DFCC BANK

Annual Report 2007/08

At the Core of Development

Contents

A Pioneer's Journey

Vision

To be Sri Lanka's premier financial services group.

Mission

To provide superior financial solutions and nurture business enterprises, adding value to our customers, shareholders, employees and the nation.

Values

- Accountability
- Be Ethical
- Passion for Innovation and Excellence
- Respect for the Individual
- Social Responsibility
- Teamwork




What it means to be at the Core…

DFCC Bank has a history that spans over half a century of service in the field of Development Financing. It's where we began… it still remains an integral component of the entity we have evolved into.

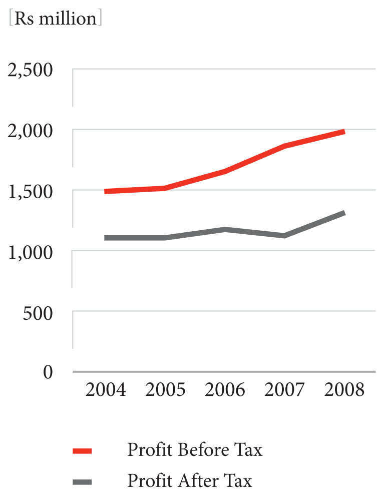
DFCC Bank is a significant net transferor of financial resources to under developed regions of Sri Lanka. For years, the Bank has been sourcing and channelling concessionary funds from bilateral and multilateral agencies to develop the small and medium enterprise sector, the benefits of which have reached thousands of people across the nation… making a difference in their lives… providing **sustainable livelihoods and enhancing the quality of life of Sri Lankans.**

Almost half of DFCC Bank's credit portfolio serves small and medium enterprises. **Providing financing where it is needed most is not the whole story by far. The knowledge, experience and guidance we give and our involvement in the projects we fund are what has turned these investments in enterprise into much more than money.**

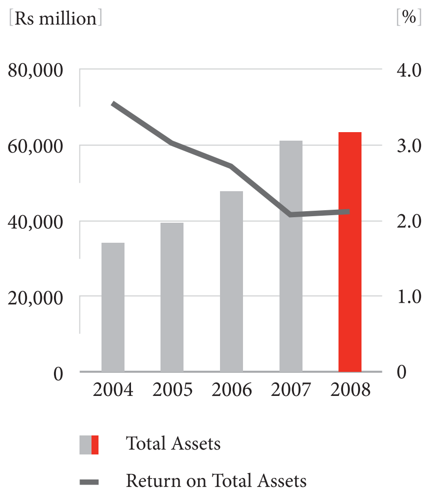
Growing with the trends and needs of enterprise, from then to now, have seen us maintain focus as a sustainable development bank and yet today we have grown into a robust, diversified financial service provider. As you read this report, we trust you will learn more of what it means to us to be at the core of development in Sri Lanka. It's a position that demands responsibility, professionalism, ethics, empathy and commitment… all of which we are honoured to place at the service of our Nation.

Financial Highlights

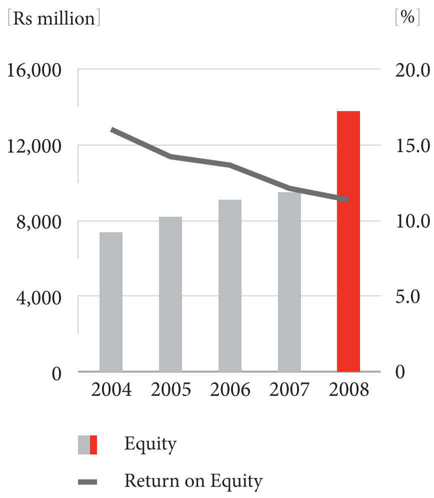
Profit



Total Assets and Return



Shareholders' Funds and Return



Bank *For the year ended 31 March*		**2008**	2007	% change
Income, Rs M		9,636	6,887	40
Profit before tax, Rs M		1,983	1,865	6
Profit after tax, Rs M		1,318	1,125	
Earnings per share,	Basic, Rs	10.41	10.20	
	Diluted, Rs	10.35	10.13	
Gross dividend, Rs M		651	454	
Rate of dividend, %		50	50	
Shareholders' funds (capital & reserves), Rs M		13,761	9,494	45
Medium/long-term borrowing, deposits & debentures, Rs M		43,435	47,930	(9)
Total assets, Rs M		63,359	60,941	4
Return on average total assets, %		2.1	2.1	
Return on average shareholders' funds		11.3	12.1	

Chairman's Statement

I welcome you with pleasure to the Fifty Second Annual General Meeting of DFCC Bank and present the Annual Report of the Bank for the financial year ended 31 March 2008.

Looking back over the past few years, much has been said of the performance of Sri Lanka's economy and its remarkable resilience in the face of various internal and external shocks. However, this begs the question as to whether we are taking this resilience for granted, and it is in this context that I would like to review the events and developments of the last financial year, and comment on the outlook ahead.

Globally, two divergent trends appeared to be well underway, both with broad implications for Sri Lanka. For much of 2007, the world economy grew at a steady rate. However, this trend could not be sustained across the board, as a combination of adverse factors, including the spiralling prices for oil and other commodities took their toll, particularly on the advanced economies. Their situation was also aggravated by adverse developments in the finance and banking industries that led to crises of confidence and market volatility. This contrasted with the strong and sustained growth recorded by the emerging and developing economies, which continued to be driven by a combination of surging domestic demand and pragmatic market reforms.

As regards Sri Lanka, the growth of 6.8% achieved in 2007, albeit lower than the 7.7% posted in 2006, is commendable given the unfavourable macro circumstances. From the country's perspective, the escalating prices of commodities were akin to economic tsunamis that left a trail of inflation. Besides the hikes in fuel prices, the nation had to grapple with soaring food prices as the contagion in the global supply chain spread through the region. Interest rates continued their upward trend and although there was some easing in January 2008, market rates in general continued to be high. Overall, this situation does not appear to be a temporary phenomenon. The outlook is therefore challenging, as the economy would have to deal with weakening export markets in the advanced economies whilst coping with the rising costs of oil and other commodities pushed up by demand from the emerging economies.

But overriding all, the civil conflict and its political, social and economic impact, is the familiar and perennial theme in the Sri Lankan milieu. The calls for the political leadership to achieve an acceptable and permanent resolution to the ethnic strife are now a kind of mantra that must be realised in tangible action. While the abrogation of the Cease-fire Agreement has facilitated the Government's strategy to militarily eliminate terrorism, due heed must be given to speedily implement a sustainable political solution. Peace politics has to go hand in hand with military action, as an exclusive military strategy and a sharply escalated conflict could result in a spill over outside the confines of the North. As history has demonstrated, any major incident, especially in Colombo, would have an adverse impact on business confidence in general and will bear hard on industries with a foreign dimension such as tourism and transportation. Above all, the danger with a military mindset is that economic discipline may have to take a back seat. As this would serve to magnify the impact of any future shocks, we must trust that the events and developments of the previous year have not eroded the resilience that Sri Lanka's economy has been noteworthy for.

I would now like to refer to the financial performance of DFCC Bank. The turbulent macro conditions were not conducive for its core business of long-term project and capital asset financing. Therefore, given other considerations also, the Bank adopted a cautious growth strategy for its loans and leases portfolios. Nonetheless, profit after tax at the Bank level was up 17.2% while that at the Group level was up 32.8%. This is noteworthy, given the Bank's circumstances and the fact that financial services VAT and Income Tax continue to bear on and have a substantial impact on profitability.

At the Group level, the subsidiary company, DFCC Vardhana Bank Limited (DVB) continued to make good progress. Besides contributing significantly to Group profit, DVB is playing a key role in positioning the DFCC Group as a fully-fledged financial services conglomerate. The other subsidiary companies also performed creditably both in terms of profits and their role in the Group. This year, following a very successful performance, the contribution from the associate company - Commercial Bank of Ceylon PLC (CBC), was substantial and fully justified the Bank's decision to take up the equity they offered through a Rights Issue.

In May 2007, the Bank raised Rs3,029 million in new capital through a Rights Issue. This was the first such issue for 14 years and was strongly supported by shareholders. Of this sum, Rs1,603 million was invested in a Rights Issue of CBC, Rs857 million was invested in a Rights Issue of DVB and the balance retained in the business to meet the additional capital requirements imposed by the Basel II Capital Accord, which was introduced in January 2008, and future growth. As a result the Bank was able to increase its capital adequacy ratio to 19% at the consolidated level, while the regulatory solo capital after netting out the equity investments in the two Group Banks was 17.8%. This is well above the 10% minimum level stipulated by the regulator, but provides the required strength to the Group to be well positioned for the growth of its business as well as absorb any future shocks that may have to be faced due to the higher risks imposed by inflation and high interest rates.

In the previous year, I made reference to certain policy changes concerning ownership limits applicable to banks. DFCC Group is affected by these ownership limits in respect of its investments in both DVB and CBC. The bank owns 95.6% of the former and has been granted until 2012 to reduce its ownership to 15%. This provides sufficient time to execute alternative strategies to preserve the business value of DVB. As regards CBC, the Management and the Board have identified some options, including the seeking of legal remedies, to deal with the shorter time period, until October 2008, given for reducing this equity stake. The Board is cognisant of its responsibility to ensure that maximum economic value from this investment is realized for the benefit of the shareholders of DFCC Bank. Shareholders will be kept apprised of developments.

We have taken full cognisance of the new mandatory Code for Corporate Governance for banks recently issued by the Central Bank of Sri Lanka and the corporate governance requirements introduced by the Colombo Stock Exchange. The Bank does not foresee any difficulty in complying with the requirements in a timely manner. Disclosures arising from compliance with the Codes are set out in the Annual Report.

Mrs Rose Cooray resigned from the Board in February 2008. She served as the Government Director since March 2002 and her valuable contribution is deeply appreciated. I warmly welcome to the Board the new Government Director, Mrs Sujatha Cooray, Director-General of the Department of External Resources of the Ministry of Finance & Planning. I thank my fellow Directors for their unsparing cooperation and support, and look forward to their continued counsel in guiding DFCC Bank as well as meeting the challenges that lie ahead.

Mr Nihal Fonseka, the Chief Executive Officer, has demonstrated, yet again a degree of leadership that has inspired the management and staff of the Bank to deliver another creditable performance. The employees are the essence of this institution. They continue to impress with their consistency and superior functioning, which has enabled DFCC Bank to maintain its position as one of the most profitable of corporates in terms of profit per employee. Profitability aside, I am proud that DFCC Bank was conferred a prestigious Gold award by the Association of Human Resource Professionals in Sri Lanka. The Bank was thereby ranked among the top ten corporates in the country for the quality of its human resource management and practices. DFCC Bank also had the unique privilege among development finance institutions in the region of being recognised by the World Bank as an institution that has made a 'remarkable' contribution to the country's development for half a century. The publication, released by the World Bank in July 2007 titled "DFCC Bank: One among the successful few", provides testimony in this regard. The Bank's continuing role in sustainable development financing was also recognised by the Association of Development Financing Institutions in Asia and the Pacific comprising of 92 member institutions from 37 countries, when DFCC Bank won two sustainable development awards in the Infrastructure Development and Local Economic Development categories (out of a total of nine categories) during the recently concluded annual meetings of the Association.

Over the past 50 plus years, DFCC Bank has nurtured a large and diverse magnitude of enterprises through the various stages of their businesses. We recognise that their success underpins the success of the Bank and consider these relationships as one of our most valuable assets. We therefore thank them for continuing to regard DFCC Bank as a financier of choice and look forward to continuing and strengthening mutually beneficial relationships.

The officials of the Ministry of Finance and the Central Bank of Sri Lanka have been supportive of DFCC Bank, both in its development banking role and in its transition into a financial services group. We thank them and look forward to their continued assistance and co-operation.

The trust placed by shareholders in our ability to guide and direct DFCC Bank has been amply demonstrated by the strong support for the successful Rights Issue of the Bank. We thank you all for this confidence. Looking ahead, as Directors of DFCC Bank, we place utmost priority on the interests of the shareholders of the Bank and going forward we will remain committed to increasing the value of your equity.

J M S Brito
Chairman

29 May 2008

Chief Executive's Report

"What is not possible is not to choose" - *Jean-Paul Sartre*

In the decades gone by, companies made significant choices once every decade or so following elaborate strategic plans. Today, the pace of change is such that it would be suicidal for any business not to continuously challenge and validate whatever long-term plans it has made. Planning is not only about where you want to be, but more to do with how to get there and in the fast changing modern world choices have to be made much more frequently, and new choices made abandoning old ones, when circumstances so demand. DFCC Bank is an institution that fully accepts this reality.

Profit

The DFCC Group performed satisfactorily during the financial year ended 31 March 2008 despite the many challenges it faced. Consolidated profit before income and financial services value added taxes of the Group increased by 22% to Rs4,750 million. However, the two taxes absorbed 53% of this profit compared with 56% in the previous year with the reduction of the effective tax rate being due to the higher proportion of dividend income. As a result, the profit attributable to equity holders increased by 37% to Rs2,168 million. The increased contribution from the associate company, Commercial Bank of Ceylon PLC (CBC) was a significant factor in the Group's performance. In addition to higher demand for working capital finance, CBC's strong profit growth in the financial year ended 31 December 2007 was helped by the largest successful rights issue of Rs5,741 million by a local bank completed in May 2007 and a large one-off expense it incurred in 2006 to restructure its pension scheme which depressed CBC's profits in that year. The commercial banking subsidiary of DFCC Bank, DFCC Vardhana Bank Limited (DVB) too recorded a high level of growth and increased profit. However, its relatively small scale of operations, low retail penetration and new investments in delivery expansion, with more than half the branches still in the pre-breakeven phase, meant that DVB was not as well positioned when compared with the mature and larger banks, to benefit from the opportunities provided by volatile interest rate and exchange rate environments that prevailed.

The subsidiaries, DFCC Stockbrokers (Pvt) Limited, Lanka Industrial Estates Limited and Lanka Ventures PLC (LVL) performed steadily in difficult market conditions although LVL continues to be involved in long drawn out litigation on disputes relating to taxation in prior years. DFCC Consulting (Pvt) Limited performed commendably with a significant increase in tax free revenue from consultancy services provided overseas in the field of renewable hydropower.

If headline profit growth was acceptable, the same cannot be said of profitability as measured by return on equity, which was suboptimal in the context of the very high risk free rates that prevailed. This was a feature of many strongly capitalised banks given the high burden of tax and the pressure on overheads due to unabated high levels of inflation. The return on equity will improve with time as the commercial banking beneficiaries of new equity in the DFCC Group increase their gearing.

My colleagues in the banking industry have written enough on the effects of the high and discriminatory taxation and I can only echo those sentiments in the hope that politicians and policy makers who appear to be obsessed with the idea that banks are making excessive profits will comprehend the reality sooner rather than later.

Key Drivers

Key performance drivers such as credit quality, credit growth and efficiency have a critical impact on the bottom line. The Bank recognised that credit quality would come under pressure as the debt service capacity of borrowers diminished due to higher working capital requirements resulting from inflation and higher cost of most inputs coupled with the significantly increased cost of borrowing. In this scenario, the bank paid greater emphasis on managing quality at the expense of credit growth. The financial leasing business was affected by a slowdown in demand as well as interest rate volatility and concerns about quality that prompted the Bank to be extra cautious and not seek aggressive growth. Although the non-performing advances ratio recorded an increase, the higher charge for credit losses were substantially offset by the reduction in provisions previously made. Overall, the situation is acceptable in the prevailing economic climate given the nature of the Bank's assets. Much attention was also paid to controlling operating expenses. The cost/income ratios excluding the charge for credit losses and financial services tax were 30% at the Bank level and 38% at Group level and were, as in previous years, well below industry norms.

Risk Management

The local banking industry was spared the pain caused by the melt down in global debt markets but nevertheless had to deal with challenges including pressure on liquidity that had a bearing on their operations. The business model of local banks that substantially revolves around originating, evaluating and holding loans to maturity rather than acquiring externally rated debt stood them in good stead.

DFCC Bank has set up an integrated Risk Management department. The unit is building capacity and will become fully operational in 2008. A facility with IT and other infrastructure required for business continuity of DFCC Bank and DVB was commissioned.

Development Banking

The Bank continues to be at the forefront of sustainable development financing although in the current context this does not mean providing subsidised funding to unviable enterprises. The Bank supported the export of skills by our construction industry and those who have been successfully engaged in renewable hydro energy. The Bank has also supported the Government's *Gamata Karmantha* Scheme aimed at spreading industrial output outside the Colombo and Gampaha Districts. We are cautiously optimistic that the recent political developments in the Eastern Province will pave the way for greater private sector investment in that region and provide new opportunities for the Bank's development banking activities.

Funding Challenge

One of the key challenges faced by DFCC Bank and DVB during the year under review was the cost of Rupee funding, especially during the first half of the financial year. The resumption of military activities by the Government in the North and East resulted in some of our traditional long-term fund providers, who used to channel funds to DFCC Bank through the Government, to hold back on new long-term credit lines and the Bank had to fill the gap with domestic wholesale funding. This alternative stop gap funding proved to be expensive due to the Government's domestic borrowing requirement to fund the budget deficit on the one hand and the tightening of monetary policy by the Central Bank of Sri Lanka in an attempt to reduce inflation on the other hand. The situation eased somewhat after the first sovereign bond was issued in November 2007. The Bank also benefited from being able to access the new credit line of EUR 50 million from the European Investment Bank. DVB was impacted adversely by the absence of the legacy pool of low cost savings deposits enjoyed by mature banks.

In order to meet the continuing challenge, DFCC Bank is embarking on raising long-term Rupee and foreign currency funding through instruments issued to non-residents within prudent limits and these funds are expected to be available in the financial year 2008/09. DVB is implementing medium-term strategies, not only to aggressively grow its deposits base but more importantly, to increase the proportion of lower cost savings deposits. DVB is also aiming to have comprehensive multi channel proprietary, shared and third party delivery channels within the next two years for the depositing, withdrawal and transmission of money and provision of corporate and personal financial services.

Regulatory Matters

The year under review saw important new regulatory developments. The Central Bank of Sri Lanka announced new ceilings on ownership of banks. In an era where consolidation among domestic banks to create larger financial services institutions that can stand up to multinational institutions has been encouraged and supported by regulators in most countries in the region, it is regrettable that the local regulator has, ostensibly in the interest of good corporate governance, used ownership limits as a tool, thereby making such consolidation difficult. There is no doubt that a strong governance framework is very important for banks, but attempting to achieve this through ownership limits that can be circumvented by those who choose to, will not achieve good governance. Progressive strengthening of provisions in the recently issued mandatory specific rules on governance are likely to prove more successful.

The formation of larger and stronger domestic banks assumes a greater importance in the context of the ongoing negotiations relating to the Comprehensive Economic Partnership Agreement with India in which the financial services sector is a key area identified for liberalisation. While easier entry into India is welcome and offer immense opportunities, a large capital commitment and staying power will be necessary for any bank to make a mark in the Indian market. On the other hand, reciprocal access to the Sri Lanka market, even with a time lag, will require, banking institutions in Sri Lanka to be of a larger size to counter the added competition that they will inevitably have to face in the near future. Thus, it is hoped that the Government and the regulator will take the initiative to proactively encourage consolidation by expanding the regulatory framework to encompass well established models used elsewhere such as bank holding companies, financial conglomerates and easier transfer of assets and liabilities in a merger or acquisition.

The last quarter of the financial year also saw the adoption of the Standardised Approach to the Basle II Capital Accord requiring banks to allocate capital for operational risks. The additional capital requirement on DFCC Bank and DVB was small and the integrated risk management function that was set up has commenced preparations to permit migration to the more capital efficient internal ratings based approach for credit risk when the regulatory environment permits it, which is expected to be in about five years.

The recently announced new rules on classification of advances as non-performing and provisioning are welcome as ambiguity in the previous rules have now been dealt with. The consultative approach adopted by the Central Bank of Sri Lanka on this issue was particularly commendable.

The key change is the shortening of the time period for classification of advances as non-performing by one month. This change will not have a significant impact on DFCC Bank and DVB since both Banks had, at all times adopted a more stringent interpretation of the previous requirements, consistent with the new requirements, when classifying advances as non-performing.

New rules relating to fair value accounting are in the pipeline for implementation. It is hoped that the recent experience in developed and deep markets, where it appears that failure of markets to set prices for financial assets exacerbated even if it did not cause the meltdown, will alert our regulatory authorities not to be hasty and allow sufficient time for preparation when introducing these concepts to the very shallow market in Sri Lanka.

The Talent Crunch

The availability and cost of good talent is beginning to pose a significant threat to the development of Sri Lanka with many of the industry's younger and skilled managers seeking positions in other countries. Exit interviews show that many of those who leave, believe that their overall prospects as well as the prospects for their children are better elsewhere in the medium-term. The banking sector is additionally affected by industry specific issues. While the sector can indeed boast of having made significant strides to vastly improve services provided to customers, its very success has made it very much a closed business. Strong trade unions in the larger domestic banks, often involving even senior managers, have not fostered true meritocracies. Thus, over the last few years the banking sector appears to have lost its position as the prime employer of choice with many of the younger and brighter executives not being sufficiently motivated to join or remain in the sector in Sri Lanka. The new opportunities in the technology and knowledge based industries as well as in the banking sector in West Asia, caused by a return to India and Pakistan of many high performers from those countries, have resulted in an exodus of experienced and high quality junior and middle managers from the sector. The banks for their part have tried to respond by increasing salaries and benefits without adequately dealing with the underlying issues. Some radical steps will need to be taken including laterally infusing new skills from other sectors at various levels of management to enable domestic banks to deal with their skill gaps. This will be especially necessary for those who wish to benefit from expanding outside the country and also face increasing competition that could arise from foreign banks, active in this market, who have been given the leeway to induct new talent from overseas.

The Choices

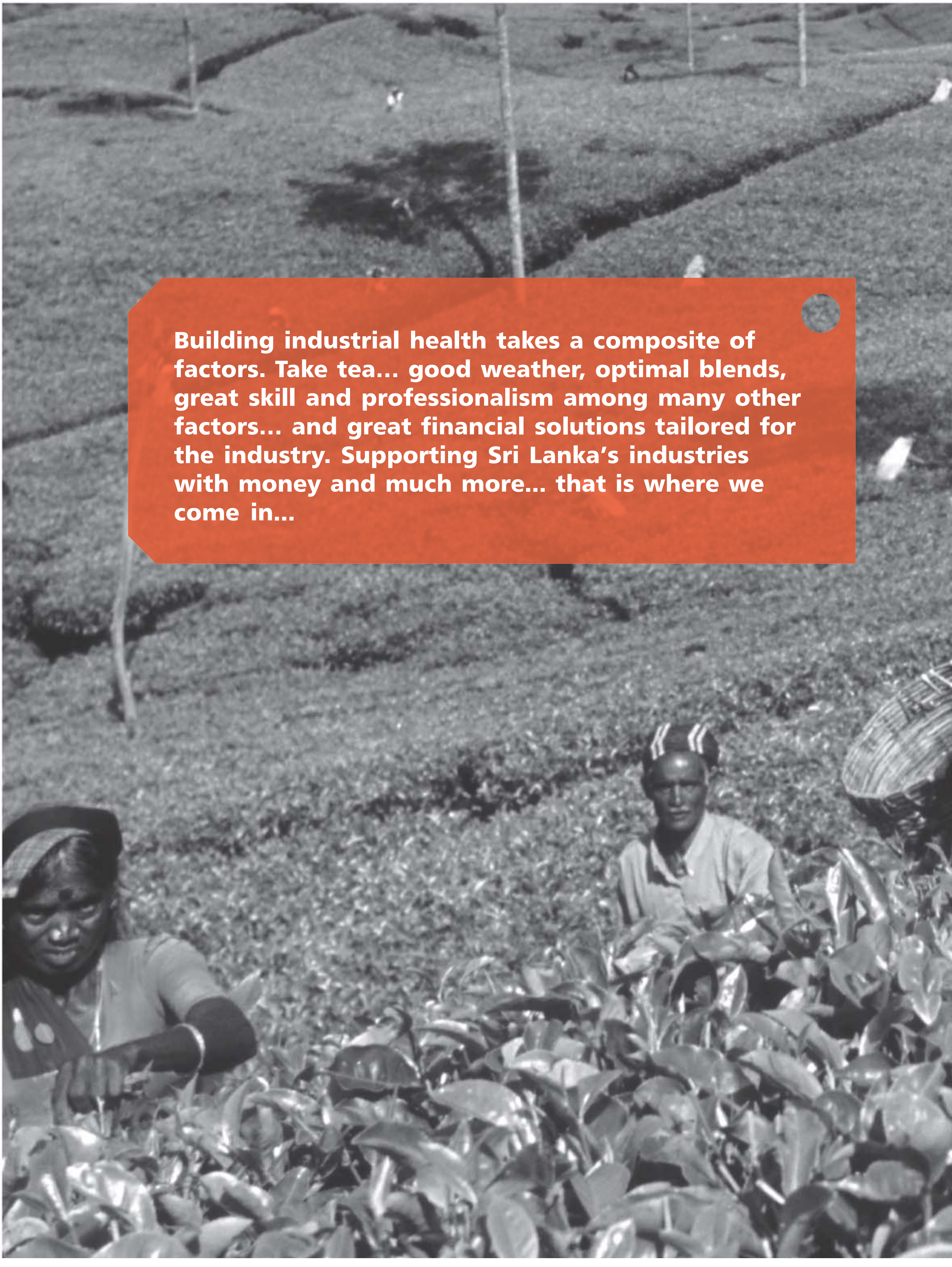
Making important strategic choices from time to time has been synonymous with the Bank's 50 plus years of existence. Further choices on the way forward will now have to be made. It has been clear for some time that DFCC Bank cannot sustain itself as a pure development finance institution and the Bank has already positioned itself to deal with this reality. A greater degree of integration of the commercial banking business will be consciously pursued, if necessary with the required changes to the corporate constitution of the Bank, to ensure that by the time the Central Bank of Sri Lanka's 2012 deadline for reducing the equity stake in DVB comes to pass, DFCC Bank will have the ability to provide the full range of banking products to all customer segments. Special attention will be made to increase the proportion of non-interest income in DVB by providing personal financial and payment services. Increasing the volume of trade finance and related plain vanilla treasury products will also be given priority in our quest for a higher proportion of non-interest income in the combined DFCC Bank and DVB operations.

Continuous assessment of our core competencies will result in greater outsourcing of non-core functions. A start was made by setting up Synapsys Limited, for the time being as a wholly owned subsidiary, to provide technology related services. The Company is making progress in acquiring clients outside the DFCC Group. The sale of a controlling stake in National Asset Management Limited in 2006 and retaining only 26% (subsequently increasing it to 30%) ownership is already proving to be beneficial. Synergy benefits will also be actively sought through joint ventures. The equally owned joint venture investment bank with Hatton National Bank that will commence operations shortly will harness the complementary strengths of the two partners and provide access to a larger client base while effectively addressing the retail distribution constraints faced by DFCC Bank.

In conclusion, I express my appreciation to the Chairman and the Board of Directors for the direction, guidance and support that they have given at all times. My management colleagues and staff at all levels worked tirelessly and with dedication in what proved to be a much more difficult external environment than was envisaged at the beginning of the financial year and I am grateful for their efforts. I also thank various agencies of the Government, our valued customers, local, bilateral and multilateral financial institutions for the support and confidence placed in DFCC Bank and its subsidiaries.

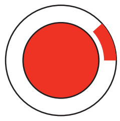
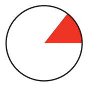
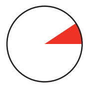
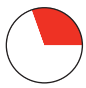
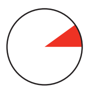
Nihal Fonseka
Chief Executive

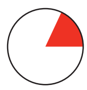
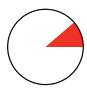
29 May 2008



Building industrial health takes a composite of factors. Take tea... good weather, optimal blends, great skill and professionalism among many other factors... and great financial solutions tailored for the industry. Supporting Sri Lanka's industries with money and much more... that is where we come in...

Associate and Subsidiary Companies

Company	DFCC's Interest	Principal Activity	Directors	Profit After Tax (Rs million) FYE 07/08	Profit After Tax (Rs million) FYE 06/07	Dividend Per share (Rs) FYE 07/08	Dividend Per share (Rs) FYE 06/07	ROE (%)
Subsidiary Companies								
DFCC Consulting (Pvt) Limited 73/5, Galle Road Colombo 3 Tel: (011) 2442590 Incorporated: September 2004	100%	Consultancy	A N Fonseka *(Chairman)* D E de Mel S E de Silva T W de Silva	21	1	2.00	5.00	114.0 
DFCC Stockbrokers (Pvt) Limited 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2446021, (011) 2446031 Incorporated: February 2001	100%	Stockbroking	A N Fonseka *(Chairman)* M R Abeywardena *(CEO)* P P S Fernando S Nagarajah T W de Silva	15	24	Nil	5.55	15.2 
DFCC Vardhana Bank Limited 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2371371 Incorporated October 2003	95.6%	Commercial Banking	J M S Brito *(Chairman)* L G Perera *(Managing Director/CEO)* J A R E M Machado Ms R A P Withana S Nagarajah Ms Y N Perera	153	117	0.06	Nil	9.4 
Lanka Industrial Estates Limited Pattiwila Road Sapugaskanda Makola Tel: (011) 2400318 Incorporated: March 1992	50.2%	Leasing of Land and Buildings to Industrial Enterprises	A N Fonseka *(Chairman)* H A Samarakoon *(CEO)* A D Tudawe Dr R M K Ratnayake T W de Silva V Kanagasabapathy	84	150	4.00	8.00	30.0 
Lanka Ventures PLC 2nd Floor Ceylon Ocean Lines Building 46/12, Navam Mawatha Colombo 2 Tel: (011) 2439201 Incorporated: February 1992	58.23%	Venture Capital Financing	A N Fonseka *(Chairman)* J D N Kekulawela J M J Perera S E de Silva T L F W Jayasekara T W de Silva	80	64	1.50	1.50	9.4 

Company	DFCC's Interest	Principal Activity	Directors	Profit After Tax (Rs million) FYE 07/08	FYE 06/07	Dividend Per share (Rs) FYE 07/08	FYE 06/07	ROE (%)
Synapsys Limited 73/5, Galle Road Colombo 3 Tel: (011) 2442442 Incorporated: October 2006	100%	Technology & Business Consulting	A N Fonseka *(Chairman)* T W de Silva *(Managing Director/CEO)* D E de Mel D J P Fernandopulle S Nagarajah	13	(2)	Nil	Nil	87.6 
Associate Companies								
Commercial Bank of Ceylon PLC "Commercial House" 21, Bristol Street Colombo 1 Tel: (011) 2445010 Incorporated: June 1969 Note: Profit is for FYE December 2007 and FYE December 2006	27%	Commercial Banking	M J C Amarasuriya *(Chairman)* B R L Fernando *(Deputy Chairman)* A L Gooneratne *(Managing Director)* A N Fonseka D S Weerakkody G Galludec *(Alternate to I M Malas)* Dr. H S Wanasinghe I M Malas Ken Balendra L J A Fernando	4,149	2,071	7.00	5.00	20.6 
National Asset Management Limited 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2445911 Incorporated: September 1990	30%	Fund Management	A M de Jayaratne *(Chairman)* A N Fonseka C Jayasuriya *(Alternate to L U D Fernando)* H A Herat L U D Fernando T W de Silva *(Alternate to A N Fonseka)*	15	8	0.75	Nil	10.9 

Management Discussion & Analysis

Operations Review

DFCC Bank's core business activity remains the grant of long-term and medium-term financial assistance, by way of loans and finance leases, to support the capital asset funding requirements of industrial, agricultural, and commercial enterprises in Sri Lanka. As cautioned in the last year's Annual Report, unfavourable developments in the external environment, namely escalation of the North-East conflict, increasing oil prices and high levels of inflation, continued throughout the year under review. Persistent high inflation has occasioned tight monetary policies, high interest rates, volatile liquidity in the money market as well as the escalation of industrial factor input costs. These developments contributed towards a less satisfactory business environment resulting in lower credit demand for capital asset funding and increasing the risks and vulnerability of most businesses. Accordingly, DFCC Bank adopted a more cautious approach towards term lending portfolio growth, particularly in terms of fixed rate medium-term finance leases being a product that had a greater appeal to the more vulnerable Small and Medium Enterprise (SME) sector.

Approvals

Gross approvals of DFCC Bank during the year amounted to Rs16,239 million, 38% lower than the previous year's figure of Rs26,102 million, reflecting lower demand for capital asset funding credit. Project loans and project investments accounted for 76% of approvals, finance leases for only 11%, and financial guarantees made up the balance 13%.

Lending to businesses in communications, logistics and construction, real estate, financial and business services, electricity and gas and other diversified businesses accounted for 60% of gross approvals. A further 8% of approvals were granted to the food and beverage sector.

The Branch Banking division, which caters to the SME sector, did not have access to any dedicated lines of credit during the year and contributed only 41% of total approvals. The Corporate Banking division approved the balance 59% of credit.

Portfolio

The total credit portfolio of the Bank stood at Rs46,784 million, approximately the same level as last year, suggesting that overall disbursements of Rs13,383 million during the year had only compensated for overall loan repayments over the same period. In the case of the DFCC Bank portfolio, a relatively high percentage of disbursed loans are repaid during a year, unlike with the portfolios of commercial banks, which mainly comprise facilities of a revolving nature.

Repayments during the year of around Rs13,000 million (about 28% of the Bank's portfolio) indicate a gradual reduction in the average maturity period of the portfolio, a measure taken to address market liquidity and interest rate volatility concerns.

The Bank's portfolio is made up of term loans (82%), finance leases (14%) and investment securities (4%). The percentage composition of finance leases has fallen from 16% last year to 14% in the current year. This is a result of the Bank having pursued a particularly cautious approach in expanding fixed rate leases due to credit and market risk concerns.

The portfolio is well diversified, with 80% of it accounted for by nine broad sectors. For purposes of better risk management, the Bank also monitors exposures to some subsectors within these broad sectors:

Finance, Insurance, Real Estate and Business Services	15.7%
Diversified Businesses and Trade	14.9%
Communication, Transport and Storage	10.6%
Manufacture of Food and Beverages	9.7%
Agriculture, Forestry and Fishing	7.7%
Community, Social and Personal Services	6.1%
Manufacture of Non-Metallic Mineral Products, China and Glass	5.7%
Electricity, Gas and Water Industries	5.2%
Construction Industries	4.5%

Portfolio Quality

The quality of DFCC Bank's portfolio has shown consistent improvement over the last several years, recording a satisfactory Non Performing Asset (NPA) ratio of 4.5% at the financial year ended 2006/07. However, during the year under review, the NPA ratio increased to 6.2%. This adverse variance is entirely due to NPAs in the Bank's SME portfolio, both loans and leases and the lack of portfolio growth. The main contributors were portfolio segments such as construction, transport, restaurants and agriculture in outstation branches. In contrast, the quality of the Corporate Banking portfolio has, in fact, further improved. Though the current overall NPA position is still considered acceptable for a project finance portfolio, the Bank continues to put increased effort behind collections and is actively assisting SMEs revive projects that are in distress.

Corporate Banking

The macroeconomic situation resulted in lower demand for long-term project finance in the corporate sector and did not warrant an aggressive portfolio growth strategy. Under the circumstances, the focus was on improving the profitability and quality of the portfolio rather than volume. As at the financial year ended 31 March 2008, the Corporate Banking portfolio stood at Rs24,695 million, marginally up from the previous year's figure. Approvals amounted to Rs9,496 million. Sector-wise, manufacturing accounted for 20% followed by construction (17%), communication (16%), financial, business services and real estate (15%), health and education (8%).

During the year, the Bank supported the implementation of a diverse range of projects some of which included; capacity expansion by a cellular phone operator, a new cement bagging plant, a new hospital, a carbon converter cum power generation plant, a new production line for soft drinks, a vehicle emission testing network, an effluent treatment facility for an industrial park and a hydroelectric turbine manufacturing plant. The Bank also approved Rs650 million in funding for projects under the *Gamata Karmantha* Scheme.

DFCC Bank added a new dimension to its mission of nurturing Sri Lankan business enterprises by enabling some of its local clients to undertake construction and hydropower projects overseas. The Bank, in partnership with its consulting subsidiary, is also providing advisory services for a Sri Lankan enterprise in developing one of the first run-of-the-river, grid-connected hydropower projects in East Africa. This has opened a new chapter whereby Sri Lankan project management expertise in mini hydro development has enabled Sri Lanka to be recognised as a premier resource center for the renewable energy sector.

