

# THE GAME PLAN



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You could access the web  
and mobile HTML versions of  
this Annual Report through  
<http://cdb.annualreports.lk>.

This is an integrated  
Annual Report capturing  
economic, social and  
environmental performance



# THE GAME PLAN

Whether a corporate entity or an individual, everyone requires a 'Game Plan', which is essentially a set of strategies that will guide them to their chosen destinies.

CDB understands this better than most. A few years ago, we were in a position of considerable weakness, suffering poor image and lackluster performance. The well founded Game Plan we introduced turned all this around. Today CDB is a vibrant entity, well respected and growing where it matters. For example, over the past five years our CAGR\* for Total Assets was 38% and Profit after Taxation was 57%. We are now ranked 5th among the Non-Banking Financial Institutions in Sri Lanka; and also 52nd amongst the 100 most respected companies in Sri Lanka by LMD.

Of course in the lives of individuals, a Game Plan can be just as effective - helping to make targeted and prudent choices on how to handle life's many decisions concerning financial matters, personal advancement, family welfare and so much more. As a financial service provider, we have taken it to be our responsibility to guide them in this regard.

By maintaining sustainable performance, we have helped all our stakeholders achieve financial security and above all, peace of mind.

We will continue to follow our Game Plan and by doing so, reap the success that we see awaiting us in the future.



# BACK THEN...



## *Back Then...*

On 7th September 1995, Ceylinco Development Corporation (CDC) was incorporated with a mandate to lend financial resources to entities engaged in the agriculture sector of Sri Lanka.

Storm clouds gathered in the year 2008. The storm that was unleashed came in the form of the collapse of the Ceylinco Group. As an entity within the Ceylinco fold, CDC, which by this time had changed its name to Ceylinco Development Bank, was facing serious issues of dwindling public confidence and the serious threat of losing its 'going concern' status.

It was crunch time in every sense of the phrase and commencing December 2008, a concerted effort began, to transform the fortunes of the Company. In February 2009, the Senior Management of Ceylinco Development Bank took the first steps in a momentous journey that wrought a most remarkable turnaround that is truly the stuff of legends. One of these steps was to rebrand and restyle the Company giving it a new name - **Citizens Development Business Finance PLC (CDB)**, by which name we are known today.

The rest of the story unfolds as you peruse this report.



*...the blue skies of success were in sight, but we weren't looking. We lacked the direction and foresight to reach our goals. The 'edifice of business' was crumbling around us; we were scanning different horizons, none of them leading us to our goals. We realised then that we needed a master plan to turn the situation around.*





# WORKING TO PLAN



## *Working to Plan...*

'Reviving', 'resuscitating', 'transforming' call it what you will, the need of the hour back in December 2008 was a sound and comprehensive strategy to bring CDB out of an untenable situation, into true sustainability.

The business plan to transform CDB rested on five key strategic imperatives - a fresh rebranding and communication strategy, a shift in market focus, a revised distribution strategy, enterprise governance and a renewed focus on deposit mobilisation and asset creation.

We began working to a plan.

The rebranding and communication strategy was to address and reverse eroding public and customer confidence as well as the direct and indirect negative publicity directed at the Company.

Restricted by the leasing licence we held, which limited access to the market, we adopted a shift in focus by approaching the Central Bank of Sri Lanka for approval to widen our ambit in the financial industry in order to become a total financial solutions provider. This has been accomplished.

Our revised distribution strategy leverages the concept of 'urban funding - rural lending'. It focuses on attracting deposits from urban areas and lending to the credit needy in rural areas.

We recognised right from the start, that the tone and drive of enterprise governance must begin at the 'top of the tree' to be truly effective. The composition of CDB's Board of Directors changed to reflect this imperative, with a more balanced spread of Executive, Non-Executive and Non-Executive Independent members.

As a consequence of our successful shift in focus from leasing to finance business, the ensuing wider market access has allowed CDB to aggressively promote and mobilise funds through fixed deposits. Satisfactory levels of deposit mobilisation and asset creation accrue.



*A new plan brought new purpose; a clear direction; the 'tools' we needed for the job - to build towards our goals, one step at a time. Strategy led us to 'deconstruct and reconstruct', fashioning the business model that would best use our strategic options and reap reward.*

A group of diverse people, including men, women, and a child, are walking away from the viewer on a dark, cracked, and uneven path. They are heading towards a large, textured red wall that has two small, rectangular windows showing a blue sky. The overall atmosphere is one of a journey or a quest for success.

# TOUCHING SUCCESS...



## *Touching Success...*

The ultimate testament to the effectiveness of our transformation strategy was the demonstration of customer confidence in CDB when customers generated Rs. 130 Mn worth of deposits at the ceremonial opening of the new head office, way back, on 18th June 2009.

The CDB brand was also ranked 51st amongst the Most Valuable 100 Listed Brands in the Colombo Stock Exchange by Brand Finance for the year 2010/11, and going forward, our positioning improved to 50th in the year 2012/13 and 52nd thereafter for the year under review. Noteworthy is that CDB was placed fifth largest in the non-banking financial institutions category, indicating signs of a company that has re-emerged as one of the strongest in the industry.

Exceptional performance and consistent growth momentum also enabled CDB in securing the Gold Award at the National Business Excellence Awards 2011/12, organised by the National Chamber of Commerce of Sri Lanka.

In addition we clinched the bronze award at the coveted 49th Annual Report Awards 2013 Organised by the Institute of Chartered Accountants of Sri Lanka.

For the commitment CDB has shown for development of its people, it won the Bronze award for People Development at the First SLITAD People Development Awards in Sri Lanka, organised by the Sri Lanka Institute of Training and Development

We were also successful in securing Merit Awards, both at the National Business Excellence Awards 2013 for the Specialised Banking & Financial Services Sector and at the Business Case Awards 2013 organized by the Chartered Institute of Management Accountants UK.

Our Annual Report for the financial year 2012/13 won the Silver Award at the '2012 Vision Awards' organised by the League of American Communications Professionals (LACP) and was also ranked in the regional (Asia Pacific) top 50 honours and awarded top national honours as well.

CDB was also recently honoured with the prestigious Award for Branding & Marketing Excellence at the fourth CMO Asia Awards, hosted by the World Brand Congress held in Singapore.

These accolades testify strongly to the success of CDB's transformation and re-emergence as an even stronger entity in the financial services sector of Sri Lanka - an outcome few could have envisaged back in 2008.

Continuing this sustained growth momentum, we recorded exceptional all-round financial performance during the year. Profit-after-tax posted Rs. 561 Mn while Revenue surpassed over 6 Bn. Total assets were Rs. 34 Bn as at the year end.

All of these assuredly place us in a position of sound financial stability, showcasing that our fundamentals are strong, while governance, ethics and principles are uncompromising. The impressive financial results this year simply underscore that we are on the right path, have instituted apt strategies and possess the right systems and processes to take the Company forward.



*Today, our Game Plan has led us to build the ‘stairway’ of a business model that lets all our stakeholders “touch the sky of success”.*

**HIGHLIGHTS**

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

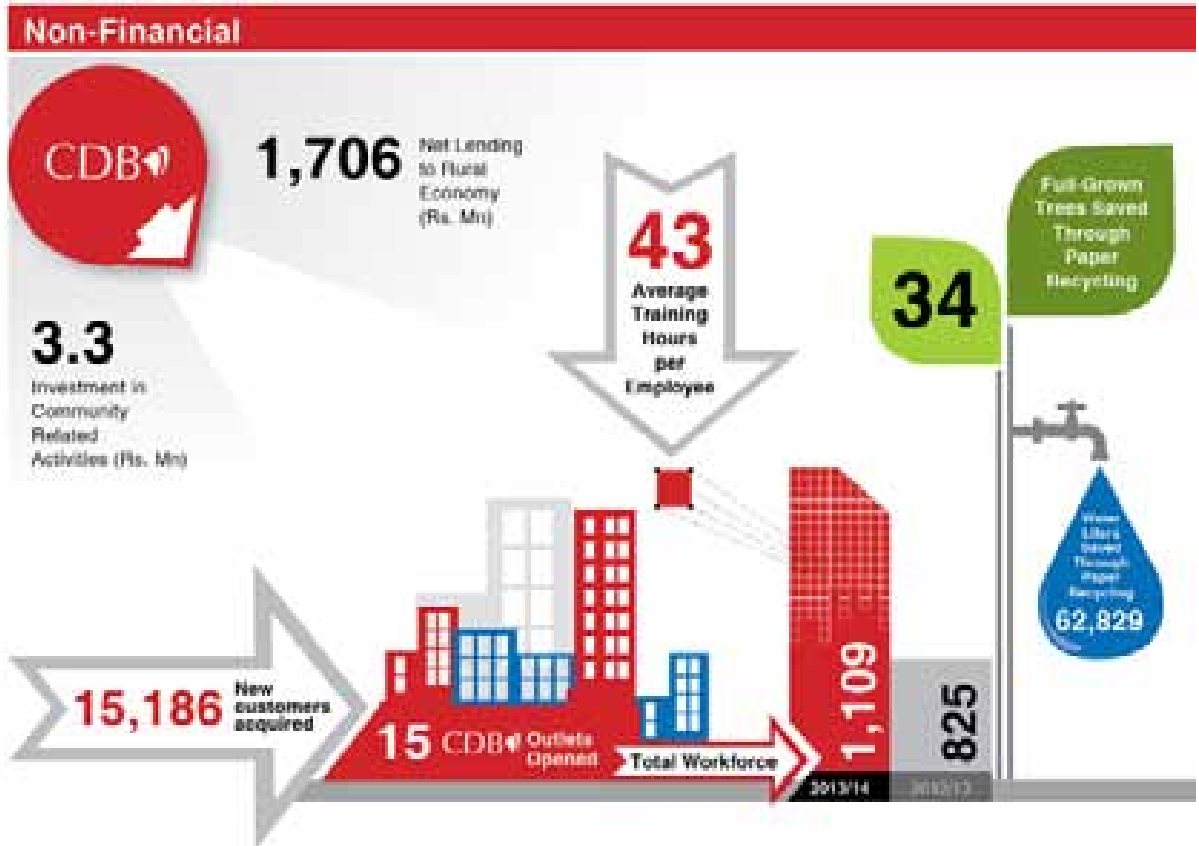
BUSINESS MODEL : 028-050

**Financial**

Key Performance Indicators	2013/14	2012/13
<b>Results For the Year Rs. Mn.</b>		
Gross Income	6,125	4,311
Net Interest Income	2,342	1,700
Profit Before Vat & Tax	783	665
Profit Before Tax	730	624
Provision For Tax	169	135
Profit After Tax	561	489
<b>Position at the Year End Rs. Mn.</b>		
Shareholders' Funds	3,577	2,965
Deposits from Customers	24,518	17,771
Loans & Advances	25,724	19,451
Total Assets	33,769	24,454
<b>Financial Ratios</b>		
Net Assets Value Per Share (Rs.)	65.87	54.60
Earnings Per Share (Rs.)	10.33	9.01
Return on Average Assets (%)	2.51	3.04
Return on Average Shareholders' Funds (%)	17.16	18.57
<b>Non-Performing Advances Ratio</b>		
Gross %	5.19	2.32
Net %	2.73	1.27
<b>Statutory Ratios</b>		
Capital Adequacy (%)		
Tier I (Minimum Requirement - 5%)	12.61	14.32
Tier I & II (Minimum Requirement - 10%)	16.00	14.32
Liquidity Ratio (%)	18.60	14.49

*The business recorded a strong growth in most of its key performance indicators with significant improvements in core profitability*





Operational	
<p><b>New Outlets Opened</b></p> <p>CDB enhanced its reach by opening 15 outlets during the year increasing the total number of outlets to 59 island-wide.</p>	<p><b>Foreign Funding</b></p> <p>CDB acquired the first foreign funding line worth \$ 6 Mn from Belgian Investment Company for Developing Countries (BIO).</p>
<p><b>Debenture Issue</b></p> <p>Issue of ten million debentures at Rs. 100/- each which was over-subscribed with applications exceeding Rs. 1 Bn.</p>	<p><b>New Corporate Office</b></p> <p>Commenced construction of our new corporate office.</p>

## ABOUT THIS REPORT

HIGHLIGHTS : 014-015

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### Structure

Readers will notice that our Annual Report 2013-14 adopts a different approach and structure. It is an integrated report; our very first.

Integrated reporting is a relatively new concept that is gaining acceptance globally. In adopting this approach, we have attempted to communicate more coherently and concisely how our strategy, governance, performance and prospects, in the context of our external environment, lead to the creation of value over time.

### Conceptual Framework

Although the CDB Annual Report 2012/13 included a Sustainability Report, commencing with this Annual Report 2013/14 we have chosen to seamlessly integrate sustainability reporting with the rest of the report, as we regard 'sustainability' as being part of mainstream business.

In doing so, we have drawn on applicable concepts, principles and guidance given in the following:

- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (2013)  
[www.globalreporting.org](http://www.globalreporting.org)
- The International Integrated Reporting Framework (2013)  
[www.theiirc.org](http://www.theiirc.org)  
and the
- Smart Media Methodology for Integrated Reporting™  
[www.SmartMedia.lk](http://www.SmartMedia.lk)

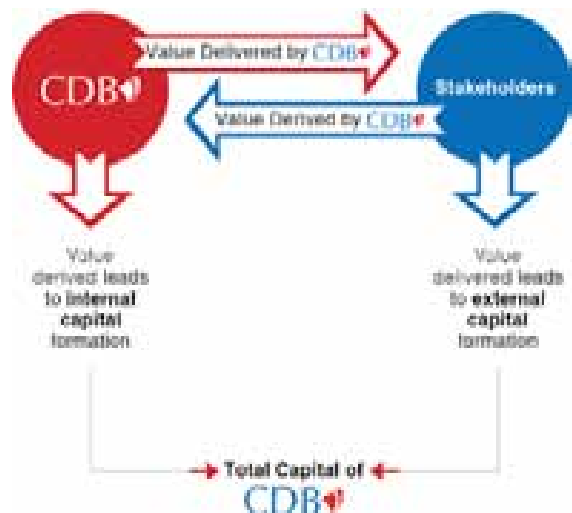
### The Dual Aspects of Value Creation

Value creation has two angles. It arises from the realisation that the ability of an organisation to create sustainable value for itself is also linked to the value it creates for its stakeholders. The two go hand in hand.

CDB delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental parameters within which it

operates. These stakeholders are of value to us, and they are nurtured and developed over time. As stores of value, they constitute CDB's stakeholder or external capital, the primary components being investors, customers, business partners, employees, regulators, society and environment. These forms of capital are external to CDB.

In turn, CDB derives value through the dynamic interaction between its external capital and its own internal capital to drive future earnings. The capital internal to CDB comprises financial capital and its institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.



### Capital Formation

The various forms of capital are in a state of flux with flows taking place among them. CDB has access to and makes use of these various forms of capital in creating value for itself (deriving value) and its stakeholders (delivering value). They underscore the dual nature of value creation as depicted in the above diagram.

## Content Development

In keeping with the need to keep this report both comprehensive and concise, we are disclosing only the key material aspects in the printed Annual Report 2013/14, while additional details are given in our online report that may be accessed at our website [www.cdb.lk](http://www.cdb.lk). We have chosen to be an early adopter of the GRI G4 Guidelines and this is our very first integrated report thereunder 'in accordance with core criteria'. While our first sustainability report in 2010/11 was based on GRI G3 Guidelines, we evolved over time and the sustainability reports for the years 2011/12 and 2012/13 were based on GRI G3.1. This year, we have changed and re-evaluated materiality based on the guidance provided in the GRI G4 Guidelines under the 'identified material aspects and boundaries' covering our operational aspects. This report primarily covers sustainability impacts, risks and opportunities arising from financial operations within the organisation while spotlighting materiality, stakeholder inclusiveness, completeness and sustainability context, even as its quality is ensured through balance, comparability, accuracy, timeliness, clarity and reliability, all in accordance with the GRI G4 Guidelines.

## External Assurance

For the second consecutive time, this year's Annual Report receives independent external verification from KPMG, with regard to the financial data and performance indicators. CDB including our Board of Directors and senior management does not have any relationship with Messrs KPMG who is the External Auditor of the Company. The Managing Director who is an Executive Director and member of the corporate management team responsible for sustainable practices and disclosures reviewed in this report interacted with the external assurance provider in the report content.

Significant changes and restatements, with regard to the scale, size, structure, scope, boundary or measurement techniques, have not been made. The financial data presented in this report was extracted from the Audited

Financial Statements of the Company for the year from 1st April 2013 to 31st March 2014. Non-financial data has been extracted from records maintained by the relevant divisions of the Company throughout the year. We have restated previous years' data, wherever applicable, to enable greater comparability amongst years. Given that the Company is service oriented, certain GRI G4 performance indicators have been deemed inapplicable. Furthermore, CDB's subsidiary, CDB Micro Finance Limited was excluded from this report, as it is in the process of merging with the Parent Company and thus is beyond the purview of this report. Also, certain non-core activities such as payroll services, security services, janitorial services and office equipment maintenance services have not been considered for the purposes of this report and are therefore excluded from the report scope which can be stated as a limitation.

## Compliance

CDB's Annual Report 2013/14 covers the 12-month period from 1st April 2013 to 31st March 2014, and is consistent with our usual annual reporting cycle for both, financial reporting and sustainability reporting.

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.

## **CHAIRMAN'S LETTER**

HIGHLIGHTS : 014-015

**CHAIRMAN'S LETTER : 018-021**

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050



## Preamble

On behalf of the Board of Directors I have pleasure in presenting the Annual Report and Audited Accounts of your Company for the financial year ended 31st March 2014.

Over the last several years we have seen CDB being gradually transformed into a versatile corporate achieving sustained growth. Despite operating in a challenging economic environment both locally and globally, your Company succeeded in maintaining the momentum that was built up over the preceding years posting net profits exceeding Rs. 500 Mn. Your Company extended its market reach by adding 15 new outlets mostly in districts outside the Western Province. The construction of CDB's Head Office Building proceeded apace and is scheduled for completion in August 2014. A great deal of the Board's attention during the year was focused on further improving its governance framework. Being committed to achieve long-term success for your Company, your Board firmly believes that good governance plays an integral part in maximising shareholder value over time.

## The Changing Economic Landscape

The world economy grew at a reduced pace of 3% (compared to 3.1% in 2012) though signs of increased economic activity was evident in the second half of the year. The economic outlook for 2014 is however more promising as advanced economies begin to recover from their economic downturn.

The Sri Lankan economy recorded a healthy growth rate of 7.3%, up from 6.3% in 2012. Unemployment continued to remain low and inflation remained at single digit levels for the 5th successive year. The narrowing of the trade gap and improved foreign currency inflows mainly from worker remittances, services including tourism and long-term debt inflows to government, banks and other corporates, brought about significant improvements

to the Balance of Payments (BOP) enabling a build up of foreign reserves and facilitating exchange rate stability. 2013 also witnessed the completion of several infrastructure projects which is expected to yield numerous economic and social benefits over time. It is hoped that these developments will also attract substantial FDIs and facilitate increased earnings from tourism and exports soon enough to match the rising foreign debt service payments.

The financial services sector experienced certain drawbacks in the period under review. The decline in gold prices from the early part of 2013 resulted in banks and NBFIs experiencing a decline in their asset quality with an increase in non-performing pawning loans. The negative impact of your Company's exposure on gold backed loans has been recognised in full, in arriving at the Company's financial results for 2013/14. With the reduction in policy interest rates by the Central Bank and its resulting impact, depositors found returns on their savings and fixed deposits reduced and most companies operating in the sector experienced a narrowing of their net interest margins.

## Business Performance in 2013/14

Notwithstanding these impediments CDB continued to achieve impressive financial results. Your Company posted a turnover of Rs. 6.1 Bn in the year under review which represents an increase of 42% over last year's result of Rs. 4.3 Bn. PAT was Rs. 561 Mn, an increase of 15% over last year. Total assets increased by 38% and equity by 21%. It is also noteworthy that during the year under review, your Company was recognised nationally and internationally with several awards of excellence.

During the year your Company successfully raised its first foreign loan of US\$ 6 Mn (Rs. 780 Mn) which has been hedged against exchange loss. Your Company also raised 5 year redeemable listed debentures of Rs. 1 Bn which was over-subscribed within hours of being offered. These funds will be applied to further expand and develop your Company.

**CHAIRMAN'S LETTER**

HIGHLIGHTS : 014-015

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*“Notwithstanding these impediments CDB continued to achieve impressive financial results. Your Company posted a turnover of Rs. 6.1 Bn in the year under review which represents an increase of 42% over last year’s result of Rs. 4.5 Bn PAT was Rs. 561 Mn, an increase of 15% over last year and total assets increased by 38% and equity by 21%. It is also noteworthy that during the year under review, your Company was recognised nationally and internationally with several awards of excellence.”*

**Dividends**

Nothing pleases me more than to announce on behalf of your Board, generous dividends to shareholders. Your Board is equally committed to build its core capital for greater sustainability of its growth objectives.

With this in view, I am happy to announce that your Board recommends a dividend of Rs. 3.00 per ordinary share which is an increase of 9% over last year.

**Building a Stronger Enterprise**

As mentioned earlier, our branch network continues to grow enabling us to offer our diverse financial services to a greater geographical spread.

Your Company’s management continues to inculcate and nurture socially responsible behaviour and sound ethical conduct amongst its employees.

As referred to earlier on in my report, your Board will continue to give due attention to good governance initiatives. As mentioned elsewhere in this report, your Board has strong sub-committees to deal with key areas of governance. In the year under review, an internal evaluation of the Board was carried out for the first time. Whilst this process revealed that Board members individually and collectively are performing effectively, it provided important insights that would enable us to achieve a higher level of performance.

**Future Directions**

With a view to securing long-term stability in the country’s financial system, the Central Bank of Sri Lanka (CBSL) has proposed a plan to restructure Sri Lanka’s NBFIs sector during 2014. The process would entail consolidation of this sector through a series of acquisitions, mergers and/or absorptions which are aimed at reducing the number of NBFIs from its present 58 to around 20. The present NBFIs have been

categorised into 3 clusters, namely, A, B and C. Your Company which has more than the minimum required core capital and asset base, with a high degree of compliance with the Directions issued by the Central Bank, is placed in the A category. Companies in the A category have the option of acquiring or absorbing a company from the B category. In order to facilitate the efforts of government to usher in a more robust financial services sector, CDB has responded positively to the consolidation plan in the expectation of the synergistic advantages it would bring to the Company. However the process is still in its early stages and shareholders will be kept informed of further developments as they unfold.

In recent times the banking sector which has access to primary funds, has made inroads into markets previously dominated by NBFIs, making the financial services industry, intensely competitive. CDB has however, good reason to be confident in the potency of its brand and the management's in-depth market knowledge and professionalism to overcome challenges, mitigate risks and take advantage of profitable opportunities to surpass achievements year on year.

## Commendations and Appreciations

I would like to extend my heartfelt thanks to my colleagues on the Board for their judicious stewardship and strategic guidance. I wish to express my appreciation to Mr. Mahesh Nanayakkara, the Company's Managing Director and CEO for his leadership and commitment and also to our highly talented managers and other employees for their passion, loyalty and dedication which has seen the achievement of such noteworthy results.

The valuable advice and guidance extended by the Governor of the Central Bank, the Deputy Governor and other officials of the Central Bank and other regulatory and statutory institutions have greatly assisted us in ensuring compliance and good governance structures in the Company.

My special appreciation goes out to our shareholders and our customers who, over the years have continued to strengthen their confidence in CDB.

In closing, I wish to express my thanks to our Auditors, KPMG for their valuable advice and timely completion of the audit.



**D H J Gunawardena**

*Chairman*

2nd June 2014

## **MANAGING DIRECTOR'S REVIEW**

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## MANAGING DIRECTOR'S REVIEW

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FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

When I began last year's Review of Operations, I recall stating that even though challenges will continue, we will always have a response to those challenges. This is surely a strong hallmark of CDB and has always been the foundation to our Game Plan. Despite challenges, each year, CDB has posted results that have overcome challenges, enabling us to grasp opportunities and hone our strengths.

It is in this backdrop that I present to you the Operational Review for the year in which CDB has performed considerably well. We have responded admirably to those challenges, while the country meanwhile has set for itself an ambitious course, in which we are surely a part of that blueprint.

## Sri Lanka in Perspective

The envisaged post war broader economic framework presented by the Central Bank of Sri Lanka (CBSL) shows that high growth, low inflation and low interest rates have been on a sustainable track, with inflation remaining at single digits for five consecutive years. Post war interest rates movements have been on a relatively narrow bandwidth and have been on a downward trend since the beginning 2013, dipping even lower to historically low levels.

Sri Lanka has done exceptionally well. GDP growth rebounded in 2013 recording a growth of 7.3% against the 6.3% recorded in 2012, a consolidation over the two previous years' recorded growth of over 8%. However, this consolidation is necessary in the longer term as it creates a sustainable foundation for the country to grow and construct its development agenda upon.

A key challenge to the Banking and Financial Services sector has been the need to adapt and respond to fast-transforming market dynamics. Having experienced higher credit growth above 30% prior to 2012 due to accelerated post war growth, the credit ceiling imposed in 2012 saw definite curtailment of credit. However, when this ceiling was removed in December 2012, the anticipated credit growth did not materialise,

remaining sluggish, despite interest rates remaining low. Having now gained some momentum albeit very slowly, the gradual upward slide should gather speed in the second half of 2014.

Numerous positives meanwhile have emerged in the macroeconomic environment, reflecting the country's ability to achieve long term sustainable economic growth. Exports have seen a resurgence both qualitatively and quantitatively, gaining even stronger momentum in the first quarter of 2014. The tourism industry has continued to exceed its targets in arrivals, foreign exchange earnings and investment capacity, while remittances and inflows have also contributed strongly to adding fillip to the Balance of Payments and foreign reserves. In response to these, the banking and financial services sector has experienced an excess liquidity scenario in the short-term.

CDB has thus continued to be consistent in our performance delivery. Each promise we made last year, has been delivered, despite the fact that the macro milieu we have been operating in has been evolving and challenging. I must make special mention of our highly motivated team, a group of professional men and women for whom no challenge is insurmountable; in fact they thrive in an environment such as this, innovating new ideas, strengthening relationships and always seeking opportunities. It is their spirit and passion that allows me to present to you these noteworthy results this year.

## Performance Optimised

Our Balance Sheet surpassed the milestone of Rs. 30 Bn, notched at Rs. 33.8 Bn reflecting a growth of 38%. On analysis, this figure posits that CDB has been growing at an average of Rs. 2.33 Bn in each quarter of this financial year. Our Loan Book inclined 32% recording Rs. 25.73 Bn at year end, while the deposit base also grew by 38%, to stand at Rs. 24.51 Bn. Total loan/lease approvals and disbursements during the FY 2013/14 was seen at Rs. 14.7 Bn and Rs. 12.9 Bn, reflecting an increase of 37% and 34% respectively. Capital funds moved upwards to Rs. 3.6 Bn, at a growth of 20.70%.

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Gross Non-Performing Loans (NPL) increased to 5.19% and Net NPLs to 2.73%. This is undoubtedly lower than industry average, but given our spirit of always wanting to be better, the focus on improving our NPL position has been very strongly emphasised upon and continues to be so. One of the key factors impacting our NPL ratio has been the increase in the repossessed vehicle stock as a result of CDB changing our policy on the disposal of vehicles. We have now begun disposing vehicles through CDB Vehicle Sales Units (VSU) which function under our branch network, to attract better prices and more accessibility of these products to our customers. This was an initiative we began this financial year, seeing a pragmatic slowing down of disposals. The NPL ratio excluding the yard vehicle stock recorded 3.39% on gross basis and 0.84% on net.

Revenue recorded a growth of 42%, standing at Rs. 6.12 Bn. Net interest income is posted at Rs. 2.34 Bn at a growth of 38%. We are pleased that we have recorded a considerable 15% increase in Profit after Tax, to Rs. 561 Mn, amidst a substantially higher impairment charge of Rs. 339 Mn, which saw an increase of 163% and an incurred loss of Rs. 168 Mn on liquidated unredeemed gold articles. This has been mainly attributed to the impairment of pawning advances, which was negatively impacted when world gold prices saw unprecedented downwards spirals. This meant the impairment on pawning advances was much higher than envisaged initially, including reversal of accrued interest. Total charges to the income statement against gold advances amounts to Rs. 219 Mn, of which Rs. 51 Mn has been included under impairment charges, while Rs. 168 Mn has been charged under other income against incurred losses on disposal of gold articles.

Given the incertitude arising from the downward spiral in gold prices, CDB took an astute policy decision not to speculate on gold prices and accordingly, lapsed articles were liquidated. Our pawning portfolio encompassed only 5.25% of the loan book at the beginning of the period under review. We have already disposed of a majority of unredeemed articles and the

remaining stock has been fully provided for, to reflect disposable market value. At present, we maintain our pawning business cautiously, offering the lowest advances in the market place, positioned on a risk averse foundation.

Our capital ratios remained strong, reflecting 12.61% and 16.00% in Tier I and Tier I & II, well above the regulatory requirement levels of 5% & 10%. Tier 2 has been buoyed with our first listed subordinate debenture issue for Rs. 1 Bn, which was oversubscribed within hours of being presented to the investing public.

A strong liquidity position is well evident with our liquidity ratio standing at 18.60% against the statutory requirement of 10%. As a result, an excess cash position of Rs. 1.9 Bn has been seen, which is way above the regulatory requirements. However, this has generated negative return and has gained the focus of our Treasury Committee, which is engaged in exploring avenues that would optimise returns and cost of funds.

Our asset liability maturity gap for which we adopt a focused strategy to narrow the 'one year and less basket' to 10%, has yielded positive results. The prevalent gap has narrowed to 13% as at end of this financial year.

Our cost to income ratio improved to 58.43% from 60.89% one year ago, setting us firmly on the path of achieving our set target of being below 50% within the next couple of years.

Our net interest Margin (NIM) reduced marginally from 8.28% to 8.05% during the year. We do expect our NIM to reduce further and correspondingly, to see asset quality reach higher levels. Return on Equity (ROE) is posted at 17.16% compared to 18.57% last year, attributed primarily to higher impairment charges and incurred losses due to gold backed advances. Net Asset Value (NAV) per share is recorded at Rs. 65.87, while Earnings Per Share (EPS) is Rs. 10.33 for the FY ended 31st March 2014.

*“Our Balance Sheet surpassed the milestone of Rs. 30 Bn, notched at Rs. 33.8 Bn reflecting a growth of 38%. On analysis, this figure posits that CDB has been growing at an average of Rs. 2.33 Bn in each quarter of this financial year.”*

## **Moving Beyond Quantitative Performance**

Having always maintained a culture of caring and giving, our Game Plan has always collated our stakeholders as the axis to growing our business. Whether it is our team, valued business partners, shareholders, customers or the community, CDB forges and strengthens long term relationships with each of our stakeholders, engaging them in proactive dialogue to gain an insight on how our business impacts them.

While our customers are in continuous dialogue with our team as are our valued business partners and shareholders, we interact very closely with our community through our corporate responsibility initiatives, based on four primary projects. CDB *Sisudiri*, is the only dedicated scholarship scheme for children in families where the breadwinner is involved in the three wheeler sector, unique in its perspective and reaching out to a segment of micro entrepreneurs. The CDB IT Laboratory Project continues to present fully fledged IT laboratories to lesser privileged schools. This is an annual project and has seen CDB cover a total of 7 schools over 7 years. Our environmental initiatives, CDB *Hithawathkam* and *Mihikathata Adaren* creates awareness on the preservation and conservation of the environment.

However, our overarching CSR outlook hedges on the theme of uplifting the rural economy, which to us has immense potential in contributing significantly to the national economy. By being a proactive contributor and partner by providing access to finance to those who are most often not recognised by the formal banking system, we have brought a large segment of citizens under the singular umbrella of inclusive empowerment. This to us is truly CSR, where our initiatives are designed to have positive long term impacts on communities, which in turn construct and strengthen a sustainable economy.

## The Financial Services Sector Looks Beyond

A massive transformation is deigned to take place in the financial services sector in the next few years with the implementation of the Financial Services Sector Master Plan for Consolidation. Announced by His Excellency the President in his budget speech as the Minister of Finance and later articulated by the Governor of the CBSL, this Master Plan augments the CBSL Roadmap 2014, reaching far beyond to construct a more long term foundation for the financial services sector.

In the Non-Banking Financial Institution sector, the main thrust has been to consolidate the current 58 players into twenty by 2016. Some yardsticks have been presented by the CBSL in categorising Non-Banking Financial Institutions (NBFIs). For CDB, this process is pragmatic as since 2010, we have infused a complete transformation and structuring of our organisation, which would in retrospect, seem like we were preparing for such a consolidation.

Name	CDB as at 31.03.2014	CDB as at 31.03.2010	CDB growth within four years	CBSL Threshold
Total Asset	33.8 Bn	6.7 Bn	5 times	8 Bn
Capital Funds	3.6 Bn	512 Mn	7 times	1 Bn

Despite the target date plan set by the Central Bank of Sri Lanka being a challenging one, given the complexity of a merger or an acquisition, CDB is committed to implement the set policies in consultation and under the guidance of the regulator, which is aimed at infusing strength and stability to the industry as a whole.

## Where do we go from here?

There are numerous questions that are posed to us at various times and two which stand out are, Where are the growth avenues? How will you grow your Loan Book? Each of our strategies is based on long term planning and sustaining our business through change

and transformation. Our Game Plan has always been to grow a segment of targeted stakeholders and not be everything to everybody. For example, we have focused on the growing middle class, the base of the pyramid and the rural economy. Having seen the paradigms as soon as the country saw an end to the war, we observed the economy expanding and thus per capita income improve. This would position more households to move upwards across both economic and social boundaries.

Taking just the example of the tourism industry, there will unequivocally be a positive impact across social boundaries and an impact on diverse sectors including construction, transportation, F&B and even human resource development, which herald multiple opportunities to and in all these sectors. When each of these sectors develop, communities develop and the cascading impact of improving lifestyles become tangible.

Another of our main accents is in entrepreneurial development, identifying and strengthening entrepreneurs who have the skill and knowledge but lack institutionalised support. We partner them in improving their ventures, imbibing them into an official framework and educating them on operating their businesses on long term strategies.

CDB's strength and ability to deliver in a fast changing industry landscape lies in synchronising the diverse aspects we have worked upon in the past few years. By focusing on a strategic expansion of our distribution network, positioning strategy, brand building and marketing, technology platform, product offering, service standards, speed of delivery and consistent and exceptional financial results, we have undoubtedly constructed a Game Plan that is strong and sustainable. We have also been recognised for our culture of compliance, given that we continue to infuse best practices in corporate governance, ethics, transparency and accountability. Into this winning equation, we add strong stakeholder relationships which has helped us create a winning organisation that can surely succeed in an intensely competitive environment.

## Recognition

Hence, it is this winning spirit that has given us a host of accolades since our inception and this year was no exception. Our emphasis on compliance and governance was well rewarded when CDB was awarded a Bronze at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka, while last year's Annual Report also gained a Silver at the 2012 Vision Awards organised by the League of American Communications Professionals (LACP). We are most honoured to have been ranked among the Top 50 in the Asia Pacific region.

It was indeed a privilege to us when our commitment to our team was recognised with a bronze award at the first SLITAD People Development Awards in Sri Lanka, organised by the Sri Lanka Institute for Training and Development, for our emphasis on people development. This ties in well with the efforts we infused into our marketing initiatives including image and brand building, resulting in the prestigious Award for Branding & Marketing Excellence at the fourth CMO Asia Awards, hosted by the World Brand Congress held in Singapore.

## Appreciation

As mentioned in this review, I am very grateful to my extraordinary team for their dynamism, motivation and gung-ho attitude in meeting challenging and overcoming them. They have taken absolute ownership to CDB's vision, believing unequivocally in its very foundations and have imbued their own brand of spirit, innovation and passion to take us ahead.

I'm most appreciative to the Chairman and the Board of Directors for their leadership and guidance, which has enabled me to steer CDB to newer heights amidst challenging circumstances. We have received immense support and guidance from the Governor of the Central bank of Sri Lanka and the Director and the other officials of Department of Supervision of Non-Bank Financial Institutions for which I am very grateful.

Their focus on ensuring vigilance, supervision and monitoring gives us a strong truss to maintain our culture of compliance and governance.

A heartfelt thank you to our customers and valued business partners, who continue to display immense confidence and loyalty to us, while our community too remains vital to ensuring that our Game Plan bears fruition.

**W P C M Nanayakkara**

*Managing Director/Chief Executive Officer*

2nd June 2014

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## BUSINESS MODEL

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*A core element of our business model is creating and preserving value over time, for the mutual benefit of CDB and its stakeholders, in the context of the economic, social and environmental aspects within which we operate*

## Organisation Structure

### Overview

Citizens Development Business Finance PLC (CDB) is a registered finance company regulated by the Central Bank of Sri Lanka and listed on the Colombo Stock Exchange. Our business is that of mobilising funds and providing financial accommodations. Our total asset base as at 31st March 2014 was Rs. 33,769 Mn, with recorded revenue of Rs. 6,125 Mn, recorded net interest income of Rs. 2,342 Mn. Shareholders' funds reached Rs. 3,577 Mn while borrowings stood at Rs. 4,314 Mn as at 31st March 2014. Coupled with an island-wide network of 59 outlets, these figures make CDB the sixth largest licensed finance company in Sri Lanka. The Company currently employs 1,109 people.

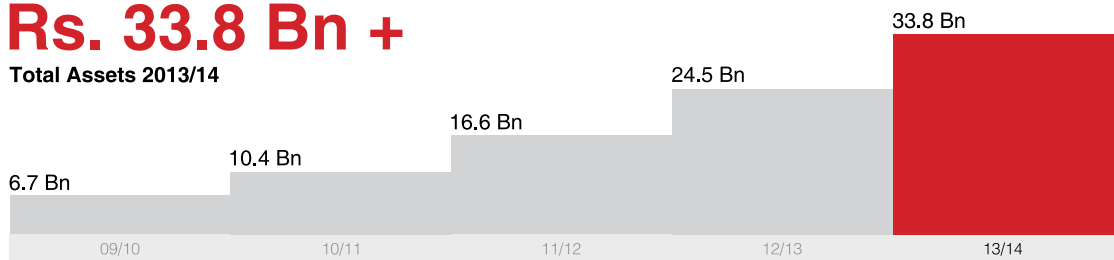
The Company's business strategy is based on financial support for enterprise and industry that will build the nation's economy and produce cascading, sustainable gains to improve the quality of life of all Sri Lankans. Our range of financial products is diverse and expansive, ranging from loans to foreign currency exchange and foreign remittances, from fixed and savings deposits to pawning. Thriving on the diversity of our clientele, our business model combines rural lending and urban funding.

Our sustainable development practices are those of a responsible corporate steward in the financial services industry, working to enrich both the planet and its people.

### CDB at a Glance as at 31st March 2014

**Rs. 33.8 Bn +**

Total Assets 2013/14



**78,884**

Total Clients

**59**

Total No. of Outlets

**220**

Total No. of CDB Sisudiri Scholars

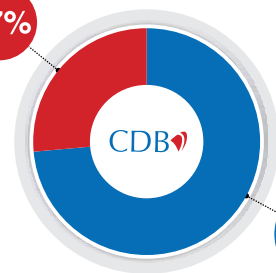
**1,109**

Total Employees

In the year under review the workforce was further strengthened and grew by 34%

Female

27%



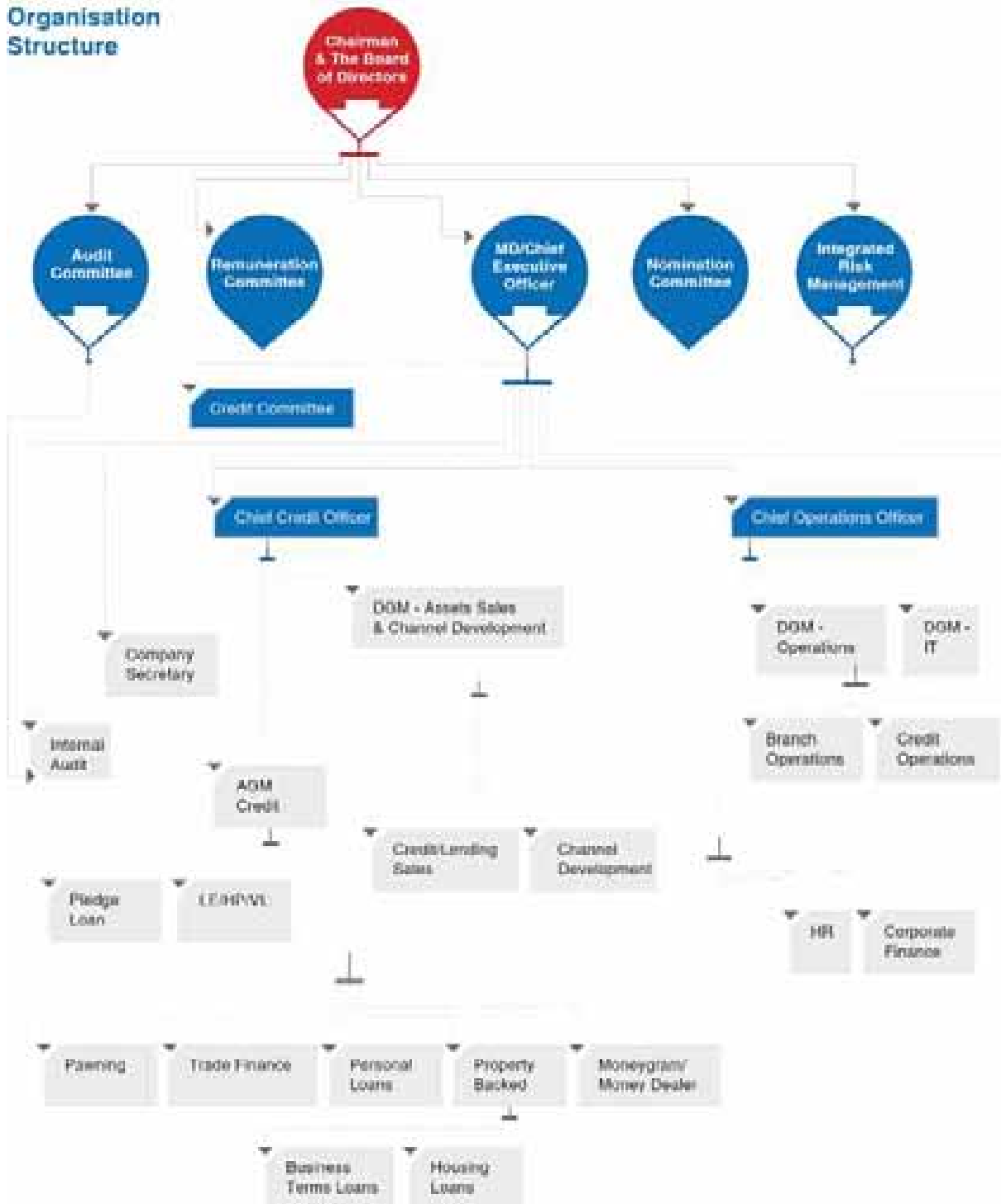
Male

73%

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**Organisation Structure**





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## Report Boundary

### Determining Material Matters

#### Material Aspects and Boundaries

Key to our goal of entrenching integrated sustainability across every facet of business is our focus primarily on those material matters and issues to our stakeholders. Determining these material aspects is an ongoing process, involving the study of all reports submitted for Board or Executive discussion, key business risk factors and identified opportunities, all formal and informal stakeholder feedback, our strategic objectives and integrated sustainability imperatives. The resulting material matters inform content priority for this Report and they are linked to our strategy and actions.

Materiality in financial reporting is the platform upon which stakeholders, predominantly investors, base their economic decisions. An organisation's financial

performance is inextricably linked to the performance of its triple bottom line, which has a permeating impact on all stakeholders. In CDB, determining materiality within the sustainability report is focused on the four main trusses of economic, environmental, social and cultural impacts. Hence, materiality in the sustainability reporting context is determined on significance of the mentioned economic, environmental, social and cultural impacts and influence on assessment and decisions of stakeholders. We have identified the material matters along with the material drivers for each stakeholder.

Our approach of addressing material aspects and boundaries is implemented through a vital process of stakeholder engagement. The very first step towards such aspects is identifying the relevant aspects and their boundaries. The following tabular format exhibits the identified material aspects and their drivers which matter to CDB within its scope.

Factor	Material Matters	Materiality Drivers
Economic	<ul style="list-style-type: none"> <li>• Becoming more customer-centred</li> <li>• Economic conditions and financial performance</li> <li>• Governance, compliance and ethics</li> <li>• Responsible business management, lending and investment practices</li> <li>• Effective risk and balance sheet management</li> <li>• Integrity of information technology (IT) systems</li> </ul>	<ul style="list-style-type: none"> <li>• Building trust with clients</li> <li>• Optimise strategic intent, sustainable economic profit and growth</li> <li>• Creating sustainable stakeholder value</li> <li>• Contributing to a stable economic and financial environment for group operations</li> <li>• Minimising non-compliance liability</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• Environmental and social impacts of lending, investments and products</li> <li>• Resource and energy consumption</li> <li>• Energy saved due to conservation and efficiency improvement</li> <li>• Compliance with environmental laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring compliance with existing and developing environmental regulations</li> <li>• Contributing to behaviour change for a more sustainable future</li> <li>• Reducing environmental impact</li> </ul>
Social	<ul style="list-style-type: none"> <li>• Socioeconomic development</li> <li>• Responsible access to finance and financial literacy</li> <li>• Lending to enable healthcare, housing and education, enterprise development and community upliftment</li> <li>• Economic empowerment</li> </ul>	<ul style="list-style-type: none"> <li>• Contributing to social stability to support business operations</li> <li>• Developing new products, new markets, revenue streams and the customer base</li> <li>• Contributing to social upliftment and social welfare</li> </ul>
Cultural	<ul style="list-style-type: none"> <li>• Building a resilient corporate culture</li> <li>• Embedding talent management</li> <li>• Developing staff capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Building a unique, innovative and customer centric culture that is core to our competitive advantage</li> <li>• Optimising talent by attracting, retaining and developing high performing and capable people</li> </ul>

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As the first step, we identify the most important and relevant aspects which could impact the organisation and hence, become material aspects for report content. Those aspects are then evaluated based on their significance to CDB's sustainability context and their significance to stakeholders who are within and outside of the organisation. This leads to categorisation of such

impacts as high, moderate and low and studying the degree of significance or the materiality of such aspects towards the performance of the organisation.

The following assessment demonstrates the aspect boundary for each material aspect within and outside of the organisation:

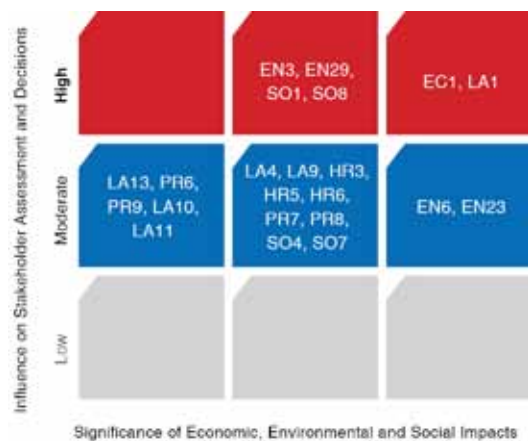
Aspect	Significance as per Sustainability Context	Aspect Boundary						Materiality		Reported
		Internal		External				To CDB	To Stakeholders	
		CDB	Employees	Customers	Social and Environment	Suppliers & Business Partners	Regulators			
<b>Economic</b>										
Economic Performance	H	Δ	Δ	Δ	Δ	Δ	Δ	H	H	Yes
<b>Environment</b>										
Energy	M	Δ			Δ			M	M	Yes
Effluents and Waste	M	Δ			Δ			M	M	Yes
<b>Social: Labour Practices and Decent Work</b>										
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
<b>Social: Human Rights</b>										
Non-Discrimination	M	Δ			Δ			M	M	Yes
Child Labour	M	Δ			Δ			M	M	Yes
Forced or Compulsory Labour	M	Δ			Δ			M	M	Yes
<b>Social: Society</b>										
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
<b>Social: Product Responsibility</b>										
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

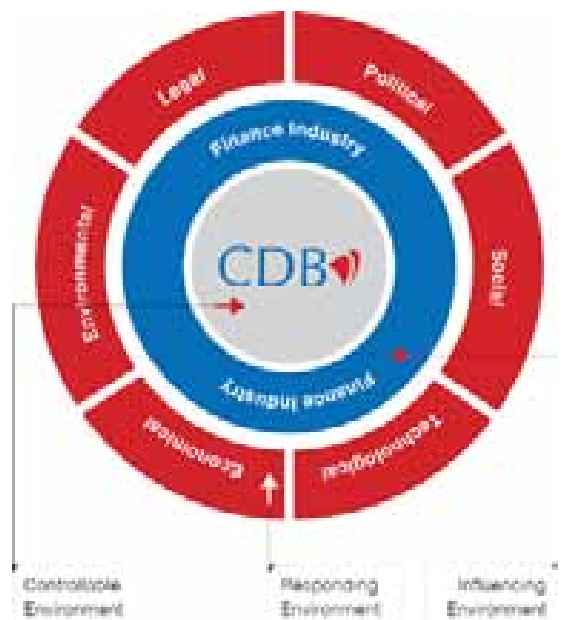
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As displayed, the materiality aspects for CDB has been summarised using the following matrix-based on two options of influence on stakeholder assessments and decisions and significance of economic, environmental and social impacts. The importance of such aspects we wish to achieve shows the accountability of being a corporate citizenship to the economy, environment and society and the importance of the aspects of various stakeholder groups and the influence they could have on stakeholders' assessment of the engagement with the Company. This will entail us to identify the stakeholders' interaction and expectation level where the Company could perform a comprehensive assessment for the future.



our direct control. The next ring is the realm of day-to-day influences and impacts upon our own business, which are more or less amendable to exploitation or mitigation. The outermost ring consists of major factors that impact to a greater or lesser degree on all organisations in the environment and are for the most part beyond our control.



**Operating Environment**

Our operating environment consists of the set of external entities, conditions and forces that have the potential to affect what we do and the results we achieve. Analysing the many different elements of the environment is difficult, the more so since many issues are interconnected.

The following PESTEL (political, economic, social, technological, environmental, legal) analysis visualises our operating environment as three concentric rings in which all the foregoing elements are manifest. The innermost ring comprises factors and effects under

**Goals and Strategies**

**Brand Identity**



**Strengths**

- Living in our values
- Aspirational brand
- Diversified operations
- Superlative at managing risk
- Total financial solutions provider
- Highly involved in the community
- Strong partnerships
- Green initiative
- Great place to work

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Using this methodology, CDB's operating environment may be analysed as follows:

Environment	Influencing Factor	CDB's Response
Political	<ul style="list-style-type: none"> <li>Government tax policy</li> <li>Rural development imperatives</li> </ul>	<ul style="list-style-type: none"> <li>Timely strategies that will continue to capture market share and achieve lending targets.</li> <li>Continue to develop rural markets.</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>Government regulations</li> <li>Carbon emission directives</li> <li>Conservation and cost saving</li> </ul>	<ul style="list-style-type: none"> <li>Awareness programmes for vehicle leasing clients on the need to control carbon emissions.</li> <li>Promote energy saving and resource conservation measures among customers through lending policy.</li> <li>Implement/improve internal conservation measures.</li> <li>Environmental awareness programmes as CSR.</li> </ul>
Social	<ul style="list-style-type: none"> <li>Improve people's access to financial services</li> <li>Deliver appropriate services</li> <li>Promote financial literacy</li> <li>Encourage thrift</li> </ul>	<ul style="list-style-type: none"> <li>Develop branch network with focus on underserved areas.</li> <li>New products and services (such as Islamic finance).</li> <li>Develop the savings habit among the young, particularly children and students.</li> <li>Awareness programmes.</li> </ul>
Technological	<ul style="list-style-type: none"> <li>Make the most of new technological developments</li> </ul>	<ul style="list-style-type: none"> <li>Long-standing partnership with Commercial Bank merges our ATM network with theirs.</li> <li>Intelligently apply IT to improve operational efficiency.</li> <li>Leverage core banking solution.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>Interest rate movements</li> <li>Inflation</li> <li>Exchange rate movements</li> <li>Monetary policy changes</li> </ul>	<ul style="list-style-type: none"> <li>Obtain the best and most timely economic information</li> <li>Responsive pricing decisions.</li> <li>Modify existing products and features, develop new ones in order to make the most of prevailing conditions.</li> </ul>
Legal	<ul style="list-style-type: none"> <li>Regulatory changes</li> <li>Budgetary credit limits</li> </ul>	<ul style="list-style-type: none"> <li>Follow Central Bank directives for LFCs with respect to capital requirements, audit processes, reporting, etc.</li> <li>Pursue IFRS compliance to be in line with international regulatory standards.</li> </ul>

More information on environmental factors influencing operations in 2013/14 and our response to them is given in the Management Discussion and Analysis on page 51.

<p><b>Vision</b></p> <p>The financial powerhouse that will foster entrepreneurial innovation and workmanship towards building up our nation's economy to make sustained gains in the living standards of Sri Lankans.</p>	<p><b>Brand Values</b></p> <ul style="list-style-type: none"> <li>Emotional</li> <li>Attributes</li> <li>Existence</li> <li>Experience</li> </ul>	<p><b>Scope of Action</b></p> <ul style="list-style-type: none"> <li>Total financial services provider</li> <li>Financial services made available to all</li> <li>Broad geographical coverage</li> </ul>
<p><b>Values</b></p> <ul style="list-style-type: none"> <li>Economic viability</li> <li>Social responsibility</li> <li>Environmental accountability</li> </ul>	<p><b>Strategic Objectives</b></p> <ul style="list-style-type: none"> <li>Customer Centric</li> <li>Creating Shared Value</li> <li>Green Initiative</li> <li>Risk Enabler</li> <li>Cross Selling</li> <li>Unique Culture</li> </ul>	<p><b>Key Differentiators</b></p> <ul style="list-style-type: none"> <li>Good at listening</li> <li>Understanding customer expectations</li> <li>Delivering on expectations</li> <li>Wider reach</li> </ul>

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**Sustainability Development**  
**Rapid, Sustainable and Inclusive Development**

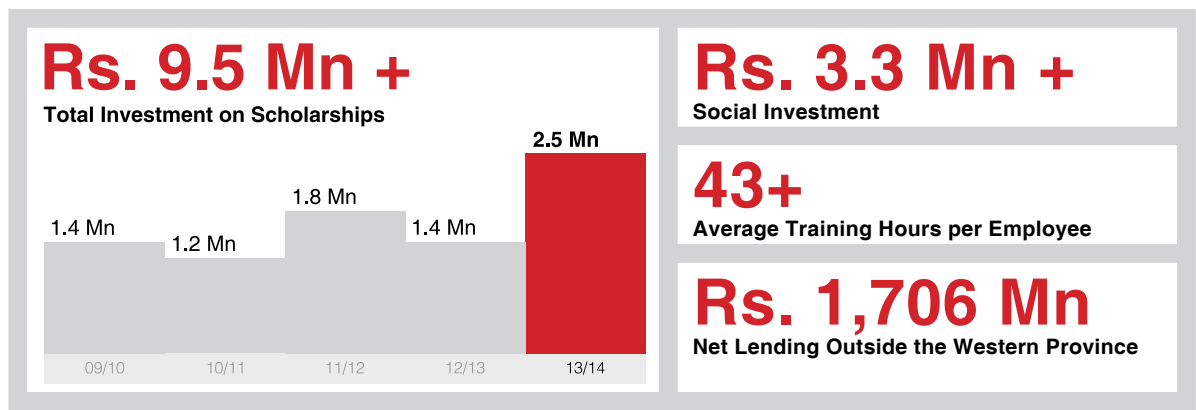
CDB takes up the charge to decrease the adverse impacts on our environment. It is obviously a multi-dimensional effort to balance what is best for the sustainable environment as well as what is best for the business. As consumer awareness and regulatory constraints increase, the focus of 'right thing to do' has shifted towards 'best thing to do'.

Sustainable development ties together concern for the carrying capacity of natural systems with the social and economic challenges faced by the human beings. CDB strongly believes in constructing and nurturing strong, sustainable long-lasting relationships with its stakeholders. We also believe that this can only be achieved by recognising, understanding and respecting interests of all major stakeholders such as customers, employees, Community, Investors, business partners and the regulators and aligning those interests with our organisational growth oriented goals. We have deepened our commitment to operating in a way that meets the highest business standards. This commitment drives us to make a strong positive and sustainable difference towards the community. The commitment to social responsibility starts with the Board of Directors and extends throughout the business. Meeting current business needs while incorporating innovation and long-term thinking into our business models to meet the future needs of our stakeholders has made us a sustainable business.

To CDB, sustainability is an integral component which is not limiting to a paper or a report. We are forced to understand ourselves and the way the world works. We are urged to address the issues and find sustainable workable solutions for these because sustainable development involves more than simply growth. It means we have to change our mindset, the way we think, act and work. This means taking stock of our ecological capital, prompting more equitable income distribution and working on measures that will reduce vulnerability to economic crises. And this is where, CDB unites its corporate values along with the sustainability thinking as a foundation of our game plan.

**Statement of Value Added**

For CDB, sustainability is about building our businesses to ensure we have a positive impact on the economic and social progress of communities and on the environment, while growing and preserving clients and stakeholders' wealth based on strong relationships of trust. This commitment to sustainability means integrating social, ethical and environmental considerations into our day-to-day operations. A key element of this is solid corporate governance that ensures sustainable management with long-term vision.



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business community to join the ongoing system level conversations on how to make the whole economy truly sustainable. As we have crowned as one of the most trusted entities and an employer of choice in the sector we have embraced the accountability on building a sustainable surrounding for all the entities existing.

The holistic approach model of CDB shows its responsibility towards naturality, building a sufficient economy and nurturing community along with the accelerator of philosophies, strategies and priorities.



**Paradigm Shift to Sustainable Capitalism**

Management Approach on Economic, Social and Environmental consideration has become our key theme in managing economy, society and environment. Beyond such effort what we believe is we require the sustainable

Philosophy	Strategy	Priorities
<ul style="list-style-type: none"> <li>Stakeholder Engagement for Business Strategy Formulation</li> <li>Shaping Sustainability Responses</li> <li>Communicating Responses and Strategies</li> </ul>	<p>Focus on meeting economic, environmental and social sustainability dimensions in accordance with the triple bottom-line approach</p> <p>Expand into the challenging markets of leasing, deposit mobilisation and micro-finance.</p>	<p>To promote, establish, expand and modernise the industrial, agricultural and commercial sectors, thereby contributing to the overall development activities in Sri Lanka.</p> <p>To exceed stakeholder expectations and delivering sustainable products and services, thereby emphasising the need for safe and responsible living.</p> <p>To ensure our operating standards are consistent and equivalent throughout our island-wide branch network, as we believe this will contribute towards positively impacting our environment.</p>

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**Economic Value Addition - Reaching Economic Sustainability**

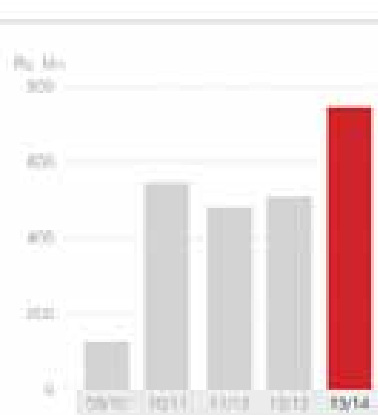
As our shared assets are not sacrificed for short-term profit we are mainly concerned on economic value addition where it enables local economic development, poverty alleviation, social and economic transformation, environmental stewardship and infrastructure development.

The Board of Directors guides CDB's approach to economic sustainability with a comprehensive corporate policy and procedures. The combination and ongoing relationships among each single unit's processes discuss on specific goals and resources allocated according to our overall targets. The chapters on Corporate Governance (pages 104 to 119) and the Risk Management (pages 130 to 148) provide a detailed review on economic sustainability.

The material concerns on formulating and implementing Company's strategic direction, risk assessment and response, control of operations - internal control system, regulatory framework, legislation and code of conduct, corporate social responsibility and other external factors are deliberated at the monthly Board meetings. The internal audit function ensures integrity of the internal control systems, policies and procedures of the entire operation while the external audit assurance is taken in fulfilling requirements of the Companies Act.

