

Cutting New Frontiers

Promoting Sri Lankan Entrepreneurship



ANNUAL REPORT 2005/06

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



This year DFCC Bank celebrates its Golden Jubilee.

Starting from small beginnings and enduring many a storm of change, DFCC Bank today ranks as one of Sri Lanka's top companies with sustained profits and consistent growth.

Acknowledged as being one of the few successful and sustainable Development Financing Institutions in Asia and the Pacific, the Bank has reason to be proud of not only its own record of achievement, but also the part it has played on the larger canvas of Sri Lanka's economic and social development. During its years in development banking, DFCC Bank has chartered new trails and played an innovative and catalytic role without losing sight of its mandate to infuse energy and dynamism into a growing economy.

In the next phase of its growth, new game plans will propel DFCC Bank into a next generation financial institution. Its pioneering spirit will drive it to test unexplored avenues in its continued efforts to be a dynamic resource centre for enterprise building.

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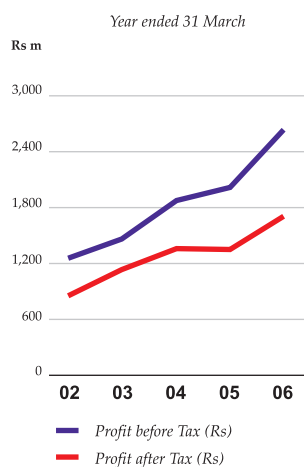
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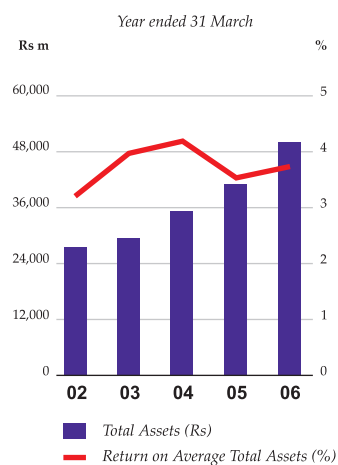
CONSOLIDATED FINANCIAL HIGHLIGHTS

<i>For the year ended 31 March</i>	2006	2005	% Change
Income, Rs m	5,449	4,641	17
Profit before tax, Rs m	2,636	2,018	31
Profit after tax, Rs m	1,704	1,350	
Earnings per share, Basic, Rs	29.62	23.56	
Diluted, Rs	29.42	23.36	
Gross dividend, Rs m	346	316	
Rate of dividend, %	60	55	
Shareholders' funds (capital & reserves), Rs m	11,516	10,108	14
Medium/long-term borrowing, deposits & debentures, Rs m	34,401	27,899	23
Total assets, Rs m	50,039	41,166	22
Return on average total assets, %	3.7	3.5	
Return on average shareholders' funds, %	15.8	14.3	

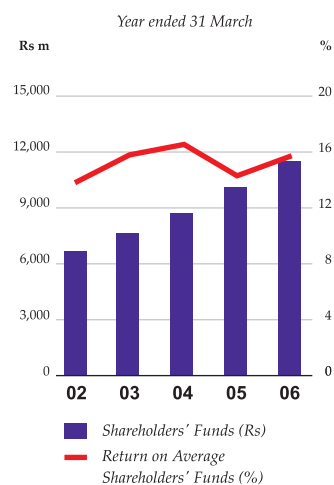
PROFIT



TOTAL ASSETS AND RETURN



SHAREHOLDERS' FUNDS AND RETURN



In 1956, this entity took root as the Development Finance Corporation of Ceylon. Half a century on, it has grown into what the World Bank, several decades later, described as “one of the few development finance institutions in the world to have performed creditably”.



CHAIRMAN'S STATEMENT

Dear Shareholder,

I welcome you to the Fiftieth Annual General Meeting of DFCC Bank and present to you the Annual Report for the financial year ended 31 March 2006. I am doubly honoured on this occasion, as it is the Golden Jubilee of DFCC Bank and my first as Chairman.

Over fifty years ago, a proposal to create an "executive financial arm to promote and carry out, in partnership with private interests, specific projects of a commercial nature" was mooted in a World Bank initiative for developing post-independent Ceylon. In 1956, this entity took root as the Development Finance Corporation of Ceylon. Half a century on, it has grown into what the World Bank, several decades later, described as "one of the few development finance institutions in the world to have performed creditably". The Golden Jubilee of DFCC Bank is thus a fitting occasion to reflect on five decades of pioneering and innovation as well as DFCC's evolution into Sri Lanka's premier development bank and the corporate hub of a strong financial services group.

DFCC is among the first development finance institutions to be established in Asia. Its core activity has been long-term project financing to the private sector. Subsequently, in response to market opportunities and demands, the Bank's scope of business was broadened to include investment banking, fee-based services, venture capital, fund management, stockbroking, consulting and commercial banking through subsidiaries and associate companies. The investment in Commercial Bank of Ceylon Limited was one such diversification which was followed by the acquisition and promotion of the re-branded DFCC Vardhana Bank. Today, DFCC Bank is thus able to offer the gamut of financial services to its customers.

Many aspects of DFCC's story exemplify just how the institution has been transformed. DFCC began business with a subscribed capital of eight million rupees. Its consolidated equity capital today stands at over eleven billion rupees, signifying the growth and value created. Over the fifty years, all that DFCC Bank has raised from shareholders in the form of new equity, has amounted to under Rs1,500 million and moreover, the last such equity raising was in 1993. Operations, which were run from a single office, are now conducted through an expanding network of DFCC Bank and DFCC Vardhana Bank branches presently comprising 14, in major commercial centres, while customers have grown in number to over 26,000. The corporate structure, which was represented by one entity, now comprises a Group encompassing five subsidiaries and two associates. Given the multifaceted nature of the Group's corporate form, good governance is therefore, especially important and your Board will continue to place the utmost importance on this key responsibility.

I would now like to comment on the performance of the economy in 2005. The shocks and challenges, such as those posed by the post-tsunami rehabilitation and escalating fuel prices, were many. This state of affairs was compounded by the uncertainties that come to surface in the run up to any major election in Sri Lanka and the serious threat to the continuation of the Ceasefire Agreement. Given these circumstances, the growth rate of 6%, to which all major sectors contributed, is creditable. Also, it was encouraging that inflation dipped to 8% in December 2005, despite averaging 11.6% during the year. This was due, in part, to effective policy measures and stable foreign exchange rates. Investor confidence was positive for most part of the year and the

CHAIRMAN'S STATEMENT

share market reached record highs in index levels and turnover. While there were manifestations of pressure on the economy with a widening of the budget deficit to 8.7%, the overall picture was one of resilience.

An area of great concern to the banking industry is the discriminatory taxation policies that the industry has been progressively subjected to in recent years. The increase in the Value Added Tax on financial services from 15% to 20% from 2006 will increase the overall tax burden to well above 50% of net operating income of banks. This level of taxation, that appears to be based on "ability to pay" rather than on the basis of a well designed policy framework will not only threaten the ability of

contribution from the Group's commercial banking operations was a significant factor in this performance. In particular, the significant improvement in the performance of the strategic 95% owned commercial banking subsidiary, DFCC Vardhana Bank Limited, resulted in the aggregate profit after tax of Rs1,188 million for the two businesses, an increase of 16%.

What of DFCC's future? While DFCC Bank is the apex of a financial services group, the corporate model retains development banking as the core activity. We believe that project financing is very relevant particularly in the national context, as for instance, capacity limitations including infrastructure, are now a major challenge to Sri Lanka's economic growth. As regards commercial banking, it is evident that

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the banking sector to attract much needed capital to play the role required of them in Sri Lanka's development, but also run counter to the need to reduce intermediation costs. On a more general note, the frequent policy shifts that Sri Lanka is subject to also create uncertainty in the minds of potential private sector investors contemplating significant investments that, if undertaken, could make an impact on the sustainable development of the country.

I now wish to highlight some aspects of DFCC Bank's financial performance during the year under review. While at the DFCC Bank level, profit after tax grew by 6%, the DFCC Group profit after tax grew a satisfactory 26% and return on equity improved to 15.8%. The

as the nation climbs the development ladder and market reforms are implemented, the forces of convergence and consolidation in the financial services sector will prevail. These will bring to fruition DFCC Bank's vision of being Sri Lanka's Premier Financial Services Group.

During the year, the Board suffered the passing away of two members, Messrs G A E Gunatilleke and S B Hewage. Gemunu Gunatilleke, an Alternate Director representing the German Investment Development Company (DEG), served on the Board from 1984 and was unstinting in imparting his valuable knowledge as Chairman of the Board Audit Sub-Committee. S B Hewage, a Director since June 2004, contributed with his private sector expertise. We acknowledge with gratitude their service to DFCC Bank.

CHAIRMAN'S STATEMENT

Dr T N Jinasena, a Director from 1991 and Chairman since January 2005, resigned from the Board in September 2005. His long contribution to the Bank and stewardship is greatly appreciated. Mr M J C Amarasuriya, a Director since June 2001, also resigned from the Board in June 2005 and we thank him for his contribution.

I welcome to the Board Mr C P R Perera and Deshabandu A M de S Jayaratne, who were appointed in July and August 2005 respectively. Their extensive experience will be advantageous in taking the Bank forward. I was appointed Chairman in September 2005. I thank the Board for their generous support and look forward to their counsel in the affairs of the Bank.

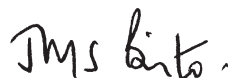
The Chief Executive Officer, Mr Nihal Fonseka, has once again inspired the staff of DFCC Bank to turn in a steadfast performance that has enabled the Bank to maintain its position among the top rungs of corporate Sri Lanka in terms of employee productivity and profitability. I thank all of them for their unstinted efforts. I am proud to inform shareholders that Mr Fonseka recently gained peer recognition for his endeavours, by being selected as the top CEO from the ranks of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). I am also pleased that DFCC Bank, as an institution, has been recognised as having the best Human Resource practices among the same peer group.

I acknowledge DFCC Bank's growing client base as a critical stakeholder group and a cornerstone of the Bank's success. Their loyalty is deeply appreciated and we look forward to their continued association with the Bank as the financier of first choice.

I also wish to express my sincere appreciation of the support and assistance received from the Ministry of Finance, especially for granting us access to long-term funding from bilateral and multilateral lenders. I also thank the Governor and other officials of the Central Bank of Sri Lanka for their co-operation and assistance in various matters.

Above all, I thank you, the Shareholders of DFCC Bank, for supporting the Board in its stewardship of the Bank. Be assured that our commitment to enhance the value of your shareholding is paramount. In this year - the Golden Jubilee of DFCC Bank, the Board would like to signal its appreciation by recommending the payment of a first and final dividend of 60%, the highest to be paid in the five decades of DFCC's existence. The Board will also seek approval for a capitalisation of reserves for the issuing of one bonus share for every two held, thereby materialising further value for shareholders.

You will no doubt join me in wishing DFCC Bank a happy Golden Jubilee.



Rajan Brito

Chairman

25 May 2006



DFCC Bank, has proactively adapted to its changing environment without abandoning its original charter. The Bank is, and is committed to being, the premier development bank in the country.



CHIEF EXECUTIVE'S REPORT

The period under review was a good year for DFCC Group, in fact the best so far in many ways, as DFCC Bank prepared to herald the dawn of its golden jubilee. While we celebrate a half-century of trail-blazing performance in development banking, it is also an opportune time for introspection and reflection. The label 'Development Finance Institution' or 'DFI' itself has been a subject of debate in recent times regarding its relevance, as winds of change have swept across the globe since this classical model was conceived during the post-World War II era of reconstruction and development.

In this context, the deliberations and conclusions reached at the recently concluded Annual Meetings of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) held in Colombo under the theme "DFIs: Are they Sustainable?" are particularly relevant. There was consensus among the participants from the 63 member institutions of ADFIAP from 32 countries, that DFIs are still relevant and have a continuing role to play in reducing poverty through financing and supporting sustainable development. There was also consensus, that DFIs deserve continuing Government support to access long-term funds, but should also make greater use of the capital markets. It was further agreed that the regulatory framework DFIs are subjected to, should facilitate and not inhibit the catalytic role they have to play in their economies and that whilst pursuing profit is not the primary objective, DFIs must operate profitably when benchmarked against others who are competing for capital, since profitability is a prerequisite to sustainability. Last but not least, it was considered essential that DFIs should reposition themselves to meet the wider financial requirements of their customers in the changing financial landscape.

DFCC Bank, has proactively adapted to its changing environment without abandoning its original charter. The Bank is, and is committed to being, the premier development bank in the country. Sri Lanka is still a developing country, and there is a continuing need for a development bank at the national level apart from those that cater to niche segments. DFCC Bank enjoys a unique position in this space with a solid track record of project financing and pioneering the development of several economic sectors over the last 50 years, while at the same time being able to offer customers a full spectrum of commercial banking services through its almost fully owned subsidiary, DFCC Vardhana Bank Limited (DVB). Our business strategy has not been one of choosing between rigid, watertight alternatives or following the herd on a prescribed route of transformation. Rather it is one of evolution and adaptation, to seamlessly deliver a broad range of financial services through appropriate organisational structures and arrangements that include subsidiaries and strategic alliances. The process continues to evolve, while creating shareholder value and sustainable growth by meeting the aspirations of all our stakeholders. The future institutional arrangements that we choose in undertaking our mission will depend, on how Government and regulatory policies in relation to the financial services sector evolve.

Overview

Asset growth with the resultant increase in core interest income, significant improvement in asset quality and a high degree of operating synergy with DVB were important achievements that characterised the year. Profit before tax and VAT on financial services of the Bank's operations at Rs1,855 million was 10% higher than in the previous year. The increase would have been almost 17% had the final dividend of

CHIEF EXECUTIVE'S REPORT

Rs107 million from Commercial Bank of Ceylon Limited been approved before the closing of DFCC Bank's financial year, as has been the case in the past. The net group profit attributable to shareholders recorded a 26% increase to Rs1,704 million with diluted earnings per share increasing in tandem to Rs29.42.

Strong demand for capital asset funding from construction, food & beverage, transportation & communication sectors helped loan and lease approvals as well as disbursements to grow significantly compared with the previous year. DVB contributed to the growth of customer advances at a Group level by significantly scaling up its operations.

DFCC Bank's Investment Banking activities continued to be focused on capital market operations and fee-based advisory services. The former includes the management of the Bank's equity portfolio to realise capital gains and replenishing the investment portfolio with a view to realising capital gains in the medium term. This activity yielded a capital gain of Rs141 million.

Detailed analyses of the Bank's performance are given in the Operations and Financial Reviews.

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In consonance with its development charter, the Bank makes every effort to restructure and rehabilitate projects facing problems before embarking on recovery through asset disposal. In this context, successful rehabilitation of many tsunami affected enterprises in the Leisure and Small and Medium Enterprise (SME) sectors was particularly satisfying. Our efforts over the last few years to strengthen credit appraisal and monitoring have borne excellent results with the ratio of non-performing loans and finance leases decreasing markedly.

Subsidiaries and Associate Companies

DVB, in which DFCC Bank holds a 95% ownership, made good progress in turning around, and posted a profit of Rs79 million in the year ended 31 December 2005 compared to a loss of Rs29 million in the previous year. It has been operating profitably since October 2004 and its contribution needs to be viewed not only in terms of profit but also in terms of the synergies that DFCC Bank reaps in having functional control over a full service commercial bank. DVB relocated its Head Office to a parent company owned property and its operations

CHIEF EXECUTIVE'S REPORT

were successfully migrated to the same technology platform as DFCC Bank. These helped to further consolidate operating synergies between the two entities. In September 2005, DFCC Bank contributed Rs479 million as new equity capital to DVB and is committed to further progressive injection of capital to increase the Tier 1 capital of DVB to Rs2,500 million by the end of 2007 to meet the new regulatory requirements. Any additional capital requirements of DFCC Bank itself to undertake this investment will be met through Tier 2 capital.

DFCC Stockbrokers had a very good year, fully justifying the investments made in capacity expansion. Their committed staff performed creditably in a very competitive market environment. Our industrial estate company, LINDEL also performed well with very high levels of occupancy being maintained. While Lanka Ventures Limited, the venture capital subsidiary, continued to be profitable, the Company recorded a drop in earnings largely due to the lower capital gains on the exits made during the year. DFCC Consulting (Pvt) Limited which commenced operations in the financial year made its mark undertaking assignments both locally and overseas in the field of renewable energy development.

I have commented in previous reports about the difficulties faced by National Asset Management Limited (NAMAL), the Group company involved in Fund Management, in enlarging its fund base. In the absence of tangible signs of the Government's intention to broad base pension fund management and administration, the prospects for NAMAL were not encouraging. We therefore, divested a controlling stake of 54% of NAMAL to the owning company of Sri Lanka Insurance Limited (SLI). This is expected to result in NAMAL having access to managing a part of the large fund base of SLI Life and General Funds. DFCC Bank continues to retain a 26% stake in NAMAL.

Our associate company, Commercial Bank of Ceylon Limited (CBC) had yet another record year, reporting a group profit after tax of Rs2,356 million, an increase of 37% over the previous year. It continued to receive many local and international awards of merit. We have been successful in our efforts to forge a closer relationship with CBC but remain receptive to a stronger alliance acceptable to stakeholders. Such an association will not only enable the creation of a financial services powerhouse capable of meeting some of the challenges posed by the high intermediation costs of the banking system in Sri Lanka, but also allow greater exploitation of the opportunities that will arise from the inevitable liberalisation of cross border financial services in the next few years.

Operations

The Bank made good use of available credit lines targeting key sectors of the economy, in particular the credit lines made available by Kreditanstalt fur Wiederaufbau (KfW) of Germany, SMILE 3 line from the Japan Bank for International Cooperation (JBIC) for SME development and the Renewable Energy for Rural Economic Development (RERED) credit line of the World Bank, to finance renewable resource based power projects. The Bank also renewed its association with FMO, the development bank of The Netherlands, by drawing on a new credit line. Funding from these sources was supplemented with wholesale funds from the local market accessed with the benefit of the Bank's AA (lka) national long-term credit rating from Fitch Ratings Lanka Limited. DVB focused on building the retail deposit base as they are better placed to undertake this activity.

As a development finance institution, DFCC Bank has had a long history of nurturing the SME sector, mainly through its branch network. New loans and leases disbursed to the SME sector amounted to over Rs8,400 million. The Bank has also fitted in well with the new

CHIEF EXECUTIVE'S REPORT

thrust of Government policy, which we fully support, to geographically disperse the benefits of development to less developed areas outside the Colombo and Gampaha districts. At the end of the financial year, almost half of the outstanding credit had been extended to projects and borrowers located outside these districts and almost 10% of the total portfolio was in the agricultural sector, another priority area earmarked for development.

The Bank made good progress in the ongoing process of improving its human resource procedures and practices, undertaken with the help of external consultants. An exhaustive competency mapping exercise was completed identifying the key managerial and behavioural competencies required by the Bank. This was followed by a job profiling exercise and job holders were put through an Assessment & Development Centre to determine their levels of proficiency and to identify skill gaps. These gaps will be addressed through future training and development programmes, while this exercise will also be used to improve succession planning. The Bank will continue to invest in people as it is they who provide the Bank with the competitive advantage in the knowledge economy in which we now operate.

The Bank and DVB have identified Treasury trading as a potentially lucrative new business line and have commenced building capacity to undertake this activity. We will further improve our Treasury trading and risk management capabilities in the coming year and increase our presence in the local market.

The Bank and DVB continued to upgrade its branch network. Both DFCC Bank and DVB will continue to invest in expanding the branch and delivery network.

Financial Services Landscape

While there is consensus that the regional financial services landscape is undergoing dramatic change, very little has in fact happened from a structural perspective to reposition the financial services industry in Sri Lanka to effectively deal with these changes. The local banking industry is not well positioned to meet the inevitable cross border competition especially from India when a Comprehensive Economic Partnership Agreement is finalised for progressive implementation. Successive governments, the regulators and the banking industry itself are responsible for this unsatisfactory situation. In contrast to other countries in the region such as Thailand, Malaysia and India, and, despite a considerable amount of preparatory work done and several plans prepared by various think tanks over the years, successive governments and the regulators have not articulated a commitment to a clear medium-term vision for the financial and banking sectors. They have not been helped by the seeming inability of the banking sector itself to look much beyond their narrow and often individual institutional interests focusing their attention on regulatory and operational issues rather than taking the initiative to develop a vision and a road map for the financial services sector. In this regard I reiterate the suggestion I made in my report last year for the appointment of a Presidential Commission on Banking and Capital Markets as there are signs that the current state of apathy is beginning to impact adversely on the growth prospects of several key sectors. When developing a vision for the financial services sector, taxation of the sector has to be given considerable thought since the current policies are a serious impediment to internal capital formation or for attracting new capital that is essential for the banking sector to grow. If a comprehensive strategy for the development of the Banking and Capital Market is not finalised and implemented quickly, the ability of the sector to support the ambitious development plans of the country will be impaired.