With due regard to market conditions, special care was taken to maintain the quality of the portfolio. The NPA ratio in the Corporate Banking portfolio was a very satisfactory 0.7%, while loans in arrears as a percentage of total loans to corporate clients amounted to only 0.2%.

Branch Banking

A new branch was opened at Nawala and service facilities for Small Scale Enterprise (SSE) clientele of the Colombo office were transferred to the new location. The move eases space constraints at the Colombo office whist enabling the Bank to provide SSE customers with more focused and efficient services. SSEs are an important business segment, particularly in terms of developing entrepreneurship.

Two planned new branch offices, in Galle and Kegalle, could not be opened during the year, as suitable locations were not identified until nearly the end of the year. These two branches will be opened during the financial year 2008/09, which will also see the relocation of the Bank's Kurunegala and Kalutara branches to more convenient and spacious premises.

Small and Medium Enterprise Financing

Credit approvals to SME clients through the branch network amounted to Rs6,563 million, mainly in agriculture, agricultural produce processing, engineering services, health, education and transport. The total SME portfolio contracted by 6.7%, standing at Rs19,628 million at the end of the year compared to Rs21,150 million in the previous year. The lease portfolio declined by 13.6% to Rs6,485 million, while the SME loan portfolio declined by 2.8% to Rs13,143 million. The quality of the overall SME portfolio also declined, registering a year-end NPA ratio of 8.6% compared to 5.0% in the previous year.

The relatively low demand for credit by the SME sector was due to their reluctance to borrow long-term at prevailing high interest rates. The SME sector in Sri Lanka has been developed to what it is today using mostly concessionary funds from bilateral and multilateral lending agencies, which were channelled through local banks.

Financial constraints faced by the SME sector in general and some segments in particular, such as contractors, property developers and transporters clearly show the high level of vulnerability of SMEs to adverse developments in the external environment. Lack of management skills, especially in the area of business planning and financial management, aggravate the problems faced by SMEs.

However, SMEs form an important strategic sector in promoting economic growth, social development and reducing poverty, especially in the regions. Hence, DFCC Bank will continue its commitment to develop the sector, not only by meeting their long-term financing needs but also by providing them with the necessary training and guidance to overcome their internal weaknesses whilst strengthening them with modern management skills.

DFCC Bank is one of four credit institutions participating in the new Small and Medium Enterprises Regional Development Credit Scheme funded by the Asian Development Bank for financing SMEs located outside the Western Province. The Bank is targeting to increase the SME portfolio during the financial year 2008/09 with the assistance of the aforesaid credit line and the Small and Micro Industries Leader and Entrepreneur Promotion Project (SMILE) revolving fund.

DFCC Vardhana Bank

The loans and advances portfolio of DFCC Vardhana Bank (DVB) grew from Rs7,778 million to Rs11,122 million registering a 43% growth as at 31 December 2007*. The net NPL ratio for the same period remained stable at about 5%. Customer deposits grew by 55% to Rs12,117 million from Rs7,812 million in the previous year and continued to remain the main funding source of DVB operations. The equity capital of the Bank was topped up to Rs2,528 million as at the end of 2007 to meet the regulatory requirement for licensed commercial banks.

Interest income on loans and advances amounted to Rs1,812 million. The corresponding figure for 2006 was Rs922 million. Other non-fund based income increased sharply from Rs192 million in the previous year to Rs310 million in 2007. Pre-tax profit increased by 47.8% to Rs291 million. The corporate tax of Rs138 million payable thereon was a disproportionate 73% increase, restricting the growth of profit after tax to 31%. Net profit after tax attributable to shareholders amounted to Rs153 million compared with Rs117 million in 2006.

DVB continued to build its distribution network ending the year 2007 with 32 branches. In addition to the planned expansion of new delivery channels and greater ATM connectivity, the year 2008 will see the launch of a host of new services. In September 2007, Fitch Rating Lanka Limited re-affirmed the AA- (lka) rating assigned to DVB, which denotes a very low probability of default for long-term investments.

Capital Markets and Investment Banking

The year under review was one of fluctuating fortunes for the Colombo Stock Market. Overall, the market showed a declining trend, with the All Share Price Index falling by 8.6% and the Milanka Price Index dropping even further, by 17.1%. Investor confidence was mixed and at most times driven more by speculation than by fundamental value, which resulted in some short lived rallies. Nonetheless, while the average daily turnover was only Rs363 million, down from the previous year, the market did top the billion rupee turnover mark on several occasions and even touched a new high of Rs6,664 million. By and large, however, poor sentiments escalating civil conflict and rising interest rates took their toll prompting investors to switch from equities to fixed income securities, precipitating an overall decline.

Given the uncertain market situation, DFCC Bank, as in the previous year, pursued a cautious approach in managing its investment portfolio of quoted and unquoted shares, holdings in Unit Trusts and a small trading portfolio. During the year, an aggregate capital gain of Rs32 million was realised. At year end, the market value of the total investment portfolio and Unit holdings was Rs1,052 million, of which Rs233 million was the unrealised capital gain.

Besides portfolio management, the Investment Banking department of the Bank was active in fee based corporate finance assignments. These included private placements for raising equity, and advisory services for a major divestment transaction on the Colombo Stock Exchange.

Approval was obtained from Central Bank of Sri Lanka for a new joint venture in investment banking - a company to be owned equally by DFCC Bank and Hatton National Bank. The new investment bank will carry out the amalgamated corporate finance and capital markets businesses of the two institutions. It will also be the group holding company for other related businesses of the two Banks in Sri Lanka, including their stockbroking and primary dealer companies. The new venture is

* *The financial year of DVB ends on 31 December*

ready to commence operations as soon as one outstanding regulatory clearance is in place. Meanwhile, as an interim arrangement, the two Banks are carrying out investment banking mandates on a joint basis.

Treasury Operations

The Group Treasury manages interest rate and foreign exchange risk in both the banking and trading books, apart from managing liquidity risk. The Treasury is operationally centralised to cover both DFCC Bank and DVB, a synergistic policy that continues to support the optimisation of resources and the exploitation of market opportunities.

Managing cost of funds is a key activity of the Group Treasury, where efforts to minimise investment costs and the marginal cost of borrowings were key priorities for both DFCC Bank and DVB.

Opportunities prevailed in the Treasury Bill market in terms of both Repurchase Agreements (REPO) and outright trading, which were gainfully exploited. The Treasury Bond market lacked depth, despite foreign investments. There were no significant new exposures in Treasury Bonds, which helped to maintain the interest rate risk in the trading books at a low level.

Funding

In terms of liquidity management, it was a challenging year for DFCC Bank due to high interest rate volatility in respect of domestic borrowings and significant crowding out by the Government in the local market. Proactive drawdowns of the European Investment Bank (EIB)'s tsunami related and Global II credit lines contributed to the overall funding requirements for the year. Preparatory work commenced on a new long-term credit line to be sourced from FMO, the Netherlands Development Finance Company, to fund the Bank's SME loan portfolio. In a move that leverages off a Government budget proposal for private sector institutions to borrow foreign currency abroad, DFCC Bank commenced preliminary work to source new funds from overseas. This follows the ground breaking US$85 million Floating Rate Note issued in 1998. A feasibility study was undertaken to assess and mitigate the risks with respect to foreign exchange that will arise in the books of DFCC Bank. During the year under review, fund mobilisation strategies were focused on diversification of funding sources, which necessitated active Treasury management of the risks implied.

DVB concentrated on mobilising deposits through the expanding branch network. This effort was bolstered by medium-term institutional borrowings by the treasury. The challenge is to build up the lower cost savings deposits base of DVB.

Management of Credit Lines

The Project Management division manages four credit programmes of the Government of Sri Lanka (GoSL).

The World Bank and Global Environment Facility (GEF) - assisted Renewable Energy for Rural Economic Development (RERED) Project works to improve the quality of life in rural Sri Lanka by providing access to electricity, and promotes private investment in off-grid and on-grid power generation, using renewable resources. As at 31 March 2007, the line of credit was fully committed and the Project is now well positioned to exceed targets. Foreign delegates from Africa and Asia continue to visit Sri Lanka to study the Project. Encouraged by the success, the World Bank provided additional financing in January 2008, effective for three years.

The credit component of the Plantation Development Project, funded by the Asian Development Bank and a revolving fund set up by GoSL, focuses on transforming Regional Plantation Companies (RPCs) from primary producers into agribusiness entities. During the year 79% of the credit line was committed and seven participating financial institutions had collectively disbursed Rs1,099 million to 14 eligible RPCs. These funds have been used for field development, crop and non-crop diversification, factory consolidation and process automation.

The European Investment Bank (EIB) assisted Post-Tsunami Reconstruction Project provides assistance to revive the economy of affected districts. DFCC Bank administered scheme A (for directly or indirectly affected projects) is 96% committed, with seven participating financial institutions collectively disbursing Rs5,244 million. These development projects are estimated to provide over 2,000 new employment opportunities in leisure, health, manufacturing and service sectors. In addition 24% is committed under scheme B (directly affected projects), administered by the Central Bank of Sri Lanka and assisted by DFCC Bank.

The KfW-assisted Small and Medium Enterprise Development Project in the North and East focuses on improving access to financial services for entrepreneurs in these districts. Participating financial institutions commenced loan appraisals under this line of credit towards the end of the financial year and disbursements began in April 2008. The project is expected to create additional employment opportunities in the micro enterprise and SME sectors in the North and East of the country.

Financial Review

Overview

Profitability

The profit of the Bank, its subsidiaries together with the share of the associate companies profit before income tax and Value Added Tax on financial services (VAT) was Rs4,750 million in the financial year under review (referred to in this report as current year), an increase of 22% over Rs3,890 million in the previous financial year (referred to as previous year). The total of income tax and VAT expense in the current year was Rs2,503 million, 53% of the profit before the taxes. The comparative amount in the previous year was Rs2,197 million (56%).

The profit after tax of the Bank, its subsidiaries and the associate companies was Rs2,247 million in the current year and Rs1,693 million in the previous year. The profit after tax attributable to the shareholders of the Bank in the current year was Rs2,168 million, a 37% increase over Rs1,586 million in the previous year, the highest annual growth recorded in the past five financial years. This was made possible with a significant contribution, 47% of Rs2,247 million from the associate company, Commercial Bank of Ceylon PLC (CBC) in the current year. In the previous year the contribution from CBC was only 29%. The contribution from CBC for the purpose of this analysis includes both distributed (accounted as Bank's income in its own financial statements) and undistributed share of profit after tax attributable to the Bank.

The Bank continued to maintain the return on average assets at 2.1%, the same as in the previous year. The return on equity of 11.3% in the current year is however lower than 12.1% in the previous year. The equity capital of the Bank was increased by Rs2,994 million with the infusion of new capital from the shareholders net of share issue expenses and by Rs20 million through the exercise of employee share options. This increase reduced the gearing of the Bank. Since the new equity was primarily used to invest in the equity of DFCC Vardhana Bank Limited (DVB) and CBC and consequently not available to support DFCC Bank's own balance sheet expansion, a positive impact on the Group Return on Equity (ROE) can be expected in the future as these entities increase their own gearing .

The current year was characterised by many challenges in the operating environment. A synopsis of these challenges and the strategic response by the Bank to meet these challenges are given below.

i. Relatively high inflation and tight monetary policies to combat inflation

Impact on the Bank

Slow down of the Bank's core business of funding investments in capital goods. Credit worthy customers tended to defer major expansion, modernisation or launch of new products in the context of high interest rate regime.

Strategic Response

Not to pursue aggressive credit growth and consciously reduce new exposure to highly geared, fixed interest rate, financial leases, which are prone to degenerate to non-performing in a high interest rate regime.

ii. Temporary slow down in foreign sourced lines of credit from multilateral and bilateral agencies

Impact on the Bank

The need to use higher cost term deposits as an interim solution, resulting in increased funding cost and reduction in interest spread. This scenario introduces maturity mismatches and mobility of deposits in search of higher interest rates.

Strategic Response

Reduced dependency on high cost, price sensitive term deposits by substituting stable domestic institutional medium to long-term funding. The higher cost was addressed through proactive repricing of loans.

iii. High taxation

Impact on the Bank
Pressure to maintain adequate dividend stream while ensuring sufficient retention of reserves for future growth and enhancement of risk absorption capacity.

Strategic Response
The Bank in collaboration with other constituents of the banking industry continue to urge the authorities to reduce the impact of financial services VAT while pursuing means of cost reduction and improving productivity.

Loan Quality

In a high interest rate environment, customers give priority to service working capital facilities in order to continue in business and therefore business sectors that experience reduced profitability due to domestic inflation, may be compelled to delay the debt servicing of the capital asset credit facilities.

In this scenario, the gross Non-Performing Loans (NPL), finance leases and bills of exchange discounted was Rs2,891 million on 31 March 2008, increased from Rs2,123 million an year ago. However the infected exposure net of provisions and the realisable value of tangible collateral is only Rs313 million on 31 March 2008. This as a percentage of the equity on 31 March 2008 was 2.3%

The NPL figure includes loans outstanding in the Textile Debt Restructure Fund (TDRF) of the Government of Sri Lanka, amounting to Rs82 million in the current year and Rs104 million in the previous year. The TDRF loan is repaid by the Government with some delay and consequently remains classified as non-performing.

Loans constitute 76% of the non-performing credit portfolio.

The age of arrears of Rs689 million (31.3% of the total gross non-performing loans of Rs2202 million) was over 18 months on 31 March 2008, reduced from 38.9% in the previous year's non-performing loans in the same arrears category.

The Bank has a specialised department tasked with the responsibility to rehabilitate enterprises and transform the loans in financial difficulty to performing or if rehabilitation measures are not successful, recover the dues by enforcement of collateral. On 31 March 2007, 17 customers with loan exposures over Rs20 million accounted for Rs871 million of the gross NPL portfolio (51% of Rs1,694 million, the total). On 31 March 2008, only 12 of these customers remained as non-performing, while nine new entrants became non-performing demonstrating the elimination of non-performing loans over time through proactive management. The future success of this strategy however will also depend on the effectiveness of the tight monetary policies implemented by the Central Bank to reduce inflation and lowering of the high interest rates prevalent in the country.

Six sectors accounted for 68% of the non-performing loans on 31 March 2008. These sectors in descending order of non-performing loans were, trade, agriculture - forestry - fishing, manufacture of food - beverage and tobacco, manufacture of textiles, finance - insurance - real estate - business services and electricity-gas-water

Investment in subsidiaries and associates

Company	Ownership %	New investments in year ended 31 March 2008 Rs million	Total on 31 March 2008 Rs million
Commercial Bank of Ceylon PLC (CBC) - Associate	26.94	1,603	3,152
DFCC Vardhana Bank Limited (DVB) - Subsidiary	95.62	857	2,286
Synapsys Limited	100	20	20
Total		**2,480**	**5,458**

The investment in ordinary shares of CBC was in April 2007 and was the full entitlement of the rights provisionally allotted to the Bank. The capital issue by CBC was to position itself to meet additional capital requirement commensurate with the increase in the scale of operations.

The investment in ordinary shares of DVB was in December 2007 and enabled DVB to meet the minimum equity requirements of Rs2,500 million in December 2007, mandated by the Central Bank of Sri Lanka and applicable to all licensed commercial banks operating in Sri Lanka.

The investment in ordinary shares of Synapsys Limited was in October 2007 and constituted the entire initial capital of this fully owned subsidiary of the Bank. This company is approved under Section 17 of the Board of Investment Act No. 4 of 1978 and consequently entitled for an initial three year tax holiday followed by lower tax rate (10% for two years and 20% thereafter).

This Company while providing information technology services and support to the Bank and DVB, will gradually widen its scope of activities and provide multifaceted services to other domestic and international clients.

Dividend Distribution

The Directors have recommended a first and final dividend of Rs5/- per ordinary share which will amount to a payment of Rs651 million.

The total dividend pay out as a percentage of the Bank's own profit after tax for year to 31 March 2008 is 49%. The gross dividend in respect of the current financial year is a 43% increase from gross dividend of Rs454 million comprising the interim and the final dividend in respect of the previous financial year.

Companies Act No. 7 of 2007

Although the new Companies Act will apply for companies incorporated under this Act or its predecessor legislation, DFCC Bank which was incorporated under the DFCC Bank Act No. 35 of 1955 as amended, provides for the application of the Companies Act only on matters not specifically provided for in the DFCC Bank Act or in the regulation. Thus where there is express provisions in the DFCC Bank Act, those will prevail over the Companies Act.

The significant differences as regards the financial statements are:

i. DFCC Bank will continue to have the authorised capital, par or nominal value of ordinary shares of Rs10/- each and concomitant share premium account although the Companies Act has abolished the concept of par value of shares and share premium and replaced it with stated capital.

ii. DFCC Bank may continue to issue bonus shares at par and charge the equivalent amount to the share premium account instead of revenue reserves or retained profit.

iii. DFCC Bank may continue to raise new capital at a discount to the market price by way of rights issues.

iv. The procedure laid down for distribution to shareholders and compliance with solvency test supported by independent confirmation from the auditor under the Companies Act will not mandatorily apply to DFCC Bank.

v. The certification requirement of the financial statements under Section 150 (1) (b) will not apply to DFCC Bank's own financial statements while it will apply to Group financial statements where the subsidiaries and the associate companies are governed by the Companies Act.

The Bank however has voluntarily followed some of the requirements of the Companies Act. eg. dividend distribution, as a matter of prudence.

Capital and Liability Structure

The Bank, after 14 years, increased its ordinary share capital in May 2007 by way of a Rights Issue of 1 for 4 followed by a bonus share issue of 1 for 5 in June 2007. The new capital infusion from the shareholders net of issue expenses and stamp duty was Rs2,994 million. The exercise of options by the employees added Rs20 million. This capital infusion funded the investments by the Bank in CBC and DVB and enabled the Bank to have adequate capital to meet additional capital requirements concomitant with the adoption of Basel II from 1 January 2008 and future growth. Basel II requires capital allocation for operational risks component. Currently capital requirement for credit and market risks uses the standardised approach while capital requirement for operational risks uses the basic indicator approach.

Interest bearing liabilities accounted for 75% of the total liabilities and shareholders' funds on 31 March 2008, compared to 81% in the previous year. The Bank does not have current and savings accounts unlike its subsidiary DVB. In the high interest rate environment that prevailed during the year under review competition amongst commercial banks significantly raised the cost of term deposits and consequently resulted in greater mobility of corporate and high net worth individuals savings seeking higher interest rates. In this context the Bank, consciously reduced its deposits from customers from Rs13,573 million to Rs5,112 million by shedding some high cost wholesale deposits.

The Bank concurrently increased its Repurchase Agreements with customers against Government securities from Rs615 million in the previous year to Rs2,372 million in the current year. This was partly a defensive strategy to retain some of the deposit relationships by offering market competitive terms through this instrument. These agreements were mostly short-term.

Combined operations of the Bank and its commercial banking subsidiary DVB

DVB is a 96% owned subsidiary of the Bank. The acquisition of this bank in 2003 was to complement the product range of the Bank with commercial banking products for the benefit, initially of the Bank's customers with gradual widening of the customer base and markets served. The business model was to optimise synergy benefits by operating as one economic entity albeit legally separate entities.

The combined non-interest expense to operating income ratio (cost income ratio) of the Bank and its commercial banking arm, DFCC Vardhana Bank Limited was 34.4% in the current year compared to 32.1% in the previous year.

DVB continues to build commercial banking capacity, expand the distribution network and develop alternate delivery channels. During the current year the DFCC Bank added one more branch increasing its branch net work to 14 while DVB added 09 branches increasing its branch network to 34. These measures will gradually increase the scale of operations of both entities leading to productivity gains through economies of scale. However, during the capacity expansion phase, the newer branches do not become profitable till they achieve a breakeven volume of business and consequently during this phase the profitability of DVB is somewhat lower.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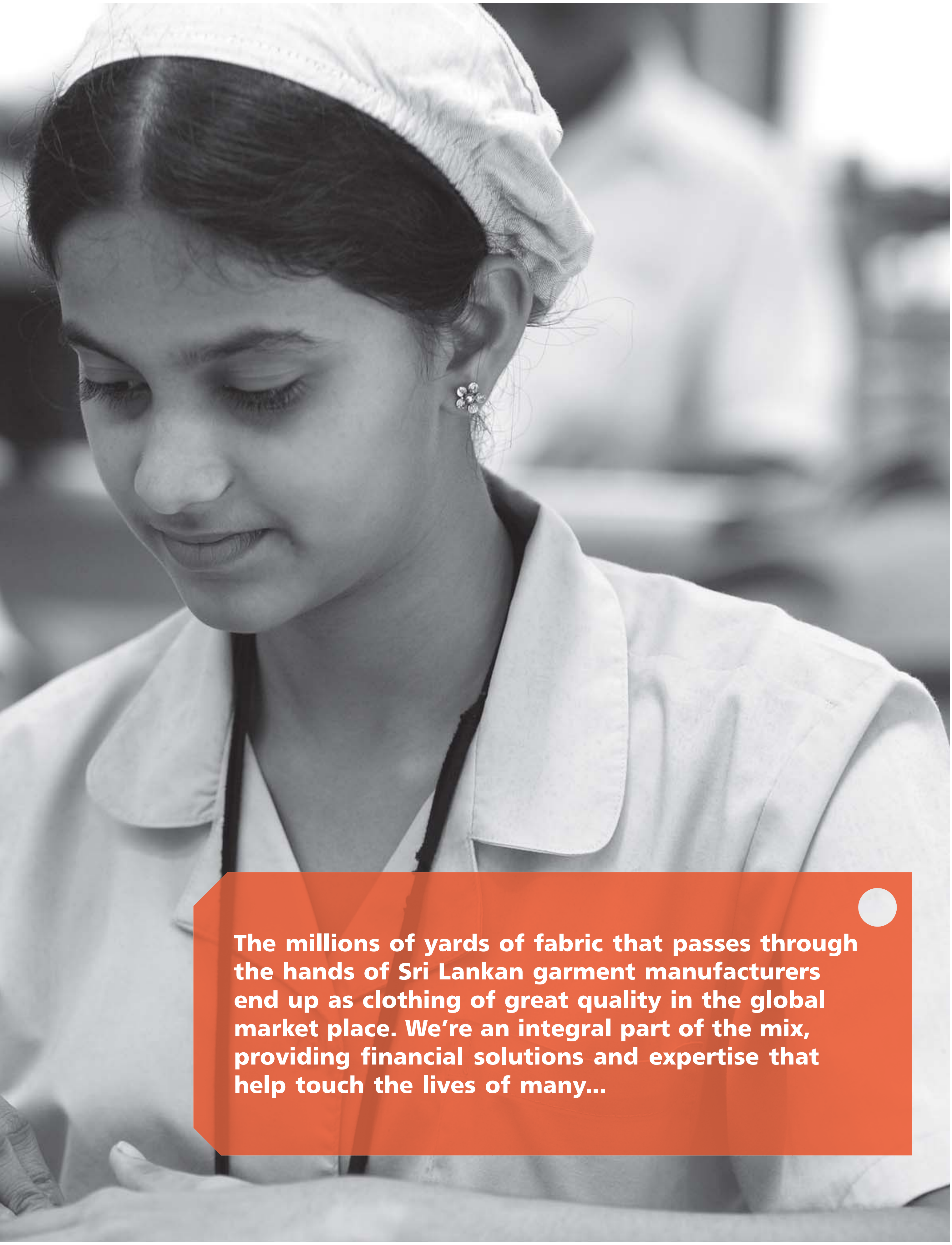


The millions of yards of fabric that passes through the hands of Sri Lankan garment manufacturers end up as clothing of great quality in the global market place. We're an integral part of the mix, providing financial solutions and expertise that help touch the lives of many...

Risk Management

DFCC Group, which in the context of Risk Management includes DFCC Bank and DFCC Vardhana Bank Limited continued to review and upgrade its risk management processes and systems to be in line with business needs, environmental factors and regulatory requirements, including Basel II. In keeping with its development mandate, DFCC Bank has been a pioneer in lending to economically crucial but relatively higher risk projects. Sound risk management has been an integral part of its day-to-day operations.

Developments

The simplest approaches of Basel II became effective in Sri Lanka for licensed banks from January 2008. However, banks will realise the full benefit of Basel II only when they move into more advanced approaches. DFCC Group has commenced gathering information for the advanced approaches of Basel II. Capacity building and further propagating a sound risk culture is a key focus area. The next phase of capacity building will cover a wider spectrum of staff from across the Bank.

DFCC Bank has established an Integrated Risk Management Committee. This committee includes several Non-Executive Directors and is chaired by the Chairman of the Board. The development of an integrated risk management framework has already commenced. The existing credit rating models, risk management practices and the policy frameworks are being reviewed, to be in line with Basel II requirements.

Risk Based Capital Adequacy

DFCC continued to maintain a healthy risk capital position on a solo and Group basis under the new regulatory capital accord.

The capital released from the change in risk weights for credit exposures to highly rated borrowers under Basel II offset the new capital charge for operational risk. The banks in Sri Lanka are yet to benefit from the preferential risk weight of 75% for the SME exposures due to the need to comply with certain outstanding regulatory pre-conditions that borrowers will require further time to comply with. Basel II also had an impact on the Core Capital ratio due to the new capital charge for half of the investments in banks and other financial institutions (previously charged in full against the total capital). The total regulatory capital requirement and ratio under Basel II at Group level remained comparable to the Basel I requirements. This capital charge in relation to the investment in associate company Commercial Bank of Ceylon PLC was also the reason for the total capital base to be lower than the core capital.

Given the current global markets downturn and the uncertainty in the local macro conditions, DFCC Bank maintained a healthy risk capital buffer over the minimum regulatory requirement.

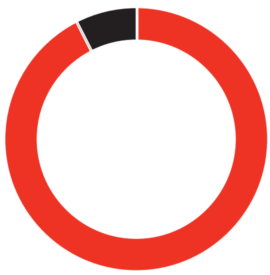
DFCC Group Regulatory Capital Ratios

As at 31 March 2008	Under Basel I	Under Basel II
Core capital	24.8%	20.4%
Total capital base	19.0%	19.0%

DFCC Group regulatory capital position and risk-weighted assets under Basel II

As at 31 March 2008 Risk/Capital	Amount Rs million
Credit Risk	6,466
Market risk	12
Operational risk	600
Minimum regulatory capital	7,078
Buffer	6,357
Maintained regulatory capital	13,435

Risk Weighted Assets



Credit risk	91.35%
Market risk	0.17%
Operational risk	8.48%

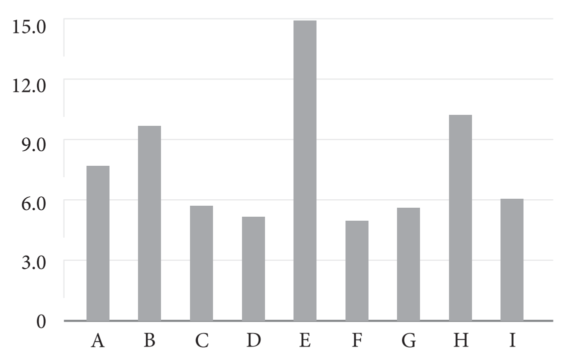
Credit Risk

Credit risk is the risk of financial losses arising due to the unwillingness or inability of counter-parties to meet their financial or contractual obligations in time and in full. Loss of market value of debt securities of the investment portfolio due to credit rating down grades or the credit spread widening is also part of credit risk. It is the most significant type of risk to DFCC Bank, and accounted for 91% of risk-weighted assets as at end March 2008, calculated under the Standardised Approaches of Basel II. The DFCC Group's business model involves the origination of credit and holding the exposures to maturity with a very small percentage of highly rated assets purchased from the market. The Group has no cross border credit exposure other than a small proportion of normal short-term trade finance and contract finance exposures.

Risk profiling of borrowers using an internal rating model provides the basis for structuring and pricing of facilities. Periodical reassessment of the credit ratings of existing facilities generate early warning signals and enable proactive measures for managing credit risk. The monitoring process for individual borrowers is intensified with the deterioration of the credit quality. Concentration risk is monitored in terms of single borrower limits, group limits and sector limits. Risk exposures to high risk sectors are managed through sector restrictions that require prior high level sector clearance before assessing individual risks.

Distribution of DFCC Bank's Portfolio within Selected Sectors*

[As a % of the Total Exposure]



A - Agriculture, Forestry and Fishing
B - Food, Beverages and Tobacco
C - Mineral Products including Pottery, China and Glass
D - Electricity, Gas and Water Industries
E - Trade
F - Transport and Storage
G - Telecomminucations
H - Financing and Insurance
I - Community, Social and Personal Services

** Sectors accounting for 5% or more of the total portfolio.*

Market Risk

Market risk arises from fluctuations in interest rates, equity prices, exchange rates and commodity prices. The Asset & Liability Management Committee (ALCO) functions as a main forum at operational level to oversee the market risk management. Tools such as supervisory monitoring, exposure limits, stop-loss limits and marking-to-market are used to manage DFCC Group's market risk exposure. Treasury limits are reviewed from time to time to support effective monitoring. The Asset & Liability Management (ALM) and Treasury Control Mechanisms were rolled out to DFCC Vardhana Bank during 2007 with the objective of improving Group risk management practices.

Interest Rate Risk

The magnitude of DFCC Bank's interest rate risk exposure depends on the re-pricing mismatch of the asset and liabilities. This mismatch, under adverse conditions in the market interest rates will reduce the net interest income of the Bank. Potential losses in the marked-to-market fixed income securities portfolio are also recognised under interest rate risk.

The ALM Unit continuously assesses the Bank's asset and liability profile in terms of interest rate risk and report to the ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. The Financial Analysis Division and the Treasury assist the ALCO in monitoring market interest rate scenarios and support a proactive approach to interest rate risk management.

Equity Prices Risk

Equity prices risk is the risk of losses in the equity trading book, which is marked-to-market, due to the decline in the market prices. DFCC Bank has no significant exposure to equity prices risk since its equity trading portfolio accounts only for a nominal percentage of the total assets. The Investment Committee of the Bank is responsible for making investment decisions and monitoring exposure to the equity market. Asset allocation decisions are approved by the ALCO. Rigorous appraisal, proper market timing and exposure limits are used to manage equity prices risk. The Bank's long-term investment horizon for equity investments smoothens out the adverse implications of short-term market volatility.

Exchange Rate Risk

Exchange rate risk emerges from adverse changes in exchange rates in terms of foreign currency transactions, assets or cross-border business activities. The Bank is not exposed to exchange rate risk on its foreign currency borrowings made with the concurrence of the Government of Sri Lanka since exchange rate risk of such borrowings is borne by the Government in terms of the DFCC Bank Act No. 35 of 1955. The Bank has extended several foreign currency denominated loans to clients who have the capacity to service these loans from their foreign currency income. The total foreign currency assets are less than 5% of the total assets and are matched by liabilities in the same currency with an equal or longer tenor. DFCC Vardhana Bank provides short-term trade related finance in foreign currency, mainly US Dollars, that are funded by foreign currency customer deposits.

The Group Treasury actively manages the exchange risk of DFCC Vardhana Bank by applying limits on single dealer, currency, overall exposure, stop-loss and maturity. These limits are conservative and commensurate with the size and capital strength of that unit.

Liquidity Risk

Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time and in full, at a reasonable cost. The Bank's liquidity risk management process includes regular analysis and monitoring of the liquidity position and the maintenance of market accessibility. Regular cash flow forecasts, liquidity ratio and maturity gap analysis are used as analytical tools by the ALCO. The ability to roll over borrowings and customer deposits, provide liquidity support should contingencies arise. For short-term liquidity support, the Bank has access to the money market at competitive rates. The diversification of the liability structure is also a key focus.

Operational Risk

Operational risk arises from human activities, technology and natural incidents. The sources of operational risks include frauds, staff negligence, management systems failure, technology failure, model failure, technology obsolescence and inadequate internal controls. Segregation of duties with demarcated authority limits, internal and external audits, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings are forwarded to the Board's Audit subcommittee for their examination. A high level of technical skills, professionalism and ethical conduct of our staff serve as insulators for many operational risk factors. The Bank's business recovery plan deals with natural or other catastrophes. The business continuity centre was significantly upgraded. The loss of physical assets is mitigated through insurance.

Risks Arising from Treasury Operations

Interest rate risk arises in Repurchase Agreement (REPO) and fixed income trading operations which are managed within tenor mismatch limits to maximise opportunities and stop loss/profit limits in terms of trading. Foreign exchange risk arises subsequent to trading exposures for which relevant market risk based limits are in place.

Reputation Risk

Reputation risk is the risk of losing public trust or the tarnishing of the Bank's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Reputation risk events are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results. Policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training. A culture of compliance permeates all levels of the organisation, and the Chief Compliance Officer submits quarterly compliance reports to the Board of Directors.

Business Risk

Business risk is the risk of deterioration in earnings due to the loss of market share, changes in the cost structure and adverse changes in industry or macroeconomic conditions. The Bank's medium-term strategic plan and annual Business Plan form a strategy road map towards continued prosperity. Diversification of business through subsidiaries and associates, continuous competitor and customer analysis, and monitoring of the macroeconomic environment enable the Bank to formulate its strategies for growth and business risk management.

Legal Risk

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Bank. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to related legislation by the staff. Necessary precautions are taken at the designing stage of transactions to minimise legal risk exposure. In the event of a legal risk factor, the Legal Department of the Bank takes immediate action to address and mitigate these risks. External legal advice is obtained when required. The financial statements disclose details of significant ongoing legal disputes involving the Bank.

Preventing Money Laundering and Combating Financing of Terrorism

DFCC Group has taken the required steps to comply with the principles of Know Your Customer (KYC) and Customer Due Diligence (CDD) issued by the Financial Intelligence Unit (FIU) in terms of The Financial Transactions Reporting Act No. 6 of 2006, Prevention of Money Laundering Act No. 5 of 2006 and The Convention on the Suppression of Terrorists Financing Act No. 25 of 2005.

Human Capital

DFCC Bank's human resource policies, strategies and practices have been shaped on the premise that the collective knowledge, skills and experience of its staff is the key to fulfilling its mission of providing superior financial solutions and nurturing businesses to grow and prosper. We accord the highest priority to effectively managing our human capital and continuously improving on our HR processes and practices, to enhance staff development and create a healthy and rewarding internal environment that drives our staff to higher levels of motivation. This in turn brings about a greater degree of 'oneness' with the Bank and a higher level of productivity and customer service.

Staff Productivity

					Rs'000
	2008	2007	2006	2005	2004
Income per employee	**22,998**	16,319	14,403	13,649	14,571
PBT per employee	**4,733**	4,420	4,418	5,934	6,137
Assets per employee	**151,215**	144,409	127,306	121,078	115,666

Attracting Talent

Recruiting staff with the 'best fit' to the job profile and the Bank is becoming increasingly challenging in the current environment, characterised by a dearth of professional talent of the required calibre. A trend that is gathering momentum is the exodus of talented and qualified professionals from this country to take up employment overseas or migrate altogether. This is of concern to all leading employers.

With Companies competing for a limited pool of talent, we have to adopt more proactive strategies to engage staff. DFCC Bank now targets higher educational establishments for focused interventions with the intention of gaining better access to more promising talent. Increasingly, we also offer internships to undergraduates with a view to absorbing those who demonstrate promise.

Nurturing Human Resources through Training and Development

We accord a special focus to skill enhancement of management trainees primarily through structured job rotations and classroom training. During the year, management trainees were provided with 318 man-days of formal training, including a 10-day overseas programme. We also propose introducing a 'buddy programme' intended to enable new staff to assimilate better and faster to the workplace.

A variety of technical programmes were conducted throughout the year to keep employees abreast of new developments pertaining to their respective jobs as well as those of general priority to DFCC Bank. In addition, we continued to focus on soft skills enhancement with emphasis on improving leadership, problem solving and negotiation skills.

We believe that training and development should be viewed as a collective responsibility of both the institution as well as its employees if we are to maximise value creation. We also believe that managers have a catalytic role to play in coaching and guiding their direct reports and giving them constructive feedback on their strengths and areas for improvement. In order to bring this about, an additional performance measurement pertaining to staff development was added to their Key Performance Indicators. Accordingly, managers were required to formulate individual development plans for their executive level direct reports following one-on-one discussions on individual strengths and development needs. Progress on training and other initiatives outlined in these plans are reviewed periodically and updated.