The economic performance is therefore such a vital facet in determining economic sustainability where we have considered it as a material aspect as follows:

**Economic Value Addition**



	2013/14	2012/13
	Rs.	Rs.
Revenue	6,125,161,547	4,311,850,070
Operating costs	936,602,568	688,836,869
Employee wages and benefits	497,938,442	407,018,893
Payment to providers of capital	3,715,050,534	2,529,859,968
Payment to government	226,757,864	176,094,843
Community investment	3,283,422	3,150,393
<b>Economic Value Generated</b>	<b>745,528,717</b>	<b>506,889,105</b>



## Stakeholders

CDB has a broad range of stakeholders with whom it is actively engaged. To the best of our ability, we manage these relationships with the objectives of fulfilling

social expectations, minimising reputational risk and influencing the business environment in a positive way. The frequency of engagement with stakeholders varies according to the group and particular issue under consideration.

## Stakeholder Overview

Stakeholder Group	Their Concerns	Our Responsibilities
Investors	<ul style="list-style-type: none"> <li>Dividends and share value</li> <li>Performance and integrity of Board and Management</li> <li>Public goodwill and reputation of the Company</li> </ul>	<ul style="list-style-type: none"> <li>Generate profits and ensure optimal returns on investment</li> <li>Proper oversight and control of Board and management</li> <li>Company Code of Conduct, management oversight and response</li> <li>Public affairs management</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Dealing with CDB is a positive experience</li> <li>Information provided by us is accurate and reliable</li> <li>Customers' privacy is assured</li> <li>Promises to customers are kept</li> </ul>	<ul style="list-style-type: none"> <li>Protect the privacy of our customers, including data protection, confidentiality, eschewing unsolicited communication and intrusive surveillance</li> <li>Provide a positive customer experience</li> <li>Comply with Company values and Codes of Conduct</li> </ul>
Business Partners	<ul style="list-style-type: none"> <li>Supply chain functions well</li> <li>Supply chain is sustainable</li> <li>Partner wealth maximisation</li> </ul>	<ul style="list-style-type: none"> <li>Work with suppliers to address issues in the supply chain</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Health, safety and well-being</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that we properly safeguard those who work for us and those who may be affected by our operations</li> <li>Promoting and maintaining harmonious relationships</li> <li>Moulding future leaders</li> <li>Recognise exceptional performers</li> <li>Ensuring work life balance by organising copious activities</li> <li>Investment on Human Resource Information System (HRIS)</li> </ul>
Government & Regulators	<ul style="list-style-type: none"> <li>Good corporate governance and business ethics</li> <li>Legal compliance</li> <li>Support for Government policy</li> </ul>	<ul style="list-style-type: none"> <li>Develop and communicate a framework that promotes good governance and ethical behaviour at all levels</li> <li>Ensure compliance at all times</li> <li>Providing timely and accurate information</li> <li>Immediate response to queries made by these authorities</li> <li>Comply with rules and regulation</li> </ul>
General public	<ul style="list-style-type: none"> <li>Social investment</li> </ul>	<ul style="list-style-type: none"> <li>Do our part to improve quality of life for all members of society</li> <li>Investment on citizens</li> <li>Empowering entrepreneurs</li> <li>Addressing rural youth</li> <li>Empowering women</li> <li>Encourage people for saving</li> </ul>
Environmental advocates and activists	<ul style="list-style-type: none"> <li>Environment protection</li> <li>Energy conservation</li> </ul>	<ul style="list-style-type: none"> <li>Use our social investment fund to develop products and services that benefit society</li> <li>Reduce energy consumption and pollution</li> <li>Adopting green policies, practices and approaches to save environment</li> <li>Engage with environmentally friendly green events</li> <li>Emission reduction</li> <li>Waste management through waste minimisation</li> </ul>

**BUSINESS MODEL**

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**Prioritising Stakeholders**

We promise a positive response by highlighting our commitment towards ensuring sustainability in our business. For our stakeholders, we give below the progress of addressing CDB's social and environmental impacts in these relationships and promise a long-term commitment to such partnerships.

Prioritising stakeholders is based on the interest of each stakeholder in the business and the extent to which stakeholders can impact the activities of the organisation. Mendelow's Matrix gives a clear mapping strategy which places stakeholders on the levels of power they have in impacting the organisation and their interest in doing so. It identifies the manner in which the management needs to respond to the stakeholders in different quadrants, which we at CDB use and apply in determining the basis for identification and selection of stakeholders.



**High Interest and Low Power**

Employees, suppliers and business partners, citizens and environmental groups have a high level of interest in the business, even though the power they exercise is low. The strategy of engagement is to keep them informed of the activities, while keeping in touch for any feedback or suggestions they may have with regard to the business.

**High Power and Low Interest**

Government authorities including the Central Bank of Sri Lanka, Colombo Stock Exchange, Securities and Exchange Commission and Inland Revenue Department exert high power with their decisions in the direction of the business environment we operate in though they do not exercise a high interest. They observe the business' operations intimately, monitoring compliance, codes of conduct and best practices which prompt us to ensure that we always exceed their expectations by maintaining the requirements.

**Low Power and Low Interest**

Given our sustainability philosophy and the high engagement we have with all our stakeholder segments including our communities, there is no stakeholder category that is aligned to a low power low interest group. We continue to maintain such interest towards our stakeholders in every aspect of our business and strive to ensure that all our stakeholders remain within that umbrella, where we respond to their expectations and needs and they in turn, become partners in our progress.

**High Interest and High Power**

CDB identifies customers and investors to have a high influence on our business. They are the most powerful interest holders towards our operations. Any decision by them could have a considerable impact on the operations of the business. We maintain a constant engagement with these stakeholder groups as we strongly believe a strong relationship should be maintained with them at all times.

## Stakeholder Engagement

### 1. Investors

#### *Why do we need to engage with them?*

Investors, who invest in our Company and elect the Board of Directors, are entitled to meaningful information about the Company's business, policies and practices so that they can make informed decisions and knowledgeably participate in the proxy voting process. Investors motivation for engagement is mainly to gain insight into how CDB allocates resources to generate the expected return. We ensure the long-term corporate strategy will lead to superior financial performance. Early engagement with investors on key issues could lead to a reduced likelihood of unexpected consequences while addressing additional long-term operational strategies. By means of gaining both financial and non-financial excellence, it could increase investor trust.

#### *How do we engage with them?*

CDB's strategic priorities based upon investors are woven around enhancing return on investments and obtaining external recognition through effective and efficient communication of business performance and achievements. We hope to foster more open dialogue with shareholders by offering a variety of avenues for shareholders to communicate with the Board and encouraging shareholders to contact us at any time of the year.

Mode	Frequency
Annual Reports	Annually
Annual General Meeting	Annually
Interim Financial Statements	Quarterly
Media Releases	Available when needed
Corporate Website	Continuous
Announcements to CSE	Available when needed
Investor Forums	Available when needed

### 2. Customers

#### *Who are our customers?*

CDB's customers are mainly loyal depositors and borrowers. They tend to engage actively with us, forming strong, lasting relationships that facilitate

responsible lending and cross-selling. Greater emphasis on transaction-led customer acquisition resulted in an increase in deposit customers in 2013 of 21%, which represents an increase in primary customer relationships.

We are reputed for tailoring solutions to customer needs. Since the financial industry, by and large, provides affordable solutions to economically active and easily accessible customers, CDB differentiates itself as a provider of solutions for customers who fall outside the mainstream.

#### *Why do we need to engage with them?*

- To gain a better understanding of their financial service needs and their perceptions, behaviour, attitudes and values
- To provide better advice and solutions to the financial needs they identify
- To ensure that their expectations with regard to service are met
- To verify the accuracy of personal information supplied

#### *How do we engage with them?*

- Product design, advertising and marketing
- Face-to-face interactions at CDB offices and branches
- Regular correspondence with account and facility holders
- Annual customer surveys
- Island-wide outlet network
- VISA debit card access
- Customer care and complaints handling services
- Website

Mode	Frequency
Corporate Relationship	Ongoing
Area Development Officer	Ongoing
Dealer Network	Ongoing
Media Advertisements	Available when needed
Corporate Website	Continuous
Product Launches	Continuous

**BUSINESS MODEL**

HIGHLIGHTS : 014-015

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**BUSINESS MODEL : 028-050****3. Business Partners***Why do we need to engage with them?*

- To maintain and enhance positive working relationships
- To share and involve them in our future plans
- To build a more diverse product portfolio through partnerships

*How do we engage with them?*

- Joint promotional campaigns
- Joint staff training, orientation, etc.
- Dealer network and marketing channels

Mode	Frequency
Supplier & Business Partner Relationship	Ongoing
Visits	Available when needed
Joint Promotional Campaigns	Available when needed
Supplier Product Displays at CDB Branches	Available when needed

**4. Employees***Why do we need to engage with them?*

- To ensure that the working environment we provide is safe and conducive to productivity
- To understand and respond humanely to the needs and concerns of our people
- To provide all staff with strategic direction and pertinent information
- To remain an employer of choice

*How do we engage with them?*

- Regular updates on Company performance and objectives through staff and departmental meetings
- Annual performance measurements and encouragement for career development
- Training, internal and external (including overseas)
- Recognition for outstanding performance at Annual Awards Ceremony
- Integrated HR system
- Annual social events for all employees
- Whistle-blower procedures and protection

Mode	Frequency
Managers' Meeting	Once a week
Branch Meetings	Once a month
Regional Review Meeting	Once a week
Special Events of CSR, Sports Events, Get-togethers etc.	Annually
Internal Announcements	Available when needed
Operational Updates to People via Email	Available when needed
HRM Enterprise Intranet	Continuous
Performance evaluation and reward based mechanism	Continuous

**5. Government and Regulatory Authorities***Why do we need to engage with them?*

- To minimise operational risk
- To retain our various operating licenses
- To ensure we are in compliance with changing legal and regulatory requirements
- To maintain good relationships with the authorities

*How do we engage with them?*

- Conduct various forums on compliance meetings
- Board and management meetings, including one-on-one discussions with various officials
- Regular correspondence and reporting on compliance and other relevant issues

Mode	Frequency
Directives and Circulars	Issued when needed
Meetings	Quarterly
Press Releases	Available when needed
Scrutinising New Rules and Regulations	Daily

## 6. Local Communities and the General Public

### Why do we need to engage with them?

- To obtain input from community regarding our business and how we conduct it
- To create awareness of our integrated sustainability commitment and initiatives

### How do we engage with them?

- CSR activities and publicity

Mode	Frequency
Wider Reach Outlets	Ongoing
Press Releases	Available when needed
Scholarships	Annually
Lab Donations	Annually
Investment in Community Development	Ongoing
Lending for Rural Economic Development	Ongoing

## 7. Environmental Advocates and Activists

### Why do we need to engage with them?

- To minimise the risks of negative publicity, lawsuits, customer boycotts, etc. due to accusations of environmental degradation, pollution, etc.
- To make use of their co-operation and expertise to develop more effective environmental policies

### How do we engage with them?

- Adopt and publicise the green policies and practices we follow, such as our emission reduction programme, paperless operations and recycling, use of energy-saving devices and lighting, etc.
- Conform with (and where possible, improve upon) all current environmental laws and regulations
- Undertake and publicise relevant CSR projects, e.g. our successful wetlands conservation project

Mode	Frequency
Emission Reduction	Ongoing
Paper Recycling	Ongoing
Mobile Mustering	Ongoing
CFL Bulb Recycling	Ongoing
Wetland Care Project	Annually

## Manage and Evaluate Sustainability Approach through Integrated Leadership

Our sustainability team aspires to provide the framework for environmental stewardship, natural resources conservation, emission reduction and community sustainability. The team acts as a resource to support and promote the business' environmental commitment and policies. The team members further enhances awareness and understanding of the principles of sustainability among all people. Headed by a corporate management team member, it is a cross functional team from various levels and disciplines to ensure decentralised decision-making on expected targets.

The team remains committed to reduce our direct and indirect impact on the environment, and assisting our customers, suppliers and business partners to do the same, while simultaneously delivering economic benefits in the form of long-term cost savings. The continued contribution to socioeconomic growth and development remains a key focus which includes skills development, responsible access to finance and financial literacy, enterprise development, community upliftment and economic empowerment.

We employ a range of channels and mechanisms to gather stakeholder feedback. The frequency of engagement varies according to the stakeholder group and the particular issue. We use a decentralised stakeholder engagement model, in which individual business units undertake stakeholder engagement activities appropriate to their particular areas. Our Stakeholder Relations Forum, comprising Business Unit Managers and Executives, meets every other month. It is responsible for facilitating a co-ordinated approach to stakeholder engagement activities across the Group, and ensuring we communicate a consistent message based on our Code of Ethics, values and strategy.

**BUSINESS MODEL**

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Stakeholder	Area	Issue	Led by
Customers	Combined Content Standards & Privacy	Protect the privacy of our customers including data protection, confidentiality, preventing unsolicited communication and intrusive surveillance	Imdaad Naguib - DGM - IT
	Customer Promise	Provide a positive customer experience through innovative products and services	Elangovan Karthik - DGM Marketing
People	Health, Safety and Well-being	Ensure that we properly safeguard those who work for us and those who may be affected by our operations	Roshan Abeygoonewardene - Chief Operations Officer
Environment	Environment Protection	Oversee the social investment fund to develop products and services that benefit society	Roshan Abeygoonewardene - Chief Operations Officer
	Energy	Reduce energy consumption and pollution	
Society	Social Investment	Contribute to enhance the standard of living of the society	Elangovan Karthik - DGM Marketing
Shareholders	Maximise shareholder wealth	To generate profits and to ensure that they get good returns for their investment	Damith Tennakoon - Chief Financial Officer
Government Authorities & Business Partners	Corporate Governance and Business Ethics	Develop and communicate a framework that promotes good corporate governance and ethical behaviour at all levels	Damith Tennakoon - Chief Financial Officer
	Supply Chain	Work with suppliers to address sustainability issues in the supply chain	Sasindra Munasinghe - Chief Credit Officer

## Value Creation and Capital Formation

Our objective of building an organisation that optimises returns to all stakeholders and creates a sustainable future is enabled by an integrated approach to the economics of the business, environmental preservation, involvement in society and organisational culture. Incorporating this approach, our value creation motive is woven around building a sustainable business targeting returns ahead.

The dual aspects of value creation - deriving value and delivering value - were discussed earlier on page 16 under About This Report. We noted how value derived

leads to internal capital formation, while value delivered leads to external capital formation. CDB has access to and makes use of all these forms of capital in driving future earnings.

We will now move into specifics. Our internal capital comprises financial capital and institutional capital. The latter is intangible, and includes the aspects noted below. Our external capital is derived from stakeholders, summarised into six forms of capital, namely, investor capital, customer capital, business partner capital, employee capital, Governmental and Regulatory Authorities capital and social and environmental capital.

Capital Type	Aspects	Material Issues
<b>Internal Capital</b>		
Financial	<p><b>Revenue growth</b> 42%</p> <p><b>Profitability</b> Rs. 561 Mn</p> <p><b>Capital adequacy maintained at 12.61%</b> Our goal is to maintain adequate amount of capital requirement</p> <p><b>Funding flow at 38%</b> Fund supply delivers a secure deposit base, essential to the growth of the institution</p> <p><b>Lending flow at 32%</b> A smooth response to credit demand, as befits a top financial institution</p> <p><b>Liquidity position at 18.60%</b> Ensuring the availability of ready cash on demand</p>	<ul style="list-style-type: none"> <li>• Maintain healthy capital structure, including funding and lending base</li> <li>• Design our business for long-lasting, sustainable development</li> <li>• Enhance economic value addition</li> </ul>
Institutional	<p><b>Listed brand</b> Placed 52 among 100 listed brands in Sri Lanka</p> <p><b>BBB/P2 rating</b> Credit rating by Lanka Rating Agency (LRA) as BBB/P2</p> <p><b>5th Largest</b> The 5th Largest Financial Institution in the NBFIs sector as per the assets base</p> <p><b>5th in Rank</b> The 5th Ranker among the sector of NBFIs mentioned brands</p>	<ul style="list-style-type: none"> <li>• Grow our people</li> <li>• Create value through enhancing brand value</li> </ul>
<b>External Capital</b>		
Investor	<p><b>Earnings per share</b> 10.33%</p> <p><b>Net assets per share</b> Rs. 65.87</p> <p><b>Return on equity</b> 17.16%</p> <p><b>Dividend per share</b> Rs. 3.00</p> <p><b>Dividend payout ratio</b> 29.04%</p>	<ul style="list-style-type: none"> <li>• Utilise capital efficiency and become a high return credit provider</li> <li>• Conduct responsible business</li> <li>• Balanced and transparent disclosures</li> <li>• Frequent information on affairs and prospects</li> </ul>

**BUSINESS MODEL**

HIGHLIGHTS : 014-015

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Capital Type	Aspects	Material Issues
Customer	<p><b>59 customer outlets</b> 47 branches including a Premier Centre and 12 service centres</p> <p><b>Call centre</b> Serving over 78,000 of customers with extended working hours</p> <p><b>ATM network</b> 3 ATMs during the year leading to wider expansion</p> <p><b>Branch relocation</b> For increased customer convenience and enhanced engagement</p> <p><b>Speedy recoveries</b> To preserve the financial integrity of CDB and ensure sound capital adequacy and liquidity requirements</p> <p><b>IT infrastructure</b> Core banking and convenient automated processes</p>	<ul style="list-style-type: none"> <li>• Design and structure outlets</li> <li>• Position the business for regulatory developments</li> <li>• Deliver value at every touch point</li> <li>• Enhance key competitive advantages</li> <li>• Enhance collection practice</li> <li>• Provide efficient and effective service</li> </ul>
Business Partner	<p><b>Insurance companies and suppliers</b> Interlinked with daily operational requirement</p> <p><b>Synergistic output</b> Benefits for both parties</p>	<ul style="list-style-type: none"> <li>• Good faith in partner dealings</li> <li>• Settle obligations promptly</li> <li>• Maintain solid relations</li> <li>• Provide a reliable channel to markets</li> </ul>
Employee	<p><b>1,109 employees</b> Retain the best; help them get even better</p> <p><b>Rs. 6.856 Mn on training and development</b> Enhance leadership and competencies of our staff</p> <p><b>32% increase in talent acquisition</b> Ensure future success and succession</p> <p><b>Non-Financial Benefits</b> Work-life balance, better quality of life for employees and their families</p>	<ul style="list-style-type: none"> <li>• Structure business for long-term sustainability</li> <li>• Build sound relationships with employees</li> <li>• Fulfil or improve upon statutory requirements</li> </ul>
Social and Environmental	<p><b>Regulatory</b> Conducting business practices as per codes of conduct</p> <p><b>Socially responsible projects</b> IT lab donation, scholarships distribution, wetland care, blood donation</p> <p><b>Sustainability leadership</b> Lead the way into the future</p> <p><b>Relationship bond</b> Maintain sound associations with all stakeholders</p> <p><b>'Mihikathata Adaren'</b> Environmental protection and clean energy for the future</p> <p><b>Awareness campaigns among schoolchildren, others</b> Improved conservation awareness</p> <p><b>Protecting wetlands</b> Madu Ganga project</p> <p><b>Waste management</b> Energy saving, water conservation, paper, mobile phone and CFL recycling, saving trees</p>	<ul style="list-style-type: none"> <li>• Fully compliant with relevant laws and regulations</li> <li>• Pledge co-operation and active participation</li> <li>• Socially responsible and accountable</li> <li>• Deliver value to stakeholders</li> <li>• Ownership of stakeholder engagement activities</li> <li>• Good corporate citizenship</li> <li>• Long-term sustainable performance and serving natural environment</li> <li>• Good corporate citizen</li> </ul>



## Macroeconomic Environment

### The Global Economic Outlook: A Brittle and Uncertain Recovery

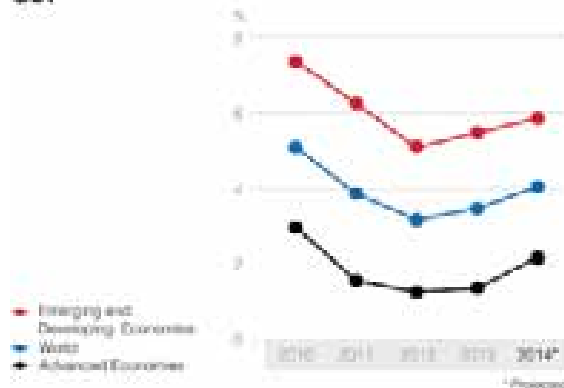
The jagged global recovery inched uncertainly forward in 2013. Events, viewed from a global perspective, revealed the far-flung effects of rich-world monetary policy: decisions by central bankers in developed countries reverberated through emerging markets. Because or in spite of this, world economic growth remained feeble, averaging only 2.5% during the first half of 2013, much the same as in the second half of 2012. For the first time since the Great Recession of 2008, formerly fast-growing emerging economies lost pace while developed nations gained momentum. Emerging market economies, however, continued to account for the bulk of global growth.

Support for global economic growth is expected to come mainly from the United States, where economic activity will move into higher gear as fiscal consolidation eases while monetary conditions remain supportive. Following sharp fiscal tightening earlier this year, activity in the United States is already regaining momentum, helped by a recovering real estate sector, higher household wealth, easier bank lending conditions and more borrowing. US fiscal tightening in 2013 is estimated to be 2.5% of GDP. However, this will ease to 0.25% in 2014, helping raise the rate of economic growth to 2.5% from an average of 1.5% in 2013. This forecast assumes that US discretionary public spending is authorised and executed as projected and that the debt ceiling is raised in a timely manner.

#### Global GDP Growth

Real GDP growth has been disappointing in both emerging and developing economies, but in advanced economies it has stayed broadly in line with projections. The reasons for weaker growth elsewhere differ from country to country and include tightening capacity constraints, stable or falling commodity prices, less policy support and slowing credit after a period of rapid financial deepening.

#### Global GDP



#### Future Outlook

Global growth is still weak: its underlying dynamics are changing and downside risks are high. Expected changes in US monetary policy could pose risks for emerging market economies, where activity is slowing and asset quality weakening of particular concern is the retardation of growth in China, which will affect many other countries, notably commodity exporters.

Elsewhere, old problems such as financial instability in the Euro Zone and worryingly high public debt in all major advanced economies remain unresolved. Many emerging market economies need a new round of structural reforms. However, growth in the latter is expected to remain strong at 4.5%-5%, supported by solid domestic demand, recovering exports and conducive financial and monetary regimes. Despite the China slowdown, high commodity prices will continue to boost growth in many low-income countries, though many of them, particularly in Middle East, Western Asia and North Africa, will continue to struggle with difficult economic and political transitions.

**BUSINESS MODEL**

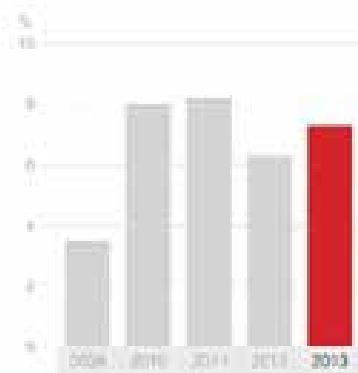
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**Sri Lanka's Economy: Growth Vs Inflation**

**Gross Domestic Product (GDP)**

Year on year, GDP in Sri Lanka expanded by 7.3% in 2013. This was a commendable performance even compared with the ten-year average to 2013, which was 6.4%.

**GDP Growth Rate**

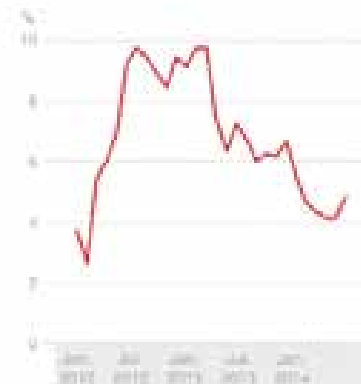


Power generation, which can constrain economic activity, picked up in May to grow by 9.2% but dropped slightly in June. Imports recorded positive growth in April and June as the deceleration in credit to the private sector showed signs of abating, while the service sector also showed signs of recovery. As a result, GDP growth rebounded to 6.8% in the second quarter from 6.0% in the previous quarter. The industrial sector maintained high growth but agriculture continued to suffer the effects of bad weather. These are expected to continue in 2014, an El Niño year.

**Inflation Pressure**

Inflation eased to 6.3% year on year in August from close to 10% in early 2013. Non-food inflation dropped below 4% in March-April but accelerated again to 6% in May as power tariffs rose. The Central Bank eased policy rates in December 2012 and again by 50 basis points in May, subsequently reducing the statutory reserve requirement by 2%.

**Movement in Inflation Rate**



Bank lending rates decreased from 14.4% in February 2013 to 12.1% in June, improving private sector credit mobilisation. Imports and exports both showed signs of recovery in the first half as a result. The trade deficit shrank by 7.1% from the second half of 2012. Workers' remittances and earnings from tourism partly offset the trade deficit, with remittances growing by 9% in the first half. Financial inflows have been strong, with foreign direct investment amounting to \$ 540 Mn.

Since June, the Rupee has been under pressure from greater import demand. Foreign holdings of Government Securities dipped in late August, further weakening the Rupee against the US Dollar. Sri Lanka's gross official reserves equalled 4.1 months of imports in June 2013, down from 4.5 months in March. Looking forward, easier monetary policy and continued recovery in services will support stronger performance in the second half, though external trade is expected to remain weak.

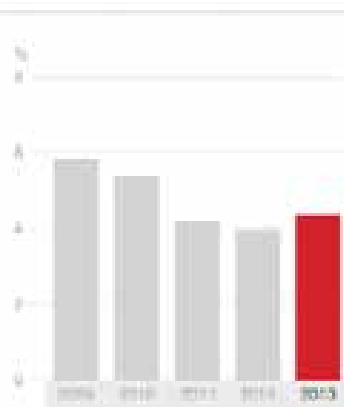
So long as food prices remain stable, inflation in 2014 is expected to stay below 6.5%.

**Unemployment**

According to the Department of Census and Statistics, the rate of unemployment decreased to 4.4% in the second quarter of 2013, having reached 4.6% in the previous quarter. This reflects a broadly declining trend

that has continued from an all-time high of 11.3% in 1996; from then until 2013, unemployment averaged 5.9%. Unemployment statistics record only those actively seeking work.

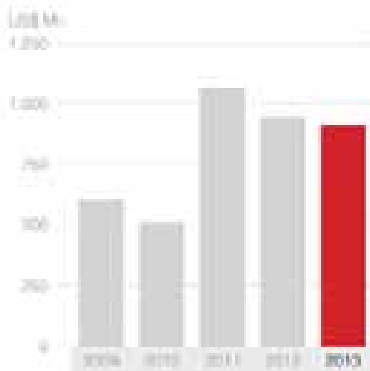
**Unemployment Rate**



**Foreign Direct Investment**

Sri Lanka's strong economic growth is attracting foreign capital, but Foreign Direct Investment (FDI) inflows remain modest compared with rated peers. This has led to rising external debt. During the first nine months of 2013, Sri Lanka received \$ 870 Mn invested in 55 projects - a 41% increase over the same period in 2012. This indicates that overseas investors confidence in Sri Lanka remains firm.

**Sri Lanka Foreign Direct Investment Growth**



This relative increase in FDI inflow does not represent a significant slice of global FDI outflow, which was around \$ 1.33 Tn in 2012. Competitors such as Vietnam and India have done much better.

**Future Outlook**

According to an analysis by the Central Bank, Sri Lanka in 2014 will display the typical growth characteristics of a small developing country, with IT services, exports, tourism and remittances making significant contributions. With close to 6% of GDP derived from public investment in physical infrastructure (as announced in the 2014 Budget), growth will be chiefly Government-led and debt-financed, with some contribution from the private sector, for example in construction.

LIBOR rates will show an increase in 2014, making international commercial borrowing more costly. The government has announced the issue of a \$ 1.5 Bn sovereign bond in 2014. Presumably, some of the funds so raised will be invested in infrastructure development while the rest will be used to meet debt and interest obligations.

The effect of sanctions, including the WTOs removal of the country's GSP+ concession in 2010 and US sanctions against Iran (from where Sri Lanka has obtained crude oil on concessionary terms), continue to hobble the Sri Lankan economy. A free trade agreement with China, to be signed in 2014, will, it is hoped, help offset this.

Overall, Sri Lanka can hope to benefit from the accelerated growth of the global economy that has been forecast for 2014. The developing Asian region, of which the country is a part, is expected to grow by 6.5% in 2014 compared to 6.3% in 2013. However, the improvement may not manifest in full as 2014 is likely to be an election year, during which productivity is typically hampered. Overall, we may hope for growth of 7%-7.5%, a reasonably high rate from an Asian perspective.

**BUSINESS MODEL**

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

**BUSINESS MODEL : 028-050****Sri Lanka's Finance Industry:  
The Challenge of Constant Change**

CDB's near operating environment is the complex of institutions, markets, instruments and infrastructure that constitutes the Sri Lankan financial sector. This environment is responsive to both internal and external change factors, on which its stability is largely dependent.

In 2013, the fragility of the global recovery and potential threats arising in the domestic economy did not unduly affect stability or discourage sector expansion. A cap on credit growth helped curb domestic demand and safeguard the economy, and there was a definite improvement in both capital and liquidity. Service and credit access improved across the country as institutions expanded their branch networks. Improved investor confidence was reflected in net inflows to the Colombo Stock Exchange despite relatively higher yields on fixed-income securities, volatility in the exchange rate, tight liquidity conditions and uncertainty in the global financial markets.

**Future Outlook**

Given sustained capital adequacy, healthy earnings, effective regulation and proper risk management, the financial sector is likely to maintain its stability, encouraged by a greater emphasis on efficiency and productivity. There is also a concerted effort to enlarge the capital market. A series of tax incentives is expected to spur growth, particularly in the corporate bond market. Plans are also afoot to liberalise exchange controls, allowing corporates to borrow internationally. There will be close monitoring of global paradigms and market sentiment.

**Our Immediate Environment:  
The Non-Banking Financial Sector**

Non-Banking Financial Institutions (NBFIs) in Sri Lanka are regulated by the Central Bank and play an important role in the financial sector. Not being subject to the statutory reserve requirements imposed on banks, they enjoy greater flexibility in governance and operation, although they are restricted in the services they can offer and in their funding options. The sector comprises licensed finance companies and specialised leasing companies.

Non-banking sector had positive outputs as the branch networks also expanded, indicating improved stability and soundness. Four new institutions were registered and a total of 206 new branches were added to the system, three-quarters of them outside the Western Province. Meanwhile, distressed finance companies were closely monitored by the Central Bank as they made progress in restructuring their operations. Unauthorised commercial lending was suppressed to the maximum feasible extent.

**Future Outlook**

NBFIs play a vital role in the Sri Lankan economy. With the country now experiencing strong growth, opportunities for this sector have increased. Many companies are, however, small, and the Central Bank has urged the sector to consolidate through mergers and acquisitions in order to gain the necessary financial resources and stability to address future opportunities. Indeed, the Bank is expected to increase substantially the minimum core capital requirement for NBFIs. Already, larger financial institutions in the private and public sector have shown interest in acquiring certain NBFIs, an encouraging development.

As Sri Lanka's economy moves towards the \$ 100 Bn benchmark over the next few years, NBFIs will become invaluable in promoting financial inclusion and developing entrepreneurship in all parts of the country - tasks they will be uniquely fitted to carry out following a necessary period of restructuring. NBFIs are ideally suited to serve SMEs, the agricultural sector and individuals, leaving banks free to concentrate on large-scale corporate, industrial and project finance.

Challenges facing NBFIs in the near to medium-term include interest rate pressures, inadequate credit controls and the reduced reliability of monetary aggregates as intermediate policy targets. Also, while NBFIs offer attractive borrowing rates, normally above those of banks, banks may in turn increase their borrowing rates to compete in markets traditionally served by NBFIs. Such pressure may reduce the effectiveness of policy-induced interest rate changes.

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**MANAGEMENT DISCUSSION & ANALYSIS**

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*We have chosen to seamlessly integrate financial reporting and sustainability reporting to better describe the duality of our purpose, namely, deriving and delivering value that leads to internal and external capital formation.*

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## Deriving Value

## Internal Capital Formation

The value created by CDB for itself through activities, relationships and linkages lead to the formation of capital that is internal to CDB. While what is most visible and quantifiable is financial capital, internal capital also includes several intangibles that, as discussed previously, constitute institutional capital.

## Financial Capital

The review period observes the business recording a strong growth in most of its key performance indicators with significant improvements in core profitability. CDB prepared and presented the Financial Statements in accordance with Sri Lanka Financial Reporting Standards (SLFRS) with a focus on maintaining financial ethics, principles, accountability and transparency.

## Analysis of Results

## Industry Comparison

CDB has remarkably improved its financial position with high-end indicators marking a stronghold across the industry.

Key Financial Indicator	CDB	CDB	Industry
	2013/14	2012/13	as at 31.03.2013
	%	%	%
Return on Equity (ROE)	17.16	18.57	8.2
Return on Assets (ROA)	2.51	3.04	2.1
Net Interest Margin	8.05	8.28	6.6
Gross NPL Ratio	5.19	2.32	6.7
Net NPL Ratio	2.73	1.27	2.5
Tier I Capital Ratio (Minimum 5%)	12.61	14.32	13
Tier I & II Capital Ratio (Minimum 10%)	16.00	14.32	15
Capital Funds to Total Deposits	17.36	15.65	23

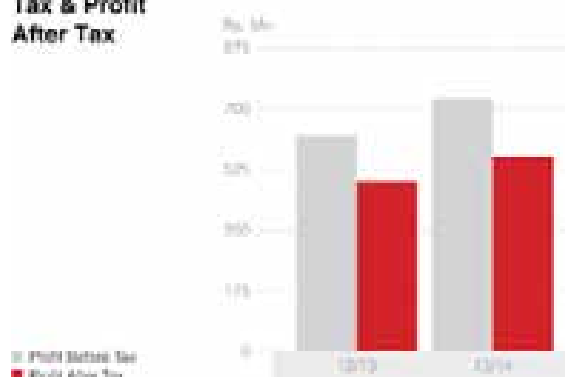
## Profitability Position

For the financial year ended 2013/14, the profitability indicators showed significant improvement satisfying and posting a net profit before tax of Rs. 730 Mn compared to Rs. 624 Mn recorded in the preceding year by reflecting a year on year growth of 17%. At the same time the business concluded 2013/14 financial period with a satisfactory profit after tax amounting to Rs. 561 Mn compared to Rs. 489 Mn in the last financial year with an incline of 15%. As we pursued growth in turnover mainly targeting our primary lines of business, we kept focus on keeping overall average cost of funding at optimal levels and tackled overhead cost escalation through concise means of cost management to finally reach current levels of profitability.

Profit	For the Year Ended		YoY Growth	
	2013/14	2012/13	Rs. Mn	%
	Rs. Mn	Rs. Mn	Rs. Mn	%
Before Tax	730	624	106	17
After Tax	561	489	72	15

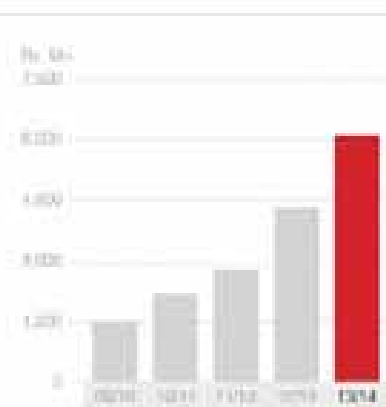
Profit	Financial Year 2013/14 - Quarterly Profits			
	1Q	2Q	3Q	4Q
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Before Tax	169	185	186	190
After Tax	135	135	158	133

## Profit Before Tax &amp; Profit After Tax



Revenue Growth

Revenue Growth



Intense rivalry made the sector faced with numerous challenges in growing up their revenue lines where we succeeded in reaching a top growth line of Rs. 6,125 Mn during the year which is 42% compared to last financial year revenue of Rs. 4,311 Mn. Management was able to maintain a strong momentum in total revenue growth by keeping to a pace envisaged in the strategic plan. In boosting revenue, core contributor of interest income contributed 96% while fee and commission income and other operating income components contributed 3% and 1% respectively.

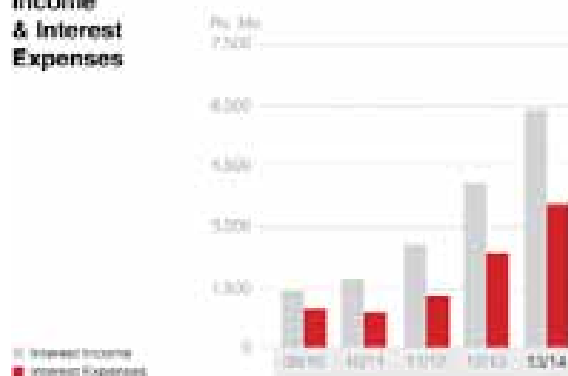
Composition	For the Year Ended		YoY Growth	
	2013/14 Rs. Mn	2012/13 Rs. Mn	Rs. Mn	%
Interest Income	5,896	4,087	1,809	44
Fee and Commission Income	159	119	40	34
Other Operating Income	70	104	(35)	(33)
Revenue	6,125	4,311	1,814	42

Interest Income and Interest Expenses

Interest Income

With the loan portfolio sustaining a resilient growth in the face of subdued market conditions and intense competition interest income yield inclined 44% to Rs. 5,896 Mn. Acquisition of new clientele, increase in volume of business with existing customer base and expansion of products and services complemented business generated through personal financial services provided the impetus for such growth in loan book. CDB's interest income composite by Government Securities and placements with banks which is Rs. 355 Mn during the financial year and Rs. 5,541 Mn through the loans and advances to customers as financial leases, hire purchases and loans. Interest income from finance leasing business recorded at Rs. 3,413 Mn, 39% increase which represents the higher portion while Hire purchase and Loans and advances recorded Rs. 1,055 Mn and Rs. 1,073 Mn, an increase of 52% respectively during the period under review. The growth in loan book aided by the increased levels of new lending business volumes generated in the period under review contributed towards higher interest income.

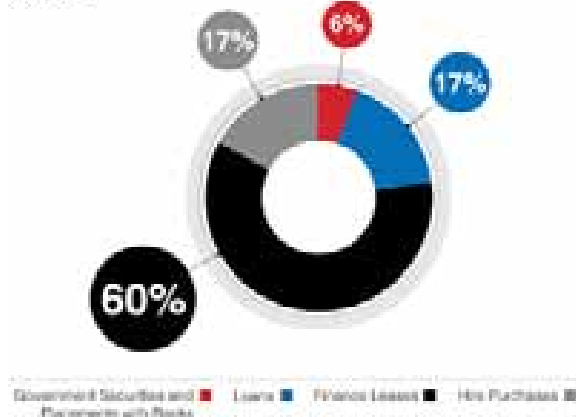
Interest Income & Interest Expenses



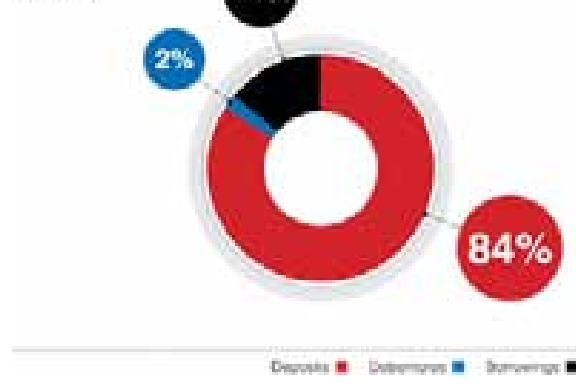
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Composition of Interest Income 2013/14



Composition of Interest Expense 2013/14



Interest Expenses

Interest expense was Rs. 3,553 Mn, compared to preceding year figure of Rs. 2,387 Mn. The main contributor for interest expenses is deposits which recorded 84%, while debentures had 2% and corporate and other borrowings had 14%. Interest rates showed a downward trend especially during the last two quarters as policy rates were being revised to encourage the private sector credit growth.

Deposit interest cost remained the main component of interest expense totalling to Rs. 3,001 Mn for the year, up by 42% from the preceding year. Similarly, corporate and other borrowing costs of the business too showed an increase surging by 98% to Rs. 552 Mn compared to last year figure of Rs. 279 Mn.

Other Income

In line with ongoing market and product diversification endeavours, the fee-based operation income posted a marginal growth rate of 2%. This outcome was to a large extent because of losses incurred from pawning activities.

Net Interest Margin

Net Interest Margins (NIMs) of NBFIs depleted due to the declining nature showed with regard to policy rates. Rates had to be adjusted thus influencing NIMs of financial institutions. However CDB has adopted measures to mitigate any significant margin erosion that may occur by ensuring pricing is based on a proper trade-off between risks and returns on assets side, and looking for longer-term funding to mitigate the negative assets and liabilities maturity mismatch. This has resulted in lowering the one year cumulative maturity gap to 13% from the previous year's 16%. CDB's NIM decreased marginally from 8.28% in 2012/13 to 8.05% in 2013/14 especially due to the downward trend of interest rates. Even though a volatility seen in interest rates throughout the year, through implementing timely pricing strategies, CDB managed the NIM for year 2013/14.



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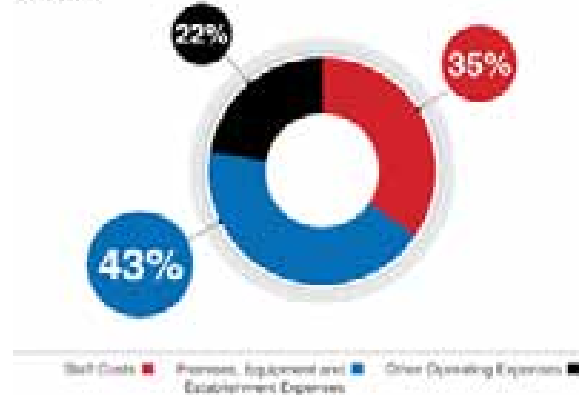
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Net Interest Margin



Composition of Operating Expenses 2013/14



Operating Income

The total operating income inclined by 34% from Rs. 1,925 Mn to Rs. 2,571 Mn during the financial year. Fee and commission income increased by 33% from Rs. 119 Mn to Rs. 159 Mn. Net operating income recorded Rs. 2,233 Mn after the impairment adjustment and exhibits a 24% rise.

Operating Expenses

Operating costs showed an escalation, rising by 28% from Rs. 1,172 Mn in 2012/13 to Rs. 1,502 Mn this year mainly because of increased network and access expansion together with increases in staff costs did contribute to the incline in operating expenditure. Premises equipment and establishment expenses accounts for 43%. This is mainly due to our aggressive expansion drive which saw our multi-channel distribution network augmented with 15 new outlets, 2 relocated branches, enhanced customer services and uniformity of branding tenets in branches.

Cost to Income Ratio

CDB's cost to income ratio stands at 58.43%, an improvement from previous year's 60.89%. This is mainly due to the increase in operating income by a higher pace than the increase in operating costs. CDB Management's strong emphasis in controlling cost especially keeping tab of key expenses by introducing numerous control measures and initiating action to eliminate non-value adding activities has laid down strategies towards managing costs and committed to on driving the cost to income ratio below 50% in the medium term.

Cost to Income Ratio



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**Loan Book****Non-Performing Advances and Impairment Charges on Loans and Advances**

The Gross NPL ratio stood at 5.19%, compared to 2.32% in the previous year. The increase in the NPL indicates an increase in the non-performing portfolio from Rs. 431 Mn in 2012/13 to Rs. 1,349 Mn in 2013/14.

The effect of declining gold prices also reflected negatively in increasing non-performing loans of the pawning portfolio as well. It indicated a portfolio of 645 with compared to 1,065 Mn in previous year.

The Net NPL ratio is recorded at 2.73% for the financial year under review, which in the previous year stood at 1.27%. However, CDB's recovery staff is in the process of monitoring such non-performing advances and react in reducing the ratio further. Nevertheless, it is indeed noteworthy that CDB's NPL this year remains well below the industry average of 6.7%, which is indicative of CDB's astute management and well defined policies.

	For the Year Ended	
	2013/14	2012/13
Interest Income Composition	%	%
Gross NPL	5.19	2.32
Net NPL	2.73	1.37

The impairment charges showed a significant increase compared to last year as it increased by 163% to reach a figure of Rs. 339 Mn. Impairment charges against pawning was Rs. 51 Mn and Rs. 168 Mn was set off against other operating income as a result of fall in value of pawned articles. As a whole, industry experienced an increase in non-performing loans due to decline of gold prices as well as deteriorated economic conditions of the country.

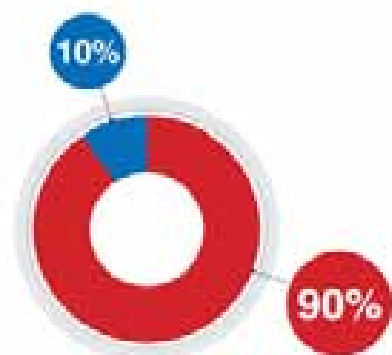
CDB adopted timely measures to minimise the impact from NPLs through better portfolio management where Company divided its loan portfolio into several segments, based on the standardised risk characteristics attached to different products. Also, the recoveries were closely monitored and strategies were adopted to sell off yard vehicle stocks with least loss to the Company.

The introduction of Vehicle Sales Units (VSUs) has ensured the repossessed vehicles are being sold at competitive market prices. Further the registered three wheelers are being identified as a main cause in rising NPL's, which resulted in discontinuing of the new facility granted for the segment.

**Assets Composition**

The total assets recorded a significant growth of 38% reaching the mark of Rs. 33,769 Mn. The non-interest-bearing assets increased from last year's Rs. 2,377 Mn to Rs. 3,275 Mn which shows a rise of 38%. Interest-bearing assets increased from Rs. 22,077 Mn to Rs. 30,494 Mn which also exhibits an increment of 38% compared to the preceding year. The composition of the asset base reflected a 90% investment in interest-bearing assets and 10% on non-interest-bearing assets in the period under review.

Assets Composition	For the Year Ended		YoY Growth	
	2013/14	2012/13		
	Rs. Mn	Rs. Mn	Rs. Mn	%
Interest-bearing assets	30,494	22,077	8,417	38
Non-interest-bearing assets	3,275	2,377	898	38
<b>Total Assets</b>	<b>33,769</b>	<b>24,454</b>	<b>9,315</b>	<b>38</b>

**Composition of Assets 2013/14**

Interest-bearing Assets ■ Non-interest-bearing Assets ■

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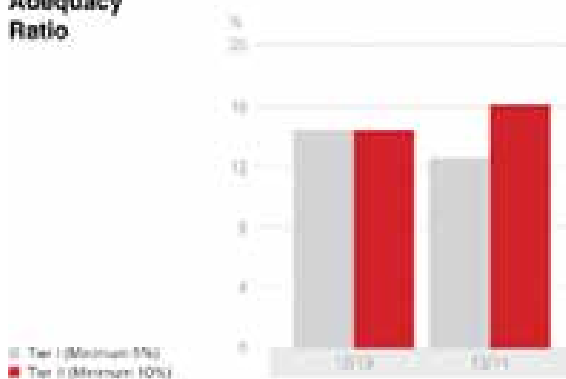
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**Capital Adequacy Ratio**

CDB's CAR decreased at Tier I compared to last financial year but remained well above the minimum ratio prescribed by the Central Bank of Sri Lanka. Retention of profits contributed to such improvement. Tier I & II capital showed an increase of 1.68% from previous year's figure due to the debentures which were issued during the financial year under review.

CAR	For the Year Ended	
	2013/14	2012/13
	%	%
Tier I (Minimum 5%)	12.61	14.32
Tier I & II (Minimum 10%)	16.00	14.32

**Capital Adequacy Ratio**



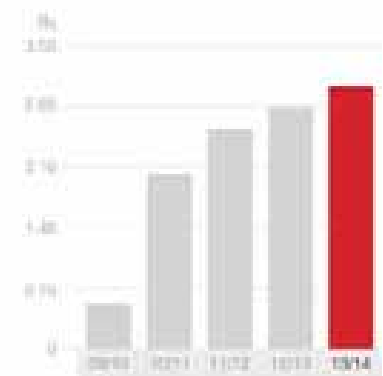
**Dividends**

CDB's dividend policy focuses on maximising the shareholders' wealth, market capitalisation, wider reach and maintaining consistent stream of dividends.

Dividend	For the Year Ended	
	2013/14	2012/13
Final (Rs.)	3.00*	2.75

\* Proposed

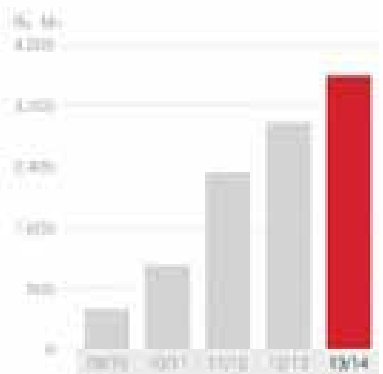
**Dividends Per Share**



**Equity Position**

	For the Year Ended		YoY Growth	
	2013/14	2012/13	Rs. Mn	%
	Rs. Mn	Rs. Mn	Rs. Mn	%
Shareholders' Funds	3,577	2,965	612	21

**Equity Position**



The total shareholders' funds rose by 21% to Rs. 3,577 Mn by the end of financial year under review from Rs. 2,965 Mn recorded in preceding year. Our strong capitalistic skills and earnings capacity over the years

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have enabled us to possess a superior capital structure to-date. As practiced right throughout, our policy had been to retain a large component of our internally-generated profits within the business offering enough flexibility to pursue growth related strategies in future. By the effective utilisation of capital, we have been able to help the shareholders reap returns on investment.

**Liquidity Position**

CDB's statutory liquid assets position is frequently monitored. The business maintained its statutory liquid assets ratio and minimum approved securities requirement above the minimum requirements specified by the regulator for the financial year 2013/14.

	CBSL Minimum Requirement	For the Year Ended	
		2013/14	2012/13
		Rs. Mn	Rs. Mn
Total Liquid Assets	2,571	4,545	2,519
Minimum Approved Securities	1,184	1,887	1,218

CDB had sufficient funding lines to manage daily cash out flow requirements including amounts necessary in maintaining required statutory liquid assets levels.

**Cash Flow Position**

The cash and cash equivalent balance of the business was favourable at Rs. 199 Mn as at 31st March 2014 compared to the balance of Rs. 61 Mn as at 31st March 2013, representing an improvement of 227%. Operating and investing activities resulted in a net cash outflow of Rs. 167 Mn and Rs. 458 Mn respectively, mainly due to acquisition of Property and increase in business volumes. Financing activities resulted in a net cash inflow of Rs. 764 Mn during the year under review.

**Total Deposits and Borrowings**

Total Deposits and Borrowings	For the Year Ended		YoY Growth	
	2013/14	2012/13	Rs. Mn	%
	Rs. Mn	Rs. Mn	Rs. Mn	%
Fixed Deposits	23,729	17,443	6,286	36
Savings	789	328	461	141
Borrowings	4,314	2,763	1,551	56

When it comes to CDB, major source of funding is from deposits. It represents 82% out of total deposit and borrowings portfolio. There was a declining trend seen in interest rates in nearly the whole of the financial year, thus intense competition especially in deposits, as banks and financial institutions collectively embarked on a price war. A rule was imposed by the CBSL to stop value added schemes offered by banks and LFCs in attracting deposits from the public thus resulting in banks and finance companies to rely only on the rate offered. CDB continued to maintain a competitive milieu and prudently managed the deposit base which showcased a growth of 38% from Rs. 17,771 Mn in 2012/13 to Rs. 24,518 Mn in 2013/14.

The Company's borrowing portfolio showed a sharp increase from Rs. 2,763 Mn in 2012/13 to Rs. 4,314 Mn in 2013/14, an increase of 56% which was mainly contributed by the debenture raised and the first foreign funding generated from BIO.

The savings portfolio increased from Rs. 328 Mn in 2012/13 to Rs. 789 Mn in 2013/14 which showcases a percentage increase of 141%. This positive paradigm surely displays that CDB is infusing the apt strategies to grow the savings portfolio and this focus, which will continue, remains well-aligned to CDB's strategic objectives for long-term sustained growth.

**Financial Efficiency of CDB****Net Assets Per Share (NAPS)**

The net assets position of the business continued to move upward raising the net assets per share to Rs. 65.87 per share in comparison to Rs. 54.60 per share recorded previous year, reflective of CDB's increased net worth position on account of sound profitability this period.

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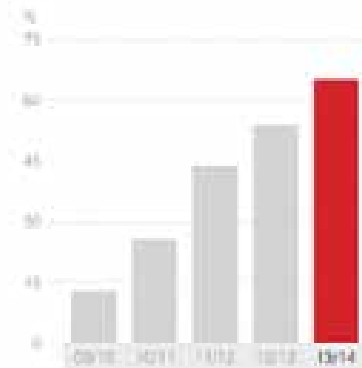
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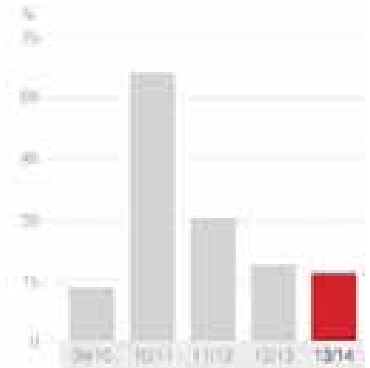
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Net Assets Value Per Share



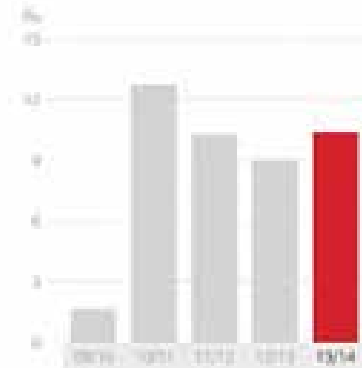
Return on Equity



Earnings Per Share (EPS)

The basic EPS of the business rose as a result of the improved profitability recorded for the year, up by Rs. 1.32 in contrast to a contraction observed in last year of Rs. 1.27. Accordingly, CDB's EPS stood at Rs. 10.33 per share in comparison to Rs. 9.01 per share reported in the preceding financial year.

Earnings Per Share



Return On Equity (ROE)

ROE recorded upon the conclusion of the 2013/14 financial year was 17.16% as against 18.57% registered in 2012/13, a reflection of management's commitment in ensuring satisfactory returns to CDB's investors yet again.

**Rs. 6,125 Mn**  
Income

**Rs. 2,342 Mn**  
Net Interest Income

**Rs. 561 Mn**  
Profit after Tax

**Rs. 3,577 Mn**  
Shareholders' Funds

**Rs. 33,769 Mn**  
Total Assets

**58.43%**  
Cost to Income Ratio

**5.19%**  
NPL Ratio

**12.61%**  
Capital Adequacy (Tier I)

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## Funding Overview

Funding remains highly influenced by the regulatory environment. CDB strives to maintain an optimum mix of sources from which it can draw funds for lending. There is an unwavering focus on pricing, maturity and product differentiation. Currently, our funding is drawn mainly from public deposits and corporate borrowings. Funding targets are detailed in the annual budget.

### Highlights

#### Achievement Against Budget

Key Highlights	Actual Rs. Mn	Budgeted Rs. Mn	Achievement Against Budget (%)
Deposits (net)	6,286	6,900	91
Savings	461	600	77
Borrowings (net)	1,551	2,141	72

#### Industry Growth

Deposits - Industry (Rs. Bn)		Change (%) - Industry	
31.12.2012 (a)	31.12.2013 (b)	31.12.2012	31.12.2013
254.1	337.3	36.6	32.7

Source: Central Bank of Sri Lanka.

(a) Revised (b) Provisional

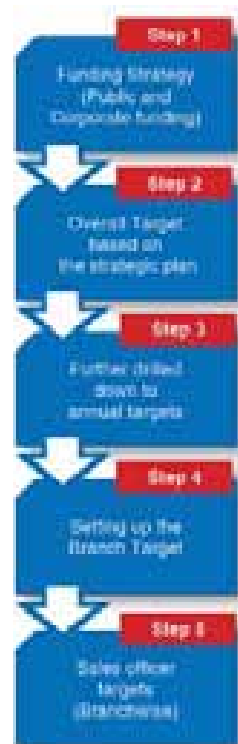
#### CDB Growth

Deposits - CDB (Rs. Bn)		Change (%) - CDB	
31.03.2013	31.03.2014	31.03.2013	31.03.2014
17.7	24.5	52	38

#### Progress against Strategic Objectives

Strategic Objectives	Our Performance	Update for 2014/15
To achieve a net deposit portfolio of Rs. 6.9 Bn and achieve a deposit portfolio of Rs. 25 Bn	Achieved a portfolio of Rs. 24.5 Bn and a net deposit figure of Rs. 6.3 Bn	To attract walk-in customers through enhancing our brand name
To achieve a net savings portfolio of Rs. 600 Mn	Achieved a net portfolio of Rs. 461 Mn	To further enhance savings portfolio and to provide more value adding gifts to our customers
To expand the product portfolio	Introduced several products under funding products	To offer new products with differentiation
To raise Rs. 2.1 Bn net through corporate borrowings	Raised Rs. 1.5 Bn net borrowings	Our focus will be to attract more corporate borrowings as the rates are in a down-ward trend
To increase customer volumes	Opened 15 branches and relocated 2 branches during the year	To open new branches in key strategic locations and to reach customers island-wide.

## Structured Implementation of Funding Strategy



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**Discussion**

**Fixed Deposits**

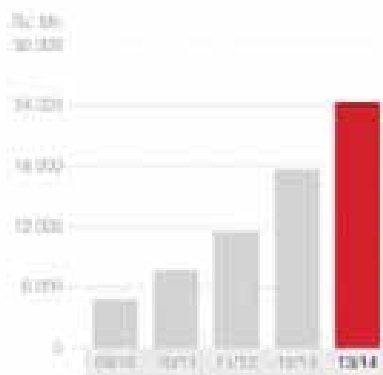
CDB offers three fixed-deposit products: *Dhanasurekum*, the regular deposit product for all, *Aee* for women and *Deeghayu* for senior citizens. As might be expected, deposit volumes track the interest-rate cycle and have shown a recent decline. The decreasing trend in deposit rates has the potential to drive capital away from deposits and towards alternative investment vehicles such as corporate debt, high-yielding stocks and property.

Together with the decentralising potential of our core banking IT solution, the appointment of these officers enables us to issue both term and demand deposit certificates of Rs. 3 Mn in value immediately at any branch.

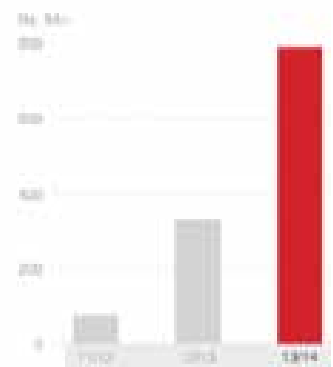
**Savings Deposits**

Conventional savings products attract low-cost funds since interest rates are relatively low. For effective savings mobilisation, products must be custom-tailored to customer segments. Currently, we offer two savings products: CDB Real Savings, our general savings product, and CDB *Ranketi*, a savings account for young children. We are also expanding our student-savings product offering to schoolchildren.

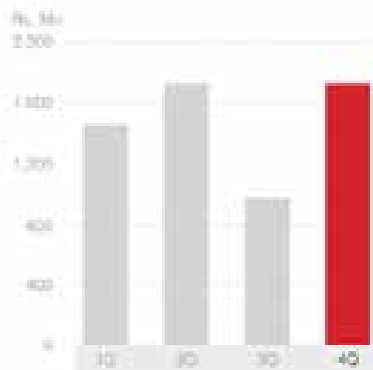
**FD Portfolio**



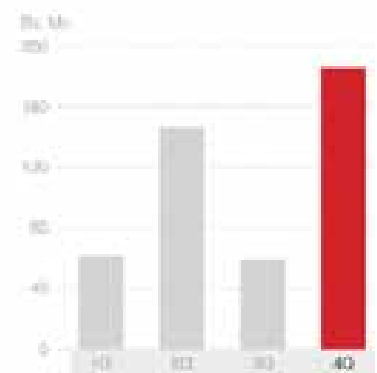
**Savings Portfolio**



**Quarterly Deposit Mobilisation 2013/14**



**Quarterly Savings Mobilisation 2013/14**



During the course of the year, Customer Deposit Officers were appointed to all branches with substantial deposit bases in order to serve deposit customers better.

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**Foreign Funding**

In a breakthrough transaction, CDB recently secured its first foreign line of credit, worth \$ 6 Mn (Rs. 780 Mn), from a multilateral agency known as the Belgian Investment Company for Developing Countries (BIO). The repayment period is four years and the fixed-rate loan has been fully-hedged against exchange-rate fluctuations. BIO made its offer of funds based on a comprehensive initial field survey in which a key criterion considered was CDB's 'urban funding, rural lending' business model. This model makes us a net lender to the rural economy and an agent of economic inclusion, in contrast to many institutions whose funding/lending model works in the opposite direction. We hope to convert this first step into a strong long-term partnership with BIO in the future.

The process of structuring, negotiating and hedging this loan was handled by our Corporate Finance Division, which has finalised Rs. 4.2 Bn worth of debt funding for CDB to date.

