

**THE**  **OF**  
**SUCCESS** **ANNUAL REPORT '12/13**



# THE SECRET OF SUCCESS



CDB is one of Sri Lanka's fastest growing financial institutions, offering a wide range of customer friendly financial solutions delivered through a fast expanding multi-channelled distribution network.

Over the years we have transformed your company into a powerhouse of wealth creation and value for our many stakeholders; from customers and employees to the communities we work within and the many thousands of shareholders we serve. It is this broad compass of society that gives us our 'local touch', strongly supported by the global standards we bring to every financial solution we offer

**Our strategic business plan is designed to build our strength, consolidate our advantages and successfully grow your company into the years ahead. Hard work, persistence, industry expertise and a passion for what we do are characteristics inherent in our business model.**

**Such are the secrets of our success.**





# VISION

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

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# **PURPOSE**

**Enriching people's life  
through extension of  
financial services.**



# Financial Highlights

## Results for the year Rs. Mn.

Gross Income	4,311	2,833
Net Interest Income	1,700	1,243
Profit Before VAT & Tax	710	560
Profit Before Tax	669	532
Provision for Tax	135	13
Profit After Tax	534	518

## Position at the year End Rs. Mn.

Shareholders Funds	3,004	2,302
Deposit from customers	17,800	11,700
Loans & Advances	19,450	13,469
Total Assets	24,482	16,613

## Financial Ratios

Net Assets Value Per Share Rs.	55.32	44.31
Earnings Per Share Rs.	9.99	10.28
Return on Average Assets %	2.60	1.92
Return on Average Shareholders' Funds %	20.16	30.49

## Non Performing Advances Ratio

Gross %	2.32	1.67
Net %	1.27	0.37

## Statutory Ratios

Capital Adequacy %		
Tier I (Minimum Requirement- 5%)	14.43	16.79
Tier II (Minimum Requirement- 10%)	14.43	17.03
Liquidity Ratio %	14.49	13.20

**Interest Income**  
**4,087 Mn**

**Net Interest Income**  
**1,700 Mn**

**PBT**  
**670 Mn**

**Advance**  
**19,450 Mn**

**Shareholders' Funds**  
**3,004 Mn**

**Deposits**  
**17,800 Mn**

# Momentous Events during the Year

- Launched CDB VISA Debit Card in February 2013, by becoming the first non-banking financial institution to get the approval from VISA international to operate VISA debit cards.
- Opened 8 outlets & relocated 7 outlets
- Signed up for the Sri Lanka Interbank Payment System (SLIPS) through Commercial Bank, the first-ever to do so in the non-banking financial institutions category and the transfers were in operation from October 2012
- Core Banking System was on live from May 2012, where CDB became the only finance company in Sri Lanka to own a core banking system.
- Decentralization of services at branch level which was highly facilitated with the implementation of core banking system
- WON the Bronze Awards at the Annual Report Awards 2011 in the Finance Companies Sector presented by the Institute of Chartered Accountants of Sri Lanka.
- Initiated Islamic Finance
- Commencement of the corporate office construction
- Opened the first ATM at head Office
- Obtained Global Reporting Initiative (GRI) application level check (C<sup>+</sup> level) for Sustainability Report
- Obtained third party check for the Sustainability Report from KPMG

**MANAGEMENT  
INFORMATION**



I am extremely pleased that notwithstanding the challenges faced both from an international and domestic perspective, your company completed yet another year of noteworthy performance.

## **CHAIRMAN'S REPORT**





Our focus on governance best practices and compliance was strengthened further; over the years, your company has infused a set of best practice tools, processes and systems which gives us a strong governance and risk management framework. The measures taken in this connection which are discussed in detail elsewhere in this report, enable CDB to evenly balance the dual dimensions of conformance and performance. Your Board is committed to ensuring that your company continues to maintain strong governance structures.

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 2013.

In the advent of my second year in office as Chairman of your Company, I feel privileged to be part of an epic journey undertaken by a relatively young Non-Banking Financial Institution (NBFI) which has, in a comparatively short time, succeeded in becoming one of the most valuable brands in the country's financial services sector. As we consolidate on our strengths and exploit emerging opportunities, sustainability lies at the heart of our strategies and business model. Whilst we strive to provide a satisfactory return to our shareholders, we remain cognizant of the need to serve all our stakeholders in the best possible manner by adding value to our services and nurturing a culture of corporate excellence.

#### **Economic Paradigms in Perspective**

The global economy has been through hard times, challenged on many fronts; over the last three years, emerging economies in Asia have gradually pushed themselves to the top. Several of the advanced economies continued to experience high unemployment, inert domestic demand and financial sector vulnerability whilst sliding into recession and causing a ripple effect on developing and emerging economies. Hence, despite some optimistic predictions of better times, global growth slowed to 3.2% in 2012 from 3.9% in 2011, with advanced economies in particular decelerating to 1.3% from 1.6% in 2011 mainly on account of the US economy failing to achieve a meaningful growth and the Eurozone contracting by 0.4%.

Although the sluggish recovery of the global economy and the consequent reduction in external demand had an adverse impact on Sri Lanka, its economy recorded a satisfactory growth of 6.4%, somewhat lower than expectations and well under the 8%+ recorded in the two preceding years. Authorities faced the difficult task of sustaining high economic growth whilst maintaining single digit inflation, stabilising exchange rates, curbing interest rates and stemming a widening trade deficit in a challenging macroeconomic environment.

Sri Lanka's NBFI sector continued to play an important role in fulfilling the financial needs of a large spectrum of society through a varied range of products, services and financing solutions.

#### **Company Performance**

I am extremely pleased that notwithstanding the challenges faced both from an international and domestic perspective, your company completed yet another year of noteworthy performance.

In the year under review, the company's Balance Sheet grew by 47% recording a year end figure of Rs.24.49bn strongly supported by a healthy loan book and a satisfactory growth in the deposit base. Revenue grew by 52% to reach Rs.4.31bn. Net interest income reached Rs. 1.70 Bn. which is an increase of 37% over the previous year. Pre tax profit stood at Rs.669.99 Mn recording a growth of 25.87 % whilst the after tax profit recorded a figure of Rs.534.87 Mn in comparison to last year figure of Rs.518Mn. Although profitability was affected by a significant impairment charge on loan losses and a much higher income tax provision, total comprehensive income for the year was

Rs.761 mn in comparison to last year's figure of Rs.565mn. Your company's Earnings Per Share (EPS) in 2012/13 was Rs. 9.99 compared with Rs. 10.28 in the previous financial year. The Net Assets Per Share (NAPS) at the end of the financial year stood at Rs. 55.32 as against Rs. 44.15 at the end of the previous year.

During the year the company expanded its branch network by increasing the number of outlets from 36 to 44.

These results bear testimony to CDB's astute management of its challenges and its capacity to exploit the ensuing opportunities well.

### **Enterprise Governance**

Our focus on governance best practices and compliance was strengthened further; over the years, your company has infused a set of best practice tools, processes and systems which gives us a strong governance and risk management framework. The measures taken in this connection which are discussed in detail elsewhere in this report, enable CDB to evenly balance the dual dimensions of conformance and performance. Your Board is committed to ensuring that your company continues to maintain strong governance structures.

### **Extending Rewards to our Shareholders**

Your company's sustained performance over the years is a testament of the steadfast confidence we have been fortunate to experience from our shareholders.

Considering the company's financial performance the Board recommends a first and final dividend of Rs. 2.75 per share subject to shareholder approval. It will be appreciated that this dividend represents an increase of 10. % over last year's dividend.

### **Building on Prospects**

It has been a long felt need for CDB to own its own headquarters. With this in view, in 2011 your company purchased a 75 perch property on Maradana Road, Colombo 10. Your Board of Directors has decided to construct its Head Office building on this property at an estimated cost of Rs. 600 mn. and preliminary construction work in this connection has already commenced. We believe that the new CDB corporate office building will add considerable value and stature to our brand image.

I am confident that the strong foundation laid by your company coupled with a relatively young team of people filled with passion and spirit to build a great organization, CDB will continue to progress on a well crafted path and will have the capacity and energy to weather any unforeseen challenges ahead. All the same, we will continue to operate in a disciplined and prudent manner

mindful of our enormous responsibilities as a regulated public deposit taking institution.

### **Commendations and Appreciations**

It is with great pride that I place my appreciation of a very dependable CDB team which has repeatedly proven that they work best amidst challenges. It is their unwavering focus on performance that has seen the posting of noteworthy results this year. Your Board of Directors is confident that the excellent management team led by the Managing Director/CEO Mahesh Nanayakkara will continue to perform well in the future.

A heartfelt thank you to our shareholders who have continued to strengthen their confidence in CDB; we in turn will do our utmost to provide you satisfactory returns return on your investment. Our valued business associates, remain invaluable partners in this journey we have undertaken and I place on record CDB's appreciation for your continued partnership.

My colleagues on this Board have been of immense assistance and I'm very appreciative of their continued guidance in enabling me to spearhead this vibrant organisation. I wish to place on record, the significant contribution made by Mr. P.N.C.Gomes who resigned from the Board I warmly welcome Mr. Razik Mohamed who joined the Board this year.

The unwavering confidence and loyalty of our customers has been the vital ingredient to our sustained success. Thank you for the confidence you have placed in us and we assure you, that you will always be the focus of our journey into the future.

Your company's sustained performance over the years is a testament of the steadfast confidence we have been fortunate to experience from our shareholders.

The consultation, advice and support constantly extended by the Governor of the Central Bank and his officials and other regulatory and authoritative bodies are what enable CDB to remain focused on our objective of infusing a culture beyond compliance. Let me conclude by thanking our auditors, KPMG (Chartered Accountants) Company for their valuable advice and their co-operation in ensuring the timely completion of the audit.



**D.H.J. Gunawardena**  
Chairman

31st May 2013

As our industry's balance sheets grow, the regulatory framework will consider players in our industry as "systemically important" and will require the industry to adopt sound risk management practices on par with global standards and best practices.

## **Managing Director's Review**



We have been able to fully digest the negative impact of rate increases and have also comfortably adjusted to the impact of increases in the vehicle duty structure with lending volumes recording satisfactory levels. This, coupled with the likelihood of a lower interest rate regime in the medium term, signals a brighter outlook for the future.

**“The challenge is created by the environment and then the individual, the institution, the society come up with a response. Then there’s another response. The formula is constantly being repeated”.**

**Arnold Tonybee**  
*Great Historian*

Challenges will continue as responses will follow. After two consecutive years of GDP recording over 8% growth, the Sri Lankan economy went through an adjustment during 2012 in the backdrop of uncertainties in the global economy.

The results achieved during the period under review did not come without challenges. The significant changes made to the duty structure on vehicle imports negatively impacted our automobile financing business. Higher market interest rates prevailed during most part of the financial year negatively impacted on our margins given our asset liability maturity patterns. As reflected in the income statement, interest income recorded a growth of 60% as opposed to interest expenses rising by 82%. This resulted in the interest expense to interest income ratio shooting up to 58% in comparison to 51% in the corresponding period last year.

We have been able to fully digest the negative impact of rate increases and have also comfortably adjusted to the impact of increases in the vehicle duty structure with lending volumes recording satisfactory levels. This, coupled with the likelihood of a lower interest rate regime in the medium term, signals a brighter outlook for the future.

In this context, the loan book recorded a healthy growth of 44% surpassing Rs.19bn with disbursements bouncing back strongly and quickly, with refocused market segment composition. The deposit base recorded an impressive growth of 52% reaching Rs.17.8bn.

The net and gross non performing loan ratios stood at 1.27% and 2.32% respectively.

Cost to income ratio improved to 55% from 61% in the previous year. We will continuously focus on lowering the cost to income ratio to a target of below 50% within the next three years.

Liquidity remained at strong levels with 90% of the balance sheet assets in regular income and cash flow generating assets, whilst recording a statutory liquidity ratio of 14.49% at the year end - well above the minimum regulatory requirement of 10%.

Our focussed strategy on asset liability maturity management yielded positive results, with our one year and below basket gap narrowing to 16% from 20% a year ago. The impact of the drop in gold prices has had minimum impact to CDB as our exposure to gold-backed assets stood at 4.3% of our balance sheet assets while prudent margins on advances to market value provided adequate cushioning. The capital adequacy ratio of 14.43% was well above the statutory requirement of 10%. Capital funds stood at 3 Bn reflecting a growth of 30%.

CDB is now compliant with the new Sri Lanka Accounting Standards (SLFRS/LKAS) and with that becomes IFRS compliant as well. The report in your hands has been formulated and produced in accordance with the first time adoption requirement of these Accounting Standards.

Many prior initiatives came online during the year under review out of which, key areas were the full live operation of the Core Banking Solution, the first and only Core Banking Solution implemented by a Non Bank Financial Institution (NBFI) in Sri Lanka; the launch of the CDB VISA International Debit card; the provision of ATM accessibility for our clients via the largest ATM network in the country; and the installation of the first CDB branded ATM at our head office. CDB was also the first NBFI in Sri Lanka to be on the Sri Lanka Interbank Payment System (SLIPS). All these new initiatives have tremendously enhanced our client service standards and client convenience.

We also opened 8 new outlets during the year expanding our online connected distribution network to 44 by the year end. We further strengthened our deposit brand franchise through enhancements to the “CDB Sithumina” draw.

All our staff members participated in a residential outbound training programme during the year whilst we continued with our key CSR initiatives of CDB Sisudiri, CDB IT Lab, CDB Hithawatkam, and “Mihikathata Adaren” the environment project. CDB was also recognized by the Institute of Chartered Accountants of Sri Lanka at the Annual Report award competition with the bronze award in our sector.

### Industry Shifts and Trends

Our industry has traditionally been one that has evolved through privately held companies. With the expansion and growth of the industry our regulatory framework has directed and encouraged the industry to change its profile with requirements such as mandatory listing and enhanced capital. Traditionally there has been a public perception attaching a higher risk profile to our sector in comparison to the banking sector. The industry has adopted a focused strategy to enhance the public image of the industry as a whole by paying greater attention to positioning, branding, product offering, information technology platforms, distribution, service standards, and the involvement of qualified professionals. Our industry has surpassed the half a trillion mark in assets and it will not be very long before the industry reaches the milestone of 1 trillion assets, given the growth trajectory of the country.

As our industry’s balance sheets grow, the regulatory framework will consider players in our industry as “systemically important” and will require the industry to adopt sound risk management practices on par with global standards

and best practices. CDB has been at the forefront of these industry trends and shifts; we will continue our pivotal role as we sharpen our insights and understanding of the future profiling of the banking and financial services industry in our country against the backdrop of the envisaged economic development and the rapidly changing life styles of people.

At CDB, majority of our lending clients are from the base-of-the-pyramid market segments, small entrepreneurs and lower end of SME sectors. They are people who are striving to come up in life by uplifting the living standards of their families and providing their children a better education than their own. We provide them with access to finance to acquire a productive asset which, in turn, contributes towards the realization of their aspirations, which is our ultimate goal and indeed, our obligation to the economy and society as a regulated financial intermediary.

The lending client segment that we cater to becomes more empowered as it acquires the ownership of a valuable asset and becomes comfortable in dealing with formal financial institutions. Such clients enhance their aspirations and derive strength and courage to further expand their entrepreneurial spirit as economically engaged citizens of the country independently, without becoming a burden to the state or to the society.

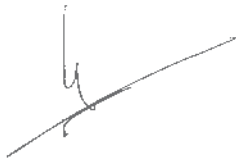
### **In appreciation**

My team has been my strength especially in a year which brought with it many challenges. I'm thankful for their ownership of our vision, unrelenting passion and the team spirit that truly brings in remarkable results.

To the Chairman and the Board of Directors, I'm truly appreciative of the leadership and guidance you have continued to extend to me.

I'm also indebted to 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 their support and constant supervision, which have helped CDB immensely in maintaining a vigilant culture of compliance, monitoring and controls.

Our customers remain an integral part to our success as do our shareholders and valued business partners and the community around us. Your confidence and continued loyalty to ensuring that CDB remains within the leading NBFIs in Sri Lanka is appreciated and we hope these strong relationships will continue.



**W.P.C.M Nanayakkara**

Managing Director/ Chief Executive Officer

31 May 2013

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- 1 **MR D H J GUNAWARDENA** Chairman/ Non Executive Director
- 2 **MR. C. M. NANAYAKKARA** Managing Director/ CEO
- 3 **MR R H ABEYGOONEWARDENA** Executive Director
- 4 **MR S R ABEYNAYAKE** Non Executive Director
- 5 **DR. A DHARMASIRI** Independent Non Executive Director
- 6 **MR. D A DE SILVA** Independent Non Executive Director

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- 7 **MR P A J JAYAWARDENA** Non Executive Director
- 8 **MR RAZIK MOHAMAD** Independent Non Executive Director
- 9 **MR. S V MUNASINGHE** Executive Director
- 10 **MR. T M D P TENNAKOON** Executive Director
- 11 **MR W W K M WEERASOORIYA** Executive Director



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- 1 MR. MAHESH NANAYAKKARA Managing Director/Chief Executive Officer
- 2 MR. ROSHAN ABEYGOONEWARDENA Director/Chief Operating Officer
- 3 MR. SASINDRA MUNASINGHE Director / Chief Credit Officer
- 4 MR. DAMITH TENNAKOON Director / Chief Financial Officer
- 5 MR. MALCOM WEERASORIYA Director / Chief Marketing & Sales Officer
- 6 MR. MADURANGA HEENKENDA Deputy General Manger – Asset Portfolio Sales & Channel Development
- 7 MR. NAGUIB IMDAAD Deputy General Manager - Information Technology
- 8 MR. ELANGO VAN KARTHIK Deputy General Manager - Marketing
- 9 MRS. NAYANTHI KODAGODA Deputy General Manger – Operations



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# MANAGEMENT

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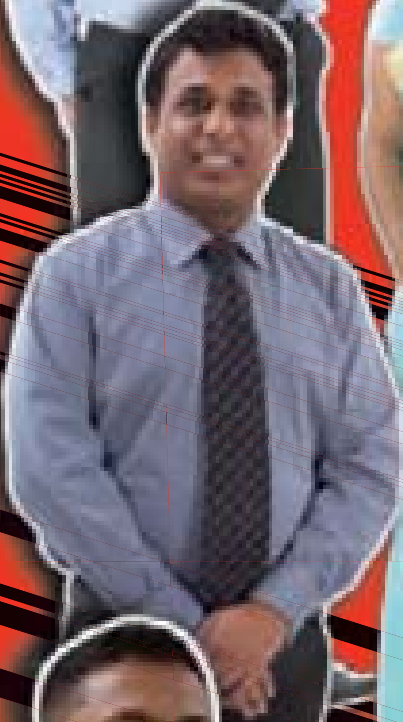
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# TEAM

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- 1 MR. RUWAN CHANDRAJITH**  
Senior Manager - Finance
- 2 MR. SAMPATH KUMARA**  
Manager – Internal Audit
- 3 MR. HERATH DHARMADASA**  
Manager – Business Development
- 4 MRS. ARUNI PANAGODA**  
Manager - Credit Operations
- 5 MR. SANJEEWA RANATHUNGA**  
Manager - Recoveries
- 6 MR J L PRIYANTHA**  
Manager-Business Development
- 7 MR. ISANKA KOTIGALA**  
Assistant General Manager – Liability Products Sales
- 8 MR. DASSANA CHANDRANANDA**  
Manager-Business Development

- 9 MR. SARATH KUMARA**  
Manager – Administration
- 10 MR. PRASAD RANASINGHE**  
Senior Manager – Business Development
- 11 MRS. NADEE SILVA**  
Senior Manager - Business Development
- 12 MR. RANJITH GUNASINGHE**  
Assistant General Manager – Deposit Operation
- 13 MR. HASITHA DASSANAYAKE**  
Assistant General Manager - Finance
- 14 MR. NIMAL SILVA**  
Manager – Finance Operations & Taxation
- 15 MR. R. SUBASH KUMAR**  
Manager – Business Development
- 16 MR. RAVINDRA ABEYSEKARA**  
Senior Manager - Recoveries
- 17 MR. SUDATH FERNANDO**  
Assistant General Manager - Credit/ Leasing



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# Board of Directors' Profiles

## MR. D H J GUNAWARDENA

Chairman, Non Executive Director

Mr. Herschel Gunawardena is a Fellow of the Chartered Institute of Management Accountants, U.K. 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) Ltd. & Heath & Co. (Ceylon) Ltd. and Pelwatte Dairy Industries Ltd.

## MR. MAHESH 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 Post Graduate Institute of Management (PIM), University of Sri Jayawardenapura. He is a Fellow member of the Chartered Institute of Management Accountants (UK). He counts over 21 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

## MR. ROSHAN 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.

## MR. S R ABEYNAYAKE

Non Executive Director

Mr. Abeynayake counts more than fifteen years of experience in the field of Finance. He holds a MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenepura. 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.

## 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 Jayewardenepura 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 & Gas, Construction and Telecom industries. He is presently a Financial consultant.

## 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 Jayewardenepura. 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) 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."



## 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

## 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 organization which runs seven orphanages and Homes for Differently Abled Children across the Island.

## MR. SASINDRA 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.

## MR. DAMITH TENNAKOON

Director / Chief Financial Officer

Mr. Tennakoon (46Yrs) is an Associate Member of the Chartered Institute of Management Accountants of U.K and a Chartered Global Management Accountant. He counts over 20 years of experience in banking, financial services and Insurance industry. He Joined CDB in year 2003 as a Financial Accountant and was appointed to the Board in April 2011 as a Chief Financial Officer.

## MR. MALCOLM

## WEERASORIYA

Director / Chief Marketing & Sales Officer

Mr. Weerasoriya, holds a B.Com (Sp Hons) Degree from 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.

# Corporate Management Profiles

## MR. MADURANGA HEENKENDA

Deputy General Manager – Asset Portfolio  
Sales & Channel Development

Mr Heenkenda is a "Practicing Marketer" and a member of the Sri Lanka Institute of Marketing (MSLIM). He holds a 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 organized by Sri Lanka Institute of Marketing. He joined CDB in February 2000, He has over 14 years of experience in the field of sales and marketing with an extensive progress in Leasing and Retail Lending Sales Strategy.

## MR. NAGUIB IMDAAD

Deputy General Manager - Information  
Technology

Mr. Naguib is an ICT professional with over 15 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 computers Networks. A member of British Computer Society. He holds a Master's Degree in Business Information Systems (MSc) from Sri Lanka Institute of Information Technology (SLIIT).

## MR. ELANGO VAN 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 Bsc (Mgt) Degree from the University of Sri Jayawardenepura and MBA from at the Postgraduate Institute of Management. He holds a National Diploma in Human Resource Management (PIM). He gained experience in marketing during his time at M/s STG International (Partnered with Bam Information Technology Ltd). He has been involved in the IT industry for many years. He has over seven years of experience in the field of marketing with an extensive progress in branding of products. He joined CDB in July 2004.

## MRS. NAYANTHI KODAGODA

### Deputy General Manger – Operations

Mrs. Kodagoda has been associated with CDB since 1996. She has over 16 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.

# Management Team Profiles

## Mr. Isanka Kotigala

### Assistant General Manager – Business Development

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

## Mr. Sudath Fernando

### Assistant General Manager - Credit/ Leasing

Mr. Fernando joined CDB in June 2008. He has over 16 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 specialized bank.

## 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 7 years experience at CDB. He is reading for a Masters Degree in Business Administration in Postgraduate Institute of Management (PIM).

## 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 Post Graduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. Also he possesses a Post Graduate 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 14 years of industry experience.

## Mr. Ravindra Abeysekera

### Senior Manager - Recoveries

Mr. Abeysekera 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 M/S Ernst & Young. His 16 years experience in the financial service industry sector includes Recoveries, Investigation and Auditing.

## 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 8 years of experience in the field of Audit, Finance and Assurance Services.

## 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 8 years of experience with CDB in leasing and deposits marketing.

## Mrs. Nadee Silva

### Senior Manager-Business Development

Ms. Silva has been associated with CDB since 1998. She has over 14 years of experience in Sales & Marketing in the financial services industry.

## Mr. Sarath Kumara

### Manager – Administration

Mr Kumara, is a graduate in Accountancy from University of Kelaniya. Part Qualified in 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 12 years of service.

## Mr. Sanjeewa Ranathunga

### Manager - Recoveries

Mr. Ranathunga joined CDB in 1998, and has been with CDB over a period of 12 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.

## Mr. Nimal Silva

### Manager – Finance Operations & 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 8 years experience in the fields of Auditing, Accounting and Risk Management. Prior to joining CDB he was attached to Management Advisory Services division of M/S KPMG Ford Rhodes Thornton & Co.

## 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

Jayewardeneapura. He has over 6 years of experience in the field of Audit & Assurance Services. Prior to CDB he was attached to Audit & Assurance service division of M/S KPMG.

## Mr. Sunil Kandambi

### Consultant – Post Disbursement Follow Up

Mr. Kandambi has 38 years of experience in the Police Department. At the time of retirement he held the rank of Senior Superintendent of Police. He joined CDB in October 2006.

## 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 10 Years of service. He counts over 13 years of Industry experience.

## 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 7 years experience in marketing and sales in the Financial Services Industry.

## Mr. Dassana Chandrananda

### Manager-Business Development

Mr. Chandrananda has 7 years experience in CDB in Sales & Marketing & Branch Management .His overall experience counts over 17 years in the financial services industry and insurance industry. Prior to CDB he was attached to leading insurance companies.

## Mr. J L Priyantha

### Manager-Business Development

Hold a BSc(Special) degree from the University of Peradeniya and part qualified in SLIM and CIMA. He joined CDB in 2005,February and counts 8 years of experiences.

## Ms. Aruni Panagoda

### Manager - Credit Operations

Ms. Panagoda joined CDB in 1999, and counts 14 years of experience in Credit Operations.

## Branch Managers, Deputy Managers & Assistant Managers



**Lalith Peiris**  
Branch Manager



**Tharanga Suraweera**  
Branch Manager



**Dilruk Abeydiwakara**  
Senior Deputy  
Manager



**Lushan Perera**  
Senior Deputy  
Manager



**Ashad Weerabangsa**  
Senior Deputy  
Manager



**Krishanthi  
Thilakarathne**  
Deputy Manager



**Eranga Gunaratne**  
Deputy Manager



**Sarath Gunasekara**  
Deputy Manager



**Keerthi  
Karunathileka**  
Deputy Manager



**Bandula Kumara**  
Deputy Manager



**Kumudu Liyanage**  
Deputy Manager



**Shabni Mohideen**  
Deputy Manager



**Priyangani  
Wickramage**  
Deputy Manager



**Mathota Arachchige  
Udayanga**  
Deputy Manager



**Neil Vethanayagam**  
Deputy Manager



**Amila Gunawardena**  
Deputy Manager



**Sashika Gamage**  
Deputy Manager



**Lasantha  
Ariyaratne**  
Assistant Manager



**Pandula Bandara**  
Assistant Manager



**Chirath  
Dissanayake**  
Assistant Manager



**Jagath Dissanayake**  
Assistant Manager



**Athula Ellepola**  
Assistant Manager



**Wikum  
Gunawardhana**  
Assistant Manager



**Sanjeewa Godamunna**  
Assistant Manager



**Rajiv Gunawardena**  
Assistant Manager



**Sanjeewan Hettige**  
Assistant Manager



**Asanka Jayakody**  
Assistant Manager



**Sampath Jayasinghe**  
Assistant Manager



**Priyantha Kumara**  
Assistant Manager



**Rizvi Kareem**  
Assistant Manager



**Shelika Perera**  
Assistant Manager



**Rangana Pragnarathna**  
Assistant Manager



**Umayanga Premakumara**  
Assistant Manager



**Sarath Rodrigo**  
Assistant Manager



**Supun Suriyarachchi**  
Assistant Manager



**Shanaka Samarawickrama**  
Assistant Manager



**Ranjith Silva**  
Assistant Manager



**Anthony Sameera**  
Assistant Manager



**Harshana Senarathna**  
Assistant Manager



**Hemantha Suddasinghalege**  
Assistant Manager



**Kanishka Sethunga**  
Assistant Manager



**Nuwan De Silva**  
Assistant Manager



**Nilan Vidanagamage**  
Assistant Manager



**Buddhi Wanigarathne**  
Assistant Manager



**Heshan Bandara**  
Assistant Manager



**Asenath Wijeratne**  
Assistant Manager

# MANAGEMENT



**Assets**  
**24 Bn +**

**Deposits**  
**17 Bn +**

**Advances**  
**19 Bn +**

**Revenue**  
**4.3 Bn +**

**Comprehensive  
Income**  
**760 Mn +**

**PAT**  
**530 Mn +**

Look at us! Just seventeen years old and a financial entity that has truly conquered dominions; grown beyond imagination and become pioneers; we have etched paths that position us as a leader of repute. We are Citizen's Development Business Finance PLC or CDB as we like to call ourselves, an organisation that believes strongly in benchmarking itself against the best, putting into practice time tested lessons and working on strategies that will surely take us towards our ambitious vision.

We have been astute in executing our strategic plans to give us this strength and the competitive advantage, fostered our competencies and positives, shrewdly permeated our presence to optimise accessibility of our expansive financial solutions and infused industry expertise, hard work and a passion for being sincere in everything we do. In these seventeen years, CDB is among the fastest growing non-banking financial institutions in Sri Lanka with a strong focus on being stakeholder-oriented, because

Emerging economies accounted for four-fifths of global GDP growth, showcasing much better performance albeit still lower than expectations. However, post that third quarter, global growth lifted slightly to 3% due to emerging market economies seeing activity picking up and the USA also echoing similar trends.

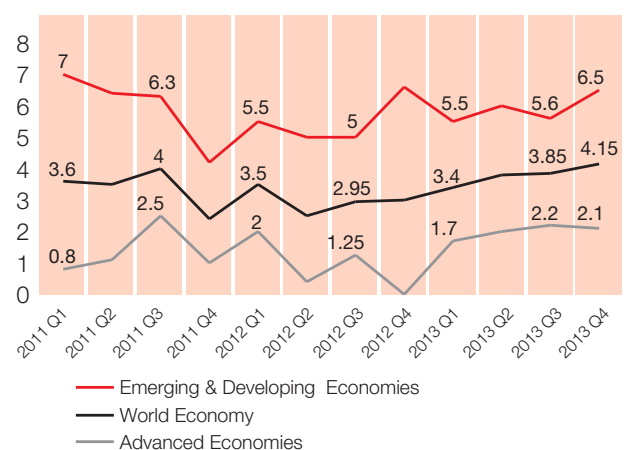
we believe that it is our stakeholders that construct a solid foundation to make us a sustainable business that is poised for even better growth in the future. Therein lies the secret of our success.

**Overview**

**Global Economic Overview**

At the end of 2012, the global economy did not perform as expected; the envisaged bounce-back did not happen nor did the developed economies trigger employment, trade and commerce. According to The Economist's measure of 52 country economies, world growth slowed in the third quarter, falling by 0.4% from the previous quarter to 2.4%, its lowest since 2009. Emerging economies accounted for four-fifths of global GDP growth, showcasing much better performance albeit still lower than expectations. However, post that third quarter, global growth lifted slightly to 3% due to emerging market economies seeing activity picking up and the USA also echoing similar trends. Financial conditions stabilized. Bond spreads in the euro area periphery declined, while prices for many risky assets, notably equities, rose globally. Capital flows to emerging markets remained strong.

**Global GDP Growth**



Although there was definite improvement in this fourth quarter, a broad set of indicators for global industrial production and trade suggests that global growth did not strengthen further. Analysts pointed out that the incline seen in global growth in the third quarter was

## Management Discussion contd.

due to temporary factors, including increased inventory accumulation, primarily in the United States. This had another downside as there was a masking of old and new areas of weakness.

One cannot forget that with the sharp decline in the budget deficit, the US was looking at a looming fiscal cliff in 2013, although an eleventh hour reprieve via the American Taxpayer Relief Act of 2012 being passed on the 31st of December 2012 assuaged some of the impact. Some relief was projected with an increase of 8.13% in revenue and 1.15% incline in spending for the coming fiscal year with a US \$ 157 Bn decline in the 2013 deficit also projected. These measures will cascade positives across Europe, Asia and Africa, spurring the trading influences the US has in these continents.

It was the weakness seen in developed economies that remained at the core of the world's economic woes. The renewed escalation of the Euro debt crisis was the prompter of the meager growth in the global economy and even though this sluggish pace is likely to persist, economists are optimistic about the global economy in 2013. Activity in the euro area periphery was even softer than expected, with some signs of stronger spillovers of that weakness to the euro area core. In Japan, output contracted further in the third quarter. There also seems to be an increasing dependency on emerging markets to garner growth although it must be noted that emerging markets remain vulnerable and impacted to worsening economic conditions.

Fragile export demand saw Emerging Asia post a slowing of growth, despite massive optimism at the beginning of the year. But the caprice to grow picked up with Emerging Asia working on initiatives that would lessen its trade dependence on the largest contributors to the global economic crisis, the US and Europe. There were other fallouts that added negative impacts; consequences of the Arab Spring of 2011 continuing to leave its mark resulting in economic growth in MENA remaining gloomy, depression in tourism and FDIs, increases in social spending and continued political instability around the world. Conversely, Sub Saharan Africa displayed a positive outlook due to stable domestic demand, political stability and heightened exports.

The upturn in the expected global growth for 2013 will be gradual, reflective of the policy actions taken in both the US and Eurozone to lower acute crisis risks. However, the Eurozone will continue to be dogged with its woes and hence, recovery will delay. Japan, which slid into recession will see a growth boost due to the stimulus in the near term. Policies have supported a modest growth pickup in some emerging market economies, although others continue to struggle with weak external demand and domestic bottlenecks. But on the brighter side, if crisis risks do not materialize and financial conditions continue to improve, global growth could be stronger than projected. In reality however, downside risks remain significant, including

renewed setbacks in the euro area and risks of excessive near-term fiscal consolidation in the United States. There is an urgent need to address these risks via astute policy action.

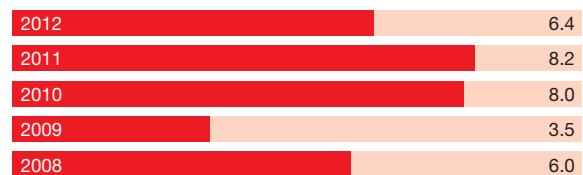
Growth in Emerging Markets and developing economies remain on track to post growth at 5.5% in 2013 although, rebounding to high rates recorded in 2010/11 will not be seen. Supportive policies have underpinned much of the recent acceleration to activity in many economies. But weakness in advanced economies will weigh on external demand, as well as on the terms of trade of commodity exporters, given the assumption of lower commodity prices in 2013. It can also be seen that the space for further policy easing has diminished, while supply bottlenecks and policy uncertainty have hampered growth in some economies including Brazil and India.

### Sri Lanka's Economy in a nutshell

Characteristic of this island nation which has always surprised economists with its resilience and dynamic kinetics despite challenges that have impacted not only the region and the world, but the country itself, Sri Lanka once again posted strong economic growth, posted at 6.5% at end 2012. This is remarkable given that this growth, though slightly reduced from the original projection still remains above both regional and global growth paradigms. Driven by large-scale reconstruction and development projects following the end to the three decade conflict, Sri Lanka is pursuing a combination of government directed policies and private investment, both foreign and domestic, to spur growth in disadvantaged areas, develop small and medium enterprises and increase agricultural productivity. A vision to make Sri Lanka South Asia's Economic Hub by 2015 is driving identified industries to meet ambitious targets with the strategic plans well underway and remaining within timelines.

However, the government continues to battle high debt interest payments, a bloated civil service and historically high budget deficits. Recent reforms to the tax administration and diktats contributed to Government revenue increasing by 5.7% in nominal terms, although there was a decline to 13% from 14.3% in 2011 as a

### GDP Growth Rate



# 6.4 %

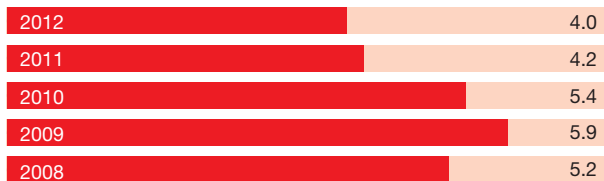
Source: Central Bank



percentage of GDP and lower budget deficits in recent years. The global financial crisis and recession in 2008 exposed Sri Lanka's economic vulnerabilities and nearly caused a balance of payments crisis, with growth slowing to 3.5% in 2009.

As mentioned above, Sri Lanka's resilient persona saw economic activity rebound strongly with the end of the war and the US \$2.6 Standby Arrangement mooted by the IMF, resulting in two consecutive years of high growth in 2010 and 2011, showcased at 8% and 8.2% respectively. This year also saw increased levels of investment standing at 29.9% of GDP, inflation remaining at single digits for the fourth consecutive year, the fiscal consolidation process seeing a reduction of the overall fiscal deficit to 6.4% from

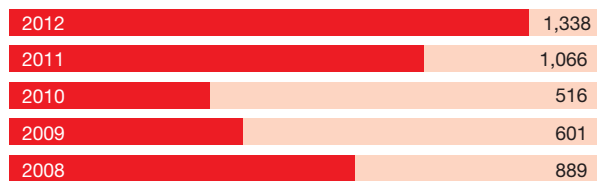
### Unemployment Rate (%)



# 4%

Source: Central Bank

### Foreign Direct Investment



# 1,300 Mn +

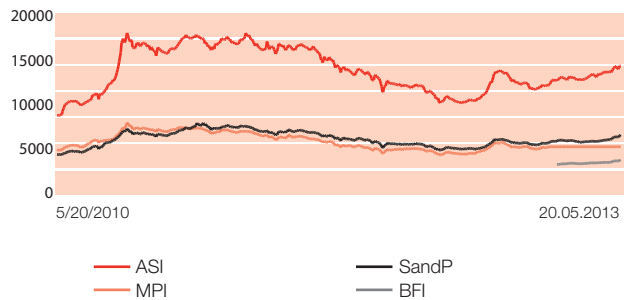
Source: Central Bank

6.9% of GDP in 2011, unemployment declining to historic low of 4%, FDIs recording the highest ever gross inflow of US \$1.3 Bn reflecting positive investor sentiment and the deficit in the trade account seeing a decrease, similar to expenditure on imports showcased at 5.4% YOY.

The equity market remained passive throughout 2012 after the increase witnessed in 2009 and 2010. The All Share Price Index (ASPI) fell only by 7 per cent, which is comparatively better than the decline in the previous year which was 8.5 per cent. The Milanka Price Index (MPI), declined by 2 per cent by end December 2012. In the beginning of the financial year, the MPI was replaced

by a newly introduced index, namely, S&P SL20 index which was brought in on 27 June 2012 to meet investors' demand for a transparent and a rule based yardstick, has increased by 8 per cent by end December 2012. The market showed a gradual turnaround as a result of recovery of rupee against US dollars amidst slowing imports, policy interest rates amendment by the Central

### Stock Market Performance



Bank and reduction of rules by the Securities and Exchange Commission of Sri Lanka (SEC) on broker credit and trading and continued foreign investor involvement in the equity market.

It became crucial that the country maintains these thresholds while focusing on meeting the ambitious targets in the shorter to medium term, chartered in the Mahinda Chinthanaya Vision for the Nation. The fiscal policy strategy also focused on strengthening the fiscal consolidation process, while pushing for high investments to build a more sustainable foundation. However, there was the added conundrum of heightened global and domestic challenges to overcome, including the European Sovereign debt crisis, the fiscal cliff and geo-political uncertainties exacerbated by sanctions on Iran resulting in petroleum prices remaining persistently high. The high interest rates, rising debt service payments due to exchange rate movements, reduced imports, droughts and floods affecting agricultural output in Sri Lanka as well as the country's hydropower generating capacities and excessive credit demand all added to the challenges in meeting the country's economic objectives.

### Future Outlook

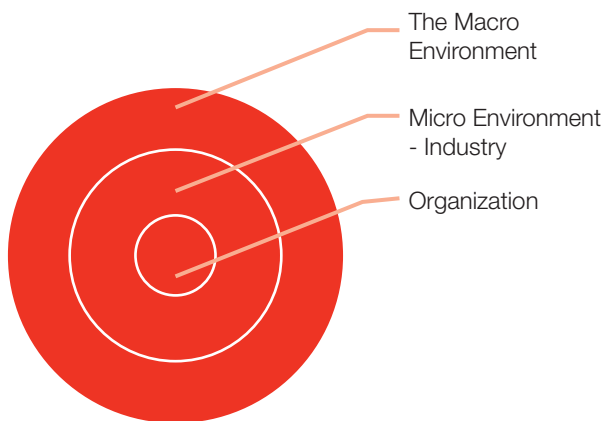
The projections for Sri Lanka's GDP in 2013 stand at 7.5% which has to be supported by robust external demand and hopefully a gradual recovery of the global economy. There are also plans to diversify Sri Lanka's export structure to higher value added goods and services, investments being pushed to about 33% of GDP, increased capacity expansion and added usage of technology in production processes supported by stable inflation and proactive policy measures. Sri Lanka is also looking at surpassing the US \$4,000 per capita income threshold by 2016.

## Management Discussion contd.

With the nation's external sector envisaged to strengthen, exports will gain an upward trajectory and the import of oil, which continues to be a challenge and hampers Sri Lanka's growth targets is expected to decline with the commissioning of the Norochcholai and Sampur coal power plants. The Five Hub Plus Tourism Strategy which focuses on promoting maritime, aviation, knowledge, energy and commercial sectors in addition to tourism as thrust industries will fuel the services sector to become the next engine of growth. With the Mattala Rajapaksa International Airport already in operation and the ports well within the timelines of completion, earnings from logistics will add to the nation's bottom line revenue. The IT, BPO and KPO industries are geared to add US \$1 Bn by 2015 in expected export revenue while migrant remittances will increase in the medium term, seeing a shift to skilled and professional categories.

### Operating Environment

For any organization, the operating environment consists



of the set of external conditions and forces that have the potential to influence the organization. Understanding the business environment is an important concept for organizations. It encapsulates many different influences

and the difficulty is making sense of this complexity, which arises because many of the separate issues are interconnected.

The first layer is the micro environment which is the industry or the sector that the organization operates in. This is a group of organizations producing the same products or services. The next layer is the macro-environment which consists of broad environmental factors that impact to a greater or lesser degree on organizations. Having identified the key drivers of change from the broad data, possible scenarios can be drawn which will help the organization to draw up its strategy.

### The Macro Environment

Given the global economic trends and lessons learned, the Central Bank of Sri Lanka continued to follow stringent monetary policy environment in order to contain rapid expansion in monetary aggregates which would prompt macro-economic stability. However, by December 2012, this policy stance was relaxed as the desired results were amply reflected in the KPIs. Over the year, policy rates were raised twice and a ceiling on the growth of rupee credit, restricting it to 18% with an additional 5% allowed to banks that gained funds from abroad, stemmed high growth in monetary and credit aggregates. There was also excess rupee liquidity in the market with a significant increase to Rs 59Bn by end July when CBSL purchased part of the proceeds from the fifth international sovereign bond issue. However, market liquidity declined thereafter resulting from the reversal of foreign exchange swaps and continued sale of Treasury Bills and by December, there was improved market liquidity and an overall balance maintained.

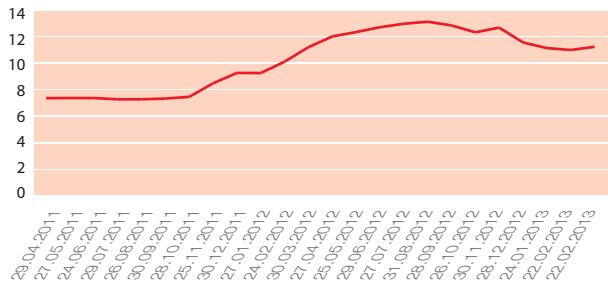
The PESTEL framework is a useful tool to identify how trends in the macro environment might affect through the variables such as political, economic, social, technological, environmental and legal.



**Economic Factors**

Economic environment refers to the aggregate of the nature of economic system of the country, the structural

**Treasury Bill Rate**

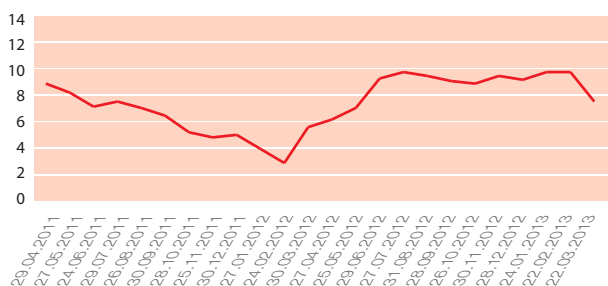


Source: Central Bank

anatomy of the economy to economic policies of the government the organization of the capital market, the nature of factor endowment, business cycles, the socio-economic infrastructure etc. when it comes to CDB, mainly interest rate movement, inflation rate movement and exchange rate movement have a considerable impact.

To rein in possible demand side inflationary pressures arising from high credit and monetary expansion, the Central Bank tightened its monetary policy stance by raising policy interest rates and imposing a ceiling on rupee lending during the year. Market interest rates rose during the year in line with the increase in policy interest rates and tight monetary conditions. In response to policy measures adopted, money supply growth and growth of credit extended to the private sector have begun to decelerate. Despite the expected slower domestic loan growth next year, the CBSL is unlikely to adjust its current accommodative policy stance as the uncertainties looming over the global recovery may weigh on Sri Lanka's near-

**Inflation Rate**

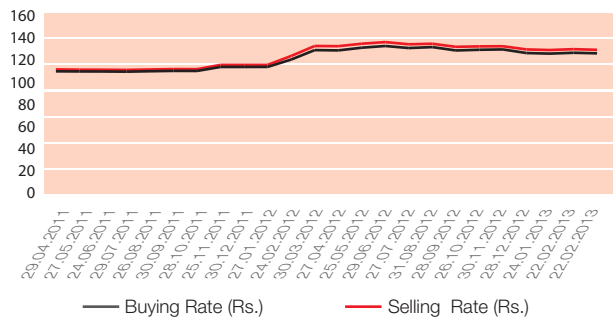


Source: Central Bank

term growth prospects. That said, if domestic loan growth continues at the present pace, the possibility of further monetary-policy tightening will be heightened as the CBSL has shown that it will maintain domestic financial stability to ensure the sustainability of the country's medium-term growth.

Inflation has continued to remain at single digit levels for over 3 years from 2009 declining on a year-on-year basis to a very low level of 2.7 per cent in February 2012. Inflation gradually edged up during the year to a peak of 9.8 per cent in July 2012. This was mainly due to the upward adjustment of several administratively determined prices to reflect developments in international commodity markets; the pass-through of the depreciation of the rupee, supply disruptions on account of drought conditions that have prevailed in major cultivation areas; and the high monetary expansion in 2011. Inflation has since moderated to 9.1 per cent by September 2012. Cautious monetary and fiscal policy measures together with envisaged improvements in domestic supply conditions are expected to help maintain inflation at mid-single digit levels in 2013. The one-off

**Exchange Rate Review**



Source: Central Bank

increase in consumer prices as a result of the adjustment of several administratively determined prices in March 2012 is likely to keep year-on-year inflation levels at upper single digit levels until March 2013. However, inflation is projected to decline to mid-single digit levels by end 2013.

By end-2011, the CBSL had largely ceased its intervention in the foreign-exchange market. This had allowed the rupee a certain degree of flexibility while giving the CBSL some space to combat inflation in the interest of macroeconomic stability. The relaxation of exchange-rate controls had led to 16.3% depreciation for the rupee in 1H 2012. In the following months, the rupee had stabilized amid the easing of advanced economies' monetary policies. The rupee is expected to appreciate to an average USD/LKR rate of 128 for the full year. The volatile global economic landscape will likely translate into a weak near-term appreciation for the rupee; the currency is expected to appreciate 1% -3% on average to a range of USD/LKR 125-130 in 2013. Over the longer term, the rupee is envisaged to appreciate as tourism revenue and capital inflows counter Sri Lanka's persistent negative trade balance.

**Political Factors**

The year from a political framework has been mercurial for CDB, as it has been for other NBFIs, which faced changes in taxation policy and some inconsistencies thereon as well. The increase in tariffs on imported vehicles impacted consumer purchasing behaviour considerably, led to an emergence of difficulties in achieving lending

## Management Discussion contd.

targets. The total number of motor vehicles imported into Sri Lanka increased by 121% and 147% respectively in 2010 and 2011 compared to the year 2009. Importation of motorcycles also inclined by 61% and 81% respectively in 2010 and 2011, while three wheeler imports increased by 163% and 298% respectively in 2010 and 2011. Motor cars imported in 2010 amounted to 37,134 in 2010, seeing a further increase to 54,285 which is 46% in 2011.

### Motor Vehicles Registration 2010 – 2012

Type of the Motor Vehicle	Year and Unit		
	2010	2011	2012
Motor Cars	37,134	54,285	24,579
Vans and Cabs	9,504	12,838	14,195
Three-wheelers	91,230	137,816	95,784
Motor Bicycles	224,998	252,318	187,722
Other (Bus, Tractors, Etc.)	106,341	66,706	67,166
Total Number of Motor Vehicles	469,207	523,963	389,446

This prolific increase in the importation of motor vehicles, coupled with high demand for fuel, rising carbon dioxide emissions and traffic congestion, saw the Government strategise to reduce the encumbrances on its import payments, infrastructure and carbon footprint. This led to a revision on the excise duty on motor vehicles, three-wheelers and motor bicycles effective from 1st April 2012, to lessen the burden. Observed from a larger picture, these directives did bring in the desired results with vehicle imports declining 26%.

In the meanwhile, having seen the signs and studying the trends that would emerge, CDB infused timely strategies that would continue to capture market share and help achieve the company's lending targets. We continue to pursue another untapped market prevalent in the country, the north and east, which we see as having exponential growth potential. Being constantly aware of future paradigms, CDB is already implementing the necessary strategies to go into these potential markets and exploit the opportunities that exist.

### Legal factors

As in previous years, the supervisory and regulatory framework continued to strengthen with several diktats issued for both banks and LFCs. The latter was subjected to directives pertaining to information systems security and upper limits for interest rates offered on deposits. SLCs too were subjected to assessment of fitness and propriety

of Directors and key management personnel, as well as changes to definitions in the compilation of key indicators. In order to strengthen the audit process and to meet the required standards, a panel of external auditors was appointed to conduct external audits of NBFIs. Financial reporting is slated to improve further with the entirety of the financial sector becoming IFRS compliant, believed to be a founding step in promoting greater harmonisation with international regulatory standards, which in turn prompts increased resilience.

### Environmental Factors

Being positioned among the fastest growing financial institutions in Sri Lanka now sitting comfortably at sixth place in the NBFi sector, CDB's prime business segment is in leasing and in that, being in vehicles. With vehicles being a primary source of carbon dioxide emissions, our responsibility therefore is to reduce these emissions and work toward minimising the harmful impacts. As is reported in our Sustainability Report, a number of awareness programmes among vehicle owners and the general public have been initiated by CDB to meet this goal. We also cascade among our customers, valued business partners and communities about energy and cost saving measures mooted better management practices via paper recycling, saving of electricity and water and even appreciation of Sri Lanka's unique wetlands.

### Technological Factors

CDB has used the advantages of technology extensively, never for a moment losing sight of the competitive edge IT brings into the equation of accessibility, product development, compliance, risk management, productivity, efficiency and streamlining of processes and systems. Given the long term partnership we mooted with Commercial Bank of Sri Lanka where the ComBank ATM network can be accessed by our customers, this relationship spurred a further dimension to the extension of IT efficacy into our systems and convenience. CDB is now the first Non-Banking Financial Institution to gain approval from VISA international to operate a VISA debit card.

In addition, we are the first NBFi to have a fully operational Core Banking Solution networking our entire operations, which went live in May 2012, incorporating the value additions of opening savings accounts, faster credit and leasing agreement approvals, as well as conforming to the stringent compliance features that are now the norm in the financial services sector.

### Social Factors

Being a company that is very rooted to the socio-cultural variables prevalent in a multi-dimensional country like Sri Lanka, CDB has always focused on social variables that would compliment and add to our goals of inclusiveness and empowerment, the secret to our success. One such is the diversification into Islamic Finance which functions according to Shari'ah law, based on parameters prescribed by internationally accepted Shari'ah scholars.

Having also gained approval to get into savings, our focus has been to inculcate the savings habit among students as we strongly believe the savings habit must be nurtured from young days to make a difference in adult years. Rewards based savings is the platform we have conceptualised to develop our savings base and young students could be recipients of iTabs, smartphones and laptops depending on the threshold of savings they reach with a double pronged advantage of enhancing IT literacy among students through these devices.

Our senior citizens too gained considerable rewards when an opportunity was provided for them to embark on 'Dambadiva Vandana', a pilgrimage to India.

## **The Micro Environment**

### **Financial Industry**

The fragility experienced in the global financial markets and possible threats from the domestic economy did not deter the financial sector from expanding and maintaining its stability. The aforementioned cap on credit growth was one such measure brought in to curb domestic demand and safeguard economic stability. There was a definite improvement in the overall soundness of the financial sector both in terms of capital and liquidity levels. Branch networks also increased as did the access to finance which facilitated the goal of achieving balanced regional growth. There was improved investor confidence as proven by the net inflows to the Colombo Stock Exchange despite relatively higher yields on fixed income securities, volatility in the exchange rate, tight liquidity conditions and uncertainties in global financial markets. Although relaxed subsequently, the limits imposed on credit by stockbrokers also hampered the Bourse's performance.

The banking sector remained the champion denizen in the financial sector landscape seeing profitability grow and thus build capital funds, although growth in assets remained unchanged primarily due to the credit growth curbing by CBSL. Total capital adequacy ratio is well above the minimum threshold dictated by the regulator. The declining trend in non-performing loans (NPLs) observed since 2009 slowed in 2012, largely reflecting the high interest rate environment. By end 2012, the Sri Lanka Deposit Insurance Scheme (SLDIS) comprised 78 member institutions and a fund balance of approximately Rs. 9.7 Bn.

The Non Banking Financial Institution (NBFI) sector into which CDB fall into, comprises Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs). This sector expanded its asset base while increasing its branch network, showcasing improved soundness throughout all institutions. The concerted efforts infused by CBSL to promote better risk management practices at NBFIs proved fruitful as evidenced by the overall soundness of these institutions. The Central Bank closely monitored the progress made by distressed finance companies in restructuring their business while continuing efforts to stem the conduct of unauthorised finance businesses.

Performance of both Primary Dealers in government securities and insurance companies, improved during the year. Although equity markets were subdued during the year, the Unit Trust business recorded significant growth both in total assets and net asset value due to portfolio diversification. Similarly, insurance companies' total assets, premium income, investment income and profitability all projected stable growth trajectories.

### **Future Outlook**

Looking forward, the financial sector will maintain its stability, given the capital adequacy milieu, healthy earnings and effective regulatory and risk management framework, encouraged by increased focus on efficiency and productivity. There is also a concerted effort to grow the capital market and to achieve this, a series of tax incentives granted is expected to spur growth, particularly in the corporate bond market. Plans are also underway to liberalise exchange control regulations, which would permit corporates to borrow internationally. However, there will be close monitoring of global paradigms and market sentiment.

### **Non-Banking Financial Institutions (NBFI) Sector**

Comprising 47 LFCs and 13 SLCs, NBFIs recorded an impressive growth of 22% in 2012. There was expansion seen in all areas, while safety and soundness and a tangible increase in the branch network added to the positives of this sector. Healthy profit levels were maintained despite pressure on margins and the deceleration in demand for vehicle leases due to the higher excise duty rates on imported vehicles. The measures introduced by the CBSL to strengthen risk management and better governance brought in tactual results with improvements seen in asset quality, liquidity and adequate profitability and sufficient capital levels observed.

But one area that hampered NBFIs significantly during the year, CDB included, was the decrease in vehicle imports due to the higher excise duty applicable to vehicles imported since the end of March last year, exacerbated by the depreciation of the rupee impacting the leasing and hire purchase portfolios. Statutory liquid assets in the LFC sector gained a surplus, notched at Rs 4.4 Bn, while SLCs maintained a liquidity surplus of Rs 1.7 Bn. Capital Adequacy Ratio too increased to 16% from 14% last year, while core capital ratio stood at 15%, well above the required minimum of 5%. Four new companies gained LFC licenses in this segment of financial service organisations during the year, while four more SLCs were elevated to LFC status.

### **Branch Network**

The Industry branch network expanded with an addition of 206 branches, bringing the total to 972 with 155 opened outside the Western Province. This is a paradigm that CDB has followed since inception as well, as we believe strongly that other provinces require more emphasis to ensure social and economic equality. The North and Eastern Provinces also saw an addition of 19 and 18

## Management Discussion contd.

branches respectively, which showcases the growth potential in those areas as well.

Province	31-12-2011(a)	31-12-2012 (b)	Opened During the Year
Western	265	316	51
Southern	91	112	21
Sabaragamuwa	59	76	17
North Western	67	99	32
Central	82	107	25
Uva	43	52	9
North central	55	69	14
Eastern	60	78	18
Northern	44	63	19
<b>Total</b>	<b>766</b>	<b>972</b>	<b>206</b>

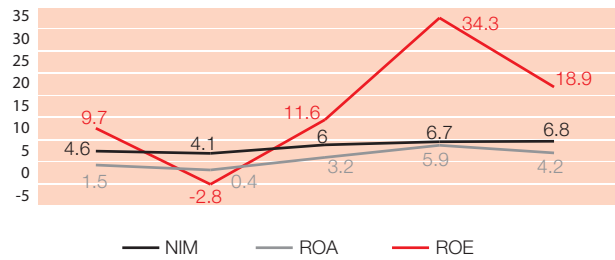
Source: CBSL

### Profitability

PAT stood at Rs 15 Bn, a decline from Rs 19 Bn in 2011 primarily due to the 23% decline in Non Interest Income

and the 16% increase in Non-Interest Expenditure. Return On Assets and Return on Equity also saw declines of 6% and 34% respectively. In 2011, to 4 per cent and 19 per cent in 2012. Net Interest Margin increased marginally to 6.8% from 6.7%, while Net Interest Income increased by 22% to Rs 40 Bn.

### Profitability Indicators of the NBFi Sector



Source: Central Bank

### Assets and Liabilities

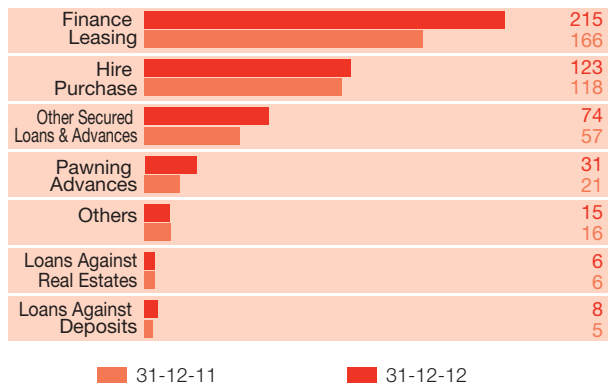
From a KPI perspective, the total asset base saw a 22% incline to Rs 597 Bn, slightly lower than the 26% experienced in 2011, primarily due to the accommodations portfolio moving upwards by 21% to Rs 472 Bn. This comprised finance leases, hire purchases and other

Item	2011 (a)		2012 (b)		Change (%)	
	Rs. Bn	Share (%)	Rs. Bn	Share (%)	2011	2012
<b>Assets</b>						
Accommodation	388	79	472	79	46	21
Finance Leasing	166	34	215	36	90	29
Hire Purchase	118	24	123	21	23	4
Investments	14	3	15	3	-46	14
Others	88	18	110	18	-10	25
<b>Liabilities</b>						
Total Deposits	186	38	254	43	27	37
Total Borrowings	172	35	176	30	24	3
Capital Elements	77	16	95	16	60	23
<b>Total Funds</b>	<b>435</b>	<b>89</b>	<b>525</b>	<b>88</b>	<b>31</b>	<b>21</b>
Other	55	11	72	12	1	30
<b>Total Assets/Liabilities</b>	<b>490</b>	<b>100</b>	<b>597</b>	<b>100</b>	<b>26</b>	<b>22</b>

Source: CBSL

(a) Revised  
(b) Provisional

### Product-wise Accommodations



Source: Central Bank

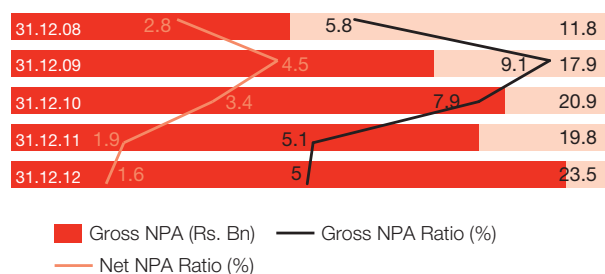
secured advances which were reflected percentages of 46, 26 and 16 respectively.

Loans against deposits grew by 66%, pawning by 53% and other secure loans by 30%. The sector's investment portfolio showed commendable results this year, increasing 14% compared to 2011's negative growth of 46%. Deposits, which grew by 37% to Rs 254 Bn in 2012 constituted the primary funding source for LFCs amounting to 43% of total liabilities of NBFIs, while borrowings comprised funding for SLCs accounted for 30%. LFCs were seen to mobilise funds through time deposits, which accounted for 98% of total deposits and raising limited funds through borrowings as well. Total borrowings in the NBFIs sector increased by 3% YOY to Rs 176 Bn and capital inclined by 23% to Rs 95 Bn.

### Risk Management

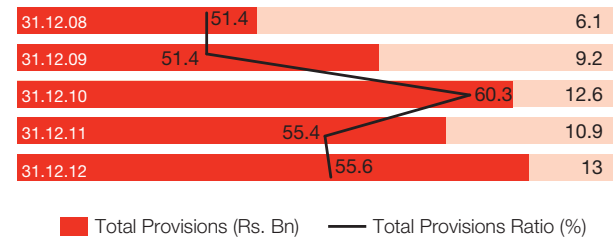
Meanwhile, NPAs stood at Rs 24 Bn from Rs 20 Bn seen in 2011, an increase of 19% with the LFC sector amounting for 92% of this, pushed considerably by distressed companies. Gross NPA and Net NPA Ratios were posted at 2.32% and 1.6% respectively with total provision coverage increasing marginally to 55.6% at end 2012.

