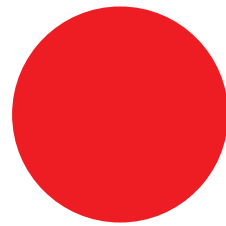


CDB

Citizens Development
Your Friend

Annual Report 2009/10



Life

**Challenges come.
We face them boldly.
Opportunities come.
We grab them eagerly.
People come.
We embrace them
enthusiastically.**

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Our Purpose

Enriching people's life through extension of financial services

Our Vision

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

Financial Highlights

	2009/10 (01.01.09-31.03.10) (15 month period) Rs. Mn	2008 (Y/E-31.12.08) Rs. Mn
Results		
Income	1,898	1,638
Net Profit Before Income Tax	89	71
Income Tax on Profits	10	6
Net Profit After Taxation	79	65
At the Year End		
Shareholders' Funds (Capital and Reserves)	513	434
Deposits & Borrowings from Customers	5,667	5,685
Advances to Customers Including Leasing & Hiring Contracts	5,035	5,637
Total Assets	6,675	6,800
Information per Ordinary Share		
Earnings (Rs.)	1.60	2.51
Net Asset value (Rs.)	12.93	10.93
Ratio		
Return on Average Shareholders' Funds (%)	16.80	23.04

Rs.1.9 Bn*
Turnover

Rs.6.7 Bn
Total Assets

Rs.79 Mn*
Profit After Tax

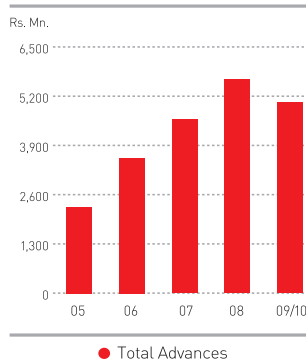
Rs.5.0 Bn
Loan, Lease, HP Portfolio

* For the 15 month period ending 31.03.10

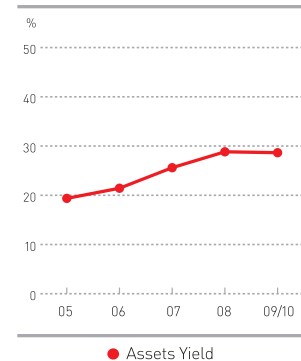
Total Deposits and Borrowings



Total Advances



Assets Yield



Chairman's Review

Our responsibility vision extends beyond just our company and its employees to encompass our clientele, the greater community and the national economy



“ Whilst CDB's Enterprise Governance framework fully complies with the corporate governance guidelines of the Central Bank, CDB's objective is to expand beyond regulatory compliance and aim towards adding critical value to the Company ”

It is with pleasure that I present the Annual Report and Audited Financial statements of CDB for the 15 months from January 2009 to March 2010. The company's outstanding performance in a period rife with challenges in our operating environment is indeed noteworthy. I hope the following pages will provide you with a clear summary of a period that saw unprecedented changes and the transformation of CDB to a more robust independent entity.

The economic environment

The period under review was one of continued turmoil in the global economy as the recession triggered off by the sub-prime mortgage crisis took firm hold across key economies. The US and European economies reeled from what has been described as the worst recession since the Great Depression. Consumer spending and unemployment fell to record levels amid rising debt as governments made policy interventions and the public and private sectors tightened their belts in a series of austerity measures to help mitigate the crisis. The shrinking economies across the world led to the global economy suffering a contraction, making 2009 the worst year since the Second World War.

Heading into 2010, the International Monetary Fund (IMF) has forecast growth of 4% as signs have emerged of a better than expected global economic recovery. Growth is expected to be led by Asia, which has been fairly resilient to recessionary conditions, with India and China leading the way.

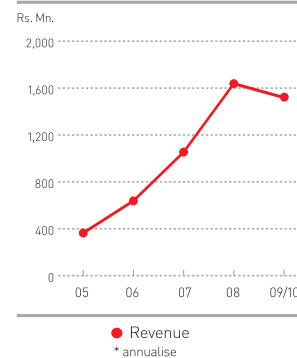
In developing Asia, Sri Lanka has been one of the best performing economies benefitting from an end to the North East conflict that dragged the economy down for three decades. The Central Bank of Sri Lanka announced that the country achieved a growth of 3.5% in 2009, and has forecast a 6.5% GDP growth for 2010. The end of the conflict has positively influenced investor sentiment, and its outstanding performance in the second half of the year positioned the Colombo Stock Exchange as the second best performing bourse in the world in 2009. Sri Lanka closed 2009 with encouraging fundamentals such as foreign exchange reserves of USD 5.1 billion and a 3.4% annual average inflation.

Company Performance

Operating in these difficult macro economic conditions, CDB faced

further challenges due to the Ceylinco crisis and its association with the Group. Having overcome this obstacle, CDB ended the year on a strong and positive note with post tax annualized profit standing at Rs. 63.66 Mn which is a 2.5% decline in comparison to the previous year's figure of Rs. 65.2 Mn. Though the net profit after tax reflects a marginal decline yet the performance could be commendable considering the context under which CDB operated during the period under review.

Revenue



The global and local financial recession did have a negative impact on the total asset base, which marginally declined to Rs. 6.68Bn to close the year which is a 1.67% decline from the previous year's figure of Rs. 6.79Bn. However, this is a win for the company as the recessionary toll on the total asset base stood at Rs. 5.5Bn in June 2009.

Revenue for the year was Rs. 1,519 Mn (annualized) which has declined marginally when compared to the previous year. Net interest income however recorded a healthy growth of 19.7% over the previous year's figure. Net interest income stood at Rs. 483Mn (annualized) in March 2010. These figures reflect the effective management of interest margins and timely pricing adjustments coupled with optimum asset portfolio composition.

CDB has also succeeded in managing NPLs at 7.57% which is well below the industry norm during the year.

Chairman’s Review

Governance

The company has made every effort to strengthen its Enterprise Governance by scrutinizing aspects of its corporate governance (Conformance, Accountability and Assurance) and business governance (Performance management, Value creation and Resource utilization). Whilst CDB’s Enterprise Governance framework fully complies with the corporate governance guidelines of the Central Bank, CDB’s objective is to expand beyond regulatory compliance and aim towards adding critical value to the Company.

"Engaged in a business that is itself aimed at sustainable development, CDB is committed to being a corporate citizen that operates in a spirit of justice, fairplay and equality"

The Board has been reconstituted to consist of 07 members, 03 of whom are independent directors while 03 are non executive directors. The CEO is the only executive director on the board.

During the period under review CDB established an Integrated Risk Management Committee (IRMC) chaired by an Independent Director, with the participation of the CEO and the key management personnel and staff covering all key areas of business. The IRMC is compliant with the requirements of the Central Bank’s direction on Integrated Risk Management sub committees and we are keen to strengthen the risk management process in the coming year.

CDB established a Remuneration Committee as per CSE requirements while the chairmanship of the Audit Committee was taken over by an

independent Director who is a member of the Institute of Chartered Accountants of Sri Lanka (ICASL). CDB also instituted the Asset Liability Committee (ALCO) and Compliance Committee within the governance framework. These are two Board sanctioned committees consisting of Key Management Personnel directly reporting to the CEO.

Regulatory Status

The regulatory status of CDB underwent a change during the period under review; it is now a company registered under the Finance Companies Act No. 78 of 1988, and falls within the purview of the Monetary Board of the Central Bank of Sri Lanka. Accordingly, the company’s accounting year has been changed to the twelve months from 1st April to 31st March. Prior to obtaining registration under the Finance Companies Act, CDB was regulated by the Central Bank of Sri Lanka as an institution registered under the Finance Leasing Act.

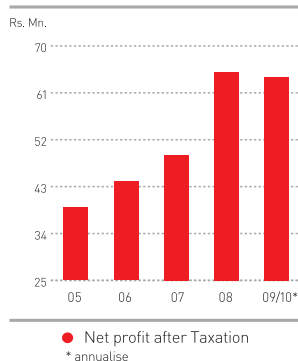
A good corporate citizen

Engaged in a business that is itself aimed at sustainable development, CDB is committed to being a corporate citizen that operates in a spirit of justice, fairplay and equality. We ensure wherever possible that the principles of sustainability are integrated into our strategic and operational decisions. Our responsibility vision extends beyond just our company and its employees to encompass our clientele, the greater community and the national economy. Further details of our sustainability efforts are described in the CSR section of this report.

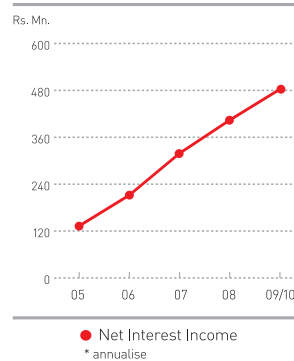
Share Holder Value

Based on the financial performance of CDB for the year ending 31/03/2010, the Board of Directors has recommended a proposed dividend of 50cents per share to be approved by the shareholders at the Annual General Meeting. Our balance sheet as at 31/03/2010 indicates a book value per share of Rs. 12.93. Based on balance sheet as at 31/03/2010 and the market sector price to book value ratio at present, the share price on book value basis would be Rs. 16.00. Based on the market sector price earnings (PE) ratio and our Earnings Per Share (EPS) based on the audited financial statements for the year ending 31/03/2010, the share price on earnings basis would be also Rs. 16.00.

Net profit after Taxation



Net Interest Income



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 share holders will be in a better position to enhance the value of their investment in CDB.

Appreciations

I extend my appreciation to the Central Bank of Sri Lanka, and in particular its Governor for the advice and assistance rendered.

My colleagues on the Board have been a constant source of strength, and have enriched the company with their knowledge and expertise.

I thank the CEO and Management team of CDB, whose unwavering commitment and foresight have helped the company overcome challenges and post strong results. I must make special mention of the staff, every one of whom stayed faithful to the company during the tough times.

I take this opportunity to thank all our stakeholders - clients, suppliers and investors - for the trust and confidence placed in CDB.



R. Renganathan

Chairman

04th June 2010

Colombo

Chief Executive Officer's Review

The company's admirable response to an unforeseen crisis has given us the impetus to step up our game plan and establish a unique position at the top of our industry



The past fifteen months have seen CDB experience extraordinary challenges and changes as we faced the brunt of the Ceylinco debacle. I hope to present to you an outline of how CDB faced the ensuing crisis of confidence and emerged as a stronger unit with its own independent identity.

The period under review in this report will be the fifteen months from January 2009 to March 2010 as our regulatory status has changed - CDB is now registered under the Finance Companies Act No. 78 of 1988 with the Monetary Board of the Central Bank of Sri Lanka (CBSL). Therefore the CDB financial year will in future be the twelve months ending 31st March.

In the following pages, I will outline the company's efforts from January to May 2009 to manage the effects of the crisis in the Ceylinco Group and I shall focus on company performance during the 10 months from June 2009 to March 2010.

CDB began its operations in 1995 as a small institution; in 2001 the asset base was Rs. 275Mn - however, with negative net assets and negative net interest income, the company was in grave financial shape. CDB then executed a well crafted strategy which, by the year 2008, ushered in an asset base of Rs. 6.8Bn., annual revenue in excess of Rs. 1.6Bn, annual profit of Rs. 65Mn., and net assets in excess of Rs. 400Mn.

Late in 2008, the Ceylinco Group became mired in crisis when financial irregularities at the Golden Key company surfaced; the run on Golden Key rapidly extended to other Ceylinco companies over the next few months, becoming the biggest financial crisis witnessed by the corporate sector in Sri Lanka. The impact on CDB arose from "Ceylinco" being part of its name; CDB did not have any impact or links with failed Ceylinco companies nor was CDB a subsidiary of any company or group of companies.

Rs.Mn	Jan-May 2009	Jan-May 2009	2008 monthly average
Net Deposits	(1,213Mn)	(242 Mn)	89Mn
Renewal %	30% - 50%	-	71%
Lending	61Mn	12Mn	222Mn
Total assets (as at period end)	5,567Mn	-	6,800Mn

By late December 2008, we began experiencing panic withdrawals while eroding confidence meant attracting new clients was extremely difficult. Business was curtailed and growth operations halted as CDB focussed on its mere survival. The CDB team was determined to fight back and we drew up a strategy to carve out an independent identity for the company, thereby overcoming the psychological barrier that had been built around the 'Ceylinco' name.

The series of changes instituted in the immediate aftermath included the change of name, reconstitution of the Board of Directors by resigning of 07 previous members, appointment of independent directors and changing the company's regulatory status to a registered Finance company. Our head office was relocated from the Ceylinco House, to Technical Junction, Colombo 10.

The thrust of our campaign to become a transformed entity was an integrated communication strategy that positioned CDB as an independent financial institution. The elements of this campaign included a rebranding of the organization with a new logo.

In parallel to this campaign, we engaged with key stakeholders such as customers and staff to strengthen the relationships. We met our clientele through 'client pocket meetings', which provided us with a forum to educate clients on the changes being introduced and the financial standing of the company. We interacted with staff across all levels by way of staff meetings and emails, which provided accurate updates of the status quo. The strategy crafted by the management took into consideration the input of employees and customers. We also held extensive consultations on the proposed strategy with Central Bank officials as the regulator.

The new CDB head Office in Colombo was formally declared open by the Governor, Central Bank on 18th June 2010, in the midst of customers, business partners, and well wishers. Rs 130 million worth of deposits were mobilized on that single day with over 500 customers embracing the changes we implemented.

The company's treacherous journey to emerge from the Ceylinco debacle has left behind a positive legacy; the performance of the staff in particular has been exceptional. I am also proud to note that despite these challenging market conditions and the resulting pressure on the bottomline, CDB did not retrench any of its staff or reduce employee benefits. It was heartening to note that our employees collectively rallied around the organization at this time of crisis with senior management and staff voluntarily cutting back on their vehicles and fuel allowances.

The company's admirable response to an unforeseen crisis has given us the impetus to step up our game plan and establish a unique position at the top of our industry. In June 2009, a new six year strategic plan was rolled out with the first stage due for completion by 2012. The plan encompasses specific financial and non financial goals upto 2012 and our aspirations of where we intend to position CDB by 2015. We set to work with this new vision from June 2009 and I am happy to report that we have performed above our targeted levels during the past ten months, as elaborated in the following pages.

In the ten month period from June 2009 to 31 March 2010, the deposit mobilization business performed exceptionally well recording a gross inflow of Rs 3,668Mn and a net figure of Rs 1,376Mn coupled with a healthy renewal ratio of 71.52%. Our lending business also had an outstanding performance recording a figure of Rs.1884Mn at a monthly average of Rs.314Mn. We also recorded a healthy liquidity ratio of 15%, which was well above the stipulated minimum regulatory requirement of 10%.

An aggressive and focussed approach to collections enabled a collection ratio of 83.59% representing the collection of rentals/installments during the period under review over arrears as at 31/12/2008 plus rentals/installments fallen due during the period under review.

Better cost management resulted in the year on year increase in overheads being managed at a mere 4%; our cost to income ratio

CEO's Review

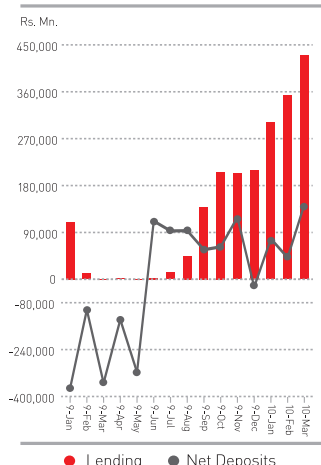
declined marginally during the year ended 31 March 2010 to close at 75.37% compared with 76.72% recorded in the year to December 2008. Better margins were also recorded as evidenced by the interest expenses to interest income ratio improving to 65.59% from 73.01% and net interest margin (NIM) improving to 7.17% from 6.62%. The company's NPL ratio stood at 7.57% - well below industry average.

The positive performance in key business indicators, while being driven mainly by the tenets of our strategic plan, was also supported by the drastically improved economic climate during the post-conflict period.

Rs.Mn	June-March 2009/10	June-March 2009/10	2008 monthly average
Net Deposits	1,376Mn	137Mn	89Mn
Renewal %	-	71.52%	71%
Lending (Oct-March)	1,884Mn	314Mn	222Mn
Total assets (as at period end)	6,692Mn		6,800Mn

During the year, we also expanded our presence to the Northern peninsular, covering this vital market with service centres in Jaffna and Vavuniya. Our distribution channel now comprises 32 branches/service centres and we will continue to strategically expand our presence during the coming year.

Lending and Net Deposits



Our Business Model

In the recent past, CDB focussed on small facilities with high returns to counter the high interest rate regime, thereby managing margins and ensuring consistent bottom-line results. This strategy fit in well with our stated business model of rural lending and urban funding, with the intention of being a net lender to the rural economy. Our concentration on this approach has given us key business insights to the bottom of the pyramid market segment.

A fundamental aspect of this market was its recession-proof nature; when finance companies the world over were reeling from a credit

crunch, we recorded healthy collections which were a major contributor towards our cash flows. This composition also helped us by way of providing a cushioning against any possible business/economic cycle risks and also providing a hedge against interest rate risks. Our innate understanding of the rural economy has helped us to identify it as a key business area with the capacity to double our business volumes. This unique business model positions CDB as a financial institution built on an inclusive business approach, extending access to credit to bottom of the pyramid markets and rural communities. This in turn contributes towards awareness creation within these communities on reciprocal benefits of building a positive business relationship with a formal financial institution.

Our Business Premise of "Strategy Bets on People to Succeed"

CDB has traditionally had strong faith in its people and has followed an approach of making people an integral part of business. We believe this has been the pivotal factor in all our successes and in every hurdle we have overcome. Our recent experiences have solidified our belief and commitment to our employees. Not a single CDB employee left the organization amid the crisis and each and every individual contributed over and beyond the expectations. CDB reciprocated that passion by granting salary increments of 10% to 15% and distributing a share of profit equivalent to 3 months' salary during the period under review.

This reciprocal relationship between CDB and its employees is strengthened by several measures including an annual award ceremony to recognize top performers in sales and operations. Fourteen staff members were awarded a fully sponsored trip to an overseas destination this year.

During the year, we unveiled a major HR initiative to implement a new HR framework branded "CDB HR CAP"(Competencies, Aspirations, Performance). Key aspects of the framework include an improved performance review framework, a staff aspiration career plan feedback scheme, a fully fledged training auditorium and integrating with key external professional institutions to provide exclusive programmes that meet specific training and development requirements.

CDB Small Miracle

We capitalized on the strength and vitality derived from successfully facing corporate devastation and the enormous economic opportunities presented to us by the dual contexts of a post-war local economy and post-recession global economy to formulate a strategic plan named 'CDB Small Miracle'. The strategy covering 3 to 6 years encompasses key elements to ensure that CDB is strongly positioned to exploit the potential of this extremely conducive business climate. The key target for the first three years ending 2012 is to propel CDB to within the top three institutions among 36 players registered under the Finance Companies Act in terms of asset base. Our present ranking is at number seven.

CDB small Miracle plan also positions CDB as a total financial services provider in future; diversifying into new product areas of pawning, savings accounts, foreign currency encashment (Authorized money dealership), inward remittances, and Islamic Financing. It also envisages aggressive penetration into the Northern and Eastern regions and the further expansion of our multi channel distribution network.

CSR

Our flagship CSR projects include "CDB Sisudhiri", the only scholarship award scheme dedicated to children whose parents are involved in the three wheeler business and "CDB IT Lab", a programme where CDB donates a fully fledged computer lab to a less privileged school. This year we extended our CDB Sisudhiri scholarship scheme to include ordinary level students in addition to grade five scholars. Under the CDB IT Lab programme, we provided a fully fledged IT Lab to a school in the district of Hambantota.

We also encouraged employee voluntarism by extending our CSR efforts to include four charity programs conducted monthly by three branches and one division at the head office. Staff engage in spending time and distributing much needed material to a children's or a elders' home, giving them much needed company and care.

Awards & Recognition

Our Finance team worked tirelessly to compile a quality annual report for the year ending 31/12/2008, which was recognized by the Institute of Chartered Accountants of Sri Lanka at the Annual Report Awards 2009 with a Certificate of Compliance under financial institutions sector. This is a remarkable achievement given the context we operated in at the time.

Our Senior Manager-Sales & Channel Development Mr. Maduranga Heenkenda brought honour to CDB by being recognized with two awards - Territory Manager of the year and Gold Award (Financial Services) - at the National Sales Congress (NASCO) organized by Sri Lanka Institute of Marketing (SLIM).

How we see the future

The country today stands in the throes of unprecedented economic opportunity; the Northern and Eastern economies rich in agriculture and fisheries industries are strongly integrating with the main stream economy while tourism is rebounding at an accelerated speed. These local developments are coupled with the rapid recovery in the global economy.

In this context the Government is targeting to double the present per capita income level of US\$2000 to US\$4000 over the five years to 2014. The Central Bank of Sri Lanka has clearly articulated the catalyst role it

intends to play in directing and guiding the Banking and Financial services industry to take a leading role in this forward march.

The articulated vision requires the Specialized Leasing and Finance Company sectors to increase their lending business capacity and volume to Rs. 550Bn by 2014 from the present level of Rs.202Bn. CDB is strongly positioned and firmly committed to contribute meaningfully towards the achievement of these targets.


Acknowledgements

I am indeed grateful to our Chairman and Board of Directors who have given me and my team invaluable advice and leadership throughout this difficult period.

The regulatory institutions governing our sector have extended much support to CDB and I would be failing in my duty if I did not thank the Hon. Governor of the Central Bank of Sri Lanka for his guidance, and the Director and Staff of the Non Bank Supervision Department who gave us constant support and direction. I must also acknowledge our Auditors KPMG Ford Rhodes Thornton and Company for finalizing the audit on time.

Our loyal and valued customers and business partners have kept the faith in CDB despite the crisis situations faced; their trust and confidence has been a constant source of strength and encouragement.

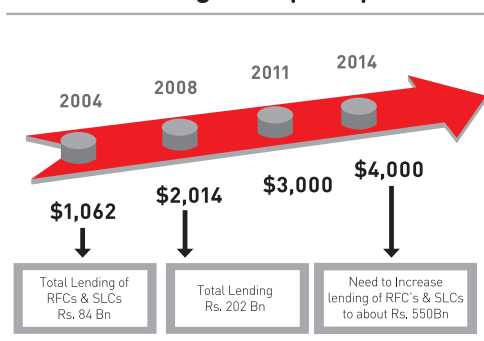
The true drivers of CDB's transformation over the past fifteen months have been the members of the CDB team, whose commitment, determination and can-do spirit has made CDB what it is today. I am indeed proud to be a part of this amazing group of people and while thanking each and every one for their contribution, I look forward to the same support in the coming year.



C.M. Nanayakkara
Chief Executive Officer

04th June 2010
Colombo

The Target GDP per Capita



Mr. R. Renganathan
Chairman,
Non Executive Director

Mr. Renganathan a Fellow member of Chartered Accountant and a fellow member of the Institute of Certified Management Accountants of Sri Lanka, is the joint Deputy Chairman of Ceylinco Insurance PLC and Chief Executive Director of Ceylinco Insurance PLC. (Life Division), the market leader in the insurance industry of the country. He has been responsible for the setting up of Life Insurance business from its infancy in 1988 and the company has now emerged as the leading insurer in this country.

Mr. C.M. Nanayakkara
General Manager / Chief Executive Officer,
Executive Director

Mr. Nanayakkara [41] 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 Jayawardenepura and a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and the Society of Certified Management Accounts 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. P.A. Jayawardena
Non Executive Director

Mr. Jayawardena a Fellow member of Chartered Accountant and a fellow member of the Institute of Certified Management Accountants of Sri Lanka, is presently functioning as the Director Finance, of the Life Division of Ceylinco Insurance Co. PLC, he joined Ceylinco Insurance Co Ltd. in 1990 as Chief Accountant Branches. He is also on the boards of Ceylinco Healthcare Services.