During the year under review the Bank invested almost Rs20 million on staff training resulting in the provision of 16,376 man-hours of training for 1,207 participants. This translates to almost 40 man-hours of training per average employee. It is also noteworthy, that 96% of all eligible executive staff, was afforded training opportunities of a minimum of 4 days. During the year under review, there was a substantial increase in staff development initiatives at DFCC Vardhana Bank Limited (DVB) with the main area of focus being skill augmentation in sales and customer service. A total of 7,585 man-hours of training were provided to 537 participants translating to about 30 man-hours of training per average employee. We embarked on an initiative to provide concentrated on-the-job sales and customer service coaching to front line staff of all branches. This coaching has been completed for 19 branches and is currently underway for the remaining branches.

Training & Development Statistics - DFCC Bank

	Local External	Foreign	In-house	Total
Number of programmes	133	20	38	**191**
Number of participants	295	53	859	**1207**
Number of man-hours	2,896	2,904	10,576	**16,376**

Training & Development Statistics - DFCC Vardhana Bank

	Local External	Foreign	In-house	Total
Number of programmes	24	3	29	**56**
Number of participants	54	3	480	**537**
Number of man-hours	607	49	6,930	**7,585**

Building Management Capabilities

Based on the previous year's Assessment & Development Centre conducted for all management staff, formal development plans were prepared for 38 managers. These plans included identification of formal training needs as well as other suitable interventions to address selected development gaps. A customised five-day training programme focusing on selected managerial and behavioural competencies, identified as essential to the Bank was conducted for 23 junior and middle level managers.

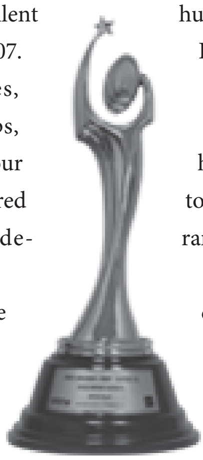
In the financial year 2006/07, through a structured selection process a group of 15 senior project officers were selected and placed in a newly created special grade. During the financial year 2007/08, many of those selected were given an opportunity to take on additional responsibilities. These staff members are also participating in a comprehensive executive development programme of six months duration that commenced towards the end of 2007.

Harnessing Creativity and Inspiring Team Spirit

Teamwork is one of DFCC Bank's core values, and over the years many activities have been initiated to encourage staff to work together and develop team spirit and bonding. During the financial year 2007/08, the first ever talent contest was organised for all group staff to strengthen relationships and promote internal bonding. This activity proved to be a success beyond all expectations. In addition, a variety of social activities were organised to provide staff with more opportunities to interact outside the business environment. During the year under review, the Welfare and Recreation Clubs of both DFCC Bank and DVB were amalgamated. The joint club organised many recreational activities for the staff and their families, including a sports day, cricket tournament, overnight trip to five star hotels, a formal dinner dance and a Christmas get-together.

Recognition

In February 2008 DFCC Bank received a gold award in recognition of its excellent human resource practices at the HRM Awards 2007. It is noteworthy that over 45 companies, many of which are recognised blue chips, competed for awards. We are pleased that our human resource initiatives are considered to be among the most progressive and wide-ranging in the country.



We value the immense contribution made by our staff to our past successes and believe that they will continue to put in their best effort in taking DFCC Bank to even greater heights as we move into the future.

Social Responsibility Report

A corporate social responsibility strategy defines the means used by an organisation to ensure that negative impacts on stakeholders, the general public and the planet from its business operations are minimised or, when possible, eliminated.

Integrating the aims of profitability, social welfare and environmental stewardship produces the concept of sustainable development, which results in better living conditions for all, not only in the present generation but for those to come.

For a public quoted company, the Corporate Social Responsibility strategy must ensure, not only a social benefit sustained over time but also shareholder value in both the short and the long-term. Having spent half a century helping Sri Lankan entrepreneurs achieve business growth, DFCC Bank's influence, exerted through its project finance and advisory activities, pervades the national economy. Its social responsibilities are correspondingly various. This rich history ensures that corporate social responsibility is in its genes: an integral part of its value delivery process.

DFCC Bank's very mission - of nurturing business enterprises and creating value for all stakeholders through superior financial solutions - implies the discharge of a social responsibility; the organisation is committed to being a prime mover of national economic and social development.

Developing the Skills of Entrepreneurs

DFCC Bank's long-term commitment to help develop the small and medium enterprise sector extends well beyond financing. A wealth of experience gathered over many years, coupled with expertise enhanced by commitment go into projects that it funds. Credit alone does not ensure the survival of small enterprises. The lack of managerial and technical skills is a major drawback for SMEs to operate successfully. Hence, the Bank continued its efforts to build internal managerial capabilities of SMEs through conducting workshops and seminars on management practices, accounting, improving service quality, etc., especially in the regions.

During the year, DFCC Bank took on an important new social commitment by spearheading Sri Lanka's first Business Plan Competition. The objective of this competition is to encourage the development of an entrepreneurial mindset amongst young adults. Business plans submitted by aspiring entrepreneurs across the country are assessed and judged. The authors of the winning plans are awarded cash prizes, while finalists compete to receive financing for their proposals.

'Towards an Exemplary Society'

Investment in children is never wasted; the future depends on the next generation and those to come. DFCC Bank invests considerable effort and resources in developing young minds, helping create thought leaders and productive workers for the future benefit of the nation. This commitment towards education goes back many years, and has included activities such as seminars to enhance the practical knowledge of Advance Level Commerce students, renovating schools, providing computers to rural schools, distributing books to libraries and providing school equipment.

Focusing on the theme of 'education for children', DFCC Bank re-imagines education in broader scope as a means to empower children, inculcate the habit and responsibility of community and environmental stewardship and help them take their first steps towards becoming productive and effective citizens. With this in view, DFCC Bank has commenced a new programme to introduce

to schools the contemporary management discipline of Japanese origin, namely 'Five-S'. This discipline aims to improve attitudes and behaviour in order to increase their efficiency and productivity levels through keeping the working environment clean and organised. DFCC Bank has augmented this concept with a sixth 'S', for 'safety' - the necessity for integrating this added dimension has been widely recognised and is specially relevant in the case of children.

The programme titled 'Towards an exemplary society', will focus on educating teachers and primary school pupils from selected schools from across Sri Lanka on the theoretical and practical application of the 'Five-S' concept. Thereafter, the schools are encouraged to practice the principles to give the desired output.

On completion of the programme, the best schools will receive awards for performance and commitment. Depending on the success of the initial programme, the Bank plans to extend the project to cover other schools, mainly in the regions.

The first phase of the programme is being rolled out from March 2008. Implementation will take place over a one-year period in the selected schools. The parents of children constitute a secondary target audience, based on the insight that the values of 'Six-S' should not be restricted in their application but should be followed at home and elsewhere as well as at school.

Community Development

The branches of DFCC Bank undertook several community development and social welfare initiatives during the year. Among these were, the sponsorship of the Wayamba Entrepreneur of the Year 2007, repainting and facelift of the Pathology laboratory at the Kurunegala Teaching Hospital, the donation of sanitary facilities to a home for the differently-abled children at the Sarana Sevana home in Ratnapura and a blood donation campaign conducted in Badulla.

Conserving the Environment

When industries grow, the potential for their operations to impact the environment increases. Since DFCC Bank's core business is to support the growth of industry in Sri Lanka, it also recognises the responsibility to help industries take necessary action to control and minimise such impacts.

Accordingly, DFCC Bank has financed a total of 36 projects aimed at mitigating adverse impact on the environment. Funds for these projects were drawn from the e-Friends financing scheme. Three initiatives of particular importance funded during the year were an emission control system to suppress toxic fumes generated in the process of energy brick manufacture (the system also generates electricity as a by-product), an effluent treatment plant at a large industrial park, and a waste plastic recycling unit.

Supporting Professional Bodies

DFCC Bank underwrote the initiatives of several different professional bodies in the year under review. The Institute of Policy Studies received the Bank's support for the publication of a book entitled 'WTO and South Asia'. Among the many trade exhibitions, awards ceremonies and other events which were sponsored by the Bank, the Aqua Asia 2007 trade fair, the 'Young Entrepreneur Sri Lanka' national awards ceremony, the Hydro Sri Lanka 2007 international hydropower conference, the annual ACCA National Conference, the annual sessions of the Sri Lanka Economic Association, an inter-faculty quiz contest organised by the Medical Faculty of the University of Colombo and the White Cane Day of the Sri Lanka Association for the Blind took priority during the year.

Board of Directors

01. J M S Brito - Chairman

Joined the Board of DFCC Bank in March 2005. Appointed Chairman in September 2005.

Deputy Chairman and Managing Director of Aitken Spence & Company Limited. Chairman of DFCC Vardhana Bank Limited. A former Chairman of Sri Lankan Airlines. Former member of the Strategic Enterprise Management Agency (SEMA). Served on the post-tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Public Enterprises Reform Commission (PERC).

Mr Brito, a Chartered Accountant holds a Degree in Law and an MBA. He has harnessed a wealth of management expertise serving companies such as Pricewaterhouse, British EverReady PLC, Minmetco Group and the World Bank.

02. T Caglayan - Director

Appointed to the Board of DFCC Bank in August 1999.

Currently Head of New Business Asia for the German Investment Development Company - DEG. Started his career with Deutsche Bank, Frankfurt. Joined DEG in 1992 as an Investment Manager responsible for project management and acquisition of new projects in India, China, the Solomon Islands and Papua New Guinea. Later as a Senior Investment Manager, he took responsibility for projects in several European countries as well. In 1999 he was appointed Head of Portfolio Management Asia Department.

03. Mrs S Cooray - Government Director

Appointed to the Board of DFCC Bank in March 2008.

Director General of the Department of External Resources of the Ministry of Finance and Planning. Served on the Boards of the Sri Lanka Electricity Company (Pvt) Limited, Sri Lanka Tourist Board, Board of Investment and the National Development Bank.

She holds a B A (Hons) and B Phil, from the University of Colombo, Sri Lanka, and a M A in Economic Development, Institute of Social Studies, The Hague, The Netherlands.

04. G G R Dalchow - Alternate Director to T Caglayan

Appointed to the Board of DFCC Bank in September 2006.

Currently, Director of the Colombo Office of Kreditanstalt fur Wiederaufbau (KfW) of Germany. KfW Banking Group is one of the ten biggest banks in Germany, with a balance sheet total of EUR376 billion as at 31 December 2007. He joined KfW in 1987 and was Senior Project Manager for development projects in South and East Asia. After the German re-unification, he was advisor to the former Central Bank of East Germany and was assigned to the Treuhandanstalt, Berlin, an institution for the reconstruction of East German public owned enterprises. He also served as the Director of the KfW office in Beijing.

A Financial Analyst, Tax Counsel and Certified Public Accountant, he aslo has MBA.

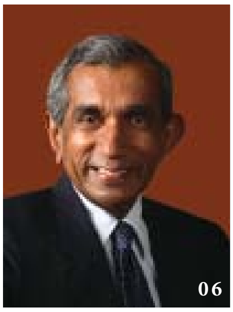
05. A N Fonseka - Chief Executive Officer, Ex-Officio Director

Joined the Board of DFCC Bank in January 2000 with his appointment as Chief Executive.

Chairman of the Colombo Stock Exchange and a Vice Chairman of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). Director of Commercial Bank of Ceylon PLC and the Credit Information Bureau of Sri Lanka. Serves on the Advisory Committee on Finance and Banking of the Ceylon Chamber of Commerce.

Member of the Governing Board of the National Institute of Business Management (NIBM), the Postgraduate Institute of Management, Sri Lanka, Financial Sector, Capital Markets and Legal Reforms Clusters of the National Council for Economic Development (NCED) and of the National Payments Council and Inter-Regulatory Institutions Council.

He is a Graduate of the University of Ceylon, Colombo and a Fellow of the Chartered Institute of Bankers, London.



06. Deshabandu A M de S Jayaratne - Director

Joined the Board of DFCC Bank in September 2005.

Currently Chairman of the Apollo Hospital, Colombo. A former Chairman of Forbes and Walker Limited, the Colombo Stock Exchange, Ceylon Chamber of Commerce and the Finance Commission. Also served as Sri Lanka's High Commissioner to Singapore.

Mr Jayaratne is a Chartered Accountant by profession and holds a Degree in Economics.

07. G Karunaratne - Director

Joined the Board of DFCC Bank in June 2006.

A former Senior Deputy General Manager - International and Investment Banking at Hatton National Bank Limited. Former Director of HNB Securities Limited and HNB Stockbrokers (Pvt) Limited and a founder and a Past President of the Sri Lanka Forex Association. Served as a member of the Consultative Committee of the Central Bank of Sri Lanka on Development of Financial Markets in Sri Lanka.

He is the immediate Past President of the Sri Lanka Branch of the Chartered Management Institute, UK. A Fellow of the Chartered Management Institute, UK.

08. S N P Palihena - Director

Joined the Board of DFCC Bank in October 2002.

Former General Manager of the Bank of Ceylon. He has had a distinguished banking career extending to almost 40 years at the Bank of Ceylon. Also worked at the National Development Bank of Sri Lanka for a brief period.

Fellow of the Chartered Institute of Bankers, London and a Fellow of the Institute of Bankers, Sri Lanka. Holds a Postgraduate Diploma in Business and Financial Administration.

09. C P R Perera - Director

Joined to the Board of DFCC Bank in July 2005.

Former Chairman and CEO of Forbes & Walker Limited. A Former Chairman of the Bank of Ceylon, Sri Lanka Insurance Corporation Limited, Sri Lanka Tea Board and the Public Enterprises Reform Commission (PERC).

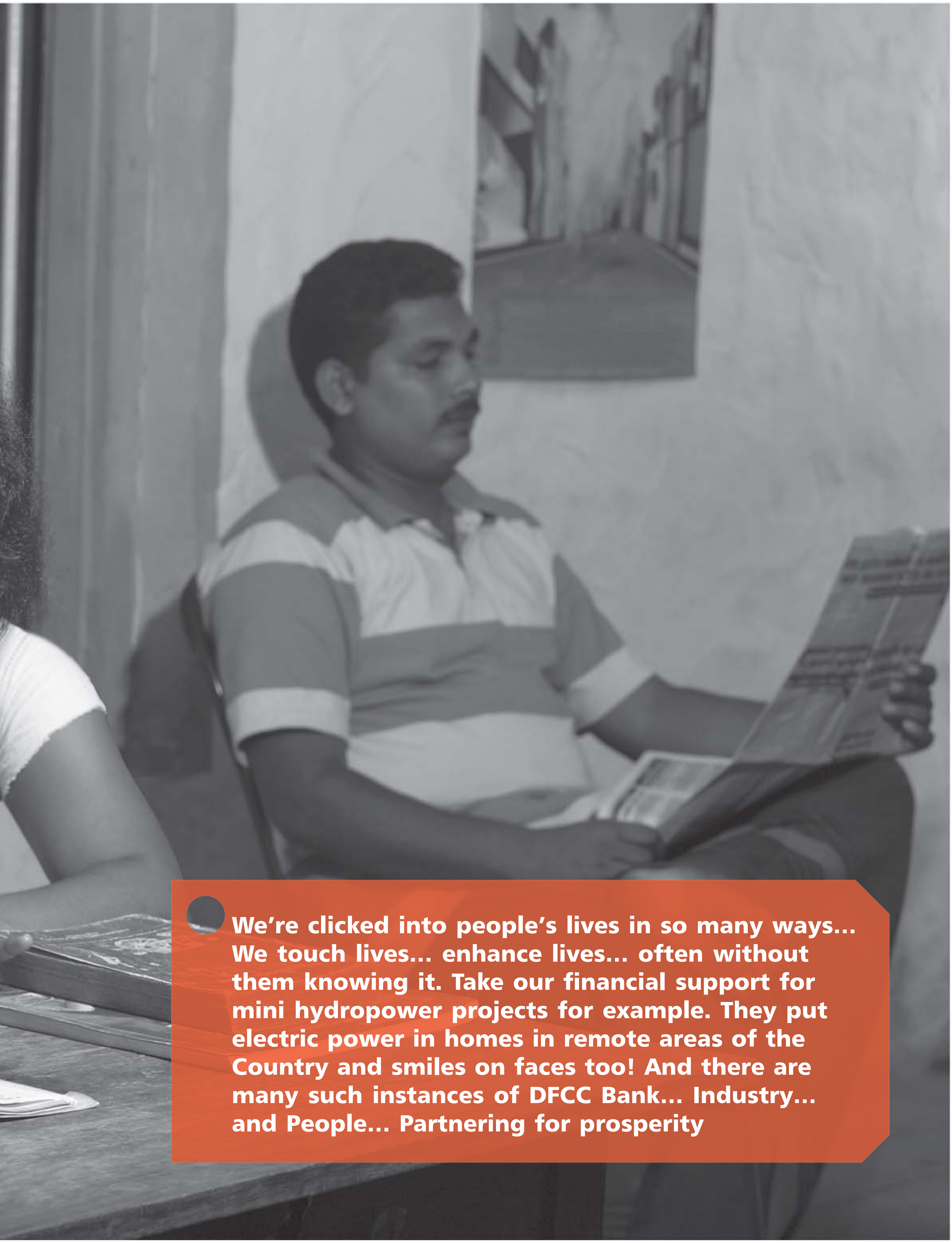
Chairman of Avondale Tea Factories (Pvt) Limited and Anglo Ceylon Estates (Pvt) Limited. Currently serves on the Committee of the Ceylon Chamber of Commerce. Director of the Sri Lanka Business Development Centre. Serves on the Boards of two Plantation Companies and their respective Holding Companies.

10. D S Weerakkody - Director

Joined the Board of DFCC Bank in June 2003.

Managing Director of Cornucopia Sri Lanka, Director of GlaxoSmithKline Sri Lanka and of Commercial Bank of Ceylon PLC. A former Chairman/CEO of the Employees Trust Fund Board, Sri Lanka, Advisor to the Prime Minister of Sri Lanka in 2003/04. A former Director, Human Resources of GlaxoSmithKline, Sri Lanka.

He is an eminent writer and a leading economic commentator. He holds an MBA, University of Leicester, UK and is an Associate of the Chartered Institute of Management Accountants (CIMA), UK. Council Member of CIMA, Sri Lanka Division. Trained at the Institute of World Affairs USA and Matsushita Institute of Government and Management, Japan.



We're clicked into people's lives in so many ways... We touch lives... enhance lives... often without them knowing it. Take our financial support for mini hydropower projects for example. They put electric power in homes in remote areas of the Country and smiles on faces too! And there are many such instances of DFCC Bank... Industry... and People... Partnering for prosperity

Management Team

Nihal Fonseka
General Manager/Director & Chief Executive Officer
BSc FCIB(UK)

Lending

H A Ariyaratne
Executive Vice-President - Lending
BSc

Tyrone De Silva
Senior Vice-President - Corporate Banking & Investment Banking
CEI MBA

Chandana Dharmawardana
Vice-President - Quality Assurance
BSc(Eng) MIESL

Roshan Jayasekara
Vice-President - Corporate Banking
ACMA

Renuka Amarasinghe
Assistant Vice-President - Corporate Banking
LLB Attorney-at-Law

Ananda Kumaradasa
Vice-President - Branch Credit
BSc ACMA MBA

Bhathiya Alahakoon
Vice-President/Manager (Nawala Branch)
BSc(Eng)

Prasad Dharmaratne
Vice-President/Manager (Ratnapura Branch)
BSc(Eng)

Samarakodi Godakanda
Vice-President/Manager (Kandy Branch)
BSc(Agri)

Chanaka Kariyawasam
Vice-President/Manager (Matara Branch)
BSc(Pb. Admn)

Prasanna Premaratne
Vice-President/Manager (Gampaha Branch)
MSc(Agri) PGD in Bank Mgmt.

Priyadarsana Sooriya Bandara
Vice-President/Manager (Kurunegala Branch)
BSc(Bs. Admn) MBA ACMA ACCA

Dharmasiri Wickramatilaka
Vice-President/Manager (Colombo Office)
BSc(Eng) MBA ACMA

Gunaratne Bandara
Assistant Vice-President/Manager (Malabe Branch)
BSc(Pb. Admn)

Terrence Etugala
Assistant Vice-President/Manager (Badulla Branch)
BSc(Acct)

Wajira Punchihewa
Assistant Vice-President/Manager (Kalutara Branch)
BSc ACMA

Kusumsiri Sathkumara
Assistant Vice-President/Manager (Anuradhapura Branch)
BA(Econ)

Mangala Senaratne
Assistant Vice-President/Manager (Bandarawela Branch)
BSc(Eng)

Champal de Costa
Assistant Vice-President - Credit (Colombo Office)
BSc(Eng) MBA MIESL CEng

Bandula Gamarachchi
Assistant Vice-President - Deposit Mobilisation
ACMA AIB MBA

Ruwangani Jayasundera
Assistant Vice-President - Leasing (Nawala Branch)
ACMA MBA

Stanislaus Rayen
Assistant Vice-President - Credit (Colombo Office)
BSc(Eng) MBA MIESL

Kapila Samarasinghe
Assistant Vice-President - Credit (Nawala Branch)
BSc(Eng) MSc(Eng)

Investment Banking

Tyrone De Silva
Senior Vice-President - Corporate Banking & Investment Banking
CEI MBA

Human Resources & Special Loans Administration

Dayantha De Mel
Executive Vice-President - Human Resources & Special Loan Administration
ACMA MBA

Nanediri Karunasinghe
Vice-President - Restructuring & Recoveries
BSc(Eng) MPhil(Eng) ACMA

Asoka Tennekoon
Group Vice-President - Human Resources
BSc(Eng) ME(Agri) PGD in HR

Jayani Amarasiri
Group Vice-President - HR Operations & Resourcing
BA(Econ) MA

Sonali Jayasinghe
Group Assistant Vice-President - Training & Talent Management
BSc(Bs & Econ)

Patabendi Premaratne
Assistant Vice-President - Relief Duties
BSc(Eng)

Treasury

Manohari Gunawardhena
Senior Vice-President - Treasury
BSc MBA

Finance

S Nagarajah
Executive Vice-President - Finance
FCMA FCA FACCA

Chinthika Amarasekara
Vice-President - Accounting & Reporting
ACA

Suraj De Silva
Vice-President - Financial Analysis & Asset/Liability Management
BCom MBA FCMA

Operations

Anomie Withana
Senior Vice-President - Operations
FCMA FCA MBA

Chanaka Kalansuriya
Vice-President - Procurement & Services
MBA

Chaminda Gunawardana
Assistant Vice-President - Transaction Processing
BSc AIB MBA

Duleep Mahatantila
Assistant Vice-President - Credit Administration 1
BA(Acct & Econ) PGD in Law Barrister of Law

Sriyani Ranatunga
Assistant Vice-President - Credit Administration 2
FCMA MBA MA(Econ)

Information Technology

Neville Fernando
Vice-President - Business Systems
BSc ACMA PMP

Guptani Gunasekera
Vice-President - Network & Technical Services
BSc DCSD (NIBM) MBCS

Channa Jasenthuliyana
Assistant Vice-President - IT/Application Systems
DCSD(NIBM) MSc(IT) MBCS

Legal and Secretarial

Thusantha Wijemanna
Senior Vice-President - General Counsel/Board Secretary
LLB LLM Attorney-at-Law

Visaka Sriskantha
Vice-President - Legal
BA Attorney-at-Law

Audit

Mala Goonatilake
Assistant Vice-President - Internal Audit
FCA

Corporate Communications

Rosheeni Madanayake Wijesekera
Assistant Vice-President - Corporate Communications
BA PGD in Bs. Admn

Project Management

Kapila Subasinghe
Vice-President - Project Management
BSc(Eng) ACMA

Secondments

Lakshman Silva
Senior Vice-President on secondment to DFCC Vardhana Bank Limited as Chief Operating Officer
BCom MBA

Palitha Gamage
Vice-President on secondment to DFCC Vardhana Bank Limited as Head of Corporate Credit
BSc(Eng) MBA ACMA

Jayangani Perera
Assistant Vice-President on secondment to Credit Administration Department, DFCC Vardhana Bank Limited
BCom

Management Team as at April 2008 with names in alphabetical order within each grade.

Corporate Governance

DFCC Bank is committed to maintaining the highest standards of Corporate Governance. Apart from adhering to the general principles of good Corporate Governance, the Bank is also subject to the Mandatory Codes on the subject issued as Direction No. 12 of 2007 by the Central Bank of Sri Lanka and Listing Rule No. 6 of the Colombo Stock Exchange. Full compliance with Direction No. 12 is mandated by 1 January 2009 (except for a few areas where a longer period has been specified). Compliance with Listing Rule No. 6 becomes mandatory during the financial year that commenced on 1 April 2008. The Listing Rules require disclosure on compliance and an explanation to be provided in instances of non-compliance.

Board of Directors

The Board of Directors is responsible for determining the strategic direction of the Bank and setting the corporate values. The Directors strengthen the safety and soundness of the Bank by identifying and setting limits for the principal risks applicable to the Bank and exercising adequate oversight with regard to the Bank and its subsidiaries including effective checks and balances in order to manage such risks prudently. The appointment and succession of the Chief Executive Officer and the second level of management are also matters that receive the attention of the Directors. The Directors evaluate the performance of the Chief Executive Officer on a continuous basis and annually on a formal basis.

Other than the General Manager who is the Chief Executive Officer and is an Ex-Officio Director without voting rights, all the other Directors of the Bank are Non-Executive Directors. They are persons of wide ranging skills and relevant experience and are fit and proper persons in terms of Section 42 of the Banking Act. The longest serving Non-Exective Director has served the Board for less than 9 years. Periodic induction of new Non-Executive Directors to the Board ensures objectivity, independence from management as well as new thinking being brought to bear on deliberations of the Directors.

Chairman and Chief Executive Officer

The Non-Executive Directors elect the Chairman for a 3-year term with re-election permitted. While the Chairman is responsible for managing the Board and facilitating the effective discharge of the Board functions, the Directors have delegated sufficient authority to the Chief Executive Officer to carry out the day-to-day tasks, manage operations and implement policies approved by the Directors.

Meetings of Directors

Directors of the Bank dedicate time and effort to matters referred to the Board in order to ensure that their duties and responsibilities are discharged satisfactory. To facilitate this, a schedule of monthly board meetings is approved in advance by the Directors for the full year and changes thereto are made only rarely and with adequate notice. Additional board meetings are held to discuss urgent issues when so warranted. The DFCC Bank held 12 board meetings during the period under review and the attendance of the Directors at these meetings are given below:

Mr J M S Brito -Chairman	12
Mrs M A R C Cooray (Resigned in February 2008)	7
Ms Sujatha Cooray (Appointed in March 2008)	1
Mr G G R Dalchow (Alternate to T Caglayan)	9
Mr A N Fonseka	12
Mr A Jayaratne	12
Mr G P Karunaratne	12
Mr S N P Palihena	12
Mr C P R Perera	11
Mr D S Weerakkody	11

All issues or matters taken up for discussion at meetings of the Board of Directors are included in the agenda and papers on each matter are prepared by management setting out the relevant background details and identifying decision points where applicable. The Secretary submits the Agenda and the related papers to the Directors prior to the board meeting giving them adequate time to study and obtain further clarifications from management, if necessary. The decisions of the Board, including any dissenting views, are documented by the Board Secretary in the form of Minutes. The draft Minutes are circulated to Directors in advance for adoption at the following meeting.

In compliance with Section 9 (6) of the DFCC Bank Act, all Directors disclose their interest in any matter which comes up for consideration at the board meeting and do not participate in the deliberations on that matter. In terms of the DFCC Bank Act, a contract or transaction in which a Director has an interest can only be approved by a unanimous decision of all the other Directors.

Remuneration of Directors

In terms of the Regulations of DFCC Bank, the shareholders approve the aggregate remuneration payable to the Directors at each Annual General Meeting. The Ex-Officio Director does not receive any remuneration as a Director.

Committees of the Board of Directors

To assist the Board of Directors in the discharge of their duties, the Directors have established Board Committees on Audit, Credit, Human Resources & Remuneration, Nomination and Integrated Risk Management. Where considered necessary the Board has invited external experienced professionals to serve on the subcommittees as advisors. The members of the committees are listed in the Annual Report of Directors. The charters of the Audit, Human Resources & Remuneration, Nomination and Integrated Risk Management committees are being amended to encompass the requirements as specified in Direction No. 12 of 2007 of the Central Bank of Sri Lanka. The Bank is implementing processes aimed at full compliance with the requirements relating to the functioning of these committees by the end of 2008.

The Report of the Audit Committee is given in page … of the Annual Report.

The Credit Committee deals with matters relating to lending operations that exceed the authority of the Executive Credit Committee. However, approval of credit risk beyond the limit delegated to the Executive Credit Committee requires consideration by the full Board.

The Human Resources & Remuneration Committee decides on the remuneration policies including the overall level of annual increments and variable pay awards and the basis for performance based distribution. It also specifically deals with the remuneration of the Chief Executive Officer and key management personnel.

The Nomination Committee vets all nominations received for filling vacancies on the Board of Directors including the re-election of incumbent Directors.

The Chairmen of all committees are independent Non-Executive Directors.

Disclosure of Information to Shareholders and Other Stakeholders

Directors consider as paramount, the duty cast on them to provide shareholders with all important information pertaining to the Bank in a timely manner. A comprehensive Annual Report is sent to the shareholders together with the Notice of the Annual General Meeting. In addition to the Annual Report, the Directors make announcements through the Colombo Stock Exchange to all shareholders, including quarterly financial statements and a commentary thereon. The Bank also disseminates information to stakeholders through the media and the Bank's website.

Compliance with the Corporate Governance Rules of the Colombo Stock Exchange

Section 6 of the Listing Rules of the Colombo Stock Exchange (CSE), sets out minimum corporate governance requirements for listed companies and require listed companies to confirm compliance or explain the reasons for non-compliance. The following disclosures are made accordingly.

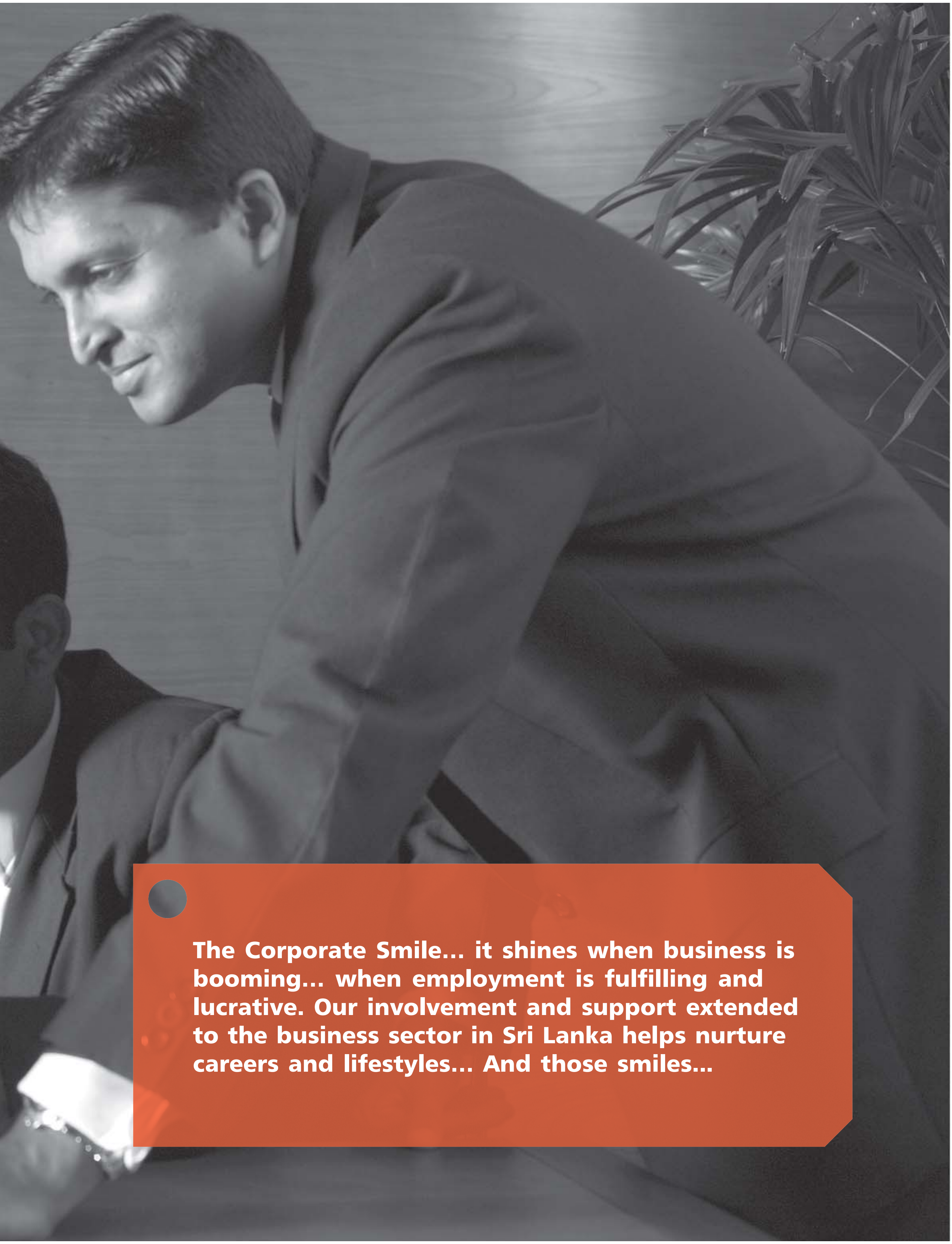
Rule 6.1 - Non-Executive Directors: Complied. 8 out of the 9 Directors are Non-Executive.

Rule 6.2 - Minimum Number of Independent Directors: Complied. The minimum required is three.

Rules 6.3 and 6.4 - Disclosures Relating to Directors : 7 of the 8 Non-Executive Directors meet all the criteria specified in Rule 6.4 for determining the Independence of Directors. These Independent Directors are Messrs J M S Brito, A M de S Jayaratne, G P Karunaratne, D S Weerakkody, T Caglayan (alternate G G R Dalchow), C P R Perera and Mrs S Cooray.

Rule 6.5 - Remuneration Committee: Complied. The required information on Remuneration is given in Notes 16 and 60.5 to the financial statements.

Rule 6.6 - Audit Committee: Complied



The Corporate Smile... it shines when business is booming... when employment is fulfilling and lucrative. Our involvement and support extended to the business sector in Sri Lanka helps nurture careers and lifestyles... And those smiles...

Annual Report of the Board of Directors

The Directors of DFCC Bank have pleasure in presenting to the members their Report together with the audited financial statements for the year ended 31 March 2008.

The details set out in the Report provide some pertinent information required by the Companies Act No. 7 of 2007 (although some of the provisions are not applicable to DFCC Bank), the Listing Rules of the Colombo Stock Exchange and the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka.

General

DFCC Bank which is established under the DFCC Bank Act No. 35 of 1955, is listed on the Colombo Stock Exchange and is licensed as a Specialised Bank under the Banking Act No. 30 of 1988 as amended.

Activities

Bank

The principal activities of DFCC Bank include the business of development financing and investment banking services. There has been no significant change in the nature of DFCC Bank's principal activities during the year.

Subsidiaries and Associates

The subsidiaries and associates of the Bank are DFCC Consulting (Pvt) Limited, DFCC Stockbrokers (Pvt) Limited, DFCC Vardhana Bank Limited (DVB), Lanka Industrial Estates Limited (LINDEL), Lanka Ventures PLC (LVL), Synapsys Limited, National Asset Management Limited (NAMAL) and Commercial Bank of Ceylon PLC. The nature of business and the Bank's interest in the subsidiaries and associates are set out in page 14.

Joint Venture

The Bank has entered into an agreement with Hatton National Bank PLC (HNB) to form an equally owned joint venture investment bank with an initial total equity of Rs500 million. Stock brokering, Government debt trading and corporate finance activities undertaken by the two Banks and their subsidiaries within Sri Lanka will in future be carried out by this entity. DFCC Bank will transfer the ownership of its wholly owned stock brokering subsidiary to the joint venture and also invest approximately Rs150 million in the equity. The Investment Bank is expected to commence operations shortly.

Going Concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on the going concern basis.

Financial Statements

The financial statements of the Bank and the Group of Companies are given on pages 56 to 116.

Principal Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 64 to 76.

Disclosure of Directors' Interest in Contracts

All Directors have complied with Section 9 (6) of the DFCC Bank Act and declared any interest in transactions or proposed transactions with the Bank and all such transactions have been approved unanimously by the other Directors of the Bank.

In addition, the Bank maintains an Interests Register. The relevant entries as required by the Companies Act No. 7 of 2007 are entered in the Register. Particulars in the Interests Register relating to Directors interest in transactions for the year ended 31 March 2008 are given in Note 58 to the financial statements.

