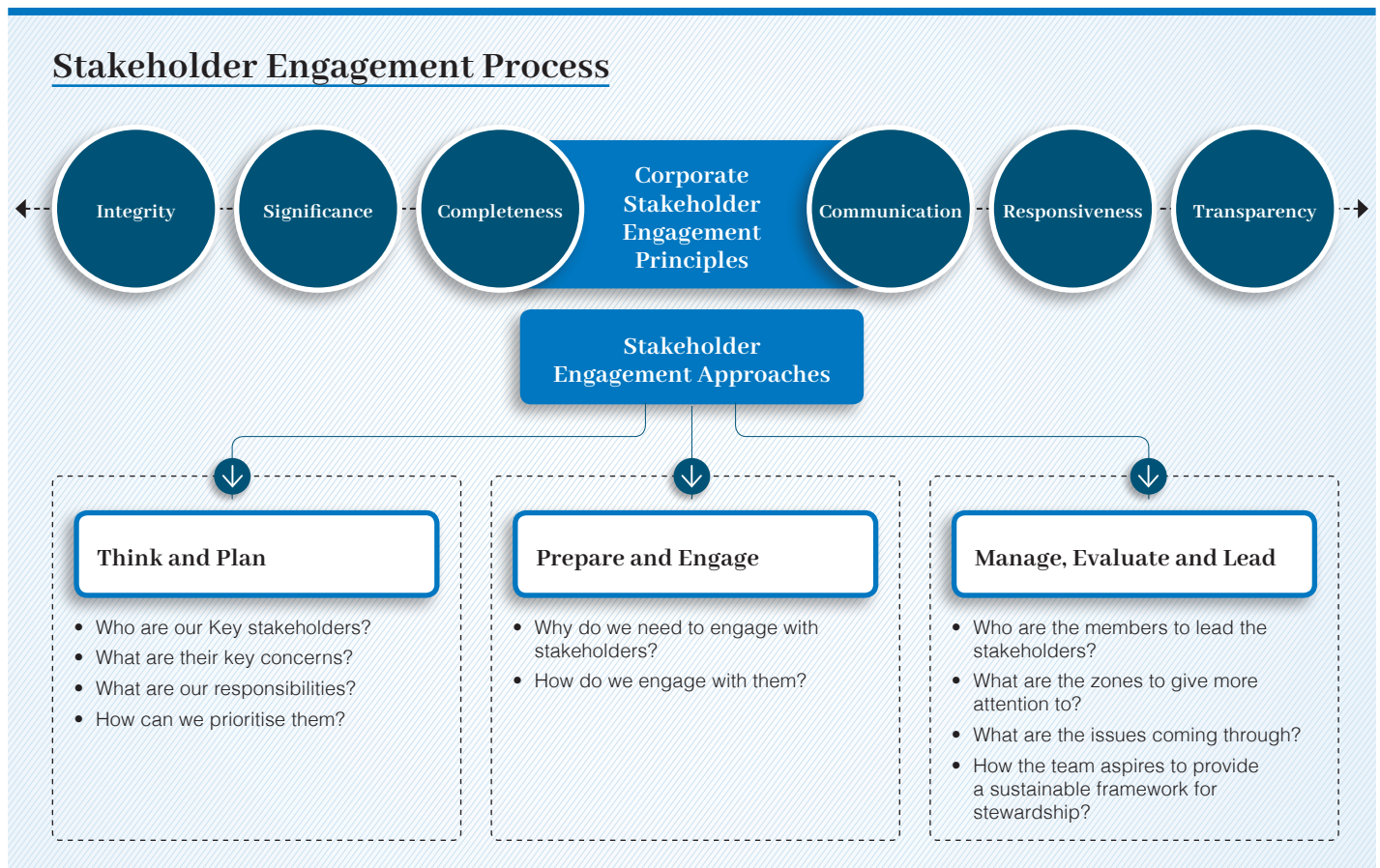
2.3 Stakeholders

P: 042 – 048

Our stakeholders are various individuals and organisations who are impacted by our activities as a financial institution. Our principal stakeholders are investors, customers, business partners, regulators, employees, the community and the environment.

2.3.1 Stakeholder Engagement

We seek to proactively engage with our stakeholders and communicate with them. The mode and frequency of engagement varies depending on the stakeholder group and the nature of the aspect addressed. Stakeholder engagement has a direct impact on the success of our Company.



2.3.1.1 Think and Plan

Our active engagements with diversified stakeholders have been able to fulfil our social expectations, minimise our reputational risk and positively influence the business environment. Our proactive stakeholder engagement strategies have led to a number of partnerships that have benefited local communities and environmental activities. All stakeholders in a particular group do not necessarily share the same concerns or the same opinions.

Stakeholder Groups



Stakeholder Key Concerns

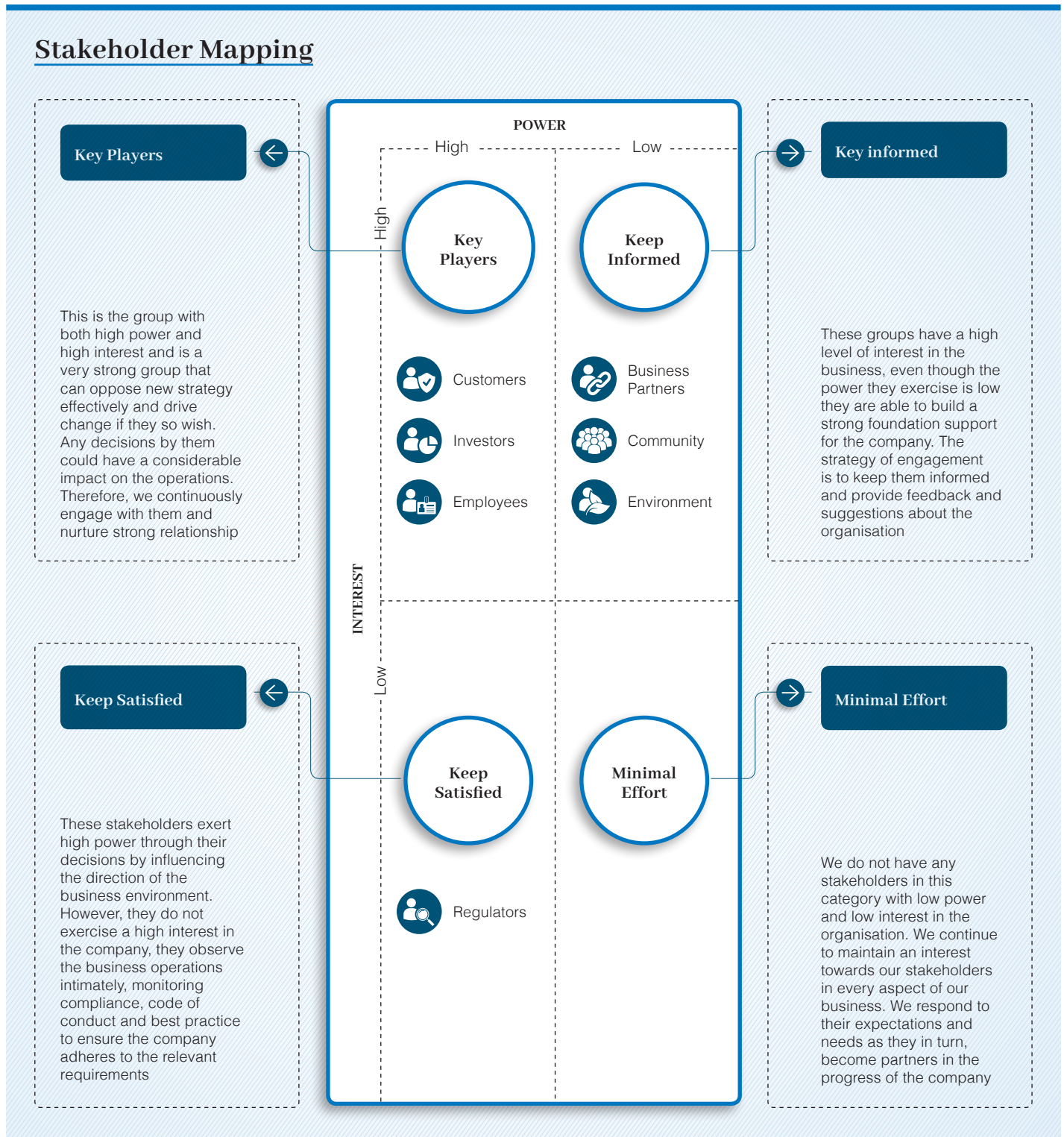
Consistent financial performance	Positive experience	Security	Living standard	Sustainability of the supply chain	Good corporate governance	Energy conservation
Sustainable returns	Accurate and reliable real time information	Employee health and safety	Social investment	Functionality of the supply chain	Fair and transparent framework and work practices	Environmental protection
Increased share value	Assurance of privacy	Remuneration, rewards and benefit schemes	Community development	Partner wealth maximisation	Ethically driven business model	Reducing carbon footprint
Integrity of Board and management	Keeping promises	Career development	Education and literacy		Legal compliance	Resource efficiency
Goodwill of the company	Product innovation	Well-being and work-life balance	Ethical sourcing		Promote voluntary compliance codes	
Safeguard asset quality	Technology driven financial solutions		Societal health & well-being			
Reinvest earnings	Ethical lending practices					
	Speedy complaint resolution					

Our key Responsibilities in Fulfilling Stakeholder Concern

Balancing profitability in the short term and sustainable profitable growth in the long term	Database protection and ensure high confidentiality	Demonstrate employee productivity, quality and leadership	Contribute to improving the quality of life of all members of the society	Address issues related to supplier chain	Develop and communicate a framework which promotes good governance and ethical behaviour at all levels	Social investment fund to develop products services that benefit society
Ensure optimal returns on investment	Avert unsolicited communication and intrusive surveillance	Safeguard human capital	Investment on citizens	Ensure healthy partnerships	Ensure compliance at all times	Reduce energy consumption and pollution
Reinvest earnings in the operating platform ensuring people, community, environment development and thereby support future growth momentum	Ensure company brand values and Code of Conduct	Provide a safe and enriching work experience	Supporting entrepreneurs		Provide timely and accurate information	Adopting green policies, practices and approaches to save the environment
Strengthen risk assessment and mitigation to support sustained growth	Provide positive customer experience	Promoting and maintaining harmonious relationships	Provide solutions for rural youth empowerment		Immediate response to queries made by the authorities	Engage in environmentally friendly green initiatives
Adhere to the Company's Code of Conduct whilst providing prompt response through management oversight		Mould future leaders through succession planning	Support women's economic empowerment		Comply with rules and regulations	Emission reduction
Public affairs management		Recognise exceptional performers	Encourage thrift and saving			Waste management through waste minimisation
		Organise activities to ensure work-life balance	Supporting on community health & well-being			

2.3.1.2 Stakeholder Mapping and Prioritising





Our stakeholder mapping process is based on Mandelaw's Matrix, prioritising and balancing the diverse stakeholder expectations. We take into account the influence exerted by the stakeholders on our Organisation and their interest in doing so. The required management response is also identified for stakeholders in different quadrants.




2.3.2.3 Preparation and Engagement

With a view of strengthening stakeholder engagement, we have taken steps to identify gaps and weaknesses in our Organisation and strengthen our internal systems. Given below are the analytical steps of understanding why we need to engage, how we need to engage, what are the modes of engagement and how often.

Stakeholder	Why?	How?	Mode	Frequency	
Investors Owners and the capital providers 	To get an insight on resource allocation to generate expected returns	Many open dialogue channels to clarify and get updated information	Annual reports	Annually	
		Discuss and review business performance against targets, revised forecasts, projections and industry benchmarks	Annual general meeting Interim financial statements	Annually Quarterly	
	Early engagement would reduce the likelihood of unexpected consequences for long-term operational strategies	Identify performance drivers, industry trends, opportunities and realign with business plans	Corporate website Announcement to CSE Investor forum Media releases	Ongoing Available when needed Annually Available when needed	
		Provide assurance on all regulatory and statutory compliance requirements			
	Customers Principal source of sustenance including loyal depositors and borrowers 	To get a better understanding of financial service needs, perceptions, behaviour, attitudes and values	Product design, advertising and marketing	Corporate relationships Area development officer	Ongoing Ongoing
			Face-to-face interactions at CDB outlets	Dealer network Media	Ongoing Available when needed
To provide sound advice and solutions to identified financial needs		Regular correspondence with account and facility holders	Advertisements Corporate website	Ongoing Ongoing	
		Annual customer surveys	Product launches	Ongoing	
To ensure service expectations are met		Island-wide outlet network	Social media	Ongoing	
To verify the accuracy of the furnished personal information		Access to ATMs with VISA debit card			
		Customer care and complaints handling services			
	Adhere to good governance and implements a robust control framework with embedded controls				

Stakeholder	Why?	How?	Mode	Frequency
Employees The key resource for competitive advantage and sustainable growth 	To ensure a safe and secure work environment that enhance productivity	Regular updates on company performance	Managers' meeting	Once a week
	To understand and respond to employee needs and concerns	Encourage career development through lifelong learning programmes and internal/external training	Branch meetings	Once a month
	To ensure employees are aligned to company's strategic direction	Integrated HR system for performance measurement and to enhancing productivity	Regional review meeting	Once a week
	To remain an employer of choice	Annual social events promoting work-life balance	CDB's social events	Annually
		Open door policy and protection	Internal announcements	Available when needed
		HR space integrated system	Continuous	
		Performance evaluation and reward mechanism	Continuous	
		Plan unveiling ceremony	Annually	
Community Social networks in quest of a common interest 	To obtain feedback from the community on our business performance and conduct	Set up school savings units	Wider reaching outlets	Ongoing
	To create awareness of our integrated sustainability commitment and initiatives	Set up fully-fledged computer centre to enhance IT literacy	Press releases	Available when needed
		Community development through investments	Scholarships	Annually
		Communication	Lab donations	Annually
			Investment on community	Ongoing
		Lending for rural economic development	Ongoing	
			Social media	Ongoing
Business Partners Critical element of value chain emphasising the synergistic effects 	To maintain and enhance healthy work relationships	Joint promotional campaigns	Supplier and business partner relationships	Ongoing
	To get their involvement in future planning	Conduct people development programmes collaboratively	Joint promotional campaigns	Available when needed
	To share mutual of understanding	Extended dealer network and marketing channels	Supplier product displays at CDB branches	Available when needed
	To build a more diverse product portfolio through sound partnerships		Business partner gatherings	Annually
Regulator Rule makers to ensure proper governance 	To ensure compliance with changing legal and regulatory requirements	Conduct forums on compliance meetings	Directives and circulars	Issuing when needed
	To mitigate adverse effects and risk exposure	Discussions on regulatory matters with corporate management, board members and external officials	Compliance forums, meetings and discussions	Quarterly
	To maintain healthy legal relationships with the authorities	Immediate response on regulators requests	Press releases	Available when needed
	To retain various operating licenses	Adhere to all mandatory regulatory requirements	Inspecting new rules and regulations	Daily
		Comply with all reporting standards and disclosures		

Stakeholder	Why?	How?	Mode	Frequency
Environment				
Advocates and activists	To increase the rates of renewable resource harvest, less pollution creation, decrease non-renewable resources utilisation	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.	Greenhouse Gas Emission analysis	Annually
Natural capital for existence and sustenance	To create a recycling, reducing and less consumption culture among stakeholders to preserve environment from potential damages	Conform with (and where possible, improve upon) all current environmental laws and regulations	Emission reduction Paper recycling Mobile mustering E-waste recycling Environmental cadet camp	Ongoing Ongoing Ongoing Ongoing Annually
	To make use of the co-operation and expertise of the authorities to develop more effective environmental policies	Undertake and publicise relevant CSR projects e.g. The successful wetlands, forest conservation project	Renewable energy Sound utilization	Ongoing

2.3.1.4 Managing, Evaluating and Leading

We have deployed key leaders to guide stakeholder groups in our Company's sustainability process. The sustainability team supports and promotes our sustainability commitment and policies. Since we believe sustainability is a team effort, we provide the needed framework to all our stakeholders to build and maintain strategic relationships to enable proactive engagement. The team provides guidance on gathering stakeholder feedback as well.

The frequency of engagement varies according to the stakeholder groups and the issues faced. By adopting a decentralised stakeholder engagement model, the individual business units undertake stakeholder engagement activities applicable to their particular area. Stakeholder Relations Forum, comprising business unit managers and executives, meets monthly to facilitate a coordinated approach to stakeholder engagement activities across the Group. A consistent message is communicated based on Company's Code of Ethics, Values and Strategy. Therefore, the team's responsibility is to support the value creation process of the main stakeholders by integrating ethical, social and environmental aspect into the daily business activities.

Responsibilities of the Sustainability Steering Committee

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

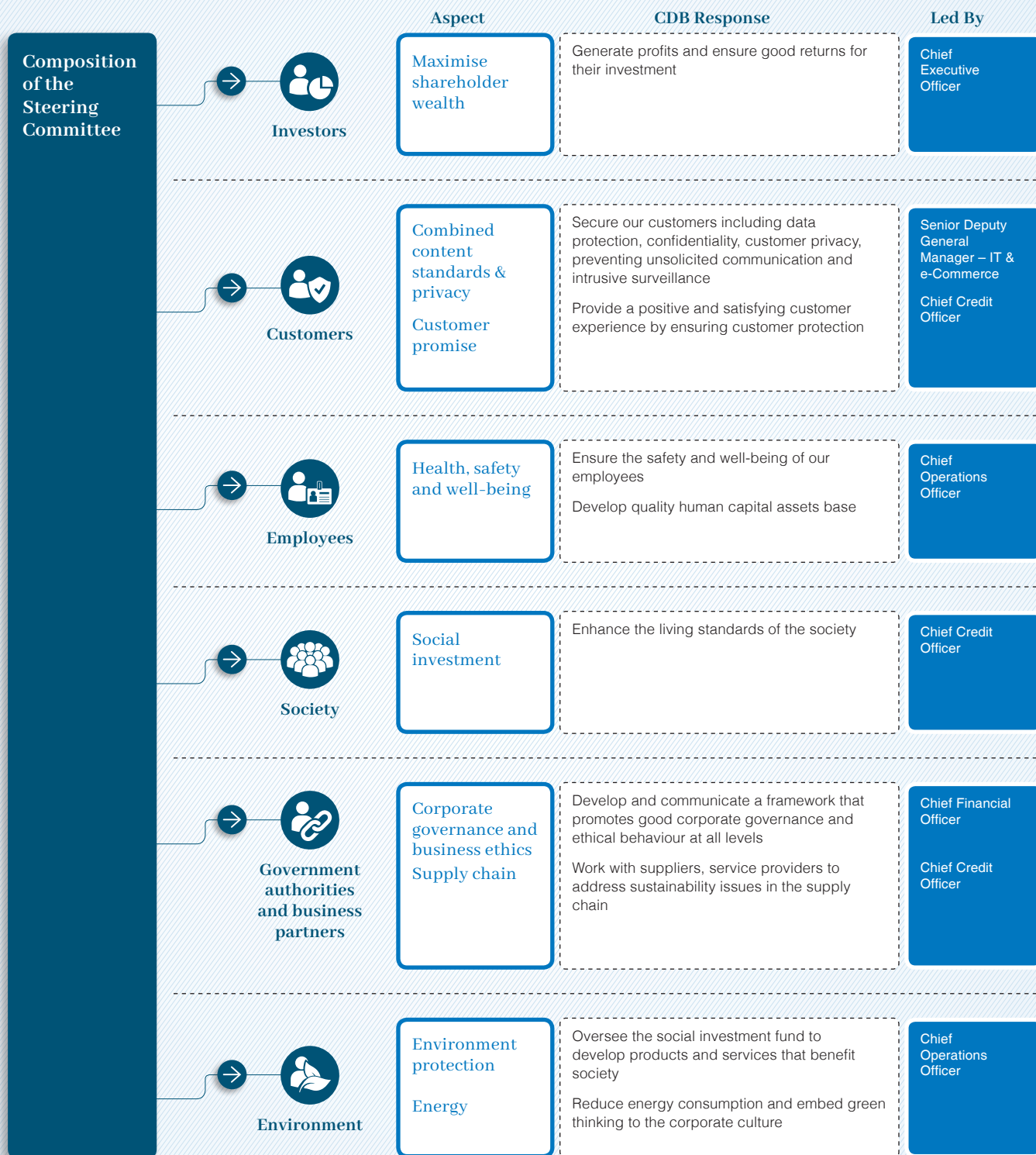
Review any issues affecting the products and services of the company in the marketplace

Identify and investigate emerging issues which are significant

Receive periodic reports on the state and effectiveness of the Business continuity plan

Oversee the management of risks related to sustainability and the environment and the company interactions with key stakeholders, including risk related to reputation

Composition of the Sustainability and Steering Committee



2.4 Sustainability and Materiality

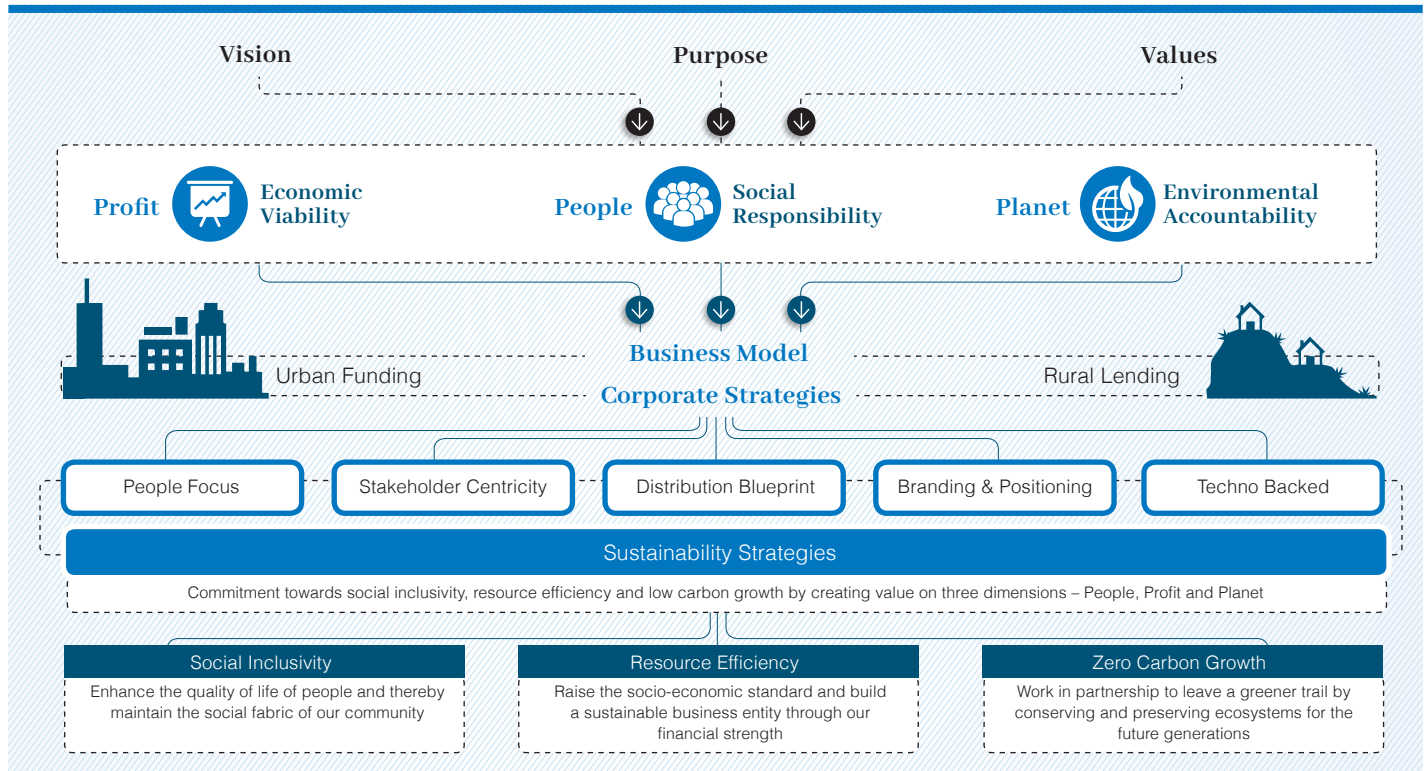
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Adopting sustainable work practices is a cornerstone of our business strategy. Our large client base encompasses a broad spectrum of the society. We mainly focus on three broad areas under our sustainability tripod, **uplifting the economic status of our stakeholders, preserving the environment and uplifting the community.**

2.4.1 Sustainability Sense

Our sustainability philosophy embraces social, environmental and economic well-being which permeates throughout our Organisation. Through our many community-led sustainability initiatives and by sharing our knowledge on improving the quality of life of people, we continually strive to be a role model in the industry.

Since our client base is diverse, our business model combines 'Urban Funding and Rural Lending' concept.



Our business model, position ourselves as a conscientious and formidable leader in the financial services industry by becoming a net lender to the rural economy. By supporting our people and by creating capacity for action and inspiring growth, we are poised to create healthier communities, foster personal growth, build strong connections and drive innovation.

Based on the principles of value creation, our Organisation has embarked on several initiatives to deliver increased stakeholder value and thereby strengthen the sustainability of our Nation.

2.4.1.1 Economic Value Addition

CDB considers economic value addition as one of our key priorities as it leads to local economic development, poverty alleviation, social and economic transformation, environmental stewardship and infrastructure development. Sustainability is deeply engrained in our business and is a key aspect of our Organisation. Hence, we do not utilise our shared assets for short-term profits.

Our approach to economic sustainability is based on our corporate policy and procedures and is directed by the Board.

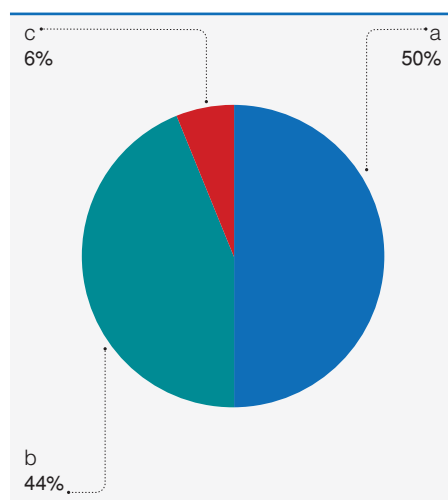
Economic sustainability is addressed throughout the Annual Report in sections including corporate governance, risk management and operational highlights.

Material aspects are addressed at Board and Corporate level meetings such as strategy formulation and implementation, risk assessment and internal controls, regulatory framework and governance and corporate social responsibility. Company's progress is detailed in the Financial Statements issued at regular intervals. Any material variances are discussed at Board meetings.

Economic performance is a critical factor in determining economic sustainability of our Company.

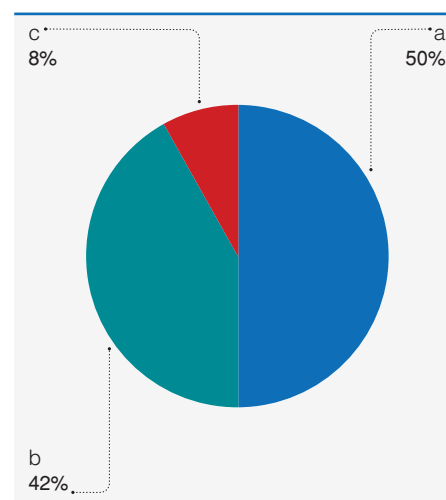
	2016/17	2015/16	2014/15	2013/14	2012/13
Direct economic value generated (Revenue Rs. Mn)	8,591	7,486	6,704	6,268	4,311
Economic value distributed					
Operating costs	1,333	1,369	1,229	937	688
Employee wages and benefits	910	697	567	498	361
Payment to providers of capital	4,905	3,784	3,573	3,715	2,544
Payment to government	391	430	342	227	176
Community investment	18	3	3	3	3
Economic value retained	1,032	1,202	989	888	538

Economic Value Added 2016/17



a – Economic Value Generated
b – Economic Value Distributed
c – Economic Value Retained

Economic Value Added 2015/16



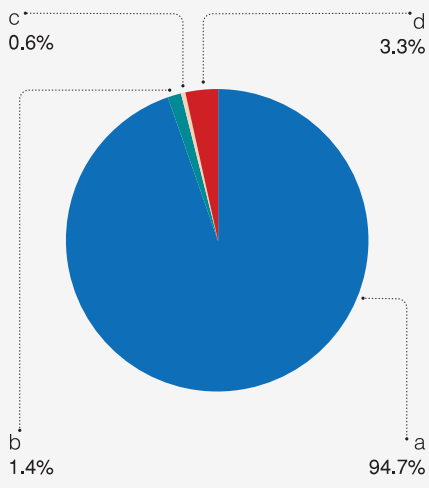
a – Economic Value Generated
b – Economic Value Distributed
c – Economic Value Retained

2.4.1.2 Economic Value Distribution

Value is created through our business activities using the stocks of capital available to us. It is imperative to understand our dependence and contribution to these forms of capital to assess our ability to create value over the long-term. The most significant outcome of our business activities is our contribution to socioeconomic development. This can only

be achieved by remaining profitable and relevant to the society we serve, and we are well positioned to continue lending responsibly.

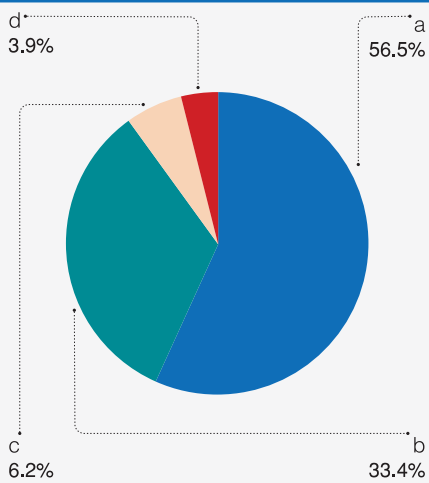
Value Distribution to Employees



- a – Compensation & Benefits
- b – Training & Development
- c – Talent Sourcing and Recruitments
- d – Welfare and Engagement

We aim to be the employer of choice. The employees enable the organisation to achieve its strategic objectives. In turn they are provided with a competitive remuneration and opportunities for development and growth. Value distribution for employees during the year under review is Rs. 910 Mn.

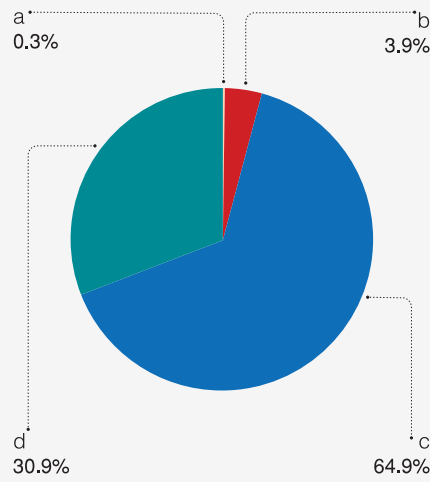
Value Distribution to Government



- a – Income Tax Expenses
- b – Value Added Tax on Financial Services
- c – NBT
- d – Crop Insurance Levy

We contribute to building our Nation through the payment of taxes and building stronger economies. Value distribution for Government during the year under review is Rs. 391 Mn.

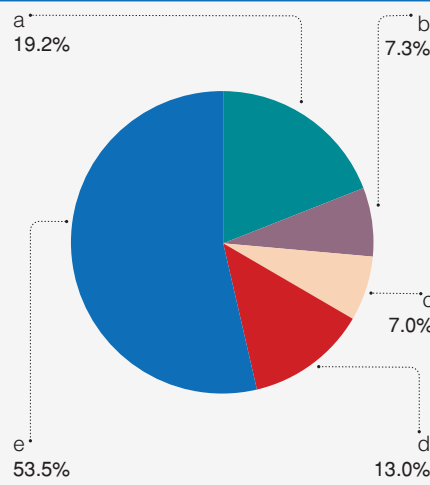
Value Distribution to Providers of Capital



- a – Finance Charges
- b – Dividends
- c – Interest on FD & Savings
- d – Interest on Borrowings

We provide satisfactory returns in terms of dividend and increase in share price to our providers of capital. Value distribution for providers of capital during the year under review is Rs. 4,905 Mn.

Value Distribution to Community



- a – CDB SisuDiri Scholarship Programme
- b – CDB Pariganaka Piyasa IT Lab Donation Programme
- c – Mihikatata Adaren
- d – CDB Hithawathkam
- e – CDB Autism Awareness Programme

We make a significant contribution to sustainable development of communities we operate in. Value distribution for community during the year under review is Rs. 18 Mn.

2.4.2 Materiality Matters

2.4.2.1 Defining Materiality

As per the Integrated Reporting Framework, we consider an aspect to be material if it substantially affects our ability to create and sustain value. In determining materiality, we follow a critical evaluation process of our value creation process and the issues identified through the stakeholder engagement process. Accordingly, we assess business risks and opportunities, external environmental factors that affect our business and also the social stability of our network.

2.4.2.2 Report Scope

We define the scope by identifying the objectives of materiality assessment, in particular the internal and external issues that matter most to our business and our stakeholders. Since there is a strong connection between our sustainability commitment and our business strategy, we strive to align all aspects of our strategy with the expectations of our stakeholders.

Hence, materiality is assessed based on four aspects – economic, environmental, social and cultural. Of these four, except for cultural aspects, the rest are concerns of our external stakeholders.

2.4.2.3 Our Approach

To determine the materiality, we continually evaluate the ever-changing operating environment. Whilst certain trends require a long-term perspective, we take a broad view of the local and global operating environment in monitoring our risk and opportunities. We also engage with our stakeholders closely to understand their perspectives and also take into consideration any emerging risks and opportunities within our perspective as well.

Material Matters

Business Environment

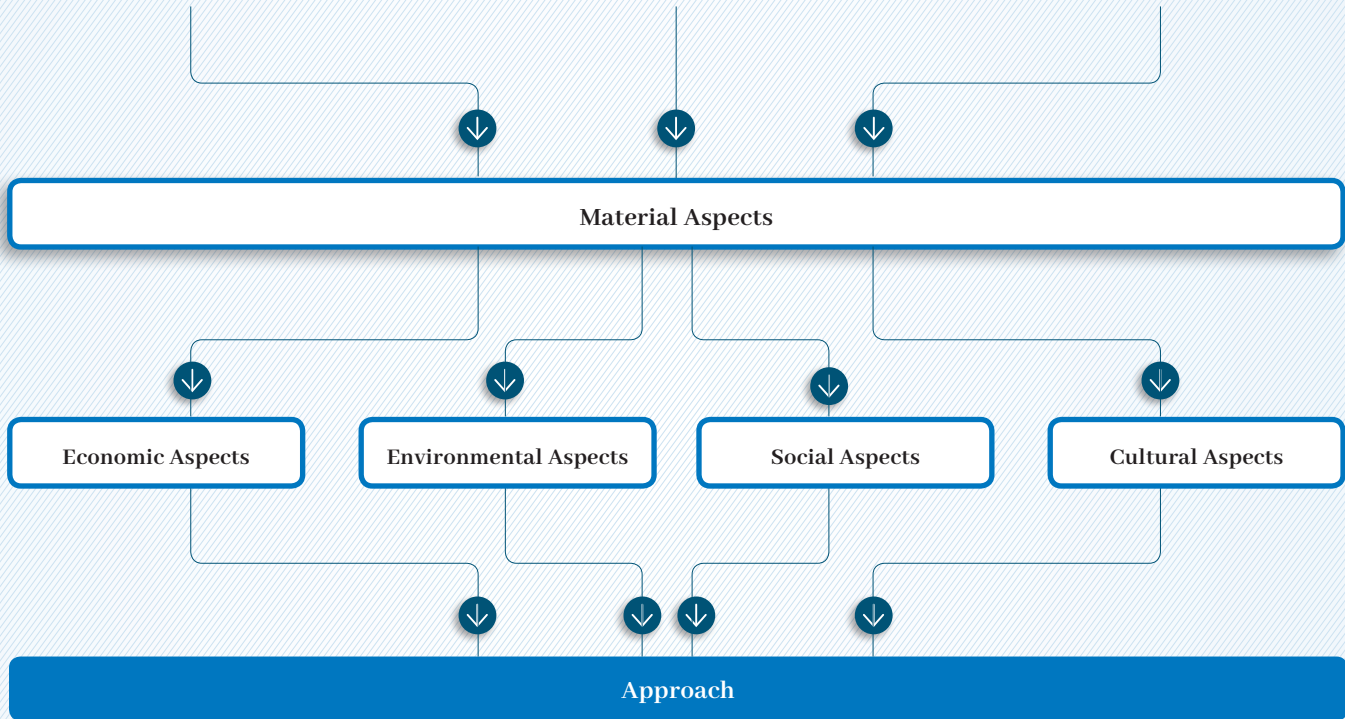
Analyse key trends and developments in our operating environment that could affect our organisation in achieving its strategic objectives

Stakeholders Analysis

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

Risk and Opportunity

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



Define the scope and objectives

Identify objectives of the materiality assessment and internal and external matters related to stakeholders.

Identify Material Matters

Create and compile material aspects affecting stakeholders and the company with the help of sustainability team

Categorising

Consider how material topics are connected and overlap to influence each other by segregating into main topics

Identify Materiality Drivers

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

Prioritising

Prioritise based on influence on stakeholder assessment and decisions and significance of economic, environmental and social impacts

	Material Determinants	Material Drivers
Economic	Build and nurture a sustainable organisation	Diversity of products and services offered
	Advance the ease and convenience of financing	Easy accessibility through numerous customer touch points
	Balance the acceptable risk return appetite	Efficient and high quality IT platform
	Standardise service level for all stakeholders	Standardised service excellence
	Widen the operational footprint of the Company	Trust and safety
	Efficient resolution of customer complaints on a real time basis	Initiate sustained growth transactions
	Increase access to a variety of financial solutions	
	Reduce the cost of services	
	Promote financial inclusion	
	Plan and forecast for an uncertain economic recovery	
	Comply with governance and ethics	
	Effective risk management	
	Integrity of information technology (IT) systems	
Social	Nurture an empowering environment	Build a performance driven culture
	Maintain a consistent community investment strategy	Develop new markets, revenue streams and customer bases
	Spur socio-economic development	Contribute to strengthening social welfare
	Responsible access to finance sources	Enhance facilities for employee development
	Enhance financial literacy	Continuous customer education on proactive actions
	Lend for social well-being and community upliftment	Improve communication within and out of the Company
	Be responsive to human needs and development	
Environmental	Inculcate a sense of responsibility and affinity towards the environment	Ensuring compliance with existing and developing environmental regulations
	Infuse green practices in each business activity	Contributing to behaviour change for a more sustainable future
	Resource and energy consumption	Reducing environmental impact
	Energy savings due to conservation and efficiency improvement	Encourage employees to adopt green practices
	Be a carbon conscious entity	
	Compliance with environmental laws and regulations	
Cultural	Embed ethical transformation throughout the Company	Maintaining high ethical standards.
	Encourage employee engagement	Responsible lending
	Practicing corporate values	Fair treatment to all stakeholders
	Consistent communication across the most developing platforms	Regulatory change
	Embed talent management	Building an innovative culture Developing high performing and competent people

2.4.2.4 Prioritising Materiality Aspects

The information on the relevance of each material aspect and the respective material drivers are evaluated based on their significance to internal and external stakeholders. The impacts are rated as high, moderate and low, based on the degree of significance of materiality towards the performance of the Company.

Aspect	Significance as per Sustainability Context	Aspect Boundary						Materiality		Reported
		Internal			External			To CDB	To Stakeholders	
		CDB	Employees	Customers	Community	Suppliers & Business Partners	Regulators			
Economic										
Economic performance	H	Δ	Δ	Δ	Δ	Δ	Δ	H	H	Yes
Environment										
Energy	M	Δ						M	M	Yes
Effluents and waste	M	Δ						M	M	Yes
Social: Labour practices and decent work										
Employment	H	Δ	Δ				Δ	H	M	Yes
Labour/management relations	M	Δ	Δ					M	M	Yes
Training and education	M	Δ	Δ					M	M	Yes
Equal remuneration for women and men	M	Δ	Δ					M	M	Yes
Social: Human rights										
Non-discrimination	M	Δ						M	M	Yes
Child labour	M	Δ						M	M	Yes
Forced or compulsory labour	M	Δ						M	M	Yes
Social: Society										
Local communities	M	Δ			Δ			M	M	Yes
Anti-corruption	M	Δ			Δ			M	M	Yes
Anti-competitive Behaviour	M	Δ					Δ	M	M	Yes
Compliance	M	Δ					Δ	M	M	Yes
Social: Product responsibility										
Marketing communications	M	Δ		Δ				M	M	Yes
Customer privacy	M	Δ		Δ				M	M	Yes
Compliance	M	Δ					Δ	M	M	Yes

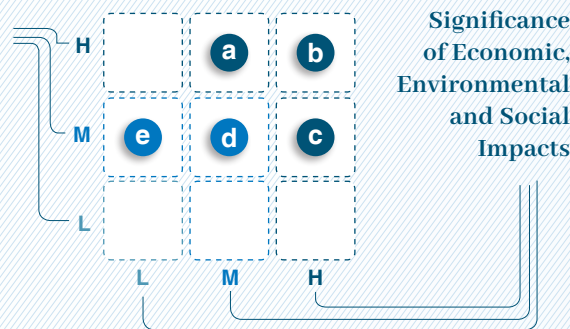
H – High M – Moderate L – Low Δ – Relevant to

2.4.2.5 Materiality Matrix

Based on the materiality analysis, the aspects are identified based on importance to stakeholders and importance to the Company in terms of economic, social, environmental and cultural significance. This helps to chart our course of sustainable value creation.

Influence on Stakeholder Assessment and decision

L - Low
M - Moderate
H - High



- a** EN3, EN29, SO1, SO8
- b** EC1, LA1
- c** EN6, EN23, EN31
- d** EN15, EN16, EN17, LA4, LA9, HR3, HR5, HR6, PR7, PR8, SO7, LA2
- e** PR6, PR9, LA10, LA11

2.5 Operational Performances

P: 055 – 059

We achieved the target funding during the year to realise the expected bottom line by mainly understanding customer requirements and developing products to meet those needs.

2.5.1 Industry Performances Vs CDB

	Industry			CDB		
	2016	2015	Change % (2015-16)	2016	2015	Change % (2015-16)
Deposits (Rs. Bn)	530	481	10	32.6	30.8	2
Lending (Rs. Bn)	962	796	20	43.1	38.5	14
NPL (Rs. Bn)	54	47.4	14	1.3	1.4	-7

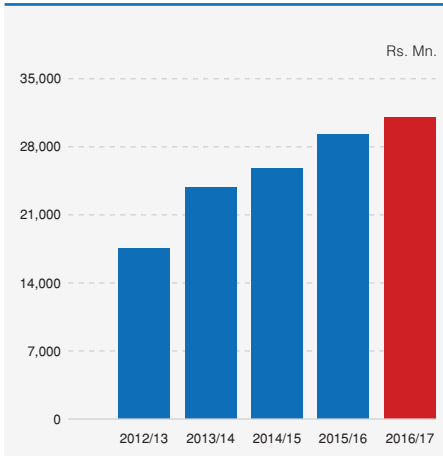
2.5.2 Deposits and Savings

Mobilisation

A very challenging pricing strategy was adopted by us for our deposit products during the financial year 2016/17 which was similar and sometimes below the deposit rates offered by commercial banks. Our cash flows were maintained at significantly low cost levels in line with our funding strategy for financial year 2016/17. However, deposit mobilisation became a challenge due to competitive market

rates, expectation of rising interest rates and lower liquidity levels in the market. The pricing competition with banks did not affect us, due to our healthy liquidity position and pre-approved funding lines. We achieved the target funding during the year to realise the expected bottom line by mainly understanding customer requirements and developing products to meet those needs.

Fixed Deposits Portfolio



2.5.2.1 Deposit and Savings Products

FD/Savings Product

Product Detail

CDB Savings



'CDB Savings' is the Company's general savings account which offers customers the highest interest rate for any savings account.

CDB Salary Plus



'CDB Salary Plus' enables the account holder to do more, above and beyond the limits of the monthly remuneration as follows:

- A personal loan upto 15 times the salary.
- Pre-approved lease facility.
- Quick cash up to two times the salary.
- Unlimited standing orders free of charge.
- Free SMS alerts and other value additions.

CDB Rankati



'CDB Rankati' is a minor savings account which ensures a secure future for children with an amazing array of gifts and benefits through different savings plans to suit customer's needs.

Mudarabha savings



Mudarabha (investment) is a contract between two parties; one providing 100% of the capital and the other providing specialist knowledge and expertise to invest the capital and manage the investment project.

CDB Dhana Surakum



'Dhana Surakum' is the general fixed deposit with a higher comparative interest rates

CDB Aee



'Aee' is a specialised deposit scheme which focuses on the female community

CDB *Deegayu*

'Deegayu' fixed deposit focuses on the senior citizens of the country with an improved margin over interest rates and with many benefits

Mudarabah Deposit



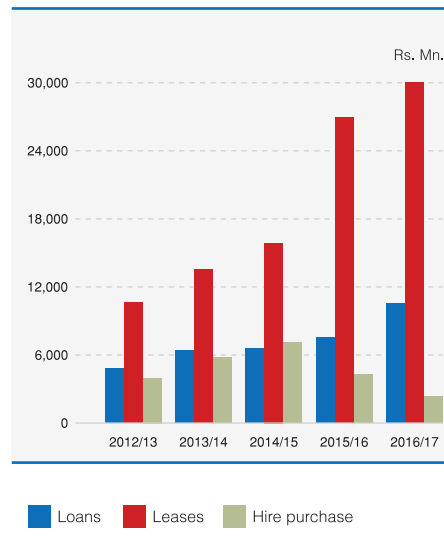
Mudarabah deposit is a profit sharing form of investment option available for customers, which operates under the Sharia guidelines (Islamic Finance). profits generated through such deposits at the stipulated period are being shared between customers and CDB at a pre-agreed ratio at the time of investment.

2.5.2.2 Credit Growth



Loans and advances recorded a 14% YoY growth to Rs. 43.1 Bn as at end of financial year 2016/17. Leasing, which largely comprises automobile financing recorded a high growth, although a major shift towards other forms of leasing was experienced during the year. There was a significant reduction in three wheeler financing and a major shift towards diversified products such as personal loans, housing loans and SME loans in tandem with economic conditions in the country.

Growth in the loan book was challenged by volatile interest rates and price competition in the market. There was greater focus on growing the gold loan portfolio with stringent risk mitigation plans during the year in review.

Total Loan Book



Loan Book	2016/17 Rs. Mn	2015/16 Rs. Mn	2014/15 Rs. Mn	2013/14 Rs. Mn	2012/13 Rs. Mn	2011/12 Rs. Mn	2010/11 Rs. Mn
Loans	10,945	7,494	6,515	6,390	4,829	3,414	1,870
Leases	29,930	26,766	15,800	13,528	10,637	7,193	4,903
Hire purchase	2,313	4,277	7,062	5,807	3,985	2,862	1,309
Total loan book	43,189	38,538	29,378	25,725	19,451	13,469	8,082

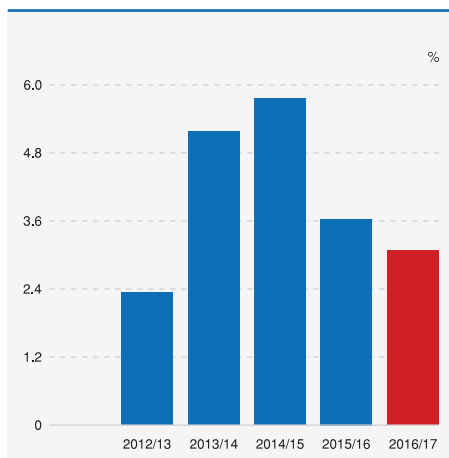
Product category	Brand name	Product Detail
Lease	 CDB Hybrid lease/permit holders	An attractive leasing package with special leasing rates for car enthusiasts to invest in hybrid vehicles.
	 Small car lease	CDB small car leasing is a brand which facilitates lending for small cars which are below 1,000cc.
	CDB 3W <i>Raja Selakili</i>	Special facility for three wheeler financing.
	 Flex leasing	A leasing package with flexible instalments to suit the income pattern of the customer.
	 Ladies leasing	A unique vehicle leasing facility for ladies to purchase a vehicle.
	Big ticket leasing	A leasing facility for high cost machinery and high tech equipment.
	 Aspire leasing	A leasing facility especially for professionals and businessmen.
	 CDB DIESEL ඩීසල් බැටා ලීස්	CDB diesel mini truck lease and diesel batta lease
	 CDB meezan Islamic Finance for Citizens	Ijarah
		A specially designed, tailor made facility to meet customer's vehicle leasing needs.
Hire purchase	CDB hire purchase facility for registered vehicles.	Provides lending to purchase registered vehicles.
Loan	 CDB GOLD LOAN SERVICES	CDB gold loans personal loans housing loans vehicle loans
	 CDB Personal LOAN	'CDB Privilege' personal loan
		Offers facilities to non-executives, executives, doctors and professionals with low interest rates and added convenience.
	 CDB meezan Islamic Finance for Citizens	Murabaha
		Murabaha is the most popular and most common lending facility in Islamic financing.
	 CDB SHOP HOUSE	CDB Shop House
		Offers a unique concept to our customers providing them an opportunity to obtain a housing loan, opportunity to start a business and gives added convince of having both house and shops under one roof.

2.5.2.3 Asset Quality

Gross NPL ratio of 3.08% as at end of financial year 2016/17 was a significant improvement compared to 3.62% recorded in the previous financial year and the industry average of 5.6%. This is attributed to the meticulous credit evaluation process, continuous monitoring, strong post disbursement follow up and effective branch level monitoring mechanisms adopted.

CDB Customer Care Centre constantly communicates and engages with customers and there by contributes to reducing exposure to bad credit. Additionally, non-performing loans are segregated to different segments and monitored and addressed individually. Also two special teams were deployed to serve clients segments based on the age of the loan facility.

NPL Ratio



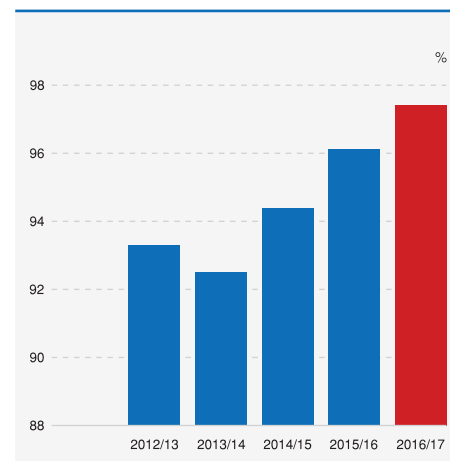
	2016/17 Rs. Mn	2015/16 Rs. Mn	2014/15 Rs. Mn	2013/14 Rs. Mn	2012/13 Rs. Mn	2011/12 Rs. Mn	2010/11 Rs. Mn
Performing accommodations	42,460	37,642	28,182	24,672	18,120	13,243	7,685
Non-performing accommodations	1,347	1,412	1,727	1,349	431	225	290
NPL Ratio (%)	3.08	3.62	5.77	5.18	2.32	1.67	3.64

2.5.2.4 Collection Ratio

We have always followed a close monitoring and control mechanism for collections, adopting IT processes to ensure accurate analysis of threats, weaknesses and deviations. We maintained a healthy collection ratio of 97.45% in the financial year under review which was an improvement from 96.10% in financial year 2015/16.

Each branch manager, recovery officer and sales officer bears responsibility for collections which has resulted in a stable and credit worthy customer portfolio. The monitoring process also includes monthly reports presented to the Board who takes apt decisions accordingly to maintain a healthy collection ratio.

Average Yearly Collection Ratio



3.

3.1

3.2

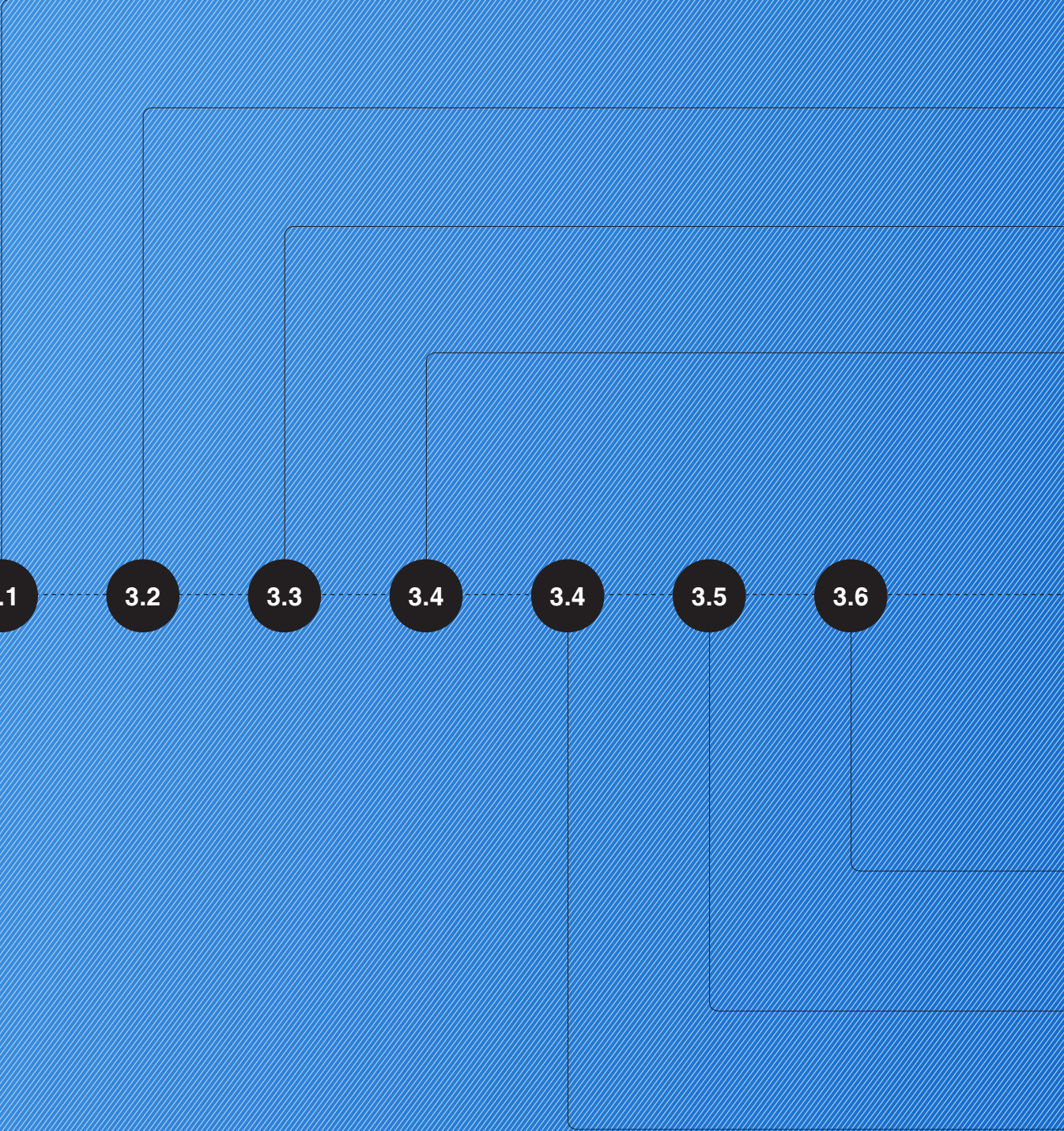
3.3

3.4

3.4

3.5

3.6



→	Financial Capital	62
→	Manufactured and Intellectual Capital	70
→	Human Capital	84
→	Social and Relationship Capital	108

MANAGEMENT DISCUSSION AND ANALYSIS

→	GRI Content Index	140
→	Independent Assurance Report	138
→	Natural Capital	124

3.1 Financial Capital

P: 062 – 069

Financial Capital Value Creation Model

(Inputs)

Inflow of funds
(Generation of Funds)

Investors
Rs. 6.2 Bn
12% from total funds

Deposit Holders
Rs. 32.6 Bn
63% from total funds

Bankers and Financial Intermediaries
10.9 Bn
21% from total funds

Debenture Holders
Rs. 2 Bn
4% from total funds

Inputs

Utilisation of funds

(Process)

Property Finance
Rs. 1 Bn

Hire Purchases
Rs. 2.3 Bn

Term & Vehicle Loans
Rs. 6.5 Bn

Finance Leases
Rs. 30 Bn

Process

Outputs

Gold Loans
Rs. 600 Mn

Treasury Investments
Rs. 5.6 Bn

Margin Trading
Rs. 29 Mn

Personal Loans
Rs. 790 Mn

Islamic Finance
Rs. 2.1 Bn

(Output)

Cash
Generated

Revenue
Rs. 8.6 Bn

Net Interest
Income
Rs. 2.9 Bn

Profit after Tax
Rs. 1 Bn

Earnings per Share
Rs. 18.53

Return on Assets
1.93%

Return on Equity
17.83%

Capital Adequacy
Tire I – 12.3%
Tire I & II – 14.1%

Net Assets per
Share
Rs. 114.95

Outcome

Distribution of
Funds

Investors
Dividend per Share
Rs. 3.5 Proposed

External Fund
Providers
Interest Expense
Rs. 4.7 Bn

Employees
Personnel Cost
Rs. 880 Mn

Government
contribution to
government
Rs. 391 Mn

Community and
Environment
contribution to
community
Rs. 18.5 Mn



Highlights



Challenges



1. Higher interest rate volatility
2. Introduction of loan to value ratio (LTV)

Priorities for 2017/18



1. Aggressive growth in diversified segments
2. Improve the digital business origination
3. Strengthening the wider outreach

What we consider as Financial Capital is, essentially the pool of funds available to CDB. This includes, the capital raised through financing (equity, debt), operations and investments.

Each year, we continue to implement financial strategies that enhance our financial capital to enable us to carry out the day-to-day business activities of the Company and strengthen our ability to create value for all the stakeholders of our business.

Doing so requires us to effectively manage our risks, assess the wider economic impacts of our activities on society and maintain a balance between good corporate governance, while at the same time staying true to the values on which our business is built.

The year under review was one of transition and consolidation for CDB. It was a year to sustain and build on our previous achievements, amidst certain dramatic developments in the external environment. Coupled with our balance sheet structure and on a growth journey within a risk appetite framework as a respected, responsible, socially and environmentally conscious public deposit taking Non-banking financial institutional corporate citizen.

Given below are some key financial indicators that demonstrate our ongoing efforts to enhance our financial capital.

3.1.1 Key Financial Indicators

	CDB		Industry as at
	2016/17	2015/16	31st December 2016
Financial Position			
Total Asset (Rs. Bn)	53.9	50.6	1,211.9
Loans, Leasing and other advances (Rs. Bn)	43.2	38.5	962.7
Deposits (Rs. Bn)	32.6	30.9	531.0
Borrowings (Rs. Bn)	13.0	12.3	438.7
Shareholders' Fund (Rs. Bn)	6.2	5.1	146.1
Key Performance Indicators			
Return on Equity (ROE) (%)	17.8	21.5	23.1
Return on Assets (ROA) (%)	1.9	2.3	4.0
Net Interest Margin (NIM) (%)	5.52	6.90	7.9
Assets Quality			
Gross NPL (%)	3.1	3.6	5.3
Net NPL (%)	1.1	1.6	1.2
Capital Adequacy			
Tier I (Minimum 5%)	12.3	11.7	11.4
Tier I & II (Minimum 10%)	14.1	11.7	11.7
Capital Funds to Total Deposits			
(Minimum 10%)	21.7	15.7	27.0

3.1.1.1 Total Assets

CDB's total asset base reached Rs. 54 Bn as at 31st March 2017, with a growth of 7%. The growth reflects the changes that have taken place in our balance sheet structure, in line with the risk appetite framework for steering the Company towards sustainable growth. Loans & Receivables grew by 12% YoY from Rs. 39 Bn to Rs. 43 Bn, which was fueled by leases and loans & advances growing by 10%, 25% respectively despite a reduction of 50% in hire purchase portfolio.

The policy changes on Loan to Value (LTV) ratio and volatile interest rates constrained the credit growth of CDB, despite certain changes effected to our approach to address the challenges in the operating environment.

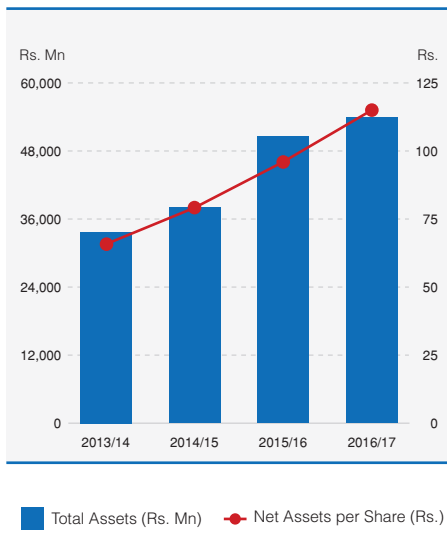
We re-entered the registered (used) three wheeler market as the 25% LTV threshold on new three wheelers has substantially

squeezed the new three wheeler market size. The collection and recoveries in this segment would be closely monitored to ensure collections and portfolio quality to be at expected levels.

The gold backed loans, which we aggressively relaunched during the period under review, has given us a good start with the underlying portfolio increasing from Rs. 232 Mn to Rs. 603 Mn during the year. With the initiatives taken, we are confident that this portfolio will substantially grow during the next financial year. We intend to impose a 10% ceiling on the gold loan portfolio, in relation to the total loan book, considering specific risks associated in this area.

Other diversified areas of property backed lending and personal loans also performed well as we cautiously grow our portfolios in these areas. We are also intending to launch our credit card shortly, as much of the ground work in this regard has already been done.

Total Assets vs Net Assets per Share



3.1.1.2 Non-Performing Loans (NPLs)

The Company has been successful in its efforts to maintain a quality portfolio. Apart from the recovery efforts, the prudent credit policies adopted, the continuous and consistent credit evaluation process and effective post sanction monitoring have all contributed to raising the quality of the credit portfolio. A significant reduction in the stock of repossessed vehicles contributed substantially to the bottom line of the financial year. Focus on this area was further strengthened during the year with advanced controls and risk monitoring processes.

The gross non-performing loans ratio has improved to a healthy level of 3.08% from 3.6% of the last year end. Our loan loss coverage of 60% was higher than many of our peers, a reflection of the prudent provisioning policy of the Company. Cumulative loan impairment provision stood at Rs. 894 Mn. as at 31st March 2017. When the value of repossessed stocks was considered, the coverage would be 80%.

3.1.1.3 Impairment Charges

The improvement in asset quality has contributed positively towards impairment charges. Impairment charges and disposal deficits was recorded at Rs. 226 Mn during the year, in comparison to the Rs. 399 Mn recorded in the corresponding previous year. This resulted in a net reduction of Rs. 173 Mn.

3.1.1.3 Deposits and Borrowings

CDB's deposit base reached Rs. 33 Bn against the previous year figure of Rs. 31 Bn, which reflects a growth of 6% YoY, amidst rising interest rates and severe competition in the market. The Company has struck a balance between the retail funding and corporate funding, whilst managing the interest rate risk and maturity gap in an efficient manner.

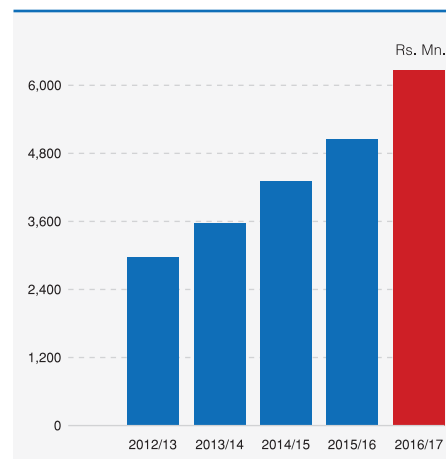
CDB's bank and other long-term borrowings recorded at Rs. 13 Bn against the Rs. 12.3 Bn recorded in the previous financial year. The higher interest rates that prevailed in the market has affected the increase in the long-term borrowings portfolio. However, we have maintained the deposits to borrowings composition at 70:30, which is same as that of the previous financial year.

The savings portfolio remained flat at Rs. 1.5 Bn during the year under review. With the intention of enhancing customer service, CDB intends to launch CDBiNet which enables an online platform to customers in transaction processing. The Company will create a competitive service platform to enhance the convenience and service standard for customers in the expectation of accelerated growth in the savings portfolio.

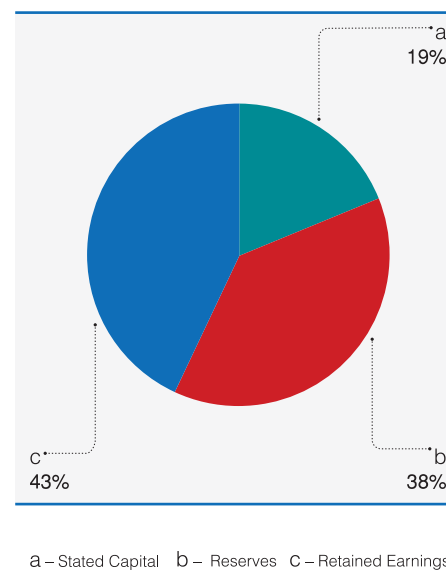
3.1.1.4 Shareholders' Funds

Shareholders' funds recorded at a land mark figure of Rs. 6.2 Bn against the corresponding Rs. 5.1 Bn previous year, which reflects a growth of 23.54% YoY.

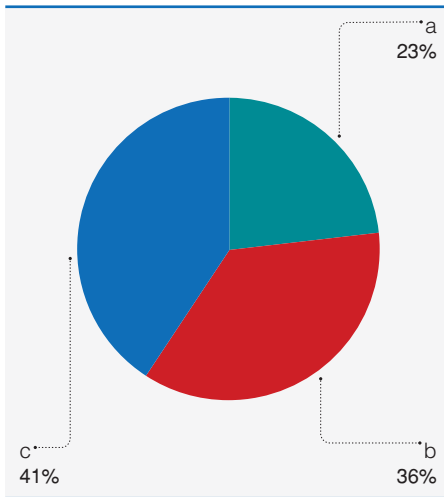
Total Shareholders' Funds



Total Equity 2016/17



Total Equity 2015/16

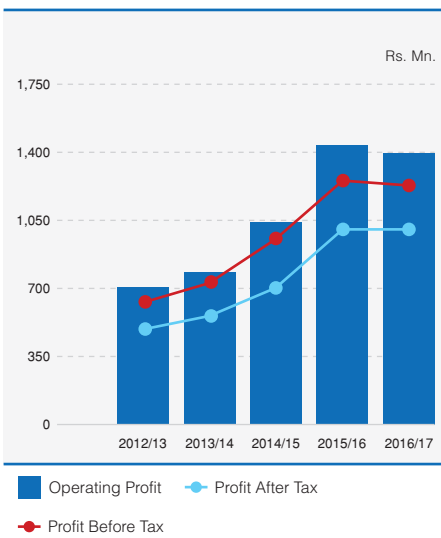


a – Stated Capital b – Reserves C – Retained Earnings

3.1.1.5 Profitability

Aided by the restructuring of its balance sheet, CDB surpassed Rs. 1 Bn in profit after tax (PAT) for the second consecutive year, amidst a challenging external environment. The profit before tax (PBT) remained at Rs 1.2 Bn, compared to the previous financial year.

Profitability



3.1.1.6 Revenue

The Company's revenue recorded Rs. 8.6 Bn, reflecting a growth of 15% against the previous financial year's figure of Rs. 7.5 Bn.

Net Interest Income (NII), the main source of income representing over 74% of the total operating income of the Company, declined by 6% during the year under review due to the high interest rates scenario that prevailed. This is reflected in the increase of interest expenses by 31%, which reached Rs. 4.7 Bn against the 14% growth in interest income of Rs. 7.5 Bn.

The above developments led the Net Interest Margin (NIM) to decrease to 5.5% against the corresponding 6.9% recorded for 2015/16, a reflection of the pressure exerted on margins due to the rising interest rates during the year under review. CDB expects the NIM to improve in F/Y 2017/18 with the repricing of the loan portfolio and the restructuring initiatives undertaken in the year under review.

CDB's other income has positively contributed to the bottom line with an increase of 25%, which reached Rs. 785 Mn against the corresponding figure of Rs. 628 Mn of the last financial year. The Company is focused on continuously improving the fee based income for creating a positive impact to the bottom line.

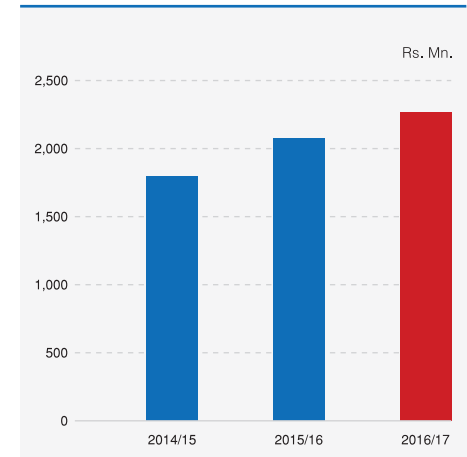
3.1.1.7 Operating Expenses

The Company's operating expenses grew by 9.30% from Rs. 2 Bn to Rs. 2.3 Bn, which is mainly due to higher personnel expenses triggered by salary increments and depreciation on capital expenditure. CDB added seven outlets to the branch network and relocated three outlets based on the new branch concept.

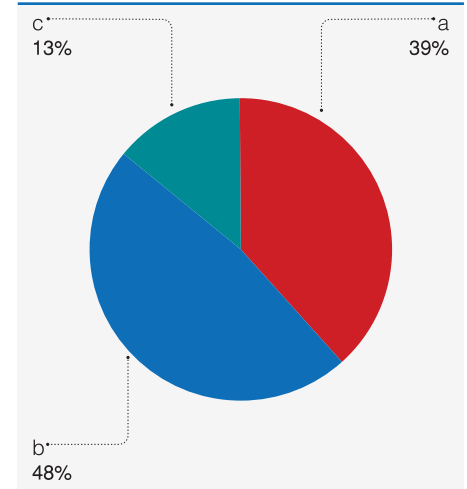
The cost to income ratio (excluding VAT and NBT on Financial Services) stood at 58% for the year against the 53% in the previous financial year. The negative impact on cost to income ratio is mainly due to reduced margins and increased expenses

on personnel and administration. However, CDB's overheads to revenue ratio stood at 26%, which is on par with the industry and we have taken measures to improve cost to income ratio by restructuring the balance sheet and improving the net interest margin.

Operating Expenses



Operating Expense Composition



a – Personnel Cost C – Marketing and other Expenses
b – Premises, Equipment and Administration Expenses

3.1.1.8 Capital Adequacy

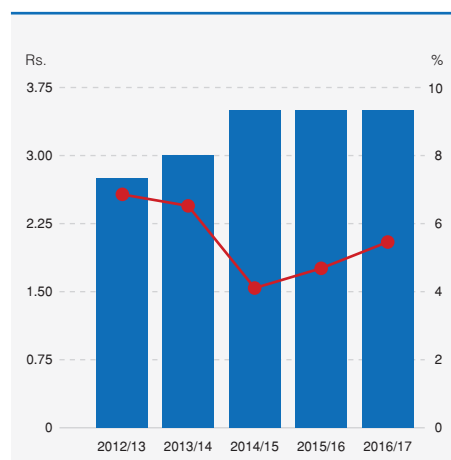
The capital adequacy ratios at Tier I and Tier I & II levels recorded at 12.3% and 14.1% respectively, showing an improvement from the corresponding 11.7% (Tier I) and 11.7% (Tier I & II) in the last financial year. The Company issued Rs. 1 Bn worth debentures during the year under review to strengthen the Tier II Capital.

As at 31st March		2016/17 %	2015/16 %
Core Capital Ratio	Core Capital	12.3	11.72
	Risk-Weighted Assets		
Total Capital Ratio	Capital Base	14.1	11.74
	Risk-Weighted Assets		

3.1.1.9 Dividend

The Company proposed a final cash dividend of Rs. 3.50 per Share, subject to the approval of the shareholders at the AGM to be held on 30th June 2017.

Dividends per Share vs Dividend Yield



■ Dividends per Share ● Dividend Yield

3.1.1.10 Market Price of the Share

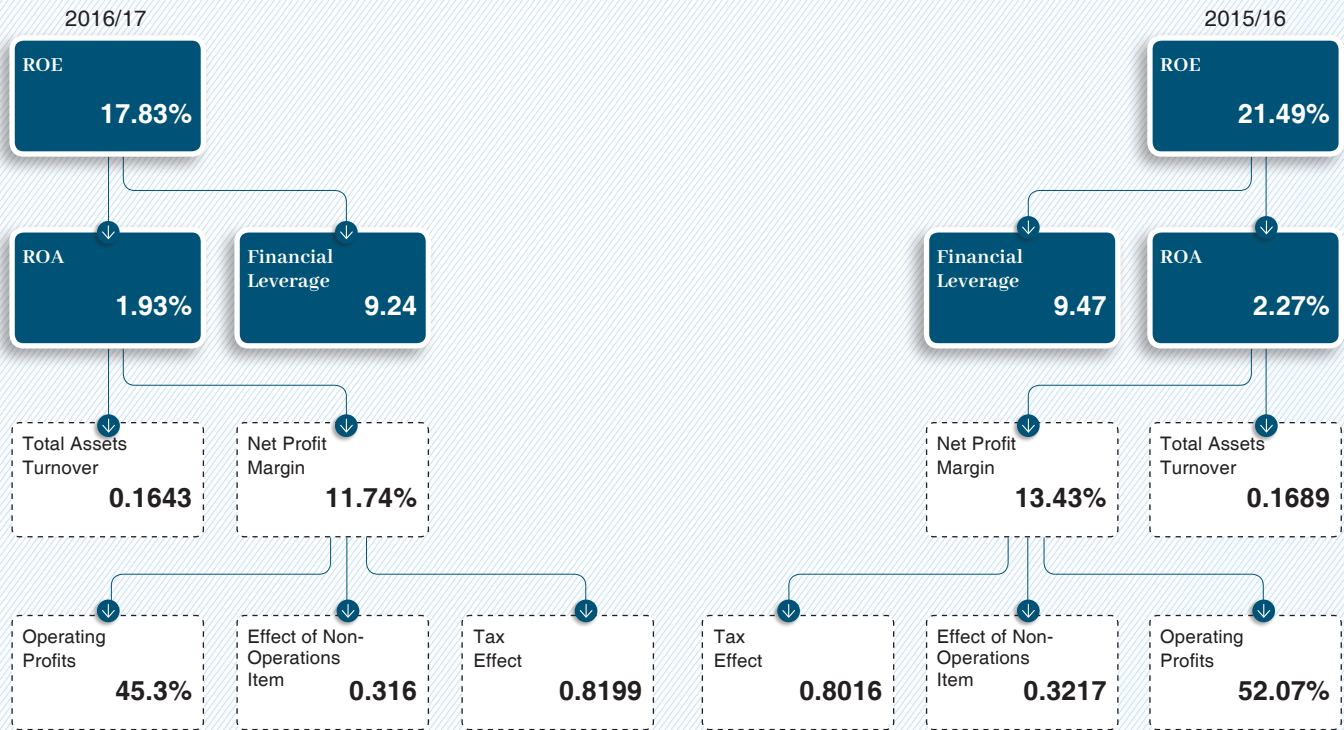
The market price of CDB voting share as at 31st March 2017 stood at Rs. 64.20, compared to the last traded price of Rs. 75.00 at the end of March 2016.

Net Asset Value per share as at 31st March 2017, recorded a growth of 23.5% from Rs. 93.03 to Rs. 114.93, while Earnings per share for 2016/17, stood at Rs. 18.53 against the corresponding year's Rs. 18.51.

Key Performance Indicator	2016/17	2015/16	2014/15	2013/14	2012/13
EPS (Rs.)	18.53	18.51	12.92	10.33	9.99
NAV Per Share (Rs.)	114.93	93.03	79.22	65.87	54.6
Return on Equity (%)	17.83	21.49	17.81	17.16	18.57
Dividend Per Share (Rs.)	3.50*	3.50	3.50	3.00	2.75
Dividend Payout Ratio (%)	18.89	18.91	27.08	29.04	30.52
Credit Rating	(SL)BBB	(SL)BBB	(SL)BBB	BBB/P2	BBB/P2

*Proposed

Investor Value Creation Model – Du Point Analysis



The return on equity in 2016/17 recorded at 17.83% which has declined from the previous year figure of 21.49%. The main reason was by net profit margin which recorded at 11.74% against the corresponding margin of 13.45%, further the operating profits margin has declined to 45.30% in 2016/17 in comparison to the previous year figure of 52.07%. The negative impact on margin is due to the declining of net interest income by 6%, which reflects the contraction in margin due to high interest rate scenario prevailed, where the interest expenses has increased by 31% against the interest income increase of 14%.

3.2 Manufactured and Intellectual Capital

P: 070 – 083

Manufactured and Intellectual Value Creation Model

(Inputs)

Property, Plant & Equipment

Research and Development

Product innovation and Service enhancement

Process Development

System of internal Control

Digitalisation

Brand Equity

Accessibility (Branch Network)

Inputs

(Process)

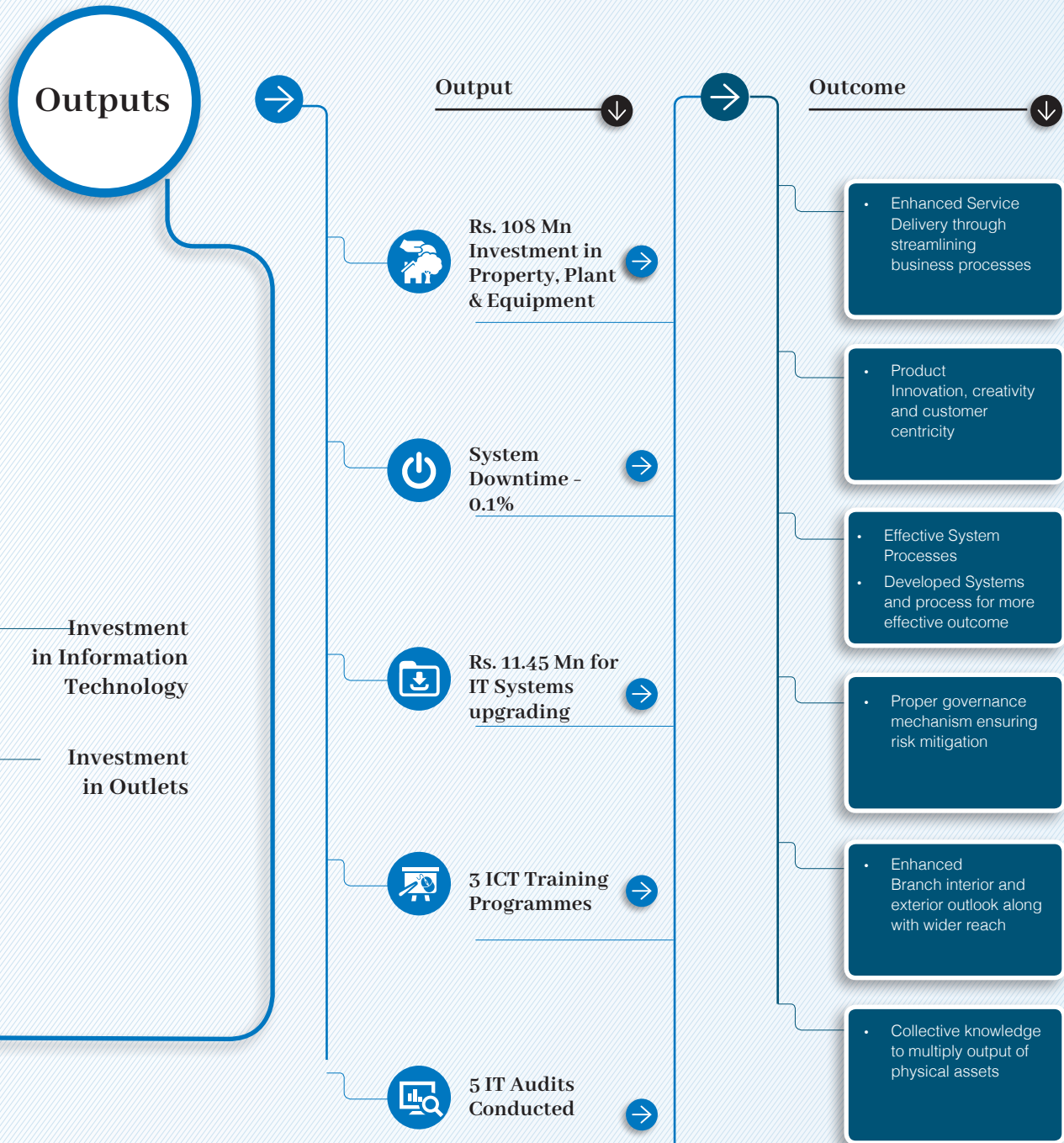
Employee Competency

Process & Service Enhancement

Research Development

Enhanced Efficiency

Process





Highlights



Cash deposit machines introduced

CDBiNet platform

24/7 customer care service

Challenges

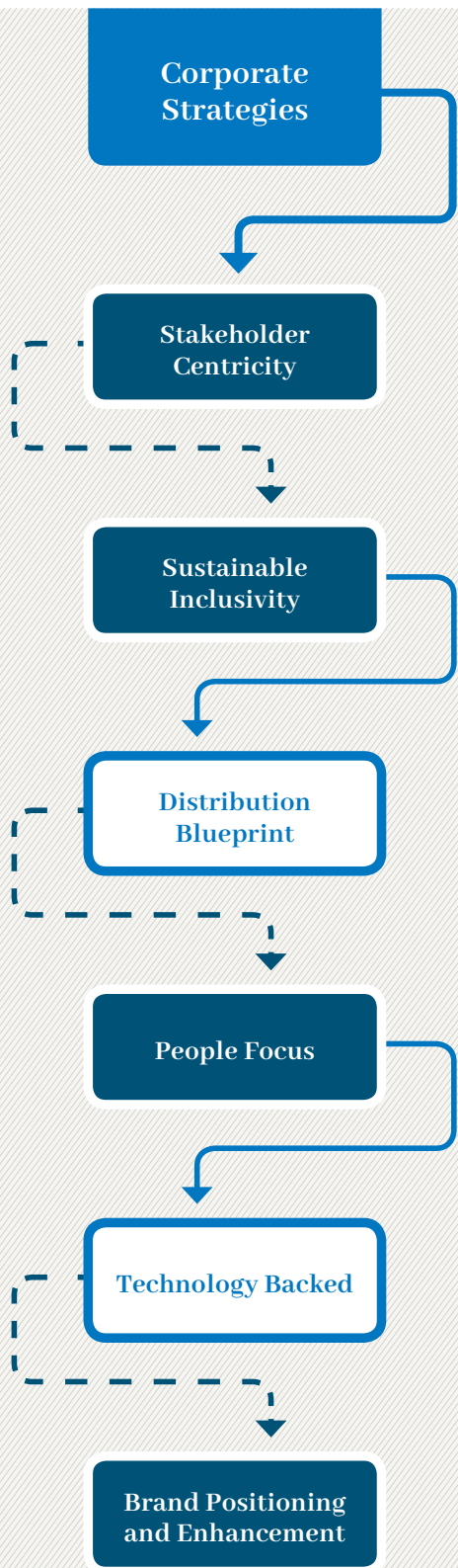


- 1. Managing cyber risks
- 2. Adapting to a fast growing new digital platform
- 3. Creating a new customer experience

Priorities for 2017/18



- 1. Branch digital transformation
- 2. Digitalising operational workforce
- 3. ISO certification



Manufactured capital refers to the investment that is made on material goods and infrastructure of the organisation that contribute directly to the service provision. CDB identifies manufactured capital as an important element for the sustainable development of our organisation.

The efficient use of manufactured capital enables an organisation like CDB to be responsive to market needs, which leads us to be innovative and faster in getting our products and services to market.

The investment made on technology helps to reduce the inefficient usage of resources, which helps us to focus more on giving better services to our clients and increase customer satisfaction.

CDB considers intellectual capital as one of its key driving assets, that has contributed immensely to the growth of the Organisation over the period of time and which has enabled the Organisation to stand today as one of the largest financial institutions operating in the NBFI sector in the country.

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 & Engagement
- Continuity

Intellectual Capital Policy

The Intellectual Capital Policy is 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.

Key Performance Indicators	2016/17 Nos.	2015/16 Nos.	2014/15 Nos.
No. of branches opened	7	3	0
No. of branches relocated	1	6	2
Additions to property, plant & equipment (Mn)	108	320	522

3.2.1 Investments of Manufactured Capital

To become the financial powerhouse in the nation, CDB believes that customer reach is a key strategy to us and, therefore to achieve this, during the year we expanded our branch network, in order to reach our customers and give them a better customer service.

