The important thing is not where you stand, but in which direction you are moving... when you have constantly growing goals, gaining momentum and sustaining acceleration becomes essential...

Vision

To be Sri Lanka's premier financial services group.

Mission

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

Values

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

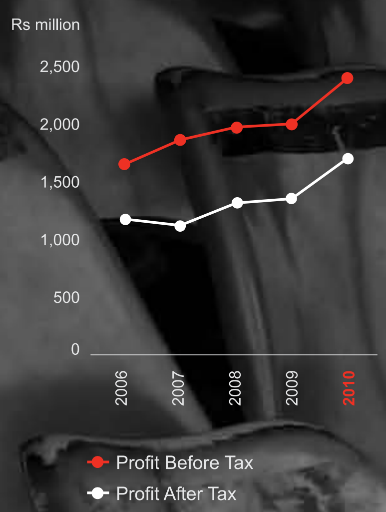
Contents

Performance Highlights

Despite many challenges faced by the Bank… Profit before tax increased by 20%, profit after tax increased by 26%, earnings per share increased by 25% and proposed dividend has increased by 20%. Furthermore, operating expenditure declined by 8%.

For the year ended 31 March	2010	2009	% Change
Income - Rs M	8,843	9,888	10
Profit before tax	2,403	2,006	20
Profit after tax	1,713	1,360	26
Earnings per share - Basic - Rs	12.97	10.41	
- Diluted - Rs	12.97	–	
Gross dividend (Proposed) - Rs M	794	654	
Dividend payout %	46	48	
Shareholders' funds (capital & reserves) - Rs M	15,723	14,491	8
Medium/long-term borrowing, deposits & debentures - Rs M	38,539	38,988	1
Total assets - Rs M	56,416	58,485	4
Return on average total assets - %	3.4	2.2	
Return on average shareholders' funds	11.3	9.6	

Profit



Total Assets & Return

Shareholders' Funds & Return

Management Information

Chairman's Message

It is with great pleasure that I present the Annual Report of DFCC Bank for the financial year ended 31 March 2010.

There is no doubt that it was a defining period for Sri Lanka. The shackles of conflict were finally undone and the long awaited 'light at the end of the tunnel' was sighted. The country now has the epochal prospect of attaining its full potential. As expectations are high, the new elected Government under the leadership of His Excellency the President Mahinda Rajapakse will no doubt grasp this opportunity and deliver on the mandate awarded by the people.

I would like to look back briefly on the past year. Sri Lanka's economy had to bear the full brunt of the global recession and therefore weakened during the first half of 2009. However, positive internal and external developments towards the latter part of the year enabled the economy to recover strongly from the lacklustre start. While the catalyst was the ending of the long running terrorist violence, the country's economic situation was also aided by the continuing recovery in world markets. The containment of inflation and the decline in interest rates were also important factors that helped to regain business and investor confidence.

Going forward, the prospects for Sri Lanka arising from the post conflict situation and the eventual recovery of world markets are good. Even so, the country has to embark on the long and arduous task of nation building with vigour where sound strategic actions have to prevail in order for the peace dividend to materialise. While the onward path is full of promise, there are potential hazards that need to be cleared right at the very outset. There are three immediate and perennial issues; politics, governance and the fiscal deficit.

Firstly, the legacy of the defeated terrorist movement will not be dispelled overnight. Therefore, while the military 'coup de grace' has been administered, focus must continue on the rehabilitation and resettlement process, and the economic development of all the affected regions. In this context, it is encouraging that the development thrust that is gathering pace particularly in the South is also gaining momentum in the North and East and achieving tangible results on the ground.

The second issue is the question of governance. In this regard, a top down approach based on meritocracy is the best strategy. Such action requires determination and a strong and politically unfettered will. It is my belief that this combination of factors now exists as evidenced by the early efforts at streamlining a top heavy administration. Such efforts however, must build up momentum.

The third issue is the recurring fiscal deficit and large losses of several state-owned enterprises. The resultant build up of public sector debt is casting a shadow over the future development of the country. This needs to be aggressively addressed sooner rather than later with the same intensity and attention that enabled the defeat of terrorism. The environment is now conducive for such action and what is required is the political will to capitalise on the 'feel good' factor and push through the more sensitive measures such as factor liberalisation and revenue reform.

Also, while the Government will spearhead the development of infrastructure and other areas, there is the need to increase the role of the private sector in this activity particularly through public-private partnerships and other transparent structures. In the context of investing in a post conflict

"Going forward, the prospects for Sri Lanka arising from the post conflict situation and the eventual recovery of world markets are good. Even so, the country has to embark on the long and arduous task of nation building with vigour where sound strategic actions have to prevail in order for the peace dividend to materialise."

Sri Lanka, I do not believe that the financing of such projects would be a constraint provided that transparency prevails. Most long-term financial institutions have a pragmatic attitude particularly when it comes to project finance. However, ethical investing and best practices, especially after the global banking crisis, are overriding considerations meaning that any opaqueness will stall a transaction.

I would like to move on to the banking sector itself. Globally, the image of the industry has suffered. Depositors and investors lost much due to endemic moral hazard while taxpayers had to foot huge bills for the bailouts of those institutions deemed 'too Big to Fail'. In the United States alone, 140 banks went under in 2009 and a further 41 failed during January to March 2010. However, following concerted policy actions that helped stabilise the system, there was some recovery beginning in the latter part of 2009. Even so, confidence in the industry needs to be quickly rebuilt particularly through the implementation of reform and regulatory tightening on a global scale. In contrast, the domestic financial system remained stable due in no small part to proactive regulatory action taken by the Central Bank of Sri Lanka. At the same time, the year was challenging as a result of the slowdown in the local economy towards the end of 2008, which carried through to the first part of 2009. This slowdown took its toll on portfolio growth and quality. The industry-wide credit portfolio contracted by almost 5% as against the growth exhibited in previous years. As regards quality, total non-performing advances went up by 21% contributing to an industry-wide non-performing loan ratio of 8% as at March 2010. Although the domestic banking industry continued to be profitable, the performance of the core business of intermediation was weak. However, there are welcome signs of revival that have emerged in the last few months.

Looking ahead, there is widespread acceptance that the financial system has to undergo a fundamental structural transformation. The domestic banking space is too fragmented and this will require the players to attain a critical mass, particularly given the credit demand prospects and the emerging regulatory scenario. The need for corporate consolidation to achieve scale economy and operational homogeny and thereby cost rationalisation and profitability enhancement has thus been voiced many a time. The need for an equitable tax rate to incentivise the raising of equity capital has also been articulated repeatedly. In all this, there is a unity of opinion and I therefore hope that the policy makers and the authorities concerned will give due heed to the industry situation and address the issues raised.

I now turn to the performance of DFCC Bank. Weak credit demand and declining interest rates left their mark on the lending portfolio and interest income at both the Bank and Group level. In the environment that prevailed the main business line of DFCC Bank, which involves providing debt capital for projects suffered disproportionately when compared with banks that funded working capital. The contraction in the top line meant that efforts had to be focussed strongly on managing delinquent assets and all aspects of cost in order to achieve a respectable growth in the bottom line. Bearing in mind its responsibility as a development finance institution, the Bank took a conscious decision to provide liquidity either by restructuring or providing new funding to many viable businesses in sectors that experienced stress. These endeavours enabled the Bank and the Group to record growths of 26% and 30% respectively in profits after tax for the financial year ended 31 March 2010. I am also pleased to inform that, at the Group level, the investment in the distribution network of DFCC Vardhana Bank Limited (DVB) began to bear fruit as expected. DVB has now expanded its distribution network to all the provinces. Despite the inherent difficulties that a small commercial bank has to face in difficult economic conditions, DVB more than doubled its contribution to Group profit. It is clear that the Bank requires to expand its franchise in the commercial banking space to enable it to effectively deliver on its development banking mandate. Accordingly, we are in the process of developing a model under which both these businesses can continue. The future of the Bank's shareholding in Commercial Bank of Ceylon PLC, presently an associate company is being re-examined as part of this exercise. The Group is committed to play its development role in the North and East and has opened the first three branches in the region. We will expand our activities in these provinces in the coming years.

Although experiencing a challenging year, Commercial Bank of Ceylon PLC maintained its substantial contribution to the Group. Significant contributions to Group profit also came from Lanka Industrial Estates Limited and the investment banking joint venture, Acuity Partners (Pvt) Limited. The Bank meanwhile divested its controlling stake in Lanka Ventures PLC at a profit to Acuity Partners (Pvt) Limited in early 2010. The Bank has committed new capital of up to Rs500 million to Acuity Partners to finance this acquisition and for business expansion of the Acuity Group. This has brought all the non core financial businesses of the Bank under one umbrella and will enable Acuity Partners to position itself as Sri Lanka's premier universal investment bank. The information technology subsidiary Synapsys Limited has built up capacity to move to the next level of implementing business solutions overseas. To further its growth, the Bank plans to infuse Rs50 million in new capital to this business in stages.

From a business perspective, there is cause for optimism. The upturn was manifest in the last quarter of the financial year and the newly found confidence was marked by the unprecedented surge in equity prices on the Colombo Stock Exchange. At the same time, DFCC's project finance pipeline has strengthened considerably across the board in sectors such as manufacturing, food & beverage, tourism and telecommunication. This is encouraging as it indicates the breadth of the recovery. Also, the build up of investment momentum augurs well for DFCC's core business of capital asset financing and DVB's commercial banking business. In this scenario, the Group will adopt proactive strategies for portfolio growth focussing on those sectors with potential as well as resilience to internal and external shocks.

My fellow Directors were unstinting in their support and cooperation. I thank them and will continue to rely on their good counsel. Mrs. Sujatha Cooray resigned from the Board in December 2009. I thank her for the valued contribution and support. Mr. Ajith Jayaratne, Senior Director and Chairman of the Board Audit Sub-committee, retired from the Board on reaching the age of 70. I thank him for his valued guidance and backing during his tenure on the Board and wish him well. I welcome Dr. Mrs Damitha de Zoysa who was appointed Government Director in December 2009. I also welcome Messrs Asoka Abeyewardene, Tissa Bandaranayake (Alternate Director to Mr Turan Caglayan) and Gomin Dayasri who were appointed in August 2009, October 2009 and March 2010 respectively.

DFCC is founded on its employees. Mr. Nihal Fonseka, the Chief Executive, continues to bring out the best in the DFCC team and together, their performance has again delivered value. Their work ethic is exemplary and I remain confident of their continued commitment in powering DFCC forward. I thank all, and will bank on their future efforts.

At DFCC, we regard all our clients as valued partners and treat each relationship as special. Their patronage has enabled our success in no small way and I thank them all for their choice of DFCC as financier. As we continue onwards, we will rely on a partnership of mutual support and benefit.

Officials of the Ministry of Finance and the Central Bank of Sri Lanka have long been supportive of DFCC Bank's endeavours. I thank them for the help and support extended in the past and will continue to rely on their facilitation in the future.

Dear shareholders, I, together with my fellow Directors, value the trust you have placed in our abilities and we thank you for giving us the privilege of directing the course of DFCC Bank. In recognition of your support, and the 25% increase in earnings per share to Rs12.97, the Board has decided to recommend that the dividend be increased to Rs6 per share from the Rs5 per share paid last year. Going forward, while there is optimism, there will also be challenges to be faced. Whatever these challenges, be assured it is your interest in DFCC Bank that will receive our utmost attention.

JMS Brito

J M S Brito
Chairman

26 May 2010

Management Information

Chief Executive's Report

The financial year ended 31 March 2010 proved to be an year of contrasting challenges. At this time in 2009 the global economy was still fragile and Sri Lanka was still facing the challenge of rebuilding its depleted foreign currency reserves in a sustainable manner. On the positive side, there was great hope because the Government had for the first time in several decades, taken control of the entire land mass, sea and airspace of Sri Lanka after crushing terrorist violence that had caused more than 700,000 deaths and claimed several times that number as victims in various ways. This unprecedented opportunity was expected to serve as a springboard for catapulting Sri Lanka firmly into the ranks of a middle income country.

Much has happened in the last 12 months, both globally and in Sri Lanka. In April, the IMF predicted global economic growth for 2010 to reach 4.2% on a purchasing power basis, up from the forecast of 3.2% six months previously, driven mainly by large emerging economies such as China, India and Brazil. Despite the looming threat posed by the debts of the so called 'PIIGS' countries and the recent battering of the Euro, there is some exuberance built around the world economy compared with the uncertainty that prevailed a year earlier. In Sri Lanka, the recently concluded elections resulted in the country having a strong Government for the first time in many years. Economic activity in the country including the North and East showed slow but sure signs of improvement. However, the fiscal deficit remained untamed and in fact widened. These phenomena posed a different set of challenges as we ended the last financial year.

Profit increased but core business affected...

In an year of contrasting challenges, the performance of the Bank was mixed. Profit at the Bank and Group level showed healthy increases to Rs1,713 million and Rs2,684 million up by 26% and 30% respectively from the previous year. However, the core advances portfolio comprising loans and finance leases suffered a contraction for the second consecutive year at a rate somewhat above the banking sector average. This was understandable since during an economic downturn and a high interest rate environment, the normal contraction of the amortising term loan portfolio is compounded by a lower demand for new medium and long term project loans whereas the revolving working capital finance which forms a significant proportion of the assets of the commercial banking sector, may not be affected as much.

The portfolio quality too continued to be adversely affected, with the non-performing asset ratio increasing due to the contraction in advances, but on the positive side the quantum of non-performing assets, which peaked in May 2009, reduced every month thereafter and showed a slight reduction year on year. The Bank focused on containing the non-performing portfolio through proactive management of customer advances rather than reducing the ratio through seeking to aggressively grow the credit portfolio in the relatively high risk environment that prevailed for much of the year. However, the Bank provided significant liquidity support to many stressed borrowers, especially in the small and medium enterprise sector, by restructuring and rescheduling debts under both Government sponsored schemes and using the Bank's own resources. Although gross provisions for delinquent debts naturally increased in this scenario, recovery of previously provided advances also showed a fair improvement.

The decline in interest income from loans and leases was partly offset by the interest earned on investments in Government Securities held to maturity. Net interest income showed a growth due to the reduction in funding costs. Dividends from group companies

"One must not underestimate the role that has to be played by the financial services sector led by the banking sector, which is the predominant provider of funding to the private sector. Achieving the growth objective of the Government will require bank lending to more than double to Four Trillion Rupees in the next five years."

increased, as did income from the sale of shares, with a significant component of this income being derived from the divestment of subsidiary Lanka Ventures PLC (LVL) to the investment banking joint venture, Acuity Partners (Pvt) Limited.

Special attention was paid to managing cost, including employment related expenses and the success of our efforts is reflected in the low cost/income ratio of 26% for the Bank.

DFCC Vardhana Bank makes further progress...

Despite the challenging environment, the commercial banking unit, DFCC Vardhana Bank Ltd (DVB) recorded a better performance. The investment in the distribution network whereby DVB now has 44 branches and 30 outlets in post offices contributed to DVB growing its customer deposits by 16 %. DVB also benefitted from the declining cost of funds and the interest earned from high yielding government securities held to maturity. Profit before and after tax for the year grew to Rs598 million and Rs268 million recording increases of 77% and 141% respectively for the year. The slowdown in economic activity resulted in a deterioration in the asset quality of DVB as well and steps are being taken to address this issue.

Entering the North and East...

The DFCC Group made its entry to the North and East by setting up branches in Batticaloa, Ampara and Jaffna. Opening of two further full branches and several post office units of DVB are planned for this year which will enable the DFCC Group to play its development role in the post war reconstruction of these regions.

Group companies steady...

LVL which recorded a loss in the previous year due to a prior year tax charge, returned to profitability. It ceased to be a subsidiary on 18 January 2010. Lanka Industrial Estates Limited (LINDEL) recorded a steady year. Acuity Partners (Pvt) Limited commenced full scale operations from one location and both the government securities trading and stock broking businesses made positive contributions while commencing work on several corporate finance mandates. The information and communication technology subsidiary Synapsys Limited which undertakes the ICT operations of the Bank and DVB made a small loss but continued to build capacity to produce products for the financial services sector and implement solutions for non-group companies. It recently launched its mobile banking platform MBanx which is now deployed in DVB. The Bank is committed to investing new capital in Synapsys to enable it to expand its reach overseas. National Asset Management Limited (NAMAL) launched the first listed close ended fund in the country's fund management history. Commercial Bank of Ceylon PLC (CBC) had a fair year and made a significant contribution to the Group profit. The market value of this investment has increased significantly in recent times although the synergy benefits envisaged at the time of investment did not materialise.

The new challenges...

The new challenges that I referred to earlier relate to the repositioning of Sri Lanka to achieve the Government's objective set out in its policy programme Mahinda Chintana - *Idiri Dakma* (Vision for the future) of doubling the per capita GDP to above USD 4,000 in the next 6 years by leveraging the peace dividend and the rebounding global economy. Continuing the policies of the past may not get us there and a paradigm shift may be called for. The Government may therefore wish to re-examine and change where necessary, any policy that does not affect national security (in an era of peace, not war), sovereignty or personal freedoms, in its attempt to reach the goal. Bold new policies, but more importantly, implementation will be the key to success. The Government and the private sector now have a golden opportunity to propel Sri Lanka to its full potential.

A good start has been made with the cabinet of ministers being pruned down by almost half which, should help to streamline the administrative machinery. A recent public pronouncement that it is Government policy to allow overseas universities to operate campuses in Sri Lanka is a welcome development to help build the talent pool that the country needs to support the growth objective.

Make doing business easy...

Targeted foreign direct investment will need to be attracted at an unprecedented level to complement domestic investment. In doing so, it is time for us to move away from the three traditional carrots, viz, cheap labour, tax holidays, and protection from competition that have been offered to investors both local and foreign in the past, although it is recognised that the last two may still need to be used sparingly and in a time bound manner for major projects. Instead, the Government can focus on improving the ease of doing business in the country in general. In the latest study in this regard conducted by the World Bank Group, Sri Lanka was ranked 105 out of 183 countries surveyed. While the country ranked well when compared with SAARC countries, we badly lagged many ASEAN countries. Sri Lanka did particularly poorly in the areas of construction permits, enforcing contracts, employing workers, paying taxes and speedy reforms in these four areas could help to push Sri Lanka into the top 50 within a short time although reaching the top 25 should be the medium term goal. The private sector will have to play its part and become more innovative and efficient but the Government will have to provide the enabling environment for this to happen. Although this issue has already attracted the attention of the Government, best results may be achieved by setting up a high level task force along the lines of the Presidential Commission on Taxation involving both the public and private sectors, to speedily come up with specific recommendations and action plans.

Banks have to be ready to play a big role...

One must not underestimate the role that has to be played by the financial services sector led by the banking sector which is the predominant provider of funding to the private sector. Achieving the growth objective of the Government will require bank lending to more than double to Four Trillion Rupees in the next five years. Only part of the required resources will be available from domestic sources. The domestic banks will have to tap international capital markets for the balance requirements. The impending introduction of new accounting standards on fair value accounting and impairment measurement in 2011 may have an adverse impact on profitability of banks. All of these developments will dictate that banks be strongly capitalised and upgrade their risk management practices with special emphasis being paid to risk based pricing. The DFCC Group for its part has made significant progress in this regard by investing in building technical and human capacity in its Integrated Risk Management department and is using external expertise for implementing the new accounting standards in the financial year commencing 01 April 2011.

There is much global criticism of the performance of the banking sector with calls for greater regulation. In the case of Sri Lanka, apart from isolated cases of governance and control failure, private sector banks, that have recorded strong growth in the last decade, have discharged their fiduciary responsibility to depositors and other stakeholders quite well over the years without recourse to schemes funded by tax payers. While continuous improvement in regulation is important, policymakers should be mindful that regulation has both direct and indirect costs, sometimes arising from unintended consequences. Thus, striking the right balance between regulation and the need to permit the banking and financial service sector to support the growth strategy of the country will need to be carefully considered especially in the context that unlike global players, the domestic banking sector is not significantly exposed to complex derivatives and securitisation. If I may make a specific reference to the often referred to need for a deposit insurance scheme, it is hoped that any scheme that is introduced will not increase moral hazards by requiring soundly managed institutions to subsidise the weak.

Supportive Board of Directors, Employees, Central Bank and Government...

DFCC is fortunate to have a Board of Directors with diverse skills and experience who are able to constructively challenge management whilst being supportive and who spare no effort to meet their responsibilities to shareholders and other stakeholders. My management team and employees always gave of their best to produce the results and I thank them. The Bank also received encouragement and support from the Central Bank of Sri Lanka and the Government for which I am thankful.

The future...

The country is uniquely placed to leap forward and the DFCC Bank is very conscious of the role that it is mandated to play by supporting development to which we remain committed. However, the ground situation today is very much different to the situation that prevailed when the Bank was set up in the aftermath of World War II. Sustainability of the Bank requires it to be in a position to offer a wide range of services to its clients. In the coming year we will focus on the challenge of delivering on our development banking mandate while ensuring that our business model will ensure value addition to all our stakeholders.

Nihal Fonseka
Chief Executive
26 May 2010

Management Information

Profiles of Directors

Mr J M S Brito
Chairman

Joined the Board of DFCC Bank in March 2005.

Appointed Chairman in September 2005. Deputy Chairman and Managing Director of Aitken Spence & Company Limited. Chairman of DFCC Vardhana Bank Limited. Formerly Chairman of Sri Lankan Airlines, and Director of Sri Lanka Insurance Corporation. A former 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).

Mr Brito holds a Degree in Law and a MBA in Business Administration. He is a Fellow of the Institute of Chartered Accountants of England and Wales. He has gained management expertise serving companies such as Pricewaterhouse, London, British EverReady PLC, Minmetco Group and the World Bank.

Mr A S Abeyewardene
Director

Appointed to the Board of DFCC Bank in August 2009

Management and Financial Consultant. Was a Partner of KPMG Ford, Rhodes, Thornton & Company, Sri Lanka. Currently serves on the Boards of Ceylon Hospitals PLC, J L Morrison Son & Jones PLC, National Asset Management Limited. Formerly a Director of Sri Lanka Insurance Corporation Limited.

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.

Mr T K Bandaranayake
Alternate Director to T Caglayan

Joined the Board of DFCC Bank in October 2009.

Senior audit partner of Ernst & Young for 27 years prior to retirement in 2009. Served as an independent advisor to the Board Audit Committees of DFCC Bank and DFCC Vardhana Bank. Former Director of DFCC Vardhana Bank. Currently serving on the Board of Central Finance PLC.

Graduate of the University of Ceylon and a Fellow of the Institute of Chartered Accountants, Sri Lanka.

Mr T Caglayan
Director

Appointed to the Board of DFCC Bank in August 1999.

First Vice-President and Head of Asia Department of the German Investment and Development Company - DEG, a part of the KfW Banking Group.

Prior to his current position, in different capacities he took responsibility for various sectors and emerging markets focused on East/South-East Europe and Asia. The initial period of his career was at Deutsche Bank and Bayer AG, in Germany before joining DEG in 1992.

Mr G K Dayasri
Director

Appointed to the Board of DFCC Bank in March 2010.

A practicing senior Attorney-at-Law and 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.

Mr A N Fonseka
Chief Executive Officer
Ex-Officio Director

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

Mr. Fonseka is a career banker. He is the Chairman of the Colombo Stock Exchange and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). A member of the Governing Board of the National Institute of Business Management (NIBM) and of the Advisory Committee on Finance and Banking of the Ceylon Chamber of Commerce. He is also a member of the National Payments Council, Inter-Regulatory Institutions Council and the Presidential Commission on Taxation.

Mr. Fonseka is a Graduate of the University of Ceylon, Colombo, and a Fellow of the Chartered Institute of Bankers, UK.

Deshabandu A M de S Jayaratne

Director

Joined the Board of DFCC Bank in September 2005. Designated Senior Director in terms of Direction No.12 of 2007 of the Central Bank.

A former Chairman of Forbes and Walker Limited, the Colombo Stock Exchange, Apollo Hospitals, Colombo, Ceylon Chamber of Commerce and the Finance Commission. He is a Director of several public listed companies. Also served as Sri Lanka's High Commissioner in Singapore.

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

Mr Jayaratne retired as a Director of DFCC Bank on 30 April 2010 having reached the age of 70.

Mr S N P Palihena

Director

Joined the Board of DFCC Bank in October 2002.

A former General Manager of Bank of Ceylon. He has had a distinguished banking career spanning almost 40 years at the Bank of Ceylon. He also worked at the National Development Bank of Sri Lanka for a period of over three years.

He is a Fellow of the Chartered Institute of Bankers (London) and a Fellow of the Institute of Bankers, Sri Lanka. He also has a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants, Sri Lanka.

Mr C P R Perera

Director

Joined the Board of DFCC Bank in July 2005.

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

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

Mr D S Weerakkody
Director

Joined the Board of DFCC Bank in June 2003.

Managing Director of Cornucopia Lanka Limited and Advisor to Cornucopia, India. Director of Commercial Bank of Ceylon PLC, GlaxoSmithKline Sri Lanka and Vice-President, Sri Lanka Tennis Association. A former Chairman/CEO of the Employees' Trust Fund Board of Sri Lanka, Advisor to the Prime Minister of Sri Lanka in 2003/04. Past Council Member and Chairman Employer Relations of CIMA, Sri Lanka Division.

Trained in leadership, international relations, change management and human resource management in Singapore, UK, Japan, India, France and USA.

MBA - University of Leicester UK, Associate of the Chartered Institute of Management Accountants (CIMA), UK. Fellow of the Certified Management Accountants of Sri Lanka, Professional Member Singapore Institute of Human Resource Management and Honorary Member Institute of Personnel Management of Sri Lanka.

Dr Mrs Damitha de Zoysa
Government Director

Joined the Board of DFCC Bank in December 2009.

Secretary, Ministry of Fisheries and Aquatic Resources Development, Former Director General, Department of Development Finance and former Director General Fiscal Policy, Ministry of Finance and Planning. Chairman of the Plantation Trust Fund. Director, Sri Lanka Institute of Nanotechnology (Pvt) Limited. Board member of the National Water Supply and Drainage Board.

Holds an Honours Degree in Economics, Master's in Agricultural Development Economics (Canberra), Master's in Economics (USA) and Doctor of Philosophy in Agricultural Economics (USA).

Management Information

Management Team

Nihal Fonseka

General Manager/Director &
Chief Executive Officer
B.Sc. FCIB (UK)

Executive Vice-Presidents

H A Ariyaratne

Lending
B.Sc.

S Nagarajah

Finance
FCMA (UK) *FCA FCCA*

Lakshman Silva

Chief Executive Officer - DFCC
Vardhana Bank Limited
(on secondment)
B.Com. MBA

Anomie Withana

Operations
FCMA FCA MBA

Senior Vice-Presidents

Suraj De Silva

Integrated Risk Management
B.Com. MBA FCMA

Tyrone De Silva

Corporate & Investment Banking
CEI MBA

Dinesh Fernandopulle

Group Chief Information Officer
B.Sc. M.Sc.

Palitha Gamage

Planning & Plan Implementation
B.Sc. (Eng.) MBA ACMA

Manohari Gunawardhena

Treasury
B.Sc. MBA

Ananda Kumaradasa

Branch Banking & SME
B.Sc. ACMA MBA

Thusantha Wijemanna

General Counsel/Board Secretary
LLB LLM Attorney-at-Law

Vice-Presidents

Bhathiya Alahakoon

Regional Manager
B.Sc. (Eng.)

Chinthika Amarasekara

Accounting & Reporting
ACA

Renuka Amarasinghe

Corporate Banking
LLB Attorney-at-Law

Jayani Amarasiri

Human Resources
BA (Econ.) MA

Nandasiri Bandara

Internal Audit
B.Sc. (Bs. Admn.)FCA

Prasad Dharmaratne

Manager - Gampaha Branch
B.Sc. (Eng.)

Chandana Dharmawardana

Corporate Banking
B.Sc. (Eng.) MIESL

Neville Fernando

Business Systems
B.Sc. ACMA PMP

Samarakodi Godakanda

Manager - Kurunegala Branch
B.Sc. (Agri.)

Chaminda Gunawardana

Special Loan Administration
B.Sc. AIB MBA

Roshan Jayasekara

Corporate Banking
ACMA

Ruwangani Jayasundera

Manager - Nawala Branch
ACMA MBA

Chanaka Kalansuriya

Procurement & Services
MBA

Chanaka Kariyawasam

Regional Manager
B.Sc. (Pb. Admn.) MBA AIB

Nanediri Karunasinghe

Leasing

B.Sc. (Eng.) MPhil. (Eng.) ACMA

Prasanna Premaratne

Regional Manager

M.Sc. (Agri.) PGD in Bank Mgmt.

Sriyani Ranatunga

Credit Administration

FCMA MBA MA (Econ)

Priyadarsana Sooriya Bandara

Regional Manager

B.Sc. (Bs. Admn.) MBA ACMA ACCA

Visaka Sriskantha

Legal

BA Attorney-at-Law

Kapila Subasinghe

Project Management

B.Sc. (Eng) ACMA

Dharmasiri Wickramatilaka

Branch Credit

B.Sc. (Eng.) MBA ACMA

Rosheeni Madanayake Wijesekera

Corporate Communications

BA PGD in Bs. Admn.

Assistant Vice-Presidents

Gunaratne Bandara

Manager - Ratnapura Branch

B.Sc. (Pb. Admn.)

Pradeepa De Alwis

Manager - Galle Branch

B.Sc. (Stat.) PGD in Bs. Admn.

Champal de Costa

Business Banking

B.Sc. (Eng.) MBA MIESL CEng.

Terrence Etugala

Manager - Kandy Branch

B.Sc. (Acct.)

Bandula Gamarachchi

Credit Administration

ACMA AIB FCMA - SL MBA

Channa Jasenthuliyana

IT/Application Systems

DCSD (NIBM) M.Sc. (IT) MBCS

Sonali Jayasinghe

Training & Talent Management

B.Sc. (Bs & Econ.)

Nalin Karunatileka

Project Management

B.Sc. (Bs. Admn.) MA (Fin. Econ.)

Duleep Mahatantila

Credit Administration

BA (Acct. & Econ.) PGD in Law, Barrister of Law

Jayangani Perera

Credit Risk Appraisal

B.Com.

Wajira Punchihewa

Manager - Matara Branch

B.Sc. ACMA AIB MA (Fin. Econ.) MBA

Nimali Ranaraja

Transaction Processing

LLB Attorney-at-Law ACMA

Stanislaus Rayen

Business Banking

B.Sc. (Eng.) MBA MIESL

Kapila Samarasinghe

Manager - Malabe Branch

B.Sc. (Eng.) M.Sc. (Eng.)

Kusumsiri Sathkumara

Regional Manager

BA (Econ.)

Mangala Senaratne

Manager - Kalutara Branch

B.Sc. (Eng.)

Nishan Weerasooriya

IT Operations

B.Sc. (Comp. Sc.) MBA

Chandrin Wimaladarma

Nawala Branch

BA Attorney-at-Law MBA

Management Team as at May 2010 with Names in alphabetical order within each grade.

Management Information

Subsidiary, Joint Venture and Associate Companies

Subsidiary Companies

Company

DFCC Consulting (Pvt) Limited

No. 73/5, Galle Road,
Colombo 03

Tel : (011) 2442442

Incorporated: September 2004

DFCC's Interest
100%

Principal Activity
Consultancy

Directors
1. A N Fonseka *(Chairman)*
2. T W de Silva
3. S E de Silva
4. C Dharmawardene

Net loss Tax 2009/10
Rs(1) million

Profit after Tax 2008/09
Rs2 million

Dividend per Share 2009/10
Rs3.00

Dividend per Share 2008/09
Rs11.00

ROE 2009/10
–

Company

DFCC Vardhana Bank Limited

73, W A D Ramanayake
Mawatha, Colombo 02

Tel : (011) 2371371

Incorporated: August 1995

DFCC's Interest
95.58%

Principal Activity
Commercial Banking

Directors
1. J M S Brito *(Chairman)*
3. Ms Y N Perera
4. A N Fonseka
5. J A R E M Machado
6. S Nagarajah
7. L H A L Silva *(CEO)*
8. L N de S Wijeyeratne
9. Ms R A P Withana

Profit after Tax 2009/10
Rs268 million

Profit after Tax 2008/09
Rs111 million

Dividend per Share 2009/10
Rs0.30

Dividend per Share 2008/09
Rs0.10

ROE 2009/10
9.8%

Company

Lanka Industrial Estates Limited (LINDEL)

Pattiwila Road,
Sapugaskanda, Makola

Tel : (011) 2400318

Incorporated: March 1992

DFCC's Interest
51.16%

Principal Activity
Leasing of lands and buildings to industrial enterprises

Directors
1. A N Fonseka *(Chairman)*
2. H A Samarakoon *(CEO)*
3. Mrs. W H A Wimalajeewa
4. T W de Silva
5. Dr. R M K Ratnayake
6. A D Tudawe

Profit after Tax 2009/10
Rs103 million

Profit after Tax 2008/09
Rs101 million

Dividend per Share 2009/10
–

Dividend per Share 2008/09
Rs4.00

ROE 2009/10
24%

Company

Synapsys Limited

No. 540, Nawala Road,
Rajagiriya

Tel : (011) 2880770

Incorporated: October 2006

DFCC's Interest
100%

Principal Activity
A technology consulting, implementation and managed services company

Directors
1. A N Fonseka *(Chairman)*
2. S Nagarajah
3. T W de Silva
4. D Fernandopulle *(CEO)*

Net Loss after Tax 2009/10
Rs(9) million

Net Loss after Tax 2008/09
Rs(19) million

Dividend per Share 2009/10
–

Dividend per Share 2008/09
–

ROE 2009/10
–

Joint Venture

Company

Acuity Partners (Pvt) Limited

No. 53, Dharmapala Mawatha, Colombo 03

Tel : (011) 2206206

Incorporated: February 2008

DFCC's Interest

50%

Principal Activity

Investment banking and related activities such as Corporate Finance, Debt Structuring and IPOs.