### Non-Performing Accommodations



Source: Central Bank

### Provisions Coverage



Source: Central Bank

### Regulatory Framework

Several measures were introduced to streamline the operations of NBFIs. The maximum limit on rates of interest that could be offered by LFCs on Time Deposits and non-transferable Certificates of Deposits were revised, while allowing for an additional 1% interest above the ceiling for senior citizens. Another new regulation was issued with the objective of streamlining the application process for issuance of a license for a new finance business aligned with the Finance Business Act No. 42 of 2011. The annual licensing fee was revised upwards to accommodate the rising regulatory and supervisory costs of the Central Bank.

### Future Outlook

The NBFIs sector is anticipated to considerably expand in the next five years with continued business demand as estimated from agriculture, construction, trading and tourism sectors. It is also expected to further expand into Northern and Eastern provinces. The improved minimum core capital requirements of NBFIs and the listing of LFCs on the CSE would surely bring added funds to consolidate and expand businesses. Also, the restoration of depositors' confidence and the guarantee given to the public through the deposit insurance scheme will endure to boost LFCs. NBFIs would nevertheless, go on to face severe competition especially from the banking sector as more banks are now switching from their low risk core business products to high risk products such as finance leases, margin trading and pawning.

## Management Discussion contd.

### CDB's Performance In relation to the Industry

Based on the fact that the Secret to our Success is primarily in our unwavering focus on meeting stakeholder expectations, CDB has always been cognizant of these and worked on developing a product and service portfolio that reflects this commitment. This portfolio is also built on the foundation of being ethical, accountable and transparent, while being sincere in our commitment to be responsible corporate stewards. This extends to all our daily business operations and the impact we have on all our stakeholders and the environment. Having all these rudiments well in place, CDB performed significantly well in most of the areas, compared to the industry as is seen in the table below.

Item	Industry	Company
Gross NPL Ratio %	5.0	2.32
Net NPL Ratio %	1.6	1.27
Return on Assets %	4.2	3.12
Return on Equity %	6.8	24.23
Capital funds to total deposits	28	16.87
Tier 1 Capital Ratio (Minimum 5%)	15	14.43
Tier 11 Capital Ratio (Minimum 5%)	16	14.43

### Principal Risks and Uncertainties Facing the Business

Area	CDB's Response
<b>Maintaining sales volumes &amp; profit margins</b>	
Registered Finance entities comprise 47 companies emanating severe competition. Throughout the industry, companies provides homogeneous products, with differentiation considered a survival mechanism in the market. As a result, CDB is under pressure to constantly innovate and develop new and varied products to achieve increased sales volumes and thereby obtain greater profit margins.	CDB introduced 5 new products and opened eight outlets during the financial year, aimed at increasing market share and enhancing sales and profit margins
<b>Maintaining required capital adequacy &amp; liquidity</b>	
Capital adequacy ratio determines the capacity to meet time liabilities and other risks including credit and operational risks; liquidity is the Company's ability to meet the short-term obligations.	CDB remains above the stipulated minimum requirement in both capital adequacy and liquidity ratios. These ratios are closely monitored by CDB's Compliance Committee and Asset and Liability Committee with any variables or signs of variation quickly stemmed.
<b>Maintaining service quality</b>	
With severe competition now a rule rather than an exception, companies' sustainability can only be guaranteed on diversity of its product and service portfolio and differentiation of customer service, which includes continuous value addition and exceeding customer expectations.	With maintaining continuous customer dialogue being very important, the Call Center has surely been a boon to the communication channels we maintain with our customers. Targeted training and development for our marketing team by leading professionals in the industry add the imperative dimensions to customer service excellence.
<b>Maintaining a healthy non performing ratio</b>	
In volatile economic landscapes, NPLs become the barometer for a company's health and ability to be a going concern. Finance companies often report their ratio of NPLs to total loans as a measure of the quality of their outstanding loans.	CDB has always maintained a close monitoring of the NPL and germane ratios with any variables being attended to immediately; Using effective IT processes that would flag any deviations from due collections Continuously reviewing monitoring and recovery procedures to ensure they remain in a milieu beyond compliance and able to give an accurate call on deviations or variables CDBs NPL remains well below industry norms; CDB NPL ratio is 2.32 while industry is at 5%



<b>Retaining best employees</b>	
A dynamic motivated innovative team is the recipe to maintain a competitive edge and retention of such a capable team is a priority. Failure to retain good team members could result in these employees joining the competition.	CDB conducts continuing Employee Satisfaction Audits. Rewards and recognises high achievers annually Implemented an Employee Suggestion Scheme to maintain a constant dialogue with the team Maintains an open door policy within the entirety of CDB allowing any team member to discuss, suggest or complaint to even the highest ranking officer in the organisation
<b>Maintaining required level of compliance</b>	
Registered finance companies are under the supervision of Central Bank of Sri Lanka are required to be listed on the Colombo Stock Exchange (CSE), which is governed by the Securities & Exchange Commission (SEC). All these authoritative bodies have various levels of compliance required of NBFIs which must be conformed to. Close monitoring is maintained by these industry watchdogs and non-compliance is severely dealt with.	A dedicated Compliance Committee continuously reviews CDB's compliance initiatives and adherence to prevalent rules and regulations. Compliance meetings are held monthly to discuss the matters pertaining to compliance and communicate any new developments to relevant departments/officers.
<b>Operating in a competitive environment</b>	
With 47 companies engaged in the industry and hence competition reaching high intensity, the fact that each of these companies also engage in providing similar products and services is prohibitive. Innovation, diversification and value addition therefore would be the panacea to gain larger market share.	CDB's platform in customer service revolves on providing total financial solutions, which has been augmented with the introduction of the CDB/VISA debit card and SLIP transfers and implementing the Core Banking Solution. Conducting competitor analysis regularly and on these analyses, exploiting the opportunities that emerge Using the positives prevalent in the Core Banking Solution to add further advantages to customer service imperatives
<b>Acquiring new technological proficiency</b>	
Today with technology driving industry, it has become a crucial tool for assuaging competition, studying trends, forecasting challenges and opportunities and building better business.	CDB became the first NBFI to run a fully operational Core Banking Solution in May 2012 All branches are now fully interconnected via one system Decentralization of business activities to branch level enhances efficiency and productivity

**Operational Review - Lending**

**Structured Implementation in the Lending Strategy**





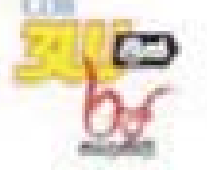



## **Management Discussion contd.**

A well defined pragmatic structure encompasses CDB's lending strategy, clearly charting the opportunities and risks associated with each of the three key market segments. The strategy takes into account the adjustments necessitated by market conditions, while allowing management the flexibility to operate in full or part in any of the market segments at any given time.

The top segment represents large facilities with low returns where default risk is minimal; the middle level a moderate level of return and risk on facilities, while the bottom, which comprises small tickets, represents small facilities with higher return but involves considerable risk. CDB has defined targets pertaining to each of these segments, adjusted according to market capacity; the continuous emphasis on evaluating the appetite and capacity of each segment has ensured that CDB's strategy remains extremely astute. The other dynamic that adds to this strategy is CDB's diverse product offerings in Leasing, Hire Purchase and Loans.

**Product Description**

Product Category	Key Brands	Description	2012/13 Update
Leasing	    	<p>This is the main brand of CDB when it comes to leasing.</p> <p>These two brands will focus on providing lending to small truck segment</p> <p>CDB Small car leasing is a brand which facilitates lending for small cars which are below 1000cc</p> <p>This brand will focus on attracting three-wheelers</p>	<p>Leasing portfolio Rs. 10.6 Bn up by 48%</p> <p>Interest income from leasing portfolio Rs. 2.4 Bn up by 47%</p>
Hire Purchase		<p>Hire purchase category deals with providing lending to registered vehicles</p>	<p>HP portfolio Rs. 2.9 Bn up by 40%</p> <p>Interest income from HP portfolio 694 Mn up by 80%</p>
Loans	 <p>GOLD LOAN SERVICES</p>	<p>CDB Loan Segment comprises business loans, housing loans, vehicle loans and cash backed loans</p> <p>CDB "Ran Nidahasa" is the brand which focuses on conducting pawning facility at CDB</p>	<p>Loan portfolio Rs. 3 Bn up by 33%</p> <p>Interest income from loan portfolio Rs. 555 Mn up by 68%</p> <p>Pawning portfolio Rs. 1 Bn up by 72%</p> <p>Interest income from Pawning portfolio Rs. 150 Mn up by 132%</p>

## Management Discussion contd.

### Progress against Strategic Objectives – Summary

- Achieved ●
- Partly Achieved ●
- In progress ●

Strategic Objectives	Our Performance	Challenges Faced	Achievement States	Update for 2013/14
To achieve lending disbursements of Rs 10.5bn	Achieved a disbursement figure of Rs 9.2bn	Interest rates continued upward	<span style="color: yellow;">●</span>	To attract market share and to increase interest bearing asset base
To maintain a annual cumulative collection ratio of 90%	Achieved an average ratio of 87%	Economic conditions not being conducive	<span style="color: yellow;">●</span>	To maintain annual cumulative collection ratio of 90%
To maintain a gross NPL ratio below 3%	Achieved a gross NPL ratio of 2.32%	Increase in business volumes and monitoring same proved difficult	<span style="color: orange;">●</span>	To achieve a NPL ratio below 2%
To achieve a pawning portfolio of Rs 1 Bn	Pawning advances reached Rs 1bn end of the financial year	Gold prices displayed a downward trend thus resulting in decreasing the value of portfolio	<span style="color: orange;">●</span>	To attract more customers and to increase the pawning portfolio further
To expand the pawning facility across the branch network	Introduced pawning facilities at 12 outlets during the year	Recruiting of skilled employees proved difficult	<span style="color: yellow;">●</span>	To initiate pawning in the balance outlets
To diversify into Islamic Finance and initiate new lending products	Launched Islamic Finance and initiated lending through Ijarah Lease for the Muslim community	Being a new entrant, attracting customers was not easy	<span style="color: orange;">●</span>	To reach untouched customer segments through differentiated products

### Achieving Strategic Objectives

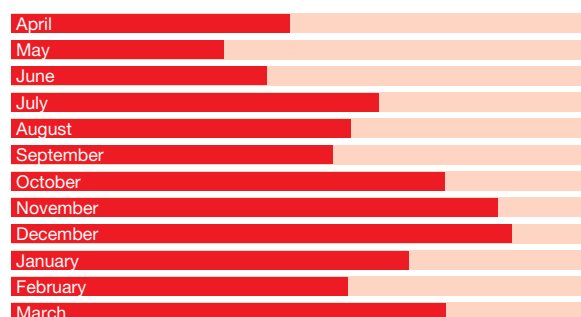
#### To achieve net lending of Rs 10.5 Bn

Having to contend with numerous challenges throughout the year including the tax revision which saw sales plummet in the vehicle importation segment, CDB has used differentiation to gain a competitive edge. With a target set for Rs 10.5 Bn at the beginning of the year in the net lending arena, anticipating a gathering of pace in small ticket lending, CDB took on the mantle of enhancing customer service, personalising interaction with our customers and customising tailor-made solutions. This was further augmented with distribution engaged islandwide, which became the foundation for unleashing the secret to our success during this challenging year.

Hence, during 2012/13, our disbursements amounted to Rs 9.2 Bn against our target of Rs 10.5 Bn, which we believe is very noteworthy given the intense competition, interest rate volatility and instability seen in the vehicle

importation market. The highest disbursements were observed in November and December, amounting to over Rs 1 Bn each, a first in CDB's history, while on average, we disbursed over Rs 750 Mn monthly.

#### Monthly Lending Achievements



# 765 Mn +

Accommodations - Industry		Change (%) - Industry	
31-12-2011 (a)	31-12-2012 (b)	31-12-2011	31-12-2012
388.4bn	471.7bn	46.3	21.4

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

Accommodations - CDB		Change (%) - CDB	
31-03-2012	31-03-2013	31-03-2012	31-03-2013
13.4bn	19.4bn	66.6	44.1

From a sectoral perspective, accommodations granted in the NBFi sector increased to Rs 471.7 Bn by end December 2012, which is a growth of 21.4% and in comparison, CDB did exceptionally well, increasing the total accommodations portfolio by 46%. CDB has also had to contend with SLCs dominating the market, with banks and other financial institutions becoming aggressive in their marketing and competitive stance.

**To maintain a cumulative collection ratio of 90%**  
**Collection Ratio**

The collection ratio indicates the efficiency in collecting dues and drop in collection sees an increase in the NPL. CDB maintains a collection ratio of 87% which is commendable under current market conditions. The collection ratio is calculated on following basis.

$$\text{Cumulative Collection Ratio} = \frac{\text{Rental / Instalments collected during the year}}{\text{Arrears portfolio as at beginning of the month} + \text{Rentals / Instalments matured during the year}}$$

CDB has always maintained a close monitoring and control milieu for collections, infusing IT processes as well to ensure foolproof analysis of threats, weaknesses and deviations. Even though rising inflation and interest rates did see the Collection Ratio decline by 3%, CDB maintained a creditable 87% in its Collection Ratio during the financial year under review. Each branch manager, recovery officer and sales officer bears the responsibility for this quotient which has resulted in CDB having a strong stable and creditworthy customer portfolio. The monitoring process also garners information from monthly reports, which are presented to the Board who decipher the findings and recommend action if needed.

**Cumulative Collection Ratio %**

2008	83.00
2009/10	83.59
2010/11	86.36
2011/12	87.10
2012/13	86.85

**87 %**

**To maintain a gross NPL Ratio below 3%**

**Assets Quality**

Assets quality is a fundamental criteria for the success of any Financial Institutions. Monitoring and evaluation of the quality of Assets portfolio is targeted by the CDB with several measures.

- Proper evaluation and strict procedures on granting facilities exist in order to prevent possible payment lagging in the future.
- Continuous monitoring of the facilities granted in order to avoid future risk of defaulting payments and to strengthen Post Disbursement Follow-up Division.
- Continually linking the responsibilities of credit and leasing facilities granted within organization of facilities at individuals officer and branch approval level.

CDB has identified key below performance indicators for assets quality of its portfolio, which are collection ratio and NPL.

Battling numerous external factors including rising interest rates and inflation and spiraling expenditure which impacts small and micro businesses as well, CDB strove to maintain the NPL ratio below 3% and succeeded, despite these hurdles. The NPL ratio by end of the financial year stood at 2.32%, well below industry average of 5%, although higher than 1.67% shown during the previous year. However, the 2.32% in the NPL ratio also reflects the positive feature of increasing business volumes.

**NPL Ratio**

2008	5.57
2009/10	7.52
2010/11	3.64
2011/12	1.67
2012/13	2.32

**2.32 %**

## Management Discussion contd.

CDB's Call Centre remains a proactive axis in dealing with customers, paving a reduction in exposure to bad credit, while internally, CDB breaks down NPLs into different segments, dealing with each as an individual case.

Non Performing Advances - Industry		Change (%) - Industry	
2011	2012	2011	2012
19.8Bn	23.5Bn	(5.26)	18.69

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

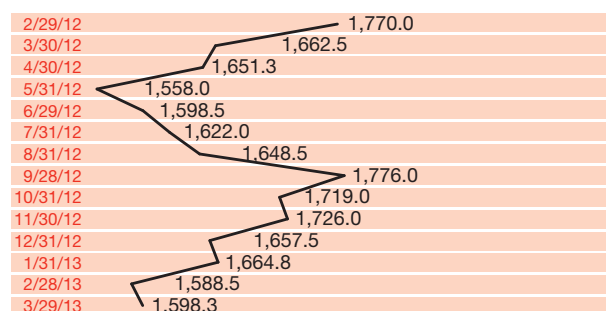
Non Performing Advances - CDB		Change (%) - CDB	
2011/12	2012/13	2011/12	2012/13
225Mn	431Mn	(22.4)	91.5

### To achieve a pawning portfolio of Rs 1 Bn

The landscape during the year saw gold prices begin 2012 at US \$ 1,531 per ounce, increasing over the year by 8% to US \$ 1,657. In September, the price of gold peaked at approximately US \$ 1,792, although in the first quarter of 2013, the price declined by 5% to stand at US \$ 1,552.

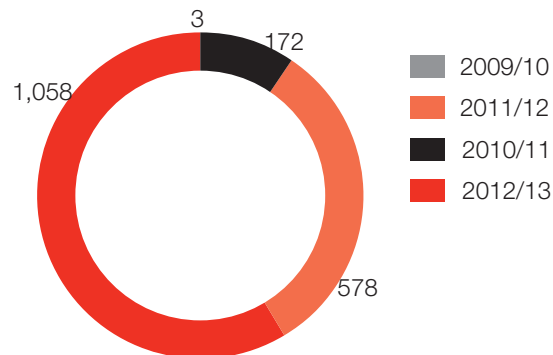
It certainly was a milestone for CDB when we closed the year notching a pawning portfolio of Rs 1.058 Bn, an assured sign that we had established all the apt initiatives

### Gold price - Unit per Troy Ounce



during the year to grow our pawning portfolio and meet the envisaged targeted figure of Rs 1 Bn. The figure of Rs 1,058 Mn showcased was a remarkable increase of 83%, primarily due to the penetration we instituted by expanding our facilities further into our branch network and placing a dedicated highly trained pawning officer at these branches. Twelve more branches were added to the existing eighteen having the facility. We also took advantage of the increasing trend towards high-yielding pawn broking, which was ideally complimented with our innovative product. However, achieving the envisaged target did have its challenges as nearly all segments in the financial services industry including banks ventured into the pawning business, dealing in large volumes.

## Pawning Advances – CDB



# 1,000 Mn +

### Expanding pawning facility across our branch network

	2010/11	2011/12	2012/13
No of Branches which authorised to conduct pawning services	10	18	12

### To launch Islamic Finance and related lending products

The foundation was firmly established in Islamic Finance with the launch of a window operation at CDB's Wellawatte branch, which also opens the pathway for us to moot and deal in Shari'ah compliant products. This led to the launch of the 'Ijarah' lease which is extended to three-wheelers and brand new vehicles. Islamic Finance is a niche area in the financial services industry and already has a number of larger players firmly established within it. This therefore did pose a hurdle for CDB, being a fledgling in the market to gain entry and capture market share.

CDB must also comply very stringently to the myriad diktats imposed by the Shari'ah Supervisory Council which requires us to have professionals well versed in Islamic Finance within our team, being very alert and aware of the Council's directives. We are currently in the process of training members of our team on the unique aspects involved in Islamic Finance to gain a better understanding of the laws, regulations and compliance facets pertaining to Islamic Finance, as well as the rudiments involved for product requirements.

### What's Ahead?

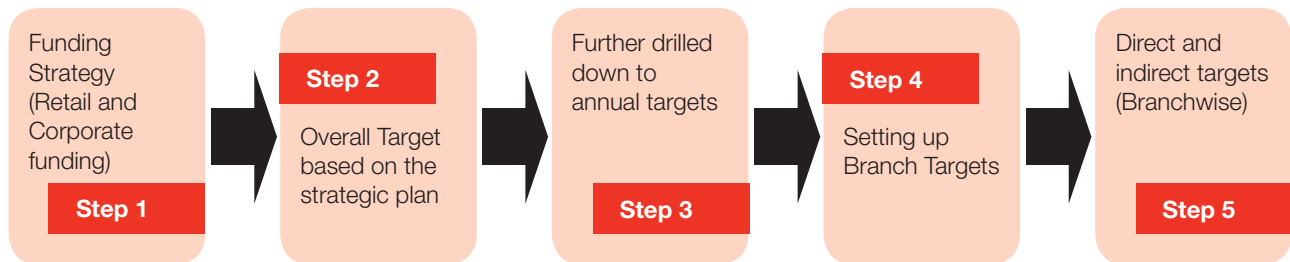
Interest rates are currently displaying a declining trend which is a definite positive for the future of our business. On the converse however, the increase in vehicle taxation will continue to hamper the small ticket business of our lending pyramid. This therefore spurs us to focus on diversification, innovation, value addition and customer service excellence. The Core Banking Solution, now in full operation, will be the focal imperative in giving us a competitive advantage in ensuring efficiency, efficacy,

productivity, astute management practices and developing a well appointed product and service portfolio.

We will also aim to continue decreasing our NPL ratio, maintaining it well below the industry average, while our Collection Ratio will also be targeted at remaining above

95%. Pawning which has proved to be a fruitful area in our business will be targeted for further growth and network expansion will also be embarked upon strategically across the country.

**Operational Review: Funding  
Structured Implementation in the Funding Strategy**






Funding remains highly influenced by the regulatory environment and in this equation, the CDB business strategy strives to create an optimum funding mix which infuses the required volume of funds to support our lending strategy. There is also unwavering focus on pricing,

maturity and differentiation of product categories. In the current context, CDB’s funding strategy revolves on the two pronged segments of retail deposits and corporate borrowings, which targets are detailed in the annual budget and becomes the blueprint for the action plan.

**Product Description**

Category	Key Brands	Product Description	2012/13 Update
Fixed Deposits	   	<p>Customer aspirations in life means a lot to us, that’s why we at CDB introduce “Dhana Surekum” Fixed Deposits to bring our customers one step closer to realizing their dreams.</p> <p>CDB introduced “CDB Aee” focusing on the female community. When they open an “Aee” Fixed Deposit, they will receive free gift vouchers for Gold Jewellery or a Valuable Health Insurance Policy.</p> <p>“Deeghayu” Fixed Deposits focus on the senior citizens of the country with 1% additional interest and many more benefits</p> <p>This is a new product which protects health and wealth of depositors which provides a Medical Cover. CDB “Suwa Dhana” will cover the cost of hospitalization in case of hospitalization due to an accident or illness</p>	<p>Fixed deposit portfolio Rs. 17.7 Bn up by 52%</p> <p>Interest expenses Rs. 2.4 Bn up by 82%</p> <p>Introduced 3 new products</p> <p>Average monthly mobilisation Rs. 400 Mn +</p>

## Management Discussion contd.

Savings	  	<p>“CDB Saver” is the normal savings account at CDB which offers high tech gifts for the savers</p> <p>“CDB Real Savings” offers customers with hi-tech products when they save with CDB</p> <p>CDB “Rankati” is a minor savings account which ensure a flourishing future for children with offering amazing array of gifts and benefits through different savings plans to suit your needs</p>	<p>Savings portfolio 355 Mn up by 366</p> <p>Introduced 2 new products</p>
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### Progress against Strategic Objectives – Summary

Strategic Objectives	Our Performance	Challenges Faced	Achievement States	Update for 2013/14
To achieve a net deposit of Rs 6 Bn and achieve a deposit portfolio of Rs 17 Bn	Achieved a portfolio of Rs 17.1 Bn and a net deposit figure of Rs 5.8 Bn	Competition from the NBFi sector, especially banks offering rates on par with NBFIs	●	To attract walk-in customers through enhancing our brand name
To achieve a net saving portfolio of Rs 500 Mn	Achieved a portfolio of Rs 355 Mn	The savings side of the business was begun just fifteen months ago and being a new player, CDB needs to cut its teeth in a rather dynamic market dominated by banks	●	To enhanced client service standards and convenience through CDB visa debit card and connected ATM network
To expand the product portfolio	Introduced several products under savings accounts, fixed deposit schemes and Islamic Finance	Creating awareness on new products involves considerable investment in promotions, marketing and communications	●	To offer new products with differentiation
To raise 2.5 Bn through corporate borrowings	Raised 2.5 Bn borrowings	Increasing trend in interest rates	●	To upgrade credit rating to next level
To be a total financial service provider	Introduction of CDB VISA debit cards to CDB savings account holders Launch of the first ATM at CDB head office and processing the initial SLIPs transaction	Intense competition prevalent	●	Give a feeling of a bank through providing financial solutions to our customers
To increase customer volumes	Branch opening/relocation	47 NBFIs and 24 commercial banks competing in the industry	●	To open new branches in key strategic locations and to reach customers island wide.



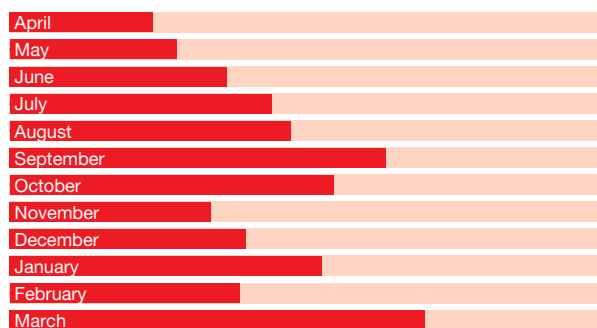
To give additional responsibility to team members	Branch staff has empowered with additional responsibilities	Familiarisation of the new system and team members still being in a learning curve	●	To delegate authority to branch level and to provide our customers a more speedy service
To initiate an IT enabled platform	Core Banking System went live from May 2012	Transition from one system to another	●	To experience the real benefits of the new core banking solutions and to continuously focus on value additions to our customers through new IT knowhow
To delegate the certificate issuance to branches	Fixed Deposits can now be made at any CDB branch and certificates collected from the branch on the same day	To prevent the risk associate with delegation	●	To delegate more authority to branch level and to speed up the deposit certificate issuing

### Achieving Strategic Objectives

#### To achieve a net deposit portfolio of Rs 6 Bn and deposit portfolio of Rs 17 Bn

To reach our targeted asset base of Rs 25 Bn by the end of the financial year 2013, CDB set a funding target of Rs 7.2 Bn, of which, we envisaged raising Rs 6 Bn from deposits with net corporate borrowings bringing in the balance. The overall target for the deposit base was Rs 17 Bn.

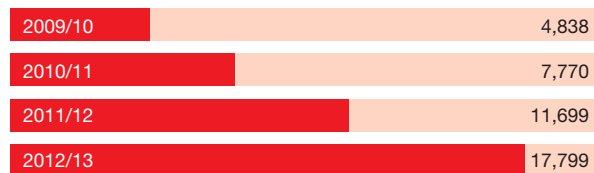
### Monthly Net Deposit Achievement



**420 Mn +**

## Management Discussion contd.

### Deposit Portfolio



# 17,700 Mn +

### Savings Portfolio



# 350 Mn +

Deposits - Industry		Change (%) - Industry	
31-12-2011 (a)	31-12-2012 (b)	31-12-2011	31-12-2012
186bn	254.1bn	27.3	36.6

Source: Central Bank of Sri Lanka

(a) Revised

(b) Provisional

Deposits - CDB		Change (%) - CDB	
31-03-2012	31-03-2013	31-03-2012	31-03-2013
11.6bn	17.7bn	51	52

While CDB did achieve our set target of Rs 17 Bn despite intense competition and upward interest rates, the increase seen is reflective of the increase seen in the NBFi sector, where deposits increased to Rs 254.1 Bn, an incline of 36.6% over the previous year. What was significant in the landscape were the fiercely competitive rates prevalent in the market, presented by both NBFis and banks. Hence, it is remarkable that CDB did increase its deposit base by more than 50%, clearly indicating increasing customer confidence in our organisation.

### To achieve a net saving portfolio of Rs 500 Mn

In our equation of eventually becoming a total financial solutions provider, we launched our savings accounts business in December 2011, seeing the portfolio grow to Rs 76 Mn in the first quarter. The objective to grow this portfolio to Rs 500 Mn was set at the beginning of the financial year for 2012/13 as an avenue of raising low cost funds, but within the prevailing milieu of rising interest rates, CDB was hampered considerably.

Being a new entrant into a very dynamic and highly competitive savings deposits market, CDB first had to found its base, gain the loyalty and confidence of customers and set about differentiating its products from the surfeit of products within the market. The new Core Banking Solution has been extremely influential in allowing us to promote CDB Saver and we believe this will continue to be a vital tool in this are of business.

### To expand our product portfolio

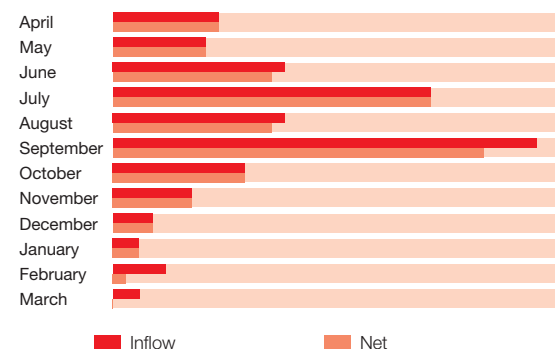
With differentiation being the magic potion in ensuring that we maintain the secret to our success, CDB, which has always been a trendsetter and benchmarked pioneer, focused considerably on product innovation and development. This resulted in a significant number of new products in both savings and fixed deposits being launched during the year.

### New Deposit Schemes

#### CDB "Suwa Dhana" Fixed Deposit

Based on the premise, 'Your Health is our Wealth', CDB introduced Sri Lanka's first ever Fixed Deposit that incorporates a comprehensive medical cover including hospitalisation for Rs. 100,000 for every Rs. 100,000 deposited over a period of two years, while giving customers 14% interest.

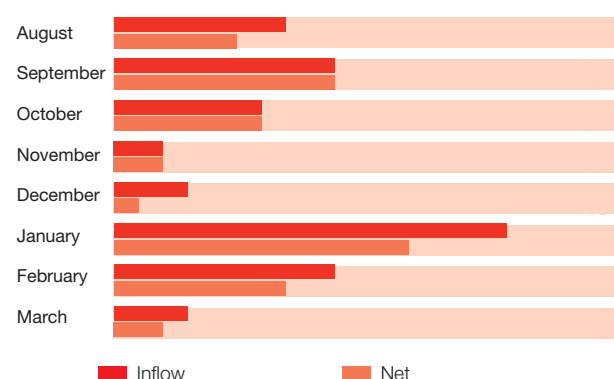
### Deposits Inflow & Net - "Suwadana"



### CDB “Dambadiwa Wandana”

Offering customers the unique opportunity of embarking on a pilgrimage to India, this first of a kind product by CDB is primarily aimed at senior citizens although, anyone under 55 is also entitled to the ensuing benefit. The product has an added benefit of higher interest. CDB bears all costs of the pilgrimage including entrance fees to all sacred sites in addition to Rs 250,000 accident cover, a CD and booklet with information about the pilgrimage and luggage that can hold 20 kgs.

#### Deposits Inflow & Net - "Dambadiwa Wandana"



### Mudharabah

Launched under Islamic Finance, the two deposit schemes work on periods of one year and six months. The initial plan of action was to introduce the products among our existing customer base and cascade it outwards thereafter, as we ventured into Islamic Finance only in December 2012. Being a new entrant into an already established industry with a number of larger players, CDB will need some time to gain a stable position, but we are confident we can do so within the coming year and post proven results.

### New Savings Products

#### CDB Rankati Minor savings

Having begun this part of our business in December 2011, the CDB Minor Savings Accounts was launched in June 2012 with the value additions of gifts, higher interest including bonus interest and investment plans for education. In the savings landscape, CDB competes head to head with commercial banks which are already established, have a firm presence and have retained customer confidence. We believe we can yet make inroads, but will require time to position ourselves and find our niche.

#### To raise Rs 2 Bn through corporate borrowings

Of the funding targets, Rs 2 Bn was envisaged to come from corporate borrowings, which however proved difficult as interest rates continued upward. This was further exacerbated with the credit ceiling imposed by the Central Bank for 2012. However, CDB did manage to maintain an

even keel and raised Rs 2.5 Bn in corporate borrowings during this financial year. In comparison, corporate borrowings in the NBFIs sector increased to Rs 176 Bn, which is a 2.6% growth over the previous year, signifying the volatility and instability seen in the interest rate milieu, which prompted funding providers to demand higher rates. Although CDB increased its borrowings by 47.31% compared to last year, changes in the two previous financial years will showcase that borrowings have declined by 27%.

#### Borrowings Portfolio

2008	249
2009/10	829
2010/11	1,027
2011/12	2,058
2012/13	2,170

# 2,100 Mn +

Borrowings - Industry		Change (%) - Industry	
31-12-2011 (a)	31-12-2012 (b)	31-12-2011	31-12-2012
171.5bn	176bn	23.5	2.6

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

Borrowings - CDB		Change (%) - CDB	
31-03-2012	31-03-2013	31-03-2012	31-03-2013
2.05bn	2.17bn	100.3	5.4

#### To be a total financial services provider

Posting yet another record breaking year, CDB continued its upward trajectory both quantitatively and qualitatively through numerous dynamics. One such was gaining approval from VISA International to operate debit cards which led us to launch CDB VISA debit cards in December. In addition, we mooted our first ATM at the CDB Head Office in March 2013 with plans of expanding our own ATM network to augment the ComBank network we operate with taking shape. The Core Banking Solution will be used as a tool to enable us to achieve our goal of becoming a total financial services provider, which will be further enhanced with penetrative T&D programmes for our team to develop customer service, innovative products and be socially responsible citizens.

## Management Discussion contd.

### To increase customer volumes

The CDB brand values encompass a continually improving curve in ensuring our stakeholders remain a strong and stable partner in our journey ahead. This means that we must have a competitive strategy that will differentiate us from others in the market, especially with regard to making an impression and then retaining our customers.

To do this, we began by aligning our branches to our core brand identity, re-launching them to reflect enhanced service standards and service excellence. Branch exteriors and interiors have also been fashioned to maintain uniformity and thereby, ensure consistency in brand identification. During the financial period under review, 5 branches were relocated and re-launched, while 8 new outlets were opened, totalling a network of 44. In our ultimate bid to be a total financial services provider, we also enhanced our IT infrastructure and continued pursuing partnerships with industry giants to add value to our customer relationships.

### To give additional responsibility to team members

We firmly believe in building on the competencies of our team and thus empowering them with added responsibility for a smoother streamlining of our operations. These added responsibilities also serve to enhance our team members' individual capabilities, while encouraging them to be more dynamic and motivated. This year, Customer Service Officers were appointed for all branches, to enhance the services to Deposit customers.

The Core Banking System enabled authority to be decentralised with the apt risk management parameters in place, where branches now have the authority to authorise high value transactions and facilitate online approvals, enhancing customer convenience. Also at branch level, Subject Officers were appointed to reflect job ownership and hence Deposits Officers, Customer Service Officers, Credit Officers and Pawning Officers took up positions at all branches.

However, given the fast evolving environment we operate in and the speedy solutions we have implemented, we are continuing comprehensive training and development programmes especially for these new appointments, to ensure that these team members are equipped with the apt skills and competencies to maximise their responsibilities.

### To initiate an IT enabled platform

A key driver to progress in any industry is ICT and it is no different in the financial services industry. Having recognised the crucial role ICT plays in giving us a

competitive edge, from inception CDB launched an ambitious and aggressive business strategy that would make ICT a strategic business enabler and a powerful contributor to the bottom line. This resulted in CDB honing unique differentiations strategies through the establishment of sophisticated infrastructure capabilities running on real time connectivity, speed and capacity, to position CDB as the sixth largest NBFIs in the country, among other benchmarks. The investment in IT has been tremendous, but it is an investment that CDB believes is astute and very essential.

This incisive focus on ICT has enabled CDB to differentiate itself from our competitors, pioneer products and services in the industry, enhance productivity and efficiency, produce a more knowledgeable competent team that doesn't fear challenges. They are equipped with the appropriate tools to exploit opportunities that are prevalent in the market. The Core Banking Solution, which has enhanced all these factors and more therefore, has been the added boon to ensuring that our ICT continues as the empowerment factor in helping us achieve our vision.

### To delegate certificate issuance

Decentralising processes to better streamline operations for a faster and more efficient service, with the aid of the Core Banking Solution, CDB is now able to issue both term and demand deposit certificates immediately at any branch. This has also permeated additional responsibilities into the branch roles, empowering team members and pushing them to reach higher realms in personal capacities.

### What's Ahead?

Being cognizant of external trends, emerging threats and opportunities and our strengths and weaknesses and adding them into the formula for the secret of our success is what has given CDB the exalted status it now enjoys in the NBFIs sector. To prove our unique individuality and in honing our own persona, we have evolved with the changing times, absorbed external shocks and overcome internal challenges.

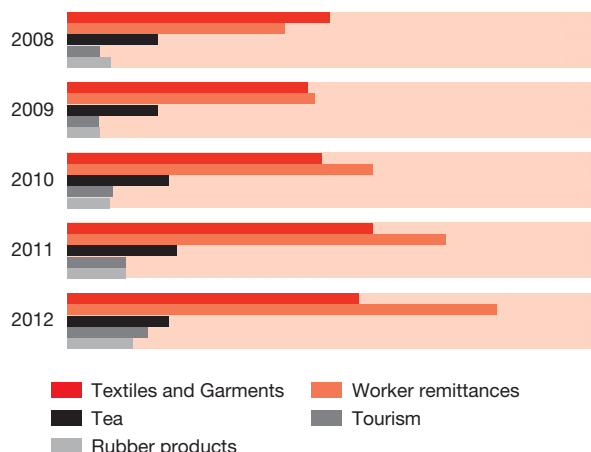
As the next step ahead in our journey, we will focus on promoting the CDB VISA debit card using penetrative campaigns and initiatives, deploying strategies to grow our deposit base and thus, the usage of the Debit Card, while continuing to infuse further value additions to our products. We intend augmenting our brand image by promoting CDB Sithumina and fuel more IT processes to delegate and decentralise operations to branch levels for a better more efficient and speedier service. Becoming the preferred total financial services provider is our motivator for this journey.

### Operational Review: Other Products

#### Structured Implementation in the Foreign Exchange/Money Remittance Services Strategy

This year too, inward workers' remittances echoed similar paradigms to last year and CDB's two products in this sphere, Money Exchange and Moneygram continued to build on the positives we observed. This year, we worked on foreign exchange remittances of Rs 50 Mn through both these products. Having been the pioneering NBF1 venturing into these very competitive markets dominated considerably by banks, CDB used its strength in forging strategic partnerships, becoming a sub-agent for HNB, which has proved extremely fruitful. Aligning ourselves to become a total financial services provider, we are also honing capacities to cross sell and mix and match our product portfolio, so customers can make informed choice.

### Major sources of foreign exchange earnings



### Product Description

Category	Product Portfolio	Product Description	2012/13 Update
Other	  	<p>CDB Money Exchange facilitates customers in exchanging accepted foreign currency into Sri Lankan Rupees</p> <p>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</p>	<p>Total amount of foreign exchange converted into Sri Lankan Rupees, Rs. 23 Mn</p> <p>Total amount of remittances - Rs. 27 Mn</p>

Being the country's largest foreign exchange earner, inward remittances this year continued to surpass export proceeds from the apparel industry, increasing more than 17.1% YoY to an immense US \$5,432 Mn, a trend that is slated to grow even further in the next few years.

### Money Exchange

In 2009 when CDB was first granted authorization to operate Money Exchange services through four branches, we operated via our branches in Negombo, Jaffna, Wennappuwa and Vavuniya. Just four years later, displaying the confidence we have instilled in the regulator and authoritative bodies, our entire branch network is authorised to deal in foreign currency and this year, we are expected to achieve an exchange gain of Rs 55,000.

### Exchange Gain



### Money Remittance Services

MoneyGram, which we launched in December 2010 as a sub-agent of Hatton National Bank who are the super agents for MoneyGram in Sri Lanka, we are most proud to hold the mantle as the only financial institution engaged in

## Management Discussion contd.

money remittance services other than commercial banks. As we are sub-agent, commissions gained are low and it is volumes that would add considerably to the bottom line. With dominance of banks in this sector and a preference for banks being the norm, the CDB commission amount declined marginally to Rs 72,000.

### Commission on Money Remittance



How We Thought (strategic objectives set)	Our Performance	Challenges Faced	Achievement Status	Update for 2013/14
To enable all CDB branches to conduct Money Exchange/Money Remittance Activities	Initiated MoneyGram facilities at 24 outlets and Money Exchange in three outlets	Ensuring team members are well equipped and trained in the field of foreign exchange High expenditure incurred in obtaining relevant equipment	●	Initiate Money Exchange facilities through the entire branch network Focus on enhancing skills and knowledge through further training
To cross sell our core products	Enhanced service levels	Attracting walk-in customers	●	Enhance our brand image and attract walk in customers and to offer our core products
To achieve volumes of Rs 36 Mn each from Money Exchange and MoneyGram	Achieved Rs 23 Mn in volume from Money Exchange and Rs 27 Mn from MoneyGram	Intense competition posed by commercial banks Currency appreciation	●	Achieve a target exceeding Rs 40 Mn in each of our products
To expand our services and become agents for other money remittance services	Ongoing discussions with relevant organisations	Being a relatively new entrant into this business area No authorization to operate NRFC/RFC accounts	●	Add to our partnerships with other money remittance service providers Enhance product portfolio and avenues

### Achieving Strategic Objectives

#### To enable all CDB branches to conduct Money Exchange/ Money Remittance Activities

This year, the total number of outlets dealing with MoneyGram services is 24, compared to last year's 16, with just one more branch to be added. Our reach in Money Exchange expanded to 31 outlets this year from 28 last year.

	2011/12	2011/12	2012/13
Branches authorised for Money Exchange	10	18	31
Branches authorised for Money remittance	4	16	44

Recruiting team members who are competent and equipped with the apt knowledge proved to be challenging as no dedicated training facility or course of study is available specifically for foreign exchange services. This was assuaged somewhat through our internal HR initiatives, gaining the assistance from external resource personnel and continuing training and development programmes being introduced. Equipment to operate foreign exchange services, including foreign money counters, also remains a considerably large investment.

#### To cross sell our core products

Initiating and developing new service segments is a definite means of enhancing our fee based income and in cross selling our main products to customers who use our foreign exchange service facilities, we can achieve this goal.

**To achieve volumes of Rs 36 Mn each from Money Exchange and Money Remittance**

Being a commission oriented business, income from these business segments are successful only if we work on high volume levels. We thus set ourselves a target of growing each of our products to achieve volumes of Rs 36 Mn, of which Money Exchange achieved 64% of the target, while MoneyGram gained 75%. Being a relatively new entrant in this area and with banks being firmly established supported as they are by extensive branch networks and representative several money remittance providers, the general mindset is for people to deal with banks. The volatile trends experienced in the currency also contributed to hampering us meeting our targets.

**To expand our services and become agents for other money remittance services**

Being a sub-agent for MoneyGram International via Hatton national Bank has allowed us to look outward in this segment of business and seek opportunities available. Observing the number of players in money remittance business, CDB can exploit the potential therein and venture into partnerships which will enhance customer choice. We do face some hurdles however in that CDB is not authorised to operate NRFC/RFC accounts but remain confident that by partnering other players in the business, we can grow not only this business area but also move closer towards our goal of becoming a total financial services provider.

**What's Ahead?**

We will continue to explore market opportunities and in increasing our presence in the North and East, will add further strategies that will compliment our entire product and service portfolio.

**Structured Implementation in the Marketing, Communication & Distribution Strategy**

The secret of our success is really an open secret. We have always put our stakeholders first, whether our shareholders, customers, valued business partners, team or the community. For us, the path we have trod to ensure our success is no secret. We simply listen and respond. This is where marketing and communication has flourished, as we have shared our financial knowledge with our customers, empowered them with a diverse and visionary portfolio of products and services and ensured that they can make an informed choice with their investment. The interaction we have with our customers and other stakeholders is built on trust; we are accountable to them and hence any information we communicate is relevant, reliable and authentic.

By putting our customers' needs and aspirations first, we make sure that customers are given as many conveniences as possible as is seen in our lending operations, where we have instituted speedy application and approval procedures. In fact, our marketing and communication strategies are designed to facilitate this promise of swift

service and we communicate our services and facilities via banners, leaflets, posters and mass media, depending on our target market. Into this equation is added a concerted emphasis on relationship marketing and brand building engaged throughout the year to ensure that customers will retain top of the mind recall of what CDB stands for.

**CDB Brand Values**

Our Brand Values truly keep to our brand promise and delivery, ensuring that we create a competitive advantage offered through greater value drawn from the norms and trends prevalent in the marketplace.

Emotional	Attributes	Existence	Experience
Family Hospitality	Dependable Reliable Service quality Financial strength & Stability Ethical principal & Governance	Convenience Community welfare Catering to all financial needs	Flexible Modern/ Young Place for growth Pre/ Post service

While retaining the core values of the CDB brand which remain the foundation upon which our brand is constructed upon, our brand attributes comprise a sincere belief that our team members have to fully believe in our brand values which permeates to the creation of a superior service brand. We strive to therefore promote a culture that prompts our team to truly espouse our brand values, augmented by a communication process that involves regular meetings, feedback and surveys to ensure that all remain on the same path to make this journey.

**The CDB Brand & Brand Building Process**

Even though CDB has been in the NBFI landscape for just seventeen years, we have in that time notched numerous milestones and proved beyond doubt that we are a sustainable organisation built on a strong growth led business model. This has been further emphasized with our focused developmental strategy, where, by being the net provider of financial resources to the rural economy, we intend being a partner to national goals and ensuring empowerment and inclusiveness across all social strata.

CDB's brand strength lies in our ability to nurture relationships with our stakeholders in our journey towards achieving our brand vision. By leveraging on the synergies we have within and exploiting the positives we observe externally, we have grown our core business significantly and paved the way to become a titled leader in the NBFI sector in Sri Lanka.

It is our sales team, with its dynamism, motivation and unbridled enthusiasm that keeps us ahead in the industry and assures our leadership position. We have added multi-

## Management Discussion contd.

channel orientation and constant honing of relationships into this formula to add to the extraordinary advantages our brand denotes, supported by technology backed services and value additions that give our customers the best in the market. We have been thus elevated to a status that opens doors to new growth areas, creates new business opportunities and allows us to continually forge and strengthen relationships as tools to our success.

However, it is not simply what we do inwardly that gives us the edge. The industry and our peers have recognised our abilities, the benchmarks we have set and have thus rewarded us over the years. Today, CDB has notched for itself the enviable position of sixth largest NBFi in the industry; we also gained a positive nod for our governance and compliance strategies when the Institute of Chartered Accountants of Sri Lanka presented us with a Bronze Award in the Finance Companies category; RAM Ratings Lanka reaffirmed our long term rating at BBB and short term rating at P2 and the long term issue rating of the Company's LKR 250 million Unsubordinated Unsecured Redeemable Unlisted Debentures at BBB, in addition to a long-term rating of a stable outlook, signaling utmost confidence in the sustainable foundations we have built this business on.

We also notched yet another first in becoming the pioneering NBFi to have a fully operation Core Banking Solution in May last year, signifying our commitment to basing our business operations on a business enabled IT platform, manned by a competent team and well thought out processes and systems. These have all served both tangibly and intangibly in adding value to our brand, both in image and perception. The partnership with ComBank which led to CDB notching yet another first in the NBFi sector with the launch of the VISA enabled CDB VISA Debit Card and being a signatory to the Sri Lanka Interbank Payment System (SLIPS) and beginning the start of our ATM network with the first being established at Head Office are all paving the path for adding value to customer conveniences. The accessibility we espouse through our branch network, now numbering 44 with more envisaged for the next year enhances our islandwide capabilities, in addition to the networking capabilities we have added through the Core Banking Solution, which allows speedier approvals and processing to surely make inroads into augmenting our market share.

Our style of management is an inclusive one wherein team members are encouraged to participate in the progress of the company which includes CDB's brand building initiatives. They are also empowered to make decisions and be accountable and responsible for their actions. Senior management too remains very involved in brand building efforts, encouraging each team member to be brand ambassadors for CDB and act and react in ways that would positively influence our business. It is also imperative that our brand reflects the inclusiveness we encourage within the communities we work with and our team members take ownership of these community

initiatives to ensure that our involvement is worked on identified platforms that will truly echo our commitment to empowerment and inclusiveness. Whether it is in presenting IT laboratories to disadvantaged schools in difficult rural areas through the CDB Technology Center initiative or in presenting scholarships to students from underprivileged backgrounds in various parts of the country via CDB Sisu Diri or in permeating environmental consciousness among young people through Mihikathata Adaren project, our brand denotes a strong commitment to stakeholder betterment.

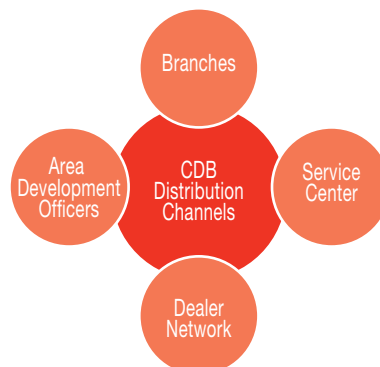
A definite milestone in recognition for our brand comes from being ranked among the fifty most valuable brands in the country in 2012/13 in a compilation published by Brand Finance and published by LMD. Amply supported by CDB Sithumina, which is our flagship brand proposition campaign, the brand strategy has surely added lustre to the CDB brand in going upwards and ahead. Brand Finance positions our brand value at Rs 798 Mn and gives us a ranking of BB.



### Distribution

Accessibility and penetration are two facets that CDB has been focusing on in its distribution strategy. The multi channel distribution is developed therefore on a strategic base, where business approach is cited in our business model and branch expansion is worked on to maximise advantages. Currently, with a total of 44 outlets, our distribution strategy has surely been astute given that

### CDB Distribution Network



we are among the most valuable brands in the country. Strategically locating our branches to gain this maximum utilisation and penetration has thus seen us relocate 7 branches and establish 8 new branches in 2012/13.

The focus of serving under-served communities and those in rural areas has also born fruit, while we continue to



pursue further avenues that would take us closer to those communities that we target. A team of dedicated highly trained professionals now work on the concept of taking our products and services to our customers rather than

customers being required to come to us. Customers with limited accessibility or who may not come within the workings of the branch radius, are touched by these personalised visits, while a strong dealer network and Area Development Officers also add to our penetration formula.

**Progress against Strategic Objectives – Summary**

Strategic objectives	Our Performance	Challenges Faced	Achievement Status	Update for 2013/14
To enhance brand image	Placed among the Top 50 Most Valuable Brands in Sri Lanka Achieved technological advancements and collaborations with several pioneering initiatives achieved in the NBFi sector Donated a fully fledged IT laboratory to a school in an underprivileged area Granted scholarships worth Rs 1.43 Mn to 33 students during the year.	Intense competition Being constantly innovative in differentiating products and services Penetrating the brand into areas with less presence Penetration around the country lesser than major industry players		Continuing to enhance our brand image  Moot initiatives to add value to our brand  Make a quest to better our ranking and rating in the Most Valuable Brands in the country
To enhance business drive	Effective marketing and communication Proper compliance with Central Bank rules and regulations Enhancing public trust Integrated marketing via all mediums	Being constantly aware and compliant with the evolving milieu where regulators continuously impose rules and regulations		Be efficient and effective in marketing and communications Inculcate a culture beyond compliance
To expand our distribution by adding 11 new outlets	Opened 3 branches  Opened 5 new service centres	Cost investment is considerable in launching new branches Capital requirement and complying with CBSL and regulatory rules can be exigent		To further enhance our island wide presence with more branches in key strategic locations
To relocate branches to augment presence	Relocated 7 branches during the year	Sourcing suitable locales for relocation is difficult		Work on initiatives to attract walk-in customers Enhance communication on brand image and corporate values

On a process begun last year, we began aligning our branches with a uniform image that would reflect our brand identity and enable customers to have top of the mind recall due to brand continuity. All our branches will eventually come under this banner where both exteriors and interiors in all our branches will have commonalities, imbuing our corporate colours, logo type and general demeanour, augmented further by continually improving

customer service tenets and expansive product portfolio. 7 branches were completely refurbished this year to reflect this brand synchronisation. All new branches will attest to this brand uniformity when they are launched.

**To enhance our brand image**

A primary truss in enhancing public trust is vis a vis integrated marketing communication, primarily via Above

## Management Discussion contd.

The Line communication strategies complimented with BTL (Below The Line) activities, all pointing towards creating a unique brand image. Our initiatives have proved successful as evident in our brand ranking remained at 50th for the second consecutive year in the Most Valuable Brands in Sri Lanka. Positioning ourselves as a financial entity that will become a total financial services provider adds a competitive advantage, in this milieu which is extremely competitive and continues to be so. The sustainability projects we have embarked upon including CDB Sisudiri to present scholarships, the IT laboratories to underprivileged schools and the environmental initiatives under the banner of Mihikatha Adaren are also designed to strategically enhance to our brand image.

Being a relatively young player in the market competing against entities who account for multiple decades in business and thus, have forged confidence and loyalty among stakeholders over that time, CDB has done significantly well in ensuring top of the mind recall among our stakeholders including the general public.

However, there are disadvantages; existing players are already firmly ensconced in the milieu of homogeneous products which means CDB is constantly innovating, differentiating and finding niche areas to develop products that would make a difference and keep our brand atop; islandwide presence among our competitors ensures extensive accessibility which is a challenge to CDB, but in facing that challenge, has seen CDB partner some industry giants to extend our accessibility as seen in our ATM network tie up with ComBank and dedicated officers visiting customers at their homes. Further augmentation is seen by CDB promoting strategies to attract walk-in customers, which has proved to be very successful.

### To enhance business drive

Our product development strategy is driven by extensive market analysis, feasibility studies and comparative analysis. In product formulation and thereon, we remain very emphatic on ensuring that ethics, transparency and integrity is maintained. CDB does not compromise on these. We are committed to ensuring that our product promise is true to its word and that the communication is never misleading and therefore, endanger the public's perception of our brand image. We are committed to being honest and accountable and will not resort to any bad or negative business practices.

Profitability at all cost is not the overriding factor in our business operations because for us brand image and perception remains strong qualitative factors in enhancing our business drive. We believe in creating a sustainable positive image for CDB. Hence, with the apt foundations in place, we also intend to continue adhering to all the monitoring, controls and dictums that govern us as are directed by the CBSL, while also cultivating a culture of going beyond compliance to ensure that we remain above Board at all times.

### To expand our distribution by adding 11 new outlets

Based on our plan of ensuring accessibility through strategic locations, our network has now reached a total of 44, with three branches and five new service centers being opened this year. With this physical presence and added to with our alternative access channels, our presence is now prevalent islandwide. There are further plans for added accessibility with the expansion of our dealer network and increasing the number of Area Development Officers.

### To relocate branches to augment presence

With demographics changing in Sri Lanka especially since the end of the war, there has been a marked transformation in public sentiment, habits and general characteristics. This has also extended to changes in the urbanisation paradigms and general public mindset. CDB brand values have been developed to create a competitive strategy that would offer more value compared to our competitors. This means that we must be present in those locales where the public will see us, identify with us and want to get to know us better. This also means that CDB must have an identifiable persona that will stand out from among the general milieu.

This led us to work on a three pronged strategy: one to ensure that our entire branch network reflects our core brand identity which has led us to re-launch all our existing branches with better service standards and more decentralisation; second to relocate some of our existing branches to locales that would have better accessibility, visibility and presence and third to refurbish all branches to reflect a uniformity in both exteriors and interiors for enhanced brand recall.

We have thus relocated 7 branches and service centers but in that process, have encountered considerable challenges in seeking suitable locales that would conform to and accommodate the multiple needs and future expectations required of our branches.

### What's Ahead

Our key business enablers are built on a pyramid of strategic marketing and communications and an expanding island-wide distribution network, with a vision to position ourselves at the zenith of the NBF sector. We are on an aggressive path in pursuing this and with the investment and network expansion we have planned, together with the IT drivers being augmented, we believe that our path is clear cut and workable. Our marketing strategies will ensure our differentiation from competition, making it easy for customers to reach out to our high quality reliable services. Our customer service will be the base upon which we will grow the germane facets of product innovation, value addition and accessibility, on a brand that will always denote promise of delivery, timely solutions and continued partnership.






## Information Communication Technology

### CDB - the way of implementation

Undoubtedly, ICT has been a direct and infallible contributor to our success, a strategic business enabler that has impacted business growth as well as differentiation of our

product and service offering in the industry. It is our sophisticated ICT systems that have breathed life into our ambitious plans to modernize our products and widen our reach, empowering us to leverage on unconventional systems and processes to connect with our customers. Our future plans include building a powerful and overarching ICT infrastructure capability that will buoy our entire business operation on a platform that provides online real-time connectivity, speed and capacity. Investments in ICT as well as germane T&D remain ongoing and are considered an investment which continues to gain a substantial budget each year.

### Progress against Strategic Objectives – Summary

Strategic objectives	Our Performance	Challenges Faced	Achievement Status	Update for 2013/14
Successful implementation of the Core Banking Solution	The Core Banking Solution implemented in May 2012 went live across all branches	Conveying the exact requirement and specifications was crucial to the success of this initiative, while the team had to be trained speedily to ensure a smooth transition		To develop the Core Banking Solution further to take full advantage of a progressive modern ICT solution
Enhancing ATM connectivity within the ComBank network and installing CDB ATMs through selected ComBank locations	The CDB VISA Debit Card was launched; the first CDB ATM was installed at the CDB Head Office	Ensuring compatibility of the system and proper IT infrastructure		Installing ATM machines at every CDB outlet
Integrating of SLIPs operation	SLIPs in operation from October 2012.	Integrating Core Banking Solution functionalities with SLIPS data requirement		Enhancing speedy customer service
Providing effective MIS for decision making	This has been partly achieved, enabling the obtaining of instant reports adding further efficiency and productivity into the existing processes	Providing MIS reports instantly for quick and effective management decision making proved a change in the thinking and decision making process		To further develop the Core Banking Solution to generate applicable MIS for quick, speedy and timely decision making
Providing online approval of loans and decentralizing business activities at branch level	Online approval of smaller loans have been facilitated at branch level	Enhancing IT infrastructure and knowledge at branches		To enhance levels of authority and prompt more delegation at branch level

### Successful implementation of the Core Banking Solution

As mentioned above, one of our greatest achievements this year was the successful implementation of the full live run of the Core Banking Solution which also made CDB the spearhead in doing so in the Non-Banking Financial Sector. Having met this important strategic objective we set for ourselves as a target at the beginning of the financial year, in May 2012, the entire branch network went completely online making this a true milestone for the entire NBF sector.

However, the process was not without its challenges as the CDB IT Team was in constant communication with the IT Team from India, to ensure that the system conformed to the exact specifications required. Given that we also wanted to fast track

## Management Discussion contd.

the process, we had to train and develop our team speedily to gain speedy familiarisation on this complex and advanced system that required absolute precision.

Enhancing ATM connectivity within the ComBank network and installing CDB ATMs through selected ComBank locations

Two more milestones were achieved with the launch of the CDB VISA Debit Card and the installation of the very first CDB ATM at the Head Office premises. The relationship forged with ComBank enabled us to gain these advantages and further enhance the accessibility for our customers. Ensuring the compatibility of our two systems proved to be major challenge as CDB savings accounts required to be linked with ComBank ATMs.

### Implementation of SLIPS

SLIPS was earlier conducted via banks, while interest payments were dispatched to branches for collection by customers. While being hasslesome for our customers, the processes were time consuming. With the launch of SLIPS through Lanka Clear, we can conduct business directly, while interest payments are transferred directly to customer accounts. Integrating the Core Banking functionalities with SLIPS data was a considerable challenge but given the enthusiasm of our IT team, these challenges were overcome and CDB once again became a pioneer in being the first NBF1 to conduct SLIPS.

### Providing effective MIS for decision making

While the previous MIS did have the facility of obtaining reports for various requirements, the new system enables a wider range of reports obtained faster and certainly more efficiently. However, in initiating the new system, there were teething problems and generating the reports was not as easy but with the intervention of our IT Team who remained vigilant and very involved in the project, the challenges have been ironed out and we have begun generating comprehensive MIS reports with accurate information for better and timely decision making.

### Providing online approval of loans and decentralizing business activities at branch level

Decentralising and delegating processes are a feature in the new IT system which will surely aid more efficient productive processes throughout our entire organisation. This prompted CDB to facilitate the decentralisation of branch operations including the approval of loans and issuance of deposit certificates. The Core Banking Solution also aided in fast tracking payments

to customers. However, while this was a considerable transformation in the earlier practiced process, it was imperative that all branch personnel were trained to be on the same platform and that all forty branches therefore were aligned to the singular transformation process. Bringing together both the IT and HR Departments to ensure a smooth transition, the ensuing challenges were overcome and the branches are now functioning in these areas very productively, efficiently and speedily.

### Future Outlook

We intend to continue the significant investment we infuse into ICT as we recognise unconditionally that ICT remains a strategic business driver in our future plans. We will explore new opportunities in technological enhancements which will also fuel processes that will bring in cost efficiencies and improved customer service levels. Better MIS will impact our end results both qualitatively and quantitatively due to the efficacy and timeliness of our management decisions, while decentralisation and delegation will take us towards our ambitions of customer service excellence.

## Financial Review

Having always cultivated a culture of compliance and beyond, the changes to standards and financial reporting formats mandated for the financial industry is very timely and pragmatic. At CDB, the secret of our success has been built on our strong fundamentals and one of these is our non-compromising focus on maintaining financial ethics, principles, accountability and transparency. The transition from SLAS to SLRFS therefore is certainly one which will add more positives to the financial services industry, ensuring cohesiveness and compliance that will ensure financial stability within the industry. For CDB, the transition, while it certainly does have impacts on the reporting formats, is a turn for the positive and being the first financial review conforming to the new guidelines, we have striven to provide explanations and analyses, comparing and contrasting the SLAS guidelines to ensure completeness and conformance.

### Profit Before Tax & Profit After Tax

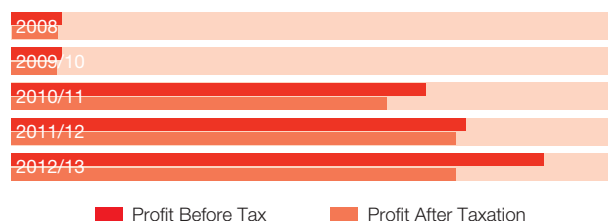
The upward and consistent growth momentum continued this year with CDB posting a profit of Rs 534 Mn for the year under review. Profit before tax is Rs 669 Mn, an increase of over 26% compared to the last financial year's PBT of Rs 532 Mn. Profit after tax increased from Rs 518 Mn to Rs 534 Mn, a 3% increase compared to the previous year.

	For the year ended		YoY growth	
	2012/13 Rs Mn	2011/12 Rs Mn	Rs Mn	%
Profit Before Tax	669	532	137	26%
Profit After Tax	534	518	16	3%

\*Based on SLFRS

Total comprehensive income for the period under review is posted at Rs 761 Mn, an improvement of 34% against the corresponding Rs 565 Mn in year 2011/12.

### Profit Before Tax & After Tax (Mns)



The company recorded a sustainable growth as reflected in the quarterly financial statements published this year.

