DFCC BANK

Annual Report 2011/12

MULTIPLE STRANDS OF BUSINESS LEND **STRENGTH**

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.

OUR VALUES Our seven core values are the guiding principles for our **ACTIONS** that shape the way we do business.

We are **A**ccountable for what we do

We place **C**ustomer experience at the core

We believe **T**eamwork is key in turning our goals into accomplishments

We have a passion for **I**nnovation and excellence

We **O**perate our business ethically

We focus on the **N**eed to grow our business profitably

We are **S**ocially and environmentally caring

MULTIPLE STRANDS OF BUSINESS LEND STRENGTH

The cover depicts the multiple strands of a fibre optic cable - a technology which has opened a whole new world to humankind.

A key aspect of the DFCC Banking Business is the manner in which we have woven the various strands of business - development banking, commercial banking and investment banking - into a cohesive whole.
The composite strength, by the very nature of its variety, provides us the vibrancy, energy and speed in serving a diversified portfolio ranging from top corporates to SMEs, from project financing to personal financial services and everything in between.

DFCC really is about celebrating composite strength – the results of which unfold through the pages of this report.

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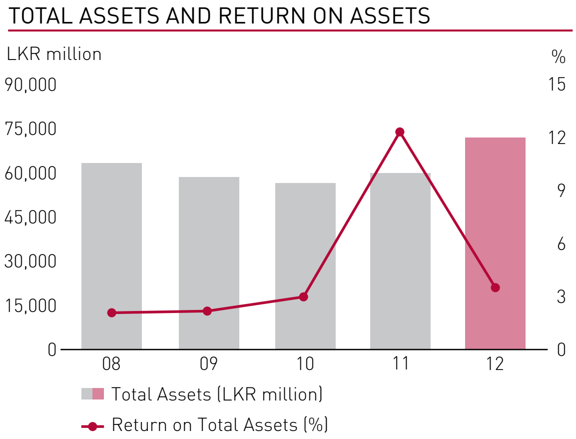
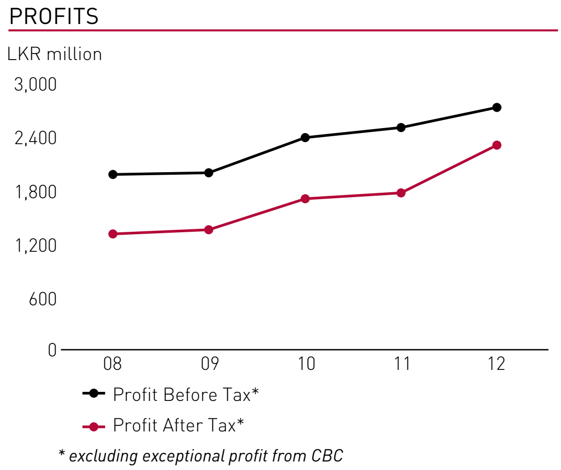
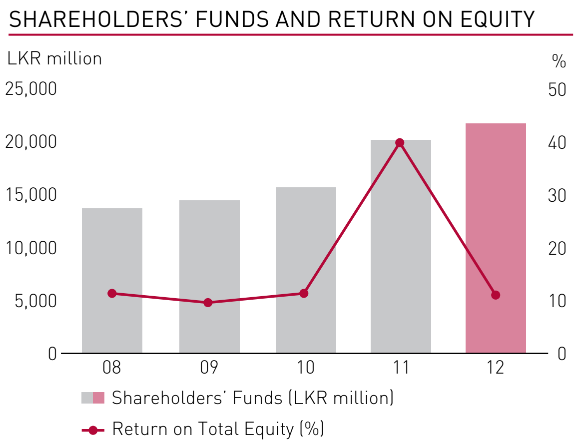






For the year ended 31 March	**2012**	2011	% Change
Income - LKR million	**7,434**	14,191	(48)
Profit before tax - LKR million	**2,748**	7,876	(65)
Profit before tax - LKR million	**2,748**	2,515*	9
Profit after tax - LKR million	**2,317**	7,137	(68)
Profit after tax - LKR million	**2,317**	1,776*	30
Earnings per share - Basic - LKR	**8.74**	26.95	
- Diluted - LKR	**–**	26.93	
Interim dividend paid LKR million	**–**	1,855	
Final dividend (Proposed) - LKR million	**1,060**	795	
Dividend payout %	**46**	37	
Shareholders' funds (capital & reserves) - LKR million	**21,754**	20,219	8
Medium/long-term borrowing, deposits & debentures - LKR million	**45,631**	31,017	47
Total assets - LKR million	**71,707**	59,926	20
Return on average total assets - %	**3.52**	12.27	
Return on average shareholders' funds - %	**11.04**	39.7	

** excluding exceptional profit arising from the sale of Commercial Bank of Ceylon PLC shares.*

Chairman's Message

Our composite strength equips us to ride change

Dear Shareholder,

In chaos theory, 'the Butterfly Effect' propounded by the famed mathematician and meteorologist Edward Lorenz hypothesises how, for instance, a butterfly flapping its wings on one side of the globe may trigger a chain of events that could lead to a hurricane on the other. This notion could very well describe Sri Lanka's situation if one considers, the impact that the seemingly disconnected Iranian nuclear programme or for that matter the debt mountains in some European countries are having on the country's fortunes in the context of its economy, the external sector and geopolitics.

In 2011, the Sri Lankan economy recorded a growth of 8.3%, the highest in its post-independence history. It was achieved whilst maintaining inflation in single digits and unemployment below 5%. This performance, which was driven by the consumption and investment boom following the end of the conflict in 2009, merited the upgrade of the sovereign credit rating in June 2011. However, in the second half of 2011, some overheating was evident and developments in the external sector were not positive. A widening trade deficit raised concerns about Sri Lanka's external finances and led to corrective measures in the form of the depreciation of the Rupee, the hike in policy rates and a ceiling on credit growth. It delivered the message that the authorities were willing to bite the bullet and accept a lower growth in the context of giving priority to the external sector. This is crucial given that Sri Lanka's external financing hinges on retaining investor confidence in a consistent and rational policy framework.

The world economy is in flux. Many 'Developed' or 'Northern' economies are stagnant, suffering a lack of competitiveness and an overload of debt that has sapped growth, reduced incomes, consumed cash and strained budgets. In contrast, most 'Developing' or 'Southern' economies, exemplified by the BRICS group of nations, are surging with growth and investment founded on a vibrant business culture driven by demographics, urbanisation and an increasingly educated population. The historical balance of economic power is thus tilting Southward perhaps foreshadowing the emergence of a 'New World Economic Order'.

It must be borne in mind though, that most of the 'South' is powered by the export-driven economic model and any downturn and fall in consumption in the 'North' will cause a demand slack down the supply chain. The silver lining is that most Asian economies are expected to demonstrate a relatively high degree of resilience. Supporting this view is the fact that intra-regional investment, domestic consumption, commerce and trade have taken off. As such, there is comfort that regional growth should remain relatively robust in the face of a general decline in global momentum. This would have positive implications and provide support for the Sri Lankan economy.

Geopolitics - the third aspect referred to in my preface - has a significant bearing on Sri Lanka. From Sri Lanka's perspective, the external macro situation has been made more complicated by the geopolitical developments in the West as well as in the Middle East. The former is still our largest trading bloc and source of tourism while the latter is a key market for our tea exports and principal source of oil. Therefore, the fallout from the recent imposition of sanctions and other politically driven actions would be better dealt with in a pragmatic rather than a reactive fashion. Given the new geopolitical realities, this will require a fine balancing act if Sri Lanka is to avoid the 'Butterfly Effect' and assert itself without burning any of the bridges that have long stood the test of time.

Moving on to the Financial Sector; despite some systemic pressures in the latter part of the year, the industry reported a healthy performance with strong balance sheet growth, higher asset quality and increased profitability despite the narrowing of margins as the year progressed.

This was accompanied by the expansion of delivery channels to unbanked regions with increased deployment of electronic banking. On the regulatory side recent pronouncements indicate that there is greater awareness of the benefits of consolidation in the banking sector and it is hoped that the amendments to the Banking Act that are in the pipeline will facilitate this. The ambitious growth plans of the country needs banks that have larger risk taking capacity and are strong enough to tap international capital markets for significant amounts of medium and long-term funds.

Getting on to performance, shareholders would be pleased to note that the DFCC Group recorded a consolidated profit after tax of LKR 2,973 million. This is an increase of 37% over the LKR 2,170 million recorded in the previous year (excluding the exceptional profit relating to the reduction of DFCC's shareholding in Commercial Bank of Ceylon PLC and it ceasing to be an associate company). As regards DFCC Banking Business, the combined profit after tax of DFCC Bank and DFCC Vardhana Bank PLC (DVB) increased by 40.2% from LKR 1,990 million to LKR 2,789 million. Meanwhile, the combined credit portfolio of the DFCC Banking Business grew 47% from LKR 60,771 million to LKR 89,111 million. This includes a strong 31% growth in the project finance portfolio from LKR 28,774 million to LKR 37,628 million. I am happy because this performance vindicates our strategy to nurture DFCC's core project financing competency. It is also satisfying as it demonstrates that the cross selling and synergies between the development financing and commercial banking businesses is working well. I am also pleased to report that as we complete the 10th year in commercial banking undertaken through our almost wholly-owned subsidiary DVB, its assets of LKR 45,940 million now comprise 40% of the total DFCC Banking Business Assets. Good progress has been made in the expansion of its distribution network. The strong growth in deposits and SME business is a testament to its reach and effectiveness.

Our business model, which comprises two core activities carried out by two separate legal entities but functioning in an operational merger, is unique in the local industry. It successfully nurtures the respective core skills and competencies under the two Banks without any dilution. At the same time, it permits both institutions to compete in the financial services space as an effectively integrated entity offering the full range of development and commercial banking products and services seamlessly through a unified distribution channel. And, looking ahead, on the DFCC side, the project financing pipeline is strong and this will remain a core activity for the foreseeable future. On the DVB side, the bank has successfully positioned itself in all market segments and has procured the necessary means - human, financial, technological, and others - from DFCC and other sources, to drive forward. The corporate model is therefore performing well. Nonetheless, given that it is in the growth phase, the evolving regulatory landscape, competitive pressures and market forces may dictate a concentration of resources on the commercial banking operations of the DFCC Banking Business at some point in the future. Other development finance institutions in the region, with a presence in commercial banking, have also faced similar circumstances and considerations. While some have gone down the development bank - commercial bank merger route, others have opted to retain the status quo. What is important from DFCC's perspective is that our model also provides the option for a restructure at some time in the future should a merger be considered the best option to compete in the market. Facilitation of consolidation through changes to the Banking Act would therefore be a factor that has a bearing on how we proceed.

I conclude by thanking all stakeholders of the DFCC Group.

My fellow Directors, thank you for your unstinted support and cooperation. I will continue to rely on your expert guidance in charting the future course of the Bank. I also thank the Directors who retired; Mr C P R Perera in June 2011 and Mr S N P Palihena in October 2011, both of whom served the Board with distinction. I welcome Dr L P Chandradasa and Mr J E A Perumal who were appointed to the Board in October 2011 and February 2012 respectively.

Mr Nihal Fonseka, the Chief Executive; you have ably inspired the staff of DFCC Bank to deliver yet another superior performance and I thank you for the leadership that has consistently driven the DFCC team to higher attainment. The employees of DFCC Bank; you have demonstrated yet another commendable effort and I am confident of your continued commitment towards taking the organisation to newer thresholds.

To our clients, all of whom are valued partners; my thanks for your patronage and the partnership with DFCC that has engendered mutual benefit and success. On our part, I have no doubt that DFCC would nurture each relationship as special and long-term.

DFCC's success, both as a development bank and as the apex of a financial services group would not have been possible without the support of officials of the Ministry of Finance and the Central Bank of Sri Lanka. I thank them all and look forward in the future to their continued assistance and co-operation.

Last but not least, I, together with my fellow Directors on the DFCC Board, thank the shareholders of the Bank for the reliance placed in our ability to guide this organisation. It is indeed a weighty responsibility, which I trust we have discharged satisfactorily. I also wish to announce that the Board has decided to recommend a first and final dividend of LKR 4.00 per share for the financial year ended 31 March 2012, which is consistent with our dividend payout policy. It compares well with the LKR 3.00 per share paid last year and reflects our optimism in DFCC's future performance and our confidence in enhancing your investment value.

JMS Brito

J M S Brito
Chairman

30 May 2012

Chief Executive's Report

Technological development constantly challenges us to innovate...

"Technology, especially smart phones, tablets, and social media have radically changed the way customers deal with banks and make payments not only in the developed world but even in emerging economies. Although branches will continue to be important, how customers interact with branches will change significantly and banks will have to face competition from other delivery channels and disintermediation. Our medium-term strategies will focus on leveraging technology and developing partnerships not just for generating a short-term competitive advantage but to radically change the way services are delivered to customers."

The financial year ended 31 March 2012 yielded solid results all round - for DFCC Bank (DFCC), our combined banking operation with DFCC Vardhana Bank PLC (DVB), and the DFCC Group as a whole. In my Report last year I had explained our operational merger with DVB, which enables us - the DFCC Banking Business (DBB) - to build on our objective of providing a full spectrum of seamless banking solutions to our customers. To enable our stakeholders to assess the progress we have made, this analysis will mainly focus on the performance of DBB as a whole, with details for DFCC and the Group where appropriate.

Strategic Positioning

DFCC continued to build on its core competencies in project lending and development financing activities, as they now become even more relevant with the nation marching forward through rapid post-war reconstruction and ambitious growth targets. DVB, while leveraging the DFCC customer base, also actively develops new relationships to provide working capital finance, and implements strategies to increase its penetration into personal financial services, financing of international trade and payment services that are not within DFCC's ambit.

On receiving regulatory approval for DVB to continue as an up to 100%-owned and functionally managed subsidiary, DFCC increased its ownership of DVB to almost 99.1% and invested LKR 1,337 million in new Tier I equity capital of DVB. A further LKR 1,000 million was raised by DVB through the issue of subordinated debentures which were listed on the Colombo Stock Exchange, thereby making DVB compliant with the regulatory requirement for all banks to be listed with the added benefit of being able to recognise it as Tier II capital. DBB was also reorganised, whereby project finance and working capital lending to the large corporate sector were merged into one operational unit. With the large corporate sector emerging as a key driver in the country's growth agenda, the merged unit forged ahead by acquiring many new corporate relationships and thereby significantly expanding our working capital and cross border trade finance activities. Competitive pricing and investments on service delivery were necessary ingredients to enter this space, and DBB used the opportunity afforded by the lower tax rates that became effective in the year under review and the improvement in asset quality to aggressively compete on price. The large corporate sector has in the past been less vulnerable to economic downturns, thus justifying the lower margins from a risk management perspective.

The DBB also expanded its personal financial services (PFS) business and by the year end had a suite of PFS asset and liability products catering to different market segments and life phases. The recall level of the DFCC brand in the PFS segment has increased encouragingly, but leveraging this to new business acquisition and increasing market share is a challenge that has yet to be met. The recent adverse developments affecting some aspects of the economy warrants a somewhat cautious approach to the expansion of PFS assets until conditions improve. Until then the emphasis will be on building a strong liability base and creating an institutional value proposition through streamlined and cost effective processes, since research indicates that mere product differentiation is not sustainable.

There is general agreement that an annual GDP growth target of 8% cannot be sustained over time only from domestic savings, and Sri Lanka's private sector will need to tap overseas capital markets for long-term resources to bridge the investment gap. DFCC has in the past traditionally depended mainly on overseas development finance institutions with the involvement of the Government for long-term funding. Going forward DFCC will diversify its funding sources to include international capital markets while managing market risks that will arise at a prudent level. As a prelude, DFCC recently secured regulatory approval to lend in foreign currency to a wider range of business sectors. Since these business sectors have foreign currency income streams, such lending will provide a natural hedge against market risks.

In deciding on our strategic positioning we are conscious that being a mere follower will not allow us to achieve our corporate vision. Technology, especially smart phones, tablets, and social media have radically changed the way customers deal with banks and make payments not only in the developed world but even in emerging economies. Although branches will continue to be important, how customers interact with branches will change significantly and banks will have to face competition from other delivery channels and disintermediation. Our medium term strategies will focus on leveraging technology and developing partnerships not just for generating a short-term competitive advantage but to radically change the way services are delivered to customers.

As in previous years and consistent with our accounting policy, the year under review (the year) for DVB is the financial year ended 31 December 2011, while the corresponding period for DFCC is the financial year ended 31 March 2012. The feasibility of changing the financial year of DFCC to the calendar year, which is the norm in the banking industry, will be considered if there are no significant adverse taxation implications that may arise from such a change.

Strong Profit Growth Despite Declining Margins

The consolidated profit after tax of the DFCC Group grew 37% from LKR 2,170 million to LKR 2,973 million during the year, the best ever after disregarding the exceptional profit in the previous period arising from the partial divestment of our equity stake in Commercial Bank of Ceylon PLC and it ceasing to be an associate company.

Likewise, after eliminating gains from disposals of subsidiaries and associates to enable comparison, DFCC recorded a profit after tax of LKR 2,317 million during the year, an increase of 30.5% over the comparable profit of LKR 1,776 million in the previous year. Contributing factors for the profit growth include a lower tax regime, smaller loan loss provisioning with some write-backs through improved asset quality, higher non-funds based income and a healthy loan portfolio growth. However, surplus banking system liquidity and the low interest rate regime that prevailed in the first half of the financial year led to intense price competition, and the higher funding costs in the last quarter as the monetary authorities moved to contain credit expansion contributed to a lower DBB net interest margin of 4.7% compared with 5.6% in the previous year. DBB too had to sacrifice interest margin for its corporate customer acquisition strategy. Nevertheless, the other factors referred to resulted in the combined profit after tax of DBB (after adjusting for one-off gains) to increase to LKR 2,789 million, being 40.2% over the previous year's figure of LKR 1,990 million.

As in any balance sheet-based banking business such as ours the key drivers of profitability are credit growth, leverage, interest margins, credit quality, non-funds based income, cost management and taxation. These aspects are discussed below in relation to the performance of DBB, DFCC and DVB.

A Strong Credit Pipeline as Business Banking Opportunities Widen

Credit utilised by DBB customers grew 47% during the year, driven by portfolio growths of 34% and 74% achieved by DFCC and DVB respectively. While DVB's credit growth related mainly to working capital and trade finance, DFCC's credit portfolio was skewed towards medium and long-term project loans and finance leases for production as opposed to consumption.

I am happy to report that concerted action taken during the year to improve credit quality has been successful. Despite the strong credit growth, non-performing credit exposure of DBB did not record a significant increase during the year, and the NPL ratio improved from 6.6% to 4.3%.

Credit growth was experienced across diverse areas of economic activity, in both the corporate and Small and Medium Enterprise (SME) sectors. Finance leases recorded strong demand from the latter. Being fully supportive of the Government's policy aimed at acceleration of economic growth outside the Western Province through employment creation and poverty reduction, DBB continued to expand its operations by bringing its total number of branches and service locations to 127, of which 72% are presently outside the Western Province. Of particular significance is the growth of business in the Northern and Eastern Provinces in the post-conflict environment. DBB now operates 11 customer service centres in these provinces compared with none three years ago. DBB is also a net transferrer of financial resources to these regions through direct lending which exceeds the deposits raised from the regions, as well as indirectly by acting as the apex lender for the now fully-disbursed EUR 5 million medium-term credit line provided by the German development finance agency KfW for on-lending to small scale enterprises in the North and East.

Looking forward, DBB will need to work within the cap of 18% on LKR credit expansion (23% if the additional amount is funded from funds raised overseas) imposed by the Central Bank. This will have an impact especially on the planned growth of DVB which is growing from a low base. The growth cap is expected to be a temporary measure aimed at preventing the economy from overheating, although there will be adjustment costs that will need to be incurred by both businesses and banks.

Squeeze on Interest Margin Requires Effective Counter Measures

The reduction in interest margin of DBB was in line with developments in the banking sector that were discussed earlier. The recently witnessed increased interest rates will have a favourable impact but pressure on margins over time will remain. A reduction in intermediation costs will certainly be desirable, but achieving this will require structural adjustments relating to the banking sector, such as consolidation to achieve benefits of scale. DFCC will consider opportunities that may arise in this regard.

DVB is focusing on increasing the share of lower cost current and savings account balances as a proportion of total customer deposits of DVB. Despite limited success on this front, DVB increased the aggregate income from fees and foreign exchange transactions as a proportion of net interest income from 20% to 31% in the year under review. To further diversify income streams, DBB is generating higher levels of non-funds based income from banking services including foreign exchange trading. As a cost reduction strategy DBB will consider further streamlining and centralisation of internal business processes.

Credit Quality Continued to Improve, but there's no Room for Complacency

Continuing the trend seen in the previous year, I am happy to report that concerted action taken during the year to improve credit quality has been successful. Despite the strong credit growth, non-performing credit exposure of DBB did not record a significant increase during the year, and the NPL ratio improved from 6.6% to 4.3%. The improved business conditions that prevailed in the post-conflict era helped some previously stressed sectors such as tourism and construction to recover as economic activity picked up.

The depreciation and volatility of the LKR exchange rate experienced after the Central Bank of Sri Lanka stopped intervention in the market from 10 February 2012 and the gradual rise in LKR interest rates coupled with credit growth restrictions that are in place will cause stress to some borrowers. Vigilance and the investments made in building risk management capacity will stand DBB in good stead to take proactive steps to manage the situation. The significant capital buffer available to DBB will be a source of strength to absorb any downside.

Cost Leadership through Synergies and Productivity

Riding on DFCC's track record of best in class cost to income ratios, which was 31.6% during the year, DBB likewise posted a creditable cost to income ratio of 42.5% for the year which compares very well with domestic private banks operating in Sri Lanka. This was largely achieved through reaping synergies arising from shared services between DFCC and DVB, as well as continuous productivity improvements on all fronts.

Tax Reforms Improve Profitability, but New Issues Emerge

As I mentioned last year, the national budget proposals presented in November 2010 proposed far reaching steps to reform the tax structure in the country. The measures included a reduction in the standard corporate tax rate from a regionally high level of 35% to 28%, and more importantly for banks, the reduction of the financial services value added tax rate from 20% to 12%. The latter is effectively an additional income tax, about which banks had made repeated representations over the years. These measures made a positive impact on the results of DBB during the year under review and will contribute to internal capital formation to support future growth.

The requirement to prepare financial statements in full compliance with International Financial Reporting Standards (IFRS) with effect from the financial year ending on 31 March 2013 has surfaced certain issues relating to taxation that needs to be addressed due to the tax legislation not being aligned with some of the income and expenditure measurement criteria of IFRS. The banking industry has identified the gaps that need to be addressed and will be engaging policy makers in a bid to achieve convergence.

Subsidiaries and Joint Ventures

Apart from DVB, Acuity Partners (Pvt) Limited (APL), the equally-owned joint venture with Hatton National Bank PLC is a significant member of the DFCC Group delivering the full range of investment banking services. APL played an active role in Initial Public Offerings and Private Placement of equity, managing issues in excess of LKR 9,000 million or about 30% of the total issued to the market. The market downturn and reduced trading volumes in the latter part of the year meant that the stock broking unit could not maintain the level of profitability of the previous year. Overall, APL recorded a net profit after tax of LKR 231 million compared with LKR 301 million in the previous year. The market conditions in which APL and its subsidiaries are operating continue to be difficult and 2012 is likely to be a challenging year.

Lanka Industrial Estates Limited recorded a steady performance. The Information Technology subsidiary Synapsys Limited, apart from providing services to DFCC and DVB, invested in enhancing the capabilities of its MBanx mobile banking platform which is deployed in DVB. The development costs are recognised as expenditure and resulted in Synapsys incurring a loss of LKR 12.9 million for the year compared with a profit of LKR 6.6 million in the previous year. MBanx recently won the Technology Development Award at the annual meeting of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). Synapsys is currently working on business models to market MBanx internationally.

Convergence with International Financial Reporting Standards

Of particular significance to banks is the impending adoption of Financial Instruments Standards and full convergence with IFRS and International Accounting Standards effective from the financial year that commenced on 1 April 2012 in the case of DFCC. Further information is given in Notes to the Financial Statements.

DBB has made considerable progress in the preparatory work towards transition to the new Accounting Standards. The two key areas that have an impact on the financial statements by way of adjustments to the brought forward retained earnings are the cumulative impairment charge on impaired loans at the beginning of the period compared with the cumulative provisions made under the previous accounting standards, and the recognition of fair value instead of cost of investments classified as available for sale. Based on internal estimates, DBB is not expected to incur any additional impairment charge to the retained earnings on account of loans. Also, the restatement of the value of investments available for sale will result in a significant addition to shareholders funds.

Domestic Corporate Debt Market will Need to Come of Age

As mentioned earlier, sustaining the country's development agenda will require vast amounts of capital. Traditionally, bank credit has been the major source of funding in Sri Lanka but going forward the development of long-term debt markets is *sine qua non* for the country's forward march. The Government has taken steps to establish benchmarks in the international capital markets for both USD and LKR borrowings, thus paving the way for businesses to follow. At the same time, domestic corporate debt markets need to be widened and deepened by developing a long-term yield curve and robust trading, distribution, market making and settlement mechanisms within a sound regulatory framework. Banks should not view capital markets as competitors but as partners in the emerging era where banks will be called upon to allocate more capital to support the risks inherent in their business models.

Teamwork is the Key

My colleagues in the Management Team and staff at all levels have in no small measure put their shoulder to the wheel in turning out yet another excellent year for DFCC, DBB and the Group. I express my gratitude to all of them. I also acknowledge with appreciation the unstinted support received throughout the year from the Chairman, Board of Directors, the Central Bank of Sri Lanka and Government agencies, and look forward to the same degree of cooperation in the years ahead.

Nihal Fonseka
Chief Executive

30 May 2012

Board of Directors

J M S Brito 01
Chairman

A S Abeyewardene 02
Director

T K Bandaranayake 03
Director

Dr L P Chandradasa 04
Director

G K Dayasri 05
Director

A N Fonseka 06
Chief Executive/Director

Mrs Sharmalie Gunawardana 07
Government Director

C R Jansz 08
Director

J E A Perumal 09
Director

R B Thambiayah 10
Director


05
04
10
06
07
01

J M S BRITO

Chairman

Appointed to the Board of DFCC Bank in March 2005; appointed Chairman in September 2005.

Mr Brito is Deputy Chairman and Managing Director of Aitken Spence PLC; Chairman of DFCC Vardhana Bank PLC and Chairman of the Employers' Federation of Ceylon. He was formerly Chairman of SriLankan Airlines, a Director of Sri Lanka Insurance Corporation; a Member of the Strategic Enterprise Management Agency (SEMA), the Post-Tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Public Enterprises Reform Commission (PERC). He has gained management expertise serving companies such as Pricewaterhouse - London, British EverReady PLC, Minmetco Group and the World Bank.

Mr Brito holds a Degree in Law and an MBA. He is a Fellow of the Institute of Chartered Accountants of England and Wales and a Fellow of The Institute of Chartered Accountants of Sri Lanka.

A S ABEYEWARDENE

Director

Appointed to the Board of DFCC Bank in August 2009 and designated Senior Director in November 2011.

Mr Abeyewardene is a Director of Continental Insurance Lanka Limited (a wholly-owned subsidiary of Distilleries Company of Sri Lanka PLC), Ceylon Hospitals PLC, J L Morrison Son & Jones PLC and Durdans Medical and Surgical Hospital (Pvt) Limited. Previously he was a Partner at KPMG, Sri Lanka.

Mr Abeyewardena is a Fellow of The Institute of Chartered Accountants of Sri Lanka, Fellow of the Institute of Directors - UK and Fellow of the Society of Certified Management Accountants of Sri Lanka.

T K BANDARANAYAKE

Director

Appointed to the Board of DFCC Bank in June 2010, having previously served as Alternate Director to Mr T Caglayan since October 2009.

Mr Bandaranayake currently serves on the Boards of Central Finance Co. PLC, Nawaloka Hospitals PLC, Laugfs Gas PLC, Samson International PLC, Overseas Realty (Ceylon) PLC, Micro Holdings Limited, Harischandra Mills PLC, Coco Lanka PLC and Renuka Holdings PLC. He is a former Chairman of the Audit Faculty and current Chairman of the Quality Assurance Board established by The Institute of Chartered Accountants of Sri Lanka. He is a former Senior Audit Partner of Ernst & Young and a former Director of DFCC Vardhana Bank PLC.

Mr Bandaranayake is a Graduate of the University of Ceylon and a Fellow of The Institute of Chartered Accountants of Sri Lanka.

DR L P CHANDRADASA

Director

Appointed to the Board of DFCC Bank in October 2011.

Dr Chandradasa is the National Coordinator of Nutrition at the President's Secretariat. He is also the Chairman of P J Pharma (Pvt) Limited, Employees Holdings Pvt Limited and MED 1 (Pvt) Limited.

He was formerly Commissioner of the Securities & Exchange Commission of Sri Lanka, Chairman of the Sri Lanka Ports Authority, National Aquaculture Development Authority, Ceylon Fisheries Harbours Corporation and General Secretary of the Government Medical Officers Association.

Dr Chandradasa holds an MBBS Degree from the University of Colombo. He has completed the Module on Refugee Medicine and Medicine in Emergencies of the Master's Programme in International Health at the University of Copenhagen.

G K DAYASRI

Director

Appointed to the Board of DFCC Bank in March 2010.

Mr Dayasri is a practicing senior Attorney-at-Law. He is a former Director of Sri Lanka Insurance Corporation Limited and the Colombo Stock Exchange.

Mr Dayasri holds a Degree in Law from the University of Colombo.

A N FONSEKA

Chief Executive/Director

Appointed to the Board of DFCC Bank as an Ex Officio Director in January 2000 along with his appointment as Chief Executive.

Mr Fonseka is a career banker. He is a Member of the National Payments Council and the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka. He is the President of the National Advisory Council of the Chartered Institute for Securities & Investment, UK.

Mr Fonseka is the immediate past Chairman of the Colombo Stock Exchange (2006-11) and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) (2010-12). He served as a member of the Presidential Commission on Taxation (2009) and the Inter Regulatory Institutions Council.

In the past he has also served as a member of the Strategic Enterprise Management Agency (SEMA), the Post Tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Ministerial Task Force on Small and Medium Enterprises.

He is a graduate of the University of Ceylon, Colombo and is a Fellow of the Institute of Financial Studies (Chartered Institute of Bankers), UK.

MRS SHARMALIE GUNAWARDANA

Government Director

Appointed to the Board of DFCC Bank in August 2010.

Mrs Gunawardana is presently Director General of the Legal Affairs Department of the Ministry of Finance and Planning, and also spearheads the Government's fiscal reforms programme as Project Director. She is a Board Member of the Superior Courts Complex Board of Management and the Postgraduate Institute of English, and serves as a Trustee of the Judicial Infrastructure Maintenance Trust Fund - Judicial Services Commission. She has over two decades of experience holding senior public office, and was formerly Senior Assistant Secretary of the General Treasury and Secretary to the Commission/ Director Legal of the Public Enterprises Reforms Commission (PERC).

Mrs Gunawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka, a Notary Public and a Commissioner for Oaths, and holds a Master's Degree in International Commercial Law - UK. She has previously undergone training at Harvard University, Amsterdam Institute of Finance and the World Bank.

C R JANSZ

Director

Appointed to the Board of DFCC Bank in July 2010.

Mr Jansz counts over 35 years experience in logistics in the import/export field and in documentation, insurance, banking and finance relating to international trade. He presently serves on the Boards of Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, Lanka Milk Foods (CWE) PLC and several other companies of the Distilleries Group. He is a former Chairman of Sri Lanka Shippers Council and a former Member of the National Trade Facilitation Committee of Sri Lanka.

Mr Jansz holds a Diploma in Banking and Finance from the London Guildhall University. He is also a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers.

J E A PERUMAL

Director

Appointed to the Board of DFCC Bank in February 2012.

Mr Perumal is Regional Managing Director of Mainetti Sri Lanka and Bangladesh (a Group with a presence in 42 countries), and Managing Director of Mainettech Lanka (Pvt) Limited, Techstar Packaging (Pvt) Limited, BSH Ventures (Pvt) Limited and Hotels Corporation PLC. He previously served on the Boards of Sri Lanka Tourist Board and the Consumer Affairs Authority.

R B THAMBIAYAH

Director

Appointed to the Board of DFCC Bank in July 2010.

Mr Thambiayah is Chairman of several companies in the Renuka Hotels Group and Chairman of Cargo Boat Development Company PLC. He serves on the Boards of Rocell Bathware Limited, Royal Porcelain (Pvt) Limited and Royal Ceramics Lanka PLC. He is a former President of Colombo City Tourist Hotels Association and Vice President of the Tourist Hotels Association of Sri Lanka.

Mr Thambiayah holds a Degree in Economics from the University of Madras.

Management Team

Chief Executive

Nihal Fonseka
BSc FCIB (UK)
Chief Executive/Director

Executive Vice Presidents

H A Ariyaratne
BSc
Lending

Trevine Fernandopulle
BSc MSc FCIB (UK)
Chief Risk Officer

S Nagarajah
FCMA(UK) FCA FCCA
Finance

Lakshman Silva
BCom MBA
Chief Executive Officer -
DFCC Vardhana Bank PLC
(on secondment)

Anomie Withana
FCMA (UK) FCA MBA
Operations/Board Secretary

Senior Vice Presidents

Nandasiri Bandara
BSc (Bs. Admn) FCA
Internal Audit

Tyrone De Silva
CEI MBA
Corporate and Investment Banking

Dinesh Fernandopulle
BSc MSc
Group Chief Information Officer

Palitha Gamage
BSc (Eng) MBA ACMA (UK)
Planning and Plan Implementation

Manohari Gunawardhena
BSc MA (Fin. Econ) MBA ACI (Dealing Cert)
Treasury and Resource Mobilisation

Ananda Kumaradasa
BSc ACMA (UK) MBA
Branch Banking & SME

Dharmasiri Wickramatilaka
BSc (Eng) MBA ACMA (UK)
Branch Banking

Vice Presidents

Bhathiya Alahakoon
BSc (Eng)
Regional Manager

Chinthika Amarasekara
ACA
Accounting and Reporting

Renuka Amarasinghe
LLB Attorney-at-Law
Corporate Banking

Jayani Amarasiri
BA (Econ) MA
Human Resources

Gunaratne Bandara
BSc (Pb. Admn)
Manager - Ratnapura Branch

Chandana Dharmawardana
BSc (Eng) MIESL
Corporate Banking

Terrence Etugala
BSc (Acct)
Manager – Kandy Branch

Errol Fernando
CIB- UK (Part 1)
Credit Administration

Neville Fernando
BSc ACMA (UK) PMP
Business Systems

Samarakkodi Godakanda
BSc (Agri)
Manager – Kurunegala Branch

Chaminda Gunawardana
BSc AIB MBA
Business Banking

Roshan Jayasekara
ACMA (UK)
Business Banking

Sonali Jayasinghe
BSc (Bs & Econ)
HR Operations and Talent Management

Ruwangani Jayasundera
ACMA (UK) MBA
Manager - Nawala Branch

Chanaka Kalansuriya
MBA
Procurement and Services

Chanaka Kariyawasam
BSc (Pb. Admn) MBA AIB
Regional Manager

Nanediri Karunasinghe
BSc (Eng) MPhil (Eng) ACMA (UK)
Leasing

Prasanna Premaratne
MSc (Agri) PGD in Bank Mgmt
Regional Manager

Wajira Punchihewa
BSc MA (Fin. Econ) MBA AIB ACMA (UK)
Manager – Matara Branch

Sriyani Ranatunga
FCMA(UK) MBA MA (Econ)
Corporate Banking

Kapila Samarasinghe
BSc (Eng) MSc (Eng)
Manager – Gampaha Branch

Kusumsiri Sathkumara
BA (Econ) MBA
Regional Manager

Priyadarsana Sooriya Bandara
BSc (Bs. Admn) MBA ACMA (UK)
Regional Manager

Visaka Sriskantha
BA Attorney-at-Law
Litigation

Kapila Subasinghe
BSc (Eng) ACMA (UK)
Corporate Banking

Rosheeni Madanayake Wijesekera
BA PGD in Bs. Admn
Corporate Communications

Assistant Vice Presidents

Pradeep Ariyarathne
BSc (Ph.Sc) MBA
Manager - Kotahena Branch
(on secondment to DFCC Vardhana Bank)

Shantha Atapattu
BSc (Agri)
Manager - Kaduruwela Branch

Amanthi Balasuriya Dahanayake
BA (Econ)
Risk Processes and Controls

Subhashi Cooray
BSc (Bs. Admin) ACA
Credit Administration

Pradeepa De Alwis
BSc (Stat) PGD in Bs. Admn MBA
Manager - Galle Branch

Aruna Dissanayake
BSc (Agri) MSc (Agri. Econ) AIB
Manager - Badulla Branch

Ranjith Dissanayake
BCom MBA
Manager - Bandarawela Branch

Champal de Costa
BSc (Eng) MBA MIESL CEng
Manager - Malabe Branch

Sanjeewa Fernando
BBMgt (Acct) CFA
Integrated Risk Management

Bandula Gamarachchi
ACMA(UK) AIB FCMA MBA
Credit Administration

Bhatika Illangarathne
BSc ACMA ACIM
Manager - Anuradhapura Branch

Nalin Karunatileka
BSc (Bs. Admn) MA (Fin. Econ)
Project Management

Jayanath Liyanage
BSc (Agri) MBA
Manager - Ampara Branch

Duleep Mahatantila
BA (Acct & Econ) PGD in Law
Barrister of Law
Credit Administration

Kelum Perera
BSc MBA
Matara Branch

Thejaka Perera
BSc (Ph.Sc)
Attorney-at-Law ACI (Dealing Cert)
Treasury

Nimali Ranaraja
LLB Attorney-at-Law ACMA(UK)
Business Banking

Sepali Ranawana
LLB Attorney-at-Law
Legal

Mangala Senaratne
BSc (Eng)
Manager - Kalutara Branch

Nishan Weerasooriya
BSc (Comp. Sc) MBA
IT Operations

Chandrin Wimaladarma
BA Attorney-at-Law MBA
Special Loan Administration

Group Structure

SUBSIDIARY COMPANIES

Company	**DFCC Consulting (Pvt) Limited**		**DFCC Vardhana Bank PLC**		**Lanka Industrial Estates Limited**	
Address	73/5, Galle Road, Colombo 03		73, W A D Ramanayake Mawatha, Colombo 02		LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola	
Phone Nos.	+94 11 2442318, +94 11 2442021, +94 11 2442009		+94 11 2371371		+94 11 2400318, +94 11 5738446	
Email	rohantha.seneviratne@dfccbank.com		info@dfccvardhanabank.com		lindel@itmin.net	
Incorporated	9 September 2004		25 August 1995		12 March 1992	
DFCC's Interest	100%		99.07%		51.16%	
Principal Activity	Consultancy Services		Commercial banking		Owning and managing industrial estate	
Directors	1. A N Fonseka *(Chairman)* 2. S E de Silva 3. T W de Silva 4. K C S Dharmawardana		1. J M S Brito *(Chairman)* 2. L H A L Silva *(CEO)* 3. L N de S Wijeyeratne 4. T Dharmarajah 5. A N Fonseka 6. R S Jayawardena 7. S Nagarajah 8. Ms R A P Withana		1. A N Fonseka *(Chairman)* 2. H A Samarakoon *(CEO)* 3. T W de Silva 4. Dr R M K Ratnayake 5. A D Tudawe 6. Mrs W H A Wimalajeewa	
Financial Year End	31 March		31 December		31 March	
Financial Year	**2011/12**	2010/11	**2011**	2010	**2011/12**	2010/11
Profit after Tax	**LKR (0.99) million**	LKR (2.1) million	**LKR 531 million**	LKR 276 million	**LKR 107 million**	LKR 98 million
Dividend per Share	**–**	LKR 2.00	**LKR 0.40**	LKR 0.30	**LKR 6.00**	LKR 4.00
ROE	**–**	–	**13.6%**	9%	**22%**	22%

		JOINT VENTURE		ASSOCIATE COMPANY	
Synapsys Limited		**Acuity Partners (Pvt) Limited**		**National Asset Management Limited**	
540, Nawala Road, Rajagiriya		53, Dharmapala Mawatha, Colombo 03		305, Vauxhall Street, Colombo 02	
+94 11 2880770		+94 11 2206206		+94 11 2445911	
contactus@synapsys.sg		info@acuity.lk		info@namal.lk	
11 October 2006		7 February 2008		16 June 1990	
100%		50%		30%	
Information technology and IT enabled services		Investment banking including related financial services		Fund management	
1. A N Fonseka *(Chairman)* 2. D J P Fernandopulle *(CEO)* 3. T W de Silva 4. S Nagarajah		1. R Theagarajah *(Chairman)* 2. M R Abeywardena *(MD/CEO)* 3. T W de Silva 4. D A B Ellepola 5. A N Fonseka 6. Mrs M Gunawardhena 7. J R P M Paiva 8. J M J Perera		1. A de Zoysa *(Chairman)* 2. A Lovell *(Deputy Chairman)* 3. A Amarasuriya 4. Khoo Siew Bee 5. T W de Silva 6. A N Fonseka 7. A Herath 8. Yiu Joe Toh 9. J Warnakulasuriya	
31 December		31 December		31 December	
				Financial year end was changed from March to December in 2011	
2011/12	2010/11	**2011/12**	2010/11	**2011**	2010/11
LKR (12.9) million	LKR 6.6 million	**LKR 231 million**	LKR 301 million	**LKR 16** million *(for nine months ended 31.12.2011)*	LKR 22 million *(for 12 months ended 31.03.2011)*
–	–	**LKR 0.25**	LKR 0.15	**LKR 1.50**	LKR 1.25
–	43%	**12%**	24%	**12.6% (Annualised)**	13.5%

Operations Review

The project finance portfolio of the corporate sector remains well diversified. About 83% of the total facilities booked are accounted for by six industry sectors led by manufacturing, which itself includes 12 sub-sectors. The project pipeline is strong and a welcome trend.

For the most part of 2011 the macroeconomic environment in the country was conducive for trade and investments. GDP grew at an impressive 8.3%, driven by the industrial and services sectors; inflation remained stable in the mid single digits; and interest rates were relatively low. However, some overheating was evident in the second half of the year with a widening deficit and balance of payments position, leading to the Central Bank introducing corrective measures that included the depreciation of the Rupee, a hike in policy rates and a ceiling on credit expansion by banks.

As in the previous year, this Review of Operations of the DFCC Group first deals with our core businesses of development and commercial banking that are delivered through an operationally merged DFCC Bank (DFCC) and DFCC Vardhana Bank PLC (DVB) respectively. They are collectively referred to as DFCC Banking Business (DBB). This is followed by investment banking, which is largely channelled through our joint venture company, Acuity Partners (Pvt) Limited and its subsidiaries. The Review ends with a brief discussion on the activities of other companies within the DFCC Group.

Development Banking

Overall Performance

Development Banking, one of the core businesses of the Group, recorded growth and improvements in all key areas including facility approvals, portfolio growth and portfolio quality. Its two main arms, corporate banking and small and medium enterprise (SME) financing, contributed almost equally to this growth.

Approvals of project finance facilities - comprising term loans, finance leasing, investment securities and guarantees - reached LKR 39,744 million during the year, an aggregate growth of 14.7% over the LKR 34,637 million of the previous year. Project loan approvals accounted for LKR 29,591 million or 74.5% of the current year's total. The main business segments financed were food & beverage, construction, tourism, renewable energy, agriculture and fisheries & diversified holding companies which borrowed for projects of their respective subsidiaries.

The total project financing portfolio stood at LKR 59,793 million by year end, an increase of 39% over the last year's portfolio of LKR 43,030 million. The portfolio comprises term loans (73%), finance leases (15%), and preference shares and debt securities (12%). It is well diversified with nearly 75% being accounted for by eight broad industry sectors. Exposure to each sector is regularly monitored against the internal exposure limits set by the Board Risk Management Committee to proactively manage concentration risks.

The gross non-performing assets recorded a reduction and the NPA ratio of the project financing portfolio improved from 6.4% to 4.3% during the year. This quality improvement is a combined effect of the favourable macroeconomic conditions that prevailed during the year, a substantial portfolio growth and concerted recovery efforts.

Project Financing for Corporate Clients

The total project finance portfolio of DFCC Banking Business (DBB) for corporate clients grew 35% from LKR 18,053 million to LKR 24,366 million. This is the highest annual growth recorded in the past decade and is a strong reversal of the contraction that took place during the previous three years. The increase was driven by disbursements of LKR 12,329 million, which is nearly double the amount in the previous year. In terms of facilities, a total of LKR 17,370 million was approved in the form of direct project loans to project executing enterprises and indirect project loans to holding companies and financial intermediaries. Although, the market tightened in the second half of the year, the favourable conditions in the first half and the launch of several projects that were in gestation last year were among the contributory factors to this performance.

Given the rapid growth, the maintenance of portfolio quality was a priority and this was achieved successfully. The non-performing asset ratio for corporate project loans as at 31 March 2012 remained at a historically low level with non-performing facilities amounting to just over LKR 50 million. This bears out the quality of project appraisal as well as the diligence of follow up. At the same time, there was special focus on those sectors with high dependence on export markets and imported inputs where adverse external trends that could impact businesses and impair debt servicing were evident. Another important aspect in maintaining the quality of the project finance portfolio is the continuous monitoring, which provides early warning signals of distress situations and thereby enables preventive action.

The project finance portfolio of the corporate sector remains well diversified. About 83% of the total facilities booked are accounted for by six industry sectors led by manufacturing, which itself includes 12 sub-sectors.
The project pipeline is strong and a welcome trend is the renewed credit demand from sectors such as food & beverage, tourism, construction and trade. Credit demand is also driven by funding for the new public infrastructure projects with the Government actively seeking finance from the private banking sector for specific projects.

The credit expansion ceiling imposed at the beginning of 2012 is not expected to prove a major impediment given that project loans are amortisable and the capital repayments will reduce the outstanding loan balances allowing the reductions to be utilised for new project loans. Moreover, funding for certain projects with foreign currency revenues can be provided in US Dollars and the ceiling does not apply to such facilities. Therefore, all things considered, there is strong confidence that DFCC's project financing business will grow as anticipated.

Commercial Banking for Corporate Clients

DBB offers a full range of fee and fund based commercial banking products and services to corporate customers. During the year, a total of LKR 9,079 million in credit limits was approved for such customers, resulting in the corporate banking portfolio growing by 72% from LKR 12,668 million to LKR 21,747 million. In response, facility utilisation grew strongly by 94% from LKR 5,490 million to LKR 10,629 million, which included an increase of 89% in advances from LKR 3,349 million to LKR 6,314 million.