**Debenture Issue**

In 2013, CDB issued five million subordinated, listed, rated unsecured, redeemable debentures at Rs. 100/- each, with an option to issue a further equal amount. The issue was oversubscribed, with applications exceeding Rs. 1 Bn.

The issue comprised three categories of five-year debentures with interest rates ranging from 15-16% (annual effective rate of 16% and 15.87% per annum) payable annually, semi-annually and quarterly. The object of the issue was to finance future growth in lending in the form of leases, hire-purchase contracts, etc., as well as to reduce our asset/liability maturity mismatch.

This issue helped strengthen our Tier 2 capital base and maintain a healthy capital adequacy ratio.

**Future Outlook**

The strategy of NBFi sector consolidation mandated by the Central Bank is intended to make the sector more robust and resilient, with a smaller number of strong

players and enhanced competition between them.

This, it is hoped, will further strengthen the financial sector and enable it to compete at the international level.

Foreign financial institutions in Sri Lanka will increase their participation in national economic activity, making a significant contribution towards the economy. This will further increase the asset base and improve the capacity of the sector to absorb losses and withstand internal and external shocks.

NBFIs will increasingly be able to attract low-cost, long-term funds in the form of deposits and debt instruments as interest rates decline. Consolidation will bring about cost savings and enable firms to diversify their customer offerings and business processes, helping deal better with market volatility and better manage risk. A stronger NBFi sector will attract more customers to create a larger aggregate capital base, making possible financial transactions on a larger scale and making financial services more affordable to those who make use of them.

On the other hand, the abolition of deposit incentive schemes will challenge institutions to find new ways to attract depositors. Financial institutions will have to change their strategic focus to concentrate on retaining customers; consequently, marketing and communications will play a vital role in securing customer loyalty. Longer-term deposits from loyal customers are needed to help institutions attain a better balance of assets and liabilities. Interesting times lie ahead.

**Lending****Overview**

CDB's business strategy is based on realistic lending objectives defined against the opportunities and risks respectively associated with each of CDB's three product categories: leasing, hire purchase and loans. Targets in each category are adjusted according to market capacity, which is continuously evaluated.



## MANAGEMENT DISCUSSION &amp; ANALYSIS

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## Structured Implementation of Lending Strategy



## Highlights

## Achievement Against Budget

Key Highlights	Actual Rs. Mn	Budgeted Rs. Mn	Achievement Against Budget (%)
LE	6,632	7,500	88
HP	3,235	2,750	118
Loans	2,770	3,400	81

## Industry Growth

Accommodations - Industry (Rs. Bn)		Change (%) - Industry	
31.12.2012 (a)	31.12.2013 (b)	31.12.2012	31.12.2013
471.7	553.1	21.4	17.3

Source: Central Bank of Sri Lanka.

(a) Revised (b) Provisional

## CDB Growth

Accommodations - CDB (Rs. Bn)		Change (%) - CDB	
31.03.2013	31.03.2014	31.03.2013	31.03.2014
19.4	25.7	44	32

Accommodations granted by the NBFi sector in 2013 amounted to Rs. 553 Bn, an increase of 17% compared to the previous year. But it has fallen by 4% when compared to the increase of 21%. Even though the industry average of accommodations granted increased only by 17%, CDB could increase its total accommodations by 32% and it was a drop of 12% compared to the previous year's change.

## Progress Against Strategic Objectives

Strategic Objectives	Our Performance	Update for 2014/15
Achieve lending disbursements of 13.6 Bn	Achieved a disbursement figure of 12.6 Bn	Further enhance our lending portfolio while focusing on different sources of lending other than vehicles
Maintain a collection ratio of 95%	Maintained an average collection ratio of 92.54% during the financial period	Devise strategies to maintain a collection ratio of 95% and to have effective and efficient monitoring
Maintain gross NPL ratio below 4%	Achieved a gross NPL ratio of 5.19%	Attract high-quality loans via proper credit analysis

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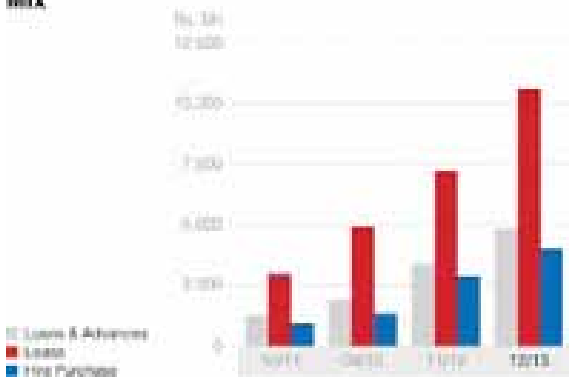
**Discussion**

**Loan Book**

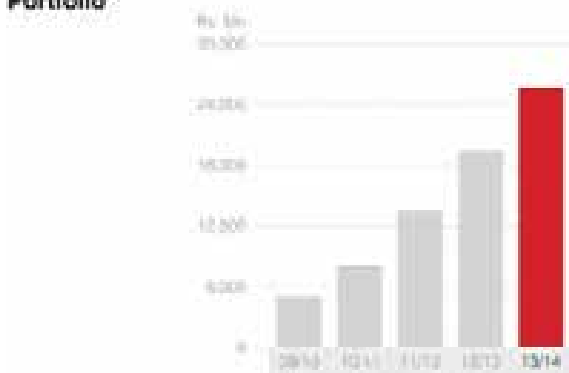
In an aggressively competitive market, CDB was able to increase its loans portfolio by 32% in 2013. This we regard as a creditable achievement, particularly due to the steep decline in vehicle leasing in Sri Lanka due to recent depreciation table adjustments. Island-wide presence and personalised service are important differentiators in CDB's business offering; we are also seeking to achieve a gradual increase on microfinance lending.

During the year under review, we disbursed Rs. 12.6 Bn against the target of Rs. 13.6 Bn despite extensive competition and volatile interest rates.

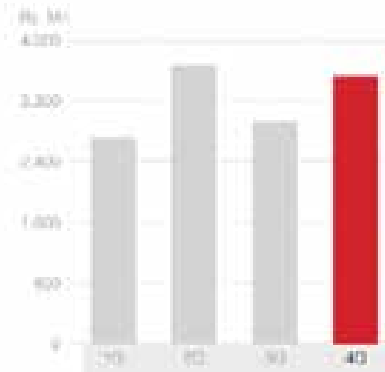
**Loan Mix**



**Loan Portfolio**



**Quarterly Lending 2013/14**



**Collections**

**Average Yearly Collection Ratio**



Collections are monitored by the Post-Disbursement & Follow-Up Division (PDF); additionally, each branch manager, recovery officer and sales officer bears specific responsibilities with regard to collections.

The collection ratio averaged 92.54% during the year under review, a 0.79% decline from the previous year. This was due to uncongenial economic conditions.

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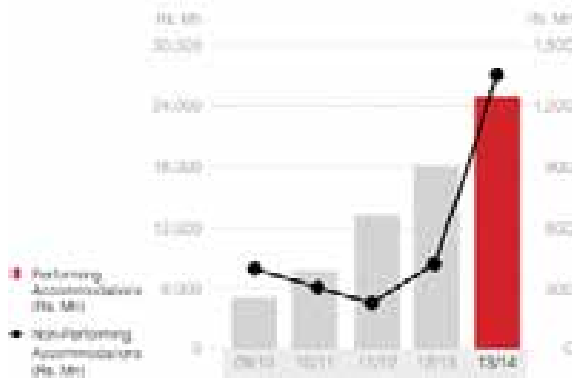
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Non-Performing Loans

Performing Vs Non-Performing Accommodations



NPLs: Industry

Non-Performing Advances - Industry (Rs. Bn)		Change (%) - Industry	
2012 (a)	2013 (b)	2012	2013
23.5	37	19	57

Source: Central Bank of Sri Lanka.  
(a) Revised (b) Provisional

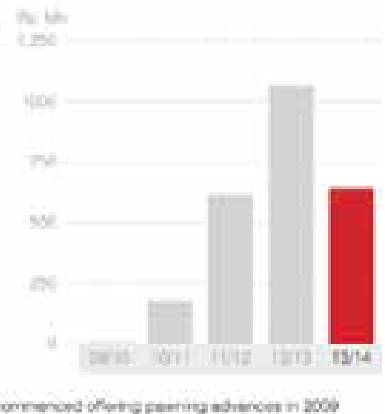
NPLs: CDB

Non-Performing Advances - CDB (Rs. Mn)		Change (%) - CDB	
2012/13	2013/14	2012/13	2013/14
431	1,349	91	213

Non-performing accommodations (NPAs) increased by 213% to Rs. 1,349 Mn from Rs. 431 Mn in 2012. The Licenced Finance Companies sector accounted for 16% of all NPAs, with distressed companies being the main contributors. CDB's NPA exposure relative to total loans outstanding increased, reaching 5.19% at the end of 2014, mainly due to growth in accommodations. With loan loss provision considered, net NPA ratio was 2.73% at the end of 2014.

Pawning

Growth in the Pawning Advances Portfolio



The declining trend in gold prices continued during the last financial year. To prevent arbitrage with neighbouring countries, the Government imposed a tax of 10% on gold imports in June 2013. This was removed later in the year.

CDB's pawning portfolio increased by a dramatic 83% in 2012; but, foreseeing the coming collapse in gold values, the Company adopted a risk-averse strategy in 2013. The advance-to-market value ratio was substantially reduced and a decentralised mechanism for following up recoveries was introduced. Robust risk-management strategies, including the management of concentration risk and default risk, help to reduce the impact of the fall in gold prices.

As at end of financial year, the Company's gold portfolio stood at Rs. 645 Mn, a decrease of 39% compared to previous year.

Future Outlook

Continued easing of monetary policy should improve business confidence and promote private-sector credit expansion. This creates strong opportunities for domestic lending institutions. CDB's lending activities will be geared to the financing needs of businesses. Our lending portfolios, somewhat diversified and fragmented, will be characterised by low and strongly collateralised credit risk.

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We will focus on reducing our NPL ratio to less than 3% while maintaining a collection ratio above 95%. Improved asset quality will enable us to reduce provisions set aside for bad loans, improving profitability relative to business volume. Rapid private-sector loan growth due to lower interest rates will, however, threaten NPL ratios over the longer term. We are in the process of identifying ways and means to reduce the NPL ratio while increasing collections.

Our future plans also include greater effort directed at segments where our market share is low.

**Other Products and Services**

The following briefly reviews operations with respect to our other products and services.

**Margin Trading**

Taking a further step in the direction of becoming a full-service financial institution, CDB registered as a margin trader with the Securities & Exchange Commission of Sri Lanka in the year under review. With our strong marketing team, healthy financial position and over 50,000 clients, the opportunities in this area are considerable. This move is in line with Government policy, which encourages financial institutions to promote capital-markets investment by rural high-net-worth individuals. Our target market comprises middle-income earners who are not overly risk-averse. Our margin-trading operations will mainly be handled at our head office, though initial contacts and payments will be managed by branch outlets and through broker referrals. In entering this line of business, we are conscious of the challenge of declining market conditions and competition from foreign firms, and have taken appropriate measures to mitigate these potential sources of risk.

**Global Payment Services**

CDB Money Exchange exchanges accepted foreign currency into Sri Lankan Rupees. The facility is available at every branch. Except commercial banks, CDB is the only financial institution engaged in money remittance services. Walk-in exchange and remittance customers are often open to cross-selling initiatives involving our core products.

In the face of intense competition from commercial banks, CDB achieved the year's targets from MoneyGram and Money Exchange in 2013.

**Institutional Capital***Everything for You!*

CDB enhanced its reach by opening 15 outlets during the year increasing the total number of outlets to 59 island-wide.

*We Listen to You!*

To deliver the best and enhance superior level of customer service, CDB relocated two outlets to more convenient locations.

*Convenience Matters Much!*

CDB during this year established three new ATMs at Wattala, Mahara and in our Premier Centre - Colombo 07.

*YES! We are a Trustworthy Business Entity.*

A big thank you to all our customers who placed trust in us in the issue of ten million debentures at Rs. 100/- each which was over-subscribed with applications exceeding Rs. 1 Bn.

*A Breakthrough Transaction!*

CDB acquired the first foreign funding line worth \$ 6 million from Belgian Investment Company for Developing Countries (BIO).

*A Margin Provider too!*

Expanding our product portfolio, we are now catering to the investors who wish to expand their share investment portfolios through margin trading facilities.

*A New Home!*

All of us are standing-by for a housewarming occasion as we commenced constructing our new corporate office.

*With a New Perspective of BCP*

Business continuity planning (BCP) identifies our exposure to internal and external threats and synthesises to provide effective prevention and recovery, while maintaining competitive advantage and value system integrity.

## Delivering Value

### External Capital Formation

The value created by CDB for stakeholders through activities, relationships and linkages lead to the formation of capital external to CDB. They reside within our stakeholders, but CDB has access to and makes use of these and its own internal capital in driving its business. Our discussion will now focus on CDB's external capital formation, the material ones being, investor capital, customer capital, business partner capital, employee capital, Governmental and Regulatory Authorities capital and social & environmental capital.

### Investor Capital

In order to meet the needs of our investors, the economic performance of the CDB needs to be sustainable in the long run. Our performance is driven by integrative management and active oversight. Prudent financial transactions, pragmatic environmental spending and measuring the impact of our social programmes ensure value is derived and the benefits are targeted to the intended stakeholders.

Our Investors are committed to ensuring that CDB remains a sustainable business concern that posts consistent results, is a respected employer and a socially responsible corporate steward. They take pride in our accolades and are proactive in our decision making and we in turn, recognise the crucial role our investors play in maintaining CDB on an even keel, to build and strengthen a sustainable business model that will truly bring pride to our investors.

Our strategic priorities and commitment towards shareholders show the means and ways of enhancing returns on investment. During the year, we achieved an EPS of Rs. 10.33 and proposed a dividend of Rs. 3.00 per share. Excellence in both financial and non-financial performance has helped us win several awards and accolades. Our financial stability has been acknowledged by rating agencies such as RAM Ratings Lanka when they reaffirmed our long and

short term ratings at BBB and P2 with a stable outlook. We communicate our business performance and achievements efficiently and effectively. We frequently conduct investor forums, courier interim financial statements and distribute annual reports to notify our past and current performance.

### Future Aspects

While we will continue to enhance our financial performance and value creation, we will further streamline the process of communication with the investors with a view to enhance the level of engagement with them. We will endeavour for more and more recognition at prestige awards ceremonies in future by being among the best in the industry. We will continue our efforts to strengthen the financial stability of the Company which may help us to get our credit ratings upgraded.

Key Performance Indicators	2013/14	2012/13
EPS Achieved (Rs.)	10.33	9.01
NAV Per Share (Rs.)	65.87	54.60
Dividend Per Share (Rs.)	3.00	2.75
Credit Rating (Lanka Rating Agency Limited)	BBB/P2	BBB/P2

Macro challenges and trends undoubtedly impact investor outlook and for CDB it is no different. However, investors also look for past records and consistency in decision-making, policy and stability. This has proved to be the panacea to CDB retaining investor confidence despite battling macro challenges that did impact investor returns this year. While keeping an eye on the macro vista, oncoming trends and ensuing challenges, CDB is very conscious of retaining that investor confidence and thereby ensuring expected future returns, implementing the rudiments imperative to do so. We remain very committed to building on our financial stability; consistent performance and sustainable foundations to further strengthen the investor confidence that we have thus far enjoyed.

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**Customer Capital**



*Our goal is to provide customer service that is not just the best but legendary. It's our every day job to make every aspect of the customer experience a little better because we know a satisfied customer is the best business strategy of all.*

CDB offers a vast variety of products and services to its customers while being responsible for what is delivered. We run through defined principles that guide our marketing communications with customers. We are committed to building trust through responsible practices and through transparent transactions and communication. We consider it is our responsibility to ensure the security of our products and any risks that are associated with them.

We will use a combination of channels, which includes product taglines, websites and consumer leaflets to communicate openly with our consumers. Our marketing division is committed to responsible marketing and advertising. It helps informing people about the benefits of our products and services while being a way of engaging with customers. We go as per the stipulated Code of Conduct of preserving customer privacy and aligning with compliance in all marketing and advertising baseline ensuring legal, integrity and decency aspects.

*“Committed as a trustworthy entity through responsible marketing practices which ensures customer confidentiality as per the Code of Conduct”*

Key Performance Indicators	2013/14	2012/13
	Nos.	Nos.
Outlets opened	15	8
Branches relocated	2	7
Customer complaints received	84	54
Customer inquiries	384	236
Customer surveys carried out	0	1
New products introduced	4	5
T&D programmes on customer service	5	4

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## Product Portfolio

Product Category	Brand	Description
Fixed Deposits	CDB <i>Dhana Surekum</i>	Customer aspirations in life means a lot to us, that's why we at CDB introduced ' <i>Dhana Surekum</i> ' Fixed Deposits to bring our customers one step closer to realising their dreams.
	CDB <i>Aee</i>	CDB introduced ' <i>CDB Aee</i> ' focusing on the female community. When they open an ' <i>Aee</i> ' Fixed Deposit, they will receive free gift vouchers for Gold Jewellery or a Valuable Health Insurance Policy.
	CDB <i>Dheegayu</i>	' <i>Deeghayu</i> ' Fixed Deposits focus on the senior citizens of the country with 1% additional interest and many more benefits.
Savings	CDB Real Savings	' <i>CDB Real Savings</i> ' offers customers a modest interest rate on every savings deposit.
	CDB <i>Rankati</i>	CDB ' <i>Rankati</i> ' is a minor savings account which ensures a flourishing future for children offering an amazing array of gifts and benefits through different savings plans to suit your needs.
	<i>Mudharabha</i>	A savings product which is designed to meet the growing demand for Sharia-compliant financing.
Lending - Top level	CDB Hybrid Lease/permit-holders	A specialised leasing covering for luxury vehicles.
Lending - Middle level	Small Car Lease	CDB Small car leasing is a brand which facilitates in lending for small cars which are below 1000cc.
Lending - Micro level	CDB 3W <i>Raja Selakili</i>	This brand will focus on attracting three-wheelers.
	CDB Diesel Mini Truck Lease	} These two brands will focus on providing lending to small truck segment.
	CDB Diesel <i>Batta</i> Lease	
Lending - Other	CDB Gold Loan	CDB ' <i>Ran Nidahasa</i> ' is the brand which focuses on conducting pawning facility at CDB.
	CDB Meezan	Designed to meet the growing demand for Sharia compliant financing.
	CDB Hire purchase facility for registered vehicles	Hire purchase category deals with providing lending to registered vehicles.
	CDB Privilege	Recently introduced personal loan scheme.
Other	CDB Money Exchange	CDB Money Exchange facilitates customers in exchanging accepted foreign currency into Sri Lankan Rupees.
	MoneyGram	In partnership with MoneyGram International, a leading global payments services company operating money transfer services worldwide as well as bill payment services in the US through a global network of more than 203,000 agent locations, CDB is a sub-agent for Hatton National Bank.

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**Products Launched in 2013**

**Personal Loans**

Our personal loan scheme is designed to help customers meet the practical demands of life effectively. Loans are offered at very competitive rates and the application process is simple and convenient. Loans are available for a variety of purposes. Credit maxima are flexible and depend on the customer's needs, disposable income, repayment capacity and requirements. Personal-loan customers are mainly professionals, industry experts and executives who require credit facilities with minimal paperwork and convenient repayment schedules.

**CDB Diriliya**

Launched in 2013, the *Diriliya* product provides modest amounts of credit to women from low-income families and remote districts who are not well-served by traditional banking. It is an example of our urban funding/rural lending policy in action.

It is known that in this socio-economic category, women are better credit risks than men. A product like *Diriliya* also contributes to female empowerment.

In 2013/14, there were a total of 220 *Diriliya* dealer points comprising 190 branch outlets and 40 Area Development Officers' units. Our ADOs' task is to provide financial services in hitherto unserved areas of the country; they are among the path breakers of financial inclusion in Sri Lanka today.

**Mudharabah Savings**

Launched in the year under review by the CDB Meezan Islamic Finance Unit, the Mudharabah savings product is designed to meet the growing demand for Sharia-compliant financing. Mudharabah was introduced under the supervision of the CDB Meezan Sharia Board, consisting of eminent scholars and practitioners of Islamic finance. Customers deposit their money as investors in CDB, which will share the return on a monthly basis. This is a very new product, just beginning to establish itself in the market.

**Value Promise to Value Fulfilment - Our Brand Value**

We recognise that value is what customers need most. - A quality product, at an affordable price, fit for the needs of their requirements. This is always a guiding parameter in all that we do, to make sure that the cost of the solution is in keeping with the value it will add. We endeavour to find win-win options for ourselves and our stakeholders so that there is an appropriate value stream for all of them.

We are proud of our brand. It comprises our promise and delivery ensuring that we create a competitive advantage offered a greater value from the norms and best practices prevalent in the marketplace. Our brand promises here are be evidence for the essence of who we are. It is about sticking by our stakeholders and always trying to do the right thing. While retaining the core values we strive to promote a culture that prompts our team to truly espouse the values augmented by a communication process that involves regular meeting, feedback and surveys to ensure that all remain on the same path to make this journey ahead.





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## Marketing and Communications

All our products are supported by appropriate and effective advertising and marketing. In devising our communications and marketing activities, we make use of ethical market research methods to ensure that they are as effective as possible.

In terms of the integrity of our communications, we are guided by a commitment to go beyond mere obedience to the appropriate standards and regulations in order to produce expressions that are not only legal but also decent, fair and truthful. Our communications are in compliance with all relevant laws, standards and codes, including those specifically required of finance companies by the Central Bank.

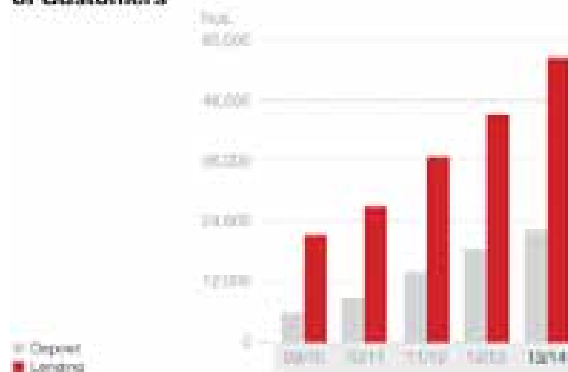
CDB does not promote or offer products that are banned in other markets (even if they are legal in our own) or which are designed to exploit public controversy or friction.

No incidents of non-compliance with relevant regulations and voluntary codes were recorded in the year under review, and no penalties were levied on CDB for non-compliance with any law or regulation concerning the provision and use of products and services.

## Branch Network

Success can have its problems. Growing customer numbers at CDB outlets put pressure on service time and quality in 2013. Together with our planned expansion programme, a recently-revised service-process regime is helping to ameliorate this. Under the new process, customers can make instant withdrawals from any CDB outlet, have access to toll-free hotlines for payments and remittances, enjoy convenient VISA debit-card facilities with mobile alerts and SMS services, etc. The adoption of paperless transaction procedures simplifies and speeds up service delivery without compromising security and control. Most important of all, the introduction of officers charged with subject-specific responsibility makes it possible for customers to obtain management decisions on the spot without waiting for head office clearance in many cases and situations.

## Number of Customers



## Branch Locations

District	Outlets Nos.	District	Outlets Nos.
Anuradhapura	1	Kegalle	2
Badulla	1	Kurunegala	3
Batticaloa	1	Matale	2
Colombo	10	Matara	1
Galle	2	Polonnaruwa	1
Gampaha	8	Puttalam	3
Hambantota	1	Ratnapura	4
Jaffna	1	Trincomalee	1
Kalutara	2	Vavuniya	1
Kandy	2		

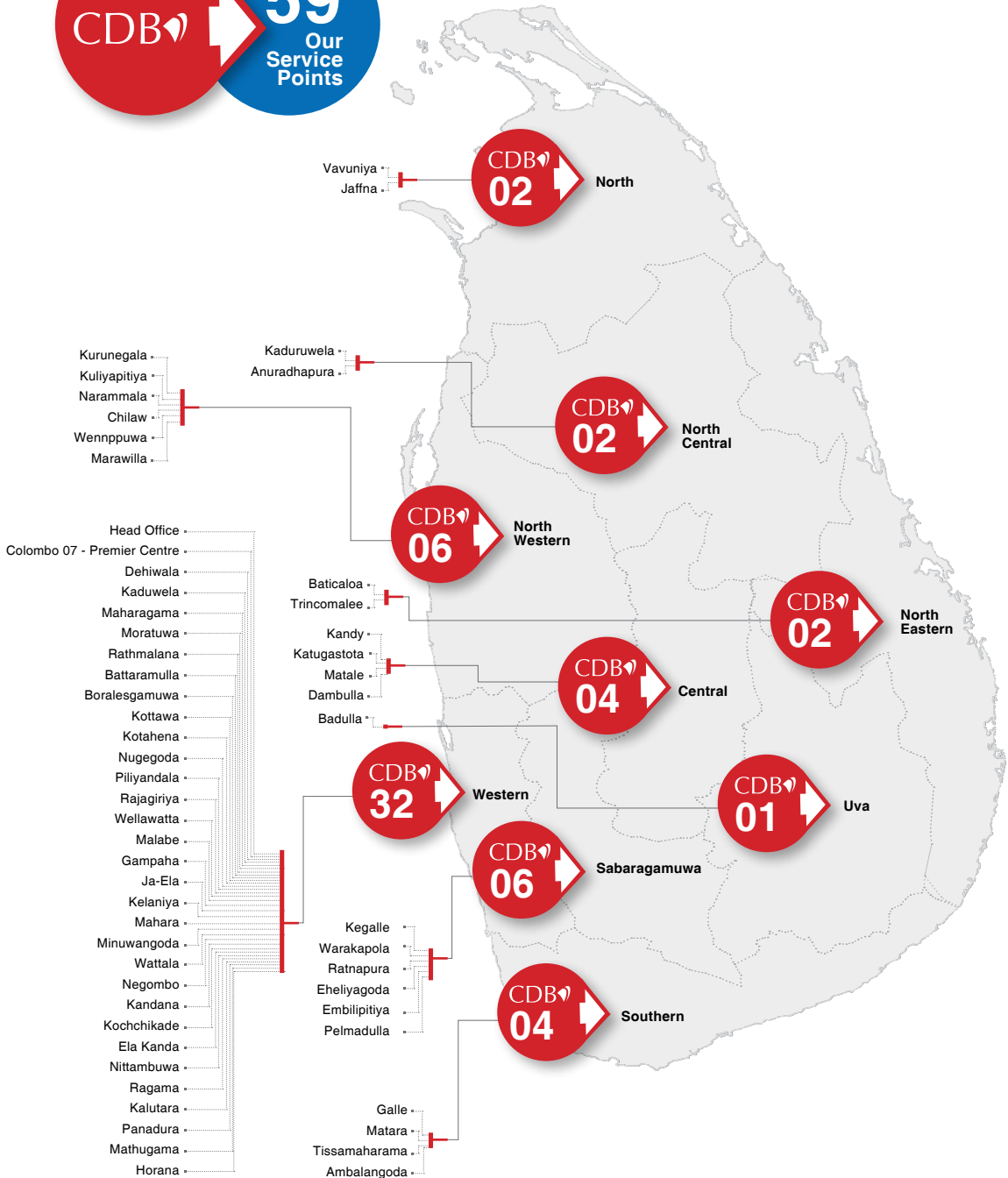
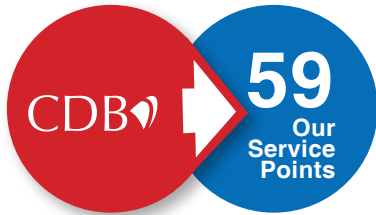
## Service Centre Locations

Colombo	6
Gampaha	4
Kalutara	2

## ATM Network

Head Office  
Premier Centre  
Mahara  
Wattala

In the year under review, a total of 15 branches and three ATM outlets were added to the network.



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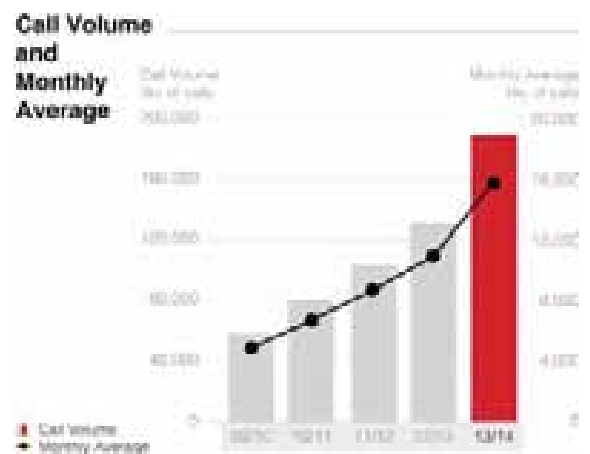
*Our Premier Centre in Colombo 07 will reveal individuals the opportunity to experience world-class service. It has been a phenomenal success and brought to the cutting-edge in the finance industry for our valuable customers.*

Among the new outlets opened this year was the new CDB Premier Centre in Colombo. This centre, specially designed to cater to busy high-net-worth customers, has been a great success, with several requests received for similar centers to be set up in regional centers as well as in the suburbs of Colombo.

**Call Centre**

The CDB Call Centre is involved in customer care and the handing of complaints. All complaints are taken seriously and investigated as quickly as is feasible. During business hours, trained customer-care officers quickly respond to queries about accounts, financial products, rates, etc., providing fast and effective solutions whenever possible.

**Call Centre Activity**



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**Call Centre Traffic**

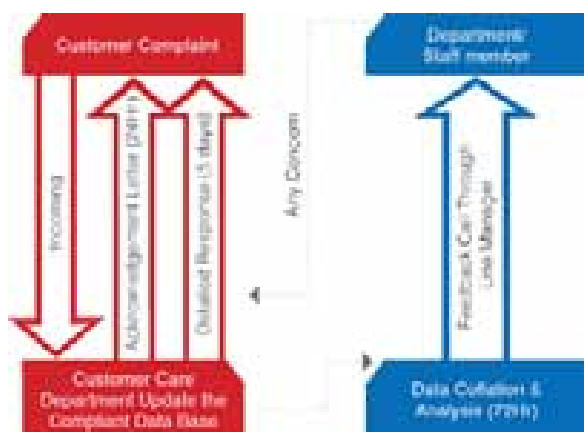
Year	Total Volume Nos.	Average Monthly Nos.
2009/10	58,590	4,883
2010/11	80,746	6,729
2011/12	104,135	8,678
2012/13	160,985	10,989
2013/14	189,616	15,801

As the above table shows, call-centre traffic has increased dramatically during the period the facility has been active. In response, we have increased the number of call-centre staff by additional eight man hours per day. The extension of call-centre operating hours from 7.00 a.m. to 6.00 p.m. has also helped us deal with this increase.

Other aspects of customer-relationship management were also improved this year. Highlights included the introduction of a consolidated account-viewing function for customers who hold more than one account or facility with us and a common centre to deal with all queries, complaints and sales leads.

**Complaint Handling**

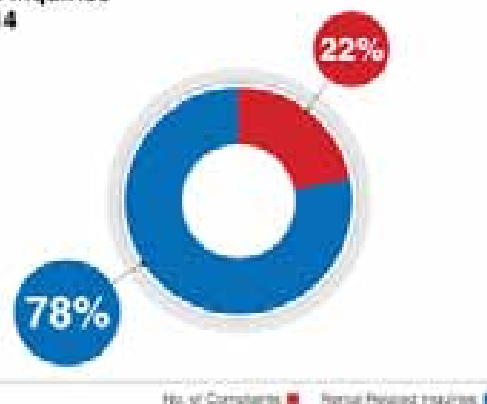
Customer complaints are handled systematically to ensure that each is addressed in a satisfactory way. Complaints are, where possible, dealt with by our call-centre staff whether they are received by telephone or through our web site. Where staff cannot deal with complaints satisfactorily, they are escalated to CDB's Customer Care Manager.



Once received and logged, each complaint is dealt with systematically and a detailed response made to the customer within five working days.

**Complaints and Inquiries to Call Centre**

**No. of Complaints & Rental Inquiries 2013/14**



Year	2013/14 Nos.	2012/13 Nos.
Complaints	84	54
Rental-related inquiries	384	192

**Protecting Customers' Privacy**

An important condition of customers' dealings with us is privacy. CDB maintains and ensures total client confidentiality. A dedicated team works to reinforce data protection and confidentiality and to prevent any instance of unsolicited communication or intrusive surveillance. No substantiated complaints regarding breaches of customer privacy or loss of data were received in the year under review.

**The Future of Customer Engagement**

Formerly, financial institutions built customers' trust by projecting stability and solidity; in effect, by promising to stay the same forever. This is no longer enough. Customers want stability and flexibility. Success in our business has less to do with understanding money than with understanding people.

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Customer service is a discipline that never stops evolving. Given below are some thoughts on the different areas and directions in which our service offering is likely to evolve in the near future.

### Financial Solutions

Our goal is to become Sri Lankans' preferred total financial services provider, attracting customers by building a portfolio of relevant, exciting products. Financial solutions are likely to grow more customised, tailored to suit the needs of a particular user.

In the near term, we will focus on promoting the CDB VISA debit card, growing our deposit base and enhancing the value of products. This applies not only to our primary savings products but also to the Islamic finance products now entering the market.

### Distribution Approach

With effective strategic marketing and communications as well as an expanding island-wide distribution network, CDB is well placed to occupy a position at the top of the NBF1 pyramid. We aim to attain this goal through

investment in network expansion, state-of-the-art IT and best-of-industry products and marketing strategies; also, by delivering value for money to our customers.

We will expand our distribution network into strategic locations using all available channels and leveraging technology to the full. In particular, we shall continue to build presence in the North and East of the country.

### Technology and the Changing Parameters of Quality

Technology is changing the game for all players. Experienced players seem to have a preference for physical touch points, while new entrants prefer virtual ones, particularly mobile communications and the internet. IT thus becomes a strategic business driver in our future plans. New technological solutions will induce cost efficiencies and improve customer service. Better management information, also provided by new technology, will improve results both qualitatively and quantitatively, while decentralisation and delegation will allow further improvements in response time and service quality.

## Business Partner Capital



*We believe the keystone of successful business is cooperation by broadening horizons, where it has yielded many revolutionary solutions and effective synergies.*

**MANAGEMENT DISCUSSION & ANALYSIS**

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Our engagement with businesses partners and suppliers are based on the concept of mutual benefit. Sustainability means long-term relationships based on mutual value creation.



**Who are Our Business Partners?**

Since much of our business revolves round vehicle leasing, insurance and the supply of vehicles, insurance companies and motor dealers are important strategic partners. We enjoy fruitful partnerships with several leading insurance companies, as well as suppliers of three-wheeled vehicles and commercial vehicles such as trucks and buses.

Our special partnership with Commercial Bank of Ceylon allows our customers to share the bank's ATM network; we are also a sub-agent in HNB Bank's MoneyGram network.

**Creating Synergy in 2013/14**

The conduct of business jointly with our partners created many positive synergies in the year under review. We held mutual promotions with a number of motor companies in which we extended lease facilities to enable their customers to purchase vehicles. Joint promotions of this kind were held with David Peiris Motor Company, Associated Motorways, Diesel & Motor Engineering and TVS Lanka.

Some partners leveraged our island wide network and expert marketing staff to build their own sales through joint efforts to promote our vehicle leasing facilities. We also display our partners' product advertising at our branches together with material highlighting our own lease facilities.

**Taking Strategic Partnerships into the Future**

We will seek to leverage our existing partnerships to their full potential without losing sight of the principle of mutual benefit, looking to collaborate with our partners to improve profitability as well as sustainability. We shall also continue to strike up new partnerships in order to reach new customer bases and new markets. Finally, we shall continue to use our partnerships to help our own people acquire skills and knowledge that will be of benefit to us as well as to our partners.

**Partnerships: Engagement Indicators, Year on Year**

Activity	2013/14	2012/13
	Nos.	Nos.
Business partner products promoted by CDB	12	9

## Employee Capital



*We identify our employees, since they are our greatest asset. We appreciate everything they do for the business run. Nothing else can quite substitute for a few well-chosen.*

One of the CDB's core objectives is to promote and maintain harmonious relationships with and among its employees, creating a working environment in which they can learn, grow and perform. We promote and respect freedom of association and employee rights in keeping with the Constitution and current labour legislation of Sri Lanka, and are committed to fair treatment and non-discriminatory work practices.

As a growing company needing to attract, develop and retain the best talent at all levels, we put a great deal of stress on talent sourcing, training and development, and managing performance.

As employees are the most valuable asset we ensure that the future of CDB is in their hands since the future of the CDB rests on the profit generated from the quality of services offered by them and the resulting positive word of mouth and goodwill.

Believing that discipline is the most important ingredient, we maintain high standards of discipline inside CDB. Each employee is responsible for their actions while on duty and to behave due diligently. CDB's whistle-blowing policy enables all employees to voice their concerns whenever they encounter something unfair irrespectively of their grades, types of employment or, gender. It has maintained a cordial relationship among all categories of staff ensuring industrial peace.

## MANAGEMENT DISCUSSION & ANALYSIS

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*“We promise a safe environment crowded with ample opportunities to grow, while ensuring work-life balance and positive outcomes in professionalism through,*

- *Humanity*
- *Relationship*
- *Competencies*
- *Aspirations*
- *Performance”*

We make a substantial investment on enhancing both quality and capacity of all employees through systematic training and development programmes. It is a continuous process of encouraging in higher studies and every effort is made to train and develop individuals through on the job or as closely allied to it as possible or sent to formal off the job courses either in Sri Lanka or overseas.

We support equality in both career advancements and remuneration and do not go by a hierarchical structure on promoting employees. Our preference is based on relevant skills and competencies as it is these qualities that will help the Company create sustainable value.

### HR Policy

#### Touch Points

- We work with our people to define the tasks that need doing, create realistic goals and milestones, and motivate one another to achieve them.
- We do our best to provide a safe, healthy and stimulating work environment which facilitates innovation and allows every employee to contribute to his or her full potential.
- We recruit, retain and develop our employees to realise this potential; recognise and reward employee performance and commitment; appreciate and respect the contribution of every employees at every level, and strive to maintain our reputation as one of the best companies to work for.
- We are committed to uphold the rights of our employees under all circumstances and conditions.
- Our employee policy is non-discriminatory and our aim is to be fair and just to all. Our opposition to child labour and forced labour means that we do not conduct business in any form with any partner, customer, outsourcing agency or other stakeholder who may engage in such practices.
- We believe in and practice gender equality.
- All promotions, rewards and remuneration offered by CDB are based purely on merit.
- We abide by all Sri Lankan labour regulations and comply with all norms set out by the International Labour Organisation. No incidents of discrimination were recorded in the year under review.
- Minimum period of 4 to 12 weeks will be provided for an employee who has been affected by significant operational changes such as department change or assigning to a branch, to be comfortable with the new environment by giving time and resources to get trained
- No collective bargaining agreements

### Recruitment Policy & Process

CDB aims to be the employer of choice for a diverse and inclusive workforce. This includes the representation of women, which can be challenging in our industry. Our philosophy is to provide competitive compensation and benefits and to offer professional development support keyed to each individual's needs and capabilities.

We strive to recruit the best candidate for every position. This policy is supported by attractive market-based remuneration and employment policies. Our selection decisions are based on merit and we do not discriminate



## MANAGEMENT DISCUSSION &amp; ANALYSIS

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against any candidate on any grounds whatsoever. Internal candidates are always considered for new opportunities, which are also advertised on the Company intranet.

Whenever possible, providing other criteria are met, we recruit locally. This is part of our wider corporate policy of supporting rural social and economic development.

New recruits undergo a thorough orientation and induction process. During the year under review, ten induction sessions were conducted for new employees at different levels. The sessions involved a total of 150 participants and covered 40,000 training hours.

### Internships

In the year under review, we instituted an internship programme for matriculants and undergraduates from universities across Sri Lanka who have limited or no working experience. Interns are offered comprehensive on-the-job training in diverse disciplines at CDB.

The programme is designed to complement development-oriented studies with practical experience in development and volunteerism. Interns are involved in real-life business encounters that develop both their technical and 'soft' skills.

At present, there are 25 young people undergoing internships at CDB, while a further eight former interns have taken up permanent positions with us.

### Rewarding and Recognising Our People

A well-structured and established system of rewards and recognition helps keep our people loyal, motivated and happy.

- All promotions, increases in compensation, etc., are related to performance and conduct.
- At corporate level employees who achieve or exceed their annual targets receive bronze, silver and gold medals. Every year, a few top achievers join the prestigious CDB Hundred-Million-Rupee Roundtable (RRT). The highest-performing RRT members were

rewarded in 2012/13 with hotel vacations, trips abroad and, for the six champions of the year, a cruise with their family members aboard a luxury liner.

- We also recognise those who have served long with the Company, and reward them with benefits such as tours and paid resort-hotel vacations for themselves and their families.

### External Recognition for Our People

The NASCO Awards, presented by the Sri Lanka Institute of Marketing, are coveted trophies that recognise aptitude and achievement among Sri Lankan sales professionals. At the National Sales Congress 2013 NASCO Awards, a number of our people were recognised as exceptional performers. Nadee de Silva was named Female Salesperson of the Year in the Financial Services category, awarded for the first time ever in 2013. Other winners were:

- Mr. J L Priyantha - Gold Award
- Mr. Dassana Chandrananda - Silver Award
- Mr. Udayanga Mathurarachchi - Bronze Award
- Ms. Dilini Prasadika - Bronze Award

### Performance Appraisal

We conduct regular performance appraisals in order to determine appropriate promotion, training, remuneration, etc., for our people. Two performance appraisals covering all permanent and contract staff were conducted this year as part of the Company's overall training and development programme.

### Management-Employee Communications

Employees at CDB are encouraged to raise any concerns they may have about Company procedures or the individual actions of staff members, including Senior Management, and to disclose any information they may possess concerning possible fraudulent, unethical, or other improper behaviour or workplace misconduct. This may be done in total confidentiality and anonymity, without fear of retribution. We are committed to protect all employees who disclose unlawful or irregular conduct by the Company, its employees or other stakeholders.

**MANAGEMENT DISCUSSION & ANALYSIS**

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More broadly, we encourage staff dialogue with management at all levels. This helps CDB gain valuable feedback, suggestions, ideas and timely warnings concerning strategic, operational and personnel matters. A suggestion scheme has been implemented to facilitate such dialogue.

In order to promote transparency amongst employees, all decisions are publicised internally. A staff event takes place at the beginning of the New Year in which Company performance is reviewed and future targets set out.

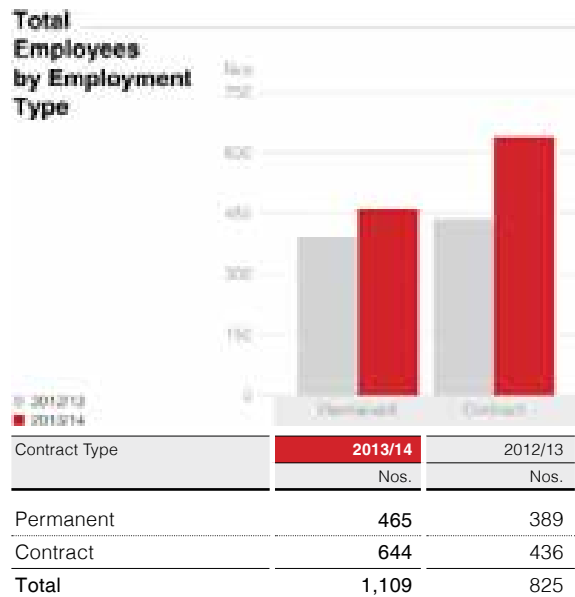
**Employee Analysis**

Our employee headcount as at 31st March 2014 was 1,109. This represents an increase of 34% from the previous financial year.

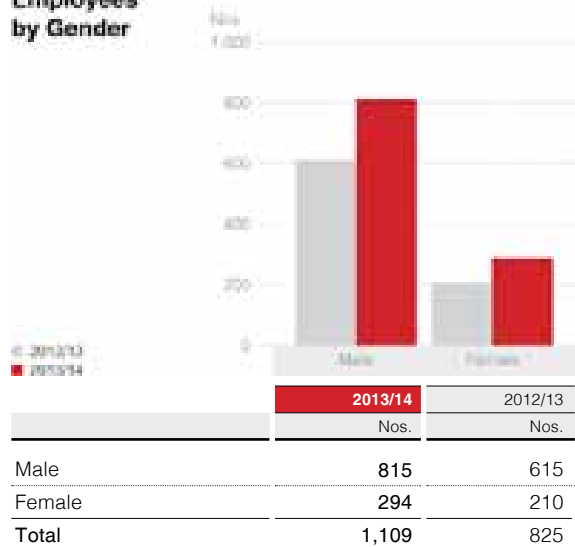
**Employee Analysis, Year on Year**

Indicator	2013/14 Nos.	2012/13 Nos.
Employees	1,109	825
New Recruitments	733	557
Male	578	426
Female	155	313
<b>Meetings Held</b>		
Sales Meeting	12	12
BOIC Meeting	12	12
<b>Performance</b>		
Reviews Conducted	2	2
Employee Turnover Ratio	16%	19%
<b>Employee Distribution</b>		
Western Province	592	466
Outside WP	517	359
Training Hours	47,520	44,047

**Analysis by Employment Type, Year on Year**



**Total Employees by Gender**



MANAGEMENT DISCUSSION & ANALYSIS

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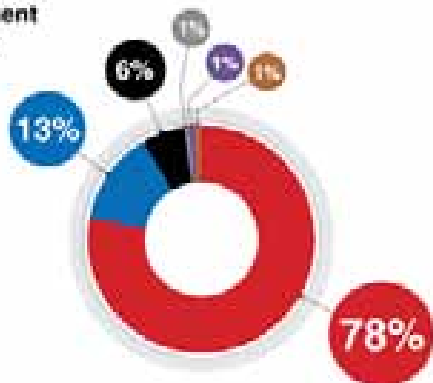
**Management Culture**

Our corporate culture emphasises individual responsibility for decision-making coupled with strong management oversight. These results in a line-staff: management ratio of approximately 2.2.

Category	2013/14		2012/13	
	Male Nos.	Female Nos.	Male Nos.	Female Nos.
Front Line	606	260	389	179
Junior Management	125	24	120	25
Middle Management	58	7	4	4
Managers	11	1	10	1
Senior Management	7	1	5	0
Top Management	8	1	7	7
<b>Total</b>	<b>815</b>	<b>294</b>	<b>615</b>	<b>210</b>

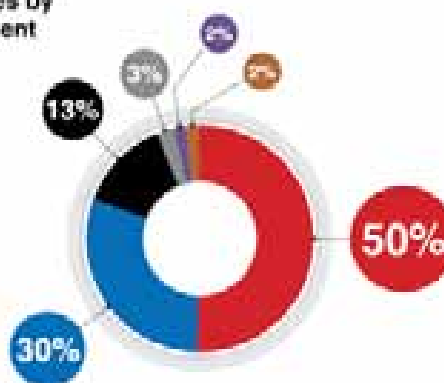
**Total Employees by Employment Category Year on Year**

Total Employees by Employment Category 2013/14



Category	2013/14	2012/13
	Nos.	Nos.
Front Line	866	568
Junior Management	149	145
Middle Management	65	88
Management	12	11
Senior Management	8	5
Top Management	9	8
<b>Total</b>	<b>1,109</b>	<b>825</b>

Permanent Employees by Employment Type 2013/14



Category	2013/14	2012/13
	Nos.	Nos.
Front Line	234	146
Junior Management	141	137
Middle Management	61	82
Management	12	11
Senior Management	8	5
Top Management	9	8
<b>Total</b>	<b>465</b>	<b>389</b>

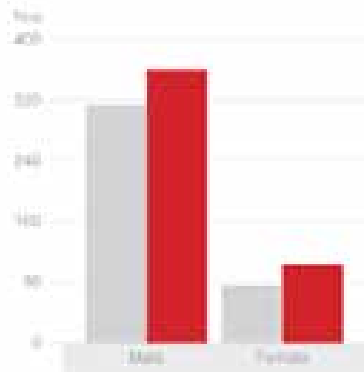
**Gender Diversity**

There is no gender discrimination at any level, although it is noticeable that gender balance tends to favour men in management positions. This is largely due to the different career paths often taken by men and women in Sri Lankan society rather than to any 'glass ceiling' effect.

MANAGEMENT DISCUSSION & ANALYSIS

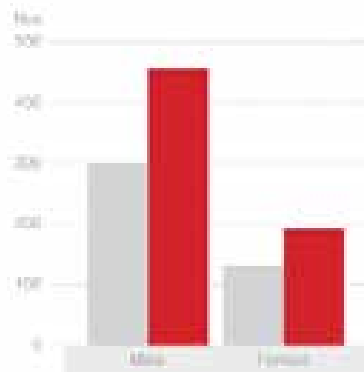
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Permanent Employees Gender-wise Breakdown



Gender	2013/14 Nos.	2012/13 Nos.
Male	361	313
Female	104	76
<b>Total</b>	<b>465</b>	<b>389</b>

Contract Employees Gender-wise Breakdown

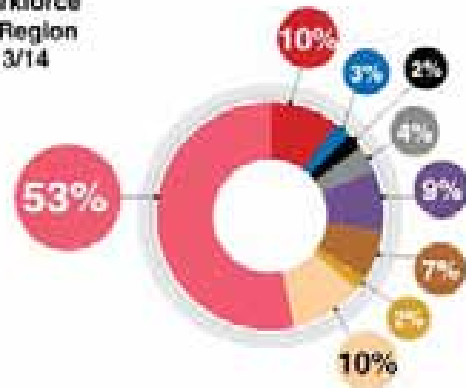


Gender	2013/14 Nos.	2012/13 Nos.
Male	454	302
Female	190	134
<b>Total</b>	<b>644</b>	<b>436</b>

Region, Gender and Age

The following table gives an analysis of our workforce (permanent as well as contract) according to three salient parameters:

Total Workforce by Region 2013/14



Province	2013/14		2012/13	
	Male Nos.	Female Nos.	Male Nos.	Female Nos.
Central	92	19	32	17
North	17	10	21	12
Eastern	19	6	24	4
North-Central	35	9	41	10
Sabaragamuwa	75	18	51	10
Southern	60	21	43	9
Uva	18	3	40	10
North-Western	87	28	20	15
Western	412	180	343	123
<b>Total</b>	<b>815</b>	<b>294</b>	<b>615</b>	<b>210</b>

Recruitment Analysis

We believe in empowering young people. Our recruitment strategy is broadly youth-based. We prefer dynamic young people, mainly school leavers, who will adapt to our culture and thrive on it.

MANAGEMENT DISCUSSION & ANALYSIS

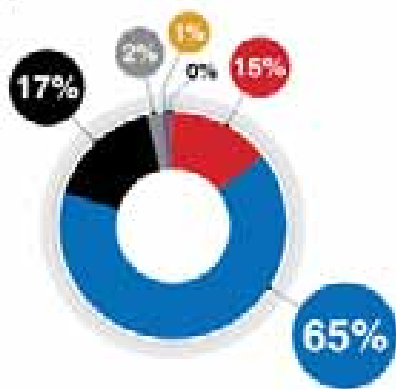
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**Total Recruitments Age-wise 2013/14**

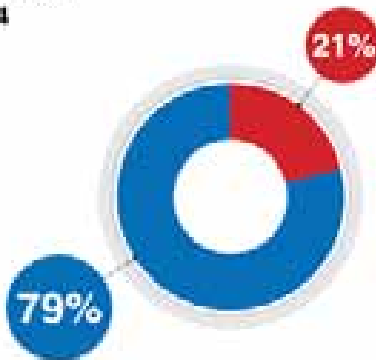


Age Group	2013/14		2012/13	
	Number	%	Number	%
Below 20	108	15	13	2
20-25	476	65	399	51
25-30	122	17	110	14
30-35	16	2	24	3
35-40	9	1	5	1
40-45	2	1	6	1

As shown in the figure above, 65% of our recruits are aged 20-25, an investment in youth that will give us a substantial competitive advantage in the long-term.

We have also begun recruiting a relatively larger proportion of young women, as shown below:

**Total Recruitments Gender-wise 2013/14**



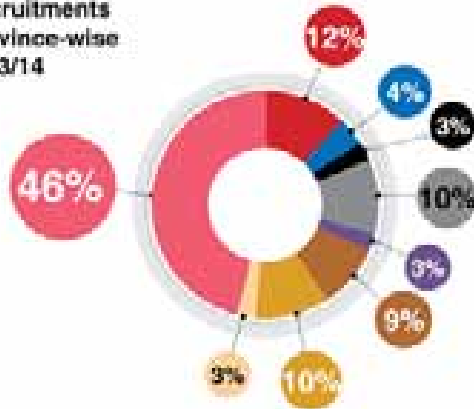
Gender	2013/14		2012/13	
	Number	%	Number	%
Male	578	60	131	17
Female	155	16	426	55
<b>Total</b>	<b>733</b>	<b>76</b>	<b>557</b>	<b>72</b>

It is our policy, as far as practicable, to offer employment opportunities to rural youth. The following table gives an analysis of recruitments by geographic location:

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**Total Recruitments Province-wise 2013/14**



Province	2013/14		2012/13	
	Number	%	Number	%
Central	85	9	68	9
Eastern	28	3	17	2
North-Central	19	2	35	5
North-Western	75	8	47	6
North	20	2	39	5
Sabaragamuwa	69	7	51	7
Southern	78	8	52	7
Uva	22	2	40	5
Western	337	35	208	27
<b>Total</b>	<b>733</b>	<b>76</b>	<b>557</b>	<b>72</b>

**Recruitment Initiatives**

**BPA Programme**

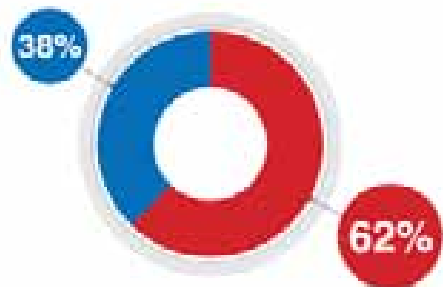
This is a programme in which students engaged in higher studies are recruited and assigned to multi disciplinary business projects under the diverse divisions in the company. Its intention is to attract and develop suitably qualified candidates to fill future positions in the company while exposing to different disciplines and train them to become future leaders. Participants receive an allowance from the programme which will help finance their studies, while also gaining valuable knowledge and experience.

**Management Training Programme**

Our management training programme provides opportunities for candidates who have completed their higher education to join CDB. All candidates must possess a Degree or another equivalent and relevant qualification, for example - in accounting or marketing from a recognised Sri Lankan or foreign university. Subjects covered in the programme include branch operations, back-office operations, Finance, HR and IT, and most participants are offered employment with CDB on successful completion of the programme.

**Resignations and Dismissals**

**Resigned Employees Gender-wise 2013/14**



Gender	2013/14		2012/13	
	Number	%	Number	%
Male	96	10	100	13
Female	58	6	44	6
<b>Total</b>	<b>154</b>	<b>16</b>	<b>144</b>	<b>19</b>

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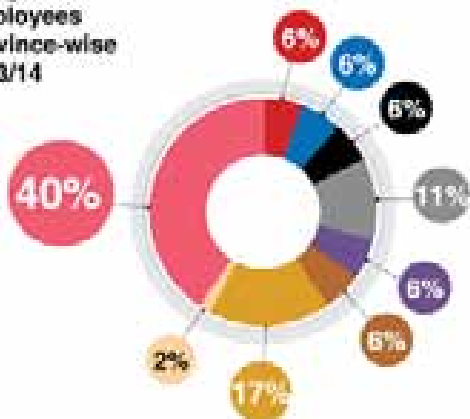
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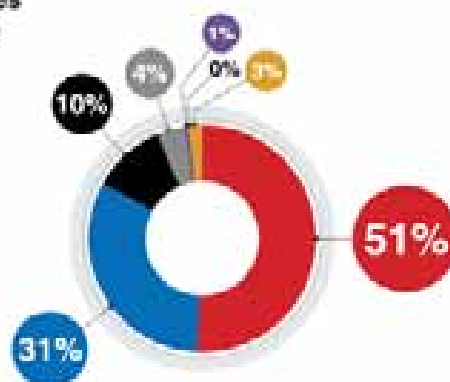
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Resigned Employees Province-wise 2013/14



Province	2013/14		2012/13	
	Number	%	Number	%
Central	7	1	16	2
Eastern	11	1	14	2
North-Central	6	1	11	1
North-Western	15	2	10	1
North	7	1	9	1
Sabaragamuwa	11	1	11	1
Southern	25	3	12	2
Uva	3	0.31	13	2
Western	69	7	48	6
<b>Total</b>	<b>154</b>	<b>16</b>	<b>144</b>	<b>19</b>

Resigned Employees Age-wise 2013/14



Age Group	2013/14		2012/13	
	Number	%	Number	%
Below 25	78	8	84	11
25-30	50	55	29	4
30-35	16	2	16	2
35-40	6	1	8	1
40-45	1	0.1	4	1
45-50	0	0	2	0.26
Over 50	3	0.31	1	0.13

Work at CDB

Even in an age when technology has reduced face-to-face contacts between individuals, the human factor remains central to the successful and profitable operation of our business. It is through our people that our vision and business goals are translated into results. In return, we support their growth by helping each one plot a well-defined, personally satisfying course of career progression and professional growth.

Our commitment to building a diverse and skilled workforce is manifested in a stimulating environment of continuous learning and open dialogue.

We attract, retain and motivate the best people not only through generous pay and benefits but by extending opportunities in development, training and leadership.

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**Remuneration and Benefits**

Our remuneration policy and practices are compliant with all relevant national regulations as well as with the broader principles of equality and fairness. Apart from salary and statutory benefits, employee compensation also includes the following:

- Medical insurance in the form of a CDB *Suwa Saviya* package
- Reimbursement for non-hospitalisation-related medical expenditure
- Group life insurance cover

In addition, employees are eligible for special benefits based on the nature of their work, location of their workplaces, etc. Benefits in this category include vehicle loans, fuel allowances, vehicle allowances, mobile phone bill payments, risk allowances, distance allowances, sales incentives, staff loans of up to three months'

salary, refunds of fees paid for membership in relevant professional bodies or to sit relevant examinations, a death donation scheme, wedding gifts, roundtable awards, etc.

**Remuneration and Gender**

We continue to make progress in reducing discrepancies in compensation between men and women, as shown by the following comparison:

**Basic Salary, Women vs. Men, Year on Year**

Category	2013/14	2012/13
Front Line	1:0.88	1:1.51
Junior Management	1:0.73	1:1.59
Middle Management	1:0.60	1:1.50
Managers	1:10.06	1:1.25
Senior Management	1:8.88	1:1.74



*We put our time, effort and money into training, grooming and encouraging our employees so that they will be able to go up the corporate ladder successfully.*



## MANAGEMENT DISCUSSION &amp; ANALYSIS

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**Training and Development**

At CDB, training and development objectives are always aligned to business strategy and market trends. Apart from specialised subject training for selected individuals and groups of employees, the CDB Training Centre is involved in group-wide activities such as the induction programme for new employees.

Enhancing our people's professional abilities through higher education remains an integral part of our continuous development process. CDB encourages

employees to pursue all relevant forms of academic or professional education: granting study leave, reimbursing any examination or professional membership fees they may incur.

If an employee has been affected by any significant operational transition, such as a change of department or branch, a period of between one and three months is allowed for reorientation in the new environment, during which the individual is given the time and resources to acquire appropriate training.