Auditor's Report

The Auditor's Report on the financial statements is given on page 55.

Reappointment of Auditors

Messrs KPMG Ford, Rhodes, Thornton & Company have expressed their willingness to continue in office as auditors of DFCC Bank for the year ending 31 March 2009. The Audit Committee has reviewed the appointment of the Auditors, its effectiveness and the relationship with the Bank including the fees paid to the Auditors. The Directors are satisfied that based on the written representation made by the Auditors they have no relationship or interest with the Bank which would impair the Auditor's independence. A Resolution pertaining to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Fees for Audit and Non-Audit Related Services

	Year ended 31 March 2008 Rs '000	Year ended 31 March 2007 Rs '000
Fees for Audit	**1,782**	1,419
Fees for Non-Audit related services	**609**	294
	2,391	1,713

The Board of Directors

The Board of Directors of the Bank consists of nine Directors with wide knowledge and experience in the fields of finance, trade, commerce, manufacturing, services and banking. Information on each of the Directors is given in the Director's Profile on pages 34 to 35. The following are the present Directors of the Bank:

Mr J M S Brito (Chairman)
Mrs S Cooray – (Government Director)
Mr T Caglayan (Alternate - Mr G G R Dalchow)
Mr A N Fonseka – CEO and Ex-Officio Director
Mr A M de S Jayaratne
Mr G P Karunaratne
Mr S N P Palihena
Mr C P R Perera
Mr D S Weerakkody

Appointment of Directors

Mrs Sujatha Cooray was appointed as Government Director in terms of the provisions of the DFCC Bank Act on 26 March 2008 in place of Mrs Rose Cooray.

Retirement and Re-Election of Directors

The Director retiring by rotation in terms of Regulation No. 85 of the DFCC Bank Regulations is Mr S N P Palihena who will offer himself for re-election under the said Regulations with the unanimous support of the Directors on the recommendation of the Nomination Committee.

Directors' Remuneration

The Directors' remuneration in respect of the Group and the Bank for the financial year ended 31 March 2008 are given in Note 20 of the financial statements.

Directors' Meetings

The Bank held 12 Board Meetings during the financial year. The details pertaining to attendance at these meetings are given in the Corporate Governance Report on page 41.

Directors' Interests in Shares and Debentures

	No. of Shares* As at 31 March 2008	No. of Shares* As at 31 March 2007
Brito, J M S	9,380	2,250
Caglayan T	Nil	Nil
Cooray, Mrs S	Nil	-
Dalchow G G R	Nil	Nil
Fonseka, A N	27,332	16,575
Jayaratne, A M de S	750	500
Karunaratne, G P	10,000	8,750
Palihena, S N P	5,000	Nil
Perera, C P R	4,500	3,000
Weerakkody, D S	1,244	750

** Directors' shareholding includes shares held by the spouse and children under 18 years of age.*

Ex-Officio Director, Mr A N Fonseka in his capacity as General Manager has been awarded options on shares under the Employee Share Option Plan (ESOP). After adjusting for Rights and Bonus Issues in 2007, Mr Fonseka held 181,171 options as at 31 March 2008 (140,781 on 31 March 2007). During the financial year 2007/08, Mr Fonseka has exercised options on 30,000 shares. The other Directors do not participate in the ESOP.

No Directors directly or indirectly hold debentures of DFCC Bank.

Board Committees

The following Directors of the Board serve as Members of the Committees on Audit, Credit, Human Resources & Remuneration, Nomination and Integrated Risk Management. The Board has also appointed external advisors and other key management personnel to serve on some of the Committees -

Audit Committee:

Mr A M de S Jayaratne (Chairman)
Mr S N P Palihena
Mr D S Weerakkody
Mr T Bandaranayake - Advisor to the Committee

Credit Committee:

Mr S N P Palihena (Chairman)
Mr A N Fonseka
Mr G P Karunaratne

Human Resources & Remuneration - Committee:

Mr J M S Brito (Chairman)
Mr C P R Perera
Mr D S Weerakkody
Mr R T Wijetilleke - Advisor to the Committee

Nomination - Committee:

Mr J M S Brito (Chairman)
Mr C P R Perera
Mr D S Weerakkody

Integrated Risk Management Committee :

Mr J M S Brito (Chairman)
Mr G P Karunaratne
Mr S N P Palihena
Mr A N Fonseka - Chief Executive Officer
Mr H A Ariyaratne - Executive Vice-President/Lending
Mr S Nagarajah - Executive Vice-President/Finance
Ms A Withane - Senior Vice-President/Operations
Mrs M Gunawardena - Senior Vice-President/Treasury

Review of Business of the Year

The Chairman's Statement, Chief Executive Officer's Report and the Management Discussions and Analysis give details of the strategies and operations of the Bank during the year under review.

Profits

Year ended 31.03.2008	Rs million
Profit Before Income Tax (excluding subsidiaries and associates)	1,983
Income Tax on Profit	665
Profit After Income Tax	1,318
Less Transfers to:	
Statutory Reserve Fund	70
Sinking Fund	595 *
Available for Dividend Distributions	653
Final Dividend of Rs5/- per share proposed	651
Retained earnings carried forward	2

* Sinking Fund:

From Current Earnings	595
From Retained Earnings Brought Forward	61
Total Transfers to Sinking Fund	656

Dividend

The Directors have recommended to shareholders the payment of a final dividend of Rs5/- per share. The proposed distribution is approximately Rs651 million an increase of 43% compared to the distribution of Rs454 million made in the previous year.

The Directors unanimously declare that, in their opinion, the Bank will satisfy the solvency test stipulated in Section 57 of the Companies Act No. 7 of 2007 immediately after the proposed distribution is made and have obtained a certificate of solvency from the auditors to this effect.

Property, Plant & Equipment

The total expenditure of acquisition on property, plant and equipment during the year amounted to Rs134 million. Intangible assets amounted to Rs52 million. Details of these are given in the Notes 39 and 40 to the financial statements.

Reserves

Total revenue reserves augmented by the annual appropriation and retained profit amounted to Rs9,276 million.

Market Value of Freehold Properties

This information is in Note 39 to the financial statements.

Share Capital and Subordinated Debentures

With the options exercised by the employees during this financial year, the total share capital as at 31 March 2008 is Rs1,301,956,030 and it consists of 130,195,603 shares of Rs10 each. Further information is given on page 101.

Share Information

Information relating to earnings, net asset and market value per share are given in page 121 Page 123 also contains information pertaining to the share trading during that period.

Shareholders

As at 31 March 2008 there were 7,605 registered shareholders and the distribution is indicated on page 124. The 20 largest shareholders as at 31 March 2008 are listed on page 125.

The Bank endeavours to provide equitable treatment to all its shareholders.

Employment & Remuneration Policies

It is the policy of DFCC Bank to maintain a dedicated and highly motivated team committed to creating sustainable value and the achievement of excellence in service. Having evaluated the skills required for each position, the Bank continuously invests in training and development of staff while encouraging their participation in the business and social activities of the Bank. DFCC Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable pay. Annual increments and variable pay awards are based on the performance of the Bank and the individual. It is the Bank's policy to fix remuneration at a level sufficient to attract, motivate and retain high quality employees and manage attrition within acceptable levels. A survey of remuneration levels and practices is conducted periodically, usually once in three years, in order to appropriately benchmark the Bank's remuneration levels and policies with those in the banking and competing private sector institutions.

Employee Share Option Plan

Details of the Employee Share Option Plan (ESOP) and the movement in options granted are given in Note 50.3 to the financial statements. There are no further awards to be made under the Plan. In due course the Directors intend to propose a new Plan for consideration by shareholders.

Statutory Payments

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

Compliance with Laws and Regulations

The Bank has not engaged in any activities contravening the laws and regulations. The Directors obtain quarterly confirmation from Management with regard to compliance with laws and regulations.

Corporate Governance

The Directors place great emphasis on following internationally accepted good corporate governance practices and principles, and, systems and procedures are in place in order to satisfy good governance requirements. Details are given in the Report on Corporate Governance in pages 41 to 43.

Direction No. 12 of 2007 - Corporate Governance of Licensed Specialised Banks in Sri Lanka

Full compliance with the provisions of the above direction is mandatory by January 2009 with certain exceptions for which additional time has been given. The Board of Directors confirm that the Bank has complied with the requirements that are currently mandatory and are taking steps to fully comply with the other requirements of the direction before 31 December 2008.

Corporate Governance Rules of the Colombo Stock Exchange

The disclosure on compliance with the requirements of Section 6 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance is reported on page 43.

Post Balance Sheet Events

Subsequent to the date of the balance sheet no circumstances have arisen which would require adjustments to the accounts. Significant post balance sheet events which in the opinion of Directors require disclosure are described in Note 60 to the financial statements.

For and on behalf of the Board of Directors,

J M S Brito	**A N Fonseka**	**T Wijemanne**
Chairman	*Ex-Officio Director & Chief Executive*	*Secretary to the Board*

Colombo
29 May 2008

Financial Statements

Contents

Financial Calendar

Financial Statements		
Interim Reports		
First Quarter to	30.06.07	: 29.08.07
Second Quarter to	30.09.07	: 28.11.07
Third Quarter to	31.12.07	: 27.02.08
Annual Report year ended	31.03.08	: 29.05.08
Meetings		
51st Annual General Meeting		: 29.06.07
52nd Annual General Meeting		: 30.06.08
Dividends		
Interim for year ended 31.03.2007		
Approved on		: 28.02.07
Ex-dividend Date		: 20.03.07
Payment		: 30.03.07
Final for year ended 31.03.2007		
Approved on		: 29.06.07
Proposed First and Final for year ended 31.03.2008		
to be approved on		: 30.06.08

Audit Committee Report

The Composition of the Committee

The Board appointed Audit Committee comprises three Non-Executive Directors of the Bank with the Head of Internal Audit functioning as the Secretary. A practicing Chartered Accountant functions as advisor to the Committee. The General Manager/CEO and Executive Vice-President (Finance) attend the committee meetings by invitation.

Meetings

During the financial year ended 31 March 2008, six Audit Committee Meetings were held. Proceedings of the Audit Committee Meetings are reported regularly to the Board.

Role of the Audit Committee

The main objective of the Audit Committee is to assist the Board of Directors to effectively carry out its responsibilities pertaining to financial and other related matters of the Bank.

The Audit Committee is empowered to examine the adequacy and effectiveness of internal control systems, review the statutory accounts and published financial statements, assess compliance with regulatory requirements, consider contents of Internal Audit Reports and recommend appointment and remuneration of the external auditors.

Activities

The Committee carried out the following activities:

Financial Reporting

The Committee reviewed the financial reporting system and the adherence and compliance with the Sri Lanka Accounting Standards to ensure reliability of information provided to all stakeholders.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and the financial position of the Bank is well monitored.

Internal Audit and Inspection

With the concurrence of the Board, the Audit Committee has continued to engage the services of a firm of Chartered Accountants to supplement the Bank's Internal Audit function in carrying out periodic audits at the Colombo Office, Outstation Branches and Sub Offices. Representatives from the audit firm are invited to the Audit Committee Meetings convened to discuss their reports.

The Audit Committee also provides a forum for the review of Internal Audit Reports and consideration of findings, recommendations and corrective action taken by management to overcome the noted deficiencies, with a view to managing significant business risks and improving controls. Department/unit heads are called in when their reports are discussed.

Risks and Controls

The Committee reviewed the processes for identifying, assessing and managing of all significant risks throughout the Bank. Risk rating guidelines with an appropriate risk-grading matrix has been formulated for identifying and assessing risks.

Further, the Committee reviewed the effectiveness of the Bank's system of internal control during the year.

External Audit

The Audit Committee met with the External Auditors during the year to review the Management letter, together with Management's response thereto. Further, the Committee also met at the time of the Annual Audit and discussed their audit approach and procedures, including matters relating to the scope and auditor independence. Some meetings took place without any executives being present.

Regulatory Compliance

The Bank's procedures in place to ensure compliance with mandatory banking and statutory requirements were under constant check.

Evaluation of the Committee

A self-evaluation on the effectiveness of the Committee was carried out during the year.

The Audit Committee has recommended to the Board of Directors that, Messrs. KPMG Ford, Rhodes, Thornton & Co. be re-appointed as Auditors for the year to 31 March 2009, subject to the approval of shareholders at the next Annual General Meeting.

Ajit Jayaratne
Chairman - Audit Committee
29 May 2008

Statement of Directors' Responsibilities in Relation to Financial Statements

The Auditor's Report sets out the respective responsibilities of the Directors and Auditors relating to the financial statements and this statement provides additional information.

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that period. The statutory provisions are in DFCC Bank Act No. 35 of 1955, read in conjunction with Banking Act No. 30 of 1988 and amendments thereto and Companies Act No. 7 of 2007. The Directors are satisfied that the Bank and Group have the resources to continue in business for the foreseeable future and therefore, these financial statements are prepared on a going concern basis.

The Directors consider that, these financial statements have been prepared using appropriate accounting policies, consistently applied, and supported by reasonable and prudent judgment and estimates and in compliance with applicable Sri Lanka Accounting Standards. Any change to accounting policies and reasons for such change, is disclosed in the "Notes to the Financial Statements".

The Directors are responsible for keeping proper accounting records and to take reasonable steps as far as practicable, to ensure the accuracy and reliability of accounting records, to enable the preparation of financial statements. The Directors have a general responsibility to take reasonable steps to safeguard the assets of the Bank.

In discharging this responsibility, the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. The system of controls provide reasonable and not absolute assurance of safeguarding of Bank's assets, maintenance of proper accounting records and the reliability of financial information.

By Order of the Board

T Wijemanna
Secretary to the Board

29 May 2008

Independent Auditor's Report

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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TO THE SHAREHOLDERS OF DFCC BANK

Report on the Financial Statements

We have audited the accompanying financial statements of DFCC Bank ("Bank"), the consolidated financial statements of the Bank and its subsidiaries as at that date which comprise the balance sheet as at March 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, 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 principles 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

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended March 31, 2008 and the financial statements give a true and fair view of the Bank's state of affairs as at March 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of the DFCC Bank Act No. 35 of 1955 and Section 153 (2) to 153 (7) of the Companies Act No. 7 of 2007 and present the information required by the Banking Act No. 30 of 1988.

Ford Rhodes Thornton & Co.

Chartered Accountants

29 May 2008
Colombo.

Income Statement

For the year ended 31 March	Notes	Page No.	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000	*Variance Rs 000
Income	12	77	**9,636,415**	6,886,510	**11,723,253**	8,104,941	3,618,312
Interest income	13	77	**8,491,044**	6,017,561	**10,497,378**	7,019,092	3,478,286
Interest expense	14	77	**5,814,833**	3,537,392	**7,043,170**	4,042,054	3,001,116
Net interest income			**2,676,211**	2,480,169	**3,454,208**	2,977,038	477,170
Negative goodwill			**0**	0	**1,119**	494	625
Other income	15	78	**1,145,371**	868,949	**1,225,875**	1,085,849	140,026
Operating income			**3,821,582**	3,349,118	**4,681,202**	4,063,381	617,821
Personnel expenses			**575,960**	518,077	**838,007**	673,066	164,941
Provision for staff retirement benefits	16	78	**96,845**	93,584	**96,845**	93,584	3,261
Premises, equipment and establishment expenses			**264,883**	248,515	**480,152**	386,686	93,466
Other overhead expenses			**207,596**	214,726	**374,155**	306,190	67,965
Bad and doubtful debts - specific	17	80	**83,578**	(20,327)	**141,278**	41,327	99,951
- general	18	80	**174,083**	41,963	**217,430**	41,605	175,825
Investments - impairment losses	19	80	**0**	14,680	**6,604**	14,665	(8,061)
Operating expenses	20	80	**1,402,945**	1,111,218	**2,154,471**	1,557,123	597,348
Operating profit before value added tax			**2,418,637**	2,237,900	**2,526,731**	2,506,258	20,473
Value added tax on financial services			**435,116**	372,607	**484,632**	429,039	55,593
Operating profit before income tax			**1,983,521**	1,865,293	**2,042,099**	2,077,219	(35,120)
Share of profits of associates**			**0**	0	**1,048,616**	497,458	551,158
Profit before tax			**1,983,521**	1,865,293	**3,090,715**	2,574,677	516,038
Income tax expense	21	81	**665,082**	740,332	**843,457**	881,913	(38,456)
Profit after tax			**1,318,439**	1,124,961	**2,247,258**	1,692,764	554,494
Attributable to:							
Equity holders of the parent			**1,318,439**	1,124,961	**2,168,163**	1,585,644	582,519
Minority interests			**0**	0	**79,095**	107,120	(28,025)
			1,318,439	1,124,961	**2,247,258**	1,692,764	554,494
Earnings per share - Basic, Rs	22	81	**10.41**	10.20	**17.12**	14.37	2.75
- Diluted, Rs			**10.35**	10.13	**17.02**	14.28	2.74
Dividend per share, Rs			**5.00**	5.00	**5.00**	5.00	0

Notes from pages 61 to 116 form part of these financial statements.

* *Current year minus previous year, Group.*

** *After tax and minority interest.*

Balance Sheet

As at 31 March	Notes	Page No.	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
Assets						
Cash and short-term funds	23	82	**1,704,545**	4,506,177	**3,702,019**	5,872,482
Balances with Central Bank			**0**	0	**611,301**	478,667
Treasury bills and other securities eligible for rediscounting with Central Bank	24	82	**6,419,940**	3,429,498	**7,492,985**	3,824,457
Securities purchased under resale agreements	25	83	**208,000**	240,000	**753,256**	689,219
Placements with and loans to other banks and financial institutions	26	83	**1,578,595**	1,023,956	**1,471,654**	995,956
Dealing securities	27	83	**17,591**	26,072	**17,591**	26,072
Bills of exchange discounted	28	84	**0**	0	**492,668**	459,493
Loans	29	84	**37,255,598**	37,469,972	**47,960,790**	44,901,076
Finance leases	30	85	**6,481,118**	7,545,716	**6,481,118**	7,545,716
Interest receivable	31	86	**604,343**	609,887	**700,206**	587,109
Investment securities	32	86	**1,679,827**	1,260,439	**2,183,334**	1,758,081
Investment in associate companies	33	94	**3,187,229**	1,584,688	**6,395,789**	4,115,876
Investment in subsidiary companies	34	95	**2,642,163**	1,764,888	**0**	0
Group balances receivable	35	95	**71,348**	8,826	**1,058**	1,047
Prepayments			**45,353**	78,513	**45,353**	78,513
Income tax refund due	36	95	**0**	0	**4,040**	0
Investment property	37	95	**6,500**	6,500	**137,181**	131,833
Goodwill on consolidation	38	96	**0**	0	**146,658**	146,658
Property and equipment	39	96	**438,610**	392,509	**749,238**	574,171
Intangible assets	40	97	**53,930**	79,601	**170,107**	198,767
Deferred tax asset	41	97	**0**	0	**83,571**	137,490
Other assets	42	97	**964,694**	913,419	**1,669,611**	1,355,443
Total assets			**63,359,384**	60,940,661	**81,269,528**	73,878,126
Liabilities						
Deposits from customers	43	98	**5,111,517**	13,572,571	**16,352,643**	20,816,684
Borrowing - Medium and long-term	44	98	**33,623,289**	30,357,387	**33,623,289**	30,357,387
- Short-term	45	100	**4,156,943**	1,539,772	**5,100,628**	2,825,102
Debentures	46	100	**2,700,000**	2,000,000	**2,700,000**	2,000,000
Interest accrued			**1,131,697**	847,652	**1,396,777**	1,012,549
Current tax liability			**132,130**	261,012	**197,147**	300,500
Deferred tax liability	47	100	**250,623**	363,842	**250,624**	363,843
Other liabilities	48	100	**492,085**	504,276	**1,354,733**	1,105,382
Subordinated debentures	49	101	**2,000,000**	2,000,000	**2,000,000**	2,000,000
			49,598,284	51,446,512	**62,975,841**	60,781,447
Equity						
Share capital	50	101	**1,301,956**	865,565	**1,301,956**	865,565
Reserves	51	103				
Reserve fund			**495,000**	425,000	**674,120**	548,841
Share premium			**3,184,145**	607,106	**3,236,338**	659,299
Other reserves			**7,982,043**	6,606,248	**10,546,863**	8,761,720
Retained earnings			**797,956**	990,230	**1,928,719**	1,706,523
Shareholders' Equity			**13,761,100**	9,494,149	**17,687,996**	12,541,948
Minority interest	52	105	**0**	0	**605,691**	554,731
Total equity			**13,761,100**	9,494,149	**18,293,687**	13,096,679
Total equity and liabilities			**63,359,384**	60,940,661	**81,269,528**	73,878,126
Commitments and contingencies	53	105	**7,310,686**	11,229,998	**13,938,459**	16,704,913
Net assest value per share, Rs.			**108.66**	86.06	**139.67**	113.69

Notes from pages 61 to 116 form part of these financial statements

I confirm that to the best of my knowledge and belief these financial statements comply with the requirements in the Companies Act No. 7 of 2007 relating to group financial statements that are applicable to DFCC Bank.

S. Nagarajah

S Nagarajah
Executive Vice-President (Finance)

For and on behalf of the Board of Directors,

J M S Brito
Chairman
Colombo
29 May 2008

A N Fonseka
Ex-Officio Director & Chief Executive

Statement of Changes in Equity

For the years ended 31 March

	Share Capital Rs 000	Reserve fund Rs 000	Share premium Rs 000	Other reserves Rs 000	Retained earnings Rs 000	Total equity Rs 000
Bank						
Balance on 31.03.2006	575,908	365,000	883,376	6,065,137	1,201,438	9,090,859
First & final dividend approved on 30.06.2006.					(345,574)	(345,574)
Profit for the year					1,124,961	1,124,961
Transfers		60,000		541,111	(601,111)	
Interim dividend approved on 30.03.2007					(389,484)	(389,484)
Bonus issue of shares	287,978		(287,978)			
Issue of shares under share option scheme	1,679		11,708			13,387
Balance as at 31.03.2007	865,565	425,000	607,106	6,606,248	990,230	9,494,149
Final dividend approved on 30.06.2007					(64,918)	(64,918)
Transfers				60,795	(60,795)	
Profit for the year					1,318,439	1,318,439
Transfer from current earnings		70,000		1,315,000	(1,385,000)	
Bonus issue of shares	216,398		(216,398)			
Rights Issue of shares	216,391		2,813,088			3,029,479
Issue of shares under share option scheme	3,602		16,298			19,900
Share issue expenses written-off			(35,949)			(35,949)
Balance as at 31.03.2008	**1,301,956**	**495,000**	**3,184,145**	**7,982,043**	**797,956**	**13,761,100**

For the years ended 31 March

	Attributable to Equity Holders of the Bank							
	Share Capital Rs 000	Reserve fund Rs 000	Share premium Rs 000	Other reserves Rs 000	Retained earnings Rs 000	Total Rs 000	Minority interest Rs 000	Total equity Rs 000
Group								
Balance as at 31.03.2006	575,908	481,247	935,569	7,991,197	1,683,690	11,667,611	531,348	12,198,959
Change in accounting policy				(96,797)	77,918	(18,879)		(18,879)
Balance as at 31.03.2006 - Restated	575,908	481,247	935,569	7,894,400	1,761,608	11,648,732	531,348	12,180,080
Derecognition of negative goodwill					1,263	1,263		1,263
Share issue expenses written-off - assocaite company				(948)		(948)		(948)
Appreciation in the value of investment in Comtrust Equity Fund - associate company				32,092		32,092		32,092
Currency translation gain/loss overseas operations - associate company				(3,164)		(3,164)		(3,164)
Net income recognised directly in equity				27,980	1,263	29,243		29,243
Profit for the year					1,585,644	1,585,644	107,120	1,692,764
Total recognised income and expenses for the period				27,980	1,586,907	1,614,887	107,120	1,722,007
Transfers		67,594		839,340	(906,934)			
First & final dividend approved on 30.06.2006					(345,574)	(345,574)	(83,737)	(429,311)
Interim dividend approved on 30.03.2007					(389,484)	(389,484)		(389,484)
Bonus issue of shares	287,978		(287,978)					
Issue of shares under share option scheme	1,679		11,708			13,387		13,387
Balance as at 31.03.2007	865,565	548,841	659,299	8,761,720	1,706,523	12,541,948	554,731	13,096,679
Deferred tax effect on revaluation surplus on property - associate company				(29,418)		(29,418)		(29,418)
Realised revaluation surplus on disposal of property - associate company				(399)	399			
Surplus on revaluation property - associate company				84,051		84,051		84,051
Currency translation gain/loss overseas operations - associate company				(3,081)		(3,081)		(3,081)
Net income recognised directly in equity				51,153	399	51,552		51,552
Profit for the year					2,168,163	2,168,163	79,095	2,247,258
Total recognised income and expenses for the period				51,153	2,168,562	2,219,715	79,095	2,298,810
Transfers from retained earnings brought forward				60,795	(60,795)			
Transfers from current earnings		125,279		1,695,374	(1,820,653)			
Final dividend approved on 30.06.2007					(64,918)	(64,918)	(28,135)	(93,053)
Bonus issue of shares	216,398		(216,398)					
Rights Issue of Shares	216,391		2,813,088			3,029,479		3,029,479
Issue of shares under share option scheme	3,602		16,298			19,900		19,900
Share issue expenses written-off			(35,949)	(22,179)		(58,128)		(58,128)
Balance as at 31.03.2008	**1,301,956**	**674,120**	**3,236,338**	**10,546,863**	**1,928,719**	**17,687,996**	**605,691**	**18,293,687**

Notes from pages 61 to 116 form part of these financial statements.

Cash Flow Statement

For the year ended 31 March	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
Cash flow from operating activities				
Interest receipts	**7,342,644**	5,373,291	**9,081,473**	6,260,700
Interest payments	**(5,530,788)**	(3,333,838)	**(6,655,922)**	(3,749,529)
Recoveries on loans previously written-off	**203,971**	182,639	**203,971**	182,639
Receipts from other operating activities	**240,256**	246,531	**765,790**	674,414
Cash payments to employees and suppliers	**(1,060,773)**	(971,713)	**(1,585,089)**	(1,255,680)
Value added tax	**(432,843)**	(306,316)	**(443,421)**	(386,013)
Operating profit before changes in operating assets	**762,467**	1,190,594	**1,366,802**	1,726,531
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	**0**	0	**(132,634)**	(74,229)
Funds advanced to customers	**1,044,416**	(9,429,184)	**(2,352,351)**	(12,136,544)
Other short-term securities	**(2,990,442)**	868,102	**(3,668,527)**	596,615
Others	**(28,296)**	(410,935)	**(1,410)**	(582,509)
Increase/(decrease) in operating liabilities:				
Security deposits from customers	**(2,380)**	(2,117)	**(2,380)**	(2,222)
Deposits from customers	**(8,425,336)**	9,581,623	**(4,389,150)**	11,712,983
Negotiable certificates of deposit	**(35,718)**	(26,267)	**(74,891)**	22,079
Net cash flow from operating activities before income tax	**(9,675,289)**	1,771,816	**(9,254,541)**	1,262,704
Income tax paid	**(825,760)**	(702,120)	**(961,004)**	(895,413)
Income tax refund	**0**	0	**(4,040)**	0
Net cash from/(used in) operating activities - Note a	**(10,501,049)**	1,069,696	**(10,219,585)**	367,291
Cash flow from investing activities				
Dividends received	**629,611**	381,087	**588,321**	297,819
Interest received	**1,058,789**	379,594	**1,182,374**	455,911
Proceeds from sale and redemption of securities	**181,274**	231,383	**298,384**	360,485
Purchase of securities	**(564,523)**	(110,758)	**(681,780)**	(235,707)
Investment in subsidiary - Synapsys Limited	**(20,000)**	0	**0**	0
Disposal of subsidiary shares - National Asset Management Limited	**0**	(5,085)	**0**	(5,085)
Investment in additional shares of subsidiary DFCC Vardhana Bank Limited	**(5,318)**	(1,965)	**0**	0
Subscription to rights issue in subsidiary - DFCC Vardhana Bank Limited	**(851,957)**	(285,613)	**0**	0
Subscription to rights issue in associate - Commercial Bank of Ceylon PLC	**(1,602,541)**	0	**(1,602,541)**	0
Purchase of property, equipment, intangibles and investment property	**(153,497)**	(119,159)	**(379,783)**	(361,730)
Proceeds from sale of equipment and investment property	**16,666**	4,294	**21,280**	81,112
Net cash (used in)/from investing activities	**(1,311,496)**	473,778	**(573,745)**	592,805
Cash flow from financing activities				
Issue of debentures	**700,000**	2,000,000	**700,000**	2,000,000
Issue of new shares under option	**19,900**	13,387	**19,900**	13,387
Issue of new shares under rights issue	**3,029,479**	0	**3,029,479**	0
Issue of new shares by subsidiary (rights issue)	**0**	0	**36,041**	12,422
Share issue expenses	**(35,949)**	0	**(35,949)**	0
Borrowing, medium and long-term	**11,356,053**	9,626,080	**11,356,053**	9,626,080
Other borrowings	**2,048,300**	(1,200,060)	**1,835,659**	141,063
Repayment of borrowing, medium and long-term	**(8,090,151)**	(7,652,462)	**(8,090,151)**	(7,652,462)
Dividends paid	**(62,951)**	(733,623)	**(128,296)**	(840,444)
Net cash flow from financing activities	**8,964,681**	2,053,322	**8,722,736**	3,300,046
Net increase/(decrease) in cash & cash equivalents	**(2,847,864)**	3,596,796	**(2,070,594)**	4,260,142
Cash & cash equivalents/(overdraft - net) at the beginning of period	**4,746,177**	1,149,381	**6,506,073**	2,245,931
Cash & cash equivalents at the end of period	**1,898,313**	4,746,177	**4,435,479**	6,506,073
Reconciliation of cash & cash equivalents				
Cash and short-term funds - Note 23	**1,704,545**	4,506,177	**3,702,019**	5,872,482
Securities purchased under resale agreements - Note 25	**208,000**	240,000	**753,256**	689,219
Borrowing short-term - Bank overdrafts - Note 45	**(14,232)**	0	**(19,796)**	(55,628)
	1,898,313	4,746,177	**4,435,479**	6,506,073

The Cash Flow Statement of the Bank includes the results of associate /subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards.

Comparative figures have been re-stated to conform to the period ended 31 March 2008 classification.

Notes from pages 61 to 116 form part of these financial statements.

Note a

Reconciliation of profit for the year to net cash (used in)/from operating activities

For the year ended 31 March	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
Profit for the year	**1,318,439**	1,124,961	**2,168,163**	1,585,644
Deduct: Dividend transferred to investing activities	**(659,656)**	(373,574)	**(224,125)**	(128,724)
	658,783	751,387	**1,944,038**	1,456,920
Add/(deduct) items not using (providing) cash:				
Depreciation - Property, equipment and investment property	**87,628**	87,373	**144,844**	124,509
Amortisation - Intangible assets	**45,032**	40,833	**81,063**	73,915
Negative goodwill	**0**	0	**(1,119)**	(494)
Gains on sale of investment securities	**(32,143)**	(52,801)	**(44,467)**	(86,787)
Loss/gains from mark to market on dealing securities	**5,034**	(9,500)	**5,034**	(9,500)
Gain on sale of equipment and investment property	**(16,259)**	(4,294)	**(19,158)**	(79,817)
Loss on deemed disposal of associate companies' shares	**0**	0	**4,814**	2,389
Notional tax credit on treasury bills and bonds	**(81,422)**	(8,672)	**(93,122)**	(12,272)
Share of profits of associates	**0**	0	**(1,048,616)**	(497,458)
Allowances for credit losses	**257,661**	21,636	**358,708**	82,932
Investments - impairment losses	**0**	14,680	**6,604**	14,665
Minority interests	**0**	0	**79,095**	107,120
Increase in income tax refund	**0**	0	**(4,040)**	–
Increase in accounts receivables	**(1,065,098)**	(635,207)	**(1,300,994)**	(672,476)
Increase in accounts payables	**238,168**	244,827	**406,622**	340,973
Increase/(decrease) in income tax payable	**(273,897)**	24,248	**(230,766)**	(27,464)
Increase in deferred tax	**113,219**	13,964	**59,300**	13,964
Increase in operating assets	**(1,974,321)**	(8,972,017)	**(6,101,004)**	(12,196,667)
Increase/(decrease) in operating liabilities	**(8,463,434)**	9,553,239	**(4,466,421)**	11,732,839
Net cash(used in)/from operating activities	**(10,501,049)**	1,069,696	**(10,219,585)**	367,291

Notes from pages 61 to 116 form part of these financial statements.

Notes on the Financial Statements

1. Reporting Entity

DFCC Bank is a limited liability public company incorporated and domiciled in Sri Lanka. It was incorporated in 1955 under DFCC Bank Act No. 35 of 1955. The Head Office is situated at 73/5, Galle Road, Colombo 3.

The Bank was incorporated under DFCC Bank Act No. 35 of 1955 and therefore there was no requirement to register under the Companies Ordinance at the time of incorporation. Consequently, the address of the Head Office is not registered with the Registrar of Companies.

Section 487(2) of the Companies Act No. 7 of 2007 requiring existing companies to re-register and to obtain a new company number does not apply to DFCC Bank.

Section 6(c) of the Companies Act No. 7 of 2007 requiring a limited company which is a listed company to have the words public limited company or the abbreviation PLC added to its name, does not apply to DFCC Bank which continues with the description DFCC Bank given in Section 2(1)(b) of DFCC Act No. 35 of 1955, as amended. Ordinary shares of the Bank are listed in the Colombo Stock Exchange.

DFCC Bank's Group comprises six subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Stockbrokers (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited, Lanka Ventures PLC and Synapsys Limited. DFCC Bank has two associate companies viz., Commercial Bank of Ceylon PLC and National Asset Management Limited.

All subsidiary companies and associate companies have been incorporated under Companies Act No. 17 of 1982, having the following registered addresses:

Company	**Registered Address**
Subsidiaries	
DFCC Consulting (Pvt) Limited (Private limited liability company)	DFCC Building 73/5, Galle Road Colombo 3
DFCC Stockbrokers (Pvt) Limited (Private limited liability company)	3rd Floor 73, W A D Ramanayake Mawatha Colombo 2
DFCC Vardhana Bank Limited (Public limited liability company)	73, W A D Ramanayake Mawatha Colombo 2
Lanka Industrial Estates Limited (Public limited liability company)	Pattiwila Road Sapugaskanda Makola
Lanka Ventures PLC (Public limited liability company) Ordinary shares listed in Colombo Stock Exchange	2nd Floor, Ceylon Ocean Lines Building 46/12, Navam Mawatha Colombo 2
Synapsys Limited (Public limited liability company)	DFCC Building 73/5, Galle Road Colombo 3

Company	Registered Address
Associates	
Commercial Bank of Ceylon PLC (Public limited liability company) Ordinary shares listed in Colombo Stock Exchange	'Commercial House' 21, Bristol Street, Colombo 1
National Asset Management Limited (Public limited liability company)	2nd Floor, 73, W A D Ramanayake Mawatha Colombo 2

All subsidiaries and associate companies have made the application to the Registrar of Companies under Section 487(2) of the Companies Act No. 7 of 2007 to obtain a new company number.

1.1 Principal Activities

A summary of principal activities of DFCC Bank (the parent), its subsidiary companies and associate companies is as follows:

Company	Principal Activities
DFCC Bank	Financial products and services to industrial, agricultural and commercial enterprises in Sri Lanka.
DFCC Consulting (Pvt) Limited	Technical, financial and other professional consultancy services in Sri Lanka and abroad.
DFCC Stockbrokers (Pvt) Limited	Securities broking.
DFCC Vardhana Bank Limited	Commercial banking.
Lanka Industrial Estates Limited	Leasing of land and buildings for industrial enterprises.
Lanka Ventures PLC	Venture capital financing.
Synapsys Limited	Information technology services and information technology enabled services.
Commercial Bank of Ceylon PLC	Commercial banking.
National Asset Management Limited	Fund management.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

1.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 29 May 2008.

1.3 Statement of Compliance with Sri Lanka Accounting Standards

The financial statements have been prepared in compliance with relevant Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka.

2. Consolidated and Separate Financial Statements

DFCC Bank as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard 26, on 'Consolidated and Separate Financial Statements (Revised 2005)'. In addition to the consolidated financial statements, separate financial statements are also presented as per Banking Act No. 30 of 1988.