Underpinning this performance was a combination of several factors. While market conditions were generally conducive for direct business, DBB's cross selling ability meant that it could capitalise on the demand for commercial credit stimulated by the launch of projects that were financed by DFCC. At the same time, DVB's increased single borrower exposure limit that followed an equity infusion and subordinated debt issue, and an enlarged correspondent banking network enhanced

DVB's ability to undertake larger transaction volumes in the corporate banking sector. In fact, a notable feature of the business developed during the year was the growth in trade-related facilities. This was generated from the enhancement of existing facilities as well as from acquisition of new customer relationships.

The favourable market conditions did have a positive impact on the performance of corporate customers. Even so, a proactive strategy was continuously employed to maintain a high-performing credit portfolio. Its effectiveness on the quality of the portfolio is borne out by the zero non-performing loan ratio recorded for the DBB corporate commercial banking business (provided through DVB) as at 31 December 2011. Besides rigorous appraisal and due diligence, the strategy includes risk management at overall and specific levels and stringent monitoring and follow-up action. The quality assurance of the portfolio is also underpinned by the continuous credit review and rating process, which signals the onset of stress situations and triggers corrective action. As a case in point, businesses in those sectors with a high dependence on export markets or imported inputs, where adverse trends were emerging, received special attention during the year.

Looking ahead, demand for both short-term and long-term funding is gathering momentum. However, the ceiling on credit expansion imposed by the Central Bank will bear temporarily on DBB's commercial banking business growth.

Financing Small and Medium Enterprises

DBB provides finance and allied services for SMEs through the Business Banking Unit in Colombo and a network of 50 branches and three extension offices located in the provinces.

Total credit facilities approved by DBB to the SME sector during the year amounted to LKR 49,903 million, an increase of 20% over the previous year. This included project loans, permanent working capital loans, short-term loans, export & import loans and finance leases. Lease approvals, which accounted for 14% of gross approvals, increased by 17%, largely driven by the reduced import duty on motor vehicles and the very strong growth in the construction sector.

In tandem, the total SME portfolio of DBB increased from LKR 34,991 million to LKR 54,651 million during the year, reflecting a healthy growth of 56% that follows a 29% growth in the previous year. Dominated by loans and leases, the SME portfolio, accounts for about 61% of DBB's total credit portfolio. The SME sector covers a wide range of activities and is the backbone of regional economies. Our assistance to this sector contributes to the development of entrepreneur skills, resource allocation and utilisation, employment creation and finally distribution of income in the regions. The economic activities assisted include construction, transportation, wholesale and retail trade, health, leisure, education, light engineering workshops, food and beverage, poultry and cultivation of crops.

We reported last year about a new Business Banking unit, which was set up to service a customer segment that we had identified - a group with specific and distinct needs. This segment comprises clients of the semi-corporate end of the SME sector. The terms and conditions of facilities extended are customised to meet specific needs of customers, and our ability to deliver a wide spectrum of financial solutions has thus resulted in a strong growth of this new market segment. The portfolio of business banking loans and advances increased by LKR 2,000 million to LKR 6,355 million during the year. Meanwhile, non-fund based facilities too increased from LKR 1,174 million to LKR 2,306 million, mainly for import financing.

Our involvement with SMEs is not limited to the provision of finance. It comprises a comprehensive package of value added services that include training, education and capacity building on important topics such as business management, leadership, entrepreneurship development, marketing, customer care, problem solving and taxation. We conducted nine such training programmes in major towns for both clients and potential entrepreneurs during the year. These programmes were well received and attracted over 700 participants from diverse industries.

This illustrates our continued and comprehensive support for the SME sector and our commitment to accelerate regional economic growth by leveraging on our core competencies in development banking and SME lending.

The quality of our SME portfolio also improved significantly during the year. Non-performing assets reduced from 11.8% to 7.7% during the year, driven by the twin effects of portfolio growth and a reduction of impaired loans in absolute terms. Given the development-oriented nature of SME financing undertaken by DBB, including the relatively high risk start up ventures, the non-performing asset ratio of 7.7% for SMEs is considered to be at an acceptable level. The non-performing loans, advances, and lease ratio relating to SME finance, excluding legacy loans under legal action for recovery was 6%.

DFCC strives to finance SMEs from credit schemes as far as possible in order to pass on the benefits of concessionary pricing and longer repayment periods available under such schemes to customers. We participated in 11 credit schemes targeting the SME sector that were in operation during the year, namely Small and Medium Enterprise Development Facility (SMEDeF) extended by the World Bank, KfW-DFCC V for SMEs in the North and East, Dasuna Revolving Fund, Awakening the North, Awakening the East, Agro Livestock Development Scheme (ALDL), New Comprehensive Rural Credit Scheme (NCRCS), Saubagya Loan Scheme, Second Perennial Crop Development Project Revolving Fund (PCDP II-RF), Tea Development Project Revolving Fund (TDP-RF) and Construction Sector Development Project (CSDP).

DFCC disbursed LKR 307 million out of its allocation of LKR 368 million (83.4%) under the SMEDeF credit scheme and LKR 216 million under the KfW-DFCC V scheme as at 31 March 2012.

DBB also granted facilities to borrowers from the Investment Fund which is referred to in the Financial Review and was set up in conjunction with the reduced taxes that became applicable.

Credit Line Management

The Renewable Energy for Rural Economic Development (RERED) Project funded by the World Bank and the Global Environment Facility where DFCC Bank functioned as the administrative unit, and the KfW-DFCC V credit line for SME's in the North and East, in which DFCC functioned as the apex body came to a successful close during the year under review.

Renewable Energy for Rural Economic Development Project

The RERED Project consisted of two credit lines of USD 75 million and USD 40 million, a grant component of USD 8 million and a Government subsidy programme. The project aimed to foster rural economic development and improve the quality of life in rural areas by providing access to electricity. It also focused on expanding the commercial provision of electricity generated from renewable resources. The RERED Project was completed with 100% and 99.3% disbursements of the credit and grant components respectively. The total loans, grants and subsidies disbursed during the life of the Project from 2002 to 2011 amounted to LKR 14,490 million.

The RERED Project assisted the electrification of 116,795 households in remote areas not served by the national grid through solar home systems and community-owned independent mini-grid systems. The Project will also add a total of 184 MW of generating capacity to the national grid through 68 small hydro and two wind projects when the balance projects totalling 26 MW are commissioned shortly. The already commissioned on-grid projects had by 31 December 2011 contributed to the mitigation of over 2.15 million tonnes of CO_2 emissions.

The RERED Project, together with its highly acclaimed predecessor - the Energy Services Delivery (ESD) Project, also implemented by DFCC - played a crucial role in the inclusion of Non-Conventional Renewable Energy (NCRE) sources into the national energy mix. NCREs contributed 244 MW or 7.7% of the installed capacity of the national grid as at 31 March 2012. RERED and ESD-funded projects accounted for 77% of this capacity.

Due in no small part to the efforts of the RERED Project and its stakeholders, small hydro and wind are now mainstream renewable energy technologies in Sri Lanka. The small hydro industry, developed entirely with indigenous talent, can be termed as 'world class' with many Sri Lankan developers and contractors exporting know-how and even equipment overseas. While the country's first privately-owned grid-connected wind power project was funded by the RERED Project, the various technical assistance initiatives such as funding for independent technical due diligence studies and capacity building programmes gave Sri Lankan banks the confidence to lend to an entirely new and untried sector.

In terms of off-grid electrification, the RERED Project assisted 110,575 rural households to acquire solar home systems and 6,220 households in 175 villages to obtain electricity from 173 micro hydro projects and two biomass based projects. With the addition of households assisted under the ESD Project, a total of 139,480 households or around half a million Sri Lankan citizens in remote areas were able to enjoy a greatly improved quality of life due to the availability of electricity. Consequent to a study undertaken to develop a mechanism for integrating existing off-grid village hydro schemes into the national grid, two micro hydro projects will shortly be connected to the grid. The CEB will treat the newly-created village electricity generation companies as regular small hydro companies and pay them the same tariff.

The World Bank has recognised RERED as a 'flagship' project and we have shared our experiences with counterparts from several countries including Cambodia, Ghana, India, Indonesia, Mozambique, Nepal, Philippines, Rwanda, Uganda and Vietnam over the years. During the year under review, DFCC hosted a team from Uganda. In January 2012, the UNDP published a case study on the RERED Project titled 'Renewable Energy Sector Development: A Decade of Promoting Renewable Technologies in Sri Lanka'. In October 2011, the National University of Singapore published a case study on the ESD Project titled 'Harvesting the Elements: The Achievements of the Sri Lanka Energy Services Delivery Project'.

KfW-DFCC V Credit Line for SMEs in the North and East

The EUR 5 million KfW-DFCC V credit line for SMEs in the North and East, which aimed at improving access to financial services through the banking sector for entrepreneurs in the two provinces, closed successfully on 31 March 2012 with 100% disbursement of refinance amounting to LKR 771 million. Five banks participated in the Project. The post-war economic boom in the region together with relatively low interest rates contributed to the success of the Project. The majority (93%) of the total 488 loans and leases granted were less than LKR 3 million in value. The sectors funded were mainly agriculture, transport, trading, manufacturing and services.

Funding

The Group Treasury is responsible for resource mobilisation using appropriate borrowing mechanisms from the local and international wholesale markets.

The development banking business was able to utilise funding from the existing European Investment Bank (EIB) Global II credit line under revised criteria which also coincided with the economic upturn and the resultant increased demand in the capital asset funding market. A credit line from the German development financing institution DEG amounting to USD 30 million was successfully negotiated on competitive terms and drawn down within a very short period. This new line of funding assisted in strengthening the maturity profile of the liability base of DFCC.

During the year, Group Treasury structured and issued a subordinated debenture for our commercial banking arm, DVB. This was the first debenture issue of DVB, and the positive response was encouraging. The debenture was subsequently listed on the Colombo Stock Exchange. The Treasury was also actively involved in mobilising resources on favourable terms for both commercial and development banking businesses of the Group. It is exploring cross border funding opportunities while taking steps to manage the market risks that arise.

Personal Financial Services

2011 was an important year, as DBB intensified its strategic focus on the personal financial services (PFS) segment. In order to support this initiative an investment was made to establish the DFCC brand in this segment through a major promotional campaign via the award winning knowledge quiz programme 'DFCC MindStar' on national television. An initial outcome of these efforts was the increase of the PFS asset portfolio to LKR 4.2 billion from a base of only LKR 0.9 billion a year ago. This high growth rate, albeit from a small base, demonstrates that DBB has the potential to sustain the growth momentum created in PFS.

The PFS asset product suite comprise of personal loans, housing loans, educational loans, pawning services, finance leasing facilities, credit cards and cash-backed advances. Its liability product range includes demand, savings and time deposits of different maturities and interest payment options. The PFS products, all of which are offered through

DVB and a cross section of which are referred to below, cater to diverse requirements during the life cycle of individuals. The product brandings identify the products closely with the intended use.

Housing Loans

DBB's housing loan scheme, branded *Vardhana Sandella*, was introduced in 2010. The housing loans can be used for a variety of purposes such as purchase of houses, property or residential apartments. They also accommodate construction of new housing units as well as renovation and extension of existing houses. During the year, DBB's housing loan portfolio reached LKR 945 million. Significantly, around 80% of these loans are from provincial branches. It is noteworthy that the impairment rate relating to the housing loan portfolio remains under 1%.

Gold-backed Lending

Gold-backed lending or pawning is a widely used product by personal banking customers as a convenient source of finance. Following a comprehensive study of the pawning market DBB ventured into this business and grew its portfolio from LKR 620 million to LKR 2,455 million during the year. Portfolio growth was driven by strong public awareness created through business promotion, our expanding presence islandwide, competitive advance rates, the upward trend in gold prices, customer-friendly service and Saturday banking facilities. Despite the recent decline in gold prices the infection rate remains at very low levels due to prudent risk mitigation and control mechanisms that are in place.

Leasing

DVB added finance leasing to the product portfolio in mid 2011. The leasing portfolio grew to LKR 493 million within a short period of time. It is marketed as a personal financial product mainly for the acquisition of vehicles, and supplements financial leases offered by DFCC to businesses.

Credit and Debit Cards

Having launched the Visa International Debit Card in the last quarter of the year 2010, DBB proceeded to issue over 10,000 debit cards during the year 2011. The Visa Debit Cards provide access to over 16 million Visa accredited merchant establishments globally for purchase of goods and services. They can also be used for cash withdrawals worldwide through the Visa ATM network of over two million ATMs.

DBB launched its chip-based Visa International Platinum Cards in the last quarter of the year 2011, in addition to existing Visa Classic and Gold Cards. DBB is among the first few issuers of chip-based credit cards in Sri Lanka that provide enhanced protection against credit card frauds. This security mechanism has been further fortified with the SMS alert message service relating to all transactions conducted with credit cards.

Remittances

The outward foreign currency remittances by DBB during the year grew by 29%. This increase is attributed largely to the relaxation of the limit for advance payments for imports in 2011 from USD 10,000 to USD 50,000. DBB also witnessed a substantial increase in inward remittances from expatriate Sri Lankan workers following the strengthening of the infrastructure required. DBB strengthened its correspondent bank network in feeder regions and widened the internal distribution network by equipping the Sri Lanka Post Extension Offices of DBB to handle these transactions.

DBB is taking steps to further widen its links with money transfer companies in the Middle East, Europe, Far-East Asia and Australia from which Sri Lanka receives a high volume of remittances.

The high deposit growth achieved during the year was driven by steadfast direct sales and promotional campaigns conducted across the country. Public deposits continued to be the main funding source of DVB and constituted 73% of all sources of finance including the equity capital.

Other Products

A widely used PFS product is the cash-backed lending scheme branded as *Vardhana Cash-for-Cash* designed for customers to take advances against fixed or savings deposits held with DBB.
The product caters to all temporary personal credit needs of depositors.

Vardhana Nenasa is designed to help Sri Lankan students fund their higher education. The loans can be used to meet the expenses of locally offered courses or for studies in foreign universities. These loans can have repayment periods extending up to ten years while the other terms are customised to suit the borrowers' requirements.

During the year, DBB launched a special loan scheme for selected categories of public sector employees. These loans were actively marketed throughout the branch network.

During the last quarter of 2011, DBB launched a priority banking service branded as *Vardhana Prabhu*. This has so far been rolled out in Jaffna and Batticaloa branches. Priority banking customers will benefit from a host of privileges and DBB has plans to extend this service to customers in other areas during the year 2012.

Liability Products

DBB's deposit product suite includes term deposits of different maturities and interest payments options and savings deposits customised as Junior, Mega Bonus and Senior Citizens' Accounts. The customer deposit portfolio of DBB increased by 75% to LKR 44,420 million during the year, thus consolidating the DBB's standing as a deposit taking institution with wide customer appeal. Of this deposit base LKR 33,587 million was in the DVB which recorded a 43% growth.

Another strategy relating to the deposit mobilisation is to increase the proportion of savings deposits in the overall deposit mix to achieve a better balance in the liability portfolio. During the year, savings deposits grew by 34% from LKR 5,413 million to LKR 7,251 million. The flagship Mega Bonus Savings Account and the Vardhana Junior Minors' Savings Account were the main contributors to this increase in the savings account balances.

Savings deposits, which are only accepted by DVB, comprised 21.6% of the deposit liabilities of DVB as at 31 December 2011. DVB will continue to focus on increasing this ratio as a strategy to reduce the cost of funds.

The high deposit growth achieved during the year was driven by steadfast direct sales and promotional campaigns conducted across the country. Public deposits continued to be the main funding source of DVB and constituted 73% of all sources of finance including the equity capital.

Delivery Channels

DBB products are offered through a network of 50 branches and 77 extension offices. Most extension offices operate through rural Post Offices under an agreement with the Sri Lanka Postal Department.
Three new branches and one extension office were opened in the year under review covering Kegalle, Monaragala, Kalmunai (Saindamarandu) and the Narahenpita Economic Centre. The Katugastota extension office was upgraded into a fully-fledged branch, while the Panadura branch was relocated to a more spacious building.
The Bank has plans to further increase its presence in the Northern Province.

Treasury

The Group Treasury faced a relatively stable interest and exchange rate environment during the first half of the year; but volatility increased and market liquidity declined sharply towards the end of 2011 and through the last quarter of the financial year. However, this volatility also provided opportunities in the currency markets and foreign exchange profit of DBB grew year-on-year due to increased customer business and higher volumes of proprietary trading by DVB. DBB's customer product offering and trading is limited to plain Vanilla products and was undertaken within pre-approved risk limits.

Foreign currency risk management of DFCC also required greater attention due to the additional borrowings designated in foreign currency during the year. The Treasury was able to generate LKR funds through funding swaps using appropriate hedges in place.

The Treasury's fixed income business was less buoyant than last year due to low interest rates that prevailed during most of the year.

Treasury also played a key role in implementing the decisions of the Board Integrated Risk Management Committee and the Asset Liability Management Committee with respect to interest rate, foreign exchange rate and liquidity risk management. Proactive liquidity management was a priority especially in the latter part of the year due to the tighter liquidity conditions which prevailed.

Investment

The Colombo stock market was unable to sustain the previous years' upward momentum and suffered reversals during the financial year with the All Share Price Index falling by 25% to 5,420 and the Milanka Price Index by 29% to 4,892. Whilst many factors attributed for this reversal, it was evident that the valuation of 26 times earnings at the beginning of April 2011 could not be maintained on the basis of fundamentals. The market therefore underwent a correction to a more sustainable valuation level of 14 times earnings. At the same time, the retail activity that provided the speculative element in the market was curbed by restrictions imposed by regulators on extension of credit. The situation was compounded by the rise in interest rates as the year progressed. As such, market turnover decreased significantly with the average daily turnover falling from LKR 2,809 million in the previous financial year to LKR 1,827 million which masks a much lower average volume in the last quarter. However, despite the sluggish market conditions, the period was notable for several equity issues that took place. These included the 13 IPOs, which raised LKR 18,736 million.

Market conditions were not conducive to an active trading strategy. As such, DFCC consolidated its investment portfolio of quoted shares, unquoted shares and unit trust holdings whilst tapping capital gains from sales of mature holdings. On the buy side, notable transactions were the purchase of a 9.9% stake in Nations Trust Bank PLC at a cost of LKR 1,330 million and the subscription to the rights issue of Commercial Bank of Ceylon PLC with an outlay of LKR 691 million. On the sell side, selected divestments of quoted shares and unit trust holdings were made realising LKR 295 million in capital gains. Overall, the aggregate investment in DFCC's entire portfolio increased from LKR 1,595 million to LKR 2,909 million (excluding the cost of the residual holding in Commercial Bank of Ceylon PLC (CBC). As at 31 March 2012, the market value of the quoted investment portfolio (excluding CBC) and unit trust holdings was LKR 3,189 million of which the cost was LKR 2,773 million. The Directors' Valuation of the unquoted investment portfolio was LKR 209 million of which the cost was LKR 136 million. As such the aggregate unrealised capital gain on the total investment portfolio was LKR 489 million. The investment in CBC is carried at a cost of LKR 2,440 million and the market value on 31 March 2012 was LKR 11,399 million. DFCC also has a small share portfolio classified as trading due to regulatory definition, which posted a 'marked to market' loss of LKR 19 million.

During the year, DFCC subscribed to the rights issue of DVB at a cost of LKR 1,098 million. The total capital so infused increased DVB's stated capital to LKR 3,183 million and enabled the bank to amply meet the minimum Tier I capital requirement for licensed commercial banks stipulated by the Central Bank of Sri Lanka. DFCC also increased its shareholding in DVB to 99.07% by buying out some of the minority shareholders.

Investment Banking

Acuity Partners (Private) Limited, the joint venture investment banking group owned equally with Hatton National Bank PLC, performed creditably in a very challenging environment that impacted adversely on its stockbroking and primary dealer subsidiaries in the latter part of the year. The adverse situation in the investment banking business was exacerbated by the entry of several newcomers including seven stockbrokers, all scrambling for a slice of a shrinking pie.

Nonetheless, Acuity's strong competitive advantages enabled it to maintain a prominent position in the industry. The Acuity Group was at the forefront of several landmark transactions in the local capital market. These included the largest private equity placement, which raised LKR 4.9 billion and the highest over subscription - 350 times - to an Initial Public Offering. Acuity was also successful in originating and executing several other IPO management and financial advisory mandates.

Acuity is now a fully-fledged universal investment banking group having broadened its suite of products and services during the year. These include margin trading and underwriting services. Acuity has also moved into asset management through a joint venture with Ceylon Guardian Investment Trust PLC, a member of the Carsons Group. Meanwhile Lanka Ventures PLC, the listed venture capital subsidiary of Acuity focused on expanding its portfolio in the power sector and is moving into other growth sectors as well.

DFCC Bank holds a stake of 30% in National Asset Management Limited (NAMAL), the pioneering Unit Trust Management Company. In March 2011, a consortium led by Union Bank PLC acquired the 70% controlling interest of the Company from Milfrod Holdings (Private) Limited. Accordingly, NAMAL's direction was re-aligned to capitalise on the resources and synergies inherent under the new ownership. A strengthening of the fund management team was implemented and this contributed to the superior relative performances of the unit trusts and private portfolios managed by the Company. The sales team was also expanded to reach a broader and more diverse customer base and this has borne fruit in the significant rise in fund subscriptions experienced during the year. Following on, the Company launched two new unit trust funds; the NAMAL IPO Fund in August 2011 and the NAMAL High Yield Fund in January 2012.

Technology

The wholly-owned Group company Synapsys Limited (SL) provides all technology Related services to DBB. It has a dedicated division that manages the day-to-day information technology requirements of DBB and an external business division that develops products and implements projects in DBB as well as serving external clients. This business model as opposed to having an internal division facilitates better control over technology services costs. SL has deployed its Margin Trading solution developed by its external business division at DBB as well as several other banks. During the year, DBB upgraded its Storage Area Network and is in the process of implementing a server rationalisation and virtualisation project to optimise IT costs. During the year, SL also developed several new modules for its mobile banking platform MBanx and is working on developing partnerships to market it internationally.

Financial Review

The current year witnessed a substantial increase in credit growth in the banking sector. In tandem, DBB posted a healthy 47% credit portfolio growth from LKR 60,771 million to LKR 89,111 million during the year.

Introduction

The profit after tax of DFCC Group in the financial year under review ('current year' or 'the year') was LKR 2,973 million, an increase of 37% over LKR 2,170 million in the previous financial year after eliminating exceptional profit ('previous year'). The exceptional profit of the previous year referred to was LKR 3,001 million relating to the reduction of our shareholding in Commercial Bank of Ceylon PLC (CBC) and it ceasing to be an associate company.

For purposes of making this review meaningful we have provided supplementary financial information of the consolidated banking business comprising DFCC Bank (DFCC) and DFCC Vardhana Bank PLC (DVB) with adjustments for the above mentioned exceptional profit and eliminating the impact of equity accounting for CBC in the previous year. This supplementary financial information is on pages 114 to 118 and has been independently audited by KPMG.

The significant businesses of the Group are the banking business of DFCC and DVB, referred to as DFCC Banking Business (DBB) and the investment banking related services delivered through the joint venture company, Acuity Partners (Pvt) Limited and its subsidiaries.

This Review, based on the supplementary financial information referred to above, firstly deals with DBB and thereafter the performance of other members of the Group.

Profit of DBB

Income Statement

The adjusted profit after tax of DBB in the current year was LKR 2,789 million, a 40.2% increase over LKR 1,990 million in the previous year. DBB's profit drivers are net interest income of the credit portfolio derived from portfolio growth and interest margin, dividend income, gains from sale of non-affiliated share investments, fee and foreign exchange income and management of non-interest costs. Maintenance of credit portfolio quality is imperative to preserve the contribution from these profit drivers.

Net Interest Income (NII)

NII was LKR 4,721 million in the current year, a 6% decrease over the LKR 5,031 million in the previous year. DBB's interest income in the current year of LKR 9,529 million was only marginally higher than the previous year's LKR 9,512 million, while the interest expense of LKR 4,809 million was 7.3% higher than the previous year. As a result, the interest margin reduced to 4.67% during the year, down from 5.55% achieved in the previous year. This decline is in line with the reduction in the overall interest margins for the banking sector and an aggressive customer acquisition policy adopted by DBB.

The current year witnessed a substantial increase in credit growth in the banking sector. In tandem, DBB posted a healthy 47% credit portfolio growth from LKR 60,771 million to LKR 89,111 million during the year. The gross credit portfolio comprises loans and advances, finance leases and bills of exchange.

In the context of a favourable climate for credit growth induced by improved business conditions and a low interest rate regime that prevailed in the first half of the year, DBB pursued a strategy of acquiring major corporate customers and diversifying its market segments. In particular DVB, the commercial banking arm of DBB, offered competitive on-lending interest rates to large corporate borrowers to enter this segment. Although this initially reduces the interest margin, over time cross selling opportunities and reducing cost of funding can restore our profitability. The latter includes composition change of the deposit mix by increasing the proportion of current accounts and savings accounts. The ability to pursue an aggressive pricing strategy was somewhat helped by reduced taxation that prevailed throughout the current year.

The strong credit growth of DBB with new customer acquisition in the current year complemented with diversified loan portfolio of DVB covering both the business segment and the personal finance retail sector augurs well for DBB to grow its market position in the medium term.

However, credit growth in 2012 may moderate due to the credit ceiling imposed by the Central Bank of Sri Lanka as a monetary policy measure, and lead to subdued interest rate volatility.

Other Income

Other income of DBB amounted to LKR 2,159 million, an increase of 26% over the LKR 1,719 million of the previous year excluding the exceptional gains referred to earlier. Dividend income received by DFCC and the sale of non-affiliated quoted shares before the downturn in the domestic share market made significant contributions. DVB's contribution too increased substantially during the year due to the increase in trade finance business.

DVB benefited from the increase in trade finance business and resulting increase its fees and commission income and foreign exchange income. Prudent management of the open foreign currency denominated net asset position enabled DVB to benefit from the sharp depreciation of the LKR *vis à vis* USD in the latter part of 2011. However, DVB's accumulated net assets held in foreign currency is smaller compared with the larger commercial banks and as such the related translation profit from LKR depreciation is not very significant.

Operating Expenses

Non-interest expense in relation to operating income was 42.5% in the current year, an increase over the 37.5% recorded in the previous year. This ratio in the current year for DFCC was 31.6%, which is the lowest in the Sri Lankan banking sector. The ratio for DVB in the current year was 62.6%. The higher ratio is largely attributable to investments in expanding the distribution network, new channels of distribution to cater to technology savvy customers with concomitant head count increase in DVB. The pay back from these initiatives will be realised in the medium term.

Specific Provisions

The gross specific provision of LKR 703 million in the current year is 42.6% lower than the LKR 1,225 million in the previous year, commensurate with improvements in the quality of the loan portfolio. The cumulative specific provision coverage on non-performing loans and advances remained almost the same, 57.6% in the current year compared to 56.5% in the previous year.

Taxes

During the year under review, DBB enjoyed for the first time the full benefit of the reduction in the financial services value added tax from 20% to 12% which became effective from 1 January 2011, as well as the reduction in the income tax rate from 35% to 28%. This reduction in taxes had a significant impact on DBB as in the case of other banks. Thus, while the operating profit before income tax of DBB of LKR 3,405 million in the current year was a 13% increase over the LKR 3,003 million of the previous year, the profit after tax of DBB in the current year saw an upsurge of 40% over the previous year.

The reduction in taxes was accompanied by a mandatory requirement to invest a significant part of the savings in long-term government securities or for granting long-term loans to sectors identified as important for national development. DBB chose the option of deploying the tax savings in loans granted to economically and socially significant sectors. The interest income on these loans is exempt from income tax, to partially compensate the tenor and credit risk implicit in these market segments.

Loan Quality

In the context of reduced interest margins, the quality of loan portfolio and the adequacy of loan loss provisioning assume greater significance. The gross NPL ratio of DBB was reduced from 6.6% to 4.3% during the year. Further, despite a 47% increase in the credit portfolio during the year, there was only a negligible 0.5% increase in the non-performing loans in absolute terms, which amounted to LKR 4,496 million at the end of the current year. The challenge now is to maintain the quality of assets in an increasing interest rate scenario.

Profit of Acuity Partners (Pvt) Limited

Acuity Partners (Pvt) Limited, an equally-owned joint venture between DFCC Bank and Hatton National Bank PLC, together with its subsidiaries constitutes a Group (APG) that provides a full range of investment banking services. During the current year, recorded a profit after tax (PAT) of LKR 231 million which was lower than LKR 301 million in the previous year. The lower profit in the current year was largely due to the market downturn and reduced trading volumes in the latter part of the current year which depressed the performance of the stock broking subsidiary in APG and the adverse impact of rising interest rates on the primary dealer subsidiary although it was partly offset by increased income from advisory and corporate finance activities in the first half of the year. Given the continuing downturn in these businesses the contribution from APG in 2012/13 is likely to be lower.

Profits of Other Members of the Group

This comprises the profit contribution from Lanka Industrial Estates Limited, DFCC Consulting (Pvt) Limited and National Asset Management Limited. The collective contribution to Group profit after tax by these entities was LKR 41 million in the current year compared with LKR 59 million in the previous year. The information technology subsidiary Synapsys Limited incurred a loss of LKR 12.9 million compared with a profit of LKR 6.6 million largely due to the expenses associated with development of the 'MBanx' mobile banking platform. The platform is deployed at DVB and it is being targeted at other potential users.

Dividend Distribution

The Directors have recommended a first and final dividend of LKR 4.00 per share, which will amount to an aggregate payment of LKR 1,060 million. The total dividend payout as a percentage of DFCC Bank's own profit after tax for year to 31 March 2012 is 45.7%. However, certain statutory reserves such as Reserve Fund and Statutory Investment Fund (representing tax savings) are non-distributable, and if the dividend is expressed as a percentage of PAT reduced by non-distributable reserves the payout increases to 55.7%. DFCC Bank made a one for one bonus issue in the previous year and therefore the current dividend of LKR 4.00 per share is equivalent to LKR 8.00 per share before bonus, and a 33 1/3% increase over the final dividend in the previous financial year.

Regulatory Capital

The capital adequacy ratio on 31 March 2012 was 20.3% which is well above the 10% minimum. While improving the solvency of the Bank from the perspective of lenders and retail depositors, the downside is that the surplus capital tends to reduce the Return on Equity until it is matched by increased gearing to support future credit growth.

Impending Changes to Accounting Standards

Consequent to full convergence of Sri Lanka Accounting Standards with International Accounting Standards and International Financial Reporting Standards with effect from the next financial year there will be changes to the Recognition, Measurement and Disclosures of financial assets and liabilities. These have been explained in Note 9 on page 139 and 140.

Integrated Risk Management

DBB's regulatory capital adequacy ratios continued to be above industry average for banks indicating a stronger capacity for risk absorption. This capital position will enable DBB to increase leverage and exploit the anticipated growth in credit in the medium term in line with the expected economic growth of the country.

DFCC Bank(DFCC) and DFCC Vardhana Bank PLC (DVB) together constitute the DFCC Banking Business (DBB). DBB continued to reassess its existing risk management policies, guidelines and practices and brought further improvements to be in line with business needs, regulatory requirements, industry factors and international best practices while the quantitative dimension for risk management was further improved. The Board Integrated Risk Management Committee (BIRMC) exercises oversight and reports to the Board on significant risk issues that arise and any remedial action that is to be implemented. On an ongoing basis the Integrated Risk Management Department (IRMD) is tasked with measuring and monitoring risks and highlighting any specific issues, trends or exceptions that require decisions or action by the relevant business units or the BIRMC.

A key regulatory development in 2011 was the issuing of Direction No. 07 of 2011 by the Central Bank of Sri Lanka (CBSL) which specified Guidelines on the Integrated Risk Management Framework for Licensed Banks in Sri Lanka. These Guidelines cover various approaches and tools for risk management in line with Basel II recommendations. It specifies a need for an Integrated Risk Management Framework and banks are required to comply with the provisions of the Direction from April 2012. IRMD has undertaken a review of the previously approved policies and frameworks and revised them where necessary to comply with the requirements set out in the Direction.

IRMD is responsible for measuring and monitoring risk at operational level on an ongoing basis to ensure compliance with the parameters set out by the Board, BIRMC and other management committees. IRMD is involved in the credit approval process for credit proposals above a specified threshold, and is represented in all the management committees of DBB. The Treasury Middle Office which is functionally segregated from the Treasury Department monitors the Treasury-related market risk limits on an ongoing basis. Policy manuals, internal controls, segregation of duties, clearly demarcated authority limits and the internal audit function are key risk management tools used by DBB.

Risk Management Policies of DBB

The broader aspects of the risk management policies and guidelines of DBB are stipulated in the Integrated Risk Management Framework (IRMF) approved by the Board of Directors. Detailed policies, guidelines, strategies and practices for the management of different types of risk exposures, viz., credit risk, market risk, operational risk, liquidity risk etc., are set out in the respective frameworks while IRMF defines risk integration and aggregation, combining the provisions in the specific frameworks for each risk categories. The overall risk management policies of DBB include the following aspects:

- The responsibility of the Board for ensuring prudent risk management mechanisms
- Communication of DBB's risk policy to relevant staff
- Risk management through a mechanism of 'Three Lines of Defence' (discussed below)
- Adherence to regulatory requirements and laws pertaining to risk management and business operations of DBB
- Centralised and independent integrated risk management function
- Evaluating risks relating to new business, products or adopting new strategies in the context of internal expertise, capabilities for risk management and ability to absorb unexpected losses
- Adoption of a risk-based pricing strategy
- Compliance with regulatory capital and other mandatory prudential requirements
- Alignment of risk management strategy with corporate business strategy
- Completeness, transparency and objectivity in risk disclosures
- Alignment with Basel II recommendations and regulatory guidelines
- Maintenance of a prudent risk management culture
- Adoption of an integrated approach to risk management

Governance Structure for Risk Management

The Governance structure for risk management at DBB encompasses the concept of 'Three Lines of Defence', and is based on the following:

- Board and senior management oversight
- Risk management policies and procedures
- Risk measurement, monitoring and controls
- Internal controls and independent audit

The First Line of Defence involves the supervision and monitoring of risk management practices by the business managers, senior management, management committees and the relevant Board committees while discharging their responsibilities and accountability for day-to-day management of business operations. Independent risk monitoring, validation, policy review and compliance by the IRMD, the compliance function with monitoring and oversight by the BIRMC constitute the Second Line of Defence. The Third Line of Defence is provided by the independent check and quality assurance by the internal audit and external audit functions and the Board Audit Committee.

The Group Chief Risk Officer heading the IRMD has direct access to the BIRMC. The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC. Executive committees such as the Asset and Liability Committee (ALCO) and the Credit Committee are guided and operated within risk frameworks and limits set out by the Board and Board committees.

Governance Structure for Risk Management of DBB

The Three Lines of Defence

BOARD OF DIRECTORS

BOARD COMMITTEES RELATED TO BUSINESS & SERVICES

Chief Executive

Management Committees

Senior Management

Business Units | **Service Units**

Involvement by the CEO, Senior management committees, accountability and responsibility of senior and middle management supported by internal controls, governance structure and processes

First Line of Defence
Strategy, performance and risk management

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

Compliance

Integrated Risk Management

Legal

Oversight by the BIRMC and independent risk monitoring by IRM, Compliance and Legal

Second Line of Defence
Policy, monitoring and oversight

BOARD AUDIT COMMITTEE

External Audit

Internal Audit

Oversight by the Board Audit Committee and independent check & quality assurance

Third Line of Defence
Independent assurance

Key Developments in Risk Management Function of DBB during the Financial Year

Taking note of the emerging market conditions, liquidity risk management was strengthened through increased monitoring and reassessment of liquidity limits. Several new asset and liability products were introduced and some existing products were revamped during the year with input from IRMD to make them better aligned with customer needs and market conditions. Risk aspects of the products were assessed through the structured process prescribed in the New Product Development Policy.

DBB undertook a reassessment and introduced or revised limits for the management of liquidity, credit, and concentration risk. Limits for concentration risk management covered dimensions such as product categories, industry sectors, large group exposures, and geographical dispersion. The annual validation of credit rating models was performed during the year while the Probability of Default (PD) and the Loss Given Default (LGD) were computed using an expanded data sample. As part of the implementation of the new accounting standards conforming with IFRS, DBB compiled loss ratios for key lending products using historical recovery evidence. The review of these loss ratios provided a basis for comparison with the LGD discussed in the Basel II framework. These credit risk parameters would be used in the areas of assessing credit quality, expected loss and credit pricing to facilitate both credit sanctioning and credit risk management.

In addition to the performance of the industry and the borrowers' credit quality, the possible impact on the underlying collateral for loans was closely tracked. Sensitivity analyses and tolerance limits were set by studying the probability factors for a decline in collateral values. IRMD continued to support business functions through periodic and event triggered studies and research on key industries which were shared with DBB staff.

Stress tests applied to DBB indicated a satisfactory capital and liquidity position even under the worst case scenario. Use of credit rating models for credit risk quantification and pricing was extended during the year to improve the structured process and quantitative dimension in credit sanctioning and credit risk management. The Group Treasury Middle Office was strengthened through restructuring its functional reporting channels and capacity building. Several key policy frameworks and relevant risk management practices were reviewed during the year.

Risk Training and Capacity Building

Staff of IRMD received local and foreign training as a continuation of the capacity building programme. Required knowledge and understanding of credit rating models, model development process and Basel II requirements to support the design, conceptualisation and evaluation process were acquired for the development of an in-house rating model. Necessary statistical skills were also acquired. Knowledge thus gained has been shared with staff of DBB through training programmes . During the year, staff of IRMD conducted two workshops on risk management and Basel II for internal staff with representation from business and service departments of the Bank. DBB considers this awareness building as a key component of an effective risk management culture.

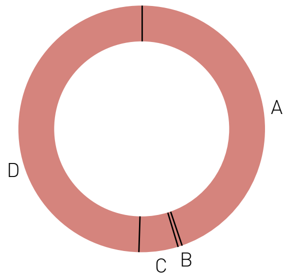
DBB's Risk-based Capital Adequacy

DBB continued to maintain a healthy risk capital position computed under Basel II approaches currently mandated for the local banking sector. For the purpose of regulatory capital adequacy computation, risk (Pillar I) is quantified using the Standardised Approach for credit and market risk, and Basic Indicator Approach for operational risk. Both DFCC and DVB continued to maintain strong regulatory capital ratios on a solo and group basis. DFCC's Tier I capital ratio amounted to 24.3% while its total capital ratio was 20.3% as at end March 2012. As of the reporting date, Tier I capital of DVB amounted to 13.7% while total capital stood at 17.2% of the risk weighted assets. The Group's total regulatory capital base reached LKR 21,085 million as at end March 2012, while the total risk weighted assets amounted to LKR 106,056 million. DBB's regulatory capital adequacy ratios continued to be above industry average for banks indicating a stronger capacity for risk absorption. This capital position will enable DBB to increase leverage and exploit the anticipated growth in credit in the medium term in line with the expected economic growth of the country.

Regulatory Capital Ratios of DBB as at 31 March 2012 Under the Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk of Basel II

Capital Element	DFCC on a Solo Basis	DVB on a Solo Basis	DBB on a Group Basis	Regulatory Minimum Requirements
Core capital (Tier I)	24.3%	13.7%	21.0%	5%
Total capital base	20.3%	17.2%	19.9%	10%

REGULATORY CAPITAL ALLOCATION AND AVAILABLE CAPITAL BUFFER OF DBB ON A GROUP BASIS AS AT 31 MARCH 2012



A - Credit Risk (44.8%)
B - Market Risk (0.4%)
C - Operational Risk (5.1%)
D - Capital Buffer (49.7%)

Credit Risk Management

Credit risk is the risk that a loss will be incurred if the counterparty to a transaction does not fulfil its financial obligations in full and in a timely manner. Counterparty credit risk is the most significant risk assumed by DBB, and accounted for 89% of total risk-weighted assets as at end of the financial year.

The use of internal rating models and the periodic review of assigned ratings by DBB form the basis for risk profiling of borrowers for the purpose of managing credit risk through structuring, pricing, monitoring, restructuring and recovery action. A well-structured approval process is in place, guided by the Delegation of Lending and Related Authority limits based on risk exposure levels. No single person can originate and approve the granting of credit.

Approval of large value credit exposures is undertaken by the Credit Committee or on its recommendation, by the Board of Directors. All credit appraisals of DVB are independently appraised by the DVB Credit Appraisal Unit. The credit ratings for exposures of DFCC above a specified threshold are independently reviewed by the IRMD prior to approval. Concentration risk is currently managed and monitored in terms of the limits with respect to single borrower, group borrower, industry sector, broader asset category and region. DBB has recognised some sectors as requiring 'special clearance' while some exposures are prohibited through a 'negative list' for lending. Such sectors or credit products have been categorised based on the country's laws and regulations, DBB's corporate policies and values, risk appetite and the existing levels of risk exposure.

Market Risk

Market risk is the risk of potential losses accruing through the adverse fluctuation in the market interest rates, equity prices, commodity prices and exchange rates. Market risk could impact a bank mainly in two ways; viz., loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions, as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book. DBB's exposure to market risk is primarily governed by a Treasury Policy Manual, provisions in the ALCO Charter, market risk management framework and risk limits. The ALCO oversees the management of both traded and non-traded market risk. DBB's Treasury manages the foreign exchange risk using permitted hedging mechanisms. Tools such as supervisory monitoring, exposure limits, stop-loss limits, simulation, scenario analysis, stress-testing and marking-to-market are used to manage the market risk exposures. Trends in relevant local as well as international markets are analysed and reported by IRMD and the Treasury to ALCO and BIRMC.

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings) or the net worth (economic value) due to the adverse changes in the market interest rates. DBB maintains the trading and investment (held to maturity) portfolios separately with regard to fixed income securities. The Assets and Liability Management Unit routinely assesses the Bank's asset and liability profile in terms of interest rate risk and reports to the ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. Statistical methods such as scenario analysis, simulation and stress testing are used by DBB in managing interest rate risk.

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's equity trading portfolio (which is so classified due to a regulatory definition) amounted to LKR 65 million as at March 2012, which was less than 0.1%of the total assets of DBB. In addition, DFCC had an equity market exposure of LKR 7,438 million in its investment portfolio, including significant holdings in two commercial banks. Total direct equity exposure of DBB in both the trading and banking books accounted for only 6% of the total gross assets of the Group. DBB carried an indirect equity exposure through margin lending provided to high net worth personal financial services clients, which was not significant. The resultant risk was actively managed.

Commodity Prices Risk

DBB is indirectly exposed to commodity prices risk through its pawning portfolio in DVB. Risk exposure of the pawning portfolio which could arise due to gold prices was closely monitored in relations to the movements of local and world market prices for gold. Sensitivity analysis, measure of tolerance levels, cushion available for absorption of loss of market gold prices were used as tools for risk measurement. Business decisions such as portfolio growth, lending quantum and pricing were based on the outcome of these risk quantifications. As at the end of financial year, the pawning portfolio of DVB amounted to LKR 2,455 million of which the collateral value carried a healthy cushion over the outstanding lending at the current market prices for gold. Furthermore, this portfolio accounted for only 2% of the total assets of DBB.

Liquidity Risk

Liquidity risk is the risk of not having sufficient funds to meet financial obligations in time and in full, at a reasonable cost. DBB has a Framework for Liquidity Risk Management and a Contingency Funding Plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratio analysis, gap analysis and liquidity limits are used as analytical tools by the ALCO. Whilst comfortably meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, DBB takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress testing its liquidity position. The maintenance of a strong credit rating of AA (lka) for DFCC and AA- (lka) for DVB assigned by Fitch Ratings Lanka and reputation in the market enables DBB to access domestic wholesale funds and money market funds when needed. The diversification of the liability structure is also a key focus of DBB. The risk-based pricing mechanism ensures that residual liquidity risk is duly priced when pricing assets. This term premium in DBB's pricing mechanism focuses on creating a cushion to absorb a possible increase in cost of liquidity to finance long-term assets during tight market liquidity conditions.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk but excluding strategic and reputational risk. The sources of operational risks include fraud, 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 audit, strict monitoring facilitated by the technology platform and backup facilities for information are the fundamental tools of operational risk management. Information security is addressed through the provisions in the IT security policy of DBB. Audit findings and management responses are forwarded to the Board Audit Committee for consideration. Effective internal control systems, supervision by the Board, senior management and line managers form a part of the 'First Line of Defence' for operational risk management at DBB. The Bank demands a high level of technical skills, professionalism and ethical conduct from its staff and these serve as insulators for many operational risk factors. The loss of physical assets is mitigated through insurance.

DBB's business recovery plan deals with natural or other catastrophes. An off-site disaster recovery location has been set up and disaster recovery capability for critical functions of DBB have been tested.

Reputation Risk

Reputation risk is the risk of losing public trust or the tarnishing of DBB's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Events that could lead to 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 DBB's business have been promulgated through internal communication and training. A culture of compliance permeates at all levels of DBB, and the compliance function submits quarterly compliance reports to the Board of Directors and the BIRMC.

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. DBB's medium term strategic plan and annual business plan form a strategy road map for sustainable growth. Diversification into related financial services through subsidiaries, associates and joint ventures, continuous competitor and customer analysis, and monitoring of the macroeconomic environment enable DBB to formulate its strategies for growth and business risk management. Processes such as Planning, ALM, IT and product development in co-ordination with business functions facilitate the management of business risk through recognition, measurement and implementation of tasks. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

Legal Risk

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted

DFCC Bank won the award for 'Best in Risk Management' at the 5th Asset & Liability Management (ALM) Competition concluded at The Hague in the Netherlands recently. DFCC was represented by a team comprising Mr Jayan Fernando - Senior Project Executive Asset & Liability Management, Ms Manohari Gunawardhena - Senior Vice President Treasury, Mr Palitha Gamage - Senior Vice President Planning & Plan Implementation, Mr Sanjeewa Fernando - Assistant Vice President Integrated Risk Management.

against DBB. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to, related legislation by DBB staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure. In the event of an identified legal risk, the Legal Unit of DBB takes immediate action to address and mitigate these risks. External legal advice is obtained when required.

Compliance risk

Compliance risk can be termed as the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws, regulations, Codes of Conduct and Standards of good practice. DBB ensures that effective compliance policies and procedures are followed and appropriate corrective actions are taken to rectify any breaches of laws, rules and standards if and when identified. A robust compliance culture has been established within DBB with processes and work flows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure the consistent management of compliance risk. Compliance is a key area of focus during the process of new product development and design and review. Head of compliance of DFCC and DVB submit quarterly reports on the compliance status to the Board to enable oversight to be exercised with the added safeguard of being subject to internal audit.