**Internal and External Training Programmes in 2013/14**

Programme	Participants Nos.	Days Nos.	Person-Hours	Male Nos.	Female Nos.	Training Hours
Induction	690	4	8	552	138	22,080
Training for Deposit Sales Staff	146	6	8	120	26	1,168
Training for Leasing Sales Staff	211	6	8	211	0	1,688
Technical Training for Cashiers	143	3	8	35	108	1,144
Technical Training for Credit Officers	160	3	8	115	45	1,280
Technical Training for Customer Service Officers	112	2	8	0	112	1,792
Customer Service for Operations	202	4	8	84	118	1,616
Sales and Service Techniques for Sales Staff	225	5	8	212	13	1,800
Grooming and Social Etiquettes Training Programme	50	1	8	0	50	400
Leadership Training	60	5	8	58	2	480
Leadership Training for Branch Heads	50	1	8	42	13	480
Speechcraft	50	24	4	42	13	2,400
External Leadership	8	1	8	7	1	64
Management Training	28	14	8	15	13	3,136
Training Programmes for Entry Level Staff	68	14	8	28	40	7,616
Foreign Training Programmes	5	3	8	5	0	120
Other External Programmes	32	1	8	25	7	256

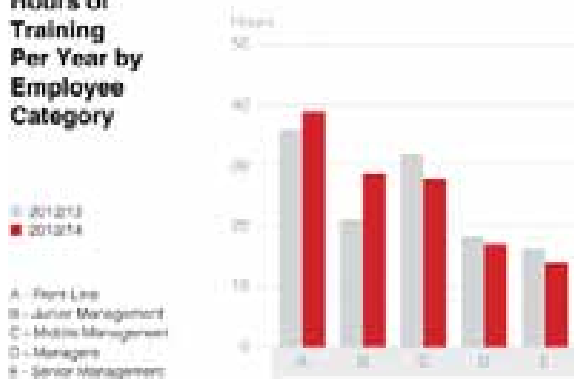
**Skills Management and Lifelong Learning Programmes 2013/14**

Programme Type	Participants Nos.	Days Nos.	Hours/ Person/Day	Male Nos.	Female Nos.	Training Hours
Grooming and Social Etiquette	50	1	8	0	50	400
Leadership Training Programme for Branch Heads	110	5	8	85	25	4,400
Speechcraft	50	24	4	42	13	5,280
External Leadership Programme	8	1	8	7	1	64

**MANAGEMENT DISCUSSION & ANALYSIS**

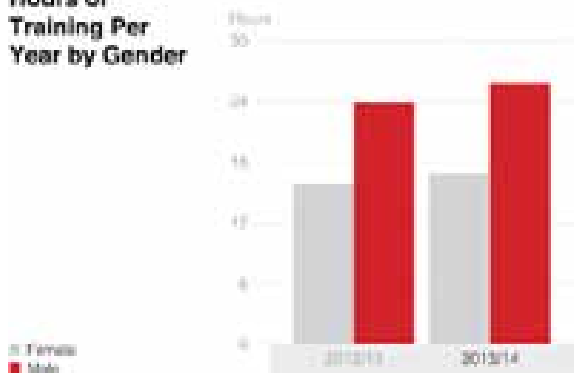
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**Average Hours of Training Per Year by Employee Category**



Category	2013/14 Hours	2012/13 Hours
Front Line	39	36
Junior Management	29	21
Middle Management	28	32
Management	17	18
Senior Management	14	16
<b>Total</b>	<b>127</b>	<b>123</b>

**Average Hours of Training Per Year by Gender**



Category	2013/14 Hours	2012/13 Hours
Male	26	24
Female	17	16
<b>Total</b>	<b>43</b>	<b>40</b>

**Employees Trained in Anti-Corruption Policies and Procedures, Year on Year (%)**

2013/14		2012/13	
Managerial Nos.	Non-Managerial Nos.	Managerial Nos.	Non-Managerial Nos.
20	68	19	55

Overall, 8% of CDB's workforce is trained in the organisation's anti-corruption policies and procedures. This represents 2% of managerial and 6% of non-managerial staff.

**Communication Skills: The Speechcraft Programme**

Effective public speaking and interactive communications are an essential part of every executive's skill set. To help our employees acquire these vital skills, CDB recently concluded its second successive annual 'Speechcraft' programme in collaboration with BSI Toastmasters' Club. The 12-week programme, which was based on Toastmasters International Guidelines, gave participants the opportunity to learn and practice different technical aspects of communication and leadership. The confidence and knowledge gained by all participants was evident when formal speeches were made at the closing ceremony.

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## Life at CDB

At CDB, life has meaning beyond the ambit of work, achievement and promotion. We strive to create a positive work-life balance for every employee in order to reduce stress, increase commitment and loyalty and improve productivity.



## Welfare and Recreation Club

The club is to promote and enhance the well-being of our people. It is run by a committee annually elected by its members. The club promotes social as well as welfare activities and sometimes provides financial assistance to staff members facing personal difficulties; club funds are also used to finance sports activities in which members participate.

The club also organises various social and devotional events on an annual basis, such as staff social, sports meet and celebrations at Vesak and Christmas.

Among club activities in the year under review, the following deserve special note:

- **Dental Week:** A weeklong oral health awareness programme conducted for staff at our head office.
- **Talent Show:** An enthusiastically attended celebration of entertainment talent among our people. A highlight of the show was a 'CDB orchestra' made up entirely of staff members playing different musical instruments.
- **Sports Day:** Our third Annual Sports Day was held at the Bloomfield Cricket and Athletic Club grounds in September. Encouraging employees to participate in sports helps fulfil our goal of a fitter happier workforce and helps develop team spirit and leadership qualities.
- **Vesak Bakthi Gee and Ice Cream Dansala:** All the staff at CDB celebrated the festival of Vesak with a programme of *Bakthi Gee* followed by a Vesak lantern competition and an ice cream *dansala*.
- **Christmas Carols:** CDB staff together celebrated the Christmas season with carol singing at the Church of Our Lady of Peace, Maligawatta.
- **CDB Wonderland:** The annual CDB dinner and social was held in December this year at the Havelock Sports Club grounds in Colombo.
- **Eye Care:** For the first time, CDB successfully initiated yet another project aimed at improving the eye care aspect of CDB staff members by the participation of a well-qualified group of optometrists and consulted our staff individually with state-of-the-art equipment. The eye clinic was held for two consecutive days and was centred on basic optical tests including eye test for prescription, eye pressure check, and cataract check and provided medical advice. The programme was a huge success with a recorded participation of 220 staff members.

## Sports at CDB

For the reasons stated above, support and encouragement for staff sporting activities is an important part of CDB's human resources policy. As a result, our people are high achievers in the world of corporate sporting competition. Some of their achievements on the field are pictured below:

- **CDB Rugby Team:** Winners of the Mercantile Ball Championship in 2013, having beaten HSBC, NTB, Dialog and Commercial Credit.
- **CDB Netball Team:** They made history by winning the Mercantile Netball 'C' Division Championship on their maiden appearance, beating John Keells, DFCC, LB Finance and Singer Finance.

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- **CDB Cricket Team:** Our team reached the Semi-Final stage in the Mercantile Cricket 'F' Division 30-Over Championship, having beaten HNB 'B', Amāna Takaful, Hilton International, MAS Active and Kanrich Finance.



*No one can whistle a symphony. It takes a whole orchestra to play it.  
CDB is one team. Together everyone achieves more!*

- **CDB Volleyball Team:** Reigning Champions in 2012, lost in a very close final at the Finance House Sports Meet in 2013.
- **CDB Athletic Team:** Winners of five medals in the Mercantile Athletic Meet 2013, including a Gold in the Women's 4x400m relay, two Silver Medals in the Women's High Jump and Triple Jump, and two Bronze Medals for the Men's 100m Flat Race and the Women's 800m Race.

**Engaging with Our People: Future Outlook**

As we move forward together into the future, CDB and its employees collaborate to further improve the quality of engagement and personal development that is so essential to our purposes and our practice. The following is a synopsis of future planned initiatives in human resources management and development at CDB.

**Human Resources Information System**

A new state-of-the-art Human Resources Information System (HRIS) from Hsenid went on line during the year under review. The system will help us manage staff welfare, training, remuneration, etc., more efficiently and effectively. The new system provides a comprehensive set of functionalities to improve HR processes and achieve higher standards of human capital management.

**Succession Planning Roadmap**

We are in the process of formulating and initiating a succession development roadmap that will help us plan better for the future of the Company. The programme aims to ensure availability of a talent pool to continue current business effectively and efficiently and also to cater to the organisation's strategic staff talent needs.

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### Leadership Development Programme

The CDB leadership development programme will target high-potential staff who can meet the challenges of leadership - people with a global mindset, the courage to act, and exceptional intellectual foresight. The people we identify will be provided with special training and mentoring, numerous learning opportunities and on-the-job resources that will put them on the fast track to their career goals.

### Government and Regulatory Authorities Capital

We maintain a close and cordial relationship with such external organisations as the Central Bank of Sri Lanka, Colombo Stock Exchange, Securities and Exchange Commission, Department of Inland Revenue etc.

We appreciate their efforts in strengthening financial sector stability and advice and guidance to streamline our operations. We have taken measures to comply in all respects with all the rules and regulations imposed by the relevant authorities and remain vigilant to ensure that compliance is maintained at all times.



### Our Regulatory Approach



### Central Bank of Sri Lanka

The Central Bank is the regulatory body for all financial institutions in Sri Lanka. The following table sets out a comparison between its statutory requirements and corresponding levels of compliance by CDB.

#### Compliance with CBSL Requirements

Regulatory Authorities	2013/14	2012/13
	Rs. '000	Rs. '000
<b>Liquidity</b>		
Required Minimum Amount of Liquid Assets	2,570,757	1,737,529
Available Amount of Liquid Assets	4,545,811	2,519,142
<b>Capital Adequacy</b>		
Required Minimum Amount of Government Securities	1,184,013	719,566
Available Amount of Government Securities	1,887,200	1,218,127
<b>Capital Adequacy</b>		
Core Capital to Risk-Weighted Assets Ratio (Minimum 5%)	12.61%	14.32%
Total Capital to Risk-Weighted Assets Ratio (Minimum 10%)	16.00%	14.32%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	17.36%	15.65%

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### Securities and Exchange Commission

As the regulator of the Colombo Stock Exchange, the Commission from time to time makes rules for the purpose of ensuring fair and orderly trading and the protection of investors. CDB has been in full compliance with said regulations throughout the year and has made timely provision of financial information to the regulator.

### Colombo Stock Exchange

While subject to regulation and supervision by the Securities and Exchange Commission, the Exchange also makes its own rules to expedite and regulate operations. CDB has been in full compliance with the rules and regulations of the Exchange throughout the review period and has supplied timely and accurate Financial Statements as required.

### Department of Inland Revenue

We have taken steps to ensure that we are in full compliance with all rules and regulations made by the Department of Inland Revenue and have discharged all our income tax and VAT obligations in accordance with the law. A specially-appointed committee responds to queries from the Department, provides up to date information and is in charge of ensuring that operational and accounting changes are made as required by the Department from time to time.

### Other Legal and Regulatory Compliance

1. No complaints or legal actions pertaining to anti-competitive behaviour, anti-trust or monopolistic practices were instituted against the Company; neither has the Company been obliged to pay any fines or submit to any sanctions 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; neither has the Company been obliged to pay any fines or submit to any sanctions for non-compliance with the relevant laws and regulations.

### Looking Forward

No major changes in the regulatory regime are anticipated in the near future. Until such time as circumstances call for change, we will continue our monthly meetings and compliance discussions while ensuring compliance and keeping all stakeholders acquainted with the relevant rules and regulations.

### Social and Environmental Capital

CDB's social safeguarding policies of sustainability encompass human rights, labour rights, corporate governance and societal cohesion. We run through a process of urban funding and rural lending. We also focus on individuals' behaviours, attitudes and actions. The ideal sustainable life style is not one centred on consumption but understanding and appreciating its minimalistic requirements.

*“Providing access to credit through urban funding and rural lending we enable individuals to improve their quality of life and enhance their financial security”*

CDB holistically views the concept of being sustainable towards local community through the contribution towards developing a greener environment, protection of local and regional ecosystems; minimise wastage, affordable provision of quality health prevention, care, and treatment services for all community members. The basic human rights are respected and defended against injustices, anti-corruption, protection, enhancement and appreciation of community manifestations of cultural diversity, treasures, customs and traditions.

CDB is a socially responsible and humane corporate citizen. Our most important contribution to sustainable development is to operate effectively as a financial institution and to be a positive influence in all the

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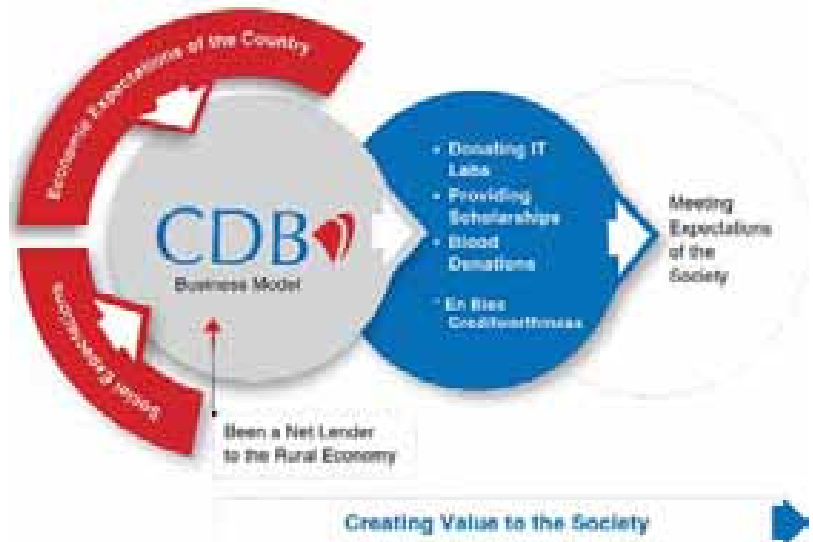
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business areas and communities we operate in. We achieve these goals by empowering customers, partners and communities through our operations and in various ways through entrepreneurship, education and social intervention.

In particular, we recognise the challenge of climate change and will consider supporting any meaningful effort to reduce its negative impacts on humanity and the environment.



*We believe the highest use of capital is not to make more money, but to make money to do more for the betterment of life. Going forward, we donated our 7th state-of-the-art lab to nurture IT literacy in rural youth this time at Kandapola Maha Vidyalaya.*

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### Summary of CSR Activity

Indicator	2013/14	2012/13
IT Labs Donated (Nos.)	1	1
Scholarships Disbursed (CDB <i>Sisudiri</i> ) (Nos.)	57	33
Employees Recruited from Rural Provinces (Nos.)	396	349
Investment in Community Development (Rs. Mn)	3.3	3.1
Lending Portfolio Outside Western Province (Nos.)	9,062	8,686
Lending Portfolio Outside Western Province as a % of Total Lending Portfolio	37.78	48.17

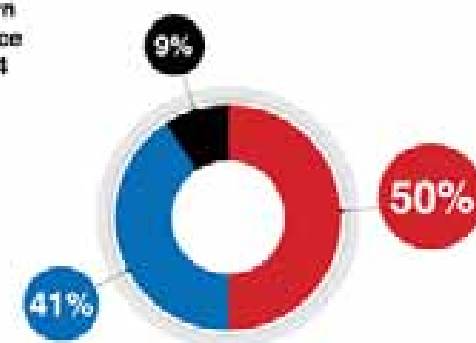
We continue to invest in education and entrepreneurship as well as in numerous development programmes among the communities in which we operate. Our social investment programmes focus mainly on learning and entrepreneurship, which areas our staff have identified as best aligned with our core values. Our approach encourages and facilitates employee volunteerism and charitable donations.

	2013/14	2012/13	2011/12	2010/11	2009/10
Loan Amount (Nos.)	19	22	25	34	50

### Empowering Entrepreneurs

Intrinsic to our business model is the empowerment of rural residents and the underprivileged. We are a net lender to the rural communities in which we operate, using funds from urban depositors to help uplift the rural economy. Given the ample supply of lending institutions in the Western Province, we have made a conscious effort to move out to under-served rural communities. CDB Leasing and loan products with easy collateral requirements have succeeded in bringing numerous rural entrepreneurs into the formal economic sector.

### Net Lending Outside Western Province 2013/14



Indicator	2013/14		2012/13	
	Rs. Mn		Rs. Mn	
Lending Portfolio	9,062		8,686	
Deposit Portfolio	7,356		6,184	
Net Lending	1,706		2,502	

### Helping Rural Youth Help Their Communities

Our branch recruitment policy emphasises the selection of local candidates. By recruiting from the communities in which we operate, we gain numerous operational and financial advantages as a Company while contributing to local social and economic uplift in the most sustainable possible way. This policy also contributes to reducing youth migration to Colombo and other urban centres, a desirable social goal. For a breakdown of recruitments by province, see page 84 of this Report.



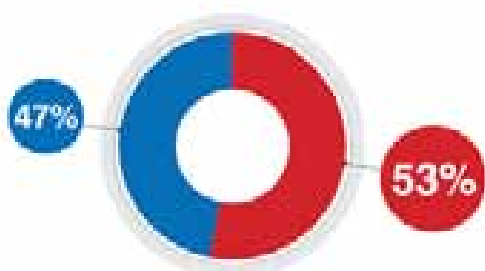
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Employee  
Composition  
by Region  
2013/14

Region	2013/14	2012/13
	Nos.	Nos.
Western Province	592	466
Outside Western Province	517	359
<b>Total</b>	<b>1,109</b>	<b>825</b>

**CDB Diriliya: A Helping Hand for Women**

Women form the backbone of Sri Lanka's rural economy but their contribution is insufficiently acknowledged in society and in our industry. By recognising and supporting their efforts, we can help women take on new and more important roles in society.

One simple way of doing this is to make women responsible for household credit obligations and financial management. A lending instrument like CDB *Diriliya*, which is reserved for women and offers concessionary credit and repayment terms, helps achieve this.

**CDB Sisudiri: Helping Rural Children Stay in Education**

The CDB *Sisudiri* Foundation disburses scholarships to high performers in the Grade Five Scholarship and GCE Ordinary Level Examinations. The programme is now in its seventh year. Recipients of these scholarships are children from low-income families, specifically the children of three-wheeler owners. The selection process is transparent and resulted this year a total of 57 scholarships awarded, to a total value of Rs. 2.5 Mn.

**Sudusiri Scholarships Awarded, 2008-2013**

Examination	Season 1	Season 2	Season 3	Season 4	Season 5	Season 6
	Nos.	Nos.	Nos.	Nos.	Nos.	Nos.
Grade V	26	24	18	30	22	43
Ordinary Level (O/L)	0	7	15	10	11	14
<b>Total</b>	<b>26</b>	<b>31</b>	<b>33</b>	<b>40</b>	<b>33</b>	<b>57</b>

**CDB Pariganaka Piyasa**

CDB's *Pariganaka Piyasa* project delivers IT education to young people in rural areas, helping them compete with urban candidates for employment on a more even basis. Through the project, pupils at schools in underprivileged rural communities are given access to information technology and educated in how to use it. In 2013/14, 225 students were benefited directly from this project.

Year	Name of the School	Students	Students Attending	Students Sat for the
		Nos.	IT as Compulsory Subject	IT subject in the year 2012
			Nos.	Nos.
2009/10	Nadigamvila Maha Vidyalaya	210	50	10
2010/11	Navankuli Maha Vidyalaya	700	40	15
2011/12	Ethawatuwewa Vidyalaya	340	150	2
2012/13	Swarnapradeepa Maha Vidyalaya	225	35	0

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**CDB Hithawathkam - Engaging Employees**

Our people share our commitment to sustainability. CDB *Hithawathkam* is a vehicle created to facilitate individual employees' efforts to contribute towards our goals in this area.

In 2013/14, *Hithawathkam* organised a blood donation programme at the CDB Head Office in early January. 81 units of blood were donated by employees at all levels.

*Hithawathkam* is also active in our branches, encouraging volunteerism and organising volunteer efforts to ensure that they are appropriate and effective.

**Students' Savings Units**

In the year under review, we opened 18 new Student Savings Units at schools in different parts of the country covering Battaramulla, Embilipitiya, Malabe, Ratmalana, Wattala, Batticaloa, Trincomalee, Mathugama, Kelaniya, Vavuniya, Eheliyagoda, Nittambuwa, Colombo 10, Rajagiriya, Ambalangoda, Moratuwa and two units in Jaffna. These are intended to promote saving among school children and, we hope, turn them into lifelong savers and CDB customers. These units also help increase consumer awareness of our *Rankati* savings product for minors.

**Looking Forward**

Our contribution to national development is consistent with the nature of our operations: that is, we will continue to promote economic growth by helping people turn their ideas into business success. In thus promoting enterprise, we will continue to concentrate on rural women and young people, whom we will support by promoting appropriate enterprise through lending and by developing their enterprise skills, as well as by expanding lending to rural customers in general.

We will also continue to support and co-ordinate our employees' charitable efforts.

**Environmental Protection and Conservation**

CDB firmly believes that each of us is accountable to ensuring that our planet must be preserved for the future generations. Therefore, we have initiated policies and strategies to make a difference in this regard through our slogan '*Mihikathata Adaren*'.



## Green Approach, Green Policy and Green Practices - Reaching Environmental Sustainability

Our approach to environmental protection is part of our philosophy of business sustainability. Through our commitment to - as far as possible - reduce, re-use and recycle the natural resources on which we depend, we help preserve the green environment and create healthier working conditions for our people even as we help ensure the long-term viability of our business.

We have already put much thought and effort into reducing our carbon footprint and encouraging carbon-consciousness among our stakeholders. Now, we are in the process of developing a comprehensive environmental-protection and conservation plan for CDB, with the following outputs:

- More efficient and productive use of water, electricity, and non-recyclable equipment
- A series of workshops and seminars to raise public environmental awareness
- Continued full adherence to all environmental laws and regulations
- Information provided to all our people regarding environmental concerns, policies and action
- Monitoring and evaluation of environmental objectives and targets through internal audits and management reviews

The management of energy, effluents and wastes from our business processes is important to the environment where we operate. To minimise our environmental footprint, we design processes that avoid or reduce demand for hazardous materials, reuse or recycle materials, and prevent the generation of waste. Therefore, we apply reusing and recycling as a control of preservation to safeguard the greenery for the long term.

*“Our most focused initiative has been to reduce our carbon footprint and in encouraging our stakeholders to perform in a similar manner. Electricity, water and paper form a considerable segment of usage within CDB and requires immense focus if we are to reduce our carbon footprint. It is imperative therefore that sustainable waste management programmes are initiated in all these areas to ensure that we manage our carbon footprint better”*

### Green Routines at Work

Being green is a full-time job. The following comprises a list of day-to-day activities we undertake at CDB in the interests of conservation and sustainability:

- We regularly communicate the importance of environmental protection and energy saving to our people through notices, emails and intranet newsletters. Employees are thus kept up to date on environmental policy changes, while individuals are encouraged and taught to take voluntary action against waste and pollution.
- We make sure that all lights and electronic office equipment are switched-off or in standby mode when idle and that power-saving settings are fully utilised when they are in use.

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- Incandescent bulbs are always replaced with CFLs.
- Obsolete VGA computer monitors are likewise replaced with LED monitors.
- We regularly canvass suggestions from employees on waste reduction and conservation, as well as on sustainability-promoting projects and interventions.

**Reducing Emissions**

Vehicle leasing makes up our fifths of our business by volume. We therefore hold ourselves accountable to ensure that vehicle emissions are controlled and reduced as far as possible.

We have conducted several awareness programmes on this subject for leasing customers, and are happy to offer eco-friendly advice for fuel-saving vehicle management. Supporting this effort, we have begun monitoring the emission levels of our customers' vehicles with the help of a private emissions-testing firm.

**Waste Management**

For the second successive year, we carried out a wastepaper recycling campaign at the CDB Head Office in collaboration with Neptune Papers, a recycling firm.

With the help of technology, we are moving ever nearer the ideal of a paperless office. What paper we continue to use is largely recycled internally (copy and printer paper) or externally (brochures, etc.), and we do our best to ensure that every sheet is used on both sides before it is finally recycled.

**Results of Our Conservation Efforts  
Year on Year**

Source	Savings (Units)	
	2013/14	2012/13
Full-grown trees (Nos.)	34	18
Oil (l)	3,470	1,885
Electricity (kW/h)	7,908	4,296
Water (l)	62,829	34,132
Landfill (m <sup>3</sup> )	6	3
Greenhouse Gas Emissions (carbon equiv't kg)	1,977	1,074

**Mobile Phone and CFL Recycling**

Every year at our head office, we collect obsolete mobile phones and unusable CFL bulbs for recycling. The collected items are dispatched to, respectively, a leading telecommunications company and a consumer goods manufacturer who, with the aid of specialised techniques, are able to recover over 90% of the materials used in these devices.

**Reducing Energy and Water Consumption**

During this year, CDB used a total of **99,909 litres of water and 408,836 units of electricity in our business operations.** Large quantities of both resources were saved through process redesign, conversion and retrofitting of equipment and changes in personnel behaviour.

Our consumption indicators improved considerably in the year under review, due largely to growing conservation awareness among our employees, who are also made accountable for their consumption and therefore have an incentive to keep waste to a minimum. We held several information campaigns to help build employee awareness in this area.

Indicator	2013/14	2012/13
Electricity Consumed at HO (CEB Units)	408,836	337,895
Drinking Water Consumed at HO (Litres)	99,909	187,494
CSR Meetings Held (Nos.)	6	6

**CDB Theth Bim Tharanaya 2014:  
Wetlands Conservation (CSR Project)**

On World Wetlands Day (2 Feb), government agencies, non-Governmental organisations and Citizen Groups take action to raise public awareness of wetlands and their essential ecological function.

Sri Lanka's mangrove wetlands are under threat from economic development and climate change. For the second year in succession, CDB, in partnership with the Department of Coast Conservation and Coastal Resource Management, the Southern Provincial Council, the Central Environment Authority, the Department of Education (Southern Province) and the Divisional Secretariat (Balapitiya), conducted a wetlands conservation project at Madu River in Balapitiya in 2013. Together, the river and Randombe Lake, to which it

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*Our belief is that caring for our environment requires everyone’s effort, no matter how small the effort may seem. CDB staff joined their hands in conducting a wetlands conservation project at Madu River in Balapitiya.*

is connected by two narrow channels, form the Madu Ganga wetland; CDB, along with its project partners, planted mangroves to enhance tree cover. Assorted initiatives aimed at making the intervention sustainable through community commitment included a quiz competition and field studies for local schoolchildren.

**Theth Bim Tharanaya Evaluation**

Indicator	2013/14	2012/13
	Nos.	Nos.
Wetland Trees Planted	100	100
Islands Covered	5	5
Schools	5	5
Schoolchildren who Participated	50	50

**The Future is Green and Sustainable**

We will continue to consider environmental impacts in every strategic decision we make at CDB, and to ensure that all projects and activities we undertake are designed and carried out with these considerations in mind. This includes routine business activity.

Recycling efforts, with which we have made a beginning at our head office, will be extended to our branch network as well.

We will continue to engage our employees with environmental and conservation initiatives and strive to make them environmentally conscious citizens at home as well as at work.

We will implement projects to build awareness of conservation and environmental protection among our stakeholders, in particular among the schoolchildren who will form the next generation of adult Sri Lankans. We will conduct programmes and workshops, offer green tips for daily life, encourage the use of biodegradable and energy-saving products and the proper disposal of waste in school and at home.

An important planned initiative is vehicle emissions reduction through an integrated, collaborative programme that involves improvements in and advice on emissions standards, cleaner fuels, vehicle inspections, maintenance, etc. All vehicles leased through us will be supplied with a 'green manual' containing advice on usage and maintenance in order to reduce emissions from the vehicle. These are just a few of the ways in which we shall continue to make a difference into the long-term future.

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## STEWARDSHIP

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*We at CDB, as a policy, comply with all applicable laws and regulations. We identify and manage risks material to our business through effective stakeholder engagement.*

## ENTERPRISE GOVERNANCE

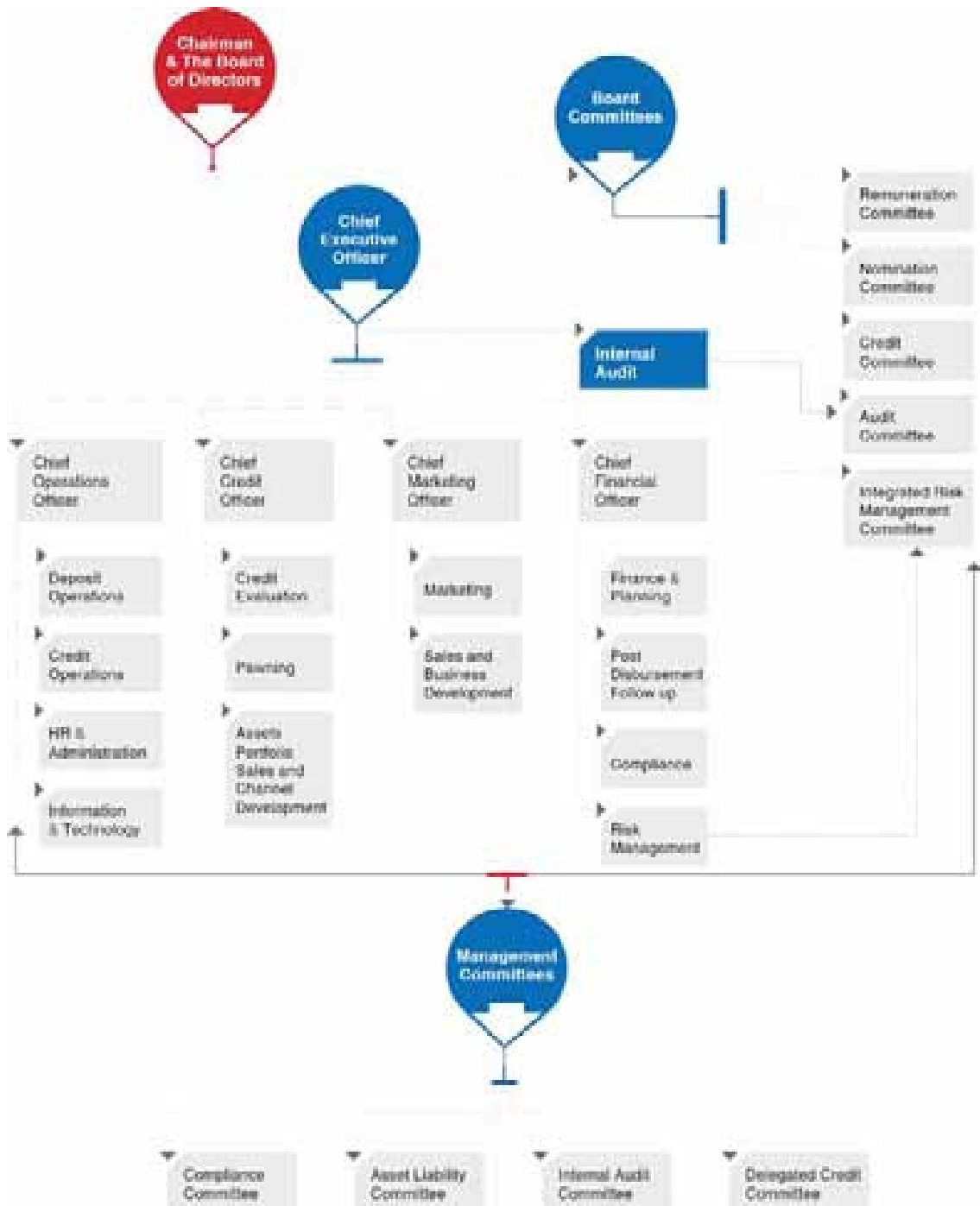
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### Introduction



**ENTERPRISE GOVERNANCE**

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Enterprise governance constitutes the entire accountability framework of the organisation. It provides an integrated framework to help companies focus on both value-creating drivers that move the business forward and the need to ensure adequate control and oversight. There are two dimensions of enterprise governance conformance and performance that need to be in balance. It is important to achieve a balance between conformance and performance in order to have the best chance of business.

**Enterprise Governance Framework**



Conformance which is also known as 'Corporate Governance', covers issues such as board structures and roles and executive remuneration. The focal point of performance dimension is on strategy and value creation. It spotlights on helping the board to make strategic decisions, understand its appetite for risk and related key drivers of performance and identify its key points of decision-making.

**CDB Approach**

Enterprise governance framework is a holistic approach to Corporate Governance and Business Governance where CDB has identified the significance of it. In order to facilitate this, a specific structure has been formulated by key management personnel in order to proceed with the framework and remain committed to the highest standards of enterprise governance.

We have identified to be effective, the concern and tone for enterprise governance must begin from up on the line. While the responsibility of enterprise governance lies with the board of directors, the duty rests with the senior management to convert strategic direction set by the Board in the shape of policies and procedures and to establish an effective hierarchy to perform and implement those policies.

As indicated, headed by CEO, the Board will be responsible in deciding on the risk appetite and the corporate management will formulate the strategies. The formulated strategies will then pass to the Board where appraisal and challenges arise, based on evaluation and then approval is granted accordingly. The approved strategies will then be implemented and executed by senior management, which will then be communicated down the line and provide essential monitoring to consider the progress of strategies.

Board appointed committees will deal with conformance dimension, which includes Credit committee, Audit Committee, Integrated Risk Management Committee and Remuneration Committee. The committees are headed by independent and Non-Executive Directors, where accountability and assurance have been the key role. The performance dimension is centralised with the CEO, senior management and the CDB team, who would be responsible for strategy formulation, execution and evaluation. Internal Audit, Asset Liability Committee, Compliance Committee and Delegated Credit Committee will function in order to ensure effective resource utilisation and value creation.

**Board Sub-Committees**

**Credit Committee**

The credit committee which comprised of CEO and Non-Executive Directors is responsible for setting the strategic direction for credit management and ensures Board oversight on credit management. During the year the committee has evaluated market dimensions and taken essential decisions to appraise the credit policies.



## Remuneration Committee

The Remuneration committee is headed by a Non-Executive Director. The committee set up to recommend the remuneration for Executive Director/CEO where the Board has the sole authority to take final determination of such recommendations.

## Integrated Risk Management Committee

Integrated risk management committee is the heart of company's risk management. The purpose of the integrated risk management committee is to standardise and smoothen the risk management process of the company. The Committee continuously assesses and monitors the effectiveness of the risk management framework and unveils strategies to mitigate the risk exposure for identified risk categories within permissible levels. In the period under review, the IRM committee has further developed the Dash Board which is in place for monitoring all trigger points based on identified risk categories. Meetings are held quarterly and minutes are forwarded to the Board consideration.

## Audit Committee

Audit committee is accountable for directing the preparation, presentation and adequacy of disclosures in the Financial Statements of the Company and overlooking effectiveness of the Company's internal controls to meet the requirements of the Sri Lanka Auditing Standards. Audit committee is headed by an independent Director and consists of Non-Executive Directors. During the financial year, audit committee has evaluated and recommended the enhanced disclosures for Financial Statements and addressed further improvements of internal controls.

## Management Committees

### Nomination Committee

The Nomination Committee is responsible for making recommendations on board appointments, and on maintaining a balance of skills and experience on the board and its committees. During the financial year under review, there were no new appointments to the Board.

## Internal Audit

Internal audit will overlook the adherence to controls and procedures within CDB whilst ensuring the compliance and adequacy to meet the requirements of Sri Lanka Auditing Standards. It has directly reported to the Board of Directors via Audit Committee and reported to the CEO for the monitoring and controlling of internal procedures.

## Asset Liability Committee

Headed by the Chief Financial Officer along with five members from Finance, Credit & Deposit operations divisions committee is responsible for monitoring and evaluating internal performance of liquidity, investments, pricing and asset liability maturities during the year, in achieving the strategic objectives of CDB, whilst complying with the regulatory requirements.

## Compliance Committee

Compliance committee is exclusively responsible for regulatory adherence of the company and will overlook the compliance requirements imposed by all relevant regulatory authorities. Committee is headed by the Chief Operations Officer and other members comprise of Finance, Legal, Credit and Deposit operations.

## Delegated Credit Committee

The Committee is responsible in formulating and executing strategies and policies during the year for the entire credit management function of the company. It comprises of revenue and non-revenue driven managers, who carry an equal responsibility for credit risk and ensure the segregation of business development and credit administration functions.

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Corporate Governance is the system by which CDB is directed and controlled by management. Good Corporate Governance provides the framework within which a company operates, sustained on principles of corporate accountability and transparency. From a broader perspective, it involves the relationship which exists between stakeholders of a company including the community at large and its directorate. The existence of formal and stringent mechanisms within a company for facilitating good Corporate Governance practices. This is reflected in the corporate behaviour, which is committed to achieving goals set for the benefit of all corporate stakeholders. The global recession and the failure of financial institutions in the recent past, clearly demonstrate the pivotal role played by good Corporate Governance practices in sustaining corporate growth and performance. CDB has continuously endeavoured to abide by best practices in governance; and conducted operations in a legal and ethical manner displaying professionalism, transparency and accountability.

The CDB's Corporate Governance structure is based on the 'Code of Best Practice on Corporate Governance' issued jointly by the ICASL 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.

### Section I

#### Statement of Compliance

The disclosures below reflect CDB's level of conformance to the 'CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA'.

The disclosure below reflects the CDB's level of conformance with the above code which comprises of seven fundamental principles. There are:

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

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Corporate Governance Principles	SEC & ICASL 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 sense 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	<p>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.</p> <p>See number of meetings held and attendance on page 119.</p>
Responsibilities of the Board	A.1.2	Compliant	<p>The Board collectively is responsible for the success of the Company. The Board formulate 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 make 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 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 co-ordinated through the Board Secretary, as and when it is required. In addition, the Board is assisted by several Board Sub-committees 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 having required qualifications as set out in the Company Act. Company Secretary provides all information after obtaining necessary professional advice, whenever required to do so. All Board members have access to the Company Sectary to ensure that proper Board procedures are followed and that all applicable Rules and Regulation are complied with. Consent of all Board members is required for the removal of the Company Secretary.</p>

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Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of Compliance
Independent judgment of Directors	A.1.5	Compliant	None of the Directors have held executive responsibilities in their capacity as Non-Executive Directors. The Non-Executive Directors do not have any business interests that could materially interfere with the exercise of their independent 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.
Dedication of adequate time and effort for matters of the Board	A.1.6	Compliant	The Board members dedicate adequate time and effort to fulfil their duties as Directors of the Company (both before and after the Board meeting) to ensure that the duties and responsibilities owned to the Company are discharged accordingly. In addition to attending Board meeting, they have attended Sub-committee meeting and also have made decisions via circular resolution where necessary. The Board Sub-committees include Assets and Liability Committee, Audit Committee, Integrated Risk Management Committee, Credit Committee, Remuneration Committee, Nomination Committee. Further, additional meetings and discussions are held with the management whenever the need arises.
Training for new and existing Directors	A.1.7	Compliant	Both new and existing Directors of the Company are provided guidelines on general aspects of directorship and industry specific matters. In this regards, the Directors have recognised the need for continuous training, expansion of knowledge and to 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 Sub-committee by the Company from time to time on industry specific matters and regulatory updates.  The Directors have attended a number of meetings with the corporate management teams to familiarise themselves with the Company strategy, operation and internal control.  The Directors have attended the 'Directors Symposium' conducted by CBSL during the year.

**A.2 Chairman and Chief Executive Officer (CEO)**

There is a clear separation in the duties of the Chairman and Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions.

The role of the Chairman and MD/Chief Executive Officer is functioning separately at Company. The Chairman is responsible for the lead, direct and manage the work of the Board to ensure that it operates effectively and fully discharge its legal and regulatory responsibilities. The MD/CEO's role is primarily to conduct the business operation of the Company with help of the corporate management.

Division of responsibilities of the Chairman and MD/CEO	A.2.1	Compliant	The role of the Managing Director and Chairman are not combined. The Chairman is a Non-Executive Director while the Managing Director serves as an Executive Director of the Company. This is to ensure a balance of power in strategic and operational decisions authority such that no one possesses unfettered powers of decisions.
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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 the Chairperson is given on page 122.

Role of the Chairman	A.3.1	Compliant	<p>The Chairman's main role is to lead and manage the Board and ensuring effectiveness in all aspects of its role. The Chairman of the CDB is a Non-Executive Director. The Chairman's role encompasses that -</p> <ul style="list-style-type: none"> <li>• The views of Directors on issues under consideration are ascertained</li> <li>• The Board is in complete control of the Company's affairs and alert to its obligation to all shareholders and other stakeholders</li> <li>• All Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company</li> <li>• A balance of power between Executive and Non-Executive Directors is maintained</li> </ul>
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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	Compliant	<p>The Chairman is a fellow member of the Chartered Institute of Management Accountants of UK. MD/CEO is 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 pages 122 and 123.</p>
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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 Non-Executive Directors	A.5.1	Compliant	<p>Six of the eleven are Non-Executives 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.</p>
Independent Directors	A.5.2	Compliant	<p>Three out of six Non-Executive Directors are independent as defined by the Code.</p>
Independence evaluation review	A.5.3	Compliant	<p>All three Independent Directors are independent of management and free of any business or other relationship that could impair his independence.</p>

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Signed declaration of independence	A.5.4	Compliant	All Non-Executive Directors of the Company have made written submissions as their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H 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:  Mr. Razik Mohamed Mr. D.A. De Silva Dr. A.S. Dharmasiri
Appointment of Alternative Director	A.5.6	Compliant	Where the alternative Director is appointed, a requirement of the Code has 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 Mr. Razik Mohamed as the Senior Independent Director, to meet the requirement under 7 (2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by CBSL.
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 concern in Board minutes	A.5.10	N/A	There were no concerns raised by the Directors during the year, which needed to be recorded in the Board meeting minutes.

**A.6 Supply of Information**

Management is required to provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties. Financial and non-financial information are 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 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.

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**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 assess 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.
Disclosure of details of new Directors to shareholders	A.7.3	Compliant	When the new Directors were appointed to the Board, a brief resume of each such Director including the nature of his experience, the names of companies in which the Director holds directorship, membership, in the Board Sub-committee 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 a newspapers for the information of interest parties. Any changes in the details provided by the Directors are disseminated to the Colombo Stock Exchange without any delay.

**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 terms and subject to re-election.

Appointment of Non-Executive Directors	A.8.1	Compliant	Association of the Company requires each Director to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors are subject to prior review by the full Board.
Re-election by the shareholders	A.8.2	Compliant	Refer comment above.

**A.9 Appraisal of Board Performance**

The Board periodically appraises its own performance against the pre-set 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 performances against the annual objectives set at the beginning of the year. The performances of Board Committees evaluated against the objectives of respective committees.
Disclosure of criteria used for the Performance Evaluation	A.9.3	Compliant	See 'Report of the Remuneration Committee' in Annual Report for details of the criteria considered for performance evaluation of the Board.

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**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 on this Annual Report.
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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 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 year by the full Board which are in line with, medium and long-term objectives of the Company.
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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.
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**B. Directors' Remuneration****B.1 Remuneration Procedures**

The Code requires companies to have a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors and also recommends that no Director should be involved in deciding his/ her remuneration in order to avoid the self-review threat.

Remuneration Committee	B.1.1	Compliant	The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management and for making all relevant disclosures.
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The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD/CEO. The MD/CEO participate in meetings by invitation in deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.

Composition of the Remuneration Committee	B.1.2 & B.1.3	Compliant	The following Non-Executive Directors served on the Remuneration Committee during the financial year: Mr. S.R. Abeynayake - Chairman Mr. Razik Mohamed Dr. A.S. Dharmasiri
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Remuneration of Non-Executive Directors	B.1.4	Compliant	The Board as a whole decides the remuneration of the Non-Executive Directors.
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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.



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Consultation of the Chairman and access to professional advice	B.1.5	Compliant	Input of the Chairman is obtained by his involvement as a member of the said Sub-committee. External professional advice is sought by the Remuneration Committee, on a need basis through the Board Secretary.

**B.2 The Level and Make-up of Remuneration**

Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. The proportion of remuneration of Executive Directors is linked to corporate and individual performance.

Level and make-up of remuneration	B.2.1 to B.2.8	Compliant	The Board is mindful of the fact that the remuneration of Executive and the Non-Executive Directors should reflect the expectation of the Company and sufficient enough to attract and retain the quality of Directors needed to run the Company. The remuneration package of the MD/CEO is structured to link rewards to corporate and individual performance. The Company's remuneration framework for CEO is designed to create and enhance value for all CDB's stakeholders and to ensure there is strong alignment between the short-term and long-term interest of the Company.
Remuneration of the Non-Executive Directors	B.2.9	Compliant	Non-Executive Directors receive a director's fee in line with the market practices as disclosed in this Annual Report. Non-Executive Directors do not participate in the current share option plans of the Company and/or other performance-related incentive schemes.

**B.3 Disclosure of Remuneration**

The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the remuneration policy.

Disclosure of Directors' remuneration in the Annual Report	B.3.1	Compliant	Refer the Remuneration Committee Report on pages 163 for disclosure on the names of the Remuneration Committee Members and the remuneration policy of the Company.  Also refer Note 40 to the Financial Statements on page 220 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 statutory due dates.

Use of Proxy Votes	C.1.1	Compliant	The Company has a 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.

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Availability of all Board Sub-committee Chairman	C.1.3	Compliant	Chairman of the Company ensures that Chairman of all Board appointed Sub-committees 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 copy of the Annual Report are dispatched to all shareholders together with the Notice of Meeting detailing the summary of procure as per legal requirements giving adequate notice to shareholders. This provides opportunity to all shareholders to attend the AGM for their voting status and obtain clarifications for the matters of interest to them.

**C.2 Communication with Shareholders**

The Board is required to implement effective communication with shareholders.

Communication with shareholders	C.2.1 to 2.7	Compliant	The Company has implemented the relevant communication channel, disclosed the policy and methodology and other requirement 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. Transaction, if any, which materially affect the net assets of the Company, will be disclosed in the quarterly/annual Financial Statements.
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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 position and performance for the year ended 31st March 2014 and at end of each quarter of 2013/14.  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 and 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 Central Bank of Sri Lanka, the Colombo Stock Exchange, the Securities and the Exchange Commission.
Directors Report in the Annual report	D.1.2	Compliant	The Directors' Report given on this Annual Report covers all areas of this section as required by the Direction.
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 Statement in this Annual Report.

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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 Directors' Report.
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 .

**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 &	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"> <li>Audits are conducted by the Internal Audit Department, in areas involving high risks as identified in the Annual Internal Audit Plan.</li> <li>A structured process is in place for loss reporting, control exception reporting and compliance breach reporting.</li> <li>A comprehensive checklist is used for follow-up on the status of implementation of all audit recommendations.</li> <li>Periodic Branch Audits are performed on the Company's Branch operations.</li> </ol> <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 carry out reviews of the process and effectiveness of risk management, internal controls and document to the Board on regular basis.

**D.3 Audit Committee**

The code requires the Board to have formal and transparent arrangements in selecting and applying the accountings 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 on Audit Committee Report in this Annual Report.</p>
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Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of Compliance
Duties an 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 payment to External Auditors for audit and non-audit services are disclosed in the Directors' Report of this Annual Report. In addition, the Company has an 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 define terms and references.
Disclosure of the Audit Committee	D.3.4	Compliant	Names of the members of Audit Committee are given in this Annual Report under 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	Company has developed a Code of Business Conduct and Ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with applicable laws and regulations and encouraging the reporting of any illegal or unethical behaviour etc.
Affirmation by the Chairman that there is no violation of the Code of Conduct and Ethics	D.4.2	Compliant	Refer to Chairman's Statement in this Annual Report for details.

**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 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 Decision**

Individual shareholder	F.1	Compliant	Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions.
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<b>F.2 Shareholder Voting</b>			
Individual shareholders voting	F.2	Compliant	Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights.
<b>G. Sustainability Reporting</b>			
<b>G.1 Principles of Sustainability Reporting</b>			
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 Governments.			
Principles of Sustainability Reporting	G.1.1 to 1.7	Compliant	The Company has adopted the relevant principles and procedure of the Code to develop a sustainable business environment and disclosures are made in this Annual Report.

## 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 shall apply to every finance company licensed in terms of Section 02 of the Finance Business Act No. 42 of 2011 and shall come into operation with effect from 1st January 2009.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
<b>2. The Responsibilities of the Board of Directors</b>			
1. Strengthening the safety and soundness of the Company	2. (1)	Compliant	The Board formulates the business strategy and ensure that 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.
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 to Board of Directors	2. (3)	Compliant	Please refer Section A.1.3 of the SEC and ICASL Code compliance table

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Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
4. Conflict of Interests	2. (4)	Compliant	Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to CDB and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his/her interest and unless the Board resolves otherwise, he/she do 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 have 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.
<b>3. Meetings of the Board</b>			
9. Board Meeting	3. (1)	Compliant	The Board has met 12 times for the financial year under review and have 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 requires made by the Directors at the meeting or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion.
11. Notice of Meetings	3. (3)	Compliant	Directors are given adequate time and at least 7 days of notice for regular Board meetings. For all other meetings a reasonable notice period is given.
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 ICASL Code compliance table.
14. Agenda and Minutes of the Meetings	3. (6) & 3. (8)	Compliant	The Company Secretary prepares the agenda and keep the minutes of meetings.
15. Access to Secretary by Directors	3. (7)	Compliant	All the Directors have access to 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.

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Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
<b>4. The Board's Composition</b>			
17. Number of Directors	4. (1)	Compliant	The Board comprises of eleven 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	.
19. Appointment of an employee as a Director	4. (3)	Compliant	The Company has five Executive Directors.
20. Independent Non-Executive Director	4. (4)	Compliant	Three out of eleven 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 included in this Annual Report.
25. Appointment of new Directors	4. (9)	Compliant	The Board collectively assesses the composition of the Board and make appointment as necessary.
26. Appointment to fill a casual vacancy	4. (10)	Compliant	
27. Resignation/removal of a Director	4. (11)	Compliant	
<b>5. Criteria to Assess the Fitness and Propriety of Directors</b>			
28. Directors over 70 years of age	5. (1)	Compliant	This situation has not arisen.
29. Holding in office in more than 20 companies	5. (2)	Compliant	No Director holds such positions.
<b>6. Management Function Delegated by the Board</b>			
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.

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Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's Level of Compliance
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**7. The Chairman and Chief Executive Officer**

31. Division of Responsibilities of the Chairman and MD/CEO	7. (1)	Compliant	The role of Chairman and Chief Executive Officer separated.
32. Chairman shall be an Non-Executive Director, In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the senior Director with suitably documented term of reference to ensure a greater independent element. The designation of the senior shall be disclosed in the finance company's Annual Report.	7. (2)	Compliant	Chairman is a Non-Executive Director. The Board was designated Mr. Razik Mohamed (Independent Non-Executive Director) as Senior Director.
33. Relationship between Chairman and CEO and other Directors	7. (3)	Compliant	There are no material relationships between the Chairman/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 ICASL Code compliance table.
35. Role of the Chief Executive Officer	7.(11)	Compliant	Please refer Section A.2.1 of the SEC and ICASL Code compliance table.

**8. Board Appointed Committees**

36. Board appointed two Sub-committees	8.	Compliant	Audit Committee and Integrated Risk Management Committee are functions as per the requirements of this direction accordingly.
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**9. Related Party Transactions**

37. Avoiding conflict of interest in related party transaction and favourable treatment	9. (2) to 9. (4)	Compliant	Compliant steps have been taken by the Board to avoid any conflict of interests, that may arise, in transacting with related parties as per the definition of this Direction and Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Transactions'. Further, the Board ensures that no related party benefits from favourable treatment.
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<b>10. Disclosures</b>			
38. Financial reporting, statutory and regulatory reporting	10. (1)	Compliant	Financial Statements for the year ended 31st March 2014 are in conformity with all rules and regulatory requirements and for the quarters then ended have been published in all three languages.
39. Minimum disclosure in the Annual Report	10. (2)	Compliant	All required disclosures have been made in the Annual Report.
<b>11. Transitional Provisions</b>			
40. Transitional and other general provisions	11. (1) to 11. (6)	Compliant	The Company has complied with transitional provisions when applicable.

Attendance of Directors at Board meetings for the financial year 2013/14 is as follows:

Name of the Director	Number of Board Meetings Attended during the financial year
Mr. D H J Gunawardena	12
Mr. W P C M Nanayakkara	12
Mr. S R Abeynayake	11
Mr. P A J Jayawardena	10
Dr. Ajantha Dharmasiri	11
Mr. D A de Silva	11
Mr. Razik Mohamed	12
Mr. T M D P Tennakoon	11
Mr. R H Abeygoonewardena	12
Mr. S V Munasinghe	12
Mr. W W K M Weerasooriya	11

## BOARD OF DIRECTORS

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**BOARD OF DIRECTORS**

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**01. Mr. D H J Gunawardena**  
**Chairman**

Mr. Herschel Gunawardena is a Fellow Member of the Chartered Institute of Management Accountants, (UK) and a Chartered Global Management Accountant. He has over 40 years of experience in various industries including shipping, airline, mining, export and import trading with over 20 years of General Management experience. He was a former Council Member of the Sri Lanka Branch of the Chartered Institute of Management Accountants, UK. Mr. Gunawardena is an Independent Non-Executive Director of Ceylinco Insurance PLC. He is also a Director of Hunter & Company PLC, Lanka Canneries (Pvt) Limited, Heath & Co. (Ceylon) Limited and Pelwatte Dairy Industries Limited.

**02. Mr. W P C M Nanayakkara**  
**Managing Director/Chief Executive Officer**

Mr. Nanayakkara holds a Bachelor of Science (B.Sc.) Degree in Business Administration from the University of Sri Jayawardenapura and a Master's Degree in Business Administration (MBA) from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura. He is a Fellow Member of the Chartered Institute of Management Accountants (UK). He counts over 25 years of experience in the Banking and Financial Services industry. Having started his career at a leading merchant bank in the country where he gained extensive experience in multiple areas, he joined CDB in early 2001. He was appointed Chief Executive Officer in 2004 and was subsequently appointed to the Board of Directors in 2005.

**03. Mr. R H Abeygoonewardena**  
**Director/Chief Operations Officer**

Mr. Abeygoonewardena is an Associate Member of the Chartered Institute of Management Accountants (UK) and Institute of Certified Management Accountants of Sri Lanka. He is also a member of Institute of Certified Professional Managers. He joined CDB in June 2005 and has over 20 years of experience in Finance covering the financial services industry and manufacturing sector. He was appointed to the Board of Directors in April 2011.

**04. Mr. S R Abeynayake**  
**Non-Executive Director**

Mr. Abeynayake counts more than 15 years of experience in the field of Finance. He holds an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura. He is also a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and of the Institute of Certified Management Accountants of Sri Lanka. He is a Director of Ceylinco Insurance PLC in executive capacity. He has been appointed to the Board of Citizens Development Business Finance PLC from 1st January 2012.

**05. Mr. D A De Silva**  
**Independent Non-Executive Director**

Mr. De Silva holds a Bachelor of Science (B.Sc.) Degree in Business Administration from the University of Sri Jayawardenapura and an Associate Membership from the Chartered Institute of Management Accountants (UK). He counts over 15 years of Corporate Accounting experience in the Financial Services, Oil and Gas, Construction and Telecom industries. He is presently a Financial Consultant.

**06. Dr. Ajantha Dharmasiri**  
**Independent, Non-Executive Director**

Dr. Ajantha Dharmasiri is a Senior Faculty Member and a Management Consultant attached to the Postgraduate Institute of Management, University of Sri Jayawardenapura. He also serves as an Adjunct Professor in International Human Resource Management at the Price College of Business, University of Oklahoma. He has over two decades of both private and public sector working experience in diverse environments including Unilever and Nestle. He has engaged in consultancies in Africa, South Asia and the Middle East. He is a Commonwealth AMDISA Doctoral Fellow and Fulbright Postdoctoral Fellow. He holds a Ph.D. and an MBA from the Postgraduate Institute of Management and a B.Sc. in Electrical Engineering from the University of Moratuwa. He is a Chartered Electrical Engineer, Member of the Chartered Institute of Management (UK)

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and a Council Member of the Institute of Personnel Management as well. Dr. Dharmasiri likes to identify himself as one who had gone through a transition from being an 'Engineer of Electrical' to an 'Engineer of Hearts and Minds'.

**07. Mr. P A J Jayawardena****Non-Executive Director**

Mr. Jayawardena a Fellow Member of Life Underwriter Training Council (USA), Member of the Chartered Insurance Agency, Manager and Chartered Marketing Financial Advisor. He joined Ceylinco Insurance PLC in 1994 and serves as Senior Deputy General Manager - Business Development.

**08. Mr. Razik Mohamed****Independent, Non-Executive Director**

Mr. Razik Mohamed holds over 35 years of professional experience in finance and management, in Sri Lanka and overseas. His professional experience spans over the agriculture, apparel, construction, packaging, transport and travel industries. He is a Member of The Institute of Chartered Accountants of Sri Lanka (ICASL). He is the President of the Lions Club of Cinnamon Gardens, Colombo and is Counsellor of The Institute of Chartered Accountants of Sri Lanka Students' Gavel Club, affiliated with Toastmasters International. He is also a Member of the CA Foundation of The Institute of Chartered Accountants of Sri Lanka which oversees the Scholarship Awarding Scheme of the Institute. Mr. Mohamed is a keen social worker and has served for three years as Honorary Secretary of the National Council for Child and Youth Welfare, a semi-Governmental organisation which runs seven orphanages and homes for Differently Abled Children across the Island.

**09. Mr. S V Munasinghe****Director/Chief Credit Officer**

Mr. Munasinghe, has been with CDB since 2001. He has over 20 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation and marketing. He was instrumental in setting up leasing operations at CDB and was

responsible for the implementation of the integrated software solution of the Company. He was appointed to the Board of Directors in April 2011.

**10. Mr. T M D P Tennakoon****Director/Chief Financial Officer**

Mr. Tennakoon is a Fellow Member of the Chartered Institute of Management Accountants (UK) and a Chartered Global Management Accountant. He counts over 20 years of experience in banking, financial services and insurance industry. He Joined CDB in the year 2003 as a Financial Accountant and was appointed to the Board in April 2011 as the Chief Financial Officer.

**11. Mr. W W K M Weerasooriya****Director/Chief Marketing and Sales Officer**

Mr. Weerasooriya, holds a B.Com. (Sp. Hons.) Degree from the University of Colombo and Postgraduate Diploma (Mgt.). He joined CDB in August 2000 and counts over 21 years experience in marketing and sales, in the financial services industry. He was appointed to the Board of Directors in April 2011.

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**01. Mr. W P C M Nanayakkara\*****02. Mr. R H Abeygoonewardena\*****03. Mr. S V Munasinghe\***

\* Profiles are given on pages 122 to 123.

**04. Mr. T M D P Tennakoon\*****05. Mr. W W K M Weerasooriya\*****06. Mr. Maduranga Heenkenda****Deputy General Manger -  
Asset Portfolio Sales and Channel Development**

Mr. Heenkenda is a 'Practicing Marketer' and a member of the Sri Lanka Institute of Marketing (MSLIM). He holds an MBA from the University of Wales - United Kingdom and the Certified Professional Marketer Asia Pacific (CPM) status completing the exam conducted by Asia Marketing Federation. He was awarded The Territory Manager of the year in 2009 at the NASCO awards organised by Sri Lanka Institute of Marketing. He joined CDB in February 2000, He has over 15 years of experience in the field of sales and marketing with an extensive progress in Leasing and Retail Lending Sales Strategy.

**07. Mr. Naguib Imdaad****Deputy General Manager -  
Information Technology**

Mr. Naguib is an ICT professional with over 16 years of experience in the banking and finance industry. He has vast knowledge in project management, software development, management information systems, payment cards systems, virtualisation and computer networks. A member of British Computer Society. He holds a Master's Degree in Business Information Systems (M.Sc.) from Sri Lanka Institute of Information Technology (SLIIT).

**08. Mr. Elangovan Karthik****Deputy General Manager -  
Marketing**

Mr. Karthik is a Chartered Marketer, a member of the Chartered Institute of Marketing of the United Kingdom. He holds B.sc. (Mgt.) Degree from the University of Sri Jayawardenapura and an MBA from the Postgraduate Institute of Management. He holds a National Diploma in Human Resource Management (PIM). He gained experience in marketing during his time at Messrs STG International (Partnered with Bam Information Technology Limited). He has been involved in the IT industry for many years. He has over 8 years of experience in the field of marketing with an extensive progress in branding of products. He joined CDB in July 2004.

**09. Mrs. Nayanthi Kodagoda****Deputy General Manger -  
Operations**

Mrs. Kodagoda has been associated with CDB since 1996. She has over 17 years experience with CDB including finance, human resources, and more than 10 years experience in credit operations. She is an Associate Member of Sri Lanka Institute of Credit Management.

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MANAGEMENT TEAM

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## MANAGEMENT TEAM

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### 01. Mr. Isanka Kotigala

#### Assistant General Manager - Business Development

Mr. Kotigala holds an MBA from University of Wales. He has over 10 years experience in Sales and Marketing in Lubricant and Alcoholic Beverage industries. Along with work experience and training in leading multinational organisations he has exposed himself as a Sales and Marketing Manager in overseas assignments. He joined CDB in January 2007.

### 02. Mr. Sudath Fernando

#### Assistant General Manager - Credit/Leasing

Mr. Fernando joined CDB in June 2008. He has over 17 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation and marketing. Prior to CDB, he was attached to leading Non-Banking Financial Institutions and a specialised bank.

### 03. Mr. Hasitha Dassanayake

#### Assistant General Manager - Finance

Mr. Dassanayake holds a Bachelor of Commerce Degree from University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants (UK). He possesses 8 years experience at CDB. He holds a Master's Degree in Business Administration from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura.

### 04. Mr. Ranjith Gunasinghe

#### Assistant General Manager - Deposit Operation

Mr. Gunasinghe joined CDB in January 2002. He holds a Master's Degree in Business Administration (MBA) from the University of Southern Queensland (USQ) Australia and a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka. Also he possesses a Postgraduate Diploma in Marketing from Sri Lanka Institute of Marketing (SLIM) and has passed the Certified Professional Marketer (CPM) Examination conducted by Asia Marketing Federation. He counts over 15 years of industry experience.