CHIEF EXECUTIVE'S REPORT

The debate on consolidation and convergence in the financial services sector is also continuing without the emergence, as yet, of a clear policy on the issue. In recent times the issue has become even more clouded by confusion between concentration of ownership and industry consolidation. According to the Central Bank's Annual Report for 2005, Sri Lanka is one of only 45 out of 157 countries that have restrictions on ownership of banks. In my view, the present regulatory focus on ownership restrictions is both impractical and ineffective. Instead, it is better to focus on imposing high standards of corporate governance on banks to recognise their special status in the economy of Sri Lanka as the main financial intermediaries. The requirements of good governance should also aim to remedy the present situation where management and employees appear to have a disproportionate influence on the strategic development of the banking sector as a whole vis-à-vis other stakeholders, including shareholders. The February 2006 publication "Enhancing Corporate Governance for Banking Organisations" of the Basel Committee on Banking Supervision is a good starting point when setting out to strengthen the corporate governance of banks.

Social Responsibility

In this golden jubilee year it is appropriate for DFCC Bank to initiate a sustainable project that will help the development of individuals and the nation at large. After much deliberation we have decided on initiating a programme that will last several years, aimed at improving the English Language skills of the rural youth of Sri Lanka to a level that will enable them to become beneficiaries of the global knowledge economy. The sustainability of such a project requires significant preparatory work which we have already embarked upon. We will also seek the support of State institutions and other specialists to ensure effective implementation of the project.

Outlook

Although the economy showed remarkable resilience in the post-tsunami period and the macro economic indicators improved when compared with the previous year, the investment climate showed signs of stress especially in the last quarter of the financial year due to fears relating to the possible breakdown of the four-year ceasefire between the Government and the LTTE. This, together with rocketing oil prices, the delay in implementing some essential reforms and policy reversals, especially relating to taxation and the involvement of Government in business activities have had a negative impact on business sentiment. On the other hand, the policy initiatives and fiscal incentives to encourage businesses to start up or relocate in less developed regions, additional support for the SME and other specific sectors and the renewed commitment by the Government to commence long delayed infrastructure projects are positive developments and DFCC Bank intends making full use of these opportunities for its growth.

The direction, support and guidance received from the Chairman and the Board of Directors were invaluable as was the excellent co-operation extended to me by my senior management colleagues and all staff and I express my sincere appreciation to all of them. In particular, I thank various agencies of the Government, our numerous customers, local financial institutions, bilateral and multilateral lending agencies for their continued patronage, support and confidence placed in DFCC Bank and its subsidiaries.



Nihal Fonseka

Chief Executive/Director

25 May 2006



ASSOCIATE AND SUBSIDIARY COMPANIES

	COMPANY	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PROFIT AFTER TAX		DIVIDEND RATE	
					Rs m		%	
					FYE 2006	FYE 2005	FYE 2006	FYE 2005
SUBSIDIARY	DFCC Consulting (Pvt) Limited 3rd Floor 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2442500 Incorporated: September 2004	100%	Consultancy	A N Fonseka (<i>Chairman</i>) D E De Mel T W De Silva S E de Silva	5	N/A	Nil	N/A
	DFCC Stock Brokers (Pvt) Limited 3rd Floor 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2446021-2 2446031-4 Incorporated: February 1990 <i>Note: Profit is for FYE December 2005 and FYE December 2004.</i>	100%	Securities Broking	A N Fonseka (<i>Chairman</i>) M R Abeywardena (<i>CEO</i>) J H D B Abeyaratna D E De Mel T W De Silva P P S Fernando S Nagarajah	34	14	80	32
	DFCC Vardhana Bank Limited 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2371371 Incorporated: August 1995 <i>Note: Profit is for FYE December 2005 and FYE December 2004.</i>	95%	Commercial Banking	J M S Brito (<i>Chairman</i>) L G Perera (<i>Managing Director/CEO</i>) S Nagarajah J H D B Abeyaratna Ms R A P Withana Mrs Y N Perera J A R E M Machado T K Bandaranayake	79	(29)	Nil	Nil
	Lanka Industrial Estates Limited Pattiwila Road Sapugaskanda Makola Tel: (011) 2400318 Incorporated: March 1992	50%	Leasing of Land and Buildings for Industrial Enterprises	A N Fonseka (<i>Chairman</i>) T W De Silva E G P Kalpage L A Mahendran M R Prelis Dr R M K Ratnayake A D Tudawe	63	51	40	40
	Lanka Ventures Limited 2nd Floor, Ceylon Ocean Lines Building 46/12, Navam Mawatha Colombo 2 Tel: (011) 2439201 Incorporated: February 1992	58%	Venture Capital Financing	A N Fonseka (<i>Chairman</i>) J H D B Abeyaratna S E de Silva T L F W Jayasekera J D N Kekulawela J M J Perera M R Prelis	76	114	15	15
ASSOCIATE	Commercial Bank of Ceylon Limited "Commercial House" 21, Bristol Street Colombo 1 Tel: (011) 2445010-15 2430420 2336700-5 Incorporated: June 1969 <i>Note: Profit is for FYE December 2005 and FYE December 2004.</i>	27%	Commercial Banking	M J C Amarasuriya (<i>Chairman</i>) B R L Fernando (<i>Deputy Chairman</i>) A L Gooneratne (<i>Managing Director</i>) L J A Fernando A N Fonseka I M Malas S K G Senanayake (<i>Alternate Director</i>) Dr H S Wanasinghe D S Weerakkody	2,356	1,725	45	60
	National Asset Management Limited 2nd Floor 73, W A D Ramanayake Mawatha Colombo 2 Tel: (011) 2445911 Incorporated: September 1990	26%	Fund Management	J E H Herat (<i>Chairman</i>) H A Herat L U D Fernando A N Fonseka A M de Silva Jayaratne	6	6	Nil	Nil

Note: * Restated figures for FYE December 2003 (Rs1,536 million before restatement)

** Restated figures for FYE March 2004 (Rs50 million before restatement)

Operations Review

Considering the importance of an effective and efficient branch network, in contributing towards rural outreach and economic development, while fulfilling the Bank's growth and profitability objectives, plans are afoot to further expand the branch and delivery network during the financial year 2006/07.

Operations of the Bank during the year yielded impressive results, often surpassing planned targets, as reflected by a healthy portfolio growth and further improvement in asset quality and staff productivity. These are detailed later in this review. Both internal and external factors helped the Bank to achieve these results. Externally, the 6% growth of Sri Lanka's economy in 2005, despite the tsunami disaster of 2004 was a favourable factor. This growth, particularly in the industrial sector (8.3%) and services sector (6.4%) created a strong demand for credit and capital asset funding. Internally, the Bank continued with improvements to its operating structures and processes in order to respond more effectively to market demand, better manage risks and to maintain high standards of service.

Approvals

The Bank approved credit facilities totalling Rs24,683 million during the year under review, an increase of Rs10,680 million or 76% over the previous year. Of this sum, 76% was for project loans, 15% for finance leases and the balance for financial guarantees and underwriting facilities. It is noteworthy that over Rs9,000 million of the approvals have been granted by provincial branches of the Bank which cater exclusively to the Small and Medium Enterprise (SME) sector.

Construction, food & beverages, financial services and property development, transportation, communication and trading were the sectors that received most of the approvals, representing 62% of the total approvals. New customer acquisitions were

aggressively targeted by the Bank, as a strategy to increase penetration into industries where the Bank previously had a relatively small presence. The dairy industry, education, shipping and export packaging are among such industries, which are economically and socially important to the country. The Bank also granted loans to the leisure industry to rebuild and upgrade hotel properties already financed by the Bank and damaged by the tsunami of December 2004, and to other tsunami affected SME projects, to restore their businesses, under the Susahana loans scheme of the Central Bank of Sri Lanka.

Portfolio Growth

The total portfolio of the Bank (net of provisions) increased from Rs30,427 million to Rs37,481 million registering an impressive growth of 23%. This was aided by a strong

MANAGEMENT DISCUSSION & ANALYSIS

43% increase in disbursements, from Rs12,434 million in the previous year to Rs17,799 million in the current year. The number of clients also increased from 10,390 in the previous year to 13,305 in the current year, a growth of 28%.

Project loans accounted for 82% of the portfolio while finance leases represented 14%, the balance being investment securities. The portfolio is well diversified to avoid excessive concentration in a particular economic sector, the largest exposures being to the following:

Real estate, financial and business services	15.1%
Trade and diversified businesses	12.8%
Food and Beverages	11.4%
Agriculture (plantation), forestry and fishing	9.7%
Transport, storage and communications	8.5%
Electricity, gas and water industries	7.3%

Portfolio Quality

Portfolio quality has shown a marked improvement during the year, with the Non-Performing Asset (NPA) ratio dropping further from 8.8% to 4.7% for loans and from 9.0% to 6.8% for finance leases. The overall NPA ratio of the Bank at the end of the year under review was 5% which is a very satisfactory level in the Sri Lankan context, and more so for a development bank, that accepts a higher level of risk than short-term lenders.

The improvement in portfolio quality was achieved through a two-pronged strategy. Firstly, the Bank made further improvements to its credit rating model, appraisal methodologies and the operating structures, to be more aligned with the attainment of the portfolio quality objective of the Bank. These measures also helped the Bank to further improve loan pricing to be commensurate with the risks assumed. The Bank's project follow up activities were also made more stringent, particularly with strong

support from advanced Management Information Systems introduced over the last two years.

Secondly, the Bank continued its proactive measures to either improve the financial viability of the projects through rehabilitation programmes or to speedily recover loans where such action proved to be futile. In such instances, the Bank increasingly resorted to negotiated settlements as a mode of recovery considering

the inherent delays and obstacles in instituting and proceeding with legal action for recovery.

Branch Banking

The Bank implements its SME development and lending strategies through its eleven branches located in all provinces except the North and East. During the year, the Matara branch was relocated to a more spacious and modern building. A DFCC Vardhana Bank branch was set up at the existing DFCC Bank, Kaduruwela branch to offer our customers a full range of commercial banking products that complement those offered by the Bank.

Considering the importance of an effective and efficient branch network, in contributing towards rural outreach and economic development, while fulfilling the Bank's growth and profitability objectives, plans are afoot to further expand the branch and delivery network during the financial year 2006/07.

Small and Medium Enterprise Financing

The Bank assists SMEs in the industrial, agricultural and commercial sectors by providing financial facilities, usually in the form of project loans or working capital loans or finance leases depending

MANAGEMENT DISCUSSION & ANALYSIS

on the client's needs and suitability. These products are complemented with value added services comprising guidance and training where necessary.

Branches approved credit facilities during the year aggregating Rs9,400 million to 3,623 clients of whom 56% were new clients. Branch approvals represent nearly 40% of the total approvals of the Bank. The main

achieved while improving the quality of the SME portfolio with the sector NPA ratio reducing from 7.2% to 5.2% during the year.

Capital Markets and Investment Banking

The year under review saw new highs being achieved in index levels and turnover indicating that new performance paradigms appear to have been set for primary and secondary

trend in the pre and immediate post-presidential election period in November and December 2005, where the market lost substantial ground. However, some positive developments on the political and economic fronts in the subsequent period revived investor interest and enabled a significant recovery in the last quarter of the financial year 2005/06.

DFCC Bank functions as the Administrative Unit of the Renewable Energy for Rural Economic Development (RERED) project, which aims to improve the quality of rural life by promoting access to electricity through off-grid renewable energy technologies, and to add capacity to the national grid through private sector participation in power generation using renewable resources.

SMG sectors financed, include construction industry, agro-processing, commercial & passenger transport and trading.

Disbursements made by the branches to the SME sector amounted to Rs8,454 million, an increase of 24% over the previous year. The total aggregate branch portfolio at the end of 2005/06 was Rs16,159 million an increase of 17% over the previous year. These growth figures were

market activities in the Colombo Stock Exchange, fuelled mainly by local retail investors. The All Share Price Index, which began at 1,752 points in April 2005, crossed the 2,500 mark in October 2005 and was holding at 2,264 by the end of March 2006, representing an overall gain of 29%. Daily turnovers of over Rs1,000 million were not uncommon and a high of Rs2,280 million was recorded on 28 July 2005. There was however, a roller coaster

The dynamic market conditions during most of the year were conducive to the capital market operations of the Investment Banking division of DFCC Bank. Being a consistently profitable line of business, the primary focus was on the management of the equity portfolio to realise capital gains and replenish stocks for the medium-term. This activity enabled a total capital gain of Rs141 million from the Bank's quoted equity portfolio. Meanwhile,

MANAGEMENT DISCUSSION & ANALYSIS

considering that the market trend was likely to be sideways, the portfolio cost was prudently contained to Rs374 million at the financial year end, down from Rs500 million at the beginning of the financial year. Notwithstanding the extent to which the portfolio was harvested, the market value of the portfolio exceeded cost at the end of the year. Looking ahead, DFCC Bank's equity investment portfolio will continue to be regarded as a significant source of income to be managed with a medium-term investment outlook.

The Investment Banking division was also involved in advisory fee-based activities. Proposals to augment the resources required for this business, which may include a new institutional set up, are being considered.

Treasury Operations

The Group Treasury of the Bank manages the treasury functions of both DFCC Bank and DFCC Vardhana Bank Limited to maximise synergies through sharing the physical infrastructure, risk controls and expertise. The DFCC

treasury functions continued to concentrate on resource mobilisation from international agencies and the local institutional market. The volatile interest rate environment compelled most investors in the domestic market to invest in short-term instruments, which effectively shortened the maturity of market based funding of DFCC Bank.

The Bank successfully drew on two international credit lines, namely, KfW (German Development Bank) IV and European Investment Bank (EIB) Global I. Currently, the Treasury is working closely with the External Resources Department of the Government to make a recently executed agreement with the EIB operational, under which funding will be available during 2006. Retail deposit raising activities are mainly handled by DFCC Vardhana Bank Limited who can offer a wider product range to depositors than DFCC Bank. The Treasury was also able to obtain enhancements of the counter-party limits from local and foreign participants, which aided an increased presence in the inter-bank market.

Management of Credit Lines

Renewable Energy Development

DFCC Bank functions as the Administrative Unit of the Renewable Energy for Rural Economic Development (RERED) project, which is assisted by a World Bank (IDA) credit line of US\$75 million and a Global Environment Facility grant of US\$8 million. The RERED project aims to improve the quality of rural life by promoting access to electricity through off-grid renewable energy technologies, and to add capacity to the national grid through private sector participation in power generation using renewable resources. The RERED project continues to develop a vibrant renewable energy industry comprising manufacturers, suppliers, developers, consultants and industry associations, while promoting commercial financing to this sector through banks, leasing companies and micro finance institutions. By 31 March 2006 a total of Rs6,479 million had been committed with Rs4,406 million disbursed by the 10 participating credit institutions. Completed grid-connected projects include

MANAGEMENT DISCUSSION & ANALYSIS

22 mini hydro projects having 52 MW aggregate capacity (with a further 50 MW under construction), and a dendro power project of 1MW capacity. Off-grid projects completed include the electrification of 66,267 rural homes through solar home systems and 3,036 homes through 72 village hydro schemes. By mid-term the credit line was almost fully committed and supplementary financing is being planned to support the continued growth of the renewable energy sector.

Plantation Development

DFCC Bank functions as the Apex Body in managing the credit lines of the Plantation Development Project and Plantation Reform Project II, which is assisted by the Asian Development Bank and

Japan Bank for International Co-operation. The Project provides long-term financing to meet the investment needs of regional plantation companies through a credit component and addresses the estate workers' poor working, living and social conditions through a social and environmental component, which includes a housing loan scheme. Commitments by the six participating financial institutions totalled Rs328 million by 31 March 2006, while disbursements of refinance stood at Rs116 million.

Financial Review

The Significant increase in the volume of core business of providing credit and improved quality of portfolio contributed to improvement in profits of the Bank.

Overview

The Bank accounts for its investments in associate and subsidiary companies under the equity method of accounting. Since this is a partial consolidation, under this method, the profit after tax of the Bank equals the profit attributable to the Group after deducting minority interest, and the Bank's

Balance Sheet includes post-acquisition reserves of associate and subsidiary companies. Except where specific reference is made to other entities, this analysis relates to the financial statements of the Bank and not the Group.

The profit after tax for the current year including equity accounted contribution, was Rs1,704 million compared to Rs1,350 million achieved in the previous year, an increase of 26%. The return on average assets and the return on average equity increased from the previous year's 3.5% to 3.7% and 14.3% to 15.8% respectively. The

Composition in the Profit after Tax

	Year to 31 March 2006		Year to 31 March 2005	
	Rs million	%	Rs million	%
DFCC Bank	1,113	66 *	1,051	78
DFCC Vardhana Bank Limited (DVB)	75	4	-27	-2
Sub-total	1,188	70	1,024	76
Associate companies				
Commercial Bank of Ceylon Limited (CBC)	490	29	307	22 *
National Asset Management Limited (previously subsidiary company)	5	0 **	-4	0 **
Subsidiaries				
DFCC Stockbrokers (Pvt) Limited	16	1	7	1
DFCC Consulting (Pvt) Limited	5	0 **	Not in Operation	
Others (Lanka Ventures Limited Lanka Industrial Estates Limited)	0	0 **	16	1
Total	1,704	100	1,350	100

* Adjusted for rounding off differences

** Less than 0.5%

MANAGEMENT DISCUSSION & ANALYSIS

aggregate profit after tax of DFCC Bank's own operations and the share of profit of its 95% owned commercial bank subsidiary, DFCC Vardhana Bank Limited (DVB) increased by 16% compared to the previous year. DVB had a successful year in 2005 posting a profit after tax of Rs79 million compared to a loss of Rs29 million in the previous financial year.

The table showing the composition of profit after tax depicts only the undistributed share of profit after tax attributable to the Bank. All the subsidiaries and associate companies posted profit after tax for the current and previous financial years except DFCC Vardhana Bank Limited, which was profitable in the current year but incurred a loss in the previous financial year ended 31 December 2004. As a result of adopting a high dividend distribution policy, both Lanka Ventures Limited and

Lanka Industrial Estates Limited have a very small undistributed share of profit after tax attributable to the Bank.

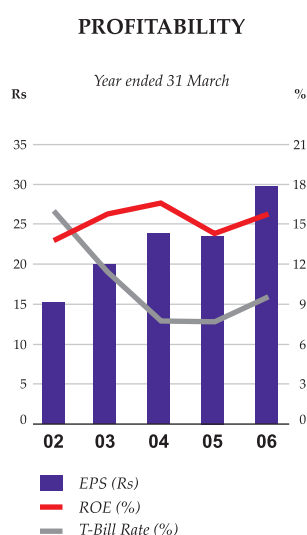
DFCC Bank's profit after tax from its own operations increased by 6% in the current financial year compared to the previous year. Shareholders of Commercial Bank of Ceylon Limited (CBC), an associate company, approved the final dividend of Rs107 million at the adjourned Annual General Meeting on 6 April 2006. If the dividend was approved on 30 March 2006, the date of CBC Annual General Meeting, DFCC Bank's profit after tax from its own operations would have recorded an increase of 14% with a corresponding reduction in the undistributed profit contribution from CBC.

A significant increase in the volume of core business of providing credit and improved asset quality contributed to the increase in the profits of the Bank. On 3 March 2006 the Bank divested 5.4 million shares in National Asset Management Limited (NAMAL) thereby reducing its ownership to 26% from 80%. The sale price was the net asset per share of Rs12.65 as at the date of sale and above the cost of acquisition. However, since this investment was carried at the net asset value under equity

method of accounting there was no accounting profit on the transaction. The Bank was one of the founder members of NAMAL, incorporated in 1991 with an initial stake of approximately 35%. Subsequently, it was increased to 47.5% in September 1999 and thereafter it graduated from an associate company to a subsidiary in November 2002 with a 12.5% purchase from Asian Development Bank. The previous acquisitions were also at net asset value. The Bank continues to retain significant influence over the financial and operating policies of this company, meriting its classification as an associate company. The divestment to an investment holding company, Milford Holdings Limited (the owning company of Sri Lanka Insurance Limited) is expected to position NAMAL to enlarge the scope of its activities.