Anti Money Laundering (AML)/Combating Terrorist Financing (CTF)

In response to international best practices and global standards of AML and combating terrorist financing, Sri Lanka has enacted laws relating to AML and CTF. Further, the Financial Intelligence Unit, under the purview of the Central Bank, has issued rules for Know Your Customer (KYC), and Customer Due Diligence (CDD) to identify and report suspicious transactions. DBB has taken necessary measures to implement these regulatory and legislative requirements for AML and CTF. The steps taken in this respect include customer identification and verification, maintenance of records, ascertaining sources of funds, monitoring and maintenance of AML/CTF programmes. All customers of DBB are subject to KYC/CDD measures.

Business Continuity Management

The Business Continuity Plan (BCP) of DBB ensures timely recovery of critical operations that are required to meet stakeholder needs based on identified disruptions categorised into various severity levels. BCP has been designed to minimise risk to human resources and to enable the resumption of critical operations within reasonable time frames with minimum disruption to customer service and payment settlement systems. The BCP site, which is located in a suburb of Colombo, has been prepared in line with the BCP Guidelines issued by the Central Bank and is tested regularly to establish its effectiveness. Training is carried out to ensure that all staff are fully aware of their role within the BCP.

Sustainability Report
Chief Executive's Message

"There is sufficiency in the world for man's need but not for man's greed"

Mohandas K Gandhi

Sustainability is as much about taking responsibility for the use of the earth's resources and fostering societal aspirations as it is about ensuring the long-term prosperity of the organisation itself. Their inter-relationship is what drives our corporate sustainability agenda - the prudent management of the interfaces between economic, environmental and social dimensions of our enterprise.

This is our fourth report on Sustainability and the first to use a GRI reporting format. As a launch off point for future improvements, we have created a self-declared application level C report for our stakeholders.

The DFCC Banking Business (DBB), comprising DFCC Bank (DFCC) and DFCC Vardhana Bank (DVB), continued to engage in efforts to generate value for all who have a stake in our success. Our core strategy is to provide a broad range of financial solutions to empower and energise enterprises and people, thus adding value to our shareholders, customers, employees and the nation. Our approach to sustainability thus involves six broad areas; Corporate Governance, Product Responsibility, Economic Performance, Employees, Environment and Community.

We continue to employ the best practices in Corporate Governance. Our commitment to our investors, regulators and policy makers has been vigorous and consistent. As the saying goes, 'an ounce of prevention is worth a pound of cure'.

Our products and services are designed to deliver superior value to our customers. They are built on the twin foundations of integrity and exceeding customer expectations. Our concern for ethics and fair dealing include aspects such as factual labelling, responsible marketing, customer privacy and compliance with relevant regulations and norms.

We are committed to sustained economic performance, both short-term and long-term, in our efforts to increase the value of our shareholders' equity. Our strategic business units are driven by a performance culture that is aligned with our corporate vision, mission and values, while performance targets are based on rolling annual plans and business strategies that also take into account the diverse needs of all our stakeholders.

Our employees are the backbone of our continued success. We adopt several approaches to empower and inspire our team. For instance, our investment in training and development during the year was the highest in the history of DBB, as we believe that our employees should realise their full potential for our mutual benefit.

Our approach to the environment is threefold. We challenge ourselves to reduce the amount of energy, water and paper used in our offices, as well as minimise waste. Through our special loan schemes we support renewable energy development and encourage environmentally responsible business practices of our clients. Additionally, we implement a 3R policy to Reduce, Reuse and Recycle all possible resources.

We engage our community through financial assistance and much more, with a special focus on assisting Small and Medium Enterprises to thrive and prosper. In the year under review, DBB continued its commitment to education and productivity improvement through the '6S in Schools Programme'.

With encouraging results and an ever stronger drive to contribute to the country's development efforts, DBB is well positioned for 2012 and beyond. We plan to step up our efforts to generate more value, not only for our shareholders, but also for our employees, customers and the communities we serve.

Nihal Fonseka
Chief Executive
DFCC Bank

30 May 2012

Our Approach to Reporting

This report uses the Global Reporting Initiative (GRI) G3 Guidelines and the Financial Sector Supplement as a basis for reporting. It is designated at a self declared application level C. By using the GRI reporting format, we wish to standardise our sustainability reporting, showcase our commitment to sustainable business practices and add greater value to our stakeholders.

Corporate Governance

Financial service providers play a fundamental role in maintaining stability in economic systems. DBB understands the value and importance of adopting robust governance practices that lend the highest credence to accountability and performance.

The Board Integrated Risk Management Committee (BIRMC) Charter, the Corporate Governance requirements for Licensed Specialised Banks and Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL) dictate our approach to Corporate Governance.

The main goal is to provide assurance to stakeholders including investors and regulators about the sustainability of our operations and value creation capabilities.

Product and Service Responsibility

Our products and services are governed by the highest of ethical standards. The Central Bank Customer Charter sets key standards for fair banking practices and customer service. Additionally, DBB sets out a Code of Conduct for its staff in relation to customer service and thoroughly ensures that all products and services offered are in line with relevant laws and regulations while maintaining the highest principles of integrity and transparency. This year we also converted a selection of our branches to disabled-person friendly areas so that our products and services can be accessed by customers with varied physical conditions.

Economic Performance

The DFCC Banking Business is focused on creating and distributing value to all our direct stakeholders. While we understand that every successful business needs to be driven by a need to create a surplus, our development financing roots have enabled us to better balance the twin objectives of profit and service. Our contribution to the economy includes direct and indirect jobs created, taxes paid, projects, businesses and personal financial requirements financed, local suppliers sourced and most importantly returns generated for our investors.

Employees

Our employees are a major component of our success. Not only do they help us deliver superior financial services to our customers, they tirelessly contribute their time and energy to our social responsibility initiatives. We consider our employees to be one of the organisation's greatest assets. We make sure that their health and safety is treated with paramount importance while having a zero tolerance policy on discrimination in any form.

DBB continues to train and build a skilled, highly talented team that is deeply committed to success.

Environment

DBB is concerned by society's impact on the environment, in particular the effects of climate change. Although the nature of our own operations has a limited impact on the environment, we are continually improving various measures with a view to reducing our environmental footprint. Through our designated Environmental Management System (EMS) we encourage our clients, employees and service providers to adopt environmentally responsible practices.

Community

DBB seeks to contribute to the well-being of the communities it serves by actively supporting economic and social development. The Bank continuously supports entrepreneurship while providing access to banking services to masses through its extensive branch network.

We are also committed to uplifting the standards of education through productivity improvements in schools island-wide through the '6S in schools programme'.

Report Boundary

This report describes the economic, environmental and social performance of DFCC Bank (DFCC) and its 99.1% owned subsidiary DFCC Vardhana Bank PLC (DVB), collectively referred to as DFCC Banking Business (DBB). As the structure, board composition and specific regulatory requirements are divergent for the two banks, a separate Corporate Governance Report for DFCC Vardhana Bank has been presented in the DVB Annual Report. (This is available at our website www.dfcc.lk) The Corporate Governance Section within this report covers information related to DFCC Bank.

Information related to DFCC is for the financial year ending 31 March 2012 while information related to DVB is for the financial year ending 31 December 2011.

Scope of Reporting

The report provides information on DBB's operations, financial and non-financial performance and integrated sustainability developments during the financial years ended 31 December 2011 and 31 March 2012. Indicators such as water usage, electricity and transportation have been calculated from a cross section of available data from DFCC and DVB Branches.

This report does not cover the operations of any other subsidiary of the DFCC Group. Issues and details presented herein are primarily addressed to our staff, clients, shareholders, regulators and communities.

Materiality of Issues

In determining which topics and indicators were material, DBB took into account a number of internal and external factors. These included our vision and mission statements, the Central Bank Customer Charter, the expectations and interests of stakeholders and DBB's sustainability impacts, risks and opportunities.

Policy on Seeking External Assurance

We firmly believe that Independent external assurance enhances the quality and transparency of a sustainability report. This report is an initial exploratory attempt at converting our traditional sustainability reporting process into a GRI harmonised report. We will choose an appropriate party to carry out an independent assurance for our next Sustainability Report.

Stakeholder Engagement Process

All individuals and organisations that are affected by our activities as well as those who may affect our ability to perform are considered to be stakeholders. Stakeholder engagement is a key component of sustainable business and responsible corporate management. DBB gives due importance to expectations and opinions of all relevant stakeholders while developing its strategies.

Our Membership Commitments

- Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)
- Ceylon Chamber of Commerce
- American Chamber of Commerce in Sri Lanka (AMCHAM)
- International Chamber of Commerce
- European Chamber of Commerce
- Sri Lanka Council for Business with Britain
- National Chamber of Commerce
- The Ceylon National Chamber of Industries
- Leasing Association of Sri Lanka
- Lanka Business Coalition on HIV and AIDS
- Institute of Bankers of Sri Lanka

Our key stakeholders and examples of our engagement with them are presented below:

Type of Stakeholder	Method of Engagement
Shareholders and Investors	Annual General Meeting DBB website Annual Reports Colombo Stock Exchange Announcements Press Releases Investor Relations Hotline Meetings and Teleconferences E-Mail Presentations and Briefings
Clients and Customers	Annual Reports DBB Website Customer Satisfaction Surveys Our Branch Network Bank Call Centres Business Development Meetings E-mail Briefings Press Releases Advertising and Promotional Campaigns Brochures/Leaflets
Employees	Employee Surveys Human Resources Intranet Portal Employee Suggestion Box Performance Review Systems Staff Meetings Employee Training Workshops and Seminars Email Bulletins
International Financial Institutions	Meetings DBB Website Teleconferences Annual Reports
Regulators and Legislators	Prudential Reports Tabling of Financial Statements in Parliament Meetings Forums and Conferences Participation in Task Forces
Community	CSR Initiatives DBB Website Sponsorships Our Branch Network Media Bank Call Centres
Suppliers	DBB Supplier Management Policy Meetings
Media	Discussions with Editors and Journalists DBB Website Annual Media Get-together Press Conferences Press Releases

Corporate Governance

Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution. It contributes to sustainable growth by attracting outside sources of capital.

DFCC Bank practises high standards of corporate governance based on the OECD principles of good governance which, as applied to the Bank, are based on the following six guidelines:

- Promoting transparency, being consistent with laws and clearly articulating the division of responsibilities
- Protecting and facilitating the exercise of shareholder rights
- Treating all shareholders in an equitable manner
- Recognising the rights of stakeholders and encouraging cooperation with stakeholders in creating wealth and sustainability
- Providing timely and accurate disclosures on all material matters regarding the Bank including the financial situation, performance, ownership and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank and its shareholders.

The Board formally adopted the Corporate Governance Charter of the Bank during the year under review. The Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees. This sets out in detail the business ethics in relation to avoidance of conflict of interests, insider dealings, unfair business practices, maintenance of confidentiality of business information, etc. All employees are guided by the Bank's core values of accountability, being ethical, passion for innovation and excellence, respect for the individual, social responsibility and team work.

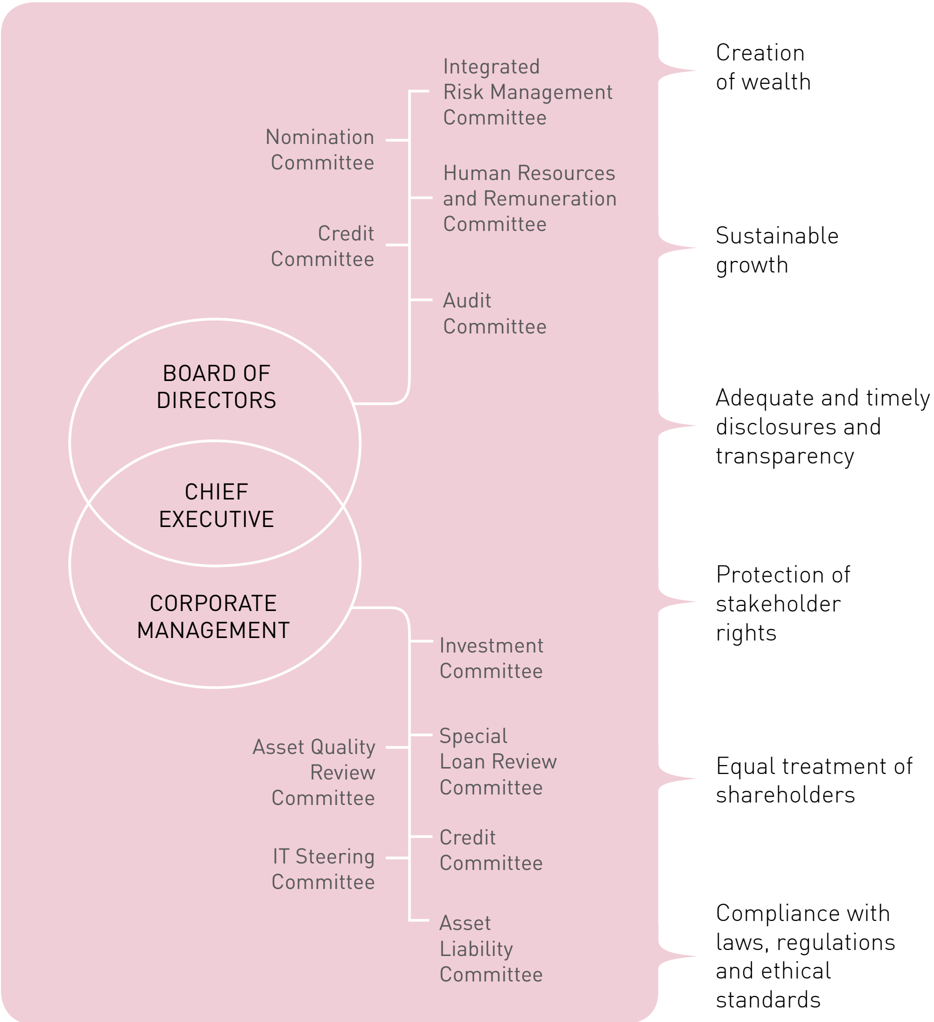
The Board also formally adopted a Whistle Blowing Policy during the year to facilitate employees to communicate legitimate concerns, if any, of illegal or unethical practices.

The key corporate governance practices of DFCC Bank are given in this Report with specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 12 of 2007 of the Central Bank of Sri Lanka (as amended). In view of the said disclosures, the Colombo Stock Exchange (CSE) has exempted licensed banks from the application of Section 7.10 of the Listing Rules of the Colombo Stock Exchange relating to corporate governance.

Shareholder Rights

The basic rights of shareholders include (a) the ability to transfer shares freely, (b) access to financial and other relevant information about the entity on a regular and timely basis, (c) the ability to effectively participate in shareholder meetings, (d) a say in the appointment of Directors and Auditors and (e) an equitable treatment relating to the type of shares owned. The shares of DFCC Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the DFCC Bank Act and Banking Act.

Our Goals of Good Corporate Governance



The Board-approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of DFCC Bank is made available to shareholders through timely disclosure made to the CSE. The Annual Report contains a comprehensive review of performance as well as information of relevance to stakeholders in addition to the financial condition of DFCC Bank and the Group. All important information is given publicity through the press and electronic media and posted on the DFCC website.

DFCC Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the Listing Rules. In instances where this is not possible, the Executive Vice President (Finance) advises closed periods for the trading in DFCC Bank's shares by employees and Directors. As a general rule, the period commencing two weeks after the end of each quarter up until three market days after the financial information is released, are treated as closed periods. Procedures are in place to detect any violations.

The Annual General Meeting of DFCC Bank is held within a period of one year from the date of the previous meeting after giving adequate notice to shareholders as required by the Regulations. The Annual Report and Notice of Meeting are sent to all shareholders in order to enable effective shareholder participation at the meeting. Shareholders have the opportunity to obtain the Annual Report as an electronic or printed document. Extraordinary General Meetings are held to obtain shareholder approval on matters that require such approval.

During the year, DFCC Bank has shared a reasonable portion of its profit with shareholders in the form of a dividend while retaining the balance to support its growth and development.

All shareholders of DFCC Bank are treated equally on the basis of one vote per ordinary share. DFCC Bank has not issued any non-voting ordinary shares or preference shares.

Annual Corporate Governance Report for DFCC Bank for the year ended 31 March 2012 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 12 of 2007

Rule	Governance Principle	Compliance	Remarks
3 (1) Responsibilities of the Board			
3 (1) (i)	The responsibility of the Board to strengthen the safety and soundness of the Bank	Compliant	The Board engages in the strategic planning and control of DFCC Bank by overseeing the formulation of business objectives and targets, assessing risks, evaluating the effectiveness of the internal controls by engaging qualified and experienced personnel and delegating them with the authority for conducting operational activities and monitors the performance through a formal reporting process.
3 (1) (ii)	Appointment and segregation of the roles of the Chairman and Chief Executive Officer (CEO)	Compliant	The Board elects the Chairman and appoints the Chief Executive whilst the Chairman provides leadership to the direction, oversight and control process exercised by the Board. The Chief Executive is responsible for management of the Bank as per DFCC Act.
3 (1) (iii)	Board Meetings	Compliant	The Board held 15 Board Meetings during the year. The Directors actively participated in the Board decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation of written circulars was done only in exceptional circumstances due to urgency.
3 (1) (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the Agenda of Board Meetings	Compliant	Whenever the Directors provide suggestions of topics for consideration at the Board Meetings, they are included in the Agenda under "open forum" which is an integral part of every Board Meeting and other supporting data, reports, documents etc relevant for the subject matter are circulated among the Directors for information.
3 (1) (v)	Notice of Board Meetings – at least 7 days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board Meetings are agreed by the Directors at the commencement of each year and any changes to dates of scheduled meetings are decided well in advance. The Board circulars and other documents pertaining to meetings are dispatched in advance to enable the Directors to participate in deliberations.
3 (1) (vi)	Attendance at Board Meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given at the end of this Report.
3 (1) (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act. The Company Secretary while performing the secretarial services to the Board and shareholders' meetings is responsible to the Board in ensuring that Board procedures and applicable rules and regulations are followed. All new Directors are provided with the necessary documentation on Director's responsibilities and specific banking related directions/policies that are required to perform their function effectively.

Rule	Governance Principle	Compliance	Remarks
3 (1) (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3 (1) (ix)	The Company Secretary's duty to maintain minutes of Board Meeting and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board Meetings which are subject to approval of the Board and signed by the Chairman. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3 (1) (x)	The form and contents of the minutes of Board Meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution if considered material is included in the minutes.
3 (1) (xi)	Independent professional advice on request to Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at DFCC Bank's expense, to perform their duties.
3 (1) (xii)	The Directors' avoidance of conflict of interest	Compliant	Section 9 (6) of DFCC Act requires the Directors who are directly or indirectly interested in contracts or a proposed contract with DFCC Bank to declare the nature of such interest and not to participate in the decision-making. All decisions pertaining to such matters require to be unanimous according to the Act.
3 (1)(xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
3 (1) (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year DFCC Bank remained solvent and no event has or is likely to occur that would make the Bank not able to meet its obligations.
3 (1) (xv)	Adequacy of Capital	Compliant	DFCC Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3 (1) (xvi)	Corporate Governance Report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors' Report of DFCC Bank's Annual Report.
3 (1) (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective Board Committees are also evaluated by the other members who are not members of the respective Committees in order to ensure that they function effectively. The findings are discussed at the Board Meetings and action is taken on areas identified for improvement. The Chief Executive is a non-voting member as per the DFCC Act. The performance assessment criteria of the Chief Executive are given in 3.5 (xi).

Rule	Governance Principle	Compliance	Remarks
3 (2) Composition of the Board			
3 (2) (i)	Number of Directors	Compliant	The Board of Directors comprises ten Directors.
3 (2) (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of DFCC Bank for more than nine years.
3 (2) (iii)	Number of Executive Directors	Compliant	The Chief Executive is the only Executive Director of the Board. He is an ex-officio non-voting Director
3 (2) (iv)	Number of Independent Directors	Compliant	The Board includes seven Independent Directors.
3 (2) (v)	Alternate Directors	Compliant	All persons appointed as Alternate Directors to an existing Director of the Board have been subject to the same criteria applicable to Directors.
3 (2) (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	All Non-Executive Directors have professional backgrounds, strong track records and high level managerial experience in banking, business, plantations, industry, law, auditing or service sectors.
3 (2) (vii)	Number of Non-Executive Directors required to form a quorum of Board Meetings	Compliant	DFCC Bank has been constantly compliant with this rule at all times as monitored by the Company Secretary. Although according to the DFCC Regulations, the required quorum is only 4 Non-Executive Directors.
3 (2) (viii)	Disclosure of details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3 (2) (ix)	Appointment of new Directors	Compliant	Appointment of all new Directors is formally evaluated by the Nominations Committee and recommended to the Board of Directors for approval in terms of the regulations.
3 (2) (x)	Appointment of a Director to fill a casual vacancy	Compliant	The regulations of DFCC Bank provide that the Directors appointed by the Board of Directors hold office until the following Annual General Meeting (AGM) at which they have to be elected by the shareholders.
3 (2) (xi)	Resignation or removal of a Director	Compliant	The retirement of Directors from office during the period under review are given in the Directors Report. No Director resigned or was removed.
3 (2) (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of DFCC Bank is a Director of another bank except the subsidiary company, DFCC Vardhana Bank PLC, which is a permitted exception.
3 (3) Fitness and Propriety of Directors			
3 (3) (i)	Maximum age of Directors	Compliant	All Directors who reached the age of seventy have relinquished office.
3 (3) (ii)	Holding of Director's position in more than 20 companies in all or in more than 10 prescribed companies	Compliant	All Directors comply with this requirement.

Rule	Governance Principle	Compliance	Remarks
3 (4) Management Functions Delegated by the Board			
3 (4) (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3 (4) (ii)	Extent of Delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of DFCC Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit or revoke such delegated authority.
3 (4) (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of DFCC Bank. Material decisions made under delegated authority are reported to the Board for information.
3 (5) The Chairman and Chief Executive			
3 (5) (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the Chief Executive are two separate individuals.
3 (5) (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board has appointed an Independent Director as the Senior Director as disclosed in the Annual Report.
3 (5) (iii)	Disclosure of relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, Chief Executive and the other Directors according to the declarations made by them except being Directors of subsidiaries.
3 (5) (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively and encourages members to actively participate and to raise their independent judgment on all key and appropriate issues in a timely manner.
3 (5) (v)	Agenda of Board Meetings	Compliant	The agenda of each Board Meeting is drawn by the Company Secretary under the direction of the Chief Executive and Chairman and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the agenda upon approval by the Chairman.
3 (5) (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board Meetings and ensures that they receive adequate information in a timely manner.
3 (5) (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3 (5) (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.

Rule	Governance Principle	Compliance	Remarks
3 (5) (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is Non-Executive and does not supervise any management personnel of the Bank directly.
3 (5) (x)	Communication with shareholders	Compliant	The Chairman has assigned the Chief Executive to maintain a dialogue with institutional investors and bringing any matters of concern to the notice of the Board. During the year the Chief Executive met with 17 current and potential institutional investors and briefed the Board on the discussions held.
3 (5) (xi)	CEO to be in charge of the management of operations and business	Compliant	The Chief Executive is the Head of the management team and is in charge of the day-to-day management of DFCC Bank's operations and business. At the beginning of each year the Board discusses the business plan with the Chief Executive and senior management and agrees on the medium and short term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.
3 (6) Board Appointed Committees			
3 (6) (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees stated in the Direction. The reports on their duties, performance and roles are published in the Annual Report
3 (6) (ii)	Board Audit Committee - Composition and duties	Compliant	Please refer page 104
3 (6) (iii)	Board Human Resources and Remuneration Committee - Composition and duties	Compliant	Please refer page 107
3 (6) (iv)	Board Nomination Committee - Composition and duties	Compliant	Please refer page 108
3 (6) (v)	Board Integrated Risk Management Committee - Composition and duties	Compliant	Please refer page 109

Rule	Governance Principle	Compliance	Remarks
3 (7) Related Party Transactions			
3 (7) (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	DFCC Bank has adhered to the law as specified in the Banking Act and the Directions issued there under with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in 3 (7) (vi). The process of recording related party transactions was strengthened during the year. The Bank has put in place a mechanism to obtain on a quarterly basis a confirmation from all key management personnel on a structured format to assist in the process of collating related party transactions.
3 (7) (iv)	Accommodation to Directors or their close relations	Compliant	DFCC Bank complies with the law as specified in the Banking Act and the Directions issued there under in granting accommodation to the Directors and/or their close relations.
3 (7) (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise.
3 (7) (vi)	Avoidance of favourable treatment in accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees. The Chief Executive has not participated in these schemes.
3 (7) (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen

Disclosure on Corporate Governance made in Terms of Section 3 (8) of the Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka

(i) The Board shall ensure that:		
	The annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with
(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:		
(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 120
(b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement on Internal Control on page 110
(c)	The External Auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	Complied with. Please refer Assurance Report of the External Auditor, on page 113
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/ remuneration paid by the Bank	Complied with. Please refer to page 14 and Notes 18 and 62 to the financial statements

(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with.
(f)	The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. Please refer Note 62 to the financial statements.
(g)	All the findings of the 'factual findings report' of the External Auditor to be incorporated in this report.	Complied with.
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance	Complied with. See Annual Report of the Board of Directors
(i)	A statements of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not required any disclosure to be made.

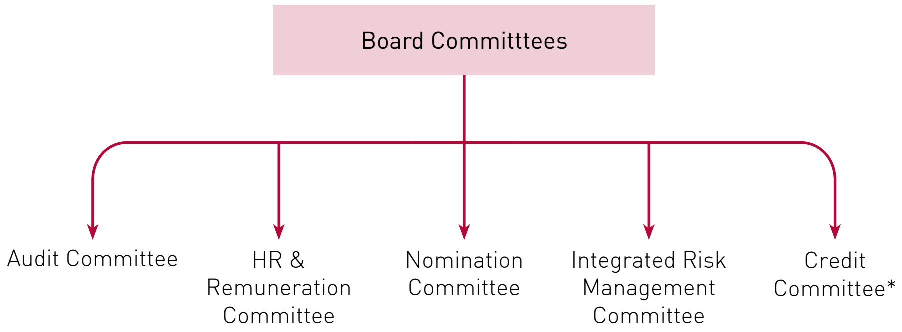
Table for item (e):

Category of related party and type of transaction	31 March 2012 LKR 000	%
Key management		
Personnel-loans	6,310	0.04
Shareholders with material interest in the Bank	34,216	0.23
Total net accommodation	40,526	0.27
Regulatory capital-solo basis	14,923,498	

The total net accommodation was 0.27% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of Bank's regulatory capital on solo basis

Report from External Auditors

The external auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the Corporate Governance direction. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.



Attendance of Directors at Meetings

Name of Director	Main Board	Audit Committee	Human Resources & Remuneration Committee	Nomination Committee	Integrated Risk Management Committee
Total No. of Meetings	**15**	**12**	**4**	**3**	**4**
Mr J M S Brito	15/15		4/4	3/3	4/4
Mr A N Fonseka	15/15				4/4
Mr S N P Palihena (retired w.e.f. 30 October 2011)	8/8	8/8			2/2
Mr C P R Perera (retired w.e.f. 30 June 2011)	4/4		2/2		
Mr A S Abeyewardene	15/15	12/12			4/4
Mr T K Bandaranayake	15/15	12/12	2/2		
Mr G K Dayasri	14/15		4/4		
Mr R B Thambiayah/ Ms S R Thambiayah (Alternate Director)**	12/15			3/3	
Mr C R Jansz	15/15			3/3	2/2
Mrs H M N S Gunawardana	13/15	2/2			
Dr L P Chandradasa (w.e.f. October 2011)	6/7				
Mr J E A Perumal (w.e.f. February 2012)	2/3	1/1			

** The Credit Committee approves papers by circulation*
*** Present by self or alternate*

Economic Performance

Management Approach

DBB consists of DFCC, one of the most successful development banks in the world, and its 99.1% owned DFCC Vardhana Bank, one of the fastest growing commercial banks in the country.

They serve as powerful economic drivers, by providing financial resources for enterprises as well as providing innovative financial solutions for individuals to improve their lives.

Complementary businesses which include investment banking, venture capital financing, consulting, IT services, asset management and industrial estate management are carried out through our subsidiary, joint venture and associate companies.

With the positive economic outlook and robust demand for financial services that prevailed throughout most of the year DBB produced excellent financial results. Our Banking Business is consistently identified as one of the best financial service providers in the country due to the quality of its credit portfolio, robust risk management policies, outstanding reputation and superior service quality.

Despite the uncertainty in global economic conditions and the changing regulatory environment, DBB remains positive and optimistic about the future. We continue to be well positioned within the realm of financial service providers to leverage on opportunities provided by the expansion of the Sri Lankan economy.

Our economic footprint is visible in many areas of the country's economy. Value generated by DBB has benefited our investors, employees, Government and many other stakeholders.

The adjusted profit after tax of DBB in the current year was LKR 2,789 million, a 40.2% increase over LKR 1,990 million in the previous year. DBB's profit drivers are net interest income of the credit portfolio derived from portfolio growth and interest margin, dividend income, gains from sale of non-affiliated share investments, fee and foreign exchange income and management of non-interest costs. Maintenance of credit portfolio quality is imperative to preserve the contribution from these profit drivers.

Economic Performance Indicators

Statement of Value Added - DFCC Bank

For the year ended 31 March		2012 LKR million	2012 %		2011 LKR million	2011 %
Value Added						
Gross income		7,434			14,191	
Cost of borrowing and support services		(3,362)			(3,273)	
Provision for bad debts and investments		(28)			(244)	
		4,044			10,674	
Value Allocated						
To employees						
Salaries, wages and other benefits		834	21		791	7
To providers of capital						
Dividends to shareholders		795	20		2,649	25
To Government						
Income tax on profit	430			739		
Value added tax on financial services	336	766	19	1,890	2,629	25
To expansion and growth						
Retained income	1,522			4,488		
Depreciation	127	1,649	40	117	4,605	43
		4,044	100		10,674	100

Statement of Value Added - DFCC Vardhana Bank

For the year ended 31 December		2011 LKR million	2011 %		2010 LKR million	2010 %
Value Added						
Gross income		4,338			3,787	
Cost of borrowing and support services		(2,701)			(2,276)	
Provision for bad debts and investments		(64)			(235)	
		1,573			1,276	
Value Allocated						
To employees						
Salaries, wages and other benefits		595	38%		405	32%
To providers of capital						
Dividends to shareholders		88	6%		55	4%
To Government						
Income tax on profit	177			263		
Value added tax on financial services	125	302	19%	190	453	36%
To expansion and growth						
Retained income	443			221		
Depreciation	145	588	37%	144	363	28%
		1,573	100%		1,276	

Product and Service Responsibility

DFCC Banking Business provides a gamut of financial products and services to an array of customers around the country. These include project financing, working capital loans and leasing facilities to businesses as well as personal financial services such as accounts, loans and credit cards.

DBB Product Portfolio

- Start up loans
- Expansion, Relocation and Diversification Loans
- Special credit line loans
- Guarantees
- Preference shares
- Balance sheet restructuring
- Bridging finance
- Working capital loans
- DFCC leasing
- Spot/forward exchange contracts
- Special Foreign Currency Investment Deposit Account (SFIDA)
- Sandella housing loans
- Ranwarama pawning
- Nenesa educational loans
- Vardhana leasing
- Mega Bonus savings
- Float savings accounts
- Fixed deposits
- Current accounts
- Overdraft facilities
- Foreign currency accounts
- Vardhana Junior savings
- Vardhana e-banking - Internet Banking Service
- Vardhana Prabhu priority banking
- Vardhana credit cards
- Vardhana gift certificates
- International trade services
- Offshore banking
- International payments
- Local payments

DBB has one of the fastest growing networks in Sri Lanka. We have a visible presence in the market with hundreds of thousands of customers served through our network of 127 branches.

DFCC Bank (DFCC) is a development bank for entrepreneurs; and as such is expected to deliver progressive financial tools to help them succeed. DVB has been positioned as a trusted and caring commercial bank that reaches out not only to the urban and semi-urban populations but also the rural masses. Nevertheless, the operationally merged DFCC Banking Business (DBB) provides a full range of financial solutions seamlessly under one roof.

We have based our customer service policy on our very own Code of Conduct as well as the Central Bank Customer Charter which was released in October 2011.

Responsible Lending

Since 1955, DFCC's particular focus has been development of enterprises. Not only has the Bank provided entrepreneurs with financial assistance but it also supports an integrated approach to entrepreneurship development. This allows enterprises to benefit from our expertise to meet required standards while enhancing their competitiveness. One of the major causes for Non-Performing Assets (NPAs) is negligence on the part of banks in realising their role in the proper development of entrepreneurs.

DBB provides factual information related to the products and services offered and makes all attempts to help customers understand the nature, opportunities and risks associated with these financial products.

Lending decisions are consistently based on the future prospects of the customer and are factored in to the customer's credit rating and industry forecasts. Exposure to each sector is regularly monitored against the internal exposure limits set by the Board Integrated Risk Management Committee to address concentration risks.

All lending assessments are subject to an evaluation of ethical issues and a compatibility test with our Environmental Management System (EMS).

Customer Satisfaction

We continuously strive to create greater customer focus and to improve the quality of our service delivery processes. We see our customers as an integral part of our success story and have engaged in many initiatives to increase customer satisfaction on a long-term basis.

In 2011 DBB conducted a focused customer awareness and satisfaction survey through an independent external agency. Customers from SME and personal banking segments were covered. The survey results indicated that customers find DBB to be trust-worthy and stable while delivering excellent customer service.

While these positive insights will help us formulate greater engagement plans for the future DBB continuously trains and steers its employees to improve on its customer service delivery process.

Thriving on Thrift

Sri Lankan society has always valued the savings habit. Recently though, with increased focus on consumption and changing socio-economic conditions, savings patterns have changed. It is a challenge for savers to make provisions for deposits while banks compete with each other for these limited funds.

In this backdrop DVB launched a focused campaign to educate consumers about the importance of savings while providing them incentives by way of high interest rates, convenient service locations and attractive gift schemes which encouraged them to save more.

Compliance

Our operations and compliance departments ensure compliance with data protection policies, regulations, guidelines and procedures when protecting customer data. The rules and regulations are accessible by all employees on the intranet.

In terms of statutory requirements for products and services, we regularly monitor compliance with regulatory and legal requirements.

Accessibility

We are committed to providing banking facilities that have a high degree of accessibility for all users. In keeping with national policy on disability and the Rights of Persons with Disabilities Act, 18 of our branches are currently equipped to enable convenient access to those with disabilities. We are committed to improve accessibility across our network in the future.

Our goal is to provide a welcoming environment where customers with disabilities can conduct their routine banking business without undue burden. Where necessary our staff communicate by exchanging notes or volunteer to read documents and assist in filling out forms.

Marketing Communications and Promotions

Our marketing, advertising and promotional activities focus on providing accurate and quality of information which enables customers to make wise financial decisions.

All our information brochures and leaflets are created in Sinhala, Tamil and English. Where applicable all advertisements carry our credit ratings and contact information for consumers looking to find out more details about our products and services. Our interest rates, exchange rates, credit ratings, contact details of the financial ombudsman and holiday notices are prominently displayed in all branches and are available for further perusal on our website.

Vardhana Thaegi Vaasi (Vardhana Savings Rewards)

With regard to special promotions, the *Vardhana Thegi Vaasi (VTV)* Savings reward programme launched in August 2011 saw depositors rewarded with over 5,000 instant prizes for their savings.

Unlike traditional raffle based schemes, VTV ensured that all who saved were rewarded with a gift through the scheme. Gifts were based on the value of the deposit and included popular consumer durables. Not only was the promotion successful in increasing deposits, it also enabled customers to win gifts while encouraging the savings habit.

Environment

DFCC Banking Business is conscious of the human impact on adverse environmental changes. Although the nature of our own operations has a limited impact on the environment, we are continually striving to introduce measures to reduce our environmental impact. We also encourage our clients, employees and suppliers to adopt environmentally responsible practices.

Additionally, every year since 2008 our annual desk and wall calendars have featured images of Sri Lankan natural beauty, captured by amateur and professional photographers. These pictures are accompanied by an environmental message featuring information and statistics regarding the fauna and flora depicted. This serves to raise awareness among our stakeholders to take effective measures to preserve the environment.

Our commitment to environmental sustainability comprises three main elements.

Managing Resource Consumption

DFCC Banking Business is committed to reducing its resource consumption and periodically reviews its resource management policy to implement practical and innovative methods to reduce energy and material usage while also reducing associated costs.

As a firm believer in the 3R concept DBB extensively uses the Reduce, Reuse, Recycle concept when procuring and managing its resources.

All internal correspondence within DBB offices and branches is carried out via email and electronic media. Email messages are preserved in retrievable electronic storage and not printed unless absolutely essential. Consequently, the paper-based internal communication has been largely made redundant across the organisation. We adopt duplex printing whenever practically possible to minimise wastage.

The publication of the Annual Report is another area where the organisation attempts to utilise resources effectively. Due to the widespread availability of personal computers, the Bank now publishes over 90% of its total Annual Report requirement in CD ROM format. This process reduces the amount of paper utilised and also reduces printing, handling and delivery costs.

Good housekeeping is something that DBB has strived to maintain year on year.

Our Commitment to Environmental Sustainability

Managing Resource Consumption

Supporting Environmental Initiatives

Encouraging Responsible Investment

The per capita electricity and water consumption (across a selection of branches) has reduced appreciably due to continuous monitoring and commitment by staff. Constant endeavours are made across the network to ensure all company vehicles are maintained and serviced effectively, thereby increasng fuel efficiency. All officers engage only in essential travel and covoiturage whenever practically possible.

	2011/12	2010/11
Electricity Usage		
kWh/m^2 per month	**2.1**	2.6
kWh per employee per month	**262**	267
Water Usage		
Cubic metres per employee per month	**3**	3.4
Head Office		
A4 Paper (reams)	**2,250**	2,400
Fuel (litres)	**51,669**	38,668
Office Vehicles (km)	**310,685**	293,874
Hired Vehicles (km)	**7,832**	12,983

Supporting Environmental Initiatives

The need for renewable, reliable, clean energy is becoming more apparent with all the uncertainties that engulf global energy sources. Meeting Sri Lanka's growing energy needs in an economically, environmentally and socially responsible way is a priority for DBB. Our commitment to develop sustainable energy began with support for Sri Lanka's first private sector grid-connected small hydropower project in the mid 1990's. Since then, we have made steady progress resulting in being recognised as a premier resource centre for developing the country's renewable energy sector.

DFCC Bank established a special lending window for renewable energy-related projects more than a decade ago, the first bank in the country to do so. More recently, the country's first commercial wind power plant in Kalpitiya was also enthusiastically funded by us.

DFCC Bank's pioneering work in renewable energy takes a three dimensional approach to developing the sector. Firstly, the Bank functions as the Administrative Unit and Apex body for several credit lines extended to the Government of Sri Lanka by the World Bank. The World Bank and Global Environment Facility (GEF) assisted Renewable Energy for Rural Economic Development (RERED) was a project that aimed to improve the quality of rural life by promoting access to electricity through off-grid renewable energy technologies and to add capacity to the national grid through private sector participation in power generation using renewable sources.

Secondly, the Bank, independently of the Administrative Unit, acts as a participating credit institution to identify and approve funds from the above credit lines for renewable energy projects.

The third dimension is for the Bank to utilise its sector expertise to undertake consulting assignments on renewable energy development through its subsidiary DFCC Consulting (Pvt) Limited. The Company has completed several assignments for overseas markets and also identifies, guides and promotes potential local entrepreneurs to take on renewable energy projects.

Introducing Environmental Stewardship

As a supplementary area under the '6S implementation in schools project' we attempted to educate students on the need for conserving the natural environment and minimising negative impacts resulting from human behaviour. In this regard tree planting campaigns were organised in all participating schools in celebration of the World Environment Day on 5 June 2011.

The project donated a variety of plants to schools, teachers and students, and our staff also volunteered in the planting of trees across identified locations in and around schools. The initiative drove the concept of trees as the lungs of the world among a generation of children around the country.

Another sub-project to encourage environmental stewardship was the 3R Vesak lantern competition. In line with the 2600th Sambuddathva Jayanthi celebrations participating school children were invited to construct Vesak lanterns using environmentally friendly materials.

Contestants built amazing creations through the use of material such as coconut leaves, shells and husks as well as bamboo and cloth.

Encouraging Responsible Investment

DBB ensures that environmental safeguards as defined by the Environmental Protection Act and the Rules and Regulations issued by the Central Environmental Authority of Sri Lanka are integrated into project design prior to its financing and complied with during the implementation and operation. The Bank has also set out two different category lists for restricted businesses and negative sectors. While negative sectors are not provided finance, restricted sectors are entertained only after a thorough review of the business and its objectives.

The important consideration in implementing an environmental and social management plan is ensuring the commitment of the project promoter. This entity is expected to maintain safeguards on a continuous basis adhering to the requirements imposed by the Bank. Furthermore, DFCC Bank's environmental recommendations are included in the Terms and Conditions of the loan facility, which in turn become part of the legal contract between the borrower and the Bank. During the follow up process, monitoring of environmental and social performance is an important part of the Environmental Management System (EMS).

All projects above a threshold value or in a defined sector which DFCC considers for financing undergo an environmental and social impact analysis. Amongst other criteria, generally this would mean an assessment of whether the project has been designed to prevent or minimise pollution, and have acceptable measures for waste disposal or recycling, water and energy conservation, climate protection and product stewardship. It also encompasses projects focused on the development and implementation of environment-friendly technology. The social aspects being, whether the project is in line with the labour laws of the country and good international practices which include the provision of worker health and safety, prevention of child labour, non-discrimination at work place, checks on sexual harassment and minimising the impact on local communities.

DFCC is working on an environmental classification for its new projects depending on the level of potential environmental impact. Currently all loans, whatever the risk level, are provided on market terms. However, for projects that need to put in place further mitigating measures, the Bank offers concessionary loans under special loan schemes.

Employees

Key Achievements 2011

- Recruitment of 280 new staff members to the DFCC Banking Business
- Introduction of assessment centres and competency-based interviewing processes for recruitment
- Introduction of measures to assist new recruits assimilate faster to our work culture
- Re-alignment of staff emoluments with market
- Successful conclusion of LEAP - an initiative to enhance leadership skills among management
- Provision of career advancement opportunities

We acknowledge our human capital as being a key differentiator in achieving DBB's strategic objectives and in ensuring we retain our competitive edge in the country's financial services arena. On this premise, we remain committed to acquiring, developing and retaining an appropriate talent pool. As the level of commitment and involvement employees have towards the work place impacts bottom line performance, we continue to give priority to aspects influencing employee engagement levels such as providing a conducive, safe and professional work environment, effective talent management, empowerment, equal opportunities and fair treatment, market-based compensation and adopting best human resources practices.

Fostering a Culture of Engagement and Inclusivity

A recognised competitive advantage is the internal culture we have fostered over the years driven on an ethos of professionalism, team work, openness and support. We believe in maintaining the highest ethical standards, transparency and consistency in internal and external dealings. We are an equal opportunity employer and we unswervingly promote diversity and inclusion in all human resource practices. We have achieved an almost equal gender distribution among staff and strictly adhere to a practice of 'equal pay for equal work'. Almost 30% of our management staff are female.

Ensuring and improving on the transparency and equitability of our processes and procedures continues to be a priority. We expect our employees to behave professionally and no harassment or inappropriate conduct is tolerated. Employees at all levels are encouraged to raise issues and concerns and formalised grievance and whistle blowing policies and procedures are in place.

New Initiatives in Resourcing

We continue to prioritise on attracting and retaining new talent. During the year under review 280 new staff were recruited to DBB, which resulted in an increase of over 10% in the total headcount. Most were entry level recruitments to DVB who were selected subsequent to an aptitude test as well as two sets of interviews. In addition, 26 management trainees and executive trainees joined the DBB during the year.

We reviewed our recruitment processes critically and certain improvements were made. Assessment centres and competency-based interviewing were introduced for management trainee selection. Prospective candidates spend a day at the assessment centre and go through a series of different tests and activities designed to identify those with the 'best fit' to the DBB. They are also made aware of the activities of the Group, our practices and culture so that they too would be in a position to make a more informed decision on whether they want to make a career with us. During the year, we reviewed our interviewing methodology and brought on board competency based interviewing with the intention of improving the efficiency, focus and professionalism of the process and most importantly, to ensure that a conscious effort is made to recruit staff possessing competencies required for their envisaged job roles.

Assisting Assimilation

We believe that first impressions go a long way in building loyalty and trust and thereby improving engagement and retention. Towards this end an effort is made to ensure new recruits are made to feel welcome and comfortable. Managers are informed in advance of new recruitments to ensure the availability of necessary facilities. To further assist in the assimilation process, a 'buddy' is assigned to introduce new executives to other staff, explain their job roles, systems and procedures. They also become members of 'DFCC Reds', a new club whose aim is to provide opportunities for new executive staff to meet and actively engage with each other as well as staff at other levels. This initiative gives them an opportunity to participate in numerous social events, community projects and shared learning experiences.

Performance of new employees is closely reviewed by the supervisor and regular feedback is given. Management Trainees meet with the HR Department periodically to discuss work progress as well as other issues and concerns they may have.