### 05. Mr. Ravindra Abeyssekara

#### Senior Manager - Recoveries

Mr. Abeyssekara is an Associate Member of the Institute of Credit Management Sri Lanka and a Member of the Institute of Credit Management (UK). He is also an Associate Member of Certified Professional Manager. He possesses the Diploma in Credit Management - Institute of Credit Management Sri Lanka. Prior to joining CDB in February 2000 he was attached to a leading Audit Firm Messrs Ernst & Young. His 17 years experience in the financial service industry sector includes Recoveries, Investigation and Auditing.

### 06. Mr. Ruwan Chandrajith

#### Senior Manager - Finance

Mr. Chandrajith is an Associate Member of The Institute of Chartered Accountants of Sri Lanka. He holds a B.Sc. Accounting (Special) Degree from the University of Sri Jayawardenapura. He has over 9 years of experience in the field of Audit, Finance and Assurance Services.

### 07. Mr. Prasad Ranasinghe

#### Senior Manager - Business Development

Mr. Ranasinghe holds a B.Com. (Special) Degree from University of Sri Jayawardenapura. He joined CDB in June 2004 and counts over 9 years of experience with CDB in leasing and deposits marketing.

### 08. Ms. Nadee Silva

#### Senior Manager - Business Development

Ms. Silva has been associated with CDB since 1998. She has over 15 years of experience in Sales and Marketing in the Financial Services Industry. She was awarded the Best Female Sales Person and the Territory Manager of the Year at the SLIM NASCO Awards in 2013.

### 09. Mr. Sarath Kumara

#### Manager - Administration

Mr. Kumara, is a Graduate in Accountancy from University of Kelaniya. Part Qualified in the Institute of Chartered Accountants of Sri Lanka (ICASL) and Part Qualified in Institute of Certified Management Accountants of Sri Lanka (CMA). He joined CDB in March 2000 and has completed 13 years of service.

**10. Mr. Sanjeewa Ranathunga****Manager - Recoveries**

Mr. Ranathunga joined CDB in 1998, and has been with CDB over a period of 15 years excelling in Post Disbursement Follow-up Division. He is an Associate Member of Sri Lanka Institute of Credit Management and an Associate Member of Institute of Certified Professional Manager and also a Associate Member of United Kingdom Association of Professionals. He holds a Diploma in Agriculture.

**11. Mr. Nimal Silva****Manager - Finance Operations and Taxation**

Mr. Silva is an Associate Member of The Institute of Chartered Accountants of Sri Lanka and also an Associate Member of the Institute of Certified Management Accountants of Sri Lanka. He has also completed Level 2 of CFA Examination conducted by CFA Institute USA. He joined CDB in December 2007. He has over 9 years experience in the fields of Auditing, Accounting and Risk Management. Prior to joining CDB he was attached to Management Advisory Services Division of Messrs KPMG Ford Rhodes Thornton & Co.

**12. Mr. Sampath Kumara****Manager - Internal Audit**

Mr. Kumara an Associate Member of The Chartered Accountants of Sri Lanka. He holds a B.Sc. Finance (Special) Degree from the University of Sri Jayawardenapura. He has over 7 years of experience in the field of Audit and Assurance Services. Prior to CDB he was attached to Audit and Assurance Service Division of Messrs KPMG.

**13. Mr. Herath Dharmadasa****Manager - Business Development**

Mr. Dharmadasa holds a Bachelor of Arts (Special) Degree from University of Peradeniya. He joined CDB in March 2002 and has completed 11 years of service. He counts over 14 years of Industry experience.

**14. Mr. R Subash Kumar****Manager - Business Development**

Mr. Subash Kumar is an Associate Member of Sri Lanka Institute of Marketing. He joined CDB in 2004 and counts over 8 years experience in marketing and Sales in the Financial Services Industry.

**15. Mr. Dassana Chandrananda****Manager - Business Development**

Mr. Chandrananda has 8 years experience in CDB in Sales and Marketing and Branch Management. His overall experience counts over 18 years in the Financial Services Industry and Insurance Industry. He won the Silver Award for Sales Executive/Supervisor Category under Financial Services Sector at the SLIM NASCO Awards in 2013. Prior to CDB he was attached to leading insurance companies.

**16. Mr. J L Priyantha****Manager - Business Development**

Mr. Priyantha Hold a B.Sc. (Special) Degree from the University of Peradeniya and Part Qualified in SLIM and CIMA. He won the Gold Award for Sales Executive/Supervisor Category under Financial Services Sector at the SLIM NASCO Awards in 2013. He joined CDB in February 2005 and counts 8 years experiences.

**17. Ms. Aruni Panagoda****Manager - Credit Operations**

Ms. Panagoda joined CDB in 1999 and counts 14 years of experience in Credit Operations. She holds a Diploma in Credit Management from the Institute of Credit Management Sri Lanka and is a Member of the Sri Lanka Institute of Credit Management.

**18. Mr. Lushan Perera****Manager - Brands**

Mr. Perera joined CDB in 2006 and has completed 7 years of service. He is a Chartered Marketer and is also a member of the Chartered Institute of Marketing and posses a diploma in Marketing (UK). He is a member of the Sri Lanka Institute of Marketing (MSLIM) and holds an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura.

## RISK MANAGEMENT

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### Introduction

Risk management is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that:

- a. The individuals who take or manage risks clearly understand it.
- b. The organisation's risk exposure is within the limits established by Board of Directors (BOD).
- c. Risk taking decisions are in line with the business strategy, risk appetite and objectives set by BOD.
- d. The expected payoffs compensate for the risks taken.
- e. Risk taking decisions are explicit and clear.
- f. Sufficient capital as a buffer is available to take risk.

CDB recognises that effective risk management is integral to its business success as it strongly supports Company's shareholder enrichment by offering superior shareholder value. Thus having a Company-wide risk management framework to safeguard the long-term sustainability of the Company and to identify the trade-off between the risk and the return is vital.

Therefore, as the first step of creating an effective risk management system, CDB understands the qualitative distinctions among the types of risks that the organisation faces. Accordingly, Company categorised risks falling into two categories, viz. preventable risks and non-preventable risk events from any of these categories mentioned can be fatal to a company strategy and even threaten its survival.

### Business Continuity Planning (BCP)

BCP is a culture to be developed at all levels of staff and the required process needs to be well-aligned with the day-to-day operations. The Board and the Senior Management of each Financial Institution (FI) should adopt a risk-based framework in BCP. Establishing a widespread BCP with least cost without compromising risk management is a difficult task. It would seem rational for all Financial Institutions (FIs) to have BCPs on the assumption that they may have to face and manage an event of an extensive and prolonged disruption with the complete destruction of buildings and infrastructure, loss of key staff, complete inaccessibility of the primary site, forcing the FIs to use back-up facilities for an extended period of time etc.

CDB's management has identified the importance of a BCP and focused on implementing it during the financial year under review. This will enable the Company to institute appropriate controls to minimise risks and initiate action plans. Most importantly BCP will cover each and every part of the business and if implemented effectively, would surely benefit the risk management function as a whole.

### Board and Senior Management Oversight

To be effective, the concern and tone for risk management must start at the top. While the overall responsibility of risk management rests with the BOD, it is the duty of Senior Management to translate strategic direction set by the Board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies. To ensure that the policies are consistent with the risk tolerances of shareholders the same should be approved by the Board.

## Principal Risks and Uncertainties Facing the Business

Area	Risk Indicators	CDB's Response
<p><b>Maintaining Sales Volumes and Profit Margins</b> Registered Finance Institutes Industry comprises of 47 companies and a severe competition prevails in this industry. Companies are providing homogeneous products and differentiation is considered as a survival mechanism in the market. As a result the Company is under pressure to come up with new and varied products in order to achieve increased sales volumes and thereby obtain greater profit margins.</p>	<p>Weighted Average Lending rate</p> <p>Weighted Average Borrowing Rate</p> <p>Net Interest Margin</p>	<p>During the financial year under review, 15 outlets were opened to increase the market share and to enhance sales and profit margins.</p>
<p><b>Maintaining required Capital Adequacy and Liquidity</b> Capital adequacy ratio determines the capacity to meet time liabilities and other risks such as credit risk, operational risk, etc. Liquidity is the ability of a company to meet the short-term obligations.</p>	<p>Liquidity Ratio</p> <p>Tier I Ratio</p> <p>Tier I &amp; II Ratio</p> <p>Capital Funds to Deposit Liability Ratio</p> <p>Renewal Ratio</p>	<p>Capital adequacy ratio and liquidity ratio are closely monitored by the Compliance Committee and Asset Liability Committee (ALCO) meetings. Company is operating well above the required level of capital adequacy and liquidity ratios.</p>
<p><b>Maintaining High Service Quality</b> As mentioned previously, the registered financial institutions industry has severe competition. To ensure longevity, companies have to offer diverse products or should differentiate them by providing quality services. In this sector, service is the main criterion to retain customers. Thus the companies should focus on providing value added services continuously, and exceed customer expectations.</p>	<p>No. of customer complaints</p> <p>No. of inquiries</p>	<p>Continuous training for marketing staff by leading professionals in the industry to serve customers efficiently and effectively. Also, a call centre is in operation to deal with customer complaints and to handle those in a systematic way.</p>
<p><b>Maintaining a Healthy Non-Performing Ratio (NPL)</b> NPLs are loans that no longer produce income for a finance company that owns them. Loans become non-performing when borrowers stop making payments and the loans enter default. Lending institutions often report their ratio of non-performing loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the Company, while a larger (or increasing) NPL ratio can mean larger losses for the company as it writes-off bad loans. A healthy non-performing ratio indicates a financial company's asset quality.</p>	<p>NPL Ratio</p> <p>Collection Ratio</p>	<p>Company has adopted stringent monitoring and recovery procedures while closely monitoring NPL ratio and collection ratio.</p>
<p><b>Retaining Best Employees</b> In order to provide quality customer service and to provide it efficiently, It is necessary to have a good capable team. Employees should be provided with sufficient training and failing to do so will result in company losing capable employees.</p>	<p>Employee Turnover Ratio</p>	<p>Conducting Employee Satisfaction Audits.</p> <p>Conducting Annual Awards Ceremony to recognise the best performing employees.</p> <p>Engagement with staff through Employee Suggestion Scheme.</p>

**RISK MANAGEMENT**

HIGHLIGHTS : 014-015

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BUSINESS MODEL : 028-050

Area	Risk Indicators	CDB's Response
<p><b>Maintaining Required Level of Compliance to Regulatory Authorities</b></p> <p>Registered finance companies are under the supervision of Central Bank and are listed in the Colombo Stock Exchange (CSE), which is governed by CSE and Securities &amp; Exchange Commission (SEC). Thus, it is vital to conform to regulations imposed by these authorities and to ensure good corporate governance.</p>	<p>Intervention and Enforcement Actions by Authorities</p> <p>Penalty Exposure</p>	<p>Our Compliance Division continuously reviews business matters and ensures that the company is always adhering to rules and regulations.</p> <p>Compliance meetings are held monthly to discuss the matters pertaining to compliance and communicate the new developments to the relevant parties.</p>
<p><b>Meeting the Severe Competition</b></p> <p>The Registered Finance Companies Sector comprises 47 companies and the industry is very competitive as companies provide similar products: leasing, hire purchase, deposits etc. The companies need to offer these products, while focusing on diversification in order to gain a larger market share.</p>	<p>No. of new products and process improvements</p>	<p>CDB has focused on providing total financial solutions by introducing CDB debit card, initiating SLIP transfers, implementing Core Bank solution etc.</p> <p>Continuously carrying out competitor analysis and capitalised on opportunities whenever they arise.</p> <p>Providing exceptional service with the aid of new Core Banking solution.</p>
<p><b>Acquiring New Technological Proficiency</b></p> <p>Technology plays a pivotal role in business activities. It contributes to a significant savings of time and money, more importantly; it provides an advantageous boost over rivals.</p>	<p>1st Level System failures</p> <p>2nd Level System failures</p> <p>3rd Level System failures</p>	<p>The Core Banking system is in place.</p> <p>All branches are online connected.</p> <p>Decentralisation of business activities to branch level to provide more efficient service to customers.</p>

**RISK MANAGEMENT**

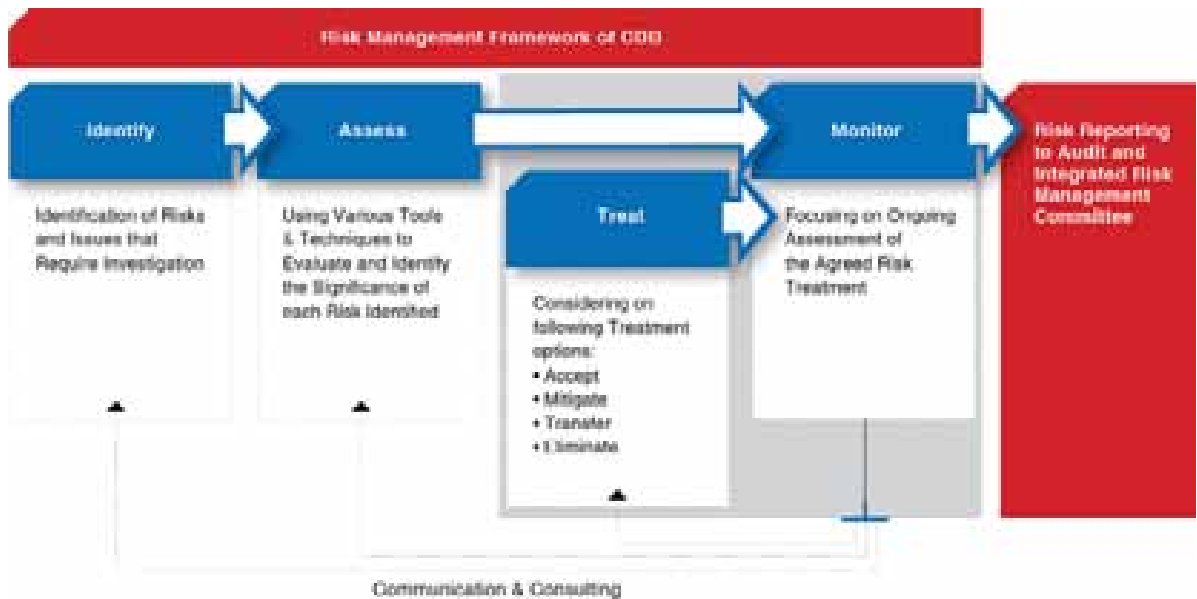
MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

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## Risk Management Framework



A risk management framework encompasses the scope of risks to be managed, the process/systems and procedures to manage risk and the roles and responsibilities of individuals involved in risk management. The framework should be comprehensive enough to capture all risks a financial institution is exposed to and have flexibility to accommodate any change in business activities.

Hence, the risk management underpins the importance of establishing a proactive and effective risk management framework. This would enable the Company to identify, assess, treat and monitor Company-wide risks and ultimately to reduce or avoid the magnitude of risks that could affect the business.

## Risk Management Approach



**RISK MANAGEMENT**

HIGHLIGHTS : 014-015

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Company believes that a rules-based risk management system may work well to align values and control employee behaviour, but it is unsuitable for managing risks inherent in a Company's strategic choices or the risks posted by major disruptions or changes in the external environment. Those types of risk require systems aimed at generating discussion and debate. Thus, the risks that Company faces have been categorised into three categories, each of which require a different risk management approach.

**Category 1 - Preventable Risks**

These are internal risks, arising from within the Company that are controllable and ought to be eliminated or avoided. The risk of employees or managers' inappropriate actions and risks from breakdowns of routine operational processes are a few examples of such risks. It has a zone of tolerance for defects or

errors that would not cause severe damage to the performance of the Company and achieving complete avoidance would be too costly. But in general Company seeks to eliminate these risks since no strategic benefits from taking them on. These risks include: credit risk, liquidity risk, strategic risk, information communication technology risk, compliance risk, reputation risk, operational risk.

**Category 2 - Non-Preventable Risks**

These are the risks that arise from events outside the Company and beyond its influence or control. Natural disasters and political developments, major macroeconomic shifts are a few examples of such risks. Non-preventable risks require yet another approach in managing because the Company cannot prevent such risk events from occurring and management is focused on identification and mitigation of their impact. These risks include: commodity price risk, equity price risk, interest rate risk.

**Company Approach to Two Categories of Risks:**

Category	Risk Mitigation Objective	Control Model	Role of Risk Management Staff Functions	Relationship of the Risk Management Function to Business Units
<b>Preventable Risks</b> Risks arising within the Company that generate no strategic benefits	Avoid or eliminate occurrence cost effectively	Integrated Culture and Compliance Model Mission Statement Value and Belief Systems Rules and Boundaries System Standard Operating Procedures Internal Controls and Internal Audit	Co-ordinates, oversees and revises specific risk controls with internal audit function	Acts as independent overseers.
<b>Non-Preventable Risks</b> External Uncontrollable Risks	Mitigating the occurring risk events cost effectively	Envisioning risks through: <ul style="list-style-type: none"> <li>Tail-risk Assessments and Stress Testing</li> <li>Scenario Planning</li> <li>War-gaming</li> </ul>	Runs stress testing, scenario planning and war gaming exercises with management team	Complements strategy team and act as independent facilitators of envisioning exercises.

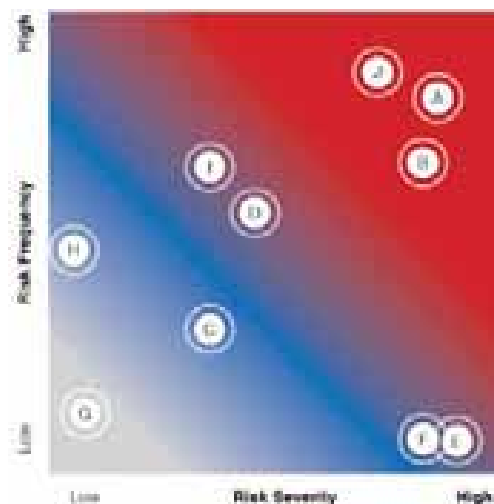


## Key Risk Exposures of the Company

Company has figured out core risks that the Company is exposed to based on the Risk Mapping approach and designated a person to manage the risk under each risks category where they perform as risk owner of that particular risk area. Company prioritises each risk element based on its severity and frequency periodically by assigning trigger points and reviewing it monthly.

### Risk Map

- |                         |     |
|-------------------------|-----|
| 1. Credit Risk          | - A |
| 2. Liquidity Risk       | - B |
| 3. Strategic Risk       | - C |
| 4. ICT Risk             | - D |
| 5. Compliance Risk      | - E |
| 6. Reputation Risk      | - F |
| 7. Operational Risk     | - G |
| 8. Commodity Price Risk | - H |
| 9. Equity Price Risk    | - I |
| 10. Interest Rate Risk  | - J |



## Credit Risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the financial institution. The goal of credit risk management is to ensure that credit-related activities are pursued within the boundaries accepted by the Board level.

Taking into consideration the Company's risk mapping process, Company has devoted high focus towards managing the credit risk. For the purpose, Company has adopted several quantitative measures such as credit risk stress testing, credit scoring models and qualitative measures such as adhering to credit policies, processes, defined approval hierarchies and nurturing credit risk culture within the Company.

Credit policy of the Company is reviewed regularly by Senior Officials and the Board of Directors based on market developments. There are several trigger points in the trigger point dash board relating to the credit risk which are reviewed at the Integrated Risk Management Committee (IRMC) meeting.

**RISK MANAGEMENT**

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**Credit Risk Management Approach Adopted by CDB**



**Credit Risk Console**

Risk Category	Risk Evaluation	Risk Controlling and Mitigation																		
<p><b>Default Risk</b> Obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the financial institution</p>	<p><b>Gross and Net Non-Performing Advances</b> Gross and Net Performing Advances are monitored in order to evaluate the effectiveness of the Company credit policies, asset quality and recovery mechanism. Credit facilities with or over six instalments/rentals in arrears are categorised as non-performing advances.</p> <p><b>Gross and Net NPL Ratio</b></p> <table border="1"> <caption>Gross and Net NPL Ratio Data</caption> <thead> <tr> <th>Year</th> <th>Gross NPL (%)</th> <th>Net NPL (%)</th> </tr> </thead> <tbody> <tr> <td>09/10</td> <td>7.5</td> <td>3.5</td> </tr> <tr> <td>10/11</td> <td>3.5</td> <td>1.0</td> </tr> <tr> <td>11/12</td> <td>1.7</td> <td>0.5</td> </tr> <tr> <td>12/13</td> <td>2.3</td> <td>1.5</td> </tr> <tr> <td>13/14</td> <td>5.2</td> <td>2.3</td> </tr> </tbody> </table> <p>The decrease in gold prices during the financial year under review was the main contributor in rising NPLs. NPL ratio deteriorated to 5.19% compared to last year's 2.32%.</p> <p>However, Company was able to maintain the NPL under industry NPL ratio which stood around 6.7% for the year.</p>	Year	Gross NPL (%)	Net NPL (%)	09/10	7.5	3.5	10/11	3.5	1.0	11/12	1.7	0.5	12/13	2.3	1.5	13/14	5.2	2.3	<ul style="list-style-type: none"> <li>Company predicted the possible environmental changes through its scenario planning, stress testing etc. and strengthened the credit policies during the financial year.</li> <li>Through ALCO meeting, market developments and economic conditions were monitored on a monthly basis and made amendments to credit policies as and when needed.</li> <li>Collection ratios were monitored on daily basis to identify any variances.</li> <li>Centralised credit administration was in place to improve the quality of loans disbursed.</li> <li>Provision management team closely evaluate and monitor non-performing advances.</li> </ul>
Year	Gross NPL (%)	Net NPL (%)																		
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**RISK MANAGEMENT**

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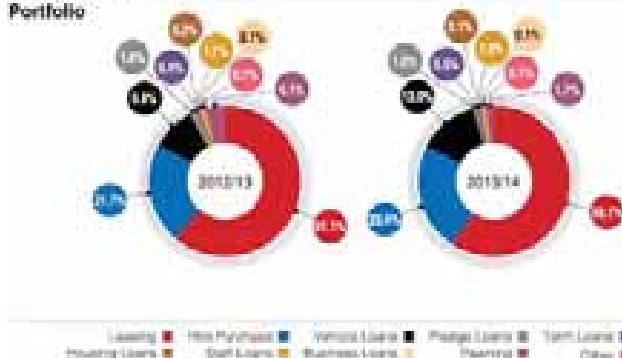
ANNEXES : 223-248

Risk Category	Risk Evaluation	Risk Controlling and Mitigation
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**Concentration Risk**  
Probability of loss arising from heavily lopsided exposure to a particular product group or counterparties

This will indicate how Company is exposed to its lending products.

**Product-wise Portfolio**

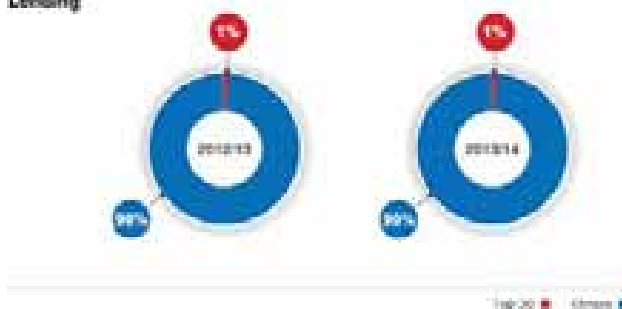


- Company has regularly monitored market developments and revised the maximum exposure limits.
- Regular monitoring and evaluation of asset portfolio.

No major changes are observed in the product portfolio and automobile financing has been the main product in the Company's lending portfolio.

Following charts indicate the extent to which the Company is exposed to its largest lending customers:

**Top 20 Customer Concentration - Lending**



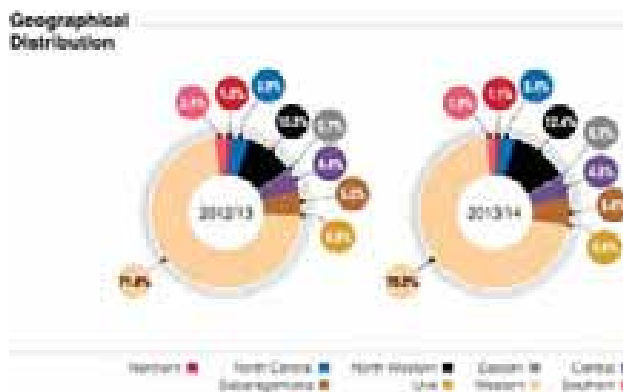
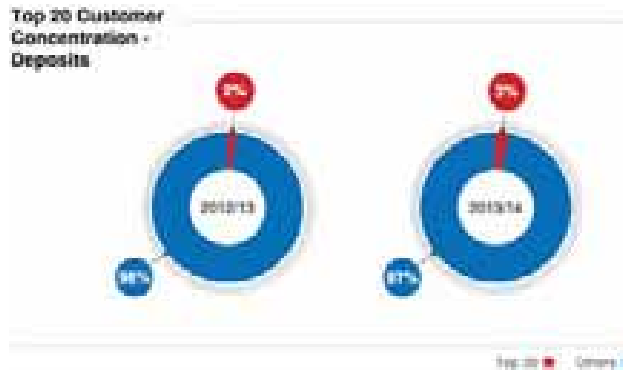
With a new perspective of Business Continuity Planning (BCP), CDB identified the exposure to internal and external threats and synthesised to provide effective prevention and recovery, while maintaining competitive advantage and value system integrity

**RISK MANAGEMENT**

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Risk Category	Risk Evaluation	Risk Controlling and Mitigation
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Following charts indicate the extent to which the Company is exposed to its largest deposit customers.



Growth in loans can be seen in Northern, North Central, Central and Sabaragamuwa Provinces and Western Province continues to have the highest geographical concentration due to high credit demand in the region and 50% of the Company outlets being located within the Western Province.

Risk Category	Risk Evaluation	Risk Controlling and Mitigation																																																																						
Risks arising from external developments and affecting borrowers' repayments	<p><b>Stress Testing</b></p> <p>Credit risk stress testing is used to forecast potential shock that can affect organisation's future performance due to inability of borrowers to meet their obligations.</p> <p><b>Impact on Company Capital Adequacy Ratio (CAR) from the Changes in NPA's (Non-Performing Advances)</b></p> <table border="1"> <thead> <tr> <th></th> <th>Scenario 1</th> <th>Scenario 2</th> <th>Scenario 3</th> </tr> </thead> <tbody> <tr> <td>Magnitude of Shock</td> <td>5%</td> <td>10%</td> <td>15%</td> </tr> <tr> <td>Total NPAs</td> <td>1,349,493</td> <td>1,349,493</td> <td>1,349,493</td> </tr> <tr> <td>Increase in NPA</td> <td>67,475</td> <td>134,949</td> <td>202,424</td> </tr> <tr> <td>Revised Capital</td> <td>3,509,439</td> <td>3,441,965</td> <td>3,374,490</td> </tr> <tr> <td>RWA</td> <td>26,606,739</td> <td>26,606,739</td> <td>26,606,739</td> </tr> <tr> <td>Revised CAR %</td> <td>13.19%</td> <td>12.94%</td> <td>12.68%</td> </tr> </tbody> </table> <p><b>Impact on Company NPL from the Changes of NPAs</b></p> <table border="1"> <thead> <tr> <th></th> <th>Scenario 1</th> <th>Scenario 2</th> <th>Scenario 3</th> </tr> </thead> <tbody> <tr> <td>Magnitude of Shock</td> <td>5%</td> <td>10%</td> <td>15%</td> </tr> <tr> <td>Total NPAs</td> <td>1,349,493</td> <td>1,349,493</td> <td>1,349,493</td> </tr> <tr> <td>Increase in NPAs</td> <td>67,475</td> <td>134,949</td> <td>202,424</td> </tr> <tr> <td>Revised NPAs</td> <td>1,416,968</td> <td>1,484,442</td> <td>1,551,917</td> </tr> <tr> <td>Total Loan Assets</td> <td>26,021,036</td> <td>26,021,036</td> <td>26,021,036</td> </tr> <tr> <td>Revised NPL %</td> <td>5.44%</td> <td>5.70%</td> <td>5.96%</td> </tr> </tbody> </table> <p><b>Base Case</b></p> <table border="1"> <tbody> <tr> <td>Capital Adequacy Ratio (CAR %)</td> <td>12.61</td> </tr> <tr> <td>Capital Base</td> <td>3,576,914</td> </tr> <tr> <td>Total Risk Weighted Assets</td> <td>26,606,739</td> </tr> <tr> <td>NPL Ratio (%)</td> <td>5.19</td> </tr> <tr> <td>Total Non-Performing Assets</td> <td>1,349,493</td> </tr> <tr> <td>Total Performing Assets</td> <td>24,671,542</td> </tr> <tr> <td>Total Loan Assets</td> <td>26,021,036</td> </tr> </tbody> </table>		Scenario 1	Scenario 2	Scenario 3	Magnitude of Shock	5%	10%	15%	Total NPAs	1,349,493	1,349,493	1,349,493	Increase in NPA	67,475	134,949	202,424	Revised Capital	3,509,439	3,441,965	3,374,490	RWA	26,606,739	26,606,739	26,606,739	Revised CAR %	13.19%	12.94%	12.68%		Scenario 1	Scenario 2	Scenario 3	Magnitude of Shock	5%	10%	15%	Total NPAs	1,349,493	1,349,493	1,349,493	Increase in NPAs	67,475	134,949	202,424	Revised NPAs	1,416,968	1,484,442	1,551,917	Total Loan Assets	26,021,036	26,021,036	26,021,036	Revised NPL %	5.44%	5.70%	5.96%	Capital Adequacy Ratio (CAR %)	12.61	Capital Base	3,576,914	Total Risk Weighted Assets	26,606,739	NPL Ratio (%)	5.19	Total Non-Performing Assets	1,349,493	Total Performing Assets	24,671,542	Total Loan Assets	26,021,036	<ul style="list-style-type: none"> <li>In order to assess the impact on capital adequacy, CDB carries stress testing by taking various levels of NPAs in to consideration.</li> </ul>
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## Liquidity Risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. As a financial institution, managing the liquidity risk is utmost important to CDB since issues relating to liquidity requirements will expose the Company to other risks such as reputation and compliance. Hence, breach of liquidity requirements will directly affect on Company's going concern and credibility among stakeholders.

CDB's main sources of funding are retail and institutional deposits (fixed deposits and savings accounts), capital inflows and corporate borrowings. Out of the funding options, Company highly relies on retail and institutional deposits. It is very critical for a Company like CDB to maintain adequate liquidity levels throughout the business cycles in order to meet its day-to-day obligations.

The liquidity ratio is calculated daily and circulated among Key Management Personnel. The capital adequacy ratio is calculated monthly and also taken as a trigger point in the dash board to monitor compliance risk.

## RISK MANAGEMENT

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

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## Liquidity Risk Console

Risk Category	Risk Evaluation	Risk Controlling and Mitigation																																			
<b>Liquidity Position</b> Potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses	<b>Maintaining Internal and Regulatory Liquidity Ratios</b> Direction <table border="1" style="float: right;"> <thead> <tr> <th></th> <th>As at 31.03.2014</th> <th>As at 31.03.2013</th> </tr> </thead> <tbody> <tr> <td>Maintain minimum holding of liquid assets based on the outstanding value of the time deposits mobilised by the Company.</td> <td style="text-align: right;">18.60%</td> <td style="text-align: right;">14.49%</td> </tr> <tr> <td>Maintaining assets in the form of Government Treasury Bills, Government Securities and CBSL Securities based on average month end total deposit liabilities of the twelve months of the proceeding financial year.</td> <td style="text-align: right;">Rs. 1,184 Mn</td> <td style="text-align: right;">Rs. 717 Mn</td> </tr> </tbody> </table>		As at 31.03.2014	As at 31.03.2013	Maintain minimum holding of liquid assets based on the outstanding value of the time deposits mobilised by the Company.	18.60%	14.49%	Maintaining assets in the form of Government Treasury Bills, Government Securities and CBSL Securities based on average month end total deposit liabilities of the twelve months of the proceeding financial year.	Rs. 1,184 Mn	Rs. 717 Mn	<ul style="list-style-type: none"> <li>Complying with internal and regulatory liquidity ratios.</li> <li>The liquidity report is prepared daily and sent to Key Management Personnel and also reported to Board level on a regular basis for decision - making purpose.</li> <li>Planning for funding is done at the beginning of each financial year capturing contingency funding plan for an urgent situations.</li> <li>Conducting liquidity stress testing analysis at the ALCO meeting to foresee future funding requirements.</li> </ul>																										
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	<b>Liquidity Stress Testing</b> <b>Base Case</b> <table border="1"> <tbody> <tr> <td>Liquid Assets Ratio (%)</td> <td style="text-align: right;">18.60</td> </tr> <tr> <td>Liquid Assets (Rs. '000)</td> <td style="text-align: right;">5,231,418</td> </tr> <tr> <td>Deposit Liabilities (Rs. '000)</td> <td style="text-align: right;">24,518,193</td> </tr> </tbody> </table>	Liquid Assets Ratio (%)	18.60	Liquid Assets (Rs. '000)	5,231,418	Deposit Liabilities (Rs. '000)	24,518,193																														
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	<b>Impact on Liquidity Ratio due to Fall in Liquid Liabilities</b> <table border="1"> <thead> <tr> <th rowspan="2">Direction</th> <th>Statutory Requirement</th> <th>As at 31.03.2014</th> <th>As at 31.03.2013</th> </tr> <tr> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Magnitude of Shock</td> <td style="text-align: center;">4%</td> <td style="text-align: center;">8%</td> <td style="text-align: center;">12%</td> </tr> <tr> <td>Liquid Assets</td> <td style="text-align: right;">5,231,418</td> <td style="text-align: right;">5,231,418</td> <td style="text-align: right;">5,231,418</td> </tr> <tr> <td>Liabilities</td> <td style="text-align: right;">24,518,193</td> <td style="text-align: right;">24,518,193</td> <td style="text-align: right;">24,518,193</td> </tr> <tr> <td>Fall in Liabilities</td> <td style="text-align: right;">980,728</td> <td style="text-align: right;">1,961,455</td> <td style="text-align: right;">2,942,183</td> </tr> <tr> <td>Revised Liabilities</td> <td style="text-align: right;">23,537,465</td> <td style="text-align: right;">22,556,738</td> <td style="text-align: right;">21,576,010</td> </tr> <tr> <td>Revised Liquid Assets</td> <td style="text-align: right;">4,250,690</td> <td style="text-align: right;">3,269,963</td> <td style="text-align: right;">2,289,235</td> </tr> <tr> <td>Ratio After Shock</td> <td style="text-align: right;">18.06%</td> <td style="text-align: right;">14.50%</td> <td style="text-align: right;">10.61%</td> </tr> </tbody> </table>	Direction	Statutory Requirement	As at 31.03.2014	As at 31.03.2013	Rs. '000	Rs. '000	Rs. '000	Magnitude of Shock	4%	8%	12%	Liquid Assets	5,231,418	5,231,418	5,231,418	Liabilities	24,518,193	24,518,193	24,518,193	Fall in Liabilities	980,728	1,961,455	2,942,183	Revised Liabilities	23,537,465	22,556,738	21,576,010	Revised Liquid Assets	4,250,690	3,269,963	2,289,235	Ratio After Shock	18.06%	14.50%	10.61%	
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**RISK MANAGEMENT**

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

**STEWARDSHIP : 100-148**

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

Risk Category	Risk Evaluation	Risk Controlling and Mitigation
Maturity Mismatch	<p><b>Asset - Liability Maturity Mismatch Analysis</b></p>	<ul style="list-style-type: none"> <li>• Maturity gap is being reviewed on a monthly basis at the ALCO meeting.</li> <li>• To have a proper balance in assets and liability maturities via strong diversification of investment portfolio.</li> </ul>

**Market Risk**

When it comes to CDB, managing market risk too is crucial since Company's business strategies are related heavily to market conditions and that the Company is operating in an emerging economy where market conditions are volatile. Apart from that, Company has no control over market risks compared to other risk components that the Company is exposed to.

**Interest Rate Risk**

In the case of CDB, the influence of interest rate risk is high because over 80% of Company's turnover comprises of interest income while over 50% of Company's total expenses comprises of interest expenses. Hence, managing interest rate risk is extremely important to CDB since Company's profits are highly vulnerable to interest rate fluctuations.

ALCO is responsible to monitor the developments in the market in relation to interest rates and make projections based on Company's targets for the financial year. In order to mitigate the risk, ALCO conducts regular interest rate stress testing under different scenarios to identify the impact for the Company and thereby devise timely strategies to minimise any adverse effects and also to maintain proper balance between assets and liabilities.

**Equity Price Risk**

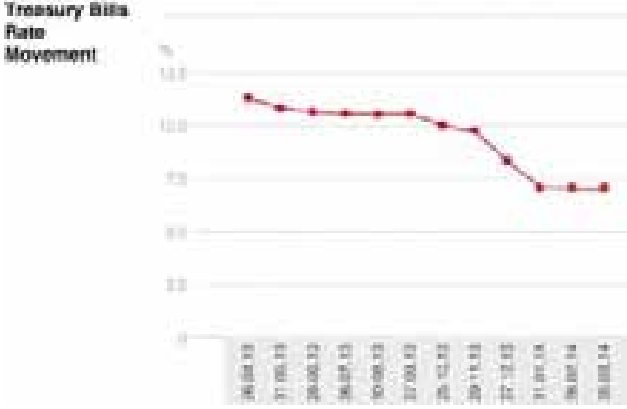
Equity price risk arises due to adverse stock market conditions in the country. Since the Company has invested in equity shares there is a risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

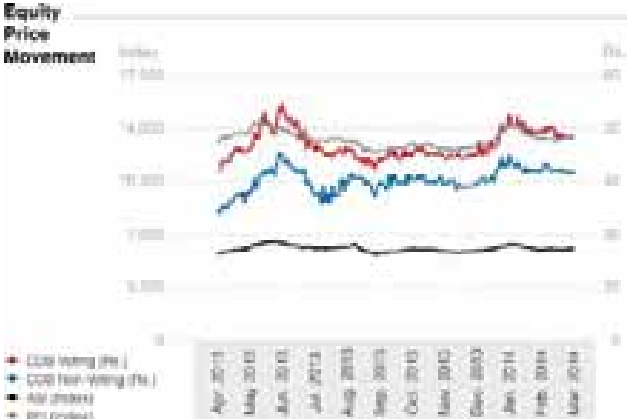
**Commodity Price Risk**

Finance companies are likely to counter the risk of falling gold prices by topping its margins against the collateral whilst a continuous decline in gold prices has reduced the financial system's dependency on pawning as a method of increasing asset yield in the short to medium term. CDB is also exposed to commodity price risk mainly due to pawning business. Pawning portfolio accounted for nearly 3% out of the total loans and CDB took appropriate measures to minimise the negative impact caused as a result of reducing gold prices.

**RISK MANAGEMENT**

HIGHLIGHTS : 014-015	CHAIRMAN'S LETTER : 018-021	MANAGING DIRECTOR'S REVIEW : 022-027	BUSINESS MODEL : 028-050
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Risk Category	Risk Evaluation	Risk Controlling and Mitigation
<p><b>Interest Rate Risk</b> Risk arises due to varying levels of interest rates in the market</p>	<p><b>Monitoring and Analysing Interest Rate Trends in the Country</b></p>  <p>The continued easing of monetary policy through 2013 amidst low and stable inflation has brought about the desired macroeconomic outcomes. Available indicators show that real GDP growth is set to record around 7.8% growth for 2014. As a result of such measures, growth of credit extended to the private sector has begun to accelerate.</p>	<ul style="list-style-type: none"> <li>• CDB maintains an Investment and Credit dashboard which provides information pertaining to (Weighted Average Borrowing Rate and Weighted Average Lending Rate) on a daily basis which facilitate immensely on decision-making.</li> <li>• ALCO meetings are held monthly and interest rate movements are monitored and analysed.</li> <li>• Asset re-pricing will be done based on the analysis carried out at the ALCO meetings.</li> <li>• Interest rate stress testing will also be conducted and presented at the ALCO meetings.</li> </ul>

<p><b>Equity Price Risk</b> Equity price risk arises due to adverse stock market conditions</p>	 <p>The equity market remained passive throughout 2013 and an increase witnessed in early 2014 mainly due to foreign net inflow.</p>	<ul style="list-style-type: none"> <li>• Close monitoring of returns/ value of equity portfolios where Company has invested.</li> <li>• Monitoring and analysing stock market indices.</li> <li>• Equity price stress testing.</li> </ul>
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**RISK MANAGEMENT**

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

**STEWARDSHIP : 100-148**

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

Risk Category	Risk Evaluation	Risk Controlling and Mitigation
<p><b>Gold Price Risk</b> Risk emerges due to the falling gold prices, pawning fraudulent articles and depreciation of Sri Lankan Rupee</p>	<p><b>Global Gold Price Movement</b></p> <p>Gold prices falling by 23% in the second quarter of 2013 (although rising 4% during July 1, 2013 to July 15, 2013), there have been growing concerns related to the deteriorating collateral (gold) value against pawning disbursements, as it tends to increase the average Loan To Value (LTV) of a financial institution's pawning book.</p>	<ul style="list-style-type: none"> <li>• Pawning advances are adjusted based on market gold prices.</li> <li>• Monitoring gold price movement on a regular basis.</li> <li>• Setting maximum exposure limit for individuals.</li> <li>• Random branch visits by pawning consultant to check the quality of the gold articles.</li> </ul>

**Operational Risk**

It is the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. Absence of operational risks act as a bottleneck for many companies, due to inadequate awareness, on companies no operational risk indicators or insufficient internal controls. Managing operational risk is prime

responsibility of all CDB employees and Company has executed a well-defined operational risk policy framework. Internal controls and strict system audit functions are kept in order to enhance the operational risk mitigating process.

Risk Category	Risk Evaluation	Risk Controlling and Mitigation
<p><b>People Risk</b> Risk of losing the skilled long served employees</p>	<p>HR Department closely monitors the employee turnover ratio monthly and presents data to the management. The details of employee resignations, the reasons for leaving gathered through exit interviews etc. are taken into further discussion.</p> <p>Staff meetings are carried out at department level and there is an employee suggestion scheme available which will facilitate raising employee voice.</p>	<ul style="list-style-type: none"> <li>• Leadership development through mechanisms like speech craft</li> <li>• Training and development</li> <li>• Employee succession planning.</li> <li>• Performance based reward scheme.</li> <li>• Company HR policies.</li> </ul>

**RISK MANAGEMENT**

HIGHLIGHTS : 014-015	CHAIRMAN'S LETTER : 018-021	MANAGING DIRECTOR'S REVIEW : 022-027	BUSINESS MODEL : 028-050
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Risk Category	Risk Evaluation	Risk Controlling and Mitigation												
<p><b>Operational and Technological Manipulation</b></p> <p>Risk arises mainly due to inappropriate operational and system controls &amp; procedures</p>	<p><b>Operational Losses</b></p> <p>Lack of controls and procedures will lead to various manipulations and will act as a bottleneck within the business premises, which may further lead to fraudulent activities.</p> <p><b>Operational Losses (Employee Related) 2013/14</b></p> <table border="1"> <caption>Operational Losses (Employee Related) 2013/14</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Missing Personnel</td> <td>19%</td> </tr> <tr> <td>Cash Shortages</td> <td>30%</td> </tr> <tr> <td>Theft</td> <td>7%</td> </tr> <tr> <td>Infringing the Company</td> <td>11%</td> </tr> <tr> <td>Other</td> <td>23%</td> </tr> </tbody> </table>	Category	Percentage	Missing Personnel	19%	Cash Shortages	30%	Theft	7%	Infringing the Company	11%	Other	23%	<ul style="list-style-type: none"> <li>• Random branch visits by Internal Audit Division.</li> <li>• Random branch visits by the Management.</li> <li>• Random client visits.</li> <li>• Stringent HR policies and internal controls.</li> </ul>
Category	Percentage													
Missing Personnel	19%													
Cash Shortages	30%													
Theft	7%													
Infringing the Company	11%													
Other	23%													
<p>Company has categorised employee related malpractices into five sub-categories and during the year 150 incidents were reported.</p>														

**Information and Communication Technology Risk**

In modern era ICT has been identified as a key business supporting tool and this provides value addition to Company's core business functions. Hence, it is imperative that CDB has a proper ICT risk management system in place as its key operations are being done via IT systems. CDB has segregated system failures into three main categories as first, second and third level IT failures and has kept three separate sub-units to rectify such failures. Apart from that, Company consists of a comprehensive IT policy and disaster recovery plan, internal controls and carried out regular system audits to mitigate such risks.

## RISK MANAGEMENT

MANAGEMENT DISCUSSION &amp; ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

Risk Category	Risk Evaluation		Risk Controlling and Mitigation
<b>Business Continuity Risk due to inappropriate ICT</b> Business continuity risk emerges when Company is not in a situation to maintain its core functions as a result of inadequate ICT	Category	Description	<ul style="list-style-type: none"> <li>• Maintaining IT policies and internal control mechanisms to better adhere to rules and practices set.</li> <li>• Disaster recovery plan.</li> <li>• System audits will be carried out on a routine basis.</li> <li>• Segregation of responsibilities based on type of the system disruption.</li> </ul>
	First level system failures	System disruptions due to internal factors.	
	Second level system failures	System disruptions due to external factors.	
	Third level system failures	System disruptions due to major system breakdowns.	
	CDB focused on implementing a Business Continuity Plan (BCP) during the financial year under review as it facilitates to identify the impact of potential risks and losses caused by a disruption or a disaster; formulating and implementing viable recovery strategies; and planning to ensure continuity of an institution's services particularly in the area of core financial operations/critical businesses, payment, clearing and securities settlement; and administering of comprehensive testing and maintenance. This would immensely facilitate the Company in minimising and taking appropriate controls and action plans to better prepare and face risk with regard to its IT infrastructure in place.		

## Reputation Risk

Reputational risk is the current and prospective impact on earnings and enterprise value arising from negative stakeholder opinion. Maintaining reputation is an imperative for a public deposit taking institution, since any adverse perception regarding the Company will lead to distress within a short period of time even for a successful company. Therefore maintaining stakeholder confidence is vital for CDB since level of confidence will directly impact on Company performance and business continuity while it indirectly influences the financial services industry where the Company is operating.

The Company's approach towards managing reputation risk is mainly strategic alignment, cultural alignment, quality commitment and operational focus.

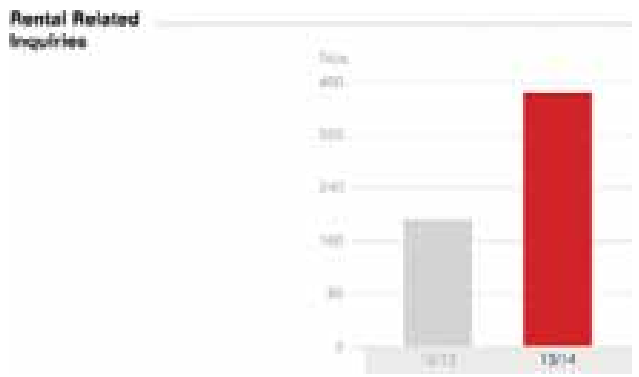
**RISK MANAGEMENT**

HIGHLIGHTS : 014-015	CHAIRMAN'S LETTER : 018-021	MANAGING DIRECTOR'S REVIEW : 022-027	BUSINESS MODEL : 028-050
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Risk Category	Risk Evaluation	Risk Controlling and Mitigation
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**Company Specific Activities**  
Current and prospective impact on earnings and enterprise value arising from negative stakeholder opinion

**Customer Complaint Review/Customer Surveys**  
Internal faults/errors can prompt reputation risk via customer dissatisfaction.



- Effective communication and image/brand building processes.
- Strong corporate values supported by appropriate performance incentives.
- Effective customer response and grievance handling process.
- Regular customer surveys and customer visits.
- Training and development of staff.
- Quality public reporting.

Customer complaints are handled systematically to ensure that each is addressed with equal importance and weightage.

Once a complaint is received, it is dealt with systematically and a detailed response is given to the customer within five working days. Inquiries can be made through the telephones placed at each branch where the Head Office Call Centre can be contacted, toll free or via our website; and the records have shown that a majority of these inquiries are made regarding insurance, credit and rental.

## RISK MANAGEMENT

MANAGEMENT DISCUSSION &amp; ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

Risk Category	Risk Evaluation	Risk Controlling and Mitigation
<p><b>Compliance Risk</b> Company not adhering to rules and regulations imposed by the relevant regulators</p>	Inability to comply with rules and regulations imposed by the industry specific regulator may lead to losses, penalties or even negative public perception of the Company.	<ul style="list-style-type: none"> <li>Promoting a positive culture regarding compliance with laws and regulations.</li> <li>Strictly adhering to industry specific rules and regulations.</li> <li>Monthly assessment of compliance documents at the compliance committee meeting and at Board meetings through submitting a board paper.</li> </ul>
<p><b>Inadequate Level of Contributions to the Society</b> Inadequate public relations or lack of contributions to the society may lead to negative public perception on Company</p>	It is very much important for a company like CDB to have proper public relations in order to enhance the reputation of the Company. It has focused heavily on development of standard of living of the society. Especially focusing on being a net lender to rural economy and by carrying out several strategic level CSR initiatives to help schoolchildren in their education and enhancing computer literacy thus being a responsible corporate citizen.	<ul style="list-style-type: none"> <li>Company has categorised four types of CDB Corporate Social Responsibility projects namely; <ul style="list-style-type: none"> <li><b>Towards Community</b> <ol style="list-style-type: none"> <li>Sisudiri Scholarship programme</li> <li>CDB Nena Piyasa</li> <li>CDB Hithawathkam</li> </ol> </li> <li><b>Towards Environment</b> <ol style="list-style-type: none"> <li>Mihikathata Adaren</li> <li>Corroborating on a Wetland Project</li> <li>Waste Management initiatives.</li> </ol> </li> </ul> </li> </ul>

## Strategic Risk

Strategic risk arises due to the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Strategic planning, budget meeting sessions, quarterly/ bi annual performance reviews are the mechanisms in place to minimise strategic risk at CDB. There are many forums within the Company which will be functioning so as to review daily and monthly performance. These forums form an avenue to make sure the Company is moving according to the predetermined criterion and the decisions put in to place are effective and efficient.

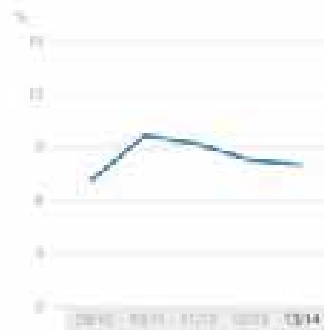
**RISK MANAGEMENT**

HIGHLIGHTS : 014-015	CHAIRMAN'S LETTER : 018-021	MANAGING DIRECTOR'S REVIEW : 022-027	BUSINESS MODEL : 028-050
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Risk Category	Risk Evaluation	Risk Controlling and Mitigation
<p><b>Strategic Risk</b> Inability of a company to achieve set of objectives, ineffective strategic directions and planning and inability to adapt to changes in the environment</p>	<p><b>Internal Business Trends</b> Internal business trends are being evaluated on an ongoing basis to identify whether the Company is going in line with predetermined goals and objectives.</p>	<ul style="list-style-type: none"> <li>Daily business (internal) information is provided via credit and investment dashboard.</li> <li>Weekly progress reviews.</li> <li>Detailed analysis will be carried out at forums like Finance Committee meeting, ALCO meeting, Treasury meeting etc. and key decisions are taken to meet the current business trends while comparing with last month/year figures.</li> </ul>

**Spreads and Margins**

**Net Interest Margin**



- Daily information is provided on weighted average lending and mobilising rates.
- Weekly evaluations.
- Managing Asset-Liability mismatch and re-pricing decisions are taken by the ALCO.

**Portfolio Health**

**Average Yearly Collection Ratio**



- Stringent credit policies.
- Centralised credit administration.
- Analysis of Company collection ratio and NPL on routine basis.
- Identifying early signals of problem facilities.

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# ANNUAL REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

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## 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 2014 of the Company and the Group together with the Auditors' Report on those Financial Statements, confirming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and amendments thereto and the Directions issued on the same.

The details set out herein provide pertinent information required by the Companies Act No. 7 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 31st May 2014.

## 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 also registered under the Finance Leasing 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. Lanka Rating Agency 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. 18, Sri Sangaraja Mawatha Colombo 10, at which the Company's Head Office is also situated.

Reporting information required to be disclosed as per the Section 168 (1) of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Corporate Governance Direction No. 03 of 2008, issued by Central Bank of Sri Lanka.

The required information is disclosed in the tabulation provided below or elsewhere in the Annual Report.

Section Reference No.	Requirements	Extent of Compliance by the Company
168 (1) (a) - i	Any change in the accounting period in the nature of the business of the Company and its subsidiary	Compliant
168 (1) (a) - ii	Any change in the accounting period in the classes of business in which the Company has an interest, whether as a shareholder of another company or otherwise	Compliant Company does not have any material shareholding with any other company except for its own subsidiary of CDB MicroFinance Company Limited.
168 (1) (b)	Financial Statements for the accounting period completed and signed in accordance with Section 151 of the Companies Act and for the Group Financial Statements in accordance with Section 152 of the Companies Act	Compliant Financial Statements have been prepared in compliance with Section 151 and Section 152 of the Companies Act.
168 (1) (c)	Auditor's Report on the Financial Statements and any Group Financial Statements	Compliant
168 (1) (d)	Describe any changes in accounting policies made during the year	Compliant
168 (1) (e)	Entries in the Interests Register made during the year	Compliant

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

Section Reference No.	Requirements	Extent of Compliance by the Company
168 (1) (f)	The remuneration and other benefits of Directors made during the year	Compliant The required information is disclosed under the transactions with Key Management Personnel of this Annual Report.
168 (1) (g)	The total amount of donations made by the Company	Compliant The required information is disclosed under the financial information section of this Annual Report.
168 (1) (h)	Names of the persons holding office as Directors of the Company at the end of the accounting period and the names of any persons who ceased to hold office as Directors	Compliant
168 (1) (i)	Details of the remuneration paid to Auditors including non-audit services as a separate item	Compliant The required information is disclosed under the Financial Reports section of this Annual Report.
168 (1) (j)	The particulars of any relationship (other than that of Auditor) which Auditor has with or any interest which the Auditor has in, the Company or subsidiary	Compliant All non-audit related activities carried out by the Auditors have been disclosed under the Operating Expenses.
168 (1) (k)	Board approval for the Directors' Report to be signed by Two Directors along with the Company Secretary	Compliant Report of Directors on Affairs of the Company has been approved by the Board on 2nd June 2014

### Information disclosed pertaining to the Financial Statements and Audit of the Company as per the Finance Business Act No. 42 of 2011

Section Reference No.	Requirements	Extent of Compliance by the Company
Section 26	To prepare a complete set of Financial Statements including balance sheet as at end of the financial year and Income Statement in respect of such financial year	Compliant
Section 27 (1)	To set out the state of affairs of the Company at the end of the financial year to which the balance sheet relates	Compliant
Section 27 (2) (a)	Capitalised expenses not represented by tangible assets	Compliant
Section 27 (2) (b)	Market value of investments	Compliant
Section 27 (2) (c)	Method adopted to value fixed assets if there had been any valuation of such assets during the financial year	Compliant
Section 27 (2) (d)	The aggregate amounts of advances after the provisions for bad and doubtful debts	Compliant
Section 27 (2) (e)	Increase or decrease in provision for depreciation, renewals or diminution in value of fixed assets	Compliant
Section 27 (2) (f)	Sources and application of funds	Compliant

Section Reference No.	Requirements	Extent of Compliance by the Company
Section 27 (2) (g)	Reserves, provisions and liabilities distinguishable from each other	Compliant
Section 27 (2) (h)	Changes in equity	Compliant
Section 27 (2) (i)	Corresponding amounts of the previous year for all the items shown in the balance sheet	Compliant
Section 28 (a)	Amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets	Compliant
Section 28 (b)	Amount charged to revenue by way of income tax	Compliant
Section 28 (c)	The aggregate amounts of dividends paid or proposed to be paid	Compliant
Section 28 (d)	The amount of remuneration of Auditors	Compliant
Section 28 (e)	The amount charged to revenue representing the aggregate amount of the emoluments paid to Directors	Compliant
Section 28 (f)	The movement of reserves	Compliant
Section 28 (g)	The profit or loss or the income and expenses arising from transactions that are not usually carried out by the Company and are carried on owing to circumstances of an exceptional or non-recurrent nature or by a change in the basis of accounting	Compliant
Section 28(h)	Corresponding figures of the previous year for all the items shown in the Income Statement	Compliant
Section 29 (1)	Submission of information to Director Non-Banking Supervision of Central Bank of Sri Lanka as per the Sections 29 (a), (b), (c) and (d)	Compliant
Section 29 (2)	Financial Statements published in newspapers	Compliant
Section 29 (3)	Exhibition of Financial Statements on business premises	Compliant
Section 29 (4)	Specification of the format of the Balance Sheet and the Income Statement	Compliant
Section 29 (5)	Publishing key financial data and performance indicators on a biannual basis	Compliant
Section 30 (2)	Selection of Auditors as per the guidelines issued by the Director Non-Bank Supervision Department of the Central Bank of Sri Lanka	Compliant KPMG, the Company's External Auditor is listed on the panel of External Auditors to audit the accounts of Licensed Finance Companies, as per the guidelines issued by the Director Non-Bank Supervision Department of the Central Bank of Sri Lanka
Section 30 (3)	Rotation of Auditors of the Company	Not applicable as at date. Guidelines or directions have not yet been issued.

### **Disclosure Requirements applicable under the Finance Companies (Corporate Governance) Direction No. 3 of 2008**

The detailed disclosure has been included under the Corporate Governance Section of the Annual Report from pages 104 to 119.

### **Disclosure Requirements applicable under the Listing Rules issued by the Securities and Exchange Commission of Sri Lanka**

The Detailed Disclosure has been included under the Investor Relations Section of the Annual Report from pages 224 to 233.

### **Vision, Mission and Corporate Conduct**

The Company's Vision and Mission are given on page 35. In achieving its vision and mission, all Directors 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 in 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.

#### **Subsidiary - CDB Micro Finance Limited**

CDB Micro Finance Limited is established for the purpose of accommodating micro credit facilities. However, since January 2009, there has not been any business operations other than the collections of instalment repayments of the loans granted prior to January 2009.

### **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 18 to 21 the Managing Director's Review on pages 22 to 27 the Management Discussion on pages 29 to 100 and Financial Review on pages 52 to 59 present an overall appraisal of the Business Operations, Financial Performance and the overall Financial Position of the Company and the Group.

### **Future Developments**

During the year 15 new outlets were opened bringing total outlets to 59. The Company intends to expand its network of distribution channels both in Western province and outside Western province over the next 5 years.

### **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 have been signed by the Chairman and the Managing Director as per the requirements of the Companies Act No. 07 of 2007 and appear on pages 169 to 222.

### **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 169 to 222 have been prepared in conformity with the requirements of Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) as issued under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and amendments thereto.

The Statement of Directors' Responsibility for Financial Reporting appearing on page 162 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 2014, and the Auditors' Report issued thereon is given on page 169 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

### Accounting Policies and Changes during the Year

The Group and the Company prepared the Financial Statements in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS). The significant accounting policies adopted in the preparation of the Financial Statements of the Group and the Company are given on pages 169 to 222.

The Company and Group applied for the first time, Sri Lanka Accounting Standard LKAS - 19 - 'Employee Benefits' which requires restatement of previous Financial Statements.

### The Interests Register of the Company

The Interests Register is maintained by the Company as required by the Companies Act No. 07 of 2007. All Directors have made declarations as required by Sections 192 (1) and (2) of the Companies Act No. 07 of 2007. All related entries were made in the Interests 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 page 157. These interests have been declared at Directors' meetings. 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 contract or proposed contract with the Company.

### 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 2014 are given in Note 40 to the Financial Statements on page 220 as required by the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

### 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. 3,258,422/- for its CSR activities in terms of the resolution passed at the last Annual General Meeting.

### Subsidiary

During the year under review, CDB Micro Finance Company Limited has not made any donations.

This information forms an integral part of the Report of the Directors as required by the Section 168 (1) (g) of the Companies Act No. 07 of 2007.