Directors

1. A N Fonseka *(Chairman)*
2. R Theagarajah
3. M R Abeywardena *(CEO)*
4. J M J Perera
5. T W De Silva
6. D Ellepola
7. J R P M Paiva
8. Ms. M Gunawardhena

Profit after Tax 2009/10

Rs84 million

Profit after Tax 2008/09

Rs16 million

Dividend per Share 2009/10

–

Dividend per Share 2008/09

–

ROE 2009/10

14.87%

Associate Companies

Company

Commercial Bank of Ceylon PLC

"Commercial House"
21, Bristol Street P.O. Box 856
Colombo 1, Sri Lanka

Tel: (011) 2445010

Incorporated: June 1969

DFCC's Interest

26.9%

Principal Activity

Commercial Banking

Directors

1. M J C Amarasuriya *(Chairman)*
2. B R L Fernando *(Deputy Chairman)*
3. A L Gooneratne *(Managing Director)*
4. Dr H S Wanasinghe
5. D S Weerakkody
6. R M S Fernando
7. P M Martelli
8. Ms. S.N. Wickramasinghe
9. Ms. J Kuruppu

Profit After Tax 2009/10

Rs4,193 million

Profit After Tax 2008/09

Rs4,120 million

Dividend per share 2009/10

Rs7.00

Dividend per share 2008/09

Rs7.00

ROE 2009/10

15.26%

Company

National Asset Management Limited

No. 73, W A D Ramanayake Mawatha, Colombo 02.

Tel : (011) 2445911

Incorporated: September 1990

DFCC's Interest

30%

Principal Activity

Launching, operating and administrating the Units Trusts and managing private portfolio funds.

Directors

1. A Abeywardana *(Chairman)*
2. L U D Fernando *(Alternate: R De Silva)*
3. T W De Silva
4. R De Silva
5. A N Fonseka *(Alternate: Ms. M Gunawardana)*

Profit after Tax 2009/10

Rs21 million

Profit after Tax 2008/09

Rs18 million

Dividend per Share 2009/10

–

Dividend per Share 2008/09

Rs1.00

ROE 2009/10

13%

Reports of **Directors**

Annual Report of the Board of Directors

The Directors of the DFCC Bank have pleasure in presenting to the members the Annual Report together with the audited Financial Statements for the year ended 31 March 2010.

The Directors Report contains some pertinent information and disclosure required under the Companies Act No.7 of 2007 to the extent applicable to DFCC Bank, the Listing Rules of the Colombo Stock Exchange, the Banking Act (including Directions issued thereunder), the requirements of the Sri Lanka Accounting Standards.

General

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

Principal Activities

Bank

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

Subsidiaries, Joint Venture and Associates

The subsidiaries of the Bank are DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited (DVB), Lanka Industrial Estates Limited (LINDEL) and Synapsys Limited. Acuity Partners (Pvt) Limited is an equally-owned joint venture and associate companies are National Asset Management Limited (NAMAL) and Commercial Bank of Ceylon PLC. The nature of business and the Bank's interest in these entities are set out in pages 18 and 19.

The Bank divested the shares owned in Lanka Ventures PLC, a company principally engaged in making venture capital investments to Acuity Partners (Pvt) Limited in January 2010 and it ceased to be a subsidiary thereafter. There were no significant changes relating to the business of the subsidiaries and associates of the Bank during the year.

Going Concern

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

Financial Statements

The financial statements of the Bank and the Group of companies are given on page 65 to 69 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.

Review of Business of the Year

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

Profit and Appropriations

Year ended 31 March 2010	*(Rupees million)*
Retained profit on 31 March 2009	773
Previous year dividend approved on 30 June 2009	662
Unappropriated profit on 31 March 2009	111
Profit after tax of the Bank	1,713
Total available for appropriations	1,824

Appropriations:

Transfer to Reserve Fund (statutory requirement)	90
Transfer to General Reserve	742
First and final dividend recommended for financial year ended 31 March 2010	794
Unappropriated profit on 31 March 2010	198

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on page 70 to 82 of the Annual Report. There were no significant changes to the accounting policies of the Bank in the year under review.

Auditor's Report

The Auditor's Report on the financial statements, which is unqualified, is given on page 64.

Reappointment of Auditors

The present Auditors, Messrs KPMG Ford, Rhodes, Thornton & Company have expressed their willingness to continue as Auditors of DFCC Bank for the next financial year ending 31 March 2011. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and have 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

The Board of Directors of the Bank consists of nine Directors with wide knowledge and experience in the fields of finance, trade, commerce, manufacturing, services and banking. Profiles of the Directors are given in page 12 to 15. The following are the present Directors of the Bank:

Mr J M S Brito (Chairman)
Mr S N P Palihena - Senior Director
Mr A N Fonseka - CEO and Ex Officio Director
Dr (Mrs) Damitha de Zoysa - Government Director
Mr T Caglayan
Mr C P R Perera
Mr D S Weerakkody
Mr A S Abeyewardene
Mr G K Dayasri
Mr T K Bandaranayake - Alternate to Mr T Caglayan

Resignation and Appointment of Directors

Mrs Sujatha Cooray resigned from the Board with effect from 15 December 2009 and Dr Mrs Damitha de Zoysa was appointed as the Government Director with effect from 30 December 2009. Mr T K Bandaranayake was appointed as alternate to Mr T Caglayan with effect from 23 October 2009. Mr A S Abeyewardene was appointed to the Board on 18 August 2009 and Mr G K Dayasri was appointed as a Director on 31 March 2010. Mr A S Abeyewardene and Mr G K Dayasri 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 Nominations Sub-committee have 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 Nominations Sub-committee.

Retirement of Directors

The Director retiring by rotation in terms of Regulation No.87 of the DFCC Regulations is Mr T Caglayan. Mr A M de S Jayaratne, the Senior Director retired from the Board on 30 April 2010 on reaching the age of 70 as required by Direction No.12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance in Licensed Specialised Banks.

Senior Director

Mr S N P Palihena, was elected by the Board as the Senior Director in place of Mr A M de S Jayaratne.

Directors' Remuneration

The Director's remuneration for the financial year ended 31 March 2010 is given in Note 18 of the financial statements.

Directors' Meetings

The Bank held 13 Board Meetings during the financial year. The attendance of Directors is shown in the table on page 27 of the Annual Report.

Directors' Interests in Shares and Debentures

	No. of Shares* as at 31 March 2010	No. of Shares* as at 31 March 2009
Brito, J M S	9,380	9,380
Caglayan, T	Nil	Nil
De Zoysa, Dr Mrs A D N	Nil	Nil
Abeyewardene, A S	1,190	Nil
Fonseka, A N	66,499	57,332
Bandaranayake, T K	739	Nil
Palihena, S N P	5,000	5,000
Perera, C P R	13,000	4,500
Weerakkody, D S	12,844	1,244
Dayasri, G K	518	Nil

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

Mr A N Fonseka held 17,004 options as at 31 March 2010 (151,171 as at 31 March 2009). During the financial year 2009/10, Mr Fonseka exercised Options on 134,167 shares.

No Directors directly or indirectly hold 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 remaining Directors of the Bank.

The Directors' interest in transactions with entities/persons (other than subsidiaries, joint ventures and associates) are listed under each Director for the year ended 31 March 2010 as follows:

	Rs million
Mr J M S Brito	
Elpitiya Plantations Limited	
Aitken Spence PLC	
Branford Hydro Power (Pvt) Limited	
Aggregate amount of credit facilities approved	1,075
Mr C P R Perera	
Ceylon Tea Brokers Limited	
Aggregate amount of credit facilities approved	20.0
Mr A N Fonseka	
Colombo Stock Exchange	
Central Depository Systems Limited	
Mrs R D Fonseka	
Aggregate amount of payments made for services/rent:	2.7
Mr A S Abeyewardene	
Ceylon Hospitals PLC	
Aggregate amount of credit facilities approved	600.0
Mr S N P Palihena	
Senok Wind Power (Pvt) Limited	
Aggregate amount of credit facilities approved	275.0

Messrs J M S Brito, A N Fonseka, T K Bandaranayake, A S Abeyewardene and D S Weerakkody are Chairman/ Director of one or more of the subsidiary, Joint venture or associate companies and interest in transactions with subsidiary, joint venture and associate companies are disclosed under Note 61 in notes to financial statements.

Board Committees

The following Directors serve as members of the Sub-committees of the Board on (i) Audit, (ii) Credit, (iii) Human Resources & Remuneration, (iv) Nominations and (v) Integrated Risk Management. Apart from these permanent sub-committees, from time to time the Board appoints sub-committees to deal with specific matters. The Board has also invited external advisers and Key Management Personnel to serve on some of the sub-committees.

Audit Sub-committee

Mr T K Bandaranayake (Chairman)
Mr S N P Palihena
Mr D S Weerakkody

Credit Sub-committee:

Mr S N P Palihena (Chairman)
Mr A N Fonseka
Mr C P R Perera

Human Resources & Remuneration Sub-committee:

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

Nomination Sub-committee:

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

Integrated Risk Management Sub-committee:

Mr J M S Brito (Chairman)
Mr A S Abeyewardene
Mr S N P Palihena
Mr A N Fonseka - Chief Executive Officer

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 this Committee.

Further details relating to the sub-committees are given in the section on Corporate Governance and the Committee Reports.

Dividend

The Directors have recommended to shareholders the payment of a final dividend of Rs6 per share, increased from Rs5 per share paid in the previous year. The proposed distribution is approximately Rs794 million (Rs662 million in the previous year), which amounts to 46% of the Bank's distributable profit.

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 proposed dividend payment is made and have obtained a certificate of solvency from its Auditors.

Property, Plant & Equipment and Leasehold Property

The total expenditure of acquisition on property, plant and equipment during the year amounted to Rs38 million. Intangible assets amounted to Rs18 million. Details of these are given in the Notes 40.1 and 41 to the financial statements.

Reserves

Total revenue reserves augmented by the annual appropriation and retained profit amounted to Rs992 million.

Market Value of Freehold Properties

The information is in Note 40 to the financial statements.

Share Capital and Subordinated Debentures

With the options exercised by the employees during this financial year, the total share capital as at 31 March 2010 was Rs1,323,753,050 consisting of 132,375,305 shares of Rs10 each. Further information is given on page 107. The DFCC Bank Act No. 35 of 1955 mandates a par value of Rs10 per share. The Stated Capital, if computed in accordance with the requirements of the Companies Act No. 7 of 2007 amounts to Rs4,695 million.

Share Information

Information relating to earnings, net asset and market value per share are given in page 127 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 March 2010 there were 7,952 registered shareholders and the distribution is indicated on page 128. The 20 largest shareholders as at 31 March 2010 are listed on page 129.

Employment & 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 public and private sector in its 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 is conducted once in three years in order to appropriately benchmark the Bank's remuneration levels and policies with those in the banking and other competing private sector institutions.

Employee Share Option Plan (ESOP)

The last grant under the ESOP approved by shareholders was made in 2006. And there will be no further grants. As at 31 March 2010, the details of unexercised options were as follows:

Tranche	Total Award	Exercise Price per Share*	Exercise Period	Outstanding
4th	200,454	Rs117/46	03.07.2007 to 02.07.2011	180,622

** Adjusted for rights and bonus issues.*

Statutory Payments

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

Compliance with Laws and Regulations

The Bank has not engaged in any activities contravening the laws and regulations. The Directors obtain quarterly a confirmation report from the Management with regard to compliance with laws and regulations. With regard to a Direction issued by the Central Bank to reduce its shareholding in the Commercial Bank of Ceylon PLC to 15% on or before 23 October 2008, the Bank has complied with the consequential provision of this Direction whereby the voting rights of the Bank are restricted to 10% until the shareholding is reduced. The issue is sub-judice.

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 63 to the financial statements.

Corporate Governance

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

The External Auditor's Certification on effectiveness of the internal control mechanism and compliance with the Direction 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance could not be obtained for reasons explained in page 26 of the Annual Report.

Except as stated in the preceding paragraph, the Bank has complied with the provisions of Direction No.12 of 2007 - Corporate Governance of Licensed Specialised Banks in Sri Lanka as amended by Direction No.2 of 2008.

Details of governance practices and the required disclosure are given in pages 25 to 31.

Rule 3 (8) of the Direction No.12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka and Section 7.10 of the Listing Rules of the Colombo Stock Exchange prescribe disclosures in the Annual Report. These disclosures have been made in this Annual Report as depicted in the Table given below:

The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
8 (i)	Financial statements on prescribed format	Financial statements on pages 70 to 82
8 (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 62
8 (ii) (b)	Affirmative assurance of the Integrity of financial reporting system	Directors' Responsibility Statement on page 62
8 (ii) (d)	Information on Directors	
8 (ii) (d)	Remuneration of Directors	Notes on the financial statements 18
8 (ii) (e)	Net accommodation granted to each category of related party	Notes on the financial statements 61.9
8 (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements 61.6.2
8 (ii) (h)	Compliance with prudential requirements regulations	This report

For and on behalf of the Board of Directors

J M S Brito
Chairman

A N Fonseka
Ex-Officio Director & Chief Executive

T Wijemanne
Secretary to the Board

26 May 2010

Reports of Directors

Corporate Governance

Good corporate governance is a mechanism that seeks to align the interests of a wide range of stakeholders of the institution. It contributes to sustainable growth by enhancing access to outside sources of capital. DFCC Bank practices high standards of corporate governance based on the OECD principles of good governance.

Some of the key corporate governance practices of DFCC Bank are given in this Report. It is followed by 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) and Section 7.10 of the Listing Rules of the Colombo Stock Exchange relating to corporate governance.

Shareholder Rights

Basic rights of shareholders include (a) the ability to transfer shares freely, (b) to have 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) appoint Directors and Auditors and (e) equitable treatment relating to the type of shares owned.

The shares of DFCC Bank can be freely transferred through the Colombo Stock Exchange subject to the aggregate limits imposed by the DFCC Bank Act and Banking Act. The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of the Bank is made available to shareholders through timely disclosure made to the Colombo Stock Exchange (CSE). The Annual Report contains a comprehensive review of performance as well as other information of relevance to the various stakeholders apart from reporting on the financial condition of the Bank. Important information is also given publicity through the media and in the Bank's website.

The Bank has procedures to promptly disseminate price sensitive information to the CSE as required by the listing rules. In instances where this is not possible, the Head of Compliance advises closed periods for the trading in the 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, is treated as closed periods. Procedures are in place to monitor any violations.

The Annual General Meeting of DFCC Bank is held within a period of one year from the date of the previous meeting, giving adequate notice in terms of 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 summoned from time to time to seek approval of shareholders on matters that require such approval.

The Bank shares a reasonable portion of its profit with shareholders in the form of a dividend while retaining the balance to support its growth and development.

The Bank treats all its shareholders equally on the basis of one vote per ordinary share. The Bank has not issued any non-voting ordinary shares or preference shares.

Disclosures on Corporate Governance Made in Terms of Provisions of Direction 12 of 2007 of The Central Bank of Sri Lanka

(1) Bank's Adherence with the Corporate Governance Rules as Required by Section 3 (8) of the Banking Act Direction No. 12 of 2007 Issued by the Central Bank of Sri Lanka Corporate Governance Disclosure Requirements

(i) The Board shall ensure that:

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 newspaper in an abridged form, in Sinhala, Tamil and English

Status: 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.

Status: Complied with. Please refer 'Statement of Directors' Responsibility' on page 62 of this Annual Report.

(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.

Status: Complied with. Please refer 'Statement of Directors' Responsibility' on page 62 of this Annual Report.

(c) The External Auditors' Certification on the effectiveness of the internal control mechanism , in respect of any statements prepared or published after December 31, 2008.

Status: The External Auditor has advised its inability to provide a statement for publication in the absence of a framework published by a competent authority on which such certification can be based. The Institute of Chartered Accountants of Sri Lanka is in the process of preparing such a framework which is expected to be finalised later in 2010. As such, it has not been possible for the Bank to comply with this requirement in respect of the reporting year.

(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.
Status: Complied with. Please refer to pages 96 and Notes 18 to the financial statements and Section 2 (c) of this Report.

(e) Total net accommodation as defined in 3 (7) (iii) of the Direction, granted to each category of related parties. The net accommodation granted to each category of related parties be disclosed as a percentage of the Bank's regulatory capital.
Status: Complied with. Please refer Note 61 to the financial statements on 'Related Party Disclosures' in this Annual Report.

(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.

Status: Complied with. Please refer Note 61 to the financial statements on 'Related Party Disclosures' in this Annual Report.

(g) The External Auditor's Certification of the compliance with these Directions in the annual corporate governance reports published after 01 January 2010.

Status: The External Auditor has advised its inability to provide a statement for publication in the absence of a framework published by a competent authority on which such certification can be based. The Institute of Chartered Accountants of Sri Lanka is in the process of preparing such a framework which is expected to be finalised later in 2010. As such, it has not been possible for the Bank to comply with this requirement in respect of the reporting year.

(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal control and measures taken to rectify any material non-compliance.

Status: There were no material non-compliance that has led to the breach of any prudential requirement.

A Direction issued by the Central Bank to reduce the shareholding in Commercial Bank of Ceylon PLC to 15% before 23 October 2008 has not yet been complied with but the consequential provisions limiting the Bank's voting rights to 10% until the shareholding is reduced has been complied with.

The Statement of Directors' Responsibility on page 62 of this Annual Report provided further details on compliance measures.

(i) A statement 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.

Status: The Monetary Board has not issued any specific directions to the Bank.

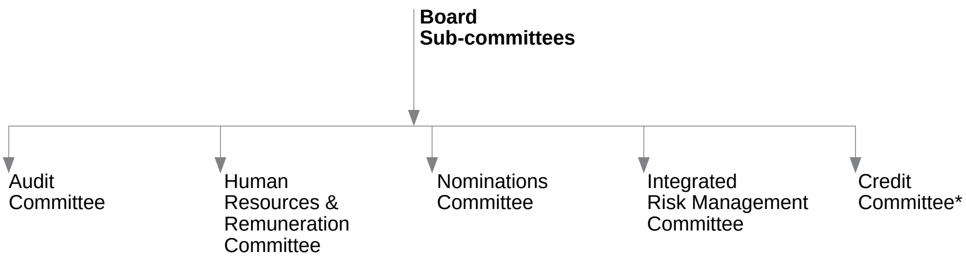
(2) Annual Corporate Governance Report to be Published in the Annual Report as required by Direction 3 (1) (xvi) of the Banking Act Directions No. 12 of 2007

(a) Responsibilities of the Board

The Board has taken necessary steps to ensure the safety and soundness of the Bank, and its continuing capital adequacy as required by the Direction.

Mr J M S Brito is the non-executive Chairman and Mr A N Fonseka is the Chief Executive Officer and their functions and responsibilities have been clearly defined by the Board.

The Board meets regularly, generally once a month. During the year, there were 13 meetings with the active participation, in person, or by an alternate, by all members of the Board. During the year, all the Directors attended, either in person or through an alternate, over 90% of meetings that were held. The schedule for regular meetings is set at the beginning of the year and any changes to the schedule are agreed well in advance. The attendance of Directors at Board and Sub-committee meetings are given in the Table below:



Committee	Main Board		Audit Committee		Human Resources & Remuneration Committee		Nomination Committee		Integrated Risk Management Committee	
Name of Director	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
Mr J M S Brito	13	13			5	5	4	4	5	5
Mrs S Cooray *(resigned w.e.f. Dec. 2009)*	9	6							3	3
Mr A N Fonseka	13	13								
Mr A Jayaratne	13	12	9	9						
Mr S N P Palihena	13	12	9	8					5	4
Mr C P R Perera	13	13			5	5	4	4		
Mr D S Weerakkody	13	12	9	9	5	5	4	4		
Mr A S Abeyewardene	9	9							2	2
Mr T K Bandaranayake**	7	6	9	9						
Dr Mrs A D N de Zoysa	4	4								
Mr G K Dayasri	1	1								

* *The Credit Committee approves papers by circulation*

** *Alternate Director to Mr T Caglayan - Mr. Caglayan participated at 02 meetings by teleconference.*

Any Director may propose matters to be included in the agenda under the relevant subjects or under any other business. The Board papers are dispatched in advance prior to the regular Board Meetings and depending on the urgency, maximum possible notice is given for special meetings. The Board has an agreed procedure in place for Directors to seek independent advice if they so require.

Mr T Wijemanna, Attorney-at- Law functions as the Secretary to the Board. The Secretary complies with the requirements imposed by the Direction aforesaid, under the supervision and the guidance of the Board. The Secretary attends the Board meetings and prepares the minutes for the approval of the Board of Directors. The Directors have access to him to clarify any matters of importance.

The minutes are kept under the custody of the Secretary. The minutes are recorded in sufficient detail, cross referring to the circular containing the data and information used by the Board in its deliberations, all related matters considered by the Board, key points of the discussions, recommendations and clarifications provided by the Chief Executive Officer and other relevant officers and the final decisions of the Board. Any interest disclosed by a Director and any dissenting view is always recorded in the minutes. The Directors do not participate in the decision making process on matters, in which they have an interest and avoid conflicts of interests in their activities with the Bank. Any decision on an issue in which any one Director has an interest requires the unanimous consent of all the other Directors.

The Board has put in place systems and controls to facilitate the effective discharge of Board functions. The Board has also put in place effective systems to secure the integrity of information, internal controls and risk management. The Board has specified the subjects and matters that are reserved for decisions by the Board.

The Directors also assessed the Board's overall performance at the end of the year and have concluded that the Board responsibilities are satisfactorily discharged.

(b) Board's Composition

There are currently nine Directors on the Board, whose names and bio data are given in the Annual Report. All the Directors have the necessary skills and experience to direct and lead the Bank.

The Chairman, J M S Brito is not an independent director in terms of the Direction because he is the Chairman of the subsidiary, DFCC Vardhana Bank Ltd. Mr S N P Palihena, who is an Independent Director was designated Senior Director on the retirement of the previous incumbent Mr A M de S Jayaratne. The other Independent Directors in terms of the criteria specified in Section 3 (2) (iv) of the Direction are Messrs C P R Perera, A M Abeyewardene, G K Dayasri and T Caglayan.

New appointments and re-election of Directors to the Board are considered and recommended by the Nomination Committee and based on such recommendations, final decisions on suitability, fitness and propriety are made by the Board. All Directors appointed to the Board, other than the Chief Executive Officer (Ex-officio Director) and Government Director are subject to re-election by shareholders at the first general meeting after their appointment. The Board promptly announces resignations of Directors and the reasons for such resignations. No Director or an employee of another Bank, other than the subsidiary, DFCC Vardhana Bank or associate company, Commercial Bank of Ceylon PLC was a Director of the Bank during the reporting period.

(c) Fitness and Propriety of Directors

The provisions of Section 42 of the Banking Act No. 30 of 1988 and the criteria set out in Direction No. 12 of 2007, as amended, have been applied to determine the fitness and propriety of the Directors. The Board is of the view that each and every Director is a fit and proper person to serve as a Director of the Bank. No Director is over the age of 70 years. The only Director who is in office by virtue of the transitional provisions relating to Directors who have served more than 9 years is Mr T Caglayan who is retiring at the Annual General Meeting to be held on 30 June 2010.

(d) Delegation of Authority by the Board

The Board is empowered by the DFCC Bank Act and the Regulations thereunder to delegate to the Chief Executive Officer and Executive Committees, any of the powers vested with the Board, subject to any condition the Board may impose. The Chief Executive Officer shall have powers, within the limitations applicable, to delegate such office/powers as he may think necessary, for the management and smooth operation of the Bank. The delegation of powers of the Board are subject to the general laws, regulations and Directions applicable to the Bank. To ensure that the delegation of authority would not in any way reduce the Board's ability to discharge its functions fully and effectively, such delegated powers are reviewed periodically by the Board and/or the Board Integrated Risk Management Committee and changes effected where appropriate.

(e) Chairman and Chief Executive Officer

Mr J M S Brito, is the Chairman of the Bank and Mr A N Fonseka is the Chief Executive Officer. There are no relationships, including financial, business, family any other material/ relevant relationship between the Chairman and the Chief Executive Officer, other than both being Directors of the subsidiary, DFCC Vardhana Bank. Similarly, no close relationships as stipulated in the Banking Act exist among the other members of the Board.

The Chairman provides leadership to the Board by ensuring that the Board functions effectively and facilitates the effective discharge of Board functions. He stimulates discussion on matters considered by the Board and invites views and comments from all Directors.

The Agenda for each Board Meeting is finalised by the Secretary under the direction of the Chief Executive Officer and the Chairman.

The Secretary ensures that the Directors receive adequate information in a timely manner to prepare for Board meetings. On urgent matters, every effort is made to provide the information as early as possible. The Board papers are prepared by employees to provide adequate information to the Board to deliberate on all key issues concerning the Bank.

All the Directors bring their independent judgment to bear on Board deliberations. The Chairman takes action to ensure that the Board acts in the best interests of the Bank.

The Chairman presides at General Meetings of shareholders. Shareholders are given the opportunity to seek clarification on matters under consideration.

The Chief Executive Officer is responsible for the implementation of strategy and for the day-to-day management of the Bank. The Chairman does not directly supervise any key management personnel or other executive officers. The Board monitors progress through reports submitted to it as well as periodic interaction with key management personnel.

(f) Board Committees

The following sub-committees have been appointed by the Board in terms of the requirements of Section 3 (6) of Direction No. 12 of 2007 requiring each such committee to report to the Board:

Board Audit Committee

Board Human Resources and Remuneration Committee

Board Nominations Committee

Board Integrated Risk Management Committee

Each of these sub-committees have as their mandate, the matters specified in Section 3 (6) of Direction No. 12 of 2007 and any additional matters set out in their specific charters where applicable.

The minutes of sub-committee meetings are tabled at Board meetings. The sub-committee reports have been published in this Annual Report.

The Credit Committee is another permanent sub-committee of the Board. They have the authority to approve restructuring of credit, waivers and write-offs beyond the authority delegated to the Executive Credit Committee and CEO. Approval of new credit facilities above the delegated authority is handled by the Board.

Sub-committees other than the permanent sub-committees are appointed from time to time as and when necessary to deal with specific matters.

(g) Related Party Transactions

Suitable mechanisms are in place to capture related party transactions. The Directors and other key management personnel make declarations identifying related parties and take due steps to avoid any conflicts of interest referred to in the Direction. Related party transactions, when undertaken, are carried out on an arm’s length basis without any special benefit to the related party. Key management personnel (but not the Chief Executive Officer) may participate in approved loan schemes available to employees.

Disclosure on Bank's Adherence with the Corporate Governance Rules as Required by Section 7.10 of the Listing Rules of The Colombo Stock Exchange (Corporate Governance Rules)

(1) Directors

Non-Executive Directors

(a) The Board of Directors of a listed company shall include at least, two Non-Executive Directors; or such number of Non-Executive Directors equivalent to one third of the total number of Directors whichever is higher.

(b) The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.

(c) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.
Status: Complied with. All Directors other than the Chief Executive are Non-Executive Directors.

Independent Directors

(a) Where the constitution of the Board of Directors includes only two Non-Executive Directors as mentioned above, both such Non-Executive Directors shall be 'independent'. In all other instances two or 1/3 of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.
Status: Complied with.

(b) The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the criteria specified in the Code.
Status: Complied with.

Disclosures Relating to Directors

(a) The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of Directors determined to be 'independent'.
Status: Complied with. Messrs J M S Brito, A S Abeyewardene, C P R Perera, S N P Palihena, G K Dayasri and D S Weerakkody meet all the specified criteria and have been determined by the Board to be independent. [Note: The criteria specified for independence of Directors in Direction No. 12 of 2007 of the Central Bank and Section 7.10 of the Listing Rules of the Colombo Stock Exchange are different].

(b) In the event a Director does not qualify as 'independent' against any of the criteria set out in clause 7.10.4, but if the Board, taking into account all the circumstances, is of the opinion that the Director is nevertheless 'independent' the Board shall specify the criteria not met and the basis for its determination in the Annual Report.
Status: In view of more than the minimum number of Directors required being independent, the Board has not made a determination on the independence of Directors who have not met all the specified criteria.

(c) In addition to disclosures relating to the independence of a Director set out above, the Board shall publish in its Annual Report a brief resume of each Director which includes information on the nature of his/her expertise in relevant functional areas.
Status: Complied with. Please refer pages 12 to 15 of this Annual Report.

(d) Upon appointment of a new Director to its Board, the Company shall forthwith provide to the Colombo Stock Exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.
Status: Complied with.

(2) Remuneration Committee

A listed company shall have a Remuneration Committee in conformity with the following requirements:

Composition

The Remuneration Committee shall comprise a minimum of:

(i) Two Independent Non-Executive Directors (in instances where a company has only two Directors on its Board); or

(ii) Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.
Status: Complied with.

In a situation where both the parent company and the subsidiary are listed companies the Remuneration Committee of the parent company may be permitted to function as the Remuneration Committee of the subsidiary.

However, if the parent company is not a listed company, then the Remuneration Committee of the parent company is not permitted to act as the Remuneration Committee of the subsidiary. The subsidiary should have a separate Remuneration Committee.
Status: Does not apply. DFCC Bank is not a subsidiary of any other company.

One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.
Status: Complied with.

Functions

The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and the Chief Executive Officer of the listed company and/or equivalent position thereof, to the Board of the listed company, which will make the final determination upon consideration of such recommendations.

Status: Complied with.

Disclosures

The Annual Report should set out the names of Directors (or persons in the parent company's committee in the case of a Group company) comprising the Remuneration Committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.

The term 'remuneration' shall make reference to cash and all non-cash benefits whatsoever received in consideration of employment with the listed company (excluding statutory entitlements such as contribution to Employees' Provident Fund and Employees' Trust Fund).

Status: Complied with.

(3) Audit Committee

A listed company shall have an Audit Committee in conformity with the following requirements:

Composition

The Audit Committee shall comprise a minimum of:

(i) Two independent Non-Executive Directors (in instances where a company has only two Directors on its Board); or

(ii) Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.

Bank's Response: Complied with.

In a situation where both the parent company and the subsidiary are 'listed companies', the Audit Committee of the parent company may function as the Audit Committee of the subsidiary. However, if the parent company is not a listed company, then the Audit Committee of the parent company is not permitted to act as the Audit Committee of the subsidiary. The subsidiary should have a separate Audit Committee.

Status: Does not arise.

One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.

Status: Complied with.

Unless otherwise determined by the Audit Committee, the Chief Executive Officer and the Chief Financial Officer of the listed company shall attend Audit Committee meetings.

Status: Complied with.

The Chairman or one member of the Committee should be a member of a recognised professional accounting body.

Status: Complied with.

Functions

Shall include -

(i) Oversight of the preparation, presentation and adequacy of disclosures in the Financial Statements of a listed company, in accordance with the Sri Lanka Accounting Standards.

Status: Complied with.

(ii) Oversight of the company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting, related regulations and requirements.

Status: Complied with.

(iii) Oversight over the processes to ensure that the Company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.

Status: Complied with.

(iv) Assessment of the independence and performance of the company's External Auditors.

Status: Complied with.

(v) To make recommendations to the Board pertaining to appointment, reappointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors.

Status: Complied with.

Disclosures

The names of the Directors (or persons in the parent company's committee in the case of a Group company) comprising the Audit Committee should be disclosed in the Annual Report.

Status: Complied with.

The Committee shall make a determination of the independence of the Auditors and shall disclose the basis for such determination in the Annual Report.

Status: Complied with.

The Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the Company in relation to the above, during the period to which the Annual Report relates.

Status: Complied with.

Reports of **Directors**

Committee Reports

Audit Committee Report

The purpose of the Audit Committee is to assist the Board in its general oversight of financial reporting, internal controls and audit functions. The composition requirements and the terms of reference of the Audit Committee are set out in the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Central Bank of Sri Lanka (hereinafter referred to as the Direction). 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 their responsibilities.

The Composition of the Committee

All members of this Committee are Non-Executive Directors and the Chairman of the Committee and Mr S N P Palihena qualify as Independent Directors as per the criteria given in Rule No. 3(2)(iv) of the Direction. The Chairman is a Chartered Accountant with considerable experience in the fields of Finance and Audit. The profiles of the members of the Committee are given elsewhere in the Annual Report.

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

- Mr T K Bandaranayake *(Chairman)*
- Mr S N P Palihena
- Mr D S Weerakkody

Mr T K Bandaranayake served as an adviser to the Committee until 23 October 2009 subsequent to which he became a Non-Executive Independent Director and a member of the Committee.

Mr A M de S Jayaratne, a Non-Executive Independent Director was the Chairman of the Committee until 30 April 2010 on which date he retired from the Board of Directors as required by the Direction on reaching the age of 70 years.

The Bank has complied with Rule No. 3(6)(ii) of the composition of the Audit Committee and its terms of reference.

The Head of Internal Audit of the Bank retired in November 2009. The new Head was appointed and assumed duties in January 2010 after the Audit Committee approved his appointment. The new Head of Internal Audit has extensive experience in commercial banking and is responsible for the Internal Audit functions of the Bank and its commercial banking subsidiary, DFCC Vardhana Bank Limited and is designated as Head of Group Internal Audit. He holds the management rank of Vice-President and serves as the Secretary of the Committee. He has direct access to the members of the Audit Committee.

Meetings

During the financial year ended 31 March 2010, eight Audit Committee Meetings were held. Minutes of the Audit Committee Meetings are reported regularly to the Board.

Attendance by the Committee members at meetings is given in the table on page 27 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 Ford, Rhodes, Thornton & Company on 31 August 2009 and 16 December 2009 without any Executive being present so as to provide the External Auditor an opportunity to have a frank dialogue with the Committee.

Role of the Audit Committee

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.

Financial Reporting

The Committee assists the Board of Directors to discharge their 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, (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 2010 together with supporting information that included significant assumptions and judgments 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 Financial Officer and Chief Executive Officer in making an overall assessment on the integrity of the financial reporting system.

The Committee confirms that to the best of its knowledge and belief the financial reporting system of the Bank has been designed to provide reasonable assurance on the reliability of the financial statements prepared for external purposes and is in compliance with relevant accounting principles and regulatory requirements. The accounting principles are based on relevant Sri Lanka Accounting Standards, and regulatory requirements including DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and Companies Act No. 7 of 2007 as applicable to the Bank.

Internal Audit and Inspection

With the concurrence of the Board, the Audit Committee has continued to engage the services of a firm of Chartered Accountants to supplement the Bank's internal audit function in carrying out periodic audits at 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. Management is required to implement the recommendations contained in internal audit reports unless dispensation is given by the Committee. Such dispensations are infrequent.

Risks and Controls

The Committee has adopted a risk-grading matrix for identifying and assessing risks identified during audits. The Committee seeks and obtains the required assurance from the head of the business unit on the 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 Auditor 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 Auditor, (3) in assisting the Auditor to complete the audit programme within an agreed time frame in compliance with relevant guidelines issued by the Central Bank of Sri Lanka.

In order to discharge its responsibilities the Audit Committee meets with the Auditor as and when it is necessary. During this meeting with the Auditor the Audit Committee - (1) reviews the non-audit services provided by the External Auditor 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) obtains information relating to the total remuneration of the External Auditor for audit and non-audit services provided to the Bank and the Group, (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 Auditor, the Committee reviewed the statements issued by the External Auditor pursuant to Section 163(3) of the Companies Act No. 07 of 2007. As per this declaratory statement the Auditor has confirmed that they do not have any relationship that would impair their independence and disclosed the total remuneration for the financial year ended 31 March 2010 for both audit and permitted non-audit services.