	Financial Year 2012/13 – Quarterly profit			
	Q1	Q2	Q3	Q4
Profit Before Tax	112	181	207	183
Profit After Tax	97	148	169	143

\*Based on SLAS

### Revenue

Despite aggressive competition and challenging market conditions, it is indeed significant that CDB recorded a top line growth of Rs 4,311 Mn, an increase of 52% compared to last year's revenue of Rs 2,833 Mn. The contribution from fund based operations is notched at 95% from total revenue, showcasing an impressive growth of 60%, increasing from Rs 2,555 Mn to Rs 4,087 Mn. Fee based operations is recorded at Rs 119 Mn for year under review, with other operating income standing at Rs 94 Mn.

### Income

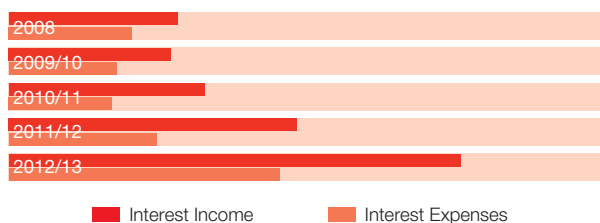
2008	1,638
2009/10	1,898
2010/11	2,226
2011/12	2,833
2012/13	4,311

	For the year ended		YoY growth	
	2012/13 Rs Mn	2011/12 Rs Mn	Rs Mn	%
Interest Income	4,087	2,555	1,531	60%
Other Income	119	107	12	11%
Trading Income	104	169	(65)	(38%)
Revenue	4,311	2,833	1,478	52%

\*Based on SLFRS

### Interest Income & Interest Expenses

#### Interest Income & Interest Expense (Mns)



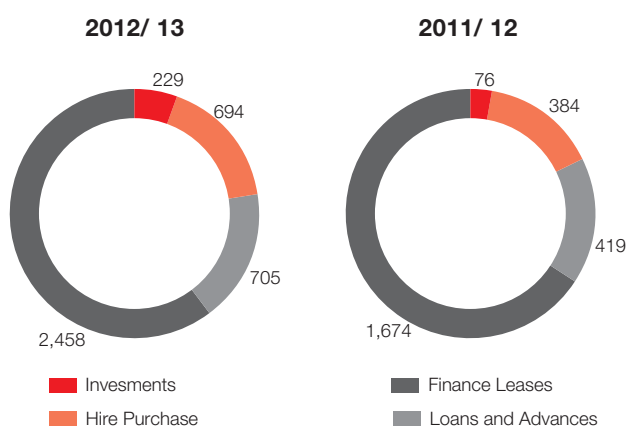
Stringent monitoring of assets and liabilities coupled with an astute aggressiveness enabled CDB to exploit the market paradigms during this year. Interest income increased from 60%, which is an increase from Rs 2,555 Mn to Rs 4,087 Mn, supported primarily by the loan

## Financial Review contd.

book growth which spiraled to a high of 44% during the financial year. Interest income from finance leases is recorded at Rs 2,458 Mn, inclining 47%, in comparison to the corresponding figure of Rs 1,674 Mn in year 2011/12. Further the interest income from hire purchase increased to Rs. 694 Mn from Rs. 384 Mn, whilst Loans and Advances improved by 68% to Rs 705 Mn during the period under review.

Despite an extremely competitive environment, CDB employed characteristic assertiveness to grow our deposit

### Interest Income Composition



base, which in turn, brought in good results. There was a tangible rise in the deposit base augmented with a steady rise in interest rates, although due to adverse macroeconomic conditions, interest expenditure for the company also saw an increase. Interest expenses stands at Rs 2,386 Mn, an 82% increase, compared to last year's Rs 1,311 Mn. The main contributor to interest expenses was from deposits, which is recorded at Rs 2,107 Mn, an increase of 85% from the previous year's figure of Rs. 1,142 Mn.

Across the industry Net Interest margins (NIMs) depleted due to the rising cost of Funds and escalating competition.

### Interest Expenses Composition



For the CDB in particular, the impact is grater due to negative assets liability maturity Mismatch. CDB's Net Interest Margin (NIM) decreased from 9.34 in 2011/12 to 8.27 in 2012/13 due to the volatility seen in interest rates throughout the year. Interest rates increased in the initial two quarters of the financial year and then indicated a downward trend in the last quarter of the period under review. The negative impact on interest rates also affected net interest income, together with the strong growth in the asset base from Rs. 16,613 Mn to Rs. 24,490 Mn, which resulted in the NIM decrease.

Sustainable NIMs has become an industry wide experience as Financial Institutions are continuously challenged due to volatile market conditions, customer demands and intense competition. However CDB has adopted measures to mitigate any significant margin erosion that may occur by ensuring pricing is based on a proper tradeoff between risks and returns on assets side, and looking for longer term funding to mitigate the negative assets maturity mismatch. This has resulted in lowering the one year cumulative maturity gap to 16% from the previous years' 20%.

### Operating Income

Total Operating Income inclined by 27% from Rs 1,521 Mn to Rs. 1,925 Mn in the period under review. Fee and Commission Income also increased by 11% to Rs.119 Mn in 2012/13. Net Operating Income after the impairment adjustment is recorded at Rs. 1,796 Mn, which is an increase of 21% against last year's corresponding figure of Rs 1,483 Mn.

### Operating Expenses

The continued focus on prudent cost management strategies, astutely coupled with an aggressive expansion drive which saw our multi-channel distribution network augmented with seven new outlets, five relocated branches, enhanced customer services and uniformity of branding tenets in branches did see our operating expenses increase, although we do believe this expenditure is a long term investment in meeting our vision.

CDB's cost to income ratio stands at 55%, a decrease

### Cost to Income Ratio



from previous year's 60%. Operating expenses saw an incline, reaching Rs. 1,085 Mn from Rs. 923 Mn in 2011/12, an increase of 18%. Network and access expansion together with increases in staff costs did contribute to the incline in operating expenditure. However, personnel cost to revenue ratio is 8.97% for 2012/13 from 10.18% in the preceding year. Marketing and business promotion expenses also increased to Rs 172 Mn this year. However, the intangible value generated through goodwill, awareness and value addition via marketing communication is well evidenced in the kudos gained by CDB this year when leading business magazine LMD positioned CDB among Sri Lanka's Top 100 Brands standing at 50th place in 2012/13, similar to the ranking gained by CDB in the last year.

The CDB has laid down strategies towards managing costs and committed to on driving the cost to income ratio below 50% in the medium term.

	2012/13	2011/12
Cost to Income Ratio*	55%	60%

- As on SLAS

### Impairment Charges on Loans and Advances

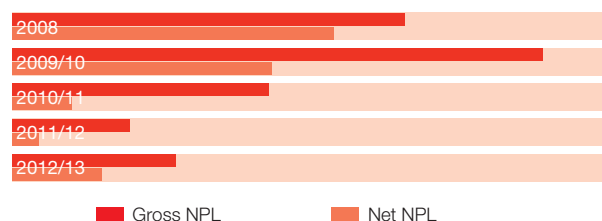
The adoption of SLFRS affected the provisioning policy of the Company with the time based provisioning policy being replaced by the individual and collective impairment methodology. A threshold limit was decided by CDB to conduct impairment on significant loans, which is adequately represented in the total loan portfolio of the Company. These loans were tested against predetermined individual impairment indicators decided by a steering committee established by the Company, based on the input received from credit officers and recovery officers, approved by CDB's Audit Committee.

The Company divided its loan portfolio into several segments, based on the standardized risk characteristics attached to different products. The collective impairment provision was formulated based on the historical loss experience in these segments, expressed in terms of Loss Given Default (LGD) and Probability of Default (PD).

The impairment for Loans and Advances increased during the period due to the aggressive expansion of the loan book, coupled with policy changes (SLFRS) and fragile macro economic conditions experienced throughout the year.

The individual and collective impairment charge for the

### NPL Ratio



year recorded at Rs.16Mn and Rs.112Mn respectively. The cumulative balance at the end of the period for individual impairment has been Rs.93Mn and collective impairment has recorded at Rs. 240Mn. Further the company has performed a write off of Rs.122Mn during the year.

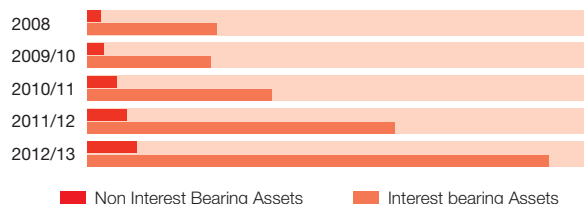
The Gross NPL ratio is 2.32%, compared to 1.67% in the previous year. The increase in the NPL indicates an increase in the non performing portfolio from Rs 264 Mn in 2011/12 to Rs. 431 Mn in 2012/13. The Net NPL Ratio is recorded at 1.27% for the financial year under review, which in the previous year stood at 0.37%. However, it is indeed noteworthy that CDB's NPL this year remains well below the industry average of 5%, which is indicative of CDB's astute management and well defined policies.

	For the year ended	
	2012/13 %	2011/12 %
Gross NPL	2.32%	1.67%
Net NPL	1.27%	0.37%

### Net Advances

The significant changes made to the duty structure along with high interest rates during the year had a negative impact to vehicle imports which in turn negatively impacted our automobile financing business. Despite the challenging market conditions the total lending portfolio inclined from Rs 13,468 Mn to Rs 19,720 Mn, an increase of 46% compared to last year. The growth in the loan book is declarative of the aggressive approach CDB initiated and

### Assets Composition



## Financial Review contd.

worked upon during 2012/13, which we strongly believe will add positive dynamics, both tangibly and intangibly to our future path.

	For the year ended		YoY growth	
	2012/13 Rs Mn	2011/12 Rs Mn	Rs Mn	%
Leasing	10,908	7,193	3,715	52%
Loans	4,828	3,414	1,414	41%
Hire purchase	3,984	2,861	1,123	39%
Total Loan Assets	19,720	13,468	6,252	44%

The highest increase showcased was in the net advances granted for finance leases, which amounted to Rs 10,908 Mn, a growth of 47% compared to the last financial year. Net advances granted as loan facilities also gained upward momentum from Rs 3,414 Mn to Rs 4,826 Mn, an increase of 41% compared to the last financial year. The growth of hiring contracts also stood at 39%, which has improved from Rs 2,861 Mn to Rs 3,984 Mn in year 2012/13.

### Assets Composition

The Total Asset Base saw a rise of 47% from Rs. 16,613 Mn to Rs. 24,490 Mn. The non interest bearing assets increased from last year's Rs 1,901 Mn to Rs 2,367 Mn this year, which saw a rise of 24%. Interest bearing assets inclined as well, to Rs 21,985 Mn from Rs 14,643 Mn, an increase of 50% compared to the previous financial year.

	For the year ended		YoY growth	
	2012/13 Rs Mn	2011/12 Rs Mn	Rs Mn	%
Interest bearing assets	22,640	15,346	7,293	48%
Non Interest bearing assets	1,849	1,267	582	46%
Total assets	24,490	16,613	7,876	47%

The composition of the asset base reflected a 92% investment in interest bearing assets and 8% on non interest bearing assets in the period under review. This indicates a slight improvement from the previous year's composition of 89% and 11% respectively on interest bearing and non interest bearing assets.

### Total Deposits & Borrowings

There was an inclining trend seen in interest rates in nearly the whole of the financial year except in the latter part, which heralded a decline. Intense competition is more the rule than the exception within the industry, especially in deposits, as banks and financial institutions collectively embarked on a price war. CDB continued to maintain a competitive milieu and prudently managed the deposit base which showcased a growth of 52% from Rs 11,699 Mn to Rs 17,799 Mn in 2012/13. The Company's borrowing portfolio is at Rs 2,170 Mn in 2012/13, an increase from Rs 2,058 Mn in the preceding year.

	For the year ended		YoY growth	
	2012/13 Rs Mn	2011/12 Rs Mn	Rs Mn	%
Deposits	17,799	11,699	6,099	52%
Borrowings	2,170	2,058	112	5%

The savings portfolio improved significantly from Rs 76 Mn in 2011/12 Rs 355 Mn this year, which showcases an impressive percentage of 365%. 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.

### Shareholders' wealth Creation

The pragmatic and astute management policies and strategies has seen Shareholders' Funds grow by 30% in 2012/13, inclining from Rs 2,302 Mn to Rs. 3,004 Mn. The

The shareholders' Funds of the Company increased to Rs. 3,004 Mn during the year mainly due to the retention of profits after the payment of Dividend. Furthermore tax savings arise due to implementation of Investment fund amounting to Rs. 30 Mn also helped in increasing the shareholders' funds of the company.

As at the year end company's free capital base amounted to Rs. 2,871 Mn. These developments in the capital base will enhance threshold of no of branches would be open to 57 from the current level of 45.

The return on equity ratio stood at 20% As compared to 37% in 2011/12. The return on equity is a function of the return on assets and the company's financial leverage.



Company's return on Assets recorded at 2.61% as compared to 3.84% in 2011/12. During the year Company recorded a financial leverage of 7.66 times compared to 8.01 in year 2011/12.

#### Dividends

The Company's dividend policy focuses on maximum shareholder wealth, and maintaining a consistent stream of dividends. Company dividend distribution policy framework considers factors such as profits, profitability stability of earnings, rate of sustainability of growth and opportunities for the investment.

Company therefore proposes a final dividend of Rs. 2.75 per share on profits for the period under review, amounting to a total dividend payout of Rs. 149,339,319.

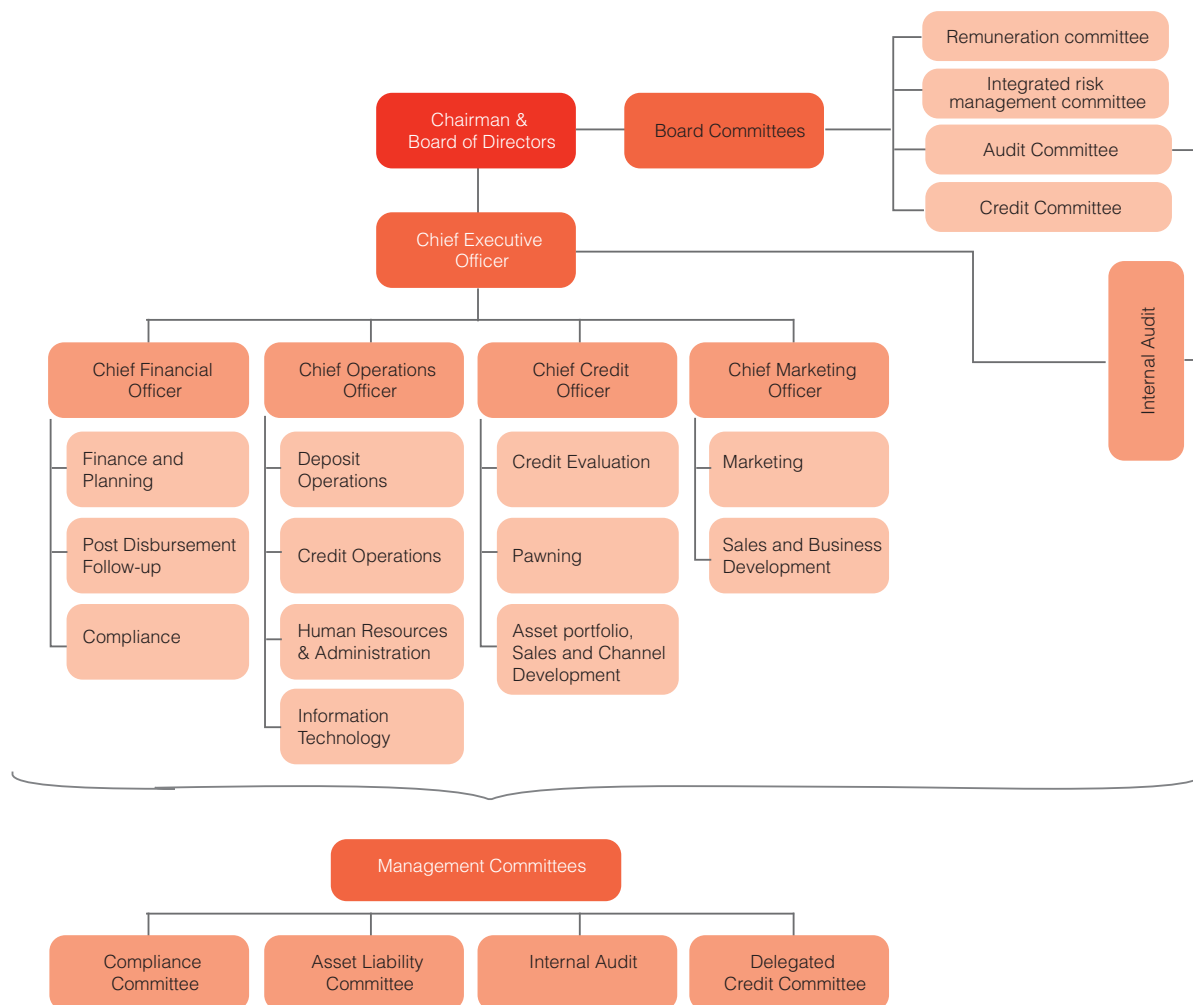
#### Dividends Per share

	2012/13	2011/12
DPS (Rs.)	2.75	2.50
Dividend Cover (Times)	3.63	4.11
Dividend payout (%)	27.52	24.31

#### Capital Adequacy Ratio (CAR)

Tier I & Tier II Capital Adequacy Ratios stand at 14.52% & 14.52% respectively for 31st March 2013. CDB has unequivocally complied with the CAR regulatory requirement for the period under review.

## Enterprise Governance



Enterprise governance is an emerging term which describes a framework covering both the corporate governance and the business governance aspects of an organization. It provides an integrated framework to help companies focus on both the value-creating drivers that move the business forward and the need to ensure adequate control and oversight. It is important to achieve a balance between conformance and performance in order to have the best chance of business.

### CDB Approach

CDB has recognized the Enterprise governance framework as a holistic approach to Corporate Governance and Business Governance. Thereby a specific structure has been formulated in order to proceed with the framework and stay committed to the highest standards of enterprise governance. At CDB we have recognized that to be effective, the concern and tone for Enterprise governance must start at the top. While the overall responsibility of Enterprise governance rests with the BOD, it is the duty of senior management to transform strategic direction set by Board in the shape of policies and procedures and to

institute an effective hierarchy to execute and implement those policies.

Board appointed committees at CDB will confront the 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 of committees. The performance dimension is centralized with the CEO, senior management and the CDB team strategy formulation, execution and evaluation being the key elements of the process. Internal Audit, Asset Liability Committee, Compliance Committee and Delegated Credit Committee have been formed to ensure effective resource utilization and value creation.

Overall the CDB approach will be where the Board will decide on the risk appetite for CDB based on which the Corporate management headed by CEO will formulate the strategies. The formulated strategies will then pass to the Board where the appraisal and challenges arise based on

the evaluation and then approval is granted accordingly. The approved strategies will then be implemented and executed by the senior management which will communicate down the line and provide necessary monitoring measures to consider the progress of the strategies.

### **Board sub committees**

#### **Credit committee**

The credit committee was formed with the intention of providing strategic direction for credit management and ensures Board oversight on credit management. The committee is comprised of CEO and non executive Directors. During the year the committee has evaluated the market dimensions and taken necessary decisions to review the credit policies accordingly to enhance the strategic direction of credit management and evaluation.

#### **Remuneration committee**

Purpose of the Remuneration committee is to recommend the remuneration for Executive Director/CEO whereas the Board has the sole authority to take final determination of such recommendations. The committee is headed by a non executive Director. During the year committee has reviewed and decided the Executive Director/CEO's remuneration.

#### **Integrated risk management committee**

The purpose of the integrated risk management committee is to standardize and smoothen the risk management process of the company. Integrated risk management committee is the heart of company's risk management. 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 level. In the period under review IRM committee has further evaluated the risk management strategy and introduced a dash Board in monitoring all the trigger points based on the identified risk categories. The meetings are held quarterly and minutes are forwarded to the Board consideration.

#### **Audit Committee**

Audit committee is headed by an independent Director and consists of non-executive Directors. Audit committee is responsible for directing the preparation, presentation and adequacy of disclosures in the financial statements of the Company. Furthermore the committee overlooking effectiveness of the company internal controls to meet the requirements of the Sri Lanka Auditing Standards.

In the period under review the audit committee has evaluated and recommended the enhanced disclosures for financial statements and addressed further improvements of internal controls.

### **Management committees**

#### **Internal Audit**

During the year internal audit has overlooked the company's adherence to controls and procedures within CDB whilst ensuring the compliance and adequacy to meet the requirements of Sri Lanka Auditing Standards. Internal Audit has directly reported to Board of Directors via Audit Committee and reported to the CEO for the monitoring and controlling of internal procedures.

#### **Asset Liability Committee (ALCO)**

The committee is headed by the Chief Financial Officer and comprises of five members from finance, Credit & Deposit operations. The committee has monitored and evaluated the 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**

The Compliance committee is solely responsible for regulatory adherence of the company and overlooked the compliance requirements during the year in all related areas. Committee is headed by the Chief Operations Officer and other members comprise of Finance, Legal, Credit and Deposit operations.

The committee has continuously evaluated the compliance position of the organization and ensured the adherence to the regulatory requirements.

#### **Delegated Credit Committee**

The committee 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. The Committee has formulated and executed strategies and policies during the year for the entire credit management function of the company.



# CORPORATE



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.

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## SECTION I

### Statement of Compliance

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

The disclosure below reflect the CDB's level of conformance with the above code which comprises of six fundamental principles. There are namely,

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

## Corporate Governance contd.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
<b>A. Directors</b>			
<p>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.</p>			
Board Meetings	A. 1.1	Compliant	Board meeting are held monthly mainly to review the performance of the company and other matters referred to the Board by the Heads of respective divisions, while special Board Meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders. See' Number of Meetings Held and Attendance' on page 83
Responsibilities of the Board	A. 1.2	Compliant	The Board collectively responsible for the success of the company. The Board formulate the business strategy and ensure that MD/CEO and management team posses 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. The Board is satisfied with the integrity of financial information and the robustness of the financial controls and system of risk management of the company
Compliance with laws and access to Independent professional Advice	A. 1.3	Compliant	The Board collectively as well the Directors individually, recognized 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 coordinated through the Board Secretary, as and when it is required. In addition, the Board is assisted by several Board Sub- Committees on various matters.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
Advice and Services of the Company Secretary	A. 1.4	Compliant	All secretarial matters for which clarification is needed by the Board are referred to the company secretary who is 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 secretary 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.
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 fulfill 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 recognized 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 subcommittee by the company from time to time on industry specific matters and regulatory updates. The new Directors have attended a number of meetings with the Corporate management teams to familiarize themselves with the company strategy, operation and internal control. The Directors have attended the "Directors symposium" conducted by CBSL during the year.

## Corporate Governance contd.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
<p><b>A.2 Chairman and Chief Executive Officer(CEO)</b> 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.</p> <p>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.</p>			
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.
<p><b>A.3 Chairman's Role</b> 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.</p> <p>The profile of the Chairman is given on page 22</p>			
Role of the Chairman	A. 3.1	Compliant	The Chairman's main role is to lead and manage the Board and ensuring effectiveness in all aspects of its role. The Chairman of the CDB is a Non Executive Director. The chairman's role encompasses that, *The views of Directors on issues under consideration are ascertained *The Board is in complete control of the company's affairs and alert to its obligation to all shareholders and other stakeholders *All Directors are encouraged to make an effective contribution ,within their respective capabilities, for the benefit of the company *A balance of power between Executive and Non-Executive Directors is maintained
<p><b>A.4 Financial Acumen</b> The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance</p> <p>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.</p>			
Availability of sufficient financial acumen and knowledge	A.4	Compliant	The chairman is a fellow member of the Chartered Institute of Management Accounting of UK MD/ CEO is a member of the Chartered Institute of Management Accounting 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 in the page no 22 to 23
<p><b>A.5 Balance of the Board</b> 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</p>			



<b>Corporate Governance Principles</b>	<b>SEC &amp; ICASL Code Reference</b>	<b>Compliance Status</b>	<b>CDB's level of compliance</b>
Presence Non Executive Directors	A. 5.1	Compliant	Six of the eleven Directors are non executives (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.
Independent Directors	A. 5.2	Compliant	Three out of six Non executive Directors are independent as defined by the Code.
Independence evaluation review	A. 5.3	Compliant	All three independent Directors are independent of management and free of any business or other relationship that could impair his independence.
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
Senior Independent Director	A. 5.6	N/A	Mr. Razik Mohamed was appointed as Senior Director in March 2013, 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. 5.7	N/A	Please refer above comment.
Meeting of Non executive Directors	A. 5.8	Compliant	Chairman meets with the Non Executive Directors without the presence of MD / CEO and other Executive Directors on a need basis.
Recording of concern in Board minutes	A. 5.9	N/A	There were no concerns raised by the Directors during the year, which needed to be recorded in the Board meeting minutes.
<b>A.6 Supply of Information</b> 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 analyzed and presented to the Board to make informed and accurate decisions.			

## Corporate Governance contd.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
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 & 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 & 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.
<p><b>A.7 Appointments to the Board</b>                      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 &amp; Non-Executive Directors, professional qualifications, business experience and personal qualities are taken into consideration. During the financial year one Independent Non-executive Director was appointed to the Board</p> <p>Mr. Mr. Razik Mohamed (Non Executive Independent Director)</p> <p>The profiles of the above Director is given on Page 23.</p>			
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 subcommittee 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.
<p><b>A.8 Re-election</b>                      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</p>			

<b>Corporate Governance Principles</b>	<b>SEC &amp; ICASL Code Reference</b>	<b>Compliance Status</b>	<b>CDB's level of compliance</b>
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. 8.1	Compliant	Refer comment above
<b>A.9 Appraisal of Board Performance</b> 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
<b>A.10 Disclosure of Information in respect of Directors</b> 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.
<b>A.11 Appraisal of CEO</b> 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.
Annual evaluation of the performance of CEO	A. 11.2	Compliant	There is an ongoing process to evaluate the performance of MD/CEO against the financial and non financial targets set as described above. which is followed by a formal annual review by the Board at the end of each financial year.

## Corporate Governance contd.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
<b>B. Directors' Remuneration</b>			
<p><b>B.1 Remuneration Procedures</b> 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</p>			
Remuneration Committee	B. 1.1	Compliant	<p>The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management, and for making all relevant disclosures.</p> <p>The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD / CEO. The MD / CEO participate in meetings by invitation in deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.</p>
Composition of the Remuneration Committee	B.1.2 & B. 1.3	Compliant	<p>The following Non Executive Directors served on the Remuneration Committee during the financial year.</p> <p>Mr. S.R Abeynayake- Chairman Mr. Razik Mohamed Dr. A.S Dharmasiri</p>
Remuneration of Non-executive Directors	B.1.4	Compliant	<p>The Board as a whole decides the remuneration of the Non Executive Directors.</p> <p>The Non Executive Directors receive a fee for being a Director of the Board and additional fee for either chairing or being a member of a Committee, working on special Committees and / or serving on Subsidiary Boards. They do not receive any performance related / incentive payments.</p>
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	<p>Input of the Chairman is obtained by his involvement as a member of the said Subcommittee. External professional advice is sought by the Remuneration Committee, on a need basis through the Board Secretary.</p>
<p><b>B.2 The Level and Make up of Remuneration</b> 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.</p>			
Level and make up of remuneration	B.2.1 to B.2.8	Compliant	<p>The Board is mindful of the fact that the remuneration of Executive and 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.</p>

<b>Corporate Governance Principles</b>	<b>SEC &amp; ICASL Code Reference</b>	<b>Compliance Status</b>	<b>CDB's level of compliance</b>
Remuneration of the Non-executive Directors	B.2.9	Compliant	Non Executive Directors receive a nominal fee in line with the market practices as disclosed in this Annual Report. Non Executive Directors do not participate in the current share option plans of the Company and / or other performance related incentive schemes.
<b>B.3 Disclosure of remuneration</b> The Code requires the company to disclose in its Annual Report the details of the remuneration paid and the remuneration policy.			
Disclosure of Directors' remuneration in the annual report.	B.3.1	Compliant	Refer the Remuneration Committee Report on page 173 for disclosure on the names of the remuneration committee members and the remuneration committee members and the remuneration policy of the company. Also refer the note 11 to the Financial Statement on page 205 for the aggregate remuneration paid to Executive & Non Executive Directors.
<b>C. Relations With Shareholders</b>			
<b>C.1 Constructive Use Of The Annual General Meeting (AGM) And Conduct Of General Meetings</b> The Code requires the Board to use the Annual General Meeting to communicate with shareholders and encourage their active participation In this regards 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
Availability of all Board subcommittee 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 question under their purview.
Adequate notice of the AGM to shareholders together with the summery of the procedure	C.1.4 & C.1.5	Compliant	A form proxy and copy of the annual report are dispatched to all shareholders together with the notice of meeting detailing the summery 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

## Corporate Governance contd.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
<p><b>C.2 Major transactions</b> Directors are required to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the company</p>			
Major transactions	C.2.1	Compliant	During the year there were no major transactions as defined by Section 185 of the Companies Act No 7 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.
<p><b>D. Audit and Accountability</b></p>			
<p><b>D.1 Financial Reporting.</b> The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects</p>			
Reports to public and , Regulatory & 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 2013 and at end of each Quarter of 2012/2013. 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	D.1.3	Compliant	The statement of Directors' responsibility for financial reporting is given on 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.
Management Discussion and analysis	D.1.4	Compliant	The Management Discussion & Analysis Report is given 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.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
<b>D.2 Internal Control</b> The Code requires the Board to have a sound system of internal controls to safeguard shareholders' investments and the company's assets			
Annual evaluation of the Internal control system.	D.2.1 &	Compliant	The Company has established a comprehensive framework of policies and procedures, 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: <ul style="list-style-type: none"> <li>(i) Audits are conducted by the internal Audit department, in areas involving high risks as identified in the annual internal audit plan.</li> <li>(ii) A structured process is in place for loss reporting, control exception reporting and compliance breach reporting.</li> <li>(iii) A comprehensive checklist is used for follow up on the status of implementation of all audit recommendations.</li> <li>(iv) Periodic Branch Audits are performed on the company's Branch operations.</li> </ul> The Company obtained the External auditor's certification on the effectiveness of the internal control mechanism on financial reporting.
Need for an internal audit for companies with no such function	D.2.2	N/A	This is not applicable as the company already has its own in-house internal audit department, which is responsible for internal audit function.
<b>D.3 Audit Committee</b> 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	The Company's Audit Committee consists of three members all of whom are Non-Executive Directors. The Committee operates within clearly defined terms of reference. Details of the members, invitees and the secretary of the committee are found on Audit Committee report in this annual report.
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

## Corporate Governance contd.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's level of compliance
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
<b>D.4 Code of Business Conduct &amp; Ethics</b> The Company should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management team.			
Code of Business Conduct & 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 behavior etc.
Affirmation by the Chairman that there is no violation of the code of conduct & ethics	D.4.2	Compliant	Refer to chairman's statement in the Annual Report for details
<b>D.5 Corporate governance disclosure</b> 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.
<b>E. Institutional Investors</b>			
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.
<b>E.2 Evaluation of corporate Governance Initiations</b> Institutional Investors are encouraged to give due weight to all relevant factors in Board structure and composition			
<b>F. Other Shareholders</b>			
<b>F.1 Investing/Divesting Decision</b>			
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.
<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



**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 01st January 2009.

<b>Corporate Governance Principle</b>	<b>CBSL Rule Reference</b>	<b>Compliance Status</b>	<b>CDB's level of compliance</b>
<b>2. The Responsibilities of The Board of Directors</b>			
1. Strengthening the safety and soundness of the company	2. (1)	Compliant	The Board formulate the business strategy and ensure that CEO and management team posses 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 Board Meetings	2. (3)	Compliant	Please refer section A.1.3 of the SEC and ICASL code compliance table
4. Conflict of Interests	2. (4)	Compliant	Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to CDB and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his / her interest and unless the Board resolves otherwise, he / she 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

## Corporate Governance contd.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's level of compliance
<b>3. Meeting 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 meeting.
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 ensure 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 & 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.
<b>4. The Board's Composition</b>			
17. Number of Directors	4. (1)	Compliant	The Board comprise 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	.

<b>Corporate Governance Principle</b>	<b>CBSL Rule Reference</b>	<b>Compliance Status</b>	<b>CDB's level of compliance</b>
19. Appointment of an employee as a Director	4. (3)	Compliant	The Company have five Executive Directors including Chief Executive Officer.
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 meeting 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 assess 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 hold 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.
<b>7. The Chairman and Chief Executive Officer</b>			
31. Division of Responsibilities of the Chairman and MD/CEO	7. (1)	Compliant	The role of chairman and chief executive officer separated

## Corporate Governance contd.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's level of compliance
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 Director 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 & ICASL Code compliance table
35. Role of the Chief Executive Officer	7.(11)	Compliant	Please refer section A.2.1 of the SEC & ICASL Code compliance table
<b>8. Board appointed Committees</b>			
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.
<b>9. Related Party Transactions</b>			
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 the no related party benefits from favourable treatment.

<b>Corporate Governance Principle</b>	<b>CBSL Rule Reference</b>	<b>Compliance Status</b>	<b>CDB's level of compliance</b>
<b>10. Disclosures</b>			
38. Financial reporting, statutory and regulatory reporting	10. (1)	Compliant	Financial Statements for the year ended 31st March 2013 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 at Board Meetings;**

<b>Name of the Director</b>	<b>Number of Board Meetings attended during the financial year</b>
Mr. D H J Gunawardena	12
Mr. C M Nanayakkara	12
Mr. R H Abeygoonewardena	11
Mr. T M D P Tennakoon	12
Mr. W W K M Weerasuriya	10
Mr. S V Munasinghe	11
Mr. P A J Jayawardena	11
Mr. S R Abeynayake	10
Mr. D A De Silva	11
Dr. A Dharmasiri	8
Mr. Razik Mohamed	9

*Mr. Razik Mohamed was appointed to the Board with effect from 01st July 2012.*

# RISK



As a company operates in financial services industry, core business is consists of consciously taking on risk in the context of reward driven targets. Therefore the risk is an integral part of the company strategy formulation. The foundation for risk management has been constructed by the corporate strategy of the company, with the objective of promoting the healthy trade-off between risk and return by keeping risk at manageable levels without putting the stakeholder at risk.

### Introduction

CDB recognizes that effective risk management is an integral to its business success. Therefore company is committed to achieve strong controls and distinctive risk management practices to ensure good Enterprise Governance.

Expanding business arenas, deregulation & globalization of financial activities, emergence of new financial products and increased level of completion have necessitated a requirement of well structured risk management for financial institutions. Therefore in order to measure, monitor, and steer risks compressively is becoming a decisive parameter for its strategic positioning. The acceptance and management of financial risks are inherent to the business of financial intermediaries. The role of risk management has historically been a largely peripheral one in many institutions. However, recent research has identified that the failure to identify and appropriately manage risk at strategic level has a far greater potential impact on organisational successes than insured or tightly controlled operational risk.

Therefore, as a first step of creating effective risk management system, CDB understand the qualitative distinctions among the types of risks that organization face.

**Gross NPL**  
**2.32%**

**Net NPL**  
**1.27%**

**Capital Adequacy Ratio**  
**14.43%**

**Collection Ratio**  
**87%**

**Liquidity Ratio**  
**14.49%**

Accordingly Company categorizes risks fall into one of three categories, they are Preventable Risks, Strategic Risks and External Risks. Risk events from any category can be fatal to a company strategy and even to its survival.

### Board and Senior Management Oversight

The Board of Directors are mandated with formulating a companywide risk management strategy and permeating it to all levels of the company. Identifying and setting the apt risk appetite for the company, unveiling risk strategies and conducting periodic reviews to disclose the soundness of such strategies are the key responsibilities within the hands of the Board of Directors.

Based on the strategies espoused by the Board of Directors, it is responsibility of the Senior Management to translate and communicate the strategies in to quantifiable features and cascade down to bottom line of the company while endorsing a risk culture.

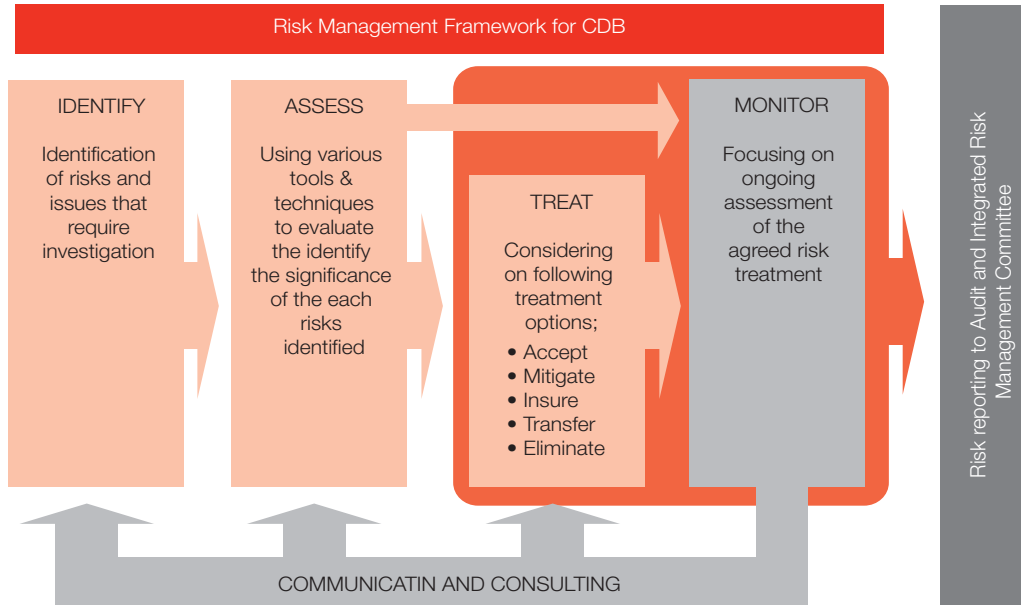
### Risk Management Strategy

As a company operates in financial services industry, core business is consists of consciously taking on risk in the context of reward driven targets. Therefore the risk is an integral part of the company strategy formulation. The foundation for risk management has been constructed by the corporate strategy of the company, with the objective of promoting the healthy trade-off between risk and return by keeping risk at manageable levels without putting the stakeholder at risk. The risk management strategy specifies to what extent undesired risks should be mitigated or avoided, describing the company's approach to risk and the risk appetite.

Company's risk appetite by contrast is about what company does wants to do and how it goes. Therefore, it become the Board responsibility to define the all important part of the risk management system and to ensure the excise of Risk Management throughout the company in consistent with the appetite, which needs to remain within the outer boundaries of risk tolerance.

## Risk Management contd.

### Risk Management Framework



### Risk Management framework

The risk management framework for the Company encompasses the scope of risk, the processes/ systems/ procedures to manage risk and roles and responsibilities of individuals involved in risk management.

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 companywide risks and ultimately to reduce or avoid the magnitude of risks that could brunt the business.

As a company operates in an industry, which highly vulnerable and sensitive to external developments; having a strong risk management framework is predominant.

The doctrines that the company has employed when implementing risk management are based on following;

- Any business related decision need to be within to the risk appetite of the company
- Fair balance between risks and Rewards needed to be maintained
- All the risk categories need to be identified, analysed, treated and continuously managed.
- Promotes strong risk management culture in order to promote long term sustainable growth

### Risk Management approach

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.

The Risks that company face has been categorized into three categories, each of them requires a different risk management approach.

### Category 1 – Preventable Risks

Category 1 – Preventable Risks

Preventable risk arises within the company that is controllable and ought to be eliminated or avoided. It has a zone of tolerance for defects or errors that would not cause severe damage to the performance of the company and which achieving complete avoidance is would be too costly. Such risks are needed to be eliminated since they get no strategic benefits from taking them on.

### Category 2 – Strategic Risks

Strategic risks are the risks that company voluntarily accepts in order to generate superior returns from its strategy. Strategic risk is quite different from preventable risks because they are not inherently undesirable.

Strategic risk cannot be managed through a rules based control model. Company designed its risk management system to reduce the probability that the assumed risks actually materialized and to improve the company's ability to manage or contain that risk events that could be occurred.

### Category 3 – External Risk

External risks are arises from events outside the company and beyond its influence or control. External risks require yet another approach in managing because company cannot prevent such risk events from occurring and Management is focus on identification and mitigation of their impact.



**CDB approach on three categories of Risks**

<b>Category</b>	<b>Risk Mitigation objective</b>	<b>Control Model</b>	<b>Role of Risk Management Staff Functions</b>	<b>Relationship of the risk management function to Business units</b>
<p>Preventable Risks</p> <p>Risks arising from within the company that generate no strategic benefits</p>	<p>Avoid or eliminate occurrence cost effectively</p>	<p>Integrated culture and compliance model</p> <p>Mission statement</p> <p>Value and belief systems</p> <p>Rules and boundaries system</p> <p>Standard operating procedures</p> <p>Internal controls and Internal Audit</p>	<p>Coordinates, oversees and revises specific risk controls with internal audit function</p>	<p>Acts as independent oversees</p>
<p>Strategic Risks</p> <p>Risks taken for superior strategic returns</p>	<p>Reduce likelihood and impact cost effectively</p>	<p>Interactive discussions about to strategic objectives drawing on tools such as</p> <ul style="list-style-type: none"> <li>• Maps of likelihood and impact of identified risks</li> <li>• Key risk indicators and scorecards</li> <li>• Resource allocation to mitigate possible critical risk events</li> </ul>	<p>Organizing Risk workshops and review meetings</p> <p>Develop portfolio of risk initiatives and their funding</p> <p>Acts as devil's advocates</p>	<p>Act as independent facilitators , independent experts or embedded experts</p>
<p>External Risks</p> <p>External Uncontrollable Risks</p>	<p>Reduce Impact cost effectively should risk events occur</p> <ul style="list-style-type: none"> <li>• Tail –risk assessments and stress testing</li> <li>• Scenario planning</li> <li>• War -gaming</li> </ul>	<p>Envisioning risks through</p>	<p>Runs stress testing , scenario planning and war gaming exercises with management team</p> <p>Acts as devil's advocates</p>	<p>Complements strategy team and act as independent facilitators of envisioning exercises.</p>

## Risk Management contd.

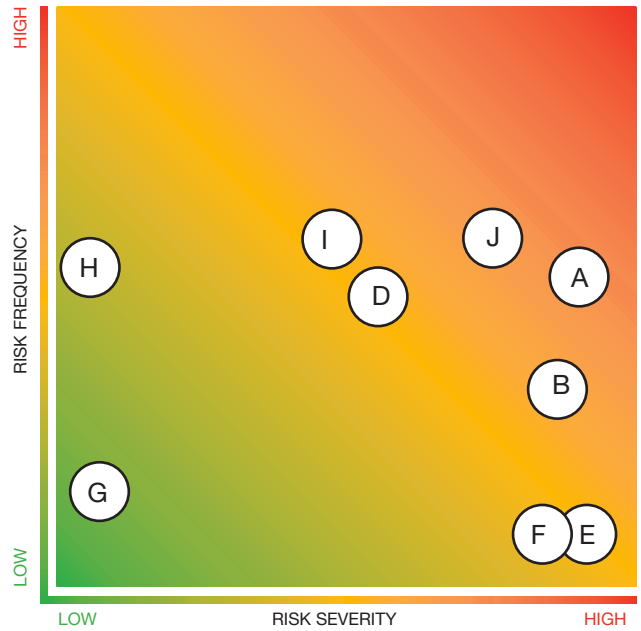
### Key risk exposed by the company

Company has figured out core risks that company is exposed to based on the Risk Mapping approach. Company prioritises the each risk element based on its severity and frequency on periodically by assigning risk related trigger points.

trigger points.

#### Risk Map

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



## Risk Management Committees

Committee Name	Committee Category	Duties/Responsibilities
Integrated Risk Management Committee (IRMC)	Board Committee	<ul style="list-style-type: none"> <li>Initiates and reviews policy frameworks, risk management strategies.</li> <li>Monitor and assess the effectiveness of CDB's risk management framework</li> </ul>
Credit Committee	Board Committee	<ul style="list-style-type: none"> <li>Provides strategic direction towards developing a quality asset portfolio</li> <li>Ensures Board oversight on credit management and business administration</li> </ul>
Audit Committee	Board Committee	<ul style="list-style-type: none"> <li>Assures the Company's internal control requirements</li> </ul>
Delegated Credit Committee	Management Committee	<ul style="list-style-type: none"> <li>Manages the credit function of the Company by formulating and executing strategies and policies in order to construct quality asset portfolio</li> </ul>
Internal Audit	Management Committee	<ul style="list-style-type: none"> <li>Assures the adherence of internal controls and procedures</li> </ul>
Asset Liability Committee (ALCO)	Management Committee	<ul style="list-style-type: none"> <li>Screens movements of liquidity, Investments, Pricing, Asset Liability Maturities.</li> <li>Executes, measures to maintain the liquidity movements under permissible level</li> </ul>
Compliance Committee	Management Committee	<ul style="list-style-type: none"> <li>Assures regulatory adherence of the Company</li> </ul>

## Credit Risk

Credit risk is the risk that arises due to inability or unwilling to meet a financial obligation by a borrower, which can lead an asset to lose value or become worthless. Credit risk is the risk, that the company is highly exposed to, since CDB is operating in Bank and Finance industry.

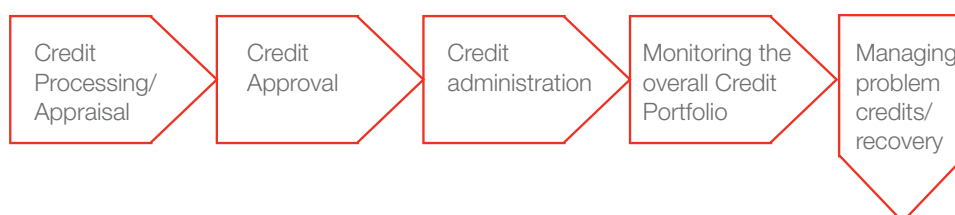
The intent of credit risk management is to play with credit related activities within the boundaries accepted by the Board of Directors.

Taking in to consideration of company's risk mapping process, company has given immense concentration towards manage 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 culture within the company.

Out of various credit risk mitigation approaches espoused by the company, credit policy plays vital role among them, since it's specifically indicates eligible persons for a credit facility, eligible collateral and maximum exposures, concentration limits, product terms and conditions and managing portfolio. Credit policy of the company reviewed regularly by Senior Manager Credit with board of directors and corporate management team based on market developments.

## Credit Risk Management approach adopted by CDB



## Risk Management contd.

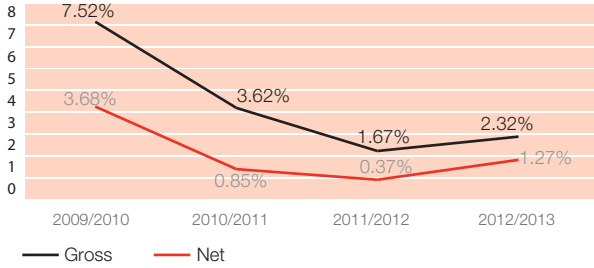
Under credit appraisal all the information on applicant and facility is gathered and evaluate based on ability to meet obligations appropriateness of the collateral or guarantees, credit history, exposure of the borrower to the company, sensitivity of the industry, etc as set by the credit policy. Once the facility is evaluated the proposed facility needs to be approved/renewed by relevant party based on the direction of credit policy.

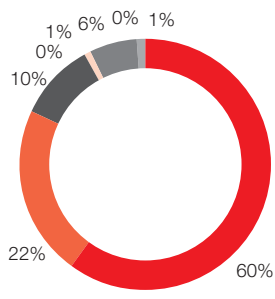
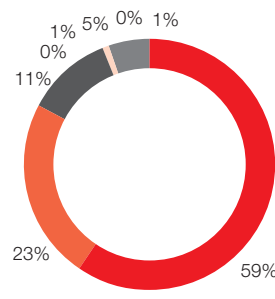
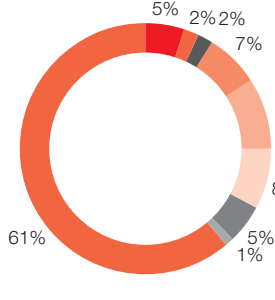
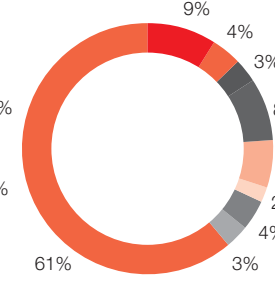
Administration of credit is handled at head office, which is responsible for processing of credit disbursement and its administration. After facility is disbursed it is important

to monitor borrower's compliance with credit terms, identifying early signs of irregularities, conducting periodic valuations of collateral and monitoring timely repayments.

It is prime duty of post disbursement follow-up division to identify credit problems and Non Performing Advances and to implement action to rectify the issue as per the directions given by the credit policy of the company.

### Credit Risk console

Risk category	Risk Evaluation	Risk controlling and mitigation															
<p><b>Default risk</b></p> <p>Inability to discharge financial obligation by counterparty to a financial transaction</p>	<p><b>Gross and Net Non-Performing Advances</b></p> <p>Credit facilities with or over 6 rentals in arrears are categorized as non-performing advances. Gross and Net Performance Advances are monitored in order to evaluate the effectiveness of the company credit policies, asset quality and recovery mechanism.</p> <p><b>Gross &amp; Net NPL</b></p>  <table border="1" data-bbox="483 1173 1081 1441"> <caption>Gross &amp; Net NPL Data</caption> <thead> <tr> <th>Year</th> <th>Gross NPL (%)</th> <th>Net NPL (%)</th> </tr> </thead> <tbody> <tr> <td>2009/2010</td> <td>7.52%</td> <td>3.68%</td> </tr> <tr> <td>2010/2011</td> <td>3.62%</td> <td>0.85%</td> </tr> <tr> <td>2011/2012</td> <td>1.67%</td> <td>0.37%</td> </tr> <tr> <td>2012/2013</td> <td>2.32%</td> <td>1.27%</td> </tr> </tbody> </table> <p>As a result of rising levels of interest and inflation rates prevailed in the economy company NPL ratio has propelled to 2.32% during the financial year, which reflects a negative improvement of 39% compared to financial year 2011/12 (1.67%).</p> <p>However company was been able to maintain the NPL under 3% (budgeted) and industry NPL ratio was stood at 5% for the year.</p>	Year	Gross NPL (%)	Net NPL (%)	2009/2010	7.52%	3.68%	2010/2011	3.62%	0.85%	2011/2012	1.67%	0.37%	2012/2013	2.32%	1.27%	<ul style="list-style-type: none"> <li>• Company was projected the possible adverse outcomes due to adverse economic climate and strengthen the credit policies during the financial year.</li> <li>• Market developments and economic conditions were monitored on regular basis and made amendments to credit policies.</li> <li>• Credit officer's collection ratios were monitored no daily basis to identify any anomalies</li> <li>• Centralized credit administration</li> <li>• Provision management teams and recovery officers were placed in order to monitor non-performing advances</li> </ul>
Year	Gross NPL (%)	Net NPL (%)															
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Risk category	Risk Evaluation	Risk controlling and mitigation																		
<p>Concentration Risk</p> <p>Company is highly depends its lending activities among few lending products, borrowers, sectors or geographical locations.</p>	<p><b>Product concentration</b></p> <p>This will indicate how company is exposed to its lending products.</p> <p><b>Product Portfolio</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><b>2012/13</b></p>  </div> <div style="text-align: center;"> <p><b>2011/12</b></p>  </div> </div> <div style="margin-top: 10px;"> <table border="0"> <tr> <td><span style="color: red;">■</span> Leasing</td> <td><span style="color: orange;">■</span> Term Loan</td> </tr> <tr> <td><span style="color: orange;">■</span> Hire Purchase</td> <td><span style="color: lightorange;">■</span> Pledge Loan</td> </tr> <tr> <td><span style="color: grey;">■</span> Vehicle Loan</td> <td><span style="color: darkgrey;">■</span> Pawning</td> </tr> <tr> <td><span style="color: lightorange;">■</span> Housing Loan</td> <td><span style="color: grey;">■</span> Other</td> </tr> </table> </div> <p>No drastic changes can be seen in the product portfolio and automobile financing has a dominant share in company's product portfolio.</p> <p><b>Geographical concentration</b></p> <p><b>Geographical Distribution</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><b>2012/ 13</b></p>  </div> <div style="text-align: center;"> <p><b>2011/ 12</b></p>  </div> </div> <div style="margin-top: 10px;"> <table border="0"> <tr> <td><span style="color: red;">■</span> Central</td> <td><span style="color: lightorange;">■</span> Sabaragamuwa</td> </tr> <tr> <td><span style="color: orange;">■</span> Eastern</td> <td><span style="color: grey;">■</span> Southern</td> </tr> <tr> <td><span style="color: darkgrey;">■</span> North</td> <td><span style="color: lightgrey;">■</span> Uva</td> </tr> <tr> <td><span style="color: lightorange;">■</span> North Central</td> <td><span style="color: orange;">■</span> Western</td> </tr> <tr> <td><span style="color: orange;">■</span> North Western</td> <td></td> </tr> </table> </div> <p>Growth in assets can be witnessed in North and East regions and Western province continues to maintain high geographical distribution due to high credit demand in the region and 50% of the company outlets located within the western region.</p>	<span style="color: red;">■</span> Leasing	<span style="color: orange;">■</span> Term Loan	<span style="color: orange;">■</span> Hire Purchase	<span style="color: lightorange;">■</span> Pledge Loan	<span style="color: grey;">■</span> Vehicle Loan	<span style="color: darkgrey;">■</span> Pawning	<span style="color: lightorange;">■</span> Housing Loan	<span style="color: grey;">■</span> Other	<span style="color: red;">■</span> Central	<span style="color: lightorange;">■</span> Sabaragamuwa	<span style="color: orange;">■</span> Eastern	<span style="color: grey;">■</span> Southern	<span style="color: darkgrey;">■</span> North	<span style="color: lightgrey;">■</span> Uva	<span style="color: lightorange;">■</span> North Central	<span style="color: orange;">■</span> Western	<span style="color: orange;">■</span> North Western		<ul style="list-style-type: none"> <li>Company has regularly monitored market developments and revises the maximum exposure limits.</li> <li>Regular monitoring and evaluating asset portfolio.</li> </ul>
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## Risk Management contd.

Risk category	Risk Evaluation	Risk controlling and mitigation																																																												
Risk arises due to external developments which effects borrower's repayments.	<p><b>Stress Testing</b></p> <p>Credit risk stress testing is used to forecast potential shock that can brunt organization's future performance due to inability of borrowers to meet their obligations.</p> <p><b>Impact on company CAR (Capital Adequacy Ratio) as a result of 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><b>Magnitude of Shock</b></td> <td><b>5%</b></td> <td><b>10%</b></td> <td><b>15%</b></td> </tr> <tr> <td>Total NPA's</td> <td>430,577</td> <td>430,577</td> <td>430,577</td> </tr> <tr> <td>Increase in NPA</td> <td>21,529</td> <td>43,058</td> <td>64,587</td> </tr> <tr> <td>Revised capital</td> <td>2,794,448</td> <td>2,772,919</td> <td>2,751,390</td> </tr> <tr> <td>Revised RWA</td> <td>19,346,594</td> <td>19,325,066</td> <td>19,303,537</td> </tr> <tr> <td>Revised CAR %</td> <td>14.44%</td> <td>14.35%</td> <td>14.25%</td> </tr> </tbody> </table> <p><b>Impact on Company NPL as a result of changes in NPA's</b></p> <table border="1"> <thead> <tr> <th></th> <th>5%</th> <th>10%</th> <th>15%</th> </tr> </thead> <tbody> <tr> <td><b>Magnitude of Shock</b></td> <td><b>5%</b></td> <td><b>10%</b></td> <td><b>15%</b></td> </tr> <tr> <td>Total NPA's</td> <td>430,577</td> <td>430,577</td> <td>430,577</td> </tr> <tr> <td>Increase in NPA</td> <td>21,529</td> <td>43,058</td> <td>64,587</td> </tr> <tr> <td>Revised NPA's</td> <td>452,106</td> <td>473,635</td> <td>495,164</td> </tr> <tr> <td>Total Loan Assets</td> <td>18,550,220</td> <td>18,550,220</td> <td>18,550,220</td> </tr> <tr> <td>Revised NPL %</td> <td>2.44%</td> <td>2.55%</td> <td>2.67%</td> </tr> <tr> <td>Revised CAR %</td> <td>14%</td> <td>14%</td> <td>14%</td> </tr> </tbody> </table>		Scenario 1	Scenario 2	Scenario 3	<b>Magnitude of Shock</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	Total NPA's	430,577	430,577	430,577	Increase in NPA	21,529	43,058	64,587	Revised capital	2,794,448	2,772,919	2,751,390	Revised RWA	19,346,594	19,325,066	19,303,537	Revised CAR %	14.44%	14.35%	14.25%		5%	10%	15%	<b>Magnitude of Shock</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	Total NPA's	430,577	430,577	430,577	Increase in NPA	21,529	43,058	64,587	Revised NPA's	452,106	473,635	495,164	Total Loan Assets	18,550,220	18,550,220	18,550,220	Revised NPL %	2.44%	2.55%	2.67%	Revised CAR %	14%	14%	14%	<ul style="list-style-type: none"> <li>Company has carried out stress testing analysis on based on various levels of NPA in order to identify impact towards company's capital adequacy</li> </ul>
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Base Case	Rs. 000'
Capital Adequacy ratio (CAR %)	14.54%
Capital Base	2,815,977
Total Risk Weighted Assets	19,368,123
NPL Ratio	2.32%
Total Non Performing Assets	430,577
Total Performing Assets	18,120
Total Loan Assets	18,550,220
Liquid Asset Ratio	16.27%
Liquid Assets	2,798,567
Liabilities	17,197,370

### Liquidity Risk

Liquidity risk arises due to mismatch between assets and liabilities of the company; which may difficult for companies to meet their debt obligations when it requires at a minimal cost. Managing the liquidity risk is utmost important to company like CDB since breach of liquidity requirements will exposed 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 it's important for company to identify the correct combination of liquidity and profitability.

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 is highly relied 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 attract and retain low cost retail and institutional deposits. In order to maintain a healthy liquidity position without any disruption, company has executed two (02) tier approaches to manage liquidity risk exposure.

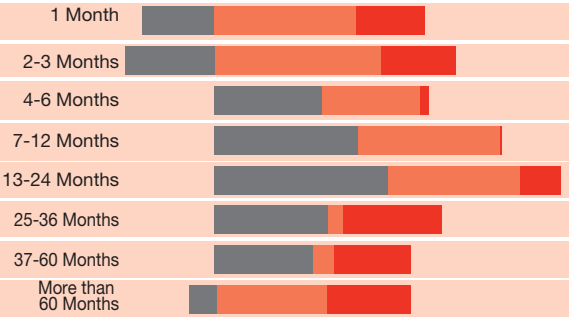
#### Tire 01 approach (Going concern Liquidity management)

Going concern liquidity management approach facilitates adequate level of liquidity for company's day to day operations on continuous basis. Assets and Liabilities Committee (ALCO) is accountable to identify the required level of liquidity for the company based on CDB's goals and business plans based on their analysis.

#### Tire 02 approach (Contingency Liquidity management)

This will fulfill the organization's fund requirements in an event of short or long term crisis situation.

### Liquidity Risk Console

Risk category	Risk Evaluation	Risk controlling and mitigation																																								
<p>Illiquidity position</p> <p>Inability meets financial obligations by the company when they are fallen due</p>	<p>➤ <b>Maintaining internal and regulatory liquidity ratios</b></p> <p>CBSL regulatory requirement</p> <table border="1" data-bbox="381 546 1182 982"> <thead> <tr> <th>Direction</th> <th>Statutory Requirement</th> <th>As at 31/03/2013</th> <th>As at 31/03/2012</th> </tr> </thead> <tbody> <tr> <td>Maintain minimum holding of liquid assets based on the outstanding value of the time deposits issued by the company</td> <td>10%</td> <td>14.49%</td> <td>13.3%</td> </tr> <tr> <td>Maintaining assets in the form of Gov TBs, Gov securities and CBSL securities based on average month end total deposit liabilities of the twelve months of the proceeding financial year</td> <td>7.5%</td> <td>12.7%</td> <td>7.93%</td> </tr> </tbody> </table> <p>Company maintained healthy liquidity position as per the CBSL regulatory requirements.</p> <p>➤ <b>Liquidity stress testing</b></p> <p>Impact on Liquidity ratio due fall of Liquid liabilities</p> <table border="1" data-bbox="381 1193 1182 1412"> <thead> <tr> <th>Magnitude of shock</th> <th>4%</th> <th>8%</th> <th>12%</th> </tr> </thead> <tbody> <tr> <td>Liquid assets</td> <td>2,798,567</td> <td>2,798,567</td> <td>2,798,567</td> </tr> <tr> <td>Liabilities</td> <td>17,197,370</td> <td>17,197,370</td> <td>17,197,370</td> </tr> <tr> <td>Fall in Liabilities</td> <td>687,895</td> <td>1,375,790</td> <td>2,063,684</td> </tr> <tr> <td>Revised Liabilities</td> <td>16,509,475</td> <td>15,821,581</td> <td>15,133,686</td> </tr> <tr> <td>Revised Liquid Assets</td> <td>2,110,673</td> <td>1,422,778</td> <td>734,883</td> </tr> <tr> <td>Ratio after shock</td> <td>12.78%</td> <td>8.99%</td> <td>4.86%</td> </tr> </tbody> </table> <p>* Calculation is prepared in terms of section 3 of the Guide line No 1 of 2013 issued by CBSL</p>	Direction	Statutory Requirement	As at 31/03/2013	As at 31/03/2012	Maintain minimum holding of liquid assets based on the outstanding value of the time deposits issued by the company	10%	14.49%	13.3%	Maintaining assets in the form of Gov TBs, Gov securities and CBSL securities based on average month end total deposit liabilities of the twelve months of the proceeding financial year	7.5%	12.7%	7.93%	Magnitude of shock	4%	8%	12%	Liquid assets	2,798,567	2,798,567	2,798,567	Liabilities	17,197,370	17,197,370	17,197,370	Fall in Liabilities	687,895	1,375,790	2,063,684	Revised Liabilities	16,509,475	15,821,581	15,133,686	Revised Liquid Assets	2,110,673	1,422,778	734,883	Ratio after shock	12.78%	8.99%	4.86%	<ul style="list-style-type: none"> <li>Adhering to internal and regulatory liquidity ratios.</li> <li>Internal liquidity position is reported to board level on regular basis for decision making purpose.</li> <li>Having contingency funding plan for an urgent situations</li> <li>Conducting liquidity stress tenting analysis to foresee future funding requirements.</li> </ul>
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<p>Maturity mismatch</p>	<p>➤ <b>Asset – Liability maturity mismatch analysis</b></p>  <p>Source: Central Bank</p>	<ul style="list-style-type: none"> <li>Maturity gab is being reviewed on monthly basis.</li> <li>Avoiding possible mismatched via strong diversification of investment portfolio.</li> </ul>																																								

## Risk Management contd.

### Market Risk

Market risk can be defined as external developments which can brunt the business continuity. Main contributors towards company's market risk are; interest rate, equity prices and commodity prices such as gold. The purpose of managing market risk is to embark certain risks within the exposure limits approved by the Board of Directors and maintain the business at optimum risk-reward tradeoff.