3. Basis of Preparation

The consolidated and separate financial statements of DFCC Bank are presented in Sri Lankan Rupees, the functional and presentation currency, rounded to the nearest thousand and unless otherwise stated herein have been prepared under the historical cost convention. Exceptions to the historical cost convention of accounting relate to dealing and investment securities. In the separate financial statements of the DFCC Bank, the investment in associates and subsidiaries are accounted on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investees. The preparation of financial statements require the use of certain critical accounting estimates and judgments and these are disclosed in Note 6.

4. Basis of Consolidation

4.1 General

The consolidated financial statements are prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate companies on the basis of reported results and net assets of the investee instead of the direct equity interest. Thus, the consolidated financial statements present financial information about the Group as a single economic entity.

4.2 Transactions Eliminated on Consolidation

Intra-group balances and transactions, including income, expenses and dividend are eliminated in full.

4.3 Financial Statements of Subsidiaries and Associate Companies included in the Consolidated Financial Statements

Audited financial statements are used. All subsidiaries and associate companies included in the consolidation except DFCC Vardhana Bank Limited, DFCC Stockbrokers (Pvt) Limited, Synapsys Limited and Commercial Bank of Ceylon PLC have financial year to 31 March in common with the Bank. The financial years of DFCC Vardhana Bank Limited, DFCC Stockbrokers (Pvt) Limited, Synapsys Limited and Commercial Bank of Ceylon PLC end on 31 December and financial statements of these companies for year to 31 December 2007 have been included for consolidation and equity accounted respectively with appropriate adjustments for significant events between the two dates.

4.4 Significant Events and Transactions during the gap between date of Financial Statement of the Subsidiary/Associate Company and the date of Financial Statement of the Bank

Results of subsidiary/associate company is adjusted and disclosed for any such transactions.

4.5 Financial Statements used for Computation of Goodwill or Negative Goodwill on date of Acquisition

This is based on unaudited financial statements proximate to the date of acquisition.

4.6 Taxes on the Undistributed Earnings of Subsidiaries and Associate Companies

10% withholding tax applicable on the distribution of the undistributed earnings of the subsidiaries and associate companies have not been recognised as a tax expense in the financial statements of the Bank and the Group financial statements as such distribution is remote in the foreseeable future.

5. Scope of Consolidation

All subsidiaries have been consolidated.

Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Note 34 contains the financial information relating to subsidiaries.

Minority interests in subsidiaries are determined on the basis of proportionate equity in the subsidiaries owned by minority equity holders. The minority interests and the interest of the equity holders of the Bank are separately identified in the Consolidated Income Statement and Consolidated Balance Sheet.

Associate Companies

Associate companies are those enterprises in which the Bank has significant influence but not control over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of the associate companies, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Note 33 contains financial information relating to associate companies.

6. Principal Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Bank in presenting and preparing the financial statements. Changes in accounting policies are made only if the Sri Lanka Accounting Standard requires such change or when a change results in providing more relevant information.

There were no changes to the accounting policies of the Bank, its subsidiaries and associate companies in the year ended 31 March 2008.

6.1 Revenue and Expense Recognition

6.1.1 Interest Income

Interest receivable is generally recognised on an accrual basis.

Interest income from loans and advances ceases to be taken to revenue after the interest or principal is in arrears for three (3) months and thereafter such income is recognised on receipt basis. The interest accrued up to three months is also eliminated from the income and transferred to interest in suspense.

6.1.2 Notional Tax Credit on Interest Income from Treasury Bills and Bonds

Interest income from treasury bills and bonds is grossed by the addition of the tax credit imputed to 10% withholding tax on discount allowed at the time of issue. This notional tax credit is 1/9th of the net income.

6.1.3 Discount or Premium on Purchase of Dated Debt Securities

The premium or discount is amortised through the income statement over the period from the date of purchase to the date of maturity.

6.1.4 Lease Income

Finance Leases

Gross earnings from leases comprising the excess of aggregate rentals receivable over the cost of leased asset are allocated over the term of the lease commencing with the month in which the lease is granted, in proportion to the declining receivable balances.

Income of finance leases in respect of lease rentals due cease to be taken to revenue after it is in arrears for three (3) months and thereafter such income is recognised on receipt basis. The interest accrued up to three months is also eliminated from the income and transferred to income suspense.

6.1.5 *Dividend Income*

Interim dividend on shares is recognised as income in the period in which it is declared by the directors and final dividend on shares is recognised as income in the period in which it is approved by the shareholders of the investee company. Dividend income from unit trust is recognised in the period they are declared.

6.1.6 *Discount on Bills of Exchange*

Discount charges on bills of exchange discounted are taken to revenue on redemption of bills of exchange.

6.1.7 *Default Interest*

Default charges for late payment of finance lease rentals and for delayed redemption of bills of exchange are recognised as income on receipt basis.

6.1.8 *Front-end Fee Income*

This arises on loan origination and the income is recognised on completion of loan documentation.

6.1.9 *Consultancy and Other Professional Service Income*

Recognised as income in the period in which entitlement to the consideration arises.

6.1.10 *Underwriting Commission*

Recognised as income in the period in which entitlement to the consideration arises.

6.1.11 *Guarantee Fee*

Recognised in full in the period in which guarantees are issued by the Bank.

6.1.12 *Gains on sale of Property and Equipment*

Recognised as income in the period in which the sale occurs.

6.1.13 *Gains on Sale of Investment Property*

The difference between the net disposal proceeds and the carrying value of the property disposed of, is recognised as income. On part disposal of an investment property, the carrying value of the entire property is apportioned to the part sold, in the proportion of the net disposal proceeds to the total market value of the entire investment property at the time of disposal.

6.1.14 *Gains on Disposal of Dated Debt Securities*

The difference between net disposal proceeds and the carrying amount of the debt securities disposed of is recognised as income.

6.1.15 *Sale and Repurchase Agreements*

Where treasury bills/bonds and other corporate debt securities are sold subject to a commitment to repurchase them at a predetermined price (‘Repos’), the difference between sale and repurchase price is recognised as other income over the life of the agreement.

6.1.16 *Premises Rental Income*

Rental income is recognised on accrual basis.

6.1.17 *Marked to Market Gains on Dealing Securities*

Gains or losses on dated dealing debt securities and listed ordinary shares that arise by adjusting the carrying value of these securities to market value are recognised in the income statement.

6.1.18 *Marked to Market Gains on Forward Exchange Contracts*

Gains or losses on forward exchange contracts that arise by adjusting the carrying value of the off-balance sheet forward exchange contracts to market value are recognised in the income statement.

6.1.19 *Foreign Exchange Income*

Any exchange gain or loss arising from the settlement or translation of the Bank's monetary assets and liabilities at rates different from those which were initially recorded are dealt in the income statement.

6.1.20 *Interest Expense*

All interest expenses are recognised in the period in which they are incurred without any amount being capitalised.

6.1.21 *Allowances for Credit Losses*

Credit losses comprise of losses against loans, finance leases, bills of exchange, commercial papers, trust certificates, promissory notes and overdrafts. The estimated losses attributable to these debts are based on a continuous review of all such debts identified as bad or doubtful.

Bank makes both general and specific provisions.

6.1.21.1 Specific Provisions

Specific provisions are made for the estimated loss on doubtful loans, finance leases, bills of exchange, commercial papers, trust certificates, promissory notes and overdrafts not covered by realisable value of collateral.

Specific provision on guarantees issued are made to recognise significant impairment of the debt service capacity of the customer giving rise to a constructive obligation prior to enforcement of guarantee.

The specific provision has two elements:

i. A minimum statutory provision as per the direction issued by Central Bank of Sri Lanka. This is on a graduated scale based on the amount of outstanding principal net of realisable security value (net exposure at risk) as given below:

Age of arrears	Provision covered
6 months to less than 12 months	20% of net exposure at risk
12 months to 18 months	50% of net exposure at risk
More than 18 months	100% of net exposure at risk

ii. An additional provision to recognise difficulties in realisation of collateral or significant impairment of debt service capacity of the borrower.

6.1.21.2 General Provision

As at 31 March 2008, a general provision of 0.6% of the outstanding balances of performing and overdue loans has been made as per the direction issued by the Central Bank of Sri Lanka on all licensed banks operating in Sri Lanka.

6.1.22 *Investment Securities Losses*

A temporary diminution in value is accounted for as a provision and a diminution other than temporary accounted as a partial or full write-off.

Diminution other than temporary in value of each investment security, is assessed by a combination of indicators of value including market value, investee's assets, results and the expected cash flow from the investment and the prevailing market conditions in the Colombo Stock Exchange.

Temporary diminution in value of all equity securities listed in the Colombo Stock Exchange is the amount by which the aggregate market value of such securities is lower than the aggregate cost of acquisition, reduced where appropriate by write-off for diminution other than temporary in value of each security. The market value is based on the price information on quoted securities published by the Colombo Stock Exchange.

Temporary diminution in value of all units purchased from a unit trust, is the amount by which the aggregate market value of such units, is lower than the aggregate cost of acquisition, reduced where appropriate by write-off for diminution other than temporary in value of each unit. The market value is based on the Unit Trust Manager's buying price.

Temporary diminution in value of ordinary shares listed in the Colombo Stock Exchange and units purchased from a unit trust are charged against the revenue reserves of the Bank. Any subsequent reversal of such diminution in value will be credited to the revenue reserves in the financial year in which they occur.

Diminution other than temporary in value of all investment securities is charged against the earnings of the period in which they occur. Diminution other than temporary in value of shares included in investment securities is written off while that of debentures included in the investment securities is recognised as a provision.

6.1.23 Income Tax Expense

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to items recognised directly in reserves in which case it is recognised in reserves.

6.1.23.1 Current Tax

i. Current tax is the expected tax payable on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006, as amended by subsequent legislation.
ii. Current tax expense include any adjustment to tax payable in respect of previous years.

6.1.23.2 Deferred Tax

i. Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes.

   Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

   Deferred tax is calculated using the tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply in the period in which the assets will be realised or liabilities settled.

   Deferred tax assets and liabilities are not discounted.

ii. The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognised as deferred tax expense and conversely any net decrease is recognised as reversal to deferred tax expense, in the income statement.

iii. The separate financial statements of the Bank include the full recognition of deferred tax asset attributable to the gratuity provision of the Bank.

The consolidated financial statements includes full recognition of deferred tax asset attributable to gratuity provision and unused tax losses of the group.

iv. The carrying amount of deferred tax asset is reviewed at each balance sheet date and tested against the absorption capacity of probable future taxable profit to utilise unused tax losses and adjustments made accordingly.

6.1.23.3 Value Added Tax

The value base for value added tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the financial statements.

6.1.23.4 Withholding Tax on Dividends distributed by Subsidiaries and Associate Companies

Dividends distributed out of the taxable profit of the subsidiaries and associate companies suffer a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the subsidiary company and the associated company in the group financial statements as a consolidation adjustment.

6.2 Assets and Bases of their Valuation

6.2.1 Securities

6.2.1.1 Dealing Debt Securities

These are the marketable, dated debt securities in respect of which the Bank has the expressed intention of trading in the domestic debt market and are included in the balance sheet at the market value as a sub-category of treasury bills and other securities eligible for rediscounting with the Central Bank.

The market value is determined using the middle rate of buy and sell quotes for the treasury bills and other securities eligible for rediscounting with the Central Bank provided by secondary market intermediaries.

These securities are recognised at cost initially on acquisition and thereafter marked to market on the balance sheet date in accordance with the direction issued by Central Bank of Sri Lanka on 'Prudential norms for classification, valuation, and operation of the Bank's investment portfolio' dated 1 March 2006.

The loss arising from marked to market adjustment on 31 March 2008 was Rs5,034,000 (gain of Rs9,500,000-2007) and is included in the income statement.

6.2.1.2 Investment Debt Securities

These are the dated debt securities in respect of which the Bank has expressed intention and ability to hold until maturity. These are included in the balance sheet as a sub-category of treasury bills and other securities eligible for rediscounting with the Central Bank and under investment securities.

Treasury bills and other securities eligible for rediscounting with the Central Bank are included in the balance sheet at cost adjusted for the amortisation of premium or discount arising on acquisition.

6.2.1.3 Securities Purchased under Resale Agreements (Reverse Repurchase Transactions)

These are loans collaterised by the purchase of treasury bills and/or guaranteed commercial papers from the counter-party to whom the loans are granted. The sale by the counter-party is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a pre-determined price. These loans are stated in the balance sheet at cost.

6.2.1.4 Securities sold under Repurchase Agreements ('Repos')

This relates to treasury bills and bonds sold subject to a commitment to repurchase them at a predetermined price. Such treasury bills and bonds remain on the balance sheet and the liability is recorded in respect of the consideration received. The liability is disclosed as borrowing under repurchase agreement. These treasury bills and bonds are not marked to market since the corresponding liability is also not marked to market.

6.2.1.5 Dealing Securities - Ordinary Shares

These are marketable ordinary shares listed in the Colombo Stock Exchange acquired and held with the intention of resale over a short period. These are stated in the balance sheet at market value.

6.2.1.6 Investment Securities - Shares, Debentures and Units purchased from Unit Trusts

Shares quoted in the Colombo Stock Exchange and units purchased from unit trust are stated in the balance sheet at the lower of:

i. Aggregate cost reduced by, where appropriate, the diminution in value which is other than temporary of each security; and
ii. Market value
determined on an aggregate portfolio basis.

Other shares and debentures (dated debt securities) are stated in the balance sheet at cost reduced by, where appropriate, the diminution in value, which is other than temporary of each security.

Cost determined on weighted average basis includes incidental costs of acquisition. All securities are held for yield or capital appreciation in the medium/long-term.

6.2.1.7 Investment Securities - Venture Capital Investments

Venture capital investments in quoted and unquoted ordinary shares and debentures by Lanka Ventures PLC are stated at cost less any specific provision required for diminution in value other than temporary.

6.2.2 *Loans*

Loans are stated in the balance sheet net of provisions for possible loan losses. The provisions for possible loan losses include both specific and general provision.

Prior to 31 March 2007, the Bank adopted an accounting policy of writing off debts which are fully covered by specific provisions for accounting purposes only at each balance sheet date, while retaining such debts in the memorandum books of the Bank and continuing with the recovery efforts. The recoveries of such loans were included under other income. This policy however did not have any impact on the total on-balance sheet assets.

The Bank has changed this policy prospectively with effect from 31 March 2007; i.e. the fully provided debts and the provision remain on the balance sheet.

The cumulative debts fully provided and written-off for accounting purposes only and retained in the memorandum books of the Bank were Rs1,239 million as at 31 March 2008.

6.2.3 *Finance Leases*

Assets of the Bank leased to customers by an agreement that transfers substantially all the risks and rewards of ownership to the customer without transferring the title, are classified as financial leases and disclosed as amounts receivable. The leases are stated in the balance sheet after deduction of future income, provisions for losses and income in suspense.

6.2.4 *Investment Property*

The investment property of the Bank is a land owned by the Bank held for capital appreciation. The investment property of the group includes land and building held by a subsidiary for capital appreciation and earns revenue by rentals.

Land classified as investment property is carried at cost reduced by accumulated impairment losses and building classified as investment property is carried at cost net of accumulated depreciation and accumulated impairment losses.

Depreciation is provided on a straight-line basis such that the cost of the asset is amortised over the period appropriate to the estimated life of the type of asset.

The rates of depreciation are as follows:

Buildings	5% per annum
Water treatment plant	10% per annum
Site improvement	10% per annum

6.2.5 *Investment in Subsidiaries and Associate Companies*

The Bank's investments in subsidiaries, and associates are stated at cost less accumulated impairment losses, if any in the financial statements of the Bank.

In the consolidated financial statements, investments in associate companies are accounted under equity method reduced by accumulated impairment losses, if any.

Consequently Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post–acquisition movements are adjusted against the carrying amount of the investment. When the groups' share of losses in an associate equals or exceeds its interest in associates, the Group does not recognise further losses.

Groups' investment in associates includes goodwill identified on acquisition, net of any impairment losses. (Note 33)

6.2.6 *Property and Equipment*

6.2.6.1 The cost of an asset comprises its purchase price or cost of construction and any directly attributable costs of bringing the asset to working condition for its intended use.

The assets are stated at cost less accumulated depreciation and accumulated impairment losses. The depreciation is provided for on the basis outlined in 6.2.6.2.

6.2.6.2 Depreciation is provided on a straight-line basis such that the cost of the asset is amortised over the period appropriate to the estimated life of the type of asset.

The rates of depreciation are as follows:

Buildings	5% per annum
Furniture & fittings	10% per annum
Office equipment & motor vehicles	20% per annum

Depreciation commences in the month the asset is commissioned for use in the business of the Bank and ceases in the month of disposal.

Land is not depreciated.

6.2.7 *Goodwill or Negative Goodwill on Consolidation*

This arises on a business combination resulting in a parent-subsidiary relationship in which the acquirer is the parent and acquiree a subsidiary of the acquirer and is accounted by applying the purchase method. Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired.

Goodwill on acquisition of associates is included in the investment cost of associate and therefore is not included in goodwill on consolidation.

Goodwill is tested for impairment annually by comparing the present value of the expected cash flows from the subsidiary and associate with the carrying value of its net assets including attributable goodwill.

The carrying amount of goodwill on consolidation is at cost of acquisition reduced by accumulated impairment loss, if any.

Negative goodwill is recognised immediatly in the income statements.

6.2.8 *Intangible Assets - Computer Application Software*

All software licensed for use by the Bank, not constituting an integral part of related hardware are included in the balance sheet under the category intangible assets and carried at cost less cumulative amortisation and any impairment losses.

The initial acquisition cost comprises licence fee paid at the inception, import duties, non-refundable taxes and levies, cost of customising the software to meet the specific requirements of the Bank and other directly attributable expenditure in preparing the asset for its intended use.

The cost is amortised using the straight-line method, at the rate of 20% per annum commencing from the date the application software is available for use. The amortised amount is based on the best estimate of its useful life, such that the cost is amortised fully at the end of the useful life during which the Bank has legal right of use. The amortisation cost is recognised as an expense.

The initial cost is enhanced by subsequent expenditure incurred by further customisation to meet ancillary transaction processing and reporting requirements tailor-made for the use of the Bank constituting an improvement to the software.

Computer application software is stated at cost less accumulated amortisation and accumulated impairment losses, if any.

6.2.9 Foreign Currency Translation

6.2.9.1 Transactions in overseas currencies are translated to Sri Lanka rupees at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date and consequently any exchange loss or gain is recognised in the income statement of the Bank. Exchange rates used are the middle spot rates.

6.2.9.2 Monetary liabilities denominated in foreign currencies, subject to an exchange loss covered by the Government of Sri Lanka as provided in the DFCC Bank Act No. 35 of 1955 are not translated at the exchange rates ruling on the balance sheet date. The Government of Sri Lanka bears the exchange loss and is entitled to any exchange gain arising on settlement of such monetary liabilities. Government of Sri Lanka provides exchange loss cover only to liabilities guaranteed as provided in the DFCC Bank Act No. 35 of 1955.

6.2.9.3 Forward exchange contracts are disclosed net and valued at the forward market rates ruling on the date of the balance sheet.

6.2.9.4 As at the balance sheet date, the assets and liabilities of the overseas branch operations of the associate company - Commercial Bank of Ceylon PLC are translated into the presentation currency of the Bank as at the rate of exchange ruling at the balance sheet date and their income statement is translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

6.2.10 Comparative Information

Where items are regrouped, comparative information is also adjusted.

6.3 Liabilities and Provisions

6.3.1 Pension and Gratuity Payments

6.3.1.1 Description of the Plan and Employee Groups Covered

The Bank established a Trust Fund in May 1989, which operates an approved pension scheme for payment of pension.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The funds of the scheme are managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees. All members of the permanent staff who joined prior to 1 May 2004, except one are covered by this funded pension scheme subject to fulfillment of eligibility conditions prescribed by the Bank.

6.3.1.2 Funding Arrangement

The Bank's contributions to the Trust Fund are made annually based on a percentage of gross emoluments excluding certain allowances and bonus. The percentage required was determined by an independent actuary. No contributions are made by the employees in respect of the basic pension benefit. Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998.

6.3.1.3 Recognition of Past Service Cost, Experience Adjustments and the Effects of Changes in Actuarial Assumptions

These costs and surpluses are recognised over the remaining working life of existing employees.

6.3.1.4 Gratuity Provision

Bank provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees who do not qualify under the Pension Scheme.

The subsidiary companies, which do not have a pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees.

The computation of the provision is based on half month's qualifying salary at the end of the financial year, for each year of service commencing from the first year of service. This method of determining the gratuity liability is an allowed alternative under Sri Lanka Accounting Standard 16, 'Retirement Benefit Cost', while the benchmark treatment for the calculation of gratuity is the actuarial valuation method. The amount provided for gratuity liability is not externally funded.

6.3.2 Defined Contribution Plans

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund to which the Bank contributes 15% and 3% respectively of such employees' consolidated salary.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

6.3.3 *Provisions for Liabilities*

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

6.3.4 *Off Setting*

Deferred and current tax asset of each taxable entity is set off against deferred and current tax liability of the same taxable entity operating in Sri Lanka and liable to Revenue Authority in Sri Lanka.

6.3.5 *Commitments and Contingencies*

All discernible risks are accounted for in determining the amount of other liabilities.

6.3.6 *Events after Balance Sheet date*

All material and important events which occur between the balance sheet date and the date on which the financial statements are authorised for issue, and the financial impact on the condition of assets and liabilities are disclosed in Note 60.

7. Critical Accounting Estimates and Judgments

7.1 General

In the preparation of separate financial statements and consolidated financial statements the Bank makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to estimates in a subsequent financial year, if any, are normally recognised prospectively.

The following disclosures relate to judgments and future-oriented estimates that have the most significant effect on the amount recognised in the financial statements.

7.2 Judgments and the Financial Impact

The classification of investment securities is based on the positive intention of the management and the financial capacity to hold certain investments to maturity. In the event of a change of intention evidenced by management action of active trading, such investments are transferred to dealing securities. Dealing securities represents financial assets held for trading.

The classification of these securities determines the recognition of the carrying amount of these financial assets in the balance sheet with a consequential adjustment to the reported results.

7.3 Accounting Estimates

7.3.1 *Loan Losses*

The assessment of loan loss as set out in Notes 17 and 18 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually-significant loans and secondly to determine the recoverable amount.

For collectively assessed loans, the allowance for loan losses was 0.6% of performing and overdue loans and advances outstanding as at 31 March 2008, as per the direction issued by the Central Bank of Sri Lanka.

7.3.2 ***Pension Liability***

The estimation of this liability determined by an independent, qualified actuary necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees etc. Key assumptions are disclosed in Note 16.7.

The pension scheme is closed to new entrants recruited on or after 1 May 2004 and the basic pension and the survivor pension amount is frozen on the date of cessation of tenured employment. These risk mitigation strategies together with annual actuarial valuation and review of key assumptions tends to reduce the probability that the actual results will be significantly different from the estimate.

7.3.3 ***Current Tax***

The estimation of current tax liability includes interpretation of tax law and judgment on the allowance for losses on individually assessed loans. The estimation process by the Bank includes seeking expert advice where appropriate and the payment of the income tax liability is on self-assessment basis.

In the event an additional assessment is issued the additional income tax and deferred tax adjustment, if any, will be recognised in the period in which the assessment is issued.

7.3.4 ***Deferred Tax Assets arising from Unused Tax Losses***

Bank's subsidiary, DFCC Vardhana Bank Limited as per Sri Lanka Accounting Standard 14 on "Income Tax (Revised 2005)", recognised for the first time the deferred tax assets arising from unused tax losses retrospectively from 1 January 2005. The recognition of tax assets arising from unused tax losses required the future estimation of the taxable profit of the subsidiary company to assess the absorption capacity for unused tax losses on 31 December 2007. In the event the future results of the subsidiary indicate the probability of a decline in taxable profits, the consequent impairment of deferred tax asset will be recognised in that period.

7.3.5 ***Impairment of Tangible and Intangible Assets***

The assessment of impairment in tangible and intangible assets includes the estimation of the value in use of the asset computed at the present value of the best estimates of future cash flows generated by the asset adjusted for associated risks. This estimation has inherent uncertainties.

Impairment losses if any are charged to the income statement immediately.

8. Cash Flow

The Cash Flow has been prepared by using the 'Direct Method'. Cash and cash equivalents include cash balances, time deposits and treasury bills of three months' maturity at the time of issue. For the purpose of Cash Flow Statement, cash and cash equivalents are presented net of bank overdrafts.

9. Business Segment Reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The accounting policies adopted for segment reporting are the same accounting policies adopted for preparing the financial statements of the group.

Segment revenue is the revenue reported in the income statement that is directly attributable to a segment.

Segment expense includes the relevant portion of interest expense and operating expenses allocated to the segment on a reasonable basis.

Segment assets are those operating assets that are employed by a segment in its operating activities and are directly attributed or allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and are directly attributed or allocated to the segment on a reasonable basis.

Inter-segment transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Such transfers are eliminated on consolidation.

10. Directors' Responsibility Statement

The Directors' acknowledge the responsibility for true and fair presentation of the financial statements in accordance with the books of account and Sri Lanka Accounting Standards. Further elaboration of the Directors' Responsibility is on page 54.

11. Revised Sri Lanka Accounting Standard 16, Employee Benefits

This standard is applicable to the Bank and the Group from the financial year to 31 March 2009 and is a revision to the existing standard. Key changes include:

- Actuarial valuation of gratuity provision replacing the allowed alternative under the currently effective SLAS 16 as disclosed in Principal Accounting Policy 6.3.1.4.
- Change in the recognition criteria of actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions. Currently, experience gain or loss is charged or credited to income over eligible employees' expected average remaining working life. The revision permits such treatment only if such experience gain or loss exceeds greater of the 10% of the value of defined benefit plan assets or 10% of the defined benefit obligation, subject to transitional provisions.
- Enhanced disclosures.

The Bank has not yet determined the financial impact of these changes.

For the year ended 31 March	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
12 Income				
Gross income	**9,636,415**	6,886,510	**11,723,253**	8,104,941
Interest income	**8,491,044**	6,017,561	**10,497,378**	7,019,092
Other income	**1,145,371**	868,949	**1,225,875**	1,085,849
	9,636,415	6,886,510	**11,723,253**	8,104,941
13 Interest Income				
Loans	**6,203,091**	4,577,395	**8,001,762**	5,444,656
Treasury bills and placements with other banks	**1,098,768**	467,009	**1,281,213**	584,252
Gross earnings under finance leases	**1,141,271**	938,056	**1,141,271**	938,056
Default interest on lease rentals	**47,914**	35,101	**47,925**	35,441
Interest and discount arising from debt securities	**0**	0	**25,207**	16,687
	8,491,044	6,017,561	**10,497,378**	7,019,092

Treasury bill and bond income includes Rs81 million in bank and Rs93 million in group, notional tax credit of 10% imputed for the withholding tax deducted/paid at source in respect of the financial year ended 31 March 2008. The amount related to the previous financial year is Rs41 million in bank and Rs45 million in group.

14 Interest Expense	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
Medium and long-term borrowing	**1,974,367**	1,528,182	**1,987,887**	1,528,182
Short-term borrowing:				
Interest on overdrafts and revolving facilities	**1,454,631**	977,040	**1,716,706**	1,014,829
Debentures	**662,161**	363,288	**662,161**	363,288
Time deposits from customers	**1,723,674**	668,882	**2,676,416**	1,135,755
	5,814,833	3,537,392	**7,043,170**	4,042,054

For the year ended 31 March	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
15 Other Income				
Dividend income from securities				
Quoted ordinary shares	**25,644**	15,797	**28,643**	19,845
Unquoted ordinary shares	**2,652**	1,930	**13,001**	14,435
Unquoted preference shares	**115,674**	48,247	**125,602**	54,087
Units in unit trusts	**44,848**	26,351	**51,817**	31,079
Dividend income from investments in associates/subsidiaries				
Quoted ordinary shares	**436,694**	202,107	**0**	0
Unquoted ordinary shares	**29,082**	69,864	**0**	0
Quoted preference shares	**5,062**	9,278	**5,062**	9,278
	659,656	373,574	**224,125**	128,724
Gain on sale of investment securities				
Quoted ordinary shares	**16,820**	25,745	**25,395**	48,469
Unquoted ordinary shares	**0**	1,297	**0**	2,547
Others	**15,323**	25,759	**19,072**	35,771
(Loss)/gain from mark to market on dealing securities	**(5,034)**	9,500	**(5,034)**	9,500
Recovery of bad debts	**203,971**	182,639	**203,971**	182,639
Front end fee	**18,045**	25,367	**19,426**	37,258
Consultancy and other professional services	**112,225**	88,514	**146,978**	95,657
LC commission	**636**	1,127	**39,553**	26,048
Underwriting commission and guarantee fees	**19,179**	17,468	**57,893**	41,487
Gains on sale of commercial paper	**0**	1,595	**0**	1,595
Net gain on repurchase transactions	**24,033**	15,746	**43,296**	22,948
Gain/(loss) on sale of treasury bills and bonds	**92**	(13,515)	**853**	(13,510)
Gain on sale of equipment	**16,259**	4,294	**19,158**	4,585
Gain on sale of investment property	**0**	0	**0**	75,232
Unrealised gain on treasury bills and bonds	**(583)**	0	**(583)**	0
Premises rental income	**31,333**	28,406	**135,386***	126,318*
Foreign exchange (loss)/profit	**(3,654)**	11,920	**99,637**	72,706
Loss on deemed disposal of associate	**0**	0	**(4,814)**	(2,389)
Others	**37,070**	69,513	**201,563**	190,264
	1,145,371	868,949	**1,225,875**	1,085,849
* Investment property rental.			**116,443**	110,631
Freehold property rental			**18,943**	15,687
			135,386	126,318

16 Provision for Staff Retirement Benefits

16.1 Amount Recognised as Expense

	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
In Respect of Funded Liability				
Current service cost	**69,331**	65,791	**69,331**	65,791
Experience adjustments	**22,217**	22,898	**22,217**	22,898
	91,548	88,689	**91,548**	88,689
In Respect of Unfunded Liability				
Current service cost	**4,388**	3,645	**4,388**	3,645
Experience adjustments	**909**	1,250	**909**	1,250
	96,845	93,584	**96,845**	93,584

For the year ended 31 March	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
16.2 Amortisation of Experience Adjustments				
In Respect of Funded Liability				
Balance on 31 March	**147,101**	176,128	**147,101**	176,128
Recognition during the financial year:				
Actuarial experience loss/(gain)	**2,018**	(6,129)	**2,018**	(6,129)
	149,119	169,999	**149,119**	169,999
Amortisation	**(22,217)**	(22,898)	**(22,217)**	(22,898)
	126,902	147,101	**126,902**	147,101
In Respect of Unfunded Liability				
Balance on 31 March	**1,321**	1,748	**1,321**	1,748
Recognition during the financial year:				
Actuarial experience loss	**2,384**	823	**2,384**	823
Change in plan assumptions	**1,563**	0	**1,563**	0
	5,268	2,571	**5,268**	2,571
Amortisation	**(909)**	(1,250)	**(909)**	(1,250)
	4,359	1,321	**4,359**	1,321

The total remaining actuarial loss of Rs127 million in respect of employees whose pension liabilities are funded is amortised equally over the average remaining working life of the employees eligible for pension.

The total remaining actuarial loss of Rs4 million in respect of an employee whose pension liability is not funded is amortised equally over the average remaining working life of the employee eligible for pension.

16.3 Unfunded Pension Liability

This relates to pension liability of an employee, not funded through the DFCC Bank Pension Fund and was Rs21.9 million on 31 March 2008. The liability relates to the pension benefit to retiree and survivor spouse and minor children.

16.4 Acturial Valuation

Acturial valuation was carried out by Piyal S Gunathilake & Associates, Fellow of the Society of actuaries USA on 31 March 2008.

16.5 Actuarial Valuation Method

Projected unit credit actuarial cost method was used to allocate the actuarial present value of projected benefits earned by employees to date of valuation.

16.6 Pension Assets and Actuarial Present Value of Accrued Benefits

As at 31 March 2008, value of assets of the Pension Trust Fund was Rs989 million and value of benefits that had accrued to members after allowing for expected future increase in earnings was Rs1,116 million. The difference between the actuarially determined value of benefits accrued, Rs1,116 million and the value of assets of the pension fund Rs989 million is the unrecognised liability of Rs127 million in respect of the funded liability. This amount representing the unamortised balance of the experience adjustments will be amortised over the remaining working life of employees entitled for pension, at the rate of Rs22.2 million per annum. The pension liability under discontinuance basis was Rs888 million on 31 March 2008.

16.7 Principal Actuarial Assumptions

Over the long-term, the annual rate of return on investments net of tax would be 9%. The discount rate used to determine actuarial pension liability during pre-retirement period was 9% per annum reducing to 8% per annum during the post retirement period, while the annual increase in total pensionable remuneration would be 11%.

Assumptions relating to the mortality rates and rates of resignations prior to retirement have been adopted consistently.

For the year ended 31 March	Bank 2008 Rs 000	Bank 2007 Rs 000	Group 2008 Rs 000	Group 2007 Rs 000
17 Bad and Doubtful Debts - Specific				
Provision for the year				
Loans	**208,760**	192,597	**446,343**	300,604
Leases	**114,776**	65,799	**114,776**	65,799
Dues on terminated leases	**0**	2,977	**0**	2,977
Bills of exchange	**0**	0	**5,282**	74
Others	**1,485**	940	**1,485**	940
Loan/lease losses	**14,981**	4,470	**14,981**	4,475
	340,002	266,783	**582,867**	374,869
Less: Reductions in the year				
Loans	**176,898**	234,334	**361,058**	280,766
Leases	**79,526**	51,530	**79,526**	51,530
Dues on terminated leases	**0**	496	**0**	496
Bills of exchange	**0**	750	**1,005**	750
	83,578	(20,327)	**141,278**	41,327
18 Bad and Doubtful Debts - General				
Provision for the year				
Loans	**150,707**	78,024	**192,120**	85,050
Leases	**23,376**	14,913	**23,376**	14,913
Bills of exchange	**0**	0	**1,934**	460
	174,083	92,937	**217,430**	100,423
Less: Reductions in the year				
Loans	**0**	50,974	**0**	58,818
	174,083	41,963	**217,430**	41,605
19 Investment - Impairment Losses				
Investment securities	**0**	9,000	**6,604**	8,985
Investment properties	**0**	5,680	**0**	5,680
	0	14,680	**6,604**	14,665
20 Operating Expenses				
Operating expenses include the following:				
Directors remuneration - Fees*	**4,987**	3,912	**15,202**	9,738
Employers' contribution to Employees' Provident Fund	**42,964**	36,705	**59,819**	48,244
Employers' contribution to Employees' Trust Fund	**8,593**	7,340	**12,015**	10,675
Gratuity provision/paid	**1,596**	4,342	**7,557**	5,618
Auditors' remuneration				
Audit fees and expenses	**1,782**	1,419	**3,163**	2,606
Fees and expenses for other services	**609**	294	**689**	371
Depreciation - Investment property	–	–	**6,069**	5,860
- Property and equipment	**87,628**	87,373	**138,775**	118,649
Amortisation - Intangible assets	**45,032**	40,833	**81,063**	73,915
Expenses on litigation	**9,903**	5,077	**13,712**	8,674

* Ex-Officio Director and Chief Executive does not receive any fee as a Director.

21 Income Tax Expense

21.1 Income tax on profit of the Bank has been provided at 35% on the taxable income.

21.2 Relationship between Tax Expense and Accounting Income

Tax charge is based on taxable profit which differs from profit for financial reporting purposes. These differences are explained in the following reconciliation statement:

For the year ended 31 March	**Bank 2008 Rs 000**	Bank 2007 Rs 000
Profit before tax as per the income statement	**1,983,521**	1,865,293
Disallowed expenses and provisions	**719,384**	692,209
Lease rentals net of capital allowances	**1,430,894**	962,204
Reported earnings under finance leases net of provision for bad & doubtful debts	**(1,093,191)**	(929,039)
Capital allowances on property and equipment	**(79,808)**	(59,085)
Dividend income	**(659,656)**	(373,574)
Impairment loss on investment property	**0**	5,680
Gain on sale of investment securities	**(32,143)**	(52,801)
Taxable income	**2,269,001**	2,110,887
Normal company tax rate 35%	**794,150**	738,810
Tax rate on accounting profit, %	**40**	40

For the year ended 31 March	**Bank 2008 Rs 000**	Bank 2007 Rs 000	**Group 2008 Rs 000**	Group 2007 Rs 000
21.3 Tax on profit on Ordinary Activities				
Taxation based on profits for the year	**794,150**	738,810	**794,150**	738,810
Tax (over)/under provision	**(15,849)**	14,235	**(15,849)**	14,236
Transfer from deferred taxation	**(113,219)**	(12,713)	**(113,219)**	(12,714)
Bank	**665,082**	740,332	**665,082**	740,332
DFCC Consulting (Pvt) Limited	**0**	0	**4,690**	484
DFCC Stock Brokers (Pvt) Limited	**0**	0	**8,437**	15,553
DFCC Vardhana Bank Limited	**0**	0	**138,142**	80,105
Lanka Industrial Estates Limited	**0**	0	**16,112**	15,241
Lanka Ventures PLC	**0**	0	**10,893**	30,198
Synapsys Limited	**0**	0	**101**	0
Subsidiary companies' tax	**0**	0	**178,375**	141,581
Total	**665,082**	740,332	**843,457**	881,913
21.4 Summary				
Bank			**665,082**	740,332
Subsidiaries				
- current tax			**124,456**	119,051
- deffered tax - Note 41			**53,919**	22,530
Total			**843,457**	881,913

22 Earnings per Share

22.1 Basic Earnings per Share

Basic earnings per share of the Bank has been calculated by dividing the profit after income tax by the weighted average number of shares in issue during the financial year.