The Audit Committee also meets with the Auditor at the conclusion of the audit to review the Management Letter issued by the Auditor 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 statutory requirements were under constant check. The Committee is satisfied that the Bank substantially complies with these requirements. With regard to its continuing investment in Commercial Bank of Ceylon PLC, the Bank has not as yet reduced its shareholding to 15% as directed by the Central Bank of Sri Lanka, but has complied with the consequential provision whereby its voting rights are restricted to 10% until such reduction takes place. This matter is sub-judice.

Rule No. 3(8)(ii) (c) and (g) of the direction requires External Auditors certification on the effectiveness of the internal control mechanism and compliance with the provisions of the Corporate Governance to be published in the Annual Report. This certification is intended to be an independent validation of the affirmative assurances provided by Directors on this subject. The External Auditor, KPMG Ford, Rhodes, Thornton & Company, however has informed that they cannot consent to the publication of any such report given by them in the absence of an appropriate framework issued by The Institute of Chartered Accountants of Sri Lanka, which is still under preparation. Under the circumstances, in common with other banks who have published their Annual Reports, it has not been possible for the Bank to comply with this regulatory requirement.

Evaluation of the Committee

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

Reappointment of Auditor

The Audit Committee having evaluated the quality of audit service provided by the current Auditor has recommended to the Board of Directors that M/s KPMG Ford, Rhodes, Thornton & Company be reappointed as Auditors for the year ending 31 March 2011, subject to the approval of shareholders at the Annual General Meeting.

The Chairman and the members of the Committee wish to place on record their appreciation of invaluable contribution made by Mr A M de S Jayaratne as the previous Chairman of the Audit Committee until his retirement.

T K Bandaranayake
Chairman - Audit Committee

26 May 2010

Reports of **Directors**

Committee Reports

Human Resources and Remuneration Committee Report

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 C P R Perera and D Weerakkody act as members. The Chief Executive - Mr. Nihal Fonseka attended meetings by invitation and participated in its deliberations except when his own evaluation and remuneration was under discussion. The former Executive Vice-President, Special Loans Administration & Human Resources and the Group Vice-President, Human Resources assisted the Committee by providing relevant information.

The Committee has adopted as its mandate the tasks specified in Section 3 (6) (iii) and Direction No. 12 of 2007 of the Central Bank of Sri lanka on Corporate Governance for licensed specialised banks. The Committee determines the remuneration policy relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank. In determining the appropriate compensation levels, the Committee recognises the need for the Bank to attract, retain and motivate talent with the core capabilities matched to its strategy and needs to ensure the Bank consistently delivers value to all stakeholders and make the organisation more competitive. With this in mind the Committee uses a mixture of fixed and variable pay to reward employees.

Consistent with the Bank's policy of pay for performance, the committee reviewed the performance of the Bank for determining and recommending to the board the annual salary pool and the bonus pool for the Bank. The Committee also appraised the performance of the Chief Executive Officer against the pre-agreed targets and made recommendations to the board with regard to the CEOs total remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills. Further, the Committee assesses and recommends to the Board on all promotions of Key Management Personnel and the basis for rewarding them. They also review periodically the Bank's Talent Pool to identify high potential and review and approve the succession plans in place for all critical management positions in the Bank.

The Committee held five meetings during the financial year to carry out its task. The attendance by members is given in page 27 of the Annual Report.

JMS Brito

J M S Brito
Chairman - Human Resources and Remuneration Committee

26 May 2010

Reports of **Directors**

Committee Reports

Nominations Committee Report

The Composition

The Nomination Committee of the Board of Directors consist of three Non-Executive Directors. Mr C P R Perera, an independent Director is the Chairman with Messrs J M S Brito and D S Weerakkody 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.

The 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 and Corporate Governance in licensed specialised Banks. In terms of this Direction the committee identifies and evaluates persons with the required skills, knowledge, standing, fitness and propriety to join the Board of the Bank and evaluate the suitability of Directors seeking re-election. The Committee is also tasked with the responsibility of a putting in place a procedure for the appointment of the CEO and Key Management Personnel, when necessary. The Committee makes recommendations to the Board for consideration.

The Procedure

The Committee meets when required and acts within a framework approved by the Board of Directors when making its recommendations. The framework incorporates, inter alia, the requirements of Direction No 12 of 2007 of the Central Bank and the Listing Rule 7.10 of the Colombo Stock Exchange relating to Corporate Governance.

Meetings

Four meetings were held during the financial year to identify possible candidates to fill Board vacancies and to asses the fitness and propriety of Directors. The attendance by Directors at meetings is given in page 27 of the Annual Report. All appointments made to the Board were recommended by the Committee.

C P R Perera
Chairman - Nominations Sub-committee

26 May 2010

Reports of Directors

Committee Reports

Board Integrated Risk Management Committee Report

Composition of Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (BIRMC) of DFCC consisted of 3 Non-Executive Directors and 5 Non-Voting members, as at 31 March 2010. The Head of Internal Audit, Mr A G N Bandara, attends meetings by invitation while the Chief Risk Officer, Mr S de Silva, functions as the Secretary to the Committee

Mr J M S Brito - *Chairman*
Mr S N P Palihena - *Non-Executive Director*
Mr A S Abeyewardene - *Non-Executive Director*
Mr A N Fonseka - *Chief Executive/ Ex-Officio Director*
Mr H A Ariyaratne - *Executive Vice-President/Lending*
Mr S Nagarajah - *Executive Vice-President/Finance*
Ms A Withane - *Executive Vice-President/Operations*
Mrs M Gunewardena - *Executive Vice-President/Treasury & Resource Development*

Charter and the Responsibilities of the BIRMC

The approved Charter for the BIRMC stipulates authority, structure, responsibilities and tasks of BIRMC. 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
- The 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

The Integrated Risk Management Department prepares and collates the material necessary for the BIRMC to deliberate and take decisions on matters falling within its mandate or to make considered recommendations to the Board. These are circulated to members in advance. The process through which Risks were managed is explained in detail in the Management Discussion section of this Annual Report.

BIRMC Meetings

BIRMC meets on a quarterly basis. During the year, DFCC Bank convened four BIRMC meetings. The attendance of Directors in the Committee is listed on page 27 of the Annual Report. The minutes of the meetings are reported to the Board subsequently. The committee reviewed policy frameworks, risk management strategies. Risk limits and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being satisfactorily managed.

JMS Brito

J M S Brito
Chairman

26 May 2010

Management Discussion and Analysis

Operations Review

Lending

In the first part of the financial year the global and local economic and business environment continued to remain unfavourable, particularly for capital asset financing. The contraction of the term lending portfolio, which began during the previous year, continued impacting mainly on the corporate banking sector. The declining trend lasted until the third quarter of the financial year when the economy started showing signs of revival in the aftermath of various positive developments. This revival gathered momentum in the last quarter with new loan approvals improving significantly.

While the corporate sector was generally able to absorb adverse market conditions, the Small and Medium Enterprise (SME) sector proved vulnerable. This required the Bank's concerted attention by way of enhanced monitoring, working capital support and debt restructuring. In this regard, special focus was placed during the year on tea, construction, apparel, tourism and property development segments of the SME sector.

Approvals

A total of Rs16,173 million in facilities to customers was approved by the Bank, up 17% on last year's Rs13,868 million. As in previous years, project loans and investments accounted for the bulk of approvals (87%) followed by finance leases (9%) and financial guarantees. The Corporate Banking division accounted for 56% of the approvals while the Branch Banking division, which caters to SME sector, contributed the balance 44%. In terms of industry segmentation, nearly half of all approvals were in the Food & Beverage, Financial & Business Services (which includes diversified holding companies) and Trade sectors.

Portfolio

The economic recovery which began in the latter part of the year with improved business confidence, did not have an immediate impact on the growth of the Bank's credit portfolio due to the lead time required for project formulation and the time lag between approval and disbursement. The total credit portfolio of the Bank stood at Rs37,562 million, down 10% from Rs41,858 million a year ago. For the second successive year, disbursements of Rs11,000 million were relatively low compared to capital repayments of Rs15,000 million resulting in the contraction of Rs4,000 million. The Leasing and Corporate Banking portfolios contracted the most. The high interest rate environment that prevailed in the first half of the financial year and the high level of stress on the lease portfolio prompted the Bank to consciously hold back from growing its leasing business. As at 31 March 2010, the Bank's credit portfolio comprised project loans - 85%, finance leases - 9% and investment securities - 6%. As depicted below, the portfolio is well diversified with nine broad industry groupings accounting for about 75% of the credit exposure:

Real estate, Business and Financial services	16.2%
Trade*	12.2%
Food and beverage	11.4%
Community and Personal services	7.9%
Agriculture, Forestry and Fishing	7.4%
Transport, Communications and Storage*	6.1%
Electricity, Gas and Water industries	5.7%
Construction industries	4.8%
Manufacture of non-metallic mineral products	4.1%

** Part of this exposure relates to agriculture produce.*

Portfolio Quality

The reduction in portfolio size caused the Non-Performing Asset (NPA) ratio to deteriorate to 10% (previous year 9%) even though in absolute terms the total NPAs marginally reduced. Loans and Leases to the SME sector were the worst affected. Analysis of Non-Performing Loans (NPL) by industry sectors indicates six sectors accounted for 60% of the non-performing loans as at 31 March 2010. These sectors in descending order of magnitude were Finance, Trade, Manufacture of Food and Beverage, Healthcare and Education, Telecommunication, Storage & Warehousing and Renewable (hydro) electricity generation. The quantum of total NPAs peaked in May 2009 and showed reductions every month since then.

The Bank concentrated its efforts in follow up, monitoring and rehabilitation of projects in distress. However, where it became clear that rehabilitation was not feasible, the Bank had to take recovery action. Recovery of capital, previously provided, amounted to Rs340 million compared with Rs225 million in the previous year. There are signs that the recent improvement in market conditions and the low interest rate regime will bear favourably on the future performance of SMEs and thereby lead to an improvement in the portfolio quality.

Corporate Banking

Approvals amounted to Rs9,051 million, which was an increase from the previous year's figure of Rs7,331 million. However, long-term credit demand for projects was uneven and capital asset financing was confined to a few industries such as renewable energy and healthcare. At the same time, many corporate borrowers took advantage of the high market liquidity and declining interest rates to restructure or refinance their borrowings. This meant that most of the demand and competition for business was at the short end of the market. Holding companies of the large diversified groups also used the opportunity to secure refinance lines for their long- term portfolio investment needs.

The adverse market conditions required a concerted focus on profitability and managing the quality of the lending portfolio. Notwithstanding falling volumes and decreasing interest margins, the overall profitability of Corporate Banking was maintained. It is also notable that despite the industry stress, the quality of the corporate banking portfolio was satisfactory throughout the year with a non-performing loan ratio of less than 1% as at 31 March 2010.

In terms of sector concentration, Manufacturing accounted for 31% of the portfolio's exposure followed by Finance, Real Estate and Business Services - 16%, Energy - 11% and Healthcare and Education - 11%. Meanwhile, there was continued interest in the renewable energy sector where DFCC was involved in two landmark projects; the first private grid connected wind power project in Sri Lanka and the first private hydropower project on the Mahaweli system. There was also renewed interest in the Hotel & Tourism sector with new construction and refurbishment projects under consideration.

Going forward, the new found stability and rise in business confidence will drive project investment resulting in credit demand shifting to the longer term. This will have a positive impact on DFCC's core business. The positive trend is manifest in the corporate banking project pipeline. While there is considerable interest in renewable energy, industries in manufacturing, tourism, commercial agriculture, food & beverage and telecom are also coming to the fore. One encouraging sign is the increasing diversity within these sectors as for instance the emergence of wind and bio-mass under renewable energy. The spill over from major Government infrastructure projects is also evident from the rising number of subcontracted projects. The Corporate Banking department has been reorganised to manage project and commercial lending undertaken by DFCC Vardhana Bank through one focal point as this will enable the Department to capitalise on the emerging prospects and manage risk in the most efficient manner.

Branch Banking

The branch relocation and development programme, which commenced a few years back, was completed during the year. This included the complete refurbishment of the Kandy branch. The Bank continued the expansion of its branch network and moved into Ampara, Batticaloa and Jaffna. This marked a new phase in branch operations as hitherto lending to enterprises in the North and East was carried out from branches outside the region. Two more branches are planned to be opened in Trincomalee and Vavuniya in 2010. Branch operations will also be expanded in the South and an office in Hambantota is planned. DFCC Vardhana Bank too continued to expand its reach and now has 44 branches and 30 post office Banking Units.

The branches will continue to focus on assistance to entrepreneurs in the provinces. In the North and East, growth in demand for credit is expected from small and medium enterprises in the agriculture, leisure, dairy, fisheries, trading and transport industries. Growth in the construction industry will also arise as subcontracted work from the various infrastructure projects undertaken by the Government, gets underway. This is already evident in the South and is expected to develop in other regions especially the North and East. The Bank is well positioned to take advantage of such opportunities using its experience in SME financing and access to various credit schemes that are tailor made to fund these projects.

Small and Medium Enterprise Financing

SME credit approvals recorded a near 15% growth to reach Rs7,112 million from Rs6,193 million in the previous year. This included renewed demand for finance leases in the last quarter resulting in approvals increasing by 18% to Rs1,406 million. However, with demand for credit increasing only in the latter part of the year, the total SME portfolio itself underwent a contraction of 8% from Rs18,041 million to Rs16,557 million. The major portion of this contraction was due to a sharp decline of nearly 28% in the finance lease portfolio from Rs4,805 million to Rs3,466 million. The loan component of the portfolio declined only marginally.

The Bank's SME financing also benefitted from access to various credit schemes of which there were six in operation during the year. The most heavily utilised was the Asian Development Bank funded Small and Medium Enterprises Regional Development Credit Scheme (SMERDP) under which facilities in excess of Rs1,200 million were approved. Another very successful scheme was the E-Friends II Credit Line, under which enterprises were able to obtain concessionary finance for implementing environmental safeguard measures. Other credit lines that were tapped included the SMILE II revolving fund, Southern Province Rural Economic Advancement Project revolving fund (DASUNA), European Investment Bank Post Tsunami credit line - and Renewable Energy for Rural Economic Development (RERED) schemes.

DFCC Vardhana Bank Limited

During 2009, DFCC Vardhana Bank (DVB) reported a robust growth in many key areas of operations. Total assets for the year ending December 2009 amounted to Rs31,336 million reflecting a 26.3% growth. Similarly, fee bearing commitments and contingent liabilities amounted to Rs9,548 million showing a growth of 29%. However, the loans and advances portfolio contracted by 3.5% to Rs14,544 million largely due to low demand for credit which prevailed across all economic sectors.

Time and demand deposits expanded by 16.2% and stood at Rs22,047 million. The Balance Sheet growth was mainly driven by expansion of the liability products. The Bank remained excessively liquid with the advance to deposit ratio reaching 68%.

The growth in profitability is particularly noteworthy. Profit before tax amounted to Rs598 million while profit after tax was Rs268 million reflecting a growth of 141% over 2008. The return on equity (ROE) for the year improved to 9.8%.

The Bank added six Branches and 25 Extension Offices to its physical distribution network and expanded the electronic banking network by entering into an ATM sharing agreement with another bank. Arrangements are being made to link the DVB ATM network with the Visa International network to facilitate global access by customers.

International business contracted due to the global recession and domestic economic slowdown while inward and outward remittances increased by around 19%. Personal financial services were expanded by adding new branded liability and asset products. A number of new customer relationships were established in the corporate banking sector.

Capital Markets and Investment Banking

The year under review witnessed an impressive turnaround in the Colombo stock market. The end of the conflict, the signs of economic recovery and the expectation of political stability restored investor confidence and sparked a bull run. Both indices were driven to new highs with the All Share Price Index rising 127% from 1,638 to 3,725 points and the Milanka Price Index 146% from 1,736 to 4,271 points, which is remarkable given the losses of 36% and 45% respectively in the previous year. The market feat was complemented by a doubling of the average daily turnover from Rs448 million to Rs892 million during this period. Another contributory factor to this performance was the decline in interest rates with the 364-day Treasury Bill rate dropping from 16.63% p.a. to 9.47% p.a. Market valuations were also driven by expectations of the earnings growth to be reported by most companies.

DFCC Bank's investment securities portfolio consists of medium to long-term investments in quoted and unquoted equity and in unit trusts. During the year, the Bank increased its portfolio investment from Rs732 million to Rs818 million while realising capital gains of Rs145 million. As at 31 March 2010, the market value of the quoted investment portfolio and unit holdings was Rs1,284 million of which the unrealised capital gain was Rs554 million. Due to a regulatory classification requirement, the Bank also has a small trading portfolio which recorded a 'marked to market' gain of Rs43 million.

While DFCC manages its own investment portfolio and undertakes all fund based investment banking activity in-house, the fee-based corporate finance and advisory business is carried out under Acuity Partners (Pvt) Limited, the joint venture investment bank owned equally with Hatton National Bank PLC. Acuity Partners (Pvt) Limited has capitalised on its strong market presence to build up a pipeline of mandates. The Company has executed some notable transactions including the listing of Sri Lanka's first Exchange Traded Fund – the 'NAMAL Acuity Value Fund' and a cross-border partial acquisition of a firm in the power sector.

While Acuity Partners (Pvt) Limited divested its stake in HNB Stockbrokers (Pvt) Limited during the year, it acquired an aggregate 79% stake in Lanka Ventures PLC, previously held by DFCC, HNB and the public at a cost of Rs719 million. As such, Acuity Partners (Pvt) Limited is now the group holding company for Acuity Stock Brokers (Pvt) Limited, Acuity Securities Limited which is a licensed primary dealer in Government Securities and Lanka Ventures PLC. The joint venture partners of Acuity Partners have committed to increase their equity investments in the Company to settle the short-term loans obtained for the acquisition of Lanka Ventures PLC. With a full portfolio of capital market services and products, Acuity Partners is well placed to becoming the strongest universal investment banking group in Sri Lanka.

Treasury Operations

Group Treasury is responsible for managing liquidity, interest rate and foreign exchange risks arising out of the DFCC Group's core activities, arranging medium term and money market funding for the Group and managing the fixed income investments of the Group. During the year the benchmark and market interest rates declined significantly. The contraction of the advances portfolio referred to earlier in this review resulted in a significant amount of liquidity which had to be managed in a declining rate scenario. The Treasury was able to respond to this challenge effectively by proactively investing into high yielding Government Securities during the first quarter of the year. The Treasury optimised funding costs through planned exposure to the wholesale and inter-bank market within the limits set by the Asset and Liability Management Committee (ALCO) and the Board Integrated Risk Management Committee. Managing the cost of medium term customer deposits was a challenge for the Treasury. However such deposits formed only 14% of the funds base of the Bank.

Funding

The Treasury concluded negotiations and drew down a seven year USD 15 million loan, from the Nederlandse Financierings–Maatschappij Voor Ontwikkelingslanden N.V (FMO), obtained at a competitive interest rate. A further draw down of the European Investment Bank (EIB) Global II credit line amounting approximately to USD 7.5 million was also made during the year. Funding itself was not a concern during the year due to the high level of liquidity. These funds were either deployed in foreign currency assets or Rupee assets on a hedged basis.

Management of Credit Lines

DFCC Bank manages four credit programmes of the Government of Sri Lanka.

The World Bank and Global Environment Facility assisted Renewable Energy for Rural Economic Development - Additional Financing (RERED-AF) Project continues to facilitate the harnessing of renewable energy resources for generation of 'Green' electricity to meet Sri Lanka's growing energy needs. Since 1997, the three DFCC Bank administered renewable energy credit lines have collectively assisted in the capacity addition of 154MW to the national grid, and have electrified more than 134,000 households using off-grid means. A notable feature during the year was the financing of Sri Lanka's first ever private sector grid-connected wind power project with an expected installed capacity of 10MW. Capacity building activities carried out by the Project included a training program on Low Head Hydropower Development and a conference and exhibition on Net Metering & Grid Tied Photovoltaic Systems, both with the participation of international resource personnel and aimed at gearing the renewable energy development community towards tapping as yet unutilised resources.

The credit component of the Plantation Development Project, funded by the Asian Development Bank (ADB) and the revolving fund set up by the Government of Sri Lanka, focuses on the transformation of Regional Plantation Companies (RPCs) from primary producers into agribusiness entities. As at 31 March 2010, seven Participating Financial Institutions have collectively disbursed 85% of the Rs2,478.5 million available under the scheme to 14 eligible RPCs. These funds have been used for field development, crop and non-crop diversification, factory consolidation & process automation, and marketing ventures.

The European Investment Bank (EIB) - assisted Post-Tsunami Reconstruction Project provides assistance to revive the economies of 11 affected districts. As at 31 March 2010, EUR 58 million out of EUR 60 million had been allocated through the DFCC Bank administered scheme A (for directly and indirectly affected projects) and seven participating financial institutions have collectively disbursed Rs7,114 million. These development projects are estimated to provide over 3,000 employment opportunities in leisure, health, manufacturing and service sectors.

The KfW-assisted Small and Medium Enterprise Development Project in the North and the East focuses on improving access to financial services for entrepreneurs. The credit line is geared to cater to the SME sector in the two provinces which are expected to develop with new vigor complementing the Government's "*Uthuru Wasanthaya*" and "*Nagenahira Navodaya*" programmes, together with the extension of branch networks to North and East by participating banks.

Management Discussion and Analysis

Financial Review

Overview

Profitability

The Group profit after tax of the Bank in the financial year under review (referred to in this report as current year) was Rs2,684 million an increase of 30% over Rs2,068 million in the previous financial year (referred to as previous year). The unconsolidated profit after tax of the Bank in the current year was Rs1,713 million a 26% increase over Rs1,360 million the previous year. Thus, the performance in the current year is a significant improvement compared to the results one year ago which recorded a 8% decrease in the Group profit after tax and a modest 3% increase in the unconsolidated profit after tax of the Bank.

Unless otherwise stated, this review relates to unconsolidated results of the Bank.

Calendar year 2009 was characterised by a domestic economic slow down due to the global financial and economic crisis and the challenging domestic business environment. Thus the credit demand for Bank's core business of financing new business enterprises, capacity expansion or modernisation of existing business enterprises was significantly reduced.

The Bank however, anticipated the emerging difficult business environment at the beginning of the financial year and took specific steps to improve the profitability of the Bank. These measures included the following:

i. Maintenance of Net Interest Income Margin

Interest income of Rs7,416 million in the current year was 13% lower than Rs8,529 million in the previous year, in line with the contraction of loan and lease portfolios. Interest expense of Rs4,224 million in the current year was however 25% lower than Rs5,624 million in the previous year. Correspondingly net interest income was 43% of the interest income in the current year, significantly higher than 34% in the previous year. However, this increase is in part due to funding swaps. The currency swap cost is not included under net interest income but charged against foreign exchange profit as prescribed by the currently applicable reporting requirements. Thus the foreign exchange loss shown under other income would be a profit and net interest income correspondingly reduced if the currency swap cost is shown as an interest expense. Concurrent with the funding swap the Bank entered into forward exchange contracts to close the foreign exchange positions and therefore these transactions have not resulted in open foreign exchange positions of any significance.

The improvement in net interest income margin was achieved despite significant reductions in on-lending rates for advances in the second half of the financial year as a result of the reduction of domestic interest rates. The Bank acquired significant amounts of Government Securities for its held-to-maturity portfolio in the early part of the year thereby locking in the income at the high interest rates that prevailed and was also able to use funds amounting to Rs3,230 generated by the declining credit portfolio to shed expensive customer deposits. These factors contributed to the increase in the interest margin.

ii. Containment of Personnel Cost

The increase in personnel cost to Rs575 million in the current year was a modest 6% increase over the previous year. The pension cost reduced from Rs103 million in the previous year to Rs72 million in the current year primarily due to better returns on pension fund assets.

iii. Containment of other Operating Expenses

The establishment and other overhead expenses in the current year was Rs488 million, a marginal increase from Rs483 million in the previous year. The Bank uses internal costing methods to encourage cost savings in energy, transportation and cost of consumables. The Bank was able to achieve this cost efficiency despite additional operating costs incurred in the opening of new branches in Galle, Batticaloa and Ampara.

The Value Added Tax on financial services and income tax expense in the current year was Rs1,348 million which is 44% of the operating profit before these taxes. In the previous year these taxes accounted for 47% of the operating profit before these taxes. These taxes collectively exceed the non-interest expenses incurred by the Bank to generate revenue (i.e. personnel cost, establishment and overhead expenses).

Loan Quality

The gross non-performing loans (NPL) and finance leases was Rs3,768 million on 31 March 2010, a marginal decrease from Rs3,783 million a year ago. However, the infected exposure net of provisions and the realisable value of tangible collateral was only Rs217 million on 31 March 2010. As a percentage of the equity on 31 March 2010, this was 1.4%.

Loans constitute 85% of the non-performing credit portfolio.

The composition of NPL by age of arrears indicates that Rs1,416 million (44% of the total gross non-performing loans of Rs3,194 million) was over 18 months on 31 March 2010, an increase from 37% in the previous year's non-performing loans in the same arrears category.

The consolidated results include the profits of subsidiaries and associate companies and their performance review is given individually.

Combined Operations of the Bank and its Commercial Banking Subsidiary DFCC Vardhana Bank Limited (DVB)

DVB is a 96% owned subsidiary of the Bank with an investment of Rs2,286 million. The credit quality of DVB too was affected by the economic downturn.

The combined non-interest expense to operating income ratio of the Bank and its commercial banking arm DVB, (the cost income ratio) was 32% in the current year compared to 33% in the previous year.

DVB too allocated substantial resources in the early part of the year to investments in Government Securities to be held to maturity thereby benefiting when interest rates declined sharply later on in the year. It did not pursue loan growth but concentrated on arresting any further decline in the quality of its existing portfolio and managing the cost of its customer liability base. As a result, the net interest income in the current year which reached Rs1,751 million, was 41% of the interest income, increased from 37% in the previous year.

Investment in Lanka Ventures PLC

On 18 January 2010, Bank sold its entire shareholding in Lanka Ventures PLC (LVL) to Acuity Partners (Pvt) Limited, a joint venture company equally owned by DFCC Bank and Hatton National Bank PLC. This transaction yielded a profit of Rs284 million. Although this profit is liable to 20% financial services VAT, being a capital gain, there is no income tax liability. The contribution to consolidated profit after tax was Rs142 million.

The results of LVL for the period 18 January up to 31 March 2010 are consolidated with Acuity Partners (Pvt) Limited. The Consolidated Financial Statements of the Bank do not include these results since the results of Acuity Partners (Pvt) Limited whose financial year ended on 31 December 2009 are consolidated with a three month gap.

Investment in Commercial Bank of Ceylon PLC

The voting rights of the Bank are currently restricted to 10%. However, two nominee Directors continued to serve on the Board of Directors right through the current year and consequently Commercial Bank of Ceylon PLC is classified as an associate company in the consolidated financial statements. The Bank's income includes a dividend of Rs423 million in the current year, 27% higher than Rs333 million in the previous year. The increase being due to timing differences in the payment. The consolidated profit includes (after elimination of dividend) a post tax profit of Rs656 million in the current year and is less than Rs728 million in the previous year. The market value of this investment on 31 March 2010 was Rs13,536 million compared to the cost of investment of Rs3,152 million. This is a significant increase compared to the market value of Rs5,049 million one year ago.

Other Subsidiaries, Associate Company (National Asset Management Limited) and Joint Venture (Acuity Partners Pvt Limited)

The collective contribution to profit after tax was Rs77 million in the current year compared to Rs50 million in the previous year. The Bank intends to progressively increase its investment in Synapsys Limited by Rs50 million to enable Synapsys Limited to expand its activities outside Sri Lanka.

Dividend Distribution

The Directors have recommended a first and final dividend of Rs6 per ordinary share, which will amount to a payment of Rs794 million. The total dividend pay out as a percentage of Bank's own profit after tax for the year ended 31 March 2010 is 46%. The total payout represents a 20% increase over the previous year.

Capital and Liability Structure

The Total equity of the Bank was Rs15,722 million on 31 March 2010.

Total interest bearing liabilities was Rs38,654 million with a gearing of 75% debt to 25% equity which is similar to the gearing in the previous year. The capital adequacy ratio on consolidated basis was 23.2% on 31 March 2010 (19.9% on 31 March 2009).

Management Discussion and Analysis

Risk Management

Governance Structure for Risk Management

The DFCC Bank and DFCC Vardhana Bank's (DVB) (collectively referred to as DFCC Group in this review) governance structure for risk management encompasses the concept of 'Three Lines of Defence', and is based on the four fundamentals of Board and senior management oversight, risk management policies and procedures, risk measurement, monitoring and control, and internal controls and independent audit.

The First Line of Defence involves the supervision and monitoring of risk management practices by the business managers, corporate management and executive 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 Integrated Risk Management Department, the compliance functions and periodic monitoring and oversight by the Board Integrated Risk Management Committee (BIRMC) and the Board of Directors 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.

The Chief Risk Officer who is a Senior Vice President has been designated a Key Management Personnel and reports to the Board Integrated Risk Management Committee (BIRMC) through the Chief Executive. BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Specialised Banks set out in the Direction issued by the Central Bank of Sri Lanka. The Executive Committees such as the Asset Liability Management Committee (ALCO), Credit Committee, the Bad Debt Review Committee and the Special Loans Review Committee are guided and operate within risk frameworks and limits set out by BIRMC. ALCO minutes are submitted to the BIRMC and both sets of minutes are submitted to the Board for information and review. The Integrated Risk Management Department is tasked with the responsibility of measuring and monitoring risk at operational levels on an on-going basis to ensure compliance with the parameters set out by the Board/BIRMC and other Executive Committees. All exceptions are highlighted for corrective action and reported to the BIRMC. The structure for the integrated risk management function will evolve to be in line with the Basel II recommendations and best practices over a period of time.

Developments in Risk Management

During the year the Group reviewed its risk management function and further improvements were introduced to be in line with business needs, regulatory requirements, environmental factors and international best practices. A quantitative dimension for risk management was adopted in the Group's risk management function while policy and guidelines were also improved. Greater use of statistical tools for risk management was introduced during the course of the year that paved the way for enhanced quality in risk management processes.

Adopting a proactive approach, DFCC Bank conducted a gap analysis between the Bank's risk management practices and the regulatory recommendations for integrated risk management which served as the base for developing the Risk Management road map.

Stress tests carried out indicate that both DFCC Bank and DVB have a capital cushion above regulatory capital even if the worst case scenarios for credit, market and operation at risks as indicated in the specifications of the Central Bank of Sri Lanka occur at the same time.

A policy for the management of credit concentration risk was introduced and monitoring of concentration risk of the credit portfolio was strengthened. Herfindahl-Hirschman Index - an internationally accepted technical tool, indicated a satisfactory granularity of the DFCC Bank's credit portfolio among different industry sectors.

Computation of Probability of Default for borrowers and Loss Given Default data for the DFCC Bank's loan portfolio were key initiatives undertaken during the year. These credit risk components facilitated key business and pricing decisions in addition to positioning the Bank for the implementation of Basel II advanced approaches in the future.

The process of revalidating credit rating models for Corporate and Branch Banking was continued with enhanced data samples. The findings are used to reassess the rating process and rating models as an ongoing practice.

A detailed road map for implementation of Basel II was developed where milestones have been identified with time frames and resource requirements. Implementation commenced with the approval of the Board. The emphasis on management of liquidity and portfolio quality continued throughout the year.

A new Credit Policy framework for DFCC Bank was developed during the year. This framework stipulates specific policies, objectives, strategies, guidelines, organisational structure and key responsibilities for the credit function of DFCC Bank. The Credit Manual for Corporate Banking together with all related documents were reviewed and updated during the year to be in line with current lending practices, processes, the credit policy framework and regulatory requirements. Review of the Credit Manual for Branch Banking is being undertaken during 2010, giving due consideration to current practices and changes in the Delegation of Lending and Related Authority.

The ALCO charter was reviewed and amended thereby streamlining the asset and liability management practices.

Studies and research of key industries and risk factors are carried out and communicated across the Bank by Intergrated Risk Management Department (IRM).

Capacity Building

Staff attached to IRM have been trained and skilled as a part of the ongoing capacity building and development programme.

Training needs were identified based on regulations, best practice and individual as well as organisational level capabilities and needs. Resources needed for such training were allocated on a priority basis. In particular, 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 acquired by relevant staff with a view to applying a statistical approach to managing risk. The knowledge thus gained was shared with staff members of the Group through training programmes conducted in collaboration with Human Resource Development. IRM continued to conduct a series of knowledge sharing sessions with a view to promoting a strong risk management culture across the Group through creating awareness and understanding of evolving risk management concepts.

Credit Risk

Credit risk is the risk that a loss will be incurred if a counterparty to a transaction does not fulfil its financial obligations in full and in a timely manner. The loss of market value of debt securities of the investment portfolio due to credit rating downgrades or the credit spread widening is also part of credit risk but in the Sri Lankan context only a very small proportion of corporate debt is traded. Counterparty credit risk is the most significant type of risk assumed by the Group, and accounted for 87% of risk-weighted assets as at end of the financial year.

Process for Credit Risk Management

The use of internal rating models and the periodic review of assigned ratings 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 automated approval process is in place, guided by the Delegation of Lending and Related Authority limits. Authority levels are defined for each business unit head based on respective risk categories. Approval of credit exposures of large value is undertaken by the Executive Credit Committee or on its recommendation by the Board of Directors. Concentration risk is currently managed and monitored in terms of single borrower limits, group limits and sector limits. Risk exposures to high-risk sectors are managed through sector restrictions that require prior high level clearance before taking on new exposures even for small amounts. Information on sector exposures are given in the Operations Review in this Report.

Market Risk

Market risk is the risk of potential losses accruing through the adverse fluctuation in the market interest rates, equity 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. DFCC Bank's exposure to market risk is governed by a Market Risk Management Framework, that has been approved by the ALCO, BIRMC and the Board. The ALCO acting through the Group Treasury and the Investment Committee, are mandated to manage both the traded and the non-traded market risk at the operational level. 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 exposure. Trends in relevant local as well as international markets are analysed and reported by IRM to ALCO and also shared across the Group. DFCC Bank's foreign exchange assets comprising less than 4% of total assets and liabilities are substantially matched or hedged through various mechanisms and the market risk exposure arising from exchange rate movements is insignificant.