3.2.2 Customer Reach

CDB has always focused on superior branding, clear market segmentation and a well-defined corporate positioning to achieve business excellence. CDB's consistent success can be attributed to the adoption of a diverse portfolio of value added financial services and superior customer service couple with commitment to enterprise governance.

CDB is guided by a people driven business approach 'Strategies bet on people to succeed'; a salutation to the valuable human capital it possesses.





A vital resource...the **brains, brawn, sweat** and toil that prepares the **'land'** for enterprise and **who drive the value creation and delivery process...our employees.**





3.2.3 Intellectual Capital Components

CDB's Intellectual capital comprised with six main components

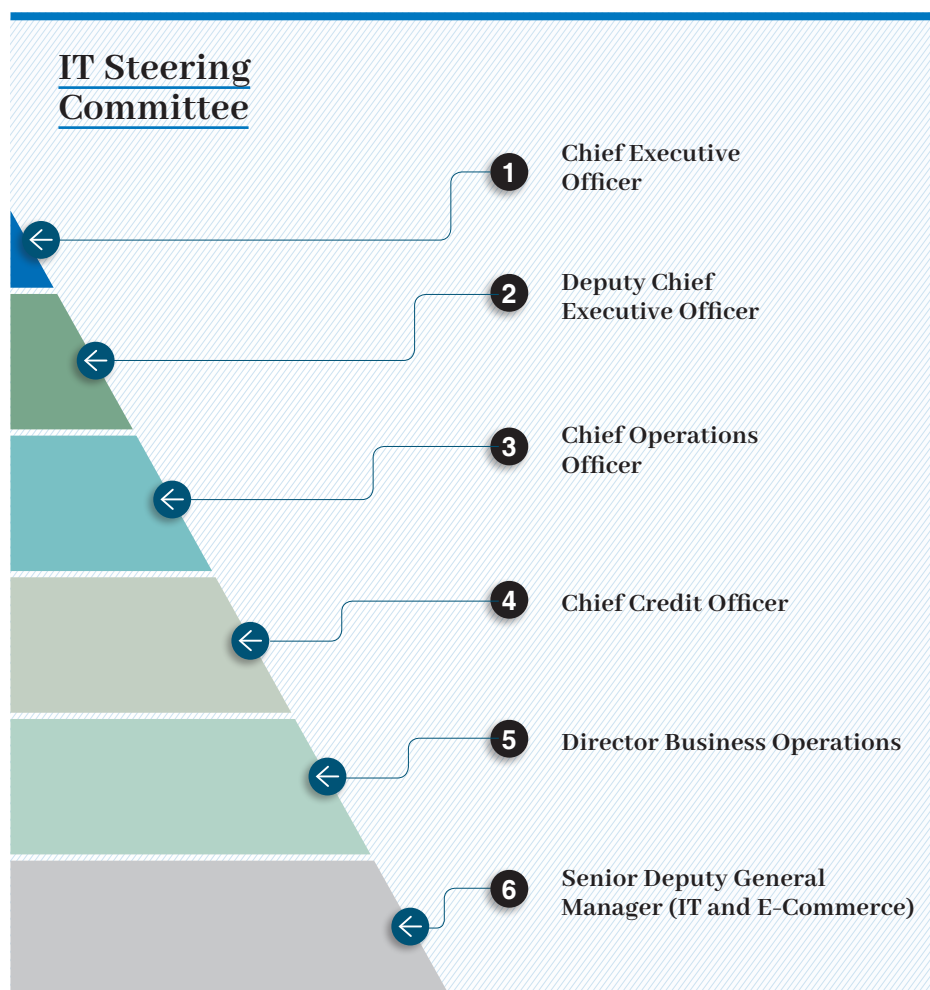
1. Technology-Backed Business Environment
2. Service Enhancement
3. Corporate Brand
4. Research and Development
5. Information Technology Platform
6. Employee Competency

3.2.3.1 Technology Backed Business Environment

The Information and Technology (IT) team continuously focuses on driving the Company strategies by creating a technology-backed business environment in order to pursue new business-related opportunities while effectively contributing to the risk management process in order to safeguard the value that has been created using these business opportunities.

The IT environment is broadly governed according to the COBIT (Control Objectives for Information and related Technology) practices and fully integrated into the strategic planning process of the Company. The Senior Deputy General Manager – IT & E-Commerce is responsible for IT at divisional levels whilst the chief operating officer is responsible at the Board level.

The IT Steering Committee is chaired by the Chief Executive Officer and comprises of Deputy Chief Executive Officer, Chief Operations Officer, Chief Credit Officer, Director Business Operations and the Senior Deputy General Manager (IT and E-Commerce) and is given a significant management attention to adopt to the fast changing technology in order to provide techno-backed solutions to gain the competitive advantage in the market, enabling the Organisation to operate with the latest technology and create value to our stakeholders



	2016/17	2015/16
ICT investment on information and communication technology investment (Rs. Mn)	22.4	65
ICT training programmes	3	2
IT audits (External and Internal)	5	3
System downtime (%)	0.1	0.1

→ **Rs. 9 Mn**
Investment on
POS Machines

→ POS collection
during the
financial year is
Rs. 701 Mn

→ Introduction of
Mobile Apps for
online customer
transaction

3.2.3.2 Service Enhancement

Service enhancement has been one of the core aspects of our business model over the period of time and as a service enhancement initiative, the 'happy customer' programme was carried out for the third time successfully in order to enhance the customer service level of the Organisation with the participation of individuals from each and every division. As a method of service enhancement, the POS machine was introduced during the a financial year (2015/16) and this has improved over the year, to a significant collection amount which has further strengthen the savings portfolio through the improved POS channel collection.

	2016/17	2015/16
No. of receipts collected	302,179	112,831
Value of the receipts (Rs. Mn)	701	235

Cash Deposit Machine

CDB believes that technology plays a vital role in service enhancement and during the concluded financial year, one of the new initiatives that took place was the introduction of the CDB cash deposit machine. This cash deposit machine concept enables the customer to walk in to the branch and deposit cash to their account within a span of 15 seconds, enabling a better and a convenient self-service mechanism when they come to deposit cash to their accounts, comparing to the traditional approach of depositing cash over the counter.

Customer Care Centre

CDB believes that a good customer service is key factor that determines the retention level of our existing customers and therefore to ensure this, CDB operates a 24/7 call center with the state-of-the-art technology. The customer service agents who are employed at the call center are thoroughly trained on customer service level aspects.

CDBiNet Platform

We believe that the technology keeps on changing on a frequent basis and as a responsible financial institution, we have a vision of providing the best services to our valued customers by incorporating this technology into our business model, therefore during the concluded financial year, one of the major projects that was initiated and concluded was the 'CDBiNet'. CDBiNet.lk is an omnichannel platform providing 360° view of the customer

portfolios and facilitates to manage personal portfolios via an online account opening and maintenance functions. CDBiNet.lk provides online fund transferred to any bank account via Common Electronic Fund Transfer System (CEFTS) and online bill settlements for any utility bill service.

One of the unique features of the 'CDBiNet', is that it allows to do fund-transfers through the widely-used social network, known as 'Face Book', this option is named as 'Face-Book Fund Transfer' in our CDBiNet platform, making this as one of the first of its kind, where a NBFi institution allows to do real-time fund transfers through a widely-used social network using the CEFT technology.

Credit Card

With the complexity of the current requirement of fulfilling needs and wants of individuals, impulse buying has become a significant factor in the modern customer mind, thus the requirement of credit has been understood by firms which provide financial solutions offering credit cards with numerous added features and value additions.

Being in line with the current market offering, while considering the intense competition created on the market, CDB intends to launch a range of credit cards subject to CBSL license under the MasterCard platform, which will be the first to do so in the NBFi sector. CDB has already acquired MasterCard affiliate member license.



Master card gold

Master card titanium

Master card platinum

Master card world

Patpat.lk

patpat.lk

Patpat.lk is a web portal that facilitates buying, selling and leasing of vehicles. We provide financial solutions to both buyers and sellers who use this online platform. It has become an attractive value proposition for customers leading to unique consumer experiences.

3.2.3.3 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 base in the NBFi sector operating in the country, which comprises 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 and during the concluded financial year, CDB was recognised as the service brand of the year, while been placed in the 'Top 50' brands published by annual brand magazine.

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.

3.2.3.4 Research and Development

Implementation of Optical Character Recognition (OCR)

Research and Development is considered as a key component in the intellectual assets of our Organisation, therefore, we engage in continuous research, and study on our business process and try to integrate the latest technology into our processes, in order to smooth our business process, currently we are in the process of integrating the OCR technology to our operations in order to transform the operations to a digital platform, which we believe that would generate a lot of intangible benefits to the Organisation in terms of cost reduction and also in terms of efficiency. By adopting the OCR technology in our branch network, all the data would be captured automatically into the core banking system while the data of the clients would be processed centrally ensuring a maximum security to the client details that we hold in our database. By implementing the OCR technology we also believe that we would be able to allocate our scarce resources more efficiently in order to give the best services to our customers.

Missed Call Services

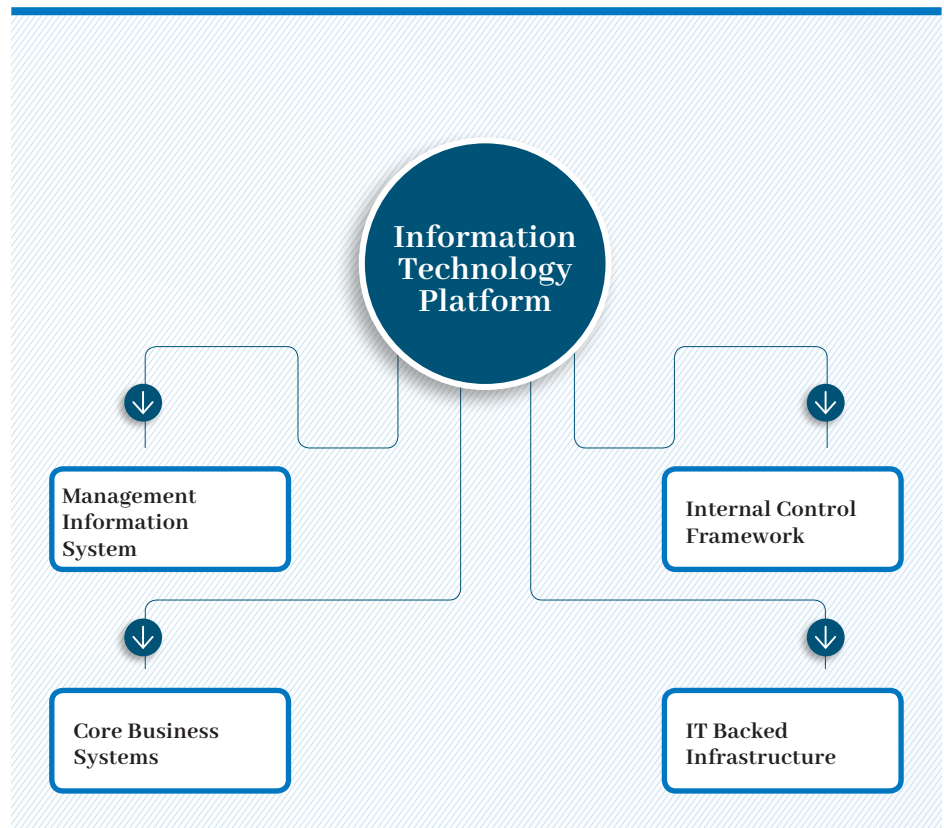
CDB believes that by improving customer satisfaction, it would be much more easy for us to retain them, when the markets are highly competitive, therefore with this

concept in our mind, we try to enhance our customer services by trying to bring the services that the customer would expect from us at branch level to their door-step, with this firm objective in our mind, during this year we have invested in a another new project called the 'Missed Call Services', this is where the customer would be able to give a 'Missed call' to a particular number and an automated SMS would be sent to the number which is registered with us regarding the balances, such as outstanding leasing balance, savings balance, etc. From a customer's point of view, we believe that this is a convenient service for them at no financial cost to them.

CDB Salary Manager Application

Technology keeps on changing daily while everyone becomes busier every day, therefore as a total financial service provider, we believe that technology would become a great assistant to our customers to keep a record on the monthly expenses that they spend and also the savings that need to be made which they believe that needs to be achieved on a monthly basis. With this concept in our mind, two years down the line, the research and development team launched a mobile application known as 'CDB salary manager' which became a highly successful savings mobile application within our customers, taking this mobile application to the next level, the redefined application would be launched in the next financial year (2017/18), where all the expenses would be automatically synchronised on a real time basis with a much more detail analysis on the monthly spending patterns and with some interactive widgets that would assist our customers to be more discipline when it comes to savings.

3.2.3.5 Information Technology Platform



The Information Technology platform which is established in CDB is governed by four main components and the components are as follows:

1. Management Information System
2. Information Technology – Backed Infrastructure
3. Internal Control Framework
4. Core Business Systems

Management Information System

Creating value to our stakeholders has always been one of the key priorities in CDB, the IT platform which is established in CDB has been a great assistance to this strategic objective, the management information system, is one of the key components that has contributed immensely towards the achievement of this

strategic objective, CDB has implemented some of the latest data analytic tools that has enable the Organisation to generate critical and timely management information, which has enabled the Organisation to make the right decisions at the right time. One of the key softwares that has been implemented, is the Board Pack, this software allows the Key Managerial Personnel of our Organisation (Directors) to access the Board papers which are uploaded by the divisions at any time of the day enabling them to be in constant touch with the timely information and to make the necessary decisions in a faster and more convenient approach. Being a good corporate citizen to the environment, this software has enabled the Organisation to go towards a paperless environment as well.

Information Technology-Backed Infrastructure

Security has been always a top priority for CDB, based on this priority our head office building is equipped with the latest technology, where CCTV cameras are operational on 24/7 a day and also there are finger print door locks fixed for areas where it's been considered as sensitive, so that only authorised people can access those areas. Furthermore our branch network is also connected to the head-office network, which allows a centralised monitoring.

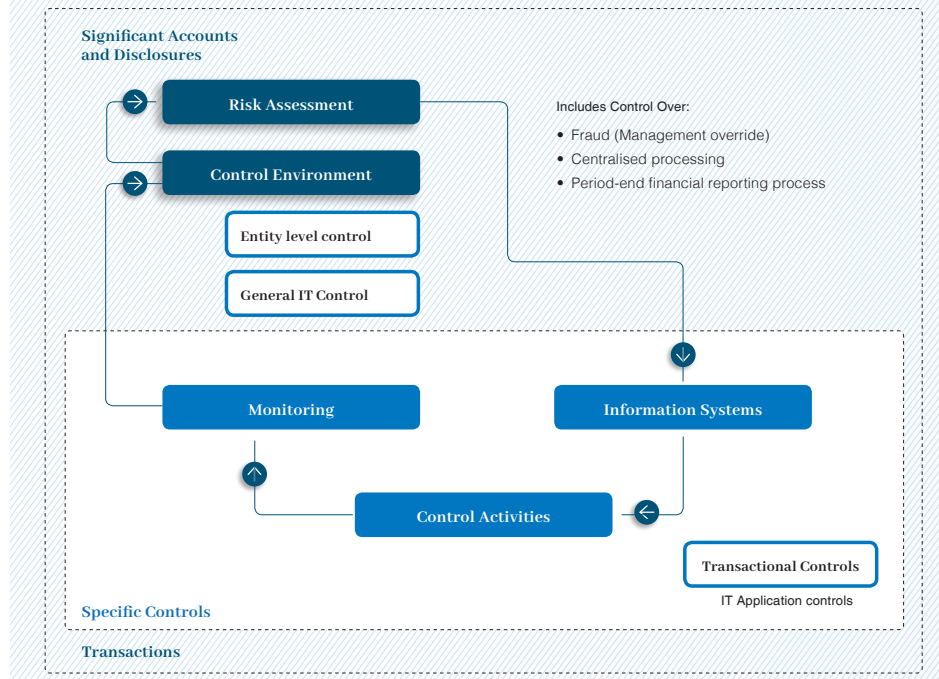
Core Banking Systems

CDB believes that investing in the latest technology would always help the Organisation to get the competitive edge in the market, with this belief in us, over few years' back we took the pleasure of migrating to the core banking system, which is an IT software application, specially design for the banking institutions, this migration to the core banking system bought a lot of intangible benefits to the Organisation, in terms of data processing, of convenience and efficiency, being a pioneer in investing the core banking system in CDB operating under the NBF1 sector as one of the first financial institution, CDB took the pleasure of implementing this system in our own subsidiary, which is UCL during the concluded financial year, making it the first specialised leasing company to implement the core banking system, as a group this implementation has brought a lot synergic benefits.

One of the key upgrades that was made to our IT core business system was the implementation of the Oracle Enterprise version, where we upgraded from our current oracle standard version, this upgraded version has enabled the Organisation to gain a lot of advantages:

- High System Availability, minimising the system downtime
- Enhance Risk Management in terms of data security
- High Performance Capability
- Increase Efficiency
- Enhanced Management Reporting Capabilities

Components of the Internal Control Framework



3.2.3.6 Employee Competency



CDB believes that faster and smoother business operations would be a key aspect, that would always define the service quality that we offer to our customers, Based on this aspect, CDB IT research and development team has built, an in-house ERP system, namely (smart OPS), which inter-connects all the departments within our CDB network on a real time basis, that helps us to offer a better customer service by inter-connecting all the services that needs to be done by every department on a digital platform. As a recognition for this truly intellectual asset that was developed in-house, CDB was recognised with a Merit Certificate, under in-house applications at the national best quality ICT Awards ceremony during the concluded financial year.

3.3 Human Capital

P: 084 – 107

Human Capital Value Creation Model

(Inputs)

Skills of Staff and Management Team

Staff Strength

Gender Diversity
Male No. 1,075
Female No. 364

Training & Learning for Employees

Talent Attraction

Health & Wellness

Experience of staff and Management Team

Effort & Motivation

Inputs

(Process)

HR Planning, Acquisition & Retention

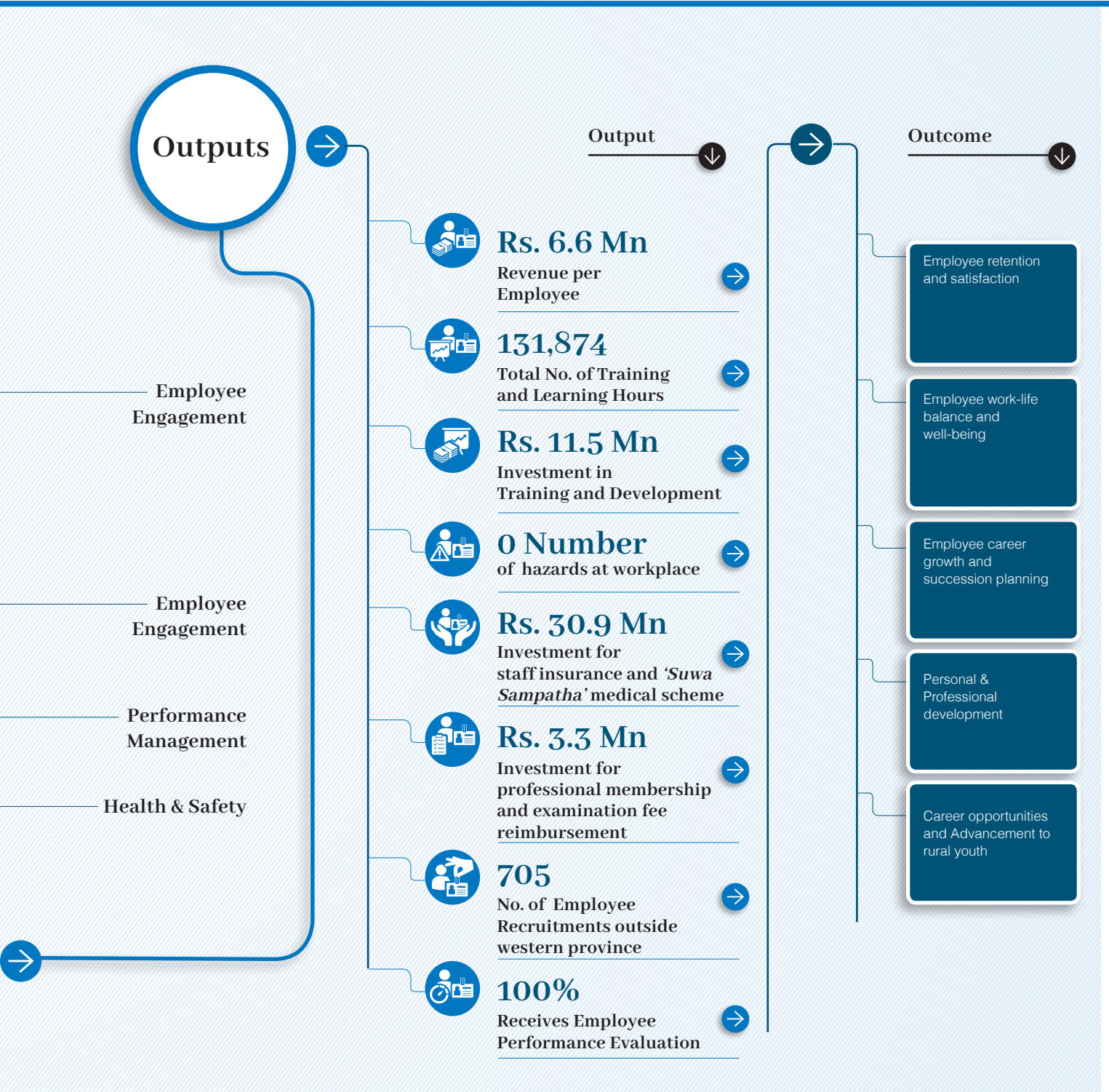
Career Planning

Strategic Customer Relationship

Employee Relation

Compensation and Benefits

Process





Highlights



on training and development



per employee



on staff insurance and CDB
Suwa Sampatha medical scheme

Challenges



1. Developing Multi-tasking work force
2. Encouraging a diversified work culture within teams
3. Promoting a fact base organisational culture

Priorities for 2017/18



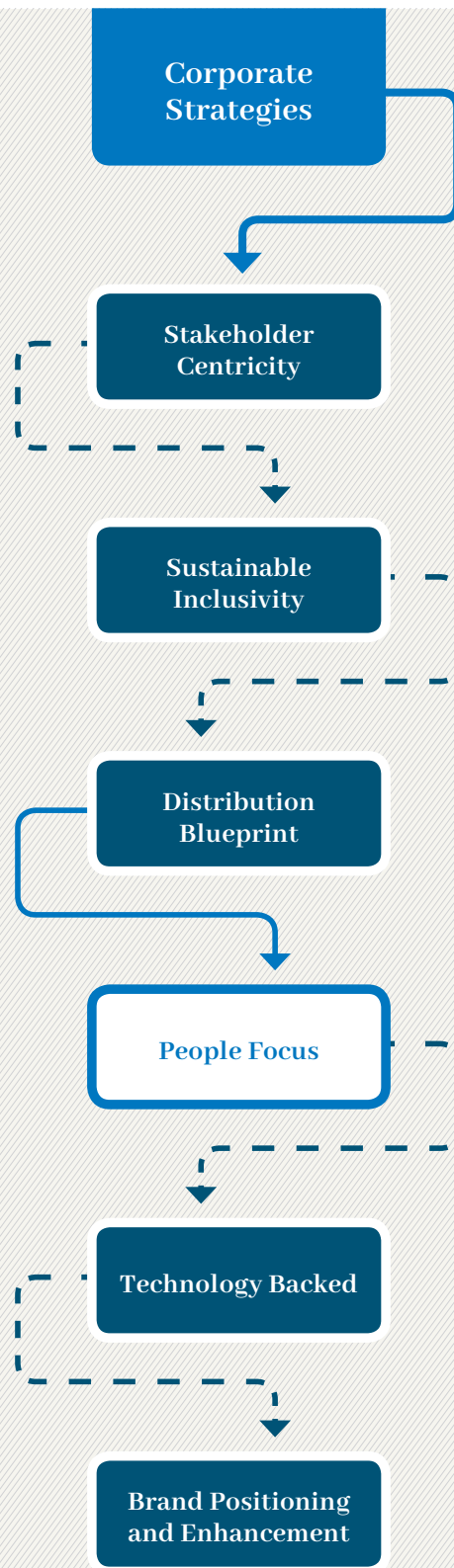
1. Aligning learning strategy with new LMS
2. Re-structuring all HR processes to provide a better service for employees
3. To introduce a new engagement strategy which will provide better business results

‘Strategy bets on People to Succeed’

Improving the way our people live and work, as our society changes

CDB culture is performance oriented, driving innovation and promoting continuous learning through our Human Capital values; HRCAP – humanity, relationships, Competencies, Aspirations and Performance.

Our workforce is diverse. They differ in terms of social background, education, professional experience, inclination towards sports and are multicultural. These differences enrich our organisation culture, spurring winning practices and customs and we believe that our success depends upon this diverse workforce with different skills.



Human Capital Vision

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

Human Capital Strategy

Our human capital strategy encompasses acquiring, grooming and retaining talent. Performance standards are continuously improved to enable employees to become vital players of the Company. We nurture a high performance culture founded on our core human values.

Commitment to Human Capital

The strategic steering points ensure that our people are well equipped with the necessary skills to support the Organisation's direction and they are further developed and encouraged to reach the expected service standards.

Human Capital Values

- Humanity
- Relationships
- Competencies
- Aspirations
- Performance

Human Capital Policy

Our human capital policies and procedures comply with the relevant laws and regulations of Sri Lanka. The provisions of the policy manual are applied to all staff members irrespective of gender, race, nationality, religion, political affiliation or any other differentiation. These policies are applied to achieve the following outcomes:

- To provide direction and clarity in the administration of human capital and to ensure continuity and consistency of the policies.
- To improve internal customer service standards through improved internal and external communication.
- To provide a sound orientation and a standard reference to all employees in understanding their rights and carrying out their responsibilities.

Key Human Capital Indicators

Key Human Capital Indicators		2016/17	2015/16	2014/15
Employee strength	Total number of employees	1,439	1,136	1,167
	New recruitments	851	545	527
	Male	668	444	402
	Female	183	101	125
Value created	Value added to employees (Mn)	830	745	602
	Investment on staff insurance & <i>suwa sampatha</i> medical scheme (Mn)	30.9	28.4	23
	Loans provided for staff (Mn)	346	272	185
Training & development	Total training hours (hrs)	137,466	74,720	62,520
	Total training hours per employee	46	54	48
	Investment on training and development	11.5	17	13
Distribution	Western province	734	588	605
	Outside western province	705	548	562

3.3.1 Our Human Capital Management

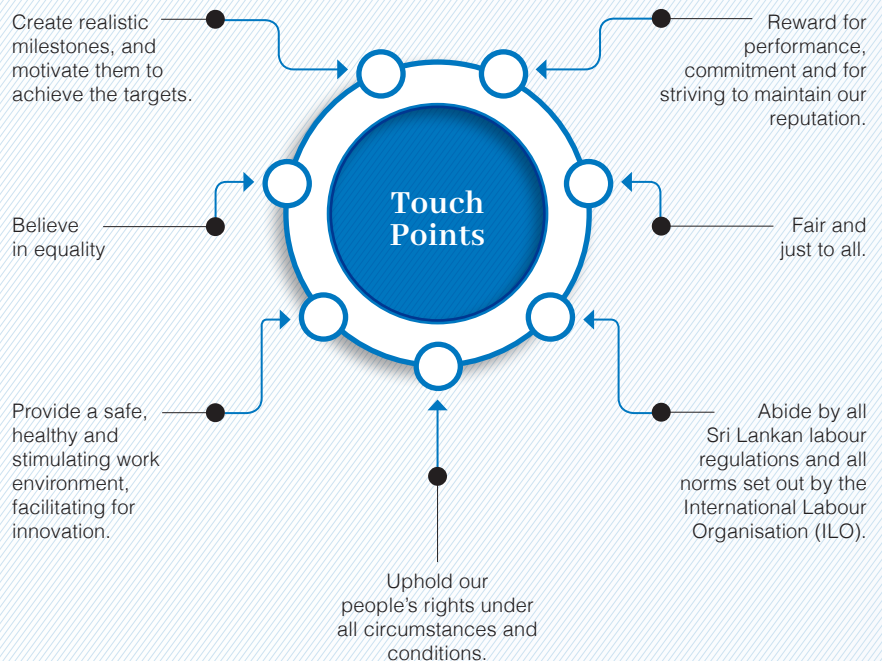
CDB is committed in creating a work environment enabling employees to work with pride and develop themselves. We also implement ethical management practices whilst complying with relevant laws and regulations. In addition, we work hard to respect and preserve human rights; our highest obligation as a top corporate citizen in Sri Lanka.

Having competent leaders, building workforce skills, driving high performance and retaining top talent are the key HR challenges we face. We overcome these challenges by effectively building human capital by applying sound HR policies and processes. There are no collective bargaining agreements in our Company no incidents of discrimination and no child or forced labour utilisation were recorded in the year under review.

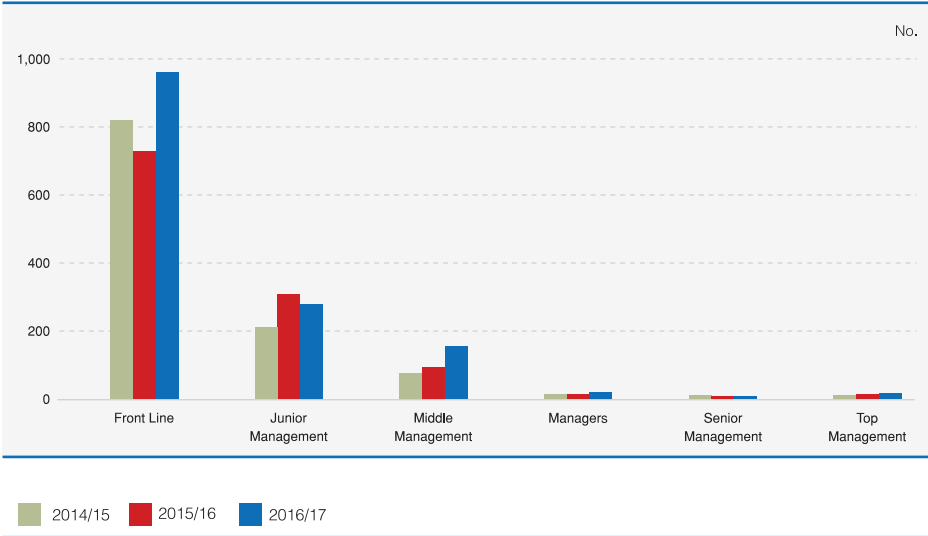
The quality of our people is a key advantage. Therefore, we have made solid progress in building and retaining a talent pipeline that support our Company's success. We offer a distinctive employment proposition to top candidates and provide a dynamic environment to accelerate growth and opportunities for career development. A minimum of four week is given to an employee affected by significant operational changes such as departmental/branch transfers.

The performance of our Organisation is elevated by a wide range of disciplines of our employees. We continuously strive to create a supportive and motivating workplace where everyone can thrive. Our vision will become a reality through the continued commitment, energy and passion of our people. Therefore, employee engagement and development are essential in realising our vision.

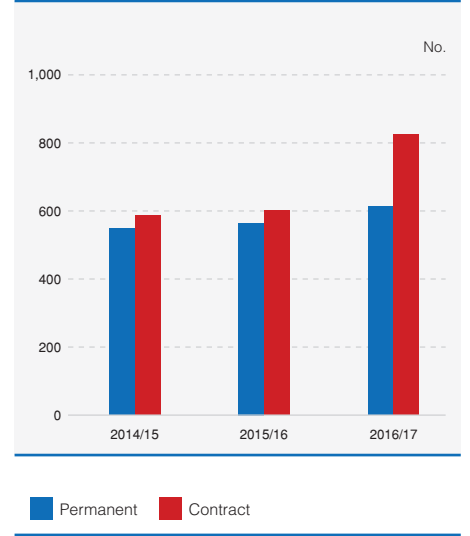
HR Touch Points



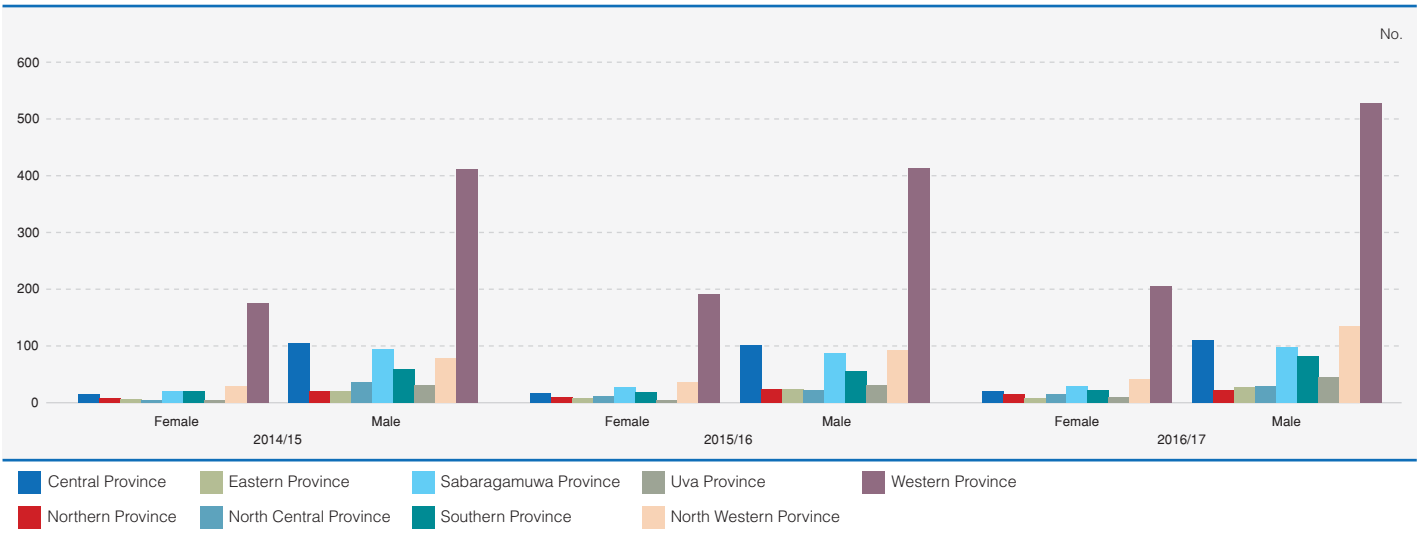
Total Employees by Employment Category



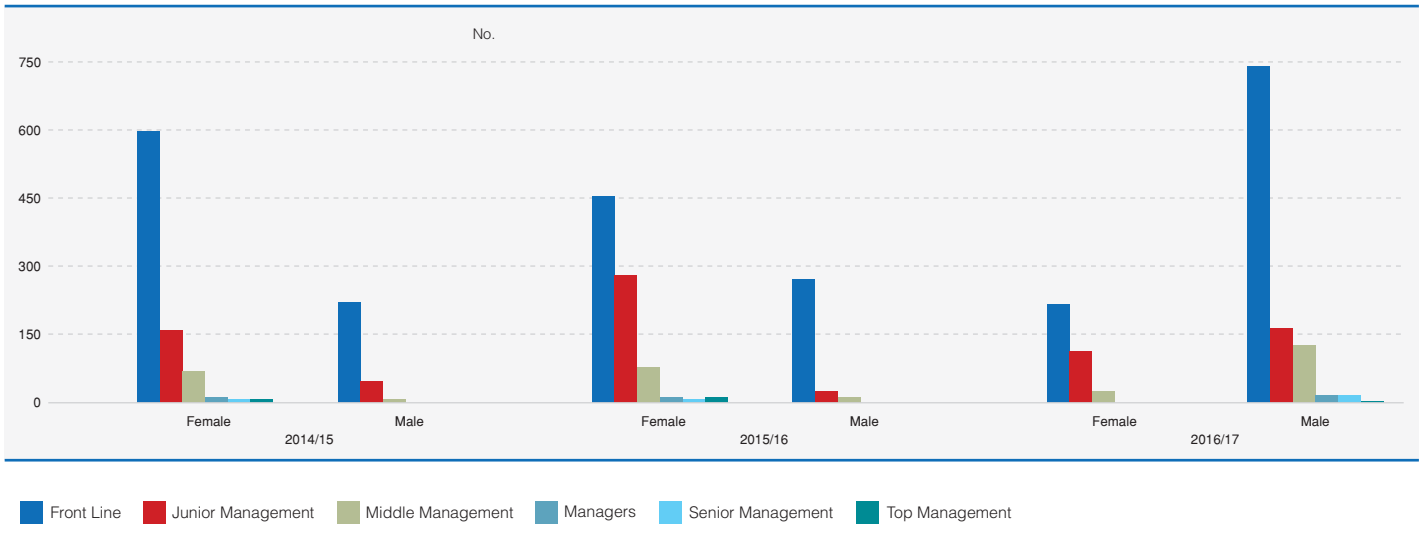
Total Employees by Employment Type



Total Number of Employment Contracts by Gender and Region



Total Employees by Employment Category and Gender

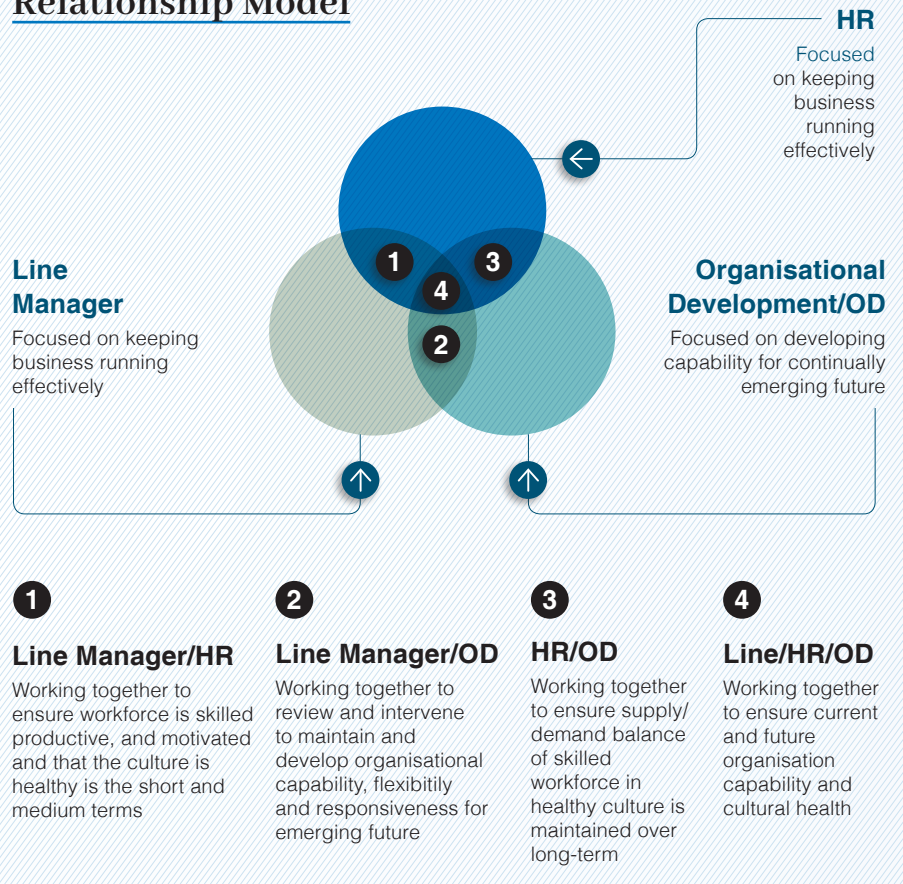


3.3.2 Human Capital Relationship Model

CDB's aggressive expansion of operational footprint required HR personnel and branch employees to develop close interaction, as rapid expansion could give rise to unresolved HR issues. Therefore, the Relationship Model was introduced to facilitate close and effective monitoring of our branch employees by keeping a close rapport with the respective branches and resolve issues that come up daily and forward any critical issues to the management.

The model promotes sound HR practices in all branches through efficient relationships and the success of its application is assessed by evaluating the relevant statistics. The model results in better customer service through the speedy resolution of employee concerns.

Human Capital Relationship Model



→ Parameters used for Talent Attraction

- Business Process Re-engineering Model
- Annual Business Plan on talent attraction
- Board Approved Divisional And Branch Structures
- Internal Movements
- Recruitment Lead Time
- Attrition Rates
- Succession Planning

→ Talent Attraction Model Evaluation Criteria

- Critical resource attrition
- Infant attrition
- Offer dropouts
- Induction dropouts
- Training evaluation

3.3.3 Talent Acquisition and On-boarding

We strive in empowering young people. Our strategic plan guides us to assess, plan and respond proactively to the human capital challenges and requirements of our Organisation, enabling us to achieve the corporate vision, purpose, and goals.

Therefore, our talent acquisition and on-boarding strategy is geared on recruiting dynamic young people; predominantly school leavers, who will adapt to our unique culture and thrive in it.

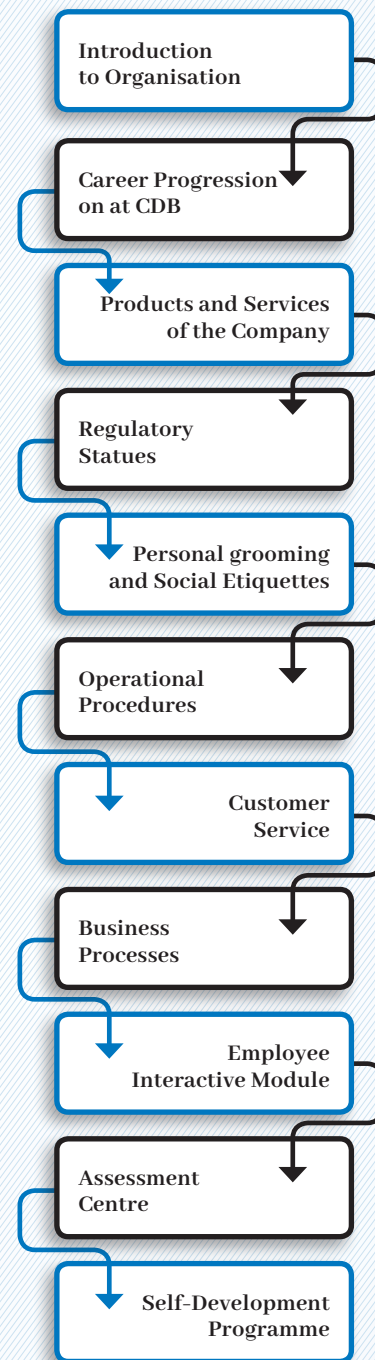
We increased the numbers of young employees recruited during the year. Their unfettered spirit, enthusiasm and creativity have resulted in launching winning initiatives that have made us pioneers in certain areas of our business.

3.3.3.1 Talent Acquisition Policy

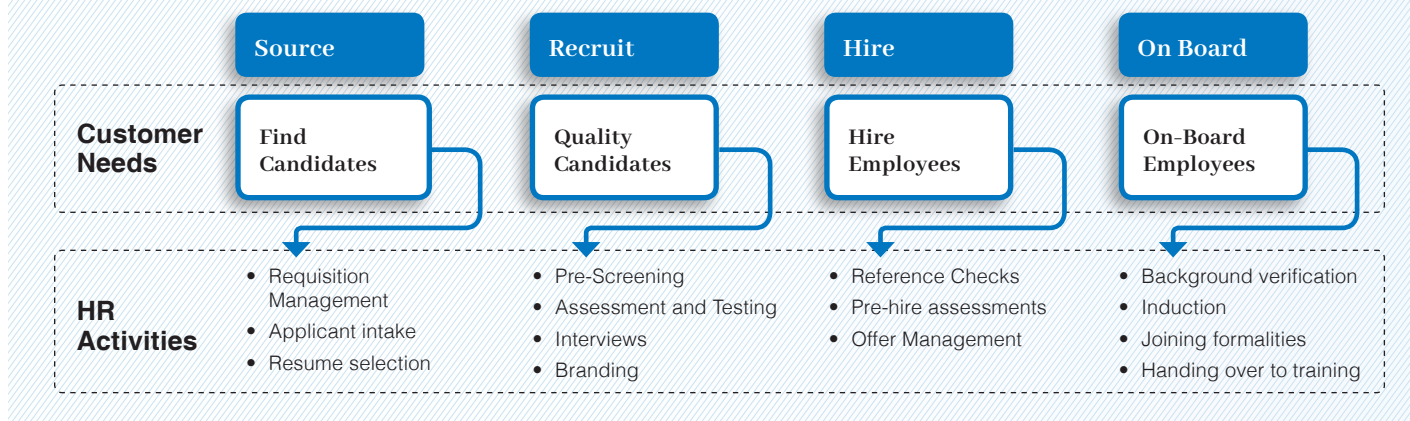
Our talent acquisition policy specifies the minimum qualifications and other criteria applicable to each business segment. Once selected, it is mandatory for new recruits to undergo a comprehensive three day induction programme conducted by the Learning and Development Unit.

A key element in our distribution and expansion plan, is to provide employment opportunities to rural youth. Following a localised recruitment policy, we give prominence to local recruitment. Therefore, many of our employees in outstation branches are from that region itself.

Comprehensive Induction Programme



Talent Acquisition Model



3.3.3.2 Methods of Talent Acquisition

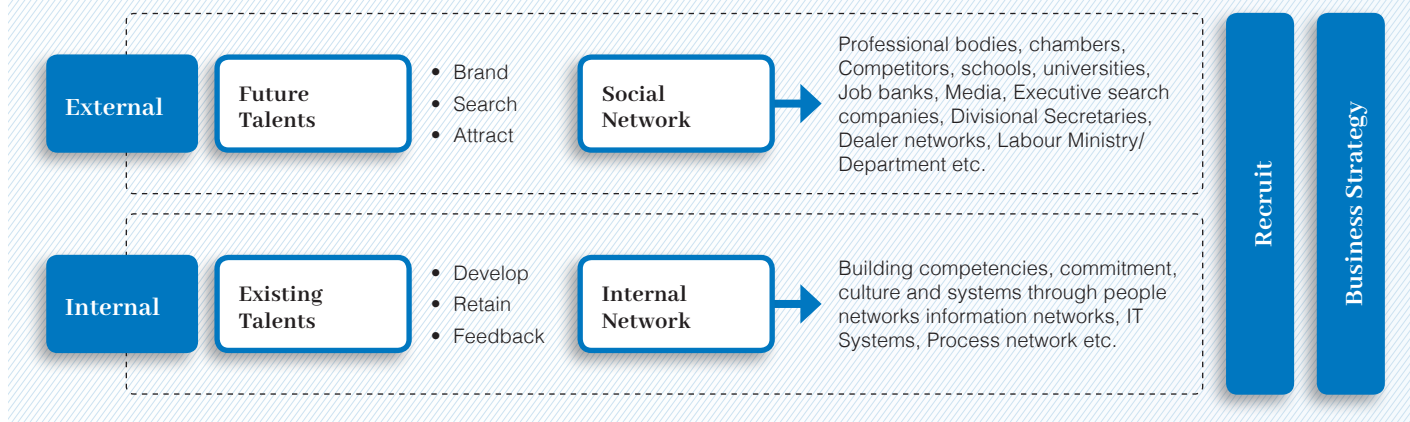
Social Network Model

We adopt a unique recruitment model which has evolved as a result of our continuous relationships with the community. The community includes schools, universities, professional education institutes, divisional secretariats, rural councils etc. Attracting the most suitable candidates with the required qualifications is the key challenge we face. To overcome this challenge, the Social Network Model was adopted by us; where the Organisation collaborates with schools and universities to recruit top students.

Internal Network – Employee Referral Scheme

This system was introduced to promote recruitment through referrals by our own employees to ensure a best fit to our Organisation. The referrals are tracked and the employees are motivated to maintain relationships with their contacts such as school mates, in order to refer them for employment opportunities in our Organisation. This promotes a win-win situation for both the employee and the Organisation.

Talent Acquisition Sources



→ Who is a High Potential Talented member at CDB

- Self-motivated individual potential to carry out responsibilities
- Consistent performer
- Firm capacity to grow

→ Methods of developing High Potentials at CDB

- Executive development programs
- Succession Planning
- Career Management Practices
- Multi Tasking

→ How are High Potentials rewarded at CDB

- Empowering through delegation of authority
- Providing foreign training opportunities
- Monetary and non-monetary rewards
- Fast track career growth

3.3.3.3 Talent Acquisition Avenues

Internship Placement

We provide internship training to university undergraduates, facilitating them to complete their graduate studies. As in-house trainees, these interns are provided comprehensive hands-on experience with on-the-job training opportunities.

Number of Internship Placements

2016/17	43
2015/16	34
2014/15	28

Management Trainee Programme

This is a two year programme where each graduate is mentored and is exposed to networking opportunities in the Organisation. The graduates are placed in job roles in different areas of operations, to work in teams and acquire broader skills. Training includes secondments to locations within the operational network as well.

Number of Management Trainee Placements

2016/17	60
2015/16	58
2014/15	56

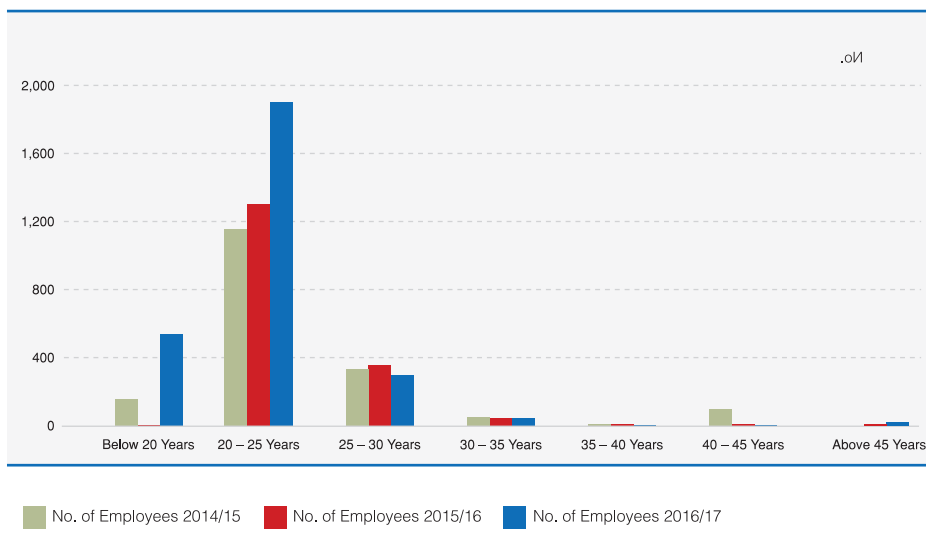
Placements of Business Promotion Agents (BPA)

The placements are done through referrals from higher educational institutes. The interns are given an allowance as an incentive during their full time education. Therefore, this mechanism is exclusively introduced for full time students who wish to earn in order to support their education. Once the application is made through their institute for a placement at CDB, the selected candidates are appointed as business promotion officers of the Organisation after a screening process.

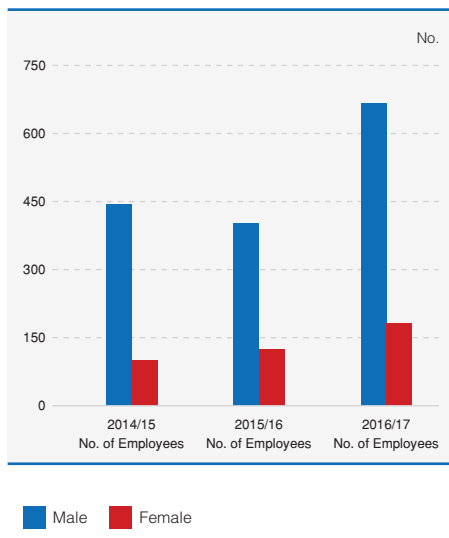
3.3.3.4 Evaluation using the Talent Attraction Model

We use the talent attraction model evaluation criteria regularly to ensure our Organisation is equipped with the right calibre of people with the right skills doing the right job. This helps us to optimise our human capital, resulting in increased mobility and HR development. The model contributes to the expansion and enrichment of our talent pool, thus ensuring our Organisation is effectively staffed.

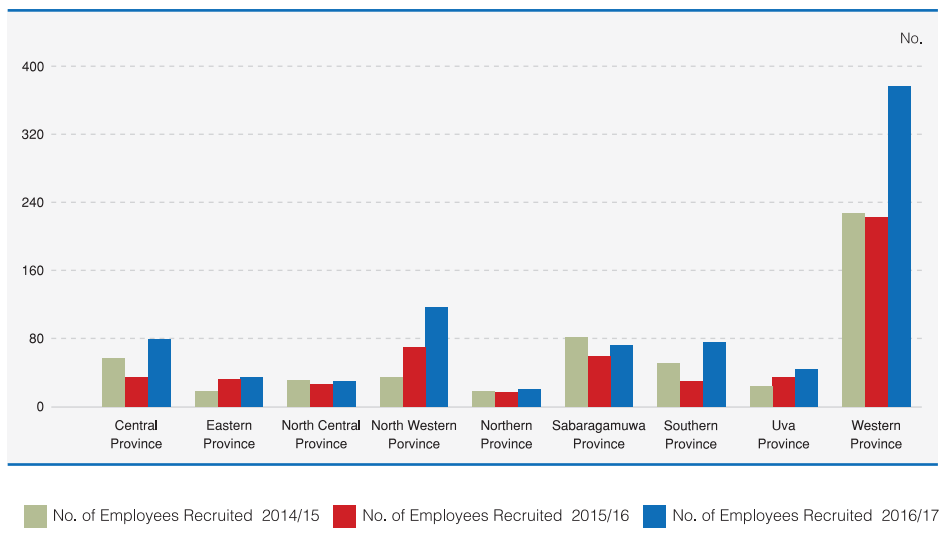
Total Talent Acquisition by Age



Total Recruitments Gender Wise



Total Recruitments Province Wise



3.3.4 Talent Management

Talent management at CDB entails acquiring, developing and retaining the best employees instilled with our corporate values; humanity, relationship skills, competencies, aspirations, and performance (HRCAP). All employees are given an in-depth induction and an understanding on corporate values.

3.3.4.1 Employee Succession Plan

CDB is in a rapid development stage. Hence, opportunities and vacancies in key positions arise at a fast pace due to rapid expansions. In order to fill these vacancies with minimum impact to our Organisation, it is imperative to identify the positions and the potential internal talent. Therefore, the 'CDB Succession Plan' was introduced to ensure a strong leadership and develop a talent pipeline.

CDB succession policy entails; all HR functions from assessing future requirements to determining job roles, key competencies and retention strategies focused on achieving the long-term vision and mission of the Company.

Joined as	Branch in Charge	Head of Branch	Divisional Head	Zone Manager	Senior Manager	Corporate Manager
Junior operation assistant	41	2	–	–	2	4
Trainee marketing executive	–	62	–	10	1	–
Operations assistant	–	–	1	–	–	–
Management trainee	19	1	3	–	–	1
Assistant manger	–	–	–	–	1	2

→ Parameters used to describe goals assessed performance

- Target linked KPIs
- Competencies
- Five-point rating scale
- Quantitative company specific measures

→ Goal Setting

- Corporate Objectives
- Departmental Objectives
- Individual Objectives

→ Investment on Training

- Futuristic development
- Basic business training requirement

3.3.4.2 A Mindset for Multi-Tasking

In 2016, we observed that many of our employees lacked the overall knowledge about the operations of the Company apart from their specific operational areas. This had an adverse impact on customer service levels. Hence, to make our employees multi-focused and multi-talented, 'A mindset for multi-tasking' process was launched in the Organisation focused on developing technical know-how and soft skills of employees.

3.3.4.3 Executive Development

Programme

The programme was targeted for top performing staff members at the executive grade, to be groomed for future leadership positions. The programme included several learning opportunities and mentoring with on-the-job resources. The details of the programme are given below:

3.3.5 Performance

Management System (PMS)

An online Performance Management and Evaluation System is adopted to evaluate permanent staff members and a manual evaluation system is used for all contract staff members. This is conducted annually, and each evaluation is subject to careful scrutiny, with one to one discussions with the immediate supervisor.

3.3.5.1 Goal Setting

Corporate goals are set at the budget review meeting with the participation of Senior Management. This is then cascaded down to departmental level and then to individual level.

The 180 degree feedback mechanism adopted helps to direct employees towards organisational objectives in a performance driven culture. Therefore, all performance issues of employees are discussed with senior branch officers and divisions which has enhanced the quality of 'pay for performance' initiative.

3.3.5.2 Measurement

Competencies are evaluated and tracked with our performance management system. The competencies are assessed and rated under five criteria as we believe that employee competencies are essential for individual performance.

3.3.5.3 Performance Appraisal

The performance appraisal is linked to the annual assessment which tests the overall job knowledge of each employee. This helps to identify any biasness in performance reviews and also any illogical appraisals as well.

3.3.5.4 Realignment of KPIs

We follow a transparent KPI setting process with the mutual agreement of the supervisor and subordinate. The divisional heads are given training on KPI setting to ensure alignment of KPIs with corporate objectives thus ensuring each division contributes to overall corporate business objectives.

In addition, annual appraisal committees are formed for PMS score justification and fair appraisal system. Appraisal committees help in identifying any unfair appraisal practices by questioning the supervisor's feedback and employees are assured a fair appraisal.

3.3.5.5 Assessment Based Knowledge System

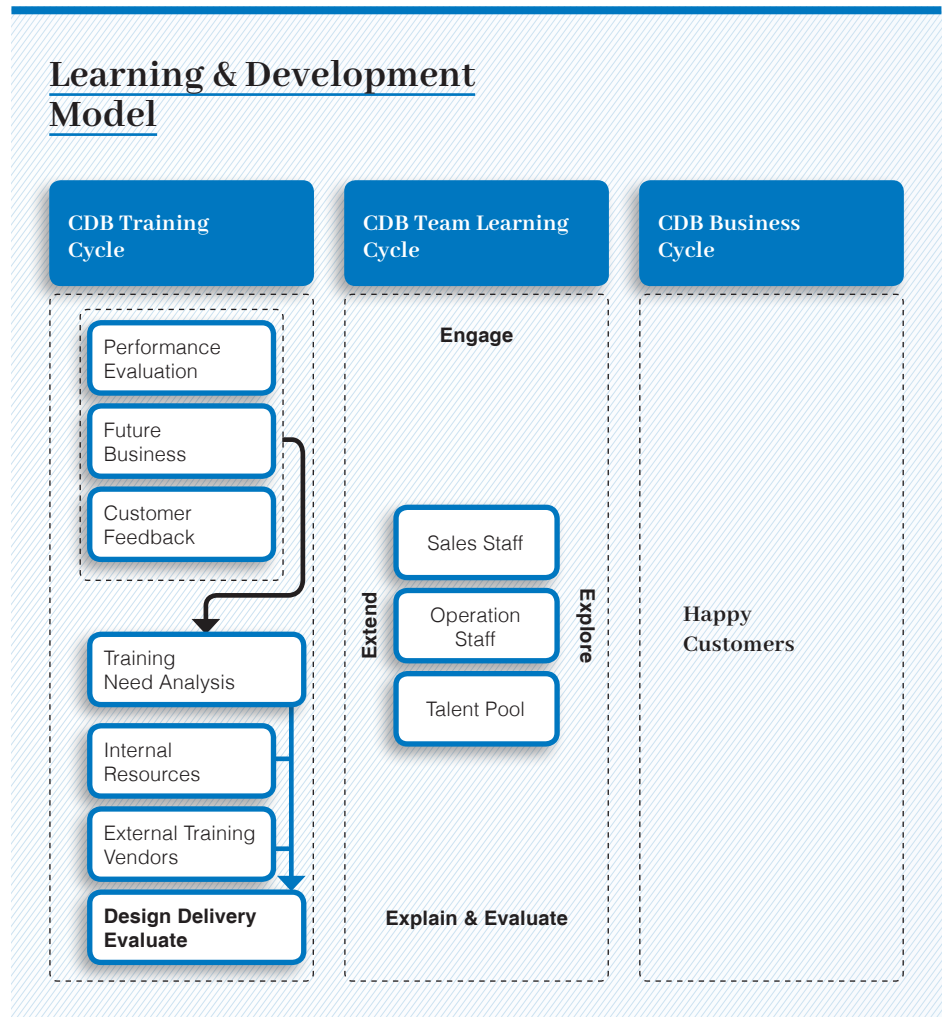
A testing system was introduced to determine the job knowledge of each individual. This is linked to the PMS for effective monitoring and scoring to determine annual increments and performance bonuses of employees. This testing system was first introduced in 2015 where every employee was educated through process manuals in preparation for the examination. This exercise created informal study circles among peer groups for shared learning experiences. It also helped to create a learning culture resulting in a win-win situation for both the employee and the Organisation.

Measuring the Effectiveness and Impact

Effectiveness was measured from pass and fail rates. The failure rate was taken as a failure of the learning experience for both the employee and the organisation.

3.3.6 Learning and Development

We believe in continuous learning. Therefore we create lifelong learning experiences for our employees. This is to ensure 'best fit talent' where the right talent is allocated to the right place at the right time. Our Organisation's learning and development strategy is focused on two major streams; main stream and common stream. The common stream covers aspects such as business training needs, product knowledge and enhancing operational knowledge. The main stream is aimed at grooming individuals for future opportunities. Hence this covers development of employee personality, people management, responsibilities, delegation of authority and enhancing individual capabilities through extensive personal focus.



Talent enhancing learning and development programmes are used to invest in our people. Talent management entails monitoring performance against annual goals and setting training and development objectives through a performance dialogue program. This programme also forms the basis for developing high-potential employees and identifying candidates for succession planning programmes. To develop new industry talent, we offer a wide range of learning programmes as well.

3.3.6.1 Internal & External Training Programmes

Programme Type	No. of Participants	No. of Days per Programme	No. of Training Hrs. per day per Individual	Male	Female	Training Hrs.	No. of Programmes
Induction programs for all staff	840	3	8	608	232	60,480	3
Sales orientation: sales staff	540	2	8	482	58	17,280	2
Training programs for deposit sales staff	116	3	8	100	16	8,352	3
Training programs for leasing sales staff	210	3	8	210	0	15,120	3
Technical training program for cashiers	150	1	8			3,600	3
Technical training program for credit officers	100	1	8	75	25	2,400	3
Customer service training programs for operations	140	4	8	75	65	3,360	4
Sales techniques and service Training programs for sales staff	260	3	8	225	35	4,680	3
Grooming and social etiquettes training program	240	4	8	216	24	5,760	4
Leadership training programs	40	6	8	36	4	1,440	6
Leadership training program for branch heads	40	3	8	40	0	720	3
Executive leadership development programs	35	1	8	28	7	3,432	52
Management training program	45	0	8	30	15	1,350	5
Training programs for entry level ops staff	70	1	8	60	10	2,940	7
Foreign training programs	8	3	8	6	2	576	3
Other external programs	48	1	8	32	16	384	27

3.3.6.2 Skills Management & Lifelong Learning

Programme Type	No. of Participants	No. of Days per Programme	No. of Training Hrs. per day per Individual	Male	Female	Training Hrs.	No. of Programmes
Leadership training programmes	40	1	8	23	7	1,440	6
Leadership training programmes for branch heads	40	1	8	40	0	7,20	3
Executive leadership development programs	11	1	8	7	3	3,432	52

3.3.6.3 IT Training Centre

We have an IT Training Centre with a simulated branch experience to provide an on-site branch experience to trainees. The fully-equipped branch with system support offers branch related working specs in order to train new employees who will later engage in branch operations. Since system access is given in a test environment to gain relevant technical skills and exposure, this helps them to be familiar with the system and perform system related functions effectively. The parameters for trainee evaluation are also set in the stimuli branch module. Evaluation is carried out through a standard evaluation test answered by the trainee followed by a feedback interview with the Head of Training.

3.3.6.24 E-Learning Platform

We embarked on an online knowledge sharing system with an online certification programme facilitating employees to log in and self-study. The employee can get certified through the e-Learning portal as well. This has enabled employees to improve their knowledge and has thus proved to be an effective learning and development model in our Organisation.

3.3.6.5 Self-Mastery Programme

A special programme was conducted by an external training partner for high performing individuals nominated by the employer. The programme entails extensive learning, assessments, case studies, one to one

discussions with the trainers and success analysis at the end of each programme. The purpose is to groom these individuals for future openings in the higher levels of the Company's hierarchy.

3.3.6.6 Speech Craft Toastmasters' Programme

This is a 12 week programme conducted in collaboration with BSI Toastmasters' Club to hone the speaking and leadership skills of the participants in a relaxed atmosphere. Feedback process is the key for the programme's success and the participants evaluate each other's speech skills. The programme includes impromptu speeches, conducting meetings and developing

timekeeping, grammar and Parliamentary procedures of the participants. Two such programmes were completed during the year with the participation of over 60 staff members.

3.3.6.7 Training Evaluation

The Learning and Development team plays an important role in instilling corporate values, philosophies and culture in our employees. There are leadership training programmes to groom future leaders and the learning objectives are always aligned to the business strategy and market trends.

Reaction

Effectiveness of the training is measured via feedback forms, verbal reactions and post training surveys. This is useful to effect the needed improvements to the training programmes and also identify important areas which need to be incorporated in the future.

Learning

Training sessions are planned with a list of specific learning objectives for measurement purposes. Therefore, learning is measured based on what trainees have learnt and how much their knowledge has increased as a result. A staff evaluation assessment is conducted annually and assessment tests are conducted after each operational training programmes.

Behaviour change of trainees is ascertained by observing the practical application of trainees based on the training received.

Results of training are analysed, by assessing the resultant favourable impact on business, employees and the Company's bottom line.

→ Mapping employees into specific programs

- Performance appraisal feedback
- Manager's feedback
- Employee self evaluation
- Business focus areas
- Job evaluations

→ Identification Criteria for External Trainers

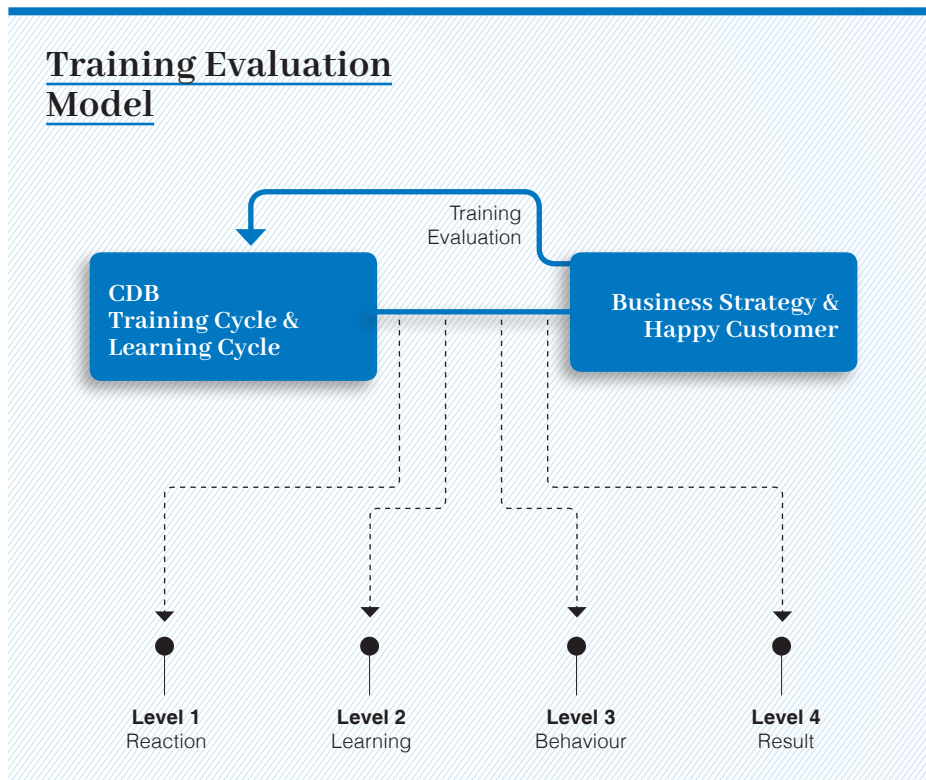
- Level of understanding of our business
- Profile grid of the trainer
- Ability to customise programs
- Ability to add value

→ Personal & Professional Skills Enhancement

- Professional membership and examination fees reimbursement
- Nominations for external/ internal development programs
- Special assignments
- Extension of responsibilities
- Membership fee reimbursed

→ Evaluation Modes

- Training feedback
- Identification of errors after training program
- Mystery shopper scheme
- Audit reports
- Subsequent performance assessment
- On the job assessment



Employee Engagement

→ Engagement Modes

- Employee surveys
- Exit interviews
- Frequent feedback from employees
- Staff suggestion scheme

→ Engagement Activities

- Annual get-together
- CDB Annual Sports day
- Talent show
- Cultural celebrations
- Christmas Carol service & Bhakthi Gee sessions
- Annual Awards day
- Reward for Risk identification
- Sports at CDB
- Whistle-blowing Policy

→ Sports at CDB

- Rugby
- Netball
- Athletics
- Badminton
- Cricket
- Volleyball

→ Safe Working Environment

- Maintaining a hazard free environment
- Business Continuity Plan (BCP)
- Fire Fighters in place
- First aiders at each floor
- Coordinators for safety awareness
- Counseling and awareness on OHS procedures
- Fully furnished holiday bungalow
- Urgent family medical expenses
- BMS in place

3.3.7 Employee Engagement

The leadership team steers our Company's performance and employee engagement with the objective of gaining employee loyalty and motivating them. Therefore, various engagement activities are conducted on an annual basis.

3.3.7.1 Annual Events

The Company's annual event calendar marks out the annual agenda of the Company. We have biannual and annual review meetings, CSR activities and staff events where employees and their families interact in an informal and relaxed atmosphere.

The CDB Talent show and CDB Debater events help to draw out and showcase the talents of our employees. The annual awards ceremony recognises and rewards top performing employees.

In addition, events such as Christmas Carols and *Bhakthi Gee* performance enabled employees to participate providing equal opportunities for all, as selections are based on auditions. These events promote employee engagement at CDB.

3.3.7.2 Employee Well-being

We give priority to providing access to appropriate health and wellness facilities for all our employees. We also encourage employees to take responsibility for their health by supporting them through '*Suwa Sampatha*' medical scheme which provides health screening and medical reimbursements. For the year under review, the medical reimbursements and staff insurance for the employee well-being amounted to Rs. 30.9 Mn.

Some of the benefits given to our employees are as follows:

- Employee Share Ownership Plan
- Productivity and profit related bonuses
- Staff loans at special interest rates
- '*Suwa Sampatha*' medical scheme
- Staff loan schemes related to children's education

- Travelling and accommodation allowances
- Fully furnished holiday bungalow – Nuwara Eliya
- Urgent family medical expenses
- Extended maternity leave
- Career Breaks
- Death donation Schemes
- Professional membership & examination fees reimbursement
- Vehicle loans at special interest rates
- OPD Claims
- Dental Care
- Vision Care
- Weight Loss Log
- Insurance Coverage

3.3.7.3 Maintain Highest Safety Standards

We ensure a zero accident work environment, and quality work spaces as a result of the measures taken to provide a safe work environment for staff members.

Building Management System (BMS) safeguards employees and infrastructure from fire, system failures and other work hazards.

The operational network is equipped with necessary safety measures including fire extinguishers, purified water, and air etc.

Employees are educated and trained periodically on safety measures. Fire drills are carried out to test the effectiveness of the fire safety measures and readiness of staff members including the designated fire wardens. Both head office and branches maintain fully-equipped first aid kits to ensure a hazard free environment.

3.3.7.4 Our Policies and Procedures

We have in place policies and procedures for grievance handling, and dispute resolution. A procedure for disciplinary action has been formulated to deal with issues in a just and fair manner for both the Company and employees. The employees are able to challenge any disciplinary sanction or lodge a grievance or complaint, if necessary. The HR Division facilitates dispute resolution of staff members by

initiating formal grievance proceedings. Managers are given formal training on grievance resolution management as well.

3.3.7.5 Communication

Relevant information about our Company and activities are provided to our staff members regularly. This is because we understand that Company decisions have a direct bearing on staff members. Therefore it is pertinent to keep them informed through several methods of communication in place.

3.3.8 Rewards and Recognition

Our rewards and recognition strategy is derived from our 'Strategy bets on People to Succeed' and we believe that 'Talent comes first'. Therefore, we adopt practices to reward talent through both monetary and non-monetary awards. Rewards and recognitions of our Organisation are twofold – short-term and long-term.

3.3.8.1 Talent First Policy

We follow a 'Talent First' policy to recognise and reward exceptional performances. This has enabled us to keep our employees motivated and performance driven.

3.3.8.2 Compensation and Benefits

The compensation and benefit benchmarking exercise of our Organisation is carried out every three years to compare our annual increments with the industry standards. This enables us to set up competitive compensation in line with the market.

3.3.8.3 Service Recognition Awards

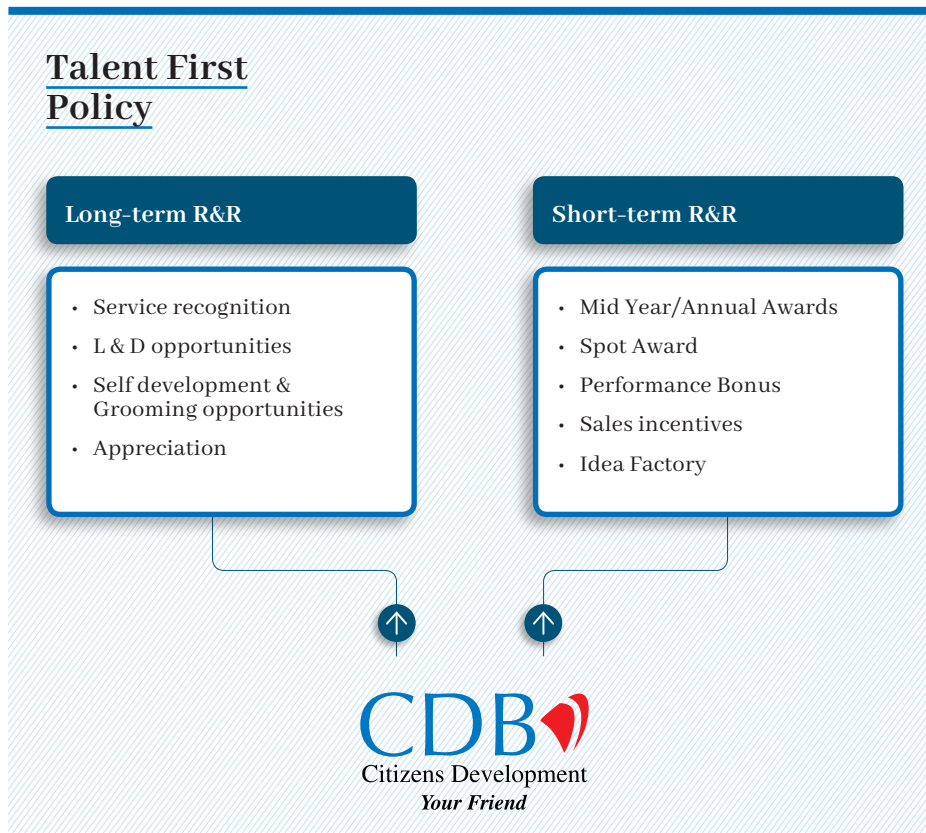
The long service recognition award is launched annually to reward the long-standing employees of our Company. We are privileged to have over 90 employees who have served the Company for over 10 years. Employees are rewarded with cash prizes, foreign tours and family tours and this has served to be a motivator for new recruits to serve the Company with loyalty and integrity.

→ Formal Communication Modes

- E-Flyers
- Intranet
- Company Announcements
- Regular Meetings
- Email
- Internally Formed Clubs
- Memorandums and Letters

→ Interaction Points with Top Management

- Breakfast Meetings with the CEO
- Staff Suggestion Scheme
- 'Happy Customer' Forum
- Monthly Meet-ups
- Employee Welfare & Recreation Club
- CEO's Forum
- Presentations by External Parties
- Kick off Ceremony
- Budget Meeting





In faith, loyalty, trust and confidence they plant the ‘**seed**’ that helps grow our ‘**value tree**’ – **our customers...through their transactions with the Company they in turn help us grow an ‘orchard’ of value generation** that uplifts and empowers the entire stakeholder community.



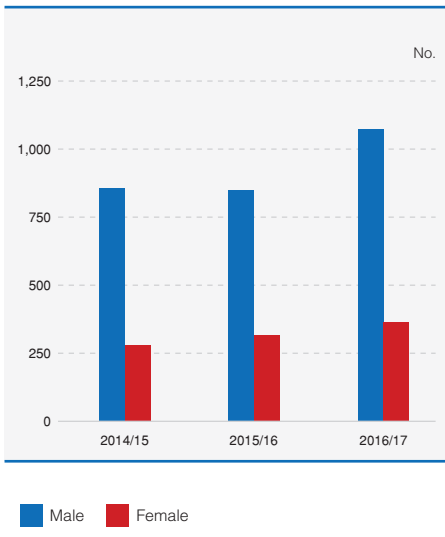
3.3.9 Diversity and Inclusion

We ensure a workplace free from discrimination based on gender, caste, creed, religion, race, marital status, nationality or age. All promotions, transfers, rewards and other increments of employees are granted solely based merit through a non-discrimination policy.

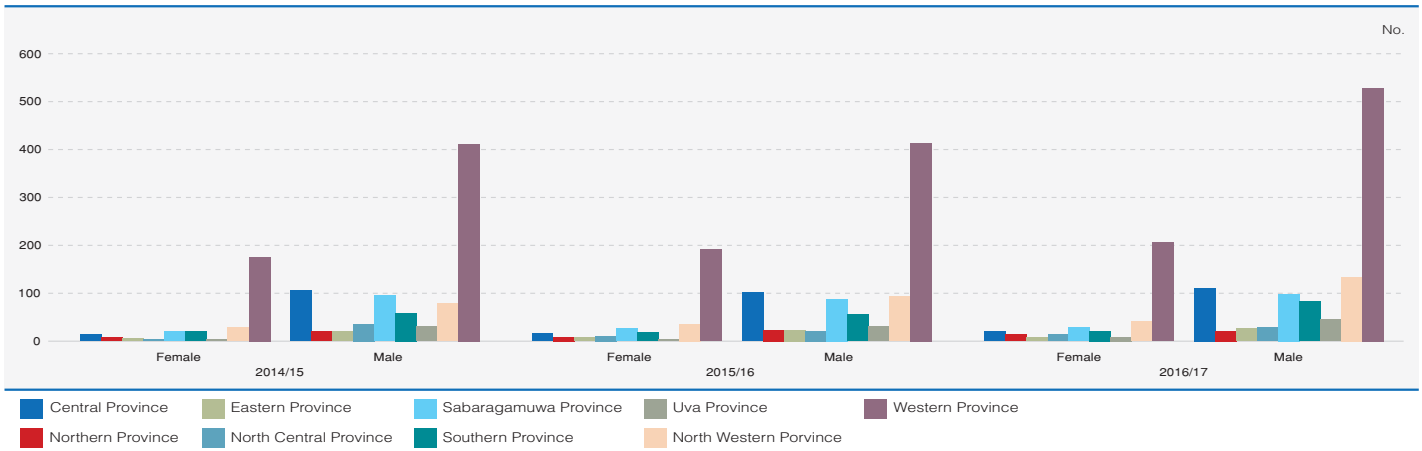
We follow a well documented non-discrimination policy in order to maintain a work environment that promotes dignity, free from discrimination and harassment.



Total Employees by Gender



Total Number of Employment Contracts by Gender and Region



3.3.9.1 Diversified Sports & Recreational Teams

We recruited sports men and women to our Organisation especially to represent our Company in sports in various tournaments and championships. This has brought in the much needed diversity to our Company. We have teams representing a range of sports including netball, basketball, cricket, rugby, volleyball, badminton, football and athletics. These employees 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. Our Organisation culture has been enriched due to the diversity in race, geographies and talents brought in by these individuals.

We also promote religious harmony by conducting religious ceremonies such as Christmas carols, *Bhakthi Gee*, Ramdaan celebrations and *Saraswathi Pooja* on an annual basis. The diversity has helped us to maintain cordial relationships with different ethnic groups and also create informal peer group to reap the benefits of diversity in our Organisation.

Cricket

- Mercantile Cricket Association 'Champions' Division 'D'

Rugby

- Mercantile Rugby Association 'Semi Finalist' Bowl Category
- Finance House Meet 'Champions'
- Synergy Islamic Banking Unit 'Tag' Rugby 'Champions'

Netball

- Finance House Meet 'Runners Up'
- Mercantile Netball Tournament 'A' 2nd Runner up
- Sports Dot Com Champions 'B' Division
- Mixed Tournament – Runners Up

Basket Ball

- Mercantile Basketball Association 'Division E' Quarter Finalist

Athletics

- Mercantile Athletic Meet
 - 2 Gold Medals
 - 5 Silver Medals
 - 7 Bronze Medals

→ Communicating Reward Structure

- Board approved awards criteria which is published annually
- Formal communication lines
- Pre-determined incentive structures in printed formats

→ Host of Benefits

- Employee Share Ownership Plan
- Performance, Productivity and profit related bonuses
- Staff loans at special interest rates
- 'Suwa Sampatha' medical scheme
- Staff loan schemes related to children's education
- Travelling and accommodation allowances
- Fully furnished holiday bungalow
- Urgent family medical expenses
- Extended Maternity Leave
- Career Breaks
- Death Donation Schemes
- Professional membership & Examination Fees reimbursement
- Vehicle loans at special interest rates
- OPD Claims
- Dental Care
- Vision Care
- Weight Loss Log
- Insurance Coverage



A vital supportive element in the Company's business is its business partner community...they add 'water' to our 'value tree' and are key stakeholders in our value creation and delivery process.



3.4 Social and Relationship Capital

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Capital Transformation Process

(Inputs)

Diversified Products and Services

'We engaged in developing diversified services with many value additions in order to maximize the customer satisfaction'

Regulatory Compliance

'Our compliance framework is based on principles of effective risk management techniques'

Investment in Education

'CDB *Sisu Diri* foundation and literacy enhancing programs well facilitate in fulfilling our community responsibilities'

Investment in Rural Economy

'We promote economic and social inclusivity by offering an inclusive service to rural underprivileged segments of the society in order to empower them'

Business Partnerships

'We always strive to add mutual value to our businesses by entering into strategic partnerships that drive service excellence'

Inputs

(Process)

Reach

Strategic Business Partnership

Branch Network

Investment in Community Development

CDB Relationship Excellence

Customer Value Addition

Strategic Customer Relationship

Process

Outputs

Dealer Network

Social Relationship

CSR

Regulatory Relationship

Regulator Development

Customer Relationship Management (CRM)

Governance Compliance

Output



Growth in Loan Book

- 12%



Customer Base

- Continuous service enhancement
- Customer deposit portfolio Rs. 33 Bn
- Lending portfolio Rs. 43 Bn



T&D Customer Service Programmes

- 400 participants
- 7 programmes



Regulatory Adherence

- 100%



No. of Scholarships Granted

- 359

Outcome

Introduction of new product and diversification

New outlets opened and relocated

Improved business partnerships

Transparent business relationships

Customer loyalty

Responsible corporate citizenship





Highlights



for
Sisu Diri scholarship
programme



outside Western
province



on IT literacy
enhancement

Challenges



- | | | |
|---|--|--|
| 1. Changing requirements by the business partners | 2. Dynamic needs by the customer due to technological advancements | 3. Adhering to stringent regulatory requirements |
|---|--|--|

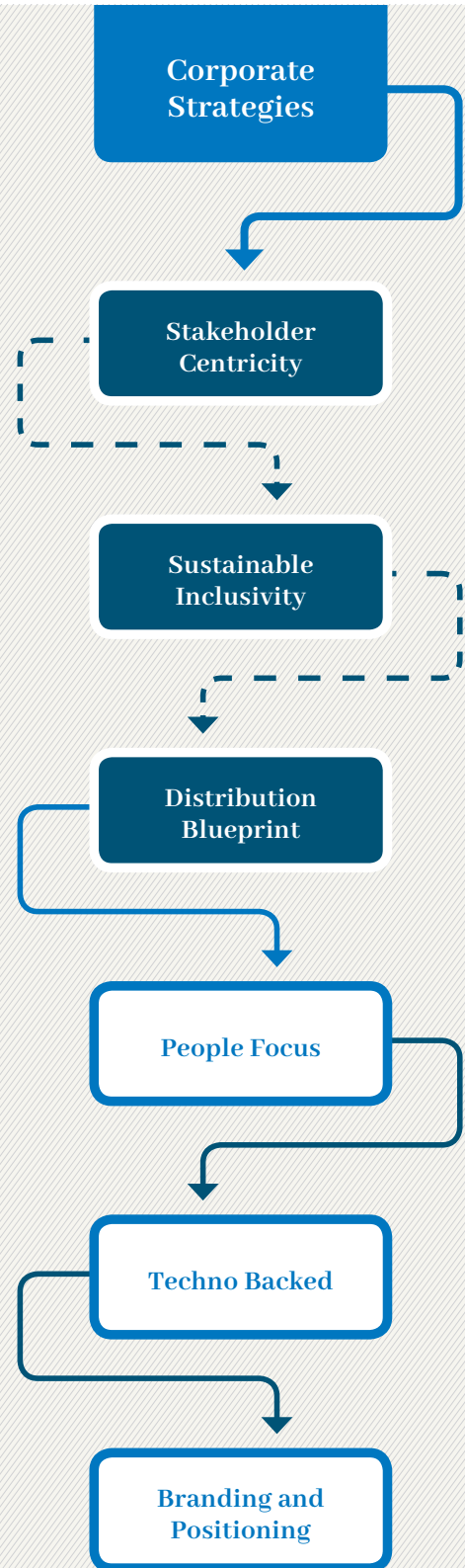
Priorities for 2017/18



- | | | |
|---|--|-------------------------------------|
| 1. Investment for continuous training and development on customer service improvement | 2. Improve business partnering process to improve customer enhancement | 3. Explore new market opportunities |
|---|--|-------------------------------------|

We understand that the sustainability of our Organisation depends on our ability to sustain strong relationships with our stakeholders for whom we also create value.

