



**Strongly
Supported**

Annual Report 2011/12

A fusion of strengths. A synthesis of strategies. The power to stretch, to reach, to grow to new levels of dominance. This is what we offer each of our customers, through our portfolio of total financial solutions virtually unmatched in the market today.

It is our vision to offer a fresh, diversified and constantly evolving range in products and services that will strongly support the changing needs of all our clients as they grow with us from day to day.

**Strongly
Supported**

Our Purpose

Enriching people's life through
extension of financial services

Our 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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50th

Among the 100 most valuable
Brands

BBB/P2
Credit rating

700+
Strong team



Finance Companies Sector
Bronze
(Annual Report Awards ICASL)

National Business Excellence Award
Winner
*(Specialised Banking &
Financial Services Sector)*

7th Largest
Among 43 LFC's

36 Outlets

Highlights 2011/12

2,878 Mn
up 29%
Revenue

1,248 Mn
up 52%
Net Interest Income

1,572 Mn
up 20%
Net Income

644 Mn
up 15%
NPBT

630 Mn
up 19%
NPAT

16,544 Mn
up 62%
Total Assets

13,249 Mn
up 69%
Loan Book

2,294 Mn
up 124%
Shareholders' Fund

- Credit Disbursement surpass over Rs.8,000 Million
- Deposits and Borrowings increase by Rs. 4,900 Million
- Capital Adequacy Ratio stands well above the required regulatory minimum of 10% , showcased at 17.03%
- Assets quality remained strong, recording a gross NPL Ratio of 1.67% and a Net NPL Ratio of 0.37% far outperforming industry average.
- Statutory Liquidity Ratio at 13.30% is well above the regulatory minimum of 10%
- Net Assets Value per share is at Rs.44.15 at the year end
- 89% regular cash flow generating assets
- Winner in the specialized banking and Financial services sector category at the National Business Excellence Awards (NBEA) 2011
- Credit Rating upgraded to BBB/P2 by RAM Ratings
- CDB brand is ranked among the fifty most valuable listed brands in the country



**Chairman's
Review**

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 2012.

Let me begin by expressing my appreciation for the opportunity given to me to serve shareholders in my position as Chairman and, along with my fellow Directors on the Board, to support the senior management and the 728 employees whom they lead. I am privileged to take over from a very capable outgoing Chairman, Mr. Rajkumar Renganathan who, over the past decade, has guided the destiny of this company from its humble beginnings and witnessed its transformation to a successful financial services institution encompassing a portfolio of products and services that are wide, varied and able to reach out to various segments of society.

The Economic Environment

The global economic growth in 2011 dipped to a low 3.8% according to the IMF, compared to 2010's GDP of 5.2%. The negative impact of the economic downturn in the US and Europe, turmoil in North Africa and in the Middle East resulting from the Arab Spring and the debilitating tsunami in Japan added to the woes of the world bringing about the volatility of commodity prices, disruptions to supply chains, high unemployment and plunging world trade, adversely affecting emerging markets as well. Projections for 2012 reveal that recovery will be slow.

Following the restoration of peace in the country in 2009, Sri Lanka achieved a GDP growth of 8.3% in 2011 improving upon the 8% growth achieved in 2010. The

We believe that our strong focus on maintaining governance best practices and complying with all statutory and regulatory requirements will enhance shareholder value and support sustainable growth in the long term.

accelerated infrastructure development and increased economic activity outside the Western province contributed substantially to this growth.

The performance of financial institutions in Sri Lanka improved in 2011, with most institutions expanding their branch network to cover in particular, the Northern and Eastern provinces. The increase in credit to the various sectors of the economy fuelled economic activity mainly in the areas of infrastructure development and tourism. However towards the latter part of the financial year, the spiraling oil prices and a surge in imports of investment and intermediate goods prompted the government to curb import related credit in order to ease inflationary pressure and contain the widening trade deficit.

Company Performance

Despite many challenges from both an international and domestic perspective, your company continued to chart a course of sustainable growth, recording its best ever result for the financial year ended 31st March 2012. CDB also passed yet another milestone when for the second successive year it recorded a Profit After Tax exceeding the Rs. 500 million mark. Operating Profits improved by 14.50 % over the previous year whilst Profit After

Tax increased from Rs. 532 million in 2010/11 to Rs. 630 million in 2011/12. Net Asset per Share stood at Rs. 44.15 an increase of 70.9 % over the previous year.

During the year under review, your company's credit rating was upgraded from BBB-/P3 to BBB/P2 by RAM Rating Lanka.

Corporate Governance

We believe that our strong focus on maintaining governance best practices and complying with all statutory and regulatory requirements will enhance shareholder value and support sustainable growth in the long term. Your Board and senior management have a clear comprehension of the risks inherent in the business and these risks are constantly reviewed to ensure that adequate controls are put in place to mitigate if not eliminate their adverse effects. The measures taken in this connection which are discussed in detail elsewhere in this report, have been integrated into the management framework, systems and processes of CDB.

Dividend

Considering the improvement in the company's financial performance the Board recommends a first and final dividend of Rs 2.50 per share which will

Chairman's Review

consist of Rs.1.00 in cash and Rs.1.50 by way of a scrip dividend subject to shareholder approval. It will be appreciated that this dividend represents an increase of 25% over last year's dividend.

Future Prospects

As mentioned earlier in my report, your company has maintained a consistent record of growth over the last decade. Strong growth poses varied and significant challenges if the momentum is to be sustained. We realise that 2012 will be a year that will certainly be more challenging than 2011 given the external global circumstances as well as the country moving towards a more pragmatic structured era of growth. Whilst we remain mindful of the challenges and circumstances in which we operate, we believe that your company, as in the past, will continue on its progressive path to reach even greater heights, considering its true potential.

CDB has always had a strong business model and I am confident that the Board and Management will continue to develop your company and provide a reasonable return on your investment.

Commendations and appreciations

The sustained financial growth of your company would not have been possible if it did not possess the required professionalism, skills and talents in Management, to drive performance. They take direction from a professional and visionary team of Executive Directors who have multi-dimensional exposure and expertise to create the apt environment of

Whilst we remain mindful of the challenges and circumstances in which we operate, we believe that your company, as in the past, will continue on its progressive path to reach even greater heights, considering its true potential.

leadership and drive for the company to move ahead.

I am certain that shareholders will join me and the Board in commending the Management Team led by the Managing Director/CEO, Mr. Mahesh Nanayakkara and all the staff of CDB for the outstanding results achieved during the year under review.

I wish to extend my grateful thanks to all my colleagues on the Board with special thanks to the Non Executive Directors for their thoughtful contributions during my first few months as Chairman of the Board.

I wish to place on record the immense contribution made by the key senior directors, the former Chairman, Mr. Rajkumar Renganathan and Directors Palitha Jayawardena and Thushara Ranasinghe who stepped down after their mandatory tenure of a decade, by 31st December 2011. Their direction has seen the company elevated to what it is today. I welcome Mr. Ranga Abeynayake, Mr. Joseph Jayawardene, Mr. Dave de Silva and Dr Ajantha Dharmasiri who joined the Board this year.

I take this opportunity to express my appreciation to the Governor and officials of the Central Bank of Sri Lanka who have been extremely supportive and available for direction whenever their advice was sought.

I thank our shareholders for the confidence placed in us. I wish to make special mention of our loyal customers who have placed confidence in the company and also the generous support received from our bankers and all others who have provided various services to the company.

Let me conclude by thanking our auditors KPMG (Chartered Accountants) for their co-operation in ensuring that the audit was completed on schedule.



D.H.J. Gunawardena
Chairman

31 May 2012
Colombo



**Chief Executive
Officer's
Review**

Chief Executive Officer's Review

Last year, I remarked that we had completed a successful decade of operations (2001-2010) at CDB – that we had achieved the set targets and reached milestones foremost of which was becoming a listed institute on the Colombo Stock Exchange. These achievements were built upon during the period under review to create an even stronger and better governed entity capable not only of facing challenges but also of capitalizing on opportunities.

As I write this Review of Operations, reflecting on CDB's journey of over one and a half decades, I discern the indelible mark CDB has made in the non-banking financial services sector in Sri Lanka. We are an organisation that began as a small but focused one, an entity that was built on determination and commitment to create a difference. Over the years, we remained true to our fundamentals, but sought the opportunities that showcased growth and today we present to you, an entity that is strong and stable, an entity that has displayed resilience, consistent performance and growth. Complementing this, we have continually asserted the role we can and will play in entrepreneurship development and rural upliftment, having worked on a formula of a bottom-up approach that creates an empowering environment for micro and small entrepreneurs, facilitating inclusive economic development. We have honed skills, enhanced talents and created opportunities for sustainable growth. We have been the activators of unprecedented

change, urging new thinking and belief in empowered growth. The success and efficacy of the approach is evidenced by the healthy performance buttressed by strong fundamentals auguring well for CDB's sustainability and growth.

Last year, I remarked that we had completed a successful decade of operations (2001-2010) at CDB – that we had achieved the set targets and reached milestones foremost of which was becoming a listed institute on the Colombo Stock Exchange. These achievements were built upon during the period under review to create an even stronger and better governed entity capable not only of facing challenges but also of capitalizing on opportunities. Our focus for the current decade is on strengthening the trusses we have constructed. We intend to reinforce our presence in the SME and rural sectors of the economy, as there is a cohesive effort from both state and private sectors to make the rural economy an integral facet of the country's growth paradigm.

We are confident that our business model will also enable us to leverage on the synergies we possess to face the challenges of 2012 and beyond.

Our performance is record-breaking once again, given that this is the second consecutive year that CDB broke the SLR half billion mark with a profit of Rs. 630 million being posted this year reflecting a growth of 19%. The growth in bottom-line results from core business excluding mark to market gains is outstanding at 165%. From a business volume perspective, balance sheet growth has been remarkable, showcasing a 62% increase over last year, surpassing the SLR 16.5 Bn milestone from last year's SLR 10 Bn, shored primarily by a vibrant loan book and cohesive deposit environment. Loan book grew by 69% to stand at SLR 13,249Mn whilst deposit portfolio recorded a growth of 52%, stood at Rs. 11,389Mn at the year-end. Having become a public deposit taking institution in 2009, the end of this financial year gives us just two full

years of operating as a public deposit taking institution and the exemplary results seen in our deposit portfolio vouches for the good business practices, investor confidence and positive public image we have generated. Adding further credence to the fact that we remain 'strongly supported' due to tight and constant vigilance of fundamentals, our asset quality remains above industry average. NPLs recorded a further decline to remain at 1.67% at the end of this year, standing among the best in the industry. The largest contribution to the bottom line results comes from net interest income recording a figure of Rs 1,248 Mn. with a growth of 53%. Looking at our margins, we saw interest expenses to Interest Income gain considerably, posting 51%, while the net interest margin(NIM) which stands at 9.34%, albeit slightly below last year, remains strong. The decline can be attributed to the increase in rates which was a feature during the second half of the year. Nevertheless we did take advantage of the low interest regime which prevailed for the most part of the year resulting in the growth in Net Interest Income. The cost to income ratio although it reflects a decline from last year, is above peer position. This therefore remains a concern to us but is being addressed from a multi-pronged perspective to redress the balance. We will monitor and manage our cost to income ratio astutely, while going ahead with our pragmatic expansion plans.

Whilst our focus on key performance areas from a business perspective covers business volumes, pricing/margins, asset quality and productivity which I have already touched upon, our risk

management perspective revolves around three key areas of growth supported/ balanced with adequate capital, adequate liquidity and adequate asset liability maturity management. During the period under review we boosted our capital adequacy ratio to remain above 17%, well above the regulatory minimum requirement of 10% thus placing us among the strongest players at the top of the industry. This was mainly due to the successful completion of the rights issue infusing fresh capital to the tune of Rs.718mn. Strong earnings also supported to record a healthy capital adequacy ratio amidst a strong balance sheet growth. Statutory liquidity ratio at 13.30%, which is above the minimum statutory requirement of 10% ,coupled with over 89% of our balance sheet assets consisting of regular cash flow and interest bearing assets gives us a strong liquidity position which we intend to maintain and further strengthen. Our asset liability maturity gap within one year basket which is around 20% at present, we intend to gradually bring down to 10% with the focus being on building a gold backed loan portfolio within the one year asset maturity basket and a

debt portfolio with longer tenures in the liability maturity basket above one year.

With a brand that has transformed itself into an entity which the citizens of this country identify as a partner for lifelong relationships, CDB's pragmatic distribution channels and equally pragmatic product and service portfolio complement our brand ethos. The CDB brand moved forward to occupy the 50th position among the 100 most valuable listed brands in Sri Lanka and is among the top 5 Non Bank Financial Institution brands. Our branch repositioning strategy begun last year continued unabated and according to plan, with nearly all now repositioned for better accessibility, better customer service giving yet another competitive edge for CDB. This year we completed fourteen branch repositionings according to plan and over next year, have just five more to complete. We opened branch touchpoints in Elakanda, Trincomalee, Kandana and Ragama bringing our network to 36. Our strategy to build and nurture an organisation that will eventually provide total financial services solutions to our target customer segments saw us enhance

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our product portfolio with the introduction of savings accounts. CDB is now ready to go live on our Core Banking Solution during the 1st quarter of 2012 underscoring our IT competence and business strategy as an enabler. We have also been studying the systems and processes necessary for full compliance with the SLFRS which will come into force in 2012. Training our team and integrating the required compliance features into CDB's operations, we are now ready for complete implementation of the SLFRS.

Besides having the honour of being a Top 100 Brand in the country by Brand Finance, CDB's credit rating too was upgraded to BBB/ P2 by RAM Ratings Lanka, reflecting the financial stability and strong fundamentals of CDB. Further accolades came this year with CDB being the winner of the National Business Excellence Awards 2011 adjudged by the National Chamber of Commerce in the Specialised Banking & Financial Services Sector and receiving a Bronze award in the Financial Services category at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka.

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2012 in current light

Given the signs in both the global and local arenas, 2012 will undoubtedly be a challenging one. While the industry overall has posted excellent results in 2011, sustaining the momentum of 2012 will be a real test of its mettle. However there is optimism. Sri Lanka is on a development drive and this will naturally permeate the micro and SME sectors which are quickly being positioned as catalysts in the upliftment of the rural economy. The profile of the industry therefore is evolving and the players ready to take on the new challenges will capitalize, create and exploit these emergent opportunities. The business model we have already established has proved to be swiftly adaptable to changing business environments rendering it impervious to rigidity and obsolescence. Similarly, we are blessed with a team that leverages on the synergies of innovation, dynamism, continuous improvement and empowerment. Inculcating a knowledge-centered culture, the CDB team is strongly supported through timely training and development that empowers them to

overcome obstacles with the firm belief that the power within us to generate positive responses is greater than the power of external challenges.

Social Commitment

Our Commitment to the community we operate continue during the period under reviewed with our flagship CSR Projects dedicated to educational needs of children under CDB Sisudiri scholarship scheme, upgrading of Information technologycal skills of Rural Children, other CSR projects under " CDB Hittawathkam" and the community projects on Environment. The details of which are highlighted in the section of Sustainability Report of the Annual Report.

Paying tribute

It is with deep gratitude and respect that I express my appreciation to three greatly valued board members, Mr Rajkumar. Renganathan our former Chairman, Mr Thushara Ranasinghe and Mr. Palitha Jayawardena who retired from the board at the year-end in compliance with Corporate Governance requirements. These three highly respected gentlemen have tirelessly contributed to raise CDB from the ashes to the elevated and esteemed position it occupies today. Their expertise and wise counsel navigated CDB through the tempestuous waters of business volatility for over a decade.

For me it was an honor, privilege and truly an invaluable learning experience to work under a person in the caliber of Mr.

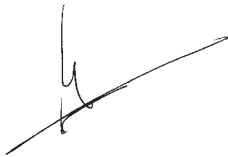
Renganathan who exudes discipline, clarity, integrity, and business acumen.

In return I could only thank and express our heartfelt gratitude and appreciation on behalf of all the team members of CDB. They will certainly be missed, but the legacy of their ideals will remain to inspire us.

Appreciations

I would like to express my sincere appreciation to the Chairman and Board of Directors for their continued support and guidance. I warmly welcome Mr. Herschel Gunewardena who takes over the reins as Chairman of CDB together with the new directors on board. It will be immensely rewarding for me to obtain their counsel and leadership in steering CDB into this new era. I thank the Governor of the Central Bank of Sri Lanka Mr. Ajith Nivard Cabraal for the assistance extended to CDB over the past years. I also take this opportunity to express my appreciation to the Director and officials of the Supervision of Non Bank Financial Institutions of Central Bank for the assistance extended to us. My heartfelt thanks to our shareholders,

customers and business partners for their continued confidence in our ability to spearhead CDB to reach greater heights and deliver. I thank our external auditors, Messrs. KPMG (Chartered Accountants) for their professionalism and in issuing their report in a timely manner, enabling us to hold the Annual General Meeting on time. I thank all CDB team members for their continued commitment and dedication to produce such exceptional results during the year. It has certainly been a rewarding year and one which has continued to highlight that CDB is blessed with an extraordinary team to provide a 'strongly supported' foundation on which to build as we move forward.



C. M. Nanayakkara

Managing Director/Chief Executive Officer

31 May 2012

Colombo



Board of Directors

From Left to Right : P A J Jayawardena, Dr.Ajantha Dharmasiri, D A De Silva, D H J Gunawardena, R H Abeygoone wardena,
T M D P Tennakoon, W P C M Nanayakkara, S V Munasinghe, S R Abeynayake, W W K M Weerasuriya,
: P N C Gomes (Not in the picture)





Corporate Management

From Left to Right : Mahesh Nanayakkara, Naguib Imdaad, Roshan Abeygoonewardena, Maduranga Heenkenda, Damith Tennakoon, Sasindra Munasinghe, Nayanthi Kodagoda, Elangovan Karthik, Malcolm Weerasoriya





Management Team

From Left to Right : Seated/Sudath Fernando, Isanka M Kotigala, Ravindra Abeysekara, Hasitha Dassanayake, Ranjith Gunasinghe
Standing/Dassana Chandrananda, K D Gunathilake, Sarath Kumara, Ruwan Chandrajith, Nadee Silva, Herath Dharmadasa, Sanjeeva Ranathunga, Prasad Ranasinghe, Nimal Silva, Subash Kumar



Profiles

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 around 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 Ltd. & Heath & Co. (Ceylon) Ltd. and Pelwatte Dairy Industries Ltd.

Mr. Mahesh Nanayakkara* *(Managing Director/Chief Executive Officer)*

Mr. Nanayakkara (43yrs) 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, 43 years of age, an Associate Member of the Chartered Institute of Management Accountants (UK) and Institute of certified Management Accountants of Sri Lanka. He also a member of Institute of Certified Professional Managers. He joined CDB in June 2005. He has 20 years of experience in finance covering over 16 years of experience in the financial services industry and 3 years experience in the manufacturing sector.

Mr S R Abeynayake *Non Executive Director*

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

Mr D A De Silva *Independent Non Executive Director*

Mr De Silva holds a Bachelor of Science (B. Sc.) degree in Business Administration from the University of Sri Jayawardenapura and an associate membership from the Chartered Institute of Management Accountants (UK). He counts over 15 years' of Corporate Accounting experience in the Financial Services, Oil & Gas, Construction and Telecom industries. Presently he is the Head of Finance of the Telecom cluster of the Access Group of companies and is an Executive Director of ThinkCube Pte Singapore.

Dr. Ajantha Dharmasiri *Independent Non Executive Director*

Dr. Ajantha Dharmasiri is a Senior Faculty Member and a Management Consultant attached to the Postgraduate Institute of Management, University of Sri Jayawardenapura, Sri Lanka. He also serves as an adjunct professor in International Human Resource Management at the Price College of Business, University of Oklahoma, USA.

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 more than ten countries in Africa, Asia and the Middle East. Recently he was appointed as an independent director of a leading development bank.

He is a Commonwealth AMDISA Doctoral Fellow and a Fulbright Postdoctoral Fellow. He holds a Ph.D. and an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura and a B.Sc. in Electrical Engineering from the University of Moratuwa. He is a Chartered Electrical Engineer and a Member of the Chartered Institute of Management, UK as well.

As an academic scholar, he has presented research papers at international conferences in more than ten cities in Asia, America, Australia and Europe. He has published articles in local and foreign journals, and is also an author of two books. He has won many accolades including gold medals for best papers in two international management conferences, and in 2010, the platinum award by the Alumni of the Postgraduate Institute of Management (PIMA) for outstanding academic contribution.

Dr. Dharmasiri likes to identify himself as one who transitioned from being an "Engineer of Electrical" to an "Engineer of Hearts and Minds."

Mr. P N C Gomes*Independent, Non Executive Director*

Mr. Gomes was appointed to the board of directors on March 2009. He is the Founder and President Partner of Gomes & Company (Chartered Accountants). His wealth of experience covers the areas of Internal Auditing, Statutory Auditing, Tax Planning, Corporate Planning, Financial Management, Company Secretarial practice and General Administration in different industries. He holds a Bachelors Degree in Accountancy from the University of Sri Jayawardenepura and a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and the Certified Management Accountants of Sri Lanka.

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 Sasindra Munasinghe**(Director / Chief Credit Officer)*

Mr Munasinghe, 43 years of age, has been with CDB since 2001. He has over 17 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation & marketing. He was instrumental in setting up of leasing operations at CDB and was responsible for the implementation of the integrated software solution of the company.

Mr. Damith Tennakoon**(Director / Chief Financial Officer)*

Mr. Tennakoon, 46 years of age, joined CDB in September 2003. He is an Associate member of the Chartered Institute of Management (UK). He counts over 20 years experience in finance, investment and internal audit. He was appointed to the Board of Directors in April 2011.

Mr. Malcolm Weerasoriya**(Director / Chief Marketing & Sales Officer)*

Mr. Weerasoriya, 48 years of age, 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.

Corporate Management Profiles**Mr. Maduranga Heenkenda***(Assistant General Manager – Asset Portfolio Sales & Channel Development)*

Mr. Heenkenda, 33 years of age, a Member of the Sri Lanka Institute of Marketing and a member of Institute of Certified Professional Managers. He Joined CDB in February 2000 and has extensive experience in the marketing and sales of corporate and retail lending and leasing. He is a Practicing Marketer – Sri Lanka Institute of Marketing, Certified Professional Marketer Asia Pacific (AMF), Member of Certified Professional Managers. He is reading for the Masters Degree in Business Administration, at University of Wales.

Mr. Naguib Imdaad*(Assistant General Manager - Information Technology)*

Mr. Imdaad is 35 years of age, he is a Software Engineer by profession who has almost 11 years experience in designing, implementing and maintaining software in Commercial Banks, Merchant Banks and Finance companies. He is a member of British Computer Society and holds a Master degree in Business Information Systems at Sri Lanka Institute of Information Technology. He joined CDB in December 2006.

Mr. Elangovan Karthik*(Assistant General Manager - Marketing)*

Mr. Karthik, 31 years of age, He 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 holds a MBA from at the Postgraduate Institute of Management, also 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*(Assistant General Manager – Operations)*

Mrs. Kodagoda, 36 years of age, has been associated with CDB since 1996. She has over 13 years experience with CDB including finance, Human Resources, and credit operations.

**Directors & Corporate Managers*

Profiles

Management Team Profiles

Mr. Isanka Kotigala (Senior Manager - Business Development)

Mr. Kotigala is 35 years of age, he has almost 11 years experience in Sales & Marketing in Lubricant & Alcoholic Beverage industries. Along with work experience & training in leading multinational organizations he has exposed him self as a Sales & Marketing Manager in overseas assignments. He joined CDB in January 2007.

Mr. Sudath Fernando (Senior Manager - Credit/ Leasing)

Mr Fernando, 44 years of age, has joined CDB in June 2008. He has over 16 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation & marketing. Prior to CDB has been attached to leading Merchant Bank, Ceylinco Savings Bank and an Asset Line Leasing Company Ltd.

Mr. Hasitha Dassanayake (Senior Manager - Finance)

Mr Dassanayake, 30 years of age, holds a Bachelor of Commerce Degree from University of Colombo and an Associate Member of the Chartered Institute of Management Accountants (UK). He possesses 6 years experience at CDB. He is reading for the Masters Degree in Business Administration in Postgraduate Institute of Management (PIM).

Mr. Ravindra Abeysekara (Senior Manager - Recoveries)

Mr Abeysekara, 40 years of age, an Associate member of the institute of credit management Sri Lanka and a member of the Institute of Credit management (UK). He 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 14 years experience in the financial service industry sector includes Recoveries, Investigation and Auditing.

Mr. Ranjith Gunasinghe (Senior Manager - Deposit Operation)

Mr Gunasinghe, 40 years of age, 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 passed Certified Professional Marketer (CPM) examination conducted by Asia Marketing Federation. He was involved in setting up the Deposit Operation Division at CDB. He counts over 13 years of industry experience.

Mr. Sarath Kumara (Manager - Branch Operations)

Mr Kumara, 40 years of age, 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 & has completed 12 Years of service.

Mr. Sanjeewa Ranathunga (Manager - Recoveries)

Mr Ranathunga, 39 years of age, joined CDB in 1998, he has been with CDB over a period of 12 years whereby 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 - Compliance)

Mr Silva, 33 years of age, 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 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. Ruwan Chandrajith (Manager - Internal Audit)

Mr. Chandrajith, 29 years of age, 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 Jayawardapura. He has over 6 years of experience in the field of Audit & Assurance Services.

Mr. Sunil Kandambi
(Consultant – Post Disbursement Follow Up)

Mr. Kandambi 66 years of age, has 38 years of experience in Police Department. At the time of retirement he held the rank of Senior Superintend of Police. He joined CDB in October 2006.

Mr Prasad Ranasinghe
(Manager – Business Development)

Mr. Ranasinghe, 34 years of age, holds a B.Com (Special) Degree from University of Sri Jayawardenapura. He joined CDB in June 2004 and counts over 6 years of experience with CDB in leasing and deposits marketing.

Mr. Herath Dharmadasa
(Manager – Business Development)

Mr Herath, 40 Years of age, holds a Bachelor of Arts (Special) Degree from University of Peradeniya. He joined CDB in March 2002 and has completed 9 Years of service. He counts over 13 years of Industry experience.

Mr. R. Subashkumar
(Manager – Business Development)

Mr Subashkumar, 31 years of age, 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.

Mrs.Nadee Silva
(Manager-Business Development)

Ms.Nadee Silva is 39 years of age, has been associated with CDB since 1998. She has over 14 years of experience in Sales & Marketing in the financial services industry.

Mr. K.D.Gunathilaka
(Manager-Business Development)

Mr. Gunathilaka is 62 years of age, has been associated with CDB since 2007. He has over 30 years of experience in State Banks. He is an Associate of Institute of Bankers in Sri Lanka.

Mr. Dassna Chandrananda
(Manager - Kandy Branch)

Mr. Chandrananda is 42 years of age, has almost 7 years experience in CDB in Sales & Marketing & Branch Management .His overall experience counts over 17 years in the financial services industry & insurance industry. Prior to CDB he was attached to Ceylinco life & Asian Alliance Insurance.

Deputy Managers & Assistant Managers



Dilruk Abeydiwakara
Senior Deputy Manager



Aruni Panagoda
Senior Deputy Manager



Lushan Perera
Senior Deputy Manager



Ashad Weerabangsa
Senior Deputy Manager



Eranga Gunaratne
Deputy Manager



Sarath Gunasekara
Deputy Manager



Keerthi Karunathileka
Deputy Manager



Bandula Kumara
Deputy Manager



Sampath Kumara
Deputy Manager



Shabni Mohideen
Deputy Manager



Lalith Peiris
Deputy Manager



Jayawardena Liyanage
Priyantha
Deputy Manager



Tharanga Suraweera
Deputy Manager



Mathota Arachchige
Udayanga
Deputy Manager



Neil Vethanayagam
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



Kumudu Liyanage
Assistant Manager



Shelika Perera
Assistant Manager



Rangana Pragharathna
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



Krishanthi
Thilakarathne
Assistant Manager



Nilan Vidanagamage
Assistant Manager



Buddhi Wanigarathne
Assistant Manager



Priyangani Wickramage
Assistant Manager



Asenath Wijeratne
Assistant Manager

Not in the Picture

Amila Gunawardana, Athula Thilakarathne, Chamila Illukthenne, Heshan Bandara, Kareem Mohomed Rizvi, Tharanga Udawaththa, Tharmalingam Sarathbabu

The updated WEO projections see global activity decelerating but not collapsing. Advanced economies have evaded re-deterioration into recession, whilst activity in emerging and developing economies has slowed down.

Global Economic Overview

Presently, international economic conditions are tempestuous. Its recovery has been threatened by intensifying strains in the Euro area and fragilities elsewhere. Financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated. Global output is projected to expand by 30 percent in 2012. This expansion can be ascribed to the mild recession of the Euro area in 2012 due to the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation. Growth in emerging and developing economies is

also expected to stagnate owing to the worsening external environment and a weakening of internal demand.

IMF's Outlook

According to the World Economic Outlook of the IMF (September 2011 issue), global oil prices are to decline by 3.1% and Non-Oil commodities prices are to decline by 4.7% in 2012. A close examination of commodity price behavior in 2011, one can conclude that the global commodity prices will be volatile as in 2012. These inconsistencies can be attributed to a number of factors influencing the prices with supply side pressures originating from

the Iranian nuclear issue, and demand side pressure from speculation that the US economy would recover.

The updated WEO projections see global activity decelerating but not collapsing. Advanced economies have evaded re-deterioration into recession, whilst activity in emerging and developing economies has slowed down. However, these predictions are based on the assumption that policy makers in the euro area intensify efforts to address the crisis. As a result, sovereign bond premiums may stabilize near current levels and start to normalize in early 2013. Furthermore



Management Discussion

policies that limit de-leveraging have succeeded in euro area banks. Credit and investment in the euro area contracted modestly, with limited financial and trade spillovers to other regions. Overall, activity advanced economies is projected to expand by 10 percent on average during 2012–13.

Pressure on Developing Countries & Sri Lanka’s Standing

The external environment had a negative impact on all developing economies; in Sri Lanka we’re feeling the consequences. Presently pressure is being exerted on currency depreciation; unlike in 2011/2010 when there was pressure for currency appreciation. There is a tendency to protect domestic production in affected economies by restricting export competition. This might result in currency depreciation in developing countries and trade measures to support exports while limiting imports; culminating in competitive currency depreciation in order to maintain export competitiveness. The standard reaction of a “flight to safety”, a retreat of assets to a safe destination, was common during the perceived global economic uncertainty. Regardless of sovereign debt concerns in the US, investors have taken refuge in US Treasury Bills. Sharp outflows of capital from advancing economies, that exerts pressure on currencies to depreciate, may experience asset market destabilization. In some developing countries, due to growing trade deficits (current account deficits) where imports outweigh exports, there is pressure on the exchange rate to depreciate and curb imports while incentivizing exports.

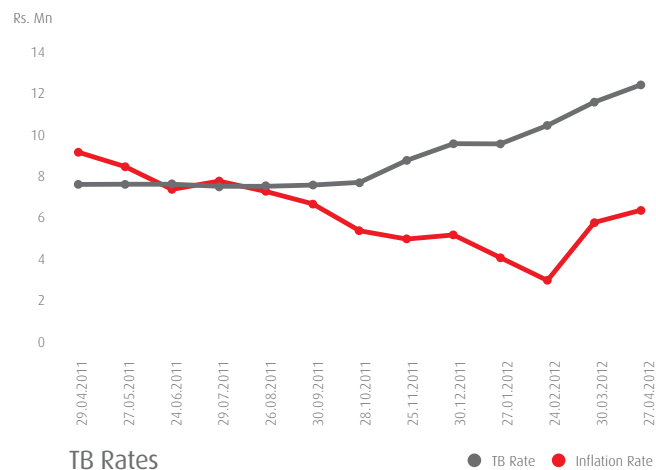
The average unemployment rate is estimated to have fallen to its pre-crisis level, yet labour market challenges remain, which include widespread underemployment. Fiscal spending is likely to continue on an upward trajectory, while budget deficits are expected to narrow as a share of GDP in the fast-growing economies of India and Sri Lanka. Inflation has accelerated due to a sharp increase in commodity prices, fused with aggregate demand pressures and lower fuel subsidies

in several countries. The central banks of Bangladesh, Pakistan and India in particular responded by further tightening monetary policies with additional interest rate increases expected in the second quarter of 2011. If inflationary pressures continue to rise, authorities may feel a need for more aggressive monetary tightening, which would likely weaken domestic demand and economic growth in the outlook period.

From a trends perspective, The Colombo Consumer Price Index estimates the year-on-year inflation rate to be approximately 4.9%, in December 2011. It consistently steadied itself at a mid single

digit levels throughout the year, with a slight increase towards the later quarter. In spite of rising commodity and food prices in global markets, inflation has been kept under control due to improvements in domestic supplies, especially from the Northern and Eastern provinces.

In Treasury Bills, 2011 saw it stand at 7.55% but saw a rise to 10.76% in March 2012, ensuing the devaluation and currency defense post-devaluation. Within 12 weeks the TB rate increased by over 300 basis points; indicating an upward swing of rates for the short and medium term. Moreover an increase in policy rates warrants the regulator’s intent.



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Management Discussion

Industry Performance

The Financial Sector's performance improved significantly owing to continued expansion in economic activities, whilst the system's stability was maintained. There was credit growth acceleration, and financial institutions' performance was ameliorated with an increase of assets, healthy profitability, higher capitalization and lower risk levels. The banking, finance, leasing and insurance sectors saw an expansion of island-wide branch networks, especially in the Northern and Eastern Provinces; increasing access to financial services.

Money and credit markets were liquid and interest rates declined during the first three quarters of the year. However, liquidity was constrained towards the latter part of the year. The price indices of the stock market declined after an upsurge in the previous two years. At the same time, the volume of funds mobilized from the stock market through initial public offerings and rights issues recorded a substantial increase.

Regulatory Framework

The regulatory and prudential frameworks governing the financial system were strengthened.

Enactment of the new Finance Business Act, aimed at further strengthening the regulation of finance companies and enhancing their power to combat unauthorized deposit-taking and finance business activities, was the year's main reform. Additionally, minimum capital requirements for finance companies were enhanced, and corporate governance provisions concerning suitability and propriety of directors and senior management were also strengthened. Farsighted requirements affiliated to capital adequacy and liquidity for leasing companies were also introduced.

Branch Distribution of NBFIs by Province

Province	31-12-2010	31-12-2011	Opened During the Year
Western	192	224	32
Southern	76	86	10
Sabaragamuwa	45	54	9
North Western	61	67	6
Central	62	72	10
Uva	33	42	9
North central	45	50	5
Eastern	54	63	9
Northern	32	46	14
Total	600	704	104

Source: CBSL

Proposed amendments to the Banking Act – with contingencies to enable consolidation of banking groups, measures to facilitate mergers and acquisitions for consolidation and resolution – were submitted to the Cabinet for approval.

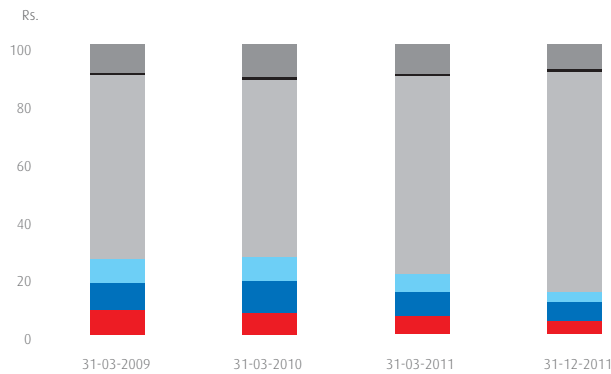
Directions on integrated risk management and customer protection were issued. Exhaustive amendments to the Regulation of the Insurance Industry act were also brought into effect.

Amongst these were capital enhancement, segregation of general and long-term insurance business, and appointment of institutional agents.

Stock market regulations concerning the provision of credit, by brokers, was introduced. A new Unit Trust Code was also issued to sanction regulation of exchanged-traded funds. Another consequential development was the circulation of guidelines for mobile payment mechanisms.

Non-Bank Financial Institutions Sector Performance

In accordance with our conjectures, the once-distressed Licensed Finance Company Sector (LFC) – formerly known as the Registered Finance Company (RFC) Sector – was revitalized in 2011. The industry's credit assets that were precipitated by rising credit demand amid a more propitious economic climate claimed robust growth. Contrary to the previous financial year, the industry liquidity levels were adequate in FYE March 2011, incited by an aggressive loan expansion of 40%. Customarily, LFC asset quality is weaker than banks' given the higher risk levels of targeted clients. Endeavors to increase awareness and improve asset quality, were realized in fiscal 2011, evident by the slower acceleration of non-performing loans (NPL), in contrast with previous years. Regardless, the industry loan portfolio is yet to be sufficiently vitalized in lieu of 2011's aggressive loan growth. RAM Ratings Lanka continues to be apprehensive that incidents of offences will increase as the portfolio persists.



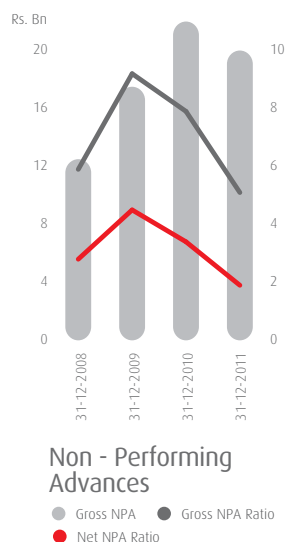
Industry's Asset Composition

- Property plant & equipment
- Other assets
- Investments in land and property
- Net loans & advances
- Investment securities
- Cash and treasury assets

Notwithstanding the strong credit growth, many LFCs managed to maintain adequate capitalisation levels, underpinned by strong internal capital generation and capital infusions by way of initial public offerings ("IPOs"), to comply with the regulatory listing requirement by mid-2011. However, the industry's funding mix tilted towards borrowings, as deposit growth did keep abreast with credit expansion. Many industry players increased their reliance on long-term borrowings due to the low interest rates, thereby reducing near-term maturity mismatches. This evolved to the worsening of the industry's loans-to-deposits ("LD") ratio to 139.13% as at end-December 2011 (end-March 2010: 90.28%).

LFC's conspicuously provide long term loans that single out the high risk strata of borrowers, who in turn allow them to charge higher rates than licensed commercial banks (LCBs). 2011 saw the broadening of industry margins, largely supported by lower funding costs amid faster downward re-pricing of deposits; further fortification included the surge in loan assets that focused on high yielding products. This has helped the industry restore to the black after the previous year's losses.

In the future the LFC industry asset quality shall weather many storms, as its strength is tested by underwriting and collection approaches against the backdrop of escalating interest rates and inflationary pressure. In spite of the rising interest rates, expansion of 40-50% of the industry's credit assets has been forecasted; albeit at a slower pace than the previous year. The ascending trend in credit demand for LFCs is likely to be fostered by the limitations imposed on the institutions' regulator, the Central Bank of Sri Lanka (CBSL).



CDB Approach

Throughout our fifteen-year history, we have been consistent in ensuring sustainable performance. We've faced many challenges, but made sure that our performance was fortified – all along. This framework has remained; underscoring our strong support for growth. Our growth has been exemplary; we surpassed another milestone in post tax profit – exceeding the SLR half billion milestone.

Our operations are based on a foundation that establishes a win-win situation for all stakeholders who journey with us. Products and services continue to be components that create empowering environments for customers and business partners. Our commitment to the micro and SME sectors is evident as we constantly attempt to boost local entrepreneurs and contribute to national development. We are dedicated to disseminate a positive influence that will spur a progressive environment for our stakeholders.

At CDB we believe in being strongly supported in order to reciprocate our strength for overall growth. Hence our stakeholders can rest assured that the future is stable, as we've got it covered

Although we are aware that 2012 will pose more challenges than its predecessor, we shall continue to remain within the strength of our internal infrastructure. CDB has always had a strong business model through which we shall continue to progress, in spite of volatile surroundings. We are confident that the company will not falter, but ascend to greater heights. This confidence stems from the knowledge that our strategies, people and tools will not waver.

