

THE

CITIZENS DEVELOPMENT
BUSINESS FINANCE PLC
ANNUAL REPORT 2010/11



THINK

TANK

**CITIZENS DEVELOPMENT
BUSINESS FINANCE PLC**

THE THINK TANK

Thinking.

A simple word which, in practice, determines what we believe and what we do.

Thinking leads to development, achievement and progress; the more we think, the more it allows us to model the world our way. Today, the power of thinking sees Sri Lanka on the cusp of a future full of promise, bursting with potential.

What better partner for that future than a company becoming known for measured, purposeful, reflective thinking; a company that has constantly reviewed and realigned its philosophy and goals to reflect the priorities of the people it serves; a company that has crafted the power of progressive thinking to propel itself to new vistas of achievement and growth.

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 economy to make sustained gains in living standards of Sri Lankans

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SNAP SHOT OF THE COMPANY

We're a company driven by passion to perform, built on a strong & sound financial platform accumulated with over sixteen years of experience in the local financial services sector. This report reviews a record-breaking year for CDB - a fine performance we are proud to deliver to our shareholders today.

And that's not all. Even while focusing on achieving excellence in financial results we have also engaged positively with every member of our community. From employees and customers to shareholders and the general public, we have worked to fulfill our responsibilities towards national development & making a contribution directly or indirectly, towards uplifting every Sri Lankan citizen's livelihood.

This Annual Report describes how we have become a true "Think Tank" of our industry; how original and progressive thinking has grown our business since inception, producing the prudent strategies and effective solutions that we can count on to drive our success into the years ahead.

**“You are today where your
Thoughts have brought you;
you will be tomorrow where
your Thoughts will take you”**

James Allen - Philosopher

33 Branches

7th Largest in terms of total
assets among 36 players

Rs.3.5Bn Market
capitalization

500+ Strong team

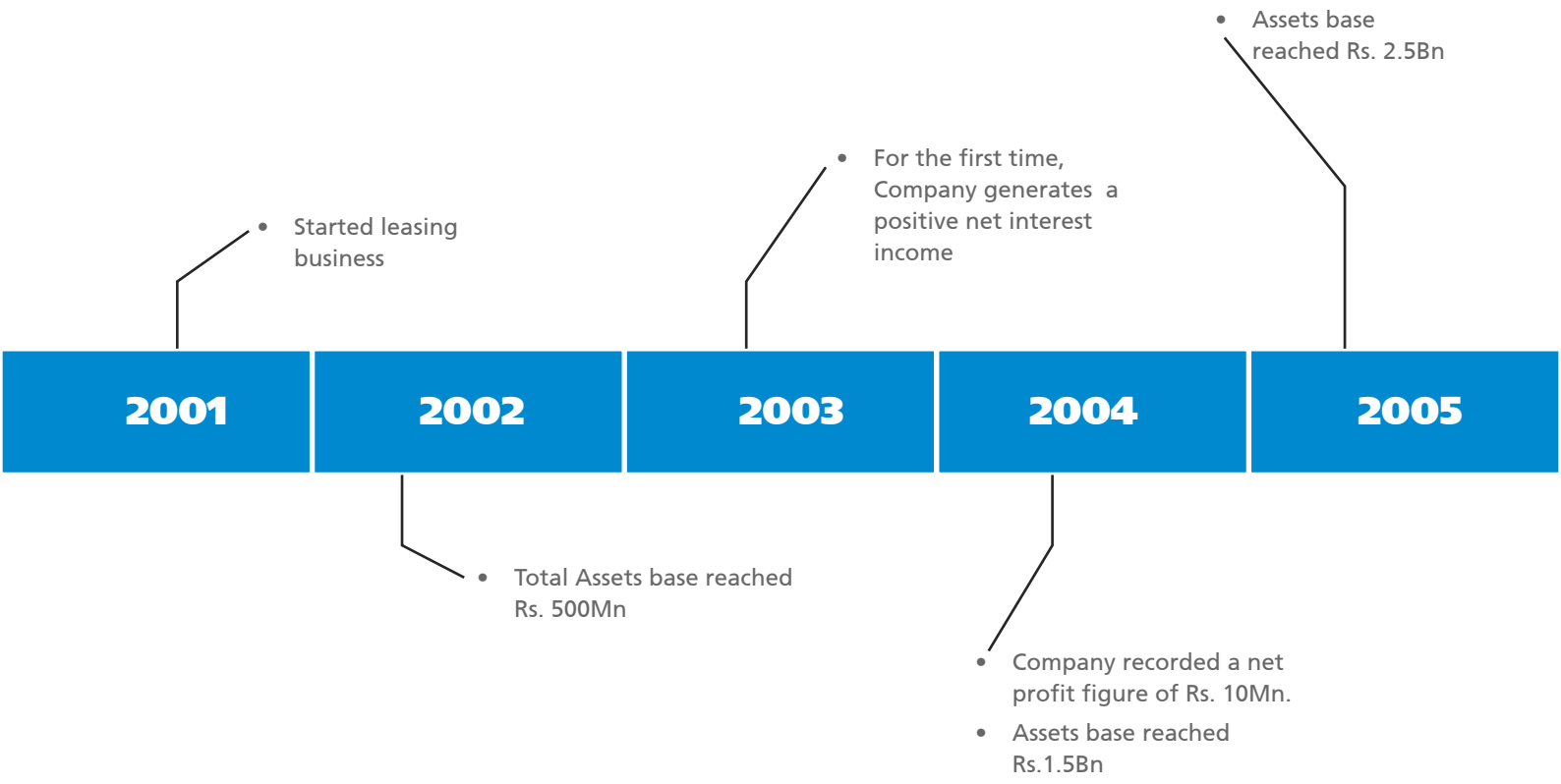
BBB- Credit rating

51 Among the 100
most valuable brands
in Sri Lanka

Our Journey - A Decade of Excellence

Today we stand as a trend setter in the industry and CDB has completed a decade of our journey from 2001 and is moving to a new decade on a strong platform. We have surpassed many barriers during these 10 years of business and today we are a company standing on a strong and sound financial platform with great potential to emerge as a market leader.

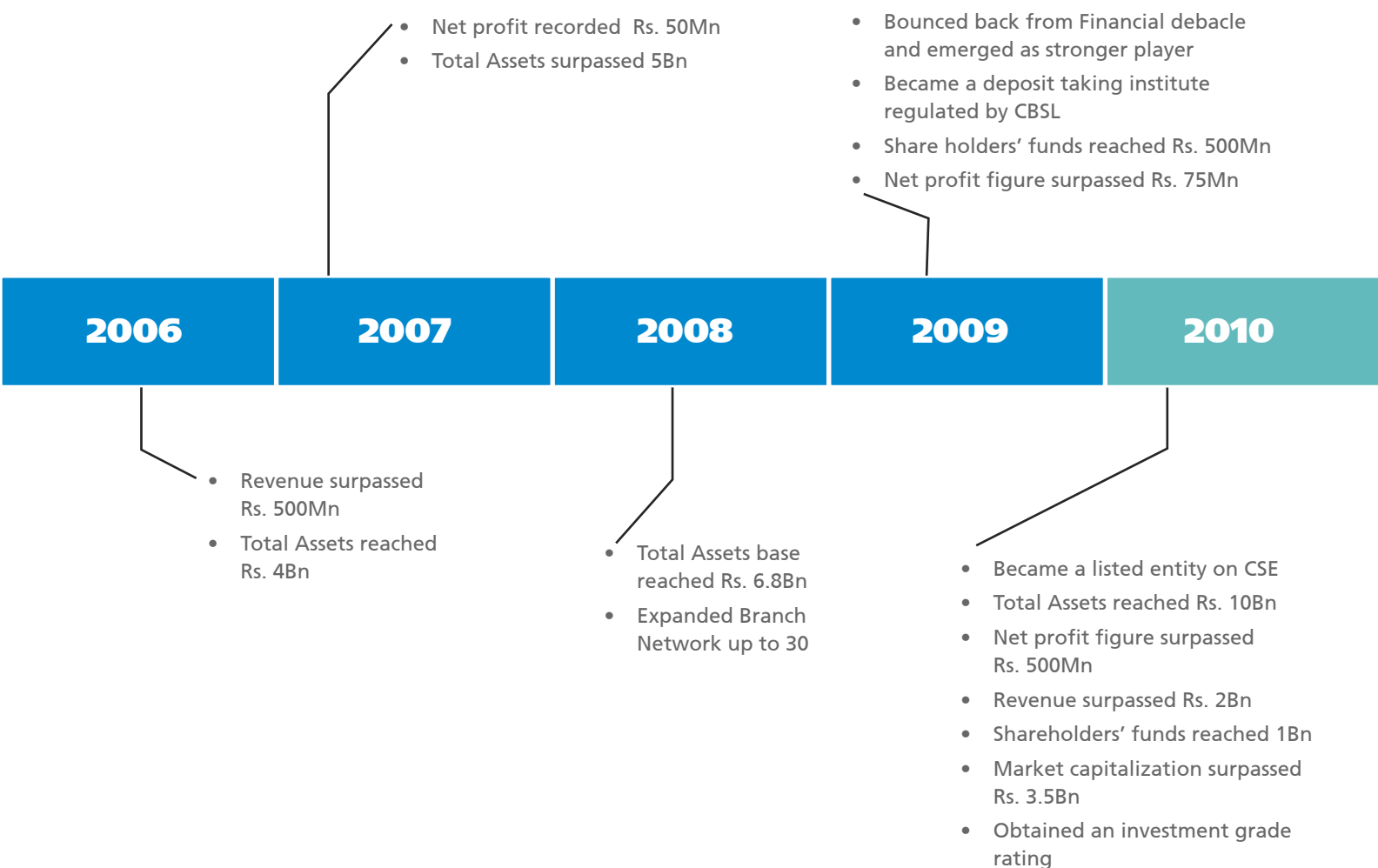
THE THINK TANK	2001	
	TOTAL ASSETS	276 Mn
	REVENUE	25 Mn
	NET ASSETS	(17 Mn)
	NET LOSS	(37 Mn)



2010

TOTAL ASSETS
REVENUE
NET ASSETS
NET PROFIT

10 Bn+
2 Bn+
1 Bn+
500Mn+



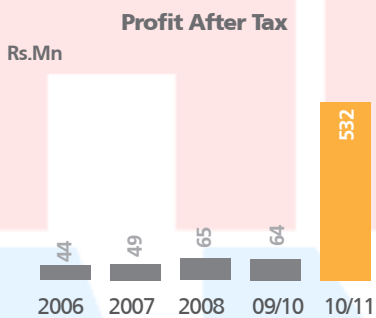
Financial Highlights

“Our Thinking towards capitalizing the industry opportunities enabled us to increase the product portfolio, resulting in growth in revenue and profits”

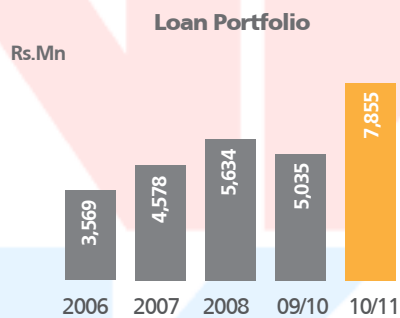
Criteria	2010/11	2009/10*	Change
Financial Performance			
Revenue	2,226,022,713	1,519,119,509	47%
Interest Income	1,731,159,166	1,435,855,295	21%
Interest Expense	912,786,452	952,507,717	-4%
Profit After Tax	531,810,000	63,661,286	735%
Revenue to the Government	55,500,655	17,346,804	208%
Financial Position			
Shareholders' Funds	1,025,182,521	513,215,045	100%
Borrowings	8,490,890,086	5,666,802,199	50%
Total Assets	10,220,225,494	6,675,803,905	80%
Investor Information			
EPS	13.43	1.60	11.83
Net Assets Value Per Share	25.86	12.93	12.93
Market Value of a Share	81.20		
Key Ratios			
ROCE	51.93%	12.40%	39.52%
ROA	5.21%	0.95%	4.26%
DPS	2.00**	0.50	150.00%
PE Ratio	6.05	Not applicable	
Statutory Ratios			
Non Performing Ratio (Gross)	3.64%	7.52%	-3.88%
Liquidity Ratio	13.04%	12.37%	0.67%
Capital Adequacy Ratios			
Core Capital to Risk Weighted Assets Ratio (Minimum 5%)	11.75%	9.17%	2.62%
Total Capital to Risk Weighted Assets Ratio (Minimum 10%)	12.56%	9.17%	3.43%

*2009/10 Figures are annualized

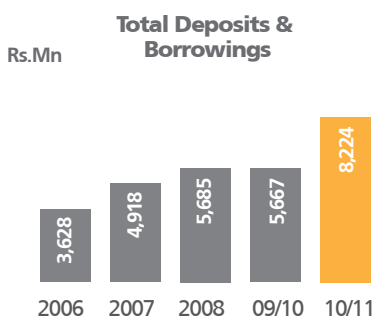
**Proposed



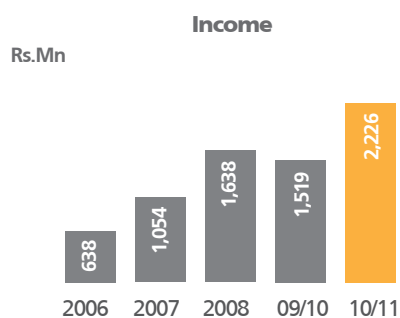
735%
Profit after tax



56%
Loan book



45%
Total deposits & borrowings



47%
Income



Chairman's Review

It is with humble satisfaction that I place on record that CDB has delivered on this pledge of twelve months ago. Your company is now listed on the main board of Colombo Stock Exchange with market capitalization exceeding Rs. 3.5Bn as at 31st May 2011.

R. Renganathan Chairman

I am pleased to present the annual report and Statement of Account for CDB for the year ended 31st March 2011. In my message last year, I stated: "Considering the future plans and market positioning of CDB coupled with the positive economic outlook of the country and the global economy, it is our belief that we are in a strong position to substantially enhance shareholder value over the next few years. With the intended listing of CDB shares on the Colombo Stock Exchange (CSE) within this year, our shareholders will be in a better position to enhance the value of their investment in CDB."

It is with satisfaction that I place on record that CDB has delivered its pledge of twelve months ago. Your company is now listed on the main Board of the Colombo Stock Exchange with market capitalization exceeding Rs.3 .5Bn as at 31st May 2011.

Overview of the Global Economy

After the sharp deceleration in the global economy experienced in 2008 and the contraction in 2009, global GDP showed an increase to 3.9% in 2010. The growth incline among high-income countries was more pronounced than in developing countries, but the 7% growth in developing countries was more than twice as strong as in high-income countries. As a result, low and middle-income countries contributed almost half of the world's growth, which is 46% in 2010, signaling an interesting trend. Going ahead, growth in both high-income and developing countries is expected to slow somewhat in 2011, mainly reflecting the easing already observed in the second half of 2010, before picking up again toward mid 2011. Global GDP is projected to increase by 3.3% and 3.6 % during 2011 and 2012, with developing economies expanding by over 6% annually. Overall, financial conditions are improving, reinforcing generally positive outcomes which should impact our island nation positively.

Outlook for the Sri Lankan Economy

The Sri Lankan economy grew by as much as 8% per cent in 2010, the highest annual growth rate in three

decades, while inflation continued to remain low at around mid-single digit levels, according to the Central Bank of Sri Lanka. The overall deficit was reduced to 7.9 per cent of GDP in 2010, from 9.9% in 2009. The government plans to further reduce the budget deficit to 6.8% in 2011 and to below 5% in the medium term. The external sector, which made a remarkable turnaround since the second quarter of 2009, continued to improve in 2010. Earnings from exports increased by 17.3%, with majority contribution by industrial and agricultural sectors. Expenditure on imports grew by 32.8%, led by intermediate goods imports. As a result, the trade deficit expanded to \$5,205 million in 2010. The balance of payments (BoP) recorded a surplus of \$921 million, following a significantly higher surplus of \$2,725 million in 2009.

From 2010, as seen in the first full year of operation subsequent to the ending of the three-decade-long conflict, the Sri Lankan economy is emerging from three decades of modest growth to realize its true potential. The challenge ahead lies in protecting the nation's economy from external shocks, founded strongly with macroeconomic stability. The dawn of peace has brought with it opportunities for the country's economic and financial consolidation, a path which requires judicious navigation to achieve full fruition.

Company Performance

CDB has performed exceptionally well in the year under review, posting strong financial results and consolidating its reach and brand equity in the market. We recorded a total revenue surpassing the Rs. 2 Bn mark and posted a Net Profit after tax surpassing Rs. 500 Mn, whilst total assets surpassed Rs. 10Bn mark.

2009 undoubtedly contracted the entire economy, a facet which unequivocally echoed within the entire financial industry. However, with our strong fundamentals in place, CDB recovered and emerged unscathed by the global and local economic slowdown. Our asset quality which is reflected in the NPL ratio has

Chairman's Review

recorded healthy level of 3.64% , while overall, our key financial indicators remained strong. We intend to consolidate these gains in the ensuing financial year.

CDB has always been a responsible Corporate Citizen with the highest level of respect imparted to Enterprise Governance which encompasses both Corporate Governance and business governance. Our commitment to Enterprise Governance goes beyond the regulatory requirements.

Creating Shareholder Wealth

As stated at the outset of this report, the year under review witnessed substantial appreciation of capital investment in CDB stock. Based on the recorded profit for 2010/11, the Board has proposed a first and final dividend of Rs.2/= per share, subject to the approval of shareholders.

Future Outlook

Your company has dramatically transformed within the last decade of 2001-2010. Today, CDB 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.

I am confident that CDB will forge ahead in this new era, ensuring genuine value creation for all stakeholders, while being a responsible corporate citizen contributing to the economic development of the country.

Appreciation

I wish to place on record the tremendous guidance and support that the Board of Directors has accorded to me in leading CDB. I thank the Governor of Central Bank, Directress and all officers who helm the supervision of non-banking financial institutions at the Central Bank for their guidance and assistance extended to us. My appreciation also to our stakeholders, particularly our shareholders for their trust and continual support. My congratulations are extended to the CEO and the entire team for their outstanding performance and the unwavering commitment they pledge to ensure that CDB achieves its ambitious vision and uncompromisingly attain its goals.



R. Renganathan
Chairman

06th June 2011
Colombo



Chief Executive Officer's Review

CDB's focus over the next decade will be on expanding and leveraging on a multi layered distribution channel, diversification of classes of assets in the balance sheet, focus on fee-based activities and strengthening and positioning the CDB brand as a total financial services provider.

C. M. Nanayakkara Chief Executive Officer

Chief Executive Officer's Review

It has been an extremely successful decade of operations for CDB, in a journey punctuated by unprecedented change that began in 2001 right through to 2010. The milestones we achieved during this decade have been momentous and created for us a position that etches us into a benchmarked leader in the financial services industry. We are now a fully fledged listed member of the Colombo Stock Exchange, a hallmark we achieved on the 6th October 2010, elevated subsequently to being traded on the main board. We also surpassed the milestone of half billion rupees in our net profit after tax which is certainly an achievement. The experiences gathered, the milestones achieved and the indicators that we exceeded will undoubtedly influence our growth paradigm for the future.

Strong Performance

2010/11 marked the first full year of operations within post-war Sri Lanka, buoyed by a conducive business climate, single digit inflation, stable interest rates and expanding credit demand. CDB's overall business strategy and business model which blends the rural and urban sectors, is well aligned to the changing economic dynamics. Our inclusive business approach spread across the pyramid, is well positioned to harness emerging opportunities at very early stages, while discharging an incomparable social responsibility via our strategic intent of being a net lender to the rural economy.

One significant and visible emerging economic trend that we identified and capitalized on by aligning it to our strategic initiatives, was engaging the substantial population segment that is now crossing social boundaries and moving upwards in the social pyramid. This fast growing new urban middle class is a new segment in the population demography and the strengthening of the pyramid base hence, presented diverse opportunities for financial services.

The Government's efforts to grow Sri Lanka's per capita income to US\$ 4,000 by 2016, holds tremendous implications for the prosperity of the people and enormous opportunities for businesses in every sector, in particular for the financial services sector. This sector must take responsibility and leadership in spurring entrepreneurship, skill development and knowledge enhancement in various avenues to ensure that prosperity permeates all levels of society.

During FY 2010/11, CDB experienced a balance sheet growth of 53% surpassing Rs.10bn mark, which was supported by a strong incline in lending and deposits. We recorded revenue growth of 47%, surpassing Rs. 2.2 bn. Net interest income grew by 69% surpassing the Rs. 800 mn mark. Our net profit after tax figure surpassed the half-a-billion-rupee mark, recording an EPS of Rs. 13.40 in FY 2010/11, primarily contributed by an increase in net interest income and a market

adjustment of Rs.311 Mn derived from investments in quoted shares. The bottom line figure also includes a charge of Rs.70 Mn by way of a general provision.

This remarkable performance was mooted by a blend of positive dynamics including the favourable macro economic environment, precise and focused strategy adopted by the management, effective Board stewardship and the hard work imparted by each and every member of the CDB team.

The exemplary financial results also enabled CDB to establish a clear and a unique footprint within the Financial Services Industry. This proves that organizations built on a strong foundation of sound business fundamentals, uncompromising ethics, corporate governance compliance and highest levels of integrity across the organization, coupled with committed people, can withstand challenges in most dimensions, while deriving courage, energy and determination to re-emerge stronger, with broader and elevated aspirations.

CDB continued to receive accolades, honouring its upward journey in the industry, gaining an investment grade credit rating of BBB-/P3 by RAM Ratings. CDB is also listed among the top 100 listed brands in Sri Lanka by Brand Finance, placed at No 51 among the brand honour roll within the country.

Enhancing the Customer Experience

During the period under review, we focused on repositioning our branches under a new umbrella that denotes a contemporary design, look and feel, while upgrading customer service standards and enriching customer experiences. Repositioning our branch network also captured the space and location requirements of new products, which are being continuously added to our portfolio of products offerings, positioning CDB as a total Financial Services Provider. We relocated and refurbished 14 branches and added a new outlet in Batticaloa during the year.

New business opportunities and partnerships

Our pawn broking product reaped rich dividends during the year and is now accessible through twenty branches country wide. The pawning portfolio recorded an impressive Rs. 172Mn at year end, showcasing an accelerated growth trend. This burgeoning portfolio will also help us make a positive impact on our asset/liability maturities and diversification of classes of assets in the balance sheet.

Our authorized money dealer business has been rolled out over twenty branches. With the Central Bank granting us the license to operate as an authorized money dealer at all our branches, (for buying / selling foreign exchange and selling / encashment of traveler's cheques).

The MoneyGram inward foreign remittance service, a partnership we have with Hatton National Bank and MoneyGram of India, is now deployed through all our branches.

IT Enabled Expansion

During the year, we signed an agreement with international software solutions provider, Polaris, along with Millennium IT as the local partner, to roll out a new integrated core banking solution, aimed at upgrading our IT capabilities. This will ensure that we are IT empowered in our business growth and expansion plans, forming an integral axis for our future journey.

Tie-up with ComBank

CDB entered into an agreement with Commercial Bank of Ceylon enabling our customers to use the ComBank ATM network, once savings account operations commence under our umbrella of products and services.

Social Commitment

With education being our primary platform for social responsibility, the year saw us spearhead a number of CSR initiatives implemented under this umbrella. Our CSR projects have the ownership of the entire CDB team, who are passionate about helping society and ensuring their sustainability.

Our flagship corporate social responsibility project, "CDB IT Lab" gained further momentum during this period, with CDB setting up a full-fledged IT lab at Navatkuli Maha Vidyalaya in Jaffna, while thirty four children hailing from families employed in the three wheeler sector, were granted scholarships under the CDB Sisudhiri scholarship project. CDB has granted a total of ninety scholarships under the project since its inception.

Based on the platform of unity and building nation mindedness, we sponsored the publication of the book, 'Simple Tamil' authored by renowned academic Professor J. B. Dissanayake, to bridge language barriers by inculcating an easy way to learn the Tamil language. In similar vein, we also funded the erection of a monument in Mulaitivu, in memory of brave soldiers who sacrificed their lives to preserve the sovereignty of Sri Lanka.

In addition, our team, who are always involved in social endeavours, also assisted the East in a flood relief project being one of the initiatives coming under the CDB Hithawathkam CSR agenda.

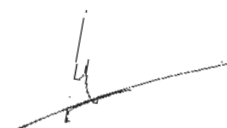
Future

I see clear economic prospects ahead for CDB as the onset of peace has earmarked a clear and

comprehensive long term planning strategy, that will surely permeate prosperity to the entire country. CDB's focus over the next decade will be on expanding and leveraging on a multi layered distribution channel, diversification of classes of assets in the balance sheet, focus on fee-based activities and strengthening and positioning the CDB brand as a total financial services provider. We are mindful of fast changing economic dynamics, as Sri Lanka moves toward achieving the per capita target of US\$4000. This new milieu presents infinite opportunities across social and geographical boundaries, which demand the innovation of multi-faceted ever growing financial services and products across the pyramid. CDB is well positioned and poised to exploit these opportunities and play a key and a leading role within our industry as a 'trend setting - game changing' organization.

Appreciation

I would like to express my sincere appreciation to the Chairman and Board of Directors for their continued support and guidance. I thank the Governor of the Central Bank of Sri Lanka Ajith Nivard Cabraal for the guidance extended to our industry to play a key role in the economic development process of our country, permeating social and geographical boundaries as we move forward to become a US\$4000 per capita income nation. I thank the Governor in particular for the assistance extended to CDB over the past years. I also take this opportunity to state 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 sincere thanks to our valued customers, business partners, shareholders and all other stakeholders for the support, confidence and trust placed in CDB and the patronage extended to us over the years. I thank our external auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co. for their professionalism and in issuing their report in a timely manner, enabling us to hold the Annual General Meeting on time. I thank my CDB team for their dedication and passion, in traveling beyond boundaries and achieving the impossible. Together we have much more to aspire to and I am confident that this decade will bring out the best from all of us.



C. M. Nanayakkara
Chief Executive Officer

06th June 2011
Colombo

Board of Directors

THE
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TAI



INK

Reflective



From Left to Right : R. Renganathan, C.M. Nanayakkara, P.A. Jayawardena, E.T.L. Ranasinghe, T. Senthilverl,
H.P.G.V. Gunawardena, P.N.C. Gomes, Sasindra Munasinghe, Damith Tennakoon,
Roshan Abeygoonewardena, Malcolm Weerasoriya

Board of Directors

Mr. R. Renganathan

Chairman, Non Executive Director

Mr. Renganathan, a Fellow member of the Institute of Chartered Accountant and a Fellow member of the Institute of Certified Management Accountants of Sri Lanka, is the Managing Director/Chief Executive Officer (Life) of Ceylinco Insurance PLC, the country's market leader in the insurance industry for the past 7 years. He has been responsible for the setting up of its Life Insurance business from its infancy in 1988 and the company has now emerged as the leading insurer in Sri Lanka.

Mr. Mahesh Nanayakkara

(Managing Director / Chief Executive Officer)

Mr. Nanayakkara (42) 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 member of the Chartered Institute of Management Accountants (UK). He counts over 20 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. 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 Jayawardenapura and a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and the Society of Certified Management Accountants of Sri Lanka.

Mr. H. P. G. V. Gunawardena

Independent, Non Executive Director

Mr. Gunawardena was appointed to the Board of Directors on April 2009. He is at present the Managing Director of HARMON SOLUTIONS (Pvt) Ltd, a Management Consultancy & Process Re-engineering company. He brings in a wealth of management experience gained over the past 20 years having held senior management and board level positions in large local and international companies. He has also broadened his management experience through his work experience in Japan, UK and Jamaica. Mr. Gunawardena holds a B.Sc. (Hons) degree from the University of Peradeniya, and a Masters in Information Engineering (M.Eng) from the University of Nagoya, Japan. He is a Member of the British Computer Society [MBCS], Computer Society of Sri Lanka Institute of Management Sri Lanka and a Member of the Chartered Institute of Management Accountants (UK).

Mr. Palitha A. Jayawardena

Non Executive Director

Mr. Jayawardena a fellow member of the Institute of Chartered Accountants and a fellow member of the Institute of Certified Management Accountants of Sri Lanka, is presently functioning as the Director/ Chief Finance Officer of the Life Division of Ceylinco Insurance PLC. He joined Ceylinco Insurance PLC in 1990 as the Chief Accountant Branches. He counts over 25 years of

experience in the field of finance. He also serves as a director in Ceylinco Healthcare Services.

Mr. E. T. L. Ranasinghe

Non Executive Director

Mr. Ranasinghe has over 31 years experience in the mercantile sector, in sales, marketing and strategic planning. He holds a MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura. He is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing, UK, and a founder member of the Chartered Institute of Marketing, Sri Lanka Region. He has held several positions in the Executive Committee, including that of the Senior Vice Chairman in the past.

He has served on the Board of Ceylinco Insurance Plc., for the past ten years and currently functions as the Deputy Chief Executive Officer of the Life Division. He is also a Director of Ceylinco Healthcare Services Limited.

Dr. T. Senthilverl

Independent, Non Executive Director

Dr. Senthilverl was appointed to the Board of Directors of CDB in 2004. He counts over four decades of active engagement in manufacturing, trading, land development, health, power & energy sectors, and industrial turnkey projects. Presently he holds number of other directorships in leading companies including listed companies in the Colombo Stock Exchange.

Mr. Roshan Abeygoonewardena

(Director / Chief Operations Officer)

Mr. Abeygoonewardena, 41 years of age, an Associate Member of the Chartered Institute of Management Accountants (UK) and Institute of Certified Management Accountants of Sri Lanka. He is also a member of Institute of Certified Professional Managers. He joined CDB in June 2005. He has 19 years of experience in finance covering over 15 years of experience in the financial services industry and 3 years experience in the manufacturing sector.

Mr Sasindra Munasinghe

(Director / Chief Credit Officer)

Mr. Munasinghe, 41 years of age, has been with CDB since 2001. He has over 16 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation & marketing. He was instrumental in setting up leasing operations at CDB and was responsible for the implementation of the integrated software solution of the company.

Mr. Damith Tennakoon

(Director / Chief Financial Officer)

Mr. Tennakoon, 44 years of age, joined CDB in September 2003. He is a Management Accountant, began his career from Ceylinco Insurance (life) as an Accountant in 1992. He gained extensive experience in finance, investment, internal audit, and the implementation of accounting packages during his stint at Ceylinco Life.

Mr. Malcolm Weerasoriya

(Director / Chief Marketing & Sales Officer)

Mr. Weerasoriya, 47 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 20 years experience in Marketing and Sales, in the Financial Services Industry.

Corporate Management

THE THINK TANK

Progressive



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

Corporate Management profile

Mr. Mahesh Nanayakkara

(Managing Director / Chief Executive Officer)

Mr. Nanayakkara (42) 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 member of the Chartered Institute of Management Accountants (UK). He counts over 20 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, 41 years of age, an Associate Member of the Chartered Institute of Management Accountants (UK) and Institute of Certified Management Accountants of Sri Lanka. He is also a member of Institute of Certified Professional Managers. He joined CDB in June 2005. He has 19 years of experience in finance covering over 15 years of experience in the financial services industry and 3 years experience in the manufacturing sector.

Mr Sasindra Munasinghe

(Director / Chief Credit Officer)

Mr. Munasinghe, 41 years of age, has been with CDB since 2001. He has over 16 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation & marketing. He was instrumental in setting up leasing operations at CDB and was responsible for the implementation of the integrated software solution of the company.

Mr. Damith Tennakoon

(Director / Chief Financial Officer)

Mr. Tennakoon, 44 years of age, joined CDB in September 2003. He is a Management Accountant, began his career from Ceylinco Insurance (life) as an Accountant in 1992. He gained extensive experience in finance, investment, internal audit, and the implementation of accounting packages during his stint at Ceylinco Life.

Mr. Malcolm Weerasoriya

(Director / Chief Marketing & Sales Officer)

Mr. Weerasoriya, 47 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 20 years experience in Marketing and Sales, in the Financial Services Industry.

Mr. Maduranga Heenkenda

(Assistant General Manager – Asset Portfolio Sales & Channel Development)

Mr. Heenkenda, 32 years of age, an Associate 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 was awarded the Territory Manager of the year – Gold in Financial Products & Service Category and the Outstanding Territory Manager of the year at the SLIM NASCO 2010 award ceremony.

Mr. Naguib Imdaad

(Assistant General Manager - Information Technology)

Mr. Imdaad is 34 years of age, he is a Software Engineer by profession who has almost 10 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 currently reading for his Masters 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, 30 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, and 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, 35 years of age, has been associated with CDB since 1996. She has over 12 years experience with CDB including finance, Human Resources, and credit operations.

Management Team

THE THINK TANK



From Left to Right : Sudath Fernando, Ranjith Gunasinghe, Sanjeewa Ranathunga, Sarath Kumara, Herath Dharmadasa, Isanka M Kotigala, Hasitha Dassanayake, Prasad Ranasinghe, Subash Kumar, Ravindra Abeysekara, Ruwan Chandrajith, Nimal Silva

Management profile

Mr. Ravindra Abeysekara

(Senior Manager - Recoveries)

Mr Abeysekara, 39 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 13 years experience in the financial service industry sector includes Recoveries, Investigation and Auditing.

Mr. Hasitha Dassanayake

(Senior Manager - Finance)

Mr Dassanayake, 29 years of age, holds a Bachelor of Commerce Degree from University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants (UK). He possesses 5 years experience at CDB.

Mr. Sudath Fernando

(Senior Manager - Credit/ Leasing)

Mr Fernando, 43 years of age, joined CDB in June 2008. He has over 15 years of experience in leasing industry including credit evaluation, recoveries, operations, system implementation & marketing. Prior to CDB was attached to leading Merchant Bank , Ceylinco Savings Bank and a Asset Line Leasing Company Ltd.

Mr. Ranjith Gunasinghe

(Senior Manager - Deposit Operation)

Mr Gunasinghe, 39 years of age, joined CDB in January 2002. He holds 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. Also he possesses the Post Graduate Diploma In Business and Financial Administration - The Institute of Chartered Accountants. He is an Associate of the Sri Lanka Institute of Certified Professional Managers. He was involved in setting up the Deposit Operation Division at CDB. He counts over 12 years of industry experience.

Mr. Isanka Kotigala

(Senior Manager - Business Development)

Mr. Kotigala is 35 years of age, he has almost 10 years experience in Sales & Marketing in Lubricant and Alcoholic Beverage industries. Along with work experience and training in leading multinational organizations he has gained exposure as a Sales & Marketing Manager in overseas assignments. He joined CDB in January 2007.