Therefore, we forge and maintain cooperative relationships with our stakeholders – customers, business partners, regulators and the community – to make us a better Organisation and a good corporate citizen. Accordingly, we enhance customer value and contribute to the sustainable growth of communities.



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
- Advances business partner relationships

Our Social and Relationship Capital Values

- Accountability
- Trust
- Honesty
- Responsibility

Commitment to Our Social and Relationship Capital

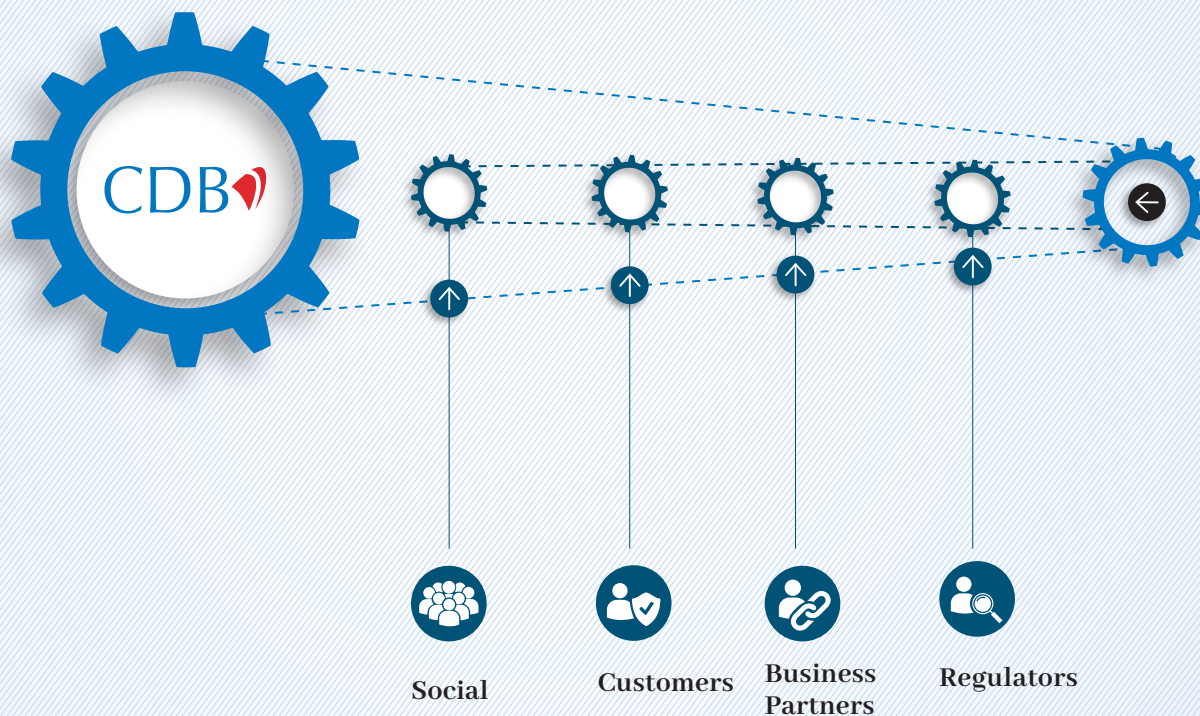
We offer a vast variety of financial solutions to our stakeholders while being responsible for what is delivered. We run through defined principles that guide our marketing communication with them. Therefore we are committed to building trust through responsible practices through transparent transactions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

Stakeholders



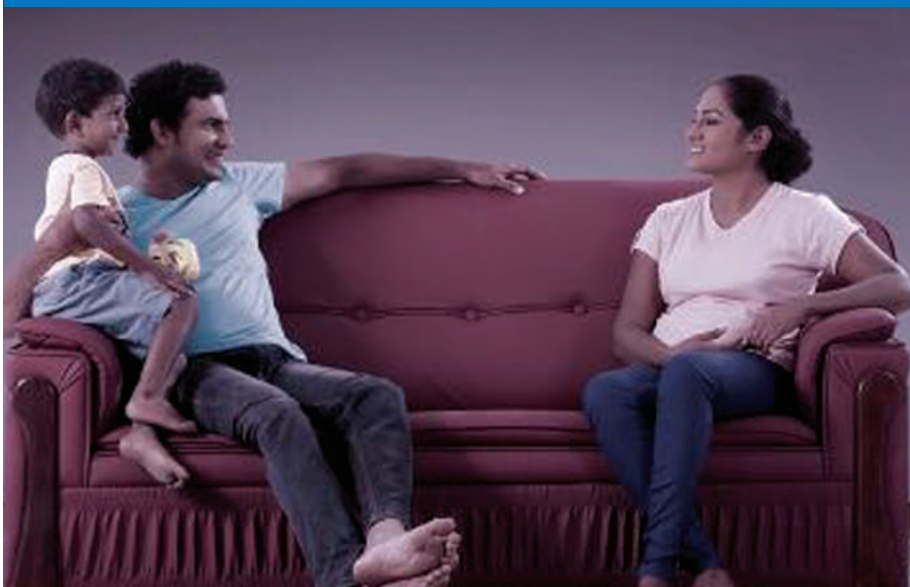
3.4.1 Social Relationships

As a responsible corporate citizen, we have embedded sustainable business practices into our operations. We strive to contribute towards a sustainable society by promoting ethical business practices in our supplier chain, uplifting the communities and embarking on environmentally-friendly initiatives.

Key Social Indicators	Unit	2016/17	2015/16	2014/15	2013/14	2012/13
IT labs donated	Nos.	1	1	1	1	1
Scholarships extended by 'CDB <i>Sisudiri</i> '	Nos.	35	46	58	57	33
Employees recruited outside the Western Province	Nos.	474	304	318	396	349
Investment in community development	Rs. Mn	19.0	3.6	3.1	3.3	3.1
Lending outside the Western Province	Rs. Mn	18,991	17,624	11,080	9,062	8,685
Lending outside Western Province as a percentage of total lending portfolio	%	46	47	48	38	48



‘Act early for Autism’ Awareness Campaign



THE SIGNS OF
AUTISM ARE SO
SUBTLE, THEY
CAN OFTEN GO
UNNOTICED



The Autism Awareness Campaign is the flagship CSR project of our Company with an allocation of Rs. 10 Mn. Accordingly, CDB partnered with the Sri Lanka Association for Child Development (SLACD) to create awareness on early detection of Autism, under the theme 'Act early for Autism'. The inauguration was held at the CDB auditorium which coincided with the 20th anniversary of our Company.

Autism, is a complex neuro-developmental disorder determined at time of birth although it becomes more evident as the child grows older. It affects the child's social relationships and language development.

The campaign was launched in 3 phases; of which the first phase was launched in FY2016/17. Under this phase, the need for autism awareness in Sri Lanka was identified. The lack of awareness was preventing early detection of autism in Sri Lanka. Therefore, the Autism Awareness Campaign was launched on 18th October 2016, in collaboration with The Sri Lanka Association of Child Development, successfully reached Millions of people across Sri Lanka through the media – print, television, radio and digital.

As a final step of phase 1, a separate Hot Line was set up by CDB Customer Care Centre, which received 635 inquiries for the past five months of the awareness campaign.

Under the next phase II of the project, mobile clinics will be initiated using vehicles to disseminate information and create awareness. We will also expand the Autism Fund by contributing Rs. 1,000 for every Rs. 1 Mn disbursed and deposits mobilised.

Under the final phase of the project, we will involve our customers and the general public to make a lasting impact on the society in detecting and treating autism.

3.4.1.5 CDB Sisudiri – Supporting Rural Education

CDB *Sisudiri* foundation which is in its seventh consecutive year, rewards high performers of both the Grade Five Scholarship examination and the GCE Ordinary Level Examination. Recipients of these scholarships are children from low-income families, especially of three-wheeler owners. The selection process is transparent and unbiased. 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 O/L exam are awarded Rs.15,000/- per annum until the completion of the Advance Level Examination. We are pleased to state that a total of 35 scholarships were awarded during the financial year.

Examination	Season 1	Season 2	Season 3	Season 4	Season 5	Season 6	Season 7	Season 8	Season 9
Grade 5	26	24	18	30	22	43	32	31	17
GCE Ordinary Level (O/L)	0	7	15	10	11	14	26	15	18
Total	26	31	33	40	33	57	58	46	35



3.4.1.6 CDB Pariganaka Piyasa – Enhancing ICT Literacy

This project has been ongoing for the past eight years as a part of our CSR initiative. We strive to promote ICT literacy among rural youth, to enhance their employability and enable them to compete with urban candidates on a more even basis.

We provide IT access and ICT education to underprivileged students in rural schools and facilitate them to adjust into a future shaped by technology. During the year 2016/17, the CDB Technology Centre helped 242 number of students studying at Kehelpannala Kanishta Vidyalaya, Hemmathagama.



Year	Name of the School	District	No. of Students
2009/10	Nadigamvila Maha Vidyalaya	Hammbantota	210
2010/11	Navankuli Maha Vidyalaya	Jaffna	700
2011/12	Ethawatunuwava 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



3.4.1.1 CDB Hithwathkam – Engaging Employees

CDB strives to build and maintain the trust of the communities we empower and operate in. We are enabled to continually contribute to their development building healthy, resilient and sustainable communities. Our employees volunteered their efforts to actively participate in numerous CSR activities in over 15 locations throughout the island during the year.

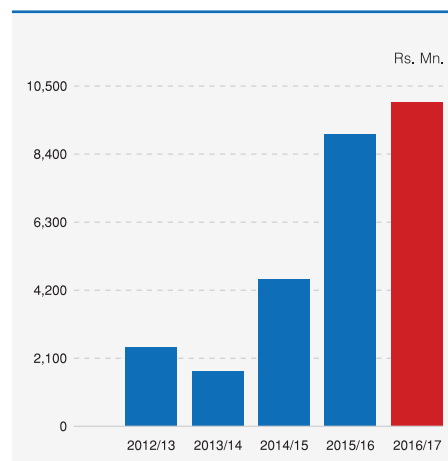
We have also deployed sustainability representatives in each of the major geographical areas we operate, to drive our sustainability initiatives which are aligned to the core values of our Company.

3.4.1.2 Empowering Entrepreneurs

We aim to uplift and enrich the lives of people through the provision of financial products and services. We encourage economic and social inclusivity and offer an inclusive service to empower rural and underprivileged segments of the society.

Given the high concentration of lending institutions in the Western Province, we have made a conscious decision to empower undeserved segments in rural communities. Hence, we offer a range of products and services, favouring rural entrepreneurship with minimal collaterals, convenient instalments etc. During the year, we have lent Rs. 18.9 Bn to this segment and our net lending portfolio outside the Western Province stood at Rs. 10 Bn as at the financial year end.

Net Lending Outside Western Province



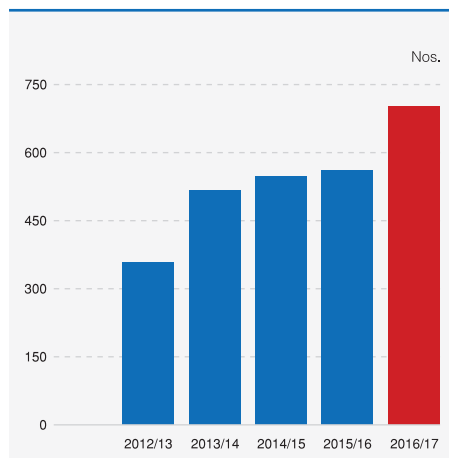
Net Lending Outside the Western Province

	2016/17 Rs. Mn	2015/16 Rs. Mn	2014/15 Rs. Mn	2013/14 Rs. Mn	2012/13 Rs. Mn
Lending portfolio	18,991	17,625	11,080	9,062	8,686
Deposit portfolio	8,946	8,569	6,498	7,356	6,184
Net lending	10,045	9,056	4,582	1,706	2,502

3.4.1.3 Promoting Rural Youth

Employment

Employment Outside Western Province



Our recruitment policy is geared to attract young people from rural areas. We focus on localised recruitment, from communities in which we operate. Our island-wide branch network, our core values coupled with our organisational culture is geared to attract, retain and develop rural youth who are dynamic, passionate and committed. This strategy has enabled us to contribute to social and economic upliftment of Sri Lanka through reducing youth migration to Colombo and other urban centres. This has also helped to avert numerous social problems that could crop up in the country due to migration.

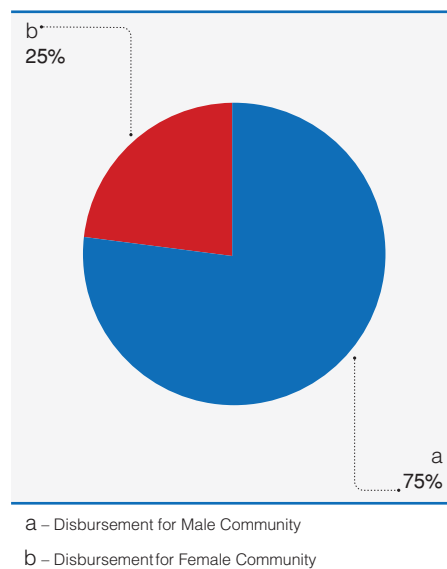
Employee Composition by Region (Nos.)	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
Western Province	734	605	588	592	466	431
Outside Western Province	705	562	548	517	359	295
Total	1,439	1,167	1,136	1,109	825	726

3.4.1.4 CDB *Diriliya* – Women

Empowerment

Women form the backbone of our nation's rural economy, as they play a significant role in the well-being of their families. '*Diriliya*' 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. Our focus is to strike a well balance between all communities, gender and backgrounds in all our operations. 25% of our disbursements are directed for female community and this is a great achievement as a responsible organisation.

Lending for Women



CDB looks forward to enhance the commitment towards this process with more added services and add further value to the society.

3.4.1.7 Compliance to Regulations

A robust governance structure is in place to oversee the sustainability agenda of our Company. We have infused governance principles, accountability, transparency, ethics and values into our operations. We have also 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, anti-trust 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.

3.4.1.8 Donation for TRAIL Walk Crowd Funding Initiative

CDB took another corporate social responsibility step by giving a generous donation of Rs. 1 Mn towards the TRAIL Walk initiative which took place in October during the last financial year.

The TRAIL Walk, was one of the Sri Lanka's largest crowdfunded charitable initiatives and CDB was able to provide support to the crowdfunding helping to bring together communities and general public who participate for this truly worthy initiative.

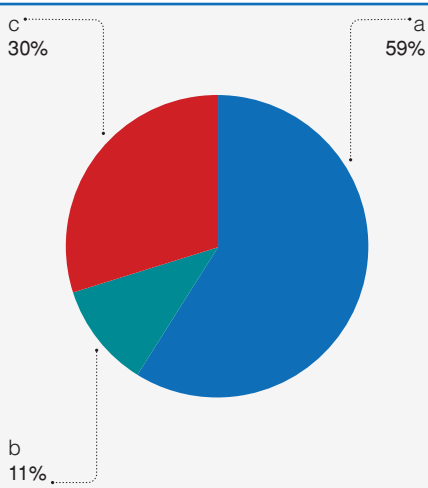
TRAIL initially commenced in 2011 in the form of a walk which started from the southernmost part of the country and finished in the north in the course of 27 days, covering 670 km in total with the aim of the walk by volunteers to raise USD 5 Mn or about Rs. 735 Mn towards the construction of a new cancer unit at the Karapitiya Teaching Hospital in Galle.

3.4.2 Relationship with the Customers

Being a financial institution, generating positive customer experiences is CDB's top priority. We are committed to build trust through prudent governance and ethical practices. CDB's aim is to become a financial powerhouse through the delivery of comprehensive financial solutions. Hence, we continually develop internal capabilities and service standards to meet the rapidly changing expectations of customers.

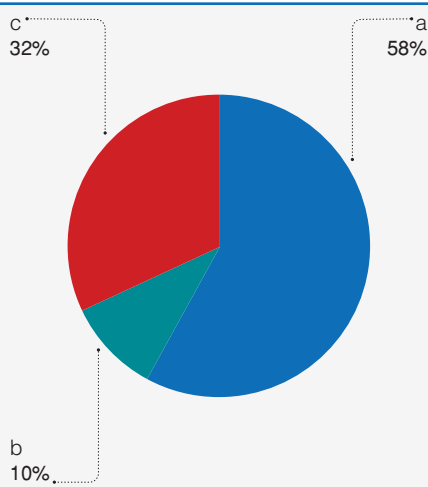
3.4.2.1 Our Customer Base

Customer Base 2016/17



a - Savings b - Term Deposits c - Lending

Customer Base 2015/16



a - Savings b - Term Deposits c - Lending

3.4.2.2 Customer Care and Quality of Service

CDB customer care is designed to offer a simple, consistent, personal and valuable experience to each customer across all channels and touch points. We strive to deliver customer support of highest quality to keep our customers happy. Accordingly, our customer care division was redesigned with additional features and deploying competent customer care agents to provide and exemplary customer service.

3.4.2.3 Customer Privacy

We have in place a corporate value system that upholds the highest level of integrity and ethical standards in our daily operations. In addition, our systems, operating procedures and controls enable us to deliver optimal results whilst protecting customers from any adverse exposure. We also follow stringent risk management practices and adhere with relevant regulatory requirements to reduce any risk of fraud. Accordingly, CDB adheres to a strict secrecy policy to which all staff members are bound through the Code of Conduct. Our information technology platform is maintained in-house and is duly secured against malicious spyware. There were no complaints pertaining to breach of customer privacy of loss of customer data during the financial year. We do not promote or after products that are banned in any market or subject to public controversy or friction.

3.4.2.4 Customer Relationship Management Unit (CRMU)

Customer Relationship Management Unit (CRMU) was established with the view of strengthening the relationship that we have

with our valuable clientele. Customers have been a significant force behind the success that we have achieved and it will be the same in the future as well. CRMU attempts to differentiate CDB with its relationship initiatives such as –

- **Customer Loyalty Programme**
Customer Loyalty Programme aims at recognising the patronage of our valuable customers. This we believe would strengthen customers' impression on CDB.
- **Customer Door Step Service**
This is a value added service where CDB customers are given an opportunity to experience CDB services at the door step. This is expected to provide our customers with convenience and ease of mind.
- **Instructing Branches**
CRMU monitors and instructs branches with a specific emphasis on customer relationship activities. Establishing relationship driven business process is an expected outcome of this function.

CRMU constantly looks at improving internal processes and establishing new working practices to enhance the service standards of CDB.

3.4.2.5 Happy Customer session – Phase iii

In financial year 2016/17 we have step out to the phase iii of 'Happy Customer' session along with the service implementations made during past sessions. Residential planning programme won organize with the participation of the Branch Heads. Branch operations in charge and selected head office operations staff members to discuss as a team to come up with suggestions on improving customer service and quality service delivery.





CDB has continuously contributed to our community development by building healthy, resilient and sustainable communities.

3.4.3 Regulatory Developments

The Institute has the necessary resources to ensure all compliance with legislation impacting on its business operation and our technological infrastructure is well supported with the changing requirements of the regulatory.

3.4.3.1 Compliance Governance

The Institute strives to promote a strong culture of good compliance governance throughout the organisation. Adherence to applicable legislation and regulations is ensured through the documentation of all legal requirements in internal policies published procedure manuals.

Employees receive regular training on all policies and procedures relevant to their roles and responsibilities. Line management is responsible for ensuring compliance by employees with laws, regulations, policies and procedures. Such compliance is monitored by the Compliance division.

Regulator	Status
Central Bank Of Sri Lanka (CBSL)	Central Bank of Sri Lanka acts as the regulator and governing body of all Financial Institutions in Sri Lanka. We have complied with all statutory requirements of CBSL.
Securities and Exchange Commission of Sri Lanka (SEC)	SEC acts as the regulator of the Colombo Stock Exchange (CSE) that formulates rules from time to time to facilitate orderly and fair trading of securities for the investor protection. We have ensured compliance with the said regulations during the financial year and submitted all the financials in timely manner.
Colombo Stock Exchange (CSE)	The CSE operates as a Self- Regulatory Organisation (SRO) subject to the regulation and supervision of the SEC. CDB has complied with the rules and regulations set out by the SEC and have taken necessary steps to provide timely and accurate financials as required.
Department of Inland Revenue (IRD)	CDB has complied with Rules and Regulations of the Department of Inland Revenue and we have discharged all our tax obligations as per the requirements. We have a separate Tax Department which sets out the controls to assess and monitor tax for direct and indirect taxes.
Other Legal and Regulatory Compliance	<p>We have recognised that regulatory compliance provides an opportunity to consistently strength our Company through strategic and proactive measures:</p> <ol style="list-style-type: none"> 1. No complaints or legal actions pertaining to anti-competitive behaviour, antitrust or monopolistic practices were instituted against the Company. Neither has the Company been obliged to pay any fines or submit to pay any sanction for non-compliance with the relevant laws and regulations. 2. No complaints or legal actions were instituted against the Company for non-compliance with any environmental or public health laws or regulations nor has the Company been obliged to pay any fines or submit to any sanctions for non-compliance with the relevant laws and regulations.

3.4.4 Relationship with Business Partners

The best results from a strategic partnership generally occur when each partner delivers excellence in service areas that are different but related to core business of CDB and which would eventually add value to the business. When entering into a strategic partnership CDB is highly concern over the below key aspects.

3.4.4.1 Our Approach Towards Business Partners

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

Commitment: The level of commitment required from each party is taken into consideration when entering into a negotiation where we strongly believe the level of commitment results with the end of customer satisfaction. Therefore, when selecting suppliers, dealers, brokers, other institutional suppliers CDB highly focus on the screening and selecting process where we have purchasing committee headed by Senior Corporate Management team members.

Collaboration: CDB believes that more collaborative the partnership, the more success the endeavour is. We also bear in mind that we are not merging the partners rather forming better alliance where there is no need to share resources.

Communication: We have recognised that the effective communication is an essential to eliminate deviations between business partners and therefore CDB has identified the key staff members to deal with external parties and train them accordingly to develop their communication and interpersonal skills.

3.4.4.2 Partnering Concerns

We adopt regular visits, joint promotions, product displays and compliance meetings in suppliers and business partner engagements. More often we evaluate the contractual performance where it brings synergetic rewards for both parties. Through it all, we remain much focused on our service providers, suppliers and business partners who are truly one of the vital aspect to our business and have, since our inception, been the force that has driven our success. We have conducted joint promotional campaigns, customer awareness campaigns and small activity-based programmes in order to acquire customers, which has resulted in many synergetic benefits for us as well as for our business partners.

**Strategic Partnerships
Create Value**



3.5 Natural Capital

P: 124 – 137

Natural Capital Process

(Inputs)

Energy Savings

Greenhouse Gas Emission Analysis

Renewable Power Energy Solutions

Tree Planting and Preservation

Waste Collection and Management

Recycling Efforts

Green Awareness

Inputs

Steering Committee

Rain Water Harvesting

Electronic Waste Recycle

Waste Paper Recycle

Solar Harvesting Systems

(Process)

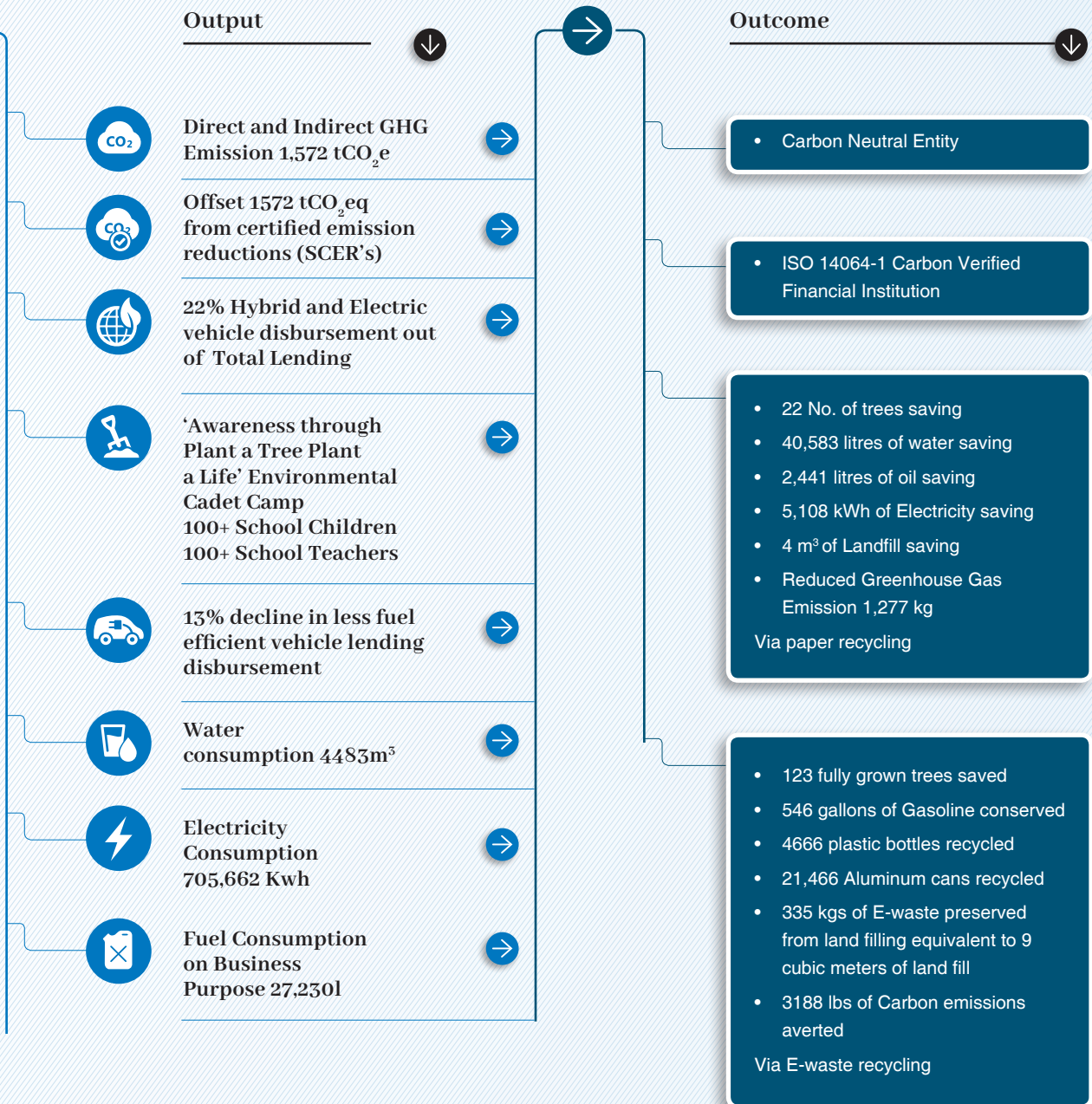
Process

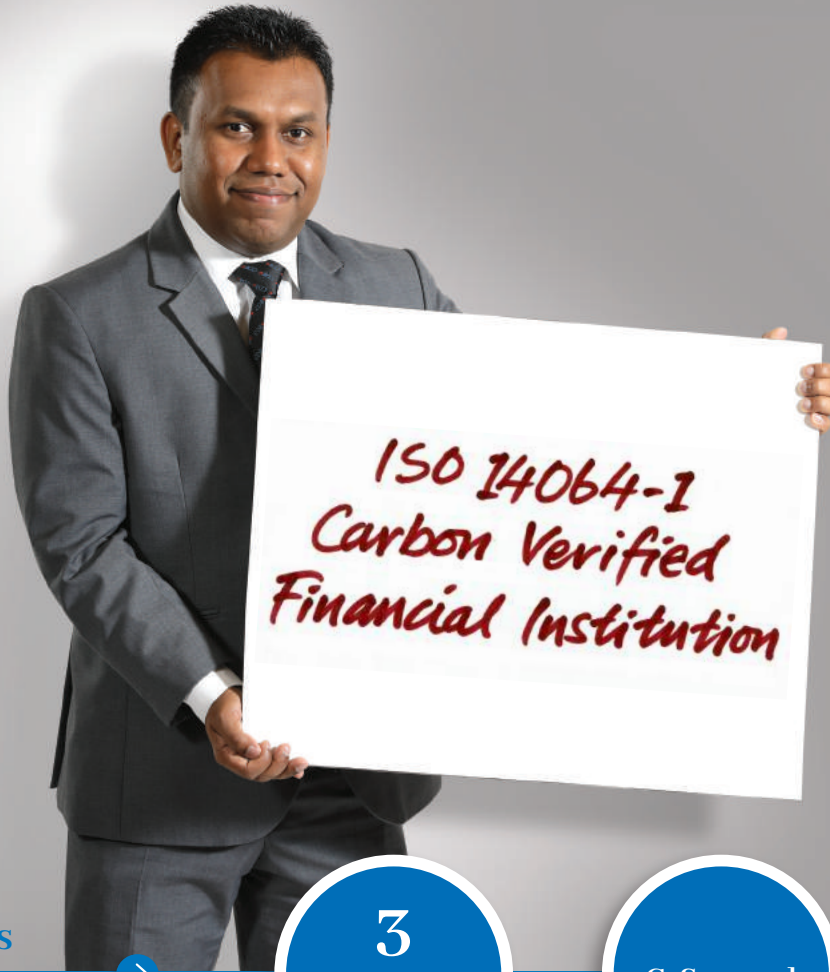
Outputs

Green Team

Green Lending

'Plant a Tree Plant a life' Environmental Cadet Camp





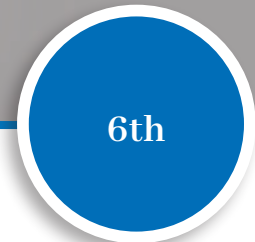
Highlights



Power backed locations



Formation of G-Squared Go Green club



Consecutive Environmental Cadet campaign

Challenges



1. High investment on Renewable power energy solutions
2. Fitting a robust carbon reduction targets in an increasingly demanding energy consumption environment
3. Establish a resource optimisation program to eliminate waste generation

Priorities for 2017/18



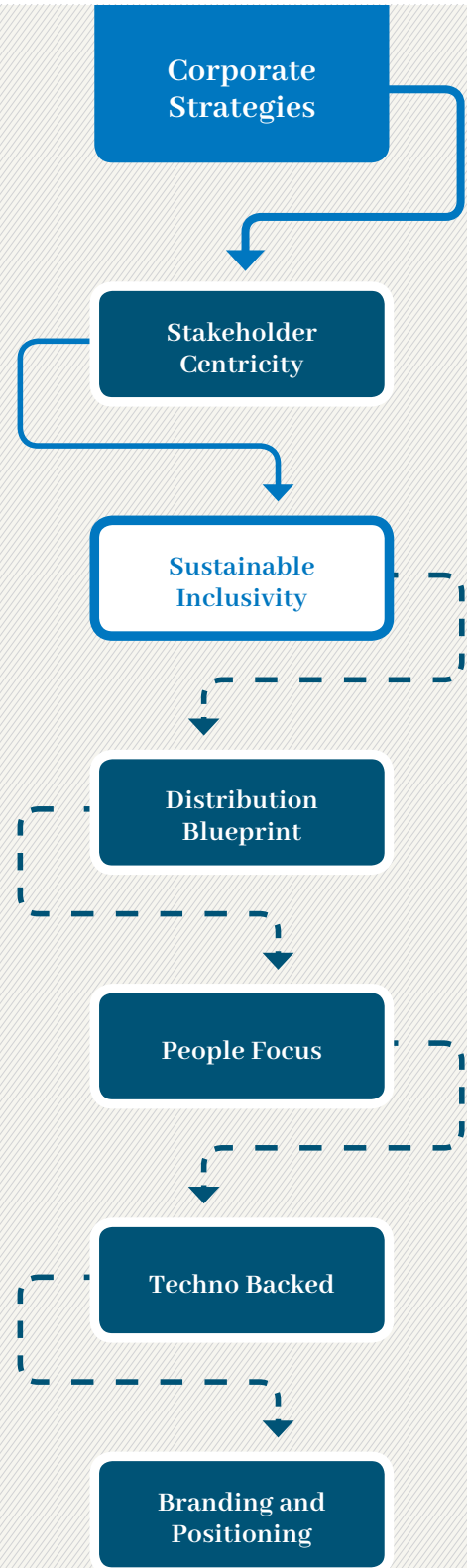
1. Explore new methods towards a cleaner energy sources
2. Covering the entire operational network by analysing Green House Gas Emission
3. Continuous engagement of employees in environmental preservation initiatives

Working Together for a Greener Trail

We have affirmed our commitment towards environmental protection and preserving ecosystems for future generations by adopting eco-friendly business practices.

We are implementing our ambitious environmental targets and creating awareness among our team members and our valued business partners in a bid to conserve energy.

'*Mihikathata Adaren*' is our flagship environmental sustainability project, which inculcates a sense of responsibility and affinity towards the environment.



Environmental Capital Vision

Work together to leave a greener trail by conserving and preserving ecosystems for future generations, leading to a low carbon, blue-green entity.

Environmental Capital Strategy

To provide a green experience in creating a sustainable future which is symbolised under our trademark slogan '*Mihikathata Adaren*'.

Commitment to Environment

We are committed to responsibly manage the short-term and long-term impacts of our business operations on the environment and promote sustainable use of natural resources in the process of offering quality products that meet the needs of customers.

Our efforts in managing environmental impacts enable us to meet the expectations of stakeholders, increase the long-term sustainability of our Company, reduce business risks and also minimise operating costs.

Environmental Capital Values

- Efficiency
- Conservation and Preservation
- Commitment
- Minimisation

Environmental Policy

Eco-friendly management is an integral aspect of our corporate sustainability strategy, demonstrating our commitment to conducting our business activities in a manner that respects and improves the lives of people and conserving the planet's resources.

The environmental policy provides a consistent framework to manage environmental initiatives across our Company. We strongly believe the resilience and long-term sustainability of our Organisation is strengthened by giving due consideration to sustainability.

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 (EN-3, EN-31)

Key Environmental Indicators		Measurement	2016/17	2015/16	
Consumption	Electricity	kWh	705,662	731,484	
	Water	liters	4,483,000	4,365,000	
	Fuel	liters	27,230	29,103	
Recycling Efforts	Paper recycling				
	Fully grown trees	Nos	22	32	
	Oil preserved	Liters	2,241	3,159	
	Electricity saved	Kwh	5,108	7,200	
	Water saved	Liters	40,583	57,204	
	Landfill preserved	cubic meter	4	5	
	Redused GHG emission	Kg	1,277	1,826	
	E waste recycling				
	Fully grown trees	Nos.	123	-	
	Gasoline conserved	Gallons	546	-	
Plastic bottles recycled	Nos.	4,666	-		
Aluminium cans recycled	Nos.	21,466	-		
Landfill preserved	cubic meter	9	-		
Redused GHG emission	lbs	3,188	-		
Awareness	Awareness on environment preservation through plant a tree-plant a life project	Nos.	210	240	
	Sustainability meeting held	Nos.	6	6	
Investments	Investment for plant a tree – plant life programme	Rs.	395,000	313,500	
	Investment for solar harvesting system	Rs. Mn	2.6	1.2	

3.5.1 Environment Management

Minimising our impacts on the environment is a key priority for us. We have management systems and programmes in place to reverse the trend of those aspects that have a high environmental impact. We are proud to be the first ISO 14064 carbon verified financial institution in South Asia; a testament of our commitment to environmental protection.

Our environment policy and guidelines shape the way we work. They are focused on minimising the negative impacts by following a stringent green policy, which includes identifying and measuring outputs, setting targets and forming appropriate structures, developing a comprehensive

action plan, educating and creating awareness and securing the commitment from the management and the staff members.

A comprehensive strategy was formulated to address environmental concerns and drive the green policy of our Company. Following are some of the initiatives launched:

- Reducing the emission of greenhouse gases (GHG) to acceptable levels
- Investing in renewable energy projects to ensure higher energy efficiency
- Reducing wastage of water, electricity and energy through efficient processes
- Conducting workshops, seminars and awareness programmes to educate the public on environmental concerns

- Ensuring conformance to all relevant environmental rules and regulations
- Disseminating information to team members on environmental aspects and policies and voluntarily engaging them in prevention of pollution
- Carrying out constant supervision on environmental objectives and targets through internal audits and management reviews

3.5.2 ISO 14064-1:2006 Carbon Verified

CDB was recognised as the first ISO 14064-1 carbon verified financial institution in South Asia by Sri Lanka Carbon Fund in the financial year 2015/16. By aligning our commitment of reducing our carbon footprint based on pre-determined parameters, we continued our green practices by becoming a fully carbon neutral entity – a noteworthy achievement in our sustainability efforts.

The increased global focus on climate change and its effect on the environment have propelled corporations to lower the overall national GHG emissions and reduce carbon footprint. In this context, we have stepped up our efforts to reduce our GHG emissions to an acceptable level as well.

The carbon dioxide emissions of all Company-owned vehicles are tracked. In addition, staff transportation, official air travel, fire extinguishers and the energy consumption of 35 branches in the Western Province including our head office is tracked for CO₂ emissions. For the financial year 2016, carbon footprint was evaluated to be 1,572 tonnes of CO₂ equivalent. This propelled us to institute more measures to mitigate the impact further. The Sri Lanka Climate Fund together with Sri Lanka Accredited Board has audited and verified the carbon verification process of our Organisation.

→ Objectives of GHG Emission Analysis

- Meet the demands of stakeholders to address the corporate responsibility of environmental preservation
- Be an environmentally friendly company
- Understand its impacts on climate change
- Develop key performance indicators for carbon emissions and energy usages
- Develop action plans to make real carbon savings across the business

We are considered a low contributor to GHG emissions, due to the nature of our products and services. However, our commitment to protecting the environment remains steadfast.



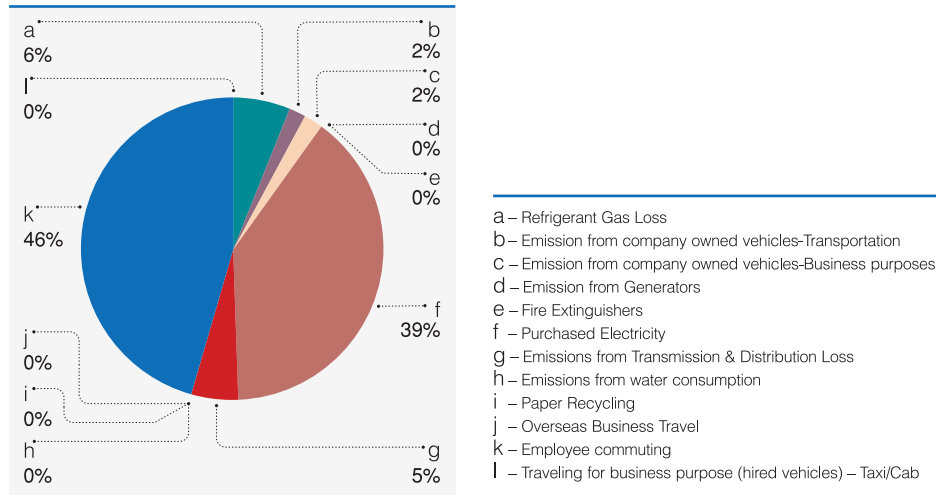
3.5.2.1 Scopes of Carbon Footprint Calculation

Scope I	CDB response
<p>Direct emissions within the organisational boundary are released from</p> <ul style="list-style-type: none"> • Fuel combustion • Refrigerant emissions • Generation of electricity steam, or heat in equipment, • Business travel or employee commuting in Company-owned or leased vehicles. 	<ul style="list-style-type: none"> • 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
<p>Indirect GHG emissions are released by the production of electricity, steam, hot water and/or chilled water purchased by the facility.</p>	<ul style="list-style-type: none"> • Purchased electricity
Scope III	CDB response
<p>Other indirect GHG emissions are released from all other activities outside of the organisational boundaries. These include 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.</p>	<ul style="list-style-type: none"> • Emission from transport and distribution loss • Emissions from water consumption • Paper recycling • Overseas business travel • Employee commuting • Travelling for business purpose – taxis

3.5.2.2 Our Carbon Footprint Calculation

Scope	Type of Emission	Total tCO ₂ e	% of Total
i.	Refrigerant gas loss	96.6	6
	Emission from Company-owned vehicles – transportation	35.5	2
	Emission from Company-owned vehicles – business purposes	33.1	2
	Emission from generators	4.1	0
	Fire extinguishers	0.1	0
ii.	Purchased electricity	611.5	39
iii.	Emissions from transportation & distribution loss	76.4	5
	Emissions from water consumption	3.6	0
	Paper recycling	0.0	0
	Overseas business travel	0.8	0
	Employee commuting	705.2	45
	Travelling for business purpose – taxi/cab	5.6	0
	Total	1,571.6	

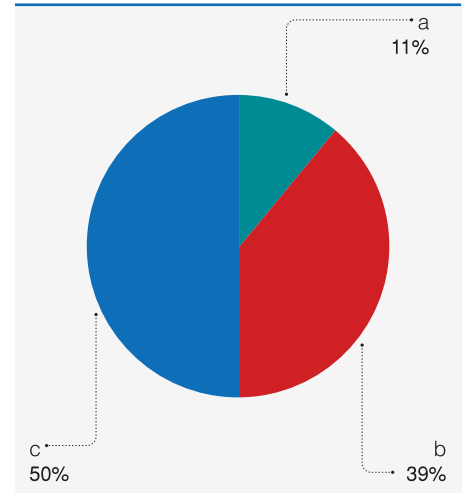
Analysis of GHG Emissions by Type



Scope-wise Emission Analysis

Scope	Total	% of Total
Scope I	168.41	11
Scope II	611.51	39
Scope III	791.64	50
	1,571.56	

Analysis of GHG Emissions by Scope



a – Scope I b – Scope II c – Scope III

Measuring of Scope I and Scope II emissions is a requirement under the GHG Protocol as companies have the highest control over them. Of the total Scope I emissions of our Company, the highest is on account of refrigerant gas loss.

Our main source of electricity is from the Ceylon Electricity Board. We have installed a roof top solar power system in our head office and we use stand by diesel generators in the event of an electricity breakdown.

Measuring of Scope III emissions is optional under ISO 14064-1 Standard. However, we have opted to report on some of the relevant Scope III emissions, under our boundary and scope which makes a significant contribution to our carbon footprint.

3.5.3 Reduction Strategies

1. Rainwater Harvesting System

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

2. Renewable Power Energy Solutions

Financial year 2015 marked a green milestone for our Organisation as we converted our head office to solar energy. In the financial year under review, our Mahara branch and the Vehicle Sales Unit were converted to solar power as well.

We have thus enhanced the renewable power generation capability of our Company and begun reaping the benefits such as low maintenance and longer term sustainability. With the increased demand for electricity and the growing concern for the environment, we aim to use solar energy in 18 branches in the ensuing financial year.

3. Eco-Friendly Building Practices

CDB green concepts extend to the design of our outlets which makes use of more natural light and energy efficient lighting and equipment. Eco-friendly building practices have been adopted to create structures and processes that are environmental-friendly and resource-efficient throughout the building's life-cycle. In financial year 2016 our newly opened branches of Thalawathugoda and Nikaweratiya carries these practices.

4. Energy Controlling Mechanism

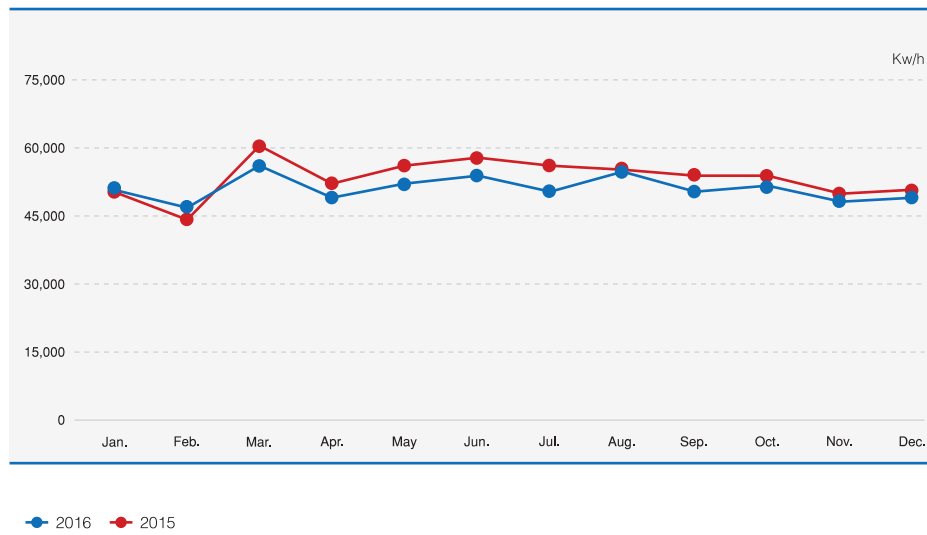
Our employees are encouraged to conserve energy; especially electricity. We have adopted several measures such as;

- Unplugging electronic equipment when not in use
- Switching off unnecessary lights
- Fixing LED bulbs
- Replacing obsolete computer monitors with flat screen monitors
- Increase the usage of laptops
- Placing heat-absorbing stickers
- Maintaining the correct indoor air quality and temperature and switching to inverter type air conditioners.

We also conduct awareness programmes to reduce energy consumption as well. We welcome suggestions from our employees through 'G Squared-Go Green Club' on reducing waste and promoting environmental sustainability. Our energy conservation indicates 4% reduction in the total electricity consumption compared to last financial year.

Electricity Consumption

Electricity Consumption



5. 'Save Water – Save Life'

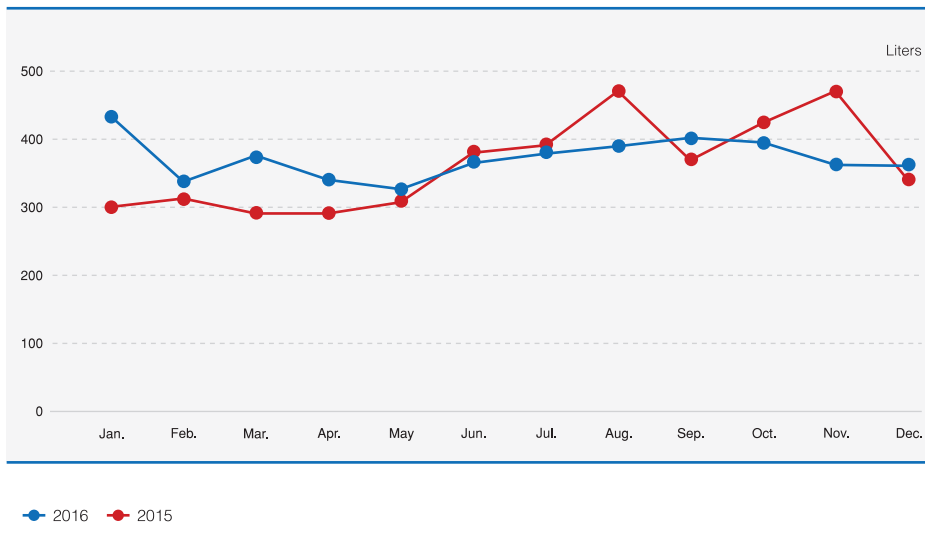
We use water mainly for drinking and sanitary purposes. Our employees are continuously encouraged to conserve this natural resource by conducting awareness programmes and displaying water saving tags and notices in wash rooms, pantry and common rooms.

We have installed fittings in our wash rooms that optimise water and usage and our employees are made aware on its efficient use.



Water Consumption

Water Consumption



6. Leverage Technology

BoardPac Solution

BoardPac solution has enabled our Organisation to conduct Board Meetings in a highly secure, paperless environment using iPads. The solution has resulted in faster decision making enabling Directors to effect instant approvals, make comments and access Board papers anytime, anywhere.

E-learning Platform

We are increasingly using the E-learning platform to conduct our staff training programmes. This has not only saved travel expenses of the participants, but saved the venue hiring cost as well. E-learning has resulted in reduced paper consumption and printing costs and thereby contributing to a reduction in our carbon footprint.

7. G Squared – Go Green Club

Sustainability was successfully integrated to our corporate culture which has effected improvement in all our business operations. Green ambassadors are deployed across divisions to promote sustainability objectives. Whilst sharing knowledge, needed resources were provided to our stakeholders to promote sustainability as well.



8. Plant a Tree – Plant a Life – Environmental Cadet Camp

'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.

For the sixth consecutive year, our environmental cadet camp was conducted for two days in collaboration with the Department of Southern Provincial Council, Central Environmental Authority, Department of Education of the Southern Province, Commando Regiment, Coastal Conservation Department and the Division Secretariat.

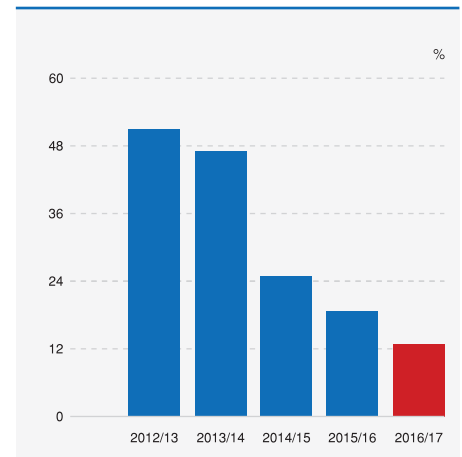


The key objective of the project was to empower schoolchildren to conserve, repair and restore the tree coverage in their own school premises and rebuild local economies. The programme was carried out in Madakumbura Madya Maha Vidyalaya with the active participation of over 100 schoolchildren and 110 school teachers.

9. Eco-Friendly Lending

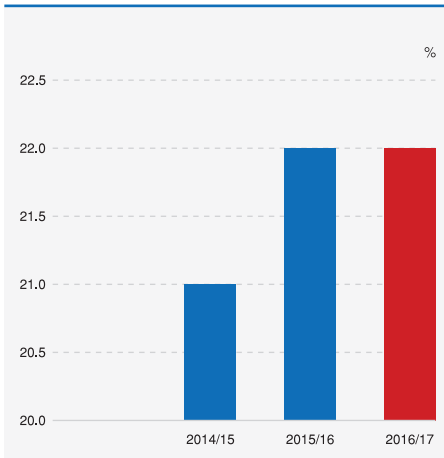
In our efforts towards emission reduction and contributing to fuel saving, we commenced promoting hybrid and electric vehicles last financial year. Simultaneously, our concentration on three-wheeler lending was reduced as they are not fuel efficient vehicles and cause increased air pollution.

Three-wheeler Disbursement Growth Rate





Lending Disbursements for Hybrid and Electric Vehicles



10. Recycling Efforts E-Waste Recycling

E-waste recycling project was initiated in collaboration with Think Green (Pvt) Limited, to dispose electronic waste in a safe and responsible manner with minimal harm to the environment. This was another project initiated under our 'Mihikathata Adaren' flagship environmental conservative programme. The green movement of 'E-waste collection week' was initiated with the active participation and support of our Directors, corporate management and senior managers; thus promoting the 'green tone' from the top.

Our recycling efforts contributed to the following savings:

- 123 fully-grown trees saved
- 546 gallons of Gasoline conserved
- 4,666 plastic bottles recycled

- 21,466 Aluminum cans recycled
- 335 kgs of E-waste preserved from land filling equivalent to 9 cubic meters of land fill
- 3,188 lbs of Carbon emissions averted

We are happy that our staff members are actively practicing the concepts of environment conservation which contributes to preserving our natural resources as well as financial resources. As a responsible corporate citizen we always encourage eco-friendly projects that use modern technology, operating on principles of lean-resource consumption and environmental conservation.



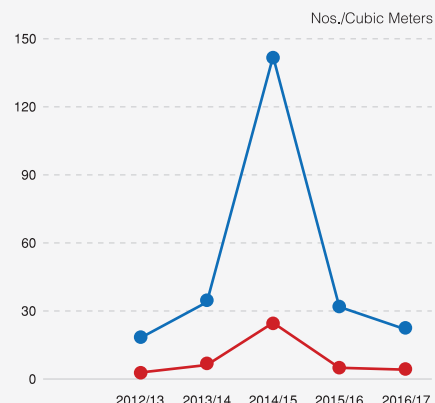
Paper Recycling Effort

Indicator	Measure	2016/17	2015/16	2014/15	2013/14	2012/13
Fully grown trees	Numbers	22	32	142	34	18
Oil	litres	2,241	3,159	14,691	3,470	1,885
Electricity	kwh	5,108	7,200	33,484	7,908	4,296
Water	litres	40,583	57,204	266,030	62,829	34,132
Land fill	Cubic Meter	4	5	25	6	3
Reduced Green House Gas Emission	Kg	1,277	1,826	8,371	1,977	1,074

Paper Recycling

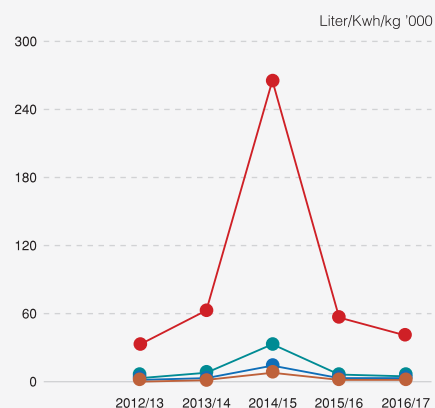
For the sixth consecutive year, a waste paper recycling project was conducted at our head office, in collaboration with Neptune Papers (Pvt) Limited. This has contributed to saving trees and reducing energy expended in the paper manufacturing process. The project has also paved the way to make use of waste paper more effectively with minimum impact to the environment.

Fully Grown Trees & Landfill



● Fully Grown Trees (Nos.) ● Landfill (Cubic Meters)

Water/ Electricity/ Oil/Reduced Emissions



● Oil (Lts '000) ● Electricity (kWh '000)
● Water (Lts '000) ● Reduced Green House Gas Emission (kg '000)

11. Waste Collection

Our Green philosophy is to eliminate waste in all forms as it is crucial for long-term sustainability. A key strategy in managing waste through the concepts of reusing and recycling is controlling inputs. Since we have minimal effluents, our policies and efforts are focused on management of emissions and waste. We segregate our waste into separate elements of wet waste and dry waste.

12. Green Tie-ups

In order to add economic value to reduce carbon emission and to promote biodiversity conservation, we tied up with organisations such as the Sri Lanka Climate Fund and Sri Lanka Business and Biodiversity Platform, the Ceylon Chamber of Commerce, IUCN (International Union for the Conservation of Nature) Sri Lanka and Dilmah Conservation. These entities provide an avenue to carry out a dialogue on conservation efforts to reduce our carbon footprint. We also strive to become a knowledge-sharing entity on biodiversity conservation by promoting dialogue and exchanging knowledge, information and methods on conservation efforts.

13. Green Communication

We regularly communicate the importance of environmental conservation to our employees via the intranet, digital display screens and other media. We also share useful tips on saving energy, water and paper and living sustainably with our employees. The use of low energy is promoted by creating awareness and introducing energy efficient infrastructure and equipment.

We compensated for the emissions by purchasing carbon credits from Bogo Power (Pvt) Limited which has within its umbrella a mini hydropower plant at the Kirkoswald Group in Bogawantalawa. The requisite approvals from the Sustainable Energy Authority of Sri Lanka and Public Utilities Commission of Sri Lanka was obtained by us. This enables us to technically neutralise the impact we exert on the environment through our CO₂ emissions.

3.5.4 Carbon Neutral Entity

We have built a strong and sustainable business model that we are proud of. The eco-friendly measures we've adopted have enabled us to be a responsible corporate citizen, generating sustainable results for our stakeholders. We make a positive influence on our stakeholders through the many roles we play in society – such as a responsible corporate citizen, a reliable financier and a trustworthy employer. We were certified as a 'Carbon Neutral Business Entity' by the Sri Lanka Climate Fund. This partnership has resulted in knowledge sharing and support to offer customers and the community a unique environmental offering.



3.6 Independent Assurance Report

P: 138 – 139



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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 31st March 2017. The Sustainability Indicators are included in the Citizens Development Business Finance PLC’s Integrated Annual Report for the year ended 31st March 2017 (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 ‘Highlights’	10

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 ‘Highlights’	10-11
Information provided on following stakeholder groups.	
• Investors – Financial Capital and Social and Relationship Capital	62-69 and 108-123
• Customers – Manufactured and Intellectual Capital and Social and Relationship Capital	70-83 and 108-123
• Employees – Human Capital	84-105
• Business Partners, Regulators and Society – Social and Relationship Capital	108-123
• Environment – Natural Capital	124-137

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 31st March 2017 are, in all material respects, prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Guidelines.

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 31st March 2017, have not in all material respects, been prepared and presented in accordance with the GRI G4 Guidelines.

Management’s Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the GRI G4 Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by The Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by The Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Reasonable Assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the GRI G4 Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited Assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;

- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of Our Report

In accordance with the terms of our engagement, this Assurance Report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the GRI G4 Guidelines and for no other purpose or in any other context.

Restriction of Use of Our Report

Our Report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our Report or a copy thereof and chooses to rely on our Report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.



CHARTERED ACCOUNTANTS
Colombo
5th June 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyratne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACMA (UK)

3.7 GRI Content Index

P: 140 – 143



GRI Content Index for 'in accordance' – Core

General Standard Disclosures

Description	Page Reference	External Assurance/ Page References
Strategy and Analysis		
G4-1 Statement from the most senior decision-maker of the organisation – Chairman's Message	13	Yes 138-139
Organisational Profile		
G4-3 Name of the organisation	5	Yes 138-139
G4-4 Primary brands, products, and services	55	Yes 138-139
G4-5 Location of the organisation's headquarters	5	Yes 138-139
G4-6 Countries of operation	5	Yes 138-139
G4-7 Nature of ownership and legal form	Corporate Information	Yes 138-139
G4-8 Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	39	Yes 138-139
G4-9 Scale of the organisation, including: Total number of employees, Total number of operations, revenues, Total capitalisation, Quantity of products or services provided	10, 55, 89	Yes 138-139
G4-10 Report the composition of the workforce, including: total number of employees by employment contract and gender. Total number of permanent employees by employment type and gender. Total workforce by employees and supervised workers and by gender, Total workforce by region and gender	90-91, 98	Yes 138-139
G4-11 Percentage of total employees covered by collective bargaining Agreements	89	Yes 138-139
G4-12 Organisation's supply chain	109, 122	Yes 138-139
G4-13 Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	4, 5	Yes 138-139
G4-14 Report whether and how the precautionary approach or principle is addressed by the organisation	219	Yes 138-139
G4-15 Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	53	Yes 138-139
G4-16 List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation	122	Yes 138-139

Description		Page Reference	External Assurance/ Page References	
Identified Material Aspects and Boundaries				
G4-17	Organisations entities covered by the report	5	Yes	138-139
G4-18	Process for defining the report content and the Aspect Boundaries, how the organisation has implemented the Reporting Principles for Defining Report Content	4, 5	Yes	138-139
G4-19	Material Aspects identified in the process for defining report content	5	Yes	138-139
G4-20	Aspect Boundary identified within the organisation	54	Yes	138-139
G4-21	Aspect Boundary identified outside the organisation	54	Yes	138-139
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	4, 5	Yes	138-139
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	4, 5	Yes	138-139
Stakeholder Engagement				
G4-24	List of stakeholder groups engaged by the organisation	43	Yes	138-139
G4-25	Basis for identification and selection of stakeholders with whom to engage	44	Yes	138-139
G4-26	Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	45	Yes	138-139
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	43, 45	Yes	138-139
Report Profile				
G4-28	Reporting period	4, 5	Yes	138-139
G4-29	Date of most recent previous report	4	Yes	138-139
G4-30	Reporting cycle	5	Yes	138-139
G4-31	Contact point for questions regarding the report or its contents.	5	Yes	138-139
G4-32	Compliance with GRI guidelines, GRI content index and the External Assurance Report	138-143	Yes	138-139
G4-33	Policy and current practice with regard to seeking external assurance for the report	5	Yes	138-139
Governance				
G4-34	Governance structure on sustainability impacts	47-48	Yes	138-139

Description		Page Reference	External Assurance/ Page References
Ethics and Integrity			
G4-56	Values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	49	Yes

Specific Standard Disclosures

Category	Material Aspect	Indicators	Page No.	External Assurance/ Page Reference
Economic	Economic Performance	DMA	50	Yes 138-139
		EC1	50	Yes 138-139
Environment	Energy	DMA	128	Yes 138-139
		EN3	129	Yes 138-139
		EN6	132, 133, 136	Yes 138-139
		EN15	131	138-139
		EN16	131	138-139
		EN17	131	138-139
	Effluent and Waste	DMA	128	Yes 138-139
		EN23	135	Yes 138-139
	Compliance	DMA	128	Yes 138-139
		EN29	122, 129	Yes 138-139
		EN31	129	138-139
	Labour Practices and Decent Work			
	Employment	DMA	88	Yes 138-139
		LA1	88	Yes 138-139
		LA2	105	138-139
	Labour/ Management Relations	DMA	88	Yes 138-139
		LA4	89	Yes 138-139
	Training and Education	DMA	88	Yes 138-139
		LA9	89	Yes 138-139
		LA10	98	Yes 138-139
		LA11	85	Yes 138-139

Category	Material Aspect	Indicators	Page No.	External Assurance/ Page Reference		
	Human Rights					
	Non-Discrimination	DMA	88	Yes	138-139	
		HR3	Total number of incidents of discrimination and corrective actions taken	89	Yes	138-139
	Child Labour	DMA	88	Yes	138-139	
		HR5	Operations and suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	89	Yes	138-139
	Forced or Compulsory Labour	DMA	88	Yes	138-139	
		HR6	Operations and suppliers identified as having significant risk for incidents of forced, and measures to contribute to the elimination of all forms of forced or compulsory labour and measures to contribute to the elimination of all forms of forced or compulsory labour	89	Yes	138-139
	Society					
	Local Communities	DMA	112	Yes	138-139	
		SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	114, 115	Yes	138-139
	Anti-Competitive behaviour	DMA	112	Yes	138-139	
		SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	119, 122	Yes	138-139
	Compliance	DMA	112	Yes	138-139	
		SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	119, 122	Yes	138-139
	Product Responsibility					
	Marketing Communication	DMA	112	Yes	138-139	
		PR6	Sale of banned or disputed products	112, 120	Yes	138-139
		PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	120	Yes	138-139
	Customer Privacy	DMA	112	Yes	138-139	
		PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	120	Yes	138-139
	Compliance	DMA	112	Yes	138-139	
		PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	120	Yes	138-139

4.

4.1

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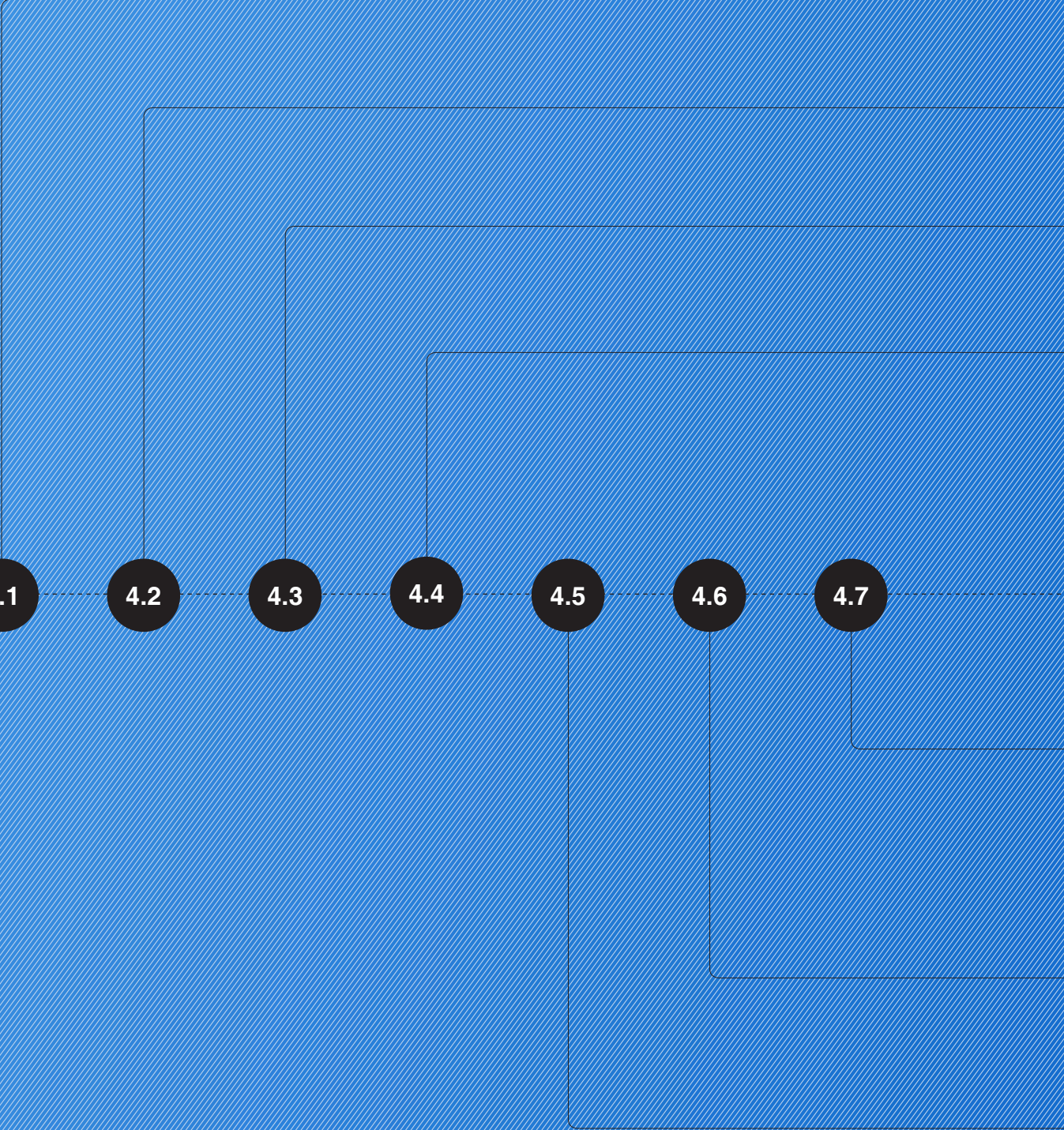
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→	Corporate Governance	146
→	Management of CDB	172
→	Board Subcommittee Reports	185
→	Risk Report	195

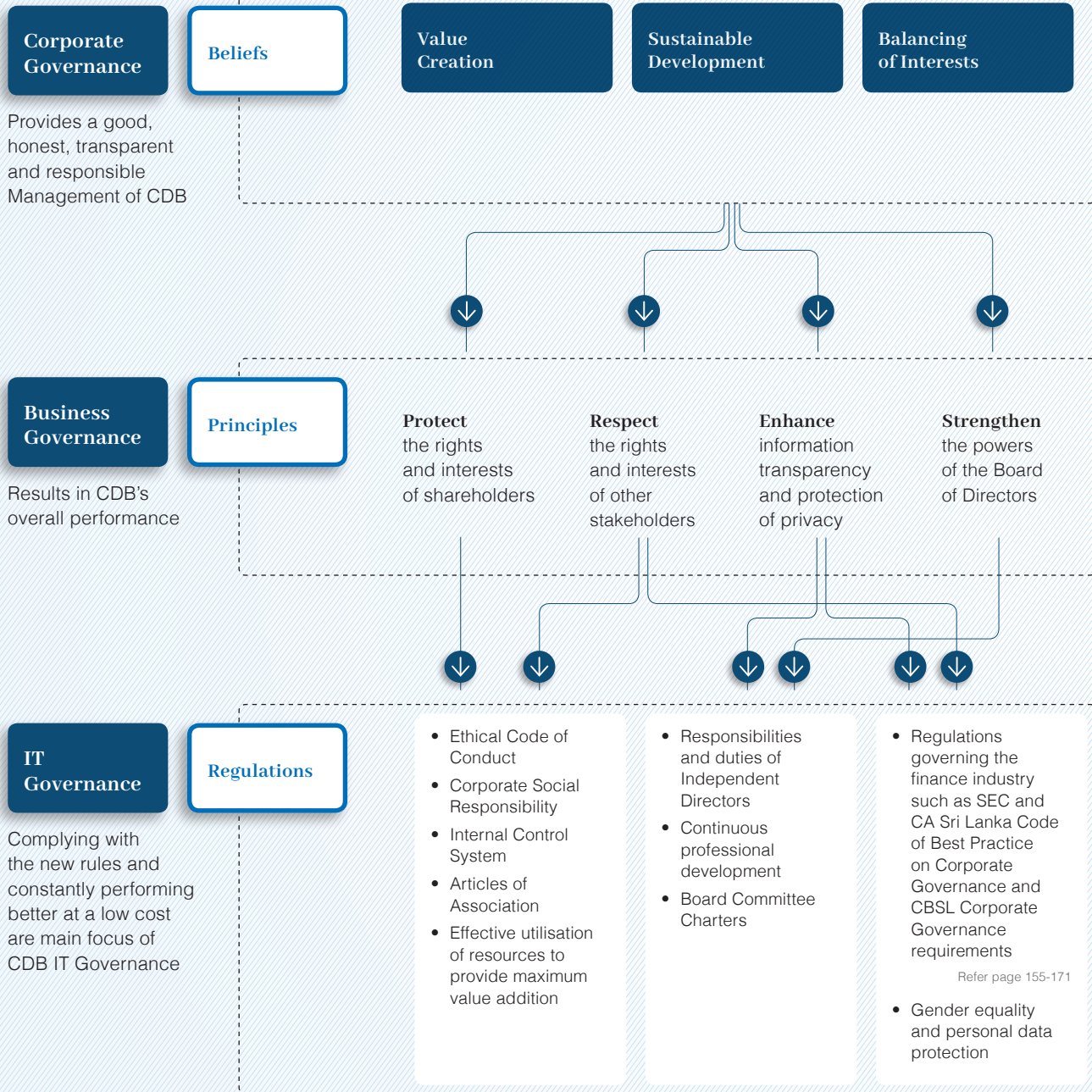
STEWARDSHIP

→	Directors' Statement on Internal Control Over Financial Reporting	231
→	Statement of Directors' Responsibility	229
→	Annual Report of the Board of Directors	221

4.1 Corporate Governance

P: 146 – 171

CDB's Governance Road Map



Audit Committee

Major Responsibilities:

- To review the Company's financial control, risk management and internal control systems

Refer page 185-187 for more details

Remuneration Committee

Major Responsibilities:

- To review and make recommendations to the Board on the Company's policy and structure for remuneration of Directors and also for employees on the establishment of a formal and transparent procedure for development of a policy on such remuneration

Refer page 190 for more details

Nomination Committee

Major Responsibilities:

- Reviewing the structure of the Board
- Reviewing the independence of Independent Non-Executive Directors

Refer page 191 for more details

Board Related Party Transaction Review (BRPTR) Committee

Major Responsibilities:

- Review all the related party transactions prior to its execution

Refer page 193 for more details

**CDB always
Strive for Excellence
in Corporate Governance**

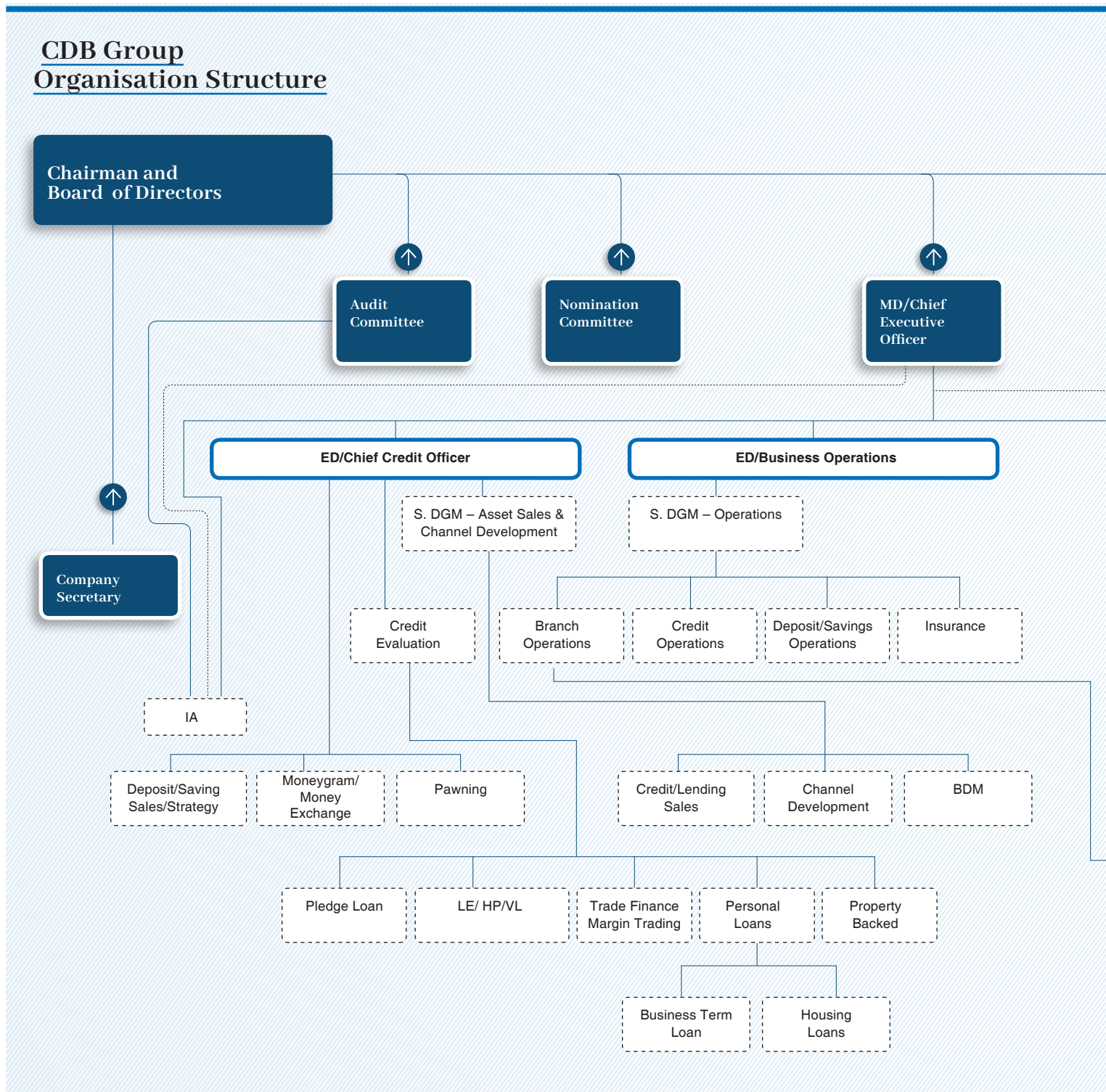


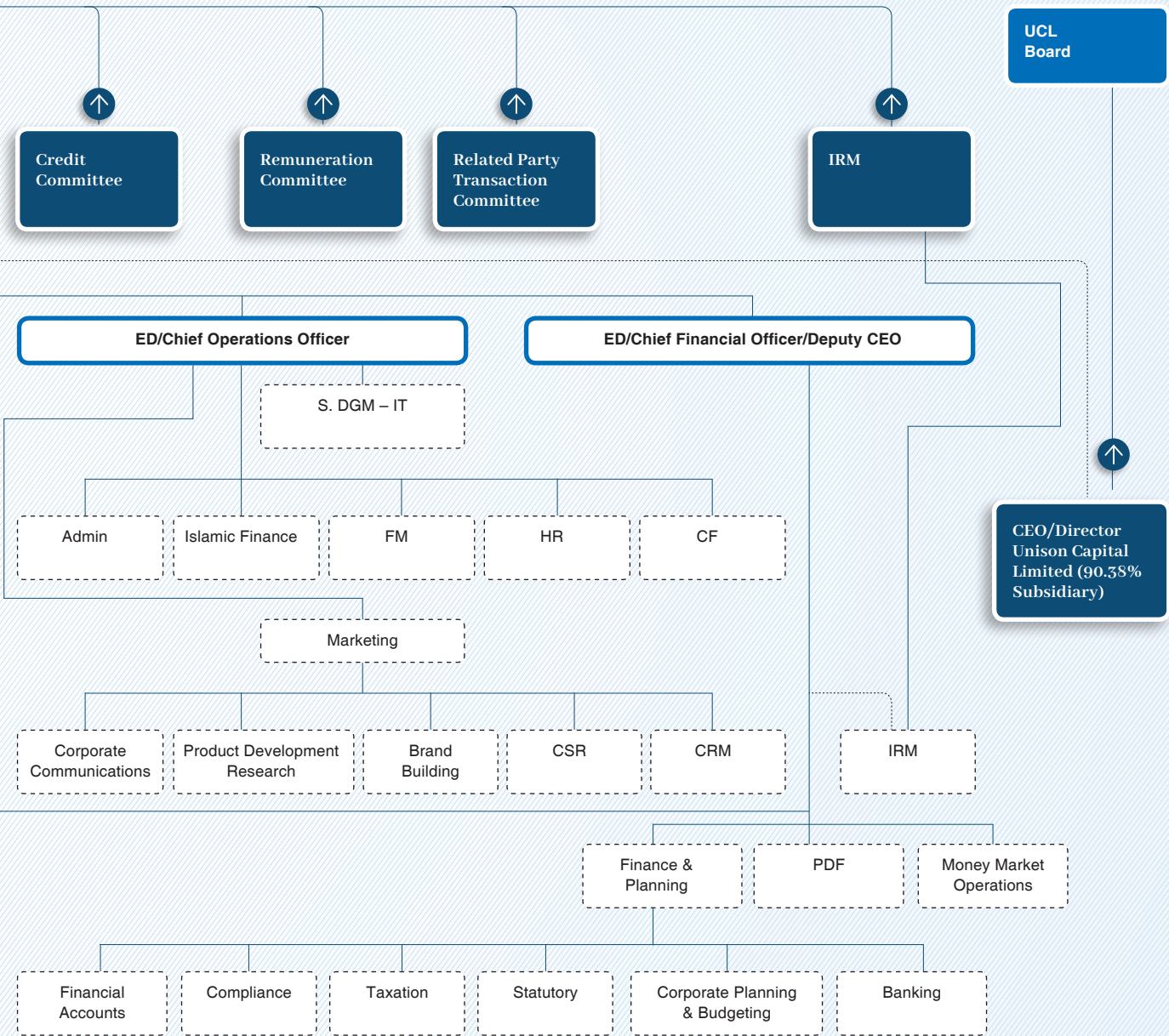
They enable and enrich our business...they are an enlivening environment within which the Company prospers to prosper others. The wider society in and through their support are **'pollinators'** of **our efforts; the environment we treat with care and in turn, it contributes bountifully to our life's endeavours...every day.**



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.

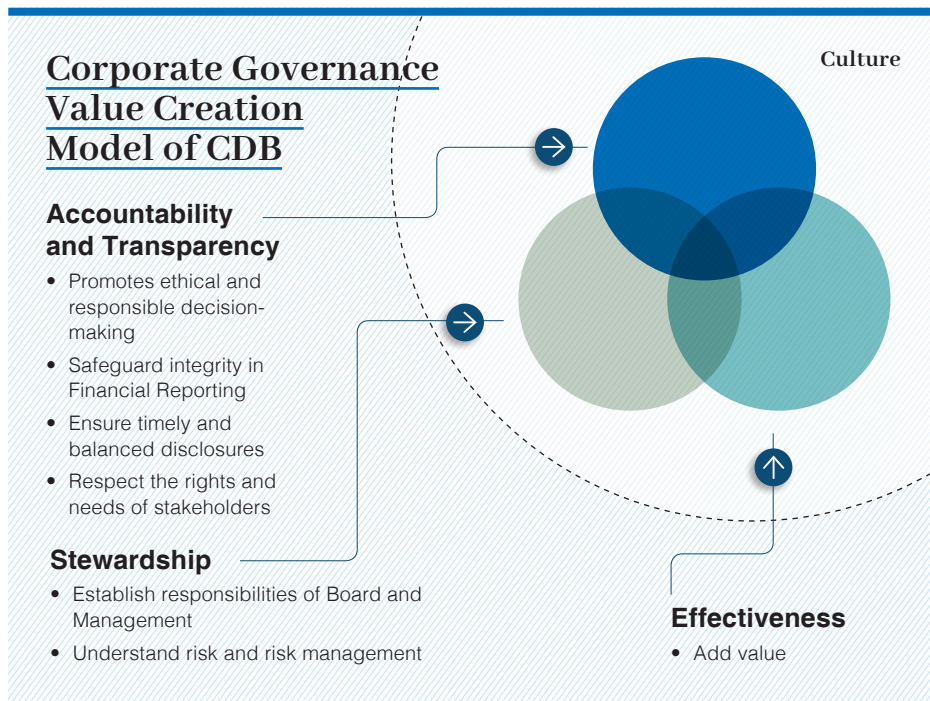
Set out below is the current Governance Structure:





Comprehensive guidelines, policies and procedures have been formulated by the Board in support of the CDB's corporate governance framework including the 'Guidelines on Internal Control System', 'Corporate Policy on Staff Responsibility', 'Whistle Blowing Policy', 'Communication Policy', and the Terms of Reference for various Board committees. These documents are reviewed regularly by the Board and the relevant Board committees and are updated in line with the amendments of applicable legislations and rules as well as the current market practices.

Diagram below depicts the detailed corporate governance framework followed by CDB:



Above diagram clearly illustrates the 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 defence model which helps in mitigating risks CDB is exposed to in an effective and an efficient manner.

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

4.4.1 The Board

The primary role of the Board is to protect and enhance long-term shareholder value. It 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 12 members whose biographical details are set out in the Board of Directors and Corporate Management sections 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 separated 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.

Board Highlights for the Financial Year 2016/17

- **Appointment of two Independent Non-Executive Directors** to further strengthen the Board which currently comprises 12 members.
- **Approval of comprehensive Anti-Money Laundering Policy** for CDB.
- **Approval of Whistle Blowing Policy** for CDB.
- Initiation of **Major CSR projects** such as Autism Awareness Programme.
- **Reviewed risk reports and risk tolerance levels.**
- **Reviewed monthly financial reports**, including details of performance against budget and CDB's financial position.

4.4.2 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 2016/17. 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 are 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 comment 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 the financial year 2016/17, Directors of the Company also participated in the consideration and approval of matters of the Company by way of written resolutions circulated to them. Supporting written materials were provided in the circulation and verbal briefings were given by the subject Executive Directors or the Company Secretary when required.

Directors of CDB play an active role by participating in the Board meetings through contribution of their professional opinions and active participation in discussions/ deliberations. The attendance record of each of the Directors for the Board meetings held during the financial year 2016/17 is given below:

Name of the Director	Ex	NEx	In	NIn	Attendance at Board Meetings											
					20.04.2016	25.05.2016	22.06.2016	27.07.2016	24.08.2016	21.09.2016	19.10.2016	23.11.2016	14.12.2016	18.01.2017	15.02.2017	22.03.2017
1. Mr. D H J Gunawardena		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2. Mr. C M Nanayakkara	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3. Mr. R H Abeygoonewardena	✓			✓	✗	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓
4. Mr. T M D P Tennakoon	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5. Mr. S V Munasinghe	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓
6. Mr. P A J Jayawardena		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
7. Mr. S R Abeynayake		✓		✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
8. Mr. D A De Silva	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗
9. Prof. A Dharmasiri		✓	✓		✓	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓
10. Mr. Razik Mohamed		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
11. Ms. U R Seneviratne*		✓	✓		-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓
12. Prof. S P P Amaratunge*		✓	✓		-	-	-	-	-	-	-	✓	✓	✓	✓	✓

* Ms. U R Seneviratne – Appointed w.e.f. 1st July 2016

* Prof. S P P Amaratunge – Appointed w.e.f. 20th October 2016

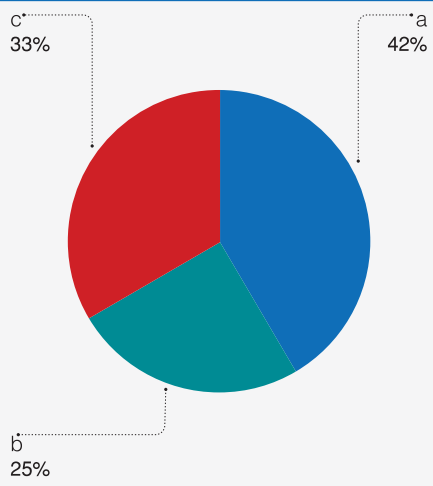
Ex – 5 NEx – 7 In – 4 NIn – 8

4.4.3 Board Diversity

CDB always thinks a truly diverse Board will include and make good use of differences in the skills, industrial experience, background, race, gender and other qualities of members of the Board. These differences will be taken into account in determining the optimum composition of the Board. Below analysis will further supports this view.