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to the adverse changes in the market interest rates. The Group 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 Group's asset and liability profile in terms of interest rate risk and reports to the ALCO for decisions on necessary realignment in the asset and liability structure and the pricing mechanism.

As a general rule, medium-term fixed rate advances are funded by fixed rate liabilities. Foreign currency assets and liabilities are re-priced periodically linked to a benchmark rate. Statistical methods such as scenario analysis, simulation and stress testing are used 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. The Investment Committee is responsible for making investment decisions and monitoring exposure to the equity market. Asset allocation limits are approved by the Board of Directors based on recommendations of ALCO/BIRMC. Rigorous appraisal, proper market timing and exposure limits are used to manage equity prices risk. The Group's long-term investment horizon for equity investments smoothens out the adverse implications of short-term market volatility. The Group's exposure to equity prices risk through the equity trading and the investment portfolios is nominal as these two portfolios account for 2.3% of the total assets. DFCC Group has not engaged in active trading of equities; however, Directions issued by the Central Bank of Sri Lanka necessitates the transfer and marking to market of certain residual equity holdings to a trading portfolio.

Liquidity Risk

Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time and in full, at a reasonable cost. DFCC Bank has a Board approved framework for Liquidity Risk Management. 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 and maturity gap analysis are used as analytical tools by the ALCO. Whilst comfortably meeting the regulatory requirements relating to liquidity, for internal monitoring purposes the Group also takes into consideration the actual 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 [AA(lka)] by Fitch Ratings Lanka, unchanged since January 2003 and the favourable reputation in the market enables DFCC Bank to access domestic wholesale funds when needed to supplement its traditional funding from multilateral and bilateral sources. For short-term liquidity support, DFCC Bank has access to the money market at competitive rates. The diversification of the liability structure is also a key focus of the Group and access to retail deposits is being effected through expanding the reach of DVB. A substantial proportion of DFCC's funding is from medium to long-term funds. This reduces its liquidity risk in the short term. If the necessity arises, part of DFCC Bank's lending portfolio can be securitised to ease the Bank's liquidity position. DFCC's risk-based pricing mechanism ensures that residual liquidity risk is duly priced when pricing assets.

Operational Risk

Operational risk arises from human activities, technology and natural incidents. 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 back-up facilities for information are the fundamental tools of operational risk management. Audit findings and management responses are forwarded to the Board's Audit Sub-committee for their examination. Effective internal control systems, supervision by the Board, senior management and the line managers form a part of "First Line of Defence" for operational risk management at DFCC Bank. The Group 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 Bank's business recovery plan deals with natural or other catastrophes. The loss of physical assets is mitigated through insurance.

Reputation Risk

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

Business Risk

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

Business risk relating to customers are 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 against the Bank. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to, related legislation by the staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure. In the event of a legal risk factor, the Legal Department of the Bank takes immediate action to address and mitigate these risks. External legal advice is obtained when required. The financial statements disclose details of significant ongoing legal disputes involving the Bank.

Risk-based Capital Adequacy

As can be seen from the Capital Adequacy computation given elsewhere in this Annual Report, DFCC Bank continued to maintain a healthy risk capital position on a solo and group basis computed under the simplest approaches of Basel II[1] . Contraction in the credit portfolio was offset by the investments in the default risk-free Government securities which made risk-weighted assets to decline compared to the previous year. This was the main cause for the increase in the risk capital ratios during the period under review. The existing risk capital base of DFCC Bank was twice the minimum regulatory capital requirement and indicated a high level of risk absorption capacity. This capital position will enable DFCC Bank to exploit the anticipated growth in credit.

1 *The consolidated total regulatory capital base of the Group is lower than the core capital due to the reduction arising from the investment in the associate company, Commercial Bank of Ceylon PLC.*

DFCC Group Regulatory Capital Ratio

Under the simplest approaches of Basel II as at 31 March 2010.

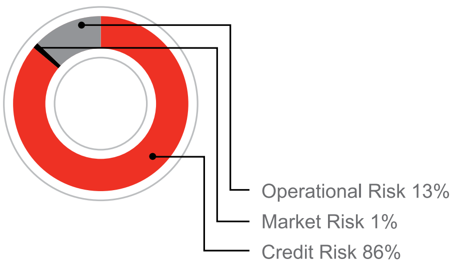
	2010	2009
Core capital	26.2%	21.9%
Total capital base	23.2%	19.9%

DFCC Group Regulatory Capital

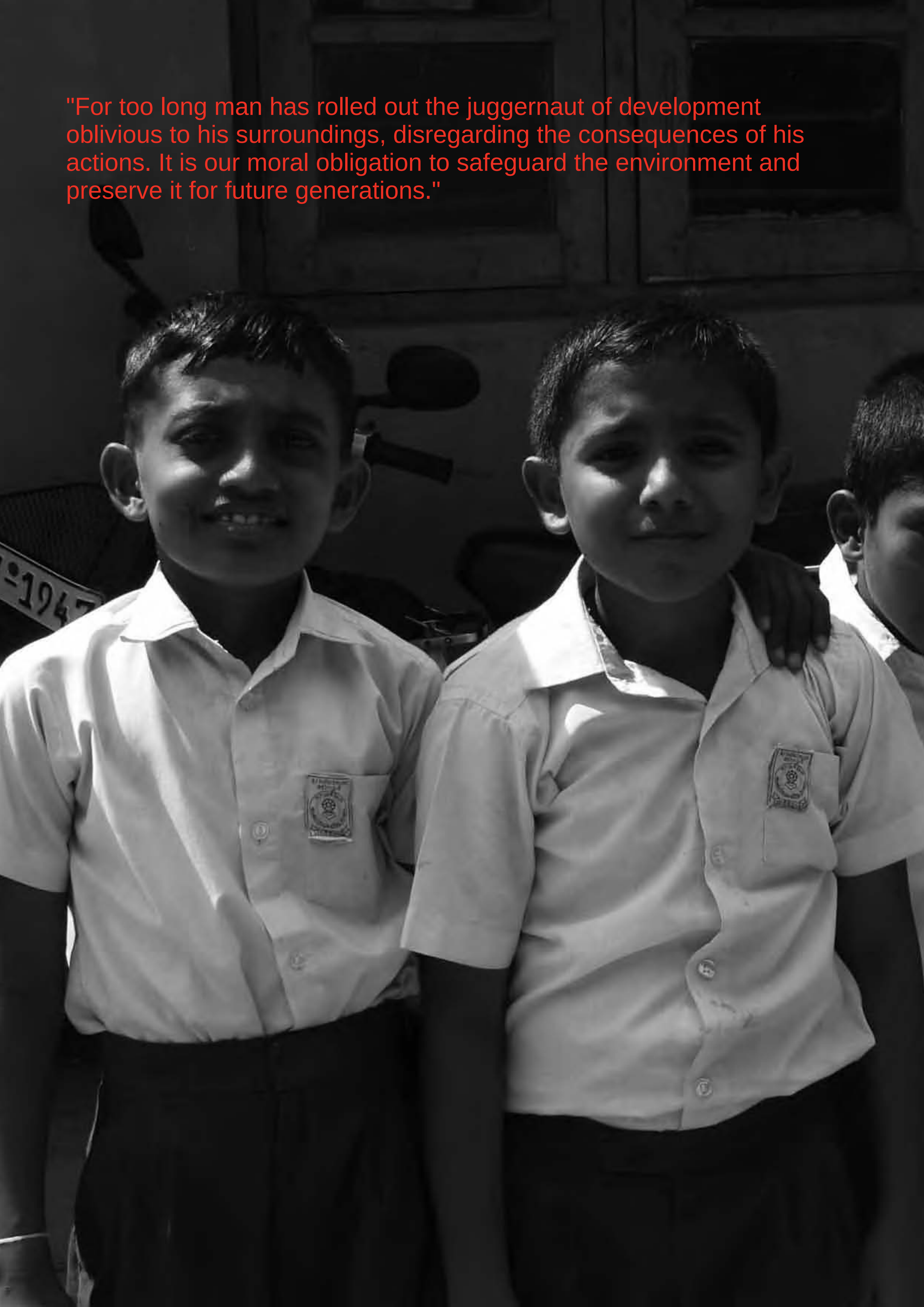
Positions under the simplest approaches of Basel II as at 31 March 2010.

Allocation of Capital	Amount Rs million	%
Credit Risk	5,544	86
Market Risk	82	1
Operational Risk	814	13
Minimum Regulatory Capital	6,440	100
Buffer	8,449	
Actual Regulatory Capital	14,889	

Group Risk Weighted Assets



"For too long man has rolled out the juggernaut of development oblivious to his surroundings, disregarding the consequences of his actions. It is our moral obligation to safeguard the environment and preserve it for future generations."



Sustainability Report

Sustainability Report

Chief Executive's Message

The native Americans have a proverb that says "We do not inherit this earth from our ancestors, we borrow it from our children". For too long man has rolled out the juggernaut of development oblivious to his surroundings, disregarding the consequences of his actions. It is our moral obligation to safeguard the environment and preserve it for future generations.

DFCC Bank has been in development finance for almost six decades. Throughout this period we have evolved along with the enterprises we helped establish. Today, most of them have strong values that view sustainable growth as an important aspect of business strategy.

Our own commitment to sustainability is strong as ever. As an organisation that is at the forefront of the financial sector, our responsibility lies in guiding the nation's entrepreneurs in the right direction.

DFCC Bank's mission statement in itself vows to support businesses and create value for all stakeholders implying an engagement to deliver sustainable corporate social responsibility initiatives.

This is our second Report on Sustainability. It publishes details of our activities in environmental responsibility, educational advancement, investment in the community and employee empowerment. In 2009, we made progress in many areas of sustainability. Our "6S" programme for schools set out to inculcate students with the value of an organised lifestyle. The principles of " 6S" are about Sorting, Setting in order, Systematic cleaning, Standardising, Sustaining discipline and Safety. Selected schools from around the country were given guidance on the implementation of the system and were later assessed by experts on their level of improvement and rewarded by the Bank. It was truly remarkable seeing young minds being moulded and learning hubs being transformed.

DFCC Bank has continued to improve on its environmental policies and guidelines. The formal adoption of the Environmental & Social Management System (EMS) as part of the credit policy is an important step in promoting sustainable business ventures. The Bank also maintains a negative sector list, which it refrains from funding due to adverse affects on the environment. Furthermore, DFCC Bank was at the forefront of promoting Sri Lanka's first-ever wind power generation plant, which seeks to use a renewable source to generate 28GWh of electricity annually. While compared to the annual electricity consumption of the nation it is a small contribution, yet we believe it is a giant step in the right direction.

With regard to our own carbon footprint, the Bank has been aggressively pursuing the policy of minimising wastage, reducing emissions, recycling waste and conserving water in an attempt to be a "lean and green" corporate entity.

Our contribution to the country's economy is a well-documented fact. DFCC Bank continues to support small and medium enterprises, which form the backbone of the Sri Lankan economy. The SME sector comprised 44% of our loan approvals in FYE 2010. We, along with the rest of the country, are looking forward to positive economic developments in the coming year. As such, the Bank is geared to support entrepreneurs when they need our resources and guidance.

Employee empowerment is the final area dealt with in this Report. Despite difficult external conditions last year, DFCC Bank made a conscious effort not to compromise on staff development and capacity enhancement. In 2009, we introduced a new platform for e-learning to staff and currently the programme runs a series of job specific and soft skills development modules.

Looking towards the future, DFCC Bank will continue to enhance its capabilities, while delivering sustainable returns to it's stakeholders.

The future belongs to those who prepare for it.

Nihal Fonseka
Chief Executive
26 May 2010

Sustainability Report

Reports

Environment

Sustainability is about the future. Unborn generations are relying on us to protect and nurture this world so they too can enjoy the fruits of its splendour. As development rolls out and industries expand, our ecological and social environment changes, in most cases adversely. As the pioneering development bank supporting the growth of industry in Sri Lanka, DFCC Bank recognises its responsibility to support sustainable development. It also identifies the responsibility to help industries take necessary action to control and mitigate any adverse impact on the environment.

Today there is growing public awareness and concern over environmental and social issues. This is driving changes in consumer behaviour, investments and regulations. Various stakeholders including shareholders and funding agencies are increasingly concerned over environmental and social issues relating to development projects while consumers are altering their buying patterns to support ethically sourced goods and services. Compliance with environmental, social, health and safety standards not only ensures the continuity of the project, but also by being conscious of all stakeholder expectations avoids costly litigation and corrective actions arising from non-compliance with regulatory requirements.

DFCC Bank has made significant efforts to manage environmental and social aspects of conducting business, taking investment decisions and managing internal operations. However, increased attention to these areas is now required as it will not only make good business sense but also improve the corporate social responsibility image of the Bank. With the objective of incorporating the consideration on environment and social aspects as an integral part of our project appraisal and follow up activities, the Bank has implemented an Environmental & Social Management System (EMS) with five main objectives.

First, the Bank works on identifying and assessing all environmental and social risk factors of projects that seek financial assistance. Second, it promotes activities and investments that improve environmental and social conditions, makes effective use of resources and complies with environmental laws and regulations. The third objective is to ensure that measures are incorporated to prevent the occurrence of adverse environmental and social impacts. This option of prevention is the preferred alternative compared to others such as minimising, mitigating or compensation. Fourth, the EMS will monitor environmental and social performance of projects financed by the Bank on a regular basis. The final objective of the Environmental & Social Management System is the effective management of environmental aspects of the Bank's in-house operations.

Identifying Environmental and Social Risks

Environmental and Social Assessment is a process that aids in the decision making of the Bank by identifying potential sources of future risk and liabilities in the early stages of the project appraisal process. Environmental risk can either be inherent in the collateral or property, or it may arise from the operation of the project. In order to ensure sustainability of the project and to arrive at a proper investment decision, environmental and social risks and effectiveness of the proposed preventive measures are assessed in addition to the financial and economic viability of the project. All projects are screened to determine environmental impacts such as pollution, noise, odour, nuisance and other social impacts.

Supporting environmentally friendly initiatives

The Bank offers concessionary loans under the e-Friends initiative to environmentally friendly projects. The main objective of the scheme is to prevent industrial pollution in the country. These loans will be used for waste and pollution reduction while conserving resources. Since 2006 DFCC Bank has disbursed a total of Rs1.5 billion as part of this initiative. During this year alone loans amounting to Rs.683 million have been provided to entrepreneurs to improve the environmental standards of their businesses.

Preventing adverse affects on the environment and Monitoring

The Bank 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. DFCC 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 becomes 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 EMS policy.

Good Housekeeping

DFCC Bank adopts environmentally friendly operational procedures; best practices in environmental management including energy efficiency, recycling, waste reduction and proper disposal of waste. "Good Housekeeping" is something that the Bank has practiced and improved upon year on year. The data in the Table below indicates a marginal increase in average water usage per branch and head office newspaper consumption. As a result of maintaining vehicles in their peak condition, the average number of kilometers per litre has increased while the total number of kilometers travelled and the number of kilometers per executive at Head Office has reduced considerably due to the better administration of transport schedules. The amount of electricity used per branch has reduced appreciably due to new environmental guidelines set out for DFCC Bank offices. Overall, Facilities Management and Procurement have been able to maintain set performance goals for 2009/10. This is an important step in reducing the corporate carbon footprint.

Consumption	**2009/10 Units**	2008/09 Units	Increase/ Decrease %
Electricity (kWh) - Avg. per branch	117,569	134,932	(13)
Water (m3) - Avg. per branch	1,121	1,032	9
Fuel (litres) - Head Office	42,499	44,803	(5)
Number of km -Head Office	326,793	330,851	(1)
Hired Vehicles - Number of km	5,848	5,603	4
White Paper - Packets	1,776	2,470	(28)
Newspapers - Head Office	700	675	3
Average No. of km per Executive	3,138	3,823	
Average No. of km per Liter	7.69	7.38	

The Bank also attempts to minimise physical risk and protects its staff by employing safe technologies, operating procedures and provides a comfortable work environment. It also provides operational staff with training and information to enhance their understanding of the Bank's environmental policy and programme and their responsibility to implement them.

Clean Energy

The need for renewable, reliable, clean energy is becoming more apparent as we step into a new decade. Meeting Sri Lanka's growing energy needs in an economically, environmentally and socially responsible way is a priority for DFCC Bank. Our commitment to develop sustainable energy began with support for the first grid connected mini hydropower project in Sri Lanka. Since then, we have made steady progress resulting in being recognised as a premier resource centre for the country's Renewable Energy sector.

In this backdrop the country's first commercial wind power plant in Kalpitiya was supported by DFCC Bank. The plant was set to produce 10MW of Grid connected wind power using eight 1,250kW wind turbines. The expected average annual energy generation is 28 GWh, yielding a revenue of Rs560 million. DFCC Bank has been involved in the project since its inception playing a vital role in guiding the promoters on key issues such as a viable tariff structure, structuring finance facilities and obtaining requisite approvals. This encouraged other banks to participate in funding this pioneering venture. DFCC Bank took a proactive interest in syndicating a loan of Rs1,100 million with the participation of three other banks.

Sustainability Report

Reports

Economy

Ever since its incorporation in 1955, DFCC bank has served the nation by facilitating entrepreneurship. Through almost six decades of existence the Bank has assisted more than 100,000 projects that created direct employment for more than 750,000 individuals.

Apart from the numbers assisted and amounts lent, DFCC Bank was at the forefront in developing certain sectors for investment. The Tourist Hotel sector, Horticulture, Mini-hydro and Telecommunications were some of the areas DFCC Bank helped promote and establish in partnership with Government agencies and the private sector.

Supporting Small and Medium Enterprises

Economic development, or the economic aspect of social change is about increasing and improving the production of goods and services. Helping businesses create social change through economics is the core of development banking. DFCC Bank as a specialised development bank finances business related activities. Entities utilise this investment to create products and services. These in turn create employment, which generates more consumption leading to capital formation and economic growth.

Under these circumstances supporting Small and Medium Enterprises (SME) is an important component of DFCC Bank's commitment to the economy. The strategy for SMEs revolves around developing their internal capabilities leading towards improved access to finance. DFCC Bank also provides access to concessionary credit lines, giving these enterprises a competitive edge. The Bank has taken the initiative to utilise credit from bilateral and multilateral organisations to support small businesses located in rural areas of the country, becoming the premier lender for most credit lines available for the sector.

DFCC also guides small businesses in the effective use of credit to create sustainable business ventures. Close monitoring and patronage is given to ensure that entrepreneurs are utilising all available resources to increase innovation, competitiveness and productivity.

In the calendar year of 2009, despite the slowdown in demand, the Bank provided over 10,000 loans and leases to Small and Medium Enterprises. While SME credit approvals stood at Rs7,112 million for the FYE 2010.More than 400 new jobs were created through these initiatives. The recent improvement in market conditions and low interest rates are expected to stimulate future performance in the sector leading to more job creation and economic growth.

Our continuing efforts to reach out to entrepreneurs around the country saw DFCC Bank expand its network to Ampara, Batticaloa and Jaffna. Three more branches will be opened in Trincomalee, Vavuniya and Hambantota shortly. This gives us the opportunity to take our experience in SME financing and various concessionary credit schemes to these regions and work closely with businesses to ensure sustainable growth.

Corporate Social Responsibility

In the past, DFCC Bank has been associated with many one-off projects in the sphere of education. However, as a leading corporate, there was a growing need for the Bank to invest in a community development project that was not only sustainable but would leave a lasting impression on the community.

Education with a Difference

DFCC Bank's year long project in collaboration with the Ministry of Education to empower young minds with knowledge and enable them to increase efficiency and productivity, was successfully concluded with outstanding performances by participating schools. Like lotuses blooming from the murky depths of a muddy pond, it was truly inspirational to witness the transformation of these students and their respective schools.

During the many years of project lending activity the Bank has observed that productivity levels in Sri Lankan enterprises are generally low. A key reason is the lack of an organised environment, which promotes efficiency.

Inspired by the Japanese, it was decided to introduce the '5S' management system to primary school children who will better absorb the principles and grow to be more organised citizens and form a more efficient work-force.

In 2009, schools from around the country were selected to carry out this programme, which was designed to prepare young children cope with the challenges of the future. It encompassed teacher training and parent guidance as well.

The implementation was on theoretical and practical application of the 'Five-S' principles with an added 'S' for creating awareness on 'Safety'. It also included guidance on the '3R' (Reduce, Reuse, Recycle) principles on environment stewardship.

The Bank engaged a '5S' expert who had extensive experience working with children to train and guide schools in the implementation of the programme. Thereafter, students and teachers were encouraged to practice the disciplines.

Volunteer Involvement

Going beyond the general practice of a corporate that would stop at funding such an initiative, DFCC Bank extended its involvement to this project in a unique way by having 240 volunteers from DFCC Bank as well as its subsidiary DFCC Vardhana Bank. Collectively, they have invested over 3,000 volunteer hours to this initiative. Even though the service of a consultant was used to guide school staff, these volunteers from the Bank who were working with the schools to creatively implement the programme made the difference. DFCC Bank also saw this involvement as being beneficial to its staff in terms of practical training in teamwork and leadership.

Another unique aspect of this project was that the resource provider presented only the guideline as to how these management principles should be implemented and the schools were evaluated on how innovative they had been in implementing the system in their respective schools.

Changing Attitudes

The success of this project was dependent on the attitudes of students, principals and teachers. It is understood that people are generally resistant to change. Moving away from the old and learning new ways of doing things was the key to implementing '5S' in the classrooms. To effect a change in attitudes, DFCC Bank organised a number of workshops and seminars for principals and teachers who were driving this project in their respective schools.

Environmental Stewardship

As a further extension to this project of implementing '6S' and '3R' principles, the Bank educated the students of these schools the principles of environmental stewardship and waste management. During Vesak, which is a religious festival for Buddhists, a competition was held in schools to build lanterns and other decorations using eco-friendly material. This helped children grasp the concepts of 3R in an interesting manner. There was also a campaign to involve students in planting trees at the school premises to mark the World Environment Day.

Students of Thalpawila Mihindu Model School - Matara learning to care for the Environment.

Outstanding Results

At the end of 2009, a panel of judges ranked the schools. A dramatic transformation was seen since the adoption of Six-S principles. The classrooms were better organised and the surrounding areas cleaner. The judges' ratings showed that 90% of the selected schools scored well above the set standard.

The principal and teachers of Udubadalawa Sudharshana Maha Vidyalaya Kurunegala. The winner of the award for the best implementation in the '6S' programme.

Overcoming Challenges

Changing the Mindset

The project was implemented in steps over a period of time where the progress was gradual. These steps involved changing conventional methods to more organised and effective work practices. The process calls for a dramatic change in the attitudes and mindset of the principals and teachers who drove the project in schools. At times, attempts by school staff to change procedures were discouraged by the administration. This was a major challenge faced by the project team. There was a need to break these barriers and drive change amongst the parties involved.

This was partly addressed by the way the project was implemented. It was a collective effort by both the school as well as the volunteer teams of DFCC and DFCC Vardhana Bank. However, an important step taken was to conduct seminars and workshops for respective Zonal Education Directors and Principals as well as teachers who gave leadership to their respective 'Quality Circles' in these schools. The seminars and workshops were conducted by a veteran in the field of change management in the Public Sector.

The Principals and Zonal Directors were addressed on the topic of Leadership development and team building, which are key aspects of driving change. Teachers were addressed on teamwork and collective problem solving which were considered useful traits in facing challenges in implementing new projects.

Changing the mindset is the core of change management. principals and teachers of schools attend a workshop on leadership and team building.

Parent Involvement

Since young minds easily grasp change, the focus of the project was on the primary students. However, the drawback was that these students did not have the capacity to perform the physical change needed in school infrastructure. With limited number of staff, the schools could not commit enough manpower for labour-intensive efforts. As a result, the principal and teachers had to rely on parents of students to help the school for the benefit of their children.

However, this was not an easy task as many parents already had obligations to their workplaces and livelihoods. Especially in the outstations where many parents endured hardship making a daily living, it was a tough challenge to gain their commitment. DFCC Bank and schools worked together in many different ways get their voluntary contribution for the betterment of their child's school.

The consultant engaged by DFCC Bank on this project was a well known public figure and that inspired many parents to take part in the programme. Further, the image of the Bank as a respected financial entity put the parents at ease and drew them to the project.

However, the major contribution was the superficial transformation of the schools witnessed by parents in their occasional visits, which inspired them to engage more in helping the teachers with the implementation of 'Six S'.

Financing the Project

Funding for such long-term initiatives is a major issue that schools face. With dwindling finances, enthusiasm fades and these projects generally end up in failure. Foreseeing this, DFCC Bank began a 'matching grant' scheme tied to the 'Six-S' implementation. Under the scheme, schools were asked to design and implement fund raising initiatives to cover their implementation expenses. The funds raised were matched by DFCC Bank. Schools came up with many creative fundraising initiatives and moreover, the realisation that they could do similar projects in the future ensures the sustainability of the programme in the years ahead.

Going Forward

Encouraged by the outcome and with learning from the 2009 project, it was decided to give the opportunity to another group of schools to join the programme. It is worthwhile to note that this group includes two schools from Batticaloa, an area that the conflict had rendered underdeveloped and distant. Being the first of its kind, this Corporate Social Responsibility initiative is something that the Bank would encourage other Corporates to do as well, since there are 10,000 schools around the country eagerly awaiting opportunities to transform themselves and in the process transform Sri Lanka's future.

Infrastructure Development in Schools

Focusing on enriching the school environment, DFCC Bank identified infrastructure development requirements of a number of schools in the country during 2009. One such school was St. Anne's College- Kurana, which regularly felt the effect of floodwaters. Even in a light rain shower the well maintained garden and classrooms were often inundated. The principal, staff and the students were constantly preparing themselves to deal with flood conditions. Seeing their plight DFCC Bank decided to support the school with the installation of a drainage system within the school premises to manage flooding at a cost of Rs350,000.

Most of the schools located in the North and the East have ended up as ruins as a result of hostilities, which affected the day-to-day life of civilians as well as school children. In its larger commitment to support the North and the East, DFCC Bank has already identified schools in Jaffna and Vavuniya districts to develop infrastructure facilities necessary to deliver quality education to students in the region.

Teachers from selected schools attended a series of change management seminars and workshops.

Sustainability Report

Reports

Human Capital

DFCC Bank continues to regard its pool of human capital as a key component in fulfilling its mission of providing superior and state-of-the-art financial services and solutions to its varied clients engaged in nurturing enterprises within Sri Lanka. In this endeavour, the Bank continues to refine its selection process to attract talent demonstrating the 'best fit' to the organisation and its culture. We continue to accord high priority to developing our staff so that they are equipped with the required attributes and competencies not only to sustain the Bank but also to propel it forward in a continuously challenging environment.

Recruiting the Best Talent

The challenge posed in previous years on recruiting employees with the 'best fit' to the Bank continued into 2009/10. Considering the downturn in the global economy and its consequences on Sri Lanka, the Bank continued with its policy of keeping incremental staff numbers to an essential minimum. As a result, as at 31 March 2010 total staff strength amounted to 427, an increase of less than 3% over the previous year, a commendable achievement, considering the expansion of the Bank's branch network with the opening of three new branches in the North and the East.

The HR functions of our subsidiary, DFCC Vardhana Bank Ltd (DVB) continued to be centrally managed by the HR Division of DFCC Bank. With its expansion via new branches and extension offices housed at Sri Lanka Post locations, 166 new staff members were recruited to DVB increasing the total staff strength to 492 as at the 31 March 2010.

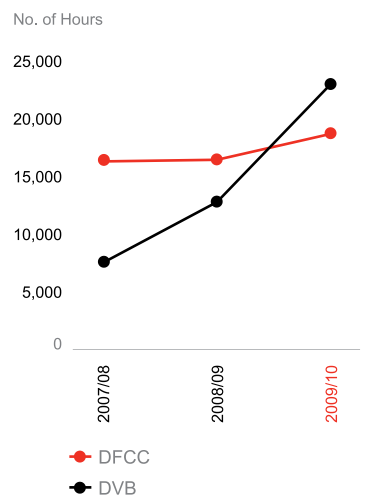
To build capacity within the DFCC Group on all aspects of commercial banking, DFCC Bank continued with programmes for secondments and job rotations by providing such opportunities at DVB for 20 staff members of DFCC Bank. In addition to these capacity building initiatives, both DFCC Bank and DVB recruited a few individuals with required skills and competencies at senior executive level to complement the knowledge pool currently available at both Banks. This will be continued in the current year as well with a view of building the required expertise within the Banks.

Enhancing Knowledge and Building Skills through Training and Development

Despite the difficult external conditions prevailing during the period under review, DFCC Bank made a conscious effort not to compromise on staff development and capacity enhancement. Individual development needs were identified through the Bank's training needs analysis process, encompassing several feedback mechanisms such as performance evaluations, individual development plans and discussions with business heads on specialised job-based skill enhancement requirements. This process led to the formulation of a broad annual training plan for both DFCC Bank and DVB. Based on this plan, employees were given access to development interventions, both locally and overseas.

The Bank provided 18,824 man-hours of training, reflecting an increase of 14% over the comparable period of the previous year and translating to about 45 hours of training on average per employee. The total training provided to

Total Man Hours



DVB staff increased by 80% to 23,048 man-hours, reflecting over 52 hours of training on average per employee. Specialised job-based capacity building interventions focused on risk management, treasury operations, banking operations, project financing, rehabilitation and restructuring. With the assistance of a donor agency, we were able to obtain the services of three reputed international trainers who conducted sessions for staff of both Banks. We continued to attract bright young talent and develop them through a structured management trainee programme comprising on-the-job training with job rotations, technical and soft skills training interventions, quarterly performance evaluations and continuous assessments. These management trainees underwent over 200 hours of classroom training comprising in-house, external and overseas programmes.

In 2009, we introduced e-learning to staff of both DFCC Bank and DVB and to-date have successfully launched a series of job specific and soft skills modules. The content for these modules was primarily developed in-house, utilising extensive internal expertise available. This initiative has been positively received by the staff and is now becoming firmly entrenched as a viable and accessible learning tool.

Succession Planning

Succession planning is an important task that is managed by the HR department. During the year, critical potential internal successors for mid level management positions were identified and the HR department will be launching a development and coaching program with the help of external expertise.

Building an Interactive Culture

The Bank is committed to providing its staff with a healthy work-life balance so that individuals have opportunities to develop not only professionally but also personally. In addition to helping employees acquire the knowledge and skills required to perform in their respective functional roles, the Bank also provides many formal and informal opportunities for them to interact with each other outside the office environment. The amalgamated welfare clubs of DFCC Bank and DVB are primarily driven by employees themselves who organise many interesting and interactive programmes which are well patronised by staff at all levels and their families throughout the year.

The branch of the Toastmasters club provided its members with the opportunity to acquire public speaking skills.

The HR function of DFCC Bank has made significant progress over the past few years and has put in place policies, guidelines and processes required to maintain a sustainable talent pool for both DFCC Bank and DVB. We believe that our stringent recruitment policies, focused development initiatives, continuously improving performance management mechanisms as well as focus on fostering a familial and supportive working environment will spur DFCC Bank to scale greater heights when operating within a competitive and challenging financial environment.

	2010	2009	2008	2007	2006
Income Per Employee (000's)	20,711	23,884	22,998	16,319	14,403
PBT Per Employee (000's)	5,627	4,845	4,733	4,420	4,418
Assets Per Employee (000's)	132,122	141,267	151,215	144,409	127,306

Measuring performance is an important step towards improvement. When performance meets potential, excellence becomes a reality.

Financial Report

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 reporting system of the Bank has been designed to provide reasonable assurance on the reliability of the financial statements prepared for external purposes and is in compliance with relevant accounting principles and regulatory requirements". The report of this Committee is in pages 32 to 34.

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 Officer's and the Chief Financial Officer's Responsibility Statement on page 63.

By Order of the Board

T Wijemanna
Secretary to the Board

26 May 2010

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

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 Ford, Rhodes, Thornton & Co. (KPMG FRT). National Asset Management Limited an associate company is also audited by KPMG FRT. Commercial Bank of Ceylon PLC, another associate company, is audited by Ernst & Young (EY). All the auditors are Chartered Accountants and independent auditors.

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
26 May 2010

Independent Auditor's Report

KPMG

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
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TO THE SHAREHOLDERS OF DFCC BANK

Report on the Financial Statements

We have audited the accompanying financial statements of DFCC Bank ("Bank"), the consolidated financial statements of the Bank and its subsidiaries as at that date which comprise the balance sheet as at March 31, 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and other explanatory notes as set out on pages 65 to 120 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended March 31, 2010 and the financial statements give a true and fair view of the Bank's state of affairs as at March 31, 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of the DFCC Bank Act No. 35 of 1955 and Section 153 (2) to 153 (7) of the Companies Act No. 07 of 2007 and present the information required by the Banking Act No. 30 of 1988.

Chartered Accountants

26th May 2010
Colombo.

Income Statement

For the year ended 31 March	Notes	Page No.	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000	* Variance Rs 000
Income	10	83	8,843,452	9,887,897	13,085,852	13,416,193	(330,341)
Interest income	11	83	7,416,335	8,528,857	11,793,481	11,998,933	(205,452)
Interest expense	12	83	4,224,044	5,623,964	6,595,929	7,761,960	(1,166,031)
Net interest income			3,192,291	2,904,893	5,197,552	4,236,973	960,579
Other income	13	84	1,427,117	1,359,040	1,292,371	1,417,260	(124,889)
Operating income			4,619,408	4,263,933	6,489,923	5,654,233	835,690
Personnel expenses			574,896	544,167	1,024,916	895,435	129,481
Provision for staff retirement benefits	14	84	139,961	163,822	186,857	203,217	(16,360)
Premises, equipment and establishment expenses			246,758	241,636	613,880	534,982	78,898
Other overhead expenses			240,718	241,149	568,818	478,766	90,052
Bad and doubtful debts - specific	15	87	332,729	326,443	559,644	571,688	(12,044)
- general	16	87	22,996	172,502	29,652	214,470	(184,818)
Investment - impairment losses	17	88	0	11,303	0	41,303	(41,303)
Operating expenses	18	88	1,558,058	1,701,022	2,983,767	2,939,861	43,906
Operating profit before value added tax			3,061,350	2,562,911	3,506,156	2,714,372	791,784
Value added tax on financial services			658,673	556,988	840,415	658,058	182,357
Operating profit before income tax			2,402,677	2,005,923	2,665,741	2,056,314	609,427
Share of profits of associates**			0	0	1,085,261	1,066,101	19,160
Profit before tax			2,402,677	2,005,923	3,751,002	3,122,415	628,587
Income tax expense	19	88	689,441	646,050	1,067,232	1,054,844	12,388
Profit for the year			1,713,236	1,359,873	2,683,770	2,067,571	616,199
Attributable to:							
Equity holders of the parent					2,579,972	2,044,706	535,266
Minority interest					103,798	22,865	80,933
Profit for the year					2,683,770	2,067,571	616,199
Earnings per share - Basic, Rs	20	89	12.97	10.41	19.53	15.65	3.88
- Diluted, Rs			12.97	No dilution	19.53	No dilution	–
Dividend per share (Proposed) Rs			6.00	5.00	6.00	5.00	1.00

Notes from pages 70 to 120 form part of these financial statements.