Mr. E.T.L. Ranasinghe
Non Executive Director

Mr. Ranasinghe has over 22 years experience in the mercantile sector in sales, marketing, strategic planning and brand management. He is the Deputy Chief Executive Director of Ceylinco Insurance PLC. (Life Division). He holds a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenepura, is a Chartered Marketer and Fellow of the Chartered Institute of Marketing, UK.

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.

Board of Directors



From Left to Right : C.M. Nanayakkara, H.P.G.V. Gunawardena, T. Senthilvel, R. Renganathan, E.T.L. Ranasinghe, P.A. Jayawardena, P.N.C. Gomes

Corporate Management



From Left to Right : Sasindra Munasinghe, Damith Tennakoon, Mahesh Nanayakkara, Malcolm Weerasoriya, Roshan Abeygoonewardena

Management Team



From Left to Right : Naguib Imdaad, Sudath Fernando, Ranjith Gunasinghe, Nyanthi Kodagoda, Sanjeewa Ranathunga, Sarath Kumara, Maduranga Heenkenda, Hasitha Dassanayake, Prasad Ranasinghe, Isanka M Kotigala, Ravindra Abeysekara, Elangovan Karthik, Nimal Silva

Not in Picture : Ruwan Chandrajith

Management profile

Mr. Mahesh Nanayakkara

(Director/General Manager/Chief Executive Officer)

Mr. Nanayakkara (41) 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

(Assistant General Manager - Operations & Human Resources)

Mr. Abeygoonewardena, 40 years of age, an Associate Member of the Chartered Institute of Management Accountants (UK) and Institute of certified Management Accountants of Sri Lanka. He also a member of Institute of Certified Professional Managers. He joined CDB in June 2005. He has 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

(Assistant General Manager - Credit)

Mr. Munasinghe, 40 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 of leasing operations at CDB and was responsible for the implementation of the integrated software solution of the company.

Mr. Damith Tennakoon

(Assistant General Manager - Finance)

Mr. Tennakoon, 43 years of age, joined CDB in September 2003. He 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

(Assistant General Manager - Business Development)

Mr. Weerasoriya, 46 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. Sudath Fernando

(Senior Manager - Credit/Leasing)

Mr. Fernando, 42 years of age, has 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 has been attached to leading Merchant Bank, Ceylinco Savings Bank and a Asset Line Leasing Company Ltd.

Mr. Maduranga Heenkenda

(Senior Manager - Channel Development & Sales Strategy)

Mr. Heenkenda, 31 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

(Senior Manager - Information Technology)

Mr. Imdaad is 33 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

(Senior Marketing Manager)

Mr. Karthik, 29 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 Jayawardenapura and holds a MBA from at the Postgraduate Institute of Management, also holds a National diploma in Human resource management (PIM). He gained experience in marketing during his time at M/s STG International (Partnered with Bam Information Technology Ltd). He has been involved in the IT industry for many years. He has over seven years of experience in the field of marketing with an extensive progress in branding. He joined CDB in July 2004.

Mrs. Nayanthi Kodagoda

(Senior Manager - Auto Financing & Credit Operations)

Mrs. Kodagoda, 34 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.

Mr. Isanka M Kotigala
(Senior Manager - Business Development)

Mr. Kotigala is 34 years of age, he has almost 10 years experience in Sales & Marketing in Lubricant & Alcoholic Beverage industries. Along with work experience & training in leading multinational organizations he has exposed him self as a Sales & Marketing Manager in overseas assignments. He joined CDB in January 2007.

Mr. Ravindra Abeysekara
(Manager Recoveries - Range 01)

Mr. Abeysekara, 38 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. 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
(Manager Finance)

Mr. Dassanayake, 28 years of age, holds a Bachelor of Commerce Degree from University of Colombo and an Associate Member of the Chartered Institute of Management Accountants (UK). He has joined CDB as a Management Trainee in April 2006, and underwent an extensive training and subsequently assigned to Finance Division as the Assistant Manager Finance. He was promoted as the Manager Finance in Year 2009.

Mr. Ranjith Gunasinghe
(Manager - Investment/Deposit Operation)

Mr. Gunasinghe, 38 years of age, has 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. He is and an Associate of the Sri Lanka Institute of Certified Professional Managers. He was involved in setting up of Deposit Operation Division at CDB. He counts over 12 years of industry experience.

Mr. Sarath Kumara
(Manager - Banking)

Mr. Kumara, 37 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 Society of Certified Management Accountants of Sri Lanka (CMA). He joined CDB in March 2000 & has completed 10 Years of service.

Mr. Sanjeewa Ranathunga
(Manager Recoveries - Range 02)

Mr. Ranathunga, 36 years of age, joined CDB in 1998, he has been with CDB over a period of 11 years whereby excelling in Post disbursement follow up division. He is an Associate member of Srilanka 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. Prasad Ranasinghe
(Manager - Kelaniya Branch)

Mr. Ranasinghe, 32 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. Nimal Silva
(Manager - Compliance)

Mr. Silva, 31 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. Ruwan Chandrajith
(Manager- Internal Audit)

Mr. Chandrajith, 27 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. Sunil Kandambi
(Consultant - Post Disbursement Follow Up)

Mr. Kandambi 64 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.

Mr. Mahanama Karunaratne
(Consultant - Security)

Mr. Karunaratne 62 years of age, has 35 years of experience in Police Department. At the time of retirement he held the rank of Assistant Superintendent of Police. He has been specialized in field of traffic police and has followed inspector General traffic course in Sri Lanka Police College and traffic planning and management training in Singapore. He joined CDB in September 2008.

Deputy Managers



Dassana Chandrananda



Herath Dharmadasa



Aruni Panagoda



Nadee Silva



Ashad Weerabangsa

Assistant Managers



Dilruk Abeydiwakara



P. Atchuthampillai



Pandula Bandara



Eranga Gunaratne



K.D. Gunathilaka



Sampath Jayasinghe



Keerthi Karunathileka



Bandula Kumara



Kumudu Liyanage



Shabni Mohideen



S. Nadarajah



Anthony Neththasinghe



H.P.S. Panditharathne



Lushan Perera



Lalith Peiris



Rangana Pragnarathna



J.L. Priyantha



R. Subashkumar



H.K. Suddasinghalege



Tharanga Suraweera



Chandana Thilaksiri



M.A.Y. Udayanga



Neil Vethanayagam



Priyangani Wickramage





Management Discussion

Management Discussion

Strategy Bets on People to Succeed

One of the key fundamentals CDB has always firmly believed in and on which we have built our business model, is blending and integrating business strategy with our people. Stemming from this business premise, during the last fifteen months we have lived as never before by the mantra that 'Strategy Bets on People to Succeed'. In this context the Management Discussion will take you through the strategy which includes our business model, products, distribution, Marketing Communication, Information Technology on the one hand and our people factor which includes our HR strategy on the other.

Strategy

Business Model

CDB - a financial institution operating within the regulatory domain of the finance companies act under the monetary board of Central Bank of Sri Lanka (CBSL) and subject to regulatory purview of CBSL - broadly engages in the two key business areas of extension of financial accommodation and mobilizing of public funds. Within this business domain, CDB's balance sheet dominantly represents funding and lending portfolios as its key business drivers. CDB embarks on distinctively different business approaches and strategies to compete in these markets with differentiated products focusing multiple market segments. The market segments cut through the entire social fabric across the pyramid covering all segments of bottom, mid and top markets.

A notable dimension of this business approach is its inherent nature of inclusivity and the focus of urban funding rural lending equation, with the aspiration of being a net lender to the rural economy whilst achieving sustainable business growth. Our business model also facilitates the bottom up approach of economic development. The concept of our business model is aligned with Level 04 of the pyramid of socially responsible business.

Articulating the future road map and performance management

CDB uses a structured and well defined approach to ensure clarity in formulating future strategy. The two key tools used in its planning process are the strategic plan which covers a time horizon of minimum of three years which focuses on articulating of the future road map, and the annual budget, which sets the key specific financial and non financial targets for the current year with monthly break down which will in turn form the key basis and norm for performance management for the current year linking with the articulated strategy.

CDB Small Miracle

CDB has formulated a three year strategic plan upto 2012 under the theme of "CDB Small Miracle". The plan takes in to account enormous opportunities available to our country in the era of post war Sri Lanka, the recovery in the global economy coupled with the impetus created within our team by successfully emerging as a winning outfit in the most challenging year in the history of CDB.

The key targets of CDB Small Miracle encompasses pushing up the industry ranking of CDB in terms of total asset base from the present ranking of seventh place among the thirty six players registered under Finance Companies Act., positioning of CDB as a Total Financial Services Provider, diversification of the product portfolio, upgrading our branch outlook, aggressive penetration to the north and east, and further expansion of our multi channel distribution network.

We are adapting a BCG matrix-aligned approach in our new business development to bring a clear perspective and clarity to responsibilities assigned to identified team members.

Annual Budget

The Annual budget is the operational forecast of our strategic plan, shortened to 12 months periods and enabling a more focused approach towards achieving the KPIs. The Annual Budget is also viewed as a yearly milestone of achievement within the overall strategic plan.

We use a comprehensive financial model developed in-house for budgeting. The model simulates key assumptions with outcomes and arrives at a more realistic outcome of financial results. This includes projected profit and loss account, balance sheet, cash flows, major assumptions and most importantly a sensitivity analysis that indicates bottom line impact on the variation of key assumptions, which are considered key result areas of our business.

The targets are set on the basis of opportunities available in the market based on an environmental analysis. Accountability and rewards are shared around the whole organization as it is assumed that each member of the team is an equal stakeholder in performance.

Business Strategy

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



The top level segment represents large facilities with low returns where the default risk is minimal; the Middle Levels represents a moderate level of returns and risk on moderate facilities while the bottom of the pyramid, micro finance represents small facilities with higher return involving considerable risk. CDB has defined targets on each of these

segments which are adjusted according to market capacity; the continuous emphasis on evaluating the appetite and capacity of each segment has ensured that CDB's strategy is one of sharp focus.

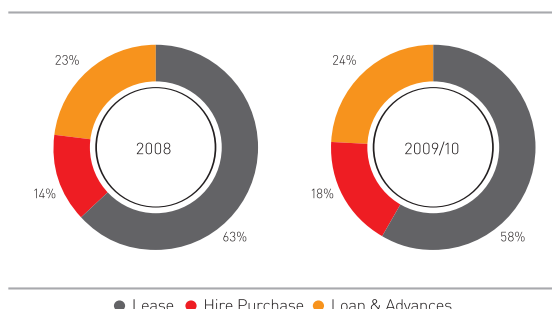
CDB Business strategy on the funding side is highly influenced by the regulatory environment. Within this context as a regulated public deposit taking institution CDB thrives to work towards an optimum funding mix which ensures required volume of funds to support the business strategy whilst focusing on pricing, maturities, as well as differentiated product categories.

Lending Products

Credit, leasing and hire purchase are the key lending products used by CDB and hire purchase remained the main contributor to the growth in the lending portfolio in 2009/10. The industry experienced negative growth in the first half of the year with high interest rates and inflationary pressure coupled with sluggish economic environment which resulted in low demand for credit. However the second half of the year generated positive momentum as investor confidence picked up with the end of thirty years of conflict.

In the period from January to May 2009, CDB recorded lendings of Rs.61 Mn where as lending from June 2009 to March 2010 stood at Rs. 1,884 Mn. The impact of Ceylinco debacle and the negative outlook of financial services industry were the main cause of the dip in the first half, however as evidenced in the second half results, CDB successfully weathered the storm with its portfolio quality and aggressive approach. The lending portfolio stood at Rs. 5.02Bn for year 2009/10 compared to Rs. 5.6Bn in the previous year, a decline of 10.88%. The Hire Purchase portfolio rose 12% while the Leasing and Loan portfolios indicated negative growths of 16% and 9% respectively.

Composition of Loan Book



CDB's lending portfolio is characterized by its quality, as the company is extra conscious about the need for responsible lending. Gross non performing loans ratio stood at 7.57% which is below the industry average while net NPL stood at 4.28%.

Micro Finance

As indicated in our business strategy micro finance sector represent a dominant portion of lending portfolio with a percentage of 47% and 80% of the client base. The average facility size of this segment of the lending

portfolio is between Rs.100,000 to 300,000. During the period under review CDB granted 4,534 number of facilities to the value of Rs. 948 Mn.

CDB has enhanced financial services to the bottom of the pyramid by introducing additional credit to existing clients with good payment history - a unique facility that has been received well and has shown great market potential. CDB's relationship with the rural community has been the key to our success in this segment, where we have structured our distribution strategy to cater to this community in their requirements of financial services. CDB has always been confident of the capability of the rural community, and in providing them with the assistance necessary to achieve self reliance.



Central Bank Deputy Governor Mr. Dheerasinghe handing over the documents of the first lease facility to a customer at the opening of Jaffna service centre. Dr. (Mrs.) Rani Jayamaha, advisor to H.E. the President on Banking & Mr. Sepala Ratnayake Director of Non Bank Supervision of Central Bank also in the Picture.

The newly opened markets of the North and East hold huge potential for a player such as CDB. During the year, our efforts to enhance our services to the North and East gathered momentum with the opening of two service centres in Jaffna and Vavuniya. We are committed to expanding our presence in the region and deploying our services to meet the financial and development needs of the rural communities in these areas.

Funding Products

As discussed in detail in the CEO's review, the year 2009 showed the resilience of CDB within a market place rife with collapses of non regulated financial institutions. It is indeed a significant achievement that despite the turmoil during the year, the CDB deposit portfolio remained at Rs. 5.6Bn at the year end, on par with the previous year.



Acceptance of the first deposit after inaugurating the new corporate office

Management Discussion

During the year CDB embarked on introducing value added products for different market segments with branded identities.

CDB launched a new deposit product for Ladies branded as 'ඇ' (she) which is dedicated towards catering to aspirations of the identified market segment. CDB also plans to launch two new products designed for Senior Citizens and Minors within the first quarter of year 2010/11.

CDB is in process of finalizing the procurement of software to commence savings accounts which we intend to launch during the period of 2010/11. With the launch of savings accounts we intend to target an untapped market for CDB so far in smaller values at lower costs which in turn will be targeted to positively impact cost of funds and maturity risk exposure of our funding portfolio.

Embarking to New Businesses

The new products which have been identified within CDB Small Miracle with multiple objectives of positioning CDB as a total Financial Services provider with a differentiated identity within the industry. We intend to convert these products to "Stars" in our BCG approach of new business development and contributing to our top and bottom line in a tangible manner within set time frames.

Pawning

CDB entered the pawning business in year 2009. Pawning was strategically selected as a new lending tool to enhance the services to the retail market. Ran Nidahasa has shown good potential in the market, with its business being initiated at 10 branches by the year end. Whilst marketing the product aggressively, CDB has focused on adopting best available tools to counter specific risks associated with this business including specialized training of staff. CDB has recognized pawning not only as a new lending product but as a synergetic business area that helps us to balance the maturity tenure of the asset portfolio. Within just a few months of inception CDB has been able to generate a pawning portfolio of Rs. 3.3 Mn by the year end. CDB intends to make available the pawning service in all other branches and service centres within a short period of time. CDB also intends to introduce gold loan product as an extension to CDB Ran Nidahasa taking advantage of the infrastructure in place.



Launching Pawning business at Negombo branch. Mr. Sasindra Munasinghe AGM Credit transacting with a client

Foreign Currency Encashing (Authorized Money Dealer)

CDB initiated foreign currency exchange services in the second half of 2009. During the first phase, Foreign Exchange business has been launched at two branches, while the service will be extended to other selected branches in 2010/11.

Money Remittance Service

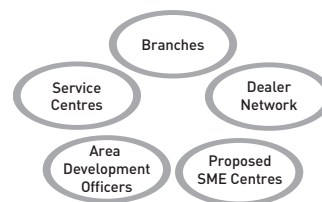
We have initiated and finalized the ground work towards launching the money remittance services with "MoneyGram" in the near future. We have already finalized modalities with a leading commercial bank and are awaiting approval from the Central Bank.

Islamic Financing

We have recognized the Islamic financing as a critical avenue for our overall business development with the opening of the eastern region of our country and the Islamic faith's responsiveness towards Islamic finance. CDB is in the process of launching "CDB AMANAH" with a variety of funding and lending products which would be promoted through our existing distribution network(selected strategic locations) having a separate dedicated unit. The operations of "CDB AMANAH" will be supervised by "Shariah Council" and will be governed by principles of shariah law while adhering to regulatory compliance requirements.

Distribution

CDB's distribution network has been a vital cog in its achievement for the year. The multi channel distribution has been developed in line with the business approach cited in our business model. We have 16 branches located in the Western Province and 16 branches located outside Western Province, while our other channel consists of dedicated officers serving the communities in which credit access is limited and not within the radius of our branch network.



Strengthening and Expanding our Reach

To aggressively exploit the opportunities presented in North and east we have established two new service centres in Jaffna and Vavuniya whilst awaiting approval for Batticaloa and Trincommalee. Our future plan also includes setting up service centres in the Northern and Eastern regions.

As elaborated under the CEO's review the Government is targeting to double the present per capita income of \$2,000 to \$4,000 by 2014. To support this vision, the articulated strategy by CBSL includes expanding the annual credit volume of specialized leasing companies and Finance Companies to Rs. 550Bn by 2014. To facilitate and make our contribution towards this target, we intend to set up 30 SME centres predominantly outside the western province. Whilst the key focus of these proposed

SME centres will be extending credit to the rural and bottom of the pyramid markets, CDB SME centres will also extend financial advisory services such as preparation of project reports, supporting in accounting and risk management to rural and SME entrepreneurs. This structure is also in line with CDB's business model, Business Strategy and Level 04 of the pyramid of socially responsible business.



Hon. Governor of the Central Bank Mr. Ajith Nivard Kabraal ceremonially opening the CDB Jaffna Service Centre

We have also identified the need to align our branches to reflect our core brand identities. In relation to this, we have begun relaunching branches with enhanced service standards and by adding value to our customer by providing a unique service experience. The branch outlook is being revamped in order to create this atmosphere in all our branches. Within the review period we have re-launched two of our branches and the new branches/service centres will be under the new concept.



The new interior outlook of CDB branches under the branch repositioning strategy

Information Technology

Information and Communication Technology (ICT) has been one of the key driving factors that facilitate and support CDB's ambitious and aggressive business strategy. The company views ICT as a strategic business enabler powerfully directly contributing to business growth as well as differentiation coupled with providing infrastructure capability to run the entire business operation on an automated platform that provides on line real time connectivity, speed and capacity. In this perspective the company has invested tremendously in ICT during recent years. A keen ICT orientation has enabled the company to differentiate ourselves from the other players in our industry by acquiring current technology to fulfill the needs of the company and its customers.

The benefits of ICT to the operations of the company are numerous. During the economic crunch in the review year MIS played a major role to the business in terms of decision making. The information was shared top to bottom and monitored on 'as at any given time' basis, through the company's Intranet to sustain the business during the crisis. The ICT team has developed an on-line Information Portal to drive the business on a day to day basis, providing critical multi dimensional information to the strategic level down the line, driving the business and enabling performance follow up at any given time backed by substantiated up to the minute information that results in creating a forceful psychological dimension to the verbal communication flow on performance at different levels that takes place many times during the day.

During the review year, the company initiated a plan for the next 3 years to drive CDB's industry standing in terms of size several notches upwards within the market in which we operate (CDB Small Miracle). Through this initiative the company has planned to diversify its business to new ventures such as Islamic Financial Solutions, Savings Accounts and Debit Cards. To facilitate and support these goals the company is planning to upgrade its ICT System during the current financial year. Initial evaluation of strategic ICT options and the short listing of the final solutions have been finalized during the period under review.

In year 2008 the company introduced a scanning solution to scan all Internal Documents and this was the first step towards the Paperless Office Concept. The company has planned to enhance this solution to eliminate physical paper from day to day operations, during the current financial year. This initiative coupled with several other energy saving and employee awareness schemes are part of the company's contribution to the "Go Green" global initiatives. Further, the company is planning to introduce Green Server Room concept through virtualization during the current financial year.

In year 2009 the company introduced a Personal Data Assistant (PDA) based Credit Recovery Follow-up solution to the recovery field officers, to effectively monitor and follow-up credit facilities enabling them to access online client information at the doorstep of the customers. With this experience, the company is planning to introduce Human Branches exclusive for lending products during the current financial year. This concept will create a Super Sales Officer equipped with the technological tools to process a lending facility remotely and will enable CDB to reach markets that do not come under the radius of our branch/service centre network. This will support and facilitates our business model and overall business strategy, including multichannel distribution strategy which has been discussed in detail under Distribution.

The company has upgraded its Website to cater to new customer needs and will launch its trilingual version during this financial year. The company intends to upgrade the website on a sequential basis towards interactive online transaction processing. CDB intend to position the website as a major business originating source, capturing the fast changing life styles and new generation needs.

Management Discussion

Marketing Communication

CDB was severely affected in terms of its reputation as there was ripple effect on its customer confidence, and eroding of public confidence due to the Ceylinco debacle. Any financial institution's business is built on the premise of "trust", and ours was heavily disturbed by the upheavals in the Ceylinco crisis. The main reason for this reputation crisis for CDB was due to the fact that CDB had "Ceylinco" as part of its name even though CDB was not linked to any of the failed Ceylinco Companies nor were we a Subsidiary of any company or Group of Companies.

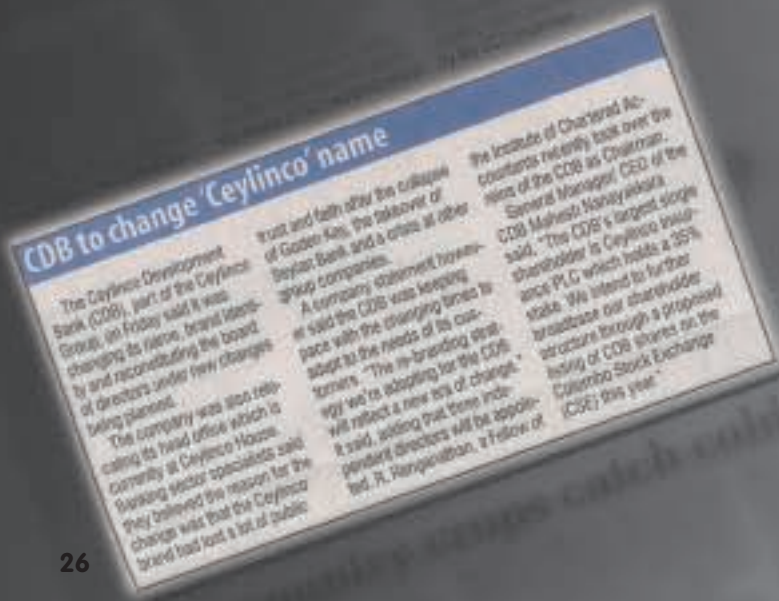
In response to this unparalleled challenge, CDB undertook certain major changes and as discussed elsewhere, transformed the entire institution during the period under review.



A Brand in essence is a promise of Value and delivery to the customer. In this context, the CDB brand promise was in question in the eyes of the public during the time of the crisis.

The Marketing Communication Strategy that we adopted was directed at addressing the following key challenges that stemmed from the adverse scenario.

- The erosion of goodwill from the public
- The negative direct and indirect media publicity which continued for unusually prolonged period of time.
- The impact stemming from loss of public confidence in the finance industry
- The Business was severely affected as attracting new clients whilst instilling faith in our existing customers was becoming difficult and this led to devastating impact on our business as cited in the CEO Review.