4.4.3.1 Board Composition

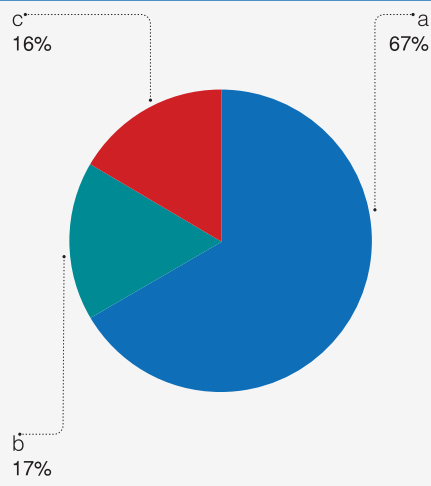
Board Composition



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

4.4.3.2 Age

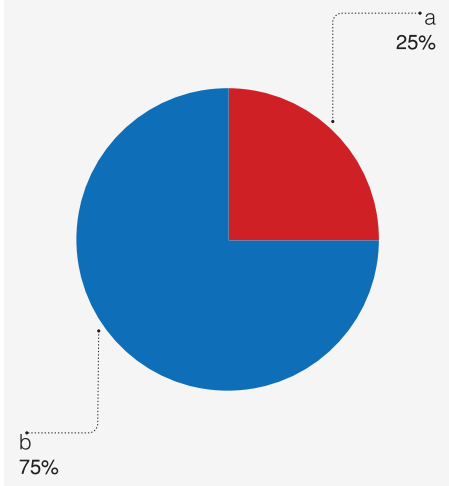
Age



a – 40-50 b – 51-60 c – 61-70

4.4.3.4 Length of Tenure of Directors as at 31st March 2017

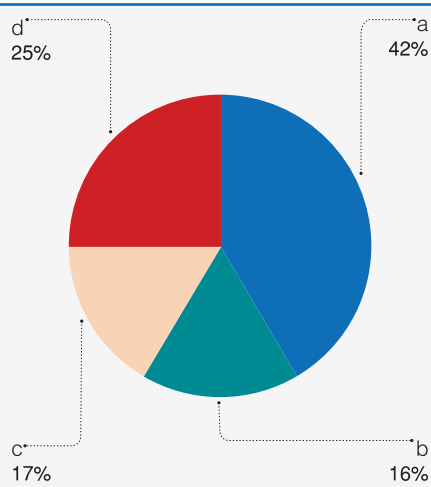
Length of Tenure of Directors as at 31-03-2017



a – 0-5 Years b – Over 5 Years

4.4.3.3 Professional Experience

Professional Experience



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

4.4.4 CDB's Level of Compliance with Corporate Governance

CDB has complied with all the applicable provisions set out in 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

4.4.4.1 Section I

Statement of Compliance

The disclosures below reflect CDB's level of conformance with the '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.

The Code contains provisions relating to seven fundamental principles. They are;

- A. Directors
- B. Directors' Remuneration
- C. Relations with Shareholders
- D. Accountability and Audit
- E. Institutional Investors and
- F. Other Investors
- G. Sustainability Reporting

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

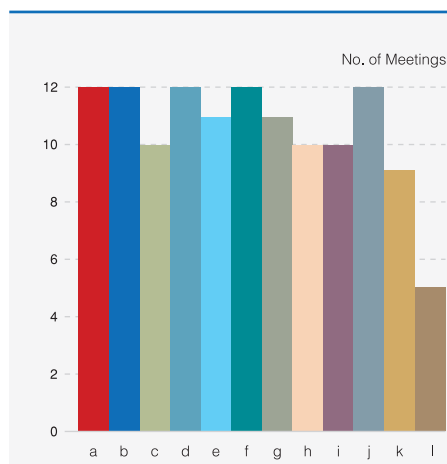
A.1 The Board

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 judgment. 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.

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.
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Attendance at Board Meetings



a – Mr. D H J Gunawardena	g – Mr. S R Abeynayake
b – Mr. C M Nanayakkara	h – Mr. D A De Silva
c – Mr. R H Abeygoonewardena	i – Prof. A Dharmasiri
d – Mr. T M D P Tennakoon	j – Mr. Razik Mohamed
e – Mr. S V Munasinghe	k – Ms. U R Seneviratne*
f – Mr. P A J Jayawardena	l – Prof. S P P Amaratunge*

* Ms. U R Seneviratne – Appointed w.e.f. 1st July 2016

* Prof. S P P Amaratunge – Appointed w.e.f. 20th October 2016

Corporate Governance Principles	CA Sri Lanka and SEC Code Reference	Compliance Status	CDB's Level of Compliance
Responsibilities of the Board	A.1.2	Compliant	<p>The Board is collectively responsible for the success of the Company. The Board formulates the business strategy and ensure 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 judgment to decisions made by the Board.</p> <p>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.</p>
Compliance with laws and access to independent professional advice	A.1.3	Compliant	<p>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 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.</p>
Advice and Services of the Company Secretary	A.1.4	Compliant	<p>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.</p>
Independent judgment of Directors	A.1.5	Compliant	<p>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 judgment. 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.</p>
Dedication of adequate time and effort for matters of the Board	A.1.6	Compliant	<p>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:</p> <ul style="list-style-type: none"> – Assets and Liabilities Committee, – Audit Committee, – Integrated Risk Management Committee, – Credit Committee, – Remuneration Committee, – Nomination Committee, – Board Related Party Transactions Review Committee. <p>Further, additional meetings and discussions are held with the Management whenever the need arises.</p>

Corporate Governance Principles	CA Sri Lanka and SEC Code Reference	Compliance Status	CDB's Level of Compliance								
Training for new and existing Directors	A.1.7	Compliant	<p>Both new and existing Directors of the Company are provided with 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.</p> <p>The Directors have attended a number of meetings with the Corporate Management teams to familiarise themselves with the Company strategy, operations and internal controls.</p> <table border="1"> <thead> <tr> <th>Programme Name</th> <th>Conducted Institution</th> </tr> </thead> <tbody> <tr> <td>Corporate Stewardship & Boardroom Governance</td> <td>The Sri Lanka Institute of Directors</td> </tr> <tr> <td>Mastering Mergers & Acquisitions</td> <td>PWC</td> </tr> <tr> <td>Employee Engagement during Tough Times</td> <td>FDB Events Pte Ltd., Singapore</td> </tr> </tbody> </table>	Programme Name	Conducted Institution	Corporate Stewardship & Boardroom Governance	The Sri Lanka Institute of Directors	Mastering Mergers & Acquisitions	PWC	Employee Engagement during Tough Times	FDB Events Pte Ltd., Singapore
Programme Name	Conducted Institution										
Corporate Stewardship & Boardroom Governance	The Sri Lanka Institute of Directors										
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Employee Engagement during Tough Times	FDB Events Pte Ltd., Singapore										

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 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 person possesses unfettered powers of decisions.
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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 174.

Role of the Chairman	A.3.1	Compliant	<p>The Chairman's main role is to lead and manage the Board and ensure effectiveness in all aspects of its role. The Chairman of CDB is a Non-Executive Director. The Chairman's role encompasses that,</p> <ul style="list-style-type: none"> • 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 • Ensuring that the new Board Members are given appropriate induction, covering terms of appointment, duties and responsibilities
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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.

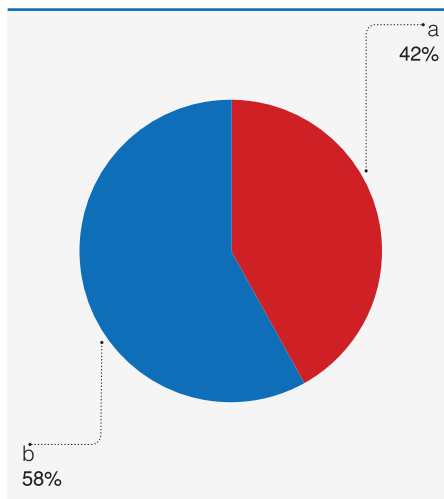
Availability of sufficient financial acumen and knowledge	A.4.1	Compliant	The Chairman is a fellow member of the Chartered Institute of Management Accountants of UK while MD/CEO is also a member of the Chartered Institute of Management Accountants of UK. In addition, the Board includes two members of 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 174-175.
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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	Seven of the twelve Directors are Non-Executive Directors (NED) which is well above the minimum prescribed by this Code which is two 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.
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Executive Directors Vs Non-Executive Directors



a – Executive Directors
b – Non-Executive Directors

Corporate Governance Principles	CA Sri Lanka and SEC Code Reference	Compliance Status	CDB's Level of Compliance						
Independent Directors	A.5.2	Compliant	Four out of Seven Non-Executive Directors are independent as defined by the Code. <div data-bbox="730 245 1177 901" data-label="Figure"> <p>Independent Vs Non-Independent Directors</p> <table border="1"> <caption>Independent Vs Non-Independent Directors</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Independent Directors (b)</td> <td>57%</td> </tr> <tr> <td>Non-Independent Directors (a)</td> <td>43%</td> </tr> </tbody> </table> <p>a – Non-Independent Directors b – Independent Directors</p> </div>	Category	Percentage	Independent Directors (b)	57%	Non-Independent Directors (a)	43%
Category	Percentage								
Independent Directors (b)	57%								
Non-Independent Directors (a)	43%								
Independence evaluation review	A.5.3	Compliant	All four Independent Directors are independent of management and free of any business or other relationships that could impair their independence. Please refer Section A 5.5 below.						
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 J 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 Seneviratne						
Appointment of Alternate Directors	A.5.6	Compliant	Where the alternate Director is appointed, requirements of the Code have been compliant.						
Senior Independent Director	A.5.7	N/A	Although the requirement to appoint a Senior Independent Director does not arise under this Code, the Company has designated Prof. A S Dharmasiri as the Senior Independent Director, to meet the requirement under Section 7 (2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the CBSL.						

Corporate Governance Principles	CA Sri Lanka and SEC Code Reference	Compliance Status	CDB's Level of Compliance
Confidential discussion with the Senior Independent Director	A.5.8	N/A	Please refer above comment.
Meeting of Non-Executive Directors	A.5.9	Compliant	Chairman meets with the Non-Executive Directors without the presence of MD/CEO, on a need basis.
Recording of 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.

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. Further, CDB appointed two new Independent Directors during the financial year which saw further strengthening of the Director Board. Refer page 191 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 is subject to prior review by the full Board.
Re-election by the shareholders	A. 8.2	Compliant	Refer comment above.

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.
Disclosure of criteria used for the performance evaluation	A.9.3	Compliant	Refer page 190 for the 'Report of the Remuneration Committee' in Annual Report for details of the criteria considered for performance evaluation of the Board

A.10 Disclosure of Information in Respect of Directors

The Code requires that the details in respect of each Director to be disclosed in the Annual Report for the benefit of the shareholders.

Details in respect of Directors	A.10.1	Compliant	Details of Directors are given in this Annual Report. (Refer pages 174-175)
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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	<p>The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Directors and the Corporate Management, and for making all relevant disclosures.</p> <p>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.</p>
Composition of the Remuneration Committee	B.1.2 & B. 1.3	Compliant	<p>The following Non-Executive Directors served on the Remuneration Committee during the financial year.</p> <p>Mr. S R Abeynayake – Committee Chairman Mr. Razik Mohamed Prof. A S Dharmasiri</p>
Remuneration of Non-Executive Directors	B.1.4	Compliant	<p>The Board as a whole decides the remuneration of the Non-Executive Directors.</p> <p>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.</p>
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	<p>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.</p>

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.2.8	Compliant	<p>The Board is mindful of the fact that the remuneration of Executive and Non-Executive Directors should reflect the expectations 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.</p>
Remuneration of the Non-Executive Directors	B.2.9	Compliant	<p>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.</p>

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 pages 190 for disclosure on the names of the Remuneration Committee members and the remuneration policy of the Company. Also refer the Note 44 to the Financial Statements on page 320 for the aggregate remuneration paid to Executive and Non-Executive Directors.
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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.

Use of proxy votes	C.1.1	Compliant	The Company has an effective mechanism to record all proxy votes and proxy votes lodged for each resolution prior to the General Meeting.
Separate resolution for all separate issues	C.1.2	Compliant	Separate resolutions are proposed for all substantially separate issues to provide shareholders with the opportunity to deal with each significant matter separately. This mechanism promotes better stewardship while assuring the transparency in all activities of the Company.
Availability of all Board Subcommittees Chairmen at the AGM	C.1.3	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.1.4 & 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 an 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 requirements of the Code for communication with shareholders.
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C.3 Major 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	Compliant	During the year there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affected CDB's net asset base. 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.
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D. Audit and Accountability

D.1 Financial 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	Compliant	CDB has reported a true and fair view of its financial position and performance for the year ended 31st March 2017 and at end of each Quarter of 2016/17. In the preparation of Financial Statements, CDB had strictly complied with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto. They are prepared and presented in conformity with Sri Lanka Accounting Standards. CDB has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Securities and the Exchange Commission of Sri Lanka.
Directors' Report in the Annual Report	D.1.2	Compliant	The Directors' Report given in this Annual Report covers all areas of this section as required by the direction. Please refer pages 221 to 228 for Directors' Report.
Statement of Directors' and Auditors Responsibility for the Financial Statements, Report/Statement on Internal Control	D.1.3	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.1.4	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	D.1.5	Compliant	This is given in the Annual Report of the Board of Directors on page 227.
Summoning an EGM to notify serious loss of capital	D.1.6	Compliant	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.1.7	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 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 & 2.4	Compliant	<p>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:</p> <ol style="list-style-type: none"> Audits are conducted by the Internal Audit Department, in areas involving high risks as identified in the annual internal audit plan. A structured process is in place for loss reporting, control exception reporting and compliance breach reporting. A comprehensive checklist is used for follow-up on the status of implementation of all audit recommendations. Periodic branch audits are performed on the Company's branch operations. <p>The Company obtained the External Auditor's certification on the effectiveness of the internal control mechanism on financial reporting.</p>
Internal audit function.	D.2.2	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.2.3	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.

Composition of the Audit Committee	D.3.1	Compliant	<p>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.</p> <p>Details of the members, invitees and the Secretary of the Committee are found in the Audit Committee Report in this Annual Report. Please refer page 185-187 for the Audit Committee Report.</p>
Duties of Audit Committee – Ensuring the objectivity and independence of External Auditors	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.
Terms and Reference of the Audit Committee	D.3.3	Compliant	Audit Committee is guided by clearly defined Terms of Reference.
Disclosure of the Audit Committee	D.3.4	Compliant	Names of the members of the Audit Committee are given in this Annual Report under the Audit Committee Report.

D.4 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.4.1	Compliant	The 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.
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Affirmation by the Chairman that there is no violation of the Code of Conduct and Ethics	D.4.2	Compliant	Refer the Chairman's Statement in the Annual Report for details.
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D.5 Corporate Governance Disclosure

The Company should disclose the extent of adoption of best practices in Corporate Governance.

Disclosure of Corporate Governance	D.5.1	Compliant	This requirement is met through the presentation of this Report.
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E. Institutional Investors

E.1 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.
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E.2 Evaluation of Corporate Governance Initiations

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 carryout adequate analysis or seek independent advice on their investing, holding or divesting decisions.
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F.2 Shareholder Voting

Individual Shareholders voting	F.2	Compliant	Individual shareholders are encouraged to participate in General Meetings and exercise their voting right.
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G. Sustainability Reporting

G.1 Principles of Sustainability Reporting

Sustainability is a business approach that creates long-term stakeholder value by embracing opportunities and managing risks derived from economic, environmental and social development and their potential implications and impacts on the business activities of the entity. Sustainability reporting is the practice of recognising, measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity and be directed to the target stakeholders, usually, shareholders, employees, customers, society and the Government.

Principles of Sustainability Reporting	G.1.1 to 1.7	Compliant	The Company has adopted the relevant principles and procedures of the Code to develop a sustainable business environment and disclosures are made in the Annual Report.
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4.4.4.2 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 has issued the above Direction which applies to every finance company licensed in terms of Section 02 of the Finance Business Act No. 42 of 2011 and came into operation with effect from 1st January 2009.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
2. The Responsibilities of the Board of Directors			
1. Strengthening the safety and soundness of the Company	2. (1)	Compliant	The Board formulates the business strategy and ensures 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 SEC and CA Sri Lanka Code compliance table.
4. Conflict 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 been arisen during the year.
7. Corporate Governance Report	2. (7)	Compliant	This report addresses the requirement.
8. Annual self-assessment by the Directors	2. (8)	Compliant	The Directors provide an annual self-assessment to the Board to assess the fit and propriety to hold office as Directors of the Company.
3. Meetings of the Board			
9. Board meetings	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 ensures that the said matters and proposals are included in the agenda for the next meeting for discussion.
11. Notice of Meetings	3. (3)	Compliant	Directors are given adequate time and at least seven days of notice for regular Board meetings. For all other meetings a reasonable notice period is given.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
12. Non-attendance of Directors	3. (4)	Compliant	Such an instance had not arisen in the Company.
13. Board Secretary	3. (5)	Compliant	Please refer section A.1.4 of the SEC and 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 Company 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
18. Subject to transitional provisions contained herein and subject to para 5. (1) of this direction the total period of service of the Director other than a Director who holds the position of CEO of Executive Director shall not exceed nine years.	4. (2)	Compliant	The total period of service of all Non-Executive Directors does not exceed the nine year period.
19. Appointment of an employee as a Director	4. (3)	Compliant	The Company has five Executive Directors.
20. Independent Non-Executive Directors	4. (4)	Compliant	Four out of twelve Directors are Independent Non-Executive Directors
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. Further, during the financial year 2016/17 two new Independent Non-Executive Directors were appointed to the Board.
26. Appointment to fill a casual vacancy	4. (10)	Compliant	No such event occurred during the financial year 2016/17.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
27. Resignation/removal of a Director	4. (11)	Compliant	No such event occurred during the financial year 2016/17.
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 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 Director shall be disclosed in the finance company's Annual Report.	7. (2)	Compliant	Chairman is a Non-Executive Director. Nevertheless, the Board designated Prof. A S Dharmasiri (Independent Non-Executive Director) as the Senior Director.
33. Relationship between Chairman and CEO and other Directors	7. (3)	Compliant	There are no material relationships between the Chairman and 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 SEC and CA Sri Lanka Code compliance table.
35. Role of the Chief Executive Officer	7. (11)	Compliant	Please refer Section A.2.1 of the SEC and 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.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
9. Related Party Transactions			
37. Avoiding conflict of interests in related party transactions and favourable treatment	9. (2) to 9. (4)	Compliant	Steps have been taken by the Board to avoid any conflict of interests, that may arise, in transacting with related parties as per the definition of this Direction and Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Transactions'. Further, 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 Committee.
10. Disclosures			
38. Financial reporting, statutory and regulatory reporting	10. (1)	Compliant	Financial Statements for the year ended 31st March 2017 are in conformity with all rules and regulatory requirements and also published in the newspapers in all three languages.
39. Minimum disclosure in the Annual Report	10. (2)	Compliant	All required disclosures have been made in the Annual Report.
11. Transitional Provisions			
40. Transitional and other general provisions	11. (1) to 11. (6)	Compliant	The Company has complied with transitional provisions when applicable.

4.4.4.3 “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 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	221-228
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 Annual Report of the Board of Directors	221-228
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	356-364
7.6 (iv)	The public holding percentage	Investor Relations	356-364
7.6 (v)	A statement of each Director's and Chief Executive Officer's holdings in shares and the percentage of such shares held	Annual Report of the Board of Directors	221-228
7.6 (vi)	Information pertaining to material foreseeable risk factors of the entity	Risk Report	195-220
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	250-353

Rule No.	Disclosure Requirement	Section Reference	Page Reference
7.6 (ix)	Number of shares representing the entity's stated capital	Annual Report of the Board of Directors, Investor Relations	221-228
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	356-364
7.6 (xi)	Ratios and market price information: Equity Debt Any changes in credit rating	} Investor Relations	356-364
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	250-353
7.6 (xiii)	Details of funds raised through Public Issues, Rights and Private Placements during the year	Investor Relations	356-364
7.6 (xiv)	Information in respect of Employee Share Option Schemes and Employee Share Purchase Schemes	Notes to the Financial Statements	250-353
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	146-184
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 320-323 for compliance with section 09.	

4.4.4.4 “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	320
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	320
9.3.2 (c)	Annual Report shall contain a report compiled by the BRPT Review Committee including the following: <ul style="list-style-type: none"> 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.	193-194

4.2 Management of CDB

P: 172 – 184

4.2.1

Board of Directors





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No.	Name	Descriptions
01.	Herschel Gunawardena Chairman	<p>Mr. Gunawardena was appointed to the Board on 1st January 2012. He is a Fellow of the Chartered Institute of Management Accountants, UK and a Chartered Global Management Accountant. He counts over 43 years experience in diverse fields including shipping, airline, automobile, mining and export & import trading; of which 20 years was general management experience.</p> <p>Mr. Gunawardena is an Independent Non-Executive Director of Ceylinco Insurance PLC and a Non-Executive Director of Ceylinco Life Insurance Limited and Pelwatte Dairy Industries Limited. He is also a Director of Hunter & Company PLC, Lanka Canneries (Pvt) Limited and Heath and Company (Ceylon) Limited.</p>
02.	Mahesh Nanayakkara Managing Director/Chief Executive Officer	<p>Mr. Nanayakkara was appointed to the Board on 2004. He counts over 27 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 a Fellow of the Chartered Institute of Management Accountants, UK as well. Mr. Nanayakkara is the Chairman of Unisons Capital Limited. 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.</p>
03.	Razik Mohamed Independent, Non-Executive Director	<p>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) and the CA Foundation of The Institute of Chartered Accountants of Sri Lanka. He serves as a nominee of CA Sri Lanka's interview panel that recruit Accountants to Public Institutions. He also serves on the panel that assess the suitability of private and public sector companies to be 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.</p>
04.	Ranga Abeynayake Non-Executive Director	<p>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.</p>
05.	Prof. Sampath Amaratunge Independent Non-Executive Director	<p>Prof. Amaratunge was appointed to the Board in October 2016. He holds a B.A. (Hons.) in Economics and a M.A. in Economics from the University of Colombo. He also holds an M.Sc. in Economics of Rural Development from the Saga National University and a Ph.D. from Kogoshima National University in Japan. He is the Vice-Chancellor of the University of Sri Jayewardenepura 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.</p> <p>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.</p> <p>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.</p>

No.	Name	Descriptions
06.	Udayanthi Ramanika Seneviratne Independent, Non-Executive Director	Mrs. Seneviratne was appointed to the Board in July 2016. She counts over 18 years experience as an Attorney-at-Law of the Supreme Court of Sri Lanka and has an active practice in Civil, Criminal and Appellate Courts of Sri Lanka. She is also a Company Secretary, Notary Public and Commissioner of Oaths. She holds a Bachelor of Laws Degree (LLB) from the University of Colombo, Post Graduate Diploma in International Affairs (BCIS) and Diploma in Environmental Law from WWF, New Delhi, India.
07.	Joe Jayawardena Non-Executive Director	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.
08.	Prof. Ajantha Dharmasiri Independent Non-Executive Director	<p>Prof. Dharmasiri was appointed to the Board in 1st February 2012. 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, University of Sri Jayewardenepura and a B.Sc. in Electrical Engineering from the University of Moratuwa. He is a Chartered Electrical Engineer and a Member of the Chartered Institute of Management, UK as well.</p> <p>Prof. Dharmasiri is the Director and the Chairman of the Postgraduate Institute of Management, University of Sri Jayewardenepura. He is also the Honorary President of the Institute of Personnel Management (IPM), Sri Lanka and serves as an Adjunct Professor at the Price College of Business, University of Oklahoma, USA. He counts over two decades of experience in private and public sectors and has engaged in consultancies in more than fifteen countries in Africa, Asia and the Middle East.</p> <p>Prof. Dharmasiri has authored six books and won many accolades including gold medals for best papers in two international management conferences, Emerald Best Paper Award in 2010 and 2014 and the Platinum Award by the Alumni of the Postgraduate Institute of Management (PIMA) for outstanding academic contribution. He has also won the prestigious IPM Lifetime Gold Award 2014, the highest honour for an HR professional in Sri Lanka.</p>
09.	Damith Tennakoon Director/Deputy Chief Executive Officer/Chief Financial Officer	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 25 years experience in banking, finance and life insurance.
10.	Roshan Abeygoonewardena Director/Chief Operations 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 Accountant 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.
11.	Dave De Silva Executive Director – Business Operations	Mr. De Silva was appointed to the Board in 1st January 2012 as an Independent Non-Executive Director and thereafter appointed as Executive Director Business Operations in October 2016. He holds a Bachelor of Business Administration Degree from the University of Sri Jayewardenepura and is an Associate Member of the Chartered Institute of Management Accountants, UK. He counts over 22 years experience in financial services, oil and gas, telecom infrastructure and pharma industries.
12.	Sasindra Munasinghe Director/Chief Credit Officer	Mr. Munasinghe was appointed to the Board in 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 Executive Director of Unisons Capital Leasing Limited.

4.2.2 Corporate Management Team



1 **Mahesh Nanayakkara**
Managing Director/Chief Executive
Officer



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



5 **Sasindra Munasinghe**
Director/Chief Credit Officer



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



10 **Hasitha Dassanayake**
Deputy General Manager –
Finance and Planning



11 **Isanka Kotigala**
Deputy General Manager –
Liability Portfolio Sales



Roshan Abeyagoonewardena
Director/Chief Operations Officer

3



Dave De Silva
Director – Business Operations

4



Maduranga Heenkenda
Senior Deputy General Manger
Asset Portfolio Sales & Channel Development

7



Naguib Imdaad
Senior Deputy General Manager –
Information Technology & E-Commerce

8



Nayanthi Kodagoda
Senior Deputy General Manger –
Operations

9



Ranjith Gunasinghe
Deputy General Manager –
Operations

12



Sudath Fernando
Deputy General Manager –
Credit/Leasing

13

No.	Name	Designation	Descriptions
01.	Mahesh Nanayakkara	Managing Director/CEO	(Refer profile given on page 174)
02.	Damith Tennakoon	Director/Deputy Chief Executive Officer/ Chief Financial Officer	(Refer profile given on page 175)
03.	Roshan Abeygoonewardena	Director/Chief Operations Officer	(Refer profile given on page 175)
04.	Dave De Silva	Director – Business Operations	(Refer profile given on page 175)
05.	Sasindra Munasinghe	Director/Chief Credit Officer	(Refer profile given on page 175)
06.	Karthik Elangovan	Unisons Capital Leasing Limited Director/Chief Executive Officer	Mr. Karthik is a Chartered Marketer; a member of the Chartered Institute of Marketing of UK and a Practicing Marketer of SLIM. He holds a B.Sc. in Management from the University of Sri Jayewardenepura and an MBA from the Postgraduate Institute of Management (PIM). In addition, he holds a National Diploma in Human Resource Management (PIM) and is a Chartered Global Management Accountant (CGMA) as well. He 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.
07.	Maduranga Heenkenda	Senior Deputy General Manger Asset Portfolio Sales and Channel Development	Mr. Heenkenda holds an MBA from university of Wales, UK and is a Practicing Marketer and a member of the Sri Lanka Institute of Marketing (MSLIM). He also holds the Chartered Certificate of Risk in Financial Services from the Chartered Institute of Securities & 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 Program 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 18 years service at CDB.
08.	Naguib Imdaad	Senior Deputy General Manager – Information Technology & e-Commerce	Mr. Imdaad holds an M.Sc. 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 19 years in the finance business industry. Mr. Imdaad has extensive experience in e-Commerce, payment cards systems, management information systems, software engineering and project management.

No.	Name	Designation	Descriptions
09.	Nayanthi Kodagoda	Senior Deputy General Manger – Operations	Ms. Kodagoda is an Associate Member of the Sri Lanka Institute of Credit Management. She counts over 20 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 20 years.
10.	Hasitha Dassanayake	Deputy General Manager – Finance and Planning	Mr. Dassanayake holds a B.Com (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 11 years.
11.	Isanka Kotigala	Deputy General Manager – Liability Portfolio Sales	Mr. Kotigala holds an MBA from the University of Wales. He has gained both local and international experience prior to joining CBD. He counts over 10 years experience in well recognised multinational companies. Mr. Kotigala has served CDB for over 10 years.
12.	Ranjith Gunasinghe	Deputy General Manager – Operations	Mr. Gunasinghe holds an MBA from the University of Southern Queensland, Australia and a Post Graduate 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 nearly 20 years experience in the finance business industry and has served CDB for over 15 years.
13.	Sudath Fernando	Deputy General Manager – Credit/Leasing	Mr. Fernando counts 25 years experience in banking and finance business industry. He has served CDB for over 8 years.

4.2.3 Management

Team



Darshana Jayasinghe
Senior Assistant General
Manager (Marketing)

1



Nadee Silva
Assistant General Manager –
Business Development

2



Ruwan Chandrajith
Assistant General Manager –
Finance & Planning

5



Dassana Chandrananda
Senior Manager –
Business Development

6



Sanjeewa Ranathunga
Senior Manager –
Post Disbursement Follow-up Unit

9



Sarath Kumara
Senior Manger –
Credit Operations

10



Prasad Ranasinghe
Assistant General Manager –
Business Development

3 4



Ravindra Abeysekera
Assistant General Manager –
Recoveries



Herath Dharmadasa
Senior Manager –
Business Development

7



J L Priyantha
Senior Manager –
Auto Finance Portfolio Sales

8



Aravinda Perera
Manager –
Business Development

11



Aruni Panagoda
Manager –
Insurance

12 13



Ashad Weerabangsa
Manager –
Branch Operations



Bandula Kumara
Manager –
Business Development

14



Chirath Dissanayake
Manager –
Credit

15



Eranga Gunaratne
Manager –
Human Resources

18



Heshan Bandara
Manager –
Risk

19



Mahesh Pathmalal
Manager –
Enterprise Risk Management

22



Nimal Silva
Manager –
Tax & Tax Planning

23 24



Priyangani Wickramage
Manager –
Repossess Vehicle Unit



Darshana Amarasinghe
Manager –
Compliance

16



Dilruk Abeydiwakara
Manager –
IT Operations

17



Lalith Peiris
Manager –
Liability Portfolio Sales

20



M A Y Udayanga
Manager –
Business Development

21



Ravindran Subashkumar
Manager –
Business Development

25



Rizvi Mohamed
Manager –
Information System

26

Name	Designation	Qualifications
1. Darshana Jayasinghe	Senior Assistant General Manager (Marketing)	Chartered Marketer CIM UK, MBS Colombo, P.Dip. Marketing CIM UK, BSc Marketing Management (Hons.) USJP
2. Nadee Silva	Assistant General Manager – Business Development	
3. Prasad Ranasinghe	Assistant General Manager – Business Development	B.Com. Sp. (Sri J.) MBA (Aus)
4. Ravindra Abeysekara	Assistant General Manager – Recoveries	MCICM (UK), AICM (SL), ACPM
5. Ruwan Chandrajith	Assistant General Manager – Finance & Planning	BSc (Accountancy) Sp. (SJP), ACA
6. Dassana Chandrananda	Senior Manager – Business Development	
7. Herath Dharmadasa	Senior Manager – Business Development	BA (Peradeniya)
8. J L Priyantha	Senior Manager – Auto Finance Portfolio Sales	BSc (Hons.)
9. Sanjeewa Ranathunga	Senior Manager – Post Disbursement Follow-up	AICM (SL), ACPM, AUKAP (UK), Dip. in Agri.
10. Sarath Kumara	Senior Manger – Credit Operations	BB Mgt. (Accountancy) Sp. Kelaniya
11. Aravinda Perera	Manager – Business Development	AM SLIM, (Associated member of SLIM)
12. Aruni Panagoda	Manager – Insurance	AICM (SL)
13. Ashad Weerabangsa	Manager – Branch Operations	AICM (UK), NDTHRD (IPM, SL) AIB (SL), DCM (IBSL)
14. Bandula Kumara	Manager – Business Development	
15. Chirath Dissanayake	Manager – Credit	BBA (Fin) Sp., ACMA (UK), CGMA
16. Darshana Amarasinghe	Manager – Compliance	ACA, ACMA, BBA (Hon.) UK
17. Dilruk Abeydiwakara	Manager – IT Operations	MSc (IT), BSc (MIS)
18. Eranga Gunaratne	Manager – HR	MBA (Pera), BSc (Phy), PQHRM (IPM), NDTHRD (IPM)
19. Heshan Bandara	Manager – Risk	MBA (SJP), BBA (Hons.) (Col), ACMA, CGMA
20. Lalith Peiris	Manager – Liability Portfolio Sales	AMABE (UK)
21. M A Y Udayanga	Manager – Business Development	
22. Mahesh Pathmalal	Manager – Enterprise Risk Management	BSc Mgt. (Pub) Sp. (SJP), ACA
23. Nimal Silva	Manager – Tax & Tax Planning	ACA
24. Priyangani Wickramage	Manager – Repossess Vehicle Unit	BA (Sp.) AICM (Sri Lanka)
25. Ravindran Subashkumar	Manager – Business Development	
26. Rizvi Mohamed	Manager – Information System	MBCS (UK), P.Dip. IS (SLIIT)

4.3 Board Subcommittee Reports

P: 185 – 194

4.3.1 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, namely, Mr. D H J Gunawardena, Mr. R Mohamed and Ms. U R Seneviratne, 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.

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 among other things:

- (i) to ensure that adequate systems of internal control are in place,
- (ii) to see that sound corporate governance practices are upheld within the Company,
- (iii) to examine any matters relating to the financial affairs of the Company,
- (iv) to review the Company's financial reporting process with the object of ensuring the integrity of the information reported,
- (v) to ensure adherence to statutory and regulatory requirements.

Meetings

The Audit Committee meets at least four times a year and on other occasions when the need arises. The quorum for a meeting of the Committee is two members. The Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer, the Head of Internal Audit and other Executive Directors attend the meetings of the Committee by standing invitation. The External Auditors also attend meetings whenever they are invited to be present. The Head of Internal Audit functions as the secretary to the Audit Committee.

The Board Audit Committee held seven (7) meetings during the period under review which included two meetings with the External Auditors without the presence of the Executive Directors and the Management. The attendance of the Committee members at the meetings was as follows:

Name of the Director	Eligible	Attended
Mr. D H J Gunawardena	7	7
Mr. R Mohamed	7	7
Ms. U R Seneviratne	4	4
Mr. D A De Silva	3	3

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.

Financial Reporting

The Committee reviewed the interim and year-end Financial Statements and obtained the approval of 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 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 Institute of Chartered Accountants of Sri Lanka has issued the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) which would be effective from 1st January 2018. The Company commenced work towards its compliance during the year, with the assistance of an external consultant.

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, significant frauds and any fraud that involved 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 there was no impairment of their independence.

The Management Letter issued by the External Auditors in respect of the financial year ended 31st March 2016 was considered by the Committee and corrective action is being pursued wherever such action is warranted.

Prior to commencement of the annual audit, the Committee discussed with the External Auditors, their audit plan, audit approach, and matters relating to the scope of the audit.

The meetings of the Committee with the External Auditors, without the presence of the Executive Directors and the Management during the year ensured that there was no limitation of scope in relation to the audit and facilitated 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 will be reappointed as the Company's statutory auditors for the financial year ending 31st March 2018, 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 advised the Corporate Management to take precautionary measures on significant audit findings. Internal audit reports were made available to the External Auditors as well. The Committee has sufficient interaction with the Head of Internal Audit throughout the year.

The Internal Audit Department covers six broad areas namely,

- (i) Branch Audits
- (ii) Department Audits
- (iii) Information System Audits
- (iv) Gold Loan Audits
- (v) Special Investigations
- (vi) Financial Reporting and Compliance

Statutory and Regulatory Compliance

The Committee reviewed the procedures established by the Management for compliance with the requirements of the regulatory bodies. The Compliance Officer submitted a report to the Audit Committee on a quarterly basis, indicating the extent to which CDB was in compliance with mandatory statutory requirements. Due compliance with all requirements are monitored through this process.

Whistleblowing Policy

The Company's Whistleblowing Policy was revised during the financial year 2016/17, in order to further strengthen, educate and encourage members of staff to resort to whistleblowing if they had reasonable grounds to believe that there were wrong doings or other improprieties. All appropriate procedures are in place to conduct independent investigations into incidents reported through this process or if identified through other means. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. Even anonymous complaints are investigated. This process is monitored by the Board Audit Committee.

Board Audit Committee Evaluation

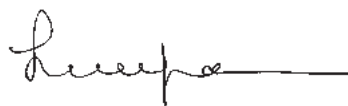
An independent evaluation of the effectiveness of the Committee was carried out by the members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Company, the Committee has been rated as highly effective.

Appreciation

During the year, Mr. D A De Silva resigned from the Committee on being made an Executive Director of the Company. Ms. U. R. Senevirathne who is an Independent Non-Executive Director was appointed in his place. The Committee wishes to thank Mr. D A De Silva for his valuable contribution over the years.

Conclusion

Based on the review of reports submitted by the External and Internal Auditors, the information obtained by the Committee and 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

5th June 2017
Colombo

4.3.2 Integrated Risk Management Committee Report

The Integrated Risk Management Committee was established as a Committee of the Board in compliance with Finance Business Act Direction No. 03 of 2008 on corporate governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka under the section 12 of the Finance Business Act No. 42 of 2011. It clearly sets out the composition, source of authority, duties and responsibilities of the Committee.

The Integrated Risk Management Committee plays a vital supportive role for the Board to fulfil its oversight responsibilities with respect to deciding risk appetite and ensuring that significant risks are competently managed.

Composition of the Board Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee comprises of the following members:

- Mr. Razik Mohamed – Chairman, Senior 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/COO
- Mr. Sasindra Munasinghe – Executive Director/CCO
- Mr. Dave de Silva – Executive Director/DBO
- Mr. Heshan Bandara – (Manager – Risk) functions as Secretary to the Committee

Governance of IRMC

Governance structure of the IRMC comprises of representatives from the Board, IRMC, Risk Management Division, Internal Audit and Compliance Division.

Authority	Key Responsibilities
Board of Directors	<ul style="list-style-type: none"> • Being attentive to the most significant risks and ensuring that management is responding appropriately in order to mitigate the impacts • Setting risk appetite and ensuring the extent to which management has established effective enterprise risk management across the organisation
IRMC	<ul style="list-style-type: none"> • Ensuring that adequate resources are deployed in Monitoring the effectiveness and the independence of the risk management function within CDB • Ensure CDB plays a dynamic role in risk reduction and quality improvement • Appraising the Business Continuity and Disaster Recovery Plans on a periodic basis.

Authority	Key Responsibilities
RM Division	<ul style="list-style-type: none"> Ensuring a robust risk management framework is in place to identify, assess, mitigate and monitor risks across the organisation and to promote a risk culture within the organisation When a new product/process/proposal is put in to place ensuring CDB mitigates any associated risks Circulation of risk management information effectively and efficiently to aid in sagacious decision making
Compliance Division	<ul style="list-style-type: none"> Being an independent reviewer and evaluation body to ensure that compliance Issues/concerns within the organisation are being appropriately evaluated, investigated and resolved Making IRMC aware about the new rules and guidelines imposed by the regulator
Internal Audit	<ul style="list-style-type: none"> Determine internal audit scope and formulate annual plans Ensuring adequate internal controls are in place Performing risk assessments on key business activities and using this information to guide audit coverage

Reporting Risks

A mechanism to report risks to the Risk Management Division via the newly established ERP system was initiated during the financial year under review. It has facilitated reporting any malpractices identified and the system enables to give feedback on the risk mitigation actions put in place by the Risk Management Division.

New Products/Processes/Proposals

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.

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 regular basis on the performance of identified risk indicators and prudential limits defined and approved by the Board.

Stress Testing

Stress testing was done to assess the appropriateness of some trigger points and set 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

5th June 2017
Colombo

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.

Name of the Directors/KMPs	Designation	No. of Meetings Eligible to Attend	No. of Meeting Attended
Mr. Razik Mohamed	Committee Chairman/Senior Independent Non-Executive Director	4	4
Ms. Udayanthi Senevirathne*	Independent Non-Executive Director	3	3
Mr. Mahesh Nanayakkara	Executive Director/MD/CEO	4	4
Mr. Damith Tennekoon	Executive Director/Deputy CEO/CFO	4	4
Mr. Roshan Abeygoonewardena	Executive Director/COO	4	4
Mr. Sasindra Munasinghe	Executive Director/CCMO	4	4
Mr. Dave de Silva	Executive Director/DBO	4	4

* Appointed to the board with effect from 1st July 2016

Committee Activities during the Financial Year

Trigger Points

Trigger points were reviewed and changed to reflect the prevailing context.

4.3.3 Remuneration Committee Report

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 a wide range of experience and knowledge of the business and industry.

Committee members are;

- Mr. S R Abeynayake – Chairman (Non-Executive Director)
- Mr. Razik Mohamed (Non-Executive Independent Director)
- Prof. Ajantha Dharmasiri (Non-Executive Independent Director)

Independence of the Committee

The committee is independent of the management and is totally free from any business, personnel or any other relationships that may interfere in making independent judgements.

Company Remuneration Policy

The Company's remuneration policy aims to recruit, retain and motivate high calibre personnel at Board and Executive levels, who possess appropriate professional, managerial and operational expertise required to achieve Company's short term and long-term objectives. The remuneration policy attempts to guarantee that the total remuneration package is sufficiently competitive to attract the best spirit for the Company.

The Company's remuneration framework has been designed, incorporating the newly developed Human Resource Information System to enhance value for stakeholders of company, as well as to align the inspiration of the executives with the short and long-term interests of the Company. In designing competitive compensation packages, the policy is to appreciate and reward high performers while consciously balancing the short-term performance with medium to long-term commitment to the Company.

Purpose

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 the 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 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 involved 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

5th June 2017
Colombo

4.3.4 Nomination Committee Report

Composition of the Committee

The Board appointed Nomination Committee consists of a majority of Non-Executive Directors and is Chaired by a Non-Executive Director. The members of the Committee have wide range of experience and knowledge of the business acumen.

Committee members are:

- Mr. P A J Jayawardena – Chairman (Non-Executive Director)
- Mr. C M Nanayakkara (Executive Director)
- Prof. Ajantha Dharmasiri (Non-Executive Independent Director)

Independence of the Committee

The committee is independence of the management and is totally free from any business, personnel or any other relationships that may interfere in making independent judgments.

Terms of Reference of the Committee

- Identify and recommend suitable candidates as Directors to the Board considering succession plan and requirement of the Board and its subsidiary Companies.
- Regularly review the structure, size and composition of the Board.
- Ensure the Board consists of persons possessing a good knowledge, experience and entrepreneurial skills to advance the effectiveness of the Board.
- Review the Charter for the appointment and reappointment of Directors to the Board and recommend amendments wherever necessary.

Key Functions Performed during the year Under Review

- Considered and promoted Board diversity and effectiveness,
- Evaluated and recommended changes to the Board where necessary,
- Evaluated and recommended the suitable internal and external candidates to higher levels of the Management.
- Abiding by the principles of good governance and recommended best practices.

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

5th June 2017
Colombo

4.3.5 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 following members:

- Mr. W P C M Nanayakkara
Managing Director/Chief Executive Officer
- Mr. T M P D Tennakoon
*Director/Deputy Chief Executive Officer/
Chief Finance Officer*
- Mr. S V Munasinghe
Director/Chief Credit Officer
- Mr. R H Abeygoonawardane
Director/Chief Operations Officer
- Mr. D De Silva
Director Business Operations

Company Credit Policy

The Board of Directors have approved credit policy framework, where all product guideline 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.

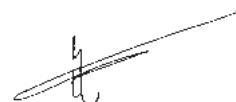
- Ensure compliance of all regulatory and statutory requirements prescribed by regulatory and supervisory authorities
- Set lending directions based on the current economic environment.
- Ensure post credit monitoring and postmortem and reviews are performed where necessary.

Methodology used by Credit Committee

- The committee will approve 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 will be 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

5th June 2017
Colombo

4.3.6 Report of the Board Related Party Transactions Review Committee

The Board established the Board Related Party Transaction Review Committee (BRPTRC) with effect from 26th March 2015 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 Transaction Review Committee comprises of two Independent Non-Executive Directors and two Executive Directors. The following members serve on the Committee.

The Committee as at the end of the financial year 2016/17 consisted of the following members:

- Mr. Razik Mohamed
Committee Chairman/Independent Non-Executive Director
- Prof. Ajantha Dharmasiri
Independent Non-Executive Director
- Mr. Damith Tennakoon
Director/Chief Financial Officer
- Mr. Roshan Abeygoonewardena
Director/Chief Operating Officer
- Mr. Tharinda Darshana Amerasinghe
Manager – Compliance, functions as the Secretary of the Committee

The above composition is in compliance with the provisions of the Code regarding the composition of the Board Related Party Transactions Review Committee.

Terms of Reference and Scope of Operations

The Committee operates in accordance with the Terms of Reference of a policy document on monitoring Related Party Transactions. The principal functions of the Committee are the scrutiny of all Related Party Transactions with Directors, Key Management Personnel (KMPs), substantial shareholders, subsidiaries and such other related parties as defined in the Code with a view to determining that they have not received any favourable nor preferential consideration *vis-à-vis* the other shareholders and customers of CDB as

well as to ascertain that their transactions and dealings are in strict conformity with statutory and regulatory requirements which the CDB is obliged to adhere to.

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 transactions.
- 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 the year 2016/17 the committee held four meetings. Attendance by the Committee members of each of these meetings is given in the table on page 194 of this Annual Report.

Review of Transactions for the Financial Year 2016/17

All related party transactions that had taken place during 2016/17 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. Although the related party transactions that have taken place during the said financial year were reviewed by the BRPTRC. Further, all the related party transactions which occurred during the year are disclosed in the Audited Financial Statements. Please refer pages 320-323 for related party transactions published in the Note 44 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 2016/17 is given on page 228 of the Annual Report.



Razik Mohamed
Chairman
Board Related Party Transactions Review
Committee

5th June 2017
Colombo

Committee Meetings

The attendance of the members of the Committee was as follows for the financial year 2016/17:

Name of the Directors/KMPs	Designation	Total Number of Meetings Eligible to Attend	Number of Meetings Attended
Mr. Razik Mohamed	Committee Chairman/ Independent Non-Executive Director	4	4
Prof. Ajantha Dharmasiri	Independent Non-Executive Director	4	4
Mr. Damith Tennakoon	Director/Chief Financial Officer	4	4
Mr. Roshan Abeygoonewardena	Director/Chief Operating Officer	4	3
Mr. Tharinda Darshana Amerasinghe	Compliance Officer, functions as the Secretary of the Committee	4	4

Risk Appetite

We manage risks across the organisation in order to ensure CDB creates value to its stakeholders.

Our business strategy is set going inline with our enterprise risk management strategy and the risk appetite which is set at the Board level.

Board appointed risk management committee operates with the objective of creating awareness about the effectiveness appropriateness of the risk management strategies put in to place by the top management.



Vision of Managing Risk

To ensure CDB manages risks it pursue while going ahead with the objectives set and create value to its stakeholders.

Risk Management Strategy

CDB's risk management strategy, as commonly perceived, does not mean minimising risk with regard to the business strategy; rather the goal is to optimise risk-reward trade-off, within the Company. Main function is to recognised and reflect risk interactions in all business activities & take necessary actions to mitigate identified risks.

Commitment for Managing Risks

At CDB, risk management is every body's responsibility. The Board is responsible for supervising risk and the CEO and Management are responsible for managing risk. Operational employees are responsible for identifying and reporting risks. Thus, from top to bottom everyone should be responsible for this task.

Principles of Risk Management

1. It should create value which illustrates resources expended to mitigate risks should be less than the consequence of in action or (as in value engineering), the gain should exceed the pain.
2. It should be an integral part of organisational decision-making processes.
3. Risk management function explicitly address uncertainty and assumptions, whilst being a systematic and structured process.
4. Managing risk is associated with dynamic strategies such as,
 - a. be responsive to change
 - b. be capable of continual improvement and enhancement
 - c. be continually or periodically re-assessed.

Risk Management Policy

To identify, reduce and mitigate any potential risks through reviewing past incidents and implement changes/strategies to prevent or reduce future incidents to optimise risk-reward trade-off, within CDB.

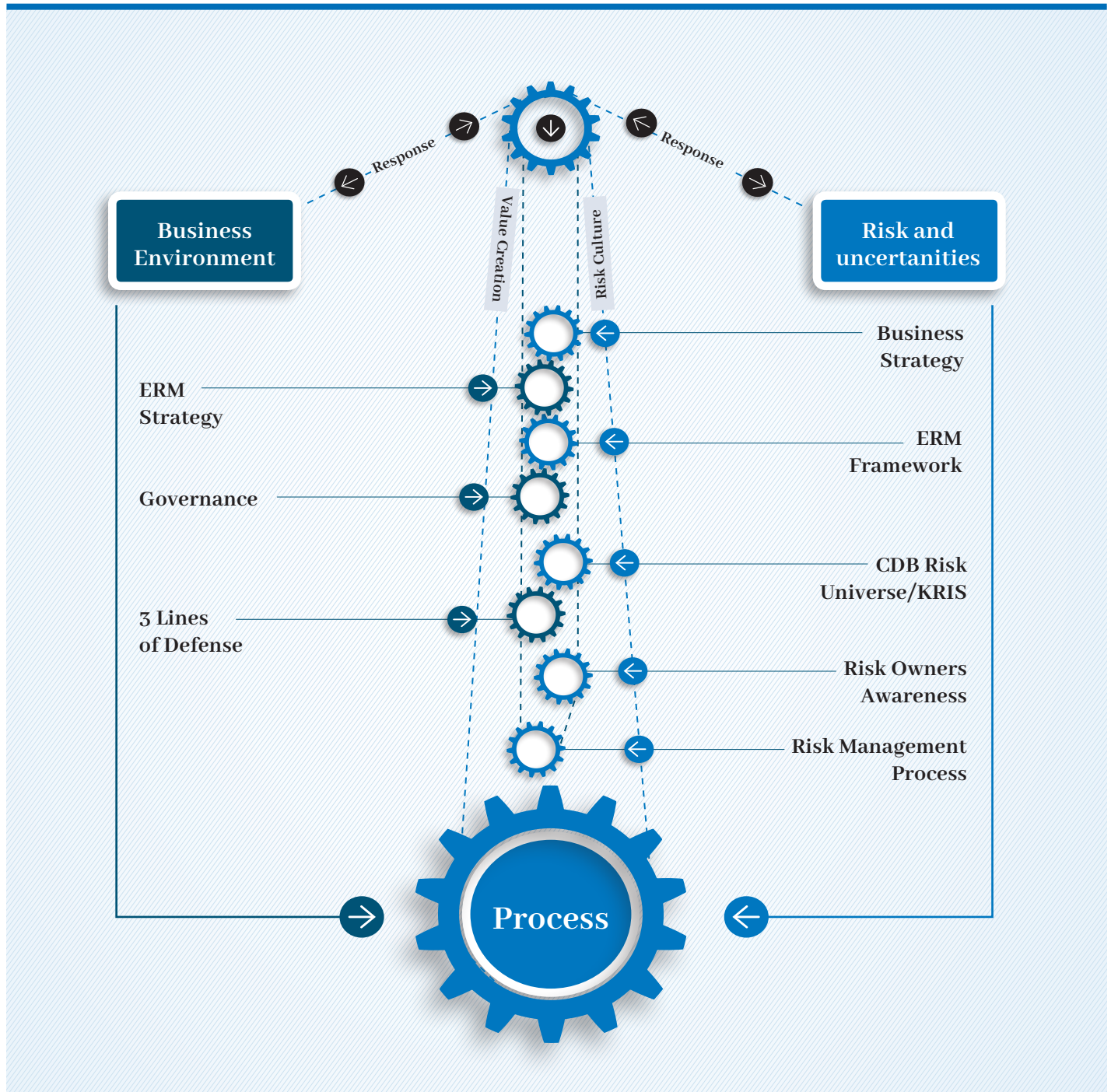
Priorities for 2016/17

- New mechanism was adapted to report risks via CDB ERP system
- Procedure was set to refer above 100 Mn loans to risk division
- There were 12 new risk areas reported during the financial year
- 7 new exceptional reports were developed during the year

4.4.1 Overview

CDB operates in a very competitive environment where responding to customer requirements/convenience, adhering to new technological know-how and complying with increasing regulatory requirements etc., while maintaining margins play an important role. While achieving these aspects, CDB needs to apply timely risk mitigating strategies across the Organisation to ensure that it manages risks associated with these aspects.

The following diagram depicts the environment CDB operates in, how CDB responds to the risks and uncertainties, the process which runs across the Organisation to identify and manage risks associated with the value creation to different stakeholders.

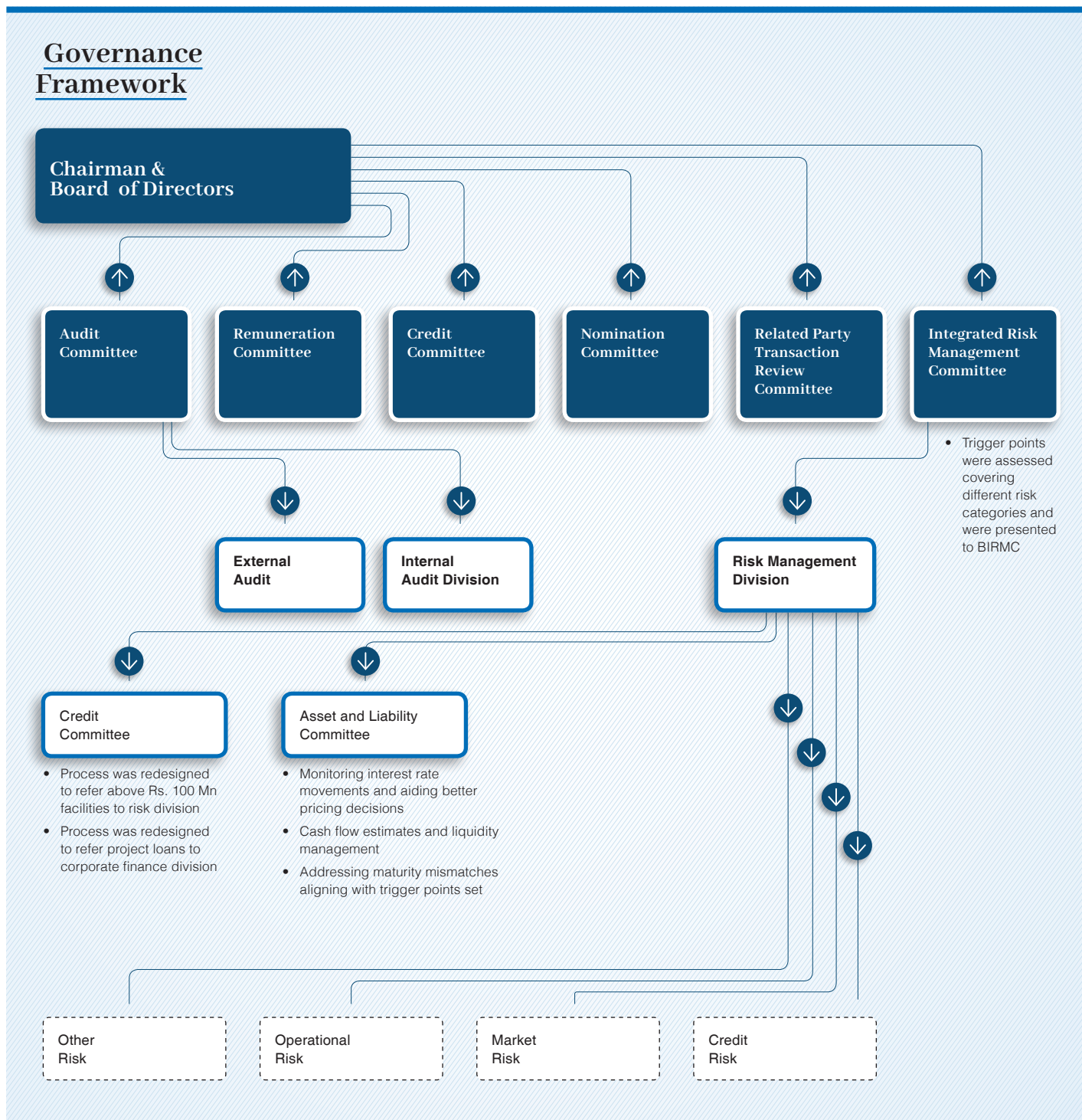


4.4.2 Risks and Uncertainties vs Responses

Strategic Objective	Risk Event	Outcomes	Risk Indicators	Our Response
To minimise the concentration on vehicle backed facilities and to diversify into other loan segments	High concentration on vehicle backed loans	Increasing concentration risk	Product mix	Strategically minimise the high concentration of vehicle backed facilities and focus on other loan segments Focused on property backed, personal loans and gold loans We could bring down the concentration that we had on vehicle loans from 99% to about 80% level (monthly disbursements)
To boost collections and to minimise the non-performing loans	Decrease in collections Increase in non-performing loans	Decreasing collections will lead to deteriorating asset quality which will ultimately lead to increase in impairment charges thus result in low profits	Non-performing loans ratio Collection ratio Infection ratio	Frequently monitor collection baskets Outsourcing monitoring of above 12 months arrears facilities Drive the strategies in place to boost collections Carryout frequent analysis on individual impairments
To maintain adequate margins	Inability to meet Profitability targets	Low Profits	Net interest margin Cost to income ratio Overheads to revenue ratio	To have optimum pricing of lending products efficiently and effectively Focus on high yielding segments like gold loans To maintain the right balance in the asset composition/ liability composition
Meet the statutory capital adequacy levels	Meeting statutory capital adequacy ratios to adhere to CBSL guidelines	Cortaimnur of Asset Growth	Capital Adequacy Ratio (CAR)	Continuous monitoring by the Compliance Division on the volatility of the CAR. Further, CAR is forecasted for future years with certain pre-set assumptions and also taken into consideration of multiple shock scenarios.
To better face political concerns	May hinder business performance	May result in not achieving budgeted business volumes and hinder profit targets	Inflation Tax amendments Regulators change	Right balance in the pricing Concentrating more on product segments such as property backed/personal loans/gold loans Diversity the Risk profile of the portfolio
Maintain optimum cost structures	Increase of overheads will lead to low profitability	May not achieve budgeted targets	Cost to income ratio Overheads to revenue ratio Net Interest Margin (NIM)	Overheads will be reviewed by conducting variance analysis and presented at Board meetings. Continuous explorations on streamlining the processes and procedures and looking for internal process improvements. Regular monitoring on value adding activities and applying cost conscious procedures to maintain the cost structure at a low level.
Adhering to new technology	Not mitigating risks with regard to new technological know-how	May result in losing customer trust	System downtime Outcomes of vulnerability tests	External vulnerability assessments through third parties. Maintaining mission critical system backups at Disaster Recovery sites to facilitate business continuity planning.
Maintaining service quality	Loss of reputation due to not maintaining required service levels	Losing of market share	Customer complaints	Continuous 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.

4.4.3 Risk Governance

Risk governance applies the principles of good governance to the identification, assessment, management and communication of risks. Headed by an Independent Non-Executive Director, Board Integrated Risk Management Committee (BIRMC) carries the overall responsibility for ensuring that an efficient and effective risk management framework is put into practice and report to Board regarding the risk levels faced by CDB. Headed by a manager, Risk Management Division was set-up to independently report to BIRMC on a quarterly basis.

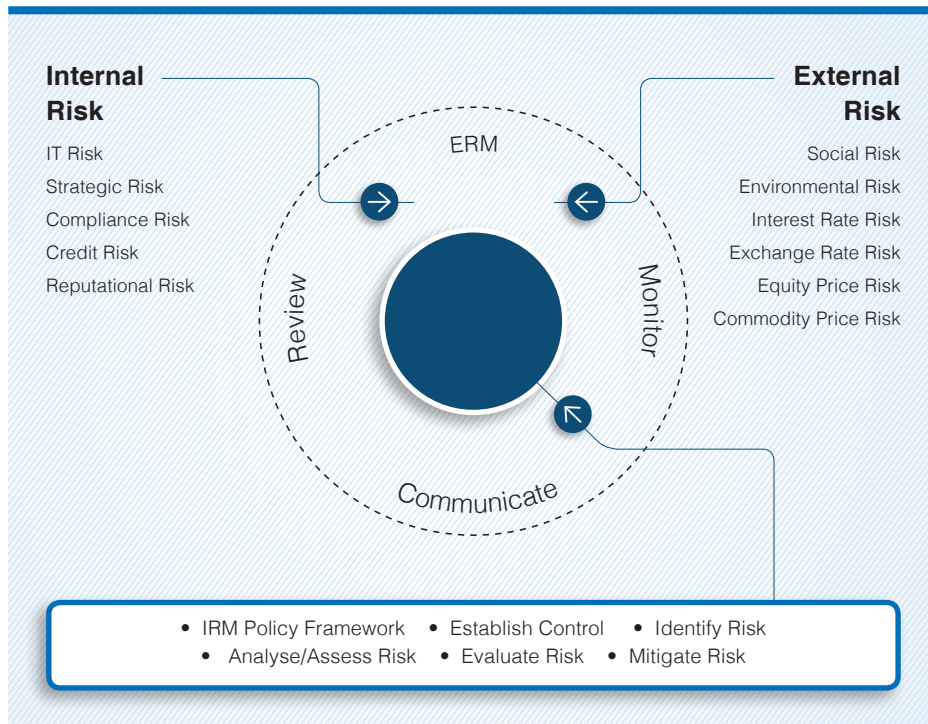


4.4.4 Enterprise Risk Management (ERM)

ERM is a group of structured and consistent risk management processes that are applied across an organisation. An ERM programme will identify, assess, prioritise, and provide a formal structure for managing internal and external risks that impact the Organisation. These activities are categorised under commonly accepted categories of risk.

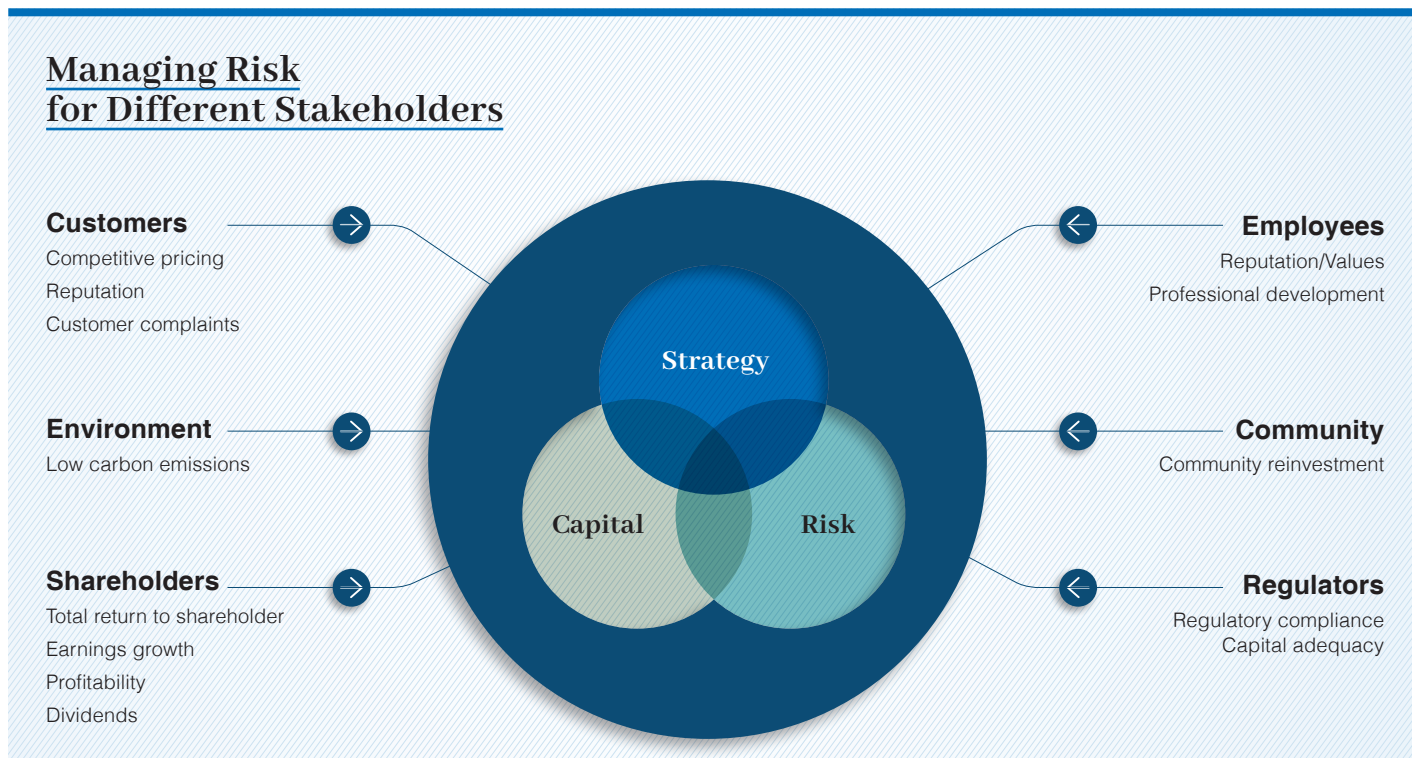
At CDB, ERM policy and framework is adopted to coordinate many aspects of managing risk. The risk management policy articulates the content of Company's ERM and risk appetite.

An Effective ERM involves the strategic implementation of three lines of defence as the first principle of the risk management framework. The model is given on page 202.



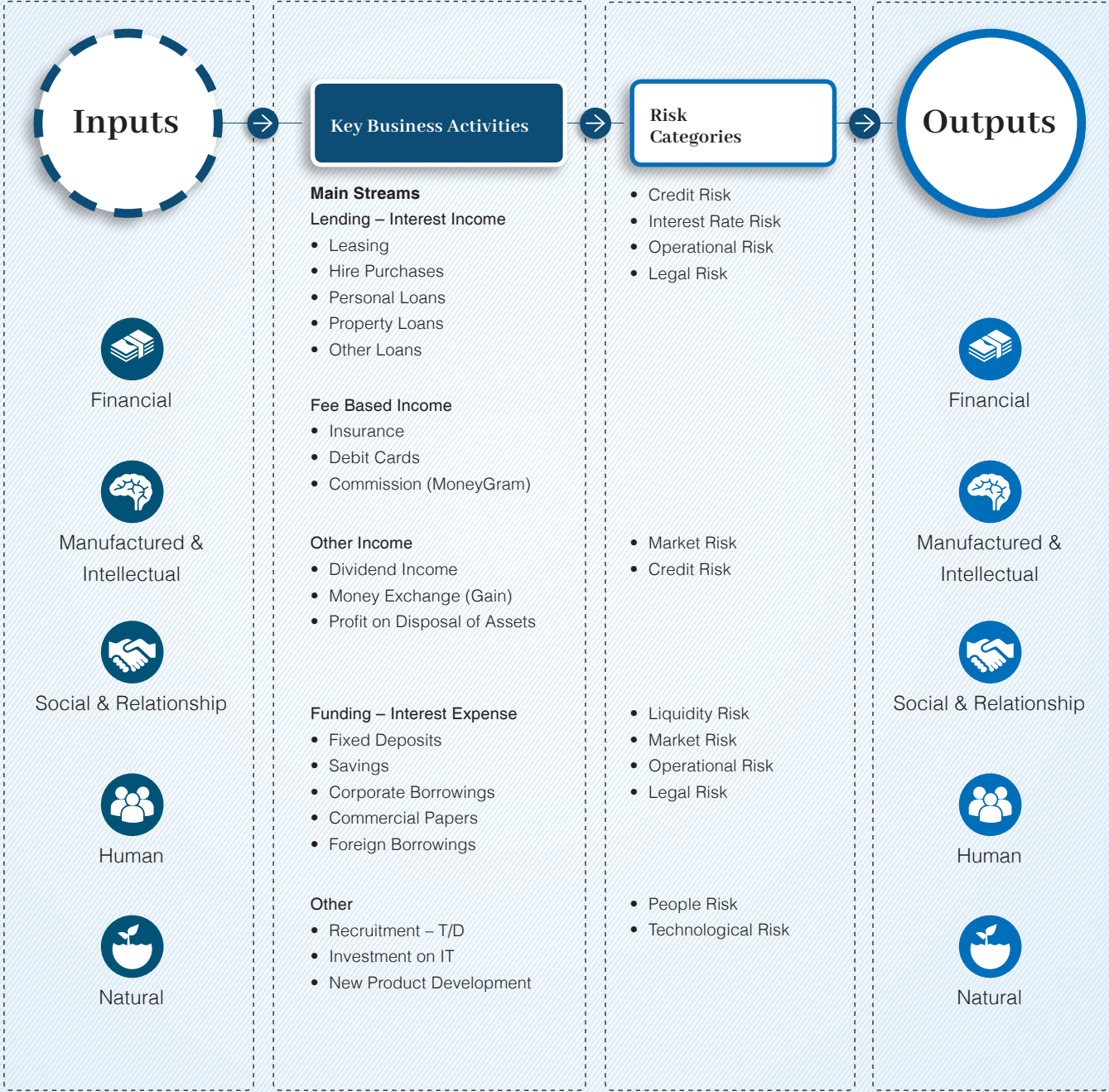
4.4.5 Value Creation vs Risk

In the past, alignment with stakeholder objectives centred on strategy and capital; now risk is also a key consideration. Each stakeholder objective will have a different influence on the optimal trade-offs among capital, risk, and strategy.



As to today's business context, we are operating in an ever changing risk environment. With ever changing geopolitical concerns, continuously improving technological know-how etc., financial institutions are faced with increasing demands from a variety of organisational stakeholders. As such, companies are seeking improved approaches to manage risks and create value. Organisations may focus on inputs received from different capitals and via strategies put in place to meet business objectives going in line with the enterprise risk management strategies will create value to different categories of capitals and thereby to different stakeholders.

Managing Risks through Different Capitals



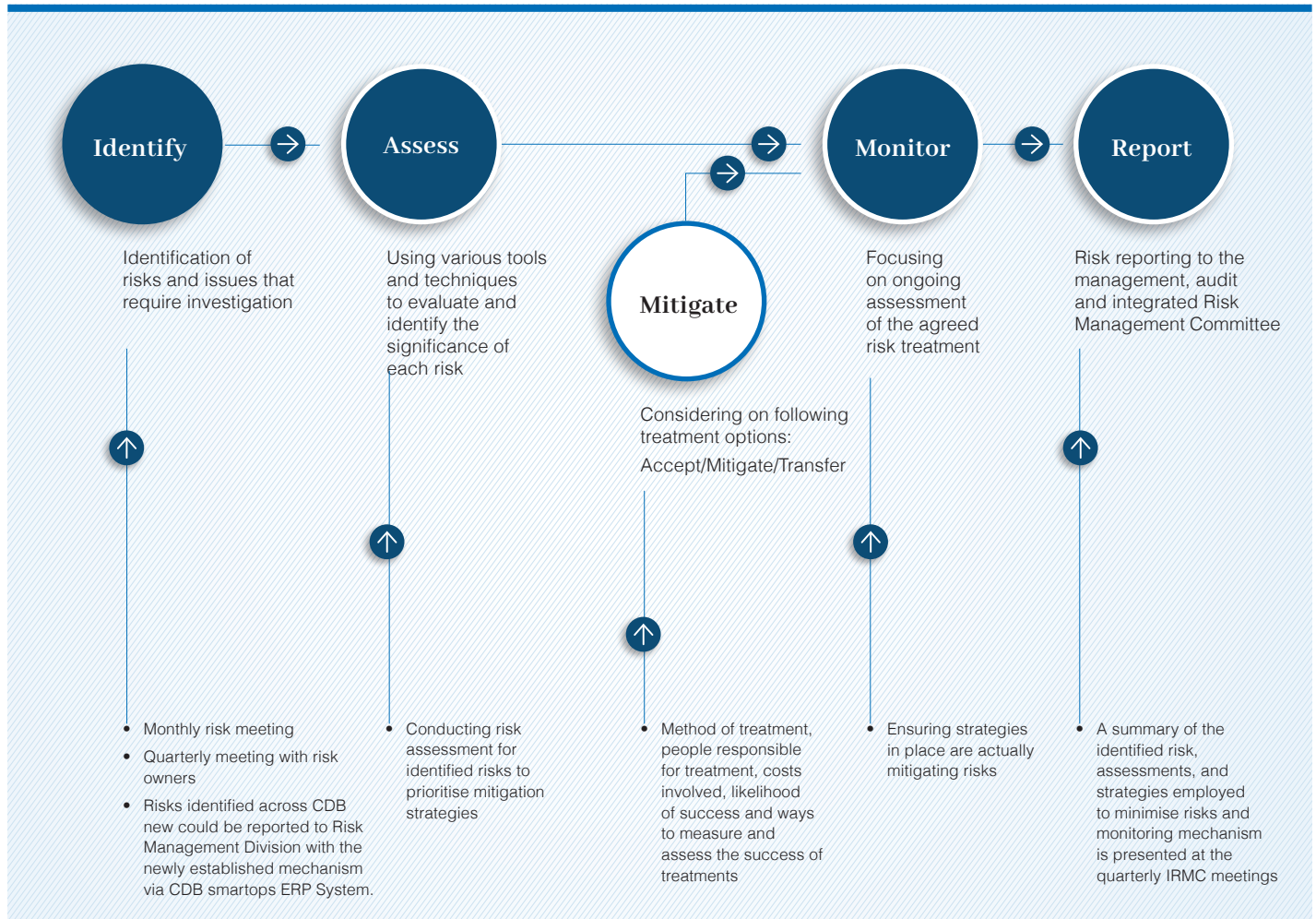
4.4.5.1 Three Lines Defence Model



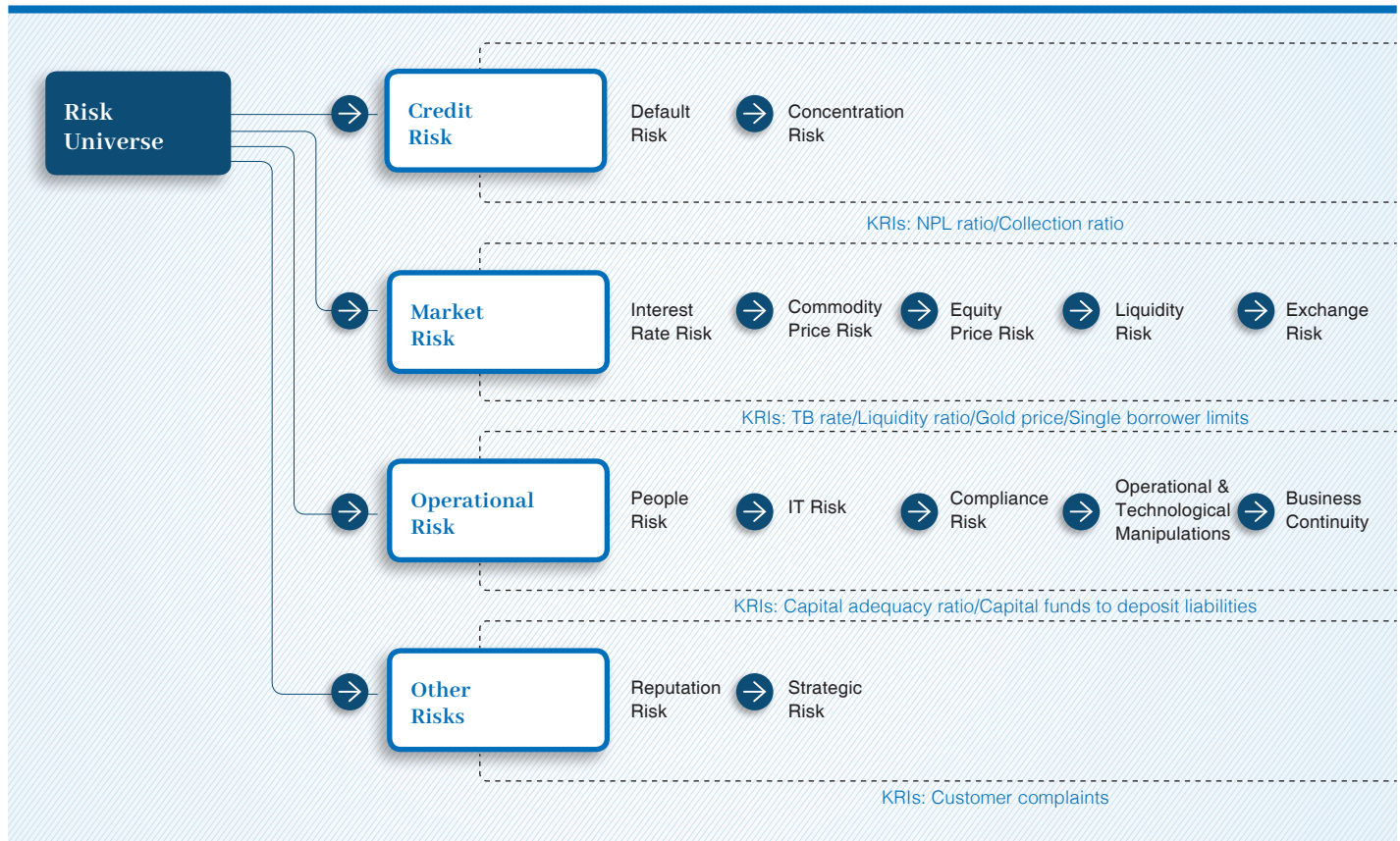
4.4.6 Risk Management Process at CDB

CDB's Integrated Risk Management Framework will provide a framework and methodology to assist in:

- Ensuring that risks are identified, assessed against accepted criteria and that appropriate measures are implemented in order to minimise risk.
- Creating awareness on implications of risk and risk management, in their day-to-day work as well as within strategic and operational planning activities.
- Assist in developing an appropriate risk management culture across the Organisation.



4.4.7 Risk Universe for CDB



4.4.8 Key Risks vs Mitigation Strategies

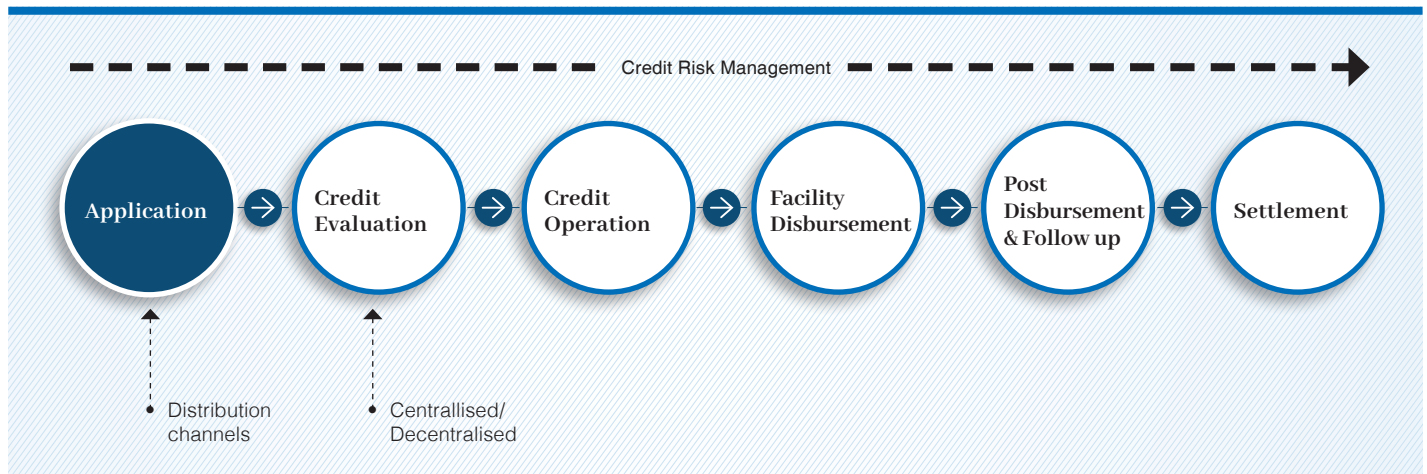
4.4.9.1 Credit Risk

Credit risk refers to an economic loss which arises due to an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired.

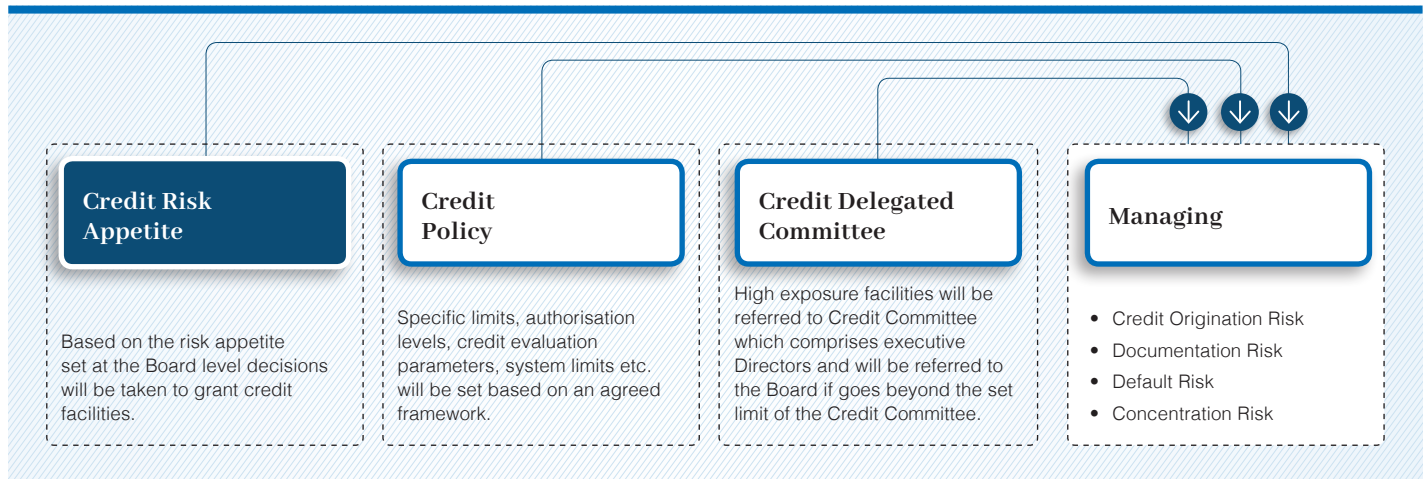
Update for 2016/17

- Credit facilities which were above Rs. 100 Mn was directed to the risk division
- With the new circular on the loan to value ratio, an exceptional report was developed to monitor any violations
- Credit facilities which were granted for different projects were referred to corporate finance department for their evaluation

Credit Operation at CDB



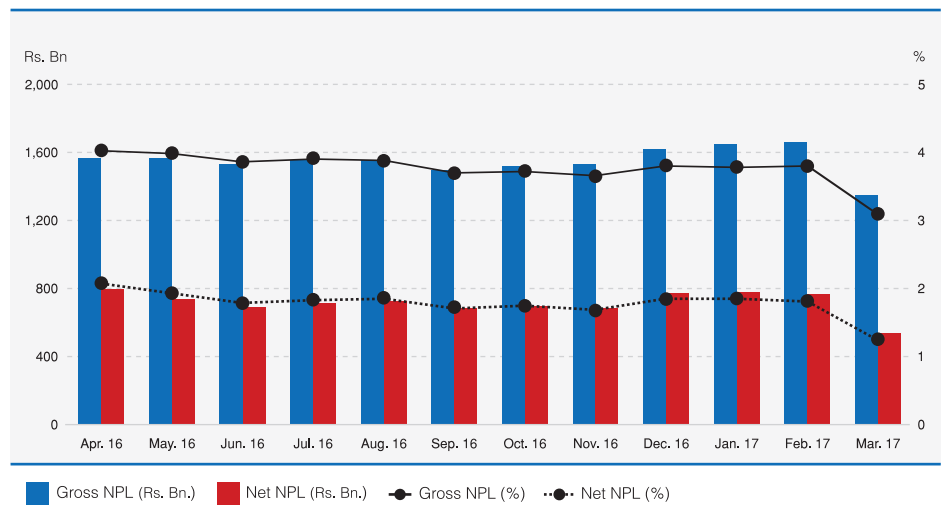
Credit Risk Governance



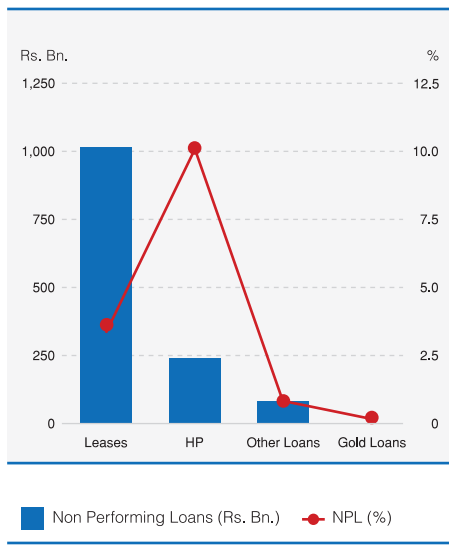
4.4.9.2 Default Risk

In a situation where a borrower fails to repay his/her loan obligation in a timely manner will result in materialising default risk to a financial institution.