Managing market risk is pivotal factor for CDB; since company's business strategies are relied heavily on market conditions and it's operating in an emerging economy where market conditions are inconsistent. Apart from that, company has no control over market risk compared other risk components that the company is exposed to.

### Interest Rate Risk

Interest risk can be defined as a risk, which the company exposed due to varying levels of interest rates in the market. Interest risk can influence the company's financial position and performance because interest income demonstrates over 80% of CDB's turnover and interest expenses represents over 50% of company's total expenses. Hence, managing interest rate risk is utmost import to CDB since company's profits are highly vulnerable towards interest rate fluctuations.

ALCO is responsible to monitor interest rate developments in the market 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.

### Equity Price Risk

Equity price risk arises due to adverse stock market conditions prevailed in the country. Company is exposed to equity price risk since company, since Company has listed in the Colombo Stock Exchange (CSE) and invested in equity shares.

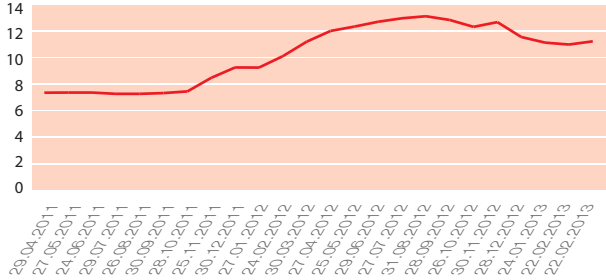
Adverse movements in share prices can influence the performance of the company due to mark-to-market adjustments.

### Commodity Price Risk

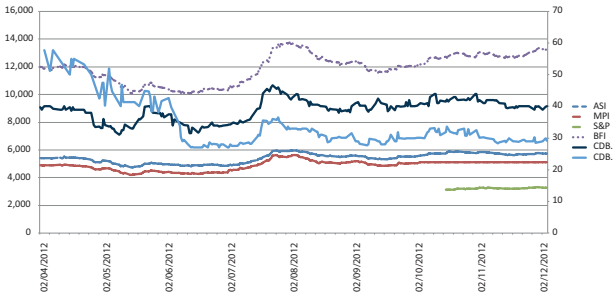
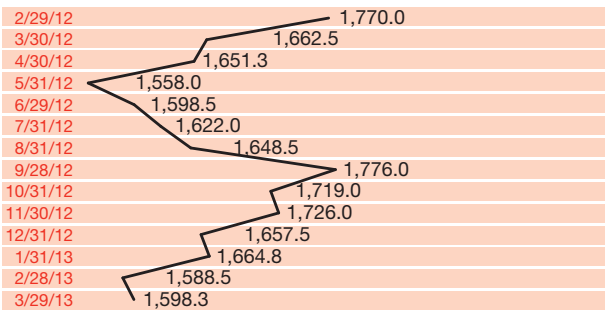
CDB is exposed to commodity price risk mainly due to pawning business. Developments in global gold price coupled with foreign exchange rate and fraudulent gold articles may lead to undervalue or make underlying assets valueless.

Purpose of managing commodity price risk is to accept risk within the limit authorized as per the pawning manual of the company.

### Market Risk Console

Risk category	Risk Evaluation	Risk controlling and mitigation
<p>Interest Rate Risk</p> <p>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>Treasury Bill Movement</p> <p><b>Treasury Bill Rate</b></p>  <p>Source: Central Bank</p> <p>Government has decided to tighten its monetary policy in response to high demand for credit and monetary expansion prevailed in the country. As a result of such measures, money supply growth and growth of credit extended to the private sector have begun to decelerate.</p>	<ul style="list-style-type: none"> <li>Investment and Credit dashboard provides information pertaining to WABR and WALR on daily basis for decision making.</li> <li>Interest rate movements are monitored and analysed by ALCO on regular basis.</li> <li>Asset re-pricing</li> <li>Interest rate stress testing</li> </ul>



Risk category	Risk Evaluation	Risk controlling and mitigation
<p>Equity price risk</p> <p>Equity price risk arises due to adverse stock markets conditions in a country where company operates.</p>	<p><b>Share price movement</b></p>  <p>The equity market remained passive throughout 2012 after the increase witnessed in 2009 and 2010. During the financial year ASPI has fallen only by 7% compared to 8.5% in 2011/12. MPI index was declined by 2%. In June 2012 MPI was replaced by S&amp;P SL20 index in response to investors' demand for a more transparent share price index</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>
<p>Gold price risk</p> <p>Risk emerges due to negative gold prices, fraudulent pawning articles and depreciation of Sri Lankan Rupee</p>	<p><b>Global gold price movements</b></p> <p><b>Gold price - Unit per Troy Ounce</b></p>  <p>Risk associated in Gold price is a minimal contributor towards company's total risk exposure due to high demand for precious metals like gold and declining rupee value against USD.</p> <p>At the beginning of 2012, gold price reflected a growth of 8% over the prior year (US \$ 1,531 per ounce). In September, the price of gold peaked at approximately US \$ 1,792, although in the first quarter of 2013, the price declined by 5% to stand at US \$ 1,552.</p>	<ul style="list-style-type: none"> <li>• Monitoring gold price movement on regular basis.</li> <li>• Pawning advances are adjusted based on market gold prices.</li> <li>• 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**

Operational risk arises due to internal process failures, human capital losses, inadequate internal process, technological breakdowns and adverse impact from external events. Operational risk act 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 minimize the normal losses incurred due to internal activities, restoring any disruption without impacting the core business of the company and mitigating replication 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

## Risk Management contd.

### Operational Risk Console

Risk category	Risk Evaluation	Risk controlling and mitigation														
<p>People Risk</p> <p>Risk of skilled talent of the company being losing</p>	<p>Company executed several employee feedback surveys in order to identify the employee perception on company and salary/incentives. Also company has launched a performance based salary incentive scheme and performance based bonus scheme for the financial year.</p>	<ul style="list-style-type: none"> <li>• Training and Development</li> <li>• Employee succession planning.</li> <li>• Performance based reward scheme.</li> <li>• Company HR policies.</li> </ul>														
<p>Operational and Technological manipulation</p> <p>Risk arises mainly due to inappropriate operational and system procedures.</p>	<p><b>Operational Losses</b></p> <p>Operational and Technological manipulations will act as a bottleneck within the business premises, which may further lead to fraudulent activities</p> <p>Operational Risk (employee related)</p> <p><b>Operational Losses (Employee related)</b></p> <table border="1"> <caption>Operational Losses (Employee related) - Donut Chart Data</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Pawning related</td> <td>28%</td> </tr> <tr> <td>Gross Negligence</td> <td>17%</td> </tr> <tr> <td>Indecent Behaviors</td> <td>17%</td> </tr> <tr> <td>Misleading the company</td> <td>22%</td> </tr> <tr> <td>Theft</td> <td>5%</td> </tr> <tr> <td>Cash Shortage</td> <td>11%</td> </tr> </tbody> </table> <p>Company has categorised employee related malpractices in to 06 sub-categories and during the year 18 incidents were reported.</p>	Category	Percentage	Pawning related	28%	Gross Negligence	17%	Indecent Behaviors	17%	Misleading the company	22%	Theft	5%	Cash Shortage	11%	<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>
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### Information and Communication Technology Risk

ICT risk of the company appears due to system breakdowns/disruptions, non-availability of IT systems or having outmoded technology within the premises. In modern era ICT has been defined as a key business supporting tool and this provides value addition to company's core business functions. Hence, having a proper ICT risk management is utmost important CDB since it can malfunction operational activities.

The purpose of managing ICT risk is to avoid any potential threats due to inapt ICT systems prevailed in the company and compete with modern-day technological trends in the industry. CDB has segregated the system failures of the company in to 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 has placed comprehensive IT policy and disaster recovery plan, internal controls and carried out regular system audits to mitigate such risks.

Risk category	Risk Evaluation	Risk controlling and mitigation								
Business continuity risk due to inappropriate ICT  Business continuity risk emerges when company is not in a situation maintaining its core functions as a result of lacking ICT.	<p>➤ <u>First level system failures – System disruptions due to internal factors.</u></p> <table border="1"> <thead> <tr> <th>Category</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>First level system failures</td> <td>System disruptions due to internal factors.</td> </tr> <tr> <td>Second level system failures</td> <td>System disruptions due to external factors.</td> </tr> <tr> <td>Third level system failures</td> <td>System disruptions due to major system breakdowns.</td> </tr> </tbody> </table> <p>Considering the present requirements of the company and provide a value addition to customer via technological advancements, company has incorporated a Core Bank information system, connected with SLIPS and ATM network of the Commercial PLC during the last year.</p>	Category	Description	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.	<ul style="list-style-type: none"> <li>IT policy</li> <li>Internal controls</li> <li>Disaster recovery plan</li> <li>System audits</li> <li>Segregation of responsibilities based on type of the system disruption.</li> </ul>
Category	Description									
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.									

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### Operational Risk Console

Risk category	Risk Evaluation	Risk controlling and mitigation
Company specific activities  Negative public perception of the company due to operational/ communication errors.	<p>➤ Customer complaint review/ Customer surveys</p> <p>Internal faults/errors can be led to originate reputation risk via customer dissatisfaction.</p>	<ul style="list-style-type: none"> <li>Effective customer response and grievance handling process.</li> <li>Regular customer surveys and customer visits.</li> <li>Training and development of staff</li> </ul>
Compliance risk  Company not adhering to rules and regulations impose by the relevant regulator	<p>➤ Inability to comply with rules and regulations imposed by the industry specific regular may lead to losses, penalties r even negative public perception of the company.</p>	<ul style="list-style-type: none"> <li>Strictly adhering to industry specific rules and regulations.</li> <li>Monthly assessment of compliance documents by the compliance committee.</li> </ul>
Improper contributions to the Society  The negative public perception on company may lead due to inadequate public relations or lack of contributions to the society.	<p>➤ It is very much important for a company like CDB to have proper public relations in order to enhance the brand value of the company, due to severe competition among competitors.</p> <p>Sustainability</p>	<ul style="list-style-type: none"> <li>Company has categorized four types of CDB CSR projects namely; <ol style="list-style-type: none"> <li>CDB Hithawathkam</li> <li>Sisudiri Scholarship program</li> <li>CDB NenaPiyasa</li> <li>Mihikathata Adaren</li> </ol> </li> </ul>

# SUCCESS ENVISIONED



CDB strongly believes in building and fostering strong, sustainable long term relationships with its stakeholders. We also believe that this can only be achieved by understanding and respecting interests of all major stakeholders such as customers, the shareholders, suppliers, employees and the wider community and aligning those interests with our organisational growth goals.

**EVA**  
**500 Mn +**

**Employees**  
**800 +**

**Total investment  
on scholarships**  
**7 Mn +**

**Social Investment**  
**3 Mn +**

**Average Training Hours  
per Employee**  
**53 +**

**Net Lending Outside  
Western Province**  
**2.5 Bn +**

#### Preamble

Sustainable development is not a cliché anymore; nor is it simply rhetoric. Stakeholders demand action; want results and ask for solutions. Meeting the needs of the present without compromising the ability of future generations to meet their own needs as the Brundtland Report 'Our Common Future' defines, places sustainable development both contextually and categorically. It calls for nations to unite in ensuring that systems that intertwine each individual to a community and to an eco-system and each other be understood, recognised and strengthened. We do not live in isolation anymore. We are inextricably bound to each facet of our existence and this means that corporate stewards have one of the biggest roles to play in finding solutions to the complex questions that arise in today's context which include poverty, war, freedom, individual rights, environmental degradation, rising energy needs, depleting fossil fuels and lack of access to basic needs including health, sanitation, housing, food security and education.

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. We have to change the content of growth, look at life less materially and be more equitable and inclusive when we impact our stakeholders. 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 builds on the strong foundation of Success Envisioned.

#### Organisational Profile Sustainability at CDB

CDB is a small organisation in the context of the larger canvas. But we are strong believers in being responsible for change because each of us, is tasked with making life better for ourselves, our communities, our nations and our world. We are very aware that sustainable development is also a continuous process, one that can never be completed because as each task is completed, more issues and challenges arise as would be definitive of an evolving planet with constantly evolving needs and aspirations. Success in sustainable development therefore, remains envisioned but one in which tangible targets are mapped out and met with the right kinetics in place. This is how CDB looks at the larger canvas of sustainable development, taking responsibility for the smaller facets in the larger equation which eventually do make up the collective results for the betterment of our stakeholders and envisioning success in the immediate with growing ideas for the future.

CDB's sustainability foundation therefore works on the concept of empowerment and inclusivity, working on the tenets that we can add both quantifiable and qualitative value through the way we work. Ours is a base of sustainable finance and sustainable business practice which permeates every task, decision and process at CDB.

In CDB's overall strategy, sustainable business practice remains the fundamental dynamic that brings together our focus on the three platforms of social, economic and development impacts. This is firm foundation upon which we build value for our business, for our shareholders and our stakeholders. This then permeates to the macro areas of nation and planet. Our clients span a broad spectrum and being a leading financial institution in Sri Lanka, we have four imperatives which we work on

## Sustainability Report contd.

within our sustainability agenda; marketplace, environment, people and culture.

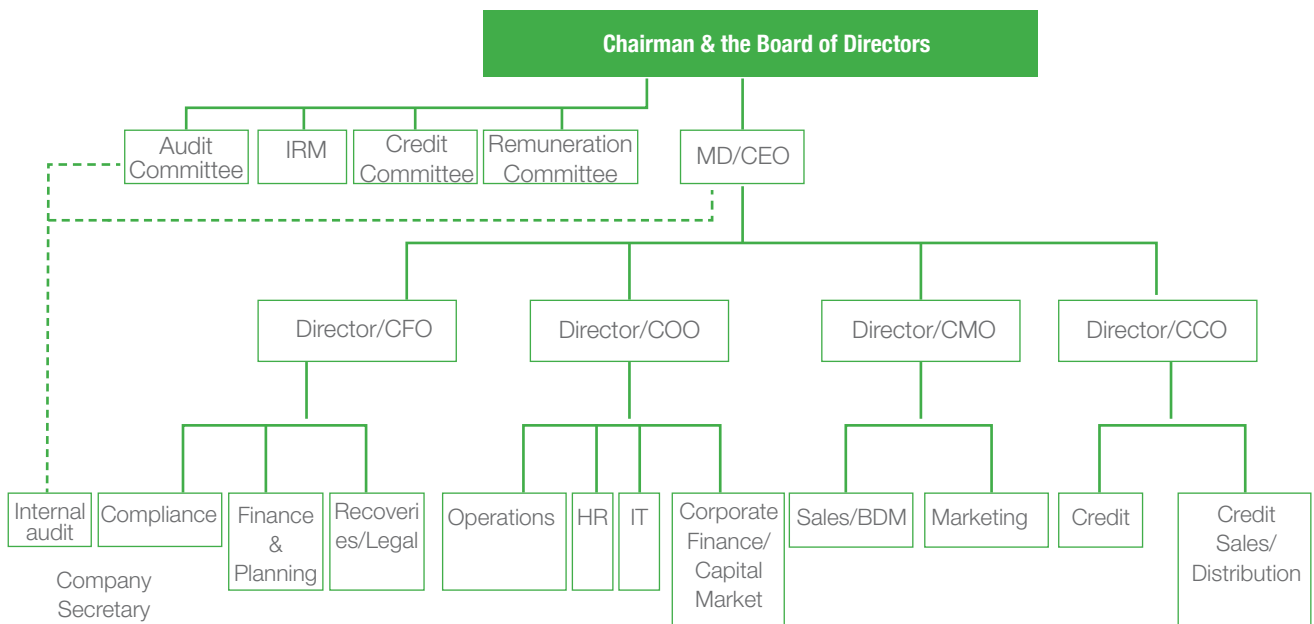
The success of our sustainability agenda is thus envisioned by pre-empting the challenges of the future, addressing and preparing for these and ensuring that our stakeholders are equipped with the apt tools, skill and knowledge to meet these challenges. This means generating returns for our shareholders, being transparent and accountable in our actions for all stakeholders, displaying a sincerity of action when infusing initiatives and making decisions and promoting environmental consciousness. Sustainable value therefore underpins everything we say and do, where success is envisioned for the continuance of the planet and her people.

### Scale of the reporting organization & significant changes during the reporting period

#### (GRI I Indicators - 2.8, 2.9)

Citizens' Development Business Finance PLC (CDB) is a registered finance company regulated by the Central Bank of Sri Lanka. Listed on the Colombo Stock Exchange, our business operations revolve in the two primary business areas of mobilizing funds and providing financial accommodations. Our total asset base as at March 31st 2013 was Rs. 24 Bn, with a recorded revenue of Rs. 4 Bn. It recorded a net interest income of Rs. 1.7 Bn. An outreach network of 44 based islandwide, CDB is the

### Operational Structure (GRI Indicators - 2.3)



sixth largest financial institution in terms of total assets among 47 Licensed Finance Companies (LFCs) under the aegis of the Central Bank of Sri Lanka. Presently the organization has employment strength of 825 employees. During the year, 8 new branches have been added to the branch network and the company did a scrip dividend to its shareholders during the financial year under review which resulted in adding 2,336,691 new ordinary nonvoting shares.

The Company's growth trajectory is based on its vision of becoming the financial powerhouse that will foster both entrepreneurial innovation and workmanship to build the nation's economy, cascading sustainable gains to improve the living standard of all Sri Lankans. Our range of financial products is diverse and expansive, ranging from loans to foreign currency exchange, foreign remittances, fixed deposits, savings and pawning. Thriving in the diversity of

our clientele, our business model combines rural lending and urban funding. Our sustainable development practices therefore are founded on all these rudiments, where as a responsible corporate steward in the financial services industry we envision success with a promise to enrich both planet and people.

### Report Parameters

#### Reporting Parameters, Scope & Boundary of Report (GRI Indicators - 3.1 - 3.4 & 3.6 - 3.8)

At CDB, we are committed in ensuring the preservation of our planet. Accordingly this is our second Sustainability Report detailed in compliance with the updated version of GRI (Global Reporting Index) G3.1 guidelines. Our first sustainability report was based on GRI G3 guidelines. This Report content spotlights materiality, stakeholder

Number of employees	825																																																
Number of operations	Two (Mobilizing and lending funds)																																																
Net sales	Rs. 4 Bn																																																
Total capitalization broken down in terms of debt and equity (In Mns)	<p><b>Total capitalization broken down in terms of debt and equity</b></p> <table border="1"> <thead> <tr> <th></th> <th>2012/13</th> <th>2011/12</th> </tr> </thead> <tbody> <tr> <td>Debt</td> <td>2,170</td> <td>2,058</td> </tr> <tr> <td>Equity</td> <td>3,004</td> <td>2,302</td> </tr> </tbody> </table>		2012/13	2011/12	Debt	2,170	2,058	Equity	3,004	2,302																																							
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Quantity of products or services provided	<table border="1"> <thead> <tr> <th colspan="4">Lending</th> <th colspan="2">Funding</th> <th rowspan="2">Other Products</th> </tr> <tr> <th>Top Level</th> <th>Middle Level</th> <th>Micro Level</th> <th>Other</th> <th>Fixed Deposits</th> <th>Savings</th> </tr> </thead> <tbody> <tr> <td>Hybrid</td> <td>Small Car</td> <td>3W - Threewheelers</td> <td>Pawning</td> <td>Danasurekum</td> <td>CDB Saver</td> <td>Money Exchange</td> </tr> <tr> <td>Permit Holders</td> <td></td> <td>Mini Truck</td> <td>Meezan - Islamic Financing</td> <td>Deegayu</td> <td>Rankati</td> <td>Moneygram</td> </tr> <tr> <td></td> <td></td> <td>Batta Lease</td> <td>Hire Purchase Lease</td> <td>Aee</td> <td>Teenplus</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Suwadhana</td> <td>CDB Real Savings</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Dambadiva Wandana</td> <td>Mudharabah</td> <td></td> </tr> </tbody> </table>	Lending				Funding		Other Products	Top Level	Middle Level	Micro Level	Other	Fixed Deposits	Savings	Hybrid	Small Car	3W - Threewheelers	Pawning	Danasurekum	CDB Saver	Money Exchange	Permit Holders		Mini Truck	Meezan - Islamic Financing	Deegayu	Rankati	Moneygram			Batta Lease	Hire Purchase Lease	Aee	Teenplus						Suwadhana	CDB Real Savings						Dambadiva Wandana	Mudharabah	
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Total assets	Rs. 24 Bn																																																
Beneficial ownership (including identity and percentage of ownership of largest shareholders)	79.87% (Top 20 Share Holders)																																																
Province wise employees	Please refer the 'Our Team' section																																																

## Sustainability Report contd.

inclusiveness, completeness and sustainability context, while its quality is ensured through balance, comparability, accuracy, timeliness, clarity and reliability – all in accordance with the GRI Guidelines. This report for the first time also gains an independent verification and authentication from KPMG, while we have placed ourselves as being aligned to Level C+ within the GRI guidelines.

Clarifications or queries regarding this report may be directed to the following:

E mail address: heshan.ranga@cdb.lk  
Mailing address: No 18, Sri Sangaraja Mawatha,  
Colombo 10  
Our website: www.cdb.lk

The report covers the activities of the Citizens Development Business Finance PLC for the year ending 31st March 2013 according to the annual reporting cycle stipulated by the GRI Guidelines. Significant changes, with regard to the 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 from April 1st 2012 to March 31st 2013. Non-financial data have been extracted from records maintained by the relevant divisions of the Company throughout the year. We have restated the previous years' data, wherever applicable, to enable better comparison between years. Given that the Company is service oriented, certain GRI performance indicators have been deemed inapplicable. Furthermore, CDB's subsidiary, CDB Micro Finance Ltd was excluded from this report, as it is in the process of merging with the parent company and thus lay beyond the perview of this report. Also, certain noncore activities mentioned below have not been considered for the purposes of this report and therefore are excluded from the report scope which can be stated as a limitation.

- Payroll services
- Security services
- Janitorial services
- Office equipment maintenance services

### Why does CDB need Sustainability Reporting?

As a corporate steward and one that remains very aware of the expectations of stakeholders, it is important that CDB is able to quantify the impacts of our actions and the responsiveness to the needs of our stakeholders. This can only be done through an unfettered process that is aligned to global guidelines which are time tested to present to us the valid positives, negatives and the gaps that need to be bridged. Through the reporting process, we can

regularly review the evolving business climate and ensure that CDB is able to address the pertinent issues that arise in a timely, efficient and productive manner, minimising or eliminating any negativities that may arise. The process also enables us to identify future risks and opportunities in both an internal and external context due to the stringent assessments that are made through regular monitoring of sustainability issues. CDB uses a proliferation of tools including the mass media and stakeholder engagement.

### Determining Materiality (GRI Indicators - 3.5)

Materiality in financial reporting is the platform upon which stakeholders, particularly investors base their economic decisions. An organisation's financial statements are inextricably linked to the performance of its triple bottom line, which has a permeating impact on all stakeholders. Determining materiality within a sustainability report therefore must focus not only on the three main trusses of economic, environmental and social impacts, but also take into account the base of the Brundtland Report which urges us to meet the demands of the present without compromising the needs of future generations. Hence materiality in the sustainability reporting context is determined on:

- Significance of economic, environmental, and social impacts
- Influence on assessments and decisions of stakeholders

Accordingly, the performance indicators for CDB were determined on these and are depicted below:

### Governance, Commitments and Engagement Governance (GRI Indicators - 4.2, 4.3)

The Director Board of CDB consists of 5 Executive Directors and 6 Non Executive Directors and all of them are males. Chairman of the company is a Non Executive Director and there are members from different religions and ethnic groups are serving as Board Directors of the company. Their ages are highlighted below.



Influence on Stakeholder Assessments and Decisions

High		EN4, EN28, SO1, SO8	EC1
Medium	LA14, PR6, PR9 LA11, LA12	LA14, LA2, LA5, LA10, HR4, HR6, HR7, PR7, PR8, SO3, SO7	EN5, EN7, EN22
Low			
	Low	Medium	High

Significance of Economic, Environmental and Social Impacts

Age Group	No
40-44	4
45-49	4
50-54	1
55-59	0
60-64	2

**Our Stakeholders (GRI Indicators - 4.14)**

At CDB, the basis for identification and selection of stakeholders is established based on the interest each stakeholder has with the company and the extent to which stakeholders impact the activities of our organization. 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 responses which management needs to respond with 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 High Power**

CDB identifies customers and shareholders as those who have a high influence on our business. Any decision by these stakeholder segments could have a significant impact on the operations of the company. These are the stakeholders of a company who can influence the business significantly. We maintain a constant engagement with these stakeholder groups as we strongly believe a strong relationship should be maintained with them at all times.

		Power	
		High	Low
Interest	High	<b>Key Players</b> Customers Shareholders	<b>Keep Informed</b> Employees Business Partners Local Community Environmental Groups
	Low	<b>Keep Satisfied</b> Government Authorities	<b>Minimal Effort</b>

**High Interest and Low Power**

Employees, Business partners, local community and environmental groups are in this quadrant, because although they have a high level of interest in the company, the power they wield in impacting our business is low. CDB uses the strategy of communicating with them regularly, keeping them informed of the company’s activities, while keeping communication channels open 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 & Exchange Commission and Inland Revenue Department are some of the organisations that wield high power in

## Sustainability Report contd.

the decisions they make which can impact our Company, although they do not exercise a high interest. These stakeholders may watch the Company's operations closely, monitoring compliance, transparency, best practices et al, which prompts CDB to ensure that we always exceed expectations and compliance diktats, maintaining regular communication channels to reach this goal.

### Low Power and Low Interest

Given our sustainability philosophy and the high engagement we have with all our stakeholders segment including our communities, there is no stakeholder category that is aligned to a low power low interest group. We continue to maintain that all our stakeholders have an equitable and definite interest 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.

### Commitment & Engagement (GRI Indicator - 4.4 & 4.15)

Highlighting our commitment towards ensuring sustainability in our business, our shareholders and stakeholders, we give below our progress in addressing CDB's social and environmental impacts in these

relationships that we envision as lifetime ones, promising positive responses and a long-term commitment to such partnerships.

At CDB, we have an open-door policy where any member of our team can discuss any matter even with the highest ranking officer of the organization. We have a staff suggestion scheme to promote employee ideas and suggestions and the culture itself promotes and welcomes employee ideas and suggestions by rewarding them with various gifts. Our Call Center allows all our stakeholders to contact us, suggest ideas, add constructive criticism or make complaints. Our stakeholder engagement processes are summarised below:

Our Stakeholders	Engagement Activities in 2012/13
Customers	<ul style="list-style-type: none"> <li>Island wide branch network</li> </ul>
	<ul style="list-style-type: none"> <li>Effective handling of customer complaints via call centre operation</li> </ul>
	<ul style="list-style-type: none"> <li>Providing timely and accurate information via our website</li> </ul>
	<ul style="list-style-type: none"> <li>Implementing core banking solution to connect each and every branch, thus providing efficient and effective services as branch level</li> </ul>
	<ul style="list-style-type: none"> <li>Diversification into other products by focusing on being a total financial service provider concept and thereby addressing financial requirements of our customers</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Introducing CDB VISA debit card which facilitate customers to access their money 24X7</li> </ul>
	<ul style="list-style-type: none"> <li>Providing efficient and effective information via an integrated HR system</li> </ul>
	<ul style="list-style-type: none"> <li>The Annual Award ceremony organized to recognize the exceptional performers</li> </ul>
	<ul style="list-style-type: none"> <li>Organizing of the Annual get-together and Christmas party at Vila Ocean, view hotel in Wadduwa</li> </ul>
	<ul style="list-style-type: none"> <li>Proper Training programs (Local &amp; Overseas) conducted throughout the year</li> </ul>
	<ul style="list-style-type: none"> <li>Maintaining an open-door policy where the employees can access top management to convey any concerns they come a cross</li> </ul>
	<ul style="list-style-type: none"> <li>Maintaining an employee suggestion scheme to promote their views and ideas</li> </ul>
	<ul style="list-style-type: none"> <li>Continually updating employees about company's performance and future plans of the company at staff meetings, departmental meetings and at the year beginning Kik Off event</li> </ul>
<ul style="list-style-type: none"> <li>Addressing and providing vital communication on employees' career development and professional development areas via annual performance appraisals</li> </ul>	

Our Stakeholders	Engagement Activities in 2012/13
	<ul style="list-style-type: none"> <li>• Strong support from CEO and the top management on directing employees to study programs undertaken by the company and promoting employees to develop their professional skills as well</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Initiating a paper recycling project with paper recycling company</li> </ul>
	<ul style="list-style-type: none"> <li>• Initiating cost saving mechanisms</li> </ul>
Community	<ul style="list-style-type: none"> <li>• Donation of an IT lab to Koongaswala Kanishta Vidyalaya in Jaffna</li> </ul>
	<ul style="list-style-type: none"> <li>• Making rural youth employable.</li> </ul>
	<ul style="list-style-type: none"> <li>• Conducting CDB 'Hithawathkam'</li> </ul>
	<ul style="list-style-type: none"> <li>• Undertaking 'Sisudiri' Scholarship programme</li> </ul>
Investors	<ul style="list-style-type: none"> <li>• Timely provision of the annual report and quarterly financial statements</li> </ul>
	<ul style="list-style-type: none"> <li>• Publishing Financial Statements in newspapers on a quarterly basis and couriering the interim financial statements</li> </ul>
	<ul style="list-style-type: none"> <li>• Communicating the company's achievements via the website</li> </ul>
	<ul style="list-style-type: none"> <li>• Conducting investor forums</li> </ul>
	<ul style="list-style-type: none"> <li>• Addressing of shareholder issues and taking their ideas and suggestions for decision-making in the future at the Annual General Meeting</li> </ul>
Government authorities & business partners	<ul style="list-style-type: none"> <li>• Adhering to rules and regulations</li> </ul>
	<ul style="list-style-type: none"> <li>• Providing timely and accurate information</li> </ul>
	<ul style="list-style-type: none"> <li>• Paying applicable fees &amp; chargers on time</li> </ul>
	<ul style="list-style-type: none"> <li>• Responding to queries made by these authorities</li> </ul>
	<ul style="list-style-type: none"> <li>• Adding continuous value by providing more business opportunities</li> </ul>
	<ul style="list-style-type: none"> <li>• Conducting joint promotional campaigns</li> </ul>

### CEO's Review (GR I Indicators – 1.1)

Sustainable development is not a new concept at CDB, in fact, it is the very foundation upon which we build our business model. The entire ethos at CDB is empowerment, inclusiveness, accountability, transparency and assurance to our stakeholders that we, as a responsible corporate steward, will always be cognizant of enriching and envisioning success for our stakeholders. However, what really is our responsibility when it comes to the diverse and in most cases complex issue of sustainable development?

Simply being committed to ensuring that each of our stakeholders, whether it is shareholders, employees, valued business partners, customers, community or the environment is integral to our business is insufficient. Acting on this commitment is what makes the difference. And this difference stems with charting paths that would ensure long term sustainable development, that revolves on all three platforms of economic, social and environmental sustainability. Whatever decisions we make and action thereafter, we have to be extremely conscious

of the impacts those actions would have on each of our stakeholders. This is where responsibility comes in and it is something we take very seriously.

CDB has embraced a similar bottom-up approach in all aspects of its business. In keeping with its commitment to uplift rural communities, it is addressing the prevailing gap in education institutions in rural areas, where remote schools have to wait for as long as five years to receive one computer. This stark reality severely stunts the potential of rural and under-served communities to realize their true potential. In this regard, CDB is applying itself in a focused manner, donating the 5th IT lab to a remote rural school in Kurunegala. A typical CDB IT lab would consist of computers, scanners, printers and internet. The school selection process is carried out in collaboration with the Ministry of Education.

Our other flagship project is CDB Sisudiri which focuses on the education sector, grants scholarships to children who achieve district-wise higher marks in Grade 5 scholarship exam and to O/L exam. CDB Sisudiri is the

## Sustainability Report contd.

only scholarship scheme in Sri Lanka dedicated to children of families involved in the three-wheeler sector. The value of each grade five scholarship is Rs 50,000, while the O/L scholarship is Rs. 30,000. Already, 163 children of families involved in the three-wheeler sector have benefited from the CDB Sisudiri scholarship scheme, with the total value of scholarships offered upto-date amounting to Rs. 7.29Mn.

In a bid to address environmental sustainability and to mitigate effects of our lending to finance the purchase of vehicles, CDB, in cooperation with the government, is promoting emission-free vehicles by incentivizing vehicle owners to convert to emission-free alternatives. CDB through 'Mihikathata Adaren' theme, conducted series of seminars on enhancing knowledge in reducing emission levels, in partnership with Air Resource Management Centre (a state authority concerned with air pollution) and with the representatives of AirMAC and CleanCo Lanka Limited, pioneers in vehicle air pollution reduction programmes in Sri Lanka. We were planning to go ahead with a strategic environmental project in relation to reducing emission levels during the financial year which we could not initiate and it would be one of our main objectives for the next financial year.

Also, CDB to join the Coast Conservation and Coastal Resource Management Department to plant Mangroove trees and enhance that tree cover. This initiative was augmented with cascading the message to young children with the conduct of an art competition highlighting the importance of protecting the wetlands.

At CDB, we have a very clear purpose; enriching people's life through the extension of financial services and this is not limited to our customers. The financial services we extend is a diverse portfolio that has both direct and indirect impacts on all our stakeholder segments, whether in demanding more from our valued business partners, in encouraging our team to perform better and thereby uplift themselves in tandem with the organisation, empowering communities by developing economic standards via entrepreneurial ventures and creating awareness of better environmental practices. All these translate into our business being a going-concern, an economically viable sustainable business entity that presents significant returns to our shareholders, while being upheld by industry as a true and responsible corporate steward.

This latter feature is further quantified on a qualitative platform because CDB has continued to conform to a culture that goes beyond compliance. This means that the culture of compliance is ingrained within our everyday work ethic, ensuring that governance, principles, accountability and transparency stem from the core of our thinking process, translating into action and thereby positive impacts on stakeholders. And these therefore form the overarching premise to CDB's responsibility to sustainability and a sound platform where we remain responsive, committed, dedicated, responsible and accountable for our actions, impacts and resultant progress of the planet.

### Our Sustainability Philosophy

Our vision is to create and prepare for a future where we can continue to create a positive impact through managing the ramifications of our products and operations responsibly. Hence, our Sustainability Philosophy has a three-pronged approach:

- 1. Stakeholder Engagement for Business Strategy Formulation**  
Recognising that as our business evolves, new sustainability challenges emerge, we identify the issues most pertinent to our business through extensive stakeholder engagement and formulate the strategic way forward accordingly
- 2. Shaping Sustainability Responses**  
By listening and responding to our stakeholder concerns, we shape the sustainability strategies that we adopt to create an empowering platform for all, to make a positive impact
- 3. Communicating Responses and Strategies**  
Strongly believing that our primary duty is to communicate our progress and convey our future plans to our key stakeholders, we use a range of communication tools including our website, newspapers, annual report, letters and meetings to ensure maximum transparency

### Our Sustainability Strategy

Very focused on envisioning success for our stakeholders, our business and sustainability strategies remain inextricably linked, ensuring that we meet economic, environmental and social sustainability dimensions in accordance with the Triple Bottom-line approach. This focus creates immense opportunities for us to grow our business and has seen us expand into the challenging markets of leasing, deposit mobilisation and micro-finance. The sustainable development imperative that runs through out our company is amply exemplified by our micro-finance strategy, which focuses on collecting excess liquidity from the urban sector and investing this in rural areas.

With sustainability forming an integral part of our core business and being central to our operations at every level, driven as it is by our team who are extremely focused on the principles of sustainability, it is very evident, that at CDB, sustainability is woven into the very fabric of our business. Hence, CDB's sustainability management reflects the ethical way in which we manage our business and how we add continuous value to all our stakeholders.

### Our Sustainability Priorities

These priorities are based on our assessment of sustainability related opportunities and risks and have been prioritised through our issue management and risk assessment processes.

- To promote, establish, expand and modernise the industrial, agricultural and commercial sectors; thereby contributing to the overall development activities of Sri Lanka
- To exceed stakeholder expectations in delivering sustainable products and services, thereby emphasizing the need for safe and responsible living
- 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.

#### Appointment of CDB's Sustainability Team

This sustainability focus saw us formulate a dedicated team this year, one which is tasked with ensuring the business and organisation will at all times, remain aligned to sustainability priorities. These priorities are established at the beginning of the year with periodic reviews to set targets being implemented. The team is headed by a corporate management team member and has a cross functional team from various levels to ensure inclusiveness in the decision making process and a wider more diverse focus for the targets. The targets these teams were assigned in the beginning of the financial year and the achievement status of each target is described in each of the stakeholder section of this sustainability report.

Stakeholder Segment	Topic	Function	Chaired 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 by protecting our customers	Elangovan Karthik - DGM Marketing
Employees	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	Committee/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

## Sustainability Report contd.

One of our prior strategic CSR Initiatives, “CDB Hithawathkam” will be added to the sustainability priorities being mapped out. This is in addition to the projects already being implemented for saving energy, community initiatives et al so that all sustainability projects will be under the aegis of one umbrella, with a common vision and working on targeted platforms for better focus, results and response.

### Identifying Key Sustainability Issues

While the Sustainability Team is tasked with overall management of our sustainable development initiatives, we will continue our well established process of managers and divisional heads meeting to discuss sustainability issues,

priorities and strategies. The results of these meetings will continue to be reported to senior management including monthly presentations. Dissemination of information through transparent systems and processes allow these sub-teams to utilize local and global trends and anticipate emerging directions and challenges. In addition, CDB’s Internal Audit Control Questionnaire, which is submitted to all branches annually and signed off by Branch Managers, allows an awareness assessment and remains integral to our formal risk identification procedure. The final results of this questionnaire and sustainability solutions will now be reported to CDB’s Board of Directors via the newly appointed Sustainability Team, with their recommendations and when necessary, solutions.

### Major risks faced by CDB when meeting Triple Bottom Line

Area	Risks faced	CDB's Response
<b>Economic</b>	<p>Operating in a highly regulated environment, financial institutions face constant fluctuates, resulting in modifications to rules and regulations</p> <p>The interest rates plays a significant role and the industry is highly vulnerable to its the impact</p> <p>Another factor that can be taken in to consideration is Inflation. It may also affect the paying ability of our lending customers which will affect the revenue of the company</p> <p>Currently 47 registered companies operate in the industry and provide homogeneous products and services, resulting in severe competition</p>	<p>Regularly reviewing rules and regulations</p> <p>Conducting compliance meetings monthly to review compliance levels</p> <p>Often conducting industry, market, competitor analysis</p> <p>Plays a high consideration on product differentiation through better customer service, benefits and value added services etc</p> <p>Reviewing monthly and cumulative collection ratios and closely monitoring the NPL ratio</p>
<b>Social</b>	<p>If we consider about company’s business model, it focuses more on the low and middle-income groups with low financial literacy, inadequate documentation of proof of income for credit purpose evaluations</p>	<p>Collections been monitored closely</p> <p>Paying attention on diversifying risk by disbursing high volumes of low loan amounts</p> <p>Taking personal guarantors</p>
<b>Environment</b>	<p>Most of our loans are disbursed for vehicle leases which directly impact air pollution</p>	<p>Carry out leaflet campaigns to educate the public on reducing emission levels to the environment</p> <p>Initiating projects at school level to make students aware of the positives of protecting the environment by adding to the green cover and proper waste management activities</p>

**Generating Value for our Stakeholders: Direct Economic Value Generated (GRI - EC1 - Core)**

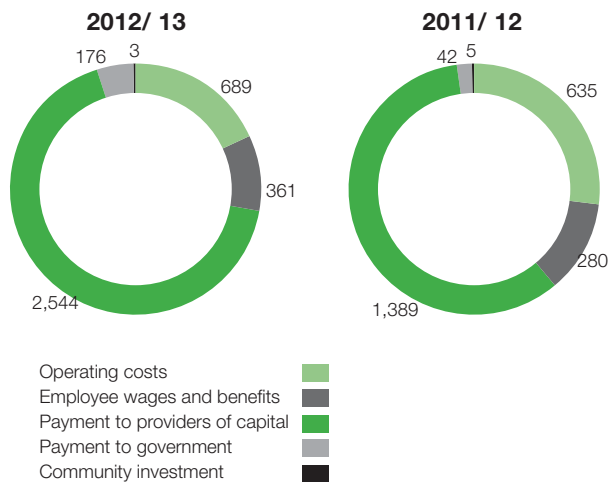
	2012/13	2011/12
Revenue	4,311,850,070	2,833,115,188
<b>Economic Value Distributed</b>		
Operating costs	688,836,867	634,954,915
Employee wages and benefits	361,308,327	279,645,009
Payment to providers of capital	2,543,631,159	1,389,006,472
Payment to government	176,094,844	42,038,659
Community investment	3,150,393	4,731,042
<b>Economic Value Generated</b>	<b>538,828,480</b>	<b>482,739,091</b>

**Economic Value Generated**



**530 Mn +**

**Economic Value Distributed**



## Sustainability Report contd.

### Our Customers

“Understanding the value our customers have on constructing a sustainable business, we very firmly acknowledge that they are the keystones upon which we build our business and that they play a primary role in the success envisioned”



The focus on our customers has been unrelenting for seventeen years. We recognise that it is they that make our business sustainable and hence, their loyalty and confidence in us as a long term partner must be fostered and nurtured. These relationships and the continuous engagement we have with them, has helped us develop a keen understanding of their expectations from us and we in turn, strive to exceed those expectations. An augmentation of this is that we are also able to decipher why these expectations are important to our customers and based on that knowledge and the external data and information we gather through our various channels, we are well equipped to offer innovative effective financial solutions that are apt for each individual. The success

envisioned for our customers relies undoubtedly therefore on CDB and our customers founding and maintaining a relationship constructed on a long term sustainable foundation. Understanding the value our customers have on constructing a sustainable business, we very firmly acknowledge that they are the keystones upon which we build our business and that they play a primary role in the success envisioned. Our success, which includes being sixth in the Non-Financial Institutions category and in showcasing noteworthy results this year despite a considerably challenging operating milieu, is owed to our customers displaying immense loyalty and confidence in us.



## Our Strategic Priorities and Commitment towards Our Customers

Achieved ● Partly Achieved ● In progress ●

Expectations & Interests	Strategic Priorities	Our Commitment	Achievement Status	Update for 2013/14
Enhanced customer service	Enhance island-wide branch network	Opened 8 outlets during the financial year.	●	To further add new outlets to our branch network
Focus on aesthetics at branches	Relocation of branches with enhanced service standards	Relocated 07 branches during the financial year	●	To relocate the remaining outlets to reflect core brand identities
Implement financial needs more efficiently and effectively together with technological advancements	Enhance technological know how	Implemented the new core banking system which facilitated decentralization of operations to branch level and thereby providing a speedy service  Introduced VISA Debit cards  Implemented SLIPs to ensure the interest payments are effective and efficient.	●	To continuously adhere to new technological advancements and collaborations which will foster customer value creation
Address different requirements	Introduction of new products	Introduce 'Dambadiva Wandana, Islamic Finance focusing on addressing different financial needs	●	Coming up with value adding products and services to suit the customer requirements.
Fast and effective solutions for the issues raised	Find solutions for customer complaints	Dealt with 45 complaints and 229 inquires during the financial year	●	To minimize the complaints and to provide a speedy solutions to the issues raised by clients

### Island-wide Presence



Marawila Branch Opening

CDB currently operates eight outlets across the country, which facilitates our business model of urban lending and rural funding. We also have a team of dedicated officers who serve indigent communities in rural areas which enhances our relationship with all social strata. Our goal is enhance our service centers, through an expansion drive. Our multi-channel distribution network is geared to address all our customers with this expansive branch, service center and dealer network, supported by Area Development officers and Business Promotion Officers.

## Branch Network

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Senanayake Mawatha,  
Anuradahapura  
Email - anuradhapura@cdb.lk  
T.P - 0252234000

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Modern Complex,  
No. 158, Lower Street,  
Badulla  
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T.P - 0552225533

Battaramulla  
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Boralasgamuwa  
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Boralasgamuwa.  
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Chilaw  
No. 25/1, Colombo Road,  
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T.P - 0322220646

Dambulla  
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Eheliyagoda.  
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Elakanda.  
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0212221586

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0352222599

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0372234444

Mahara  
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0112925000

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No. 249, High Level Road,  
Maharagama  
Email - maharagama@cdb.lk  
T.P - 0112845945

Marawila  
No. 63, Chillaw Road,  
marawila.  
T.P - 0322250930

Mathara  
No. 161-1/1A, 1st Floor,  
Dharamapala Mawatha,  
Mathara  
Email - mathara@cdb.lk  
T.P - 0412229955,  
0412226655

Mathugama  
No. 190, Aluthgama Road,  
Mathugama  
Email - mathugama@cdb.lk  
T.P - 0342248888

Moratuwa  
No. 303A, Galle Road, Idama,  
Moratuwa  
Email - moratuwa@cdb.lk  
T.P - 0112642309,  
0112642310

Negombo  
No. 1, St Jude Place,  
Negombo  
Email - negombo@cdb.lk  
T.P - 0312231391,  
0312224040

Nittambuwa  
No. 2/1, Kandy Road,  
Nittambuwa  
Email - nittambuwa@cdb.lk  
T.P - 0332296969

Ragama  
No. 164, Bank Place,  
Kadawatha Road,  
Ragama.  
T.P - 0112952492

Rathnapura  
1st Floor, 98-1/1,  
Bandaranayake Mawatha,  
Rathanapura  
Email - rathnapura@cdb.lk  
T.P - 0452226636

Thissamaharama  
Ceylinco Life Building,  
No. 223, Hambanthota Road,  
Kachcherigama,  
Thissamaharama  
Email - thissamaharama@cdb.lk  
T.P - 0472239655,  
0472239656

Vavuniya  
No. 79, Kandaswamy Kovil  
Road,  
Vavuniya  
Email - Vavuniya@cdb.lk  
T.P - 0242225862,  
0242225863

Wattala  
No. 180, Negombo Road,  
Wattala  
Email - wattala@cdb.lk  
T.P - 0112981133

Wennappuwa  
No. 390, Chilaw Road,  
Wennappuwa  
Email - wennappuwa@cdb.lk  
T.P - 0312245245

Rathmalana  
No.444/A, Galle Road,  
Rathmalana

kuliyapitiya  
No.259, Madampa Road,  
Kuliyapitiya

Nugegoda  
No.143/C, High Level Road,  
Nugegoda

Panadura  
No. 383, Galle Road,  
Panadura



## Sustainability Report contd.

### No of Outlets

2008	30
2009/10	32
2010/11	33
2011/12	36
2012/13	44

44

	2011/12	2012/13
Outlets Relocated	5	7

### IT Infrastructure

IT remains integral in our bid to maintain a sustainable business, while remaining on par and in some cases exceeding competition in the market. Our company is supported by a business-enabled IT platform that empowers our employees to function more efficiently in order to satisfy our customers. Our IT Team collates leading IT professionals who are active in equipping the company with advanced systems and processes helping us maintain headway in the industry.

### Relocation of Branches with Enhanced Service



The brand values of our company have been crafted to create a competitive strategy by offering more value at the same cost offered by our market competitors. Thus, our branches have been aligned to reflect core brand identities; branches were re-launched with enhanced service standards to provide exceptional service to our customers. Furthermore, the branch outlook is currently being refashioned in order to create uniformity among all branches. During the financial period under review, 07 branches were relocated and re-launched. These branches reflect our policies and thus changes are not merely superficial but rather to reflect our brand ethos; each branch was refashioned with further focus on our business model of urban lending and rural funding.

The advanced MIS deployed across the branch network has accelerated the delivery of our products and services, exceeding customer expectations. A unique online system, developed inhouse, links all branches to the Head Office streamlining operations and initiatives. The strategic ATM tie-up with Commercial Bank is one such association, where our customers can conveniently access their accounts from any outlet island-wide. Moreover our online banking facility, via a user friendly website, and our new core-banking system are examples that set us apart proving our adaptability to new trends, innovations and market milieus.



*Conducting First Set of Slip Transfers*

Core Banking Solution, which is another first in the industry, CDB now has a firm competitive advantage in delivering superior service and timely solutions to customers. CDB Visa Debit Cards add more value to customer convenience, going beyond the facilities of an ATM card or cash as it reduces commuting to ATMs, enables fast cash-free transactions at thousands of locations around the world and give customers 24/7/365 access to their money.

### **Technological Collaborations**



*First ATM Opening at CDB Head Office*

The long term partnerships we nurture with our Valued Business Partners bore further fruition this year when the strategic partnership we have with Commercial Bank extended to a partnership with VISA International. By virtue of CDB being an Associate Member through ComBank, we were able to initiate VISA Debit Cards through this partnership, becoming the first ever Sri Lankan non-banking financial institution to tie-up with VISA International. With the parallel implementation of CDB's

## Sustainability Report contd.

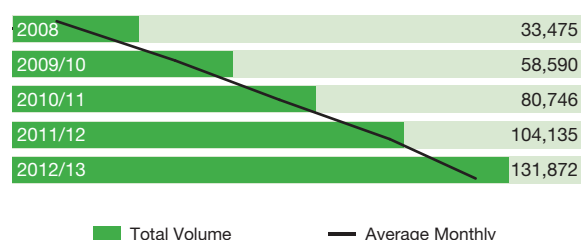
### Call Centre



An integral feature in the Company's Customer Care Division, members including front-line agents and a back office console, man the Call Center, through which our valued clientele can communicate their queries. The Call Center is a primary tool which enables us to attempt instant solutions, monitor feedback, gather information, handle complaints and promote new products. A significant number of calls are handled per day with the total and monthly average number of calls received reported as follows from the year it was launched, displaying considerable increases in its usage by customers. This also verifies that CDB has entrenched its presence in the minds of the customer as an accessible communicative financial solutions provider, adding to the levels of confidence and loyalty displayed by customers.

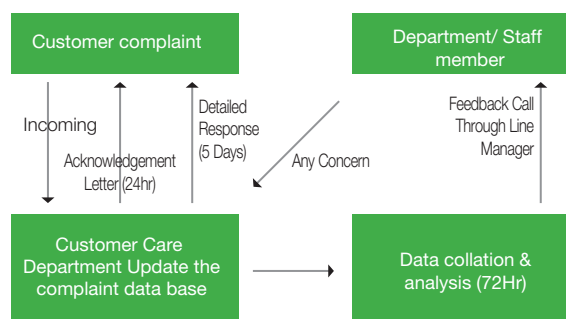
Year	Total Volume	Average Monthly
2008	33,475	2,789
2009/10	58,590	48,83
2010/11	80,746	6,729
2011/12	104,135	8,678
2012/13	160,985	10,989

### Call Volume & Monthly Average



Customer complaints are handled systematically to ensure that each is addressed with equal importance and weightage. We have created a framework through which a customer can relate complaints to CDB's Customer Care Manager, with the aid of our Call Center staff.

### Complaint handling procedure



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 Center can be contacted, free of charge, or via our website; records have shown that a majority of these inquiries are made regarding insurance, credit and rental.

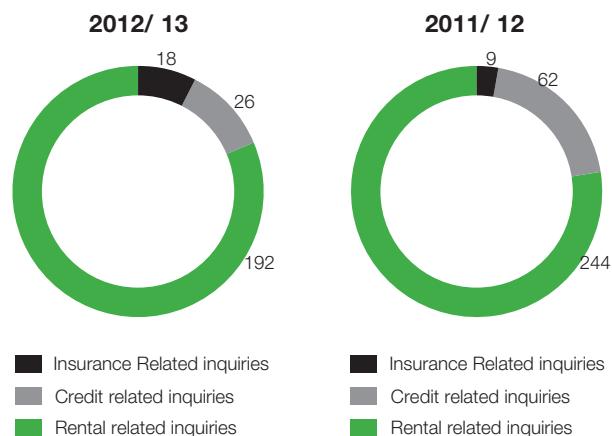
**Complaints and inquiries received during the past financial years have been provided below:**

Year	2012/13	2011/12
No of complaints	54	96
Insurance Related inquiries	18	9
Credit related inquiries	26	62
Rental related inquiries	192	244

**No of Complaints**



**No of Inquiries**



During the financial year under review, the Insurance and credit departments investigated the root causes for the complaints and frequent inquiries made by our customers. After, the relevant department heads implemented several mechanisms in order to minimize the customer complaints and inquires. The strategies bore fruition as for the period under review, there is a tangible reduction in complaints in each of the areas.

**Compliance and Confidentiality in Marketing & Communication**

CDB has a dedicated Compliance Division which underlines our absolute commitment to ensuring a milieu of compliance beyond the norm. Compliance encompasses ensuring we remain within or exceed the diktats of pertinent and related laws, standards and voluntary codes of marketing; i.e. advertising, promotion and sponsorship required by the Central Bank(GRI - PR6 - Core). Mostly we use outsourcing strategies to do advertising, conduct market research and designing banners, leaflets, posters etc. (GRI Indicator - 2.2). Before proceeding with any of these communication methods, with the facilitation of our compliance division we ensure that these comply with rules and regulations imposed by the Central Bank. Also, CDB does not promote or offer products that are banned in certain market or are the subject of stakeholder questions or public debate. This vigilance has brought in the desired results in that CDB has had no incidents of non-compliance with regard to marketing communication regulations and voluntary codes (GRI - PR7 - Add), nor has the Company paid any fines for non-compliance with laws and regulations concerning the provision and use of products and services (GRI - PR9 – Core).

With privacy being key to our mode of business, it is imperative that CDB maintains and ensures total confidentiality when handling client data, securely and diligently. A specific team has been assigned to re-enforce data protection, confidentiality, prevention of unsolicited communication and intrusive surveillance. Our conscientiousness in this aspect has been rewarded amply as we have not had any substantiated complaints regarding breach of customer privacy or loss of data (GRI – PR8 - Add). These facts are primarily a testament to the value CDB places on its customers and spotlights the efficacious nature of our marketing and communication process.

**Key Performance Indicators**

Key Performance Indicators	2012/13	2011/12
No of outlets opened	8	4
No of branches relocated	7	5
Total no of customer complaints received	54	96
No of inquiries received	236	315
Customer surveys carried out	1	1
No of new products introduced	5	8
Training programs conducted on customer service	4	7
Total no of SUV jeeps given for 'Sithumina' Draw	3	3

## Sustainability Report contd.

### Planned Initiatives

Enhancing customer experience is a continually evolving process. It is one which is based on an improving curve, where needs, expectations, challenges and trends necessitate a continued upgrade of knowledge, skill and customer interaction. In our quest to achieve our vision, we intend to maintain our position among the country's top financial services providers by developing on the strategies we have already implemented and building new ideas and strategies to compliment the emerging trends and expectations.

Customer engagement will remain a top priority as this opens avenues of communication wherein we can

define their needs and expectations. This will lead to further customisation of our financial solutions which naturally cascades to higher customer satisfaction. With accessibility coupled with customer service excellence being foremost in our journey towards enhancing the customer experience, our distribution network will be expanded using all modes and channels prevalent within the global arena of financial services solutions, adapted to suit the Sri Lankan context. With our Savings Account portfolio still in a fledgling state and having just embarked on our maiden CDB VISA debit card, both products will see further value addition and targeted promotional campaigns that will augment the CDB customer experience.



## Our Team

“Our Team in turn, has been nurtured to become one of the leading teams in the financial services industry, equipped with knowledge and skills that have proved beyond doubt to be the panacea for working through the volatility, challenges, instability and unpredictability, mapping charts to envision success and infusing the right tools and drivers to gain that success”



As we identified using the Mendelows Matrix, our team is undeniably a ‘High Interest High Power’ stakeholder group that surely influences our business, actions, impacts and decisions. This identification factor also pushes CDB to ensure that its team remains a formidable force in its long term vision, success and sustainability. Our Team in turn, has been nurtured to become one of the leading teams in the financial services industry, equipped with knowledge and skills that have proved beyond doubt to be the panacea for working through the volatility, challenges, instability and unpredictability, mapping charts to envision success and infusing the right tools and drivers to gain that success.

The CDB team is competitive; dynamic; motivated; they are fighters, warriors and soldiers; they march unbowed towards leadership, fight to maintain governance, ethics and principles and are soldiers who believe in loyalty, commitment, dedication and excellence. Their ideas are innovative and visionary and given this entrepreneurial

spirit, the teamwork they espouse makes them a formidable force in this industry, one that has brought in results, while remaining well entrenched within the sustainability principles which CDB is most proud of.

They thrive in the high performance culture we have within CDB where we urge them to perform on a continuously improving curve. No task is impossible and therefore, armed with this gung-ho attitude, the HR performance indicators have been more than envisioned. There is greater productivity at CDB as there is a quest for excellence and a need to constantly push boundaries, etch leadership through competitive advantages and strengthen our unique culture and values.

Within this driven formula, CDB continues to drive its team, strengthening the fundamentals which would ensure a safer workplace, individual protection and safety, imbibing equality and good work/life balance and maintaining a culture of open dialogue that is responsive and rewarding.

## Sustainability Report contd.

### Business Strategy: Focus on Our People

We are and will always be an employer who believes in upholding the rights of our employees at the highest levels. We believe in the principles of being non-discriminatory and of being fair and just to all. We eschew any form of child labour or forced labour, which extends to ensuring that we categorically do not engage in business in any form with any business partner, customer, outsourcing agency or other stakeholder who may engage in such unethical business practices. The minimum recruiting age, as declared by Sri Lanka's labour laws is adhered to and is 18 years of age. We believe in gender equality at all times with all promotions, rewards and remunerations being based purely on meritocracy. We abide by all Sri Lankan labour regulations and norms set out by the International Labour Organisation. The principles we practice therefore have resulted in zero incidents of discrimination. (GRI – HR 4 – Core).

These founding trusses have given us the ideal mix of diversity in culture, mindset, religions and ethnicity, all very characteristic of the nation's inherent demeanour and the kinetic which remains a firm ingredient to our success. This diversity also infuses unity, tolerance and understanding among our team, which invariably extends positively when they deal with other stakeholders, where they understand and accept the diversity prevalent within Sri Lanka and thrive in such a mixed milieu to stand tall as responsible citizens of the land. HR remains central to our business and with this foundation, we allow our team to shoulder the responsibility of translating business goals into our vision, while maintaining a congruous blend of career progression and professional growth throughout. We remain well aware that our team makes us who we are and it is this team that has uplifted us to the heights we have achieved today and prepare us to meet even more ambitious goals tomorrow. We have formulated and constructed our HR strategy to prepare and empower our team to be equipped for organisational change, giving them the apt knowledge, tools and skills to understand the transformations and prepare for the change that ensues. Our overall strategy dictates the functional strategies for recruitment, employee retention and career planning, training and development for developing new competencies, performance monitoring and employee compensation.