Monday March 2, 2009

heads to
with Obama

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Mega Offer From
Dialog CDMA

>> Page B3

CDB to revamp its
Corporate Identity

>> Page B3

CDB TO REVAMP ITS CORPORATE IDENTITY

The Ceylinc Development Bank (CDB), a specialized leasing institution regulated by Central Bank of Sri Lanka (CBSL), announced that it was in the process of effecting major changes to its business and operations to support and boost the growth and strategic development to regulatory and other

CMA Award for Excellence in Business Management by the Society of Certified Management Accountants in the recent CMA International Management Conference 2008.

Following on the proposed changes, General Manager / CEO of the CDB Mahesh Narendrakumar said, "A public company with 1400 shareholders, the CDB is not a subsidiary of any single entity or a group of companies. We want to strongly communicate this to the general public. The CDB's largest single shareholder is Ceylinc Insurance PLC, the leading insurance company which holds a 34% stake. We intend to further broaden our shareholder structure through a proposed listing of CDB shares on the Colombo Stock Exchange (CSE) this year. We would like to thank the CDB (2011) was appointed CEO in 2004 and subsequently appointed to the Board in 2007. A member of the Institute of Certified Management Accountants

of 47% recording a figure of Rs. 72.3m compared to the previous year. Revenue grew by 38% recording a figure of Rs. 1.64bn. Total assets grew by 20% and stood at Rs. 6.8bn as at 31st December 2008.

Its NPL stands at 5.57% as at 31st December 2008. During the five year period from 2004 to 2008, the CDB has increased its total assets by 43 times and revenue by 7.5 times.

The CDB also has strengthened its capital base in line with regulatory commitments. It will continue to expand its branch network of 41 to strengthen its ability to support its future growth and intended strategy with its diversified lease, savings and investment products. The CDB is strongly committed to its customers and staff members covering all our branches.

Challenge to Marketing Communication

The challenge to Marketing Communication in this highly volatile and uncertain environment was twofold. Firstly it was a challenging task to delicately communicate to the general public the dramatic changes effected by CDB, ensuring that the intended message was communicated clearly cutting through the confusion generated by media attention. The Second Challenge for Marketing Communication was in effecting the rebranding and repositioning strategy in the most effective manner optimizing the limited available budget.

The main tools used to communicate the dramatic changes in the organization such as Reconstitution of the board, appointment of independent directors, and name change were press releases, customer pocket meetings (town hall meetings), direct mailers to existing customers and door to door awareness campaigns involving all staff members covering all our branches.

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CDB ස්වාධීන අධ්‍යක්ෂවරු පත් කරයි

CDB appoints Independent Directors

The Ceylinc Development Bank (CDB) has appointed two independent directors, Harinoranath Gunawardena and Chrsanthana Gomes, in facilitating the process of reconstituting its Board of Directors. Harinoranath Gunawardena is a former member of the Board of Directors of the CDB.




Management Discussion

The Rebranding of the organization with a new name, logo, and positioning CDB as an independent financial Institution were undertaken with the use of communication tools such as TV, Print and Radio. This was coupled with the wide publicity given to the relocation of our head office which was ceremonially declared open by The Governor of Central Bank of Srilanka - Hon. Ajith Nivard Cabraal.



The new logo was launched with the following core insights;

- The artistic sign represents the way forward of the institution and our commitment to contribute to the progress of citizens of the country. Red represents life, livelihood, dynamism, and energy in the CDB team in providing our services to the customer. Blue represents the universe of unceasing, infinite possibilities and opportunities. The word "Citizens" represents our commitment to serve all walks of people across the pyramid bottom to top; "Development" represents our entrepreneur mindset and our commitment to contribute to economic development and well being of Sri Lankans.

The New logo and name change resulted in us having to replace our brand identities in our branches, mainly the name board signages and internal branding.

Our positioning campaign was formulated along the promise of "api wenaswunemu, api shakthimathwunemu, api wenwunemu" ("We have evolved, we have grown stronger, we have grown Independent"). The key objective of this campaign was to communicate CDB's rebranded identity as an independent financial institution regulated by the Central Bank of Sri Lanka.

CDB re-launches with new identity

CDB which was virtually an unknown player in the financial services industry in Sri Lanka with a revenue of Rs. 25mn and an asset base of Rs. 276mn in 2001, has grown to be a strong player with annual revenue exceeding Rs. 1.6bn, total assets exceeding Rs.6.3bn and recording a net profit after tax of Rs. 65mn the year ended Dec 31, 2008 as per the audited accounts of

CDB නව ප්‍රධාන කාර්යාලය සිංහරාජ මාවතේ

ප්‍රධාන මහ බැංකුවේ අධිකාරී අධිකාරී විවිධ කාර්යාල සහ සේවාවන් පිළිබඳව විස්තර සපයන ලදී. (Citizens Development Business Finance Ltd - CDB) නව ප්‍රධාන කාර්යාලය සිංහරාජ මාවතේ අංක 18 දරන ස්ථානයේදී අලුතින් නිර්මාණය කරන ලදී.

CDB හි නව ප්‍රධාන කාර්යාලය පිහිටා ඇත්තේ කොළඹ 18 දරන ස්ථානයේදී අලුතින් නිර්මාණය කරන ලදී. CDB හි නව ප්‍රධාන කාර්යාලය පිහිටා ඇත්තේ කොළඹ 18 දරන ස්ථානයේදී අලුතින් නිර්මාණය කරන ලදී.

CDB හි නව ප්‍රධාන කාර්යාලය පිහිටා ඇත්තේ කොළඹ 18 දරන ස්ථානයේදී අලුතින් නිර්මාණය කරන ලදී.

CDB Finance Ltd. (CDB)

இலங்கை நாட்டு வணிக வங்கி

ශ්‍රී ලංකා මහ බැංකුවේ අධිකාරී



Hon. Governor of the Central Bank Mr. Ajith Nivard Cabraal ceremonially opening the new Corporate Office

This campaign was followed with a TV and Radio campaign to generate new business under our new brand identity.

The ultimate testimony to the effectiveness of integrated marketing communication strategy that we adopted coupled with dramatic structural changes was the demonstration of customer confidence in CDB were the 500 customers who embraced the changes and generated Rs.130 million worth of deposits at the ceremonial opening of our new head office on 18th June 2009.

The final assurance of CDB's independence and stability was our physical move away from the Ceylinco House into our new building in Colombo-10. This took place in conjunction with communication campaigns, with the Governor of Central Bank of Sri Lanka - Hon Mr. Ajith Nivard Cabraal ceremonially opening the building.

The official opening of the head office was widely publicized to generate hype. A live feed of the opening was transmitted to all branch outlets, where similar ceremonies were being held with the participation of key clients and stakeholders. Public Relations was used widely to generate media coverage of the event, and all customers who made transactions on that day were given lucrative prizes.

Future outlook

The challenge would be for us to build on the work that has been already put in place, in the context of increase competition and fragmentation of the market place. This will call for a greater focus on marketing communication and CDB will continue to gear itself in precision in its marketing communication strategy. The business model and strategy adopted by CDB guides the framework for future marketing communication planning and will continue to support and facilitate the achievement of specific financial and non financial targets set under the CDB small miracle plan.



... தலைமை அலுவலகத்தை
வங்கி ஆளுநர் திறந்துவைத்தார்

... Development Business ...
... தலைமை அலுவலகத்தை ...
... திறந்துவைத்தார் ...





Our People

Management Discussion

Our People

At CDB our people do not represent assets or capital; nor are they categorized as mere employees. Our people represent a closely knitted and tightly integrated inseparable blend of business that creates one fabric. In this context, CDB HR is challenged to create that psychological paradigm to drive performance which in turn creates the entire platform to achieve CDB's desired targets and aspirations. This is the background in which our HR strategy is formulated to deliver key HR objectives .

The people strategy of CDB is built to offer a value proposition to our people with reciprocity where the focus is circular relationship of organizational growth and employee development. The overall strategy dictates the functional strategies for recruitment, employee retention and career planning, Training and Development, performance monitoring, employee compensation and rewards & recognition, and culture building. Encompassing all these areas of HR strategies, we initiated a major HR drive during the year under the brand 'HRCAP' where the key elements represent Competencies, Aspirations and Performance .



Longest Serving 15 staff members

Recruitment

Our recruitment strategy is biased towards recruiting dynamic youth mostly school leavers and moulding them through our unique culture, empowering and providing them the opportunity to develop and enhance their career. 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 only in the event of existence of gaps for specialized positions do we look outside. We also adopt a strict policy of zero discrimination in terms gender, race, cast and religion. We also focus on providing opportunities to make rural youth employable, a key element of our business strategy which is elaborated under CSR.

With the liberation of North and East during early 2009, CDB strategically expanded its branch network to the North and East. A special recruitment campaign was carried out in Jaffna, Vavuniya, and Batticaloa. Staff were recruited for both Operations and marketing. Already we have recruited

40 staff members from the North and East, who have been trained on the business processes and given soft skills training and are closely monitored through the Continuous professional development program (CPDP).



Providing opportunities to the youth in Northern Region. Interviewing a candidate in Vavuniya in October 2009

During the year staff strength grew to 450.

Employee retention and Career Planning

We use both compensation and communication strategies to retain our people. The compensation strategy is discussed in detail separately.

During the period under review we launched a major initiative implementing an employee career aspiration feedback mechanism. Under this scheme, opportunities are being provided to each and every staff member to submit their career aspirations in writing along a structured format. Based on the obtained information, a continuous dialog will be built with each and every staff member at different levels providing a feedback on what is expected from the employee and what CDB could promise in reciprocity. This will also be a main source of information at the annual performance review of the employee.

During the year an independent employee satisfaction survey was carried out which will help to sharpen our HR initiatives.

Training and Development

The training and development strategy of CDB gears towards providing essential technical knowhow as well as developing our people to become professionals as they are groomed to be future leaders.



Group of staff after attending an exclusive programme for CDB at the Central Bank Staff Training Centre in Rajagiriya

We are committed to continuously develop the professional careers of our staff. During the period under review we selected 30 members of the sales staff to follow a preliminary qualification in Marketing at the Sri Lanka Institute of Marketing (SLIM). To support and facilitate the new lines of business, training programmes were carried out on Pawning and Money Exchange with the input of relevant institutes and specialized consultants, to enhance the technical knowledge of the staff.

A state of the art Training Centre was inaugurated at the Head Office with a Seating Capacity of 75 to conduct in house training programmes and workshops. A series of in house training programs were conducted during the year covering the areas of Induction, Leasing, Credit, Sales Techniques. Staff members were also nominated for various recognized external programmes in their respective area of operation. One staff member was nominated for a foreign training programme.



Newly inaugurated fully fledged state of the art training auditorium at CDB Corporate Office

We are committed to develop the communal harmony among the staff at CDB and as a CSR activity we facilitate a three month course in Spoken Tamil for all our Sinhala speaking employees. Already 45 employees have undergone the training, and the rest of the staff will attend the programme this year.



Staff attending a spoken Tamil class

Internal Programmes

Programme	No. of programmes	No. of Participants	Duration
BPO Programme	3	300	42hours
Role of Sales Executive	5	60	15hours
Financial Industry of SL	2	60	16hours
Workshop on HP & LE	4	60	32hours
Refresher Programme	1	50	8hours
Induction Programme	5	45	80hours
Workshop on pledge Jewellery	2	35	16hours

Average number of hours of training per employee during the year

Senior Management	Managers & Branch heads	Middle Management	Junior Management	Front-Line Employee	Total Employee Population
4	8	30	18	37	31

Management Discussion

Programme	Training Partner	No. of Participants	Duration
External Programmes			
ICT Law / computer Crimes	ICASL	1	2 Day
Anti Money Laundering	CBS	4	1 Day
Workshop on Disciplinary Management	CSIDM	1	2 Day
Motivational Magic	Kumar Iddamallena	60	Half day
Training on Pledge Jewellery		25	2 Day
Foreign Exchange Regulations	CBS	4	1 day
Un lock your value	CSE	4	Half day
Counter Point	PIM	11	
CSW2009		1	2 day
CIMA Global Summit	CIMA	1	1 day
IT Security		1	3 day
CPM Annual Conference	CPM	1	1 day
Seminar On Secured Transaction	Rens global	4	half day
Employee Contracts	RENS Global	2	1 day
You make the difference	SMTF	25	1 day
Talent Management	Marcus..... (Mumbai)	1	2 Day
Course Spoken Tamil		20	3 Months
Preliminary Qualification in Marketing		30	3 Months

The percentage of time spent for the following types of training

	Senior Management	Managers & Branch heads	Middle Management	Junior Management	Front-Line Employee	Total Employee Population
Internal courses/ training Programs				93%	95%	87%
External courses/ training Programs	100%	100%	6%	7%		7%
Seminars/ conferences			94%		5%	6%

Performance Review

We have introduced a robust performance evaluation system, where the employees and their divisional heads jointly agree to set targets and objectives and functional and individual objectives. The Respective Divisional Heads are required to provide structured feedback at least once a year. The Performance Evaluation process takes into consideration aspects such as agreed financial targets and objective setting; assessment of targets and objectives; assessment of general competencies; assessment of leadership competencies and an overall assessment of Performance. During the year, we introduced a new performance methodology using an intranet-based evaluation module which has increased the transparency of the evaluation system. The outcome of this review is used at a consultative committee level evaluation consisting of Management staff members in deciding annual increments, promotions and special recognitions for our people.

Compensation, Rewards and Recognition

CDB offers its employees working conditions, rewards and remunerations that are on par or above industry norms. The Compensation strategy at CDB consists of the three elements of fixed, variable and other benefits. 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. The third component represents other benefits in the form of comprehensive health and medical scheme, staff loans, life insurance and death donation. Recognizing the need to support the development of their knowledge and skills, CDB also reimburses examination fees and professional membership fees while duty leave is granted to those facing examinations.

Our staff has remained committed to CDB despite being directly impacted by the recent crisis, even having to forego the salary increment due in 2009. With the successful turnaround of the company, CDB in a gesture of appreciation granted a flat 10% increment for all staff and a flat 15% increment for those promoted in June 2009.

A suggestion scheme has been introduced as an outcome of the Staff Satisfaction Survey where all staff can send in their suggestions in developing the company performance. The best suggestion is selected monthly and rewarded at staff meetings while a letter of appreciation is sent to each and every individual who makes suggestions.

Best performing sales staff and branches are recognized at monthly sales meetings, conducted to assess the performance of the previous month and to review current months plan.

Culture Building

One of the main activities that we undertake on annual basis is our annual theme launch engaging every employee's link to overall targets and objectives of the organization irrespective of their designation or area of work. During the period under review we started with the theme of "Success starts with You" which emphasize on individuals inner strength and power. As a reminder of the theme, each and every employee was given a table stand with the theme with a mirror fixed to it.

In February 2009 a conference was held with the participation of all staff members educating them on the major transformation of CDB with radical and dramatic changes to be introduced.

A web portal has been created where staff could pose questions to CEO and the Senior Management where online feedback would be provided. Further monthly meetings with the middle management and the CEO have been conducted. Bi annual staff meeting for the entire staff are conducted to provide the status and the performance of the company and to educate staff on the future strategies that have been considered.

After a hectic year of working under pressure our staff was eagerly looking forward to a much awaited break away from work for a relaxation. This was evident when they got actively involved at the "Citizens Premier League Cricket Tournament". Every and each staff member including the senior management took part in this Cricket carnival and experienced an unforgettable day.



Citizens Premeir League (CPL), CDB inter Division softball Cricket Tournament

We took part in inter company Rugby tournament and deservingly won the championship by defeating more fancied teams.



Winning Team

The staff took initiative to organize carol service in December 2009. This was the first carol service organized by the CDB staff. The choristers who took part in the carols included both Christians and non Christians.

During the year CDB launched the Welfare and Recreation Club with the main objective of promoting Sports and recreation activities to ensure a continued link between employee, family and organization.



Staff organized a carol service at St. Sebastians Church Colombo 10

External Awards & Recognition

Our Finance team worked tirelessly to compile a quality annual report for the year ending 31/12/2008, which was recognized by the Institute of Chartered Accountants of Sri Lanka at the Annual Report Awards 2009 with a Certificate of Compliance under financial institutions sector.



Mr. Hasitha Dasanayake Finance Manager accepting the Certificate of Compliance at the ICASL Annual Report Awards Ceremony

Our Senior Manager-Sales & Channel Development Mr. Maduranga Heenkenda brought honour to CDB by being recognized with two awards - Territory Manager of the year and Gold Award (financial services) - at the National Sales Congress (NASCO) organized by Sri Lanka Institute of Marketing (SLIM).



Mr. Maduranga Heenkenda accepting his award

Annual Awards Ceremony

Our flagship people recognition annual event is our annual awards ceremony where we recognized and reward both sales and operations staff members. This is usually a gala event with the participation of all staff.

The key annual targets of CDB are cascaded to branch and officer level targets and the annual awards act as the main tool to drive performance at individual and branch level. Minimum performance targets at different levels are communicated at a very early stage of the review period enabling people to plan and work towards the eligibility criteria to be recognized at the annual awards. The main Sales staff awards are in three categories of Gold, Silver and Bronze. Included under this is the CDB 100 Million Rupee Round Table (CDB 100Mn RRT) where fully paid foreign tours are awarded to recognize staff members. During the year, 18 people were recognized under CDB 100Mn RRT.





Management Discussion

"Bringing smiles to our community"



Our Commitment to the Society

At CDB, we believe in the Milton Friedman (1970) dictum that "There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits".



Our Level 4 Socially Responsible Business

Our business model is in itself a socially responsible one - which lends itself to the sustainable development of the rural and low income segments, providing them with access to formal financial institutions and funding opportunities.



Granting of the first leasing facility at the Vavuniya Branch for a Tractor to Mr. Sellaiha Kumar client from Killinochchi by Vavuniya Divisional Secretary Mr. Sivapathasundaran

Lopsided Equation of Rural Savings and Credit available

The following statistics amply demonstrate the lopsided equation where the rural credit supply from the formal financial sector is substantially lower than rural savings.

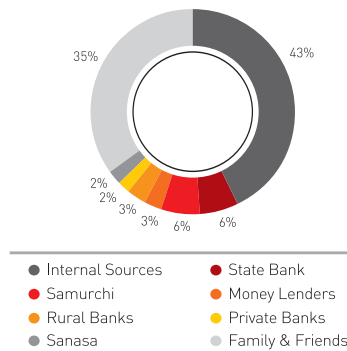
Year	Deposits (Rs.'000)	Advances (Rs.'000)	Deposits over Advances (Rs.'000)
2004	22,276,837	8,144,686	14,132,151
2005	23,569,780	12,636,100	10,933,680
2006	25,311,550	14,620,570	10,690,980
2007	32,009,690	21,711,610	10,298,080
2008	33,042,034	25,848,980	7,193,054

Source : Central Bank of Sri Lanka 2009 Annual Report Table 134, Co-operative Development Department

A survey conducted by the Asian Development Bank and World Bank in 2004 found that as much as 78% of rural funding requirements are met by family and friends and internal sources (refer chart below).

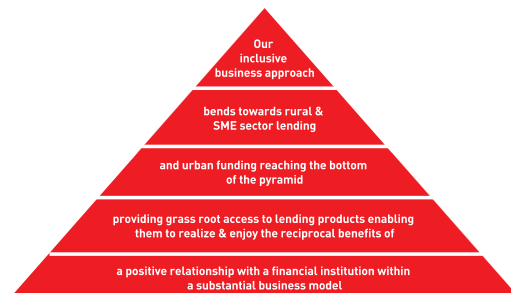
This lopsided equation has directly resulted in the slowing down of the rural economy, leading to the curtailment of aspirations of rural entrepreneurs and an additional burden on the state. Also, rural savings were being channeled to meet urban funding requirements while the rural citizenry had little opportunity or knowledge of dealing with the formal financial sector.

Sri Lanka Rural Enterprise Finance



CDB saw an opportunity in this framework for a player such as itself to create a competitive advantage while being driven by a level 4 CSR based strategic intention, as shown in the pyramid above.

1. To be a net lender to the rural economy
2. To inculcate and enable rural communities to realize and appreciate the advantages of building positive relationships with a formal financial institution.
3. To make rural youth employable
4. To build a sustainable business model to achieve the key objectives listed in 1 and 2 above



During the period our lending and funding portfolio distribution outside western province.

Outside Western Province		
	31.03.2010	31.12.2008
Lending Portfolio Rs. Mn	1,892	1,672
Deposits Portfolio Rs. Mn	1,163	1,217
Net Lending Rs. Mn	739	455

Our Level 3 Flagship Strategic CSR Project

Our CSR strategy revolves around our business strategy as elaborated earlier connecting with our market segments and being accountable to our stakeholders. Accountability means that our stakeholders have an influential voice in our business. With this intention we have two flagship projects which are specifically targeted towards our micro lending and funding.

CDB Sisudiri Scholarship Scheme

Project Cost for the year 2009/2010 - 355,000

Year to date project cost : 485,000

This is a project that offers scholarships to children of three-wheeler owners who are self employed and make an immense contribution to the economy. The total three wheel owners all over the country is above 400,000. CDB recognized the value of this segment and the need to give a helping hand to their children who excel in studies. The scholarship programme is a tool whereby we seek to reduce the day to day financial burden of educating children. The programme tries to harness 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 numeracy competency. We identified that not all children can be competent in all these facets as there are enormous financial constraints especially among the target community. 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 ordinary level examinations which is a six year period, and to those successful at their O/Level examination right up to their advanced levels. Initially 24 scholarships were awarded and this year we have awarded a further 31 scholarships making it 55 scholarships awarded within review period. Plans are in place to extend this project to higher education as well in the near future.



Scholarship winners for 2009 appearing for a group photo with the chief guest Prof. Carlo Fonseca

CDB Technology Centre

Project Cost for the year 2009/2010 - 550,000/-

Year to date project cost : 1,750,00/-

At CDB we have recognized the importance of Information Technology for the future generation, and we acknowledge the huge disparity of IT access among rural and urban communities.

In order to enhance the computer literacy of children in rural areas, and in recognition of schoolchildren being potential customers of the future, we donated a fully fledged computer laboratory to deserving schools. During the period under review, we donated a computer lab to a school in Tissamaharama, which was selected from among schools in which there are computer literate teachers trained by the Education Ministry. We opened new doors for many children by extending a helping hand in supplying all equipments and facilities required such as computers, scanners, printers and air conditioners for a computer lab. In the coming year, we hope to build two more Technology centres, including one in the Northern region.



Students of Nadigamwilla Kanishta Vidyalaya - Tissamaharamaya experiencing the joy of the opportunity to develop their IT knowledge

Level 2 CSR

We intend to initiate the level 2 projects during the 2010-2011 years.

Our Level 1 of being a Responsible Corporate Citizen

"CDB Hithawathkam" Philanthropy and Employee Voluntarism

Project Cost for the year 2009/2010 - 375,000/-

Year to date project cost : 375,00/-

In being a corporate citizen, it is necessary that our employees are also part of the process of being responsible citizens in helping the community of which they are a part. As such we encourage our employees to volunteer to reach out to their communities. We have drawn up an annual budget allocation which is channeled towards monthly programmes carried out by various branches and departments. We have undertaken 15 projects during the review period, where majority of the projects undertaken were focused on children and senior citizens.

"CDB Hithawathkam"

"CDB හිතවත්කම්"



Financial Review

Despite the challenges we had in the beginning of Year, CDB has recorded healthy financial figures for the Year 2009/10. The Profit before tax for the period under review stood at 88.7 Mn (15 months).