Basic Group earnings per share has been calculated by dividing the profit after income tax less minority interest by the weighted average number of shares in issue during the financial year.

22.2 Diluted Earnings per Share

Diluted earnings per share of the Bank and the Group has been calculated using the profit after tax of the Bank and the Group profit after tax less minority interest respectively divided by the weighted average number of shares issued adjusted for the effect of all dilutive potential ordinary shares.

For the year ended 31 March		Bank		Group	
		2008 Rs 000	2007 Rs 000	**2008 Rs 000**	2007 Rs 000
22.3 Computation of Basic and Diluted Earnings per Share					
Profit for the year		**1,318,439**	1,124,961	**2,168,163**	1,585,644
Weighted average number of shares		**126,642,134**	110,318,477	**126,642,134**	110,318,477
Basic earnings per share, Rs		**10.41**	10.20	**17.12**	14.37
Number of shares that would have been issued at fair value					
in respect of options granted on	31.03.2002	**0**	13,356	**0**	13,356
	31.03.2003	**197,276**	198,805	**197,276**	198,805
	31.03.2004	**1,448,892**	926,156	**1,448,892**	926,156
	31.03.2006	**165,933**	105,741	**165,933**	105,741
		1,812,101	1,244,058	**1,812,101**	1,244,058
Number of shares at nil consideration (dilutive potential					
shares) in respect of options granted on	31.03.2002	**0**	19,182	**0**	19,182
	31.03.2003	**330,093**	357,386	**330,093**	357,386
	31.03.2004	**412,014**	318,584	**412,014**	318,584
	31.03.2006	**34,521**	27,919	**34,521**	27,919
		776,628	723,071	**776,628**	723,071
Total number of shares under option		**2,588,729**	1,967,129	**2,588,729**	1,967,129
Ordinary shares in issue and dilutive potential shares		**127,418,763**	111,041,548	**127,418,763**	111,041,548
Diluted earnings per share, Rs		**10.35**	10.13	**17.02**	14.28

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

23 Cash and Short-Term Funds

Cash and balance with banks	**142,135**	337,509	**1,160,984**	966,320
Call deposits				0
DFCC Vardhana Bank Limited	**1,562,410**	1,090,771	**873,585**	714,591
Others	**0**	3,077,897	**503,351**	3,635,897
Time deposits with licensed commercial banks	**0**	0	**1,164,099**	555,674
	1,704,545	4,506,177	**3,702,019**	5,872,482

24 Treasury Bills and Other Securities eligible for Rediscounting with Central Bank

Treasury bills and bonds held for trading				
Held for repurchase transactions	**1,984,065**	269,420	**1,984,065**	269,420
Others	**268,708**	0	**268,708**	0
	2,252,773	269,420	**2,252,773**	269,420
Treasury bills and bonds held to maturity	**4,167,167**	3,160,078	**5,240,212**	3,555,037
	6,419,940	3,429,498	**7,492,985**	3,824,457

Investments held to maturity are the sinking fund investments made as per loan covenant in the floating rate notes of US$65 million and loan of US$5 million from Asian Development Bank.

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
25 Securities purchased under Resale Agreements				
Loans at cost	**208,000**	240,000	**753,256**	689,219

Face value of securities obtained as collateral exceeds the loan amount by 10% - 20%. Accounting Policy is in 6.2.1.3.

26 Placements with and Loans to Other Banks and Financial Institutions

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Placements	**0**	0	**0**	59,000
Loans to banks	**1,578,595**	1,023,956	**1,471,654**	936,956
	1,578,595	1,023,956	**1,471,654**	995,956

26.1 Placements

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Financial Institutions	**0**	0	**0**	59,000
	0	0	**0**	59,000

26.2 Loans to Banks

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Subordinated loan - DFCC Vardhana Bank Limited	**122,000**	122,000	**0**	0
Refinance loans - Plantation development project *	**956,595**	401,956	**956,595**	401,956
Other loans	**500,000**	500,000	**515,059**	535,000
	1,578,595	1,023,956	**1,471,654**	936,956

** Refinanced by Asian Development Bank/Government of Sri Lanka line of credit.*

27 Dealing Securities

	Bank 31.03.2008 Number of ordinary shares	Bank 31.03.2008 Cost Rs 000	Bank 31.03.2008 Market value Rs 000	Group 31.03.2008 Number of ordinary shares	Group 31.03.2008 Cost Rs 000	Group 31.03.2008 Market value Rs 000
Quoted Ordinary Shares						
Dialog Telekom PLC	**54,890**	**1,377**	**919**	**54,890**	**1,377**	**919**
John Keells Holdings PLC	**139,515**	**21,248**	**16,672**	**139,515**	**21,248**	**16,672**
		22,625	**17,591**		**22,625**	**17,591**
Marked to market adjustment		**(5,034)**			**(5,034)**	
Market value on 31.03.2008		**17,591**			**17,591**	
Market value on 31.03.2007		**26,072**			**26,072**	

No dealing securities in subsidiaries.

	Bank		Group	
	31.03.2008	31.03.2007	**31.03.2008**	31.03.2007
	Rs 000	Rs 000	**Rs 000**	Rs 000
28 Bills of Exchange Discounted				
28.1 Balance on 31 March				
Local bills	**5,640**	5,640	**5,640**	5,640
Export bills	**0**	0	**321,102**	347,128
Import bills	**0**	0	**178,320**	112,940
Less: Provision for overdue bills	**5,640**	5,640	**12,394**	6,215
	0	0	**492,668**	459,493
28.2 Movement in Provision				
Balance on 31 March	**5,640**		**6,215**	
Add: Provision for the year	**0**		**7,216**	
Less: Recoveries	**0**		**1,005**	
Write-off	**0**		**32**	
	5,640		**12,394**	
29 Loans				
29.1 Balance on 31 March				
Sri Lanka Rupee Loans				
Direct loans	**34,673,243**	33,275,846	**40,160,820**	37,022,088
Commercial papers & asset back notes	**1,052,277**	1,942,985	**1,052,277**	1,942,985
Debenture loans	**1,023,252**	1,234,212	**1,023,252**	1,234,212
Overdrafts	**0**	0	**5,371,315**	3,771,764
Staff loans for miscellaneous purposes	**227,692**	204,588	**284,911**	243,840
	36,976,464	36,657,631	**47,892,575**	44,214,889
Foreign Currency Loans				
Direct loans	**1,208,178**	1,542,674	**1,208,178**	1,542,674
	38,184,642	38,200,305	**49,100,753**	45,757,563
Less: Loan loss provision - Specific	**703,244**	655,240	**861,635**	770,278
Loan loss provision - General	**225,800**	75,093	**278,328**	86,209
Balance net of loan loss provision	**37,255,598**	37,469,972	**47,960,790**	44,901,076

Foreign currency loans US$11,202,363 (US$14,192,029 - 2007)

29.2 Movement in Provision

	Bank		Group	
29.2.1 Movement in Specific Provision				
Balance on 31 March	**655,240**		**770,278**	
Add: Provision for the year	**208,760**		**446,343**	
Transfer from interest in suspense	**20,697**		**33,223**	
Less: Reduction in the year	**176,898**		**361,058**	
Write-off of loans	**4,555**		**26,681**	
Translation of specific provision for FCBU loans	**0**		**470**	
	703,244		**861,635**	
29.2.2 Movement in General Provision				
Balance on 31 March	**75,093**		**86,209**	
Add: Provision for the year	**150,707**		**192,119**	
	225,800		**278,328**	

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

30 Finance Leases

30.1 Balance on 31 March

Gross investment in leases:				
Lease rentals receivable				
- within one year from balance sheet date	**3,214,106**	3,736,203	**3,214,106**	3,736,203
- after one year from balance sheet date	**5,230,762**	6,101,316	**5,230,762**	6,101,316
	8,444,868	9,837,519	**8,444,868**	9,837,519
Less: Deposit of rentals	**78,739**	88,112	**78,739**	88,112
Specific provision for leases in default	**206,253**	195,557	**206,253**	195,557
General provision for leases	**38,289**	14,913	**38,289**	14,913
Income in suspense	**61,927**	47,976	**61,927**	47,976
Unearned income on rentals receivable				
- within one year from balance sheet date	**820,367**	938,159	**820,367**	938,159
- after one year from balance sheet date	**758,175**	1,007,086	**758,175**	1,007,086
Net investment in leases	**6,481,118**	7,545,716	**6,481,118**	7,545,716

30.2 Movement in Provision

30.2.1 Movement in Specific Provision

Balance on 31 March	**195,557**		**195,557**	
Add: Provision for the year	**114,776**		**114,776**	
Less: Recoveries	**79,526**		**79,526**	
Transfers *	**24,554**		**24,554**	
	206,253		**206,253**	

* *To specific provision on dues on terminated leases, included under debtors.*

30.2.2 Movement in General Provision

Balance on 31 March	**14,913**		**14,913**	
Add: Provision for the year	**23,376**		**23,376**	
	38,289		**38,289**	

30.3 Movement in Income Suspense

Balance on 31 March	**47,976**		**47,976**	
Add: Transfer during the year	**155,961**		**155,961**	
Less: Recoveries	**142,010**		**142,010**	
	61,927		**61,927**	

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000

31 Interest Receivable

31.1 Balance on 31 March

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Amount due*	**607,487**	715,402	**606,752**	858,613
Amount accrued and not due	**977,707**	656,217	**1,248,323**	656,217
Less: Interest in suspense	**980,851**	761,732	**1,154,869**	927,721
	604,343	609,887	**700,206**	587,109

* Includes Rs479 million (Rs486 million - 2007) due from loans.

31.2 Movement in Interest in Suspense

	Bank 31.03.2008 Rs 000	Group 31.03.2008 Rs 000
Balance on 31 March	**761,732**	**927,721**
Add: Transfer during the year	**651,300**	**1,121,304**
Less: Collections	**384,499**	**756,204**
Transfer to loan provision	**20,697**	**104,881**
Write-offs	**26,985**	**33,071**
	980,851	**1,154,869**

32 Investment Securities

32.1 Composition of Investment Securities

	Ordinary Shares Quoted Rs 000	Ordinary Shares Unquoted Rs 000	Preference Shares Quoted Rs 000	Preference Shares Unquoted Rs 000	Debentures Quoted Rs 000	Debentures Unquoted Rs 000	Unit Trusts Rs 000	Total 31.03.2008 Rs 000	Total 31.03.2007 Rs 000
Bank									
Performing investments	348,906	27,395	50,000	828,833	0	0	338,938	1,594,072	1,175,311
Non-performing investments	28,518	45,290	0	0	0	0	11,947	85,755	85,128
	377,424	72,685	50,000	828,833	0	0	350,885	1,679,827	1,260,439
Group									
Performing investments	368,777	103,850	50,000	1,007,189	30,000	130,429	388,938	2,079,183	1,646,953
Non-performing investments	28,518	45,290	0	43,750	0	0	11,947	129,505	129,878
Less: Provision for diminution	6,604	0	0	18,750	0	0	0	25,354	18,750
	390,691	149,140	50,000	1,032,189	30,000	130,429	400,885	2,183,334	1,758,081

	Ordinary Shares		Preference Shares		Debentures		Unit Trusts	Total	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted		**31.03.2008**	31.03.2007
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
32.2 Bank									
Balance on 31 March	349,112	72,685	50,000	467,167	0	0	321,475	1,260,439	1,340,305
Additions for the year	42,995	0	0	470,000	0	0	49,474	562,469	108,216
Less: Disposals during the year	14,683	0	0	0	0	0	0	14,683	58,580
Redemptions	0	0	0	108,334	0	0	20,064	128,398	120,002
Transfer to dealing securities	0	0	0	0	0	0	0	0	500
Write-offs	0	0	0	0	0	0	0	0	9,000
	377,424	**72,685**	**50,000**	**828,833**	0	0	**350,885**	**1,679,827**	1,260,439
Market value of quoted investments/units									
on 31.03.2008	**559,543**		**45,000**				**399,943**	**1,004,486**	
on 31.03.2007	516,420		46,250				384,273	946,942	
32.3 Group									
Balance on 31 March	450,627	132,440	50,000	688,717	43,500	40,072	371,475	1,776,831	1,864,364
Additions for the year	42,995	16,700	0	470,555	0	100,000	49,474	679,724	233,165
Less: Disposals during the year	96,327	0	0	0	0	0	0	96,327	129,132
Redemptions during the year	0	0	0	108,333	13,500	9,643	20,064	151,540	182,066
Transfer to dealing securities	0	0	0	0	0	0	0	0	500
Write-offs	0	0	0	0	0	0	0	0	9,000
	397,295	149,140	50,000	1,050,939	30,000	130,429	400,885	2,208,688	1,776,831
Less: Provision for diminution	6,604	0	0	18,750	0	0	0	25,354	18,750
	390,691	149,140	50,000	1,032,189	30,000	130,429	400,885	2,183,334	1,758,081
Market value of quoted investments/units									
on 31.03.2008	**574,507**		**45,000**		**30,200**		**449,948**	**1,099,655**	
on 31.03.2007	628,467		46,250		42,908		435,545	1,153,169	

	Group	
	31.03.2008	31.03.2007
	Rs 000	Rs 000
32.4 Provision for Diminution		
32.4.1 Movement in Provision		
Balance on 31 March	**18,750**	56,250
Increase/(Decrease) in provision for diminution	**6,604**	(37,500)
	25,354	18,750

32.5 On 31 March 2008 the Bank held more than 20% and less than 50% of the voting control in Hydrotech Lanka Dickoya (Pvt) Limited. This investment is classified under investment securities and not as investments in associate companies since the Bank did not have a significant influence over the operating and financial policies of this Company.

	31.03.2008			31.03.2007		
	Number of ordinary shares	Cost* Rs 000	Market value Rs 000	Number of ordinary shares	Cost* Rs 000	Market value Rs 000
32.6 Quoted Ordinary Shares						
Banks, Finance & Insurance						
Ceylinco Insurance PLC	4,100	719	880	0	0	0
Hatton National Bank PLC - non-voting	797,600	23,575	40,877	777,600	22,765	37,130
Housing Development Finance Corporation Bank of Sri Lanka	37,400	8,228	4,479	37,400	8,228	6,059
Lanka Orix Leasing Company PLC	17,828	780	2,099	17,828	780	1,917
Sampath Bank PLC	173,300	18,991	20,059	164,300	17,961	17,580
Seylan Bank PLC - non-voting	260,000	4,416	2,405	260,000	4,416	2,405
		56,709	70,799		54,150	65,091
Beverages, Food & Tobacco						
Ceylon Tobacco Company PLC	119,967	86	7,528	119,967	86	7,558
Distilleries Company of Sri Lanka PLC	117,200	4,752	11,486	102,200	3,401	10,731
		4,838	19,014		3,487	18,289
Chemicals & Pharmaceuticals						
Haycarb PLC	19,130	944	1,114	19,130	944	670
Construction & Engineering						
Colombo Dockyard PLC	84,500	5,442	5,091	0	0	0
Diversified Holdings						
Aitken Spence & Company PLC	63,200	21,522	27,176	48,200	16,512	18,316
Hayleys PLC	250,460	22,484	24,482	295,560	26,533	41,970
		44,006	51,658		43,045	60,286
Healthcare						
Ceylon Hospitals PLC - voting	100,000	2,500	5,800	100,000	2,500	5,625
Ceylon Hospitals PLC - non-voting	300,000	6,000	10,800	300,000	6,000	11,475
		8,500	16,600		8,500	17,100
Hotels & Travels						
Pegasus Hotels of Ceylon PLC	0	0	0	101,500	529	1,573
Sigiriya Village Hotels PLC	55,000	1,284	1,815	55,000	1,284	1,925
Stafford Hotels PLC	5,909,825	56,990	65,008	5,950,525	57,383	55,042
		58,274	66,823		59,196	58,540
Information Technology						
E-Channelling PLC	877,100	8,771	13,595	1,036,000	10,360	13,468
Investment Trusts						
Ceylon Guardian Investment Trust PLC	36,844	1,298	6,079	36,844	1,298	5,987
Ceylon Investment Company PLC	94,520	2,564	7,373	87,120	2,000	8,756
		3,862	13,452		3,298	14,743

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

Sector classification and market value per share are based on the official valuation list published by Colombo Stock Exchange.

32.6 Quoted Ordinary Shares (Contd.)

	31.03.2008			31.03.2007		
	Number of ordinary shares	**Cost* Rs 000**	**Market value Rs 000**	Number of ordinary shares	Cost* Rs 000	Market value Rs 000
Manufacturing						
ACL Cables PLC	**51,000**	**3,070**	**2,346**	0	0	0
Chevron Lubricants Lanka PLC	**304,700**	**20,301**	**29,861**	304,700	20,301	25,900
Ceylon Glass Company PLC	**12,981,852**	**25,000**	**25,964**	0	0	0
Ceylon Grain Elevators Limited	**48,997**	**1,297**	**576**	48,997	1,297	698
Lanka Tiles PLC	**211,587**	**5,809**	**13,436**	211,587	5,809	10,368
Tokyo Cement (Lanka) PLC - non-voting	**1,236,000**	**16,346**	**19,158**	1,030,000	16,346	22,145
		71,823	**91,341**		43,753	59,111
Power & Energy						
Lanka Indian Oil Company PLC	**600,000**	**18,450**	**13,200**	600,000	18,450	18,000
Vallibel Power Erathna PLC	**7,500,000**	**20,000**	**18,000**	7,500,000	20,000	13,500
		38,450	**31,200**		38,450	31,500
Telecommunications						
Sri Lanka Telecom PLC	**4,335,900**	**75,805**	**178,856**	4,800,600	83,929	177,622
Total Quoted Shares - Bank		**377,424**	**559,543**		349,112	516,420
Investment in quoted shares by subsidiaries		**19,871**	**14,964**		101,515	112,047
Total Quoted Shares - Group		**397,295**	**574,507**		450,627	628,467

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

Sector classification and market value per share are based on the list published by Colombo Stock Exchange.

	31.03.2008			31.03.2007		
	Number of ordinary shares	**Cost* Rs 000**	**Market value Rs 000**	Number of ordinary shares	Cost* Rs 000	Market value Rs 000
32.6.1 Investment in Quoted Ordinary Shares by Subsidiaries						
Banks, Finance & Insurance						
Central Finance PLC	**6**	**0**	**1**	6	0	1
Housing Development Finance Corporation Bank of Sri Lanka	**0**	**0**	**0**	15,500	4,726	2,511
Nation Trust Bank PLC	**0**	**0**	**0**	225,000	4,987	7,650
		0	**1**		9,713	10,162
Manufacturing						
Chevron Lubricants Lanka PLC	**0**	**0**	**0**	201,800	15,033	17,153
Power & Energy						
Lanka Indian Oil Company PLC	**240,000**	**9,560**	**5,280**	240,000	9,560	7,200
Diversified Holdings						
Aitken Spence & Company PLC	**0**	**0**	**0**	6,000	2,426	2,280
Hayleys PLC	**14,982**	**1,115**	**1,614**	90,982	10,182	12,732
John Keells Holdings PLC	**66,892**	**9,196**	**8,069**	53,396	9,196	10,243
		10,311	**9,683**		21,804	25,255
Telecommunications						
Sri Lanka Telecom PLC	**0**	**0**	**0**	1,412,900	45,405	52,277
Total quoted shares by subsidiaries		**19,871**	**14,964**		101,515	112,047

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

Sector classification and market value per share are based on the list published by Colombo Stock Exchange.

	31.03.2008			31.03.2007		
	Number of ordinary shares	**Cost* Rs 000**	**Directors' valuation Rs 000**	Number of ordinary shares	Cost* Rs 000	Directors' valuation Rs 000
32.7 Unquoted Ordinary Shares						
Beico Link Carbons (Pvt) Limited	**328,500**	**2,190**	**2,190**	328,500	2,190	2,190
Browns Dimo Industrial Products (Pvt) Limited	**150,000**	**1,500**	**1,500**	150,000	1,500	2,214
Ceylinco Developers Limited	**250,000**	**2,500**	**2,673**	250,000	2,500	5,160
Credit Information Bureau of Sri Lanka	**8,884**	**888**	**888**	8,884	888	888
Cyprea Lanka (Pvt) Limited	**1,500,000**	**15,000**	**15,000**	1,500,000	15,000	15,000
Fitch Ratings Lanka Limited	**62,500**	**625**	**625**	62,500	625	625
Hydrotech Lanka (Dickoya) (Pvt) Limited	**1,834,500**	**4,500**	**4,500**	1,834,500	4,500	4,500
Link Development (Pvt) Limited	**150,000**	**750**	**750**	150,000	750	750
Plastipak Lanka Limited	**240,000**	**2,400**	**2,400**	240,000	2,400	2,400
Ranweli Resorts Limited	**1,616,193**	**10,748**	**12,733**	1,616,193	10,748	19,073
Sampath Centre Limited	**1,000,000**	**10,000**	**10,000**	1,000,000	10,000	10,000
Samson Reclaim Rubbers (Pvt) Limited	**116,700**	**2,334**	**2,334**	116,700	2,334	3,363
Sinwa Holdings Limited	**460,000**	**9,200**	**9,200**	460,000	9,200	9,200
The Video Team (Pvt) Limited	**30,000**	**300**	**300**	30,000	300	300
Wayamba Plantations (Pvt) Limited	**2,750,000**	**9,750**	**9,750**	2,750,000	9,750	9,750
Total unquoted ordinary shares - Bank		**72,685**	**74,843**		72,685	85,413
Investments in unquoted ordinary shares by subsidiaries		**76,455**			59,755	
Total unquoted ordinary shares - Group		**149,140**			132,440	

	31.03.2008		31.03.2007	
	Number of ordinary shares	**Cost* Rs 000**	Number of ordinary shares	Cost* Rs 000
32.7.1 Investments in Unquoted Ordinary Shares by Subsidiaries				
Credit Information Bureau of Sri Lanka	**300**	**30**	300	30
Durdans Heart Surgical (Pvt) Limited	**1,500,000**	**14,625**	1,500,000	14,625
Hayleys Hydro Energy (Pvt) Limited	**5,880,000**	**58,800**	4,410,000	44,100
Lankaclear (Pvt) Limited	**300,000**	**3,000**	100,000	1,000
Total unquoted ordinary shares by subsidiaries		**76,455**		59,755

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

	31.03.2008 Number of shares	31.03.2008 Cost* Rs 000	31.03.2007 Number of shares	31.03.2007 Cost* Rs 000
32.8 Quoted Redeemable Cumulative Preference Shares				
Commercial Bank of Ceylon PLC - 11.25%	**5,000,000**	**50,000**	5,000,000	50,000
Investments in quoted preference shares - Bank		**50,000**		50,000
Market value of quoted preference shares - Bank Rs45 million				
Investments in quoted preference shares - by subsidiaries		**0**		0
Total investments in quoted preference shares - Group		**50,000**		50,000
32.9 Unquoted Preference Shares				
32.9.1 Unquoted Redeemable Cumulative Preference Shares				
Carson Cumberbatch & Company PLC	**17,500,000**	**175,000**	17,500,000	175,000
Dialog Telekom PLC	**470,000,000**	**470,000**		
Eden Hotels Lanka Limited	**6,666,667**	**66,667**	6,666,667	66,667
Heladanavi (Pvt) Limited	**11,666,669**	**116,666**	15,000,001	150,000
Sampath Centre Limited	**0**	**0**	7,500,000	75,000
		828,333		466,667
32.9.2 Unquoted Irredeemable Preference Shares				
Arpico Finance Company PLC	**50,000**	**500**	50,000	500
Total investments in unquoted preference shares - Bank		**828,833**		467,167
Investments in unquoted preference shares by subsidiaries		**222,106**		221,550
Total investments in unquoted preference shares - Group		**1,050,939**		688,717
32.9.3 Investments in Unquoted Preference Shares by Subsidiaries				
Coco Lands Limited	**1,875,000**	**18,750**	1,875,000	18,750
E Services Limited	**2,500,000**	**25,000**	2,500,000	25,000
LVS Energy (Pvt) Limited	**5,000,000**	**50,250**	5,000,000	50,000
Nividhu (Pvt) Limited	**3,280,000**	**32,981**	3,280,000	32,800
Royal Fernwood Porcelain Limited	**2,500,000**	**30,000**	2,500,000	30,000
Tudawe Brothers Limited	**400,000**	**40,000**	400,000	40,000
Unit Energy (Pvt) Limited	**2,500,000**	**25,125**	2,500,000	25,000
		222,106		221,550

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

	31.03.2008 Cost* Rs 000	31.03.2007 Cost* Rs 000
32.10 Quoted Debentures		
Total quoted debentures - Bank	**0**	0
Investments in quoted debentures by subsidiaries	**30,000**	43,500
Total investments in quoted debentures - Group	**30,000**	43,500

Market value of quoted debentures - Group Rs30.2 million

32.10.1 Investments in Quoted Debentures by Subsidiaries

Commercial Bank of Ceylon PLC - 9.39%	**20,000**	20,000
Hatton National Bank PLC - 13.75%	**0**	7,500
Hatton National Bank PLC - 12% (2002/7)	**0**	6,000
Hatton National Bank PLC - 10%	**10,000**	10,000
	30,000	43,500

32.11 Unquoted Debentures

Total investments in unquoted debentures - Bank	**0**	0
Investments in unquoted debentures by subsidiaries	**130,429**	40,072
Total investments in unquoted debentures - Group	**130,429**	40,072

32.11.1 Investments in Unquoted Debentures by Subsidiaries

Alutec Extrusions (Pvt) Limited	**0**	7,500
Ceylon Hospitals PLC	**429**	2,572
Ceylon Hospitals PLC - New project	**100,000**	0
Renuka Agri Foods Limited	**10,000**	10,000
Coco Lanka Limited	**10,000**	10,000
Unit Energy (Pvt) Limited	**10,000**	10,000
	130,429	40,072

* *Cost is reduced by write-off, where appropriate by the diminution in value other than temporary in respect of investments.*

	31.03.2008			31.03.2007		
	Number of units	**Cost * Rs 000**	**Market value Rs 000**	Number of units	Cost * Rs 000	Market value Rs 000
32.12 Investments in Unit Trusts						
NAMAL Flexi Income Fund	**2,512,565**	**25,000**	**25,930**	2,512,565	25,000	25,352
NAMAL Growth Fund	**1,203,050**	**11,947**	**42,564**	1,853,050	18,402	64,542
NAMAL Income Fund	**16,712,129**	**170,624**	**171,466**	15,644,084	159,500	161,916
NAMAL Money Market Fund	**11,471,212**	**115,255**	**119,530**	9,039,553	90,514	93,198
National Equity Fund	**2,640,540**	**28,059**	**40,453**	2,640,540	28,059	39,265
Total investments in unit trusts by Bank		**350,885**	**399,943**		321,475	384,273
Investments in unit trusts by subsidiaries		**50,000**	**50,005**		50,000	51,272
Total investments in unit trusts by Group		**400,885**	**449,948**		371,475	435,545
32.12.1 Investments in Unit Trusts by Subsidiaries						
NAMAL Income Fund	**4,873,740**	**50,000**	**50,005**	4,873,740	50,000	51,272
		50,000	**50,005**		50,000	51,272

** Cost is reduced by write-off, where appropriate by the diminution in value other than temporary in respect of investments.*

33 Investments in Associate Companies

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000
Quoted				
Commercial Bank of Ceylon PLC (Ownership 26.94%-27.11% in 2007)				
Balance on 31 March	**1,549,418**	1,549,418	**4,076,063**	3,716,885
Share of profit after tax	**0**	0	**650,545**	333,587
Loss on deemed reduction in ownership	**0**	0	**(4,814)**	(2,389)
Investments in rights issue	**1,602,541**	0	**1,602,541**	0
Movements recognised in the Statement of Changes in Equity	**0**	0	**29,374**	27,980
Balance on 31 March	**3,151,959**	1,549,418	**6,353,709**	4,076,063
Unquoted				
National Asset Management Limited (Ownership 30%)				
Cost as restated at 31 March	**35,270**	30,185	**39,813**	32,438
Share of profit after tax	**0**	0	2,267	2,290
Cost of acquisition	**0**	5,085	**0**	5,085
Balance on 31 March	**35,270**	35,270	**42,080**	39,813
Total	**3,187,229**	1,584,688	**6,395,789**	4,115,876
Market value of investment in Commercial Bank of Ceylon PLC (Voting & non-voting ordinary shares)	**9,393,452**	8,322,415	**9,393,452**	8,322,415

In terms of Direction No. 1 of 2007 issued by the Central Bank of Sri Lanka to Commercial Banks, DFCC Bank is required to reduce the voting, ordinary shares held in its associate, Commercial Bank of Ceylon PLC to 15 percent on or before 23 October 2008.

The Bank has filed an action against the Monetary Board of the Central Bank of Sri Lanka in the Court of Appeal praying for an order in the nature of a writ compelling the Monetary Board to quash the direction relating to the Bank's investment in associate company or in the alternative to extend the time limit for the reduction in ownership to 23 April 2012. The case is proceeding.

34 Investments in Subsidiary Companies

	DFCC Consulting (Pvt) Limited Ownership 100% Rs 000	DFCC Stock Brokers (Pvt) Limited Ownership 100% Rs 000	DFCC Vardhana Bank Limited Ownership 96% Rs 000	Lanka Industrial Estates Limited Ownership 50% Rs 000	Lanka Ventures PLC Ownership 58% Rs 000	Synapsys Limited Ownership 100% Rs 000	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000
Balance as at 31 March	5,000	15,019	1,428,986	78,283	237,600		**1,764,888**	1,477,310
Investment in rights issue			851,957				**851,957**	285,613
Investments in addtional shares			5,318				**5,318**	
Cost of acquisition						20,000	**20,000**	1,965
Balance on 31 March	5,000	15,019	2,286,261	78,283	237,600	20,000	**2,642,163**	1,764,888
Market value of quoted investments					327,597		**327,597**	334,877

The Bank increased the ownership of DFCC Vardhana Bank Limited from 95.36% to 95.62%, in December 2007.

In terms of Direction No. 1 of 2007 issued by the Central Bank of Sri Lanka to Commercial Banks, DFCC Bank is required to reduce the voting ordinary shares held in its subsidiary, DFCC Vardhana Bank Limited, a Commercial Bank, to 15 percent on or before 23 April 2012.

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000
35 Group Balances Receivable				
DFCC Consultancy (Pvt) Limited	**258**	66	**0**	0
DFCC Stock Brokers (Pvt) Limited	**1,326**	1,051	**0**	0
DFCC Vardhana Bank Limited	**51,932**	6,662	**0**	0
National Asset Management Limited	**1,058**	1,047	**1,058**	1,047
Synapsys Limited	**16,774**	0	**0**	0
	71,348	8,826	**1,058**	1,047
36 Income Tax Refund due				
Income tax overpayment	**0**	0	**4,040**	0
37 Investment Property				
37.1 Composition				
Balance on 31 March	**6,500**	12,180	**131,833**	143,114
Additions during the year	**0**	0	**12,372**	1,871
Less: Depreciation	**0**	0	**6,069**	5,860
Impairment loss	**0**	5,680	**0**	5,680
Transfer/disposals during the year	**0**	0	**955**	1,612
	6,500	6,500	**137,181**	131,833

	Buildings sq. ft.	Extent of Land Perches	Cost Rs 000	Accumulated Depreciation/ Impairment Rs 000	Net Book Value Rs 000	Market Value Rs 000
37.2 List of Investment Property						
586, Galle Road, Colombo 3	0	20	12,180	5,680	6,500	6,500
Pattiwila Road, Sapugaskanda, Makola	280,000	20,000	183,414	52,733	130,681	575,350*
			195,594	58,413	137,181	

* The fair value of investment property as at 31.03.2008 was based on market valuations carried out in 2007 by Mr P B Kalugalagedara, FIV (Sri Lanka), Chartered valuer.

	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
38 Goodwill on Consolidation		
DFCC Vardhana Bank Limited	**146,602**	146,602
DFCC Stock Brokers (Pvt) Limited	**56**	56
	146,658	146,658

No impairment losses.

	Land & building Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
39 Property and Equipment					
39.1 Composition: Bank					
Cost as at 31.03.2007	260,450	426,321	115,253	115,834	917,858
Additions for the year	247	48,476	34,986	50,427	134,136
Less: Disposals during the year	0	1,135	2,537	14,459	18,131
Cost on 31.03.2008	260,697	473,662	147,702	151,802	1,033,863
Accumulated depreciation as at 31.03.2007	102,973	282,580	43,357	96,439	525,349
Charge for the year	8,772	51,467	10,786	16,603	87,628
Less: Accumulated depreciation on disposal	0	1,135	2,537	14,052	17,724
Accumulated depreciation as at 31.03.2008	111,745	332,912	51,606	98,990	595,253
Net book value as at 31.03.2008	**148,952**	**140,750**	**96,096**	**52,812**	**438,610**
Net book value as at 31.03.2007	157,477	143,741	71,896	19,395	392,509

	Building sq. ft.	Extent of land perches	Cost Rs 000	Accumulated depreciation Rs 000	Net book value Rs 000
39.1.1 List of Freehold Land and Building					
73/5, Galle Road, Colombo 3	57,200	104.45	54,510	46,368	7,642
5, Deva Veediya, Kandy	4,600	12.54	12,699	3,991	8,708
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mw., Colombo 2	21,400	45.00	183,609	60,886	122,723
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	0	2,600
			260,697	111,745	148,952

Market Value of Properties

	Rs million	Date of valuation
73/5, Galle Road, Colombo 3	500	31.03.2008
5, Deva Veediya, Kandy	35	31.03.2008
73, W A D Ramanayake Mawatha, Colombo 2	320	31.03.2008

Valued by Mr P B Kalugalagedera - Chartered Valuer

39.2 Composition: Group

	Land & building Rs 000	Plant & machinery Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost as at 31.03.2007	313,028	64,850	563,460	209,765	149,509	1,300,612
Additions for the year	890	0	131,044	112,217	72,319	316,470
Less: Disposals during the year	0	0	1,787	2,609	20,544	24,940
Cost as at 31.03.2008	313,918	64,850	692,717	319,373	201,284	1,592,142
Accumulated depreciation as at 31.03.2007	120,426	60,992	350,799	82,592	111,632	726,441
Charge for the year	11,007	560	80,191	22,970	24,047	138,775
Less: Accumulated depreciation on disposal	0	0	1,258	2,609	18,445	22,312
Accumulated depreciation as at 31.03.2008	131,433	61,552	429,732	102,953	117,234	842,904
Net book value as at 31.03.2008	**182,485**	**3,298**	**262,985**	**216,420**	**84,050**	**749,238**
Net book value as at 31.03.2007	192,602	3,858	212,661	127,173	37,877	574,171

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

40 Intangible Assets (Computer application software)

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Cost as at 31 March	**244,926**	220,440	**558,229**	220,440
Transferred from property and equipment	**0**	0	**0**	173,412
Additions for the year	**19,361**	24,486	**52,403**	164,377
Cost as at 31 March	**264,287**	244,926	**610,632**	558,229
Accumulated depreciation as at 31 March	**165,325**	124,492	**359,462**	124,492
Transferred from property and equipment	**0**	0	**0**	161,055
Amortisation for the year	**45,032**	40,833	**81,063**	73,915
Accumulated amortisation as at 31 March	**210,357**	165,325	**440,525**	359,462
Net Book Value as at 31.03.2008	**53,930**	79,601	**170,107**	198,767

41 Deferred Tax Asset

	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Balance on 31 March	**137,490**	160,020
Reversal	**(53,919)**	(22,530)
	83,571	137,490

42 Other Assets

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Refundable deposits and advances	**44,388**	107,645	**68,213**	136,440
Dividend due	**33,909**	3,865	**35,472**	3,865
Reimbursement of exchange loss due from Government of Sri Lanka	**453,609**	350,066	**453,898**	350,066
Debtors	**432,788**	451,843	**1,112,028**	865,072
	964,694	913,419	**1,669,611**	1,355,443

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

43 Deposits

Demand deposits	**0**	0	**594,987**	533,406
Savings deposits	**0**	0	**1,359,713**	969,400
Fixed deposits	**5,096,374**	13,521,710	**14,087,966**	19,062,298
Certificates of deposits	**15,143**	50,861	**48,683**	123,574
Others	**0**	0	**261,294**	128,006
	5,111,517	13,572,571	**16,352,643**	20,816,684
Deposits from banks	**356,425**	691,311	**1,181,485**	1,896,535
Deposits from non-bank customers	**4,633,558**	11,799,061	**14,975,204**	17,811,342
Deposits from finance companies	**121,534**	1,082,199	**195,954**	1,108,807
	5,111,517	13,572,571	**16,352,643**	20,816,684

44 Borrowing - Medium and Long-Term

44.1 Borrowing

Repayable in Foreign currency				
European Investment Bank (EIB) (US$18 m)	**1,991,773**	2,007,471	**1,991,773**	2,007,471
Direct Loans (US$9 m)	**973,050**	1,146,891	**973,050**	1,146,891
(Accounting policy Note 6.2.9.1)	**2,964,823**	3,154,362	**2,964,823**	3,154,362
Differences in exchange rates to GOSL				
(Accounting Policy Note 6.2.9.2)				
Floating rate notes (US$65 m)	**4,339,732**	4,339,732	**4,339,732**	4,339,732
Government of Sri Lanka / ADB Loans-credit lines (JPY 605 million)	**344,523**	344,523	**344,523**	344,523
Payable in Rupees				
Government of Sri Lanka / IDA loans - credit lines	**2,029,670**	2,007,661	**2,029,670**	2,007,661
Government of Sri Lanka / ADB loans - credit lines	**3,174,374**	2,838,851	**3,174,374**	2,838,851
Government of Sri Lanka / KfW loans - credit lines	**2,893,589**	3,454,618	**2,893,589**	3,454,618
Government of Sri Lanka / JBIC loans - credit lines	**2,811,906**	2,256,162	**2,811,906**	2,256,162
Government of Sri Lanka / IFAD loans - credit line	**25,796**	28,506	**25,796**	28,506
Government of Sri Lanka / GOI loans	**34**	2,477	**34**	2,477
European Investment Bank (EIB)	**7,099,378**	3,476,363	**7,099,378**	3,476,363
Central Bank of Sri Lanka re-finance loans (secured)	**1,689,464**	1,954,132	**1,689,464**	1,954,132
Local borrowing	**6,250,000**	6,500,000	**6,250,000**	6,500,000
	33,623,289	30,357,387	**33,623,289**	30,357,387

44.2 Supplementary Information

(As required under DFCC Act No. 35 of 1955)

Government of Sri Lanka has approved and guaranteed in terms of Section 14 of DFCC Act No. 35 of 1955 borrowing by the Bank from FMO, DEG and capital market sources.