Mr. Ruwan Chandrajith

(Manager - Internal Audit)

Mr. Chandrajith, 28 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 5 years of experience in the field of Audit & Assurance Services.

Mr. Herath Dharmadasa

(Manager - Business Development)

Mr Herath, 39 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 12 years of Industry experience.

Mr. Sarath Kumara

(Manager - Branch Operations)

Mr Kumara, 38 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 and has completed 10 years of service.

Mr Prasad Ranasinghe

(Manager - Business Development)

Mr. Ranasinghe, 33 years of age, holds a B.Com (Special) Degree from University of Sri Jayawardenapura. He joined CDB in June 2004 and counts over 5 years of experience with CDB in leasing and deposits marketing.

Mr. Sanjeewa Ranathunga

(Manager - Recoveries)

Mr Ranathunga , 37 years of age, joined CDB in 1998, he has been with CDB over a period of 11 years excelling in the 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, 32 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 7 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. R. Subashkumar

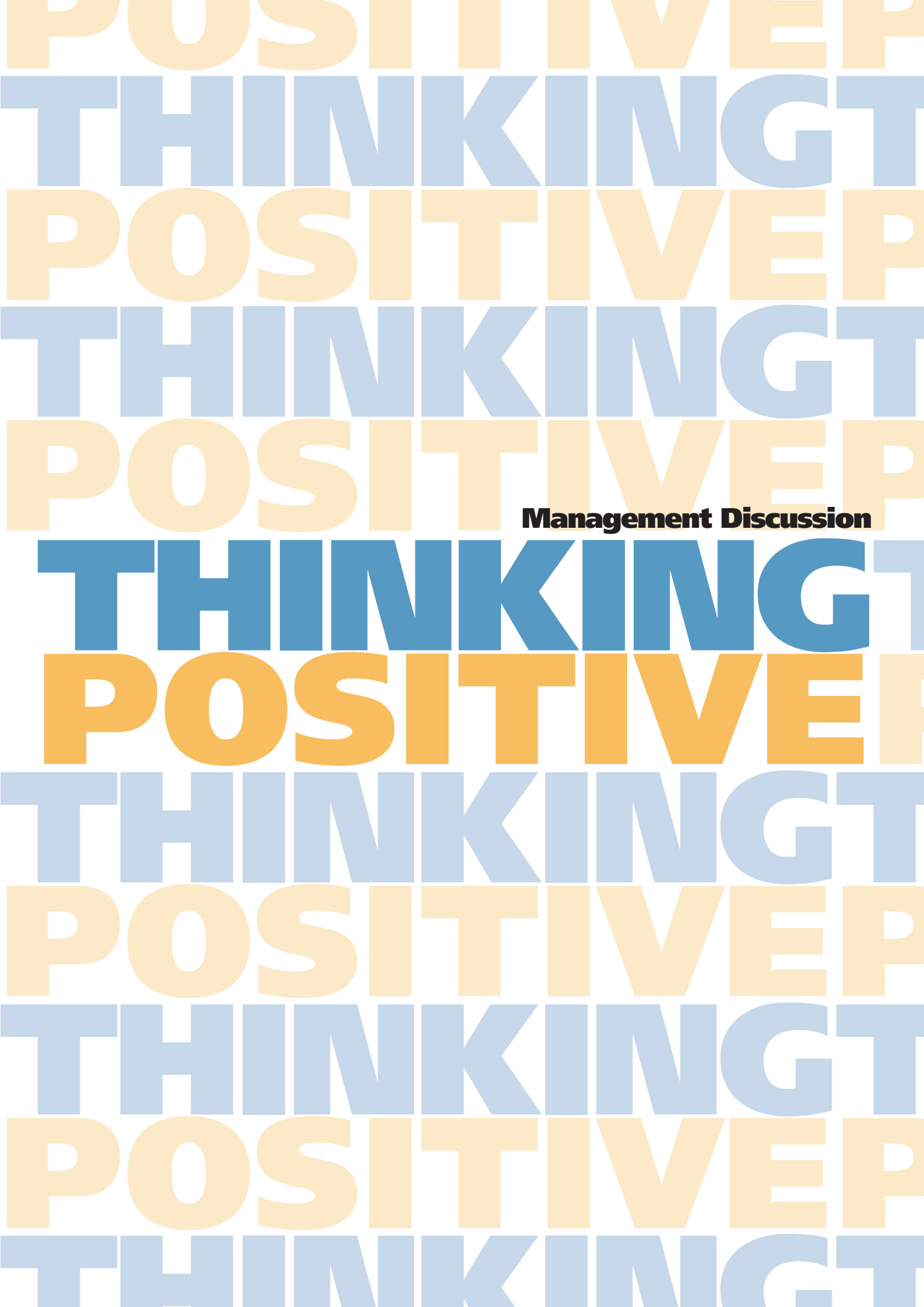
(Manager - Business Development)

Mr Subashkumar, 30 years of age, is an Associate Member of Sri Lanka Institute of Marketing. He joined CDB in 2004 and counts over 6 years experience in marketing and sales in the Financial Services Industry.

Mr. Sunil Kandambi

(Consultant - Post Disbursement Follow Up)

Mr. Kandambi 65 years of age, has 37 years of experience in Police Department. At the time of retirement he held the rank of Senior Superintendent of Police. He joined CDB in October 2006.



Management Discussion

Management Discussion

Global Economic Overview

The global economy gradually recovered in 2010 from the worst recession the world has witnessed since the 1930s. According to the World Economic Outlook (WEO) of the IMF, the world economy is estimated to have expanded by 5.0 per cent in 2010 compared to its contraction by 0.6 per cent in 2009.

Emerging Markets: Engines of Growth

Advanced economies, which bore the brunt of the economic downturn of 2009, were estimated to have expanded by a modest 3.0 per cent. On the contrary, emerging and developing economies expanded by as much as 7.1 per cent in 2010 further fuelled by the gradual increase in global demand. Asia, the market which has shown the most resilience in the face of the global financial meltdown, expanded at an estimated 9.3 per cent, notes Central Bank of Sri Lanka (CBSL).

Policy Measures Curb Volatility

Short term interest rates continued to remain low in 2010 in response to the continuation of a relaxed monetary policy stance in many advanced and emerging economies. Many economies experienced increased volatility in the currency markets, a trend that intensified during the first half of 2010, as global financial turbulence led to sharp currency movements. The adverse weather conditions impacted global food prices negatively, causing inflation, while geopolitical instability during the latter part of 2010 resulted in higher crude oil prices as well. In response to hasty policy measures adopted by economies, the economic growth in 2011 is expected to be encouraging, though several downside risks remain.

Cautious Recovery

Thus far, the economic recovery in the Asian region has been rapid and strong. It is expected that the growth in the emerging economies would drive the global economic recovery in the short to medium term. In its latest forecast, the IMF has projected the global growth in 2011 to be around 4.4 per cent, led by emerging and developing economies, which are expected to grow at around 6.5 per cent in 2011. The growth in advanced economies is projected to be around 2.5 per cent in 2011. However, the prevailing high unemployment rate, high fiscal deficits, financial imbalances, as well as geopolitical developments in the Northern African and Middle Eastern regions as well as more recent developments in Japan caused by natural disasters still pose challenges to global economic recovery.

Local Economic Overview

CBSL statistics show that the Sri Lankan economy recovered strongly, recording an impressive growth of 7.8 per cent during the first half of 2010, thus moving onto a trajectory of high growth. This growth was underpinned by the restoration of peace, improved

business confidence, a strong macroeconomic environment as well as a gradual recovery of the global economy from its worst economic recession ever.

The low inflation and the benign inflation outlook enabled the Central Bank of Sri Lanka (CBSL) to relax its monetary policy stance further, resulting in lower interest rates in all market segments which further stimulated local economic activity. The fiscal situation improved considerably, mainly reflecting the increase in government revenue supported by the expansion in domestic economic activity and recovery of international trade.

Improvements were noted in respect of both financial institutions as well as financial markets. The overall soundness of financial institutions, as reflected by capital, liquidity, asset quality and profitability improved during the first half of 2010. Domestic financial markets became more liquid in 2010, largely due to the increased capital inflows. Market capitalization and turnover at the Colombo Stock Exchange meanwhile increased to record levels during this period.

The external sector, which made a remarkable turnaround since the second quarter of 2009 continued to improve in 2010. Increased remittances assisted in partly off-setting the widening trade deficit. With higher foreign financial inflows, including disbursements under the IMF Stand-By Arrangement (SBA) facility and proceeds from the third international sovereign bond issue in October 2010, Sri Lanka's Balance of Payments (BOP) position recorded a surplus by mid-October 2010, thereby also increasing external reserves to the highest-ever level recorded. The exchange rate remained largely stable during the year. The end to the prolonged internal conflict, enhanced investor confidence and the improved macroeconomic environment provide Sri Lanka with a great opportunity for sustainable growth and development.

Gross Domestic Product (GDP)

The Sri Lankan economy grew by a higher rate of 7.8 per cent during the first half of 2010 compared to the growth of 1.9 per cent recorded during the corresponding period of 2009. The improved performance in all key sectors of the economy contributed towards this growth.

Inflation

The relatively stable level of inflation since early 2009, prompted CBSL to reduce its policy interest rates, namely, the Repurchase rate and the Reverse Repurchase rate, by 25 basis points each, in July 2010. The Reverse Repurchase rate was further reduced by 50 basis points in August with the aim of supporting the recovery of domestic economic activity. With this revision, the width of the policy interest rate corridor

was narrowed to 175 basis points and consequently, the revised Repurchase rate and the Reverse Repurchase rate are presently at 7.25 per cent and 9.00 per cent, respectively.

Savings & Investments

Total gross investment of the country is projected to increase to 27.8 per cent of GDP in 2010 from 24.5 per cent in 2009. Private sector investment, which contracted in 2009, has recovered strongly, contributing to growth in investment. The recovery in private investments is also reflected in the growing credit to the private sector by commercial banks.

Interest Rates

Market interest rates continued to adjust downwards in line with the policy rate changes by CBSL. The average weighted call money rate (AWCMR) remained stable within the policy interest rate corridor. Meanwhile, the average weighted prime lending rate (AWPR), which serves as a benchmark for other selected lending rates, declined to below 10 per cent by September.

Finance Industry in Sri Lanka

The stability of the financial system strengthened further in the first half of 2010 as the performance of financial institutions and financial markets improved, underpinned by enhanced political stability, improved investor confidence and a stable macroeconomic environment. Financial markets were more liquid largely due to the increase in capital inflows. Interest rates in many market segments declined with the easing of monetary policy and further moderation of inflationary pressure. The overall soundness of financial institutions has improved, as reflected by capital, liquidity, asset quality and profitability.

How Registered Finance Companies (RFCs) Fared

The Registered Finance Companies (RFC) sector is recovering steadily with the expansion in business opportunities in an environment of lower interest rates. The number of RFCs increased to 36 with the registration of one new company in the first half of 2010. The total assets of the RFC sector grew by 10.4 per cent to Rs. 205 billion in the first half of 2010 compared with an increase of 0.7 per cent recorded for the first half of 2009.

The profitability of the RFC sector has now moved into positive territory. The RFC sector has benefitted from the decline in interest rates. Net interest income increased by 110 per cent to Rs 5.6 billion in the first half of 2010 compared with the corresponding period of the previous year. As a result, profits before tax rose to Rs. 2.1 billion as against a loss of Rs. 1.9 billion in the first six months of 2009. The ROA before tax turned positive and rose to 2 per cent at end June 2010, while the ROE after tax increased to 8.2 per cent. However, a

few companies of the RFC sector continued to record losses.

Performance against Key Financial Soundness Indicators for Registered Finance Companies

Key Financial Soundness Indicators Registered Finance Companies %				
Indicators	2008	2009(a)	2010 Sep (b)	CDB As at 31.03.11
Total Capital Adequacy Ratio	14	9.8	8.5	12.56
Tier 1 Capital Adequacy Ratio	12.3	8.7	7.3	11.75
Gross Non Performing Loans Ratio	6.7	10.2	12.1	3.64
Return on Assets (Before Tax)	1.8	(0.8)	1.2	3.48
Return on Equity (After Tax)	8.4	(13.6)	5.7	34.62
Provisions Made/Non Performing Advances	47.2	43.2	45.1	88.59

(a) Revised

Source: Central Bank of Sri Lanka

Prospects for 2011

The Sri Lankan economy is projected to grow by around 8.0 per cent in 2011 and the growth is expected to be broad-based - with positive contributions from all the major sectors of the economy - supported by higher investment. Private sector investment is expected to contribute significantly with increased inflows of FDI, while public sector investment is also expected to continue as in 2010. Domestic inflation in 2011 is expected to remain low, within single digits. The increase in domestic agricultural production is expected to impact favourably on the price developments in the economy. Internationally, demand pressures are expected to remain subdued in 2011. The gradual recovery of the global economy, which has remained fragile, will continue to strengthen through 2011.

Source: Recent Economic Development: Highlights of 2010 and Prospects for 2011, Central Bank of Sri Lanka

Management Discussion

“Inspiring Thoughts & Driving Emotions are the Components that Miracles are Made of”

Leasing
57%

Hire Purchase
49%

Loans
51%

Deposits
55%

key market segments. The strategy takes into account the adjustments necessitated by market conditions, allowing management the flexibility to operate in top to bottom of the pyramid at any given time.

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 2010/11.

How Our Thoughts Worked

In the year 2010/11 we have performed above our expectations, as the Leasing & Hire Purchase (LE & HP) portfolio grew from Rs. 3,824Mn to 6,036 Mn, a 58% increase compared to the previous financial year, further facilitated by the reduction of government duties on imported vehicles. Out of the total portfolio, Micro lending contributed with the highest number of facilities where the portfolio disbursements grew by 177 per cent from Rs. 946 Mn to Rs. 2,625 Mn facilitating a record-breaking increase in the financial year 2010/11. Our thoughts on multichannel distribution enabled us to outperform the severe competition and penetrate the overall market including Northern and Eastern regions of the country.

Our Product Portfolio

Sector Performance in 2010

RFCs were able to mobilize deposits with relative ease as the liquidity situation in the market improved. Loans and advances of RFCs grew by 28.4 per cent compared to the 4 per cent annual growth recorded year on year in 2009. Hire purchase and finance leasing accounted for around 35.5 per cent and 28.4 per cent of total advances respectively, which was 67 per cent of the total assets of the financial institutions sector.

Source: Central Bank of Sri Lanka

Leasing & Hire Purchase

How We Thought

CDB's approach to LE & HP across the pyramid gives a well-defined and pragmatic structure that outlines the opportunities and risks associated with each of CDB's

Challenges Faced

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.

Our Thinking for the Future

The projected growth of Sri Lankan Economy and expected boom in tourism and industrial sectors have indicated opportunities in enhancing the leasing business for equipment. We will further expand our multi channelled distribution network in the medium term.

Loans

How We Thought

At the beginning of the financial year, our focus was on expanding our loan portfolio. We laid greater emphasis on expanding the Business Loan facilities along with Housing Loan facilities. Our desire to enhance the micro finance sector in Sri Lanka enabled us to grant Business Loans for existing customers with a healthier repayment capacity.

How Our Thoughts Worked

CDB was able to realize its projections during the year. The net advances granted as loans grew from Rs. 1,211Mn to Rs. 1,819 Mn, an increase of 50% compared with the 2009/10 figures. In 2009/10, the total amount granted for Business Loan facilities was Rs. 22 Mn. But in 2010/11, CDB increased this to Rs. 73 Mn, which is an increase of a 241 per cent compared to the previous figure.

Challenges Faced

The biggest challenge in this segment was the strong competition from commercial banks. However, CDB has operated with a focused strategy in the loan market which will be the strategy in medium term.

Our Thinking for the Future

The construction industry in the country is thriving and greater opportunities for growth are evident. Our thinking for the future is to provide loan facilities to the industry to empower it to achieve the intended growth in Sri Lanka and to further enhance the markets for housing and business loans. Also, we are always ready to contribute to the micro finance sector, thus increasing our micro lending facilities as well and thereby increasing the standard of living of our nation.

Deposits

How We Thought

'Your aspirations in life mean a lot to us' - that is how we feel about fulfilling our customers' necessities. At CDB we have 3 main deposit products, namely, 'Dhana Surekum', 'Deeghayu' (for senior citizens) and 'Aee' (for ladies). We have aggressively promoted our brand and announced our branch relocation strategy.

How Our Thoughts Worked

Our thinking paid handsome dividends, where deposits grew from Rs. 4,838 Mn to 7,489 Mn, an increase of 55% per cent compared to last year. The BBB- from RAM Ratings Lanka too has enhanced the confidence of customers. Branch operations have also added immense value in providing a more efficient and effective service to our customers.

Challenges Faced

The declining interest rates, which contracted the returns of the customer have been the main challenge that we faced during the financial year under review. Besides fierce competition in the industry. CDB has performed admirably during the year in overcoming the challenges.

Our Thinking for the Future

Our focus for the next financial year is to commence savings accounts, which will offer new opportunities for our customers to experience many services and value additions. Moreover, the launch of the savings accounts will enable us to target an untapped market segment for CDB. Further 'CDB Sithumina' a Grand Draw for CDB deposit holders will be unveiled in the next financial year.

Pawning

Sector Performance in 2010

An ancient financing method, traditional pawn shops today are left struggling to survive when confronted by the formidable challenge from banks who aggressively promote this product. The increasing interest in pawn broking had been spurred by higher lending rates and awareness with regard to bad debts.

The market was ripe for this product and it thrived in the period under review. In fact, the market witnessed an increasing trend towards high-yielding pawn broking. Rising gold prices and quick disbursement of pawning advances rendered pawning attractive to customers throughout the year. Moreover, since these advances are fully collateralised against gold, the CBSL does not require them to be classified as Non-Performing Loans (NPLs).

Source: RFC sector update: RAM Ratings Lanka (Pvt) Ltd

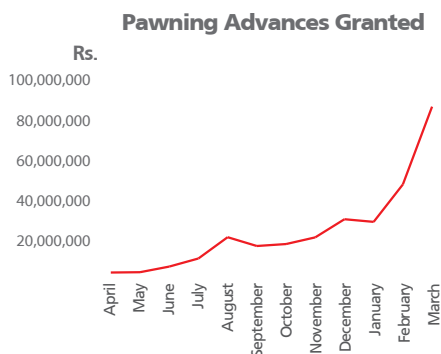
How We Thought

Our thinking was to diversify into other products and to enhance the services to CDB customers. Further, our thought was to reduce the maturity gaps in the short term. At the outset, we used emotional messages in our communication to emphasize our friendly service and security of customers' jewellery but later our communication was modified to become more informative.

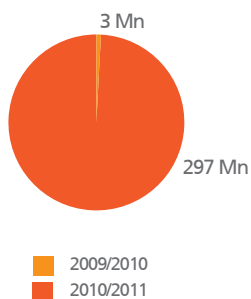
How Our Thoughts Worked

CDB introduced its gold pawning service in November 2008 initially at its Kegalle Branch. Currently 18 branches offer the CDB Ran Nidahasa pawning service. The pawning portfolio has grown aggressively and witnessed an enormous growth in pawning advance figures in comparison to the last year. We expect to expand our pawning service to other branches that we feel are ripe for CDB Ran Nidahasa.

Management Discussion



Pawning Advances



Challenges Faced

Due to the high demand as a result of the increase in gold prices, we were faced with the challenge to expand our services to all our branches to capitalize on market opportunities and to increase our pawning portfolio.

CDB managed to expand pawning services in time and accelerated popularity by offering attractive interest rates while ensuring an excellent service to our customers. This strategy has resulted in an increase in our pawning portfolio.

Our Thinking for the Future

Our strategy for the future is to enhance our pawning business to all our branches and to provide training for our staff to provide exceptional service to our customers.

Money Exchange

Sector performance

The Central Bank of Sri Lanka (CBSL) first appointed money changers in Sri Lanka in 1991 and the initial permit was only to purchase foreign currency. Criteria for the appointment of money changers were revised in 1999 and in 2005 and the minimum turnover requirement was increased up to USD 600,000 in 2007 and to 1 million in 2009. Then permission was granted for money changers to sell up to an equivalent of USD 1,000 (now USD 2,000) for travel purpose in 2007.

Number of authorized money changers (AMCs) and the foreign currency deposits with commercial banks

Year	No. of AMC	Amount (USD Mn)
2006	67	100.91
2007	69	103.04
2008	67	188.20
2009	75	297.06
2010	83	116.20

Source: Central Bank of Sri Lanka

District wise money changers as at 21/12/2010

District	Numbers
Colombo	46
Negambo	11
Wennappuwa	07
Kandy	03
Chilaw	03
Hikkaduwa	01
Aluthgama	01
Jaffna	01
Vavuniya	01
Other	09

Source: Central Bank of Sri Lanka

The no of AMCs increased from 67 to 83 from 2006 to 2010. The reason behind the relaxation of rules and regulations by the CBSL was to promote formal authorized money dealers as there were many unauthorized money dealers who were charging margins higher than those provided by AMCs. This resulted in customers moving towards unauthorized dealers leading to enormous sums of foreign currency going out of the country illegally.

Source: Central Bank of Sri Lanka

How We Thought

CDB made a foray into the Money Exchange segment in December 2009 through its branch network. Initially, CDB was granted authorization to operate money exchange services only at 4 branches, however the Company has now been authorized to extend the money exchange facilities across all its branches islandwide. At first, we commenced money exchange in Negombo and went on to expand our services to Wennapuwa, Jaffna and Vavuniya. CDB now plans to place a thrust on attracting foreign visitors to avail of its money exchange services, now that the tourism industry is undergoing a resurgence.

How Our Thoughts Worked

The operation showed an increasing trend in the 2nd & 3rd quarters as we expanded our services in line with our objectives. Though the money exchange business at CDB is still in the infant stage, CDB has recognized the potential of the business and focused on strategic expansion.

Challenges Faced

One of the main challenges we faced in relation to our Money Exchange business was to provide training for our staff in this new line of business. Previously, CDB was authorized only to buy and not to sell foreign currency, until authorization for both activities was granted in February 2011, which has resulted in recruiting knowledgeable, experienced officers and providing necessary materials and internet facilities for gaining enhanced knowledge.

Our Thinking for the Future

After acquiring the money exchange authorization for all of our branches, we are now in the process of expanding the operation to our entire branch network. Our thinking is to be the leading RFC in conducting foreign currency trading and we are expanding our reach and services rapidly. Since we are now authorized to conduct foreign currency selling, we are focused on exploiting this market as well.

MoneyGram

Sector Performance

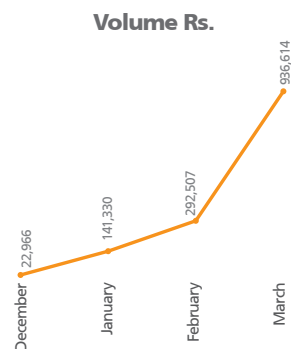
MoneyGram International, a leading global payments services company, offers money transfer services worldwide and bill payment services in the US through a global network of more than 203,000 agent locations, including retailers, international post-offices and financial institutions in more than 190 countries and territories around the world. Inward remittance is a thriving market in Sri Lanka. Over 1.5 million Sri Lankans living and working abroad sent home approximately Rs. 370 billion last year, which accounted for about 8 per cent of the country's GDP in 2010, with most banks engaged in this business activity

How We Thought

Taking our viewpoint of the being a total financial services provider concept, we launched MoneyGram services in December 2010. After a careful assessment of the potential in this field of operation, CDB signed a sub representative agreement with Hatton National Bank (HNB), the super agents for MoneyGram in Sri Lanka. Currently, we are the only Financial Institution engaged in offering MoneyGram services other than Commercial Banks.

How Our Thoughts Worked

We expanded Moneygram service to all our branches and strategized aggressively in penetrating the MoneyGram business thus resulting in a considerable increase in the volume of money granted through the MoneyGram facility. We are focusing on attracting customers and thereby increasing our volumes in line with our thinking for the future.



Challenges Faced

As a new entrant, the biggest challenge we faced was the competition offered by commercial banks and we have already crafted strategies in overcoming the competition and to exploit the true potential of the market.

Our Thinking for the Future

In the coming year we will enhance our reach and focus on having an integrated marketing communication on MoneyGram to reach potential customers and penetrate the market.

Management Discussion

“We can accomplish many things if we Think of them as possible”

Marketing, Communication & Distribution

Our Thinking

At CDB, our approach to marketing and communication goes far beyond balance sheet considerations. We believe that one of our crucial roles is to share knowledge about financial matters and educate customers on how they can use this knowledge 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 their secure future.

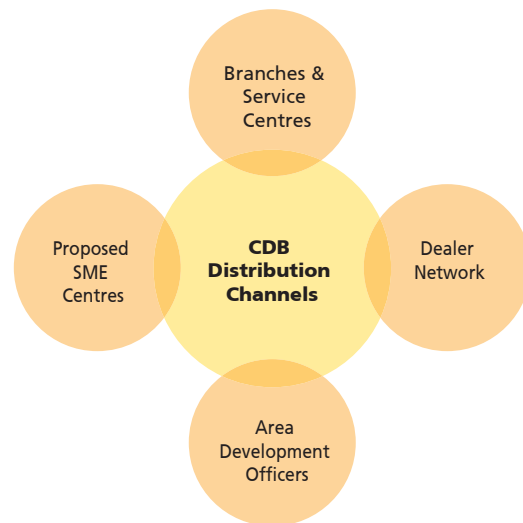
The concern for customer convenience underscores all our marketing initiatives. For example, when it comes to our lending operations, we understand the customer’s urgency and have facilitated speedy loans to cut down on delays and simplify loan application procedures. In fact, our marketing and communication 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.

CDB Brand Values

CDB Brand Values have been developed with the intention of creating a competitive advantage by offering greater value for prevailing rates in the market. Once our customers understand the value we add to their financial service experience, they pledge

loyalty to CDB. Keeping in mind all these considerations, we articulated attributes that we would like to project to promote our brand, while retaining the core values on which CDB stands proudly today.

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.



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

Distribution

Our Thinking

CDB's distribution network has been a driving force in its exceptional financial performance during the year under review. Our multi channel distribution supports our business model which places an emphasis on rural areas. Our branch network comprises 16 branches within and 17 outside of the Western Province, including 3 service centres.

The CDB corporate management team identifies areas for new branches in keeping with the tenets of our strategic plan. Currently, the relocation of existing branches and an enhanced uniform outlook for all branches is being implemented.

Island Wide Presence

Other than our presence through branches, we also have a team of dedicated officers who personally take CDB's products and services to the doorstep of customers with limited credit access or to those located outside the radius of our branch network. We have Area Development Officers and a strong dealer network to provide a personalized service to our customers. CDB opened its 3rd service centre in Batticaloa during this financial year and our target is to further expand the reach via our multi channeled distribution network which will enable us to leverage on business opportunities all over the country.

New Outlook for All Branches

We have further identified the need to align our branches to reflect our core brand identities. In line with this, we have begun re-launching our branches with enhanced service standards over the duration of the last financial year, adding value to our customers by providing a unique service experience. The ambience at the branches is being synchronised for a uniform experience at all our branches. CDB re-launched 16 of its branches during the period under review as compared to only 2 during the last financial year.

Our Thinking for the Future

Strategic marketing and communications and an expanding island-wide distribution network will be our key business enablers in the future. CDB has set out time-bound goals to achieve the number one position amongst the financial institutions and we have put in place a step by step policy to achieve this ambition. The next two years will witness aggressive investment in branch expansion and in enhancing the convenient and personalized service that CDB has become known for. Our marketing strategies will ensure our differentiation from competition, making it easy for customers to reach out for our high quality reliable services. CDB will continue to maintain customer convenience as its topmost priority and like the tie-up with Commercial Bank ATMs, we will continue to usher in innovative ways in which our customers can access us anytime, anywhere in the island.

Management Discussion

“The number one benefit of information technology is that it empowers people to do what they want to do. It lets people be creative. It lets people be productive. It lets people learn things they didn't think they could learn before, and so in a sense it is all about potential”

Information Communication Technology

Our Thinking

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.

Intra Bank System for Inter-Branch Connectivity

Each and every branch and service centre at CDB is connected with an online system which connects branch operations with head-office operations in real-time. This has empowered us to provide an excellent streamlined service to our customers. One of our main goals to decentralize head-office operations was initiated in this financial year. The objective of issuing the deposit certificate from the branches itself was commenced during this financial year. The approval of leasing facilities, which was previously done only at the head-office was also decentralized to the branch level, which has further improved our efficiency. Initially, we have granted this authority to selected branches, but in the near future we intend to expand this authorization to each and every branch. CDB was successful in achieving these milestones because of our foresight in developing our ICT infrastructure.

Promoting Online Financial Services

Our website offers our customers a range of facilities. Customers can log on to our website and apply for any credit facility or place a deposit with us, which would enhance our efficiency and minimize delays. The company has used its website as a strong communication tool in providing customers with timely

information. Customers can access exhaustive information on our products, procedures and requirements in applying for lease facilities and other services. The website is regularly updated with ongoing and upcoming news about CDB and our IT team remains focused while continuously enhancing its user friendliness.

Effective & Efficient Management Information System (MIS)

Management Information Systems or MIS plays a vital role in an organization, helping in effective decision-making and streamlining procedures. At CDB, many of reports generated via the system, which facilitates timely and accurate information that has empowered our management team to take accurate and informed decisions. This has further helped in saving time, which can be channeled gainfully into other activities within the organization.

Our Thinking for the Future

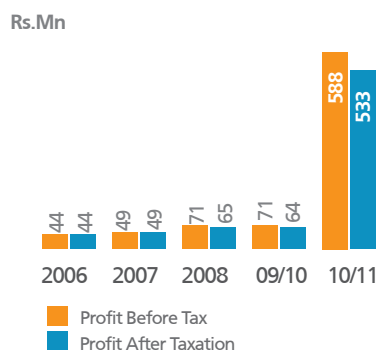
The year 2011/12 will be a defining year for CDB as we have signed up with an International software solutions provider, “Polaris”, India along with the local partners “Millenium IT” to rollout a new integrated Core Banking Solution. This will enable us to transform into a total financial solutions provider, offering the facility of Savings Accounts. We expect ICT to be one of the main drivers of growth in CDB’s ambitious plans to diversify and expand its operations in the future. In a bid to gear up for this exponential growth, CDB has entered into a strategic tie-up with Commercial Bank to share its ATM network, adding value to its customers by way of enhanced convenience and access to its services.

At CDB we are also promoting online business orientation coupled with a ‘Virtual Office’ concept which will be initiated in the near future. The new branches that will be opened over the next financial year will offer customers access to our latest ICT technologies. CDB is also in the process of rolling out many more services leveraging on our IT expertise that will set us apart from the competition and lend the cutting edge to help us win over the hearts and minds of our valued customers.

Financial Review

Profit Before Tax & Profit After Tax

The aggressive loan growth coupled with declining interest rates enabled CDB to post a land mark figure of Rs.500Mn for the first time in history. The profit before tax stood at Rs 559Mn which was an increase of over 679% compared to the last financial year's profit before tax of Rs 71Mn (annualized). Profit after tax increased from Rs 64Mn (annualized) to Rs 528Mn an increase of 698% compared to the previous year.

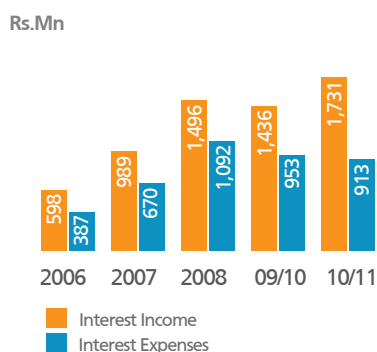


Revenue

CDB's top line has surpassed the Rs 2000Mn mark, yet another milestone in CDB history and recorded a figure of Rs.2226Mn. It was an increase of 47% compared to the last year's revenue figure Rs.1519Mn (annualized). The contribution from the core business to the revenue stood at Rs.1731Mn which is 78% from the total revenue. Noncore revenue recorded a figure of Rs.495Mn, where the mark to market gain contributed Rs.311Mn and other income figured 184Mn.

Interest Income & Interest Expenses

The careful monitoring of assets and liabilities with an aggressive approach has enabled CDB to exploit the true market credentials for the period under review. The interest income increased by 21% for the period from a figure of Rs 1,436Mn to Rs 1,731Mn which is mainly supported by the loan book growth of 56% during the period under review.

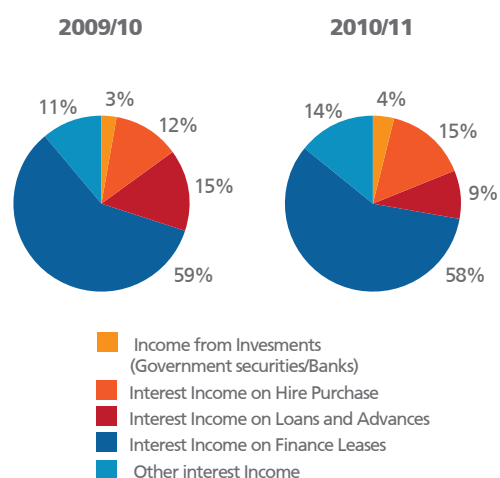


The trend in decreasing the interest expenses was continued for the period under review and CDB's interest expenses recorded a figure of Rs.913Mn which

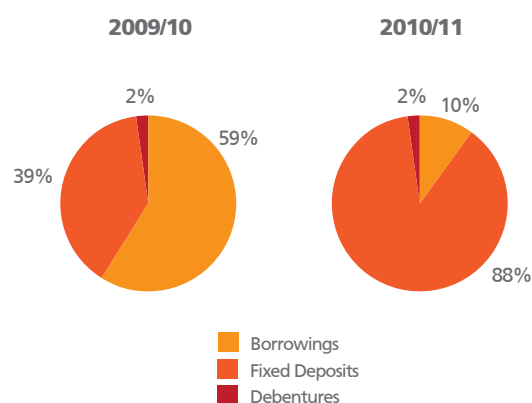
is a 4% decline in comparison to the 2009/10 figure of Rs.953Mn (annualized).

CDB's Net Interest Margin (NIM) has indicated a healthy improvement from 7.18% in 2009/10 to 9.69% in 2010/11 which has been strongly supported by the growth in Net Interest Income from Rs.483Mn (annualized) in year 2009/10 to Rs.818Mn in the period under review, an increase of 69%.