Analysis by Grade

	2009/10	2010/11	**2011/12**
No. of Employees Promoted to a Higher Level - DFCC			
Management	14	10	**13**
Executives	37	18	**42**
Non-Executives	20	37	**34**
Total	71	65	**89**
No. of Employees Promoted to a Higher Level - DVB			
Management	2	0	**4**
Executives	19	38	**19**
Non-Executives	27	74	**87**
Total	48	112	**110**
Total No. of Employees Promoted - DBB			
DFCC	71	65	**89**
DVB	48	112	**110**
Total	119	177	**199**

Training per Selected Competence

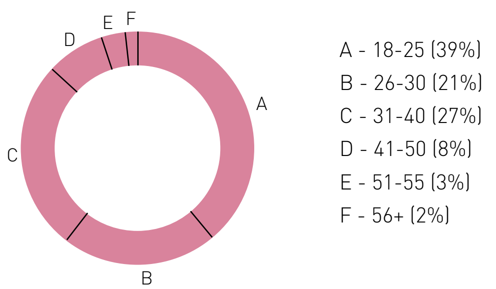
Type	No. of days	No. of participants
Credit evaluation	44	341
Operations and trade	29	452
Finance and Risk	43	115
Legal, compliance and regulatory	28	171
Leasing	8	109
Treasury operations	18	38
Personal Financial Services	12	113
Safety and health	4	92
Customer service	19	341
Communication skills	15	115
Behavioural competencies	39	362
Industry/business	69	64

Employee Departures - DBB

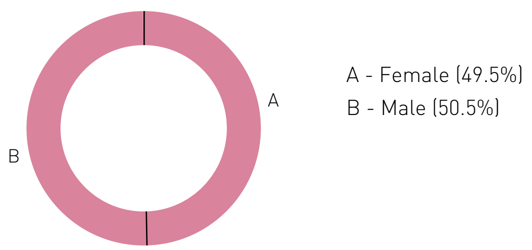
	2009/10		2010/11		2011/12		Total
	DFCC	DVB	DFCC	DVB	DFCC	DVB	
Resignations	22	58	55	91	39	117	382
Retirements	6	0	9	0	10	0	25
	28	58	64	91	49	117	407

** No retirements of Staff DVB for above years*

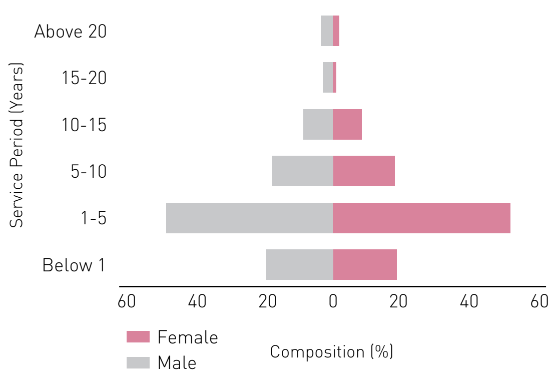
STAFF DISTRIBUTION BY AGE - DBB



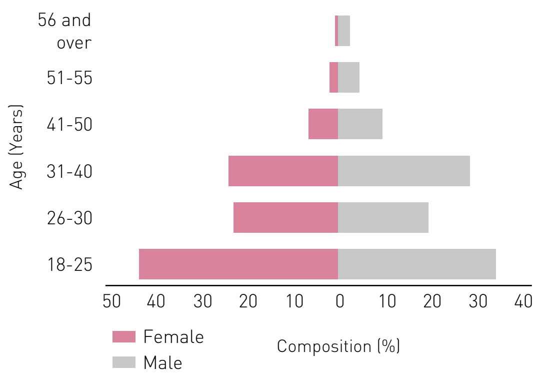
STAFF DISTRIBUTION BY GENDER - DBB



SENIORITY PYRAMID - DBB



AGE PYRAMID - DBB

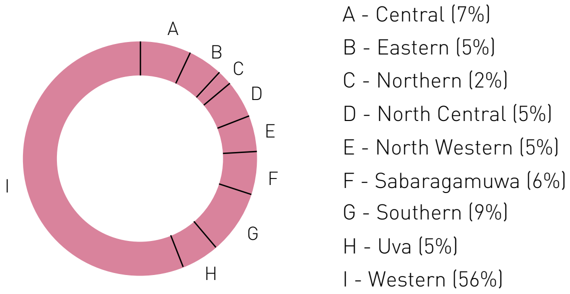


Staff Distribution by Province and Gender

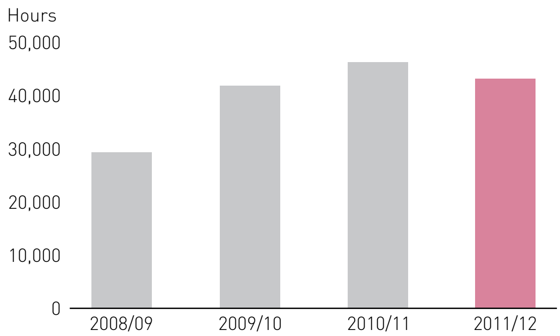
31 March 2012

	DFCC		DVB		Total	%
	Female	Male	Female	Male		
Central	11	11	30	41	93	8
Eastern	7	12	14	25	58	5
Northern	5	5	7	9	26	2
North Central	9	17	10	23	59	5
North Western	11	11	25	17	64	5
Sabaragamuwa	6	11	28	26	71	6
Southern	10	18	39	42	109	9
Uva	6	16	13	22	57	5
Western	175	125	202	189	691	56
Total	240	226	368	394	1,228	100
	466		762			

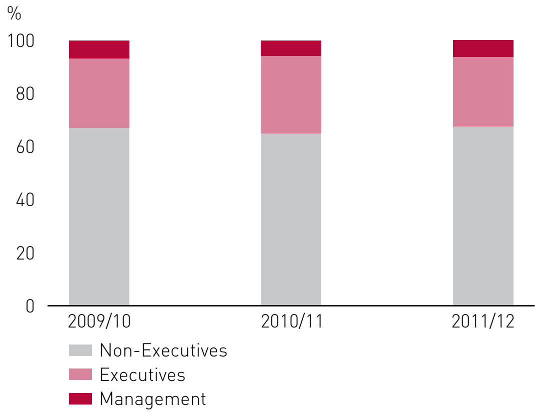
STAFF DISTRIBUTION BY PROVINCE



TOTAL TRAINING HOURS - DBB



CHANGE IN TOTAL HEAD COUNT - DBB (AS %)



INVESTMENT IN TRAINING - DBB

Benchmarking Compensation Structures

To ensure that we continue to retain our status as an 'employer of choice' and also in keeping with our ethics of fair play, from time to time DFCC commissions independent surveys in order to benchmark our compensation with that of competition to better align our emoluments with the market. Such alignment is essential if we are to continue to attract, retain and motivate staff.

It is in this context that DFCC commissioned the services of an independent third party to conduct a remuneration benchmarking exercise in 2011. Based on the findings of the survey, revisions were made to grade specific salary ranges as well as to certain senior level specific positions to better align base pay levels to that of the market. In addition, many staff benefits were enhanced, to be in line with market practice.

Commitment to Development and Growth

During the year under review we reinforced our ongoing commitment to enabling development and growth of our employees by continuing to invest and promote staff training and related initiatives. It is noteworthy that our investment in training was enhanced by almost 50% in comparison to that of the previous year. We believe that the return derived more than justifies the investment as access to adequate training and development opportunities enables employees to perform their duties more effectively, helps shorten the learning curve and enhances levels of motivation and self-worth.

During the year 1,280 participants from DFCC attended 180 programmes of which 50 were conducted in-house. During the same period 1,387 participants from DVB attended 106 programmes of which 60 were conducted in-house. We continued to emphasise on technical skill development with programmes focused on topics relevant to the core banking business such as project financing, delinquent loan management and follow up, working capital financing, banking operations, risk management, treasury operations, SME lending, trade financing, regulatory environment in banking, compliance, leasing and banking products to name a few. As a measure of learning impact most technical programmes included post-training assessments. The bulk of these programmes were conducted by mid and senior level staff of DBB as they are best positioned to impart knowledge of internal operations, processes and practices. DBB does not pay a fee to our employees who function as resource persons as the appropriate transfer of knowledge is considered to be an essential responsibility of all staff. However, it is encouraging to note that despite no direct financial incentive being provided, our employees are always willing to devote substantial personal time and effort to imparting knowledge and assisting in the development of junior staff. We believe that this unstinting commitment and openness is a reflection of the learning culture we have developed within the DBB over the years.

The e-learning platform continued to be used consistently with a total of 33 learning modules being available to employees as at end 2011. The modules primarily focus on core business areas of DBB and include assessments as well. Frequency of access, completion of assigned modules and assessment scores are consistently tracked and employees and their supervisors kept informed as appropriate. Completion of certain modules is a mandatory requirement for junior level staff prior to confirmation in service. In an effort to further popularise and enhance the usage of the e-learning tool, a quiz competition, 'MindStar Online' was launched. This initiative was enthusiastically received and a large number of the targeted staff groups participated.

The Management Trainee programme is a signature initiative of DBB. The programme content is reviewed every year and amended as appropriate. As the best mode of gaining experience is by actually doing it, trainees are provided with hands on experience in banking functions, and in addition undergo a structured and rigorous training schedule. On average trainees are provided with access to about 200 hours of class-room based training per year covering all relevant aspects of banking. In addition, experiential learning opportunities, adventure-based outdoor programmes and field visits are organised. Trainees are monitored in areas such as performance on the job, behaviour, team orientation, attitude, commitment, customer relations and participation at Group activities, and given quarterly assessments.

Supporting Leadership Development

LEAP - the leadership development initiative that commenced in 2010 was successfully concluded during the year under review. The project, formulated with external consultancy expertise and partial financial support from FMO of the Netherlands, was executed in four stages. The first three stages encompassing the formulation of a leadership competency model - ASPIRE, selection and assessment of 15 members of the management team against the established competencies and preparation of individual reports. In the final phase of this initiative, based on the outcomes of the assessments, individual development and coaching plans were formulated for the participants, who were each assigned a coach. During a period spanning about nine months, both parties connected at regular

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1. *The annual trip brings together a trainload of DFCC friends & families*
2. *RedsCare Volunteers contribute to improve the Camilla School, Mattegoda*
3. *DFCC Reds enjoying an outbound training session*

intervals through one-on-one sessions. The coaches updated the CEO on the progress of the coaching initiative. At the end of the initiative 360 assessments were done for all participants to evaluate the level of progress achieved.

The leadership competency model – ASPIRE, was developed for DBB after consolidating inputs from all relevant stakeholders and also benchmarked against leadership competencies currently used within the South Asian financial sector. The competency model is built around six behaviours. A detailed handbook, explaining the competencies and their defining attributes, proficiency levels expected at different management grades and ways in which individuals could develop these competencies was shared with employees.

DFCC Behavioural Competency Model: ASPIRE

A chieve Results

S trategize for Growth

P artner with others

I mprove & Change

R elate to Customers

E ngage self/teams

To further inculcate ASPIRE among executive staff, two customised competency development programmes were conducted in 2011. One, targeting first level management, was held over a period spanning several months and included substantial casework and assessments. The other was a five-day programme conducted in Malaysia to further the understanding of the competencies through role plays, case work and assessments.

Adopting Best Practices

We have consistently placed importance on ensuring that our human resource systems and processes are current, relevant and conform to industry best practices. Every effort is made to ensure transparency and consistency in implementing these and in communicating relevant information to stakeholders in a clear and timely manner.

Performance management continues to be an area of priority for us as it involves many elements of subjectivity which are difficult to eliminate altogether. We also appreciate that there is considerable sensitivity involved as this would directly impact on reward and recognition. Therefore, supervisors are tasked with ensuring that performance of their direct reports is regularly reviewed and feedback given and corrective action taken as appropriate. At the end of the year supervisors appraise individual performance in consultation with the staff members concerned and assign performance scores. If the staff member concerned disagrees with the performance appraisal he/she has the option of escalating his concern to a higher level for further review.

Availability of opportunities for career advancement is another area of focus. At entry level employment grades promotions are not cadre restricted and given based on performance, behavioural qualities and tenure. However, higher up in the organisation chart promotions are naturally based on cadre availability. During the year under review DBB saw a total of 208 non-management level promotions, while promotions within the management cadres amounted to 17.

Staff handbooks, which are periodically updated, contain extensive details of all aspects of importance and relevance to DBB employees. The content of the handbooks are also available as e-learning modules together with assessments, and it is mandatory for all new staff to complete them. Job descriptions are available for all staff positions and consistently reviewed and updated. A human resources manual is available to staff of the HR Department detailing procedures to be adopted in all employee related practices. Separate training manuals are available for different modes of training as well. The existing HR information system enables access to extensive reports and databases pertaining to staff.

Enabling Wellness and Safety

We actively endorse work life balance and wellness as measures of enhancing employee motivation and productivity levels. Some key aspects of our wellness initiatives include availability of indoor and outdoor medical benefits, financial support for gym memberships, organising annual health risk assessments and awareness programmes on general health, nutrition, first aid, handling stress, managing time and multitasking. In

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1. The DFCC REDS on a field trip to the wind farms in Kalpitiya
2. Competition is always intense at DFCC's Sports day

2011 hospitalisation financial support was increased for all staff grades and the quantum of allowances available for gym and club memberships were also increased for applicable grades. To encourage participation in sports we sponsor many activities such as badminton, tennis, basketball, cricket etc. Several clubs and committees, primarily driven by employees themselves, organise varied and interactive events for staff members and their families throughout the year.

We are an active member of the Sri Lanka Business Coalition for HIV & AIDS. The Business Coalition was initiated at the eighth International Congress on AIDS in the Asia Pacific (ICCAP) that was held in Sri Lanka in August 2007. The Lanka Business Coalition on HIV and AIDS is also a member of the Asia Pacific Business Coalition on ADIS.

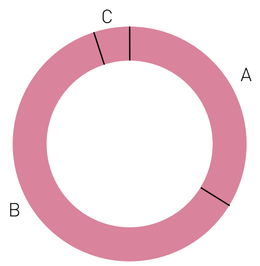
The Coalition works with its partners to ensure that each member organisation has an HIV/AIDS Workplace Policy in place, as well as providing ongoing tailored HIV/AIDS awareness training through a pool of professional trainers.

Regular awareness programmes have been conducted for our staff to educate them on the Banks' HIV/AIDS policy, to raise awareness on related issues and avoid stigma towards those living with the disease.

Both banks have in place detailed business continuity plans and safety procedures which would come into operation in the event of unexpected disasters. Relevant employee groups are provided with regular training on emergency evacuation procedures, handling fires and other emergencies, administering first aid etc. The work areas are planned in conformity to internationally accepted health and safety standards. All equipment, such as elevators, fire extinguishers, sprinklers etc., are regularly serviced and maintained at optimal levels. Disability accesses and services are available at the DFCC head office building and in most of the branches for the convenience of staff, customers and visitors.

Community

DBB LOANS AND ADVANCES BY CUSTOMER SEGMENTS



A - Corporate (34%)
B - SME (61%)
C - Personal Banking (5%)

DBB firmly believes that enterprises have the power to transform communities.

We contribute to the well-being of local communities by actively supporting economic and social development, particularly through the provision of rural banking services and the uplifting of Small and Medium Enterprises (SMEs). SMEs are considered to be an important cog in the economic wheel, creating jobs and economic growth particularly in the regions.

Our award winning CSR programme '6S in schools' attempts to improve learning facilities and productivity levels in selected schools islandwide.

DFCC and DVB also won recognition for continuing its highly popular TV quiz show DFCC MindStar. The programme provided a platform for talented individuals to showcase capabilities while giving the Banks a chance to present their products and services to a mass national viewership.

Supporting Small and Medium Enterprises

Our branches strive to raise awareness on entrepreneurship within local communities, while directing SMEs towards innovation and creativity.

A large number of DBB's customers are SMEs engaged in economic activities such as small scale agriculture and plantation, light-engineering, agro-processing, transportation and trade activities. These enterprises are key drivers of growth and employment creation in the provincial areas. There was a 56% increase in the SME loan portfolio during the year, signifying our contribution to the economic development of rural areas of the country.

Supporting SMEs is an important component of DBB's commitment to the economy. The strategy for SMEs revolves around developing their internal capabilities and improving access to finance. The latter includes access to concessionary credit lines from Government, as well as bilateral and multilateral organisations. DBB is the premier lender under most credit lines available for the sector. DBB also guides small businesses in the effective use of credit to create sustainable business ventures.

Total credit facilities approved by DBB to the SME Sector during the year amounted to LKR 49,903 million, an increase of 20% compared to the previous year.

In early 2011, the Batticaloa District was affected by the worst floods experienced by the region for several decades in which more than 350,000 people lost their homes and means of income.

The hardest hit was the poorest segment of the community who needed assistance to re-establish their livelihoods. The Batticaloa Branch, having made an initial assessment of the damage, set up a special fund to provide financial assistance to cottage industry workers who had lost machinery and equipment during the floods.

Under this grant scheme, the flood-affected small-scale entrepreneurs engaged in trades such as tailoring, food processing, rice milling and poultry farming from six towns in the district were given financial assistance.

Last year, the Gampaha Branch took an active interest in developing a close relationship with the local community including its customers. They joined hands with the Department of Inland Revenue to increase awareness about the Tax Regulations in Sri Lanka by organising a one-day workshop for 175 participants from the business community.

'6S' in Schools

Students, especially in rural underprivileged schools, deserve to have the skills which will enable them to be part of an evolving socio-economic system. When children are given the right training and motivation to change themselves and their immediate surroundings, the ripple effect creates a positive change across the fabric of society.

In collaboration with the Ministry of Education, DFCC launched a community development project in 2009 targeting primary school students spread across the country. The objective was to empower young minds with knowledge that would enable them to increase efficiency and productivity.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1. *A classroom at Ihalagoda Sumangala Maha Vidyalaya, Galle arranged according to 6S*
2. *Masks made out of waste paper, Kadawalawewa Maha Vidyalaya, Kaduruwela*
3. *Surrounding area of Shariputhra Primary School, Kuliyapitiya*
4. *Environmental stewardship, Eravur Rahumania Maha Vidyalaya, Batticaloa*
5. *Nayakakanda Girls Primary School, winner of the 6S program 2011*
6. *Tree planting on World Environment Day at Olcott Primary School, Matara*
7. *A recycling bin at Pohorabawa Maha Vidyalaya, Rathnapura*
8. *Volunteers from our Bandarawela Branch*
9. *Workshops Conducted for Principals and Teachers*
10. *Vesak Lanterns made by students of Urani Sarasvathi College, Batticaloa*
11. *Bandarawela Janananda Maha Vidyalaya was another disadvantaged school uplifted through the 6S programme*

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This Project was administered by DBB and implemented by Zonal Education Directors, Principals of each school, quality circles elected by the teachers, parents, past pupils, students of the school and DBB volunteers. Each quality circle agreed on a time-bound set of objectives and activities to be completed during the year. The flow of Ideas from the bottom to top, particularly proposals for continuous improvement based on the Kaizen philosophy, further strengthened the unity among all participants.

The project focused on educating and training teachers and primary school students from selected public schools on the theoretical and practical applications of the Japanese Principles of 'Five-S with added emphasis on Safety'. It also included guidance on the '3R principles' (Reduce, Reuse, Recycle) on environmental stewardship. Students, teachers and parents were encouraged to practise these disciplines and those who best grasped the precepts were rewarded with cash prizes and awards at the end of the project.

This ongoing project received recognition locally and internationally in 2010.

Further Improvements

Despite the recognition and awards, the challenge during the year under review was to ensure the continuity of the progress and performance of the schools which took part in 2009 and 2010, while extending this project to a new set of schools. Measures taken to ensure sustainability included the appointment and training of audit teams from each school and the introduction of an inter-school audit programme. This required the appointed team from each school to visit the closest school which took part in the same project and audit the level of maintenance of the project initiatives. This was strengthened through prizes for top performers based on an evaluation by an independent judge.

Learning from experience, the project was further improved and extended to a new group of schools during year 2011, which for the first time included two schools from the Northern Province. It was a great experience for the schools as well as the teams that drove the project, as they had different cultural roots but worked harmoniously towards a common goal.

DFCC Volunteerism

Another striking feature of the project was the enthusiasm of staff, who contributed their time and effort voluntarily. In total, over 154 staff members participated, contributing over 1,338 volunteer hours in guiding the schools and monitoring their progress during the year.

Funding

The attempt made to encourage schools to raise their own funds to carry out project initiatives in 2009 proved to be successful. It was thus continued in 2011 as well, with improvements. In addition to the general means of raising funds through organising market fairs and concerts or selling small handmade items, in 2011 the schools took on more challenging initiatives. These included activities such as the production of bricks, cinnamon cultivation and the production of flower vases made of recycled material. The amount of funds raised by the participating schools exceeded LKR 1.2 million. As matching grants, a maximum of LKR 30,000 per school was disbursed to encourage continued participation.

Results

While there was an immediate observable change in the physical environment of participating schools, the hidden value and sustainability of the project lies in the change that occurs in the mindsets of the students, parents and teachers.

It is estimated that the overall project has benefited over 45,000 students and 2,000 teachers in schools all over Sri Lanka.

We have now successfully extended the project to selected schools in Trincomalee, Vavuniya and Hambantota Districts.


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1. *The finalists of DFCC MindStar Season 2 preparing for battle*
2. *Winner of DFCC MindStar Season 2 - Medical Student, Kosala Samarasinghe*

DFCC MindStar

DFCC MindStar was a reality TV quiz show initiated by DBB to engage and connect with members of our community. Through affinity built up through this programme DFCC and DVB were able to build trust and familiarity with audiences across Sri Lanka.

The two seasons of MindStar saw more than 20,000 applicants taking part in the initial aptitude tests while over 400 participants made it to the final rounds of the competition.

In addition to the standard thirty show format used in first season the second season dedicated five special shows to school children from all around the country. Of the prize money won by students 75% was donated to their respective schools while the balance and other gifts such as laptops and book vouchers were retained by the winners.

DFCC MindStar served to educate and entertain all those who watched the show. There were two main identifiable community engagement outcomes from the show. Firstly, it created awareness and a thirst for information among the general public. With the success of the quiz format other television networks also attempted to satisfy viewer appetites for quality knowledge based programming. These developments were important in the larger scheme of building a knowledgeable, information thirsty community as the wheel of development rolls towards a knowledge-based economy.

Secondly, there was a tremendous amount of public goodwill created by the programme. Contestants from varied backgrounds found opportunities for personal development through their participation in the show. Many used their prize winnings to engage in community service projects and charitable causes. This created a cascading effect within the community about DBB and MindStar, not just as a revolutionary TV show, but also as a show that played a part in a social revolution.

GRI Index

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
1. Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organisation.	■	Pages 8-13, 46
1.2	Description of key impacts, risks, and opportunities.	●	Pages 22-32, 37-45
2. Organisational Profile			
2.1	Name of the organisation.	■	DFCC Bank
2.2	Primary brands, products, and/or services.	■	Page 65
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	■	Pages 20-21
2.4	Location of organisation's headquarters.	■	73/5, Galle Road, Colombo 3, Sri Lanka.
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	■	The organisation operates primarily in Sri Lanka.
2.6	Nature of ownership and legal form.	■	DFCC Bank (DFCC) is a quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955 and is a Licensed specialised bank under the Banking Act No. 30 of 1988. It is listed on the Colombo Stock Exchange. DFCC Vardhana Bank PLC (DVB) is a company with limited liability incorporated under the Companies Act. It's a Licensed commercial bank under the Banking Act No. 30 of 1988. It is listed on the Colombo Stock Exchange.
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	■	Pages 79,175
2.8	Scale of the reporting organisation.	■	DFCC Banking Business Employees - 1,228 Revenue - LKR 9,529 million Total Loans, Advances and Leases - LKR 89,111 million Deposits from Customers - LKR 44,746 million
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	■	20 Major Shareholders - Page 190 Structure - Page 189 Size - In 2011 DBB added five branches and one extension office to its network
2.10	Awards received in the reporting period.	■	Page 44

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
3. Report Parameters			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	■	DFCC 01 April 2011 to 31 March 2012 DVB 01 January 2011 to 31 December 2011
3.2	Date of most recent previous report (if any).	■	DFCC 31 March 2011 DVB 31 December 2011
3.3	Reporting cycle (annual, biennial, etc.)	■	Annual
3.4	Contact point for questions regarding the report or its contents.	■	Vice-President - Group Corporate Communications, EVP - Finance
3.5	Process for defining report content.	■	Page 47
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers.	■	Page 48
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	■	Page 48
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	■	Page 49
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	■	Page 49
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	■	None Reported
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the Report.	■	Page 49
3.12	Table identifying the location of the Standard Disclosures in the Report.	■	This GRI Table
3.13	Policy and current practice with regard to seeking external assurance for the Report.	■	Page 49
4. Governance, Commitments and Engagement			
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	■	Page 96-112
4.2	Indicate whether the Chair of the highest governance body is also an Executive Officer.	■	Page 57

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
4.3	For organizations that have a unitary Board structure, state the number of members of the highest governance body that are Independent and/or Non-Executive Members.	■	Pages 56, 98
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	■	Pages 50, 58
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	■	Page 107
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	■	Page 110-111
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	■	Page 108
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	■	Inner Cover
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	Pages 51-53, 37, 45
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	■	Page 107
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	■	DBB uses the precautionary principle to minimise adverse environmental and social impacts while improving conditions in markets it operates.
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	●	Page 49
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	■	Page 49

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
4.14	List of stakeholder groups engaged by the organisation.	■	Page 50
4.15	Basis for identification and selection of stakeholders with whom to engage.	■	Page 49
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	Page 50
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	●	Pages 51-83
Standard Disclosures Part II: Disclosures on Management Approach (DMAs)			
DMA PS	Disclosure on Management Approach PS.		
Aspects	Product Portfolio.		
FS1	Policies with specific environmental and social components applied to business lines.	■	Page 69
FS2	Procedures for assessing and screening environmental and social risks in business lines.	■	Page 69
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	■	Page 69
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	■	Pages 72, 74-75
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	●	Pages 68,69
	Audits		
	Active Ownership		
DMA EC	Disclosure on Management Approach EC	■	Page 63
Aspects	Economic Performance COMM		
	Market presence		
	Indirect economic impacts		
DMA EN	Disclosure on Management Approach EN	■	Page 67
Aspects	Materials		
	Energy		
	Water		
	Biodiversity		
	Emissions, effluents and waste		
	Products and services		
	Compliance		
	Transport		
	Overall		

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
DMA LA	Disclosure on Management Approach LA	■	Page 70
Aspects	Employment		
	Labour/management relations		
	Occupational health and safety COMM		
	Training and education		
	Diversity and equal opportunity		
DMA HR	Disclosure on Management Approach HR	●	Page 70
Aspects	Investment and procurement practices		
	Non-discrimination		
	Freedom of association and collective bargaining		
	Child labour		
	Forced and compulsory labour		
	Security practices		
	Indigenous rights		
DMA SO	Disclosure on Management Approach SO	■	Page 78
Aspects	Community		
	Corruption		
	Public policy		
	Anti-competitive behaviour		
	Compliance		
DMA PR	Disclosure on Management Approach PR	■	Page 65
Aspects	Customer health and safety		
	Product and service labelling		
FS15	Policies for the fair design and sale of financial products and services.		
	Marketing communications		
	Customer privacy		
	Compliance		
Standard Disclosures Part III: Performance Indicators			
Product and Service Impact			
Product Portfolio			
FS6	Percentage of the portfolio for business lines by specific region, size (e.g., micro/SME/large) and by sector.	●	Pages 79,175
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	▲	While data for 2011/12 was unavailable DBB is in the process of implementing mechanisms to capture related data accurately.

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	▲	While data for 2011/12 was unavailable DBB is in the process of implementing mechanisms to capture related data accurately.
Audit			
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	●	Pages 104-106
Active Ownership			
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues.	●	Page 162
FS11	Percentage of assets subject to positive and negative environmental or social screening.	■	100%
FS12	Voting policies applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting.	■	Not Applicable
Economic			
Economic Performance			
EC1COMM	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and Governments.	■	Page 64
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	▲	Related data has not been qualified.
EC3	Coverage of the organisation's defined benefit plan obligations	■	Pages 168-169
EC4	Significant financial assistance received from Government.	■	DFCC and DVB does not receive significant financial assistance from the Government.
Market Presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	▲	Related data has not been quantified.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	■	DBB strives to source all its resource requirements from suppliers who are based locally, wherever it is practicable.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	■	Currently all hiring for DBB management and non-management positions are done locally.

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
Indirect Economic Impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or *pro bono* engagement.	■	Pages 79-83
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	■	Pages 63-66, 69
Environmental			
Materials			
EN1	Materials used by weight or volume.	■	Page 68
EN2	Percentage of materials used that are recycled input materials.	▲	The Bank does not utilise significant amounts of (raw) material for the delivery of its products and services.
Energy			
EN3	Direct energy consumption by primary energy source.		Page 68
EN4	Indirect energy consumption by primary source.	▲	While Data for 2011/12 was unavailable DBB is in the process of implementing mechanisms to capture related data accurately.
EN5	Energy saved due to conservation and efficiency improvements.	▲	While Data for 2011/12 was unavailable DBB is in the process of implementing mechanisms to capture related data accurately.
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	Page 68-69
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	Page 68-69
Water			
EN8	Total water withdrawal by source.	●	Page 68
EN9	Water sources significantly affected by withdrawal of water.	▲	Not Applicable Our Primary products and services are not water intensive.
EN10	Percentage and total volume of water recycled and reused.	▲	Not Applicable Our Primary products and services are not water intensive.
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	▲	Not Applicable Our Operations have no known direct impact.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	▲	Not Applicable Our Operations have no known direct impact.
EN13	Habitats protected or restored.	■	None

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	▲	Not Applicable Our Operations have no known direct impact on biodiversity.
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	▲	Not Applicable Our Operations have no known direct impact.
Emissions, Effluents and Waste			
EN16COMM	Total direct and indirect greenhouse gas emissions by weight.	▲	While Data for 2011/12 was unavailable, DBB is in the process of implementing mechanisms to capture related data accurately.
EN17	Other relevant indirect greenhouse gas emissions by weight.	▲	While Data for 2011/12 was unavailable, DBB is in the process of implementing mechanisms to capture related data accurately.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	Pages 67-68
EN19	Emissions of ozone-depleting substances by weight.	▲	Not Applicable Our Operations have no known direct impact.
EN20	NOx, SOx, and other significant air emissions by type and weight.	▲	Not Applicable Our Operations have no known direct impact.
EN21	Total water discharge by quality and destination.	▲	Not Applicable Our Operations have no known direct impact.
EN22COMM	Total weight of waste by type and disposal method.	▲	Not Applicable Our Operations have no known direct impact.
EN23	Total number and volume of significant spills.	▲	Not Applicable Our Operations have no known direct impact.
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally.	▲	Not Applicable Our Operations have no known direct impact.
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	▲	Not Applicable Our Operations have no known direct impact.
Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	Page 69
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	▲	Not Applicable Our Operations have no known direct impact.
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	■	None Reported

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	●	Page 68
Overall			
EN30	Total environmental protection expenditures and investments by type.	▲	While Data for 2011/12 was unavailable DBB is in the process of implementing mechanisms to capture related data accurately.
Social: Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, and region.	■	Pages 72-73
LA2	Total number and rate of employee turnover by age group, gender and region.	●	Page 72
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	■	Permanent employees are eligible for subsidised loans, and other allowances based on employment grade.
Labour/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements.	■	None
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	●	Notice periods vary according to operational requirements. DBB always strives to give its employees adequate time and training to adjust to any changes.
Occupational Health and Safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	■	100%
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	▲	None Reported
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	■	Pages 77-78
LA9	Health and safety topics covered in formal agreements with trade unions.	■	Though DBB does not have any collective bargaining agreements, all permanent employees are eligible for medical leave, medical insurance and reimbursement of medical expenses.

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
Training and Education			
LA10	Average hours of training per year per employee by employee category.	●	Page 73
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	■	Pages 72, 74-75
LA12	Percentage of employees receiving regular performance and career development reviews.	■	100%
Diversity and Equal Opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	●	Pages 72-73
LA14	Ratio of basic salary of men to women by employee category.	■	DBB is an equal opportunity employer
Social: Human Rights			
Investment and Procurement Practices			
HR1COMM	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	▲	Quantification process is currently incomplete.
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	▲	Quantification process is currently incomplete.
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	▲	Quantification process is currently incomplete.
Non-Discrimination			
HR4	Total number of incidents of discrimination and actions taken.	■	None Reported
Freedom of Association and Collective Bargaining			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	■	Collective bargaining is not considered to be at risk.
Child Labour			
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	▲	Not Applicable Our Operations have no known direct impact.

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
Forced and Compulsory Labour			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	▲	Not Applicable Our Operations have no known direct impact.
Security Practices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	▲	Security functions are outsourced and closely monitored by DBBs Service & Procurement Departments.
Indigenous Rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	▲	Not Applicable Our operations have no known direct impact
Social: Society			
Community			
S01	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	■	Pages 78-83
FS13	Access points in low-populated or economically disadvantaged areas by type.	●	Page 191
FS14	Initiatives to improve access to financial services for disadvantaged people.	●	Pages 65-66
Corruption			
S02	Percentage and total number of business units analysed for risks-related to corruption.	■	100%
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures.	■	100%
S04	Actions taken in response to incidents of corruption.	■	None Reported
Public Policy			
S05	Public policy positions and participation in public policy development and lobbying.	●	Page 12
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	■	DBB continues to remain an apolitical entity
Anti-Competitive Behaviour			
S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	■	None reported

■ Fully Reported ● Partially Reported ▲ Not Reported

Profile Disclosure	Description	Reported	Cross-reference Annual Report Page Number/ Direct Answer
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	■	None reported
Social: Product Responsibility			
Customer Health and Safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	■	Our products and service designs are not dependent on health and safety related aspects.
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	■	None reported
Product and Service Labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	■	Not Applicable
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	■	None reported
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	■	Page 66
FS16	Initiatives to enhance financial literacy by type of beneficiary.	■	Page 80
Marketing Communications			
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	■	Pages 65-67
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	■	None Reported
Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	■	None reported
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	■	None reported

■ Fully Reported ● Partially Reported ▲ Not Reported

Annual Report of the Board of Directors

The Directors of DFCC Bank have pleasure in presenting to the shareholders the Annual Report together with the audited financial statements for the year ended 31 March 2012.

The Report of the Directors contains pertinent information and disclosures required under the Companies Act No. 07 of 2007 to the extent applicable to DFCC Bank, the Listing Rules of the Colombo Stock Exchange, the Banking Act (including Directions issued there under) and the requirements of the Sri Lanka Accounting Standards.

General

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

Principal Activities

Bank

The principal activities of DFCC Bank include the business of development financing. There has been no significant change in the nature of DFCC Bank's principal activities during the year. However, on receipt of approval from the Monetary Board in February 2012, Board approval was granted to engage in broader range of foreign currency-related activities including lending and deposit taking which will enable the Bank to enhance the scope of such activities in the future.

Subsidiary, Joint Venture and Associate Companies

The subsidiaries of the Bank are DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank PLC (DVB), Lanka Industrial Estates Limited (LINDEL) and Synapsys Limited. Acuity Partners (Pvt) Limited is an equally-owned joint venture and National Asset Management Limited (NAMAL) is an associate company. The nature of business and the Bank's interest in these entities are set out in page 20 and 21 of the Annual Report.

Review of Business

Going Concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the future and hence the financial statements are prepared on the basis of a going concern. The Auditors have declared the Bank is solvent even after the payment of dividend.

Financial Statements

The financial statements of the Bank and the Group are given on pages 123 to 127 of the Annual Report. They have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Banking Act and other applicable statutory and regulatory requirements.

Operations

The Chairman's Statement, Chief Executive's Report and the Management Discussion and Analysis give details of the operations of the Bank and the Group and the key strategies that were adopted during the year under review.

Profit and Appropriations

Year ended 31 March 2012	(LKR 000)
Retained profit on 31 March 2011	3,067,038
Previous year dividend approved on 30 June 2011	795,208
Unappropriated profit on 31 March 2011	2,271,830
Profit after tax of the Bank for the year under review	2,317,469
Total available for appropriations	4,589,299
Appropriations:	
Transfer to:	
Reserve Fund (statutory requirement)	120,000
Investment Fund (statutory requirement)	296,615
General Reserve	2,400,000
First and final dividend recommended for financial year ended 31 March 2012	1,060,391
Unappropriated profit on 31 March 2012	712,293

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 128 to 140 of the Annual Report. There were no significant changes to the accounting policies of the Bank in the year under review.

Auditors' Report

The Auditors' Report on the financial statements, which is unqualified, is given on page 122.

Reappointment of Auditors

The present auditors, KPMG have expressed their willingness to continue as Auditors of DFCC Bank for the next financial year ending 31 March 2013. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and has concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditor's independence. A Resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

Information on Directors

The Board of Directors of the Bank consist of ten Directors with wide knowledge and experience in the fields of banking and finance, trade, commerce, manufacturing, services and law. Profiles of the Directors are given on pages 16 and 17 of the Annual Report. The following are the present Directors of the Bank categorised in accordance with criteria specified in Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Non-Executive Directors

Mr J M S Brito *(Chairman)*
Mrs H M N S Gunawardana – *Government Director*

Independent Non-Executive Directors

Mr A S Abeyewardene - *Senior Director*
Mr T K Bandaranayake
Dr L P Chandradasa
Mr G K Dayasri
Mr C R Jansz
Mr J E A Perumal
Mr R B Thambiayah
Ms S R Thambiayah - *Alternate to Mr R B Thambiayah*

Executive Director

Mr A N Fonseka - *Chief Executive and Ex Officio Director*

Mr Brito does not meet the criteria set out in the Direction to be designated an Independent Director by virtue of his being a Director of the subsidiary, DFCC Vardhana Bank PLC. Mrs Gunawardana represents a specific stakeholder.

Resignation and Appointment of Directors

The following Directors retired from the Board during the year on the dates shown:

Mr C P R Perera - 30 June 2011
Mr S N P Palihena - 30 October 2011

The Directors record their appreciation for the contributions made by them during their tenure as Directors.

Dr L P Chandradasa was appointed as a Director with effect from 27 October 2011. Mr J E A Perumal was appointed as a Director with effect from 27 February 2012. Messrs L P Chandradasa and J E A Perumal will retire in terms of Regulation No. 90 of the DFCC Regulations and are offering themselves for re-election at the Annual General Meeting. The Nomination Committee has recommended their re-election and the Board, having concluded that they are fit and proper persons to be Directors in terms of the provisions of the Banking Act, unanimously endorse the recommendation of the Nomination Committee.

Retirement and Re-election of Director

The Director retiring by rotation in terms of Regulation No. 87 of the DFCC Regulations is Mr J M S Brito who offers himself for re-election under the said Regulation with the unanimous support of the Directors based on the recommendation of the Nomination Committee.

Senior Director

Mr Abeyewardene was elected by the Board as the Senior Director in place of Mr S N P Palihena.

Directors' Remuneration

The Directors' remuneration for the financial year ended 31 March 2012 is given in Note 18 of the Financial Statements. Mr G K Dayasri has opted not to receive any remuneration as a Director. The Directors record their appreciation for the honorary services provided by Mr Dayasri.

Directors' Meetings

The Bank held 15 Board Meetings during the financial year. The attendance of Directors is shown in the table on page 62 of the Annual Report.

Directors' Interests in Shares and Debentures

	No. of Shares[1] as at 31 March 2012	No. of Shares[1] as at 31 March 2011
Abeyewardene, A S	10,380	10,380
Bandaranayake, T K	1,478	1,478
Brito, J M S	38,760	18,760
Chandradasa, LP	500	–
Dayasri, G K	1,036	1,036
Fonseka, A N	142,006	107,998
Gunawardana, Mrs H M N S	Nil	Nil
Jansz C R	1,000	1,000
Perumal, J E A	5,000	–
Palihena, S N P[2]	–	10,000
Perera, C P R[2]	–	20,000
Thambiayah, R B	211,200	211,200
Thambiayah, Ms S R	Nil	Nil

[1] *Directors' shareholding includes shares held by the spouse and children under 18 years of age.*
[2] *Not Directors as at 31 March 2012.*

Mr A N Fonseka in his capacity as Chief Executive exercised the balance options of 34,008 during the financial year 2011/12. He did not hold any options as at 31 March 2012.

No Director directly or indirectly holds options or debentures of DFCC Bank.

Directors' Interests in Transactions with the Bank

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.

The Directors' interest in transactions with entities/persons (other than subsidiaries, joint ventures and associates) is listed under each Director for the year ended 31 March 2012 as follows:

	(LKR 000)
Mr A S Abeyewardene	
Ceylon Hospitals PLC	
Aggregate amount of credit facilities approved	45,000
Mr J M S Brito	
Ace Containers (Pvt) Limited	
Aitken Spence PLC	
Aitken Spence Travels (Pvt) Limited	
Elevators (Pvt) Limited	
EPP Hydropower Co. (Pvt) Limited	
Aggregate amount of credit facilities approved	837,000
Aggregate amount of payments made for services	795
Mr T K Bandaranayake	
Nawaloka Hospitals PLC	
Aggregate amount of credit facilities approved	260,000
Mr A N Fonseka	
Mrs R D Fonseka - Rent	1,980
Acuity Stock Brokers (Pvt) Limited	
Central Depository Systems Limited	
Colombo Stock Exchange	
Aggregate amount of payments made for services	9,334
Mr C R Jansz	
Lanka Bell (Pvt) Limited	
Aggregate amount of payments made for services	46

Messrs J M S Brito, A N Fonseka and A S Abeyewardene are or have been Chairman/ Director of one or more of the subsidiary, joint venture or associate companies. Details of transactions with subsidiary, joint venture and associate companies are disclosed in Note 62 in the Notes to the Financial Statements.

Board Committees

The following are the members of the permanent Committees of the Board. Changes to the composition during the year are set out in the respective Committee Reports in the Annual Report.

Audit Committee

Mr T K Bandaranayake *(Chairman)*
Mr A S Abeyewardene
Mr J E A Perumal

Credit Committee

Mr J M S Brito *(Chairman)*
Mr A N Fonseka
Mrs H M N S Gunawardana

Human Resources and Remuneration Committee

Mr J M S Brito *(Chairman)*
Mr T K Bandaranayake
Mr G K Dayasri

Nomination Committee

Mr R B Thambiayah *(Chairman)*
Mr J M S Brito
Mr C R Jansz

Integrated Risk Management Committee

Mr J M S Brito *(Chairman)*
Mr A S Abeyewardene
Mr C R Jansz
Mr A N Fonseka

The Heads of key risk assuming units, the Head of Risk Management, the Chief Financial Officer and the Head of Internal Audit are also members of the Integrated Risk Management Committee.

In addition, from time to time the Board appoints committees to deal with specific matters. The Board also invites external advisers and key management personnel to serve on some of the committees as and when necessary.

Further details relating to the above Committees are given in the section on Corporate Governance and the Committee Reports.

Dividends and Reserves

Dividend

The Directors have recommended for approval by shareholders at the Annual General Meeting the payment of a first and final dividend of LKR 4.00 per share (the final dividend paid in the previous year was LKR 3.00 per share). The total dividend for the year will amount to approximately LKR 1,060 million (LKR 2,650 million in the previous year), which amounts to 56% of the Bank's distributable profit. The higher dividend in the previous year was due to an interim dividend of LKR 1,855 million paid out of a one-off profit made in that year.

The Directors unanimously declare that the Bank will satisfy the solvency test stipulated in Section 57 of the Companies Act No. 7 of 2007 immediately after the dividend payment is made and have obtained a certificate of solvency from its Auditors.

Reserves

Total revenue reserves, augmented by the annual appropriation and retained profit, amounted to LKR 17,038 million.

Property, Plant and Equipment

Freehold Property, Plant and Equipment and Leasehold Property

The total expenditure on acquisition of property, plant and equipment during the year amounted to LKR 47 million, of which intangible assets amounted to LKR 2 million. Details of these are given in the Notes 41 and 42 to the financial statements.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 41 to the financial statements.

Shares and Debentures

Share Capital and Subordinated Debentures

Consequent to the options exercised by employees during the financial year the total share capital as at 31 March 2012 was LKR 2,651 million, consisting of 265,097,688 shares of LKR 10 each. Further information is given on page 170. The DFCC Bank Act No. 35 of 1955, as amended, mandates a par value of LKR 10 per share. The stated capital, if computed in accordance with the requirements of the Companies Act No. 07 of 2007 amounts to LKR 4,716 million.

Share Information

Information relating to earnings, net asset and market value per share are given on page 188 of the Annual Report. It also contains information pertaining to share trading during the year under review.

Shareholders

As at 31 March 2012 there were 9,827 registered shareholders. The distribution is indicated on page 189 and the 20 Largest Shareholders as of that date are listed on page 190.

Employee Share Option Plan (ESOP)

The last grant under the ESOP approved by shareholders was made in 2006. The exercise period of these grants expired on 02 July 2011.

Human Resources

Employment and Remuneration Policies

The policy of DFCC Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting the public and private sectors in their development efforts within the ambit of the DFCC Bank Act. The Bank continuously invests in training and development of its staff to meet these objectives. DFCC Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable payments. Annual increments and 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 which will attract, motivate and retain high quality employees. A remuneration survey was conducted during the year and action was taken to appropriately benchmark the Bank's remuneration levels and policies with those in the banking and other competing private sector institutions.

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 on time.

Compliance

Compliance with Laws, Regulations and Prudential Requirements

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

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 64 to the Financial Statements.

Corporate Governance

The Directors place great emphasis on following internationally-accepted good corporate governance practices and principles. Systems and procedures are in place in order to satisfy good governance requirements.

The Directors have obtained the External Auditor's assurance on effectiveness of the internal control mechanism and compliance with Direction No. 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosure are given on pages 51 to 62.

Rule 3 (8) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka prescribe disclosure requirements in the Annual Report. These disclosures have been made in this Annual Report as depicted in the table given below with cross references:

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on pages 123 to 127
3 (8) (ii) (a)	Affirmative assurance of compliance with Accounting Standards and requirements	Directors' Responsibility Statement on page 120
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Responsibility Statement of Internal Control on pages 110 to 112
3 (8) (ii) (c)	Assurance report issued by the external auditor on Directors' Statement on Internal Control	Independent Assurance Report, on page 113
3 (8) (ii) (d)	Information on Directors	Page 16
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements on page 147
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report on page 51 to 62
3 (8) (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements on page 179
3 (8) (ii) (g)	Confirmation by the Directors that all findings of the 'factual findings report' of auditors have been incorporated	Corporate Governance report page 51 to 62
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

For and on behalf of the Board of Directors,

J M S Brito
Chairman

A N Fonseka
Ex Officio Director and Chief Executive

Ms A Withana
Secretary to the Board

30 May 2012

Report of the Audit Committee

The purpose of the Audit Committee is to assist the Board in its general oversight of financial reporting, internal controls and audit functions of DFCC Bank. The composition requirements and the terms of reference of the Audit Committee are set out in Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Central Bank of Sri Lanka. This is complementary to the Charter formulated by the Audit Committee.

This report provides information on the compliance with regulatory requirements and where appropriate the process adopted by the Audit Committee to discharge its responsibilities.

Composition

All members of this Committee are independent Non-Executive Directors. The Chairman is a Chartered Accountant with considerable experience in the field of Finance and Audit. The profiles of the members are given under the caption Board of Directors on pages 16 to 17 of the Annual Report.

The composition of the Committee as at the date of this Report is as follows:

- Mr T K Bandaranayake *(Chairman)*
- Mr A S Abeyewardene
- Mr J E A Perumal

Mr J E A Perumal was appointed a member in place of Mr S N P Palihena who retired from the Board during the year. Mrs H M N S Gunawardana served the Committee temporarily until Mr Perumal was appointed to the Committee. The Head of Group Internal Audit holds the management rank of Senior Vice President and serves as the Secretary of the Committee. He has direct access to the members of the Audit Committee.