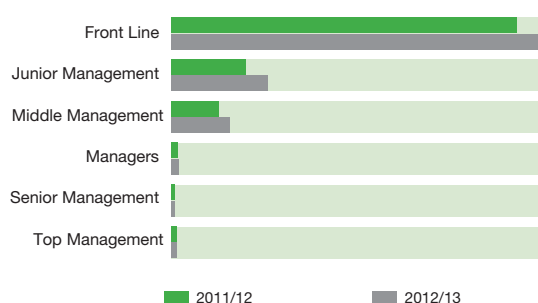
### Employee Statistics

For the period under review, our staff strength stands at 825, a 14% increase from the previous financial year. The total workforce classification, by gender and region is detailed below (GRI – LA1 – Core):

### The total workforce broken down by employees, supervised workers, and gender

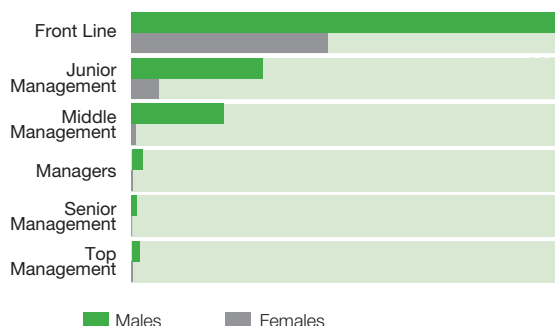
#### By Employees & Supervised Workers

Category	2012/13	2011/12
Front Line	568	519
Junior Management	145	112
Middle Management	88	72
Managers	11	10
Senior Management	5	5
Top Management	8	8

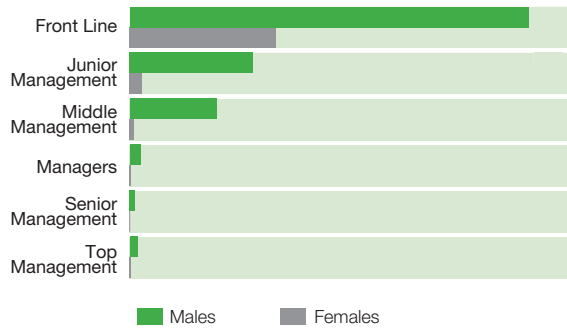


	2012/13		2011/12	
	Gents	Ladies	Gents	Ladies
Front Line	389	179	363	133
Junior Management	120	25	112	11
Middle Management	84	4	79	4
Managers	10	1	10	1
Senior Management	5	0	5	0
Top Management	7	1	7	1
Total	615	210	576	150

#### By Gender 2012/13



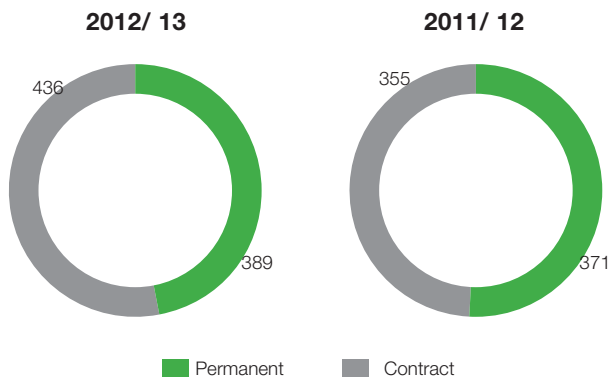
**2011/12**



**The total number of employees broken down by type of employment contract and gender**

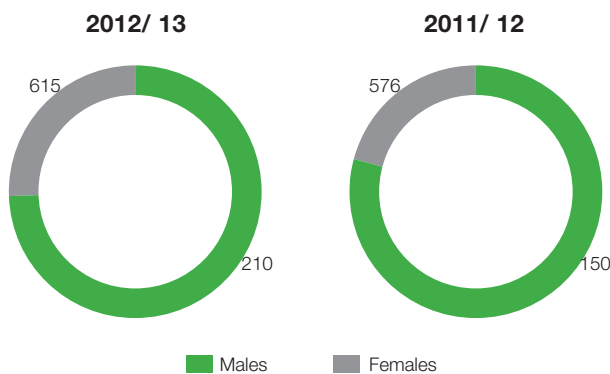
**Type of Employment Contract**

	2012/13	2011/12
Permanent	389	371
Contract	436	355
Total	825	726



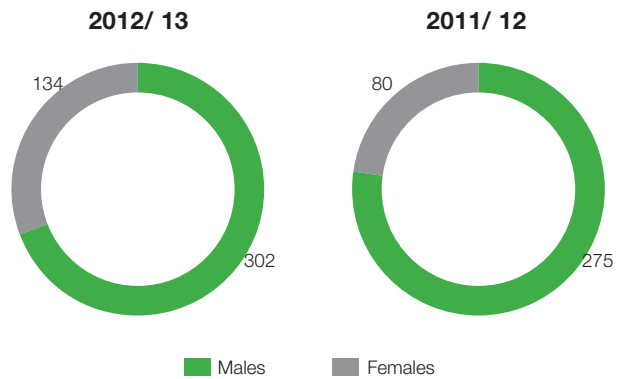
**By Gender**

	2012/13	2011/12
Gents	615	576
Ladies	210	150
Total	825	726



**Contract Employees Gender Wise Breakdown**

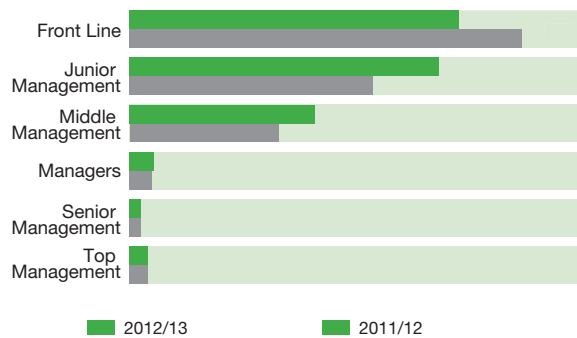
	2012/13	2011/12
Gents	302	275
Ladies	134	80
Total	436	355



**The total number of permanent employees broken down by employment type and gender**

**By Employment Type**

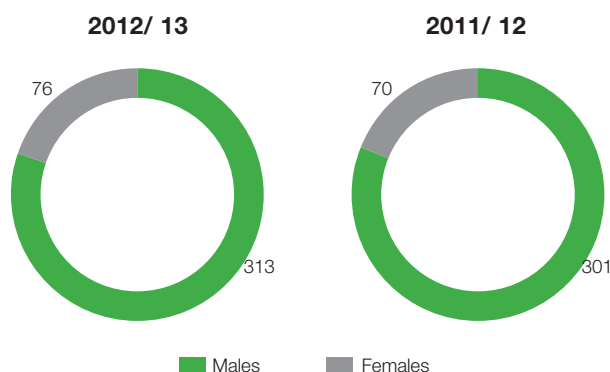
Category	2012/13	2011/12
Front Line	146	174
Junior Management	137	108
Middle Management	82	66
Managers	11	10
Senior Management	5	5
Top Management	8	8



**Permanent Employees Gender Wise Break Down**

	2012/13	2011/12
Gents	313	301
Ladies	76	70
Total	389	371

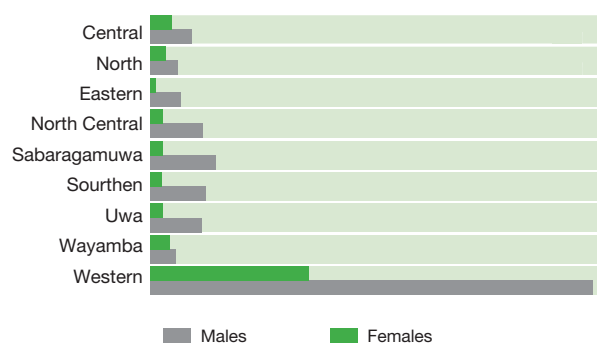
## Sustainability Report contd.



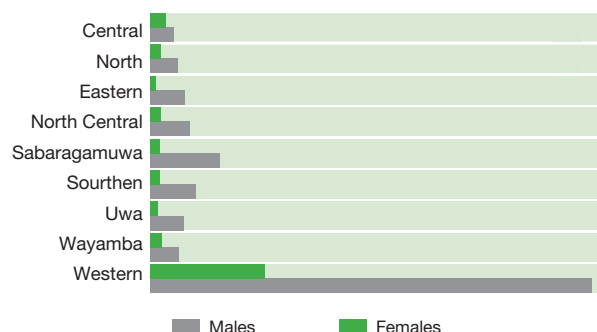
The total workforce broken down by region and gender based on the scale of the organization's operations

Province	Number of employees (2012/13)		Number of employees (2011/12)	
	Female	Male	Female	Male
Central	17	32	12	18
North	12	21	8	21
Eastern	4	24	4	27
North Central	10	41	8	31
Sabaragamuwa	10	51	7	54
Southern	9	43	7	35
Uwa	10	40	6	26
Wayamba	15	20	9	22
Western	123	343	89	342
Total	210	615	150	576

Number of Employees (2012/13)



Number of Employees (2011/12)



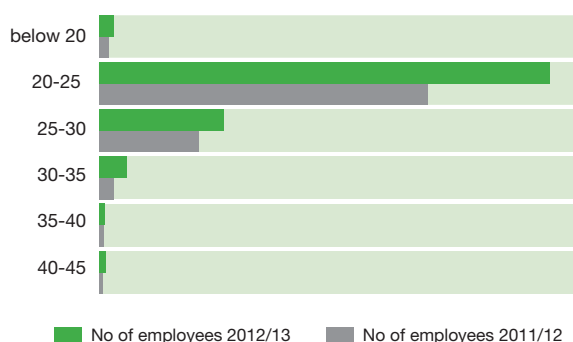
### Recruiting to Empower

Being a relatively young financial organisation in the larger scheme of things, we believe strongly in empowering young people. Hence, our recruitment strategy is based on recruiting motivated dynamic young people, predominantly school leavers, who will adapt to our unique culture and thrive in it. Because of their unfettered spirit and ability to add new thinking and ideas into our open culture, these young people are often able to drive initiatives that have truly made us pioneers in some areas of our business. With time-tested tools, we judge their individual abilities, identifying leadership skills and various latent talents which can be used to positively influence the way we work and achieve our goals. The empowerment ranges from giving them leadership responsibilities, to adding their knowledge into cross-functional teams to engaging in multi-faceted roles that ultimately develop and enhance their careers and aspirations. The graph below indicates that 51% of our workforce recruited is aged between 18 to 29 years which remains the vital facet in envisioning success in the longer term, as it gives CDB a considerable competitive advantage in carrying through its long term goals and vision with a team that understands the dynamics and takes a sense of ownership and responsibility to ensure that they achieve these.

### Total Recruitments Age Wise

Age Group	2012/13		2011/12	
	No of employees	Rate	No of employees	Rate
below 20	13	2%	8	1%
20-25	399	51%	291	43%
25-30	110	14%	88	13%
30-35	24	3%	13	2%
35-40	5	1%	4	1%
40-45	6	1%	3	0.44%

### Total Recruitments Age Wise



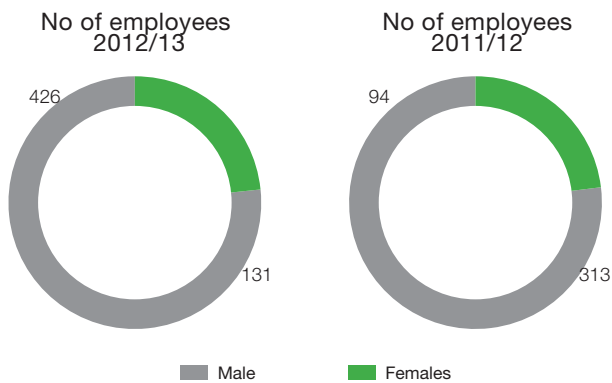
CDB's recruitment policy clearly specifies the minimum qualifications and criterion applicable to different business areas at varied levels. We believe in advancing employees who have been within the company to fill senior positions and rarely recruit externally. It is pertinent to note that in our expansion plans, one of our most inherent strategies

and a key element in our business strategy is to present employment opportunities for rural youth. For this, our recruitment policy is based on a localised concept and therefore, a majority of the team in each of our branches, is from that local area, primarily in rural demographics. This ensures that young people remain within their familiar surroundings close to family and their social network, while being employed gainfully and contributing to their rural economy effectively. In the larger sense, this also stems urban migration especially into the Western Province, which given the limited infrastructure capabilities, is battling a pervasive nation-wide problem.

**Total number and rate of new employee hires and employee turnover by age group, gender, and region (GRI – LA2 – Core).**

**Total Recruitments Gender Wise**

	2012/13		2011/12	
	No of employees	Rate	No of employees	Rate
Females	131	17%	94	14%
Gents	426	55%	313	46%
Total	557	72%	407	60%



**Total Recruitments Province Wise**

Province	2012/13		2011/12	
	No of employees recruited	Rate	No of employees recruited	Rate
Central	68	9%	48	7%
Eastern	17	2%	11	2%
North	35	5%	25	4%
Central	47	6%	34	5%
Western	39	5%	27	4%
North	51	7%	37	5%
Sabara-gamuwa	52	7%	39	6%
Southern	40	5%	25	4%
Uwa	208	27%	161	24%
Westen	557	72%	407	60%
Grand Total				

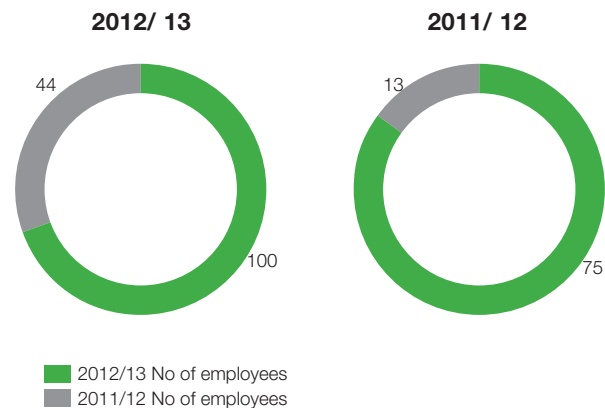
**Total Recruitments Province Wise 2011/12 - 2012/13**



**Resigned Details Gender Wise**

	2012/13		2011/12	
	No of Employees	Rate	No of Employees	Rate
Gents	100	13%	75	11%
Females	44	6%	13	2%
Total	144	19%*	88	13.0%

**Resigned Details Gender Wise**



**Resigned Details Province Wise**

Province	2012/13		2011/12	
	No of Employees	Rate	No of Employees	Rate
Central	16	2%	5	1%
Eastern	14	2%	3	0.44%
North	11	1%	9	1%
Central	10	1%	10	1%
Western	9	1%	4	1%
North	11	1%	8	1%
Sabara-gamuwa	12	2%	9	1%
Southern	13	2%	8	1%
Uwa	48	6%	32	5%
Westen	144		88	
Total				

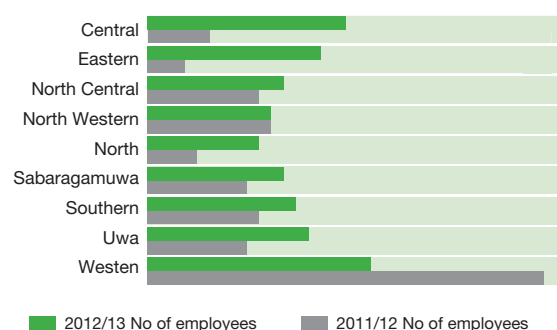
## Sustainability Report contd.

### Total Resigned Age Wise

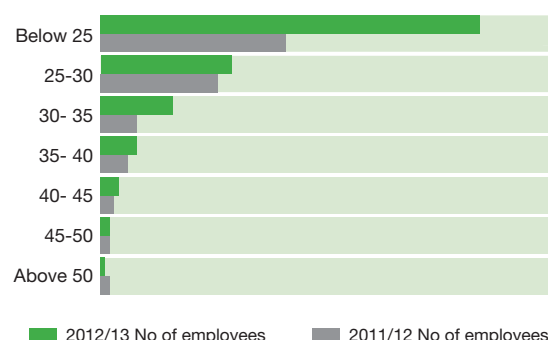
Age Group	2012/13		2011/12	
	No of employees	Rate	No of employees	Rate
Below 25	84	11%	41	5%
25-30	29	4%	26	3%
30-35	16	2%	8	1%
35-40	8	1%	6	1%
40-45	4	1%	3	0.39%
45-50	2	0.26%	2	0.26%
Above 50	1	0.13%	2	0.26%

\*Trainee employees were excluded when calculating the staff turnover ratio

### Resigned Details Province Wise



### Total Resigned Age Wise



CDB has not employed forced or compulsory labor and all the staff members of our company are engaged in work of their own free will. We have set the minimum employable age at 18 years and we are not employing child labour in any form within the organization. Also, we only value business partners who adhere to these guidelines. All outsourcing agencies have contractually agreed to decline any form of child labour. (GRI – HR 6, HR 7 – Core)

### Basic Salary of Women to Men (GRI – LA 14 – Core)

Category	2012/13	2011/12
Front Line	1 to 1.51	1 to 1.45
Junior Management	1 to 1.59	1 to 1.70
Middle management	1 to 1.50	1 to 1.46
Managers	1 to 1.25	1 to 1.22
Senior Management	1 to 1.74	1 to 1.73

### Our Strategic Priorities and Commitment towards our Employees

Expectations & Interests	Strategic Priorities	Our Commitment	Achievement Status	Update for 2013/14
To perform the job while achieving work life balance	Ensuring work-life balance	Organizing fellowship events, sports day, Christmas carols, Vesak Bakthi Gee etc	●	To ensure that our staff members continuously achieving work-life balance
Getting rewarded for exceptional performance	Recognizing the best performers	Conducting an Annual Awards day Monthly and Annual recognition of the best employees	●	To recognize and provide more rewards for the exceptional performers
To further develop skills, knowledge and competencies	Providing Career and Professional Development	Conducted 20 internal training programmes; employees allocated 25 external training programmes Conducted two performance appraisals	●	Correctly identifying training needs of our staff and to provide both local and foreign training to employee development

**Ensuring work-life balance**

We have always maintained a culture of positivity because we believe that positivity permeates an infectious need to do better, to reach higher and to break boundaries. To augment this, CDB continually organises events that would foster unity and positivity, which includes family participation as well, as our HR ethos is not just about the team members, but also having their families as part of the extended CDB family as well.

**Family Get-together**



The CDB Team and their families at Villa Ocean View Hotel at Wadduwa enjoying fun and adventure

Within our multi-religious milieu, our team is encouraged to organise activities that would signify and infuse understanding of the various religions prevalent within CDB and the country. A significant feature is that all team members, irrespective of individual religions or beliefs, join enthusiastically in support of all events.

**Vesak ‘Bakthi Gee’ and Ice Cream Dansala**



CDB Bhakthi Gee

An ice cream ‘dansala’ was organised at the head office premises together with a lantern competition and Bakthi Gee concert to celebrate Vesak.



Ice-cream Dansala

**CDB Carol Service**

Celebrating the spirit of Christmas, a carol service was held at Our Lady of Peace Church in Maligawatte



Carol Service

**Sports**



Winning team of volleyball competition organized by Finance House Sports event

## Sustainability Report contd.



*Mr. Chathura Wekadapola became the best athlete at the Mercantile Athletic Meet 2012*



*Rugby Team became the runners-up at the Mercantile Rugby Tournament*



*Mr. Chathura Wekadapola being felicitated by CEO and the Corporate Management Team*



*Cricket Team qualified for the Semi Finals of Mercantile Cricket Tournament*



*CDB Athletic Team*

### Recognizing and Rewarding the Best

The efforts of our Team naturally gain ample rewards. Besides the identified training and leadership programmes, the multi-faceted roles given to team members to enhance personal abilities and giving opportunities for them to display their talents, we at CDB enjoy treating our achievers as Olympians. Bronze, silver and gold medals are presented to those who achieve our ambitious targets, while each year, some of our team members join the prestigious CDB 100 Million Rupee Round Table. This year, we had 34 who came into the esteemed scheme, winning foreign tours as a reward. High achievers are also rewarded during monthly sales meetings at branch level.





Negombo branch became the best performing branch premier category



Finance Division became the best operational Division

### Career and Professional Development

Enhancing professional knowledge through higher education remains an integral conduit in our continuous development process. CDB encourages our team members to pursue all forms of academic or professional education which will augment their levels of knowledge and skill, reimbursing all examination fees as well as professional membership fees. Study leave is also granted. And if an employee has been affected by significant

operational changes such as department change or assigning to a branch, a minimum notice period(s) of 1-3 months will be provided for him or her to be comfortable with the new environment by giving time and resources to get trained (GRI – LA5 - Core). Two performance appraisals were conducted covering all permanent and contract staff (100%) this year as part of the company's overall Training and Development program. (GRI – LA12 - Add).



Internal Training Program



External Training Program

### Programs for Skills Management and Lifelong Learning (GRI LA 11 – Add)

Programme	No of Programs	Venue	No of Participants	Duration per program
Employee Engagement	1	CDB	40	8 Hrs
Speech Craft Program	1	CDB	18	4 Months
Workshop on Negotiation & Presentation Skills	1	CDB	50	8 Hrs
Creating Smart Change	1	CDB	60	8 Hrs
Effective Time Management	1	IPM	25	8 Hrs
Motivation	15	CDB	300	8 Hrs
Building a Champion Team	1	SLIM	5	8 Hrs
Outbound Training	4	AOA	375	3 days
Customer Service Workshop	4	CDB	240	8 hrs

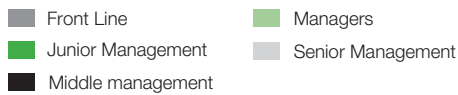
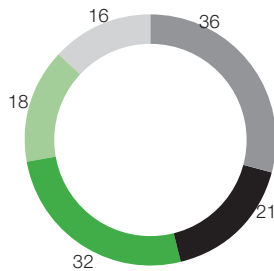
## Sustainability Report contd.

Average hours of training per year per employee by gender and by employee category  
(GRI – LA 10 - Core)

### By Employee Category

Category	Avg no of Hours per Employee
Front Line	36
Junior Management	21
Middle management	32
Managers	18
Senior Management	16

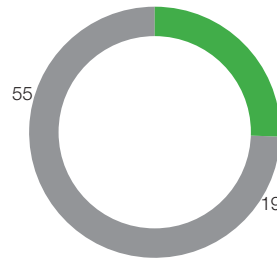
### By Employee Category



### Percentage of employees trained in organization's anti-corruption policies and procedures

(GRI - SO3 - Core).

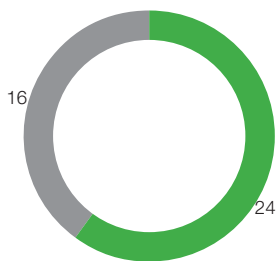
Managerial	Non Managerial
19	55



At CDB 9% out of our workforce are trained in organization's anti-corruption policies and procedures. Out of which managerial staff represents 2% and non managerial represent 7%.

Gender	Avg no of Hours per Gender
Male	24
Female	16

### By Gender



**Training – Internal Programmes 2012/13**

Programme	No of Programmes	No of Participants	Training Hours
Inductions	8	123	31,488
Cashier Training	1	15	120
System Training	3	All Staff	2,880
Lending on Pledge Jewellery	4	92	736
Credit Processing – Operations	5	135	1,080
Credit Processing – Marketing	11	240	1,920
Selling Skills – Colombo	2	180	1,440
Selling Skills – Vavuniya	2	20	320
Selling Skills – Batticaloa	2	12	192
Branch Operations	1	120	960
Budgeting and Forecasting	1	90	1,440
Leadership Skills – Hob's	2	18	576
<b>Total Hours</b>			<b>43,152</b>

**External Programs / Work shops**

Programme	Participant	Training Hours
Financial Modeling with Excel	1	5
Workshop on Ifrs	1	16
Post Budget Analysis	1	4
Company Secretarial Practice	1	16
Pushing Limits and Performance	2	8
Corporate Treasury as Business Nerve Centre	2	8
The Relevant Manager	2	16
Pushing Limits – Series 2	2	8
Directors Tax Forum	2	8
<b>Total Hours</b>		<b>89</b>

**Other External**

Programme	Institute	Participant	Training Hours
Clearing Payment and Settlement	CBS - CBSL	3	48
Forensic Auditing	CBS - CBSL	1	16
Seminar on Techniques of Fraud Prevention	CBS - CBSL	3	24
Workshop on Identifying Forged Notes	IBSL	1	8
Certificate Course in Foreign Exchange	IBSL	1	16
Workshop on Le / Hp	FINA	2	16
Workshop on Credit Management	SMART QUEST	3	24
Investigation & Complaint Management	MC QUIRE RENS	1	8
Driving Marketing in the Board Room	CIM SL	2	8
Marketing in the Digital Age	SLIM	2	16
Who Leads the Brands	CIM	2	16
The Pull Forum	SLIM	1	8
Sales Territory Management	SLIM	2	16
Effectiveness Forum	SLIM	2	16
Cim Talking Point	CIM	2	24
Seminar on Ifrs	ICASL	2	16
Seminar on Sifrs	AAT	1	8
Workshop on Integrated Reporting	ACCA	3	16
Seminar on Taxation	SLIT	1	4
Workshop on IT Governance	ISACA	2	6
Cism Certified Professionals	PMI	1	36
<b>Total Hours</b>			<b>350</b>

## Sustainability Report contd.

### Other External Programmes - Conferences

Programme	No of Programmes	No of Participants	Training Hours
Cma Summit	CMA	10	160
Islamic Finance Conference	UTO	1	8
Cpm Conference	CPM	5	80
Icasl National Conference	ICASL	2	80
Fna Conference	FINA	2	48
<b>Total Hours</b>			<b>376</b>

### Personal Development

Programme	No of Programmes	No of Participants	Training Hours
Laughs Nus Management Development Programme	LAHES	1	32
Decision Making	MAXWEL	1	8
Personality and Character Development	APM	1	8
Personal Effectiveness Training	MQUIRE RENS	3	24
Micro Expressions	GOOD 2 GREAT	1	8
<b>Total Hours</b>			<b>80</b>

### Speechcraft Program



Team participated for the Speechcraft Program

CDB recently concluded a Speechcraft program successfully, which was conducted with the collaboration of Smedley Toastmasters club. This provided participants with a sample of the Toastmasters club experience. This was yet another program aimed at harnessing the communication skills of the staff members. Participants went through a 10 week training program which was based on Toastmasters International guidelines.

Participants got the opportunity to learn and practice different technical aspects of public speaking and communication in general. Further the training provided by experienced Toastmasters, tremendously helped participants to identify their leadership capabilities. Apart from the benefits outlined, Speechcraft program provided the participants a common platform to get to know each other, thus enhancing the collaboration. The amount of

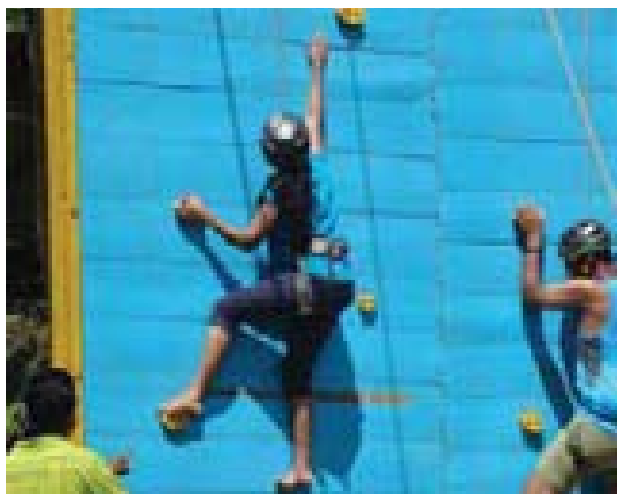
confidence and learning gained was evident from all the members at the ceremoniously held closing ceremony.

### Out Bound Training



Staff participating at OBT

Multi-skilling remains imperative to continuous professional development as we believe that team spirit must be honed through our team members engaging with each other not only at work but also in other environments. This was firmly established at the Outbound Training Programme held in Belihuloya which surely pushed boundaries in physical and mental abilities of our team members, through extremely enjoyable outdoor activities. Facing challenges as both individuals and teams, the unorthodox sport of rafting brought out the importance of communication, leadership, teamwork, planning and delegation. While being an effective tool in developing individual personalities,



Staff participating in an event at OBT

problem solving, time management and behavioural transformations to suit emerging challenges are also infused into the equation. All team members in the permanent cadre participated in OBT Programmes during the year.

### Remuneration

Rewards and remuneration at CDB remain a strong rudiment within CDB's compensation strategy which comprises the three elements of fixed, variable and other benefits. The fixed component includes the established monthly salary which is subject to annual reviews; the variable element involves a direct performance-linked component which is paid to the sales team together with annual and bi-annual bonuses based on bottom-line results and the final component includes benefits such as health and medical schemes, staff loans, life insurance and death donations.

### Employee Suggestions: Breaking the Silence

It is absolutely imperative that CDB maintains a culture of open communication and dialogue with our team. This helps CDB gain valuable feedback, suggestions, ideas and even complaints which helps us form our foundation to reach our goal of being a Preferred Employer. This is one reason we continue to conduct a Staff Satisfaction Survey which resulted in a Suggestion Scheme being implemented; team members use this scheme to express their views, give valuable suggestions and feedback on the company and its road ahead. Each suggestion receives an appreciative response, whilst the best suggestions are

rewarded at monthly staff meetings. In order to promote transparency amongst employees, all decisions are publicized internally. A staff event, at the beginning of the new year is held to convey company performance and detail future targets.

### Key Performance Indicators

Key Performance Indicators	2012/13	2011/12
Total no of employees	825	726
New recruitments during the year	557	407
• Males	426	131
• Females	313	94
Total no of meetings held	122	124
• Corporate management meetings	49	50
• Corporate management meetings	49	50
• Sales meetings	12	12
• BOIC meetings	12	12
No of employee appraisals carried out	2	2
Employee turnover ratio	19%	13.5%
Employee distribution		
• Western province	466	431
• Outside western province	359	295
Total no of training hours	44,047	734

### Planned Initiatives

We have seen amazing results brought about by our team and know that the recipe we have mixed into the company development ingredients, have proved fruitful. We also know that our team members are unique, a cut above the rest and are willing to walk the talk when it comes to upholding ethics, values and principles. They have shown beyond doubt that they believe in our vision and will work hard towards achieving it. Throughout the next year and beyond we will continue to drive high performance, encourage greater productivity and build on the excellence of our people. To do this, we will continue to identify training and development needs and meet those with targeted workshops and programmes, while ensuring better work life balance. We aim to work towards becoming a preferred employer in the financial services industry. Achieving organisational growth through employee development and empowerment will remain an overarching premise in this journey.

## Sustainability Report contd.

### Our Environment

“CDB believes strongly that each of us has a responsibility in ensuring that the planet we have today must be preserved for tomorrow and therefore, in our own way, have begun initiatives through planned policies and strategies to make a difference for future generations”



Conserving and preserving the environment remains inextricably intertwined in everything we do. We have seen beyond doubt the impacts of bad environmental management, increasing waste and lack of understanding of environmental preservation. CDB believes strongly that each of us has a responsibility in ensuring that the planet we have today must be preserved for tomorrow and

therefore, in our own way, have begun initiatives through planned policies and strategies to make a difference for future generations.



### The CDB Approach & Policy

In our bid to have a holistic approach to our commitment to the environment, our environmental policy is very much a stakeholder owned approach and policy. Our most focused initiative has been to reduce our carbon footprint and in encouraging our stakeholders to do the same too. CDB is working on a plan to manage every feasible aspect of environmental consciousness and having collated a comprehensive strategy, we are now working on the following charter in meeting our plans:



- Minimizing waste (of water, electricity, energy) through evaluations which ensure that processes are efficient

- Educating the public through awareness programs
- Ensuring adherence to all environmental legislation, rules and regulations
- Disseminating information to team members on environmental aspects, policies and stimulating voluntary pollution prevention to educate and engage them
- Constant supervision of environmental objectives and targets through internal audits and management reviews

### Strategic Priorities and Our Commitment towards the Environment

Expectations & Interests	Strategic Objectives	Our Commitment	Achievement Status	Update for 2013/14
Reduce energy consumption and proper waste management practices	Initiate a waste paper recycling project with a paper recycling company and to initiate measures to reduce the energy consumption at CDB	Cost management team implemented several strategies to minimize cost and waste within the company.  The project was implemented with a paper recycling company and could contribute in saving trees, electricity, water etc		To introduce more energy saving initiatives at CDB and to extend paper recycling project to our branch network
Communication of the significance of protecting environment and reducing emission	Initiating projects to increase awareness among school children and general public on the significance of protecting the environment and reducing harmful impacts to the environment	Conducted awareness programmes in key strategic locations in order to raise awareness on the importance of reducing emissions and thus enhancing knowledge on increasing fuel efficiency  Sponsored a wetland project on world's Wetland Day to disseminate sustainable practices amongst school children		Implement projects which will convey the significance of protecting environment especially among school children and to initiate a strategic environmental project to convey the message on significance on reducing emissions.

## Sustainability Report contd.

Expectations & Interests	Strategic Objectives	Our Commitment	Achievement Status	Update for 2013/14
<p>Communicating and drawing out employee attention on energy saving, environmental protection etc</p>	<p>Informing employees on environmental aspects and policies and stimulating voluntary pollution prevention</p>	<p>Regularly communicating the importance of environmental protection via notice Boards, newsletters, Intranet</p> <p>Recognizing employees who formulate ideas and suggestions to reduce waste and protect the environment</p> <p>Encourage and support employees to implement various environmental projects</p>		<p>Continuously engage our employees in conducting environment saving initiatives and make them aware of the significance of energy saving and adopt strategies which would facilitate employees to practice energy saving initiatives both at work place and at home.</p>
<p>Monitoring and controlling the initiated actions</p>	<p>Supervision through periodic internal audits and management reviews</p>	<p>Inclusion of a range of sustainability questions into the Internal Audit Control Questionnaire, answered by all our branches once a year and signed off by Branch Managers – The questionnaire is part of our Formal Risk</p> <p>Identification process and results are reported to CDB's Board of Directors.</p>		<p>Frequently conduct monitoring and controlling initiatives to ensure that company is addressing the sustainability issues.</p>



**Awareness Campaigns**

**‘Mihikathata Adaren’**

Focused on enhancing awareness among the general public on implementing strategies to protect the environment, there is added determination in permeating awareness among children who are the ultimate benefactors of this planet. For this, CDB conducts programmes to implement sustainability practices among students at school level.

**Responsible Vehicle Management**

Given that a large number of our business involves vehicle leasing, we are very cognizant that we have a large responsibility in cascading the message of responsible vehicle management among our customers. A total of 2 awareness programmes were carried out among our leasing customers on emission reduction, while our leasing team also advises them on better vehicle management at the point of signing the lease.

**Collaborating on a Wetland Project**



*Awareness Campaign on significance of protecting wetlands*

On World Wetlands Day which is commemorated on February 2nd each year marking the adoption of the Convention on Wetlands in 1971 in the Iranian city of Ramsar on the shores of the Caspian Sea, since 1997, government agencies, non-governmental organizations and groups of citizens at all levels of the community implement action to raise public awareness of wetlands and their advantages in the ecological equation. This year, CDB in partnership with the Coast Conservation and Coastal Resource Management Department initiated a Wetland project at Madu River in Balapitiya.

Madu River is positioned third in the list of Ramsar Wetlands and last year, groups of concerned environmentalists pointed out the significance of protecting this wetland, especially the Mangroove trees which are vital to maintaining the ecological balance in these wetlands. It was this that drove CDB to join the Coast Conservation and Coastal Resource Management Department to plant Mangroove trees and enhance that tree cover. This

initiative was augmented with cascading the message to young children with the conduct of an art competition highlighting the importance of protecting the wetlands.



*Children participating at the art competition*

The event also saw voluntary participation of our team members who helped in permeating this message among the students. The children were transported to the islands by boat and various interactive talks were conducted to cascade the message.

Item	Amount
No of Mangroove trees planted	100
No of islands covered	5
No of school children participated	50
No of schools participated	5

**Waste Management (GRI – EN22 – Core)**

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 foot print better.

We have designs of moving towards a paperless office and have already begun using the Intranet and other means of electronic communication to reduce paper consumption. Whatever paper that is used however is now recycled through a new partnership we initiated with Neptune papers (Pvt) Ltd. This ensures that not only do we reduce the felling of trees, but we also reduce the amount of energy used in the paper manufacturing process and open doors to using the used waste paper more effectively with minimum impact on the environment. Recycled paper thus has a direct impact on the reduction of emission levels and because it reduces the number of trees felled, there are more trees left in tact, to absorb harmful carbon dioxides prevalent in the air.

## Sustainability Report contd.

Following are some interesting facts and figures that will provide you with some insights.

- Every tone of paper that is recycled saves – 17 trees, 60, 000 gallons of water, and 225 kilowatt hours.
- The seventeen trees are capable of removing 250 pounds of carbon from the atmosphere in one year.
- Making paper from pure wood pulp uses 70% more energy than if paper is recycled.

Energy saving resulting from our paper recycling initiative of 1,074 kg of waste paper, which were collected between 01st of January 2013 to 31st of March 2013 from CDB Head Office Located in Colombo-10.

Source	Amounts Saved
No of fully grown trees	18
Liters of oil	1,885
kwh of electricity	4,296
Liters of water	34,132
Cubic meter of land fill	3
Green house gas emission	1,074 kg of carbon equivalent.

Indirect energy consumption by primary source (GRI - EN4 - Core, EN5, EN7 - ADD)

The other areas in focus are the consumption of electricity and water which form a considerable amount of expense as well as impact on the environment. In this financial year, CDB used a total of 1966 bottles of water, each containing 19.5ltrs and 340,711 units of electricity in our business operations. The information relating to this energy consumption was gathered through the electricity bills paid and via invoices paid to relevant suppliers. There were several initiatives which were implemented through process redesign, conversion and retrofitting of equipment, and changes in personnel behavior to reduce energy use and increase energy efficiency.

- Fixing water filters instead of purchasing drinking water gallons
- Instructing employees to turn off their monitors before leaving the office premises
- Switching off A/Cs at 5pm
- Putting notices to switch off unnecessary lights
- Carrying out significance of energy saving via emails and notice Boards
- Replacing old computers monitors with flat screen monitors

These figures have considerably reduced over that of the previous year due to pervasive awareness campaigns being cascaded throughout all departments and branches at CDB. Employees are made accountable for their consumption and therefore, take maximum precautions in ensuring that no wastage ensues. We will continue these campaigns so that results will continue to reflect our commitment in managing energy and water better.

Key Performance Indicators	2012/13	2011/12
No of electricity units consumed at head office (Units)	337,895	349,035
No of drinking water gallons consumed in head office (Liters)	41,243	42,354
No for cost management meetings carried out	6	7
No of CSR Meetings Carried out	6	3

Complying with Environmental Laws and Regulations (GRI - EN28 - Core)

We are extremely cognizant of prevalent environmental laws and regulations and strictly adhere to the diktats therein. In our culture of going beyond compliance, we tend to implement initiatives that allow CDB to reduce its carbon footprint even further. Fines or non-monetary sanctions for noncompliance to environmental laws and regulations have not been levied against CDB at any given time.

### Planned Initiatives

The unwavering commitment that we espouse at CDB towards protecting and conserving our environment are non-compromising. Being a responsible corporate steward, we know that the success we envision can only be underwritten even more legibly with focused far-thinking initiatives, that will truly have a tangible impact on the ultimate environmental goal.

Given that environmental consciousness and responsibility is a collective activity, we intend to continue cascading environmental messages even more emphatically to young students who are the eventual inheritors of this planet. At CDB itself, our team members are tasked with taking on ownership and responsibility to implement cost reduction strategies, adhering stringently to proposals suggested by the Cost Management Team, while monitoring results to ensure that goals and objectives are met. Augmenting this, CDB will also have added focus on better energy management practices which will influence more energy saving and reduce emission levels in the longer term.

## Our Communities

“The community around us is integral to our envisioned success as they form a solid foundation on how we do business, how our decisions impact the larger segment of society and asks us to look inward and be more responsible in the way we work”



It is our community that spurs us to look beyond horizons and to be responsible for our actions; it is they who request us to be more vigilant to our environs and to take action against iniquities and injustice; it is they who urge us to look beyond ourselves and into the larger picture so that CDB will surely be a sustainable going

business concern placed as a true leader in the larger canvas of corporate Sri Lanka.

## Sustainability Report contd.

Thus, CDB's social platforms focus on nurturing entrepreneurs, generating rural employment, enhancing education and promoting IT literacy. We allocated a total of Rs 3Mn for community related projects this year.

### Social Investments

2008	1,015
2009/10	2,004
2010/11	4,922
2011/12	3,195
2012/13	3,150

# 3 Mn +

### Strategic Priorities and Our Commitment towards Our Society

Expectations & Interests	Strategic Priorities	Our Commitment	Achievement Status	Update for 2013/14
To have a proper education	Enhancing IT literacy	Donated a fully fledged IT Lab to Koongaswala Kanishta Vidyalaya in Thorayaya, Kurunegala.	●	Enhance IT literacy in the rural areas and prepare the young generation to achieve success through IT
Presenting financial assistance for educational activities	Providing educational assistance to children	Implementing the CDB Sisudiri Scholarship Program for the fifth consecutive year; a total of 33 students have been presented scholarships at an investment of Rs. 1.43Mn.	●	Increase the assistance provided for the scholarship scheme and to contribute to enhance the education of our children
Developing the rural economy	Being a net lender to the rural sector and enhancing living standards	Achieved a net lending portfolio of Rs. 2,120, outside the Western Province	●	Continuously stick to our business model and to ensure that we carry out our operations to being a net lender to the rural economy
Being the helping hand to those in need	Being a responsible corporate citizen	Helping children and senior citizens through 'CDB Hithawathkam'	●	Carryout projects focusing on the people who are in need
Enhancing employability especially in the rural sector	Generating employment in rural areas	Recruiting more persons from outside the Western Province resulting in 349 staff recruited outside the Western Province, which is representative of 63% of the total employees newly recruited.	●	Giving a especial emphasis on providing opportunities for rural youth and their by contributing to uplift the rural standard of living

**CDB's Social Approach (GRI - S01 - Core).**

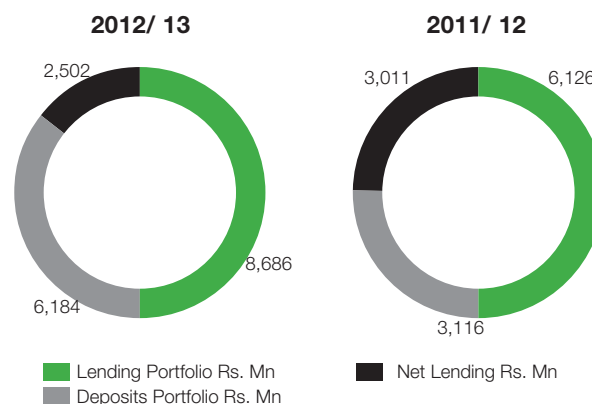
Our reporting process aligns itself to the diktats expected of us, encompassing local community engagement, impact assessments and development programmes that we continue to implement. As mentioned under Profile Disclosure 2.8, deposit mobilization and lending are two such features. Being engaged primarily in providing vehicle leasing facilities, over 90% of our lending operations are vehicle related. Thus, it is an obligation and responsibility that CDB focuses on the reduction of emission levels. Accordingly, several awareness programmes have been implemented to permeate this message and flagship CSR projects have been conducted to ensure that society benefits from these. Other Identify organization-wide local community engagement, impact assessments, and development programs are described below.

**Nurturing Entrepreneurs**

Our business model is constructed upon empowering rural and under-privileged segments of the community, encouraging better economic and social inclusivity. We firmly believe that we are a net lender to the rural communities within Sri Lanka's economy and hence, use the channel of formal financial services effectively and efficiently to uplift the rural economy. Having realised very early on of the paradigm of a surfeit of lending institutions in the Western Province, we made a concerted effort to move outwards, into areas where there was little focus on empowering rural communities. CDB's unique brand of community leasing and loan facilities with fewer collateral requirements has succeeded in ameliorating lifestyles and adding considerably to the rural economy.

By spurring the entrepreneurial spirit and urging individuals to hone their entrepreneurial spark, CDB is promoting the national goal of spurring rural economic growth, while empowering these entrepreneurs to assimilate themselves into the formal finance system and become credit-worthy customers contributing through the conventional financial processes into the country's development goals. The success we envisioned with this focus is clearly emphasized by the table below:

**Net Lending - Out Side Western Province**



**Net Lending - Outside Western Province**

	2012/13	2011/12
Lending Portfolio Outside Western Province Rs. Mn	8,686	6,126
Deposits Portfolio Outside Western Province Rs. Mn	6,184	3,116
Net Lending Outside Western Province Rs. Mn	2,502	3,011

**Generating Rural Employment**

As mentioned in the section dealing with our Team and elsewhere in this report, CDB maintains a stringent recruitment policy that emphasises the empowerment of rural youth. Recognising the contribution that rural youth can add to the larger economy has not received the focus it deserves, which most often has resulted in young people moving away from their families, communities and familiar environs, to migrate primarily to the Western Province or other cities. While this migration strains the infrastructure of these cities resulting in substandard living conditions, succumbing to social ills and unsavoury elements, young people also have little hope of career advancement or progression. The income they earn too is stretched to limits and hence, saving or investing, as well pursuing any higher education in any form is almost an impossibility.

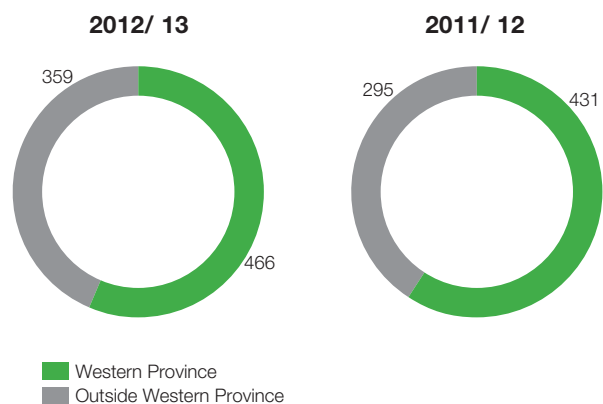
Reflecting on these challenges and issues that young people face, CDB from inception made a conscious decision to embed a recruitment policy that will localise recruitment. This enables the selected young people to remain within their social network, gain the training and development to enhance their knowledge and skills and even pursue higher or professional education. In addition, by remaining within their local environs, these young people will contribute towards developing their rural economy and will also be upheld by others as role models in their communities.

## Sustainability Report contd.

### Employee Composition by Region

Region	2012/13	2011/12
Western Province	466	431
Outside Western Province	359	295
Total	825	726

### Employee Composition by Region



### Employee Composition Outside Western Province

Region	2010/11	2011/12
North & East	61	60
Outside Western Province Other than North & East	298	235

**Enhancing Education**



Prof. J.B. Dissanayake presenting a scholarship for a student

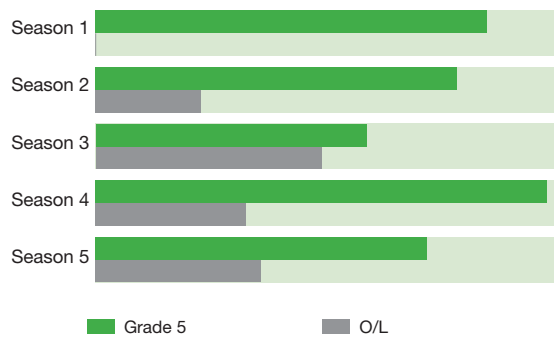


Children received scholarships in 2012/13

Recognising high achieving young students who have excelled in both the Grade Five Scholarship and GCE O/Level examinations, the CDB Sisu Diri Season was held for the fifth consecutive year. The special significance of this scholarship scheme is that these scholarships are provided for children of three-wheel owners who comprise a considerable segment of the lower income group, but contribute significantly towards entrepreneurial income within communities. A total of 33 scholarships have been provided at an investment of Rs. 1.43Mn this year, where those achieving the highest marks in the Grade Five Scholarship Examination receive an annual cash grant of Rs 10,000 until completion of the O/Level examination, while highest mark gainers in the O/Level examination receive an annual cash grant of Rs 15,000 until they complete A/Levels. Since 2008 when the programme was launched, CDB has granted a total of 163 scholarships worth of 7.29Mn to students from various parts of the country.

Season	No of Scholarships Provided		
	Grade 5	O/L	Total
1	26	0	26
2	24	7	31
3	18	15	33
4	30	10	40
5	22	11	33

**Scholarships Provided**



**Snapshot of Scholarships Granted**

	No of Scholarships Granted to for O/L Students	Hoping to sit for the A/L Exam	Sat for the A/L Exam	Exam Passed	Exam Not Passed	Got Selected to the University
No of Scholarship Holders	43	21	22	21	1	4

## Sustainability Report contd.

### Promoting IT Literacy



Mr. Malcom Weerasuriya with students who received the IT Lab

One of our flagship projects begun in 2008, CDB has been relentless in its pursuit of ensuring that IT literacy becomes a tool of equality, empowerment and inclusivity, permeating across the island. This has spurred us to provide under privileged schools located in rural areas with IT Laboratories under the CDB Pariganaka Piyasa project. To date, in collaboration with the Ministry of Education, five IT laboratories have been donated to Kirindiwela Sangamitta Balika Vidyalaya in Gampaha, Nedigamvila Kanishta Vidyalaya in Thissamaharama, Navatkuli Maha Vidyalayam in Jaffna, Ethawatunuwewa Vidyalaya in Welioya and this year, to Koongaswala Kanishta Vidyalaya in Thorayaya, Kurunegala. The total investment in the project thus far amount close to Rs 5 Mn, while the IT laboratory gifted to this year, is valued at Rs 1Mn, accommodating 20 school children at any given time, is LAN accessible, networked, equipped with HP computers, LCD monitors, Printer, Scanner, Internet facilities and



Fully Fledged IT Lab donated to Koongaswala Kanishta Vidyalaya in Thorayaya, Kurunegala

necessary furniture.

Given below are the tangible benefits experienced in each school post the establishment of the IT laboratory:

#### Nawakkuli Vidyalayam (Jaffna - 2010/11)

	Before Lab Donation	After Lab Donation
No of Students	400	700
Students attending IT as compulsory subject – (A/L)	-	37
Students sat for the ICT subject for the year 2011/12 (O/L)	-	20

\*Once the fully equipped computer laboratory was established in the school, an ICT subject teacher was also recruited to the school.

#### Ethawatunuwewa Vidyalaya – (Welioya - 2011/12)

	Before Lab Donation	After Lab Donation
No of Students	160	300
Students attending IT as compulsory subject – (O/L)	-	137
Students sat for the ICT subject for the year 2012 (O/L)	-	1



### Employee Volunteerism

An intrinsic facet within the CDB culture, from the time team members are recruited, they are encouraged to become socially responsible. This would involve ensuring giving of their best to make the company sustainable via being more cognizant of shareholder, customer and business partner needs, being environmentally conscious and inculcating a social responsibility built on volunteering of their time and energy to better the communities around us. This has resulted in a culture where our team members become very involved with communities and are always

alert to sentiments and needs that prevail within the diverse communities.

To encourage this concept of volunteerism even more, CDB launched CDB Hithawathkam, which through branches and at department level, promotes employees to interact with their communities and work on projects that are aligned with our social platforms. The annual budget incorporates a pre-discussed amount for these community programmes.

### CDB Hithawathkam”:



## Sustainability Report contd.

### Compliance with Rules and Regulations

Being extremely conscious of infusing governance principles, accountability, transparency, ethics and values into the very core of our operations, CDB has continued to improve on the monitoring and control mechanisms that govern these areas to ensure that we are ultra sensitive to social dikats and accepted norms. This emphasis on going beyond compliance has therefore reaped in rewards in that CDB has had no complaints or legal action pertaining to anti-competitive behavior, anti-trust or monopoly practices instituted against the Company (GRI indicators - SO7 - Add) and neither has the Company been obliged to pay any significant fines or been subjected to non-monetary sanctions or for non-compliance with laws and regulations (GRI indicators – SO8 – CORE).

### Key Performance Indicators

Key Performance Indicators	2012/13	2011/12
No of IT labs donated	1	1
No of children received 'CDB Sisudiri' Scholarships	33	40
No of employees recruited outside western province	349	295
Investment in community development	3.1Mn	4.7Mn
Lending portfolio outside Western Province	8,685	6,126
Lending portfolio outside Western Province as a percentage of total lending portfolio	48.17%	49.81%

### Planned Initiatives

Our focus will continue to remain intertwined with developing our community and in the macro canvas, the development agenda of the nation. This means that CDB is tasked with ensuring inclusivity and empowerment that would transcend social strata and demographics, where young students, budding entrepreneurs and our very own team members will be embraced within our community initiatives, for individual and collective betterment. Our intention via each of our projects is to make a difference, to empower and to develop; this we will do by increasing the number of scholarships being presented and continue to prioritise our recruitment programme to generate employment outside the western province.

## Our Investors

“We unequivocally recognise that our business remains well founded due to the confidence displayed by our investors. These are stakeholders who are aware of the challenges we face, acknowledge the successes we have etched and are very entrenched with our plans for our future”



Our Investors committed to ensuring that CDB remains a sustainable business concern that posts consistent results, is a respected employer and 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.

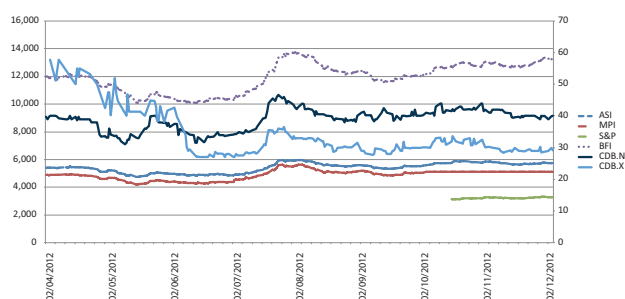
## Sustainability Report contd.

### Strategic Priorities and Our Commitment towards Our Investors

Expectations & Interests	Strategic Priorities	Our Commitment	Achievement Status	Update for 2013/14
Getting expected returns on investment	Enhancing returns on investments	Achieved an EPS of 9.99 Proposed a dividend of Rs. 2.75 per share  Gained a NAV per share of 55.32	●	Achieve profits and enhance the value creation to the shareholders
Gaining both financial and non financial excellence	Obtaining external recognition	2011/12 Annual report of CDB won Bronze Award at the Annual Report Awards conducted by the Institute of Chartered Accountants of Sri Lanka	●	To win awards at prestige awards ceremonies and to be among the best in the industry
Being financially stable	Gaining a healthy rating	RAM Ratings Lanka reaffirmed CDB's long and short term ratings at BBB and P2 with a stable outlook	●	To obtain a higher level credit rating to ensure a strong financial stability
Being aware about company operations	Effective and efficient communication of business performance and achievements	Conducting investor forums Couriering interim financial statements  Submission of annual report timely manner	●	Effectively and efficiently inform our investors about the company's achievements and continuously engage with them

Given below is a detailed analysis of our strategic priorities, our commitment and progress in achieving these targets:

#### Share Market Performance



Having seen two years of high growth in 2009 and 2010, the Colombo Bourse lost this momentum in May 2011, spiraling downwards. The All Share Price Index which represent all shares traded on the Colombo Stock Exchange, post its highest ever 7,575 points in May 2011, dropped to 5,400 by end March 2012. The more liquid Milanka Price Index echoed similar patterns, plummeting to the 4,900 range by end March 2012. In reflection of these indices, the Banking and Finance Index also descended to approximately 12,000 from its high levels of 17,000 to 18,000 previously. With these trends, the CDB voting share prices decreased to about Rs 40 per share but confidence remained and net asset value increased to Rs 55.32. The CDB EPS at closing of the financial year is Rs. 9.99.

#### Getting expected returns on investment - Value Additions

##### Earnings per Share

2008	2.51
2009/10	1.60
2010/11	10.72
2011/12	10.28
2012/13	9.99

# 10

##### Net Asset Value per Share

2008	10.93
2009/10	12.93
2010/11	27.69
2011/12	44.31
2012/13	55.32

# 55 +

**Dividend Per Share**

2008	0
2009/10	0.50
2010/11	2.00
2011/12	2.50
2012/13	2.75

**2.75**

**Being financially stable - Rating Review**

RAM Ratings Lanka reaffirmed Citizens Development Business Finance PLC's respective long and short term ratings at BBB and P2 respectively. This was further echoed with the re-affirmation of the long term issue rating of the Company's LKR 250 million Unsubordinated Unsecured Redeemable Unlisted Debentures at BBB. The long-term ratings carry a stable outlook.

**External Recognition (GRI Indicators – 2.10)**

CDB won the Bronze Award at the Institute of Chartered Accountants of Sri Lanka's Annual Report Awards 2012, in the 'Finance Companies' segment, further cementing the Company's good reporting standards, governance foundations and compliance.

**Key Performance Indicators**

Key Performance Indicators	2012/13	2011/12
EPS achieved	9.99	10.28
NAV per share	55.32	44.31
Dividend per share	2.75	2.50
Awards & recognitions received	1	2
RAM rating received/reviewed	BBB P2	BBB P2

**Planned Initiatives**

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.



Mr. Damith Tennakoon receiving the Bronze Award at the Annual Report Awards 2012

## Sustainability Report contd.

### Our Business Partners & Regulators

“The relationship we maintain with our business partners, extend to share best practices in operations, ethics, environmental and social consciousness and very often, our valued business partners join us in various projects to work with our community”



Our valued business partners encompass insurance companies, vehicle agents and suppliers and government authorities, besides suppliers who are interlinked with us for daily operational requirements. With our primary business activity highly dependent on vehicle leasing and a considerable number of that leasing business encompassing three wheelers, trucks and commercial vehicles, we work very closely with business partners who have formed relationships with us. These relationships also extend to sharing best practices in operations, ethics, environmental and social consciousness and very often, our valued business partners join us in various projects to work with our community.

Regulated as we are by The Central Bank of Sri Lanka being the governing body for financial institutions in Sri Lanka, CDB has a close relationship with CBSL and the relevant officials at relevant ministries as well. This enables us to maintain our stringent culture of compliance to regulations and various diktats that are brought

forth by these institutions from time to time. We also maintain a close relationship with related entities like the Securities and Exchange Commission, Colombo Stock Exchange, Inland Revenue Department, the Treasury, Leasing Association of Sri Lanka, the Insurance Board of Sri Lanka, the Department of Motor Vehicles and with our partner bank Commercial Bank of Sri Lanka.

### Strategic Priorities and Our Business Partners & Government Authorities

Expectations & Interests	Strategic Priorities	Our Commitment	Achievement Status	Update for 2013/14
Attaining mutual benefits	Maintaining a good relationship to foster mutual benefits	Conducting joint promotional campaigns  Displaying their products at our branches	●	To achieve synergies through long term relationships
Good corporate governance practices	Adhering to rules and regulations	Regularly investigating new rules and regulations  Conducting compliance monthly meetings	●	Being alert of new changes in rules and regulations and to adhere to those

### Maintaining Advantageous Relationships

In strengthening and fostering relationships with our valued business partners, we initiate numerous joint activities including promotional campaigns, which include displaying their product information and literature at our branches.



### Adhering to Rules and Regulations

While the close relationship we maintain with the Central Bank of Sri Lanka ensures that we keep abreast of the relevant rules and regulations pertinent to our business, we also conduct monthly compliance meetings to ensure that the regulations are being followed. This also helps CDB to foresee any gaps that could arise and bridge those in a timely effective manner.

### Key Performance Indicators

Regulatory Authorities	2012/13	2011/12
<b>Liquidity (Rs. 000)</b>		
Required minimum amount of liquid assets	1,737,529	1,142,699
Available amount of liquid assets	2,519,142	1,515,794
Required minimum amount of Government securities	719,566	463,347
Available amount of Government securities	1,218,127	902,963
<b>Capital Adequacy</b>		
Core capital to risk weighted assets ratio (Minimum 5%)	14.43%	16.79%
Total capital to risk weighted assets ratio (Minimum 10%)	14.43%	17.03%
Capital funds to total deposit liabilities ratio (minimum 10%)	16.65%	19.91%

Our Business Partners	2012/13	2011/12
No of training & workshop programs attended by staff which were conducted by relevant authorities	4	6
No of business partner products promote by CDB	9	9

### Planned Initiatives

It is imperative that we maintain, foster and strengthen relationships with our partners and regulators and over this year, this has proven to be profitable, both quantitatively and qualitatively. Given the positive results, we will continue the monthly compliance meetings to keep all germane stakeholders acquainted with new rules and regulations and be more vigilant of newer dictums, while ensuring compliance with government directives. In addition, we will also work closely with our suppliers and valued business partners integrating them into our business activities so they become more proactive players in our business. We commit to provide customers a timely and efficient service, especially in the area of vehicle delivery, which would involve leveraging further on the synergies of our suppliers.

### Conclusion

We believe strongly that sustainable development should eventually promote harmony among living beings and in the context of development, many challenges have to be overcome to achieve this particular platform. We have seen myriad development and environmental crises emerge from various parts of the world and similarly, Heads of powerful nations come together to spearhead initiatives that would create a sustainable planet. From a broader perspective, CDB believes that the pursuit of sustainable development requires a political system that involves citizens in the decision making process; an economic milieu that generates surpluses and technical knowledge sustainably and with empowerment as the overarching principle; a social system that infuses equitable balance between development and conservation; the pursuit of technology working on sustainable solutions and innovation; production processes that maintain ecological balance; a flexible administrative system that looks inward first and then translates corrective action effectively into a larger scale and a world that fosters sustainable trade and finance without compromising the earth's resources. This is the larger panorama of sustainable development which requires committed national and international action. It depends on sincerity of word and action when these goals are pursued, worked on a planned agenda. It also means that nations, no matter how powerful, must take corrective action to any deviation and take collective responsibility for the outcomes. The gaps we see economically and socially must cease to exist.



## Statement GRI Application Level Check

GRI hereby states that Citizens Development Business Finance PLC has presented its report "Success Envisioned" (2013) to GRI's Report Services which have concluded that the report fulfils the requirement of Application Level C+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see [www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf](http://www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf)

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 23 May 2013

A handwritten signature in black ink, appearing to read "Nelmaria Arbes", is written over a faint, large watermark of the GRI logo in the background.

Nelmaria Arbes  
Deputy Chief Executive  
Global Reporting Initiative



The "+" has been added to this Application Level because Citizens Development Business Finance PLC has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio-visual material, this statement only concerns material submitted to GRI at the time of the Check on 23 May 2013. GRI explicitly excludes the statement being applied to any later changes to such material.





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### Independent Limited Assurance Report to Citizens Development Business Finance PLC

We were engaged by the Board of Directors of Citizens Development Business Finance PLC ("Company") to provide limited assurance on the Sustainability Report for the year ended 31st March 2013 ("the Report") as set out on pages 98 to 158 of the Annual Report.

### Managements' responsibility 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 pages 152 to 158 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 stakeholders 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 limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with Sri Lankan Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

That Standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement.

### Summary of work performed

A limited assurance engagement on a sustainability 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 its key stakeholder groups.
- Interviews with senior management concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- 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.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

### Our conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Sustainability Report of Citizens Development Business Finance PLC for the year ended 31st March 2013, is not presented fairly, in all material respects, in accordance with the GRI Sustainability guidelines as described in page 152-158 of the Report.