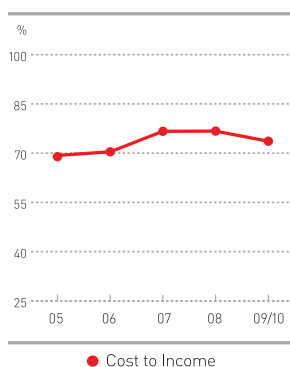
Post tax profit has recorded a figure of Rs.63.6 Mn (annualized) which is a slight decline of 2.4% compared to the previous year's profit of Rs. 65.2Mn. Provisions made for bad and doubtful debts during the period under review includes additional provision made as a result of changing the provision basis under our new regulatory structure. This is the key attributable factor for the declining profit. The profit before provisions and tax figure of Rs. 144Mn (annualized) reflect increase of 13.5% compared with the corresponding year.

The high interest rate scenario and the instability in the local financial services industry in the first half of the year have resulted in contraction in loan growth, which ultimately had an adverse impact on revenue growth. Revenue for the year has been Rs. 1.5Bn (annualized) which indicates a marginal decrease from the Year 2008 figure of Rs.1.6Bn.

Interest income has recorded a figure of Rs. 1,435Mn (annualized) which is a decrease of 6.1%, whereas interest expenses indicated a decline of Rs. 140Mn from Rs. 1,092Mn in year 2008 to Rs. 952Mn (annualized) in year 2009.

Net interest income recorded a growth of 19.7% compared to the previous review period, which has increased from Rs.403Mn to Rs. 483Mn (annualized) in March 2010. Whilst considering the positives in market trends in the second half of the year, it was a clear indication of effective management of interest margins at CDB. Cost to Income ratio has proved this again, where it has improved from 76% in 2008 to 72% in 2009.

Cost to income ratio



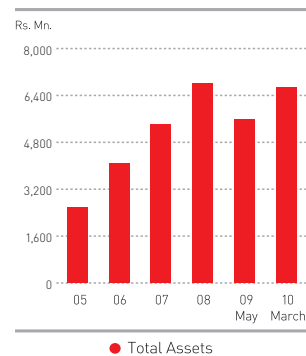
Overheads to Revenue ratio indicates a figure of 27.16% for 2009 where as it was 25.57% in 2008, the overall increase of the overheads is mainly due to the fact that the decrease of revenue more than outweighs the decrease of overheads where the decrease of overheads is 1.52% and the decrease of revenue is 7.28% for the review period.

Total asset base stood at Rs.6.68Bn which is a slight decline of 1.67% from year 2008 figure of Rs. 6.79Bn. The Asset base had an adverse impact in the first half of year 2009 due to the local and global financial crisis faced by the industry, where the Total asset base has decreased to

Rs.5.5Bn in June 2009. However CDB has managed to turnaround the negatives and to sustain the total asset base as it was in year 2008.

Comparatively the Deposit liability for the year remained unchanged at Rs. 5.6Bn at the end of the review period. The industry being heated with the unstable non regulated financial institutions in the first half of the year, CDB has weathered the storm with the faith of its customers and the financial stability generated through the relentless quality of its loan portfolio.

Total Assets

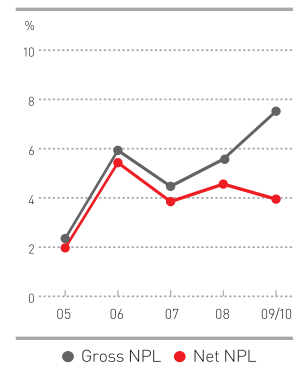


Share holders' funds increased by 20% to Rs. 513Mn in comparison to the 433Mn in the previous review period. The enhancement is primarily due the retained earnings.

The strategies towards reducing NPLs has enabled CDB to constraint NPL at 7.57%, where the industry norm for non performing assets remains over 8%. The NPL ratio has increased to 9.8% in December 2009, where CDB has managed well below the industry norm at the end of the review period, also the strategies being adapted to a target NPL of below 5% for the next financial year.

The provision for the period recorded a figure of Rs. 91 Mn. The main cause for the increase of 28% (annualize) compared to the previous year is the change of provisioning policy due to the change of regulatory structure.

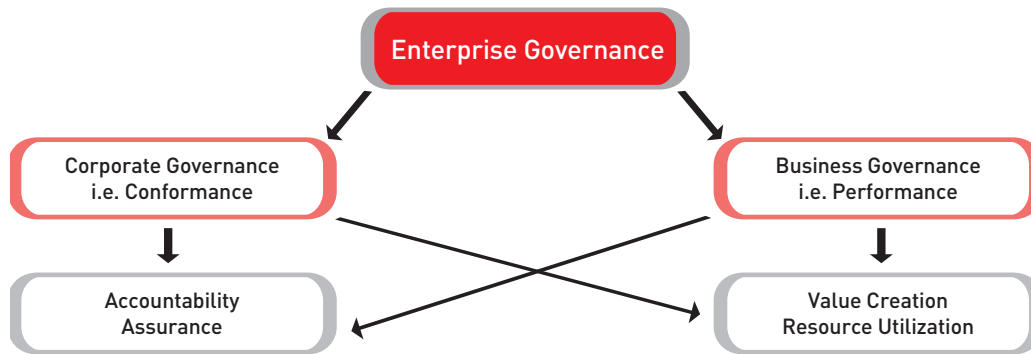
Non performing ratio gross and net



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

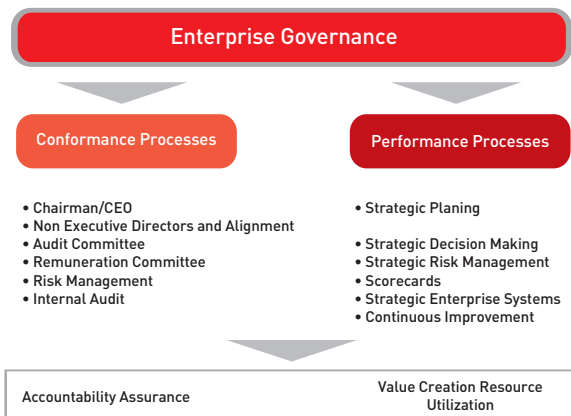
that move the business forward and the need to ensure adequate controls and oversight. It is important to achieve a balance between conformance and performance in order to have the best chance of business success.



Enterprise Governance is defined as “The set of responsibilities and practices exercised by the Board and Executive Management with goal of providing strategic direction to the Company, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization’s resources are used responsibly”.

- Risk management and internal audit;
- Executive remuneration.

It is well covered in the literature and there will continue to be developments in this area. Codes and/or standards can generally address this dimension with compliance being subject to assurance/audit.



The Performance Dimension

The performance dimension does not lend itself as easily to a regime of standards and audit. Instead, it is desirable to develop a range of best practice tools and techniques that need to be applied intelligently within different types of organization. These tools and techniques are very much the domain of the professional accountant in business.

The focus here is on helping the board to:

- Make strategic decisions;
- Understand its appetite for risk and its key drivers of performance, and;
- Identify the critical points at which it needs to make decisions.

In general, the conformance dimension takes an historic view while the performance view is forward-looking. It makes it clear that good corporate governance is only part of the story - strategy is also important.

The Conformance Dimension

The conformance dimension of enterprise governance has had significant coverage in recent years and, it represents the internal management and controls towards achieving Organizational Objectives.

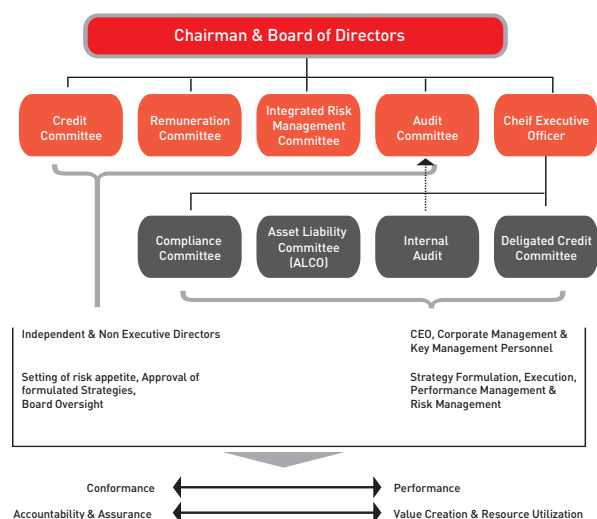
It is normally called “corporate governance” and covers areas such as:

- The roles of the chairman and CEO;
- The board of directors, eg, composition, non-executive Directors, training etc;
- Board committees eg, audit, remuneration and Nominations committees;
- Internal controls in an organization;

CDB Approach

CDB has continued to stay committed to maintaining the highest standards of corporate and business governance and recognizes the Enterprise governance framework as a holistic approach towards Corporate Governance and Business Governance.

CDB Enterprise Governance Framework



At CDB we have recognized that to be effective, the concern and tone for Enterprise governance must be set at the top. While the overall responsibility of Enterprise governance rests with the Board, it is the duty of senior management to transform the strategic direction set by the Board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies.

Board appointed committees at CDB which includes Credit committee, Audit Committee, Integrated Risk Management Committee and Remuneration Committee, will confront the conformance dimension. The committees are headed by independent and non executive directors, and the creation of accountability and assurance has been the key role of committees.

The performance dimension has been centralized with the CEO, senior management and the CDB team, with 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 an effective resource utilization and value creation.

Overall the CDB approach will be one where the board will decide on the risk appetite for CDB, based on which the Corporate management headed by CEO will formulate appropriate strategies. The strategies thus formulated will then be presented to the Board where they are appraised and evaluated, and then approved accordingly. The approved strategies will then be implemented and executed by the senior management with necessary monitoring measures in place to consider the progress of the strategies.

CDB Corporate Governance approach

Whilst considering the holistic approach of Enterprise Governance, CDB's Corporate Governance structure is based on the "Code of Best Practice on Corporate Governance" issued jointly by the Institute of

Chartered Accountant of Sri Lanka (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.

Credit Committee

CDB Credit Committee has been formed to provide a strategic direction for credit management and to ensure Board oversight on credit management and business administration. The Committee comprises of Non Executive Directors and the CEO and it overlooks the strategies and policy making of delegated credit committee.

Remuneration Committee

Remuneration Committee being headed by a non Executive Director, the main objective of the committee is to recommend the remuneration for the Executive Director/CEO where the Board will make final determination upon consideration of such recommendations. (Refer Remuneration Committee Report Page No. 63)

Integrated Risk Management Committee

The Integrated Risk Management Committee (IRMC) was formed in order to formalize and smoothen the risk management process at CDB. The committee is headed by an Independent Director with the Chief Executive Officer and Key Management Personnel being members of the committee.

The IRMC has initiated and reviewed policy frameworks, risk management strategies and key risk indicators for the each risk category identified. IRMC continued to monitor and assess the effectiveness of the risk management frame work at CDB and the robustness of the risk management function. (Refer IRMC Report Page No. 64)

Audit Committee

The Audit Committee has been formed in order to oversee the preparation, presentation and adequacy of disclosures in the financial statements of the Company. The committee is also overlooking the processes to ensure the adequacy of the Company's internal controls to meet the requirements of the Sri Lanka Auditing Standards.

The committee being headed by an Independent Director and members are inclusive of Non Executive Directors. (Refer Audit Committee Report Page No. 66)

Internal Audit

Internal audit overlooks the adherence of internal controls and procedures within CDB whilst ensuring the compliance and adequacy to meet the requirements of Sri Lanka Auditing Standards.

The Internal Audit at CDB plays a dual role, where it directly reports to the board via Audit Committee and reports to the CEO for the monitoring and controlling of internal procedures.

Enterprise Governance

Asset Liability Committee (ALCO)

The internal performance is overseen through the ALCO, which considers four key areas namely liquidity, Investments, Pricing and Asset Liability Maturities. The committee is headed by the AGM Finance and includes five more members from Finance, Credit & Deposit operations.

Compliance Committee

The Compliance committee has been overlooking the regulatory adherence of CDB. The committee is headed by the AGM Operations and includes members from Legal, Finance, Credit and Deposit Operation.

Delegated Credit Committee

Delegated Credit Committee overlooks credit management at CDB by formulating and executing strategies and policies. 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.

Compliance Status

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 and the Institute of Chartered Accountants of Sri Lanka".

Corporate Governance Principles	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. All Directors are non executives except for the Chief Executive Officer		
Meetings	Compliant	12 board meetings were held during the year at approximately monthly intervals.
Board Responsibilities	Compliant	The board collectively responsible for the success of the company. The board formulate the business strategy and ensure that CEO and management team possess the skills experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure integrity of the information, Internal controls and risk management and compliance with all applicable laws and regulations. The independent directors are responsible for bringing independent judgement to decisions make by the board.
Independent professional Advice	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.
Company Secretary	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. Consent of all Board members is required for the removal of the Company Secretary.
Independent judgment	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.

Corporate Governance Principles	Compliance Status	CDB's Level of compliance
Dedication of adequate time and effort for matters of the Board	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	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.
Division of responsibilities	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	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.
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A.4 Financial Acumen

There are a sufficient number of Board members who possess finance qualifications and experience in the Financial Services industry and provide significant input in matters concerning this area.

Availability of sufficient financial acumen and knowledge	Compliant	The chairman is a Fellow member of the Institute of Chartered Accountant of Sri Lanka. 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 one member of the Chartered Institute of Management Accountants of UK.
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A.5 Balance of the Board

The Code recommends having a balance of Executive and Non-executive Directors so that no individual or small group of individuals can dominate the Board's decision-making

Non Executive Directors	Compliant	Six of the seven Directors are non executives. The CEO is the sole Executive Director.
Independent Directors	Compliant	Three out of six Non Executive Directors are independent as defined by the Code.
Signed declaration of Independence	Compliant	
Determination of independence of the Directors by the board	Compliant	The Board annually determine the independence of the Directors.
Senior Independent Director	N/A	

Enterprise Governance

Corporate Governance Principles	Compliance Status	CDB's Level of compliance
Confidential discussion with the senior independent director	N/A	
Meeting of Non executive directors		No meeting was held during the year
Matters which cannot be unanimously resolved		No such matters of concern
A.6 Supply of Information		
Provision of timely and quality information	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.
A.7 Appointments to the Board		
The code requires a formal and transparent procedure for the appointment of new Directors to the board.		
Availability Nomination Committee		The Board as a whole assess the composition of the board and consider new appointments.
Assessment of board composition	Compliant	Board assess time to time the board composition to assess whether the combine knowledge and experience of the board matches the strategic demand facing the company.
Disclosure of details of new directors to shareholders	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 that all Non-executive Directors to be appointed for a specific terms and subject to re-election		
Re -election of Non - executive directors and election of directors by shareholders	Compliant	At every Annual General Meeting, one-fourth of the Directors retire from office in conformity with the Company's Articles of Association. A retiring Director is eligible for re-appointment by the shareholders.
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	Compliant	An annual review to assess the contribution and effectiveness of the board is planned and will commence from following financial year
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	Compliant	Details of directors are given on page 12 of 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		

Corporate Governance Principles	Compliance Status	CDB's Level of compliance
Financial and non financial targets for CEO	Compliant	At the commencement of every year financial targets is 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	Compliant	At the end of each financial year Performance of CEO is evaluated to ascertain whether the targets have been achieved.

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

Availability Remuneration Committee	Compliant	
Remuneration of Non-executive directors	Compliant	Non executive directors are paid only a nominal fee.
Consultation of the Chairman and access to professional advice	Compliant	

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 of CEO	Compliant	
Remuneration of the Non-executive directors	Compliant	Non executive directors are paid only a nominal fee

B.3 Disclosure of remuneration

Disclosure of directors' remuneration in the annual report. Aggregate Remuneration of Directors have been disclosed in the page 91 of 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	Compliant	
Separate resolution for all separate issues	Compliant	
Availability of all Board subcommittee Chairman	Compliant	
Adequate notice of the AGM	Compliant	
Procedure of voting at General Meeting	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		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.
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Enterprise Governance

Corporate Governance Principles	Compliance Status	CDB's Level of compliance
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	Compliant	CDB has reported a true and fair view of its position and performance for the year ended 31st March 2010. 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	Compliant	The Directors' report given on pages 60 to 62 of the annual report covers all areas of this section
Statement of Directors' responsibility for the financial statements	Compliant	The statement of Directors' responsibility for financial reporting is given on page 65 of the Annual Report
Management Discussion and analysis	Compliant	The Management Discussion & Analysis Report is given on pages 20 to 40 of this annual report
Declaration by the Board that the business is a Going Concern	Compliant	Declaration has been made in the Directors report in this annual report
Summoning an EGM to notify serious loss of capital	N/A	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		
Maintaining a sound system of internal controls and review the effectiveness of the internal controls	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> <p>(i) Audits are conducted by the internal Audit division, in areas involving high risks as identified in the annual internal audit plan</p> <p>(ii) A structured process is in place for loss reporting, control exception reporting and compliance breach reporting</p> <p>(iii) A comprehensive checklist is used for follow up on the status of implementation of all audit recommendations</p> <p>(iv) Periodic Branch Audits are performed on the company's Branch operations</p>
D.3 Audit Committee		
Composition of the Audit Committee	Compliant	The Company's Audit Committee consists of three members all of whom are Non-Executive Directors
Duties of audit committee - Ensuring the objectivity and independence of external auditors	Compliant	The committee maintains an appropriate relationship with the External Auditors, KPMG Ford Rhodes Thornton & Co., to ensure their objectivity and independence. The Company has established an internal audit function which operates independently and has direct access to the Audit Committee. The External Auditors do not have any relationship (other than that of Auditor) and any interest in the Company

Corporate Governance Principles	Compliance Status	CDB's Level of compliance
Terms and reference of the Audit Committee	Compliant	The Committee operates within clearly defined terms of reference
Disclosure of the Audit Committee	Compliant	The composition of the Audit Committee has been disclosed in page 66 of this annual report

D.4 Code of Business Conduct & Ethics

The code requires Companies to adopt a code of business conduct and ethics for Directors and Senior Management Team

Availability Code of Business Conduct & Ethics Compliant

E. Institutional Shareholders

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 shareholders	Compliant	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant to the general membership
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F. Other Shareholders

Shareholder voting	Compliant	Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights
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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 June 2009 and has a clear strategy to fully complied by 1st January 2012

Corporate Governance Principle	Compliance Obligation	CDB's level of compliance
1) The Responsibilities of	1. The Board shall, if it considers that the company is, or is likely to be, unable to meet its obligations, inform the Director of the Department of Supervision of Non-Bank Financial Institutions prior to taking any decision or action	The Board of Directors
	2. The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction	Compliant
2) Meetings of the Board	1. The Board shall meet at least twelve times a financial year at approximately monthly intervals	Compliant 12 board meetings were held during the year at approximately monthly intervals
	2. A notice of at least 7 days shall be given of a regular Board meeting	Compliant
	3. A director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director	No such instances in the year

Enterprise Governance

Corporate Governance Principle	Compliance Obligation	CDB's level of compliance
3) Composition of The Board	1. Board shall not be less than 5 and not more than 13.	Compliant
	2. Total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years.	Compliant The board consist of 7 members
	3. Number of executive directors shall not exceed one-half of the number of directors of the Board.	Compliant Six out of seven members are non executive directors
	4. Number of independent non-executive directors of the Board shall be at least one fourth.	Compliant Three out of seven members are non executive non executive directors
	5. One half of the number of directors that constitute the quorum at board meetings shall be non-executive directors.	Compliant
	6. All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment	No new Directors have been appointed after registering under the Finance Companies Act
	7. If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, with reasons for such resignation or removal	No Directors were resigned or removed after registering under the Finance Companies Act
4) Criteria to assess the fitness and propriety of Directors	1. A person over the age of 70 years shall not serve as a director of a finance company.	Compliant No any director over 70 years of age
	2. A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies/bodies corporate.	Compliant
5) The Chairman and The CEO	1. The roles of chairman and chief executive officer s hall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009	Compliant
	2. The chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior director	Compliant Chairman is a non executive director

Corporate Governance Principle	Compliance Obligation	CDB's level of compliance
6) Board Appointed Committees	<p>1. Every finance company shall have at least following two Board committees,</p> <p>Audit Committee</p> <p>i) The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.</p> <p>ii) The Board members appointed to the committee shall be non-executive directors.</p> <p>Integrated Risk Management Committee The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories</p>	<p>Compliant</p> <p>Chairman of the Audit Committee is a non executive independent director and he is a member of the Institute of Chartered Accountant of Sri Lanka</p> <p>All the members are non executive directors</p> <p>Chairman of the Integrated Risk Management Committee is a non executive independent director. CEO also a member of the committee.</p>

Risk Management

CDB recognizes that effective risk management is integral to its business success and management is therefore committed to achieving strong controls and a distinctive risk management capability to enable good Enterprise Governance.

Expanding business arenas, deregulation and globalization of financial activities, emergence of new financial products and increased level of competition have necessitated a need for an effective and structured risk management in financial institutions. A financial institution to measure, monitor, and steer risks comprehensively is becoming a decisive parameter for its strategic positioning.

The acceptance and management of financial risk is inherent to the business of financial intermediaries. The role of risk management has historically been a largely peripheral one in many organizations. Focused on the prevention of physical and financial loss at an operational level, the formal consideration of risk was far removed from key decision-making.

However, recent research has identified that the failure to identify and appropriately manage risk at a strategic level has a far greater potential impact on organizational fortunes than insured or tightly controlled operational risk.

Board and Senior Management oversight.

At CDB we have recognized that to be effective, the concern and tone for risk management must start at the top. While the overall responsibility of risk management rests with the BOD, it is the duty of senior management to 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.

The formulation of policies relating to risk management only would not solve the purpose unless these are clear and communicated down the line. Senior management has to ensure that these policies are embedded in the culture of organization.

To keep these policies in line with significant changes in internal and external environment, BOD is expected to review these policies and make appropriate changes as and when deemed necessary. While a major change in internal or external factor may require frequent review, in absence of any uneven circumstances it is expected that BOD re-evaluate these policies every year.

Risk Management Strategy

CDB as a financial institution, its core business consists of consciously taking on risk in the context of return driven targets. Therefore the risk is an integral part of CDB and risk management will be a fixed component in all business processes at CDB within its risk appetite.



Enterprise Governance

Risk appetite is where the organization is seeking to improve the alignment of its risk management activity with its key decision-making, and considering a formal definition of the amount, and type, of risk that is acceptable in the pursuit of its business objectives.

The risk management strategy and sophistication of the process, and internal controls used to manage risks, depends on the nature, size and complexity of institutions activities.

CDB's Risk management strategy as commonly perceived does not mean minimizing risk with regard to the above business strategy; rather the goal of risk management is to optimize the risk-reward trade-off.

CDB does not assess risks in isolation, not only because a single transaction might have a number of risks but also one type of risk can trigger other risks. Since interaction of various risks could result in diminution or increase in risk, the risk management strategy has recognized and reflects risk interactions in all business activities as appropriate.

Risk Management Framework

The risk management framework for CDB encompasses the scope of risks to be managed, the process/systems and procedures to manage risk and the roles, and responsibilities of individuals involved in risk management based on the Risk Management Strategy.

Risk Management Framework



Credit Risk

Credit risk is most simply defined as the potential of a company borrower or counterparty failing to meet their obligations in accordance with

agreed terms. The goal of credit risk management is to maximize company's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. CDB needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Company is also considering the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any financial organization.

The sound practices set out in CDB specifically address the following areas: establishing an appropriate credit risk environment; operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk. Further emphasis is also given on improving the provision cover and managing single borrower exposure while the company also tries to monitor the non-performing advance ratio to achieve benchmarked targets.