Management Discussion

Principal Risks and Uncertainties Facing the Business

Area	CDB's Response
<p>Maintaining sales volumes & profit margins</p> <p>Licensed Finance Institutes Industry comprises of 43 companies and a severe competition prevails in this industry. Companies are providing homogeneous products and differentiation is considered as a survival mechanism in the market. As a result the company is under pressure to come up with new and varied products in order to achieve increased sales volumes and thereby obtain greater profit margins.</p>	<p>Company has introduced 8 new products and opened 3 outlets during the financial year under review in order to capitalize the market opportunities prevailing in the Eastern region.</p>
<p>Maintaining required capital adequacy & liquidity</p> <p>Capital adequacy ratio is the ratio that determines the Company's capacity to meet time liabilities and other risks such as credit risk, operational risk, etc. Liquidity is the ability of a company to meet the short-term obligations. The liquidity of a finance company can be considered as the fuel that keeps the company moving smoothly, and capital adequacy equivalent to a shock absorber that keeps the company steady on the road when encounters obstacles.</p>	<p>Company adheres to the required level of capital adequacy and liquidity and the ratios stood at 17.03% and 13.3% respectively.</p> <p>The ratios are closely monitored by the compliance committee and Asset and Liability Committee meetings.</p>
<p>Maintaining service quality</p> <p>As mentioned previously, the Licensed Financial Institutions industry has severe competition. To ensure longevity companies have to offer diverse products or should differentiate them by providing quality services. In this sector, service is the main criterion to retain customers. Thus the companies should focus on providing value added services continuously, and exceed customer expectations.</p>	<p>A Customer Satisfaction Audit is conducted annually to measure the satisfaction level and to investigate areas to be developed by the company in relation to customer service.</p> <p>A call centre is in operation to deal with customer complaints.</p> <p>Marketing staff is continuously trained by leading professionals in the industry to serve customers efficiently and effectively.</p>
<p>Maintaining a healthy non performing ratio</p> <p>NPLs are loans that no longer produce income for a finance company that owns them. Loans become nonperforming when borrowers stop making payments and the loans enter default. Finance companies often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the company, while a larger (or increasing) NPL ratio can mean larger losses for the company as it writes off bad loans. A healthy non-performing ratio indicates a financial company's asset quality.</p>	<p>Closely monitors collection ratios and overall collection ratio recorded at 97% for the year.</p> <p>Company has adopted stringent monitoring and recovery procedures, resulted in recording a gross NPL ratio of 1.67% and net NPL ratio 0.37%.</p>
<p>Retaining best employees</p> <p>In order to provide quality customer service and to provide it efficiently, a company has to have a good capable team. Personnel should be retained for a considerable time.</p> <p>Failing to do so will result in the company providing training to employees who might leave and join competitors.</p>	<p>Employee Satisfaction Audits are conducted.</p> <p>Annual Awards ceremony to recognize the best performing employees.</p> <p>Arranging local and foreign training to enhance employee skills</p> <p>Engagement with staff through Employee Suggestion Scheme</p>

Area	CDB's Response
<p>Maintaining required level of compliance to regulatory authorities</p> <p>Licensed Finance Companies are under the supervision of Central Bank and are listed in the Colombo Stock Exchange (CSE), which is governed by both Securities & Exchange Commission (SEC). Thus it is vital to conform to regulations imposed by these authorities and to practice good corporate governance.</p>	<p>Our Compliance Division continuously reviews business matters and ensures that the company is always adheres all rules and regulations.</p> <p>Compliance meetings are held monthly to discuss the matters pertaining to compliance and communicate the new developments to the relevant parties.</p>
<p>Meeting the severe competition</p> <p>The Licensed Finance Companies sector comprises 43 companies and the industry is very competitive as companies provide similar products: leasing, hire purchase, deposits etc. The companies need to offer these products, while focusing on diversification in order to gain a larger market share.</p>	<p>CDB has focused on providing total financial solutions by offering diversified financial products such as MoneyGram, Money Exchange, and Pawning etc.</p> <p>Continuously carrying out competitor analysis and capitalize on opportunities whenever they arise.</p> <p>Providing exceptional service with the aid of new technological advancements.</p>
<p>Acquiring new technological proficiency</p> <p>Technology plays a pivotal role in business activities. It contributes to significant savings of time and money, more importantly it provides an advantageous boost over rivals.</p>	<p>A new system has been acquired from Polaris India to conduct business activities more efficiently and effectively.</p> <p>All branches are interconnected via one system</p> <p>Decentralization of business activities to branch level to provide more efficient service to customers</p>

Operational Review - Lending

Sector performance

Rapidly expanding loan portfolio

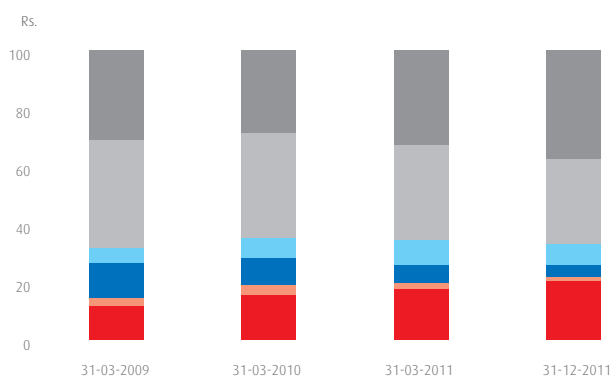
Supported by stronger credit demand, the industry's loan assets advanced 40.51% y-o-y in fiscal 2011 (fiscal: 12.67%). Notably, LFCs' loan portfolios swelled 72.27% y-o-y in 9M FY Mar 2012. Meanwhile, the loan expansion continues to be driven by the leasing and HP segments, with pawn broking gaining prominence.

Pursued growth from pawn broking

Pawn broking emerged as a key growth area for the LFC sector in fiscal 2011, albeit still smaller than the banking sector. The demand for pawn broking services surged when gold prices peaked in 9M fiscal 2012, along with the convenience associated with this form of borrowing.

Industry Loan Composition

Leasing gained prominence amid rising demand for new vehicles and 3-wheeler financing



Industry Loan composition

● Other loans
 ● Related company loans
 ● Term loans
 ● Pawning
● Hire purchase
 ● Leasing

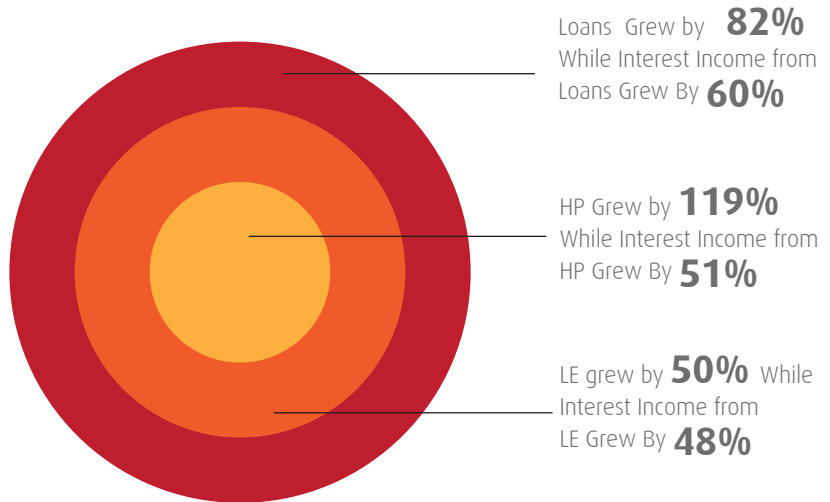
Management Discussion

CDB - the way of implementation

CDB's business strategy on the lending side provides a well-defined pragmatic structure which outlines the opportunities and risks associated with each of CDB's three key market segments. The strategy takes into account the adjustments necessitated by market conditions, allowing management the flexibility to operate in full or part in any of the market segments at any given time.



The top level segment represents large facilities with low returns where the default risk is minimal; the Middle Levels represent a moderate level of returns and risk on moderate facilities while the bottom of the pyramid, micro finance represents small facilities with higher return involving considerable risk. CDB has defined targets on each of these segments that are adjusted according to market capacity; the continuous emphasis on evaluating the appetite and capacity of each segment has ensured that CDB's strategy is one of sharp focus. In achieving this CDB has recognized different product categories, which are Leasing, Hire Purchase and Loans.



Accomplishments in 2011/12 (Progress against Strategic Objectives)

Our Expectations	Our Performance	Achievement Status
To achieve disbursements of 9bn	Achieved disbursement figure of 8bn	Partly achieved
To maintain a collection ratio of 95%	Maintained an average collection ration of 97% During the financial period	Achieved
To maintain a gross NPL ratio below 3%	Maintained a gross NPL ratio of 1.67%	Achieved
To introduce new loan products	Introduce new loan schemes (CDB Aruna Business loan, CDB professional loan etc.)	Achieved
To achieve a pawning portfolio of Rs. 600mn	Achieved 578Mn during the period under review	Partly achieved
Expanding pawning facility across our branch network	Introduced pawning facilities at 18 outlets during the year	Partly achieved

■ Achieved
 ■ Partly achieved
 ■ In progress

CDB's business strategy on the lending side provides a well-defined pragmatic structure which outlines the opportunities and risks associated with each of CDB's three key market segments.

CDB looks to achieve a dramatic increase on the lending front, especially the bottom line of the pyramid that represents micro-lending. This segment looks to increase at a dramatic pace. Given the downturn in both global and local economic conditions. The Sri Lankan vehicle market, which enjoyed a brief boom, has plummeted owing to recent tax revision.

Our strategy with regard to Leasing and HP has been differentiation, where CDB has mainly focused on providing a personalized one-to-one service to the customers, enabling CDB to be a trend setter in the LE & HP market. CDB has focused on distribution to ensure the island wide presence, which has been key in unleashing the true potential of CDB in the year 2011/12.

In the year 2011/12 we have achieved a disbursement figure of Rs. 8 Bn against the target of Rs. 9 Bn amidst the extensive competition and volatile interest rates. Overall the loan book has showcase a growth of 69% from Rs. 7.9 Bn to Rs. 13.2 Bn. The Leasing & Hire Purchase (LE & HP) portfolio grew from Rs. 6,031 Mn to Rs. 9,942 Mn, a 65% increase compared to the previous financial year. The net advances granted as loans grew from Rs. 1,825 Mn to Rs. 3,308 Mn, an increase of 81% compared with the 2011/12 figures.

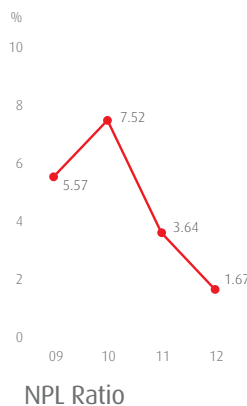
A climate of severe competition was the main challenge in this market segment. The specialized leasing companies dominated the market whilst the Banks and other Financial Institutions being aggressive, contributed to an enhanced level of competition in the market. We are working continuously to grab the opportunities prevailing in this industry.

To maintain a collection ratio of 95%



The Collection Ratio was maintained at 97% during the financial year under review. CDB's Post Disbursement and Follow Up Division closely monitor this ratio. Each branch manager, recovery officer and sales officer bears the responsibility for this quotient. We are confident that this will enable us to attract credit-worthy customers. Our collection ratio is reported, monthly, to the Board and necessary steps are taken to maintain a healthy performance.

To maintain a NPL ratio below 3%

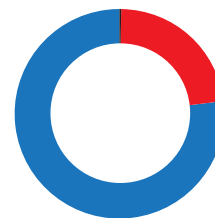


The NPL ratio, which prevailed at 3.64% at the end of financial year 2010/11, was further diminished to 1.67% at the end of the financial year under review. Non-performing loans are broken down to different segments and dealt with individually. Furthermore CDB's call center regularly connects us to our customers to reduce exposure.

To introduce new loan products

Given our marketplace, this is a highly competitive segment. Many banks dominate and have the capacity for longevity. However, we have not deviated from the tracks followed last year, as a result we continued to introduce new loan schemes under housing, business and personal loans.

To achieve a pawning portfolio of Rs. 600mn



Pawning Advances

● 2009/10 ● 2010/11 ● 2011/12

This year saw the pawning services introduced at 28 of our outlets, in comparison to 10 that were opened during the previous financial year. In order for our customers to reap the benefits of lending, CDB aggressively engaged in its pawning advances. Given that the market was ripe for our innovative product, it witnessed success during the period in review. Furthermore, the market experienced an increased trend towards high-yielding pawn broking.

Management Discussion

Expanding pawning facility across our branch network

The company focused on expanding pawning facilities to all branches, with the intent to increase our overall pawning portfolio. As a result pawning officers were appointed and given comprehensive training to fulfill pawning requirements at branches efficiently and consistently.

Future Outlook

The forthcoming year proves to be challenging as CDB will have to operate in an environment governed by high interest rates. Furthermore, due to governmental increase on vehicle import tax the micro-finance segment of our lending pyramid will be adversely affected. Thus, in this context our objective is to attract existing business in the market through diversification, better service standards and value added services. Moreover we shall focus on depleting our NPL ratio, whilst maintaining a collection ratio of 96%. We shall also increase our pawning portfolio. Our network will continue to grow in the future, with the addition of new branches and service centers island-wide.

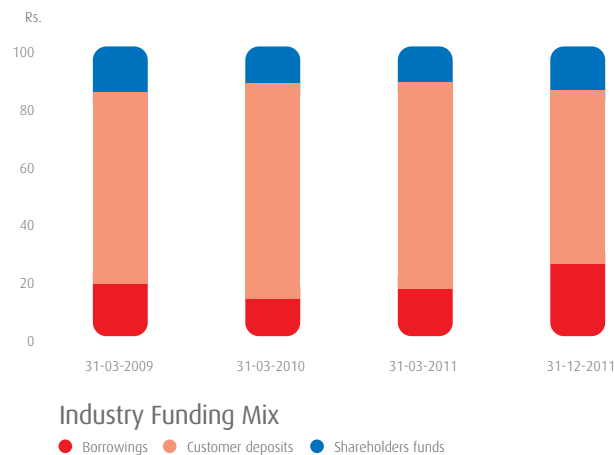
Operational Review Funding

Sector performance

Funding mix skewed towards borrowings and shareholders' funds

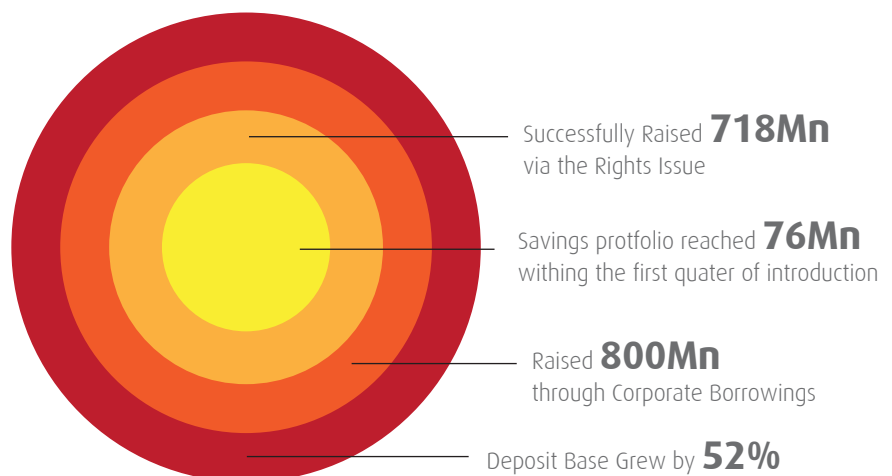
The bulk of the industry's funding needs are still fulfilled by public deposits, which ascended 27.30% y-o-y as at end-December 2011, reflecting the rebound in investor confidence. However that the industry's funding composition had altered, with borrowings gaining prominence in the mix, as deposit growth had not kept pace with credit expansion. Besides, the proportion of shareholders' funds had also increased, backed by strong internal capital generation and capital infusions through IPOs as well as by new investors in troubled LFCs. Accordingly, the industry's reliance on deposits had been reduced to 59.97% as at end-December 2011

(end-March 2010: 74.23%) while borrowings and shareholders' funds accounted for a respective 24.85% and 15.18% (end- March 2010: 12.89% and 12.87%).



CDB - the way of implementation

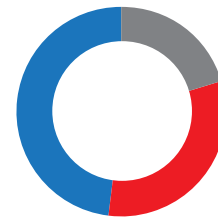
CDB Business strategy on the funding side is highly influenced by the regulatory environment. Within this context as a regulated public deposit taking institution CDB thrives to work towards an optimum funding mix which ensures required volume of funds to support the lending strategy whilst focusing on pricing, maturities, as well as differentiated product categories. The Funding Strategy is mainly thriving on two segments according to CDB plan. That's Public deposits and corporate borrowings, the penetration these segments are included in the Annual Budget that is being the action plan for the strategy.



Our Expectations	Our Performance	Achievement Status
To achieve a deposit portfolio of 12,000 Mn by year 2012	Achieved a portfolio of 11,388 Mn	■
Initiating savings operations	Launched saving accounts at CDB on 15 th of November	■
Introduction of new products	Introduced several products under savings account and the product of 'Suwa Dana' under fixed deposits	■
To raise 718Mn through a right issue	Conducted the rights issue in July 2011 and it was fully subscribed	■
To raise 1Bn through corporate borrowings	Raised 800mn borrowings through Corporate borrowings	■
To be a total financial service provider	Collaborated with Commercial Bank to operate ATMs Obtained approval from VISA International to use debit cards Obtained approval from Central Bank of Sri Lanka to perform SLIPs.	■
Attracting customers	Branch relocation Appointing Customer Service Officers to branches	■
Enhancing awareness	Initiating the 'Situmina Draw' Campaign	■
Creating overall responsibility	Appointing Customer Service Officers to each of our branches Creating a structure where operational staff too are responsible in attracting customers	■
IT enabled platform	Implemented new Polaris Core Bank system Decentralization of business activities	■

■ Achieved ■ Partly achieved ■ In progress

To achieve a deposit portfolio of 12Bn by year 2012



Customer Deposits

● 2009/10 ● 2010/11 ● 2011/12

Deposit rates were predominantly low till October, but increased as Treasury Bill rates indicated an increase owing to economic changes. Amidst the challenging environment CDB has launched the new deposit campaign "Sithumina", which was a tremendous success and greatly assisted in the increase of deposit portfolio. Further to enhance the customer service operations were decentralized to issue deposit certificates through branches up to a certain limit. The deposit portfolio grew by 52% from Rs.7.4bn to 11.3bn during the period under review

Initiating Savings

This was a milestone in our journey. Through this our main objective was to attract low cost funds, whilst providing our customers with a 'real' banking experience in keeping with our objective to provide total financial services.

At first savings accounts were opened for CDB staff, and then progressed to our existing client base. The scheme was officially introduced to our customers on the 1st of January, 2012, and was

implemented using the new Polaris Core Banking System. Our success is obvious as within four months the portfolio reached 76Mn.

New Products

Many new products were initiated, following the success of our savings products and the fixed deposit scheme, 'Suwa Dana'. The 'Suwa Dana' product offers customers, who deposit with CDB hospitalization cover as well. Our savings account portfolio incorporates many different products targeting different social segments: teenagers, minors etc. Gifts were offered to customers who opened our latest savings product, 'CDB Saver' – iTabs, TVs, mobile phones were amongst the incentives presented.

Management Discussion

To raise 718Mn through a rights issue

CDB was listed in the Colombo Stock Exchange in October 2010. Rights were issued to be utilized as to growth initiatives and to enhance the capital base for the year 2011/2012. The company also issued non-voting shares to our shareholders. Rights were fully subscribed by the existing shareholders and CDB raised 718Mn, which contributed to achievement of lending disbursement targets and a balanced capital structure.

To raise 1Bn through corporate borrowings

The company could only achieve 346Mn during the period 2010/11 whilst this financial year the company raised 800Mn. The increase is due to a revised rating, from BBB-/P3 to BBB/P2. This improvement has demonstrated the confidence placed in us, by our customers. Furthermore this advancement has allowed encouraging credence with the banking sector. We also believe that our success was augmented by the low interest rate context.

Providing Total Financial Solutions

At CDB, our ultimate goal is to be a total financial services provider. We have initiated our goal through different avenues: commencing pawning and money exchange services, tying up with Commercial Bank to operate ATMs, getting approval from VISA International to issue debit cards, receiving approval from CBSL to perform Sri Lanka Interbank Payment System (SLIPS).

Attracting Customers

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, 10 branches were relocated and re-launched. These branches reflect our policies, thus changes are not merely superficial; each branch has been refashioned with further focus on our business model of urban lending and rural funding.

Enhancing Awareness

In order to enhance awareness, CDB held a mega draw where 3 brand new Jeeps were gifted to customers who had saved Rs. 10,000 in a fixed deposit: the jeeps were won by customers in Kelaniya, Anuradhapura and Wattala respectively. This campaign proved to be a resounding success as deposits displayed an increase of 57%, when compared to last year's 48%. Our main objective was to ensure that clients had a direct, easily accessible means to us, whilst increasing our brand awareness. Our efforts were lucrative as many new customers began transactions with us, facilitating our objective in growing the company's market presence.

Creating Overall Responsibility

Our staff lies at the heart of CDB, which is why we entrust them with the responsibility of drawing new business to us. This financial year there were significant structural changes that took place, where responsibility was divvied amongst our operational staff as well. We appointed brand executives, responsible for branding and new product development, in an attempt to streamline our processes.

IT enabled platform

We are aware that technological advancements will provide a valuable crutch to the future. Therefore we ensure that CDB utilizes technology to carry out business efficiently. Our system boasts of a new Core Bank system, from Polaris India, which is able to perform Savings operations and the decentralized branch operation which further enhances the services to our customers in a bid to exceed customer expectation.

Future outlook

We are aware that the upcoming financial year will be fraught with high interest rates, and extensive competition among industry place.

We at CDB must continue to conscientiously evolve with the times. This is why we are willing to meet the challenges by proving our individuality. Our strategy includes the following:

- Introducing ATMs/Debit cards
- Introducing new products with more value added services
- Enhancing our 'Situmina Draw' to give more gifts/benefits to our customers
- Decentralized business activities in all of our branches
- Enhancing cross selling via our new product range
- Focusing on new markets and customer segments
- Investing more on developing our staff on providing better services to our customers

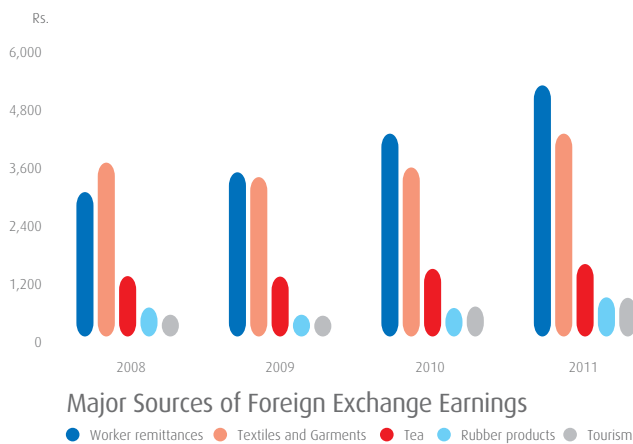
We believe that the fulfillment of these objectives will cement our position as one of Sri Lanka's preferred financial service providers.

Operational Review Other Products

Money Exchange & MoneyGram

Sector performance

Inward workers' remittances continued to be the foremost foreign exchange earner in the first eight months of 2011, surpassing the export proceeds from garment and textiles. Inward workers' remittances, which constitute a greater share of private transfers, increased by 27.2 per cent to US dollars 3,381 million during the first eight months of 2011 compared to US dollars 2,659 million recorded in the corresponding period of 2010. The uncertainty prevailed in the Middle Eastern countries at the beginning of the year, which resulted in increased repatriation of savings by Sri Lankan migrants coupled with the increased use of formal channels by migrant workers to remit money have helped inward remittances to grow at a healthy rate.



CDB - the way of Implementation

Our Sector is highly competitive as the banks are also engaged in performing money exchange and Moneygram facilities. Presently CDB acts as a sub agent to Hatton National Bank. However in keeping with our main objective, to be a total financial services provider, we are trying to make cross selling of our major products. Hence we are the first Licensed Finance Company to initiate Moneygram.

Accomplishments in 2011/12 (Progress against Strategic Objectives)

Our Expectations	Our Performance	Achievement States
Enabling each & every branch of CDB to conduct Money Exchange/Moneygram	Initiated Moneygram in 18 outlets and Money Exchange in 12 outlets	
To achieve cross selling of our core products via these customers	Giving a better service to customers who come to money exchange and moneygram	

Enabling each and every branch of CDB to conduct Money Exchange/Moneygram

The Company had 10 Outlets that conducted Moneygram in 2010/11, which was expanded to 18 in the financial year under review. Also we had 4 outlets which are conducting money Exchange facility in 2010/11 which was increased to 16 in the financial year under review. For this purpose we have recruited people with the requisite knowledge to conduct these business activities, and obtained necessary technological equipment – especially to assist the money exchange operations.

To achieve cross selling of our core products via these customers

Our goal was to enhance the fee-base income by consistently improving these new service segments. Another notable feature was to cross-sell our main products to the customers who require money exchange and Moneygram services through CDB.

To appear as a total financial provider

A prime justification for our focus on these sectors is our intent to become a total finance service provider. These products are predominantly offered by banks, and account for a larger portion of the market. CDB would like to maintain its façade of a bank for customer perception, by continuing to offer similar products.

Future outlook

Our goal is to further explore these market segments. Furthermore we plan on increasing our presence in the North and East, and implementing strategies that attract more customers.

Management Discussion

Marketing, Communication & Distribution

CDB - the way of implementation

At CDB our approach to marketing and communication exceeds our balance sheet. We are of the opinion that we are indebted to sharing financial knowledge with our customers, thereby empowering them to use this information to their advantage. At CDB, we ensure that the information we share with our customers is authentic, relevant and reliable. Even our deposit mobilization efforts look beyond the customer's present financial capacity to inculcate the savings habit for a secure future.

The concern for customer convenience underscores all our marketing initiatives. For example, when it comes to our lending operations, we understand the customer's urgency and have facilitated speedy loans to cut down on delays and simplify loan application procedures. In fact, our marketing and communication strategies are designed to facilitate this promise of swift service. The methods of communication we use include banners, leaflets, posters, press advertisements etc, depending on our target market. Relationship marketing and brand building are year-round marketing activities that aim to strengthen brand equity and cement CDB's credentials in the mind of the consumer.

The CDB Brand

CDB Brand Values have been developed with the intent of creating a competitive strategy of offering more value for the same price that is offered by the competitors. In line with all these aspects we derived attributes that we would like to project to promote our brand keeping line with our past values.

We sincerely believe that in order to create a superior service brand our employees should believe in the brand values that we embody. In order to achieve an ideal scenario where all our employees live and breathe our brand values, we conduct internal communication sessions regularly to ingrain the core values of the brand in our employees. One of the main achievements in 2010/11 is that CDB's brand was recognized within top 100 brands among the listed companies.

Distribution

Considering the distribution, our main focus option is our branches. Based on the strategic plan, corporate management defines the areas for branch location, which will be finalized and arranged within the requirement. Currently CDB operates with 35 branches and 2 service centres. Existing branches will be relaunched, and their services enhanced based on core brand values.

Accomplishments in 2011/12 (Progress against Strategic Objectives)

Our Expectations	Our Performance	Achievement Status
Creating the business drive	Effective marketing and communication Proper compliance with Central Bank rules and regulations Enhancing public trust Integrated marketing via all mediums	
To expand our distribution network	Opened 1 branch Upgraded 4 service centres as fully fledged branches Opened 2 new service centres	
Relocating the branches	Relocated 8 Branches during the year	
To enhance our brand image	Placed 50 In the top 100 listed companies in Sri Lanka	

At CDB our approach to marketing and communication exceeds our balance sheet. We are of the opinion that we are indebted to sharing financial knowledge with our customers, thereby empowering them to use this information to their advantage.

Creating the business drive

Effective marketing and communication

The company is apprehensive of how its new products and offers will be perceived by our clientele. We are committed to ensuring integrity and transparency when promoting our services, without misleading and endangering the public’s sentiment of us. We are confident that this honest approach will win us favorable business opportunities. We’ve ensured adherence to CBSL dictums regarding newspaper advertisements, TV commercials, distributing brochures etc.

To expand our distribution network

We’ve successfully achieved our goal of having 35 branches in our distribution network, according to our CDB Small Miracle 3 year plan. Our financial services have been enhanced; our presence is now felt island-wide. We shall continue along this course, through expansion of our dealer network and area development officers.

To relocate remaining branches

We’ve relocated 8 branches, while last year 17 branches were relocated to reflect our brand values. Our main objective through this venture is to improve direct sales and a unique visibility.

To enhance our brand image

CDB is focused on enhancing public trust through integrated marketing communication via media, tied up with BTL (Below The Line) activities creating a unique brand image. Our success is evident through the rise in brand ranking, from 51 to 50, during the year in review. We are positive that appearing as a total finance provider, giving our clients a banking experience, will give us a competitive advantage over our rivals. CDB also conducted many strategic level CSR projects (CDB Sisuduri, CDB Lab donation),

and environmental initiatives (‘Mihikatha Adaren’) which will enhance our branch image.

Future Outlook

We shall continue in our endeavors to enhance brand ranking and expand our branch network. Furthermore we shall consistently continue to inform the market of new products in keeping with our goal to be a total financial services provider. In keeping with our relaunch strategy, balance branches will be relocated during the next financial year. While our projects will be enhanced to complement social living standards, awareness and education levels.

Information Communication Technology

CDB - the way of implementation

At CDB, ICT has directly contributed to our success as a strategic business enabler, impacting 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. We have a dream to build up such a powerful ICT infrastructure capability that it can run the entire business operation on a platform that provides online real-time connectivity, speed and capacity. Investments in ICT and training were ongoing through the year under review and we will continue to allocate a substantial budget for the same.

Accomplishments in 2011/12 (Progress against Strategic Objectives)

Our Expectations	Our Performance	Achievement Status
Acquire new technological knowhow	Obtaining a new core bank system	
Providing effective MIS for decision making	Timely providing of various reports in aid of decision making of the management	
Online approval of loans and providing decentralized business activities at branch level	Online connected branch network	

Obtaining a new Core Banking System

CDB implemented a new Core Banking System, obtained from Polaris India. This system has the facility to operate savings accounts and thereby eliminated handicaps that were prevalent in our previous system. We’ve also incorporated an effective MIS to assist in the decision making process. Furthermore, an internal system has been developed to disseminate information and monitor its progress, through the company’s intranet.

An online information portal was developed, by our ICT team, which assists the following processes: to drive day-to-day business, provide critical multi-dimensional information, drive the business and enable performance follow up at any given time backed by substantiated up to the minute information that results in creating a forceful psychological dimension to the verbal communication flow on performance at different levels that takes place many

Management Discussion

times during the day. These new systems will assist our team in obtaining MIS at any time, especially branch and zone levels.

Online approval of loans and providing decentralized business activities at branch level

We have initiated the decentralized business activities at branch level last financial year with the previous online system. Since the new system will be operational from next financial year, we are expecting to carry out the activities like approving loans, issuing deposit etc at our branches

This will facilitate provision of a speedy service to our customers and which will reduce the workload at head office level.

Future Outlook

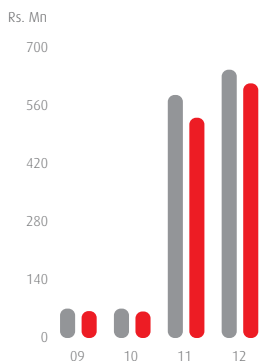
We shall continuously adapt to new technological enhancements and attempt to conduct business in a cost effective manner and provide unique services to our customers. Moreover the quality and quantity of MIS shall be enhanced to further improve the effectiveness of the management decisions. Operational activities shall be decentralized at branch level to provide an efficient service to our customers. Our decentralized business activities, at branch level, will provide our customers with a speedy service.

We shall continuously adapt to new technological enhancements and attempt to conduct business in a cost effective manner and provide unique services to our customers. Moreover the quality and quantity of MIS shall be enhanced to further improve the effectiveness of the management decisions.

Our financial performance is ample evidence that we are strongly supported through multiple financial dimensions to realise our vision. We showcase consistent stability, sustainable results and continuous growth paradigms. We have consolidated our market position which in turn, ensures sustainable growth, meeting and making plans to achieve ambitious growth targets, through an unwavering and strategic focus, constructed on the fundamental trusses of astute management practices, adherence to governance, principles and standards and strong emphasis on a sound financial grounding.

Profit Before Tax & Profit After Tax

Continuing its strong growth augmented significantly with aggressive loan growth, CDB posted impressive profits of Rs. 630 Mn for the year under review. Profit Before Tax stood at Rs 644 Mn, an increase of over 15% compared to last financial year's PBT of Rs 561Mn. Profit After Tax increased from Rs 532 Mn to Rs 630 Mn, which is also an increase of 19% compared to the previous year. Profit from core business increased by 152% from Rs. 220 Mn to Rs. 583 Mn, indicative of the well focused strategic approach that CDB has leveraged upon.

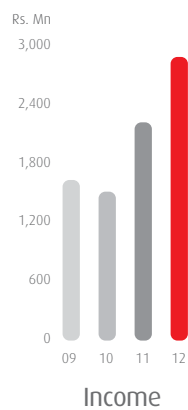


Profit Before Tax & Profit After Tax

- Profit Before Tax
- Profit After Tax

Revenue

Despite aggressive competition in the market, CDB's top line recorded at Rs 2.8 Bn, an increase of 29% compared to last year's revenue figure of Rs.2.2 Bn. The contribution from Fund Based operations stood at 89% from total revenue, showcasing impressive growth of 47% from Rs. 1.7 Bn to Rs. 2.5 Bn. Fee Based operations are recorded Rs.324 Mn for the year under review, with mark to market gains contributing Rs.46 Mn to revenue in this period.



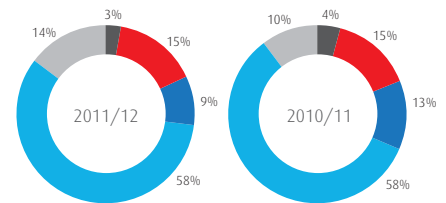
Income

Interest Income & Interest Expenses

CDB's aggressive approach coupled with careful monitoring of assets and liabilities enabled us to exploit the true market credentials for the period under review. Interest income increased by 48% from Rs 1,731 Mn to 2,553 Mn, mainly supported by high Loan Book growth at 69%. Interest income from finance leases recorded Rs.1.4 Bn in an increase of 48% compared to that of the corresponding figure of Rs.1 Bn in year 2010/11. Interest income from hire purchase and loans and advances also saw gain of 55%, recording figures of Rs 387 Mn and 346 Mn respectively.

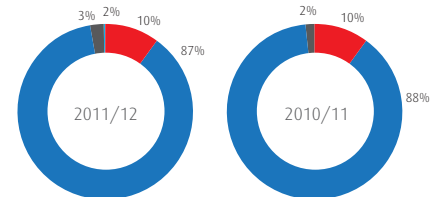
There was aggressive focus on CDB's deposit base as well which together with the steady increase in interest rates in the last two quarters of operation due to adverse macro economic environments,

Financial Review



Interest Income Composition

- Income from Investments
- Interest Income on Hire Purchase
- Interest Income on Loans and Advances
- Interest Income on Finance Leases
- Other interest Income



Interest Expenses Composition

- Borrowings
- Fixed Deposits
- Debentures
- Savings

saw increased interest expenses for the company. Interest expenses recorded a figure of Rs.1,306 Mn which is a 43% increase, compared to the 2010/11 figure of Rs.912 Mn. The main contributor to interest expense emerged from deposits, which was posted at Rs.1.14 Bn, an increase of 42% from the previous year's Rs.806 Mn.

CDB's Net Interest Margin (NIM) saw marginal decrease from 9.69 in 2010/11 to 9.34 in 2011/12, due to the volatility experienced in interest rates in the last two quarters of year 2011/12. Interest rates declined sharply in the first two quarters and then rose by over 500 basis

Financial Review

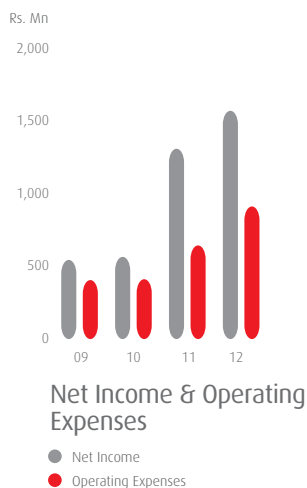
points in the last two quarters, pressuring the overall spread of the company. This is indicated in the slight decrease of the NIM. Asset base also increased by 62%, recorded at Rs 16.5 compared to last year's Rs.10.2 Bn.

Net Income & Other Income

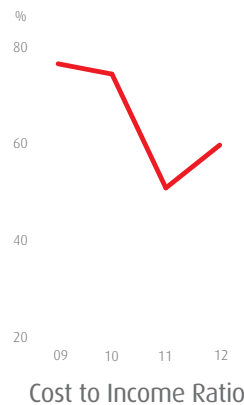
Net income saw gains of 20% from Rs.1.3 Bn to Rs.1.5 Bn in the period under review, However, other income decreased by 34% to Rs 324 Mn due to volatile share market performance. The composition of other income is representative of the Mark to Market adjustment, which is the adjustment to the carrying value of investments in CDB's quoted shares, recorded a figure of Rs 46 Mn and fee based income posted at Rs 279 Mn. Fee based income increased by Rs 95 Mn or 52% for the period under review.

Operating Expenses

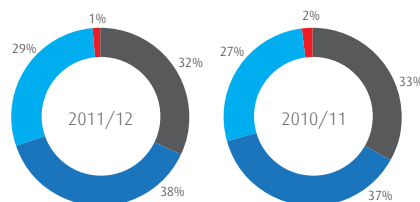
CDB continued to focus on aggressive cost management strategies coupled with an ambitious expansion drive that infused a new outlook for branches and enhanced customer service through a multi-channelled distribution network. Eight branches were relaunched this year, while one new branch and three new service centers were opened. CDB also obtained approval to upgrade four service centers in North and East as fully fledged branches.



CDB's cost to income ratio recorded at 60.12% increased from the previous year's percentage of 51.15%. Operating expenses increased to Rs 917 Mn from Rs 647 Mn in 2010/11, an increase of 42%. Personnel cost to revenue ratio also saw an increase to 10.18% for 2010/11 from 9.64% of preceding year.



CDB's marketing and business promotional expenses displayed an increase of Rs.88Mn, which is thus recorded at Rs 265 Mn. The astuteness of such expenses is well evidenced through the kudos and accolades conferred on CDB during the year which included the CDB brand being recognized among Sri Lanka's Top 100 brands standing at 50th position in 2010/11. This is a gain of one position from its previous ranking of 51.

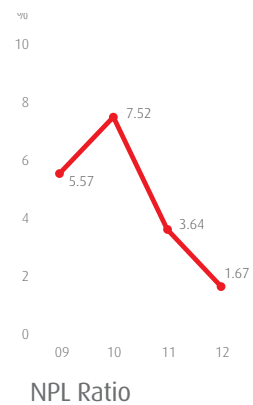


Analysis of Operating Expenses

- Personnel Expenses
- Premises, Equipment and Administration Expenses
- Marketing and Business Promotion Expenses
- Finance Charges

Loan Loss Provisions

Provision for loan losses increased due to the aggressive expansion of the loan book, coupled with improved macro economic conditions, especially in the beginning of the year. The specific provision stood at Rs 20 Mn for the period, which was Rs 10 Mn in the previous year. On prudent basis, CDB provided a general provision of Rs 70 Mn for the year 2010/11 as the general provision, which was revised to Rs 38 Mn due to the improved asset quality of the Company.



Gross NPL ratio stands at 1.67% for the year 2011/12, compared to 3.64% in the previous year. The reduction of NPL indicates reduction in the Non-Performing Loan Portfolio from Rs 290 Mn in 2010/11 to Rs. 264 Mn in 2011/12, as well as an increase of the performing portfolio for year 2011/12. Further, Net NPL ratio has recorded an impressive figure of 0.37% for the financial year under review, which has further improved from the previous year's ratio of 0.85%. This trend in improving NPLs is evidence to the focus and aggressive recovery efforts employed by the Company.

Net Advances

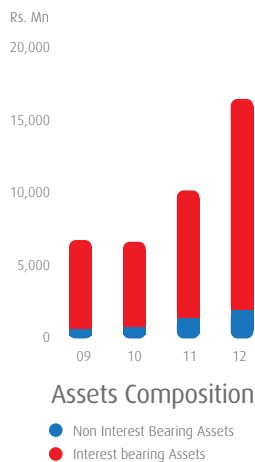
The Company's total lending portfolio grew from Rs 7,855 Mn to Rs 13,249 Mn, which is an increase of 68% compared to the last financial year. The growth of the Loan

Book indicates the aggressive approach employed by CDB in 2011/12, which is echoed in the notable asset quality improvement.

The highest increase was in Net Advances granted for finance leases which amounted to Rs 7,095 Mn, an increase of 49% compared to the last financial year. Net Advances granted as loan facilities also increased from Rs 1,824 Mn to Rs 3,308 Mn, an increase of 82%. The growth of hiring contracts gained to stand at 119%, an improvement from Rs 1,299 Mn to Rs 2,846 Mn in the year 2011/12.

Asset Composition

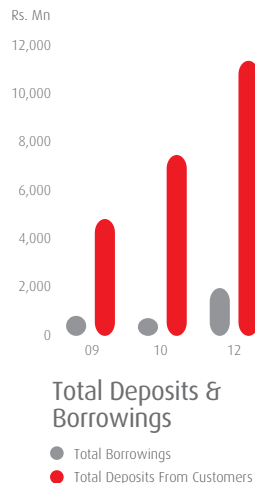
The Total Asset Base of the Company grew by 62% from Rs 10.2 Bn to Rs 16.5 Bn, with non interest bearing assets gaining from Rs. 1,402Mn to Rs. 1,901Mn this year, an increase of 36%. Interest bearing assets displayed an increasing trend of 66%, detailed at Rs. 14,643 Mn from Rs 8,818 Mn.