** Current year minus, previous year - Group.*

*** After tax and minority interest.*

Balance Sheet

As at 31 March	Notes	Page No.	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
Assets						
Cash and short-term funds	21	90	2,822,033	2,509,971	2,343,650	4,213,984
Balances with Central Bank	22	90	–	–	802,076	768,383
Treasury bills and other securities eligible for rediscounting with Central Bank	23	91	7,651,073	5,905,209	23,740,835	12,650,799
Securities purchased under resale agreements	24	91	913,611	96,000	1,004,055	1,523,823
Placements with and loans to other banks and financial institutions	25	91	1,834,018	1,454,262	1,834,018	1,352,262
Dealing securities	26	91	56,355	9,607	56,355	17,033
Assets held for sale	27	92	0	0	2,875	0
Bills of exchange discounted	28	92	0	0	325,886	326,171
Loans and advances	29	92	30,466,918	33,892,706	44,305,123	48,491,281
Finance leases	30	93	3,465,730	4,804,430	3,465,730	4,804,430
Interest receivable	31	94	411,389	603,289	238,223	682,228
Investment securities	32	94	1,998,527	1,918,420	2,001,137	2,394,435
Investment in associate companies	33	99	3,187,229	3,187,229	7,818,997	7,160,671
Investment in joint venture	34	100	250,000	250,000	0	0
Investment in subsidiary companies	35	100	2,408,320	2,627,167	0	0
Group balances receivable	36	100	36,121	36,325	150	0
Prepayments			23,853	13,812	23,853	13,812
Income tax refund receivable	37	100	0	1,980	1,682	14,396
Investment property	38	100	6,500	6,500	132,641	141,215
Goodwill on consolidation	39	101	0	0	156,225	146,602
Property, plant and equipment	40	101	375,558	427,697	784,219	803,040
Intangible assets	41	102	49,979	45,942	160,034	169,482
Deferred tax asset	42	102	0	0	806	0
Other assets	43	103	458,871	694,153	1,337,491	1,323,394
Total assets			56,416,085	58,484,699	90,536,061	86,997,441
Liabilities						
Deposits from customers	44	103	5,123,657	5,308,440	25,503,685	23,575,344
Borrowing - Medium and long-term	45	103	28,715,376	28,979,442	28,715,376	28,979,442
- Short-term	46	104	115,000	3,029,871	6,646,231	6,737,096
Debentures	47	104	2,700,000	2,700,000	2,700,000	2,700,000
Group balances payable	48	104	151	0	0	0
Interest accrued			1,081,782	1,192,127	1,590,653	1,648,996
Current tax liability			199,786	0	307,836	220,576
Deferred tax liability	49	104	271,144	285,194	319,412	290,597
Other liabilities	50	105	486,365	498,781	1,379,082	1,152,212
Subordinated debentures	51	107	2,000,000	2,000,000	2,000,000	2,000,000
			40,693,261	43,993,855	69,162,275	67,304,263
Equity						
Share capital	52	107	1,323,753	1,307,325	1,323,753	1,307,325
Share premium			3,371,911	3,207,818	3,375,410	3,260,011
Stated capital	53	108	4,695,664	4,515,143	4,699,163	4,567,336
Reserves	54	108				
Reserve fund			655,000	565,000	961,929	801,539
Other reserves			9,379,839	8,637,839	13,209,690	11,841,788
Retained earnings			992,321	772,862	2,075,577	1,841,264
Shareholders' Equity			15,722,824	14,490,844	20,946,359	19,051,927
Minority interest	55	109	0	0	427,427	641,251
Total equity			15,722,824	14,490,844	21,373,786	19,693,178
Total equity and liabilities			56,416,085	58,484,699	90,536,061	86,997,441
Commitments and contingencies	56	109	9,520,695	7,833,247	18,953,920	14,859,140
Net asset value per share, Rs			119.03	110.90	158.58	145.81

Notes from pages 70 to 120 form part of these financial statements.

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

Colombo
26 May 2010

Statement of Changes in Equity

For the years ended 31 March

	Share capital Rs 000	Share premium Rs 000	Reserve fund Rs 000	Other reserves Rs 000	Retained earnings Rs 000	Total equity Rs 000
Bank						
Balance as at 31.03.2008	1,301,956	3,184,145	495,000	7,982,043	792,448	13,755,592
Profit for the year	–	–	–	–	1,359,873	1,359,873
Transfers from current earnings	–	–	70,000	655,796	(725,796)	–
Final dividends approved on 30.06.2008	–	–	–	–	(653,663)	(653,663)
Issue of shares under share option scheme	5,369	23,673	–	–	–	29,042
Balance as at 31.03.2009	**1,307,325**	**3,207,818**	**565,000**	**8,637,839**	**772,862**	**14,490,844**
Profit for the year	–	–	–	–	1,713,236	1,713,236
Transfers from current earnings	–	–	90,000	742,000	(832,000)	–
Final dividends approved on 30.06.2009	–	–	–	–	(661,777)	(661,777)
Issue of shares under share option scheme	16,428	165,210	–	–	–	181,638
Share issue expenses written off	–	(1,117)	–	–	–	(1,117)
Balance as at 31.03.2010	**1,323,753**	**3,371,911**	**655,000**	**9,379,839**	**992,321**	**15,722,824**

	Attributable to the equity holders of the Bank							
	Share capital Rs 000	**Share premium Rs 000**	**Reserve fund Rs 000**	**Other reserves Rs 000**	**Retained earnings Rs 000**	**Total Rs 000**	**Minority interest Rs 000**	**Total equity Rs 000**
Group								
Balance as at 31.03.2008	1,301,956	3,236,338	674,120	10,546,863	1,923,213	17,682,490	605,691	18,288,181
Deferred tax effect on revaluation surplus on property - associate company	–	–	–	1,337	–	1,337	–	1,337
Deferred tax on reclassification of revaluation surplus to retained earnings - associate company	–	–	–	–	4,892	4,892	–	4,892
Surplus on revaluation property - associate company	–	–	–	10,574	–	10,574	–	10,574
Temporary diminution value of investments	–	–	–	–	(143)	(143)	(103)	(246)
Net unrealised gains from translation of Bangladesh operation of associate company	–	–	–	17,673	–	17,673	–	17,673
Net income recognised directly in equity	–	–	–	29,584	4,749	34,333	(103)	34,230
Profit for the year	–	–	–	–	2,044,706	2,044,706	22,865	2,067,571
Total recognised income and expenses for the period	–	–	–	29,584	2,049,455	2,079,039	22,762	2,101,801
Transfers	–	–	127,419	1,265,341	(1,392,760)	–	–	–
Final dividends approved on 30.06.2008	–	–	–	–	(653,663)	(653,663)	–	(653,663)
Dividend distributed to minority interest by subsidiaries	–	–	–	–	–	–	(62,187)	(62,187)
Issue of shares under share option scheme	5,369	23,673	–	–	–	29,042	–	29,042
Minority Interest on acquisition on Joint Venture	–	–	–	–	–	–	74,985	74,985
Disposal of subsidiary	–	–	–	–	(84,981)	(84,981)	–	(84,981)
Balance as at 31.03.2009	**1,307,325**	**3,260,011**	**801,539**	**11,841,788**	**1,841,264**	**19,051,927**	**641,251**	**19,693,178**
Reversal of temporary dimunition in value of investments - Lanka Ventures PLC	–	–	–	–	3,996	3,996	2,854	6,850
Net unrealised losses from Bangladesh translation - associate company	–	–	–	(2,612)	–	(2,612)	–	(2,612)
Net income recognised directly in equity	–	–	–	(2,612)	3,996	1,384	2,854	4,238
Profit for the year	–	–	–	–	2,579,972	2,579,972	103,798	2,683,770
Total recognised income and expenses for the period	–	–	–	(2,612)	2,583,968	2,581,356	106,652	2,688,008
Transfers	–	–	160,610	1,370,719	(1,531,329)	–	–	–
Transfer of Reserves Consequent to Liquidation - associate company	–	–	(220)	–	220	–	–	–
Final dividends approved on 30.06.2009	–	–	–	–	(661,777)	(661,777)	–	(661,777)
Dividend distributed to minority interest by subsidiaries	–	–	–	–	–	–	(814)	(814)
Issue of shares under share option scheme	16,428	165,210	–	–	–	181,638	–	181,638
Share issue expenses written off	–	(1,117)	–	–	–	(1,117)	–	(1,117)
Disposal of subsidiary - joint venture company	–	–	–	–	313	313	–	313
Disposal of subsidiary - Lanka Ventures PLC - Note (a)	–	(48,694)	–	(205)	(157,082)	(205,981)	(319,662)	(525,643)
Balance as at 31.03.2010	**1,323,753**	**3,375,410**	**961,929**	**13,209,690**	**2,075,577**	**20,946,359**	**427,427**	**21,373,786**

Note (a)

	Rs 000
Deemed disposal of subsidiary - Lanka Industrial Estates Limited (LINDEL)	(9,163)
Additional share investment in LINDEL	6,560
Disposal of subsidiary - Lanka Ventures PLC	(317,059)
	319,662

Notes from pages 70 to 120 form part of these financial statements.

Cash Flow Statement

For the year ended 31 March	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
Cash flow from operating activities				
Interest receipts	6,308,028	7,474,164	8,953,245	10,317,161
Interest payments	(4,334,101)	(5,481,414)	(6,828,902)	(7,467,568)
Recoveries on loans previously written-off	147,588	117,942	147,588	117,942
Receipts from other operating activities	140,004	340,818	432,050	3,330,916
Cash payments to employees and suppliers	(1,061,502)	(1,202,457)	(1,980,934)	(4,631,819)
Value added tax	(662,361)	(570,646)	(855,811)	(665,419)
Operating profit before changes in operating assets and liabilities	537,656	678,407	(132,764)	1,001,213
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(33,693)	(157,082)
Funds advanced to customers	3,230,210	4,790,127	4,846,374	1,315,304
Others	156,183	494,039	466,549	324,030
Increase/(decrease) in operating liabilities:				
Security deposits from customers	(254)	0	369	4,288
Deposits from customers	(172,478)	196,788	1,963,177	7,071,315
Negotiable certificates of deposit	(12,305)	135	(34,837)	51,388
Net cash flow from operating activities before income tax	3,739,012	6,159,496	7,075,175	9,610,456
Income tax paid	(387,353)	(657,906)	(663,344)	(778,376)
Income tax refund receivable	0	(1,980)	0	(14,396)
Net cash from operating activities	3,351,659	5,499,610	6,411,831	8,817,684
Cash flow from investing activities				
Dividends received	685,108	707,875	708,889	652,398
Interest received	1,169,251	860,319	2,741,157	1,349,666
Treasury bills eligible for rediscounting with Central Bank	(1,745,864)	514,731	(8,277,803)	(2,056,632)
Proceeds from sale and redemption of securities	613,758	789,654	649,877	1,724,759
Purchase of securities	(552,743)	(919,394)	(603,743)	(1,017,153)
Investment in joint venture - Acuity Partners Limited	0	(150,000)	0	0
Disposal of subsidiary shares - Lanka Ventures PLC	521,993	0	0	0
Disposal of subsidiary shares - by joint venture company	0	0	42,337	0
Investment in additional shares in subsidiaries - DFCC Vardhana Bank Limited	0	(23)	0	(23)
Purchase of additional shares of subsidiaries - Lanka Industrial Estates Limited	(18,753)	0	(18,753)	0
Purchase of property, equipment, intangibles and investment property	(56,524)	(105,082)	(219,687)	(299,117)
Proceeds from sale of equipment and investment property	1,678	687	2,593	743
Net cash effect on disposal of subsidiary - DFCC Stockbrokers (Pvt) Limited	0	0	0	(74,335)
Net cash effect on investment in joint venture - Acuity Partners (Pvt) Limited	0	0	0	12,440
Net cash effect on disposal of subsidiaries - Lanka Ventures PLC	0	0	456,215	0
Net cash from/(used in) investing activities	617,904	1,698,767	(4,518,918)	292,746
Cash flow from financing activities				
Issue of debentures	0	0	0	30,000
Issue of new shares under option	181,638	29,042	181,638	29,042
Share issue expenses	(1,117)	0	(1,117)	0
Borrowing, medium and long-term	5,435,214	7,331,802	6,660,929	7,750,216
Other borrowings	(2,914,872)	(1,112,840)	(1,537,859)	(1,938,523)
Repayment of borrowing, medium-and long-term	(5,699,281)	(11,975,648)	(5,699,281)	(11,975,648)
Dividends paid	(659,083)	(651,075)	(659,795)	(718,671)
Net cash flow used in financing activities	(3,657,501)	(6,378,719)	(1,055,485)	(6,823,584)
Net increase in cash & cash equivalents	312,062	819,658	837,428	2,286,846
Cash & cash equivalents/(overdraft - net) at the beginning of period	2,509,971	1,690,313	6,162,307	3,875,461
Cash & cash equivalents at the end of period	2,822,033	2,509,971	6,999,735	6,162,307
Reconciliation of cash & cash equivalents				
Cash & short-term funds - Note 21	2,822,033	2,509,971	2,343,650	4,208,584
Placements with & loans to banks & financial institutions - Note 21	0	0	0	5,400
Treasury bills & other securities eligible for rediscounting with Central Bank - Note 23	0	0	4,678,191	1,950,080
Borrowings short-term - Bank overdrafts - Note 46	0	0	(22,106)	(1,757)
	2,822,033	2,509,971	6,999,735	6,162,307

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.

Comparative figures have been restated to confirm to the period ended 31 March 2010 classification.

Notes from pages 70 to 120 form part of these financial statements.

Note a

Reconciliation of profit for the year to net cash from operating activities

For the year ended 31 March	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
Profit for the year	1,713,236	1,359,873	2,579,972	2,044,706
Deduct: Dividend transferred to investing activities	(665,814)	(715,709)	(264,037)	(318,355)
	1,047,422	644,164	2,315,935	1,726,351
Add/(deduct) items not using/(providing) cash:				
Depreciation - Property, plant and equipment and investment property	90,230	93,066	192,258	172,278
Amortisation - Intangible assets	14,233	30,517	61,643	70,230
Gains on sale of investment securities	(145,274)	(121,386)	(150,242)	(177,909)
Gain from marked to market on dealing securities	(42,596)	8,883	(42,596)	20,170
Gain on sale of equipment and investment property	(1,514)	(286)	(1,152)	(108)
(Gain)/loss on deemed disposal of associate companies' shares	0	0	1,911	(130)
Notional tax credit on treasury bills and bonds	(114,372)	(85,702)	(275,872)	(136,902)
Share of profits of associates	0	0	(1,085,261)	(1,066,101)
Bad and doubtful debts	355,725	498,945	589,296	786,158
Investments - impairment losses	0	11,303	0	41,303
Gain on disposal of subsidiary	(284,393)	(84,981)	(142,197)	(42,491)
Gain on disposal of subsidiary - by Joint Venture Company	0	0	(26,309)	0
Minority interests			103,798	22,865
Increase in accounts receivables	(993,870)	(955,791)	(2,652,475)	1,005,550
Decrease in account payables	(77,376)	(6,372)	(88,735)	(2,474,896)
Increase/(decrease) in income tax payable	316,138	(46,427)	375,879	152,924
Increase in income tax refund receivables	0	(1,980)	0	(14,396)
Increase/(decrease) in deferred tax	(14,050)	34,571	28,009	123,544
Increase/(decrease) in operating assets	3,386,394	5,284,165	5,279,234	1,482,253
Increase/(decrease) in operating liabilities	(185,038)	196,921	1,928,707	7,126,991
Net cash from operating activities	3,351,659	5,499,610	6,411,831	8,817,684

Note b

Net cash effect on disposal of subsidiary - Lanka Ventures PLC (LVL) on 18 January 2010

	Rs 000
Sale proceeds	521,993
Disposal of cash and cash equivalent in LVL	(65,778)
Net cash inflow from disposal	456,215
Reconciliation with net assets of subsidiary disposed	
Cash and cash equivalents	65,778
Loans and advances	105
Investment securities	447,122
Other assets	253,752
Property, plant & equipment	620
Total assets	767,377
Liabilities	(6,737)
Net assets	760,640
Attributable to minority interest in LVL	(317,059)
Attributable to equity holders of the Bank	443,581
Consolidated profit on sale	78,412
Sale proceeds	521,993
Reconciliation of consolidated profit on sale	
Sale proceeds	521,993
Cost of investment	237,600
Profit on disposal in separate financial statements of the Bank	284,393
Comprising:	
Post acquisition undistributed profit of LVL on 18 January 2010	205,981
Premium over net assets realised on sale	78,412
	284,393

Notes from pages 70 to 120 form part of these 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. 7 of 2007 requiring existing companies to re-register and to obtain a new company number does not apply to DFCC Bank.

Section 6 (c) of the Companies Act No. 7 of 2007 requiring a limited company which is a listed company to have the words public limited company or the abbreviation PLC added to its name does not apply to 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 of its own.

The Bank's Group comprises four subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited and Synapsys Limited. Lanka Ventures PLC ceased to be a subsidiary on 18 January 2010 consequent to transfer of its voting shares held by the Bank to Acuity Partners (Pvt) Limited a joint venture company of DFCC Bank and Hatton National Bank PLC.

The Bank has two associate companies viz., Commercial Bank of Ceylon PLC and National Asset Management Limited.

Total employee population of the Bank and the Group on 31 March 2010 was 427 and 1,047 respectively. (31 March 2009 - 419 and 950 respectively)

1.1 Principal Activities

A summary of principal activities of DFCC Bank (the Parent), its subsidiary companies, associate companies 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 Limited
Commercial banking.

Lanka Industrial Estates Limited
Leasing of land and buildings for industrial enterprises.

Synapsys Limited
Information technology services and information technology enabled services.

Commercial Bank of Ceylon PLC
Commercial banking.

National Asset Management Limited
Fund management.

Acuity Partners (Pvt) Limited
Investment company and providing 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.

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 26 May 2010.

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)'. 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 DFCC Bank are presented in Sri Lankan Rupees, the functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated herein, have been prepared under the historical cost convention. Exceptions to the historical cost convention of accounting relate to dealing and investment securities. In the separate financial statements of the DFCC Bank, the 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.

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 and 16 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 Income 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 income tax liability is on self-assessment basis.

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

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.

Only that portion of the profit, arising on sale of Lanka Ventures PLC a subsidiary to Acuity Partners (Pvt) Limited, attributable to Hatton National Bank PLC is recognised in the consolidated income statement.

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, Lanka Industrial Estates Limited and National Asset Management Limited included in the consolidation have financial year to 31 March in common with the Bank. The financial statements of Acuity Partners (Pvt) Limited, Commercial Bank of Ceylon PLC, DFCC Vardhana Bank Limited, Synapsys Limited included in the consolidation have financial year ending on 31 December 2009.

The Group financial statements for the year ended 31 March 2010 include income of Lanka Ventures PLC for the period ended 18 January 2010. The financial statements for the nine months ended 31 December 2009 of Lanka Venture PLC were subject to negative assurance audit.

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 Bank and the Group.

4. Scope of Consolidation

All subsidiaries have been consolidated.

4.1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Note 35 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 33 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 receivable 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 as amended by Direction 10 of 2008 dated 30 December 2008 Direction No. 7 of 2009 dated 30 December 2009 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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 5.2.6.

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

Interest income from Treasury Bills and Bonds is grossed by the addition of the tax credit imputed to 10% withholding tax on discount allowed at the time of issue. This notional tax credit is 1/9th of the net 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 as amended by Direction 10 of 2008 dated 30 December 2008 and Direction No. 7 dated 30 December 2009 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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 Gains on Sale of Subsidiary to Joint Venture Company

Investment by the Bank in the voting ordinary shares Lanka Venture PLC was sold on 18 January 2010 to the joint venture company in which Bank owns 50% of the ordinary voting shares. The profit on sale being the difference between the sale consideration and the cost of investment was reduced by 50% as a consolidation adjustment.

5.1.20 Interest Expense

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

5.1.21 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.

Group makes both general and specific provisions.

5.1.21.1 Specific Provisions

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

Specific provision on guarantees issued 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 Limited include loans and advances, bills discounted and pawning advances.

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

5.1.21.2 General Provision

A general provision of 1% of the outstanding balances of performing and special mention credit facilities (Note 5.2.7) is maintained as per the direction issued by the Central Bank of Sri Lanka on all licensed banks operating in Sri Lanka.

In addition, the Bank has made a general provision of 3% on finance leases, increase from 1% in the previous financial year.

5.1.22 Investment Securities Losses

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

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

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

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

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

Diminution other than temporary in value of all investment securities is charged against the earnings of the period in which they occur. Diminution other than temporary in value of shares included in investment securities is written-off.

5.1.23 Income Tax Expense

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

5.1.23.1 Current Tax

i. Current tax is the expected tax payable on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006, as amended by subsequent legislation.

ii. Current tax expense include any adjustment to tax payable in respect of previous years.

5.1.23.2 Deferred Tax

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

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

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

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.

5.1.23.3 Social Responsibility Levy

This is 1.5% of the income tax, effective from 1 January 2008. Previously this was 1%.

5.1.23.4 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. This is 20% on the value base for value added tax and is a disallowed expense deduction for purposes of income tax liability.

5.1.23.5 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 associated 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, 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. The details of this reserve requirement are given in Note 22.

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 expressed intention and ability to hold until maturity. These are included in the balance sheet as a sub-category of Treasury Bills and other securities eligible for rediscounting with the Central Bank 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 collaterised by the purchase of Treasury Bills and/or guaranteed commercial papers from the counter-party to whom the loans are granted. The sale by the counter-party is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a pre-determined price. These loans are stated in the balance sheet at cost.

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 acquired and held with the intention of resale over a short period. These are stated in the balance sheet at market value. This relates to transfers from investment securities to dealing securities when a significant portion of ordinary shares of a company is disposed. The remaining shares are transferred on the basis that such sales of significant amount has tainted the character of the balance from held to maturity investment to dealing securities.

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 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 Acquity Partners (Pvt) Limited exclusively with a view to its subsequent disposal within one year.

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 Non-Performing Loans and Finance Leases

The classification on 31 March 2010 is based on the Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction 7 of 2009 dated 30 December 2009. 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.

Prior to the issue of Direction No. 4 of 2008 dated 8 May 2008 issued by the Central Bank, as per the previous Direction on this subject, 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 effective from 1 January 2009. Subsequent amendments to this Direction however, *inter alia* extended the application of the aggregate rule for classification initially to 1 January 2010 and thereafter to 1 January 2011.

The Bank however, proactively has classified all credit facilities to a borrower as non-performing when 50% of the total facilities were non-performing.

5.2.7 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
	Other credit facilities	The payments are in arrears for 90 days or more but less than 180 days from the due date
Sub-standard Credit Facilities	Credit facilities, repayable in monthly instalments	6 instalments or more but less than 12 instalments, principal and/or interest are due and unpaid
	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	Credit facilities, repayable in monthly instalments	12 instalments or more but less than 18 instalments, principal and/or interest are due and unpaid
	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	Credit facilities, repayable in monthly instalments	18 instalments or more principal and/or interest are due and unpaid
	Other credit facilities	The payments are in arrears for 540 days or more

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

Currently non-performing loans and finance leases are reclassified as performing when the number of dues on a term loan or finance lease repayable in monthly instalments is less than 3 while other credit facilities are reclassified only when arrears of interest and principal are settled in full by the borrower.

Rescheduled non-performing loans however is reclassified only after mandatory watch period ranging from 90 days to 360 days based on the non-performing loan category at the time of reschedule.

5.2.9 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.

5.2.10 Investment Property

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

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

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

The rates of depreciation are as follows:

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

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

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. The depreciation is provided for on the basis outlined below.

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 & plant	10
Office equipment & 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 amount 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 Sri Lanka Rupees at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date and consequently any exchange loss or gain is recognised in the income statement of the Bank. Exchange rates used are the middle spot rates.

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

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

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

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 2010 Rs 000	Tax effect 35% Rs 000
Bank		
Disallowed specific provision for bad and doubtful loans	131,672	46,085
Group		
Taxable Losses		
DFCC Consulting Company - Subsidiary	2,069	724
Acquity Partners Limited - Joint Venture	29,913*	10,469*
Disallowed specific provision for bad and doubtful loans		
DFCC Vardhana Bank Limited - Subsidiary	202,713	70,950
Unused withholding tax credit		
DFCC Consulting Company - Subsidiary	299	105
Unrecognised loss/deferred tax asset	366,666	128,333

** 50% of Loss, proportionate consolidation.*

Comparative Information

Where items are regrouped, comparative information is also adjusted.

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, which operates the pension scheme for payment of pension 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 loss 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. This new accounting policy is adopted from 1 April 2008 coinciding with first time adoption of SLAS 16.

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. This new accounting policy is adopted from 1 April 2008 coinciding with first time adoption of SLAS 16.

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 Limited which includes deposits denominated in foreign currency, others are denominated in Sri Lanka Rupees.

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 cost are amortised on straight-line basis up to date of repayment.

5.3.6 Provisions for Liabilities

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

5.3.7 Off Setting

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

5.3.8 Commitments and Contingencies

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

5.3.9 Events after Balance Sheet Date

All material and important events which occur between the balance sheet date and the date on which the financial statements are authorised for issue, and the financial impact on the condition of assets and liabilities are disclosed in Note 63.

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 is on page 62.

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

9.1 Title of the Standards

i. Sri Lanka Accounting Standard 44 - Financial Instruments Presentation (SLAS 44) - complies in all material respects with International Accounting Standard 32 (2006 version).

ii. Sri Lanka Accounting Standard 45 - Financial Instrument Recognition and Measurement (SLAS 45) - complies in all material respects with International Accounting Standard 39 (2006 version).

9.2 Effective Date for Mandatory Application

Financial year to 31 March 2012.

9.3 Nature of Significant Impending Changes

i. These Standards deal with the presentation, recognition and measurement of financial instruments defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

ii. Loans and customer advances and held to maturity investments will be carried at amortised cost reduced by impairment losses.

iii. Recognition of impairment losses on loans and customer advances will be based on the present value of future recoveries individually or collectively assessed, compared to the amortised cost. Currently, the impairment loss does not take into consideration time value of future cash flows discounted at the effective rates of the interest applicable to loans and customer advances.

iv. Most of the financial liabilities will be carried at amortised cost.

v. All other financial assets and financial liabilities other than those carried at amortised cost will be carried in the Balance Sheet at their fair value.

vi. All derivatives will be recognised as On-Balance Sheet asset or liability and carried at the fair value. Currently they are recognised Off-Balance Sheet.

vii. Application of hedge accounting, which is optional, is permitted subject to stringent requirements on documentation and test for effectiveness of the hedges.

viii. Fair value is the market price where an active market exists or is computed using prescribed valuation techniques.

9.4 Financial Impact on the Application of these Standards in the Financial Year to 31 March 2012

The impact is not currently known or reasonably estimated.

For the year ended 31 March	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
10. Income				
Gross income	8,843,452	9,887,897	13,085,852	13,416,193
Interest income	7,416,335	8,528,857	11,793,481	11,998,933
Other income	1,427,117	1,359,040	1,292,371	1,417,260
	8,843,452	9,887,897	13,085,852	13,416,193
11. Interest Income				
Loans	5,333,174	6,489,723	7,987,556	9,119,574
Treasury bills, bonds and placements with other banks	1,281,444	1,046,381	2,985,492	1,856,742
Gross earnings under finance leases	720,221	939,277	720,221	939,277
Default interest on lease rentals	81,496	53,096	81,496	53,096
Interest and discount arising from debt securities	0	380	18,716	30,244
	7,416,335	8,528,857	11,793,481	11,998,933

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

	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
12. Interest Expense				
Medium and long-term borrowing	1,983,881	2,280,827	1,983,881	2,267,370
Interest on overdrafts and revolving facilities	778,156	1,467,675	960,815	1,750,581
Debentures	670,488	791,306	670,488	791,306
Time deposits from customers	791,519	1,084,156	2,980,745	2,952,703
	4,224,044	5,623,964	6,595,929	7,761,960

For the year ended 31 March	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
13. Other Income				
Dividend income from securities				
Quoted ordinary shares	23,253	16,548	23,273	16,777
Unquoted ordinary shares	2,099	879	9,921	11,210
Unquoted preference shares	148,487	172,076	176,877	183,462
Units in unit trusts	49,092	97,277	53,966	105,075
Dividend income from investments in associates/subsidiaries				
Quoted ordinary shares	422,804	376,649	0	0
Unquoted ordinary shares	20,079	50,449	0	0
Quoted preference shares	0	1,831	0	1,831
	665,814	715,709	264,037	318,355
Gain/(loss) on sale of investment securities				
Quoted ordinary shares	93,187	135,462	98,155	135,462
Others	52,087	(14,076)	52,087	(44)
Gain on disposal of subsidiary	284,393	84,981	142,197*	42,491
Gain on disposal of subsidiary - by joint venture company	0	0	26,309	0
Recovery of bad debts	147,588	117,942	147,588	117,942
Foreign exchange profit/(loss) **	(49,627)	60,306	(139,481)	76,593
Net gain on repurchase transactions	29,310	82,133	6,890	119,389
Marked to market gains/(losses)				
Quoted ordinary shares - dealing securities	42,596	(8,883)	42,596	(20,170)
Gain on marked to market on treasury bills and bonds - held for trading	0	583	285	15,539
Gain/(loss) on sale of treasury bills and bonds-held for trading	2,659	(330)	29,526	(1,921)
Premises rental income:				
Investment property	0	0	133,061	120,493
Freehold property	43,714	39,229	27,180	18,045
Fee income				
Front end fee	18,380	20,694	20,520	24,784
LC commission	1,310	0	37,694	57,349
Underwriting commission and guarantee fees	12,574	12,325	46,476	51,048
Consultancy and other professional services	25,367	64,470	25,566	69,793
Net gain on sale of equipment and investment property	1,514	286	1,152	108
Gain/(loss) on deemed disposal of associate and subsidiaries	0	0	(1,911)	130
Others	56,251	48,209	332,444	271,874
	1,427,117	1,359,040	1,292,371	1,417,260

** Only 50% of the profit from sale (Attributable to the sale to Hatton National Bank PLC joint venture partners in Acquity Partners (Pvt) Limited) is recognised in consolidation.*

*** Net of funding swap cost in 2010 Bank - Rs37 million and Group - Rs172 million*

14. Provision for Staff Retirement Benefits

14.1 Amount Recognised as Expense

14.1.1 Funded Liability

	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
Current service cost	59,556	53,633	59,556	53,633
Interest on obligation	112,903	105,289	112,903	105,289
Expected return on pension assets	(107,063)	(86,297)	(107,063)	(86,297)
Amortisation of unrecognised actuarial loss	0	22,442	0	22,442
Over provision in the previous financial year	0	(7)	0	(7)
	65,396	95,060	65,396	95,060

For the year ended 31 March	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
14.1.2 Unfunded Pension Liability				
Current service cost	4,024	3,023	4,024	3,023
Interest on obligation	3,063	2,552	3,063	2,552
Amortisation of unrecognised actuarial loss	0	2,385	0	2,385
	7,087	7,960	7,087	7,960
14.1.3 Unfunded End of Service Gratuity Liability				
Current service cost	2,524	1,769		
Interest on obligation	1,537	1,092		
Amortisation of unrecognised actuarial loss	425	0		
	4,486	2,861	12,824	10,691
Total Defined Benefit Plans	76,969	105,881	85,307	113,711
14.1.4 Defined Contribution Plan				
Employer's contribution to Employees Provident Fund	52,492	48,269	84,597	74,601
Employer's contribution to Employees Trust Fund	10,500	9,672	16,953	14,905
Total defined contribution plans	62,992	57,941	101,550	89,506
Total expense recognised in the income statement	139,961	163,822	186,857	203,217

14.2 Movement in Unrecognised Actuarial (Gain)/loss

14.2.1 Funded Liability		
Unrecognised actuarial (gain)/loss on 1 April	(50,231)	126,901
Adjustements	(10)	
Restated unrecognised actuarial(gain)/loss on 1 April	(50,241)	126,901
Amortised in the financial year	0	(22,442)
Actuarial (gain) during the financial year	(32,885)	(154,690)
Unrecognised actuarial (gain) on 31 March	(83,126)	(50,231)

14.2.2 Unfunded Pension Liability		
Unrecognised actuarial loss on 1 April	1,074	4,358
Amortised in the financial year	0	(2,385)
Actuarial loss/(gain) during the financial year	4,139	(899)
Unrecognised actuarial loss on 31 March	5,213	1,074

14.2.3 Unfunded End of Service Gratuity Liability		
Unrecognised actuarial loss on 1 April	5,333	0
Amortised in the financial year	(425)	0
Actuarial loss during the financial year	1,555	5,333
Unrecognised actuarial loss on 31 March	6,463	5,333

Actuarial valuation of end of service gratuity was adopted for the first time during the year ended 31 March 2009 as required by SLAS 16 (Revised 2006) on 'Employee Benefits'.

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 2010 Rs 000
Funded Pension Liability	
Unrecognised Actuarial (gain) on 1 April 2009	(50,241)
Limits of Corridor on 1 April 2009	
(i) 10% of present value of pension obligation on 1 April 2009 (before deducting pension assets)	119,492
(ii) 10% of pension assets on 1 April 2009	121,649
(iii) Greater of (i and ii)	121,649
No amortisation since unrecognised actuarial gain is within the limits of corridor.	
Unfunded Pension Liability	
Unrecognised actuarial loss on 1 April 2009	1,074
Limits of Corridor on 1 April 2009	
(i) 10% of present value of pension obligation on 1 April 2009	3,001
No amortisation since unrecognised actuarial loss is within the limits of corridor.	
Unfunded End of Service Gratuity Liability	
Unrecognised actuarial loss on 1 April 2009	5,333
Limits of Corridor on 1 April 2009	
(i) 10% of present value of pension obligation on 1 April 2009	1,084
Excess unrecognised actuarial loss to be amortised, over the remaining working life of employees eligible for gratuity	4,249
Expected average remaining working lives of employees eligible for gratuity, years	10
Amortised unrecognised actuarial loss recognised in the Income Statement	425

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, commencing from the financial year ended 31 March 2009.