The Credit origination function has been smoothened through the delegated credit committee which has been formed to set out CDB's credit strategy and credit policy which is under review of the Credit Committee. The delegated credit committee ensures the segregation of credit administration and business development through its revenue and non revenue driven composition.

CDB credit policy defines the required committee approval for different threshold limits and beyond discretionary limit it requires Board approval through the credit committee.

Different business units and departments of CDB play a major role in managing the overall framework with delegated responsibilities which are continuously directed and monitored by the top management of the company. The reason for this is that the company believes each unit has a responsibility towards managing credit risks. Due to categorization of the credit facilities, there is individual attention in this area and the more focused approach helps avoid riskier operations being undertaken in the future. The company places great emphasis on continuous follow up with regards to the credit base of the company. All the operational procedures of the company are under continuous review of the CEO. Credit risk policy and management is executed through the CEO who has dedicated areas within the overview of the risk management framework and is assessed by the Integrated Risk Management Committee of the company.

Liquidity Risk

Liquidity risk is a company's potential for loss arising either from its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Liquidity risk is generally explained as a ratio comparing available liquidity to the demand for funds. Liquidity risk is financial risk due to uncertain liquidity. CDB might lose liquidity if it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A company is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity. It is

essential that company always maintains sufficient funds in order to meet present and future fund requirements without any delays.

Maintaining the proper balance between assets and liabilities, proper governance of portfolio maturity management systems with continuous follow up and better cash flow modeling are very important factors in managing liquidity risks. Both a short term and long term economic crisis could impact upon liquidity risk. CDB carries out a continuous review of assets and maturity analysis in order to ensure that liquidity risks are managed properly.

Market Risk

Market risk is the change in net asset value due to changes in underlying economic factors such as interest rates, exchange rates, and equity and commodity prices. CDB has a well-established framework for Market Risk management with the Asset Liability Management Policy and the Treasury Policy forming the fulcrum for procedures, processes and structure. The important aspect of the Market Risk includes liquidity management, interest rate risk management and the pricing of assets and liabilities. Further, company views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

The ALCO is primarily entrusted with the task of market risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and interest rate risk limits, monitors them, articulates CDB's interest rate view and determines the business strategy of the company.

Operational Risk

Operational Risk, which is intrinsic to CDB in all of its processes and systems, is emerging as an important component of the enterprise-wide risk management system. Recognizing the importance of Operational Risk Management, the company has adopted a Comprehensive Operational Risk Management Policy. This would entail the company moving towards enhanced levels of sophistication in the years ahead and capturing qualitative and quantitative measures of Operational Risk indicators in the management of operational risk.

CDB has a comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The Company has also 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 plays a major role in financial sector organizations. A robust ICT system will facilitate the organization to conduct its operations smoothly. ICT risks are the risks which are associated with the breakdowns and problems of ICT systems such as hardware failures, system failures, hacker attacks etc. Information must be considered as an organizational asset and must consequently be protected. With the aid of a risk

management process, risks should be identified and possible countermeasures implicated.

Risk to the business in terms of IT is the business continuity risk, therefore the company identifies and assesses possible risk to business continuity. The risk will be managed based on three steps: 1st Level, 2nd Level and 3rd Level Failures. The IT department has been categorized for specialized subunits to address different operational issues and it is the responsibility of the sub-units to manage and maintain their areas of responsibility to mitigate the risk to the business.

Further, the company has a comprehensive IT security policy and disaster recovery plan and regular awareness programme 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 year end.

Brand/Reputation Risk

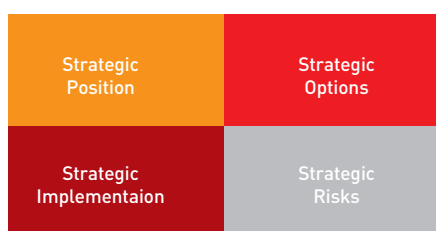
Reputation risk is the risk of losing business because of negative public opinion and consequential damage to the company's reputation arising from failure to properly manage some of the other risks, or from involvement in improper or illegal activities by the company or its senior management, such as money laundering or attempts to cover up losses. Reputation is as much about perception and the perception of behaviors as it is about fact. It is about ethics, trust, relationships, confidence and integrity. It is built on the fundamental belief that management knows how to run its business and will win in the long term and it is built over time. Reputation is one of the most intangible but fundamental drivers of business performance. Damage to reputation can arise from a wide range of causes, and have widespread adverse impacts. For financial services firms, effective management of reputational risk is an increasingly important priority. Reputational risk interacts in complex ways with other sources of risk facing CDB. Many events which are primarily seen in terms of credit, market or operational risk are likely to have adverse spin-off impacts on reputation as well. Examples such as large financial losses, widespread customer defections or major systems failures show this clearly. Equally, damaging reputational risk events which result in business detriment will also impact on core business performance, market position and so on. Sustaining a positive reputation, and avoiding it being threatened, is an essential defense.

CDB has successful reputational risk management through effective cooperation and communication: cooperation between senior management (defining the target reputation and the overall risk strategy), centralized risk management functions (owning the methodologies and processes for any risk management framework, including reputational risk), corporate communications (which are key to mitigating reputational risk and also play an important role in identifying and assessing it) and last but not least the business (which on the one hand can generate risk, for example by designing flawed products, but can also mitigate it through careful analysis, proper communication with customers etc).

Enterprise Governance

Strategic Risk

CDB recognizes strategic risk as part of its strategic intent, the Strategic risk identification, mitigation, and controlling is based on the strategic score card by CIMA. In a framework of enterprise governance, it is key that good quality information is available to the board which is understandable, reliable, relevant and timely. 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.

Compliance Risk

Compliance Risk is the risk of impairment of company's integrity. It is a failure (or perceived failure) to comply with company Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by business or its ensuing activities, which could damage CDB's reputation, lead to legal or regulatory sanctions and/or financial loss.

Management is the owner of compliance risk management and must set a good example by considering stakeholders' expectations, knowing and applying the rules, encouraging a culture where people are trusted and accountable and effectively managing Compliance Risk.

CDB has formed the compliance committee during the year to review and ensure the adherence of regulatory requirements. Also the committee is being identify necessary risks and report on monthly basis.

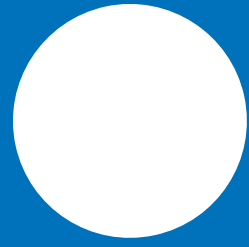
Risk Identification	Risk Category	Measurement (Assessment and Trigger Points)	Risk Monitoring & Controlling
Strategic Risk Array of Internal, external events and trends that can devastate a company's growth trajectory and shareholder value.	Internal Business Risk	Internal business trends being monitored in order to verify any adverse or favorable movements Spreads and Margins Portfolio Health being monitored through Non Performing Ratio, Collection Ratio and Provisions Existing products &New products	Business volumes being monitored on daily basis via credit dash board, and reviewed weekly at the managers' meeting, monthly figures and trends being presented to the board on monthly basis. The credit dash board provides the weighted average costs of lending and mobilizing which is updated to all managers on daily basis to consider the as at date spreads, weekly review at the Managers meeting and report to the board on monthly basis. Non performing ratio presented to managers on monthly basis and provide the same to the board for review. Product development team has been formed with members from different functions, who will recognize the product life cycle and make recommendations accordingly.

Risk Identification	Risk Category	Measurement (Assessment and Trigger Points)	Risk Monitoring & Controlling
	External business risk	<p>Interest rate movements of Treasury bills and Competitors</p> <p>Movement of inflation</p> <p>Changes in regulatory structure and Policy decisions</p>	<p>Treasury bill and bond rate monitored closely to recognize changes in the external market, this will report to the ALCO and IRM committee. Competitor rates also being reviewed to consider the market position.</p> <p>Inflation rate also being reported on monthly basis to the IRM as an external market indicator.</p> <p>Reviewed at the compliance committee</p>
<p>Reputational Risk</p> <p>Reputation risk is the risk of losing business because of negative public opinion and consequential damage to the company's reputation.</p>	<p>Company Specific</p> <p>Stakeholder Specific & Industry Specific</p>	<p>Operational Errors and communication errors which is caused by either human/operational interventions which lead to bad word of mouth among the public and affecting the reputation</p> <p>The identification and perception of the most powerful and interested stakeholders about the company and the risk elements which can be created by them are listed, which leads towards reputation risk</p>	<p>Monthly Analysis through customer care operations report consisting of root causes which affect the reputation. Presented at the monthly managers meeting and the actions to be taken decided at the meeting.</p> <p>Primary and secondary research on existing stakeholders and use of media to analyze the reputational events occurring in the industry.</p> <p>Conduct of a brand Audit to evaluate the customer perception.</p>
<p>Credit Risk</p> <p>This is where the credit loss that results from failure of borrower to honor the credit obligations or financial institution fails to adhere on internal controls & procedures</p>	<p>Documentation Risk</p> <p>Documentation Risk</p> <p>Processing Risk</p>	<p>Accuracy of documents</p> <p>Completeness</p> <p>Legality of documents</p> <p>Maintenance of documents</p> <p>Proper authorization</p>	<p>Credit policies & guidelines</p> <p>A check list of necessary documents has been attached & regularly checked in order to ensure the accuracy and completeness</p> <p>Legality being checked and consulted timely from senior legal officers</p> <p>All reference and security documents being kept in a fire proof safe, other files & agreements being scanned</p> <p>Approval limits have been delegated and authorization based on that is a must to process the facility</p>

Enterprise Governance

Risk Identification	Risk Category	Measurement (Assessment and Trigger Points)	Risk Monitoring & Controlling
	Default Risk	Collection Ratio Bad Debt Provision Management	Post disbursement follow-up division is monitoring the collection ratio on daily basis, this can be drill down to the branch wise, individual recovery officer wise and sales officer wise, which enabled CDB to manage default risk at minimal. Different team being set up to manage provisions, where the non regular payments being managed effectively during the year.
Compliance Risk It's the failure to comply with company business principles, regulatory laws and standards that are relevant to the company.	Regulatory Risk	Statutory Conformance	Monthly assessment of regulatory documents by the Compliance Committee. Submitting a report to the board confirming the adherence to regulatory requirements
Liquidity Risk Liquidity risk is the potential for loss to a company arising either from its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses.	Liquidity position Maturity Gap	Internal liquidity ratio Regulatory liquidity ratio Maturity mismatch	Internal liquidity position being reported to the CEO on daily basis while the weekly meetings review the position. ALCO paper will provide a detail analysis on regulatory and internal liquidity position for decision making. Maturity gap being overlooked on monthly basis at the ALCO meeting and reported to the CEO.
Operational risk Operational Risk is the risk arises due to the people, material products, activities, processes and systems.	People Risk Operational manipulation	Employee turn over Internal audit plan	Employee turnover being reported on annual basis, talent development and retention of top performers has been done through HR. The HR CAP is considering the people aspect and succession planning has been the main objective. Internal audit division has planned monthly visits to every branch on an ongoing basis and provides an independent report to the CEO, which is discussed on monthly basis and necessary action taken to prevent any manipulation.

Risk Identification	Risk Category	Measurement (Assessment and Trigger Points)	Risk Monitoring & Controlling
	Technological manipulation	<p>Branch visits by the Management</p> <p>System audits</p>	<p>CEO and management make weekly visits on selective basis to the branches and random client visits on different areas.</p> <p>Internal & external auditors carry out system audits on random basis avoid any technological manipulation.</p>
<p>Market Risk</p> <p>Market risk is the change in net asset value due to changes in underlying economic factors such as interest rates, exchange rates, and equity and commodity prices.</p>	Interest rate risk	<p>Spreads and Margins</p> <p>Pricing for lending and mobilizing</p> <p>Interest Rate Movements (Internal rates, Market rates & Competitors)</p>	<p>The credit dash board provides the weighted average costs of lending and mobilizing which are updated to all managers on daily basis to consider the as at date spreads, weekly review being done at the Managers meeting and report to the board on monthly basis.</p> <p>Pricing being done through the ALCO, where the decisions being reviewed on monthly basis.</p> <p>Market rates being monitored through the Treasury bill rate trend which is reviewed on weekly basis at the Managers meeting.</p> <p>Internal lending and mobilizing weighted average rates are reported on daily basis through the credit dash board and reviewed on monthly basis.</p> <p>Competitor rate trends reported on weekly basis to consider the market trend.</p>
<p>Information Communication & Technological Risk</p> <p>ICT risks are the risks which are associated with the breakdowns and problems of ICT systems such as hardware failures, system failures, hacker attacks etc. which in turn will affect to the continuity of the business.</p>	Business Continuity Risk	<p>1st Level System failures</p> <p>2nd Level System failures</p> <p>3rd Level System failures</p>	<p>Based on the risk assessment 1st level system failures will be monitored and controlled internally. The failures will be directed to the relevant subunits in the IT department to take necessary action.</p> <p>Based on the risk assessment 2nd level system failures are due to external issues such as telecommunication, hardware break downs etc. the failures will be directed through the relevant subunit.</p> <p>Based on the risk assessment 3rd level system failures are major break downs. These types of failures will be addressed through the disaster recovery plan.</p>



Financial Statements



Report of the Directors

The Board of Directors of Citizens Development Business Finance Limited has pleasure in presenting their Annual Report to the members for the 15 months financial period ended 31st March 2010, together with the audited Financial Statements of the Company and Consolidated Financial Statements of the Group for that period, the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act. The Financial Statements were accepted and approved by the Board of Directors on 04th June 2010. The Report also includes certain disclosures required to be made under the Finance Companies Act direction on Corporate Governance, and are guided by the recommended best practices on Corporate Governance.

Citizens Development Business Finance Limited (CDB) is a limited liability company incorporated on 7th September 1995 and domiciled in Sri Lanka. The registered office of the CDB is situated at No. 18, Sri Sangaraja Mawatha, and Colombo 10.

Principal Activities

The principal activities of CDB continued to be financial services and related activities such as accepting deposits, leasing, hire purchases, loans, operating leases, pawn brokers, foreign exchange money dealership and other financial services.

Review of Operations

A review of the operations of the Company during the 15 months financial period 2009/10 and results of those operations are contained in the Chairman's Review (pages 4 to 7), the Chief Executive Officer's Review (pages 8 to 11) and management discussion (pages 20 to 40) These reports form an integral part of the Annual Report.

Future Developments

An overview of the future developments of the Company is given in the Chairman's Review (pages 4 to 7), the Chief Executive Officer's Review (pages 8 to 11) and Management Discussion and Analysis (pages 20 to 40).

Financial Statements

The Financial Statements of the Company and the Group for the 15 month period ended 31st March 2010 duly signed by the Assistant General Manager - Finance, two of the Directors of the Company namely Chairman and the Chief Executive officer given on pages 67 to 91 which form an integral part of the Annual Report.

Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going-concern basis in preparing these Financial Statements.

Auditors' Report

Company's Auditors, Messrs KPMG Ford, Rhodes, Thornton & Company carried out the audit on the Financial Statements of the Company and the

Consolidated Financial Statements of the Group for the 15 month period ended 31st March 2010 and their report on those Financial Statements which forms an integral part of the Report of the Board of Directors, is given on page 67 of this Annual Report.

Income

The Income of the Group for 2009/10 (Fifteen Months Period) was Rs.1,900,439,913 (2008 - Rs.1,638,973,113) while the Company's income was Rs.1,898,899,386 (2008 - Rs.1,638,454,558). An analysis of the income is given in Note 5 to the Financial Statements.

Financial Results and Appropriations

The Company has recorded a Net Profit after Tax of Rs. 79,576,608 for the fifteen month period ended 2009/10 and group recorded a Net Profit after Tax of Rs. 80, 276,179 for the same Period. Summary of the financial results and appropriations of the Company are given below.

	01.01.2009 to 31.03.2010	01.01.2008 to 31.12.2008
Net Profit after Taxation	79,576,608	65,289,503
Profit/(Loss) brought forward		
from previous Financial Year	15,205,100	(46,084,403)
Profit available for appropriations	94,781,708	19,205,100
Transfer to reserve fund	39,788,304	4,000,000
Inappropriate profit to be carried forward	54,993,404	15,205,100

Reserves

The group reserves consist of:

Capital Reserve	15,082,857	15,082,857
Statutory reserve fund	46,288,304	6,500,000
Revenue Reserves	54,993,404	15,205,100

The Directors propose to transfer Rs. 39,788,304 (2008 - Rs.4,000,000) to Statutory Reserve Fund.

Details of the compliance requirement of the reserve fund is disclose under the Note No. 33 of the Financial Statements.

Taxation

The income tax rate applicable on the Company's operations is 35% (2008 - 35%).

The Company is also liable for Financial service VAT at 20% (2008 - 20%).

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.

Statutory reporting

The Directors, to the best of their knowledge and belief, are satisfied that

all reporting relating to the statutory payments in relation to the Government and the employees have been reported up to date.

Dividends

The Directors recommend a Final Dividend of 50 cents per share (2008 - Nil) for the financial year 2009/10 and the dividend to be paid on 07th July 2010 to the holders of ordinary shares of the Company as at the close of business on 30th June 2010 subject to withholding tax.

The Board of Directors was satisfied that the Company would satisfy the solvency test in terms of the provisions of the Companies Act No. 7 of 2007 immediately after the final dividend proposed which will be paid on 07th July 2010. The Board provided the Statements of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment conforming to the statutory provision.

Capital Expenditure

The total capital expenditure on acquisition of investment property; property, plant and equipment, the company and the Group amounted to Rs. 62,765,990/- and/Rs. 62,765,990 respectively. (2008 Company - Rs. 87,452,606/- and Group Rs. 87,452,606) Details of which are given in Note No. 26 and 27 to the Financial Statements.

Property, Plant and Equipment (PPE)

Details of property, plant and equipment are given in Note 26 to the Financial Statements. There was no significant change in the property, plant and equipment of the Company.

Outstanding Litigation

In the opinion of the Directors and the Company lawyers, pending litigation against the Company disclosed in Note 39 of the Financial Statements will not have a material impact on the financial position of the Company or its future operations.

Events after the Balance Sheet Date

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

Stated Capital

The stated capital of the Company as at 31st March 2010 was Rs.396,850,480, consisting of ordinary shares of 39,685,048 (2008 Rs.396,850,480 consisting of 39,685,048) ordinary shares.

Shareholdings

There were 1534 registered voting shareholders as at 31st March 2010.

The twenty largest voting shareholders of the Company as at 31st March 2010, together with an analysis are given on page 94 of the Annual Report.

The Board of Directors

The Board of Directors of the Company consists of seven (2008 - seven) Directors with wide financial and commercial knowledge and experience. The following Directors held office as at the Balance Sheet date and their brief profiles appear on pages 12 and 13 of the Annual Report.

Name	status
Mr.R. Renganathan	Non Executive Director / Chairman
Mr.E.T.L.Ranasinghe	Non Executive Director
Mr.P.A. Jayawardena	Non Executive Director
Dr.T. Senthilvel	Non Executive Independent Director
Mr.C.M. Nanayakkara	Executive Director/ Chief Executive Officer
Mr.P.N.C. Gomes	Non Executive independent Director
Mr.H.P.G.V. Gunawardena	Non Executive independent Director

Retirement of Directors by Rotation

In terms of Article 94(a) of the Articles of Association of the company Mr.P.A.Jayawardena who retires by rotation and being eligible offered himself for re-election.

In terms of Article 94(a) of the Articles of Association of the company Mr.W.P.C.M.Nanayakkara who retires by rotation and being eligible offered himself for re-election.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Finance Companies Act No. 78 of 1988 and amendments thereto and the directions, rules issued by CBSL under the Finance Companies Act. The Statement of Directors' Responsibility for Financial Reporting is given on page 65 which forms an integral part of the Annual Report of the Board of Directors.

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 standards of the Monetary Board of the Central Bank of Sri Lanka 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 66 which forms part of the Annual Report of the Board.

Report of the Directors

Integrated Risk Management Committee

The Report of the Integrated Risk Management Committee is given on page 64 which forms part of the Annual Report of the Board.

Remuneration Committee

The Report of the Remuneration Committee is given on page 63 which forms part of the Annual Report of the Board.

Directors' Interest Register

The company maintains Directors' Interest Register conforming to the provisions of the Companies Act. The Directors of the Company have disclosed their interests in other Companies to the Board and those interests are recorded in the interest register conforming to the provisions of the Companies Act. The interest of Directors in the Company are cited in annexure No. 1 of this Report.

Directors' interests in the Ordinary Shares

The Shareholdings of Directors were as follows:-

Name	31st March 2010	31st December 2008
Mr.R. Renganathan	Nil	Nil
Mr.E.T.L. Ranasinghe	1,000	1,000
Mr.P.A. Jayawardena	10,000	10,000
Dr.T. Senthilvel	500,000	500,000
Mr.Mahesh Nanayakkara	1,000	1,000
Mr.P.N.C. Gomes	Nil	Nil
Mr.H.P.G.V. Gunawardena	Nil	Nil

There has been no change in their interests in shares between 31st March 2010 and 04th June 2010, being the date of this Report.

Directors' Remuneration

Details of Directors' emoluments paid during the year are given in Note 38(c) to the Financial Statements.

Auditors

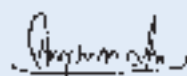
The financial statements for the 15 month period have been audited by M/S KPMG Ford, Rhodes, Thornton and company, chartered Accountants who offer themselves for re appointment.

The retiring auditors 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 the directors to fix their remuneration as recommended by the board will be proposed at the annual general meeting.

The auditors have been paid a fee of Rs. 587,082 as Audit fee for the year ended 31st March 2010 which has approved by the Board.

The directors recommend their reappointment.

By order of the Board.



P.A. Jayawardana
Director



C.M. Nanayakkara
Director / CEO
General Manager

(Sgd)

S.S.P. Corporate Services (Pvt) Ltd
Company Secretary

04th June 2010

Annexure No.1 to the Report of Directors

The Directors of the company have made general declaration as provided for in section 192(2) of the Companies Act No. 7 of 2007. Arising from this details of contracts in which they have an interest are found in note 38 under related party transactions.

The company carries out transactions in ordinary course of its business with parties who are defined as related parties as per the Sri Lanka Accounting Standard 30, "Related Party Disclosures". The pricing applicable to such transactions are purely based on the assessment of risk and rewards basis of such business contracts with what is applied to transactions between the company and its unrelated customers.

Trading transactions with Company

Company	Name of Director	Nature of transaction	Amount (Rs.)
Ceylinco Insurance PLC	Mr. R. Renganathan - Director/Chairman	1. Insurance Premium	292,955,362
	Mr. P.A. Jayawardena - Director	2. Insurance Commission	26,814,548
	Mr. E.T.L. Ranasinghe - Director		
CDB Micro Finance Limited	Mr. R. Renganathan - Director / Chairman	1. Collections of loan installments through Citizens	
	Mr. P.A. Jayawardena - Director	Development Business Finance Limited	
	Mr. E.T.L. Ranasinghe - Director	Balance due to subsidiary	2,290,817
	Mr. C.M. Nanayakkara - Director		
CDB Esop Trust Fund (Pvt) Limited	Mr. R. Renganathan - Director / Chairman	1. No Trading Transactions during the 15 month period	
	Mr. P.A. Jayawardena - Director	however Company holds 31.5% stake of CDB	
	Mr. E.T.L. Ranasinghe - Director	2. Balance due from CDB Esop Trust Fund	125,000,000

Remuneration Committee Report

Composition

The board appointed remuneration committee comprises of 03 directors. The chairman of the committee is a Non Executive Director and the others are Non Executive Independent Directors.