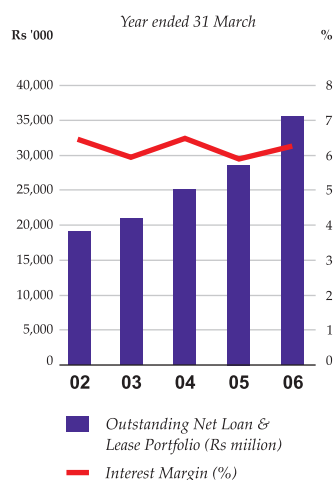
Income Statement

Net interest income of Rs2,145 million is an increase of 21% compared to Rs1,771 million in the previous financial year. This was largely due to 25.5% increase in the outstanding portfolio of loans and financial leases (net of provisions). Although there was an improvement in interest spread and interest margin, the bigger contribution was through business volume increase.



MANAGEMENT DISCUSSION & ANALYSIS

VOLUME & MARGIN



Operating Expenses

The components of operating expenses were changed during the current year to exclude value added tax as part of operating expenses. The comparative previous year's classification is also restated. The operating expenses of Rs1,148 million is a 5% increase over Rs1,090 million in the previous financial year. As in the previous financial year, continuing improvements in the quality of

remuneration to align them with the peer group of employees in selected leading private sector banks as part of the Bank's strategy to retain its key Human Resources contributed to the increase in personnel cost. The revision of remuneration was based on the findings by an independent external consultant firm, who have carried out similar assignments in the past for this Bank as well as several other banks in Sri Lanka.

Interest Spread and Margin

	Year to 31.03.2006	Year to 31.03.2005
Interest spread	5.51%	5.22%
Interest margin	6.26%	5.89%

Interest spread measures the nominal intermediation cost while interest margin measures the effective intermediation cost. Interest margin takes into account the fact that interest earning assets may be financed by a mix of borrowed and equity capital.

Other Income

Other income for the current year was Rs856 million, a 14% decrease compared to Rs996 million earned in the previous year. The primary factor for the reduction is the delayed approval of the final dividend from Commercial Bank of Ceylon Limited.

portfolio as evidenced by the reduction in non-performing credit portfolio together with recoveries of previously provisioned loans helped the Bank to offset other cost increases. The other costs comprising personnel and the associated pension cost and the premises, equipment and establishment expenses increased by 19% compared to the previous financial year.

Commensurate with business volume increase, our employee head count increased from 340 on 31 March 2005 to 374 on 31 March 2006. This together with a modest revision of the Bank's employee

The key factor in the increase in pension cost is the increase in current service cost which increased from Rs59.5 million in the previous financial year to Rs72.4 million, an increase of 22% largely due to the lower return from pension fund assets during the year compared to actuarial assumptions. Although, in the current year there was a change in the assumed rate of annual increase in total pensionable remuneration to 11% compared to 10.5% in the previous financial year, the cost increase due to this change when amortised over the remaining working life of the employees, did not have a significant impact in the expense charged to the income statement. The pension scheme however, is closed to all new recruits who joined after 1 May 2004. Thus, the future liability on account of the pension scheme will be in respect of a finite population.

MANAGEMENT DISCUSSION & ANALYSIS

The increase in premises, equipment and establishment expenses is largely due to building maintenance, relocation expenses relating to the Anuradhapura and Matara branches and technology maintenance charges which are priced in foreign currency.

The investment security losses relating to two investments is an unrealised loss and is due to a diminution in value other than temporary of these investment securities.

The non-interest cost to operating income ratio of the Bank was 30.6% in the current year compared with 28.1% in the previous year. The cost income ratio of both the Bank and its subsidiary commercial bank, DFCC Vardhana Bank Limited was 32.9% in the current year compared to 40.7% in the previous financial year. For the purpose of this computation, non-interest cost excludes provision for bad and doubtful debts goodwill amortisation cost and Value Added Tax. Correspondingly, operating income also excludes negative goodwill amortisation income.

Contribution from Subsidiary Bank - DFCC Vardhana Bank Limited (DVB)

The financial year of DVB ends on 31 December and its results are included in the

income statement of the Bank and the consolidated financial statements with a three-month gap.

This was the first year in which DVB posted a profit for the full year, reversing the trend of Rs48 million post acquisition loss for 5 months to 31 December 2003, the year of acquisition and the 12 months loss of Rs29 million in the previous financial year. The primary factor contributing to this success was due to increase in the volume of business contributing to a 141% increase in the net interest income in the current financial year compared to the previous financial year, coupled with effective management of overhead cost through sharing of common services and facilities with the parent, DFCC Bank. The portfolio of loans and advances and bills of exchange on 31 December 2005 was Rs4,917 million compared to Rs2,631 million on 31 December 2004, an increase of 87%. Thus, the 141% increase in net interest income, was higher than the rate of increase of associated business volume.

Concomitant with the increase in the volume of business there was a complementary increase in associated fees and foreign exchange gains. DVB also benefited by a capital infusion of Rs500 million in October 2005, primarily from DFCC Bank.

Contribution from other Subsidiary Companies

Lanka Ventures Limited (LVL) whose financial year ends on 31 March posted a profit after tax of Rs76 million of which 58.34% is attributable to the Bank. There was however, a decline in the performance of LVL compared to the previous financial year in which the profit after tax was Rs114 million. National Asset Management Limited (NAMAL), previously a subsidiary of the Bank also owned a small stake in LVL which was disposed of during the current financial year resulting in a slight reduction of DFCC Bank's ownership in LVL via NAMAL.

Lanka Industrial Estates Limited whose financial year ends on 31 March was also profitable with a profit after tax of Rs62.6 million and increase of 23% over Rs50.8 million in the previous year. The Bank owns 50.2% of this subsidiary.

Financial year ended 31 December 2005 was a successful year for DFCC Stockbrokers (Pvt) Limited, a 100% owned subsidiary with a profit after tax of Rs34 million, more than double the Rs14 million in the previous financial year. Commensurate with the substantial increase in the profit, it paid out to the parent a dividend of Rs16.2 million compared to Rs6.4 million, in the previous

MANAGEMENT DISCUSSION & ANALYSIS

year. Stockbroking business is heavily dependent on personalised service by the front line staff and efficient support services. An effective and appropriately structured performance incentive reward scheme enabled the Company to increase its volume of business, exploiting the upsurge in the stock market turnover.

The year under review was the first year of commercial operation by DFCC Consulting (Pvt) Limited a 100% owned subsidiary of the Bank. It earned a modest profit after tax of Rs5 million on gross consulting income of Rs10 million earned from local as well as overseas assignments.

Profit Contribution by Commercial Bank of Ceylon Limited (CBC), an Associate Company

CBC, with the largest on-line real time branch and ATM network in Sri Lanka and overseas operations in

Bangladesh ended the financial year to 31 December 2005 with an excellent performance by posting a post tax profit of Rs2,356 million, a 36% increase over the previous year.

Profit Contribution by National Asset Management Limited, an Associate Company

Although profitable, the profit after tax in the year to 31 March 2006 was only Rs6.2 million, a slight improvement over Rs5.8 million in the previous financial year.

Taxation

The tax expense as a percentage of profit before tax, increased to 35% compared to 33% in the previous year. Under equity accounting, the tax expense includes the tax expense on the Bank's own profit before tax and the tax expense on the undistributed profit of its associates and subsidiaries.

The tax expense, as a percentage of Bank's own operation was 34.6% in the current financial year

compared to 26.1% in the previous financial year. The income tax rate for the profits of the Bank's own operations was 30% for the current and previous financial year. The difference is largely due to permanent differences in the tax and accounting treatment of income and expenses.

The favourable permanent differences are exempt or non-assessable/chargeable income comprising dividend income and gain on sale of investment securities. The adverse permanent differences include goodwill, value added tax which are fully disallowed and the partially disallowed pension expense and commercial advertisement.

Balance Sheet

Year on Year Change in the Volume and Quality of the Credit Portfolio

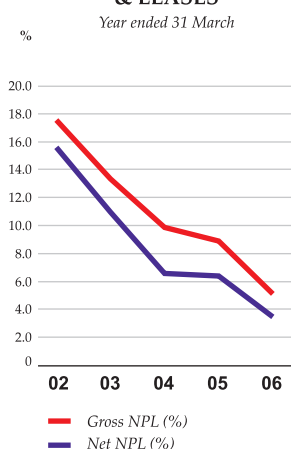
The credit portfolio comprises items included in the balance sheet as loans to customers excluding loans to employees and finance leases. The credit portfolio on 31 March 2006 amounted to Rs35,577 million, an increase of 24% over the previous year.

Analysis of Non-Performing Loans by Age of Arrears

Age of arrears	Year to 31 March 2006		Year to 31 March 2005	
	Rs million	%	Rs million	%
Less than 3 months	200	13.6	361	16.1
3 to less than 6 months	305	20.7	495	22.0
6 to less than 12 months	182	12.4	410	18.2
12 to less than 18 months	167	11.3	179	8.0
Over 18 months	620	42.0	803	35.7
Total gross	1,474	100.0	2,248	100.0
Less: Specific provision	409		559	
Total - net	1,065		1,689	

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NON-PERFORMING LOANS & LEASES



The overall 34% reduction in the gross Non-Performing Loans (NPL) is significant and has been achieved in all age of arrears bands with higher level of reductions recorded in the age of arrears up to 1½ years of arrears indicating the success of rehabilitation and recovery efforts undertaken before the problems become intractable.

The NPL include loans outstanding in the Textile Debt Restructure Fund (TDRF) of the Government of Sri Lanka, amounting to Rs135 million in the current year and Rs156 million in the previous year. The TDRF loan is repaid by the Government of Sri Lanka with some delay and consequently remains classified as non-performing.

Non-performing loans and leases net of provision and realisable value of security as disclosed in the Notes to the Financial Statements was Rs219 million on 31 March 2006 and Rs394 million on 31 March

2005. The amount of such deficit over shareholders' funds was 2.5% on 31 March 2006 and 4.9% on 31 March 2005. The shareholders' funds are the ultimate buffer to absorb the loss of write-off. Shareholders' funds exclude undistributed reserves and profit of subsidiaries and associates for the purpose of this computation.

As evident from the maturity profile of the receivables and liabilities disclosed in the Notes to the Financial Statements, there was a favourable maturity gap to cushion delays in collection and avoid liquidity risk.

Capital and Liability Structure

Interest bearing liabilities accounted for 74% of the total liabilities and shareholders' funds on 31 March 2006, compared to 71% in the previous year. Deposits from customers increased from Rs3,779 million on 31 March 2005 to Rs4,017 million on 31 March 2006, an increase of 6.3%.

The issued and paid-up capital of the Bank increased marginally by the exercise of employee options.

The regulatory capital requirements are based on BASEL I capital accord which requires the minimum capital to be provided for both credit and market risks. The Bank has complied with this

requirement both on consolidated and solo basis. The capital charge for the market risk is based on the standardised measurement method and was included with effect from 31 March 2006.

The Direction issued by the Central Bank of Sri Lanka in April 2005 requires DFCC Vardhana Bank Limited (DVB) to have a minimum issued and paid-up capital together with reserves constituting Tier 1 regulatory capital of Rs1,413 million on or before 31 December 2006. This would require an estimated capital infusion of about Rs425 million by that day. The Bank can provide this additional capital to DVB without seeking equity capital from its own shareholders.

Cash and Cash Equivalents

Cash and cash equivalents decreased to Rs1,149 million on 31 March 2006 from Rs1,432 million on 31 March 2005. Funds advanced to customers during the current year net of recoveries was Rs7,074 million compared to Rs.3,767 million in the previous year. The substantial increase in the net funds advanced to customers concomitant with increase in business volume together with Rs1,960 million net increase in purchase of short-term securities were financed largely by the foreign sourced, rupee denominated lines of credit and borrowing from domestic institutions.

MANAGEMENT DISCUSSION & ANALYSIS

The capital infusion in DFCC Vardhana Bank Limited amounting to Rs472 million was offset by cash flow from sale of investments.

As in the previous financial year DVB, adopted a financing strategy better suited for its commercial banking products. It has financed its credit growth with significant increase in customer deposits.

The Bank has adequate committed lines of credit and standby facilities to meet the cash requirements for its operational needs and new strategic initiatives.

Others

Dividend Distribution

The proposed dividend per share is Rs6.00 compared to Rs5.50 per share as in the previous financial year. The bonus issue of 1 bonus share for every 2 held on the effective date does not qualify for this final dividend.

The proposed dividend pay out as a percentage of Bank's own profit after tax is 31%.

Contingent Tax Liabilities

The Bank's contingent tax liability of Rs181 million relates to an assessment issued for year of assessment 2002/2003. The main basis of the assessment is the disallowance of the entire provision for bad and doubtful debts. This is under appeal and a holdover of taxes was granted.

The Group's contingent tax liability includes Rs236 million in respect of assessments issued on Lanka Ventures Limited and the action taken by the Company is explained in Note 43.

Financial Year

The Bank will consider the changing of its financial year end to 31 December in common with industry practice. A decision in this regard will be taken after an in-depth analysis of the relevant issues.

Risk Management

DFCC Bank perceives risk management to be a dynamic and evolving process and subjects its risk mitigation framework to continuous review and improvement.

Risk management is an area that has gained increasing importance in the global context. With the impending introduction of the Basel II Capital Accord an effective institutional framework in risk management will yield a significant comparative advantage. DFCC Bank has long placed emphasis on superior risk management, and in addition to measuring, monitoring and managing its own risks, the Bank also functionally manages the risks - other than Operational Risk - of its subsidiary, DFCC Vardhana Bank.

DFCC Bank perceives risk management to be a dynamic and evolving process and subjects its risk mitigation framework to continuous review and improvement. Committees with defined responsibilities, well-structured procedures, and clearly demarcated accountabilities monitor, assess, and manage the risks that the Bank is exposed to. The key risk management processes currently in place are described below.

Credit Risk

The risk to earnings or capital from potential borrower default, forms DFCC Bank's most significant risk exposure. Although primarily arising from balance sheet exposures such as the lease and loan portfolio and inter-bank lending, risks also accrue from off balance sheet items such as guarantees issued by the Bank on behalf of its clients.

Credit Risk is managed through various procedures and controls prior to and post disbursement. The credit decision-making process is well structured with an enhanced internal ratings methodology that serves as the basis for risk based pricing, rigorous credit appraisals subject to multi-stage review, and clearly defined authority limits. The portfolio is diversified and concentration risk is proactively managed. Post-disbursement monitoring and review detects early signs of distress and enables timely transfer of affected exposures to the Bank's Special Loans Administration unit.

Liquidity Risk

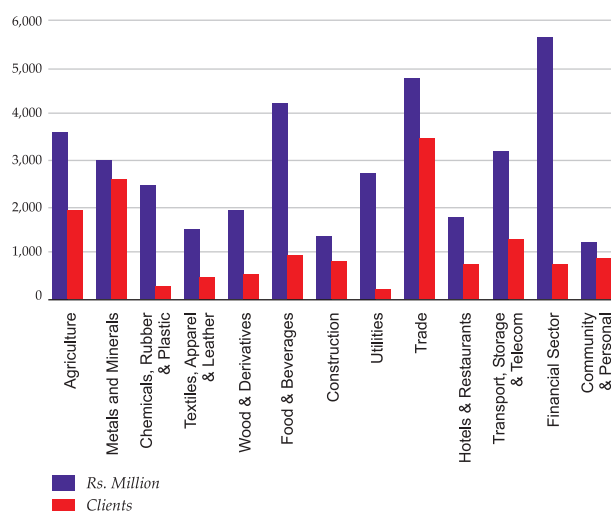
Liquidity risk is the risk that the Bank may be unable to meet its financial commitments when due without incurring unacceptable losses. This risk is managed through maturity gap analyses, rolling cash flow forecasts, ratio analyses and contingency plans which are subject to regular review by the Asset and Liability Committee (ALCO). The Bank also has access to the short-term money market for liquidity support.

Interest Rate Risk

The potential risk of loss in net interest income arises from adverse changes in rates of interest bearing assets relative to the liabilities that finances these assets, and thereby lowers net interest margins. By conducting regular interest rate gap analyses and frequently assessing the interest rate outlook, the ALCO of the Bank monitors this risk and determines the Balance Sheet structure and the minimum spreads for pricing credit products to maintain net interest margins.

MANAGEMENT DISCUSSION & ANALYSIS

PORTFOLIO AND CLIENT DISTRIBUTION



Policies for measuring and controlling interest rate risk in the treasury portfolio, using the Value at Risk methodology, are also in place.

Foreign Exchange Risk

Although the Bank has borrowed from foreign counterparts it is not exposed to foreign exchange rate risks. In terms of the DFCC Act No. 35 of 1955, the Government of Sri Lanka bears the exchange loss or benefits from the gains arising from these borrowings, which are made with its concurrence.

In recent years the Bank has made advances in foreign currency to eligible borrowers. These advances are funded by matching foreign currency credit lines or deposits, and the borrowers have the capacity to service the debt from their foreign currency income streams, which

provides a natural hedge. The Group treasury actively manages foreign exchange risk for DFCC Vardhana Bank Limited.

Price Risk

Adverse changes in the prices of the Bank's equity investments results in Price Risk, which is managed through a sound investment process that includes a rigorous appraisal methodology, investment diversification, and continuous monitoring of the portfolio.

Operational Risk

Potential inadequacies in information systems, operational problems, breaches in internal controls, fraud or unforeseen catastrophes generates Operational Risk, which is managed through the segregation of duties, demarcation and formal

delegation of authority limits, internal audit, and an external audit whose findings are examined by the Audit Sub-Committee of the Board of Directors.

Legal Risk

Legal risk arises from the potential that unenforceable contracts, lawsuits or adverse judgments can negatively affect the Bank. Legal risks are managed through the use of legal advice from competent staff and, where appropriate, external consultants.

Reputational Risk

The risk to earnings or capital arising from negative publicity regarding the Bank, whether true or not, constitutes Reputational Risk, which may cause a decline in its customer base, trigger costly litigation, or affect revenue streams. This risk is managed by the Corporate Communications unit, utilising an early warning system including inputs from frontline staff, systematic scanning of media reports, market surveys, media releases and externally conducted image surveys.

Reputational risk can also arise from non-compliance with regulatory requirements. As a licensed specialised bank and public quoted company, the Bank is regulated by the Central Bank of Sri Lanka and several other statutory authorities. The Bank has

MANAGEMENT DISCUSSION & ANALYSIS

inculcated a “Compliance Culture” at all levels of the organisation and has appointed an Executive Vice President as Chief Compliance Officer who submits quarterly reports on compliance to the Board of Directors.

External Risk

In order to balance internal risks with the external environment, the Financial Analysis Department closely monitors global trends, energy risk, local political and economic risk, and interest rate movements as well as inflationary trends, and submits regular reports for review by the ALCO.

Institutional Arrangements

The ALCO is responsible for balance sheet planning from a risk-return perspective. Its goal is to ensure an acceptable balance between profitability, growth and risks. ALCO meetings are conducted regularly and key decisions are submitted to the Board. The planning and budgeting functions of the Bank are closely co-ordinated with ALCO, which is also responsible for setting policies on the management of interest rates, liquidity, pricing and the asset and liability mix.

The broad framework for credit decisions, including the role of the Credit Committee, is encapsulated in the Credit Policy Manual. The Credit Administration Department supervises compliance procedures and regularly reports to the Board on salient performance indicators pertaining to the credit portfolio.

Quantitative information on significant credit exposure, non-performing loans, security cover for such loans and specific provisions, maturity profile of assets and liabilities, contingent liabilities arising from litigation with the Bank, etc. are regularly reviewed by the management and reported to the Board of Directors.

Corporate Social Responsibility

DFCC Bank views CSR to be more than just a philanthropic effort but an all encompassing business philosophy and culture that pervades from the top to the roots of the organisation.

Community and us

Corporate Social Responsibility Review

Corporate Social Responsibility (CSR) is gaining in importance and acceptance globally. Corporates are now aligning themselves to the notion that environmental, social and economic sustainability is crucial if mankind is to sustain itself in a time of depleting resources. It is in this light that DFCC Bank is now viewing CSR to be more than just a philanthropic effort but an all encompassing business philosophy and culture that pervades from the top to the roots of the organisation.

This review attempts to focus on some key work done in the area of Corporate Social Responsibility.

Community

In many ways, DFCC Bank during its five decades of operations, has touched the lives of people in communities in which it operates. Some highlights of the last several years are as follows.

One key area that received the Bank's attention and funding, has been education. Some of the activities involved improving the quality of education in the commerce stream, providing computers to rural schools, distributing books to school libraries, renovating rural schools and providing resource persons from the organisation to build service quality in the state sector organisations.

We have also in a small measure lent a hand to differently-abled and tsunami-affected people by, purchasing

their products such as our annual requirement of greeting cards, the ADFIAP Conference bag from rush and reed producers in Galle, donating computers to the school for the Deaf and Blind, creating a medical fund for blind children, providing safe bottle lamps to houses without electricity and building houses for disabled soldiers and widows of soldiers.