Total Deposits & Borrowings

The decline in interest rates which was the paradigm in the beginning of period under review, saw an increase from the third quarter of the financial year with an increase in Treasury Bill rates. Thus,

competitiveness has become the industry norm for deposits, fueling CDB to be competitive and aggressive in managing its deposit base, which gained 52% from Rs 7,489 Mn to Rs 11,389 Mn in year 2011/12. The Company's borrowing portfolio stood at Rs 1,980 Mn, an increase from Rs 1,002 Mn in the preceding year. Corporate borrowings have been the cause for increase in borrowings for the period under review, enabling the Company to attract Rs 800 Mn from commercial banks.



Shareholders' Wealth Creation

The Shareholders' Funds increased to Rs. 2,294 Million as compared to Rs.1,026 million in 2010/11, an increase of 122%. Company increased its stated capital by Rs.718 Million by way of right issue in August 2011.

The Return on Equity is a function of the Return on Assets and the Company's Financial Leverage. During the Year Company recorded a financial leverage of 8.07 times compared to 11 times in year 2010/11.

Company's Return on Assets recorded at 4.73% as compared to 6.66% in 2010/11, which resulted to record Return on Equity as 38.98% as compared to 68.92% in

2010/11. Return on Assets is a function of net profit margin and Assets Turnover.

Company recorded a net profit margin of 21.99% and Operating Profit Margin of 54.64% during the year coupled with Assets turnover of 21.51%.

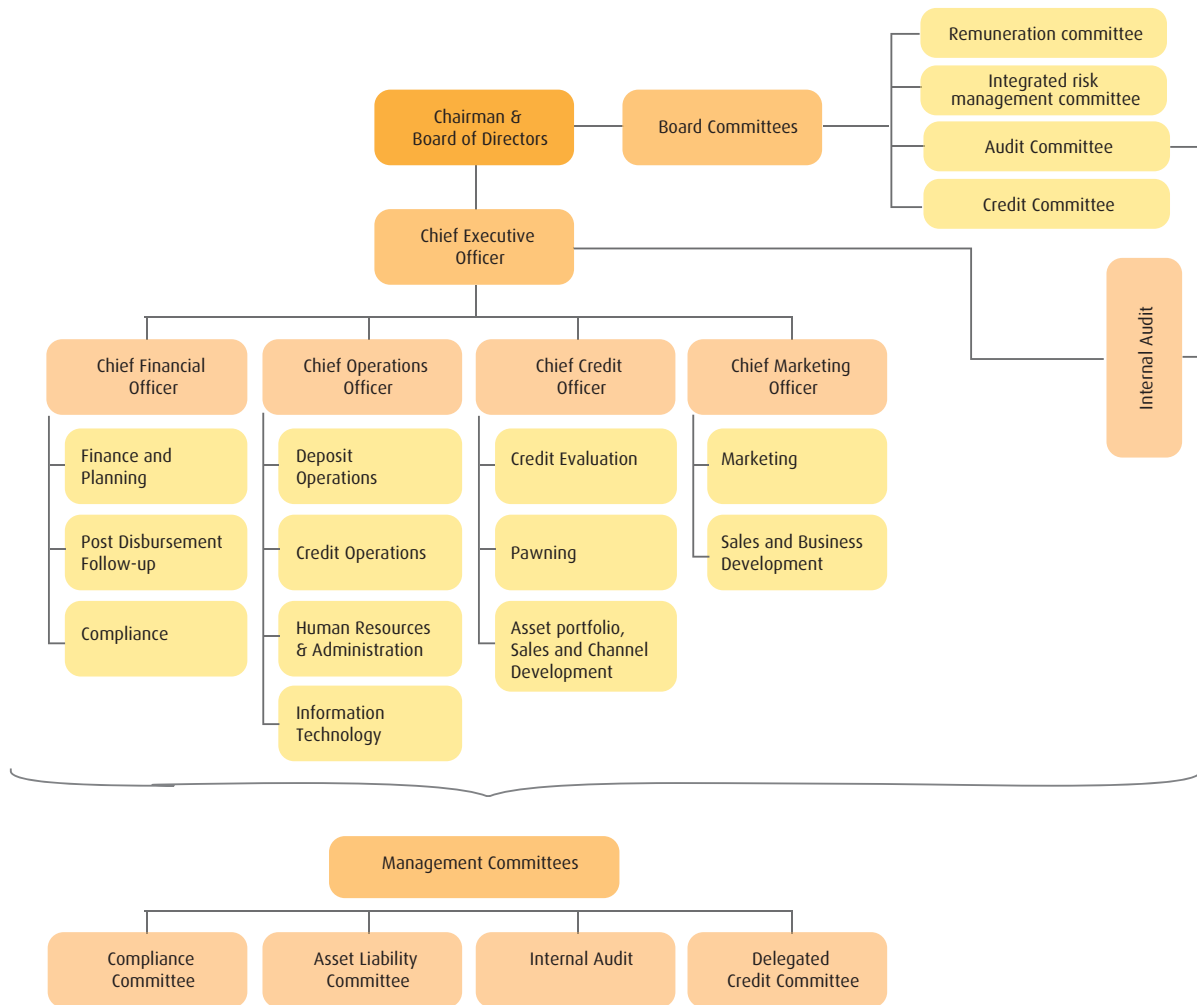
The Company's Dividend Policy designed to maximize shareholders' wealth and returns. In framing distribution strategy, Company considers factors such as profits, profitability, stability of earnings rate of sustainable Growth and opportunities for the investment.

The Directors have recommended a first and final dividend of Rs.2.50 per share for the year 2011/12, which consist of a cash dividend of Rs.1.00 per share and Rs.1.50 as a script dividend to be satisfied by the issue of non voting ordinary shares of the company each of would be valued at Rs.30/ per share.

The Dividend Payout ratio amounted to 19.08% in 2011/12 from 15.69% in 2010/11. an increase of 20%.

Capital Adequacy Ratio (CAR)

The Tier I & Tier II Capital Adequacy Ratios stood at 16.79% and 17.03% respectively as at 31st March 2012. CDB has complied with the CAR regulatory requirements 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 and Attendance

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.

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.

CDB has continuously endeavored to abide by best practices in governance; and conducted operations in a legal and ethical manner displaying professionalism, transparency and accountability

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 behavior, 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 endeavored to abide by best practices in governance; and conducted operations in a legal and ethical manner displaying professionalism, transparency and accountability.

The CDB's Corporate Governance structure is based on the "Code of Best Practice on Corporate Governance" issued jointly by the ICASL and the Securities and Exchange Commission of Sri Lanka (SEC) as well as the Finance Companies (Corporate

Governance) Direction No 03 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business act No.42 of 2011.

SECTION I

Statement of Compliance

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

Corporate Governance



Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Directors			
A.1 The Board			
The Company should be headed by a Board, which should direct ,lead and control the company			
The Board consists of professionals in Finance, Accounting, Management, Information Technology, marketing, Human Resources and Business Leaders. All Directors possess the skills and experience and knowledge complemented with a high sense of integrity and independent judgment. Their leadership skills, direction provided and controls put in place ensure the achievement of the objectives of the company set out in the corporate plan and the budget which aims to satisfy the expectations of all stakeholders.			
Board Meetings	A 1.1	Compliant	12 board meetings were held during the year at approximately monthly intervals, but meets more frequently whenever it is needed. And meetings are held mainly to review the performance of the company and other routine matters referred to the board by the Head of respective division. These meetings ensure that prompt actions are taken to align the business processes to achieve the expectations of all stakeholders.
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.
Compliance with laws and access to Independent professional Advice	A 1.3	Compliant	The Board members are permitted to obtain independent professional advice from a third party including the Company's external auditors and lawyers, at the expense of the Company, whenever it is deemed necessary. 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.
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 having required qualifications as set out in the Company Act. Company secretary provides all information after obtaining necessary professional advice, whenever required to do so. All board members have access to the Company sectary to ensure that proper board procedures are followed and that all applicable rules and regulation are complied with. Consent of all Board members is required for the removal of the Company Secretary.
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 Further additional meetings and discussions are held with the management whenever the need arises.

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Training for new and existing directors	A 1.7	Compliant	<p>Adequate knowledge sharing opportunities are provided to new and existing members of the Board on Company and industry related matters, on a continuous basis. During the year, presentations were made to the board/ board sub committee by the company from time to time on industry specific matters and regulatory updates.</p> <p>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.</p>
<p>A.2 Chairman and Chief Executive Officer(CEO)</p> <p>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	<p>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>
<p>A.3 Chairman's Role</p> <p>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>With effect from 01st January 2012 Mr. D.H.J Gunawardana ,was appointed as Chairman/ Non Executive Director. His profile is given on page No. 18 of the Annual Report.</p>			
Role of the Chairman	A 3.1	Compliant	<p>The Chairman's main role is to lead and manage the Board and ensuring effectiveness in all aspects of its role. The Chairman of the CDB is a Non Executive Director. The chairman's role encompasses that,</p> <ul style="list-style-type: none"> *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>A.4 Financial Acumen</p> <p>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>			

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Availability of sufficient financial acumen and knowledge	A.4	Compliant	Directors' profiles are given in the page No. 18 and 19.
A.5 Balance of the Board			
The Code recommends having a balance of Executive and Non-executive Directors so that no individual or small group of individuals can dominate the Board's decision-making			
Presence Non Executive Directors	A 5.1	Compliant	Six of the eleven directors are non executives (NED) which is well above the minimum prescribed by this cod 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		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. P.N C Gomes Mr.D.A. De Silva Dr. A.S Dharmasiri
Senior Independent Director	A 5.6	N/A	
Confidential discussion with the senior independent director	A 5.7	N/A	
Meeting of Non executive directors	A 5.8	Compliant	Adopted Chairman meets with the Non Executive Directors without the presence of MD / CEO, on a need basis.
Recording of concern in board minutes	A 5.9	N/A	There were no concerns raised by the directors during the year, which needed to be recorded in the Board meeting minutes.
A.6 Supply of Information			
Management is required to provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties. Financial and non financial information are analyzed and presented to the Board to make informed and accurate decisions.			
Information to the Board by the Management	A 6.1	Compliant	The Board was provided with timely and appropriate information by the management by way of Board papers and proposals. The Board sought additional information as and when required. Corporate & 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.

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
A.7 Appointments to the Board			
<p>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 & Non-Executive Directors, professional qualifications, business experience and personal qualities are taken into consideration. During the financial year four Executive directors, five Non-executive Directors were appointed to the Board</p> <p>Mr. D.H.J Gunawardana (Chairman/ Non Executive Director) Mr. P.A.J Jayawardana (Non Executive Director) Mr. S.R Abeynayake (Non Executive Director) Mr. D.A De silva (Non Executive Independent Director) Dr. A.S Dharmasiri (Non Executive Independent Director) Mr. R.H Abeygoonewardena (Executive Director) Mr. S.V Munasinghe (Executive Director) Mr. T.M.D.P Tennakoon (Executive Director) Mr. W.W.K.M Weerasuriya (Executive Director)</p> <p>The profiles of the above Directors are given on Page 18 to 19</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.
A.8 Re-election			
<p>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>			
Appointment of Non executive Directors	A 8.1	Compliant	Association of the company requires, each Director to retire by rotation once in every three years and is required to stand for Re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors are subject to prior review by the full Board.
Re election by the Shareholders	A 8.2	Compliant	Refer comment above
A.9 Appraisal of Board Performance			
<p>The Board periodically appraises its own performance against the pre set targets in order to ensure that the Board responsibilities are satisfactorily discharged</p>			
Annual appraisal of board performance and that of its Committees	A 9.1 & 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
A.10 Disclosure of Information in respect of Directors			
<p>The Code requires that the details in respect of each Director to be disclosed in the annual report for the benefit of the shareholders</p>			

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Details in respect of directors	A 10.1	Compliant	Details of directors are given on this annual report.
A.11 Appraisal of CEO			
The Code requires the Board to assess the performance of the Chief Executive Officer (CEO) at least annually to ascertain degree to which the CEO met the pre-set financial and non-financial targets.			
Financial and non financial targets for CEO	A 11.1	Compliant	MD/ CEO's performance objectives are aligned with the business sustainability of the company. The performance targets for the MD/CEO are set at the commencement of every year by the full board which are in line with, medium and long term objectives of the company.
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.
Directors' Remuneration			
B.1 Remuneration Procedures			
The Code requires companies to have a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors and also recommends that no Director should be involved in deciding his/ her remuneration in order to avoid the self review threat			
Remuneration Committee	B 1.1	Compliant	The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management, and for making all relevant disclosures. The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD / CEO. The MD / CEO participates in meetings by invitation in deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.
Composition of the Remuneration Committee	B.1.2 & B. 1.3	Compliant	The following Non Executive Directors served on the Remuneration Committee during the financial year. Mr S.R Abeynayake Mr. P. N. C. Gomes Dr. A.S Dharmasiri
Remuneration of Non-executive directors	B.1.4	Compliant	The Board as a whole decides the remuneration of the Non Executive Directors. The Non Executive Directors receive a fee for being a Director of the Board and additional fee for either chairing or being a member of a Committee, working on special Committees and / or serving on Subsidiary Boards. They do not receive any performance related / incentive payments.
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	Input of the Chairman is obtained by his involvement as a member of the said Subcommittee. External professional advice is sought by the Remuneration Committee, on a need basis through the Board Secretary.
B.2 The Level And Make up of Remuneration			
Levels of remuneration of both Executive and Non- Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. The proportion of remuneration of Executive Directors is linked to corporate and individual performance.			

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Level and make up of remuneration	B.2.1 to B.2.8	Compliant	The Board is mindful of the fact that the remuneration of Executive and the Non Executive Directors should reflect the expectation of the Company and sufficient enough to attract and retain the quality of Directors needed to run the Company. The remuneration package of the MD / CEO is structured to link rewards to corporate and individual performance. The Company's remuneration framework for CEO is designed to create and enhance value for all CDB's stakeholders and to ensure there is strong alignment between the short term and long term interest of the Company.
Remuneration of the Non-executive directors	B.2.9	Compliant	Non Executive Directors receive a 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.3 Disclosure of remuneration			
The Code requires the company to disclose in its Annual Report the details of the remuneration paid and the remuneration policy.			
Disclosure of directors' remuneration in the annual report.	B.3.1	Compliant	Refer the Remuneration Committee Report on page No. 109 for disclosure on the names of the remuneration committee members and the remuneration policy of the company. Also refer the note 40 C to the Financial Statement on page No. 148 for the aggregate remuneration paid to Executive & Non Executive directors.
C. Relations With Shareholders			
C.1 Constructive Use Of The Annual General Meeting (AGM) And Conduct Of General Meetings			
The Code requires the Board to use the Annual General Meeting to communicate with shareholders and encourage their active participation In this 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 summary 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 summary of procure as per legal requirements giving adequate notice to shareholders. This provides opportunity to all shareholders to attend the AGM for their voting status and obtain clarifications for the matters of interest to them
C.2 Major transactions			
Directors are required to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the company			

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
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.
D. Audit and Accountability			
D.1 Financial Reporting.			
The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects			
Reports to public and , Regulatory & 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 2012 and at end of each Quarter of 2011/2012. 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 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 information is given in the statement of Directors Responsibilities in the page no. 108.
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.
D.2 Internal Control			
The Code requires the Board to have a sound system of internal controls to safeguard shareholders' investments and the company's assets			

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Annual evaluation of the Internal control system.	D.2.1	Compliant	<p>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:</p> <ul style="list-style-type: none"> (i) Audits are conducted by the internal Audit Department, in areas involving high risks as identified in the annual internal audit plan. (ii) A structured process is in place for loss reporting, control exception reporting and compliance breach reporting. (iii) A comprehensive checklist is used for follow up on the status of implementation of all audit recommendations. (iv) Periodic Branch Audits are performed on the company's Branch operations. <p>The Company is in the process of obtaining the External auditor's certification on the effectiveness of the internal control mechanism on financial reporting.</p>
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.
D.3 Audit Committee			
The code requires the board to have formal and transparent arrangements in selecting and applying the accountings policies, financial reporting and Internal control principles and maintaining an appropriate relationship with the company's External Auditor.			
Composition of the Audit Committee	D.3.1	Compliant	<p>The Company's Audit Committee consists of three members all of whom are Non-Executive Directors. The Committee operates within clearly defined terms of reference.</p> <p>Details of the members, invitees and the secretary of the committee are found on Audit Committee report in this annual report.</p>
Duties an audit committee - Ensuring the objectivity and independence of external auditors	D.3.2	Compliant	The committee maintains an appropriate relationship with the External Auditors, KPMG (Chartered Accountants) to ensure their objectivity and independence. The payment to External Auditors for Audit and Non Audit services are disclosed in the Directors' Report of this annual report. In addition, the Company has an established an internal audit function which operates independently and has direct access to the Audit Committee. The External Auditors do not have any relationship (other than that of Auditor) and any interest in the Company.
Terms and reference of the Audit Committee	D.3.3	Compliant	Audit committee is guided by clearly define terms and references
Disclosure of the Audit Committee	D.3.4	Compliant	Names of the members of Audit committee are given in this annual report under Audit Committee Report
D.4 Code of Business Conduct & Ethics			

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
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
D.5 Corporate governance disclosure			
The Company should disclose the extent of adoption of best practices in Corporate Governance			
Disclosure of Corporate governance	D.5.1	Compliant	This requirement is met through the presentation of this report.
E. Institutional Investors			
E.1 Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice			
Communication with shareholders	E.1.1	Compliant	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern to the general membership.
E.2 Evaluation of corporate Governance Initiations			
Institutional Investors are encouraged to give due weight to all relevant factors in Board structure and composition			
F. Other Shareholders			
F.1 Investing/Divesting Decision			
Individual Shareholder	F.1 & F.2	Compliant	Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions.
Individual Shareholders voting			Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights

Corporate Governance

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.

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's level of compliance
2. The Responsibilities of The Board of Directors			
1. Strengthening the safety and soundness of the company	2. (1)	Compliant	The board 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 Board has appointed the Chairman and the Chief Executive and the roles of the Chairman and the Chief Executive is separate.
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
3. Meeting of the board			
9. Board Meeting	3. (1)	Compliant	Please refer section A.1.1 of the SEC & ICASL Code compliance table
10. Inclusion of proposals by all Directors in the agenda	3. (2)	Compliant	Proposals from all Directors on promotion of business and management of risk and other areas relevant to the progress of the company are included in the agenda for regular meetings
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	
13. Board Secretary	3. (5)	Compliant	Please refer section A.1.4. of the SEC & ICASL Code compliance table

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's level of compliance
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
4. The Board's Composition			
16. Number of Directors	4. (1)	Compliant	The board comprise of eleven Directors
17. Period of service of a Director	4. (2)	Compliant	.
18. Appointment of an employee as a Director	4. (3)	Compliant	Executive Directors were appointed subject to the provisions of this direction.
19. Independent Non Executive Director	4. (4)	Compliant	Three out of eleven directors are independent non executive directors
20. Alternative Director	4. (5)	Compliant	This situation has not arisen
21. Credibility, skills and experience of Non Executive Directors	4. (6)	Compliant	Profiles of the non executive directors are included in this annual report
22. Presence of Non Executive Directors in Board Meetings	4. (7)	Compliant	One half of the quorum was non executive directors in all meeting held
23. Details of Directors	4. (8)	Compliant	Details of directors included in this annual Report.
24. Appointment of new Directors	4. (9)	Compliant	The board collectively asses the composition of the board and make appointment as necessary
25. Appointment to fill a casual Vacancy	4. (10)	Compliant	This situation has not arisen
26. Resignation/removal of a Director	4. (11)	Compliant	
5. Criteria to assess the fitness and propriety of Directors			
27. Directors over 70 Years of age	5. (1)	Compliant	This situation has not arisen .
28. Holding in office in more than 20 companies	5. (2)	Compliant	No director hold such positions
6. Management Function delegated by the Board			
29. Delegation of work to the management and review of delegation process	6. (1) & 6. (2)	Compliant	The Board annually evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
7. The Chairman and Chief Executive Officer			
30. Division of Responsibilities of the Chairman and MD/CEO	7. (1)	Compliant	The role of chairman and chief executive officer separated

Corporate Governance

Corporate Governance Principle	CBSL Rule Reference	Compliance Status	CDB's level of compliance
31. Chairman shall be an non executive director, and if not designate a Senior Director	7. (2)	Compliant	Chairman is a non executive director
32. 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.
33. Role of the Chairman	7. (4) to 7.(10)	Compliant	Please refer section A.3 of the SEC & ICASL Code compliance table
Role of the Chief Executive Officer	7.(11)	Compliant	Please refer section A.2.1 of the SEC & ICASL Code compliance table
8. Board appointed Committees			
34. Board appointed two Sub committees	8. (1)	Compliant	Audit committee and Integrated Risk Management Committee are functions as per the requirements of this direction accordingly.
9. Related Party Transactions			
35. Avoiding conflict of interest in related party transaction and favourable treatment	9. (1) 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- 30 on "Related party Transactions". Further, the Board ensures that the no related party benefits from favorable treatment.
10. Disclosures			
36. Financial reporting, statutory and regulatory reporting	10. (1)	Compliant	Financial Statements for the year ended 31st March 2012 are in conformity with all rules and regulatory requirements and for the quarters then ended have been published in all three languages.
37. Minimum disclosure in the Annual Report	10. (2)	Compliant	All required disclosures have been made in the annual report
11. Transitional Provisions			
38. Transitional and other general provisions	11. (1) to 11. (6)	Compliant	The Company has complied with transitional provisions when applicable

company operates in an industry which embraces certain risks within the business parameter and transforming them to create superior shareholder value, requires strong backbone for risk management in order to mitigate risks and ensure them to remain within the risk appetite predominantly.

Risk Management Philosophy

Risk is an integral and critical component of the financial services industry. One of the most integral and critical components that remains inherent within the Financial Services industry is risk, which could prevalent in any germane facets of business including economic climate, business volumes and competition in the industry. While we strongly support our shareholder enrichment by offering superior shareholder value, having a companywide risk management framework to safeguard the long term sustainability of the company and to identify the trade-off between the risk and the return is vital.

Board and Senior Management Oversight

Formulating companywide risk management strategy and cascading down to every level of the company is the task of the Board of Directors of the company. Thus BOD is accountable for identifying and setting apposite level of risk appetite for the company, unveiling risk strategies and conducting periodic reviews to assess the soundness of such strategies. It is important duty of the senior management to communicate the strategies formulated by the BOD; to the bottom line of the company in order to craft risk culture within the CDB. Further, senior management will conduct evaluations on

an ongoing basis to assess the integration and compliance of risk management strategies and any deviation would be reported to the Board.

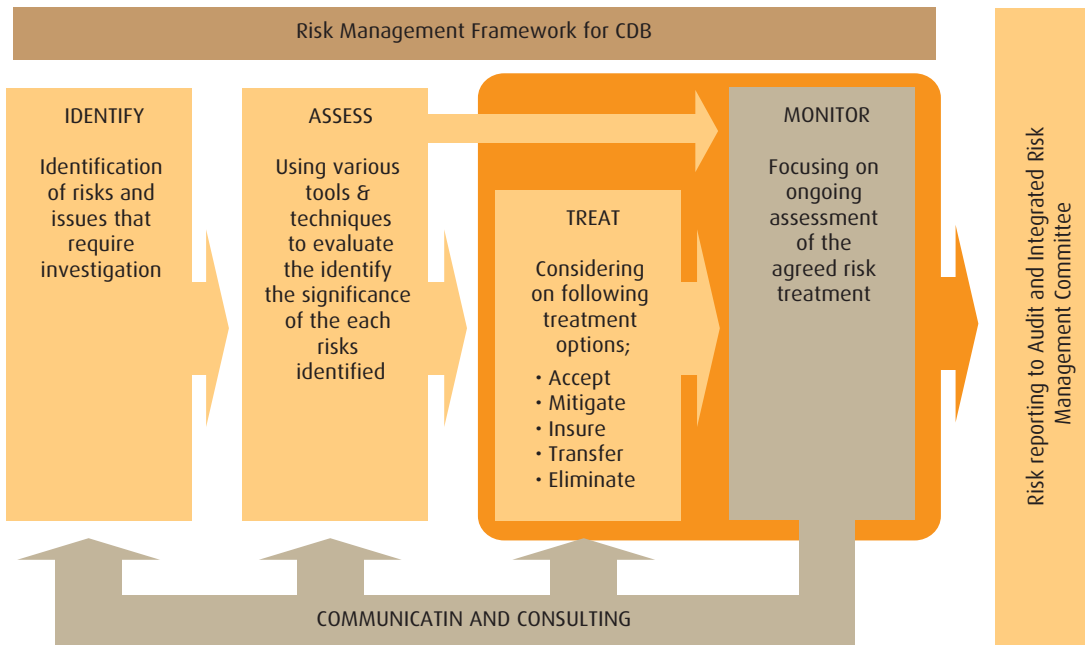
Risk Management Strategy

As a company operates in an industry which embraces certain risks within the business parameter and transforming them to create superior shareholder value, requires strong backbone for risk management in order to mitigate risks and ensure them to remain within the risk appetite predominantly.



Risk Management

Risk Management



Foundation for risk management is in the corporate strategy of the company, and the core objective of risk strategy is to promote the healthy trade-off between risk and return by keeping risk at manageable level without putting stakeholders at a risk. The risk management strategy specifies to what extent the undesired risks should be mitigated or avoided, describing the company's approach to risk and the risk appetite. The risk strategy is aligned with the CDB's corporate strategy, which is designed to help meet the strategic objectives.

Risk Management Framework

In order to uphold the balance between risk and return as well as to ensure the soundness of the company, CDB has deployed an effective risk management framework. This 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.

Core Risks exposed by the company

Risk policy of the company clearly pointed out the core risks exposed by the company and evaluated the severity and frequency of such risk, regularly based on the trigger points assigned to each and every risk component. Company has identified core risk components pertaining to the company's risk mapping process.

The risk strategy is aligned with the CDB's corporate strategy, which is designed to help meet the strategic objectives

Risk Management Committees

Committee Name	Committee Category	Description
Integrated Risk Management Committee (IRMC)	Board Committee	Initiates and reviews policy frameworks, risk management strategies and key risk indicators for each risk category identified. IRMC Continues in monitoring and assessing the effectiveness of risk management frame work at CDB and the robustness of the risk management functions.
Credit Committee	Board Committee	Grants strategic direction towards developing quality asset portfolio and ensure Board oversight on credit management and business administration.
Audit Committee	Board Committee	Oversees the preparation, presentation and adequacy of disclosures in the financial statements of the Company and ensures the Company's internal controls and its adequacy to meet the requirements of the Sri Lanka Auditing Standards.
Delegated Credit Committee	Management Committee	Manages the credit function of the company by formulating and executing strategies and policies in order to construct a quality asset portfolio.
Internal Audit	Management Committee	Assures the application of internal controls and procedures within the premises whilst ensuring compliance and adequacy to meet the requirements of Sri Lanka Auditing Standards.
Assets and Liability Committee (ALCO)	Management Committee	Screens performance/movements of liquidity, Investments, Pricing and Asset Liability Maturities and executes measures to maintain movements under permissible level.
Compliance Committee	Management Committee	Assures a adherence to regulations by the company.

Credit Risk

Possibility of loss arising from a credit event, such as deterioration in the financial condition of the borrower that causes an asset to lose value or become worthless.

Purpose

The purpose of the Credit Risk management is to keep the risk exposure at permissible level (within the risk appetite approved by the BOD) related to capital of the company, to sustain the asset quality and to assure returns are compatible with risk.

Credit Risk is the highest contributor towards the total risk exposure of the company because of the sector that the company operates within. Accepting credit risk within the risk parameter is a must in the financial services industry since credit risk is an universal component in its core businesses. Hence adopting a proper credit risk management policy within the company is overwhelming.

Approach towards Risk Mitigation

Desired level of credit risk and direction towards risk management is formulated at Board level and it is a primary task of the of the credit committee to create credit strategy and credit policies pertaining to the company, by taking economic and market condition in to consideration on a timely basis.

As per the credit policy of the company, it is exclusively pointed out that the scope of the credit and credit policy will guide the lending and credit officers in their decision making and construct a quality asset portfolio. Deviation to the credit policy should be reported to the credit committee for their recommendations.

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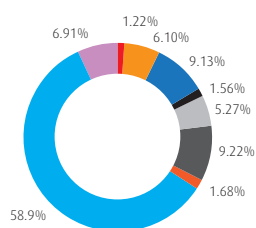
Risk Management

Credit Risk Management process adopted by CDB

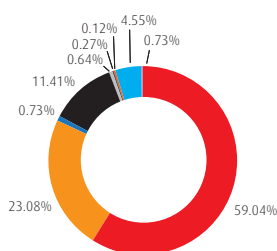
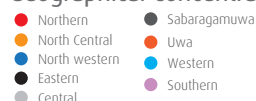
	Action	Description
01	Credit Processing/ Appraisal	Credit processing is the stage where all required information on credit is gathered for screening purposes and for conducting credit evaluation. As per the guidelines set out by the credit policy, the company will evaluate potential borrowers based on their ability to meet obligations in a timely manner, appropriateness of the collateral or guarantees, credit history, exposure of the borrower to the company, sensitivity of the industry, etc.
02	Credit Approval	Credit policy provides guidelines for credit approval/renewal processes and approval authorities of individuals and committees. Approval authorities for relevant parties should be sanctioned by the Board of Directors.
03	Credit administration	Administration of credit is handled at the head office which is also responsible for processing of credit disbursement and its administration till maturity for all types of financing facilities extended by the Company.
04	Monitoring the overall Credit Portfolio	Assures quality of the credit portfolio by keeping track of borrowers' compliance with credit terms, identifying early signs of irregularities, conducting periodic valuation of collateral and monitoring timely repayments.
05	Managing problem credits/ recovery	A separate division will identify credit problems and Non performing advances of the company and will conduct action in order to rectify the issue as per the directions given in the credit policy of the company.

Credit Concentration Risk

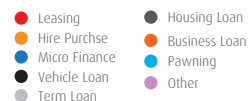
Credit Concentration risk arises, when the company is highly reliant on its assets within a particular geographical segment, a particular industry, among a few people or a particular lending product. Faith on particular area would be highly perilous; hence company continuously monitors the exposure levels and adopts directions granted by the regulator.



Geographical Concentration



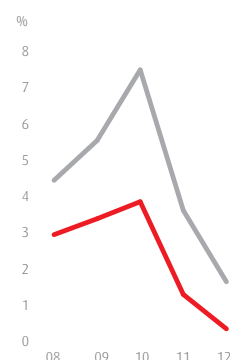
Product Concentration



Non-Performing Loans (NPL)

Credit facilities with over 06 months arrears will be defined as NPL. Hence NPL ratio is viewed as a key tool in assessing the effectiveness of credit policy and an indicator of measuring the quality of the company credit portfolio.

During the financial year the company's net investments in credit facilities have grown by mammoth 69% due to the favorable economic climate prevailing in the country. Conversely Gross NPL ratio stood at 1.67% and Net NPL ratio at 0.37% during the FY 2011/12, which is one of the best among the RFC sector and was mainly due to execution strong credit policies and rigorous recovery processes.



NPL Ratio



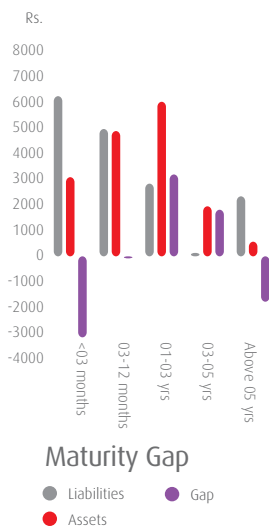
Liquidity Risk

Liquidity risk arises due to a mismatch between the assets and the liabilities of the company and as result inability to honor the company's commitments, when deposits fallen due.

Purpose

Managing Liquidity risk is a prominent factor for a company engaged in financial services due to its sensitivity to market volatility and tightened regulatory

requirements imposed by the CBSL. Consequently purpose of the Liquidity risk management is to bridge the gap between asset and liability maturity mismatch and to have an appropriate contingency funding plan considering present market volatility.



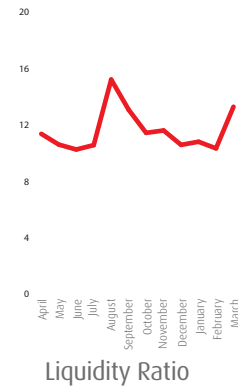
During the second half of the FY 2011/12 Sri Lankan banking and financial industry experienced dehydrated liquidity position and upward trend in market interest rate. This would lead to worsen asset-liability maturity mismatch scenario in the new financial era coupled with complications in asset re-pricing due to the nature of the fixed interest rate liability book.

Approach towards Risk Mitigation

Liquidity risk appetite and the overall direction towards managing Liquidity has been in the hands of the BOD and Asset and Liability committee (ALCO). They are responsible for formulating and executing policies in order to maintain liquidity risk at permissible levels. CDB has adopted two (02) tier approach towards managing Liquidity risk exposure.

Tier 01 – Going concern liquidity management

The approach will ensure the maintenance of permissible levels of liquidity in day to day company requirements. ALCO exercises valuable measurements to ensure going concern liquidity management by monitoring liquidity ratios to assess funding requirements, conducting stress testing analysis and adhering to statutory compliance.



Stress Testing

“Stress testing is an important risk management tool to identify vulnerable portfolios and underlying risk factors, gauge impact to earnings, capital and profitability, and which enable management to take pre-emptive measurements.”

“It is a method of delivering complete and holistic picture of the firm’s risks with pre-emptive measurements.”

Capital Adequacy Ratio (CAR %)	16.79%
Capital Base	2,282,289
Total Risk Weighted Assets	13,590,488
NPL Ratio	1.67%
Total non Performing Assets	224,907
Total Performing Assets	13,231,043
Total Loan Assets	13,455,950
Liquid Assets Ratio	13.30%
Liquid assets.	1,514,895
liabilities	11,388,775

	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock	5%	10%	15%
Total NPA’s	224,907	224,907	224,907
Increase in NPA	11,245	22,491	33,736
Revised Capital	2,271,044	2,259,798	2,248,553
Revised RWA	13,579,243	13,567,997	13,556,752
Revised CAR%	16.72%	16.66%	16.59%
Magnitude of Shock	5%	10%	15%
Total NPA’s	224,907	224,907	224,907
Increase in NPA	11,245	22,491	33,736
Revised NPA’s	236,152	247,398	258,643
Total Loan Assets	13,455,950	13,455,950	13,455,950
Revised NPL%	1.76%	1.84%	1.92%
Magnitude of Shock	4%	8%	12%
Liquid assets	1,514,895	1,514,895	1,514,895
Liabilities	11,388,775	11,388,775	11,388,775
Fall in liabilities	455,551	911,102	1,366,653
Revised Liabilities	10,933,224	10,477,673	10,022,122
Revised liquid assets	1,059,344	603,793	148,242
Ratio after shock (%)	9.69%	5.76%	1.48%

Risk Management

CBSL directions to maintain reserves and assets under given bases to mitigate Liquidity risk

Direction	Statutory requirement	Achievement 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%	13.3%
Maintain assets in the form of Government TB's, Government securities and CBSL securities based on average month end total deposit liabilities of the twelve months of the preceding financial year.	7.5%	7.93%

Tier 02 – Contingency liquidity management

The approach ensures the stability of the CDB to generate adequate liquidity in the event a short term or long term liquidity crisis.

Market Risk

Market risk arises from the uncertainty, pertaining to changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility.

Purpose

The aim of managing Market risk is to ensure optimization of the risk-reward relationship and protect it from unacceptable losses. Adverse market conditions will affect core business activities, which will influence negatively the company's profitability-liquidity combinations. Thus adopting a proper risk structure to manage Market risk is overwhelming.

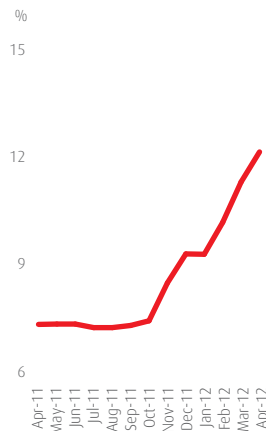
Taking the Market risk of the business portfolio in to consideration, the company is exposed to (1) Interest rate risk, (2) Equity price risk and (3) Commodity price risk.

Approach towards Risk Mitigation

Interest rate risk

Having a strong framework to manage Interest rate volatility is vital for a company since its revenue is extremely sensitive to interest income.

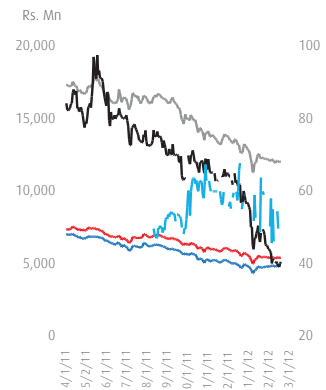
ALCO measures the possible impacts on the income statement due to interest rate volatility by conducting a regular interest rate stress testing and providing guidance and direction for pricing and re-pricing assets and liabilities to avoid/mitigate such negative impacts.



Interest rate movement

Equity price risk

Risk arises due to negative price movements of the equity portfolio. The company has exposed to high equity price risk, during the FY2011/12 due to unfavorable stock market conditions.



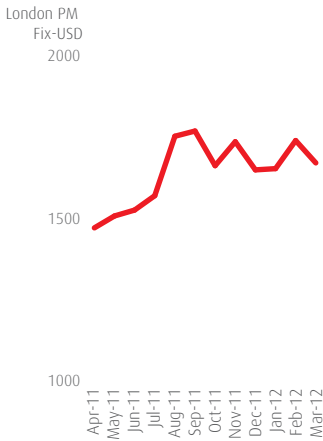
Share market performance

The company is conducting regular equity price stress testing under different scenarios to review the impact on profitability and capital adequacy in order to mitigate such risks.

Commodity price risk

The Company was exposed to commodity price risk primarily owing to fluctuations of global gold prices and exposure to fraudulent pawning articles.

The company frequently monitors the Global price movement and adjusts pawning advances in order to alleviate the risk pertaining to the depreciation of gold price. Exposure limits on customers, obtaining consultancy services, regular training and development and dealing with specific types of pawning articles will further improve the commodity price risk mitigation process.



Global Gold price movement

Operational Risk

Operational risk is the risk arising from potential loss due to failures of internal human capital, internal processes and technologies or impact of external events, including legal risk.

Purpose

The purpose of operational risk management is to minimize the normal losses incurred from internal business activities and to minimize the replication of such events in future.

Approach towards Risk Mitigation

Considering the impact of operational failures, the company has executed well defined operational risk policy as a farsighted measure. A Comprehensive system of internal controls and stringent internal audit functions will further facilitate the reduction of the impact of operational failures.

ICT Risk

Information and communication technology risks emerge due to disruptions, breakdowns and malfunctions of information systems, which could generate inconsistent or faulty outcomes.

Purpose

In modern day financial services industry, ICT plays an imperative role in order to deliver operations accurately at a pace. Most of the organizations believed latest technology is value addition to its companies which also offers cutting edge over other players. Therefore it is important to mitigate risks arising from ICT to retain the competitive advantage while ensuring the security, accuracy and pace of the customer transactions by using up-to-date ICT with appropriate internal controls.

Approach towards Risk Mitigation

The company has categorised ICT failures in to three (03) categories; 1st level failures, 2nd level failures and 3rd level failures and has placed three separate sub units to tackle the IT related issues under each failure levels in order to maintain and smoothen the operations.

The company has laid comprehensive ICT security policy and disaster recovery plans to mitigate threats arising from ICT. Further, internal controls and IT system based audits are carried out on regular basis to identify any discrepancies.

Reputation Risk

Reputation risk arises due to adverse perception of the company on the part of its customers, counterparties, shareholders, investors or from any party with an influence on the company's current and prospective earnings and capital base.

Purpose

The Impact of reputation risk is significant to any organization since; negative public perception can devastate even the most successful company in a short period. Also such circumstances would not only impact the performance of the company but also the customer confidence on the industry.

Approach towards Risk Mitigation

CDB has employed clear means of managing reputation risk through effective communication and cooperation. Communication is used as a tool of marketing and enhancing public image of the company. Calculating target reputation risk and encompassing such risk in to the company's overall risk profile is done with effective cooperation among senior management.

The company also continuously engages in CSR projects, adheres to internal & external compliance policies and employee training programs on customer etiquette to boost public perception of the company.

Compliance Risk

Compliance risk may arise due to the inability of the company to comply with rules and regulations applicable to it.

Purpose

Failing to comply with rules and regulations, may result in legal or regulatory sanction, financial losses or even damage to the company reputation.

Approach towards Risk Mitigation

The compliance division of the company will handle the necessary requirements of compliance and conduct timely reviews to assess levels of compliance.

Strategic Risk

Strategic risk arises due to inability of achieve set objectives, ineffective strategic direction & planning and the inability to adapt to changes in the environment.

Purpose

Strategic risk illustrates that the company is operating beneath the desired level of achievement and pace. Therefore this will lead to a slump in the confidence of

Risk Management

stakeholders, negative perception among the public and conflicting interests within the company.