Government of Sri Lanka has guaranteed the bi-annual interest payment to floating rate note holders for the entire 10 year period.

Government of Sri Lanka has issued a counter indemnity to ADB for the principal amount of floating rate notes guaranteed by ADB.

No new guarantees have been issued during year ended 31 March 2008.

Both IDA and ADB provide credit lines denominated in Special Drawing Rights to the Government of Sri Lanka which, as the principal borrower, re-lends to the Bank to refinance direct lending operations. The Bank repays to the Government of Sri Lanka in Rupees.

44.3 Assets Pledged as Security

Nature	Amount Rs 000
Assignment in terms of Section 88A of the Monetary Law of Loans refinanced by Central Bank	1,689,464

Acronyms:

ADB	-	Asian Development Bank
IDA	-	International Development Association
KfW	-	Kreditanstalt fur Wiederaufbau
JBIC	-	Japan Bank for International Cooperation Fund
GOI	-	Government of India
IFAD	-	International Fund for Agriculture Devolopment

44.4 Statutory Obligation of Government of Sri Lanka (GOSL)

Pursuant to obligations assumed by GOSL under loan agreements, GOSL is liable to pay all amounts arising from differences in exchange rates on the US$65 million floating rate note issued in 1998 and US$5 million loan obtained from the Asian Development Bank in 1999, repayable in December 2008 and April 2009 respectively.

GOSL has paid Rs1,037 million towards these liabilities up to 31 March 2008. The shortfall based on exchange rate that prevailed on 31 March 2008 was Rs1,880 million, GOSL has made the required allocation in the budgetary estimates of expenditure for 2008.

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

45 Borrowing - Short-Term

Borrowing under repurchase agreements (Repos)				
Government securities sold under repurchase	**1,709,172**	222,673	**2,231,037**	356,099
Other securities sold under repurchase	**662,540**	392,099	**662,540**	392,099
	2,371,712	614,772	**2,893,577**	748,198
Bank overdrafts	**14,232**	0	**19,796**	55,628
Inter-bank borrowing	**1,771,000**	925,000	**2,187,255**	2,021,276
	4,156,943	1,539,772	**5,100,628**	2,825,102

46 Debentures

Balance on 31 March	**2,000,000**	2,000,000	**2,000,000**	2,000,000
Issued during the year	**700,000**	0	**700,000**	0
	2,700,000	2,000,000	2,700,000	2,000,000

Unsecured debentures have been issued to provident funds. These debentures have been issued in the ordinary course of business of the Bank to supplement other financial resources.

47 Deferred Tax Liability

Balance on 31 March	**363,842**	376,555	**363,843**	376,556
Impact on rate increase	**0**	62,863	**0**	62,864
Reversal	**(113,219)**	(75,576)	**(113,219)**	(75,577)
	250,623	363,842	**250,624**	363,843

48 Other Liabilities

Accruals	**53,564**	43,669	**143,416**	87,118
Prior year dividends	**14,093**	12,124	**16,969**	13,850
Security deposit for leases	**7,349**	9,729	**53,408**	52,459
Provision	**171,197**	136,945	**201,067**	161,014
Prepaid loan and lease rentals	**87,701**	110,349	**87,701**	110,349
Account payables	**158,181**	191,460	**852,172**	680,592
	492,085	504,276	**1,354,733**	1,105,382

48.1 Composition of Provision

Retirement benefit - funded	**26,465**	21,972	**26,465**	21,972
- unfunded	**21,915**	16,935	**21,915**	16,935
End of service gratuity	**4,449**	3,920	**17,619**	13,264
Others	**118,368**	94,118	**135,068**	108,843
	171,197	136,945	**201,067**	161,014

48.2 Movement in Provision

Balance on 31 March	**136,945**		**161,014**	
Add: Provision for the year	**215,742**		**235,000**	
Less: Payments	**181,490**		**194,947**	
	171,197		**201,067**	

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

49 Subordinated Debentures

Listed in the Colombo Stock Exchange	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Private placement	**1,000,000**	1,000,000	**1,000,000**	1,000,000
	2,000,000	2,000,000	**2,000,000**	2,000,000

50 Share Capital

50.1 Authorised Share Capital

500,000,000 ordinary shares	**5,000,000**	5,000,000	**5,000,000**	5,000,000

50.2 Issued share capital

130,195,603 ordinary shares	**1,301,956**	865,565	**1,301,956**	865,565
Alloted and Fully Paid				
Balance on 31 March 86,556,537 ordinary shares (57,590,822 shares in 2006)	**865,565**	575,908	**865,565**	575,908
Rights issue in May 2007, 1 for every 4 held, 21,639,134 ordinary shares	**216,391**		**216,391**	
Bonus share issue in June 2007 1 for every 5 held, 21,639,765	**216,398**	287,978	**216,398**	287,978
Issue under share option - 3,571,000 ordinary shares (167,891 shares in 2007)	**3,602**	1,679	**3,602**	1,679
Balance on 31 March 130,195,603 ordinary shares (86,556,537 shares in 2007)	**1,301,956**	865,565	**1,301,956**	865,565

Ordinary shares held by associate on 31 March 2008
Commercial Bank of Ceylon PLC - 20,588

By Section 7 of the DFCC Bank Act No. 35 of 1955 as amended, the Authorised Capital of the Bank and the value of a share is fixed at Rs5,000 million and Rs10/- respectively. As such Section 49 (4) of the Companies Act which dispenses with the previous requirement for a share issued by a company to have a nominal or par value, does not apply to the Bank.

Thus, the financial statements of the Bank has retained the concept of par value, Authorised Capital and Share premium account instead of the stated capital introduced by the Companies Act No. 7 of 2007.

50.3 Employee Share Option Plan

	31.03.2008 Numbers	31.03.2007 Numbers
50.3.1 Movement in Options Granted		
Options granted in respect of:		
31.03.2002	**634,631**	634,631
31.03.2003	**634,628**	634,628
31.03.2004	**857,162**	857,162
31.03.2005	**Nil**	Nil
31.03.2006	**89,119**	89,119
Adjustment for bonus shares issue on		
12.02.2004	**230,906**	230,906
30.06.2006	**710,036**	710,036
Adjustment for rights and bonus shares issue on		
30.06.2007	**981,878**	–
	4,138,360	3,156,482
Options lapsed	**(28,318)**	(28,207)
Total granted	**4,110,042**	3,128,275
Options exersised:		
During year to		
31.03.2004	**(548,256)**	(548,256)
31.03.2005	**(267,460)**	(267,460)
31.03.2006	**(177,539)**	(177,539)
31.03.2007	**(167,891)**	(167,891)
31.03.2008	**(360,167)**	–
Options outstanding on 31.3.2008	**2,588,729**	1,967,129

	31.03.2008		31.03.2007		
	Number	Exercise Price Rs	Number	Exercise Price Rs	Expiry date
50.3.2 Composition					
Options granted in year to 31.03.2002	**0**		32,538	77.80	19.07.2007
31.03.2003	**527,369**	**53.08**	556,191	67.75	30.06.2008
31.03.2004	**1,860,906**	**110.48**	1,244,740	141.03	30.06.2009
31.03.2006	**200,454**	**117.46**	133,660	149.95	02.07.2011
	2,588,729		1,967,129		

51 Reserves

51.1 Reserve Fund

This is a statutory reserve created as per direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

51.2 Other Reserve

	Sinking fund Rs 000	Revenue reserve Rs 000	Foreign currency reserve Rs 000	Primary dealer special risk reserve Rs 000	Total **31.03.2008** **Rs 000**	Total 31.03.2007 Rs 000
Bank						
Balance as at 31 March	3,372,664	3,233,584			**6,606,248**	6,065,137
Transfers from retained earnings brought forward	60,795				**60,795**	
Transfers from current earnings	595,000	720,000			**1,315,000**	541,111
Balance as at 31 March	4,028,459	3,953,584			**7,982,043**	6,606,248
Group						
Balance as at 31 March	3,372,664	5,254,420	(112,771)	1,682	**8,515,995**	7,894,400
Capital Redemption Reserve Fund of associate company (CRRF)					**245,725**	
Balance on 31 March 2007					**8,761,720**	
Capitalisation of CRRF in associate company					**(169,153)**	
Share issue expenses written-off - assocaite company		(22,179)			**(22,179)**	(948)
Deferred tax effect on revaluation surplus on property - associate company		(29,418)			**(29,418)**	
Realised revaluation surplus on dispsal of property - associate company		(399)			**(399)**	
Surplus on revaluation property - associate company		84,051			**84,051**	
Currency translation gain/loss overseas operations - associate company			(3,081)		**(3,081)**	(3,164)
Appreciation in the value of investment in Comtrust Equity Fund - associate company						32,092
Transfers from Current earning	595,000	1,264,835		4,692	**1,864,527**	839,340
Transfers from Retained earnings brought forward	60,795				**60,795**	
Transfer from CRRF		76,572				
Balance as at 31 March	4,028,459	6,627,882	(115,852)	6,374	**10,546,863**	8,761,720

51.2 Other Reserve *(Contd.)*

51.2.1 Sinking Fund Reserve

This is a non-distributable reserve augmented annually by the appropriation of profit after tax in each financial year. The equivalent amount of the reserve is invested in Government securities. The annual appropriation and investment in Government securities is intended to provide funds for the repayment of the liability of US$70 million in 2008 at the original rate of exchange. The difference between the rate of exchange at the time of repayment in 2008 and this fund is borne by the Government of Sri Lanka.

The annual amount appropriated and the investment in Government securities is in accordance with the loan covenants in respective of loan agreements.

51.2.2 Capital Redemption Reserve

Closed by transfer of Rs77 million to Revenue reserve and capitalisation of the balance to issue bonus shares.

51.2.3 Foreign Currency Translation Reserve

This represents the loss on the translation of the financial statements of the Bangladesh operations.

51.2.4 Primary Dealer Special Risk Reserve

This comprises 25% of the post tax profit of the primary dealer unit of Commercial Bank of Ceylon PLC as per the direction issued by Central Bank of Sri Lanka.

51.3 Retained Earnings

51.3.1 This represents cumulative net earnings, inclusive of proposed dividend amounting to Rs651 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2008. The balance is retained and reinvested in the business of the Bank.

52 Minority Interests

Minority interests represent the portion of equity interests that are not owned, directly or indirectly through subsidiaries, by the Bank.

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000

53 Contingent Liabilities and Commitments

53.1 Contingent Liabilities

	Bank		Group	
	31.03.2008 Rs 000	31.03.2007 Rs 000	**31.03.2008 Rs 000**	31.03.2007 Rs 000
Guarantees issued to:				
DFCC Vardhana Bank in respect of indebtedness of customers of the Bank	**375,176**	221,500	**0**	0
Other banks in respect of indebtedness of customers of the Bank	**206,559**	118,584	**466,894**	118,584
Companies in respect of indebtedness of customers of the Bank	**614,955**	732,735	**3,662,198**	2,746,214
Principal collector of customs (duty guarantees)	**0**	349	**17,045**	5,769
Third parties as security for commerical paper issued by customers of the Bank	**0**	358,782	**0**	358,782
Documentry credits	**0**	0	**1,529,287**	2,120,573
Bills for collection	**0**	0	**872,454**	165,403
Income tax*	**0**	0	**235,549**	235,549
Forward exchange contracts (net)	**0**	0	**128,585**	227,953
53.2 Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	**6,068,401**	9,770,253	**6,870,543**	10,643,814
Capital expenditure approved by the Board of Directors				
Contracted	**22,003**	5,795	**54,406**	12,057
Not contracted	**23,592**	22,000	**101,498**	70,215
	7,310,686	11,229,998	**13,938,459**	16,704,913

** The contingent liability of Lanka Ventures PLC was Rs235,548,863 inclusive of a penalty of Rs79,768,400 for years of assessment 1994/95 and 2001/02. The Company has lodged appeals against the assessment and initiated action in Court of Appeal seeking a writ of certiorari to quash the assessment and seek other interim reliefs. The Court of Appeal has issued an Interim Restraining Order to prevent recovery of tax in default.*

Commissioner General of Inland Revenue has dismissed the appeal by the Company and the Company instituted further action in the Court of Appeal for writ of certiorari to quash the said determination and seeking interim relief by way of Stay Order to prevent further action being taken on the determination. On 25 June 2007 the Court of Appeal granted a Stay Order operative till order is delivered by Court in the former case. The matter is fixed for argument in Court on 30 May 2008.

54 Litigation

Litigations against the Bank

1. The Bank has appealed to the Supreme Court to set aside an Order given by the High Court confirming an award of Rs1,132,518 granted to an ex-employee by the Labour Tribunal.

2. Three legal actions were filed against the Bank and several other defendants in the District Court of Colombo in 2005 praying:

   (a) for a determination that the Bank's holding of voting shares in the Commercial Bank of Ceylon PLC aggregated with the other shareholders who are cited as defendants cannot exceed shareholding; and
   (b) to reduce the said named defendants' shareholding to a maximum of 10% by selling the excess shareholding; and
   (c) for an Enjoining Order restricting the presence and voting by the Bank with the other named shareholders to 10%.

   The District Court dismissed the petitions and the Petitioners have appealed against the judgement. However, interim stay order issued by the Court of Appeal in 2005 restricting the Bank and other Defendant shareholders to aggregate presence and voting rights of 10% continues to be in force until the appeals are decided. The Bank is defending the actions.

3. Legal actions in the nature of Writs have been filed by a shareholder of Commercial Bank of Ceylon PLC and another in the Court of Appeal in 2007 against the Monetary Board and others including DFCC Bank to order the Monetary Board to issue a Direction compelling DFCC Bank together with four other shareholders to reduce their aggregate voting shareholding in Commercial Bank of Ceylon PLC to a level not exceeding 10% within a period of 18 months. The Bank intends opposing the actions.

4. An action has been filed Supreme Court by a person against 51 respondents including DFCC Bank on an alleged infringement of a fundamental right and seeking an order of the Court to declare the sale in 2002 of 90% of shares owned in Lanka Marine Services Limited by the Government as null and void. No specific relief has been sought against DFCC Bank in this application. The Bank has made oral and written submissions to Court clarifying its role in this transaction. Judgement is pending.

55 Maturity Profile of Assets and Liabilities

55.1 Definition of Maturity

55.1.1 Time interval between balance sheet date and contractual maturity date, as defined in Sri Lanka Accounting Standard 23, 'Revenue Recognition and Disclosures in the financial statements of Banks', in respect of assets and liabilities with contractual maturity dates.

55.1.2 Time interval between balance sheet date and expected date of realisation of assets and repayment of liabilities as defined by Central Bank of Sri Lanka for assets and liabilities with no contractual maturity dates.

55.2 Allocation of Amounts

Amounts are allocated to respective maturity groupings based on:

(a) instalments falling due as per contracts, for assets and liabilities with a contractual maturity dates; and

(b) expected dates of realisation of an asset and expected dates of repayments of liabilities, for assets and liabilities with no contractual maturity dates.

The amounts allocated represent the total amount receivable or payable in each maturity grouping.

55.3 Profile

	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
55.3.1 Bank											
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	**1,562,410**	1,184,935	76	377,475	24	–	–	–	–	–	–
Treasury bills & other securities	**6,419,940**	3,539,142	55	2,329,749	36	551,049	9	–	–	–	–
Securities purchased under resale agreements	**208,000**	208,000	100	–	–	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	**1,578,595**	5,316	–	13,509	1	573,901	36	390,809	25	595,060	38
Loans	**37,255,598**	3,916,415	10	8,004,344	21	15,900,932	43	7,731,436	21	1,702,471	5
Leases	**6,481,118**	568,828	9	1,690,730	26	3,368,461	52	639,151	10	213,948	3
	53,505,661	9,422,636	18	12,415,807	23	20,394,343	38	8,761,396	16	2,511,479	5
Other Assets											
(Non-interest bearing assets)											
Cash and balance with banks	**142,135**	142,135	100		–		–		–		–
Dealing Securities	**17,591**	17,591	100		–		–		–		–
Interest receivable	**604,343**	592,316	98	10,707	2		–	1,320	–		–
Investment securities											
Ordinary shares/units	**800,994**	–	–	–	–	–	–	–	–	800,994	100
Preference shares	**878,833**	147,000	17	93,750	10	385,917	44	251,666	29	500	–
Debentures											
Investment in associate companies	**3,187,229**	–	–	–	–	–	–	–	–	3,187,229	100
Investment in subsidiary companies	**2,642,163**	–	–	–	–	–	–	–	–	2,642,163	100
Group balances recievable	**71,348**	71,348	100	–	–	–	–	–	–	–	–
Prepayments	**45,353**	2,032	4	31,127	69	8,129	18	4,065	9	–	–
Other receivables	**964,694**	964,694	100	–	–	–	–	–	–	–	–
Investment property	**6,500**	–	–	–	–	–	–	–	–	6,500	100
Property, plant & equipment	**438,610**	–	–	–	–	–	–	–	–	438,610	100
Intangible assets	**53,930**	–	–	–	–	–	–	–	–	53,930	100
	9,853,723	1,937,116	20	135,584	1	394,046	4	257,051	3	7,129,926	72
Total assets	**63,359,384**	11,359,752	18	12,551,391	20	20,788,389	33	9,018,447	14	9,641,405	15
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	**5,111,517**	3,227,052	63	1,174,633	23	138,723	3	566,284	11	4,825	–
Medium and long-term	**33,623,289**	1,094,578	3	12,325,099	37	5,251,067	16	5,443,685	16	9,508,860	28
Short-term	**4,156,943**	4,109,108	99	47,835	1	–	–	–	–	–	–
Debentures	**2,700,000**	–	–	–	–	1,000,000	37	1,700,000	63	–	–
Subordinated debentures	**2,000,000**	–	–	–	–	410,000	20	1,000,000	50	590,000	30
	47,591,759	8,430,738	18	13,547,567	29	6,799,790	14	8,709,969	18	10,103,685	21
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	**1,131,697**	1,131,697	100	–	–	–	–	–	–	–	–
Taxation	**132,130**	132,130	100	–	–	–	–	–	–	–	–
Deferred taxation	**250,623**	–	–	–	–	–	–	250,623	100	–	–
Other liabilities	**492,085**	492,085	100	–	–	–	–	–	–	–	–
	2,006,535	1,755,912	100	–	–	–	–	250,623	100	–	–
Total liabilities	**49,598,284**	10,186,650	21	13,547,567	27	6,799,790	14	8,960,592	18	10,103,685	20

	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
55.3.2 Group											
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	**2,541,035**	2,163,560	85	377,475	15	–	–	–	–	–	–
Treasury bills & other securities	**7,492,985**	3,877,752	52	2,792,684	37	822,549	11	–	–	–	–
Securities purchased under resale agreements	**753,256**	750,021	100	3,235	–	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	**1,471,654**	6,875	–	27,009	2	451,901	31	390,809	27	595,060	40
Bills of exchange	**492,668**	420,044	85	72,624	15	–	–	–	–	–	–
Loans	**47,960,790**	9,375,322	19	12,244,912	26	16,583,693	35	7,943,691	17	1,813,172	3
Leases	**6,481,118**	568,828	9	1,690,730	26	3,368,461	52	639,151	10	213,948	3
	67,193,506	17,162,402	24	17,208,669	26	21,226,604	32	8,973,651	14	2,622,180	4
Other Assets											
(Non-interest bearing assets)											
Cash and balance with Banks	**1,160,984**	1,160,984	100	–	–	–	–	–	–	–	–
Dealing securities	**17,591**	17,591	100	–	–	–	–	–	–	–	–
Balances with Central Bank	**611,301**	611,301	100	–	–	–	–	–	–	–	–
Interest receivable	**700,206**	643,052	93	30,779	4	16,900	2	6,680	1	2,795	–
Investment securities											
Ordinary shares/units	**921,967**	1,160	–	12,108	1	–	–	–	–	908,699	99
Preference shares	**1,100,938**	147,000	13	140,000	13	434,667	39	251,667	23	127,605	12
Debentures	**160,429**	107	–	38,447	24	17,500	11	35,625	22	68,750	43
Investment in associate companies	**6,395,789**	–	–	–	–	–	–	–	–	6,395,789	100
Group balances receivable	**1,058**	1,058	100	–	–	–	–	–	–	–	–
Prepayments	**45,353**	1,603	4	31,556	69	8,129	18	4,065	9	–	–
Income tax receivable	**4,040**	4,040	100	–	–		–	–	–	–	–
Investment property	**137,181**	–	–	–	–	–	–	–	–	137,181	100
Goodwill on consolidation	**146,658**	–	–	–	–	–	–	–	–	146,658	100
Property, plant & equipment	**749,238**	–	–	–	–	–	–	–	–	749,238	100
Intangible assets	**170,107**	–	–	–	–	–	–	–	–	170,107	100
Deferred tax asset	**83,571**	–	–	–	–	83,098	99	473	1	–	–
Other assets	**1,669,611**	1,609,687	96	27,154	2	22,829	1	–	–	9,941	1
	14,076,022	4,197,583	35	280,044	2	583,123	4	298,509	2	8,716,763	58
Total assets	**81,269,528**	21,359,985	26	17,488,713	22	21,809,727	27	9,272,160	11	11,338,943	14
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	**16,352,643**	9,604,965	59	5,937,696	36	205,159	1	599,998	4	4,825	–
Medium and long-term	**33,623,289**	1,203,071	4	12,216,606	36	5,251,067	16	5,443,685	16	9,508,860	28
Short-term	**5,100,628**	4,998,825	98	101,803	2	–	–	–	–	–	–
Debentures	**2,700,000**	–	–	–	–	1,000,000	37	1,700,000	63	–	–
Subordinated debentures	**2,000,000**	–	–	–	–	410,000	20	1,000,000	50	590,000	30
	59,776,560	15,806,861	26	18,256,105	31	6,866,226	11	8,743,683	15	10,103,685	17
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	**1,396,777**	1,396,777	100	–	–	–	–	–	–	–	–
Taxation	**197,147**	180,786	92	16,361	8	–	–	–	–	–	–
Deferred taxation	**250,624**	–	–	–	–	–	–	250,624	100	–	–
Other liabilities	**1,354,733**	1,084,669	80	248,882	18	11,110	2	6,209	–	3,863	–
	3,199,281	2,662,232	83	265,243	9	11,110	–	256,833	8	3,863	–
Total liabilities	**62,975,841**	18,469,092	30	18,521,348	29	6,877,336	11	9,000,517	14	10,107,548	16

56 Concentration of Assets and Liabilities

56.1 Concentration in the Distribution of Assets

56.1.1 In order to minimise potential risks inherent in the realisation of assets, the Bank adhere to prudential exposure limits on customer and industry groups.

56.1.2 ***Industry wise Distribution of main Assets are given below:***

Industry Sector	**2008 %**	2007 %
Agriculture, forestry and fishing	**7.7**	8.4
Mining and quarrying	**1.1**	1.2
Manufacture of food, beverages and tobacco	**9.7**	10.3
Manufacture of textiles	**0.9**	1.0
Manufacture of wearing apparel excluding footwear	**1.3**	1.6
Manufacture of leather and leather products including footwear	**0.3**	0.4
Wood and manufacture of wood products	**1.3**	1.1
Manufacture of paper products, printing, publishing and packaging	**3.6**	3.1
Manufacture of chemical and chemical products	**1.1**	1.1
Manufacture of rubber products	**3.0**	3.8
Manufacture of plastic products	**2.0**	1.5
Manufacture of non-metallic mineral products	**5.7**	4.9
Basic metal products	**0.5**	0.8
Manufacture of fabricated metal products, machinery and equipment	**1.6**	1.6
Electricity, gas and water industries	**5.2**	5.6
Construction industries	**4.5**	4.6
Trade	**14.9**	15.5
Hotels and restaurants	**3.2**	3.4
Transport, storage and communications	**10.6**	8.7
Financing, insurance, real estate and business services	**15.7**	17.0
Community, social and personal services	**6.1**	4.4
	100.0	100.0

Composition of Assets	**Rs m**	Rs m
Loans*	**38,606**	38,289
Leases	**6,481**	7,545
Investment securities	**1,679**	1,260
Dealing securities	**18**	26
	46,784	47,120

* *Including loans to banks & excluding staff loans.*

56.2 Composition of Liabilities is given in Note 44.

57 Non-Performing Loans, Leases and Bills

	Bank				Group			
	31.03.2008 Rs 000	%	31.03.2007 Rs 000	%	31.03.2008 Rs 000	%	31.03.2007 Rs 000	%
Loans and advances	**2,202,457**		1,694,213		**2,935,892**		2,260,857	
Finance leases	**682,877**		422,920		**682,877**		422,920	
Bills of exchange discounted	**5,640**		5,640		**62,375**		17,704	
Gross exposure	**2,890,974**	**6.2**	2,122,773	4.5	**3,681,144**	**6.4**	2,701,481	4.9
Less: Interest in suspense included in overdrafts	**0**		0		**74,254**		110,561	
Net non-performing loans, advances, leases and bills	**2,890,974**	**6.2**	2,122,773	4.5	**3,606,890**	**6.2**	2,590,920	4.7
Less: Provision for bad and doubtful debts	**702,118**		612,181		**834,198**		700,017	
Net exposure	**2,188,856**	**4.7**	1,510,592	3.2	**2,772,692**	**4.8**	1,890,903	3.4
Net of tangible securities	**312,653**		257,091		**661,246**		497,951	

Percentage relates to the ratios of non-performing credit exposure to the total credit exposure computed on gross and net basis.

57.1 Provision for Bad and Doubtful Debt

	Bank 31.03.2008 Rs 000	Bank 31.03.2007 Rs 000	Group 31.03.2008 Rs 000	Group 31.03.2007 Rs 000
Loans and advances	**703,244**	655,240	**861,635**	770,278
Finance leases	**206,253**	195,557	**206,253**	195,557
Bills of exchange discounted	**5,640**	5,640	**10,000**	5,755
	915,137	856,437	**1,077,888**	971,590
Less: Provisions relating to facilities currently performing				
Loans and advances	**204,142**	234,886	**234,813**	262,203
Finance leases	**8,877**	9,370	**8,877**	9,370
	213,019	244,256	**243,690**	271,573
Provision relating to non-perfoming facilities	**702,118**	612,181	**834,198**	700,017

57.2 The realisable value of tangible securities is computed in accordance with the hair cut rule prescribed by the Central Bank of Sri Lanka. Effective from 1 January 2004 Central Bank of Sri Lank requires the application of prescribed discounts given below, to the forced sale value based on age of arrears of loans, finance leases, bills of exchange and other credit facilities for the purpose of determining the net exposure at risk.

Age of Arrears	Applicable Discount Percentage on the Forced Sale Value
6-30 months	25%
Over 30 months and below 42 months	40%
Over 42 months and below 54 months	50%
Over 54 months and below 66 months	60%
Over 66 months	At the discretion of the management

58 Related Party Transactions

58.1 Entities in which Directors of the Bank have significant influence

Listed below are the companies in which a Director of the Bank has a significant influence. In all instances the significant influence arrises from representation on the Board of Directors and not from substantial shareholding. All advances are performing advances.

58.1.1. Financial Accommodation

Party Accommodated	Name of Director/ Position	Aggregate Amount of Accommodation Approved Rs m	Outstanding as at 31.03.2008 Rs m	Nature of Transaction	Security
Ace Exports (Pvt) Limited	J M S Brito Chairman	145.00	117.38	Term loan	Movable property
		145.00	117.38		
Ace Power Embilipitya (Pvt) Limited	J M S Brito Chairman	431.40	280.41	Term loan (US$)	Immovable & movable property
		431.40	280.41		
Ace Power Generation Horana (Pvt) Limited	J M S Brito Chairman	68.00	20.40	Debenture loan	Immovable & movable property
		68.00	20.40		
Ace Power Generation Matara (Pvt) Limited	J M S Brito Chairman	59.75	59.75 *	Guarantee	Immovable & movable property
		59.75	59.75		
AEN Palm Oil Processing (Pvt) Limited	J M S Brito Director	85.00	72.18	Term loan	Immovable & movable property
		85.00	72.18		
Agarapatana Plantations Limited	C P R Perera Director	173.41	89.85	Term loan	Immovable property
		173.41	89.85		
Aitken Spence Plantation Management Limited	J M S Brito Chairman	50.00	0.00	Term loan	Movable property
		50.00	0.00		
Elpitiya Plantations Limited	J M S Brito Chairman	354.93	209.34	Term loan	Immovable property
		354.93	209.34		
Kotagala Plantations Limited	C P R Perera Director	200.19	108.28	Term loan	Immovable property
		7.47	4.82	Term loan	Corporate guarantee
		207.66	113.10		
National Asset Management Limited	A N Fonseka Director A M de S Jayaratne Director	1.59	0.21	Lease	Lease asset
		1.59	0.21		
Palm Village Hotels Limited	J M S Brito Director	10.00	5.96	Term loan	Immovable property
		10.00	5.96		
Singer (Sri Lanka) Limited	A M de S Jayaratne Director	700.00	625.00	Debenture loan	
		700.00	625.00		
The Lanka Hospital Corporation (Pvt) Limited	A M de S Jayaratne Director	67.33	67.33 *	Guarantee	Immovable & movable property
		67.33	67.33		

** Only indirect accommodation.*

58.1.2 *Other Transactions*

Name of Related Party	Name of Director	**Amount 2008 Rs**	Nature of Transaction
Colombo Stock Exchange	A N Fonseka	**35,920**	Registration Fee and Subscription
Credit Information Bureau of Sri Lanka	A N Fonseka	**1,414,977**	Listing Fee and Subscription
National Institute of Business Management	A N Fonseka	**13,500**	Staff training
Central Depository Systems (Pvt) Limited	A N Fonseka	**39,330**	Service Charges
Elevators (Pvt) Limited	J M S Brito	**146,809**	Maintenance
Aitken Spence Overseas Travel Services (Pvt) Limited	J M S Brito	**121,418**	Purchase of Air Tickets
Ace Printing and Packaging (Private) Limited	J M S Brito	**1,210,203**	Printing
Emsolve Consultants (Pvt) Limited	D S Weerakkody	**8,000**	Staff Training
CIMA Sri Lanka Division	D S Weerakkody	**253,500**	Staff Development

58.1.3 *Investments*

Company	Name of Director/Position	As at 31.03.2008 Ordinary Shares Unquoted Rs 000	Preference Shares Quoted Rs 000
Credit Information Bureau of Sri Lanka	A N Fonseka - Director	888	–
Commercial Bank of Sri Lanka PLC	D S Weerakkody - Director A N Fonseka - Director	–	50,000

58.2 Transactions with Subsidiary Companies

58.2.1 *Financial Accommodation*

Company	Facility Type	Terms	Facility Limit Rs 000	Balance on 31March 2008 Rs 000
DFCC Vardhana Bank	Subordinated loan	Repayable in 5 years from the date of utilisation at the rate of 11% per annum	122,000	122,000
	Short-term loan	Each tranch is repayable in 3 months after the date of utilisation and interest rate based on Interbank Rate plus a premium determined at the date of utilisation.	878,000	0
	Medium-term loan	Each tranch is repayable in 5 years from the date of utilisation and interest repriced quarterly based on Sri Lanka Interbank Offer Rate plus a premium		
	Guarantee facility to secure borrowings by the Bank	Guarantee commission is 0.5% per annum		

58.2.1.1 The Bank has Rs1,562 million in call deposits with DFCC Vardhana Bank Limited.

58.2.2 *Other Transactions*

58.2.2.1 Payments made by Subsidiaries

	DFCC Consulting (Pvt) Limited Rs 000	DFCC Stock Brokers (Pvt) Limited Rs 000	Synapsys Limited Rs 000	DFCC Vardhana Bank Limited Rs 000
Rent	375	2,111	1,155	14,052
Other fees	–	–	–	10,024
Reimbursement of employee cost	–	–	8,659	26,468
Reimbursement of utilities	741	3,459	17,223	59,157

58.2.2.2 Payments made to Subsidiaries

	Lanka Industrial Estate Limited Rs 000	Synapsys Limited Rs 000
Rent	1,223	–
IT Related services	–	24,160

58.3 Transactions with Associate Companies

58.3.1 *Payments made by Associates*

	National Asset Management Limited Rs 000
Rent	1,384
Reimbursement of Utilities	1,726

58.3.2 *Payments made to Associates*

	National Asset Management Limited Rs 000
Other fees	625

58.4 Transactions with Key Management Personnel

58.4.1 Key Management Personnel

Consequent to the direction on Corporate Governance issued by Central Bank the Board of Directors reviewed and expanded the number of key management personnel. Currently the key management personnel are the Board of Directors of the Bank, Chief Executive Officer, Executive Vice-Presidents, Senior Vice President - Treasury, Senior Vice-President - Operations, Senior Vice-President - Group, Chief Information Officer and the Secretary to the Board for the purpose of Sri Lanka Accounting Standard on Related Party Disclosures.

58.4.2 Compensation of Directors and other Key Management Personnel

		Bank		Group	
For the year ended 31 March		**2008 Rs 000**	2007 Rs 000	**2008 Rs 000**	2007 Rs 000
Number of persons		**17**	17	**37**	37
Short-term employee benefits		**64,259**	52,057	**82,236**	65,303
Post employment benefits	- pension	**12,852**	12,264	**14,052**	13,304
	- others	**6,127**	5,553	**7,327**	6,593
		83,238	69,874	**103,615**	85,200

Post employment benefits are the expenses recognised in the income statement to provide a pension and other retirement benefits (end of service gratuity payable to employees not eligible for pension, defined contribution to Employees Provident Fund/Mercantile Service Provided Fund Society and Employees Trust Fund by the employer).