### Information on Directors of the Company and the Group

The Board of Directors of the Company as at 31st March 2014 comprised of 11 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 122 to 123 of this Annual Report.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

Names of the persons holding office as Directors of the Company as at 31st March 2014 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	Appointed as Chairman w.e.f. 01.01.2012 Non-Executive Director
Mr. W P C M Nanayakkara	01.02.2004	Executive Director/Chief Executive Officer/Managing Director
Mr. R H Abeygoonewardena	01.04.2011	Executive Director/Chief Operating Officer
Mr. S R Abeynayake	01.01.2012	Non-Executive Director
Dr. Ajantha Dharmasiri	01.02.2012	Non-Executive Independent Director
Mr. D A De Silva	01.01.2012	Non-Executive Independent Director
Mr. P A J Jayawardena	26.10.2011	Non-Executive Director
Mr. Razik Mohamed	01.07.2012	Non-Executive Independent Director/Appointed as Senior Director
Mr. S V Munasinghe	01.04.2011	Executive Director/Chief Credit Officer
Mr. T M D P Tennakoon	01.04.2011	Executive Director/Chief Financial Officer
Mr. W W K M Weerasooriya	01.04.2011	Executive Director/Chief Marketing Officer

### The Names of the Directors of the Subsidiary Company of CDB Micro Finance Company Limited Holding Office as at 31st March 2014.

Name	Other Information
Mr. R Renganathan	Non-Executive Director
Mr. P A Jayawardena	Non-Executive Director
Mr. E T L Ranasinghe	Non-Executive Director
Mr. W P C M Nanayakkara	Non-Executive Director

### Re-election of Directors by Rotation

In terms of Articles 24 (6) and 24 (7) of Articles of Association of the Company, Messrs P A J Jayawardena, S R Abeynayake, D A De Silva and D H J Gunawardena retire by rotation and being eligible, offer themselves for re-election.

### Board Sub-Committees

The Board of Directors while assuming the overall responsibility and accountability for the management of the Company has also appointed Board Sub-committees 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 under the Finance Business Act No. 42 of 2011 and adopting the best practices accordingly.

Board Sub-committee	Composition
Audit Committee	Mr. D H J Gunawardena Chairman
	Mr. S R Abeynayake Member
	Mr. Razik Mohamed Member
	Mr. D A De Silva Member
Integrated Risk Management Committee	Mr. D A De Silva Chairman
	Mr. Razik Mohamed Member
	Mr. W P C M Nanayakkara Member
	Mr. R H Abeygoonewardena Member
	Mr. S V Munasinghe Member
	Mr. T M D P Tennakoon Member
Remuneration Committee	Mr. S R Abeynayake Chairman
	Mr. Razik Mohamed Member
	Dr. Ajantha Dharmasiri Member
Nomination Committee	Mr. P A J Jayawardena Chairman
	Mr. S R Abeynayake Member
	Mr. W P C M Nanayakkara Member
Credit Committee	Mr. W P C M Nanayakkara Chairman
	Mr. R H Abeygoonewardena Member
	Mr. S V Munasinghe Member
	Mr. T M D P Tennakoon Member

## Directors Dealings in Shares and Debentures

### Directors' Interest in Ordinary Voting Shares of the Company

Composition	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	Voting	Voting	Non-Voting	Non-Voting
Mr. D H J Gunawardena	Nil	Nil	Nil	Nil
Mr. W P C M Nanayakkara	29,660	29,660	28,941	28,941
Mr. R H Abeygoonewardena	34,103	31,500	5,447	5,447
Mr. S R Abeynayake	Nil	Nil	Nil	Nil
Dr. Ajantha Dharmasiri	Nil	Nil	Nil	Nil
Mr. D A De Siva	Nil	Nil	Nil	Nil
Mr. P A J Jayawardena	500	500	22	22
Mr. Razik Mohamed	Nil	Nil	Nil	Nil
Mr. S V Munasinghe	40,500	40,000	9,411	9,411
Mr. T M D P Tennakoon	42,000	42,000	7,262	7,262
Mr. W W K M Weerasooriya	7,000	7,000	1,209	1,209

### Directors' Interest in Debentures

There were no Debentures registered in the name of any Director as at 31st March 2014. However, Mr. D H J Gunawardena and Mr. S R Abeyanayake are Directors of Ceylinco Insurance PLC, where Rs. 224.77 Mn debentures are registered under Ceylinco Insurance PLC.

Directors' shareholdings in Ordinary Voting shares, Ordinary Non-Voting shares and Directors' interest in Debentures have not changed subsequent to the date of the Statement of Financial Position, and up to 19th May 2014 the date being two weeks prior to the date of Notice of the Annual General Meeting.

Details are given in the Income Statements of the Financial Statements.

### Profit and Appropriations

The net profit after tax of the Group for 2013/14 was Rs. 561.12 Mn (Rs. 489.06 Mn for 2012/13) while profit before tax for the Company and the Group were up by 17% and 25% respectively.

## Review of the Financial Performance during the Year

### Financial Results

#### Income

Interest income represents the Company's main income. The total income for the year 2013/14 and 2012/13 were as follows:

Composition	Company		Group	
	2013/14	2012/13	2013/14	2012/13
	Rs.	Rs.	Rs.	Rs.
Income	6,125,161,547	4,311,850,070	6,125,161,547	4,311,850,070
Interest Income	5,895,603,537	4,087,387,160	5,895,603,537	4,087,387,160
Non-Interest Income	229,558,010	224,462,910	229,558,010	224,462,910
Operating Income	2,740,162,049	1,925,279,811	2,740,162,049	1,925,279,811

Details regarding the profit and appropriations of the Company are given below:

	2013/14	2012/13
	Rs.	Rs.
Profit before Tax	729,968,049	624,282,545
Provision for Taxation	168,755,278	135,118,484
Net Profit	561,212,771	489,164,061
Comprehensive Income for the Year	(25,713,942)	6,803,343
Retained Earnings Brought Forward	746,592,019	517,351,677
Profit Available for Appropriation	1,282,090,848	1,013,319,081
<b>Appropriations</b>		
Statutory Reserve Fund (SRF)	112,242,554	106,974,925
Investment Fund Account (IFA)	36,812,258	29,830,847
Final Cash Dividend Paid	(149,339,319)	59,820,560
Final Scrip Dividend Paid	-	70,100,730
Balance Carried Forward	983,696,717	746,592,019
Dividend Proposed	-	-
Final Cash Dividend Proposed at Rs. 3.00 per Share	162,915,621	149,339,319

### 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 172 to 173.

	Company		Group	
	2013/14	2012/13	2013/14	2012/13
	Rs.	Rs.	Rs.	Rs.
Revaluation Reserve	132,765,013	132,765,013	132,765,013	132,765,013
Investment Fund Account (IFA)	87,745,449	50,933,191	87,745,449	50,933,191
Statutory Reserve Fund (SRF)	497,954,363	385,711,809	497,954,363	385,711,809
AFS Reserve	689,690,925	464,034,525	689,690,925	464,034,525
Retained Profit	983,696,717	746,592,019	983,495,817	746,491,219
<b>Total</b>	<b>2,391,852,467</b>	<b>1,780,036,557</b>	<b>2,391,651,667</b>	<b>1,779,935,757</b>

### Provision for Taxation

The income tax rate applicable to the Company for the year 2013/14 is 28% (2012/13 - 28%). The Company is also subject to tax on value added on financial services at the rate of 12%. (2012/13 - 12%).

The information on income tax expenses of the Company and Group is given in Note 13 to the Financial Statements on page 200.

### Minimum Capital Requirement

The Company ensures that it maintains the statutory requirement on minimum capital to 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 195 of this Annual Report.

### Dividends on Ordinary Shares

The Board of Directors recommends a final cash dividend of Three Rupees (Rs. 3.00) per share on both its 46,299,223 voting ordinary shares and 8,005,984 non-voting ordinary shares aggregating to a sum of Rs. One Hundred Sixty Two Million Nine Hundred Fifteen Thousand Six Hundred and Twenty One only (Rs. 162,915,621) as the first and final dividend for the financial year 2013/14.



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 on the 7 market day of the Annual General Meeting.

In compliance with Finance Companies Guideline No. 1 of 2013, the Company has obtained the approval of the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the proposed dividend.

### Stated Capital and Debentures

The stated capital of the Company as at 31st March 2014 was Rs. 1,185 Mn consisting of ordinary voting shares of 46,299,223 and ordinary non-voting shares of 8,005,984 (2012/13 - 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 2014 was Rs. 1,125,000,000/- consisting of 11,250,000 debentures at Rs. 100/- each (2012/13 - Rs. 250,000,000/-).

### Issue of Shares and Debentures

Details of the ordinary shares and debentures issued by the Company are given in the table below:

	Company		Group	
	2013/14	2012/13	2013/14	2012/13
Ordinary Shares				
Rights Issue of Ordinary Voting Shares				
No. of Shares		Nil		Nil
Consideration Received (Rs.)		Nil		Nil
Rights Issue of Ordinary Non-Voting Shares				
No. of Shares		Nil		Nil
Consideration Received (Rs.)		Nil		Nil
By Way of Scrip Dividend				
Ordinary Voting Shares Issued		Nil		Nil
Consideration Received (Rs.)		Nil		Nil
Ordinary Non-Voting Shares Issued		Nil		Nil
Consideration - Transfers from Retained Profit to Stated Capital (Rs.)		70,100,730		70,100,730
Debentures				
No. of Debentures Issued	10,000,000	Nil	10,000,000	Nil
Consideration Received (Rs.)	1,000,000,000	Nil	1,000,000,000	Nil

### Shareholding

There were 2,162 registered voting shareholders and 2,076 non-voting shareholders as at 31st March 2014. The details of Top Twenty Shareholders, public holding, analysis of distribution of shareholders and market information of the shares are given under the Investor Information on pages 224 to 233 of this Annual Report.

Information relating to Earnings, Dividend, Net Assets per Share, Market Value per Share is given in Investor Information on pages 224 to 233.

### 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.

### Property, Plant & Equipment

The Total Capital Expenditure on acquisition of property, plant, computer applications, software and equipment of the Company amounted to Rs. 450 Mn (2012/13 - Rs. 126.2 Mn). The detailed note on acquisition of Property, Plant & Equipment is given under the Note 25 of the Financial Statements on page 212.

## Market Value of Freehold Property

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer as at 31st March 2013 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 under Note 25 to the Financial Statements.

## Corporate Governance

The Board of Directors is dedicated in maintaining an effective corporate governance framework, which ensures that the Company complies with the Codes of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka & the Securities and Exchange Commission of Sri Lanka and by the Central Bank 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 has reviewed the business plans and is satisfied that the Company has adequate resources to continue its operations in the near future; and
- e. They 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.

## Employment

Group employment policies are based on recruiting the best people, providing them training to enhance their skills, recognition of innate 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 2014 was 1,109.

## Human Resources

The strategies practiced by the Human Resource 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.

## 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 system 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.

## Environmental Protection

The 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. The Company has commenced a new project which recycles malfunctioned or unused mobile phones or neutralised CFL Bulbs.

## 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 are considered and where necessary, adjusted to or disclosed in the Financial Statements.

### 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 in time.

### 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.

### Compliance with Laws and Regulations

The Company and the Group have not engaged in any activity contravening the relevant laws and regulations. The Compliance Manager is responsible for ensuring compliance with the provisions in various laws and regulations and confirms such compliance to the Board on a monthly basis.

### Appointment of Auditors

The Financial Statements for the year ended 31st March 2014 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, Messrs 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. 1,500,000/- as Audit Fee for the year ended 31st March 2014 which has been approved by the Board.

The Directors recommend their reappointment.

### Notice of the Meeting

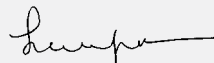
Notice relating to 18th Annual General Meeting of the Company is enclosed herewith.

### Acknowledgements of the Contents of the Report

The Board of Directors does hereby acknowledge the contents of this Annual Report as per the requirement of Section 168 (1) (k) of the Companies Act No. 07 of 2007.

Signed in accordance with the resolution adopted by the Directors.

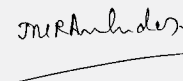
By order of the Board,



**D H J Gunawardena**  
Chairman



**W P C M Nanayakkara**  
Managing Director



**SSP Corporate Services (Pvt) Limited**  
Company Secretary

2nd June 2014  
Colombo

# STATEMENT OF DIRECTORS RESPONSIBILITY

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

The responsibility of the Directors in relation to the Financial Statements of the Company and the Group prepared in compliance and conformity with the requirements of the following rules, regulations and guidelines is set out in this Statement:

- 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 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, Income Statement, Statement of Changes in Equity, Cash Flow Statement and the Notes to the Financial Statements.

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 any material variances if any have been disclosed and explained. Judgments and estimates have been made which are reasonable and prudent and all applicable standards as relevant have been followed.

The Directors have taken reasonable measures to safeguard the assets of the Company and the Group and to prevent and detect frauds and other irregularities. Accordingly, the Directors have taken steps to establish appropriate systems of internal controls comprising of internal audit, checks, risk assessment tests and financial and other controls to mitigate, prevent and detect fraud and other irregularities.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of dividends paid and payable (Proposed) conforming to the Section 57 of the Companies Act No. 07 of 2007.

Further, The Board of Directors wishes to confirm that the Company has met requirements under the Section 07 of the Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange where applicable.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who has 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, they have reasonable expectation that the Company and its Subsidiary have acquired 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,

(sgd.)  
D H J Gunawardena  
Chairman

(sgd.)  
W P C M Nanayakkara  
Managing Director

2nd June 2014  
Colombo

# REMUNERATION COMMITTEE REPORT

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

## Composition

The Board-appointed Remuneration Committee as at end of the year comprises following members. The Chairman of the Committee is a Non-Executive Director and the others are Non-Executive Independent Directors.

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

## Company Remuneration Policy

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

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

## Purpose

Remuneration Committee recommends adoption of a market-oriented remuneration policy for its staff and ensure the selection of the best talent and create incentives for staff for their performance and loyalty. The Committee also reviews the recruitment, evaluation of employee performance, incentive schemes, bonus policy of the Company, rewarding and promotions policy of the Senior Management and Executive Officers of the Company. The succession plan policy in place and its effectiveness is critically evaluated by the Committee. The Committee evaluates the performance of the CEO and Key Management Personnel against pre-determined set targets and goals to determine the basis for recommending the basis for rewarding, increments and other benefits.

It considers such other matters relating to remuneration policies or practices as the Board, may from time to time bring to its attention of the Committee.

Further the Committee consciously evaluates the appropriateness of the current remuneration policy adopted by the Company for its suitability and appropriateness.

## Meetings

The Committee met once during the year ended 31st March 2014.

(Sgd.)

**S R Abeynayake**  
*Chairman*

Remuneration Committee

2nd June 2014  
Colombo

# INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

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 Section 12 of the Finance Business Act No. 42 of 2011 with the following objectives:

1. For better circulation of risk management information.
2. A quicker implementation of action plans in response to accidents.
3. To ensure all departments play an active role in risk reduction and quality improvement.

The Committee lends a hand to the Board in fulfilling their oversight responsibilities with respect to decisions on risk appetite and makes sure that significant risks are competently managed. It clearly sets out the membership, source of authority, duties and responsibilities.

## Composition and Appointment

The Board-appointed Integrated Risk Management Committee (IRM) as at the end of the year comprised of the following members:

Mr. D A De Silva (Chairman)  
 Mr. R Mohamed  
 Mr. W P C M Nanayakkara  
 Mr. R H Abeyagoonewardena  
 Mr. S V Munasinghe  
 Mr T M D P Tennakoon  
 Mr. W W K M Weerasooriya  
 Mr. N Imdaad  
 Mr. E Karthik  
 Mr. M B Heenkenda  
 Ms. N Kodagoda  
 Mr. H K Dasanayaka  
 Mr. H R Bandara

The members of the Committee include Chief Executive Officer, four Executive Directors and personnel representing Senior Management who are assigned to identified specific areas of risk encompassing credit, liquidity, operational, market, reputation, compliance, Information and communication technology, and strategic and the Committee is chaired by an Independent Director. The structure of governance matrix of the risks of the Company is as follows:

	Level of Authority		
	Board of Directors	Risk Management Committee	Management Committee
	Decide on the risk appetite of the Company	Formulates the risk policies and makes recommendations to the Board	Measuring and monitoring risk
Responsibility	Ensure significant risks are managed accordingly with risk mitigation objectives discussed in the risk management section of the Annual Report	Ensure that the Company's risk mitigation strategy is aligned to the risk appetite of the Company	Compliance with regulatory and supervisory requirements
		Overseeing the compliance of the operation with relevant laws, regulations, and standards to ensure conformance to all relevant rules and regulations	Benchmark with best practices
		Ensuring that the Board of Directors is kept aware of the Company's risk exposure and ensure to mitigate those risks while achieving high level of performance	Executing policy framework approved by the Board.
		Review existing policies and procedures for mitigation of risks faced by the Company	
		Making recommendations to the Board on risk management concerns	

## Committee Meetings

During the financial year under review, the Committee held four meetings on a quarterly basis. The discussions and conclusions reached at the meetings are recorded in minutes and circulated to the Board of Directors for information and advice on a quarterly basis.

The Committee assesses all key risks such as credit, operational, market, liquidity etc., on a monthly basis through a set of risk indicators. The Committee continued to work very closely with the Key Management Personnel and the Board of Directors in fulfilling its statutory, fiduciary and regulatory responsibilities for risk management.

## Committee Activities

The proposals of new products which were introduced during the financial year, were evaluated with regard to different risk areas before approving the implementation. Committee reviewed monthly reports on key risk indicators and management actions taken with regard to maintaining risk within Company's risk appetite. The Committee also reviewed updates from the three management committees which are also involved in risk management namely ALCO, Compliance and Credit Committees. The Committee has regularly updated the Board on the performance of identified risk indicators and prudential limits defined and approved by the Board.

## Committee Evaluation

The Committee evaluates its effectiveness annually and concluded its performance was effective.

*(sgd.)*

**D A De Silva**

*Chairman*

Integrated Risk Management Committee

2nd June 2014

Colombo

# REPORT OF THE BOARD AUDIT COMMITTEE

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

## Membership and Appointment

The Audit Committee appointed by and responsible to the Board of Directors of Citizens Development Business Finance PLC consists of four Non-Executive Directors all of whom are members of recognised professional accounting bodies and possess wide ranging financial, commercial and management experience. Two members of the Committee are Independent Non-Executive Directors, one of them being the Senior Director. The biographical details of the members of the Audit Committee, namely, Mr. D H J Gunawardena, Mr. D A De Silva, Mr. S R Abeynayake and Mr. Razik Mohammed, are set out in the Directors profiles section of the Annual Report. Mr. D H J Gunawardena was appointed as the Chairman of the Audit Committee.

## Role of the Audit Committee

The main objective of the Audit Committee is to assist the Board of Directors in exercising its responsibilities towards its stakeholders. The Committee is empowered among other things, to ensure that adequate systems of internal control are in place, to see that sound corporate governance practices are upheld within the Company, to examine any matters relating to the financial affairs of the Company and ensure adherence to statutory and regulatory requirements.

The Terms of Reference of the Audit Committee are defined in the Audit Charter. During the year under review, the Terms of Reference were reviewed and amended to include further responsibilities particularly with regard to risk management processes and controls.

## 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, Chief Financial Officer, Chief Operations Officer, the Head of Internal Audit and other Executive Directors attend 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 Committee Chairman reports regularly to the Board on relevant matters.

Four meetings were held during the period under review. At two of these meetings, the External Auditors were present and were represented by the engagement partner.

## Financial Statements

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.

## 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 Audit Department's reports on the effectiveness of internal controls, significant frauds and any fraud that involved employees of the Company and took action to strengthen the internal controls where necessary.

## External Audit

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 independence.

The Management Letter issued by the External Auditors in respect of the financial year ended 31st March 2013 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.



## Internal Audit

The Committee engaged in the discussion and review of the internal audit plan for the year, along with its resource requirements. The Committee also reviewed selected audit reports covering various functions of the Company and followed up the implementation of audit recommendations confirmed by the Committee.

The Information Systems Audit Plan for 2013/14 was also studied in detail and approved by the Committee.

## Statutory and Regulatory Compliance

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

## 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.

The Audit Committee having considered the independence and performance of the External Auditors KPMG (Chartered Accountants) recommend that they be reappointed as the Company's statutory auditors for the financial year ending 31st March 2015, subjected to the approval of shareholders at the forthcoming Annual General Meeting.

*(Sgd.)*

**D H J Gunawardena**

*Chairman*

Audit Committee

2nd June 2014

Colombo

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

## 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 on-going 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 carried out manually. 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 system of Internal Controls over Financial Reporting. The matters addressed by the External Auditors will be considered and appropriate steps would be taken to rectify them in the future.

By order of the Board,

*(Sgd.)*

**D H J Gunawardena**  
Audit Committee  
*Chairman*

*(Sgd.)*

**C M Nanayakkara**  
*Managing Director*

*(Sgd.)*

**Damith Tennakoon**  
*Director/CFO*

2nd June 2014



**KPMG**  
 (Chartered Accountants)  
 32A, Sir Mohamed Macan Markar Mawatha,  
 P. O. Box 186,  
 Colombo 00300,  
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 Internet : www.lk.kpmg.com

**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 ("the Group"), which comprise the statements of financial position as at 31st March 2014, the statements of total 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 170 to 222 of the annual report.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Scope of Audit and Basis of Opinion*

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

*Opinion - Company*

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st March 2014 and the financial statements give a true and fair view of the financial position of the Company as at 31st March 2014, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

*Opinion - Group*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiary dealt with thereby as at 31st March 2014, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

*Report on Other Legal and Regulatory Requirements*

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

**Chartered Accountants**

2nd June 2014

Colombo

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 ACA	S.T.D.L. Perera FCA
G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA	Ms. B.K.D.T.N. Rodrigo ACA

**Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA**

# STATEMENT OF COMPREHENSIVE INCOME

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

	Notes	Company		Group	
		2014	2013	2014	2013
		Rs.	Rs.	Rs.	Rs.
			(Restated)		(Restated)
<i>For the year ended 31st March</i>					
<b>Income</b>	6	<b>6,125,161,547</b>	<b>4,311,850,070</b>	<b>6,125,161,547</b>	<b>4,311,850,070</b>
Interest income	7	5,895,603,537	4,087,387,160	5,895,603,537	4,087,387,160
Interest expenses	8	3,553,402,757	2,386,570,259	3,553,402,757	2,386,570,259
<b>Net interest income</b>		<b>2,342,200,780</b>	<b>1,700,816,901</b>	<b>2,342,200,780</b>	<b>1,700,816,901</b>
<b>Fee and commission income</b>	9	<b>159,708,801</b>	<b>119,915,360</b>	<b>159,708,801</b>	<b>119,915,360</b>
<b>Net Interest, fee and commission income</b>		<b>2,501,909,581</b>	<b>1,820,732,261</b>	<b>2,501,909,581</b>	<b>1,820,732,261</b>
Other operating income	10	238,852,468	104,547,550	238,852,468	104,547,550
<b>Total operating income</b>		<b>2,740,162,049</b>	<b>1,925,279,811</b>	<b>2,740,162,049</b>	<b>1,925,279,811</b>
Less: Impairment charges for loans and other losses	11	507,390,234	128,788,059	507,390,234	128,788,059
<b>Net operating income</b>		<b>2,232,771,815</b>	<b>1,796,491,752</b>	<b>2,232,771,815</b>	<b>1,796,491,752</b>
<b>Less: Operating expenses</b>	12				
Staff costs		522,946,764	432,570,913	522,946,764	432,570,913
Premises, equipment and establishment expenses		642,418,529	446,264,762	642,518,529	446,364,762
Other operating expenses		284,777,597	252,397,173	284,777,597	252,397,173
		1,450,142,890	1,131,232,848	1,450,242,890	1,131,332,848
<b>Operating profit before value added tax</b>		<b>782,628,925</b>	<b>665,258,904</b>	<b>782,528,925</b>	<b>665,158,904</b>
Less: Value added tax on financial services		52,660,876	40,976,359	52,660,876	40,976,359
<b>Profit before tax</b>		<b>729,968,049</b>	<b>624,282,545</b>	<b>729,868,049</b>	<b>624,182,545</b>
Income tax expense	13	168,755,278	135,118,484	168,755,278	135,118,484
<b>Profit for the year</b>		<b>561,212,771</b>	<b>489,164,061</b>	<b>561,112,771</b>	<b>489,064,061</b>
<b>Profit attributable to-</b>					
Non-controlling interests		-	-	-	-
Equity holders of the parent		561,212,771	489,164,061	561,112,771	489,064,061
<b>Profit for the year</b>		<b>561,212,771</b>	<b>489,164,061</b>	<b>561,112,771</b>	<b>489,064,061</b>
<b>Other comprehensive income:</b>					
Net actuarial gain/(loss) on defined benefit plans	31	(25,713,942)	6,803,343	(25,713,942)	6,803,343
Net gain/(loss) on re-measuring of available-for-sale financial investments		225,656,400	105,750,000	225,656,400	105,750,000
Net change in revaluation surplus		-	120,698,727	-	120,698,727
<b>Other comprehensive income for the year net of tax</b>		<b>199,942,458</b>	<b>233,252,070</b>	<b>199,942,458</b>	<b>233,252,070</b>
<b>Total comprehensive income for the year</b>		<b>761,155,229</b>	<b>722,416,131</b>	<b>761,055,229</b>	<b>722,316,131</b>
<b>Total comprehensive income attributable to-</b>					
Non-controlling interests		-	-	-	-
Equity holders of the parent		761,155,229	722,416,131	761,055,229	722,316,131
<b>Total comprehensive income for the year</b>		<b>761,155,229</b>	<b>722,416,131</b>	<b>761,055,229</b>	<b>722,316,131</b>
Basic earnings per share	14	10.33	9.01	10.33	9.01
Dividend per share	15	3.00	2.75	3.00	2.75

The Notes to the Financial Statements form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

# STATEMENT OF FINANCIAL POSITION

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

As at 31st March	Notes	Company		Group	
		2014	2013	2014	2013
		Rs.	Rs. (Restated)	Rs.	Rs. (Restated)
<b>Assets</b>					
Cash and cash equivalents	17	462,555,296	205,326,279	465,890,822	208,661,805
Deposits with commercial banks	18	2,706,172,054	1,335,271,762	2,706,172,054	1,335,271,762
Loans and receivables to customers	19	25,724,944,295	19,450,586,882	25,724,944,295	19,450,586,882
Financial investments - available-for-sale	20	789,600,000	563,943,600	789,600,000	563,943,600
Financial investments - held-to-maturity	21	1,834,691,042	1,150,590,251	1,834,691,042	1,150,590,251
Financial investments - loans and receivable	22	227,999,991	140,164,014	227,999,991	140,164,014
Investment in subsidiary	23	2,745,447	2,745,447	-	-
Investment property	24	20,197,977	20,197,977	20,197,977	20,197,977
Property, plant and equipment	25	1,004,470,809	657,717,807	1,004,470,809	657,717,807
Intangible assets	26	77,783,761	69,115,379	77,783,761	69,115,379
Other assets	27	917,381,613	858,272,042	917,380,813	858,272,042
<b>Total assets</b>		<b>33,768,542,285</b>	<b>24,453,931,440</b>	<b>33,769,131,564</b>	<b>24,454,521,519</b>
<b>Liabilities</b>					
Deposits from customers	28	24,518,192,737	17,771,172,664	24,518,192,737	17,771,172,664
Debentures	29	1,172,332,835	259,378,311	1,172,332,835	259,378,311
Other interest-bearing borrowings	30	3,142,005,650	2,503,704,580	3,142,005,650	2,503,704,580
Current tax liabilities		48,333,210	92,965,307	48,738,286	93,370,384
Deferred tax liabilities	31	145,383,295	31,912,358	145,383,295	31,912,358
Retirement benefit obligations	32	159,241,654	103,164,100	159,241,654	103,164,100
Other liabilities	33	1,006,138,792	726,535,918	1,006,523,795	726,821,720
<b>Total liabilities</b>		<b>30,191,628,173</b>	<b>21,488,833,238</b>	<b>30,192,418,252</b>	<b>21,489,524,117</b>
<b>Equity</b>					
Stated capital	34	1,185,061,645	1,185,061,645	1,185,061,645	1,185,061,645
Statutory reserve fund	35	497,954,363	385,711,809	497,954,363	385,711,809
Revaluation reserve	36	132,765,013	132,765,013	132,765,013	132,765,013
Investment fund account	37	87,745,449	50,933,191	87,745,449	50,933,191
Available for sale reserve		689,690,925	464,034,525	689,690,925	464,034,525
Retained earnings		983,696,717	746,592,019	983,495,917	746,491,219
Total equity attributable to equity holders of the parent		3,576,914,112	2,965,098,202	3,576,713,312	2,964,997,402
Non-controlling interests		-	-	-	-
<b>Total equity</b>		<b>3,576,914,112</b>	<b>2,965,098,202</b>	<b>3,576,713,312</b>	<b>2,964,997,402</b>
<b>Total equity and liabilities</b>		<b>33,768,542,285</b>	<b>24,453,931,440</b>	<b>33,769,131,564</b>	<b>24,454,521,519</b>
Net Asset Value Per Ordinary Share		65.87	54.60	65.87	54.60

Notes to the Financial Statements form an integral part of these Financial Statements.

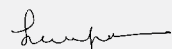
I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007 and Finance Business Act No. 42 of 2011.



**Damith Tennakoon**  
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



**W P C M Nanayakkara**  
Managing Director/CEO

2nd June 2014

Colombo

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

## Company

	Stated Capital Rs.
Balance as at 1st April 2012	1,114,960,915
Restated profit for the year (Note 32)	
Restated other comprehensive income for the year (Note 32)	
<b>Total comprehensive income for the year</b>	
<b>Transactions with equity holders, recognised directly in equity contributions by and distributions to equity holders</b>	
Final dividends for year- scrip 2011/12	70,100,730
Final dividends for year - cash 2012/13	
Transfers during the year	
<b>Total contributions by and distributions to equity holders</b>	1,185,061,645
<b>Balance as at 31st March 2013</b>	1,185,061,645
Balance as at 1st April 2013	1,185,061,645
Profit for the year	
Other comprehensive income for the year	
<b>Total comprehensive income for the year</b>	
<b>Transactions with equity holders, recognised directly in equity contributions by and distributions to equity holders</b>	
Final dividends for year 2012/13	
Transfers during the year	
<b>Total contributions by and distributions to equity holders</b>	1,185,061,645
<b>Balance as at 31st March 2014</b>	1,185,061,645

## Group

	Stated Capital Rs.
Balance as at 1st April 2012	1,114,960,915
Restated profit for the year (Note 32)	
Restated other comprehensive income for the year (Note 32)	
<b>Total comprehensive income for the year</b>	
<b>Transactions with equity holders, recognised directly in equity contributions by and distributions to equity holders</b>	
Final dividends for year- Scrip 2011/12	70,100,730
Final dividends for year - cash 2011/12	
Shares issued	
Transfers during the year	
<b>Total contributions by and distributions to equity holders</b>	1,185,061,645
<b>Balance as at 31st March 2013</b>	1,185,061,645
Balance as at 1st April 2013	1,185,061,645
Profit for the year	
Other comprehensive income for the year	
<b>Total comprehensive income for the year</b>	
<b>Transactions with equity holders, recognised directly in equity contributions by and distributions to equity holders</b>	
Final dividends for year 2012/13	
Transfers during the year	
<b>Total contributions by and distributions to equity holders</b>	1,185,061,645
<b>Balance as at 31st March 2014</b>	1,185,061,645

The Notes to the Financial Statements form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

MANAGEMENT DISCUSSION &amp; ANALYSIS : 051-099

STEWARDSHIP : 100-148

**FINANCIAL REPORTS : 149-222**

ANNEXES : 223-248

Attributable to Equity Holders of Parent					Non-Controlling Interest Rs.	Total Equity Rs.
Revaluation Reserve Rs.	Available-for-Sale Reserve Rs.	Investment Fund Account Rs.	Statutory Reserve Fund Rs.	Retained Earnings Rs. (Restated)		
12,066,286	358,284,525	21,102,344	278,736,884	517,351,677		2,302,502,631
				489,164,061		489,164,061
120,698,727	105,750,000			6,803,343		233,252,070
120,698,727	105,750,000			495,967,404		722,416,131
				(70,100,730)		0
				(59,820,560)		(59,820,560)
		29,830,847	106,974,925	(136,805,772)		0
132,765,013	464,034,525	50,933,191	385,711,809	746,592,019		2,965,098,202
132,765,013	464,034,525	50,933,191	385,711,809	746,592,019		2,965,098,202
132,765,013	464,034,525	50,933,191	385,711,809	746,592,019		2,965,098,202
				561,212,771		561,212,771
	225,656,400			(25,713,942)		199,942,458
	225,656,400			535,498,828		761,155,229
				(149,339,319)		(149,339,319)
		36,812,258	112,242,554	(149,054,812)		0
132,765,013	689,690,925	87,745,449	497,954,363	983,696,717		3,576,914,112
132,765,013	689,690,925	87,745,449	497,954,363	983,696,717		3,576,914,112

Attributable to Equity Holders of Parent					Non-Controlling Interest Rs.	Total Equity Rs.
Revaluation Reserve Rs.	Available-for-Sale Reserve Rs.	Investment Fund Reserve Rs.	Reserve Fund Rs.	Retained Earnings Rs. (Restated)		
12,066,286	358,284,525	21,102,344	278,736,884	517,350,877		2,302,501,831
				489,064,061		489,064,061
120,698,727	105,750,000			6,803,343		233,252,070
120,698,727	105,750,000			495,867,404		722,316,131
				(70,100,730)		0
				(59,820,560)		(59,820,560)
		29,830,847	106,974,925	(136,805,772)		0
132,765,013	464,034,525	50,933,191	385,711,809	746,491,219		2,964,997,402
132,765,013	464,034,525	50,933,191	385,711,809	746,491,219		2,964,997,402
132,765,013	464,034,525	50,933,191	385,711,809	746,491,219		2,964,997,402
				561,112,771		561,112,771
	225,656,400			(25,713,942)		199,942,458
	225,656,400			535,398,829		761,155,229
				(149,339,319)		(149,339,319)
		36,812,258	112,242,554	(149,054,812)		0
132,765,013	689,690,925	87,745,449	497,954,363	983,495,917		3,576,713,312
132,765,013	689,690,925	87,745,449	497,954,363	983,495,917		3,576,713,312

# STATEMENT OF CASH FLOW

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

For the year ended 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>Cash flow from operating activities</b>				
Interest receipts	5,786,355,711	4,154,193,935	5,786,355,711	4,154,193,935
Commission receipts	165,333,038	114,708,002	165,333,038	114,708,002
Other income receipts	59,600,783	106,833,228	59,600,783	106,833,228
Interest payments	(3,251,950,602)	(2,070,883,097)	(3,251,950,602)	(2,070,883,097)
Fee and business promotion expenses	(64,973,151)	(62,884,584)	(64,973,151)	(62,884,584)
Employee-related payments	(491,755,275)	(343,678,781)	(491,755,275)	(343,678,781)
Supplier payments	(616,951,912)	(154,777,607)	(616,951,912)	(154,777,607)
Financial expenses	(24,560,204)	(17,148,050)	(24,560,204)	(17,148,050)
<b>Operating profit before changes in operating assets</b>	<b>1,561,098,388</b>	<b>1,726,363,046</b>	<b>1,561,098,388</b>	<b>1,726,363,046</b>
<b>(Increase)/decrease in operating assets</b>				
Investments in licensed commercial banks and other financial institutions	(1,261,652,466)	(832,681,347)	(1,261,652,466)	(832,681,347)
Investments in Government Securities	(771,936,768)	(374,632,094)	(771,936,768)	(374,632,094)
Net funds advanced to customers	(6,613,344,388)	(6,169,188,965)	(6,613,344,388)	(6,169,188,965)
Changes in other short-term assets	(192,953,232)	(174,615,468)	(192,953,232)	(174,615,468)
Inventories	27,240,730	(212,632,452)	27,240,730	(212,632,452)
	(7,251,547,736)	(6,037,387,280)	(7,251,547,736)	(6,037,387,280)
<b>Increase/(decrease) in operating liabilities</b>				
Borrowings	638,301,070	586,438,656	638,301,070	586,438,656
Deposits from customers	6,445,567,918	5,808,594,701	6,445,567,918	5,808,594,701
	7,083,868,988	6,395,033,357	7,083,868,988	6,395,033,357
<b>Net cash generated from/(used in) operations</b>	<b>(167,678,748)</b>	<b>357,646,077</b>	<b>(167,678,748)</b>	<b>357,646,077</b>
Gratuity paid	(827,877)	(493,460)	(827,877)	(493,460)
Taxation	1,062,256	31,338,880	1,062,256	31,338,880
<b>Net cash generated from/(used in) operation</b>	<b>(167,444,369)</b>	<b>388,491,497</b>	<b>(167,444,369)</b>	<b>388,491,497</b>
<b>Cash flow from investing activities</b>				
Dividend receipts	7,068,000	3,684,000	7,068,000	3,684,000
Net investment in debentures	–	(4,000,000)	–	(4,000,000)
Purchase of property, plant & equipment and intangible assets	(469,608,960)	(220,758,047)	(469,608,960)	(220,758,047)
Proceeds from sale of property, plant & equipment	4,531,247	2,062,499	4,531,247	2,062,499
<b>Net cash flow (used in)/from investing activities</b>	<b>(458,009,707)</b>	<b>(219,011,548)</b>	<b>(458,009,707)</b>	<b>(219,011,548)</b>



For the year ended 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>Cash flow from financing activities</b>				
Dividend paid	(149,339,319)	(59,820,560)	(149,339,319)	(59,820,560)
Net change in debentures	912,954,524	–	912,954,524	
<b>Net cash inflows/(used in) financing activities</b>	<b>763,615,205</b>	<b>(59,820,560)</b>	<b>763,615,205</b>	<b>(59,820,560)</b>
Net increase in cash and cash equivalents	138,161,129	109,659,389	138,161,129	109,659,389
Cash and cash equivalents at the beginning of the year	60,925,730	(48,733,659)	64,261,256	(45,398,133)
<b>Cash and cash equivalents at the end of the year</b>	<b>199,086,859</b>	<b>60,925,730</b>	<b>202,422,385</b>	<b>64,261,256</b>
Cash and cash equivalents at the beginning of the year				
Cash at bank and in hand	205,326,279	121,343,098	208,661,805	124,678,624
Bank overdraft	(144,400,549)	(170,076,757)	(144,400,549)	(170,076,757)
	60,925,730	(48,733,659)	64,261,256	(45,398,133)
Cash and cash equivalents at the end of the year				
Cash at bank and in hand	462,555,296	205,326,279	465,890,822	208,661,805
Bank overdraft	(263,468,437)	(144,400,549)	(263,468,437)	(144,400,549)
	199,086,859	60,925,730	202,422,385	64,261,256

Notes to the Financial Statements form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

# NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

## 1. Reporting Entity

### 1.1 Corporate Information

Citizens Development Business Finance PLC ('CDB') is a 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. 18, Sri Sangaraja Mawatha, Colombo 10. The company was re-registered under the new Companies Act No. 07 of 2007.

CDB is licensed by the 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.

The staff strength of the Company as at 31st March 2014 is 1,109 (2013 - 825).

### 1.2 Principal Activities and Nature of Operation

Entity	Principal Business Activities
Company	Company provides a vast range of Financial Services which includes accepting deposits, leasing, hire purchase and loan facilities, pawn brokering, foreign exchange, foreign remittances, issuance of international debit cards, Islamic finance products and other financial services.
Subsidiary	
CDB Micro Finance Limited	Financial Services

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 2014 include the Company (Parent) and its fully-owned Subsidiary CDB Micro Finance Limited (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 Financial Statements of the Company which comprise Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow 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 provide appropriate disclosures required by the Listing Rules of the Colombo Stock Exchange.

### 2.3 Basis of Measurement

The Financial Statements have been prepared on historical cost basis except where appropriate disclosures are made with regards to fair value under relevant notes. Assets and liabilities are grouped by nature and in an order that reflect their relative liquidity. The Financial Statements have been prepared on the assumption that the Company will continue as a going concern for the foreseeable future.

### 2.4 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 and its Subsidiary's functional currency. There was no change in the Groups presentation and functional currency during the year under review.

### 2.5 Presentation of Financial Statements

The assets and liabilities of the Company 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 Comprehensive Income unless required or permitted by an Accounting Standard or interpretation, and as specifically disclosed in the Accounting Policies of the Company.

## 2.6 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statement. Items which are 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'.

## 2.7 Use of Estimates and Judgments

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRS/LKAS) 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 defer 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.

### 2.7.1 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 to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

### 2.7.2 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 Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements, as described in Note 3.4.4 on page 181.

### 2.7.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Comprehensive Income. In particular, 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 advances that have been assessed individually if such loans and advances 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.

### 2.7.4 Impairment Losses on Available-for-Sale Investment

The Company reviews its available-for-sale investments at the end of each reporting period to assess whether they are impaired.

The Company determines that there is an impairment charge 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 Company 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.

### 2.7.5 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 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.

### 2.7.6 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.

### 2.7.7 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. Due to the long-term nature of such obligation, these estimates are subject to significant uncertainty.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

### 3.1 Basis of Consolidation

The Financial Statements of the Group represent the consolidation of the Financial Statements of the Company and its subsidiary CDB Micro Finance Limited. Subsidiaries are entities that are controlled by the CDB.

Control exists when the CDB has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

CDB Micro Finance Limited is a fully-owned Subsidiary of the CDB and therefore, the non-controlling interest of the shareholders do not exist. The Consolidated Financial Statements incorporating all subsidiaries in the Group 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 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.

### 3.2 Foreign Currency Translations

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 Comprehensive Income. 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.

## Assets and Liabilities and Basis of Measurement

### Financial Assets and Financial Liabilities

#### 3.3 Cash and Cash Equivalents

Cash and Cash Equivalents include cash in hand and balance with banks.

Bank overdrafts that are repayable on demand and form an integral part of the Company'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 Consolidated Statement of Income while for available-for-sale financial assets any changes in fair value from the trade date to settlement date is accounted in the Statement of Other Comprehensive Income.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

All financial assets and liabilities are initially 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.

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:

- Loans and Receivables
- Held-to-Maturity Financial Assets
- Available-for-sale Financial Assets

#### 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 Company is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to ownership of the assets to the lessee, the arrangement is 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 measurement loans and receivable to customers are subsequently measured at amortised cost using the effective interest rate (EIR) less provision for impairment. Amortised cost is calculated by taking into account any premium/discount on acquisition and any fee and cost that are integral part of EIR. The amortisation is included In interest income in the Statement of Comprehensive Income.

#### Loans and Receivable - Financial Investment

This includes sale and repurchase agreements entered into with the banks and financial institutions. After the initial measurement they are subsequently measured at amortised cost using the EIR. Amortised 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 Comprehensive Income.

#### 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 the financial asset's fair value.
- Sale or reclassification after the Group has collected all the asset's original principal.
- Sale or reclassification attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

#### Available-for-sale Financial Assets

Available-for-sale 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 Comprehensive Income.

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 Comprehensive Income as a reclassification adjustment.

#### 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.

#### Financial Liabilities at Amortised Cost

Financial instruments issued by the Bank 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 Bank 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 Comprehensive Income. The details of the Company's financial liabilities at amortised cost is disclosed in Note 16.

#### Due to Banks and Other Financial Institutions

These represent borrowings from financial institutions. Subsequent to initial recognition deposits are measured at their amortised cost using the effective interest method. Interest paid/payable on these borrowings is recognised in Comprehensive Income.

#### 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 Comprehensive Income.

#### Financial Liabilities Measured at Cost

Financial liabilities not classified as fair value through profit or loss are classified as amortised cost instruments. Deposit liabilities including non-interest bearing deposits, savings deposits, term deposits, deposits redeemable at call and certificates of deposit and borrowings are classified as financial liabilities measured at amortised cost.

#### Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 3.4.2 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 to fair value through profit or loss 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 loans 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 amortised to the Statement of Comprehensive Income over the remaining life of the financial asset, using the effective interest method.

### 3.4.3 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 the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the 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 Comprehensive Income. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### 3.4.4 Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in Statement of Comprehensive Income on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out. Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

### 3.4.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to set off the recognized 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.

### 3.4.6 Identification, Measurement and Assessment of Impairment

At each reporting date the Group assesses whether there are objective evidence 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.

#### 3.4.6.1 Financial Assets carried at Amortized 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. 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.

In assessing collective impairment the Group uses 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 Comprehensive Income 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 Comprehensive Income.

#### 3.4.6.2 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, company assesses individually whether there is objective evidence of impairment based on the same criteria as other financial assets.

#### 3.4.6.3 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 schemes. 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 Group and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

#### 3.6.2 Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and its probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

#### 3.6.3 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.

#### 3.6.4 Amortisation

Intangible assets are amortised on a straight line basis in the Statement of Comprehensive Income 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 8 years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### 3.6.5 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 Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

### 3.7.1 Basis of Recognition

Investment property is 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 is 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 not 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 Statement of Comprehensive Income 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 Comprehensive Income.

## 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 cost incurred subsequently to add to, replace part of, or service it. 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 incidental 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 are 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 Comprehensive Income. 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 Income 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.

### 3.8.5 Subsequent Cost

The subsequent cost of replacing a component of an item of Property, Plant & Equipment is recognized 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 costs of day-to-day servicing of Property, Plant & Equipment are charged to the Statement of Comprehensive Income 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 Statement of Comprehensive 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 Company of the different types of assets. 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 management.

### 3.9 Borrowings

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 23 (LKAS 23) 'Borrowing Costs'. 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 the 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 CGU to which the corporate asset is allocated. Impairment losses are recognised in Statement of Comprehensive Income. 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.

## Liabilities and Provisions

### 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 19 (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 32. Actuarial gains or losses are recognised in the Statement of Comprehensive Income in the period in which they arise. The defined benefit obligation recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost.

The Company adopted LKAS 19 - 'Employee Benefits' with effect from 1st April 2013 in accordance with the transitional provisions in the Standard and changed its

basis for determining the income or expenses related to defined benefit plans.

As a result of the change, the Company now recognises all the remeasurements of the net defined benefit liability in Other Comprehensive Income. Remeasurement of the net defined benefit liability comprises an actuarial gain or loss. Previously, the Company recognised actuarial gain or loss in the Income Statement. The impact on change in the accounting policy has been applied retrospectively.

#### Funding Arrangement

The gratuity liabilities are not externally funded.

Gratuity payments are being made by the Group according to the Payment of Gratuity Act No. 12 of 1983.

As per the present policy of the Company the employees are entitled to payment of Gratuity as follows:

5 - 10 years Service	- ½ month basic salary for each year of service
10 - 15 years Service	- 1 month basic salary for each year of service
Over 15 years Service	- 1 ½ months basic salary for each year of service

#### 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 Employees' Provident Fund while the Group entities and their employees contribute the same percentages to Employees' Provident Fund.

##### Employees' Trust Fund

The Company/Group contribute 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 Bank retains substantially all of the 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 on 'Events after the Reporting Period'.

**3.14 Other Liabilities**

Other Liabilities include interest, 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.

**Income and Expense Recognition****3.15 Interest**

Interest income and expense are recognised in 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 Comprehensive Income 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 Comprehensive Income on an accrual basis when the Company's right to receive the dividend is established.

**3.17 Fee and Commission Income**

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 Property, Plant & Equipment**

Profit/loss from sale of Lease 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 Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

**Current Tax**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

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 13.

### 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 Deposit Insurance Scheme

As per the Direction No. 01 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 01st October 2010 all licensed finance companies are required to pay an Insurance Premium calculated at the rate of 0.15% per annum payable monthly for all eligible deposits as at the end of the month. Eligible deposits includes all the time deposits held by CDB except for -

- a. Deposit liabilities to Member Institutions
- b. Deposit liabilities to the Government of Sri Lanka inclusive of Ministries, Departments and Local Governments.
- c. Deposit liabilities to Shareholders, 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 Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

#### 3.21 Investment Fund Account

As proposed in the budget proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account. As and when taxes are paid after 1st January 2011 Licensed Finance Companies are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the Company.

- 8% of the value calculated for the payment of Value Added Tax on Financial Services on dates as specified in the VAT Act
- 5% of the profit before tax calculated for the payment of income tax purposes on dates specified in the Inland Revenue Act

Licensed Finance Companies shall utilise the funds in the Investment Fund Account in the following manner.

- Invest in long-term Government Securities and/or bonds with maturities not less than seven years
- Lend on maturities not less than five years at interest rates not exceeding 5-year Treasury Bond rates plus 2%

- Lend only for the following purposes:
  - i. Long-term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries
  - ii. Factory/mills modernisation/establishment/ expansion
  - iii. Small and medium enterprises Loans up to Rs. 30 Mn or over Rs. 10 Mn to enterprises with annual turnover less than Rs. 300 Mn and employees less than 400
  - iv. Information technology related activities and business process outsourcing
  - v. Infrastructure development
  - vi. Education - vocational training and tertiary education
  - vii. Restructuring of loans extended for the above purposes

### 3.22 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 14.

### 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 operating segments: Leasing and Hire Purchase, Loans and Pawning. 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.

### 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) No. 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 equivalent 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 Balance Sheet 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 legal right to set off the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities 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.

#### 4. New Accounting Standards Issued But Not Effective as at the Reporting Date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning and after the 1st January 2014 and 2015. Accordingly, these standards have not been applied in preparing these Financial Statements.

##### SLFRS 9 - Financial Instruments: Classification and Measurement

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of Financial Statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. SLFRS 9, as issued, reflects the first phase of work on replacement of Sri Lanka Accounting Standards (LKAS 39) - 'Financial Instruments Recognition and Measurements' and applies to classification and measurement of financial assets and liabilities.

The application of this standard has been currently deferred by the The Institute of Chartered Accountants of Sri Lanka, consequently to the International Accounting Standard Board's (IASB) decision to defer the mandatory effective date of IFRS 9, However SLFRS 9 will be available for early adoption.

##### SLFRS 13 - Fair Value Measurement

This SLFRS defines fair value, set out in a single SLFRS framework for measuring fair value and requires disclosures about fair value measurements. This SLFRS will become effective to the Company from 1st January 2014. Early adoption is permitted. This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

##### SLFRS 10 - Consolidated Financial Statements

The objective of this SLFRS is to establish principles for the presentation and preparation of Consolidated Financial Statements when an entity controls one or more other entities. SLFRS 10 will become effective from 1st January 2014 for the Group with early adoption permitted. This SLFRS will supersede the requirements relating to Consolidated Financial Statements in LKAS 27 'Consolidated and Separate Financial Statements'.

#### 5. Financial Risk Management

New business opportunities, deregulation and globalisation, new financial products and stiff competition in the industry illustrate the importance of having an effective risk management as a farsighted measure.

Company deployed Risk Mapping process in order to identify core risks that the Company is exposed to. Core risks exposed by the Company with regard to financial instruments are:

- Credit risk
- Liquidity risk
- Operational risk
- Market risk

##### Risk Management Framework

In order to maintain the optimum balance between risk and return, as well as ensure the soundness of the Company, CDB has deployed an effective risk management framework, which encompasses the scope of risks to be managed, the process/ systems and procedures to manage risk and the roles and responsibilities of individuals involved in risk management based on the Risk Management Strategy.

##### 5.1 Credit Risk

Credit risk is the risk that arises due to inability or unwillingness to meet a financial obligation by borrower, which can lead an asset to lose value or become worthless.

##### 5.1.1 Management of Credit Risk

The approach towards managing credit risk is to accept any credit risks which are within the boundary approved by the Board of Directors. The Group credit policy provides direction to deal with credit risks. Apart from the Group credit policy, Group conducts periodic credit risk stress testing analysis, portfolio monitoring, identifying problem facilities and maintaining exposure limits to manage the credit risk. Credit Risk Management approach adopted by CDB is described as follows:

- Credit appraisal
- Credit approval
- Credit administration
- Monitoring credit portfolio
- Managing problem facilities



### 5.1.2 Loans and Advances to Customers

The transition to fair value based accounting (LKAS 32 and 39) with effect from 1st April 2012 required to present age wise classification to be replaced with a cash flow based approach. The approach adopted was to classify loans into individually significant exposures and other loans into homogenous portfolios by segment/ product for necessary computations as appropriate.

As at 31st March

	2014	2013
	Rs.	Rs.
<b>Carrying Amounts at Amortised Cost</b>		
Individually Significant Loans and Receivable to Customers - Impaired	827,543,707	285,910,634
Not Individually Significant Customers and Individually Significant Unimpaired customers	24,897,400,588	19,164,676,248
	<b>25,724,944,295</b>	<b>19,450,586,882</b>
Individually Significant - Impaired		
Gross Receivable	1,056,973,814	379,520,155
Less: Allowance for Impairment	229,430,107	93,609,521
	<b>827,543,707</b>	<b>285,910,634</b>

The Company holds collateral against loans and advances to customers in the form of mortgage interests over properties and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

Collateral wise analysis of individually impaired loans and receivables -

	2013/14			2012/13		
	Gross Loans Rs.	Impairment Provision Rs.	Carrying Amount Rs.	Gross Loans Rs.	Impairment Provision Rs.	Carrying Amount Rs.
Secured by Movable Assets	980,464,051	187,205,541	793,258,510	307,820,652	54,660,517	253,160,135
Secured by immovable Assets	29,385,669	12,019,924	17,365,745	24,589,410	8,763,362	15,826,048
Clean	47,124,094	30,204,642	16,919,452	47,110,093	30,185,642	16,924,451
	<b>1,056,973,814</b>	<b>229,430,107</b>	<b>827,543,707</b>	<b>379,520,155</b>	<b>93,609,521</b>	<b>285,910,634</b>

Individually Significant - Unimpaired and individually not significant loans

Gross Receivable	25,326,931,992	19,405,388,103
Allowance for Impairment	429,531,404	240,711,855
	<b>24,897,400,588</b>	<b>19,164,676,248</b>

## NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

Collectively Impaired Comprise	31st March 2014		31st March 2013	
	Gross Loans Rs.	Impairment Provision Rs.	Gross Loans Rs.	Impairment Provision Rs.
0 - 30 days	14,731,232,726	32,550,477	11,781,922,962	21,434,794
31 - 60 days	4,835,592,565	34,300,713	3,691,687,717	25,541,280
61 - 90 days	2,703,488,829	37,993,645	2,009,697,815	30,110,801
91 - 120 days	1,167,779,583	36,119,009	1,045,101,145	34,840,975
121 - 150 days	595,283,662	38,176,078	393,368,748	27,444,788
151 - 180 days	321,763,392	35,637,862	242,158,836	32,993,820
Above 180 days	971,791,235	214,753,621	241,450,880	68,345,397
	<b>25,326,931,992</b>	<b>429,531,404</b>	<b>19,405,388,103</b>	<b>240,711,855</b>

### Allowances 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 groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for 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.

### 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 loan or 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.

### 5.1.3 Credit Concentration Risk

As at 31st March

	2014		2013	
	Rs.	%	Rs.	%
<b>Product Concentration</b>				
Leasing	14,055,564,983	53	10,908,899,044	55
Hire Purchase	5,853,826,003	22	4,018,443,248	20
Vehicle Loan	3,673,626,439	14	2,090,261,849	11
Loans Against Deposits	1,856,389,487	7	1,402,326,246	7
Staff Loans	219,952,491	1	187,650,008	1
Pawning	645,558,079	2	1,065,267,338	5
Other	78,988,323	0	112,060,525	1
Gross loans and receivables	<b>26,383,905,806</b>		<b>19,784,908,258</b>	
<b>Geographical Concentration</b>				
Central	2,377,295,443	9	849,907,252	4
Eastern	414,998,043	2	241,066,933	1
North	371,628,400	1	401,055,515	2
North-Central	1,595,878,448	6	1,233,225,030	6
North-Western	2,945,505,268	11	1,525,404,266	8
Sabaragamuwa	2,517,948,049	10	1,432,628,007	7
Southern	1,661,085,055	6	805,959,111	4
Uva	901,616,453	3	213,431,455	1
Western	12,561,364,044	48	10,606,081,190	54
Undefined	1,036,586,602	4	2,476,149,499	13
Gross loans and receivables	<b>26,383,905,806</b>		<b>19,784,908,258</b>	

### 5.1.4 Financial Investments

#### Deposits in Commercial Banks (Based on Credit Rating)

As at 31st March	2014	2013
	Rs.	Rs.
Ratings		
AA+(lka)	377,954,315	111,822,835
AA (lka)	23,963,977	48,966,267
A (lka)	208,886,764	110,325,625
AA-(lka)	786,003,384	472,206,523
A-(lka)	1,010,496,171	512,405,741
BBB (lka)	250,000,000	79,544,772
<b>Total</b>	<b>2,706,172,054</b>	<b>1,335,271,762</b>

#### Investment in Securities Under Repurchase Agreements

Ratings		
AA+(lka)	123,000,000	30,164,014
AA (lka)	70,000,000	34,000,000
A (lka)	-	-
AA-(lka)	39,999,991	26,000,000
A-(lka)	-	50,000,000
BBB (lka)	-	-
<b>Total</b>	<b>227,999,991</b>	<b>140,164,014</b>

#### Investments in Equity at Available-for-Sale Equity Instruments

Unrated	789,600,000	563,943,600
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#### Investment in Government Securities at Amortised Cost

Government of Sri Lanka Treasury Bills	1,736,979,228	1,085,512,134
Government of Sri Lanka Treasury Bonds	92,637,637	60,034,848
<b>Total</b>	<b>1,829,616,865</b>	<b>1,145,546,982</b>

#### Investment in Debt Securities at Amortised Cost

A-(lka)	5,074,177	5,043,269
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### 5.2 Liquidity Risk

Liquidity risk arises due to mismatch between assets and liabilities of the Company; and as a result, inability to honour the liabilities when fallen due.

Managing the liquidity risk is utmost important to Company like CDB since the breach of liquidity requirements will expose to other risks such as reputation and compliance.

Hence, breach of liquidity requirements will directly affect on Company's going concern and credibility among stakeholders.

The objective of liquidity risk management is to bridge the gap between asset-liability maturity mismatch and ultimately its important for Company to identify the correct combination of liquidity and profitability.

Treasury is responsible for the management of liquidity and it has been continuously monitored and reviewed at the ALCO. Further, the Integrated Risk Management reporting has been done on a quarterly basis to further evaluate the risks on liquidity.

#### Exposure to Liquidity Risk

	2013/14	2012/13
	%	%
Net Loans/Total Assets	76.18	79.91
Gross Loans/Customer Deposits	103.67	111.15
Liquid Assets Ratio (LAR)		
Average for the Year	14.75	13.94
Maximum for the Year	19.69	14.69
Minimum for the Year	11.68	11.19

Contractual maturities of the assets and liabilities of the Company is given on the maturity analysis on page 41.

### 5.3 Operational Risk

Operational risk arises due to internal process failures, human capital losses, inadequate internal process, technological breakdowns and adverse impact from external events. Operational risk acts as a bottleneck for many companies, due to an inadequate awareness on companies, no operational risk indicators or insufficient internal controls.

Purpose of managing operational risk is to minimise the normal losses incurred due to internal activities, restoring any disruption without impacting the core business of the Company and mitigating recurrence of such events in the future.

Managing operational risk is prime responsibility of all CDB employees and Company has executed a well-defined operational risk policy framework. Internal controls and strict system audit functions are kept in order to enhance the operational risk mitigating process.

### Management of Operational Risk

The Company has adopted following approaches in order to mitigate operational risk within its business context:

- Stringent operational policies and practices
- Effective HR policies and practices
- Promoting ethical business standards
- Training and development
- Contingent and back-up plans
- Stringent internal controls

### 5.4 Capital Management

The objectives of capital management at CDB can be identified as follows:

- Maintain sufficient capital to meet regulatory requirements
- To ensure the achievement of strategic objectives by allocating the required capital
- To hold sufficient capital to support the Company's risk appetite

The Central Bank of Sri Lanka has introduced the Capital Adequacy Ratio (CAR) to protect the interest of the various stakeholders of the Company while ensuring the maintenance of confidence and stability of the financial system.

#### 5.4.1 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 Company's 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 include 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 weights specified by the Central Bank of Sri Lanka.