Meetings

Twelve Audit Committee Meetings were held during the financial year ended 31 March 2012. Proceedings of the meetings are reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 62 of the Annual Report.

The Chief Executive and Executive Vice President (Finance) attend the meetings by invitation. The Committee met with the external Auditor, KPMG on six occasions, which included two meetings without management presence so as to provide the External Auditor an opportunity to have a frank dialogue with the Committee.

Mandate and Role

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for the Bank's accounting and financial reporting process and audit of the financial statements of the Bank by monitoring (1) the integrity of the Bank's financial statements, (2) the independence and qualifications of its External Auditor, (3) the Bank's system of internal controls, (4) the performance of the Bank's internal audit process and External Auditor, and (5) the Bank's compliance with laws, regulations and codes of conduct with a view to safeguarding the interests of all stakeholders of the Bank.

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka. Where appropriate more details are provided under separate headings in this Report.

Financial Reporting

The Committee assists the Board of Directors to discharge its responsibility for the preparation of true and fair financial statements in accordance with the books of accounts and Sri Lanka Accounting Standards by: (1) reviewing the adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts, (2) reviewing the integrity of the process by which financial statements are derived from the books of accounts, (3) reviewing the choice of appropriate accounting policies and the judgments made in the application of such accounting policies; and (4) reviewing the process by which compliance with Sri Lanka Accounting Standards, and other regulatory provisions relating to financial statements are ensured with reasonable degree of assurance.

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the year ended 31 March 2012 together with supporting information that included significant assumptions and judgements made in the preparation of financial statements. The Committee also took into consideration the Internal Audit Reports, Management Letter issued by the External Auditor, Compliance Reports and the Responsibility Statements in relation to the financial statements issued by the Chief Finance Officer and Chief Executive in making an overall assessment on the integrity of the Financial Reporting System.

The Annual Report of the Board of Directors for this financial year to 31 March 2012 includes a separate report on internal controls on page 110. This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and includes *inter alia* an affirmative assurance on the integrity of Financial Reporting System to produce reliable financial statements that are true and fair.

The Committee confirms that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards and complies with the statutory provisions of DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and to the extent applicable, the Companies Act No. 7 of 2007. The provisions of the Companies Act do not apply where express provisions are included on the same subject in the DFCC Bank Act.

Internal Audit

With the concurrence of the Board, the Audit Committee has continued to engage the services of three firms of Chartered Accountants to supplement the Bank's Internal Audit function in carrying out periodic audits at some of the business units. 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 deficiencies identified, with a view to managing significant business risks and improving controls. Department/Unit heads attend meetings when their reports are discussed.

Risks and Controls

The Committee has adopted a risk-grading matrix for identifying and assessing risks encountered during the internal audit work. The Committee seeks and obtains the required assurance from the head of the business unit on remedial action taken in order to maintain the effectiveness of internal controls.

External Audit

The Audit Committee assists the Board of Directors to implement a transparent process (1) in the engagement and remuneration of the External Auditors for audit services with the approval of the shareholders; (2) in reviewing the non-audit services to ensure that they do not lead to impairment of the independence of the Auditors; (3) in assisting the Auditors to complete the audit programme within an agreed time frame in compliance with relevant guidelines issued by Central Bank of Sri Lanka.

In order to discharge its responsibilities the Audit Committee meets with the Auditors as and when it is necessary. During this meeting with the Auditors the Audit Committee (1) reviews the non-audit services provided by the External Auditors to ensure that provision of such services are not in conflict with the guidelines issued by the Central Bank of Sri Lanka and that the remuneration for such services are not of such value so as to impair their independence; (2) request for information relating to the total remuneration of the External Auditors for audit and non-audit services provided to the Bank and its Group; and (3) discusses and finalises the scope of the audit to ensure that it is in compliance with the guidelines issued by the Central Bank of Sri Lanka.

In the context of determining the independence of the Auditors, the Committee reviewed the statements issued by the External Auditors pursuant to Section 163(3) of the Companies Act No. 7 of 2007. As per this declaratory statement the Auditors have confirmed that they do not have any relationship that would impair their independence and disclose the total remuneration for the financial year ended 31 March 2012 for both audit and permitted non-audit services.

The Audit Committee has also recommended the adoption of a policy on the engagement of the External Auditors to provide non-audit services. This policy document approved by the Board of Directors, in addition to complying with the regulatory requirements, has included guidelines to ensure that the independence of the External Auditors is not impaired by the scale and scope of non-audit services.

The Audit Committee also meets with the Auditors at the conclusion of the audit to review the Management Letter issued by the Auditors before it is transmitted to the Board of Directors and the Central Bank of Sri Lanka.

Regulatory Compliance

The Bank's procedures in place to ensure compliance with mandatory Banking and other statutory requirements were monitored on an ongoing basis. The Audit Committee receives a copy of the Compliance Report that provides information on the status of compliance with statutory provisions relevant to the Bank. The purpose of the review is to assess the risks of non-compliance and currently there is some overlap of the functions between the Audit Committee and the Integrated Risk Management Committee in this respect. The compliance reporting is subject to Internal Audit verification on a sample basis. The Committee is satisfied that the Bank substantially complies with these requirements.

Evaluation

An evaluation of the effectiveness of the Committee was carried out by other members of the Board and the Committee has been found to be effective.

Reappointment of Auditors

The Audit Committee having evaluated the quality of audit service provided by the current Auditors has recommended to the Board of Directors that KPMG be reappointed as Auditors for the year ending 31 March 2013, subject to the approval of shareholders at the Annual General Meeting, at a fee to be determined by the Board.

T K Bandaranayake
Chairman - Audit Committee

30 May 2012

Report of the Human Resources and Remuneration Committee

Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors consists of three Non-Executive Directors. Mr J M S Brito is the Chairman of the Committee and Messrs G K Dayasri and T K Bandaranayake are the other members. Mr Bandaranayake was appointed to the Committee during the year in place of Mr C P R Perera. The Chief Executive - Mr Nihal Fonseka attended meetings by invitation and participated in its deliberations except when his own evaluation and remuneration were under discussion. He also serves as the Secretary. The Group Vice President - Human Resources assists the Committee by providing relevant information. The Committee invites external specialists with banking industry knowledge to attend meetings as and when required.

Mandate

The Committee has adopted as its mandate the tasks specified in Section 3 (6) (iii) of Direction No. 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for licensed specialised banks. The Committee in determining the remuneration policy relating to Directors, Chief Executive and Key Management Personnel of the Bank in terms of Directions ensures appropriate compensation levels in order to attract, retain and motivate talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the organisation more competitive. To achieve this, the Committee uses a mixture of fixed and variable pay to reward employees. During the year under review, the Committee oversaw a review of the remuneration structure based on a comprehensive remuneration survey carried out by an external consultant among comparable institutions.

Procedure

Apart from the general review of remuneration, in keeping with the policy of pay for performance, the Committee reviewed the performance of the Bank against historical performance, key performance indicators agreed at the beginning of the year as well as against a peer group when determining and recommending to the Board the annual salary increment pool and the performance based variable pay pool for the Bank. The Committee also appraised the performance of the Chief Executive based on the pre-agreed targets and desired skills and reviewed his remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional or new expertise and skills and also salary revisions. The Committee periodically assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the management of the DFCC Group Banking Business where it was deemed necessary.

Meetings

The Committee held four meetings during the financial year to carry out its tasks. The attendance by members is given on page 62 of the Annual Report.

JMS Brito

J M S Brito
Chairman – Human Resources and Remuneration Committee

30 May 2012

Report of the Nomination Committee

Composition

The Nomination Committee of the Board of Directors consists of three Non-Executive Directors. Mr R B Thambiayah, an independent Director is the Chairman with Messrs J M S Brito and C R Jansz serving as members. The Chief Executive, Mr A N Fonseka attends meetings by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

Mandate

The Committee carries out the tasks set out in Section 3 (6) (iv) of Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on Corporate Governance in licensed specialised banks. In terms of this Direction the role of the Committee is to identify and evaluate persons with the required skills, knowledge, standing, fitness and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is responsible for the task of putting in place a procedure for the appointment of the Chief Executive and key management personnel. The Committee makes recommendations to the Board of Directors for consideration.

Procedure

The Committee meets when required and acts within its mandate approved by the Board of Directors and makes recommendations to the Board for consideration.

Meetings

Three meetings were held during the financial year to identify possible candidates to fill Board vacancies and to assess the fitness and propriety of Directors. Individual Committee members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given on page 62 of the Annual Report. All appointments made to the Board during the year were recommended by the Committee and the Committee has recommended the re-election of Directors offering themselves for re-election at the Annual General Meeting.

R B Thambiayah
Chairman - Nomination Committee

30 May 2012

Report of the Board Integrated Risk Management Committee

Composition

The Board Integrated Risk Management Committee (BIRMC) of DFCC Bank consists of three Non-Executive Directors and five Non-Voting members. The Head of Internal Audit attends meetings by invitation while the Chief Risk Officer functions as the Secretary to the Committee.

Voting Members

Mr J M S Brito - *Chairman*
Mr C R Jansz - *Non-Executive Director*
Mr A S Abeyewardene - *Non-Executive Director*

Non-Voting Members

Mr A N Fonseka - *Chief Executive*
Mr T S A Fernandopulle - *Executive Vice President/Chief Risk Officer*
Mr H A Ariyaratne - *Executive Vice President/ Lending*
Mr S Nagarajah - *Executive Vice President/ Finance*
Ms R A P Withana - *Executive Vice President/ Operations*
Ms M Gunawardhena - *Senior Vice President/ Treasury and Resource Mobilisation*

Charter and Responsibilities

The approved Charter of the BIRMC stipulates its authority, structure, responsibilities and tasks. As per its Charter, the primary responsibilities of BIRMC are to review and ensure:

- Integrity and adequacy of the risk management function of the Bank
- Adequacy of the Bank's capital on a solo and consolidated basis and its allocation
- Risk exposures and risk profiles of the Bank and its subsidiaries are within acceptable parameters and to make recommendations to the Board of Directors on any action required
- Compliance of the Bank's operations with relevant laws, regulations and standards including the adherence to the Direction on Corporate Governance issued by the Central Bank of Sri Lanka.

The process through which the BIRMC discharges its responsibilities is detailed in the Risk Management section of this Annual Report.

BIRMC Meetings

BIRMC meets on a quarterly basis. During the year, the Bank convened four BIRMC meetings. The attendance of members is listed on page 62 of the Annual Report.
The Committee reviewed policy frameworks, risk management strategies and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being appropriately managed. During the year, in line with the changing market conditions, BIRMC introduced or recommended certain new risk management practices and actions in the areas of liquidity, concentration, credit and market risk management. New limits were introduced and certain existing risk limits were reviewed. The Committee reviewed the stress testing results of the Bank conducted during the year on a bank-wide basis and noted a healthy capital cushion available under the assumed stress conditions.

Reporting

The proceedings of the BIRMC meetings are reported to the Board through the submission of meeting minutes. Specific matters are submitted separately for the Board's approval on the recommendation of the BIRMC. The recommendations made by the BIRMC during the year under review were approved by the Board without any material changes.

JMS Brito

J M S Brito
Chairman, BIRMC

30 May 2012

Directors' Statement on Internal Control

Introduction

Internal Control is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the DFCC Bank's (Bank) objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Internal Control consists of the following components:

(a) The control environment;

(b) The entity's risk assessment process;

(c) The information system, including the related business processes, relevant to financial reporting and communication;

(d) Control activities; and

(e) Monitoring of controls.

The subset of this wider internal control system is the internal controls designed and implemented to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Responsibility

The Board of Directors acknowledge their responsibility for the adequacy and effectiveness of the Bank's system of internal controls which is designed to provide assurance on the maintenance of proper accounting records and the reliability of financial information generated, and safeguarding of the assets of the Bank. However, such systems are designed to manage the Bank's key exposures to risk within acceptable risk parameters, rather than to eliminate the risk of failure to achieve the business goals and objectives of the Bank. Therefore, the system of internal controls can only provide reasonable and not absolute assurance against errors or material misstatement of management and financial information and records or against financial losses or fraud.

Framework for Managing Material Risks of the Bank

The Board has set up an ongoing process for identifying, monitoring and managing the material risks faced by the Bank. This includes establishment of a dedicated Risk Management Department that provides regular reports on various risks, subject to an oversight by the Internal Audit Department through Internal Audit Reports that enables the Audit Committee to review the adequacy and effectiveness of the system of internal controls continuously to match the changes in the business environment or regulatory guidelines. In making this assessment, all key processes relating to material or significant transactions capture and recording in the books of accounts are identified and covered on an ongoing basis that is compatible with the guidance for Directors of Banks on the Directors' Statement of Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Key Internal Control Processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Board has established Committees to assist the Board in exercising an oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies compliance of operations with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches,

the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focusing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 104.
- The Board Integrated Risk Management Committee (BIRMC) is established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.
- Operational Committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, the Credit Committee, the Asset/Liability Committee, the Bad Debt Review Committee and the Information Technology Steering Committee.

Assessment of the Adequacy and Effectiveness of Internal Control

Although this process is carried out every year on a continuing basis, the Direction on Corporate Governance issued by the Central Bank of Sri Lanka requires the Board of Directors to provide a separate Report on the Bank's Internal Control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements, supplemented with independent certification by the auditor. The Auditors provide the independent Assurance Report in accordance with Sri Lanka Standard on Assurance Engagements 3050 issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

In order to facilitate the tasks of the Auditors to issue the Independent Assurance Report, the SLSAE - 3050 requires documentation of all procedures and controls that are related to significant accounts and disclosures of the financial statements of the Bank with audit evidence of checks performed by the Bank on an ongoing basis.

The risk-based Internal Audit Plan implemented by the Internal Audit Department in consultation with the Board Committee on Audit, specifically included on a sample basis, independent verification that the internal control process documented by the Bank and supported with audit evidence was in fact carried out on an ongoing basis.

The comments made by the external auditors in connection with internal control system in the financial year to 31 March 2011 were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the external auditor, KPMG in the financial year to 31 March 2012 in connection with the internal control system will be addressed in future. The Directors are of the opinion that these recommendations are intended to further improve the internal control system and they do not any way detract from the conclusion that the financial reporting system is reliable to provide reasonable assurance that the financial statements for external use are true and fair and complies with Sri Lanka Accounting Standards (SLAS) and the regulatory requirements of the Central Bank of Sri Lanka (CBSL)

This assessment of internal control process is confined only to the Bank and did not include its subsidiaries. However, the Board of Directors of the 99.1%-owned commercial banking subsidiary, DFCC Vardhana Bank PLC (DVB) issued an affirmative assurance in their Statement on Internal Control, on the adequacy and the effectiveness of the internal control system which was included in the DVB's Annual Report for the year ended 31 December 2011. The said Statement by the Directors was independently reviewed by KPMG, who are also the Auditors of the Bank.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes is in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 March 2012 and their Independent Assurance Report is on page 113 of the Annual Report.

By Order of the Board,

T K Bandaranayake
Chairman
Audit Committee

J M S Brito
Chairman
Board of Directors

A N Fonseka
Chief Executive/Director

30 May 2012

Independent Assurance Report

KPMG
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To the Board of Directors of DFCC Bank

We were engaged by the Board of Directors of DFCC Bank ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") for the year ended 31st March 2012, as set out on pages 110 to 112 of the Annual Report.

Management's Responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

(a) Enquired the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.

(b) Reviewed the documentation prepared by the directors to support their Statement made.

(c) Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Attended meetings of the audit committee at which the annual report, including the Directors' Statement on Internal Control is considered and approved for submission to the Board of Directors.

(f) Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

(g) Obtained written representations from directors on matters material to the Directors' Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report on pages 110 to 112 is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system of the Bank.

KPMG

Chartered Accountants
30th May 2012
Colombo

Consolidated Income Statement of DFCC and DVB (DBB)

This information relates to the consolidation of DFCC Bank (DFCC) and DFCC Vardhana Bank PLC (DVB) for purpose of internal review and analysis of the banking business and is derived from total Group financial statements.

Reconciliation with Group financial statements is in page 118. These statements have been audited by KPMG.

Income statement of DVB for the year ended 31 December is consolidated with income statements of DFCC for the year ended 31 March.

			Adjustment		Audited	
For the year ended 31 March	**2012 LKR 000**	2011 LKR 000	**2012 LKR 000**	2011 LKR 000	**2012 LKR 000**	2011 LKR 000
Interest income	**9,529,393**	9,512,191			**9,529,393**	9,512,191
Interest expense	**(4,740,917)**	(4,391,291)	**(67,761)[1]**	(90,138)[1]	**(4,808,678)**	(4,481,429)
Net interest income	**4,788,476**	5,120,900	**(67,761)**	(90,138)	**4,720,715**	5,030,762
Other income:						
Dividend from CBC (as investment security)	**614,079**	330,276		246,349[2]	**614,079**	576,625
Dividend received from unconsolidated - Subsidiaries	**30,309**	29,409			**30,309**	29,409
- Joint venture	**16,375**	9,825			**16,375**	9,825
Dividend from non-affiliated entities	**218,058**	134,273			**218,058**	134,273
Gains from CBC shares	**0**	4,341,089		(4,341,089)[3]	**0**	0
Gains from sale of non-affiliated quoted shares	**270,046**	52,506			**270,046**	52,506
Foreign exchange income	**118,875**	(61,946)	**67,761[1]**	90,138 [1]	**186,636**	28,192
Fees and commission income	**575,242**	384,781			**575,242**	384,781
Others	**248,254**	509,758		(6,119)[2]	**248,254**	503,639
Operating income	**6,879,714**	10,850,871	**0**	(4,100,859)	**6,879,714**	6,750,012
Personnel costs	**1,203,353**	1,014,566			**1,203,353**	1,014,566
Provision for staff retirement benefits	**225,442**	180,717			**225,442**	180,717
Premises, equipment & establishment expenses	**665,224**	621,511			**665,224**	621,511
Other overhead expenses	**827,175**	711,970			**827,175**	711,970
Operating expenses	**2,921,194**	2,528,764	**0**	0	**2,921,194**	2,528,764
Operating profit before provisions	**3,958,520**	8,322,107	**0**	(4,100,859)	**3,958,520**	4,221,248
Allowances for credit losses						
Specific Provision	**703,343**	1,224,992			**703,343**	1,224,992
Specific Provison - recoveries	**(537,051)**	(772,493)			**(537,051)**	(772,493)
General Provision	**(103,089)**	25,953			**(103,089)**	25,953
Less: Provision for fall in value of investments	**29,132**	0			**29,132**	0
Operating profit before value added tax	**3,866,185**	7,843,655	**0**	(4,100,859)	**3,866,185**	3,742,796
Value added tax on financial services	**(461,476)**	(2,080,063)		1,340,269[3]	**(461,476)**	(739,794)
Operating profit before income tax	**3,404,709**	5,763,592	**0**	(2,760,590)	**3,404,709**	3,003,002
Income tax expense	**(612,730)**	(1,006,913)			**(612,730)**	(1,006,913)
Profit after tax	**2,791,979**	4,756,679	**0**	(2,760,590)	**2,791,979**	1,996,089
Minority Interest DVB	**(7,504)**	(12,199)			**(7,504)**	(12,199)
Profit after tax attributable to shareholders of DFCC	**2,784,475**	4,744,480	**0**	(2,760,590)	**2,784,475**	1,983,890
Share of profits of National Asset Management Limited and CBC Associate (CBC ceased to be an associate on 2 June 2010)	**4,488**	199,767		(193,354)[2]	**4,488**	6,413
	2,788,963	4,944,247	**–**	(2,953,944)	**2,788,963**	1,990,303
Segregated exceptional profit on sale of CBC - post tax reduced by minority interest					**0**	3,000,820
Adjusted profit after tax attributable to shareholders of parent company - DFCC Bank					**2,788,963**	4,991,123

Adjustments explained by footnotes

1. *The forward exchange premium on US Dollar/LKR swap is included in the foreign exchange income, while interest earned on LKR from the swap is included in net interest income (NII) in the financial statements issued for external use. Thus the swap cost is netted against the NII to reflect the commercial reality of the transaction.*
2. *Investment in Commercial Bank of Ceylon PLC (CBC) is treated as if it was an investment in a non-affiliated entity in previous financial year. Thus income from this investment is accounted as dividend income instead of equity accounted profit with consequential change to the respective balance sheets.*
3. *Exceptional profit after taxes arising from sale of CBC shares is segregated from the profit after tax of the banking business.*

Consolidated Balance Sheet of DFCC and DVB (DBB)

This information relates to the consolidation of DFCC Bank (DFCC) and DFCC Vardhana Bank PLC(DVB) for purpose of internal review and analysis of the banking business and is derived from the total Group financial statements.

Reconciliation with Group financial statements is in page 118. These statements have been audited by KPMG.

Balance sheets of DVB as at 31 December is consolidated with balance sheets of DFCC as at 31 March.

			Adjustment		Audited	
As at 31 March	**2012 LKR 000**	2011 LKR 000	**2012 LKR 000**	2011 LKR 000	**2012 LKR 000**	2011 LKR 000
Assets						
Cash and short-term funds	**4,819,351**	1,466,293			**4,819,351**	1,466,293
Balances with Central Bank regulatory deposits (DVB only)	**1,595,595**	894,235			**1,595,595**	894,235
Treasury Bills and Bonds:						
Trading book	**168,269**	392,447			**168,269**	392,447
Investment book	**9,888,105**	17,164,024			**9,888,105**	17,164,024
Securities purchased under resale agreements	**100,000**	699,881			**100,000**	699,881
Dealing securities	**65,307**	85,242			**65,307**	85,242
Placements with and loans to other banks and financial institutions	**1,917,373**	2,254,778			**1,917,373**	2,254,778
Bills of exchange discounted - Performing	**527,476**	282,761			**527,476**	282,761
Loans and advances - Performing	**72,688,836**	47,705,660			**72,688,836**	47,705,660
Finance leases - Performing	**9,481,350**	6,053,014			**9,481,350**	6,053,014
Total performing - Gross	**84,615,035**	56,296,213			**84,615,035**	56,296,213
Bills of exchange discounted - Non-performing	**32,661**	35,102			**32,661**	35,102
Loans and advances - Non-performing	**4,291,268**	4,132,025			**4,291,268**	4,132,025
Finance leases - Non-performing	**171,780**	307,458			**171,780**	307,458
Total non-performing - Gross	**4,495,709**	4,474,585			**4,495,709**	4,474,585
Total credit portfolio - Gross	**89,110,744**	60,770,798			**89,110,744**	60,770,798
Specific provision on credit portfolio	**(2,588,609)**	(2,528,249)			**(2,588,609)**	(2,528,249)
General provision on credit portfolio	**(485,825)**	(588,607)			**(485,825)**	(588,607)
Interest in suspense relating to overdrafts	**(652,520)**	(481,032)			**(652,520)**	(481,032)
Interest receivable	**620,356**	379,346			**620,356**	379,346
Investment securities:						
Investment in Commercial Bank of Ceylon PLC	**4,956,072**	4,174,201	**(895,039)[2]**	(895,039)[2]	**4,061,033**	3,279,162
Others	**4,452,432**	2,358,713			**4,452,432**	2,358,713
Investment in associate companies	**51,279**	50,931			**51,279**	50,931
Investment in subsidiaries	**137,669**	155,036			**137,669**	155,036
Investment in joint ventures	**655,000**	655,000			**655,000**	655,000
Group balances receivable	**1,136**	3,276			**1,136**	3,276
Prepayments	**43,810**	17,331			**43,810**	17,331
Other receivables	**1,770,163**	1,208,013			**1,770,163**	1,208,013
Investment property	**29,887**	109,198			**29,887**	109,198
Goodwill on consolidation with DVB	**146,602**	146,602			**146,602**	146,602
Property and equipment - Net book value	**823,722**	855,503			**823,722**	855,503
Intangible assets - Application software	**201,049**	170,791			**201,049**	170,791
Income tax receivable	**139,574**				**139,574**	
Total assets	**116,049,168**	88,158,973	**(895,039)**	(895,039)	**115,154,129**	87,263,934

As at 31 March	2012 LKR 000	2011 LKR 000	Adjustment 2012 LKR 000	Adjustment 2011 LKR 000	Audited 2012 LKR 000	Audited 2011 LKR 000
Liabilities						
Deposits from customers:	44,746,429	25,707,555			44,746,429	25,707,555
Demand and savings deposits (DVB only)	8,512,572	6,845,007			8,512,572	6,845,007
Time deposits	36,233,857	18,862,548			36,233,857	18,862,548
Borrowing - medium and long-term	32,630,092	24,128,704			32,630,092	24,128,704
Borrowing - short-term	7,147,259	6,437,513			7,147,259	6,437,513
Debentures (DFCC only)	700,000	1,200,000			700,000	1,200,000
Group balances payable	222	0			222	0
Interest accrued	1,729,783	1,218,192			1,729,783	1,218,192
Taxation	8,046	297,998			8,046	297,998
Deferred tax liabilities	376,284	315,313			376,284	315,313
Other liabilities	1,648,473	3,160,915			1,648,473	3,160,915
Subordinated Debentures	1,590,000	2,000,000			1,590,000	2,000,000
Total Liabilities	90,576,588	64,466,190			90,576,588	64,466,190
Net assets (Total assets - Total liabilities)	25,472,580	23,692,783	(895,039)	(895,039)	24,577,541	22,797,744
Equity						
Share capital - DFCC only	2,650,977	2,648,838			2,650,977	2,648,838
Share premium - DFCC only	2,064,837	2,054,546			2,064,837	2,054,546
Stated Capital	4,715,814	4,703,384			4,715,814	4,703,384
Reserves						
Statutory reserves - DFCC only	1,485,215	1,015,000			1,485,215	1,015,000
Other reserves	13,779,839	11,433,439			13,779,839	11,433,439
Retained earnings	5,448,239	6,404,001	(895,039)[2]	(895,039)[2]	4,553,200	5,508,962
Bank's Shareholders' Equity	25,429,107	23,555,824	(895,039)	(895,039)	24,534,068	22,660,785
Minority interest	43,473	136,959			43,473	136,959
Total equity	25,472,580	23,692,783	(895,039)	(895,039)	24,577,541	22,797,744

Key Performance Indicators of Consolidated Banking Business (DBB)

The key ratios of performance are derived from the consolidated income and balance sheet of DFCC Bank and DFCC Vardhana Bank PLC.

		2012	2011
1.	Net interest income/interest income	**49.5%**	52.9%
	Non-interest expenses/operating income (Adjusted for CBC)	**42.5%**	37.5%
2.	Non-performing loans and advances ratio - Gross	**4.3%**	6.6%
	- Net	**1.6%**	2.7%
3.	Cumulative specific provision/non-performing loans and advances (provision coverage)	**57.6%**	56.5%
4.	Interest margin - Net interest income/total assets	**4.67%**	5.55%
5.	Common branches as at 31 March (DFCC), 31 December (DVB)	**18**	18
	Additional branches, DVB only as at 31 December	**32**	31
6.	Employees - 31 March	**1,228**	1,109

Reconciliation with Group Financial Statements

1. Consolidated Income Statement of DBB

Year ended 31 March	2012 LKR '000	2011 LKR '000
Consolidated profit of DBB attributable to equity holders of DFCC Bank (before adjustments) (Page 114)	2,788,963	4,944,247
Less: Dividend from Subsidiaries and Joint Venture	(46,684)	(39,234)
WHT on dividend received	(3,368)	(3,268)
	2,738,911	4,901,745
Add: Profit from other Subsidiaries and Joint Venture Attributable to equity holders of DFCC Bank		
Subsidiaries	41,062	58,658
Joint Venture	102,866	129,910
Consolidation adjustment for loss in value of a Subsidiary	17,367	–
Profit attributable to equity holders of the bank (Page 123)	2,900,206	5,090,313

2. Consolidated Equity of DBB

As at 31 March	2012 LKR 000	2011 LKR 000
Consolidated Equity of DBB (before adjustments)	25,429,107	23,555,824
Equity of other Subsidiaries	164,697	157,315
Proportionate Equity of Acuity Partners (Pvt) Limited - Joint Venture	240,727	154,237
Elimination of 50% of the profits on sale of Subsidiaries to Joint Venture Company	(184,688)	(184,688)
Consolidation adjustment for loss in value of a Subsidiary	17,367	–
Total Equity attributable to DFCC Bank's equity holders (Page 124)	25,667,210	23,682,688

Financial Reports

Financial Calendar - 2011/12

Rs 3.00 per share Final Dividend for 2011 paid on	11 July 2011
Audited financial statements signed on	30 May 2012
56th Annual General Meeting to be held on	29 June 2012
Rs 4.00 per share Final Dividend for 2011 payable on*	11 July 2012
1st Quarter Interim Results released on	12 August 2011
2nd Quarter Interim Results released on	09 November 2011
3rd Quarter Interim Results released on	08 February 2012

Proposed Financial Calendar - 2012/13

1st Quarter Interim Results to be released in	August 2012
2nd Quarter Interim Results to be released in	November 2012
3rd Quarter Interim Results to be released in	February 2013
57th Annual General Meeting to be held in	June 2013

** Subject to confirmation by Shareholders*

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 to the extent it is applicable to the DFCC Bank. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

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 these responsibilities, the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. These provides reasonable but not absolute assurance of safeguarding of the Bank's assets, maintenance of proper accounting records and the reliability of financial information.

The Board appointed Audit Committee chaired by an independent non-executive director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed "that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with Sri Lanka Accounting Standards and complies with the statutory provisions of DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and to the extent, applicable, the Companies Act No. 07 of 2007. The report of this Committee is in pages 104 to 106.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements.

As part of institutional checks and balances and accountability, in addition to this Directors' Responsibility Statement, the Directors have included the Chief Executive's and the Chief Financial Officer's Responsibility Statement on page 121.

By Order of the Board

Ms A Withana
Secretary to the Board

30 May 2012

Chief Executive's and Chief Financial Officer's Statement of Responsibility

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, DFCC Bank Act No. 35 of 1955 as amended, Section 153 of the Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 as amended and Directions issued there under relating to financial statements formats and disclosure of information. The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the financial statements.

The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the Bank's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The financial statements of the Group and joint venture company were audited by KPMG. National Asset Management Limited an associate company is also audited by KPMG.

The Audit Committee of the Bank meets periodically with the internal auditors and the independent auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

S. Nagarajah

S Nagarajah
Executive Vice-President (Finance)

A N Fonseka
Ex Officio Director & Chief Executive

Colombo
30 May 2012

Independent Auditors' Report

KPMG
(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 31st March 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 123 to 182 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31st March 2012, and the financial statements give a true and fair view of the Bank's state of affairs as at 31st March 2012, and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st March 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the shareholders 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) and 153(7) of the Companies Act No. 07 of 2007 and present the information required by the Banking Act No 30 of 1988.

KPMG

Chartered Accountants
30th May 2012
Colombo.

Income Statement

For the year ended 31 March	Notes	Page No.	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
Income	10	141	7,433,975	14,191,300	12,140,756	15,830,285
Interest income	11	141	5,871,820	6,206,458	9,646,418	9,658,167
Interest expense	12	141	2,880,428	2,786,098	4,719,006	4,394,201
Net interest income			2,991,392	3,420,360	4,927,412	5,263,966
Amortisation of negative goodwill			0	0	0	7,313
Other income	13	142	1,562,155	7,984,842	2,494,338	6,172,118
Operating income			4,553,547	11,405,202	7,421,750	11,443,397
Personnel expenses			657,363	649,118	1,428,687	1,206,838
Provision for staff retirement benefits	14	143	176,142	141,512	251,567	198,919
Premises, equipment and establishment expenses			282,374	282,161	758,289	705,997
Other overhead expenses			325,247	322,171	823,079	718,386
Bad and doubtful debts - specific	15	146	103,869	243,540	166,293	452,499
- general	16	147	(104,816)	153	(103,089)	25,953
Investments - impairment losses	17	147	29,132	0	11,765	3,125
Operating expenses	18	147	1,469,311	1,638,655	3,336,591	3,311,717
Operating profit before value added tax			3,084,236	9,766,547	4,085,159	8,131,680
Value added tax on financial services	19	148	336,338	1,890,229	461,476	2,080,063
Operating profit before income tax			2,747,898	7,876,318	3,623,683	6,051,617
Share of profits of associates*					5,649	217,758
Profit before tax			2,747,898	7,876,318	3,629,332	6,269,375
Income tax expense	20	148	430,429	738,867	656,493	1,098,302
Profit for the year			2,317,469	7,137,451	2,972,839	5,171,073
Attributable to:						
Equity holders of the parent					2,900,206	5,090,313
Minority interest					72,633	80,760
Profit for the year					2,972,839	5,171,073
Earnings per share - Basic, LKR	21	149	8.74	26.95	10.94	19.22
- Diluted, LKR**				26.93		19.21
Dividend per share, LKR			4.00	10.00	4.00	10.00

Notes from pages 128 to 182 form part of these financial statements.

** After tax.*

*** As at 31 March 2012 there were no unexercised options.*

Balance Sheet

As at 31 March	Notes	Page No.	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
Assets						
Cash and short-term funds	22	150	3,534,762	1,490,629	4,945,199	1,548,193
Balances with Central Bank	23	150			1,596,066	894,235
Treasury bills and other securities eligible for rediscounting with Central Bank	24	150	1,537,518	10,500,575	10,568,367	18,429,116
Securities purchased under resale agreements	25	150	0	166,000	1,884,792	1,996,168
Placements with and loans to other banks and financial institutions	26	151	1,917,373	2,254,778	1,917,373	2,254,778
Dealing securities	27	151	65,307	85,242	65,307	85,242
Non-current assets held for sale	28	151	0	0	2,875	2,875
Bills of exchange	29	152	0	0	532,925	288,932
Loans and advances	30	152	42,382,536	30,964,127	73,452,522	48,706,217
Finance leases	31	154	8,929,973	5,960,055	9,423,417	5,960,055
Interest receivable	32	154	360,675	257,299	646,900	415,225
Investment securities	33	155	6,907,117	4,031,527	9,559,437	6,685,547
Investments in associate companies	34	162	35,270	35,270	370,800	177,291
Investments in joint venture company	35	162	655,000	655,000	0	0
Investments in subsidiary companies	36	162	3,760,540	2,441,320	0	16,000
Group balances receivable	37	163	41,597	15,950	0	0
Prepayments			43,810	17,331	43,810	17,331
Income tax refund due	38	163	139,574	0	161,020	1,471
Investment properties	39	163	0	0	147,981	233,579
Goodwill on consolidation	40	163			226,411	226,411
Property, plant and equipment	41	164	431,606	493,465	936,250	939,415
Intangible assets	42	165	29,978	45,491	203,861	173,042
Deferred tax asset	43	165	0	0	5,583	1,781
Other assets	44	166	933,999	512,060	1,810,282	1,342,781
Total assets			71,706,635	59,926,119	118,501,178	90,395,685
Liabilities						
Deposits from customers	45	166	11,710,526	3,688,183	44,420,013	25,416,397
Borrowing - Medium and long-term	46	166	32,630,092	24,128,704	32,630,092	24,128,704
- Short-term	47	167	2,186,500	4,931,819	9,071,834	8,048,189
Debentures	48	167	700,000	1,200,000	700,000	1,200,000
Group balances payable	49	167	222	0	0	0
Interest accrued			1,144,954	842,137	1,731,630	1,224,362
Current tax liability			0	230,858	56,665	401,254
Deferred tax liabilities	50	167	328,039	275,121	376,284	315,313
Other liabilities	51	168	662,750	2,410,436	1,842,546	3,492,112
Subordinated debentures	52	170	590,000	2,000,000	1,590,000	2,000,000
			49,953,083	39,707,258	92,419,064	66,226,331
Equity						
Share capital	53	170	2,650,977	2,648,838	2,650,977	2,648,838
Share premium			2,064,837	2,054,546	2,064,837	2,054,546
Stated capital	54	171	4,715,814	4,703,384	4,715,814	4,703,384
Reserves	55	171				
Statutory reserves			1,485,215	1,068,600	1,485,215	1,068,600
General reserve			13,779,839	11,379,839	13,779,839	11,379,839
Retained earnings			1,772,684	3,067,038	5,686,342	6,530,865
Shareholders' equity			21,753,552	20,218,861	25,667,210	23,682,688
Minority interest	56	172			414,904	486,666
Total equity			21,753,552	20,218,861	26,082,114	24,169,354
Total equity and liabilities			71,706,635	59,926,119	118,501,178	90,395,685
Contingent liabilities and commitments	57	172	18,695,153	15,979,729	40,922,680	26,512,785
Net asset value per share, LKR			82.06	76.33	96.82	89.41

Notes from pages 128 to 182 form part of these financial statements.

I confirm that to the best of my knowledge and belief these financial statements comply with the requirements of the Companies Act No. 07 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

A N Fonseka
Ex Officio Director and Chief Executive

Colombo
30 May 2012

Statement of Changes in Equity

For the years ended 31 March

	Share capital LKR 000	Share premium LKR 000	Statutory Reserves LKR 000	General reserves LKR 000	Retained earnings LKR 000	Total equity LKR 000
Bank						
Balance as at 01.04.2010	1,323,753	3,371,911	655,000	9,379,839	992,321	15,722,824
Profit for the year	–	–	–	–	7,137,451	7,137,451
Transfers from current earnings	–	–	413,600	2,000,000	(2,413,600)	–
Final dividend approved on 30.06.2010	–	–	–	–	(794,452)	(794,452)
Interim dividend approved on 31.03.2011	–	–	–	–	(1,854,682)	(1,854,682)
Bonus issue of shares	1,324,320	(1,324,320)	–	–	–	–
Issue of shares under share option scheme	765	7,055	–	–	–	7,820
Share issue expenses written off	–	(100)	–	–	–	(100)
Balance as at 31.03.2011	**2,648,838**	**2,054,546**	**1,068,600**	**11,379,839**	**3,067,038**	**20,218,861**
Profit for the year	–	–	–	–	2,317,469	2,317,469
Transfers from current earnings	–	–	416,615	2,400,000	(2,816,615)	–
Final dividend approved on 30.06.2011	–	–	–	–	(795,208)	(795,208)
Issue of shares under share option scheme	2,139	10,424	–	–	–	12,563
Share issue expenses written off	–	(133)	–	–	–	(133)
Balance as at 31.03.2012	**2,650,977**	**2,064,837**	**1,485,215**	**13,779,839**	**1,772,684**	**21,753,552**

	Attributable to the equity holders of the Bank							
	Share capital LKR 000	Share premium LKR 000	Statutory reserves LKR 000	General reserves LKR 000	Retained earnings* LKR 000	Total LKR 000	Minority interest LKR 000	Total equity LKR 000
Group								
Balance as at 01.04.2010	1,323,753	3,371,911	655,000	9,379,839	6,215,856	20,946,359	427,427	21,373,786
Net unrealised losses from Bangladesh translation - associate company	–	–	–	–	(9,286)	(9,286)	–	(9,286)
Net loss recognised directly in equity	–	–	–	–	(9,286)	(9,286)	–	(9,286)
Profits of associate - Commercial Bank of Ceylon PLC from January-March 2010	–	–	–	–	296,716	296,716	–	296,716
Profit for the year	–	–	–	–	5,090,313	5,090,313	80,760	5,171,073
Total recognised income and expenses for the period	–	–	–	–	5,377,743	5,377,743	80,760	5,458,503
Transfers from current earnings	–	–	413,600	2,000,000	(2,413,600)	–		–
Final dividend approved on 30.06.2010	–	–	–	–	(794,452)	(794,452)	–	(794,452)
Interim dividend approved on 31.03.2011	–	–	–	–	(1,854,682)	(1,854,682)	–	(1,854,682)
Dividend distributed to minority interest by subsidiaries	–	–	–	–	–	–	(45,874)	(45,874)
Bonus issue of shares	1,324,320	(1,324,320)	–	–	–	–	–	–
Issue of shares under share option scheme	765	7,055	–	–	–	7,820	–	7,820
Share issue expenses written off	–	(100)	–	–	–	(100)	–	(100)
Acquisition of subsidiaries by joint venture company								
Lanka Ventures PLC	–	–	–	–	–	–	120,013	120,013
Acuity Securities Limited	–	–	–	–	–	–	(95,660)	(95,660)
Balance as at 31.03.2011	**2,648,838**	**2,054,546**	**1,068,600**	**11,379,839**	**6,530,865**	**23,682,688**	**486,666**	**24,169,354**
Profit for the year	–	–	–	–	2,900,206	2,900,206	72,633	2,972,839
Transfers from current earnings	–	–	416,615	2,400,000	(2,816,615)	–	–	–
Final dividend approved on 30.06.2011	–	–	–	–	(795,208)	(795,208)	–	(795,208)
Dividend distributed to minority interest by subsidiaries	–	–	–	–	–	–	(45,847)	(45,847)
Rights issue of shares	–	–	–	–	–	–	11,682	11,682
Issue of shares under share option scheme	2,139	10,424	–	–	–	12,563	–	12,563
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	(132,906)	(132,906)	(110,230)	(243,136)
Share issue expenses written off	–	(133)	–	–	–	(133)	–	(133)
Balance as at 31.03.2012	**2,650,977**	**2,064,837**	**1,485,215**	**13,779,839**	**5,686,342**	**25,667,210**	**414,904**	**26,082,114**

* *Includes statutory reserve fund and statutory investment fund account of DFCC Vardhana Bank PLC.*

Notes from pages 128 to 182 form part of these financial statements.

Cash Flow Statement

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
Cash flow from operating activities				
Interest receipts	5,413,741	4,832,311	8,641,544	7,248,631
Interest payments	(2,577,612)	(3,025,744)	(4,329,432)	(4,884,391)
Recoveries on loans previously written off	119,074	133,215	119,074	133,215
Receipts from other operating activities	958,768	47,014	1,908,138	911,547
Cash payments to employees and suppliers	(1,428,550)	(1,241,320)	(2,981,734)	(2,427,026)
Value added tax	(359,454)	(1,910,630)	(463,147)	(2,103,256)
Operating cash flow before changes in operating assets and liabilities	2,125,967	(1,165,154)	2,894,443	(1,121,280)
Increase/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(701,360)	(92,159)
Funds advanced to customers	(13,728,756)	(3,252,629)	(27,853,251)	(7,135,585)
Others	(14,931)	163,470	(92,452)	(53,013)
Decrease in operating liabilities:				
Security deposits from customers	(950)	(2,080)	(754)	(12,516)
Deposits from customers	8,023,779	(1,433,937)	18,906,550	(122,641)
Negotiable certificates of deposit	(1,436)	(1,537)	93,939	35,355
Others	92,909	52,798	146,323	136,439
Net cash flow from operating activities before income tax	(3,503,418)	(5,639,069)	(6,606,562)	(8,365,400)
Income tax paid	(721,066)	(571,141)	(1,018,881)	(761,686)
Net cash used in operating activities (Note a)	(4,224,484)	(6,210,210)	(7,625,443)	(9,127,086)
Cash flow from investing activities				
Dividends received	719,660	660,407	667,799	594,586
Interest received	308,560	1,379,176	827,328	2,385,708
Treasury bills eligible for rediscounting with Central Bank	9,591,161	(2,849,168)	12,148,062	2,700,552
Proceeds from sale and redemption of securities	717,479	2,849,809	809,240	2,849,809
Purchase of securities	(3,308,198)	(810,705)	(3,316,498)	(838,977)
Investment in joint venture - Acuity Partners (Pvt) Limited	0	(55,000)	0	0
Disposal of associate company shares - Commercial Bank of Ceylon PLC	0	5,833,708	0	5,833,708
Investment in additional shares of subsidiary by joint venture	0	0	0	(88,348)
Investment in associates by joint venture	0	0	(192,000)	0
Investment in additional shares of subsidiary - DFCC Vardhana Bank PLC	(1,336,587)	0	(243,136)	0
Investment in additional shares of subsidiary - Synapsys Limited	0	(33,000)	0	(16,000)
Purchase of property, equipment, intangibles and investment property	(49,568)	(231,036)	(333,882)	(568,385)
Proceeds from sale of equipment and investment property	4,796	55,792	104,305	61,605
Net cash from investing activities	6,647,303	6,799,983	10,471,218	12,914,258
Cash flow from financing activities				
Issue/redemption of debentures	(1,910,000)	(1,500,000)	(910,000)	(1,500,000)
Issue of new shares under option	12,563	7,820	12,563	7,820
Issue of new shares by subsidiary - Rights issue	0	0	11,681	0
Share issue expenses	(133)	(100)	(133)	(100)
Borrowing, medium and long-term	13,748,692	1,511,150	13,748,692	(617,350)
Other borrowings - net	(2,625,500)	4,697,000	627,458	3,223,874
Repayment of borrowing, medium and long-term	(6,217,274)	(5,965,488)	(6,004,059)	(5,965,488)
Dividends paid	(2,638,552)	(791,378)	(2,684,393)	(829,594)
Net cash flow from/(used in) financing activities	369,796	(2,040,996)	4,801,809	(5,680,838)
Net increase/(decrease) in cash and cash equivalents	2,792,615	(1,451,223)	7,647,584	(1,893,666)
Cash and cash equivalents/(overdraft - net) at the beginning of period as previously stated	1,370,810	2,822,033	4,777,976	6,999,735
Consolidation adjustment - Investment in Synapsys Limited	0	0	16,000	0
- Acquisition of Lanka Ventures PLC by joint venture	0	0	0	(328,093)
Cash and cash equivalents/(overdraft - net) at the beginning of the period restated	1,370,810	2,822,033	4,793,976	6,671,642
Cash and cash equivalents at the end of period	4,163,425	1,370,810	12,441,560	4,777,976
Reconciliation of cash & cash equivalents				
Cash and short-term funds	3,534,762	1,490,629	4,945,199	1,548,193
Treasury bills and other securities eligible for rediscounting with Central Bank	628,663	0	7,353,808	2,605,283
Securities purchased under resale agreements	0	0	220,994	758,135
Borrowings, short-term - Bank overdrafts	0	(119,819)	(78,441)	(133,635)
	4,163,425	1,370,810	12,441,560	4,777,976

The cash flow statement of the Bank includes the results of associate, joint venture and subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards.

Notes from pages 128 to 182 form part of these financial statements.