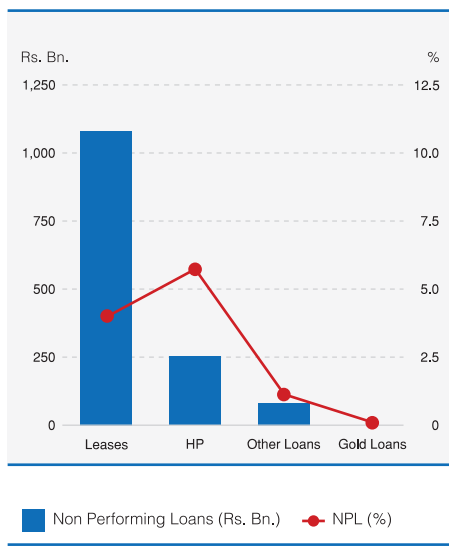
Gross NPL and Net NPL



Product Wise NPL (31st March 2017)



Product Wise NPL (31st March 2016)



Gross NPL and Net NPL ratios showed a significant improvement where it got reduced from last year's 3.62% to 3.08%. With the implementation of the loan to value ratio, amount financed for vehicle related loans were reduced and this in turn enhanced the borrowers' Obligation willingness 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 strategies were put in place during the year to reduce it. Accordingly, yard stock decreased from 630 Mn to 518 Mn.

NPL ratio excluding the yard stock was 2.21% in 2015/16 which got reduced to 1.89% with the reduction shown in the NPLs.

Stress Testing

Base Case

Capital adequacy ratio (CAR %) (%)	14.12
Capital base (Rs. '000)	6,527,801
Total risk-weighted assets (Rs. '000)	46,242,976
NPL ratio (%)	3.08
Total non-performing assets (Rs. '000)	1,347,155
Total performing assets (Rs. '000)	42,460,232

Impact on Company Capital Adequacy Ratio (CAR) from the Changes in NPA's (Non-Performing Advances)

	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock (%)	5	10	15
Total NPAs (Rs. '000)	1,347,155	1,347,155	1,347,155
Increase in NPA (Rs. '000)	67,358	134,716	202,073
Revised capital (Rs. '000)	6,460,443	6,393,086	6,325,728
RWA (Rs. '000)	46,242,976	46,242,976	46,242,976
Revised CAR %	13.97	13.82	13.68

A 5% shock on the capital base due to increase in NPAs will reduce the CAR to 13.97%.

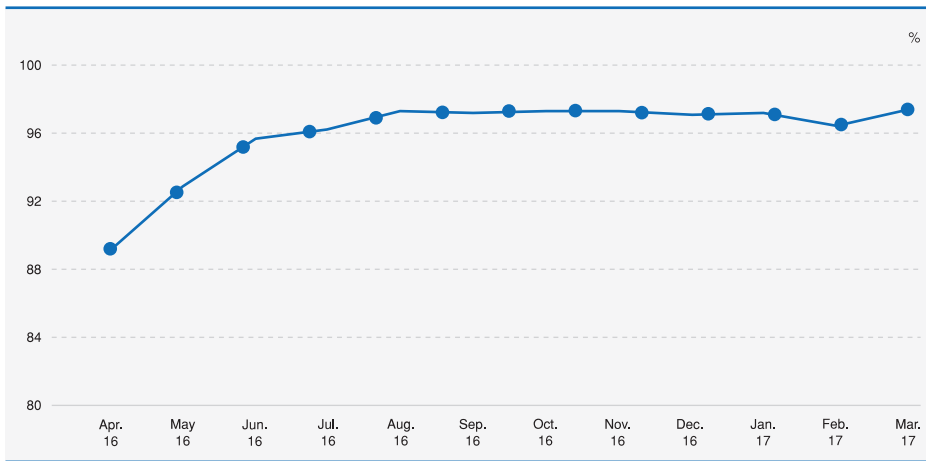
Impact on Company NPL from the Changes of NPAs

	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock (%)	5	10	15
Total NPAs portfolio (Rs. '000)	1,347,155	1,347,155	1,347,155
Increase in NPA (Rs. '000)	67,358	134,716	202,073
Revised NPAs (Rs. '000)	1,414,513	1,481,871	1,549,228
Total loan portfolio (Rs. '000)	43,807,387	43,807,387	43,807,387
Revised NPL %	3.23	3.38	3.54

NPL ratio will increase from 3.08% to 3.23% if NPAs increased due to a shock of 5%.

During the financial year cumulative collection ratio improved to 97.45% when compared to 96.10% last year which showcases a 1.35% improvement and contributed immensely to the reduction of NPLs.

Cumulative Collection Ratio



Managing Default Risk

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. Collection ratio is taken as a key risk indicator to risk dashboard to monitor default risk and is reviewed in monthly meetings. 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.

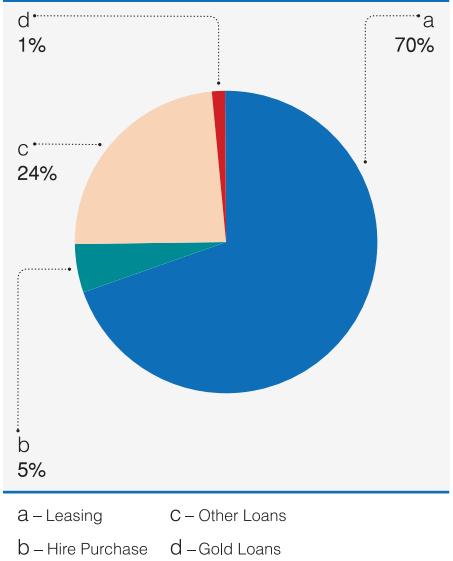
NPL ratio is monitored on a monthly basis and a detailed analysis is done by calculating the ratio product-wise, branch wise etc. Through ALCO meeting, market developments and economic conditions are monitored and amendments are done

to credit policies as and when needed to attract a quality loan portfolio. Provision management teams have been assigned under the Recoveries Department to closely evaluate and monitor non-performing advances and ensure that borrowers make timely payments.

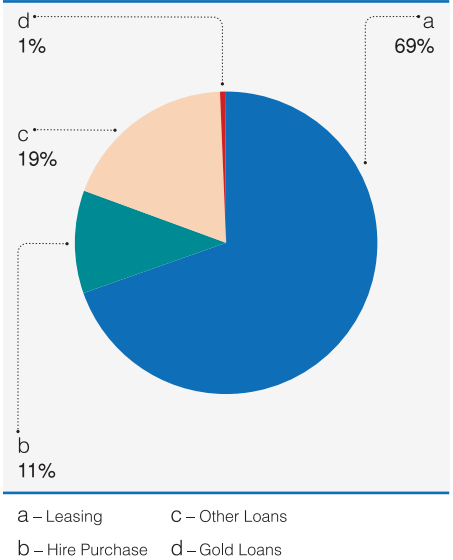
4.4.9.3 Concentration Risk

Due to uneven exposure to a particular product, group or counterparties an organisation may be exposed to concentration risk.

Lending Product Mix – 2017



Lending Product Mix – 2016



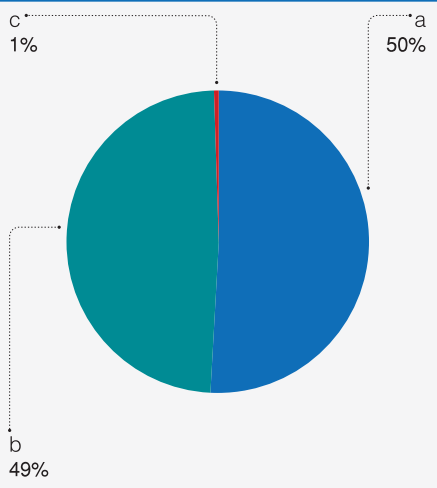
Leasing accounts for 70% of the total portfolio as at the concluded financial year while this has been consistent compared to last year concentration risk. HP 5% of the Loan portfolio as at 31st March 2017 and this figure has decreased from 11% as at 31st March 2016. Other loans composition has increased to 24% of the total loan portfolio as at 31st March 2017 from 19%.

The Deposit product mix has remain staged (composition) compared to last year, where CDB *Dhanasurakum* Accounts for 50% and CDB senior citizen 49%, while CDB Mudharabah accounts for 1%.

Lending concentration on top 20 customer has remained constant over the last two financial years, where the ratio of top 20% is 1% from the total product portfolio.

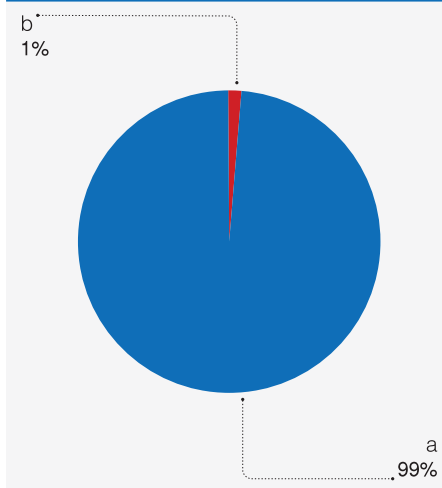
The concentration on Deposits (top 20) has changed, where the top 20 customer exposure has reduced from 16% to 9% as at 31st March 2017.

Fixed Deposit Product Mix – 2017



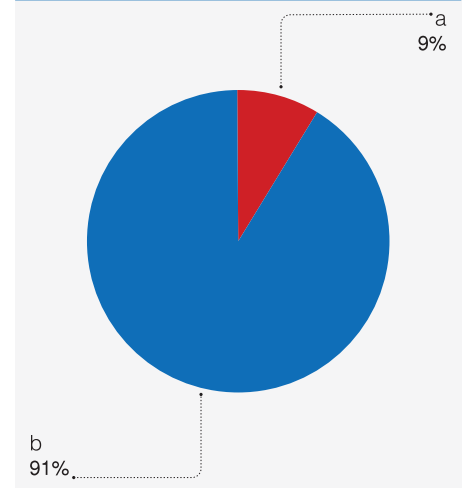
a – CDB Dhanasurakum c – CDB Mudarabah
b – CDB Senior Citizen

Lending Concentration Risk – 2017



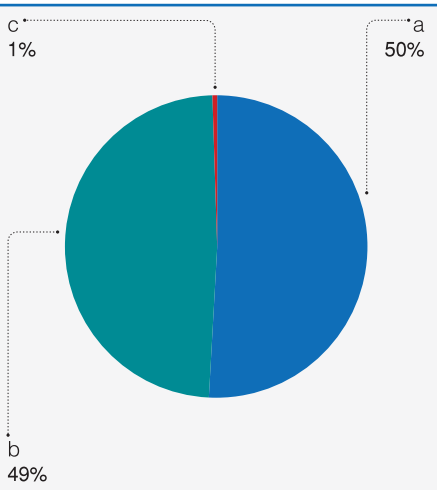
a – Other Customers b – Top 20 Customers

Deposit Concentration Risk – 2017



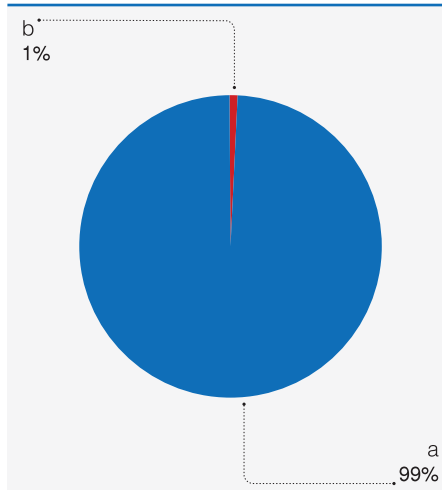
a – Top 20 Customers b – Other Customers

Fixed Deposit Product Mix – 2016



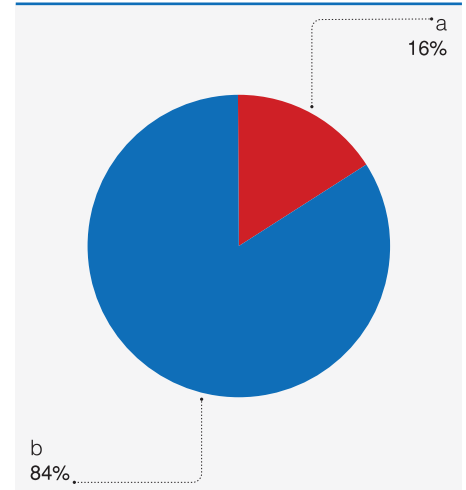
a – CDB Dhanasurakum c – CDB Mudarabah
b – CDB Senior Citizen

Lending Concentration Risk – 2016



a – Top 20 Customers b – Top 20 Customers

Deposit Concentration Risk – 2016



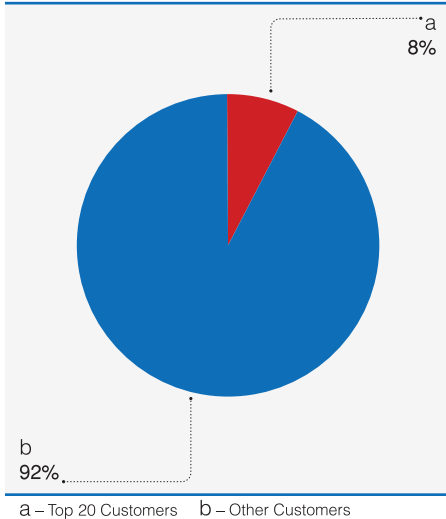
a – Top 20 Customers b – Other Customers

The savings (top 20), has changed where the top 20 customers exposure has reduced from 10% to 8%.

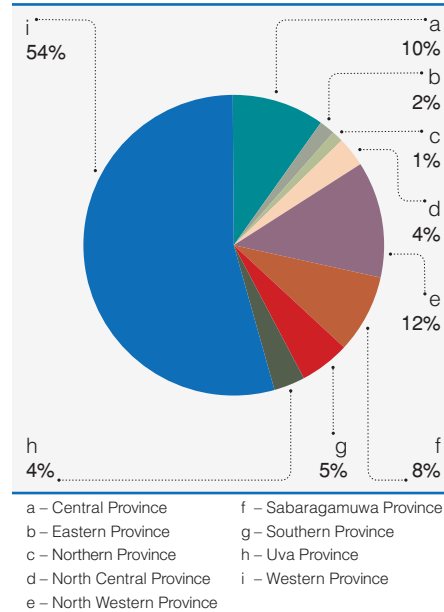
The lending disbursements geographical wise, has been same compared to the financial year (2015/16), except the concentration on Western, Sabaragamuwa and Southern Provinces has been changed to 54%, 8% and 5% from the previous composition of 51%, 9% and 6% respectively.

The deposit mobilisation geographical-wise, has been same compared to the financial year (2015/16), except for Western and Southern provinces, where the figures are 70% and 2% respectively.

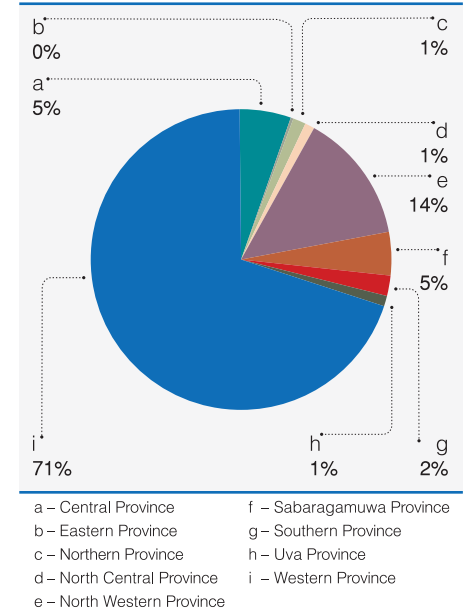
Savings Concentration Risk – 2017



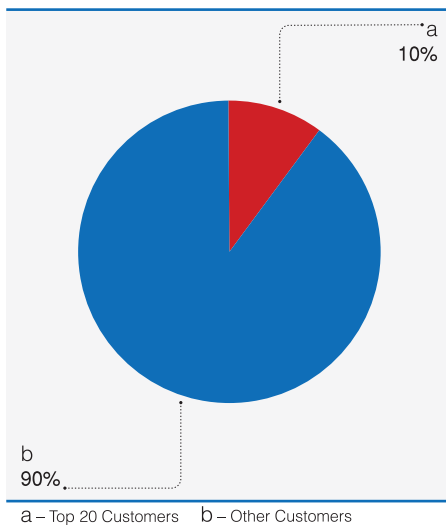
Lending Concentration Risk – 2017 by Geographical Distribution



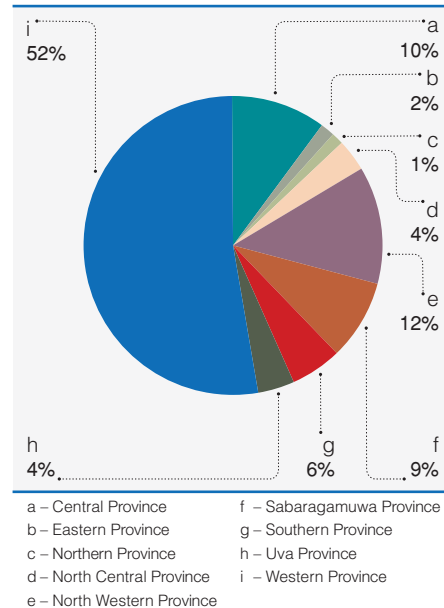
Deposit Concentration Risk – 2017 by Geographical Distribution



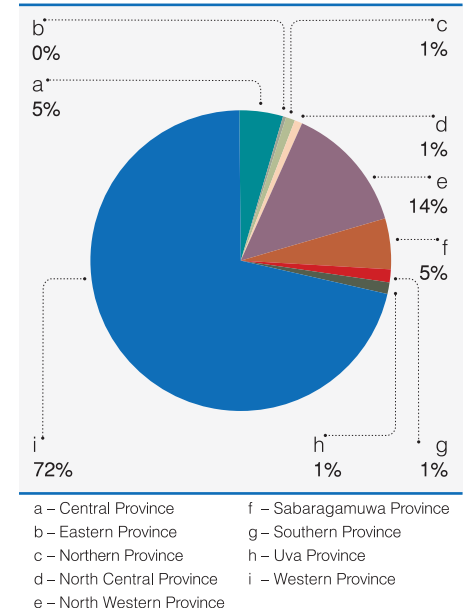
Savings Concentration Risk – 2016



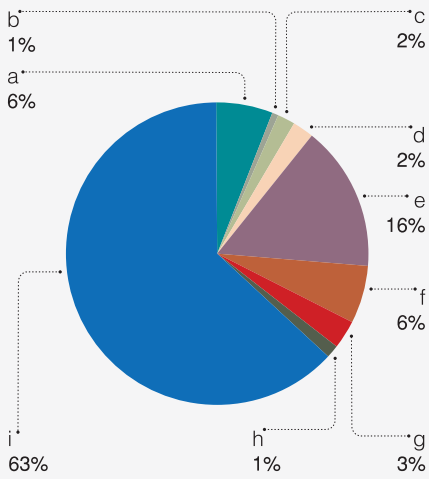
Lending Concentration Risk – 2016 by Geographical Distribution



Deposit Concentration Risk – 2016 by Geographical Distribution

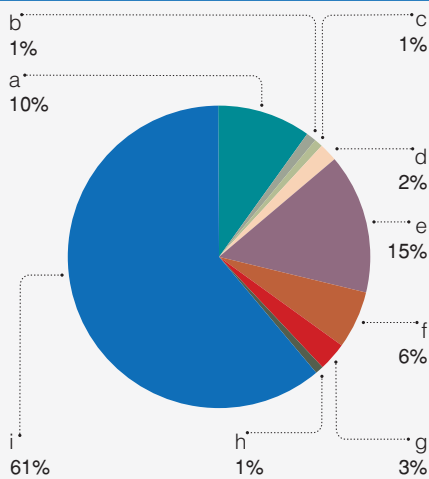


Savings Concentration Risk – 2017 by Geographical Distribution



a – Central d – North Central g – Southern
 b – Eastern e – North Western h – Uva
 c – Northern f – Sabaragamuwa i – Western

Savings Concentration Risk – 2016 by Geographical Distribution



a – Central d – North Central g – Southern
 b – Eastern e – North Western h – Uva
 c – Northern f – Sabaragamuwa i – Western

The concentration on saving portfolio (geographical) wise has been consistent over the two financial years 2015/16 and 2016/17.

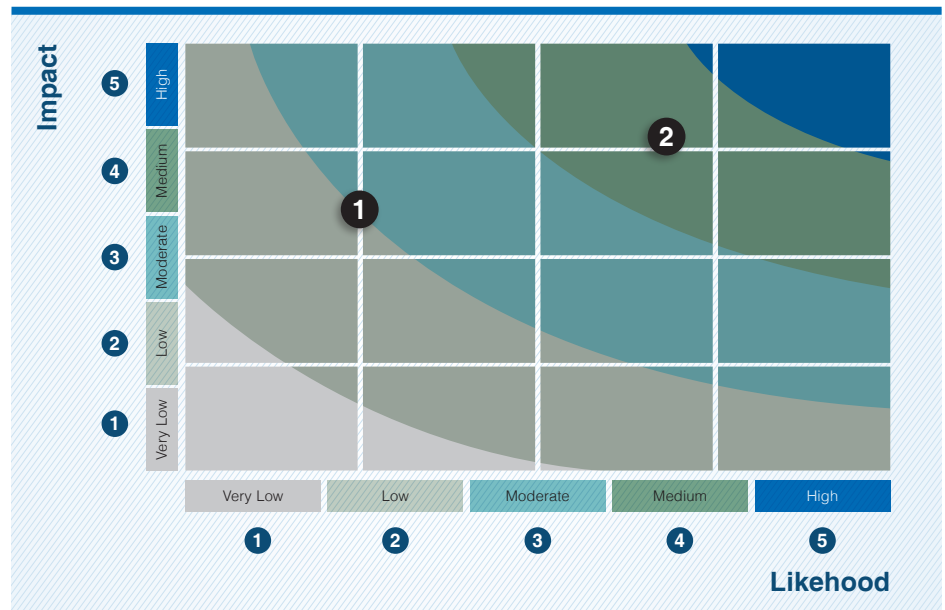
Managing Concentration Risk

With the goals set on diversifying segments of Loans granted, several measures were taken at the beginning of the 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% with the strategies in place to increase property backed loans, personal loans and gold loans. Concentration prevailing on monthly disbursements is calculated and shown in the risk dashboard and closely monitored at the IRM meetings. CDB's exposure to three-wheeler segment was also reduced and the focus was shifted to hybrid and electric vehicle financing.

Credit Risk Trigger Points

Criteria	Target Level	Current Position (As at 31st March 2017)	Remarks
NPL ratio	Below 3.5%	3.08%	NPL movement is being monitored on a weekly basis and loan segments with high NPLs are treated by taking decisions either to discontinue or executing strategies to reduce current levels
Cumulative collection ratio	>94%	97.45%	CDB has a Post Disbursement and Follow-up Unit (PDFU) which is responsible in monitoring and taking timely actions to reduce provisions through better collections

Credit Risk Heat Map



No.	Risk Type	Likelihood	Impact	Risk Level
1.	Default risk	2	4	Low
2.	Concentration risk	4	5	Medium

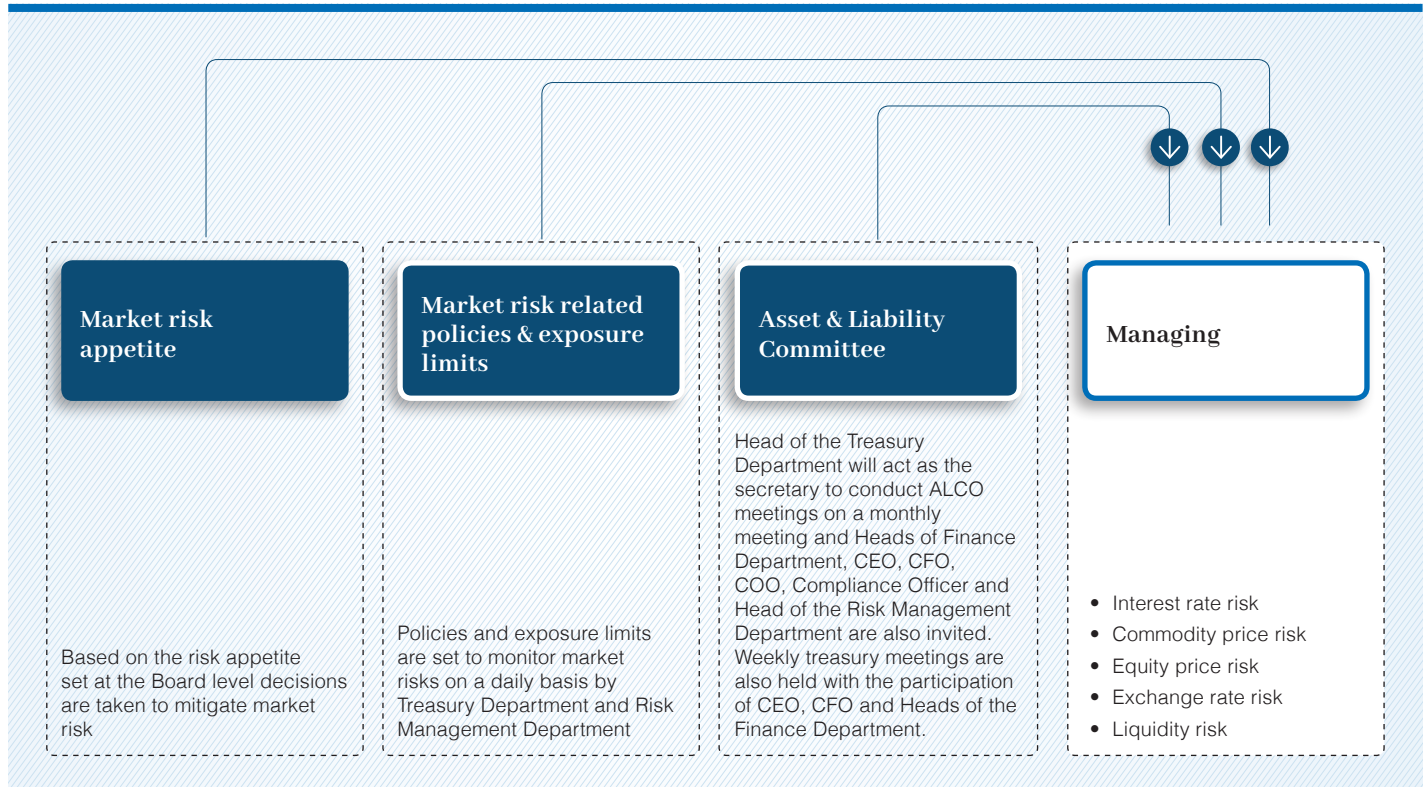
4.4.9.4 Market Risk

Market risk is the risk faced by an organisation arising from movements in market prices, such as changes in interest rates, exchange rates, equity prices and commodity prices.

Update for 2016/17

- Trigger point relating to liquidity ratio in the risk dashboard was revised from 12% to 11% to better reflect tolerance levels
- Process was set to get a recommendation from Treasury Department to advise on foreign payments which address exchange rate fluctuations and to mitigate exchange rate risk.

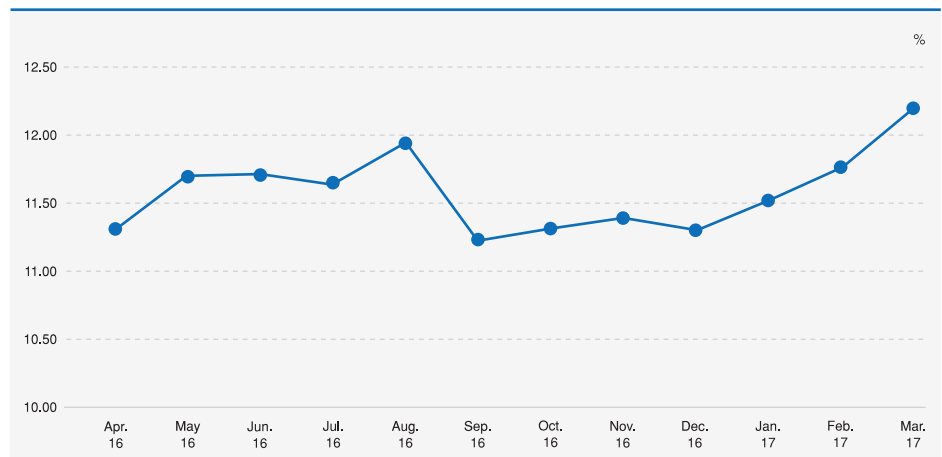
Market Risk Governance



4.4.9.5 Interest Rate Risk

For a financial institution like CDB, interest rate risk will be the most important aspect of market risk. Fluctuations of interest rates in the market may create interest rate risk where it will result in re-pricing of CDB's liabilities. CDB's liabilities comprise mainly customer deposits and corporate borrowings. Some of these borrowings are on a floating rate basis, leading to re-pricing at a faster pace than the assets with fluctuations in market interest rates. Customer deposits are more short-term in nature and the facilities we grant are fixed in nature resulting in a maturity gap which needs to be managed in an effective way.

Treasury Bill Rate (Gross)



Managing Interest Rate Risk

At CDB, 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 and forecasts are done based on the movements in the interest rates. At the monthly held ALCO meeting, following aspects are given a special consideration:

- Reviewing of interest rates
- Reviewing of maturity mismatch and proposing actions plans to be implemented in an extreme scenario
- Taking decisions on re-pricing of assets
- Cash flow projections
- Reviewing of assets and liability composition

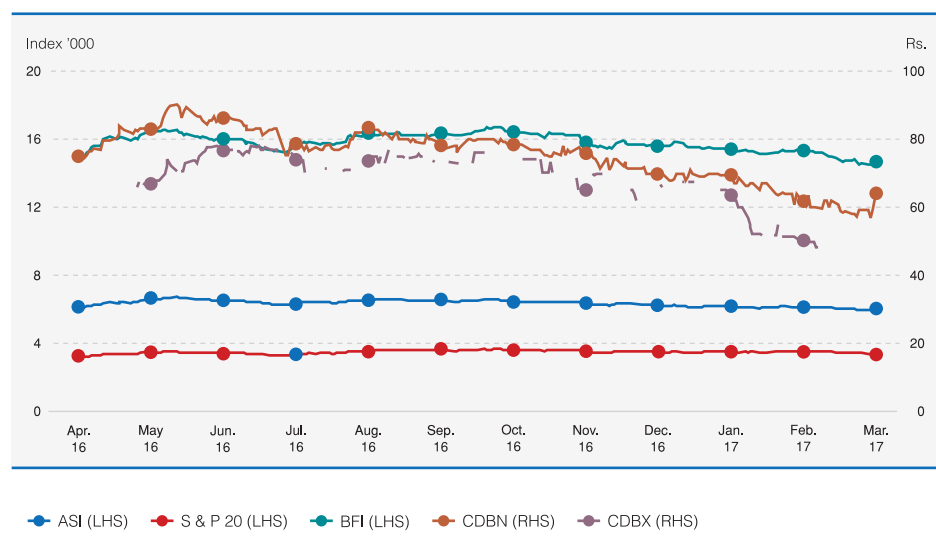
Interest Rate Gap Analysis as at 31st March 2017					
Interest Earning Assets/ Liabilities	Maturity Period				
	Ut to 1 Month	2 – 3 Month	4 – 6 Month	7 – 12 Month	Over 12 Month
Interest Earning Assets	5,382,853,481	3,165,391,415	4,433,075,560	8,754,791,853	26,694,444,905
Financial investments – Held-for-trading		163,041,242			
Loans & advances	3,592,710,652	2,678,897,638	3,622,863,049	6,729,469,630	26,565,069,031
Deposits in Commercial Banks	547,883,159	387,543,056	323,726,004	634,462,754	
Financial investments – Held-to-maturity	423,545,675	98,950,721	486,486,506	1,390,859,470	129,375,874
Financial Investments – Loans and receivable		655,672,752			
Interest Bearing Liabilities	7,248,333,475	8,055,742,412	6,233,359,544	9,150,185,095	14,946,863,265
Borrowings	409,059,069	991,173,961	1,377,638,823	2,944,403,751	7,310,372,414
Deposits	6,839,274,405	7,064,568,451	4,855,720,721	6,205,781,343	7,636,490,852
Net rate sensitivity assets (Liabilities)	(1,865,479,994)	(4,890,350,996)	(1,800,283,984)	(395,393,242)	11,747,581,639

As to the above table, below 12 months rate sensitive liabilities exceed rate sensitive assets and if we consider above 12 months rate sensitive assets exceeds rate sensitive liabilities.

4.4.9.6 Equity Price Risk

Because of the fluctuations in the equity prices, fair value of equities may change and the probability of incurring a loss can be stated as equity price risk.

Stock Market Performance



Stress Testing

Quoted Shares	2016/17			2015/16		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
Ceylinco Insurance PLC	638,012	204,088,617	1,034,213,758	607,377	161,266,932	920,594,408

Shock – Decrease of Share Price (Rs. '000)]

Quoted Shares	Decrease	New Market Value
1% Decrease	32,319,270	1,001,894,488
3% Decrease	52,559,563	981,654,195
5% Decrease	72,799,855	961,413,903

1% decrease of the Ceylinco Insurance share price will reduce the total market value by Rs. 32 Mn.

Managing Equity Price Risk

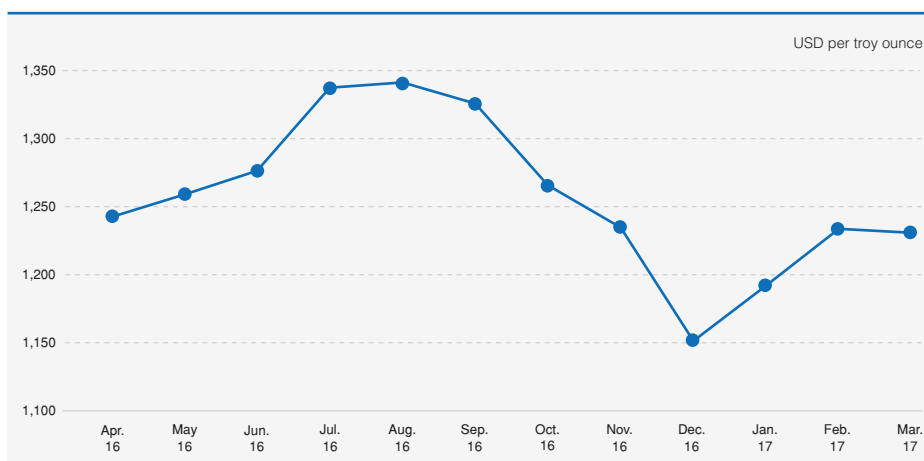
Fluctuations of the stock prices are monitored on a daily basis by the Corporate Finance Division/Finance Division and referred to Management.

4.4.9.7 Commodity Price Risk

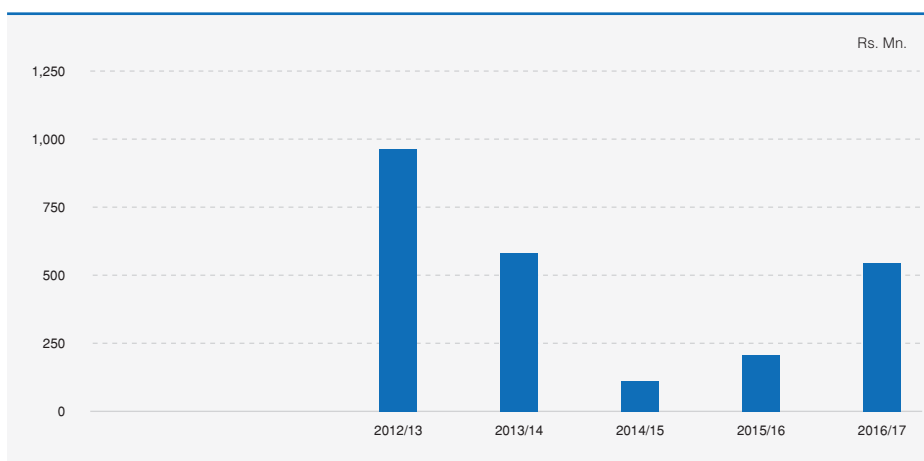
During the financial year under review, CDB has focused on enhancing the gold loan portfolio. Main intentions were to better address maturity mismatches, reduce concentration risk etc. Most of the procedures were realigned to better address customer service within a defined risk framework.

Gold prices in the international markets were volatile but showed an increasing trend at the dawn of 2016 and crossed the USD 1,300 per troy ounce in June 2016. As to geopolitical risks that prevailed especially with the Brexit and US Elections, gold gained a momentum as a safe heaven asset and continued to remain around USD 1,200 per troy ounce since the beginning of 2017.

International Gold Price



Gold Related Advances



Managing Commodity Price Risk

Gold related advances increased from 232Mn to 603Mn. The advances were granted going in line with the international gold prices and Risk Division and Gold Loan Division at CDB daily monitor 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. Whenever, there is a new development, it is referred to the Risk Division to assess the risks associated with the proposal. Stress testing is conducted by Risk Division to assess the level of losses which can be incurred by CDB, if gold prices comes down. A trigger point is set in the risk dashboard and is reviewed with daily price fluctuations.

Stress Testing

Impact on NPL ratio due to increase of pawning NPLs

Base Case

NPL ratio (%)	3.1
Total non-performing assets (Rs. '000)	1,347,155
Total performing assets (Rs. '000)	42,460,232

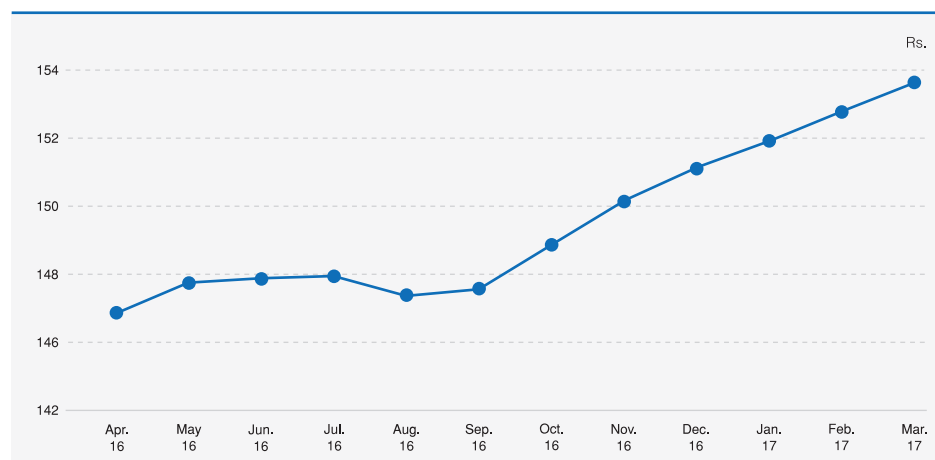
	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock	5	10	15
Total NPAs (Rs. '000)	1,347,155	1,347,155	1,347,155
Gold loan NPA (Rs. '000)	839,312	839,312	839,312
Increase in gold loan NPAs (Rs. '000)	41,966	83,931	125,897
Revised NPAs (Rs. '000)	1,389,121	1,431,086	1,473,052
Total loan portfolio (Rs. '000)	43,807,387	43,807,387	43,807,387
Revised NPL %	3.2	3.3	3.4

A 5% shock on pawning NPAs will result in increasing of overall NPL ratio to 3.2%.

4.4.9.8 Exchange Rate Risk

Exchange rate fluctuations may result in losses due to fall in value of currencies. At CDB, we conduct money exchange business and grant gold loans as well. Exchange rate fluctuations may have an impact on these areas of business. Considering about the pawning portfolio, if the rupee appreciates against the US Dollar it may result in gold prices to decrease and thereby the value of gold portfolio to fall. Similarly, the currency stocks we have may also expose to exchange rate fluctuations and will result in losses.

Monthly Average of Rs. USD Exchange Rate



Highest Currency Stocks of CDB

Currency	Amount	Market Rate*	Total
USD	68,606	151.73	10,409,619
EUR	17,090	162.03	2,769,111

* Source: CBSL

Shock – Strengthening/Weakening of Currencies

Currency	Shock %	Strengthening Rs.	Weakening Rs.
USD	1	(104,096)	104,096
EUR	1	(27,691)	27,691
USD	3	(312,289)	312,289
EUR	3	(83,073)	83,073
USD	5	(520,481)	520,481
EUR	5	(138,456)	138,456

Managing Exchange Rate Risk

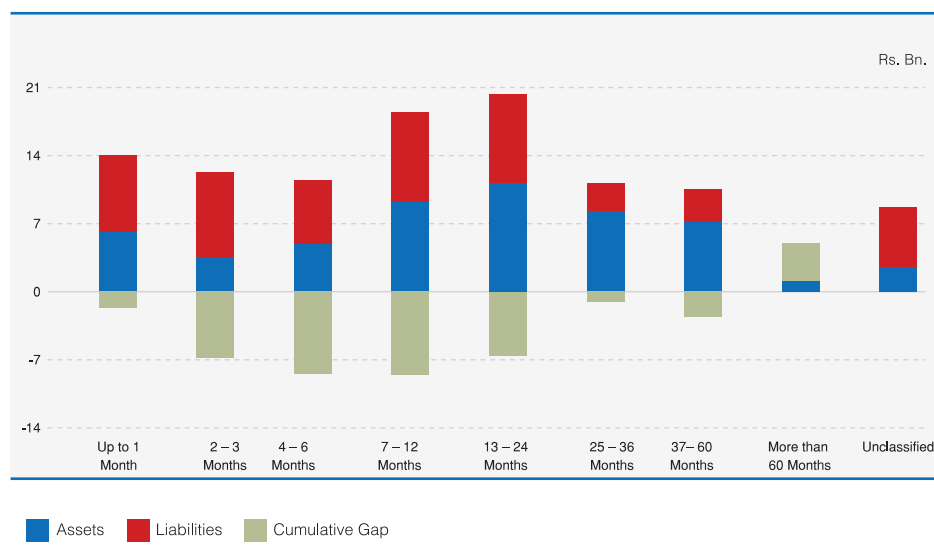
Exchange rate fluctuations are monitored on a daily basis and the impact it can create on areas like commodity prices/currency stock is assessed and communicated to money remittance and gold loan divisions.

4.4.9.9 Liquidity Risk

Managing liquidity risk is significant for a public deposit taking institution like CDB. Financial institution is responsible in paying back depositors' money which they have invested as fixed/saving deposits and if the said financial institution is facing difficulties in meeting such short-term financial demands, it is facing a liquidity risk.

Direction	As at 31st March 2017	As at 31st March 2016
Maintain minimum holding of liquid asset based on the outstanding value of the time deposits mobilised by the Company %	13.03	20.04
Required minimum amount of liquid assets (Rs. '000)	3,648,520	3,403,962
Available amount of liquid assets (Rs. '000)	4,650,390	6,664,229

Monthly – Maturity Gap Analysis



Stress Testing

Base Case	
Liquidity ratio (%)	13.03%
Liquid assets (Rs. '000)	4,650,390
Total deposit liabilities (Rs. '000)	35,699,242

	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock	4	8	12
Liquid assets (Rs. '000)	4,650,390	4,650,390	4,650,390
Deposit liabilities (Rs. '000)	35,699,242	35,699,242	35,699,242
Fall in deposit liabilities	1,427,970	2,855,939	4,283,909
Revised liabilities	34,271,272	32,843,303	31,415,333
Revised liquid assets	3,222,420	1,794,451	366,481
Ratio after shock %	9.4	5.4	1.2

Managing Liquidity Risk

On a weekly basis, treasury meetings are held to discuss about the liquidity position with the treasury divisions. Monthly held ALCO meetings form an avenue to prepare cash flows and determine the cash requirement/excess and thereby taking appropriate investment/borrowing decisions. Also, contingency plans are presented to deal with an emergency situation which comprise a step by step process to overcome a crisis situation.

Liquidity ratio too is taken to risk dashboard and is monitored with the trigger points set. From Treasury Department liquidity report is prepared on a daily basis and conveyed to Key Management Personnel.

4.4.9.10 Market Risk

Criteria	Target Level	Current Position (As at 31st March 2017)	Remarks
Liquidity ratio	10%	13.0%	Weekly basis treasury meetings are held and cash flows are reviewed and necessary decisions are made.
Maturity gap of 1 year basket	Below 15%	15.9%	Maturity mismatches are reviewed in a detailed manner at the ALCO meeting and contingency planning is presented to meet an emergency situation.
Three months cumulative gap to capital funds	<125%	105%	
Gold price – Unit per troy ounce (24KT) in USD	1,000	1,245	Both local and international gold prices are closely monitored by the pawning division/risk management division and appropriate actions are taken with regard to pawning advances offered to customers.

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	2	Moderate
4.	Exchange rate risk	5	1	Low
5.	Liquidity risk	2	5	Low

4.4.9.11 Operational Risk

Operational risk may be present due to losses stemming from inadequate or failed internal processes, people and systems or from external events as depicted in the following table:

People Risks	Process Risks	System Risks	External Event Risks
Inadequately defined roles and responsibilities	Lack of written procedures	System unavailable on peak hours	Threat of terrorist action
Lack of succession plan for key staff	Absence of defined process	Data becomes corrupted	Customer commits fraud against the firm
Staff not competent for role	Manual intervention causes pinch-points	Passwords being shared by staff	Outsource supplier delivers late
	Absence of escalation procedures	Denial of services attacks	

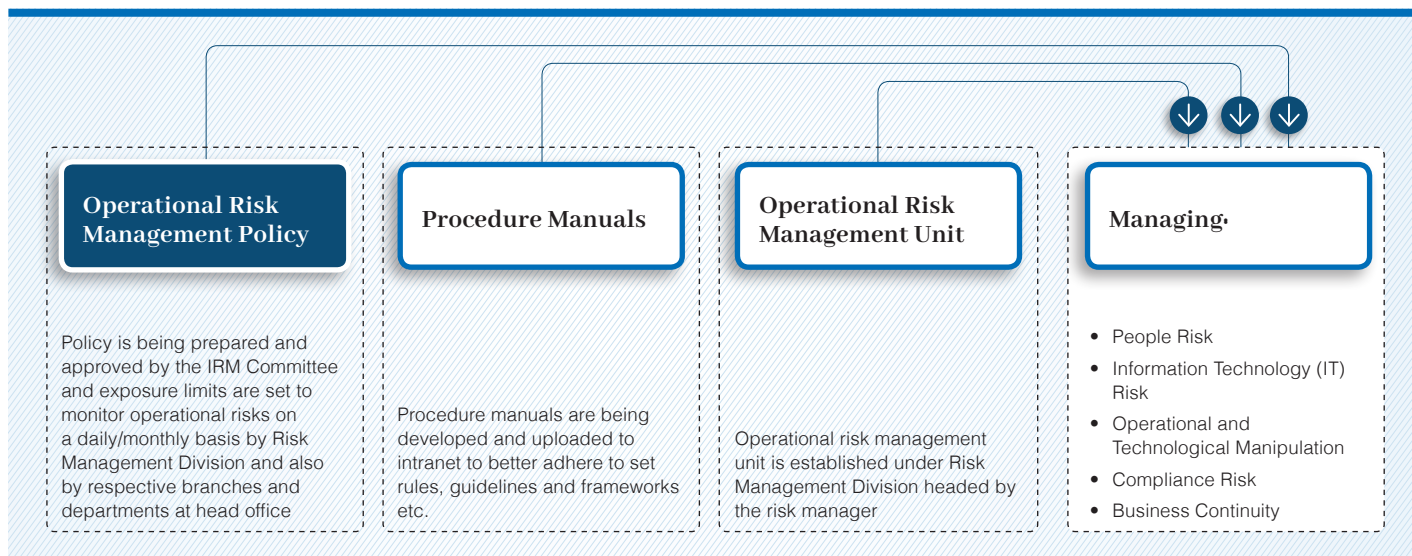
Update for 2016/17

- 12 risk areas were reported to Risk Management Division.
- Conducted Vulnerability Assessment & Penetration Testing (VAPT) assessments to identify the network and system vulnerabilities.
- Information security policies and procedures are in place to comply with the ISO 27001 standard, IT security and governance requirements.

Operational Risk Management Process



11.3.3 Operational Risk Governance



4.4.9.12 People Risk

People are the biggest asset for any company and the long-term success largely depends on the quality of the employees that are recruited and most importantly the retention of its good performers. While striving to build a winning culture, CDB's main focus area is to be the employer of choice. Not adhering to pre-set guidelines, losing the skilled long serving employees and lack of appropriate human resources can be mentioned as the main sources for people risk to arise.

11.3.5 Managing People Risk

At CDB, we have proper in-house training and also external training and foreign training is provided based on the training needs identified and based on the requirements of our staff. Speech craft programmes are available within the Company which will focus on staff leadership skills development.

Through organising sports day, get-togethers etc. we ensure work-life balance of employees. Our exceptional performers are rewarded by way of organising a gala event and awarding them with certificates, foreign tours etc.

We promote an open door policy when it comes to grievance handling and a breakfast meeting with the CEO is held to better engage with employees.

CDB's HR Department closely monitors the employee turnover ratio monthly and presents data to the Management and also presentations are done at quarterly held risk meetings. The details of employee resignations, the reasons for leaving etc. gathered through exit interviews are taken into further discussion.

4.4.9.13 Information Technology (IT) Risk

An organisation is exposed to IT risks when adequate IT risk mitigation strategies are not placed within its IT platform. CDB is a financial institution which firmly believes that adherence to IT platforms will definitely create competitive advantage. Thus, our IT team is continuously investing on IT platforms as evident from CDB being the first to adopt a core banking system in NBFIs sector.

Managing IT Risk

Staff at IT Department regularly monitors firewall/proxy logs to capture unauthorised internet activities. IT Department conducts a daily health check of operating system, hardware, database level alert logs covering both Disaster Recovery and production and also restoring a tape backup on a monthly basis in order to verify the functionality of restored tape and the connected application. Separate person is placed under IT Department to focus on IT governance and also an Independent person is placed under Audit Division who is responsible for IT audit and assurance.

We conduct VAPT assessments to identify the network and system vulnerabilities on a quarterly basis. Also, penetration tests are carried out to identify the network vulnerabilities by appointing external parties and running system audits on a routine basis through IT risk team. Business continuity planning is ensured through maintaining backups at DR sites. Another mechanism to mitigate IT risks is to develop information security policies and procedures to comply with the ISO 27001 standard, IT security and Governance requirements.

4.4.9.14 Operational and Technological Manipulations

Inappropriate operational and system controls and procedures will lead to operational and technological manipulations. CDB needs to ensure that efficient and effective controls are in place to proactively mitigate these manipulations and at the same time if any malpractice has been done, to capture such immediately.

Managing Operational and Technological Manipulations

With focus of second line of defence, risk department closely monitors transactions through exceptions reports. Any procedure violations are captured and necessary actions are taken accordingly. Risk department continuously conducts risk analysis on processes and prepares a risk register which consists of risks faced by each and every department. These risks which we have identified are reported to the management at monthly risk meetings. Also, there are random branch visits by internal audit division and the Management team members together with spot audits conducted by a third party and adopting stringent HR policies and internal controls are the other mechanisms to mitigate operational and technological manipulations. All procedure manuals are uploaded to intranet for staff reference and a weekly operations meeting is carried out with the Director in charge to discuss issues/risks etc.

4.4.9.15 Compliance Risk

As a public deposit taking institution, CDB is regulated by the CBSL. CBSL issues various rules, regulations, directions and guidelines from time to time and we need to ensure that we adhere to the same. Failing to adhere to any compliance requirement will expose CDB to compliance risk.

We have a dedicated compliance division headed by a manager, who ensures adopting a rigorous and proactive approach towards CDB's compliance to CBSL rules and guidelines. 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 readiness in order to minimise the effect of additional and amended laws and regulations.

Managing Compliance Risk

Compliance division monthly conducts a compliance meeting with the management and reviews the compliance status of the current rules and guidelines and communicates about the newly formed rules and guidelines. Also, a compliance checklist has been circulated among the departments and respective department heads need to sign off the relevant sections of the compliance checklist. Ex: deposit operations should ensure interest rate ceiling has not been violated by CDB. Further, tax related checklist has been circulated to ensure CDB adheres to the given time frames issued by the Inland Revenue. Under the guidance of the compliance manager another initiative was put in place to carry out compliance related audits. For newly recruited staff members, a session on anti-money laundering has been included in the induction agenda. Relevant Staff members are regularly sent to training programmes organised by Financial Intelligence Unit (FIU)

Monitoring transactions and submission of reports to FIU

- Reporting suspicious transactions, if any, according to STR Format
- Uploading above Rs. 1 Mn cash transactions to FIU System every month

Business Continuity

Risk arises due to various external hazards which will hinder the smooth functioning of day-to-day business operations of an organisation. BCP will have its focus across the business and the risk management function as a whole benefits from it. When it comes to CDB, we have a separate division which is responsible for implementing and maintaining aspects of BCP which has enabled the Company to institute appropriate action plans in an emergency situation.

Ensuring Effective and Efficient Implementation of BCP

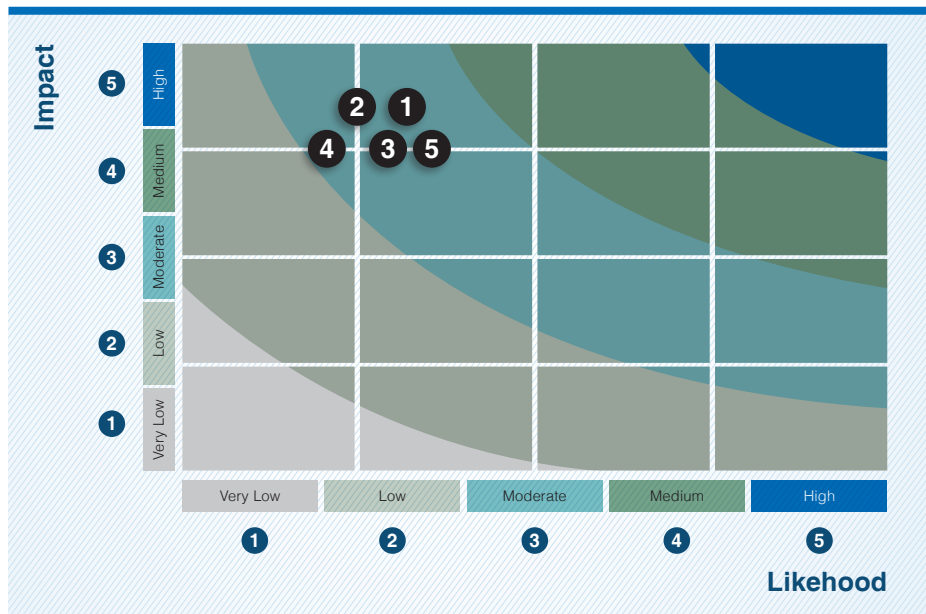
Through appointing an external consultant, CDB continuously upgrades its BCP. BCP audits are conducted on a periodic basis and training is done. During the financial year, several approaches were adopted to create awareness among staff on BCP. There were several incidents which were reported in the head office which resulted in switching on the fire alarms. They were reported as incidents and root causes were identified and necessary actions were taken.

A status review on BCP was done by IRM which was held in the last quarter of the financial year to make IRMC aware on the progress of BCP at CDB.

Operational Risk Trigger Points

Criteria	Target Level	Current Position (as at 31st March 2017)	Remarks
Capital adequacy – Tier I	5%	12.3%	Capital adequacy levels were closely monitored at compliance committee meeting and appropriate decisions were taken
Capital adequacy – Tier I & II	10%	14.1%	
Capital funds to deposit liabilities	10%	21.7%	

Operational Risk Heat Map



No.	Risk Type	Likelihood	Impact	Risk Level
1.	People risk	2	5	Moderate
2.	Information technology (IT) risk	2	5	Moderate
3.	Operational and technological manipulation	2	5	Moderate
4.	Compliance risk	2	5	Moderate
5.	Business continuity	2	5	Moderate

4.4.9.16 Other Risks

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 its operations.

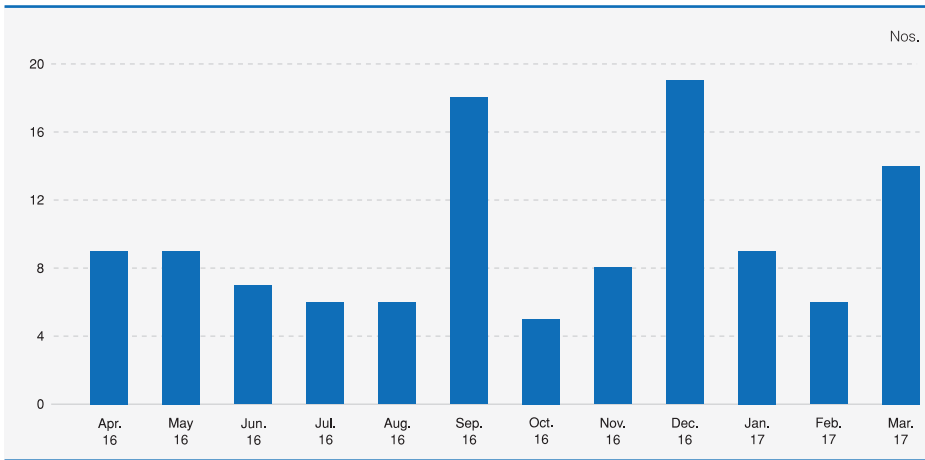
Managing Reputational Risk

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 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 dash board prepared by the risk division will cover a trigger point for customer complaints and will be presented in detail at the quarterly IRM meetings.

Also, other mechanisms involved in getting stakeholder opinion are staff surveys/ suggestion scheme, investor feedback at Annual General Meeting etc.

A Customer Relationship Management Unit is in operation for better addressing customer concerns and to provide our customers with a delightful service to manage reputational risk.

Customer Complaints



Strategic Risk

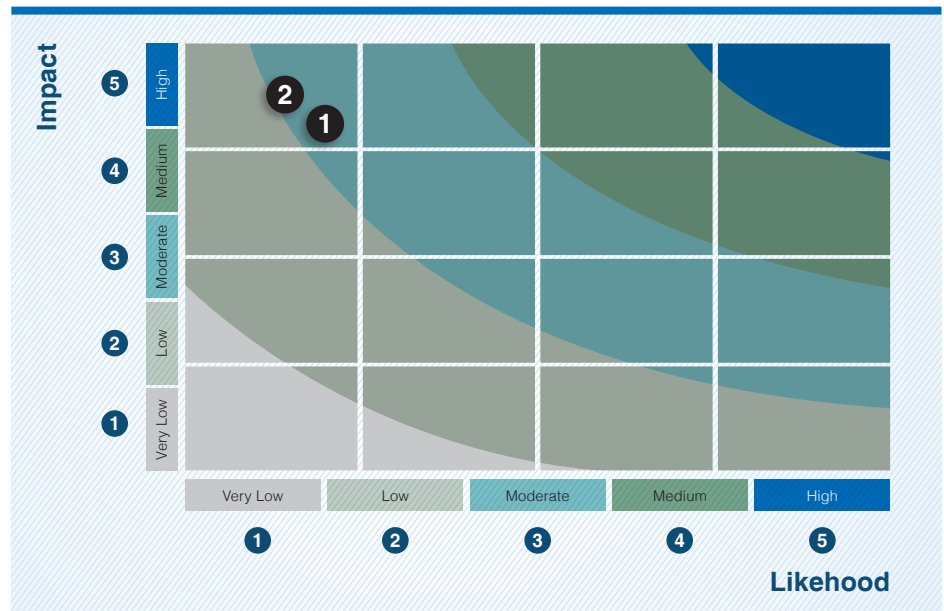
As a result of taking inappropriate decisions, poor planning, inability to adapt to change in the environment etc. will result in an organisation facing strategic risk.

Managing Strategic Risk

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.

There are also 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.

Heat Map for Other Risks



No.	Risk Type	Likelihood	Impact	Risk Level
1.	Reputation risk	2	5	Moderate
2.	Strategic risk	2	5	Moderate

4.5 Annual Report of the Board of Directors

P: 221 – 228

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 31st March 2017 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 there to 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 1st June 2017.

Overview of the Company

The Citizens Development Business Finance PLC (CDB) is a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and was incorporated as a public limited liability company on 7th 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 BBB and P2 long-term and short-term financial institution ratings respectively 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 28. 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

CDB Finance PLC has two Subsidiaries as at 31st March 2016. Names of the Subsidiaries and their principal business activities are as tabulated below:

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 24th 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 31st March 2017.

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 13 to 18 the Managing Director's Review on pages 19 to 24 the Strategic Report on pages 27 to 59

and Financial Review on pages 62 to 69 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 public. In order to achieve this and reach out to the public, the Company has focused on opening 5 new branches during next financial year. Total branch network of the Company is 69 as at 31st March 2017.

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 235 to 353.

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 235 to 353 have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (SLASs) 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 pages 229 to 230 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 31st March 2016, and the Auditors' Report issued thereon is given on page 240 to 241 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 31st March 2016 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 253 to 270.

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 2016/17 and 2015/16 were as follows:

Year ended 31st March	Company		Group	
	2017 Rs. Mn	2016 Rs. Mn	2017 Rs. Mn	2016 Rs. Mn
Composition				
Income	8,591	7,486	8,703	7,549
Interest income	7,587	6,647	7,686	6,703
Non-interest income	2,888	3,053	2,978	3,111
Operating income	3,665	3,498	3,763	3,553

Details are given in the Income Statements of the Financial Statements.

Profit and Appropriations

Year ended 31st March	2017 Rs. Mn	2016 Rs. Mn
Profit before tax	1,228	1,254
Provision for taxation	221	249
Net profit	1,006	1,005
Retained earnings brought forward	2,065	1,453
Profit available for appropriation	3,071	2,458

Appropriations

Statutory reserve fund (SRF)	201	201
Transfer from (out)		
Final cash dividend paid	190	190
Balance carried forward	2,680	2,067
Dividend proposed/paid	190	190

Income Tax Expense

The income tax rate applicable to the Company for the year 2016/17 is 28% (2015/16 – 28%). The Company is also subject to tax on value added on financial services at the rate of 15%. (2015/16 – 11%).

The information on income tax expenses of the Company and Group is given in Note 14 to the Financial Statements on page 277.

Dividends on Ordinary Shares

The Board of Directors recommends a final cash dividend of Rupees three and fifty cents (Rs. 3.50 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 190,068,224/50 as the first and final dividend for the financial year 2016/17.

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. 01 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.

Reserves

A summary of Company and Group reserves is given below. The information on the composition and movement of reserves is given in the Statement of Changes in Equity on pages 244 to 247.

Year ended 31st March	Company		Group	
	2017 Rs. Mn	2016 Rs. Mn	2017 Rs. Mn	2016 Rs. Mn
Composition				
Revaluation reserve	542	214	542	214
Statutory reserve fund (SRF)	1,041	839	1,043	841
AFS reserve	820	749	820	749
Retained profit	2,654	2,065	2,690	2,086
Total	5,057	3,867	5,095	3,890

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 353 of this Annual Report.

Capital Expenditure

The total capital expenditure on acquisition of Property, Plant & Equipment and intangible assets of the Group and the Company amounted to Rs. 108.5 Mn and Rs. 107.6 Mn respectively. (2015/16 Group – Rs. 320.78 Mn, Company – Rs. 320.26 Mn. Details are given in Notes 27 and 28 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 31st March 2016, 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 31st March 2017 was 1,185,061,645 consisting of ordinary voting shares of 46,299,223 and ordinary non-voting shares of 8,005,984 (2015/16 – 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 31st March 2017 was Rs. 2,000 Mn consisting of 20 Mn debentures at Rs. 100/- (2015/16 – Rs. 1,000,000,000/-).

Issue of Shares and Debentures

Details of the ordinary shares and debentures issued by the Company are given in the table below:

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 356 to 364.

Shareholding

There were 2,071 registered voting shareholders and 1,844 non-voting shareholders as at 31st March 2017. 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 356 to 364 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 10.

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 31st March 2017 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 174 to 175 of this Annual Report.

Names of the persons holding office as Directors of the Company as at 31st March 2017 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. P C M Nanayakkara	01.02.2004	Executive Director/Chief Executive Officer/Managing Director
Mr. R H Abeygoonewardena	01.04.2011	Executive Director/Chief Operating Officer
Mr. S R Abeynayake	01.01.2012	Non-Executive 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/Chief Marketing and Credit Officer
Mr. T M D P Tennakoon	01.04.2011	Executive Director/Chief Financial Officer
Ms. U R Senavirathne	01.07.2016	Non-Executive Independent Director
Prof. S P P Amarathunga	20.10.2016	Non-Executive Independent Director

Re-election of Directors by Rotation

In terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company, Mr. S R Abeynayake, Mr. D A De Silva and Mr. D H J Gunawardana retire by rotation and being eligible, offer themselves for re-election. In terms of Article 24 (2) of Articles of Association of the Company, Mrs. U R Seneviratne and professor S P P Amarathunga, retire by rotation and being eligible, offer themselves for re-election.

The Names of the Directors of the Subsidiary Companies of CDB Micro Finance Company Limited and Unisons Capital Leasing Limited as at 31st March 2017:

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
Unisons Capital Leasing Limited	Ms. N Kodagoda	Non-Executive Director
	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
	Mr. N K Gomas	Non-Executive Independent Director
	Mr. J P Wansapura	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 Gunawardana – Chairman/Non-Executive Director Mr. Razik Mohamed – Member – Non-Executive Independent Director Ms. U R Senevirathna – Member – Non-Executive Independent Director
Integrated Risk Management Committee	Mr. Razik Mohamed – Chairman/Non-Executive Independent Director Ms. U R Senevirathne – Member – 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
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 Mr. S R Abeynayake – Member – Non-Executive 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 Dr. 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 193 and 194 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 44 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

Year ended 31st March	2017 Voting	2016 Voting	2017 Non-Voting	2016 Non-Voting
Mr. D H J Gunawardena	–	–	–	–
Mr. P C M Nanayakkara	1,677,512	1,394,669	44	44
Mr. R H Abeygoonewardena	922,240	722,139	7,579	7,579
Mr. S R Abeynayake	–	–	–	–
Dr. Ajantha Dharmasiri	–	–	–	–
Mr. D A De Silva	–	–	–	–
Mr. P A J Jayawardena	500	500	–	–
Mr. Razik Mohamed	–	–	–	–
Mr. S V Munasinghe	1,000,100	850,676	–	–
Mr. T M D P Tennakoon	1,067,733	990,773	7,262	7,262
Mrs. U R Seneviratne	–	–	–	–
Prof. S P P Amarathunga	–	–	–	–

Directors' Interest in Debentures

There were no debentures registered in the name of any Directors at 31st March 2017. However, Mr. D H J Gunawardena and Mr. S R Abeynayake are Directors of Ceylinco Insurance PLC, where Rs. 250 Mn debentures are registered under Ceylinco Life Insurance Limited, where Ceylinco Life Insurance Limited is a Fully-Owned Subsidiary of Ceylinco Insurance PLC.

Directors shareholdings in ordinary voting shares, ordinary non-voting shares and Directors interest in debentures have not changed subsequent to the Reporting date, and up to 20th May 2016 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 31st March 2017 or any of 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 31st March 2017 are given in Note 44 to the Financial Statements on page 320 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 31st March 2017 was 1,439.

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. 18.3 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 the Note 21 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 CSE Listing Rules there are no related party transactions which exceed 10 percent of the equity or 5 percent 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 44 on pages 320 to 323 of this Annual Report.

Appointment of Auditors

The Financial Statements for the year ended 31st March 2017 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. 2 Mn as audit fee for the year ended 31st March 2017 which has been approved by the Board. The Directors recommend their reappointment.

Notice of the Meeting

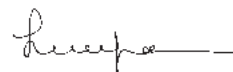
Notice relating to 21st Annual General Meeting of the Company is enclosed herewith.

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.

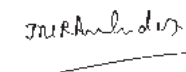
By Order of the Board,



D H J Gunawardena
Chairman



W P C M Nanayakkara
Managing Director



Company Secretary
SSP Corporate Services (Pvt) Limited

5th June 2017
Colombo

4.6 Statement of Directors' Responsibility

P: 229 – 230

The responsibility of the Directors in relation to the Financial Statements of the Citizens Development Business Finance PLC ('Company') and the Consolidated Financial Statements of the Company and its subsidiaries ('Group') are set out in the following statement. The responsibility of the Auditors in relation to the Financial Statements is set out in the Report of the Auditors given on pages 240-241.

These Financial Statements are prepared in compliance and conformity with the requirements of the following rules, regulations and guidelines.

- Companies Act No. 07 of 2007;
- Finance Business Act No. 42 of 2011;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Listing Rules of the Colombo Stock Exchange;
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka; and
- Directions, Rules, Determinations, Notices and Guidelines issued under the Finance Business Act No. 42 of 2011 by the Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka.

In preparing these Financial Statements, the Directors are required to ensure that –

- The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained;
- The Financial Statements are presented in accordance with Sri Lanka Accounting Standards (SLFRSA/LKAS);
- Reasonable and prudent judgments 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 a 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 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.

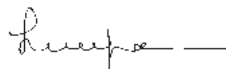
The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other 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 Messrs KPMG were reappointed, in terms of the Companies Act No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting. They carried out reviews, and sample checks on the system of internal controls as they considered required and appropriate and necessary for expressing an opinion on the Financial Statements and internal controls. They were provided with every opportunity to undertake the inspections they considered appropriate.

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiary, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiary, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the reporting date have been paid or where relevant, provided.

The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors, reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operation for the foreseeable future. Accordingly, we continue to adopt the going concern basis in preparing the Financial Statements.

By Order of the Board,



D H J Gunawardena
Chairman



W P C M Nanayakkara
Managing Director

5th June 2017
Colombo

4.7 Directors' Statement on Internal Control Over Financial Reporting

P: 231

Responsibility

In line with the Finance Companies Direction, No. 03 of 2008, Section 10 (2) (b), 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 1st 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.

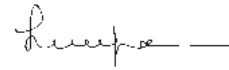
Confirmation

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.

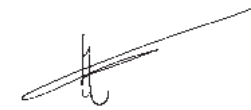
External Auditors Certification

The external auditors have submitted a certification on the process adopted by the Directors on the systems of internal controls of financial reporting. The matters address by the external auditors will be considered and appropriate steps would be taken to rectify them in the future.

By Order of the Board,



D H J Gunawardena
Chairman
Audit Committee



C M Nanayakkara
Managing Director/CEO



T M D P Tennakoon
Deputy CEO/Director/CFO

5th June 2017
Colombo



All our labours are directed towards a bountiful harvest of the most luscious of ‘fruits’ – **here we savour the fruits of enterprise and the satisfaction of a healthy value creation and delivery regime.**



5.

- 5.1
- 5.2
- 5.3
- 5.4
- 5.5
- 5.6
- 5.7
- 5.8
- 5.9

→ Financial Calendar 236

→ Financial Statements – Table of Contents 237

→ Highlights 238

→ Independent Auditors' Report 240

FINANCIAL REPORTS

→ Notes to the Financial Statements 250

→ Statement of Cash Flows 248

→ Statement of Changes in Equity 244

→ Statement of Financial Position 243

→ Statement of Profit or Loss and Other Comprehensive Income 242

5.1 Financial Calendar

P: 236

Dividend

Final dividend for the previous year	Tuesday, 12th July 2016
Final dividend for the current year to be proposed	Friday, 30th June 2017
Final dividend for the current year to be paid	Tuesday, 11th July 2017

	2016/17	2017/18 (Proposed)
Annual General Meeting		
Audited Financial Statements	Monday, 5th June 2017	Monday, 04th June 2018
Annual General Meeting	Friday, 30th June 2017	Friday, 29th June 2018
Interim Financial Statements to CSE **		
Quarter ended 30th June	Wednesday, 27th July 2016	Tuesday, 25th July 2017
Quarter ended 30th September	Thursday, 20th October 2016	Tuesday, 25th October 2017
Quarter ended 31st December	Tuesday, 14th February 2017	Thursday, 25th January 2018
Quarter ended 31st March	Tuesday, 30th May 2017	Friday, 25th May 2018

** In terms of Rule 7.4 of the CSE and requirement of the Central Bank of Sri Lanka



5.2 Financial Statements – Table of Contents

P: 237

	Page		Page
Consolidated Financial Statements			
Statement of Profit or Loss and Other Comprehensive Income	242	Investment Securities	297
Statement of Financial Position	243	Investment in Subsidiaries	299
Statement of Changes in Equity – Company	244	Investment Property	301
Statement of Changes in Equity – Group	246	Property, Plant & Equipment	302
Statement of Cash Flows	248	Intangible Assets	304
		Goodwill on Consolidation	305
		Other Assets	306
		Deposits From Customers	306
Notes to the Financial Statements – General		Debt Securities Issued	307
Reporting Entity	250	Other Interest Bearing Borrowings	308
Basis of Preparation	250	Current Tax Liabilities	311
Significant Accounting Policies	253	Deferred Tax Assets & Liabilities	312
New Accounting Standards Issued but Not yet Effective	262	Retirement Benefit Obligation	314
Fair Value Measurement Policy	266	Other Liabilities	316
Financial Risk Management Policy	267	Stated Capital	316
		Reserves	317
Notes to the Financial Statements – Income statement		Retained Earnings	318
Revenue	271	Non-Controlling Interest	318
Net Interest Income	271	Commitments & Contingencies	319
Fee and Commission Income	274	Net Assets Value per Share	319
Other Operating Income	275		
Impairment Charges and Other Credit Losses on Financial Assets	275	Other Disclosures	
Total Operating Expenses	276	Related Party Disclosures	320
Value Added Tax (VAT), Nation Building Tax (NBT) on Financial Services and Crop Insurance Levy (CIL)	277	Litigation Against the Company	324
Income Tax Expense	277	Events that Occurred after the Reporting Date	324
Basic/Diluted Earnings per Share (EPS)	279	Segmental Analysis	325
Dividend Per Share	280	Maturity Analysis	328
		Comparative Information	332
Notes to the Financial Statements – Statement of Financial Position		Financial Risk Review	332
Classification of Financial Assets and Financial Liabilities	281	Annexes	355
Fair Value measurement of Assets and Liabilities	283		
Cash and Cash Equivalents	291		
Financial Instruments Held-for-Trading (HFT)	291		
Loans and Receivables to Banks	293		
Deposits with Licensed Commercial Banks	294		
Loans and Receivables to Customers	294		

5.3 Highlights

P: 238 – 239

Revenue

Growth Rs. Mn

15%

2016/17
8,591

2015/16
7,486



2015/16 2016/17

Net Interest Income

Growth Rs. Mn

-6%

2016/17
2,888

2015/16
3,059



2015/16 2016/17

Fee and Commission Income

Growth Rs. Mn

4%

2016/17
220

2015/16
211



2015/16 2016/17

Total Assets

Growth Rs. Mn

7%

2016/17
53,934

2015/16
50,626



2015/16 2016/17

Loans and Advances to Customers

Growth Rs. Mn

12%

2016/17
43,189

2015/16
38,539



2015/16 2016/17

Deposits from Customers

Growth Rs. Mn

6%

2016/17
32,602

2015/16
30,888



2015/16 2016/17

Other Operating Income

Growth Rs. Mn

25%

2016/17

785

2015/16

628



2015/16 2016/17

Profit Before Tax

Growth Rs. Mn

-2%

2016/17

1,228

2015/16

1,254



2015/16 2016/17

Basic Earnings per Share

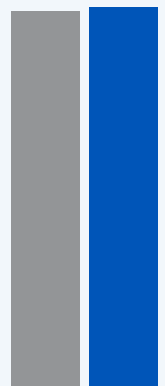
Rs.

2016/17

18.53

2015/16

18.51



2015/16 2016/17

Equity

Growth Rs. Mn

24%

2016/17

6,241

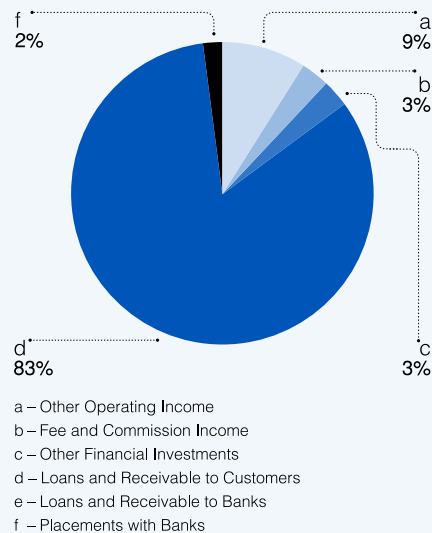
2015/16

5,052



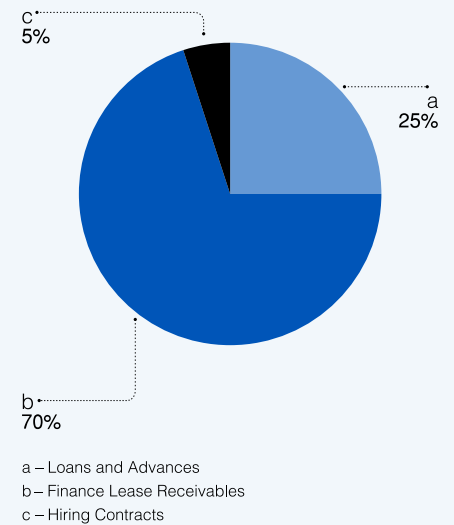
2015/16 2016/17

Revenue – Product Wise



a – Other Operating Income
b – Fee and Commission Income
c – Other Financial Investments
d – Loans and Receivable to Customers
e – Loans and Receivable to Banks
f – Placements with Banks

Loans and Receivables – Product Wise



a – Loans and Advances
b – Finance Lease Receivables
c – Hiring Contracts

5.4 Independent Auditors' Report

P: 240 – 241



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
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Internet : www.kpmg.com/lk

To the Shareholders of Citizens Development Business Finance PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Citizens Development Business Finance PLC, ('the Company'), and the consolidated financial statements of the Company and its subsidiaries ('Group'), which comprise the statement of financial position as at 31st March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 242 to 353 of the annual report.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- (a) The basis of opinion and scope and limitations of the audit are as stated above
- (b) In our opinion:
 - 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,

- The financial statements of the Company give a true and fair view of its financial position as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Company, and the Group comply with the requirements of Sections 151 and 153 of the Companies Act No. 07 of 2007.



Chartered Accountants
Colombo
5th June 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACMA (UK)

5.5 Statement of Profit or Loss and Other Comprehensive Income

P: 242

For the year ended 31st March	Notes	Company		Group	
		2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Revenue	7	8,591,218,471	7,486,004,737	8,703,057,323	7,549,279,021
Interest income	8.1	7,587,180,220	6,647,024,326	7,685,823,575	6,702,884,036
Interest expense	8.2	4,699,481,882	3,588,413,274	4,707,708,328	3,591,419,119
Net interest income	8	2,887,698,338	3,058,611,052	2,978,115,247	3,111,464,917
Net fee and commission income	9	219,503,400	210,597,153	232,630,536	215,144,560
Other operating income	10	784,534,851	628,383,258	784,603,212	631,250,425
Total operating income		3,891,736,589	3,897,591,463	3,995,348,995	3,957,859,902
Less: Impairment charges and other credit losses on financial assets	11	226,270,633	399,389,388	232,206,084	404,555,817
Net operating income		3,665,465,956	3,498,202,075	3,763,142,911	3,553,304,085
Less: Operating expenses	12				
Personnel expenses	12.1	879,609,007	745,240,108	901,957,667	753,839,428
Premises, equipment and establishment expenses	12.2	1,097,754,082	979,218,342	1,112,627,095	991,812,457
Other expenses	12.3	290,685,528	350,568,816	316,153,568	356,325,850
Total operating expenses		2,268,048,617	2,075,027,266	2,330,738,330	2,101,977,735
Operating profit before value added tax (VAT), nation building tax (NBT) on financial services and crop insurance levy (CIL)		1,397,417,339	1,423,174,809	1,432,404,581	1,451,326,350
Less: Value added tax and other taxes	13	169,916,213	169,231,306	172,625,626	172,859,238
Profit before tax		1,227,501,126	1,253,943,503	1,259,778,955	1,278,467,112
Less: Income tax expense	14	220,986,176	248,790,365	234,694,679	257,692,714
Profit for the year		1,006,514,950	1,005,153,138	1,025,084,276	1,020,774,398
Profit attributable to:					
Equity holders of the Company		1,006,514,950	1,005,153,138	1,022,774,436	1,018,620,020
Non-controlling interest		–	–	2,309,840	2,154,378
Profit for the year		1,006,514,950	1,005,153,138	1,025,084,276	1,020,774,398
Other comprehensive income (net of tax)					
Items that will not be reclassified to profit or loss					
Net actuarial gain/(loss) on defined benefit plan		(25,934,999)	(2,606,050)	(25,934,999)	(2,479,428)
		(25,934,999)	(2,606,050)	(25,934,999)	(2,479,428)
Items that are or may be reclassified to profit or loss					
Net gain/(loss) on available-for-sale financial assets		70,613,279	(105,113,911)	72,274,405	(104,527,481)
Net change in revaluation surplus		328,071,000	42,600,000	328,071,000	42,600,000
		398,684,279	(62,513,911)	400,345,405	(61,927,481)
Other comprehensive income (net of tax)		372,749,280	(65,119,961)	374,410,406	(64,406,909)
Total comprehensive income for the year		1,379,264,230	940,033,177	1,399,494,682	956,367,489
Total comprehensive income attributable to:					
Equity holders of the Company		1,379,264,230	940,033,177	1,397,025,041	954,144,542
Non-controlling interest		–	–	2,469,641	2,222,947
Total comprehensive income for the year		1,379,264,230	940,033,177	1,399,494,682	956,367,489
Earnings per share					
Basic/Diluted earnings per share	15	18.53	18.51	18.83	18.76

The notes to the Financial Statements on pages 250 to 353 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

5.6 Statement of Financial Position

P: 242

As at 31st March	Notes	Company		Group	
		2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Assets					
Cash and cash equivalents	19	454,060,886	722,351,389	507,020,353	729,789,337
Financial instruments held-for-trading	20	163,041,242	121,963,136	163,041,242	121,963,136
Loans and receivables to banks	21	655,672,752	2,967,869,560	655,672,752	2,979,124,401
Deposits with licensed commercial banks	22	1,893,614,973	1,602,179,104	1,893,614,973	1,610,310,601
Loans and receivables to customers	23	43,189,010,000	38,538,920,189	43,605,197,173	38,753,565,171
Investment securities	24	3,563,432,005	3,272,075,270	3,637,044,991	3,305,826,584
Investment in subsidiaries	25	509,917,734	509,917,734	–	–
Investment property	26	20,197,977	20,197,977	20,197,977	20,197,977
Property, plant & equipment	27	1,839,091,339	1,606,958,136	1,841,767,912	1,610,637,819
Intangible assets	28	65,684,057	68,319,145	84,567,862	71,364,171
Goodwill on consolidation	29	–	–	244,179,431	244,179,431
Other assets	30	1,580,562,177	1,195,560,588	1,581,148,187	1,199,128,682
Total assets		53,934,285,142	50,626,312,228	54,233,452,853	50,646,087,310
Liabilities					
Deposits from customers	31	32,601,835,772	30,887,693,800	32,590,453,434	30,803,916,225
Debt securities issued	32	2,075,631,256	1,044,135,005	2,075,631,256	1,044,135,005
Other interest-bearing borrowings	33	10,957,016,763	11,301,685,401	11,117,537,538	11,309,582,401
Current tax liabilities	34	178,702,459	109,133,435	179,107,537	111,020,227
Deferred tax liabilities	35	628,721,153	479,764,584	638,986,722	481,839,851
Retirement benefit obligation	36	15,793,782	53,036,495	15,860,949	53,036,495
Other liabilities	37	1,235,419,457	1,698,895,014	1,300,953,577	1,736,886,058
Total liabilities		47,693,120,642	45,574,343,734	47,918,531,013	45,540,416,262
Equity					
Stated capital	38	1,185,061,645	1,185,061,645	1,185,061,645	1,185,061,645
Reserves	39	2,402,087,846	1,802,100,577	2,406,392,166	1,803,892,583
Retained earnings	40	2,654,015,009	2,064,806,272	2,690,686,075	2,086,228,841
Total equity attributable to equity holders of the Company		6,241,164,500	5,051,968,494	6,282,139,886	5,075,183,069
Non-controlling interest	41	–	–	32,781,954	30,487,979
Total equity		6,241,164,500	5,051,968,494	6,314,921,840	5,105,671,048
Total liabilities and equity		53,934,285,142	50,626,312,228	54,233,452,853	50,646,087,310
Net assets value per share	42	114.93	93.03	115.68	93.46
Commitments and contingencies	43	123,100,000	142,000,000	123,100,000	142,000,000

The notes to the Financial Statements on pages 250 to 353 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. 7 of 2007 and Finance Business Act No 42 of 2011.