CHARTERED ACCOUNTANTS  
Colombo

31st May 2013

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. Jayatilaka 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. Abayaratne 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

## Sustainability Report contd.

### Global Reporting Initiatives (GRI) G3.1 Index – GRI – 3.12

Index No	Description	Level of Reporting	Report section	Page/s
<b>1.</b>	<b>Strategy and Analysis</b>			
1.1	Statement from the most senior decision-maker of the organization.	Fully	Sustainability Report	105
<b>2.</b>	<b>Organisational Profile</b>	<b>Fully</b>		
2.1	Name of the organization.	Fully	Corporate Information	Back Inner cover
2.2	Primary brands, products, and/or services.	Fully	Management Discussion & Analysis/ Sustainability Report	41, 45, 46, 117
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	Sustainability Report	100
2.4	Location of organization's headquarters.	Fully	Corporate Information	Back Inner cover
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	No overseas operations	-
2.6	Nature of ownership and legal form.	Fully	Corporate Information	Back Inner cover
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	Management Discussion & Analysis	41, 45, 46,
2.8	Scale of the reporting organization.	Fully	Sustainability Report	100
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully	Sustainability Report	100
2.10	Awards received in the reporting period.	Fully	Sustainability Report	147
<b>3.</b>	<b>Report Parameters – Report Profile</b>			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	Sustainability Report	102
3.2	Date of most recent previous report (if any).	Fully	Sustainability Report	101
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Sustainability Report	102
3.4	Contact point for questions regarding the report or its contents.	Fully	Sustainability Report	102
3.5	Process for defining report content.	Fully	Sustainability Report	102
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	Sustainability Report	102
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	Sustainability Report	102
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Fully	Sustainability Report	102
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	None Reported	-

Index No	Description	Level of Reporting	Report section	Page/s
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	None Reported	-
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully	Sustainability Report	152-158
<b>4.</b>	<b>Governance , Commitments &amp; Engagement</b>			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Fully	Enterprise Governance Report	64
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	Sustainability Report	102
4.3	For organizations that have a unitary Board structure, state the number and gender of members of the highest governance body that are independent and/ or non-executive members.	Fully	Sustainability Report	102
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	Sustainability Report	104-105
4.14	List of stakeholder groups engaged by the organization.	Fully	Sustainability Report	103-104
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	Sustainability Report	104
	<b>Economic</b>			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	Sustainability Report – Direct Economic Value Generated	109
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Not	Not reported	-
EC3	Coverage of the organization's defined benefit plan obligations.	Not	Not reported	-
EC4	Significant financial assistance received from government.	Not	Not reported	-
	<b>Market presence</b>			
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Not	Not reported	-
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Not	Not reported	-
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Not	Not reported	-
	Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Not	Not reported	-
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Not	Not reported	-

## Sustainability Report contd.

Index No	Description	Level of Reporting	Report section	Page/s
<b>Environmental</b>				
	Disclosure on Management Approach	Fully	Sustainability Report – Our Environment	133
<b>Materials</b>				
EN1	Materials used by weight or volume.	Not	Not reported	-
EN2	Percentage of materials used that are recycled input materials.	Not	Not reported	-
<b>Energy</b>				
EN3	Direct energy consumption by primary energy source.	Not	Not reported	-
EN4	Indirect energy consumption by primary source.	Partially	Sustainability Report – Our Environment	136
EN5	Energy saved due to conservation and efficiency improvements.	Fully	Sustainability Report – Our Environment	136
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Not	Not reported	-
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Fully	Sustainability Report – Our Environment	136
<b>Water</b>				
EN8	Total water withdrawal by source.	Not	Not reported	-
EN9	Water sources significantly affected by withdrawal of water.	Not	Not reported	-
EN10	Percentage and total volume of water recycled and reused.	Not	Not reported	-
<b>Biodiversity</b>				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not	Not reported	-
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not	Not reported	-
EN13	Habitats protected or restored.	Not	Not reported	-
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Not	Not reported	-
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not	Not reported	-
<b>Emissions, effluents and waste</b>				
EN16	Total direct and indirect greenhouse gas emissions by weight.	Not	Not reported	-
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not	Not reported	-
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Not	Not reported	-
EN19	Emissions of ozone-depleting substances by weight.	Not	Not reported	-
EN20	NOx, SOx, and other significant air emissions by type and weight.	Not	Not reported	-
EN21	Total water discharge by quality and destination.	Not	Not reported	-
EN22	Total weight of waste by type and disposal method.	Partially	Sustainability Report – Our Environment	135-136
EN23	Total number and volume of significant spills.	Not	Not reported	-

Index No	Description	Level of Reporting	Report section	Page/s
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not	Not reported	-
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Not	Not reported	-
	Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Not	Not reported	-
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not	Not reported	-
	Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	Sustainability Report – Our Environment	136
<b>Transport</b>				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Not	Not reported	-
<b>Overall</b>				
EN30	Total environmental protection expenditures and investments by type.	Not	Not reported	-
<b>Social: Labour Practices and Decent Work</b>				
<b>Employment</b>				
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	Fully	Sustainability Report – Our Team	120-123
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Fully	Sustainability Report – Our Team	123-124
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Not	Not reported	-
LA15	Return to work and retention rates after parental leave, by gender.	Not	Not reported	-
<b>Labour/management relations</b>				
LA4	Percentage of employees covered by collective bargaining agreements.	Not	Not reported	-
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully	Sustainability Report – Our Team	127
	Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Not	Not reported	-
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Not	Not reported	-

## Sustainability Report contd.

Index No	Description	Level of Reporting	Report section	Page/s
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Not	Not reported	-
LA9	Health and safety topics covered in formal agreements with trade unions.	Not	Not reported	-
	Training and education			
LA10	Average hours of training per year per employee by gender, and by employee category.	Fully	Sustainability Report – Our Team	128
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	Sustainability Report – Our Team	127
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	Fully	Sustainability Report – Our Team	127
<b>Diversity and equal opportunity</b>				
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Not	Not reported	-
	Equal remuneration for women and men			
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Fully	Sustainability Report – Our Team	124
<b>Social: Human Rights</b>				
<b>Investment and procurement practices</b>				
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	Not	Not reported	-
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	Not	Not reported	-
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Not	Not reported	-
	Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken.	Fully	Sustainability Report – Our Team	120
<b>Freedom of association and collective bargaining</b>				
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	Not	Not reported	-
	Child labour			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	Fully	Sustainability Report – Our Team	124

Index No	Description	Level of Reporting	Report section	Page/s
<b>Forced and compulsory labour</b>				
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	Fully	Sustainability Report – Our Team	124
	Security practices			
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	Not	Not reported	-
<b>Indigenous rights</b>				
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not	Not reported	-
<b>Assessment</b>				
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Not	Not reported	-
<b>Remediation</b>				
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	Not	Not reported	-
<b>Social: Society</b>				
<b>Local communities</b>				
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Partially	Sustainability Report – Our Society	139-142
SO9	Operations with significant potential or actual negative impacts on local communities.	Not	Not reported	-
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Not	Not reported	-
<b>Corruption</b>				
SO2	Percentage and total number of business units analyzed for risks related to corruption.	Not		-
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	Fully	Sustainability Report – Our Team	128
SO4	Actions taken in response to incidents of corruption.	Not	Not reported	-
	Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	Not	Not reported	-
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Not	Not reported	-
<b>Anti-competitive behavior</b>				
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Fully	Sustainability Report – Our Team	144
<b>Compliance</b>				
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	Sustainability Report – Our Team	144

## Sustainability Report contd.

Index No	Description	Level of Reporting	Report section	Page/s
	<b>Social: Product Responsibility</b>			
	<b>Customer health and safety</b>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Not	Not reported	-
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not	Not reported	-
	Product and service labeling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Not	Not reported	-
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Not	Not reported	-
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Not	Not reported	-
	Marketing communications			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Fully	Sustainability Report – Our Customers	117
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.	Fully	Sustainability Report – Our Customers	117
	<b>Customer privacy</b>			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	Sustainability Report – Our Customers	117
	<b>Compliance</b>			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	Sustainability Report – Our Customers	117

### Report Application Level

	C	C+	B	B+	A	A+
Mandatory	Self declared					
Optional	3rd Party Checked	√				
	GRI Checked	√				



ZERO,  
ONE, TWO,  
THREE, NINE, TEN,  
TWELVE, TWENTY,  
FIFTY, NINETY  
NINE, HUNDRED,  
TWO HUNDRED,  
FIVE HUNDRED,  
THOUSAND,  
MILLION, BILLION...  
SUCCESS  
CONSOLIDATED



## Annual Report of the Board of Directors

### 1. 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 2013 of the Company and the Group together with the Auditors' report on those financial statements, conforming 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.

This report also provides information as required by the Companies Act No 07 of 2007, Finance Business Act No 42 of 2011, Direction No 03 of 2008 (Finance Companies – Corporate Governance) issued under the Finance Business Act No 42 of 2011 and subsequent amendments thereto, disclosure requirements under the Listing Rules of the Colombo Stock Exchange and recommended best practices on Corporate Governance. This report was approved by the Board of Directors on 31 May 2013.

### 2. 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 07th 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 No 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. RAM Ratings Lanka Limited has assigned BBB and P2 long term and short term financial institution ratings respectively to the Company.

The registered office of the Company is at No 18, Sri Sangaraja Mawatha Colombo 10, at which the Company's Head Office is also situated.

### 3. 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 below report or elsewhere in the Annual Report as per the information provided below.

#### 3.1 Disclosure requirement as per the Section 168 of the Companies Act No 07 of 2007 and information of disclosures

Section Reference No	Requirements	Extent of the compliance by the Company and Disclosure reference or information of disclosure
168 (1) (a) -1	The nature of the business of the company and its subsidiary	Complied with - Page No 184
168 (1) (a) -11	The classes of business in which the company has an interest, by way of a shareholder of another company or otherwise	Complied with - See Financial Section of Annual Report  Company does not have any material shareholding with any other company except for its own subsidiary of CDB Micro Finance Company Limited.
168 (1) (b)	Financial statements for the accounting period completed and signed in accordance with Sec 151 of the Companies Act and for the Group Financial Statements in accordance with Sec 152 of the Companies Act.	Complied with - See Financial Section of Annual Report  Financial statements have been prepared in compliance with the Sec 151 and Sec 152 of the Companies act and details disclosure of the Financial statements shown from page no 177 to page 237 under Financial information section of the Annual Report.

Section Reference No	Requirements	Extent of the compliance by the Company and Disclosure reference or information of disclosure
168 (1) (c)	Auditor's Report on the financial statements and any Group Financial statements	Complied with - See Financial Section of Annual Report
168 (1) (d)	Describe any change in accounting policies made during the year.	Complied with - See Financial Section of Annual Report and Section 11 of this report
168 (1) (e)	Entries in the Interest Register made during the year	Complied with - See Financial Section of Annual Report and Section 12 of this report
168 (1) (f)	The remuneration and other benefits of Directors during the year	Compliant  The required information is disclosed under the transactions with Key Management personnel of page No 227
168 (1) (g)	The total amount of donations made by the Company	Compliant  The required information is disclosed under the financial information section of the Annual Report – reference page no 205 under Operating Expenses.
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	Complied - See Section 15 of this report
168 (1) (i)	Details of the remunerations paid to Auditors including Non Audit services as separate item.	Compliant  The required information is disclosed under the financial information section of the Annual Report – reference to page no 205 under Operating Expenses.
168 (1) (j)	The particulars of any relationship other than 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 Auditor's have been disclosed in the page no 205 under operating expenses.
168 (1) (k)	Board approval for the Directors report and be signed by Two Directors along with Company secretary	Compliant  Report of Directors on affairs of the company has been approved by the Board on 31.05.2013 .

## Annual Report of the Board of Directors contd.

### 4. Information disclosed pertaining to the Finance statements and Audit of the company as per the Finance Business act No 42 of 2011.

Section Reference No	Requirements	Extent of the compliance by the Company
Section 26	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 (a)	Capitalized Expenses not represented by tangible assets	Compliant
Section 27 (b)	Market value of investments	Compliant
Section 27 ( c )	Method adopted to value fixed assets if there had been any valuation of such assets during the financial year	Compliant
Section 27 (d)	The aggregate amounts of advances after the provisions for bad and doubtful debts	Compliant
Section 27 ( e)	Increase or decrease in provision for depreciation, or diminution in value of Fixed Assets	Compliant
Section 27 ( f )	Sources and application of Funds	Compliant
Section 27 ( g )	Reserves, provisions and liabilities distinguishable from each other	Compliant
Section 27 ( h)	Changes in equity	Compliant
Section 27 ( i)	Previous year is correspondence figures of the Balance Sheet	Compliant
Section 28 (a)	Amount charged to revenue by way of provisions for depreciation, renewals or diminution in value of Fixed assets	Compliant
Section 28 (b)	Amount charges to revenue by way of income tax	Compliant
Section 28 ( c)	The aggregate amount of dividends paid or propose	Compliant
Section 28 ( d)	The amount of remuneration of auditors	Compliant

Section Reference No	Requirements	Extent of the compliance by the Company
Section 28 ( e)	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 or any exceptional income or expense	Compliant
Section 28 ( h)	Corresponding figures for the previous year	Compliant
Section 29 (1)	Submission of information to Director Non Banking supervision of CBSL as per the section 29 (a), (b),(c),and(d)	Compliant
Section 29 (2)	Financial statements published in newspapers	Compliant
Section 29 (3) and (4)	Exhibition of Financial Statements on Business Premises	Compliant
Section 29 (5)	Publishing key financial data and performance indicators on bi annual basis.	Compliant
Section 30 (2)	Selection of Auditors as per the guideline issued by the Director Non Bank Supervision Department of 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 License Finance Companies, as per the guide line issued by the Director Non Bank Supervision Department of CBSL.
Section 30 ( 3)	Rotation of Auditors of the Company	Not Applicable as at date, guideline or direction has not been issued

#### 5. 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 page No 66 to 83.

#### 6. Disclosure Requirements applicable under the Listing rules issued by the Securities Exchange commission of Sri Lanka

The Detailed Disclosure has been included under the Investor Relations section of the Annual Report from page No 238 to 246.

## Annual Report of the Board of Directors contd.

### 7. Principal activities of the Company and its Subsidiary

Company - Citizens Development Business Finance PLC

The principle activities of the Company continue to be Finance Business and related activities such as accepting Term Deposits, Savings Deposits, Personal Finance Leasing, Hire Purchase Financing, Pawning, Corporate and Retail Credit, Dealing with Government Securities, Foreign Exchange Dealership, Money Exchange Dealership, Islamic Finance and other financial services. There were 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

The CDB Micro Finance Limited is established for the purpose of accommodating micro credit facilities. However, since January 2009, there were no business operations other than the collections of repayment instalments of the loans granted prior to January 2009.

### 8. Review of Operations

The Chairman's Review on pages 6 to 9 the Managing Director's Review on pages 10 to 13 the Management Discussion on pages 28 to 58 and Financial Review on pages 59 to 63 present an overall appraisal of the Business Operations, financial performance and the overall Financial position of the Company and the Group.

### 9. Financial Statements of the Company and the Group

The Financial Statements of the Company and the Group, which are duly certified by the Chief Financial officer and approved by the Audit Committee and the Board of Directors and signed by the Chairman and Managing Director as per the requirements of the Companies Act No 07 of 2007 appear on pages no 177 to 237

### 10. 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 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 page no 177 to 237 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 no 172 forms and integral part of this Report.

### 11. Accounting Policies and Changes during the Year

Following the convergence of Sri Lanka accounting Standards with the International Financial Reporting Standards (IFRSs), all existing/new Sri Lanka accounting standards were prefixed as SLFRS and LKAS to represent Sri Lanka accounting standards corresponding to international financial reporting standards and Sri Lanka accounting standards corresponding to international accounting standards (IASS), respectively. Accordingly, the Group and the Company adopted these new Sri Lanka accounting standards (which are commonly known as SLFRSs) applicable for financial periods commencing from January 1, 2012.

These financial statements for the year ended March 31, 2013 are the first the Group and the Company have prepared in accordance with SLFRS and Sri Lanka accounting standards - SLFRS 1 on 'first-time adoption of Sri Lanka accounting standards'. The significant accounting policies adopted in the preparation of the financial statements of the Group and the Company is given on pages 184 to 204 of the Annual Report.

### 12. The Interest Register of the company

The interest register is maintained by the Company as required by the Companies Act No 07 of 2007. All Directors have made declarations as required by the section 192(1) and (2) of the Companies Act No 07 of 2007. All related entries were made in the Interest Register for the year under review. The Interest Register is available for inspection by shareholders or their authorized representatives as required by the section 119 (1) (d) of the Companies Act No 07 of 2007.

### 13. 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 2013 are given in Note No 11 to the Financial statements on page No 205 As required by the section 168(1)(f) of the Companies Act No 07 of 2007.

#### 14. 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.2,998,142 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.

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

Names of the persons holding office as Directors of the Company as at the end of the year 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.

#### 15.1 The Names of Directors of the Company during the period 01.04.2012 to 31.03.2013

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. 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 w.e.f. 23.03.2013
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 Weerasuriya	01.04.2011	Executive Director / Chief Marketing Officer
Mr. P N C Gomes (resigned)	Resigned w.e.f 31.07.2012	Non Executive Independent Director

## Annual Report of the Board of Directors contd.

### 15.2 The Names of Directors of the subsidiary Company of CDB Micro Finance Company Limited during the period 01.04.2012 to 31.03.2013

Name	Other Information
Mr. 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

### 16. Retirement of Directors by Rotation

In terms of Articles 24 (6) and 24(7) of Articles of Association of the Company, Messrs R.H.Abeygoonewardena, W.W.K.M.Weerasuriya and S.V.Munasinghe retire by rotation and being eligible, offer themselves for reelection.

### 17. Re –Election of Directors

In terms of Articles 24 (2) of the Articles of Association of the Company Mr. Razik Mohamed, retires by rotation and being eligible, offer himself for reelection.

### 18. 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, control over certain affairs of the Company, conforming to Finance Companies (Corporate Governance) Direction No 03 of 2008 issued by the Central Bank of Sri Lanka issued under the Finance Business Act No 42 of 2011 and adopting the best practices accordingly.

The following Committees have been constituted by the Board

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. W P C M Nanayakkara Member Mr. R H Abeygoonewardena Member Mr. S V Munasinghe Member Mr. T M D P Tennakoon Member Mr. W W K M Weerasuriya Member
Remuneration Committee	S R Abeynayake Chairman Mr. Razik Mohamed Member Dr. Ajantha Dharmasiri Member
Nomination Committee	Mr P A J Jayawardena Chairman 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



**19. Directors Dealings in Shares and Debentures****19.1 Directors Interest in Ordinary Voting Shares of the Company**

Name	31-03-2013 Voting	31-03-2012 Voting	31-03-2013 Non Voting	31-03-2012 Non Voting
Mr.D H J Gunawardena	Nil	Nil	Nil	Nil
Mr. P C M Nanayakkara	29,660	29,660	28,941	26,420
Mr. R H Abeygoonewardena	31,500	31,500	5,447	3,857
Mr. S R Abeynayake	Nil	Nil	Nil	Nil
Dr.Ajantha Dharmasiri	Nil	Nil	Nil	Nil
Mr.D A De Silva	Nil	Nil	Nil	Nil
Mr.P A J Jayawardena	Nil	Nil	Nil	Nil
Mr. Razik Mohamed	Nil	Nil	Nil	Nil
Mr.S V Munasinghe	40,000	40,000	9,411	7,285
Mr. T M D P Tennakoon	42,000	42,000	7,262	5,142
Mr. W W K M Weerasuriya	7,000	7,000	1,209	857
Mr. P N C Gomes (Resigned w.e.f )	Nil	Nil	Nil	Nil

**19.2 Directors' Interest in Debentures**

There were no Debentures registered in the name of any Director as at 31st March 2012. However, Mr. D H A Gunawardena and Mr. S R Abeynayake are Directors of Ceylinco Insurance PLC, where Rs. 250 Million debentures are registered under Ceylinco Insurance PLC. However these debentures were issued prior to their appointment to the Board.

Directors' shareholdings in Ordinary Voting shares, Ordinary Non Voting shares and Directors interest in Debentures have not changed subsequent to the date of the Balance Sheet date, and up to 20th May 2013 the date being two weeks prior to the date of Notice of the Annual General Meeting.

**20. Review of the year's Financial performance****Financial Results****Income**

Interest income represents the Company's main income. The total income for the year 2012/13 and 2011/12 were as follows.

	2012/13 Company	2011/12 Group	2012/13 Company	2011/12 Group
Income	4,311,850,070	2,833,115,188	4,311,850,070	2,833,323,000
Interest Income	4,087,387,160	2,555,433,093	4,087,387,160	2,555,433,093
Non Interest Income	224,462,910	277,682,095	224,462,910	277,889,907
Operating Income	1,925,279,811	1,521,179,071	1,925,279,811	1,521,386,883

Details are given in the income statements of the financial statements.

## Annual Report of the Board of Directors contd.

### 21. Profit and Appropriations

The Net profit after tax of the Group for 2012/13 was Rs. 534.77 Million (Rs. 520.8 Million for 2011/12) while profit before tax for the Company and the Group were up by 25% and 15% respectively.

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

	2012/13 (Rs.)	2011/12(Rs.)
Profit before Tax	669,993,111	532,306,807
Provision for Taxation	135,118,484	13,839,677
Net Profit	534,874,627	518,467,130
Retained Earnings Brought Forward	517,351,678	219,414,782
Profit available for appropriation	1,052,226,305	737,881,912
Appropriations		
Statutory Reserve Fund (SRF)	106,974,925	126,086,580
Investment Fund Account (IFA)	29,830,847	18,090,129
Transfer from (out) revaluation reserve	120,698,727	(3,016,571)
Final Cash Dividend paid	59,820,560	79,370,096
Final Scrip Dividend paid	70,100,730	
Balance Carried Forward	785,499,243	517,351,678
Dividend Proposed		
Final Cash Dividend proposed at Rs.2.75 per share	149,339,319	

### 22. Reserves

A summary of company and Group Reserves is given below. The information on the movement of reserves is given in the Statement of changes in equity on page no 181-182.

	Company 2011/12	Company 2010/11	Group 2011/12	Group 2010/11
Revaluation Reserve	132,765,013	12,066,286	132,765,013	12,066,286
Investment Fund Account (IFA)	50,933,191	21,102,344	50,933,191	21,102,344
Statutory Reserve Fund (SRF)	385,571,180	278,736,884	385,571,180	278,736,884
AFS Reserve	464,034,525	358,284,525	464,034,525	464,034,525
Retained Profit	785,499,243	517,351,678	785,499,243	517,351,678
<b>Total</b>	<b>1,818,943,781</b>	<b>1,187,541,717</b>	<b>1,818,943,781</b>	<b>1,293,291,717</b>

### 23. Provision for Taxation

The income tax rate applicable to the company for the year 2012/13 is 28% (2011/12 - 28%) The Company also subject to tax on valued added on financial services at the rate of 12%. ( 2011/12 – 12%).

The information on income tax expenses of the Company and Group is given in Note no 12 to the Financial Statements on page no 205.

**24. Dividends on Ordinary shares**

**24.1** The Board of Directors recommends a final cash dividend of Rupees Two and Cents Seventy Five (Rs 2.75) per share on both its 46,299,223 voting ordinary shares and 8,005,984 nonvoting ordinary shares aggregating to a sum of Rupees One Hundred and Forty Nine Million Three Hundred Thirty Nine Thousand Three Hundred Nineteen and Cents Twenty Five. (Rs 149,329,319.25) as the first and final dividend for the financial year 2012/13.

**24.2** 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.

**25. Stated Capital and Debentures**

The stated capital of the company as at 31st March 2013 was Rs. 1,185,061,645 consisting of ordinary voting shares of 46,299,223 and Ordinary Non-voting shares of 8,005,984. (2011/12 - Rs. 1,114,960,915 consisting of ordinary voting shares of 46,299,223 and Ordinary Non-voting shares of 5,669,293)

The Debentures of the company as at 31st March 2013 was Rs. 250,000,000 consisting of 250,000 debentures at Rs.100 ( 2011/12 – Rs. 250,000,000)

**26. Issue of Shares and Debentures**

Details of the ordinary shares and Debentures issued by the company are given in the table below.

	2012/13 Company	2012/13 Group	2011/12 Company	2011/12 Group
Ordinary Shares				
Rights issue of ordinary voting shares				
No of Shares	Nil	Nil	6,614,175	6,614,175
Consideration received	Nil	Nil	462,992,250	462,992,250
Rights issue of ordinary Non Voting Shares				
No of Shares	Nil	Nil	5,669,293	5,669,293
Consideration received	Nil	Nil	255,118,185	255,118,185
By way of Scrip Dividend				
Ordinary voting shares Issued	Nil	Nil	Nil	Nil
Consideration Received	Nil	Nil	Nil	Nil
Ordinary Nonvoting shares issued	2,336,691	2,336,691	Nil	Nil
Consideration – Transfers from retained profit to stated capital	70,100,730	70,100,730	Nil	Nil
Debentures				
No of Debentures Issues	Nil	Nil	Nil	Nil
Consideration received	Nil	Nil	Nil	Nil

## Annual Report of the Board of Directors contd.

### 27. Shareholding

There were 46,299,223 registered Voting shareholders and 8,005,984 Non Voting shareholders as at 31st March 2013. 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 page no 245 of the Annual Report.

Information relating to Earnings, Dividend, Net Assets per share, Market Value per share is given in Financial Highlights on page no 239-246.

### 28. Capital Expenditure

The Total Capital Expenditure on acquisition of Property, plant, computer applications, software and equipment, of the Company amounted to Rs. 126.2 Mn (Rs. 76.47 Mn 2011/12). The detailed note on acquisition of Property, Plant and Equipment is given under the note no 24 of the Financial statements in the page no 220.

### 29. Future Development and Expansions

During the year 8 new outlets were opened bringing the total number of distribution channels to 44. The Company intends to expand its network of distribution channels both in Western Province and the outside the Western Province for the next Five Years. According to the current level of capital adequacy Company would be able to expand its Branch Network from the current level of 45 to 57. Subject to prior approval of the Central Bank of Sri Lanka.

### 30. Property Plant, and Equipment (PPE)

Details of Property Plant and Equipment (PPE) are given in Note No 24 to the financial statements. There was no significant change in the Property, Plant and Equipment of the Company.

### 31. Corporate Governance

The Board of Directors is dedicated to maintaining as an effective corporate governance framework ensuring that the company is compliant with the Code of Best Practices on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka, the Central Bank of Sri Lanka, and the Securities and Exchange commission of Sri Lanka. The Detailed report on Corporate Governance is given on page no 66-83 of the annual report.

### 32. Internal Controls

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and this process includes enhancing the system of internal controls as and when there are changes to the business environment, or regulatory guidelines.

### 33. Outstanding Litigations

The Directors to the best of their knowledge and belief, confirm that there are no any pending litigations against the Company.

### 34. Events occurring after the Reporting Date

All material events occurring after the reporting date are considered and where necessary, adjusted for or disclosed in the financial statements.

### 35. 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.

### 36. 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 has 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.

### 37. Going Concern

The Board of Directors after considering the financial position, operating conditions, regulatory and other factors have a reasonable expectation that the company and its subsidiary possess adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements of the Company and its subsidiary are prepared based on the Going Concern concept.

### 38. 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.

### 39. Appointment of Auditors

The Financial Statements for the year ended 31st March 2013 have been audited by M/s KPMG, Chartered Accountants who offer themselves for re appointment.

The retiring auditors M/s KPMG, Chartered Accountants have signified their willingness to continue in office and a resolution relating to their re appointment and authorizing directors to fix remuneration as recommended by the Board will be proposed at the annual general meeting.

The Board further confirms that the retiring Auditors, KPMG (Chartered Accountants) are listed in the approved panel of External Auditors in terms of the guideline issued by the Monetary Board of Central Bank of Sri Lanka under the Section 30 (2) of the Finance Business Act No 42 of 2011.

The Auditors have been paid a fee of Rs. 1,400,000 as Audit Fee for the year ended 31st March 2013 which has been approved by the Board.

The Directors recommend their re appointment.

#### **40. Notice of the Meeting**

Notice relating to 17th Annual General Meeting of the Company is enclosed herewith.

#### **41. Acknowledgement of the contents of the Report**

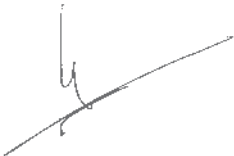
The Board of Directors does hereby acknowledge the contents of this annual report as per the requirement of the Companies Act No 07 of 2007.

Signed in accordance with a resolution adopted by the Directors.

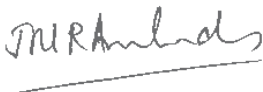
By order of the Board.



**D H J Gunawardena**  
Chairman



**C M Nanayakkara**  
Managing Director/Chief Executive Officer



**S S P Corporate Services (Pvt) Ltd**  
Company Secretary

31 May 2013  
Colombo

## Statement of Directors Responsibility

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.

- Companies Act No 07 of 2007
- Finance Business Act No 42 of 2011
- Sri Lanka Accounting and Auditing Standard 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 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 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, income 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 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 have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue

The Company's External Auditors Messers KPMG were reappointed in terms of the Companies Act No 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting. They carried out reviews, and sample checks on the system of internal controls as they considered required and appropriate and necessary for expressing an opinion on the financial statements and internal Controls. They were provided with every opportunity to undertake the inspections they considered appropriate.

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its Subsidiary, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its Subsidiary, and all other known statutory dues as were due and payable by the Company and its Subsidiaries as at the Reporting date have been paid or, where relevant, provided.

The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors, reasonable expectation that the company and its subsidiary have acquired. There are 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

31 May 2013

## Remuneration Committee Report

### 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

Mr.Razik Mohomad

Dr.Ajantha Dharmasiri

### 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 2013.

(Sgd.)

**S R Abeynayake**

Chairman

Remuneration Committee

Colombo

31 May 2013

## Integrated Risk Management Committee Report

The Integrated risk Committee was established as a committee of the Board in compliance with Finance Business Act Direction No 03 of 2008 on corporate governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka under the section 12 of the Finance Business Act no 42 of 2011. The integrated Risk management Committee assists the Board in fulfilling their oversight responsibilities with respect to determine risk appetite and ensure that significant risks are competently managed. The Integrated risk management committee charter 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. N Imdaad
Mr. W M C M Nanayakkara	Mr. E. Karthik
Mr.R.H.Abeyagoonawardena	Mr. M.B.Heenkenda
Mr.S.V.Munasinghe	Ms N Kodagoda
Mr T M D P Tennakoon	Mr. H K Dasanayaka

The committee is chaired by an independent Director and the other members include Chief Executive officer, Three Executive Directors and senior Management personnel who are assigned to identified specific areas of risk encompassing Credit, liquidity, operational, market, reputation, compliance, Information & communication technology, and strategic.

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		
Responsibility	<ul style="list-style-type: none"> <li>» Determine the risk appetite of the company</li> <li>» Ensure significant risks are managed accordingly with risk mitigation objectives discussed in the risk management section of the annual report</li> </ul>	<ul style="list-style-type: none"> <li>» Formulates the risk policies and recommends to board for taking on.</li> <li>» Ensure that the company's risk mitigation strategy is aligned to the risk appetite of the company.</li> <li>» Overseeing the compliance of the operation with relevant laws, regulations, and standards to ensure conformance to all relevant rules and regulations.</li> <li>» Ensuring that the Board of Directors are kept aware of the Company's risk exposure and ensure to mitigate those risks while achieving high level of performance</li> <li>» Review existing policies and procedures for mitigation of risks faced by the company</li> <li>» Making recommendation to the Board on risk management concerns</li> </ul>		<ul style="list-style-type: none"> <li>» Measuring and monitoring risk</li> <li>» Compliance with regulatory and supervisory requirements</li> <li>» Benchmark with best practices</li> <li>» Executing policy framework approved by the Board.</li> </ul>		

### Meetings

The Committee held four meetings on a quarterly basis, during the year under review. The discussions and conclusions reached at the meetings are recorded in minutes and circulated to the Board of Directors for information and advice on 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 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 ALCO, Compliance and Credit committees which are three management

committees also involved in risk management. 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 conducts a review of its effectiveness annually and concluded its performance was effective.

( Sgd.)  
**D A De Silva**  
Chairman  
Integrated Risk Management Committee

31 May 2013  
Colombo



## Report of the Board Audit Committee

### 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 recognized 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 director's profiles section of the Annual Report. In the early part of the financial year, Mr. D H J Gunawardena was appointed Chairman of the Audit Committee, following the resignation of Mr. P.N.C.Gomes who chaired the Committee previously.

### 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, the Chief Financial 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.

Five 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 2012 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 2012/2013 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 are 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 re-appointed as the company's statutory auditors for the financial year ending 31st March 2014, subject to the approval of shareholders at the forthcoming Annual General Meeting.

( Sgd.)  
**D H J Gunawardhana**  
Chairman  
Audit Committee

31 May 2013  
Colombo

## Directors' Statement on Internal Control

### Responsibility

Citizens Development Business Finance PLC ("the Company") is a limited liability company listed in the Colombo Stock Exchange. The Company is licensed by the Monetary Board of 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 Board of Directors is responsible for the adequate and effective design and implementation of the system of internal controls of the Company. However, such a system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Company. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Directors.

The management assists the Board in the implementation of the Board's policies and procedures on risk and controls by identifying and assessing the risk faced and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The process is regularly reviewed by the Directors.

The Board is of the view that the system of internal controls 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 and is in accordance with relevant accounting principles and regulatory requirements.

### KEY INTERNAL CONTROL PROCESSES ADOPTED AND APPLIED IN REVIEWING DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The Board has adopted key processes in reviewing the design and operating effectiveness of the system of internal controls with respect to financial reporting, including the following;

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The internal audit division of the Company follows a risk based approach and checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. The frequency of the audits to be carried out on branches and departments is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Company reviews internal control issues identified by the internal audit division, external

auditors, regulatory authorities and management and evaluates the adequacy and effectiveness of the risk management and internal control systems.

- They also review the internal audit functions with particular emphasis on the scope of audit and quality of internal audits. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Company on a periodic basis.
- In assessing the internal control system, identified officers of the Company continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company. The Internal Audit Department continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment did not include subsidiary of the Company.

Purchases and payment for assets and non-interest expenses, depreciation have not been identified as separate processes. Accordingly the same have not been tested by the internal audit department.

As the current year was the first year of adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS, the Company implemented a system to capture all adjustments separately from the accounting systems manually and made the adjustments as required by the transitional provisions. However, an automated financial reporting process that is required to comply with the new requirements of recognition, measurement, classification and disclosures is being introduced to integrate these requirements to existing accounting processes.

Recommendations made by the external auditors during the year ended 31st March 2013 in connection with internal control system will be considered for implementation in the future.

### Confirmation

Based on the above processes, the Board of Directors 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 the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

### Review of the statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Controls of the Company for the year ended 31st March 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Company.

By order of the Board,

(Sgd)  
**D.H.J Gunawardena**  
Audit Committee  
Chairman

(Sgd)  
**C.M Nanayakkara**  
Managing  
Director

(Sgd)  
**Damith Tennakoon**  
Director/ CFO

31 May 2013

## Independent Auditors' Report



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
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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 subsidiary ("the Group"), which comprise the statement of financial position as at 31st March 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and summary of significant accounting policies and other explanatory notes as set out on pages 178 to 237.

#### 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 misstatement.

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 2013 and the financial statements give a true and fair view of the Company's financial position as at 31st March 2013 and of its financial performance and 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 2013, 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

31st May 2013

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. Abeyrathna ACA S.T.D.L. Perera FCA  
G.A.U. Karunaratna ACA R.M.D.B. Rajapaksa ACA Ms. B.K.D.T.N. Rodrigo ACA  
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law. H.S. Goonewardene ACA

## Consolidated Statement of Comprehensive Income

For the year ended 31st March	Notes	Company		Group	
		2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Income	5	4,311,850,070	2,833,115,188	4,311,850,070	2,833,323,000
Interest income	6	4,087,387,160	2,555,433,093	4,087,387,160	2,555,433,093
Interest expenses	7	2,386,570,259	1,311,936,117	2,386,570,259	1,311,936,117
<b>Net interest income</b>		1,700,816,901	1,243,496,976	1,700,816,901	1,243,496,976
Fees and commission income		119,915,360	107,818,889	119,915,360	107,818,889
Less :Fee and commission expense		-	-	-	-
<b>Net fee and commission income</b>	8	119,915,360	107,818,889	119,915,360	107,818,889
<b>Net interest, fee and commission income</b>		1,820,732,261	1,351,315,865	1,820,732,261	1,351,315,865
Net trading income		-	-	-	-
Other operating income	9	104,547,550	169,863,206	104,547,550	170,071,018
Total operating income		1,925,279,811	1,521,179,071	1,925,279,811	1,521,386,883
Less :Impairment charges for loans and other losses	10	128,788,059	37,385,369	128,788,059	37,385,369
<b>Net operating income</b>		1,796,491,752	1,483,793,702	1,796,491,752	1,484,001,514
<b>Less:</b>					
<b>Operating expenses</b>	11				
Staff costs		386,860,347	299,328,750	386,860,347	299,328,750
Premises, Equipment and establishment expenses		446,264,762	347,968,357	446,364,762	345,814,602
Other Operating Expenses		252,397,173	275,990,807	252,397,173	275,990,807
		1,085,522,282	923,287,914	1,085,622,282	921,134,159
<b>Operating profit before value added tax</b>		710,969,470	560,505,788	710,869,470	562,867,355
Value added tax on financial services		40,976,359	28,198,982	40,976,359	28,198,982
<b>Profit before taxation</b>		669,993,111	532,306,806	669,893,111	534,668,373
Income tax expense	12	135,118,484	13,839,677	135,118,484	13,859,299
<b>Profit for the year</b>		534,874,627	518,467,129	534,774,627	520,809,074
<b>Profit attributable to:</b>					
Non-controlling interests		-	-	-	-
Parent company shareholders		534,874,627	518,467,129	534,774,627	520,809,074
<b>Profit for the year</b>		534,874,627	518,467,129	534,774,627	520,809,074
<b>Other comprehensive income:</b>					
Change in fair value of Available-for-sale investments		105,750,000	46,593,600	105,750,000	46,593,600
Changes in revaluation surplus		120,698,727	-	120,698,727	-
<b>Other comprehensive income for the year, net of taxation</b>		226,448,727	46,593,600	226,448,727	46,593,600
<b>Total comprehensive income for the year</b>		761,323,354	565,060,729	761,223,354	567,402,674
Total comprehensive income attributable to:					
Non-controlling interests		-	-	-	-
Parent company shareholders		761,323,354	565,060,729	761,223,354	567,402,674
<b>Total comprehensive income for the year</b>		761,323,354	565,060,729	761,223,354	567,402,674
Basic earnings per share	13	9.99	10.28	9.99	10.32
Dividend per share	14	2.75	2.50	2.75	2.50

The notes on pages 184 to 237 form an integral part of these financial statements.

## Consolidated Statement of Financial Position

As at	Notes	Company			Group		
		31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
<b>Assets</b>							
Cash and cash equivalents	16	205,326,279	121,343,098	49,343,058	208,661,805	124,678,624	52,292,975
Deposits in commercial banks	17	1,335,271,762	504,888,341	270,795,850	1,335,271,762	504,888,341	270,795,850
Loans and receivables to customers	18	19,450,586,882	13,469,076,072	8,081,942,079	19,450,586,882	13,469,076,072	8,081,942,079
Financial Investments							
- Available for sale	19	563,943,600	458,193,600	411,600,000	563,943,600	458,193,600	411,600,000
Financial Investments							
- Held to maturity	20	1,150,590,251	588,625,646	532,980,368	1,150,590,251	588,625,646	532,980,368
Financial Investments							
- Loans and receivable	21	140,164,014	326,000,000	187,379,059	140,164,014	326,000,000	187,379,059
Investment in subsidiaries	22	2,745,447	2,745,447	5,000,000			
Investment properties	23	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977
Property, plant and equipment	24.1	657,717,807	470,979,957	237,821,921	657,717,807	470,979,957	237,821,921
Intangible Assets	24.2	69,115,379	-	-	69,115,379	-	-
Deferred tax assets	30	-	30,837,745	-	-	30,837,745	-
Other assets	25	886,512,492	621,040,743	593,532,925	886,512,492	621,039,943	593,532,925
<b>Total assets</b>		<b>24,482,171,890</b>	<b>16,613,928,626</b>	<b>10,390,593,237</b>	<b>24,482,761,969</b>	<b>16,614,517,905</b>	<b>10,388,543,154</b>
<b>Liabilities</b>							
Due to banks	26	592,523,886	97,262,273	-	592,523,886	97,262,273	-
Due to customers	27	17,799,413,114	11,699,662,914	7,770,659,215	17,799,413,114	11,699,662,914	7,770,659,215
Debentures	28	259,378,311	257,898,116	275,980,038	259,378,311	257,898,116	275,980,038
Other borrowings	29	1,911,180,694	1,800,533,575	751,674,339	1,911,180,694	1,800,533,575	751,674,339
Current tax liabilities		92,965,307	62,853,091	44,429,014	93,370,384	63,258,167	44,814,474
Deferred tax liabilities	30	31,912,358	-	-	31,912,358	-	-
Retirement benefit obligations	31	64,256,877	28,606,687	20,676,229	64,256,877	28,606,687	20,676,229
Other liabilities	32	726,535,918	364,609,339	428,472,839	726,821,720	364,794,342	428,380,041
<b>Total liabilities</b>		<b>21,478,166,465</b>	<b>14,311,425,995</b>	<b>9,291,891,674</b>	<b>21,478,857,344</b>	<b>14,312,016,074</b>	<b>9,292,184,336</b>
<b>Equity</b>							
Stated capital	33	1,185,061,645	1,114,960,915	396,850,480	1,185,061,645	1,114,960,915	396,850,480
Reserve fund	34	385,711,809	278,736,884	152,650,304	385,711,809	278,736,884	152,650,304
Revaluation Reserve	35	132,765,013	12,066,286	15,082,857	132,765,013	12,066,286	15,082,857
Investment Fund Reserve	36	50,933,191	21,102,344	3,012,215	50,933,191	21,102,344	3,012,215
Available for Sale Reserve		464,034,525	358,284,525	311,690,925	464,034,525	358,284,525	311,690,925
Retained Earnings		785,499,242	517,351,677	219,414,782	785,398,442	517,350,877	217,072,037
Total parent company shareholders' equity		3,004,005,425	2,302,502,631	1,098,701,563	3,003,904,625	2,302,501,831	1,096,358,818
Non-controlling interests		-	-	-	-	-	-
<b>Total equity</b>		<b>3,004,005,425</b>	<b>2,302,502,632</b>	<b>1,098,701,563</b>	<b>3,003,904,625</b>	<b>2,302,501,831</b>	<b>1,096,358,818</b>
<b>Total equity and liabilities</b>		<b>24,482,171,890</b>	<b>16,613,928,626</b>	<b>10,390,593,237</b>	<b>24,482,761,969</b>	<b>16,614,517,905</b>	<b>10,388,543,154</b>

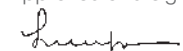
The notes on pages 184 to 237 form an integral part of these financial statements.

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



**C.M. Nanayakkara**  
Managing Director/ CEO

31st May 2013  
Colombo

## Statement of Changes in Equity

Company	Stated Capital	Revaluation Reserve	Available for sale reserve	Investment Fund Reserve	Retained earnings	Non Controlling Interest	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March 2011 as previously reported	396,850,480	15,082,857	-	3,012,215	457,586,666	-	1,025,182,522
Impact of first time adoption of SLFRSs as at 1st April 2011	-	-	311,690,925	-	(238,171,884)	-	73,519,041
Restated balance as at 1st April 2011	396,850,480	15,082,857	311,690,925	3,012,215	219,414,782	-	1,098,701,563
Profit for the year 2011/2012	-	-	46,593,600	-	518,467,129	-	518,467,129
Other comprehensive income for the year 2011/2012	-	-	-	-	-	-	46,593,600
<b>Total comprehensive income for the year 2011/2012</b>	-	-	46,593,600	-	518,467,129	-	565,060,729
<b>Transactions with equity holders, recognized directly in equity</b>							
<b>Contributions by and distributions to equity holders</b>							
Final dividends for year 2011/2012	-	-	-	-	(79,370,096)	-	(79,370,096)
Shares issued	718,110,435	-	-	-	-	-	718,110,435
<b>Total contributions by and distributions to equity holders</b>	718,110,435	-	-	-	(79,370,096)	-	638,740,339
Transfer of revaluation reserve on disposal of property plant and equipment	-	(3,016,571)	-	-	3,016,571	-	-
Transfers during the year 2011/2012	-	-	-	18,090,129	(144,176,709)	-	-
<b>Balance as at 31st March 2012</b>	1,114,960,915	12,066,286	358,284,525	21,102,344	517,351,677	-	2,302,502,631
Profit for the year 2012/2013	-	-	-	-	534,874,627	-	534,874,627
Revaluation during the period	-	120,698,727	-	-	-	-	120,698,727
Other comprehensive income for the year 2012/2013	-	-	105,750,000	-	-	-	105,750,000
<b>Total comprehensive income for the year 2012/2013</b>	-	120,698,727	105,750,000	-	534,874,627	-	761,323,354
<b>Transactions with equity holders, recognized directly in equity</b>							
<b>Contributions by and distributions to equity holders</b>							
Final dividends -Scrip 2012/2013	70,100,730	-	-	-	(70,100,730)	-	-
Final dividends -Cash 2012/2013	-	-	-	-	(59,820,560)	-	(59,820,560)
<b>Total contributions by and distributions to equity holders</b>	70,100,730	-	-	-	(129,921,290)	-	(59,820,560)
Transfers during the year 2012/2013	-	-	-	29,830,847	106,974,925	-	-
<b>Balance as at 31st March 2013</b>	1,185,061,645	132,765,013	464,034,525	50,933,191	385,711,809	-	3,004,005,425

Figures in brackets indicate deductions.

The notes on pages 184 to 237 form an integral part of these financial statements.

Group	Stated Capital		Revaluation Reserve		Available for sale reserve		Investment Fund Reserve		Retained earnings		Non Controlling Interest		Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March 2011 as previously reported	396,850,480	15,082,857	-	3,012,215	152,650,304	455,243,921	-	1,022,839,777						
Impact of first time adaption of SLFRSs as at 1st April 2011	-	-	311,690,925	-	-	(238,171,884)	-	73,519,041						
Restated balance as at 1st April 2011	396,850,480	15,082,857	311,690,925	3,012,215	152,650,304	217,072,037	-	1,096,358,818						
Profit for the year 2011/2012	-	-	-	-	-	520,809,074	-	520,809,074						
Other comprehensive income for the year 2011/2012	-	-	46,593,600	-	-	-	-	46,593,600						
<b>Total comprehensive income for the year 2011/2012</b>	-	-	46,593,600	-	-	520,809,074	-	565,060,729						
<b>Transactions with equity holders, recognized directly in equity</b>														
Contributions by and distributions to equity holders														
Final dividends for year 2011/2012	-	-	-	-	-	(79,370,096)	-	(79,370,096)						
Shares issued	718,110,435	-	-	-	-	-	-	718,110,435						
<b>Total contributions by and distributions to equity holders</b>	718,110,435	-	-	-	-	(79,370,096)	-	638,740,339						
Transfer of revaluation reserve on disposal of property plant and equipment	-	(3,016,571)	-	-	-	3,016,571	-	-						
Transfers during the year 2011/2012	-	-	-	18,090,129	126,086,580	(144,176,709)	-	-						
<b>Balance as at 31st March 2012</b>	1,114,960,915	12,066,286	358,284,525	21,102,344	278,736,884	517,350,877	-	2,302,501,831						
Profit for the year 2012/2013	-	-	-	-	-	534,774,627	-	534,774,627						
Revaluation during the period	-	120,698,727	-	-	-	-	-	120,698,727						
Other comprehensive income for the year 2012/2013	-	-	105,750,000	-	-	-	-	105,750,000						
<b>Total comprehensive income for the year 2012/2013</b>	-	120,698,727	105,750,000	-	-	534,774,627	-	761,223,354						
<b>Transactions with equity holders, recognized directly in equity</b>														
Contributions by and distributions to equity holders														
Final dividends -Scrip 2012/2013	70,100,730	-	-	-	-	(70,100,730)	-	-						
Final dividends -Cash 2012/2013	-	-	-	-	-	(59,820,560)	-	(59,820,560)						
<b>Total contributions by and distributions to equity holders</b>	70,100,730	-	-	-	-	(129,921,290)	-	(59,820,560)						
Transfers during the year 2012/2013				29,830,847	106,974,925	(136,805,772)	-	-						
<b>Balance as at 31st March 2013</b>	1,185,061,645	132,765,013	464,034,525	50,933,191	385,711,809	785,398,442	-	3,003,904,625						

Figures in brackets indicate deductions.

The notes on pages 184 to 237 form an integral part of these financial statements.

## Statement of Cash Flow

For the year ended	Company		Group	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
<b>Cash Flow from Operating Activities</b>				
Interest Receipts	4,154,193,935	2,482,015,468	4,154,193,935	2,482,015,468
Commission Receipts	114,708,002	105,016,985	114,708,002	105,016,985
Other Income Receipts	106,833,228	166,907,770	106,833,228	166,907,770
Interest Payments	(2,070,883,097)	(1,132,983,965)	(2,070,883,097)	(1,132,983,965)
Fees and Business Promotion Expenses	(62,884,584)	(139,646,678)	(62,884,584)	(139,646,678)
Employees Related Payments	(343,678,781)	(284,613,609)	(343,678,781)	(284,613,609)
Suppliers Payments	(154,777,607)	(459,153,996)	(154,777,607)	(458,768,388)
Financial Expenses	(17,148,050)	(11,018,569)	(17,148,050)	(11,018,569)
<b>Operating Profit Before Changes in Operating Assets</b>	1,726,363,046	726,523,404	1,726,363,046	726,909,014
<b>(Increase)/ Decrease in Operating Assets</b>				
Investments in Licensed Commercial banks and other Financial Institutions	(832,681,347)	(227,495,565)	(832,681,347)	(227,495,565)
Investment in Government Securities	(374,632,094)	(204,010,959)	(374,632,094)	(204,010,959)
Net Funds Advanced to Customers	(6,169,188,965)	(5,376,509,721)	(6,169,188,965)	(5,376,509,721)
Other Short Term Assets	(174,615,468)	42,359,148	(174,615,468)	42,359,148
Inventories	(212,632,452)	(61,059,549)	(212,632,452)	(61,059,549)
	(7,763,750,326)	(5,100,193,240)	(7,763,750,326)	(5,099,807,631)
<b>Increase in Operating Liabilities</b>				
Borrowings	586,438,656	995,127,752	586,438,656	995,127,752
Deposits from customers	5,808,594,701	3,900,032,381	5,808,594,701	3,900,032,381
	6,395,033,357	4,895,160,133	6,395,033,357	4,895,160,133
<b>Net Cash (used in)/ from Operations</b>	357,646,077	(205,033,107)	357,646,077	(204,647,498)
Gratuity paid	(493,460)	(554,180)	(493,460)	(554,180)
Value Added Tax	4,783,409	(10,807,462)	4,783,409	(10,807,462)
Economic Service Charge	26,555,471	(15,942,954)	26,555,471	(15,942,954)
<b>Net Cash (used in)/ from Operating Activities</b>	388,491,497	(232,337,703)	388,491,497	(231,952,094)
<b>Cash Flow from Investing Activities</b>				
Dividend receipts	3,684,000	3,102,000	3,684,000	3,102,000
Net Investment in Debentures	(4,000,000)		(4,000,000)	
Purchase of Property, Plant & Equipment	(220,758,047)	(299,958,728)	(220,758,047)	(299,958,728)
Proceeds from sale of Property, Plant & Equipment	2,062,499	8,721,638	2,062,499	8,721,638
<b>Net Cash (used in)/ from Investing Activities</b>	(219,011,548)	(288,135,090)	(219,011,548)	(288,135,090)



<i>For the year ended</i>	Company		Group	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
<b>Cash Flow from Financing Activities</b>				
Issue of Shares	-	718,110,435	-	718,110,435
Dividend Paid	(59,820,560)	(79,370,096)	(59,820,560)	(79,370,096)
Redemption of Debentures	-	(17,069,000)	-	(17,069,000)
<b>Net Cash Inflows/ (out flows) from Financing Activities</b>	(59,820,560)	621,671,339	(59,820,560)	621,671,339
Net Increase/(Decrease) In Cash & Cash Equivalents	109,659,389	101,198,546	109,659,389	101,584,155
Cash and Cash Equivalents at the beginning of the Year	(48,733,659)	(149,932,205)	(45,398,133)	(146,982,288)
<b>Cash and Cash Equivalents at the end of the Year</b>	60,925,730	(48,733,659)	64,261,256	(45,398,133)
<b>Cash and Cash Equivalents at the beginning of the year</b>				
Cash at Bank and In Hand	121,343,098	49,343,058	124,678,624	52,292,975
Bank Overdraft	(170,076,757)	(199,275,263)	(170,076,757)	(199,275,263)
	(48,733,659)	(149,932,205)	(45,398,133)	(146,982,288)
<b>Cash and Cash Equivalents at the end of the year</b>				
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)

Figures in brackets indicate deductions.

The notes on pages 184 to 237 form an integral part of these financial statements.

## Notes to the Financial Statements

### 1 Reporting Entity

#### 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 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 2013 is 825 (2012 – 728).

#### 1.1 Principal Activities and Nature of Operation Company

Entity	Principle Business Activities
Company	Company provide 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.

#### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the CDB for the year ended 31st March 2013 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 Basis of Preparation

#### 2.1 Responsibility for Financial Statements

The Board of directors is responsible for the preparation and presentation of the Financial Statements of the company and its subsidiary as per the provisions of the Companies Act No 07 of 2007.

The Board of Directors acknowledges this responsibility as set out in the Report of the Directors under “Directors’ Responsibility for Financial Statements” Financial Statements includes the following components:

- Information on the financial performance of the group and company for the year under review.
- Information on the financial position of the Group and the Company as at the year end.
- Information showing all changes in shareholders’ equity during the year under review of the Group and the Company.
- Information to the users on the movement of the cash and cash equivalents of the Group and Company.
- Notes to the financial statements including the Accounting Policies and other explanatory notes.

#### 2.2 Statement of Compliance

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 1st January 2012. The Consolidated Financial Statements of the Group and the Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with these Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No 7 of 2007 and Finance Business Act and amendments thereto and provide appropriate disclosures as required by the Central Bank of Sri Lanka and the listing rules of the Colombo Stock Exchange. These are the Group’s first consolidated financial statements prepared in accordance with SLFRSs and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the Company/Group is provided in note 40.

The group did not adopt any inappropriate accounting treatments which are not complying with the requirements of the SLFRSs and other laws and regulations governing the preparation of Financial Statements.

### 2.3 Approval of Financial Statements by Directors

The Consolidated and Company's Financial Statements were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 31st May 2013.

### 2.4 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Available for sale financial assets are measured at fair value
- Held to maturity financial assets are measured at amortized cost
- Loans and Receivables are measured at amortized cost
- Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation.

### 2.5 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.

### 2.6 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

### 2.7 Materiality and Aggregation

Each material class of similar items are presented separately in the financial statement items which dissimilar in nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka accounting standard LKAS 1 'Presentation of Financial Statements'

### 2.8 Use of Estimates and Judgments

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (LKAS/SLFRS) 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 recognized 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 recognized in the Financial Statements are described in Notes below.

### 2.9 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the groups ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### 2.10 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. The valuation of financial instruments is described in more detail in Note 3.4.2 on page 187. The company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements, as described in Note 3.4.2 on page 187.

### 2.11 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether

## Notes to the Financial Statements contd.

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 categorizing 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.

### 2.12 Impairment Losses on Available for Sale Investments

The Company reviews its available for sale investments at the end of each Reporting period to assess whether they are impaired.

This requires similar judgments as applied to the individual assessment of loans and advances.

The company determines that there is an impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant or 'prolonged' requires judgment. In making this judgment, the 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.

### 2.13 Impairment Losses 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.

### 2.14 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 recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### 2.15 Provision for Employee Defined Benefit Obligations

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 and in preparing the opening SLFRS statement of financial position at 1st April 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

The accounting policies of the company are applied consistently by the group.

### 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

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 (Profit or loss).

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Unrealised gains and losses are dealt under 'Other Operating Income' in the Statement of Comprehensive Income.

## ASSETS AND LIABILITIES AND BASIS OF MEASUREMENT

### 3.3 Cash and Cash Equivalents

Cash and Cash Equivalents Include cash in hand & balance with banks. They are brought to account at the face value or the gross value where appropriate. Bank overdraft that are repayable on demand & 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 Assets and Financial Liabilities

### 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.

### 3.4.2 Subsequent measurement

#### Financial assets

At inception a financial asset is classified in one of the following categories:

- At fair value through profit or loss (either as held for trading or designated at fair value through profit or loss)
- Loans and Receivable
- Held to maturity financial assets
- Available for sale financial assets

#### Financial assets and financial liabilities at fair value through profit or loss

A financial asset or a financial liability is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated as fair value through profit or loss when;

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis.
- The assets or liabilities include embedded derivatives and such derivatives are required to be recognized separately

Upon initial recognition attributable transaction costs are recognised in Comprehensive Income as incurred. Financial assets and financial liabilities at fair value through Profit or Loss are measured at fair value, and changes therein are recognised in Statement of Comprehensive Income.

#### Loans and receivables

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.

## Notes to the Financial Statements contd.

Loans and advances, bills of exchange, commercial papers and lease receivables are classified as loans and receivables.

### Held to maturity financial assets (HTM)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sale or reclassification that are so close to maturity that changes in the market rate of interest would not have a significant effect on that financial assets fair value.
- Sale or reclassification after the group has collected all the assets original principal.
- Sale or reclassification attributable to non recurring isolated events beyond the groups control that could not have been reasonably anticipated.

### Available for sale financial assets (AFS)

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. Amortized 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 Companies Financial liabilities at amortised cost is disclosed in Notes 26 to 29.

### 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 recognized in Comprehensive Income.

### Due to Customers

These include savings deposits, 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 recognized in Comprehensive Income.

### Financial liabilities measured at amortised 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.

#### 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.

#### 3.4.3 Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted subsequent to initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at 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 loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets

## Notes to the Financial Statements contd.

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.

### 3.4.4 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.

#### 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 recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKAs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### 3.4.5 Identification, measurement and assessment of impairment

At each reporting date the Group assesses whether there are objective evidences that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer,

default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

#### 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 of historical trends of the probability of default, adjusted for management's judgement 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.

#### Available for Sale Financial Assets

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in available-for-sale to comprehensive income as a reclassification adjustment.



The cumulative loss that is reclassified from available-for-sale reserve to Comprehensive Income is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available for- sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in Statement of Comprehensive Income, then the impairment loss is reversed, with the amount of the reversal recognised in Statement of Comprehensive Income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible.

#### 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 realizable value whichever is lower. The cost of an inventory is the purchase price. Net realizable value is the estimated realizable 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.

#### Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

#### Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified,

reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

#### 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.

#### 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.

#### 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.

#### 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.

#### Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self constructed investment property is its cost at the date when the construction or development is complete. The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses.

## Notes to the Financial Statements contd.

### 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.

### Reclassification to Investment Property

When the use of property changes from owner-occupied to Investment Property, the property is remeasured to fair value and reclassified as Investment Property. Any gain arising on remeasurement is recognised in statement of 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 recognized immediately in the Statement of Comprehensive Income.

### 3.8 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

#### Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

#### Measurement

An item of Property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and 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.

#### Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

#### Revaluation Model

The Group applies the revaluation model to the freehold land. Revaluation is performed annually and if material

value difference is observed such difference is taken to revaluation reserve. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land of the Group 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.

#### Subsequent Costs

The subsequent cost of replacing a component of an item of Property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and 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.

#### Derecognition

The carrying amount of an item of Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, plant and equipment is included in Statement of Comprehensive Income when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of Property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

#### Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the

periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets, except for which are disclosed separately. Depreciation is determined separately for each significant component of an item of property, plant and equipment. 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.

### Capital Work-in-Progress

Capital work-in-progress is stated at cost less any accumulated impairment losses. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

### Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 23 (LKAS 23) "Borrowing Costs". Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

## 3.9 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 a 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

### 3.10 Employee Retirement Benefits

#### 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 "Employee Benefits" (LKAS 19) 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 31 (b). Actuarial gains or losses are recognized in the Statement of comprehensive income in the period in which they arise. The defined benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. When the benefits of a plan are changed, the portion of the changed benefit relating to past service by employees is recognised in

## Notes to the Financial Statements contd.

the Statement of comprehensive income on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in statement of comprehensive income.

### 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.

(ii) 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 month basic salary for each year of service

### Defined Contribution Plan

#### Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Employee 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.

### 3.11 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 recognized 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.

### 3.12 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'.

### 3.13 Other Liabilities

Other Liabilities include interest, fees and expenses and amounts payable suppliers and other provisions. These liabilities are recorded at amounts expected to be payable at the Reporting date.

## INCOME AND EXPENSE RECOGNITION

### 3.14 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.

### 3.15 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.

### 3.16 Fee and Commission Income

Fees and commission income, including commission,

service fees are recognised as the related services are performed.

### 3.17 Profit /(Loss) from Sale of Investment Properties

Any gains or losses on retirement or disposal of Investment Properties are recognised in the month of retirement or disposal.

### 3.18 Profit /(Loss) from Sale of Lease Assets

Profit / loss from sale of Lease Assets is recognised in the period in which the sale occurs and is classified as other income /expense.

### 3.19 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 Fee and Commission Expenses

Fee and commission expenses are recognised on an accrual basis.

### 3.21 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.

#### 3.21.1 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 no 12.

#### 3.21.2 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 realization 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 realized. 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.

### 3.22 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.

### 3.23 Withholding Tax on Dividends, distributed by the Company

Withholding tax that arises from the distribution of dividends by the Company is recognized at the time the liability to pay the related dividend is recognized.

### 3.24 Economic Service Charge

As per the provisions of the Finance Act No.13 of 2006 and amendments thereto. Currently, ESC is payable at 1% on "Liable Turnover" and deductible from the Income Tax payments. Unclaimed ESC, if any can be carried forward and set off against the income tax payable as per relevant provisions of the act.

### 3.25 Deposit Insurance Scheme

As per the direction No 01 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 01 Oct 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 Ministers, departments and Local Governments.

## Notes to the Financial Statements contd.

- 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 Company of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

### 3.26 Investment Fund Account

As proposed in the budget proposals of 2011 every person or partnership who is in the business of Companying or financial services is required to establish and operate an Investment Fund Account. As and when taxes are paid after 1st January 2011 Licensed Financial Companies are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the Company.

- 8% of the calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT
- 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax

Licensed Financial 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 10 Mn to enterprises with annual turnover less than Rs. 300 Mn
- IV. Information technology related activities and business process outsourcing

- V. Infrastructure development
- VI. Education – vocational training and tertiary education
- VII. Housing up to Rs. 2 Mn per customer for construction of a house for residential purposes
- VIII. Restructuring of loans extended for the above purposes

### 3.27 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 No 13.

### 3.28 Maturity Analysis

The Company has disclosed an analysis of assets and liabilities in to relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date

### 3.29 Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment) , or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments. For the purposes of segmental reporting disclosures, the information is presented in respect of the Group's business segments, which is based on the Group's management and internal reporting structure. The Group comprises the following major business segments; Leasing and Hire Purchase, Loans and Pawning. Inter-segment pricing is determined on an arms length basis. Measurement of segment assets, liabilities, segment revenue and results is based on the accounting policies set out above. Segment revenue results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis. Details of financial reporting by segment as required by the Sri Lanka Accounting Standard No 28 Segmental reporting are given in the Note No 42 to the Financial Statement.

### 3.30 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.

### 3.31 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.

### 3.32 Commitment 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 recognized 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.