Approach towards Risk Mitigation

In order to mitigate the risk arising from strategic decisions, the company has taken steps to conduct strategic planning and budget meeting sessions prior to the commencement of each financial year with the collaboration of corporate management, senior management, divisional heads and branch heads of the company to set goals and targets for the coming year and to evaluate the achievements for the past year.

The company has linked individual goals of employees with company objectives in the process of individual goal setting. This will facilitate to achieve the goal congruence between staff and the company.

Risk Console

Risk Identification		Risk Evaluation	Risk Controlling and Mitigation
01	Credit Risk Financial loss arising from a borrower's inability meet its financial obligations		
	Default risk Inability to discharge financial obligation by counterparty to a financial transaction.	Default risk can significantly impact on current and potential financial returns and standing of the company. • <i>Gross and Net NPL ratio has been analyzed in order to evaluate the effectiveness of the credit policies and measure the quality of the credit portfolio</i>	<ul style="list-style-type: none"> • Provision management teams have been assigned to closely monitor the non-performing advances. • Identifying the early signals of problem facilities and take actions to mitigate such situations. • Stringent credit policies • Centralized credit administration
	Concentration Risk Company's concentrated credit exposure on few lending products, sectors, geography or among a few customers.	Focusing on to one or few products in the company product portfolio, geographical areas and industries or even with a few customers would exposed high credit risk. • <i>Regular analysis of credit concentration based on different platforms to assess any deviations from exposure limits.</i>	<ul style="list-style-type: none"> • Maximum exposure limits. • Asset portfolio management. • Regular monitoring and evaluation of asset portfolio.
02	Liquidity Risk Financial losses and adverse impacts due to not having sufficient liquid assets to meet financial obligations at any given time.		
	Illiquidity position Inability to meet liabilities in its routine operations.	Dealing with insufficient liquidity assets to meet its liabilities can ruin the business due to loss of customer confidence. • <i>Internal and regulatory liquidity ratios are in placed to assess adequacy.</i>	<ul style="list-style-type: none"> • Internal liquidity positions will be reported to the BOD and corrective measures will be taken to any avoid any adverse scenarios. • ALCO paper will provide guidance on regulatory and internal liquidity position for decision making.

Risk Identification		Risk Evaluation	Risk Controlling and Mitigation
	<p>Intolerable Maturity Gaps Significant disparity between asset and liability maturities.</p>	<p>Asset-Liability maturity gaps would lead to liquidity issues on company.</p> <ul style="list-style-type: none"> • <i>Mismatch between assets and liabilities are being assessed.</i> 	<ul style="list-style-type: none"> • Maturity gap being reviewed on a monthly basis at the ALCO meeting and reported to the CEO. • Stress testing analyses on liquid assets are being carried out on different scenarios to identify future impacts. • Minimization of maturity mismatch through strong diversification of investment portfolio. • Adhering to liquidity limits.
03	<p>Market Risk Risk arises due to volatility among factors exterior to company such as interest rates, equity price, commodity price or even foreign exchange</p>		
	<p>Interest rate risk Risk arises due to the inability to earn potential return from interest bearing assets</p>	<p>Interest rate fluctuations can lead to lean the spreads & margins of the company.</p> <ul style="list-style-type: none"> • <i>Evaluation of interest rate spreads & margins, alert to government monetary policies</i> 	<ul style="list-style-type: none"> • Credit and investment dash board provides weighted average lending and borrowing rates and based on such spreads and margins are monitored accordingly. T-bill rate movements are monitored in order to deal with any government monetary policy changes.
		<p>Interest rate fluctuations would lead to mismatch between assets and liabilities.</p> <ul style="list-style-type: none"> • <i>Evaluation of asset-liability mismatch and asset-liability pricing will be conducted based on the interest rate movements.</i> 	<ul style="list-style-type: none"> • Pricing being done by the ALCO, and decisions are reviewed on monthly basis.
	<p>Equity price risk Negative price movements in the company equity portfolio.</p>	<p>Economic instability of the country and negative performance of the invested institutions would have significant impact on the company's equity portfolio.</p> <ul style="list-style-type: none"> • <i>A separate division is in place to track adverse movements and for reporting purposes.</i> 	<ul style="list-style-type: none"> • Monitoring equity portfolio returns. • Monitoring & analyzing stock market indices. • Equity price stress testing.
	<p>Gold price risk Risk arises from negative price movements in Gold prices and fraudulent pawning articles.</p>	<p>Variations in the global gold market can thrust gold prices below the pawning advances. However the impact is minimal to the company since such price movements are short-term and pawing is only 5% of company asset portfolio.</p> <ul style="list-style-type: none"> • <i>Various measures are in place and daily monitoring is conducted mitigate exposure.</i> 	<ul style="list-style-type: none"> • Pawning advances are adjusted based on global gold prices and its movements. • Maximum exposure limits have been assigned. • Consultancy from a specialist. • Regular training and development. • Adhering to regulatory and pawning policies.

Risk Management

Risk Identification	Risk Evaluation	Risk Controlling and Mitigation
04 Operational Risk Possibility of loss arises due to failures of internal human capital, internal processes and technologies or impact of external events, including legal risk.		
People Risk Risk of losing skilled human resources due to incapable employee recruitment, development or retention.	CDB is recognized as an employee driven company and successfully implements various measures to retain and develop its existing workforce. <ul style="list-style-type: none"> • COO and HR division has unveiled various activities for employee advancement and also conducts regular surveys regarding employee satisfaction and their expectations. 	<ul style="list-style-type: none"> • Monitoring employee turnover. • Training and Development • Annual awards will be granted for top performers. • HR policies. • Performance based annual remuneration review. • HR CAP – being implemented with the aim of achieving HR succession plan.
Operational & Technological Manipulation Risk arises due to inappropriate operational and system procedures.	Operational & Technological manipulation could create bottlenecks within operational activities and even encourage fraudulent activities. <ul style="list-style-type: none"> • Various policies and procedures and internal controls are in place to mitigate such activities. 	<ul style="list-style-type: none"> • Internal audit division has planned monthly visits for every branch on an ongoing basis and provides an independent report to the CEO. • Radom visits to selective branches by the management. • Radom client visits. • Internal & external auditors carry out system audits on random basis.
05 ICT Risk Risk emerges due to disruptions, breakdowns and malfunctions of information systems		
Business Continuity Risk (BCR) BCR arises, when a company unable to continue its core business operations.	First level system failures – System disruptions due to internal failures. Second level system failures – System disruptions due to external issues. Third level System failures – System failures due to major system breakdowns.	<ul style="list-style-type: none"> • System failures are monitored and controlled internally. • Special sub unit IT department is responsible for 1st level system failures. • Special sub unit IT department is responsible for 2nd level system failures. • Disaster recovery plan.
06 Reputation Risk Risk of losing current & prospective earnings and capital base due to negative public perception of the company.		
Company specific activities Adverse public perception on the company due to operational errors or communication errors.	Any internal fault/error which creates customer dissatisfaction can be the root cause of negative public perception of the company. <ul style="list-style-type: none"> • Company has deployed various precautionary measures and a customer grievance handling mechanism. 	<ul style="list-style-type: none"> • Effective customer response and grievance handling process. • Analyzing and taking necessary actions regarding on customer grievances through Customer Degrading Committee. • Regular customer surveys and customer visit programs are conducted by the customer care unit • Staff training raining on customer etiquette.

Risk Identification		Risk Evaluation	Risk Controlling and Mitigation
	<p>Compliance Risk Inability to comply with rules and regulations applicable to a company.</p>	<p>Inability to comply with rules imposed by the regulators may lead to losses, penalties, sanctions or even negative public perception of the company.</p> <ul style="list-style-type: none"> • <i>A Designated division is in place to comply with such rules and regulations.</i> 	<ul style="list-style-type: none"> • Compliance with necessary rules and regulations pertaining to the industry/ company. • A special division is in place to coordinate issues relating to compliance. • Monthly assessment of regulatory documents by the Compliance Committee. • Submitting a report to the Board confirming adherence to regulatory requirements
	<p>Inadequate Contributions to the Society. Risk arises due to insufficient public relations and contributions to society.</p>	<p>The business model of the CDB is itself a social responsibility, where it provides sustainable development for rural and low income segment by providing access to a formal financial system.</p> <ul style="list-style-type: none"> • <i>Apart from the company business model, CDB has initiated various projects and programs to create better rapport among stakeholders.</i> 	<ul style="list-style-type: none"> • The company maintains four types of CSR projects on a routine basis throughout the year; • CDB Hithawathkam • Sisudiri Scholarship program • CDB Nena Piyasa • Mihikathata Adaren
07	<p>Strategic Risk Exposure to loss resulting from a strategy that turns out to be defective or inappropriate.</p>		
		<p>Internal business trends Internal business trends are evaluated on an ongoing basis to identify the business trend of the company</p>	<ul style="list-style-type: none"> • Business volumes are monitored on a daily basis via the credit dashboard. • Business volumes and trends are presented at weekly Manager’s meetings and appropriate actions will be taken for deviations.
		<p>Spreads and margins Provides information on business returns.</p>	<ul style="list-style-type: none"> • Dashboard provides weighted average lending and mobilizing rates and is monitored on daily basis. • Weekly evaluations are conducted on weighted average lending and mobilizing rates. • Asset liability pricing decisions are carried out by the ALCO
		<p>Portfolio health Portfolio health justifies the quality of the assets lending portfolio.</p>	<ul style="list-style-type: none"> • Stringent credit policies • Centralized credit administration • Evaluation of NPL ratio, collection ratio on routine basis. • Identifying the early signals of problem facilities and taking actions to mitigate such situations
		Existing and new products	<ul style="list-style-type: none"> • Cross-functional teams have been formed to develop new products after conducting in depth market and product analysis.

The Positive Impact!

Preamble

Sustainable business practice is a cornerstone of CDB's strategy. By addressing our social, environmental and economic impacts, we build value for the business, for our shareholders and for other stakeholders.

As a leading financial institution in Sri Lanka, with clients spanning a broad spectrum of society, we believe that it is essential to focus on the four areas in our sustainability agenda – marketplace, environment, people and culture. Through these varied segments we attempt to envision what challenges the future might pose, and how CDB is preparing for them. Our sustainability agenda aims to build value for our shareholders and other stakeholders by addressing our social,

environmental and economic impacts. This means generating returns for our shareholders, by positively impacting our stakeholders with our actions and being sincere about them and in promoting environmental consciousness. The concept of sustainable value underpins all our sustainability activities. By taking action to address our impacts today, we help our business thrive in the future to create a positive impact.



**Sustainability
Report**

Organisational Profile (GRI Indicators - 2.8, 2.9)

Citizens' Development Business Finance PLC (CDB) is a registered finance company regulated by the Central Bank of Sri Lanka and engages in two main operations which are mobilizing funds and providing financial accommodations. Moreover, we are listed on the Colombo Stock Exchange. Our total asset base at the end of the financial year was Rs. 16.5Bn, with a recorded revenue of Rs. 2.8Bn. CDB boasts of 36 outlets island-wide, and is the seventh largest financial institution in terms of total assets amongst forty three Licensed Finance Companies (LFCs) under the aegis of the Central Bank of Sri Lanka. Presently the organization has employment strength of 726 employees. The Company raised Rs. 718Mn from a successful rights issue, which increased the issued share capital from Rs.396,850,480 to Rs.1,114,960,915.

The Company is propelled forward by its vision to become a financial powerhouse that will foster both entrepreneurial innovation and workmanship, towards building the nation's economy to make sustainable gains in the living standard of all Sri Lankans. We currently offer a broad range of financial products from loans to foreign currency exchange, foreign remittances, fixed deposits, savings and pawning. Given the varied nature of our clientele, our business model combines rural lending and urban funding. We aspire to fuse this model with sustainable practices to enrich people's lives and position ourselves as a conscientious and formidable leader in the financial services industry.

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

At CDB we are committed to ensuring the preservation of our planet. Accordingly this is our second Sustainability Report, in compliance with the updated version of GRI (Global Reporting Index) G3.1 guidelines, whilst our initial Sustainability Report adhered to the G3 guidelines. The

Report content spotlights materiality, stakeholder inclusiveness, completeness and sustainability context, whilst its quality is ensured through balance, comparability, accuracy, timeliness, clarity and reliability – all in accordance with 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

This report covers the activities of the Citizens' Development Business Finance PLC, for the year ending 31st March 2012 according to the annual reporting cycle stipulated by the GRI. 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 01.04.2011 to 31.03.2012. 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 exceeded the purview of this report.

Why are we committed to Sustainability Reporting?

The Chief Executive Officer replies:

"The CDB ethos of sustainability is about long term development and upliftment. Our very foundation is about sustainable development, where our trusses ensure that whatever we do and wherever we do it, our actions will impact our stakeholders in a positive and beneficial manner. At

CDB, we are committed to ensuring that each of our stakeholders, whether it is shareholders, employees, valued business partners, customers, the community and even the environment becomes an integral feature of our business, where our very miens display a commitment to keeping a win-win partnership for them and us.

Our sustainable development is about making sure our business is a going concern, strong, stable and secure, where wealth creation becomes a fundamental. It is this wealth creation therefore that becomes the springboard for us to take our next steps in sustainable development best practices; that is in ensuring that we create an empowering environment for our team, who are undoubtedly the strong thread that links the success of our business with our sustainable philosophy, partnering our valued business partners to ensure that while we grow our business, they too will see growth in theirs as a result of our association and in being a corporate steward to the community, being responsive to their needs and imbuing development into communities. Through it all, we remain very focused on our customers who are truly the backbone to our business and have, since our inception, been the force that has driven our success.

So why did we at CDB, decide to report on our sustainability practices? As you rightly observe, we are not simply a financial institution, but one that has firm rudiments of governance, ethics, principles, best practices, accountability and transparency within its core. However, simply ensuring compliance with mandates and statutory diktats is insufficient. We know that in the current day business milieu, we have to

At CDB, we are committed to ensuring that each of our stakeholders, whether it is shareholders, employees, valued business partners, customers, the community and even the environment becomes an integral feature of our business...

Sustainability Report

look beyond the horizon because businesses are judged by not just their actions, but also by their thinking processes, ideas and even rhetoric. Hence, for us, sustainability reporting has become a process of inward self examination, where we can identify and bridge the gaps, finding pragmatic sustainable solutions to our shortfalls. It is also a process that enables us to map trends, foresee challenges, seek potential opportunities, ascertain risks and ensure that we are well-equipped with the right tools, skills and knowledge to create the enabling environment for us to grow.

Also at CDB, we are always conscious that we are a financial services steward that can make a difference to a segment of the population that sometimes slips under the radar of the formal banking system or are simply not able to enter it. This is one of the primary reasons we are always ensuring that we are accessible in the rural environs of the country where our portfolio of products and services, which for the most part is customised for this customer segment, draws these communities into the formal economic environment. This imbues significant benefits to the larger national economic vista as well. In addition, our focus on employing locally has seen significant employee generation from among the communities, which not only develops knowledge and skill among youth (given our concentration on employing young school leavers into our entry ranks), but also sees significant vibrancy in those economies which ultimately cascades positive economic benefits overall.

Sustainability Reporting therefore is an imperative tool that clearly indicates to us what we have done, are doing and should be doing. It also creates a continuous learning environment that enables the company to map its future and ensure that it remains an active going business concern. The reporting process formalises

We strongly believe will form the foundation to ensuring that we meet our objectives as a good corporate steward, while also being mindful of the challenges and opportunities that emerge as we continue into a future, that will undoubtedly be termed 'transformational' and 'challenging'...

our systems and infuses a culture of compliance and achievement which ultimately shows in very successful bottom-line and top line results, instituting a plethora of advantages and benefits to all our stakeholders.

We intend to improve our reporting process each year and adhere to even more best practices and principles as embedded in the Global Reporting Initiatives. This we strongly believe will form the foundation to ensuring that we meet our objectives as a good corporate steward, while also being mindful of the challenges and opportunities that emerge as we continue into a future, that will undoubtedly be termed 'transformational' and 'challenging'.

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 Philosophy has a three-prong approach:

1. Stakeholder Engagement for Business Strategy Formulation
We have recognised that as our business evolves, new sustainability challenges emerge. Thus, we identify the issues most pertinent to our

business through extensive stakeholder engagement and formulate the strategic way forward accordingly.

2. Shaping Sustainability Responses
We listen and respond to our stakeholder concerns. These shape the sustainability strategies that we adopt to create an empowering platform for all, to make a positive impact.
3. Communicating Responses and Strategies
At CDB, we believe it is our primary duty to communicate our progress and to convey our future plans to our key stakeholders. We have achieved this through a range of communication tools such as our website, newspapers, annual report, letters and meetings to ensure maximum transparency.

Our Sustainability Strategy

Our business and sustainability strategies are inextricably linked. We currently meet economic, environmental, and social sustainability dimensions in accordance with the Triple Bottom-line approach. This creates immense opportunities for us to grow our business. Hence, we are currently expanding into the challenging markets of leasing, deposit mobilisation and micro-finance. A prime example is our micro-finance strategy, which focuses on

collecting excess liquidity from the urban sector and investing in rural areas.

At CDB, sustainability is woven into the very fabric of our business. Thus, sustainability forms an integral part of our core business and governs our operations at every level, through our employees who constantly ensure sustainability. Therefore our sustainability management reflects the ethical way we manage our business and how we add continuous value to all our stakeholders.

Through sustainability reporting, we aim to regularly review the evolving business climate and ensure that CDB addresses pertinent issues that affect our business. This strategy will enable us to identify future risks and opportunities for business. Assessments are made through regular monitoring of sustainability issues in the mass media and through engaging with our stakeholders.

Our Sustainability Priorities

These priorities are based on our assessment of sustainability related opportunities and risks and have been prioritized 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.

Identifying Key Sustainability Issues

Sustainability is important to us at CDB. Therefore our Managers and divisional heads meet weekly and allocate time for sustainability issues. The results of these meetings are reported to the senior management through various means; i.e. monthly presentations. Dissemination of information through transparent means allows us to utilize local and global trends, and anticipate emerging directions. Furthermore, our Internal Audit Control Questionnaire, which is submitted to all branches annually and signed off by Branch Managers, allows us to assess awareness and is an integral part of our formal risk identification procedure. The final results of this questionnaire, and sustainability solutions are reported to CDB's Board of Directors.

Area	Risks faced	CDB's Response
Economic	<ul style="list-style-type: none"> • Financial institutions currently operate within a highly regulated framework which constantly fluctuates, resulting in modifications to rules and regulations. • The industry is highly vulnerable to the impact of the recent interest rate changes. • Currently 43 registered companies operate in the industry and provide homogeneous products and services, resulting in severe competition. 	<ul style="list-style-type: none"> • Frequently reviewing rules and regulations • Conducting compliance meetings monthly to review compliance levels • Frequently conducting industry, market, competitor analysis • Focus on product differentiation through better customer service, benefits etc
Social	<ul style="list-style-type: none"> • Our business model focuses more on the lower customer segment, targeting those from the low and middle-income group with low financial literacy, inadequate documentation of proof of income for credit purpose evaluations. 	<ul style="list-style-type: none"> • Close monitoring of collections • Diversifying risk by disbursing high volumes of low loan amounts • Taking personal guarantors
Environment	<ul style="list-style-type: none"> • Many of our loans are disbursed for vehicle leases which directly impact the reduction of air pollution 	<ul style="list-style-type: none"> • Conducting leaflet campaigns to educate the public on reducing emission levels to the environment • Initiating projects at school level to make school children aware that protecting our environment through planting trees and proper waste management activities.

Sustainability Report

Committed to Progress (GRI Indicators. 4.4, 4.14, 4.15)

Given below is our progress in addressing CDB's social, environmental and impacts, in order to highlight our commitment towards our business, our shareholders and stakeholders. In determining the stakeholder groups, the company analyzes its relationship with various parties linked to our business. Accordingly, the stakeholders we have determined below have a direct long term relationship with the company. We envision a relationship of a lifetime with these stakeholders and have pledged a long-term commitment to them. At CDB, we have an open-door policy where any of our staff member 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. Also, we have a call centre in operation, where any of our stakeholder group may contact us and provided us their ideas, suggestions, complaints etc. The manners in which we have engaged with our stakeholders are mentioned in the table below:

Stakeholder Group	Expectations & Interests	Our Commitment
Customers	Enhanced customer service	<ul style="list-style-type: none"> Opened 1 branch and 2 service centers 4 service centres were upgraded as fully fledged branches Implemented a new core-bank system
Employees	Assuring job security and career development	<ul style="list-style-type: none"> Conducted 2 performance appraisals Staff was assigned to 22 internal training programs and 22 external training programs.
Shareholders	To get a better return for the investments	<ul style="list-style-type: none"> Achieved an EPS of 13.10 Achieved a NAV per share of 44.15 Recorded a PAT of Rs. 630Mn
Environment	To reduce negative impacts	<ul style="list-style-type: none"> Conducted awareness programs on minimizing the negative impact to the environment A program was launched to donate waste management systems to schools Donated a Green house to Sethawaka Central College in Awissawella
Society	To enhance living standards of our society	<ul style="list-style-type: none"> Achieved a lending portfolio of Rs.13.2Bn Allocated Rs.5Mn scholarships under CDB Sisudiri program Donated a IT Lab to Welioya Ethawatunuwewa Vidyalaya in the Anuradhapura
Government & Business Partners	Practice good corporate governance	<ul style="list-style-type: none"> Adhered to rules and regulations imposed by regulatory authorities
Business Partners	To enhance mutual benefits	<ul style="list-style-type: none"> Conducted joint promotional campaigns Displaying business partners' products in front of our branches

Direct Economic Value Generated (GRI EC 1-Core)

	2011/12	2010/11
Direct Economic Value Generated		
Revenue	2,877,978,004	2,226,022,713
Economic Value Distributed		
Operating costs	1,935,300,821.49	1,309,103,200
Employee wages and benefits	287,320,196	208,815,713
Payment to providers of capital	129,921,290	79,370,096
Payment to government	26,750,416	77,118,6
Community investment	4,731,042	4,971,797
Economic Value Generated	493,954,239	546,643,218

OUR CUSTOMERS



As a service oriented company, we at CDB understand the value of our customers. To us, customers are the keystones on which our business is built upon; a resource that CDB's success depends on. We owe our current market position to our customers. This is why we believe it is essential to constantly, and consistently, heed their needs whenever possible. Our sustainability goal, to create a positive impact, cannot be achieved without our loyal customers.

Island-wide Presence

Branch Opening

CDB currently operates 36 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, and bring them closer to us. Our goal is enhance our service centers, through an expansion drive. Furthermore, CDB plans on maximizing opportunities in the North and East; the previous financial year saw our third Service Center open in Batticaloa, while this year saw our fourth and fifth Service Centers initiated in Tricomalee and Elakanda. Also, we have upgraded 4 of above mentioned service centres as fully fledged branches. 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 offices. The most recent addition to this network is our 35th branch in Ragama.

Our Strategic Priorities and Commitment Towards Our Customers

Strategic Priorities	Our Commitment
Enhancing Island-wide branch network	Opened 1 branch and 2 service centers during the financial year. 4 service centres were upgraded as fully fledged branches
Relocation of branches with enhanced service standards	Relocated 08 branches during the financial year
Enhanced technological know how	Implemented a new Core Banking System
Introduction of new products	Launched savings operations
Find solutions for customer complaints	Dealt with 35 complaints and 249 inquires during the financial year
Customer satisfaction	Conducted a customer survey



Our Network

Anuradhapura
No. 522 D, Meithreepaala
Senanayake Mawatha,
Anuradahapura
Email - anuradhapura@cdb.lk
T.P - 0252234000

Badulla
33-1/1 -33-1/6, 1st Floor,
Modern Complex,
No. 158, Lower Street,
Badulla
Email - badulla@cdb.lk
T.P - 0552225533

Battaramulla
No. 156/2, Main Street,
Battaramulla
Email - battaramulla@cdb.lk
T.P - 0112869944

Boralasgamuwa
No. 28 A, Maharagama Road,
Boralasgamuwa.
T.P - 0112509306

Chilaw
No. 25/1, Colombo Road,
Chilaw
Email - chilaw@cdb.lk
T.P - 0322220646

Dambulla
No. 671/2, Anuradhapura Road,
Dambulla
Email - dambulla@cdb.lk
T.P - 0662284088

Eheliyagoda
No. 114, Main Street,
Eheliyagoda.
T.P - 0362259951

Elakanda
No. 37/B/E, Handala Road,
Elakanda.
T.P - 0112930986

Embilipitiya
No. 21, Main Street,
Embilipitiya.

Galle
No.126, Colombo Road,
Kaluwella, Galle
Email - galle@cdb.lk
T.P - 0912227501/2

Gampaha
No. 114,
Colombo Road,
Gampaha
Email - gmapaha@cdb.lk
T.P - 0332233774

Ja-Ela
No. 195/A, Negombo road,
Ja-Ela
Email - jaela@cdb.lk
T.P - 0112228228, 0112231133

Jaffna
No. 208, Stanley Road,
Jaffna
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T.P - 0212221585, 0212221586

Kadana
No. 37, Negambo Road,
Kadana.
T.P - 0112237645

Kaduruwela
No. 426, 28 Mile Post,
Kaduruwela,
Polonnaruwa
Email - kaduruwela@cdb.lk
T.P - 0272226710

Kaduwela
No. 475/1, Avissawella Road,
Kaduwela
Email - kaduwela@cdb.lk
T.P - 0112538888, 0112538889

Kaluthara
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Kaluthara.
Email - kaluthara@cdb.lk
T.P - 0342224400

Kandy
No. 110, Yatinuwara Veediya,
kandy
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T.P - 0812204246, 0812204600

Kegalle
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Kegalle,
Email - kegalle@cdb.lk
T.P - 0352222442, 0352222599

Kelaniya
No. 159, Kandy Road,
Kelaniya
Email - kelaniya@cdb.lk
T.P - 0112910202, 0112919592

Wellawatta
No.416, Galle Road,
Colombo 06
Email - city@cdb.lk
T.P - 0112364699

Kotahena
No. 30, Sri Ramanadhan
Mawatha,
Colombo 13
Email - Kotahena@cdb.lk
T.P - 0112422465, 0112422466

Kurunegala
No. 54, Colombo Road,
Kurunegala
Email - kurunegala@cdb.lk
T.P - 0372221625, 0372234444

Mahara
No. 377/2, Mahara,

Kadawatha
Email - mahara@cdb.lk
T.P - 0112921432, 0112925000

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

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

Mathara
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Dharamapala Mawatha,
Mathara
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T.P - 0412229955, 0412226655

Mathugama
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Mathugama
Email - mathugama@cdb.lk
T.P - 0342248888

Moratuwa
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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
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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
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T.P - 0242225862, 0242225863

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

Wennappuwa
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Wennappuwa
Email - wennappuwa@cdb.lk
T.P - 0312245245



Sustainability Report

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, 08 branches were relocated and re-launched. These branches reflect our policies and thus changes are not merely superficial; each branch has been refashioned with further focus on our business model of urban lending and rural funding.



Our Brands



GOLD LOAN SERVICES



IT Infrastructure

Our company is supported by a business-enabled IT platform that empowers our employees to function more efficiently in order to satisfy our customers. CDB's IT team employs the field's leading IT professionals who are active in equipping the company with advanced systems and processes which gives us a headway in the industry. The advanced MIS deployed across the company's branches has accelerated the delivery of our products and services, exceeding customer expectations. A unique online system, developed by the IT team, links all branches to the Head Office streamlining operations and initiatives. The ATM tie-up with Commercial Bank is one such association, where our customers can conveniently access their accounts from any outlet island-wide – showcasing our commitment to put our customers first. 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 and longevity.

Call Centre Operation

CDB's Call Center operates as a part of the Company's Customer Care Division. Presently, six members, including front-line agents and a back office console, staff the Call Center, through which our valued clientele can communicate their queries to us and is an integral component of our market position. The Center is a tool which enables us to attempt to supply instant solutions, monitor feedback, gather information, handle complaints and promote new products. Call centre also handle significant proportion of calls per day and the total and monthly average number of calls received is reported as follows.

Year	Total Volume	Average Monthly
2008/09	33475	2789
2009/10	58590	4883
2010/11	80746	6729
2011/12	91014	8274

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

A complaint received is dealt with systematically and a detailed response is returned 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	2009/10	2010/11
No of complaints	35	89
Year	2009/10	2010/11
Insurance Related inquiries	136	214
Credit related inquiries	52	69
Rental related inquiries	61	144

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 worked as for the set plans and for the period under review, we can observe a reduction in each of the areas in concern.

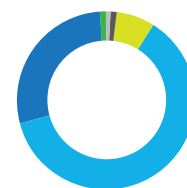
Customer Service and Survey

CDB's position in a service oriented market entails that the company employs various means to ensure its market position and hence, the role played by our sales team in linking the customer and CDB is invaluable. This dynamic team has made headway in presence and impact, most notably rural areas. We augment this with continuously seeking to exceed customer expectations and are always looking for means to ameliorate our services. Hence, a periodic Customer Survey, which we envisage would provide insight to the various levels of customer satisfaction is conducted to give us further perceptivity.

Customer engagement is also doubly remunerative, as it provides us with an opportunity to gain even more avid insight on customer expectations.

The Customer Satisfaction survey sampled customers from thirty CDB branches, with a combination of long standing and new, from varied segments including leasing/hire purchase, pawning and deposit.

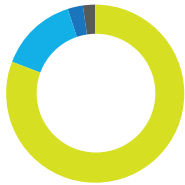
Customer satisfaction levels obtained from the customer survey



Deposit Customers

- Strongly Dissatisfied
- Dissatisfied
- Neutral
- Satisfied
- Strongly Satisfied
- No Comments

Sustainability Report



Recommend CDB for another customer

- Definitely
- Probably
- Probably not
- Definitely not



Lending Customers

- Strongly Dissatisfied
- Dissatisfied
- Neutral
- Satisfied
- Strongly Satisfied



Our staffs' customer service

- Strongly Dissatisfied
- Dissatisfied
- Neutral
- Satisfied

CDB's Compliance Division continues to guarantee compliance to laws, standards and voluntary codes of marketing; i.e. advertising, promotion and sponsorship (GRI - PR6 - Core). There have been no incidents of non-compliance to marketing communications 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).

Privacy is key in the field we operate in, which is the raison d'être for CDB's

absolute emphasis on 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	2011/12	2010/11
No of outlets opened	4	1
No of branches relocated	8	16
No of service centres upgraded as fully fledged branches	4	0
Total no of customer complaints received	88	89
No of inquiries received	244	427
Customer surveys carried out	1	0
Total customers visited for conducting survey	300	0
No of new products introduced	8	-
Training programs conducted on customer service	7	3
Total no of SUV jeeps given for 'Sithumina' Draw	3	0

Planned Initiatives

New ideas and strategies to enhance the customer experience abound and among these are:

- To continue being amongst the country's top financial services providers
- To continue to engage more with our customers to ascertain their needs and expectations
- To customise our solutions in order that each transaction with CDB will be gratifying
- To further expand our distribution network
- To launch Savings Accounts
- To provide more value added services to Savings Accounts
- To introduce more campaigns like "CDB Sithumina"

OUR TEAM



Having a talented workforce has become a critical factor, in any industry, arguably even more so that technology or capital. At CDB, our talented workforce is an indispensable component and a competitive advantage. To us, our team is valued more than assets or capital; they are a close-knit, well-integrated, inseparable weave that is CDB.

We're focusing on driving high performance, encouraging greater productivity, building on the excellence of our people to increase our competitive advantage and strengthening our culture and values.

Ensuring that the fundamentals are strengthened therefore is equally important: a safe workplace, protecting our employees, ensuring equality and a good work/life balance and having open communication channels that ensure a responsive milieu are what we inculcate as a feature of maintaining a culture founded on exceptional commitment and deep personal responsibility.

In today's business environment, people want to work for businesses with strong sustainability credentials, so we ensure that the Company continues to stand out in this area. Ensuring that our workforce shares in the success of a sustainable business will help us attract the best people into the right job.

Business Strategy: Focus on Our People

Human Resources are central to our business. They shoulder the responsibility of conveying business goals to executives and ensuring the congruous blend of career progression and professional growth of all employees. We at CDB are aware that our people make us who we are; it is this team that has ennobled us to where we are today.

Our HR strategy is to prepare and empower our employees to face organizational change and offer them the necessary support, while understanding and highlighting their importance to the company. 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. CDB has a diverse cultural mix of employees and we adopt liberal policies to promote tolerance.

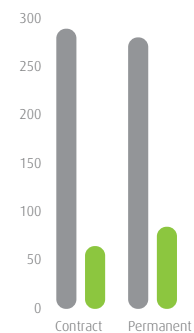
Employee Statistics (GRI - LA1 - Core) (GRI - LA2 - Core) (GRI - LA 10 - Core)

For the period under review, our staff strength stood at 726, a 26% increase from the previous financial year. The total workforce classification, by gender and region, is attached below (GRI - LA1 - Core).



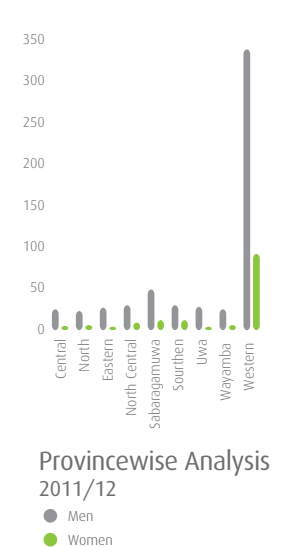
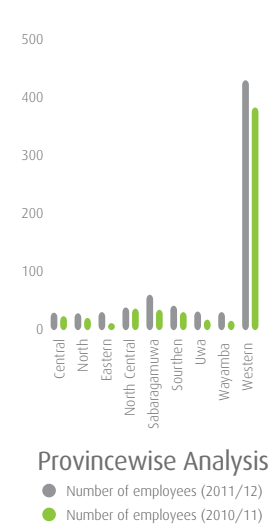
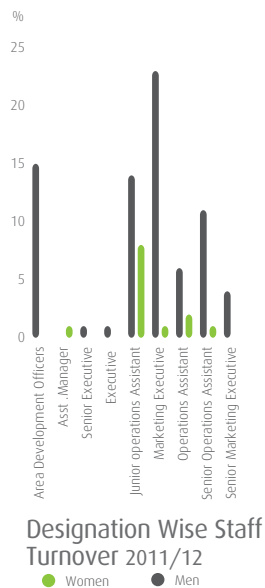
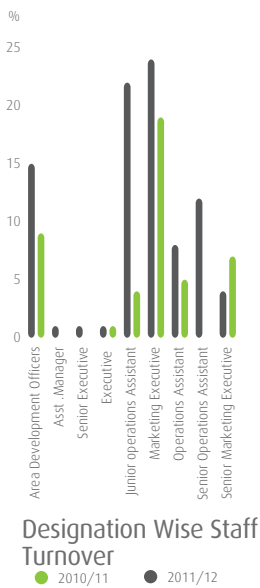
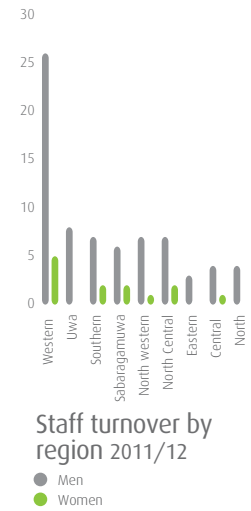
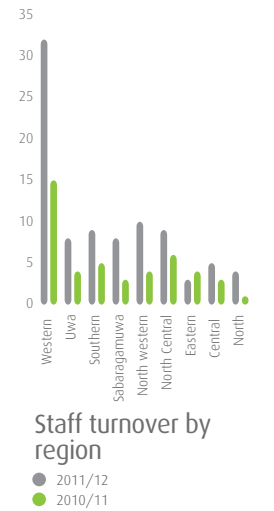
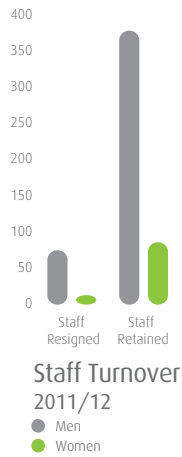
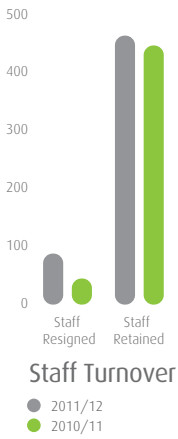
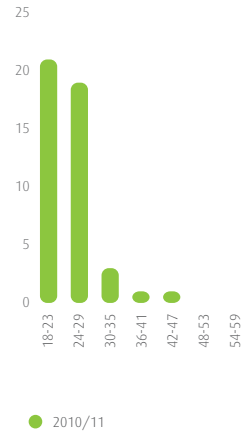
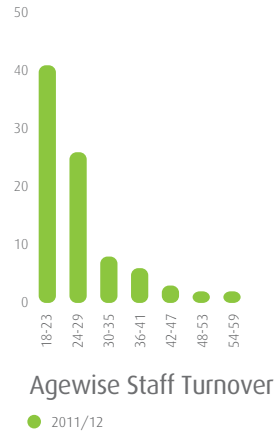
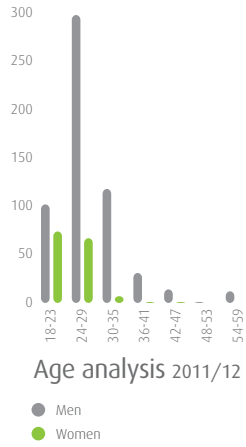
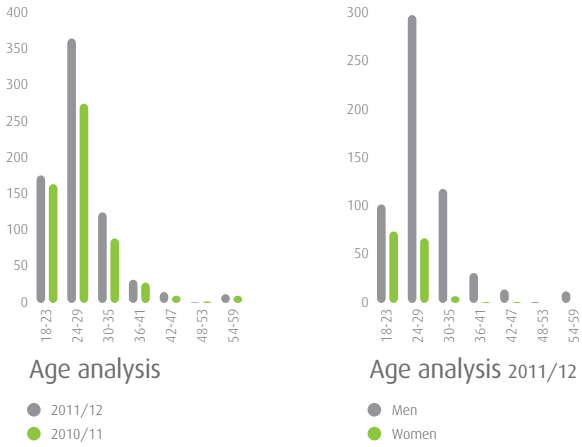
Type of Employment

● 2011/12
● 2010/11



Type of Employment 2011/12

● Men
● Women

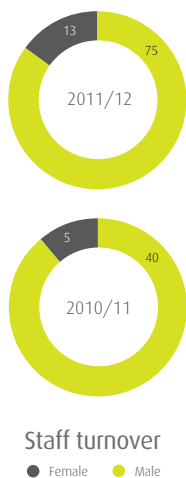


Our recruitment strategy is biased towards dynamic youth, predominantly school-leavers, who easily adapt to our unique culture. We are keen on empowering each employee and provide multi-faceted opportunities to develop and enhance their careers. The graph below indicates that 75% of our workforce is aged between 18 to 29 years, which is a boon to the company's longevity and which is a 23% increase from the previous financial year.

CDB's recruitment policy clearly specifies the minimal 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. Moreover, our intent to develop employment in rural segments has resulted in 41% of our workforce recruited exclusive of the Western Province.

The staff turnover ratio was 13.49%* for the period under review, and the breakdown of staff turnover by age group, gender and by region is depicted below.

(GRI - LA2 - Core).



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

We solemnly declare that 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. The minimum employable age is 18 years, and CDB eschews child labour in any form within the organization and partners only valued 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	Women to Men
Front Line	1:1.45
Junior Management	1:1.70
Middle Management	1:1.46
Managers	1:1.22
Senior Management	1:1.73

Strategic Priorities and Our Commitment towards Our Employees

Strategic Priorities	Our Commitment
Ensuring work-life balance	Organizing fellowship events, sports day, Christmas carols, Wesak Bakthi Gee etc
Recognizing the best performers	Conducting an Annual Awards day Monthly and Annually recognizing the best employees
Providing career and professional Development	Conducted 20 Internal training programs and employees were allocated to attend 25 External training programs Conducted two performance appraisals

Ensuring work-life balance

Positivity is infectious. Therefore, CDB fosters positivity in many ways among our employees to encourage a cascading process. Our employees participate in many leisure activities both within the company and externally as well, with the Company encouraging family participation wherever possible, as we believe that employee families belong to the extended CDB family. The year also saw CDB's long service members rewarded with a tour of Bangkok with their families, in appreciation of their loyalty and commitment to the Company.



Sustainability Report

CDB Sports Day

Our annual Sports Day was held this year at the Wesley College grounds. This year CDB staff was divided in to four 'houses': Warriors, Challengers, Defenders and Gladiators. In keeping with the general trend various games were organized – a fancy dress parade, tug-o-war – where both employees and their families participated enthusiastically.



Family Outing

CDB members and their families were taken to 'Leisure World' in Avaiissawella. Everyone, participating in many adventurous activities, had a delightful time.