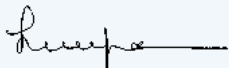


Damith Tennakoon

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

5th June 2017

Colombo



C M Nanayakkara

Managing Director/CEO

5.7 Statement of Changes in Equity

P: 244 – 247

Company

	Stated Capital Rs.
Balance as at 1st April 2015	1,185,061,645
Total comprehensive income for the year 2015/16	
Profit for the year	
Other comprehensive income for the year (net of tax)	
Remeasurement of defined benefit liability/(asset) (Refer Note 40)	
Net change in available-for-sale financial assets (Refer Note 39.2)	
Net change in revaluation surplus (Refer Note 39.1)	
Total comprehensive income for the year 2015/16	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2014/2015	
Net transfers during the year (Refer Note 39.3)	
Total transactions with equity holders	–
Balance as at 31st March 2016	1,185,061,645
Balance as at 1st April 2016	1,185,061,645
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 40)	
Net change in available-for-sale financial assets (Refer Note 39.2)	
Net change in revaluation surplus (Refer Note 39.1)	
Total comprehensive income for the year 2016/17	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2015/2016	
Net transfers during the period (Refer Note 39.3)	
Total transactions with equity holders	–
Balance as at 31st March 2017	1,185,061,645

Figures in brackets indicate deductions.

Reserves			Retained Earnings Rs.	Total Equity Rs.
Revaluation Reserve Rs.	Available-for-Sale Reserve Rs.	Statutory Reserve Fund Rs.		
171,072,991	854,209,725	638,301,144	1,453,358,036	4,302,003,541
			1,005,153,138	1,005,153,138
			(2,606,050)	(2,606,050)
	(105,113,911)			(105,113,911)
42,600,000				42,600,000
42,600,000	(105,113,911)	–	1,002,547,088	940,033,177
			(190,068,224)	(190,068,224)
		201,030,628	(201,030,628)	–
–	–	201,030,628	(391,098,852)	(190,068,224)
213,672,991	749,095,814	839,331,772	2,064,806,272	5,051,968,494
213,672,991	749,095,814	839,331,772	2,064,806,272	5,051,968,494
			1,006,514,950	1,006,514,950
			(25,934,999)	(25,934,999)
	70,613,279			70,613,279
328,071,000				328,071,000
328,071,000	70,613,279	–	980,579,951	1,379,264,230
			(190,068,224)	(190,068,224)
		201,302,990	(201,302,990)	–
–	–	201,302,990	(391,371,214)	(190,068,224)
541,743,991	819,709,093	1,040,634,762	2,654,015,009	6,241,164,500

Group

	Stated Capital Rs.
Balance as at 1st April 2015	1,185,061,645
Total comprehensive income for the year 2015/16	
Profit for the year	
Other comprehensive income for the year (net of tax)	
Remeasurement of defined benefit liability/(asset) (Refer Note 40)	
Net change in available-for-sale financial assets (Refer Note 39.2)	
Net change in revaluation surplus (Refer Note 39.1)	
Total comprehensive income for the year 2015/16	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2014/2015	
Net transfers during the year (Refer Note 39.3)	
Changes in non-controlling interests	
Total transactions with equity holders	–
Balance as at 31st March 2016	1,185,061,645
Balance as at 1st April 2016	1,185,061,645
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 40)	
Net change in available-for-sale financial assets (Refer Note 39.2)	
Net change in revaluation surplus (Refer Note 39.1)	
Total comprehensive income for the year 2016/17	–
Transactions with equity holders of the Company	
Dividends to equity holders for year – 2015/2016	
Net transfers during the year (Refer Note 39.3)	
Changes in Non-controlling interests	
Total transactions with equity holders	–
Balance as at 31st March 2017	1,185,061,645

Figures in brackets indicate deductions.

Reserves			Retained Earnings Rs.	Shareholders' Equity Rs.	Non-Controlling Interest Rs.	Total Equity Rs.
Revaluation Reserve Rs.	Available-for-Sale Reserve Rs.	Statutory Reserve Fund Rs.				
171,072,991	854,209,725	638,779,550	1,460,464,302	4,309,588,213	29,783,570	4,339,371,783
			1,018,620,020	1,018,620,020	2,154,378	1,020,774,398
			(2,491,604)	(2,491,604)	12,176	(2,479,428)
	(104,583,874)			(104,583,874)	56,393	(104,527,481)
42,600,000				42,600,000		42,600,000
42,600,000	(104,583,874)	-	1,016,128,416	954,144,542	2,222,947	956,367,489
			(190,068,224)	(190,068,224)		(190,068,224)
		201,814,191	(201,814,191)	-		-
			1,518,538	1,518,538	(1,518,538)	-
-	-	201,814,191	(390,363,877)	(188,549,686)	(1,518,538)	(190,068,224)
213,672,991	749,625,851	840,593,741	2,086,228,841	5,075,183,069	30,487,979	5,105,671,048
213,672,991	749,625,851	840,593,741	2,086,228,841	5,075,183,069	30,487,979	5,105,671,048
			1,022,774,436	1,022,774,436	2,309,840	1,025,084,276
			(25,934,999)	(25,934,999)	-	(25,934,999)
	72,114,604			72,114,604	159,801	72,274,405
328,071,000				328,071,000		328,071,000
328,071,000	72,114,604	-	996,839,437	1,397,025,041	2,469,641	1,399,494,682
			(190,068,224)	(190,068,224)	(175,666)	(190,243,890)
		202,313,979	(202,313,979)	-		-
				-	-	-
-	-	202,313,979	(392,382,203)	(190,068,224)	(175,666)	(190,243,890)
541,743,991	821,740,455	1,042,907,720	2,690,686,075	6,282,139,886	32,781,954	6,314,921,840

5.8 Statement of Cash Flows

P: 248 – 249

For the Year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Cash flow from operating activities				
Interest receipts	7,539,230,995	6,611,990,360	7,645,620,304	6,667,797,606
Commission receipts	234,890,612	181,146,278	247,842,623	185,623,075
Other income receipts	765,885,519	607,313,338	767,258,143	610,096,157
Interest payments	(4,727,522,361)	(2,928,454,670)	(4,740,024,405)	(2,931,641,835)
Fee and business promotion expenses	(67,036,477)	(114,494,976)	(80,472,783)	(115,502,869)
Employee related payments	(842,786,728)	(675,737,667)	(865,068,221)	(684,465,608)
Supplier payments	(1,051,732,324)	(1,622,318,102)	(1,079,705,143)	(1,629,640,178)
Financial expenses	(27,767,926)	(18,556,604)	(27,497,261)	(18,620,297)
Operating profit before changes in operating assets	1,823,161,310	2,040,887,957	1,867,953,257	2,083,646,051
(Increase)/Decrease in operating assets				
Investments in licensed commercial bank and other financial institutions	2,020,760,939	329,548,862	2,062,075,425	329,548,862
Investments in Government securities	(177,737,385)	(2,794,898,082)	(177,737,385)	(2,802,062,308)
Net funds advanced to customers	(4,828,411,219)	(9,559,510,326)	(5,125,891,137)	(9,515,890,195)
Changes in other short-term assets	(241,335,448)	(202,043,240)	(248,573,256)	(205,476,158)
Inventories	(103,843,496)	(14,482,853)	(103,843,496)	(14,482,853)
	(1,507,405,299)	(10,200,497,682)	(1,726,016,592)	(10,124,716,601)
Increase/(Decrease) in operating liabilities				
Borrowings	(344,668,639)	7,316,946,275	(45,529,318)	7,241,933,275
Deposits from customers	1,742,182,451	3,353,230,990	1,742,182,451	3,268,900,599
	1,397,513,812	10,670,177,265	1,696,653,133	10,510,833,874
Net Cash Generated/(used in) from operating activities	(109,891,487)	469,679,583	(29,363,459)	386,117,273
Gratuity paid/contribution to plan asset	(90,272,803)	(61,764,784)	(90,272,803)	(61,764,784)
Taxation	(85,438,521)	(77,985,153)	(97,420,755)	(90,213,779)
	(285,602,811)	329,929,646	(217,057,017)	234,138,710

For the Year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Cash flow from investing activities				
Dividend receipts	16,428,043	11,638,818	16,882,339	11,692,818
Investment in subsidiary	–	(82,172,287)	–	–
Investment in Government securities/quoted shares – Trading	(44,236,306)	(80,730,305)	(44,236,306)	(80,730,305)
Investment in quoted shares – AFS	(43,006,072)	(71,589,518)	(43,006,072)	(76,589,518)
Purchase of property, plant & equipment	(117,236,065)	(143,507,978)	(135,561,028)	(144,024,709)
Proceed from sale of property, plant & equipment	11,025,000	27,751,834	11,025,000	27,751,834
Net Cash (used in)/ from investing activities	(177,025,400)	(338,609,436)	(194,896,067)	(261,899,880)
Cash flow from financing activities				
Dividend paid	(190,068,225)	(190,068,225)	(191,894,276)	(190,068,225)
Net change in debentures	1,031,496,251	–	1,031,496,251	–
Net cash inflows/(out flows) from financing activities	841,428,026	(190,068,225)	839,601,975	(190,068,225)
Net Increase/(Decrease) in cash and cash equivalents	378,799,815	(198,748,015)	427,648,891	(217,829,395)
Cash and cash equivalents at the beginning of the year	(133,172,907)	65,575,108	(131,469,364)	86,360,031
Cash and cash equivalents at the end of the year	245,626,908	(133,172,907)	296,179,527	(131,469,364)
Cash and cash equivalents at the beginning of the year				
Cash at bank and in hand	722,351,389	313,394,279	729,789,337	334,358,488
Bank overdraft	(855,524,296)	(247,819,171)	(861,258,701)	(247,998,457)
	(133,172,907)	65,575,108	(131,469,364)	86,360,031
Cash and cash equivalents at the end of the year				
Cash at bank and in hand	454,060,886	722,351,389	507,020,353	729,789,337
Bank overdraft	(208,433,978)	(855,524,296)	(210,840,826)	(861,258,701)
	245,626,908	(133,172,907)	296,179,527	(131,469,364)

The notes to the Financial Statements on pages 250 to 353 form an integral part of these Financial Statements.
Figures in brackets indicate deductions

5.9 Notes to the Financial Statements

P: 250 – 353

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 7th 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 31st March 2017 – 1,439 (2016 – 1,167).

1.2 Principal Activities and

Nature of Operation

The holding percentages of the subsidiaries are disclosed in Note 25 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 the CDB for the year ended 31st March 2017 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 31st 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 separate Financial Statements of the Company which comprise Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendments thereto and provides appropriate disclosures required by the Listing Rules of the Colombo Stock Exchange.

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and its subsidiaries as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

Entity	Principal business activities	Holding Percentage	
		2016/17 %	2015/16 %
Company			
Citizens Development Business Finance PLC	The 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 Microfinance Limited	Financial services	100.00	100.00
Unisons Capital Leasing Limited (formerly known as Laugfs Capital Limited)	The Company provides financial services including leasing, personal loan and term loan	90.38	90.38

The Board of Directors acknowledges this responsibility as set out in the Report of the Directors under 'Directors' Responsibility for Financial Statements'.

Financial Statements includes 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 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 were authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on 5th June 2017.

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 No.	Page Reference
Available-for-sale financial assets	Fair value	24	297
Held-to-maturity financial assets	Amortised cost	24	297
Retirement benefit obligation	Fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 3.11	36	314
Freehold land	Fair value	27	302
Financial instruments held-for-trading	Fair value	20	291

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 Subsidiaries' 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 Use of Estimate and Judgment

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires management to make judgments, 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 judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in Notes below:

2.9.1 Assumptions and Estimation Uncertainties

(a) Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources 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, judgment is required to establish their fair values. The valuation of financial instruments is described in more detail in Note 18 on pages 283 to 290. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

(c) 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, the management's judgment 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, if such loans and receivables are considered. Individually significant and all other loans and advances 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 judgment on the effect of concentrations of risks and economic data.

(d) 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 judgment. In making this judgment, 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.

(e) Useful Life of Property, Plant & Equipment

The Group reviews the residual values, useful life and method of depreciation for Property, Plant & Equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rate, methods and hence subject to uncertainty.

(f) Impairment on Other Assets

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 the 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.

(g) 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 judgments 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.

(h) Revaluation of Property, Plant & 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 27.

(i) 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 Group have been disclosed in the Notes to the Financial Statements. However, based on the available information and the available legal advice, the Company does not expect the outcome of any action to have any material effect on the financial position of the Group (Refer Note 45).

(j) 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 assumptions are reviewed at each reporting date. Due to the long-term nature of such obligation, these estimates are subject to significant uncertainty.

3. Significant Accounting Policies

The Group has consistently applied the following accounting policies (unless otherwise indicated) to all periods presented in these Consolidated Financial Statements:

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

	Page
Significant Accounting Policies – General	
1. Basis of Consolidation	253
2. Foreign Currency Transactions	254
Significant Accounting Policies – Assets and Liabilities	
3. Cash and Cash Equivalents	254
4. Financial Instruments	254
5. Inventories	257
6. Intangible Assets	257
7. Investment Properties	258
8. Property, Plant & Equipment	258
9. Borrowing Costs	259
10. Impairment of Non-Financial Assets	259
11. Employee Retirement Benefits	260
12. Reverse Repurchase Agreements	260
13. Dividend Payable	260
14. Other Liabilities	
Significant Accounting Policies – Income and Expense	
15. Interest	260
16. Dividend Income	261
17. Fee and Commission Income	261
18. Profit/(Loss) on Sale of Investment Property	261
19. Profit/(Loss) on Sale of Fixed Assets	261
20. Expense Recognition	261
21. Earnings per Share	262
Significant Accounting Policies – Other	
22. Maturity Analysis	262
23. Segmental Reporting	262
24. Cash Flow Statement	262
25. Events Occurring after the Reporting Date	262
26. Commitments and Contingencies	262
27. Offsetting of Income and Expenses	262
28. Offsetting of Assets and Liabilities	262
29. Comparative Information	262

3.1 Basis of Consolidation

The Financial Statements of the Group represent the consolidation of the Financial Statements of the Company and its Subsidiaries CDB Microfinance Limited and Unisons Capital Leasing Limited.

'Subsidiaries' are investees controlled by the Parent. As per the Sri Lanka Accounting Standard (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 Groups are prepared to a common financial year ending 31st 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.

3.1.1 Acquisition Method and Goodwill

As per the Sri Lanka Accounting Standard (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 acquire 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.

3.1.2 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.

3.1.3 Non-Controlling Interests

Non-controlling interests is measured at their proportionate share of acquiree's identifiable net assets at fair value as 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.

3.1.4. 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.

3.2 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.

Significant Accounting Policies – Assets and Liabilities

3.3 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and balances with banks. They are brought to account at the face value or the gross value where appropriate.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash resources are included as a component of cash equivalents for the purpose of the Cash Flow Statements.

3.4 Financial Instruments

3.4.1 Recognition and Initial Measurement

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 Statement of Profit or Loss, 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 recognised, except for regular way purchase, on the trade date and any regular way transactions are recognised on the settlement date which was established by the regulator or the market conventions.

3.4.1.1. 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.

3.4.2 Classification and Subsequent Measurement of Financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management intention in acquiring the same. At inception a financial asset is classified in one of the following categories:

- Held-for-Trading (HFT)
- Loans and Receivables
- Held-to-Maturity Financial Assets (HTM)
- Available-for-Sale Financial Assets (AFS)

(a) 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. Financial assets held-for-trading are 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.

(b) Loans and Receivables to 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 Group 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 classified as finance lease. Amount receivable under finance lease net of prepaid rentals, unearned lease income and provision for impairment are classified as lease receivable and are presented in the loans and receivable to customers.

After initial recognition loans and receivable to 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 of the Statement of Profit or Loss.

(c) Loans and Receivables to Others – Financial Investment

This includes sale and repurchase agreements entered into with banks and financial institutions. After the initial measurement are subsequently measured at amortised cost using the EIR. Amortisation cost is calculated taking into consideration any discounts allowed or premium paid on acquisitions and any fee or cost that are integral part of EIR. The amortisation is included in interest income in the Statement of Profit or Loss and Other Comprehensive Income.

(d) 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. Held-to-maturity investments are carried at amortised cost, using the effective interest method. A sale or reclassification of a 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.

(e) 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. 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.

3.4.3 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.

(a) Financial Liabilities at Amortised Cost

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'Due to Banks', 'Due to Customers' or 'Other Debt Securities Issued' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expenses' in the Statement of Profit or Loss. The details of the Companies Financial Liabilities at amortised cost is disclosed in Notes 31 to 33.

(b) Due to Banks and Other Financial Institutions

These represent borrowings from financial institutions. Subsequent to initial recognition borrowings are measured at their amortised cost using the effective interest method. Interest paid/payable on these borrowings is recognised in Profit or Loss.

(c) Due to Customers

These include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in Profit or Loss.

3.4.4 Reclassification

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 for the foreseeable future or until maturity.

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.

3.4.5 Derecognition

The Group derecognises financial asset when –

- The contractual rights to the cash flows from the financial asset expires, or

- When it transfers the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

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 in the Consolidated Statement of Financial Position.

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 transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in Statement of Profit or Loss. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

3.4.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position only when, the Group has a legal right to set off the recognised amounts and it intends either to settle 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 SLFRSs/LKASs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.4.7 Identification, Measurement and Assessment of Impairment

At each reporting date the Group assesses whether there are objective evidences that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when 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) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

(a) Financial Assets Carried at Amortised Cost

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. The amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The carrying amount of the assets is reduced through the use of a provision amount and the amount of impairment loss is recognised in the Statement of Profit or Loss. The present value of the estimated future cash flows is discounted at the financial assets original IIR. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics

and collectively assesses them for impairment. For the purpose of a collective evaluation of impairment financial assets are grouped on the basis of the Companies risk classification, which considers credit risk characteristics such as asset, asset type, industry geographical location, collateral type, past due status etc.

In assessing collective impairment the Group uses of historical trends of the probability of default, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in Profit or Loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Statement of Profit or Loss.

The methodology and assumptions used for estimating provision for impairment including assumptions for projecting future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Collateral Valuation

The Company obtained collateral to mitigate its risk of financial assets. Collateral take the form of gold, deposits with the Company, movable assets such as vehicles and immovables etc. The fair value of collateral is assessed minimum prior to granting of any facility and any subsequent period as management think necessary. All financial assets are valued based on active market data to the extent possible and non-financial assets in general valued by third parties such as independent professional valuers.

(b) Available-for-Sale Financial Assets

For available-for-sale financial investments the Company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Company assesses individually whether there is an objective evidence of impairment based on the same criteria as other financial assets.

(c) Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Classification of a lease as operating lease or finance lease is done based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor of the lessee.

Finance lease

A lease that transfer substantially all risks and rewards incidental to ownership is classified as financial lease. The amount due after deducting for unearned/future interest is classified under loans and advances to customers.

Operating lease

A lease that does not transfer substantially all risks and rewards incidental to ownership is classified as operating lease. Operating leases are recognised on straight-line basis in the Statement of Profit or Loss.

(d) Rescheduled Loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered rescheduled loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

3.5 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.

3.6 Intangible Assets

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.

3.6.1 Basis of 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.

3.6.2 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.

3.6.3 Goodwill

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.

3.6.4 Retirement and Disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

3.7 Investment Property

Investment property is a property 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.

3.7.1 Basis of Recognition

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.

3.7.2 Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) – 'Investment Property'. Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses.

3.7.3 Depreciation

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.

3.7.4 Reclassification of 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 the 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.

3.8 Property, Plant & Equipment

Property, Plant & 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.

3.8.1 Basis of Recognition

Property, Plant & 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.

3.8.2 Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

3.8.3 Cost Model

The Group applies cost model to Property, Plant & 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.

3.8.4 Revaluation Model

The Group applies the revaluation model to the freehold land. Revaluation is performed annually and if material value difference is observed such difference is taken to revaluation reserve. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land of the Group is revalued to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an

expense in the Statement of Profit or Loss or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves.

Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Group revalued all of its free hold land as at 31st March 2017. Method and significant assumptions including unobservable market inputs employed in estimating fair value is given in Note 18.

3.8.5 Subsequent Cost

The subsequent cost of replacing a component of an item of Property, Plant & 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 & 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.

3.8.6 Derecognition

The carrying amount of an item of Property, Plant & 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 & 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 & 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.

3.8.7 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 Group 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 & 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.

3.8.8 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.

3.9 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 (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.

3.10 Impairment of Non-Financial 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.

3.11 Employee Retirement Benefits

3.11.1 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 36. Actuarial gains or losses are recognised in the Statement of Profit or Loss 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 the 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 with 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

3.11.2 Defined Contribution Plan

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Employee's 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.

3.12 Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Company retains substantially all risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability under 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Company.

3.13 Dividend Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard (LKAS 10) – 'Events after the Reporting period'.

3.14 Other Liabilities

Other Liabilities include, fees and expenses and amounts payable to suppliers and other provisions.

These liabilities are recorded at amounts expected to be payable at the reporting date.

Significant Accounting Policies – Income and Expenses

3.15 Interest

Interest income and expense are recognised in Statement of Profit or Loss using the effective interest method. 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 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.

3.16 Dividend Income

Dividend income is recognised in the Statement of Profit or Loss when the Group's right to receive the dividend is established.

3.17 Fee and Commission Income

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.

3.18 Profit/(Loss) on Sale of Investment Property

Any gains or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

3.19 Profit/(Loss) on Sale of Fixed Assets

Profit/loss from sale of Fixed Assets is recognised in the period in which the sale occurs and is classified as other income/expense.

3.20 Expense Recognition

All the expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency, has been charged to the income in arriving at the profit for the year.

3.20.1 Fee and Commission Expense

Fee and commission expenses are recognised on an accrual basis.

3.20.2 Income Tax Expense

Income tax expense comprises of 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.

(a) 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.

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 in Note 14.

(b) 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.

3.20.3 Value Added Tax on Financial Services

The base for the computation of value added tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate. The impact of value added tax charged in determining the Profit or Loss for the period.

3.20.4 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.

3.20.5 Crop Insurance Levy

As per the provisions of Section 14 of Finance Act No. 12 of 2013 the Crop Insurance Levy was introduced with effect from 1st April 2013 and is payable at 1% of the profit after tax.

3.20.6 Economic Service Charge

As per the provisions of the Finance 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 in relevant provisions of the Act.

3.20.7 Deposit Insurance Scheme

As in the Direction No. 01 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 1st October 2010, all licensed finance companies are required to pay an insurance premium calculated at the rate of 0.15% Annually 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 –

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka inclusive of Ministers, 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. 3 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 Company of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

3.21 Earnings per Share

The Group presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The details of the earnings per share are given in Note 15.

3.22 Maturity Analysis

The Group 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.

3.23 Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments.

For the purposes of segmental reporting disclosures, the information is presented in respect of the Group's business segments, which is based on the Group's management and internal reporting structure. The Group comprises the following major business segments; Leasing and Hire Purchase, Loans and Gold related lending. Intersegment pricing is determined on an arm's length basis. Measurement of segment assets, liabilities, segment revenue

and results is based on the accounting policies set out above. Segment revenue results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis. Details of financial reporting by segment as required by the Sri Lanka Accounting Standard (LKAS 28) – 'Segmental Reporting' are given in Note 47 to the Financial Statements.

3.24 Cash Flow Statement

The Cash Flow Statement has been prepared using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard (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 changes in value.

The cash and cash equivalents include cash in hand, balances with banks, placements with banks, money at call and short notice and money market funds.

3.25 Events Occurring after the Reporting Date

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.

3.26 Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments of a Subsidiary for which the Company is also liable severally or otherwise are also included with appropriate disclosures.

3.27 Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by accounting standards.

3.28 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 intends either to settled on a net basis or to realise the asset and settle the liability simultaneously.

3.29 Comparative Information

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.

4. 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 1st January 2018 and earlier application is permitted. 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.

SLFRS 9 – 'Financial Instruments'

SLFRS 9 'Financial Instruments' replaces the existing standard LKAS 39 – 'Financial Instrument: Recognition and Measurement'.

SLFRS 9 is applicable to the Group with effect from 1st April 2018.

The actual impact of adopting SLFRS 9 is not known and cannot be reliably estimated because it will be dependent on the financial instruments the Group holds and economic conditions at that time which are future reporting periods. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of SLFRS 9 based on its financial position as at 31st March 2017.

i. Classification of Financial Assets

SLFRS 9 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 contains three initial recognition categories for financial assets namely 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

Instruments Recognition and Measurement’.

(a) Financial Asset is 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 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.

(b) Debt instrument is measured at FVOCI

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.

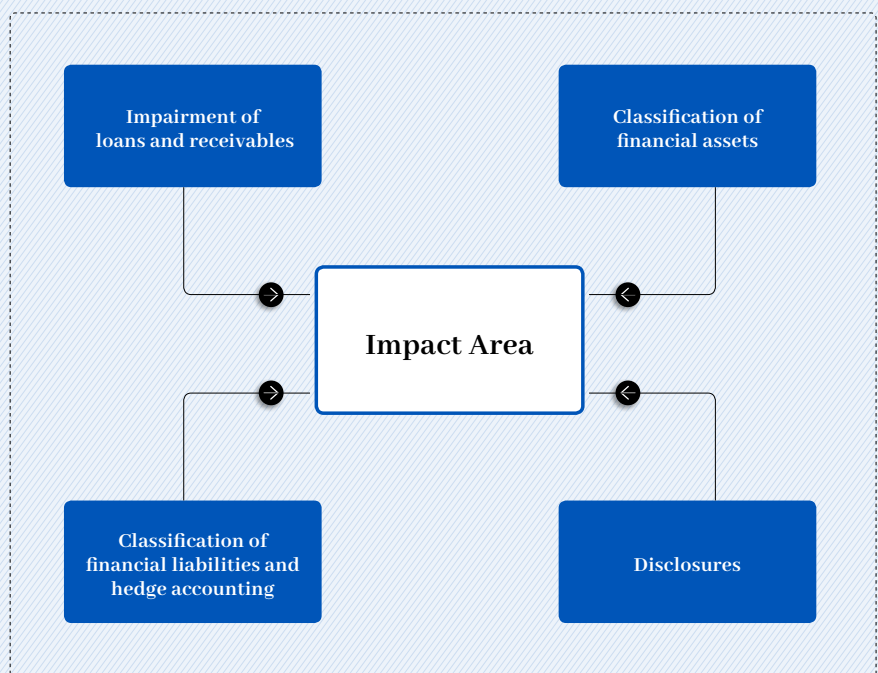
(c) Equity Investments

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.

(d) Other

All other financial assets are classified as measured at FVTPL.

SLFRS 9 - ‘Financial Instruments’ Impact Area



Preliminary Impact Assessment

Classification and measurement of Financial Assets

Based on the preliminary high-level assessment of possible changes to the classification and measurement of financial assets held as at 31st March 2017, the Group's current expectation is that;

LKAS 39	SLFRS 9 Treatment
Trading assets that are classified as held-for-trading measured at FVTPL	Would be measured at FVTPL
Loans and advances to customers that are classified as loans and receivables and measured at amortised cost	Would be measured at amortised cost
Held-to-maturity investment securities measured at amortised cost	Would be measured at amortised cost
Debt securities that are classified as available-for-sale	Would be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances
Equity securities classified as available-for-sale	May irrevocably elect to present subsequent changes in fair value in OCI.

The classification and measurement adjustment as at 31st March 2017 may not necessarily represent the impact on the Group's Financial Statements as at 31st March 2018 because SLFRS 9 requires the business model assessment to be undertaken based on the facts and circumstances that exist at the date of initial application, which will be 31 March 2018. Moreover, the Group's preliminary assessment has not included a detailed review of the contractual terms of all financial assets – which is ongoing.

ii. Impairment of Loans and Receivables to Customers

SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 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 advances and debt securities. ECL does not apply to equity investments and need to be measured at fair value. This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

ECL model uses a dual measurement approach, under which the loss allowance is measured as either 12 month expected credit losses or lifetime expected credit losses. The Group expects to use Dual measurement approach. 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 at initial recognition.

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgments used in impairment model prescribed in SLFRS 9. The Group will presumptively consider that a significant increase in credit risk occurs no later than when as an asset is more than 30 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 and further SLFRS 9 has given rebuttable presumption that default does not occur later than 90 days. The Group is currently evaluating and accessing this rebuttable presumption in the light of regulatory provisions applicable to the industry, industry specific factors and portfolio characteristics in defining default for facilities identified as default. Similar to LKAS 39, Group assess impairment separately for individual significant loans and receivables and collective basis on others.

The key inputs use for measurement of ECL is likely to be the term structures of the following variables.

Probability of default (PD)	The Group intends to use transition matrix of days past due in the absence of more leading indicators (e.g. rating information) based on the historical information and forecast PD for the future periods by incorporating forward looking information, which require adequate data set on macro-economic and other product specific variables both historical and forecasted.
Loss given default (LGD)	LGD need to be computed for each product categories/groups in line with default definitions by incorporating market value of collateral, haircut and recovery amounts. Discounting for the recoveries to be done by the respective effective interest rates of various segments of the portfolio
Exposure at default (EAD)	The limit and outstanding amount is required to be captured by in the case of on-balance sheet and off-balance sheet exposures. It is also required to generate deterministic cash flow structures & maturity profiles (repayments, interests, contractual maturity) Behavioural analysis for off-balance sheet items and calibration of the same in the system Borrowers to be allocated to different stages i.e. stages 1, 2 and 3, based upon their creditworthiness

In general, the Group expects to derive these parameters from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information and future economic scenarios.

Preliminary Impact Assessment

Based on the preliminary high-level assessment of possible changes to the impairment provision of Financial Assets held as at 31st March 2017, the Group's current expectation is given below.

The specific provisions under SLFRS 9 would be similar to those computed previously as per policies in line with LKAS 39. However, a Collective provision under SLFRS 9 is likely to be higher and more volatile. Further, initial assessments based on the portfolio indicates that it will have a moderate impact given that significant percentage of portfolio is performing and classified under stage 1. Therefore it requires only 12 months ECL. Out of total portfolio 29% is in (Stage 2) for which life time provisions required and for the balance portfolio which is in default (Stage 03) default is considered to be 100% and provisions is made based on

the recovery information. As per SLFRS 9, additional ECL provisions are also required for undisbursed facilities and financial guarantees provided. However, this exposure is not significant to the Group.

Classification of Financial Liabilities and Hedge Accounting

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. The Group doesn't have any financial liability designated as FVTPL and further, the Group does not apply hedge accounting policy. Therefore no significant impact is expected.

Disclosures

SLFRS 9 will require extensive new disclosures in particular about hedge accounting, credit risk and ECLs.

The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and control changes that believe will be necessary to capture the required data.

Transition

Changes in accounting policies will generally be applied retrospectively. But the Group has not still decided on this.

iii. SLFRS 9 Implementation Strategy

The Group's SLFRS 9 implementation process is governed by a steering committee whose members include representatives from finance, risk, credit operations, credit evaluation and IT with the consultation of external consultant. Steering committee meets whenever necessary to challenge key assumptions, approve decisions and monitor the progress of implementation work across the Group. The Group has completed a preliminary impact assessment and intends to undertake a parallel run during 2017.

	Phase	Status
<p>Road Map to SLFRS 9 Implementation</p> <p>The diagram illustrates a circular process for SLFRS 9 implementation. It consists of six main stages connected by arrows in a clockwise cycle: Requirement gathering & Analysis, Design, Implementation & coding, Integration & Testing, Installation & Deployment, and Maintenance. Each stage is further detailed with specific tasks.</p>	Requirement Gathering and Analysis Initial Gap Assessment Selection of external consultant	Completed
	Design Identify reporting requirements	Completed
	Implementation and Coding Technical designs and development of Statistical Models	Completed
	Integration and testing Data integration and test runs using historical data Validation of Statistical Models Data cleaning and anomaly detection Preliminary impact assessment	Ongoing
	Installation and Deployment Finalisation of the models and methods Trainings on new implementation Parallel runs with the existing practice	Ongoing
	Maintenance Incorporation with Financial Statements	Not started

SLFRS 15 – ‘Revenue from Contracts with Customers’

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when 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 1st 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 perform a detailed impact assessment on near future.

SLFRS 16 – ‘Leases’

SLFRS 16 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 1st January 2019. Early adoption is permitted for entities that apply SLFRS 16 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 Effective from 1st January 2016

SLFRS 14 – Regulatory Deferral Accounts is effective from 1st January 2016 and this standard did not have any impact on Consolidated Financial Statements of the Group.

Amendments to existing accounting standards with effect from 1st January 2016 published by the Chartered Accountants of Sri Lanka did not have any impact on the Consolidated Financial Statements of the Group.

5. Fair Value Measurement

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for its assets or liabilities 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 data 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 instrument 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.

6. Financial Risk Management

Introduction and Overview

Risk Management Framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Company Integrated Risk Management Committee (IRM), which is responsible for developing and monitoring Company risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

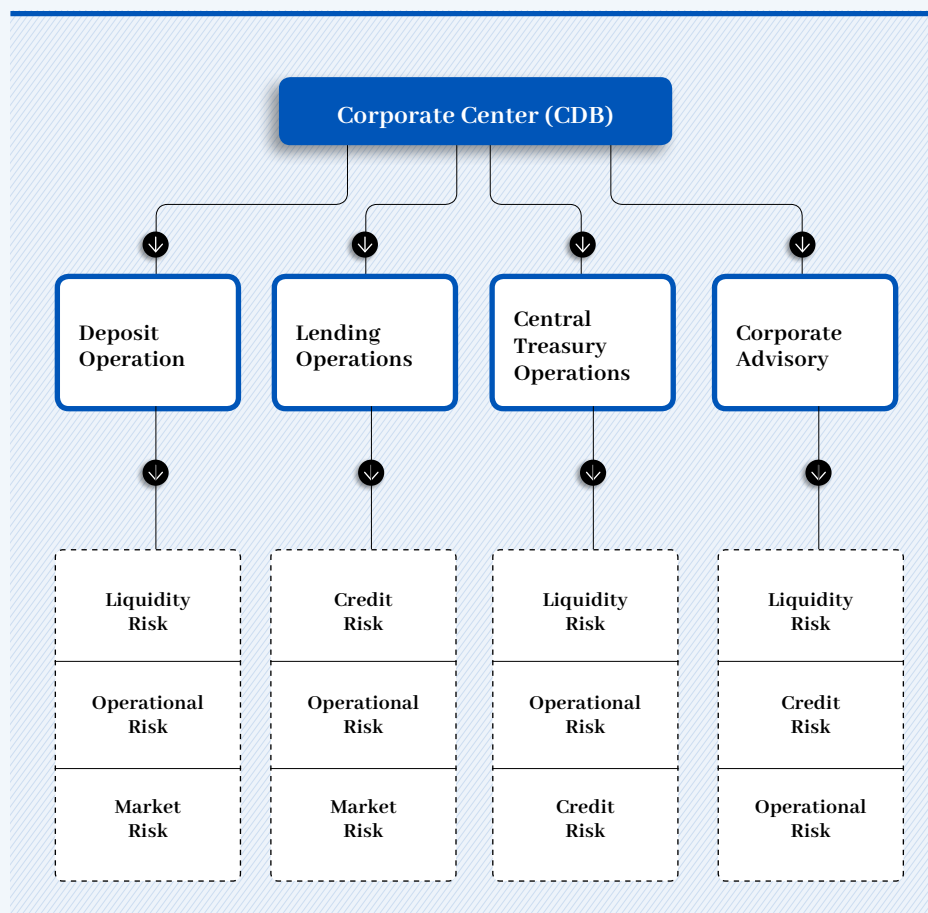
The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company Audit Committee.

The Company has exposure to the following risks from the financial instruments:

- A. Credit Risk
- B. Liquidity Risk
- C. Market Risk
- D. Operational Risk

The chart below provides a link between the Company's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Company as a whole and is measured based on allocation of the regulatory capital within the Company.



This note presents the information about the Company's objectives, policies and processes for measuring and managing risk.

A. Credit Risk

'Credit risk' is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk including contingent or potential credit exposure (such as individual obligor default risk, country and sector risk).

The market risk in respect of changes in value in trading assets arising from changes in market credit spreads is managed as a component of market risk; for further details, see (C) below:

i. Settlement Risk

The Company's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligation to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty specific approvals from the Company risk.

ii. Management of Credit Risk

The principal objective of risk management is to maintain strong risk culture across the Company, which is responsible for leading and robust risk policies and control framework to reinforcement and challenge in defining, implementing and controlling evaluating our risk appetite under both actual and simulated scenarios and to establish independent evaluation of cost and their mitigation

In order to achieve this the Board of Directors has delegated responsibility for the oversight of credit risk to its Company Delegated Credit Committee (DCC). A separate Credit evaluation department, reporting to the Company Credit Committee, is responsible for managing the Company's credit risk, including the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Company Credit, the Head of Company Credit, the Company Credit Committee or the Board of Directors as appropriate.

- Reviewing and assessing credit risk: Company Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Company Credit Committee, which may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Companies in the Company is required to implement Company credit policies and procedures, with credit approval authorities delegated from the Company Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Company Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Company Credit processes are undertaken by Internal Audit.

B. Liquidity Risk

'Liquidity risk' is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

i. Management of Liquidity Risk

The objective of the Company's liquidity risk management framework is to ensure that the Company can fulfil its payment obligations at all times and can manage liquidity and funding risk within risk appetite.

The Company'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 ALCO. ALCO approves the Company's liquidity policies and procedures. Treasury manages the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Company and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The key elements of the Company's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Company's financial assets and financial liabilities, and the extent to which the Company's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Company's liquidity position.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Company as a whole. The liquidity requirements of business units and subsidiaries are met through loans from Central Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

If an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, then the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries with local regulatory limits on daily basis.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Company specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

C. Market Risk

'Market risk' is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing)– will affect the Company's income or the value of its holdings of financial instruments.

i. Management of market risk

The objective of the Company's market risk management is to manage and control market risk exposures with unacceptable parameters to ensure the Company's solvency while optimising the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risking aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Company Market Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

ii. Exposure to Market Risk

The principal risk to which portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for 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 Company Market Risk, but is not currently significant in relation to the overall results and financial position of the Company. In respect of foreign currency, the Company monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of Company entities.

D. Operational Risk

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, Company policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Company Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Company Operational Risk Committee, with summaries submitted to the Audit Committee and senior management of the Company.

Integrated Risk Management Division

Primarily, business divisions and respective risk owners are responsible for risk management. The risk management division acts as the second line of defence in managing the risks faced by the Company. Division has taken leadership in building a strong risk culture which is embedded through clear and consistent communication and appropriate training for all employees. Chief risk officer reports risk identified through robust risk reporting tool, risk measurement techniques, stress testing and other risk measures to the Corporate Management team.

For more information, refer enterprise risk management report in page 195.

7. Revenue

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Interest income (Refer Note 8.1)	7,587,180,220	6,647,024,326	7,685,823,575	6,702,884,036
Fee and commission income (Refer Note 9)	219,503,400	210,597,153	232,630,536	215,144,560
Other operating income (Refer Note 10)	784,534,851	628,383,258	784,603,212	631,250,425
Total revenue	8,591,218,471	7,486,004,737	8,703,057,323	7,549,279,021

8. Net Interest Income

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Interest Income (Refer Note 8.1)	7,587,180,220	6,647,024,326	7,685,823,575	6,702,884,036
Less: Interest expense (Refer Note 8.2)	(4,699,481,882)	(3,588,413,274)	(4,707,708,328)	(3,591,419,119)
Net interest income	2,887,698,338	3,058,611,052	2,978,115,247	3,111,464,917

See accounting policy in Note 3.15 (Page 260)

8.1 Interest Income

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Placements with banks	204,856,864	125,909,996	207,677,089	129,081,584
Loans and receivables to banks	19,571,211	6,215,432	19,571,211	6,215,432
Loans and receivables to customers (Refer Note 8.1.1)	7,143,980,041	6,343,304,368	7,239,723,847	6,395,992,490
Other financial investments (Refer Note 8.1.2)	218,772,104	171,594,530	218,851,428	171,594,530
Total interest income	7,587,180,220	6,647,024,326	7,685,823,575	6,702,884,036

8.1.1 Loans and Receivables to Customers

Finance leases	5,032,340,111	4,200,113,474	5,108,733,725	4,207,985,771
Stock out on hire	599,044,047	1,087,172,501	603,889,112	1,097,102,362
Loans and advances	1,280,970,949	950,193,843	1,295,476,076	985,079,807
Ijara profit income	113,435,321	51,609,093	113,435,321	51,609,093
Murabaha profit income	118,189,613	54,215,457	118,189,613	54,215,457
Total interest income from loans and receivables to customers	7,143,980,041	6,343,304,368	7,239,723,847	6,395,992,490

8.1.2 Interest Income – Other Financial Investments

For the year ended 31st March

	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Government Treasury bond investments	12,689,923	13,444,540	12,689,923	13,444,540
Government Treasury bill investments	204,928,295	156,810,497	204,928,295	156,810,497
Corporate debenture investments	1,153,886	1,158,174	1,153,886	1,158,174
Other investments	–	181,319	79,324	181,319
Total interest income from other financial investment	218,772,104	171,594,530	218,851,428	171,594,530

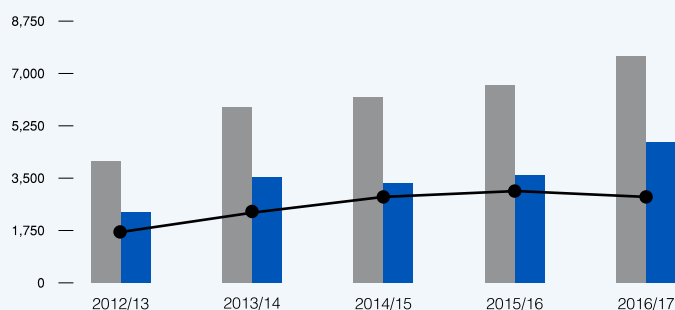
8.2 Interest Expense

For the year ended 31st March

	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Term deposits from customers	3,066,537,383	2,617,321,651	3,069,593,374	2,619,375,834
Savings deposits from customers	103,422,977	96,640,410	103,422,977	96,640,410
Mudharabah investments from customers	15,623,449	7,970,366	15,623,449	7,970,366
Debentures	266,249,437	158,859,213	266,249,437	158,859,213
Foreign borrowings	43,042,528	73,174,517	43,042,528	73,174,517
Other borrowings	1,204,606,108	634,447,117	1,209,776,563	635,398,779
Total interest expenses	4,699,481,882	3,588,413,274	4,707,708,328	3,591,419,119

Net Interest Income

Rs. Mn



■ Interest Income
■ Interest Expense
● Net Interest Income

Interest
Income



13%

Interest
Expense



15%

Net Interest
Income



11%

Compound Annual Growth Rate

Analysis of Net Interest Income

Below analysis shows the yield of each of the 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

For the year ended 31st March 2017	Company			Group		
	Interest Income Rs.	Average Assets Rs.	Yield %	Interest Income Rs.	Average Assets Rs.	Yield %
Interest Income Categories						
Placements with banks	204,856,864	1,747,897,039	11.7	207,677,089	1,751,962,787	11.9
Loans and receivables to banks	19,571,211	1,811,771,156	1.1	19,571,211	1,817,398,577	1.1
Loans and receivables to customers	7,143,980,041	40,863,965,095	17.5	7,239,723,847	41,179,381,172	17.6
Other financial investments	218,772,104	3,560,255,827	6.1	218,851,428	3,608,246,807	6.1
Total interest income	7,587,180,220	47,983,889,117	15.8	7,685,823,575	48,356,989,343	15.9

For the year ended 31st March 2016	Company			Group		
	Interest Income Rs.	Average Assets Rs.	Yield %	Interest Income Rs.	Average Assets Rs.	Yield %
Interest Income Categories						
Placements with banks	125,909,996	1,767,697,823	7.1	129,081,584	1,776,858,637	7.3
Loans and receivable to banks	6,215,432	1,634,784,780	0.4	6,215,432	1,640,412,201	0.4
Loans and receivable to customers	6,343,304,368	33,958,859,720	18.7	6,395,992,490	34,187,001,195	18.7
Other financial investments	171,594,530	3,295,303,618	5.2	171,594,530	3,315,218,285	5.2
Total interest income	6,647,024,326	40,656,645,941	16.3	6,702,884,036	40,919,490,318	16.4

Interest Expense

For the year ended 31st March 2017	Company			Group		
	Interest Income Rs.	Average Liabilities Rs.	Cost %	Interest Income Rs.	Average Liabilities Rs.	Cost %
Interest Expense Categories						
Term deposits from customers	3,066,537,383	30,053,833,470	10.2	3,069,593,374	30,006,759,365	10.2
Savings deposits from customers	103,422,977	1,568,107,104	6.6	103,422,977	1,567,601,252	6.6
Mudharabah investments from customers	15,623,449	122,824,213	12.7	15,623,449	122,824,213	12.7
Debentures	266,249,437	1,559,883,131	17.1	266,249,437	1,559,883,131	17.1
Foreign borrowings	43,042,528	314,999,019	13.7	43,042,528	314,999,019	13.7
Other borrowings	1,204,606,108	10,814,352,061	11.1	1,209,776,563	10,898,560,950	11.1
Total interest expense	4,699,481,882	44,433,998,998	10.6	4,707,708,328	44,470,627,929	10.6

For the year ended 31st March 2016	Company			Group		
	Interest Income Rs.	Average Liabilities Rs.	Cost %	Interest Income Rs.	Average Liabilities Rs.	Cost %
Interest Expense Categories						
Term deposits from customers	2,617,321,651	27,414,753,498	9.5	2,619,375,834	27,373,370,562	9.6
Savings deposits from customers	96,640,410	1,485,003,076	6.5	96,640,410	1,484,497,224	6.5
Mudharabah investments from customers	7,970,366	83,657,157	9.5	7,970,366	83,657,157	9.5
Debentures	158,859,213	1,043,808,099	15.2	158,859,213	1,043,808,099	15.2
Foreign borrowings	73,174,517	523,475,853	14.0	73,174,517	523,475,853	14.0
Other borrowings	634,447,117	7,017,748,590	9.0	635,398,779	7,050,600,687	9.0
Total interest expense	3,588,413,274	37,568,446,273	9.6	3,591,419,119	37,559,409,582	9.6

9. Fee and Commission Income

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Insurance commission	216,797,902	208,422,079	216,797,902	208,422,079
Guarantee/lending-related commission income	604,455	614,800	13,731,591	5,162,207
Commission on money remittances	344,186	166,242	344,186	166,242
Commission on debit card transactions	1,756,857	1,394,032	1,756,857	1,394,032
Total fee and commission income	219,503,400	210,597,153	232,630,536	215,144,560

See accounting policy in Note 3.17 (Page 261)

Fee and Commission Income – Company

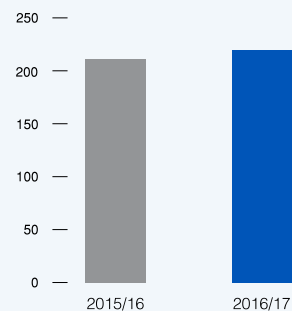
Rs. Mn

2016/17
220

2015/16
211

Growth

4.23%



Fee and Commission Income – Group

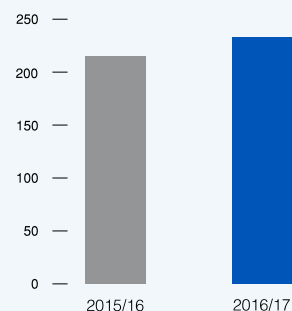
Rs. Mn

2016/17
233

2015/16
215

Growth

8.13%



10. Other Operating Income

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Dividend income from AFS equity instruments	14,396,031	10,820,446	13,199,875	10,874,446
Foreign exchange gain/(loss)	(491,618)	656,510	(491,618)	656,510
Net income from trading portfolio (Note 10.1)	11,853,318	(3,487,186)	11,853,318	(3,487,186)
Profit on sale of fixed assets	5,456,353	24,418,501	5,456,353	24,418,501
Other operating income	296,818,600	263,497,753	298,083,117	266,310,920
Income from early settlement of lending facilities	456,502,167	332,477,234	456,502,167	332,477,234
Total other operating income	784,534,851	628,383,258	784,603,212	631,250,425

See accounting policy in Note 3.18 and 3.19 (Page 261).

10.1 Net Income from Trading Portfolio

Trading income – Treasury bonds	12,581,595	10,681,841	12,581,595	10,681,841
Dividend income from equity instruments – HFT	1,955,148	818,372	1,955,148	818,372
Realised gain from trading securities	527,275	–	527,275	–
Mark to market adjustment				
Treasury bonds (Refer Note 20.1)	(882,100)	(10,961,300)	(882,100)	(10,961,300)
Equity securities (Refer Note 20.2.1)	(2,328,600)	(4,026,099)	(2,328,600)	(4,026,099)
Total net income from trading portfolio	11,853,318	(3,487,186)	11,853,318	(3,487,186)

11. Impairment Charges and Other Credit Losses on Financial Assets

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Collective impairment charges/(reversal)				
Finance lease receivables	30,566,913	97,247,458	36,502,364	97,247,458
Hiring contracts	16,723,522	14,473,687	16,723,522	14,473,687
Loans and advances	(38,204,645)	9,906,292	(38,204,645)	9,906,292
Individual Impairment charge/(reversal)				
Finance lease receivables	64,775,325	(80,340,238)	64,775,325	(80,340,238)
Hiring contracts	20,013,520	(24,370,317)	20,013,520	(24,370,317)
Loans and advances	(16,588,663)	840,259	(16,588,663)	6,006,688
Net losses/(profit) from disposal of leased assets	148,984,661	381,632,247	148,984,661	381,632,247
Total impairment charges on financial assets	226,270,633	399,389,388	232,206,084	404,555,817

See accounting policy in Note 3.4.7 (Page 256).

12. Operating Expenses

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Personnel expenses (Refer Note 12.1)	879,609,007	745,240,108	901,957,667	753,839,428
Premises, equipment and establishment expenses (Refer Note 12.2)	1,097,754,082	979,218,342	1,112,627,095	991,812,457
Other expenses (Refer Note 12.3)	290,685,528	350,568,816	316,153,568	356,325,850
Total operating expense	2,268,048,617	2,075,027,266	2,330,738,330	2,101,977,735

See accounting policy in Note 3.20 (Page 261)

12.1 Personnel Expenses

Personnel expenses includes the following significant items:

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Salary and Bonus	562,139,737	435,646,908	581,401,782	441,086,618
Employees' defined benefit plan service expenses (Refer Note 36)	36,822,288	49,416,991	36,889,455	49,416,991
Contribution to employees provident fund and trust fund	69,065,248	56,464,070	71,522,354	57,240,300
Directors' emoluments	86,366,447	66,578,980	86,366,447	67,978,980
Directors' terminal benefits	–	7,816,575	–	7,816,575

12.2 Premises, Equipment and Establishment Expenses

Premises, equipment and establishment expenses includes the following significant items:

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Depreciation and amortisation	211,301,893	187,238,915	214,791,188	190,668,066
Contribution to deposit insurance scheme of CBSL	41,830,221	39,487,350	41,830,221	39,487,350
Legal expense and professional charges	22,929,743	16,231,019	25,591,140	18,487,008
Auditor's remuneration				
Audit fees and expenses	2,050,000	2,050,000	2,500,000	2,488,000
Audit-related fees and expenses	1,200,000	550,000	1,200,000	550,000
Non-audit services	3,376,000	1,250,000	3,378,249	1,250,000

12.3 Other Expenses

Other expenses includes the following significant items:

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Advertising and communication	192,105,929	214,517,690	205,873,044	214,517,690
Activities on corporate social responsibility	18,388,018	3,600,000	18,488,018	3,600,000

13. Value Added Tax (VAT), Nation Building Tax (NBT) on Financial Services and Crop Insurance Levy (CIL)

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Value added tax on financial services	130,389,482	125,847,539	133,098,895	129,475,471
Nation building tax	24,335,371	35,663,824	24,335,371	35,663,824
Crop insurance levy	15,191,360	7,719,943	15,191,360	7,719,943
Total VAT, NBT and CIL	169,916,213	169,231,306	172,625,626	172,859,238

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.

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 is calculated based on the value addition used for the purpose of VAT.

Crop Insurance Levy (CIL)

Section 14 of the Finance Act No. 12 of 2013 impose a Crop Insurance Levy on finance companies and accordingly 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 1st April 2013.

See accounting policy in Notes 3.20.3 and 30.20.5 (Page 261)

14. Income Tax Expense

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Current income tax expense (Refer Note 14.1)	129,817,523	118,267,192	135,327,785	126,802,805
Changes in provision estimates of prior years	(57,787,915)	(68,175,727)	(57,779,977)	(68,309,291)
Deferred tax expense (Refer Note 35.2)	148,956,568	198,698,900	157,146,871	199,199,200
Income tax charge for the year	220,986,176	248,790,365	234,694,679	257,692,714

Income tax rate applicable for the Company and its subsidiaries for the financial year 2015/16 and 2016/17 is 28%.

See accounting policy in Note 30.20.2 (Page 261)

14.1 Reconciliation Between Income Tax Expenses and the Accounting Profit

For the year ended 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Accounting profit before tax	1,227,501,126	1,253,943,503	1,261,429,407	1,278,467,112
Tax expenses as per accounting profit (28%)	343,700,315	351,104,181	353,200,234	357,970,791
Adjustments				
Tax effect of capital portion of lease rentals	1,787,757,032	1,703,629,111	1,787,757,032	1,703,629,111
Income from non-taxable sources	(83,948,448)	(40,501,124)	(119,862,495)	(40,501,124)
Tax effect of disallowed expenses	191,748,651	237,453,068	224,015,983	247,395,613
Tax effect of deductible expenses and tax losses	(2,097,426,078)	(2,074,284,447)	(2,097,769,020)	(2,082,557,990)
Tax effect on qualifying payments	(12,013,949)	(59,133,596)	(12,013,949)	(59,133,596)
Tax on business profit (Based on taxable profit)	129,817,523	118,267,192	135,327,785	126,802,805
Prior period under/(over) provision (Refer Note 34.1)	(57,787,915)	(68,175,727)	(57,779,975)	(68,309,291)
Deferred tax expenses (Refer Note 35.2)	148,956,568	198,698,900	157,146,871	199,199,200
Income tax expense	220,986,176	248,790,365	234,694,679	257,692,714

Group accounting profit before tax figure does not include any inter company transactions which were eliminated in preparation of Financial Statements as per the requirements of SLFRS10 – ‘Consolidated Financial Statements’.

Business-wise breakup of Income Tax Expense in the Income Statement is as follows:

Year of Assessment 2016/17	Company			Group		
	Leasing Business Rs.	Other Business Rs.	Total Rs.	Leasing Business Rs.	Other Business Rs.	Total Rs.
Accounting profit before tax	895,365,833	332,135,293	1,227,501,126	921,956,085	339,473,322	1,261,429,407
Adjustments						
Capital portion of leasing rental due	6,384,846,541	–	6,384,846,541	6,475,251,996	–	6,475,251,996
Non-taxable income/losses	(281,718,672)	(18,114,546)	(299,833,218)	(288,610,855)	(23,429,674)	(312,040,529)
Disallowable expenses	417,642,625	267,173,987	684,816,612	428,693,037	284,830,592	713,551,986
Allowable expenses	(8,635,679,888)	(74,653,760)	(8,710,333,648)	(8,755,609,031)	(74,653,760)	(8,830,262,791)
Total statutory income	(1,219,543,561)	506,540,974	(713,002,587)	(1,218,318,768)	526,220,480	(692,069,931)
Qualifying payments		(42,906,962)			(42,906,962)	
Carried forward tax losses – Set off						
Taxable income		463,634,012			483,313,518	
Income tax rate (%)		28			28	
Income tax		129,817,523			135,327,785	
Effective tax rate (Based on accounting profit before tax) (%)		39			40	

Year of Assessment 2015/16	Company			Group		
	Leasing Business Rs.	Other Business Rs.	Total Rs.	Leasing Business Rs.	Other Business Rs.	Total Rs.
Accounting profit before tax	778,435,940	475,507,563	1,253,943,503	782,892,191	495,574,920	1,278,467,111
Adjustments						
Capital portion of leasing rental due	6,084,389,682		6,084,389,682	6,097,536,948	–	6,097,536,948
Non-taxable income/losses	(136,803,974)	(7,842,898)	(144,646,872)	(136,817,729)	(7,927,060)	(144,744,789)
Disallowable expenses	573,394,738	274,651,925	848,046,663	574,160,020	287,322,045	861,482,065
Allowable expenses	(7,947,555,272)	(108,742,349)	(8,056,297,621)	(7,974,634,899)	(110,911,336)	(8,085,546,235)
Total statutory income	(648,138,886)	633,574,241	(14,564,645)	(656,863,469)	664,058,569	7,195,100
Qualifying payments		(211,191,413)			(211,191,413)	
Carried forward tax losses – Set off		422,382,828			452,867,156	
Taxable income						
Income tax rate (%)		28			28	
Income tax		118,267,192			126,802,805	
Effective tax rate (%)		25			26	

15. Earnings Per Share (EPS)

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding.

Diluted EPS is computed by dividing the profit or loss attributable to ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

See accounting policy in Note 3.21 (Page 262)

For the year ended 31st March	Company		Group	
	2017	2016	2017	2016
Amount used as numerator:				
Net profit attributable to equity holders of parent (Rs.)	1,006,514,950	1,005,153,138	1,022,774,437	1,018,620,020
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.)	18.53	18.51	18.83	18.76

Diluted Earnings per Share

There were no any potential ordinary shares which creates any dilutive effect as at 31st March 2017 and 31st March 2016.

16. Dividend Per Share

For the year ended 31st March

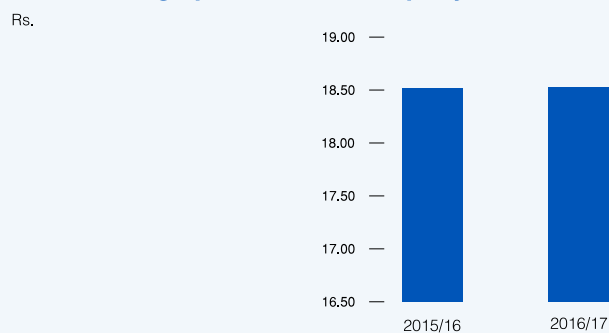
	Company	
	2017 Rs.	2016 Rs.
Net dividend paid to ordinary shareholders	171,061,402	171,061,402
Withholding tax deducted at source	19,006,822	19,006,822
Gross dividend	190,068,224	190,068,224
Gross dividend per share	3.50	3.50
Dividend payout ratio (%)	18.88	18.90

The Board has proposed a first and final dividend of Rs. 3.50 per share for its Voting and Non-voting ordinary shares for the year ended 31st March 2016 and dividend was paid on 12th July 2016.

The Board has proposed a first and final dividend of Rs. 3.50 per share for its Voting and Non-voting ordinary shares for the year ended 31st March 2017. In accordance with the provisions of the Sri Lanka Accounting Standard (LKAS 10) – ‘Event after Reporting Period’. This proposed dividend has not been recognised as a liability in the Financial Statements for the year ended 31st March 2017.

Unisons Capital Leasing Limited has paid first and final dividend of Rs. 0.10 per share for the year 2015/16 (2014/15 – NIL).

Basic Earnings per Share – Company



Dividend per Share – Company



17. Classification of Financial Assets and Financial Liabilities

The tables below provide classification of financial assets and liabilities of the Company and the Group:

Company

As at 31st March 2017		Classification of Financial Assets				Financial Liabilities measured at Amortised Cost	Total
	Note	Fair Value through Profit or Loss Rs.	Available-for-Sale Rs.	Loans and Receivable Rs.	Held-to-Maturity Rs.	Rs.	Rs.
Cash and cash equivalents	19			454,060,886			454,060,886
Financial instrument held-for-trading	20	163,041,242					163,041,242
Loans and receivables to banks	21			655,672,752			655,672,752
Deposits with licensed commercial banks	22			1,893,614,973			1,893,614,973
Loans and receivables to customers	23			43,189,010,000			43,189,010,000
Investment securities	24		1,034,213,758		2,529,218,247		3,563,432,005
Total financial assets		163,041,242	1,034,213,758	46,192,358,611	2,529,218,247		49,918,831,858
Other non-financial assets							4,015,453,284
Total assets		163,041,242	1,034,213,758	46,192,358,611	2,529,218,247	–	53,934,285,142
Deposits from customers	31					32,601,835,772	32,601,835,772
Debt securities issued	32					2,075,631,256	2,075,631,256
Other interest-bearing borrowings	33					10,957,016,763	10,957,016,763
Total financial liabilities		–	–	–	–	45,634,483,791	45,634,483,791
Other non-financial liabilities							2,058,636,851
Total liabilities		–	–	–	–	45,634,483,791	47,693,120,642
As at 31st March 2016		Classification of Financial Assets				Financial Liability measured at Amortised Cost	Total
	Note	Fair Value through Profit or Loss Rs.	Available-for-Sale Rs.	Loans and Receivable Rs.	Held-to-Maturity Rs.	Rs.	Rs.
Cash and cash equivalents	19			722,351,389			722,351,389
Financial instrument held-for-trading	20	121,963,136					121,963,136
Loans and receivables to banks	21			2,967,869,560			2,967,869,560
Deposits with licensed commercial banks	22			1,602,179,104			1,602,179,104
Loans and receivables to customers	23			38,538,920,189			38,538,920,189
Investment securities	24		920,594,408		2,351,480,862		3,272,075,270
Total financial assets		121,963,136	920,594,408	43,831,320,242	2,351,480,862		47,225,358,649
Other non-financial assets							3,400,953,579
Total assets		121,963,136	920,594,408	43,831,320,242	2,351,480,862	–	50,626,312,228
Deposits from customers	31					30,887,693,800	30,887,693,800
Debt securities issued	32					1,044,135,005	1,044,135,005
Other interest-bearing borrowings	33					11,301,685,401	11,301,685,401
Total financial liabilities		–	–	–	–	43,233,514,206	43,233,514,206
Other non-financial liabilities							2,340,829,528
Total liabilities		–	–	–	–	43,233,514,206	45,574,343,734

Group

As at 31st March 2017		Classification of Financial Assets				Financial Liabilities measured at Amortised Cost	Total
	Note	Fair Value through Profit or Loss Rs.	Available-for-Sale Rs.	Loans and Receivable Rs.	Held-to-Maturity Rs.	Rs.	Rs.
Cash and cash equivalents	19			507,020,353			507,020,353
Financial instrument held-for-trading	20	163,041,242					163,041,242
Loans and receivables to banks	21			655,672,752			655,672,752
Deposits with licensed commercial banks	22			1,893,614,973			1,893,614,973
Loans and receivables to customers	23			43,605,197,173			43,605,197,173
Investment securities	24		1,064,220,906		2,572,824,085		3,637,044,991
Total financial assets		163,041,242	1,064,220,906	46,661,505,251	2,572,824,085		50,461,591,484
Other non-financial assets							3,771,861,369
Total assets		163,041,242	1,064,220,906	46,661,505,251	2,572,824,085	–	54,233,452,853
Deposits from customers	31					32,590,453,434	32,590,453,434
Debt securities issued	32					2,075,631,256	2,075,631,256
Other interest-bearing borrowings	33					11,117,537,538	11,117,537,538
Total financial liabilities		–	–	–	–	45,783,622,228	45,783,622,228
Other non-financial liabilities							2,134,908,785
Total liabilities		–	–	–	–	45,783,622,228	47,918,531,013
As at 31st March 2016		Classification of Financial Assets				Financial Liabilities measured at Amortised Cost	Total
	Note	Fair Value through Profit or Loss Rs.	Available-for-Sale Rs.	Loans and Receivable Rs.	Held-to-Maturity Rs.	Rs.	Rs.
Cash and cash equivalents	19			729,789,337			729,789,337
Financial instrument held-for-trading	20	121,963,136					121,963,136
Loans and receivables to banks	21			2,979,124,401			2,979,124,401
Deposits with licensed commercial banks	22			1,610,310,601			1,610,310,601
Loans and receivables to customers	23			38,753,565,171			38,753,565,171
Investment securities	24		948,940,428		2,356,886,156		3,305,826,584
Total financial assets		121,963,136	948,940,428	44,072,789,510	2,356,886,156		47,500,579,230
Other non-financial assets							3,145,508,080
Total assets		121,963,136	948,940,428	44,072,789,510	2,356,886,156	–	50,646,087,310
Deposits from customers	31					30,803,916,225	30,803,916,225
Debt securities issued	32					1,044,135,005	1,044,135,005
Other interest-bearing borrowings	33					11,309,582,401	11,309,582,401
Total financial liabilities		–	–	–	–	43,157,633,631	43,157,633,631
Other non-financial liabilities							2,382,782,631
Total liabilities		–	–	–	–	43,157,633,631	45,540,416,262

18. Fair Value Measurement of Assets and Liabilities

This note presents information about the Group's fair value measurement of assets and liabilities.

For information on the Group's fair value measurement policy, see Note 5.

	Page
Fair value measurement of assets and liabilities	
a. Valuation models	283
b. Valuation control framework	284
c. Valuation Summary	284
d. Assets disclosed at fair value – Fair value hierarchy	285
e. Level 3 fair value measurements	287
e.i. Reconciliation	
e.ii. Unobservable inputs used in measuring fair value	
e.iii. The effect of unobservable inputs on fair value measurement	
f. Assets and liabilities not disclosed at fair value – Fair value hierarchy	288
f.i. Methodology	

18.a Valuation Models

Assets and liabilities 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 premium 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 judgment 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.

18.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.

18.c Valuation Summary

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Assets disclosed at fair value – Fair value hierarchy (Refer Note 18.d)	1,980,335,000	1,497,586,544	2,010,362,148	1,526,056,264
Assets not disclosed at fair value – Fair value hierarchy (Refer Note 18.f)	51,953,930,142	49,128,725,684	52,223,090,705	49,120,031,046
Total Assets	53,934,285,142	50,626,312,228	54,233,452,853	50,646,087,310
Liabilities not disclosed at fair value – Fair value hierarchy (Refer Note 18.f)	47,693,120,642	45,574,343,734	47,918,531,013	45,540,416,262
Total Liabilities	47,693,120,642	45,574,343,734	47,918,531,013	45,540,416,262

18.d Assets Disclosed at Fair Value – Fair Value Hierarchy

The following table analyses assets 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 differed differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

As at 31st March 2017	Note	Company				Group			
		Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets									
Financial instrument held-for-trading	20								
– Government securities – Treasury bonds		99,103,011			99,103,011	99,103,011			99,103,011
– Equity instruments – Quoted shares		63,938,231			63,938,231	63,938,231			63,938,231
Investment securities available-for-sale	24								
– Equity instruments – Quoted shares		1,034,213,758		1,034,213,758		1,064,097,206			1,064,097,206
– Equity instruments – Unquoted shares*				–	–			123,700	123,700
Total financial assets at fair value		1,197,255,000	–	–	1,197,255,000	1,227,138,448	–	123,700	1,227,262,148
Other non-financial assets									
Property, plant & equipment – freehold land	27			783,100,000	783,100,000			783,100,000	783,100,000
Total non-financial assets at fair value		–	–	783,100,000	783,100,000	–	–	783,100,000	783,100,000
Total assets at fair value		1,197,255,000	–	783,100,000	1,980,355,000	1,227,138,448	–	783,223,700	2,010,362,148

*Value of unquoted shares of Rs. 24 Mn in the Company as at the end of the year 2017 (Rs. 24 Mn at the end of 2016) categorised as investment securities available-for-sale whose fair value cannot be measured reliably and fully impaired.

As at 31st March 2016	Note	Company				Group			
		Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets									
Financial instrument held-for-trading	20								
– Government securities – Treasury bonds		100,000,321			100,000,321	100,000,321			100,000,321
– Equity instruments – Quoted shares		21,962,815			21,962,815	21,962,815			21,962,815
Investment securities available-for-sale	24								
– Equity instruments – Quoted shares		920,594,408			920,594,408	948,940,428			948,940,728
– Equity instruments – Unquoted shares*				–	–	–		123,700	123,700
Total financial assets at fair value		1,042,557,544	–	–	1,042,557,544	1,070,903,564	–	123,700	1,071,027,264
Other non-financial assets									
Property, plant & equipment – Freehold land	27		455,029,000		455,029,000			455,029,000	455,029,000
Total non-financial assets at fair value		–	–	455,029,000	455,029,000	–	–	455,029,000	455,029,000
Total assets at fair value		1,042,557,544	–	455,029,000	1,497,586,544	1,070,903,564	–	455,152,700	1,526,056,264

*Value of unquoted shares of Rs. 24 Mn in the Company as at the end of the year 2017 (Rs. 24 Mn at the end of 2016) categorised as investment securities available-for-sale whose fair value cannot be measured reliably and fully impaired.

Note 27.1 on page 303 provides information on significant unobservable inputs used as at 31st March 2017 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 page 244.

18.e Level 3 Fair Value Measurements

18.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 & Equipment – Freehold Land	
	Company	Group
	Rs.	Rs.
Balance as at 1st April 2015	412,429,000	412,429,000
Purchases/Additions	–	–
Settlements/Disposals	–	–
Gain or loss to profit or loss	–	–
Gain or loss to OCI	42,600,000	42,600,000
Balance as at 31st March 2016	455,029,000	455,029,000
Balance as at 1st April 2016	455,029,000	455,029,000
Purchases/Additions	–	–
Settlements/Disposals	–	–
Gain or loss to profit or loss	–	–
Gain or loss to OCI	328,071,000	328,071,000
Balance as at 31st March 2017	783,100,000	783,100,000

18.e.ii. Unobservable Inputs Used in Measuring Fair Value

Table below shows the significant unobservable inputs used at 31st March 2017 and 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

18.e.iii. The Effect of Unobservable Inputs on Fair Value Measurement

Table below shows the effect of changes in assumptions used above for fair value determination:

	Effect on Profit or Loss		Effect on OCI	
	Favourable	Unfavourable	Favourable	Unfavourable
	1% Increase in Fair Value	1% Decrease in Fair Value	1% Increase in Fair Value	1% Decrease in Fair Value
Property, Plant & Equipment – Freehold land				
2017	–	(7,831,040)	7,831,040	–
2016	–	(5,469,188)	5,469,188	–

18.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 27.1.

18.f Assets and Liabilities not Disclosed at Fair Value – Fair Value Hierarchy

The following table sets out the fair values of assets and liabilities not measured at fair value and analyses 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 31st 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 31st March 2017	Note	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Carrying Amount Rs.	Fair Value Rs.
Assets						
Cash and cash equivalents	19	454,060,886			454,060,886	454,060,886
Loans and receivables to banks	21			655,672,752	655,672,752	654,558,402
Deposits with commercial banks	22			1,893,614,973	1,893,614,973	1,897,116,398
Loans and receivables to customers	23			43,189,010,000	43,189,010,000	44,690,655,680
Investment securities held-to-maturity	24					
– Treasury bills		2,394,764,076			2,394,764,076	2,476,179,316
– Treasury bonds		124,275,736			124,275,736	116,922,844
– Corporate debentures			10,178,435		10,178,435	9,327,211
Investment property	26			20,197,977	20,197,977	48,000,000
Other assets					3,212,155,308	3,212,155,308
Total assets not at fair value		2,973,100,698	10,178,435	45,758,495,702	51,953,930,142	53,558,976,045
Liabilities						
Deposits from customers	31			32,601,835,772	32,601,835,772	33,652,354,577
Debt securities issued	32			2,075,631,256	2,075,631,256	2,200,169,131
Other interest-bearing borrowings	33			10,957,016,763	10,957,016,763	10,944,479,945
Other liabilities					2,058,636,850	2,058,636,850
Total liabilities not at fair value		–	–	45,634,483,791	47,693,120,642	48,855,640,503

Company

As at 31st March 2016	Note	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Carrying amount Rs.	Fair Value Rs.
Assets						
Cash and cash equivalents	19	722,351,389			722,351,389	722,351,389
Loans and receivables to banks	21			2,967,869,560	2,967,869,560	2,963,716,691
Deposits with commercial banks	22			1,602,179,104	1,602,179,104	1,591,903,637
Loans and receivables to customers	23			38,538,920,188	38,538,920,189	38,687,315,664
Investment securities held-to-maturity	24					
– Treasury bills		2,216,980,067			2,216,980,067	2,213,770,147
– Treasury bonds		124,321,246			124,321,246	117,399,767
– Corporate debentures			10,179,549		10,179,549	9,466,223
Investment property	26			20,197,977	20,197,977	42,000,000
Other assets					2,925,726,603	2,925,726,602
Total assets not at fair value		3,063,652,702	10,179,549	43,129,166,829	49,128,725,684	49,273,650,120
Liabilities						
Deposits from customers	31			30,887,693,800	30,887,693,800	31,987,649,553
Debt securities issued	32			1,044,135,005	1,044,135,005	1,334,933,096
Other interest-bearing borrowings	33			11,301,685,401	11,301,685,401	9,734,548,588
Other liabilities					2,340,829,528	2,340,829,528
Total liabilities not at fair value		–	–	43,233,514,206	45,574,343,734	45,397,960,765

Group

As at 31st March 2017	Note	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Carrying Amount Rs.	Fair Value Rs.
Assets						
Cash and cash equivalents	19	507,020,353			507,020,353	518,402,691
Loans and receivables to banks	21			655,672,752	655,672,752	654,558,402
Deposits with commercial banks	22			1,893,614,973	1,893,614,973	1,897,116,398
Loans and receivables to customers	23			43,605,197,173	43,605,197,173	45,106,842,853
Investment securities held-to-maturity	24					
– Treasury bills		2,433,369,914			2,433,369,914	2,514,785,155
– Treasury bonds		129,321,246			129,321,246	121,922,844
– Corporate debentures			10,179,549		10,179,549	9,327,211
Investment property	26			20,197,977		48,000,000
Other assets					2,968,516,768	2,968,516,768
Total assets not at fair value		3,069,711,514	10,179,549	46,174,682,875	52,223,090,705	53,828,089,984
Liabilities						
Deposits from customers	31			32,590,453,434	32,590,453,434	33,640,972,239
Debt securities issued	32			2,075,631,256	2,075,631,256	2,200,169,131
Other interest-bearing borrowings	33			11,117,537,538	11,117,537,538	11,105,000,720
Other liabilities					2,134,908,785	2,134,908,785
Total liabilities not at fair value		–	–	45,783,622,228	47,918,531,013	99,081,050,876

Group

As at 31st March 2016	Note	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Carrying Amount Rs.	Fair Value Rs.
Assets						
Cash and cash equivalents	19	729,789,337			729,789,337	729,789,337
Loans and receivables to banks	21			2,979,124,401	2,979,124,401	2,974,971,532
Deposits with commercial banks	22			1,610,310,601	1,610,310,601	1,600,035,134
Loans and receivables to customers	23			38,753,565,171	38,753,565,171	38,901,960,647
Investment securities held-to-maturity	24					
– Treasury bills		2,216,980,067			2,216,980,067	2,213,770,147
– Treasury bonds		124,321,246			124,321,246	117,399,767
– Corporate debentures			15,584,843		15,584,843	14,871,517
Investment property	26			20,197,977	20,197,977	42,000,000
Other assets					2,670,281,403	2,670,157,403
Total assets not at fair value		3,071,090,650	15,584,843	43,363,198,150	49,120,031,046	49,264,955,483
Liabilities						
Deposits from customers	31			30,803,916,225	30,803,916,225	32,071,427,128
Debt securities issued	32			1,044,135,005	1,044,135,005	1,334,933,096
Other interest-bearing borrowings	33			11,309,582,401	11,309,582,401	9,742,445,588
Other liabilities					2,382,782,631	2,382,782,631
Total liabilities not at fair value		–	–	43,157,633,631	45,540,416,262	45,531,588,443

18.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 re priced 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 held-to-maturity	The fair value of investment securities held-to-maturity 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 2016/17 and 2015/16.

19. Cash and Cash Equivalents

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Local currency in hand	246,602,394	236,235,236	249,958,505	236,270,236
Foreign currency in hand	15,256,135	6,631,519	15,256,135	6,631,519
Demand/savings deposit balances with financial institutions	192,202,357	479,484,634	241,805,713	486,887,582
Total cash and cash equivalents	454,060,886	722,351,389	507,020,353	729,789,337

Maturity analysis of cash and cash equivalents is given in Note 48 on page 328.

See accounting policy in Note 3.3 (Page 254).

20. Financial Instruments Held-for-Trading (HFT)

Financial instruments held-for-trading are carried at fair value in the statement of financial position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Government securities (Refer Note 20.1)	99,103,011	100,000,321	99,103,011	100,000,321
Equity investments (Refer Note 20.2)	63,938,231	21,962,815	63,938,231	21,962,815
Total financial instruments held-for-trading	163,041,242	121,963,136	163,041,242	121,963,136

Maturity analysis of financial instruments held-for-trading is given in Note 48 on page 328.

See accounting policy in Note 3.4 (Page 254).

20.1 Government Securities (HFT)

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Amortised cost as at 31st March	99,985,111	110,961,621	99,985,111	110,961,621
Gain/(loss) from mark to market valuation	(882,100)	(10,961,300)	(882,100)	(10,961,300)
Fair value as at 31st March	99,103,011	100,000,321	99,103,011	100,000,321

*Government Securities includes Treasury Bonds.

20.2 Equity Instruments (HFT)

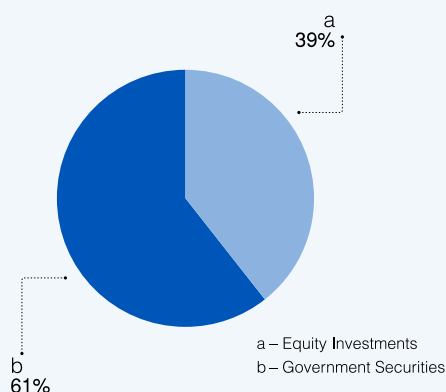
As at 31st March 2017		Sector	No. of Shares	Market Price	Market Value	Cost of the Investment	Mark to Market Gain
				Rs.	Rs.	Rs.	Rs.
Commercial Bank of Ceylon PLC – Voting	Bank Finance and Insurance	70,185	130	9,152,133	11,135,067	(1,982,934)	
NDB Bank PLC – Voting	Bank Finance and Insurance	17,648	140	2,463,661	3,891,705	(1,428,044)	
John Keells Holdings PLC – Voting	Diversified Holdings	139,285	138	19,207,402	19,423,979	(216,577)	
Chevron Lubricants Lanka PLC – Voting	Manufacturing	27,000	170	4,590,000	4,893,702	(303,702)	
Lanka IOC PLC – Voting	Manufacturing	10,000	29	290,000	377,683	(87,683)	
Teejay Lanka PLC – Voting	Manufacturing	50,000	37	1,850,000	2,225,995	(375,995)	
Regnis (Lanka) PLC – Voting	Manufacturing	28,000	135	3,777,200	3,983,122	(205,922)	
Bairaha Farms PLC – Voting	Manufacturing	21,023	160	3,367,885	3,745,438	(377,553)	
Ceylon Grain Elevators PLC – Voting	Manufacturing	36,250	69	2,497,625	2,946,258	(448,633)	
Three Acre Farms PLC – Voting	Manufacturing	4,969	128	637,523	615,442	22,081	
Swisstek (Ceylon) PLC – Voting	Manufacturing	30,000	66	1,968,000	1,987,008	(19,008)	
Overseas Reality (Ceylon) PLC – Voting	Land & Property	200,000	20	4,040,000	4,343,104	(303,104)	
John Keells Hotels PLC – Voting	Hotels	108,168	10	1,081,680	1,273,488	(191,808)	
The Kingsbury PLC – Voting	Hotels	36,985	16	573,268	573,369	(101)	
Asian Hotels & Properties PLC – Voting	Hotels	102,645	56	5,696,798	5,754,214	(57,416)	
Dolphin Hotels PLC – Voting	Hotels	14,037	35	495,506	481,787	13,719	
Ceylon Hospitals PLC – Voting	Health & Care	24,995	90	2,249,550	2,279,801	(30,251)	
				63,938,231	69,931,162	(5,992,931)	

As at 31st March 2016		Sector	No. of Shares	Market Price	Market Value	Cost of the Investment	Mark to Market Gain
				Rs.	Rs.	Rs.	Rs.
Commercial Bank of Ceylon PLC – Voting	Bank Finance and Insurance	71,259	126	8,943,015	11,468,232	(2,525,217)	
NDB Bank PLC – Voting	Bank Finance and Insurance	17,000	169	2,869,600	3,803,123	(933,523)	
Hatton National Bank PLC – Voting	Bank Finance and Insurance	4,000	199	797,200	858,711	(61,511)	
Hatton National Bank PLC – Non-Voting	Bank Finance and Insurance	3,000	171	513,000	534,217	(21,217)	
John Keells Holdings PLC – Voting	Diversified Holdings	7,500	148	1,110,000	1,240,086	(130,086)	
Chevron Lubricants Lanka PLC – Voting	Manufacturing	10,000	305	3,050,000	3,741,440	(691,440)	
Overseas Reality (Ceylon) PLC – Voting	Land & Property	200,000	23	4,680,000	4,343,105	336,896	
				21,962,815	25,988,914	(4,026,099)	

Subsidiaries in the Group does not have any equity instruments classified as held-for-trading.

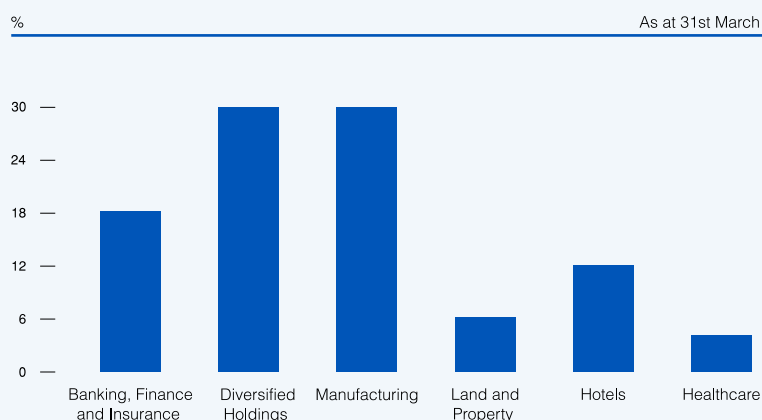
Financial Instruments – Held-for-Trading – Company

As at 31st March 2017



Sector-wise Analysis of Equity Investments – Company

As at 31st March 2017



The Company has not pledged any of the above financial assets as collateral for any liability or contingent liability.

20.2.1 Reconciliation for Mark to Market Adjustment on Equity Instruments

	2017 Rs.	2016 Rs.
Market value of the equity instruments as at the beginning of the year	21,962,815	–
Net change in equity instruments during the year	44,304,016	25,988,914
Amortised cost as at 31st March	66,266,831	25,988,914
Market value of the equity instruments as at 31st March	63,938,231	21,962,815
Mark to market loss during the year	2,328,600	4,026,099

21. Loans and Receivables to Banks

Loans and receivables to banks include repurchase agreements with banks and after initial measurement, loans and receivables to banks are subsequently measured at amortised cost using EIR, less provisions for impairment. 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. No impairment indications were identified with regard to repurchase agreements during last two financial years.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Repurchase agreements – Treasury bills	655,672,752	2,967,869,560	655,672,752	2,979,124,401
Net loans and receivables to banks	655,672,752	2,967,869,560	655,672,752	2,979,124,401

Maturity analysis of loans and receivables to banks is given in Note 48 on page 328.

See accounting policy in Note 3.4.2 (Page 255)

22. Deposits with Licensed Commercial Banks

Deposits with licensed commercial banks are carried at amortised cost in the Statement of Financial Position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Term Deposits with Licensed Commercial Banks	1,893,614,973	1,602,179,104	1,893,614,973	1,610,310,601
Total Deposits with Licensed Commercial Banks	1,893,614,973	1,602,179,104	1,893,614,973	1,610,310,601

Maturity analysis of deposits with licensed commercial banks is given in Note 48 on page 328.