Interest Income Composition



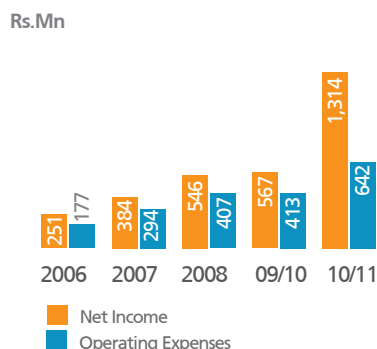
Interest Expenses Composition



Net Income & Other Income

Net income grew from 132% compared to the previous financial year, and the other income has increased by 375% to Rs.496Mn in year 2010/11. The composition of other income represents the Mark to market value adjustment, which is being the adjustment to the carrying value of investments in quoted shares for CDB, recorded a figure of Rs.311Mn and noncore income recorded of Rs.184Mn. The noncore income has increased by Rs.75Mn for the period under review.

Financial Review



Operating Expenses

CDB has continued to focus on aggressive cost management strategies whilst having an aggressive expansion drive with a new outlook for branches and enhanced customer service through the multi channelled distribution network. CDB has re launched 16 branches for the period under review and opened one new branch at Baticaloa.

CDB's cost to income ratio recorded at 51% (with mark to market value adjustment) and 66.83% (without mark to market value adjustment), which has improved from the previous year's figure 74.58%. However the operating expenses have increased in the financial year under review to Rs 646Mn from Rs 413Mn (annualized) in 2009/10, an increase of 56%. The personnel cost to revenue ratio has increased to 9.64% for 2010/11 from 8.61% of preceding year.

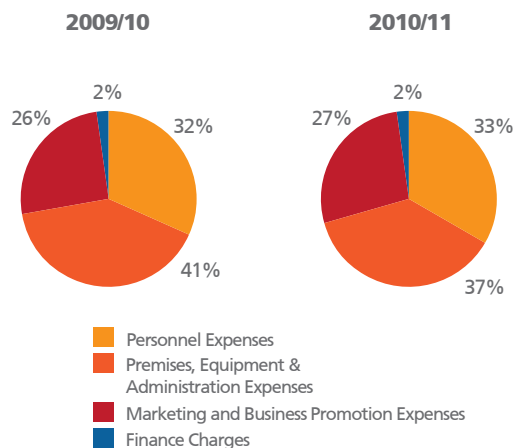
CDB's marketing and business promotion expenses have shown an increase of Rs.71Mn, and stood at Rs.177Mn for the period under review. The awareness and the value generated through marketing communication has been recognized in year 2010/11 by LMD, with the CDB brand being recognized among Sri Lanka's Top 100 brands, CDB stands at 51st place.

Loan Loss Provisions

Provision for loan losses decreased substantially during the period due to the aggressive recovery procedures followed by CDB coupled with the improved macro economic conditions. The specific provision stood at Rs.10Mn for the period which has been Rs.73Mn (annualized) in the previous year. On prudent basis CDB has provided a general provision of Rs.70Mn for the period under review based on 1% of the total performing lending portfolio.

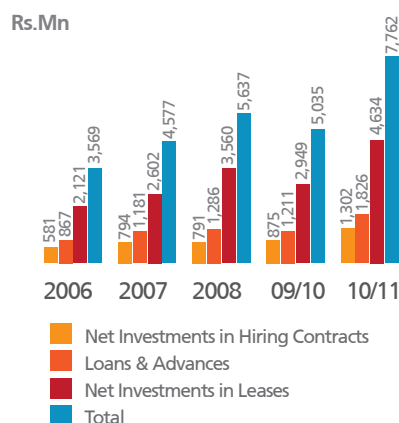
The Gross NPL ratio stood at 3.64% for the year 2010/11, form 7.52% in the previous year. The reduction of NPL indicates reduction of non performing portfolio from Rs.396Mn in 2009/10 to Rs.290Mn in 2010/11 as well as an increase of the performing portfolio for year 2010/11. Further the net NPL ratio has recorded an impressive figure of 0.85% for 2010/11 which has improved from the previous year's ratio of 3.68%. The

improvement of NPL has witnessed the focused and aggressive recovery efforts of the company.



Net Advances

The company's total lending portfolio grew from Rs 5,035Mn to Rs 7,855 an increase of 56% compared to the last financial year. The growth of loan book has indicated the aggressive approach CDB had in year 2010/11, Further it is notable that the asset quality has improved continuously during the period.

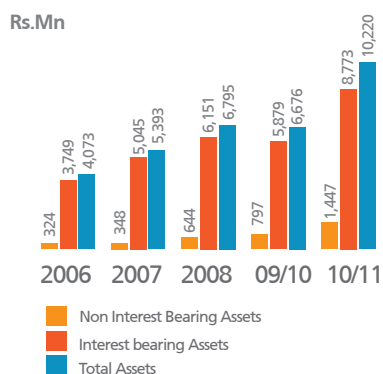


The highest increase was in the net advances granted for finance leases which amounted to Rs 4,911Mn an increase of 58% compared to the last financial year. Net advances granted as loan facilities also increased from Rs 1,210Mn to Rs 1,825Mn an increase of 50% compared to the last financial year. The growth of hiring contracts also stood at 49%, which has improved from Rs.874Mn to Rs.1,299Mn in year 2010/11.

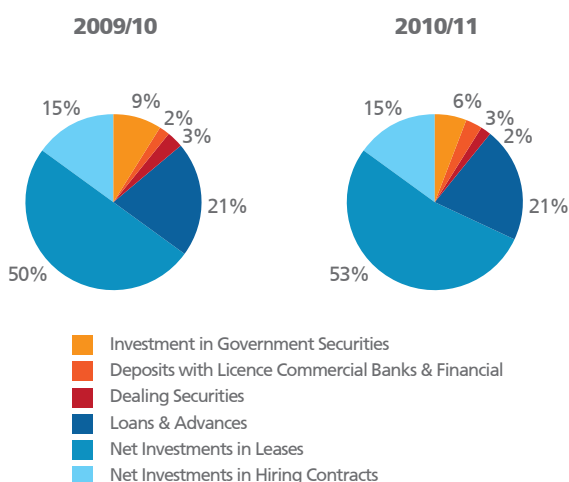
Assets Composition

For the first time in history, CDB achieved Rs 10Bn in total assets. Total assets base of the company grew by 53% from Rs 6,676Mn to Rs 10.2 Bn. The non interest bearing assets grew from a previous financial year's figure of Rs 797Mn to Rs 1,402Mn, an increase of 76% which was mainly because of change in value of current quoted investments. The interest bearing assets showed

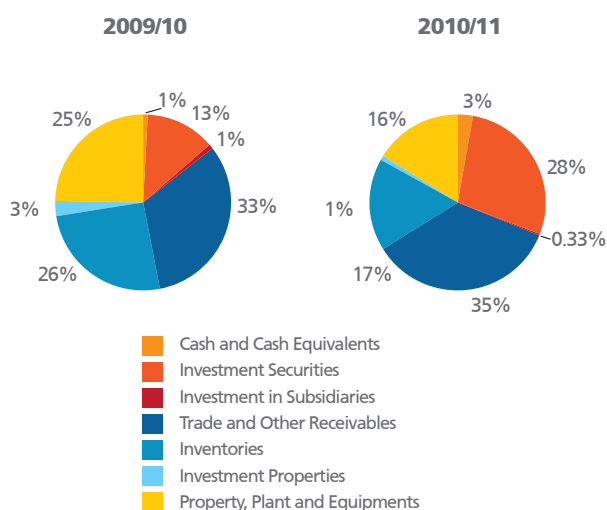
an increasing trend and it was increased to Rs 8,818Mn from Rs 5,879Mn, an increase of 49% compared to the previous financial year. Due to the substantial growth in bottom line CDB's Return on average assets increased to 6.66% for the period under review from 1.32% in the preceding year.



Interest Bearing Assets Composition



Non Interest Bearing Assets Composition



Total Deposits & Borrowings

The drop in interest rates has been the trend throughout the period under review and the competition has become the industry norm for deposits. CDB has been competitive and aggressive in managing deposit base growth of 55% from Rs 4,838Mn to Rs 7,489Mn in year 2010/11. The Company's borrowing portfolio stood at Rs.1002Mn which has increased from Rs.829Mn of the preceding year. The corporate borrowings have been the cause for increase in borrowings for the period under review.

Shareholders' funds

The precise and focused strategy along with effective board oversight at CDB has enabled the Shareholders' funds to grow by 100% in the period 2010/11 from Rs.513Mn to Rs.1026Mn. The company has proposed a final dividend of Rs.2 per share on profits for the period under review which will amount to a total dividend payout of Rs. 79,370,096/-

Capital Adequacy Ratio (CAR)

The Tier I & Tier II Capital adequacy ratios stood at 11.79% & 12.60% respectively for the 31st March 2011. CDB has complied with the CAR regulatory requirement for the period under review.

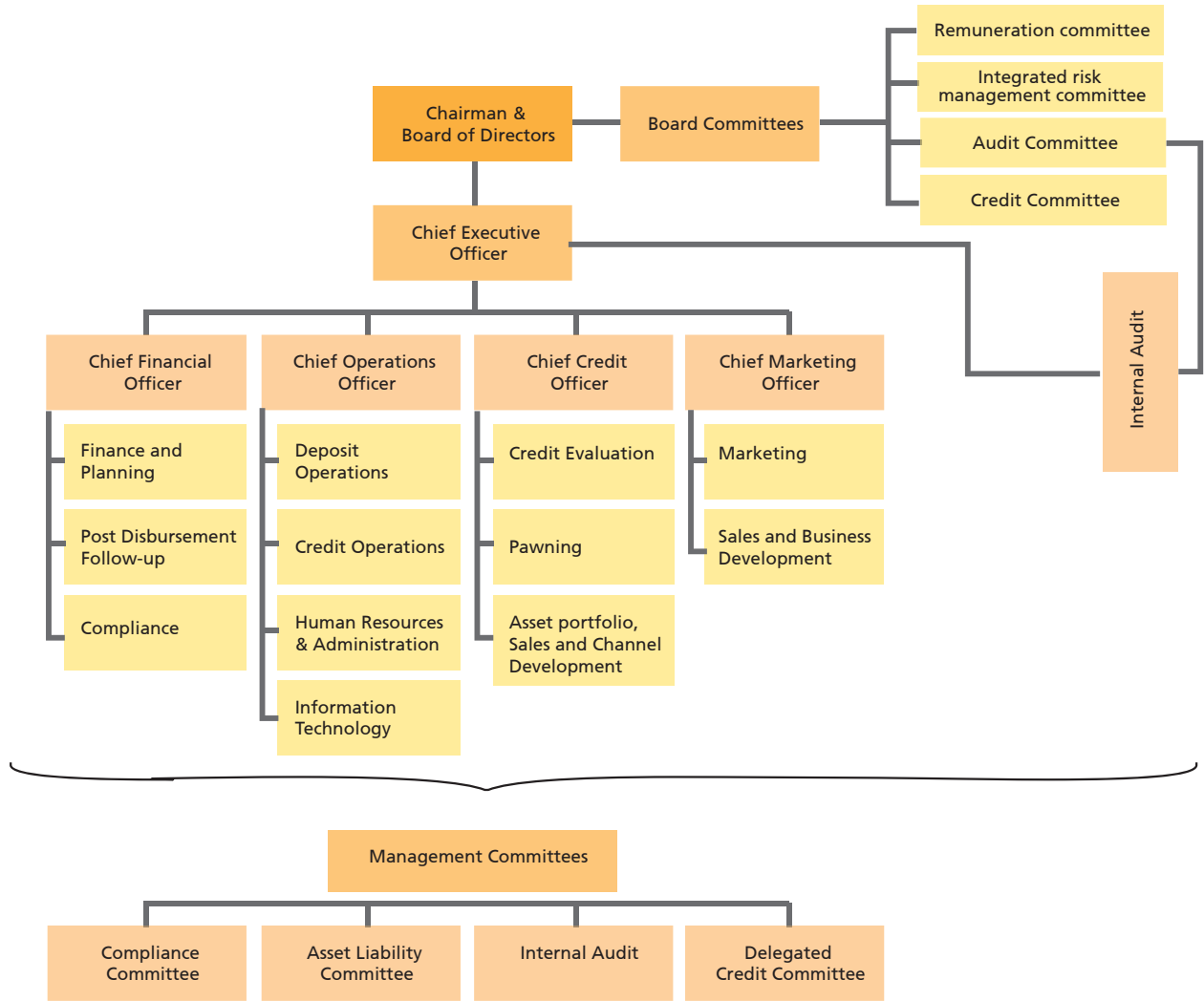
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Enterprise Governance

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.

Corporate Governance

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 facilitates 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.

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 Companies act No.78 of 1988

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 Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
A. Directors			
A.1 The Board			
The Board consists of professionals in Finance, Accounting, Management and Information Technology. They possess the skills and experience and knowledge to set the directions and oversee the operations of the Company.			
Meetings	A. 1.1	Compliant	12 board meetings were held during the year at approximately monthly intervals.
Board Responsibilities	A. 1.2	Compliant	The board is collectively responsible for the success of the company. The board formulates the business strategy and ensure that CEO and management team possesses the skills experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure integrity of information, Internal controls and risk management and compliance with all applicable laws and regulations. The independent directors are responsible for bringing independent judgement to decisions made by the board.
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.
	A. 1.4	Compliant	All directors have access to company secretary. The secretary ensures that all Board procedures as per the Board Terms of Reference are followed and applicable rules and regulations are adhered to. He possesses the required qualifications as set out in the Companies Act. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Independent judgment	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 for the affairs of the Company by attending Board meetings, Board sub-committee meetings, making decisions and adopting resolutions via circular. Additional meetings and discussions are held with the management whenever the need arises.
Training for new directors	A. 1.7	Compliant	Adequate knowledge sharing opportunities are provided to new and existing members of the Board on Company and industry related matters, on a continuous basis.
A.2 Chairman and CEO			
Division of responsibilities	A.2.1	Compliant	There is a clear separation in the duties of the Chairman and CEO. The Chairman is responsible for the leadership of the Board, the management of Board Meetings and the business undertaken. It is also the duty of the Chairman, together with the Company Secretary, to ensure that all relevant issues are on the Board agenda, that Directors receive all appropriate and timely documentation, are enabled and encouraged to play their full part in relevant discussions and debate. The CEO is responsible for the day-to-day functioning of the Company's operations in accordance with the policies and objectives laid down by the Board. He is also accountable for the achievement of the financial and non-financial objectives agreed annually by the Board and contained within the Company's Business Plan. This ensures the balance of power in strategic and operational decisions.
A.3 Chairman's Role			
Role of the Chairman	A.3.1	Compliant	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.
A.4 Financial Acumen			
There is a sufficient number of Board members who possess finance qualifications and experience in the Financial Services industry and provide significant input in matters concerning this area.			
Availability of sufficient financial acumen and knowledge	A.4	Compliant	The chairman is a Fellow member of the Institute of Chartered Accountant of Sri Lanka. MD/CEO is a member of the Chartered Institute of Management Accounting of UK. In addition, the board includes two members of the Institute of Chartered Accountants of Sri Lanka and three members of the Chartered Institute of Management Accountants of UK.

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
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			
Non Executive Directors	A. 5.1	Compliant	Six of the eleven directors are non executives.
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	The board considers Non Executive Directors independence on an annual basis
Signed declaration of Independence	A.5.4	Compliant	All non executive directors of the company have made written submission as to their independence
Determination of independence of the Directors by the board	A. 5.5		The board has determined that submission of declaration by the non executive directors as to the independence of them.
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	No such matters of concern
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 is analyzed and presented in a form for the Board to make informed and accurate decisions.			
Provision of timely and quality information	A. 6.1	Compliant	The Directors receive a comprehensive report of all Board papers and any other additional information requested by the members of the Board, well in advance of the meeting. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
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. Members of the Corporate Management made presentation on issues of importance. The Chairman ensured that all Directors were briefed on issues arising at Board meetings.
A.7 Appointments to the Board			
In terms of the Company's Articles of Association the Majority Shareholder is entitled from time to time, by writing under the hand of its chairman, to make appointments of new Directors. The said appointments are notified to the Board of Directors immediately. In identifying suitable candidates for appointment as Non-Executive Directors, professional qualifications, business experience and personal qualities are taken into consideration.			

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Nomination Committee and Assessment of board composition	A.7.1 & A.7.2	Compliant	Board as a whole annually assesses board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment should be taken into account when new board appointments are considered and when incumbent directors come up for re-election.
Disclosure of details of new directors to shareholders	A. 7.3	Compliant	The details of new Directors are disclosed to the Board and the relevant regulatory authorities at the time of appointment. New Directors appointed during the year and any other changes are disclosed in the Directors Report in the Annual Report of that year.
A.8 Re-election			
The Code requires all Directors to submit themselves for re-election at regular intervals and at least once in every three years. It also requires all Non-executive Directors to be appointed for a specific terms and subject to re-election			
	A. 8.1	Compliant	Articles of Association of the company requires, each Director to retire by rotation once in every three years and is required to stand for Re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors are subject to prior review by the full Board.
Re election by the Shareholders	A. 8.1	Compliant	Refer comment above
A.9 Appraisal of Board Performance			
The Board periodically appraises its own performance against the pre set targets in order to ensure that the Board responsibilities are satisfactorily discharged			
Annual appraisal of board performance and that of its Committees	A. 9.1	Compliant	The board annually evaluates its performances against the annual objectives set at the beginning of the year. The performances of board committies evaluated against the objectives of respective committees
A.10 Disclosure of Information in respect of Directors			
The Code requires that the details in respect of each Director to be disclosed in the annual report for the benefit of the shareholders			
Details in respect of directors	A. 10.1	Compliant	Details of directors are given in this annual report.
A.11 Appraisal of CEO			
The Board of Directors is required to evaluate annually to assess the performance of the Chief Executive Officer			
Financial and non financial targets for CEO	A.11.1	Compliant	At the commencement of every year financial targets are set by approving annual budget and non financial targets are set in consultation with the CEO by the board
Annual evaluation of the performance of CEO	A.11.2	Compliant	At the end of each financial year Performance of CEO is evaluated to ascertain whether the targets have been achieved.

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
B. Directors' Remuneration			
B.1 Remuneration Procedures			
The Code requires companies to have a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors and also recommends that no Director should be involved in deciding his/ her remuneration in order to avoid the self review threat			
	B. 1.1	Compliant	<p>The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management, and for making all relevant disclosures.</p> <p>The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD / CEO. The MD / CEO participates in meetings by invitation in deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.</p>
Remuneration of Non-executive directors	B.1.4	Compliant	<p>The Board as a whole decides the remuneration of the Non Executive Directors.</p> <p>The Non Executive Directors receive a fee for being Directors of the Board and additional fee for either chairing or being a member of a Committee, working on special Committees and / or serving on Subsidiary Boards. They do not receive any performance related / incentive payments.</p>
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	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			
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 be 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.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
B.3 Disclosure of remuneration			
Disclosure of directors' remuneration in the annual report.	B.3.1	Compliant	Remuneration of Directors has been disclosed in this annual Report
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			
Use of proxy votes	C.1.1	Compliant	
Separate resolution for all separate issues	C.1.2	Compliant	
Availability of all Board subcommittee Chairman	C.1.3	Compliant	
Adequate notice of the AGM	C.1.4	Compliant	
Procedure of voting at General Meeting	C.1.5	Compliant	
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			
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.
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 2011. In the preparation of financial statements, CDB had strictly complied with the requirements of the Companies Act No 07 of 2007, the Finance Companies Act No 78 of 1988 and amendments thereto and Directions issued under the same Act, and are prepared and presented in conformity with Sri Lanka Accounting Standards.
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' 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
Management Discussion and analysis	D.1.4	Compliant	The Management Discussion & Analysis Report is given this annual report as required by the direction

Corporate Governance

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
Declaration by the Board that the business is a Going Concern.	D.1.5	Compliant	This is given in the Directors Report
Summoning an EGM to notify serious loss of capital	D.1.6	Compliant	Likelihood of such occurrence is remote.
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			
	D.2.1 & D.2.2	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.
D.3 Audit Committee			
Composition of the Audit Committee	D.3.1	Compliant	The Company's Audit Committee consists of three members all of whom are Non-Executive Directors. The Committee operates within clearly defined terms of reference.
	D.3.2	Compliant	The committee maintains an appropriate relationship with the External Auditors, KPMG Ford Rhodes Thornton & Co., to ensure their objectivity and independence. The payment to External Auditors for Audit and Non Audit services is 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 defined 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

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	CDB's Level of compliance
D.4 Code of Business Conduct & Ethics			
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.
D.5 Corporate governance disclosure			
Disclosure of Corporate governance	D.5.1	Compliant	This report address this requirement
E. Institutional Shareholders			
E.1 Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice			
Regular and structured dialogue with share holders	E.1.1	Compliant	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.
F. Other Shareholders			
Individual Shareholder and voting	F.1 & F.2	Compliant	Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights

SECTION II

Statement of Compliance

Finance Companies (Corporate Governance) Direction No.03 of 2008 as amended by Finance Companies (Corporate Governance) Direction No.04 of 2008

The Monetary Board of the Central Bank of Sri Lanka has issued the above Direction which shall apply to every finance company registered in terms of Section 02 of the Finance Companies Act No.78 of 1988 and shall come into operation with effect from 01st January 2009.

However, as per the transitional provisions of the said direction, Finance companies are required to be fully compliant with this direction by 01st January 2012.

The Board of Directors of CDB has commenced compliance with the requirements of the Direction from 01st January 2009 and has a clear strategy to fully complied by 1st January 2012.

Corporate Governance Principle	Reference	Compliance Status	CDB's Level of compliance
2. The Responsibilities of The Board of Directors			
1.Strengthening the safety and soundness of the company	2. (1)	Compliant	The board formulates the business strategy and ensures that CEO and management team possesses 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 are separate.
3. Independent professional advice Board Meetings	2. (3)	Compliant	Please refer section A.1.3 of the SEC and ICASL code compliance table

Corporate Governance

Corporate Governance Principles	Reference	Compliance Status	CDB's Level of compliance
4. Conflict of Interests	2. (4)	Compliant	Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to CDB and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his / her interest and unless the Board resolves otherwise, he / she do not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings.
5. Formal schedule of matters	2. (5)	Compliant	The Board have a formal schedule of matters reserved to it
6. Situation of Insolvency	2. (6)	Compliant	No such situation has arisen during the year
7. Corporate Governance Report	2. (7)	Compliant	This report Addresses this requirement
8. Annual self assessment by the Directors	2. (7)	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	This situation has not arisen
13. Board Secretary	3. (5)	Compliant	Please refer section A.1.4. of the SEC & ICASL Code compliance table
14. Agenda and Minutes of the Meetings	3. (6) & 3. (8)	Compliant	The 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)	N/A	This section of the Rule is not applicable for the year under review and will become effective from 01st January 2012.

Corporate Governance Principles	Reference	Compliance Status	CDB's Level of compliance
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 assesses the composition of the board and makes appointments 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	This situation has not arisen
5. Criteria to assess the fitness and propriety of Directors			
27. Directors over 70 Years of age	5. (1)	Compliant	This section of the Rule is not applicable for the year under review and will become effective from 01st January 2012.
28. Holding in office in more than 20 companies	5. (2)	Compliant	No director holds 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 officers are separated
31. Chairman shall be an non executive director, and if not designate a Senior Director	7. (2)	Compliant	Chairman is a non executive director

Corporate Governance

Corporate Governance Principles	Reference	Compliance Status	CDB's Level of compliance
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)	Compliant	Please refer section A.3 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 have been appointed as required by the direction
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 favourable treatment.
10. Disclosures			
36. Financial reporting, statutory and regulatory reporting	10. (1)	Compliant	Financial Statements for the year ended 31st March 2011 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)		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

Risk Management

Risk Management philosophy

Risk is an integral part of the financial services industry. At CDB, we aim to safeguard and enhance shareholder wealth by establishing adequate risk mitigation measures after close analysis of the entire spectrum of risks that could impact our operations. Effective risk management forms an important component of our business success and we ensure continuous monitoring and review of new risks to ensure that we are in a state of high preparedness to deal with any such eventuality. Our policies and procedures to deal with risks have been formulated after assessing industry-wide best practices and adapting them to fulfill our business needs.

Board and Senior Management Oversight

The risk management philosophy and adherence to risk management norms is laid out by the Board and cascaded down to every level of the organization. At CDB, the prime responsibility of setting risk appetite and the effective management of risk lies in the hands of the Board of Directors. The senior management team is tasked with the important responsibility of translating and communicating these strategic decisions to the bottom-line in an effective manner. Furthermore, the senior management is deemed to assess the level of compliance and integration of the risk management strategy in the entire organization on an ongoing basis. Keeping in mind the global financial crisis and the financial scams in the local market, our risk management strategy is reviewed regularly and altered where necessary to provide high safeguards from risks.

Risk Management Strategy

The risk management strategy at CDB has been evolved to contribute to the company's overall strategy by promoting a healthy trade-off between risk and return, based on a moderate risk profile. The aim is not to avoid all risks, but to keep risks manageable and in

doing so to ensure a healthy, stable business environment. The risk management strategy specifies to what extent undesired risks should be mitigated or avoided, describing the company's approach to risk and the risk appetite. The risk strategy is aligned with the CDB's corporate strategy, which is designed to help meet its strategic objectives.

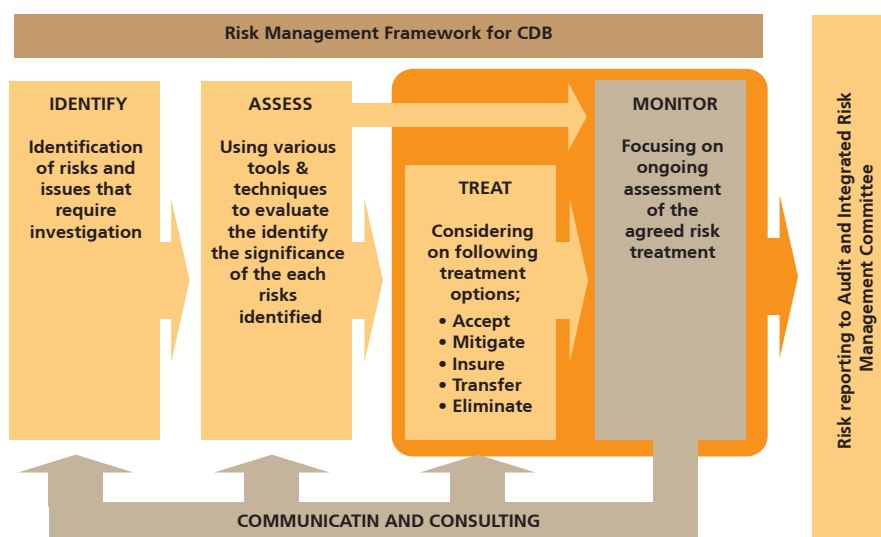
Risks are an inalienable part of the financial services industry, since we have to take on a moderate amount of risk to meet our targets. CDB's Risk management strategy clearly delineates the high risk categories and defines how and to what extent the company takes various types of risks in order to achieve its business goals and objectives

Our Risk Management strategy maintains balance between risk and reward by;

- Protecting the financial position of the company through implementation of clear responsibilities and accountability procedures for effective risk management.
- Implementing independent control of risk management
- Protecting the reputation of the company by ensuring transparent and coherent risk-related decision-making throughout the company.

Risk Management Framework

An effective and clear risk management framework is vital for our organization to enable profitability and sustainability, rendering it an important aspect of a company's financial and operational management. The company manages companywide risks by adhering to the risk management framework in place, with an objective of maximizing risk – adjusted returns while maintaining the risk appetite of the company.



Risk Management

Our risk management framework has clearly defined the extent of the risk that need to be managed, key risk categories that the company is exposed to, the methodology of identifying key risks, tools and techniques of controlling and monitoring risk.

Credit risk

Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower that causes an asset (including off-balance sheet transactions) to lose value or become worthless.

Credit risk is the most significant risk to which the company is exposed to. Without an effective credit risk management, the impact of the corresponding losses on operations can be overwhelming. The purpose of credit risk management is to keep credit risk exposure to a permissible level related to the capital of the company, to maintain the soundness of company's assets, and to ensure returns appropriate with risk. CDB needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The company also studies the relationship between credit risk and other risks.

Credit risk management within the company is governed by the credit committee and this committee is accountable for formulating the credit strategy and credit policies pertaining to CDB and will point out sets of principles, rules, guidelines and procedures for identifying, measuring, approving and reporting credit risk.

Credit committee has formulated a four lines of defence framework to manage the credit risk exposure of the company. The credit risk management process controls the entire credit cycle starting from the origin to the point when the credit is removed from the books.

Intention of the credit appraisal is to collate relevant information for credit assessment and to design the credit policy that the marketing and credit officers should adhere to. Credit approval for different thresholds requires credit committee approval and beyond discretionary level, requires Board approval. The committee segregates duties of the credit administration and monitors the entire credit portfolio on a continuous basis to manage the credit risk exposure.

Liquidity Risk

Liquidity risk arises when maturing deposit liabilities cannot be met at the due date. The concept of Liquidity is increasingly important in managing financial risk in any industry. It is driven by the depth and the structure

of the market. As an institution which is more sensitive to the market volatility, the significance of having sound principles of liquidity and risk management supervision mechanisms cannot be highlighted enough.

Managing the liquidity risk is the foremost important feature in the financial services industry; hence most of the companies adopt appropriate risk management strategies to uphold the right combination of liquidity and profitability.

The need to focus on the maturities of assets and liabilities and at different levels is one of the key factors that the company is focusing on. The Asset and Liability Committee (ALCO) has formulated different strategies to overcome such mismatches. The Liquidity contingency plan is continuously updated by ALCO to prepare for any contest and crisis situations and the company is also looking at liquidity stress measurements which includes a number of ratios leading to measure multiple low stress and high stress scenarios. At the governance level, the board recognizes liquidity risk as a driving force. Diversifying sources and terms of funding, Identifying ,measuring, monitoring and controlling the composition of the balance sheet; understanding the interaction between liquidity and other risks ; establishment of both tactical and strategic liquidity management platforms; establishment of detailed contingency plans and stress tests under multiple scenarios are the main guiding principles of liquidity risk management.

ALCO has executed a two-tier approach to manage the liquidity risk exposure of the company; going concern liquidity management and contingency liquidity risk management.

1. Going concern liquidity management – The approach will ensure the maintaining of permissible level of liquidity of the day to day company requirements. CDB exercises valuable measurements to signify going concern liquidity management approach.
2. Contingency liquidity risk management - The approach assure the stability of the CDB to generate adequate liquidity in the event of short term or long term liquidity crisis. Company implement following steps to manage the contingency risk.
 - Liquidity Contingency Plan
 - Local Regulatory Compliance

Market risk

Market risk arises from the uncertainty concerning 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.

The prime objective of Market Risk Management is to ensure optimization of the risk-reward relationship and to not expose it to unacceptable losses. Considering the market risk of CDB's business portfolio, it is exposed to interest rate risk and equity price; where the company has put much attention on market risk management since it is highly sensitive to business income and in achieving business sustainability.

The Board is responsible for determining exposure limits in relation to market risk and based on such indicators the senior management is responsible for establishing appropriate risk limits which need to comply with the company's overall risk strategy and the risk tolerance level. Delegated ALCO has formulated well defined framework by incorporating Asset and liability management policies and Treasury policies which pay high concern over liquidity management, interest rate risk management and the pricing of assets and liabilities. Tools such as Stress testing, exposure limits, continuous supervision and effective internal controls are employed by the company in order to keep the market risk exposure under control.

Operational risk

Operational risk is the risk arises from potential loss from failures of internal human capital, internal processes and technologies, or impact of external events.

Having identified the significance of the operational risk exposure, the company has implemented a well defined operational risk management policy as a far sighted measurement. This has driven the company towards greater sophistication in meeting future trends and to capture qualitative and quantitative measures of operational risk indicators in management of operational risk.

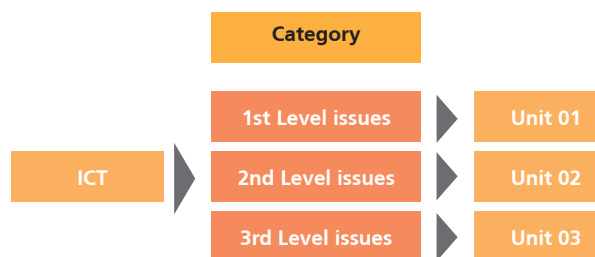
The company has a comprehensive system of internal controls, other systems and procedures to monitor and mitigate risk. CDB has institutionalized a new product approval process to identify the risk inherent in the new product and activities. The Internal audit function of the company and the Risk Based Internal Audit complements the company's ability to control and mitigate risk.

ICT risk

ICT risk arises mainly due to disruptions of ICT systems in the day to day business operations, such as internal system failures, hardware failures etc. Considering the current business environment of finance industry, ICT plays a vital role by offering a cutting edge over others. CDB has invested in information technology advancement to retain a competitive advantage and mitigate ICT risk from internal and external factors.

CDB has considered risk arising from ICT threats as Business continuity risk; hence we identify and assess the interrelationship of all possible business continuity risk within the business parameter. Having identified the significance of ICT threats, the company has categorized the failures as; 1st level, 2nd level and 3rd level failures and IT department grouped in to different subunits pertaining to IT issues in order to smooth function the risk management process.

Further, the company has comprehensive IT security policy and disaster recovery plan and regular awareness program on the same and strictly complying with the same. Our information technology system itself has proper internal controls to mitigate ICT related risk. Further, Internal and external auditors carry out IT system based audits on a regular basis and at the end of the year.



Reputation risk

The Reputational Risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

Unprecedented adverse collision on company brand and negative public perceptions can inflict on even the most successful companies. Further, such incidents and negative perceptions on reputation not only hurts company performance but also the market confidence of the participants and even can lead to a financial crisis as Sri Lanka experienced in 2008.

Having identified the magnitude of the risk of reputation, CDB outlines clear means of managing the risk through effective Communication and Cooperation. Communication is the key element to mitigate the reputation risk and plays vital role in identifications of such risk in advance as a proactive measure. Cooperation between senior management is done in order to define the target reputation risk considering company's overall business strategy and encompassing overall risk strategy to absorb such exposures.

Risk Management

Compliance risk

Compliance risk is the legal or regulatory sanctions, financial loss or damage on company reputation as a result of failure to comply with rules and regulations pertain to company, self regulatory standards formulated by the company, codes of conduct or generally accepted market standards applicable to its activities as a provider of financial services.

Senior management of the CDB is responsible for managing such events and maintaining effective compliance division enables the senior management to identifying, assessing and effectively managing the company’s compliance risk. This is a particular way which the company indicates resolve to uphold proper standards and to comply with generally accepted principles of governance applicable to registered financial companies.