### 3.33 Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by accounting standards.

### 3.34 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:

### 3.35 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous periods for all the amounts reported in the Financial Statements to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

Comparative information is reclassified when ever necessary to conform with the current year's classification in order to provide better presentation and as required by the SLFRS 1 First time Adoption of Sri Lanka Accounting Standards.

### 3.36 First Time Adoption of SLFRSs

These Financial Statements, for the year ended 31st March 2012, are the first the company has prepared

in accordance with SLFRSs. For periods up to and including the year ended 31st March 2011, the bank prepared its Financial Statements in accordance with SLAs.

Accordingly, the company has prepared Financial Statements which comply with SLFRSs applicable for annual financial periods ended on or after 31st March 2012, together with the comparative period date as at and for the year ended 31st March 2011, as described in the accounting policies. In preparing these Financial Statements, the company's opening Statement of Financial position was prepared as at 1st April 2011, the company's date of transition to SLFRSs. The Note 40 to the financial statements explains the principle adjustments made by the company in restating its SLAs Statement of Financial Position as at 1st April 2011 and its previously published SLAs Financial Statements as at and for the year ended 31 March 2011.

### 3.37 Accounting Standards issued but not effective as Reporting Date

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRSs will have an effect on the accounting policies currently adopted by the company and may have an impact on the future Financial Statements.

#### SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9 as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

SLFRS 9 will be effective for financial periods beginning on or after 1st January 2015.

#### SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 13 will be effective from financial periods beginning on or after 1st January 2014.

## Notes to the Financial Statements contd.

### 4 Financial Risk management

New business opportunities deregulation & globalization, new financial products and stiff competition in the industry illustrates 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 equitable 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.

#### 4.1 Credit Risk

Credit risk is the risk that arises due to inability or unwilling to meet a financial obligation by borrower, which can lead an asset to lose value or become worthless.

##### 4.1.1 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 for 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

##### 4.1.2 Loans and advances to customers

The transition to fair value based accounting (LKAS 32 and 39) with effect from 1st April 2012 required the present age wise classification to be replaced with a cash flow based approach. The approach adopted was to classify loans in to individually significant exposures and other loans in to homogenous portfolios by segment / product for necessary computations as appropriate.

As at	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Carrying amount at amortised cost			
- Individually significant - impaired	285,910,634	81,147,924	63,809,136
- Individually significant unimpaired and individually not significant loans	19,164,676,248	13,387,928,148	8,018,132,943
	19,450,586,882	13,469,076,072	8,081,942,079
<b>Individually significant - impaired</b>	<b>31.03.2013 Rs.</b>	<b>31.03.2012 Rs.</b>	<b>01.04.2011 Rs.</b>
Gross receivables	379,520,155	280,251,414	233,150,035
Allowance for impairment as at	(93,609,521)	(199,103,490)	(169,340,899)
	285,910,634	81,147,924	63,809,136

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, and generally are not updated except when a loan is individually assessed as impaired.



**Collateral wise analysis of Individually impaired loan**

As at	31.03.2013			31.03.2012		
	Gross Loan amount Rs.	Impairment provision Rs.	Carrying amount Rs.	Gross Loan amount Rs.	Impairment provision Rs.	Carrying amount Rs.
Secured by movable assets	307,820,652	54,660,518	253,160,135	192,049,765	138,796,374	53,253,391
Secured by immovable assets	24,589,410	8,763,362	15,826,048	41,256,076	13,361,543	27,894,533
Clean	47,110,093	30,185,642	16,924,452	46,945,573	46,945,573	-
	379,520,155	93,609,521	285,910,634	81,147,924	63,809,136	81,147,924

As at	31.03.2011		
	Gross Loan amount Rs.	Impairment provision Rs.	Carrying amount Rs.
Secured by movable assets	141,624,581	115,521,755	26,102,826
Secured by immovable assets	57,922,743	26,216,433	37,706,310
Clean	33,602,711	33,602,711	-
	233,150,035	169,340,899	63,809,136

**Individually significant unimpaired and individually not significant loans (collective impairment)**

	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Gross receivables	19,405,388,102	13,516,468,776	8,137,976,962
Allowance for impairment as at	(240,711,855)	(128,540,628)	(119,844,019)
	19,164,676,248	13,387,928,148	8,018,132,943

**Collectively impaired comprises**

As at	31.03.2013		31.03.2012		01.04.2011	
	Gross Loan amount Rs.	Impairment Provision Rs.	Gross Loan amount Rs.	Impairment Provision Rs.	Gross Loan amount Rs.	Impairment Provision Rs.
0-30 days	11,781,922,962	21,434,794	9,387,565,805	16,302,405	5,647,674,630	28,464,058
31-60 days	3,691,687,717	25,541,280	2,336,334,860	16,174,666	1,363,136,391	11,096,727
61-90 days	2,009,697,815	30,110,801	991,013,308	16,250,221	572,830,221	10,462,081
91-120 days	1,045,101,145	34,840,975	400,587,802	14,182,756	237,662,879	9,244,075
121-150 days	393,368,748	27,444,788	164,935,130	12,693,098	111,857,409	8,842,205
151-180 days	242,158,835	32,993,820	108,038,401	14,393,189	60,130,697	8,531,386
Above 180 days	241,450,880	68,345,396	127,993,470	38,544,293	144,684,735	43,203,487
	19,405,388,102	240,711,855	13,516,468,776	128,540,628	8,137,976,962	119,844,019

**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 are 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 standardized 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.

## Notes to the Financial Statements contd.

### 4.1.3 Credit concentration risk

Company monitors credit concentration risk under product portfolio and geographical distribution

Product Concentration	31.03.2013	%	31.03.2012	%	31.03.2012	%
	Rs.		Rs.		Rs.	
Leasing	10,908,899,044	55%	7,449,036,430	54%	5,115,331,982	61%
Hire Purchase	4,018,443,248	20%	2,903,053,045	21%	1,356,317,343	16%
Vehicle Loan	2,090,261,849	11%	1,496,479,102	11%	910,473,909	11%
Loans Against deposits	1,402,326,246	7%	1,061,582,795	8%	553,403,622	7%
Staff Loans	187,650,008	1%	153,253,560	1%	125,964,265	2%
Pawning	1,065,267,338	5%	619,978,157	4%	178,213,335	2%
Other	112,060,525	1%	113,337,101	1%	131,422,540	2%
<b>Total</b>	<b>19,784,908,258</b>	<b>100</b>	<b>13,796,720,190</b>	<b>100</b>	<b>8,371,126,997</b>	<b>100</b>

Geographical Concentration	31.03.2013	%	31.03.2012	%	31.03.2012	%
	Rs.		Rs.		Rs.	
Central	849,907,252	4%	1,064,190,875	8%	296,542,063	4%
Eastern	241,066,933	1%	517,664,741	4%	53,342,137	1%
North	401,055,515	2%	410,992,960	3%	175,287,842	2%
North Central	1,233,225,030	6%	941,423,766	7%	440,738,960	5%
North western	1,525,404,266	8%	692,633,130	5%	666,170,262	8%
Sabaragamuwa	1,432,628,007	7%	299,688,652	2%	617,528,726	7%
Southern	805,959,111	4%	475,761,390	3%	327,032,196	4%
Uva	213,431,455	1%	334,233,534	2%	110,294,164	1%
Western	10,606,081,190	54%	7,270,765,613	53%	4,811,484,340	57%
Un Decided	2,476,149,499	13%	1,789,365,529	13%	872,706,309	10%
<b>Total</b>	<b>19,784,908,258</b>	<b>100</b>	<b>13,796,720,190</b>	<b>100</b>	<b>8,371,126,997</b>	<b>100</b>

### 4.1.4 Financial Investments

Deposits in commercial banks (based on credit rating)	31.03.2013	31.03.2012	01.04.2011
	Rs.	Rs.	Rs.
A-(lka)	512,405,741	83,860,696	43,025,637
AA+(lka)	111,822,835	106,418,646	101,597,100
AA-(lka)	152,359,217	25,197,802	52,244,637
AA-(lka)	319,847,306	109,316,256	63,625,729
AA+(lka)	-	-	-
BBB(lka)	79,544,772	11,177,084	10,302,747
A(lka)	110,325,625	158,842,033	-
AA(lka)	48,966,267	10,075,824	-
AAA(lka)	-	-	-
<b>Total</b>	<b>1,335,271,762</b>	<b>504,888,341</b>	<b>270,795,850</b>

Investments in equity securities at Available for Sale	31.03.2013	31.03.2012	01.04.2011
Unrated	563,943,600	458,193,600	411,600,000
<b>Investments in Securities Purchased under Re sale agreements at amortized cost</b>			
A-(lka)	50,000,000	261,000,000	65,000,000
AA+(lka)	15,164,014	65,000,000	122,379,059
AA-(lka)	26,000,000	-	-
AA+(lka)	15,000,000	-	-
AA(lka)	34,000,000	-	-
	140,164,014	326,000,000	187,379,059
<b>Investments in government securities at amortized cost</b>			
Government of Sri Lanka Treasury Bills	1,085,512,134	571,257,543	531,980,368
Government of Sri Lanka Treasury Bonds	60,034,848	16,368,103	-
	1,145,546,982	587,625,646	531,980,368
<b>Investment in debt securities at amortized cost</b>			
A-(lka)	5,043,269	1,000,000	1,000,000
	5,043,269	1,000,000	1,000,000

### Liquidity risk

Liquidity risk arises due to mismatch between assets and liabilities of the company; and as a result, inability to honor the liabilities when fallen due.

Managing the liquidity risk is utmost important to company like CDB since the breach of liquidity requirements will exposed 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 it's 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 quarterly basis to further evaluate the risks on liquidity.

### Exposure to liquidity risk

	2012/2013	2011/2012
Net loans/Total assets	79.91%	81.07%
Gross Loans/Customer deposits	111.15%	117.92%
Liquid Asset Ratio (LAR)		
Average for the year	13.94%	12.03%
Maximum for the year	14.69%	13.04%
Minimum for the year	11.19%	9.94%

Contractual maturities of the assets and liabilities of the Company is given on the Maturity Analysis on page 241.

## Notes to the Financial Statements contd.

### 4.3 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 act 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 minimize the normal losses incurred due to internal activities, restoring any disruption without impacting the core business of the company and mitigating replication 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

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 backup plans
- Stringent internal controls

### 4.4 Capital Management

The objective 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.

#### 4.4.1 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 upto which a business can expand in terms of its risk - weighted assets. Finance companies in pursuit of business expansion, could engage themselves in activities that regularly change their risk profile. In light of this, regulatory capital requirements have been established to avoid undue expansion beyond specified limits keeping a hold on companies' exposure to risk. Capital serves as a comfort to absorb unexpected losses, providing a degree of security to depositors and other key stakeholders.

This measure has been introduced by the Central Bank of Sri Lanka to protect the interest of the various stakeholders of the Company while ensuring the maintenance of confidence and stability of the financial system.

The capital adequacy ratio is calculated as a percentage of companies capital to its risk weighted assets as specified by the direction No 02 of 2006, Finance Companies (Risk Weighted Capital Adequacy Ratio) and there are two measures to define the capital adequacy of the Company namely Core capital to Risk Weighted asset ratio and Total Capital to Risk Weighted assets ratio.

The minimum requirement for Core Capital adequacy ratio and Total capital adequacy ratio are 5% and 10% respectively.

The core capital represents the permanent shareholders equity and reserves created or increased by appropriations of retained earnings or other surpluses and the total capital 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 weight specified by the Central Bank of Sri Lanka.

Details of the computation and the resulting ratios are given below.

As at	Balance			Risk Weight	Risk Weighted Balances		
	31.03.2013 Rs.'000	31.03.2012 Rs.'000	01.04.2011 Rs.'000	Factor %	31.03.2013 Rs.'000	31.03.2012 Rs.'000	01.04.2011 Rs.'000
Assets							
Cash and cash equivalent	205,326	121,343	49,343	0%	-	-	-
Investment in Government Securities	1,277,595	902,963	698,952	0%	-	-	-
Deposits with LCB	1,323,271	490,590	263,094	20%	264,654	98,118	52,619
Cash backed advances	1,402,326	958,816	489,985	0%	-	-	-
Pawning	1,065,267	578,139	171,904	0%	-	-	-
Loans against Real Estate		-	-	50%	-	-	-
Loans and advances	2,420,002	1,770,685	1,162,902	100%	2,420,002	1,770,685	1,162,902
Finance lease receivables	10,541,725	7,095,726	4,732,503	100%	10,541,544	7,095,726	4,732,503
Hire purchase receivables	3,959,725	2,846,242	1,299,575	100%	3,959,725	2,846,242	1,299,575
Other investment	571,689	462,020	417,600	100%	571,689	462,020	417,600
Inventories	399,259	210,693	149,634	100%	399,259	210,693	149,634
Other assets	584,917	615,826	526,713	100%	584,917	615,826	526,713
Property, plant & equipment	746,332	491,178	258,020	100%	746,332	491,178	258,020
<b>Total Risk - Weighted Assets</b>	<b>24,497,256</b>	<b>16,544,221</b>	<b>10,220,225</b>		<b>19,488,123.28</b>	<b>13,590,488</b>	<b>8,599,566</b>

### Total Capital Base Computation

As at	31.03.2013 Rs.'000	31.03.2012 Rs.'000	01.04.2011 Rs.'000
Capital Base			
Core Capital			
Stated Capital	1,185,062	1,114,961	396,850
Reserve Fund	385,715	278,737	152,650
General & other free Reserves	-	21,102	3,012
Published Retained Earnings	1,241,613	867,489	457,587
Total Core Capital	2,812,386	2,282,289	1,010,099
Supplimentary Capital			
General Provisions	-	31,754	69,691
Total Supplimentary Capital	-	31,754	69,691
Capital Base	2,812,386	2,314,043	1,079,790
Capital Adequacy ratio			
Core Capital ratio	<u>Core Capital</u>	14.43%	16.79%
	<u>Risk Weighted Assets</u>		11.75%
Total Capital Ratio	<u>Capital Base</u>	14.43%	17.03%
	<u>Risk Weighted Assets</u>		12.56%

Above figers are stated based on reporting requirement of CBSL.

## Notes to the Financial Statements contd.

For the period ended	Company		Group	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
<b>5 Income</b>				
Interest income	4,087,387,160	2,555,433,093	4,087,387,160	2,555,433,093
Other income	224,462,910	277,682,095	224,462,910	277,889,907
	4,311,850,070	2,833,115,188	4,311,850,070	2,833,323,000
<b>6 Interest income</b>				
Government Securities and Placements with Banks	229,018,983	76,306,475	229,018,983	76,306,475
Loans and Receivables to other customers				
Loans	705,652,516	419,798,811	705,652,516	419,798,811
Finance Leases	2,458,365,851	1,674,451,820	2,458,365,851	1,674,451,820
Hire Purchases	694,349,810	384,875,987	694,349,810	384,875,987
	4,087,387,160	2,555,433,093	4,087,387,160	2,555,433,093
<b>7 Interest expense</b>				
Deposits from customers	2,107,896,598	1,142,185,842	2,107,896,598	1,142,185,842
Debentures	31,237,363	31,871,610	31,237,363	31,871,610
Borrowings	247,436,298	137,878,665	247,436,298	137,878,665
	2,386,570,259	1,311,936,117	2,386,570,259	1,311,936,117
<b>8 Net Fees and commissions</b>				
Fee and commission income	119,915,360	107,818,889	119,915,360	107,818,889
Fee and commission expenses				
<b>Net fee and commission income</b>	119,915,360	107,818,889	119,915,360	107,818,889
<b>Comprising</b>				
Insurance Commission	119,231,286	107,213,872	119,231,286	107,213,872
Guarantee Commission Income	612,563	501,928	612,563	501,928
Commission on Money Remittances	71,511	103,089	71,511	103,089
	119,915,360	107,818,889	119,915,360	107,818,889
<b>9 Other operating income</b>				
Dividend Income	3,684,000	3,102,000	3,684,000	3,102,000
Profit on disposal of Leased Assets	41,065,375	50,952,168	41,065,375	50,952,168
Other operating income	59,798,175	115,809,038	59,798,175	116,016,850
	104,547,550	169,863,206	104,547,550	170,071,018
<b>10 Impairment losses on loans and advances and other credit risk provisions</b>				
Net charge against profit on loans and receivables to customers:				
Collective impairment charge/(release)				
Leases	92,542,509	9,651,564	92,542,509	9,651,564
Hire Purchases	14,789,891	(9,420,430)	14,789,891	(9,420,430)
Loans and Advances	4,838,827	7,391,643	4,838,827	7,391,643
Individual impairment charge				
Leases	7,668,222	32,519,829	7,668,222	32,519,829
Hire Purchases	7,716,984	3,938,765	7,716,984	3,938,765
Loans and Advances	1,231,626	(6,696,002)	1,231,626	(6,696,002)
<b>Total impairment losses and other credit risk provisions</b>	128,788,059	37,385,369	128,788,059	37,385,369

For the period ended	Company		Group	
	For the year ended 2013	For the year ended 2012	For the year ended 2013	For the year ended 2012
<b>11 OPERATING EXPENSES</b>				
Operating Expenses, among others , including the following :				
Depreciation of Property , Plant and Equipment & Amortization of Intangible Assets	83,541,045	58,537,507	83,541,045	58,537,507
Legal Expenses and Professional Fees	16,784,890	6,665,015	16,784,890	6,665,015
Staff related expenses	386,860,347	299,328,750	386,860,347	299,328,750
Directors Emoluments (11a)	30,671,680	25,166,268	30,671,680	25,166,268
Auditors Remuneration (11b)	2,390,000	1,230,000	2,390,000	1,330,000
Contribution to deposit Insurance scheme of CBSL	18,077,415	12,198,768	18,077,415	12,198,768
Advertising & Communication	146,711,283	98,900,092	146,711,283	98,900,092
Activities on Corporate social Responsibility	3,150,393	3,194,880	3,150,393	3,194,880
Employee Provident Fund and Trust Fund Expenses	27,912,686	22,313,433	27,912,686	22,313,433
Employee Define Benefit Plan Service Expenses	36,227,882	8,484,638	36,227,882	8,484,638
11(a) Directors Emoluments	30,671,680	25,166,268	30,671,680	25,166,268
The details report of the Directors Emoluments and Expenses Relating to the Key Management personnel are given under the Note No 39 (b)				
11(b) Auditors Remuneration				
Audit Fees and Expenses	1,400,000	900,000	1,500,000	1,000,000
Audit related fee and Expenses	800,000	55,000	800,000	55,000
Non- Audit Services	190,000	275,000	190,000	275,000
<b>12 Income Tax Expense</b>				
Current Income Tax Expense	70,318,896	45,284,529	70,318,896	45,304,151
(Over)/ Under provision in respect of prior periods	2,049,485	(607,107)	2,049,485	(607,107)
Deferred Tax Expense				
Effect of changes in tax rates				
Temporary Differences	62,750,103	(30,837,745)	62,750,103	(30,837,745)
Income Tax charge for the year	135,118,484	13,839,677	135,118,484	13,859,299

## Note A

## Notional Tax credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No 10 of 2006 and the amendments thereto, provide that a Company which derives interest income from the secondary market transactions of government securities would be entitle to a notional tax credit (one ninth of the net interest income) provided such interest income form part of statutory income of the company for that year of assessment.

Accordingly the net interest income earned by the group and the Company from secondary market transactions in Government Securities has been grossed up in these Financial Statements.

## Notes to the Financial Statements contd.

Reconciliation between income tax and expenses and the accounting profit	Company			Group
	For the Year Ended 31.03.2013 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2013 Rs.	For the Year Ended 31.03.2012 Rs.
Accounting Profit before Tax from operations	669,993,111	532,306,807	669,993,111	534,646,374
Tax expenses as per accounting profit	187,598,071	149,045,906	187,598,071	149,707,145
Tax Effect of Capital portion of Lease rentals	563,624,265	478,487,759	563,624,265	478,487,759
Income from Non Taxable Sources	(21,421,018)	(6,555,385)	(21,421,018)	(6,555,385)
Tax Effect of the Disallowed Expenses	53,098,627	30,981,755	53,098,627	30,340,138
Tax Effect of the Deductible Expenses & Tax Losses	(879,554,965)	(740,398,625)	(879,554,965)	(740,398,625)
	(96,655,020)	(88,438,590)	(96,655,020)	(88,418,967)
Tax Effect of the business losses of Leasing Business	(159,178,638)	(125,786,109)	(159,178,638)	(125,786,109)
Tax on Other Business profit	62,523,619	37,347,519	62,523,619	37,367,141
Tax on Dividend Distributed	7,795,277	7,937,010	7,795,277	7,937,010
Deferred Tax Expense	62,750,103	(30,837,745)	62,750,103	(30,837,745)
Prior period Under/ (Over) Provision	2,049,485	(607,107)	2,049,485	(607,107)
Income Tax Expense reported in the Comprehensive statement of income at the effective tax rates	135,118,484	13,839,677	135,118,484	13,839,677

A reconciliation between Tax expense and Accounting profit multiplied by the statutory Tax rate is as follows,

For the year ended 2012/2013	Company			Group		
	Leasing Business Rs.	Other Business Rs.	Total Rs.	Leasing Business Rs.	Other Business Rs.	Total Rs.
Accounting Profit before Tax from operations	376,933,189	293,059,922	669,993,111	376,933,189	292,959,922	669,893,111
Adjustments						
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 Expense	82,893,615	106,744,337	190,087,960	82,893,615	106,744,337	190,087,960
Allowable Expense	(2,982,032,240)	(46,916,196)	(3,028,948,436)	(2,982,032,240)	(46,816,196)	(3,028,848,436)
	(568,495,135)	343,778,686	(224,266,259)	(568,495,135)	343,778,686	(224,266,259)
Tax Loss Utilised		(120,480,045)	(120,480,045)		(120,480,045)	(120,480,045)
Taxable Income		223,298,641	(344,746,304)		223,298,641	(344,746,304)
Income Tax Rate		28%			28%	
Income Tax Payable		62,523,619			62,523,619	
Tax on Dividend Distributed		7,795,277			7,795,277	
Effective Tax Rate		21%			21%	
For the year ended 2011/12						
Accounting Profit before Tax from operations	269,386,102	262,920,705	532,306,807	269,386,102	265,282,272	534,668,374
Adjustments						
Capital Portion of Leasing Rental Due	1,708,884,854	-	1,708,884,854	1,708,884,854	-	1,708,884,854
Non Taxable Income	(79,932,868)	(59,100,549)	(139,033,417)	(79,932,868)	(59,100,549)	(139,033,417)
Disallowable Expense	159,962,839	64,860,605	224,823,444	159,962,839	62,606,052	222,568,891
Allowable Expense	(2,355,768,956)	(19,864,670)	(2,375,633,626)	(2,355,768,956)	(19,764,670)	(2,375,533,626)
	(297,468,029)	248,816,091	(48,651,938)	(297,468,029)	249,023,105	(48,444,924)
Tax Loss Utilised		(87,085,632)			(87,222,566)	
Taxable Income		161,730,459			161,800,539	
Income Tax Rate		28%			28%	
Income Tax Payable		45,284,529			45,304,151	
Tax on Dividend Distributed						
Effective Tax Rate		17.22%			17.08%	



**12.1 Income tax effects relating to other comprehensive income**

Other comprehensive income consist of fair value appreciation of available for sale investment which is not taxable as per current tax legislations

**13 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	Company		Group	
	For the Year Ended 31.03.2013 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2013 Rs.	For the Year Ended 31.03.2012 Rs.
Profit attributable to Ordinary Share Holders	534,874,628	518,467,129	534,774,628	518,467,129
Amount used as the Numerator Profit attributable for the period	534,874,628	518,467,129	534,774,628	518,467,129
Amount used as the Denominator Weighted Average No of Shares outstanding during the year under	53,526,310	50,450,979	53,526,310	50,450,979
Earning Per Share	9.99	10.28	9.99	10.28

Weighted average No of ordinary shares outstanding during the year 2011/12 was restated to reflect the impact of the script dividend.

Diluted EPS is same as Basic EPS

**14 Dividends per Share**

	Company		Group	
	31.03.2013 Rs.	31.03.2013 Rs.	31.03.2013 Rs.	31.03.2013 Rs.
Dividend per Share (DPS)	2.75*	2.50	2.75	2.50

\* Proposed dividend

In accordance with the provision of the Sri Lanka Accounting Standard No 10 on Events After the Reporting Period". This proposed first & final dividend has not been recognized as a liability as at the year end.

**15 Financial Instruments****Classification**

Financial assets are classified between four measurement categories: held at fair value through profit or loss (comprising trading and designated), available-for-sale, loans and receivables and held-to-maturity; and two measurement categories for financial liabilities: held at fair value through profit or loss (comprising trading and designated) and amortised cost. Instruments are classified in the Statement of Financial Position in accordance with their legal form, except for instruments that are held for trading purposes and those that the Group has designated to hold at fair value through the profit and loss account. The latter are combined on the face of the balance sheet and disclosed as financial assets or liabilities held at fair value through profit or loss.

The Group's classification of its principal financial assets and liabilities is summarised in the table below

## Notes to the Financial Statements contd.

### 15.1 Company

As at 31st March 2013

Assets	Assets at fair value		Assets at amortised cost		Total
	Fair value through profit or loss	Available - for - sale	Loans and receivables	Held-to-maturity	
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</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
Financial Investments	-	-	140,164,014	1,150,590,251	1,290,754,265
Investment in Equity Shares	-	563,943,600	-	-	563,943,600
Investment in Subsidiaries	-	-	-	-	2,745,447
<b>Total financial assets</b>	-	563,943,600	21,131,348,937	1,150,590,251	22,848,628,235
Non financial Assets	-	-	-	-	1,633,543,655
<b>Total Assets</b>					24,482,171,890

As at 31st March 2012

Assets	Assets at fair value		Assets at amortised cost		Total
	Fair value through profit or loss	Available - for - sale	Loans and receivables	Held-to-maturity	
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>					
Cash and cash equivalents	-	-	121,343,098	-	121,343,098
Deposits in commercial banks	-	-	504,888,341	-	504,888,341
Loans and receivables to customers	-	-	13,469,076,072	-	13,469,076,072
Financial Investments	-	-	326,000,000	588,625,646	914,625,646
Investment in Equity Shares	-	458,193,600	-	-	458,193,600
Investment in subsidiaries	-	-	-	-	2,745,447
<b>Total financial asset</b>	-	458,193,600	14,421,307,511	588,625,646	15,470,872,204
Non financial Assets	-	-	-	-	1,143,056,422
<b>Total Assets</b>					16,613,928,626

As at 31st March 2013

Liabilities	Fair value through profit or loss Rs.	Amortised cost Rs.	Total Rs.
<b>Financial liabilities</b>			
Due to banks	-	592,523,886	592,523,886
Deposit from customers	-	17,799,413,114	17,799,413,114
Debt securities in issue	-	259,378,311	259,378,311
Other borrowings	-	1,911,180,694	1,911,180,694
Total financial liabilities	-	20,562,496,005	20,562,496,005
Non Financial Liabilities	-	-	915,670,460
Total Liabilities	-	-	21,478,166,465

As at 31st March 2012

Liabilities	Fair value through profit or loss Rs.	Amortised cost Rs.	Total Rs.
<b>Financial liabilities</b>			
Due to banks	-	97,262,273	97,262,273
Deposit from customers	-	11,699,662,914	11,699,662,914
Debt securities in issue	-	257,898,116	257,898,116
Other borrowings	-	1,800,533,575	1,800,533,575
Total financial liabilities	-	13,855,356,878	13,855,356,878
Non Financial Liabilities	-	-	456,069,117
Total Liabilities	-	-	14,311,425,995

**15.2 Group**

As at 31st March 2013

Assets	Assets at fair value		Assets at amortised cost		Total Rs.
	Fair value through profit or loss Rs.	Available - for - sale Rs.	Loans and receivables Rs.	Held - to - maturity Rs.	
<b>Financial Assets</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
Financial Investments	-	-	140,164,014	1,150,590,251	1,290,754,265
Investment in Equity Shares	-	563,943,600	-	-	563,943,600
Total financial asset	-	563,943,600	21,134,684,463	1,150,590,251	23,058,892,294
Non financial Assets	-	-	-	-	1,423,869,675
Total Assets	-	-	-	-	24,482,761,969

## Notes to the Financial Statements contd.

As at 31st March 2012 Assets	Assets at fair value		Assets at amortised cost		Total Rs.
	Fair value through profit or loss Rs.	Available - for - sale Rs.	Loans and receivables Rs.	Held - to- maturity Rs.	
	<b>Financial Assets</b>				
Cash and cash equivalents	-	-	124,678,624	-	124,678,624
Deposits in commercial banks	-	-	504,888,341	-	504,888,341
Loans and receivables to customers	-	-	13,469,076,072	-	13,469,076,072
Financial Investments	-	-	326,000,000	588,625,646	914,625,646
Investment in Equity Shares	-	458,193,600	-	-	458,193,600
<b>Total financial asset</b>	-	458,193,600	14,424,643,037	588,625,646	15,471,462,283
Non financial Assets	-	-	-	-	1,143,055,622
<b>Total Assets</b>					16,614,517,905

As at 31st March 2013

Liabilities	Fair value through profit or loss Rs.	Amortised cost Rs.	Total Rs.
	<b>Financial liabilities</b>		
Due to banks	-	592,523,886	592,523,886
Deposit from customers	-	17,799,413,114	17,799,413,114
Debt securities in issue	-	259,378,311	259,378,311
Other borrowings	-	1,911,180,694	1,911,180,694
<b>Total financial liabilities</b>	-	20,562,496,005	20,562,496,005
Non Financial Liabilities	-	-	916,361,339
<b>Total Liabilities</b>			21,478,856,544

As at 31st March 2012

Liabilities	Fair value through profit or loss Rs.	Amortised cost Rs.	Total Rs.
	<b>Financial liabilities</b>		
Due to banks	-	97,262,273	97,262,273
Deposit from customers	-	11,699,662,914	11,699,662,914
Debt securities in issue	-	257,898,116	257,898,116
Other borrowings	-	1,800,533,575	1,800,533,575
<b>Total financial liabilities</b>	-	13,855,356,878	13,855,356,878
Non Financial Liabilities	-	-	456,659,196
			14,312,016,074

## 15.3 Valuation of financial instruments

### 15.3.1 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.

#### 15.3.1.1 Financial Assets – available for sale

CDB has classified the investment in quoted ordinary share 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 price as per last trading 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 2013 is Rs. 563,943,600 ( 2012 : Rs. 458,193,600). Total gain recognized in the equity on this investment for the year ended 31st March 2013 is Rs. 105,750,000 (2012: Rs. 46,593,600)

CDB has not valued any of its financial instruments at fair value using level 2 techniques or level 3 techniques of the valuation hierarchy.

#### Transfers between level 3 and 2

There were no transfers between level 3 and 2 during the period.

#### Transfers between level 1 and 2

There were no transfers between level 1 and 2 during the period.

## Notes to the Financial Statements contd.

### 15.3.2 Fair value of financial assets and financial liabilities 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 31 March and may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument.

	Company 31.03.2013	
	Carrying value Rs.	Fair value Rs.
<b>Assets</b>		
Cash and balances at central banks (15.3.2.1)	205,326,279	205,326,279
Deposits in commercial banks (15.3.2.2)	1,335,271,762	1,335,271,762
Loans and advances to customers (15.3.2.3)	19,450,586,882	19,122,081,041
Financial Investments - Held - to- maturity (15.3.2.4)	1,150,590,251	1,151,110,626
Financial Investments - Loans and receivable (15.3.2.5)	140,164,014	140,164,014
Investment in subsidiaries	2,745,447	2,745,447
	<u>22,284,684,635</u>	<u>21,956,699,169</u>
<b>Liabilities</b>		
Due to banks (15.3.2.7)	592,523,886	592,523,886
Deposit from customers (15.3.2.8)	17,799,413,114	17,866,409,049
Debentures (15.3.2.8)	259,378,311	253,670,433
Other borrowings (15.3.2.8)	1,911,180,694	1,922,558,988
Other financial liabilities (15.3.2.9)	726,535,918	726,535,920
	<u>21,289,031,923</u>	<u>21,361,698,276</u>

#### Note :

##### Comparative figures

Comparative figures of fair values of financial assets and financial liabilities not carried at fair value were not presented due to the impracticability of calculation

##### Group financial statements

There were no any material fair value adjustment for group financial assets and financial liabilities other than adjustment made to company financial assets and financial liabilities

For financial assets and financial liabilities that have a short term maturity (less than three months) is assumed that the carrying amounts is their fair value. This assumption is also apply to savings accounts without a specific maturity.

The following sets out the Group's basis of establishing fair values of the financial instruments shown above.

#### 15.3.2.1 Cash and balances at demand deposit accounts in commercial banks

The fair value of cash and balances at demand deposit accounts in commercial banks are their carrying amounts

#### 15.3.2.2 Deposits in commercial banks

For deposits in commercial banks, the fair value of floating rate saving deposits and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for such deposits with a similar credit risk and remaining maturity

#### 15.3.2.3 Loans and Receivables to customers

The fair value of loans and advances to customers with a maturity of less than one year is their carrying value. Loans and advances are presented net of provisions for impairment. The estimated fair value of loans and advances with a maturity of more than one year represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

#### 15.3.2.4 Financial Investments - Held - to- maturity

The estimated fair value of Treasury Bills and Treasury Bonds is based on discounted cash flows using the prevailing money market rates for such securities with a similar characteristics and remaining maturity.

#### 15.3.2.5 Financial Investments - Loans and receivable

(Securities Purchased under Re sale agreements)

The fair value of REPO investment is their carrying amounts since the maturity period is very short.

#### 15.3.2.6 Other Financial Assets

Fair value of other financial liabilities is assume to be their carrying value

#### 15.3.2.7 Due to banks

For loans from banks, the fair value of floating rate loans is their carrying amounts. The estimated fair value of fixed interest loans is based on discounted cash flows using the prevailing money market rates for such loans.

#### 15.3.2.8 Deposits and Other borrowings

The estimated fair value of fixed interest bearing deposits and other borrowings is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity. Fair value deposits and other borrowings maturing within one year is assume to be the carrying amount

#### 15.3.2.9 Other Financial liabilities

Fair value of other financial liabilities is assumed to be their carrying value

## Notes to the Financial Statements contd.

### 16 Cash and Cash equivalents

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Local currency in hand	99,030,882	22,403,123	335,720	99,030,882	22,403,123	335,720
Foreign currency in hand	9,335,776	-	-	9,335,776	-	-
Demand Deposit Balances With Licensed Commercial banks	96,959,621	98,939,975	49,007,338	100,295,147	102,275,501	51,957,255
	205,326,279	121,343,098	49,343,058	208,661,805	124,678,624	52,292,975

All cash and cash equivalents held by the group were available for use by the group

### 17 Deposits with Licensed Commercial banks

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Fixed deposit with banks	1,335,271,762	504,888,341	270,795,850	1,335,271,762	504,888,341	270,795,850

### 18 Loans and Receivables to customers

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Gross loans and receivables	19,784,908,258	13,796,720,190	8,372,200,828	19,784,908,258	13,796,720,190	8,372,200,828
Less : Individual impairment 18 (a)	(93,609,521)	(199,103,490)	(169,340,899)	(93,609,521)	(199,103,490)	(169,340,899)
Collective impairment 18 (b)	(240,711,855)	(128,540,628)	(120,917,850)	(240,711,855)	(128,540,628)	(120,917,850)
Net loans and receivables	19,450,586,882	13,469,076,072	8,081,942,079	19,450,586,882	13,469,076,072	8,081,942,079

#### 18 (a) Movement in individual impairment allowance for loans and receivables

	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance as at beginning of the year	199,103,490	169,340,899	199,103,490	169,340,898
Write off during the year	(122,110,801)	-	(122,110,801)	-
Impairment charge for the year	16,616,832	29,762,591	16,616,832	29,762,592
Balance as at and of the year	93,609,521	199,103,490	93,609,521	199,103,490

#### 18 (b) Movement in collective impairment allowance for loans and receivables

	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance as at beginning of the year	128,540,628	120,917,850	128,540,628	120,917,850
Net impairment charge for the year	112,171,227	7,622,778	112,171,227	7,622,778
Balance as at and of the year	240,711,855	128,540,628	240,711,855	128,540,628

#### 18 (c) Product wise analysis of loans and receivables

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Loans [18 (e)]	4,828,928,358	3,414,181,787	1,869,724,385	4,828,928,358	3,414,181,787	1,869,724,385
Lease rental receivable [18 (f)]	10,636,697,301	7,193,290,705	4,902,831,481	10,636,697,301	7,193,290,705	4,902,831,481
Net investment in Hiring contracts [18 (g)]	3,984,961,223	2,861,603,580	1,309,386,213	3,984,961,223	2,861,603,580	1,309,386,213
	19,450,586,882	13,469,076,072	8,081,942,079	19,450,586,882	13,469,076,072	8,081,942,079



## 18 (d) Industry wise analysis of loans and receivables

	Company			Group		
	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Transport	16,877,136,974	12,404,780,120	6,960,878,674	16,877,136,974	12,404,780,120	6,960,878,674
Trades	109,312,998	109,312,998	86,812,726	109,312,998	109,312,998	86,812,726
Pawning	1,065,267,338	619,978,157	178,213,335	1,065,267,338	619,978,157	178,213,335
Other	1,398,869,572	335,004,797	856,037,344	1,398,869,572	335,004,797	856,037,344
<b>Total</b>	<b>19,450,586,882</b>	<b>13,469,076,072</b>	<b>8,081,942,079</b>	<b>19,450,586,882</b>	<b>13,469,076,072</b>	<b>8,081,942,079</b>

## 18(e) Loans

	Company			Group		
	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Short Term Loans	1,410,036,770	1,070,569,896	564,726,162	1,410,036,770	1,070,569,896	564,726,162
Term and Vehicle Loans	2,090,261,849	1,496,479,102	910,473,909	2,090,261,849	1,496,479,102	910,473,909
Pawning Advances	1,065,267,338	619,978,157	178,213,335	1,065,267,338	619,978,157	178,213,335
Staff Loans	187,650,008	153,253,560	125,964,265	187,650,008	153,253,560	125,964,265
Loans Given to Employee Share ownership Trust [18 (j)]	104,350,000	104,350,000	120,100,000	104,350,000	104,350,000	120,100,000
	<b>4,857,565,965</b>	<b>3,444,630,715</b>	<b>1,899,477,671</b>	<b>4,857,565,965</b>	<b>3,444,630,715</b>	<b>1,899,477,671</b>
Impairment allowance for loans - Individual [18 (e)(i)]	(14,493,992)	(21,144,140)	(27,840,142)	(14,493,992)	(21,144,140)	(27,840,142)
Impairment allowance for loans - Collective [18 (e)(ii)]	(14,143,615)	(9,304,788)	(1,913,145)	(14,143,615)	(9,304,788)	(1,913,145)
<b>Net Loans and Advances</b>	<b>4,828,928,358</b>	<b>3,414,181,786</b>	<b>1,869,724,384</b>	<b>4,828,928,358</b>	<b>3,414,181,786</b>	<b>1,869,724,384</b>

## 18 (e) (i) Movements in Impairment allowance for loans - Individual

	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance at the beginning of the year	21,144,140	27,840,142	21,144,140	27,840,142
Write off during the year	(7,881,774)	-	(7,881,774)	-
Charge/(reversal) for the year	1,231,626	(6,696,002)	1,231,626	(6,696,002)
<b>Balance at the end of the year</b>	<b>14,493,992</b>	<b>21,144,140</b>	<b>14,493,992</b>	<b>21,144,140</b>

## 18 (e) (ii) Movements in Impairment allowance for loans - collective

	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance at the beginning of the year	9,304,788	1,913,145	9,304,788	1,913,145
Charge for the year	4,838,827	7,391,643	4,838,827	7,391,643
<b>Balance at the end of the year</b>	<b>14,143,615</b>	<b>9,304,788</b>	<b>14,143,615</b>	<b>9,304,788</b>

## 18 (f) Lease rental receivable

## Notes to the Financial Statements contd.

	Company			Group		
	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Total lease rental receivable	16,243,494,344	10,724,824,042	7,294,036,937	16,243,494,344	10,724,824,042	7,294,036,937
Unearned Interest Income	(5,334,595,300)	(3,275,787,612)	(2,178,704,955)	(5,334,595,300)	(3,275,787,612)	(2,178,704,955)
Gross lease rental receivable	10,908,899,044	7,449,036,430	5,115,331,982	10,908,899,044	7,449,036,430	5,115,331,982
Impairment allowance for lease rental receivables - Individual [18 (f)(i)]	(68,663,939)	(144,750,430)	(112,230,601)	(68,663,939)	(144,750,430)	(112,230,601)
Impairment allowance for lease rental receivables - Collective [18 (f)(ii)]	(203,537,804)	(110,995,295)	(100,269,900)	(203,537,804)	(110,995,295)	(100,269,900)
Net lease rental receivable	10,636,697,301	7,193,290,705	4,902,831,481	10,636,697,301	7,193,290,705	4,902,831,481

### 18 (f) (i) Movements in Impairment allowance for lease receivables - Individual

	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance at the beginning of the year		144,750,430	144,750,430	112,230,601
Write off during the year		(83,754,713)	(83,754,713)	-
Charge/(reversal) for the year		7,668,222	5,626,408	32,519,829
Balance at the end of the year		68,663,939	68,663,939	144,750,430

### 18 (f) (ii) Movements in Impairment allowance for lease receivable - collective

	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance at the beginning of the year	110,995,295	100,269,900	110,995,295	100,269,900
Charge/(reversal) for the year	92,542,509	10,725,395	92,542,509	10,725,395
Balance at the end of the year	203,537,804	110,995,295	203,537,804	110,995,295

	Company			Group		
	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
<b>18 (f) (iii) Lease rental receivable within one year</b>						
Total lease rental receivable within one year	5,388,487,625	3,662,801,048	2,694,679,933	5,388,487,625	3,662,801,048	2,694,679,933
Unearned Interest Income	(2,502,774,088)	(1,536,865,665)	(1,022,159,321)	(2,502,774,088)	(1,536,865,665)	(1,022,159,321)
Net lease rental receivable within one year	2,885,713,537	2,125,935,383	1,672,520,612	2,885,713,537	2,125,935,383	1,672,520,612
<b>18 (f) (iv) Lease rental receivable after one year before 5 years</b>						
Total lease rental receivable after one year before 5 years	10,606,581,160	6,639,900,553	4,230,814,183	10,606,581,160	6,639,900,553	4,230,814,183
Unearned Interest Income	(2,796,769,271)	(1,717,397,781)	(1,142,230,052)	(2,796,769,271)	(1,717,397,781)	(1,142,230,052)
Net Lease rental receivable after one year before 5 years	7,809,811,889	4,922,502,772	3,088,584,131	7,809,811,889	4,922,502,772	3,088,584,131
<b>18 (f) (v) Lease rental receivable after 5 year</b>						
Total lease rental receivable after 5 year	248,425,559	422,122,441	368,542,821	248,425,559	422,122,441	368,542,821
Unearned Interest Income	(35,051,941)	(21,524,166)	(14,315,582)	(35,051,941)	(21,524,166)	(14,315,582)
Net lease rental receivable after 5 year	213,373,618	400,598,275	354,227,239	213,373,618	400,598,275	354,227,239

**18 (h) Operating leases**

There were no non -cancellable operating leases as at reporting date.

**18 (i) Hire purchase receivable**

	Company			Group		
	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Gross hire purchase receivable	4,018,443,248	2,903,053,044	1,356,317,343	4,018,443,248	2,903,053,044	1,356,317,343
Impairment allowance for hire purchase receivables - Individual [18 (i)(i)]	(10,451,590)	(33,208,920)	(29,270,156)	(10,451,590)	(33,208,920)	(29,270,156)
Impairment allowance for hire purchase receivables - Collective [18 (i)(ii)]	(23,030,435)	(8,240,544)	(17,660,974)	(23,030,435)	(8,240,544)	(17,660,974)
Net hire purchase receivable	3,984,961,223	2,861,603,580	1,309,386,213	3,984,961,223	2,861,603,580	1,309,386,213

**18 i) (i) Movements in Impairment allowance for hire purchase receivables - Individual**

	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance at the beginning of the year	33,208,920	29,270,156	33,208,920	29,270,156
Write off during the year	(30,474,314)	-	(30,474,314)	-
Charge/(reversal) for the year	7,716,984	3,938,764	7,716,984	3,938,764
Balance at the end of the year	10,451,590	33,208,920	10,451,590	33,208,920

**18 (i) (ii) Movements in Impairment allowance for hire purchase receivable - collective**

	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Balance at the beginning of the year	8,240,544	17,660,974	8,240,544	17,660,974
Charge/(reversal) for the year	14,789,891	(9,420,430)	14,789,891	(9,420,430)
Balance at the end of the year	23,030,435	8,240,544	23,030,435	8,240,544

**18 (j) Loans Given to Employee Share ownership Trust**

- There were no shares issued to the Employee Share Ownership Schemes during the Financial year 2012/13
- There were no shares issued to the Employees from the Employee Share Ownership Schemes during the Financial year 2012/13
- The company or any of its subsidiaries have not directly or indirectly provided funds to the Employee Share Ownership schemes during the Financial year 2012/13.

**19 Financial investments - Available for sale**

As at	Company			Group		
	31.03.2013 Market value Rs.	31.03.2012 Market value Rs.	31.03.2011 Market value Rs.	31.03.2013 Market value Rs.	31.03.2012 Market value Rs.	31.03.2011 Market value Rs.
Quoted shares 19 (a)	563,943,600	458,193,600	411,600,000	458,193,600	411,600,000	411,600,000
Unquoted shares 19 (b)	-	-	-	-	-	-
	563,943,600	458,193,600	411,600,000	458,193,600	411,600,000	411,600,000

**Notes to the Financial Statements contd.**

**19 (a) Quoted shares held**

Company	31.03.2013		31.03.2012		01.04.2011	
	No of shares	Cost of investment Rs.	No of shares	Cost of investment Rs.	No of shares	Cost of investment Rs.
Ordinary Shares - Ceylinco insurance PLC	564,000	99,909,075	564,000	99,909,075	564,000	99,909,075
		563,943,600		458,193,600		411,600,000
		563,943,600		458,193,600		411,600,000
<b>Group</b>						
	No of shares	Cost of market value Rs.	No of shares	Cost of market value Rs.	No of shares	Cost of market value Rs.
Ordinary Shares - Ceylinco insurance PLC	564,000	99,909,075	564,000	99,909,075	564,000	99,909,075
		563,943,600		458,193,600		411,600,000
		563,943,600		458,193,600		411,600,000

**19 (b) Unquoted Shares held**

Company	31.03.2013		31.03.2012		01.04.2011	
	No of shares	Cost of investment Rs.	No of shares	Cost of investment Rs.	No of shares	Cost of investment Rs.
Ordinary Shares - Middleway Ltd Preference Shares - Middleway Limited	416,455	4,164,550	416,455	4,164,550	416,455	4,164,550
	2,050,000	20,500,000	2,050,000	20,500,000	2,050,000	20,500,000
		24,664,550		24,664,550		24,664,550
Provision for diminution in value		(24,664,550)		(24,664,550)		(24,664,550)
		-		-		-
<b>Group</b>						
	No of shares	Cost of investment Rs.	No of shares	Cost of investment Rs.	No of shares	Cost of investment Rs.
Ordinary Shares - Middleway Ltd Preference Shares - Middleway Limited	416,455	4,164,550	416,455	4,164,550	416,455	4,164,550
	2,050,000	20,500,000	2,050,000	20,500,000	2,050,000	20,500,000
		24,664,550		24,664,550		24,664,550
Provision for diminution in value		(24,664,550)		(24,664,550)		(24,664,550)
		-		-		-

**20 Financial investments - Held to Maturity**

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Government of Sri Lanka Treasury bills	1,085,512,134	571,257,543	531,980,368	1,085,512,134	571,257,543	531,980,368
Government of Sri Lanka Treasury bonds	60,034,848	16,368,103	-	60,034,848	16,368,103	-
Quoted Debenture	5,043,269	1,000,000	1,000,000	5,043,269	1,000,000	1,000,000
	1,150,590,251	588,625,646	532,980,368	1,150,590,251	588,625,646	532,980,368

**21 Financial Investment- Loans and Receivables**

Securities Purchased under Re sale agreements

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Securities Purchased under Re Sale agreements						
- Seylan Bank PLC	50,000,000	261,000,000	65,000,000	50,000,000	261,000,000	65,000,000
- Peoples Bank	15,164,014	65,000,000	122,379,059	15,164,014	65,000,000	122,379,059
- Commercial Bank of Ceylon PLC	34,000,000	-	-	34,000,000	-	-
- Bank of Ceylon	15,000,000	-	-	15,000,000	-	-
- Hatton National Bank PLC	26,000,000	-	-	26,000,000	-	-
	140,164,014	326,000,000	187,379,059	140,164,014	326,000,000	187,379,059

**22 Investment in subsidiaries**

Principal activity	31.03.2013		31.03.2012		01.04.2011	
	Holding	Cost Rs.	Holding	Cost Rs.	Holding	Cost Rs.
CDB Micro Finance Ltd Micro Lending	100%	5,000,000	100%	5,000,000	100%	5,000,000
Less: Provision for impairment		(2,254,553)		(2,254,553)		-
		2,745,447		2,745,447		5,000,000

## Notes to the Financial Statements contd.

### 23 Investment properties

As at	Company			Group		
	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
<b>Cost</b>						
Balance as at beginning of the Year	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977
Balance as at end of the period	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977
<b>Accumulated Depreciation</b>						
Balance as at beginning of the Year	-	-	-	-	-	-
Balance as at end of the period	-	-	-	-	-	-
Net Book Value as at end of the Period	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977	20,197,977
Market Value of the Property	36,000,000	36,000,000	32,000,000	36,000,000	36,000,000	32,000,000

The fair value of the investment Property is based on the market valuations carries out by Mr. D.S.N Perera Graduate member of the Institute of Values of Sri Lanka , who is independent valuer not connected with the Company. 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 have not been recognized since land has an indefinite life.

Information of the Freehold Land and Buildings of the company  
(As required by the Rule No 7.6 (vii) of the Listing Rules of the Colombo Stock Exchange)

Location	Type	Extent(Perches)	Cost	Fair Value
Biyagama	Land	120	20,197,977	36,000,000

### 24.1 Property, plant and equipment

As at	Land	Building	Furniture and Fittings	Computer Equipment	Office Equipment	Motor Vehicles Progress	Capital Work in	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>								
Balance at 31st March 2012	235,101,273	-	114,845,217	128,068,678	58,178,474	76,142,967	-	612,336,609
Additions during the period	18,983,000	5,961,989	27,096,117	29,553,014	38,885,066	5,792,482	19,197,893	145,469,561
Revaluations during the period	120,698,727	-	-	-	-	-	-	120,698,727
Disposal during the period	-	-	-	-	-	2,250,000	-	2,250,000
Balance as at 31.03.2013	374,783,000	5,961,989	141,941,334	157,621,692	97,063,540	79,685,449	19,197,893	876,254,897
<b>Depreciation</b>								
Balance as at 31st March 2012	-	-	42,637,196	49,848,802	22,601,560	26,269,094	-	141,356,652
Charge for the period	-	92,150	22,305,258	25,744,892	14,957,272	14,268,366	-	77,367,938
Disposal during the period	-	-	-	-	-	187,500	-	187,500
Balance as at 31.03.2013	-	92,150	64,942,454	75,593,694	37,558,832	40,349,960	-	218,537,090
W.D.V. at the end of the Year	374,783,000	5,869,840	76,998,880	82,027,998	59,504,706	39,335,489	19,197,893	657,717,807
W.D.V. at the beginning of the Year	235,101,273	-	72,208,021	78,219,876	35,576,914	49,873,873	661,978	470,979,957
W.D.V. as at 01.04.2011	63,524,745	-	62,791,706	67,660,280	25,844,904	18,000,285	-	237,821,921

The company has revalued its land on 31 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 land situated in the respective area.

Information of the Freehold Land and Buildings of the company  
(As required by the Rule No 7.6 (vii) of the Listing Rules of the Colombo Stock Exchange)

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

## 24.2 Intangible Assets

Computer Software	Company			Group		
	31.03.2013	31.03.2012	01.04.2011	31.03.2013	31.03.2012	01.04.2011
As at	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>						
At the beginning of the year	-	-	-	-	-	-
Additions during the period	75,288,486	-	-	75,288,486	-	-
Disposal during the period	-	-	-	-	-	-
At the year end	75,288,486	-	-	75,288,486	-	-
<b>Accumulated Amortization</b>						
At the beginning of the year	-	-	-	-	-	-
Charge for the period	6,173,107	-	-	6,173,107	-	-
Disposal during the period	-	-	-	-	-	-
At the year end	6,173,107	-	-	6,173,107	-	-
Net Book Value	69,115,379	-	-	69,115,379	-	-

There were no restrictions existed on the title of the intangible assets of the group as at the Financial Statement reporting date.

## 25 Other assets

	Company			Group		
	31.03.2013	31.03.2012	01.04.2011	31.03.2013	31.03.2012	01.04.2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Tax Receivables	207,065,061	230,243,004	203,492,588	207,065,061	230,243,004	203,492,588
Insurance premium receivable	254,058,633	55,216,220	51,579,987	254,058,633	55,216,220	51,579,987
Insurance commission receivable	18,617,425	14,094,141	11,897,254	18,617,425	14,094,141	11,897,254
Deferred staff cost on low interest loans	61,369,971	48,136,224	41,125,549	61,369,971	48,136,224	41,125,549
Vehicle stock	217,842,427	150,250,989	123,531,236	217,842,427	150,250,989	123,531,236
Gift Stock	5,748,938	7,189,232	-	5,748,938	7,189,232	-
Gold stock	8,456,040	-	-	8,456,040	-	-
Deferred transaction cost on saving deposit	28,240,495	-	-	28,240,495	-	-
Interest receivable	1,628,450	-	-	1,628,450	-	-
Other receivables and advances	83,485,052	115,910,933	161,906,311	83,485,052	115,910,933	161,906,311
	886,512,492	621,040,743	593,532,925	886,512,492	621,040,743	593,532,925

## Notes to the Financial Statements contd.

### 26 Due to banks

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Borrowings from local banks	592,523,886	97,262,273	-	592,523,886	97,262,273	-
	592,523,886	97,262,273	-	592,523,886	97,262,273	-

### 27 Deposits from Customers

	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Term Deposits	17,443,571,487	11,623,229,085	7,770,659,215	17,443,571,487	11,623,229,085	7,770,659,215
Savings Deposits	355,841,627	76,433,829	-	355,841,627	76,433,829	-
	17,799,413,114	11,699,662,914	7,770,659,215	17,799,413,114	11,699,662,914	7,770,659,215

### 28 Debentures

Unsecured , Subordinated, Redeemable Debentures

	Face value	Interest rate	Term	Issue date	Maturity date	Company			Group		
						31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
i) Year of issuance											
2006	7,959,000	14.0%	4 Years	3/7/06	3/7/10	-	-	8,809,123	-	-	8,809,123
	8,910,000	14.0%	5 Years	3/7/06	3/7/11	-	-	9,023,623	-	-	9,023,623
ii) Year of issuance											
2008	200,000	21.5%	2 Years	2/7/08	2/7/10	-	-	249,176	-	-	249,176
iii) Year of issuance											
2010	62,500,000	12.5	2.5 Years	12/30/10	6/30/13	64,844,578	64,474,529	64,474,529	64,844,578	64,474,529	64,474,529
	62,500,000	12.5	3 Years	12/30/10	12/30/13	64,844,578	64,474,529	64,474,529	64,844,578	64,474,529	64,474,529
	62,500,000	12.5	3.5 Years	12/30/10	6/30/14	64,844,578	64,474,529	64,474,529	64,844,578	64,474,529	64,474,529
	62,500,000	12.5	4 Years	12/30/10	12/30/14	64,844,577	64,474,529	64,474,529	64,844,578	64,474,529	64,474,529
<b>Total</b>						<b>259,378,311</b>	<b>257,898,116</b>	<b>275,980,038</b>	<b>259,378,311</b>	<b>257,898,116</b>	<b>275,980,038</b>
Due within one year						129,689,155	-	18,081,922	129,689,155	-	18,081,922
Due after one year						129,689,156	257,898,116	257,898,116	129,689,155	257,898,116	257,898,116
<b>Total</b>						<b>259,378,311</b>	<b>257,898,116</b>	<b>275,980,038</b>	<b>259,378,311</b>	<b>257,898,116</b>	<b>275,980,038</b>



**29 Other Borrowings**

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Securitisation	1,299,045,585	940,546,333	360,593,116	1,299,045,585	940,546,333	360,593,116
Commercial Papers	365,343,734	66,866,358	-	365,343,734	66,866,358	-
Other Borrowings	246,791,375	793,120,884	391,081,223	246,791,375	793,120,884	391,081,223
	1,911,180,694	1,800,533,575	751,674,339	1,911,180,694	1,800,533,575	751,674,339

**30 Deferred tax liabilities**

Company	2013 Temporary Difference Rs.	Tax Effect Rs.	2012 Temporary Difference Rs.	Tax Effect Rs.	2011 Temporary Difference Rs.	Tax Effect Rs.
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes - Own assets	164,883,682	46,167,431	114,336,905	32,014,333	-	-
Accelerated depreciation for tax purposes - Leased assets	1,483,678,676	415,430,029	760,002,527	212,800,707	-	-
Deferred Tax Assets on:						
Unutilised Tax Losses	1,470,332,774	411,693,177	955,867,547	267,642,913	-	-
Defined benefit plans	64,256,877	17,991,926	28,606,687	8,009,872	-	-
Net deferred tax liability	(113,972,707)	(31,912,358)	110,134,803	30,837,745	-	-
Group						
Accelerated depreciation for tax purposes - Own assets	164,883,682	46,167,431	114,336,905	32,014,333	-	-
Accelerated depreciation for tax purposes - Leased assets	1,483,678,676	415,430,029	760,002,527	212,800,707	-	-
Deferred Tax Assets on:						
Unutilised Tax Losses	1,470,332,774	411,693,177	955,867,547	267,642,913	-	-
Defined benefit plans	64,256,877	17,991,926	28,606,687	8,009,872	-	-
Net deferred tax (liability)/ assets	(113,972,707)	(31,912,358)	110,134,803	30,837,745	-	-

**31 Retirement benefit obligations**

As at	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Balance as at beginning of the year	28,606,687	20,676,229	11,146,870	28,606,687	20,676,229	11,146,870
Current service Cost	14,699,814	5,024,362	3,786,765	14,699,814	5,024,362	3,786,765
Past Service Cost	18,583,167	-	-	-	-	-
Interest Cost	2,860,669	2,067,623	1,226,156	2,860,669	2,067,623	1,226,156
Actuarial ( Gain)/ Loss	-	1,392,653	4,516,438	-	1,392,653	4,516,438
Payments made	(493,460)	(554,180)	-	-	(554,180)	-
Balance as at 31, March	64,256,877	28,606,687	20,676,229	64,256,877	28,606,687	20,676,229

**Amount Recognized in the Statement of Comprehensive Income**

For the year ended	Company		Group	
	31.03.2013 Rs.	31.03.2012 Rs.	31.03.2013 Rs.	31.03.2012 Rs.
Current service Cost	14,699,814	5,024,362	14,699,814	5,024,362
Interest Cost	2,860,669	2,067,623	2,860,669	2,067,623
Past Service Cost	18,583,167	-	18,583,167	-
Actuarial ( Gain)/ Loss	-	1,392,653	-	1,392,653
	36,143,650	8,484,638	36,143,650	8,484,638

## Notes to the Financial Statements contd.

### Retirement benefit obligations (Contd.)

#### Changes in the Present Value of the Obligation

	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	31.03.2012 Rs.	01.04.2011 Rs.
Present Value as at 31 Mar 2012	28,606,687	20,676,229	11,146,870	28,606,687	20,676,229	11,146,870
Interest Cost for the period	2,860,669	2,067,623	1,226,156	2,860,669	2,067,623	1,226,156
Current Service Cost for the period	14,699,814	5,024,362	3,786,765	14,699,814	5,024,362	3,786,765
Past Service Cost Non Vested benefits	59,969,668	-	-	59,969,668	-	-
Past Service Cost Vested benefits	4,324,065	-	-	4,324,065	-	-
Gratuity Paid during the year	(493,460)	(554,180)	-	(493,460)	(554,180)	-
Actuarial (Gain) / Loss	(6,803,343)	1,392,653	4,516,438	(6,803,343)	1,392,653	4,516,438
Present Value	103,164,100	28,606,687	20,676,229	103,164,100	28,606,687	20,676,229

An actuarial valuation of the Gratuity liability was carried out as at 31st March 2013 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 Method" the method recommended by the Sri Lanka Accounting Standard No 19 " Employee Benefits" The Company does not fund the gratuity liability in a separate Fund.

#### Actuarial Assumption

Normal retirement age	-	55 years (2011/12 -55 years)
Rate of discount	-	10% ( 2011/ 12 -10%)
Future Salary Increase	-	10 % ( 2011/ 12 -10%)

### 32 Other liabilities

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Accrued expenses	18,699,118	27,649,572	23,782,806	18,984,920	27,834,575	23,690,008
Supplier payables	189,443,067	-	-	189,443,067	-	-
Insurance premium payable	202,687,408	87,616,691	87,932,265	202,687,408	87,616,691	87,932,265
Dues to subsidiaries (CDB Micro Finance Limited)	-	-	177,796	-	-	177,796
Bank Overdraft	144,400,549	170,076,757	199,275,263	144,400,549	170,076,757	199,275,263
Advance Lease rental received	167,341,572	71,954,406	113,419,592	167,341,572	71,954,406	113,419,592
Differed transaction cost income	3,964,204	-	-	3,964,204	-	-
Other Liabilities	-	7,311,913	3,885,117	-	7,311,913	3,885,117
	726,535,918	364,609,339	428,472,842	726,821,720	364,794,342	428,380,041

### 33 Stated Capital

	31.03.2013		31.03.2012		01.04.2011	
	No of Shares	Value Rs.	No of Shares	Value Rs.	No of Shares	Value Rs.
Ordinary Shares						
Balance at the beginning of the year	51,968,516	1,114,960,915	39,685,048	396,850,480	39,685,048	396,850,480
Issued during the year						
Voting	-	-	6,614,175	462,992,250	-	-
Non Voting	2,336,691	70,100,730	5,669,293	255,118,185	-	-
Balance at the end of the year	54,305,207	1,185,061,645	51,968,516	1,114,960,915	39,685,048	396,850,480
Composition of Shares						
Voting	46,299,223	-	46,299,223	-	39,685,048	-
Non Voting	8,005,984	-	5,669,293	-	-	-
	54,305,207	-	51,968,516	-	39,685,048	-

**34 Reserve Fund**

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.
Balance at the beginning of the year	278,736,884	152,650,304	46,288,304
Transfers during the year	106,974,925	126,086,580	106,362,000
Balance as at the end of the period	385,711,809	278,736,884	152,650,304

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 the each year after due provisions has been made for taxation and bad and doubtful debts on 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 10%	50%

Accordingly, the Company has transferred 20% of its net profit after taxation to the Reserve Fund as Company's Capital Funds to Deposit Liabilities, belongs to less than 25% but not less than 10% category.