Note (a) Reconciliation of profit for the year to net cash used in operating activities

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
Profit for the year	2,317,469	7,137,451	2,900,206	5,090,313
Add/(deduct) items not using (providing) cash:	(94,987)	194,792	165,136	350,997
Depreciation - Property,equipment and investment property	108,962	99,826	240,163	213,959
Amortisation - Intangible assets	17,790	17,527	66,386	76,018
Unrealised gains from marked to market on dealing, other securities and forward contracts	(223,044)	(33,577)	(211,742)	(27,288)
Bad and doubtful debts	(947)	243,693	63,204	478,452
Notional tax credit on treasury bills and bonds	(26,880)	(132,677)	(71,624)	(242,839)
Provision for fall in value of dealing & investment securities losses	29,132	0	11,765	3,125
Amortisation of negative goodwill	0	0	0	(7,313)
Loss on deemed disposal of associate companies' shares	0	0	0	(6,119)
Share of profits of associates	0	0	(5,649)	(217,758)
Minority interest	0	0	72,633	80,760
Deduct items reported gross under investing activities:	(1,231,366)	(7,637,689)	(1,190,523)	(4,976,365)
Dividend income	(930,272)	(840,391)	(874,271)	(524,762)
Gains on sale of investment securities	(295,417)	(355,731)	(295,417)	(268,645)
Gain on sale of equipment and investment property	(5,677)	(47,802)	(20,835)	(49,878)
Realised gains from marked to market on dealing securities	0	(1,660,792)	0	(1,135,478)
Gain on disposal of associate company shares	(0)	(4,732,973)	0	(2,997,602)
Add/(deduct) changes in operating assets & liabilities:	(5,215,600)	(5,904,764)	(9,500,262)	(9,592,031)
(Increase)/decrease in accounts receivable	538,887	(1,374,825)	1,889	(2,280,343)
Increase/(decrease) in accounts payable	165,536	(223,749)	361,244	(400,243)
Increase/(decrease) in income tax payable	(203,980)	163,749	(258,535)	341,691
Increase in income tax refund	(139,574)	–	(161,020)	–
Increase/(decrease) in deferred tax	52,917	3,977	57,167	(5,074)
Increase in operating assets	(13,743,687)	(3,089,159)	(28,647,063)	(7,284,696)
Increase/(decrease) in operating liabilities	8,114,301	(1,384,757)	19,146,056	36,634
Net cash used in operating activities	(4,224,484)	(6,210,210)	(7,625,443)	(9,127,086)

Notes to the Financial Statements

1. Reporting Entity

DFCC Bank ("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. 07 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. 07 of 2007 requiring a limited liability 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 the Bank which continues with the description DFCC Bank given in Section 2 (1) (b) of DFCC Bank Act No. 35 of 1955, as amended. Ordinary shares of the Bank are listed in the Colombo Stock Exchange.

The Bank does not have a Parent company.

The Bank's Group comprises of subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank PLC, Lanka Industrial Estates Limited and Synapsys Limited.

Acuity Partners (Pvt) Limited a joint venture company equally owned by the Bank and Hatton National Bank PLC.

The Bank has one associate company viz., National Asset Management Limited. Commercial Bank of Ceylon PLC ceased to be an associate company on 2 June 2010.

Total employee population of the Bank and the Group on 31 March 2012 was 466 and 1,396 respectively. (31 March 2011 - 451 and 1,278 respectively)

1.1 Principal Activities

A summary of principal activities of DFCC Bank (Bank), its subsidiary companies, associate company and joint venture company is as follows:

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 Vardhana Bank PLC

Commercial banking.

Lanka Industrial Estates Limited

Leasing of land and buildings for industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

National Asset Management Limited

Fund management.

Acuity Partners (Pvt) Limited

Investment banking related financial services.

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

2. Basis of Preparation

2.1 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 and comply with the requirements of Banking Act No. 30 of 1988 and amendments there to.

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 30 May 2012.

2.3 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)'. However, in addition to the consolidated financial statements, separate financial statements are also presented as per Banking Act No. 30 of 1988.

2.4 Basis of Measurement

The consolidated and separate financial statements of the Bank are presented in LKR being the (Sri Lanka Rupees), functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated, have been prepared under the historical cost convention. Exceptions to the historical cost convention of accounting relate to dealing securities and investment securities. Investment securities are carried in the balance sheet at lower of aggregate cost reduced by where appropriate the diminution in value which is other than temporary of each security and market value on a portfolio basis while dealing securities are marked to market and carried in the balance sheet at the market price of each security. In the separate financial statements of the DFCC Bank, the investments in associates, subsidiaries and joint venture company are accounted on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investees.

2.5 Accrual Basis of Accounting

All revenue and expenses are recognised using accrual basis of accounting with the exception of interest income from non-performing assets and discount on bills of exchange; which are recognised only on the cash basis as explained in Note 5.1.1 and Note 5.1.6.

2.6 Materiality and Aggregation

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

2.7 Critical Accounting Estimates and Judgments

2.7.1 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.

2.7.2 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, which 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.

2.7.3 Accounting Estimates

2.7.3.1 Loan Losses

The assessment of loan loss as set out in Notes 15 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.

2.7.3.2 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 14.6.

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 tend to reduce the probability that the actual results will be significantly different from the estimate.

2.7.3.3 End of Service Statutory Gratuity Liability

The estimation of this liability, which is not funded, determined by an independent qualified actuary necessarily involves long-term assumptions on future changes to salaries, resignations prior to the normal retirement age and mortality of covered employees. Key assumptions are disclosed in Note 14.6.

2.7.3.4 Current Tax

The estimation of income 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 current tax liability is on self-assessment basis. In the event an additional assessment is issued the additional income tax and deferred tax adjustment, will be recognised in the period in which the assessment is issued if so warranted.

2.7.3.5 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 income statement immediately.

3. Basis of Consolidation

3.1 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 and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest. The consolidation of the joint venture company results is on proportionate consolidation method by combining Bank's share of assets, liabilities, income and expenses of the joint venture company with the similar items line-by-line in the financial statements of the Bank.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity distinguishing the equity attributable to the parent and attributable to minority shareholders.

3.2 Transactions Eliminated on Consolidation

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

3.3 Financial Statements of Subsidiaries, Associate Companies and Joint Venture Company included in the Consolidated Financial Statements

Audited financial statements are used. Financial statements of DFCC Consulting (Pvt) Limited and Lanka Industrial Estates Limited included in the consolidation have financial year to 31 March in common with the Bank. The financial statements of Acuity Partners (Pvt) Limited, DFCC Vardhana Bank PLC, Synapsys Limited and National Asset Management Limited included in the consolidation have financial year ending on 31 December 2011.

3.4 Significant Events and Transactions during the period between date of Financial Statements of the Subsidiaries, Associate Companies and Joint Venture Company and the date of Financial Statement of the Bank

No adjustments to the results of subsidiaries, associate companies and joint venture company have been made as they were not significant.

3.5 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.

3.6 Taxes on the Undistributed Earnings of Subsidiaries, Associate Companies and Joint Venture Company

The distribution of the undistributed earnings of the subsidiaries, associate companies and joint venture company is remote in the foreseeable future. As such, 10% withholding tax applicable on the distribution has not been recognised as a tax expense in the financial statements of the Group.

4. Scope of Consolidation

All subsidiaries have been consolidated.

4.1 Subsidiary Companies

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 36 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.

4.2 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 34 contains financial information relating to associate companies.

4.3 Joint Venture Company

Joint venture company is an incorporated enterprise in which the Bank owns 50% of the voting shares with a contractual arrangement with the other company, who owns the balance 50% of the voting shares, in terms of which both parties have joint control over that enterprise.

5. 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 Standards require such change or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the Bank or new obligations incurred by the Bank.

5.1 Revenue and Expense Recognition

5.1.1 Interest Income

Interest income is recognised on an accrual basis except for loans and advances classified as non-performing based on criteria set out in Direction No. 4 of 2008 dated 8 May 2008 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning'.

Interest income on non-performing loans and advances is accounted on receipt basis. Interest accrued and unpaid on non-performing loans at the date of classification is eliminated from the income and transferred to interest in suspense.

The criteria for classification of loans and advances as non-performing are explained in Note 5.2.7.

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

Interest income from Treasury bills and bonds is grossed up 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 interest income.

5.1.3 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.

5.1.4 Finance Lease Income

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 included in lease rentals is recognised on an accrual basis except for finance leases classified as non-performing, based on criteria set out in Direction No. 4 of 2008 dated 8 May 2008 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning'.

Interest income on non-performing finance leases is accounted on receipt basis. Interest accrued and unpaid on non-performing financial leases at the date of classification is eliminated from the income and transferred to lease income in suspense.

5.1.5 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.

5.1.6 Discount on Bills of Exchange

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

5.1.7 Front-end Fee Income

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

5.1.8 Consultancy and Other Professional Service Income

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

5.1.9 Underwriting Commission

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

5.1.10 Guarantee Fee

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

5.1.11 Gains on Sale of Property, Plant and Equipment

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

5.1.12 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.

5.1.13 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.

5.1.14 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.

5.1.15 Premises Rental Income

Rental income is recognised on accrual basis.

5.1.16 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.

5.1.17 Marked to Market Gains on Forward Exchange Contracts

Gains or losses on trading, open 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.

5.1.18 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 is dealt in the income statement.

5.1.19 Interest Expense

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

5.1.20 Allowances for Credit Losses

Credit losses comprise 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. The Group makes both general and specific provisions.

5.1.20.1 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 is 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:

Categories of non-performing credit facilities	Minimum provision
Substandard	20% of net exposure at risk
Doubtful	50% of net exposure at risk
Loss	100% of net exposure at risk

Credit facilities include loans and advances and finance leases of the Bank. The credit facilities of the subsidiary commercial bank, DFCC Vardhana Bank PLC include loans and advances finance leases and bills discounted.

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

5.1.20.2 General Provision

A general provision of 0.5% of the outstanding balances of performing and special mention credit facilities (Note 5.2.7) as at 31 March 2012 (0.8% as at 31 March 2011) is maintained as per the Direction No. 4 of 2010 issued by the Central Bank of Sri Lanka.

This mandatory minimum general provision which was previously 1% was reduced progressively at the rate of 0.1% per calendar quarter during the period 1 October 2010 to 31 December 2011.

In the current financial year consequent to the reassessment of the quality of the new finance leases, the Bank ceased to make additional general provision.

In the previous financial year:

Leases granted up to 30 June 2010	3%
Leases granted during 9 months to 31 March 2011	2%

5.1.21 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.

5.1.22 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.

5.1.22.1 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.

5.1.22.2 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.

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.

5.1.22.3 Social Responsibility Levy

This is abolished with effect from 1 April 2011 and was 1.5% of the income tax in the previous financial year.

5.1.22.4 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. The value added tax rate was reduced from 20% to 12% with effect from 1 January 2011. The effective Tax rate however is 10.71% since the nominal rate of 12% is applied on the value added taxable base after charging the Financial Services Value Added Tax as an expense.

5.1.22.5 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 associate company in the Group financial statements as a consolidation adjustment.

5.2 Assets and Bases of their Valuation

5.2.1 Cash & Cash Equivalent

For the purpose of the cash flow statement, cash & cash equivalent consist of cash held by the Bank and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

5.2.2 Balances with Central Bank

DFCC Vardhana Bank PLC, a subsidiary of the Bank is a licensed commercial bank. The Monetary Law Act requires all commercial banks operating in Sri Lanka to maintain cash deposits with the Central Bank of Sri Lanka as a reserve against all deposit liabilities denominated in Sri Lanka Rupees (LKR). The details of this reserve requirement are given in Note 23.

5.2.3 Securities

5.2.3.1 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.

5.2.3.2 Investment Debt Securities

These are the dated debt securities in respect of which the Bank has express 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 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.

5.2.3.3 Securities Purchased under Resale Agreements (Reverse Repurchase Transactions)

These are loans collateralised 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 predetermined price. These loans are stated in the balance sheet at cost.

5.2.3.4 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.

5.2.3.5 Dealing Securities - Ordinary Shares

These are marketable ordinary shares listed in the Colombo Stock Exchange and stated in the Balance Sheet at market value. These are residual unsold shares transferred from investment securities to dealing securities as per the regulatory requirement.

5.2.3.6 Investment Securities - Shares 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 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.

5.2.4 Non-Current Assets held for Sale

This represents land stated in the balance sheet at the lower of cost and market price. The land was acquired by Acuity Partners (Pvt) Limited exclusively with a view to its subsequent disposal.

There was no impairment loss as at the balance sheet date.

5.2.5 Loans and Advances

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.

5.2.6 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 and specific provision for losses.

5.2.7 Non-Performing Loans and Finance Leases

The classification is based on the Direction No. 4 of 2008 dated 8 May 2008. The loans are classified as non-performing based on the following criteria:

	Repayment terms	Default period or number of unpaid dues
i.	Repayable in monthly instalments	3 unpaid dues
ii.	Repayable in quarterly/ half yearly instalments	90 days from due date
iii.	Single lump sum repayment	90 days from due date

In addition, loans and finance leases with impaired debt service capacity are classified as non-performing on a case-by-case basis.

As per the previous Direction on this subject prior to the Direction No. 4 of 2008 dated 8 May 2008 issued by the Central Bank, the non-performing classification criteria applied to each credit facility extended to a borrower. As per the Direction No. 4 of 2008, where multiple credit facilities have been granted to a single borrower, in the event the aggregate outstanding amount of non-performing credit facilities exceed 30% of the total credit facilities extended to the borrower, the balance facilities also have to be classified as non-performing.

5.2.8 Categorisation of Non-Performing Loans and Finance Leases

The Direction No. 4 of 2008 requires non-performing loans and finance leases to be categorised in the following manner:

Category	Facility Type	Determinant
Special Mention	Credit facilities, repayable in monthly instalments	3 instalments or more but less than 6 instalments, principal and/or interest are due and unpaid
	Overdrafts	Exceeds the sanctioned limit for a continuous period of 90 days or more but less than 180 days from the due date.
	Credit cards	The minimum payment is in arrears for 90 days or more but less than 120 days from the due date.
	Other credit facilities	The payments are in arrears for 90 days or more but less than 180 days from the due date
Substandard	Credit facilities, repayable in monthly instalments	6 instalments or more but less than 12 instalments, principal and/or interest are due and unpaid
	Overdrafts	Exceeds the sanctioned limit for a continuous period of 180 days or more but less than 360 days from the due date.
	Credit cards	The minimum payment is in arrears for 120 days or more but less than 180 days from the due date.
	Other credit facilities	The payments are in arrears for 180 days or more but less than 360 days from the due date
Doubtful	Credit facilities, repayable in monthly instalments	12 instalments or more but less than 18 instalments, principal and/or interest are due and unpaid
	Overdrafts	Exceeds the sanctioned limit for a continuous period of 360 days or more but less than 540 days from the due date.
	Credit cards	The minimum payment is in arrears for 180 days or more but less than 240 days from the due date.
	Other credit facilities	The payments are in arrears for 360 days or more but less than 540 days from the due date
Loss	Credit facilities, repayable in monthly instalments	18 instalments or more principal and/or but interest are due and unpaid
	Overdrafts	Exceeds the sanctioned limit for a continuous period of 540 days or more.
	Credit cards	The minimum payment is in arrears for 240 days or more.
	Other credit facilities	The payments are in arrears for 540 days or more

Overdrafts and credit card facilities are offered only by DFCC Vardhana Bank PLC, the commercial banking subsidiary of DFCC Bank and the applicable Direction for Licensed Commercial banks is applied.

5.2.9 Reclassification of Non-Performing Loans and Finance Leases as Performing

All interest and principal in arrears of non-performing loans and finance leases have to be paid in full by the borrower/lessee to qualify for reclassification. Where rescheduled non-performing loans are reclassified as performing only after mandatory watch period ranging from 90 days to 360 days based on the non-performing loan category at the time of reschedule subject to satisfactory performance during the mandatory watch period.

5.2.10 Investment Property

The investment property of the Group includes land and building held by a subsidiary for capital appreciation and earning revenue by rentals.

Land classified as investment property is carried at cost reduced by accumulated impairment losses and buildings 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:

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

5.2.11 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 recognised 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 Group's share of losses in an associate equals or exceeds its interest in the associates, the Group does not recognise further losses.

Group's investment in associates includes goodwill identified on acquisition, net of any impairment losses. (Note 34)

5.2.12 Investment in Joint Venture Company

The Bank's investment in joint venture company is stated at cost less accumulated impairment losses, if any in the financial statements of the Bank.

In the consolidated financial statements, the income and net assets of the joint venture company are consolidated with the Bank proportionate to its ownership in the voting ordinary share capital of the joint venture company.

5.2.13 Property, Plant and Equipment

5.2.13.1 Basis of Recognition

The cost of property, plant and equipment is recognised as an asset, if it is probable that future economic benefits associated with the property, plant and equipment will flow to the Bank and the cost can be measured reliably.

5.2.13.2 Measurement at Recognition

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.

5.2.13.3 Subsequent Measurement

The assets are stated at cost less 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:

	% per annum
Buildings	5
Furniture, fittings and plant	10
Office equipment and motor vehicles	20

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.

5.2.13.4 Derecognition

The carrying amount of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use and the gain or loss arising from the derecognition is included in the income statement.

5.2.14 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.

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

5.2.15 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.

5.2.16 Impairment of Assets

5.2.16.1 Tangible and Financial Assets

The Bank reviews on the balance sheet date whether the carrying value of property, plant and equipment and investments in subsidiaries, associate companies and joint venture company are lower than the recoverable amount. In such event the carrying amount is reduced to the recoverable amount and the reduction being an impairment loss is recognised immediately in the income statement. The recoverable amount is the higher of the market value of the asset less estimated cost of disposal and its value in use.

5.2.16.2 Intangible Assets - Computer Application Software and Goodwill on Consolidation

The Bank reviews on the balance sheet date whether the carrying amount of computer application software is lower than the recoverable amount. In such event, the carrying amount is reduced to the recoverable amount and the reduction being an impairment loss is recognised immediately in the income statement. The recoverable amount is the value in use.

Similar criterion is used to assess impairment in goodwill on consolidation.

5.2.17 Foreign Currency Translation

Transactions in overseas currencies are translated to LKR 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.

Forward exchange contracts are disclosed net and trading (open) forward exchange contracts are valued at the forward market rates ruling on the date of the balance sheet for the residual maturity. Resulting net unrealised gains or losses are recognised in the income statement.

Until 2 June 2010, Commercial Bank of Ceylon PLC was an associate company and in accordance with its accounting policy the translation gains or losses arising from its overseas branch operations were taken directly to separate component of equity.

5.2.18 Deferred Tax Asset

Deferred income tax assets are recognised for tax losses carry-forwards, unused withholding tax credits and specific provisions for bad and doubtful loans that exceeded 1% of the loans on balance sheet date only to the extent that the realisation of related tax benefit through future taxable profits is probable.

5.2.19 Unrecognised Deferred Tax Assets

	31 March 2012 LKR 000	Tax effect 28% LKR 000
Bank		
Disallowed specific provision for bad and doubtful loans	361,099	101,108
Group		
Taxable Losses		
DFCC Consulting (Pvt) Limited - Subsidiary	3,185	892
Acquity Partners (Pvt) Limited - Joint Venture*	75,182	21,051
Disallowed specific provision for bad and doubtful loans and advances		
DFCC Vardhana Bank PLC - Subsidiary	110,337	30,894
Unused withholding tax credit		
DFCC Consulting (Pvt) Limited - Subsidiary	114	32
Unrecognised loss/deferred tax asset	188,818	52,869
Group	549,917	153,977

** 50% of Loss, proportionate consolidation.*

5.3 Liabilities and Provisions

5.3.1 Provision for Pension Liability under a Defined Benefit Plan

5.3.1.1 Description of the Plan and Employee Groups Covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is 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 based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 except one are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

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 and prior to 1 May 2004. 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 defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g., medical expenses reimbursement).

5.3.1.2 Funding Arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees. 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 and prior to 1 May 2004.

5.3.1.3 Recognition of Actuarial Gains and Losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets. The causes for such gains or losses include changes in the discount rate, differences between the actual return on pension assets and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank has chosen to recognise only the portion of the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period that exceeds the limits of the corridor as permitted by Sri Lanka Accounting Standard (SLAS) 16 (Revised 2006) on - 'Employee Benefits'.

The limits of the corridor are set at the greater of:

a. 10% of the present value of the defined benefit obligation before deducting the pension assets; and

b. 10% of the fair value of the pension assets.

The recognition in the income statement will be over the remaining working life of the participants in the pension scheme.

5.3.1.4 Recognition of Past Service Cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Bank will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Bank will recognise past service cost immediately.

5.3.2 Provision for End of Service Gratuity Liability under a Defined Benefit Plan

5.3.2.1 Description of the Plan and Employee Groups Covered

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. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank.

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

The promised benefit is half a month pre-termination salary for each completed year of service provided a minimum qualifying period of 5 years is served prior to termination of employment. The Bank however recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

5.3.2.2 Funding Arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump sum payment only on termination of employment by resignation, retirement at the age of 55 years or death.

5.3.2.3 Recognition of Actuarial Gains and Losses

The Bank has chosen to recognise only the portion of the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period that exceeds the limits of the corridor.

The recognition in the income statement will be over the remaining working life of the participants in the end of service gratuity scheme.

5.3.2.4 Recognition of Past Service Cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

5.3.3 Defined Contribution Plans

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service. Payment is by an outside agency to which contributions are made.

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 employee's consolidated salary.

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

5.3.4 Debentures Issues by the Bank and Deposit from Customers

These liabilities are recognised when the Bank enters into contracts with counter parties and initially measured at the consideration received. The debentures are issued at par and are redeemable at par on the repayment dates. Except for customer deposits of DFCC Vardhana Bank PLC which includes deposits denominated in foreign currency, others are denominated in LKR.

5.3.5 Borrowing

All borrowing are recognised when the Bank enters into contract with counter parties and initially measured at the consideration received. All directly attributable costs are amortised on straight-line basis up to date of repayment.

5.3.6 Provision 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.

5.3.7 Offsetting

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.

5.3.8 Commitments and Contingencies

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

5.3.9 Events after the 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 65.

5.3.10 Comparative Information

Where items are regrouped, comparative information is also adjusted.

6. 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.

7. 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.

8. 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 Statement is on page 120.

9. New Accounting Standards issued but not effective as at Balance Sheet Date

Commencing from 1 April 2012, the Bank shall prepare and present financial statements to comply with a new set of Financial Reporting Standards issued by The Institute of Chartered Accountants of Sri Lanka (ICASL), the national body responsible for promulgation of Accounting Standards in Sri Lanka. These new Standards become effective for accounting periods commencing on or after 1 January 2012.

These new Standards have been issued consequent to the decision of ICASL to converge fully with International Financial Reporting Standards (IFRS) and therefore have a prefix SLFRS corresponding to IFRS issued by International Accounting Standards Board (IASB) and a prefix LKAS [corresponding to International Accounting Standards (IAS) issued by the predecessor to IASB]

These new Standards are a combination of revision to Sri Lanka Accounting Standards used in the preparation and presentation of financial statements for the year ended 31 March 2012 and few entirely new Standards.

Of the entirely new Standards, the most significant Standards applicable to the Bank are:

i. Financial Instruments Standards comprising Presentation (LKAS 32), Recognition and Measurement (LKAS 39) and Disclosure (SLFRS 7)
ii. First time adoption of Sri Lanka Accounting Standards (SLFRS 1)
iii. Presentation of financial statements (LKAS 1) - revision with new features to SLAS 3 the Accounting Standard applicable for the year ended 31 March 2012.

Implementation of LKAS 1, LKAS 32, LKAS 39 will result in changes to the format of the primary financial statements and the recognition and measurement of financial assets and financial liabilities. In addition, on adoption of SLFRS 1, there could be few adjustments required.
The key changes are:

i. Some financial assets and liabilities are measured on the statement of financial position (new term for balance sheet) at amortised cost while others are at fair value.
ii. Impairment losses on loans and advances are based on estimate of future recoveries assessed individually and /or collectively replacing the current, rule based provisioning matrix and general provision.
iii. Changes to interest income recognition of impaired loans.
iv. All derivatives will become on-balance sheet (statement of financial position) items and carried at fair value.
v. Any adjustments considered necessary on the full convergence with IFRS.

This disclosure complies with the requirements of SLAS 10 - Accounting Policies Changes in Accounting Estimates and Errors (Revised 2005) as amended by ICASL which specifies that the paragraphs 30 and 31 of SLAS 10 will not be applicable for financial statements prepared in respect of financial periods commencing before 1 January 2012.

Bank has made significant progress in the measures to be adopted for transition to SLFRS and LKAS for the financial year ending on 31 March 2013. These measures included the implementation of the financial instrument standards for which the Bank obtained the assistance of an external consultant.

Bank will take adequate steps during financial year to 31 March 2013 to further refine and finalise the transition to SLFRS and LKAS in accordance with the implementation options granted by ICASL.

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
10. Income				
Gross income	7,433,975	14,191,300	12,140,756	15,830,285
Interest income	5,871,820	6,206,458	9,646,418	9,658,167
Other income	1,562,155	7,984,842	2,494,338	6,172,118
	7,433,975	14,191,300	12,140,756	15,830,285
11. Interest Income				
Loans	4,367,334	3,947,846	7,625,130	6,192,886
Treasury bills, bonds and placements with other banks	370,327	1,405,707	875,785	2,612,357
Gross earnings under finance leases	1,072,347	755,972	1,083,691	755,972
Default interest on lease rentals	61,812	96,933	61,812	96,952
	5,871,820	6,206,458	9,646,418	9,658,167

Interest income includes notional tax credit of 10% imputed for the withholding tax deducted/paid at source.

	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
12. Interest Expense				
Medium and long-term borrowing	1,380,839	1,514,036	1,380,839	1,514,036
Short-term borrowing:				
Interest on overdrafts and revolving facilities	574,675	268,402	759,725	370,099
Debentures	289,388	497,997	324,871	497,997
Time deposits from customers	635,526	505,663	2,253,571	2,012,069
	2,880,428	2,786,098	4,719,006	4,394,201

13. Other Income

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
Dividend income from investment securities				
Quoted ordinary shares	717,735	366,613	759,870	387,385
Unquoted ordinary shares	3,642	3,689	3,881	3,896
Unquoted preference shares	85,340	90,592	85,340	90,592
Units in unit trusts	25,180	42,889	25,180	42,889
Dividend income from investments in associates, subsidiaries and joint ventures				
Quoted ordinary shares	0	249,808	0	0
Unquoted ordinary shares	98,375	86,800	0	0
	930,272	840,391	874,271	524,762
Gain on sale of investment securities				
Quoted ordinary shares	270,046	34,956	270,046	34,956
Others	25,371	17,549	25,371	30,035
Gain on disposal of shares of Commercial Bank of Ceylon PLC (CBC)				
As an associate	0	4,732,973	0	2,997,602
As investment securities	0	303,226	0	203,654
As dealing securities up to 30 September 2010	0	1,660,792	0	1,135,478
	0	6,696,991	0	4,336,734
Recovery of bad debts	119,074	133,215	119,074	133,215
Foreign exchange (loss)/gain	(202,951)	(12,352)	(45,139)	61,395
Funding swap cost	(4,675)	(49,594)	(67,761)	(90,138)
Marked to market gain on forward exchange contracts	243,001	0	231,773	(3,938)
	35,375	(61,946)	118,873	(32,681)
Net gain on repurchase transactions	7,639	39,620	3,574	74,531
Marked to market gains/(losses) - unrealised				
CBC ordinary shares	0	4,355	0	4,355
Other quoted ordinary shares	(19,398)	28,888	(19,398)	28,888
Treasury bills and bonds - held for trading	(559)	334	(631)	(2,017)
(Loss)/gain on sale of treasury bills and bonds - held for trading	(12,712)	20,500	(28,308)	47,683
Fee and commission income	95,179	81,946	735,989	384,781
Gain on sale of investment property	0	0	10,039	0
Net gain on sale of property, plant and equipment	5,677	47,802	10,796	49,878
Other operating income	106,191	100,241	374,642	556,998
	1,562,155	7,984,842	2,494,338	6,172,118

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
14. Provision for Staff Retirement Benefits				
14.1 Amount Recognised as Expense				
14.1.1 Funded Liability				
Current service cost	55,958	58,626	55,958	58,626
Interest on obligation	128,152	123,859	128,152	123,859
Expected return on pension assets	(103,262)	(123,537)	(103,262)	(123,537)
	80,848	58,948	80,848	58,948
14.1.2 Unfunded Pension Liability				
Current service cost	5,320	4,258	5,320	4,258
Interest on obligation	4,788	4,094	4,788	4,094
Amortisation of unrecognised actuarial loss	0	1,090	0	1,090
	10,108	9,442	10,108	9,442
14.1.3 Unfunded end of Service Gratuity Liability				
Current service cost	3,582	3,139	8,742	7,656
Interest on obligation	2,276	2,078	4,769	4,184
Amortisation of unrecognised actuarial loss	523	497	523	497
Provision made for gratuities computed on formula method	0	0	8,842	5,103
	6,381	5,714	22,876	17,440
Total defined benefit plans	97,337	74,104	113,832	85,830
14.1.4 Defined Contribution Plan				
Employer's contribution to Employees' Provident Fund	65,671	56,173	114,712	93,914
Employer's contribution to Employees' Trust Fund	13,134	11,235	23,023	19,175
Total defined contribution plans	78,805	67,408	137,735	113,089
Total expense recognised in the income statement	176,142	141,512	251,567	198,919
14.2 Movement in Unrecognised Actuarial Gain/Loss				
14.2.1 Funded Liability				
Balance at beginning	(140,826)	(83,126)		
Actuarial (gain)/loss during the financial year				
Due to experience of pension assets	(56,374)	2,958		
Due to actuarial experience	36,445	(11,034)		
Due to change in plan assumption	0	(49,624)		
Unrecognised actuarial gain on 31 March	(160,755)	(140,826)		

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000
14.2.2 Unfunded Pension Liability		
Balance at beginning	2,425	5,213
Amortised in the financial year	0	(1,090)
Actuarial loss/(gain) during the financial year	7,151	(1,698)
Unrecognised actuarial loss on 31 March	9,576	2,425
14.2.3 Unfunded end of Service Gratuity Liability		
Balance at beginning	7,146	6,463
Amortised in the financial year	(523)	(497)
Actuarial loss during the financial year	5,848	1,180
Unrecognised actuarial loss on 31 March	12,471	7,146

14.2.4 Amortisation of Unrecognised (Gain)/Loss

Bank will recognise in the Income Statement only the portion of the unrecognised actuarial loss/(gain) at the beginning of the financial year that exceeds 10% corridor by amortising such excess over the remaining working life of the employees participating in the defined benefit plans. The 10% corridor is the greater of 10% of present value of defined benefit obligation before deducting the plan assets, and 10% of the fair value of any plan asset at the beginning of the financial year. These limits are calculated and applied separately to each defined benefit plan.

For the year ended 31 March	BANK 2012 LKR 000
Funded Pension Liability	
Unrecognised actuarial gain on 1 April 2011	140,826
Limits of corridor on 1 April 2011	
(i) 10% of present value of pension obligation on 1 April 2011 (before deducting pension assets)	136,796
(ii) 10% of pension assets on 1 April 2011	152,198
(iii) Greater of (i and ii)	152,198
No amortisation since unrecognised actuarial gain is within the limits of corridor.	
Unfunded Pension Liability	
Unrecognised actuarial loss on 1 April 2011	2,425
Limits of corridor on 1 April 2011	
(i) 10% of present value of pension obligation on 1 April 2011	4,789
Excess over the limit	0
No amortisation since unrecognised actuarial gain is within the limits of corridor.	

For the year ended 31 March	BANK 2012 LKR 000
Unfunded End of Service Gratuity Liability	
Unrecognised actuarial loss on 1 April 2011	7,146
Limits of corridor on 1 April 2011	
(i) 10% of present value of pension obligation on 1 April 2011	1,918
Excess unrecognised actuarial loss to be amortised, over the remaining working life of employees eligible for gratuity	5,228
Expected average remaining working lives of employees eligible for gratuity	10 years
Unrecognised actuarial loss amortised and recognised in the income statement	523

Bank chose to recognise by amortisation unrecognised loss/(gain) over the corridor on first time adoption of Sri Lanka Accounting Standard 16 (Revised) 2006 on 'Employee Benefits'.

14.3 Unfunded Pension Liability

This relates to pension liability of an employee, not funded through the DFCC Bank Pension Fund. The liability covers the pension benefit to retiree and survivor spouse and minor children.

14.4 Actuarial Valuation

Actuarial valuation was carried out by Mr Piyal S Gunathilake, Fellow of the Society of Actuaries USA of Piyal S Gunathilake & Associates, on 31 March 2012.

14.5 Actuarial Valuation Method

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

14.6 Principal Actuarial Assumptions

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 March 2012, per annum		
Pre-retirement	9.0	10.0
Post-retirement	9.0	not applicable
Future salary increases per annum	10.5	10.0
Expected rate of return on pension assets - post tax	7.0	–
Actual rate of return on pension assets	7.0	–
Mortality	UP 1984 mortality table	
Retirement age	55 years	55 years
Normal form of payment:	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate -		
Age		
20	10.0	10.0
25	10.0	10.0
30	10.0	10.0
35	7.5	7.5
40	5.0	5.0
45	2.5	2.5
50/55	1.0	1.0

The principle actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 March 2012 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 23 years for pension and 10 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
15. Bad and Doubtful Debts - Specific				
Provision for the year				
Loans	389,221	733,525	631,595	1,103,431
Leases	26,320	75,902	26,320	75,902
Dues on terminated leases	72	2,180	72	2,180
Bills of exchange	0	0	1,660	15,462
Other debts written off	12,963	16,965	12,963	16,965
Loan/lease losses	3,203	9,024	30,747	11,052
	431,779	837,596	703,357	1,224,992
Less: Reductions in the year				
Loans	249,076	443,801	454,373	618,876
Leases	69,872	126,354	69,872	126,354
Dues on terminated leases	2,036	2,081	2,036	2,081
Bills of exchange	0	0	3,857	3,362
Others	6,926	21,820	6,926	21,820
	103,869	243,540	166,293	452,499

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
16. Bad and Doubtful Debts - General				
Provision for the year				
Loans and advances	11,378	0	11,378	26,344
Leases	3,977	51,777	6,465	51,777
Bills of exchange	0	0	67	499
	15,355	51,777	17,910	78,620
Less: Reduction in the year				
Loans and advances	52,279	45,273	53,107	45,273
Leases	67,892	6,351	67,892	6,351
Bills of exchange	0	0	0	1,043
	(104,816)	153	(103,089)	25,953
17. Investments - Impairment Losses				
Investment securities				
E Services Lanka Limited	0	0	0	3,125
G T B Colombo Corporation (Private) Limited	681	0	681	0
Hemas Holdings PLC	10,334	0	10,334	0
Link Development (Private) Limited	750	0	750	0
Investment in subsidiary companies				
Synapsis Limited	17,367	0	0	0
	29,132	0	11,765	3,125
18. Operating Expenses				
Operating expenses include the following:				
Directors' remuneration	42,912	41,833	82,157	67,774
Employer's contribution to Employees' Provident Fund	65,671	56,173	114,712	93,914
Employer's contribution to Employees' Trust Fund	13,134	11,235	23,023	19,175
Gratuity provision	6,381	5,714	22,876	17,440
Auditors' remuneration				
Audit fees and expenses	2,775	2,603	5,018	4,714
Audit related fees and expenses	1,929	2,620	2,998	3,485
Fees for non-audit services	103	1,167	1,247	2,468
Fees for other auditors	0	0	271	0
Depreciation - Investment property	0	0	8,283	8,030
- Property, plant and equipment	108,962	99,826	231,880	205,929
Amortisation - Intangible assets	17,790	17,527	66,386	76,018
Expenses on litigation	0	3,068	94	3,169

For the year ended 31 March	BANK 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
19. Value Added Tax on Financial Services				
Relating to divestment of shares in CBC*	0	1,340,269	0	1,340,269
Others	336,338	549,960	461,476	739,794
	336,338	1,890,229	461,476	2,080,063

** Commercial Bank of Ceylon PLC*

20. Income Tax Expense

20.1 Income tax on profit of the Bank has been provided at 28% (2011 - 35%) on the taxable income.

20.2 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 2012 LKR 000	BANK 2011 LKR 000	GROUP 2012 LKR 000	GROUP 2011 LKR 000
Profit before tax as per the income statement	2,747,898	7,876,318	3,629,332	6,269,375
BOI Companies - Taxed on turnover basis	–	–	(88,555)	(111,632)
Disallowed - Expenses incurred for trade losses	–	–	33,283	11,481
Disallowed expenses and provisions				
VAT on Financial Services	336,338	1,890,229	461,476	2,080,063
Specific provision above 1% ceiling	361,099	430,012	471,435	737,688
Others	–	40,177	37,861	57,329
Reduction in provisions	(38,719)	–	(38,719)	–
Dividend income	(930,272)	(840,391)	(874,271)	(524,762)
Gain on sale of investment securities	(295,417)	(6,749,496)	(295,417)	(4,401,725)
Other exemptions	(87,682)	(149,761)	(127,903)	(282,765)
Finance Leases				
Lease rentals net of capital allowances	850,426	488,794	850,426	488,794
Reported earnings under finance leases net of provision for bad and doubtful debts	(1,118,654)	(811,763)	(1,118,654)	(811,763)
Property Plant & Equipment				
Depreciation and Amortisation	126,751	117,353	272,131	261,080
Capital allowances on property and equipment	(73,954)	(86,584)	(265,455)	(250,058)
Temporary differences (Adjusted in deferred taxation)	(215,431)	(292,200)	(261,552)	(311,947)
Specific provision claim from prior year	(430,012)	(122,536)	(737,688)	(259,935)
Relief for tax losses prior year (limited to 35% of total statutory income)	0	0	(940)	(558)
Taxable Income	1,447,802	2,082,352	2,208,342	3,262,612
Income tax expense based on profits for the year	405,384	728,824	650,127	1,110,857
Effective tax rate, %	14.75	9.25		

Companies/income taxed at rates lower than 28%

	2012 %	2011 %
Lanka Industrial Estates Limited (BOI approved company) - On business turnover	2	2
Synapsys Limited (BOI approved company) - Income other than investment income	Exempt	Exempt

For the year ended 31 March	2012 LKR 000	2011 LKR 000
20.3 Tax on Profit on Ordinary Activities		
Taxation based on profits for the year	405,384	728,824
Tax over/under provision	(27,873)	6,066
Increase in deferred tax liabilities	52,918	3,977
Bank	430,429	738,867
Acuity Partners (Pvt) Limited	28,420	74,501
DFCC Consulting (Pvt) Limited	393	279
DFCC Vardhana Bank PLC	182,301	268,044
Lanka Industrial Estates Limited	14,740	16,243
Synapsys Limited	210	368
Subsidiary companies tax	226,064	359,435
Total Group	656,493	1,098,302
20.4 Summary		
Bank	430,429	738,867
Subsidiaries and joint venture		
- current tax	221,813	368,486
Increase in deferred tax asset	(3,802)	(1,019)
Increase/(decrease) in deferred tax liabilities	8,053	(8,032)
Total Group	656,493	1,098,302

21. Earnings per Share

21.1 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.

21.2 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 arising from unexercised options.

	BANK		GROUP	
For the year ended 31 March	2012	2011	2012	2011
21.3 Computation of Basic and Diluted Earnings per Share				
Profit for the year (LKR 000)	2,317,469	7,137,451	2,900,206	5,090,313
Weighted average number of shares	265,073,131	264,854,825	265,073,131	264,854,825
Basic earnings per share, LKR	8.74	26.95	10.94	19.22
Weighted average number of shares that would have been issued at average market price		(44,284)		(44,284)
Weighted average number of shares under option		260,746		260,746
Weighted average number of shares		265,071,287		265,071,287
Diluted earnings per share, LKR		26.93		19.21

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
22. Cash and Short-Term Funds				
Domestic Currency				
Cash and balances with banks	83,210	16,553	1,911,603	1,520,592
Call deposits	0	1,474,076	275	27,435
Time deposits	0	0	97,810	166
Foreign Currency				
Timed deposits	3,451,552	0	2,935,511	0
	3,534,762	1,490,629	4,945,199	1,548,193
23. Balances with Central Bank				
Statutory deposit with Central Bank of Sri Lanka	0	0	1,596,066	894,235

This requirement does not apply to DFCC Bank and applies only to DFCC Vardhana Bank PLC.

As required by the provisions of Section 93 of the Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka, as explained in Note 5.2.2. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of Rupee deposit liabilities. The percentage is varied from time to time.

Applicable minimum rate was 7% up to 29 April 2011 increased to 8% thereafter.

There are no cash reserve requirements for foreign currency deposit liabilities.

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
24. Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank				
Treasury bills and bonds held for trading	123,806	392,447	653,716	697,881
	123,806	392,447	653,716	697,881
Treasury bills and bonds held to maturity				
Repurchase transactions	0	1,678,520	3,858,310	3,445,587
Others	1,413,712	8,429,608	6,056,341	14,285,648
	1,537,518	10,500,575	10,568,367	18,429,116
25. Securities Purchased under Resale Agreements				
Loans at cost	0	166,000	1,884,792	1,996,168

Fair value of securities obtained as collateral exceeds the loan amount by 10%-20%. Accounting policy is in Note 5.2.3.3.

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
26. Placements with and Loans to Other Banks and Financial Institutions				
26.1 Loans to Banks and Financial Institutions				
Refinanced loans - Plantation development project	1,395,539	1,985,378	1,395,539	1,985,378
- KFW DFCC (V) SME in the North and East	521,834	99,400	521,834	99,400
Other loans	0	170,000	0	170,000
	1,917,373	2,254,778	1,917,373	2,254,778

KFW - Kreditanstalt fur wiederaufbau

	BANK 31.03.2012 Number of ordinary shares	BANK 31.03.2012 Market Value LKR 000	BANK 31.03.2011 Number of ordinary shares	BANK 31.03.2011 Market Value LKR 000	GROUP 31.03.2012 Number of ordinary shares	GROUP 31.03.2012 Market Value LKR 000	GROUP 31.03.2011 Number of ordinary shares	GROUP 31.03.2011 Market Value LKR 000
27. Dealing Securities								
Quoted Ordinary Shares								
Dialog Axiata PLC	0	0	54,890	576	0	0	54,890	576
Dolphin Hotels PLC	818,800	24,564	818,800	42,250	818,800	24,564	818,800	42,250
John Keells Holdings PLC	197,780	40,743	148,335	42,365	197,780	40,743	148,335	42,365
Sri Lanka Telecom PLC	0	0	900	51	0	0	900	51
		65,307		85,242		65,307		85,242

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
28. Non-Current Assets Held for Sale				
Land acquired by Acuity Partners (Pvt) Limited	0	0	2,875	2,875

Details of the Land

	Extent perches	Market Value LKR 000
Freehold Land		
Lot - x, Survey Plan - 6448, Off Edirisinghe Road, Mirihana	10	2,875

Value of the land amounted to LKR 5.75 million as at 31 January 2011. As this land is held by Acuity Partners (Pvt) Limited, the joint venture, only 50% of the value is taken into the consolidated financial statements.