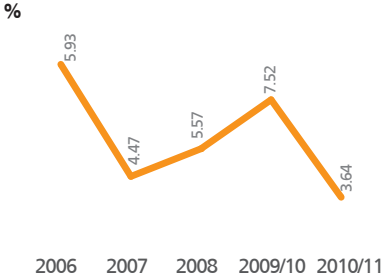
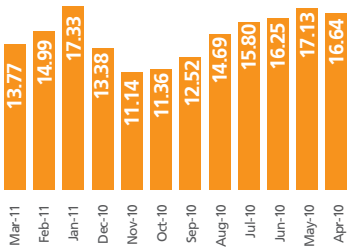
To be complied with the regulatory requirements CDB has placed Compliance division and such will identify the risks related to regulatory compliances and reports monthly basis to the top management.

Strategic Risk

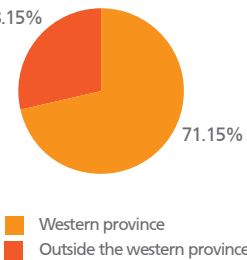
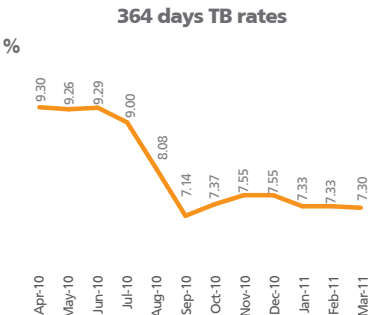
Strategic risk is the risk that arises mainly due to implementing inappropriate policies, ineffective business planning, inability of the company to respond to changes in the competitive environment, changes in customer preference, product obsolescence, regulatory environment, poor business strategy execution and/or other inherent risks of the business including reputational risk.

CDB recognizes that having quality information for strategic decision making at the top management is key for mitigate strategic risk within the business parameter. Critical information needs to be presented in such a way that it has a balanced, objective oversight of all areas of the Company. CDB has provided information about its internal and external business environment to recognize the strategic risks accordingly. The integrated risk management committee is evaluating and reviewing the Strategic Performance Indicators (SPIs) on monthly basis while a report is submitted to the board on monthly basis

Risk Identification	Risk Category	Risk Measurement	Risk controlling & Monitoring																										
Credit Risk Financial losses due to counterpart being defaulted in a credit event	Default risk	Collection ratio % <table border="1"> <caption>Monthly Collection Ratios (%)</caption> <thead> <tr> <th>Month</th> <th>Collection Ratio (%)</th> </tr> </thead> <tbody> <tr><td>April</td><td>89.56</td></tr> <tr><td>May</td><td>98.2</td></tr> <tr><td>June</td><td>103.78</td></tr> <tr><td>July</td><td>103.53</td></tr> <tr><td>August</td><td>99.1</td></tr> <tr><td>September</td><td>96.75</td></tr> <tr><td>October</td><td>99.22</td></tr> <tr><td>November</td><td>97.92</td></tr> <tr><td>December</td><td>99.97</td></tr> <tr><td>January</td><td>94.79</td></tr> <tr><td>February</td><td>92.26</td></tr> <tr><td>March</td><td>104.6</td></tr> </tbody> </table>	Month	Collection Ratio (%)	April	89.56	May	98.2	June	103.78	July	103.53	August	99.1	September	96.75	October	99.22	November	97.92	December	99.97	January	94.79	February	92.26	March	104.6	Collection ratio implies daily monitoring by the post disbursement follow-up division, which can be instilled down to the branch level, individual recovery officer and sales officer, which enables CDB to manage default risk at minimal. Collection ratio is reported on a monthly basis to the Board and necessary steps are taken in order maintain the healthy performance.
	Month	Collection Ratio (%)																											
April	89.56																												
May	98.2																												
June	103.78																												
July	103.53																												
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November	97.92																												
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January	94.79																												
February	92.26																												
March	104.6																												
		Bad Debt provision Management	Responsibilities are assigned to manage the bad debt provisions and irregular payments are being monitored throughout the year.																										

Risk Identification	Risk Category	Risk Measurement	Risk controlling & Monitoring																										
		<p>Non Performing Loans</p> <p>%</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>5.93</td> </tr> <tr> <td>2007</td> <td>4.47</td> </tr> <tr> <td>2008</td> <td>5.57</td> </tr> <tr> <td>2009/10</td> <td>7.52</td> </tr> <tr> <td>2010/11</td> <td>3.64</td> </tr> </tbody> </table>	Year	Percentage (%)	2006	5.93	2007	4.47	2008	5.57	2009/10	7.52	2010/11	3.64	<p>Non-performing loans are routine and provision management teams being assigned to deal with different baskets of NPLs.</p> <p>Call centre of CDB regularly connects with customers in order to reduce the exposure.</p> <p>Reporting has been done to the Board on a monthly basis.</p>														
Year	Percentage (%)																												
2006	5.93																												
2007	4.47																												
2008	5.57																												
2009/10	7.52																												
2010/11	3.64																												
		Accuracy of documents	Credit policies & guidelines																										
	Document-ation Risk	Completeness	A checklist of necessary documents has been attached & regularly checked in order to ensure the accuracy and completeness																										
		Legality of documents	Legality being checked and consulted on a timely basis from senior legal officers																										
		Maintenance of documents	All reference and security documents being kept in a fire proof safe, other files & agreements being scanned																										
	Processing Risk	Proper authorization	Approval limits have been delegated and authorization is a must to process the facility.																										
<p>Liquidity Risk Risk arises due to inappropriate cash and/or cash equivalents to meet the needs of depositors and borrowers</p>	Liquidity Position	<p>Liquidity ratio</p> <p>%</p>  <table border="1"> <thead> <tr> <th>Month</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>Mar-11</td> <td>13.77</td> </tr> <tr> <td>Feb-11</td> <td>14.99</td> </tr> <tr> <td>Jan-11</td> <td>17.33</td> </tr> <tr> <td>Dec-10</td> <td>13.38</td> </tr> <tr> <td>Nov-10</td> <td>11.14</td> </tr> <tr> <td>Oct-10</td> <td>11.36</td> </tr> <tr> <td>Sep-10</td> <td>12.52</td> </tr> <tr> <td>Aug-10</td> <td>14.69</td> </tr> <tr> <td>Jul-10</td> <td>15.80</td> </tr> <tr> <td>Jun-10</td> <td>16.25</td> </tr> <tr> <td>May-10</td> <td>17.13</td> </tr> <tr> <td>Apr-10</td> <td>16.64</td> </tr> </tbody> </table>	Month	Percentage (%)	Mar-11	13.77	Feb-11	14.99	Jan-11	17.33	Dec-10	13.38	Nov-10	11.14	Oct-10	11.36	Sep-10	12.52	Aug-10	14.69	Jul-10	15.80	Jun-10	16.25	May-10	17.13	Apr-10	16.64	<p>Detailed analysis on liquidity has been carried out by the ALCO paper for decision making and liquidity position is monitored and reported to CEO on a daily basis.</p>
Month	Percentage (%)																												
Mar-11	13.77																												
Feb-11	14.99																												
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May-10	17.13																												
Apr-10	16.64																												

Risk Management

Risk Identification	Risk Category	Risk Measurement	Risk controlling & Monitoring
	Maturity Gap	Maturity Gap	Maturity gap being overlooked on monthly basis at the ALCO meeting and reported to the CEO
	Concentration risk	Deposit concentration (Geographical wise-province) 	Business strategy of the company is based on the rural lending and urban funding; where statistics clearly indicate the company is in line with the strategy. A regular review of the market situation and industry exposures has been carried out.
Market Risk Risk arises due to uncertainty of market prices and rates.	Interest Rate Risk	Spreads and Margins	Regular updates carried out in relation to weighted average cost of capital of lending and mobilizing in company dashboard. Weekly review carried out for branch managers and board reporting on monthly basis
		Pricing for lending and mobilizing	Decisions on pricing being conducted through ALCO and such decisions are evaluated on monthly basis.
		Interest rate movement 	Interest rates being identified through Treasury bill rates and reviewed on a weekly basis. ALCO is conducting stress testing analysis to identify interest rate risk exposure on company earnings and coming up with mitigating strategies.
Operational Risk Risk arises from potential loss from Human capital, Internal processes or external events.	People Risk	Employee turnover	Employee turnover being reported on annual basis, talent development and retaining top performers is done by the HR department.

Risk Identification	Risk Category	Risk Measurement	Risk controlling & Monitoring
	Operational manipulation	Internal Audit plan	Internal audit department carries out regular investigations on CDB branches Provides an independent report to the CEO on monthly basis and takes pertaining actions to prevent such manipulations.
		Branch visits by the management	Top management make regular visits to branches.
	Technological manipulation	System Audits	Internal Audit department carries out system audits on a random basis
ICT risk Risk emerge due to failures in internal systems, hardware and threats from hackers which results in financial losses and loss of sensitive information	Business Continuity Risk	1st Level System failures	Based on the risk assessment 1st level system failures will be monitored and controlled internally. The failures will be directed to the relevant sub units in the IT department to take necessary action.
		2nd Level System failures	Based on the risk assessment 2nd level system failures due to external issues such as telecommunication, hardware break downs etc. will be directed through the relevant subunit.
		3rd Level System failures	Based on the risk assessment 3rd level system, failures are major breakdowns. These types of failures will be address through the disaster recovery plan.
Reputation Risk Reputation risk arises due to negative public perception of the company	Customer dissatisfaction due to internal failures	Customer complaints	Company is maintaining an effective customer response and grievance handling policies, where it is the responsibility of call centre to respond to any customer complaint within five working days. Providing adequate training on customer handling for employees. Company unveiled 2011/12 financial year theme as "Service First" to enhance the existing level of customer service
	Inadequate contribution to Society	Business of model of the CDB	Business model of the company is itself a social responsibility, which allows sustainable development of the rural and low income segments, providing them with access to formal financial institutions and funding opportunities.
		CSR projects undertaken during the year	Company maintains four types of CSR projects on routine basis throughout the year; <ul style="list-style-type: none"> • CDB Hithawathkam • Sisudiri scholarship program • CDB technology centre • Mihikathata Adaren

Risk Management

Risk Identification	Risk Category	Risk Measurement	Risk controlling & Monitoring
Compliance Risk Inability of the company to comply with regulations pertain to company, self regulatory standards formulated by the company, codes of conduct or generally accepted market standards	Regulatory risk	Statutory compliance	Evaluation of regulatory documents on monthly basis by compliance committee Submitting a report to the Board confirming the adherence to regulatory requirements Compliance committee members are assigned specific compliance areas. Each month a compliance check list is prepared considering the compliance requirements and adherence and deviations. Monthly compliance meetings are held and appropriate actions are taken. A monthly compliance report is sent to the board.
Strategic Risk Exposure to loss resulting from a strategy that turns out to be defective or appropriate.	Internal Business risk	Internal business trends	Business volumes being monitored on daily basis via credit dash board. Business volumes reviewed weekly at the managers meeting, monthly figures and trends being presented to the board on monthly basis.
		Spreads and margins	The credit dash board is providing the weighted average costs of lending and mobilizing which is updated to all managers on daily basis. Weekly review being done at the Managers meeting and report to the board on monthly basis.
		Portfolio health being monitored through Non Performing Ratio, Collection Ratio and Provisions	Non performing ratio being presented to the managers on a monthly basis and provide the same to the board for review.
		Existing products & New products	Product development team has been formed with members from different functions, who will conduct depth analysis of the target market prior to the product launch and assess the soundness of the product based on the Suitability, Acceptability and Feasibility guidelines .

Risk Identification	Risk Category	Risk Measurement	Risk controlling & Monitoring
	External business risk	Interest rate movements of Treasury bills and Competitors	Treasury bill and bond rate being monitored closely to recognize changes in the external market, which will be reported to the ALCO and IRM committee. Competitor rates also being reviewed to consider the market position.
		Movement of inflation	Reviewed at the ALCO.

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.

CDB has conducted Stress testing analysis during the year in order to evaluate potential impacts to the company under different hypothetical economic conditions. Results from such analysis are useful for company's contingency planning and capital and liquidity management.

Base Case

Capital Adequacy Ratio (CAR %)	12.56%
Capital Base	1,080,099,665
Total Risk Weighted Assets	8,599,246,285
NPL Ratio	3.64%
Total non Performing Assets	290,068,119
Total Performing Assets	7,684,526,515
Total Loan Assets	7,974,594,634

Impact on Capital Adequacy Ratio. (CAR)

	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock	5%	10%	15%
Total NPA's	290,068,119	290,068,119	290,068,119
Increase in NPA	14,503,406	29,006,812	43,510,218
Revised Capital	1,065,596,259	1,051,092,853	1,036,589,447
Revised RWA	8,584,742,879	8,570,239,473	8,555,736,067
Revised CAR%	12.41%	12.26%	12.12%

Impact on non-performing loans

	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock	5%	10%	15%
Total NPA's	290,068,119	290,068,119	290,068,119
Increase in NPA	14,503,406	29,006,812	43,510,218
Revised NPA's	304,571,525	319,074,931	333,578,337
Total Loan Assets	7,974,594,634	7,974,594,634	7,974,594,634
Revised NPL%	3.82%	4.00%	4.18%

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Sustainability Report

Sustainability Report

“When we Think, let us Think as if it lasts forever”

Chief Executive Officer’s Message

I have immense pleasure in placing before you our Sustainability Report for the financial year ended 31st March 2011. Although this is the first formal report in accordance with Global Reporting Index (GRI) guidelines, sustainability is inbuilt into our business model from the inception and resonates in every aspect of our operations.

We believe that a sustainable approach to business involves being cognizant of economic, social and environmental concerns, and in finding the optimum manner by which our business can nurture all three components for a sustainable future for the organisation and all our stakeholders.

Our philosophy of ‘urban funding and rural lending’ ensures a more equitable distribution of wealth, as we pursue our unwavering vision to bridge the urban-rural economic divide. A glance at our balance sheet will reveal how profoundly our transactions are tailored to benefit underserved and rural communities. This business model has enabled us to position CDB as a net lender to the rural economy.

CDB has experienced first hand the nascent potential of rural entrepreneurs and by holding their hand and extending financial and technical support, the organisation ensures that these aspirants fulfill their dreams and reach their true potential. Poverty is a major issue facing the nation today and much of it is concentrated in rural areas outside of the Western Province. Apart from the economic implications of poverty, if unchecked it could also lead to social unrest and political instability.

CDB’s sustainability efforts encompass multi faceted aspects of wealth distribution, education, environment and communities. One of the key challenges faced by the rural economy today is the skewed ratio of rural lending and rural savings by the formal financial services sector. In other words, rural savings far exceed the lending extended to the rural sector.

The rural economy is being adversely affected by this imbalance in rural lending and rural savings, evident in rural savings being channelled to meet urban funding

requirements; the slowing down of expansion in the rural economy; hampering rural entrepreneurship development; low rural employment generation; under-utilisation of rural resources and increasing psychological barriers amongst rural communities in dealing with formal sector financial institutions.

CDB’s business model of blending rural and urban opportunities are inclined more towards a ‘rural lending and urban funding’ business approach, which enables CDB to position itself as a net lender to the rural economy. This business model enables us to make a valuable contribution to mitigate the risks explained earlier. CDB believes this imbalance can be further addressed by making it mandatory for banking and financial services operators to disclose the composition of their deposit, savings and lending portfolio, with clear segregation of urban and rural within or outside the Western Province operations. This would result in influencing the sector to adjust the imbalance of rural savings and rural lending, thereby having a tangible and speedy impact on rural development and on the equitable distribution of national wealth both within and outside of the Western Province.

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

Our other flagship project focusing on the education sector is granting of scholarships to children who achieve district-wise the highest marks at the Grade 5 scholarship exams and to O/L exam achievers, under the CDB Sisudiri scholarship scheme. CDB Sisudiri is the only dedicated scholarship scheme in Sri Lanka dedicated to children of families involved in the three-wheeler

sector. CDB Sisudiri aims to assist the children and parents involved in the three-wheeler sector to realize their aspirations. Like other parents, those engaged in the three-wheeler sector too have dreams of providing a better education to their children and to ensure that their children enjoy a better future than they did. The value of each grade five scholarship is Rs 50,000, while the O/L scholarship is Rs. 30,000. Already, 90 children of families involved in the three-wheeler sector have benefited from the CDB Sisudiri scholarship scheme, with the total value of scholarships offered upto-date amounting to Rs. 1.8Mn.

In a bid to address environmental sustainability and to mitigate effects of our lending to finance the purchase of vehicles, CDB, in cooperation with the government, is promoting emission-free vehicles by incentivizing vehicle owners to convert to emission-free alternatives. CDB has also initiated 'Mihikathata Adaren', a seminar series on enhancing knowledge in reducing emission levels, in partnership with Air Resource Management Centre (a state authority concerned with air pollution) and with the representatives of AirMAC and CleanCo Lanka Limited, pioneers in vehicle air pollution reduction programmes in Sri Lanka. We will look into launching many such projects and initiatives to raise awareness on this compelling issue.

We foresee vibrant times ahead for the economy and are positioning ourselves to ensure that the peace dividend reaches every corner of the country. I would like to, in this report, pledge to strengthen CDB's commitment to sustainability in all its facets in the months ahead. I invite you to delve into the following pages which detail the innovative socially responsible manner in which CDB operates.

C. M. Nanayakkara
Chief Executive Officer

06th June 2011
Colombo



Our Sustainability Philosophy

Our Sustainability Philosophy

- Engage with stakeholders to understand their expectations

We recognise that as our business evolves, new sustainability challenges emerge. So, we identify the issues most material to our business through extensive stakeholder engagement and shape our strategy accordingly.

- Respond to stakeholders with our evolving sustainability targets and programmes

By listening to stakeholders and responding to their concerns, we have made significant progress in the programmes that we have adopted in achieving sustainability.

- Keep our stakeholders informed of our progress

At CDB, we believe that, it is our prime duty to communicate our progress and to convey the future plans of our company to our key stakeholders. We have achieved this through a range of communication tools such as our website, newspapers, annual report, letters, meetings etc, in order to reach all our stakeholders.

Our Sustainability Strategy

Our business strategy and our sustainability strategy are inextricably linked together. Meeting economic, environmental, and social sustainability dimensions in accordance with the Triple Bottom-line approach creates enormous opportunities to grow our business. Expanding our business in challenging markets such as leasing and deposit mobilisation, as well as micro finance, is based on the strategy which focuses on

Sustainability Report

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

At CDB, sustainability is woven into the very fabric of our business, as we have designed our business model with a triple bottomline approach. As a result, sustainability forms an integral part of our core business and governs our operations at every level. Our sustainability management reflects the ethical way we manage our business and how we add continuous value to all our stakeholders.

Managing Opportunities and Risks

The main objective and focus of our sustainability reporting is to regularly review the changing business climate and to ensure that we continue to address the issues that are material to our business, thereby ensuring the sustainability of our business. Monitoring emerging sustainability issues helps us identify future risks and opportunities for our business. We track sustainability issues in the media and engage with stakeholders in society through a variety of formal and informal channels. Further details on impact and risks can be found in the Risk Management section on pages 51-59.

Sustainability Priorities:

- Promote, establish, expand and modernise the industrial, agricultural and commercial sectors and contribute to other development activities of Sri Lanka.
- Deliver progress against stakeholder's expectations on the key areas of a safe and responsible life experience and sustainable products and services.
- Ensure our operating standards are of a consistent and appropriate level across the whole branch network which would facilitate in reducing negative impacts to our environment.

This strategy is based on our assessment of the key sustainability related opportunities and risks for our business. These are prioritised through our issue management and risk assessment processes.

Identifying Key Sustainability Issues

The managers and divisional heads meet on a monthly basis and considerable time is allocated to discuss

sustainability issues. The results are reported to the senior management through various mechanisms, for example, through a quarterly presentation to the Board. Through this process, global and local social trends and anticipated emerging issues which are relevant to our organisation will be identified. Our internal audit control questionnaire includes a range of sustainability questions, which are answered by all our branches once a year and signed off by branch managers. The questionnaire is part of our formal risk identification procedure and the results are reported to CDB's Board of Directors.

Creating a Culture of Social Responsibility

CDB employs 578 employees for the financial year under review. Our challenge is to ensure every one of them understands and subscribes to our corporate values to ensure consistent implementation of our sustainability strategy. Internal communication and awareness is vital to achieve this goal. We believe that sustainability issues are most effectively managed as part of our core business processes rather than as a separate unit. Sustainability is ensured within the mainstream management system and responsibility allocated to operational line managers accordingly.

Internal Communication and Awareness

Achieving sustainability mainly depends on our employees understanding the issues at hand, so that they can take responsibility for implementing policies in order to achieve our sustainability goals. Maintaining awareness about sustainability requires regular communication activity and we strive to ensure that everyone, everywhere, receives messages and has access to information that is relevant and appropriate.

Our key sustainability communication activities include:

- Monthly email newsletter
- Online updates via the Intranet
- Regular contributions towards environmental and social events.

Group Committees and teams focusing on key sustainability issues:

Topic	Function	Chaired by:
Combined Content Standards & Privacy	Protect the privacy of our customers including data protection, confidentiality, preventing unsolicited communication and intrusive surveillance	<ul style="list-style-type: none"> Imdaad Naguib - AGM - IT Damith Thennakoon - Chief Financial Officer
Health, Safety and Well-being	Ensure that we properly safeguard those who work for us and those who may be affected by our operations	<ul style="list-style-type: none"> Roshan Abeygoonewardene - Chief Operations Officer
Social Investment Committee/ Environment Protection	Oversee the social investment fund to develop products and services that benefit society	<ul style="list-style-type: none"> Karthik Ilangovan - AGM -Marketing
Business Ethics	Develop and communicate a framework that promotes ethical behaviour at all levels	<ul style="list-style-type: none"> Roshan Abeygoonewardene - Chief Operations Officer
Customer Promise	Provide a positive customer experience by protecting our customers	<ul style="list-style-type: none"> Maduranga Heenkenda - AGM - Asset Portfolio Sales & Channel Development
Energy	Reduce energy consumption and pollution	<ul style="list-style-type: none"> Roshan Abeygoonewardene - Chief Operations Officer
Supply Chain	Work with suppliers to address sustainability issues in the supply chain	<ul style="list-style-type: none"> Sasindra Munasinghe- Cheif Credit Officer Sudath Fernando- Senior Manager - Leasing/ Credit

Organisational Profile (GRI Indicators - 2.8, 2.9)

CDB is a Registered Finance Company regulated by Central Bank of Sri Lanka (CBSL). It operates with a vision of becoming “The financial powerhouse that will foster entrepreneurial innovation and workmanship towards building our nation’s economy to make sustained gains in living standards of Sri Lankans”.

The company is engaged in the business of mobilizing funds and providing financial accommodations. CDB was listed on the Colombo Stock Exchange (CSE) on 6th October 2010, where the legal form of the company changed from a Limited Liability Company to a Public Quoted Company. As of 31st May 2011, its market capitalisation was over Rs. 3.5Bn with its share price floating at around Rs. 90 to Rs. 100 as at the end of the financial period under review.

The total asset base at the end of the financial year under review was Rs. 10.2Bn and it recorded revenue of Rs. 2.2Bn. CDB has 33 branches islandwide and has become the 7th largest financial institution in terms of total assets among 36 Registered Finance Companies (RFC’s) under the Central Bank of Sri Lanka. The total employment strength of the organisation is 578. More information relating to the Company’s financial performance is given in the financial review section on pages 33-35.

Our Brands



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

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

Embilipitiya

1st Floor, Rasika Building,
Pallegama,
Embilipitiya
Email - embilipitiya@cdb.lk
T.P - 0472267961, 0472261962

Galle

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

Gampaha

1st Floor, No. 64,
Mary Biso Mawatha,
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
Email - jaffna@cdb.lk
T.P - 0212221585, 0212221586

Kaduruwela

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

Kaduwela

No. 475/1, Avissawella Road,
Kaduwela
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T.P - 0112538888, 0112538889

Kaluthara

1st Floor No. 83, Main Street,
Kaluthara South, Kaluthara
Email - kaluthara@cdb.lk
T.P - 0342224400

Kandy

No. 100/1, Yatinuwara Veediya,
kandy
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Kegalle

No. 227, Kandy Road,
Kegalle,
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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
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T.P - 0112422465, 0112422466

Kurunegala

No. 134/2, Nawinna Building,
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

Mathara

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

Mathugama

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

Moratuwa

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

Negombo

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

Nittambuwa

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

Rathnapura

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

Thissamaharama

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

Vavuniya

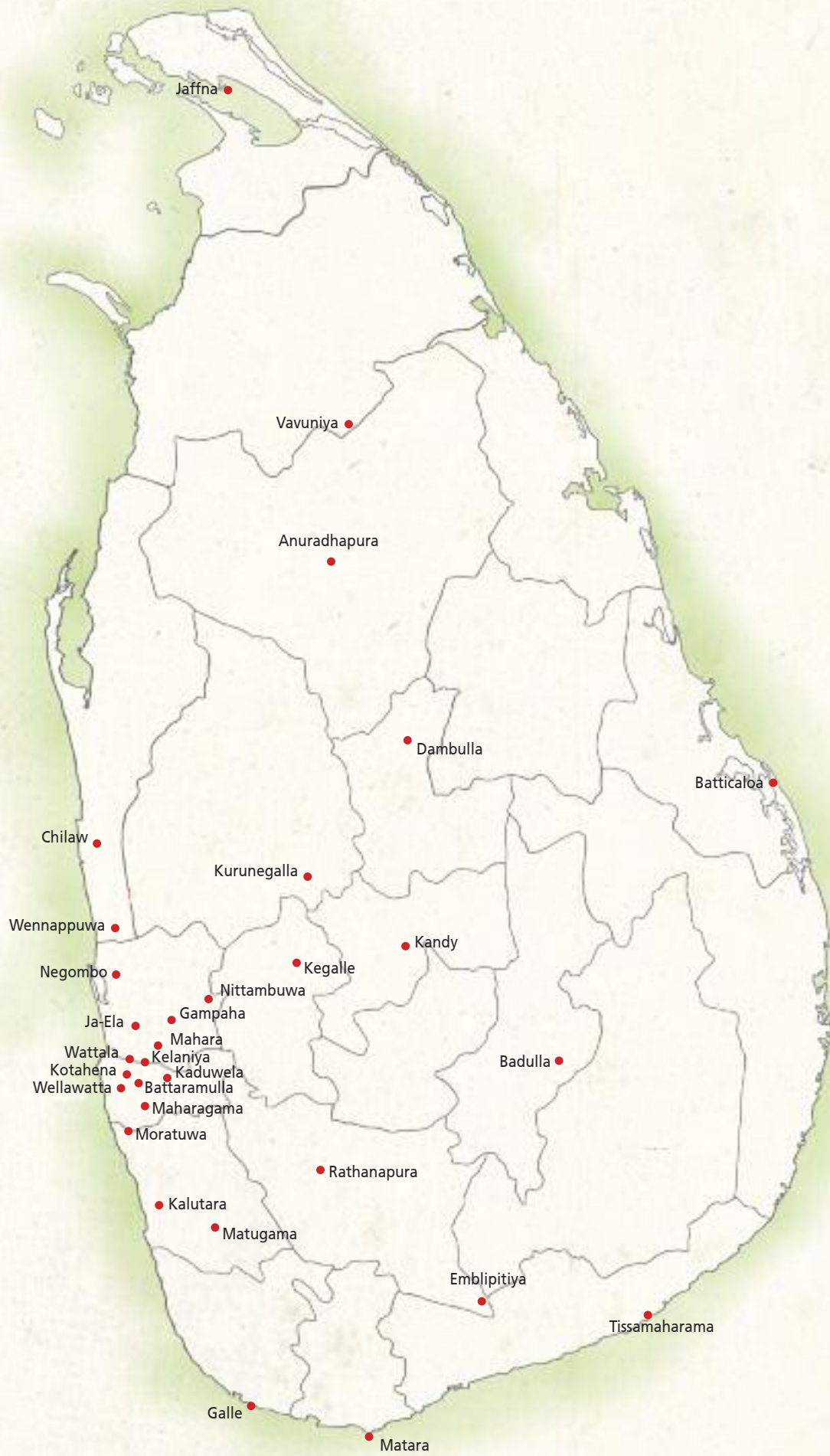
No. 79, Kandaswamy Kovil Road,
Vavuniya
Email - Vavuniya@cdb.lk
T.P - 0242225862, 0242225863

Wattala

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

Wennappuwa

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



Sustainability Report

Our 1st Sustainability Report According to GRI (GRI Indicators - 3.1 – 3.4)

Our financial reporting period is from 01/04/2010 to 31/03/2011 and the reporting cycle is annual. This is the first time that we are emerging with a sustainability report which is in compliance with Global Reporting Index (GRI) G3 guidelines. Any clarifications on our report may be directed to the address below:

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

Scope & Boundary of Report (GRI Indicators - 3.5 – 3.8)

When considering the report content we looked at the options for reporting and while focusing on reporting principles for defining content and reporting principles for defining quality, we spelt out what we would be reporting on, as stated by GRI application procedures. Our team has concentrated on aspects depicted below and has made an earnest effort towards achieving complete disclosure. We hope our passion to embrace and strengthen our sustainability reporting will be visible throughout this report.

We will be excluding our subsidiary, CDB Micro Finance Ltd from the scope of this report as we are in a process of merging it with CDB. Adhering to CBSL's conditions

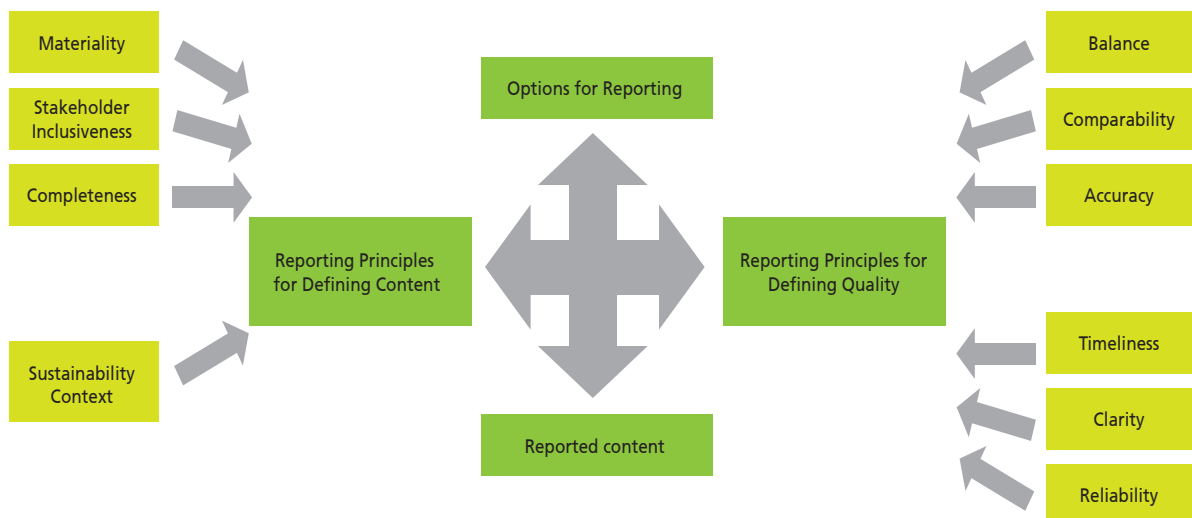
regarding the restrictions on having a 100% owned subsidiary, we are in the process of getting the approval from the Central Bank to go ahead with the merger. The operational activities of the company are not taking place currently, but there are some receipts from loans that the subsidiary had provided. As a result, this information will be excluded from the sustainability report to comply with the 'Materiality' concept laid out in the GRI guidelines, and included only in our financial statements. Therefore, this report reports only the operations of CDB and encompasses all identified Economic, Social & Environmental aspects of its operations.

Stakeholder Engagement (GRI Indicators – 4.4, 4.14, 4.15)

Thoughts on Engaging with Our Stakeholders

At CDB, we define stakeholders as "A person, group, or organisation that has direct or indirect interest in an organisation because it can affect or be affected by the said person, group, or organisation's actions, objectives, and policies."

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. The manner in which we have engaged them is mentioned in the table below:



Our Stakeholders	Engagement Activities in 2010/11
Customers	<ul style="list-style-type: none"> • Islandwide branch network • Effective handling of customer complaints via call centre operation • Providing timely and accurate information via our website • Integrated online system to connect each and every branch, thus providing efficient and effective services to our customers • Diversification into other products by focusing on being a total financial service provider concept and thereby addressing financial requirements of our customers • Helping our customers to understand energy consumption ways by holding workshops
Employees	<ul style="list-style-type: none"> • Providing efficient and effective information via an integrated HR system • The Annual Awards ceremony organised to recognize the exceptional performers • Organising of the annual get-together and Christmas party at Browns Beach Hotel, Negombo • Organising of the annual sports day at Wesley College grounds • Proper training programmes (Local & Overseas) conducted throughout the year • Maintaining an open-door policy where employees can access top management to convey any concerns they might have • Maintaining an employee suggestion scheme to promote their views and ideas • Continually updating employees about company's performance and future plans of the company at staff meetings and departmental meetings • Addressing and providing vital communication on employees' career development and professional development areas via annual performance appraisals • Strong support from the CEO top management on directing employees to study programmes undertaken by the company and promoting employees to develop their professional aspects as well
Investors	<ul style="list-style-type: none"> • Timely provision of the annual report and quarterly financial statements • Publishing Financial Statements in newspapers on a quarterly basis • Communicating the company's achievements via the website • Addressing of shareholder issues and taking their valued ideas and suggestions for decision-making in the future at the Annual General Meeting
Government Authorities (CBSL/SEC/CSE/ Inland Revenue Etc)	<ul style="list-style-type: none"> • Adhering to rules and regulation set by the mentioned organisations • Providing timely and accurate information • Paying applicable fees and chargers on time • Responding to queries made by these authorities
Community	<ul style="list-style-type: none"> • Donation of an IT lab to Navatkuli Maha Vidyalaya in Jaffna • Sponsoring the stage drama 'Breaking News' • Felicitating artists who have made significant contributions to the cultural ethos of the country. • Training rural youth with 'employable' skills. • Sponsoring 'Simple Tamil', a book written by Prof. J.B. Dissanayaka • Conducting 25 projects under CDB 'Hithawathkam' • Undertaking 'Sisudiri' Scholarship programme for the 3rd consecutive year • Flood relief campaign to aid the people who were affected • Paying tribute to war heroes.
Environment	<ul style="list-style-type: none"> • Initiating 'Mihikathata Adaren' project focusing on reducing emission levels to the environment

Sustainability Report

Generating Value for our Stakeholders

(GRI - EC1 - Core)

Direct Economic Value Generated

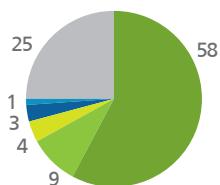
	2010/11	2009/10*
a) Revenue	2,226,022,713	1,519,119,510

Economic Value Distributed

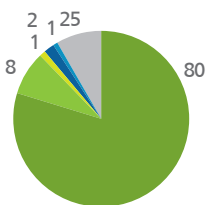
b) Operating costs	1,309,103,200	1,217,129,343
c) Employee wages and benefits	208,815,713	126,195,215
d) Payment to providers of capital	79,370,096	15,874,019
e) Payment to government	77,118,688	31,525,396
f) Community investment	4,971,797	2,027,624
Economic Value Generated	546,643,218	126,367,914

*Annualized

Economic Value Distributed 2010/11



Economic Value Distributed 2009/10



- Operating Costs
- Employee Wages and benefits
- Payment to providers of Capital
- Payment to government
- Community investment
- Economic Vale Generated

Sustainability Report - Our customers

“Relationships built on trust”



Islandwide Distribution Network



Our business model of urban lending and rural funding is supported with a multi channelled distribution network which comprises 30 branches, three service centres, a dealer network and area development offices across the country. We inaugurated our third service center in Batticaloa this financial year and our target is to further enhance the service centres within the next year as a part of our expansion drive, whilst simultaneously leveraging on opportunities in the north and east.