The amortisation on this accounting policy commences from the financial year ended 31 March 2010.

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 2010.

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 2010, per annum		
Pre-retirement	9.0	11.5
Post-retirement	9.0	not applicable
Future salary increases per annum	11.5	11.0
Expected rate of return on pension assets	9.0	–
Actual rate of return on pension assets	18.4	–
Mortality	UP 1984 mortality table	
Retirement age	55 years	55 years
Normal form of payment:		
Pension benefit	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction)	
End of service gratuity		lump sum
Turnover rate -		
Age		
20	10.0	10.0
30	10.0	10.0
40	5.0	5.0
50/55	1.0	1.0

The discount rate is the yield rate on 31 March 2010 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 term.

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 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
15. Bad and Doubtful Debts - Specific				
Provision for the year				
Loans	480,468	350,013	893,720	706,372
Leases	161,318	208,564	161,318	208,564
Dues on terminated leases	10,124	9,801	10,124	9,801
Bills of exchange	0	0	9,632	11,021
Others	18,599	14,329	18,599	14,329
Loan/lease losses	4,031	2,697	7,004	5,767
	674,540	585,404	1,100,397	955,854
Less: Reductions in the year				
Loans	243,262	166,318	433,093	289,738
Leases	73,244	59,151	73,244	59,151
Dues on terminated leases	24,170	26,702	24,170	26,702
Bills of exchange	0	5,620	9,111	7,405
Others	1,135	1,170	1,135	1,170
	332,729	326,443	559,644	571,688
16. Bad and Doubtful Debts - General				
Provision for the year				
Loans	10,990	114,187	17,357	155,782
Leases	92,824	58,315	92,824	58,315
Bills of exchange	0	0	289	373
	103,814	172,502	110,470	214,470
Less: Reductions in the year				
Loans	45,794	0	45,794	0
Leases	35,024	0	35,024	0
	22,996	172,502	29,652	214,470

For the year ended 31 March	BANK		GROUP	
	2010	2009	**2010**	2009
	Rs 000	Rs 000	**Rs 000**	Rs 000

17. Investments - Impairment Losses

Investment securities	0	11,303	0	41,303

18. Operating Expenses

Operating expenses include the following:				
Directors' remuneration	31,727	33,446	64,485	62,579
Employers contribution to Employees' Provident Fund	52,492	48,269	84,597	74,601
Employers contribution to Employees' Trust Fund	10,500	9,672	16,953	14,905
Gratuity provision	4,486	2,861	12,824	10,691
Auditors' remuneration				
Audit fees and expenses	2,294	2,052	4,364	3,684
Audit related fees and expenses	789	581	789	873
Fees for non-audit services	246	214	457	214
Fees for other auditors	0	–	481	530
Depreciation - Investment property	0	0	7,257	6,354
- Property, plant and equipment	90,230	93,066	185,001	165,924
Amortisation - Intangible assets	14,233	30,517	61,643	70,230
Expenses on litigation	13,920	4,375	14,233	11,910

19. Income Tax Expense

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

19.2 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		GROUP	
	2010	2009	**2010**	2009
	Rs 000	Rs 000	**Rs 000**	Rs 000
Profit before tax as per the income statement	2,402,677	2,005,923	3,751,002	3,122,415
Disallowed expenses and provisions	1,003,815	977,538	1,524,538	1,004,237
Lease rentals net of capital allowances	737,336	896,786	737,336	896,786
Interest income	0	0	38,915	40,612
Reported earnings under finance lease net of provision for bad and doubtful debts	(646,193)	(806,765)	(646,193)	(806,765)
Capital allowances on property, plant and equipment	(109,852)	(96,630)	(277,970)	(234,687)
Dividend income	(665,814)	(715,709)	(666,136)	(318,355)
Gain on sale of investment securities	(429,667)	(206,367)	(429,667)	(177,909)
Other exemptions	(264,078)	(255,155)	(298,230)	(309,987)
Assessable Income	2,028,224	1,799,621	3,733,595	3,216,347
Offset of brought forward tax losses (limited to 35% of assessable income)			93,244	215,130
Taxable Income	2,028,224	1,799,621	3,640,351	3,001,217
Income tax expense reported in the income statement at the effective income tax rate	709,878	629,867	1,055,920	813,445
Effective tax rate %	30	31		

Companies/income taxed at rates lower than 35%

	2010	2009
	%	%
Lanka Industrial Estates Limited (BOI approved company) - On business turnover	2	2
Synapsys Limited (BOI approved company) - Income other than investment income	Exempt	Exempt

Lanka Ventures PLC was included in the Group for 2009.

For the year ended 31 March	BANK **2010** **Rs 000**	 2009 Rs 000	GROUP **2010** **Rs 000**	 2009 Rs 000
19.3 Tax on Profit on Ordinary Activities				
Taxation based on profits for the year	709,878	629,867		
Tax over provision	(6,387)	(18,388)		
Increase in deferred tax asset - end of service gratuity	(1,035)	(371)		
Increase/(decrease) in deferred tax liability	(13,015)	34,942		
Bank	689,441	646,050	689,441	646,050
Acuity Partners (Pvt) Limited		0	26,125	10,112
DFCC Consulting (Pvt) Limited	0	0	820	(54)
DFCC Stockbrokers (Pvt) Limited	0	0	0	6,087
DFCC Vardhana Bank Limited	0	0	331,373	227,586
Lanka Industrial Estates Limited	0	0	14,484	19,275
Lanka Ventures PLC	0	0	4,774	144,193
Synapsys Limited			215	1,595
Subsidiaries and Joint-Venture	0	0	377,791	408,794
Total	689,441	646,050	1,067,232	1,054,844

	GROUP **2010** **Rs 000**	 2009 Rs 000
19.4 Summary		
Bank	689,441	646,050
Subsidiaries and Joint-Venture		
- current tax	335,732	321,828
- deferred tax - asset (Note 42)	29,959	74,728
- liability (Note 49)	12,100	12,238
Total	1,067,232	1,054,844

20. Earnings per Share

20.1 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.

20.2 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.

Unexercised options on 31 March 2009 do not have a dilutive effect since the exercise price of the option exceeds the weighted average market price during the year.

For the year ended 31 March	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
20.3 Computation of Basic and Diluted Earnings per Share				
Profit for the year (Rs000)	1,713,236	1,359,873	2,579,972	2,044,706
Weighted average number of shares	132,089,362	130,664,310	132,089,362	130,664,310
Basic earnings per share, Rs	12.97	10.41	19.53	15.65
Number of shares that would have been issued at fair value in respect of options granted on 31.03.2006	146,497		146,497	
Number of shares at nil consideration (dilutive potential shares) in respect of options granted on 31.03.2006	34,125		34,125	
Total number of shares under option	180,622		180,622	
Ordinary shares in issue and dilutive potential shares	132,123,487		132,123,487	
Diluted earnings per share, Rs	12.97		19.53	

20.4 Unexercised options on 31 March 2009 do not have a dilutive effect since the exercise price of the options exceeds the weighted average market price during the financial year.

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
21. Cash and Short-Term Funds				
Cash and balances with banks	328,820	668,498	1,182,950	1,491,263
Call deposits				
DFCC Vardhana Bank Limited	1,643,213	857,598	948,379	220,973
Others	850,000	0	0	785,100
Time deposits				
DFCC Vardhana Bank Limited	0	636,625	102,791	636,625
Others	0	347,250	109,530	1,080,023
	2,822,033	2,509,971	2,343,650	4,213,984

22. Balances with Central Bank

Statutory deposit with Central Bank of Sri Lanka			802,076	768,383

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

As required by the provisions of Section 93 of the Monetary Law Act, cash balance is maintained with the Central Bank of Sri Lanka, explained in Note 5.2.2. The minimum cash reserve requirement on rupee deposit liabilities was reduced to 9.25% with effect from 17 October 2008 and further reduced to 7.75% on 28 November 2008 (2007 - 10%). This was reduced again to 7% from 27 February 2009.

These are not reserve requirements for deposit liabilities of the foreign currency banking unit and foreign currency deposit liabilities in the domestic banking unit.

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000

23. Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Treasury Bills and Bonds held for trading				
Held for Repurchase transactions	0	0	464,492	1,775,696
Others	0	0	1,314,683	1,388,080
	0	0	1,779,175	3,163,776
Treasury Bills and Bonds held to maturity				
Held for repurchase transactions	7,651,073	3,196,185	10,932,156	3,196,185
Others	0	2,709,024	11,029,504	6,290,838
	7,651,073	5,905,209	23,740,835	12,650,799

24. Securities Purchased under Resale Agreements

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Loans at cost	913,611	96,000	1,004,055	1,523,823

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

25. Placements with and Loans to Other Banks and Financial Institutions

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Placements	0	0	0	20,000
Loans to banks	1,834,018	1,454,262	1,834,018	1,332,262
	1,834,018	1,454,262	1,834,018	1,352,262

25.1 Placements

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Financial Institutions	0	0	0	20,000
	0	0	0	20,000

25.2 Loans to Banks

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Subordinated loan - DFCC Vardhana Bank Limited	0	122,000	0	0
Refinanced loans - Plantation development project	1,459,726	812,086	1,459,726	812,086
- KFW DFCC (V) SME in the North and East	39,292	20,176	39,292	20,176
Other loans	335,000	500,000	335,000	500,000
	1,834,018	1,454,262	1,834,018	1,332,262

26. Dealing Securities

	BANK 31.03.2010 Number of ordinary shares	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Number of ordinary shares	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Number of ordinary shares	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Number of ordinary shares	GROUP 31.03.2009 Rs 000
Quoted Ordinary Shares								
Dialog Telekom PLC	54,890	370	54,890	269	54,890	370	54,890	269
John Keells Holdings PLC	148,335	27,294	148,335	9,308	148,335	27,294	205,477	12,894
Lanka IOC PLC	0	0	0	0	0	0	240,000	3,840
Sri Lanka Telecom PLC	900	33	900	30	900	33	900	30
		27,697		9,607		27,697		17,033
Transfer from Investment Securities								
Stafford Hotels PLC	818,800	28,658	0	0	818,800	28,658	0	0
Market Value		56,355		9,607		56,355		17,033

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

27. Assets Held for Sale

Land acquired by Acquity Partners (Pvt) Limited exclusively for sale	0	0	2,875	0

Details of the Land

	Extent (perches)	2010 Market Price Rs 000
Freehold Land		
Lot - x, Survey Plan - 6448, Off Edirisinghe Road, Mirihana	10	2,875

* Value of the land amounted to Rs5.75 million as at 12 November 2009. As this land is held by Acquity Partners (Pvt) Limited, the Joint Venture, only 50% of the value is taken into the Consolidated Financial Statements.

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

28. Bills of Exchange

Balance at beginning				
Export bills	0	0	278,270	256,330
Import bills	0	0	65,477	86,555
Less: Provision for overdue bills - Specific	0	0	14,805	13,947
- General	0	0	3,056	2,767
	0	0	325,886	326,171

28.1 Movement in Specific Provision

Balance at beginning	0		13,947	
Add: Provision for the year	0		9,632	
Exchange rate difference on foreign currency provision	0		337	
Less: Recoveries	0		9,111	
	0		14,805	

28.2 Movement in General Provision

Balance at beginning	0		2,767	
Add: Provision for the year	0		289	
	0		3,056	

29. Loans and Advances

29.1 Balance on 31 March

Sri Lanka Rupee Loans				
Direct loans	29,457,120	32,872,158	35,680,186	38,282,667
Commercial papers & asset back notes	343,616	354,901	343,616	354,901
Debenture loans	398,178	615,038	398,178	615,038
Overdrafts	0	0	6,613,716	8,377,716
Staff loans for miscellaneous purposes	259,661	240,850	335,458	303,993
	30,458,575	34,082,947	43,371,154	47,934,315
Foreign Currency Loans				
Direct loans	1,486,985	1,073,436	3,122,835	2,305,283
	31,945,560	35,156,383	46,493,989	50,239,598
Less: Loan loss provision - Specific	1,173,459	923,690	1,783,204	1,314,207
- General	305,183	339,987	405,662	434,110
Balance net of loan loss provision	30,466,918	33,892,706	44,305,123	48,491,281

	BANK		GROUP	
	31.03.2010	31.03.2009	31.03.2010	31.03.2009
	Rs 000	Rs 000	Rs 000	Rs 000

29.2 Movement in Loan Loss Provision

29.2.1 Movement in Specific Provision

Balance at beginning	923,690		1,314,207	
Add: Provision for the year	480,468		893,720	
Transfer from interest in suspense	12,563		13,965	
Exchange rate difference on foreign currency provision	0		665	
Less: Reduction in the year	243,262		433,093	
Write-off of loans	0		6,260	
	1,173,459		1,783,204	

29.2.2 Movement in General Provision

Balance at beginning	339,987		434,110	
Add: Provision for the year	10,990		17,357	
Less: Recoveries in the year	45,794		45,794	
Exchange rate difference on foreign currency provision	0		11	
	305,183		405,662	

30. Finance Leases

30.1 Balance on 31 March

Gross investment in leases:				
Lease rentals receivable				
- within one year from balance sheet date	2,678,279	3,318,564	2,678,279	3,318,564
- after one year from balance sheet date	2,232,106	3,145,097	2,232,106	3,145,097
	4,910,385	6,463,661	4,910,385	6,463,661
Less: Deposit of rentals	57,153	69,445	57,153	69,445
Specific provision for leases in default	345,634	309,715	345,634	309,715
General provision for leases in default	154,404	96,604	154,404	96,604
Income in suspense	79,892	79,352	79,892	79,352
Unearned income on rentals receivable				
- within one year from balance sheet date	470,907	647,680	470,907	647,680
- after one year from balance sheet date	336,665	456,435	336,665	456,435
Net investment in leases	3,465,730	4,804,430	3,465,730	4,804,430

30.2 Movement in Provision

30.2.1 Movement in Specific Provision

Balance at beginning	309,715		309,715	
Add: Provision for the year	161,318		161,318	
Less: Recoveries	73,244		73,244	
Transfers *	52,155		52,155	
	345,634		345,634	

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

30.2.2 Movement in General Provision

Balance at beginning	96,604		96,604	
Add: Provision for the year	92,824		92,824	
Less: Recoveries	35,024		35,024	
	154,404		154,404	

30.3 Movement in Income Suspense

Balance at beginning	79,352		79,352	
Add: Transfer during the year	116,834		116,834	
Less: Recoveries	116,294		116,294	
	79,892		79,892	

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

31. Interest Receivable

31.1 Balance on 31 March

Amount due	1,718,066	1,466,995	2,217,723	1,466,995
Amount accrued and not due	348,953	469,516	348,954	895,645
Less: Interest in suspense	1,655,630	1,333,222	2,328,454	1,680,412
	411,389	603,289	238,223	682,228

31.2 Movement in Interest in Suspense

Balance at beginning	1,333,222		1,680,412	
Add: Transfer during the year	1,030,938		1,816,420	
Less: Collections	596,111		1,045,440	
Transfer to loan provision	12,563		13,965	
Write-off	99,856		108,973	
	1,655,630		2,328,454	

	Ordinary Shares		Preference Shares	Debentures	Unit Trusts		Total	Total
	Quoted Rs 000	Unquoted Rs 000	Unquoted Rs 000	Unquoted Rs 000	Quoted Rs 000	Unquoted Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

32. Investment Securities

32.1 Composition of Investment Securities

32.1.1 Bank

Performing investments	272,072	39,895	1,180,083	0	150,000	256,526	1,898,576	1,836,615
Non-performing investments	46,868	47,790	0	0	0	5,293	99,951	81,805
	318,940	87,685	1,180,083	0	150,000	261,819	1,998,527	1,918,420

32.1.2 Group

Performing investments	272,652	41,925	1,180,083	0	150,000	256,526	1,901,186	2,313,230
Non-performing investments	46,868	47,790	0	0	0	5,293	99,951	136,805
Less: Provision for diminution	0	0	0	0	0	0	0	55,600
	319,520	89,715	1,180,083	0	150,000	261,819	2,001,137	2,394,435

32.2 Movement in Investment Securities

32.2.1 Bank

Balance at beginning	298,316	87,685	1,186,417	0	0	346,002	1,918,420	1,679,827
Additions for the year	89,499	0	300,000	0	150,000	13,245	552,744	918,117
Less: Disposals	59,068	0	0	0	0	97,428	156,496	400,789
Redemptions	0	0	306,334	0	0	0	306,334	267,416
Transfer to dealing securities	9,807	0	0	0	0	0	9,807	16
Write-offs	0	0	0	0	0	0	0	11,303
	318,940	87,685	1,180,083	0	150,000	261,819	1,998,527	1,918,420
Market value								
on 31.03.2010	810,317				159,000	314,996	1,284,313	
on 31.03.2009	321,615				–	379,412	701,027	

32.2.2 Group

Balance at beginning	322,620	188,140	1,379,773	163,500	0	396,002	2,450,035	2,222,188
Additions for the year	89,499	0	300,000	0	150,000	13,245	552,744	1,006,842
Acquisition of a joint venture	0	0	0	0	0	0	0	580
Less: Disposals	59,068	0	0	0	0	97,428	156,496	76,788
Redemptions	0	0	306,334	0	0	0	306,334	671,595
Transfer to dealing securities	9,807	0	0	0	0	0	9,807	18,729
Write-offs	0	0	0	0	0	0	0	11,303
Disposal of a subsidiary	23,724	98,425	193,356	163,500	0	50,000	529,005	1,160
	319,520	89,715	1,180,083	0	150,000	261,819	2,001,137	2,450,035
Less: Provision for diminution	0	0	0	0	0	0	0	55,600
	319,520	89,715	1,180,083	0	150,000	261,819	2,001,137	2,394,435
Market value								
on 31.03.2010	812,402				159,000	314,996	1,286,398	
on 31.03.2009	339,368				–	431,610	770,978	

32.3 On 31 March 2010 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.

	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000	31.03.2010 Market value Rs 000	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000	31.03.2009 Market value Rs 000
32.4 Quoted Ordinary Shares						
Banks, Finance & Insurance						
Ceylinco Insurance PLC - voting	4,100	719	947	4,100	719	574
Ceylinco Insurance PLC - non-voting	28,571	5,000	4,657	28,571	5,000	2,171
Hatton National Bank PLC - non-voting	797,600	23,575	111,664	797,600	23,575	30,308
Housing Development Finance Corporation Bank of Sri Lanka	37,400	3,375	5,348	37,400	3,375	1,898
Janashakthi Insurance PLC	250,000	3,000	3,500	250,000	3,000	1,938
Lanka ORIX Leasing Company PLC	0	0	0	17,828	780	1,235
Sampath Bank PLC	190,630	18,990	42,320	173,300	18,991	12,131
Seylan Bank PLC - non-voting	260,000	4,416	6,760	260,000	4,416	1,430
Aviva NDB Insurance PLC	12,000	2,013	2,472	0	0	0
HNB Assurance PLC	29,500	1,013	1,637	0	0	0
NDB Bank PLC	83,200	14,893	17,472	0	0	0
Union Assurance PLC	100	7	10	0	0	0
		77,001	196,787		59,856	51,685
Beverages, Food & Tobacco						
Ceylon Tobacco Company PLC	136,467	3,092	34,117	119,967	86	11,517
Distilleries Company of Sri Lanka PLC	117,200	4,752	13,830	117,200	4,752	7,618
		7,844	47,947		4,838	19,135
Chemicals & Pharmaceuticals						
Haycarb PLC	38,330	4,139	6,133	19,130	944	890
Chemical Industries (Col) PLC - voting	184,000	10,189	12,512	0	0	0
Chemical Industries (Col) PLC - non-voting	218,300	8,064	9,496	0	0	0
		22,392	28,141		944	890
Construction & Engineering						
Colombo Dockyard PLC	194,125	23,883	54,695	88,725	5,442	5,080
Diversified Holdings						
Aitken Spence & Company PLC	63,200	21,522	86,821	63,200	21,522	19,908
Hayleys PLC	250,460	22,484	56,354	250,460	22,484	22,541
Carson Cumberbatch PLC	28,000	10,062	15,302		0	0
		54,068	158,477		44,006	42,449
Healthcare						
Ceylon Hospitals PLC - voting	109,090	3,018	13,091	100,000	2,500	5,300
Ceylon Hospitals PLC - non-voting	327,272	6,818	22,254	300,000	6,000	8,550
		9,836	35,345		8,500	13,850

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

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

	31.03.2010 Number of ordinary shares	Cost* Rs 000	Market value Rs 000	31.03.2009 Number of ordinary shares	Cost* Rs 000	Market value Rs 000
32.4 Quoted Ordinary Shares (Contd.)						
Hotels & Travels						
Sigiriya Village Hotels PLC	0	0	0	55,000	1,284	1,375
Stafford Hotels PLC	0	0	0	5,909,825	56,990	67,963
Aitken Spence Hotel Holdings PLC	10,500	2,551	4,043	0	0	0
Asian Hotels & Properties PLC	91,800	3,956	12,072	0	0	0
		6,507	16,115		58,274	69,338
Information Technology						
E-Channelling PLC	857,100	8,571	8,785	877,100	8,771	6,798
Investment Trusts						
Ceylon Guardian Investment Trust PLC	48,318	5,061	24,231	36,884	1,298	3,841
Ceylon Investment PLC	113,336	5,763	30,714	94,520	2,564	5,482
		10,824	54,945		3,862	9,323
Manufacturing						
ACL Cables PLC	51,000	3,070	3,825	51,000	3,070	1,237
Chevron Lubricants Lanka PLC	609,400	20,301	103,598	304,700	20,301	32,146
Piramal Glass Ceylon PLC	12,981,852	25,000	28,560	12,981,852	25,000	16,876
Ceylon Grain Elevators PLC	48,997	1,297	833	48,997	1,297	392
Lanka Tiles PLC	0	0	0	296,219	5,809	8,442
Tokyo Cement Company (Lanka) PLC - non-voting	1,236,000	16,346	21,939	1,236,000	16,346	11,124
		66,014	158,755		71,823	70,217
Power & Energy						
Lanka Indian Oil Company PLC	600,000	12,000	10,950	600,000	12,000	9,600
Vallibel Power Erathna PLC	7,500,000	20,000	39,375	7,500,000	20,000	23,250
		32,000	50,325		32,000	32,850
Total Quoted Shares - Bank		318,940	810,317		298,316	321,615
Investment in quoted shares by subsidiaries		580	2,085		24,304	17,753
Total Quoted Shares - Group		319,520	812,402		322,620	339,368
32.4.1 Investment in Quoted Ordinary Shares by Subsidiaries						
Banks, Finance & Insurance						
Central Finance Company PLC	3	0	1	3	0	0
		0	1		0	0
Beverage & Tobacco						
Coco Lanka PLC	0	0	0	937,500	23,725	16,875
		0	0		23,725	16,875
Diversified Holdings						
Hayleys PLC	7,491	558	1,281	7,491	557	644
John Keells Holdings PLC	4,680	22	803	4,680	22	234
		580	2,084		579	878
		580	2,085		24,304	17,753

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

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

	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000	31.03.2010 Directors valuation Rs 000	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000	31.03.2009 Directors valuation Rs 000
32.5 Unquoted Ordinary Shares						
Beico Link Carbons (Pvt) Limited	328,500	2,190	2,190	328,500	2,190	2,190
Browns Dimo Industrial Products (Pvt) Limited	150,000	1,500	8,556	150,000	1,500	1,500
Ceylinco Developers Limited	250,000	2,500	2,500	250,000	2,500	2,500
Credit Information Bureau of Sri Lanka	8,884	888	888	8,884	888	888
Cyprea Lanka (Pvt) Limited	1,500,000	15,000	15,000	1,500,000	15,000	15,000
Durdans Medical & Surgical Hospital (Pvt) Limited	1,200,000	15,000	15,000	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	750	750	150,000	750	750
Plastipak Lanka Limited	240,000	2,400	2,400	240,000	2,400	2,400
Ranweli Resorts Limited	1,616,193	10,748	10,748	1,616,193	10,748	10,748
Sampath Centre Limited	1,000,000	10,000	16,000	1,000,000	10,000	10,000
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	4,978	116,700	2,334	2,752
Sinwa Holdings Limited	460,000	9,200	9,200	460,000	9,200	9,200
The Video Team (Pvt) Limited	30,000	300	300	30,000	300	300
Wayamba Plantations (Pvt) Limited	2,750,000	9,750	9,750	2,750,000	9,750	9,750
Total unquoted ordinary shares - Bank		87,685	103,385		87,685	88,103
Investments in unquoted ordinary shares by subsidiaries		2,030			100,455	
Total unquoted ordinary shares - Group		89,715			188,140	

	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000
32.5.1 Investments in Unquoted Ordinary Shares by Subsidiaries				
Credit Information Bureau of Sri Lanka	300	30	300	30
Durdans Heart Surgical Centre (Pvt) Limited	0	0	1,500,000	14,625
Durdans Medical & Surgical (Pvt) Limited	0	0	2,000,000	25,000
Hayleys Hydro Energy (Pvt) Limited	0	0	5,880,000	58,800
Lankaclear (Pvt) Limited	100,000	1,000	100,000	1,000
Lanka Financial Services Bureau Limited	100,000	1,000	100,000	1,000
		2,030		100,455

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

	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000
32.6 Unquoted Preference Shares				
32.6.1 Unquoted Redeemable Cumulative Preference Shares				
Carson Cumberbatch PLC	30,750,000	263,750	40,625,000	406,250
Dialog Telekom PLC	352,500,000	352,500	423,000,000	423,000
Eden Hotels Lanka PLC	3,333,334	33,333	3,333,334	33,334
Heladanavi (Pvt) Limited	5,000,002	50,000	8,333,335	83,333
Phoenix Industries (Pvt) Limited	54,000,000	480,000	24,000,000	240,000
		1,179,583		1,185,917
32.6.2 Unquoted Irredeemable Preference Shares				
Arpico Finance Company PLC	50,000	500	50,000	500
Total investments in unquoted preference shares - Bank		1,180,083		1,186,417
Investments in unquoted preference shares by subsidiaries		0		193,356
Total investments in unquoted preference shares - Group		1,180,083		1,379,773
32.6.3 Investments in Unquoted Preference Shares by Subsidiaries				
E Services Limited	0	0	2,500,000	25,000
LVS Energy (Pvt) Limited	0	0	5,000,000	50,250
Nividhu (Pvt) Limited	0	0	3,280,000	32,981
Renuka Agrifoods Limited	0	0	0	0
Royal Fernwood Porcelain Limited	0	0	2,500,000	30,000
Tudawe Brothers Limited	0	0	390,000	30,000
Unit Energy (Pvt) Limited	0	0	2,500,000	25,125
		0		193,356

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

	31.03.2010 Cost* Rs 000	31.03.2009 Cost* Rs 000
32.7 Unquoted Debentures		
Total investments in unquoted debentures - **Bank**	0	0
Investments in unquoted debentures by subsidiaries	0	163,500
Total investments in unquoted debentures - Group	0	163,500
32.7.1 Investments in Unquoted Debentures by Subsidiaries		
Ceylon Hospitals PLC	0	100,000
Hatton National Bank PLC	0	13,500
Neluwa Cascade Limited	0	40,000
Unit Energy (Pvt) Limited	0	10,000
	0	163,500

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

		31.03.2010			31.03.2009	
	Number of units	Cost Rs 000	Market value Rs 000	Number of units	Cost Rs 000	Market value Rs 000
32.8 Quoted Units in Unit Trusts						
NAMAL Actuity Value Fund	3,000,000	150,000	159,000	0	0	0
Total quoted units - Bank		150,000	159,000		0	0
Investments in unit trusts by subsidiaries		0	0	0	0	0
Total investments in quoted unit trusts - Group		150,000	159,000		0	0

		31.03.2010			31.03.2009	
	Number of units	Cost Rs 000	Managers Buying Price Rs 000	Number of units	Cost Rs 000	Managers Buying Price Rs 000
32.9 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	533,050	5,293	33,673	1,203,050	11,947	31,857
NAMAL Income Fund	16,712,129	170,625	184,168	16,712,129	170,624	178,987
NAMAL Money Market Fund	7,444,611	74,844	76,084	13,465,899	135,372	140,314
National Equity Fund	1,040,540	11,057	21,071	2,640,540	28,059	28,254
Total investments in unqouted unit trusts - Bank		261,819	314,996		346,002	379,412
Investments in unit trusts by subsidiaries		0	0		50,000	52,198
Total investments in unqouted unit trusts - Group		261,819	314,996		396,002	431,610
32.9.1 Investments in Unit Trusts by Subsidiaries						
NAMAL Income Fund	0	0	0	4,873,740	50,000	52,198
		0	0		50,000	52,198

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

33. Investments in Associate Companies

33.1 Quoted

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Commercial Bank of Ceylon PLC (CBC)				
(Ownership 26.85%-26.90% in 2009)				
Balance at beginning	3,151,959	3,151,959	7,116,534	6,353,709
Share of profit after tax	0	0	1,079,128	1,061,224
Dividend received - elimination on consolidation	0	0	(422,804)	(333,005)
Gain on deemed reduction in ownership	0	0	774	130
Movement recognised in the statement of changes in equity	0	0	(2,612)	34,476
Balance on 31 March at cost	3,151,959	3,151,959	7,771,020	7,116,534

33.2 Unquoted

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	35,270	35,270	44,137	42,080
Share of profit after tax	0	0	6,132	4,877
Dividend received - elimination on consolidation	0	0	(2,863)	(2,820)
Disposal of subsidiary - LVL deemed disposal	0	0	571	0
Balance on 31 March	35,270	35,270	47,977	44,137
Total	3,187,229	3,187,229	7,818,997	7,160,671
Market value of investment in Commercial Bank of Ceylon PLC (Voting & non-voting ordinary shares)	13,536,896	5,049,111	13,536,896	5,049,111

The Central Bank has issued a Direction requiring the Bank to reduce its voting share holding in CBC to 15% by 23 October 2008, and the Bank's failure to do so has resulted in the voting rights being restricted to 10% thereafter. The Bank has filed action against the monetary board seeking the withdrawal or variation of this Direction. The actions are pending.

Investment in CBC was classified as an Associate Company on the basis that though the voting rights attached to this investment is restricted to 10% after 23 October 2008 in terms of applicable direction issued by the Central Bank, the Bank continued to have representation on the Board of CBC and thereby had the ability to participate in policy making process during the financial year.

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

34. Investment in Joint Venture

34.1 Unquoted

Acuity Partners (Pvt) Limited (ownership 50%)				
Balance on 31 March	250,000	250,000	0	0

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

	GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000
Assets	2,081,424	2,160,849
Elimination of gain attributable to parent - consolidation adjustment	(142,197)	(42,491)
Total Assets	1,939,227	2,118,358
Liabilities	1,705,928	1,827,850
Income	182,201	65,805
Expenses	113,892	47,680
Tax	26,124	10,112

35. Investments in Subsidiary Companies

	DFCC Consulting (Pvt) Limited Ownership 100% Rs 000	DFCC Vardhana Bank Limited Ownership 96% Rs 000	Lanka Industrial Estates Limited Ownership 51% Rs 000	Lanka Ventures PLC Ownership 59% Rs 000	Synapsys Limited Ownership 100% Rs 000	Bank 31.03.2010 Rs 000	Bank 31.03.2009 Rs 000
Balance at beginning	5,000	2,286,284	78,283	237,600	20,000	2,627,167	2,642,163
Investments in additional shares	0	0	18,753	0	0	18,753	23
Less: Disposal	0	0	0	237,600	0	237,600	15,019
Balance on 31 March	5,000	2,286,284	97,036	0	20,000	2,408,320	2,627,167

The Bank divested its share holding in Lanka Ventures PLC to Acquity Partners (Pvt) Limited on 18 January 2010. Consequent to this disposal Banks ownership in Industrial Estates Limited reduced to 49%.

Bank increased its direct ownership on 25 March 2010 by investing in 340,969 shares in Lanka Industrial Estates Limited. This increased the direct holding to 51%.

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

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

36. Group Balances Receivable

Acuity Partners (Pvt) Limited	302	7	150	0
DFCC Consulting (Pvt) Limited	0	122	0	0
DFCC Vardhana Bank Limited	30,777	33,320	0	0
Synapsys Limited	5,042	2,876	0	0
	36,121	36,325	150	0

37. Income Tax Refund Receivable

Income tax overpayment	0	1,980	1,682	14,396

38. Investment Properties

38.1 Movement

Balance as at 31 March	6,500	6,500	141,215	137,181
Additions during the year	0	0	0	10,388
Less: Depreciation	0	0	7,257	6,354
Disposals during the year	0	0	1,317	0
	6,500	6,500	132,641	141,215

	Buildings sq. ft.	Extent of Land Perches	Cost Rs 000	Accumulated Depreciation/ Impairment Rs 000	Net Book Value Rs 000	Market Value* Rs 000
38.2 List of Investment Property						
586, Galle Road, Colombo 3	0	20	6,500 **	0	6,500	6,500
Pattiwila Road, Sapugaskanda, Makola	280,000	20,000	193,802	59,087	134,715	575,305
			200,302	59,087	141,215	581,805

** The fair value of investment property as at 31.03.2010 was based on market valuations carried out in 2007 by Mr P B Kalugalagedara, FIV (Sri Lanka), Chartered Valuer.*

*** Cost net of cumulative impairment loss*

	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
39. Goodwill on Consolidation		
DFCC Vardhana Bank Limited	146,602	146,602
Lanka Industrial Estates Limited	9,623	0
	156,225	146,602

Based on value in use Bank has determined that there is no impairment of goodwill on consolidation.