During the year the Tank restoration project received further funding from the Bank helping more farmers in the Mihintale AGA's division to benefit during arid times.

Environment

DFCC Bank continues to be conscious of aspects concerning the environment. Its work in this area covers both the internal and external environments.

MANAGEMENT DISCUSSION & ANALYSIS

A safe and healthy working environment has been made a priority within the Bank. Even though in many work places in this country it is not a concern, at DFCC Bank we've begun to make a difference by meeting international standards when providing infrastructure and office equipment. Progress has been made in areas such as ergonomics, fire proofing, water management and airconditioning. Safety measures such as the installation of shatter proof glasses, fitting FM2 fire suppression systems in IT server rooms, equipping buildings with smoke detection systems and fitting fire proof doors in exit stairways have been implemented.

DFCC Bank is continuously looking for ways to maximise resources and minimise waste. In this regard we are practising energy and water saving measures, environmentally friendly waste disposal methods and the recycling of paper.

In the case of a financial institution, unlike an industrial entity, aspects causing a direct impact on the environment are minimal. However, as a development bank, we have continuously strived to promote environmentally friendly industries and

through a specialised credit scheme named E-friends, encouraged the installation of environmental processes and systems in industries.

Now we have built internal capabilities to make sure that the projects we finance are sustainable and adopt adequate measures to minimise damage to the environment.

DFCC Bank is a strong promoter of renewable energy for domestic use. In addition to being the pioneer financier of mini hydro projects in 1996 we have continued to support over 54 projects as of now. The Bank also functions as the administrative unit for the Renewable Energy for Rural Economic Development (RERED) project. Details of work related to the project appear in the Operations Review of this report.

Customer

In keeping with the spirit of a true development bank, quite early in the evolution of the SME sector the Bank recognised that with intense competition and globalisation, the access to credit alone no longer ensured the survival of small enterprises. Inadequate input of professional, managerial and technical skills

in SMEs is a major drawback for operating successfully. Hence, building internal managerial capabilities of SMEs now form an integral part of the Bank.

In this light, the Bank continues to conduct workshops and residential training programmes for entrepreneurs, providing guidance, building capacity and knowledge in management systems, financial systems and improving service quality in SMEs, mainly in the provinces.

The future

In the next five years, DFCC Bank has set itself an ambitious target of becoming a shining example of an exemplary corporate citizen. A CSR policy framework will be drawn to formalise and improve focus on CSR practices.

As mentioned in the Chief Executive's report DFCC Bank will also initiate a community project "that will last several years aimed at improving the English language skills of the rural youth in the country to a level that will enable them to become beneficiaries of the global knowledge economy".

Human Capital

In an increasingly competitive market-place the winning edge belongs to the financial institution that has in place, the highest quality Human Resource Team.

In an increasingly competitive market-place for financial products and services, financial institutions have to be not only responsive to client needs and expectations but also innovative in visualising, creating and providing financial solutions that clients have not even thought of. In such a competitive context a winning edge accrues to the financial institution that has in place, the highest quality Human Resource Team. Mindful of this reality, DFCC Bank has during the year under review, initiated several initiatives focused on recruiting, developing and retaining the kind of human talent that can deliver on the most demanding expectations and thereby propel the Bank to even greater heights in a challenging and rapidly changing external environment.

The ongoing process of improving HR procedures and practices that would expand

the scope and depth of HR operations to suit the shifting internal dynamics of the Bank, continued during the financial year 2005/06. The most notable, was the conclusion of an exhaustive competency mapping exercise and the conduct of an Assessment Development Centre (ADC). The Bank is now in possession of a comprehensive competency dictionary, which is a unique document developed on the basis of nine managerial and behavioural competencies deemed to be essential to address specific needs and functions of the Bank. This was followed by a job profiling exercise that evaluated all managerial positions in the context of the competency dictionary, identifying the level of proficiency at which such competencies are required. Jobholders were then put through an ADC to assess their respective levels of proficiency in relation to the profiles. Based on skill gaps

identified through the ADC, a focused training and development programme will be undertaken commencing in the financial year 2006/07.

Even though DFCC Bank and its employees have over time, informally subscribed to a set of values considered desirable for a bank, they have not been clearly articulated and documented for formal adoption. Recognising that shared values are important as they lead to more consistent and cohesive behaviour among employees, a set of core values was formally adopted by the Board of Directors. In order to reap the benefits of the newly adopted value system, several measures will be taken during financial year 2006/07 to inculcate such values among all employees and thereby integrate them into the working culture of the Bank.

MANAGEMENT DISCUSSION & ANALYSIS

At the end of the financial year 2005/06, DFCC Bank's total staff strength was 374 of which 198 were executives. The HR functions of the Bank's subsidiary, DFCC Vardhana Bank continued to be centrally handled by the HR Division of DFCC Bank. The key task was the ongoing intensive recruitment drive necessitated by the rapid growth of the subsidiary and initiated in the previous year. During this period a total of 41 new employees were recruited to DVB resulting in a total staff strength of 122.

Over its fifty years of existence, DFCC Bank has had to modify its outlook and style of operations and re-invent itself to be in the forefront of a continually changing financial landscape. This has necessitated a well trained team equipped with the necessary skills, knowledge, expertise and the right mindset to handle and adapt to change. This has been achieved by implementing a planned and focused staff training strategy, providing staff with relevant and cost effective training both in and out of the country. The increasing investment over the years in training and development, characterises the Bank's commitment to building on the competencies of its most valuable human

resource base. The year under review was no exception with the Bank investing almost Rs14 million in training initiatives that included 24 overseas programmes attended by 65 executives and 144 local programmes attended by 332 participants. The Bank also conducted 18 in-house programmes during the year affording training opportunities to 457 participants.

Another notable achievement during the year under review was the expansion and upgrading of the Human Resource Information System (HRIS). In addition to on-line processing of staff leave applications and requests for loans and benefits, setting of departmental and individual goals and targets and periodic evaluation of performance is now possible through the HRIS. This has also enabled the HR Department to access information promptly and to respond expeditiously to requests by staff at all levels.

Responding to the many changes in organisational practices over the past few years, the HR function of the Bank has undertaken major improvements and refinements to HR practices. In recognition of these internal improvements, the

Bank received the "Outstanding Development Project" award in the category of Human Resource Development by the Association for Development Financing Institutions in Asia and the Pacific (ADFIAP). The success of changes implemented is also aptly demonstrated through the Bank's profit before tax per employee of Rs4.24 million for the year under review, which is among the highest of all Sri Lankan companies.

While we are undoubtedly proud of this recognition of our accomplishments in human resource development, we are mindful that many more initiatives need to be undertaken to further develop, nurture and motivate our staff - our most valuable asset. The HR Team is committed to enabling the Bank to take on the challenges and seize opportunities that lie ahead as it continues to expand and grow.

BOARD OF DIRECTORS



01

J M S Brito - *Chairman (01)*

Mr Rajan Brito is Deputy Chairman and Managing Director of Aitken Spence & Company Limited. He joined the Board of DFCC Bank in March 2005.

Mr Brito is also Chairman of DFCC Vardhana Bank Limited and a Director of Sri Lanka Insurance Limited. He is a former Chairman of Sri Lankan Airlines and was a Member of the Strategic Enterprise Management Agency (SEMA) and post-tsunami Presidential Task Force for Rebuilding the Nation (TAFREN)

He is a Chartered Accountant by profession. He also holds a Bachelors Degree in Law and a Masters Degree in Business Administration. He brings with him a wealth of management expertise having served in local and international companies such as Pricewaterhouse, British EverReady PLC, Minmetco Group, World Bank and the Public Enterprises Reform Commission (PERC).



02

T Caglayan - *Director (Not in Picture)*

Mr Turan Caglayan is Head of Portfolio Management with the German Investment Development Company - DEG which offers a full package of services to promote private enterprise in Africa, Asia and Latin America as well as Central and Eastern Europe. He joined the Board of DFCC Bank in August 1999.

Mr Caglayan started his career with Deutsche Bank, Frankfurt. In 1992, he joined DEG as an Investment Manager responsible for project management and acquisition of new projects in India, China, the Solomon Islands and Papua New Guinea. As a Senior Investment Manager, Mr Caglayan took over responsibilities for projects in several European countries as well.

In 1999, Mr Caglayan started his duties as Head of Department for South Asia, the Philippines and Turkey. As Head of Portfolio Management he now holds responsibility for a portfolio of nearly Euro one billion.



03

Mrs M A R C Cooray - *Government Director (02)*

Mrs Rose Cooray is an Assistant Governor of the Central Bank of Sri Lanka. She was appointed to the Board of DFCC Bank in March 2002.

Mrs Cooray served the Ministry of Finance as Director General of the Department of Fiscal Policy and Economic Affairs from 1999 to 2004 on release from the Central Bank. During her period of service in the Ministry of Finance, Mrs Cooray represented the Government on the Boards of Sri Lanka Institute of Information Technology, De La Rue Lanka Currency & Security Print (Pvt) Limited, the Ceylon Electricity Board, Sri Lanka Export Development Board and Sri Lanka Telecom Limited. She also represented the Ministry of Finance on the Tariff Advisory Council. Mrs Cooray is also the Vice Chairperson of the Institute of Bankers of Sri Lanka.

She has a B.A. (Honours) in Economics from the University of Peradeniya and a Masters Degree from the University of Strathclyde, UK.



04

Mr A N Fonseka - *Chief Executive Officer Ex-Officio Director (03)*

Mr Nihal Fonseka is a career banker and joined the Board of DFCC Bank in January 2000 with his appointment as Chief Executive.

Mr Fonseka is a Director of Commercial Bank of Ceylon Limited, Credit Information Bureau of Sri Lanka and is the Chairman of the Colombo Stock Exchange. He is also a Member of the Governing Board of the National Institute of Business Management (NIBM) and the Postgraduate Institute of Management (PIM), Sri Lanka. He serves as the Chairman of the Banking and Finance Sub-Committee of the Ceylon Chamber of Commerce and the Banking, Insurance and Financial Services Committee of the National Chamber of Commerce of Sri Lanka.

He is a Member of the Financial Sector, Taxation and Legal Reforms Clusters of the National Council for Economic Development (NCED) and Co-Chair of the Capital Markets Cluster of NCED. In recent years he has served as a Member of the Government's Strategic Enterprise Management Agency, the post-tsunami Presidential Task Force for Rebuilding the Nation and the Task Force on SMEs. He is also a Member of the National Payments Council.

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



05

Deshabandu A M de S Jayaratne - Director (04)

Deshabandu Ajit Jayaratne retired after many years of service as Chairman of Forbes and Walker Limited. He joined the Board of Directors of DFCC Bank in September 2005.

Currently, Mr Jayaratne serves on the Boards of several public companies. Mr Jayaratne has served as Chairman of the Colombo Stock Exchange, the Ceylon Chamber of Commerce and as the Finance Commissioner. Recently, he served as Sri Lanka's High Commissioner in Singapore.

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



06

S N P Paliheena - Director (05)

Mr S N P Paliheena is the General Manager of the Bank of Ceylon. He has had a distinguished banking career extending over 38 years at the Bank of Ceylon. He joined the Board of DFCC Bank in October 2002.

He also serves as a Director on the Boards of several public/private companies. Mr Paliheena has wide experience in all aspects of commercial banking, having headed important business units of the Bank of Ceylon. He has also worked at the National Development Bank of Sri Lanka for a period of two and a half years.

He is a Fellow of the Chartered Institute of Bankers, UK and a Fellow of the Institute of Bankers, Sri Lanka.



07

C P R Perera - Director (06)

Mr Chrisantha Perera retired as Chairman/CEO of Forbes & Walker in June 2005 after a career spanning 44 years. He joined the Board of DFCC Bank in July 2005.

Mr Perera currently serves on the Committee of the Ceylon Chamber of Commerce and is a Director of the Sri Lanka Business Development Centre. He is also on the Boards of three Plantation Companies and their respective Holding Companies and is the Chairman of Avondale Tea Factories (Pvt) Limited. He is a serving Committee Member of the Hill Club, Nuwara Eliya and the Colombo Rowing Club.

Mr Perera was a former Chairman of the Bank of Ceylon, Sri Lanka Insurance Limited, Sri Lanka Tea Board and the Public Enterprises Reform Commission (PERC).



08

R T Wijetilleke - Director (08)

Mr Rienzie Wijetilleke's career in banking spans over forty-five years. He is the current Chairman of Hatton National Bank Limited (HNB). Mr Wijetilleke joined the Board of DFCC Bank in May 2001.

Mr Wijetilleke is also the Chairman of HNB Assurance Limited, HNB Stockbrokers (Pvt) Limited and HNB Securities Limited. He is currently a Director and was a former Chairman of the Colombo Stock Exchange and a Director of Nawaloka Hospitals Limited.

He is a Fellow of the Chartered Institute of Bankers, UK and of the Institute of Bankers, Sri Lanka and also a Companion of the Chartered Management Institute, UK.

MANAGEMENT TEAM

Nihal Fonseka

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

Lending

H A Ariyaratne

Executive Vice President - Lending
BSc

Dheerendra Abeyaratna

Senior Vice President - Corporate Banking
ACMA CFA ACA

Chandana Dharmawardana

Vice President - Corporate Banking
BSc(Eng) MIESL

Roshan Jayasekara

Vice President - Corporate Banking
ACMA

Renuka Amarasinghe

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

Ananda Kumaradasa

Vice President - Branch Credit
BSc ACMA

Bhathiya Alahakoon

Vice President - Leasing
BSc (Eng)

Prasad Dharmaratne

Vice President / Manager (Ratnapura Branch)
BSc (Eng)

Samarakodi Godakanda

Vice President/Manager (Kandy Branch)
BSc (Agri)

Chanaka Kariyawasam

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

Dharmasiri Wickramatilaka

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

Prasanna Premaratne

Assistant Vice President/Manager (Gampaha Branch)
MSc (Agri) PGD in Bank Mgmt

Kusumsiri Sathkumara

Assistant Vice President/Manager (Anuradhapura Branch)
BA (Econ)

Priyadarsana Sooriya Bandara

Assistant Vice President/Manager (Kurunegala Branch)
BSc (Bs.Admn) MBA ACMA ACCA

Champal de Costa

Assistant Vice President - Leasing (Colombo Office)
BSc (Eng) MBA MIESL CEng

Bandula Gamarachchi

Assistant Vice President - Accounting & Administration (Colombo Office)
ACMA

Ruwangani Jayasundera

Assistant Vice President - Credit (Colombo Office)
ACMA MBA

Stanislaus Rayen

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

Kapila Samarasinghe

Assistant Vice President - Credit (Colombo Office)
BSc (Eng) MSc (Eng)

Neeta Sooriarachchi

Assistant Vice President - Refinance
BSc (Est. Mgmt) MSc (Agri) ACCA

Terrence Etugala

Acting Manager (Badulla Branch)
BSc (Acct)

Human Resources & Special Loans Administration

Dayantha De Mel

Executive Vice President - Human Resources & SLA
ACMA MBA

Nanedi Karunasinghe

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

Asoka Tennekoon

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

Sonali Jayasinghe

Assistant Vice President - Training & Development
BA (Bs & Econ)

Patabendi Premaratne

Assistant Vice President
BSc (Eng)

Corporate Finance

Tyrone De Silva

Senior Vice President - Corporate Finance
CEI MBA

Treasury

Manohari Gunawardhena

Senior Vice President - Treasury
BSc MBA

Finance

S Nagarajah

Executive Vice President – Finance

FCMA FCA FACCA

Chinthika Amarasekara

Vice President - Accounting & Reporting

ACA

Suraj De Silva

Vice President - Financial Analysis & Asset/Liability Management

BCom MBA FCMA

Operations

Anomie Withana

Senior Vice President - Operations

FCMA FCA MBA

Chaminda Gunawardana

Assistant Vice President - Transaction Processing

BSc MBA

Chanaka Kalansuriya

Assistant Vice President - Office Management

MBA

Duleep Mahatantila

Assistant Vice President - Loan Administration

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

Sriyani Ranatunga

Assistant Vice President - Lease Administration

FCMA MBA

Information Technology

Dinesh Fernandopulle

Group Chief Information Officer

BSc MSc

Neville Fernando

Vice President - Core Banking Project

BSc ACMA

Guptani Gunasekera

Vice President - Network & Technical Services

BSc DCSD(NIBM) MBCS

Channa Jasenthuliyana

Assistant Vice President - IT/ Application Systems

DCSD (NIBM) MSc (IT) MBCS

Tilak Nissanga

Assistant Vice President - Core Banking Project

DCSD (NIBM) MSc (IT)

Legal, Secretarial and General Manager's Office

Thusantha Wijemanna

Senior Vice President - General Counsel

LLB LLM Attorney-at-Law

Visaka Sriskantha

Vice President - Legal

BA Attorney-at-Law

Jayani Amarasiri

Assistant Vice President - General Manager's Office & Human Resources

BA (Econ) MA

Audit

Mala Goonatilake

Assistant Vice President - Internal Audit

FCA

Corporate Communications

Rosheeni Madanayake Wijesekera

Assistant Vice President - Corporate Communications

BA PGD in Bs. Admn

Project Management

Jayantha Nagendran

Senior Vice President - Project Management

BSc (Eng) MBA CEng MIMechE FCMA

Kapila Subasinghe

Assistant Vice President - Project Management

BSc (Eng) ACMA

Secondments

Lakshman Silva

Senior Vice President on secondment to DFCC Vardhana

Bank Limited as Chief Operating Officer

BCom MBA

Palitha Gamage

Vice President on secondment to DFCC Vardhana Bank

Limited as Deputy Head of Credit

BSc (Eng) MBA ACMA

Jayangani Perera

Assistant Vice President on secondment to Trade Finance

Department, DFCC Vardhana Bank Limited

BCom

Management team as at 25 May 2006 with names in alphabetical order within each grade.

CORPORATE GOVERNANCE

DFCC Bank as a public quoted company with nearly 7000 shareholders, both large and small, is conscious of its responsibility to its shareholders and other stakeholders. In order to gain investor trust, the Bank practises good corporate governance and strives to balance the interests of the stakeholders.

DFCC Bank is guided by the guidelines issued by the Central Bank of Sri Lanka, Securities & Exchange Commission and the Institute of Chartered Accountants of Sri Lanka with regard to best practices in Corporate Governance.

Board of Directors

The Board of Directors of the Bank presently comprises of nine members, of which eight are Non-Executive Directors with a range of skills and expertise, representing the large as well as the small shareholders of the Bank. The General Manager who is the Chief Executive Officer of the Bank is the only Executive Director on the Board but he has no voting right. All but one of the Non-Executive Directors are elected by shareholders and the other is appointed by the Government. Presently, a senior official of the

Central Bank of Sri Lanka serves as the Government nominee on the Board. Each year one Non-Executive Director is required to retire by rotation but, if eligible, may seek re-election.

The Board as presently constituted represents the interests of stakeholders. There are three Directors representing or connected with large shareholders owning more than 10% of the Bank's equity. One Director represents the Government of Sri Lanka, which has facilitated the provision of loan funding or guaranteed the cross border financial liabilities of the Bank to bilateral and multilateral agencies and another Director represents a shareholder foreign development agency that provides long term funding to the Bank. The other three Non-Executive Directors are considered to be independent Directors by virtue of their being independent of large shareholders and not having any material financial relationships or transactions either with the DFCC Bank or with its subsidiaries. Any financial facility granted by the Bank in the ordinary course of business to an entity in which any Director has an interest has to be unanimously approved by all the other Directors of the Bank under the DFCC Bank Act.

The Chairman of the Board of Directors is elected by the Directors for a three year term but may be re-elected.

All the Directors are 'fit and proper' persons to hold office in terms of the provisions of the Banking Act.

Meetings

The Directors play a vital role in the deliberations of the Board by pooling their diverse experience and expertise in the fields of finance, accounts, public policy, economics, human resource, management and law.

The Directors meet monthly based on a schedule fixed at the beginning of every year. Additional special meetings are held with prior notice when circumstances warrant. During the last financial year, the Board has met sixteen times. At these meetings a structured agenda is prepared and the Board papers pertaining to the issues to be considered at the meetings are circulated well in advance. This helps the Directors to reflect on the agenda items and to participate actively at the meetings. When necessary, the senior management makes presentations at Board Meetings on the invitation of the Board if further

CORPORATE GOVERNANCE

clarification is required on matters under consideration. The Agenda for regular Board Meetings include, but is not limited to, the review of performance, policy matters, approval of credit and expenditure over and above the limits delegated to management, consideration of important matters relating to human resources and risk management, quarterly review of compliance with laws and regulations, periodic review of succession plans and the consideration of the reports of Board Sub-Committees. The Board evaluates the performance of the CEO at least annually.