Branch Relocation with a New Outlook and Enhanced Services

CDB brand values have been developed with the intention of trying to create a competitive strategy of offering more value for the same price that is offered by competitors. We have also identified the need to

align our branches to reflect our core brand identities. In relation to this, we have begun re-launching our branches with enhanced service standards in the last financial year by adding value to our customers through providing a unique service experience. The branch outlook is being revamped in order to create a uniform atmosphere in all our branches. Compared to the two branches last year, within the review period we



Sustainability Report - Our customers

have re-launched and refurbished 16 of our branches and the new branches/service centers will reflect the new concept.

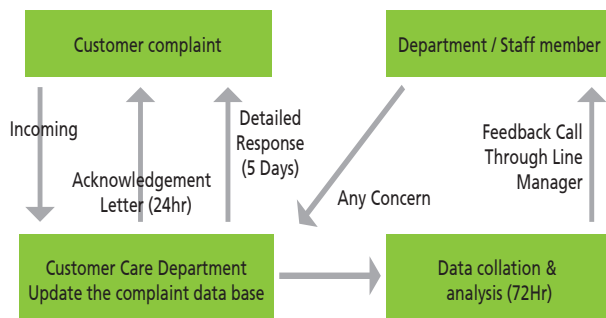
Strong ICT Support

CDB leverages on a business-enabled IT platform that empowers employees to function efficiently and exceed customer expectations. Our IT team comprises of professionals and they are active business partners in the organisation’s function, equipping us with advanced systems and processes for cutting-edge advantage. The advanced MIS deployed across our company has speeded up delivery of our products and services, propelling CDB closer to its ambitious goal to be the leading financial services provider in the country. Our online system connects all branches with the head-office for streamlined operations and initiatives, such as the ATM tie-up up with Commercial Bank of Ceylon, offers our customers convenience and an efficient service islandwide. Online financial services via a user-friendly website and other sophisticated IT efforts will set us apart from competition in the near future.



Dealing with Customer Complaints

Another way in which we add value to our customers is by handling customer complaints in a systematic manner. We have initiated a system backed by our ICT, wherein if a customer has a complaint, he/she can convey it to the customer care division via our call centre.



As mentioned above, a complaint received by CDB would be dealt systematically and a detailed response provided to the customer within five working days. The

customers can place a message via our website with regard to any inquiry. In our branches we have provided a telephone where any customer who has any inquiry can contact our head office call center staff free of charge and clarify their concerns. (Mostly, these inquiries are more specific to insurance, credit and rental related). Our dedicated call centre staff would then contact and assist these customers as soon as possible. The complaints and inquires that the company received during past two financial years are highlighted 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

Effective and Efficient Marketing and Communication



We have clearly defined our customer segments and identified requirements accordingly. Before proceeding with any of our communication methods, we ensure that these comply with rules and regulations, facilitated by the compliance division. This has ensured adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship (GRI - PR6 - Core). As a result, the company has no incidents of non-compliance with regulations and voluntary codes concerning marketing communications (GRI - PR7 - Add) or any significant fines for non-compliance with laws and regulations concerning the provision and use of products and services (GRI - PR9 - Core).

At CDB one of our key responsibilities is to protect the privacy of our customers including data protection, confidentiality, preventing unsolicited communication and intrusive surveillance. As mentioned in the beginning of our report, we have a specific team that

has been assigned to look after this particular aspect. We ensure the privacy of our customers' data and maintain the utmost confidentiality, resulting in no substantiated complaints regarding breaches of customer privacy and loss of customer data (GRI – PR8 - Add). These aspects provide evidence about our effective and efficient marketing and communication strategies and offer an insight into how we add value to our customers through our marketing and communication processes.

Strong Sales Team Committed to Provide a Delightful Service

Our sales team is the bridge that links the customer and our organisation. They are committed to achieving the set service standards and to promote our brand throughout the year, especially in the rural areas. Our dedicated staff has maintained a superior relationship with the customers, which has been the key contributor of our success in the year under review. In the role of financial advisors, they have won the hearts of the customers. This has been achieved by the company providing necessary training and guidance to sales team.

Future Outlook

The faith placed in us by our loyal customers has inspired us to be a 'Think Tank' and to be a total financial services provider. In the year ahead, we will be keeping the customer at the forefront of our decision to expand our network and introduce Savings Accounts. We engage with customers closely to ascertain their needs and expectations, and subsequently tailor our solutions to delight our customers in every transaction they have with CDB.

Sustainability Report - Our Team

“The real source of wealth and capital in this new era is not material things. It is the human mind, the human spirit and human thinking”



Empowering Our Employees to Succeed

At CDB, the Human Resources (HR) function is a strategic and core partner of our business, bestowed with the responsibility of conveying business goals to executives and ensuring that their career progression and professional growth are integrated in a harmonious blend. It is our people who make us who we are. CDB’s personalised customer service and empathy with all its stakeholders is what has made us a successful financial partner for Sri Lankans today, from high net worth urban customers to modest grassroots customers.

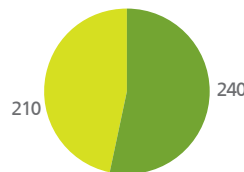
Our HR strategy is to prepare and empower our employees to face organisational change and offer them the necessary support and understanding so that they feel valued at all times. Our overall strategy dictates the functional strategies for recruitment, employee retention and career planning, training and development for developing new competencies, performance monitoring and employee compensation. CDB has a diverse cultural mix in its employees and we ensure that we build a bridge of understanding amongst different cultures. In fact, we consider cultural diversity to be our strength, a factor that deepens the heritage of our organisation further.

Employee Statistics

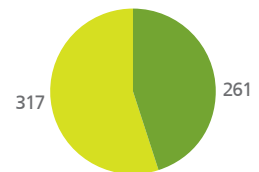
Our staff strength was 578 for the period under review, which was 22% increase compared to the previous financial year. Our total workforce by employee type,

employee contract and the breakdown of our total staff by gender and by region is shown as to the graphs below. (GRI - LA1 - Core)

Type of Employment 2009/10

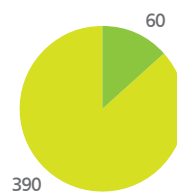


Type of Employment 2010/11

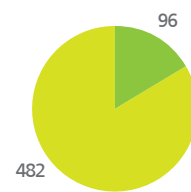


Contract
Permanent

Genderwise Breakdown 2009/10

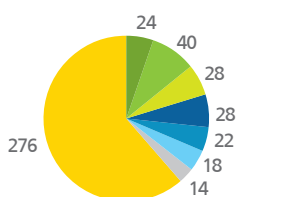


Genderwise Breakdown 2010/11

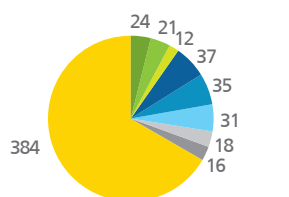


Females
Males

Provincewise Analysis 2009/10

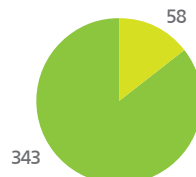


Provincewise Analysis 2010/11

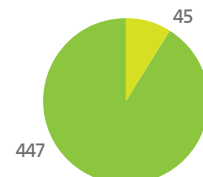


- Central
- North
- North Central
- Sabaragamuwa
- Sourthen
- Uwa
- Wayamba
- Western

Staff Turnover 2009/10



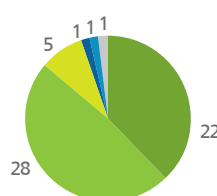
Staff Turnover 2010/11



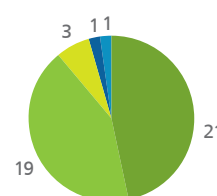
- Staff Resigned
- Staff Retained

Our recruitment strategy is biased towards recruiting dynamic youth, mostly school-leavers and molding them through our unique culture, and empowering and providing them with the opportunity to develop and enhance their career. The graph here indicates that 28% of our workforce falls in the 18-23 years category, up from 26% compared to the previous financial year. More importantly, 76% of the total staff at CDB falls in the 18-29 years slot, which indicates the immense contribution from youth to the success of the company.

Age wise Staff Turnover 2009/10

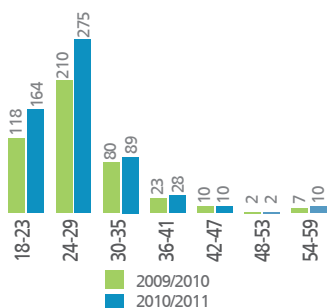


Age wise Staff Turnover 2010/11

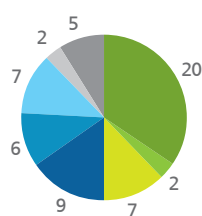


- 18-23
- 24-29
- 30-35
- 36-41
- 42-47
- 48-53
- 54-59

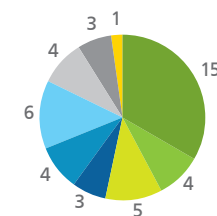
Age analysis



Staff Turnover by Region 2009/10



Staff Turnover by Region 2010/11

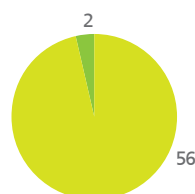


- Western
- Uwa
- Southern
- Sabaragamuwa
- North western
- North Central
- Eastern
- Central
- North

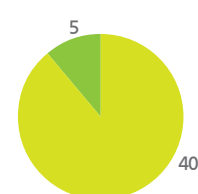
The recruitment policy clearly sets the minimum qualifications and criteria applicable for different areas of business at different levels. We always prefer providing opportunities for home-grown talent to fill senior positions and we look outside only in the event of specialised vacancies, our intention to develop employment in the rural sector has resulted in 34% of our workforce being recruited outside from the Western Province.

The staff turnover ratio was 11%* for the period under review, which was a reduction of 5% compared to the previous financial year. The breakdown of total number and rate of employee turnover by age group, region and gender is shown in the graphs below (GRI - LA2 - Core).

Genderwise Staff Turnover 2009/10



Genderwise Staff Turnover 2010/11



- Male
- Female

*Trainee employees were excluded when calculating the staff turnover ratio

Sustainability Report - Our Team

Basic Salary of Women to Men

(GRI - LA 14 – Core)

Category	Women to Men
Front Line	1:0.64
Junior Management	1:0.94
Middle Management	1:0.64
Managers	1:1.52
Senior Management	1:1.58

We affirm that CDB has not employed forced or compulsory labour and all the staff members of our company are engaged in work of their own free will. The minimum age limit is 18 years and we have strictly prohibited the use of child labor in any form within our organisation. Going further, when recruiting employees our staff at Human Resources Department strictly check all credentials to eliminate the use of child labor. (GRI - HR 6, HR 7 – Core)

We adopt a strict policy of zero discrimination in terms of gender, race, cast and religion (GRI – HR 4 - Core), which has resulted in zero incidents of discrimination inside our company. We also focus on providing opportunities to make rural youth employable, a key element of our business strategy which is elaborated under society dimension further.

Ensuring a Work-Life Balance

We began the new financial year with an event to convey the company’s performance during the period under review and to convey future plans of the company to our employees. At this event a special theme is unveiled for the upcoming year. The theme for 2010/11 financial year was: ‘As an individual we are bricks, as a team we are a tower’, which enhanced the team building spirit amongst staff throughout the year.



At CDB employees participate in two main leisure activities. Apart from their busy working hours, these activities help them have a relaxed mind while building team spirit. The annual sports day was held at Wesley College grounds. CDB staff was divided into four houses, namely, ‘Gamunu’, ‘Vijaya’, ‘Parakrama’ and

‘Ashoka’, and various games were organised, including open events and activities for family members and children of our staff.



‘Gamunu’ house emerged as the champions by scoring highest points and all the participants enjoyed themselves. After the event a dancing competition was held to select the best male and female dancers followed by the award ceremony.

Our employees represent the company in many external sports activities. Most importantly, this financial year the CDB cricket team participated in the Mercantile Cricket Tournament for the first time. They performed well and were the champions in the ‘G’ division of group B. Our Rugby team also reached the semi-finals of Mercantile Rugby Tournament.



The annual Christmas party and get-together of the CDB family was organised at the Browns Beach Hotel Negombo in December. The event facilitated employees to have a fun filled relaxed day. The family members of the staff also participated in this event and many exciting events were held for children.



Our staff members are very active in organising company events during religious festivals. They organised an 'Ice-cream Dansala' at the head office premises, followed by a lantern competition and a 'Vesak Bakti Gee' concert to celebrate the Vesak festival.



Our staff also organised a carol service in the month of December at St. Sebastian's Church, Colombo 10. Staff members participated regardless of religious denominations and contributed in making each of these events a success.



Rewarding Achievements

The annual awards ceremony marks the culmination of efforts and achievements of our staff throughout the year. At this eagerly anticipated event we recognise and reward sales and operations staff members. The event is conducted on a grand scale and includes the entire staff. We have observed that these annual awards act as the main tool to drive performance at individual and branch level. Our staff work towards these awards



diligently from the beginning of the year, when individual/branch financial targets are laid out for the year.

The main sales staff awards are in three categories of gold, silver and bronze. We also have a CDB 100 Million Rupee Round Table (CDB 100Mn RRT), where fully-paid foreign tours are awarded to deserving staff members. During the year, 12 people were recognised under the CDB 100Mn RRT. Besides the annual awards, our sales staff is also commended for any outstanding achievements at monthly sales meetings at their respective branches.

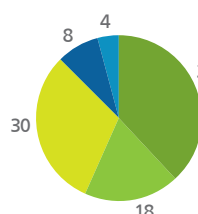


Emphasis on Career & Professional Development

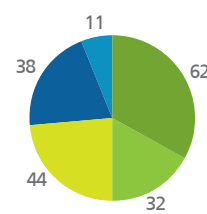
Average hours of training per year per employee by employee category (GRI – LA 10 - Core)

Employee Category	Average No of Hrs (2009/10)	Average No of Hrs (2010/11)
Front Line	37	62
Junior Management	18	32
Middle Management	30	44
Managers & Branch Heads	8	38
Senior Management	4	11
Total Population	31	38

Average no of Training Hours 2009/10



Average no of Training Hours 2010/11



- Front Line
- Junior Management
- Middle Management
- Managers & Branch Heads
- Senior Management

Sustainability Report - Our Team

We offer much support for career development, skills development and the pursuit of further education. Recognising the need to support the development of their knowledge and skills, CDB also reimburses examination fees and professional membership fees while granting study leave. The Training and Development strategy of CDB is geared towards providing essential technical knowhow as well as for developing our people into professionals and future leaders. The new state-of-the-art auditorium adds

immense value in providing a comfortable venue for staff training workshops. During the financial year, CDB organised a banking course in collaboration with the Institute of Bankers of Sri Lanka (IBSL) for 50 of our selected staff members; a special management course with the collaboration of Post Graduate Institute of Management (PIM) for 25; and a course on spoken Tamil for another 20 staff members during the financial year under review, which was entirely funded by the company.



Special Courses

Programme	Venue	No of Participants	Duration
Special Course on Banking for Non Bankers	IBSL	50	9 DAYS
Management Development Programme	PIM	25	10 DAYS
Course on Spoken Tamil	CDB	20	40 HOURS

Information relating to the other training programmes conducted for our employees and the conferences/workshops/seminars our employees participated are shown below.

Internal Programmes

Programme	No of Programmes	No of Participants	Duration (Hrs)
Workshop on RMV Charges & CRIB	2	40	16
Branch CEO Programme	1	32	8
Workshop on Credit Evaluation	2	55	16
Induction Programme	4	106	136
Lending on Pledge Jewellery	5	85	40
Workshop on Selling Skills	3	120	20
Customer Service	3	180	24
Motivation	1	50	8
Credit Process Development	1	25	8
Employee Engagement	1	40	8
Creating Smart Change	1	60	8
Developing Supervisory Skills	2	62	16
Deposit Products Training	6	180	48
Workshop on Online Credit Processing	2	30	16
Workshop on MS Office	1	15	4

External Programmes

Programme	Venue	No of Participants	Duration (Hrs)
Understanding Customer Behavior	CIM	2	8
MR for Marketing	IPM	1	8
Workshop on Internal Auditing	ASPIC	2	8
Convergence Towards IFRS	CIMA	5	3
Effective Time Management	IPM	15	8
Workshop on Leasing Agreements	Rens Global	3	8
People an Asset or Liability	CIMA	5	3
Managing Leave & Absenteeism	IPM	1	8
Seminar on IFRS	ICASL	4	16
Financial Modeling in Excel & VB	CMA	1	16
The Secretary	Rens Global	1	8
Budget Seminar	ICASL	4	3
Discussion on Budget Highlights	CIMA	4	3
Structuring an Islamic Finance Unit	UTO EDU	1	8
MS SharePoint Application Development	NET Assist INT'L	4	32
Internal Customer Relationship	IPM	5	8
Shop & Office Act	CNCI	1	4
Workshop on Anti Money Laundering	CBSL	1	8
ETF/EPF/Gratuity & Proposed Amendments	CNCI	1	4
Time Management & Motivation	CNCI	2	4
AVT Against Computer Crimes	CIMA	3	3

Conferences

Programme	Venue	No of Participants	Duration (Hrs)
International HR Conference	IPM	6	16
CIM Conference	CIM	3	16
CPM Annual Conference	CPM	2	8
Islamic Banking Conference	ETU EDU	3	8

Foreign Training

Programme	Venue	No of Participants	Duration (Days)
Workshop on Credit Risk Modeling	Singapore	1	4
Effective Retention Strategies	Malaysia	1	5
Credit Risk & Portfolio Analysis	Singapore	1	4
Retail Banking	Malaysia	1	3
Effective Coaching & People Management	Singapore	1	4

Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (GRI LA 11 – Add)

Programmes for Skills Management and Lifelong Learning

Programme	No of Programmes	Venue	No of Participants	Duration
Motivation	1	CDB	50	8 Hrs
Employee Engagement	1	CDB	40	8 Hrs
Creating Smart Change	1	CDB	60	8 Hrs
Developing Supervisory Skills	2	CDB	62	16 Hrs
Effective Time Management	1	IPM	15	8 Hrs
People an Asset or Liability	1	CIMA	5	3 Hrs
Managing Leave & Absenteeism	1	IPM	1	8 Hrs
Time Management & Motivation	1	CNCI	2	4 Hrs
Effective Coaching & People Management	1	Singapore	1	4 Days

Sustainability Report - Our Team

Compensation, Rewards and Recognition

CDB provides competitive rewards to attract, motivate and retain highly skilled employees. Our compensation strategy at CDB consists of the three elements of fixed, variable and other benefits. The fixed component includes the fixed salary subject to annual reviews; the variable component includes direct performance linked variable paid to sales staff and annual and bi annual bonuses based on bottom-line results; and the third component represents other benefits in the form of comprehensive health and medical schemes, staff loans, life insurance and death donations. Recognising the value of lifelong learning, CDB encourages and supports efforts by employees to pursue professional courses that will serve to enhance their career prospects and enable them to add value to their job functions, reimbursing examination fees and professional membership fees along with the granting of study leave.

Breaking the Silence Barrier

The company communicates with employees in many ways and the culture which prevails within our organisation is one that gives high priority to employee suggestions. A suggestion scheme has been introduced as an outcome of a Staff Satisfaction Survey, where staff can send in their suggestions in developing company performance. The best suggestion is selected on a monthly basis and rewarded at staff meetings, while a letter of appreciation is sent to each and every individual who makes suggestions.

The meetings are carried out at the departmental level and employees are kept informed about new initiatives in the company. At CDB there is an open door policy when it comes to dealing with employee issues. Employees are free to convey their concerns to any level of employee in the organisation.

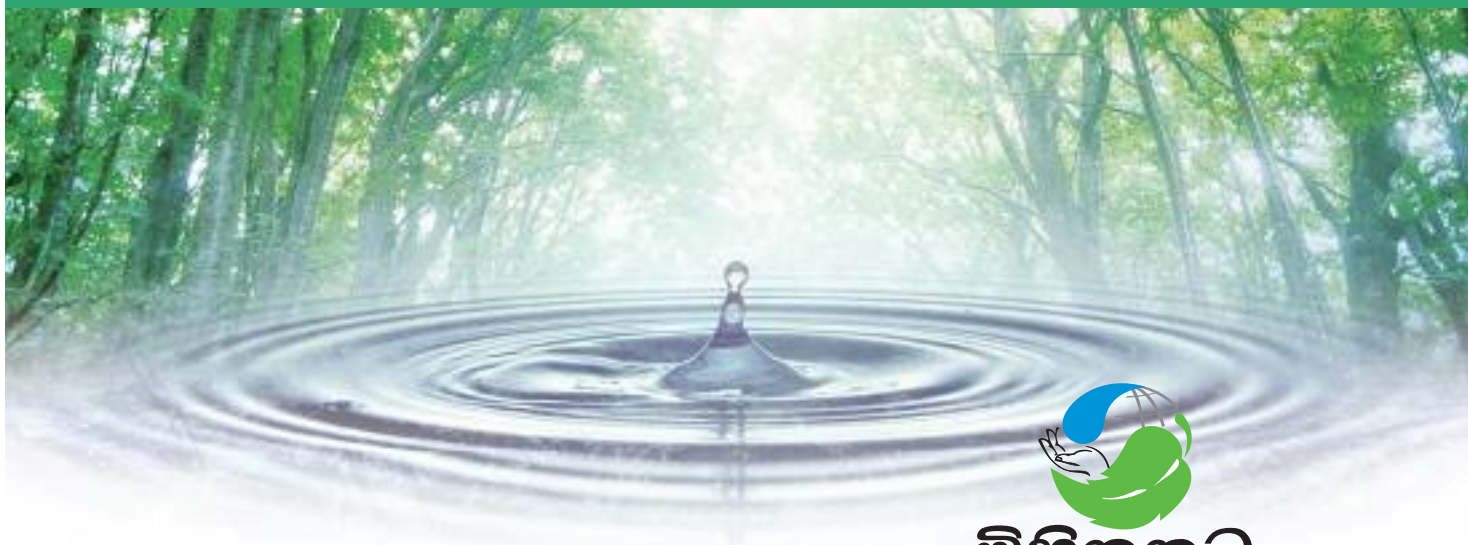
HR system

Our staff leave/loan application procedures etc, are fully automated and this facilitates employees to have easy access to their records at the click of a button. The HR team conducted performance evaluation for the review period via the system this year which was a successful experience for all participants as it proved to be a time saving and cost effective process.

Future Outlook

We will continue to strengthen and deepen our people culture that is proving to be successful in engendering a spirit of cooperation and encouragement to take the organisation to the next level while ensuring their professional growth. CDB will continue to make a significant budgetary allocation for professional training and development workshops and programmes in the months ahead. Our goal is to become the most preferred employer in the financial services industry.

“We are part of something bigger than ourselves; we are part of the environment. We all breathe the same air and drink the same water. We all walk on the same ground and experience the same sunshine and moonlight. Planet Earth is something that we all have in common. It is our home and we have to preserve it”



Conducting Projects to Raise Awareness about Reducing Emission Levels

While serving a wide range of customers through its products, CDB attempts to serve nature through various projects targeted at preserving natural resources for the next generation. CDB embarked on a series of actives with the theme ‘Mihikathata Adaren’ to protect the nature.



Partnering with Air Resource Management Centre (a Government authority concerned with air pollution), CDB conducted an educational programme to educate vehicle drivers/owners on how to maintain vehicles properly, so that the adverse effects caused by vehicles

are minimised. The seminar was conducted at Sarasa City hotel in Kelaniya with the representatives from AirMAC and CleanCo Lanka Limited., who are the pioneers in vehicle air pollution reduction in Sri Lanka.

Main areas covered included

- Comprehensive demonstrations on the effect of vehicles on people and the environment
- Reduction of negative impacts through proper maintenance
- Amount of resources (fuel) wasted due to poor maintenance. Surprisingly, there can be close to Rs. 20 savings for a properly maintained vehicle, compared to a poorly maintained vehicle rejected in an emission test.
- How to maintain the vehicles properly minimizing the effects to the environment.

In view of educating owners on the effects of their vehicles on the environment and to teach them how to maintain their vehicles properly so that they would benefit financially while reducing environment effects, a leaflet was distributed at key strategic locations. This initiative has facilitated an increase of knowledge in

Sustainability Report - Our Environment

our community about the consequences of high emission levels to the environment.

Energy Saving Initiatives



A special programme was conducted to create awareness among the head office staff on the importance of saving the electricity consumption as our head office was identified as the highest user of electricity. The staff was adequately educated on simple but important energy saving measures such as switching off unnecessary lights after standard office hours, switching off monitors when computers are on standby mode, etc. Staff from the Maintenance Department were especially assigned to assist and monitor the implementation of such measures. Our HR team takes the initiative via our communication mechanism such as e-mail, notice boards, etc, to convey and educate the staff on the importance and tips of saving the electricity.

Compliance with Environmental Laws and Regulations

(GRI - EN28 - Core)

Forging ahead with its passion to safeguard the environment, CDB has taken all measures in complying with environmental laws and regulations, result in no payment of significant fines or non-monetary sanctions for noncompliance with environmental laws and regulations

Future Outlook

We are excited about expanding our highly successful 'Mihikathata Adaren' project to other parts of the island, educating people and sharing knowledge about keeping emission levels down. A focus on energy saving projects and awareness building about the topic will be at the core of our strategy in alleviating the harmful impact of fuel emissions on the environment. As our environmental projects develop further, they will always be underscored by the desire to beautify our planet in every way possible.

“Individual commitment to a group effort – that is what makes a team work, a company work, a society work, a civilization work”



This is our first attempt in producing a sustainability report in line with the GRI framework. In the previous annual report we reported our commitment towards the society in the CSR section of the annual report. In fact CSR and Corporate Sustainability (CSu) are two sides of the same coin. CSR defines the social responsibilities of a corporation which, if implemented, will lead to the corporation being sustained (Collins and Porras). CSu has moved away from purely environmental issues to encompass both social and economic concerns.



Going forward with the thinking we had in the previous years, we thought of aligning the company to the Milton Friedman (1970) dictum in reporting our responsibility towards the society, which would also cover nature, scope, and effectiveness of the programs

and practices that we have carried out in each of the four levels of the model while meeting the requirements of GRI indicators (GRI - SO1 - Core).

Our Level 4 Socially Responsible Business

A Net Lender to the Rural Economy

Our business model is focused on extending benefits to the rural and under served segments in a bid to ensure equitable distribution of wealth. By providing these communities with formal financial services, we hope to uplift them from the base of the economic pyramid to enjoy a better standards of living. We are constantly attempting to strengthen our net lending position in areas excluding the Western Province, which has a surplus of lending institutions and is well served. Consequently, our lending portfolio outside of the Western Province grew from Rs. 1,892Mn to Rs. 3,432 Mn, an increase of 81%, while deposit portfolio increased from Rs. 1,163Mn to Rs. 1,906Mn, an increase of 64%. The company has strengthened its net lending position to Rs. 1,526Mn an increase of 106%, which indicates that we are very much in line with our strategy of ‘Urban funding and rural lending’.

	31/03/2011	31/03/2010
Lending Portfolio Rs. Mn	3,432	1,892
Deposits Portfolio Rs. Mn	1,906	1,163
Net Lending Rs. Mn	1,526	739

Sustainability Report - Our Society

Being a net lender to the rural sector in our country, CDB could increase their standard of living by offering them leasing/loan facilities with fewer collateral requirements, which has contributed immensely in enhancing the peoples' standard of living in those rural areas. CDB's capacity to nurture the entrepreneurs of our society has resulted in the rural community shifting to a formal financial system, where they are now considered valuable customers with good credit worthiness.

Promoting Harmony Through a Common Language

Education in Sri Lanka has a long history which dates back two millennia and the Constitution of Sri Lanka provides for education as a fundamental right. Sri Lanka's population has a literacy rate of 92%, higher than that expected for a third world country; it has the highest literacy rate in South Asia; and overall, one of the highest literacy rates in Asia.

As the 30 year war has ended, the country has a great opportunity to develop. The areas in the north and east will contribute significantly to the development of the country in the near future. However, there is a very



small percentage of Tamil speaking Sinhalese compared to Sinhala speaking Tamils in our country thus knowing these two languages will immensely facilitate harmony between the two ethnic groups, whilst also increasing the pace of development in the country.

Having such thoughts, CDB contributed towards enhancing the Tamil literacy level in the country by being a sponsor to the book 'Sarala Demala' (Simple



Tamil), written by the well known writer, academic, and an authority on the Sinhala Language, Prof. J. B. Dissanayaka, with the objective of creating an easy path to learn Tamil language. The book was presented to his Excellency the President Mahinda Rajapaksha and to the Governor of the Central Bank, Mr. Ajith Nivard Cabraal. The book aims to contribute immensely to build a Sri Lankan identity among all Sri Lankans as brothers and sisters of one nation. This book is written in all three languages and provides an easy gateway to learn the Tamil language.

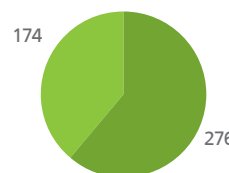


Making Rural Youth Employable

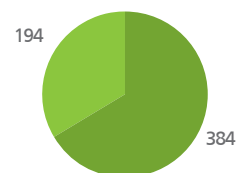
As mentioned in the employee section as well, we have given a high preference to recruiting youth from rural areas and training them to advance in their careers. During the period under review, the employee composition outside the Western Province was 194 out of the total of 578, which accounts for 34%. Out of the staff from outside Western Province, 36% was from the north and east region, which clearly indicates our intention of supporting youth in those regions as well.

Taking Responsibility to Protect Our Cultural Aspects

Employee Composition by Region 2009/10

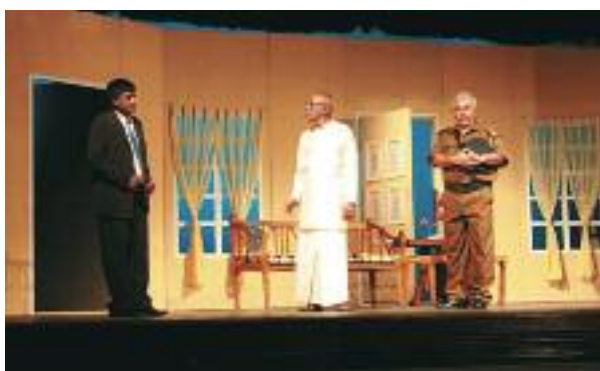


Employee Composition by Region 2010/11



■ Western Province
■ Outside Western Province

As Sri Lankans, we possess cultural aspects which are very unique. At CDB, our thinking was to promote and preserve those assets so that our future generations will still have the chance to experience these cultural gems. In line with this, the Welfare and Recreation Club of CDB sponsored Nalaka Withanage's stage drama "Breaking News".



Initiatives to Honor Artists

CDB held a ceremony to recognize the contributions made by Mr. Bandula Withange, a great artist who has made an immense contribution in enhancing arts and culture. CDB paid its tribute to him by appreciating his contributions to develop and protect our culture for the benefit of future generations.



Our Level 3 Flagship Strategic CSR Project

Undertaking CDB 'Sisudiri' Scholarship Scheme

CDB recognizes the value of a key segment of its customers, three-wheeler owners. The institution also understands the need to lend a helping hand to the children of these three-wheeler drivers who excel in studies. This financial year, CDB awarded scholarships to the third batch of children of three-wheeler owners. The scholarship programme is a tool whereby we seek to reduce the day-to-day financial burden of educating children. The programme tries to encourage the further education aspirations of these children in today's context. In order to be competitive in the working environment, a child must have computer literacy, language and numerical competency.



As our business strategy especially in lending is geared towards this community, the project becomes more reciprocal (Give to Get) from our point of view. The rewards are in the form of cash grants and are awarded to grade five scholars right up to their O/L examinations, and also for those successful at their O/L examination, right up to their A/Ls. A total of 18 boys and 16 girls from different socio income groups received scholarships worth Rs. 1.2 million under the financial year under review. The first CDB 'Sisudiri' programme was launched in 2008, Sri Lanka's first-ever such scholarship programme. The CDB has since then awarded 90 scholarships to students from various parts of the country, and from this year onwards CDB had decided to double its scholarship fee for all scholarship holders since the inception of this scheme, wherein a Grade 5 scholar will receive Rs. 50,000 at the end of the five years and an O/L scholar will receive Rs. 30,000 at the end of two years. A total amount of Rs. 1.8Mn has been spent on these scholarships by CDB upto now.



Donating a CDB Technology Centre

At CDB we have recognized the importance of Information Technology (IT) for future generations, and we acknowledge the huge disparity of access and knowledge of IT among rural and urban communities. In order to enhance the computer literacy of children in rural areas, and in recognition of school children being potential customers, we donated a fully-fledged computer laboratory to deserving schools.



We are undertaking this project with the assistance of the Education Ministry and the Zonal Education Divisions. The selected schools have computer literate

Sustainability Report - Our Society

teachers trained by the Education Ministry. During the period under review, we donated a computer lab to Navatkuli Maha Vidyalaya in Jaffna, having a student population of 650. We extended a helping hand to the children at Navatkuli Maha Vidyalaya by supplying equipments and facilities such as computers, scanners, printers and internet for a computer lab at a total cost of Rs 770,000. The year before the recipient was a school in the Southern Province. This is the 4th IT Lab donated by CDB for the third consecutive year and the total cost incurred in this scheme is Rs. 1,255,000/-.