Vesak 'Bakthi Gee' & 'Dan Sala'

Our employees are encouraged to organize activities in lieu of the varied religious ceremonies celebrated by Sri Lanka's multi ethnic community. During the year in review, an Ice Cream Stall (dansala) was set up at Head Office premises, followed by a lantern competition and a 'Bakthi Gee' concert to celebrate the Vesak Festival.

CDB Carol Service

A Carol Service was also held by our staff to celebrate the spirit of Christmas, at the Our Lady of Peace Church in Maligawatta Colombo 10. The entire team, irrespective of religion, supported each religious ceremony enthusiastically.



Recognizing Our Children's Achievements

An effort is made to support the children of our employees who excel in various fields to encourage them. D.M. Gihan Oshadee, son of Mr. Priyantha Weerasiri from the Investigation Unit, was placed 2nd Runner Up at the L.V. Jayaweera Memorial All Island Boxing Tournament, in the 15-16 age group. His accomplishment was recognized and rewarded by the company.



Recognizing and Rewarding the Best

Given that our team is tireless and industrious and their endeavors evident through the company's success, CDB acknowledges their contribution in the categories of bronze, silver and gold. In addition, the CDB 100 Million Rupee Round Table (CDB 100Mn RRT) is a scheme that awards foreign tours to deserving employees and this year, 12 team members became members of the prestigious CDB 100Mn RRT. High achievers are also rewarded each month during monthly sales meetings at their branches.



Sustainability Report

Career and Professional Development (GRI LA 11 Add)

Given that many of our employees are young, we encourage career and skills development, as well as the pursuit of higher education. CDB is aware of the essentiality to develop knowledge and skills. Therefore, the company reimburses examination fees and professional membership fees, while also granting study leave. This year, CDB conducted two performance appraisals, as a part of the company's overall Training and Development program.

Training - Foreign

Programme	Venue	No of Participants	Duration (Days)
Workshop on Risk Modeling	Malaysia	1	4

Conferences

Programme	Venue	No of Participants	Duration (Hrs)
Asian Bankers Association Conference	HNB	2	8
Annual Leasing Symposium	Leasing Association	8	8
National Conference of Chartered Accountants	ICASL	2	8
CIMA Conference	CIMA	7	8
National HR Conference	IPM	3	16

Training - Internal Programmes

Programme	No of Programmes	No of Participants	Duration (Hrs)
Deposti Product Training	2	25	16
Online D/O Issuing	4	7	8
Customer Service	4	260	32
Induction - Operations	3	77	88
SSME Development Programme	2	10	24
Magic of Closing Sales	2	70	16
Workshop on Lending on Pledge Jewellery	8	180	60
Sales Excellence & Relationship Building	3	80	24
Sales Excellence Through Services	2	100	16
Spoken English - SSME Team	3	10	24
Workshop on Negotiation & Presentation Skills	1	25	8
Team Building and Internal Service Development	3	155	24
Grooming & Personality Development	1	25	8
Workshop on Leasing & HP	3	90	24
Induction - Marketing	3	83	72
Leadership & the Organization Culture - Prof Goel	1	60	8
Workshop on Selling Skills	1	2	8
HOB as Business Manager	1	30	8
Cashier Operations	1	17	8
Workshop on Selling Skills for ADO's	1	30	8
Credit Officers Workshop	1	20	8
Customer Service Workshop	1	26	16

Training - External Programmes

Programme	Venue	No of Participants	Duration (Hrs)
Managing Personal Portfolio	CIMA	1	3
Potential for Profit Within	CIMA	8	3
Next Generation Leadership	CIMA	1	8
Excel to Excel	CIMA	4	3
Fair Value Accounting	CIMA	3	3
What Takes To Be a Front runner	CIMA	2	8
Lead Without a Title - Robin Sharma	CIMA	10	8
Sustainability Reporting	CIMA	2	8
Workshop on Report Writing Skills	Maquir Rens	1	8
Strategies for Service Organization	ICASL	4	8
Prof Philip Kotlers Knowledge Sharing Forum	SLIM	6	6
Prof Philip Kotlers CEO's Programme	SLIM	3	4
Knowledge Sharing forum Leasing Association	Leasing Association	6	8
Global Economy for Business Investment	Chamber of Commerce	2	8
Excellence In Action	RC OBA	1	8
Launch of American Chambers IESC	American Chamber of Com	1	4
Road Maps To Great Brands	Next Consultants	1	8
Building a Champion Team	SLIM	1	8
Saving Account Operation Training - IBSL	IBSL	22	16
2012 Budget highlights	CIMA	3	8
Implications of New Business Act	Leasing Association	3	8
Labour Laws	IPM	1	8

Programmes for Skills Management and Lifelong Learning (GRI LA 11 - Add)

Programme	No of Programmes	Venue	No of Participants	Duration (Hrs)
SSME Development Programme	2	CDB	10	24
Spoken English - SSME Team	3	CDB	10	24
Workshop on Negotiation & Presentation Skills	1	CDB	25	8
Team Building and Internal Service Development	3	CDB	155	24
Grooming & Personality Development	1	CDB	25	8
Leadership & the Organization Culture - Prof Goel	1	CDB	60	8
Next Generation Leadership	1	CIMA	1	8
What Takes To Be a Front runner	1	CIMA	2	8
Lead Without a Title - Robin Sharma	1	CIMA	10	8
Building a Champion Team	1	SLIM	1	8

Sustainability Report

Compensation, Rewards and Recognition

CDB offers competitive remunerative rewards to attract, motivate and retain skilled employees. The compensation strategy consists of three elements: fixed, variable and other benefits. The fixed component includes the established salary – subject to annual reviews; the variable element involves a direct performance-linked component which is paid to Sales staff, together with annual and bi-annual bonuses based on bottom-line results; the final component includes benefits such as health and medical schemes, staff loans, life insurance and death donations.

Employee Suggestions: Breaking the Silence

The company prioritizes communication, and highly values employees' suggestions. As a result of a Staff Satisfaction Survey, a Suggestion Scheme has been implemented; personnel may use this medium to express their views on developing the company's performance. Each suggestion is valued with an appreciative response, whilst the best suggestion makers are rewarded at monthly staff meetings. In order to promote transparency amongst employees, all decisions are publicized internally. A staff event, at the start of a new year, is held to convey company performance and detail future targets. CDB advocates an open door policy, and all personnel are given the freedom to express their views.

Planned Initiatives

We shall continue to drive high performance, encourage greater productivity and build on the excellence of our people, while our HR structure for the future is based on the following:

- To conduct professional training and development workshops and programs
- To achieve organizational growth through employee development
- To become a preferred employer in the financial services industry

Key Performance Indicators

Key Performance Indicators	2011/12	2010/11
Total no of employees	726	578
New recruitments during the year	422	155
Total no of training hours (average)	135	225
Total no of training Hours/Days		
Internal (Hours)	508	376
External (Hours)	154	171
Conferences (Hours)	48	48
Special Courses (days)	0	59
Foreign Training (days)	3	20
Total no of meetings held	124	122
Corporate management meetings	50	49
Management meetings	50	49
Sales meetings	12	12
BOIC meetings	12	12
No of employee appraisals carried out	2	1
Employee turnover ratio	13.5%	11%
Employee distribution		
Western province	431	384
Outside western province	295	194

OUR ENVIRONMENT



Our Approach & Policy

CDB is committed to sharing our environmental policy with the general public and our most focused initiative has been to reduce our carbon footprint by managing every feasible aspect of environmental consciousness. Having collated a comprehensive strategy this year to meet focused goals, we are now working on the following map:

- Minimizing waste (of water, electricity, energy) through evaluations which ensure that processes are efficient
- Educating the public through awareness programs
- Ensuring that the company adheres to all environmental legislations, rules and regulations
- Informing employees on environmental aspects, policies and stimulating voluntary pollution prevention; this educates and engages personnel
- Constant supervision of environmental objectives and targets through internal audits and management reviews

Strategic Priorities and Our Commitment towards Our Environment

Strategic Objectives	Our Commitment
Minimize waste	Initiated a cost management team and implemented several strategies to minimize cost and waste within the company
Educating the general public	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 Initiated a Greenhouse project and Waste Management project at school level to disseminate sustainable practices amongst school children
Meeting all the environmental legislation	Adopted strategies aligned to prevalent compliance rules and regulations, which were implemented when enhancing the branch network and executing projects
Informing employees on environmental aspects, policies and stimulating voluntary pollution prevention	Regularly communicating the importance of environmental protection via notice boards, newsletters, intranet Recognizing employees who formulate ideas and suggestions to reduce wastage and protect the environment Encourage and support employees to implement various environmental projects
Supervision through periodic internal audits and management reviews	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 Identification process and results are reported to CDB's Board of Directors.

Sustainability Report

Awareness Campaigns – ‘Mihikathata Adaren’

This campaign focuses on enhancing awareness of the general public on implementing strategies that would ensure protecting the environment. Determined to create awareness among children who are the beneficiaries of this planet, we conduct programmes to implement sustainability practices amongst school students as well.

CDB sponsored the Greenhouse Project at Seethawaka Central College in Avissawella which was a necessity for teachers in educating the students on agricultural subjects and to aware them on various new methods relating to plantation.

Minimizing and Managing Waste

The company donated a Waste Management system to Seethawaka Central College in Avissawella to foster a safe environment for school children and prevent unwarranted disease and health hazards. Our intention was to aware children about the significant of maintaining a clean environment and to start practicing such good practices from the school level so that they will encourage to pass it on to next generations.

Indirect energy consumption by primary source (GRI EN4 – Core)

We have identified that the main indirect energy consumption at CDB head office is



electricity and water consumption. Going in line with the GRI indicators, for the financial year under review we have implemented mechanisms to identify the consumption with regard to above aspects. Company use American water galloons purchased by the supplier and all together at head office have consumed 2172 gallons each containing 19.5ltrs. When it comes to electricity consumption, head office is the main contributor to the electricity bill at the company. Altogether there were 349,035 units have consumed in conducting the business operations for the periods under review.

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

Fueled by its passion to safeguard the environment, CDB has made sure that environmental laws and regulations have

been adhered to. Fines or non-monetary sanctions for noncompliance to environmental laws and regulations have not been levied against CDB.

Key Performance Indicators

Key Performance Indicators	2011/12	2010/11
No of electricity units consumed at head office (Units)	349,035	300,354
No of water gallons consumed in head office (Liters)	42,354	-
No of awareness campaigns carried out	2	1
No of cost management meetings carried out	7	-



Planned Initiatives

We at CDB remain unwavering in our commitment to protect the environment and intend to further augment our environmental practices by

- Conducting more awareness programs to reduce harm to the environment and protect and conserve resources
- Implementing cost reduction strategies, proposed by the Cost Management Team effectively and monitor results to ensure that goals and objectives are met

OUR SOCIETY



Our social context affects our customers and employees. As a leading financial institution, it is our responsibility and duty to promote beneficial societal behavior where our communities benefit by our presence and to ensure that our actions are sincere and the impact is positive.

Strategic Priorities and Our Commitment towards Our Society

Strategic Priorities	Our Commitment
Enhancing IT literacy	Donated a fully fledged IT Lab to Welioya Ethawatunuwewa Vidyalaya in the Anuradhapura
Providing educational assistance to children	Implementing the CDB Sisudiri Scholarship Program
Being a net lender to the rural sector and enhancing the standard of living	Achieved a net lending portfolio of Rs. 2,733, outside the Western Province
Being a responsible corporate citizen	Helping children and senior citizens through 'CDB Hithawathkam'
Employment generation in rural areas	Recruiting more persons from outside the Western Province.

CDB's Social Approach

In our social approach, we have continued to align our reporting process with the Milton Friedman (1970) dictum, as it encompasses the local community engagement, impact assessments, and development programs etc we have implemented. As mentioned under Profile Disclosure 2.8, we have two operations which are deposit mobilization and lending. As we are engaged mostly in providing vehicle leasing facilities, over 90% of our lending operations are vehicle related. Thus, there is an obligation for us to focus on the reduction of emission levels to the environment for the betterment of our society. Accordingly we have implemented several awareness programs to enhance the general public on reducing emission levels and to protect our environment which we have discussed in detail in the environment section of this report. Also, we have conducted flagship CSR projects to ensure that our society would benefit from such. (GRI - S01 - Core).



Sustainability Report

Level 4: Socially Responsible Business

At CDB we've focused our business model on extending benefits to rural and under served segments, to establish egalitarian distribution of wealth. We consider ourselves to be a net lender to the rural component of Sri Lanka's economy. The provision of formal financial services displays our efforts to uplift this segment to allow a better standard of living. We constantly attempt to strengthen our net lending position in areas excluding the Western Province, which is well served with a surplus of lending institutions. In order to fulfill our sustainability goal of creating a positive impact, we shall continue to strive in our attempts to better this societal component. Thus far, CDB has offered a unique brand of community leasing/loan facilities with fewer collateral requirements, ameliorating their lifestyle. Nurturing entrepreneurs has allowed these communities to shift to a formal finance system where they are now considered valuable, credit-worthy customers.

The following statistics display the success of our endeavors: Our lending portfolio, excluding the Western Province, grew from Rs. 3,432Mn to 5,849Mn – an increase of 70%; our deposit portfolio increased from Rs. 1,906Mn to 3,116Mn, an increase of 39%. Given these developments the company has been able to buttress its net lending position to Rs. 2,733Mn, an increase of 79%, indicating that we are in accordance with our strategy of urban funding and rural lending.

	2011/12	2010/11
Lending Portfolio Rs. Mn	5,848	3,432
Deposits Portfolio Rs. Mn	3,116	1,906
Net Lending Rs. Mn	2,733	1,526

Employability of Rural Youth

We at CDB prioritize recruiting youth from rural areas, proving them with training to advance their careers. For the period under review, the employee composition, excluding the Western Province, was 295 out of the total of 726; accounting for 40% of our total staff. Furthermore, 36% of our total employees are from the North and East as well.

Level 3: Flagship Strategic CSR Projects

CDB 'Sisudiri' Scholarship Scheme



Company launched "CDB Sisu Diri Season 04" for the fourth batch of children of three-wheeler owners who obtained the highest results at the Grade 05 scholarship exam and GCE O/L exam. A total of 14 boys and 26 girls from different socio income groups gathered at the Tower Hall Theatre with their proud parents to receive these scholarships worth Rs. 5 mn. As part of "CDB Sisu Diri – Season 04", Sri Lanka's first ever such scholarship programme and the Chief Guest was Dr. Dayarohana Athukorala.

Under "CDB Sisu Diri" scholarship program, Grade 5 winners will receive an annual Rs. 10,000 cash grant each until they complete their O/L exams. O/L winners will receive an annual Rs. 15,000 cash grant each until they complete their A/L exams. CDB's inaugural 'Sisu Diri' programme kicked off in 2008 and has become a national event which assists

needy children with their education. CDB has since then awarded more than 130 scholarships to students from various parts of the country

CDB Technology Centre

The primary goal of this project is to provide under privileged schools located in rural areas, with easy access to information technology as it carves pathways for these children to develop themselves for future potential and challenges. Students of Welioya Ethawatunuwewa Vidyalaya in the Anuradhapura district were presented with an IT lab under CDB's flagship project, CDB 'Pariganaka Piyasa', making it the fourth IT lab donated by the company. Valued at Rs 1 Mn, the IT laboratory accommodates 12 students at a time and is LAN accessible, networked, equipped with HP brand computers, LCD monitors, Printer, Scanner, Internet facilities and necessary furniture.

Previously, we gifted IT laboratories to Kirindiwela Sangamitta Balika Vidyalaya in Gampaha, Nedigamvila Kanishta Vidyalaya in Thissamaharama and the Navatkuli Maha Vidyalayam in Jaffna, in collaboration with the Ministry of Education.

Level 2: Cause Related Marketing

During the period under review, CDB enhanced its existing project 'Mihikatha Adaren', which focuses on the environment, where concerted programmes were conducted in creating awareness to reduce vehicle emissions and maximise fuel efficiency.

A Greenhouse was also presented to Seethawaka Central College in Avissawella in an attempt to encourage the students for additional environmental engagement, while a waste management system to foster better waste disposal and waste management practices was also gifted.

Level 1: Being a Responsible Corporate Citizen

CDB 'Hithawathkam'

We believe strongly in the role that we play as a responsible corporate citizen and remain very committed to ensuring that our presence impacts our communities positively. We encourage employee volunteerism for our social projects and have an annual budget, at branch and department levels, which funds monthly community programmes. The 'Hithawathkam' initiative is a result of company philanthropy fused with employee volunteerism. This year we've undertaken several projects; with a majority aimed at children and senior citizens.



Compliance with Rules and Regulations

CDB is very cognizant to compliance and remains ultra sensitive to ensuring that it inculcates a culture beyond compliance wherever possible in all features of economic, social and environmental rules, regulations and diktats. There have been no complaints or legal action pertaining to anticompetitive behavior, anti-trust or monopoly practices instituted against the Company (GRI indicators - S07 - Add), and neither is the Company obliged to pay any significant fines, non-monetary sanctions or for non-compliance with laws and regulations (GRI indicators - S08 - CORE).

Key Performance Indicators

Key Performance Indicators	2011/12	2010/11
No of IT labs donated	1	1
No of children received 'CDB Sisudiri' Scholarships	40	34
Investment in community development	4.7Mn	4.9Mn
Lending portfolio outside Western Province	5,848Mn	3,432Mn
Lending portfolio outside Western Province as a percentage of total lending portfolio	47.55%	47.19%

Planned Initiatives

To continue our current trajectory requires customers who are attuned to our services, committed to partnerships of collaborative growth. We consider it our responsibility to empower our youth, from all regions of the nation and provide the cornerstones to build their future. We intend:

- To implement more awareness programmes island-wide, to grow a knowledge base on the reduction of harmful emissions
- To sponsor more environmental projects
- To institute constructive programmes and best practices amongst school children to foster environmental protection.

Sustainability Report

OUR INVESTORS



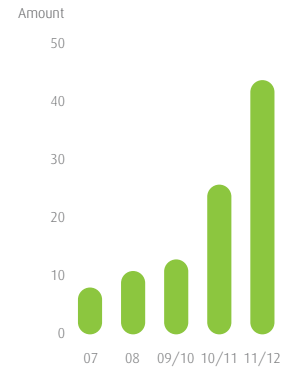
Strategic Priorities and Our Commitment towards Our Investors

Strategic Priorities	Our Commitment
Enhancing return for the investments	Achieved an EPS of Rs. 13.10 Proposed a dividend of Rs. 2.50 per share Recorded a NAV per share of Rs. 44.15
Gaining external recognition	Winning external awards at competitive awards competitions
Gaining a healthy rating	Upgraded rating from BBB-/P3 to BBB/P2 by RAM Rating Lanka

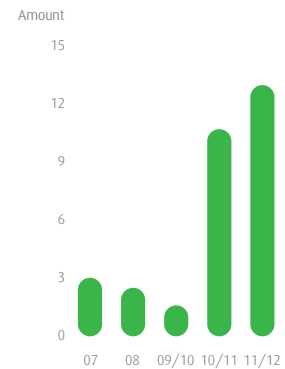
Share Market Performance

After two high growth years of 2009 and 2010 Colombo bourse lost its growth momentum in May 2011 and started the declining face. All share price (ASI) index which represent all shares traded in Colombo stock market after reaching his ever highest figure in May 2011 of 7,575 points has gradually dropped to around 5,400 by end of March 2012. While more liquid Milanka price also showing a similar pattern dropping to 4,900 range by end of March 2012. With the drop in major price is index banking and finance index has also dropped to around 12,000 from its high levels of 17-18,000. With the trend of the market CDB voting share prices has also reduced to level of around forty rupees. Although price has dropped CDB net asset value has increased to 44.15 value and CDB earnings per shares was 13.10.

Value Additions



Net Asset Value per Share
● Amount 2011/12



Earnings per Share
● EPS



Share market performance

— BFI — ASI
— CDB_X — MPI
— Profit After Taxation

Upgraded Rating

RAM Ratings Lanka upgraded CDB's long-term and short-term Financial Institution ratings from BBB and P3 and to BBB and P2 respectively. The outlook on the long-term rating was concurrently revised from Positive to Stable.



External Recognition

CDB's overall performance was recognized by the National Chamber of Commerce, Sri Lanka with the Company winning the 'Specialized Banking and Financial Services Sector' at the National Business Excellence Awards 2011. CDB also won the Bronze Award at the Institute of Chartered Accountants of Sri Lanka's Annual Report Awards 2011, in the 'Finance Companies' segment.



Key Performance Indicators

Key Performance Indicators	2011/12	2010/11
EPS achieved	13.10	13.40
NAV per share	44.15	25.83
Dividend per share	2.50*	2.00
Awards & recognitions received	2	1
RAM rating received	BBB/P2	BBB-/P3

* Proposed

Planned Initiatives

Continuous investor wealth is our prime accountability and CDB's future plans reflect the profound future potential the company possesses to realize this responsibility contentedly. We are dedicated to building on our outstanding financial performance in the future, encouraged by the faith placed in us by our shareholders.

Sustainability Report

OUR BUSINESS PARTNERS AND GOVERNMENT AUTHORITIES

Since most of CDB's business activities are dependent on vehicle leasing, insurance and supply of vehicles, we consider Insurance companies as strategic partners in enabling our business. Presently we are linked to several leading insurance companies, Three-wheeler suppliers, truck suppliers etc, who in turn benefit from allying with us, given our exceptional financial performance; which is equivalent to an increase in policies sold by the firms. Our future plans involve aggressive expansion; no doubt our partners too will be able to append their capital as a result.

The Central Bank of Sri Lanka acts as the regulator and the governing body for financial institutions. At CDB, we have complied with all the statutory requirements of CBSL

Key Performance Indicators

Regulatory Authorities	2011-12	2010-11
Liquidity (Rs. 000)		
Required minimum amount of liquid assets	1,142,699	748,874
Available amount of liquid assets	1,515,794	1,003,890
Required minimum amount of Government securities	463,347	233,411
Available amount of Government securities	902,963	511,573
Capital Adequacy		
Core capital to risk weighted assets ratio (Minimum 5%)	16.79%	11.79%
Total capital to risk weighted assets ratio (Minimum 10%)	17.03%	12.60%
Capital funds to total deposit liabilities ratio (minimum 10%)	19.91%	13.56%

Our Business Partners	2011/12	2010/11
No of training & workshop programs attended by staff which were conducted by relevant authorities	6	4
No of business partner products promote by CDB	9	-

Strategic Priorities and Our Commitment towards Our Business Partners & Government Authorities

Strategic Priorities	Our Commitment
Maintaining a good relationship that will foster mutual benefits	Conducting joint promotional campaigns Displaying their products at our branches
Adhering to rules and regulations	Regularly investigating new rules and regulations Conducting compliance monthly meetings

Maintaining Advantageous Relationships

To ensure the continuance of our positive relationships with business partners, we engage in many joint activities including promotional campaigns. Furthermore we display their product information at our branches.

Adhering to Rules and Regulations

Securing our longevity and sustainability is important to us, which drives us to keep abreast of new rules and regulations issued by the Central Bank of Sri Lanka

with regard to our service segment. We also conduct monthly compliance meetings to guarantee that appropriate regulations are being followed.

Planned Initiatives

Maintaining relationships with our partners and regulators has proved to be profitable, both quantitatively and qualitatively. We intend to continue this trend by implementing further strategies that will add value to our partners and the regulator:

- To ensure that the Compliance Division plays a major role in conforming to regulations
- To continue our monthly meetings to keep all stakeholders acquainted with new rules and regulations and be more vigilant of newer dictums
- To ensure compliance with government directives
- To work closely with our suppliers and valued business partners who play an important role in our business activities
- To provide customers with timely delivery of vehicles by being in synergy with suppliers

The Global Reporting Initiatives (GRI) G3.1 Index

Index No	Description	Report section	Page/s
1.	Strategy and Analysis		
1.1	Statement from the CEO	Sustainability Report CEO's Statement	69-70
1.2	Description of key impacts, risks and opportunities	Management Discussion & Analysis Risk Management Sustainability Report	24-38 57-67 68-97
2.	Organisational Profile		
2.1	Name of the organisation	Corporate Information	
2.2	Primary brands, products and/or services	Management Discussion & Analysis Sustainability Report – Our Brands	24-38 76
2.3	Operational structure of the organisation	Corporate Governance Report	44-56
2.4	Location of organisation's headquarters	Corporate Information	
2.5	Number and name of countries with operations	No overseas operations	N/A
2.6	Nature of ownership and legal form	Corporate Information	
2.7	Markets served	Management Discussion & Analysis	24-38
2.8	Scale of the reporting organisation	Management Discussion & Analysis Sustainability Report – Our Profile	24-38 69
2.9	Significant changes during the reporting period	Sustainability Report – Our Profile Management Discussion & Analysis	69 24-38
2.10	Awards received in the reporting period	Sustainability Report – Our Investors	92-94
3.	Report Parameters – Report Profile		
3.1	Reporting period	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.2	Date of most recent previous report	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.3	Reporting cycle	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.4	Contact point for questions	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.5	Defining report content	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.6	Report scope and boundary	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.7	Limitations on scope/boundary	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
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 organisations	Sustainability Report – Reporting Parameters, Scope & Boundary of Report	69
3.10	Explanation of the effect of any re-statements	None Reported	N/A
3.11	Significant changes	None Reported	N/A
3.12	Location of the Standard Disclosures in the report	Sustainability Report -Global Reporting Initiative (GRI) G3 Index	69

Sustainability Report

Index No	Description	Report section	Page/s
4.	Governance , Commitments & Engagement		
4.1	Governance structure of the organisation	Corporate Governance Report	44-56
4.2	Indicate whether the Chairman of the Board is also an executive officer	Corporate Governance Report	44-56
4.3	Independent and/or Non-Executive Directors	Corporate Governance Report/Director profile	48
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the Board	Sustainability Report - Stakeholder Engagement	72
4.14	List of stakeholder groups engaged by the Organisation	Sustainability Report – Stakeholder Engagement	72
4.15	Basis for identification and selection of Stakeholders	Sustainability Report – Stakeholder Engagement	72
	Economic Dimension		
EC1	Direct economic value generated and distributed	Sustainability Report – Direct Economic Value Generated	72
	Environment Dimension		
	Disclosure on Management Approach	Sustainability Report – Our Environment	87-91
EN4	Indirect energy consumption by primary source	Sustainability Report – Our Environment	87-91
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Sustainability Report – Our Environment	87-91
	Labour Practice & Decent Work Dimension		
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	Sustainability Report – Our Team	79-86
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Sustainability Report – Our Team	79-86
LA10	Average hours of training per year per employee by gender, and by employee category.	Sustainability Report – Our Team	79-86
LA 11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Sustainability Report – Our Team	79-86
LA14	Ratio of basic salary and remuneration of men to women to men by employee category, by significant locations of operation.	Sustainability Report – Our Team	79-86
	Human Rights Dimension		
HR4	Total number of incidents of discrimination and corrective actions taken.	Sustainability Report – Our Team	79-86
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination and effective abolition of child labor.	Sustainability Report – Our Team	79-86

Index No	Description	Report section	Page/s
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	Sustainability Report – Our Team	79-86
Society Dimension			
S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Sustainability Report – Our Society	89-92
S07	Legal actions for anticompetitive behaviour, anti-trust, and monopoly practices	Sustainability Report – Our Society	89-92
S08	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	Sustainability Report – Our Society	89-92
Product Responsibility Dimension			
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Sustainability Report – Our Customers	73-78
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	Sustainability Report – Our Customers	73-78
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Sustainability Report – Our Customers	73-78
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Sustainability Report – Our Customers	73-78

Report Application Levels

We have self declared our report in the 'C' level.

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





Financial Information

Annual Report of the Board of Directors on the affairs of the Company

1. General

The Board of Directors of Citizens Development Business Finance PLC has pleasure in presenting to the shareholders this report together with the Audited Financial statements for the year ended 31st March 2012 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 provided 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, Listing rules of the Colombo Stock Exchange and recommended best practices on Corporate Governance. This report was approved by the Board of Directors on 31st May 2012.

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 Company's Head Office also is situated.

3. Reporting Information required to be disclosed as per the Section 168 of the Companies Act No 07 of 2007

The required information is disclosed in below report or elsewhere in the Annual report as per the information provides below.

Information required to be disclosed as per the Companies Act	Extent of the Compliance by the Company and reference for information of disclosure
Section 168 (1) (a) - Nature of the business of the Company and its subsidiaries	Compliant Page No. 101
Section 168 (1) (b) - Complete and signing of Financial statements of the Company and the Group	Compliant Page No. 115
Section 168 (1) (c) - Auditor's Report on the financial statements and group Financial statements	Compliant Page No. 112
Section 168 (1) (d) - Accounting policies and any changes in accounting policies made during the year	Compliant Page Nos. 119-129
Section 168 (1) (e) - Entries made in interest Register	Compliant Page No. 102
Section 168 (1) (f) - Information of Directors Remuneration	Compliant Page No. 148
Section 168 (1) (g) - Total Amount of Donations made by the company during the Year	Compliant Page No. 131
Section 168 (1) (h) - Information of Directorate of the Company and its Subsidiary	Compliant Page Nos. 102-103
Section 168(1) (i) - Auditors' Remunerations and Fees payable / paid for non audit services	Compliant Page No. 131
Section 168(1) (j) Auditors' Relationship or any interest with company and its subsidiary	Compliant Page No. 131
Section 168(1) (k) Certification of the Content of the Annual Report	Compliant Page No. 107

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

The required information is disclosed in below report or elsewhere in the Annual report as per the information provides below.

Requirement	Extent of the Compliance by the Company and reference information of disclosure
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 Page Nos. 101-150
Section 27 (a) – Capitalized Expenses not represented by tangible assets	Compliant - N/A
Section 27 (b) Market value of investments	Compliant Page No. 138
Section 27 (c) Method adopted to value fixed assets if there had been any valuation of such assets during the Financial year	Compliant Page No. 124
Section 27 (d) – the aggregate amounts of advances after the provisions for bad and doubtful debts	Compliant Page Nos. 136-138
Section 27 (e) increase or decrease in provision for depreciation, or diminution in value of Fixed Assets	Compliant Page No. 142
Section 27 (f) Sources and application of Funds	Compliant Page Nos. 117-118
Section 27 (g) Reserves , provisions and liabilities distinguishable from each other	Compliant
Section 27 (h) Changes in equity	Compliant Page No. 116
Section 27 (i) Previous year correspondence figures of the Balance sheet	Compliant Page No. 115
Section 28 (a) amount charged to revenue by way of provisions for depreciation , renewals or diminution in value of Fixed assets	Compliant Page No. 131
Section 28 (b) amount charges to revenue by way of income tax	Compliant Page No. 132
Section 28 (c) the aggregate amount of dividends paid or propose	Compliant Page No. 131
Section 28 (d) the amount of remuneration of auditors	Compliant Page No. 131
Section 28 (e) the aggregate amount of the emoluments paid top Directors	Compliant Page No. 131
Section 28 (f) movement of reserves	Compliant Page No. 116
Section 28 (g) the profit or loss or the income and expenses arising from transactions such as are not usually carries on by the company or any exceptional income or expense	Compliant N/A

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

The detail disclosure has been included under the Corporate Governance section of the Annual report from page No 44 to 56

6. Principle 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, Personnel Finance, Leasing,

Hire purchase financing, pawning, corporate and Retail Credit, Dealing with Government securities, Foreign Exchange Dealership, Money Exchange dealership and other financial services. There were no significant changes in the nature and main business activities of the

Annual Report of the Board of Directors on the affairs of the Company

company and the Group during the year under review.

Subsidiary – CDB Micro Finance Company Limited

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

7. Review of Operations

The Chairman's Review on pages 5 to 6, the Chief Executive's Review on pages 8 To 11 the Management discussion on pages 24 to 38 and Financial Review on pages 38 to 41 present an overall appraisal on the Business operation , Financial performance and the overall Financial position of the Company and the Group.

8. 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 are appearing on pages no 114 to 150.

9. Directors Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the company and the group 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 114 to 150 have been prepared in conformity with the requirements of Sri Lanka Accounting Standards 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 108 form and integral part of this Report.

10. Accounting Policies and Changes during the Year

During the year under review, there were no changes in the Accounting policies adopted and which were consistent with those adopted in the previous financial year. The significant Accounting Policies adopted in preparation of the Financial statements of the Company and the Group is disclosed on the pages 119 to 129 of the Annual Report.

11. 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 been 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.

12. 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 2012 are given in Note No 40C to the Financial statements on page No 148 As required by the section 168(1)(f) of the Companies Act No 07 of 2007.

13. 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. 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.

14. 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.

14.1 Directors of the Company as at 31st March 2012

Mr.D H J Gunawardena appointed as Chairman/Non-executive Director w.e.f 01 January 2012

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

Mr.R H Abeygoonewardena Executive Director / Chief Operating Officer

Mr.S R Abeynayake appointed as Non-Executive Director w.e.f 01 January 2012

Dr.Ajantha Dharmasiriappointed as Non-executive/ Independent Director w.e.f. 01 February 2012

Mr.D A De Silva appointed as Non-Executive/ Independent Director w.e.f. 01 January 2012

Mr. P N C Gomes Non-Executive/ Independent Director

Mr.P A J Jayawardena appointed as Non-Executive Director W.e.f 26 October 2011

Mr.S V Munasinghe Executive Director / Chief Credit Officer

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

Mr. W W K M Weerasuriya Executive Director / Chief Marketing Officer

14.2 Names of the Directors who ceased to hold office as Directors of the Company during the financial year.

Mr. R Renganathan resigned as Chairman/Non-Executive Director w.e.f. 31 December 2011 in compliance with the Finance Companies (Corporate Governance) Direction No 03 of 2008.

Mr. P A Jayawardena resigned as Non-Executive Director W.e.f. 31 December 2011 in compliance with the Finance Companies (Corporate Governance) Direction No 03 of 2008.

Mr. E T L Ranasinghe resigned as Non-Executive Director W.e.f. 30 November 2011 in compliance with the Finance Companies (Corporate Governance) Direction No 03 of 2008

Dr.T Senthilvel Ceased to be a Director w.e.f. 26 October 2011 in compliance with the Finance Companies (Corporate Governance) Direction No 03 of 2008.

Mr. H P G V Gunawardena resigned as Non-Executive/Independent Director w.e.f 01 February 2012

The Board wishes to place on record the Company's sincere appreciation to Messrs R Renganathan, Messrs P A Jayawardena, Messrs E T L Ranasinghe, Messrs H P G V Gunawardena and Dr.T Senthilvel for the valuable contribution extended to the Company during their tenure in office.

14.3 List of Directors of the Subsidiary – CDB Micro Finance Company Limited

Directors of the Subsidiary Company as at 31 March 2012

Mr. Renganathan Chairman / 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

14.4 Names of the Directors who ceased to hold office as Directors of the Subsidiary during the financial year.

There were no Directors who ceased to hold office as Director of the Subsidiary.

15. Retirement of Directors by Rotation

In terms of the Article 24(6) of the articles of Association of the Company Messrs W P C M Nanayakkara, Messrs P N C Gomes and Mr.T M D P Tennakoon retire by

rotation, and being eligible offer themselves for re-election.

16. Re –Election of Directors

In terms of the Article 24(2) of the Articles of Association of the Company Messrs D H J Gunawardana, Messrs P A J Jayawardena, Messrs S R Abeynayake, Messrs D A De Silva and Dr.A Dharmasiri retire, and being eligible offer themselves for re-election.

17. Board Sub Committees

The Board of Directors while assuming the overall responsibility and accountability in 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.

- (1) Audit Committee – The report of the Audit Committee is given on page no 111 Which form an integral part of the Annual Report
- (11) Integrated Risk Management Committee – The Report of Integrated Risk Management Committee is given on page no 110 Which form an integral part of the Annual Report
- (111) Remuneration Committee - The Report of remuneration Committee is given on page no 109 Which form an integral part of the Annual Report
- (IV) Board Credit Committee

Annual Report of the Board of Directors on the affairs of the Company

18. Directors dealing in shares and Debentures

Directors Interest in Ordinary Voting Shares of the Company

Name	31 March 2012	31 March 2011	31 March 2012
	Voting	Voting	Non -Voting*
Mr.D H J Gunawardena	Nil		Nil
Mr.W P C M Nanayakkara	29,660	1,000	26,420
Mr.R H Abeygoonewardena	31,500	-	3,857
Mr.S R Abeynayake	Nil	-	Nil
Dr.Ajantha Dharmasiri	Nil	-	Nil
Mr.D A De Silva	Nil	-	Nil
Mr. P N C Gomes	Nil	-	Nil
Mr.P A J Jayawardena	500	-	Nil
Mr.S V Munasinghe	40,000	-	7,285
Mr.T M D P Tennakoon	42,000	-	5,142
Mr. W W K M Weerasuriya	7,000	-	857
Total	150,660	1,000	43,561

* The Company had issued non-voting shares in August 2011 for the first time

20. Profit and Appropriations

The Net profit after tax of the Group for 2011/12 was Rs. 632Mn (Rs.529Mn for 2010/11) while the Company's Net profit after tax for 2011/12 was Rs. 630Mn (Rs.532Mn for 2010/11).

Details of Profit Relating to the company are given below.

	2011/12 Company Rs.	2010/11 Company Rs.	2011/12 Group Rs.	2010/11 Group Rs.
Profit of the year after charging all operating expenses, provided for depreciation, possible loan losses including general provision and Financial vat	644,272,579	561,270,581	646,634,146	558,008,475
Less – Taxation	13,839,677	29,460,581	13,859,299	29,460,581
Net Profit after Taxation	630,432,902	531,810,000	632,774,847	528,547,894
Retained Earnings Brought Forward	457,586,666	54,993,404	455,243,921	55,912,766
Transfer from Revaluation Reserve	3,016,571		3,016,571	
Profit available for appropriation	1,091,036,139	586,803,404	1,091,035,339	584,460,660
Less : Appropriations				
Transfer to Statutory Reserve Fund	126,086,580	106,362,000	126,086,580	106,362,000
Investment Fund	18,090,128	3,012,215	18,090,128	3,012,215
Dividend for ordinary shareholders (Final Dividend 2010/11 Rs.2.00 Per Share)	79,370,096	19,842,524	79,370,096	19,842,524
Balance Carried Forward	867,489,334	457,586,665	867,488,535	455,243,921

Directors Interest in Debentures

There were no Debentures registered in the name of any Director as at 31st March 2012.

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 2012 the date being two weeks prior to the date of Notice of the Annual General Meeting.

19. Gross Income

The Gross income of the Group for 2011/12 was Rs.2,878Million (Rs.2,226Million for 2010/11) whereas the Company's gross income was Rs.2,878 million (Rs. 2,226million for 2010/11) The Detail analysis of the income is given in note nos 5, 6 and 8 to the financial statements on page no 130

21. Reserves

A summary of Group Reserves is given below. The information on the movement of reserves is given in the Statement of changes in equity on page no 116.

	Company 2011/12 Rs.	Company 2010/11 Rs.	Group 2011/12 Rs.	Group 2010/11 Rs.
Revaluation Reserve	12,066,286	15,082,857	12,066,286	15,082,857
Investment Fund Reserve	21,102,343	3,012,215	21,102,343	3,012,215
Reserve Fund	278,736,884	152,650,304	278,736,884	152,650,304
Retained Profit	867,489,334	457,586,665	867,488,535	455,243,921
Total	1,179,394,847	628,332,041	1,179,394,048	625,989,297

22. Provision for Taxation

The income tax rate applicable for the company for the year 2011/12 is 28% (2010/11 - 33 1/3%) The Profit of the company is also liable for value added tax at the rate applicable for Financial Services which is 12% (2010/11- 20%).

Further Company has transferred an amount equivalent to 8% on the VAT on financial services and 5% of the income tax to investment Fund Account.

The information on income tax expenses and note on deferred tax of the company and Group is given in Note no 11 to the financial statements on page no 132 & 133

23. Dividends on Ordinary shares

- (a) The Board of Directors recommend a dividend of Rupees Two and Cents Fifty (Rs 2.50) per share on both its 46,299,223 voting ordinary shares and 5,669,293 nonvoting ordinary 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 for the financial year ended 31st March 2012.

- (b) The aforesaid dividend be in the form of Rupees One (Rs 1/-) per share as a cash dividend and Rupees One and Cents Fifty (Rs 1.50) as a scrip dividend to be satisfied by the issue of non voting ordinary shares of the Company each of which would be valued at Rs. 30/- per share.
- (c) Any residual fractions arising on the scrip dividend be settled in cash.
- The Board was satisfied that the Company would meet the solvency test after the declaration of the aforesaid dividend and required to obtain a solvency certificate from the Company's Auditors to that effect.
 - In the opinion of the Board the consideration of Rs 30/- per share for the issue of the non voting ordinary

shares was considered fair and reasonable to the Company and all existing shareholders.

24. Stated Capital and Debentures

The stated capital of the company as at 31st March 2012 was Rs. 1,114,960,915 consisting of ordinary voting shares of 46,299,223 and Ordinary Non-voting shares of 5,669,293). (2010/11 - Rs. 396,850,480 consisting of ordinary shares of 39,685,048)

The Debentures of the company as at 31st March 2012 was Rs. 250,000,000 consisting of 250,000 debentures at Rs.100 (2010/11 - Rs. 267,069,000)

Annual Report of the Board of Directors on the affairs of the Company

25. Issue of Shares and Debentures

Details of the ordinary shares and Debentures issued by the company are given in the table below.