Mr. P.A. Jayawardena - Chairman

Mr. P.N.C.Gomes

Mr. H.P.G.V.Gunawardena

Company Remuneration Policy

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

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

Purpose

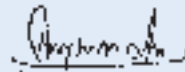
Remuneration committee recommends adoption of a market oriented remuneration policy for its staff and ensure the selection of the best talent and create incentives for staff for their performance and loyalty. The committee also reviews the recruitment, evaluation of employee performance, incentive schemes, bonus policy of the company, rewarding and promotions policy of the senior management and executive officers of the company. The succession plan policy in place and its effectiveness is critically evaluated by the committee. The committee evaluates the performance of the CEO and key management personnel against pre-determined set targets and goals to determine the basis for recommending the basis for rewarding, increments and other benefits.

It considers such other matters relating to remuneration policies or practices as the Board, may from time to time bring to its attention of the committee.

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

Meetings

The committee met twice during the year 2009/10.



P.A. Jayawardena

Chairman

Remuneration Committee

04th June 2010

Colombo

Integrated Risk Management 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, Nine (09) meetings were held to draft and finalize the Risk Management Strategy.

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

04th June 2010

Colombo

Statements of Directors Responsibility

The Responsibility of the Directors, in relation to the Financial Statements of the Company and its subsidiary 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 its subsidiary 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

(Sgd)

Company Secretary

SSP Corporate Services (Private) Ltd

04th June 2010

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.

During the period under review Mr. E.T.L. Ranasinghe, Mr. P.A. Jayawardena & Mrs. A.K. Senevirathna resigned from the Audit Committee. Mr. P.N.C. Gomes and Dr. T. Senthilvel were appointed to the Audit Committee on 30th April 2009 and Mr. P.N.C. Gomes was appointed as the Chairman of the Audit Committee with effect from the said date. Mr Gunawardene was appointed as an alternate member to Dr Senthivel.

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 Assistant General Manager Finance 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 Assistant General Manager Finance 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 Assistant General Manager Finance were 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

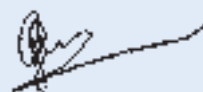
The committee reviewed the procedures established by management for compliance with the requirements of the regulatory bodies. Compliance Officer submitted to the Audit Committee on a quarterly basis, a report on the extent to which the CDB was in compliance with mandatory statutory requirements.

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 fulfill its objectives.



P.N.C. Gomes

Chairman
Audit Committee

04th June 2010
Colombo

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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TO THE SHAREHOLDERS OF CITIZENS DEVELOPMENT BUSINESS FINANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Citizens Development Business Finance Limited (the "Company"), and the consolidated financial statements of the Company and its subsidiary (the "Group") as at March 31 2010, which comprise the balance sheet as at that date, and the income statement, statement of changes in equity and cash flow statement for the 15 month period then ended, and a summary of significant accounting policies and other explanatory notes.

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 15 month period ended March 31, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2010 and its profit and cash flows for the 15 month period 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 March 31, 2010 and the profit and cash flows for the 15 month period 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.

These Financial Statements present the information required by the Finance Companies Act No. 78 of 1988.

CHARTERED ACCOUNTANTS

04th June 2010

Colombo

Statement of Income

	Notes	Company		Group	
		01.01.09-31.03.10 (15 month period)		01.01.09-31.03.10 (15 month period)	
		2009/10 Rs.	2008 Rs.	2009/10 Rs.	2008 Rs.
Income	5	1,898,899,386	1,638,454,558	1,900,439,911	1,638,973,113
Interest Income	6	1,794,819,119	1,496,219,576	1,796,359,644	1,496,726,731
Less: Interest Expenses	7	1,190,634,646	1,092,348,424	1,190,634,646	1,092,348,424
Net Interest Income		604,184,473	403,871,152	605,724,998	404,378,307
Other Income	8	104,080,267	142,234,982	104,080,267	142,246,382
		708,264,740	546,106,134	709,805,265	546,624,689
Less : Operating Expenses	9				
Personnel Expenses		163,536,615	121,024,590	163,536,615	121,024,590
Premises, Equipment and Administration Expenses		209,693,315	159,818,765	209,773,314	159,948,017
Marketing and Business Promotion Expenses		131,905,123	113,948,015	131,905,123	113,987,866
Finance Charges		10,586,865	11,718,259	10,587,365	11,727,259
		515,721,918	406,509,629	515,802,417	406,687,732
Profit before Loan Loss Provision		192,542,822	139,596,505	194,002,848	139,936,957
Provision for Bad and Doubtful Debts-Specific	10	91,282,709	55,923,046	91,657,709	55,923,046
Operating Profit Before VAT on Financial Services and Tax		101,260,113	83,673,459	102,345,139	84,013,911
Value added tax on Financial Services		12,520,412	12,436,285	12,520,412	12,436,285
Profit Before Income Tax		88,739,701	71,237,174	89,824,727	71,577,626
Income Tax Expenses	11	9,163,093	5,947,671	9,548,548	6,068,332
Profit after Income Tax		79,576,608	65,289,503	80,276,179	65,509,294
Attributable to Equity holders of the Parent					
Attributable to Minority Interest					
Net profit attributable to shareholders of the parent Company				80,276,179	65,509,294
Net Profit for the period		79,576,608	65,289,503	80,276,179	65,509,294
Earnings Per Share (EPS)	12	1.60	2.51	1.62	2.51

The accounting policies and notes to the financial statements form an integral part of these Financial Statements

Balance Sheet

	Note No.	Company		Group	
		31.03.2010 Rs.	31.12.2008 Rs.	31.03.2010 Rs.	31.12.2008 Rs.
Assets					
Cash and Cash Equivalents	13	7,165,259	10,617,132	7,467,653	10,619,530
Investment in Government Securities	14	549,962,183	-	549,962,183	-
Deposits with Licensed Commercial Banks & Financial Institutions	15	144,047,575	518,592,354	144,047,575	518,592,354
Securities Purchased under resale agreements	16	150,102,605	-	150,102,605	-
Non Interest Bearing Loans & Advances	17	-	1,541,626	-	-
Loans & Advances	18	1,210,855,151	1,285,880,114	1,214,900,628	1,292,914,188
Net Investments in Leases	19	2,949,261,028	3,555,556,342	2,949,261,028	3,555,556,342
Net Investments in Hiring Contracts	20	874,967,565	791,322,113	874,967,565	791,322,113
Investment Securities	21	100,909,075	125,909,075	100,909,075	125,909,075
Investment in Subsidiaries	22	5,000,000	5,000,000	-	-
Trade and Other Receivables	23	259,449,645	130,019,550	259,449,645	130,019,550
Inventories	24	203,215,974	172,044,544	203,215,974	172,044,544
Investment Properties	25	20,197,977	-	20,197,977	-
Property, Plant and Equipment	26	200,669,868	198,647,455	200,669,868	198,647,455
Total Assets		6,675,803,905	6,795,130,305	6,675,151,776	6,795,625,151
Liabilities					
Deposits From Customers	27	4,837,875,995	-	4,837,875,995	-
Borrowings	28	755,046,204	5,435,743,862	755,046,204	5,435,743,862
Debentures	29	73,880,000	248,954,700	73,880,000	248,954,700
Retirement Benefit obligations	30	11,146,870	6,482,049	11,146,870	6,482,049
Other Liabilities	31	484,639,791	670,311,257	483,068,300	670,586,312
		6,162,588,860	6,361,491,868	6,161,017,369	6,361,766,923
Shareholders' Funds					
Stated Capital	32	396,850,480	396,850,480	396,850,480	396,850,480
Reserve Fund	33	46,288,304	6,500,000	46,288,304	6,500,000
Revaluation Reserve	34	15,082,857	15,082,857	15,082,857	15,082,857
Accumulated Profit		54,993,404	15,205,100	55,912,766	15,424,891
Minority Interest		-	-	-	-
Shareholders' Funds		513,215,045	433,638,437	514,134,407	433,858,228
Total liabilities & Shareholder's Funds & Minority Interest		6,675,803,905	6,795,130,305	6,675,151,776	6,795,625,151
Net Assets Value per Ordinary Share	35	12.93	10.93	12.96	10.93

The accounting policies and notes to the Financial Statements form an integral part of these Financial Statements.

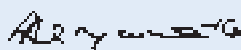
I certify that these Financial statements have been prepared in compliance with the requirements of the companies Act No. 7 of 2007 & Finance Companies Act No. 78 of 1988.



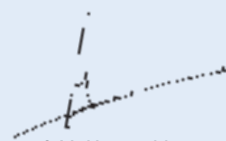
Damith Tennakoon
Assistant General Manager Finance

The Accounting Policies and notes to the accounts form an integral part of these financial statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board



R. Renganathan
Chairman



C.M. Nanayakkara
Director/General Manager/CEO

Statement of Changes in Equity

Fifteen months ended 31 st March 2010	Stated Capital	Revaluation Reserve	Accumulated Profit/ (Losses)	Reserve Fund	Total
Company	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at January 1, 2008	162,907,480	15,082,857	(46,084,403)	2,500,000	134,405,934
Shares issued during the year	233,943,000	-	-	-	233,943,000
Net Profit/(Loss) for the year			65,289,503		65,289,503
Transfer into/(out) from reserve			(4,000,000)	4,000,000	
Balance as at January 01, 2009	396,850,480	15,082,857	15,205,100	6,500,000	433,638,437
Net Profit for the period ended 31st March 2010	-	-	79,576,608	-	79,576,608
Transfer into/(out) from reserve	-	-	(39,788,304)	39,788,304	-
Balance as at March 31, 2010	396,850,480	15,082,857	54,993,404	46,288,304	513,215,045

Fifteen months ended 31 st March 2010	Stated Capital	Revaluation Reserve	Accumulated Profit/ (Losses)	Reserve Fund	Total	Minority Interest	Total Equity
Group	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at January 1, 2008	162,907,480	15,082,857	(46,084,403)	2,500,000	134,405,934		134,405,934
Shares issued during the year	233,943,000	-	-	-	233,943,000	-	233,943,000
Net Profit/(Loss) for the period	-	-	65,509,294	-	65,509,294	-	65,509,294
Transfer into/(out) from reserve	-	-	(4,000,000)	4,000,000	-	-	-
Balance as at December 31, 2008	396,850,480	15,082,857	15,424,891	6,500,000	433,858,228	-	433,858,228
Balance as at January 01, 2009	396,850,480	15,082,857	15,424,891	6,500,000	433,858,228	-	433,858,228
Net Profit/(Loss) for the period	-	-	80,276,179	-	80,276,179	-	80,276,179
Transfer into/(out) from reserve	-	-	(39,788,304)	39,788,304	-	-	-
Balance as at March 31, 2010	396,850,480	15,082,857	55,912,766	46,288,304	514,134,407	-	514,134,407

Cash Flow Statement

	Company		Group	
	01.01.09-31.03.10 (15 month period) 2009/10 Rs.	1,489,966,081 2008 Rs.	01.01.09-31.03.10 (15 month period) 2009/10 Rs.	1,490,473,236 2008 Rs.
Cash flow from operating activities				
Interest receipts	1,754,239,896	1,489,966,081	1,755,780,423	1,490,473,236
Commission receipts	67,981,359	40,707,438	67,981,359	40,796,836
Other income	38,709,908	89,175,722	38,709,908	89,186,322
Interest payments	(1,206,514,427)	(1,065,304,342)	(1,206,514,427)	(1,065,304,342)
Fees and commission expenses	(136,240,078)	(64,141,955)	(136,305,078)	(64,141,955)
Employees related payments	(152,717,042)	(118,870,743)	(152,717,042)	(118,870,743)
Supplier payments	(131,391,603)	(190,025,832)	(131,347,789)	(190,129,134)
Financial expenses	(10,586,865)	(11,718,259)	(10,587,365)	(11,727,259)
Operating profit/(loss) before changes in operating assets	223,481,148	169,788,110	224,999,989	170,282,961
(Increase)/decrease in operating assets				
Investments licensed commercial banks and other financial institutions	224,442,175	(51,208,405)	224,442,175	(51,208,405)
Investment in government securities	(549,962,183)	-	(549,962,183)	-
Net funds advanced to customers	518,392,217	(1,105,792,228)	519,464,186	(1,111,284,681)
Other short term assets	(73,552,215)	11,459,686	(75,843,028)	11,459,686
Inventories	(31,171,430)	(157,007,701)	(31,171,430)	(157,007,701)
Increase/(decrease) in operating liabilities	311,629,712	(1,132,760,538)	311,929,709	(1,137,758,140)
Borrowings	(4,680,697,658)	996,612,637	(4,680,697,659)	996,612,637
Deposits from customers	4,837,875,995	-	4,837,875,995	-
	157,178,337	996,612,637	157,178,336	996,612,637
Cash (used in)/generated from operations	468,808,049	(136,147,901)	469,108,045	(141,145,503)
Gratuity paid	(283,221)	(488,438)	(283,221)	(488,438)
Economic service charge	(30,243,652)	(23,071,998)	(30,243,652)	(23,071,998)
	438,281,176	(159,708,337)	438,581,172	(164,705,939)
Cash flow from investing activities				
Investment property	(20,197,977)	-	(20,197,977)	-
Dividend receipts	1,023,752	-	1,023,752	-
Investment in unquoted shares	-	(5,000,000)	-	-
Investment in quoted shares	-	(99,909,075)	-	(99,909,075)
Investment in debentures	21,180,954	-	21,180,954	-
Purchase of property, plant & equipment	(42,568,013)	(87,452,607)	(42,568,013)	(87,452,607)
Proceeds from sale of property, plant & equipment	15,891,667	3,392,501	15,891,667	3,392,501
Net cash inflows/(outflows) investing activities	(24,669,617)	(188,969,181)	(24,669,617)	(183,969,181)

Cash Flow Statement

	Company		Group	
	01.01.09-31.03.10 (15 month period) 2009/10 Rs.	2008 Rs.	01.01.09-31.03.10 (15 month period) 2009/10 Rs.	2008 Rs.
Cash flow from financing activities				
Issue of shares	-	233,943,000	-	233,943,000
Unallotted share collection	-	(13,414,451)	-	(13,414,451)
Redemption of debentures	(175,074,700)	(230,253,800)	(175,074,700)	(230,253,800)
Net cash inflow (out flows) from financing activities	(175,074,700)	(9,725,251)	(175,074,700)	(9,725,251)
Net increase/(decrease) in cash & cash equivalents	238,536,859	(358,402,769)	238,836,855	(358,400,371)
Cash & cash equivalents at the beginning of the Year	(345,183,933)	13,218,836	(345,181,535)	13,218,836
Cash & cash equivalents at the end of the year	(106,647,074)	(345,183,933)	(106,344,680)	(345,181,535)
Cash and cash equivalents at the beginning of the year				
Cash at bank and in hand	10,617,132	61,985,045	10,619,530	61,985,045
Bank overdraft	(355,801,065)	(48,766,209)	(355,801,065)	(48,766,209)
	(345,183,933)	13,218,836	(345,181,535)	13,218,836
Cash and cash equivalents at the end of the year				
Cash at bank and in hand	7,165,259	10,617,132	7,467,653	10,619,530
Bank overdraft	(113,812,333)	(355,801,065)	(113,812,333)	(355,801,065)
	(106,647,074)	(345,183,933)	(106,344,680)	(345,181,535)

The accounting policies and notes to the Financial Statements form an integral part of these Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

Citizens Development Business Finance Limited ("CDB") is a limited liability company incorporated on 7th September 1995 and domiciled in Sri Lanka. Its registered office is at No. 18, Sri Sangaraja Mawatha, Colombo 10.

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 Consolidated Financial Statements of CDB for the fifteen months ended 31st March 2010 include the company (Parent Company) and its fully own Subsidiary of CDB Micro Finance Limited (together referred to as the Group).

CDB does not have an identifiable parent of its own.

1.1 Principal Activities

1.1.1 CDB

The principal activities of CDB continued to be financial services and related activities such as accepting deposits, leasing, hire purchases, loans, operating leases, pawn brokering, foreign exchange money dealership and other financial services.

There were no significant changes in the nature of the principal activities of the Company and the Group during the 15 months financial period under review.

However, being registered under the finance companies act enabled the company to mobilize time deposits from general public with effect from May 2009.

1.1.2. Subsidiary

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements comprising balance sheet, income statement, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory notes have been prepared 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 and Finance Companies Act No. 78 of 1988 and amendments thereto.

2.2 Approval of Financial Statements by Directors

The Financial Statements for the 15 months period ended 31st March 2010 were authorized for issue by the Board of Directors on 04th June 2010.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

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 accumulated depreciation and impairment losses, if any.

Dealing securities are measured at market value.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the groups' functional & presentation currency. Financial information presented in Sri Lankan Rupees has been given to the nearest rupee unless otherwise stated.

2.4.1 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 the functional currency at the rate of exchange ruling at that date. Differences arising from conversion are recognized in the income statement.

2.5 Use of Estimates and Judgments

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 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 2.5.1 to 2.5.5.

Notes to the Financial Statements

2.5.1 Going Concern

When preparing the financial statements, the directors have made an assessment of the ability of the constituents of the future 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.

2.5.2 Classification of trading securities and Investment Securities

In classifying securities as "Dealing" (Trading), the group has determined that it meets the description set out in Note 4.5.1. 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 4.5.2.

2.5.3 Provision for Loan Losses

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

2.5.4 Employee Defined Benefit Obligation

The estimation of this liability, which is not externally funded & determined by an independent, qualified actuary, necessarily involves long term assumptions, which have been disclosed in note 31(b).

2.5.5 Comparative Information

Management has changed the accounting period from 31st December to 31st March. Therefore, this financial period consist of 15 months commencing from 1st January 2009 to 31st March 2010. However, the comparative figures in the financial statements are presented for the 12 months period ended 31st December 2008.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. Comparative information is reclassified wherever necessary to comply with the current presentation.

3 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.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 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 CDB. Control exists when 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.

This CDB Micro Finance limited is a fully own subsidiary of CDB.

Company does not own any Associate or Joint venture company as at the Balance sheet date.

4.2 Transactions Eliminated on Consolidation

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

4.3 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand & balances with banks. They are brought to account at the face value or the gross value where appropriate. Bank overdrafts that are repayable on demand & form an integral part of the company's cash resources are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

4.4 Government of Sri Lanka Treasury Bills and Bonds

4.4.1 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 mark to market valuation are dealt with through the Income Statement.

4.4.2 Securities Purchased under Re-sale Agreements

Securities purchased under re-sale agreements are recorded separately in the Financial Statements at cost. 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.

4.5 Investments Other than Government of Sri Lanka Treasury Bills and Bonds

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

4.5.1 Dealing/(Trading) Securities

Dealing (trading) securities are those investments 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 mark to market valuations are dealt with through the Income Statement.

4.5.2 Investment Securities

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 considered to be a diminution in value which is other than temporary.

Investments in treasury bills/bonds in the investment portfolio are initially measured at market value of bills/bonds at the date of Purchase and the discount/premium accrued thereon.

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

4.5.3 Investments in Subsidiaries

Investments in Subsidiaries are stated at cost in the company's Financial Statements.

4.6 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.

4.6.1 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). Details of the Criteria referred to above are given in Note 4.6.2. Provisions for possible loan losses are made on the basis of a 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 disclosed in the Financial Statements of Finance Companies.

4.6.2 Provision for Loan Losses

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

4.6.3 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 29 December 2006 issued by the Central Bank of Sri Lanka on "Finance Companies (Provision for Bad and Doubtful Debts), interest ceases to be accrued and is taken to income thereafter on cash basis.

4.6.4 Write-Off Policy

Company 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.

4.7 Finance Leases and Hire Purchase Assets

4.7.1 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

Notes to the Financial Statements

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.

4.7.2 Provision for Lease Receivables

Specific provision has been made in relation to identified non performing leases as stated above in Note 4.6.2

4.7.3 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 purchases are included under "Hire purchase Rentals Receivable". Such 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.

4.7.4 Provision for Hire Purchase Receivables

Specific provision has been made in relation to identified non performing Hire purchases as stated above in Note 4.6.2.

4.7.5 Inventories and Repossessed Stock

Inventories

Inventories include new vehicles purchased for the purpose of lease out under finance leases. Those vehicles are valued at cost and net realizable value whichever is lower. The cost of inventories is the purchase price. Net realisable value is the estimated realisable value less estimated cost necessary to make the sale.

Repossessed Stock

Repossessed stock include 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 realisable value of the asset whichever is lower. Net realisable value is the estimated selling price less the estimated cost necessary to make the sale

4.8 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.

4.8.1 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 Company / Group and cost of the investment property can be reliably measured.

4.8.2 Measurement

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

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (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.

4.8.3 Derecognition

Investment properties are derecognised when disposed off or permanently withdrawn from use because no future economic benefit are expected. Transfers are made to and from investment property only when there is a change in use.

4.9 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for services, or for administrative purposes and are expected to be used during more than one period.

4.9.1 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 or replace part of 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 capitalized as part of computer equipment.

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 recognized within "other Income" in Income Statement.

When revalued assets are sold, the amount amounts included in the revaluation surplus are transferred to retained earnings.

4.9.2 Subsequent Costs

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.

4.9.3 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. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

4.9.4 Depreciation

Property plant and Equipment are stated in the Balance Sheet at cost or revaluation less accumulated depreciation together with any incidental expenses thereon. Depreciation is provided from the date the asset is available for use up to the date it is derecognized. The Company and its subsidiary provide depreciation for the following assets on the reducing balance basis at the percentages stated below. Land is not depreciated.

Motor Vehicle - 20% on written down value

Furniture and Fittings - 10 % on written down value

Computer Equipment - 10% on written down value

Office Equipment -10% on written down value

4.9.5 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalized 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.

4.10 Impairment

4.10.1 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 4.6.4. 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.

4.10.2 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 recognized in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

Assets with an indefinite useful life, including goodwill, are not subject to amortization and are tested on an annual basis for impairment and additionally whenever an indication of impairment exists. Assets that are subject to amortization 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. An impairment loss in respect of goodwill is not reversed. In respect of other assets impairment losses recognized 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

Notes to the Financial Statements

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 amortization, if no impairment loss had been recognized.

LIABILITIES AND PROVISIONS

4.11 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.

4.12 Borrowings

Borrowings include interest bearing promissory notes issued to retail customers.

Interest accrued is charged to the Income Statement.

4.13 Other payable and liabilities

Other payables 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.

4.14 Employee Benefits

4.14.1 Defined Benefit Plans

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 and valuation of the defined benefit obligation is carried out by a qualified actuary. The key assumptions used in determining the defined benefit obligations are given in note 32(b).

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 and as reduced by the fair value of plan Asset.

Any Asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds are reductions in future contributions to the plan.

Gratuity payments are 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.

The gratuity liabilities are not externally funded.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized 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 recognized immediately in Income Statement.

4.14.2 Defined Contribution Plan

A defined contribution plan is a post employment benefit plan under which an entity pays a fixed contribution to a separate entity and will have no legal or constructive obligation to pay future amounts. Obligation for contribution to provident fund under the provident fund Act No. 46 of 1980 covering all employees, are recognized as an employee benefit expense in the income statement when they fall due.

4.14.3 (a) Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the Employee Provident Fund.

4.14.3 (b) Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

4.15 Revenue Recognition

4.15.1 Interest Income

Interest receivable is recognized on an accrual basis. Interest from loans and advances ceases to be accrued when they are classified as non-performing as explained in Note 4.6.3. 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 recognized on an accrual basis.

4.15.2 Dividend Income

Dividend income is recognized in the Income Statement, when the company's right to receive the dividend is established.

4.15.3 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 recognized on a cash basis.

4.15.4 Trading Income

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

4.15.5 Fee and Commission Income

Fees and commission income, including sales commission, insurance commission and processing charges.

4.15.6 Profit/Loss from Sale of Property, Plant and Equipment

Profit/loss from sale of property, plant and equipment are recognized in the period in which the sale occurs and is classified as other income.