Our Level 2 Course Related Marketing

CDB has initiated the project 'Mihikathata Adaren' during the period under review. The project was undertaken to enhance the knowledge of vehicle owners about the harmful impact of emission levels and the benefits of reducing these emission levels. We have implemented a workshop in order to raise awareness on the issue and further details of this project are detailed in the 'Environment' section of this report.

Our Level 1 of Being a Responsible Corporate Citizen

Paying Tribute to War Heroes

CDB respects the ultimate sacrifice made by the nation's soldiers during the 30-year war. Recently, the company helped to build a monument under the supervision of 9th Singha Regiment of the Sri Lanka army to pay tribute to thousands of our great heroes who sacrificed their lives on the 17th & 18th of July 1996 in the battle with terrorists at the Mullaitivu Army Camp. The Battle of Mullaitivu was a battle for the control of Mullaitivu from the clutches of the LTTE. During the battle the Sri Lankan military lost at least 1,200 troops. The Sri Lankan Military alleged that 207 soldiers who had surrendered to the LTTE were executed with hundreds appeared to have been herded together, doused with gasoline, and burned to death. It has also been reported that others were found dead clutching white flags of surrender. Eighty were lost from the relief force. CDB considers itself privileged to be able to contribute to such an event and would like to thank the Sri Lankan Army for providing this noble opportunity.



Offering Flood Relief to Victims

The country was critically affected by floods as a result of heavy rains in January 2011. As many as 350,000 displaced people were driven into temporary refugee camps because their homes, schools, crops and livelihoods have been wiped out by the rains.




The Company proactively provided food and other necessities to the people who were affected, with the cooperation of all our staff members by donating money, food, cloths etc. A team of CDB staff members went to Batticaloa on 18th January 2011 and distributed the collected items amongst the victims.

'CDB Hithawathkam'





"CDB Hithawathkam" is philanthropy fused with employee voluntarism to facilitate level 1 of Milton Friedman's model of being a responsible corporate citizen. To be a respected corporate citizen, it is important for all the employees of the organization to be committed to reaching out and benefitting the community in which we operate. We encourage employee voluntarism and have drawn up an annual budget at the branch and departmental levels that is channeled towards monthly programmes carried out by branches and departments.



We have undertaken 25 projects during the review period and a majority of the projects undertaken were focused on children and senior citizens.



Branch/Department	Month	Venue	Description
Kegalle	April - 2010	Sambuddha Jayanthi girl's orphanage - Kegalle	Provided bed sheets & lunch for 30 children 
Tissamaharama	May - 2010	Sri Tharunaloka Daham School - Kataragama	Donated books for the students
Kaduruwela	June - 2010	Dharmapala Bosath Balika Lama Niwasaya - Hingurakgoda	Provided curtains, nets & gift packs for children
Moratuwa	August - 2010	St Betony's children home	Provided school items & refreshments 
Nittambuwa	August - 2010	Base hospital - Wathupitiwala	Repaired lunch table of ward no 12 & provided new chairs. 

Sustainability Report - Our Society

Branch/Department	Month	Venue	Description
Vavuniya	August - 2010	Madu Church Mannar	Provided refreshments to pilgrimages
Kelaniya	September - 2010	D.B. Jayatilaka Kanishta Vidyalaya	Provided blazers for school prefects 
Badulla	December - 2010	Udaya lama Niwasaya	Donated a new roof for the childrens' home and provided lunch for 45 children 
Insurance/Credit Operations Departments	December - 2010	Vajira lama Niwasaya	Provided breakfast, lunch & dry rations 
Colombo Office	December - 2010	Kithsiri Lama Niwasaya	Provided lunch and donated toys & Rs 10,000 

Branch/Department	Month	Venue	Description
Jaffna	January - 2011	Vazzhavam Orphanage	Provided lunch & clothes for 45 children
Wellawatta	February - 2011	Sri Sangamiththa Balika Child Development Centre	Provided lunch and a cash donation 
Recovery Department	February - 2011	Lorise Children's Home	Provided lunch, dry rations, medicine & other needs for 40 children
Matara	March - 2011	Vadihiti Pilisarana Padanama	Donated cloths, Evening tea, water filter & other needs 

Compliance with Rules and Regulations

CDB has ensured that it has complied with all the necessary rules and regulations imposed by the government and has operated in a diligent manner, while protecting and adding value from various areas to the well being of both its internal and external environment. This has resulted in non-reporting of any legal actions for anti-competitive behavior, anti-trust and monopoly practices (GRI - SO7 - Add), and neither is the company obliged to pay any significant fines, non-monetary sanctions or for noncompliance with laws and regulations (GRI - SO8 - CORE).

Future Outlook

If CDB is to achieve its goal to become the leading financial services provider in the near future, we would

need a generation of aspiring customers who are attuned to our services and who we can partner to become successful entrepreneurs and assist them to grow their wealth. We look upon it as our duty to empower the youth of today to become pillars of society tomorrow. Our efforts to expand budgets for community service will be an ongoing endeavor and we will pledge to provide computer labs to a greater number of schools than we are currently assisting. Our scholarship schemes have helped re-write the destinies of deserving under privileged children who have used these scholarships to avail of opportunities for higher education.

Sustainability Report - Our Investors



A Grand Debut at the Colombo Stock Exchange

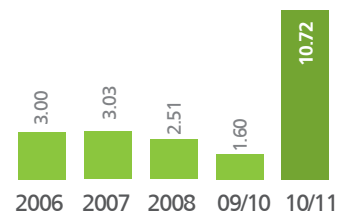
In October 2010, CDB was listed on the 'Dirisavi' board and commenced trading on 6th October 2010. The shares traded at higher prices from the first day itself, issued to customers for Rs 10 in March 2008, thereby making a grand entrance in the stock market. Within three months of its introduction, CDB was transferred to the main board of CSE, meeting the requisite criteria to feature on the main board.

The main tool by which the company engages with its shareholders is the annual report, which provides a comprehensive insight into company and its performance. The Annual General Meeting provides an opportunity for shareholders to clarify their doubts and to provide ideas which could contribute to the success of the company.

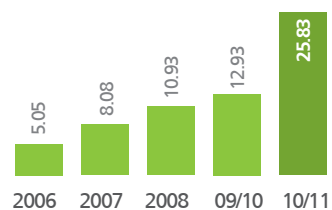
Value Additions

The year 2010/11 was a record breaking year for CDB in which the company achieved success in its business activities with regard to pre determined targets. This was a year we could report the most outstanding financial performance in the history of CDB. The earnings per share (EPS) that stood at 1.60 in 2009/10 increased to 10.72 in 2010/11, an increase of 814% compared to the last financial year. Net Asset Value almost doubled from 12.93 to 25.80 by March 31st 2011, which indicates the strong position of the company and which assures investors about their investments made in the company.

EPS



NAV per share



Dividend Payout

The company paid a dividend of 50 cents per share for the 15 months ended 31st March 2011 and the company proposes a first and final dividend of Rs. 2 per share for the financial year under review.

CDB Share Performance

Within two to three weeks time from its introduction, our share price stabilized at around Rs 40 - 50. The share has picked up with the publishing of third quarter financial results and remains in the Rs 80 – 90 range.



Market Performance

The government’s initiative to reduce VAT and bring down import duties on vehicles and other goods has resulted in the Banking and Finance Index showing a steep increase during August 2010. During the year, The All Share Price Index (ASPI) grew rapidly with the expectation of reaping the benefits of peace and the resurgence of the global economy, reaching new heights at the 7,500 level. The more liquid Milanka Price Index (MPI) also moved on par with All Share Price Index. But in the latter part of January 2011, the ASPI overtook the more liquid MPI.

A stable Outlook

RAM Ratings Lanka assigned the respective long and short-term financial institution ratings of CDB at BBB- and P3 with a stable outlook. The company’s ratings are upheld by its improving performance and healthy asset quality. This was one of the key milestones that we achieved in the period under review which will ensure meeting our stakeholders’ expectations to a greater extent.

External Recognition

The hard work of our finance team was recognized by the Institute of Chartered Accountants of Sri Lanka in their annual report awards, where they awarded us the Certificate of Compliance for the second consecutive year in the Financial Institutions sector category in 2010.



Our Thinking for the Future

Safeguarding and growing investor wealth is our prime responsibility and CDB’s ambitious future plans reflect the profound future potential the company possesses to achieve this responsibility comfortably. We are committed to building on our exceptional financial performance in the future, encouraged by the trust placed in us by our shareholders.

Sustainability Report - Our Business Partners

Building Partner Wealth

A major part of CDB’s business activities involve vehicle leasing, insurance and supply of vehicles, and we consider insurance companies as strategic partners in enabling this area of our business. CDB is linked to five leading insurance companies in Sri Lanka, who are in turn making substantial gains by aligning with us, in view of our exceptional financial performance this year, which translates into a greater number of policies sold by these insurance partners. Our aggressive plans to enhance our lending portfolio will result in abundant opportunities for our partners to consolidate their wealth over the coming months and years.

Joint Promotional Campaigns

The suppliers of vehicles for our customers, David Peiris Motor Company (DPMC), Associated Motor Ways (AMW), Diesel & Motor Engineering (DIMO) & TVS have been provided with abundant business opportunities by CDB. We have conducted joint promotional campaigns, customer awareness campaigns and small activity based programmes in order to acquire customers, which has resulted in many synergetic benefits for us as well as for our business partners.

Reaching Out Islandwide with Our Dealer and Marketing Network

Our islandwide dealer network and marketing staff are engaged in the constant activity of business promotions. Leveraging on our wide dealer network, our staff can reach every corner of the country, adding immense value by regularly expanding their reach. CDB staff frequently visit villages and offers villagers leasing facilities to purchase three-wheelers and trucks, thereby moving them up from the informal financial sector to the mainstream financial sector. This strategy of ours has helped to boost our business partners’ business volumes in a great manner.

Displaying Business Partners’ Products in front of Our Branches

We display our business partners’ products at our branches and this has resulted in free ongoing publicity for our business partners, resulting in creating awareness among potential customers of our partners’ products.

Synergistic Benefits for Both the Parties

We have added immense value to our business partners by using our distribution and communication channels. We are committed to sustaining a long relationship with them as they are one of the key stakeholders in our business.

Future Outlook

Business partners and concerned government authorities are vital elements in our success and we will look for ways in which we can collaborate together on a variety of initiatives, whether it is to fulfill profitability or sustainability objectives. Building relationships with strategic partners and leveraging on joint synergies can produce immense mutual gains and our tie ups and collaborations with various business partners listed in this report such as the tie up with Commercial Bank of Ceylon to share their ATM network and also as the sub agent to HNB in conducting MoneyGram, reveal our intentions to be viewed as a profitable strategic and ethical business partner in turn.



Sustainability Report - Government & Regulatory Authorities

Central Bank of Sri Lanka (CBSL)

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

Statutory Requirement	31/03/2011	31/03/2010
Liquidity (Rs. 000)		
Required minimum amount of liquid assets	748,874	483,788
Available amount of liquid assets	1,003,890	845,277
Required minimum amount of Government securities	233,411	233,411
Available amount of Government securities	511,573	700,065
Capital Adequacy		
Core capital to risk weighted assets ratio (Minimum 5%)	11.75%	9.17%
Total capital to risk weighted assets ratio (Minimum 10%)	12.56%	9.17%
Capital funds to total deposit liabilities ratio (minimum 10%)	13.49%	10.30%

Securities & Exchange Commission (SEC)

The SEC is the regulator of the CSE and is authorized to make rules from time to time for the purpose of ensuring orderly and fair trading in securities and for the protection of investors' interest. Under this provision, the Commission has framed rules pertaining to listing and continuing listing of securities, the operation of open-ended unit trusts and mergers and acquisitions.

The company has ensured that it has taken necessary steps to ensure compliance with the said rules and regulations imposed on the company with regard to listing. We have ensured the timely provision of financial information and responded swiftly to any queries made by the regulator.

Colombo Stock Exchange (CSE)

The CSE operates as a Self Regulatory Organization (SRO) subject to the regulation and supervision of the SEC. CSE has the responsibility of carrying out operations of a stock exchange and ensures stock trading activities happen smoothly. CDB has complied with the rules and regulations set out by the CSE and has taken necessary steps in providing timely financial statements.

Inland Revenue

We have ensured that we have paid our income taxes and the VAT liabilities as per the regulations stated by the Inland Revenue, thereby contributing to the development of our nation. At CDB, we have a deep understanding of the importance of adhering to the rules and regulations that are imposed on financial institutions by the government and have taken all the measures to fully comply with the said rules and regulations. We have a designated team to respond to queries made by authorities and they keep themselves upto-date on new rules and regulations, along with changes made to the existing systems in order to adjust and change organizational policies. As a direct result of this, there were no significant fines or sanctions which had to be paid with regard to non-compliance with the said rules and regulations or breach of such during the period under review. The rules and regulations imposed on our company and the level of compliance is stated in the Corporate Governance report in detail on page nos 40-50.

Future Outlook

Presently, CDB has taken measures to comply with all the rules and regulations implied by the government authorities, and we will be vigilant about the new rules and regulations imposed by these authorities in sustaining our business activities in the future.

Sustainability Report - The Global Reporting Initiatives (GRI) G3 Index

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1.2	Description of key impacts, risks and opportunities	Management Discussion Risk Management Sustainability Report	24-32 51-59 64
2.	Organisational Profile		
2.1	Name of the organisation	Corporate Information	
2.2	Primary brands, products and/or services	Management Discussion Sustainability Report	24-32 65
2.3	Operational structure of the organisation	Corporate Governance Report	38
2.4	Location of organisation's headquarters	Corporate Information	
2.5	Number and name of countries with operations	No overseas operations	
2.6	Nature of ownership and legal form	Corporate Information	
2.7	Markets served	Management Discussion	24-32
2.8	Scale of the reporting organisation	Sustainability report – Organisational Profile	65
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3.10	Explanation of the effect of any re-statements	None Reported	
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3.12	Location of the Standard Disclosures in the report	Sustainability Report -Global Reporting Initiative (GRI) G3 Index	94-95
4.	Governance, Commitments & Engagement		
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	Economic Dimension		
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	Environment Dimension		
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Index No	Description	Report section	Page/s
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LA10	Average hours of training per year per employee by employee category	Sustainability Report - Our Team	77
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
LA14	Ratio of basic salary of men to women by employee category	Sustainability Report - Our Team	76
Human Rights Dimension			
HR4	Total number of incidents of discrimination and actions taken	Sustainability Report - Our Team	76
HR6	Operations identified as having significant risk for incidents of child labour	Sustainability Report - Our Team	76
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour	Sustainability Report - Our Team	76
Society Dimension			
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Sustainability Report - Our Society	83
SO7	Legal actions for anticompetitive behaviour, anti-trust, and monopoly practices	Sustainability Report - Our Society	89
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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	72
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Sustainability Report - Our Customers	73
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	72

Report Application Levels

Since this is the first time that we have produced a sustainability report with the GRI based guidelines, 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						

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Financial Information

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Report of the Directors

1. General

The Directors of the Company (The CDB) have pleasure in presenting to the shareholders this Report together with the Audited Financial statements and the consolidated Financial statements for the year ended March 31, 2011 of the CDB and the Group and Auditor's report on those Financial statements, conforming to the requirements of the companies Act No 7 of 2007 & amendments thereto and Finance Companies Act No 78 of 1988 & amendments thereto and the Directions issued thereunder.

The CDB is a Registered Finance Company of Central Bank of Sri Lanka under the Finance Companies Act No 78 of 1988 and also is registered under the Finance Leasing act No 56 of 2000. The CDB was incorporated as a public limited liability company in Sri Lanka on 07th September 1995 under the companies Act No 78 of 1988 and re-registered under the companies act No 7 of 2007 on 18th March 2008 under the company registration no PB 232 and the ordinary shares (Voting) of the CDB are quoted on the main Board of Colombo Stock Exchange since October 2010, and Registration number has changed to PB 232 PQ. The CDB's implied long term credit ratings has been assigned BBB - by RAM Ratings Lanka Limited.

The Registered office of the CDB is at No 18, Sangaraja Mawatha, Colombo 10 at which the companies head office too is situated.

This report provides the information as required by the Companies act No 07 of 2007, Finance Companies (Corporate Governance) Direction No 3 of 2008 & amendments thereto, Listing rules of the Colombo stock Exchange and the recommended best practices on corporate governance. This Report was approved by the Board of Directors on 31st June 2011.

The information required to be disclosed under the Section 168 of the Companies Act No 07 of 2007 is published in the Annual report prepared for the year under review.

2. Principle Activities of the CDB and the Group Company (The CDB)

The Principle activities of the CDB Continue to be Finance business and Related activities such as accepting of Deposits, Personnel Finance, Corporate and Retail Credit, Lease Financing, Hire purchase Financing, pawning, dealing with Government Securities, Dealership of Foreign Exchange money dealership, money Remittance encashment services and other Financial Services. There were no

significant changes in the nature and Principle activities of the business of the company and Group during the financial year under review.

Subsidiary

The CDB Micro Finance Limited is established for the purpose of accommodate micro credit financing; however since 2009 there were no business operations other than the collection of the loan repayment of the loans granted up to December 2008. The CDB is in the process of merging with the CDB Micro Finance Limited in compliance of the Directions No 7 of 2006 issued by CBSL.

3. Review on Operations of the CDB and the Group

The Message from the Chairman on pages 8-10 the Chief Executive Officer's Review on pages 11 -13 and Management Discussion on pages 24-32 to provide in general an appraisal on the Financial performance and position of the CDB and the Group and the state of interaction together with important events that took place during the year in detail as required by the Section 168 of the Companies Act No 07 of 2007 and the recommended best accounting practices. These reports form an integral part of the Annual Report.

4. Financial Statements of the CDB and the Group

The Financial statements of the Group and the CDB which are duly certified by the Chief Financial officer and approved by the Board of Directors and signed by two members of the Board of Directors in compliance with the requirement of the sections 151, 152, and 168 (1) (b) of the companies Act No 07 of 2007 are given on pages 108-139.

5. Directors Responsibility for Financial Reporting

The directors are responsible for the preparation of the financial statements of the Group and the CDB which reflect a true and fair view of the state of affairs. The Directors are of the View the that the income statement , Balance sheet, Statement of changes in equity, Cash Flow Statement, Significant Accounting policies and notes to the Financial statements on pages 108-139 have been prepared in compliance with the requirements of the Sri Lanka Accounting Standards , Companies Act No 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Finance Act no 78 of 1988 , and listing rules of the Colombo Stock Exchange. The Statements of Directors Responsibility for Financial Reporting has been given on page 105, With forms and integral part of this report.

6. Independent Auditors' Report

The CDB auditors Messrs KPMG, Ford, Rhodes performed the audit on the company and the consolidated Financial statements for the year ended 31st March 2011 and Auditor's Report issued on Financial statements thereon is given on page 107 as required by the section 168 (1) (c) of the Companies Act No 07 of 2007.

7. Accounting Policies and changes during the Year

The significant accounting policies adopted in the preparation of the financial statements of the Group and the CDB are given on pages 113-123 of the Annual Report as required by the section 168 (1) (d) of the companies act No 07 of 2007. The during the year under review there were no changes in the Accounting policies adopted which were consistent with those adopted in previous financial year as required by the Sri Lanka Accounting standard No 3 (Revised 2005) on "presentation of Financial statements."

8. Entries in the Interest Registers of the Group and the CDB

The interest Registers are maintained by the group and the CDB as required by section 168(1) (e) of companies act No 07 of 2007. All directors have made declarations as provided for in the section 192(2) of the companies act in respect of abovementioned. The Directors shareholding on ordinary shares as at 31st March 2011 is as follows.

Name	31st March 2011	31st March 2010
Mr R Renganathan	Nil	Nil
Mr Mahesh Nanayakkara	1,000	1,000
Mr E T L Ranasinghe	1000	1000
Mr P A Jayawardena	15,500	10,000
Dr T Senthilverl	100,000	500,000
Mr P NC Gomes	Nil	Nil
Mr H P G V Goonawardena	Nil	Nil

9. Remuneration and other benefits of Directors

Remuneration and other benefits of Directors in respect of the CDB and the Group for the financial year ended March 31, 2011 are given in note 39(c) to the financial statements on page 138 as required by the section 168 (1) (f) of the companies act no 07 of 2007.

10. Corporate Donations by the Group and the CDB

During the year, the CDB made CSR activities amounting to Rs. 4,922,047 (Rs. 2,505,525 in 2009/10) in terms of the resolution passed at the last Annual general Meeting. This information forms an integral part of the report of Board of Directors as required by section 168 (1) (g) of the

Companies Act no 7 of 2007. The subsidiary of the CDB did not make any donations during the year under review.

11. Provisions for Taxation

The income tax rate applicable for the company for the year 2010/11 is 35%. The Profit of the company is also liable for value added tax at the rate applicable for Financial Services which is 20%.

However, as required by the government budget proposal 2011, substantial changes were proposed. These changes are now enacted and in the process of issuing guidelines for the relevant institutions. The key changes applicable for the CDB are given below for information of shareholders.

- The Income Tax rate has been reduced to a uniform tax rate of 28%
- The Value added tax rate on financial services has been reduced to 12%
- Further Company required to transfer 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 taxes of the Group is given in Note no 11 to the financial statements on page no 126-127.

12. Future Development and Expansions

CDB 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.

13. Gross income

The Gross income of the Group for 2010/11 was Rs. 2,227.25 Million (Rs. 1,508.38 Million for 15 month period ended 31st March 2010) whereas the CDB's gross income was Rs. 2,227.04 million (Rs. 1507.03 million for 15 month period ended 31st March 2010) The Detail analysis of the income is given in note no 6 to the financial statements on page no 124.

14. Profit and Appropriations

The Net profit after tax of the Group for 2010/11 was Rs. 529.79 Million (Rs 80 Million for 15 month period 2009/10) while the CDB's Net profit after tax for 2010/11 was Rs 531 Million (Rs 79 Million for 15 month period ended 31st March 2010).

Report of the Directors

Details of Profit Relating to the CDB are given below.

	2010/11 (Rs.)	2009/10 (15 month Period) (Rs.)
Profit of the year after charging all operating expenses, provided for depreciation, possible loan losses including general provision and Financial vat	561,270,581	88,739,702
Less - Taxation	29,460,581	9,163,093
Net Profit after Taxation	531,810,000	79,576,609
Balance brought forward from previous year	54,993,405	15,205,100
Profit available for appropriation	586,803,405	94,781,709
Less : Appropriations		
Transfer to Statutory Reserve Fund	106,362,000	39,788,304
Investment Fund	3,012,215	-
Dividend for ordinary shareholders (Final Dividend 2009/10 Rs.0.50 Per Share)	19,842,524	-
Balance Carried Forward	457,586,666	54,993,405

15. 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 110.

	2010/11 (Rs.)	2009/10 (15 month Period) (Rs.)
Statutory Reserve Fund	152,650,304	46,288,304
Revaluation Reserve	15,082,857	15,082,857
Investment Fund Reserve	3,012,215	-
Retained Profit	457,586,665	54,993,405
Total	628,332,041	116,364,566

16. Dividend on Ordinary shares

The Directors recommend a dividend of Rs. 2.00 per share as the final dividend for the year 2010/11(Rs.0.50 per share in 2009/10). Information on dividends is given in note no 13 to the financial statements on page 128.

The propose dividends will be paid out of the profits of the CDB and subject to a 10% withholding tax.

The Board of Directors satisfied that the CDB would meet the requirement of the solvency test in terms of Section 31(3) of the Companies act No 07 of 2007 immediately after the payment of Final dividend and would make sure the compliance of solvency after the payment of Final dividend proposed to be paid in 11th July 2011. The Board of Directors provided the statement of solvency to the Auditors and obtained certificate of Solvency from the Auditors in respect of final dividend payment conforming the statutory provisions.

17. Stated Capital

The stated capital of the company as at 31st March 2011 was Rs.396, 850,480 consisting of ordinary shares of 39,685,048. (2009 - Rs. 396, 850,480 consisting of ordinary shares of 39,685,048.)

18. Shareholding

There were 2,183 registered voting shareholders as at 31st March 2011. The details of Top Twenty Shareholders, Public holding , analysis of distribution of shareholders and Market information of the shares is given under the share holder analysis in page no 142-143 of the Annual Report.

19. Information on Directors of the Group and the Bank

The Board of Directors of the Company consists of Seven Directors (2008 - seven) as at 31st March 2011. However, on 01st April 2011 , four new Directors appointed to the Board and list of the current Directors are as follows.

The Board of Directors of the Company.

Name	Status
Mr R Renganathan	Non Executive Director/Chairman (Mr D H J Gunawadena Alternate to Mr R Renganathan)
Mr C M Nanayakkara	Executive Director / CEO & Managing Director
Mr E T L Ranasinghe	Non Executive Director (Mr P A J Jayawardena Alternate to Mr E T L Ranasinghe)
Mr P A Jayawardena	Non Executive Director Mr S R Abeynaike Alternate to Mr P A Jayawardena)
Dr T Senthilverl	Non Executive Director
Mr P N C Gomes	Non Executive Independent Director
Mr H P G V Gunawardena	Non Executive Independent Director
Mr R H Abeygoonawardena	Executive Director /Chief Operating Officer (Appointed w.e.f 1st April 2011)
Mr S V Munasighe	Executive Director (Appointed w.e f 1st April 2011)
Mr T M D P Tennakoon	Executive Director/ Chief Financial Officer (Appointed w.e.f 1st April 2011)
Mr W W K M Weerasuriya	Executive Director (Appointed w.e.f 1st April 2011)

20. Retirement of Directors by Rotation

In terms of Article 24(6) of the Articles of Association of the Company Mr R Renganathan who retires by rotation and being eligible offered himself for re-election

In terms of Article 24 (6) of the Articles of Association of the Company Dr T Senthilverl who retires by rotation and being eligible offered himself for re –election.

21. Re-election of Directors

In terms of Article 24(2) of the Articles of Association of the Company Mr T M D P Tennakoon being eligible offered himself for re-election

In terms of Article 24(2) of the Articles of Association of the Company

Mr R H Abeygoonewardena being eligible offered himself for re-election

In terms of Article 24(2) of the Articles of Association of the Company Mr S R Munasinghe being eligible offered himself for re-election

In terms of Article 24(2) of the Articles of Association of the Company Mr W W K M Weerasuriya being eligible offered himself for re-election

22. Board Committees

The Board while assuming the overall responsibility and accountability in the management of the company has also appointed Board committees to ensure oversight, control over certain affairs of the company, conforming to corporate governance Direction issued by CBSL under the Finance Companies act and adopting the best practices accordingly. The Following Committees have been constituted by the Board.

Audit Committee - The Report of the Audit Committee is given on page no 106 which forms and integral part of the Annual Report of the Board.

Integrated Risk Management Committee - The Report of the Integrated Risk Management Committee is given on page no 104 which forms and integral part of the Annual Report of the Board.

Remuneration Committee - The Report of the Remuneration Committee is given on page no 103 which forms an integral part of the Annual Report of the Board.

23. Auditors

The Financial statements for the year ended 31st March 2011 have been audited by M/s KPMG Ford, Rhodes, Thornton and company, chartered Accountants who offer themselves for re appointment.

The retiring auditors M/s KPMG Ford, Rhodes, Thornton and company, chartered Accountants have signified their willingness to continue in office and a resolution relating to their re appointment and authorizing directors to fix remuneration as recommended by the Board will be proposed at the annual general meeting.

The Auditors have been paid a fee of Rs. 750,000 as audit fee for the year ended 31st March 2011 which has been approved by the Board.

The Directors recommend their re appointment.

Report of the Directors

24. Capital Expenditure

The Total capital Expenditure on acquisition of Property, Plant, computer application and equipment, of the CDB amounted to Rs.76.5 Mn (Rs 42.5Mn 2009/10). Details of these are given in note no 26 on page 132 to financial statements.

25. Property Plant, and Equipment (PPE)

Details of Property Plant and Equipment (PPE) are given in Note No 26 to the financial statements. There was no significant change in the property, Plant and Equipment of the Company.

26. Outstanding Litigations

In the opening of the Directors and the Company lawyers, Pending litigation against the company is disclosed in note no 40 of the financial statements will not have a material impact on the financial position or its future operations.

27. 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.

28. 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.

29. Statutory Reporting

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

30. Going Concern

The Board of Directors has reviewed the company business plans and satisfied that company has adequate resources to continue its operations in the foreseeable future. Accordingly the financial statements of the company, its subsidiary are prepared based on the going concern concept.

31. Compliance with laws and regulations

The company / 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.

32. Notice of the Meeting

Notice relating to 15th Annual general meeting of the Company is enclosed herewith.

33. Acknowledgement of the contents of the Report

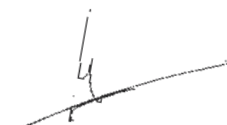
The Board of Directors does hereby acknowledge the contents of this annual report as per the requirement of the Companies Act No 07 of 2007.

Signed in accordance with a resolution adopted by the Directors.


By order of the Board.



P. A. Jayawardana
Director



C. M. Nanayakkara
Director / CEO



S.S.P. Corporate Services (Pvt) Ltd
Company Secretary
04th June 2010

Remuneration Committee Report

Composition

The board appointed remuneration committee comprises of 03 directors.

Mr. P.A. Jayawardena – Chairman
(Non Executive Director)

Mr. P.N.C.Gomes –
(Non Executive Independent Director)

Mr. H.P.G.V.Gunawardena -
(Non Executive Independent Director)

Company Remuneration Policy

Company's remuneration policy aims to recruit, motivate and retain high calibre personnel at Board and Executive levels who possess appropriate professional, managerial and operational expertise required to reach the company's short term and long term objectives. The remuneration policy attempts to satisfy that the remuneration packages offered are 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 executive staff 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 has been set up to assist the board to recommend adoption of a market oriented remuneration policy for its staff and ensure the selection of the best talent and create incentives for

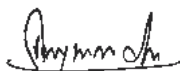
staff for their performance and loyalty. The committee also reviews the recruitment, evaluation of employee performance, incentive schemes, bonus policy of the company, rewarding and promotions policy of the senior management and executive officers of the company. The succession plan policy in place 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 the attention of the committee.

Further the committee consciously evaluates the appropriateness of the current remuneration policy adopted by the company for its suitability and appropriateness.

Meetings

The committee met once during the year ended 31st March 2011.



P.A. Jayawardena
Chairman
Remuneration Committee

06th June 2011
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:

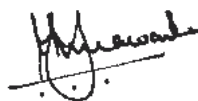
- Ensure that the company's risk mitigation strategy is aligned to the risk appetite of the company.
- Overseeing the compliance of the company's operation with relevant laws, regulations and standards to ensure conformance to all relevant rules and regulations.
- Ensuring that the Board of directors 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.



H.P.G.V. Gunawardena
Chairman
Integrated Risk Management Committee

06th June 2011
Colombo

Statements of Directors Responsibility

The Responsibility of the Directors, in relation to the Financial Statements of the Company and the group prepared in accordance with the provisions of the companies Act No. 7 of 2007 is set out in the following statement.

The responsibilities of External Auditors in relation to the Financial Statements are set out in the Report of the Auditors given on Page 67 of the Annual Report.

The Financial statements comprise the Balance Sheet as at 31st March 2010, Income Statement, statement of changes in equity, and cash flow for the Year then ended and notes thereto. As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare financial statements for each financial year and place them before a general meeting.

The Financial statements of the Company and its subsidiary gives a true and fair view of the state of affairs of the company and the group and profit and loss of the Company and its subsidiary for the financial year ended of the balance sheet date.

In preparing these financial statements the Directors are required to ensure that the appropriate accounting policies have been selected and applied in a consistent manner and any material variations if any have been disclosed and explained, Judgments and estimates have been made which are reasonable and prudent and all applicable accounting standards as relevant have been followed.

The Directors are responsible for ensuring that the company keeps sufficient accounting records to disclose with reasonable accuracy. The Financial position of the

company and for ensuring that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No. 7 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the company and in that context to have a proper regard to the establishment of appropriate systems of internal controls with a view to preventing and detecting fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing accounts. The Directors after making inquiries and following a review of the company's Budget for 2010 -2011 including cash flows and borrowing facilities consider that the company has adequate recourses to continue in operation.

By order of the Board



Company Secretary
SSP Corporate Services (Private) Ltd

06th June 2011
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 Dr T Senthilverl . Mr P N C Gomes was appointed as the Chairman of the Audit Committee and. Mr Gunawardene was appointed as an alternate member to Dr Senthilverl.

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

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

A private meeting was held with KPMG Ford Rhodes Thornton & Co, to ensure that there were no restrictions on the scope of their audit and to discuss any items the auditors did not wish to raise with management present.

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.



P.N.C. Gomes
Chairman
Audit Committee

06th June 2011
Colombo

Independent Auditors' Report



KPMG Ford, Rhodes, Thomson & Co.
(Chartered Accountants)
32A, Sir Mohamed Mahan Mankar Mawatha,
P. O. Box 106,
Colombo 00300,
Sri Lanka.

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+94 - 11 542 6426
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+84 - 11 254 1248
+94 - 11 230 7346
Internet : www.ik.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 2011 which comprise the balance sheet as at 31st March 2011, 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 set out on pages 113 to 139.

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 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st March 2011 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 2011 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 Companies Act No 78 of 1988.

Chartered Accountants

Colombo
06th June 2011

KPMG Ford, Rhodes, Thomson & Co., 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.

A. M. Fernando FCA
P. S. Perera FCA
M. J. C. Perera FCA
M. D. C. Abeyaratne FCA

M. R. Mubarek FCA
J. H. Jayaraman FCA
M. S. Jayasingh FCA
S. D. L. Perera FCA

Ms. M. R. Perera FCA
T. S. Rajapaksa FCA
Ms. S. J. Jayasinghe FCA
C. A. H. Karunaratne FCA

Headoffice - D.F.J. Perera FCA, L.B. Alwis FCA, H.S. Gunawardene FCA.