23. Loans and Receivables to Customers

Loans and receivables to customers are carried at amortised cost in the Statement of Financial Position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Gross loans and receivables to customers	44,083,714,395	39,356,338,612	44,511,696,777	39,576,843,352
Less: Allowance for receivables (Refer Note 23.2)	(894,704,395)	(817,418,423)	(906,499,604)	(823,278,181)
Net loans and receivables to customers (Refer Note 23.1)	43,189,010,000	38,538,920,189	43,605,197,173	38,753,565,171

See accounting policy in Note 3.4.2 (Page 254)

Maturity analysis of loans and receivables from customers is given in Note 48 on page 328.

23.1 Analysis

Product-wise Analysis

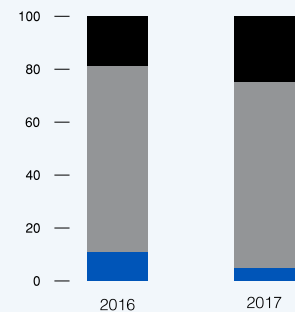
As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Loan and advances to customers (Refer Note 23.1.1)	10,985,458,368	7,547,696,969	10,915,404,905	7,634,238,166
Finance lease receivables (Refer Note 23.1.2)	30,683,566,441	27,429,490,821	31,167,983,724	27,524,856,229
Hiring contracts (Refer Note 23.1.3)	2,414,689,586	4,379,150,822	2,428,308,148	4,417,748,957
Gross loans and receivables to customers	44,083,714,395	39,356,338,612	44,511,696,777	39,576,843,352
Less: Allowance for impairment (Refer Note 23.2)	(894,704,395)	(817,418,423)	(906,499,604)	(823,278,181)
Net loans and advances to customers	43,189,010,000	38,538,920,189	43,605,197,173	38,753,565,171

Further analysis on loans and receivables to customers is given in Note 50 page 332.

Product-Wise Analysis – Company

% As at 31st March 2017

- Hire Purchase Contracts
- Finance Lease Receivables
- Loans and Advances



23.1.1 Loans and Advances to Customers

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Short-term loans	1,371,913,317	1,190,035,883	1,371,913,318	1,190,035,883
Term and vehicle loans	8,664,878,255	5,853,043,899	8,594,824,791	5,939,585,096
Staff loans	346,060,493	272,271,329	346,060,493	272,271,329
Gold related lending	602,606,303	232,345,858	602,606,303	232,345,858
Gross loans and advances to customers	10,985,458,368	7,547,696,969	10,915,404,905	7,634,238,166
Less: Allowance for impairment (Refer Note 23.2)	(90,016,147)	(53,279,106)	(99,684,132)	(59,138,863)
Net loans and advances to customers	10,895,442,221	7,494,417,863	10,815,720,772	7,575,099,303

23.1.2 Finance Lease Receivable

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Gross investment in finance leases				
Receivable within 1 year	12,634,033,668	11,416,184,548	12,926,810,585	11,467,849,548
Receivable after 1 year before 5 years	25,246,420,996	24,134,912,741	25,670,358,484	24,226,456,410
Receivable after 5 years	3,399,320,376	1,274,443,719	3,399,320,376	1,274,443,719
Total finance lease receivables	41,279,775,040	36,825,541,008	41,996,489,445	36,968,749,677
Unearned finance income	(10,596,208,599)	(9,396,050,187)	(10,828,505,721)	(9,443,893,449)
Gross finance leases receivables	30,683,566,441	27,429,490,821	31,167,983,724	27,524,856,229
Less: Allowance for impairment (Refer Note 23.2)	(757,842,145)	(662,499,906)	(759,744,608)	(662,499,906)
Net finance lease receivables	29,925,724,296	26,766,990,915	30,408,239,116	26,862,356,322

23.1.3 Hiring Contracts

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Gross investment in hiring contracts	2,414,689,586	4,379,150,822	2,428,308,148	4,417,748,956
Less: Allowance for impairment (Refer Note 23.2)	(46,846,103)	(101,639,412)	(47,070,863)	(101,639,412)
Net investment in hiring contracts	2,367,843,483	4,277,511,410	2,381,237,285	4,316,109,544

23.2 Allowance for Impairment

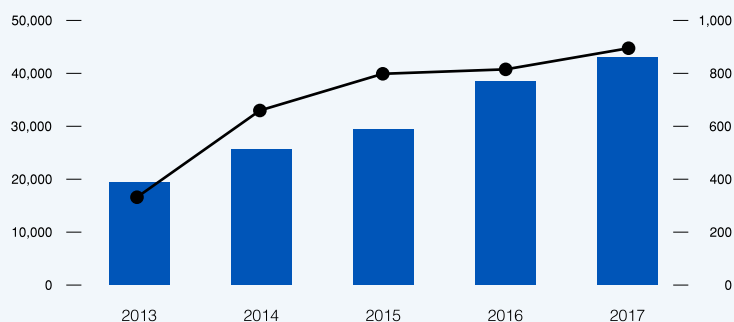
As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Allowance for individual impairment				
Balance as at the beginning of the year	233,451,811	337,322,102	233,451,811	337,322,102
Charge/(reversal) for the year (Refer Note 11)	68,200,182	(103,870,291)	68,200,182	(103,870,291)
Balance as at the end of the year	301,651,993	233,451,811	301,651,993	233,451,811
Allowance for collective impairment				
Balance as at the beginning of the year	583,966,612	462,339,175	589,826,370	470,334,467
Charge/(reversal) for the year (Refer Note 11)	9,085,790	121,627,437	15,021,241	119,491,903
Balance as at the end of the year	593,052,402	583,966,612	604,847,611	589,826,370
Total allowance for impairment	894,704,395	817,418,423	906,499,604	823,278,181

Allowance for Impairment against the Loan Portfolio – Company

Rs. Mn

As at 31st March

- Portfolio (LHS)
- Provision (RHS)



24. Investment Securities

Held-to-maturity investments are carried at amortised cost where Available-for-sale investments are carried at fair value in the statement of financial position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Held-to-maturity investments (HTM) (Refer Note 24.1)	2,529,218,247	2,351,480,862	2,572,824,085	2,356,886,156
Available-for-sale investments (AFS) (Refer Note 24.2)	1,034,213,758	920,594,408	1,064,220,906	948,940,428
Total investment securities	3,563,432,005	3,272,075,270	3,637,044,991	3,305,826,584

Maturity analysis of cash and investment securities is given in Note 48 on page 328.

See accounting policy in Note 3.4.2 (Page 254).

24.1 Held-to-Maturity Investments

Treasury bills	2,394,764,076	2,216,980,067	2,433,369,914	2,216,980,067
Treasury bonds	124,275,736	124,321,246	129,275,736	129,726,540
Corporate debentures (Refer Note 24.1.1)	10,178,435	10,179,549	10,178,435	10,179,549
Total held-to-maturity investments	2,529,218,247	2,351,480,862	2,572,824,085	2,356,886,156

24.1.1 Corporate debentures

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Name of the Company				
Sampath Bank PLC	5,102,271	5,102,271	5,102,271	5,102,271
Seylan Bank PLC	5,076,164	5,077,278	5,076,164	5,077,278
Total corporate debentures	10,178,435	10,179,549	10,178,435	10,179,549

24.2 Available-for-Sale Investments

Quoted Equity investments are measured at fair value where unquoted equity investments are measured at cost in the statement of financial position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Quoted equity investments	1,034,213,758	920,594,408	1,064,097,206	948,816,728
Unquoted equity investments	24,664,550	24,664,550	24,788,250	24,788,250
	1,058,878,308	945,258,958	1,088,885,456	973,604,978
Less: Impairment loss on available for sale investments	(24,664,550)	(24,664,550)	(24,664,550)	(24,664,550)
Total available-for-sale investments	1,034,213,758	920,594,408	1,064,220,906	948,940,428

24.2.1 Equity Investments

Company

As at 31st March	2017			2016		
	No. of Shares	Cost at Acquisition Rs.	Carrying Amount Rs.	No. of Shares	Cost at Acquisition Rs.	Carrying Amount Rs.
Quoted shares						
Ceylinco Insurance PLC – Ordinary shares	638,012	204,088,617	1,034,213,758	607,377	161,266,932	920,594,408
Unquoted shares						
Middleway Limited – Ordinary shares	416,455	4,164,550	4,164,550	416,455	4,164,550	4,164,550
Middleway Limited – Preference shares	2,050,000	20,500,000	20,500,000	2,050,000	20,500,000	20,500,000
Less: provision for impairment			(24,664,550)			(24,664,550)
Total available-for-sale investments			1,034,213,758			920,594,408

Group

As at 31st March	2017			2016		
	No. of Shares	Cost at Acquisition Rs.	Carrying Amount Rs.	No. of Shares	Cost at Acquisition Rs.	Carrying Amount Rs.
Quoted shares						
Ceylinco Insurance PLC – Ordinary shares	656,852	231,724,506	1,064,097,206	626,217	188,902,821	948,816,728
Unquoted shares						
Middleway Limited – Ordinary shares	416,455	4,164,550	4,164,550	416,455	4,164,550	4,164,550
Middleway Limited – Preference shares	2,050,000	20,500,000	20,500,000	2,050,000	20,500,000	20,500,000
Credit Information Bureau of Sri Lanka (CRIB)	100	123,700	123,700	100	123,700	123,700
Less: provision for impairment			(24,664,550)			(24,664,550)
Total available-for-sale investments			1,064,220,906			948,940,428

24.2.2 Movement in Equity Investments

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	920,594,408	954,118,800	948,940,428	954,118,800
Add: Acquisitions of shares during the year	43,006,071	71,589,519	43,006,073	99,405,502
Less: Disposals during the year	–	–	–	–
Mark to market adjustment	70,613,279	(105,113,911)	72,274,405	(104,583,874)
Balance as at the end of the year	1,034,213,758	920,594,408	1,064,220,906	948,940,428

24.3 Reclassification of Investment Securities

During the year Group has not reclassified any investment securities.

25. Investments in Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'Controls' an investee if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The cost of an acquisition is measured at fair value of the consideration of acquired identifiable assets, liabilities and contingent liabilities are at the date of acquisition.

Subsequent to the initial measurement the Company continues to recognise the investment in subsidiaries at cost. However, the Group reassesses any impairment indications at each reporting dates and adjusts accordingly.

The Financial Statement of all subsidiaries included the Consolidated Financial Statements from the date on which control commences until the date control ceases. At each reporting date the Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more control elements.

All subsidiaries in the Group have a common financial year which ends on 31st 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.

As at 31st March	Company	
	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	512,172,287	430,000,000
Acquisitions made during the year	–	82,172,287
	512,172,287	512,172,287
Less: Provision for impairment	(2,254,553)	(2,254,553)
Net investment in subsidiaries	509,917,734	509,917,734

See accounting policy in Note 3.1 (Page 253).

25.1 Group Structure

As at 31st March	Company			
	2017		2016	
	Ownership %	Cost Rs.	Ownership %	Cost Rs.
CDB Microfinance Limited	100.00	5,000,000	100.00	5,000,000
Unisons Capital Leasing Limited	90.38	507,172,287	90.38	507,172,287
		512,172,287		512,172,287
Less: Provision for impairment		(2,254,553)		(2,254,553)
Net investment in subsidiaries		509,917,734		509,917,734

Both Subsidiaries are not quoted in the Colombo Stock Exchange. Summarised Financial Statements of significant subsidiaries are given in Note 25.2. Company acquired Unisons Capital Leasing Limited in October 2014.

Provision for Impairment

The Directors valuation of investments in subsidiaries has been carried out on cash flow basis as at 31st March 2017 and accordingly, Company has recognised an impairment charge of Rs. 2.25 Mn against the investment in CDB Microfinance Limited. (In 2016 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 29.1 in page 305 for impairment of goodwill acquired.

25.2 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 31st March	Unisons Capital Leasing Limited	
	2017 Rs.	2016 Rs.
Revenue	120,911,673	63,455,603
Net operating income	99,327,407	55,102,010
Less: Operating expenses	65,399,126	30,528,402
Profit/(loss) before tax	33,928,281	24,573,608
Taxation	13,708,503	8,902,349
Profit/(loss) after tax	20,219,778	15,671,259
Other comprehensive income (net of tax)	1,661,128	713,052
Total comprehensive income	21,880,906	16,384,311

As at 31st March	Unisons Capital Leasing Limited	
	2017 Rs.	2016 Rs.
Loans and receivables to customers	518,455,994	214,644,982
Financial Investments	73,612,986	124,648,682
Property, plant & equipments and intangible assets	21,560,378	6,724,709
Other assets	78,975,277	23,943,888
Total assets	692,604,635	369,962,260
Due to banks	168,254,998	5,734,405
Debt issued and other borrowed funds	94,534,598	7,897,000
Other liabilities	92,713,971	39,284,642
	355,503,567	52,916,047
Total equity	337,101,068	317,046,213
Total liabilities and equity	692,604,635	369,962,260

For the year ended 31st March	Unisons Capital Leasing Limited	
	2017 Rs.	2016 Rs.
Cash flows from operating activities	13,138,714	19,269,711
Cash flows from investing activities	34,826,157	108,256,831
Cash flows from financing activities	–	82,172,286
Net increase in cash and cash equivalents	47,964,870	6,814,834

25.3 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.

26. Investment Property

Investment properties are measured at cost in the statement of financial position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	20,197,977	20,197,977	20,197,977	20,197,977
Acquisitions during the year	-	-	-	-
Disposals during the year	-	-	-	-
	20,197,977	20,197,977	20,197,977	20,197,977
Less: Provision for impairment	-	-	-	-
Balance as at the end of the year	20,197,977	20,197,977	20,197,977	20,197,977

See accounting policy in Note 3.7 (Page 258).

Investment property comprises of land acquired by the Company and held for capital appreciation purpose.

No depreciation is recognised as land has an unlimited useful life.

No provision for impairment was recognised since fair value is higher than the cost of the property (Refer Note 26.1).

26.1 Fair Valuation of Investment Property

The fair values of investment properties were determined by external, independent property valuation surveyor, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent valuation surveyor provides the fair values of the Group's investment property at the reporting period end.

Location	Extent (perches)	Date of Valuation	Cost Rs.	Fair Value	
				2017 Rs.	2016 Rs.
Land – Biyagama	120	15th May 2017	20,197,977	48,000,000	42,000,000

Valuer	Valuation Technique	Significant Unobservable Inputs	Sensitivity
A R Ajith Fernando (MRICS). 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.

27. Property, Plant & Equipment

Group applies requirements of the Sri Lanka Accounting Standard (LKAS 16) – on 'Property, plant & equipment' in accounting for its owned assets. See accounting policy in Note 3.8 (Page 258).

Company

	Land Rs.	Building Rs.	Furniture and Fittings Rs.	Computer Equipment Rs.	Office Equipment Rs.	Motor Vehicles Rs.	Total Rs.
Cost/Valuation							
Balance as at 1st April 2016	455,029,000	638,963,011	453,166,203	284,257,556	198,707,965	162,534,923	2,192,658,658
Additions during the year		571,428	53,611,216	22,463,377	10,035,685	20,939,600	107,621,306
Revaluation surplus	328,071,000						328,071,000
Disposal during the year						(11,390,315)	(11,390,315)
Balance as at 31st March 2017	783,100,000	639,534,439	506,777,419	306,720,933	208,743,650	172,084,208	2,616,960,649
Accumulated Depreciation							
Balance as at 1st April 2016	–	21,943,110	238,192,070	176,870,468	106,560,447	42,134,427	585,700,522
Charged during the year		15,985,851	77,869,345	38,834,277	32,919,221	31,603,044	197,211,738
Disposal during the year						(5,042,950)	(5,042,950)
Balance as at 31st March 2017	–	37,928,961	316,061,415	215,704,745	139,479,668	68,694,522	777,869,310
Carrying Value							
Balance as at 31st March 2017	783,100,000	601,605,478	190,716,004	91,016,188	69,263,982	103,389,686	1,839,091,339
Balance as at 31st March 2016	455,029,000	617,019,901	214,974,133	107,387,088	92,147,518	120,400,496	1,606,958,136

Group

	Land Rs.	Building Rs.	Furniture and Fittings Rs.	Computer Equipment Rs.	Office Equipment Rs.	Motor Vehicles Rs.	Total Rs.
Cost/Valuation							
Balance as at 1st April 2016	455,029,000	638,963,011	453,310,458	290,585,503	200,332,525	163,188,199	2,201,408,696
Additions during the year	–	571,428	53,797,252	23,150,205	10,049,485	20,939,600	108,507,970
Revaluation surplus	328,071,000	–	–	–	–	–	328,071,000
Disposal during the year	–	–	–	–	–	(11,390,315)	(11,390,315)
Balance as at 31st March 2017	783,100,000	639,534,439	507,107,710	313,735,708	210,382,010	172,737,484	2,626,597,351
Accumulated Depreciation							
Balance as at 1st April 2016	–	21,943,110	238,234,450	181,325,735	106,881,571	42,386,011	590,770,877
Charged during the year	–	15,985,851	77,936,133	40,436,657	33,041,835	31,701,036	199,101,512
Disposal during the year	–	–	–	–	–	(5,042,950)	(5,042,950)
Balance as at 31st March 2017	–	37,928,961	316,170,583	221,762,392	139,923,406	69,044,097	784,829,439
Carrying Value							
Balance as at 31st March 2017	783,100,000	601,605,478	190,937,127	91,973,316	70,458,604	103,693,387	1,841,767,912
Balance as at 31st March 2016	455,029,000	617,019,901	215,076,008	109,259,768	93,450,954	120,802,188	1,610,637,819

27.1 Revalued Properties

Details of the revalue properties is as follows:

Property	Extent (Perches)	Date of Valuation	Company		Group	
			2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Land – No. 123, Orabipasha Mawatha, Colombo 10	85.20	15th May 2017	639,000,000	340,800,000	639,000,000	340,800,000
Land – No. 377/2, Kandy Road, Mahara, Kadawatha	39.00	19th May 2017	70,200,000	68,250,000	70,200,000	68,250,000
Land – No 79, Mihindu Mawatha, Kadawatha	76.00	17th May 2017	60,800,000	39,900,000	60,800,000	39,900,000
Land – Madapatha, Piliyandala	43.68	15th May 2017	13,100,000	6,079,000	13,100,000	6,079,000
			783,100,000	455,029,000	783,100,000	455,029,000

Valuer	Valuation Technique	Significant unobservable inputs	Sensitivity
Land – No. 123, Orabipasha Mawatha, Colombo 10 A R Ajith Fernando (MRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference rage of value for the properties in the area range from Rs. 7,000,000/- to Rs.7,500,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value increases.
Land – No. 377/2, Kandy Road, Mahara, Kadawatha A R Ajith Fernando (MRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference rage of value for the properties in the area range from Rs. 1,500,000/- to Rs.1,800,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value increases.
Land – No. 79, Mihindu Mawatha, Kadawatha A R Ajith Fernando (MRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference rage of value for the properties in the area range from Rs. 800,000/- to Rs.900,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value increases.
Land – Madapatha, Piliyandala A R Ajith Fernando (MRICS) Chartered Valuation Surveyor	Market Comparable Method*	The reference rage of value for the properties in the area range from Rs. 250,000/- to Rs. 300,000/- per perch.	Estimated fair value would increase if the market value of the per perch land value increases.

*Market Comparable Method – Valuation of the property have been arrived at with reference prevailing land sales and in the area adjusted for the specific conditions of the above property.

27.2 Title Restriction On Property, Plant & Equipment

There were no restrictions existed on the title of the property, plant & equipment of the Group as at the reporting date.

27.3 Compensation from Third Parties for Property, Plant & Equipment

There were no compensations received or pending for property plant & equipment as at the reporting date.

27.4 Fully Depreciated Property, Plant & Equipment

There were no significant amount of fully depreciated assets available within the Group as at the reporting date.

27.5 Temporary Idle Property, Plant & Equipment

There were no any temporary idle property, plant & equipment as at the reporting date.

27.6 Property, Plant & Equipment Retired from Active Use

There were no property plant & equipment retired from active use as at the reporting date

27.7 Borrowing Cost

There were no capitalised borrowing cost related to the acquisition of property, plant & equipment during the year.

28. Intangible Assets

Intangible assets are measured at cost in the statement of financial position.
See accounting policy in Note 3.6 (Page 257).

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Cost				
Balance as at the beginning of the year	110,629,295	100,146,455	116,979,295	106,496,455
Additions during the year	11,455,067	10,482,840	28,893,367	10,482,840
Disposals during the year	–	–	–	–
Balance as at the end of the year	122,084,362	110,629,295	145,872,662	116,979,295
Accumulated amortisation				
Balance as at the beginning of the year	42,310,150	28,986,684	45,615,124	30,704,156
Charge during the year	14,090,155	13,323,466	15,689,676	14,910,968
Disposals during the year	–	–	–	–
Balance as at the end of the year	56,400,305	42,310,150	61,304,800	45,615,124
Carrying Value				
Balance as at the end of the year	65,684,057	68,319,145	84,567,862	71,364,171

Intangible assets comprise computer software and licenses acquired by the Group to be used in its operation.

There is no restrictions on the title of the intangible assets of 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 softwares under development.

Maturity analysis of intangible assets is given in Note 48 on page 328.

29. Goodwill on Consolidation

As at 31st March	Group	
	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	244,179,431	244,179,431
Additions during the year	–	–
Disposal during the year	–	–
Balance as at the end of the year	244,179,431	244,179,431

See Accounting Policy in Note 3.6. 3 (Page 258).

29.1 Impairment Testing on Goodwill

Goodwill acquired through business combination is tested for impairment on 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 2016/17 (2015/16 – 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 31st March	2017 %	2016 %
Discount rate*	13.0	10.5
Growth in terminal value**	7.0	7.0
Growth in budgeted profit before tax (Average of next five years)***	20.0	20.0

*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 2.84%

Growth in terminal value Decrease by 5.93%

Growth in budgeted profit before tax (Average of next five years) Decrease by 29.12%

**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 31st March	1%	
	Increase	Decrease
Discount rate	-18.12	25.65
Growth in terminal value	4.60	-4.48
Growth in budgeted profit before tax (Average of next five years)	12.10	-8.65

30. Other Assets

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Tax Recoverable	54,054,312	64,971,061	57,210,581	64,971,061
Insurance premium receivable	970,003,460	587,370,728	970,003,460	587,370,728
Insurance Commission receivable	26,096,107	41,483,319	26,096,107	41,483,319
Unamortised cost on staff loans	109,278,627	86,205,354	109,278,627	86,205,354
Vehicle Stock	2,212,320	116,892,141	2,212,320	116,892,141
Gift Stock	27,154,398	14,712,835	27,154,398	14,712,835
Other Stocks	3,063,383	4,668,622	3,063,383	4,668,622
Other Receivables and Advances	388,699,570	279,256,528	386,129,311	282,824,622
Total other assets	1,580,562,177	1,195,560,588	1,581,148,187	1,199,128,682

Maturity analysis of other assets is given in Note 48 on page 328.

31. Deposits from Customers

Subsequently to the initial recognition deposits from customers are carried at amortised cost in the statement of financial position. Interest paid/payable (Effective interest rate method) on these deposits is recognised in the Statement of Profit or Loss.

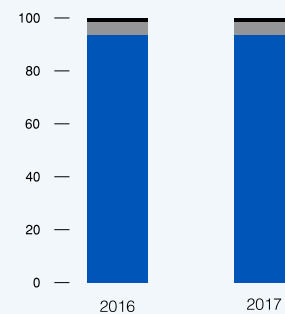
As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Term Deposits	30,888,613,553	29,219,053,386	30,888,613,553	29,136,287,515
Savings Deposits	1,567,517,858	1,568,696,350	1,556,135,520	1,567,684,646
Mudharabah	145,704,361	99,944,064	145,704,361	99,944,064
Total deposits from customers	32,601,835,772	30,887,693,800	32,590,453,434	30,803,916,225

Maturity analysis of deposits from customers is given in Note 48 on page 328.
See accounting policy in Note 3.4.3 (c) (Page 255)

Deposits From Customers

% As at 31st March

- Mudharabah
- Savings Deposits
- Term Deposits



32. Debt Securities Issued

Debt securities issued include debentures issued by the Company and these are carried at amortised cost 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.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Debentures (Refer Note 32.1)	2,075,631,256	1,044,135,005	2,075,631,256	1,044,135,005
Total debt securities issued	2,075,631,256	1,044,135,005	2,075,631,256	1,044,135,005

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.

In June 2016 CDB issued a subordinated debenture guaranteed by a licensed commercial bank.

The Group has not had any defaults of principal or interest or other breaches with respect to any subordinated liability during the year ended 31st March 2017 (2016 – Nil).

Maturity analysis of debt securities issued is given in Note 48 on page 328.

32.1 Details of Debentures Issued

Description	Face Value	Amortised Cost		Allotment Date	Maturity Date	Term (Years)	Type
		2017 Rs.	2016 Rs.				
Issued in 2013							
Type A	310,360,000	324,134,235	324,034,235	19th December 2013	19th December 2018	5	Interest 16% per annum payable annually
Type B	24,280,000	24,400,338	24,400,338	19th December 2013	19th December 2018	5	Interest 15.5% per annum payable semi-annually
Type C	665,360,000	695,863,529	695,700,432	19th December 2013	19th December 2018	5	Interest 15% per annum payable quarterly
	1,000,000,000	1,044,398,102	1,044,135,005				
Issued in 2016							
Type A	998,370,000	1,029,521,952	–	3rd June 2016	3rd June 2021	5	Interest 12.75% per annum payable semi-annually
Type B	1,630,000	1,711,202	–	3rd June 2016	3rd June 2021	5	6 month Net T-Bill Rate (net of tax) plus 1.50% payable semi-annually (Maximum of 15% per annum)
	1,000,000,000	1,031,233,154	–				
Total debt securities issued	2,000,000,000	2,075,631,256	1,044,135,005				

33. Other Interest-bearing Borrowings

Other interest-bearing borrowings are carried at amortised cost in the Statement of Financial Position. Interest paid/payable (Effective interest rate method) on these borrowings is recognised in the Statement of Profit or Loss.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Due to banks (Refer Note 33.1)	7,836,375,554	7,035,953,931	7,902,361,730	7,035,953,931
Due to foreign institutional lenders (Refer Note 33.2)	210,801,757	419,196,281	210,801,757	419,196,281
Securitisation (Refer Note 33.3)	2,866,336,355	3,823,850,068	2,866,336,355	3,823,850,068
Commercial papers (Refer Note 33.4)	38,970,864	18,140,765	38,970,864	18,140,765
Other borrowings	4,532,233	4,544,356	99,066,832	12,441,356
	10,957,016,763	11,301,685,401	11,117,537,538	11,309,582,401

Maturity analysis of debt securities issued is given in Note 48 on page 328.
See accounting policy in Note 3.4.3 (Page 255).

33.1 Due to Banks

As at 31st March	Loan obtained	Company		Group	
		2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Seylan Bank PLC – Term Loan 1	100,000,000	59,730,268	70,489,712	59,730,268	70,489,712
Seylan Bank PLC – Term Loan 2	200,000,000	111,227,683	146,380,724	111,227,683	146,380,724
Seylan Bank PLC – Term Loan 3	1,000,000,000	719,186,813	920,017,922	719,186,813	920,017,922
Seylan Bank PLC – Term Loan 4	2,000,000,000	1,633,333,333	2,001,740,879	1,633,333,333	2,001,740,879
Seylan Bank PLC – Term Loan 5	1,000,000,000	943,153,333	–	943,153,333	–
Seylan Bank PLC – Term Loan (Revolving)	500,000,000	500,192,995	503,709,726	500,192,995	503,709,726
Sampath Bank PLC – Term Loan 1	1,010,000,000	589,135,232	928,905,959	589,135,232	928,905,959
Sampath Bank PLC – Term Loan 2	450,000,000	168,789,174	281,316,016	168,789,174	281,316,016
Sampath Bank – Short-Term Loans	350,000,000	347,626,713	–	347,626,713	–
Sampath Bank – Term Loan UCL				66,000,177	–
Habib Bank Limited	100,000,000	–	100,000,000	–	100,000,000
Hatton National Bank PLC – Term Loan 1	1,000,000,000	–	835,916,735	–	835,916,735
Hatton National Bank PLC – Term Loan 2	750,000,000	443,133,264	625,891,587	443,133,264	625,891,587
Hatton National Bank PLC – Term Loan (Revolving)	1,000,000,000	994,248,522	–	994,248,522	–
Hatton National Bank PLC – Term Loan (Revolving 2)	500,000,000	–	501,478,219	–	501,478,219
Nations Trust Bank PLC – Term Loan 1	750,000,000	730,296,608	–	730,296,608	–
Nations Trust Bank PLC – Term Loan 2	100,000,000	–	100,000,000	–	100,000,000
Nations Trust Bank PLC – Term Loan (Revolving)	100,000,000	101,003,846	–	101,003,846	–
Pan Asia Banking Corporation PLC	200,000,000		20,106,452	–	20,106,452
Bank of Ceylon – Term Loan	500,000,000	495,317,770	–	495,317,770	–
Total due to banks		7,836,375,554	7,035,953,931	7,902,375,730	7,035,953,931

33.2 Due to Foreign Institutional Lenders

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Belgian investment company for developing countries	210,801,757	419,196,281	210,801,757	419,196,281
Total due to foreign institutional lenders	210,801,757	419,196,281	210,801,757	419,196,281

This includes the USD 6 Mn credit facility obtained from Belgian investment company for developing countries on 15th October 2013. There are only two biannual instalments outstanding as at the reporting date.

33.3 Securitisation

Details of securitisation of the Company and the Group as at 31st March 2017 is as follows:

Issue No.	Face value (Rs.)	Maximum period (Months)	Trustee	Balance as at 31st March 2017	Security
D12	1,000,000,000	48	Deutsche Bank AG	462,927,186	Mortgage over Lease and Hire purchase Receivables
D13	900,400,000	48	Deutsche Bank AG	441,885,041	Mortgage over Lease and Hire purchase Receivables
D14	1,500,000,000	33	Deutsche Bank AG	638,590,151	Mortgage over Lease and Hire purchase Receivables
D15	1,000,000,000	60	Deutsche Bank AG	565,180,635	Mortgage over Lease and Hire purchase Receivables
D16	1,000,000,000	60	HNB	757,753,342	Mortgage over Lease and Hire purchase Receivables
Total securitisation				2,866,336,355	

Details of securitisation as at 31st March 2016 is as follows:

Issue No	Face Value (Rs.)	Maximum Period (Months)	Trustee	Balance as at 31 March 2016	Security
D10	400,000,000	36	Deutsche Bank AG	57,867,565	Mortgage over Lease and Hire purchase Receivables
D11	400,000,000	36	Deutsche Bank AG	77,810,708	Mortgage over Lease Receivables
D12	1,000,000,000	48	Deutsche Bank AG	781,723,418	Mortgage over Lease and Hire purchase Receivables
D13	900,400,000	48	Deutsche Bank AG	792,226,130	Mortgage over Lease and Hire purchase Receivables
D14	1,500,000,000	33	Deutsche Bank AG	1,189,016,622	Mortgage over Lease and Hire purchase Receivables
D15	1,000,000,000	60	Deutsche Bank AG	925,205,625	Mortgage over Lease and Hire purchase Receivables
Total securitisation				3,823,850,068	

33.4 Commercial Papers

As at 31st March 2017	Investment date	Maturity date	Rate %	Invested Amount Rs.	Maturity Amount Rs.	Amortised Cost	
						Company Rs.	Group Rs.
Commercial paper 01	31st March 2017	1st May 2017	13.00	38,956,988	39,387,115	38,970,864	38,970,864
Total commercial papers						38,970,864	38,970,864

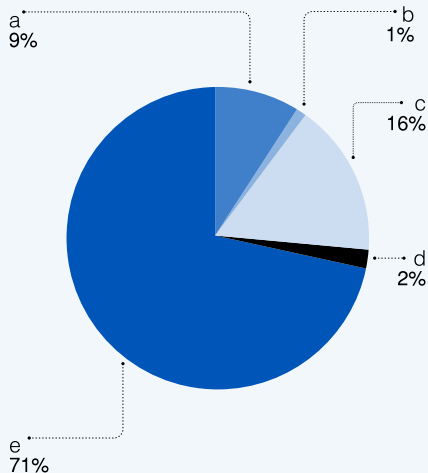
As at 31st March 2016	Investment Date	Maturity Date	Rate %	Invested Amount Rs.	Maturity Amount Rs.	Amortised Cost	
						Company Rs.	Group Rs.
Commercial paper 01	27th June 2015	27th June 16	9.15	17,163,047	18,567,411	18,140,765	18,140,765
Total commercial papers						18,140,765	18,140,765

33.5 Analysis of Funding Mix

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Deposits	32,601,835,772	30,887,693,800	32,590,453,434	30,803,916,225
Debentures	2,075,631,256	1,044,135,005	2,075,631,256	1,044,135,005
Bank borrowings	7,836,375,554	7,035,953,931	7,902,361,730	7,035,953,931
Foreign borrowings	210,801,757	419,196,281	210,801,757	419,196,281
Securitisation	2,866,336,355	3,823,850,068	2,866,336,355	3,823,850,068
Others	43,503,097	22,685,121	138,037,695	30,582,121
Total funds	45,634,483,791	43,233,514,206	45,783,622,227	43,157,633,631

Analysis of Funding Mix – Company

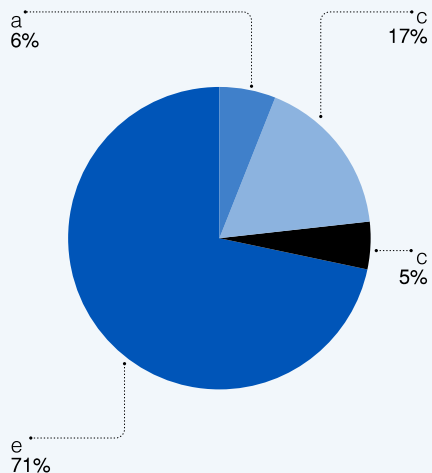
As at 31st March 2016



a – Securitisation
b – Foreign Borrowings
c – Bank Borrowings
d – Debentures
e – Deposits
f – Others

Analysis of Funding Mix – Company

As at 31st March 2017



a – Securitisation
b – Foreign Borrowings
c – Bank Borrowings
d – Debentures
e – Deposits
f – Others

34. Current Tax Liabilities

As at 31st March

	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
VAT on financial services	6,120,340	12,186,270	6,120,340	12,186,270
Withholding tax payable	21,584,290	6,153,264	21,584,290	6,153,264
Provision for income tax (Refer Note 34.1)	104,549,984	62,672,178	104,955,062	64,558,970
Provision for Nation Building Tax (NBT)	2,189,898	2,410,924	2,189,898	2,410,924
Stamp duty payable	44,257,947	25,710,799	44,257,947	25,710,799
Total current tax liabilities	178,702,459	109,133,435	179,107,537	111,020,227

34.1 Provision for Income Tax

As at 31st March

	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	62,672,178	89,552,403	64,558,970	94,860,695
Current tax for the year (Refer Note 14)	129,817,523	118,267,192	135,327,785	126,802,805
Over provision in respect of prior periods (Refer Note 14)	(57,787,915)	(68,175,727)	(57,779,977)	(68,309,291)
Self-assessment payment of tax	(30,151,802)	(76,971,690)	(37,151,716)	(88,795,239)
Balance as at the end of the year	104,549,984	62,672,178	104,955,062	64,558,970

35. Deferred Tax Assets and Liabilities

Net deferred tax assets/liabilities of one entity cannot be set-off against another entity's assets/liabilities since there is no legally enforceable to set-off. Therefore net deferred tax assets and liabilities of different entities are separately recognised in the statement of financial position.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Deferred tax liabilities	1,526,282,314	1,092,985,708	1,538,947,259	1,097,776,547
Deferred tax assets	(897,561,161)	(613,221,124)	(899,960,537)	(615,936,696)
Total net deferred tax	628,721,153	479,764,584	638,986,722	481,839,851

Maturity analysis of deferred tax is given in Note 48 on page 328.
See Accounting Policy in Note 3.20.2 (Page 261)

35.1 Summary of Net Deferred Tax Liability

Company	2017		2016	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Deferred tax liabilities on:				
Accelerated depreciation for tax purposes – owned assets	407,854,766	114,199,335	280,940,701	78,663,396
Accelerated depreciation for tax purposes – leased assets	5,043,153,497	1,412,082,979	3,622,579,684	1,014,322,312
Tax effect on defined benefit plans	–	–	–	–
	5,451,008,263	1,526,282,314	3,903,520,385	1,092,985,708
Deferred tax assets on:				
Unutilised tax losses	(3,205,575,575)	(897,561,161)	(2,013,139,963)	(563,679,190)
Qualifying investments and others	–	–	(131,715,548)	(36,880,354)
Tax effect on defined benefit plans	–	–	(45,219,929)	(12,661,580)
	(3,205,575,575)	(897,561,161)	(2,190,075,440)	(613,221,124)
Net deferred tax liability	2,245,432,688	628,721,153	1,713,444,945	479,764,584
Group				
Deferred tax liabilities on:				
Accelerated depreciation for tax purposes – owned assets	415,326,569	116,291,439	285,541,363	79,951,582
Accelerated depreciation for tax purposes – leased assets	5,080,913,641	1,422,655,819	3,635,089,162	1,017,824,965
Tax effect on defined benefit plans	–	–	–	–
	5,496,240,210	1,538,947,259	3,920,630,525	1,097,776,547
Deferred tax assets on:				
Unutilised tax losses	(3,214,077,609)	(899,941,730)	(2,022,838,437)	(566,394,762)
Qualifying investments & others	–	–	(131,715,548)	(36,880,354)
Tax effect on defined benefit plans	(67,167)	(18,807)	(45,219,929)	(12,661,580)
	(3,214,144,776)	(899,960,537)	(2,199,773,914)	(615,936,696)
Net deferred tax liability	2,282,095,434	638,986,722	1,720,856,611	481,839,851

35.2 Movement of Net Deferred Tax Liability

Company	2017			2016		
	Total Movement	Effect on Income Statement	Effect on other Comprehensive Income	Total Movement	Effect on Income Statement	Effect on other Comprehensive Income
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Net deferred tax liability as at the beginning of the year	479,764,585			282,079,149		
Changes in net liability:						
Accelerated depreciation for tax purposes – owned assets	35,535,938	35,535,938		57,391,032	57,391,032	
Accelerated depreciation for tax purposes – leased assets	397,760,668	397,760,668			262,224,953	
Unutilised tax losses	(333,881,971)	(333,881,971)		(180,272,290)	(180,272,290)	
Qualifying investments and others	36,880,353	36,880,353		58,319,647	58,319,647	–
Tax effect on defined benefit plans	12,661,580	12,661,580	–	22,094	1,035,558	(1,013,464)
Total effect on total comprehensive income	148,956,568	148,956,568	–	197,685,436	198,698,900	(1,013,464)
Net deferred tax liability as at the end of the year	628,721,153			479,764,585		
Group	2017			2016		
	Total Movement	Effect on Income Statement	Effect on Other Comprehensive Income	Total Movement	Effect on Income Statement	Effect on Other Comprehensive Income
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Net deferred tax liability as at the beginning of the year	481,839,851			283,654,115		
Changes in net liability:						
Accelerated depreciation for tax purposes – owned assets	36,339,858	36,339,858		57,039,078	57,039,078	
Accelerated depreciation for tax purposes – leased assets	404,830,854	404,830,854		265,757,325	265,757,325	
Unutilised tax losses	(333,546,968)	(333,546,968)		(182,987,862)	(182,987,862)	
Qualifying investments and others	36,880,353	36,880,353		58,319,647	58,319,647	
Tax effect on defined benefit plans	12,642,773	12,642,773		57,549	57,549	(1,013,464)
Total effect on total comprehensive income	157,146,871	157,146,871	–	198,185,736	198,185,736	(1,013,464)
Net deferred tax liability as at the end of the year	638,986,722			481,839,851		

35.3 Deferred Tax on Revaluation of Freehold Lands and Fair Value Gain on AFS

Revaluation of lands and gains on quoted instruments are not subjected to any income tax hence deferred tax asset or liability has not been recognised accordingly.

36. Retirement Benefit Obligation

Company	2017			2016		
	Defined Benefit Obligation Rs.	Fair Value of Plan Asset Rs.	Net Defined Benefit Liability Rs.	Defined Benefit Obligation Rs.	Fair Value of Plan Asset Rs.	Net Defined Benefit Liability Rs.
Balance as at the beginning of the year	246,335,608	193,299,113	53,036,495	218,677,217	173,378,379	45,298,838
Recognised in profit or loss						
Current service cost	31,518,137		31,518,137	28,637,645		28,637,645
Interest cost/Income	24,634,062	19,329,911	5,304,151	20,774,336		20,774,336
	56,152,199	19,329,911	36,822,288	49,411,981	–	49,411,981
Recognised in other comprehensive income						
Actuarial gain/(loss)	473,749	(25,461,250)	25,934,999	(13,937,015)	(17,556,529)	3,619,514
	473,749	(25,461,250)	25,934,999	(13,937,015)	(17,556,529)	3,619,514
Others						
Contributions made during the year		100,000,000	(100,000,000)		45,293,838	(45,293,838)
Benefits paid	(9,727,197)	(9,727,197)	–	(7,816,575)	(7,816,575)	–
Total net defined benefit obligation as at the end of the year	293,234,359	277,440,577	15,793,782	246,335,608	193,299,113	53,036,495
Group						
Balance as at the beginning of the year	246,335,608	193,299,113	53,036,495	218,677,217	173,378,379	45,298,838
Recognised in profit or loss						
Current service cost	31,585,304		31,585,304	28,637,645		28,637,645
Interest cost/Income	24,634,062	19,329,911	5,304,151	20,774,336		20,774,336
	56,219,366	19,329,911	36,889,455	49,411,981	–	20,774,336
Recognised in other comprehensive income						
Actuarial gain/(loss)	473,749	(25,461,250)	25,934,999	(13,937,015)	(17,556,529)	3,619,514
	473,749	(25,461,250)	25,934,999	(13,937,015)	(17,556,529)	3,619,514
Others						
Contributions made during the year		100,000,000	(100,000,000)		45,293,838	(45,293,838)
Benefits paid	(9,727,197)	(9,727,197)	–	(7,816,575)	(7,816,575)	–
Total net defined benefit obligation as at the end of the year	293,301,526	277,440,577	15,860,949	246,335,608	193,299,113	53,036,495

Maturity analysis of retirement benefit obligation is given in Note 48 on page 328.
See accounting policy in Note 3.11.1 (Page 260)

36.1 Plan Assets

Plan assets comprise the followings and all equity investments are quoted.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Cash and Cash Equivalents	100,864,522	1,770,969	100,864,522	1,770,969
Equity Securities	110,731,277	128,161,200	110,731,277	128,161,200
Term Deposits	65,844,778	63,366,944	65,844,778	63,366,944
Total plan assets	277,440,577	193,299,113	277,440,577	193,299,113

36.2 Actuarial Valuation

An actuarial valuation of the retirement benefit obligation was carried out as at 31st March 2017 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 the Sri Lanka Accounting standard – LKAS 19 on 'Employee Benefits'.

Actuarial Assumptions

Assumption	Description		2017	2016
Demographic and Other 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%	10%
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/(asset)	Net effect on present value of defined benefit liability
Discount rate	1% increase	(9,360,575)	25,154,357
	1% Decrease	43,568,855	(27,775,073)
Future salary growth	1% increase	46,720,168	30,926,385
	1% Decrease	(12,511,888)	(28,305,670)

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.

37. Other Liabilities

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Accrued Expenses	95,016,212	43,547,075	158,359,895	75,752,912
Supplier Payable	224,185,656	243,563,178	224,185,656	243,563,179
Insurance Premium Payable	395,946,336	301,255,087	395,946,336	301,255,087
Bank Overdrafts	208,433,978	855,524,296	208,433,978	861,258,701
Rentals received in advance from loans and advances to customers	285,015,673	222,354,900	285,015,673	222,354,900
Deferred Transaction Cost	4,641,659	8,112,069	4,641,659	8,112,069
Retention on Building construction	12,990,013	13,302,447	12,990,013	13,302,447
Other Liabilities	9,189,930	11,235,962	11,380,367	11,286,763
Total other liabilities	1,235,419,457	1,698,895,014	1,300,953,577	1,736,886,058

Maturity analysis of other liabilities is given in Note 48 on page 328.

38. Stated Capital

Ordinary Shares

Ordinary shares in the Company are recognised at the amount paid per ordinary shares net of directly attributable issue cost.

	Company				Group			
	2017		2016		2017		2016	
	No. of Shares	Value Rs.	No. of Shares	Value Rs.	No. of Shares	Value Rs.	No. of Shares	Value Rs.
Balance as at the beginning of the year	54,305,207	1,185,061,645	54,305,207	1,185,061,645	54,305,207	1,185,061,645	54,305,207	1,185,061,645
Issued during the year								
Voting	-	-	-	-	-	-	-	-
Non Voting	-	-	-	-	-	-	-	-
Balance as at the end of the year	54,305,207	1,185,061,645	54,305,207	1,185,061,645	54,305,207	1,185,061,645	54,305,207	1,185,061,645
Composition of No. of Shares								
Voting	46,299,223	859,842,730	46,299,223	859,842,730	46,299,223	859,842,730	46,299,223	859,842,730
Non-Voting	8,005,984	325,218,915	8,005,984	325,218,915	8,005,984	325,218,915	8,005,984	325,218,915
Total stated capital	54,305,207	1,185,061,645	54,305,207	1,185,061,645	54,305,207	1,185,061,645	54,305,207	1,185,061,645

Rights, Preferences and Restrictions of Ordinary Shares

The shares of the Citizens Development Business Finance PLC are quoted on the 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.

39. Reserves

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Revaluation reserve (Refer Note 39.1)	541,743,991	213,672,991	541,743,991	213,672,991
Available-for-sale reserve (Refer Note 39.2)	819,709,093	749,095,814	821,740,455	749,625,851
Statutory reserve fund (Refer Note 39.3)	1,040,634,762	839,331,772	1,042,907,720	840,593,741
Total reserves	2,402,087,846	1,802,100,577	2,406,392,166	1,803,892,583

39.1 Revaluation Reserve

This revaluation reserve relates to revaluation of freehold land and represent the fair value changes as at the reporting date.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	213,672,991	171,072,991	213,672,991	171,072,991
Surplus on revaluation of lands during the year	328,071,000	42,600,000	328,071,000	42,600,000
Transfer to retained earnings	-	-	-	-
Balance as at the end of the year	541,743,991	213,672,991	541,743,991	213,672,991

The Group revalued its lands during May 2017 by A R Ajith Fernando (MRICS) 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 (Refer Note 27.1).

39.2 Available-for-Sale Reserve

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments classified as available-for-sale until such investments are derecognised or impaired.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	749,095,814	854,209,725	749,625,851	854,209,725
Net change in available-for-sale financial assets (Refer Note 24.2.2)	70,613,279	(105,113,911)	72,114,604	(104,583,874)
Transfer to retained earnings	-	-	-	-
Balance as at the end of the year	819,709,093	749,095,814	821,740,455	749,625,851

39.3 Statutory Reserve Fund

Statutory reserve fund is maintained by the Group in order to meet the legal requirements.

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	839,331,772	638,301,144	840,593,741	638,779,550
Transfers during the year	201,302,990	201,030,628	202,313,979	201,814,191
Balance as at the end of the year	1,040,634,762	839,331,772	1,042,907,720	840,593,741

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 licence 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.

40. Retained Earnings

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	2,064,806,272	1,453,358,036	2,086,228,841	1,460,464,302
Profit for the period	1,006,514,950	1,005,153,138	1,022,774,436	1,018,620,020
Remeasurement of defined benefit liability/(asset) (Refer Note 36)	(25,934,999)	(2,606,050)	(25,934,999)	(2,491,604)
Dividends to equity holders for year – 2015/16	(190,068,224)	(190,068,224)	(190,068,224)	(190,068,224)
Net transfers during the period (Refer Note 39.3)	(201,302,990)	(201,030,628)	(202,313,979)	(201,814,191)
Changes in non-controlling interest	–	–	–	1,518,538
Balance as at the end of the year	2,654,015,009	2,064,806,272	2,690,686,075	2,086,228,841

41. Non-Controlling Interests

Non-controlling interests represented 9.62% of net assets of the Unisons Capital Leasing Limited as at 31st March 2017. (9.62% as at 31st March 2016).

As at 31st March	2017 Rs.	2016 Rs.
Balance as at the beginning of the year	30,487,979	29,783,570
Profit for the year	2,309,840	2,154,378
Other comprehensive income for the year	159,801	68,569
Dividend paid by subsidiaries	(175,666)	–
Non-controlling interest acquired by parent	–	(1,518,538)
Balance as at the end of the year	32,781,954	30,487,979

In 2016, Company subscribed to the rights issue of its subsidiary company Unisons Capital Leasing Limited and purchased 7.8 Mn shares, increasing the holding percentage to 90.38%.

See accounting policy in Note 3.1.3 (Page 254).

42. Net Assets Value per Share

As at 31st March	Company		Group	
	2017	2016	2017	2016
Numerator				
Total equity attributable to equity holders (Rs.)	6,241,164,500	5,051,968,494	6,282,139,886	5,075,183,069
Denominator				
Total number of shares	54,305,207	54,305,207	54,305,207	54,305,207
Net assets value per share (Rs.)	114.93	93.03	115.68	93.46

43. Commitments and Contingencies

See accounting policy in Note 3.26 (Page 262).

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Contingencies				
– Contingent liabilities/(assets)	–	–	–	Nil
Commitments				
– Capital commitments (Refer Note 43.1)	123,100,100	142,000,000	123,100,100	142,000,000
Total contingencies and commitments	123,100,100	142,000,000	123,100,100	142,000,000

Refer Note 45 for litigations against the Company.

Indirect credit facilities includes loans and receivables to customers and Company do not provide any indirect credit facilities at the moment.

43.1 Capital Commitments

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Commitments in relation to property, plant & equipment				
– Approved and contracted for	20,600,000	26,200,000	20,600,000	26,200,000
– Approved but not contracted for	3,500,000	15,800,000	35,000,000	15,800,000
Commitments in relation to intangible assets				
– Approved and contracted for	99,000,000		99,000,000	
– Approved but not contracted for		100,000,000		100,000,000
Total capital commitments	123,100,000	142,000,000	123,100,000	142,000,000

43.2 Contingencies and Commitments of Subsidiaries and Associates

Subsidiaries of the Company do not have any contingencies or commitments as at the reporting date.

43.3 Operating Lease Commitment

Operating lease rental commitments which are cancellable with prior notice as specified in the agreement is Rs. 739 Mn as at 31st March 2017, Rs. 585 Mn is due within 5 years and Rs. 154 Mn is due after 5 years from the reporting date.

44. Related Party Disclosures

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 Sri Lanka Accounting Standard (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 entitled to the scheme of benefits which all the other staff members are uniformly entitled.

44.1 Parent and Ultimate Controlling Party

The Company (CDB) does not have an identifiable parent of its own.

44.2 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	<p>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 KMPs 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.</p> <ol style="list-style-type: none">1. CDB Microfinance Limited2. Unisons Capital Leasing Limited

44.2.1 Compensation of KMP

As at 31st March	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Short-term employment benefits	86,366,447	66,578,980	86,366,447	66,578,980
Terminal benefits	–	7,816,575	–	7,816,575
Post-employment benefits	–	–	–	–
Total compensation	86,366,447	74,395,555	86,366,447	74,395,555

In addition to above the Company/Group provide non-cash benefits such as fuel, medical to KMPs.

44.2.2 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 KMP domestic partner and dependents of the KMP domestic partner. CFM are related party to the Group/Company. Aggregate value of the transactions with KMPs and their CFMs are described below:

As at 31st March	Year end Balance		Average Balance	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Assets				
Loans and receivables	NIL	NIL	NIL	NIL
Other credit facilities	NIL	NIL	NIL	NIL
Total assets	NIL	NIL	NIL	NIL
Liabilities				
Deposits placed by KMPs and CFMs	35,166,111	39,656,668	35,166,111	39,656,668
Other credit facilities	NIL	NIL	NIL	NIL
Total liabilities	35,166,111	39,656,668	35,166,111	39,656,668
Commitments and contingencies	NIL	NIL	NIL	NIL
Total outstanding balance	35,166,111	39,656,668	35,166,111	39,656,668
For the year ended 31st March			2017 Rs.	2016 Rs.
Interest income			NIL	NIL
Interest expense			4,968,232	4,560,516
Total transactions during the year			4,968,232	4,560,516

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.

Dividends paid to KMPs and CFMs

For the year ended 31st March	2017 Rs.	2016 Rs.
Number of ordinary shares (Voting) held	4,159,663	3,958,757
Number of ordinary shares (Non-Voting) held	14,907	14,907
Cash dividends paid	14,610,995	2,081,811
Scrip dividends paid	NIL	NIL

44.3. Transactions with Group Companies

The Group entities include the two subsidiaries mentioned in Note 44.2. Aggregate value of the transactions with subsidiaries are described below:

CDB Microfinance Company Limited

Statement of Financial Position

As at 31st March 2017

	2017 Rs.	2016 Rs.
Receivable for expenses incurred by CDB	485,002	485,002

CDB and CDB Microfinance collectively promote an online vehicle trading platform. During the year there were no transactions with the Company and balances payable/receivable from such transactions.

Unisions Capital Leasing Limited (UCL)

Summary of Transactions

For the Year ended 31st March

	2017 Rs.	2016 Rs.
Savings		
Opening balance	1,011,704	NIL
Deposits during the year	433,561,304	294,028,754
Withdrawals during the year	(415,830,394)	(293,173,796)
Interest credited	524,244	156,746
Closing balance at the year end	19,266,858	1,011,704

Fixed Deposits

Opening balance	82,765,871	NIL
Deposits during the year	NIL	82,765,871
Withdrawals during the year	(84,057,298)	NIL
Interest credited	1,291,427	NIL
Closing balance at the year end	NIL	82,765,871

Credit Facilities

Term Loan

Opening balance	NIL	NIL
Loans granted during the year	50,000,000	NIL
Interest income	3,626,927	NIL
Loan settlements	45,601,546	NIL
Closing balance at the year end	4,398,454	NIL

Securitisations

Opening balance	NIL	NIL
Loans granted during the year	100,000,000	NIL
Interest income	5,868,343	NIL
Loan settlements	2,143,602	NIL
Closing balance at the year end	97,856,398	NIL

For the Year ended 31st March	2017 Rs.	2016 Rs.
Inter company current account balance	17,382,988	3,521,826
Other transactions with UCL		
Reimbursement of expenses of shared services by UCL	9,907,166	NIL
Commitments and Contingencies		
For the Year ended 31st March	2017 Rs.	2016 Rs.
Undrawn facilities	NIL	NIL
Other commitments	NIL	NIL

44.4 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.

Name of Entity	Shareholding as at 31st March	Common Directors	Nature of transaction	2017 Rs.	2016 Rs.
Ceylinco Life Insurance Limited	33.54%	Mr. D H J Gunawardena Mr. S R Abenayake	For the year ended 31st March		
			Assets		
			Loans and receivables	NIL	NIL
			Credit facilities	NIL	NIL
			Any other commitments/ contingencies/undrawn facilities	NIL	NIL
			Total	NIL	NIL
			Liabilities		
			Deposits	250,000,000	250,000,000
			Debentures	99,600,000	99,600,000
			Total	349,600,000	349,600,000

45. Litigation Against the Company

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. The Group has established a formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated group makes adjustments 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 have 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 7th September 2017.
- B. Court action have 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 18th May 2017.
- C. Court action have 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 8th September 2017.
- D. Court action have 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 replication on 19th September 2017.
- E. Court action have 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 1st defendant's answer on 12th June 2017.
- F. Court action have 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 12th July 2017.
- G. Court action have 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 fix for trial on 15th June 2016.
- H. Court action have 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 1st, 2nd, 3rd and 4th defendant's answer on 30th June 2017.
- I. Court action have 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 1st, 2nd, 3rd and 4th defendant's answer on 30th June 2017.
- J. There were 5 pending cases bearing nos DSP37/13, DSP 513/15, MR552, DMR1620/15, DMR1621/15 related to lending facilities calming a total sum of Rs. 3.26 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.

46. Events that Occurred after the Reporting Date

Events after the reporting date are those favourable and unfavourable events that occur between the reporting date and the date when Financial Statements are authorised for issue.

Proposed Dividends

The Board of Directors has recommended a dividend of three rupee and fifty cents (Rs. 3.50) per share on both 46,299,223 voting ordinary shares and 8,005,984 non-voting ordinary shares aggregating to a sum of Rupees hundred and ninety million sixty-eight thousand two hundred and twenty-four as the first and final dividend for the financial year ended 31st March 2017.

There were no other events except above occurring after the reporting date which require disclosures adjustments to the Financial Statements.

47. Segmental Analysis

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.

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 contribution 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 contribution and asset information on the Company's and Group's strategic business divisions for the year ended 31st March 2017 and comparative figures.

Company

	Lease and Stock Out on Hire		Loans and Advances		Other		Total	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Interest income	5,744,819,479	5,339,932,963	1,399,160,562	1,003,371,405	443,200,179	303,719,958	7,587,180,220	6,647,024,326
Non-interest income	–	–	–	–	1,004,038,251	838,980,411	1,004,038,251	838,980,411
Segmented revenue	5,744,819,479	5,339,932,963	1,399,160,562	1,003,371,405	1,447,238,430	1,142,700,369	8,591,218,471	7,486,004,737
Interest cost	3,090,958,258	2,525,693,749	863,248,658	552,475,949	745,274,965	510,243,579	4,699,481,882	3,588,413,277
Charges for impairment and other credit losses	281,062,941	388,642,837	(54,793,308)	10,746,551	–	–	226,269,633	399,389,388
Segment contribution	2,372,798,280	2,425,596,377	590,705,212	440,148,905	701,963,465	632,456,790	3,665,466,956	3,498,202,072
Unallocated expenses							2,268,048,617	2,075,027,266
VAT on financial services, NBT and crop insurance levy							169,916,213	169,231,306
Profit from before tax							1,227,502,126	1,253,943,500
Income tax expenses							220,986,176	248,790,365
Profit for the year							1,006,514,950	1,005,153,138
Segment assets	32,243,608,713	31,044,502,322	10,945,401,287	6,729,821,858	6,785,678,705	8,474,004,804	49,974,688,705	46,248,328,984
Unallocated assets							3,959,596,437	4,377,983,244
Total assets	32,243,608,713	31,044,502,322	10,945,401,287	6,729,821,858	6,785,678,705	8,474,004,804	53,934,285,142	50,626,312,228

Group

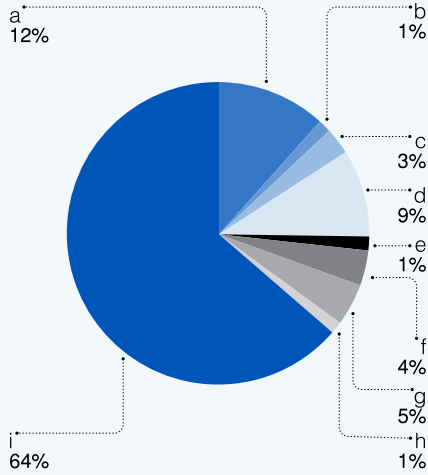
	Lease and Stock Out on Hire		Loans and Advances		Other		Total	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Interest income	5,831,664,857	5,357,735,122	1,406,322,644	1,038,257,369	447,836,074	306,891,546	7,685,823,575	6,702,884,036
Non-interest income					1,017,233,748	846,394,985	1,017,233,748	846,394,985
Segmented revenue	5,831,664,857	5,357,735,122	1,406,322,644	1,038,257,369	1,465,069,822	1,153,286,531	8,703,057,323	7,549,279,021
Interest cost	3,187,038,337	2,616,098,728	919,482,548	538,274,823	601,187,443	437,045,567	4,707,708,328	3,591,419,117
Charges for impairment and other credit losses	286,999,392	388,642,837	(54,793,308)	15,912,980	-	-	232,206,084	404,555,817
Segment contribution	2,357,627,128	2,352,993,557	541,633,404	484,069,566	863,882,379	716,240,964	3,763,142,911	3,553,304,087
Unallocated expenses							2,330,738,330	2,101,977,735
VAT on financial services, NBT and crop insurance levy							172,625,626	172,859,238
Profit from before tax							1,259,778,955	1,278,467,114
Income tax expenses							234,694,679	257,692,714
Profit for the year							1,025,084,276	1,020,774,400
Segment assets	32,739,517,335	31,178,465,863	10,865,679,838	7,575,099,296	5,122,111,809	6,935,066,315	48,727,308,982	45,688,631,474
Unallocated assets							5,506,143,871	4,957,455,836
Total assets	32,739,517,335	31,178,465,863	10,865,679,838	7,575,099,296	5,122,111,809	6,935,066,315	54,233,452,853	50,646,087,310

Geographical Segments

Revenue segmented based on the geographical location of the Asset/Branch is provided below.:

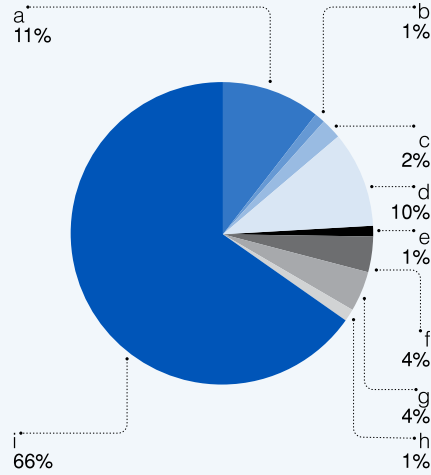
Revenue – Province-wise	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Central	904,364,464	881,301,989	904,364,464	881,301,989
Eastern	93,041,621	88,116,497	93,041,621	88,116,497
North Central	203,499,997	213,203,867	203,499,997	213,203,867
North Western	863,761,809	703,850,862	863,761,809	703,850,862
Northern	97,387,283	104,077,281	97,387,283	104,077,281
Sabaragamuwa	336,480,905	286,905,159	336,480,905	286,905,159
Southern	361,358,065	352,304,490	361,358,065	352,304,490
Uva	121,907,436	98,292,771	121,907,436	98,292,771
Western	5,609,416,890	4,757,951,819	5,721,255,743	4,819,226,105
Total Revenue	8,591,218,471	7,486,004,737	8,703,057,323	7,549,279,021

**Geographical Segments – Company
2015/16**



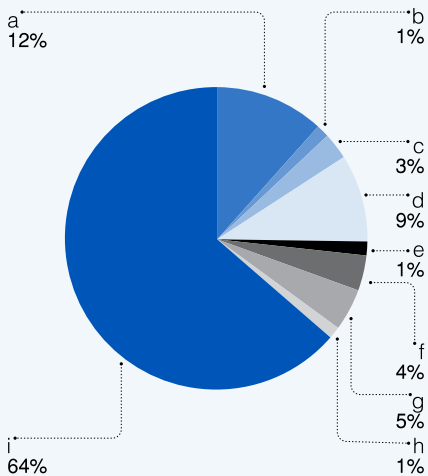
a – Central Province f – Sabaragamuwa Province
 b – Eastern Province g – Southern Province
 c – North Central Province h – Uva Province
 d – North Western Province i – Western Province
 e – Northern Province

**Geographical Segments – Company
2016/17**



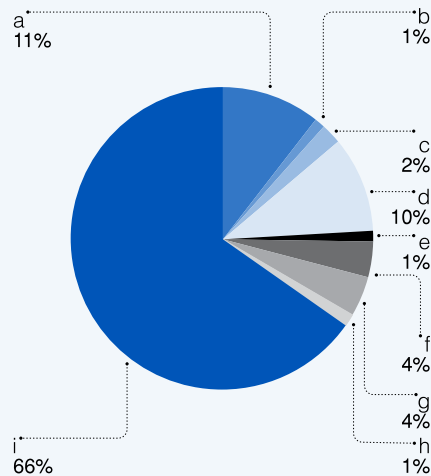
a – Central Province f – Sabaragamuwa Province
 b – Eastern Province g – Southern Province
 c – North Central Province h – Uva Province
 d – North Western Province i – Western Province
 e – Northern Province

**Geographical Segments – Group
2015/16**



a – Central Province f – Sabaragamuwa Province
 b – Eastern Province g – Southern Province
 c – North Central Province h – Uva Province
 d – North Western Province i – Western Province
 e – Northern Province

**Geographical Segments – Group
2016/17**



a – Central Province f – Sabaragamuwa Province
 b – Eastern Province g – Southern Province
 c – North Central Province h – Uva Province
 d – North Western Province i – Western Province
 e – Northern Province

48. Maturity Analysis

Remaining contractual period to maturity as at the date of Statement of Financial Position of the Company's assets, liabilities and shareholders' funds is detailed below:

Maturity Analysis as at 31st March 2017

Assets/Liabilities	Note	Maturity Period			
		Up to 1 Month	2 – 3 Months	4 – 6 Months	7–12 Months
Assets					
Cash and cash equivalents	19	454,060,886			
Financial instruments – held-for-sale	20	163,041,242			
Loans and receivables to banks	21	655,672,752			
Deposits with licensed commercial banks	22	547,883,159	387,543,056	323,726,004	634,462,754
Loans and receivables to customers	23	3,592,710,652	2,678,897,638	3,622,863,049	6,729,469,630
Investment securities	24	423,545,675	98,950,721	486,486,506	1,390,859,470
Investment in subsidiaries	25				
Investment property	26				
Property, plant & equipment	27				
Intangible assets	28				
Other assets	30	269,153,342	421,865,024	417,910,434	471,633,377
Total assets		6,106,067,708	3,587,256,439	4,850,985,993	9,226,425,231
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	31	6,839,274,405	7,064,568,451	4,855,720,721	6,205,781,343
Debt securities issued	32				
Other interest-bearing borrowings	33	409,059,069	991,173,961	1,377,638,823	2,944,403,751
Current tax liabilities	34		178,702,459		
Deferred tax liability	35	45,749,136	32,105,369	47,290,318	90,480,768
Retirement benefit obligation	36		15,793,782		
Other liabilities	37	527,703,687	405,136,266	289,589,490	12,990,014
Equity					
Stated capital	38				
Reserves	39				
Retained earnings	40				
Total liabilities and equity		7,821,786,297	8,687,480,288	6,570,239,352	9,253,655,876
Percentage of total liabilities equity (%)		14.50	16.11	12.18	17.16
Cumulative percentage (%)		14.50	30.63	42.81	59.97
Maturity gap		(1,715,718,589)	(5,100,223,849)	(1,719,253,359)	(27,230,645)
Cumulative maturity gap		(1,715,718,589)	(6,815,942,438)	(8,535,426,442)	(8,562,426,442)
Asset/Liability gap – Cumulative percentage (%)		-3.18	-12.64	-15.83	-15.88

Maturity Period					(Rs.)
13–24 Months	25–36 Months	37–60 Months	More than 60 months	Unclassified	Total
					454,060,886
					163,041,242
					655,672,752
					1,893,614,973
11,090,166,379	8,354,551,668	7,072,273,630	48,077,354	–	43,189,010,000
15,882,521	5,100,138	64,256,031	1,078,350,943	–	3,563,432,005
				509,917,734	509,917,734
				20,197,977	20,197,977
				1,839,091,339	1,839,091,339
				65,684,057	65,684,057
–	–	–	–	–	1,580,562,177
11,106,048,900	8,359,651,806	7,136,529,661	1,126,428,297	2,434,891,107	53,934,285,142
20.59	15.50	13.23	2.09	4.51	
64.67	80.17	93.40	95.49	100.00	
5,442,045,967	1,134,532,168	1,059,912,717	–	–	32,601,835,772
1,037,815,628		1,037,815,628			2,075,631,256
2,494,919,552	1,579,580,926	1,160,240,681	–	–	10,957,016,763
					178,702,459
161,926,796	129,722,211	108,960,740	12,485,815	–	628,721,153
					15,793,782
				–	1,235,419,456
				1,185,061,645	1,185,061,645
				2,402,087,846	2,402,087,846
				2,654,015,009	2,654,015,009
9,136,707,943	2,843,835,305	3,366,929,766	12,485,815	6,241,164,500	53,934,285,142
16.94	5.27	6.24	0.02	11.57	
76.91	82.18	88.43	88.43	100.00	
1,969,340,957	5,515,816,501	3,769,599,895	1,113,942,482	(3,806,273,393)	
(6,593,085,485)	(1,077,268,984)	2,692,330,911	3,806,273,393	–	
-12.22	-2.00	4.99	7.06	–	

Maturity Analysis as at 31st March 2016

Assets/Liabilities	Note	Maturity Period			
		Up to 1 Month	2 – 3 Months	4 – 6 Months	7–12 Months
Assets					
Cash and cash equivalents	19	722,351,389			
Financial instruments – held-for-sale	20	121,963,136			
Loans and receivables to banks	21	2,967,869,560			
Deposits with licensed commercial banks	22	10,985,030	510,167,817	235,338,492	845,687,765
Loans and receivables to customers	23	2,747,632,171	2,269,081,831	3,176,459,436	5,717,166,026
Investment securities	24	362,001,112	296,753,621	770,061,336	788,163,998
Investment in subsidiaries	25				
Investment property	26				
Property, plant & equipments	27				
Intangible assets	28				
Other assets	30	99,630,049	199,260,098	298,890,147	597,780,294
Total assets		7,032,432,447	3,275,263,367	4,480,749,411	7,948,798,083
Percentage of total Assets (%)		13.89	6.47	8.85	15.7
Cumulative percentage (%)		13.89	20.36	29.21	44.91
Liabilities					
Deposits from customers	31	4,438,349,207	5,505,272,886	6,008,069,477	5,977,506,454
Debt securities issued	32			44,135,005	
Other interest-bearing borrowings	33	1,369,940,847	742,959,313	853,689,689	1,763,183,385
Current tax liabilities	34		109,133,435		
Deferred tax liability	35	34,143,721	24,006,715	35,090,421	65,924,351
Retirement benefit obligation	36		53,036,504		
Other liabilities	37	1,386,403,964	312,491,040		
Shareholder's funds					
Stated capital					
Reserves					
Retained earnings					
Total liabilities and equity		7,228,837,739	6,746,899,892	6,940,984,592	7,806,614,190
Percentage of total liabilities and equity (%)		14.28	13.33	13.71	15.42
Cumulative percentage (%)		14.28	27.61	41.32	56.74
Maturity gap		(196,405,292)	(3,471,636,527)	(2,460,235,181)	142,183,893
Cumulative gap		(196,405,292)	(3,668,041,819)	(6,128,277,000)	(5,986,093,107)
Asset/Liability gap – Cumulative (%)		-0.39	-7.25	-12.10	-11.82

Maturity Period					(Rs.)
13–24 Months	25–36 Months	37–60 Months	More than 60 Months	Unclassified	Total
					722,351,389
					121,963,136
					2,967,869,560
					1,602,179,104
9,512,379,437	7,300,664,251	7,197,633,940	617,903,097		38,538,920,189
5,078,298	15,640,445	5,101,251	1,029,275,209		3,272,075,270
				509,917,734	509,917,734
				20,197,977	20,197,977
				1,606,958,136	1,606,958,136
				68,319,145	68,319,145
					1,195,560,588
9,517,457,735	7,316,304,696	7,202,735,191	1,647,178,306	2,205,392,992	50,626,312,228
18.80	14.45	14.23	3.25	4.36	
63.71	78.16	92.39	95.64	100.00	
5,517,919,443	1,811,929,607	1,628,646,725	–		30,887,693,800
	1,000,000,000				1,044,135,005
3,129,026,565	1,922,317,225	1,510,069,361	10,499,016		11,301,685,401
					109,133,435
116,146,204	94,068,934	102,934,194	7,450,047		479,764,584
					53,036,495
					1,698,895,014
				1,185,061,645	1,185,061,645
				1,802,100,577	1,802,100,577
				2,064,806,272	2,064,806,272
8,763,092,212	4,828,315,766	3,241,650,279	17,949,063	5,051,968,494	50,626,312,228
17.31	9.54	6.40	0.04	9.98	
74.05	83.58	89.99	90.02	100.00	
754,365,523	2,487,988,930	3,961,084,910	1,629,229,246	(2,846,575,502)	
(5,231,727,584)	(2,743,738,654)	1,217,346,256	2,846,575,502	–	
-10.33	-5.42	2.40	5.62	–	

49. Comparative Information

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

	Note	Company		Group	
		Reclassified	As disclosed in 2015/16	Reclassified	As disclosed in 2015/16
Trading income from sale of vehicles	10		31,978,612		31,978,612
Other operating income		263,497,753	231,519,141	266,310,920	234,332,308
Dividend income from AFS equity instruments	10	10,820,446	11,638,818	10,874,446	11,692,818
Dividend income from trading equity instruments		818,372	–	818,372	–

Statement of Financial Position

	Note	Company		Group	
		Reclassified	As disclosed in 2015/16	Reclassified	As disclosed in 2015/16
Corporate debentures	24.1			10,179,549	15,584,843
Treasury bonds				129,726,540	124,321,246

There were no reclassifications during the year other than the ones which have mentioned above.

50. Financial Risk Review

This note presents information about the Company's exposure to financial risks and the Company's management of capital. For more information on the Company's financial risk management framework see Note 6 in page 267.

	Page
A. Credit Risk	333
i. Credit quality analysis	333
ii. Impaired loans and receivables and other financial instruments	338
iii. Collateral held and other credit enhancements	338
iv. Concentration of credit risk	339
v. Offsetting financial assets and liabilities	343
B. Liquidity Risk	344
i. Exposure to liquidity risk	344
ii. Maturity analysis for financial assets and liabilities	345
iii. Liquidity reserves	345

	Page
C. Market Risk	347
i. Exposure to market risk	347
ii. Value at risk (VaR)	348
iii. Exposure to interest rate risk	348
iv. Exposure to currency risk	350
v. Exposure to equity price risk	350
vi. Exposure to gold price risk	351
D. Capital Management	351
i. Regulatory capital adequacy	351
ii. Capital allocation	353

A. Credit Risk

For definition of credit risk and information on how credit risk is managed by the Company, see Note 6 (A).

A i. Credit Quality Analysis

The table below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Company against those assets.

A i.i. Definition of Past Due

The Company manages credit quality of financial assets using internal credit grading. The table below shows past due financial assets. For this analysis Company considers that any amount uncollected one month or more beyond their contractual due date as 'Past due'.

	Note	Neither Past Due Nor Impaired	Past Due but Not Impaired	Individually Impaired	Unrated	Total
As at 31st March 2017						
Cash and cash equivalents	19	454,060,886				454,060,886
Financial instruments held-for-trading	20	163,041,242				163,041,242
Loans and receivables to banks	21	655,672,752				655,672,752
Deposits with licensed commercial banks	22	1,893,614,973				1,893,614,973
Loans and receivables to customers	23	28,271,873,496	14,567,159,433	349,977,071		43,189,010,000
Investment securities	26	20,197,977				20,197,977
Other non-financial assets					7,558,687,312	7,558,687,312
Total assets		31,458,461,326	14,567,159,433	349,977,071	7,558,687,312	53,934,285,142
As at 31st March 2016						
Cash and cash equivalents	19	722,351,389				722,351,389
Financial instruments held-for-trading	20	121,963,136				121,963,136
Loans and receivables to banks	21	2,967,869,560				2,967,869,560
Deposits with licensed commercial banks	22	1,602,179,104				1,602,179,104
Loans and receivables to customers	23	25,207,418,822	12,579,759,773	751,741,594		38,538,920,189
Investment securities	26	20,197,977				20,197,977
Other non-financial assets					6,652,830,873	6,652,830,873
Total assets		30,641,979,988	12,579,759,773	751,741,594	6,652,830,873	50,626,312,228

A i.ii. Maximum Exposure to Credit Risk – Based on Aging

Table below shows the exposure to credit risk based on the aging of each instrument:

As at 31st March	Loans and Receivables to Customers		Loans and Receivables to Banks		Deposits with Licensed Commercial Banks		Other Financial Instruments	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
At Amortised Cost								
0-30 Days	30,715,029,378	27,244,565,432	655,672,752	2,967,869,560	1,893,614,973	1,602,179,104	2,529,218,247	2,351,480,862
31-60 Days	6,433,365,516	6,278,921,255						
61-90 Days	3,130,770,133	2,834,421,345						
91-120 Days	1,565,091,726	1,090,862,181						
121-150 Days	627,271,814	463,761,254						
151-180 Days	486,319,035	293,914,146						
Above 180 Days	1,125,866,793	1,149,892,999						
Total gross amount	44,083,714,395	39,356,338,612	655,672,752	2,967,869,560	1,893,614,973	1,602,179,104	2,529,218,247	2,351,480,862
Allowance for impairment	(894,704,395)	(817,418,423)						
Net carrying amount	43,189,010,000	38,538,920,189	655,672,752	2,967,869,560	1,893,614,973	1,602,179,104	2,529,218,247	2,351,480,862
Available for Sale								
0-30 Days							1,034,213,758	920,594,408
Above 180 Days							24,664,550	24,664,550
Total gross amount							1,058,878,308	945,258,958
Allowance for impairment							(24,664,550)	(24,664,550)
Net carrying amount							1,034,213,758	920,594,408
Held for Trading								
0-30 Days							163,041,242	121,963,136
Total gross amount							163,041,242	121,963,136
Allowance for impairment							-	-
Net carrying amount							163,041,242	121,963,136
Maximum exposure	43,189,010,000	38,538,920,189	655,672,752	2,967,869,560	1,893,614,973	1,602,179,104	3,726,473,247	3,394,038,406

** 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 and the age recorded after the reschedulement.

A.i.iii. Impaired Loans and Receivables and Other Financial Instruments

See Accounting Policy in Note 3.4.7.

The Company regards a loan and receivable or a debt security 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).

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.

Loans that are subject to collective impairment provision are not considered impaired. Table below sets out information about the financial instruments which were impaired:

As at 31st March	2017 Rs.	2016 Rs.
Impaired Financial Instruments		
Loans and receivables to customers	301,651,993	233,451,811
investment securities	24,664,550	24,664,550
Total impaired value	326,316,543	258,116,361

A.i.iv. Loans and Receivables with Renegotiated Terms and the Company's Forbearance Policy

See Accounting Policy in Note 3.4.7.

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:

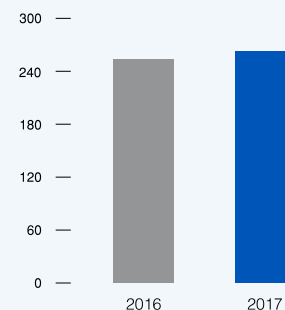
As at 31st March	2017 Rs.	2016 Rs.
Loans with Renegotiated Terms		
Gross carrying amount	262,683,126	252,858,440
Total gross loans and receivables	44,083,714,395	39,356,338,612
Percentage of negotiated loans	0.6%	0.6%

Renegotiated Facilities

Rs. Mn

2016/17
263

2015/16
253



A.i.v. Allowance for Impairment

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.vi. 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. The Company generally does not use the non-cash collateral for its own operations.

A.i.vii. Impairment of Loans and Receivables to Customers

For the year ended 31st March	2017 Rs.	2016 Rs.
Individually significant loans and receivables – impaired (Gross)	559,375,564	985,193,405
Less: Allowance for individual impairment (Refer Note 23.2)	(301,651,993)	(233,451,811)
	257,723,571	751,741,594
Individually not significant loans and receivables to customers and individually non-impaired customers (Gross)	43,524,338,831	38,371,145,207
Less: Allowance for collective impairment (Refer Note 23.2)	(593,052,402)	(583,966,612)
	42,931,286,429	37,787,178,595
Net loans and receivables to customers	43,189,010,000	38,538,920,189

A.i.viii. Collective Impairment of Loans and receivables to Customers – Based on Aging

Table below shows the impairment percentages of collectively-assessed customers.

As at 31st March	2017			2016		
	Gross Loans (Rs.)	Impairment (Rs.)	Impairment %	Gross Loans (Rs.)	Impairment (Rs.)	Impairment %
Aging**						
0-30 Days	30,155,653,814	49,614,072	0.2	25,933,808,254	56,500,672	0.2
31-60 Days	6,433,365,516	35,212,165	0.5	6,754,668,086	48,927,799	0.7
61-90 Days	3,130,770,133	36,939,398	1.2	2,921,092,369	41,696,811	1.4
91-120 Days	1,565,091,726	46,464,322	3.0	993,332,641	35,852,076	3.6
121-150 Days	627,271,814	47,434,903	7.6	432,082,250	36,896,301	8.5
151-180 Days	486,319,035	65,852,180	13.5	272,594,150	38,876,028	14.3
Above 180 Days	1,125,866,793	311,535,362	27.7	1,063,567,457	325,216,925	30.6
	43,524,338,831	593,052,402		38,371,145,207	583,966,612	
Net loans and receivables		42,931,286,429			37,787,178,595	

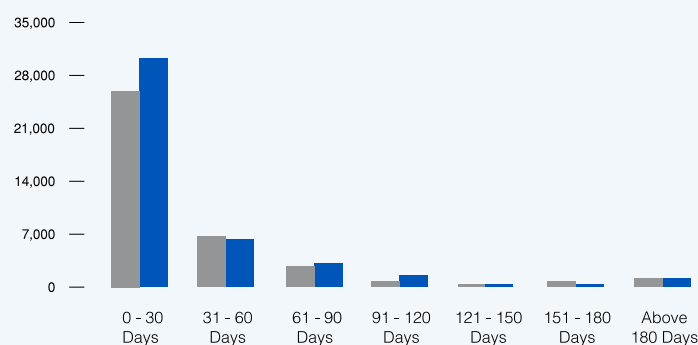
** Age represents the period in days which any amount uncollected or due beyond their contractual due date. For rescheduled loans age is calculate-based on the initial due date of the original contract and the age recorded after the reschedulement.

Gross Loans and Receivables

Rs. Mn

As at 31st March

■ 2017
■ 2016

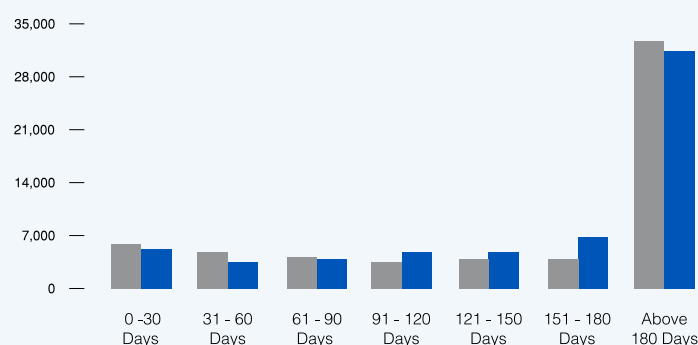


Allowance for Impairment

Rs. Mn

As at 31st March

■ 2017
■ 2016



A.i.ix. Credit Ratings of Financial Instruments

Table below sets out the credit quality of financial investments based on the instruments' credit ratings.

As at 31st March

Note

2017
Rs.

2016
Rs.

Financial instruments held-for-trading

Equity instruments	20	63,938,231	21,962,815
Government securities – Risk free investment		99,103,011	100,000,321
		163,041,242	121,963,136

Loans and receivable to banks

Repurchase agreements – Treasury bills	21	655,672,752	2,967,869,560
		655,672,752	2,967,869,560

Deposits with licensed commercial banks

	22		
Rated AA+		109,239,138	46,674,437
Rated AA		114,942,675	26,706,158
Rated AA-		153,814,938	154,478,109
Rated A+		650,524,732	596,233,189
Rated A		117,865,665	115,324,644
Rated BB-		644,349,756	340,215,801
Rated BBB-		102,878,069	322,546,765
		1,893,614,973	1,602,179,104

A. ii. Impaired Loans and Receivables and Other Financial Instruments

Reconciliation of changes in the carrying amount of individually impaired loan and receivables to customers of the Company are as follows:

For the year ended 31st March	2017 Rs.	2016 Rs.
Loans and receivables to customers		
Impaired loans and receivables to customers as at 1st April	233,451,811	337,322,102
Newly classified as impaired during the year	222,512,694	148,872,749
Net payment, write-off, recoveries and disposals during the year	(154,312,512)	(252,743,040)
Impaired loans and receivables to customers as at 31st March	301,651,993	233,451,811

For the details of impairment allowances, see Note 23.

For the year ended 31st March	2017 Rs.	2016 Rs.
Other Financial Instruments		
Impaired debt securities as at 1st April	24,664,550	24,664,550
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 debt securities as at 31st March	24,664,550	24,664,550

***This impairment is for unquoted shares classified as AFS.*

For the details of impairment allowances, see Note 24.