Details of the computation and the resulting ratios are given below:

### Total Risk Weighted Asset Computation

As at 31st March	2014	2013	Risk-Weighted Factor	Risk-Weighted Balances	
	Rs. '000	Rs. '000	%	2014 Rs. '000	2013 Rs. '000
<b>Assets</b>					
Cash and bank balances	462,555	205,326	0	–	–
Investment in Government Securities	2,057,617	1,290,754	0	–	–
Bank deposits	2,706,172	1,335,272	20	541,234	267,054
Loans against fixed deposits	1,831,134	1,402,326	0	–	–
Loans against gold and jewellery	645,558	1,065,267	0	–	–
Loans against Real Estate	–	–	50	–	–
Loans and advances	23,248,252	16,982,993	100	23,248,252	16,982,993
Other investments	797,419	566,688	100	797,419	566,688
Other assets	917,382	858,272	100	917,382	858,272
Fixed assets	1,102,452	747,030	100	1,102,452	747,030
<b>Total Risk - Weighted Assets</b>	<b>33,768,541</b>	<b>24,453,929</b>		<b>26,606,739</b>	<b>19,422,038</b>

### Total Capital Base Computation

As at 31st March	2014 Rs. '000	2013 Rs. '000
<b>Capital Base</b>		
<b>Core Capital (Tier I capital)</b>		
Stated Capital	1,185,062	1,185,062
Reserve Fund	497,954	385,712
General & other free Reserves	689,690	464,034
Published Retained Earnings	983,697	746,592
<b>Total Core Capital</b>	<b>3,356,403</b>	<b>2,781,400</b>
<b>Supplementary Capital (Tier II capital)</b>		
Eligible approved unsecured subordinated term debts	900,230	–
General Provisions	–	–
<b>Total Supplementary Capital</b>	<b>900,230</b>	<b>–</b>
<b>Capital Base</b>	<b>4,256,633</b>	<b>2,781,400</b>

### Capital Adequacy Ratio

As at 31st March	2014 %	2013 %	
Core Capital ratio	Core Capital x 100 Risk Weighted Assets	12.61	14.32
Total Capital Ratio	Capital Base x 100 Risk Weighted Assets	16.00	14.32

## 5.5 Market Risk

Market risk can be defined as the risk of losses in on and Off-Balance Sheet positions arising from adverse movements in market prices and stems from the two positions including interest rate risk and currency risk or foreign exchange positions.

### 5.5.1 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 re-price products based thereon.

### 5.5.2 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 dominated 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.

The following table exhibits the gap between the interest-earning financial assets and interest bearing financial liabilities of the Company:

As at 31st March	0-12 months	1-2 years	2-5 years	More than 5 years	Non-rate Sensitive	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>						
Cash and Cash Equivalents	-	-	-	-	462,555,296	462,555,296
Deposits in commercial banks and government securities	4,676,185,239	-	15,747,945	71,855,725	-	4,763,788,910
Net receivable from financing assets	10,201,841,725	6,608,286,625	8,456,914,850	457,901,096	-	25,724,944,295
Investment in equity shares/debentures	-	-	-	-	794,674,177	794,674,177
Other financial assets	-	-	-	-	468,825,953	468,825,953
	14,878,026,964	6,608,286,625	8,472,662,795	529,756,821	1,726,055,426	32,214,788,631
<b>Liabilities</b>						
Customers accounts	17,738,582,796	3,447,603,735	3,332,006,205	-	-	24,518,192,737
Other borrowings	1,517,911,102	790,600,581	734,601,532	98,892,435	-	3,142,005,650
Debenture	130,259,204	-	1,042,073,631	-	-	1,172,332,835
Other financial liabilities	-	-	-	-	1,213,713,656	1,213,713,656
	19,386,753,102	4,238,204,317	5,108,681,368	98,892,435	1,213,713,656	30,046,244,878
Interest rate sensitivity Gap	(4,508,726,138)	2,370,082,308	3,363,981,427	430,864,386	512,341,770	2,168,543,760

Our exposure to foreign currency risk is as follows based on notional amounts:

As at 31st March	2014			
	Currency	Amount	Market Rate Rs.	Total Rs.
USD	5,607	130.05	729,228	127.94
EUR	6,736	179.00	1,205,821	174.20
GBP	240	216.20	51,916	200.37
CAD	380	117.30	44,586	120.47
SGD	351	103.00	36,162	101.29
AUD	211	119.80	25,241	118.51
NOK	50	21.52	1,076	21.10
KWD	16	447.00	7,152	418.13
AED	250	35.11	8,778	33.56
<b>Total amount</b>			<b>2,109,959</b>	

Subsequent sensitivity analysis shows strength of the LKR, against the US\$ and EUR as at 31st March which would have increased/(decreased) profit or loss amounts.

As at 31st March	2014		
	Change %	Strengthening	Weakening
USD	1	(7,292)	7,292
EUR	1	(12,058)	12,058
USD	3	(21,877)	21,877
EUR	3	(36,175)	36,175
USD	5	(36,461)	36,461
EUR	5	(60,291)	60,291

Reporting date average Spot Rate

USD	Rs. 130.05
EUR	Rs. 179.00

## NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

For the year ended 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>6. Income</b>				
Interest income (7)	5,895,603,537	4,087,387,160	5,895,603,537	4,087,387,160
Non-interest income	229,558,010	224,462,910	229,558,010	224,462,910
	<b>6,125,161,547</b>	<b>4,311,850,070</b>	<b>6,125,161,547</b>	<b>4,311,850,070</b>
<b>7. Interest Income</b>				
Government securities and placements with banks	355,277,011	229,018,983	355,277,011	229,018,983
Loans and receivables to other customers				
Loans	1,072,719,758	705,652,516	1,072,719,758	705,652,516
Finance leases	3,408,315,277	2,458,237,821	3,408,315,277	2,458,237,821
Hire purchases	1,054,513,091	694,349,810	1,054,513,091	694,349,810
Ijarah income	3,015,678	128,030	3,015,678	128,030
Murabahah	1,762,722	–	1,762,722	–
	<b>5,895,603,537</b>	<b>4,087,387,160</b>	<b>5,895,603,537</b>	<b>4,087,387,160</b>
<b>8. Interest Expense</b>				
Deposits from customers	3,000,468,150	2,107,873,086	3,000,468,150	2,107,873,086
Debentures	68,507,299	31,237,363	68,507,299	31,237,363
Borrowings	483,342,254	247,436,298	483,342,254	247,436,298
Mudharabah	1,085,054	23,512	1,085,054	23,512
	<b>3,553,402,757</b>	<b>2,386,570,259</b>	<b>3,553,402,757</b>	<b>2,386,570,259</b>
<b>9. Fee and Commission Income</b>				
Insurance commission	158,323,649	119,231,286	158,323,649	119,231,286
Guarantee commission income	934,917	612,563	934,917	612,563
Commission on money remittances	136,292	71,511	136,292	71,511
Commission on debit card transactions	313,943	–	313,943	–
	<b>159,708,801</b>	<b>119,915,360</b>	<b>159,708,801</b>	<b>119,915,360</b>
<b>10. Other Operating Income</b>				
Dividend income	7,068,000	3,684,000	7,068,000	3,684,000
Profit on disposal of leased assets	25,961,106	41,065,375	25,961,106	41,065,375
Foreign exchange gain/(losses)	(384,936)	–	(384,936)	–
Other operating income	205,608,298	59,798,175	205,608,298	59,798,175
	<b>238,252,468</b>	<b>104,547,550</b>	<b>238,252,468</b>	<b>104,547,550</b>



For the year ended 31st March

	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>11. Impairment Charges for Loans and Advances and Other Losses</b>				
Net charge against profit on loans and receivables to customers:				
Collective impairment charge/(release)				
Leases	172,135,527	92,542,509	172,135,527	92,542,509
Hire purchases	13,088,367	14,789,891	13,088,367	14,789,891
Loans and advances	3,595,655	4,838,827	3,595,655	4,838,827
Individual impairment charge				
Leases	69,029,218	7,668,222	69,029,218	7,668,222
Hire purchases	12,323,091	7,716,984	12,323,091	7,716,984
Loans and advances including pawning advances	54,468,277	1,231,626	54,468,277	1,231,626
Losses from liquidation of pawned articles	168,403,259	–	168,403,259	–
Provision for fall in value of gold stock	14,346,840	–	14,346,840	–
	<b>507,390,234</b>	<b>128,788,059</b>	<b>507,390,234</b>	<b>128,788,059</b>

## 12. Operating Expenses

Operating expenses, among others, include the following:

Depreciation of property, plant & equipment and amortisation of intangible assets	112,836,749	83,541,045	112,836,749	83,541,045
Legal expenses and professional fees	9,125,313	16,784,890	9,125,313	16,784,890
Personnel cost	522,946,764	432,570,913	522,946,764	432,570,913
Directors emoluments (12a)	40,267,800	30,671,680	40,267,800	30,671,680
Auditors remuneration (12b)	3,909,075	2,390,000	4,009,075	2,390,000
Advertising and communication	195,244,242	146,711,283	195,244,242	146,711,283
Contribution to deposit insurance scheme of CBSL	27,353,124	18,077,415	27,353,124	18,077,415
Activities on corporate social responsibility	3,258,422	3,150,393	3,258,422	3,150,393
Employees' provident fund and trust fund expenses	41,645,570	27,912,686	41,645,570	27,912,686
Employees' defined benefit plan service expenses	31,191,489	81,854,216	31,191,489	81,854,216
12a. Directors Emoluments*	40,267,800	30,671,680	40,267,800	30,671,680
12b. Auditors Remuneration				
Audit fees and expenses	1,575,000	1,400,000	1,675,000	1,500,000
Audit-related fees and expenses	560,100	800,000	560,100	800,000
Non-audit services	1,773,975	190,000	1,773,975	190,000

\* The details of the Directors emoluments and expenses related to the key management personnel are given under the Note 40.

## NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

For the year ended 31st March	Company		Group	
	31st March 2014	31st March 2013	31st March 2014	31st March 2013
	Rs.	Rs.	Rs.	Rs.
<b>13. Income Tax Expense</b>				
Current income tax expense	79,924,706	70,318,896	79,924,706	70,318,896
(Over)/under provision in respect of prior periods	(24,640,365)	2,049,485	(24,640,365)	2,049,485
Deferred tax expense	113,470,937	62,750,103	113,470,937	62,750,103
Income tax charge for the year	168,755,278	135,118,484	168,755,278	135,118,484

Reconciliation between income tax expenses and the accounting profit.

Accounting profit before tax	729,968,049	624,282,545	729,968,049	624,182,545
Tax expenses as per accounting profit	204,391,054	174,799,113	204,391,054	174,771,113
Tax effect of capital portion of lease rentals	918,883,559	563,624,265	918,883,559	563,624,265
Income from non-taxable sources	6,616,570	(21,421,018)	6,616,570	(21,421,018)
Tax effect of disallowed expenses	99,765,337	65,897,586	99,765,337	65,925,586
Tax effect of deductible expenses and tax losses	(1,149,731,813)	(879,554,965)	(1,149,731,813)	(879,554,965)
Tax effect of the business losses of leasing business		159,178,638		159,178,638
Tax on business profit	79,924,706	62,523,618	79,924,706	62,523,618
Tax on dividend	–	7,795,277	–	7,795,277
Deferred tax expenses	113,470,937	62,750,103	113,470,937	62,750,103
Prior period under/(over) provision	(24,640,365)	2,049,485	(24,640,365)	2,049,485
Income tax expenses reported in the Statement of Comprehensive Income at the effective tax rate	168,755,278	135,118,483	168,755,278	135,118,483

A reconciliation between tax expense and the accounting profit based on the statutory tax Rate - 2013/14

	Company			Group		
	Leasing Business	Other Business	Total	Leasing Business	Other Business	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Accounting profit before tax	395,176,805	334,791,244	729,968,049	395,176,805	334,791,244	729,868,049
<b>Adjustments</b>						
Capital Portion of leasing rental due	3,281,726,997	–	3,281,726,997	3,281,726,997	–	3,281,726,997
Non-taxable income/losses	29,335,342	(5,704,737)	23,630,606	29,335,342	(5,704,737)	23,630,606
Disallowable expenses	196,985,091	160,770,364	657,755,456	196,985,091	160,870,364	357,855,456
Allowable expenses	(3,765,978,677)	(50,710,136)	(3,816,688,813)	(3,765,978,677)	(50,710,136)	(3,816,688,813)
Total statutory income	137,245,559	439,146,736	576,392,295	137,245,559	439,146,736	576,392,295
Carried forward tax losses - Set-off	(137,245,559)	153,701,358	(29,094,917)	(137,245,559)	153,701,358	(290,946,917)
Taxable income	–	285,445,378	285,445,378	–	285,445,378	285,445,378
Income tax rate (%)	–	28	–	–	28	–
Income tax	–	79,924,706	–	–	79,924,706	–
Effective tax rate (%)	–	24	–	–	24	–

A reconciliation between tax expense and the accounting profit based on the statutory tax rate - 2012/13

	Company			Group		
	Leasing Business	Other Business	Total	Leasing Business	Other Business	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Accounting profit before tax	376,933,189	247,349,356	624,282,545	376,933,189	247,349,356	624,182,545
<b>Adjustments</b>						
Capital portion of leasing rental due	2,012,943,804		2,012,943,804	2,012,943,804		2,012,943,804
Non-taxable income	(59,233,503)	(9,109,195)	(68,342,698)	(59,233,503)	(9,109,195)	(68,342,698)
Disallowable expenses	82,893,615	152,454,718	235,348,333	82,893,615	152,454,718	235,448,333
Allowable expenses	(2,982,032,240)	(46,916,196)	(3,028,948,436)	(2,982,032,240)	(46,916,196)	(3,028,948,436)
Total statutory income	(568,495,135)	343,778,868	(224,716,267)	(568,495,135)	343,778,868	(224,716,267)
Carried forward tax losses - set off		(120,480,045)			(120,480,045)	
Taxable Income		223,298,823			223,298,823	
Income tax rate (%)		28			28	
Income tax		62,523,670			62,523,670	
Effective tax rate (%)		25			25	

As at the reporting date, company has carried forward tax losses amounting to Rs. 1,088,520,883/-.

#### 14. Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the period attributable for the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year and calculated as follows:

For the year ended 31st March	Company		Group	
	2014	2013	2014	2013
Amount used as numerator				
Net profit attributable to equity holders of Parent (Rs.)	561,212,771	489,164,061	561,212,771	489,164,061
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 share (Rs.)	10.33	9.01	10.33	9.01

Diluted earnings per share is not calculated as potentially dilutive ordinary shares are not available.

For the year ended 31st March	2013/14	2012/13
	Rs.	Rs.

#### 15. Dividend Per Share

Net dividend paid to ordinary shareholders	146,624,059	134,405,387
Withholding tax deducted at source	16,291,562	14,933,932
Gross dividend	162,915,621	149,339,319
Gross dividend per share	3.00	2.75

In accordance with the provision of the Sri Lanka Accounting Standard 10 - 'Events after the Reporting Period', this proposed first and final dividend has not been recognised as a liability as at the reporting date.

## 16. Classification of Financial Assets and Financial Liabilities

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - LKAS 39 'Financial Instruments: Recognition and Measurement' under headings of the Statement of Financial Position:

### 16.1 Company

	Assets at fair value		Assets at amortised cost		Total Rs.
	Fair value through profit or loss Rs.	Available-for-sale Rs.	Loans and receivable Rs.	Held-to-maturity Rs.	
<b>Assets</b>					
<b>As at 31st March 2014</b>					
Cash and cash equivalents	–	–	462,555,296	–	462,555,296
Deposits in commercial banks	–	–	2,706,172,054	–	2,706,172,054
Loans and receivables to customers	–	–	25,724,944,295	–	25,724,944,295
Investment in equity shares/debentures	–	789,600,000	–	5,074,177	794,674,177
Investment in Government securities	–	–	227,999,991	1,829,616,865	2,057,616,856
Other financial assets	–	–	468,825,953	–	468,825,953
Total financial assets	–	789,600,000	29,590,497,589	1,834,691,042	32,214,788,631
Other non-financial assets					1,553,753,654
<b>Total assets</b>	<b>–</b>	<b>789,600,000</b>	<b>29,590,497,589</b>	<b>1,834,691,042</b>	<b>33,768,542,285</b>
<b>As at 31st March 2013</b>					
Cash and cash equivalents	–	–	205,326,279	–	205,326,279
Deposits in commercial banks	–	–	1,335,271,762	–	1,335,271,762
Loans and receivables to customers	–	–	19,450,586,882	–	19,450,586,882
Investment in equity shares/debentures	–	563,943,600	–	–	563,943,600
Investment in Government securities	–	–	140,164,014	1,150,590,251	1,290,754,265
Other financial assets	–	–	479,741,119	–	479,741,119
Total financial assets	–	563,943,600	22,175,033,656	1,150,590,251	23,325,623,907
Other non-financial assets					1,128,307,533
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>22,175,033,656</b>	<b>1,150,590,251</b>	<b>24,453,931,440</b>

	Fair value through profit or loss Rs.	Liabilities at amortised cost Rs.	Total Rs.
<b>Liabilities</b>			
<b>As at 31st March 2014</b>			
Deposits from customers	–	24,518,192,737	24,518,192,737
Debentures	–	1,172,332,835	1,172,332,835
Other borrowings	–	3,142,005,650	3,142,005,650
Other financial liabilities	–	1,213,713,656	1,213,713,656
<b>Total financial liabilities</b>	–	<b>30,046,244,878</b>	<b>30,046,244,878</b>
Other non-financial liabilities	–	–	145,383,295
<b>Total liabilities</b>	–	<b>30,046,244,878</b>	<b>30,191,628,173</b>
<b>As at 31st March 2013</b>			
Deposits from customers	–	17,771,172,664	17,771,172,664
Debentures	–	259,378,311	259,378,311
Other borrowings	–	2,503,704,580	2,503,704,580
Other financial liabilities	–	922,665,325	922,665,325
<b>Total financial liabilities</b>	–	<b>21,456,920,880</b>	<b>21,456,920,880</b>
Other non-financial liabilities	–	–	31,912,358
<b>Total liabilities</b>	–	<b>21,456,920,880</b>	<b>21,488,833,238</b>

**16.2 Group**

	Assets at fair value		Assets at amortised cost		Total Rs.
	Fair value through profit or loss Rs.	Available-for-sale Rs.	Loans and receivable Rs.	Held-to-maturity Rs.	
<b>Assets</b>					
<b>As at 31st March 2014</b>					
Cash and cash equivalents	–	–	465,890,822	–	465,890,822
Deposits in commercial banks	–	–	2,706,172,054	–	2,706,172,054
Loans and receivables to customers	–	–	25,724,944,295	–	25,724,944,295
Investment in equity shares/debentures	–	789,600,000	–	5,074,177	794,674,177
Investment in Government securities	–	–	227,999,991	1,829,616,865	2,057,616,856
Other financial assets	–	–	–	–	–
<b>Total financial assets</b>	–	–	<b>468,825,953</b>	–	<b>468,825,953</b>
Other non-financial assets	–	789,600,000	29,593,833,115	1,834,691,042	32,218,124,157
					1,553,753,654
<b>Total assets</b>	–	<b>789,600,000</b>	<b>29,593,833,115</b>	<b>1,834,691,042</b>	<b>33,769,131,564</b>

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	Assets at fair value		Assets at amortised cost		Total Rs.
	Fair value through profit or loss Rs.	Available-for-sale Rs.	Loans and receivable Rs.	Held-to-maturity Rs.	
<b>As at 31st March 2013</b>					
Cash and cash equivalents	–	–	208,661,805	–	208,661,805
Deposits in commercial banks	–	–	1,335,271,762	–	1,335,271,762
Loans and receivables to customers	–	–	19,450,586,882	–	19,450,586,882
Investment in equity shares/debentures	–	563,943,600	–	5,043,269	568,986,869
Investment in government securities	–	–	140,164,014	1,145,546,982	1,285,710,996
Other financial assets	–	–	479,741,119	–	479,741,119
<b>Total financial assets</b>	–	563,943,600	21,614,425,582	1,150,590,251	23,328,959,433
Other non-financial assets					1,125,562,086
<b>Total assets</b>	–	563,943,600	21,614,425,582	1,150,590,251	24,454,521,519

	Fair value through profit or loss Rs.	Liabilities at amortised cost Rs.	Total Rs.
<b>Liabilities</b>			
<b>As at 31st March 2014</b>			
Deposits from customers	–	24,518,192,737	24,518,192,737
Debentures	–	1,172,332,835	1,172,332,835
Other borrowings	–	3,142,005,650	3,142,005,650
Other financial liabilities	–	1,055,262,081	1,055,262,081
<b>Total financial liabilities</b>	–	29,887,793,303	29,887,793,303
Other non-financial liabilities	–	–	290,766,590
<b>Total liabilities</b>	–	29,887,793,303	30,192,418,252

<b>As at 31st March 2013</b>			
Deposits from customers	–	17,771,172,664	17,771,172,664
Debentures	–	259,378,312	259,378,312
Other borrowings	–	2,503,704,580	2,503,704,580
Other financial liabilities	–	923,356,203	923,356,203
<b>Total financial liabilities</b>	–	21,457,611,759	21,457,611,759
Other non-financial liabilities	–	–	31,912,358
<b>Total liabilities</b>	–	21,457,611,759	21,489,524,117

### 16.3 Valuation of Financial Instruments

#### 16.3.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the CDB's estimate of assumptions that a market participant would make when valuing the instruments.

**16.3.1.1 Financial Assets - Available-For-Sale**

CDB has classified the investment in quoted ordinary shares of Ceylinco Insurance PLC under available-for-sale financial assets.

This investment is held by CDB as a strategic investment and this was not acquired for the trading purpose. Accordingly this investment was classified under the category of Available-for-Sale investment.

Fair value of the investment was obtained by reference to market prices in the active market as at the reporting date.

***Determination of Fair Value and Fair Value Hierarchy***

The CDB uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Available-for-sale financial assets of CDB has been valued using the Level 1 techniques of the valuation hierarchy and fair value as at 31st March 2014 is Rs. 789,600,000/- ( 2013: Rs. 563,943,600/-). Total gain recognised in the equity on this investment for the year ended 31st March 2014 is Rs. 225,656,400/- (2013: Rs. 105,750,000/-)

CDB has not valued any of its financial instruments at fair value using level 2 techniques or level 3 techniques of the valuation hierarchy.

**16.3.2 Fair Value of Financial Assets not Carried at Fair Value**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's Balance Sheet at fair value. 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	
	2014	
	Carrying Value	Fair Value
	Rs.	Rs.
<b>Assets</b>		
Cash and cash equivalents	462,555,296	462,555,296
Deposits in commercial banks	2,706,172,054	2,706,172,054
Loans and receivables to customers	25,724,944,295	25,633,809,304
Investment in Government Securities	2,057,616,856	2,057,616,856
Other financial assets	473,900,130	473,900,130
<b>Total financial assets</b>	<b>31,425,188,631</b>	<b>31,334,053,640</b>
<b>Liabilities</b>		
Deposits from customers	24,518,192,737	24,492,190,140
Debentures	1,172,332,835	1,172,332,835
Other borrowings	3,142,005,650	3,142,005,650
Other financial liabilities	1,213,713,656	1,213,713,656
<b>Total financial liabilities</b>	<b>30,046,244,878</b>	<b>30,020,242,281</b>

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### 16.3.3

#### Reclassification

There were no reclassifications during 2013/14 and 2012/13.

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.

### 17. Cash and Cash Equivalents

Local currency in hand	172,471,772	99,030,882	172,471,772	99,030,882
Foreign currency in hand	2,109,959	9,335,776	2,109,959	9,335,776
Demand deposit balances with licensed commercial banks	287,973,565	96,959,621	291,309,091	100,295,147
	<b>462,555,296</b>	<b>205,326,279</b>	<b>465,890,822</b>	<b>208,661,805</b>

All cash and cash equivalents held by the Group were available for use by the Group.

### 18. Deposits with Licensed Commercial Banks

Fixed deposits with banks	2,706,172,054	1,335,271,762	2,706,172,054	1,335,271,762
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### 19. Loans and Receivables to Customers

Gross loans and receivables	26,383,905,806	19,784,908,258	26,383,905,806	19,784,908,258
Less: Individual impairment [19 (a)]	229,430,107	93,609,521	229,430,107	93,609,521
Collective impairment [19 (b)]	429,531,404	240,711,855	429,531,404	240,711,855
	<b>25,724,944,295</b>	<b>19,450,586,882</b>	<b>25,724,944,295</b>	<b>19,450,586,882</b>

#### 19 (a) Movement in Individual Impairment Charge for Loans and Receivables

Balance as at 1st April	93,609,521	199,103,490	93,609,521	199,103,490
Less: Write-off during the year	–	122,110,801	–	122,110,801
Add: Impairment charge for the year	135,820,586	16,616,832	135,820,586	16,616,832
Balance as at 31st March	<b>229,430,107</b>	<b>93,609,521</b>	<b>229,430,107</b>	<b>93,609,521</b>

#### 19 (b) Movement in Collective Impairment Charge for Loans and Receivables

Balance as at 1st April	240,711,855	128,540,628	240,711,855	128,540,628
Add: Impairment charge for the year	188,819,549	112,171,227	188,819,549	112,171,227
Balance as at 31st March	<b>429,531,404</b>	<b>240,711,855</b>	<b>429,531,404</b>	<b>240,711,855</b>

#### 19.i Product-wise Analysis of Loans and Receivables

Loans [Note 19 (c)]	6,387,813,280	4,828,928,358	6,387,813,280	4,828,928,358
Lease rentals receivable [Note 19 (c)]	13,542,198,495	10,636,697,301	13,542,198,495	10,636,697,301
Net investment in hiring contracts [Note 19 (e)]	5,794,932,520	3,984,961,223	5,794,932,520	3,984,961,223
	<b>25,724,944,295</b>	<b>19,450,586,882</b>	<b>25,724,944,295</b>	<b>19,450,586,882</b>



As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>19.ii Analysis of Loans and Receivables by Borrowers' Industry</b>				
Transport	22,571,703,420	16,877,136,974	22,571,704,420	16,877,136,974
Pawning	631,211,238	1,065,267,338	631,211,238	1,065,267,338
Others	2,522,029,637	1,398,869,572	2,522,029,637	1,398,869,572
	<b>25,724,944,295</b>	<b>19,450,586,882</b>	<b>25,724,944,295</b>	<b>19,450,586,882</b>
<b>19 (c) Loans</b>				
Short-term loans	1,856,389,487	1,410,036,770	1,856,389,487	1,410,036,770
Term and vehicle loans	3,673,626,439	2,090,261,849	3,673,626,439	2,090,261,849
Staff loans	219,952,491	187,650,008	219,952,491	187,650,008
Pawning advances	645,558,079	1,065,267,338	645,558,079	1,065,267,338
Loans given to employee share ownership trust	78,988,323	104,350,000	78,988,323	104,350,000
	<b>6,474,514,819</b>	<b>4,857,565,965</b>	<b>6,474,514,819</b>	<b>4,857,565,965</b>
<b>Less: Impairment allowance for loans</b>				
Individual [Note 19 (c) (i)]	68,962,269	14,493,992	68,962,269	14,493,992
Collective [Note 19 (c) (ii)]	17,739,270	14,143,615	17,739,270	14,143,615
Net loans and advances	<b>6,387,813,280</b>	<b>4,828,928,358</b>	<b>6,387,813,280</b>	<b>4,828,928,358</b>
<b>19 (c) (i) Movement in Individual Impairment Charge for Loans and Receivables</b>				
Balance as at 1st April	14,493,992	21,144,140	14,493,992	21,144,140
Less: Write-off during the year	–	7,881,774	–	7,881,774
Add: Impairment charge for the year	54,468,277	1,231,626	54,468,277	1,231,626
Balance as at 31st March	<b>68,962,269</b>	<b>14,493,992</b>	<b>68,962,269</b>	<b>14,493,992</b>
<b>19 (c) (ii) Movement in Collective Impairment Charge for Loans and Receivables</b>				
Balance as at 1st April	14,143,615	9,304,788	14,143,615	9,304,788
Add: Impairment charge for the year	3,595,655	4,838,827	3,595,655	4,838,827
Balance as at 31st March	<b>17,739,270</b>	<b>14,143,615</b>	<b>17,739,270</b>	<b>14,143,615</b>
<b>19 (d) Lease Rental Receivable</b>				
Total lease rental receivable	20,254,127,652	16,243,494,344	20,254,127,652	16,243,494,344
Less: Unearned interest income	6,198,562,669	5,334,595,300	6,198,562,669	5,334,595,300
Lease rental receivable	<b>14,055,564,983</b>	<b>10,908,899,044</b>	<b>14,055,564,983</b>	<b>10,908,899,044</b>
<b>Less: Impairment allowance for lease rental receivable</b>				
Individual [Note 19 (d) (i)]	137,693,157	68,663,939	137,693,157	68,663,939
Collective [Note 19 (d) (ii)]	375,673,331	203,537,804	375,673,331	203,537,804
Net lease rental receivable	<b>13,542,198,495</b>	<b>10,636,697,301</b>	<b>13,542,198,495</b>	<b>10,636,697,301</b>

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As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.

### 19 (d) (i) Movement in Individual Impairment Charge for Lease Rental Receivable

Balance as at 1st April	68,663,939	144,750,430	68,663,939	144,750,430
Less: Write-off during the year	–	83,754,713	–	83,754,713
Add: Impairment charge for the year	69,029,218	7,668,222	69,029,218	7,668,222
Balance as at 31st March	137,693,157	68,663,939	137,693,157	68,663,939

### 19 (d) (ii) Movement in Collective Impairment Charge for Lease Rental Receivable

Balance as at 1st April	203,537,804	110,995,295	203,537,804	110,995,295
Add: Impairment charge for the year	172,135,527	92,542,509	172,135,527	92,542,509
Balance as at 31st March	375,673,331	203,537,804	375,673,331	203,537,804

### 19 (e) Hire Purchase Rental Receivable

Gross hire purchase rental receivable	5,853,826,003	4,018,443,248	5,853,826,003	4,018,443,248
Less: Impairment allowance for hire purchase				
Individual [Note 19 (e) (i)]	22,774,681	10,451,590	22,774,681	10,451,590
Collective [Note 19 (e) (ii)]	36,118,802	23,030,435	36,118,802	23,030,435
Net lease rental receivable	5,794,932,520	3,984,961,223	5,794,932,520	3,984,961,223

### 19 (e) (i) Movement in Individual Impairment Charge for Hire Purchase Receivable

Balance as at 1st April	10,451,590	33,208,920	10,451,590	33,208,920
Less: Write-off during the year	–	30,474,314	–	30,474,314
Add: Impairment charge for the year	12,323,091	7,716,984	12,323,091	7,716,984
Balance as at 31st March	22,774,681	10,451,590	22,774,681	10,451,590

### 19 (e) (ii) Movement in Collective Impairment Charge for Hire Purchase Receivables

Balance as at 1st April	23,030,435	8,240,544	23,030,435	8,240,544
Add: Impairment charge for the year	13,088,367	14,789,891	13,088,367	14,789,891
Balance as at 31st March	36,118,802	23,030,435	36,118,802	23,030,435

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>19 (f) Maturity Analysis of Lease Receivables</b>				
Lease rental receivable within one year				
Less: Total lease rental receivable within one year	8,106,635,369	5,388,487,625	8,106,635,369	5,388,487,625
Less: Unearned interest income	2,183,272,197	2,502,774,088	2,183,272,198	2,502,774,088
	5,923,363,172	2,885,713,537	5,923,363,172	2,885,713,537
Lease rental receivable after one year before five years				
Total lease rental receivable after one year before five years	12,087,523,647	10,606,581,160	12,087,523,647	10,606,581,160
Less: Unearned interest income	3,996,311,775	2,796,869,271	3,996,311,775	2,796,869,271
	8,091,211,872	7,809,711,889	8,091,211,872	7,809,711,889
Lease rental receivable after five years				
Total lease rental receivable after five years	61,235,185	248,425,559	61,235,185	248,425,559
Less: Unearned interest income	20,245,246	35,051,941	20,245,246	35,051,941
	40,989,939	213,373,618	40,989,939	213,373,618
	14,055,564,983	10,908,799,044	14,055,564,983	10,908,799,044

**19 (g) Operating Leases**

There were no non-cancellable operating leases as at the reporting date.

**19 (h) Loans given to Employee Share Ownership Trust**

There were no shares issued to the Employee Share Ownership scheme during the financial year 2013/14.

There were no shares issued to employees from Employee Share Ownership scheme during the year.

The Company or any of its subsidiaries have not directly or indirectly provided funds to the Employee Share Ownership scheme during the financial year 2013/14.

**20. Financial Investments - Available-For-Sale**

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
Quoted shares [Note 20 (a)]	789,600,000	563,943,600	789,600,000	563,943,600
Investment in unquoted shares [Note 20 (b)]	-	-	-	-
	789,600,000	563,943,600	789,600,000	563,943,600

As at 31st March	2014			2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.

**20 (a) Quoted Shares****Company**

Ordinary shares of

Ceylinco Insurance PLC	564,000	99,909,075	789,600,000	564,000	99,909,075	563,943,600
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**Group**

Ordinary shares of

Ceylinco Insurance PLC	564,000	99,909,075	789,600,000	564,000	99,909,075	563,943,600
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### Sensitivity Analysis - Equity Price Risk

For investments classified as available-for-sale, a 1% decrease in the Colombo Stock Exchange price would cause a decrease in equity by Rs. 7,796,000/-.

	31st March 2014			31st March 2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
<b>20 (b) Unquoted Shares</b>						
<b>Company</b>						
Ordinary shares of Middleway Limited	416,455	4,164,550	–	416,455	4,164,550	–
Preference shares of Middleway Limited	2,050,000	20,500,000	–	2,050,000	20,500,000	–
		24,664,550			24,664,550	
Provision for impairment		(24,664,550)			(24,664,550)	
		–			–	
<b>Group</b>						
Ordinary shares of Middleway Limited	416,455	4,164,550	–	416,455	4,164,550	–
Preference shares of Middleway Limited	2,050,000	20,500,000	–	2,050,000	20,500,000	–
		24,664,550			24,664,550	
Provision for Impairment		(24,664,550)			(24,664,550)	
		–			–	

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.

### 21. Financial Investments - Held-to-Maturity

Government of Sri Lanka - Treasury bills	1,736,979,228	1,085,512,134	1,736,979,228	1,085,512,134
Government of Sri Lanka - Treasury bonds	92,637,637	60,034,848	92,637,637	60,034,848
Quoted debentures	5,074,177	5,043,269	5,074,177	5,043,269
	1,834,691,042	1,150,590,251	1,834,691,042	1,150,590,251

### 22. Financial Investments - Loans and Receivable

#### Securities Purchased Under Resale Agreements

Seylan Bank PLC	–	50,000,000	–	50,000,000
People's Bank	88,000,000	15,164,014	88,000,000	15,164,014
Commercial Bank of Ceylon PLC	70,000,000	34,000,000	70,000,000	34,000,000
Bank of Ceylon	35,000,000	15,000,000	35,000,000	15,000,000
Hatton National Bank PLC	34,999,991	26,000,000	34,991,991	26,000,000
	227,999,991	140,164,014	227,999,991	140,164,014

### 23. Investment in Subsidiary

	Principal Activity	Holding	2014	2013
			Cost Rs.	Cost Rs.
CDB Micro Finance Limited	Micro lending	100%	2,745,447	2,745,447
Cost at Acquisition			5,000,000	5,000,000
Less: Provision for Impairment			2,254,553	2,254,553
			2,745,447	2,745,447

### 24. Investment Property

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>				
Balance as at 1st April	20,197,977	20,197,977	20,197,977	20,197,977
Additions/disposals	-	-	-	-
Balance as at 31st March	20,197,977	20,197,977	20,197,977	20,197,977
<b>Accumulated depreciation</b>				
Balance as at 1st April	-	-	-	-
Additions/disposals	-	-	-	-
Balance as at 31st March	-	-	-	-
Net book value at the end of the year	20,197,977	20,197,977	20,197,977	20,197,977
Market Value of the property	36,000,000	36,000,000	36,000,000	36,000,000

The fair value of the investment property is based on the market valuations carries out by Mr. D S N Perera, on 31st March 2013. Graduate member of the Institute of Values of Sri Lanka, who is an independent valuer.

The Company carries the investment properties at cost, since the fair value of the investment properties were above the carrying value the Board of Directors concluded there was no impairment in investment property.

Depreciation has not been recognised since land has an indefinite life.

Information on the Investment property

[As required by the Rule No 7.6 (viii) of the Listing Rules of the Colombo Stock Exchange].

Location	Type	Extent (perches)	Cost	Fair value
Biyagama	Land	120	Rs. 20,197,977	Rs. 36,000,000

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### 25. Property, Plant & Equipment

Company/Group

	31st March 2013							Total Rs.
	Land	Building	Furniture and Fittings	Computer Equipment	Office Equipment	Motor Vehicles	Capital Work-in- Progress	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
<b>Cost/Valuation</b>								
Balance at 1st April 2013	374,121,022	5,961,989	141,941,334	157,621,692	97,063,538	79,685,449	19,859,872	876,254,896
Add: Additions during the period	–	–	113,763,080	23,225,399	6,714,801	13,843,557	292,936,559	450,483,396
Less: Disposal during the period	–	–	–	–	–	7,273,333	–	7,273,333
Balance at 31st March 2014	374,121,022	5,961,989	255,704,414	180,847,091	103,778,339	86,255,673	312,796,429	1,319,464,959
<b>Accumulated Depreciation</b>								
Balance at 01st April 2013	–	92,150	64,942,454	75,593,694	37,558,832	40,349,960	–	218,537,090
Add: Charge for the period	–	149,050	37,409,237	30,929,679	18,397,136	15,494,467	–	102,379,569
Less: Disposal during the period	–	–	–	–	–	5,922,509	–	5,922,509
Balance at 31st March 2014	–	241,200	102,351,691	106,523,373	55,955,968	49,921,918	–	314,994,150
Written down value 31st March 2014	374,121,022	5,720,789	153,352,723	74,323,718	47,822,371	36,333,755	312,796,429	1,004,470,809
Written down value 31st March 2013	374,121,022	5,869,839	76,998,880	82,027,998	59,504,706	39,335,489	19,859,872	657,717,807

Borrowing cost capitalised on the term loan obtained for the purpose of construction of building is Rs. 14,946,925/-.

The Company has revalued its land on 31st March 2013 by Mr. D.S.N. Perera (Graduate Member of the Institute of Valuers of Sri Lanka) who is an independent valuer. The fair value was arrived by referring to the Market Value of the lands situated in the respective area.

Location	Type	Extent(perches)	Revalued Amount	Net Book Value
No. 123 and 121, Maradana Road, Colombo 10	Land	85.2	274,583,000	274,583,000
No. 377/2, Kandy Road, Mahara, Kadawatha	Land	39	58,500,000	58,500,000
No. 79, Mihindu Mawatha, Mahara, Kadawatha	Land	76	36,100,000	36,100,000
Madapatha, Piliyandala	Land	35	5,600,000	5,600,000

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>26. Intangible Assets</b>				
<b>Cost</b>				
Balance at 01st April	75,288,486	–	75,288,486	–
Additions during the period	19,125,565	75,288,486	19,125,565	75,288,486
Disposal during the period	–	–	–	–
Balance at 31st March	94,414,051	75,288,486	94,414,051	75,288,486
<b>Accumulated Amortisation</b>				
Balance at 01st April	6,173,107	–	6,173,107	–
Charge for the period	10,457,183	6,173,107	10,457,183	6,173,107
Disposal during the period	–	–	–	–
Balance at 31st March	16,630,290	6,173,107	16,630,290	6,173,107
Net Book Value	77,783,761	69,115,379	77,783,761	69,115,379

There were no restrictions on the title of the intangible assets of the group as at the reporting date.

## 27. Other Assets

Tax receivable	106,086,367	207,065,061	106,086,367	207,065,061
Insurance premium receivable	349,746,398	254,058,633	349,746,398	254,058,633
Insurance commission receivable	12,993,188	18,617,425	12,993,188	18,617,425
Unamortised cost on staff loans	73,883,386	61,369,971	73,883,386	61,369,971
Vehicle stock	126,061,321	217,842,427	126,061,321	217,842,427
Gift stock	3,258,153	5,748,983	3,258,153	5,748,983
Gold stock	73,410,222	8,456,040	73,410,222	8,456,040
Other stocks	2,077,024	–	2,077,024	–
Other receivables and advances	169,865,554	85,113,502	169,864,754	85,113,502
	917,381,613	858,272,042	917,380,813	858,272,042

## 28. Deposits from Customers

Term deposits	23,707,887,406	17,443,021,487	23,707,887,406	17,443,021,487
Savings deposits	788,584,946	327,601,177	788,584,946	327,601,177
Mudharaba	21,720,385	550,000	21,720,385	550,000
	24,518,192,737	17,771,172,664	24,518,192,737	17,771,172,664

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### 29. Debentures

As at 31st March

Year of Issue	Face Value	Term	Issue Date	Maturity Date	Company		Group	
					2014	2013	2014	2013
					Rs.	Rs.	Rs.	Rs.
2010	62,500,000	2.5 Years	12/30/2010	6/30/2013	–	64,844,578	–	64,844,578
	62,500,000	3 Years	12/30/2010	12/30/2013	–	64,844,578	–	64,844,578
	62,500,000	3.5 Years	12/30/2010	6/30/2014	64,474,588	64,844,578	64,474,588	64,844,578
	62,500,000	4 Years	12/30/2010	12/30/2014	64,474,588	64,844,578	64,474,588	64,844,577
2013	24,280,000	5 Years	12/19/2013	12/19/2018	24,407,602	–	24,407,603	–
	310,360,000	5 Years	12/19/2013	12/19/2018	323,454,845	–	323,454,845	–
	665,360,000	5 Years	12/19/2013	12/19/2018	695,521,212	–	695,521,212	–
					1,172,332,835	259,378,312	1,172,332,835	259,378,311
Due within one year					128,949,175	129,689,155	128,949,175	129,689,155
Due after one year					1,043,383,660	129,689,155	1,043,383,660	129,689,156
					1,172,332,835	259,378,310	1,172,332,835	259,378,311

Company		Group	
31st March 2014	31st March 2013	31st March 2014	31st March 2013
Rs.	Rs.	Rs.	Rs.

### 30. Other Interest Bearing Borrowings

Due to Banks (Note 30.1)	635,645,195	592,523,886	635,645,195	592,523,886
Due to foreign institutional lenders (Note 30.2)	836,308,064	–	836,308,064	–
Securitisation (Note 30.3)	1,229,874,118	1,299,045,585	1,229,874,118	1,299,045,585
Commercial Papers	303,624,521	365,343,734	303,624,521	365,343,734
Other Borrowings	136,553,752	246,791,375	136,553,752	246,791,375
	3,142,005,650	2,503,704,580	3,142,005,650	2,503,704,580

#### 30.1 Due to Banks

Lender	Loan Obtained	Term Months	Company		Group	
			31st March 2014	31st March 2013	31st March 2014	31st March 2013
	Rs. Mn		Rs.	Rs.	Rs.	Rs.
Seylan Bank - Term Loan 1	100	120	87,106,716	92,523,886	87,106,716	92,523,886
Seylan Bank - Term Loan 2	300	36	216,119,346	300,000,000	216,119,346	300,000,000
Seylan Bank - Term Loan 3	200	84	191,673,970	–	191,673,970	–
Pan Asia Banking Corporation	200	40	140,745,163	200,000,000	140,745,163	200,000,000
			635,645,195	592,523,886	635,645,195	592,523,886

Company		Group	
2014	2013	2014	2013
Rs.	Rs.	Rs.	Rs.

#### 30.2 Due to Foreign Institutional Lenders

Belgian Investment Company for developing countries	4 Years	836,308,064	–	836,308,064	–
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The Company has obtained an unsecured loan of Rs. 786,780,000/- from Belgian Investment Company. The loan is repayable in 8 semi-annual instalments commencing from April 2014.



### 30.3 Securitisation

#### Securitisation Arrangements

Details of the securitisation outstanding as at 31st March 2014 is as follows:

Issue No	Face value Rs. Mn	Maximum Period Months	Trustee	As at 31st March	Security
D4	200	36	Deutsche Bank AG	25,225,664	Mortgage over Lease Receivables
D6	300	36	Deutsche Bank AG	97,397,480	Mortgage over Lease/Hire Purchase Receivables
D7	400	36	Deutsche Bank AG	156,759,856	Mortgage over Lease Receivables
D8	200	24	Deutsche Bank AG	47,539,103	Mortgage over Lease Receivables
D9	300	36	Deutsche Bank AG	216,562,176	Mortgage over Lease/Hire Purchase Receivables
D10	400	36	Deutsche Bank AG	341,799,560	Mortgage over Lease/Hire Purchase Receivables
D11	400	36	Deutsche Bank AG	344,590,278	Mortgage over Lease Receivables
				1,229,874,118	

### 31. Deferred Tax Liability

Company/Group	2014	2013
	Rs.	Rs.
Balance at 1st April	31,912,358	(30,837,745)
Charge for the year	113,470,937	62,750,103
Balance at 31st March	145,383,295	31,912,358

The deferred tax liability is attributable for following:

As at 31st March	2014		2013	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Deferred Tax Liability				
<b>Company/Group</b>				
Deferred Tax liabilities on:				
Accelerated depreciation for				
Tax purpose - Own assets	109,322,477	30,610,293	164,883,682	46,167,431
Accelerated depreciation for				
Tax purpose - Leased assets	1,657,666,114	464,146,512	1,522,585,899	426,324,052
Unutilised tax losses	(1,088,520,883)	(304,785,847)	(1,470,332,774)	(411,693,177)
Defined benefit plans	(159,241,654)	(44,587,663)	(103,164,100)	(28,885,948)
	519,226,054	145,383,295	113,972,707	31,912,358

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As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs. (Restated)	Rs.	Rs. (Restated)
<b>32. Retirement Benefit Obligations</b>				
Balance as at 1st April	103,164,100	28,606,687	103,164,100	28,606,687
Current service cost	20,875,079	14,699,814	20,875,079	14,699,814
Past service cost	–	64,293,733	–	64,293,733
Interest cost	10,316,410	2,860,669	10,316,410	2,860,669
Actuarial (gain)/loss	25,713,942	(6,803,343)	25,713,942	(6,803,343)
Payments made	(827,877)	(493,460)	(827,877)	(493,460)
Balance at 31st March	159,241,654	103,164,100	159,241,654	103,164,100

### Amount Recognised in the Income Statement

Current service cost	20,875,079	14,699,814	20,875,079	14,699,814
Interest cost	10,316,410	2,860,669	10,316,410	2,860,669
Past service cost	–	64,293,733	–	64,293,733
	31,191,489	81,854,216	31,191,489	81,854,216

### Amount recognised in the other Comprehensive Income

Actuarial (gain)/loss	25,713,942	(6,803,343)	25,713,942	(6,803,343)
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An actuarial valuation of the gratuity liability was carried out as at 31st March 2014 by Mr. M. Poopalanathan. AIA, Messrs Actuarial and Management Consultants (Pvt) Limited, a company of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method' the method recommended by the Sri Lanka Accounting Standard No. LKAS - 19 'Employee Benefits' The Company does not fund the gratuity liability externally.

### Actuarial Assumptions

Normal retirement age	-	55 years (2012/13 -55 years)
Rate of discount	-	10% (2012/ 13 -10%)
Future Salary Increase	-	10 % (2012/ 13 -10%)

The Company applied, for the first time, Sri Lanka Accounting Standard LKAS 19 - 'Employee Benefits' and this necessitates restatement of previous Financial Statements. In accordance with the transitional provisions set out in LKAS 19, the Company applied the Standard with retrospective effect.

The opening Statement of Financial Position of the earliest comparative period is 31st March 2014 and therefore the comparative figures have been restated with effect from 31st March 2013.

As per the LKAS 19 - 'Employee Benefits' all past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. Hence the non-vested past services cost can no longer be deferred to be recognised over the future vesting period and any actuarial gain or losses to be recognised in the Other Comprehensive Income.

Restated profit for the year ended 31st March 2013	Rs.
Profit for the year ended 31st March 2013 as previously stated	534,874,627
Adjustment on the recognition of non-vested past service cost	(45,710,566)
Restated profit for the year ended 31st March 2013	489,164,061
Other comprehensive income for the year ended 31st March 2013 as previously stated	226,448,727
Adjustment on the recognition of actuarial gain	6,803,343
Restated other comprehensive income for the year ended 31st March 2013	233,252,070
Restated total comprehensive income for the year	722,416,131

The Company recognised the Actuarial Gain arising from the Retirement Benefit obligation and non-vested past service cost in the profit or loss for the prior year. However, in accordance with LKAS 19 - 'Employee Benefits' the Company is required to recognise the actuarial gain/(loss) arising from the Retirement Benefit Obligation in the Statement of Comprehensive Income with effect from 1st April 2013. The change in policy was adjusted retrospectively in accordance with LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

#### Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

#### Company/Group

% Increase/(Decrease) in Increment Rate	% Increase/(Decrease) in Interest Rate	Present Value of Defined Benefit Obligation Rs.	Effect on Comprehensive Income Rs.	Effect on Present Value of the Obligation Rs.
1		178,430,458	(19,188,804)	19,188,804
(1)		142,581,181	16,660,473	(16,660,473)
	1	143,362,890	15,878,764	(15,878,764)
	(1)	177,811,124	(18,569,470)	18,569,470

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As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.
<b>33. Other Liabilities</b>				
Accrued expenses	36,522,088	18,699,118	36,807,090	18,984,920
Supplier payables	180,192,815	189,443,067	180,192,815	189,443,067
Insurance premium payable	246,655,413	202,687,408	246,655,413	202,687,408
Bank overdraft	263,468,437	144,400,549	263,468,437	144,400,549
Advance lease rental received	165,259,184	167,341,572	165,259,184	167,341,572
Deferred transaction cost	15,512,774	3,964,204	15,512,774	3,964,204
Retention on building construction payments	19,603,443	-	19,603,443	-
Other liabilities	78,924,638	-	79,024,639	-
	1,006,138,792	726,535,918	1,006,523,795	726,821,720

## 34. Stated Capital

As at 31st March 2014

	2014		2013	
	No. of Shares Rs.	Value Rs.	No. of Shares Rs.	Value Rs.
<b>Ordinary Shares</b>				
Balance as at 1st April	54,305,207	1,185,061,645	51,968,516	1,114,960,915
Issued during the year				
Voting	-	-	-	-
Non-Voting	-	-	2,336,691	70,700,730
	54,305,207	1,185,061,645	54,305,207	1,185,061,645
<b>Composition of shares</b>				
Voting	46,299,223		46,299,223	
Non-Voting	8,005,984		8,005,984	
	54,305,207		54,305,207	

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.

## 35. Statutory Reserve Fund

Balance as at the 1st April	385,711,809	278,736,884	385,711,809	278,736,884
Transfers during the year	112,242,554	106,974,925	112,242,554	106,974,925
Balance as at 31st March	497,954,363	385,711,809	497,954,363	385,711,809

The Reserve Fund is maintained in compliance with Direction No. 1 of 2003 Central Bank of Sri Lanka (Capital Funds) issued to Finance Companies.

As per the said Direction, every licenced finance company shall maintain a reserve fund and transfer to such reserve fund out of the net profits of each year after due provisions have been made for taxation and bad and doubtful debts on the following basis:

Capital funds to deposit liabilities	% of transfer to reserve fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 50%	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.

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.

### 36. Revaluation Reserve

Balance as at the 1st April	132,765,013	12,066,286	132,765,013	12,066,286
Transfers during the year	-	120,698,727	-	120,698,727
Balance as at 31st March	132,765,013	132,765,013	132,765,013	132,765,013

The Company has revalued its land on 31st March 2013 by Mr. D S N Perera (Graduate Member of the Institute of Valuers of Sri Lanka) who is an independent valuer. The fair value was arrived by referring to the market value of the lands situated in the respective area.

As at 31st March	Company		Group	
	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.

### 37. Investment Fund Account

Balance as at the 1st April	50,933,191	21,102,344	50,933,191	21,102,344
Transfers during the year	36,812,258	29,830,847	36,812,258	29,830,847
Balance as at 31st March	87,745,449	50,933,191	87,745,449	50,933,191

The investment fund account is credited in accordance with the Central Bank Guidelines issued to create an investment fund account. 8% of the profit liable for VAT on Financial Service and 5% of the profit before tax calculated for payment of income tax purposes is transferred to the account when the payment is made on dates specified by the Act.

### 38. Capital Commitments and Contingencies

#### Contingent Liabilities

CDB jointly with Seylan Bank PLC has agreed to promote Seylan/CDB Visa international credit cards to CDB customers. The Company has undertaken to guarantee each card issued under this scheme and the total combined credit limits assigned to all card issued under this scheme will not exceed Rs. 10 Mn at any given time. The Company has given guarantees on behalf of its customers against the placement of investments with CDB by such customer. The maximum limit of the guarantee does not exceed the investment value of the customers.

A customer has filed a case in District Court against the Company regarding a disagreement in relation to the repayment period of a lease facility. The balance outstanding of the lease facility as at the reporting date is Rs. 250,000.

Other than the matters disclosed above there were no material contingent liabilities that require adjustment to or disclosure in the Financial Statements as at the reporting date.

#### Capital Commitments

Company is in the process of constructing the proposed head office building and the balance cost of the construction is estimated to be Rs. 300 Mn.

The Company has issued a purchasing order to purchase an inventory management software from Jinasena Infotec (Pvt) Limited at a cost of Rs. 4 Mn.

There were no material Capital Commitments other than above as at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

### 39. Events Occurring after the Reporting Date

The Board of Directors has recommended a dividend of three Rupees. (Rs. 3.00) per share on both its 46,299,223 voting ordinary shares and 8,005,984 non-voting ordinary shares aggregating to a sum of Rupees Hundred and Sixty Two Million Nine Hundred Fifteen Thousand and Six Hundred and Twenty One as the first and final dividend for the financial year ended 31st March 2014.

There are no other events except the above occurring after the reporting date which require disclosure in/adjustments to the Financial Statements.

### 40. Transactions with Related Parties

#### 40 (a) Transactions with Related Parties

Name of the Related Party	Name of the Director/Trustee	Nature of the Transaction	Amount. Rs. 2014	Balance as at 31st March 2014 Due/(Payable) Rs.
Ceylinco Insurance PLC	Mr. D H J Gunwardena	Net investments in deposits	-	68,000,00
	Mr. S R Abeynayake	Net investments in debentures	(25,230,000)	(224,770,000)
		Insurance Premium paid/ payable	357,667,115	100,251,726
		Insurance commission received/receivable	37,952,328	11,159,031
CDB ESOP Trust Fund (Pvt) Limited	Mr. P A Jayawardana (Trustee)	Loans given	Nil	78,988,322
	Mr. R Renganathan (Trustee)			
	Mr. E T L Ranasinghe (Trustee)			

#### 40 (b) Transactions with Key Management Personnel and their Close Family Members

According to the LKAS 24 - 'Related Party Disclosures' Key Management Personnel are those having responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Board of Directors (Including Non-Executive and Executive Directors) has been classified as Key Management Personnel (KMP). Close members of the family of an individual are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Company. They may include -

The individual's domestic partner and children;

Children of the Individual's domestic partner and dependants of the individual or the individual's domestic partner;

Compensation of Key Management Personnel and other transactions of KMPs.

Name of the Related Party	Non-Executive Independent Directors Rs.	Non-Executive Directors Rs.	Executive Directors Rs.	Total 2013/14 Rs.	Total 2012/13 Rs.
Short-term employment benefits	2,880,000	2,520,000	34,867,800	40,267,800	30,671,680
Post employment benefits	-	-	-	-	-
Other long-term benefits	-	-	-	-	-
Termination benefits	-	-	-	-	-
Share based payments	-	-	-	-	-
<b>Total</b>	<b>2,880,000</b>	<b>2,520,000</b>	<b>34,867,800</b>	<b>40,267,800</b>	<b>30,671,680</b>

## 41. Maturity Analysis

Assets/Liabilities	Statement of Maturity Analysis of Assets and Liabilities as at 31st March 2014					Total Rs.
	Maturity Period					
	Up to 1 Month Rs.	2 - 3 Months Rs.	3 - 12 Months Rs.	12-60 Months Rs.	More than 60 Months Rs.	
<b>Assets</b>						
Cash and cash equivalents	462,555,296					462,555,296
Deposits in commercial banks	1,049,434,887	691,450,025	965,287,142			2,706,172,054
Loans and receivables to customers	1,695,221,992	1,876,636,897	6,629,982,836	15,065,201,475	457,901,096	25,724,944,295
Financial Investments - Available-for-sale					789,600,000	789,600,000
Financial Investments - Held-to-maturity		207,587,982	1,534,425,212	15,747,945	76,929,902	1,834,691,042
Financial investments - loans and receivable	227,999,991					227,999,991
Investment in subsidiary					2,745,447	2,745,447
Investment property					20,197,977	20,197,977
Property, plant & Equipment				301,341,243	703,129,566	1,004,470,809
Intangible assets				23,335,128	54,448,633	77,783,761
Other assets	161,056,871	385,826,831	285,628,818	63,651,820	21,217,273	917,381,613
<b>Total assets</b>	<b>3,596,269,037</b>	<b>3,161,501,735</b>	<b>9,415,324,008</b>	<b>15,469,277,611</b>	<b>2,126,169,894</b>	<b>33,768,542,285</b>
Percentage of total assets	11	9	28	46	6	
Cumulative percentage	11	20	48	94	100	
<b>Liabilities</b>						
Deposits from customers	4,316,256,067	5,197,057,037	8,225,269,692	6,779,609,941		24,518,192,737
Debentures		65,129,602	65,129,602	1,042,073,631		1,172,332,835
Other interest bearing borrowings	257,330,773	345,421,801	915,158,528	1,525,202,113	98,892,435	3,142,005,650
Retirement benefit obligations					159,241,654	159,241,654
Other liabilities	693,775,734	325,580,051	48,680,102	102,742,751	29,076,659	1,199,855,297
<b>Shareholders' Funds</b>						
Stated capital					1,185,061,645	1,185,061,645
Reserve fund					497,954,363	497,954,363
Revaluation reserve					132,765,013	132,765,013
Investment fund account					87,745,449	87,745,449
Available-for-Sale reserve					689,690,925	689,690,925
Accumulated profit					983,696,717	983,696,717
<b>Total liabilities</b>	<b>5,267,362,574</b>	<b>5,933,188,491</b>	<b>9,254,237,924</b>	<b>9,449,628,436</b>	<b>3,864,124,860</b>	<b>33,768,542,285</b>
Percentage of Total liabilities	16	18	27	28	11	
Cumulative Percentage	16	34	61	89	100	
Maturity gap	(1,671,093,537)	(2,771,686,757)	161,086,085	6,019,649,175	(1,737,954,966)	0
Cumulative gap	(1,671,093,537)	(4,442,780,294)	(4,281,694,209)	1,737,954,966	0	0

## NOTES TO THE FINANCIAL STATEMENTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

### 42. Segmental Analysis

As per the SLFRS 8 'Operating Segments' Company is required to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Accordingly, below information gives the segmental information on performance of the Company's main business lines.

As at 31st March	Lease & Stock out on Hire		Loans		Others		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Company</b>								
Interest	4,469,367,374	3,152,715,660	800,983,634	705,652,516	625,252,529	229,018,984	5,895,603,537	4,087,387,160
Non-Interest Income	159,708,801	119,915,360	(168,403,259)	–	238,252,468	104,547,550	229,558,010	224,462,910
Total Revenue	4,629,076,175	3,272,631,020	632,580,375	705,652,516	863,504,997	333,566,534	6,125,161,547	4,311,850,070
Segmental Results	4,629,076,175	3,272,631,020	632,580,375	705,652,516	863,504,997	333,566,534	6,125,161,547	4,311,850,070
Interest Cost	2,253,093,627	1,580,659,837	528,598,892	522,026,493	771,710,237	283,883,929	3,553,402,757	2,386,570,259
Impairment charge for loans and other assets	266,576,203	122,717,606	72,410,773	6,070,454	–	–	338,986,976	128,788,060
Segment Contribution	2,109,406,345	1,569,253,577	31,570,710	177,555,569	91,794,760	49,682,605	2,232,771,814	1,796,491,751
Unallocated Expenses							1,450,142,890	1,131,232,848
Value added tax on financial services							52,660,876	40,976,359
Income tax expenses							168,755,278	135,118,484
<b>Segmental result</b>	2,109,406,345	1,569,253,577	31,570,710	177,555,569	91,794,760	49,682,605	561,212,770	489,164,060
<b>Segment Assets</b>	19,335,101,529	14,621,658,524	4,536,213,290	4,828,928,359	6,622,492,563	2,626,026,026	30,493,807,382	22,076,612,909
Unallocated Assets							3,274,734,903	2,377,318,531
<b>Total Assets</b>	19,335,101,529	14,621,658,524	4,536,213,290	4,828,928,359	6,622,492,563	2,626,026,026	33,768,542,285	24,453,931,440
<b>Group</b>								
Interest	4,469,367,374	3,152,715,660	800,983,634	705,652,516	625,252,529	229,018,984	5,895,603,537	4,087,387,160
Non-Interest Income	159,708,801	119,915,360	(168,403,259)	–	238,252,468	104,547,550	229,558,010	224,462,910
Total Revenue	4,629,076,175	3,272,631,020	632,580,375	705,652,516	863,504,997	333,566,534	6,125,161,547	4,311,850,070
Segmental results	4,629,076,175	3,272,631,020	632,580,375	705,652,516	863,504,997	333,566,534	6,125,161,547	4,311,850,070
Interest cost	2,253,093,627	1,580,659,837	528,598,892	522,026,493	771,710,237	283,883,929	3,553,402,757	2,386,570,259
Impairment charge for loans and other assets	266,576,203	122,717,606	72,410,773	6,070,454	–	–	338,986,976	128,788,060
Segment contribution	2,109,406,345	1,569,253,577	31,570,710	177,555,569	91,794,760	49,682,605	2,232,771,814	1,796,491,751
Unallocated expenses							1,450,242,890	1,131,332,848
Value added tax on financial services							52,660,876	40,976,359
Income tax expenses							168,755,278	135,118,484
<b>Segmental result</b>	2,109,406,345	1,569,253,577	31,570,710	177,555,569	91,794,760	49,682,605	561,112,770	489,064,060
<b>Segment assets</b>	19,335,101,529	14,621,658,524	4,536,213,290	4,828,928,359	6,622,492,563	2,626,026,026	30,493,807,382	22,076,612,909
Unallocated assets							3,275,324,182	2,377,908,610
<b>Total assets</b>	19,335,101,529	14,621,658,524	4,536,213,290	4,828,928,359	6,622,492,563	2,626,026,026	33,769,131,564	24,454,521,519



# ANNEXES

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## INVESTOR RELATIONS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

### 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 2013/14 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 period.