	2011/12		2010/11	
	Company	Group	Company	Group
Ordinary Shares				
Rights Issue of Ordinary Voting shares				
No of Shares	6,614,175	6,614,175	-	-
Consideration Received (Rs.)	462,992,250	462,992,250	-	-
Rights issue of Ordinary Non Voting Shares				
No of Shares	5,669,293	5,669,293	-	-
Consideration Received (Rs.)	255,118,185	255,118,185	-	-
Debentures				
No of Debentures	-	-	2,500,000	2,500,000
Consideration Received (Rs.)	-	-	250,000,000	250,000,000

26. Shareholding

There were 2,304 registered voting shareholders and 457 Non Voting shareholders as at 31st March 2012. The details of Top Twenty Shareholders, Public holding, analysis of distribution of shareholders and Market information of the shares is given under the Investor information in pages no 158 to 163 of the Annual Report.

Information relating to Earnings, Dividend, Net Assets per share, market value per share is given in pages no 158 to 163 of the Annual Report.

27. Capital Expenditure

The Total capital Expenditure on acquisition of Property, Plant, Computer application and equipment, of the Company amounted to Rs76.47Mn (Rs. 42.50Mn 2010/11). Details note on acquisition of Property, Plant and Equipment is given under the Note No 27 of the Financial statements in the page no 142.

28. Future Development and Expansions

Company stands strong and steady, as a dynamic paradigm setter and benchmarked leader within the financial services industry. With Sri Lanka's bright economic prospects on the horizon, we were poised to leverage on the numerous opportunities and possibilities that will unfold within the context of post-war Sri Lanka. We have already

set out ambitious plans with strategic targets for 2011- 2020 with time-bound key milestones.

During the year 1 new Branche and 2 service centers were opened bringing the total number of distribution channels to 36 The Company intends to expand it net work of distribution channels both in western province and the outside the western province for the next two to Three Years. According to current level of capital adequacy company would be able to expand its Branch Network from current level of 36 to 55. Subject to prior approval of the Central Bank of Sri Lanka.

29. Property Plant, and Equipment (PPE)

Details of Property Plant and Equipment (PPE) are given in Note No 27 to the financial statements.

There was no significant change in the property, Plant and Equipment of the Company.

30. Outstanding Litigations

The Directors to the best of their knowledge and belief, there are no any pending litigations against the Company other than what's disclosed in the Note 38 (a) Contingent Liabilities.

31. Events after the Balance Sheet Date

All material events occurring after the balance sheet date are considered and which necessary, adjusted for or disclosed in the financial statements.

32. 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.

33. Statutory Reporting and Payments

The Directors to the best of their knowledge and belief are satisfied that all reporting relating to the Government and other regulatory institutions have been reported up to date.



D H J Gunawardena
Chairman

34. Going Concern

The Board of Directors after considering the financial position, operating conditions, regulatory and other factors, Directors 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.

35. 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, confirm compliance in each month to the Board.

36. Appointment of Auditors

The Financial statements for the year ended 31st March 2012 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



C M Nanayakkara
Managing Director/Chief Executive Officer

recommended by the Board will be proposed at the annual general meeting.

The Auditors have been paid a fee of Rs. 900,000 as audit fee for the year ended 31st March 2012 which has been approved by the Board.

The Directors recommend their re appointment.

37. Notice of the Meeting

Notice relating to 16th Annual general meeting of the Company is enclosed herewith.

38. 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.



S S P Corporate Services (Pvt) Ltd
Company Secretary

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 Exchange Commission of Sri Lanka and
- Directions , Rules , Determinations , Notices and Guide lines 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 Balance Sheet, 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.



D H J Gunawardena
Chairman

31 May 2012
Colombo

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 further confirm that after considering the financial position, operating conditions, regulatory and other factors, reasonable expectation that the company and its subsidiary have acquired. Ther is 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



C M Nanayakkara
Managing Director/Chief Executive Officer

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.P N C Gomes

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 2012.

(Sgd.)

S R Abeynayake

Chairman
Remuneration Committee

31 May 2012
Colombo

Integrated Risk management Committee Report

Committee Report

The integrated risk management committee assists the company's board in fulfilling their oversight responsibilities with respect to the existence, operations and effectiveness of risk management conditions, programs, policies and practices employed by the company to manage various types of risks, which include compliance with all regulatory and statutory requirements while ensuring high level of performance. Companies risk management strategy and policies are explained in the Risk Management section of the Annual report.

Composition

The Integrated Risk Management Committee is chaired by an Independent Director and the other members include Chief Executive Officer, and Senior Management personnel who are assigned identified specific areas of risk encompassing; credit, liquidity, operations, market, reputation, compliance, information & communication technology, and strategic. Committee Compliance the Integrated Risk Management Committee is in full compliance with the board subcommittee requirements under the CBSL Finance Companies (Corporate Governance) Direction, No. 3 of 2008. Key responsibilities of the committee:

- Ensure that the company's risk mitigation strategy is aligned to the risk appetite of the company.
- Overseeing the compliance of the company's operation with relevant laws, regulations and standards to ensure conformance to all relevant rules and regulations.
- Ensuring that the Board of directors are kept aware of the company's risk exposure and ensure that relevant actions are taken to mitigate those risks while achieving high level of performance.

- Oversight and development of risk management policies, procedures and techniques encompassing all products and services offered by the company and changes occurring in the environment
- Review existing policies and procedures for mitigation of risks faced by the company.
- Making recommendations to the board on risk management concerns.

Meetings for the Year

Four (04) meetings were held on quarterly basis during the year, the finalized Risk Management Strategy with the dash board to monitor the key risk indicators being presented to the Board. Further the discussions and conclusions reached at the meetings are recorded in minutes and circulated to the Board of Directors for information and advice on a quarterly basis.

Committee Evaluation

An annual review to assess the contribution and effectiveness of the committee is planned and will commence from following financial year.

(Sgd.)

D A De Silva

Chairman

Integrated Risk Management Committee

31 May 2012
Colombo

Audit Committee Report

Membership and Appointment

The Audit Committee comprises two Non Executive Directors' and the members bring wide-ranging financial, commercial and management experience to the work of the Audit Committee. Their Biographical details are set out in the Directors Profiles Section. Audit Committee consist of Mr. P N C Gomes and Mr. Deve Antony De Silva. Mr P N C Gomes was appointed as the Chairman of the Audit Committee.

Meetings

The Audit Committee meets at least four times a year and on other occasions when circumstances require. The quorum for a meeting of the Committee is two members. The Chief Financial Officer and representatives from the external auditor and the internal auditor attend meetings under a standing invitation. The Chairman of the Board, the Chief Executive Officer and other Directors are able to attend meetings of the Committee under the Practice that any Director may attend any meeting of a Board Committee provided that they have no conflict of interest in respect of business to be discussed. Other finance and business risk executives attend meetings as required and the Company Secretary is Secretary to the Committee. The Committee Chairman reports regularly to the Board on its activities. Four meetings were held during the period under review.

Terms of Reference

The Terms of Reference of the Audit Committee, which includes the Objectives of the Committee and the detailed Work Plan were tabled and approved at an audit committee meeting.

Financial statements

The Committee considered reports from the Chief Financial Officer on the quarter, and annual financial statements. It also considered reports from the external auditors, KPMG, on the scope and outcome of the annual audit. The review is based on the compliance with the Sri Lanka

Accounting Standards and the other related legislations. Matters of special interest in the current environment and the processes that support certifications of the financial statements by the company's GM/CEO and Chief Financial Officer was also brought up for discussion. The financial statements were reviewed in the light of these reports and the results of that review reported to the Board.

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 management or employees with a significant role in internal controls. The Committee also reviewed arrangements by which staff could, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. This was achieved through using existing reporting procedures.

External Auditors

The Committee reviewed the services provided by KPMG, to evaluate their independence and objectivity. It also reviewed and approved the Scope of non-audit services provided by KPMG to ensure that there was no impairment of independence.

The Committee approved the scope and fees for audit services provided by KPMG, and confirmed the wording of the recommendations put by the Board to the shareholders on the appointment and retention of the external auditors.

Regulatory Compliance

The committee reviewed the procedures established by management for compliance with the requirements of the

regulatory bodies. Compliance Officer submitted to the Audit Committee on a quarterly basis, a report on the extent to which the CDB was in compliance with mandatory statutory requirements.

Internal audit

The Committee engaged in discussion and review of the Audit Department's audit plan for the year, together with its resource requirements. Private meetings were held with the chief Internal Auditor.

Audit Committee effectiveness

The Audit Committee conducts a review of its effectiveness annually and concluded this year that it was effective and able to fulfil its objectives.

(Sgd.)
P N C Gomes
Chairman
Audit Committee

31 May 2012
Colombo

Statement of Internal Control

Responsibility

The Board of Directors ("Board") is responsible for the adequate and effective design and implementation of the internal control system of Citizens Development Business Finance PLC ("the Company") system of internal controls. However, such systems design 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 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.

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.

Key Features

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 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 controls issues identified by the Internal Audit Division, 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

(Sgd.)
Chairman
Board Audit Committee

(Sgd.)
C. M. Nanayakkara
Managing Director

31 May 2012

disclosures of the Financial Statements of the Company. The Internal Audit Division of the Company 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.

- 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.

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.

The Board of Directors expects to obtain an assurance report on internal controls over the financial reporting of the company as required by Direction no 03 of 2008 issued by Central bank of Sri Lanka and auditors are in the process of carrying out the assignment.

By order of the Board,

(Sgd.)
Chairman

(Sgd.)
Damith Tennakoon
Director/ CFO

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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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"), the consolidated financial statements of the Company and its subsidiaries as at 31st March 2012 which comprise the Balance Sheet as at 31st March 2012, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 114 to 150.

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 2012 and the financial statements give a true and fair view of the

Company's state of affairs as at 31st March 2012 and its profit 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 state of affairs as at 31st March 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

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 and the Finance Business Act No. 42 of 2011.

Chartered Accountants

31 May 2012

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. Mithul: FCA
C.P. Jayatilake: FCA
Ms. E. Joseph: FCA
S.T.D.L. Perera: FCA

Ms. M. P. Perera: FCA
T.J.S. Rajapaksa: FCA
Ms. S.M.S. Jayasekara: ACA
E.A.U. Karunaratne: ACA

P.V.S. Perera: FCA
W.W.J.C. Perera: FCA
W.K.D.C. Abeyaratne: ACA
R.M.D.B. Rajapaksa: ACA

Prudgale - S.R.L., Perera ACMA, LLB, Attorney-at-Law, H.S. Gunawardena ACA

Income Statement

	Notes	Company		Group	
		For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 2011/2012 Rs.	For the Year Ended 2010/2011 Rs.
Income	5	2,877,978,004	2,226,022,713	2,878,185,816	2,226,237,404
Interest Income	6	2,553,702,309	1,731,159,166	2,553,702,309	1,731,235,677
Less: Interest Expenses	7	1,305,679,428	912,786,452	1,305,679,428	912,786,452
Net Interest Income		1,248,022,881	818,372,714	1,248,022,881	818,449,225
Other Income	8	324,275,695	494,863,547	324,483,507	495,001,727
		1,572,298,576	1,313,236,261	1,572,506,388	1,313,450,952
Less : Operating Expenses	9				
Personnel Expenses		293,098,247	214,693,324	293,098,247	214,693,324
Premises, Equipment and Administration Expenses		347,968,357	244,050,851	345,814,602	244,156,843
Marketing and Business Promotion Expenses		264,972,238	176,703,805	264,972,238	176,703,805
Finance Charges		11,018,569	12,201,431	11,018,569	12,201,431
		917,057,411	647,649,411	914,903,656	647,755,403
Profit before Loan Loss Provision		655,241,165	665,586,850	657,602,732	665,695,549
Less : Provision for Loan Losses	10	(17,230,396)	80,276,195	(17,230,396)	83,647,000
Profit Before VAT on Financial Services and Tax		672,471,561	585,310,655	674,833,128	582,048,549
Less : Value Added Tax on Financial Services		28,198,982	24,040,074	28,198,982	24,040,074
Profit Before Income Tax		644,272,579	561,270,581	646,634,146	558,008,475
Less : Income Tax Expenses	11	13,839,677	29,460,581	13,859,299	29,460,581
Net Profit for the Year		630,432,902	531,810,000	632,774,847	528,547,894
Attributable to:					
Equity holders of the Parent Company		630,432,902	531,810,000	632,774,847	528,547,894
Minority Interest		-	-	-	-
Net Profit For the Year		630,432,902	531,810,000	632,774,847	528,547,894
Basic Earnings Per Share (EPS)	12	13.10	12.76	13.15	12.68
Dividend Per Share (DPS)	13	2.50	2.00	2.50	2.00

Notes to the Financial Statements set out on pages 119 to 150 form an integral part of the Financial Statements

Balance sheet

As at 31st March	Notes	Company		Group	
		2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Assets					
Cash and Cash Equivalents	14	121,343,098	49,343,059	124,678,624	52,292,975
Investment in Government Securities	15	576,963,367	511,573,349	576,963,367	511,573,349
Deposits with Licenced Commercial Banks & Financial Institutions	16	490,589,920	263,094,355	490,589,920	263,094,355
Securities Purchased under Resale Agreements	17	326,000,000	187,379,059	326,000,000	187,379,059
Loans & Advances	18	3,307,640,589	1,824,790,686	3,307,640,589	1,824,790,686
Net Investments in Leases	19	7,095,726,690	4,732,503,045	7,095,726,690	4,732,503,045
Net Investments in Hiring Contracts	20	2,846,241,640	1,299,575,070	2,846,241,640	1,299,575,070
Investment Securities	21	459,193,600	412,600,000	459,193,600	412,600,000
Investment in Subsidiary	25	2,745,447	5,000,000	-	-
Current Tax Receivable	22	230,243,004	203,492,588	230,243,004	203,492,588
Trade and Other Receivables	23	354,744,904	323,220,322	354,744,104	323,220,323
Inventories	24	210,693,612	149,634,063	210,693,612	149,634,063
Deferred Tax Asset	11	30,837,745	-	30,837,745	-
Investment Properties	26	20,197,977	20,197,977	20,197,977	20,197,977
Property, Plant and Equipment	27	470,979,957	237,821,921	470,979,957	237,821,921
Total Assets		16,544,141,550	10,220,225,494	16,544,730,829	10,218,175,411
Liabilities					
Deposits from Customers	28	11,388,775,587	7,488,743,205	11,388,775,587	7,488,743,205
Borrowings	29	1,730,205,633	735,077,881	1,730,205,633	735,077,881
Debentures	30	250,000,000	267,069,000	250,000,000	267,069,000
Retirement Benefit obligations	31	28,606,687	20,676,229	28,606,687	20,676,229
Tax Payable		62,853,091	44,429,014	63,258,167	44,814,474
Other Liabilities	32	789,344,790	639,047,644	789,529,792	638,954,845
		14,249,785,788	9,195,042,973	14,250,375,866	9,195,335,634
Shareholders' Funds					
Stated Capital	33	1,114,960,915	396,850,480	1,114,960,915	396,850,480
Reserve Fund	34	278,736,884	152,650,304	278,736,884	152,650,304
Revaluation Reserve	35	12,066,286	15,082,857	12,066,286	15,082,857
Investment Fund Reserve	36	21,102,343	3,012,215	21,102,343	3,012,215
Retained Earnings		867,489,334	457,586,665	867,488,535	455,243,921
Minority Interest		-	-	-	-
Total Equity		2,294,355,762	1,025,182,521	2,294,354,963	1,022,839,777
Total liabilities & Equity		16,544,141,550	10,220,225,494	16,544,730,829	10,218,175,411
Net Asset Value Per Ordinary Share	37	44.15	25.83	44.15	25.77

The Notes to the Financial Statements set out on pages 119 to 150 form an integral part of the Financial Statements.

I certify that these Financial statements have been prepared in compliance with the requirements of the companies Act No 7 of 2007.



Damith Tennakoon
Director/ CFO

The Board of Directors is responsible for the preparation and the presentation of the Financial Statements.

Approved and signed for and on behalf of the Board



D H J Gunawardena
Chairman



C M Nanayakkara
Managing Director/ CEO

31 May 2012
Colombo

Statement of Changes in equity

COMPANY	Stated Capital Rs	Revaluation Reserve Rs	Retained Earnings Rs	Reserve Fund Rs	Investment Fund Reserve Rs	Total Rs		
Balance as at April 01, 2010	396,850,480	15,082,857	54,993,404	46,288,304		513,215,045		
Net Profit For the period			531,810,000			531,810,000		
Dividend Paid			(19,842,524)			(19,842,524)		
Transfer From Reserves			(109,374,215)	106,362,000	3,012,215	-		
Balance as at March 31, 2011	396,850,480	15,082,857	457,586,665	152,650,304	3,012,215	1,025,182,521		
Balance as at April 01, 2011	396,850,480	15,082,857	457,586,665	152,650,304	3,012,215	1,025,182,521		
Issue of Shares	718,110,435					718,110,435		
Net Profit For the period			630,432,902			630,432,902		
Dividend Paid			(79,370,096)			(79,370,096)		
Transfer into/(out) from reserve		(3,016,571)	(141,160,137)	126,086,580	18,090,128	-		
Balance as at March 31, 2012	1,114,960,915	12,066,286	867,489,334	278,736,884	21,102,343	2,294,355,762		
Attributable to Equity holders of the parent								
GROUP	Stated Capital Rs	Revaluation Reserve Rs	Retained Earnings Rs	Reserve Fund Rs	Investment Fund Reserve Rs	Total Rs	Minority Interest Rs	Total Equity Rs
Balance as at April 01, 2010	396,850,480	15,082,857	55,912,766	46,288,304	-	514,134,407		514,134,407
Net Profit for the Period			528,547,894			528,547,894		528,547,894
Dividend Paid			(19,842,524)			(19,842,524)		(19,842,524)
Transfer into/(out) from reserve			(109,374,215)	106,362,000	3,012,215	-		-
Balance as at March 31, 2011	396,850,480	15,082,857	455,243,921	152,650,304	3,012,215	1,022,839,777		1,022,839,777
Balance as at April 01, 2011	396,850,480	15,082,857	455,243,921	152,650,304	3,012,215	1,022,839,777		1,022,839,777
Issue of Shares	718,110,435					718,110,435		718,110,435
Net Profit for the Period			632,774,847			632,774,847		632,774,847
Dividend Paid			(79,370,096)			(79,370,096)		(79,370,096)
Transfer into/(out) from reserve		(3,016,571)	(141,160,137)	126,086,580	18,090,128			
Balance as at March 31, 2012	1,114,960,915	12,066,286	867,488,535	278,736,884	21,102,343	2,294,354,964		2,294,354,963

Notes to the Financial Statements set out on pages 119 to 150 form an integral part of the Financial Statements

Figures in brackets indicate deductions.

Cash flow statement

For the year ended	Company		Group	
	31-03-2012 Rs.	31-03-2011 Rs.	31-03-2012 Rs.	31-03-2011 Rs.
Cash Flow from Operating Activities				
Interest Receipts	2,482,015,468	1,719,254,184	2,482,015,468	1,719,468,875
Commission Receipts	105,016,985	76,680,227	105,016,985	76,680,227
Other Income	166,907,770	106,930,633	166,907,770	106,930,633
Interest Payments	(1,132,983,965)	(851,371,171)	(1,132,983,965)	(851,371,171)
Fees and Business Promotion Expenses	(139,646,678)	(157,113,085)	(139,646,678)	(157,467,947)
Employees Related Payments	(284,613,609)	(195,427,212)	(284,613,609)	(195,427,212)
Suppliers Payment	(459,153,996)	(238,256,294)	(458,768,388)	(238,256,294)
Financial Expenses	(11,018,569)	(12,201,431)	(11,018,569)	(12,201,431)
Operating Cashflow Before Changes in Operating Assets and Liabilities	726,523,406	448,495,851	726,909,014	448,355,680
(Increase)/ Decrease in Operating Assets				
Investments Licensed Commercial banks and other Financial Institutions	(227,495,565)	(156,323,234)	(227,495,565)	(156,323,234)
Investment in Government Securities	(204,010,959)	38,388,834	(204,010,959)	38,388,834
Net Funds Advance to Customers	(5,376,509,721)	(2,877,842,892)	(5,376,509,721)	(2,877,168,218)
Other Short Term Assets	42,359,148	(162,831,399)	42,359,148	(160,718,379)
Inventories	(61,059,549)	52,508,081	(61,059,549)	52,508,081
	(5,100,193,240)	(2,657,604,759)	(5,099,807,631)	(2,654,957,236)
Increase/ (Decrease) in Operating Liabilities				
Borrowings	995,127,752	(19,968,321)	995,127,752	(19,968,321)
Deposits from customers	3,900,032,381	2,650,867,209	3,900,032,381	2,650,867,209
	4,895,160,133	2,630,898,888	4,895,160,133	2,630,898,888
Cash (used in)/generated from Operations	(205,033,107)	(26,705,871)	(204,647,498)	(24,058,348)
Gratuity paid	(554,180)	-	(554,180)	-
Value Added Tax	(10,807,462)	(99,862,738)	(10,807,462)	(99,862,738)
Economic Service Charge	(15,942,954)	(22,144,973)	(15,942,954)	(22,144,973)
Net Cash Outflow from Operating Activities	(232,337,703)	(148,713,582)	(231,952,094)	(146,066,059)
Cash Flow from Investing Activities				
Dividend receipts	3,102,000	2,580,235	3,102,000	2,580,235
Purchase of Property, Plant & Equipment	(299,958,728)	(76,475,134)	(299,958,728)	(76,475,134)
Proceeds from sale of Property, Plant & Equipment	8,721,638	5,976,874	8,721,638	5,976,874
Net Cash Outflows from Investing Activities	(288,135,090)	(67,918,025)	(288,135,090)	(67,918,025)

Cash flow statement

For the year ended	Company		Group	
	31-03-2012 Rs.	31-03-2011 Rs.	31-03-2012 Rs.	31-03-2011 Rs.
Cash Flow from Financing Activities				
Issue of Shares	718,110,435	-	718,110,435	-
Dividend Paid	(79,370,096)	(19,842,524)	(79,370,096)	(19,842,524)
Issue/(Redemption) of Debentures	(17,069,000)	193,189,000	(17,069,000)	193,189,000
Net Cash Inflow (out flows) from Financing Activities	621,671,339	173,346,476	621,671,339	173,346,476
Net Increase/(Decrease) In Cash & Cash Equivalents	101,198,546	(43,285,131)	101,584,155	(40,637,608)
Cash & Cash Equivalents at the beginning of the Year	(149,932,205)	(106,647,073)	(146,982,288)	(106,344,680)
Cash & Cash Equivalents at the end of the Year	(48,733,659)	(149,932,205)	(45,398,133)	(146,982,288)
Cash and Cash Equivalents at the beginning of the year				
Cash at Bank and In Hand	49,343,058	7,165,259	52,292,975	7,467,653
Bank Overdraft	(199,275,263)	(113,812,333)	(199,275,263)	(113,812,333)
	(149,932,205)	(106,647,074)	(146,982,288)	(106,344,680)
Cash and Cash Equivalents at the end of the year				
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)

Notes to the Financial Statements set out on pages 119 to 150 form an integral part of the Financial Statements

Figures in brackets indicates deductions.

Notes to the financial statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

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 31 March 2012 is 728 (2011 – 578).

1.1.1 Consolidated Financial Statements

The Consolidated Financial Statements of the CDB for the year ended 31st March 2012 include the Company (Parent) and its fully owned Subsidiary CDB Micro Finance Limited (together referred to as the group). The financial statements of the companies in the group have a common financial year which ends on 31 March.

CDB does not have an identifiable parent of its own.

1.2 Approval of Financial Statements by Directors

The Financial Statements for the period ended 31/03/2012 were authorized for issue by the Board of Directors on 31 May 2012.

1.3 Principal Activities and Nature of operation

Company

Citizens Development Business Finance PLC

The principal activities of the company continued to be Financial Services and related activities such as accepting deposits, Leasing, Hire purchases, Loans, Operating Leases, Pawn Brokering, Foreign Exchange Money Dealership, Foreign money remittance and other 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.

Subsidiary

Name of Company	Nature of Business Activities
CDB Micro Finance Company Limited	Micro Credit Services

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 subsidiaries 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:

- An Income Statement providing the information on the financial performance of the group and company for the year under review.
- A Balance sheet providing the information on the financial position of the Group and the company as at the year end.
- A Statement of Changes in Equity showing all changes in shareholders' equity during the year under review of the Group and the company.
- A Cash flow statement providing the 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 Consolidated Financial Statements of the Group and the company which comprise the components mentioned above have been prepared and presented in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Companies Act No 7 of 2007, Finance Business Act No 42 of 2011 and amendments thereto and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing rules of the Colombo Stock Exchange.

2.3 Changes to the Accounting Policies

There were no changes to the Accounting Policies adopted by the Group during the year under review.

Notes to the financial statements

2.4 Bases 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;

Land is measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values at the date of revaluation less impairment losses, if any.

Current investments are measured at market value.

2.5 Going Concern

When preparing the financial statements, the directors have made an assessment of the ability of the group to continue as a going concern in the foreseeable future & they do not foresee a need for liquidation or cessation of trading, taking in to account all available information about the future.

2.6 Functional and Presentation Currency

The Groups Financial Statements are prepared and presented using the currency of the primary economic environment in which the company operates (the Functional Currency) which is Sri Lankan Rupees. Financial information presented in Sri Lankan Rupees has been given to the nearest rupee unless otherwise stated.

Foreign Currency Transactions

Transactions in Foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary Assets and liabilities denominated in foreign currencies at the balance

sheet date are translated to Sri Lankan rupees at the functional currency rate of exchange ruling at that date. Differences arising from conversion are recognized in the income statement.

2.7 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments & estimates are based on historical experience & other factors, including expectations that are believed to be reasonable under the circumstances & assumptions based on such knowledge & expectation of future events. Hence actual results & expectations may differ from these estimates & judgments.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision & future periods as well, if the revision affects both current & future periods. Revision to accounting estimates are dealt with in accordance with SLAS No 10 (Revised 2005) "Accounting policies, changes in accounting estimates & errors". Information about significant areas of estimation and uncertainty that have the most significant effect on the amounts recognized in the Financial Statements are described in Notes below.

2.7.1 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 & level of future taxable profits together with future tax planning strategies.

2.7.2 Classification of Trading Securities and Investment Securities

In classifying securities as "Current" (Trading), the group has determined that it meets the description set out in Note 3.4.1 In classifying securities as "Investment", the group has determined that it has both, the positive intention and ability to hold the securities until their maturity date as required by Note 3.4.2.

2.7.3 Provision for Loan Losses

In addition to the specific provisions for possible loan losses made on the basis of continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard 33 "Revenue Recognition and Disclosures in the Financial Statements of Finance Companies" and the directions issued by the Central Bank of Sri Lanka, the Company evaluates the need for additional provisions for loans and advances based upon management's best estimate of recoverability. In estimating the recoverability, the management makes judgments about the borrower's financial situation, the workout strategy and the net

realizable value of any underlying collateral.

2.7.4 Provision for Employee Defined Benefit Obligation

The provision for defined benefits obligations & 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.

2.7.5 Impairment

Group assesses at each Balance Sheet date whether there is objective evidence that an assets or portfolio of assets is impaired. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessment of the rate of money and risk specific to the assets.

2.8 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES

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 Minority 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 Balance sheet date.

3.1.1 Transactions Eliminated on Consolidation

All Intra-group balances and transactions and any unrealized gains arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Valuation of assets and basis of their measurement.

3.2 Cash and Short Term Funds

Cash and Short Term Funds 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.

3.3 Government of Sri Lanka Treasury Bills and Bonds

3.3.1 Investment in Treasury bills and Treasury Bonds Held for Dealing Purposes

Held for dealing investments are those investments that the Company acquires or invests in principally for the purpose of selling, or holds as part of a portfolio that is managed for short term profit. These investments are initially recognized at cost and subsequently measured at market value in the Balance Sheet. Gains and losses on marked to market valuation are dealt through the Income Statement.

3.3.2 Securities Purchased under Re-sale Agreements

Securities purchased under re-sale agreements are the government securities purchased subject to an agreement to sell at a predetermined price at a future date. They are recorded separately in the Financial Statements at the

Notes to the financial statements

consideration paid. The difference between the purchase and sale price represents interest income and is recognized in the Income Statement over the period of the resale agreement.

3.4 Investments

An investment is an asset held by the company / Group for the accretion of wealth through distribution (such as interest, royalties, dividends and rentals) for capital appreciation or for other benefits to the company / Group such as those obtained through trading relationships.

3.4.1 Current Investment

Dealing (trading) securities are marketable securities that are acquired principally for the purpose of selling or holding as part of a portfolio that is managed for short term profit. These investments are initially recognized at cost and subsequently measured at market value. Gains and losses on marked to market valuations are dealt with through the Income Statement.

3.4.2 Long term investment

These are securities which are acquired and held for yield or capital growth in the medium / long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost. Interest and dividend income are accrued. Changes in market values of these securities are not taken into account, unless there is a diminution in value which is other than temporary.

On disposal of an investment, the difference between net disposal proceeds and the carrying amount is recognized as an income or expense.

3.4.3 Investments in Subsidiaries

Investments in Subsidiaries are stated at cost, net of impairment losses if any, in the company's Financial Statements.

3.5 Loans and Advances to Customers

Loans and advances to customers are stated in the Balance Sheet at the recoverable amount represented by the gross value of the outstanding balance adjusted for provision of loan losses and interest in suspense (interest which is not accrued to revenue).

3.5.1 Pawning Advances

Company provides advances against the gold value of the pawned article and the receivable are shown under loans and advances to customer.

3.6. Finance Leases and Hire Purchase Assets

3.6.1 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under "Lease Rentals Receivable". Leasing balances are stated in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

3.6.2 Provision for Lease Receivables

Specific provision has been made in relation to identified non performing leases as stated in Note 3.9.1

3.6.3 Hire Purchase Assets

Assets hired to customers under the hire purchase agreements, which transfer substantially all the risks and

rewards associated with ownership as well as the legal title at the end of such contracts are classified as hire purchase receivables. Amounts receivable under Hire purchase receivable are included under "Hire purchase Rentals Receivable", balances are stated in the Balance Sheet after deduction of initial rentals received, unearned hire purchase income and the provisions for rentals doubtful of recovery.

3.6.4 Provision for Hire Purchase Receivables

Specific provision has been made in relation to identified non performing Hire purchases as stated in Note 3.9.

3.7 Non Performing Loans and Advances

The loans and advances are classified as Non- Performing Advances (NPA) based on the criteria set out in Direction No 3 of 2006 dated 29 December 2006, issued by the Central Bank of Sri Lanka on Finance Companies - Provision for Bad and Doubtful Debts. Accordingly any accommodation will be classified as Non Performing.

- If the payments of principal and/or interest have been in arrears for 6 months or more.
- In the case of rescheduled accommodations, when, in aggregate, the period of time the payment of installment have been in arrears before rescheduling (if any) and after rescheduling is 6 months or more; and/or
- In the case of an accommodation, where the asset financed under a leasing/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance

company and when there still exists a balance to be recovered.

is the estimated realizable value less estimated cost necessary to make the sale.

3.8 Revenue Recognition on Non-Performing Loans

When an advance is classified as non-Performing, based on criteria set out in Direction No 3 of 2006 dated 29th December 2006 issued by the Central Bank of Sri Lanka on Finance Companies - Provision for Bad and Doubtful Debts, interest ceases to be accrued when the recovery of interest or principal is in arrears for six months or more and is taken to income thereafter on cash basis.

Any uncollected interest accrued will be reversed from the income statement.

3.9 Provision for Loan Losses

3.9.1 Specific Provisions for Loan Losses are made as Follows:

In accordance with Direction No 3 of 2006 dated 29 December 2006, issued by the Central Bank of Sri Lanka on Finance Companies - Provision for Bad and Doubtful Debts, specific provisions on NPA are made as follows;

- 50% of all accommodations in arrears for a period of 6 months or more but not exceeding 12 months,
- 100 % of the accommodation in arrears for period of over 12 months and,
- 100 % with regard to the portion of the unrecovered amount of an accommodation where the asset financed under lease /hire purchased agreement has been repossessed and sold or where the asset taken as collateral has been sold by Company.

- Where necessary, specific provisions have been made over and above the minimum percentages stipulated above, on a case by case basis.

3.9.2 General Provisions for Loan Losses are made as Follows:

A general loan loss provision for potential loan losses are made on the basis of the continuous review of the performing advances and leases to customers and the experience of the management. In assessing the general provision management considers the historical trend of the probability of default, timing of recovery, current economic and credit condition. Increase or decrease is recognized in the income statement. Accordingly a general provision of 0.25% has been made for performing advances as at the Balance Sheet date.

3.10 Write-Off Policy

CDB writes off a loan (net of any related loan loss provisions), when it determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

3.11 Inventories and Repossessed Stock

3.11.1 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

3.11.2 Repossessed Stock

Repossessed stock includes assets of facilities which were in default and are now repossessed. Repossessed stocks are valued at outstanding facility balance at the time of closing the facility and net realizable value of the asset whichever is lower. Net realizable value is the estimated selling price less the estimated cost necessary to make the sale.

3.12 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

3.12.1 Basis of Recognition

Investment property is recognized 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 measured reliably.

3.12.2 Measurement

An Investment Property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard No 40 (Revised 2005) "Investment Property". Accordingly, land

Notes to the financial statements

classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

3.13 Property, Plant and Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard No 18(Revised 2005) on "Property, Plant & Equipment" in accounting for its own tangible assets that are held for and use in the provision of service, or for rental to others or for administrative purposes and are expected to be used during more than one period.

3.13.1 Basis of Recognition

Cost of an item of Property, Plant and Equipment shall be recognized as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the cost of item can be measured reliably.

3.13.2 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.

3.13.2.1 Cost Model

The Group applies the cost model to all Property, Plant & Equipment except freehold land and building and records at cost less accumulated depreciation and accumulated impairment if any.

3.13.2. Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land for measurement after recognition. Such properties are carried at a revalued amount, being the fair value of such properties as at the revaluation date less any subsequent accumulated depreciation and impairment.

On revaluation of an asset, any increase in the carrying amount is credited directly to equity under the revaluation reserve. Revaluation surplus will be credited to the Income Statement to the extent that it reverses the previously recognized revaluation loss of the same asset in the Income Statement.

Any decrease in the carrying amount on revaluation will be debited to the income statement. Revaluation deficit will be debited to the revaluation reserve to the extent that it reverses the previously recognized revaluation surplus of the same asset.

3.13.3 Subsequent Cost

The cost of replacing part of an item of Property, Plant and Equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of Property, Plant and Equipment are charged to the Income Statement as incurred. The

carrying amount of the item replaced will be derecognized based on the de recognition criteria.

3.13.4 Depreciation

The provision for depreciation is provided for the depreciable asset from the date the asset is available for its intended use up to the date of derecognition or it's being classified as available for sale. The depreciation is calculated using the straight line method using the below mention rates on the cost of such asset.

Motor Vehicle	- 20%
Furniture and Fittings	- 20%
Computer Equipment	- 20%
Office Equipment	- 20%

Companies within the group uses the same depreciation rates and policies.

Depreciation is determined separately for each significant component of an item of Property, Plant and Equipment and management reviews the assets residual value, useful life and method of depreciation at each balance sheet date.

3.13.5 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property Plant and Equipment is included in the Income Statement when the item is derecognized. When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized.

Gains and losses on disposal of an item of Property, Plant, and Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant and Equipment and are reorganized net within "other Income" in Income Statement.

3.13.6 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

3.13.7 Capital Work-in-progress

These are expenses of capital nature directly incurred in the construction of capital assets. Capital working progress will be transferred to the relevant assets when it is available for its intended use. These are stated in the Balance Sheet at cost less any accumulated impairment losses.

3.14 Impairment

3.14.1 Impairment Losses on Financial Assets

The Group assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ("a loss event"), and that loss event or events have had an impact on the estimated realizable value of the asset.

The Group first assesses whether objective evidence of impairment exists for financial assets that is significant (except for loans and advance explained below).

For loans and advances, impairment loss is measured individually and collectively. When a loan is uncollectible, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are included under "Other Income" in the Income Statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognized in the Income Statement.

3.14.2 Impairment Losses on Non-Financial Assets

The carrying values of Property, Plant and Equipment are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate

that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use.

Any decrease in the carrying value is recognized as an expense in the Income Statement in the reporting period in which the impairment loss occurs. For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgment is applied to establish cash generating units. Each of these cash generating units is represented by an individual primary reporting segment, or a subdivision of a primary segment. In respect of other assets impairment losses recognised in prior periods, are assessed at each balance sheet 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 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

3.15 Deposits from Customers

Deposits include interest bearing Term deposits and savings deposits from customers.

They are brought to account at the gross value of the outstanding balance. Interest accrued is charged to the Income Statement.

Notes to the financial statements

3.16 Borrowings

Borrowings includes securitization arrangements made with the corporate investing entities and interest bearing promissory notes issued to retail customers. Interest accrued is charged to the Income Statement.

3.17 Debentures

These are the funds borrowed by the company for long term funding requirements. These are recorded at the balance sheet at the amount expected to be payable at the Balance Sheet date.

3.18 Other payable and liabilities

Other Payable and Liabilities include all financial liabilities, interest, fees, expenses payable and securities purchased but not delivered. These liabilities are recorded at the cash value to be realized when settled.

3.19 Employee Retirement Benefits

3.19.1 Defined Benefit Plans - Retiring Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The defined benefit obligation is calculated annually using the Projected Unit Credit method as specified by the Sri Lanka Accounting Standard 16 (Revised 2006) "Employee Benefits" (SLAS 16) 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 Income Statement in the period in which they arise.

The defined benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost.

When the benefits of a plan are changed, the portion of the changed benefit relating to past service by employees is recognised in the Income Statement 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 Income Statement.

Funding Arrangement

The gratuity liabilities are not externally funded.

Gratuity payments are being made by the company according to the Gratuity Act No 12 of 1983. Accordingly the company is liable to pay gratuity to permanent employees who have completed a minimum of five years service in the company at the rate of 50% of the last drawn salary for each completed year of service.

3.19.2 Defined Contribution Plan

Employees' Provident Fund

The Bank 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.

INCOME STATEMENT

Revenue Recognition

Revenue is recognised to the extent that it is probable that the future economic benefit will flow to the Company and such revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable. Company use the following specific criteria for the revenue recognition purpose.

3.20 Interest Income

Interest receivable is recognised on an accrual basis. Interest from loans and advances ceases to be accrued when they are classified as non-performing as explained in Note 3.8. Interest on Non-performing loans and advances is accounted for on a cash basis. Interest on non-performing loans and advances is credited to the "Interest in Suspense Account" which is netted in the Balance Sheet against the relevant loans and advances Interest income from investments is recognised on an accrual basis.

3.21 Lease Income

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease commencing with the month in which the lease is executed in proportion to the declining receivable balance.

Gross earnings under finance leases in respect of lease rentals due, cease to be taken to revenue when they are in arrears for 6 months. Thereafter, such income is recognised on a cash basis.

3.22 Dividend Income

Dividend income is recognised in the Income Statement on an accrual basis when the company's right to receive the dividend is established.

3.23 Trading Income

Gains or losses arising from the sale of investment securities, dealing securities, shares and units are accounted for on the date of transaction in the Income Statement.

3.24 Fee and Commission Income

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

3.25 Profit /(Loss) from Sale of Property, Plant and Equipment

Profit / loss from sale of Property, Plant and Equipment are recognised in the period in which the sale occurs and is classified as other income/expense.

3.26 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.

3.27 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.

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.

3.28 Interest Expenses and Other Expenses

Interest payable and other expenses are recognised on an accrual basis.

3.29 Fee and Commission Expenses

Fee and commission expenses are recognised on an accrual basis.

3.30 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.

3.30.1 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 Balance Sheet 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 11.

3.30.2 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.

Notes to the financial statements

3.30.3 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.30.4 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.

3.30.5 Economic Service Charge

As per the provisions of the Finance Act No.11 of 2004 and amendments thereto, the ESC was introduced with effect from 01 April 2004. 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 in five subsequent years.

3.31 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.

c) Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined by the Finance Companies Act (Corporate Governance) Direction No 3 of 2008.

d) Deposit liabilities held as collateral against any accommodation granted.

e) Deposits falling within the meaning of abandoned property in terms of the Finance Companies Act, Funds which have been transferred to the Central Bank of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

3.32 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 12.

3.33 Maturity Analysis

The Company has disclosed an analysis of assets and liabilities in to relevant maturity baskets as specified by the SLAS 33 "Revenue Recognition and Disclosures in the Financial Statements of Finance Companies" based on the remaining period as at the Balance Sheet date to the contractual maturity date

3.34 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; Finance, leasing, and Micro Credit.

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.

3.35 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 No 9 "Cash Flow Statements". 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.