The Board also considers and approves the Strategic and Annual Plans and the Budget of the Bank and its key subsidiaries.

Board Sub-Committees

In order to focus better attention on the affairs of the Bank, the Board has appointed Sub-Committees of the Board on Credit, Audit, Remuneration and Nomination. The last three have special relevance to Corporate Governance. When selecting members of the Sub-Committees, the

Board gives consideration to the expertise of the individuals so as to gain maximum benefit from their input at the Committee meetings.

The Audit Sub-Committee of the Board is headed by an independent Non-Executive Director. To further strengthen it, a senior Partner of a leading audit firm in Sri Lanka was recently invited to function as the Adviser to the Audit Sub-Committee. The Audit Sub-Committee meets once a quarter and considers the findings of the internal audit reports on the Bank's operations. The head of Internal Audit is the Secretary and has direct access to the Audit Sub-Committee. The CEO and other relevant executives attend meetings by invitation. The Sub-Committee also meets with the external auditors to discuss any issues and findings relating to the statutory audit and the internal processes and they are afforded an opportunity to meet the Sub-Committee without management being present.

The Remuneration Sub-Committee of the Bank is headed by the Chairman and only Non-executive Directors serve on this Sub-committee, with the CEO attending by invitation. This is in order to ensure the transparency in fixing the remuneration levels of senior management and other staff. The Sub-Committee approves the framework for annual increments linked to the Bank's performance, individual performance and market conditions. The Sub-Committee obtains reports from independent professional advisers from time to time to ensure that the remuneration levels are reflective of those prevailing in the market. The Sub-Committee also considers and recommends to the Board, the remuneration of the CEO and any revisions thereto.

The Nominations Sub-Committee meets when necessary to consider and recommend to the Board the filling of vacancies that arise from time to time.

CORPORATE GOVERNANCE

Name of Director	Audit*	Credit	Remuneration	Nominations
J M S Brito			●✓	●✓
A N Fonseka		✓		
T Caglayan				
Mrs M A R C Cooray		●✓		
A M de S Jayaratne	●✓			
S N P Palihena	✓			
C P R Perera			✓	✓
D S Weerakkody	✓		✓	✓
R T Wijetilleke		✓	✓	

● Chairperson

* Mr T K Bandaranayake, Partner, Ernst & Young, Colombo, is the Adviser to the Audit Sub-Committee and attends meetings by invitation.

Shareholder Relationship

The Annual Report and the circulars issued to the shareholders in connection with General Meetings are the main forms of direct communication between the Bank and its shareholders. Announcements relating to quarterly financial performance and other price sensitive information are released to the Colombo Stock Exchange in a timely manner and the former is published in the newspapers in all three languages. The Bank also uses the media and its website www.dfccbank.com to disseminate information. The information given in the Annual Report is structured in

a manner that will assist the shareholders to understand easily the performance of the Bank during that financial year. The ten-year summary also enables them to compare the performance of the DFCC Bank over the period.

As a part of its Corporate Governance responsibility the Bank complies with the continuing listing rules of the Colombo Stock Exchange.

Management

The day-to-day management of the Bank is in the hands of the Management led by the CEO. Non-Executive Directors are not involved in this function. The Board ensures

that the recruitment, reward and career advancement policies and methodologies result in people with the requisite qualifications and experience being recruited and appointed to management positions and the Bank functions as a meritocracy. The Bank also has in place a monitored mechanism to declare 'closed periods' for trading in shares of the Bank by employees during the periods leading up to the release of quarterly financial statements and at any other appropriate time.

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and the audited accounts of DFCC Bank for the year ended 31 March 2006.

Review of the Year

The Chairman's Statement, the Chief Executive's Report and the Management Discussion and Analysis give a detailed description of the operations of DFCC Bank during the year under review.

Principal Activities

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. The activities of the associate and subsidiary companies of DFCC Bank are given in page 14 of the Report under Associate and Subsidiary Companies.

Profits and Appropriations

Year ended 31 March 2006	Rs million
Profit before income tax (excluding subsidiaries and associates)	1,585
Goodwill amortisation - net	57
Income tax on profit	473
Profit after income tax	1,169
Appropriations made by Directors:	
Statutory Reserve Fund	60
Sinking Fund	585
Available for dividend distribution	524
60% Final Dividend proposed	346
Retained profit to be carried forward	178

Capital Expenditure

The total expenditure on the acquisition of property and equipment during the year amounted to Rs129 million. The details of property and equipment are shown in Note 29 to the Financial Statements.

Reserves

Total reserves augmented by the annual appropriation and retained profit amounted to Rs10,940 million.

Taxation

It is the policy of DFCC Bank to account for deferred taxation under the full liability method on all timing differences including those relating to financial leases.

Share Capital

With the options exercised by the employees during this financial year, the total share capital as at 31 March 2006 is Rs575,908,220 and it consists of 57,590,822 shares of Rs10 each. Further information is given on page 102.

Shareholding

As at 31 March 2006 there were 6,778 registered shareholders and the distribution is indicated on page 113. The 20 largest shareholders as at 31 March 2006 are listed on page 122 of the Annual Report.

Employment

It is the policy of DFCC Bank to maintain a dedicated and highly motivated team committed to the achievement of excellence in service. Having evaluated the skills required for each position of the Bank, DFCC Bank continuously invests in training and development of staff while encouraging their participation in the business and social activities of the Bank. DFCC Bank is an equal opportunity employer.

Employee Share Option Plan

Details of the Employee Share Option Plan (ESOP) and the movement in options granted are given in Note 41.3 to the Financial Statements. A maximum of 89,119 options will be awarded in respect of the year ended 31 March 2006 since the performance has met the criteria for granting options. With this grant the ESOP approved by shareholders in June 2002 will close. The Directors intend to consider and recommend a new ESOP for approval by shareholders.

DIRECTORS' REPORT

Directors

The following were Directors of DFCC Bank during the year ended 31 March 2006:

Amarasuriya, M J C	Director (<i>resigned on 06.06.2005</i>)
Brito, J M S	Director (<i>elected as Chairman on 07.09.2005</i>)
Caglayan, T	Director
Cooray, Mrs M A R C	Government Director
Fonseka, A N	Ex-officio Director
Gunatilleke, G A E	Director (<i>passed away on 24.06.2005</i>)
Hewage, S B	Director (<i>passed away on 27.07.2005</i>)
Jayarathne, A M de S	Director (<i>appointed on 31.08.2005</i>)
Jinasena, T N	Chairman (<i>resigned on 07.09.2005</i>)
Palihena, S N P	Director
Perera, C P R	Director (<i>appointed on 27.07.2005</i>)
Weerakkody, D S	Director
Wijetilleke, R T	Director

Messrs C P R Perera and A M de S Jayaratne who were appointed to the Board in terms of Regulation No. 88 of DFCC Regulations will retire at the Annual General Meeting but being eligible, offer themselves for re-election under the said Regulations with the unanimous support of the Directors.

The Director retiring by rotation in Terms of Regulation No. 85 of the DFCC Regulations is Mr R T Wijetilleke. In view of the restrictions imposed by the amended Section 42(3) of the Banking Act, Mr R T Wijetilleke, being a Director of Hatton National Bank Limited is not seeking re-election.

DIRECTORS' REPORT

Directors' Interests in Shares and Debentures

	No. of Shares* as at 31 March 2006	No. of Shares* as at 31 March 2005
Brito, J M S	1,500	Nil
Caglayan, T	Nil	Nil
Cooray, Mrs M A R C	Nil	Nil
Fonseka, A N	10,122	8,262
Jayarathne, A M de S	Nil	Nil
Palihena, S N P	Nil	Nil
Perera, C P R	2,000	
Weerakkody, D S	500	500
Wijetilleke, R T	600	600

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

There has been no change in their interests between 31 March 2006 and the date of this Report.

Ex-officio Director, Mr A N Fonseka in his capacity as General Manager has been awarded options on shares under the Employee Share Option Plan (ESOP). He held 116,044 options as at 31 March 2006 (133,904 on 31 March 2005). He has exercised options on 17,860 shares during the financial year 2005/06. No new options were awarded to him during the financial year 2005/6. The other Directors do not participate in the ESOP.

No Directors directly or indirectly hold debentures of DFCC Bank.

Directors' Interests in Contracts

Directors' interests in contracts with DFCC Bank, both direct and indirect, are declared in Note 47 to the financial statements. These interests have been declared at Directors meetings.

Statutory Payments

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

Compliance with Laws and Regulations

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

Going Concern

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

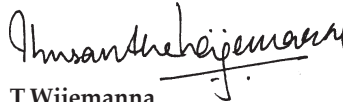
Post Balance Sheet Events

Subsequent to the date of the Balance Sheet no circumstances have arisen which would require adjustments to or disclosure in the accounts. Significant events which in the opinion of Directors require disclosure are described in Note 49 on page 106.

Re-appointment of Auditors

Messrs KPMG Ford, Rhodes, Thornton & Company have expressed their willingness to continue in office as Auditors of DFCC Bank for the year ending 31 December 2006. A Resolution pertaining to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board


T Wijemanna
Secretary to the Board
25 May 2006

The first part of the paper discusses the importance of the research and the objectives of the study. It then presents a literature review of the existing research on the topic. The second part of the paper describes the methodology used in the study, including the data collection and analysis techniques. The third part of the paper presents the results of the study, and the fourth part discusses the implications of the findings. The paper concludes with a summary of the main findings and a list of references.

The research was conducted in a systematic and rigorous manner, following the principles of good research practice. The data were collected from a representative sample of the population, and the analysis was carried out using appropriate statistical methods. The results of the study are presented in a clear and concise manner, and the implications of the findings are discussed in detail. The paper is well written and easy to read, and it provides a valuable contribution to the field of research.

The findings of the study have important implications for the field of research, and they provide a basis for further research. The research has shown that there is a need for more research in this area, and it has identified some of the key areas for future research. The research has also shown that there are some important factors that influence the results of the study, and these factors need to be taken into account in future research.

The research has been carried out in a transparent and open manner, and the results of the study are available to the public. The research has been peer reviewed, and it has been published in a reputable journal. The research is a valuable contribution to the field of research, and it provides a basis for further research.

The research has been carried out in a systematic and rigorous manner, following the principles of good research practice. The data were collected from a representative sample of the population, and the analysis was carried out using appropriate statistical methods. The results of the study are presented in a clear and concise manner, and the implications of the findings are discussed in detail. The paper is well written and easy to read, and it provides a valuable contribution to the field of research.

FINANCIAL STATEMENTS

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FINANCIAL CALENDAR

Financial Statements

Interim Reports

First Quarter to	30.06.05	: 12.08.05
Second Quarter to	30.09.05	: 14.11.05
Third Quarter to	31.12.05	: 10.02.06
Annual Report year ended	31.03.06	: 25.05.06

Meetings

49th Annual General Meeting	: 30.06.05
50th Annual General Meeting	: 30.06.06

Dividends

First and Final for year ended 31.03.2005

Approved on	: 30.06.05
Ex-dividend Date	: 24.06.05
Payment	: 07.07.05

Proposed First and Final for year ended

31.03.2006 to be approved on	: 30.06.06
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AUDIT COMMITTEE REPORT

The Audit Committee comprises three Non-executive Directors of the Bank with the Head of Internal Audit functioning as the Secretary. The General Manager/CEO, Executive Vice President (Finance) and the external auditors attend the Committee meetings by invitation.

During the year under review, a new Chairman of the Committee was appointed due to the demise of the previous Chairman Mr G A E Gunetilleke. We wish to place on record our appreciation of the services rendered by him as Chairman of the Audit Committee from its inception.

Following the demise of Mr G A E Gunetilleke the Audit Committee was reconstituted. Further, Mr Tissa Bandaranayake, a senior Partner of Ernst & Young was appointed as advisor to the Committee on 3rd May 2006.

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

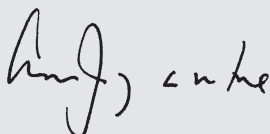
During the financial year ended 31st March 2006 three Audit Committee Meetings were held. Proceedings of the Audit Committee Meetings are reported regularly to the Board.

The Audit Committee, together with the other Board members reviewed the Bank's interim and annual financial statements and approved them for publication.

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

The Audit Committee also provides a forum for the review of Internal Audit Reports and consideration of findings, recommendations and corrective action taken by the management to overcome the noted deficiencies, with a view to managing significant business risks and improving controls. Department/Unit Heads are called in when their reports are discussed. The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bank is well monitored.

The Audit Committee has recommended to the Board of Directors that, M/s. KPMG Ford, Rhodes, Thornton & Co. be re-appointed as Auditors for the year to 31st March 2007, subject to the approval of shareholders at the Annual General Meeting.



Ajit Jayaratne
Chairman - Audit Committee

25 May 2006

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. 17 of 1982. 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 judgement and estimates and in compliance with applicable Sri Lanka Accounting Standards. Any change to accounting policies and reasons for such change, is disclosed in the "Notes to the Financial Statements".

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

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

By Order of the Board


T Wijemanna
Secretary to the Board

25 May 2006



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
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TO THE MEMBERS OF DFCC BANK

We have audited the balance sheet of DFCC Bank as at March 31, 2006, the consolidated balance sheet of the Bank and its subsidiaries as at that date, and the related statements of income, movement in shareholders' and cash flows for the year then ended, together with the accounting policies and notes exhibited on pages 50 to 106 of the Annual Report.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 books of account for the year ended March 31, 2006, and to the best of our information and

according to the explanations given to us, the said balance sheet and related statements of income, movement in shareholders' funds and cash flows and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the DFCC Bank Act No. 35 of 1955 and the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and amendments thereto, and give a true and fair view of the Bank's state of affairs as at March 31, 2006, and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, movement in shareholders' funds and cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 and amendments thereto, and give a true and fair view of the state of affairs as at March 31, 2006, and the profit and cash flows for the year then ended of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Directors' Interests in Contracts with the Company

According to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended March 31, 2006, except as stated in Note 47 to these financial statements.

Ford Rhodes Thornton & Co.

Chartered Accountants

Colombo.

25 May 2006

KPMG Ford, Rhodes, Thornton & Co.,
a Sri Lankan partnership, is the Sri Lankan member
firm of KPMG International, a Swiss cooperative

R.N. Asirwatham FCA
S. Sirikananathan FCA
Ms. M.P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA

A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

PRINCIPAL ACCOUNTING POLICIES

1. General

1.1 Constitution of Legal Entity

DFCC Bank is incorporated and domiciled in Sri Lanka. It was incorporated in 1955 under DFCC Act No. 35 of 1955.

DFCC Bank's Group comprises two associate companies viz. Commercial Bank of Ceylon Limited and National Asset Management Limited and five subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Stockbrokers (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited and Lanka Ventures Limited. Previously National Asset Management Limited was a subsidiary and it became an associate company on 3 March 2006 with partial divestment of shares owned by DFCC Bank. All subsidiary companies and associate companies have been incorporated under Companies Act No. 17 of 1982, having the following registered addresses:

Company	Registered Address
Commercial Bank of Ceylon Limited	"Commercial House" 21, Bristol Street, Colombo 1
National Asset Management Limited	2nd Floor, 73, W A D Ramanayake Mawatha Colombo 2
DFCC Consulting (Pvt) Limited	DFCC Building 73/5, Galle Road Colombo 3
DFCC Stockbrokers (Pvt) Limited	3rd Floor 73, W A D Ramanayake Mawatha Colombo 2
DFCC Vardhana Bank Limited	73, W A D Ramanayake Mawatha Colombo 2
Lanka Industrial Estates Limited	Pattiwila Road Sapugaskanda Makola
Lanka Ventures Limited	2nd Floor, Ceylon Ocean Lines Building 46/12, Navam Mawatha Colombo 2

1.2 Principal Activities

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

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

PRINCIPAL ACCOUNTING POLICIES

1.3 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 25 May 2006.

1.4 Statement of compliance with Sri Lanka Accounting Standards

The financial statements have been prepared in compliance with relevant Sri Lanka Accounting Standards.

1.5 Accounting Convention

The financial statements are presented in Sri Lanka rupees, rounded to the nearest thousand. The balance sheet, income statement, statement of movements in shareholders' funds depicting all changes in equity and cash flow statement, unless otherwise stated herein, are prepared under the historic cost convention in conformity with generally accepted accounting principles applied consistently and in compliance with the Sri Lanka Accounting Standards prescribed by the Institute of Chartered Accountants of Sri Lanka. Exceptions to the historic cost convention of accounting relate to dealing debt securities, dealing securities - ordinary shares and investment securities - shares, debentures and units purchased from unit trusts, as described in Accounting Policy 2.1.1, 2.1.4 and 2.1.5.

1.6 Basis of Consolidation

The financial statements of the subsidiaries and associate companies are also prepared under the historic cost convention unless otherwise stated, with similar accounting policies for transactions and events in similar circumstances.

1.6.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise 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 24 contains the financial information relating to subsidiaries.

1.6.2 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 23 contains financial information relating to associate companies.

1.6.3 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with subsidiaries and associate companies are eliminated to the extent of the Bank's interest in the enterprise.

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

Audited financial statements are used. All subsidiaries and associate companies included in the consolidation except DFCC Vardhana Bank Limited, DFCC Stockbrokers (Pvt) Limited and Commercial Bank of Ceylon Limited have financial year to 31 March in common with the Bank. The financial years of DFCC Vardhana Bank Limited, DFCC Stockbrokers (Pvt) Limited and Commercial Bank of Ceylon Limited end on 31 December and financial statements of these companies for year to 31 December 2005 have been included for consolidation and equity accounted with appropriate adjustments for significant events between the two dates.

PRINCIPAL ACCOUNTING POLICIES

1.6.5 Goodwill or Negative Goodwill on Acquisition of Shares in Subsidiaries and Associate Companies

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Conversely negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Goodwill or negative goodwill is amortised over a period of five years from the date of acquisition. The amount of goodwill or negative goodwill amortised in a financial year is proportionate to the number of months of subsidiary/associate company results are included in the financial statements of the Bank. The carrying amount of goodwill or negative goodwill as appropriate is included in the carrying amount of the investment in the subsidiary or associate company.

1.6.6 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.

1.7 Foreign Currency Translation

1.7.1 Transactions in overseas currencies are translated to Sri Lanka rupees at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date. Exchange rates used are the middle spot rates.

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

1.7.3 Monetary liabilities denominated in foreign currencies subject to an exchange loss cover by the Government of Sri Lanka as provided in the DFCC 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.

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

1.8 Taxation

1.8.1 Income Tax

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000, as amended by subsequent legislation.

1.8.2 Deferred Taxation

Deferred taxation is provided using the balance sheet liability method, providing for timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.8.3 Value Added Tax

The value base for value added tax for the Bank is the adjusted accounting profit before income 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.

1.8.4 Off Set of Deferred Tax Liability against Deferred Tax Assets

The deferred tax liability and the related charge in the income statement of DFCC Vardhana Bank Limited has been off-set against the deferred tax asset and the related tax saving in respect of the tax losses incurred by it.

PRINCIPAL ACCOUNTING POLICIES

1.8.5 Withholding Tax on Dividends distributed by Subsidiaries and Associate Companies

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

1.9 Comparative Information

Where items are regrouped, comparative information is also adjusted.

2. Assets and Bases of their Valuation

2.1 Securities

2.1.1 Dealing Debt Securities

These are marketable, dated debt securities in respect of which the Bank has 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 Central Bank.

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

The mark to market adjustment to the original cost of acquisition on the balance sheet date is implemented with effect from 31 March 2006, in accordance with the direction issued by Central Bank of Sri Lanka on "Prudential norms for classification, valuation, and operation of the Bank's investment portfolio" dated 1 March 2006.

The direction was effective from 31 March 2006 and as such the comparative amounts have not been restated.

Previously these dealings debt securities were included in the balance sheet at cost adjusted for the amortisation of premium or discount arising on acquisition. The gains arising from mark to market adjustment on 31 March 2006 was Rs16,129 and is included in the income statement.

2.1.2 Investment Debt Securities

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

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

2.1.3 Securities Purchased under Resale Agreements

These are loans collateralised by the purchase of treasury bills and/or guaranteed commercial papers from the counterparty to whom loans are granted. The sale by the counterparty 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.

2.1.4 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.

The requirement to mark to market was stipulated by the direction of Central Bank of Sri Lanka referred to in 2.1.1 and is effective from 31 March 2006. The gains arising from mark to market adjustment on 31 March 2006 was Rs5,410,291.

PRINCIPAL ACCOUNTING POLICIES

2.1.5 Investment Securities - Shares, Debentures and Units purchased from Unit Trust

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

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

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

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

2.1.6 Investment Securities - Venture Capital Investments

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

2.2 Loans

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

2.3 Finance Leases

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

2.4 Investment Property

Land or buildings held by the Bank, its subsidiaries or associate companies exclusively or substantially to earn rentals or for capital appreciation is classified as investment property.