40. Property, Plant and Equipment

40.1 Composition: Bank

	Land & building Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost as at 31.03.2009	261,266	520,172	174,625	157,766	1,113,829
Additions for the year	0	21,516	16,751	0	38,267
Less: Disposals during the year	0	194	0	3,838	4,032
Cost as at 31.03.2010	261,266	541,494	191,376	153,928	1,148,064
Accumulated depreciation as at 31.03.2009	120,466	385,296	64,235	116,135	686,132
Charge for the year	8,185	49,881	15,845	16,319	90,230
Less: Accumulated depreciation on disposal	0	158	0	3,698	3,856
Accumulated depreciation as at 31.03.2010	128,651	435,019	80,080	128,756	772,506
Net book value as at 31.03.2010	132,615	106,475	111,296	25,172	375,558
Net book value as at 31.03.2009	140,800	134,876	110,390	41,631	427,697

	Building sq. ft.	Extent of land perches	Cost Rs 000	Accumulated depreciation Rs 000	Net book value Rs 000
40.1.2 List of Freehold Land and Building					
73/5, Galle Road, Colombo 3	57,200	104.45	54,510	49,097	5,413
5, Deva Veediya, Kandy	4,600	12.54	12,699	4,611	8,088
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mw., Colombo 2	21,400	45.00	184,178	74,943	109,235
4A, 4th Cross Lane, Borupana, Ratmalana	–	20.00	2,600	0	2,600
			261,266	128,651	132,615

Market Value of Properties

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

(Valued by Mr P B Kalugalagedera - Chartered Valuer)

	Land & building Rs 000	Plant & machinery Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
40.2 Composition: Group						
Cost as at 31.03.2009	314,555	64,850	831,024	406,360	201,887	1,818,676
Transferred from intangible assets	0	0	2,988	0	0	2,988
Additions for the year	8,875	0	71,538	88,106	0	168,519
Less: Disposals during the year	89	0	2,507	3,515	3,839	9,950
Disposal of a subsidiary						
- Lanka Ventures PLC	0	0	1,214	3,527	3,125	7,866
- Joint Venture Company	0	0	2,950	956	0	3,906
Cost as at 31.03.2010	323,341	64,850	898,879	486,468	194,923	1,968,461
Accumulated depreciation as at 31.03.2009	142,438	62,112	531,509	138,288	141,289	1,015,636
Transferred from intangible assets	0	0	2,671	0	0	2,671
Charge for the year	11,184	0	106,338	43,190	24,289	185,001
Less: Accumulated depreciated on disposal	0	0	1,311	3,503	3,698	8,512
Disposal of a subsidiary						
- Lanka Ventures PLC	0	0	960	3,483	3,125	7,568
- Joint Venture Company	0	0	2,397	589	0	2,986
Accumulated depreciation as at 31.03.2010	153,622	62,112	635,850	173,903	158,755	1,184,242
Net book value as at 31.03.2010	169,719	2,738	263,029	312,565	36,168	784,219
Net book value as at 31.03.2009	172,117	2,738	299,515	268,072	60,598	803,040

41. Intangible Assets

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Cost as at 31 March	286,816	264,287	684,263	610,632
Transferred (to)/from property, plant and equipment	0	0	(2,988)	796
Additions for the year	18,270	22,529	52,512	65,510
Acquisition of a joint venture	0	0	0	7,325
Cost as at 31 March	305,086	286,816	733,787	684,263
Accumulated depreciation as at 31 March	240,874	210,357	514,781	440,525
Transferred (to)/from property, plant and equipment	0	0	(2,671)	187
Amortisation for the year	14,233	30,517	61,643	70,230
Acquisition of a joint venture	0	0	0	3,839
Accumulated amortisation as at 31 March	255,107	240,874	573,753	514,781
Net Book Value as at 31 March	49,979	45,942	160,034	169,482

42. Deferred Tax Asset

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Balance at beginning	1,928	1,557	34,309	109,047
Additions through acquisition of a joint venture -				
Acuity Partners (Pvt) Limited	0	0	0	367
Disposal of subsidiary - DFCC Stockbrokers (Pvt) Limited	0	0	0	(748)
Increase/(decrease)	1,035	371	(28,924)	(74,357)
	2,963	1,928	5,385	34,309
Transferred from deferred tax liability (Note 49)	0	0	(127)	0
Offset against deferred tax liability (Note 49)	(2,963)	(1,928)	(4,452)	(34,309)
	0	0	806	0

	BANK		GROUP	
	31.03.2010	31.03.2009	31.03.2010	31.03.2009
	Rs 000	Rs 000	Rs 000	Rs 000
43. Other Assets				
Refundable deposits and advances	38,359	70,958	137,662	188,242
Dividend due	22,533	41,742	22,448	41,742
Reimbursement of exchange loss due from				
Government of Sri Lanka	0	129,959	0	129,959
Debtors	397,979	451,494	1,177,381	963,451
	458,871	694,153	1,337,491	1,323,394

	BANK		GROUP	
	31.03.2010	31.03.2009	31.03.2010	31.03.2009
	Rs 000	Rs 000	Rs 000	Rs 000
44. Deposits from Customers				
Demand deposits	0	0	968,679	707,640
Savings deposits	0	0	4,598,808	2,361,526
Fixed deposits	5,120,684	5,293,162	19,775,256	20,326,168
Certificates of deposits	2,973	15,278	65,234	100,071
Margin deposits	0	0	95,708	79,939
	5,123,657	5,308,440	25,503,685	23,575,344
Deposits from banks	9,399	8,088	1,562,958	1,256,181
Deposits from non-bank customers	5,084,837	4,450,352	23,763,181	21,414,257
Deposits from finance companies	29,421	850,000	177,546	904,906
	5,123,657	5,308,440	25,503,685	23,575,344

45. Borrowing - Medium and Long-Term

45.1 Borrowing

Repayable in foreign currency				
Exchange difference borne by the Bank				
FMO	1,709,250	0	1,709,250	0
Nordea Bank Danmark A/S	192,309	226,300	192,309	226,300
EIB	2,668,735	2,039,370	2,668,735	2,039,370
	4,570,294	2,265,670	4,570,294	2,265,670
Exchange rate difference reimbursed by GOSL				
ADB	0	344,524	0	344,524
Repayable in Rupees				
Government of Sri Lanka/IDA loans - credit lines	1,771,121	1,834,112	1,771,121	1,834,112
Government of Sri Lanka/ADB loans - credit lines	4,115,732	3,419,554	4,115,732	3,419,554
Government of Sri Lanka/KFW loans - credit lines	2,065,703	2,480,202	2,065,703	2,480,202
Government of Sri Lanka/JBIC loans - credit lines	2,962,971	2,816,436	2,962,971	2,816,436
Government of Sri Lanka/IFAD loans - credit lines	20,375	23,085	20,375	23,085
Government of Sri Lanka/EIB loans - credit lines	8,814,819	8,690,318	8,814,819	8,690,318
Central Bank of Sri Lanka - re-finance loans (secured)	1,054,928	1,346,391	1,054,928	1,346,391
FMO	339,433	509,150	339,433	509,150
Other local sources	3,000,000	5,250,000	3,000,000	5,250,000
	28,715,376	28,979,442	28,715,376	28,979,442

45.2 Supplementary Information

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

As at 31 March 2010 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.

45.3 Assets Pledged as Security

Nature	Amount Rs 000
Assignment in terms of Section 88A of the Monetary Law of Loans refinanced by the Central Bank	1,054,928

Acronyms:

ADB - Asian Development Bank
EIB - European Investment Bank
FMO - Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V
IDA - International Development Association
IFAD - International Fund for Agriculture Development
JBIC - Japan Bank for International Cooperation
KFW - Kreditanstalt fur Wiederaufbau

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000
46. Borrowing - Short-Term				
Borrowing under repurchase agreements (Repos)				
Government securities sold under repurchase	115,000	2,768,741	4,441,741	5,639,540
Other securities sold under repurchase	0	11,130	0	11,130
	115,000	2,779,871	4,441,741	5,650,670
Bank overdrafts	0	0	22,106	1,757
Inter-bank borrowing	0	250,000	2,182,384	1,084,669
	115,000	3,029,871	6,646,231	6,737,096

47. Debentures

47.1 Movement in Debentures

	BANK 31.03.2010 Rs 000	BANK 31.03.2009 Rs 000	GROUP 31.03.2010 Rs 000	GROUP 31.03.2009 Rs 000
Balance at beginning	2,700,000	2,000,000	2,700,000	2,000,000
Issued during the year	0	700,000	0	700,000
	2,700,000	2,700,000	2,700,000	2,700,000

	BANK		GROUP	
	2010 Rs 000	2009 Rs 000	2010 Rs 000	2009 Rs 000
48. Group Balances Payable				
DFCC Consulting (Pvt) Limited	151	0	0	0

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000
49. Deferred Taxation				
Balance at beginning	287,122	252,180	324,906	276,100
Additions through acquisition of a joint venture - Acuity Partners (Pvt) Limited	–	–	–	1,626
Increase/(decrease)	(13,015)	34,942	(915)	47,180
	274,107	287,122	323,991	324,906
Transferred to deferred tax asset (Note 42)	–	–	127	–
Transferred from deferred tax asset (Note 42)	2,963	1,928	4,452	34,309
	271,144	285,194	319,412	290,597

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

50. Other Liabilities

Accruals	57,131	36,282	65,553	136,473
Prior year dividends	19,374	16,680	19,374	18,973
Security deposit for leases	7,095	7,349	58,065	59,989
Prepaid loan and lease rentals	72,895	87,754	72,895	87,754
Account payables	162,883	172,684	935,813	629,684
	319,378	320,749	1,151,700	932,873

50.1 Provision for staff retirement benefits:

Defined benefit funded pension	(7,654)	28,669	(7,654)	28,669
Defined benefit unfunded pension	36,020	28,933	36,020	28,933
Defined benefit unfunded end of service gratuity	8,465	5,510	34,540	26,171
	356,209	383,861	1,214,606	1,016,646
Other provisions	130,156	114,920	164,476	135,566
	486,365	498,781	1,379,082	1,152,212

50.2 Movement in Provision for Staff Retirement

50.2.1 Defined Benefit Funded Pension

	Bank	Group
Net accrued liability on 31 March 2009	28,669	28,669
Retirement benefit expense for the financial year	65,396	65,396
Employer contributions for the financial year	(101,719)	(101,719)
Net prepayment on 31 March 2010	(7,654)	(7,654)

50.2.2 Defined Benefit Unfunded Pension

	Bank	Group
Net accrued liability on 31 March 2009	28,933	28,933
Retirement benefit expense for the financial year	7,087	7,087
Employer contributions for the financial year	0	0
Net accrued liability on 31 March 2010	36,020	36,020

50.2.3 Defined Benefit Unfunded End of Service

	Bank	Group
Net accrued liability on 31 March 2009	5,510	26,171
Retirement benefit expense for the financial year	4,486	12,824
Gratuity payments for the financial year	(1,531)	(4,455)
Net accrued liability on 31 March 2010	8,465	34,540

50.3 Movement in Other Provisions

	Bank	Group
Balance as at 31 March 2009	114,920	135,566
Provision for the financial year	130,156	164,476
Payments for the financial year	(111,151)	(129,778)
Over provision	(3,769)	(5,142)
Disposal of a subsidiary - Lanka Ventures PLC	0	(646)
Balance as at 31 March 2010	130,156	164,476

	BANK 31.03.2010 Rs 000

50.4 Reconciliation of Actuarial Liability with Accounting Liability Recognised in the Balance Sheet

50.4.1 Funded Pension Liability

Present value of defined benefit obligations	1,317,586
Fair value of pension assets	(1,408,366)
	(90,779)
Unrecognised gain on March 2010 (Note 14.2.1)	83,126
Prepayment recognised in the balance sheet	(7,654)

50.4.2 Unfunded Pension Liability

Present value of defined benefit obligations	41,233
Unrecognised(loss) on 31 March 2010 (Note 14.2.2)	(5,213)
Liability recognised in the balance sheet on Note 50.2.2	36,020

50.4.3 Unfunded End of Service Gratuity

Present value of defined benefit obligations	14,928
Unrecognised (loss) on 31 March 2010 (Note 14.2.3)	(6,463)
Liability recognised in the balance sheet on Note 50.2.3	8,465

50.5 Movement in Actuarial Liability

50.5.1 Funded Pension Liability

Present value of defined benefit pension obligations	1,194,916
Current service cost on 1 April 2009	59,556
Interest on obligation on 31 March 2010	112,903
Benefit payments year ended 31 March 2010	(53,801)
Actuarial experience loss	4,012
Present value of defined benefit pension obligations	1,317,586

50.5.2 Unfunded Pension Liability

Present value of defined benefit pension obligations	30,007
Current service cost on 1 April 2009	4,024
Interest on obligation on 31 March 2010	3,063
Benefit payments year ended 31 March 2010	0
Actuarial experience loss	4,139
Present value of defined benefit pension obligations	41,233

50.5.3 Unfunded End of Service Gratuity

Present value of defined benefit pension obligations	10,843
Current service cost on 1 April 2009	2,524
Interest on obligation on 31 March 2010	1,537
Benefit payments year ended 31 March 2010	(1,531)
Actuarial experience loss	1,555
Present value of defined benefit pension obligations	14,928

50.6 Movement in Pension Assets

Pension assets on 1 April	1,216,487
Expected return on pension assets	107,063
Employer's contribution	101,719
Actuarial experience gain	36,898
Benefits paid	(53,801)
	1,408,366

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

51. Subordinated Debentures

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

52. Share Capital

52.1 Authorised Share Capital

500,000,000 ordinary shares of Rs 10/- each	5,000,000	5,000,000	5,000,000	5,000,000

52.2 Issued Share Capital

132,375,305 ordinary shares of Rs 10/- each	1,323,753	1,307,325	1,323,753	1,307,325
Allotted and fully paid:				
Balance at beginning 130,732,470 ordinary shares (130,195,603 shares in 2009)	1,307,325	1,301,956	1,307,325	1,301,956
Issue under share option - 1,642,835 ordinary shares (536,867 shares in 2009)	16,428	5,369	16,428	5,369
Balance on 31 March 132,375,305 ordinary shares (130,732,470 shares in 2009)	1,323,753	1,307,325	1,323,753	1,307,325

Ordinary shares held by associate Commercial Bank of Ceylon PLC - 20,588, on 31 March 2010.

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.

52.3 Employee Share Option Plan

	31.03.2010 Numbers
52.3.1 Movement in Options Granted	
Options granted	2,215,540
Adjustment for bonus and rights	1,922,820
Options lapsed	(256,723)
Total granted	3,881,637
Less: Options exercised	
Prior years	2,058,180
During the year	1,642,835
	180,622

Outstanding options are in respect of the grant in the year to 31 March 2006. The exercise price is Rs117.46. The options will have to be exercised on or before 2 July 2011.

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000

53. Stated Capital

Share Capital	1,323,753	1,307,325	1,323,753	1,307,325
Share Premium - Bank	3,371,911	3,207,818	3,371,911	3,207,818
- Group	0	0	3,499	52,193
Equivalent Stated Capital	4,695,664	4,515,143	4,699,163	4,567,336

54. Reserves

54.1 Reserve Fund

Five percentum of profits 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.

	General reserve Rs 000	Foreign currency translation reserve Rs 000	Primary dealer special risk reserve Rs 000	Total 31.03.2010 Rs 000	31.03.2009 Rs 000
54.2 Other Reserves					
Bank					
Balance at beginning	8,637,839	–	–	8,637,839	7,982,043
Transfers	742,000	–	–	742,000	655,796
Balance as at 31 March	9,379,839	–	–	9,379,839	8,637,839
Group					
Balance at beginning	11,926,826	(98,179)	13,141	11,841,788	10,546,863
Deferred tax effect on revaluation surplus on property - associate company	0	0	0	0	1,337
Surplus on revaluation property - associate company	0	0	0	0	10,574
Net unrealised gains from Bangladesh translation - associate company	0	(2,612)	0	(2,612)	17,673
Transfer of Reserves Consequent to Liquidation - associate company	0	0	0	0	0
Transfers	1,356,495	0	14,224	1,370,719	1,265,341
Disposal of subsidiary	(205)	0	0	(205)	0
Balance as at 31 March	13,283,116	(100,791)	27,365	13,209,690	11,841,788

54.3 Other Reserves

54.3.1 Foreign Currency Translation Reserve

This represents the loss on the translation of the financial statements of the Bangladesh operations of the associate Commercial Bank of Ceylon PLC.

54.3.2 Primary Dealer Special Risk Reserve

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

54.4 Retained Earnings

This represents cumulative net earnings, inclusive of proposed dividend amounting to Rs794 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2010. The balance is retained and reinvested in the business of the Bank.

55. Minority Interests

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

	BANK		GROUP	
	31.03.2010 Rs 000	31.03.2009 Rs 000	**31.03.2010 Rs 000**	31.03.2009 Rs 000
56. Commitments & Contingencies				
56.1 Contingent Liabilities				
Guarantees issued to:				
DFCC Vardana Bank in respect of indebtedness of customers of the Bank	115,000	410,176	0	0
Other banks in respect of indebtedness of customers of the Bank	68,484	139,234	68,484	475,446
Companies in respect of indebtedness of customers of the Bank	417,502	447,975	1,826,848	1,614,654
Principal collector of customs (duty guarantees)	0	0	0	51,212
Shipping guarantees	0	0	281,845	382,103
Documentary credits	0	0	1,683,210	1,871,713
Bills for collection	0	0	631,482	661,923
Income tax (assessment under appeal Y/A 2006/07)	77,406	77,406	77,406	77,406
Forward exchange contracts (net)	1,724,764	0	6,028,770	1,910,051
56.2 Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	7,095,539	6,758,456	8,305,294	7,662,247
Capital expenditure approved by the Board of Directors				
and Contracted	22,000	0	33,272	94,170
Not contracted	0	0	17,309	58,215
	9,520,695	7,833,247	18,953,920	14,859,140

57. Litigation

57.1 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 procedure in Recovery of Loans by Banks (Special Provisions) Act No.4 of 1990 seeking the sale of the property to be set aside, and claiming Rs6 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 themselves 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 Rs10 million for non-disbursement of the full loan approved to him. The Bank had 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) A client of the Bank has filed action in the District Court of Kandy claiming Rs1 million as damages on the basis that the Bank has published an incorrect resolution in the newspaper under Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990. The Bank is defending this action.

(d) A client of the Bank who has defaulted leasing facilities has filed action in the Commercial High Court of Colombo claiming a sum of Rs200 million as damages against the Bank for unlawfully re-possessing and selling the equipment leased by him. The Bank is defending this action as the Bank has lawfully re-possessed and sold the equipment having granted time for settlement by the lessee.

(e) The Bank's voting rights in Commercial Bank of Ceylon PLC (CBC) taken together with several other shareholders has been restricted to 10% pursuant to a interim injunction granted in actions filed by certain parties seeking to reduce Bank's shareholding in CBC. The Bank is defending the actions.

58. Maturity Profile of Assets and Liabilities

58.1 Definition of Maturity

58.1.1 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.

58.1.2 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.

58.2 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.

58.3 Profile

58.3.1 Bank

	31.03.2010 Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	2,493,213	1,866,488	75	626,725	25	–	–		–		–
Treasury bills & other securities eligible for rediscounting with Central Bank	7,651,073	1,763,436	23	5,887,637	77	–	–		–		–
Securities purchased under resale agreements	913,611	913,611	100	–	–	–	–		–		–
Placements with and loans to other banks and financial institutions	1,834,018	28,178	2	202,095	11	438,475	24	484,137	26	681,133	37
Loans and advances	30,466,918	4,219,425	14	6,651,201	22	12,803,781	42	5,482,845	18	1,309,666	4
Leases	3,465,730	141,729	4	434,007	13	1,127,003	33	1,483,015	42	279,976	8
	46,824,563	8,932,867	19	13,801,665	29	14,369,259	31	7,449,997	16	2,270,775	5
Other Assets											
(Non-interest bearing assets)											
Cash and balance with banks	328,820	328,820	100	–	–		–		–		–
Dealing securities	56,355	56,355	100	–	–		–		–		–
Interest receivable	411,389	407,465	99	3,924	1		–		–		–
Investment securities-											
Ordinary shares/units	818,444	–	–	–	–		–		–	818,444	100
Preference shares	1,180,083	222,499	19	180,417	15	601,667	51	175,000	15	500	0
Investment in associate companies	3,187,229	–	–	–	–		–		–	3,187,229	100
Investment in joint venture	250,000	–	–	–	–		–		–	250,000	100
Investment in subsidiary companies	2,408,320	–	–	–	–		–		–	2,408,320	100
Group balances receivable	36,121	36,121	100	–	–		–		–		–
Prepayments	23,853	2,839	12	4,171	17	9,176	39	5,111	21	2,556	11
Investment property	6,500	–	–	–	–		–		–	6,500	100
Property, plant and equipment	375,558	–	–	–	–		–		–	375,558	100
Intangible assets	49,979	–	–	–	–		–		–	49,979	100
Other receivables	458,871	458,871	100	–	–		–		–		–
	9,591,522	1,512,970	16	188,512	2	610,843	6	180,111	2	7,099,086	74
Total assets	56,416,085	10,445,837	19	13,990,177	24	14,980,102	26	7,630,108	14	9,369,861	17
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	5,123,657	1,486,714	29	2,696,121	52	907,555	18	32,967	1	300	0
Borrowing - Medium and long-term	28,715,376	1,122,887	4	4,823,188	17	6,562,766	23	5,731,415	20	10,475,120	36
- Short-term	115,000	115,000	100	–	–		–	–	–	–	–
Debentures	2,700,000	500,000	19	1,000,000	37	1,200,000	44	–	–	–	–
Subordinated debentures	2,000,000	–	–	–	–	1,410,000	70	–	–	590,000	30
	38,654,033	3,224,601	8	8,519,309	22	10,080,321	26	5,764,382	15	11,065,420	29
Other Liabilities											
(Non-interest bearing liabilities)											
Group Balances Payable	151	151	100								
Interest accrued	1,081,782	1,081,782	100		–		–		–		–
Taxation	199,786	199,786	100	–	–	–	–	–	–	–	–
Deferred taxation	271,144	–	–	–	–	–	–	271,144	100	–	–
Other liabilities	486,365	486,365	100	–	–	–	–	–	–	–	–
	2,039,228	1,768,084	87	–	–	–	–	271,144	13	–	–
Total liabilities	40,693,261	4,992,685	12	8,519,309	21	10,080,321	25	6,035,526	15	11,065,420	27

58.3.2 Group

	31.03.2010 Total Rs 000	Up to 3 months Rs 000	%	3 to 12 months Rs 000	%	1 to 3 years Rs 000	%	3 to 5 years Rs 000	%	> 5 years Rs 000	%
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	1,129,914	391,042	35	738,872	65	–	–	–	–	–	–
Treasury bills and other securities eligible for rediscounting with Central Bank	23,740,835	8,120,727	34	13,054,916	56	2,431,689	10	83,084	0	50,419	0
Securities purchased under resale agreements	1,004,055	993,250	99	10,805	1	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	1,834,018	28,178	2	202,095	11	438,475	24	484,137	26	681,133	37
Bills of exchange discounted	325,886	310,454	95	6,459	2	8,973	3	–	–	–	–
Loans	44,305,123	11,314,389	25	11,749,850	27	13,664,792	31	6,042,942	14	1,533,150	3
Finance leases	3,465,730	141,729	4	434,007	13	1,127,003	32	1,483,015	43	279,976	8
	75,805,561	21,299,769	28	26,197,004	35	17,670,932	23	8,093,178	11	2,544,678	3
Other Assets											
(Non-interest bearing assets)											
Cash and balance with Banks	1,213,736	1,213,736	100	–	–	–	–	–	–	–	–
Balances with Central Bank	802,076	802,076	100	–	–	–	–	–	–	–	–
Dealing Securities	56,355	56,355	100	–	–	–	–	–	–	–	–
Assets held for sale	2,875	2,875	100								
Interest receivable	238,223	201,449	85	21,474	9	10,554	4	3,130	1	1,616	1
Investment securities:	–	–	–	–	–	–	–	–		–	–
Ordinary shares/units	821,054	–	–	–	–	–	–	580	0	820,474	100
Preference shares	1,180,083	222,499	19	180,417	15	601,667	51	175,000	15	500	0
Investment in associate companies	7,818,997	–	–	–	–	–	–	–	–	7,818,997	100
Group balances receivable	150	150	100	–	–	–	–	–	–	–	–
Prepayments	23,853	2,839	12	4,171	17	9,176	39	5,111	21	2,556	11
Income tax refund due	1,682	937	56	745	44	–	–	–	–	–	–
Investment property	132,641	–	–	–	–	–	–	–	–	132,641	100
Goodwill on consolidation	156,225	–	–	–	–	–	–	–	–	156,225	100
Property and equipment	784,219	–	–	–	–	–	–	32,369	4	751,850	96
Intangible Assets	160,034	–	–	–	–	–	–	1,820	1	158,214	99
Deferred tax assets	806	–	–	–	–	662	82	144	18	–	–
Other assets	1,337,491	907,127	68	126,471	9	293,246	22	10,647	1	–	–
	14,730,500	3,410,043	23	333,278	2	915,305	6	228,801	2	9,843,073	67
Total assets	90,536,061	24,709,812	27	26,530,282	29	18,586,237	21	8,321,979	9	12,387,751	14
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	25,503,685	12,692,602	51	11,570,504	45	1,142,745	4	96,534	0	1,300	0
Borrowing - Medium and long-term	28,715,376	1,122,887	4	4,823,188	17	6,562,766	23	5,731,415	20	10,475,120	36
- Short-term	6,646,231	6,496,599	98	149,632	2	–	–	–	–	–	–
Debentures	2,700,000	500,000	19	1,000,000	37	1,200,000	44	–	–	–	–
Subordinated debentures	2,000,000	–	–	–	–	1,410,000	70	–	–	590,000	30
	65,565,292	20,812,088	31	17,543,324	27	10,315,511	16	5,827,949	9	11,066,420	17
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	1,590,653	1,590,653	100	–	–	–	–	–	–	–	–
Taxation	307,836	231,059	75	76,777	25	–	–	–	–	–	–
Deferred taxation	319,412	24,112	8	24,112	8	44	0	271,144	84	–	–
Other liabilities	1,379,082	1,048,905	76	228,903	17	13,438	1	5,644	0	82,192	6
	3,596,983	2,894,729	88	329,792	9	13,482	0	276,788	0	82,192	2
Total liabilities	69,162,275	23,706,817	34	17,873,116	26	10,328,993	15	6,104,737	9	11,148,612	16

59. Concentration of Assets and Liabilities

59.1 Concentration in the Distribution of Assets

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

59.1.2 Industry wise Distribution of main Assets are given below:

	31.03.2010 2010 %	31.03.2009 2009 %
Industry Sector		
Agriculture, forestry and fishing	7.4	7.5
Mining and quarrying	.8	.9
Manufacture of food, beverages and tobacco	11.4	11.0
Manufacture of textiles	.8	.8
Manufacture of wearing apparel excluding footwear	3.1	2.0
Manufacture of leather and leather products including footwear	.5	.3
Wood and manufacture of wood products	1.1	1.5
Manufacture of paper products, printing, publishing and packaging	3.7	3.7
Manufacture of chemical and chemical products	1.2	1.0
Manufacture of rubber products	3.0	3.4
Manufacture of plastic products	3.5	3.0
Manufacture of non-metallic mineral products	4.1	5.3
Basic metal products	.6	.5
Manufacture of fabricated metal products, machinery and equipment	2.6	1.6
Electricity, gas and water industries	5.7	4.7
Construction industries	4.8	4.7
Trade	12.2	14.3
Hotels and restaurants	3.3	3.2
Transport, storage and communications	6.1	8.8
Financing, insurance, real estate and business services	16.2	14.3
Community, social and personal services	7.9	7.5
	100.0	100.0

	Rs million	Rs million
Composition of Assets		
Loans*	32,041	35,106
Leases	3,466	4,804
Investment securities	1,999	1,918
Dealing securities	56	10
	37,562	41,838

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

59.2 Composition of Liabilities is given in Note 45.

	BANK				GROUP			
	2010 Rs 000	%	2009 Rs 000	%	2010 Rs 000	%	2009 Rs 000	%

60. Non-Performing Loans, Leases and Bills

	2010 Rs 000	%	2009 Rs 000	%	2010 Rs 000	%	2009 Rs 000	%
Loans and advances	3,193,863		3,096,950		5,077,791		4,428,391	
Finance leases	574,559		685,669		574,559		685,669	
Bills of exchange discounted	0		0		30,592		35,485	
Gross exposure	3,768,422	10.0	3,782,619	9.0	5,682,942	10.8	5,149,545	9.0
Less: Interest in suspense included in overdrafts	0		0		328,428		166,397	
Net non-performing loans, advances, leases and bills	3,768,422	10.0	3,782,619	9.0	5,354,514	10.2	4,983,148	8.7
Less: Provision for bad and doubtful debts	1,418,338		1,124,603		2,037,452		1,525,418	
Net exposure	2,350,084	6.2	2,658,016	6.4	3,317,062	6.3	3,457,730	6.1
Net of tangible securities	217,244		302,215		986,016		1,148,823	

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

60.1 Provision for Bad and Doubtful Debts

	BANK 2010 Rs 000	BANK 2009 Rs 000	GROUP 2010 Rs 000	GROUP 2009 Rs 000
Loans and advances	1,173,459	923,690	1,783,204	1,314,207
Finance leases	345,635	309,715	345,635	309,715
Bills of exchange discounted	0	0	14,805	13,947
	1,519,094	1,233,405	2,143,644	1,637,869
Provisions relating to facilities currently performing				
Loans and advances	85,615	94,609	91,051	98,255
Finance leases	15,141	14,193	15,141	14,196
	100,756	108,802	106,192	112,451
Provision relating to non-perfoming facilities	1,418,338	1,124,603	2,037,452	1,525,418

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

Age of arrears	**Applicable discount percentage on the forced sale value**
6 -30 months	25%
Over 30 months and below 42 months	40%
Over 42 months and below 54 months	50%
Over 54 months and below 66 months	60%
Over 66 months	At the discretion of the management

61. Related Party Transactions

61.1 The Group's related parties include Associates, Trust established by the Bank for post-employment retirement benefit plan, Joint ventures, 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.

Where appropriate additional information on related party transactions are disclosed in compliance with Rule No. 3 (8) (ii) of the Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on corporate governance.

For the year ended	**31.03.2010 Rs 000**	31.03.2009 Rs 000

61.2 Transactions with Subsidiaries of the Bank

61.2.1 Balance Sheet

Assets		
Cash and short-term funds	1,950,866	1,758,641
Loans and advances	–	122,000
Securities purchased under repurchase agreements	813,000	96,000
Interest receivable	20,435	7,985
Total	2,784,301	1,984,626
Liabilities		
Deposits	58,344	42,110
Securities sold under repurchase agreement	–	800,000
Interest payable	3,262	3,270
Total	61,606	845,380
Undisbursed credit facilities	878,000	878,000

61.2.2 Income Statement

Interest income	124,673	88,966
Interest expense	15,635	15,198
Other income	19,705	14,968
Dividends received	17,216	91,272
Other expenses	36,415	42,098
Reimbursed expenses	82,310	75,195

61.3 Transactions with Joint Venture

61.3.1 Balance Sheet

Assets		
Loans	350,000	–
Interest receivable	134	–
Total	350,134	–

61.3.2 Income Statement

Interest income	9,474	0
Reimbursed expenses	3,048	0

61.4 Transaction with Associates

61.4.1 Balance Sheet

Assets		
Cash and short-term funds	19,087	31,535
Placements with and loans to other banks and financial institutions	186,848	99,395
Interest receivable	3,188	1,526
Total	209,123	132,456
Liabilities		
Subordinated debentures	10,000	10,000
Interest payable	265	507
Total	10,265	10,507

61.4.2 Income Statement

Interest income	7,721	5,494
Interest expenses	1,485	2,564
Other income	1,696	1,471
Dividends received	425,666	337,657
Other expenses	1,138	6,243

61.5 Transaction with entities in which Directors of the Bank have significant influence without substantial shareholding

	31.03.2010 Rs 000	31.03.2009 Rs 000
61.5.1 Balance Sheet		
Assets		
Loan and advances	947,050	838,990
Leases	4,895	0
Interest receivable	4,948	5,091
Total	956,893	838,990
Liabilities		
Subordinated debentures	25,000	25,000
Interest payable	863	863
Total	25,863	25,863
61.5.2 Off-Balance Sheet Items		
Commitments and contingencies		
Undrawn facilities	1,099,040	12,650
Guarantees	0	59,750
Total	1,099,040	72,400
61.5.3 Income Statement		
Interest income	173,816	95,405
Interest expenses	3,500	3,500
Other income	1,026	654
Other expenses	183	837

61.6 Transactions with Key Management Personnel

61.6.1 Key Management Personnel

Key management personnel are the Board of Directors of the Bank, Chief Executive Officer, 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.

Chief Information Officer concurrently serves as the Managing Director of Synapsys Limited and received emoluments only from Synapsys Limited.

	BANK		GROUP	
For the year ended	31.03.2010 Rs 000	31.03.2009 Rs 000	31.03.2010 Rs 000	31.03.2009 Rs 000
61.6.2 Compensation of Directors and Other Key Management Personnel				
Number of persons	17	16	61	63
Short-term employment benefits	78,395	74,634	126,894	118,170
Post-employment benefits - pension	11,493	15,054	11,493	15,054
- others	8,416	7,083	12,609	10,985
	98,304	96,771	150,996	144,209

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 Services Provident Fund Society and Employees' Trust Fund, by the employer.

61.6.3 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.

The Non-Executive Directors of the Board did not participate in this option plan.

For the year ended 31 March	**31.03.2010 Rs 000**	31.03.2009 Rs 000
Unexercised options balance at the beginning of financial year	506,492	647,404
Exercised during the year	381,627	(140,912)
Unexercised options balance end of financial year	124,865	506,492
Weighted average price of unexercised options end of the year	117.46	111.07
Weighted average price of exercised options	110.58	53.08
Weighted average price of Bank's share during the period in which options were excercised	116.90	125.33

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

61.6.4 Loans to Key Management Personnel - Bank

Number of KMPs	2	2
Amount outstanding on 31 March	5,418	2,949

These loans are granted under a uniform scheme applicable to all employees of the Bank.

61.6.5 Rent to Spouse of Key Management Personnel

Bank pays a rent of Rs1,740,000 to Mrs R D Fonseka spouse of Chief Executive Officer.

61.7 Transactions with DFCC Pension Fund - Trust

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

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

61.7.2 Transactions with DFCC Bank Pension Fund

	31.03.2010 Rs 000	31.03.2009 Rs 000
Contributions due at the beginning of financial year	28,669	29,637
Contribution due for the financial year (Note 14.1.1)	65,396	95,060
Contribution paid/pre-paid	(101,719)	(96,028)
Contribution due at the end of the financial year (Note 50.2.1)	(7,654)	28,669

61.7.3 Transactions between DFCC Bank Pension Fund and Associate

There were no transactions during the year ended 31 March 2010 and 31 March 2009. Details of investments made by the Pension Fund in Commercial Bank of Ceylon PLC in the year ended 31 March 2007 and outstanding on 31 March 2010 are given below:

First investment amount	Rs50 million
Date of investment	16 May 2006
Repayment	16 May 2016
Interest	13.25% p.a. (fixed) payable annually
Second investment amount	Rs15 million
Date of investment	18 December 2006
Repayment	18 December 2011
Interest	1 year gross treasury bill rate + 1% p.a
	Interest rate 1 January 2010 - 11.37%
	Interest rate 1 January 2009 - 22.24%
	Interest rate 1 January 2008 - 23.17%
	Interest rate 1 January 2007 - 15.42%

61.8 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. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

61.9 Net Accommodation Granted to Related Parties

(Disclosure under Rule 3 (8) (ii) (e) of the Corporate Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka.)