3.36 Events after the Balance Sheet date

All material events after the Balance Sheet date have been considered and where appropriate adjustments to / or disclosures have been made in the respective notes to the Financial Statement.

3.37 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.

3.38 Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by accounting standards.

3.39 Offsetting of Assets and Liabilities

Assets and liabilities are offset and the net amount reported in the Balance Sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- An intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

3.40 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.

The Accounting Policies adopted by the Group are consistent with those of the previous financial year as permitted by the Sri Lanka Accounting Standard No 3 Presentation of Financial Statements (Revised 2005). However When the Presentation or Classification of items in the financial statements is amended, comparative amounts are also reclassified to confirm with the current year in order to provide a better presentation.

4.0 Effect of accounting standard issued but not yet effective

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, all existing Sri Lanka Accounting Standards have been prefixed as Sri Lanka Financial Reporting Standards (SLFRS) or Sri Lanka Accounting Standards (LKAS)

which commonly refer to as Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS), respectively. The council of the Institute of Chartered Accountants of Sri Lanka mandated all specified business enterprises to adopt these new accounting standards effective for financial period beginning on or after January 1, 2012.

Accordingly the Company will be adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS applicable for financial period commencing from April 1, 2012. The company is reviewing its accounting policies and financial reporting for the readiness for the transition. Priority has been given to considering the preparation of opening Balance Sheet in accordance with new SLFRS as at April 1, 2011 and as at April 1, 2012. This will form the basis of accounting for the new SLFRSs for the future, and is required when the company prepares its first new SLFRS compliant Financial Statements for the year ending March 31, 2013.

Notes to the financial statements

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	5 INCOME			
Interest Income (Note No 6)	2,553,702,309	1,731,159,166	2,553,702,309	1,731,235,677
Other Income (Note No. 8)	324,275,695	494,863,547	324,483,507	495,001,727
	2,877,978,004	2,226,022,713	2,878,185,816	2,226,237,404
6. INTEREST INCOME				
Government Securities and Placements with Banks and Financial	76,263,360	73,823,275	76,263,360	73,823,275
Loans and Advances to Customers	346,874,180	216,974,077	346,874,180	216,974,077
Finance Leases	1,492,661,400	1,006,981,313	1,492,661,400	1,006,981,313
Hire Purchase	387,413,807	255,892,021	387,413,807	255,892,021
Other Interest Income	250,489,562	177,488,480	250,489,562	177,488,480
Interest Income From Micro Finance				76,511
	2,553,702,309	1,731,159,166	2,553,702,309	1,731,235,677
7 INTEREST EXPENSES				
Borrowings	131,640,081	91,936,621	131,640,081	91,936,621
Debentures	31,871,610	14,494,671	31,871,610	14,494,671
Deposits From Customers	1,142,167,737	806,355,161	1,142,167,737	806,355,160
	1,305,679,428	912,786,452	1,305,679,428	912,786,452
8 OTHER INCOME				
Dividend Income	3,102,000	2,580,235	3,102,000	2,580,235
Fees & Commission Income	223,169,474	150,670,121	223,169,474	150,670,121
Profit / (Loss) on Disposal of Leased Assets	50,952,168	28,308,608	50,952,168	28,308,608
Profit/(Loss) on Disposal of Property Plant & Equipment	458,453	1,613,658	458,453	1,613,658
Mark to Market Value Adjustment	46,593,600	311,690,925	46,593,600	311,690,925
Miscellaneous Income	-	-	207,812	138,180
	324,275,695	494,863,547	324,483,507	495,001,727

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	9 OPERATING EXPENSES			
Operating Expenses, among others, include the following :				
Depreciation of Property, Plant and Equipment	58,537,507	34,959,866	58,537,507	34,959,866
Legal Expenses and Professional Fees	6,665,015	6,087,901	6,665,015	6,087,901
Staff related expenses	246,292,470	188,405,418	246,292,470	188,405,418
Directors' Emoluments (Note 9 (a))	25,166,268	9,946,889	25,166,268	9,946,889
Auditors' Remuneration (Note 9 (b))	1,230,000	796,000	1,330,000	881,000
Contribution to deposit Insurance scheme of CBSL	12,198,768	5,445,195	12,198,768	5,445,195
Advertising & Communication	98,900,092	53,307,639	98,900,092	53,307,639
Activities on Corporate social Responsibility	3,194,880	4,922,047	3,194,880	4,922,047
Employee Provident Fund and Trust Fund Expenses	22,313,433	16,758,547	22,313,433	16,758,547
Employee Defined Benefit Plan Service Expenses	8,484,638	9,529,359	8,484,638	9,529,359
9(a) Directors' Emoluments				
The detailed report of the Directors Emoluments and Expenses Relating to the Key Management personnel are given under the Note No 39(c)	25,166,268	9,946,889	25,166,268	9,946,889
9(b) Auditors' Remuneration				
Audit Fees and Expenses	900,000	750,000	1,000,000	835,000
Audit related fee and Expenses	55,000	46,000	55,000	46,000
Non- Audit Services	275,000	-	275,000	-
10 PROVISION FOR LOAN LOSSES				
SPECIFIC PROVISION				
Leasing	(1,479,141)	(11,623,881)	(1,479,141)	(11,623,881)
Hire Purchase	(5,322,457)	(10,479,377)	(5,322,457)	(10,479,377)
Loans & advances	(4,409,856)	8,479,649	(4,409,856)	11,850,455
Disposal Receivables	13,342,862	23,144,529	13,342,862	23,144,529
Repossessed Stock	18,565,391	1,073,829	18,565,391	1,073,829
	20,696,799	10,594,749	20,696,799	13,965,555
GENERAL PROVISION				
Leasing	(28,980,700)	47,148,818	(28,980,700)	47,148,818
Hire Purchase	(5,805,909)	12,977,097	(5,805,909)	12,977,096
Loans & Advances	(3,140,586)	9,555,531	(3,140,586)	9,555,531
	(37,927,195)	69,681,446	(37,927,195)	69,681,445
Total	(17,230,396)	80,276,195	(17,230,396)	83,647,000

Notes to the financial statements

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
11 INCOME TAX EXPENSE				
Current Income Tax Expense	45,284,529	29,460,581	45,304,151	29,460,581
Over Provision in Respect of Prior Period	(607,107)	-	(607,107)	
Deferred Tax Asset (Note a)	(30,837,745)		(30,837,745)	
Income Tax Charge for the Year	13,839,677	29,460,581	13,859,299	29,460,581

Note (a)

Deferred Tax Asset

Deferred tax asset amounting to Rs. 193,186,438 has not been recognized in the Financial Statements for the Year 2010/11 assuming that the deductible temporary differences would not be expired under the current Tax legislation.

However, considering this year's Taxable Income and future potential business plans of the Company, it was decided to recognize the Deferred Taxation in the Financial Statements. Accordingly Rs. 30,837,745 has been recognized as Deferred Tax Income in the Financial Statements for the year ended 31st March 2012.

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
Tax Effect on Origination and Reversal of Temporary Differences	236,805,168	-	236,805,168	-
Tax Effect on Unrecognized Tax Loss	(267,642,913)	-	(267,642,913)	-
Deferred Tax Asset	(30,837,745)	-	(30,837,745)	-

	Company			Group		
	Leasing Business Rs.	Other Business Rs.	Total Rs.	Leasing Business Rs.	Other Business Rs.	Total Rs.
	11.1 Reconciliation between Income Tax Expense and the Accounting Profit					
2011/2012						
Accounting Profit Before Tax	381,351,874	262,920,705	644,272,579	381,389,696	265,282,272	646,634,146
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)	(12,506,949)	(92,439,817)	(79,932,868)	(12,506,949)	(92,439,817)
Disallowable Expenses	47,997,067	60,554,949	108,552,016	47,997,067	58,300,396	106,297,463
Allowable Expenses	(2,355,768,956)	(19,864,670)	(2,375,633,626)	(2,355,768,956)	(19,764,670)	(2,375,533,626)
Notional Tax Credits - Interest on Government Securities		4,305,656	4,305,656		4,305,656	4,305,656
Mark to Market Value Adjustments		(46,593,600)	(46,593,600)		(46,593,600)	(46,593,600)
Total Statutory Income / (Loss)	(297,468,029)	248,816,092	(48,651,938)	(297,468,029)	249,023,106	(48,444,924)
Carried Forward Tax losses - Set Off		(87,085,632)			(87,222,566)	
Taxable Income		161,730,459			161,800,539	
Income Tax Rate		28.00%			28.00%	
Taxable Income		45,284,529			45,304,151	
Effective Tax Rate		17.22%			17.08%	

	Company			Group		
	Leasing Business Rs.	Other Business Rs.	Total Rs.	Leasing Business Rs.	Other Business Rs.	Total Rs.
	2010/11					
Accounting Profit Before Tax	174,260,253	387,010,328	561,270,581	174,260,253	387,010,328	558,008,475
Adjustments						
Capital Portion of Leasing Rental Due	1,281,606,217	-	1,281,606,217	1,281,606,217	-	1,281,606,217
Non Taxable Income	(3,994,635)	(4,193,893)	(8,188,528)	(3,994,635)	(315884818)	(319,879,453)
Disallowable Expenses	89,998,731	80,048,820	170,047,551	89,998,731	80048820	170,047,551
Allowable Expenses	(1,624,308,682)	(17,211,722)	(1,641,520,404)	(1,624,308,682)	(17211722)	(1,641,520,404)
Notional Tax Credits - Interest on Government Securities						
Mark to Market Value Adjustments		(311,690,925)	(311,690,925)			
Total Statutory Income / (Loss)	(82,438,116)	133,962,608	51,524,492	(82,438,116)	133,962,608	51,524,492
Carried Forward Tax losses - Set Off		45,572,026			45,572,026	
Taxable Income		88,390,582			88,390,582	
Income Tax Rate		33 1/3%			33 1/3%	
Taxable Income		29,460,581			29,460,581	
Effective Tax Rate		7.50%			7.50%	

Notes to the financial statements

12 BASIC EARNINGS PER SHARE

Basic Earning per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year and calculated as follows

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
Amount Used as the Numerator Profit attributable to Ordinary Shareholders	630,432,902	531,810,000	632,774,847	528,547,894
Amount Used as the Denominator Weighted Average No of Shares outstanding during the year (Note No 12.1)	48,114,288	41,690,574	48,114,288	41,690,574
Basic Earnings per Ordinary Share (Rs.)	13.10	12.76	13.15	12.68

12.1 The No of ordinary shares outstanding during the year 2011 was 39,685,048 and the weighted average no of shares outstanding during the year ended 31 March 2011 was restated to reflect the effect of rights issue.

13 DIVIDEND PER SHARE

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
Dividend Per Share (DPS) (Dividend paid/ proposed to the ordinary shareholders)	2.50*	2.00	2.50*	2.00

* Proposed

- The Board of Directors recommend a dividend of Rupees Two and Cents Fifty (Rs 2.50) per share on both its 46,299,223 voting ordinary shares and 5,669,293 nonvoting ordinary 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 for the financial year ended 31st March 2012.
- The aforesaid dividend be in the form of Rupees One (Rs 1/-) per share as a cash dividend and Rupees One and Cents Fifty (Rs 1.50) as a scrip dividend to be satisfied by the issue of non voting ordinary shares of the Company each of which would be valued at Rs 30/- per share
- Any residual fraction arising on the scrip dividend be settled in cash in accordance with the provisions of the Sri Lanka Accounting Standard No 12 (Revised 2005) on Events After the Balance Sheet date. This proposed first & final dividend has not been recognized as a liability as at the year end

	Company		Group	
	For the	For the	For the	For the
	Year Ended	Year Ended	Year Ended	Year Ended
	31.03.2012	31.03.2011	31.03.2012	31.03.2011
	Rs.	Rs.	Rs.	Rs.
14 CASH AND CASH EQUIVALENTS				
Cash in Hand	22,403,123	335,720	25,738,649	335,720
Balances With Licenced Commercial Banks	98,939,975	49,007,338	98,939,975	51,957,255
	121,343,098	49,343,058	124,678,624	52,292,975
15 INVESTMENT IN GOVERNMENT SECURITIES				
Treasury Bills of Central Bank of Sri Lanka	560,822,757	511,573,349	560,822,757	511,573,349
Treasury Bonds of Central Bank of Sri Lanka	16,140,610	-	16,140,610	-
	576,963,367	511,573,349	576,963,367	511,573,349
16 DEPOSITS WITH LICENSED COMMERCIAL BANK AND FINANCIAL INSTITUTIONS				
Licensed Commercial Banks	490,589,920	263,094,355	490,589,920	263,094,355
17 SECURITIES PURCHASED UNDER RE-SALE AGREEMENTS				
Seylan Bank PLC - Primary Dealer Unit	261,000,000	65,000,000	261,000,000	65,000,000
Peoples' Bank	65,000,000	122,379,059	65,000,000	122,379,059
	326,000,000	187,379,059	326,000,000	187,379,059

Notes to the financial statements

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
18 LOANS AND ADVANCES				
Short Term Loans	967,802,702	501,307,642	967,802,702	501,307,642
Term and Vehicle Loans	1,653,971,090	1,042,882,748	1,653,971,090	1,046,628,553
Pawning Advances	578,139,325	171,903,600	578,139,325	171,903,600
Staff Loans	25,580,317	18,349,983	25,580,317	18,349,983
Loans Given to Employee Share ownership Trust 18 (a)	104,350,000	120,100,000	104,350,000	120,100,000
	3,329,843,434	1,854,543,973	3,329,843,434	1,858,289,778
Provision for Loan Loss Provision - Specific 18 (b)	(15,787,900)	(20,197,756)	(15,787,900)	(23,943,561)
Provision for Loan Loss Provision - General 18 (c)	(6,414,945)	(9,555,531)	(6,414,945)	(9,555,531)
	(22,202,845)	(29,753,287)	(22,202,845)	(33,499,092)
Net Loans and Advances	3,307,640,589	1,824,790,686	3,307,640,589	1,824,790,687

- 18 (a)** 1. There were no shares issued to the Employee Share Ownership Schemes during the Financial year 2011/12
2. There were no shares issued to the Employees from the Employee Share Ownership Schemes during the Financial year 2011/12
3. The company or any of its subsidiaries have not directly or indirectly provided funds to the Employee Share Ownership schemes during the Financial year 2011/12. The CDB Employee Share Ownership Trust has paid Rs.15, 750,000/- during the Financial year in settlement of the loan granted.

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
18.(b) Movements in Provision for Bad and Doubtful Debts (Specific)				
Balance at the beginning of the year	20,197,756	11,718,107	23,943,561	12,093,107
Add: Additions during the year	1,595,392	14,605,782	1,595,392	17,976,587
Less: Reversal during the year	(6,005,248)	(6,126,133)	(9,751,053)	(6,126,133)
Balance at the end of the year	15,787,900	20,197,756	15,787,900	23,943,561
18 (c) Movements in Provision for Bad and Doubtful Debts (General)				
Balance at the beginning of the year	9,555,531	-	9,555,531	-
Add: Additions during the year	-	9,555,531	-	9,555,531
Less: Reversal during the year	(3,140,586)	-	(3,140,586)	-
Balance at the end of the year	6,414,945	9,555,531	6,414,945	9,555,531

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	19 NET INVESTMENT IN LEASE			
Lease Rental Receivables within one year	3,555,450,641	2,634,974,396	3,555,450,641	2,634,974,396
Lease Rental Receivables after one year Less than five years	6,649,803,835	4,237,133,506	6,649,803,835	4,237,133,506
Lease Rental Receivables after Five years	422,122,441	368,542,821	422,122,441	368,542,821
	10,627,376,917	7,240,650,723	10,627,376,917	7,240,650,723
Lease Rental Received in Advance	(71,954,407)	(113,419,592)	(71,954,407)	(113,419,592)
Unearned Interest Income	(3,310,184,039)	(2,215,830,296)	(3,310,184,039)	(2,215,830,296)
	7,245,238,471	4,911,400,835	7,245,238,471	4,911,400,835
Provision for Bad Debts - Specific (Note 19 (a))	(131,343,663)	(131,748,973)	(131,343,663)	(131,748,972)
Provision for Bad Debts - General (Note 19 (b))	(18,168,118)	(47,148,818)	(18,168,118)	(47,148,818)
Net Investment in Finance Leases	7,095,726,690	4,732,503,045	7,095,726,690	4,732,503,045
19(a) Movements in Provision for Bad and Doubtful Debts (Specific)				
Balance at the beginning of the year	131,748,973	143,372,854	131,748,973	143,372,854
Add : Additions during the year	55,950,350	49,997,321	55,950,350	49,997,321
Less: Reversal during the year	(56,355,660)	(61,621,202)	(56,355,660)	(61,621,202)
Balance at the end of the year	131,343,663	131,748,973	131,343,663	131,748,973
19(b) Movements in Provision for Bad and Doubtful Debts (General)				
Balance at the beginning of the year	47,148,818	-	47,148,818	-
Add: Additions during the year	-	47,148,818	-	47,148,818
Less: Reversal during the year	(28,980,700)	-	(28,980,700)	-
Balance at the end of the year	18,168,118	47,148,818	18,168,118	47,148,818

Notes to the financial statements

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
20 NET INVESTMENT IN HIRING CONTRACTS				
Hire Purchase Receivables within one year	1,084,108,302	605,824,894	1,084,108,302	605,824,894
Hire Purchase Receivables after one year Less than five years	2,790,979,773	1,074,358,509	2,790,979,773	1,074,358,509
Hire Purchase Receivables after Five years	216,192,633	184,652,356	216,192,633	184,652,356
	4,091,280,708	1,864,835,759	4,091,280,708	1,864,835,759
Unearned Interest Income	(1,209,236,304)	(518,329,559)	(1,209,236,304)	(518,329,559)
	2,882,044,404	1,346,506,200	2,882,044,404	1,346,506,200
Provision for Bad Debts - Specific (Note 20 (a))	(28,631,577)	(33,954,034)	(28,631,577)	(33,954,034)
Provision for Bad Debts - General (Note 20 (b))	(7,171,187)	(12,977,096)	(7,171,187)	(12,977,096)
Net Investment in Hire Purchase	2,846,241,640	1,299,575,070	2,846,241,640	1,299,575,070
20(a) Movements in Provision for Bad and Doubtful Debts (Specific)				
Balance at the beginning of the year	33,954,034	44,433,411	33,954,034	44,433,411
Add: Additions during the year	7,389,364	6,534,718	7,389,364	6,534,718
Less: Reversal during the year	(12,711,821)	(17,014,095)	(12,711,821)	(17,014,095)
Balance at the end of the year	28,631,577	33,954,034	28,631,577	33,954,034
20(b) Movements in Provision for Bad and Doubtful Debts (General)				
Balance at the beginning of the year	12,977,096	-	12,977,096	-
Add: Additions during the year	-	12,977,096	-	12,977,096
Less: Reversal during the year	(5,805,909)	-	(5,805,909)	-
Balance at the end of the year	7,171,187	12,977,096	7,171,187	12,977,096
21 INVESTMENT SECURITIES				
Current Investments				
Quoted Shares held by the Company (21 (a))	458,193,600	411,600,000	458,193,600	411,600,000
Long Term Investments				
Quoted Debentures held by the Company (21(b))	1,000,000	1,000,000	1,000,000	1,000,000
Unquoted Shares held by Company (21 (c))	24,664,550	24,664,550	24,664,550	24,664,550
Provisions made for fall in value of unquoted investment securities	(24,664,550)	(24,664,550)	(24,664,550)	(24,664,550)
	459,193,600	412,600,000	459,193,600	412,600,000

	2011/2012			2010/2011		
	No of Ordinary Shares	Cost of Investment Rs.	Market Value Rs.	No of Ordinary Shares	Cost Rs.	Market Value Rs.
21(a) Quoted Shares held by the Company Ceylinco Insurance PLC	564,000	99,909,075	458,193,600	564,000	99,909,075	411,600,000
21(b) Quoted Debentures held by the Company Seylan Bank PLC	10,000	1,000,000	1,000,000	10,000	1,000,000	1,000,000
21(C) Unquoted Shares held by Company						
Unquoted Ordinary Shares - Middleway Limited	416,455	4,164,550	-	416,455	4,164,550	-
Unquoted Preference Shares - Middleway Limited	2,050,000	20,500,000	-	2,050,000	20,500,000	-
	2,466,455	24,664,550		2,466,455	24,664,550	
Provision for diminution in value		(24,664,550)			(24,664,550)	

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
22 CURRENT TAX RECEIVABLE				
Commissioner General of Inland Revenue-VAT	114,437,312	103,629,850	114,437,312	103,629,850
Commissioner General of Inland Revenue-ESC	115,805,692	99,862,738	115,805,692	99,862,738
	230,243,004	203,492,588	230,243,004	203,492,588
23 TRADE AND OTHER RECEIVABLES				
Interest Receivable	169,523,611	97,836,770	169,523,611	97,836,770
Insurance Premium Receivable	55,216,220	51,579,988	55,216,220	51,579,988
Legal Receivable on Disposals (Note 23, a)	-	-	-	-
Insurance Commission Receivable	14,094,141	11,897,254	14,094,141	11,897,254
Other Receivables and advances	115,910,932	161,906,311	115,910,132	161,906,311
	354,744,904	323,220,323	354,744,104	323,220,323
23(a) Legal Receivable on Disposals				
Legal Receivable on Disposals	46,945,573	33,602,711	46,945,573	33,602,711
Provision for Legal Receivable	(46,945,573)	(33,602,711)	(46,945,573)	(33,602,711)
	-	-	-	-

Notes to the financial statements

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	24 INVENTORIES			
Vehicle Stock	150,250,989	123,531,237	150,250,989	123,531,237
Repossessed Stock	53,253,391	26,102,826	53,253,391	26,102,826
Savings Gift Stock	7,189,232	-	7,189,232	-
	210,693,612	149,634,063	210,693,612	149,634,063
25 INVESTMENT IN SUBSIDIARY				
Unquoted			2011/2012	2010/2011
	Holding	Principle Activity	Cost of Investment Rs.	Cost of Investment Rs.
CDB Micro Finance Limited	100%	Micro Lending	5,000,000	5,000,000
Provision for Impairment			2,254,553	-
Net Investment in Subsidiary			2,745,447	5,000,000

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
26 INVESTMENT PROPERTIES				
Cost				
Balance as at beginning of the Year	20,197,977	20,197,977	20,197,977	20,197,977
Transferred from Property Plant and Equipment Improvements	-	-	-	-
Balance as at end of the period	20,197,977	20,197,977	20,197,977	20,197,977
Accumulated Depreciation				
Balance as at beginning of the Year				
Transferred from Property Plant and Equipment	-	-	-	-
Charge for 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
Market Value of the Property	36,000,000	32,000,000	36,000,000	32,000,000

Valuation of Investment Properties - Company

The fair value of the Investment Properties are based on the market valuations carried 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 of Investment Properties.

Depreciation have not been recognized since land has an indefinite life.

26.1 Valuations of Investment Property - Company/ Group

As at 31st March 2012

	Extent (Perches)	Cost	Fair Value
Freehold Land Situated at Biyagama	120	20,197,977	36,000,000

Notes to the financial statements

27 PROPERTY, PLANT & EQUIPMENT

Cost	Land Rs	Furniture & Fittings Rs	Computer Equipment Rs	Office Equipment Rs	Motor Vehicles Rs	Total 2012 Rs	Total 2011 Rs
Balance at the beginning of the year	63,524,745	87,424,727	98,471,912	40,811,304	32,417,050	322,649,738	253,146,271
Additions during the year	178,401,528	27,420,490	29,596,766	17,367,170	47,159,250	299,945,204	76,475,134
Disposal during the year.	(6,825,000)	-	-	-	(3,433,333)	(10,258,333)	(6,971,667)
Balance at the end of the Year	235,101,273	114,845,217	128,068,678	58,178,474	76,142,967	612,336,609	322,649,738
Depreciation							
Balance at the beginning of the year	-	24,633,021	30,811,632	14,966,400	14,416,764	84,827,817	52,476,403
Charge for the year	-	18,004,175	19,037,170	7,635,160	13,847,478	58,523,983	34,959,867
Disposal during the year.	-	-	-	-	(1,995,148)	(1,995,148)	(2,608,453)
Balance at the end of the Year	-	42,637,196	49,848,802	22,601,560	26,269,094	141,356,652	84,827,817
W.D.V at the end of the year	235,101,273	72,208,021	78,219,876	35,576,914	49,873,873	470,979,957	237,821,921
W.D.V at the beginning of the year	63,524,745	62,791,706	67,660,280	25,844,904	18,000,285	237,821,921	

The company has revalued its land situated at Kadawatha on 31 Dec 2006 by Mr. DSN Perera (Graduate Member of the Institute of Valuers of Sri Lanka) who is an independent valuer. The fair value of the property was arrived by referring to the Market Value of the land situated in that area.

Information of the Freehold Land and Buildings of the Company

(As required by Rule No 7.6 (viii) of the Listing Rules of the Colombo Stock Exchange)

Location	Type	Extent(Perches)	Revalued amount/ Cost	Net Book Value
No 123, Maradana Road, Colombo 10	Land	75	178,203,869	178,203,869
No 377/2 Kandy Road, Mahara Kadawatha	Land	39	27,300,000*	27,300,000
No 79 Mihindu Mawatha, Mahara, Kadawatha	Land	76	23,919,000*	23,919,000
Madapatha, Piliyandala	Land	35	5,480,745	5,480,745

Market value of the Land additions during the year is considered to be not significantly different from the purchase price, hence such purchase price is considered as the fair value of the same.

* Revalued

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
28 DEPOSITS FROM CUSTOMERS				
Term Deposits	11,312,341,758	7,488,743,205	11,312,341,758	7,488,743,205
Savings Deposits	76,433,829	-	76,433,829	-
	11,388,775,587	7,488,743,205	11,388,775,587	7,488,743,205

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	29 BORROWINGS			
Securitization	882,107,058	333,232,391	882,107,058	333,232,391
Commercial Papers	65,000,000	-	65,000,000	-
Term loan - Seylan Bank PLC	97,262,273	-	97,262,273	-
Other Borrowings	685,836,302	401,845,490	685,836,302	401,845,490
	1,730,205,633	735,077,881	1,730,205,633	735,077,881
30 DEBENTURES				
Unsecured, Subordinated, Redeemable Debentures				
As at beginning of the year	267,069,000	73,880,000	267,069,000	73,880,000
Issues during the Year		250,000,000		250,000,000
Redemptions during the year	(17,069,000)	(56,811,000)	(17,069,000)	(56,811,000)
	250,000,000	267,069,000	250,000,000	267,069,000
31 RETIREMENT BENEFIT OBLIGATION				
Balance as at beginning of the year	20,676,229	11,146,870	20,676,229	11,146,870
Current service Cost	5,024,362	3,786,765	5,024,362	3,786,765
Interest Cost	2,067,623	1,226,156	2,067,623	1,226,156
Actuarial Loss	1,392,653	4,516,438	1,392,653	4,516,438
Payments made during the year	(554,180)	-	(554,180)	-
Balance at the end of the year	28,606,687	20,676,229	28,606,687	20,676,229
31 (a) Amount Recognized in the Income Statement				
Current service Cost	5,024,362	3,786,765	5,024,362	3,786,765
Interest Cost	2,067,623	1,226,156	2,067,623	1,226,156
Actuarial (Gain)/ Loss	1,392,653	4,516,438	1,392,653	4,516,438
	8,484,638	9,529,359	8,484,638	9,529,359

An actuarial valuation of the Gratuity liability was carried out as at 31st March 2012 by Mr.M. Poopalanathan. AIA, Messrs, Actuarial and Management Consultants (Private) Limited a company of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Method" the method recommended by the Sri Lanka Accounting Standard No 16 (Revised 2006) "Employee Benefits"

The company does not fund the gratuity liability in a separate Fund.

Notes to the financial statements

Actuarial Assumptions

Normal retirement age	- 55 years (2010/11 -55 years)
Rate of discount	-10% (2010/ 11 -10%)
Future Salary Increase	-10 % (2010/ 11 -10%)

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
32 OTHER LIABILITIES				
Accrued Expenditure - Non Interest	27,649,572	23,782,809	27,834,564	23,867,806
Accrued Expenditure - Interest	496,689,857	323,994,394	496,689,857	323,994,394
Insurance Premium Payable	87,616,691	87,932,265	87,616,691	87,932,265
Dues to subsidiaries (CDB Micro Finance Limited)	-	177,796	-	-
Bank Over Draft	170,076,757	199,275,263	170,076,757	199,275,263
Other Liabilities	7,311,923	3,885,117	7,311,923	3,885,117
	789,344,790	639,047,644	789,529,792	638,954,845

	2012		2011	
	No of Shares	Value Rs	No of Shares	Value Rs
33 STATED CAPITAL				
Ordinary Shares				
Balance at the beginning of the year	39,685,048	396,850,480	39,685,048	396,850,480
Issued during the year				
Voting Ordinary shares	6,614,175	462,992,250		
Non Voting Ordinary shares	5,669,293	255,118,185		
Balance at the end of the year	51,968,516	1,114,960,915	39,685,048	396,850,480
Composition of Ordinary shares				
Ordinary Voting Shares	46,299,223		39,685,048	
Ordinary Non Voting Shares	5,669,293		-	
Total	51,968,516		39,685,048	

The shares of Citizens Development Business Finance PLC are quoted in the Colombo Stock Exchange. The Non Voting Ordinary shares of the Company, rank pari passu in respect of all rights with the ordinary voting shares of the Company except voting rights on resolutions passed at general meeting.

The Company made a rights issue of ordinary shares on the basis of one new ordinary voting share for every six shares held and one new Non voting shares for every seven shares held in August 2011.

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	34 RESERVE FUND			
Balance at the beginning of the year	152,650,304	46,288,304	152,650,304	46,288,304
Transfers during the year	126,086,580	106,362,000	126,086,580	106,362,000
Balance at the end of the year	278,736,884	152,650,304	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, 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.

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	35 REVALUATION RESERVE			
Balance at the beginning of the year	15,082,857	15,082,857	15,082,857	15,082,857
Transfers during the year	(3,016,571)	-	(3,016,571)	-
Balance at the end of the year	12,066,286	15,082,857	12,066,286	15,082,857

Transfer during the year relates to the revaluation reserve realised upon compensation received on the surrender of the part of land block at No.377/2 Mahara, Kadawatha to Road Development Authority.

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
	36 INVESTMENT FUND RESERVE			
Balance at the beginning of the year	3,012,215	-	3,012,215	-
Transfers during the year	18,090,129	3,012,215	18,090,129	3,012,215
Balance at the end of the year	21,102,344	3,012,215	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

	Company		Group	
	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.	For the Year Ended 31.03.2012 Rs.	For the Year Ended 31.03.2011 Rs.
37 NET ASSETS VALUE PER ORDINARY SHARE				
Amount used as the Numerator				
Net Assets value at the end of the period	2,294,355,762	1,025,182,521	2,294,354,963	1,022,839,777
Amount used as the Denominator				
No. of shares in Issue	51,968,516	39,685,048	51,968,516	39,685,048
Net Assets Value per Ordinary share	44.15	25.83	44.15	25.77

38 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

38(a) 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.

Litigations against the Company

M/7059 District Court - Badulla, a case filed by a Customer claiming damages for repossession of a vehicle.

Based on available information and current status of the above case, the company is not in a position to quantify the potential financial impact, if any, as at the balance sheet date. Further, based on legal advice, the company does not expect the outcome of any action to have any material effect on the financial position of the company.

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 Balance Sheet date.

38(b) Capital Commitments

There were no material Capital Commitments that require adjustment in or disclosure to the Financial Statements as at the Balance Sheet date.

39 EVENTS AFTER THE BALANCE SHEET DATE

- The Board of Directors has recommended a dividend of Rupees Two and Cents Fifty (Rs 2.50) per share on both its 46,299,223 voting ordinary shares and 5,669,293 nonvoting ordinary 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 for the financial year ended 31st March 2012.
- The aforesaid dividend be in the form of Rupees One (Rs 1/-) per share as a cash dividend and Rupees One and Cents Fifty (Rs 1.50) as a scrip dividend to be satisfied by the issue of non voting ordinary shares of the Company each of which would be valued at Rs 30/- per share
- Any residual fractions arising on the scrip dividend be settled in cash

In accordance with the provisions of the Sri Lanka Accounting Standard No 12 (Revised 2005) on events after the Balance Sheet Date. This proposed first & final dividend has not been recognized as a liability as at the year end

There were no any other material events that took place since 31st March 2012, that require adjustment in or disclosure to the Financial Statements except for the (a), (b), (c) above.

40 TRANSACTIONS WITH RELATED PARTIES

40 (a) Parent and ultimate Controlling party

The company does not have an identifiable parent of its own,

40(b) Related Party Transactions

Related Party	Name of Director	Nature of Transactions	Amounts Paid/ Received during the year	Balance as at 31st March 2012 (Payable) or receivable Rs.
Ceylinco Insurance PLC	Mr.D H J Gunawardena (appointed as Chairman /Non-executive Director of CDB w.e.f 01st January 2012)	Right issue subscription		
		Voting Shares	164,954,440	
		Non Voting Shares	71,517,465	
	Mr.S.R.Abenayake (appointed as / Non-executive Director of CDB w.e.f 01st January 2012)	Placement of Deposits	18,000,000	(68,000,000)
		Placement of Debentures	-	(250,000,000)
			-	-
Mr.R.Renganathan (Resinged as Chairman /Non-executive Director of CDB w.e.f 31st December 2011)	Credit Facilities	Nil	Nil	
	Insurance Premiums paid / Payable	394,275,721	(73,792,878)	
Mr.E.T.L.Ranasinghe (Resinged as Non-executive Director of CDB w.e.f 30th November 2011)	Insurance Commission / Received / Receivable	110,284,720	10,354,130	
	any other Transactions	Nil	Nil	
CDB Micro Finance Company Limited	Mr.R.Renganathan Mr.E.T.L.Ranasinghe Mr.P.A.Jayawardane Mr. C.M. Nanayakkara	Amount Recovered from CDB Micro Finance Company Limited	207,812	Nil
CDB ESOP Trust Fund (Pvt) Limited	Mr. R. Renganathan Mr. E.T.L.Ranasinghe Mr. P. A Jayawardane } Trustees	Settlement of Loan	15,750,000	
		Loan Balance as at year end		104,350,000

Notes to the financial statements

40 C Transactions with Key Management Personnel and Close Members of family of them

According to the Sri Lanka Accounting Standard 30 (revised 2005) "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 and their Close Family Members

	Key Management Personnel (KMP) Rs.	Close Family Members of KMP Rs.
Short Term Employment Benefits	24,410,268	Not Applicable
Post Employment Benefit	756,000	Not Applicable
Loans and Advances	Nil	Nil
Deposits	116,126	3,608,539
Credit Facilities	Nil	Nil
Any other Transactions	Nil	Nil

41 MATURITY ANALYSIS

Statement of Maturity Analysis of Assets and Liabilities as at 31/03/2012

Assets/Liabilities	Maturity Period					(Rs.)
	Up to 1 Month	2 - 3 Months	3-12 Months	12-60 Months	More than 60 months	Total
Assets						
Cash and Cash Equivalents	121,343,098	-	-	-	-	121,343,098
Investment in Government Securities	145,445,750	97,519,300	333,998,317	-	-	576,963,367
Deposits with Licensed Commercial Banks & Financial	87,842,270	160,963,832	241,783,818	-	-	490,589,920
Dealing Securities	326,000,000	-	-	-	-	326,000,000
Loans & Advances	253,946,928	327,424,663	776,418,725	1,281,814,356	89,896,592	2,729,501,264
Pawning	12,921,986	33,181,649	532,035,690	-	-	578,139,325
Net Investments in Leases	597,811,848	414,277,006	1,751,706,495	4,273,724,048	58,207,293	7,095,726,690
Net Investments in Hiring Contracts	150,795,081	128,235,469	565,613,428	1,939,960,511	61,637,152	2,846,241,640
Investment Securities	-	-	459,193,600	-	-	459,193,600
Investment in Subsidiaries	-	-	-	-	2,745,447	2,745,447
Trade and Other Receivables	-	-	261,080,749	354,744,904	-	615,825,653
Inventories	84,357,334	126,336,278	-	-	-	210,693,612
Investment Properties	-	-	-	-	20,197,977	20,197,977
<i>Property, Plant and Equipments</i>	-	-	-	141,293,987	329,685,970	470,979,957
Total Assets	1,780,464,295	1,287,938,196	4,921,830,822	7,991,537,807	562,370,431	16,544,141,550
% of Total Assets	11%	8%	30%	48%	3%	
Cumulative %	11%	19%	48%	97%	100%	
Liabilities						
Deposits From Customers	2,371,374,752	2,615,351,594	4,370,875,513	2,031,173,729	-	11,388,775,587
Borrowings	501,696,909	163,628,901	405,773,950	600,039,589	59,066,284	1,730,205,633
Debentures	-	-	-	250,000,000	-	250,000,000
Retirement Benefit obligations	-	-	-	-	28,606,687	28,606,687
Other Liabilities	298,546,860	272,588,685	191,889,594	89,172,743	-	852,197,882
	-	-	-	-	-	-
Shareholders' Funds	-	-	-	-	-	-
Stated Capital	-	-	-	-	1,114,960,915	1,114,960,915
Reserve Fund	-	-	-	-	278,736,884	278,736,884
Revaluation Reserve	-	-	-	-	12,066,286	12,066,286
Investment Fund Reserve	-	-	-	-	21,102,343	21,102,343
Retained Earnings	-	-	-	-	867,489,334	867,489,334
Total liabilities	3,171,618,521	3,051,569,179	4,968,539,056	2,970,386,061	2,382,028,733	16,544,141,550
% of Total liabilities	19%	18%	30%	18%	14%	
Cumulative %	19%	38%	68%	86%	100%	
Maturity Gap	(1,391,154,225)	(1,763,630,984)	(46,708,235)	5,021,151,746	(1,819,658,302)	-
Cumulative Gap	(1,391,154,225)	(3,154,785,209)	(3,201,493,444)	1,819,658,302	-	-

Notes to the financial statements

43. SEGMENTAL ANALYSIS (GROUP)

	Lease & Stock out on Hire		Loans		Pawning		Others		Total	
	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.
Interest	1,880,075,207	1,262,873,334	228,246,656	150,681,998	65,970,230	8,580,821	379,410,216	309,099,523	2,553,702,309	1,731,235,677
Fee Based Income & Others	-	-	-	-	-	-	277,889,907	183,310,802	277,889,907	183,310,802
Mark to market value adjustment	-	-	-	-	-	-	46,593,600	311,690,925	46,593,600	311,690,925
Total Revenue	1,880,075,207	1,262,873,334	228,246,656	150,681,998	65,970,230	8,580,821	703,893,723	804,101,250	2,878,185,816	2,226,237,404
Segmental Results	1,880,075,207	1,262,873,334	228,246,656	150,681,998	65,970,230	8,580,821	703,893,723	804,101,250	2,878,185,816	2,226,237,404
Unallocated Expenses	-	-	-	-	-	-	-	-	(2,231,533,470)	(1,668,228,929)
Profit from Operations	-	-	-	-	-	-	-	-	646,652,346	558,008,475
Income Tax expenses	-	-	-	-	-	-	-	-	(13,877,499)	(29,460,581)
Net Profit for the Period	-	-	-	-	-	-	-	-	632,774,847	528,547,894
Segment Assets	9,941,968,330	6,032,078,115	1,770,685,664	1,162,901,984	578,139,325	171,903,600	958,815,600	489,985,103	13,249,608,919	7,856,868,802
Unallocated Assets	-	-	-	-	-	-	-	-	3,295,121,910	2,361,306,609
Total Assets	-	-	-	-	-	-	-	-	16,544,730,829	10,218,175,411

43. SEGMENTAL ANALYSIS (COMPANY)

	Lease & Stock out on Hire		Loans		Pawning		Others		Total	
	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.	31.03.12 Rs.	31.03.11 Rs.
Interest	1,880,075,207	1,262,873,334	228,246,656	150,681,998	65,970,230	8,580,821	379,410,216	309,023,012	2,553,702,309	1,731,159,166
Fee Based Income & Others	-	-	-	-	-	-	277,682,095	183,172,622	277,682,095	183,172,622
Mark to market value adjustment	-	-	-	-	-	-	46,593,600	311,690,925	46,593,600	311,690,925
Total Revenue	1,880,075,207	1,262,873,334	228,246,656	150,681,998	65,970,230	8,580,821	703,685,911	803,886,559	2,877,978,004	2,226,022,713
Segmental Results	1,880,075,207	1,262,873,334	228,246,656	150,681,998	65,970,230	8,580,821	703,685,911	803,886,559	2,877,978,004	2,226,022,713
Unallocated Expenses	-	-	-	-	-	-	-	-	(2,233,705,425)	(1,664,752,132)
Profit from Operations	-	-	-	-	-	-	-	-	644,272,579	561,270,581
Income Tax expenses	-	-	-	-	-	-	-	-	(13,839,677)	(29,460,581)
Net Profit for the Period	-	-	-	-	-	-	-	-	630,432,902	531,810,000
Segment Assets	9,941,968,330	6,032,078,115	1,770,685,664	1,162,901,984	578,139,325	171,903,600	958,815,600	489,985,103	13,827,748,244	7,856,868,802
Unallocated Assets	-	-	-	-	-	-	-	-	2,716,393,306	2,362,380,441
Total Assets	-	-	-	-	-	-	-	-	16,544,141,550	10,220,225,494

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.