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

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

The rates of depreciation are as follows:

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

2.5 Investment in Subsidiaries and Associate Companies

Shares in subsidiaries and associate companies are accounted using the equity method. The carrying amount includes the acquisition cost, balance of goodwill or negative goodwill net of cumulative amortisation and Bank's share of undistributed post acquisition profit/(losses) in subsidiaries and associate companies.

PRINCIPAL ACCOUNTING POLICIES

2.6 Property and Equipment

2.6.1 Owned Assets

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

The assets are stated at cost less cumulative depreciation, which is provided for on the basis outlined in 2.6.2.

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

The rates of depreciation are as follows:

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

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

Land is not depreciated.

2.6.3 Leased Assets

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Motor vehicles acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less cumulative depreciation. The depreciation policy for leased assets is consistent with that for depreciable assets which are owned as disclosed in 2.6.2.

2.7 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.

Prior to 1 April 2005, the application software was included under Property and Equipment and the transfer to intangible assets was made on 1 April 2005.

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.

3. Liabilities and Provisions

3.1 Pension and Gratuity Payments

3.1.1 Description of the Plan and Employee Groups Covered

The Bank established a Trust Fund in May 1989, which operates an approved pension scheme for payment of pension. The 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. All members of the permanent staff who joined prior to 1 May 2004 except one are covered by this funded pension scheme subject to fulfillment of eligibility conditions prescribed by the Bank.

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

3.1.2 Funding Arrangement

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

3.1.3 Unfunded Pension Liability

This relates to pension liability of an employee, not funded through the DFCC Bank Pension Fund and was Rs12 million on 31 March 2006. The liability relates to the pension benefit to retiree and survivor spouse and minor children.

3.1.4 Amount Recognised as Expense

	Rsmillion
In respect of Funded Liability	
Current service cost	69.5
Experience adjustments	16.3
In respect of Unfunded Liability	
Current service cost	3.0
Experience adjustments	0.8
	<u>89.6</u>

3.1.5 Experience Adjustments

In respect of Funded Liability	
Balance on 31.3.05	133.4
Actuarial loss due to change in plan assumption	18.8
Actuarial experience loss during the year	39.8
Total experience adjustment	<u>192.0</u>
Recognised as expense in the financial year to 31.3.06	<u>-16.3</u>
Balance on 31.3.06	<u>175.7</u>

PRINCIPAL ACCOUNTING POLICIES

	Rsmillion
In respect of Unfunded Liability	
Balance on 31.3.05	0.9
Adjustment	0.8
Restated	1.7
Actuarial loss due to change in plan assumption	0.2
Actuarial experience loss during the year	0.7
Total experience adjustment	2.6
Recognised as expense in the financial year to 31.3.06	-0.8
Balance on 31.3.06	1.8

The total remaining actuarial loss of Rs175.7 million in respect of employees whose pension liabilities are funded is amortised equally over the average remaining working life of the employees eligible for pensions.

The total remaining actuarial loss of Rs1.8 million in respect of an employee whose pension liability is not funded is amortised equally over the average remaining working life of the employee eligible for pension.

Change in Plan assumptions are described in 3.1.9.

3.1.6 Actuarial Valuation

Date of most recent valuation is 31 March 2006.

3.1.7 Actuarial Valuation Method

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

3.1.8 Pension Assets and Actuarial Present Value of Accrued Benefits

As at 31 March 2006, value of assets of the Pension Trust Fund was Rs673 million and value of benefits that had accrued to members after allowing for expected future increases in earnings was Rs849 million. The difference between the actuarially determined value of benefits accrued of Rs849 million and the value of the assets of the pension fund of Rs673 million is the unrecognised liability of Rs176 million in respect of the funded liability. This amount representing the unamortised balance of the experience adjustments will be amortised over the remaining working life of employees entitled for pension, at the rate of Rs16.3 million per annum. The pension liability under discontinuance basis was Rs668 million on 31 March 2006.

3.1.9 Principal Actuarial Assumptions

Current Assumptions

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

Previous Assumptions

The annual increase in total pensionable remuneration was assumed to be 10.5%. The financial impact due to this change of assumption is disclosed in 3.1.5.

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

PRINCIPAL ACCOUNTING POLICIES

3.1.10 Gratuity Provision

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

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

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

3.2 Defined Contribution Plans

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund to which the Bank contributes 15% and 3% respectively of such employee's basic or consolidated salary and cost of living allowance.

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

3.3 Securities sold under Repurchase Agreements

These are borrowing collateralised by sale of treasury bills or treasury bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to a commitment to repurchase them at a pre-determined price. Such securities remain on the balance sheet of the Bank and the liability is recorded in respect of the consideration received.

3.4 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, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.5 Obligations under Finance Leasing

Obligations in respect of equipment acquired under a finance leasing arrangement are stated at the present value of total of minimum lease payments at the balance sheet date. The present value is computed by discounting the total of minimum lease payments on the balance sheet date by the interest rate implicit in the lease.

3.6 Commitments and Contingencies

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

3.7 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 No. 49.

4. Revenue and Expense Recognition

4.1 Interest Income

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

PRINCIPAL ACCOUNTING POLICIES

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

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

4.3 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.

4.4 Lease Income

4.4.1 Finance Leases

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

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

4.4.2 Operating Leases

Rental income is recognised on a straight-line basis over lease term.

4.5 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.

4.6 Discount on Bills of Exchange

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

4.7 Default Interest on Lease Rentals

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

4.8 Front-end Fee Income

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

4.9 Consultancy and other Professional Service Income

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

4.10 Underwriting Commission

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

4.11 Guarantee Fee

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

4.12 Gains on sale of Property and Equipment

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

PRINCIPAL ACCOUNTING POLICIES

4.13 Gains on sale of Investment Property

On disposal, the difference between the net 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.

4.14 Gains on Disposal of Dated Debt Securities

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

4.15 Premises Rental Income

Rental income is recognised on accrual basis.

4.16 Mark 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 on balance sheet date are recognised in the income statement.

4.17 Mark to Market Gains on Forward Exchange Contracts

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

4.18 Accounting for Profit of Subsidiaries and Associate Companies

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

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

4.18.2 Results of Subsidiaries and Associate Companies

Profit for the current financial year and undistributed post acquisition profit of subsidiaries and associate companies, attributable to the Bank, are included in the financial statements under equity method of accounting for investment in subsidiaries and associate companies, with appropriate disclosures.

4.18.3 Taxes on the Undistributed Earnings of Subsidiaries and Associate Companies

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

4.19 Finance Charges on Finance Lease Payments

Finance charges are allocated to periods during the lease terms so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

4.20 Interest Expense

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

4.21 Bad and Doubtful Debts

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

Bank makes both general and specific provisions.

PRINCIPAL ACCOUNTING POLICIES

4.21.1 Specific Provision

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. Debts which are fully covered by specific provisions are written off for accounting purposes except for the fully provided overdrafts and finance leases which continue to remain on the balance sheet.

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

The specific provision has two elements:

- i. A minimum statutory provision as per the direction issued by the 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:

20% of net exposure at risk has to be provided for loans, finance leases, bills of exchange and other credit facilities which are in arrears for 6 months or more but less than 12 months. The percentage of net exposure to be provided increases to 50% when the age of arrears is 12 to 18 months and to 100% when the age of arrears is more than 18 months.

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

4.21.2 General Provision

The general provision on loans relates to potential losses not separately identified but known from experience to exist in the portfolio of loans. The amount of the general provision on formulaic basis reflects past experience, judgement and current conditions in the particular sectors.

Sector	Applicable %
Poultry	15
Prawn aquaculture	25
Hotel	5
Abandoned projects (age of arrears over two years)	10

The respective percentages are applied to the loans outstanding on 31 March, net of specific provisions if any, for the enterprises in such sectors.

Previously, 5% general provision was made for the brewery sector. Consequently, Rs5 million was released through the income statement during the year ended 31 March 2006.

The general provision on overdraft relates to potential losses not separately identified but known from experience to exist in the portfolio of overdrafts granted by DFCC Vardhana Bank Limited, a subsidiary of the Bank.

4.22 Investment Securities Losses

A temporary diminution in value is accounted for as a provision and a diminution other than temporary is 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.

PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

The amount of diminution other than temporary and temporary diminution recognised in this financial year is disclosed in Note No. 22.4.2.

5. 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.

6. 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 directly attributable to the segment 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 directly attributable to the segment 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.

7. Directors' Responsibility Statement

Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with the books of accounts and Sri Lanka Accounting Standards. Further elaboration of the Directors' responsibility is on page 48.

INCOME STATEMENT

For the year ended 31 March	Notes	Page No.	Bank		Group		*Variance
			2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000	Rs 000
Income	1	68	5,449,231	4,640,746	6,345,720	5,167,274	1,178,446
Interest income	2	68	4,593,654	3,644,848	5,185,558	3,935,959	1,249,599
Interest expense	3	68	2,448,368	1,873,381	2,731,800	1,992,945	738,855
Net interest income			2,145,286	1,771,467	2,453,758	1,943,014	510,744
Amortisation of negative goodwill			2,096	2,130	2,096	2,130	(34)
Other income	4	69	855,577	995,898	1,160,162	1,231,315	(71,153)
Operating income			3,002,959	2,769,495	3,616,016	3,176,459	439,557
Personnel costs			433,692	362,093	554,998	460,432	94,566
Provision for staff retirement benefits			89,614	76,175	93,299	79,567	13,732
Premises, equipment and establishment expenses			220,075	183,703	329,889	324,794	5,095
Other overhead expenses			155,441	152,117	237,048	220,436	16,612
Goodwill written off - associate			2,321	2,321	2,321	2,321	-
- subsidiary			57,250	57,222	57,250	57,222	28
Bad and doubtful debts - specific	5	69	157,001	253,650	154,170	249,517	(95,347)
- general			11,044	(3,875)	22,978	(3,875)	26,853
Investment securities losses	6	70	21,470	6,250	27,092	6,243	20,849
Operating expenses	7	70	1,147,908	1,089,656	1,479,045	1,396,657	82,388
Operating profit before value added tax			1,855,051	1,679,839	2,136,971	1,779,802	357,169
Value added tax on financial services	8	70	269,775	224,852	296,337	227,715	68,622
Operating profit before income tax			1,585,276	1,454,987	1,840,634	1,552,087	288,547
Associate/subsidiary companies' profit before income tax			1,050,330	562,646	881,888	549,577	332,311
Profit before tax	9	70	2,635,606	2,017,633	2,722,522	2,101,664	620,858
Income tax expense	10	71	932,091	667,678	951,027	680,392	270,635
Profit after tax	11	72	1,703,515	1,349,955	1,771,495	1,421,272	350,223
Minority interest			0	0	67,980	71,317	(3,337)
Profit for the year			1,703,515	1,349,955	1,703,515	1,349,955	353,560
Earnings per share - Basic, Rs	12	73	29.62	23.56	29.62	23.56	6.06
- Diluted, Rs			29.42	23.36	29.42	23.36	6.06
Dividend per share, Rs			6.00	5.50	6.00	5.50	0.50

The accounting policies from pages 50 to 62 and the notes from pages 68 to 106 form part of these financial statements.

* Current year minus previous year, Group.

STATEMENT OF RECOGNISED GAINS AND LOSSES

<i>For the year ended 31 March</i>	Bank		Group	
	2006	2005	2006	2005
	Rs 000	Rs 000	Rs 000	Rs 000
Preference share issue expenses of associate	0	(31)	0	(31)
Surplus on revaluation of property - associate	0	314,214	0	314,214
Gains & losses not recognised in the Income Statement	0	314,183	0	314,183
Profit for the year	1,703,515	1,349,955	1,703,515	1,349,955
Total recognised gains & losses	1,703,515	1,664,138	1,703,515	1,664,138

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

<i>For the year ended 31 March</i>	Bank		Group	
	2006	2005	2006	2005
	Rs 000	Rs 000	Rs 000	Rs 000
Total recognised gains & losses	1,703,515	1,664,138	1,703,515	1,664,138
Dividend approved during the year	(315,897)	(314,319)	(315,897)	(314,319)
Issue of shares under employee share option plan	1,775	2,675	1,775	2,675
Increase in share premium	17,915	25,361	17,915	25,361
Net addition to shareholders' funds	1,407,308	1,377,855	1,407,308	1,377,855
Shareholders' funds at 1 April	10,108,234	8,730,379	10,108,234	8,730,379
Shareholders' funds at 31 March	11,515,542	10,108,234	11,515,542	10,108,234

BALANCE SHEET

As at 31 March	Notes	Page No.	Bank		Group	
			2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000
Assets						
Cash and short-term funds	13	73	629,812	440,618	1,414,197	1,021,250
Balances with Central Bank			0	0	693,789	282,901
Treasury bills and other securities eligible for rediscounting with Central Bank	14	73	4,297,600	2,337,761	4,520,909	2,563,830
Securities purchased under resale agreements	15	74	519,569	1,051,000	796,959	1,459,502
Placements with and loans to other banks and financial institutions	16	74	737,533	300,000	865,533	275,558
Dealing securities	17	74	13,530	0	13,530	0
Bills of exchange discounted	18	75	0	0	124,982	77,080
Loans	19	75	30,215,430	24,470,704	35,090,263	27,072,287
Finance leases	20	76	5,361,796	4,166,384	5,361,796	4,166,384
Interest receivable	21	76	365,003	298,428	338,452	284,138
Investment securities	22	77	1,340,305	1,730,792	1,808,114	2,233,840
Investment in associate companies	23	85	3,768,202	3,251,155	3,768,202	3,251,155
Investment in subsidiary companies	24	86	1,715,282	1,289,583	0	0
Group balances receivable	25	87	8,139	30,966	516	0
Prepayments			111,673	116,379	111,673	116,379
Other receivables	26	87	461,897	1,195,728	627,007	1,390,770
Investment property	27	87	12,180	12,180	143,114	143,836
Goodwill on consolidation	28	87	0	0	146,658	203,809
Property and equipment	29	87	385,209	474,745	513,075	607,070
Intangible assets	30	89	95,948	0	95,948	0
Total assets			50,039,108	41,166,423	56,434,717	45,149,789
Liabilities						
Deposits from customers	31	89	4,017,215	3,779,433	8,885,091	6,426,530
Borrowing - medium and long-term	32	89	28,383,769	22,619,985	28,383,769	22,619,985
- short-term	33	90	2,453,409	1,387,279	2,547,040	1,795,933
Debentures	34	90	2,000,000	1,500,000	2,000,000	1,500,000
Obligations under finance leases	35	90	393	1,915	393	1,915
Group balances payable	36	91	0	2,446	0	0
Interest accrued			644,098	660,703	720,025	693,236
Taxation	37	91	218,758	198,386	270,482	204,882
Deferred taxation	38	91	377,180	461,864	377,181	462,028
Other liabilities	39	91	427,481	442,819	1,210,264	818,824
			38,522,303	31,054,830	44,394,245	34,523,333
Negative goodwill	40	92	1,263	3,359	1,263	3,359
Minority interest			0	0	523,667	514,863
Shareholders' funds						
Share capital	41	92	575,908	574,133	575,908	574,133
Reserves	42	93				
Reserve fund			481,247	305,000	481,247	305,000
Sinking fund reserve			2,831,553	2,246,868	2,831,553	2,246,868
Share premium			935,569	917,654	935,569	917,654
Revenue reserves			5,159,644	4,898,476	5,159,644	4,898,476
Retained profit			1,531,621	1,166,103	1,531,621	1,166,103
			11,515,542	10,108,234	11,515,542	10,108,234
Total liabilities and shareholders' funds			50,039,108	41,166,423	56,434,717	45,149,789
Commitments and contingencies	43	95	10,835,932	7,053,276	15,051,880	8,473,620
Net assets value per share Rs			199.98	176.12	199.98	176.12

The accounting policies from pages 50 to 62 and the notes from pages 68 to 106 form part of these financial statements.

For and on behalf of the Board of Directors,


J M S Brito
 Chairman
 Colombo
 25 May 2006


A N Fonseka
 Director & Chief Executive

CASH FLOW STATEMENT

<i>For the year ended 31 March</i>	Bank		Group	
	2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000
Cash flow from operating activities				
Interest receipts	3,945,681	3,288,948	4,453,557	3,499,343
Interest payments	(2,464,973)	(1,788,511)	(2,704,756)	(1,899,926)
Recoveries on loans previously written off	236,637	332,059	236,637	332,059
Receipts from other operating activities	189,016	135,772	482,878	373,957
Cash payments to employees and suppliers	(753,411)	(725,338)	(919,764)	(958,015)
Value added tax	(279,122)	(221,078)	(281,377)	(222,821)
Operating profit before changes in operating assets	873,828	1,021,852	1,267,175	1,124,597
(Increase)/decrease in operating assets:				
Short-term funds	687,876	1,082,984	284,592	1,109,805
Balances with Central Bank of Sri Lanka	0	0	(410,889)	(86,157)
Funds advanced to customers	(7,074,532)	(3,767,467)	(9,369,257)	(5,775,513)
Other short-term securities	(1,959,839)	(71,156)	(1,957,078)	(124,710)
Others	701,570	(532,890)	1,020,586	(721,864)
Increase/(decrease) in operating liabilities:				
Security deposits from customers	(6,138)	(3,197)	(5,135)	5,235
Deposits from customers	276,684	(1,053,985)	2,498,350	909,342
Negotiable certificates of deposit	(38,902)	(110,243)	(87,789)	(43,330)
Net cash flow from operating activities before income tax	(6,539,453)	(3,434,102)	(6,759,445)	(3,602,595)
Income tax paid	(492,605)	(241,842)	(526,286)	(278,933)
Net cash used in operating activities (Note a)	(7,032,058)	(3,675,944)	(7,285,731)	(3,881,528)
Cash flow from investing activities				
Dividends received	251,880	344,171	188,115	278,623
Interest received	528,257	229,141	586,172	289,747
Proceeds from sale of securities and redemption of securities	806,391	566,577	1,009,336	785,842
Purchase of securities	(269,001)	(417,104)	(415,931)	(554,507)
Investment in subsidiary - (DFCC Consulting (Pvt) Limited)	(5,000)	0	0	0
Disposal of subsidiary shares - (National Asset Management Limited) - (Note b)	68,310	0	68,310	0
Subscription to rights issue in subsidiary - (DFCC Vardhana Bank Limited)	(472,259)	(120,566)	0	0
Investment in additional shares of subsidiary - (DFCC Vardhana Bank Limited)	(6,619)	(1,099)	0	0
Purchase of property, equipment, intangibles and investment property	(129,929)	(64,893)	(182,836)	(106,770)
Proceeds from sale of equipment and investment property	7,589	4,537	7,822	6,279
Net cash from investing activities	779,619	540,764	1,260,988	699,214
Cash flow from financing activities				
Issue of debentures	500,000	1,500,000	500,000	1,500,000
Issue of new shares under option	19,690	28,036	19,690	28,036
Issue of new shares by subsidiary (rights issue)	0	0	21,123	6,335
Borrowing, medium and long-term	12,726,508	7,282,008	12,726,508	7,282,008
Repayment of borrowing, medium and long-term	(6,962,724)	(4,231,831)	(6,962,724)	(4,231,831)
Dividends paid	(313,993)	(312,687)	(385,603)	(400,845)
Net cash flow from financing activities	5,969,481	4,265,526	5,918,994	4,183,703
Net increase/(decrease) in cash & cash equivalents	(282,958)	1,130,346	(105,749)	1,001,389
Cash & cash equivalents/(overdraft - net) at the beginning of period	1,432,339	301,993	2,392,809	1,391,420
Consolidation adjustment - National Asset Management Limited	0	0	(96,255)	0
Cash & cash equivalents at the end of period	1,149,381	1,432,339	2,190,805	2,392,809
Reconciliation of cash & cash equivalents				
Cash and short-term funds - Refer Note 13	629,812	440,618	1,414,197	1,021,250
Securities purchased under resale agreements - Refer Note 15	519,569	1,051,000	796,959	1,459,502
Borrowing, short-term - Bank overdraft - Refer Note 33	0	(59,279)	(20,351)	(87,943)
	1,149,381	1,432,339	2,190,805	2,392,809

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

Comparative figures have been re-stated to conform to the period ended 31 March 2006 classification.