A.iii. Collateral Held and Other Credit Enhancements

A.iii.i. Collateral Held

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:

As at 31st March	Note	Percentage of Exposure that is Subject to Collateral Requirements		Type of Collateral Held
		2017 Rs.	2016 Rs.	
Loans and receivables to banks				
Repurchase agreements	21	100	100	Marketable Securities
Loans and receivable to customers				
Lease and hiring contracts	23	100	100	Vehicles
Mortgage loan		100	100	Property and Equipments
Personal loans and staff loans		-	-	Vehicles and Guarantors
Loans against deposits		100	100	Lien Deposits
Gold loans		100	100	Gold Loan 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-value (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 31st March	Note	2017 Rs.	%	2016 Rs.	%
LTV ratio – Finance leases					
Less than 50%	23	1,736,107,711	6	898,687,283	3
51%-70%		10,775,322,558	35	5,691,417,520	21
71%-90%		12,344,758,861	40	12,785,822,476	47
More than 90%		5,827,377,310	19	8,053,563,541	29
Total		30,683,566,441		27,429,490,821	
LTV ratio – Hiring contracts					
Less than 50%	23	172,718,970	7	287,955,546	7
51%-70%		540,070,745	22	981,447,680	22
71%-90%		1,354,505,799	56	2,508,631,679	57
More than 90%		347,394,072	14	601,115,917	14
Total		2,414,689,586		4,379,150,822	
LTV ratio – Other loans					
Less than 50%	23	4,109,431,843	45	2,568,956,791	46
51%-70%		3,442,110,842	38	1,839,641,342	33
71%-90%		987,318,550	11	747,371,038	13
More than 90%		541,475,534	6	452,400,490	8
Total		9,080,336,770		5,608,369,662	

**** 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 receivables to customers and other financial investments are shown below:

A.iv.i. Concentration of Loans and Receivables

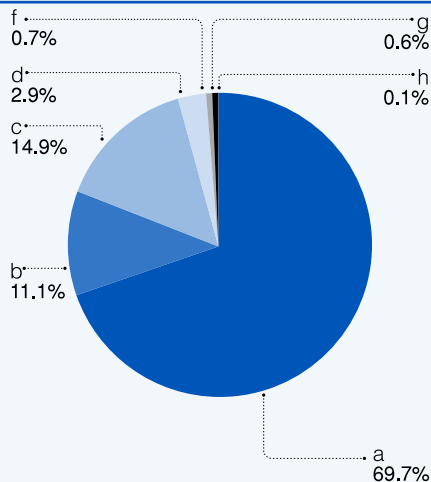
A.iii.i.i. Product Concentration

The Company monitors concentration of credit risk by product categories and an analysis is shown below:

As at 31st March	2017 Rs.	%	2016 Rs.	%
Leasing	30,683,566,441	69.6	27,429,490,821	69.7
Hire purchase	2,414,689,586	5.5	4,379,150,822	11.1
Vehicle and term loans	8,635,587,891	19.6	5,853,043,899	14.9
Loans against deposits	1,314,221,663	3.0	1,159,281,262	2.9
Staff loans	346,060,493	0.8	272,271,327	0.7
Gold related lending	602,606,303	1.4	232,345,858	0.6
Other	86,982,018	0.2	30,754,624	0.1
Total gross loans and receivables to customers	44,083,714,395		39,356,338,612	

Product Concentration

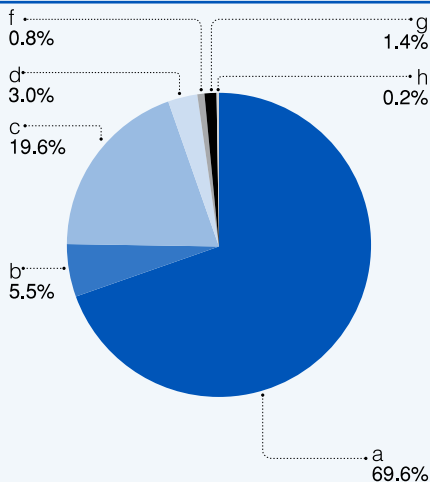
As at 31st March 2016



a – Leasing
b – Hire Purchase
c – Vehicle and Term Loans
d – Loans against Deposits
e – Staff Loans
f – Gold Related Lending
g – Other

Product Concentration

As at 31st March 2017



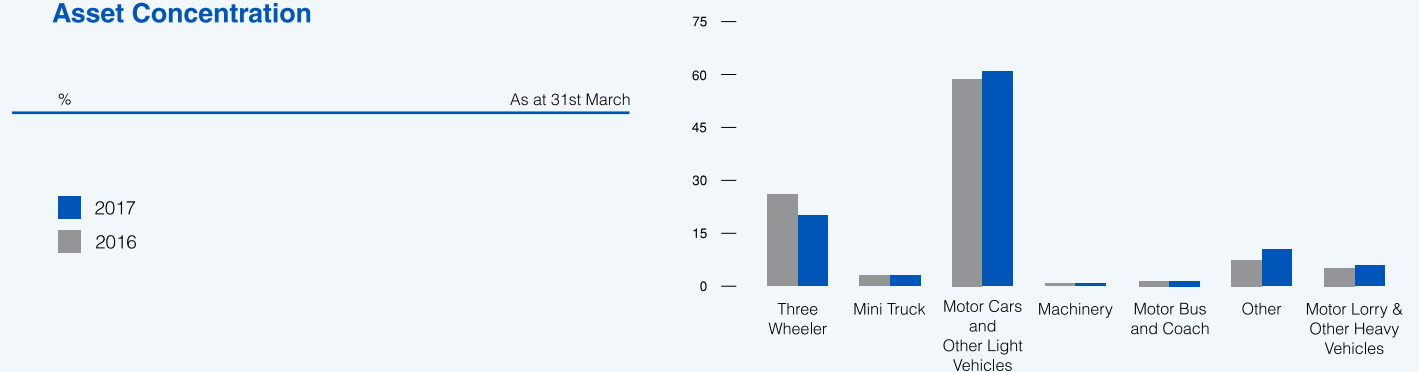
a – Leasing
b – Hire Purchase
c – Vehicle and Term Loans
d – Loans against Deposits
e – Staff Loans
f – Gold Related Lending
g – Other

A.iv.i.ii. Asset Concentration

The Company monitors concentration of credit risk by asset categories and an analysis is shown below:

As at 31st March	2017 Rs.	%	2016 Rs.	%
Three wheeler	8,686,167,357	19.7	10,088,707,854	25.6
Mini truck	1,106,092,066	2.5	1,251,308,328	3.2
Motor cars and other light vehicles	26,872,552,244	61.0	23,075,303,905	58.6
Machinery	101,337,504	0.2	3,503,070	0.0
Motor bus and coach	312,848,952	0.7	236,396,432	0.6
Other	4,362,018,228	9.9	2,830,773,772	7.2
Motor lorry and other heavy vehicles	2,642,698,044	6.0	1,870,345,251	4.8
Total gross loans and receivables to customers	44,083,714,395		39,356,338,612	

Asset Concentration



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. Company'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 31st March	2017 Rs.	%	2016 Rs.	%
Central	4,381,217,565	9.9	4,036,359,949	10.3
Eastern	783,606,161	1.8	692,510,929	1.8
North	459,760,191	1.0	393,297,335	1.0
North Central	1,533,106,201	3.5	1,485,889,441	3.8
North Western	5,421,808,141	12.3	4,882,964,850	12.4
Sabaragamuwa	3,688,049,800	8.4	3,428,443,781	8.7
Southern	2,325,464,589	5.3	2,187,006,716	5.6
Uva	1,513,471,887	3.4	1,460,121,441	3.7
Western	23,977,229,861	54.4	20,789,744,169	52.8
Total gross loans and receivables to customers	44,083,714,395		39,356,338,612	

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 31st March	2017 Rs.	%	2016 Rs.	%
Agricultural	129,124,793	0.3	179,008,491	0.5
Commercial	1,458,753,956	3.3	1,400,457,001	3.6
Financial services	1,032,404,058	2.3	920,136,097	2.3
Housing and property development	845,831,682	1.9	87,528,094	0.2
Industrial	120,024,128	0.3	136,957,223	0.3
Transport	35,769,159,448	81.1	27,812,638,890	70.7
Service	2,182,824,190	5.0	4,266,799,625	10.8
Tourism	89,656,707	0.2	174,543,276	0.4
Other	2,455,935,432	5.6	4,378,269,915	11.1
Total gross loans and receivables to customers	44,083,714,395		39,356,338,612	

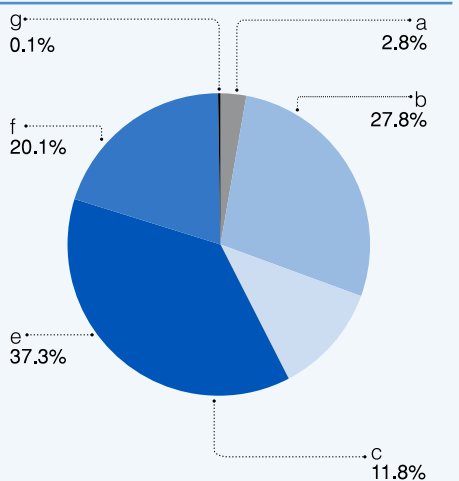
A.iii.ii. Concentration of Other Financial Investments

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 held-for-trading, loans and receivables to banks, deposits with licensed commercial banks and investment securities.

As at 31st March	2017 Rs.	%	2016 Rs.	%
Treasury bonds	223,378,747	3.6	224,321,567	2.8
Treasury bills	2,394,764,076	38.2	2,216,980,067	27.8
Quoted equity instruments	1,098,151,989	17.5	942,557,223	11.8
Repurchase agreements	655,672,752	10.4	2,967,869,560	37.3
Time deposits	1,893,614,973	30.2	1,602,179,104	20.1
Quoted corporate debentures	10,178,435	0.2	10,179,549	0.1
Total net other financial investments	6,275,760,972		7,964,087,070	

Concentration of Financial Investments

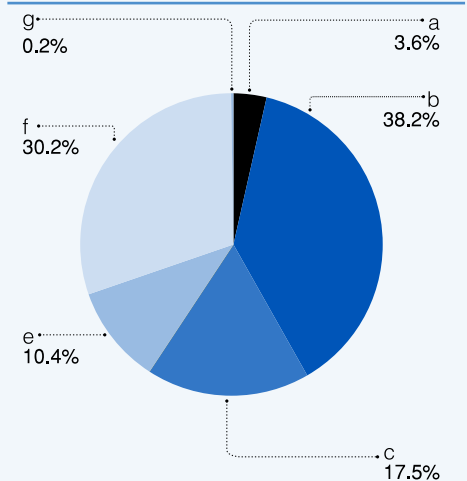
As at 31st March 2016



a – Treasury Bonds
b – Treasury Bills
c – Quoted Equity Instruments
d – Unquoted Equity Instruments
e – Repurchase Agreements
f – Time Deposits
g – Quoted Corporate Debentures

Concentration of Financial Investments

As at 31st March 2017



a – Treasury Bonds
b – Treasury Bills
c – Quoted Equity Instruments
d – Unquoted Equity Instruments
e – Repurchase Agreements
f – Time Deposits
g – 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 until event of default is occurred.

Table below shows financial assets subject to offsetting, enforceable master netting agreements and similar agreements:

As at 31st March	Gross Amount Recognised in Financial Assets Rs.	Gross Amount Recognised in Financial Liabilities		Net Exposure Rs.	Underlying Security Rs.
		Offset in Statement of Financial Position Rs.	Not Offset in Statement of Financial Position Rs.		
Types of financial assets					
Reverse sale and repurchase agreements	655,672,752	–	655,672,752	–	Treasury Bills
Loans and receivables to customers	1,314,221,663	–	1,314,221,663	–	Term Deposits

As at 31st March	Gross Amount Recognised in Financial Assets Rs.	Gross Amount Recognised in Financial Liabilities		Net Exposure Rs.	Underlying Security Rs.
		Offset in Statement of Financial Position Rs.	Not Offset in Statement of Financial Position Rs.		
Types of financial assets					
Reverse sale and repurchase agreements	2,967,869,560	–	2,967,869,560	–	Treasury Bills
Loans and receivables to customers	1,314,221,663	–	1,314,221,663	–	Term Deposits

B. Liquidity Risk

For the definition of liquidity risk and information on how liquidity risk is managed by the Company, see Note 6 (B).

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 31st March	2017	2016
As at 31st March	13.03	20.04
Average for the year	14.78	14.92
Maximum for the year	21.00	20.40
Minimum for the year	12.05	12.11

Minimum Liquidity Requirement

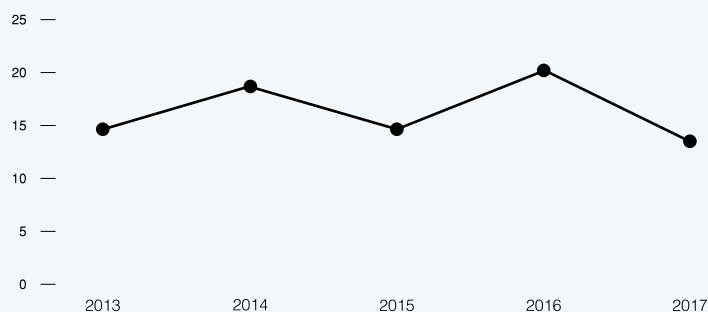
As per the Direction 4 of 2013 of Central Bank of Sri Lanka, every finance company shall maintain minimum holding of liquid assets. The table below sets out the components of the Company's holding of liquid assets:

	2017 Rs. '000	2016 Rs. '000
Required minimum amount of liquid assets	3,648,520	3,403,962
Total liquid assets (Refer Note B.iii)	4,650,390	6,664,229
Excess liquidity	1,001,870	3,260,267

Liquidity Ratio

%

As at 31st March



B.ii. Maturity Analysis for Financial Liabilities and Financial Assets

Maturity Analysis is given in Note 48 in Page 328.

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 31st March	Note	More than 12 Months	
		2017 Rs.	2016 Rs.
Financial assets			
Loans and receivables to customers	23	26,565,069,031	24,628,580,725
Investment securities	24	1,163,589,632	1,055,095,203
Total financial assets		27,728,658,663	25,683,675,929
Financial liabilities			
Deposits from customers	31	7,636,490,852	8,958,495,775
Debt securities issued	32	2,075,631,256	1,000,000,000
Other interest-bearing liabilities	33	5,234,741,159	6,571,912,167
Total financial liabilities		14,946,863,266	16,530,407,942

B.iii. Liquidity Reserves

The table below sets out the components of the Company's liquidity reserves as per the regulatory requirements of Central Bank of Sri Lanka.

As at 31st March	2017 Rs.	%	2016 Rs.	%
Cash and balances with other banks	420,401,000	1.0	315,477,000	0.7
Other cash and cash equivalents	1,284,565,000	2.9	1,233,098,000	2.8
Investments in Government Securities	2,945,424,000	6.7	5,115,654,000	11.6
Total liquidity reserves	4,650,390,000		6,664,229,000	

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 31st March 2017	Note	Encumbered		Unencumbered		Total
		Pledge as a Collateral Rs.	Other* Rs.	Available as Collateral Rs.	Other** Rs.	
Cash and cash equivalents	19			454,060,886		454,060,886
Financial instruments held-for-trading	20			163,041,242		163,041,242
Loans and receivables to banks	21			655,672,752		655,672,752
Deposits with licensed commercial banks	22	637,751,127		1,255,863,846		1,893,614,973
Loans and receivables from customers	23	5,400,400,000		35,468,029,887	2,320,580,113	43,189,010,000
Investment securities	24			1,034,213,758	2,529,218,247	3,563,432,005
Non-financial assets		170,957,951		3,844,495,333		4,015,453,284
Total assets		6,209,109,078		41,602,602,824	6,122,573,240	53,934,285,142

As at 31st March 2016	Note	Encumbered		Unencumbered		Total
		Pledge as a Collateral Rs.	Other* Rs.	Available as Collateral Rs.	Other** Rs.	
Cash and cash equivalents	19			722,351,389		722,351,389
Financial instruments held-for-trading	20			121,963,136		121,963,136
Loans and receivables to banks	21			2,967,869,560		2,967,869,560
Deposits with licensed commercial banks	22	534,842,691		1,067,336,413		1,602,179,104
Loans and receivables from customers	23	5,200,400,000		31,643,867,119	1,694,653,070	38,538,920,189
Investment securities	24			920,594,408	2,351,480,862	3,272,075,270
Non-financial assets		216,870,436		3,184,083,144		3,400,953,580
Total assets		5,952,113,127		35,748,544,671	8,925,654,430	50,626,312,228

* Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.

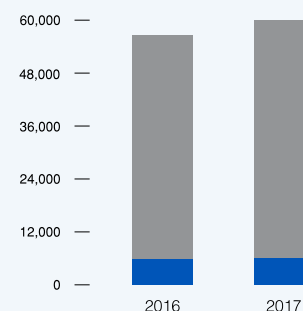
** Represents assets that are not restricted for use as collateral, but the Company would not consider them as readily available to secure funding in the normal course of business.

Financial Assets Pledged as Collateral

Rs. Mn

As at 31st March

- Total Assets
- Pledge Assets



C. Market Risk

See Note 6 (C) for the definition of market risk and information on how the Company manages the market risks of trading and non-trading portfolios.

C. i. Exposure to Market Risk

The table below sets out the allocation of Company's financial assets and liabilities subject to market risk between trading and non-trading assets.

As at 31st March 2017	Note	Carrying Amount Rs.	Market Risk Measure	
			Trading Assets Rs.	Non-Trading Assets Rs.
Assets subject to market risk				
Cash and cash equivalents	19	454,060,886	–	454,060,886
Financial instruments held-for-trading	20	163,041,242	163,041,242	–
Loans and receivables to banks	21	655,672,752	–	655,672,752
Deposits with licensed commercial banks	22	1,893,614,973	–	1,893,614,973
Loans and receivables to customers	23	43,189,010,000	–	43,189,010,000
Investment securities	24	3,563,432,005	1,034,213,758	2,529,218,247
Total assets		49,918,831,858	1,197,255,000	48,721,576,858
Liabilities subject to market risk				
Deposits from customers	31	32,601,835,772	–	32,601,835,772
Debt securities issued	32	2,075,631,256	2,075,631,256	–
Other interest-bearing liabilities	33	10,957,016,763	–	10,957,016,763
Total liabilities		45,634,483,791	2,075,631,256	43,558,852,535
As at 31st March 2016				
As at 31st March 2016	Note	Carrying Amount Rs.	Market Risk Measure	
			Trading Assets Rs.	Non-Trading Assets Rs.
Assets subject to market risk				
Cash and cash equivalents	19	722,351,389	–	722,351,389
Financial instruments held-for-trading	20	121,963,136	121,963,136	–
Loans and receivables to banks	21	1,602,179,104	–	1,602,179,104
Deposits with licensed commercial banks	22	1,602,179,104	–	1,602,179,104
Loans and receivables to customers	23	38,538,920,189	–	38,538,920,189
Investment securities	24	3,563,432,005	920,594,408	2,351,480,862
Total assets				
Liabilities subject to market risk				
Deposits from customers	31	30,887,693,800	–	30,887,693,800
Debt securities issued	32	1,044,135,005	1,044,135,005	–
Other interest-bearing liabilities	33	11,301,685,401	–	11,301,685,401
Total liabilities		43,233,514,206	1,044,135,005	42,189,379,201

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 portfolio 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 31st March 2017 and 2016 is given below:

As at 31st March 2017	Note	Carrying Amounts Rs.	Portfolio Value Rs.	Risk Adjusted Portfolio Value Rs.	Value at Risk Rs.
Trading Assets					
Government securities	20	99,103,011	100,000,000	107,882,124	7,882,124
Equity instruments		63,938,231	69,931,162	74,080,080	4,148,918
Total			169,931,162	181,962,204	12,031,042

As at 31st March 2016	Note	Carrying Amounts Rs.	Portfolio Value Rs.	Risk Adjusted Portfolio Value Rs.	Value at Risk Rs.
Trading Assets					
Government securities	20	100,000,321	100,000,000	105,936,843	5,936,843
Equity instruments		21,962,815	25,988,913	27,530,799	1,541,886
Total			125,988,913	133,467,642	7,478,729

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 repricing 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 31st March 2017	Note	Carrying Amount Rs.	Maturity			
			Less than 12 Months Rs.	1 - 2 Years Rs.	2 - 5 Years Rs.	More than 5 Years Rs.
Interest-bearing assets						
Financial instrument – held-for-trading	20	99,103,011	99,103,010.56	–	–	–
Loans and receivables to banks	21	655,672,752	655,672,752	–	–	–
Deposits with licensed commercial banks	22	1,893,614,973	1,893,614,973	–	–	–
Loans and receivables to customers	23	43,189,010,000	16,623,940,969	11,090,166,379	15,426,825,298	48,077,354
Investment securities	24	3,563,432,005	2,399,842,373	15,882,521	69,356,169	1,078,350,942
Total interest-bearing assets		49,400,832,741	21,672,174,077	11,106,048,900	15,496,181,466	1,126,428,296

As at 31st March 2017	Note	Carrying Amount	Maturity				
			Less than 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	
			Rs.	Rs.	Rs.	Rs.	Rs.
Interest-bearing liabilities							
Deposits from customers	31	32,601,835,772	24,965,344,920	5,442,045,967	2,194,444,885	–	
Debt securities issued	32	2,075,631,256	–	1,037,815,628	1,037,815,628	–	
Other interest-bearing liabilities	33	10,957,016,763	5,722,275,604	2,494,919,552	2,739,821,607	–	
Total interest-bearing liabilities		45,634,483,791	30,687,620,525	8,974,781,147	5,972,082,120	–	
Net interest-bearing assets gap		3,766,348,950	(9,015,446,447)	2,131,267,754	9,524,099,347	1,126,428,296	

As at 31st March 2016	Note	Carrying Amount	Maturity				
			Less than 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	
			Rs.	Rs.	Rs.	Rs.	Rs.
Interest-bearing assets							
Financial instruments – held-for-trading	20	100,000,321	100,000,321	–	–	–	
Loans and receivables to banks	21	2,967,869,560	2,967,869,560	–	–	–	
Deposits with licensed commercial banks	22	1,602,179,104	1,602,179,104	–	–	–	
Loans and receivables to customers	23	38,538,920,189	13,910,339,464	9,512,379,437	14,498,298,191	617,903,098	
Investment securities	24	3,272,075,270	2,216,980,067	5,078,298	20,741,696	1,029,275,209	
Total interest-bearing assets		46,481,044,444	20,797,368,516	9,517,457,735	14,519,039,886	1,647,178,307	
Interest-bearing liabilities							
Deposits from customers	31	30,887,693,800	21,929,198,025	5,517,919,443	3,440,576,332	–	
Debt securities issued	32	1,044,135,005	44,135,005	–	1,000,000,000	–	
Other interest-bearing liabilities	33	11,301,685,401	4,729,773,234	3,129,026,565	3,432,386,586	10,499,016	
Total interest-bearing liabilities		43,233,514,206	26,703,106,264	8,646,946,008	7,872,962,918	10,499,016	
Net interest-bearing asset gap		3,247,530,238	(5,905,737,748)	870,511,727	6,646,076,968	1,636,679,291	

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.

	100 bp	
	Increase Rs.	Decrease Rs.
Sensitivity of projected net interest income	31,032,275	-31,032,275
Sensitivity of reported net assets	31,032,275	-31,032,275

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 31st March	2017			2016			
	Amount Rs.	Rate	Value Rs.	Amount Rs.	Rate	Value Rs.	Net Exposure Increase/ Decrease (%)
USD	68,606	152	10,409,619	26,962	144	3,879,859	168
NOK	-			50	17	866	-100
SGD	2,102	108	228,084	1,467	107	156,257	46
KWD	-			40	476	19,060	-100
BHD	-			6	382	2,290	-100
MYR	-			9	37	331	-100
GBP	2,937	190	556,640	1,647	207	340,217	64
EUR	17,090	162	2,769,111	9,769	163	1,591,792	74
CAD	2,906	114	330,387	2,653	111	293,947	12
AUD	8,298	116	962,295	2,885	110	317,757	203
JOD	-			70	203	14,244	-100
CHF	-			100	149	14,900	-100
			15,256,135			6,631,519	

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 31st March	Shock %	2017		2016	
		Strengthening Rs.	Weakening Rs.	Strengthening Rs.	Weakening Rs.
USD	1	104,096	(104,096)	(38,799)	38,799
EUR	1	27,691	(27,691)	(15,918)	15,918
USD	3	208,192	(208,192)	(116,396)	116,396
EUR	3	55,382	(55,382)	(47,754)	47,754
USD	5	520,481	(520,481)	(193,993)	193,993
EUR	5	138,456	(138,456)	(79,590)	79,590

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 31st March	2017			2016		
	Held-for-Trading Rs.	Available-for-Sale Rs.	Total Rs.	Held-for-Trading Rs.	Available-for-Sale Rs.	Total Rs.
Market value of quoted equity instruments as at 31st March	63,938,231	1,034,213,758	1,098,151,989	100,000,321	920,594,408	1,020,594,729

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:

Shock Levels	Impact on Profit	Impact on OCI	Impact on Net Assets	Impact on Profit	Impact on OCI	Impact on Net Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
10% shock (Increase)	6,393,823	103,421,376	109,815,199	10,000,032	92,059,441	102,059,473
10% shock (Decrease)	(6,393,823)	(103,421,376)	(109,815,199)	(10,000,032)	(92,059,441)	(102,059,473)

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 31st March	Total Net Weight of Gold Loan Articles (in Grams)	Market Price per Gram*	Total Market Value Rs.	Gold Loan Receivable Amount Rs.	Value Excess Rs.
2017	154,516	6,102	942,877,377	602,606,303	340,271,074
2016	65,003	5,719	371,723,822	232,345,858	139,377,964

* 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:

Shock Levels	Impact on Market Value Rs.	Impact on Value Excess Rs.
10% shock (Increase)	94,287,738	94,287,738
10% shock (Decrease)	(94,287,738)	(94,287,738)

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 31st March	Balance		Risk Factor		Risk-Weighted Balance	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Risk-Weighted Assets Computation						
Assets						
Cash and Bank Balances	454,061	722,351	-	-	-	-
Investment in Government Securities	3,273,816	5,409,171	-	-	-	-
Bank deposits	1,893,615	1,602,179	20	20	378,723	320,436
Loans against fixed deposits	1,314,222	1,159,281	-	-	-	-
Loans against gold and jewellery	602,606	232,346	-	-	-	-
Loans and advances	41,272,182	37,147,293	100	100	41,272,182	37,147,293
Other investment	1,086,536	929,434	100	100	1,086,536	929,434
Other assets	1,600,760	1,195,561	100	100	1,600,760	1,195,561
Fixed assets	1,904,775	1,695,475	100	100	1,904,775	1,695,475
Total Risk-Weighted Assets	53,402,573	50,093,091			46,242,976	41,288,199
Capital Base Computation						
Capital Base						
Core Capital						
Stated capital					1,185,062	1,185,062
Reserve fund					1,040,635	839,332
General and other free reserve					819,709	749,096
Published retained earnings					2,654,015	2,064,806
Total core capital					5,699,421	4,838,296
Supplementary Capital						
Eligible approved unsecured subordinated term debts					1,360,092	540,138
Total Supplementary Capital					1,360,092	540,138
Total Capital					7,059,513	5,378,434

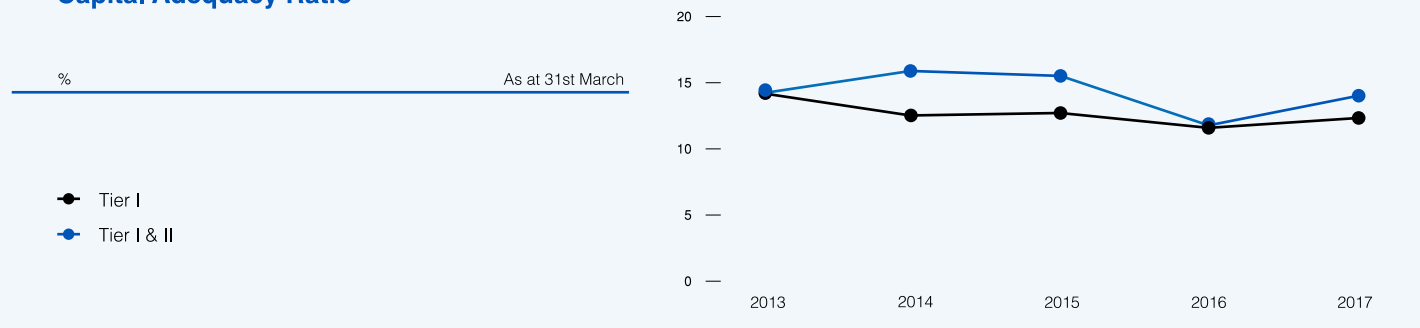
As at 31st March	Balance		Risk Factor		Risk-Weighted Balance	
	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deductions:						
Equity investments in unconsolidated financial and banking subsidiaries					(509,918)	(509,918)
Investments in capital of other financial associates/banks					(21,794)	(23,303)
Capital Base					6,527,801	4,845,213

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.

Capital Adequacy Ratio

			2017	2016
Core capital adequacy ratio (Tier I)	Core Capital	*100	12.32%	11.72
	Risk-Weighted Assets			
Total capital adequacy ratio (Tier II)	Capital Base	*100	14.12%	11.74
	Risk-Weighted Assets			

Capital Adequacy Ratio



D.ii. Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully-reflect the varying degree of risk associated with different activities. In such cases the, 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.

6.

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6.5

6.6

6.7

6.8

6.9

→	Investor Information	356
→	US\$ Accounts	365
→	Quarterly Statistics	367
→	Ten Year Statistical Summary	368
→	Our Reach	370

ANNEXES

→	Form of Proxy – (Voting Shareholders) (Non-Voting Shareholders)	Enclosed
→	Notice of Meeting	378
→	Corporate Information	377
→	Basis of Ratio	376
→	Abbreviations	375
→	Glossary	372

6.1 Investor Information

P: 356 – 364

Stock Exchange Listing

The issued 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 2016/17 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 31st March 2017 the Colombo Stock Exchange (CSE) accommodated 296 companies with a market capitalisation of Rs. 2,663 Bn which shows an increase of 3% compared to previous year of Rs. 2,586 Bn.

31st March 2017

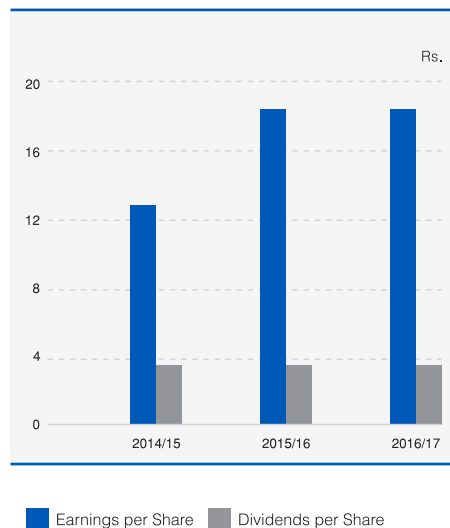
All Share Price Index (ASPI)	6,061.94
S&P Sri Lanka 20 Index (S&P SL 20)	3,438.88
Market Capitalisation (Rs. Bn)	2,663.00

Financial Information

Movement in Total Equity, Share Capital and Reserves



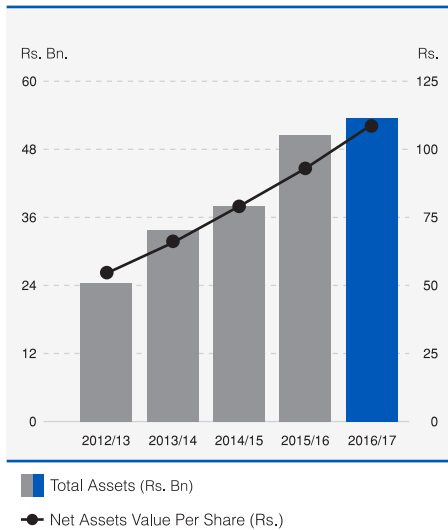
Movement of EPS and DPS



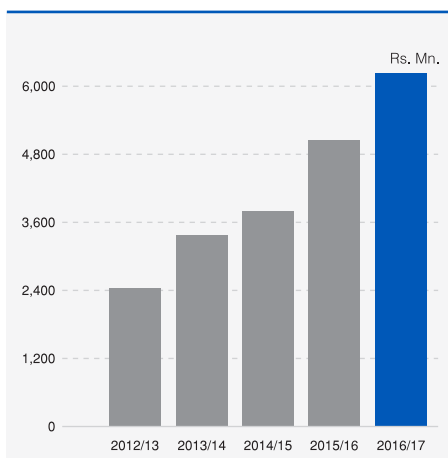
Dividends Per Share and Dividend Payout Ratio



Total Assets and Net Assets Value per Share



Shareholders' Funds



Dividends

For the financial year ended 31st March 2017, CDB declared a cash dividend of Rs. 3.50 for both voting and non-voting shares of 46,299,223 and 8,005,984 respectively, which was aggregated to sum of Rs. 190,068,224.50

Cash and Scrip Dividends

	2016/17 Rs.	2015/16 Rs.	2014/15 Rs.	2013/14 Rs.	2012/13 Rs.
Final – Cash Dividend	3.50	3.50	3.50	3.00	2.75
Scrip Dividend	–	–	–	–	–
Total Dividend	3.50	3.50	3.50	3.00	2.75

*Proposed dividend for this year would be a cash dividend of Rs. 3.50 per share which needs to be approved by the shareholders at the AGM.

CDB Share

Share Price Information

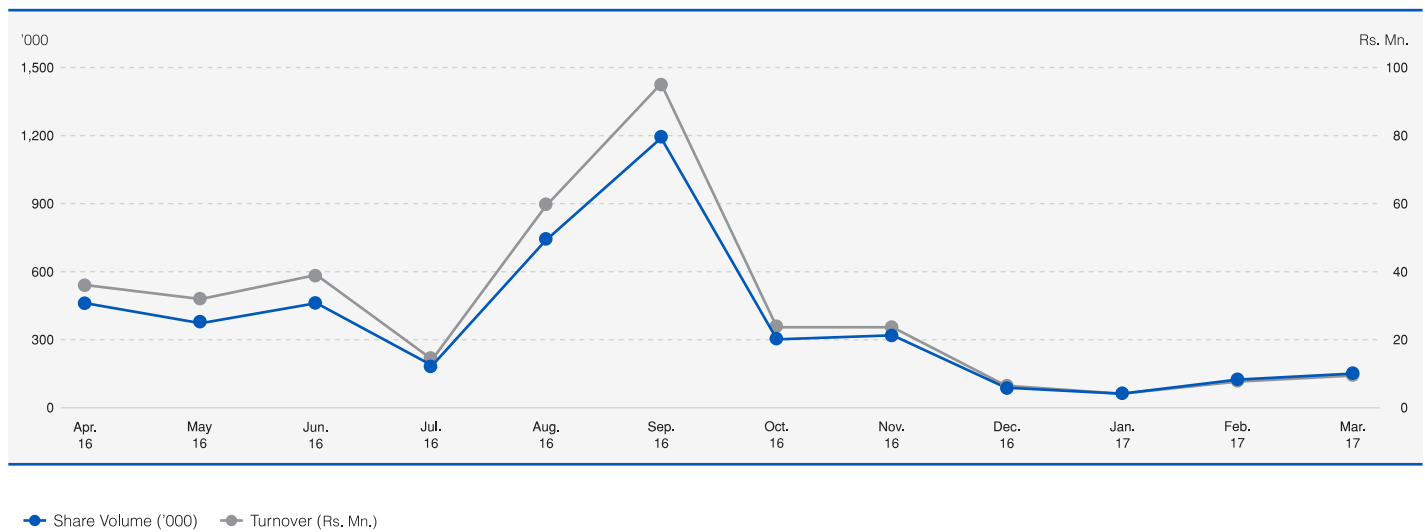
Prices	Voting		Non-Voting	
	2016/17 Rs.	2015/16 Rs.	2016/17 Rs.	2015/16 Rs.
High	91.00	116.80	79.90	102.50
Low	56.10	72.00	48.00	61.00
Last Traded	64.20	75.00	48.10	68.00

Ratios

	2016/17
Debt/Equity Ratio (%)	123
Quick Asset Ratio (Times)	0.73
Interest Cover (Times)	1.34

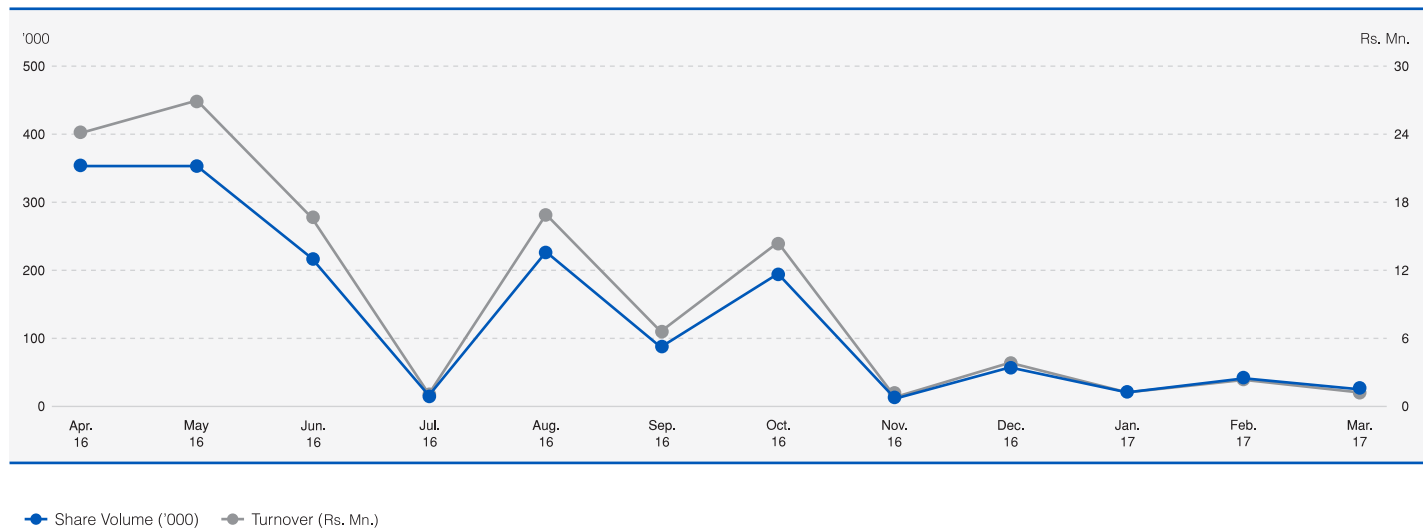
CDB Share Performance During the Year

Voting Share Performance



During the financial year 4.4 Mn shares were traded through 2,965 transactions and recorded an average daily turnover of Rs. 1.5 Mn.

Non Voting Share Performance



During the financial year 1.6 Mn shares were traded through 1,200 transactions and recorded an average daily turnover of Rs. 0.4 Mn.

Share Trading Information

Annual Transaction Information

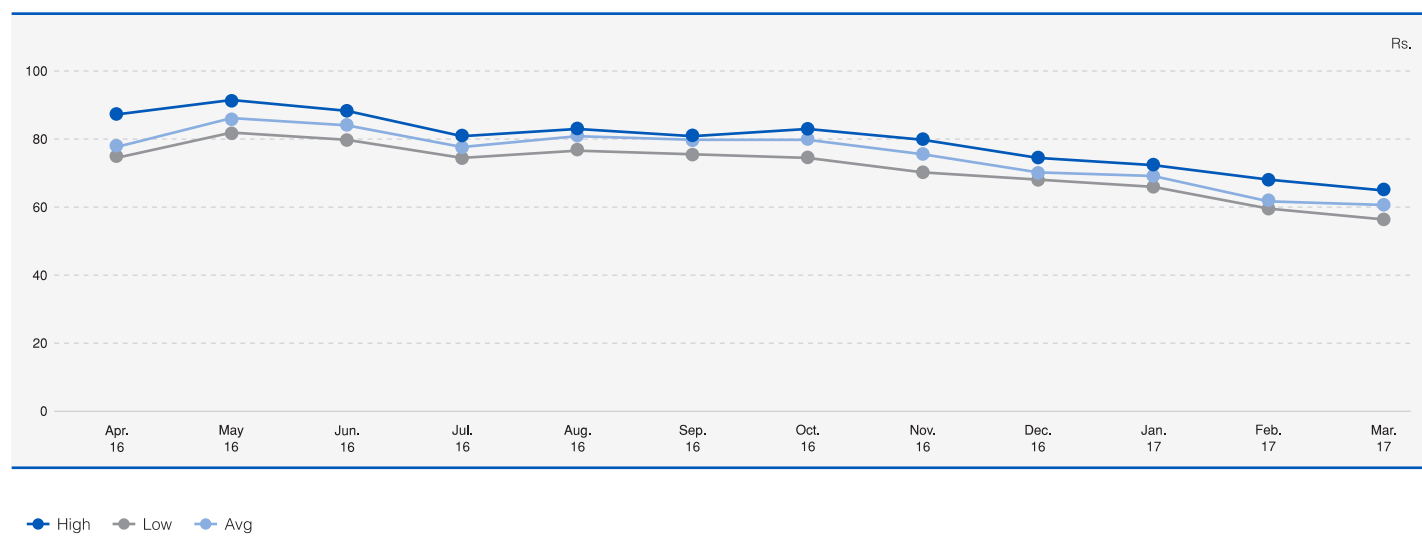
	Ordinary Voting Share				
	2016/17	2015/16	2014/15	2013/14	2012/13
No. of Transactions	2,965	2,696	5,264	2,233	2,571
No. of Share Traded	4,453,153	6,958,625	14,705,064	2,522,678	2,497,811
Value of Share Traded (Rs.)	351,201,140	695,635,543	1,262,908,176	113,669,908	98,920,592

Annual Transaction Information

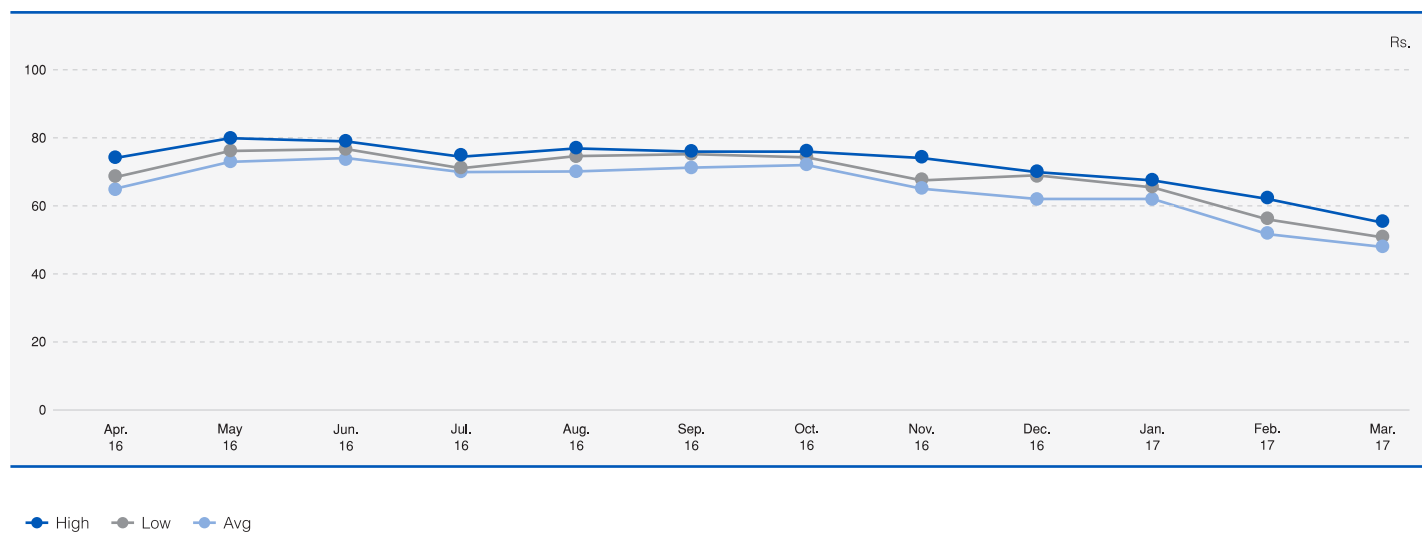
	Ordinary Non-Voting Share				
	2016/17	2015/16	2014/15	2013/14	2012/13
No. of Transactions	1,200	1,846	4,038	1,595	2,139
No. of Share Traded	1,601,961	3,081,158	4,491,996	2,164,520	3,577,448
Value of Share Traded (Rs.)	116,268,214	280,559,777	296,610,356	77,314,979	109,994,947

Share Price Movement

Share Price Movement – Ordinary Voting



Share Price Movement – Ordinary Non Voting



Quarterly Summary

Period – Voting	High Rs.	Low Rs.	Close Rs.	Trade Volume	Share Volume	Turnover Rs.	Days Traded
2016/17 – Q4	72.00	56.10	64.20	492	337,759	21,117,836	56
2016/17 – Q3	82.50	68.00	70.00	517	704,276	53,953,900	58
2016/17 – Q2	83.50	75.00	80.00	782	2,112,064	168,586,961	60
2016/17 – Q1	91.00	74.50	83.00	1,174	1,299,054	107,542,443	58
Year	91.00	56.10	64.20	2,965	4,453,153	351,201,140	232

Period – Non-Voting	High Rs.	Low Rs.	Close Rs.	Trade Volume	Share Volume	Turnover Rs.	Days Traded
2016/17 – Q4	55.00	48.00	50.81	201	86,368	4,892,875	42
2016/17 – Q3	76.00	62.00	62.10	154	263,033	19,130,763	33
2016/17 – Q2	76.90	70.00	76.00	256	328,771	24,518,559	39
2016/17 – Q1	79.90	65.00	74.00	589	923,789	67,726,017	51
Year	79.90	48.00	48.10	1,200	1,601,961	116,268,214	165

Market Capitalisation

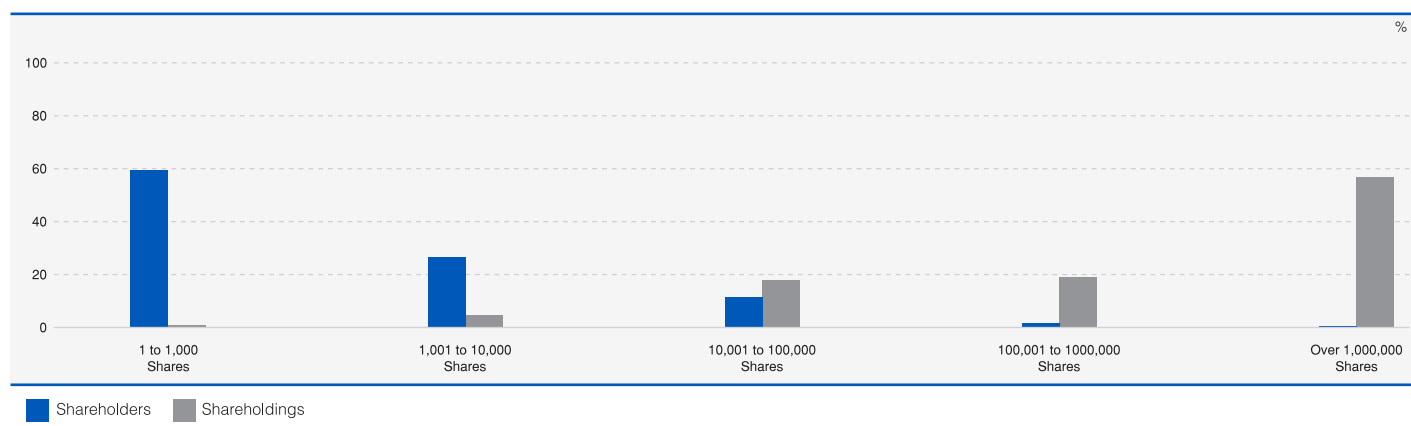
As at 31st March	No. of Shares	MPS	2016/17	2015/16
Voting	46,299,223	64.20	2,972,410,117	3,472,441,725
Non-Voting	8,005,984	48.10	385,087,830	544,406,912
Total			3,357,497,947	4,016,848,637

Shareholder Analysis

Ordinary Voting – Composition According to Shareholding

Shareholdings	Resident			Non-Resident			Total			
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 – 1,000 Shares	1,258	418,776	0.9	3	305	–	1,261	60.89	419,081	0.90
1,001 – 10,000 Shares	543	2,104,355	4.55	6	30,800	0.07	549	26.51	2,135,155	4.62
10,001 – 100,000 Shares	220	7,800,237	16.85	1	17,385	0.04	221	10.67	7,817,622	16.89
100,001 – 1,000,000 Shares	31	9,241,912	19.96	2	214,714	0.46	33	1.59	9,456,626	20.42
Over 1,000,000 Shares	7	26,470,739	57.17	–	–	–	7	0.34	26,470,739	57.17
	2,059	46,036,019	99.43	12	263,204	0.57	2,071	100.00	46,299,223	100.00

Number of Shareholders Vs Respective Shareholdings (Voting)



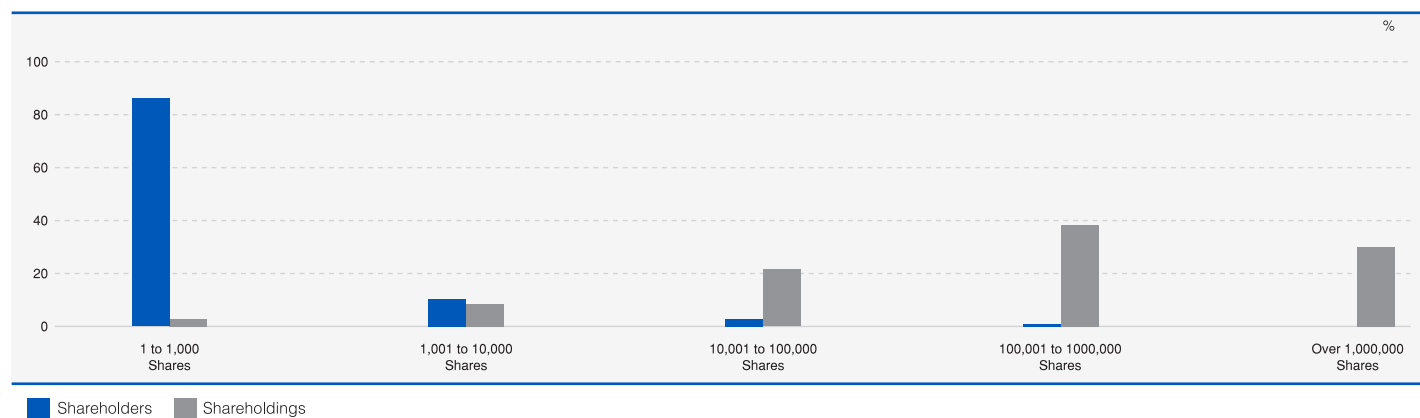
Composition of Shareholders

Categories of Shareholders	2016/17			2015/16		
	No. of Shareholders	No. of Shares	Holding %	No. of Shareholders	No. of Shares	Holding %
Individual	1,947	12,650,417	27.32	1,878	15,929,201	34.40
Institutional	124	33,648,806	72.68	101	30,370,022	65.60
	2,071	46,299,223	100.00	1,979	46,299,223	100.00

Ordinary Non-Voting – Composition According to Shareholding

Shareholdings	Resident			Non-Resident			Total			
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 – 1,000 Shares	1,584	210,950	2.64	5	1,113	0.01	1,589	86.17	212,063	2.65
1,001 – 10,000 Shares	183	657,818	8.22	1	2,400	0.03	184	9.98	660,218	8.25
10,001 – 100,000 Shares	50	1,662,122	20.76	2	36,050	0.45	52	2.82	1,698,172	21.21
100,001 – 1,000,000 Shares	15	2,848,510	35.58	2	208,998	2.61	17	0.92	3,057,508	38.19
Over 1,000,000 Shares	2	2,378,023	29.70	–	–	0	2	0.11	2,378,023	29.70
	1,834	7,757,423	96.90	10	248,561	3.10	1,844	100.00	8,005,984	100

Number of Shareholders Vs Respective Shareholdings (Non-voting)



Composition of Shareholders

Categories of Shareholders	2016/17			2015/16		
	No. of Shareholders	No. of Shares	Holding %	No. of Shareholders	No. of Shares	Holding %
Individual	1,747	3,495,329	43.66	1,745	3,274,577	34.40
Institutional	97	4,510,655	56.34	85	4,731,407	65.60
	1,844	8,005,984	100.00	1,830	8,005,984	100.00

Information on Share Capital Movement

Year	Details	Share Type	Basis	No. of shares issue	No. of Voting shares issues (after issue)	No. 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 2nd March 2016.

List of 20 Major Shareholders' Based on their Shareholdings as at 31st March 2017

Ordinary Voting Shares

No.	Name	Shareholding	%
1.	Ceylinco Life Insurance Limited	15,529,116	33.54
2.	Janashakthi General Insurance Limited	2,387,947	5.16
3.	Janashakthi Insurance PLC (Policy Holders)	2,314,961	5.00
4.	Ceylinco Insurance PLC A/C No. 02 (General Fund)	1,853,287	4.00
5.	Citizens Development Business Finance PLC A/C No. 02 (CDB Employee Gratuity Fund)	1,708,816	3.69
6.	People's Leasing & Finance PLC /Mr. W P C M Nanayakkara	1,676,512	3.62
7.	People's Leasing & Finance PLC/Mr.S V Munasinghe	1,000,100	2.16
8.	Seylan Bank PLC/Tennakoon Mudiyansele Damith Prasanna Tennakoon	935,258	2.02
9.	Peoples's Leasing & Finance PLC/Mr. R H & Mrs. V F Abeygoonewardena	917,837	1.98
10.	Ceylinco Life Insurance Limited Account No. 03	900,000	1.94
11.	Asia Management Consultancy (Private) Limited	721,622	1.56
12.	Mr. W W K M Weerasooriya	487,803	1.05
13.	Mr. H M L M B Heenkenda	472,260	1.02
14.	Mr. E Karthik	429,500	0.93
15.	People's Leasing & Finance PLC/Mrs. N D Kodagoda	362,496	0.78
16.	The Finance Company PLC A/C No. 01	350,000	0.76
17.	Mr. H K Dassanayake	285,653	0.62
18.	Hotel International Limited	260,000	0.56
19.	Mr. I M Kotigala	256,224	0.55
20.	People's Leasing & Finance PLC/Mr. M N M Imdaad	247,782	0.54
	Sub Total of Top 20 shareholders	33,097,174	71.49
	Others	13,202,049	28.51
	Total	46,299,223	100.00

The percentage of shares held by the public as at 31st March 2017 is 46.74 (with 2,059 public shareholders)

Ordinary Non-Voting Shares

No.	Name & Address	Shareholding	%
1.	Deutsche Bank AG as Trustee for J B Vantage Value Equity Fund	1,336,592	16.69
2.	J B Cocoshell (Pvt) Limited	1,041,431	13.01
3.	Mr. A M Weerasinghe	614,454	7.67
4.	Askold (Private) Limited	240,000	3.00
5.	Mr. M J Fernando	208,999	2.61
6.	Mr. H R Esufally	208,999	2.61
7.	E W Balasuriya & Co. (Pvt) Limited	204,413	2.55
8.	Waldock Mackenzie Limited/Mr. H M S Abdulhussein	179,304	2.24
9.	Mr. M A H Esufally	160,000	2.00
10.	Mr. A N Esufally	160,000	2.00
11.	Mr. G H I Jafferjee	156,749	1.96
12.	Mr. Y H Abdulhussein	146,106	1.82
13.	Seylan Bank PLC/Sashimaal Ruhash Fernando	129,153	1.61
14.	Mrs. S E Lokhandwalla	119,869	1.50
15.	Essajee Carimjee Insurance Brokers (Pvt) Limited	114,000	1.42
16.	Jafferjees Investments (Pvt) Limited	104,499	1.31
17.	Gold Investment Limited	104,499	1.31
18.	Mr. M A Valabhji	104,499	1.31
19.	Commercial Bank of Ceylon PLC A/C No. 04	101,965	1.27
20.	Lakdhanavi Limited	100,000	1.25
	Sub Total of Top 20 Shareholders	5,535,531	69.14
	Others	2,470,453	30.86
	Total	8,005,984	100.00

The percentage of shares held by the public as at 31st March 2017 is 86.78 (with 1,837 public shareholders)

December 2013-December 2018

Listing	Debenture Description	Type	Interest Payment Frequency	Tenor (years)	Issued Quantity as at 31.03.2017	Interest Rate		Comparable Government Security Yield
						Coupon Rate (Per Annum) (%)	Annual Effective Rate (%)	
Listed	Subordinated Listed	A	Annually	5	6,656,600	16.00	16.00	12.6
Debenture	Rated Unsecured	B	Semi-annually	5	3,103,600	15.50	16.10	12.6
(Rs.100.00)	Redeemable Debenture	C	Quarterly	5	242,800	15.00	15.87	12.6

June 2016 – June 2021

Listing	Debenture Description	Type	Interest Payment Frequency	Tenor (years)	Issued Quantity as at 31.03.2017	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	12.6
		B	Semi-annually	5	16,300	6-month Net T-Bill Rate (net of tax) plus 1.50%	–	12.6

Current Yield and Yield to Maturity

December 2013 – December 2018

Debenture Type	Current Yield (%)	Yield to Maturity (%)
Type A	Not Traded	Not Traded
Type B	Not Traded	Not Traded
Type C	Not Traded	Not Traded

June 2016 – June 2021

Debenture Type	Current Yield (%)	Yield to Maturity (%)
Type A	13.32	14.64
Type B	Not Traded	Not Traded

Disclosure on utilisation of funds Via Capital Market during 1st January 2015 – 30th June 2016

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.	Improve the Tier II Capital base thus, increasing the Capital Adequacy Ratio (CAR)	Rs. 1 Bn	With effect from the closure of issue	Rs. 1 Bn	100%	Rs. 1 Bn	100%	N/A
3.	Reduce the Assets and Liability mismatch		Within the 12 months from date of cash receipt					

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.

For the year ended 31st March	Notes	Company		Group	
		2017 US\$	2016 US\$	2017 US\$	2016 US\$
Revenue	7	56,621,752	49,337,670	57,358,843	49,754,689
Interest income	8.1	50,004,483	43,808,240	50,654,607	44,176,393
Interest expense	8.2	30,972,661	23,649,992	31,026,879	23,669,802
Net interest income	8	19,031,822	20,158,249	19,627,729	20,506,590
Net fee and commission income	9	1,446,671	1,387,973	1,533,187	1,417,943
Other operating income	10	5,170,598	4,141,457	5,171,049	4,160,353
Total operating income		25,649,091	25,687,679	26,331,965	26,084,887
Less: Impairment charges and other credit losses on financial assets	11	1,491,272	2,632,237	1,530,390	2,666,288
Net operating income		24,157,820	23,055,441	24,801,575	23,418,599
Less:					
Personnel expenses	12.1	5,797,199	4,911,620	5,944,491	4,968,295
Premises, equipment and establishment expenses	12.2	7,234,918	6,453,690	7,332,941	6,536,693
Other expenses	12.3	1,915,808	2,310,478	2,083,659	2,348,421
Total operating expenses	12	14,947,925	13,675,788	15,361,091	13,853,409
Operating profit before value added tax on financial services (VAT), nation building tax (NBT) and crop insurance levy (CIL)		9,209,895	9,379,653	9,440,484	9,565,190
Less: Value added tax and other taxes	13	1,119,859	1,115,345	1,137,716	1,139,256
Profit before tax		8,090,036	8,264,308	8,302,768	8,425,935
Less: Income tax expense	14	1,456,444	1,639,691	1,546,792	1,698,364
Profit for the year		6,633,592	6,624,617	6,755,976	6,727,571
Profit attributable to:					
Equity holders of the Company		6,633,592	6,624,617	6,740,753	6,713,373
Non-controlling interest		–	–	15,223	14,199
Profit for the year		6,633,592	6,624,617	6,755,976	6,727,571
Other comprehensive income (net of tax)					
Items that will not be reclassified to profit or loss					
Net actuarial gain/(loss) on defined benefit plans		(170,929)	(17,176)	(170,929)	–16,341
		(170,929)	(17,176)	(170,929)	–16,341
Items that are or may be reclassified subsequently to profit or loss					
Net gain/(loss) on available-for-sale financial assets		465,388	(692,769)	476,336	(688,905)
Net change in revaluation surplus		2,162,203	280,762	2,162,203	280,762
		2,627,590	(412,008)	2,638,538	(408,143)
Other comprehensive income (net of tax)		2,456,662	(429,183)	2,467,610	(424,484)
Total comprehensive income		9,090,254	6,195,434	9,223,586	6,303,088
Total comprehensive income attributable to:					
Equity holders of the Company		9,090,254	6,195,434	9,207,309	6,288,437
Non-controlling interest		–	–	16,277	14,651
Total comprehensive income		9,090,254	6,195,434	9,223,586	6,303,088
Earnings per share					
Basic/Diluted earnings per share		0.12	0.12	0.12	0.12

Consolidated Statement of Financial Position

As at 31st March	Notes	Company		Group	
		2017 US\$	2016 US\$	2017 US\$	2016 US\$
Assets					
Cash and cash equivalents	19	2,992,558	4,760,768	3,341,596	4,809,789
Financial Instruments held-for-trading	20	1,074,548	803,817	1,074,548	803,817
Loans and receivables to Banks	21	4,321,313	19,560,203	4,321,313	19,634,379
Deposits with licensed commercial banks	22	12,480,162	10,559,409	12,480,162	10,613,001
Loans and receivables from customers	23	284,643,841	253,996,706	287,386,787	255,411,357
Investment securities	24	23,485,349	21,565,117	23,970,507	21,787,561
Investment in subsidiaries	25	3,360,692	3,360,692	–	–
Investment property	26	133,118	133,118	133,118	133,118
Property, plant & equipment	27	12,120,816	10,590,906	12,138,456	10,615,157
Intangible assets	28	432,901	450,268	557,358	470,337
Goodwill on consolidation	29	–	–	1,609,302	1,609,302
Other assets	30	10,416,939	7,879,527	10,420,801	7,903,043
Total assets		355,462,237	333,660,530	357,433,947	333,790,861
Trading Liabilities					
Deposits from customers	31	214,867,434	203,570,117	214,792,417	203,017,968
Debt securities issued	32	13,679,768	6,881,533	13,679,768	6,881,533
Other Interest-bearing borrowings	33	72,213,911	74,485,503	73,271,848	74,537,550
Current tax Liabilities	34	1,177,766	719,261	1,180,436	731,696
Deferred tax liabilities	35	4,143,684	3,161,963	4,211,341	3,175,640
Retirement benefit obligation	36	104,091	349,545	104,534	349,545
Other liabilities	37	8,142,224	11,196,830	8,574,135	11,447,216
Total liabilities		314,328,878	300,364,751	315,814,480	300,141,147
Equity					
Stated capital	38	7,810,332	7,810,332	7,810,332	7,810,332
Reserves	39	15,831,331	11,877,022	15,859,699	11,888,833
Retained earnings	40	17,491,696	13,608,425	17,733,382	13,749,613
Total equity attributable to equity holders of the Company		41,133,359	33,295,779	41,403,413	33,448,778
Non-controlling interests	41	–	–	216,055	200,936
Total equity		41,133,359	33,295,779	41,619,468	33,649,714
Total liabilities and equity		355,462,237	333,660,530	357,433,947	333,790,861
Net assets value per share	43	0.76	0.61	0.76	0.62

6.3 Quarterly Statistics

P: 367

	Company 2016/17				Company 2015/16			
	30.06.2016	30.09.2016	31.12.2016	31.03.2017	30.06.2015	30.09.2015	31.12.2015	31.03.2016
Statement of Profit or Loss								
Revenue	2,033,995	2,067,573	2,168,481	2,321,170	1,718,107	1,718,107	1,886,266	1,983,273
Net Interest Income	744,777	7,007,427	691,469	750,710	757,567	757,567	753,459	813,277
Total Operating Income	232,066	240,954	257,581	273,437	102,845	102,845	182,331	220,364
Net Operating Income	881,861	909,480	905,469	968,656	808,472	808,472	948,633	942,365
Non-interest Expenses	604,556	622,364	684,859	526,186	978,173	538,688	598,344	578,521
Profit Before Tax	277,304	287,116	220,611	44,234	270,026	269,785	350,288	363,844
Income Tax Expense	60,675	59,305	45,993	55,013	58,237	68,475	82,100	39,978
Profit for the Period	216,629	227,811	174,618	387,457	211,789	201,310	268,188	323,866
Statement of Financial Position								
Total Assets	50,433,138	49,428,372	51,420,429	53,934,285	40,307,649	43,388,438	47,397,308	50,626,312
Loans and Advances to Customers	38,930,028	39,918,333	42,042,975	43,189,010	31,361,949	34,790,012	38,221,616	38,538,920
Deposits and Borrowings	42,759,890	41,797,978	43,122,860	45,634,484	33,728,445	36,431,232	40,053,136	43,233,514
Shareholders' Funds	5,227,915	5,235,912	5,464,955	6,241,165	4,253,928	4,350,011	4,620,751	5,051,968
Key Ratios								
Net Assets Value per Share	96.27	96.42	100.63	114.93	78.33	80.10	85.09	93.03
Return on Average Shareholders' Equity (Annualise%) (%)	16.86	17.30	15.70	17.80	19.57	19.10	20.40	21.50
Non-Performing Loans Ratio (Net of IIS and Impairment Charges) (%)	1.79	1.70	1.90	1.30	3.19	2.70	2.05	1.60
Capital Adequacy Tier I (%)	11.90	11.80	11.80	12.30	9.80	11.10	10.70	11.70
Tier II (%)	14.30	14.10	13.60	14.10	11.30	11.90	11.40	11.70

6.4 Ten Year Statistical Summary

P: 368 – 369

	2016/17 Rs.	2015/2016 Rs.	2014/15 Rs.
Operating Results			
Income	8,591,218,471	7,486,004,737	6,907,077,362
Interest Income	7,587,180,220	6,647,024,326	6,251,533,117
Interest Expenses	4,699,481,882	3,588,413,274	3,381,455,430
Non-Interest Income	1,004,038,251	838,980,411	655,544,245
Operating Expenses (Incl. VAT)	2,885,221,639	2,643,647,960	2,574,201,468
Profit/(Loss) Before Income Tax	1,227,501,126	1,253,943,503	951,420,464
Income Tax on Profit	220,986,176	248,790,365	249,686,559
Profit/Loss After Taxation	1,006,514,950	1,005,153,138	701,733,905
Liabilities and Shareholders' Funds			
Customer Deposits	32,601,835,772	30,887,693,800	27,079,133,660
Borrowings	13,032,648,019	12,345,820,406	4,824,244,677
Other Liabilities	1,429,915,698	1,861,064,944	1,526,247,552
Deferred Taxation	628,721,153	479,764,584	282,079,149
Shareholders' Funds	6,241,164,500	5,051,968,494	4,302,003,541
Total Liabilities and Shareholders' Funds	53,934,285,142	50,626,312,228	38,013,708,580
Assets			
Loans and Receivables (Net)	43,189,010,000	38,538,920,189	29,378,799,251
Cash and Short-Term Funds	5,695,608,100	7,765,844,051	4,734,540,619
Property, Plant & Equipment	1,839,091,339	1,606,958,136	1,421,342,866
Other Assets	3,210,575,703	2,714,589,852	2,479,025,843
Total Assets	53,934,285,142	50,626,312,228	38,013,708,580
Ratios			
Growth in Income (%)	15	8	8
Growth in Interest Expenses (%)	31	6	-5
Growth in Other Expenses (%)	3	3	23
Growth in Profit After Tax (%)	0	43	25
Growth in Total Assets (%)	7	33	13
Earnings per Share (Rs.)	18.53	18.51	12.92
Return on Average Assets (%)	1.93	2.27	1.96
Dividend per Share (Rs.)	3.50**	3.50	3.50

* 15 Month period

** Proposed Dividend

Highlighted information is based on LKASs/SLFRSs.

2013/14 Rs.	2012/13 Rs.	2011/12 Rs.	2010/11 Rs.	2009/10* Rs.	2008 Rs.	2007 Rs.
6,377,085,862	4,389,593,004	2,892,652,800	2,264,997,095	1,898,899,386	1,638,454,558	1,054,206,933
5,895,603,537	4,087,387,160	2,555,433,093	1,731,159,166	1,794,819,119	1,496,219,576	989,218,343
3,553,402,757	2,386,570,259	1,311,936,117	912,786,452	1,190,634,646	1,092,348,424	670,401,052
481,482,325	302,205,844	337,219,707	533,837,929	104,080,267	142,234,982	64,988,590
2,093,715,056	1,378,740,200	1,048,409,877	790,940,062	619,525,039	474,868,960	334,320,975
729,968,049	624,282,545	532,306,806	561,270,581	88,739,701	71,237,174	49,484,906
168,755,278	135,118,484	13,839,677	29,460,581	9,163,093	5,947,671	157,484
561,212,771	489,164,061	518,467,129	531,810,000	79,576,608	65,289,503	49,327,422
24,518,192,737	17,771,172,664	11,699,662,914	7,770,659,215	4,837,875,995	–	–
4,314,338,485	2,763,082,891	2,155,693,964	1,027,654,377	828,926,204	5,684,698,562	4,918,339,725
1,213,713,656	922,665,325	456,069,116	493,578,084	495,786,661	676,793,306	342,921,093
145,383,295	31,912,358	–	–	–	–	–
3,576,914,112	2,965,098,202	2,302,502,632	1,098,701,563	513,215,045	433,638,437	131,639,131
33,768,542,285	24,453,931,440	16,613,928,626	10,390,593,239	6,675,803,905	6,795,130,305	5,392,899,949
25,724,944,295	19,450,586,882	13,469,076,072	8,081,942,079	5,035,083,744	5,634,300,195	4,584,431,013
3,168,727,350	1,540,598,041	626,231,439	320,138,908	851,277,622	529,209,486	529,368,994
1,004,470,809	657,717,807	470,979,957	237,821,921	200,669,868	198,647,455	129,852,708
3,870,399,831	2,805,028,710	2,047,641,158	1,750,690,331	588,772,671	432,973,169	149,247,234
33,768,542,285	24,453,931,440	16,613,928,626	10,390,593,239	6,675,803,905	6,795,130,305	5,392,899,949
45	52	28	19	16	55	65
49	82	44	–23	9	63	73
52	32	33	28	30	42	61
15	–6	–3	568	22	32	12
38	47	60	56	–2	26	32
10.33	9.99	10.28	12.75	1.6	2.51	3.03
1.93	2.38	3.84	6.23	1.18	1.07	1.04
3.00	2.75	2.50	2.00	0.50	–	–

6.5 Our Reach

P: 370 – 371

Branch	Branch Locations	Contact No.
Head Office	No. 123, Orabipasha Mawatha, Colombo 10	011-2429800/011-7388388
Moratuwa	No. 760, Galle Road, Moratuwa	011-2642309/011-2642310
Negombo	No. 129, St. Joseph Street, Negombo	031-2224040
Kurunegala	No. 54, Colombo Road, Kurunegala	037-2234444
Kelaniya	No 159, Kandy Road, Kiribathgoda	011-2913501/011-2913502/011-2910202
Kandy	No. 110, Yatinuwara Veediya, Kandy	081-2204600/081-2204246
Gampaha	No. 114, Colombo Road, Gampaha	033-2233774/033-2223637
Ratnapura	No. 89, Bandaranayake Mawatha, Ratnapura	045-2226636
Badulla	No. 22, Bank Road, Badulla	055-2225533
Chilaw	No. 25/1, Colombo Road, Chilaw	032-2220646
Anuradhapura	No. 552/D, Maithripala Senanayake Mawatha, Anuradhapura	025-2234000/025-2226609
Wellawatta	No. 416, Galle Road, Colombo 06	011-2364699
Wattala	No. 237, Negambo Road, Wattala	011-2981133
Ja-Ela	No. 195/A, Negambo Road, Ja-Ela	011-2228228
Kaduwela	No. 102, Colombo Road, Kaduwela	011-2538888
Kegalle	No. 227, Kandy Road, Kegalle	035-2222442/035-2222599
Nittambuwa	No. 2/1, Colombo Road, Nittambuwa	033-2296969
Wennappuwa	Sterline Building, Chilaw Road, Wennappuwa	031-2245245
Matugama	No. 190, Aluthgama Road, Matugama	034-2248888
Kalutara	No. 296, Main Street, Kalutara	034-2224400
Maharagama	No. 249, Highlevel Road, Maharagama	011-2845945
Matara	No. 06, Station Road, Matara	041-2226655/041-2229955
Embilipitiya	No. 21, Main Street, Embilipitiya	047-2261961/047-2261962
Battaramulla	No. 97/1, Main Street, Battaramulla	011-2869944/011-2869949
Tissamaharama	No. 47, Hambanthota Road, Tissamaharama	047-2239655
Mahara	No. 337/2, Mahara, Kadawatha	011-2925000
Galle	No. 99, Sea Street, Galle	091-2227501/091-2227502
Dambulla	No. 687, Anuradhapura Road, Dambulla	066-2284088
Kaduruwela	No. 660, Main Street, Kaduruwela	027-2226710/027-2226720
Kotahena	No. 30, Sri Ramanadan Mawatha, Kotahena	011-2422465/011-2422466
Jaffna	No. 208, Stanley Road, Jaffna	021-2221585/021-2221586
Vavuniya	No. 11, Horowpathana Road, Vavuniya	024-2225862
Batticaloa	No. 601/D, Trincomalee Road, Batticaloa	065-2228490
Trincomalee	No. 266, 268, Central Road, Trincomalee	026-2226945/026-2226946
Kandana	No. 37/1, Negombo Road, Kandana	011-2237645
Eheliyagoda	No. 114, Main Road, Eheliyagoda	036-2259951

Branch	Branch Locations	Contact No.
Marawila	No. 63, Chilaw Road, Marawila	032-2250930
Kuliyapitiya	No. 259, Madampe Road, Kuliyapitiya	037-2281825
Nugegoda	No.143/C, Highlevel Road, Nugegoda	011-2828313/011-2828312
Premier Center	No. 101, Dharmapala Mawatha, Colombo 07	011-2332150/011-2332180
Katugastota	No. 468, Katugastota Road, Katugastota	081-2212517/081-2212516
Matale	No. 115/117, Trincomalee Road, Matale	066-2226545
Ambalangoda	No. 61, New Road, Ambalangoda	091-2254271
Warakapola	No. 09, Main Street, Warakapola	035-2268281
Boralesgamuwa	No. 28 A, Maharagama Road, Boralesgamuwa	011-2509306
Pelmadulla	No. 11, Main Street, Pelmadulla	045-2274428
Narammala	No. 95, Kurunegala Road, Narammala	037-2249525/037-2249595
Wariyapola	No. 77, Puttalam Road, Wariyapola	037-2057708
Mawathagama	No. 29, Kurunegala Road, Mawathagama	037-2296470
Kuruwita	No. 85, Colombo Road, Kuruwita	045 2263371
Mahiyanganaya	No. 01, Padiyathalawa Road, Mahiyanganaya	055-2258322
Aluthgama	No. 377, Galle Road, Aluthgama	034-2291136
Avissawella	No. 23, Colombo Road, Avissawella	036-2235220
Bandarawela	No. 344, Badulla Road, Bandarawela	057-2221484
Nikaweratiya	No. 113, Puttalam Road, Nikaweratiya	037-2260387
Giriulla	No. 52, Negombo Road, Giriulla	037-2288183
Thalawathugoda	No. 706, Madiwela Road, Thalawathugoda	011-2773718
Elakanda	No. 30, Hendala Road, Elakanda	011-2930986
Ragama	No. 26/05 & 26/06, Kadawatha Road, Ragama	011-2952492
Ratmalana	No. 304, Galle Road, Ratmalana	011-2710056
Panadura	No. 383, Galle Road, Panadura	038-2237327
Horana	No. 119/A, Panadura Road, Horana	034-2266177/034-2266188
Piliyandala	No. 77/1, Moratuwa Road, Piliyandala	011-2614425
Rajagiriya	No. 1424, Kotta Road, Rajagiriya	011-2078218/011-2078216
Malabe	No. 838/04, New Kandy Road, Malabe	011-2078651/011-2078652
Minuwangoda	No. 18/A, Siriwardena Mawatha, Minuwangoda	011-2298864
Kochchikade	No. 176, Chilaw Road, Kochchikade	031-2278695
Dehiwala	No. 103, Galle Road, Dehiwala	011-2761443/011-2761442
Kottawa	No. 35/1, High Level Road, Kottawa	011-2782706

6.6 Glossary

P: 372 – 374

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Actuarial Gain/Loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Associate

An entity over which the investor has significant influence.

Available-for-Sale (AFS) Financial Investments

All non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, financial investments – Held-to-maturity and financial investments at fair value through profit or loss.

B

Basis Point (bp)

One-hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

C

Capital Adequacy Ratio

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash Equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Generating Unit (CGU)

The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Collectively Assessed Loan Impairment Provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commitments

Credit facilities approved but not yet utilised by the clients as at the reporting date.

Contingencies

A condition or situation, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of 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 counterparty 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.

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 intended 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.

6.7 Abbreviations

P: 375

AGM	Annual General Meeting	GRI	Global Reporting Initiative
AFS	Available-for-sale	HFT	Held-for-trading
ALCO	Assets & Liabilities Committee	HR	Human Resources
BAC	Board Audit Committee	HTM	Held-to-maturity
BCC	Board Credit Committee	IMF	International Monetary Fund
BCP	Business Continuity Plan	IRMD	Integrated Risk Management Department
BHRRC	Board Human Resources & Remuneration Committee	IRR	Interest Rate Risk
BIRMC	Board Integrated Risk Management Committee	KCRI	Key Risk Indicators
BNC	Board Nomination Committee	KMP	Key Management Personnel
BRPTRC	Board Related Party Transactions Review Committee	LCB	Licensed Commercial Bank
CAR	Capital Adequacy Ratio	LCR	Liquidity Coverage Ratio
CASL	Institute of Chartered Accountants of Sri Lanka	LSB	Licensed Specialised Bank
CBSL	Central Bank of Sri Lanka	LTV	Loan to Value Ratio
CEO	Chief Executive Officer	NII	Net Interest Income
CFM	Close Family Members	NIM	Net Interest Margin
CFO	Chief Financial Officer	NPA	Non-Performing Assets
COO	Chief Operating Officer	NPL	Non-Performing Loans
CRO	Chief Risk Officer	OCI	Other Comprehensive Income
CSE	Colombo Stock Exchange	PAT	Profit After Tax
DRP	Disaster Recovery Plan	PBT	Profit Before Tax
EGM	Extraordinary General Meeting	ROA	Return on Assets
ESOP	Employee Share Ownership Plan	ROE	Return on Equity
EVE	Economic Value of Equity	RPT	Related Party Transactions
FIS	Fixed Income Securities	RWA	Risk Weighted Assets
FS	Financial Statements	SEC	Securities and Exchange Commission of Sri Lanka
FX	Foreign Exchange	SME	Small and Medium Enterprise
FY	Financial Year	SLAR	Statutory Liquid Assets Ratio
GDP	Gross Domestic Product	VaR	Value at Risk
GOSL	Government of Sri Lanka	YoY	Year-on-Year

6.8 Basis of Ratio

P: 376

Ratio	Definition
Earnings per share (EPS) (Rs.)	$\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Average number of shares}}$
Net assets value per share (NAPS) (Rs.)	$\frac{\text{Total shareholders' equity}}{\text{Average number of shares}}$
Market capitalisation (Rs.)	Market price per share x Number of shares
Price earnings (PE) (Times)	$\frac{\text{Market price per share}}{\text{Earnings per share}}$
Dividend yield (%)	$\frac{\text{Dividend per ordinary share} \times 100}{\text{Market price per share}}$
Dividend cover (Times)	$\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Total dividend paid to shareholders}}$
Dividend payout (%)	$\frac{\text{Total dividend paid to shareholders} \times 100}{\text{Profit/loss attributable to ordinary shareholders}}$
Earnings yield (%)	$\frac{\text{Earnings per share} \times 100}{\text{Market price per share}}$
Return on equity (ROE) (%)	$\frac{\text{Profit/loss attributable to ordinary shareholders} \times 100}{\text{Average shareholders' equity}}$
Return on asset (ROA) (%)	$\frac{\text{Profit/loss attributable to ordinary shareholders} \times 100}{\text{Average total assets}}$
Debt to equity (Times)	$\frac{\text{Borrowings}}{\text{Total shareholders' equity}}$
Cost to income ratio (%) (Excluding VAT on FS)	$\frac{\text{Total operating cost without VAT on financial services} \times 100}{\text{Total operating income}}$
Interest cover (Times)	$\frac{\text{Profit before interest and tax}}{\text{Interest expenses}}$
Operating profit margin (%)	$\frac{\text{Operating profit before VAT on financial services} \times 100}{\text{Total Revenue}}$
Net interest margin (%)	$\frac{\text{Net interest income} \times 100}{\text{Average total assets}}$
Provision cover	$\frac{\text{Provisions (CBSL)}}{\text{Non-performing assets}}$
Price to book value (PBV) (Times)	$\frac{\text{Market price per share}}{\text{Net assets per share}}$
Total impairment provision to gross portfolio (%)	$\frac{\text{Total impairment provision} \times 100}{\text{Gross loans and receivables}}$
Non-performing ratio	$\frac{\text{Gross non-performing portfolio} \times 100}{\text{Gross loans and receivables}}$
Gross non-performing advances ratio (%)	$\frac{\text{Non-performing portfolio (net of interest In suspense and unearned income)} \times 100}{\text{Gross portfolio (net of interest in suspense and unearned income)}}$

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

7th September 1995

Registration No

PB 232 PQ

Accounting Year

31st March

Board of Directors

D H J Gunawardena
FCMA (UK), CGMA
Chairman/Non-Executive Director

W P C M Nanayakkara
B.Sc. (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/Chief Operating Officer

S R Abeynayake
MBA (Sri J), FCA, FCMA
Non-Executive Director

Prof. Ajantha Dharmasiri
B.Sc. Eng., MBA (Sri J), PhD (Sri J), MCMI (UK)
*Independent Non-Executive Director
(Senior Independent Director)*

D A De Silva
BSc. (Hons), ACMA, CGMA
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/Chief Credit Officer

T M D P Tennakoon
FCMA (UK), CGMA
*Deputy CEO/Executive Director/
Chief Financial Officer*

U R Seneviratne
LLB (Colombo), PhD. International Affairs (BCIS)
Non-Executive Independent Director

Prof. S P P Amaratunge
B.A. Econ (Sp) (Sri J); M.A. Econ (Colombo);
M.Sc. Econ. of Rural Dev. (Saga. Japan);
PhD (Kagoshima, Japan)
Non-Executive Independent Director

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)

Notice of Meeting

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC – P B 232 PQ

Notice is hereby given that the Twenty-First Annual General Meeting of Citizens Development Business Finance PLC will be held on 30th June 2017 at Liberty Ball Room of Hotel Ramada, Colombo, No. 30, Sir Mohamed Macan Markar Mawatha, Colombo 03 at 10.00 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 31st March 2017 with the Report of the Auditors thereon.
2. To declare a first and final dividend of Rs. 3.50 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 31st March 2017.
3. To re-elect Mr. S R Abeynayake, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.
4. To re-elect Mr. D A De Silva, 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. D H J Gunawardana, 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 Ms. U R Seneviratne, 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 re-elect Prof. Sampath P P Amaratunge, who in terms of Article 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.
8. To authorise the Directors to determine contributions to charities and other donations for the ensuing year.
9. 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
5th June 2017

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/proxyholders are kindly requested to bring their National Identity Card/Passport/Driving License or any other accepted form of identification and produce same at the time of registration.

Form of Proxy – (Voting Shareholders)

Citizens Development Business Finance PLC – P B 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 Mudiyanseelage 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
Ms. Udayanthi Ramanika Seneviratne	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-First Annual General Meeting of the Company to be held on the 30th day of June 2017 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 31st March 2017 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 3.50 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 31st March 2017.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. S R Abeynayake, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. D A De Silva, 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.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. D H J Gunawardana, 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.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Ms. U R Seneviratne, who in terms of Articles 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Prof. Sampath P P Amaratunge, who in terms of Articles 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to determine contributions to charities and other donations for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
9. To reappoint Messrs KPMG, Chartered Accountants as Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of Two Thousand and Seventeen.

.....
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 proxyholder and the shareholder appointing the Proxyholder 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 – P B 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 Mudiyansele 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
Ms. Udayanthi Ramanika Seneviratne	whom failing
Prof. Sampath Priyantha Perera Amaratunge	

as my /our proxy to represent me/us and speak at the Twenty-First Annual General Meeting of the Company to be held on the 30th day of June 2017 and at any adjournment thereof.

Signed this day of Two Thousand and Seventeen.

.....
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 proxyholder and the shareholder appointing the proxyholder 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.



This Annual Report is Carbon Neutral

This Citizens Development Business Finance PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

This is an Integrated Annual Report

This Citizens Development Business Finance PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.



Citizens Development Business Finance PLC

No. 123, Orabipasha Mw, Colombo-10, Sri Lanka

www.cdb.lk