4.15.7 Profit/Loss from Sale of Investment Properties

Any gains or losses on retirement or disposal of investment properties are recognized in the month of retirement or disposal.

4.15.8 Profit/Loss from Sale of Leased Assets

Profit/loss from sale of Leased Assets is recognized in the period in which the sale occurs and is classified as other income.

4.16 Expenses**4.16.1 Interest Expenses and Other Expenses**

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

4.16.2 Fee and Commission Expenses

Fee and commission expenses are recognized on an accrual basis.

4.17. Income Tax Expense

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the Income Statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity

4.17.1 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.

4.17.2 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 by the reporting date.

Deferred tax liabilities are not recognized for the following temporary differences: The initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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.

4.17.3 Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and is allowed under the tax law of the relevant jurisdiction.

4.17.4 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.

4.18 Earnings per Share

The Group presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

4.19 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.

Notes to the Financial Statements

4.20 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 respective notes to the financial statements.

PRESENTATION

4.21 Offsetting Income and Expenses

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

4.22 Offsetting 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.

	Company		Group	
	01.01.09-31.03.10 (15 month period)		01.01.09-31.03.10 (15 month period)	
	2009/10 Rs.	2008 Rs.	2009/10 Rs.	2008 Rs.
5 INCOME				
Interest Income	1,794,819,119	1,496,219,576	1,796,359,644	1,496,726,731
Dividend Income	1,023,752	-	1,023,752	-
Fees and Commission Income	109,434,509	127,682,448	109,434,509	127,682,448
Profit/(Loss) from sale of Dealing Securities	(3,819,047)		(3,819,047)	
Profit/(Loss) on disposal of Assets	(2,558,947)	14,552,534	(2,558,947)	14,552,534
Other Income from Micro Finance				11,400
	1,898,899,386	1,638,454,558	1,900,439,911	1,638,973,113
6 INTEREST INCOME				
Government Securities and Placement with Banks and Finance Companies	56,092,568	133,726,746	56,092,568	133,726,746
Loans and Advances to customers	261,462,905	235,118,331	261,462,905	235,118,331
Leasing	1,064,367,408	797,933,420	1,064,367,406	797,933,420
Hire purchase	212,574,102	193,437,063	212,574,102	193,437,063
Other Interest Income	200,322,136	136,004,016	200,322,136	136,004,016
Interest Income from Micro Finance			1,540,527	507,155
	1,794,819,119	1,496,219,576	1,796,359,644	1,496,726,731
7 INTEREST EXPENSES				
Borrowings	699,082,627	1,028,474,451	699,082,627	1,028,474,451
Debentures	29,757,913	63,873,973	29,757,913	63,873,973
Deposits From Customers	461,794,106	-	461,794,106	-
	1,190,634,646	1,092,348,424	1,190,634,646	1,092,348,424
8 OTHER INCOME				
Dividend Income	1,023,752	-	1,023,752	-
Fees and Commission Income	109,434,509	127,682,448	109,434,509	127,682,448
Profit/(Loss) from sale of Dealing Securities	(3,819,047)	-	(3,819,047)	-
Profit/(Loss) from Disposal of Assets	(2,558,947)	14,552,534	(2,558,947)	14,552,534
Other Income from Micro Finance				11,400
	104,080,267	142,234,982	104,080,267	142,246,382
9 OPERATING EXPENSES INCLUDE THE FOLLOWING				
Depreciation of Property, Plant and Equipment	23,521,334	16,724,566	23,521,334	16,724,566
Legal Expenses and Professional Fees	4,091,814	7,718,412	4,091,814	7,718,412
Staff Related expenses	163,536,615	121,024,590	163,536,615	121,024,590
Directors Emoluments (9a)	7,510,079	6,195,397	7,510,079	6,195,397
Auditors Remuneration (9b)	587,082	375,000	667,082	440,000
Advertising & Communication	22,042,344	47,745,222	47,260,632	47,745,222
Activities on Corporate Social Responsibility	2,505,525	1,014,975	2,505,525	1,014,975
Employee Provident Fund and Trust Fund Expenses	15,113,069	10,439,721	15,113,069	10,439,721
Employee Define Benefit Plan Service Expenses	4,948,042	3,154,296	4,948,042	3,154,296

9(a) DIRECTORS EMOLUMENTS

The details report of the Directors Emoluments and Expenses Relating to the Key Management personnel are given under the Note No. 38(c).

Notes to the Financial Statements

	Company		Group	
	01.01.09-31.03.10		01.01.09-31.03.10	
	(15 month period)		(15 month period)	
	2009/10	2008	2009/10	2008
	Rs.	Rs.	Rs.	Rs.
9(b) AUDITORS REMUNERATION				
Audit Fees and Expenses	476,926	375,000	556,926	440,000
Audit related fee and Expenses	-	-	-	-
Non- Audit Services	110,156	-	110,156	-
10 PROVISION FOR BAD AND DOUBTFUL DEBTS				
Leasing	59,022,386	35,095,386	59,022,386	35,095,386
Hire purchase	17,628,414	15,145,451	17,628,414	15,145,451
Loans & Advances	4,173,427	5,682,209	4,548,427	5,682,209
Market Value adjustment for repossessed Vehicle Stock	10,458,482	-	10,458,482	-
	91,282,709	55,923,046	91,657,709	55,923,046
11. TAXATION				
Income Tax Expenses (11a)	9,163,093	5,947,671	9,548,548	6,068,332
Deferred tax Expenses (11b)	-	-	-	-
	9,163,093	5,947,671	9,548,548	6,068,332

11(a) INCOME TAX EXPENSES ACCOUNT

During the period under review, company's Financial year was changed to a year of Assessment basis (April to March) from the calendar year basis. (January to December) Therefore, Inland Revenue Department has given ruling to compute taxes for the year assessment 2009/10 on the basis of profits for the period from 01.01.09 to 01.12.09 or 01.04.09 to 31.3.10 which ever is higher. Accordingly, the company computed its tax liability on the profits from 01.01.09 to 31.12.09.

	Company 2009	Company 2009	Company 2009	Group 2009	Group 2009	Group 2009
	Leasing Business	Other Business	Total	Leasing Business	Other Business	Total
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)
Adjusted Business profit	18,915,628	20,766,472	39,682,100	18,915,628	21,851,499	40,767,127
Taxable Profit						
Tax losses utilized			(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			135,415			141,112
Income tax on Profits			9,163,093			9,548,548

	Company 2008 Leasing Business	Company 2008 Other Business	Company 2008 Total	Group 2008 Leasing Business	Group 2008 Other Business	Group 2008 Total
Profit before taxation	56,445,936	14,791,239	71,237,175	56,445,936	15,131,690	71,577,626
Profit attributable for Tax purpose						
Capital portion of Lease rentals	963,631,493		963,631,493	963,631,493		963,631,493
Income on other sources						
Disallowable Expenses	(128,088,054)	21,010,969	(107,077,085)	(128,088,054)	21,010,969	(107,077,085)
Allowable Expenses	(13,093,326)	(1,459,208)	(14,552,534)	(13,093,326)	(1,459,208)	(14,552,534)
Capital Allowances	(1,060,149,901)		(1,060,149,901)	(1,060,149,901)	-	(1,060,149,901)
Adjusted Business profit	(181,253,852)	34,343,000	(146,910,852)	(181,253,852)	34,683,451	(146,570,401)
Taxable Profit			25,757,250			26,096,903
Tax losses utilized			(9,015,037)			(9,015,037)
Taxable Income			16,742,213			17,081,866
Income Tax @ 35%			5,859,774			5,978,652
Social Responsibility levy			87,897			89,680
Income tax on Profits			5,947,671			6,068,332

11.(b) DEFERRED TAXATION

The Deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these terms because it is not probable that future taxable profits will be available against which the company/subsidiary can utilize the benefit there from. The Deferred Tax Asset amounting to Rs. 164,731,477 (Rs. 228,907,607 - 2008) has not been recognized in the financial statements. No Deferred Tax assets or liability have been recognized in the financial statements of CDB Micro Finance Limited.

	Company 2009/10 Temporary differences	Company 2009/10 Tax Effect	Group 2009/10 Tax Effect	Company 2008 Temporary differences	Company 2008 Tax Effect	Group 2008 Tax Effect
Tax effect on Deferred Tax assets on c/f Tax Losses	523,447,960	183,206,786	183,206,786	694,553,938	243,093,878	243,093,878
Temporary Differences on Property						
Plant and Equipment	(63,933,474)	(22,376,716)	(22,376,716)	(47,014,252)	(16,454,988)	(16,454,988)
Defined Benefit Plan obligations	11,146,876	3,901,407	3,901,407	6,482,049	2,268,717	2,268,717
Deferred Tax Asset (Liability)		164,731,477	164,731,477		228,907,607	228,907,607

Notes to the Financial Statements

12. EARNINGS PER SHARE

Basic Earnings Per Share

Basic Earnings 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 issued as at 31st March 2010.

Earnings Per share calculation has been computed as per the requirements of the Sri Lanka Accounting standard 34- Earnings Per Share.

	Company		Group	
	01.01.09-31.03.10 (15 month period) 2009/10 Rs.	2008 Rs.	01.01.09-31.03.10 (15 month period) 2009/10 Rs.	2008 Rs.
Profit/ (Loss) attributable to Ordinary Share Holders	79,576,608	65,289,503	80,276,176	65,509,294
Amount used as the Numerator				
Profit / (Loss) attributable for the period of 12 Months (Annualized)	63,661,286	65,289,503	64,220,943	65,509,294
Amount used as the Denominator				
No. of shares in Issue	39,685,048	26,053,615	39,685,048	26,053,615
Earnings Per Share	1.60	2.51	1.62	2.51

	Company		Group	
	31.03.2010 Rs.	31.12.2008 Rs.	31.03.2010 Rs.	31.12.2008 Rs.
Cash in hand	209,969	310,000	209,969	310,000
Balances with Licensed Commercial Banks	6,955,290	10,307,132	7,257,684	10,309,530
	7,165,259	10,617,132	7,467,653	10,619,530

14. INVESTMENT IN GOVERNMENT SECURITIES

Treasury Bills of Central Bank of Sri Lanka	549,962,183	-	549,962,183	-
	549,962,183	-	549,962,183	-

15. DEPOSITS WITH LICENSED COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS

Licensed Commercial Banks	143,889,547	518,434,326	143,889,547	518,434,326
Other Financial Institutions	158,028	158,028	158,028	158,028
	144,047,575	518,592,354	144,047,575	518,592,354

	Company		Group	
	31.03.2010 Rs.	31.12.2008 Rs.	31.03.2010 Rs.	31.12.2008 Rs.
16 SECURITIES PURCHASED UNDER RE SALE AGREEMENTS				
Primary Dealer Unit - Seylan Bank PLC	85,077,286		85,077,286	
Primary Dealer Unit - People Bank	65,025,319	-	65,025,319	-
	150,102,605	-	150,102,605	-
17. NON INTEREST BEARING LOANS & ADVANCES				
Group Loans	-	3,218,050	-	3,218,050
CDB Micro Finance Co Ltd	-	1,541,626	-	-
Provision for Loan Losses	-	(3,218,050)	-	(3,218,050)
	-	1,541,626	-	-
18 LOANS & ADVANCES				
Short Term Loans	301,800,400	408,146,802	301,800,400	408,146,802
Term and Vehicle Loans	781,199,407	749,009,348	785,619,884	756,043,422
Pawning Advances	3,372,147	-	3,372,147	-
Staff Loans	11,201,304	11,262,644	11,201,304	11,262,644
Loans Given to Employee Share Ownership Trust	125,000,000	125,006,000	125,000,000	125,006,000
	1,222,573,258	1,293,424,794	1,226,993,735	1,300,458,868
Provision for Loan Loss (18.(a))	(11,718,107)	(7,544,680)	(12,093,107)	(7,544,680)
Net Loans and Advances	1,210,855,151	1,285,880,114	1,214,900,628	1,292,914,188
18.(a) MOVEMENTS IN PROVISION FOR BAD AND DOUBTFUL DEBTS				
Balance at the beginning of the year	7,544,680	5,080,521	7,544,680	5,080,521
Add. Provision for the year	4,173,427	2,464,159	4,548,427	2,464,159
Balance at the end of the year	11,718,107	7,544,680	12,093,107	7,544,680
19. NET INVESTMENTS IN LEASES				
Lease Rentals Receivable within one year	2,119,374,233	1,994,949,757	2,119,374,233	1,994,949,757
Lease Rentals Receivable after one year	2,441,527,048	3,518,527,691	2,441,527,048	3,518,527,691
	4,560,901,281	5,513,477,448	4,560,901,281	5,513,477,448
Lease Rentals Received in Advance	(124,542,594)	(76,142,060)	(124,542,594)	(76,142,060)
Unearned Interest Income	(1,343,724,805)	(1,797,428,579)	(1,343,724,805)	(1,797,428,579)
	3,092,633,882	3,639,906,809	3,092,633,882	3,639,906,809
Provision for Bad Debts (Note 19.(a))	(143,372,854)	(84,350,467)	(143,372,854)	(84,350,467)
Net Investment in Finance Leases	2,949,261,028	3,555,556,342	2,949,261,028	3,555,556,342
19.(a) MOVEMENTS IN PROVISION FOR BAD AND DOUBTFUL DEBTS				
Balance at the beginning of the year	84,350,467	49,255,081	84,350,467	49,255,081
Add. Provision for the year	59,022,387	35,095,386	59,022,387	35,095,386
Balance at the end of the year	143,372,854	84,350,467	143,372,854	84,350,467

Notes to the Financial Statements

	Company		Group	
	31.03.2010	31.12.2008	31.03.2010	31.12.2008
	Rs.	Rs.	Rs.	Rs.
20 NET INVESTMENTS IN HIRING CONTRACTS				
Hire Purchase Receivables within one year	595,389,060	440,797,494	595,389,060	440,797,494
Hire Purchase Receivables after one year	694,133,207	717,870,787	694,133,207	717,870,787
	1,289,522,267	1,158,668,281	1,289,522,267	1,158,668,281
Unearned Interest Income	(370,121,291)	(340,541,171)	(370,121,291)	(340,541,171)
	919,400,976	818,127,110	919,400,976	818,127,110
Provision for Bad Debts (Note 20.(a))	(44,433,411)	(26,804,997)	(44,433,411)	(26,804,997)
Net Investment in Hire Purchase	874,967,565	791,322,113	874,967,565	791,322,113

20.(a) MOVEMENTS IN PROVISION FOR BAD AND DOUBTFUL DEBTS

Balance at the beginning of the year	26,804,997	11,659,546	26,804,997	11,659,546
Provision for the year	17,628,414	15,145,451	17,628,414	15,145,451
Balance at the end of the year	44,433,411	26,804,997	44,433,411	26,804,997

21 INVESTMENT SECURITIES

Quoted Shares held by the Company (21.(a))	99,909,075	99,909,075	99,909,075	99,909,075
Quoted Debentures held by the Company (21.(b))	1,000,000	26,000,000	1,000,000	26,000,000
	100,909,075	125,909,075	100,909,075	125,909,075
Provisions made for fall in value of quoted investment securities	-	-	-	-
	100,909,075	125,909,075	100,909,075	125,909,075
Unquoted Shares held by Company (21.(c))	24,664,550	24,664,550	24,664,550	24,664,550
Provisions made for fall in value of unquoted investment securities	(24,664,550)	(24,664,550)	(24,664,550)	(24,664,550)
	100,909,075	125,909,075	100,909,075	125,909,075

21.(a) QUOTED SHARES HELD AT COMPANY

	2009/2010			2008		
	No of Ordinary Shares/Debentures	Cost of the Investment	Market Value	No of Ordinary Shares/Debentures	Cost of the Investment	Market Value
Ceylinco Insurance PLC	564,000	99,909,075	132,540,000	564,000	99,909,075	98,700,000

21.(b) QUOTED DEBENTURES HELD BY THE COMPANY

Seylan Bank PLC						
(Five year debenture matured on December 2012)	10,000	1,000,000	1,000,000	260,000	26,000,000	26,000,000

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
Provision for diminution in market value		24,664,550			24,664,550
Total		-			-

22 INVESTMENT IN SUBSIDIARIES

Unquoted	Holding	Principle Activity	2009/10		2008	
			Cost of Investment	Directors Valuation	Cost of Investment	Directors Valuation
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

	Company		Group	
	31.03.2010 Rs.	31.12.2008 Rs.	31.03.2010 Rs.	31.12.2008 Rs.
23 TRADE AND OTHER RECEIVABLES				
Interest Receivable	85,931,787	45,352,565	85,931,787	45,352,565
Insurance Premium Receivable	48,917,629	-	48,917,629	-
Economic Service Charge Receivable	81,484,877	51,241,225	81,484,877	51,241,225
Other Receivables and advances	26,585,967	18,213,270	26,585,967	18,213,270
Legal Receivable on Disposals (23.(a))	-	-	-	-
Insurance Commission Receivable	16,529,385	15,212,490	16,529,385	15,212,490
	259,449,645	130,019,550	259,449,645	130,019,550

23.(a) LEGAL RECEIVABLE ON DISPOSALS

Legal Receivable on Disposals	10,458,482	-	10,458,482	-
Provisions for loan Losses	(10,458,482)	-	(10,458,482)	-
	-	-	-	-

24 INVENTORIES

Vehicle Stock - Three Wheelers	149,188,932	80,883,570	149,188,932	80,883,570
Repossessed Stock	54,027,042	91,160,974	54,027,042	91,160,974
	203,215,974	172,044,544	203,215,974	172,044,544

25 INVESTMENT PROPERTIES

Cost				
Balance as at beginning of the year	-	-	-	-
Additions during the year	20,197,977	-	20,197,977	-
Improvements	-	-	-	-
Balance as at end of the period	20,197,977	-	20,197,977	-
Accumulated Depreciation				
Balance as at beginning of the year	-	-	-	-
Additions during the year	-	-	-	-
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	-
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 Valuers of Sri Lanka,) who is an independent valuer. The Company carries the investment properties at cost. Since the fair value of the investment properties were above the carrying value, the board of directors concluded that there was no impairment in investment properties.

Notes to the Financial Statements

25.1 Valuations of Investment Property - Company

As at 31st March 2010	Extent	Cost	Fair Value
Property Situated at Biyagama	0A-3R-00P	20,197,977	32,000,000

25.2 Valuations of Investment Property - Group

Property Situated at Biyagama	Extent	Cost	Fair Value
	0A-3R-00P	20,197,977	32,000,000

26 PROPERTY, PLANT & EQUIPMENT

Cost	Land Rs.	Furniture & Fittings Rs.	Computer Equipment Rs.	Office Equipment Rs.	Motor Vehicles Rs.	Total Rs.
Balance at the beginning of the year	63,524,745	42,532,275	59,369,852	24,888,609	42,602,776	232,918,257
Additions during the year		12,376,972	15,697,849	6,349,192	8,144,000	42,568,013
Disposal during the year	-	-	-	-	(22,340,000)	(22,340,000)
Balance at the end of the Year	63,524,745	54,909,247	75,067,701	31,237,801	28,406,776	253,146,270
Depreciation						
Balance at the beginning of the year	-	8,179,132	9,947,733	7,108,173	9,035,763	34,270,801
Charge for the year	-	4,853,950	6,991,792	2,543,872	9,131,720	23,521,334
Disposal during the year	-	-	-	-	5,315,733	5,315,733
Balance at the end of the Year	-	13,033,082	16,939,525	9,652,045	12,851,750	52,476,402
W.D.V at the end of the year	63,524,745	41,876,165	58,128,176	21,585,756	15,555,026	200,669,868
W.D.V at the beginning of the year	63,524,745	34,353,143	49,422,119	17,780,436	33,567,013	198,647,455

The company has re valued its lands situated at Kadawatha on 31.12.2006 by Mr. D. S. N Perera (Graduate member of the Institute of Valuers of Sri Lanka,) who is an independent valuer.

	Company		Group	
	31.03.2010	31.12.2008	31.03.2010	31.12.2008
	Rs.	Rs.	Rs.	Rs.

27 DEPOSITS FROM CUSTOMERS

Time Deposits	4,837,875,995	4,837,875,995	-
	4,837,875,995	-	4,837,875,995

28 BORROWINGS

Promissory Notes	589,639,564	4,687,537,458	589,639,564	4,687,537,458
Securitisation	165,406,640	748,206,404	165,406,640	748,206,404
	755,046,204	5,435,743,862	755,046,204	5,435,743,862

29 DEBENTURES

Unsecured, Subordinated, Redeemable Debentures (29.(a))	73,880,000	248,954,700	73,880,000	248,954,700
	73,880,000	248,954,700	73,880,000	248,954,700

29(a) UNSECURED, SUBORDINATED, REDEEMABLE DEBENTURES

Year of Issue	Redemption Period	Private / Public Issue	Rate	Company Amount Outstanding as at 31.03.2010 Rs.	Group Amount Outstanding as at 31.03.2010 Rs.
2005	2005-10	Private Issue	12% - 13%	8,876,000	8,876,000
2006	2006-11	Private Issue	12.75% - 17%	43,504,000	43,504,000
2007	2007-10	Private Issue	14.25% - 21.50%	16,113,000	16,113,000
2008	2008-10	Private Issue	19.50% - 21.50%	5,387,000	5,387,000
				73,880,000	73,880,000

All debenture holders have an option to redeem their investments, prior to maturity, after one year from the date of issue.

	Company		Group	
	31.03.2010	31.12.2008	31.03.2010	31.12.2008
	Rs.	Rs.	Rs.	Rs.
30 RETIREMENT BENEFIT OBLIGATIONS				
Balance as at 1, January	6,482,049	6,582,994	6,482,049	6,582,994
Effects of change in accounting policy	-	(2,766,803)	-	(2,766,803)
Revised balance as at 1 January	6,482,049	3,816,191	6,482,049	3,816,191
Current service Cost	2,558,800	1,146,811	2,558,800	1,146,811
Interest Cost	820,143	381,619	820,143	381,619
Actuarial (Gain)/Loss	1,569,099	1,625,866	1,569,099	1,625,866
Payments made	(283,221)	(488,438)	(283,221)	(488,438)
Balance as at 31, March	11,146,870	6,482,049	11,146,870	6,482,049

30.(a) AMOUNT RECOGNIZED IN THE INCOME STATEMENT

Current service Cost	2,558,800	1,146,811	2,558,800	1,146,811
Interest Cost	820,143	381,619	820,143	381,619
Actuarial (Gain)/Loss	1,569,099	1,625,866	1,569,099	1,625,866
	4,948,042	3,154,296	4,948,042	3,154,296

An actuarial valuation of the Gratuity liability was carried out as at 31st March 2010 by Mr.R.Kahakachchi AIA, Messrs , Actuarial and Management Consultants (Pvt) Limited a company of professional actuaries.The Valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method" the method recommended by the Sri Lanka Accounting Standard No. 16 (Revised 2006) "Employee Benefits" The company does not fund the gratuity liability in a separate fund.

30.(b) ACTUARIAL ASSUMPTIONS

Normal retirement age - 55 years (2008 - 55years)
Rate of discount - 11% (2008 - 10%)
Salary increase - 10% (2008 - 8.5%)

	Company		Group	
	31.03.2010	31.12.2008	31.03.2010	31.12.2008
	Rs.	Rs.	Rs.	Rs.
31 OTHER LIABILITIES				
Accrued Expenditure - Non Interest	13,756,183	6,023,976	14,090,053	6,299,031
Accrued Expenditure - Interest	262,579,112	278,458,893	262,579,112	278,458,893
Insurance Control Premium	72,632,958	5,736,348	72,632,958	5,736,348
Government Tax Payable	19,568,388	19,962,646	19,953,844	19,962,646
Dues to subsidiaries (CDB Micro Finance Limited)	2,290,817	-	-	-
Bank Over Draft	113,812,333	355,801,065	113,812,333	355,801,065
Other Liabilities		4,328,329		4,328,329
	484,639,791	670,311,257	483,068,300	670,586,312

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	
	31.03.2010	31.12.2008	31.03.2010	31.12.2008
	Rs.	Rs.	Rs.	Rs.
33 RESERVE FUND				
Balance at the beginning of the year	6,500,000	2,500,000	6,500,000	2,500,000
Transfers during the year	39,788,304	4,000,000	39,788,304	4,000,000
Balance at the end of the year	46,288,304	6,500,000	46,288,304	6,500,000

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 net profits of the each year after due provisions has been made for Taxation and Bad and Doubtful debts on following basis.