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
29. Bills of Exchange				
Balance on 31 March				
Export bills			521,442	301,057
Import bills			38,695	16,806
Less: Provision for overdue bills - Specific			24,647	26,462
- General			2,565	2,469
			532,925	288,932

29.1 Movement in Provision

29.1.1 Movement in Specific Provision

Balance on 31 March 2011			26,462	
Add: Provision for the year			1,660	
Exchange rate difference on foreign currency loan provision			382	
Less: Recoveries in the year			3,857	
			24,647	

29.1.2 Movement in General Provision

Balance on 31 March 2011			2,469	
Add: Provision for the year			67	
Exchange rate difference on foreign currency loan provision			29	
			2,565	

30. Loans and Advances

30.1 Balance on 31 March

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
Domestic Currency				
Term loans	38,945,324	28,994,362	52,061,883	37,246,596
Commercial papers and asset back notes	1,596,750	740,300	1,611,750	755,543
Debenture loans	975,776	1,109,674	975,776	1,109,674
Overdrafts	0	0	11,960,672	6,941,307
Others	0	0	3,391,684	881,980
Staff loans for miscellaneous purposes	420,626	265,410	638,020	396,801
	41,938,476	31,109,746	70,639,785	47,331,901
Foreign Currency				
Overdrafts	0	0	365,046	764,858
Term loans	2,318,910	1,621,532	3,154,897	2,143,370
Trade loans	0	0	2,762,725	1,634,629
	2,318,910	1,621,532	6,282,668	4,542,857
	44,257,386	32,731,278	76,922,453	51,874,758
Less: Loan loss provision - Specific	1,655,841	1,507,241	2,472,552	2,301,200
- General	219,009	259,910	344,859	386,309
Interest in suspense relating to overdrafts	0	0	652,520	481,032
Balance net of loan loss provision	42,382,536	30,964,127	73,452,522	48,706,217

	BANK 31.03.2012 LKR 000	GROUP 31.03.2012 LKR 000
30.2 Movement in Provision		
30.2.1 Movement in Specific Provision		
Balance on 31 March 2011	1,507,241	2,301,200
Add: Provision for the year	389,221	631,595
Transfer from interest in suspense to interest capitalised loans	8,455	8,455
Exchange rate difference in foreign currency loan provision	0	2,260
Less: Recoveries in the year	249,076	454,373
Write-off of loans	0	16,585
	1,655,841	2,472,552
30.2.2 Movement in General Provision		
Balance on 31 March 2011	259,910	386,309
Add: Provision for the year	11,378	11,378
Exchange rate difference on foreign currency loan provision	0	279
Less: Reductions in the year	52,279	53,107
	219,009	344,859

30.3 Loans granted from Investment Fund Account

The details of loans granted from Investment Fund Account which were outstanding as at 31 March 2012 are as follows:

	No. of loans	Balance on 31 March 2012 LKR 000	Interest rate %	Tenure
Agriculture	7	29,363	11.4 - 14.8	5-8 years
Factory/mills modernisation	11	73,089	11.5 - 14.8	5-8 years
Small and medium enterprises	19	96,844	11.4 - 15.3	5-7 years
Infrastructure development	3	16,973	11.6 - 13.2	5-6 years
Construction of hotels and for related purposes	5	32,967	11.4 - 14.5	5-8 years
Total		249,236		

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
31. Finance Leases				
31.1 Balance on 31 March				
Gross investment in leases:				
Lease rentals receivable				
- within one year from balance sheet date	3,920,776	2,991,608	11,440,472	2,991,608
- one to five years from balance sheet date	7,361,698	4,928,633	483,961	4,928,633
	11,282,474	7,920,241	11,924,433	7,920,241
Less: Deposit of rentals	25,374	35,934	27,093	35,934
Specific provision for leases in default	91,310	200,587	91,310	200,587
General provision for leases in default	135,915	199,830	138,403	199,830
Income in suspense	22,469	48,874	22,469	48,874
Unearned income on rentals receivable				
- within one year from balance sheet date	994,524	699,796	2,133,137	699,796
- one to five years from balance sheet date	1,082,909	775,165	88,604	775,165
Net investment in leases	8,929,973	5,960,055	9,423,417	5,960,055

31.2 Movement in Provision

	BANK 31.03.2012	BANK 31.03.2011	GROUP 31.03.2012	GROUP 31.03.2011
31.2.1 Movement in Specific Provision				
Balance on 31 March 2011	200,587		200,587	
Add: Provision for the year	26,320		26,320	
Less: Recoveries in the year	69,872		69,872	
Transfers*	65,725		65,725	
	91,310		91,310	

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

	BANK 31.03.2012	BANK 31.03.2011	GROUP 31.03.2012	GROUP 31.03.2011
31.2.2 Movement in General Provision				
Balance on 31 March 2011	199,830		199,830	
Add: Provision for the year	3,977		6,465	
Less: Reduction in the year	67,892		67,892	
	135,915		138,403	
31.3 Movement in Income Suspense				
Balance on 31 March 2011	48,874		48,874	
Add: Transfer during the year	14,851		14,851	
Less: Recoveries in the year	41,256		41,256	
	22,469		22,469	

	BANK 31.03.2012	BANK 31.03.2011	GROUP 31.03.2012	GROUP 31.03.2011
32. Interest Receivable				
32.1 Balance on 31 March				
Amount due	1,396,506	1,266,784	2,263,224	1,912,368
Amount accrued and not due	295,239	207,504	295,239	207,504
Less: Interest in suspense	1,331,070	1,216,989	1,911,563	1,704,647
	360,675	257,299	646,900	415,225

	BANK 31.03.2012 LKR 000	GROUP 31.03.2012 LKR 000
32.2 Movement in Interest in Suspense		
Balance on 31 March 2011	1,216,989	1,704,647
Add: Transfer during the year	427,705	668,684
Exchange rate difference in foreign currency interest	0	982
Less: Collections	239,512	357,728
Transfer to loan provision	8,455	8,455
Write-offs	65,657	96,567
	1,331,070	1,911,563

33. Investment Securities

33.1 Composition of Investment Securities

	Ordinary Shares Quoted LKR 000	Ordinary Shares Unquoted LKR 000	Preference Shares Unquoted LKR 000	Debentures Quoted LKR 000	Debentures Unquoted LKR 000	Unit Trusts Quoted LKR 000	Unit Trusts Unquoted LKR 000	Total 31.03.2012 LKR 000	Total 31.03.2011 LKR 000
33.1.1 Bank									
Performing investments	4,776,594	37,327	1,568,000	0	0	151,528	262,196	6,795,645	3,913,904
Non-performing investments	10,166	98,377	0	0	0	0	2,929	111,472	117,623
	4,786,760	135,704	1,568,000	0	0	151,528	265,125	6,907,117	4,031,527
Market value									
on 31.03.2012	14,091,088					190,153	306,515*	14,587,756	
on 31.03.2011	16,347,547					257,159	350,782	16,955,488	
33.1.2 Group									
Performing investments	7,276,531	54,970	1,584,490	4,000	76,750	151,528	287,196	9,435,465	6,567,924
Non-performing investments	10,166	110,877	12,500	0	0	0	2,929	136,472	130,123
Less: Provision for diminution	0	0	12,500	0	0	0	0	12,500	12,500
	7,286,697	165,847	1,584,490	4,000	76,750	151,528	290,125	9,559,437	6,685,547
Market value									
on 31.03.2012	14,094,694					190,153	333,272*	14,618,119	
on 31.03.2011	16,351,528					257,159	377,831	16,986,518	

** Managers buying price*

33.2 Movement in Investment Securities

	Ordinary Shares Quoted LKR 000	Ordinary Shares Unquoted LKR 000	Preference Shares Unquoted LKR 000	Debentures Quoted LKR 000	Debentures Unquoted LKR 000	Unit Trusts Quoted LKR 000	Unit Trusts Unquoted LKR 000	Total 31.03.2012 LKR 000	Total 31.03.2011 LKR 000
33.2.1 Bank									
Balance on beginning	2,762,035	73,001	777,167	0	0	151,528	267,796	4,031,527	1,998,527
Additions for the year	2,139,309	64,134	1,100,000	0	0	0	5,437	3,308,880	810,705
Transfer from investments in associate companies	0	0	0	0	0	0	0	0	2,051,225
Transfer from dealing securities	0	0	0	0	0	0	0	0	4,896
Less: Disposals	104,250	0	0	0	0	0	0	104,250	97,793
Redemptions	0	0	309,167	0	0	0	8,108	317,275	402,916
Transfer to dealing securities	0	0	0	0	0	0	0	0	333,117
Write-offs	10,334	1,431	0	0	0	0	0	11,765	0
	4,786,760	135,704	1,568,000	0	0	151,528	265,125	6,907,117	4,031,527

	Ordinary Shares Quoted LKR 000	Ordinary Shares Unquoted LKR 000	Preference Shares Unquoted LKR 000	Debentures Quoted LKR 000	Debentures Unquoted LKR 000	Unit Trusts Quoted LKR 000	Unit Trusts Unquoted LKR 000	Total 31.03.2012 LKR 000	Total 31.03.2011 LKR 000
33.2.2 Group									
Balance at beginning	5,261,972	94,844	816,157	4,000	76,750	151,528	292,796	6,698,047	2,001,137
Additions for the year	2,139,309	72,434	1,100,000	0	0	0	5,437	3,317,180	810,705
Transfer from investments in associate companies	0	0	0	0	0	0	0	0	4,550,582
Transfer from dealing securities	0	0	0	0	0	0	0	0	4,896
Acquisition of subsidiary by joint venture company	0	0	0	0	0	0	0	0	164,553
Less: Disposals	104,250	0	10,000	0	0	0	0	114,250	97,793
Redemptions	0	0	309,167	0	0	0	8,108	317,275	402,916
Transfer to dealing securities	0	0	0	0	0	0	0	0	333,117
Write-offs	10,334	1,431	0	0	0	0	0	11,765	0
	7,286,697	165,847	1,596,990	4,000	76,750	151,528	290,125	9,571,937	6,698,047
Less: Provision for diminution	0		12,500	0	0	0	0	12,500	12,500
	7,286,697	165,847	1,584,490	4,000	76,750	151,528	290,125	9,559,437	6,685,547

	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
33.3 Provision for Diminution		
Balance at beginning	12,500	0
Recognised in income statement	0	3,125
Consolidation adjustment - acquisition of a subsidiary by joint venture company	0	9,375
	12,500	12,500

33.4 On 31 March 2012 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.

	31.03.2012 Number of ordinary shares	31.03.2012 Cost* LKR 000	31.03.2012 Market value LKR 000	31.03.2011 Number of ordinary shares	31.03.2011 Cost* LKR 000	31.03.2011 Market value LKR 000
33.5 Quoted Ordinary Shares						
Banks, Finance & Insurance						
Aviva NDB Insurance PLC	12,000	2,013	2,538	12,000	2,013	3,589
Ceylinco Insurance PLC - voting	24,100	10,807	19,579	24,100	10,807	17,593
Ceylinco Insurance PLC - non-voting	43,971	11,118	13,380	43,971	11,118	12,703
Commercial Bank of Ceylon PLC - voting	113,985,956	2,440,453	11,398,596	52,853,674	1,659,617	14,048,507
Commercial Bank of Ceylon PLC - non-voting	211,178	16,262	16,894	97,519	15,174	16,149
Hatton National Bank PLC - non-voting	696,040	33,550	65,776	797,600	23,575	170,128
HNB Assurance PLC	39,332	1,320	1,801	29,500	1,013	2,360
Janashakthi Insurance PLC	250,000	3,000	2,900	250,000	3,000	4,125
Nations Trust Bank PLC	22,865,356	1,329,713	1,301,039	0	0	0
National Development Bank PLC	2,000,000	352,369	245,600	1,000,000	352,369	340,400
Sampath Bank PLC	285,798	21,297	51,387	425,982	28,879	122,811
Union Assurance PLC	0	0	0	100	7	17
		4,221,902	13,119,490		2,107,572	14,738,382
Beverages, Food & Tobacco						
Ceylon Tobacco Company PLC	150,967	8,520	77,763	150,967	8,520	54,046
Distilleries Company of Sri Lanka PLC	1,087,200	181,846	157,644	1,087,200	181,846	195,696
		190,366	235,407		190,366	249,742
Chemicals & Pharmaceuticals						
Chemical Industries (Colombo) PLC - voting	247,900	17,674	23,699	247,900	17,674	38,425
Chemical Industries (Colombo) PLC - non-voting	389,400	23,135	25,350	389,400	23,135	42,055
Haycarb PLC	38,330	4,139	6,133	38,330	4,139	5,956
		44,948	55,182		44,948	86,436
Construction & Engineering						
Colombo Dockyard PLC	245,831	34,793	56,541	234,125	34,793	59,725
Diversified Holdings						
Aitken Spence & Company PLC	0	0	0	948,000	21,522	153,860
Carson Cumberbatch PLC	97,512	28,309	45,343	97,512	28,308	61,901
Hayleys PLC	0	0	0	348,060	56,907	132,994
Hemas Holdings PLC	620,700	20,371	16,324	620,700	30,705	28,552
		48,680	61,667		137,442	377,307
Healthcare						
Ceylon Hospitals PLC - voting	130,908	3,018	9,491	130,908	3,018	13,091
Ceylon Hospitals PLC - non-voting	392,726	6,818	21,757	392,726	6,818	31,457
		9,836	31,248		9,836	44,548
Hotels & Travels						
Aitken Spence Hotel Holdings PLC	91,875	3,233	6,431	91,875	3,233	9,004
Asian Hotels & Properties PLC	183,600	3,956	14,321	91,800	3,956	17,249

* *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 official valuations list published by Colombo Stock Exchange.

	31.03.2012 Number of ordinary shares	31.03.2012 Cost* LKR 000	31.03.2012 Market value LKR 000	31.03.2011 Number of ordinary shares	31.03.2011 Cost* LKR 000	31.03.2011 Market value LKR 000
		7,189	20,752		7,189	26,253
33.5 Quoted Ordinary Shares (Contd.)						
Investment Trusts						
Ceylon Guardian Investment Trust PLC	246,931	5,190	57,041	246,931	5,190	91,241
Ceylon Investment PLC	676,953	17,359	53,005	676,953	17,359	102,220
		22,549	110,046		22,549	193,461
Footwear & Textiles						
Odel PLC	7,400	111	147	7,400	111	283
Telecommunications						
Dialog Axiata PLC	2,050,000	27,296	14,555	2,050,000	27,296	21,525
Manufacturing						
ACL Cables PLC	51,000	3,070	3,193	51,000	3,070	4,794
Ceylon Grain Elevators PLC	48,997	1,297	2,979	48,997	1,297	8,236
Chevron Lubricants Lanka PLC	609,400	20,301	110,850	609,400	20,301	97,504
Piramal Glass Ceylon PLC	21,790,852	61,118	132,924	22,076,852	61,921	245,053
Royal Ceramics Lanka PLC	139,800	16,996	16,077	139,800	16,996	21,949
Tokyo Cement Company (Lanka) PLC - non-voting	2,247,000	46,142	60,669	2,247,000	46,142	98,868
		148,924	326,692		149,727	476,404
Power & Energy						
Lanka IOC PLC	508,300	10,166	9,861	510,300	10,206	8,981
Vallibel Power Erathna PLC	7,500,000	20,000	49,500	7,500,000	20,000	64,500
		30,166	59,361		30,206	73,481
Total Quoted Shares - Bank		4,786,760	14,091,088		2,762,035	16,347,547
Investment in quoted shares by joint venture		580	3,606		580	3,981
Commercial Bank of Ceylon PLC - equity adjustment		2,499,357	0		2,499,357	0
Total Quoted Shares - Group		7,286,697	14,094,694		5,261,972	16,351,528
33.5.1 Investment in Quoted Ordinary Shares by Joint Venture						
Banks, Finance & Insurance						
Central Finance Company PLC	3	0**	0	3	0**	2
		0	0		0	2
Diversified Holdings						
Hayleys PLC	7,491	558	2,809	7,491	558	2,584
John Keells Holdings PLC	4,680	22	797	4,680	22	1,395
		580	3,606		580	3,979
		580	3,606		580	3,981

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

** *Less than LKR 500.*

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

	31.03.2012 Number of ordinary shares	31.03.2012 Cost* LKR 000	31.03.2012 Directors' valuation LKR 000	31.03.2011 Number of ordinary shares	31.03.2011 Cost* LKR 000	31.03.2011 Directors' valuation LKR 000
33.6 Unquoted Ordinary Shares						
Beico Link Carbons (Pvt) Limited	328,500	2,190	4,359	328,500	2,190	2,190
Credit Information Bureau of Sri Lanka	8,884	888	888	8,884	888	888
Durdans Medical & Surgical Hospital (Pvt) Limited	1,273,469	16,029	16,029	1,200,000	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	0	0	150,000	750	750
Millenium Housing Developers Limited	250,000	2,500	3,534	250,000	2,500	2,500
Plastipak Lanka Limited	240,000	2,400	2,301	240,000	2,400	2,400
Ranweli Holiday Village Limited	1,885,558	13,980	52,421	1,616,193	10,748	40,599
Sampath Centre Limited	1,000,000	10,000	30,000	1,000,000	10,000	30,000
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	12,100	116,700	2,334	15,006
Sinwa Holdings Limited	460,000	9,200	9,200	460,000	9,200	23,172
Sun Tan Beach Resorts (Pvt) Limited	6,119,579	61,008	61,008	197,309	1,816	1,816
The Video Team (Pvt) Limited	30,000	300	2,670	30,000	300	375
Wayamba Plantations (Pvt) Limited	2,750,000	9,750	9,750	2,750,000	9,750	30,459
Total unquoted ordinary shares - Bank		135,704	209,385		73,001	170,280
Investments in unquoted ordinary shares by subsidiaries		2,030	2,030		2,030	2,030
Investments in unquoted ordinary shares by joint venture		28,113	28,113		19,813	19,813
Total unquoted ordinary shares - Group		165,847	239,528		94,844	192,123

	31.03.2012 Number of ordinary shares	31.03.2012 Cost* LKR 000	31.03.2012 Directors' Valuation LKR 000	31.03.2011 Number of ordinary shares	31.03.2011 Cost* LKR 000	31.03.2011 Directors' Valuation LKR 000
33.6.1 Investments in Unquoted Ordinary Shares by Subsidiaries						
Credit Information Bureau of Sri Lanka	300	30	30	300	30	30
Lankaclear (Pvt) Limited	100,000	1,000	1,000	100,000	1,000	1,000
Lanka Financial Services Bureau Limited	100,000	1,000	1,000	100,000	1,000	1,000
		2,030	2,030		2,030	2,030
33.6.2 Investments in Unquoted Ordinary Shares by Joint Ventures						
Durdans Heart Surgical Centre (Pvt) Limited	750,000	7,313	7,313	750,000	7,313	7,313
Durdans Medical and Surgical Hospital (Pvt) Limited	1,000,000	12,500	12,500	1,000,000	12,500	12,500
Kankiriya Thambiliya (Pvt) Limited	550,000	5,530	5,530	0	0	0
Parambe Hydro (Pvt) Limited	50	1,629	1,629	0	0	0
Pupulaketiya Hydro Power (Pvt) Limited	51	1,141	1,141	0	0	0
		28,113	28,113		19,813	19,813

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

	31.03.2012 Number of ordinary shares	31.03.2012 Cost* LKR 000	31.03.2011 Number of ordinary shares	31.03.2011 Cost* LKR 000
33.7 Unquoted Preference Shares				
33.7.1 Unquoted Redeemable Cumulative Preference Shares				
Carson Cumberbatch & Company PLC	11,000,000	110,000	16,500,000	165,000
Dialog Axiata PLC	117,500,000	117,500	235,000,000	235,000
Heladanavi Limited	0	0	1,666,669	16,667
Phoenix Industries Limited	124,000,000	1,240,000	36,000	360,000
Tudawe Brothers Limited	1,000,000	100,000	0	0
		1,567,500		776,667
33.7.2 Unquoted Irredeemable Preference Shares				
Arpico Finance Company PLC	50,000	500	50,000	500
Total investments in unquoted preference shares - Bank		1,568,000		777,167
Investments in unquoted preference shares by joint venture		28,990		38,990
Total investments in unquoted preference shares - Group		1,596,990		816,157
33.7.3 Investments in Unquoted Preference Shares by Joint Venture				
E Services Lanka Limited	1,250,000	12,500	1,250,000	12,500
Nividhu (Pvt) Limited	1,640,000	16,490	1,640,000	16,490
Tudawe Brothers Limited	0	0	100,000	10,000
		28,990		38,990

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

	31.03.2012 Cost LKR 000	31.03.2011 Cost LKR 000
33.8 Quoted Debentures		
Total investments in quoted debentures - **Bank**	0	0
Investments in quoted debentures by joint venture	4,000	4,000
Total investments in quoted debentures - Group	4,000	4,000
33.8.1 Investments in Quoted Debentures by Joint Venture		
Bank of Ceylon - 11.50%	4,000	4,000
	4,000	4,000

	31.03.2012 Cost LKR 000	31.03.2011 Cost LKR 000
33.9 Unquoted Debentures		
Total investments in unquoted debentures - **Bank**	0	0
Investments in unquoted debentures by joint venture	76,750	76,750
Total investments in unquoted debentures - Group	76,750	76,750
33.9.1 Investments in Unquoted Debentures by Joint Venture		
Ceylon Hospitals PLC	50,000	50,000
Hatton National Bank PLC	6,750	6,750
Neluwa Cascade Hydro Power (Pvt) Limited	20,000	20,000
	76,750	76,750

	31.03.2012			31.03.2011		
	Number of units	Cost LKR 000	Market value LKR 000	Number of units	Cost LKR 000	Market value LKR 000
33.10 Quoted Units in Unit Trusts						
NAMAL Acuity Value Fund	3,018,300	151,528	190,153	3,018,300	151,528	257,159
Total quoted units - Bank		151,528	190,153		151,528	257,159
Investments in unit trusts by subsidiaries		0	0		0	0
Total investments in quoted unit trusts - Group		151,528	190,153		151,528	257,159

	31.03.2012			31.03.2011		
	Number of units	Cost LKR 000	Managers Buying Price LKR 000	Number of units	Cost LKR 000	Managers Buying Price LKR 000
33.11 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	295,000	2,929	23,798	533,050	5,293	55,469
NAMAL Income Fund	16,712,129	170,625	182,496	16,712,129	170,625	181,661
NAMAL Money Market Fund	8,573,206	86,258	88,476	8,037,604	80,821	82,144
National Equity Fund	500,000	5,313	11,745	1,040,540	11,057	31,508
Total investments in unquoted unit trusts - Bank		265,125	306,515		267,796	350,782
Investments in unit trusts by joint venture		25,000	26,757		25,000	27,049
Total investments in unquoted unit trusts - Group		290,125	333,272		292,796	377,831
33.11.1 Investments in Unit Trusts by Joint Venture						
NAMAL Income Fund	2,436,870	25,000	26,757	2,436,870	25,000	27,049
		25,000	26,757		25,000	27,049

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000

34. Investments in Associate Companies

34.1 Unquoted

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	35,270	35,270	50,931	47,977
Share of profit after tax	0	0	4,488	6,413
Dividend received - elimination on consolidation	0	0	(4,140)	(3,459)
Balance on 31 March	35,270	35,270	51,279	50,931
Investment in Associate Companies by Acuity Partners (Pvt) Limited via Lanka Ventures PLC				
Balance at beginning			126,360	0
Net assets on acquisition			0	108,370
Investment at cost			192,000	0
Share of profit after tax			1,161	17,990
Balance on 31 March			319,521	126,360
Total	35,270	35,270	370,800	177,291

	BANK	
	31.03.2012 LKR 000	31.03.2011 LKR 000

35. Investments in Joint Venture

Unquoted

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000
Acuity Partners (Pvt) Limited (ownership 50%)		
Balance on 31 March	655,000	655,000

Bank's Interest in Acuity Partners (Pvt) Limited includes-

	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
Total Assets	6,471,681	2,945,092
Liabilities	4,430,715	2,011,553
Income	994,182	466,130
Expenses	708,618	258,874
Income tax	56,839	74,501

36. Investments in Subsidiary Companies

	DFCC Consulting (Pvt) Limited Ownership 100% LKR 000	DFCC Vardhana Bank PLC Ownership 99% LKR 000	Lanka Industrial Estates Limited Ownership 51% LKR 000	Synapsys Limited Ownership 100% LKR 000	Bank 31.03.2012 LKR 000	Bank 31.03.2011 LKR 000
Balance as at beginning	5,000	2,286,284	97,036	53,000	2,441,320	2,408,320
Investments in additional shares*	0	1,336,587	0	0	1,336,587	33,000
Provision for impairment	0	0	0	17,367	17,367	0
Balance on 31 March	5,000	3,622,871	97,036	35,633	3,760,540	2,441,320

* Including right issue

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
37. Group Balances Receivable				
DFCC Consulting (Pvt) Limited	0	36		
DFCC Vardhana Bank PLC	40,461	12,674		
Synapsys Limited	1,136	3,240		
	41,597	15,950		
38. Income Tax Refund Due				
Income tax overpayment	139,574	0	161,020	1,471
39. Investment Properties				
39.1 Composition				
Balance at beginning	0	6,500	233,579	132,641
Additions during the year	0	0	5,693	118,073
Less: Depreciation	0	0	8,283	8,030
Disposals during the year	0	6,500	83,008	9,105
	0	0	147,981	233,579

	Buildings Sq. Ft.	Extent of Land Perches	Cost LKR 000	Accumulated Depreciation/ Impairment LKR 000	Net Book Value LKR 000	Market Value LKR 000
39.2 List of Investment Properties						
Pattiwila Road, Sapugaskanda, Makola	280,000	20,000	200,750	82,656	118,094	755,750
44/7, School Lane, Nawala	0	29.4	29,887	0	29,887	33,810
			230,637	82,656	147,981	

The fair value of investment property as at 31 March 2012 situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out in April 2012 by Mr P B Kalugalagedara, FIV (Sri Lanka), Chartered Valuer.

The fair value of investment property as at 31 March 2012 situated at School Lane, Nawala is based on the sales transactions carried out in December 2011.

Rental income from investment property in Group for 2012, LKR 128 million (2011 - LKR 115 million).

	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
40. Goodwill on Consolidation		
DFCC Vardhana Bank PLC	146,602	146,602
Acquisition of Lanka Ventures PLC by joint venture	70,186	70,186
Lanka Industrial Estates Limited	9,623	9,623
	226,411	226,411

41. Property, Plant and Equipment

41.1 Composition: Bank

	Land & building LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Total LKR 000
Cost as at 31.03.2011	265,550	580,549	221,328	213,936	1,281,363
Additions for the year	0	24,926	22,469	0	47,395
Less: Disposals during the year	0	424	1,397	5,982	7,803
Cost Adjustment	104	0	0	0	104
Cost as at 31.03.2012	265,446	605,051	242,400	207,954	1,320,851
Accumulated depreciation as at 31.03.2011	136,376	472,179	97,190	82,153	787,898
Charge for the year	7,734	44,411	19,684	37,133	108,962
Less: Accumulated depreciation on disposal	0	424	1,397	5,794	7,615
Accumulated depreciation as at 31.03.2012	144,110	516,166	115,477	113,492	889,245
Net book value as at 31.03.2012	121,336	88,885	126,923	94,462	431,606
Net book value as at 31.03.2011	129,174	108,370	124,138	131,783	493,465

41.1.2 List of Freehold Land and Building

	Building sq. ft.	Extent of land perches*	Cost LKR 000	Accumulated depreciation LKR 000	Net book value LKR 000
73/5, Galle Road, Colombo 3	57,200	104.45	55,193	50,745	4,448
5, Deva Veediya, Kandy	4,600	12.54	16,196	5,435	10,761
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	184,178	87,930	96,248
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	0	2,600
			265,446	144,110	121,336

** 1 perch = 25.2929m^2; 1 sq ft = 0.0929m^2*

Market Value of Properties

	LKR million	Date of valuation
73/5, Galle Road, Colombo 3	605	31.03.2011
5, Deva Veediya, Kandy	50	31.03.2011
73, W A D Ramanayake Mawatha, Colombo 2	350	31.03.2011

(Valued by Mr P B Kalugalagedera - Chartered Valuer)

	Land & building LKR 000	Plant & machinery LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Total LKR 000
41.2 Composition: Group						
Cost as at 31.03.2011	333,859	64,850	1,000,479	567,305	272,624	2,239,117
Additions for the year	22,565	0	105,747	73,012	29,220	230,544
Less: Disposals during the year	0	0	3,307	1,632	15,732	20,671
Write offs	0	0	397	118	0	515
Cost as at 31.03.2012	356,424	64,850	1,102,522	638,567	286,112	2,448,475
Accumulated depreciation as at 31.03.2011	164,919	62,112	736,954	223,280	112,437	1,299,702
Charge for the year	13,008	0	112,729	57,321	48,822	231,880
Less: Accumulated depreciation on disposal	0	0	3,104	1,445	14,293	18,842
Write offs	0	0	397	118	0	515
Accumulated depreciation as at 31.03.2012	177,927	62,112	846,182	279,038	146,966	1,512,225
Net book value as at 31.03.2012	178,497	2,738	256,340	359,529	139,146	936,250
Net book value as at 31.03.2011	168,940	2,738	263,525	344,025	160,187	939,415

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	**31.03.2012 LKR 000**	31.03.2011 LKR 000
42. Intangible Assets				
Cost at beginning	318,125	305,086	822,813	733,787
Additions for the year	2,277	13,039	97,645	89,026
Less: Disposals during the year	0	0	733	0
Cost as at 31 March	320,402	318,125	919,725	822,813
Accumulated amortisation at beginning	272,634	255,107	649,771	573,753
Amortisation for the year	17,790	17,527	66,386	76,018
Less: Accumulated amortisation on disposal	0	0	293	0
Accumulated amortisation as at 31 March	290,424	272,634	715,864	649,771
Net Book Value as at 31 March	29,978	45,491	203,861	173,042
43. Deferred Tax Asset				
Balance at beginning			1,781	762
Increase in deferred tax asset			3,802	1,019
Balance as at 31 March			5,583	1,781

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
44. Other Assets				
Refundable deposits and advances	78,049	53,403	184,948	322,219
Dividend due	417,648	205,032	417,648	207,788
Debtors	438,302	253,625	1,207,686	812,774
	933,999	512,060	1,810,282	1,342,781
45. Deposits from Customers				
Domestic Currency Deposits (LKR)				
Demand deposits	0	0	1,214,074	1,347,390
Savings deposits	0	0	6,511,801	4,718,720
Fixed deposits	11,710,526	3,686,747	28,751,562	13,256,125
Certificates of deposits	0	1,436	194,528	100,589
Others	0	0	272,302	229,038
	11,710,526	3,688,183	36,944,267	19,651,862
Foreign Currency Deposits				
Demand deposits	0	0	42,834	81,334
Savings deposits	0	0	660,887	665,679
Fixed deposits	0	0	6,770,321	5,016,203
Others	0	0	1,704	1,319
	0	0	7,475,746	5,764,535
Total deposits from customers	11,710,526	3,688,183	44,420,013	25,416,397
Deposits from banks	0	0	1,247,502	1,034,300
Deposits from finance companies	0	0	75,826	159,787
Deposits from other customers	11,710,526	3,688,183	43,096,685	24,222,310
Total deposits from customers	11,710,526	3,688,183	44,420,013	25,416,397
46. Borrowing - Medium and Long-Term				
Repayable in foreign currency				
Exchange difference borne by the Bank				
FMO	1,728,000	1,656,000	1,728,000	1,656,000
Nordea Bank Danmark A/S	127,514	156,804	127,514	156,804
DEG	3,840,000	0	3,840,000	0
Government of Sri Lanka/EIB loans - credit lines	2,567,988	2,400,242	2,567,988	2,400,242
	8,263,502	4,213,046	8,263,502	4,213,046
Repayable in Rupees				
Government of Sri Lanka/IDA loans - credit lines	2,447,149	1,977,155	2,447,149	1,977,155
Government of Sri Lanka/ADB loans - credit lines	4,288,287	4,388,825	4,288,287	4,388,825
Government of Sri Lanka/KFW loans - credit lines	1,919,286	1,715,533	1,919,286	1,715,533
Government of Sri Lanka/JBIC loans - credit lines	1,897,002	2,431,759	1,897,002	2,431,759
Government of Sri Lanka/IFAD loans - credit lines	14,954	17,664	14,954	17,664
Government of Sri Lanka/EIB loans - credit lines	8,150,468	8,475,302	8,150,468	8,475,302
Central Bank of Sri Lanka - refinance loans (secured)	564,674	739,704	564,674	739,704
FMO	0	169,716	0	169,716
Other local sources	5,084,770	0	5,084,770	0
	32,630,092	24,128,704	32,630,092	24,128,704

46.1 Supplementary Information

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

As at 31 March 2012, there were no loans outstanding which were approved and guaranteed by Government of Sri Lanka in terms of Section 14 of DFCC Bank Act No. 35 of 1955 as amended.

46.2 Assets Pledged as Security

Nature	Amount LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	564,674

Acronyms:

ADB - Asian Development Bank
DEG - Deutsche Investitions-Und Entwicklungsgesellschaft MBH, Germany
EIB - European Investment Bank, Luxembourg
FMO - Nederlandse Financierings (Maatschappij Voor Ontwikkeling), The Netherlands
IDA - International Development Association
IFAD - International Fund for Agriculture Devolopment
JBIC - Japan Bank for International Cooperation Fund, Japan
KFW - Kreditanstalt fur Wiederaufbau, Germany

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
47. Borrowing - Short-Term				
Borrowing under repurchase agreements (Repos)				
Government securities sold under repurchase	0	1,512,000	5,480,078	4,560,671
Bank overdrafts	0	119,819	78,441	133,635
Inter-bank borrowing	2,186,500	3,300,000	3,513,315	3,353,883
	2,186,500	4,931,819	9,071,834	8,048,189
48. Debentures				
48.1 Movement in Debentures				
Balance at beginning	1,200,000	2,700,000	1,200,000	2,700,000
Redeemed during the year	(500,000)	(1,500,000)	(500,000)	(1,500,000)
	700,000	1,200,000	700,000	1,200,000
49. Group Balances Payable				
DFCC Consulting (Pvt) Limited	222	0	0	0
	222	0	0	0
50. Deferred Tax Liabilities				
Balance at beginning	275,121	271,144	315,313	319,368
Increase/(decrease) in liabilities	52,918	3,977	60,971	(4,055)
Balance as at 31 March in deferred tax asset	328,039	275,121	376,284	315,313

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
51. Other Liabilities				
Accruals	58,277	73,281	97,611	103,952
Prior year's dividends	33,784	22,448	33,784	24,010
Interim dividend	0	1,854,682	0	1,854,682
Security deposit for leases	4,065	5,015	44,794	45,548
Prepaid loan and lease rentals	89,427	82,793	89,427	82,793
Account payables	212,672	191,921	1,172,055	1,116,543
Provision for staff retirement benefits	95,828	44,296	144,171	78,066
Other provisions	168,697	136,000	260,704	186,518
	662,750	2,410,436	1,842,546	3,492,112
51.1 Provision for Staff Retirement Benefits				
Defined benefit funded pension	24,197	(13,197)	24,197	(13,197)
Defined benefit unfunded pension	55,571	45,463	55,571	45,463
Defined benefit unfunded end of service gratuity	16,060	12,030	64,403	45,800
	95,828	44,296	144,171	78,066
51.2 Movement in Provision for Staff Retirement Benefits				
51.2.1 Defined Benefit Funded Pension				
Net accrued liability on 31 March 2011	(13,197)		(13,197)	
Retirement benefit expense for the financial year	80,848		80,848	
Employer contributions for the financial year	(43,454)		(43,454)	
Net accrued liability on 31 March 2012	24,197		24,197	
51.2.2 Defined Benefit Unfunded Pension				
Net accrued liability on 31 March 2011	45,463		45,463	
Retirement benefit expense for the financial year	10,108		10,108	
Net accrued liability on 31 March 2012	55,571		55,571	
51.2.3 Defined Benefit Unfunded End of Service Gratuity				
Net accrued liability on 31 March 2011	12,030		45,800	
Retirement benefit expense for the financial year	6,381		22,876	
Gratuity payments for the financial year	(2,351)		(4,273)	
Net accrued liability on 31 March 2012	16,060		64,403	
51.3 Movement in Other Provisions				
Balance as at 31 March 2011	136,000		186,518	
Provision for the financial year	168,697		263,142	
Payments for the financial year	(122,755)		(169,477)	
Over provision	(13,245)		(19,479)	
Balance as at 31 March 2012	168,697		260,704	

	BANK 31.03.2012 LKR 000
51.4 Reconciliation of Actuarial Liability with Accounting Liability Recognised in the Balance Sheet	
51.4.1 Funded Pension Liability	
Present value of defined benefit pension obligations	1,494,887
Fair value of pension assets	(1,631,445)
	(136,558)
Unrecognised gain on 31 March 2012 (Note 14.2.1)	160,755
Liability recognised in the balance sheet (Note 51.2.1)	24,197
51.4.2 Unfunded Pension Liability	
Present value of defined benefit pension obligations	65,147
Unrecognised (loss) on 31 March 2012 (Note 14.2.2)	(9,576)
Liability recognised in the balance sheet (Note 51.2.2)	55,571
51.4.3 Unfunded End of Service Gratuity	
Present value of defined benefit obligations	28,531
Unrecognised (loss) on 31 March 2012 (Note 14.2.3)	(12,471)
Liability recognised in the balance sheet (Note 51.2.3)	16,060
51.5 Movement in Actuarial Liability	
51.5.1 Funded Pension Liability	
Present value of defined benefit pension obligations on 1 April 2011	1,367,956
Current service cost	55,958
Interest on obligation	128,152
Benefit payments during the year	(93,624)
Actuarial experience loss	36,445
Present value of defined benefit pension obligations on 31 March	1,494,887
51.5.2 Unfunded Pension Liability	
Present value of defined benefit pension obligations on 1 April 2011	47,888
Current service cost	5,320
Interest on obligation	4,788
Benefit payments during the year	0
Actuarial experience loss	7,151
Present value of defined benefit pension obligations on 31 March	65,147
51.5.3 Unfunded End of Service Gratuity	
Present value of defined benefit pension obligations on 1 April 2011	19,176
Current service cost	3,582
Interest on obligation	2,276
Benefit payments during the year	(2,351)
Actuarial experience loss	5,848
Present value of defined benefit pension obligations on 31 March	28,531

	BANK 31.03.2012 LKR 000
51.6 Movement in Pension Assets	
Pension assets on 1 April 2011	1,521,978
Expected return on pension assets	103,262
Employer's contribution	43,454
Benefits paid	(93,624)
Actuarial experience gain	56,374
	1,631,444

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
52. Subordinated Debentures				
Listed in the Colombo Stock Exchange	590,000	1,000,000	1,590,000	1,000,000
Private placement	0	1,000,000	0	1,000,000
	590,000	2,000,000	1,590,000	2,000,000

Subordinated debentures listed in the Colombo Stock Exchange are redeemable over a period 2006 to 2016. Fixed interest at 14% p.a. is payable annually. On 31 March 2012 comparative Government Securities interest rate is 14.22% p.a. (gross).

Ratios

Debt Equity Ratio	- 2012	1.56 (2011 - 1.35)
Interest Cover (Times)	- 2012	1.72 (2011 - 3.54)
Liquid Assets Ratio (%)	- 2012	52 (2011 - 295)

Disclosure under Listing Rule No. 7.6 (xi)

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
53. Share Capital				
53.1 Authorised Share Capital				
500,000,000 ordinary shares of LKR 10/- each	5,000,000	5,000,000	5,000,000	5,000,000
53.2 Issued Share Capital				
265,097,688 ordinary shares of LKR 10/- each	2,650,977	2,648,838	2,650,977	2,648,838
Allotted and fully-paid:				
Balance at beginning 264,883,768 ordinary shares (132,375,305 shares in 2011)	2,648,838	1,323,753	2,648,838	1,323,753
Bonus share issue on 1 November 2010 (1 for every 1 held - 132,431,968 ordinary shares)	0	1,324,320	0	1,324,320
Issue under share option - 213,920 ordinary shares (76,495 shares in 2011)	2,139	765	2,139	765
Balance on 31 March 265,097,688 ordinary shares (264,883,768 shares in 2011)	2,650,977	2,648,838	2,650,977	2,648,838

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. 07 of 2007 in accordance with Section 7 of the DFCC Bank Act No. 35 of 1955 as amended.

53.3 Employee Share Option Plan

The employee share option plan was closed with the exercise of the final tranch of options on 2 July 2011.

	Number of option
53.3.1 Movement in Options Granted	
Options granted	2,215,540
Adjustment for bonus and rights	2,046,779
Options lapsed	(270,889)
	3,991,430
Less: Options exercised	
Prior years	3,777,510
During the year	213,920
	3,991,430

	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
54. Stated Capital				
Share Capital	2,650,977	2,648,838	2,650,977	2,648,838
Share Premium	2,064,837	2,054,546	2,064,837	2,054,546
Equivalent Stated Capital	4,715,814	4,703,384	4,715,814	4,703,384

55. Reserves

	Reserve fund LKR 000	Investment fund account LKR 000	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
55.1 Statutory Reserves						
Balance at beginning	1,015,000	53,600	1,068,600	655,000	1,068,600	655,000
Transfers from current earnings	120,000	296,615	416,615	413,600	416,615	413,600
Balance as at 31 March	1,135,000	350,215	1,485,215	1,068,600	1,485,215	1,068,600

55.1.1 Reserve Fund

Five percentum of profit after tax is transferred to the reserve fund 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.

55.1.2 Investment Fund Account

This represents cumulative savings of financial services VAT and income tax. The amount is appropriated from profits. The amount of the reserve will be utilised only for the purpose prescribed by the Central Bank of Sri Lanka.

55.2 Retained Earnings

This represents cumulative net earnings, inclusive of proposed dividend amounting to LKR 1,060 million payable on approval by the shareholders at the Annual General Meeting on 29 June 2012. The balance is retained and reinvested in the business of the Bank.

55.2.1 Dividend Per Share (Disclosure as Per Listing Rules)

	2012 LKR	2011 LKR
Interim	0	7
Final proposed	4	3
	4	10

56. Minority Interests

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

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
57. Commitments and Contingencies				
57.1 Contingent Liabilities				
Guarantees issued to:				
DFCC Vardhana Bank PLC in respect of indebtedness of customers of the Bank	0	45,000	0	0
Other Banks in respect of indebtedness of customers of the Bank	22,300	16,300	74,786	16,300
Companies in respect of indebtedness of customers of the Bank	804,941	855,640	3,178,737	2,192,911
Principal collector of customs (duty guarantees)	0	0	91,980	65,841
Shipping guarantees	0	0	1,406,575	599,532
Documentary credits	0	0	8,864,444	4,923,769
Bills for collection	0	0	1,323,370	675,443
Forward exchange contracts (net)	2,951,561	1,111,494	3,439,398	2,167,620
57.2 Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	14,894,841	13,935,957	22,395,418	15,629,762
Capital expenditure approved by the Board of Directors:				
Contracted	21,510	4,058	70,754	46,493
Not contracted	0	11,280	77,218	195,114
	18,695,153	15,979,729	40,922,680	26,512,785

58. Litigation

58.1 Litigation against the Bank

(a) A client has filed action against five defendants including the Bank in the District Court of Kurunegala claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party through the procedure in Recovery of Loans by Banks (Special Provisions) Act No. 04 of 1990, seeking the sale of the property to be set aside, and claiming LKR 6.0 million as damages from the Bank. The Bank has transferred the property in terms of a settlement entered in the Magistrate's Court in another case. The District Court has issued an Interim Injunction. One of the defendants has appealed to the Provincial High Court of Civil Appeal against the Interim Injunction order. The Bank is defending in this action.

(b) A client of the Bank has instituted legal action in the District Court of Matara against the Bank claiming a sum of LKR 10.0 million for non-disbursement of the full loan approved to him. The Bank has suspended the disbursement of the facility approved to him as he has made a false statement in his application to the Bank. The Bank is defending this action.

(c) The Bank acquired the leasehold right of a property in Puttlam under Recovery of Loans by Banks (Special Provisions) Act No. 04 of 1990. A party who paid LKR 6 million being a part payment to acquire the rights of the Bank in terms of a settlement in court has subsequently claimed the return of payment alleging that the Bank had no title. The District Court has given the judgment in favour of the Bank and now he has appealed to the Provincial High Court of Civil Appeal in Kurunegala against the said judgment. The Bank is defending this action.

59. Maturity Profile of Assets and Liabilities

59.1 Definition of Maturity

59.1.1 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.

59.1.2 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.

59.2 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.