CASH FLOW STATEMENT

Note a

Reconciliation of profit for the year to net cash used in operating activities

<i>For the year ended 31 March</i>	Bank		Group	
	2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000
Profit for the year	1,703,515	1,349,955	1,703,515	1,349,955
Deduct: Dividend transferred to investing activities	(248,336)	(339,275)	(185,796)	(272,087)
	<u>1,455,179</u>	<u>1,010,680</u>	<u>1,517,719</u>	<u>1,077,868</u>
Add/(deduct) items not using (providing) cash:				
Depreciation	119,586	106,610	174,519	182,068
Amortisation - goodwill	57,475	57,413	57,475	57,413
Gains on sale of investment securities	(177,607)	(181,402)	(219,578)	(250,178)
Gains from mark to market on dealing securities	(5,410)	0	(5,410)	0
Gain on sale of equipment	(3,658)	(4,537)	(3,878)	(5,521)
(Gain)/loss on deemed disposal of associate company	5,112	(58)	5,112	(58)
Notional tax credit on treasury bills and bonds	(44,216)	(24,862)	(44,216)	(24,862)
Associate/subsidiary companies profit before tax	(1,050,330)	(562,646)	(881,888)	(549,577)
Bad and doubtful debts	168,045	249,775	177,148	245,642
Investment securities losses	21,470	6,250	27,092	6,243
Minority interest	0	0	67,980	71,317
Increase in accounts receivables	(603,782)	(333,833)	(735,011)	(417,345)
Increase/(decrease) in accounts payables	(127)	30,784	179,084	51,195
Increase in income tax payable	524,170	434,296	509,425	409,919
Decrease in deferred tax	(84,684)	(8,460)	(84,684)	(8,460)
Increase in operating assets	(7,644,925)	(3,288,529)	(10,432,046)	(5,598,439)
Increase/(decrease) in operating liabilities	231,644	(1,167,425)	2,405,426	871,247
Net cash used in operating activities	(7,032,058)	(3,675,944)	(7,285,731)	(3,881,528)

Note b

Disposal of National Asset Management Limited Shares on 3 March 2006

	Rs. 000
Cash and cash equivalents	100,904
Investment securities	15,613
Other assets	15,878
Property, plant & equipment	2,398
Total assets	<u>134,793</u>
Other Liabilities	8,454
Total Liabilities	<u>8,454</u>
Net assets	<u>126,339</u>
Share of Net assets	67,196
Profit on disposal	1,114
Cash inflow from disposal	<u>68,310</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	Bank		Group	
	2006	2005	2006	2005
	Rs 000	Rs 000	Rs 000	Rs 000
1 Income				
Gross income	5,449,231	4,640,746	6,345,720	5,167,274
Interest income	4,593,654	3,644,848	5,185,558	3,935,959
Other income	855,577	995,898	1,160,162	1,231,315
	5,449,231	4,640,746	6,345,720	5,167,274
2 Interest Income				
Loans	3,321,816	2,734,316	3,773,650	2,917,464
Treasury bills and placements with other banks	554,205	271,175	666,574	337,318
Interest on overdue bills	391	290	7,129	290
Gross earnings under finance leases	671,914	592,146	671,914	592,146
Default interest on lease rentals	29,797	23,747	29,945	23,934
Interest and discount arising from debt securities	15,531	23,174	36,346	64,807
	4,593,654	3,644,848	5,185,558	3,935,959
Treasury bill and bond income includes Rs44 million notional tax credit of 10% imputed for the withholding tax deducted/paid at source in respect of the financial year ended 31 March 2006. The amount relating to the previous financial year is Rs25 million.				
3 Interest Expense				
Medium and long-term borrowing	1,222,752	1,054,342	1,222,752	1,054,342
Short-term borrowing:				
Treasury bills under repurchase agreements	72,071	322,477	90,869	331,530
Interest on overdrafts and revolving facilities	565,030	590	579,820	40,016
Debentures	208,398	74,831	208,398	74,831
Time deposits from customers	380,117	421,141	629,961	492,226
	2,448,368	1,873,381	2,731,800	1,992,945

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	Bank		Group	
	2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000
4 Other Income				
Dividend income from securities				
Quoted ordinary shares	16,086	20,382	20,106	26,005
Unquoted ordinary shares	3,147	5,178	9,721	8,408
Unquoted preference shares	59,012	97,026	66,421	100,817
Units in unit trusts	20,064	15,889	24,130	19,301
Dividend income from investments in associates/subsidiaries				
Quoted ordinary shares	94,733	147,777	54,506	106,644
Unquoted ordinary shares	44,382	42,111	0	0
Quoted preference shares	10,912	10,912	10,912	10,912
	<u>248,336</u>	<u>339,275</u>	<u>185,796</u>	<u>272,087</u>
Gain/(loss) on sale of investment securities				
Quoted ordinary shares	141,411	107,368	167,545	157,865
Unquoted ordinary shares	1,114	48,371	12,876	52,880
Others	35,082	25,663	39,157	39,433
Gains from mark to market on dealing securities	5,410	0	5,410	0
Recovery of bad debts	236,637	332,059	236,637	332,059
Front end fee	27,559	20,156	44,704	26,642
Consultancy and other professional services	60,130	37,872	75,061	40,569
LC commission	2,430	618	19,673	6,707
Underwriting commission and guarantee fees	27,622	14,308	44,083	18,889
Gain/(loss) on sale of commercial paper and pro-notes	2,551	2,375	2,551	2,375
(Loss)/gain on sale of treasury bills and bonds	(1,952)	14,425	(1,944)	14,427
Gain/(loss) on sale of equipment	3,658	4,537	3,878	5,521
Unrealised gain on treasury bills and bonds	16	0	16	0
Premises rental income	21,656	15,753	87,506	80,817
Operating lease income	333	1,880	333	1,880
Foreign exchange profit	2,129	8	43,012	20,453
(Loss)/gain on deemed disposal of associate/subsidiary companies' ordinary shares	(5,112)	58	(5,112)	58
Others	46,567	31,172	198,980	158,653
	<u>855,577</u>	<u>995,898</u>	<u>1,160,162</u>	<u>1,231,315</u>
5 Bad and Doubtful Debts				
5.1 Specific provision				
Provision for the year				
Loans	283,481	443,495	314,064	457,898
Leases	52,875	50,020	52,875	50,020
Dues on terminated leases	487	205	487	205
Others	4,336	0	4,336	0
Loan/lease losses	11,211	3,784	12,023	3,784
	<u>352,390</u>	<u>497,504</u>	<u>383,785</u>	<u>511,907</u>
Less: Reductions in the year				
Loans	135,767	198,857	169,993	217,393
Leases	50,429	39,224	50,429	39,224
Dues on terminated leases	2,348	833	2,348	833
Bills	6,252	4,940	6,252	4,940
Others	593	0	593	0
	<u>157,001</u>	<u>253,650</u>	<u>154,170</u>	<u>249,517</u>
5.2 General provision				
Provision for the year				
loans	35,824	2,724	35,824	2,724
overdraft	0	0	20,235	0
Less: Reductions in the year	24,780	6,599	33,081	6,599
	<u>11,044</u>	<u>(3,875)</u>	<u>22,978</u>	<u>(3,875)</u>
Total provision	<u>168,045</u>	<u>249,775</u>	<u>177,148</u>	<u>245,642</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	Bank		Group	
	2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000
6 Investment Securities Losses				
Relates to diminution other than temporary in value of share investments	21,470	6,250	27,092	6,243
7 Operating Expenses				
Operating expenses include the following:				
Chairman's emoluments - fees	480	480	480	480
Directors' emoluments - fees	1,785	1,893	8,103	3,010
Employers' contribution to Provident Fund	31,285	26,126	40,359	32,653
Employers' contribution to Employees' Trust Fund	6,257	5,231	8,176	6,707
Gratuity	2,194	1,067	3,742	2,039
Auditors' remuneration	1,232	1,100	2,407	2,254
Depreciation - investment property	0	0	5,610	5,244
- operating leases	0	1,755	0	1,755
- property and equipment	78,846	104,855	128,169	175,069
- intangible assets	40,740	0	40,740	0
Expenses on litigation	995	1,559	4,289	2,538
8 Value Added Tax on Financial Services				
The rate for value added tax on financial services (VAT) was increased from 15% to 20% from 01 January 2006. Previously VAT was included under operating expenses.				
9 Profit before Tax				
Bank	1,585,276	1,454,987	1,500,668	1,371,744
Commercial Bank of Ceylon Limited	881,684	549,577	881,684	549,577
DFCC Consulting (Pvt) Limited	6,368	0	6,368	0
DFCC Stock Brokers (Pvt) Limited	34,527	17,284	52,527	24,484
DFCC Vardhana Bank Limited	112,296	(22,585)	118,531	(23,976)
Lanka Industrial Estates Limited	2,150	(4,282)	68,162	55,347
Lanka Ventures Limited	6,472	25,166	86,093	117,631
National Asset Management Limited	6,833	(2,514)	8,489	6,857
Associate/Subsidiary Companies	1,050,330	562,646	1,221,854	729,920
Total	2,635,606	2,017,633	2,722,522	2,101,664

The profit accounted in accordance with the equity method of accounting is limited to the undistributed profits of the respective associate/subsidiary companies.

10 Income Tax on Profit

10.1 Income tax on profit of the Bank has been provided at 30% on the taxable income.

10.2 Tax Effect of Undistributed Earnings of Associates and Subsidiaries

The Bank's accounts have included its share of post-acquisition profits from associate and subsidiary companies. A withholding tax of 10% would be deducted if a full distribution is made and such distribution is from the taxable income of the associates and subsidiaries. However, no provision for withholding tax payable on distribution of such profits has been made in the accounts of the Bank, since profits will not be distributed in full.

Cumulative total of post-acquisition undistributed profits of associate and subsidiary companies on which withholding tax is not provided is Rs2,419 million. (Note 24.1 adjusted for share premium, unamortised negative goodwill and statutory reserve)

NOTES TO THE FINANCIAL STATEMENTS

10.3 Reconciliation between Tax Expense and Accounting Income

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

<i>For the year ended 31 March</i>	Bank	
	2006	2005
	Rs 000	Rs 000
Profit before tax as per the Income Statement	1,585,276	1,454,987
Disallowed expenses and provisions	506,797	329,987
Lease rentals net of capital allowances	806,241	541,670
Reported earnings under finance leases net of provision for bad & doubtful debts	(673,442)	(585,639)
Capital allowances on property and equipment	(35,518)	(15,707)
Dividend income	(247,836)	(339,275)
Gain on sale of investment securities	(177,607)	(181,402)
Goodwill written off - net	57,475	57,413
Gain on deemed disposal of associate/subsidiary companies' ordinary shares	5,112	(58)
Taxable income	<u>1,826,498</u>	<u>1,261,976</u>
Tax - 30%	547,949	378,593
15% lower rate	-	1,339
Taxation based on profit for the year	<u>547,949</u>	<u>379,932</u>
Tax rate on accounting profit, %	35	26

<i>For the year ended 31 March</i>	Bank		Group	
	2006	2005	2006	2005
	Rs 000	Rs 000	Rs 000	Rs 000
10.4 Income Tax Expense				
Taxation based on profits for the year - Note 10.3	547,949	379,932	547,949	379,932
Tax under provision	9,244	9,797	9,244	9,797
Re-instatement of tax liability under appeal	0	22,540	0	22,540
Transfer from deferred taxation	(84,684)	(8,460)	(84,684)	(8,460)
Bank	<u>472,509</u>	<u>403,809</u>	<u>472,509</u>	<u>403,809</u>
Commercial Bank of Ceylon Limited	391,707	242,945	391,707	242,945
DFCC Consulting (Pvt) Limited	942	0	942	0
DFCC Stock Brokers (Pvt) Limited	18,567	10,165	20,367	10,885
DFCC Vardhana Bank Limited	37,231	4,523	39,324	4,789
Lanka Industrial Estates Limited	2,806	2,267	9,478	8,400
Lanka Ventures Limited	6,020	2,058	13,844	6,624
National Asset Management Limited	2,309	1,911	2,856	2,940
Associate/subsidiary companies	<u>459,582</u>	<u>263,869</u>	<u>478,518</u>	<u>276,583</u>
Total	<u>932,091</u>	<u>667,678</u>	<u>951,027</u>	<u>680,392</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	Bank		Group			
	2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000		
11 Profit after Tax						
Bank	1,112,767	1,051,178	1,028,159	967,935		
Commercial Bank of Ceylon Limited	489,977	306,632	489,977	306,632		
DFCC Consulting (Pvt) Limited	5,426	0	5,426	0		
DFCC Stock Brokers (Pvt) Limited	15,960	7,119	32,160	13,599		
DFCC Vardhana Bank Limited	75,065	(27,108)	79,207	(28,765)		
Lanka Industrial Estates Limited	(656)	(6,549)	58,684	46,947		
Lanka Ventures Limited	452	23,108	72,249	111,007		
National Asset Management Limited - Note 11.1.1.2, 11.1.2	4,524	(4,425)	5,633	3,917		
Associate/subsidiary companies	590,748	298,777	743,336	453,337		
Total	1,703,515	1,349,955	1,771,495	1,421,272		
11.1 Consolidation adjustments						
11.1.1 Associates						
11.1.1.1 Commercial Bank of Ceylon Limited						
Group profit after tax	2,358,079					
Minority interest	1,641					
Reported profit after tax	2,356,438					
Less: Net preference dividend paid	207,317					
Deferred tax on leased assets	112,671					
Profit available for ordinary shareholders	2,036,450					
DFCC Bank's share @ 27.25%	554,854					
Less: Net ordinary dividend received by Bank (included in Other Income - Note 4)	54,506					
Withholding tax	10,371					
	489,977					
11.1.1.2 National Asset Management Limited						
Profit available for ordinary shareholders	326					
DFCC Bank's share @ 26%	85					
	DFCC Consulting Limited Rs 000	DFCC Stock Brokers (Pvt) Limited Rs 000	DFCC Vardhana Bank Limited Rs 000	Lanka Industrial Estates Limited Rs 000	Lanka Ventures Limited Rs 000	National Asset Management * Limited Rs 000
11.1.2 Subsidiaries						
Reported profit after tax	5,426	33,960	79,207	62,569	75,775	5,920
Percentage holding	100	100	95	50	58	80
DFCC Bank's share	5,426	33,960	75,065	31,410	44,207	4,736
Less: Net dividend received (included in Other Income - Note 4)	0	16,200	0	28,182	40,227	0
Withholding tax deducted at source	0	1,800	0	3,884	3,528	0
Intra-Group Transactions						
Investment	0	0	0	0	0	297
	5,426	15,960	75,065	(656)	452	4,439

* Status changed from subsidiary to associate on 03.03.2006.

NOTES TO THE FINANCIAL STATEMENTS

12 Earnings per Share

12.1 Basic Earnings per Share

Basic earnings per share of the Bank has been calculated by dividing 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.

12.2 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 number of shares issued adjusted for the effect of all dilutive potential ordinary shares.

		Bank		Group	
For the year ended 31 March		2006 Rs 000	2005 Rs 000	2006 Rs 000	2005 Rs 000
12.3 Computation of Basic and Diluted Earnings per Share					
Profit for the year		1,703,515	1,349,955	1,703,515	1,349,955
Weighted average number of shares		57,519,264	57,307,411	57,519,264	57,307,411
Basic earnings per share, Rs		29.62	23.56	29.62	23.56
Number of shares that would have been issued at fair value in respect of options granted on					
	31.03.2002	10,592	28,198	10,592	28,198
	31.03.2003	206,503	251,037	206,503	251,037
	31.03.2004	749,918	749,309	749,918	749,309
		967,013	1,028,544	967,013	1,028,544
Number of shares at nil consideration (dilutive potential shares) in respect of options granted on					
	31.03.2002	11,100	30,277	11,100	30,277
	31.03.2003	279,123	346,730	279,123	346,730
	31.03.2004	97,306	107,853	97,306	107,853
		387,529	484,860	387,529	484,860
Total number of shares under option Ordinary shares in issue and dilutive potential shares		1,354,542	1,513,404	1,354,542	1,513,404
Diluted earnings per share, Rs		29.42	23.36	29.42	23.36
		Bank		Group	
		31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000

13 Cash and Short-Term Funds

Cash and balance with banks	191,445	70,812	894,499	570,885
Call deposits				
DFCC Vardhana Bank Limited	130,117	120,697	4,986	120,697
Others	308,250	249,109	349,644	249,109
Time deposits with licensed commercial banks	0	0	165,068	80,559
	629,812	440,618	1,414,197	1,021,250

14 Treasury Bills and other Securities eligible for Rediscounting with Central Bank

Treasury bills and bonds held for trading *	1,642,315	0	1,642,315	0
Treasury bills and bonds held to maturity	2,655,285	2,337,761	2,878,594	2,563,830
	4,297,600	2,337,761	4,520,909	2,563,830

Investments held to maturity is the amount of sinking fund created as per loan covenant in the floating rate notes of US\$ 65 million and loan of US\$ 5 million from Asian Development Bank.

Portfolio of dealing debt securities have been classified as per accounting policy 2.1.1.

* Comparative figures have not been restated

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
15 Securities purchased under Resale Agreements				
Treasury bills	519,569	398,400	796,959	806,902
Treasury bonds	0	652,600	0	652,600
	<u>519,569</u>	<u>1,051,000</u>	<u>796,959</u>	<u>1,459,502</u>
16 Placements with and Loans				
to other Banks and Financial Institutions				
Placements	0	0	250,000	275,558
Loans to banks	737,533	300,000	615,533	0
	<u>737,533</u>	<u>300,000</u>	<u>865,533</u>	<u>275,558</u>
16.1 Placements				
Financial institutions	0	0	250,000	275,558
	<u>0</u>	<u>0</u>	<u>250,000</u>	<u>275,558</u>
16.2 Loans to Banks				
DFCC Vardhana Bank Limited - subordinated loan	122,000	122,000	0	0
Other loans	500,000	178,000	500,000	0
Refinance loans - Plantation development project *	115,533	0	115,533	0
	<u>737,533</u>	<u>300,000</u>	<u>615,533</u>	<u>0</u>

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

	Bank			Group		
	31.03.2006			31.03.2006		
	Number of Ordinary shares of Rs10 each	Cost Rs 000	Market Value Rs 000	Number of Ordinary shares of Rs10 each	Cost Rs 000	Market Value Rs 000
17 Dealing Securities						
Quoted ordinary shares						
Dialog Telecom Limited **	49,900	599	998	49,900	599	998
John Keells Holdings Limited	79,444	7,521	12,532	79,444	7,521	12,532
		<u>8,120</u>	<u>13,530</u>		<u>8,120</u>	<u>13,530</u>
Mark to market adjustment		<u>5,410</u>			<u>5,410</u>	
Market value		<u>13,530</u>			<u>13,530</u>	

** Par value Rs1/- each

NOTES TO THE FINANCIAL STATEMENTS

		Bank		Group	
		31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
18	Bills of Exchange				
18.1	Balance on 31 March				
	Local bills	6,390	12,642	43,678	21,127
	Export bills	0	0	81,453	40,009
	Import bills	0	0	6,241	28,586
	Less: Provision for bills of exchange overdue	6,390	12,642	6,390	12,642
		<u>0</u>	<u>0</u>	<u>124,982</u>	<u>77,080</u>
18.2	Movement in Provision				
	Balance on 31 March 2005	12,642		12,642	
	Add : Provision for the year	0		0	
	Less : Recoveries	6,252		6,252	
		<u>6,390</u>		<u>6,390</u>	
19	Loans				
19.1	Balance on 31 March				
	Sri Lanka Rupee Loans				
	Direct loans	28,495,647	23,657,990	30,904,754	25,068,214
	Refinance loans	166	3,704	166	3,704
	Debenture loans	802,520	572,135	802,520	572,135
	Overdrafts	0	0	2,510,269	1,238,800
	Staff loans for miscellaneous purposes	173,673	140,021	194,568	149,727
		<u>29,472,006</u>	<u>24,373,850</u>	<u>34,412,277</u>	<u>27,032,580</u>
	Foreign Currency Loans				
	Direct loans	1,491,395	896,543	1,491,395	896,543
	Less : Loan loss provision - Specific	699,928	762,690	753,432	819,837
	Loan loss provision - General	48,043	36,999	59,977	36,999
	Balance net of loan loss provision	<u>30,215,430</u>	<u>24,470,704</u>	<u>35,090,263</u>	<u>27,072,287</u>
19.2	Movement in Provision				
	19.2.1 Movement in Specific Provision				
	Balance on 31 March 2005	762,690		819,837	
	Add: Provision for the year	283,481		314,064	
	Transfer from interest in suspense	72,353		72,353	
	Less: Recoveries in the year	135,767		169,993	
	Write-off of loans	282,829		282,829	
		<u>699,928</u>		<u>753,432</u>	
	19.2.2 Movement in general provision				
	Balance on 31 March 2005	36,999		36,999	
	Add: Provision for the year	35,824		56,059	
	Less: Recoveries in the year	24,780		33,081	
		<u>48,043</u>		<u>59,977</u>	