Total Risk Weighted Asset Computation

	Balance			Risk Weight Factor %	Risk Weighted Balances		
	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000		2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
As at 31 March							
Assets							
Cash and cash equivalent	121,343	49,343	7,165	0%	-	-	-
Investment in Government Securities	902,963	698,952	700,065	0%	-	-	-
Deposits with LCB	490,590	263,094	144,048	20%	98,118	52,619	28,810
Cash backed advances	958,816	489,985	399,810	0%	-	-	-
Pawning	578,139	171,904	3,372	0%	-	-	-
Loans against Real Estate	-	-	43,864	50%	-	-	21,932
Loans and advances	1,770,685	1,162,902	763,809	100%	1,770,685	1,162,902	763,809
Finance lease receivables	7,095,726	4,732,503	2,949,261	100%	7,095,726	4,732,503	2,949,261
Hire purchase receivables	2,846,242	1,299,575	874,968	100%	2,846,242	1,299,575	874,968
Other investment	462,020	417,600	105,909	100%	462,020	417,600	105,909
Inventories	210,693	149,634	203,216	100%	210,693	149,634	203,216
Other assets	615,826	526,713	259,449	100%	615,826	526,713	259,449
Property, plant & equipment	491,178	258,020	220,868	100%	491,178	258,020	220,868
Total Risk - Weighted Assets	16,544,221	10,220,225	6,675,804		13,590,488	8,599,566	5,428,222

Capital adequacy

Total Capital Base Computation

	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	
Capital Base				
Core Capital				
Stated Capital	1,114,961	396,850	396,850	
Reserve Fund	278,737	152,650	46,288	
General & other free Reserves	21,102	3,012		
Published Retained Earnings	867,489	457,587	54,993	
Total Core Capital	2,282,289	1,010,099	498,131	
Supplimentary Capital				
General Provisions	31,754	69,691	-	
Total Supplimentary Capital	31,754	69,691	-	
Capital Base	2,314,043	1,079,790	498,131	
Capital Adequacy ratio				
Core Capital ratio	$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}}$	16.79%	11.75%	9.18%
Total Capital Ratio	$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}}$	17.03%	12.56%	9.18%

New Accounting Standards issued but not effective as at Balance Sheet date

The Company has made preliminary impact quantification of the transition to new SLFRS and presented below. Estimation in this report has been made on a best effort basis and is subject to Audit.

The Institute of Chartered Accountants of Sri Lanka has issued a new/revised volume of Accounting Standards which have become applicable for financial accounting periods beginning on or after 1st January 2012. These Accounting Standards comprise of Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed

SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRS's. The said new / revised standards have become applicable to CDB from 1st April 2012 and accordingly the reporting framework for the year ending 31st March 2013 will be LKAS / SLFRS. Given the complexities and technical expertise required in the process of convergence, Citizens Development Business Finance PLC carried out an initial impact analysis with the assistance of an external consultant based on the 31st March 2011 balances. Using the same methodology we have extended its impact analysis to Financial Statement as of 31st March 2012 to

approximately assess the potential impact on the financial statements had these said standards been applied for the year ended 31st March 2012. As this is only a preliminary assessment of the potential effects of these Standards, it is based on a few assumptions and approximation.

Table below outlines the impact of the new standards to the financial statements of CDB

LKAS 32 – Financial Instrument Presentation		
LKAS 32 – Financial Instrument : Recognition and measurement		
SLFRS 7 – Financial Instrument : Disclosure		
Impact on overall financial statement level		
Description	Requirement of the standard	Impact assessment for CDB
Recognition of Financial instruments in the financial statements	A financial instrument is a contract that gives rise to: a financial asset of one entity and a financial liability or equity instrument of another entity	The following items have been identified as financial instruments in CDB financial statements Quoted/ Unquoted Equity securities Quoted Debentures Treasury Bills Bank Deposits Reverse Re-purchase agreements Loans and Advances Trade and Other receivables Deposits from customers Securitization and other borrowings Debentures Other payables
Initial measurement of Financial assets and liabilities	When a financial asset or a financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.	In order to convergence to new standard CDB first measured its financial assets and financial liabilities as at 31 st March 2011 at fair value and remeasured as at 31 March 2012.

New Accounting Standards Issued But Not Effective as at Balance Sheet Date

Classification of financial assets and financial liabilities	For the purpose of measuring a financial asset after initial recognition, this Standard classifies financial assets into the following four categories: Financial assets at fair value through profit or loss; Held-to-maturity investments; Loans and receivables Available-for-sale financial assets.	CDB has classified its financial asset as follows. Held-to-maturity investments Quoted Debentures Treasury Bills Loans and receivables Bank Deposits Reverse Re-purchase agreements Loans and Advances Trade and Other receivables Available-for-sale financial assets Quoted/ Unquoted Equity securities
Subsequent Measurement of Financial Assets and Financial Liabilities	Subsequent Measurement of Financial Assets and Financial Liabilities should be as follows according to their classification. Financial assets at fair value through profit or loss and Available-for-sale financial assets should be measured at fair value Held-to-maturity investments and Loans and receivables should be measured at amortized cost	CDB has established necessary policies and procedure for subsequent measurement of financial assets and financial liabilities based on their classification
Impact on financial statement item level		
Financial Statement item	Impact assessment	
Investment in Treasury Bills and Treasury Bonds	<p>Classification: Investments in Treasury Bills and Treasury bonds will be classified under the category of HTM.</p> <p>Measurement: Initial measurement should be at fair value. Subsequent measurement should be at amortized cost</p> <p>Measurement impact as at 31st March 2012</p> <p>Currently investments in Treasury Bills and Treasury bonds recorded at cost which amounted to Rs. 560,822,756 and 16,140,610 respectively, The amount to be recorded as per amortized cost is approximately Rs. 571,257,542 and Rs. 16,324,987</p>	
Quoted Equity Securities	<p>Classification: Quoted Equity Securities will be classified under the category of Available for Sale.</p> <p>Measurement: measurement should be at fair value. To obtain the fair value market price should be used.</p> <p>Measurement impact as at 31st March 2012</p> <p>Currently quoted equity securities recorded at market value. Therefore charring amount under new standards will not have a impact. Under new standard, fair value difference should be included in other comprehensive income will be shown in the balance sheet under AFS reserve. Total AFS reserve as at balance sheet date is Rs 357,284,525</p>	

Investment in REPOs	<p>Classification: Investment in REPOs will be categorized as loans and receivable</p> <p>Measurement: Initial measurement should be at fair value. Subsequent measurement should be at amortized cost</p> <p>Measurement impact as at 31st March 2012</p> <p>Currently investments in REPOs are recorded at cost which amounted to Rs. 326,000,000. As PEROs are very short maturity (one day, one week) investments, there is no material difference between cost and amortized cost</p>
Investments in fixed deposit in commercial bank	<p>Classification: Investment in fixed deposits will be categorized as loans and receivable</p> <p>Measurement: Initial measurement should be at transaction value. Subsequent measurement should be at amortized cost</p> <p>Measurement impact as at 31st March 2012</p> <p>Currently investments in fixed deposits are recorded at cost which amounted to Rs. 490,589,920. The amount to be recorded as per amortized cost is approximately Rs. 504,888,341</p>
Investment in Quoted debenture	<p>Classification: Investment in quoted debenture will be in the category of Held - To - Maturity</p> <p>Measurement: Initial measurement should be at fair value. Subsequent measurement should be at amortized cost</p> <p>Measurement impact as at 31st March 2012</p>
Loans and advances	<p>Classification: Classification of loans and advances should be at Loans & Receivables (L&R)</p> <p>Measurement: Initial measurement should be at fair value and subsequent measurement should be at amortized cost respectively. At initial measurement any processing fee should be deducted from the loan amount and should be recognized as income over the period of the loan.</p>
Staff Loans below market rates	<p>Classification: Classification should be under Loans and Advances.</p> <p>Measurement: Initial measurement should be at fair value. The market rate should be used to calculate the fair value. Difference between fair value and loan amount should be treated as prepaid staff expenses.</p> <p>Subsequent measurement should be at amortized cost.</p> <p>Measurement impact as at 31st March 2012</p> <p>The Subcommittee for IFRS convergence for Finance Companies and Leasing companies has taken the following decision regarding the staff loan below market rates.</p> <p>“With a view to simplify the valuation process, an entity may consider that the first date of application of the new Accounting Standards (1st Jan or 1st Apr 2012 as the case may be) as the date of granting the loan. Accordingly an entity will assume that all employee loans granted before such date have been fully settled on such date and new loans would be granted on the same date for the same amount.”</p> <p>Based on the above, CDB measured the staff loan as at 1st April 2012 by taking the comparable market rate as 15%. The day one difference of loans which should be considered as prepaid staff cost amounted to approximately Rs. 46,287,902.</p>

New Accounting Standards Issued But Not Effective as at Balance Sheet Date

Deposit from Public	<p>Classification: Classification should be under other liabilities.</p> <p>Measurement: Initial measurement should be at fair value. Transaction cost should be taken to income statement</p> <p>Subsequent measurement should be at amortized cost using effective interest rate.</p> <p>Measurement impact as at 31st March 2012</p> <p>Currently deposits from public are recorded at cost which amounted to Rs. 11,388,775,586. The amount to be recorded as per amortized cost is approximately Rs. 11,699,662,913 which result in a increase of Rs. 310,887,327.</p>																		
Borrowings Securitization Commercial Papers Other borrowings Debenture	<p>Classification: Classification should be under other liabilities.</p> <p>Measurement: Initial measurement should be at fair value. Transaction cost should be taken to income statement</p> <p>Subsequent measurement should be at amortized cost using effective interest rate.</p> <p>Measurement impact as at 31st March 2012</p> <p>Currently, these liabilities are stated at cost. The difference between cost and amortized cost is approximately as follows.</p> <table border="1" data-bbox="424 1149 1270 1361"> <thead> <tr> <th></th> <th>Cost</th> <th>Amortized Cost</th> </tr> </thead> <tbody> <tr> <td>Borrowings</td> <td>685,836,302</td> <td>793,120,883</td> </tr> <tr> <td>Securitized</td> <td>882,107,058</td> <td>940,546,333</td> </tr> <tr> <td>Commercial Papers</td> <td>65,000,000</td> <td>66,854,591</td> </tr> <tr> <td>Bank Borrowings</td> <td>97,262,273</td> <td>97,262,273</td> </tr> <tr> <td>Debentures</td> <td>250,000,000</td> <td>257,898,117</td> </tr> </tbody> </table>		Cost	Amortized Cost	Borrowings	685,836,302	793,120,883	Securitized	882,107,058	940,546,333	Commercial Papers	65,000,000	66,854,591	Bank Borrowings	97,262,273	97,262,273	Debentures	250,000,000	257,898,117
	Cost	Amortized Cost																	
Borrowings	685,836,302	793,120,883																	
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Bank Borrowings	97,262,273	97,262,273																	
Debentures	250,000,000	257,898,117																	
Impairment of Loans and Receivable	<p>Levels of impairment assessment:</p> <p>As per the requirement of the standards impairment of loan and advances should be assessed on following basis</p> <p>Individually significant loans are to be assessed individually for impairment</p> <p>Individually not significant loans, together with the individually significant loans determined not to be impaired, are to be assessed collectively (Collective impairment)</p> <p>Accordingly CDB used following parameters to recognized a loan as an individually significant loan</p> <p>Amount of the loan Arrears position Vehicle type Industry Geographical location</p>																		

	<p>Collective Impairment</p> <p>Collective assessment intends to capture losses known to exist in the portfolio but not yet evident ('incurred but not reported' losses)</p> <p>In order to do the collective impairment assessment, CDB has categorized its loan portfolio in to following sub categories based on the risk characteristics attributable to the loans.</p> <p>Finance lease – Micro Finance lease – Commercial Vehicle Finance Lease – Private use vehicle Hire purchase Vehicle loans Other loans</p> <p>CDB in the process of categorizing the loan portfolio in more details to better reflect the risk characteristics.</p> <p>Collective Impairment assessment will be done on historical loss ratio of each group of loan mentioned above.</p> <p>Historical loss ratio is calculated based on Net Flow Rate (NFR) and Loss Given Default (LGD)</p> <p>For the calculation of above, a loan is considered as default if loan is arrears for more than six rentals or issue a repossessed order whichever is earlier.</p> <p>Based on our preliminary assessment of impairment as per the above methods, the total provision for loans and advances as at 31st March 2012 is as follows.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">Provision as per current practice</th> <th rowspan="2">Provision as per IFRS</th> </tr> <tr> <th>Specific</th> <th>General</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Lease</td> <td style="text-align: right;">131,343,663</td> <td style="text-align: right;">18,168,118</td> <td style="text-align: right;">149,511,781</td> <td style="text-align: right;">155,511,588</td> </tr> <tr> <td>HP</td> <td style="text-align: right;">28,631,577</td> <td style="text-align: right;">7,171,187</td> <td style="text-align: right;">35,802,764</td> <td style="text-align: right;">17,983,934</td> </tr> <tr> <td>Loan</td> <td style="text-align: right;">15,787,899</td> <td style="text-align: right;">6,414,945</td> <td style="text-align: right;">22,202,844</td> <td style="text-align: right;">13,471,853</td> </tr> <tr> <td></td> <td style="text-align: right;">175,763,139</td> <td style="text-align: right;">31,754,250</td> <td style="text-align: right;">207,517,389</td> <td style="text-align: right;">197,281,394</td> </tr> </tbody> </table>		Provision as per current practice			Provision as per IFRS	Specific	General	Total	Lease	131,343,663	18,168,118	149,511,781	155,511,588	HP	28,631,577	7,171,187	35,802,764	17,983,934	Loan	15,787,899	6,414,945	22,202,844	13,471,853		175,763,139	31,754,250	207,517,389	197,281,394
	Provision as per current practice			Provision as per IFRS																									
	Specific	General	Total																										
Lease	131,343,663	18,168,118	149,511,781	155,511,588																									
HP	28,631,577	7,171,187	35,802,764	17,983,934																									
Loan	15,787,899	6,414,945	22,202,844	13,471,853																									
	175,763,139	31,754,250	207,517,389	197,281,394																									

SLFRS 1 – “First time adoption of International Financial reporting Standards”	
Impact on overall financial statement level	
Requirement of the standard	Impact assessment for CDB
This Standard applied to the Company when it first applied SLFRS / LKAS. The opening SLFRS statements of financial position at the date of transition to SLFRSs need to be prepared. The same accounting policies should be used in its opening SLFRS Statements of financial position and throughout all periods presented in its first SLFRs financial statements.	CDB is in the process of preparing the financial statements under SLFRS and will provide an explanation how the transition from SLAS to SLFRSs affected its reported financial position, financial performance and cash flows.

In addition to the above, there may be some impact with the adoption of other new / revised Accounting standards which have become effective from 1st January 2012, and CDB does not expect any material impact.

CDB will also experience changes in presentation and disclosure requirements under the new / revised accounting standards from the year ending 31st March 2013 onwards.

Investor Relations

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 held the positions of Directors during the financial year	Annual Report of the Board of Directors on the Affairs of the Company	100 -107
7.6 (ii)	Principal activities of the Entity and its Subsidiaries during the year and any changes therein	Notes to the Financial Statements Annual Report of the Board of Directors on the Affairs of the Company	100 -107
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	Investor Relations	158 -163
7.6 (iv)	The Public Holding percentage	Investor Relations	158 - 163
7.6 (v)	The statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at end of financial year	Annual Report of the Board of Directors on the Affairs of the Company	100 - 107
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk Management	57 - 67
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	N/A
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	142
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the Financial Statements Investor Relations	144
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	158 - 163
7.6 (xi)	Equity Ratios Market Value Debenture Information	Investor Relations	158 - 163
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	N/A

Rule No	Disclosure Requirement	Section Reference	Page Reference
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	Investor Relations Annual Report of the Board of Directors on the Affairs of the Company	144
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the Financial Statements Annual Report of the Board of Directors on the Affairs of the Company	136
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	44 - 56
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	Notes to the Financial Statements	146 - 147

Stock Exchange Listing

The unaudited interim financial statements for the three quarters in the financial year 2011/12 have been submitted to the Colombo Stock Exchange within 45 days from the respective quarter ends and the unaudited interim financial statement for the final quarter was submitted to the Colombo Stock Exchange within Two months from the end of final quarter.

The issued ordinary shares of Citizens Development Business Finance PLC are listed with the Colombo Stock Exchange and the audited Income Statement for the year ended 31st March 2012 and the audited Balance Sheet of the Company as

at 31st March 2012 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".

Rights Issue

CDB managed to conduct a right issue successfully in August 2011 which was fully subscribed. The purpose of the rights issue was mainly to raise funds to part finance the leasing, hire purchase and loan disbursements during the financial year 2011/2012.

For the existing shareholders 6,614,175 new ordinary voting shares at Rs 70.00 per share and 5,669,293 ordinary nonvoting Shares at Rs. 45.00 per share was offered by way of a rights issue. The basis for the rights issue was one ordinary voting share for every six ordinary voting shares held (1:6) and one ordinary nonvoting share for every seven ordinary voting shares held (1:7). Company raised Rs. 718,110,435/- worth of fresh capital from the rights issue. (Rs. 462,992,250/- from voting & Rs. 255,118,185/- from non-voting) further enhancing capital adequacy of the company.

Investor Relations

	2006	2007	2008	2009/10*	2010/11	2011/12
Earnings per Share	3.00	3.03	2.51	1.60	13.40	13.10
Dividend per Share	-	-	-	0.50	2.00	2.50*
Dividend Payout Ratio				31.25%	15.69%	18.32%
Net Assets per share	5.05	8.08	10.93	12.93	25.83	44.15%
Return on Equity	106.69%	46.26%	25.20%	18.74%	69.78%	37.98%

* Proposed Dividend

Share Prices

Prices for the Year Ended 31st March 2012

	Voting Rs	Non-Voting Rs
High	109.00	69.00
Low	39.00	41.20
Last traded	40.50	54.00

Share Trading Information

	Ordinary - Voting Shares		Ordinary Non- Voting Shares	
	2010/11	2011/12	2010/11	2011/12
No of Transactions	12,181	8,270	-	1,685
No of Shares Traded	12,318,200	12,303,772	-	4,048,206
Value of Shares Traded	934,191,580.00	983,554,597.20	-	221,117,474.60

Market Capitalization as at 31/03/2012

	Rs.
Voting	1,875,118,531.50
Non Voting	306,141,822.00
Total	2,181,260,353.50

Twenty largest Shareholders (Voting) of the Company as at 31/03/2012

	Shareholder/s Name	No of Shares	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.SENTHILVERL	1,775,000	3.83
5	PERPETUAL CAPITAL (PRIVATE) LIMITED	1,518,300	3.28
6	T F C HOMES (PRIVATE) LIMITED	1,250,000	2.70
7	ASIA MANAGEMENT CONSULTANCY (PRIVATE) LIMITED	706,622	1.53
8	D. KOTTHOFF	471,099	1.02
9	LITTLE SMILE ORGANIC (PVT) LTD	416,500	0.90
10	J. A. LEANAGE	346,099	0.75
11	PREMIUM BRANDS (PVT) LIMITED	243,833	0.53
12	L. M. S. H. ALNAQIB	200,700	0.43
13	SEYLAN BANK PLC/THIRUGNANASAMBANDAR SENTHILVERL	196,700	0.42
14	W. S. R. FERNANDO	137,900	0.30
15	CAPTAIN M. A. L. RATNAYAKE	137,100	0.30
16	DR. C. GUNASEKARA	131,700	0.28
17	PAN ASIA BANKING COPORATION PLC/ MR.S.M.PL.JAYARATNE	125,000	0.27
18	REV. J. N. FERNANDO	125,000	0.27
19	A. M. SUBRAMANIAM & S. RAGULAN	122,500	0.26
20	W. M. N. DABARERA	118,942	0.26
	Top 20 Total	37,018,445	79.95
	Others	9,280,778	20.05
	Grand Total	46,299,223	100.00

Public Holding (Voting)

The percentage of shares held by the public as at 31 March 2012 is 36.94%

Investor Relations

Twenty largest Shareholders (Non-Voting) of the Company as at 31/03/2012

	Shareholder/s Name	No of Shares	Percentage (%)
1	J.B. COCOSHELL (PVT) LTD	532,600	9.39
2	SEYLAN BANK PLC/HVA LANKA EXPORTS (PRIVATE) LIMITED	372,150	6.56
3	D. P. J. JAYAMAHA	292,700	5.16
4	SEYLAN BANK PLC/ RADHEESH EVAN SELLAMULLU	278,351	4.91
5	J. A. LEANAGE	265,780	4.69
6	J. H. LEANAGE	250,300	4.42
7	CEYLINCO INSURANCE PLC A/C NO 2 (GENERAL FUND)	226,933	4.00
8	H. N. ESUFALLY	200,000	3.53
9	M. J. FERNANDO	200,000	3.53
10	CAPTAIN M. A. L. RATNAYAKE	184,000	3.25
11	D. R. J. LEANAGE	180,100	3.18
12	COMMERCIAL BANK OF CEYLON PLC/R.E.SELLAMUTTU	162,200	2.86
13	G. H. I. JAFFERJEE	150,000	2.65
14	J. R. FERNANDO	149,000	2.63
15	I. M. DABAH	100,000	1.76
16	H. A. ABDULHUSSAIN	100,000	1.76
17	M. A. VALABJI	100,000	1.76
18	M. A. H. ESUFALLY	100,000	1.76
19	JAFFERJEE INVESTMENTS (PVT) LTD.	100,000	1.76
20	GOLD INVESTMENT LIMITED.	100,000	1.76
	Total	4,044,114	71.33
	Others	1,625,179	28.67
	Grand Total	5,669,293	100.00

Public Holding (Non-Voting)

The percentage of shares held by the public as at 31st March 2012 is 99.23%

Information on Shareholding

Ordinary Voting Shares Shareholder Analysis

	RESIDENT			NON RESIDENT			TOTAL		
	No of Shareholders	No of Shares	(%)	No of Shareholders	No of Shares	(%)	No of Shareholders	No of Shares	(%)
1 to 1,000 Shares	1,325	536,688	1.16	2	400	0	1,327	537,088	1.16
1,001 to 10,000 Shares	731	2,842,777	6.14	8	54,400	0.12	739	2,897,177	6.26
10,001 to 100,000 Shares	216	5,707,472	12.33	1	34,500	0.07	217	5,741,972	12.4
100,001 to 1,000,000 Shares	12	2,566,338	5.54	3	1,017,898	2.2	15	3,584,236	7.74
Over 1,000,000 Shares	6	33,538,750	72.44	0	-	-	6	33,538,750	72.44
	2,290	45,192,025	97.61	14	1,107,198	2.39	2,304	46,299,223	100.00

Shareholder Composition

Categories of Shareholders	No of Shareholders	No of Shares	Percentage (%)
Individual	2,221	9,981,228	21.56
Institutional	83	36,317,995	78.44
Total	2,304	46,299,223	100.00

Ordinary Non Voting Shares

Shareholder Analysis

	RESIDENT			NON RESIDENT			TOTAL		
	No of Shareholders	No of Shares	(%)	No of Shareholders	No of Shares	(%)	No of Shareholders	No of Shares	(%)
1 to 1,000 Shares	329	62,437	1.1	-	-	-	329	62,437	1.1
1,001 to 10,000 Shares	79	260,020	4.59	-	-	-	79	260,020	4.59
10,001 to 100,000 Shares	29	1,397,222	24.65	6	505,500	8.92	35	1,902,722	33.57
100,001 to 1,000,000 Shares	13	3,178,334	56.06	1	265,780	4.69	14	3,444,114	60.75
Over 1,000,000 Shares	-	-	-	-	-	-	-	-	-
	450	4,898,013	86.39	7	771,280	13.61	457	5,669,293	100.00

Shareholder Composition

	No of Shareholders	No of Shares	Percentage (%)
Individual	428	3,455,154	60.95
Institutional	29	2,214,139	39.05
Total	457	5,669,293	100.00

Debenture Issues

Issue No	Purpose	Type *	Total Value	Issue Date	Tenure	Investor	Balance as at 31/03/2012
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

RAM Ratings Lanka upgraded the respective long- and short-term financial institution ratings of Citizens Development Business Finance PLC, from BBB- / P3 to BBB / P2 in January 2012. At the same time, RAM Ratings Lanka has also upgraded the long-term rating of CDB's LKR 250 million Unsubordinated Unsecured Redeemable Unlisted Debentures, from BBB- to BBB.

Quarterly Statistics

For the Quarter ended (Rs 000)	2011/2012				2010/2011			
	31 March	31 December	30 September	30 June	31 March	31 December	30 September	30 June
Balance Sheet								
Total Assets	16,544,141	14,830,744	13,382,814	11,159,638	10,220,923	8,917,312	7,823,628	7,125,254
Lease, Hire Purchase and Loans	13,249,609	11,910,102	10,313,096	8,833,005	7,855,034	6,862,032	6,073,022	5,434,351
Deposits & Borrowings	13,368,981	11,931,605	10,682,275	9,230,261	8,491,890	7,488,485	6,610,715	6,072,241
Shareholder's Funds	2,294,356	2,062,139	1,905,125	1,105,257	1,026,346	804,132	593,433	548,142
Income Statement								
Revenue	850,109	731,722	723,580	572,567	734,116	609,437	465,984	416,485
Net Interest Income	361,554	334,649	292,206	259,613	235,169	217,859	203,493	161,852
Other Income	100,228	57,764	126,207	40,076	244,907	166,370	46,867	36,719
Net Income	461,784	392,413	418,413	299,689	480,076	384,229	250,360	198,571
Provision For Loan Losses	(6,618)	36,883	(5,085)	(7,950)	(73,594)	15,000	(10,000)	(12,000)
Non Interest Expenses	(246,564)	(254,190)	(238,867)	(205,635)	(175,449)	(179,530)	(168,853)	(146,066)
Income Tax Expenses	23,615	(18,092)	(13,334)	(6,029)	(9,934)	(9,000)	(6,000)	(6,000)
Net Profit After Tax	232,217	157,014	161,127	80,075	221,099	210,699	65,507	34,505
Financial Measures								
Net Assets Value Per Ordinary Shares (Rs.)	44.15	39.68	36.66	27.85	25.83	20.26	14.94	13.81
Profitability								
Return On Average Share Holders' Equity (Annualized) (%)	42.64	31.66	42.82	30.07	72.53	90.49	34.45	37.78
Productivity								
Non Interest Expenses to Total Revenue (%)	29.78	29.70	33.71	37.30	23.90	29.46	36.24	35.07
Asset Quality								
Non Performing Ratio (%)	1.67	2.15	2.75	3.19	3.64	4.48	5.44	6.70

Submission of the Interim Financial Statements (Unaudited) in terms of the Listing Rule no 7.4 of the Colombo Stock Exchange.

2011/12

For the 3 Months ended 30 June 2011	28 July 2011
For the 3 Months and 6 Moths ended 30 September 2011	7 October 2011
For the 3 Months and 9 Moths ended 31 December 2011	26 January 2012
For the 3 Months and 12 Moths ended 31 March 2012	29 May 2012

Value Added Statement

	2011/12 (Rs.)	%	2010/11 (Rs.)	%
Net interest income earned by providing financial services	1,248,022,881		818,372,714	
Cost of Services	565,421,656		389,994,996	
	682,601,225		428,377,718	
Non Financial income	324,275,695		494,863,547	
Provision for Bad Debts	17,230,396		(80,594,749)	
Value added	1,024,107,316		842,646,516	
Distribution of value added				
To employees				
salaries, wages and other benefits	293,098,247	29	214,693,324	25
To providers of capital				
Dividend paid/proposed	129,921,289	13	79,370,096	9
To government				
Value added tax	28,198,982	3	24,040,074	3
Income Tax Debit Tax	13,839,677	1	29,460,581	4
Debit tax	-		7,682,670	1
To expansion and growth				
Retained as reserves	500,511,614	49	452,439,904	54
Retained as depreciation	58,537,507	6	34,959,867	4
	1,024,107,316	100	842,646,516	100

Summary of Past Performance

	2003	2004	2005
OPERATING RESULTS			
Total Income	122,903,720	217,652,771	363,776,408
Interest Income	116,655,458	201,720,370	337,853,081
Interest Expenses	104,485,863	137,273,470	206,205,522
Net Interest Income	12,169,595	64,446,900	131,647,559
Other Income	6,248,262	15,932,401	25,923,328
Net Income	18,417,857	80,379,301	157,570,887
Operating Expenses	44,813,986	59,029,714	110,389,472
Personal Cost	12,925,852	18,775,501	31,863,071
Other Administration & General Expenses	31,888,134	40,254,213	78,614,505
Provision for bad and Doubtful Debts - General	17,375,484	10,448,280	7,700,000
Provision for bad and Doubtful Debts - Specific	-	-	-
Provision for Diminution in Value of Investment	-	-	-
Profit / (Loss) Before Taxation	(43,771,613)	10,901,307	39,481,414
Taxation	-	-	-
Profit / Loss After Taxation	(43,771,613)	10,901,307	39,481,414
Personal Cost / To Revenue (%)	10.52%	8.63%	8.76%
Operation Expenses/ To Revenue (%)	36.46%	27.12%	30.35%
LIABILITIES			
Customer Deposits	-	-	-
Borrowings	910,763,547	1,400,539,942	2,382,991,283
Other Payables	85,880,861	127,413,674	192,987,250
Total Liabilities	996,644,408	1,527,953,616	2,575,978,533
SHAREHOLDERS' FUNDS			
Stated Capital	80,258,630	124,932,920	135,682,920
Unallotted Share Advance	-	-	80,946
Revaluation Reserve	15,082,857	15,082,857	-
Reserves	(185,890,550)	(174,989,244)	(135,507,830)
Investment Fund Reserve	-	-	-
Reserve Funds	-	-	-
Shareholders Funds	(105,631,920)	(50,056,324)	256,036
Total Liabilities & Shareholders' Funds	891,012,488	1,477,897,292	2,576,234,569
ASSETS			
Cash and Short Term Funds	8,729,265	18,755,942	30,911,397
Investments	60,443,468	55,389,940	46,819,287
Lease Rentals and Receivables	623,311,164	1,035,077,727	1,534,071,433
HP Rentals and Receivables	-	-	234,684,103
Loan Assets	63,838,757	215,249,042	501,931,479
Property Plant and Equipment	12,616,058	24,173,669	52,896,686
Other Assets	122,073,776	56,379,826	174,920,184
Total Assets	891,012,488	1,477,897,292	2,576,234,569
RATIOS			
Growth in Incom (%)	196%	77%	67%
Growth in Interest Expenses (%)	80%	31%	50%
Growth in Other Expenses (%)	64%	32%	87%
Growth in Profit After Tax (%)	-	75%	262%
Growth in Total Assets (%)	74%	66%	74%
Earnings Per Share	-5.45	0.87	3.09
Return on Average Assets (%)	(6.24%)	0.92%	1.95%
Dividend Per Share	-	-	-

* 15 Month period

** Proposed Dividend

2006	2007	2008	2009/10*	2010/2011	2011/2012
638,279,950	1,054,206,933	1,638,454,558	1,898,899,386	2,226,022,713	2,877,978,004
598,470,528	989,218,343	1,496,219,576	1,794,819,119	1,731,159,166	2,553,702,309
387,165,977	670,401,052	1,092,348,424	1,190,634,646	912,786,452	1,305,679,428
211,304,551	318,817,291	403,871,152	604,184,473	818,372,714	1,248,022,881
39,809,422	64,988,590	142,234,982	104,080,267	494,863,547	324,275,695
251,113,973	383,805,881	546,106,134	708,264,739	1,313,236,261	1,572,298,576
177,131,697	294,248,502	406,509,629	515,721,918	647,649,412	917,057,411
56,734,625	84,797,365	121,024,590	163,536,615	214,693,324	293,098,247
120,397,072	209,451,137	285,485,039	352,185,303	432,956,088	623,959,164
-	-	-	-	69,681,446	(37,927,196)
17,602,253	27,740,197	55,923,046	91,282,710	10,594,749	20,696,800
12,332,275	12,332,276	-	-	-	-
44,047,748	49,484,906	71,237,175	88,739,701	561,270,581	644,272,579
-	157,484	5,947,671	9,163,093	29,460,581	13,839,677
44,047,748	49,327,422	65,289,504	79,576,608	531,810,000	630,432,902
8.89%	8.04%	7.39%	8.61%	9.64%	10.18%
27.75%	27.91%	24.81%	19.62%	29.09%	31.86%
-	-	-	4,837,875,995	7,488,743,205	11,388,775,587
3,627,849,488	4,918,339,725	5,684,698,562	828,926,204	1,002,146,881	1,980,205,633
368,175,209	474,560,224	676,793,306	495,786,661	704,152,887	880,804,568
3,996,024,697	5,392,899,949	6,361,491,868	6,162,588,860	9,195,042,973	14,249,785,788
162,907,480	162,907,480	396,850,480	396,850,480	396,850,480	1,114,960,915
-	-	-	-	-	-
-	-	15,082,857	15,082,857	15,082,857	12,066,286
(95,678,628)	(48,851,206)	15,205,100	54,993,404	457,586,665	867,489,334
-	-	-	-	3,012,215	21,102,343
-	2,500,000	6,500,000	46,288,304	152,650,304	278,736,884
82,311,709	131,639,131	433,638,437	513,215,045	1,025,182,521	2,294,355,762
4,078,336,406	5,392,899,949	6,795,130,305	6,675,803,905	10,220,225,494	16,544,141,550
27,157,566	61,985,045	10,617,132	7,165,259	49,343,058	121,343,098
224,676,024	493,383,949	518,592,354	844,112,362	511,573,349	576,963,367
2,121,209,635	2,602,280,712	3,555,556,342	2,949,261,028	,732,503,045	7,095,726,690
581,412,209	793,943,289	791,322,113	874,967,565	1,299,575,070	2,846,241,640
867,375,402	1,181,446,815	1,287,421,740	1,210,855,151	1,824,790,687	3,307,640,589
104,432,757	129,852,708	198,647,455	200,669,868	237,821,921	470,979,957
152,072,813	130,007,432	432,973,169	588,772,672	1,564,618,365	2,125,246,209
4,078,336,406	5,392,899,949	6,795,130,305	6,675,803,905	10,220,225,494	16,544,141,550
75%	65%	55%	16%	17%	29%
88%	73%	63%	9%	-23%	43%
60%	66%	38%	27%	26%	42%
12%	12%	32%	22%	568%	19%
58%	32%	26%	(2%)	53%	62%
3	3.03	2.51	1.6	12.75	13.10
1.32%	1.04%	1.17%	1.32%	6.30%	4.71%
-	-	-	0.5	2.00	2.50**

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 SIXTEENTH ANNUAL GENERAL MEETING OF CITIZENS DEVELOPMENT BUSINESS FINANCE PLC WILL BE HELD ON 28th JUNE 2012 AT THE LIBERTY BALLROOM OF HOTEL RAMADA COLOMBO, NO 30, SIR MOHAMED MACAN MARKAR MAWATHA COLOMBO 03 AT 10.00 A.M.

AGENDA

1. To receive consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended March 31, 2012 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolution by way of an ordinary resolution

THAT the Company declares a dividend of Rupees Two and Cents Fifty (Rs 2.50) per share on both its 46,299,223 voting ordinary shares and 5,669,293 nonvoting ordinary 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 for the financial year ended 31st March 2012.

THAT the aforesaid dividend be in the form of Rupees One (Rs 1/-) per share as a cash dividend and Rupees One and Cents Fifty (Rs 1.50) as a scrip dividend to be satisfied by the issue of new nonvoting ordinary shares of the Company each of which would be valued at Rs 30/- per share and such new shares shall be issued on the basis of the following ratios:

- (a) 01 new ordinary nonvoting share for every 22.222224 existing ordinary voting shares.
- (b) 01 new ordinary nonvoting share for every 22.222224 existing ordinary nonvoting shares.

THAT any residual fractions arising on the scrip dividend be settled in cash.

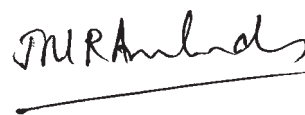
That the new ordinary nonvoting shares to be so issued, immediately consequent to due allotment thereof to the entitled shareholders, shall rank equal and pari passu in all respects with the existing issued and fully-paid ordinary nonvoting shares of the Company and will be listed on the CSE.

That the new ordinary non voting shares to be so allotted and issued shall not be eligible for the payment of the cash dividend declared hereby and which cash dividend shall accordingly be

payable only upon existing issued and fully paid ordinary voting and non voting shares.

3. To re-elect Directors in place of those vacating/retiring by rotation or otherwise, as given below:
 - (a) Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara
 - (b) Mr. Pattiyage Namal Chrishantha Gomes
 - (c) Mr. Tennakoon Mudiyanseelage Damith Prasanna Tennakoon
 - (d) Mr. Don Herschel Jayapriithi Gunawardana
 - (e) Mr. Prasad Asanka Joseph Jayawardena
 - (f) Mr. Sri Ranga Abeynayake
 - (g) Mr. Dave Anthony De Silva
 - (h) Dr. Ajantha Dharmasiri
4. To re-appoint Messrs KPMG (Chartered Accountants) as Auditors and authorise the Directors to determine their remuneration.
5. To authorize the Directors to determine Contributions to Charities and other donations for the ensuing year.

By Order of the Board Of Directors of
CITIZENS DEVELOPMENT BUSINESS FINANCE PLC
S S P CORPORATE SERVICES (PRIVATE) LIMITED



SECRETARIES

31 May 2012

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 Company, Citizens Development Business Finance PLC, No 18, Sangaraja Mawatha, Colombo 10 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 Jayapriithi Gunawardana whom failing
Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara whom failing
Mr. Pattiyage Namal Chrishantha Gomes whom failing
Mr. Tennakoon Mudiyanseelage 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

as my /our proxy to represent me/us and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 28 day of June 2012 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 31,2012 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors. (A separate circular is attached)	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those vacating/retiring by rotation or otherwise, as given below:		
(a) Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. Pattiyage Namal Chrishantha Gomes	<input type="checkbox"/>	<input type="checkbox"/>
(c) Mr. Tennakoon Mudiyanseelage Damith Prasanna Tennakoon	<input type="checkbox"/>	<input type="checkbox"/>
(d) Mr. Don Herschel Jayapriithi Gunawardana	<input type="checkbox"/>	<input type="checkbox"/>
(e) Mr. Prasad Asanka Joseph Jayawardena	<input type="checkbox"/>	<input type="checkbox"/>
(f) Mr. Sri Ranga Abeynayake	<input type="checkbox"/>	<input type="checkbox"/>
(g) Mr. Dave Anthony De Silva	<input type="checkbox"/>	<input type="checkbox"/>
(h) Dr. Ajantha Dharmasiri	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Messrs KPMG (Chartered Accountants) as Auditors and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize the Directors to determine Contributions to Charities and other donations for the financial year 2012/13.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of Two Thousand and Twelve.

.....
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

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 Company, Citizens Development Business Finance PLC, No 18, Sangaraja Mawatha, Colombo 10 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. Pattiyage Namal Chrishantha Gomes 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

as my /our proxy to represent me/us and speak at the Annual General Meeting of the Company to be held on the 28 day of June 2012 and at any adjournment thereof.

Signed this.....day of Two Thousand and Twelve.

.....
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

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 Company, Citizens Development Business Finance PLC, No 18, Sangaraja Mawatha, Colombo 10 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 registered under the Finance Business Act no 42 of 2011.

The company is registered under the Finance Leasing Act No 56 of 2000.

Date of Incorporation

7th September 1995

Registration Number

PB 232 PQ

Board of Directors

Mr. D.H.J. Gunawardena
Chairman

Mr. C.M. Nanayakkara
Managing Director/CEO

Mr. R.H. Abeygoonewardena

Mr. S.R. Abeynayake

Mr. D.A. de Silve

Dr. A. Dharmasiri

Mr. P.N.C. Gomes

Mr S.V. Munasinghe

Mr. T. M. D. P. Tennakoon

Mr. W. W. K. M. Weerasoriya

Registered Head Office

No. 18, Sri Sangaraja Mawatha,
Colombo 10

Tel - 0117 388388

Fax - 0112 429888

E-mail - cdb@cdb.lk

Web - www.cdb.lk

Company Secretary

S.S.P. Corporate Services (Pvt) Ltd

101 Inner Flower Road,
Colombo 03

Tel - 0112 576 871

Fax - 0112 573 609

External Auditor

KPMG

Chartered Accountants,

32A, Sri Mohamed Macan Marker Mawatha,
Colombo 03

Tel - 0112 426 426

Lawyer

Nithya Partners

No. 97A, Galle Road,

Colombo 03

Bankers

Seylan Bank PLC

People's Bank

Hatton National Bank PLC

Bank of Ceylon

Commercial Bank of Ceylon PLC

Sampath Bank PLC

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