	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%
59.3 Profile											
59.3.1 Bank											
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	3,451,552	1,403,552	40.7	2,048,000	59.3	–	–	–	–	–	–
Treasury bills and other securities eligible for rediscounting with Central Bank	1,537,518	1,488,955	96.8	48,563	3.2	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	1,917,373	61,872	3.1	200,437	10.4	722,295	38	666,780	34.7	265,989	13.8
Loans and advances	42,382,536	4,065,258	9.7	8,107,096	19.2	17,103,123	40	9,382,559	22.2	3,724,500	8.9
Finance leases	8,929,973	760,056	8.4	2,005,901	22.4	4,784,400	54	1,379,616	15.2	–	–
	58,218,952	7,779,693	13.4	12,409,997	21.3	22,609,818	38.8	11,428,955	19.6	3,990,489	6.9
Other Assets											
(Non-interest bearing assets)											
Cash and balance with banks	83,210	83,210	100	–	–	–	–	–	–	–	–
Dealing securities	65,307	65,307	100	–	–	–	–	–	–	–	–
Interest receivable	360,675	321,962	89	38,713	11	–	–	–	–	–	–
Investment securities -											
Ordinary shares/units	5,339,117	–	–	–	–	–	–	–	–	5,339,117	100
Preference shares	1,568,000	272,500	17	220,000	14	625,000	40	450,000	29	500	0
Investment in associate company	35,270	–	–	–	–	–	–	–	–	35,270	100
Investment in joint venture company	655,000	–	–	–	–	–	–	–	–	655,000	100
Investment in subsidiary companies	3,760,540	–	–	–	–	–	–	–	–	3,760,540	100
Group balances receivable	41,597	41,597	100	–	–	–	–	–	–	–	–
Prepayments	43,810	1,949	4	5,503	13	13,939	32	11,384	26	11,035	25
Income tax refund due	139,574	–	–	–	–	139,574	100	–	–	–	–
Property, plant and equipment	431,606	–	–	–	–	–	–	–	–	431,606	100
Intangible assets	29,978	–	–	–	–	–	–	–	–	29,978	100
Other assets	933,999	933,999	100	–	–	–	–	–	–	–	–
	13,487,683	1,720,524	13	264,216	2	778,513	6	461,384	3	10,263,046	76
Total assets	71,706,635	9,500,217	13	12,674,213	18	23,388,331	32	11,890,339	17	14,253,535	20
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	11,710,526	6,876,136	59	3,617,791	31	1,210,382	10	6,217	0	–	–
Borrowing - Medium and long-term	32,630,092	3,386,930	10	3,777,937	12	8,396,685	26	6,445,819	20	10,622,721	32
- Short-term	2,186,500	2,186,500	100	–	–	–	–	–	–	–	–
Debentures	700,000	–	–	700,000	100	–	–	–	–	–	–
Subordinated debentures	590,000	–	–	–	–	–	–	590,000	100	–	–
	47,817,118	12,449,566	26	8,095,728	17	9,607,067	20	7,042,036	15	10,622,721	22

	Total LKR 000	Up to 3 months LKR 000	%	3 to 12 months LKR 000	%	1 to 3 years LKR 000	%	3 to 5 years LKR 000	%	> 5 years LKR 000	%
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	1,144,954	1,065,590	93	79,364	7	–	–	–	–	–	–
Group balances payable	222	222	100	–	–	–	–	–	–	–	–
Deferred tax liabilities	328,039	–	–	–	–		–	328,039	100	–	–
Other liabilities	662,750	662,750	100	–	–	–	–	–	–	–	–
	2,135,965	1,728,562	81	79,364	4	–	–	328,039	15	–	–
Total liabilities	49,953,083	14,178,128	28	8,175,092	16	9,607,067	19	7,370,075	15	10,622,721	22

59.3.2 Group

	Total LKR 000	Up to 3 months LKR 000	%	3 to 12 months LKR 000	%	1 to 3 years LKR 000	%	3 to 5 years LKR 000	%	> 5 years LKR 000	%
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	3,549,637	1,325,437	37.3	2,224,200	62.7	–	–	–	–	–	–
Treasury bills and other securities eligible for rediscounting with Central Bank	10,568,367	8,506,876	80.5	1,952,734	18.5	108,757	1.0	–	–	–	–
Securities purchased under resale agreements	1,884,792	1,760,560	93.4	124,232	6.6	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	1,917,373	61,872	3.2	200,437	10.5	722,294	37.7	666,780	34.8	265,990	13.8
Bills of exchange discounted	532,925	517,162	97.0	15,763	3.0	–	–	–	–	–	–
Loans and advances	73,452,522	14,984,549	20.4	15,037,896	20.5	21,087,041	28.7	14,367,567	19.6	7,975,469	10.8
Finance leases	9,423,417	784,844	8.3	2,082,828	22.1	5,014,364	53.2	1,541,381	16.4	–	–
	101,329,033	27,941,300	27.6	21,638,090	21.4	26,932,456	26.6	16,575,728	16.4	8,241,459	8.0
Other Assets											
(Non–interest bearing assets)											
Cash and balance with Banks	1,395,562	1,395,562	100.0	–	–	–	–	–	–	–	–
Balances with Central Bank	1,596,066	1,596,066	100.0	–	–	–	–	–	–	–	–
Dealing securities	65,307	65,307	100.0	–	–	–	–	–	–	–	–
Non–current assets held for sale	2,875	2,875	100.0	–	–	–	–	–	–	–	–
Interest receivable	646,900	488,064	75.4	129,754	20.1	7,633	1.2	12,079	1.9	9,370	1.4
Investment securities:											
Ordinary shares/units	7,894,197	–	–	–	–	–	–	–	–	7,894,197	100.0
Preference shares	1,584,490	272,500	17.2	220,000	13.9	625,000	39.4	450,000	28.4	16,990	1.1
Debentures	80,750	–	–	–	–	13,625	16.9	40,250	49.8	26,875	33.3
Investment in associate companies	370,800	–	–	–	–	–	–	–	–	370,800	100.0
Prepayments	43,810	1,949	4.4	5,503	12.6	13,939	31.8	11,384	26.0	11,035	25.2
Income tax refund due	161,020	–	–	20,194	12.5	140,826	87.5	–	–	–	–
Investment property	147,981	–	–	–	–	–	–	–	–	147,981	100.0
Goodwill on consolidation	226,411	–	–	–	–	–	–	–	–	226,411	100.0
Property, plant and equipment	936,250	–	–	743	0.1	1,133	0.1	3,515	0.4	930,859	99.4
Intangible assets	203,861	–	–	–	–	319	0.2	409	0.2	203,133	99.6
Deferred tax assets	5,583	415	7.4	4,768	85.4	400	7.2	–	–	–	–
Other assets	1,810,282	1,670,230	91.2	44,442	3.5	22,496	1.2	10,325	0.6	62,789	3.4
	17,172,145	5,492,968	31.7	425,404	2.5	825,371	4.8	527,962	3.0	9,900,440	57.7
Total assets	118,501,178	33,434,268	28.2	22,063,494	18.6	27,757,827	23.4	17,103,690	14.4	18,141,899	15.3
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	44,420,013	19,133,435	43.1	14,257,132	32.1	3,086,161	6.9	1,825,583	4.1	6,117,702	13.8
Borrowing - Medium and long-term	32,630,092	3,386,930	10.4	3,777,937	11.6	8,396,685	25.7	6,445,819	19.8	10,622,721	32.5
- Short-term	9,071,834	8,892,936	98.0	178,555	2.0	343	0.0	–	–	–	–
Debentures	700,000	–	–	700,000	100.0	–	–	–	–	–	–
Subordinated debentures	1,590,000	–	–	–	–	–	–	1,590,000	100.0	–	–
	88,411,939	31,413,301	35.5	18,913,624	21.4	11,483,189	13.0	9,861,402	11.2	16,740,423	18.9

	Total LKR 000	Up to 3 months LKR 000	%	3 to 12 months LKR 000	%	1 to 3 years LKR 000	%	3 to 5 years LKR 000	%	> 5 years LKR 000	%
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	1,731,630	1,652,266	95.4	79,364	4.6	–	–	–	–	–	–
Current tax liability	56,665	52,643	92.9	4,022	7.1	–	–	–	–	–	–
Deferred tax liabilities	376,284	–	–	–	–	–	–	328,040	87.2	48,244	12.8
Other liabilities	1,842,546	1,287,701	69.9	365,370	19.8	12,963	0.7	139	0.0	176,373	9.6
	4,007,125	2,992,610	74.7	448,756	11.2	12,963	0.3	328,179	8.2	224,617	5.6
Total liabilities	92,419,064	34,405,911	37.2	19,362,380	21.0	11,496,152	12.4	10,189,581	11.0	16,965,040	18.4

60. Concentration of Assets and Liabilities

60.1 Concentration in the Distribution of Assets

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

60.1.2 Industry-wise Distribution of main Assets are given below:

	31.03.2012 %	31.03.2011 %
Industry Sector		
Agriculture, forestry and fishing	5.1	6.1
Mining and quarrying	1.0	0.8
Manufacture of food, beverages and tobacco	7.4	10.1
Manufacture of textiles	0.8	0.5
Manufacture of wearing apparel excluding footwear	2.6	3.7
Manufacture of leather and leather products including footwear	0.3	0.4
Wood and manufacture of wood products	1.0	1.3
Manufacture of paper products, printing, publishing and packaging	3.1	3.9
Manufacture of chemical and chemical products	1.1	1.3
Manufacture of rubber products	1.2	1.8
Manufacture of plastic products	3.4	2.2
Manufacture of non-metallic mineral products	2.5	3.5
Basic metal products	0.5	0.4
Manufacture of fabricated metal products, machinery and equipment	2.2	2.4
Electricity, gas and water industries	6.0	5.9
Construction industries	7.6	7.0
Trade	14.3	13.6
Hotels and restaurants	5.6	2.5
Transport, storage and communications	5.1	4.9
Financing, insurance, real estate and business services	23.2	19.9
Community, social and personal services	6.0	7.8
	100.0	100.0

	31.03.2012 LKR 000	31.03.2011 LKR 000
Composition of Assets		
Loans*	43,879,283	32,953,495
Leases	8,929,973	5,960,055
Investment securities	6,907,117	4,031,527
Dealing securities	65,307	85,242
	59,781,680	43,030,319

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

60.2 Composition of liabilities is given in Note 46.

	BANK				GROUP			
	2012 LKR 000	%	2011 LKR 000	%	2012 LKR 000	%	2011 LKR 000	%
61. Non-Performing Loans, Leases and Bills								
Loans and advances	2,218,735		2,311,673		4,291,268		4,132,025	
Finance leases	171,340		307,458		171,780		307,458	
Bills of exchange discounted	0		0		32,661		35,102	
Gross exposure	2,390,075	4.3	2,619,131	6.3	4,495,709	5.1	4,474,585	7.4
Less: Interest in suspense included in overdrafts	0		0		652,520		481,032	
Net non-performing loans, advances, leases and bills	2,390,075	4.3	2,619,131	6.3	3,843,189	4.3	3,993,553	6.6
Less: Provision for bad and doubtful debts	1,567,414		1,552,119		2,408,432		2,370,042	
Net exposure	822,661	1.5	1,067,012	2.6	1,434,757	1.6	1,623,511	2.7
Net of tangible securities	49,377		85,509		330,966		1,303,679	

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

	BANK		GROUP	
	31.03.2012 LKR 000	31.03.2011 LKR 000	31.03.2012 LKR 000	31.03.2011 LKR 000
61.1 Provision for Bad and Doubtful Debts				
Loans and advances	1,655,841	1,507,241	2,472,552	2,301,200
Finance leases	91,310	200,587	91,310	200,587
Bills of exchange discounted		0	24,647	26,462
	1,747,151	1,707,828	2,588,509	2,528,249
Provisions relating to facilities currently performing				
Loans and advances	176,517	151,467	176,857	153,965
Finance leases	3,220	4,242	3,220	4,242
	179,737	155,709	180,077	158,207
Provision relating to non-performing facilities	1,567,414	1,552,119	2,408,432	2,370,042

61.2 The realisable value of tangible securities is computed based on the progressive discount on the Forced Sale Value (FSV) stipulated in the Direction issued by the Central Bank of Sri Lanka as given below:

Item	% of FSV of immovable property that can be considered as the value of security	
	Freehold Property	Leasehold Property
At the first time of provisioning	75	60
Period in the loss section		
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	Property should be reviewed on a regular basis and discounted further at the discretion of the Bank's management	Nil

62. Related Party Transactions

62.1 The Group's related parties include associates, Trust established by the Bank for post-employment retirement benefit plan, joint venture, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by key management personnel or their close family members.

	31.03.2012 LKR 000	31.03.2011 LKR 000
62.2 Transactions with Subsidiaries		
62.2.1 Balance Sheet		
Assets		
Cash and short-term funds	974,352	1,354,263
Securities purchased under repurchase agreements	0	166,000
Interest receivable	12,780	16,897
Total	987,132	1,537,160
Liabilities		
Deposits	79,407	64,028
Interest payable	3,570	2,445
Total	82,977	66,473

For the year ended 31 March	2012 LKR 000	2011 LKR 000
62.2.2 Income Statement		
Interest income	71,367	131,095
Interest expense	10,414	14,985
Other income	23,640	22,881
Dividend received	77,859	76,975
Other expenses	55,780	51,455
Reimbursed expenses	124,639	96,750
Personnel expenses	2,863	2,249

For the year ended 31 March	2012 LKR 000	2011 LKR 000
62.3 Transactions with Joint Venture		
62.3.1 Income Statement		
Interest income	0	12,082
Interest expense	5,588	0
Reimbursed expenses	0	269
Other expenses	8,165	3,036
Dividend income	16,375	0
62.4 Transactions with Associates		
62.4.1 Income Statement		
Other income	0	827
Dividends received	4,140	249,808
Other expenses	2,331	2,108

62.5 Transaction with entities in which Directors of the Bank have significant influence without substantial shareholding

	31.03.2012 LKR 000	31.03.2011 LKR 000
62.5.1 Balance Sheet		
Assets		
Loan and advances	1,852,060	871,370
Investment securities	185,079	223,597
Interest receivable	8,493	2,460
Total	2,045,632	1,097,427
Liabilities		
Deposits from customers	1,700,000	32,632
Interest payable	56,617	971
Total	1,756,617	33,603
62.5.2 Off-Balance Sheet Items		
Commitments and contingencies		
Undrawn facilities	260,760	1,709,010
Total	260,760	1,709,010

For the year ended 31 March	2012 LKR 000	2011 LKR 000
62.5.3 Income Statement		
Interest income	126,829	129,037
Interest expense	66,287	3,058
Other income	68	2,922
Other expense	795	819

62.6 Transactions with Key Management Personnel

62.6.1 Key Management Personnel

Key management personnel are the Board of Directors of the Bank, Chief Executive, Executive Vice-Presidents, Senior Vice-President - Treasury, Senior Vice-President - Integrated Risk Management, 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.

Currently Executive Vice-President - Operations concurrently holds the position of Secretary to the Board.

Chief Information Officer concurrently serves as the Managing Director of Synapsys Limited and received emoluments only from Synapsys Limited and the bonus from the Bank.

For the year ended	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 31.03.2011 LKR 000
62.6.2 Compensation of Directors and Other Key Management Personnel				
Number of persons	16	17	59	57
Short-term employment benefits	90,854	90,162	152,717	145,484
Post-employment benefits - pension	16,947	14,177	16,947	14,177
- others	9,684	8,737	13,373	12,078
	117,485	113,076	183,037	171,739

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 Provident Fund Society and Employees' Trust Fund, by the employer.

62.6.3 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 2006.

Share option scheme was closed on 2 July 2011 with the exercise of the final tranche of options granted.

The Non-Executive Directors of the Board did not participate in this option plan.

For the year ended	31.03.2012 LKR 000	31.03.2011 LKR 000
Number of unexercised options as at the beginning of financial year	70,844	40,380
Exercised prior to bonus issue	70,844	4,958
	0	35,422
Adjustment for 1 for 1 bonus share issue on 1 November 2010	0	35,422
Exercised during the year	70,844	0
Number of unexercised options balance at the end of financial year	0	70,844
Weighted average price of unexercised options end of the year LKR,	0	58.73
Weighted average price of exercised options LKR,	58.73	117.46
Weighted average price of Bank's share during the period in which options were excercised LKR,	173.60	230.09

	31.03.2012 LKR 000	31.03.2011 LKR 000
62.6.4 Other Transactions with Key Management Personnel and their Close Family Members		
62.6.4.1 Balance Sheet		
Assets		
Number of persons	2	2
Loans and advances	6,310	7,171
Total	6,310	7,171

These loans are granted under a uniform scheme applicable to all employees of the Bank.

	31.03.2012 LKR 000	31.03.2011 LKR 000
Liabilities		
Number of persons	1	1
Deposits	10,875	8,682
Accrued interest	322	319
Total	11,197	9,001

For the year ended 31 March	**2012 LKR 000**	2011 LKR 000
62.6.4.2 Income Statement		
Interest income	471	425
Interest expense	864	539
Interest expense	1,980	1,881

62.6.5 Transactions with DFCC Pension Fund - Trust

	31.03.2012 LKR 000	31.03.2011 LKR 000
Contributions (prepaid) at the beginning of financial year	(13,197)	(7,654)
Contribution due for the finnancial year (Note 14.1.1)	80,848	58,948
Contribution paid	(43,454)	(64,491)
Contribution due/(prepaid) at the end of the finacial year (Note 51.2.1)	24,197	(13,197)

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

62.7 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counter party with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

63. Business Segment Information

For the year ended 31 March 2012	Lending LKR 000	Finance Leasing LKR 000	Investing in Equity LKR 000	Commercial Banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	4,737,661	1,145,503	–	3,721,795	144,601	–	(103,142)	9,646,418
Other income	86,960	–	1,223,685	604,374	554,139	251,511	(226,331)	2,494,338
Total income from external customers	4,824,621	1,145,503	1,223,685	4,326,169	698,740	251,511	(329,473)	12,140,756
Percentage*	40	9	10	36	6	2	–	100
Expenses								
Segment losses	108,445	(109,392)	–	64,151	–	–	–	63,204
Depreciation	–	–	–	145,380	34,417	–	–	179,797
Other operating & interest expenses	3,467,950	637,976	–	3,294,341	416,031	–	(248,465)	7,567,833
	3,576,395	528,584	–	3,503,872	450,448		(248,465)	7,810,834
Result	1,248,226	616,919	1,223,685	822,297	248,292			4,329,922
Unallocated expenses								244,763
Value added tax on financial services								461,476
								3,623,683
Associate companies profit before tax								5,649
Profit before tax								3,629,332
Income tax expense								656,493
Profit after tax								2,972,839
Minority interest								72,633
Profit for the year								2,900,206
Assets	44,660,584	9,194,559	6,907,117	45,675,437	3,893,272	8,895,700	(1,096,291)	118,130,378
Percentage	38	8	6	39	3	8		100
Investments in associate companies								370,800
								118,501,178
Liabilities	37,765,719	8,036,976	–	41,260,091	2,316,002	4,136,567	(1,096,291)	92,419,064
Capital expenditure - additions				223,564	54,953	49,672		328,189

* *Net of eliminations.*

For the year ended 31 March 2011	Lending LKR 000	Financial Leasing LKR 000	Investing in Equity LKR 000	Commercial Banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	5,353,552	852,906	–	3,368,119	168,221	–	(84,631)	9,658,167
Amortisation of negative goodwill	–	–	–	–	7,313	–	–	7,313
Other income	215,312	–	5,929,095	419,004	590,544	1,846,552	(2,828,389)	6,172,118
Total income from external customers	5,568,864	852,906	5,929,095	3,787,123	766,078	1,846,552	(2,913,020)	15,837,598
Percentage*	35	5	37	24	5	30	–	100
Expenses								
Segment losses	248,620	(4,927)	–	234,759	–	–	–	478,452
Depreciation	–	–	–	143,727	28,490	–	–	172,217
Other operating & interest expenses	2,927,686	460,292	–	2,680,017	410,325	–	(216,155)	6,262,165
	3,176,306	455,365	–	3,058,503	438,815	–	(216,155)	6,912,834
Result	2,392,558	397,541	5,929,095	728,620	327,263	–		8,924,764
Unallocated expenses								793,084
Value added tax on financial services								2,080,063
								6,051,617
Associate companies profit before tax								217,758
Profit before tax								6,269,375
Income tax expense								1,098,302
Profit after tax								5,171,073
Minority interest								80,760
Profit for the year								5,090,313
Assets	33,642,205	5,960,055	4,686,527	29,525,556	3,547,274	14,708,930	(1,852,153)	90,218,394
Percentage	37	7	5	33	4	16		100
Investments in associate companies								177,291
								90,395,685
Liabilities	27,949,280	5,364,049	–	26,432,096	3,062,217	5,270,842	(1,852,153)	66,226,331
Capital expenditure - additions				196,475	26,266	231,309		454,050

* *Net of eliminations.*

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

63.2 Revenue and expenses attributable to the business segment of DFCC Vardhana Bank PLC is included in the column for commercial banking.

63.3 Property and equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

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

64. Post-Balance Sheet Events

64.1 Proposed Dividend

The Directors have recommended the payment of a final dividend of LKR 4/- per share for the year ended 31 March 2012, which require the approval of the shareholders at the Annual General Meeting to be held on 29 June 2012. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 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.

64.2 No other circumstances have arisen which would require disclosure or adjustment to the accounts.

65. Reclassification of Comparative Figures

Amounts shown for the previous year in respect of Note 18, Operating Expenses, Note 26, Placements with and Loans to Other Banks and Financial Institutions, Note 30, Loans and Advances, Note 44, Other Assets and Note 51, Other Liabilities have been reclassified to facilitate comparison.

66. Certification Required by the Companies Act. No. 07 of 2007

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 158 dealing with the Group financial statements and certification are currently applicable to the Bank. This certification is based on independent legal advice obtained by 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.

Capital to Risk-Weighted Assets Ratio

(Based on audited consolidated financial statements)

	Minimum Requirement	Actual 31.03.2012	Actual 31.03.2011
Tier I (%)		24.7	31.6
Deductions - Tier I (%)		3.7	3.6
	5.0	21.0	28.0
Tier II (%)		2.0	1.9
Deductions - Tier II (%)		3.1	3.0
		(1.1)	(1.1)
Capital base (%)	10.0	19.9	26.9

Details of Computation

Capital Base	31.03.2012 LKR 000	31.03.2011 LKR 000
Tier I: Core Capital		
Paid-up ordinary shares	2,650,977	2,648,838
Share premium	2,064,837	2,054,546
Statutory reserve fund	1,485,215	1,068,600
Published retained profits	5,686,342	6,530,865
General & other reserves	13,779,839	11,379,839
Minority interest	414,904	486,666
	26,082,114	24,169,354
Less: Deductions		
Goodwill	226,411	226,411
Net deferred tax assets	5,583	1,781
Other intangible assets	203,861	173,042
50% Investments in the capital of other banks and financial institutions	3,318,748	2,323,196
Total Tier I Capital	22,327,511	21,444,924
Tier II: Supplementary Capital		
Approved subordinated term debt	1,590,000	872,000
General provision	485,827	588,608
	2,075,827	1,460,608
Less: Deductions		
50% Investments in the capital of other banks and financial institutions	3,318,748	2,323,196
Eligible Tier II Capital	(1,242,921)	(862,588)
Capital base	21,084,590	20,582,336

Risk-Weighted Assets and Off-Balance Sheet Exposure

Assets Exposures	Balance 31.03.2012 LKR 000	Balance 31.03.2011 LKR 000	Risk Weights %	Risk-Weighted Balance 31.03.2012 LKR 000	Risk-Weighted Balance 31.03.2011 LKR 000
To Central Government and CBSL	14,049,225	21,319,519	0	0	0
To Banks	5,425,149	2,498,038	20-150	1,128,014	603,661
To Financial Institutions	3,587,422	1,387,551	20-150	2,587,442	784,452
Performing Advances					
To Corporates	65,643,531	46,496,233	20-150	65,094,633	45,883,397
Secured by Residential Property	1,235,045	433,064	50-100	656,388	252,353
Secured by Commercial Real Estate	8,534,747	4,427,832	100	8,534,747	4,427,832
Non-Performing Advances	1,421,728	1,570,410	50-150	1,850,724	1,999,224
Cash Items	1,437,424	948,895	0-20	1,409	1,164
Other Assets	3,102,218	2,537,452	100	3,102,218	2,537,452
Total assets	104,436,489	81,618,994		82,955,575	56,489,535

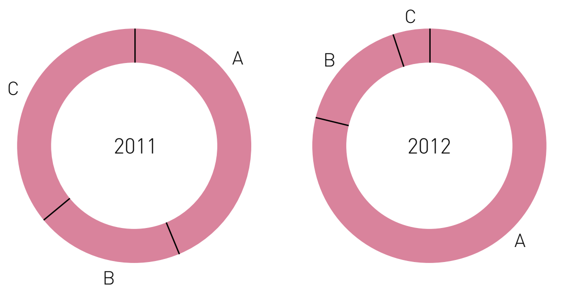
Off-Balance Sheet Exposure	Credit Conversion Factor %	Balance 31.03.2012 LKR 000	Balance 31.03.2011 LKR 000	Risk Weights %	Risk-Weighted Credit Equivalent 31.03.2012 LKR 000	Risk-Weighted Credit Equivalent 31.03.2011 LKR 000
General guarantee of indebtness and other gurantees	100	1,159,196	903,361	20-100	1,155,317	903,361
Performance bonds, bid bonds, warranties and other transactions	50	1,529,722	995,522	20-100	764,861	496,704
Shipping guarantees	20	1,406,575	598,546	20-100	281,315	119,709
Documentary letters of credit	20	5,684,614	2,876,297	20-100	1,136,923	574,982
Trade related acceptances	20	3,000,694	1,895,066	20-100	600,139	379,013
Other commitments with an original maturity of up to one year	0	7,500,577	1,693,805	100	0	0
Other commitments with an original maturity of over year	50	14,894,841	13,935,957	100	7,447,421	6,967,979
Forward foreign exchange contracts - Orginal maturity less than one year	2	4,931,452	5,917,274	100	98,629	118,345
Forward foreign exchange contracts - orginal maturity more than one year	5	1,344,000	110,400	100	67,200	5,520
Total off balance sheet exposure		41,451,671	28,926,228		11,551,805	9,565,614
Total risk-weighted assets and off-balance sheet exposure for credit risk					94,507,380	66,055,149
Total risk-weighted assets equivalent for market risk (Note 1)					815,030	574,530
Total risk-weighted assets equivalent for operational risk (Note 2)					10,733,670	9,908,670
Total risk-weighted assets					106,056,080	76,538,349

	Capital Charge 31.03.2012 LKR 000	Capital Charge 31.03.2011 LKR 000	Risk-Weighted Assets Equivalent 31.03.2012 LKR 000	Risk-Weighted Assets Equivalent 31.03.2011 LKR 000
Market Risk (Note 1)				
Interest rate	383	19,772	3,830	197,720
Equity	11,024	14,901	110,240	149,010
Foreign exchange and gold	70,096	22,780	700,960	227,800
Total risk-weighted assets equivalent for market risk	81,503	57,453	815,030	574,530
Operational Risk (Note 2)				
Average gross income	7,155,782	6,605,779		
15% of average gross income	1,073,367	990,867		
Total risk-weighted assets equivalent for operational risk	1,073,367	990,867	10,733,670	9,908,670

Sources and Distribution of Income - Bank

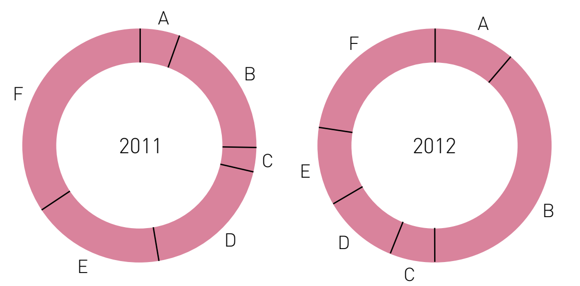
For the year ended 31 March LKR million	2008	2009	2010	2011	**2012**
Sources of Income					
Interest income	8,491	8,529	7,416	6,206	**5,872**
Income from investments	687	913	1,138	2,911	**1,193**
Others	458	446	289	5,074	**369**
	9,636	9,888	8,843	14,191	**7,434**
Distribution of Income					
To employees as emoluments	672	708	715	791	**834**
To lenders as interest	5,815	5,624	4,224	2,786	**2,880**
To providers of supplies and services	340	359	383	487	**481**
To Government as taxation	1,100	1,203	1,348	2,629	**767**
To shareholders as dividends	654	654	794	2,649	**795**
Retained in the business:					
Depreciation set aside	133	124	104	117	**127**
Provision of losses	258	510	356	244	**28**
Reserves	664	706	919	4,488	**1,522**
	9,636	9,888	8,843	14,191	**7,434**

SOURCES OF INCOME



	2011	2012
A - Interest income	43%	79%
B - Income from investments	21%	16%
C - Others	36%	5%

DISTRIBUTION OF INCOME



	2011	2012
A - To employees as emoluments	6%	11%
B - To lenders as interest	20%	39%
C - To providers of supplies and services	3%	6%
D - To Government as taxation	19%	10%
E - To shareholders as dividends	19%	11%
F - Retained in the business	33%	23%

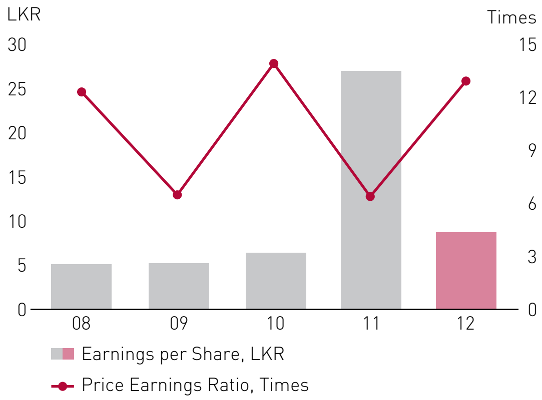
Ten Year Summary

Year ended 31 March LKR million	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bank										
Operating Results										
Total income	4,113	4,444	4,641	5,387	6,887	9,636	9,888	8,843	14,191	7,434
Profit before tax	1,036	1,490	1,512	1,652	1,865	1,983	2,006	2,402	7,876	2,748
Income tax	181	385	404	472	740	665	646	689	739	430
Profit after tax	855	1,105	1,108	1,180	1,125	1318	1,360	1,713	7,137	2,317
Balance Sheet										
Assets										
Cash, short-term funds and securities	2,398	2,675	2,778	4,928	7,935	8,124	8,415	10,472	11,991	5,073
Dealing securities	3	1	0	14	26	18	10	56	85	65
Receivables	914	909	1,641	946	1,611	1,684	1,348	930	803	1,380
Placements with and loans to banks and financial institutions	0	500	302	738	1,024	1,579	1,454	2,205	2,255	1,917
Securities purchased under resale agreements	48	26	1,051	520	240	208	96	914	166	0
Bills of exchange discounted	23	18	13	6	6	6	0	0	0	0
Loans and advances	19,515	22,386	25,270	30,963	38,200	38,185	35,156	31,575	32,731	44,257
Finance leases	2,445	3,742	4,348	5,545	7,756	6,726	5,211	3,966	6,360	9,157
Provisions	(949)	(1,077)	(995)	(937)	(946)	(1,179)	(1,670)	(1,979)	(2,168)	(2,102)
Net of provisions	21,034	25,069	28,636	35,577	45,016	43,737	38,697	33,562	36,923	51,312
Investment securities	1,802	1,704	1,731	1,340	1,260	1,680	1,918	1,999	4,032	6,907
Investment in associate, joint venture and subsidiary companies	1,407	2,514	2,636	3,057	3,350	5,829	6,064	5,845	3,132	4,451
Income tax refund due	0	0	0	0	0	0	2	0	0	140
Investment property	187	12	12	12	7	7	7	7	0	0
Property, plant, equipment and intangibles	378	516	475	481	472	493	474	426	539	462
Total assets	28,171	33,926	39,262	47,613	60,941	63,359	58,485	56,416	59,926	71,707
Liabilities										
Equity	6,382	7,383	8,207	9,091	9,494	13,761	14,491	15,723	20,219	21,754
Medium/long term borrowing and debentures	16,775	19,570	24,120	30,384	34,357	38,323	33,679	33,415	27,329	33,920
Customer deposits	2,868	4,944	3,780	4,017	13,573	5,112	5,308	5,124	3,688	11,710
Short-term borrowing	1,143	577	1,387	2,453	1,540	4,157	3,030	115	4,932	2,187
	20,786	25,091	29,287	36,854	49,470	47,592	42,018	38,654	35,949	47,817
Other liabilities	1,003	1,451	1,768	1,668	1,977	2,006	1,976	2,039	3,758	2,136
Total equity and liabilities	28,171	33,926	39,262	47,613	60,941	63,359	58,485	56,416	59,926	71,707
Return on equity, %	14.1	16.1	14.2	13.6	12.1	11.3	9.6	11.3	39.7	11.0
Return on total assets, %	3.1	3.6	3.0	2.7	2.1	2.1	2.2	3.0	12.3	3.5
Earnings per share, LKR*	3.54	4.57	4.57	4.87	4.63	5.09	5.17	6.48	26.95	8.74
Market value per share, LKR*	25.09	52.26	55.34	52.75	69.78	62.45	33.78	90.23	171.8	112.6
Price earnings ratio, times*	7.1	11.4	12.1	10.8	15.1	12.3	6.5	13.9	6.4	12.9
Earnings yield, %*	14.1	8.8	8.3	9.3	6.6	8.1	15.4	7.2	15.6	7.8
Dividend per share , LKR	5.5	5.5	5.5	6.00	5.00	5.00	5.00	6.00	10.00	4.00
Dividend cover, times	3.7	3.5	3.5	3.4	2.5	2.0	2.1	2.2	2.7	2.91
Gross dividend, LKR million	233.0	314.3	315.8	345.5	454.4	653.7	653.7	794.3	2,649	795
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998), %	–	28	38	48	79	31	145	214	295	52
No. of employees	305	305	340	374	422	419	419	427	451	466

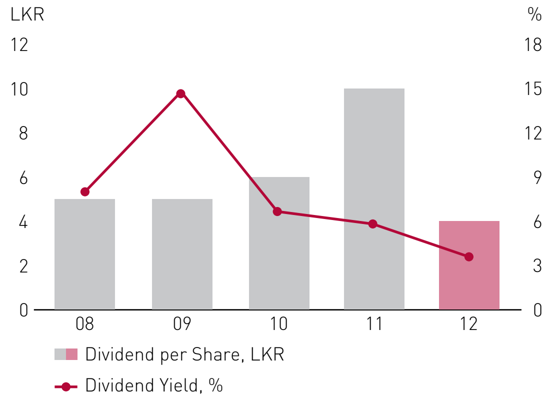
** adjusted for bonus issue*

Performance of the Share

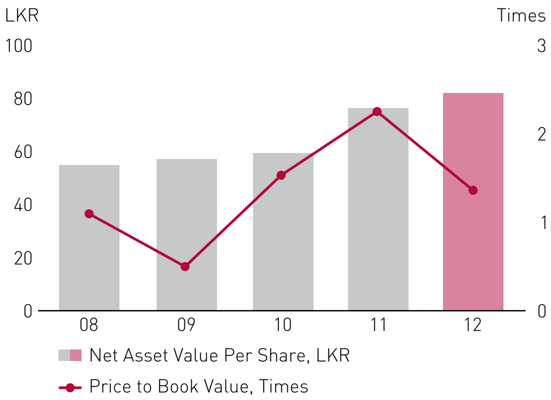
EARNINGS PER SHARE AND PRICE EARNINGS RATIO



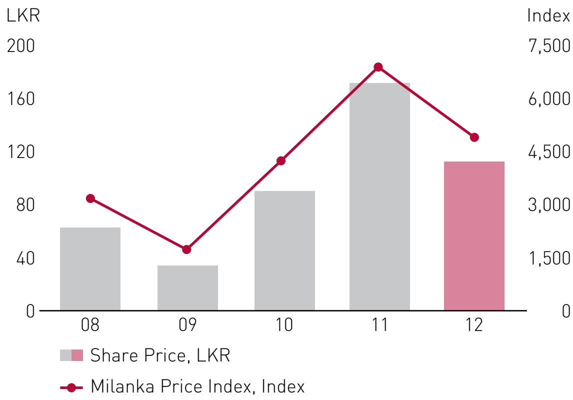
DIVIDEND PER SHARE AND DIVIDEND YIELD



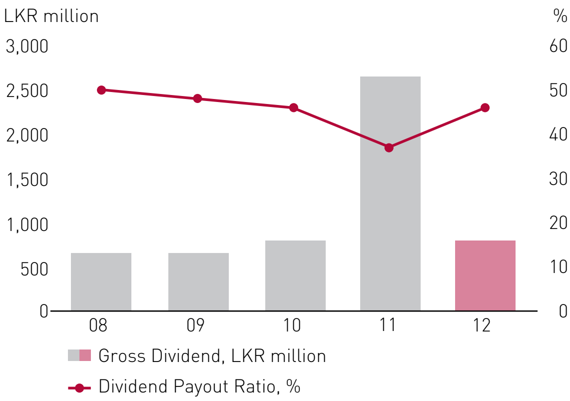
NET ASSET VALUE PER SHARE AND PRICE TO BOOK VALUE



SHARE PRICE AND MOVEMENT RELATIVE TO MILANKA PRICE INDEX



GROSS DIVIDEND AND DIVIDEND PAYOUT RATIO

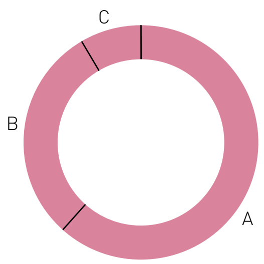


Share Information

DFCC Bank Share Price for period 1 April 2011 to 31 March 2012

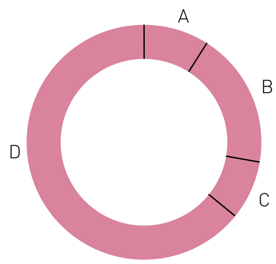
Year ended 31 March	2012	2011
Earnings		
Earnings per share, LKR	8.74	26.95
Price earning ratio, times	12.9	6.4
Dividends		
Dividends for the year, paid and proposed, LKR million	795	2,649
Dividend per share, LKR	4.00	10.00
Book Value - Bank		
Net assets per share on 31 March, LKR	82.06	76.33
Price Indices		
CSE All Share Price Index	5,420.20	7,226.12
Milanka Price Index	4,891.58	6,874.74
Share Prices		
Lowest, LKR	98.00 (15.02.12)	169.10 (31.03.11)
Highest, LKR	188.80 (10.05.11)	550.00 (30.09.10)
Last transaction, LKR	112.60 (30.03.12)	171.80 (31.03.11)
Market Capitalisation		
Value, LKR m	29,850	45,507
% of total trade	1.48	1.88
Rank	14	13
Value of Shares Traded		
Value, LKR m	2,256	7,629
% of total trade	0.51	1.14
Rank	49	17
Days Traded		
Number of days traded	240	239
Total number of market days	240	239
% of market days traded	100.00	100.00
Frequency of Shares Traded		
Number of transactions	7,346	19,700
% of total frequency	0.20	0.48
Rank	122	68

SHAREHOLDERS



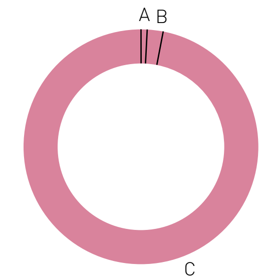
A - 1-1,000 Shares (62%)
B - 1,000-5,000 Shares (30%)
C - Greater than 5,000 Shares (8%)

OWNERSHIP



A - Foreign Individuals (9%)
B - Foreign Institutions (19%)
C - Sri Lankan Individuals (8%)
D - Sri Lankan Institutions (64%)

SHAREHOLDING



A - 1-1,000 Shares (1%)
B - 1,000-5,000 Shares (2%)
C - Greater than 5,000 Shares (97%)

Size-wise Distribution of Shareholding

Number of Shares		As at 31 March 2012 No. of Shareholders	As at 31 March 2012 Total Holding	As at 31 March 2012 %	As at 31 March 2011 No. of Shareholders	As at 31 March 2011 Total Holding	As at 31 March 2011 %
01 -	1,000	6,066	2,158,534	0.81	5,938	2,175,145	0.82
1,001 -	5,000	2,930	6,103,395	2.30	3,024	6,260,189	2.36
5,001 -	10,000	380	2,742,367	1.03	369	2,650,798	1.00
10,001 -	50,000	323	6,723,728	2.54	345	7,486,004	2.83
50,001 -	100,000	51	3,485,588	1.32	54	3,636,054	1.37
100,001 -	500,000	43	9,108,834	3.44	45	9,631,498	3.64
500,001 -	1,000,000	9	5,885,300	2.22	10	6,532,196	2.47
Greater than 1,000,000		25	228,889,942	86.34	25	226,511,884	85.51
	Total	9,827	265,097,688	100.00	9,810	264,883,768	100.00

Ownership

Shareholding %	As at 31 March 2012 Foreign	As at 31 March 2012 Sri Lankan	As at 31 March 2012 Total	As at 31 March 2011 Foreign	As at 31 March 2011 Sri Lankan	As at 31 March 2011 Total
Individuals	8.76	7.94	16.70	8.83	8.08	16.91
Institutions	19.14	64.16	83.30	19.32	63.77	83.09
Total	27.90	72.10	100.00	28.15	71.85	100.00

As per the Rule No.8.7(h) of the Colombo Stock Exchange, percentage of public holding as at 31 March 2012 was 63.38% (60.38% as at 31.03.2010)

Twenty Major Shareholders

Twenty Major Shareholders of the Bank as at 31 March 2012

Name of Shareholder/Company Name	2012 No. of Shares	2012 %	2012 Cumulative %	2011 No. of Shares	2011 %
Bank of Ceylon - No. 2 A/C	38,039,994	14.35	14.35	38,039,994	14.36
Hatton National Bank PLC A/c No. 1	32,109,140	12.11	26.46	32,109,140	12.12
Sri Lanka Insurance Corporation Limited - Life Fund	26,509,832	10.00	36.46	34,423,532	13.00
Employees' Provident Fund	23,904,758	9.02	45.48	12,632,200	4.77
Mr M A Yaseen	22,886,700	8.64	54.12	22,841,700	8.62
Distilleries Company of Sri Lanka PLC	17,042,856	6.43	60.55	17,042,856	6.44
Seafeld International Limited	15,286,794	5.77	66.32	15,286,794	5.77
HSBC Intl. Nominees Limited - BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	12,216,146	4.61	70.93	12,216,146	4.61
Renuka City Hotels PLC	6,926,870	2.61	73.54	6,926,870	2.61
HSBC Intl. Nominees Limited - BPSS LDN-Aberdeen Asia Pacific Fund	6,750,000	2.55	76.09	6,750,000	2.55
HSBC Intl. Nominees Limited - BP2S London-Edinburgh Dragon Trust PLC	4,742,200	1.79	77.88	4,728,800	1.78
Renuka Hotels Limited	4,073,360	1.54	79.42	4,048,360	1.53
HSBC Intl Nominees Limited - SSBT- Aberdeen Institutional Commingled Funds, LLC	2,582,500	0.97	80.39	2,542,500	0.96
Cargo Boat Development Company PLC	2,098,200	0.79	81.18	2,048,200	0.77
Employees Trust Fund Board	2,016,266	0.76	81.94	2,001,666	0.76
HSBC Intl. Nominees Limited - BP2S-London-Aberdeen Asia Smaller Companies Investment Trust	1,800,000	0.68	82.62	1,800,000	0.68
HSBC Intl. Nominees Limited - SSBTL-Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.68	83.30	1,800,000	0.68
Mellon Bank N.A. - Florida Retirement System	1,500,000	0.57	83.87	1,500,000	0.57
National Savings Bank	1,342,024	0.51	84.38	1,342,024	0.51
Renuka Consultants and Services Limited	1,097,992	0.41	84.79	1,047,992	0.40
Total of the 20 Major Shareholders	224,725,632	84.79			
Other Shareholders	40,372,056	15.21	100		
Total	265,097,688				

DFCC Bank's Offices

AMPARA
3, D S Senanayake Street
Ampara
Telephone: 063-2224242/063-2223442
Fax: 063-2224243

ANURADHAPURA
249, Maithripala Senanayake Mawatha
Anuradhapura
Telephone: 025-2223417/025-2236463
Fax: 025-2223418

BADULLA
14, Udayaraja Mawatha
Badulla
Telephone: 055-2230160-2
Fax: 055-2230163

BANDARAWELA
126, Main Street
Bandarawela
Telephone: 057-2224849-52
Fax: 057-2224851

BATTICALOA
105, Trinco Road
Batticaloa
Telephone: 065-2228111/333/222
Fax: 065-2228282

GALLE
93, Wackwella Road
Galle
Telephone: 091-2227372-6
Fax: 091-2227374

GAMPAHA
123, Bauddhaloka Mawatha
Gampaha
Telephone: 033-2226104
Fax: 033-2227941

JAFFNA
141, KKS Road,
Jaffna
Telephone: 021-2221444
Fax: 021-2221555

KADURUWELA
626, Main Street
Kaduruwela
Telephone: 027-2223333/5859
Fax: 027-2225858

KALUTARA
282, Main Street
Kalutara South
Telephone: 034-2236363
Fax: 034-2236364

KANDY
5, Deva Veediya
Kandy
Telephone: 081-2234411
Fax: 081-2228460

KURUNEGALA
25, Rajapihilla Road
Kurunegala
Telephone: 037-2224142
Fax: 037-2229195

MALABE
9, Athurugiriya Road
Malabe
Telephone: 011-2442714/3
Fax: 011-5552868

MATARA
5, Hakmana Road
Matara
Telephone: 041-2225500-1
Fax: 041-2222585

NAWALA
540, Nawala Road
Rajagiriya
Telephone: 011-2880880
Fax: 011-2880889

RATNAPURA
46, Bandaranayake Mawatha
Ratnapura
Telephone: 045-2223667-9
Fax: 045-2223670

TRINCOMALEE
246, Ehamparam Road,
Trincomalee
Telephone: 026-2225555/5522
Fax: 026-2225566

VAVUNIYA
7B, Horowpathana Road,
Vavuniya
Telephone: 024-2226622/00
Fax: 024-2226660

A Pioneer's Journey

1955 **OCTOBER**
DFCC Founded by Act No. 35 of 1955

1956 **MAY**
Commenced Operations with LKR 8 million Share Capital

1958 **FEBRUARY**
Act Amended No. 8 of 1958

1967 **MARCH**
Act Amended No. 1 of 1967

1974 **APRIL**
Act Amended No. 12 of 1974

1977 **JANUARY**
Paid Up Share Capital LKR 16 million
MARCH
ADFIAP formed DFCC Founder Member

1979 **NOVEMBER**
Paid Up Share Capital LKR 24 million

1982 **DECEMBER**
Act Amended No. 42 of 1982

1983 **JANUARY**
Bonus Issue 1 to 4 Paid Up Share Capital LKR 30 million
FEBRUARY
Paid Up Share Capital LKR 60 million
MARCH
Paid Up Share Capital LKR 100 million

1984 **SEPTEMBER**
Finance Leasing Introduced

1985 **JANUARY**
Medium-Term Working Capital Financing
SEPTEMBER
Insurance Agency Business

1986 **MAY**
Head Office Building Opened

1988 **AUGUST**
1st Branch opened in Kandy

1989 **NOVEMBER**
Short-Term Working Capital Financing

1991 **AUGUST**
Bonus Issue 1 to 3 Paid Up Share Capital LKR 133 million
OCTOBER
Paid Up Share Capital LKR 170 million Public Issue at 5 Times Par increased number of Shareholders from 826 to 12,320
DECEMBER
NAMAL Founded

1992 **FEBRUARY**
LVL Founded
MARCH
Achieved highest PAT among all Listed Companies
MARCH
LINDEL Founded

1993 **APRIL**
ADFIAP Annual Sessions hosted
JUNE
Act Amended No. 25 of 1993 Share Split
AUGUST
Reached No. 1 Position in Market Capitalisation
OCTOBER
Rights Issue 1 for 3 at 18 Times Par Paid Up Share Capital LKR 226.7 million

1995 **JUNE**
Bonus Issue of 1 for 3 increased Paid Up Share Capital to LKR 302.2 million
JULY
Asia Money Ranks DFCC as the Best Managed Company in Sri Lanka

1996 **APRIL**
DMG and DFCC Sign Telecom Mandate with GOSL
APRIL
Fixed Deposit Mobilisation
APRIL
Commissioning Sri Lanka's First BOO Power Project, Sponsored by DFCC

1997 **JULY**
Appointed Administrative Unit of World Bank Funded Energy Services Delivery Project
AUGUST
Act Amended No. 23 of 1997
SEPTEMBER
Acquired 29.8% Stake in Commercial Bank of Ceylon PLC

1998 **FEBRUARY**
5 New Products Launched Under Small and Medium Enterprises Development Programme
APRIL
Bonus Issue of 1 for 6 Increased Paid UP Share Capital to LKR 352.6 million
DECEMBER
FRN of US$ 65 million Guranteed by ADB
DECEMBER
Lead Arranged the Largest Sri Lanka Rupee Syndicated Loan for Sri Lanka Telecom

1999 **OCTOBER**
Asia Money Ranks DFCC as the Best Managed Company of the Decade

2000 **MARCH**
Structured and Managed Sri Lanka's First Rated Debenture Issue for Sri Lanka Telecom

2001 **JANUARY**
DFCC Acquired ABN AMRO Securities (Pvt) Limited Renamed DFCC Stock Brokers (Pvt) Limited
APRIL
Bonus Issue of 1 for 5 Increased Paid Up Share Capital to LKR 423.1 million

2002 **NOVEMBER**
Managed the IPO of Sri Lanka Telecom; the Largest Offering on CSE
DECEMBER
Fitch Rating Lanka Limited assigned "SL AA" National Rating for Implied Long-Term Unsecured Senior Debt of DFCC Bank

2003 **AUGUST**
Acquired 94.16% of MERC Bank
OCTOBER
MERC bank Renamed DFCC Vardhana Bank

2004 **FEBRUARY**
Bonus Issue of 1 for 3 Increased Paid Up Share Capital to LKR 565.9 million
SEPTEMBER
AA Rating Affirmed
SEPTEMBER
DFCC Consulting Founded

2006 **MAY**
ADFIAP Annual Sessions hosted
JULY
Bonus Issue of 1 for 2 Increased Paid Up Share Capital to LKR 863.9 million
SEPTEMBER
Issue of Debentures to the Value of LKR 2 billion Enhanced Regulatory Capital

2007 **JUNE**
Rights Issue 1 for 4 Bonus Issue of 1 for 5 Increased Share Capital to LKR 1,302 million
SEPTEMBER
AA(lka) Fitch Rating affirmed

2008 **JULY**
Acuity Partners (Pvt) Limited commenced commercial operations
OCTOBER
AA(lka) Fitch Rating affirmed

2009 **SEPTEMBER**
AA(lka) Fitch Rating affirmed

2010 **JANUARY**
Divested LVL Shares to Acuity Partners (Pvt) Limited
JUNE
Commercial Bank PLC ceased to be an Associate Company
SEPTEMBER
AA(lka) Fitch Rating affirmed
NOVEMBER
Bonus Issue 1 for 1 increased Paid Up Share Capital to LKR 2,648 million

2011 **JUNE**
Shareholding in DVB increased to 99.1%
SEPTEMBER
AA(lka) Fitch Rating affirmed

A Pioneer's Journey

Notes

CORPORATE INFORMATION

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.

The Annual General Meeting
will be held at the Cinnamon Grand, Colombo 3, on 29 June 2012. Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

For any Clarifications on this Report please write to:
The Board Secretary
DFCC Bank
No. 73/5, Galle Road, Colombo 03, Sri Lanka.
or E-mail to: info@dfccbank.com

Minimise waste by informing the DFCC Bank Board Secretary to update the mailing list if you are receiving more than one copy of the Annual Report.

Board Secretary
Ms A Withana

Lawyers
F J & G De Saram
Attorneys-at-Law

Auditors
KPMG
Chartered Accountants

Bankers
DFCC Vardhana Bank PLC

VAT Registration No.
409000088-7000

Head Office
DFCC Building,
P O Box 1397, 73/5, Galle Road,
Colombo 03, Sri Lanka.
Telephone: +94-11-2442442
Fax: +94-11-2440376
E-mail: info@dfccbank.com
Website: www.dfcc.lk

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