	31.03.2010 Rs 000	%
Subsidiaries		
Securities purchased under resale agreements	813,000	6.92
Undisbursed credit facility	878,000	7.47
	1,691,000	14.40
Key Management Personnel		
Loans to 2 employees	5,418	0.05
Total net accommodation	1,696,418	14.44
Regulatory Capital - solo basis	11,747,669	

The total net accommodation was 14.44% of the Bank’s regulatory capital on solo basis. Maximum limit determined by Directors is 25% of Bank's regulatory capital on solo basis.

The undisbursed credit facility is a standby facility and was not used by the subsidiary DFCC Vardhana Bank Limited throughout the year ended 31 March 2010.

The definition of Related Parties for the purpose of this disclosure is based in Rule 3 (7) (1) of Corporate Governance Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka. This definition is slightly from the definition of Related Parties under the Sri Lanka Accounting Standard 30 (Revised 2005) on Related Party Disclosures.

62. Business Segment Information

For the year ended 31 March 2010	Lending Rs 000	Financial Leasing Rs 000	Investing in Equity Rs 000	Venture Capital Rs 000	Commercial Banking Rs 000	Other Rs 000	Unallocated Rs 000	Eliminations Rs 000	Total Rs 000
Revenue									
Interest income	6,614,618	801,717	–	46,368	4,235,229	192,563	–	(97,014)	11,793,481
Other income	203,909	–	1,095,481	46,519	212,251	255,652	127,726	(649,167)	1,292,371
Income from external customers	6,818,527	801,717	1,095,481	92,887	4,447,480	448,215	127,726	(746,181)	13,085,852
Total income	6,818,527	801,717	1,095,481	92,887	4,447,480	448,215	127,726	(746,181)	13,085,852
Percentage*	52	6	8	1	34	3	6	–	100
Expenses									
Segment losses	223,897	131,828	–	–	233,571	–	–	–	589,296
Depreciation	–	–	–	236	124,970	25,396	–	–	150,602
Other operating & interest expenses	3,965,377	425,814	–	16,504	3,291,677	217,799	–	(112,560)	7,804,611
Inter segment expenses				–	17,551	29,075	–	(46,626)	–
	4,189,274	557,642	–	16,740	3,667,769	272,270		(159,186)	8,544,509
Result	2,629,253	244,075	1,095,481	76,147	779,711	175,945			4,541,343
Unallocated expenses									1,035,187
Value added tax on financial services									840,415
									2,665,741
Associate companies profit before tax									1,085,261
Profit before tax									3,751,002
Income tax expense									1,067,232
Profit after tax									2,683,770
Minority interests									103,798
Profit for the year									2,579,972
Assets	33,625,936	3,465,729	2,248,527	–	31,335,584	2,645,439	11,321,320	(1,925,471)	82,717,064
Percentage	41	4	3	–	38	3	14	–	100
Investments in associate companies									7,818,997
									90,536,061
Liabilities	27,186,587	3,119,156	–	–	28,457,733	1,815,006	10,509,264	(1,925,471)	69,162,275
Capital expenditure - additions				–	122,749	41,128	57,154		221,031

For the year ended 31 March 2009	Lending Rs 000	Financial Leasing Rs 000	Investing in Equity Rs 000	Venture Capital Rs 000	Commercial Banking Rs 000	Other Rs 000	Unallocated Rs 000	Eliminations Rs 000	Total Rs 000
Revenue									
Interest income	7,536,486	992,373	–	78,169	3,212,690	235,486	–	(56,271)	11,998,933
Other income	215,430	–	910,789	45,005	285,583	258,362	221,532	(519,441)	1,417,260
Income from external customers	7,751,916	992,373	910,789	123,174	3,498,273	493,848	221,532	(575,712)	13,416,193
Inter segment income	–	–	–	–	–		111,159	(111,159)	–
Total income	7,751,916	992,373	910,789	123,174	3,498,273	493,848	332,691	(686,871)	13,416,193
Percentage*	58	7	7	1	26	4	6	–	100
Expenses									
Segment losses	308,117	190,827	11,303	30,000	287,213	–			827,460
Depreciation	–	–	–	714	101,479	16,732			118,925
Other operating & interest expenses	968,675	98,524	–	31,124	2,666,872	298,971		(56,271)	4,007,895
Inter segment expenses	–	–	–	–	3,950	46,034		(49,984)	–
	1,276,792	289,351	11,303	61,838	3,059,514	361,737		(106,255)	4,954,280
Result	6,475,124	703,022	899,486	61,336	438,759	132,111			8,461,913
Unallocated expenses									5,747,541
Value added tax on financial services									658,058
									2,056,314
Associate companies profit before tax									1,066,101
Profit before tax									3,122,415
Income tax expense									1,054,844
Profit after tax									2,067,571
Minority interests									22,865
Profit for the year									2,044,706
Assets	37,887,730	4,804,430	2,168,420	828,166	24,804,733	2,624,287	6,755,382	(36,378)	79,836,770
Percentage	48	6	3	1	31	3	8	–	100
Investments in associate companies									7,160,671
									86,997,441
Liabilities	30,291,925	4,323,987	–	145,326	22,176,796	1,834,922	8,567,685	(36,378)	67,304,263
Capital expenditure - additions				198	176,383	6,899	105,082		288,562

* *Net of eliminations*

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

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

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

62.4 Dealing securities losses of subsidiary company are included in unallocated expenses.

62.5 Assets held for sale is included in the segment, other.

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

63. Post Balance Sheet Events

63.1 Options exercised by Employees

The employees have exercised options during the post-balance sheet period. Increase in ordinary share capital corresponding to the options exercised was Rs58,330 and the increase in the share premium was Rs626,814.18.

63.2 Proposed Dividend

The Directors have recommended the payment of a final dividend of Rs6 per share for the year ended 31 March 2010, which requires the approval of the shareholders at the Annual General Meeting to be held on 30 June 2010. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007 and have obtained the Certificate from the Auditors.

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

63.3 Commercial Bank of Ceylon PLC (CBC)

(a) The market value of the investment in CBC on 26 May 2010 based on the closing share price of Rs249.25 per share (voting) and Rs210.00 per share (non-voting) was Rs16,724 million.

(b) Board of Directors of CBC have recommended;

(ii) Subdividing two (2) existing issued and fully paid ordinary (voting) shares into three (3) ordinary (voting) shares; and

(ii) Subdividing two (2) existing issued and fully paid ordinary (non-voting) shares into three (3) ordinary (non-voting) shares.

This recommendation requires the approval of the shareholders at an Extraordinary General Meeting convened on 8 June 2010.

63.4 Investment in joint venture company - Acuity Partners (Pvt) Limited

The Bank has agreed to invest up to Rs500 million in the ordinary shares of the Company; of this amount Rs350 million was advanced in the form of a loan as at the balance sheet date as disclosed in Note 61.3.1.

63.5 Additional Investment in Synapsys Limited

The Bank has approved an additional Rs50 million in the ordinary shares of Synapsys Limited. The investment will be made in stages.

63.6 No other circumstances have arisen which would require disclosure or adjustment to the accounts.

64. Certification Required by the Companies Act No. 7 of 2007

This certification is based on independent legal advice obtained by the Bank which confirms that the Bank will not be required to provide the certification in Section 150 (1) (b) of the Companies Act since Sections 15 and 16 of the DFCC Bank Act No. 35 of 1955 as amended, specifically deals with the financial statements of the Bank. However, Sections 152 and 158 dealing with the Group financial statements and certification in the Companies Act No. 7 of 2007 are currently applicable to the Bank.

Supplementary Information

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 31.03.2010	Actual 31.03.2009
Tier I (%)	5.0	32.7	27.3
Deductions - Tier I (%)		6.5	5.4
		26.2	21.9
Tier II (%)		2.9	2.9
Deductions - Tier II (%)		6.0	4.9
		(3.1)	(2.0)
Capital base (%)	10.0	23.1	19.9

Details of Computation

Capital Base	31.03.2010 Rs 000	31.03.2009 Rs 000
Tier I: Core Capital		
Paid-up ordinary shares	1,323,753	1,307,325
Share premium	3,375,410	3,260,011
Statutory reserve fund	961,929	801,539
Published retained profits	2,075,577	1,841,264
General & other reserves	12,895,944	11,528,042
Minority interests	427,427	641,251
	21,060,040	19,379,432
Less: Deductions		
Goodwill	156,225	146,602
Net deferred tax assets	806	0
Other intangible assets	160,034	169,482
50% Investments in the capital of other banks and financial institutions	3,852,315	3,510,044
Total Tier I Capital	16,890,660	15,553,304
Tier II: Supplementary Capital		
Revaluation reserve (as approved by the Central Bank of Sri Lanka)	134,129	134,129
Approved subordinated term debt	1,154,000	1,436,000
General provision	563,122	533,481
	1,851,251	2,103,610
Less: Deductions		
50% Investments in the capital of other banks and financial institutions	3,852,315	3,510,044
Eligible Tier II Capital	(2,001,064)	(1,406,434)
Capital base	14,889,596	14,146,870

Risk Weighted Assets and Off-Balance Sheet Exposure

Assets Exposures	Balance 31.03.2010 Rs 000	Balance 31.03.2009 Rs 000	Risk Weights %	Risk-Weighted Balance 31.03.2010 Rs 000	Risk-Weighted Balance 31.03.2009 Rs 000
To Central Government and CBSL	25,546,966	14,995,547	0	0	0
To Banks	3,470,682	4,938,159	20-150	839,423	1,233,642
To Financial Institutions	892,547	678,895	20-150	558,350	392,612
To Corporates	39,525,161	45,803,897	20-150	37,859,650	44,410,504
Secured by Residential Property	211,325	157,451	50-100	114,520	87,563
Secured by Commercial Real Estate	4,004,961	4,074,071	100	4,004,961	4,074,071
Classified as Non-performing Advances	3,303,647	3,123,697	50-150	4,561,259	4,273,422
Cash Items	706,987	628,087	0-20	2,460	2,293
Other Assets	2,150,270	2,154,642	100	2,150,270	2,154,642
Total assets	79,812,546	76,554,446		50,090,893	56,628,749

Off Balance Sheet Exposure	Credit Conversion Factor %	31.03.2010 Rs 000	31.03.2009 Rs 000	Risk Weights %	Risk-Weighted Credit Equivalent 31.03.2010 Rs 000	Risk-Weighted Credit Equivalent 31.03.2009 Rs 000
General guarantee of indebtedness	100	914,388	1,341,338	20-100	914,338	1,239,506
Performance bonds, bid bonds and warranties	50	707,582	538,778	100	353,791	269,389
Shipping guarantees	20	281,144	356,684	20-100	56,229	68,404
Documentary letters of credit	20	816,032	815,049	20-100	163,206	150,287
Trade related acceptances	20	821,988	1,056,664	20-100	164,398	198,933
Undrawn overdraft facilities & others	0	1,209,755	903,791	100	0	0
Undrawn term loans	50	6,988,015	6,736,776	100	3,494,008	3,368,388
Others - undrawn lease facilities	50	107,524	63,168	100	53,762	31,584
Forward foreign exchange contracts	2	7,345,641	4,246,271	100	146,913	84,925
Total off-balance sheet exposure		19,192,069	16,058,519		5,346,645	5,411,416
Total risk weighted assets and off-balance sheet exposure for credit risk					55,437,538	62,040,165
Total risk weighted assets equivalent for market risk (Note 1)					820,590	1,977,830
Total risk weighted assets equivalent for operational risk (Note 2)					8,141,560	7,044,020
Total risk weighted assets					64,399,688	71,062,015

	Capital charge 31.03.2010 Rs 000	Capital charge 31.03.2009 Rs 000	Risk-Weighted Assets Equivalent 31.03.2010 Rs 000	Risk-Weighted Assets Equivalent 31.03.2009 Rs 000
Market Risk (Note 1)				
Interest rate	4,954	13,256	49,540	132,560
Equity	9,885	2,554	98,850	25,540
Foreign Exchange & Gold	67,220	181,973	672,200	1,819,730
	82,059	197,783	820,590	1,977,830
Operational Risk (Note 2)				
Average gross income	5,427,705	4,696,013		
15% of average gross income	814,156	704,402		
	814,156	704,402	8,141,560	7,044,020

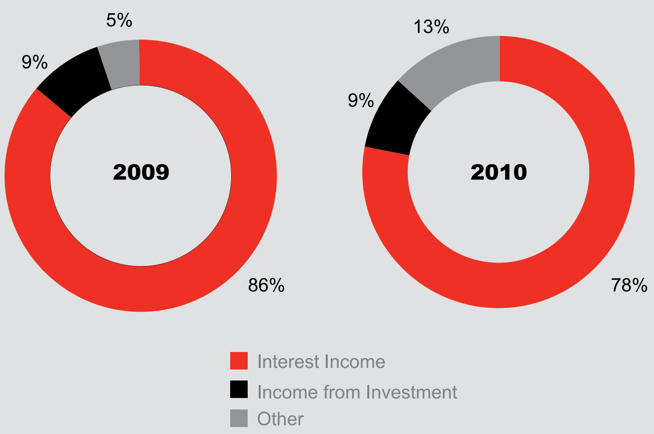
Statement of Value Added - Bank

For the year ended 31 March		2010 Rs million	%		2009 Rs million	%
Value Added						
Gross income		8,843			9,888	
Cost of borrowing and support services		(4,607)			(5,983)	
Provision for bad debts and investments		(356)			(510)	
		3,880			3,395	
Value Allocated						
To employees						
Salaries, wages and other benefits		715	18		708	21
To providers of capital						
Dividends to shareholders		794	20		654	19
To Government						
Income tax on profit	689			646		
Value added tax on financial services	659	1,348	35	557	1,203	35
To expansion and growth						
Retained income	919			706		
Depreciation	104	1,023	27	124	830	25
		3,880	100		3,395	100

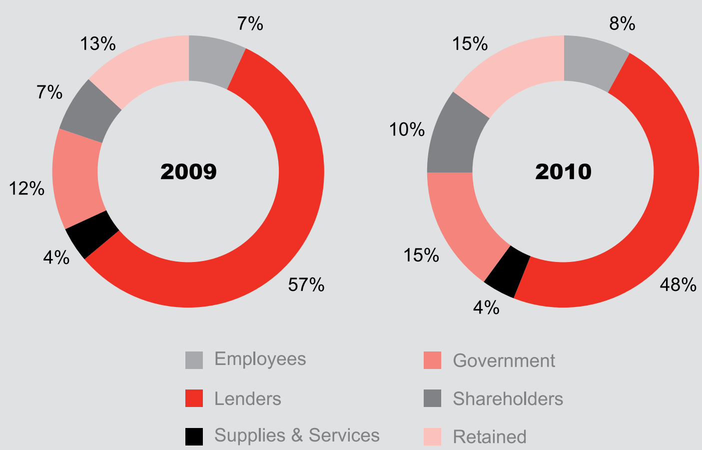
Sources and Distribution of Income - Bank

For the year ended 31 March Rupees million	2006	2007	2008	2009	2010
Sources of Income					
Interest income	4,508	6,018	8,491	8,529	7,416
Income from investments	436	436	687	913	1,138
Others	443	433	458	446	289
	5,387	6,887	9,636	9,888	8,843
Distribution of Income					
To employees as emoluments	523	612	672	708	715
To lenders as interest	2,376	3,537	5,815	5,624	4,224
To providers of supplies and services	257	335	340	359	383
To Government as taxation	742	1,113	1,100	1,203	1,348
To shareholders as dividends	346	454	654	654	794
Retained in the business:					
Depreciation set aside	119	128	133	124	104
Provision of losses	190	37	258	510	356
Reserves	834	671	664	706	919
	5,387	6,887	9,636	9,888	8,843

Sources of Income



Distribution of Income

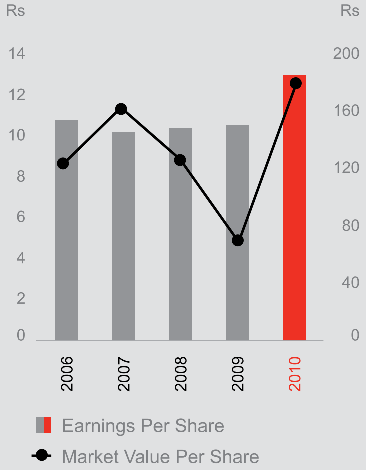


Ten Year Summary

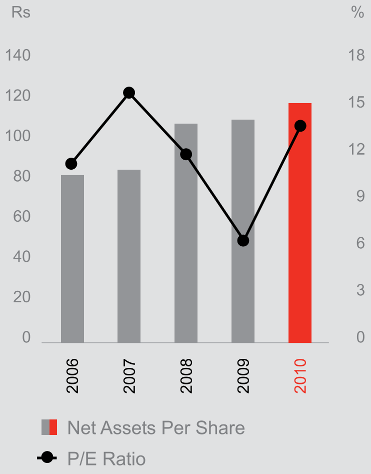
Year ended 31 March Rupees million	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bank										
Operating Results										
Total income (net of TT & NSL)	3,452	4,037	4,113	4,444	4,641	5,387	6,887	9,636	9,888	8,843
Profit before tax	507	883	1,036	1,490	1,512	1,652	1,865	1,983	2,006	2,402
Income tax	132	252	181	385	404	472	740	665	646	689
Profit after tax	375	631	855	1,105	1,108	1,180	1,125	1,318	1,360	1,713
Balance Sheet										
Assets										
Cash, short-term funds and securities	1,394	2,359	2,398	2,675	2,778	4,928	7,935	8,124	8,415	10,472
Dealing securities	3	4	3	1	0	14	26	18	10	56
Receivables	533	666	914	909	1,641	946	1,611	1,684	1,348	930
Placements with and loans to banks and financial institutions	325	0	0	500	302	738	1,024	1,579	1,454	1,834
Securities purchased under resale agreements	288	569	48	26	1,051	520	240	208	96	914
Bills of exchange discounted	23	23	23	18	13	6	6	6	0	0
Loans and advances	17,878	17,982	19,515	22,386	25,270	30,963	38,200	38,185	35,156	31,946
Finance leases	1,932	1,859	2,445	3,742	4,348	5,545	7,756	6,726	5,211	3,966
Provisions	(633)	(757)	(949)	(1,077)	(995)	(937)	(946)	(1,179)	(1,670)	(1,979)
Net of Provisions	19,200	19,107	21,034	25,069	28,636	35,577	45,016	43,737	38,697	33,933
Investment securities	1,784	2,102	1,802	1,704	1,731	1,340	1,260	1,680	1,918	1,999
Investment in associate, joint venture and subsidiary companies	1,386	1,392	1,407	2,514	2,636	3,057	3,350	5,829	6,064	5,845
Income tax refund receivable	0	0	0	0	0	0	0	0	2	0
Investment property	0	187	187	12	12	12	7	7	7	7
Property, plant, equipment and intangibles	277	265	378	516	475	481	472	493	474	426
	25,190	26,651	28,171	33,926	39,262	47,613	60,941	63,359	58,485	56,416
Liabilities										
Equity	5,054	5,723	6,382	7,383	8,207	9,091	9,494	13,761	14,491	15,723
Medium/long-term borrowings and debentures	17,841	17,892	16,775	19,570	24,120	30,384	34,357	38,323	33,679	33,415
Customer deposits	558	1,562	2,868	4,944	3,780	4,017	13,573	5,112	5,308	5,124
Short-term borrowings	796	398	1,143	577	1,387	2,453	1,540	4,157	3,030	115
	19,195	19,852	20,786	25,091	29,287	36,854	49,470	47,592	42,018	38,654
Other liabilities	941	1,076	1,003	1,451	1,768	1,668	1,977	2,006	1,976	2,039
	25,190	26,651	28,171	33,926	39,262	47,613	60,941	63,359	58,485	56,416
Return on equity %	7.5	11.7	14.1	16.1	14.2	13.6	12.1	11.3	9.6	11.3
Return on total assets, %	1.5	2.4	3.1	3.6	3.0	2.7	2.1	2.1	2.2	3.0
Earnings per share, Rs	3.47	5.84	7.91	10.14	10.14	10.77	10.20	10.41	10.41	12.97
Market value per share, Rs	26.04	46.67	59.17	121.94	128.75	122.36	161.67	126.00	68.25	180.5
Price earnings ratio	7.5	8.0	7.5	12.0	12.7	11.4	15.9	12.1	6.56	13.9
Dividend per share	4.50	5.00	5.50	5.50	5.50	6.00	5.00	5.00	5.00	6.00
Dividend cover, times	2.4	3.0	3.7	3.5	3.5	3.4	2.5	2.0	2.1	2.6
Gross dividend, Rsm	159.0	212.0	233.0	314.3	315.8	345.5	454.4	653.7	653.7	794.3
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998)	–	–	–	28	38	48	79	31	145	214
No. of employees	276	289	305	305	340	374	422	419	419	427

Performance of the Share

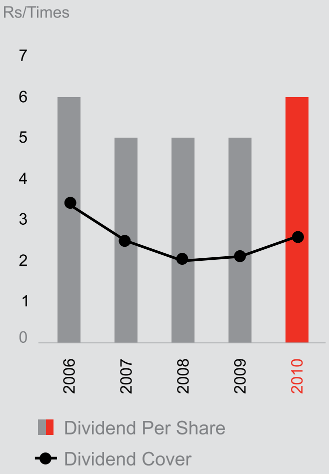
Earnings and Market Value



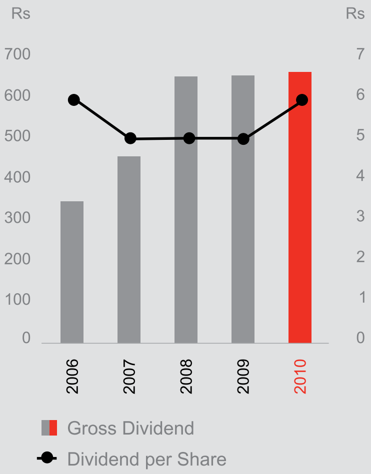
Share Value



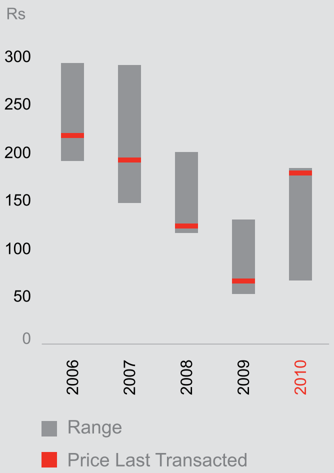
Dividends



Dividends Paid



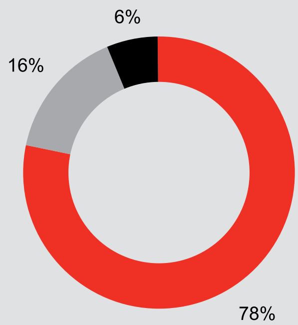
Share Price



Share Information

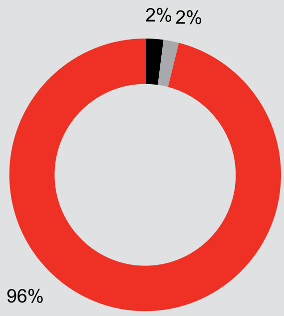
Year ended 31 March	2010	2009
Earnings		
Earnings per share, Rs	12.97	10.41
Price Earnings Ratio, times	13.90	6.56
Dividends		
Final Dividend Paid (proposed paid)	794.25	653.66
Dividend per share, Rs	6.00	5.00
Book Value		
Net assets per share on 31 March, Rs	119.03	110.90
Price Indices		
CSE All Share Price Index	3,724.59	1,638.06
Milanka Price Index	4,270.73	1,736.20
Share Prices		
Lowest, Rs	67.00 (02.04.09)	52.00 (30.12.08)
Highest, Rs	183.50 (04.03.10)	130.00 (30.05.08)
Last transaction, Rs	180.50 (31.03.10)	68.25 (31.03.09)
Market Capitalisation		
Value, Rs million	23,893.74	8,890
% of total trade	1.97	1.67
Rank	14	11
Value of Shares Traded		
Value, Rs million	5,532.05	1,364
% of total trade	2.84	1.28
Rank	5	10
Days Traded		
Number of days traded	238	222
Total number of market days	240	239
% of market days traded	99	92
Frequency of Shares Traded		
Number of transactions	11,441	2,381
% of total frequency	0.77	0.35
Rank	44	100

Shareholders



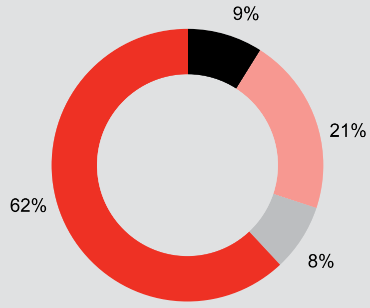
1-1,000 Shares
1,000 - 5,000 Shares
Greater than 5,000 Shares

Shareholding



1-1,000 Shares
1,000 - 5,000 Shares
Greater than 5,000 Shares

Ownership



Foreign Individuals
Foreign Institutions
Local Individuals
Local Institutions

Size-wise Distribution of Shareholding

Number of Shares	As at 31 March 2010 No. of Holders	As at 31 March 2010 Total Holding	As at 31 March 2010 %	As at 31 March 2009 No. of Holders	As at 31 March 2009 Total Holding	As at 31 March 2009 %
01 - 1,000	6,226	2,088,678	1.58	6,117	2,054,968	1.57
1,001 - 5,000	1,265	2,684,969	2.03	1,216	2,476,991	1.90
5,001 - 10,000	180	1,286,493	0.97	156	1,090,946	0.83
10,001 - 50,000	183	3,905,804	2.95	141	2,749,647	2.10
50,001 - 100,000	39	2,861,812	2.16	28	1,947,198	1.49
100,001 - 500,000	33	7,515,457	5.68	16	3,071,409	2.35
500,001 - 1,000,000	10	6,714,184	5.07	09	6,262,453	4.79
Greater than	16	105,317,908	79.56	16	111,078,858	84.97
Total	7,952	132,375,305	100	7,699	130,732,470	100.00

Ownership

Shareholding %	As at 31 March 2010 Foreign	As at 31 March 2010 Sri Lankan	As at 31 March 2010 Total	As at 31 March 2009 Foreign	As at 31 March 2009 Sri Lankan	As at 31 March 2009 Total
Individuals	8.86	8.04	16.90	8.71	6.69	15.40
Institutions	21.34	61.76	83.10	34.83	49.77	84.60
Total	30.20	69.80	100.00	43.54	56.46	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2010 was 60.29% (61.88% as at 31.03.2009).

Twenty Major Shareholders

Twenty Major Shareholders of the DFCC Bank as at 31 March 2010 are given below:

Name of Shareholder/Company Name	2010 No. of Shares	2010 %	Cumulative %	2009 No. of Shares	2009 %
Bank of Ceylon A/c. No. 2	19,191,197	14.498	14.50	19,019,997	14.55
Sri Lanka Insurance Corporation Limited - Life Fund	17,211,766	13.002	27.50	14,676,966	11.23
Hatton National Bank Limited A/c No. 1	16,054,570	12.128	39.63	16,054,570	12.28
Mr M A Yaseen	11,262,250	8.508	48.14	11,262,250	8.62
Distilleries Company of Sri Lanka Limited	8,521,428	6.437	54.57	8,407,628	6.43
Seafeld International Limited	7,643,397	5.774	60.35	7,643,397	5.85
HSBC Intl. Nominees Limited - BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	6,108,073	4.614	64.96	6,108,073	4.67
HSBC Intl. Nominees Limited - BPSS LDN-Aberdeen Asia Pacific Fund	3,375,000	2.550	67.51	3,375,000	2.58
Renuka City Hotels Limited	3,352,035	2.532	70.04	1,050,335	0.80
Employees' Provident Fund	2,420,600	1.829	71.87	–	–
HSBC Intl. Nominees Limited/DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH	2,250,162	1.700	73.57	2,250,162	1.72
Renuka Hotels Limited	2,024,180	1.529	75.10	180	–
RBC Dexia Investor Services Trust S/A Edinburgh Dragon Trust PLC	2,000,000	1.511	76.61	2,224,400	1.70
National Saving Bank	1,608,000	1.215	77.83	158	–
Northern Trust Co S/A Murray Johnstone International Delaware Business Trust	1,271,250	0.960	78.79	1,271,250	0.97
Cargo Boat Development Company Limited	1,024,000	0.774	79.56	–	–
HSBC Intl. Nominees Limited - SSBTL-Aberdeen Asia Smaller Companies Investment Trust XCB9	900,000	0.680	80.24	900,000	0.69
HSBC Intl. Nominees Limited-SSBTL-Aberdeen New Dawn Investment Trust XCC6	900,000	0.680	80.92	900,000	0.69
Employees' Trust Fund Board	768,333	0.580	81.50	1,065,133	0.81
Mellon Bank N.A. - Florida Retirement Scheme	750,000	0.567	82.07	–	–
Total of the 20 Major Shareholders	108,636,241	82.067	–	–	–
Other Shareholders	23,739,064	17.933	100.00		
Total	132,375,305	100.000			

Debenture Information

DFCC Listed Debentures

Debenture Categories	Interest Payable Frequency	Applicable Rate	Interest Rate of Comparable Government Security
Fixed Rate			
2006/2016 - 14.00% p.a.	Annually	14.00%	13.12%
2006/2011 - 13.75% p.a.	Annually	13.75%	10.83%
Floating Rate			
2006/2011 - 6 months TB rate (Net) + 2.00% p.a.	Semi-Annually	10.70%	10.83%
2006/2011 - 6 months TB rate (Gross) + 1.00% p.a.	Semi-Annually	10.70%	10.83%

None of these debentures have been traded during the year.

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

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

Other Ratios	2010	2009
Debt Equity Ratio	2.13	2.32
Interest Cover (Times)	1.25	1.00
Quick Assets Ratio (%)	213.7	145
(Same as liquid asset ratio.)		

DFCC Bank's Offices

AMPARA
3, D S Senanayake Street
Ampara
Telephone: 063-2224242
Fax: 063-2224243

ANURADHAPURA
249, Maithripala Senanayake Mawatha
Anuradhapura
Telephone: 025-2223417
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: 065-2228333
Fax: 065-2228282

COLOMBO
73, W A D Ramanayake Mawatha
Colombo 2
Telephone: 011-2310500
Fax: 011-2305579

GALLE
93, Wakwella 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
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,
037-2224461-2
Fax: 037-2224142

MALABE
9, Athurugiriya Road
Malabe
Telephone: 011-2442714
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

DFCC Pioneer's Journey

1955
OCTOBER
DFCC Founded by Act No. 35 of 1955

1956
MAY
Commenced Operations with Share Capital of Rs8 million

1958
FEBRUARY
Act Amended No. 8 of 1958

1967
MARCH
Act Amended No. 1 of 1967

1974
APRIL
Act Amended Law No. 12 of 1974

1977
JANUARY
Paid Up Share Capital Rs16 million

MARCH
ADFIAP Formed DFCC Founder Member

1979
NOVEMBER
Paid Up Share Capital Rs24 million

1982
DECEMBER
Act Amended No. 42 of 1982

1983
JANUARY
Bonus Issue 1 for 4 Paid Up Share Capital Rs30 million

FEBRUARY
Paid Up Share Capital Rs60 million

MARCH
Paid Up Share Capital Rs100 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
Kandy Branch Opened

1989
NOVEMBER
Short-Term Working Capital Financing

1990
NOVEMBER
Matara Branch Opened

1991
AUGUST
Bonus Issue 1 for 3 paid Up Share Capital Rs133 million

OCTOBER
Paid Up Share Capital Rs170 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 Rs226.7 million

1994
NOVEMBER
Kurunegala Branch Opened

1995
JUNE
Bonus Issue of 1 for 3 Increased Paid Up Share Capital to Rs302.2 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 Mobilization

APRIL
Sri Lanka's First BOO Power Project, Sponsored by DFCC, Commissioned

DECEMBER
Anuradhapura Branch Opened

1997
JULY
Appointed Administrative Unit of World Bank Funded Energy Services Delivery Project

AUGUST
Act Amended No. 23 of 1997

AUGUST
Gampaha Branch Opened

SEPTEMBER
Acquired 29.8% Stake in Commercial Bank of Ceylon PLC

OCTOBER
Badulla Branch Opened

DECEMBER
Ratnapura Branch Opened

1998

FEBRUARY

5 New Projects Launched Under Small & Medium Enterprises Development Programme

APRIL

Bonus Issue of 1 for 6 Increased Paid UP Share Capital to Rs3,526 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

DECEMBER

Colombo Office Opened

2000

MARCH

Structured & 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 Rs423.1 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 Rs565.9 million

SEPTEMBER

AA Rating Affirmed

NOVEMBER

Malabe Branch Opened

2005

MARCH

DFCC Consulting Founded

2006

MAY

ADFIAP Annual Sessions Hosted

JULY

Bonus Issue of 1 for 2 Increased Paid Up Share Capital to Rs863.9 million

SEPTEMBER

Bandarawela office opened

Issue of Debentures to the Value of Rs2 billion Enhanced Regulatory Capital

2007

JUNE

Rights Issue 1 for 4
Bonus Issue of 1 for 5 Increased Share Capital to Rs1,302 million

SEPTEMBER

AA(lka) Fitch Rating affirmed

2008

JULY

Acuity Partners (Pvt) Limited commenced commercial operations

OCTOBER

AA(lka) Fitch Rating affirmed

DECEMBER

Galle Branch opened

2009

SEPTEMBER

AA(lka) Fitch Rating Affirmed

DECEMBER

Ampara Branch opened
Batticaloa Branch opened

2010

JANUARY

Jaffna Branch Opened

Divested LVL Shares to Acuity Partners (Pvt) Limited

Notes

Notes

The Annual General Meeting,
will be held at the Cinnamon Grand, Colombo 3, on 30 June 2010. 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 3, 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.

Name of Company
DFCC Bank

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

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

Board Secretary
T Wijemanna

Lawyers
F J & G De Saram
Attorneys-at-Law

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

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

Vat Registration No.
409000088-7000

Head Office
DFCC Building, P O Box 1397
73/5, Galle Road, Colombo 3,
Sri Lanka.
Telephone: 94-11-2442442
Fax: 94-11-2440376
E-mail: info@dfccbank.com
Website: http://www.dfccbank.com

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Fax: +94 11 2440 376
Email: info@dfccbank.com
website: http://www.dfccbank.com