The Audited Income Statement for the year ended 31st March 2014 and the Audited Balance Sheet of the Company as at 31st March 2014 will be submitted to the Colombo Stock Exchange within three months from the Balance Sheet date.

The stock exchange ticker symbol for Citizens Development Business Finance PLC is 'CDB'. CDB voting shares are listed as CDB.N0000 and Non-voting shares are listed as CDB.X0000.

### Compliance Report

The Company has complied with all the requirements of the Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report of a Listed Entity. The table given below provides the references to the relevant sections of the Annual Report with the page references of the required information.

Rule No.	Disclosure Requirement	Section Reference	Page Reference
7.6 (i)	Names of persons who held the positions of Directors during the financial year	Annual Report of the Board of Directors	151
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	176 151
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Investor Relations	224
7.6 (iv)	The public holding percentage	Investor Relations	224
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at beginning and end of each financial year	Annual Report of the Board of Directors	151
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk Management	130
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Not applicable for the year as the Company did not encounter any situation of this nature which require disclosure	
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 (Notes 24 and 25)	211, 212

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	151
		Investor Relations	224
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	224
7.6 (xi)	Ratios and market price information: Equity Ratios Debt Any changes in credit rating	Investor Relations	224
		Investor Relations	224
		Investor Relations	224
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 (Note 25)	212
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	Investor Relations	224
7.6 (xiv)	Information in respect of Employee Share Option Schemes and Employee Share Purchase Schemes	Notes to the Financial Statements [Note 19(h)]	209
7.6 (xv)	Disclosures 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	104
7.6 (xvi)	Disclosure on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Not applicable	

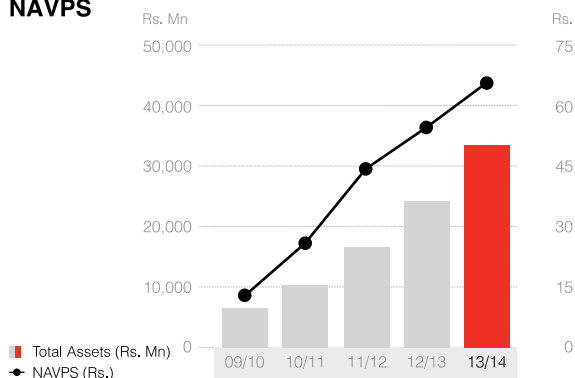
## Investor Ratios

	2013/14	2012/13	2011/12	2010/11	2009/10*
Earnings per share (Rs.)	<b>10.33</b>	9.01	10.28	12.76	1.60
Net Assets per share (Rs.)	<b>65.87</b>	54.60	44.31	25.83	12.93
Return on equity (%)	<b>17.16</b>	18.57	30.49	65.98	13.45
Dividend per share (Rs.)	<b>3.00**</b>	2.75	2.50	2.00	0.50
Dividend payout ratio (%)	<b>29.04</b>	30.52	24.32	15.67	31.25

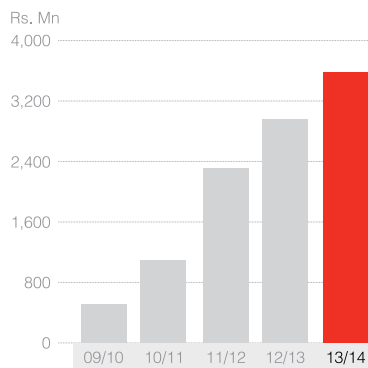
\*Annualised figures for the fifteen months period ended 31st March 2010

\*\*Proposed

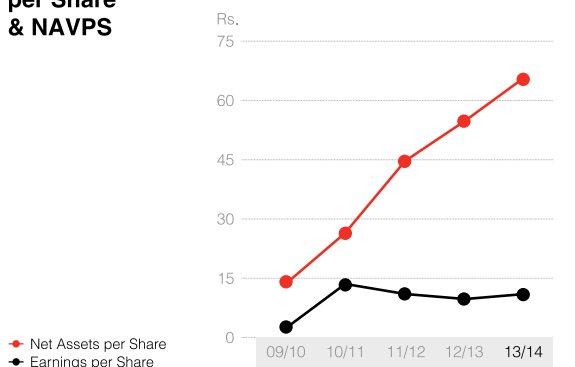
### Total Assets and NAVPS



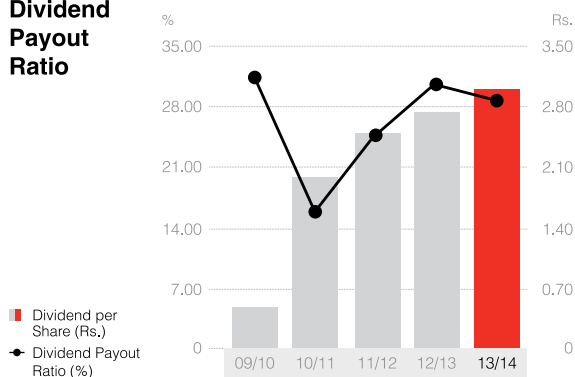
### Shareholders' Funds



### Earnings per Share & NAVPS



### Dividend per Share & Dividend Payout Ratio



### Dividends

For the financial year ended 31st March 2013, CDB paid a cash dividend of Rupees Two and Cents Seventy Five (Rs 2.75) per share on both its 46,299,223 ordinary voting shares and 8,005,984 ordinary non-voting shares aggregating to a sum of Rupees One Hundred and Forty Nine Million Three Hundred and Thirty-Nine Thousand Three Hundred and Nineteen and Cents Twenty-Five only (Rs. 149,339,319.25/-) as the first and final dividend.

	2013/14	2012/13	2011/12	2010/11
Final - Cash Dividend	3.00*	2.75	1.00	2.00
Scrip Dividend			1.50	
<b>Total Dividend</b>	<b>3.00*</b>	<b>2.75</b>	<b>2.50</b>	<b>2.00</b>

\*Proposed dividend for this year would be a cash dividend of Rs. 3.00 per share which needs to be approved by the shareholders at the AGM.

## Share Price Information

Prices	Voting		Non-Voting	
	2013/14	2012/13	2013/14	2012/13
	Rs.	Rs.	Rs.	Rs.
High	<b>54.90</b>	47.50	<b>44.80</b>	57.80
Low	<b>38.00</b>	29.00	<b>28.00</b>	26.60
Last traded	<b>46.00</b>	40.10	<b>37.50</b>	29.10

## Market Capitalisation

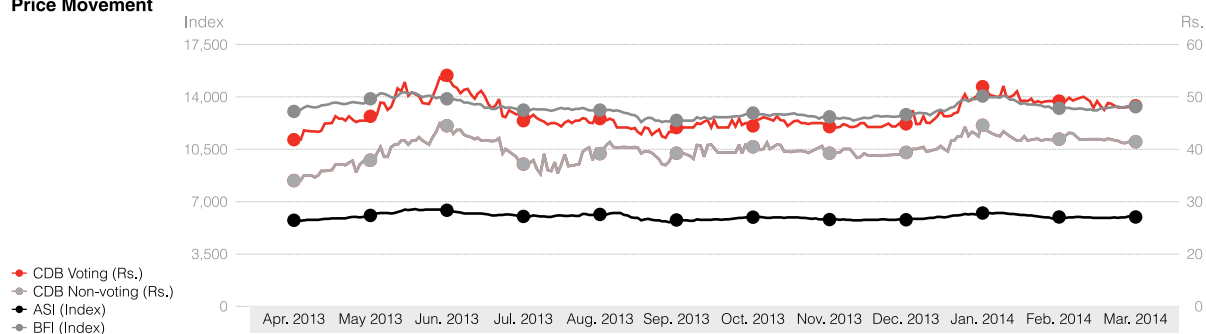
As at 31st March	2013/14	2012/13
	Rs.	Rs.
Voting	<b>2,129,764,258</b>	1,856,598,842
Non-Voting	<b>300,224,400</b>	232,974,134
<b>Total</b>	<b>2,429,988,658</b>	2,089,572,976

## Share Trading Information

Annual Transaction Information	Ordinary - Voting Shares			
	2013/14	2012/13	2011/12	2010/11
Transactions (Nos.)	<b>2,233</b>	2,571	8,270	12,181
Shares Traded (Nos.)	<b>2,522,678</b>	2,497,811	12,303,772	12,318,200
Value of Shares Traded (Rs.)	<b>113,669,908</b>	98,920,592	983,554,597	934,191,580

Annual Transaction Information	Ordinary - Non-Voting Shares			
	2013/14	2012/13	2011/12	2010/11
Transactions (Nos.)	<b>1,595</b>	2,139	1,685	–
Shares Traded (Nos.)	<b>2,164,520</b>	3,577,448	4,048,206	–
Value of Shares Traded (Rs.)	<b>77,314,979</b>	109,944,947	221,117,475	–

## Share Price Movement



## INVESTOR RELATIONS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

### Quarterly Summary

Period - Voting	High (Rs.)	Low (Rs.)	Close (Rs.)	Trade Volume	Share Volume	Turnover (Rs.)	Days Traded
2013/14 - Q4	52.00	42.00	46.00	525	792,062	37,124,621	55
2013/14 - Q3	47.90	40.50	42.00	317	220,445	9,247,798	56
2013/14 - Q2	46.00	38.00	41.00	506	540,491	22,447,917	61
2013/14 - Q1	54.90	38.00	43.50	885	969,680	44,849,572	55
Year	54.90	38.00	46.00	2,233	2,522,678	113,669,908	227

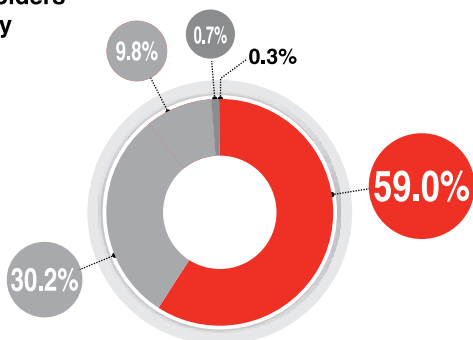
Period - Non-Voting	High (Rs.)	Low (Rs.)	Close (Rs.)	Trade Volume	Share Volume	Turnover (Rs.)	Days Traded
2013/14 - Q4	44.80	30.10	37.50	367	374,206	14,416,263	48
2013/14 - Q3	37.70	34.00	35.60	152	508,094	17,464,840	41
2013/14 - Q2	38.00	30.00	35.30	345	358,614	12,186,349	52
2013/14 - Q1	43.10	28.00	35.00	731	923,606	33,247,527	60
Year	44.80	28.00	37.50	1,595	2,164,520	77,314,979	201

### Shareholder Analysis

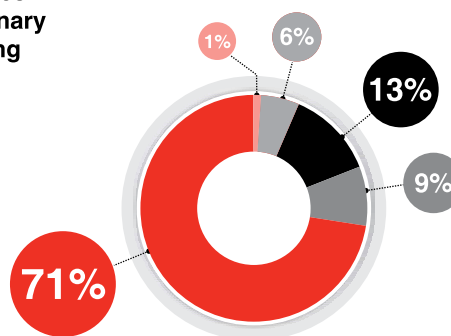
#### Ordinary Voting Shares - Composition According to Shareholding

Shareholding Composition Voting	Resident			Non-Resident			Total		
	Number of Shareholders	No. of Shares	(%)	Number of Shareholders	No. of Shares	(%)	Number of Shareholders	No. of Shares	(%)
1 to 1000 Shares	1,274	475,473	1.03	2	1,033	0	1,276	476,506	1.03
1001 to 10,000 Shares	645	2,507,241	5.42	7	40,200	0.09	652	2,547,441	5.51
10,001 to 100,000 Shares	209	5,690,793	12.29	3	104,172	0.22	212	5,794,965	12.51
100,001 to 1000,000 Shares	15	3,425,443	7.40	1	543,073	1.17	16	3,968,516	8.57
Over 1,000,000 Shares	6	33,511,795	72.38	-	-	-	6	33,511,795	72.38
	2,149	45,610,745	98.52	13	688,478	1.48	2,162	46,299,223	100.00

#### Number of Shareholders - Ordinary Voting



#### Number of Shares - Ordinary Voting



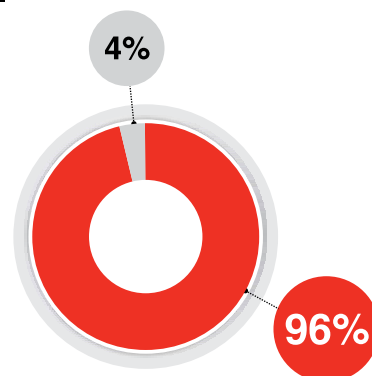
1 to 1000 Shares ■ 1001 to 10,000 Shares ■  
10,001 to 100,000 Shares ■ 100,001 to 1,000,000 Shares ■  
Over 1,000,000 Shares ■

1 to 1000 Shares ■ 1001 to 10,000 Shares ■  
10,001 to 100,000 Shares ■ 100,001 to 1,000,000 Shares ■  
Over 1,000,000 Shares ■

### Type of Shareholders

Category of Shareholders - Voting	No. of Shareholders	No. of Shares
Individual	<b>2,085</b>	9,361,967
Institutional	<b>77</b>	36,937,256
<b>Total</b>	<b>2,162</b>	46,299,223

### Type of Shareholders - Voting

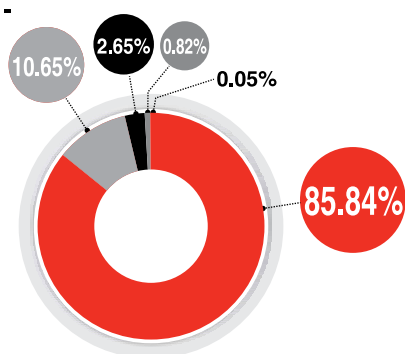


Individual ■ Institutional ■

### Ordinary Non-Voting Shares - Composition According to Shareholding

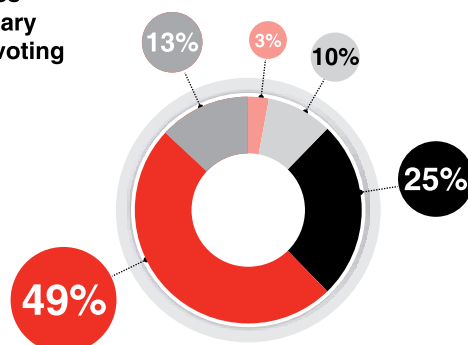
Shareholding Composition Voting	Resident			Non-Resident			Total		
	Number of Shareholders	No. of Shares	(%)	Number of Shareholders	No. of Shares	(%)	Number of Shareholders	No. of Shares	(%)
1 to 1,000 Shares	1,776	235,043	2.94	6	1,562	0.02	1782	236,605	2.96
1,001 to 10,000 Shares	219	764,843	9.55	2	9,000	0.11	221	773,843	9.66
10,001 to 100,000 Shares	49	1,773,490	22.15	6	229,813	2.87	55	2,003,303	25.02
100,001 to 1000,000 Shares	14	3,577,445	44.69	3	363,497	4.54	17	3,940,942	49.23
Over 1,000,000 Shares	1	1,051,291	13.13	–	–	–	1	1,051,291	13.13
	<b>2,059</b>	<b>7,402,112</b>	<b>92.46</b>	<b>17</b>	<b>603,872</b>	<b>7.54</b>	<b>2,076</b>	<b>8,005,984</b>	<b>100.00</b>

### Number of Shareholders - ordinary non-voting



1 to 1000 Shares ■ 1001 to 10,000 Shares ■  
 10,001 to 100,000 Shares ■ 100,001 to 1,000,000 Shares ■  
 Over 1,000,000 Shares ■

### Number of Shares - ordinary non-voting

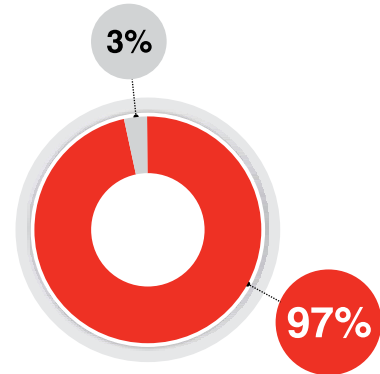


1 to 1000 Shares ■ 1001 to 10,000 Shares ■  
 10,001 to 100,000 Shares ■ 100,001 to 1,000,000 Shares ■  
 Over 1,000,000 Shares ■

### Type of Shareholders

Category of Shareholders - Non-Voting	No. of Shareholders	No. of Shares
Individual	<b>2,006</b>	3,678,233
Institutional	<b>70</b>	4,327,751
<b>Total</b>	<b>2,076</b>	8,005,984

### Type of Shareholders - Non -Voting



Individual ■ Institutional ■

### Information on Share Capital Movement

Year	Details	Share Type	Basis	No. of Shares Issued	No. of Voting Shares (After Issue)	No. of Non-Voting shares (After Issue)	New Capital Raised (Rs.)
	Prior to Introduction	Voting Shares			39,685,048		
2010	Introduction				39,685,048		
2011	Rights 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 & Non-Voting shares	2,336,691	46,299,223	8,005,984	



## Major Shareholders

### Ordinary Voting Shares - List of 20 Major Shareholders as at 31st March 2014

No.	Name	Shareholding	Percentage (%)
1.	Ceylinco Insurance PLC A/C No. 1 (Life Fund)	14,642,163	31.63
2.	CDB ESOP Trust Fund (Pvt.) Limited	12,500,000	27.00
3.	Ceylinco Insurance PLC A/C No. 2 (General Fund)	1,853,287	4.00
4.	National Development Bank PLC/T.Senthilvel	1,664,100	3.59
5.	Perpetual Capital (Pvt.) Limited	1,602,245	3.46
6.	The Finance Company PLC A/C No. 1	1,250,000	2.70
7.	Asia Management Consultancy (Pvt.) Limited	706,622	1.53
8.	Mr. D Kotthoff	543,073	1.17
9.	E W Balasuriya & Co. (Pvt) Limited	535,103	1.16
10.	Little Smile Organic (Pvt) Limited	416,500	0.90
11.	MAS Capital (Pvt) Limited	289,492	0.63
12.	East India Holding (Pvt) Limited	243,833	0.53
13.	Mr. K Sabaratnam	149,000	0.32
14.	Mr. W S R Fernando	137,900	0.30
15.	Dr. C Gunasekara	131,700	0.28
16.	Pan Asia Banking Corporation PLC/Mr. S M P L Jayaratne	125,000	0.27
17.	Rev. J N Fernando	125,000	0.27
18.	Mr. A M Subramaniam & Mr. S Ragulan	122,500	0.26
19.	Mrs. W M N Dabarera	118,942	0.26
20.	Mr. M A H Esufally	110,000	0.24
	<b>Sub total of Top 20 Shareholders</b>	<b>37,266,460</b>	<b>80.49</b>
	Others	9,032,763	19.51
	<b>Total</b>	<b>46,299,223</b>	<b>100.00</b>

The percentage of shares held by the public as at 31st March 2014 is 36.93%.

## INVESTOR RELATIONS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

### Ordinary Non-Voting Shares - List of 20 Major Shareholders as at 31st March 2014

No.	Name	Shareholding	Percentage (%)
1.	J B Cocoshell (Pvt.) Limited	1,051,291	13.13
2.	Deutsche Bank AG As Trustee For JB Vantage Value Equity Fund	866,492	10.82
3.	CDB ESOP Trust Fund (Pvt.) Limited	562,499	7.03
4.	Ceylinco Insurance PLC A/C No. 2 (General Fund)	320,541	4.00
5.	Askold (Pvt.) Limited	247,224	3.09
6.	Mr. M J Fernando	208,999	2.61
7.	Mr. H N Esufally	208,999	2.61
8.	E W Balasuriya & Co. (Pvt.) Limited	204,413	2.55
9.	Mr. M A H Esufally	194,000	2.42
10.	Mr. G H I Jafferjee	156,749	1.96
11.	Mr. I M Dabah	154,499	1.93
12.	Mr. S Prabagar	142,235	1.78
13.	Commercial Bank of Ceylon PLC A/C No. 04	123,950	1.55
14.	Mr. S R Fernando	120,000	1.50
15.	Captain M A L Ratnayake	116,845	1.46
16.	Mr. M A Valabji	104,499	1.31
17.	Jafferjees Investments (Pvt.) Limited	104,499	1.31
18.	Gold Investment Limited	104,499	1.31
19.	Trading Partners (Pvt.) Limited	100,000	1.25
20.	Mrs. S E Lokhandwalla	88,000	1.10
	<b>Sub total of Top 20 Shareholders</b>	<b>5,180,233</b>	<b>64.70</b>
	Others	2,825,751	35.30
	<b>Total</b>	<b>8,005,984</b>	<b>100.00</b>

The percentage of shares held by the public as at 31st March 2014 is 75.15%.

### Debenture Information

CDB managed to successfully conduct a Rs. 1 Bn Listed Debenture Issue in December 2013 which was oversubscribed on the opening day itself. The issue comprised of 5,000,000 Subordinated Listed Rated Unsecured Redeemable Five year Debentures with an option to issue up to a further 5,000,000 debentures in the event of an over subscription of initial 5,000,000 debentures. The objectives of the issue were to finance

the Company's anticipated future business growth in lending portfolio of leases, hire purchase and other loans and to reduce the asset and liability mismatch of the company. This issue will also help to strengthen the Tier 2 capital base of the company in order to maintain a healthy capital adequacy ratio. The Debentures are assigned a rating of BBB - by Lanka Ratings Agency Limited ('LRA').

## Listed Debentures

Listing	Debenture Description	Type	Interest Payment Frequency	Tenor (Years)	Issued Quantity as at 31.03.2014	Interest Rates		Comparable Government Security Yield
						Coupon Rate (per annum) (%)	Annual Effective Rate (%)	
Listed Debentures (Rs. 100)	Subordinated Listed Rated Unsecured Redeemable Debentures December 2013 - December 2018*	A	Annually	5	6,653,600	16.00	16.00	8.65**
		B	Semi-annually	5	3,103,600	15.50	16.10	8.65**
		C	Quarterly	5	242,800	15.00	15.87	8.65**

\*Debentures have not been traded up to 31st March 2014. Therefore market price or yield information is not provided.

\*\*Excluding 10% withholding tax

## Unlisted Debentures

Issue Type	Purpose	Type*	Total Value	Issued Date	Tenure (Months)	Investor	Balance as at 31.03.2014
			Rs. Mn				Rs. Mn
Rated Unsecured Redeemable	To raise medium-term funds to expand the Company's credit and leasing portfolios	Type III	62.50	30.12.2010	42	Ceylinco Insurance PLC - Life	62.50
Unlisted Debentures		Type IV	62.50	30.12. 2010	48	Ceylinco Insurance PLC - Life	62.50

\*The debentures are rated BBB by RAM Ratings Lanka (Pvt) Limited.

Proceeds of the debentures have been utilised for the intended purpose of the debenture issue.

## Ratios

	2013/14
Debt/Equity Ratio	<b>55%</b>
Quick Asset Ratio (Times)	<b>0.81</b>
Interest Cover (Times)	<b>1.20</b>

## US\$ ACCOUNTS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

### Statement of Financial Position

As at 31st March	Company	
	2013/14	2012/13
	US\$	US\$
<b>Assets</b>		
Cash and cash equivalents	3,530,956	1,616,742
Deposits with commercial banks	20,657,802	10,513,951
Loans and receivables to customers	196,373,621	153,154,227
Financial investments - available-for-sale	6,027,481	4,440,501
Financial investments - held-to-maturity	14,005,275	9,059,766
Financial investments - loans and receivable	1,740,458	1,103,654
Investment in subsidiary	20,958	21,618
Investment properties	154,183	159,039
Property, plant and equipment	7,667,716	5,178,880
Intangible assets	593,769	544,216
Other assets	7,002,913	6,758,048
<b>Total assets</b>	<b>257,775,132</b>	<b>192,550,641</b>
<b>Liabilities</b>		
Deposit from customers	187,161,777	139,930,493
Debentures	8,949,106	2,042,349
Other interest-bearing borrowings	23,984,776	19,714,209
Current tax liabilities	368,956	732,010
Deferred tax liabilities	1,109,796	251,278
Retirement benefit obligations	1,215,585	812,316
Other liabilities	7,680,449	5,720,755
<b>Total liabilities</b>	<b>230,470,444</b>	<b>169,203,411</b>
<b>Equity</b>		
Stated capital	9,046,272	9,331,194
Reserve fund	3,801,178	3,037,101
Revaluation reserve	1,013,473	1,045,394
Investment fund reserve	669,813	401,049
Available-for-sale reserve	5,264,816	3,653,815
Retained earnings	7,509,135	5,878,677
Total parent company shareholders' equity	27,304,688	23,347,230
Non-controlling interests	-	-
<b>Total equity</b>	<b>27,304,688</b>	<b>23,347,230</b>
<b>Total equity and liabilities</b>	<b>257,775,132</b>	<b>192,550,641</b>
Net asset value per ordinary US\$	0.50	0.43

Exchange Rate of 1 US\$ was Rs. 131.00 as at 31st March 2014 (Rs. 127.00 as at 31st March 2013).

#### US\$ Accounts

The Statement of Comprehensive Income and the Statement of Financial Position given on pages 234 to 235 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

## Statement of Comprehensive Income

For the year ended 31st March	Company		Group	
	2013/14	2012/13	2013/14	2012/13
	US\$	US\$	US\$	US\$
<b>Income</b>	<b>46,756,958</b>	33,951,575	<b>46,756,958</b>	33,951,575
Interest income	45,004,607	32,184,151	45,004,607	32,184,151
Interest expenses	27,125,212	18,791,892	27,125,212	18,791,892
<b>Net interest income</b>	<b>17,879,395</b>	13,392,259	<b>17,879,395</b>	13,392,259
Fees and commission income	1,219,151	944,215	1,219,151	944,215
Less: Fee and commission expense				
<b>Net fee and commission income</b>	<b>1,219,151</b>	944,215	<b>1,219,151</b>	944,215
<b>Net Interest, fee and commission income</b>	<b>19,098,546</b>	14,336,474	<b>19,098,546</b>	14,336,474
Net trading income				
Other operating income	533,200	823,209	533,200	823,209
<b>Total operating income</b>	<b>19,631,746</b>	15,159,684	<b>19,631,746</b>	15,159,684
Less: Impairment charges for loans and other losses	2,587,687	1,014,079	2,587,687	1,014,079
<b>Net operating income</b>	<b>17,044,060</b>	14,145,604	<b>17,044,060</b>	14,145,604
<b>Less: Operating expenses</b>				
Staff costs	3,991,960	3,406,070	3,991,960	3,406,070
Premises, equipment and establishment expenses	4,903,958	3,513,896	4,903,958	3,514,683
Other operating expenses	2,173,875	1,987,379	2,173,875	1,987,379
	11,069,793	8,907,345	11,069,793	8,908,133
<b>Operating profit before value added tax</b>	<b>5,974,267</b>	5,238,259	<b>5,974,267</b>	5,237,472
Value added tax (vat) on financial services, Crop insurance levy Nation building tax on financial services	401,991	322,648	401,991	322,648
<b>Profit before taxation</b>	<b>5,572,275</b>	4,915,611	<b>5,572,275</b>	4,914,823
Income tax expense	1,288,208	1,063,925	1,288,208	1,063,925
<b>Profit for the year</b>	<b>4,284,067</b>	3,851,686	<b>4,284,067</b>	3,850,898
<b>Profit attributable to-</b>				
Non-controlling interests				
Parent company shareholders	4,284,067	3,851,686	4,284,067	3,850,898
<b>Profit for the year</b>	<b>4,284,067</b>	3,851,686	<b>4,284,067</b>	3,850,898
<b>Other comprehensive income:</b>				
Net actuarial gain/(loss) on defined benefit plans	(196,290)	53,570	(196,290)	53,570
Net gain/(loss) on re-measuring of available-for-sale financial investment	1,722,568	832,677	1,722,568	832,677
Net change in revaluation surplus		950,384		950,384
<b>Other comprehensive income for the year net of taxation</b>	<b>1,526,278</b>	1,836,630	<b>1,526,278</b>	1,836,630
<b>Total comprehensive income for the year</b>	<b>5,810,345</b>	5,688,316	<b>5,810,345</b>	5,687,529
<b>Total comprehensive income attributable to -</b>				
Non-controlling interests				
Parent company shareholders				
<b>Total comprehensive income for the year</b>	<b>5,810,345</b>	5,688,316	<b>5,810,345</b>	5,687,529
Basic earnings per ordinary share US\$	0.08	0.07	0.08	0.07
Dividend per Share US\$	0.02	0.02	0.02	0.02

Exchange Rate of 1 US\$ was Rs. 131.00 as at 31st March 2014 (Rs. 127.00 as at 31st March 2013).

## QUARTERLY STATISTICS

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

For the quarter ended

	2013/2014				2012/2013			
	March 31st	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th
<i>(Rs. '000)</i>								
<b>Balance Sheet</b>								
Total Assets	33,768,542	31,649,258	29,097,589	26,559,707	24,490,333	22,171,801	20,149,480	18,836,059
Lease, hire purchase and loans	25,724,944	24,369,282	23,204,062	21,250,036	19,450,587	17,804,125	15,636,820	14,403,912
Deposits and borrowings	28,832,532	27,219,852	24,691,508	22,448,010	20,562,496	17,484,265	16,008,876	14,776,533
Shareholders' funds	3,576,914	3,475,319	3,269,176	3,074,343	3,004,005	2,650,020	2,480,054	2,339,425
<b>Income statement data</b>								
Revenue	1,576,510	1,647,281	1,517,687	1,383,684	1,203,860	1,146,623	1,024,312	891,692
Net interest income	656,177	590,929	553,649	541,446	448,130	427,498	399,817	355,012
Other income	(31,302)	125,004	89,851	46,004	36,143	73,398	64,416	64,833
Net income	624,877	715,933	643,499	587,450	484,273	500,896	464,234	419,845
Provision for loan losses	(64,354)	(143,955)	(71,491)	(59,187)	(3,184)	(3,246)	(20,000)	(32,567)
Non-Interest expenses	(371,804)	(385,743)	(386,465)	(358,792)	(297,872)	(290,184)	(263,202)	(275,240)
Income tax expenses	(56,343)	(28,369)	(49,592)	(34,451)	(39,312)	(37,500)	(32,551)	(15,000)
Net profit after tax	132,377	157,865	135,951	135,020	143,905	169,966	148,481	97,038
<b>Financial measures</b>								
Net assets value per ordinary shares (Rs.)	65.87	64.00	60.20	56.61	57.80	50.99	47.72	45.02
<b>Profitability</b>								
Return on average								
Shareholders' equity (annualised) (%)	17.16	17.65	17.28	20.92	24.23	22.41	20.60	16.80
<b>Productivity</b>								
Non-interest expenses to								
Total revenue (%)	23.58	23.42	25.46	25.93	24.74	25.31	25.70	30.87
<b>Asset quality</b>								
Non-performing ratio (%)	2.73	2.78	2.54	2.59	2.32	2.92	2.54	2.26

Submission of the Interim Financial Statements (Unaudited) in terms of Listing Rule No. 7.4 of the Colombo Stock Exchange.

	2013/2014
For the 3 Months ended 30 June 2013	29th July 2013
For the 6 Months ended 30 September 2013	30th October 2013
For the 9 Months ended 31 December 2013	12th February 2014
For the 12 Months ended 31 March 2014	28th May 2014

## VALUE ADDED STATEMENT

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

For the Period Ended	2013/14	%	2012/13	%
	Rs.		Rs.	
Net interest income earned by providing financial services	2,342,200,780		1,700,816,901	
Cost of services	979,857,002		739,638,294	
	1,362,343,778		961,178,607	
Non-financial income	229,558,010		224,462,910	
Provision for bad debts	338,986,975		128,788,059	
Value added	1,252,914,813		1,056,853,458	
<b>Distribution of value added</b>				
<b>To employees</b>				
Salaries, wages and other benefits	522,946,764	42	432,570,913	41
<b>To providers of capital</b>				
Dividends paid/proposed	162,915,621	13	149,339,319	14
<b>To Government</b>				
Value added tax, crop insurance levy and NBT	52,660,876	4	40,976,359	4
Income tax	168,755,278	13	135,118,484	13
<b>To expansion and growth</b>				
Retained as reserves	232,799,525	19	215,307,338	20
Retained as depreciation	112,836,749	9	83,541,045	8
	1,252,914,813	100	1,056,853,458	100

## TEN YEAR STATISTICAL SUMMARY

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

	2004	2005	2006
<b>Operating Results</b>			
Income	217,652,769	363,776,409	638,279,950
Interest Income	205,510,482	337,853,081	598,470,528
Interest Expenses	137,273,470	204,505,522	386,690,976
Non-Interest Income	12,142,287	25,923,328	39,809,422
Operating Expenses (Incl. VAT)	69,477,994	119,789,473	207,541,225
Profit/(Loss) Before Taxation	10,901,307	39,481,414	44,047,749
Income Tax on Profit	-	-	-
Profit/Loss After Taxation	10,901,307	39,481,414	44,047,749
<b>Liabilities &amp; Shareholders' Funds</b>			
Customer Deposits	-	-	-
Borrowings	1,400,539,942	2,382,991,283	3,627,849,488
Other Liabilities	127,413,673	192,987,250	368,175,209
Deferred Taxation	-	-	-
Shareholders' Funds	(50,056,324)	256,036	82,311,709
Total Liabilities & Shareholders' Funds	1,477,897,291	2,576,234,569	4,078,336,406
<b>Assets</b>			
Loan and Receivables (Net)	1,250,326,769	2,270,687,014	3,569,997,246
Cash and Short Term Funds	18,755,941	53,066,134	239,501,315
Property Plant & Equipment	24,173,669	52,896,687	104,432,755
Other Assets	184,640,912	199,584,734	164,405,090
Total Assets	1,477,897,291	2,576,234,569	4,078,336,406
<b>Ratios</b>			
Growth in Income (%)	77	67	75
Growth in Interest Expenses (%)	31	49	89
Growth in Other Expenses (%)	12	72	73
Growth in Profit After Tax (%)	125	262	12
Growth in Total Assets (%)	66	74	58
Earnings Per Share (Rs.)	0.87	3.09	3.00
Return on Average Assets (%)	0.92	1.95	1.32
Dividend Per Share (Rs.)	-	-	-

\* 15 Month period

\*\* Proposed Dividend

Highlighted information is based on LKASs/SLFRSs.



2007	2008	2009/10	2010/11	2011/12	2012/13	2013/14
1,054,206,933	1,638,454,558	1,898,899,386	2,226,022,713	2,833,115,188	4,311,850,070	6,125,161,547
989,218,343	1,496,219,576	1,794,819,119	1,731,159,166	2,555,433,093	4,087,387,160	5,895,603,537
670,401,052	1,092,348,424	1,190,634,646	912,786,452	1,311,936,117	2,386,570,259	3,553,402,757
64,988,590	142,234,982	104,080,267	494,863,547	277,682,095	224,462,910	229,558,010
334,320,975	474,868,960	619,525,039	751,965,680	988,872,265	1,300,997,266	1,841,790,741
49,484,906	71,237,174	88,739,701	561,270,581	532,306,806	624,282,545	729,968,049
157,484	5,947,671	9,163,093	29,460,581	13,839,677	135,118,484	168,755,278
49,327,422	65,289,503	79,576,608	531,810,000	518,467,129	489,164,061	561,212,771
–	–	4,837,875,995	7,770,659,215	11,699,662,914	17,771,172,664	24,518,192,737
4,918,339,725	5,684,698,562	828,926,204	1,027,654,377	2,155,693,964	2,763,082,891	4,314,338,485
342,921,093	676,793,306	495,786,661	493,578,084	456,069,116	922,665,325	1,213,713,656
–	–	–	–	–	31,912,358	145,383,295
131,639,131	433,638,437	513,215,045	1,098,701,563	2,302,502,632	2,965,098,202	3,576,914,112
5,392,899,949	6,795,130,305	6,675,803,905	10,390,593,239	16,613,928,626	24,453,931,440	33,768,542,285
4,584,431,013	5,634,300,195	5,035,083,744	8,081,942,079	13,469,076,072	19,450,586,882	25,724,944,295
529,368,994	529,209,486	851,277,622	320,138,908	626,231,439	1,540,598,041	3,168,727,350
129,852,708	198,647,455	200,669,868	237,821,921	470,979,957	657,717,807	1,004,470,809
149,247,234	432,973,169	588,772,671	1,750,690,331	2,047,641,158	2,805,028,710	3,870,399,831
5,392,899,949	6,795,130,305	6,675,803,905	10,390,593,239	16,613,928,626	24,453,931,440	33,768,542,285
65	55	16	17	27	52	42
73	63	9	(23)	44	82	49
61	42	30	21	32	32	42
12	32	22	568	(3)	(6)	15
32	26	(2)	56	60	47	38
3.03	2.51	1.60	12.75	10.28	9.99	10.33
1.04	1.07	1.18	6.23	3.84	2.38	1.93
–	–	0.50	2.00	2.50	2.75	3.00**

# SUSTAINABILITY ASSURANCE REPORT

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050



**KPMG**  
(Chartered Accountants)  
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## INDEPENDENT ASSURANCE REPORT TO CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

### Introduction

We were engaged by the Board of Directors of Citizens Development Business Finance PLC ('Company') to provide assurance on the following elements of the Sustainability Reporting incorporated in the Integrated Annual Report 2014 ("Report") for the year ended 31 March 2014:

- Reasonable assurance on Financial Highlights as reported on page 14 of this Report 2014.
- Limited assurance on Non-Financial Highlights for 2014 as specified on page 15 and other information on pages 29 to 99 presented in this Report.

### Managements' responsibilities and the criteria applied

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in page 16 of the Report and the information and assertions contained within it: for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholder and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

### Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable & limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard requires amongst others that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable & limited assurance about whether the Report is free of material misstatement.

### Summary of work performed

#### Financial data

A reasonable assurance engagement on financial highlights reported on pages 14 of the Report involves verification that they were properly derived from the audited financial statements of the Company for the year ended March 31, 2014.

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  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo ACA  
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA



### Performance Indicators and Other Information

A limited assurance engagement on performance indicators and other information in the Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.

- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company.

### Our conclusion

Based on the procedures performed, as described above, we conclude that:

- The data on financial highlights, as reported on page 14 of the Report 2014 are properly derived from the financial statements of the Company for the year ended March 31, 2014 for which the independent auditors have issued an unqualified audit opinion dated June 2, 2014 on page 169 of this Report;
- Nothing has come to our attention that causes us to believe that the non-financial highlights specified on page 15 and other information presented on pages 29 to 100 in the Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in pages 16 of the Report.

### CHARTERED ACCOUNTANTS

Colombo  
2nd June 2014

# GRI CONTENT INDEX

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

## GRI Content Index for 'In Accordance' - Core (G4 - 32)

Description	Page Reference	External Assurance/ Page Reference
<b>Strategy and Analysis</b>		
G4-1 Provide a statement from the most senior decision-maker of the organisation (such as CEO, Chairman, or equivalent senior position) about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	22 - 27	Yes 240 - 241
<b>Organisational Profile</b>		
G4-3 Report the name of the organisation.	248	Yes 240 - 241
G4-4 Report the primary brands, products and services.	69	Yes 240 - 241
G4-5 Report the location of the organisation's headquarters.	248	Yes 240 - 241
G4-6 Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the Report.	29	Yes 240 - 241
G4-7 Report the nature of ownership and legal form.	248	Yes 240 - 241
G4-8 Report the markets served (including geographic breakdown, sectors served and types of customers and beneficiaries).	71 - 72	Yes 240 - 241
G4-9 Report the scale of the organisation, including: Total number of employees, total number of operations, net sales (for private sector organisations) or net revenues (for public sector organisations), total capitalisation broken down in terms of debt and equity (for private sector organisations), Quantity of products or services provided.	29	Yes 240 - 241
G4-10 Report the composition of the workforce, including: Report the total number of employees by employment contract and gender. report the total number of permanent employees by employment type and gender. Report the total workforce by employees and supervised workers and by gender. Report the total workforce by region and gender. Report whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	80 - 85	Yes 240 - 241
G4-11 Report the percentage of total employees covered by collective bargaining agreements.	78	Yes 240 - 241
G4-12 Describe the organisation's supply chain.	76	Yes 240 - 241
G4-13 Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including: Changes in the location of, or changes in, operations, including facility openings, closings and expansions, changes in the share capital structure and other capital formation, maintenance and alteration operations (for private sector organisations), changes in the location of suppliers, the structure of the supply chain, or in-relationships with suppliers, including selection and termination.	17	Yes 240 - 241
G4-14 Report whether and how the precautionary approach or principle is addressed by the organisation.	130	Yes 240 - 241
G4-15 List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	36	Yes 240 - 241
G4-16 List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation: Holds a position on the governance body, Participates in projects or committees, provides substantive funding beyond routine membership dues, views membership as strategic	91 - 92	Yes 240 - 241
<b>Identified Material Aspects and Boundaries</b>		
G4-17 List all entities covered by the organisation's Consolidated Financial Statements Report the entities not covered by the Report and report whether any entity included in the organisation's Consolidated Financial Statements or equivalent documents is not covered by the Report.	17	Yes 240 - 241
G4-18 Explain the process for defining the report content and the aspect boundaries and explain how the organisation has implemented the Reporting Principles for Defining Report Content.	32	Yes 240 - 241
G4-19 List all the material aspects identified in the process for defining report content.	32	Yes 240 - 241
G4-20 For each material aspect, report the aspect boundary within the organisation, as follows: Report whether the Aspect is material within the organisation. If the aspect is not material for all entities within the organisation (as described in G4-17), select one of the following two approaches and report either: The list of entities or groups of entities included in G4-17 for which the aspect is not material or the list of entities or groups of entities included in G4-17 for which the aspects is material. Report any specific limitation regarding the aspect boundary within the organisation.	33 - 34	Yes 240 - 241

Description	Page Reference	External Assurance/ Page Reference
G4-21 For each material aspect, report the aspect boundary outside the organisation, as follows: Report whether the Aspect is material outside of the organisation. If the aspect is material outside of the organisation, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified. Report any specific limitation regarding the aspect boundary outside the organisation.	31 - 32	Yes 240 - 241
G4-22 Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	39	Yes 240 - 241
G4-23 Report significant changes from previous reporting periods in the scope and aspect boundaries.	40	Yes 240 - 241
<b>Stakeholder Engagement</b>		
G4-24 Provide a list of stakeholder groups engaged by the organisation.	39	Yes 240 - 241
G4-25 Report the basis for identification and selection of stakeholders with whom to engage.	40	Yes 240 - 241
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.	41 - 42	Yes 240 - 241
G4-27 Report 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.	39 - 42	Yes 240 - 241
<b>Report Profile</b>		
G4-28 Reporting period (such as fiscal or calendar year) for information provided.	16	Yes 240 - 241
G4-29 Date of most recent previous report (if any).	16	Yes 240 - 241
G4-30 Reporting cycle (such as annual, biennial).	17	Yes 240 - 241
G4-31 Provide the contact point for questions regarding the report or its contents.	248	Yes 240 - 241
G4-32 "In accordance" option: Report the 'in accordance' option the organisation has chosen. Report the GRI Content Index for the chosen option. Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.	17	Yes 240 - 241
G4-33 <b>Assurance:</b> Report the organisation's policy and current practice with regard to seeking external assurance for the report. If not included in the Assurance Report accompanying the Sustainability Report, report the scope and basis of any external assurance provided. Report the relationship between the organisation and the assurance provider. Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's Sustainability Report.	17	Yes 240 - 241
<b>Governance</b>		
G4-34 Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	43 - 44 101 - 103	Yes 240 - 241
<b>Ethics and Integrity</b>		
G4-56 Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	70	Yes 240 - 241

### Specific Standard Disclosures

Category	Material Aspect	Indicators	Page No.	External Assurance/ Page Reference
<b>Economic</b>	Economic Performance	DMA	38	Yes 240 - 241
		EC1 Direct economic value generated and distributed	38	Yes 240 - 241
<b>Environment</b>	Energy	DMA	97 - 98	Yes 240 - 241
		EN3 Energy consumption within the organisation	98	Yes 240 - 241
		EN6 Reduction of energy consumption	98	Yes 240 - 241
	Effluent and Waste	DMA	98	Yes 240 - 241
		EN23 Total weight of waste by type and disposal method	98	Yes 240 - 241
	Compliance	DMA	97 - 98	Yes 240 - 241
	EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environment laws and regulations	92	Yes 240 - 241	

Category	Material Aspect	Indicators	Page No.	External Assurance/ Page Reference
<b>Social</b>	<b>Labour Practices and Decent Work</b>			
	Employment	DMA	77 - 78	Yes 240 - 241
		LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	82 - 85	Yes 240 - 241
	Labour/Management Relations	DMA	78 - 79	Yes 240 - 241
		LA4 Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	78	Yes 240 - 241
	Training and Education	DMA	78 - 80	Yes 240 - 241
		LA9 Average hours of training per year per employee by gender and by employee category	87 - 88	Yes 240 - 241
		LA10 Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	87	Yes 240 - 241
		LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	79	Yes 240 - 241
	Equal Remuneration for Women and Men	DMA	77 - 78	Yes 240 - 241
		LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	86	Yes 240 - 241
	<b>Human Rights</b>			
	Non-Discrimination	DMA	77 - 78	Yes 240 - 241
		HR3 Total number of incidents of discrimination and corrective actions taken	78	Yes 240 - 241
	Child Labour	DMA	77 - 78	Yes 240 - 241
		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	78	Yes 240 - 241
	Forced or Compulsory Labour	DMA	77 - 78	Yes 240 - 241
		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	77	Yes 240 - 241
	<b>Society</b>			
	Local Communities	DMA	92 - 93	Yes 240 - 241
		SO1 Percentage of operations with implemented local community engagement, impact assessments and development programmes	93	Yes 240 - 241
	Anti-Corruption	DMA	92 - 93	Yes 240 - 241
		SO4 Communication and training on anti-corruption policies and procedures	88	Yes 240 - 241
	Anti-Competitive behaviour	DMA	92 - 93	Yes 240 - 241
		SO7 Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	92	Yes 240 - 241
	Compliance	DMA	92 - 93	Yes 240 - 241
		SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	92	Yes 240 - 241
	<b>Product Responsibility</b>			
	Marketing	DMA	68	Yes 240 - 241
	Communi-cation	PR6 Sale of banned or disputed products	71	Yes 240 - 241
		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	71	Yes 240 - 241
	Customer Privacy	DMA	68	Yes 240 - 241
		PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	71	Yes 240 - 241
	Compliance	DMA	68	Yes 240 - 241
		PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	71	Yes 240 - 241

## BRANCH NETWORK

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

No.	Branch	Branch Address
1.	Anuradhapura	No. 522/D, Maithripala Senanayake Mawatha, Anuradhapura
2.	Ambalangoda	No. 61, New Road, Amabalangoda
3.	Badulla	No. 33-1/1-33-1/6, 1st Floor, Modern Complex, No. 158, Lower street, Badulla
4.	Battaramulla	No. 156/2, Main Street, Battaramulla
5.	Boralessgamuwa	No. 18/A, Maharagama Road, Boralessgamuwa
6.	Batticaloa	No. 601/D, Trincomalee Road, Batticaloa
7.	Chilaw	No. 25/1, Colombo Road, Chilaw
8.	Dambulla	No. 671/2, Anuradhapura Road, Dambulla
9.	Dehiwala	No. 103, Galle Road, Dehiwala
10.	Eheilyagoda	No. 114, Main Street, Eheilyagoda.
11.	Embilipitiya	No. 21, Main Street, Embilipitiya
12.	Elakanda	No. 37, D/E, Handala Road, Elakanda
13.	Galle	No. 126, Colombo Road, Kaluvella, Galle
14.	Gampaha	No. 114, Colombo Road, Gampaha
15.	Head Office	No. 18, Sri Sangaraja Mawatha, Colombo 10
16.	Horana	No. 119/A, Panadura Road, Horana
17.	Ja-Ela	No. 195/A, Negombo Road, Ja-Ela
18.	Jaffna	No. 208, Stanly Road, Jaffna
19.	Katugastota	No. 468, Katugastota Road, Kandy
20.	Kaduruwela	No. 660, Main Street, Kaduruwela
21.	Kuliyapitiya	No. 259, Madampay Road, Kuliyapitiya
22.	Kaduwela	No. 475/1, Avissawella Road, Kaduwela
23.	Kandana	No. 37A, Negombo Road, Kandana
24.	Kalutara	No. 296, Galle Road, Kalutara
25.	Kegalle	No. 227, Kandy Road, Kegalle
26.	Kelaniya	No. 159, Kandy Road, Kiribathgoda
27.	Kandy	No. 110, Yatinuwaravidiya, Kandy
28.	Kotahena	No. 30, Sri Ramanandhan Mawatha, Colombo 13
29.	Kurunegala	No. 54, Colombo Road, Kurunegala
30.	Kochchikade	No. 176, Chilaw Road, Kochchikade
31.	Kottawa	No. 35/1, High Level Road Kottawa, Pannipitiya

No.	Branch	Branch Address
32.	Matale	No. 115/117, Trincomalee Road, Matale
33.	Maravilla	No. 63, Samagi Building Complex, Chilaw Road, Maravilla
34.	Mahara	No. 377/2, Kandy Road, Mahara Handiya, Kadawatha
35.	Mathara	No. 29, Anagarika Daramapala Mawawtha, Matara
36.	Maharagama	No. 249, High Level Road, Maharagama
37.	Malabe	No. 838/ 04, New Kandy Road Malabe
38.	Mathugama	No. 190, Atuththgama Road, Mathugama.
39.	Moratuwa	No. 764, Galle Road, Moratuwa
40.	Minuwangoda	No. 18/A, Siriwardena Mawatha, Minuwangoda
41.	Negambo	No. 1, St Jude Place, Negombo
42.	Nugegoda	No. 143C, High Level Road, Nugegoda
43.	Narammala	No. 95, Kurunegala Road, Narammala
44.	Panadura	No. 383, Galle Road, Panadura
45.	Piliyandala	No. 77/1, Moratuwa Road, Piliyandala
46.	Premier Center	No. 101, Dharmapala Mawatha Colombo 3
47.	Pelmadulla	No. 11, Main Street, Pelmadulla
48.	Nittambuwa	No. 2/1, Kandy Road, Nittamuwa
49.	Ragama	No. 164, Bank Padasa, Kadawatha, Ragama
50.	Ratmalana	No. 444D, Galle Road, Ratmalana
51.	Ratnapura	No. 89, Bandaranayaka Mawatha, Ratnapura
52.	Rajagiriya	No. 1424, Kotte Road, Rajagiriya
53.	Thissamaharama	No. 223, Kachcheriyagama, Hambantota Road, Thissamaharama
54.	Trincomalee	No. 266, Central Road, Trincomalee
55.	Vavuniya	No. 79, Kandaswamy Kovil Road, Vavuniya
56.	Wattala	No. 180, Negambo Road, Wattala
57.	Warakapola	No. 09, Main Street, Warakapola
58.	Wennappuwa	No. 313, Colombo Road, Wennappuwa
59.	Wellawatte	No. 416, Galle Road, Wallawatte

## Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

## Capital Adequacy Ratio

The percentage of risk-adjusted assets supported by capital as defined by the Central Bank of Sri Lanka.

## Capital Reserve

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Company and reserve fund set aside for specific purposes defined under the Finance Companies Act No. 78 of 1988.

## Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subjected to an insignificant risk of changes in value.

## Contingent Liabilities

Conditions or situations at the Balance Sheet date, the financial effect of which are to be determined by the future events which may or may not occur.

## Cost Income Ratio

Operating expenses as a percentage of net income.

## Deferred Tax

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

## Earnings Per Share

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

## Fair Value

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

## General Provisions

General provisions are established for leasing transactions, housing loans, pawning advances and others for anticipated losses on aggregate

exposures where credit losses cannot yet be determined on an individual facility basis.

## Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

## Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

## Interest Margin

Net interest income as a percentage of average interest earning assets.

## Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

## Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

## 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.

## Market Rates

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.

## Net Assets Value Per Share

Shareholders' funds divided by the number of ordinary shares in issue.

## Net Interest Income

The difference between what Company earns on assets such as loans and securities and what it pays on liabilities such as deposits and borrowings.

## Non-Performing Loans

All loans are classified as non-performing when a payment is 6 months in arrears.

## Non-Performing Loans Cover (NPL Cover)

Cumulative loan provision as a percentage of total non-performing advances (net of interest in suspense).

## NPL Ratio

Total non-performing advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

## Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

## Provision for Bad and Doubtful Debts

A charge to income which is added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realizable values.

## Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

## Return on Average Equity

Net income expressed as a percentage of average ordinary shareholders' equity.

## Revenue Reserve

Reserves set aside for future distribution and investment.

## Risk Adjusted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per Rupee among all types of assets. The risk inherent in Off-Balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

## Shareholders' Funds

Shareholders' funds consist of stated capital plus capital and revenue reserves.

## Subsidiary

A subsidiary is an entity that is controlled by another entity (known as the Parent).

## Tier I Capital

Consists of the sum total of paid-up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

## Tier II Capital

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

## Total Capital

Total capital is the sum of Tier I capital and Tier II capital.

## Value Added

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

## Mark-to-Market Adjustment

Mark-to-Market adjustment is the difference between the market value of a quoted security and the cost.

## Staff Turnover Ratio

Staff turnover ratio is computed as the number of employees who resigned during the financial period under review divided by the average number of employees in that particular reference period.



# NOTICE OF MEETING

MANAGEMENT DISCUSSION & ANALYSIS : 051-099

STEWARDSHIP : 100-148

FINANCIAL REPORTS : 149-222

ANNEXES : 223-248

## CITIZENS DEVELOPMENT BUSINESS FINANCE PLC - PB 232 PQ

Notice is hereby given that the Eighteenth Annual General Meeting of Citizens Development Business Finance PLC will be held on 30th June 2014 at BCIS Auditorium, Bandaranaike Memorial International Conference Hall (BMICH), Baudhaloka Mawatha, Colombo at 9.30 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 2014 with the Report of the Auditors thereon.
2. To declare a first and final dividend of Rs. 3.00 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 2014.
3. To re-elect Mr. P A J Jayawardena, 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. 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.
5. 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.
6. To re-elect Mr. D H J. Gunawardana, who in terms of Article 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.

7. To authorise the Directors to determine Contributions to charities and other donations for the ensuing year.
8. To re-appoint Messrs KPMG, Chartered Accountants as Auditors and authorise the Directors to determine their remuneration.

By Order of The Board of Directors of  
**Citizens Development Business Finance PLC**  
S S P CORPORATE SERVICES (PRIVATE) LIMITED



Secretaries

2nd June 2014

### **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.*

# CORPORATE INFORMATION

HIGHLIGHTS : 014-015

CHAIRMAN'S LETTER : 018-021

MANAGING DIRECTOR'S REVIEW : 022-027

BUSINESS MODEL : 028-050

## 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.

## Date of Incorporation

7th September 1995

## Registration Number

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  
ACMA (UK), ACMA (Sri), MCPM, CGMA  
*Executive Director/  
Chief Operating Officer*

S R Abeynayake  
MBA (Sri J), FCA, FCMA  
*Non-Executive Director*

Dr. Ajantha Dharmasri  
B Sc. Eng., MBA (Sri J.), PhD (Sri J), MCMI (UK)  
*Independent Non Executive Director*

D A De Silva  
BSc.(Hons.), ACMA, CGMA  
*Independent Non-Executive Director*

P A J Jayawardena  
LUTCF (USA), CIAM, CMFA  
*Non-Executive Director*

Razik Mohamed  
*Independent Non-Executive Director*

S V Munasinghe  
*Executive Director/  
Chief Credit Officer*

T M D P Tennakoon  
FCMA (UK), CGMA  
*Executive Director/  
Chief Financial Officer*

W W K M Weerasooriya  
B.Com. (Sp.)  
*Executive Director/  
Chief Marketing Officer*

## Registered Address of Head Office

No 18, Sangaraja Mawatha,  
Colombo 10, Sri Lanka  
Tel: 0094117388388  
Fax: 0094112429888  
Email: cdb@cdb.lk  
Web: www.cdb.lk

## Company Secretary

S S P Corporate Services (Pvt)Limited  
101, Inner Flower Road,  
Colombo 03, Sri Lanka  
Tel: 0094112573894,  
0094112576871  
Fax: 00942573609  
Email: sspsec@sltnet.lk

## External Auditor

KPMG  
Chartered Accountants  
32 A, Sir Mohamed Macan Marker  
Mawatha,  
Colombo 03, Sri Lanka  
Tel: 0094115426426

## Lawyer

Nithya Partners  
No. 97 A, Galle Road,  
Colombo 03, Sri Lanka

## Credit Rating

BBB/P2 (RAM)

## Bankers

Bank of Ceylon  
Commercial Bank of Ceylon PLC  
Hatton National Bank PLC  
Nations Trust Bank PLC  
Sampath Bank PLC  
Seylan Bank PLC  
People's Bank

# FORM OF PROXY - VOTING SHAREHOLDERS

## CITIZENS DEVELOPMENT BUSINESS FINANCE PLC - PB 232 PQ

I/We, ..... (NIC No. ....)  
of ..... being a member/members of  
Citizens Development Business Finance PLC hereby appoint Mr./Mrs./Ms. ....  
(NIC No. ....) of ..... whom failing,

Mr. Don Herschel Jayaprithi Gunawardana	whom failing
Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara	whom failing
Mr. Tennakoon Mudiyansele Damith Prasanna Tennakoon	whom failing
Mr. Roshan Hasantha Abeygoonewardena	whom failing
Mr. Sasindra Virajith Munasinghe	whom failing
Mr. Warnkula Weerasuriya Kingsly Malcom Weerasuriya	whom failing
Mr. Prasad Asanka Joseph Jayawardena	whom failing
Mr. Sri Ranga Abeynayake	whom failing
Mr. Dave Anthony De Silva	whom failing
Dr. Ajantha Dharmasiri	whom failing
Mr. Razik Mohamed	

as my/our proxy to represent me/us and vote for me/us on my/our behalf at the Eighteenth Annual General Meeting of the Company to be held on the 30th day of June 2014 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 2014 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 3.00 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 2014.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. P A J Jayawardena, 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. 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"/>
5. 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"/>
6. To re-elect Mr. D H J Gunawardana, who in terms of Article 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"/>
7. To authorise the Directors to determine Contributions to charities and other donations for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-appoint 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 Fourteen.

.....  
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.

## FORM OF PROXY - VOTING SHAREHOLDERS

### INSTRUCTIONS AS TO COMPLETION

1. The Full name, address and the NIC No. 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 - PB 232 PQ

I/We, ..... (NIC No. ....)  
of ..... being a member/members of  
Citizens Development Business Finance PLC hereby appoint Mr./Mrs./Ms. ....  
(NIC No. ....) of ..... whom failing,

Mr. Don Herschel Jayaprithi Gunawardana	whom failing
Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara	whom failing
Mr. Tennakoon Mudiyansele Damith Prasanna Tennakoon	whom failing
Mr. Roshan Hasantha Abeygoonewardena	whom failing
Mr. Sasindra Virajith Munasinghe	whom failing
Mr. Warnkula Weerasuriya Kingsly Malcom Weerasuriya	whom failing
Mr. Prasad Asanka Joseph Jayawardena	whom failing
Mr. Sri Ranga Abeynayake	whom failing
Mr. Dave Anthony De Silva	whom failing
Dr. Ajantha Dharmasiri	whom failing
Mr. Razik Mohamed	

as my/our proxy to represent me/us and speak at the Eighteenth Annual General Meeting of the Company to be held on the 30th day of June 2014 and at any adjournment thereof.

Signed this ..... day of ..... Two Thousand and Fourteen.

.....  
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.

## **FORM OF PROXY - NON-VOTING SHAREHOLDERS**

### **INSTRUCTIONS AS TO COMPLETION**

1. The Full name, address and the NIC No. 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

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## 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.



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