58.4.3 Share Based Payments to Key Management Personnel – Bank

Key management personnel together with other eligible employees participated in a share option plan approved by the shareholders in 2002. The final grant under this plan was made during the year ended 31 March 2007.

The Board of Directors did not participate in this share option plan.

For the year ended 31 March	**2008** **Rs. 000**	2007 Rs. 000
Unexercised options balance at the beginning of financial year	**464,605**	346,153
Adjustment to the unexercised options on the date of bonus issue 30 June 2006	**0**	173,073
Adjustment to the unexercised options for bonus and rights issue on 30 June 2007	**246,460**	0
Awarded during the year	**28,339***	0
Exercised during the year	**(92,000)**	(54,621)
Unexercised options balance end of financial year	**647,404**	464,605
Weighted average price of unexercised options end of the year	**98.44**	116.54
Weighted average price of exercised options	**53.08**	67.75
Weighted average price of Bank's share during the year	**141.89**	189.55

* In respect of financial year ended 31 March 2007, awarded on July 2007.

Consequent to the revision to the composition of the key management personel in the financial year ended 31 March 2008, the comparative numbers have been restated to conform to the revised composition.

58.5 DFCC Bank Pension Fund –Trust

58.5.1 DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank. The assets of the pension fund are not invested in the business of the Bank

The Chairman, the Chief Executive Officer together with two other employees and two pensioners (ex-employees) are trustees.

58.5.2 Transactions with DFCC Bank Pension Fund

	31.03.2008 **Rs. 000**	31.03.2007 Rs. 000
Contributions due at the beginning of financial year	**21,972**	6,752
Contribution due for the financial year (Note 16.1)	**91,548**	88,689
Contribution paid	**(87,115)**	(73,469)
Contribution due at the end of the financial year (Note 48.1)	**26,465**	21,972

These contributions are made in accordance with the legal obligations under the Trust Deed and are made to fund the actuarially determined pension liability, based on independent advice of a qualified actuary.

58.5.3 Transactions between DFCC Bank Pension Fund and Associate

There were no transactions during the year ended 31 March 2008. In the previous financial year ended 31 March 2007 DFCC Bank Pension Fund invested Rs65 Million in the subordinated debenture issue by Commercial Bank of Ceylon PLC, details of which are given below:

First investment amount	Rs50 million
Date of investment	16 May 2006
Repayment	16 May 2016
Interest	13.25% p.a. (fixed) payable annually
Second investment amount	Rs15 million
Date of investment	18 December 2006
Repayment	18 December 2011
Interest	1 year gross treasury bill rate + 1% p.a (floating interest, yearly repricing) and payable annually

59 Business Segment Information

For the year ended 31 March 2008	Lending Rs. '000	Financial Leasing Rs. '000	Investing in Equity Rs. '000	Venture Capital Rs. '000	Commercial Banking Rs. '000	Other Rs. '000	Unallocated Rs. '000	Eliminations Rs. '000	Total Rs. '000
Revenue									
Interest income	9,680,229	(1,189,185)	–	72,320	1,937,732	41,517	–	(45,235)	10,497,378
Negative goodwill	–	–	–	–	–	–	1,119	–	1,119
Other income	353,420	–	691,799	42,727	310,359	255,716	37,630	(465,776)	1,225,875
Income from external customers	10,033,649	(1,189,185)	691,799	115,047	2,248,091	297,233	38,749	(511,011)	11,724,372
Inter segment income	–	–	–	–	–	–	57,708	(57,708)	–
Total income	**10,033,649**	**(1,189,185)**	**691,799**	**115,047**	**2,248,091**	**297,233**	**96,457**	**(568,719)**	**11,724,372**
Percentage *	**85**	**(10)**	**6**	**1**	**19**	**3**	**4**	**–**	**100**
Expense									
Segment losses	199,035	58,626	–	6,604	101,047	–	–	–	365,312
Depreciation	–	–	–	727	76,834	15,686	–	–	93,247
Other operating & interest expenses	5,138,677	847,184	–	26,752	1,709,508	87,938	–	(45,235)	7,764,824
Inter segment expense	–	–	–	–	20,045	37,663	–	(57,708)	–
	5,337,712	**905,810**	**–**	**34,083**	**1,907,434**	**141,287**	–	**(102,943)**	**8,223,383**
Result	**4,695,937**	**(2,094,995)**	**691,799**	**80,964**	**340,657**	**155,946**			**3,500,989**
Unallocated expenses									974,258
Value added tax on financial services									484,632
									2,042,099
Share of profits of associates									1,048,616
Profit before tax									**3,090,715**
Income tax expense									843,457
Profit after tax									**2,247,258**
Minority interests									79,095
Profit for the year									**2,168,163**
Assets	**41,170,656**	**6,519,407**	**1,679,828**	**861,272**	**16,893,775**	**599,791**	**7,219,079**	**(70,069)**	**74,873,739**
Percentage	**55**	**9**	**2**	**1**	**23**	**1**	**10**	**(1)**	**100**
Investments in associate companies									6,395,789
									81,269,528
Liabilities	**33,298,930**	**5,867,466**	**–**	**12,658**	**14,365,951**	**152,253**	**9,348,652**	**(70,069)**	**62,975,841**
Capital expenditure - additions				**282**	**153,157**	**28,896**	**134,135**		**316,470**
For the year ended 31 March 2007									
Revenue									
Interest income	5,044,404	973,157	–	54,342	996,555	25,513	–	(74,879)	7,019,092
Negative goodwill							494	–	494
Other income	313,988	–	435,875	61,754	192,012	272,601	81,590	(271,971)	1,085,849
Income from external customers	5,358,392	973,157	435,875	116,096	1,188,567	298,114	82,084	(346,850)	8,105,435
Inter segment income	–	–	–	–	–		19,911	(19,911)	–
Total income	**5,358,392**	**973,157**	**435,875**	**116,096**	**1,188,567**	**298,114**	**101,995**	**(366,761)**	**8,105,435**
Percentage *	65	12	5	1	14	4	2	–	100
Expense									
Segment losses	(13,346)	34,982	14,680	(15)	61,296	–	–	–	97,597
Depreciation	–	–	–	697	53,674	15,847	–	–	70,218
Other operating & interest expenses	3,546,145	643,001	–	24,493	782,723	86,731	–	(74,879)	5,008,214
Inter segment expense	–	–	–	–	37,495	–	–	(37,495)	–
	3,532,799	**677,983**	**14,680**	**25,175**	**935,188**	**102,578**	–	**(112,374)**	**5,176,029**
Result	**1,825,593**	**295,174**	**421,195**	**90,921**	**253,379**	**195,536**			**2,929,406**
Unallocated expenses									423,148
Value added tax on financial services									429,039
									2,077,219
Share of profits of associates									497,458
Profit before tax									**2,574,677**
Income tax expenses									881,913
Profit after tax									**1,692,764**
Minority interests									107,120
Profit for the year									**1,585,644**
Assets	**43,497,570**	**7,560,630**	**1,260,438**	**859,984**	**11,323,430**	**543,181**	**5,407,234**	**(690,217)**	**69,762,250**
Percentage	**62**	**11**	**2**	**1**	**16**	**1**	**8**	**(1)**	**100**
Investments in associate companies									4,115,876
									73,878,126
Liabilities	**35,535,777**	**6,804,567**	**–**	**9,303**	**9,841,922**	**181,538**	**9,098,557**	**(690,217)**	**60,781,447**
Capital expenditure - additions				**345**	**89,869**	**10,594**	**94,672**		**195,480**

**Net of eliminations*

59.1 Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stockbrokering, consultancy services and information technology services are included in the column for Other.

59.2 Revenue and expenses attributable to the business segment of DFCC Vardhana Bank is included in the column for Commercial Banking.

59.3 Property, plant & equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

59.4 Dealing securities losses and goodwill written-off of subsidiary company are included in unallocated expenses.

59.5 Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

60 Post Balance Sheet Events

60.1 Options Exercised by Employees

The employees have exercised options during the post Balance Sheet period. Increase in ordinary share capital corresponding to the options exercised was Rs152,182 and the increase in share premium was Rs655,600.

60.2 Proposed Dividend

Directors have recommended the payment of a final dividend of Rs 5 per share (50%) for the year ended 31 March 2008, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 2008. The Board of Directors confirm that the Bank has satisfied the solvency test in accordance with section 57 of the Companies Act No. 7 of 2007 and have obtained the certificate from the auditors.

The proposed final dividend exceeds the minimum distribution mandated by the Inland Revenue Act No. 10 of 2006 and therefore the 15% deemed dividend tax, will not be imposed on the Bank.

60.3 Disposal of shares in Sri Lanka Telecom PLC

The Bank divested 4,335,000 ordinary shares in the market on 29 May 2008. The capital gain arising from the transaction is approximately Rs135 million.

60.4 Directions from Central Bank of Sri Lanka

Direction 3 of 2008 dated 8 May 2008 was issued by the Central Bank of Sri Lanka on classification of loans and advances, income recognition and provision replacing the earlier direction on this subject. This direction, while eliminating ambiguities in the previous direction, has tightened the requirements for classification and provisioning for doubtful loans and advances.

The Bank has not yet determined the financial impact of these changes. However, the bank's interpretation of the requirements of the previous direction was in accordance with the clarifications introduced in this direction and therefore it is likely that the additional financial impact will not be significant.

61. Restatement of Comparative Figures

Amounts shown for the previous year in respect of interest income Note 13, other income Note 15, Earnings per share Note 22, cash and short-term funds Note 23, Treasury Bills and other securities eligible for rediscounting with Central Bank Note 24, securities purchased under resale agreements Note 25, other assets note 42 and reserves Note 51, Non-performing Loans, Leases and Bills Note 57, Related Party Transactions Note 58, Business Segment Information Note 59, and the share of profits of associates in the income statement have been reclassified to facililate comparison.

62. Certification Required by Companies Act No 07 of 2007

This certification is based on independent legal advice obtained by the Bank which confirms that the Bank will not be required to provide the certification in Section 150 (1) (b) of the Companies Act since Sections 15 and 16 of the DFCC Bank Act No. 35 of 1955 as amended, specifically deals with the financial statements of the Bank. However, Sections 152 and 153 dealing with the Group financial statements and certification in the Companies Act No. 7 of 2007 are currently applicable to the Bank.

Capital Adequacy

Introduction

This term is used to describe the adequacy of Bank's aggregate capital in relation to the risks, which arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and effective from 1 January 2008 required the Bank to compute the minimum capital in accordance with the "International Convergence of Capital Measurement and Capital Standards - a Revised Framework" (BASEL II). The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb foreseeable future credit, market and operational losses.

Basis of Computation

The computation on 31 March 2008 is based on BASEL II while the computation on 31 March 2007 is based on BASEL I, which does not include the operational risk component. The risks weights assigned to the on and off-balance sheet assets and the composition of capital are prescribed by Central Bank of Sri Lanka.

Capital to Risk Weighted Assets Ratio

(Based on audited consolidated financial statements)

		Actual	
	Minimum Requirement	**31.03.2008**	31.03.2007
Tier 1 (%)	5.0	**25.4**	18.0
Deductions (%)		**5.0**	0.2
		20.4	17.8
Tier 2 (%)		**3.1**	3.2
Tier 1 and Tier 2 (%)		**23.5**	21.0
Deductions (%)		**4.5**	5.8
Capital base (%)	10.0	**19.0**	15.2

Details of Computation

Capital Base	**31.03.2008 Rs 000**	31.03.2007 Rs 000
Tier 1: Core Capital		
Paid up ordinary shares	**1,301,956**	865,565
Share premium	**3,236,338**	659,299
Statutory reserve fund	**674,120**	548,841
Published retained profits	**1,928,719**	1,706,523
General & other reserves	**10,233,117**	8,447,575
Minority interests	**605,691**	554,731
	17,979,941	12,782,534
Less: Deductions		
Goodwill	**146,658**	146,658
Net deferred tax assets	**83,571**	–
Other intangible assets	**170,107**	–
50% Investments in the capital of other banks and financial institutions	**3,157,811**	–
Total Tier 1 capital	**14,421,794**	12,635,876
Tier 2: Supplementary Capital		
Revaluation reserve (as approved by the Central Bank of Sri Lanka)	**134,129**	134,528
Approved subordinated term debt	**1,718,000**	2,000,000
General provision	**319,011**	101,582
Tier 1 and Tier 2	**16,592,934**	14,871,986
Less: Deductions		
50% Investments in the capital of other banks and financial institutions	**3,157,811**	4,042,566 *
Capital base	**13,435,123**	10,829,420

**100%*

Risk Weighted Assets and Off Balance Sheet Exposure

Balance Sheet Assets	31.03.2008 Rs 000	31.03.2007 Rs 000	Risk Weights %	Risk Weighted Balance 31.03.2008 Rs 000	Risk Weighted Balance 31.03.2007 Rs 000
Cash, treasury bills & other securities eligible for rediscounting with Central Bank	**7,982,847**	4,123,059	0	**0**	0
Securities purchased under resale agreements	**753,256**	590,525	0	**0**	0
Textile debt restructure fund	**82,750**	103,539	0	**0**	0
Balances due from Central Bank	**611,301**	768,018	0	**0**	0
Loans against cash deposits	–	725,953	0	**0**	0
Bank balances	**155,885**	349,054	20	**31,177**	69,810
Due from banks abroad	**485,824**	314,234	20-50	**208,869**	62,847
Placements with and loans to other banks	**3,719,068**	5,738,708	20-100	**1,064,452**	1,147,742
Cash items in process of collection	**18,496**	6,410	20	**3,699**	1,282
Other loans, bills of exchage, finance lease and interest receivable	**54,903,540**	53,026,699	20-150	**53,292,325**	58,329,313
Other investments (excluding items deducted from total capital)	**2,418,274**	1,989,295	20-100	**1,959,180**	1,989,295
Premises, plant and equipment, other fixed assets	**749,238**	574,171	100	**749,238**	574,171
Other on-balance sheet exposures	**1,720,063**	1,480,819	100	**1,720,063**	1,480,819
Total assets	**73,600,542**	69,790,484		**59,029,003**	63,655,279

Off Balance Sheet Exposure	Credit Conversion Factor %	31.03.2008 Rs 000	31.03.2007 Rs 000	Risk Weights %	Risk Weighted Credit Equivalent 31.03.2008 Rs 000	Risk Weighted Credit Equivalent 31.03.2007 Rs 000
General guarantee of indebtedness	100	**1,126,874**	1,183,707	100	**1,126,874**	1,183,707
Performance bonds, bid bonds and warranties	50	**1,134,706**	1,159,049	100	**567,353**	579,525
Shipping guarantees	20	**967,998**	453,693	100	**193,600**	90,739
Documentary letters of credit	20	**1,528,310**	2,120,573	100	**305,662**	424,115
Trade related acceptances	20	**688,178**	359,538	100	**137,636**	71,908
Others - bills on collection	20	**872,454**	165,403	100	**174,491**	33,081
Undrawn term loans	50	**6,075,158**	9,534,804	100	**3,037,579**	4,767,402
Others - undrawn lease facilities	50	**149,150**	235,449	100	**74,575**	117,725
Forward foreign exchange contracts	2	**728,340**	227,953	100	**14,567**	4,559
Undrawn overdraft facilities and others	0	**802,142**	955,833	100	**0**	0
Facilities against cash deposits	100	–	73,362	0	**0**	0
Total off-balance sheet exposure		**14,073,310**	16,469,364		**5,632,336**	7,272,761
Total risk weighted assets and off-balance sheet exposure for credit risk					**64,661,339**	70,928,040
Total risk weighted assets equivalent for market risk					**119,560**	44,830
Total risk weighted assets equivalent for operational risk					**6,003,029**	–
Total risk weighted assets					**70,783,928**	70,972,870

Reconciliation with Balance Sheet

Capital excludes revaluation reserve of Rs179.6 million.

On Balance Sheet assets excludes credit risk mitigation assets of Rs1,272 million.

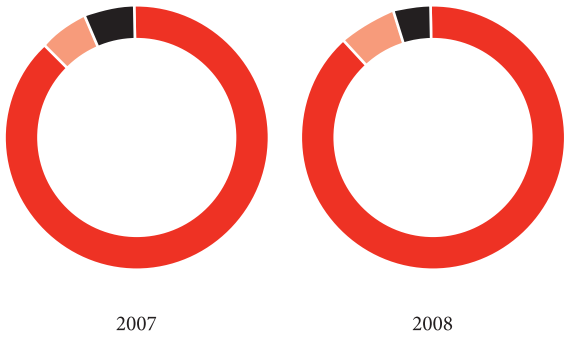
Statement of Value Added - Bank

For the year ended 31 March		**2008 Rs million**	**%**		2007 Rs million	%
Value Added						
Gross income		**9,636**			6,887	
Cost of borrowing and support services		**(6,155)**			(3,872)	
Provision for bad debts and investments		**(258)**			(37)	
		3,223			2,978	
Value Allocated						
To employees						
Salaries, wages and other benefits		**672**	**21**		612	21
To providers of capital						
Dividends to shareholders		**651**	**20**		454	15
To Government						
Income tax on profit	**665**			740		
Value added tax on financial services	**435**	**1,100**	**34**	373	1,113	37
To expansion and growth						
Retained income	**667**			671		
Depreciation	**133**	**800**	**25**	128	799	27
		3,223	**100**		2,978	100

Sources and Distribution of Income - Bank

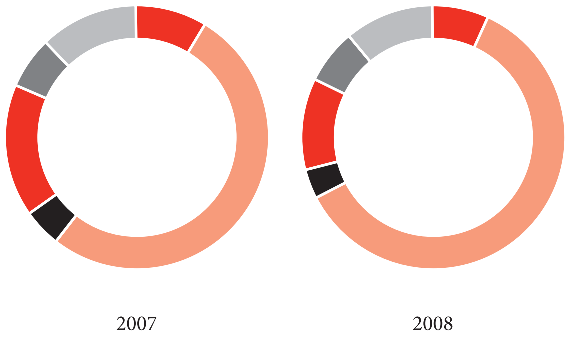
For the year ended 31 March	2004	2005	2006	2007	**2008**
			Rupees million		
Sources of Income					
Interest income	3,461	3,645	4,508	6,018	**8,491**
Income from investments	414	521	436	436	**687**
Other	569	475	443	433	**458**
	4,444	4,641	5,387	6,887	**9,636**
Distribution of Income					
To employees as emoluments	394	438	523	612	**672**
To lenders as interest	1,819	1,873	2,376	3,537	**5,815**
To providers of supplies and services	179	230	257	335	**340**
To Government as taxation	567	629	742	1,113	**1,100**
To shareholders as dividends	314	316	346	454	**651**
Retained in the business:					
Depreciation set aside	72	107	119	128	**133**
Provision for losses	308	256	190	37	**258**
Reserves	791	792	834	671	**667**
	4,444	4,641	5,387	6,887	**9,636**

Sources of Income



	2007	**2008**
Interest Income	88%	**88%**
Income from Investments	6%	**7%**
Other	6%	**5%**

Distribution of Income



	2007	**2008**
Employees	9%	**7%**
Lenders	51%	**60%**
Suppliers and Services	5%	**4%**
Government	16%	**11%**
Shareholders	7%	**7%**
Retained	12%	**11%**

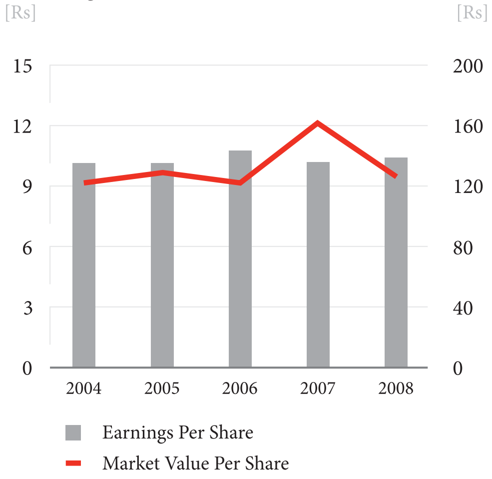
Ten Year Summary

Bank *Year ended 31 March*	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
					Rupees million					
Operating Results										
Total income (net of TT & NSL)	2,949	3,446	3,452	4,037	4,113	4,444	4,641	5,387	6,887	**9,636**
Profit before tax	745	476	507	883	1,036	1,490	1,512	1,652	1,865	**1,983**
Income tax	173	133	132	252	181	385	404	472	740	**665**
Profit after tax	572	343	375	631	855	1,105	1,108	1,180	1,125	**1,318**
Balance Sheet										
Assets										
Cash, short-term funds and securities	2,877	1,631	1,394	2,359	2,398	2,675	2,778	4,928	7,935	**8,124**
Dealing securities	0	0	3	4	3	1	0	14	26	**18**
Other receivables	601	508	533	666	914	909	1,641	946	1,611	**1,684**
Placements with and loans to banks and financial institutions	1,175	651	325	0	0	500	302	738	1,024	**1,579**
Securities purchased under resale agreement	0	23	288	569	48	26	1,051	520	240	**208**
Bills of exchange discounted	38	23	23	23	23	18	13	6	6	**6**
Loans	14,877	15,989	17,878	17,982	19,515	22,386	25,270	30,963	38,200	**38,185**
Finance leases	2,066	2,009	1,932	1,859	2,445	3,742	4,348	5,545	7,756	**6,725**
Provisions	(225)	(374)	(633)	(757)	(949)	(1,077)	(995)	(937)	(946)	**(1,179)**
Net of provisions	16,756	17,647	19,200	19,107	21,034	25,069	28,636	35,577	45,016	**43,737**
Investment securities	1,865	1,474	1,784	2,102	1,802	1,704	1,731	1,340	1,260	**1,680**
Investment in associate/subsidiary companies	1,355	1,371	1,386	1,392	1,407	2,514	2,636	3,057	3,350	**5,829**
Investment property	0	0	0	187	187	12	12	12	7	**7**
Property, equipment and intangibles	265	285	277	265	378	516	475	481	472	**493**
	24,894	23,590	25,190	26,651	28,171	33,926	39,262	47,613	60,941	**63,359**
Liabilities										
Equity	4,703	4,973	5,054	5,723	6,382	7,383	8,207	9,091	9,494	**13,761**
Medium/long-term borrowing and debentures	17,424	17,279	17,841	17,892	16,775	19,570	24,120	30,384	34,357	**38,323**
Customer deposits	555	314	558	1,562	2,868	4,944	3,780	4,017	13,573	**5,112**
Short-term borrowings	1,140	0	796	398	1,143	577	1,387	2,453	1,540	**4,157**
	19,119	17,593	19,195	19,852	20,786	25,091	29,287	36,854	49,470	**47,592**
Other liabilities	1,072	1,024	941	1,076	1,003	1,452	1,768	1,668	1,977	**2,006**
	24,894	23,590	25,190	26,651	28,171	33,926	39,262	47,613	60,941	**63,359**
Return on equity, %	12.5	7.1	7.5	11.7	14.1	16.1	14.2	13.6	12.1	**11.3**
Return on total assets, %	2.6	1.4	1.5	2.4	3.1	3.6	3.0	2.7	2.1	**2.1**
* Earnings per share, Rs	5.30	3.18	3.47	5.84	7.91	10.14	10.14	10.77	10.20	**10.41**
** Market value per share, Rs	37.15	32.98	26.04	46.67	59.17	121.94	128.75	122.36	161.67	**126.00**
Price earnings ratio	7.0	10.4	7.5	8.0	7.5	12.0	12.7	11.4	15.9	**12.1**
Rate of dividend, %	40.0	40.0	45.0	50.0	55.0	55.0	55.0	60.0	50.0	**50.0**
Dividend cover, times	4.0	2.4	2.4	3.0	3.7	3.5	3.5	3.4	2.5	**2.0**
Gross dividend, Rsm	141.0	141.0	159.0	212.0	233.0	314.3	315.8	345.5	454.4	**651**
Liquid assets to liabilities *(As specified in the Banking Act No. 30 of 1988)*	–	–	–	–	–	28	38	48	79	**31**
No. of employees	271	277	276	289	305	305	340	374	422	**419**

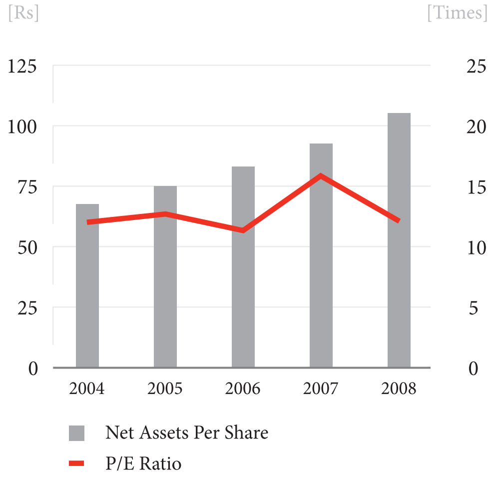
** Adjusted for bonus and rights issue.*
*** Adjusted for bonus issue.*

Performance of the Share

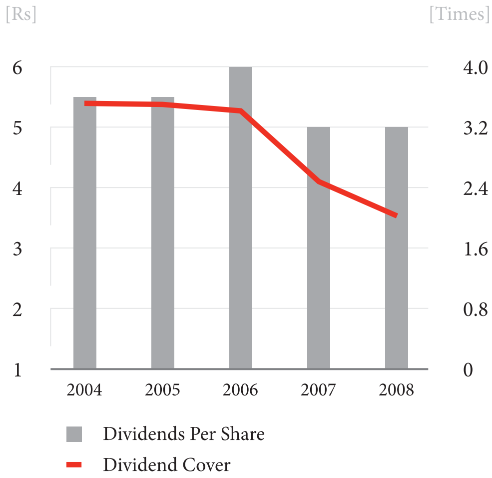
Earnings and Market Value



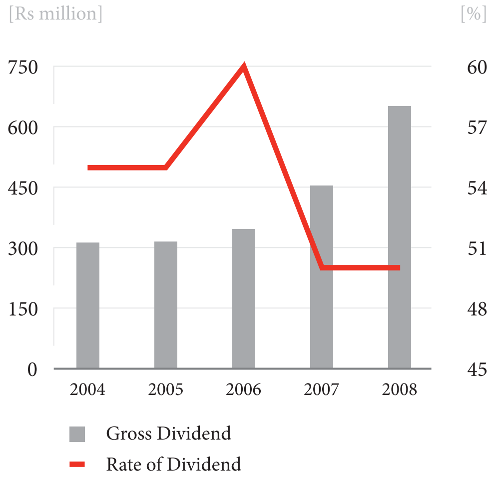
Share Value



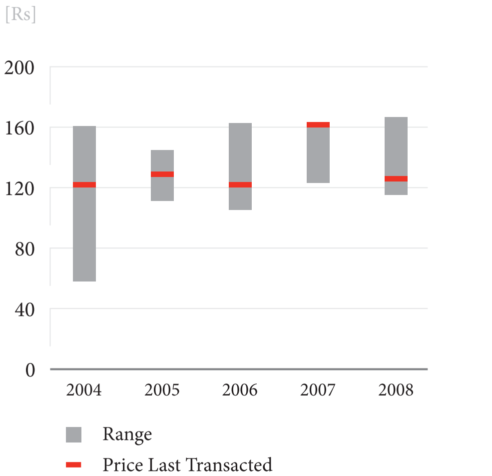
Dividends



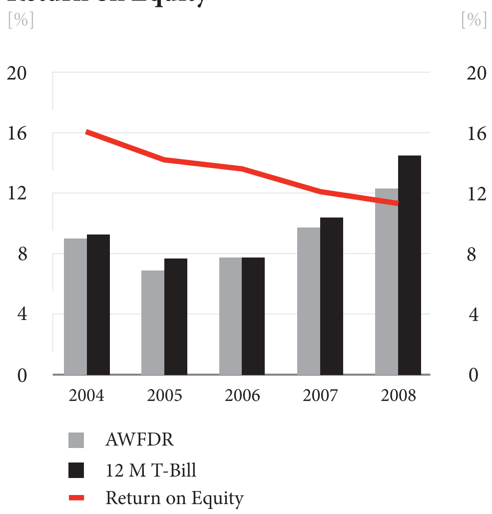
Dividend Paid



Share Price



Return on Equity



Share Information

Year ended 31 March	**2008**	2007
Earnings		
Earnings per share, Rs	**10.41**	10.20
Price earning ratio, times	**12.10**	15.90
Dividends		
Interim dividend paid, Rs m	**0**	389.48
Final dividends (proposed/paid), Rs m	**651.00**	64.92
Rate of dividend, %	**50.00**	50.00
Dividend per share, Rs	**5.00**	5.00
Book Value - Bank		
Net assets per share on 31 March, Rs	**108.66**	86.06
Price Indices		
CSE All Share Price Index	**2,550.47**	2,789.80
Milanka Price Index	**3,181.30**	3,837.60
Share Prices		
Lowest, Rs	**115.50 (23.01.08)**	147.50 (23.08.06)
Highest, Rs	**200.00 (27.04.07)**	290.00 (05.05.06)
Last transaction, Rs	**126.00 (31.03.08)**	194.00 (29.03.07)
Market Capitalisation		
Value, Rs m	**16,401**	16,792
% of total trade	**1.97**	1.93
Rank	**8**	8
Value of Shares Traded		
Value, Rs m	**1,036**	4,502
% of total trade	**1.20**	3.83
Rank	**12**	6
Days Traded		
Number of days traded	**224**	231
Total number of market days	**239**	240
% of market days traded	**94**	96
Frequency of Shares Traded		
Number of transactions	**2,501**	4,226
% of total frequency	**0.29**	0.44
Rank	**107**	69

Shareholders

Year ended 31 March

1-1,000 Shares	79%
1,000-5,000 Shares	16%
Greater than 5,000 Shares	5%

Shareholding

Year ended 31 March

1-1,000 Shares	2%
1,000-5,000 Shares	2%
Greater than 5,000 Shares	96%

Ownership

Year ended 31 March

Foreign Individuals	4%
Foreign Institutions	35%
Sri Lankan Individuals	7%
Sri Lankan Institutions	54%

Size-Wise Distribution of Shareholding

Number of Shares			As at 31 March 2008			As at 31 March 2007		
			No. of Holders	**Total Holding**	**%**	No. of Holders	Total Holding	%
01	-	1,000	**6,043**	**2,062,091**	**1.58**	6,032	1,838,713	2.12
1,001	-	5,000	**1,215**	**2,450,335**	**1.88**	930	1,820,473	2.10
5,001	-	10,000	**147**	**1,041,783**	**0.80**	108	778,196	0.90
10,001	-	50,000	**132**	**2,495,210**	**1.92**	86	1,762,845	2.04
50,001	-	100,000	**22**	**1,560,977**	**1.20**	16	1,011,126	1.17
100,001	-	500,000	**18**	**3,568,222**	**2.74**	17	4,530,313	5.23
500,001	-	1,000,000	**9**	**5,855,253**	**4.50**	4	2,722,500	3.15
Greater than		1,000,000	**19**	**111,161,732**	**85.38**	14	72,092,371	83.29
Total			**7,605**	**130,195,603**	**100.00**	7,207	86,556,537	100.00

Ownership

Shareholding %	As at 31 March 2008			As at 31 March 2007		
	Foreign	**Sri Lankan**	**Total**	Foreign	Sri Lankan	Total
Individuals	**4.20**	**7.24**	**11.44**	4.00	6.44	10.44
Institutions	**35.09**	**53.47**	**88.56**	34.28	55.28	89.56
Total	**39.29**	**60.71**	**100.00**	38.28	61.72	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2008 was **38.25%** (38.21% as at 31.03.2007).

Twenty Major Shareholders of the DFCC Bank as at 31 March 2008 are given below:

Name of Shareholder/Company Name as at 31 March 2008

	2008			2007	
	NO. OF SHARES	%	CUMU-LATIVE%	NO. OF SHARES	%
Bank of Ceylon	**19,019,997**	**14.61**	**14.61**	12,679,999	14.65
Hatton National Bank Limited A/c No. 1	**16,054,570**	**12.33**	**26.94**	10,581,037	12.22
Sri Lanka Insurance Corporation Limited - Life Fund	**14,676,966**	**11.27**	**38.21**	9,784,644	11.30
Galleon Technology Offshore Limited	**9,723,524**	**7.47**	**45.68**	6,482,350	7.49
Distilleries Company of Sri Lanka Limited	**8,407,628**	**6.46**	**52.14**	5,605,086	6.48
Seafeld International Limited	**7,643,397**	**5.87**	**58.01**	5,095,599	5.89
HSBC Intl Nominees Limited - BPSS Lux - Aberdeen Global Asia Pacific Fund	**6,108,073**	**4.69**	**62.70**	4,043,749	4.67
Mr M A Yasen	**5,337,500**	**4.10**	**66.80**	3,225,000	3.73
Readywear Industries Limited	**4,883,350**	**3.75**	**70.55**	5,388,900	6.23
HSBC Intl Nominees Limited - BPSS LDN - Aberdeen Asia Pacific Fund	**3,375,000**	**2.59**	**73.14**	2,250,000	2.60
Galleon Diversified Fund Limited	**3,256,050**	**2.50**	**75.64**	2,170,700	2.51
EC Global Limited	**2,677,797**	**2.05**	**77.69**	–	–
HSBC Intl Nominees Limited/DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH	**2,250,162**	**1.73**	**79.42**	1,500,108	1.73
RBC Dexia Investor Services Trust S/A Edinburgh Dragon Trust PLC	**2,250,000**	**1.73**	**81.15**	1,500,000	1.73
Northern Trust Co S/A Murray Johnstone International Delaware Business Trust	**1,271,250**	**0.98**	**82.13**	847,500	0.98
Mrs L E M Yaseen	**1,200,000**	**0.92**	**83.05**	–	–
Employees' Trust Fund Board	**1,013,733**	**0.78**	**83.83**	468,549	0.54
HSBC Intl Nominees Limited - SSBT-Russel Invesment Company PLC - JY61 Account No. 01	**1,012,500**	**0.78**	**84.61**	675,000	0.78
Renuka City Hotels Limited	**1,000,235**	**0.77**	**85.38**	–	–
HSBC Intl Nominees Limited - SSBTL - Aberdeen Asia Smaller Companies Investment Trust XCB9	**900,000**	**0.69**	**86.07**	600,000	0.69
Total of the 20 major shareholders	**112,061,732**	**–**	**–**	72,898,221	–
Other shareholders	**18,133,871**	**13.93**	**100.00**	13,658,316	15.78
Total	**130,195,603**	**100.00**		86,556,537	100.00

Debenture Information

DFCC Listed Debentures

Debenture Categories	Interest Payable Frequency	Coupon Rate	Interest Rate of Comparable Government Security
Fixed Rate			
2006/2016 - 14.00% p.a.	Annually	14.00%	17.50%
2006/2011 - 13.75% p.a.	Annually	13.75%	19.89%
Floating Rate			
2006/2011 - 6 months TB rate (Net) + 2.00% p.a.	Semi-Annually	21.99%	19.89%
2006/2011 - 6 months TB rate (Gross) + 1.00% p.a.	Semi-Annually	23.21%	19.89%

None of these debentures have been traded during the year.

6 months TB rate (Net) - Six months weighted average Treasury Bill rate after 10% withholding (net rate) as published by the Central Bank of Sri Lanka.

6 months TB rate (Gross) - Six months weighted average Treasury Bill rate before 10% withholding (gross rate) as published by the Central Bank of Sri Lanka.

Other Ratios	**2008**	2007
Debt Equity Ratio	**2.78**	3.62
Interest Cover (Times)	**1.29**	1.36
Quick Assets Ratio (%)	**31**	79
(Same as liquid asset ratio.)		

Notes

The Annual General Meeting,

will be held at the Cinnamon Grand, Colombo 3, on 30 June 2008. Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

Name of Company
DFCC Bank

Legal Form
A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955. A licensed specialised bank under the Banking Act No. 30 of 1988.

Credit Rating
AA (lka) credit rating from Fitch Ratings Lanka Limited.

Board Secretary
T Wijemanna

Lawyers
F J & G De Saram
Attorney-at-law

Auditors
KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants

Bankers
DFCC Vardhana Bank Limited
Commercial Bank of Ceylon PLC
Bank of Ceylon

Vat Registration No.
409000088 7000

Head Office
DFCC Building, P O Box 1397
73/5, Galle Road, Colombo 3.
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Fax: 94-11-2440376
E-mail: info@dfccbank.com
Website: http://www.dfccbank.com

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