Capital Funds to Deposit Liabilities	Transferred to Reserve Fund
Not less than 25%	5%
Less than 25% but not less than 10%	20%
Less than 10%	50%

Accordingly, Company has transferred 50% of its Net profit after taxation and provisions to the reserve fund as company's capital Funds to Deposit Liabilities are less than 10%.

	Company		Group	
	31.03.2010	31.12.2008	31.03.2010	31.12.2008
	Rs.	Rs.	Rs.	Rs.
34 REVALUATION RESERVE	15,082,857	15,082,857	15,082,857	15,082,857

The company has re valued its lands situated at Kadawatha on 31.12.2006 by Mr. D. S. N Perera (Graduate member of the Institute of Valuers of Sri Lanka,) who is an independent valuer.

35 NET ASSETS VALUE PER ORDINARY SHARE				
Amount used as the Numerator (Shareholders fund)	513,215,045	433,638,437	514,134,407	433,858,228
Amount used as the Denominator (No. of shares in issue)	39,685,048	39,685,048	39,685,048	39,685,048
Net Assets per share	12.93	10.93	12.96	10.94

36 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.10Mn 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 guarantee does not exceed the investment value of the customer.

37 EVENTS AFTER THE BALANCE SHEET

Board of Directors have recommended the payment of final dividend of 50 cents per share for the 15 month period ended 31 March 2010 (2008- Nil) which is to be approved at the Annual General Meeting to be held on 29th June 2010.

There have been no material events occurring after the balance sheet date that require adjustment or disclosure in the financial statements.

38 TRANSACTIONS WITH RELATED PARTIES**Related Party Disclosures**

The company carries out transactions in ordinary course of its business with parties who are defined as related parties as per the Sri Lanka Accounting Standard 30, "Related Party Disclosures". The pricing applicable to such transactions are purely based on the assessment of risk and rewards basis of such business contracts with what is applied to transactions between the company and its unrelated customers.

Company	Name of Director	Nature of transaction	Amount (Rs.)
Ceylinco Insurance PLC	Mr. R Renganathan - Director/Chairman	1. Insurance Premium	292,955,362
	Mr. P.A. Jayawardena - Director	2. Insurance Commission	26,814,548
	Mr. E.T.L.Ranasinghe - Director		
CDB Micro Finance Limited	Mr. R Renganathan - Director / Chairman	1. Collections of loan installments through Citizens	
	Mr. P.A. Jayawardena - Director	Development Business Finance Limited	
	Mr. E.T.L.Ranasinghe - Director	Balance due to subsidiary	2,290,817
	Mr. C.M. Nanayakkara - Director		
CDB Esop Trust Fund (Pvt) Limited	Mr. R Renganathan - Director / Chairman	1. No Trading Transactions during the 15 month period	
	Mr. P.A. Jayawardena - Director	however Company holds 31.5% stake of CDB	
	Mr. E.T.L.Ranasinghe - Director	2. Balance due from CDB Esop Trust Fund	125,000,000

38(a) PARENT AND ULTIMATE CONTROLLING PARTY

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

38(b) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

According to the Sri Lanka Accounting Standard 30 "Related Party Disclosures" Key Management personnel are those having responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Board of Directors (including non Executive and Executive Directors) has been classified as Key Management Personnel.

Immediate family members are defined as spouse or dependent. Dependent is defined as anyone who depends on the respective key Management personnel for more than 50% of his / her financial needs.

38(c) COMPENSATION TO KEY MANAGEMENT PERSONNEL (KMP)

This includes the compensation paid to the directors for the 15 months period of 01st January 2009 to 31st March 2010.

	Executive Directors (1 Director)	Non Executive Directors (3 Directors)	Non Executive Independent Directors (3 Directors)	Total (7 Directors)
Short Term Employment Benefits	4,977,460	Nil	Nil	4,977,460
Post Employment Benefits (EPF, ETF, etc)	602,619	Nil	Nil	602,619
Directors Allowances	450,000	200,000	1,280,000	1,930,000
Deposits held by KMP with the Company	Nil	Nil	Nil	Nil
Deposits Held by Immediate Family Members of KMP	Nil	Nil	Nil	Nil
Credit Facilities to KMP	Nil	Nil	Nil	Nil
Credit Facilities to Immediate Family Members of KMP	Nil	Nil	Nil	Nil

39 LITIGATION AGAINST THE COMPANY

(1) LT 89565 a labour tribunal case file by a former employee, against Company 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

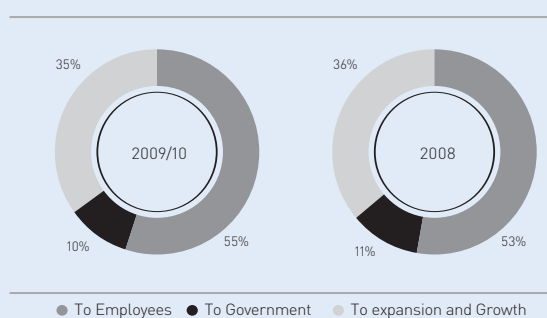
Statement of Maturity Analysis

An analysis of the total assets and liabilities of the company as at 31st March 2010, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates, is given below.

Assets	Maturity Period					(Rs.)
	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Unclassified	Total
Interest earnings assets						
Investment in Govt securities						
Fixed deposit and Savings deposits with Licensed Commercial Banks	326,856,734	517,255,625				844,112,359
Loans, Advances Leasing & Hire Purchase	573,113,258	1,518,439,546	2,316,836,639	556,375,834	70,318,471	5,035,083,747
Non interest earning assets						
Cash and bank balances	7,165,259					7,165,259
Investments in						
Dealing Securities (Investment Securities)					105,909,075	105,909,075
Fixed Assets					200,669,868	200,669,868
Other Assets						
Inventories	182,894,377	20,321,597				203,215,974
Investment Property		20,197,977				20,197,977
Accounts Receivables	72,632,958	105,331,811	81,484,877			259,449,646
Total assets	1,162,662,586	2,181,546,556	2,398,321,516	556,375,834	376,897,414	6,675,803,905
Percentage 31st Mar. 2010	17.42	32.67	35.93	8.33	5.61	100
Percentage 31st Dec. 2008	18.91	25.33	40.36	14.32	1.08	100
Liabilities						
	Maturity Period					(Rs.)
	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Unclassified	Total
Interest bearing liabilities						
Deposits & Borrowings	2,346,915,431	2,615,862,919	525,092,742	178,931,107		5,666,802,199
Retirement Benefit Obligation					11,146,870	11,146,870
Other Liabilities	258,175,292	193,842,582	24,330,898	8,291,020		484,639,791
Shareholders funds					513,215,045	513,215,045
Total liabilities	2,605,090,723	2,809,705,501	549,423,640	187,222,127	524,361,915	6,675,803,905
Percentage 31st Mar. 2010	39.02	42.09	8.23	2.80	7.85	100
Percentage 31st Dec. 2008	40.30	45.84	5.37	2.03	6.47	100

Value Added Statement

	01.01.09-31.03.10 (15 month period)		2008	
	2009/10		2008	
	Rs.		Rs.	
Value Added				
Net interest income earned by providing financial services	604,184,473		403,871,152	
Cost of Services	(322,229,740)		(262,141,803)	
	281,954,733		141,729,349	
Non-financial income	104,080,267		142,234,982	
Provision for bad debts	(91,282,709)		(55,923,046)	
Value Added	294,752,291		228,041,285	
	Rs.	%	Rs.	%
Distribution of Value Added				
Value allocated to employees				
Salaries,wages and other benefits	163,536,615	55	121,024,590	53
To Government				
Value Added Tax	12,520,412	5	12,436,285	5
Income Tax	9,163,093	3	5,947,671	3
Debit Tax	6,434,229	2	6,618,670	3
To expansion and growth				
Retained As Reserves	79,576,608	27	65,289,503	29
Retained As Depreciation	23,521,334	8	16,724,566	7
	294,752,291	100	228,041,285	100



20 Major Shareholders

20 Major Shareholders

Name	Shareholding	Percentage (%)
Ceylinco Insurance PLC	14,138,958	35.63
CDB ESOP Trust Fund (Pvt) Ltd	12,500,000	31.50
The Finance Property Fund Ltd	1,250,000	3.15
TFC Homes (Private) Limited	1,250,000	3.15
Seylan Bank Asset Management Ltd	775,000	1.95
Dr. T Senthilvel	500,000	1.26
Ceylinco Finance PLC	230,833	0.58
H.M.N. Fonseka	200,000	0.50
K.A.N. De Silva	150,000	0.38
S.M.P.L. Jayaratne	125,000	0.31
W.M.N. Dabarera	118,000	0.30
W.S.N. Kurera	105,100	0.26
A.M. Subramanium	105,000	0.26
S. Elilventhan	100,000	0.25
M.P.N. Fernando	100,000	0.25
S.C.D. Martino	100,000	0.25
Rev J.N Fernando	100,000	0.25
J. Ukwatta	100,000	0.25
A.M. Ananda	100,000	0.25
Dr. C. Gunasekera	100,000	0.25
Total	32,047,891	80.76
No. of Shares (Issued Capital)	39,685,048	

Nine Year Statistical Summary

	2001	2002	2003	2004	2005	2006	2007	2008	2009/10 15 Month period
OPERATING RESULT									
Total Income	25,177,887	41,464,304	122,903,720	217,652,771	363,776,408	638,279,950	1,054,206,933	1,638,454,558	1,898,899,386
Interest Income	24,527,673	38,769,809	116,655,458	201,720,370	337,853,081	598,470,528	989,218,343	1,496,219,576	1,794,819,119
Interest Expenses	42,166,533	57,937,796	104,485,863	137,273,470	206,205,522	387,165,977	670,401,052	1,092,348,424	1,190,634,646
Net Interest Income	(17,638,860)	(19,167,987)	12,169,595	64,446,900	131,647,559	211,304,551	318,817,291	403,871,152	604,184,473
Other Income	650,214	2,684,495	6,248,262	15,932,401	25,923,328	39,809,422	64,988,590	142,234,982	104,080,267
Net Income	(16,988,646)	(16,483,492)	18,417,857	80,379,301	157,570,887	251,113,973	383,805,881	546,106,134	708,264,740
Operating Expenses	19,895,718	27,244,499	44,813,986	59,029,714	110,389,472	177,131,697	294,248,502	406,509,629	515,721,918
Personal Cost	8,553,407	10,501,811	12,925,852	18,775,501	31,863,071	56,734,625	84,797,365	121,024,590	163,536,615
Other Administration & General Expenses	11,342,311	16,742,688	31,888,134	40,254,213	78,614,505	120,397,072	209,451,137	285,485,039	352,265,802
Provision for bad and Doubtful Debts - General	600,000	1,754,310	17,375,484	10,448,280	7,700,000	-	-	-	-
Provision for bad and Doubtful Debts - Specific	-	-	-	-	-	17,602,253	27,740,197	55,923,046	91,282,709
Provision for Diminution in Value of Investment	-	-	-	-	-	12,332,275	12,332,276	-	-
Profit / (Loss) Before Taxation	(37,484,364)	(45,482,301)	(43,771,613)	10,901,307	39,481,414	44,047,748	49,484,906	71,237,175	88,739,701
Taxation	-	-	-	-	-	-	157,484	5,947,671	9,163,093
Profit / Loss After Taxation	(37,484,364)	(45,482,301)	(43,771,613)	10,901,307	39,481,414	44,047,748	49,327,422	65,289,504	79,576,608
Revenue / To Personal Cost (%)	33.97	25.33	10.52	8.63	8.76	8.89	8.04	7.39	8.61
Revenue / To Operation Expenses (%)	79.02	65.71	36.46	27.12	30.35	27.75	27.91	24.81	27.15
LIABILITIES									
Customer Deposits	-	-	-	-	-	-	-	-	4,837,875,995
Borrowings	258,487,338	530,686,365	910,763,547	1,400,539,942	2,382,991,283	3,627,849,488	4,918,339,725	5,684,698,562	828,926,204
Other Payables	34,483,594	43,931,118	85,880,861	127,413,674	192,987,250	368,175,209	474,560,224	676,793,306	495,786,661
Total Liabilities	292,970,932	574,617,483	996,644,408	1,527,953,616	2,575,978,533	3,996,024,697	5,392,899,949	6,795,130,305	6,162,588,860
SHAREHOLDERS' FUNDS									
Stated Capital	79,538,750	79,538,750	80,258,630	124,932,920	135,682,920	162,907,480	162,907,480	396,850,480	396,850,480
Unallotted Share Advance	-	-	-	-	80,946	-	-	-	-
Revaluation Reserve	-	15,082,857	15,082,857	15,082,857	-	-	-	-	15,082,857
Reserves	(96,636,635)	(142,118,938)	(185,890,550)	(174,989,244)	(135,507,830)	(95,678,628)	(48,851,206)	15,205,100	54,993,404
Reserve Funds	-	-	-	-	-	-	2,500,000	6,500,000	46,288,304
Shareholders Funds	(17,097,885)	(62,580,188)	(105,631,920)	(50,056,324)	256,036	82,311,709	131,639,131	433,638,437	513,215,045
Total Liabilities & Shareholders' Funds	275,873,047	512,037,295	891,012,488	1,477,897,292	2,576,234,569	4,078,336,406	5,392,899,949	6,799,562,143	6,675,803,905
ASSETS									
Cash and Short Term Funds	393,579	24,340,079	8,729,265	18,755,942	30,911,397	27,157,566	61,985,045	10,617,132	7,165,259
Investments	66,226,147	25,235,658	60,443,468	55,389,940	46,819,287	224,676,024	493,383,949	518,592,354	844,112,362
Lease Rentals and Reservables	9,377,464	229,834,461	623,311,164	1,035,077,727	1,534,071,433	2,121,209,635	2,602,280,712	3,559,988,180	2,949,261,028
HP Rentals and Reservables	-	-	-	-	234,684,103	581,412,209	793,943,289	791,322,113	874,967,565
Loan Assets	88,667,694	87,659,436	63,838,757	215,249,042	501,931,479	867,375,402	1,181,446,815	1,285,880,114	1,210,855,151
Property Plant and Equipment	5,738,770	9,118,187	12,616,058	24,173,669	52,896,686	104,432,757	129,852,708	198,647,455	200,669,868
Other Assets	105,469,393	144,967,661	122,073,776	56,379,826	174,920,184	152,072,813	130,007,432	303,605,720	588,772,672
Total Assets	275,873,047	512,037,295	891,012,488	1,477,897,292	2,576,234,569	4,078,336,406	5,392,899,949	6,795,130,305	6,675,803,905
RATIOS									
Growth in Income (%)	8	65	196	77	67	75	65	55	(7)*
Growth in Interest Expenses (%)	22	37	80	31	50	88	73	63	(13)*
Growth in Other Expenses (%)	1	37	64	32	87	60	66	42	1.5*
Growth in Profit After Tax (%)	-	-	-	75	262	12	12	32	(2)*
Growth in Total Assets (%)	6	86	74	66	74	58	32	26	(2)
Interest Cover (times)	0.11	0.21	0.58	1.08	1.19	1.11	1.07	1.07	(2)
Earnings per Share	(4.71)	(5.72)	(5.45)	0.87	3.09	3.00	3.03	2.51	1.60
Return on Average Assets (%)	(14.00)	(11.55)	(6.24)	0.92	1.95	1.32	1.04	1.17	1.18

* annualized

Quarterly Statistics

For the three months ended	2010		2009		2008				
	March 31st	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30st	March 31st

Balance Sheet Data

(Rs. Mn)

Total Assets	6,676	6,136	5,778	5,525	5,875	6,800	6,633	6,384	6,063
Lease, Hire purchase and Loans	5,035	4,534	4,426	4,873	5,388	5,637	5,266	4,944	4,611
Deposits & Borrowings	5,667	5,209	4,858	4,513	4,839	5,685	5,874	5,687	5,481
Shareholders' Funds	513	472	462	459	451	434	304	245	219
Average Assets	6,736	5,957	5,651	5,700	6,337	6,717	6,509	6,223	5,728

Income Statement Data

(Rs.000)

Revenue	405,639	372,604	363,741	365,053	391,862	460,309	425,166	400,959	352,020
Net Interest Income	156,803	109,799	101,977	118,364	119,240	121,925	107,273	90,752	83,920
Other Income	35,675	30,336	28,431	1,225	8,413	46,562	31,552	40,634	23,486
Net Income	192,478	140,135	128,408	119,590	127,654	168,487	138,825	131,387	107,407
Provision for Loan Losses	(25,283)	(18,000)	(18,000)	(18,000)	(12,000)	18	(27,942)	(18,000)	(10,000)
Non-interest expenses	(116,370)	(109,112)	(104,211)	(88,862)	(97,166)	(140,700)	(100,078)	(94,994)	(83,174)
Provision for Income Tax	2,837	(3,000)	(3,000)	(3,000)	(3,000)	(948)	(1,500)	(1,500)	(2,000)
Net Profit After Tax	41,143	10,023	3,197	9,727	15,488	26,858	9,306	16,893	12,233

Financial Measures

Book Value Per Ordinary Shares (Rs.)	12.93	11.89	11.64	11.56	11.37	10.94	7.66	6.17	5.52
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Profitability

Return on average shareholders' equity (annualized) (%)	16.79	8.31	8.23	11.08	14.00	23.04	18.68	25.13	27.89
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Productivity

Non interest expenses to total revenue (%)	28.69	29.28	28.65	24.34	24.80	30.57	23.54	23.69	23.63
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Asset Quality

Non Performing Ratio (%)	7.52	8.64	8.78	8.58	6.31	5.57	6.54	7.62	8.23
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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.

Our Reach

Anuradhapura

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Kaduwela

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Kelaniya

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Kollupitiya

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Kotahena

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Mathara

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Wennappuwa

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Notice of Meeting

CITIZENS DEVELOPMENT BUSINESS FINANCE LIMITED

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of Citizens Development Finance Limited will be held on Tuesday 29th June 2010 at 10.00 a.m at liberty Ball Room, Ramada Colombo (Holiday Inn) at 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 2010 and to receive the report of the Auditors thereon.
2. To declare a First and Final dividend as recommended by the Directors
3. To re-elect Mr. P.A. Jayawardena who retires by rotation at the Annual General Meeting in terms of Article 94(a) of the Articles of Association of the Company.
4. To re-elect Mr. W.P.C.M. Nanayakkara who retires by rotation at the Annual General Meeting in terms of Article 94(a) of the Articles of Association of the Company.
5. To re-appoint the retiring Auditors M/s. KPMG Ford Rhodes Thornton & Co, Chartered Accountants and authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine Contributions to Charities and other donations for the year 2010.

By Order of the Board

[Sgd]

Citizens Development Business Finance Limited
S S P Corporate Services (Private) Limited
Secretaries

Colombo
04th June 2010

Notes :

1. A member is entitled to appoint a Proxy to attend and to vote instead of himself/herself.
2. A Proxy need not be a member of the Company.
3. A Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company Secretaries' Office at No. 101, Inner Flower Road, Colombo 03 not later than 48 hours before the time appointed for the meeting.
5. Shareholders attending the meeting are kindly requested to bring with them their National Identity Card or other similar form of identification for production at the reception desk.

Form of Proxy

I/We

of

being member/members of Citizens Development Business Finance Limited do hereby appoint:

Mr/Mrs/Miss

of (NIC No) whom failing,

- (1) Mr. Rajkumar Renganathan of Colombo 5, whom failing,
- (2) Mr. Weligama Palliyaguruge Claud Mahesh Nanayakkara of Colombo 5, whom failing,
- (3) Mr. Palitha Abeysekera Jayawardena of Colombo 5, whom failing,
- (4) Mr. Elmo Thushara Lalindra Ranasinghe of Kohuwela, whom failing,
- (5) Dr. Thirugnanasambandar Senthilvel of Colombo 5, whom failing,
- (6) Mr. Pattiyage Namal Chrisantha Gomes of Moratuwa, whom failing,
- (7) Mr. Harindranath Priyantha Gerald Vas Gunawardena of Nugegoda.

As my/our proxy to represent me/us and to vote on my/our behalf at the 14th Annual General Meeting of the Company to be held on the 29th Tuesday of June 2010 at the liberty Ball Room, Ramada Colombo (Holiday Inn), No. 30, Sir Mohamed Macan Marker Mawatha, Colombo 3, at 10.30 am and 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 2010 and to receive the report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a First and Final dividend as recommended by the Directors	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. P.A. Jayawardena who retires by rotation at the Annual General Meeting in terms of Article 94(a) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. W.P.C.M. Nanayakkara who retires by rotation at the Annual General Meeting in terms of Article 94(a) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. 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"/>
6. To authorize the Directors to determine Contributions to Charities and other donations for the year 2010.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of Two Thousand and Ten.

.....
NIC NO./ P.P. NO/ CO Reg. NO

.....
Signature

(a) *Please delete the inappropriate words.

(b) Instructions are noted on the reverse hereof.

Instructions as to completion

1. In terms of Article 80 of the Articles of Association of the Company;
The instrument appointing a proxy (whether a member or not) shall be in writing under the hand of the appointor, or his attorney or if such appointor is a Corporation either under its Common Seal or under the hand of an officer or attorney authorized on that behalf under its Common Seal.
2. In terms of Article 77 of the Articles of Association of the Company.
In the case of joint-holders the vote of a senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holder; and for this purpose seniority shall be determined by the order in which the names stand in register of members.

In terms of Article 79 of the Articles of Association of the Company;

3. Votes may be given either personally or by proxy any person shall be appointed a proxy who is not a member of this Company and qualified to vote save that a Company or corporation being a Member of the Company may appoint any of its officers or any other person to be its representative or proxy at any meeting or meetings of this Company and any person so appointed shall be entitled to be present and vote and exercise all other powers in regard to any such meeting on behalf of the Company or Corporation which he represents as if he were a member of this Company holding the shares of such Company or corporation (including power to appoint a member of this Company as proxy) and if personally present and not himself a member shall be representing such company or corporation be counted for the purposes of quorum.
4. In terms of Article 81 of the Articles of Association of the Company;
The instrument appointing a proxy and the Power of Attorney or other authority (if any) under which is signed or a notarially certified copy of such that power or authority shall be deposited at the registered office of the Company not less than forty eight hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the person so named shall not be entitled to vote in respect thereof.
5. Kindly indicate with a X in the space provided how your proxy should to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he/she thinks fit. Every alternation or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
6. To be valid, this Form of Proxy must be deposited at the Registered Office of the Secretaries, 101, Inner Flower Road, Colombo 03 by 10.00 a.m. on Tuesday, June 27, 2010 being 48 hours before the holding of the meeting.

Corporate Information

Name of the Company

Citizens Development Business Finance Limited.

Legal Form

A Public Limited Liability 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

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. Senthilvel

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. 51, Gregory's road,
Colombo 07

Bankers

Seylan Bank PLC
People's Bank
Hatton National Bank PLC
Bank of Ceylon
Commercial Bank of Ceylon PLC
Sampath Bank PLC



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