Statement of Income

	Notes	Company		Group	
		For the year ended	For the 15 Month period ended	For the year ended	For the 15 Month period ended
		31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
Income	5	2,226,022,713	1,898,899,386	2,226,237,404	1,900,439,911
Interest Income	6	1,731,159,166	1,794,819,119	1,731,235,677	1,796,359,644
Less: Interest Expenses	7	912,786,452	1,190,634,646	912,786,452	1,190,634,646
Net Interest Income		818,372,714	604,184,473	818,449,225	605,724,998
Other Income	8	494,863,547	104,080,267	495,001,727	104,080,267
		1,313,236,261	708,264,740	1,313,450,952	709,805,267
Less : Operating Expenses	9				
Personnel Expenses		214,693,324	163,536,615	214,693,324	163,536,615
Premises, Equipment and Administration Expenses		244,050,851	209,693,315	244,156,843	209,773,314
Marketing and Business Promotion Expenses		176,703,805	131,905,123	176,703,805	131,905,123
Finance Charges		12,201,431	10,586,865	12,201,431	10,587,365
		647,649,411	515,721,918	647,755,403	515,802,417
Profit before Loan Loss Provision and Taxes		665,586,850	192,542,822	665,695,549	194,002,848
Less : Provision for Loan Losses	10	80,276,195	91,282,709	83,647,000	91,657,709
Profit Before VAT on Financial Services and Tax		585,310,655	101,260,113	582,048,549	102,345,139
Less : Value added tax on Financial Services		24,040,074	12,520,412	24,040,074	12,520,412
Profit Before Income Tax		561,270,581	88,739,701	558,008,475	89,824,727
Less : Income Tax Expenses	11	29,460,581	9,163,093	29,460,581	9,548,548
Profit after Income Tax		531,810,000	79,576,608	528,547,894	80,276,179
Attributable to Equity holders of the Parent					
Attributable to:					
Equity holders of the parent		531,810,000	79,576,608	528,547,894	80,276,179
Minority Interest		-	-	-	-
Net Profit for the period		531,810,000	79,576,608	528,547,894	80,276,179
Earnings Per Share (EPS)	12	13.40	1.60	13.32	1.62
Dividend Per Share (DPS)	13	2.00	0.50		

Notes to the Financial Statement set out on pages 113 to 139 form an integral part of the Financial Statement

Balance Sheet

As at 31st March	Note	Company		Group	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Assets					
Cash and Short term Funds	14	49,343,058	7,165,259	52,292,975	7,467,653
Investment in Government Securities	15	511,573,349	549,962,183	511,573,349	549,962,183
Deposits with Licensed Commercial Banks and Financial Institutions	16	263,094,355	144,047,575	263,094,355	144,047,575
Securities Purchased under resale agreements	17	187,379,059	150,102,605	187,379,059	150,102,605
Loans & Advances	18	1,824,790,687	1,210,855,151	1,824,790,687	1,214,900,628
Net Investments in Leases	19	4,731,429,215	2,949,261,028	4,731,429,215	2,949,261,028
Net Investments in Hiring Contracts	20	1,299,575,070	874,967,565	1,299,575,070	874,967,565
Investment Securities	21	412,600,000	100,909,075	412,600,000	100,909,075
Tax Receivables		203,492,588	81,484,877	203,492,588	81,484,877
Trade and Other Receivables	22	323,220,322	177,964,768	323,220,322	177,964,768
Inventories	23	150,707,893	203,215,974	150,707,893	203,215,974
Investment in Subsidiaries	24	5,000,000	5,000,000	-	-
Investment Properties	25	20,197,977	20,197,977	20,197,977	20,197,977
Property, Plant and Equipment	26	237,821,921	200,669,868	237,821,921	200,669,868
Total Assets		10,220,225,494	6,675,803,905	10,218,175,411	6,675,151,776
Liabilities					
Deposits From Customers	27	7,488,743,205	4,837,875,995	7,488,743,205	4,837,875,995
Borrowings	28	735,077,881	755,046,204	735,077,881	755,046,204
Debentures	29	267,069,000	73,880,000	267,069,000	73,880,000
Retirement Benefit obligations	30	20,676,229	11,146,869	20,676,229	11,146,869
Tax Payable		44,429,014	19,568,389	44,814,473	19,953,846
Other Liabilities	31	639,047,644	465,071,403	638,954,848	463,114,455
Total Liabilities		9,195,042,973	6,162,588,860	9,195,335,636	6,161,017,369
Shareholders' Funds					
Stated Capital	32	396,850,480	396,850,480	396,850,480	396,850,480
Reserve Fund	33	152,650,304	46,288,304	152,650,304	46,288,304
Revaluation Reserve	34	15,082,857	15,082,857	15,082,857	15,082,857
Investment Fund Reserve	35	3,012,215	-	3,012,215	-
Retained Earnings		457,586,665	54,993,404	455,243,919	55,912,766
Shareholders' Funds		1,025,182,521	513,215,045	1,022,839,775	514,134,407
Minority Interest		-	-	-	-
Total Equity		1,025,182,521	513,215,045	1,022,839,775	514,134,407
Total Liabilities & Equity		10,220,225,494	6,675,803,905	10,218,175,411	6,675,151,776
Net Assets Value per Ordinary Share	36	25.83	12.93	25.77	12.96

Notes to the Financial Statement set out on pages 113 to 139 form an integral part of the Financial Statement

I certify that these Financial statements have been prepared in compliance with the requirements of the companies Act No 7 of 2007 & Finance Company Act No. 78 of 1988.



Damith Tennakoon
Director/CFO

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

Approved and Signed for and on behalf of the Board



R. Renganathan
Chairman



C.M Nanayakkara
Managing Director/ CEO

Statement of Changes in Equity

For the year ended 31st March 2011
Company

	Stated Capital Rs	Revaluation Reserve Rs	Retained Earnings Rs	Reserve Fund Rs	Investment Fund Reserve Rs	Total Rs
Balance as at 01st January 2009	396,850,480	15,082,857	15,205,100	6,500,000	433,638,437	
Net Profit for the 15 Month Period ended 31st March 2010			79,576,608	39,788,304	79,576,608	
Transfer from reserve			(39,788,304)			
Balance as at 31st March 2010	396,850,480	15,082,857	54,993,404	46,288,304	513,215,045	
Balance as at 01st April 2010	396,850,480	15,082,857	54,993,405	46,288,304	513,215,045	
Net Profit for the Period Ended 31st March 2011			531,810,000		531,810,000	
First and Final Dividend Paid for 2009/2010			(19,842,524)		(19,842,524)	
Transfer from reserve			(109,374,215)	106,362,000	3,012,215	
Balance as at 31st March 2011	396,850,480	15,082,857	457,586,666	152,650,304	3,012,215	1,025,182,521

Group

	Stated Capital Rs	Revaluation Reserve Rs	Retained Earnings Rs	Reserve Fund Rs	Investment Fund Reserve Rs	Minority Interest Rs	Total Equity Rs
Balance as at 01st January 2009	396,850,480	15,082,857	15,424,891	6,500,000	433,858,228		433,858,228
Net Profit for the 15 Month Period Ended 31st March 2010			80,276,179		80,276,179		80,276,179
Transfer from reserve			(39,788,304)	39,788,304			
Balance as at 31st March 2010	396,850,480	15,082,857	55,912,766	46,288,304	514,134,407		514,134,407
Balance as at 01st April 2010	396,850,480	15,082,857	55,912,766	46,288,304	514,134,407		514,134,407
Net Profit for the Period First and Final Dividend Paid for 2009/2010			528,547,894		528,547,894		528,547,894
Transfer from reserve			(19,842,524)	106,362,000	3,012,215		(19,842,524)
Balance as at 31st March 2011	396,850,480	15,082,857	455,243,921	152,650,304	3,012,215		1,022,839,777

Notes to the Financial Statement set out on pages 113 to 139 form an integral part of the Financial Statement
Figures in brackets indicates deductions.

Cash Flow Statement

	Company		Group	
	For the year ended 31.03.2011 Rs.	For the 15 Month period ended 31.03.2010 Rs.	For the year ended 31.03.2011 Rs.	For the 15 Month period ended 31.03.2010 Rs.
Cash Flow from Operating Activities				
Interest Receipts	1,719,254,184	1,754,239,896	1,719,468,875	1,755,780,423
Commission Receipts	76,680,227	67,981,359	76,680,227	67,981,359
Other Income	106,930,633	38,709,908	106,930,633	38,709,908
Interest Payments	(851,371,171)	(1,206,514,427)	(851,371,171)	(1,206,514,427)
Fees and Commission Expenses	(157,113,085)	(136,240,078)	(157,467,947)	(136,305,078)
Employees Related Payments	(195,427,212)	(152,717,042)	(195,427,212)	(152,717,042)
Suppliers Payment	(238,256,294)	(131,391,603)	(238,256,294)	(131,347,789)
Financial Expenses	(12,201,431)	(10,586,865)	(12,201,431)	(10,587,365)
Operating Profit/ (Loss) Before Changes in Operating Assets and Liabilities	448,495,851	223,481,148	448,355,680	224,999,989
(Increase)/ Decrease in Operating Assets				
Investments in License Commercial banks and other Financial Institutions	(156,323,234)	224,442,175	(156,323,234)	224,442,175
Investment in Government Securities	38,388,834	(549,962,183)	38,388,834	(549,962,183)
Net Funds Advanced to Customers	(2,877,842,892)	518,392,217	(2,877,168,218)	519,464,186
Other Short Term Assets	(162,831,399)	(73,552,215)	(160,718,379)	(75,843,028)
Inventories	52,508,081	(31,171,430)	52,508,081	(31,171,430)
	(2,657,604,759)	311,629,712	(2,654,957,236)	311,929,709
Increase/ (Decrease) in Operating Liabilities				
Borrowings	(19,968,321)	(4,680,697,658)	(19,968,321)	(4,680,697,659)
Deposits from customers	2,650,867,209	4,837,875,995	2,650,867,209	4,837,875,995
	2,630,898,888	157,178,337	2,630,898,888	157,178,336
Cash (used in)/ generated from operations	(26,705,871)	468,808,049	(24,058,348)	469,108,045
Gratuity paid	-	(283,221)	-	(283,221)
Value Added Tax	(99,862,738)		(99,862,738)	
Economic Service Charge	(22,144,973)	(30,243,652)	(22,144,973)	(30,243,652)
Net Cash inflow/(outflow) from Operating Activities	(148,713,582)	438,281,176	(146,066,059)	438,581,172
Cash Flow from Investing Activities				
Investment Property	-	(20,197,977)	-	(20,197,977)
Dividend receipts	2,580,235	1,023,752	2,580,235	1,023,752
Redemption of Investment in Debentures	-	21,180,954	-	21,180,954
Purchase of Property, Plant & Equipment	(76,475,134)	(42,568,013)	(76,475,134)	(42,568,013)
Proceeds from sale of Property, Plant & Equipment	5,976,874	15,891,667	5,976,874	15,891,667
Net Cash Inflows/(Outflows) Investing Activities	(67,918,025)	(24,669,617)	(67,918,025)	(24,669,617)
Cash Flow from Financing Activities				
Dividend Paid	(19,842,524)	-	(19,842,524)	-
Redemption of Debentures	193,189,000	(175,074,700)	193,189,000	(175,074,700)
Net Cash Inflow (out flows) from Financing Activities	173,346,476	(175,074,700)	173,346,476	(175,074,700)
Net Increase/(Decrease) In Cash and Cash Equivalents	(43,285,131)	238,536,859	(40,637,608)	238,836,855
Cash and Cash Equivalents at the beginning of the Year	(106,647,074)	(345,183,933)	(106,344,680)	(345,181,535)
Cash and Cash Equivalents at the end of the Year	(149,932,205)	(106,647,074)	(146,982,288)	(106,344,680)

Cash Flow Statement

	Company		Group	
	For the year ended 31.03.2011 Rs.	For the 15 Month period ended 31.03.2010 Rs.	For the year ended 31.03.2011 Rs.	For the 15 Month period ended 31.03.2010 Rs.
Cash and Cash Equivalents at the beginning of the year				
Cash at Bank and In Hand (Note 14)	7,165,259	10,617,132	7,467,653	10,619,530
Bank Overdraft (Note 31)	(113,812,333)	(355,801,065)	(113,812,333)	(355,801,065)
	(106,647,074)	(345,183,933)	(106,344,680)	(345,181,535)
Cash and Cash Equivalents at the end of the year				
Cash at Bank and In Hand (Note 14)	49,343,058	7,165,259	52,292,975	7,467,653
Bank Overdraft (Note 31)	(199,275,263)	(113,812,333)	(199,275,263)	(113,812,333)
	(149,932,205)	(106,647,074)	(146,982,288)	(106,344,680)

Notes to the Financial Statement set out on pages 113 to 139 form an integral part of the Financial Statement

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 registered under the Finance Companies Act No 78 of 1988 and also registered under the Finance leasing act No 56 of 2000.

The staff strength of the Bank as at 31st March 2011 is 578 (2010 – 450).

Consolidated Financial Statements

The Consolidated Financial Statements of the CDB for the year ended 31st March 2011 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 31/03/2011 were authorized for issue by the Board of Directors on 06th June 2011.

1.3 Principal Activities and Nature of operation

Citizens Development Business Finance PLC

The principal activities of the CDB continued to be Financial Services and related activities such as accepting deposits, Leasing, Hire purchases, Loans, Operating Leases, Pawn Brokering, Foreign Exchange Money Dealer Ship, 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 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 and Sri Lanka Accounting Standards and Finance Companies Act no 78 of 1988.

The Board of Directors acknowledges this responsibility as set out in the Report of the Directors under "Directors' Responsibility for Financial Statement"

Financial Statement 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 equivalent 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 Statement of the Group and the company which comprise the components mention 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 Companies Act No 78 of 1988 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.

2.4 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary

Notes to the Financial Statements

factors affecting the Financial Statements, except for the following;

Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values at the date of revaluation less accumulate depreciation and 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 measured 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 & assumption 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 the Financial Statements are described in Notes below.

2.8 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.

2.9 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.

2.10 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.

2.11 Employee Defined Benefit Obligation

The defined benefits obligation & the related charged for the year is determined using actuarial valuations. The actuarial valuation involved 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.

2.12 Impairment

Company 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.

2.13 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 Investments

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. There are recorded separately in the Financial Statements at the 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 /

Notes to the Financial Statements

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 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 above 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 contract 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 above 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.

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 1% 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. Those vehicles are valued at cost or net realizable value whichever is lower. The cost of an inventory is the purchase price. Net realizable value is the estimated realizable value less estimated cost necessary to make the sale.

3.11.2 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 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.

Notes to the Financial Statements

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 use 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 that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 20 "Borrowing Costs". Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

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 as explained in Note . 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.

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

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.

Notes to the Financial Statements

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 - 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 define benefit obligation is carried out by a qualified actuary. The key assumptions used in determining the define benefit obligations are given in note 30 (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.

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 Expenses

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 relates to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction

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.

3.31 Deposit Insurance Scheme

As per the direction No 01 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 01 Oct 2010 all registered finance

Notes to the Financial Statements

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 Segment 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 segment 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 on 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 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.

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 readily 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.

4. Presentation

4.1 Offsetting of Income and Expenses

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

4.2 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.

4.3 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.

Management has changed the accounting period from 31st December to 31 March in and therefore the comparative figures in the financial statements are presented for the 15 Month period from 01 January 2009 to 31 March 2010.

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.

4.4 Effect of Accounting Standards 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 will be prefixed as SLFRS or LKAS which refers to Sri Lanka Accounting Standards corresponding to IFRS or IAS respectively.

The Institute of Chartered Accountants of Sri Lanka, which is the Accounting Standards setting body of Sri Lanka, has mandated all specified business enterprises to adopt these new Accounting Standards effective for financial periods beginning on or after January 1,2012. In addition, Institute of Chartered Accountants of Sri Lanka has adopted all International Financial Reporting Interpretation Committee (IFRIC) and Standard Interpretations Committee (SIC) pronouncements issued by International Accounting Standards Board (IASB).

The Group is currently in the process of evaluating the potential effects of these Standards on its financial statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

Notes to the Financial Statements

	Company		Group	
	For the year ended	For the 15 Month period ended	For the year ended	For the 15 Month period ended
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
5 Income				
Interest Income (Note No 6)	1,731,159,166	1,794,819,119	1,731,235,677	1,796,359,646
Other Income (Note No 8)	494,863,547	104,080,267	495,001,727	104,080,267
	2,226,022,713	1,898,899,386	2,226,237,404	1,900,439,913
6 Interest Income				
Government Securities and Placement with Banks and Finance Companies	73,823,275	56,092,568	73,823,275	56,092,568
Loans and Advances to customers	216,974,077	261,462,905	216,974,077	261,462,905
Leasing	1,006,981,313	1,064,367,408	1,006,981,313	1,064,367,406
Hire purchase	255,892,021	212,574,102	255,892,021	212,574,102
Other Interest Income	177,488,480	200,322,136	177,488,480	200,322,136
Interest Income from Micro Finance	-	-	76,511	1,540,527
	1,731,159,166	1,794,819,119	1,731,235,677	1,796,359,644
7 Interest Expenses				
Borrowings	91,936,621	699,082,627	91,936,620	699,082,627
Debentures	14,494,671	29,757,913	14,494,671	29,757,913
Deposits From Customers	806,355,161	461,794,106	806,355,161	461,794,106
	912,786,452	1,190,634,646	912,786,452	1,190,634,646
8 Other Income				
Dividend Income	2,580,235	1,023,752	2,580,235	1,023,752
Fees and Commission Income	150,670,121	109,434,509	150,670,121	109,434,509
Profit / (Loss) from sale of Dealing Securities	-	(3,819,047)	-	(3,819,047)
Profit / (Loss) on disposal of Leased Assets	28,308,608	(1,426,347)	28,308,608	(1,426,347)
Profit / (Loss) sale of Property Plant and Equipment	1,613,658	(1,132,600)	1,613,658	(1,132,600)
Mark to Market Value Adjustment (Note 21. a)	311,690,925	-	311,690,925	-
Other Income from Micro Finance	-	-	138,180	-
	494,863,547	104,080,267	495,001,727	104,080,267

	Company		Group	
	For the year ended	For the 15 Month period ended	For the year ended	For the 15 Month period ended
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
9 Operating Expenses				
Operating Expenses, among others, include the following :				
Depreciation of Property , Plant and Equipment	34,959,866	23,521,336	34,959,866	23,521,336
Legal Expenses and Professional Fees	6,087,901	4,091,814	6,087,901	4,091,814
Staff related expenses	188,405,418	143,475,504	188,405,418	143,475,504
Directors Emoluments (Note 9a)	9,946,889	7,510,079	9,946,889	7,510,079
Auditors Remuneration (Note 9b)	750,000	587,082	835,000	667,082
Contribution to deposit Insurance scheme of CBSL	5,445,195		5,445,195	
Advertising & Communication	53,307,639	22,042,344	53,307,639	22,042,344
Activities on Corporate social Responsibility	4,922,047	2,505,525	4,922,047	2,505,525
Employee Provident Fund and Trust Fund Expenses	16,758,547	15,113,069	16,758,547	15,113,069
Employee Define Benefit Plan Service Expenses	9,529,359	4,948,042	9,529,359	4,948,042
9(a) Directors Emoluments				
Benifits paid to Directors	9,946,889	7,510,079	9,946,889	7,510,079
The details report of the Directors Emoluments and Expenses Relating to the Key Management personnel are given under the Note No 38(c)				
9(b) Auditors Remuneration				
Audit Fees	750,000	420,000	835,000	470,000
Non- Audit Services	-	110,156	-	110,156
10 Provision for Loan Losses				
Specific Provision				
Leasing	(10,550,052)	59,022,386	(10,550,052)	59,022,386
Hire purchase	(10,479,377)	17,628,414	(10,479,377)	17,628,414
Loans & Advances	8,479,649	4,173,427	11,850,454	4,548,427
Disposal Receivables	23,144,529	10,458,482	23,144,529	10,458,482
	10,594,749	91,282,709	13,965,554	91,657,709
General Provision				
Leasing	47,148,818		47,148,818	
Hire purchase	12,977,097	-	12,977,097	-
Loans & Advances	9,555,531	-	9,555,531	-
	69,681,446	-	69,681,446	-
Total	80,276,195	91,282,709	83,647,000	91,657,709

Notes to the Financial Statements

	Company		Group	
	For the year ended	For the 15 Month period ended	For the year ended	For the 15 Month period ended
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
11. Taxation				
Income Tax Expenses (11a)	29,460,581	9,163,093	29,460,581	9,548,548
Over/Under provision in respect of prior period	-	-	-	-
Deferred tax Expenses (11b)	-	-	-	-
	29,460,581	9,163,093	29,460,581	9,548,548

	Company 2010/2011 Leasing Business Rs.	Company 2010/2011 Other Business Rs.	Company 2010/2011 Total Rs.	Group 2010/2011 Leasing Business Rs.	Group 2010/2011 Other Business Rs.	Group 2010/2011 Total Rs.
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11.1 Reconciliation of Accounting Profit and Taxable income

Profit before taxation	174,260,254	387,010,328	561,270,581	174,260,253	383,748,222	558,008,475
Profit attributable for Tax purpose						
Capital portion of Lease rentals	1,281,606,217		1,281,606,217	1,281,606,217	-	1,281,606,217
Income on other sources	(3,994,635)	(315,884,818)	(319,879,453)	(3,994,635)	(315,884,818)	(319,879,453)
Disallowable Expenses	89,998,731	77,589,268	167,587,999	89,998,731	80,851,374	170,850,105
Allowable Expenses	(1,624,308,682)	(14,752,169)	(1,639,060,851)	(1,624,308,682)	(14,744,341)	(1,639,060,851)
Adjusted Business profit/(Loss)	(82,438,116)	133,962,608	51,524,493	(82,438,116)	133,962,609	48,262,387
Taxable Profit			133,962,608			133,962,608
Tax losses utilises			(46,886,913)			(46,886,913)
Taxable Income			87,075,695			87,075,695
Income Tax @ 33 1/3%			29,025,203			29,025,203
Social Responsibility levy @ 1.5%			435,378			435,378
Income tax on Profits			29,460,581			29,460,581

The income tax rate applicable for the company for the year 2010/11 is 33 1/3%.

	Company 2009/10 Leasing Business Rs.	Company 2009/10 Other Business Rs.	Company 2009/10 Total Rs.	Group 2009/10 Leasing Business Rs.	Group 2009/10 Other Business Rs.	Group 2009/10 Total Rs.
11.1 Reconciliation of Accounting Profit and Taxable income						
Profit before taxation (01.01.2009-31.12.2009)	46,396,709	50,328	46,447,037	46,396,709	1,135,355	47,532,064
Profit attributable for Tax purpose						
Capital portion of Lease rentals	1,112,909,369		1,112,909,369	1,112,909,369	-	1,112,909,369
Income on other sources	6,180,201	4,000,762	10,180,963	6,180,201	4,000,762	10,180,963
Disallowable Expenses	28,208,581	26,074,469	54,283,050	28,208,581	26,074,469	54,283,050
Allowable Expenses	(1,174,779,232)	(9,359,087)	(1,184,138,319)	(1,174,779,232)	(9,359,087)	(1,184,138,319)
Capital Allowances				-		
Ajusted Business profit	18,915,628	20,766,472	39,682,100	18,915,628	21,851,499	40,767,127
Taxable Profit			39,682,100	-		
Tax losses utilises			(13,888,735)			(13,888,735)
Taxable Income			25,793,365			26,878,392
Income Tax @ 35%			9,027,678			9,407,437
Social Responsibility levy @ 1.5%			135,415			141,112
Income tax on Profits			9,163,093			9,548,548

11.2 Deferred Taxation

The Deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these terms because it is not probable that future taxable profits will be available against which the company can utilise the benefit there from. The Deferred Tax Asset amounting Rs114,238,811 (2009/10- Rs.164,731,477) Has not been recognised in the Financial Statements.

No Deferred Tax assets or liability have been recognised in the financial statements of CDB Micro Finance Limited.

	Company 2010/11 Temporary Differences Rs.	Company 2010/11 Tax Effect Rs.	Group 2010/11 Tax Effect Rs.	Company 2009/10 Temporary Differences Rs.	Company 2009/10 Tax Effect Rs.	Group 2009/10 Tax Effect Rs.
Tax effect on deferred Tax assets on c/f Business Tax Losses	723,070,989	202,459,877	202,459,877	523,447,960	183,206,786	183,206,786
Temporary Differences on Property Plant and Equipment	(53,795,654)	(15,062,783)	(15,062,783)	(63,933,474)	(22,376,716)	(22,376,716)
Define Benefit Plan obligations	20,676,229	5,789,344	5,789,344	11,146,876	3,901,407	3,901,407
Deferred Tax Asset (Liability)		193,186,438	193,186,438		164,731,477	164,731,477

Notes to the Financial Statements

12 Basic Earning Per Share

Basic Earning Per Share has been calculated by dividing the Annualized Net profit for the year attributable to Equity Holders of the Company by the weighted average number of shares outstanding as at 31st March 2011.

	Company		Group	
	For the year ended 31.03.2011 Rs.	For the 15 Month period ended 31.03.2010 Rs.	For the year ended 31.03.2011 Rs.	For the 15 Month period ended 31.03.2010 Rs.
Profit/ (Loss) attributable to Ordinary Share Holders	531,810,000	79,576,608	528,547,894	80,276,180
Amount used as the Numerator				
Profit / (Loss) attributable for the period of 12 Months	531,810,000	63,661,286	528,547,894	64,220,943
Amount used as the Denominator				
Weighted average No. of shares in Issue	39,685,048	39,685,048	39,685,048	39,685,048
Earning Per Share	13.40	1.60	13.32	1.62

13 Dividend Per Share (DPS)

On Ordinary Shares

Dividend paid / Proposed to the Ordinary Shareholders

79,370,096

19,842,524

The Board of Directors of the company have recommended the payment of first & final dividend of Rs 2.00 per share for the financial year ended 31st march 2011 which will be declared at the forthcoming Annual General Meeting to be held on 30th June 2011

In accordance with the provision of the Sri Lanka Accounting Standard No 12 (Revised 2005) on Events after the Balance Sheet Date". This proposed final dividend has not been recognised as a liability as at the Year end

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
14 Cash and Short Term Funds				
Cash in hand	335,720	209,969	335,720	209,969
Balances with Licensed Commercial Banks	49,007,338	6,955,290	51,957,255	7,257,684
	49,343,058	7,165,259	52,292,975	7,467,653
15 Investment in Government Securities				
Treasury Bills of Central Bank of Sri Lanka	511,573,349	549,962,183	511,573,349	549,962,183
	511,573,349	549,962,183	511,573,349	549,962,183
16 Deposits with Licence Commercial Banks and Other Financial Institutes				
Licensed Commercial Banks	263,094,355	144,047,575	263,094,355	144,047,575
	263,094,355	144,047,575	263,094,355	144,047,575
17 Securities Purchased under Re sale agreements				
Seylan Bank PLC	65,000,000	85,077,286	65,000,000	85,077,286
Peoples Bank	122,379,059	65,025,319	122,379,059	65,025,319
	187,379,059	150,102,605	187,379,059	150,102,605

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
18 Loans & Advances				
Short Term Loans	501,307,642	301,800,400	501,307,642	301,800,400
Term and Vehicle Loans	1,042,882,749	781,199,407	1,046,628,554	785,619,884
Pawning Advances	171,903,600	3,372,147	171,903,600	3,372,147
Staff Loans	18,349,983	11,201,304	18,349,983	11,201,304
Loans Given to Employee Share ownership Trust	120,100,000	125,000,000	120,100,000	125,000,000
	1,854,543,974	1,222,573,258	1,858,289,779	1,226,993,735
Provision for Loan Loss Provision - Specific 18.(a)	(20,197,756)	(11,718,107)	(23,943,561)	(12,093,107)
Provision for Loan Loss Provision - General 18.(b)	(9,555,531)	-	(9,555,531)	-
Net Loans and Advances	1,824,790,687	1,210,855,151	1,824,790,687	1,214,900,628
18 (a) Movements in Provision for Loan Losses				
Balance at the beginning of the year	11,718,107	7,544,680	12,093,107	7,544,680
Net Provision for the year	8,479,649	4,173,427	11,850,454	4,548,427
Balance at the end of the year	20,197,756	11,718,107	23,943,561	12,093,107
18 (b) Movements in Provision for Loan Losses (General)				
Balance at the beginning of the year	-	-	-	-
Net Provision for the year	9,555,531	-	9,555,531	-
Balance at the end of the year	9,555,531	-	9,555,531	-
19 Net Investments in Leases				
Lease Rental Receivables within one year	2,634,974,396	2,119,374,233	2,634,974,396	2,119,374,233
Lease Rental Receivables after one year	4,605,676,327	2,441,527,048	4,605,676,327	2,441,527,048
	7,240,650,723	4,560,901,281	7,240,650,723	4,560,901,281
Lease Rental Received in Advance	(113,419,592)	(124,542,594)	(113,419,592)	(124,542,594)
Unearned Interest Income	(2,215,830,296)	(1,343,724,805)	(2,215,830,296)	(1,343,724,805)
	4,911,400,835	3,092,633,882	4,911,400,835	3,092,633,882
Provision for Loan Loss - Specific(Note 19.(a))	(132,822,802)	(143,372,854)	(132,822,802)	(143,372,854)
Provision for Loan Loss - General(Note 19.(a))	(47,148,818)	-	(47,148,818)	-
Net Investment in Finance Leases	4,731,429,215	2,949,261,028	4,731,429,215	2,949,261,028
19 (a) Movements in Provision for Loan Losses - Specific				
Balance at the beginning of the year	143,372,854	84,350,467	143,372,854	84,350,467
Net Provision for the year	(10,550,052)	59,022,387	(10,550,052)	59,022,387
Balance at the end of the year	132,822,802	143,372,854	132,822,802	143,372,854
19 (b) Movements in Provision for Loan Losses - General				
Balance at the beginning of the year	-	-	-	-
Net Provision for the year	47,148,818	-	47,148,818	-
Balance at the end of the year	47,148,818	-	47,148,818	-

	2010/2011			2009/2010		
	No of Shares	Cost of the Investment Rs.	Market Value Rs.	No of Shares	Cost of the Investment Rs.	Market Value Rs.
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	-
	-	24,664,550	-	2,466,455	24,664,550	-
Provision for diminution in value	-	24,664,550	-	-	24,664,550	-
	-	1,000,000	-	-	1,000,000	1,000,000

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
22 Trade and Other Receivables				
Interest Receivable	97,836,770	85,931,787	97,836,770	85,931,787
Insurance Premium Receivable	51,579,987	48,917,629	51,579,987	48,917,629
Legal Receivable on Disposals (Note 22.a)	-	-	-	-
Insurance Commission Receivable	11,897,254	16,529,385	11,897,254	16,529,385
Other Receivables and advances	161,906,311	26,585,967	161,906,311	26,585,967
	323,220,322	177,964,768	323,220,322	177,964,768
22 (a) Legal Receivable on Disposals				
Legal Receivable on Disposals	33,602,711	10,458,482	33,602,711	10,458,482
Provisions for loan Losses	(33,602,711)	(10,458,482)	(33,602,711)	(10,458,482)
	-	-	-	-
23 Inventories				
Vehicle Stock	123,531,236	149,188,932	123,531,236	149,188,932
Reposessed Stock	27,176,657	54,027,042	27,176,657	54,027,042
	150,707,893	203,215,974	150,707,893	203,215,974

	Holding	Principle Activity	2010/2011		2009/2010	
			Cost of Investment Rs.	Directors Valuation Rs.	Cost of Investment Rs.	Directors Valuation Rs.
24 Investment in Subsidiaries						
Unquoted						
CDB Micro Finance Limited	100%	Micro Lending	5,000,000	5,000,000	5,000,000	5,000,000
			5,000,000	5,000,000	5,000,000	5,000,000

Subject to the approval of the Central Bank of Sri Lanka, the Company is in the process of merging the subsidiary with the Parent Company

Notes to the Financial Statements

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
25 Investment Properties				
Cost				
Balance as at beginning of the Year	20,197,977	-	20,197,977	-
Transferred from Property Plant and Equipment Improvements	-	20,197,977	-	20,197,977
Balance as at end of the period	20,197,977	20,197,977	20,197,977	20,197,977
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	32,000,000	-	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 an independent valuer not connected with the Company.

The Company Carries the investment properties at cost, since the fair value of the investment properties were above the carrying value the board of directors concluded there was no impairment in investment Properties.

Depreciation have not been recognised since land has indefinite life.

	Extent (Perches)	Cost Rs.	Fair Value Rs.
25.1 Valuations of Investment Property - Company/Group			
Freehold Land Situated at Biyagama	120	20,197,977	32,000,000

	Land Rs.	Furniture & Fittings Rs.	Computer Equipment Rs.	Office Equipment Rs.	Motor Vehicles Rs.	Total 2011 Rs.	Total 2010 Rs.
26 Property Plant & Equipment Cost							
Balance at the beginning of the year	63,524,745	54,909,247	75,067,701	31,237,801	28,406,777	253,146,271	232,918,257
Additions during the year	-	32,515,480	23,404,211	9,573,503	10,981,940	76,475,134	42,568,013
Disposal during the year.	-	-	-	-	(6,971,667)	(6,971,667)	(22,340,000)
Balance at the end of the Year	63,524,745	87,424,727	98,471,912	40,811,304	32,417,050	322,649,738	253,146,270
Depreciation							
Balance at the beginning of the year	-	13,033,082	16,939,526	9,652,045	12,851,750	52,476,403	34,270,801
Charge for the year	-	11,599,939	13,872,106	5,314,355	4,173,467	34,959,867	23,521,334
Disposal during the year	-	-	-	-	(2,608,453)	(2,608,453)	(5,315,733)
Balance at the end of the Year	-	24,633,021	30,811,632	14,966,400	14,416,764	84,827,817	52,476,402
Written Down Value 31st March 2011	63,524,745	62,791,706	67,660,280	25,844,904	18,000,285	237,821,921	200,669,868
Written Down Value 31st March 2010	63,524,745	41,876,165	58,128,176	21,585,755	15,555,026	200,669,868	

The company has revalued its land situated at Kadawatha on 31 Dec 2006 by Mr. D.S.N. 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.

The carrying amount that would have been recognised had the asset been carried under the cost model as at the Balance Sheet date is Rs. 48,441,888/-

The useful lives and the method of recover have been reviewed by the management during the year and following changes have been made to the below mention categories of Property, plant and Equipemnt.

<u>Item</u>	<u>Previous Rate</u>	<u>Current Rate</u>
Motor Vehicles	20%	20%
Furniture & Fittings	10%	20%
Computer Equipments	10%	20%
Office Equipments	10%	20%

The depreciation method has been changed from reducing balance method to straight line method

Revision of the useful life of property, plant and equipments were resulted in an additional charge in the current year of Rs. 15,392,200/- for the Company, in comparison with the depreciation that would have been charged based on the previous estimates.