**35 Revaluation Reserve**

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Balance at the beginning of the year	12,066,286	15,082,857	15,082,857	12,066,286	15,082,857	15,082,857
Transfers during the year	120,698,727	(3,016,571)	-	120,698,727	(3,016,571)	-
Balance at the end of the year	132,765,013	12,066,286	15,082,857	132,765,013	12,066,286	15,082,857

The company has revalued its land on 31 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.

**36 Investment Fund Reserve**

	31.03.2013 Rs.	Company 31.03.2012 Rs.	01.04.2011 Rs.	31.03.2013 Rs.	Group 31.03.2012 Rs.	01.04.2011 Rs.
Balance at the beginning of the year	21,102,344	3,012,215	-	21,102,344	3,012,215	-
Transfers during the year	29,830,847	18,090,129	3,012,215	29,830,847	18,090,129	3,012,215
Balance at the end of the year	50,933,191	21,102,344	3,012,215	50,933,191	21,102,344	3,012,215

The Investment Fund Reserve is credited in accordance with the Central Bank guidelines issued to create and investment fund reserve 8% of the profit liable for VAT on Financial Service is transferred to the reserve monthly when the payment of VAT on Financial Services for each month is due.

## Notes to the Financial Statements contd.

### 37 Capital Commitments and Contingent Liabilities

#### 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 cards 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 customers. The maximum limit of the guarantee does not exceed the investment value of the customers.

Other than the matters disclosed above there were no material contingent liabilities that require adjustment in or disclosure to the Financial Statements as at the reporting date.

#### Capital Commitments

The Company has entered an agreement with Tudawa Brothers (Pvt) Ltd to construct the proposed head office building and the total cost of the construction is estimated to be Rs. 595,434,288.50

There were no material Capital Commitments other than above as at the reporting date.

### 38 EVENTS OCCURRING AFTER THE REPORTING DATE

The Board of Directors has recommended a dividend of three Rupees (Rs 2.75) per share on both its 46,299,223 voting ordinary shares and 8,005,984 nonvoting ordinary shares aggregating to a sum of rupees hundred and sixty two million nine hundred and fifteen thousand six hundred and twenty one as the first and final dividend for the financial year ended 31st March 2013.

There are no any other events occurring after reporting date which require disclosure/ Adjustments to the Financial Statements.

### 39 Transaction with Related Parties

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures'.

#### 39 (a) Transactions with Related Parties

Name of the Related Party	Name of the Director/ Trustees	Nature of the Transactions	Amount Rs.	Balance as at 31st March 2013 Due and (Payable) Rs.
Ceylinco Insurance PLC	Mr. D H J Gunawardena Mr. S R Abenayake	Placement of Deposits	172,000,000	(68,000,000)
		Treasury Transactions	43,327,700	-
		Insurance Premiums paid/Payable	345,978,471	(88,046,810)
		Insurance Commission	37,464,060	2,530,040
CDB ESOP Trust Fund (Pvt) Limited	Mr. P.A. Jayawardana Mr.R.Renganathan Mr. E.T.L. Ranasinghe	Loans given	Nil	104,350,000
} Trustees				

**39 (b) Transactions with Key management Personnel and close members of family of them**

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.

Compensation of KMP (Directors)	Non Executive -Independent	Non Executive	Executive	2012/13 Total	2011/12 Total
Short Term Employee benefits	1,800,000	1,920,000	24,371,200	28,091,200	24,410,268
Post employment benefits	Nil	Nil	2,580,480	2,580,480	756,000
Other long -Term Benefits	Nil	Nil	Nil	Nil	Nil
Termination Benefits	Nil	Nil	Nil	Nil	Nil
Share- Based payments	Nil	Nil	Nil	Nil	Nil
Total	1,800,000	1,920,000	26,951,680	30,671,680	25,166,268

## Notes to the Financial Statements contd.

### 40 Explanation of transition to LKASs/SLFRSs

As stated in Note 2.2 to the Financial Statements these are the Group's first consolidated financial statements prepared in accordance with LKASs/SLFRSs.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended 31 March 2013, the comparative information presented in these financial statements for the year ended 31 March 2012 and in the preparation of an opening SLFRS statement of financial position as at 1st April 2011 (the date of transition).

In preparing its opening SLFRS statement of financial position, the company has adjusted amounts reported previously in financial statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLAS to SLFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### 40 (a) Company

##### Reconciliation of Comprehensive income for the year ended 31st March 2012

	Notes	Previous SLAS Rs.	Effect of transition to SLFRSs Rs.	SLFRSs Rs.
Income		2,877,978,004	(44,862,816)	2,833,115,188
Interest income	40 (a) ii	2,553,702,309	1,730,784	2,555,433,093
Interest expenses	40 (a) i	1,305,679,428	6,256,689	1,311,936,117
Net interest income		1,248,022,881	(4,525,905)	1,243,496,976
Fees and commission income		107,818,889	-	107,818,889
Less :Fee and commission expense		-	-	-
Net fee and commission income		107,818,889	-	107,818,889
Net interest, fee and commission income		1,355,841,770	(4,525,905)	1,351,315,865
Net trading income		-	-	-
Other operating income	40 (a) iii	216,456,806	(46,593,600)	169,863,206
Total operating income		1,572,298,576	(51,119,505)	1,521,179,071
Less :Impairment charges for loans and other losses	40 (a) iv	(17,230,396)	54,615,765	37,385,369
Net operating income		1,589,528,972	(105,735,270)	1,483,793,702
Less				
Operating expenses				
Staff costs	40 (a) vi	293,098,247	6,230,503	299,328,750
Premises, Equipment and establishment expenses		347,968,357	-	347,968,357
Other Operating Expenses		275,990,807	-	275,990,807
		917,057,411	6,230,503	923,287,914
Operating profit before value added tax		672,471,561	(111,965,773)	560,505,788
Value added tax (vat) on financial services		28,198,982	-	28,198,982
Profit before taxation		644,272,579	(111,965,773)	532,306,806
Taxation		13,839,677	-	13,839,677
Profit for the year		630,432,902	(111,965,773)	518,467,129
Other comprehensive income , Net of income tax				
Available-for-sale investments:				
Net valuation (losses)/gains taken to equity	40 (a) v	-	46,593,600	46,593,600
Other comprehensive income for the year, net of taxation		-	46,593,600	46,593,600
Total comprehensive income for the year		630,432,902	(65,372,173)	565,060,729

## Reconciliation of Financial position

Notes	31 March 2012			1 April 2011		
	Previous SLAS Rs.	Effect of transition to SLFRSs Rs.	SLFRSs Rs.	Previous SLAS Rs.	Effect of transition to SLFRSs Rs.	SLFRSs Rs.
<b>Assets</b>						
Cash and cash equivalents	121,343,098	-	121,343,098	49,343,058	-	49,343,058
Investment in Government securities	40 (a) viii	576,963,367	(576,963,367)	511,573,349	(511,573,349)	-
Deposits in commercial banks	40 (a) ix	490,589,920	14,298,421	504,888,341	263,094,355	7,701,496
Securities Purchase under resale agreements	40 (a) x	326,000,000	(326,000,000)	-	187,379,059	(187,379,059)
Loans & Advances	40 (a) xi	3,307,640,589	(3,307,640,589)	-	1,824,790,687	(1,824,790,687)
Net Investments in Leases	40 (a) xi	7,095,726,690	(7,095,726,690)	-	4,732,503,045	(4,732,503,045)
Net Investments in Hiring Contracts	40 (a) xi	2,846,241,640	(2,846,241,640)	-	1,299,575,070	(1,299,575,070)
Loans and receivables to other customers	40 (a) xii	-	13,469,076,072	13,469,076,072	-	8,081,942,079
Investment securities	40 (a) xiii	459,193,600	(459,193,600)	-	412,600,000	(412,600,000)
Financial Investments - Available for sale	40 (a) xiv	-	458,193,600	458,193,600.00	-	411,600,000
Financial Investments - Held - to- maturity	40 (a) xv	-	588,625,646	588,625,646	-	532,980,368
Financial Investments - Loans and receivable	40 (a) xvi	-	326,000,000	326,000,000	-	187,379,059
Investment in subsidiaries		2,745,447	-	2,745,447	5,000,000	-
Investment properties		20,197,977	-	20,197,977	20,197,977	-
Property, plant and equipment		470,979,957	-	470,979,957	237,821,921	-
Deferred tax assets		30,837,745	-	30,837,745	-	-
Other assets	40 (a) xvii	795,681,520	(174,640,777)	621,040,743	676,346,973	(82,814,047)
<b>Total assets</b>		<b>16,544,141,550</b>	<b>69,787,076</b>	<b>16,613,928,625</b>	<b>10,220,225,494</b>	<b>170,367,745</b>
<b>Liabilities</b>						
Due to banks	40 (a) xviii	-	97,262,273	97,262,273	-	-
Deposit from customers	40 (a) xix	11,388,775,586	310,887,327	11,699,662,913	7,488,743,205	281,916,010
Debentures	40 (a) xx	250,000,000	7,898,117	257,898,117	267,069,000	8,911,038
Other borrowings	40 (a) xxi	1,730,205,633	70,327,941	1,800,533,574	735,077,881	16,596,458
Current tax liabilities		62,853,091	-	62,853,091	44,429,014	44,429,014
Deferred tax liabilities		-	-	-	-	-
Retirement benefit obligations		28,606,687	28,606,687	20,676,229	20,676,229	-
Other liabilities	40 (a) xxii	789,344,790	(424,735,451)	364,609,339	639,047,644	(210,574,802)
<b>Total liabilities</b>		<b>14,249,785,787</b>	<b>61,640,207</b>	<b>14,311,425,994</b>	<b>9,195,042,973</b>	<b>96,848,704</b>
<b>Equity</b>						
Stated capital		1,114,960,915	-	1,114,960,915	396,850,480	-
Reserve fund		278,736,884	-	278,736,884	152,650,304	-
Revaluation Reserve		12,066,286	-	12,066,286	15,082,857	-
Investment Fund Reserve		21,102,344	-	21,102,344	3,012,215	-
AFS Reserve		-	358,284,525	358,284,525	-	311,690,925
Retained Earnings		867,489,334	(350,137,657)	517,351,677	457,586,665	(238,171,884)
<b>Total parent company shareholders' equity</b>		<b>2,294,355,762</b>	<b>8,146,868</b>	<b>2,302,502,631</b>	<b>1,025,182,521</b>	<b>73,519,041</b>
Non-controlling interests		-	-	-	-	-
<b>Total equity</b>		<b>2,294,355,762</b>	<b>8,146,868</b>	<b>2,302,502,631</b>	<b>1,025,182,521</b>	<b>73,519,041</b>
<b>Total equity and liabilities</b>		<b>16,544,141,550</b>	<b>69,787,076</b>	<b>16,613,928,625</b>	<b>10,220,225,494</b>	<b>170,367,745</b>

## Notes to the Financial Statements contd.

### Reconciliation of equity

As at	31.03.2012 Rs.	31.03.2011 Rs.
Equity (as per SLAS applicable immediately prior to 1st January 2012)	2,294,355,762	1,025,182,521
Add/(less) : Impact on SLFRS/LKAS adoption		
Impairment on loans & advances	(54,615,765)	-
Recognition of interest in suspense	52,405,318	56,948,153
Accounted for interest on deposits from customers based on effective interest rate method	4,985,835	5,003,941
Accounted for interest on other borrowings based on effective interest rate method	5,328,364	11,566,947
Accounted for interest on Held-to-Maturity treasury bills and bonds based on effective interest rate method	43,116	-
<b>Equity as per LKASs/SLFRSs</b>	<b>2,302,502,631</b>	<b>1,098,701,562</b>

### Explanation of transition to LKASs/SLFRSs

#### 40 (a) Company

##### 40 (a) (i) Interest income

Following changes had a impact on interest income

#### For the year ended 31st March

2012  
Rs.

Interest in Suspense (a)	(4,542,835)
Amortization of prepaid staff cost (b)	6,230,503
Effective interest rate adjustment on Treasury Bonds ( c )	43,116
	<b>1,730,784</b>

- a) Interest in suspense are not applicable under LKASs/SLFRSs. Accordingly, company has reversed the interest in suspense which had been made in accordance with the Central Bank of Sri Lanka regulations
- b) The company measured the staff loans granted at reduced interest rates at fair value, based on the market interest rates that prevailed at the time of granting the loan. Accordingly interest is accounted for at market interest rate while the interest benefit accruing to the staff member is treated as a prepaid staff cost. prepaid staff cost is amortized over the tenor of the loan as same as interest recognized.
- c) The company changed its method of recognising interest on Held-to-Maturity treasury bills and bonds to effective interest rate method in accordance with LKAS 39 - Financial Instruments - Recognition & Measurements where the interest was previously accounted for on straight line basis.

##### 40 (a) ii Interest expenses

Following changes had a impact on interest expenses

#### For the year ended 31st March

2012  
Rs.

Effective interest rate adjustment of deposits & borrowings (a)	6,256,689
	<b>6,256,689</b>

- a) The company accounted for interest on deposits from customers, other borrowings and debentures on effective interest method in accordance with LKAS 39- Financial Instruments - Recognition & Measurements where the interest cost was previously accounted for on straight line basis.

##### 40 (a) iii Other operating income

Following changes had a impact on other operating income

#### For the year ended 31st March

2012  
Rs.

Reclassification of gain on AFS investments (a)	(46,593,600)
	<b>(46,593,600)</b>

- a) The Company reclassified the gains on available for sale financial assets as other comprehensive income in accordance with SLFRSs where previously recognised in the Income Statements under other operating income



## 40 (a) iv Impairment charges for loans and other losses

Following changes had a impact on other operating income

For the year ended 31st March	2012 Rs.
Effect of impairment (a)	54,615,765
Adjustment for profit for the period	54,615,765

- a) The company calculated the impairment charge on loans and receivable in accordance with LKAS 39- Financial Instruments - Recognition & Measurements where previously calculation was done in accordance with CBSL guidelines

## 40 (a) v Other comprehensive income

Following changes had a impact on other comprehensive income

For the year ended 31st March	2012 Rs.
Reclassification of gain on AFS investments (a)	46,593,600
	46,593,600

- a) The Company reclassified the gains on available for sale financial assets as other comprehensive income in accordance with SLFRSs where previously recognised in the Income Statements under other operating income

## 40 (a) vi Staff cost

Following changes had a impact on staff cost

For the year ended 31st March	2012 Rs.
Amortization of prepaid staff cost (a)	6,230,503
	6,230,503

- a) The company measured the staff loans granted at reduced interest rates at fair value, based on the market interest rates that prevailed at the time of granting the loan. Accordingly interest is accounted for at market interest rate while the interest benefit accruing to the staff member is treated as a prepaid staff cost. Prepaid staff cost is amortized over the tenor of the loan as same as interest recognized.

## 40 (a) vii Other operating income

Following changes had a impact on other operating income

For the year ended 31st March	2012 Rs.
Reclassification of gain on AFS investments (a)	(46,593,600)
	(46,593,600)

- a) The Company reclassified the gains on available for sale financial assets as other comprehensive income in accordance with SLFRSs where previously recognised in the Income Statements under other operating income

## 40 (a) viii Investment in Government securities

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of investment in government securities (a)	(576,963,367)	(511,573,349)
	(576,963,367)	(511,573,349)

- a) The company reclassified the investment in government securities as Financial investments - Held to Maturity

## Notes to the Financial Statements contd.

40 (a) ix Deposits in commercial banks

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of interest receivables (a)	14,298,421	7,701,496
	14,298,421	7,701,496

a) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.

40 (a) x Securities Purchase under resale agreements

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification as Financial Investment - Loans and receivable (a)	(326,000,000)	(187,379,059)
	(326,000,000)	(187,379,059)

a) The Company reclassified the securities purchase under resale agreements as "Financial Investment - Loans and receivables"

40 (a) xi Loans and advances, Net investment in leases and net investment in hiring contract

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of (a)		
Loans and advances	(3,307,640,589)	(1,824,790,687)
Net Investments in Leases	(7,095,726,690)	(4,732,503,045)
Net Investments in Hiring Contracts	(2,846,241,640)	(1,299,575,070)
	(13,249,608,919)	(7,856,868,802)

a) The Company reclassified the Loans and advances, Net investment in leases and net investment in hiring contract as Loans and Receivables to other customers

40 (a) xii Loans and receivables to other customers

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification (a)		
Loans and advances	3,307,640,589	1,824,790,687
Net Investments in Leases	7,095,726,690	4,732,503,045
Net Investments in Hiring Contracts	2,846,241,640	1,299,575,070
Reclassification of interest receivables (b)	144,606,026	69,728,255
Reversal of interest in suspense (c)	52,405,318	56,948,153
Changes in impairment provision (d)	(54,615,765)	-
Fair value adjustment of concessionary interest rate staff loans (e)	(48,136,224)	(41,125,549)
Reclassification of reprocessed stock (f)	53,253,391	26,102,826
Reclassification of advance rentals (g)	71,954,406	113,419,592
	13,469,076,072	8,081,942,079

a) The Company reclassified the Loans and advances, Net investment in leases and net investment in hiring contract as Loans and Receivables

b) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.

c) Interest in suspense are not applicable under LKASs/SLFRSs. Accordingly, company reversed the interest in suspense which had been made in accordance with the Central Bank of Sri Lanka regulations

d) The company calculated the impairment charge on loans and receivable in accordance with LKAS 39- Financial Instruments - Recognition & Measurements where previously calculation was done in accordance with CBSL guidelines

e) The company measured the staff loans granted at reduced interest rates at fair value, based on the market interest rates that prevailed at the time of granting the loan. Accordingly interest is accounted for at market interest rate while the interest benefit accruing to the staff member is treated as a prepaid staff cost

f) The Company reclassified the reprocessed stock and legal receivables on leasing contracts into loans and receivables to customers.

g) The Company reclassified the advance rentals received from leasing customers as other liabilities

## 40 (a) xiii Investment securities

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of investment securities (a)	(459,193,600)	(412,600,000)
	(459,193,600)	(412,600,000)

- a) The Company reclassified the investment securities as Financial Investment - available for sale OR Financial Investment - Held To Maturity in accordance with LKAS 32 - Financial Instruments - Presentation

## 40 (a) xiv Financial Investments - Available for sale

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of investment securities (a)	458,193,600	411,600,000
	458,193,600	411,600,000

- a) The Company reclassified the investment securities as Financial Investment - available for sale OR Financial Investment - Held To Maturity in accordance with LKAS 32 - Financial Instruments - Presentation

## 40 (a) xv Financial Investments - Held - to- maturity

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of investment securities (a)	1,000,000	1,000,000
Reclassification of investment in government securities (b)	576,963,367	511,573,349
Reclassification of interest receivables (c)	10,619,163	20,407,019
Effective interest rate adjustment (d)	43,116	-
	588,625,646	532,980,368

- a) The Company reclassified the investment securities as Financial Investment - available for sale OR Financial Investment - Held To Maturity in accordance with LKAS 32 - Financial Instruments - Presentation
- b) The company reclassified the investment in government securities as Financial investments - Held-to-Maturity
- c) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.
- d) The company changed its method of recognising interest on Held-to-Maturity treasury bills and bonds to effective interest rate method in accordance with LKAS 39 - Financial Instruments - Recognition & Measurements where the interest was previously accounted for on straight line basis.

## 40 (a) xvi Financial Investments - Loans and receivable

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of Securities Purchase under resale agreements (a)	326,000,000	187,379,059
	326,000,000	187,379,059

- a) The Company reclassified the securities purchase under resale agreements as "Financial Investment - Loans and receivables"

## 40 (a) xvii Other assets

As at	31.03.2012 Rs.	31.03.2011 Rs.
Fair value adjustment of concessionary interest rate staff loans (a)	48,136,224	41,125,549
Reclassification of interest receivables (b)	(169,523,610)	(97,836,770)
Reclassification of reprocessed stock (c)	(53,253,391)	(26,102,826)
	(174,640,777)	(82,814,047)

- a) The company measured the staff loans granted at reduced interest rates at fair value, based on the market interest rates that prevailed at the time of granting the loan. Accordingly interest is accounted for at market interest rate while the interest benefit accruing to the staff member is treated as a prepaid staff cost
- b) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.
- c) The Company reclassified the reprocessed stock and legal receivables on leasing contracts into loans and receivables to customers.

## Notes to the Financial Statements contd.

### 40 (a) xviii Due to banks

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of bank loans (a)	97,262,273	-
	97,262,273	-

a) The Company reclassified the loans taken from banks as due to banks which have reported as borrowings in previous financial statements

### 40 (a) xix Deposits from customers

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of interest payables (a)	315,873,162	286,919,950
Effective interest rate adjustment of deposits from customers (b)	(4,985,835)	(5,003,941)
	310,887,327	281,916,010

a) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.

b) The company accounted for interest on deposits from customers, other borrowings and debentures on effective interest method in accordance with LKAS 39- Financial Instruments - Recognition & Measurements where the interest cost was previously accounted for on straight line basis.

### 40 (a) xx Debentures

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of interest payables ( a)	7,898,117	8,911,038
	7,898,117	8,911,038

a) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.

### 40 (a) xxi Other Borrowings

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of bank loans (a)	(97,262,273)	-
Reclassification of interest payables (b)	172,918,578	28,163,405
Effective interest rate adjustment of borrowings (c)	(5,328,364)	(11,566,947)
	70,327,941	16,596,458

a) The Company reclassified the loans taken from banks as due to banks which have reported as borrowings in previous financial statements

b) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.

c) The company accounted for interest on deposits from customers, other borrowings and debentures on effective interest method in accordance with LKAS 39- Financial Instruments - Recognition & Measurements where the interest cost was previously accounted for on straight line basis.

### 40 (a) xxii Other liabilities

As at	31.03.2012 Rs.	31.03.2011 Rs.
Reclassification of interest payables (a)	(496,689,857)	(323,994,394)
Reclassification of advance rentals ( b)	71,954,406	113,419,592
	(424,735,451)	(210,574,802)

a) The Company reclassified interest receivable and interest payables accounted for in other assets and other liabilities respectively to the related asset or liability.

b) The Company reclassified the advance rentals received from leasing customers as other liabilities

### 40 (b) Group

Apart from the adjustments to the Company figures reflected above there are no changes to the consolidated financial statements from the transition to LKASs/SLFRSs.

**41 Operating Segmental Analysis**

As per the SLFRS 8 "Operating segments" Company requires 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 of performance of the company main business lines.

**Company**

	Lease & Stock out on Hire		Loans		Pawning		Others		Total	
	31-03-2013 Rs.	31-03-2012 Rs.	31-03-2013 Rs.	31-03-2012 Rs.	31-03-2013 Rs.	31-03-2012 Rs.	31-03-2013 Rs.	31-03-2012 Rs.	31-03-2013 Rs.	31-03-2012 Rs.
Interest	3,152,715,660	1,880,075,207	554,936,222	228,246,656	150,716,294	65,970,230	229,018,984	381,141,000	4,087,387,160	2,555,433,093
Non Interest Income	119,915,360	107,818,889					104,547,550	169,863,206	224,462,910	277,682,095
Total Revenue	3,272,631,020	1,987,894,096	554,936,222	228,246,656	150,716,294	65,970,230	333,566,534	551,004,206	4,311,850,070	2,833,115,188
Segmental Results	3,272,631,020	1,987,894,096	554,936,222	228,246,656	150,716,294	65,970,230	333,566,534	551,004,206	4,311,850,070	2,833,115,188
Interest Cost	1,840,829,689	965,211,811	324,020,046	117,179,551	88,001,285	33,868,456	133,721,208	195,676,298	2,386,570,259	1,311,936,116
Impairment Charges for loans and esther loss	122,717,606	36,689,727	6,070,454	665,641	-	-	-	-	128,788,060	37,385,369
Segment Contribution	1,309,083,726	985,992,558	224,845,722	110,371,464	62,715,009	32,101,774	199,845,327	355,327,908	1,796,491,751	1,488,793,703
Unallocated Expenses									1,085,522,281	923,287,914
Value Added Tax on Financial Services									40,976,359	28,198,983
Income Tax expenses									135,118,484	13,839,677
Segment Result	1,309,083,726	985,992,558	224,845,722	110,371,464	62,715,009	32,101,774	199,845,327	355,327,908	534,874,627	518,467,129
Segment Assets	14,621,658,524	9,941,968,330	3,763,661,021	1,657,348,563	1,065,267,338	578,139,325	2,626,026,026	1,072,152,701	22,076,612,908	13,249,608,920
Unallocated Assets									2,405,558,982	3,364,319,705
Total Assets	14,621,658,524	9,941,968,330	3,763,661,021	1,657,348,563	1,065,267,338	578,139,325	2,626,026,026	1,072,152,701	24,482,171,890	16,613,928,625

## Notes to the Financial Statements contd.

### 41 Operating Segmental Analysis (Contd.)

Group	Lease & Stock out on Hire		Loans		Pawning		Others		Total	
	31-03-2013	31-03-2012	31-03-2013	31-03-2012	31-03-2013	31-03-2012	31-03-2013	31-03-2012	31-03-2013	31-03-2012
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest	3,152,715,660	1,880,075,207	554,936,222	228,246,656	150,716,294	65,970,230	229,018,984	381,141,000	4,087,387,160	2,555,433,093
Non Interest Income	119,915,360	107,818,889					104,547,550	170,071,018	224,462,910	277,889,907
Total Revenue	3,272,631,020	1,987,894,096	554,936,222	228,246,656	150,716,294	65,970,230	333,566,534	551,212,018	4,311,850,070	2,833,323,000
Segmental Results	3,272,631,020	1,987,894,096	554,936,222	228,246,656	150,716,294	65,970,230	333,566,534	551,212,018	4,311,850,070	2,833,323,000
Interest Cost	1,840,829,689	965,211,811	324,020,046	117,179,551	88,001,285	33,868,456	133,721,208	195,676,298	2,386,570,259	1,311,936,116
Impairment Charges for loans and esther loss	122,717,606	36,689,727	6,070,454	695,641	-	-	-	-	128,788,060	37,385,369
Segment Contribution	1,309,083,726	985,992,558	224,845,722	110,371,464	62,715,009	32,101,774	199,845,327	355,535,720	1,796,491,751	1,484,001,515
Unallocated Expenses									1,085,622,281	921,134,159
Value Added Tax on Financial Services									40,976,359	28,198,983
Income Tax expenses									135,118,484	13,859,299
Segment Result	1,309,083,726	985,992,558	224,845,722	110,371,464	62,715,009	32,101,774	199,845,327	355,535,720	534,774,627	520,809,074
Segment Assets	14,621,658,524	9,941,968,330	3,763,661,021	1,657,348,563	1,065,267,338	578,139,325	2,626,026,026	1,072,152,701	22,076,612,908	13,249,608,920
Unallocated Assets									2,406,149,061	3,364,908,984
Total Assets	14,621,658,524	9,941,968,330	3,763,661,021	1,657,348,563	1,065,267,338	578,139,325	2,626,026,026	1,072,152,701	24,482,761,969	16,614,517,904

**42 MATURITY ANALYSIS**

Statement of Maturity Analysis of Assets and Liabilities as at 31/03/2013

Assets/Liabilities	Maturity Period					(Rs.)
	Up to 1 Month	2 - 3 Months	3-12 Months	12-60 Months	More than 60 months	Total
<b>Assets</b>						
Cash and Cash Equivalents	205,326,279	-	-	-	-	205,326,279
Deposits with Licence Commercial Banks	138,955,202	889,325,392	306,991,168	-	-	1,335,271,761
Loans & Advances	259,911,706	473,459,993	1,111,637,907	1,820,016,248	98,635,166	3,763,661,020
Loans and Receivables to Customers	1,199,287,513	877,108,156	5,094,694,769	8,236,329,603	279,505,820	15,686,925,863
Financial Investments Held to maturity	-	144,939,621	945,780,872	-	59,869,758	1,150,590,251
Financial Investments - Loans and receivables	140,164,014	-	-	-	-	140,164,014
Financial Investment available for sale	-	-	-	-	563,943,600	563,943,600
Investment in Subsidiaries	-	-	-	-	2,745,447	2,745,447
Investment Properties	-	-	-	-	20,197,977	20,197,977
Property, Plant and Equipments	-	-	-	181,840,338	475,878,469	657,718,807
Intangible Assets	-	-	-	-	69,115,379	69,115,379
Other Assets	129,589,777	266,740,156	104,168,674	386,012,887	-	886,511,492
<b>Total assets</b>	<b>2,073,234,491</b>	<b>2,651,573,318</b>	<b>7,563,273,390</b>	<b>10,624,199,077</b>	<b>1,569,891,616</b>	<b>24,482,171,890</b>
% of total Assets	8%	11%	31%	43%	6%	
<b>Cum %</b>	<b>8%</b>	<b>19%</b>	<b>50%</b>	<b>94%</b>	<b>100%</b>	
<b>Liabilities</b>						
Deposits From Customers	3,393,662,991	4,155,483,709	6,344,192,600	3,906,073,814	-	17,799,413,114
Borrowings	458,683,888	317,477,622	762,426,766	915,420,025	49,696,277	2,503,704,579
Debentures	-	71,878,311	62,500,000	125,000,000	-	259,378,311
Retirement Benefit obligations	-	-	-	-	64,256,877	64,256,877
Other Liabilities	155,935,760	207,425,279	296,443,106	191,609,441	-	851,413,585
<b>Shareholders' Funds</b>						
Stated Capital	-	-	-	-	1,185,061,645	1,185,061,645
Reserve Fund	-	-	-	-	385,711,809	385,711,809
Revaluation Reserve	-	-	-	-	132,765,013	132,765,013
AFS Reserve	-	-	-	-	464,034,525	464,034,525
Investment Fund Reserve	-	-	-	-	50,933,190	50,933,190
Accumulated Profit	-	-	-	-	785,499,243	785,499,243
<b>Total liabilities</b>	<b>4,008,282,639</b>	<b>4,752,264,921</b>	<b>7,465,562,472</b>	<b>5,138,103,279</b>	<b>3,117,958,579</b>	<b>24,482,171,890</b>
% of Total liabilities	16%	19%	30%	21%	13%	100%
<b>Cum %</b>	<b>16%</b>	<b>36%</b>	<b>66%</b>	<b>87%</b>	<b>100%</b>	
<b>Maturity Gap</b>	<b>(1,935,048,148)</b>	<b>(2,100,691,604)</b>	<b>97,710,917</b>	<b>5,486,095,797</b>	<b>(1,548,066,963)</b>	<b>-</b>
<b>Cumulative Gap</b>	<b>(1,935,048,148)</b>	<b>(4,035,739,752)</b>	<b>(3,938,028,834)</b>	<b>1,548,066,963</b>	<b>-</b>	<b>-</b>

## Investor Relations

### Stock Exchange Listing

The issued ordinary shares of the Citizens Development Business Finance PLC are listed on the main board of Colombo Stock Exchange.

The unaudited interim financial statements for the three quarters in the financial year 2012/13 have been submitted to the Colombo Stock Exchange within the stated 45 days period. The unaudited interim financial statement for the final quarter will be submitted to the Colombo Stock Exchange on or before 31st May 2013.

The audited Income Statement for the year ended 31st March 2013 and the audited Balance Sheet of the Company as at 31st March 2013 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 Nonvoting shares are listed as "CDB.X0000"

### Compliance Report on the Listing Rules No. 7.6 of Colombo Stock Exchange - Contents of the Annual Report

Rule No	Disclosure Requirement	Section Reference	Page Reference
7.6 (i)	Names of persons who during the financial year were Directors of the Entity	Annual Report of the Board of Directors	165
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	184  164
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	245-246
7.6 (iv)	The Public Holding percentage	Investor Relations	245-256
7.6 (v)	The statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and at the end of the financial year	Annual Report of the Board of Directors	167
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk Management	84-97
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)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Notes to the Financial Statements (Note 23-24)	220-121
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the Financial Statements (Note 25)  Investor Relations	169  244
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	242-244
7.6 (xi)	Ratios and market price information:  Equity Ratios  Debt	Investor Relations  N/A	239



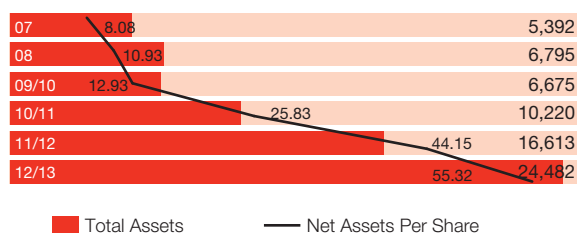
Rule No	Disclosure Requirement	Section Reference	Page Reference
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value	Notes to the Financial Statements (Note 24)	220
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	Investor Relations	244
7.6 (xiv)	Information in respect of Employee Share Option Schemes and Employee Share Purchase Schemes	Notes to the Financial Statements (Note 18 j)	217
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 Report	68-83
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	N/A	

### Investor Ratios

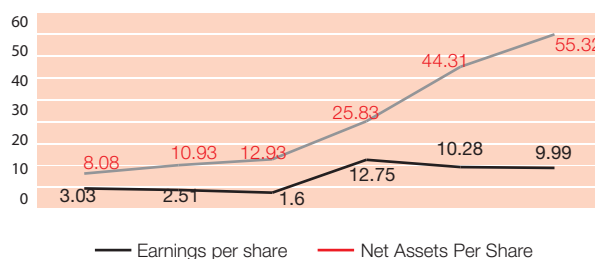
	2007	2008	2009/10*	2010/11	2011/12	2012/13
Earnings per Share (Rs.)	3.03	2.51	1.60	12.76	10.28	9.99
Net Assets per Share (Rs.)	8.08	10.93	12.93	27.68	44.31	55.32
Return on Equity	46.26%	25.20%	18.74%	69.78%	30.49%	20.16%
Dividend per Share(Rs.)	-	-	0.50	2.00	2.50	2.75
Dividend Payout ratio			31.25%	15.67%	24.32%	27.52%

\*annualized figures for the fifteen months period ended 31st March 2010

### Total Assets & Net Assets per share



### Earnings per share & Net assets per share



## Investor Relations contd.

### Dividends

For the financial year ended 31st March 2012, CDB paid a dividend of Rupees Two and Cents Fifty (Rs 2.50) per share on both its 46,299,223 ordinary voting shares and 5,669,293 ordinary non-voting shares aggregating to a sum of Rupees One Hundred and Twenty Nine Million Nine Hundred and Twenty One Thousand Two Hundred and Ninety only (Rs 129,921,290.00) as the first and final dividend.

Dividend was in the form of Rupees One (Rs 1/-) per share as a cash dividend and Rupees One and Cents Fifty (Rs 1.50) per share as a scrip dividend by the issue of ordinary non-

voting shares valued at Rs 30/- per share. Residual fractions aroused on the scrip dividend were settled in cash.

For the scrip dividend shares were issued in the following ratios.

- (a) 01 new ordinary non-voting share for every 22.222224 existing ordinary voting shares.
- (b) 01 new ordinary non-voting share for every 22.222224 existing ordinary non-voting shares.

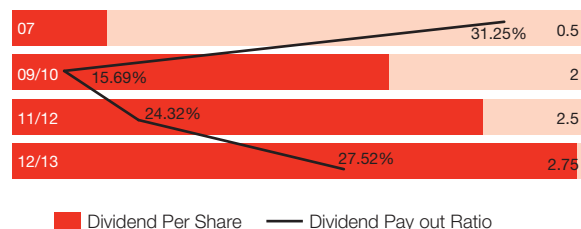
	2010/11	2011/12	2012/13
Final – Cash Dividend	2.00	1.00	2.75*
Scrip Dividend		1.50	
Total Dividend	2.00	2.50	2.75*

\* Proposed dividend for this year would be a cash dividend of Rs. 2.75 per share which needs to be approved by the shareholders at the AGM.

### Shareholders' Funds

07	131
08	433
09/10	513
10/11	1,098
11/12	2,302
12/13	3,004

### Dividend per share/ pay out ratio



### Share Price Information

Prices	Voting Rs.	Non-Voting Rs.
High	47.50	57.80
Low	29.00	26.60
Last traded	40.10	29.10

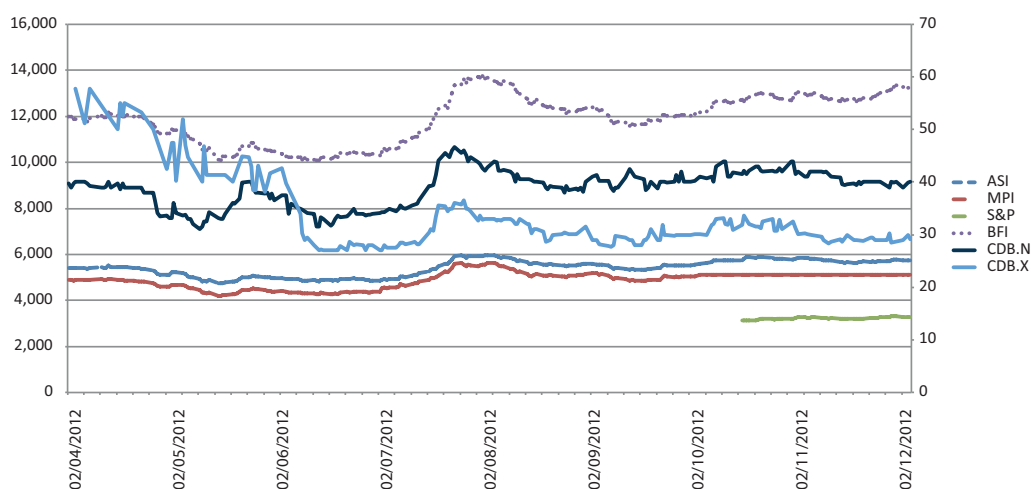
### Market capitalization

As at 31st March 2013	Rs.
Voting	1,856,598,842.30
Non Voting	232,974,134.40
Total	2,089,572,976.70

## Share Trading Information

Annual Transaction Information	Ordinary - Voting Shares			Ordinary Non- Voting Shares		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
No of Transactions	12,181	8,270	2,571	-	1,685	2,139
No of Shares Traded	12,318,200	12,303,772	2,497,811	-	4,048,206	3,577,448
Value of Shares Traded (Rs.)	934,191,580.00	983,554,597.20	98,920,592.40	-	221,117,474.60	109,944,947.30

## Share Price Movement



## Quarterly Summary

Period -Voting	High (Rs.)	Low (Rs.)	Close (Rs.)	Trade Volume	Share Volume	Turnover (Rs.)	Days Traded
2012/13 - Q4	44.90	39.00	40.10	443	396,814	16,427,161.50	57
2012/13 - Q3	45.00	37.90	40.80	414	658,340	26,437,366.60	59
2012/13 - Q2	47.50	31.00	42.80	1,070	877,218	35,184,370.30	61
2012/13 - Q1	41.20	29.00	36.60	644	565,439	20,871,694.00	58
2012/13	47.50	29.00	40.10	2,571	2,497,811	98,920,592.40	235

Period - Non voting	High (Rs.)	Low (Rs.)	Close (Rs.)	Trade Volume	Share Volume	Turnover (Rs.)	Days Traded
2012/13 - Q4	33.90	27.00	29.10	267	258,043	7,861,712.10	48
2012/13 - Q3	33.90	27.50	30.00	439	1,279,132	37,522,177.80	54
2012/13 - Q2	42.70	26.60	33.00	1,327	1,941,963	59,993,649.30	59
2012/13 - Q1	57.80	36.20	41.70	106	98,310	4,567,408.10	31
2012/13	57.80	26.60	29.10	2,139	3,577,448	109,944,947.30	192

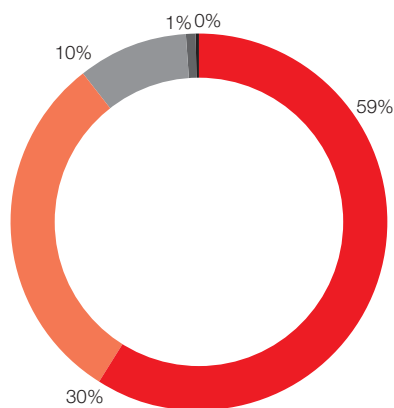
## Investor Relations contd.

### Shareholder Analysis

#### Ordinary Voting Shares - Composition according to Shareholding

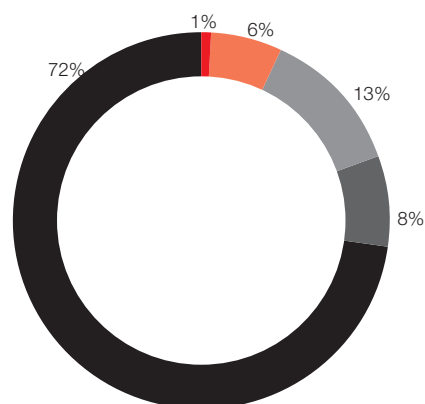
Share Holding Composition	Resident			Non Resident			Total		
	Number of Shareholders	No of Shares	%	Number of Shareholders	No of Shares	%	Number of Shareholders	No of Shares	%
1 to 1000 Shares	1,332	512,493	1.11	2	1,200	-	1,334	513,693	1.11
1001 to 10,000 Shares	679	2,665,551	5.76	8	47,700	0.10	687	2,713,251	5.86
10,001 to 100,000 Shares	210	5,699,005	12.31	4	166,072	0.36	214	5,865,077	12.67
100,001 to 1000,000 Shares	14	3,115,318	6.73	1	469,189	1.01	15	3,584,507	7.74
Over 1,000,000 Shares	6	33,622,695	72.62	-	-	-	6	33,622,695	72.62
	2,241	45,615,062	98.53	15	684,161	1.47	2,256	46,299,223	100.00

Number of Shareholders



- 1 to 1000 Shares
- 1001 to 10,000 Shares
- 10,001 to 100,000 Shares
- 100,001 to 1000,000 Shares
- Over 1,000,000 Shares

Number of Shares



- 1 to 1000 Shares
- 1001 to 10,000 Shares
- 10,001 to 100,000 Shares
- 100,001 to 1000,000 Shares
- Over 1,000,000 Shares

**Type of Shareholders - Voting**

Category of Shareholders	No of Shareholders	No of Shares
Individual	2,178	9,369,602
Institutional	78	36,929,621
Total	2,256	46,299,223

**Number of Shares**

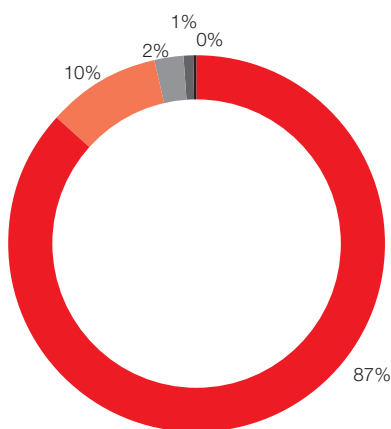
80%  
20%

■ Individual ■ Institutional

**Ordinary Nonvoting Shares - Composition according to shareholding**

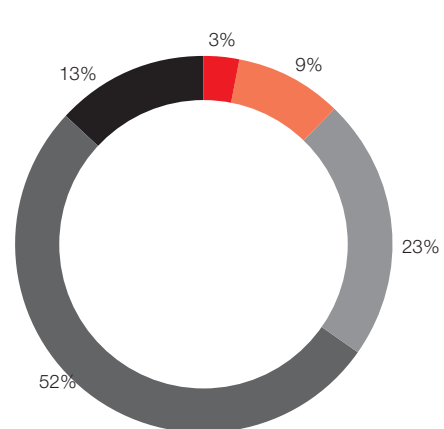
Share Holding Composition - Non-Voting	Resident			Non Resident			Total		
	Number of Shareholders	No of Shares	%	Number of Shareholders	No of Shares	%	Number of Shareholders	No of Shares	%
1 to 1000 Shares	1,917	256,527	3.20	9	2,783	0.03	1,926	259,310	3.23
1001 to 10,000 Shares	220	727,410	9.09	1	4,000	0.05	221	731,410	9.14
10,001 to 100,000 Shares	50	1,656,259	20.69	4	151,283	1.89	54	1,807,542	22.58
100,001 to 1000,000 Shares	15	3,564,159	44.52	5	612,272	7.65	20	4,176,431	52.17
Over 1,000,000 Shares	1	1,031,291	12.88	-	-	-	1	1,031,291	12.88
	2,203	7,235,646	90.38	19	770,338	9.62	2,222	8,005,984	100.00

**Number of Shareholders**



- 1 to 1000 Shares
- 1001 to 10,000 Shares
- 10,001 to 100,000 Shares
- 100,001 to 1000,000 Shares
- Over 1,000,000 Shares

**Number of Shares**



- 1 to 1000 Shares
- 1001 to 10,000 Shares
- 10,001 to 100,000 Shares
- 100,001 to 1000,000 Shares
- Over 1,000,000 Shares

## Investor Relations contd.

### Type of Share holders - Non-Voting

Category of Shareholders	No of Shareholders	No of Shares
Individual	2,138	3,570,261
Institutional	84	4,435,723
Total	2,222	8,005,984

**Number of Shares**

55% 45%

■ 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	-	462,992,250.00
		Non Voting Shares @ Rs.45.00	1 for every 7 Voting shares	5,669,293	46,299,223	5,669,293	255,118,185.00
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 2013**

No	NAME	SHAREHOLDING	PERCENTAGE
1	Ceylinco Insurance PLC A/C No 1 (Life Fund)	14,642,163	31.63%
2	CDB ESOP Trust Fund (Private) 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	1,775,000	3.83%
5	Perpetual Capital (Private) Limited	1,602,245	3.46%
6	The Finance Company PLC A/C NO 1	1,250,000	2.70%
7	Asia Management Consultancy (Private) Limited	706,622	1.53%
8	Mr. D. Kotthoff	469,189	1.01%
9	Little Smile Organic (Pvt) Ltd	416,500	0.90%
10	MAS Capital (Private) Limited	289,492	0.63%
11	E.W. Balasuriya & Co. (Pvt) Ltd	250,738	0.54%
12	East India Holding (Pvt) Ltd	243,833	0.53%
13	Seylan Bank PLC/Thirugnanasambandar Senthilvel	196,700	0.42%
14	Mr. K. Sabaratnam	145,850	0.32%
15	Mr. W. S. R. Fernando	137,900	0.30%
16	Dr. C. Gunasekara	131,700	0.28%
17	Pan Asia Banking Corporation PLC/Mr.S.M.P.L.Jayarathne	125,000	0.27%
18	Rev. J. N. Fernando	125,000	0.27%
19	Mr. A. M. Subramaniam & Mr. S. Ragulan	122,500	0.26%
20	Mrs W. M. N. Dabarera	118,942	0.26%
	Subtotal of Top 20 Share Holders	37,102,661	80.14%
	Others	9,196,562	19.86%
	Total	46,299,223	100.00%

The percentage of shares held by the public as at 31st March 2013 is 36.94%

**Ordinary Nonvoting Shares - List of 20 Major Shareholders as at 31st March 2013**

No	NAME	SHAREHOLDING	PERCENTAGE
1	J.B. Cocoshell (Pvt) Ltd	1,031,291	12.88%
2	CDB ESOP Trust Fund (Private) Limited	562,499	7.03%
3	Deutsche Bank AG As Trustee For Jb Vantage Value Equity Fund	481,053	6.01%
4	Seylan Bank PLC/HVA Lanka Exports (Private) Limited	388,896	4.86%
5	Ceylinco Insurance PLC A/C NO 2 (General Fund)	320,541	4.00%
6	Commercial Bank Of Ceylon PLC/R.E.Sellamuttu	246,580	3.08%
7	Mr. H. N. Esufally	208,999	2.61%
8	Mr. M. J. Fernando	208,999	2.61%
9	Mr. J. A. Leanage	200,326	2.50%
10	Mr. S. Prabagar	198,800	2.48%
11	Mr. G. H. I. Jafferjee	156,749	1.96%
12	Commercial Bank Of Ceylon PLC A/C NO. 04	123,950	1.55%
13	Mr. S. R. Fernando	120,000	1.50%

## Investor Relations contd.

No	NAME	SHAREHOLDING	PERCENTAGE
14	Askold (Private) Limited	117,949	1.47%
15	Captain M. A. L. Ratnayake	116,845	1.46%
16	Jafferjees Investments (Pvt) Ltd.	104,499	1.31%
17	Mr. M. A. Valabji	104,499	1.31%
18	Gold Investment Limited.	104,499	1.31%
19	Gulf Crown Investments Limited	104,499	1.31%
20	Mr. I. M. Dabah	104,499	1.31%
	Subtotal of Top 20 Share Holders	5,005,972	62.55%
	Others	3,000,012	37.45%
	Total	8,005,984	100.00%

The percentage of shares held by the public as at 31st March 2013 is 86.44%

## Debenture Information

Issue No	Purpose	Type *	Total Value	Issue Date	Tenure	Investor	Balance as at 31/03/2013
1.	To raise medium term funds to expand the Company's credit and leasing portfolios	Type I	Rs. 62.50 Mn	30 Dec 2010	30 months	Ceylinco Insurance PLC – Life	Rs. 62.50 Mn
		Type II	Rs. 62.50 Mn	30 Dec 2010	36 months	Ceylinco Insurance PLC – Life	Rs. 62.50 Mn
		Type III	Rs. 62.50 Mn	30 Dec 2010	42 months	Ceylinco Insurance PLC – Life	Rs. 62.50 Mn
		Type IV	Rs. 62.50 Mn	30 Dec 2010	48 months	Ceylinco Insurance PLC – Life	Rs. 62.50 Mn
		Total	Rs. 250 Mn				

\* Rated Unsecured Redeemable Unlisted Debentures



## Quarterly Statistics

For the Quarter ended	2011/2012				2012/2013			
	31 March	31 December	30 September	30 June	31 March	31 December	30 September	30 June
(Rs.000)								
<b>Balance Sheet</b>								
Total Assets	16,544,141	14,830,744	13,382,814	11,159,638	24,490,333	22,171,801	20,149,480	18,836,059
Lease, Hirepurchase and Loans	13,249,609	11,910,102	10,313,096	8,833,005	19,450,587	17,804,125	15,636,820	14,403,912
Deposits & Borrowings	13,368,981	11,931,605	10,682,275	9,230,261	20,562,496	17,484,265	16,008,876	14,776,533
Shareholders' Funds	2,294,356	2,062,139	1,905,125	1,105,257	3,004,005	2,650,020	2,480,054	2,339,425
<b>Income Statement</b>								
Revenue	850,109	731,722	723,580	572,567	1,203,860	1,146,623	1,024,312	891,692
Net Interest Income	361,554	334,649	292,206	259,613	448,130	427,498	399,817	355,012
Other Income	100,228	57,764	126,207	40,076	36,143	73,398	64,416	64,833
Net Income	461,784	392,413	418,413	299,689	484,273	500,896	464,234	419,845
Provision for Loan Losses	(6,618)	36,883	(5,085)	(7,950)	(3,184)	(3,246)	(20,000)	(32,567)
Non Interest Expenses	(246,564)	(254,190)	(238,867)	(205,635)	(297,872)	(290,184)	(263,202)	(275,240)
Income Tax Expenses	23,615	(18,092)	(13,334)	(6,029)	(39,312)	(37,500)	(32,551)	(15,000)
Net Profit After Tax	232,217	157,014	161,127	80,075	143,905	169,966	148,481	97,038
<b>Financial Measures</b>								
Net Assets Value Per Ordinary Shares (Rs.)	44.15	39.68	36.66	21.27	57.80	50.99	47.72	45.02
<b>Profitability</b>								
Return on Average Share Holders' Equity (annualized) (%)	42.64	31.66	42.82	30.07	24.23	22.41	20.6	16.8
<b>Productivity</b>								
Non Interest Expenses to Total Revenue (%)	29.00	34.74	33.01	35.91	24.74	25.31	25.70	30.87
<b>Asset Quality</b>								
Non Performing Ratio (%)	1.67	2.15	2.75	3.19	2.32	2.92	2.54	2.26

Submission of the Interim Financial Statements (Unaudited) in terms of the Listing Rule no 7.4 of the Colombo Stock Exchange.

### 2012/13

For the 3 Months ended 30 June 2012	10 August 2012
For the 3 Months and 6 Moths ended 30 September 2012	15 November 2012
For the 3 Months and 9 Moths ended 31 December 2012	14 February 2013
For the 3 Months and 12 Moths ended 31 March 2013	31 May 2013

## Value Added Statement

For the period ended	31.03.2013	%	31.03.2012	%
Net interest income earned by providing financial services	1,700,816,901		1,243,496,976	
Cost of Services	698,661,935		623,959,164	
	1,002,154,966		619,537,812	
Non Financial income	224,462,910		277,682,095	
Provision for Bad Debts	(128,788,059)		(37,385,369)	
Value added	1,097,829,817		859,834,538	
Distribution of value added				
To employees salaries, wages and other benefits	386,860,347	35	299,328,750	35
To providers of capital Dividends paid/proposed	149,339,319	14	129,921,289	15
To government				
Value added tax	40,976,359	4	28,198,982	3
Income Tax	135,118,484	12	13,839,677	2
To expansion and growth				
Retained as reserves	301,994,263	28	330,008,333	38
Retained as depreciation	83,541,045	8	58,537,507	7
	1,097,829,817	100	859,834,538	100



## Ten Year Statistical Summary

	2003	2004	2005	2006
<b>OPERATING RESULTS</b>				
Income	122,903,720	217,652,769	363,776,409	638,279,950
Interest Income	116,655,458	205,510,482	337,853,081	598,470,528
Interest Expenses	104,485,863	137,273,470	204,505,522	386,690,976
Non Interest Income	6,248,262	12,142,287	25,923,328	39,809,422
Operating Expenses (Incl. VAT)	62,189,469	69,477,994	119,789,473	207,541,225
Profit / (Loss) Before Income Tax	(43,771,612)	10,901,305	39,481,414	44,047,749
Income Tax on Profit	-	-	-	-
Profit / Loss After Taxation	(43,771,612)	10,901,305	39,481,414	44,047,749
<b>LIABILITIES &amp; SHAREHOLDERS' FUNDS</b>				
Customer Deposits	-	-	-	-
Borrowings	910,763,547	1,400,539,942	2,382,991,283	3,627,849,488
Other Liabilities	85,880,861	127,413,673	192,987,250	368,175,209
Deferred Taxation	-	-	-	-
Shareholders' Funds	(105,631,920)	(50,056,324.00)	256,036	82,311,709
Total Liabilities & Shareholders' Funds	891,012,488	1,477,897,291	2,576,234,569	4,078,336,406
<b>ASSETS</b>				
Loan and Receivables (Net)	687,149,921	1,250,326,769	2,270,687,014	3,569,997,246
Cash and Short Term Funds	8,729,266	18,755,941	53,066,134	239,501,315
Property Plant and Equipment	12,616,057	24,173,669	52,896,687	104,432,755
Other Assets	182,517,244	184,640,912	199,584,734	164,405,090
Total Assets	891,012,488	1,477,897,291	2,576,234,569	4,078,336,406
<b>RATIOS</b>				
Growth in Income (%)	196	77	67	75
Growth in Interest Expenses (%)	80	31	49	89
Growth in Other Expenses (%)	114	12	72	73
Growth in Profit After Tax (%)	(4)	(125)	262	12
Growth in Total Assets (%)	74	66	74	58
Earnings Per Share	(5.45)	0.87	3.09	3.00
Return on Average Assets (%)	(6.24)	0.92	1.95	1.32
Dividend Per Share	-	-	-	-

\* 15 Month period

\*\* Proposed Dividend

Highlighted information is based on LKASs/SLFRSs.

2007	2008	2009/10*	2010/2011	2011/2012	2012/2013
1,054,206,933	1,638,454,558	1,898,899,386	2,226,022,713	2,833,115,188	4,311,850,070
989,218,343	1,496,219,576	1,794,819,119	1,731,159,166	2,555,433,093	4,087,387,160
670,401,052	1,092,348,424	1,190,634,646	912,786,452	1,311,936,117	2,386,570,259
64,988,590	142,234,982	104,080,267	494,863,547	277,682,095	224,462,910
334,320,975	474,868,960	619,525,039	751,965,680	988,872,265	1,255,286,701
49,484,906	71,237,174	88,739,701	561,270,581	532,306,806	669,993,110
157,484	5,947,671	9,163,093	29,460,581	13,839,677	135,118,484
49,327,422	65,289,503	79,576,608	531,810,000	518,467,129	534,874,626
-	-	4,837,875,995	7,770,659,215	11,699,662,914	17,799,413,114
4,918,339,725	5,684,698,562	828,926,204	1,027,654,377	2,155,693,964	2,763,082,891
342,921,093	676,793,306	495,786,661	493,578,084	456,069,116	883,758,162
-	-	-	-	-	31,912,358
131,639,131	433,638,437	513,215,045	1,098,701,563	2,302,502,632	3,004,005,425
5,392,899,949	6,795,130,305	6,675,803,905	10,390,593,239	16,613,928,626	24,482,171,890
4,584,431,013	5,634,300,195	5,035,083,744	8,081,942,079	13,469,076,072	19,450,586,882
529,368,994	529,209,486	851,277,622	320,138,908	626,231,439	1,540,598,041
129,852,708	198,647,455	200,669,868	237,821,921	470,979,957	726,833,186
149,247,234	432,973,169	588,772,671	1,750,690,331	2,047,641,158	2,764,153,781
5,392,899,949	6,795,130,305	6,675,803,905	10,390,593,239	16,613,928,626	24,482,171,890
65	55	16	17	27	52
73	63	9	(23)	44	82
61	42	30	21	32	27
12	32	22	568	(3)	3
32	26	(2)	56	60	47
3.03	2.51	1.60	12.75	10.28	9.99
1.04	1.07	1.18	6.23	3.84	2.61
-	-	0.50	2.00	2.50	2.75**

## Glossary

### Accrual Basis

Recognizing 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 subject 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 (EPS)

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 Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

### Net Asset 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 nonperforming 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 (ROE)**

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 recognized, 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 1 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 2 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 1 capital and tier 2 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 no of employees who resigned during the financial period under review divided by the average no of employees in that particular reference period

## Notice of Meeting

### CITIZENS DEVELOPMENT BUSINESS FINANCE PLC - P B 232 PQ

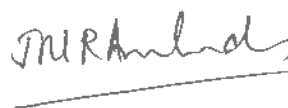
NOTICE IS HEREBY GIVEN THAT THE SEVENTEENTH ANNUAL GENERAL MEETING OF CITIZENS DEVELOPMENT BUSINESS FINANCE PLC WILL BE HELD ON 27TH JUNE 2013 AT THE CONFERENCE ROOM, HILTON COLOMBO RESIDENCE, NO. 200 UNION PLACE, COLOMBO 2 AT 10.00 A.M.

### AGENDA

1. To receive consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended March 31, 2013 with the Report of the Auditors thereon.
2. To declare a first and final dividend of Rs.2.75 per share on both its voting ordinary shares and non-voting ordinary shares as recommended by the Board of Directors for the financial year ended 31 March 2013.
3. To re-elect Mr. R H Abeygoonewardena, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.
4. To re-elect Mr. W W K M Weerasuriya, 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. S V Munasinghe, who in terms of Articles 24 (6) and 24 (7) of the Articles of Association of the Company retires by rotation at the Annual General Meeting as a Director.
6. To re-elect Mr. Razik Mohamed, who in terms of Article 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.

7. To authorize 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**

31 May 2013

### Note:-

A member is entitled to appoint a proxy to attend and vote instead of himself/herself and a Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office of the Secretaries, No. 101, Inner Flower Road, Colombo 03 not less than 48 hours before the time fixed for the holding of the AGM.

### Security Check:-

The shareholders/proxyholders are kindly requested to bring their National Identity Card/Passport/Driving license or any other accepted form of identification and produce same at the time of registration.



## Form of Proxy

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC- P B 232 PQ

### FORM OF PROXY (VOTING SHAREHOLDERS)

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 Mudiyanseleage 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 seventeenth Annual General Meeting of the Company to be held on the 27th day of June 2013 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 March 31,2013 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs.2.75 per share on both its voting ordinary shares and non-voting ordinary shares as recommended by the Board of Directors for the financial year ended 31 March 2013.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. R H Abeygoonewardena, 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. W W K M Weerasuriya, 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. S V Munasinghe, 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.Razik Mohamed, who in terms of Article 24 (2) of the Articles of Association of the Company retires at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorize 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 authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this .....day of ..... Two Thousand and Thirteen.

.....  
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

### CITIZENS DEVELOPMENT BUSINESS FINANCE PLC- P B 232 PQ FORM OF PROXY (NON-VOTING SHAREHOLDERS)

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 seventeenth Annual General Meeting of the Company to be held on the 27th day of June 2013 and at any adjournment thereof.

Signed this.....day of ..... Two Thousand and Thirteen.

.....  
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.

## Corporate Information

### Name of the Company

Citizens Development Business Finance PLC

### Legal Form

A public quoted company incorporated in Sri Lanka under the provisions of the Companies Act No 17 of 1982 and re-registered under the Companies Act No 7 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

07th September 1995

### Registration Number

PB 232 PQ

### Accounting Year

March 31

### 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. A. Dharmasri** B.Sc.Eng., MBA(Sri J), PhD(Sri J), MCM(UK)  
*Independent Non Executive Director*

**D.A.De Silva** B. Sc.(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** ACMA(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 00942573894, 00942576871

Fax 00942573609

Email sspsec@slt.net.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



Citizens Development Business Finance PLC  
18, Sri Sangaraja Mawatha, Colombo 10, Sri Lanka  
[www.cdb.lk](http://www.cdb.lk)