Notes to the Financial Statements

	Company		Group			
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.		
27 Deposits From Customers						
Term Deposits	7,488,743,205	4,837,875,995	7,488,743,205	4,837,875,995		
	7,488,743,205	4,837,875,995	7,488,743,205	4,837,875,995		
28 Borrowings						
Securitization	333,232,391	165,406,640	333,232,391	165,406,640		
Other Borrowings	401,845,490	589,639,564	401,845,490	589,639,564		
	735,077,881	755,046,204	735,077,881	755,046,204		
	Company		Group			
	Private/ Public	Rate/Rate Range(p.a)	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
29 Debentures						
Unsecured, Subordinated, Redeemable Debentures (Note 29.a)			267,069,000	73,880,000	267,069,000	73,880,000
			267,069,000	73,880,000	267,069,000	73,880,000
As at beginning of the year			73,880,000	248,954,700	73,880,000	248,954,700
Issues during the Year	Private	12.50%	250,000,000		250,000,000	
Redemptions during the year	Private	12.00%-21.50%	(56,811,000)	(175,074,700)	(56,811,000)	(175,074,700)
			267,069,000	73,880,000	267,069,000	73,880,000
29 (a) Year of Issue						
2005	Private	12% - 12.5%	680,000	8,876,000	680,000	8,876,000
2006	Private	12.75% - 17%	16,219,000	43,504,000	16,219,000	43,504,000
2007	Private	14.25% - 21.5%		16,113,000		16,113,000
2008	Private	21.50%	200,000	5,387,000	200,000	5,387,000
2010	Private	12.50%	250,000,000	-	250,000,000	-
			267,069,000	73,880,000	267,069,000	73,880,000

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
30 Retirement Benefit Obligation				
Balance as at beginning of the year	11,146,870	6,482,049	11,146,870	6,482,049
Current service Cost	3,786,765	2,558,800	3,786,765	2,558,800
Interest Cost	1,226,156	820,142	1,226,156	820,143
Actuarial (Gain)/ Loss	4,516,438	1,569,099	4,516,438	1,569,099
Payments made	-	(283,221)	-	(283,221)
Balance as at 31, March	20,676,229	11,146,870	20,676,229	11,146,869

30 (a) Amount Recognized in the Income Statement

Current service Cost	3,786,765	2,558,800	3,786,765	2,558,800
Interest Cost	1,226,156	820,142	1,226,156	820,142
Actuarial (Gain)/ Loss	4,516,438	1,569,099	4,516,438	1,569,099
	9,529,359	4,948,041	9,529,359	4,948,041

An actuarial valuation of the Gratuity liability was carried out as at 31st March 2011 by Mr.M. Poopalanathan .AIA, Messrs, Actuarial and Management Consultants (Pvt) 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.

30.(b) Actuarial Assumption

Normal retirement age	- 55 years (2009/10 - 55 years)
Rate of discount	- 11% (2009/ 10 -11%)
Future Salary Increase	-10 % (2009/ 10 -10%)
Mortality : A67/70 Mortality table issued by the Acturries of London	

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
31 Other Liabilities				
Accrued Expenditure - Non Interest	23,782,809	13,756,183	23,867,809	13,836,182
Accrued Expenditure - Interest	323,994,394	262,579,112	323,994,393	262,579,112
Insurance Premium Payble	87,932,265	72,632,958	87,932,265	72,886,828
Dues to subsidiaries (CDB Micro Finance Limited)	177,796	2,290,817	-	-
Bank Over Draft	199,275,263	113,812,333	199,275,263	113,812,333
Other Liabilities	3,885,117	-	3,885,117	-
	639,047,644	465,071,403	638,954,848	463,114,455
32 Stated Capital				
Ordinary Shares				
39,685,048 Ordinary Shares	396,850,480	396,850,480	396,850,480	396,850,480

Notes to the Financial Statements

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
33 Reserve Fund				
Balance at the beginning of the year	46,288,304	6,500,000	46,288,304	6,500,000
Transfers during the year	106,362,000	39,788,304	106,362,000	39,788,304
Balance at the end of the year	152,650,304	46,288,304	152,650,304	46,288,304

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 Registered Finance Company shall maintain a reserve fund and transfer to such reserve fund out of the bet profits of the each year after due provisions has been made for Taxation and Bad and Doughtful 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 that belongs to less than 25% but not less than 10%.

	Company		Group	
	31.03.2011 Rs.	31.03.2010 Rs.	31.03.2011 Rs.	31.03.2010 Rs.
34 Revaluation Reserve				
Revaluation Reserve	15,082,857	15,082,857	15,082,857	15,082,857

Revaluation Reserve relates to revaluation of freehold land carried out in 2006 and includes the surplus on revaluation of those assets

35 Investment Fund Reserve				
Investment Fund Reserve	3,012,215	-	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 Services is transferred to the reserve monthly when the payment of VAT on financial Services for such month incomes due.

36 Net Assets Value per Ordinary share				
Amount used as the Numerator				
Net Assets value end of the period	1,025,182,521	513,215,045	1,022,839,777	514,134,407
Amount used as the Denominator				
No. of shares in Issue	39,685,048	39,685,048	39,685,048	39,685,048
Net Assets Value per Ordinary share	25.83	12.93	25.77	12.96

37 Capital commitment and Contingencies

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 it's customers against the placement of investments with CDB by such customers. The maximum limit of the gurantee does not exceed the investment value of the customers.

CDB has engaged in the aquisation of "Core Banking System" from POLARIS Software Lab Limited India with the total investment of Rs. 80Mn including the hardware requirement of the project.

38 Events after the Balance Sheet

The Board of Directors of the company have recommended the payment of final dividend of Rs 2.00 per share for the financial year ended 31st March 2011 which will be declared at the forthcoming Annual General Meeting to be held on 28th June 2011

In accordance with the provision of the Sri Lanka Accounting Standard No 12 (Revised 2005) on Events After the Balance Sheet Date". This proposed final dividend has not been recognised as a liability in the Financial Statements.

There were no material events that took place since 31st March 2011, that required disclosure in these financial statements except for appointment of following four Executive Directors to the Board from 01st April 2011.

Mr. T.M.D.P Tennakoon

Mr. W.W.K.M Weerasuriya

Mr. S.V Munasinghe

Mr. R. H Abeygoonewardana

39 Transactions with Related Parties Related Party Disclosures

Company	Name of Director	Nature of transaction	Transaction during the period Rs.	Balance Due/ (Payable) Rs.	
Ceylinco Insurance PLC	Mr. R. Renganathan-Director/ Chairman	1. Insurance Premium Payable/Paid	322,240,272	64,544,301	
		2. Insurance Commission Received/Receivable	31,700,767	10,822,042	
	Mr E. T. L. Ranasinghe - Director	3. Investment in Debentures	250,000,000	250,000,000	
		4. Investment in Fixed Deposits	50,000,000	50,000,000	
CDB Micro Finance Limited	Mr. R. Renganathan - Director/ Chairman Mr P. A. Jayawardana - Director Mr E.T. L. Ranasinghe - Director Mr C. M. Nanayakkara - Director	Balance due to subsidiary		177,796	
		CDB ESOP Trust Fund	Mr. R. Renganathan - Director/ Chairman Mr P.A. Jayawardana - Director Mr E.T.L. Ranasinghe - Director	CDB ESOP Trust Fund (Pvt) Limited is established for the sole purpose of acting as trustees of the trust fund. The Trustee hold 31.50% stake of Citizens Development Business Finance PLC (CDB) on behalf and for the Exclusive benefit of the Employees of CDB Recovery of loan Outstanding loan Balance as at 31st March 2011	4,900,000
					120,100,000

39 (a) Parent and Ultimate Controlling Party

The Company does not have an identifiable parent of its own

39 (b) Transaction with Key Management Personnel

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 nonexecutive and Executive Directors) has been classified as Key Management Personnel.

Immediate family members the individuals domestic partner & children, children of the domestic partner and dependant of the individual or individual domestic partner.

Notes to the Financial Statements

39 (c) Compensation to Key Management Personnel (KMP)

This includes the compensation paid to the directors for the financial year of 1st April 2010 to 31st March 2011.

	Executive Directors (1 Director)	Non executive Directors (3 Director)	Non executive Independent (3 Director)	Total Directors (7 Director)
Short Term Employment Benefit	5,400,000	Nil	Nil	5,400,000
Post Employment Benefits (EPF, Effect)	648,000	Nil	Nil	648,000
Directors Allowance	1,210,000	888,889	1,800,000	3,898,889
Deposits held by KMP with the Company	Nil	3,312,023	Nil	3,312,023
Deposits held by immediate Family Members of KMP	Nil	1,308,775	Nil	1,308,775
Credit Facilities to immediate Family Members of KMP	Nil	Nil	Nil	Nil

40 Litigation against Company

LT 89565 a labour tribunal case filed by a former employee, against CDB for wrongful dismissal.

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.

41 Maturity Analysis

Statement of Maturity Analysis of Assets and Liabilities as at 31/03/2011

Assets/Liabilities	Maturity Period					(Rs.) Total Rs.
	Up to 1 Month Rs.	1 - 3 Months Rs.	3-12 Months Rs.	12-60 Months Rs.	Unclassified Rs.	
Assets						
Cash and Cash Equivalents	49,343,058					49,343,058
Investment in Government Securities		91,575,100	419,998,249			511,573,349
Deposits with Licence Commercial Banks & Financial Institutions	64,221,544	7,312,875	191,559,936			263,094,355
Securities Purchased under resale agreement	187,379,059					187,379,059
Loans & Advances	123,908,536	177,777,694	685,112,068	755,986,112	82,006,277	1,824,790,687
Net Investments in Leases	447,477,478	289,161,338	1,192,974,888	2,792,133,146	9,682,365	4,731,429,215
Net Investments in Hiring Contracts	107,810,166	72,602,998	305,197,645	810,079,964	3,884,297	1,299,575,070
Investment Securities			412,600,000			412,600,000
Tax Receivables			30,933,641	172,558,947		203,492,588
Trade and Other Receivables		161,906,311	161,314,011			323,220,322
Inventories	123,531,236	27,176,657				150,707,892
Investment in Subsidiaries					5,000,000	5,000,000
Investment Properties				20,197,977		20,197,977
Property, Plant and Equipment				237,821,921		237,821,921
Total assets	1,103,671,077	827,512,973	3,399,690,438	4,788,778,067	100,572,939	10,220,225,494
Liabilities						
Deposits From Customers	1,246,819,259	1,588,104,904	3,264,664,595	1,389,154,448		7,488,743,205
Borrowings	26,094,679	60,028,923	298,312,999	350,641,280		735,077,881
Debentures				267,069,000		267,069,000
Retirement Benefit obligations					20,676,229	20,676,229
Tax Payable			44,429,014			44,429,014
Other Liabilities	46,532,697	592,514,947				639,047,644
Shareholders' Funds						
Stated Capital					396,850,480	396,850,480
Reserve Fund					155,662,519	155,662,519
Revaluation Reserve					15,082,857	15,082,857
Retained Earnings					460,598,880	460,598,880
Total liabilities	1,319,446,635	2,240,648,774	3,607,406,608	2,006,864,728	1,045,858,751	10,220,225,494
Maturity Gap	(215,775,558)	(1,413,135,802)	(207,716,170)	2,781,913,339	(945,285,809)	(0)
Cumulative Gap	(215,775,558)	(1,628,911,360)	(1,836,627,530)	945,285,809	(0)	(0)

42 Segmental analysis

The primary segment reporting format is determined to be business segments as the Group's risks and return are affected predominantly by differences in the products and services provided.

	Lease & Stock out on Hire		Loans		Pawning		Others		Total Consolidated	
	Rs.	2009/2010	Rs.	2009/2010	Rs.	2009/2010	Rs.	2009/2010	Rs.	2009/2010
Interest	1,262,873,334	1,276,941,508	208,393,256	261,395,414	8,580,821	67,491	251,388,266	257,955,231	1,731,235,677	1,796,359,644
Fee Based Income & Others	-	-	-	-	-	-	-	-	183,310,802	104,080,267
Mark to market investment	1,262,873,334	1,276,941,508	208,393,256	261,395,414	8,580,821	67,491	251,388,266	257,955,231	311,690,925	-
Total Revenue	1,262,873,334	1,276,941,508	208,393,256	261,395,414	8,580,821	67,491	251,388,266	257,955,231	2,226,237,404	1,900,439,911
Segmental Results	1,262,873,334	1,276,941,508	208,393,256	261,395,414	8,580,821	67,491	251,388,266	257,955,231	2,226,237,404	1,900,439,911
Unallocated Expenses	-	-	-	-	-	-	-	-	(1,664,966,823)	(1,810,615,184)
Profit from Operations	-	-	-	-	-	-	-	-	561,270,581	89,824,727
Income Tax expenses	-	-	-	-	-	-	-	-	(29,460,581)	(9,548,548)
Net Profit for the Period	-	-	-	-	-	-	-	-	531,810,000	80,276,179
Segment Assets	6,031,004,285	3,824,228,593	1,824,790,687	1,210,855,151	171,903,600	3,372,147	388,632,467	294,804,885	8,416,331,039	5,333,260,776
Unallocated Assets	-	-	-	-	-	-	-	-	1,803,894,451	1,342,543,129
Total Assets	-	-	-	-	-	-	-	-	10,220,225,494	6,675,803,905

Capital Adequacy

Capital adequacy is a measure of companies financial strength and stability of a company and it shows the companies ability to meet un expected losses arising from various risks.

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 ration 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

As at 31 March	Balance 2011 Rs.'000	Balance 2010 Rs.'000	Risk Weight %	Risk Weighted Balances 2011 Rs.'000	2010 Rs.'000
Assets					
Cash and bank balances	49,343	7,165	0%	-	-
Investment in Government Securities	698,952	700,065	0%	-	-
Bank deposits	263,094	144,048	20%	52,619	28,810
loans against fixed deposits	489,985	399,810	0%	-	-
Loan against gold and jewelry	171,904	3,372	0%	-	-
Loan against Real Estate	-	43,864	50%	-	21,932
Loans and advances	1,162,902	763,809	100%	1,162,902	763,809
Finance lease receivable	4,731,111	2,949,261	100%	4,731,111	2,949,261
Hire purchase receivable	1,299,575	874,968	100%	1,299,575	874,968
Other investment	417,600	105,909	100%	417,600	105,909
Inventories	150,708	203,216	100%	150,708	203,216
Other assets	526,713	259,449	100%	526,713	259,449
Property, plant & equipment	258,020	220,868	100%	258,020	220,868
Total Risk - Weighted Assets	10,219,907	6,675,804		8,599,248	5,428,222

Total Capital Base Computation

	2011 Rs.'000	2010 Rs.'000
Capital Base		
Core Capital		
Stated Capital	396,850	396,850
Reserve Fund	152,650	46,288
Published Retained Earnings	460,599	54,993
Total Core Capital	1,010,099	498,131
Supplimentary Capital		
General Provisions	70,000	-
Total Supplimentary Capital	70,000	-
Capital Base	1,080,099	498,131

Capital Adequacy ratio
As at 31 March

	2011	2010
Core Capital ratio	11.75%	9.18%
Total Capital Ratio	12.56%	9.18%

Value Added Statement

	20010/11 Rs.	%	2009/10 Rs.	%
Value Added				
Net interest income earned by providing financial services	818,372,714		604,184,473	
Cost of Services	389,994,996		322,229,740	
	429,850,778		281,954,733	
Non-financial income	494,863,547		104,080,267	
Provision for bad debts	(80,594,749)		(91,282,709)	
Value Added	842,646,516		294,752,291	
Distribution of Value Added				
To employees				
Salaries,wages and other benefits	214,693,324	25	163,536,615	55
To Providers of Capital				
Dividends Paid/Proposed	79,370,096	9	19,842,523	7
To Government				
Value Added Tax	24,040,074	3	12,520,412	5
Income Tax	29,460,581	4	9,163,093	3
Debit Tax	7,682,670	1	6,434,229	2
To expansion and growth				
Retained As Reserves	452,439,904	54	59,734,089	20
Retained As Depreciation	34,959,867	4	23,521,334	8
	842,646,516	100	294,752,291	100

Shareholder Information

Twenty Largest Share Holders

Name	No of Shares as at 31/03/2011	%
1 Ceylinco Insurance PLC	14,138,958	35.63
2 CDB ESOP Trust Fund (Pvt) Ltd	12,500,000	31.50
3 Perpetual Capital (Private) Limited	1,682,400	4.24
4 TFC Homes (Private) Limited	1,250,000	3.15
5 The Finance Property Fund Ltd	1,250,000	3.15
6 Asia Management Consultancy (Private) Ltd	661,400	1.67
7 L.M.S.H. Alnaqib	250,000	0.63
8 Premium Brands (Pvt) Limited	217,000	0.55
9 Pan Asia Banking Corporation PLC/S.M.P.L. Jayaratne	125,000	0.31
10 W.M.N. Dabarera	111,800	0.28
11 W.S.N. Kurera	105,100	0.26
12 A.M. Subramanium & S Ragulan	105,000	0.26
13 Rev J.N. Fernando	100,000	0.25
14 Seylan Bank PLC/T. Senthilverl	100,000	0.25
15 M.P.N. Fernando & K.P.M.D.J.K. Perera	100,000	0.25
16 Dr. C. Gunasekara	100,000	0.25
17 Ceylinco Homes International (Lotus Tower) Ltd	100,000	0.25
18 A.M. Ananda & K.M.H.G.C Menike	100,000	0.25
19 M.s Prabagar	80,800	0.20
20 M.T.T. Al-nakib	80,000	0.20
Top 20 Total	33,157,458	83.55
Others	6,527,590	16.45
Total	39,685,048	100.00

Public Holding

As per the listing rules of the Colombo Stock Exchange, percentage of public holding as at 31.03.2011 is 36.74%

Share Prices

Prices for Year Ended 31st March 2011

	Rs
High	165.00
Low	44.50
last traded	81.20

Share Holder Composition

	No of Shareholders	No of Shares	Percentage
Individual	2,125	6,972,011	17.57%
Institutional	58	32,713,037	82.43%
Total	2,183	39,685,048	100.00%

Shareholder Analysis

	RESIDENT			NON RESIDENT			TOTAL		
	No of Shareholders	No of Shares	Percentage	No of Shareholders	No of Shares	Percentage	No of Shares	No of Shareholders	Percentage Share
1 to 1000 Shares	1,269	590,489	1.49	3	1,500	-	1,272	591,989	1.49
1001 to 10,000 Shares	790	3,267,447	8.23	5	27,900	0.07	795	3,295,347	8.30
10001 to 100,000 Shares	98	3,261,854	8.22	4	139,000	0.35	102	3,400,854	8.57
100001 to 1000,000 Shares	7	1,588,000	4.00	1	250,000	0.63	8	1,838,000	4.63
Over 1,000,000 Shares	6	30,558,858	77.00	-	-	-	6	30,558,858	77.00
	2,170	39,266,648	98.95	13	418,400	1.05	2,183	39,685,048	100.00

Debenture Issue

Issue No	Purpose	Type	Total value	Issue date	Tenure	Investor	Balance as at 31/03/2011
1	To raise medium-term funds to expand the Company's credit and leasing portfolios	Type - I	Rs 62.50 mn	30 Dec 10	30 months	Ceylinco Insurance PLC- Life	Rs 62.50Mn
		Type - II	Rs 62.50 mn	30 Dec 10	36 months	Ceylinco Insurance PLC- Life	Rs 62.50Mn
		Type - III	Rs 62.50 mn	30 Dec 10	42 months	Ceylinco Insurance PLC- Life	Rs 62.50Mn
		Type - IV	Rs 62.50 mn	30 Dec 10	48 months	Ceylinco Insurance PLC- Life	Rs 62.50Mn

Ten Year Statistical Summary

	2001	2002	2003
OPERATING RESULTS			
Total Income	25,177,887	41,464,304	122,903,720
Interest Income	24,527,673	38,769,809	116,655,458
Interest Expenses	42,166,533	57,937,796	104,485,863
Net Interest Income	(17,638,860)	(19,167,987)	12,169,595
Other Income	650,214	2,684,495	6,248,262
Net Income	(16,988,646)	(16,483,492)	18,417,857
Operating Expenses	19,895,718	27,244,499	44,813,986
Personal Cost	8,553,407	10,501,811	12,925,852
Other Administration & General Expenses	11,342,311	16,742,688	31,888,134
Provision for bad and Doubtful Debts - General	600,000	1,754,310	17,375,484
Provision for bad and Doubtful Debts - Specific	-	-	-
Provision for Diminution in Value of Investment	-	-	-
Profit / (Loss) Before Taxation	(37,484,364)	(45,482,301)	(43,771,613)
TAXATION			
Profit / Loss After Taxation	(37,484,364)	(45,482,301)	(43,771,613)
Revenue / To Personal Cost (%)	33.97%	25.33%	10.52%
Revenue / To Operation Expenses (%)	79.02%	65.71%	36.46%
LIABILITIES			
Customer Deposits	-	-	-
Borrowings	258,487,338	530,686,365	910,763,547
Other Payables	34,483,594	43,931,118	85,880,861
Total Liabilities	292,970,932	574,617,483	996,644,408
SHAREHOLDERS' FUNDS			
Stated Capital	79,538,750	79,538,750	80,258,630
Unallotted Share Advance	-	-	-
Revaluation Reserve	-	15,082,857	15,082,857
Reserves	(96,636,635)	(142,118,938)	(185,890,550)
Investment Fund Reserve	-	-	-
Reserve Funds	-	-	-
Shareholders Funds	(17,097,885)	(62,580,188)	(105,631,920)
Total Liabilities & Shareholders' Funds	275,873,047	512,037,295	891,012,488
ASSETS			
Cash and Short Term Funds	393,579	24,340,079	8,729,265
Investments	66,226,147	25,235,658	60,443,468
Lease Rentals and Reservables	9,377,464	229,834,461	623,311,164
HP Rentals and Reservables	-	-	-
Loan Assets	88,667,694	87,659,436	63,838,757
Property Plant and Equipment	5,738,770	9,118,187	12,616,058
Other Assets	105,469,393	144,967,661	122,073,776
Total Assets	275,873,047	512,037,295	891,012,488
RATIOS			
Growth in Incom (%)	8%	65%	196%
Growth in Interest Expenses (%)	22%	37%	80%
Growth in Other Expenses (%)	1%	37%	64%
Growth in Profit After Tax (%)	-	-	-
Growth in Total Assets (%)	6%	86%	74%
Interest Cover (times)	0.11	0.21	0.58
Earnings Per Share	-4.71	-5.72	-5.45
Return on Average Assets (%)	-14.00%	-11.55%	-6.24%
Dividend Per Share	-	-	-

* 15 Month period

** Proposed Dividend

2004	2005	2006	2007	2008	2009/10*	2010/11
217,652,771	363,776,408	638,279,950	1,054,206,933	1,638,454,558	1,898,899,386	2,226,022,713
201,720,370	337,853,081	598,470,528	989,218,343	1,496,219,576	1,794,819,119	1,731,159,166
137,273,470	206,205,522	387,165,977	670,401,052	1,092,348,424	1,190,634,646	912,786,452
64,446,900	131,647,559	211,304,551	318,817,291	403,871,152	604,184,473	818,372,714
15,932,401	25,923,328	39,809,422	64,988,590	142,234,982	104,080,267	494,863,547
80,379,301	157,570,887	251,113,973	383,805,881	546,106,134	708,264,739	1,313,236,260
59,029,714	110,389,472	177,131,697	294,248,502	406,509,629	515,721,918	647,649,411
18,775,501	31,863,071	56,734,625	84,797,365	121,024,590	163,536,615	214,693,324
40,254,213	78,614,505	120,397,072	209,451,137	285,485,039	352,185,303	432,956,087
10,448,280	7,700,000	-	-	-	-	69,681,446
-	-	17,602,253	27,740,197	55,923,046	91,282,710	10,594,749
-	-	12,332,275	12,332,276	-	-	-
10,901,307	39,481,414	44,047,748	49,484,906	71,237,175	88,739,701	561,270,581
-	-	-	157,484	5,947,671	9,163,093	29,460,581
10,901,307	39,481,414	44,047,748	49,327,422	65,289,504	79,576,608	531,810,000
8.63%	8.76%	8.89%	8.04%	7.39%	8.61%	9.64%
27.12%	30.35%	27.75%	27.91%	24.81%	19.62%	29.09%
-	-	-	-	-	4,837,875,995	7,488,743,205
1,400,539,942	2,382,991,283	3,627,849,488	4,918,339,725	5,684,698,562	828,926,204	1,002,146,881
127,413,674	192,987,250	368,175,209	474,560,224	676,793,306	495,786,661	704,152,887
1,527,953,616	2,575,978,533	3,996,024,697	5,392,899,949	6,361,491,868	6,162,588,860	9,195,042,973
124,932,920	135,682,920	162,907,480	162,907,480	396,850,480	396,850,480	396,850,480
-	80,946	-	-	-	-	-
15,082,857	-	-	-	15,082,857	15,082,857	15,082,857
(174,989,244)	(135,507,830)	(95,678,628)	(48,851,206)	15,205,100	54,993,404	457,586,665
-	-	-	-	-	-	3,012,215
-	-	-	2,500,000	6,500,000	46,288,304	152,650,804
(50,056,324)	256,036	82,311,709	131,639,131	433,638,437	513,215,045	1,025,182,521
1,477,897,292	2,576,234,569	4,078,336,406	5,392,899,949	6,795,130,305	6,675,803,905	10,220,225,494
18,755,942	30,911,397	27,157,566	61,985,045	10,617,132	7,165,259	49,343,058
55,389,940	46,819,287	224,676,024	493,383,949	518,592,354	844,112,362	511,573,349
1,035,077,727	1,534,071,433	2,121,209,635	2,602,280,712	3,555,556,342	2,949,261,028	4,731,429,215
-	234,684,103	581,412,209	793,943,289	791,322,113	874,967,565	1,299,575,070
215,249,042	501,931,479	867,375,402	1,181,446,815	1,287,421,740	1,210,855,151	1,824,790,687
24,173,669	52,896,686	104,432,757	129,852,708	198,647,455	200,669,868	237,821,921
56,379,826	174,920,184	152,072,813	130,007,432	432,973,169	588,772,672	1,565,692,194
1,477,897,292	2,576,234,569	4,078,336,406	5,392,899,949	6,795,130,305	6,675,803,905	10,220,225,494
	432,973,169					
77%	67%	75%	65%	55%	16%	17%
31%	50%	88%	73%	63%	9%	-23%
32%	87%	60%	66%	38%	27%	25%
75%	262%	12%	12%	32%	22%	568%
66%	74%	58%	32%	26%	-2%	53%
1.08	1.19	1.11	1.07	1.07	1.07	1.62%
0.87	3.09	3.00	3.03	2.51	1.60	13.4%
0.92%	1.95%	1.32%	1.04%	1.17%	1.32%	6.66%
-	-	-	-	-	0.50	2.00**

Quarterly Statistics

For the three months ended

	2010/11				2009/10			
	March 31st	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th
Balance Sheet Data								
(Rs Mn)								
Total Assets	10,220	8,917	7,823	7,125	6,676	6,136	5,778	5,525
Lease, Hirepurchase and Loans	7,855	6,862	6,073	5,434	5,035	4,534	4,426	4,873
Deposits & Borrowings	8,491	7,488	6,610	6,072	5,667	5,209	4,858	4,513
Shareholders' Funds	1,025	804	593	548	513	472	462	459
Average Assets	9,569	8,371	7,475	6,901	6,736	5,957	5,651	5,700
Income Statement Data								
(Rs.000)								
Revenue	734,116	609,437	465,984	416,485	405,639	372,604	363,741	365,053
Net Interest Income	235,169	217,859	203,493	161,852	156,803	109,799	101,977	118,364
Other Income	244,907	166,370	46,867	36,719	35,675	30,336	28,431	1,225
Net Income	480,076	384,229	250,360	198,571	192,478	140,135	130,408	119,589
Provision for Loan Losses	(73,594)	15,000	(10,000)	(12,000)	(25,283)	(18,000)	(18,000)	(18,000)
Non-Interest Expenses	(175,449)	(179,530)	(168,853)	(146,066)	(116,370)	(109,112)	(104,211)	(88,862)
Provision for Income Tax	(9,934)	(9,000)	(6,000)	(6,000)	2,837	(3,000)	(3,000)	(3,000)
Net Profit After Tax	221,099	210,699	65,507	34,505	53,662	10,023	5,197	9,727
Financial Measures								
Book Value Per Ordinary Shares (Rs.)	25.83	20.26	14.94	13.81	12.93	11.89	11.64	11.57
Profitability								
Return on average Shareholders' Equity (annualized) (%)	72.53	90.49	34.45	37.78	32.69	6.44	3.39	12.72
Productivity								
Non Interest Expenses to Total Revenue (%)	23.90	29.46	36.24	35.07	28.69	29.28	28.65	24.34
Asset Quality								
Non Performing Ratio (%)	3.64	4.48	5.44	6.70	7.52	8.64	8.78	8.58

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 ration

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 FIFTEENTH ANNUAL GENERAL MEETING OF CITIZENS DEVELOPMENT BUSINESS FINANCE PLC WILL BE HELD ON 30TH JUNE 2011 AT 10.00 A.M. AT THE LIBERTY BALLROOM OF HOTEL RAMADA COLOMBO, NO 30, SIR MOHAMED MACAN MARKAR MAWATHA, COLOMBO 03

AGENDA

1. To receive consider and adopt the Report of the Directors and the Audited Financial Statements for the year ended 31st March 2011 and to receive the report of the Auditors thereon.
2. To approve as an Ordinary Resolution
"That the Directors do hereby propose a First and Final Dividend of Rs 2/= per share for the year ended 31st March 2011, for the shareholders of the Company as at the ex-dividend date."
3. To re-elect Mr. R.Renganathan who retires by rotation at the Annual General Meeting in terms of Article 24 (6) of the Articles of Association of the Company.
4. To re-elect Dr. T.Senthilverl who retires by rotation at the Annual General Meeting in terms of Article 24 (6) of the Articles of Association of the Company.
5. To re-elect Mr. T.M.D.P.Tennakoon in terms Article 24(2) of Articles of Association of the Company.
6. To re-elect Mr. R.H.Abeygoonewardena in terms Article 24(2) of Articles of Association of the Company.
7. To re-elect Mr. S.R. Munasinghe in terms Article 24(2) of Articles of Association of the Company.
8. To re-elect Mr. W.W.K.M.Weerasuriya in terms Article 24(2) of Articles of Association of the Company.
9. To re-appoint the retiring Auditors M/s. KPMG ford Rhodes Thornton & Co. Chartered Accountants and authorize the Directors to determine their remuneration.
10. To authorize the Directors to determine Contributions to Charities and other donations for the year 2011

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

S S P CORPORATE SERVICES (PRIVATE) LIMITED

SECRETARIES

Date: 8th June 2011

Form of Proxy

I/We, of.....
 being a member/members of Citizens Development Business Finance
 PLC hereby appoint Mr/Mrs/Ms(NIC No.)
 of..... whom failing,

- | | |
|---|--------------|
| Mr. Rajkumar Renganathan of Colombo 5, | whom failing |
| Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara of Colombo 5 | whom failing |
| Mr. Palitha Abeysekera Jayawardena of Colombo 5 | whom failing |
| Mr. Elmo Thushara Lalindra Ranasinghe of Kohuwela | whom failing |
| Dr. Thirugnanasambandar Senthilverl of Colombo 5 | whom failing |
| Mr. Pattiyage Namal Chrishantha Gomes of Moratuwa | whom failing |
| Mr. Harindranath Priyantha Gerald Vas Gunawardena of Nugegoda | whom failing |
| Mr. Tennakoon Mudiyanseleage Damith Prasanna Tennakoon of Pannipitiya | whom failing |
| Mr. Roshan Hasantha Abeygoonewardena of Mattakkuliya | whom failing |
| Mr. Sasindra Virajith Munasinghe of Kandana | whom failing |
| Mr. Warnkula Weerasuriya Kingsly Malcom Weerasuriya of Negombo | whom failing |

as my /our proxy to represent me/us and vote on my/our behalf at the 15th Annual General Meeting of the Company to be held on the 30th Thursday of June 2011 at 10.00 am and at any adjournment thereof.

	FOR	AGAINST
1. To receive consider and adopt the Report of the Directors, and the Audited Financial Statements for the year ended 31st March 2011 and to receive the report of the Auditors thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. To adopt the Ordinary Resolution "That the Directors do hereby propose a First and Final Dividend of Rs 2/= per share for the year ended 31st March 2011, for the shareholders of the Company as at the ex-dividend date."	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. R.Renganathan who retires by rotation at the Annual General Meeting in terms of Article 24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Dr. T.Senthilverl who retires by rotation at the Annual General Meeting in terms of Article 24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. T.M.D.P.Tennakoon in terms of Article 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Mr. R.H.Abeygoonewardena who retires by rotation at the Annual General Meeting in terms of Article 24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Mr.S.R.Munasinghe in terms of Article 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-elect Mr. W.W.K.M.Weerasuriya in terms of Article 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
9. To re-appoint the retiring Auditors M/s. KPMG Ford Rhodes Thornton & Co. Chartered Accountants and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
10. To authorize the Directors to determine Contributions to Charities and other donations for the year 2011.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of Two Thousand and Eleven.

.....
 NIC Number/P.P.No /Co. Reg. No

.....
 (Signatures)

INSTRUCTIONS AS TO COMPLETION:

1. To be valid, this Form of 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 appointed for holding the meeting or adjourned meeting.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the company (or failing him, one of the Directors of the company) as your proxy, please insert the relevant details at (1) overleaf and initial against this entry.
4. Please indicate clearly how your proxy is to vote on the resolution. If no indication is given the proxy in his discretion may vote as he thinks fit.
5. In the case of a Company/Corporation, the proxy must be under its common seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the company along with the Form of Proxy.

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 Companies Act no 78 of 1988.

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. R. Renganathan
Chairman
FCA, FCMA, FCIC (SL)

Mr. C.M. Nanayakkara
Chief Executive Officer
Bsc(Mgt), ACMA(UK), MBA(Sri.J)

Mr. P.N.C. Gomes
Bsc(Acct), MBA(Sri.J), ACA, ACMA

Mr. H.P.G.V. Gunawardena
BSC(Hons), (M.Eng), MBCS, ACMA(UK)

Mr. P.A. Jayawardena
FCA, FCMA

Mr. E.T.L. Ranasinghe
Chartered Marketer(UK) Dip. M
MCIM(UK), MBA(Sri.J)

Dr T. Senthilverl

Mr. Roshan Abeygoonewardena
ACMA(UK), ACMA(SL), ACPM

Mr Sasindra Munasinghe

Mr. Damith Tennakoon

Mr. Malcolm Weerasoriya
B.Com(Sp Hons)

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

Auditor

KPMG Ford Rhodes, Thornton & Co,
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