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
20 Finance Leases				
20.1 Balance on 31 March				
Gross investment in leases				
Lease rentals receivable				
- within one year from balance sheet date	2,870,972	2,089,498	2,870,972	2,089,498
- after one year from balance sheet date	3,913,230	3,182,326	3,913,230	3,182,326
	6,784,202	5,271,824	6,784,202	5,271,824
Less: Deposit of rentals	76,278	88,201	76,278	88,201
Provision for leases in default	183,458	182,105	183,458	182,105
Income in suspense	43,749	46,368	43,749	46,368
Unearned income on rentals receivable				
- within one year from balance sheet date	580,241	454,233	580,241	454,233
- after one year from balance sheet date	538,680	334,533	538,680	334,533
Net investment in leases	5,361,796	4,166,384	5,361,796	4,166,384
20.2 Movement in Provision				
Balance on 31 March 2005	182,105		182,105	
Add: Provision for the year	52,875		52,875	
Less: Recoveries	50,429		50,429	
Transfers *	1,093		1,093	
	183,458		183,458	
* To specific provision on dues on terminated leases, included under debtors.				
20.3 Movement in Income in Suspense				
Balance on 31 March 2005	46,368		46,368	
Add: Transfer during the year	96,810		96,810	
Less: Recoveries	99,429		99,429	
	43,749		43,749	
21 Interest Receivable				
21.1 Balance on 31 March				
Amount due	604,836	688,531	604,836	688,531
Amount accrued and not due	343,040	279,832	427,558	334,824
Less: Interest in suspense	582,873	669,935	693,942	739,217
	365,003	298,428	338,452	284,138
21.2 Movement in Interest in Suspense				
Balance on 31 March 2005	669,935		739,217	
Add: Transfer during the year	465,144		560,543	
Less: Collections	307,695		361,307	
Transfer to loan provision	72,353		72,353	
Write-offs	172,158		172,158	
	582,873		693,942	

NOTES TO THE FINANCIAL STATEMENTS

	Ordinary Shares		Preference Shares		Debentures		Unit Trusts	Total	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted		31.03.2006	31.03.2005
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
22 Investment Securities									
22.1 Bank									
Balance on 31 March 2005	499,995	81,685	100,000	681,500	98,470	2,264	269,138	1,733,052	
Additions for the year	261,844	0	0	0	0	0	7,157	269,001	
Less: Disposals during the year	366,241	0	0	0	0	0		366,241	
Redemptions during the year	0	0	0	144,333	98,470	0	20,854	263,657	
Transfer to dealing securities	8,120	0	0	0	0	0	0	8,120	
Write-offs	21,468	0	0	0	0	2,262	0	23,730	
	<u>366,010</u>	<u>81,685</u>	<u>100,000</u>	<u>537,167</u>	<u>0</u>	<u>2</u>	<u>255,441</u>	<u>1,340,305</u>	
Less: Provision for diminution								0	
								<u>1,340,305</u>	
Market value of quoted investments/units									
as at 31.03.2006	<u>412,892</u>	<u>-</u>	<u>92,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>319,122</u>	<u>824,514</u>	
as at 31.03.2005	<u>653,584</u>	<u>-</u>	<u>91,250</u>	<u>-</u>	<u>98,470</u>	<u>-</u>	<u>335,470</u>	<u>1,178,774</u>	
22.2 Group									
Balance on 31 March 2005	596,005	147,270	100,000	853,050	141,970	118,296	331,638	2,288,229	
Additions for the year	333,774	0	0	75,000	0	0	7,157	415,931	
Less: Disposals during the year	442,326	36,000	0	0	0	0	0	478,326	
Redemptions during the year	0	0	0	169,333	98,470	23,896	33,354	325,053	
Transfer to dealing securities	8,120	2,580	0	0	0	0	0	10,700	
Write-offs	23,455	0	0	0	0	2,262	0	25,717	
	<u>455,878</u>	<u>108,690</u>	<u>100,000</u>	<u>758,717</u>	<u>43,500</u>	<u>92,138</u>	<u>305,441</u>	<u>1,864,364</u>	
Less: Provision for diminution	0	7,500	0	18,750	0	30,000	0	56,250	
	<u>455,878</u>	<u>101,190</u>	<u>100,000</u>	<u>739,967</u>	<u>43,500</u>	<u>62,138</u>	<u>305,441</u>	<u>1,808,114</u>	
Market value of quoted investments/units									
as at 31.03.2006	<u>505,405</u>	<u>-</u>	<u>92,500</u>	<u>-</u>	<u>42,995</u>	<u>-</u>	<u>369,711</u>	<u>1,010,611</u>	
as at 31.03.2005	<u>764,380</u>	<u>-</u>	<u>91,250</u>	<u>-</u>	<u>143,130</u>	<u>-</u>	<u>397,634</u>	<u>1,396,394</u>	
22.3 Composition of Investment Securities									
Bank									
Performing investments	326,579	38,785	100,000	537,167	0	0	227,705	1,230,236	1,624,607
Non-performing investments *	39,431	42,900	0	0	0	2	27,736	110,069	108,445
Less: Provision for diminution	0	0	0	0	0	0	0	0	2,260
	<u>366,010</u>	<u>81,685</u>	<u>100,000</u>	<u>537,167</u>	<u>0</u>	<u>2</u>	<u>255,441</u>	<u>1,340,305</u>	<u>1,730,792</u>
Group									
Performing investments	416,447	54,290	100,000	714,967	43,500	62,138	277,705	1,669,047	2,074,454
Non-performing investments *	39,431	54,400	0	43,750	0	30,000	27,736	195,317	213,775
Less: Provision for diminution	0	7,500	0	18,750	0	30,000	0	56,250	54,389
	<u>455,878</u>	<u>101,190</u>	<u>100,000</u>	<u>739,967</u>	<u>43,500</u>	<u>62,138</u>	<u>305,441</u>	<u>1,808,114</u>	<u>2,233,840</u>

* Classified as non-performing as per the direction issued by the Central Bank of Sri Lanka on "Prudential norms for classification, valuation and operation of the Bank's investment portfolio" dated 1 March 2006.

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
22.4 Provision for Diminution				
22.4.1 Movement in Provision				
Balance on 31 March 2005	2,260	2,260	54,389	66,796
Increase/(decrease) in provision for diminution	0	0	5,383	(12,074)
Less: National Asset Management Limited	0	0	(1,262)	0
Write-off against cost	(2,260)	0	(2,260)	(333)
	<u>0</u>	<u>2,260</u>	<u>56,250</u>	<u>54,389</u>
22.4.2 Composition				
Temporary diminution	0	0	0	53,592
Other than temporary diminution	0	2,260	56,250	797
	<u>0</u>	<u>2,260</u>	<u>56,250</u>	<u>54,389</u>

- 22.5** On 31 March 2006 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.

22.6 Quoted Ordinary Shares

	31.03.2006			31.03.2005		
	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000
Banks, Finance & Insurance						
Hatton National Bank Limited - non-voting	388,800	22,765	21,384	231,000	12,678	8,894
Housing Development Finance Corporation Limited	37,400	8,228	6,732	0	0	0
Lanka Orix Leasing Company Limited	17,828	780	1,818	111,228	4,850	9,454
National Development Bank	0	0	0	278,100	40,805	44,009
Nations Trust Bank Limited	0	0	0	60	1	1
Sampath Bank Limited	164,300	17,961	14,007	0	0	0
Seylan Bank Limited - non-voting	130,000	2,791	1,755	130,000	2,792	2,373
		<u>52,525</u>	<u>45,696</u>		<u>61,126</u>	<u>64,731</u>
Beverages, Food & Tobacco						
Ceylon Tobacco Company Limited	119,967	86	7,078	142,567	102	6,487
Distilleries Company of Sri Lanka Limited **	102,200	3,401	4,599	947,800	29,043	30,093
Lanka Milk Foods Limited	0	0	0	197,300	3,041	3,797
		<u>3,487</u>	<u>11,677</u>		<u>32,186</u>	<u>40,377</u>
Chemicals & Pharmaceuticals						
Chemical Industries (Colombo) Limited - voting	0	0	0	34,101	1,449	5,294
Haycarb Limited	19,130	944	698	19,130	944	880
		<u>944</u>	<u>698</u>		<u>2,393</u>	<u>6,174</u>
Construction & Engineering						
Samuel Sons & Company Limited	0	0	0	396,933	1,985	4,168

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

** Par value Rs1/- each.

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

NOTES TO THE FINANCIAL STATEMENTS

22.6 Quoted Ordinary Shares (Contd.)

	31.03.2006			31.03.2005		
	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000
Diversified Holdings						
Aiteken Spence & Company Limited	48,200	16,512	16,340	119,400	40,902	45,372
Hayleys Limited	295,560	26,533	29,113	198,360	10,247	22,316
Hemas Holdings Limited	0	0	0	485,700	40,581	52,941
James Finlay & Company (Colombo) Limited	0	0	0	57,126	3,275	11,668
John Keells Holdings Limited	0	0	0	638,954	67,052	86,578
		<u>43,045</u>	<u>45,453</u>		<u>162,057</u>	<u>218,875</u>
Healthcare						
Asiri Medical Services Limited	2,493,000	2,493	7,479	500,000	5,000	18,125
Ceylon Hospitals Limited - voting	118,100	2,953	5,285	142,800	3,570	3,891
Ceylon Hospitals Limited - non-voting	343,500	6,870	9,275	483,200	9,664	10,147
		<u>12,316</u>	<u>22,039</u>		<u>18,234</u>	<u>32,163</u>
Hotels & Travels						
Nuwara Eliya Hotels Company Limited	0	0	0	1,078	50	538
Pegasus Hotels of Ceylon Limited	128,400	669	4,526	307,200	1,920	6,144
Sigiriya Village Hotels Limited	55,000	1,284	2,475	55,000	1,284	2,488
Stafford Hotels Limited	6,102,525	58,848	67,128	6,160,725	59,410	77,009
The Lighthouse Hotel Limited	0	0	0	145	1	9
		<u>60,801</u>	<u>74,129</u>		<u>62,665</u>	<u>86,188</u>
Information Technology						
E-Channelling Limited	1,111,000	11,110	15,554	666,600	6,666	9,999
Investment Trusts						
Ceylon Guardian Investment Trust Limited	36,844	1,298	5,149	20,725	745	3,731
Ceylon Investment Company Limited	87,120	2,000	7,079	49,005	1,183	4,937
		<u>3,298</u>	<u>12,228</u>		<u>1,928</u>	<u>8,668</u>
Land & Property						
C T Land Development Limited	0	0	0	24,195	193	345
Manufacturing						
ACL Cables Limited	0	0	0	155,756	4,615	13,473
Caltex Lubricants Lanka Limited	345,000	22,986	23,029	220,500	14,448	13,947
Ceylon Grain Elevators Limited	48,997	1,297	686	48,997	1,297	772
Ceylon Oxygen Limited	0	0	0	15,276	1,342	2,689
Lanka Aluminium Industries Limited	0	0	0	24,600	246	590
Lanka Ceramic Limited	0	0	0	208,900	5,223	5,118
Lanka Tiles Limited	171,608	5,088	11,626	173,008	5,129	11,246
Metal Packaging Limited	0	0	0	394,997	9,900	12,541
Samson International Limited	0	0	0	110,619	3,830	6,969
Tokyo Cement Limited - non-voting	1,030,000	16,346	15,450		0	0
		<u>45,717</u>	<u>50,791</u>		<u>46,030</u>	<u>67,345</u>

* 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

NOTES TO THE FINANCIAL STATEMENTS

22.6 Quoted Ordinary Shares (Contd.)

	31.03.2006			31.03.2005		
	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000
Plantations						
Agalawatte Plantations Limited	0	0	0	35,000	350	446
Kegalle Plantations Limited	0	0	0	100,000	1,000	2,200
		<u>0</u>	<u>0</u>		<u>1,350</u>	<u>2,646</u>
Power & Energy						
Lanka Indian Oil Company Limited	857,100	<u>26,356</u>	<u>25,070</u>	1,257,100	<u>55,188</u>	<u>60,027</u>
Telecommunications						
Sri Lanka Telecom Limited	6,086,500	<u>106,411</u>	<u>109,557</u>	3,192,500	<u>47,994</u>	<u>51,878</u>
Total Quoted Shares - Bank		<u>366,010</u>	<u>412,892</u>		<u>499,995</u>	<u>653,584</u>
Investment in quoted shares by subsidiaries		<u>89,868</u>	<u>92,513</u>		<u>96,010</u>	<u>110,796</u>
Total Quoted Shares - Group		<u>455,878</u>	<u>505,405</u>		<u>596,005</u>	<u>764,380</u>

22.6.1 Investment in Quoted Ordinary Shares by Subsidiaries

	31.03.2006			31.03.2005		
	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000
Banks, Finance & Insurance						
Central Finance Limited	6	0	2	4	0	1
Housing Development Finance Corporation Limited	15,500	<u>4,726</u>	<u>2,790</u>	0	0	0
Nation Trust Bank Limited	225,000	<u>4,987</u>	<u>5,513</u>	200,000	<u>4,455</u>	<u>4,250</u>
		<u>9,713</u>	<u>8,305</u>		<u>4,455</u>	<u>4,251</u>
Beverage & Tobacco						
Ceylon Tobacco Company Limited	134,100	<u>5,417</u>	<u>7,912</u>	134,100	<u>5,417</u>	<u>6,102</u>
Distilleries Company of Sri Lanka Limited	0	<u>0</u>	<u>0</u>	150,000	<u>4,817</u>	<u>4,763</u>
		<u>5,417</u>	<u>7,912</u>		<u>10,234</u>	<u>10,865</u>

* 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.

NOTES TO THE FINANCIAL STATEMENTS

22.6.1 Investment in Quoted Ordinary Shares by Subsidiaries (Contd.)

	31.03.2006			31.03.2005		
	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000	Number of Ordinary shares of Rs10 each	Cost* Rs 000	Market Value Rs 000
Investment Trusts						
Ceylon Gurdian Investment Trust Limited	7,110	1,035	994	4,000	928	720
Manufacturing						
ACL Cabel Limited	109,400	11,988	13,566	0	0	0
Caltex Lubricants Lanka Limited	197,100	14,634	13,156	164,100	12,671	10,379
Metal Packaging Limited	0	0	0	39,700	1,985	1,260
Siera Cables Limited **	27,700	83	64	0	0	0
Tokyo Cement Limited	1,250,000	14,917	18,750	0	0	0
		41,622	45,536		14,656	11,639
Power & Energy						
Lanka Indian Oil Company Limited	240,000	9,560	7,020	370,000	14,740	17,668
		9,560	7,020		14,740	17,668
Diversified Holdings						
Aiteken Spence & Company Limited	6,000	2,426	2,034	33,200	9,896	12,616
Hayleys Limited	131,982	12,464	12,978	115,987	11,010	13,049
Hemas Holdings Limited	0	0	0	223,600	16,787	24,372
John Keells Holdings Limited	6,222	44	804	70,185	7,224	9,510
Richard Peiris & Company Limited	0	0	0	36,400	6,080	6,106
		14,934	15,816		50,997	65,653
Telecommunications						
Sri Lanka Telecom Limited	385,000	7,587	6,930	0	0	0
		89,868	92,513		96,010	110,796

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

** Par value Rs1/- each.

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

NOTES TO THE FINANCIAL STATEMENTS

22.7 Unquoted Ordinary Shares

	31.03.2006			31.03.2005		
	Number of	Cost*	Directors'	Number of	Cost*	Directors'
	Ordinary shares of Rs10 each	Rs 000	Valuation Rs 000	Ordinary shares of Rs10 each	Rs 000	Valuation Rs 000
Beico Link Carbons (Pvt) Limited	328,500	2,190	2,190	328,500	2,190	2,191
Browns Dimo Industrial Products (Pvt) Limited	150,000	1,500	3,306	150,000	1,500	2,346
Ceylinco Developers Limited	250,000	2,500	21,875	250,000	2,500	42,515
Credit Information Bureau of Sri Lanka **	8,884	888	888	8,884	888	888
Cyprea Lanka (Pvt) Limited	1,500,000	15,000	15,000	1,500,000	15,000	15,000
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
Hydrotech Lanka (Dickoya) Pvt Limited	1,834,500	4,500	4,500	1,834,500	4,500	4,495
Link Development (Pvt) Limited	150,000	750	750	75,000	750	375
Metal Packaging Limited ***	394,997	0	0	0	0	0
Plastipak Lanka Limited	240,000	2,400	2,400	240,000	2,400	5,002
Ranweli Resorts Limited	1,616,193	10,748	17,682	1,616,193	10,748	29,851
Sampath Centre Limited	1,000,000	10,000	16,906	1,000,000	10,000	38,370
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	2,359	116,700	2,334	2,334
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	18,750	18,750	2,750,000	18,750	18,755
Total unquoted ordinary shares - Bank		81,685	116,731		81,685	172,247
Investments in unquoted ordinary shares by subsidiaries		<u>27,005</u>			<u>65,585</u>	
Total unquoted ordinary shares - Group		108,690			147,270	

22.7.1 Investments in Unquoted Ordinary Shares by Subsidiaries

	31.03.2006		31.03.2005	
	Number of	Cost*	Number of	Cost*
	shares of Rs10 each	Rs 000	shares of Rs10 each	Rs 000
Asia Soft Pvt Limited	500,000	7,500	500,000	7,500
Compak Morison (Lanka) Limited	0	0	8,000	80
Credit Information Bureau of Sri Lanka **	300	30	300	30
Durdans Heart Surgical (Pvt) Limited	1,500,000	14,475	2,100,000	20,475
Koolair Ventures (Pvt) Limited	648,500	4,000	648,500	4,000
Lankaclear (Pvt) Limited	100,000	1,000	100,000	1,000
Samson Reclaim Rubbers (Pvt) Limited	0	0	100,000	2,500
Samson Rajarata Tiles Limited	0	0	3,000,000	30,000
		<u>27,005</u>		<u>65,585</u>

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

** Par value Rs100/- each.

*** Delisted during the year.

NOTES TO THE FINANCIAL STATEMENTS

22.8 Quoted Redeemable Cumulative Preference Shares

	31.03.2006		31.03.2005	
	Number of shares of Rs10 each	Cost* Rs 000	Number of shares of Rs10 each	Cost* Rs 000
Commercial Bank of Ceylon Limited - 13%	5,000,000	50,000	5,000,000	50,000
Commercial Bank of Ceylon Limited - 11.25%	5,000,000	50,000	5,000,000	50,000
Investments in quoted preference shares - Bank		100,000		100,000
Market value Rs 92.5 million				
Investments in quoted preference by subsidiaries		0		0
Total investments in quoted preference shares - Group		100,000		100,000

22.9 Unquoted Preference Shares

22.9.1 Unquoted Redeemable Cumulative Preference Shares

	31.03.2006		31.03.2005	
	Number of shares of Rs10 each	Cost* Rs 000	Number of shares of Rs10 each	Cost* Rs 000
Carson Cumberbatch & Company Limited	17,500,000	175,000	17,500,000	175,000
Eden Hotels Lanka Limited	10,000,000	100,000	10,000,000	100,000
Heladanavi (Pvt) Limited	18,333,333	183,334	20,000,000	200,000
Holcim Lanka Limited	0	0	1,250	125,000
Plastipak Lanka Limited	333,333	3,333	666,667	6,000
Sampath Centre Limited	7,500,000	75,000	7,500,000	75,000
		536,667		681,000

22.9.2 Unquoted Irredeemable Preference Shares

Arpico Finance Company Limited	50,000	500	50,000	500
Total investments in unquoted preference shares - Bank		537,167		681,500
Investments in unquoted preference shares by subsidiaries		221,550		171,550
Total investments in unquoted preference shares - Group		758,717		853,050

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

NOTES TO THE FINANCIAL STATEMENTS

22.9.3 Investments in Unquoted Preference Shares by Subsidiaries

	31.03.2006		31.03.2005	
	Number of shares of Rs10 each	Cost* Rs 000	Number of shares of Rs10 each	Cost* Rs 000
Ceyquartz MBI (Pvt) Limited	0	0	2,500,000	25,000
Coco Lands Limited	1,875,000	18,750	1,875,000	18,750
E Services Limited	2,500,000	25,000	2,500,000	25,000
LVS Energy (Pvt) Limited	5,000,000	50,000	0	0
Nividhu (Pvt) Limited	3,280,000	32,800	3,280,000	32,800
Royal Fernwood Porcelain Limited	2,500,000	30,000	2,500,000	30,000
Tudawe Brothers Limited	400,000	40,000	400,000	40,000
Unit Energy (Pvt) Limited	2,500,000	25,000	0	0
		<u>221,550</u>		<u>171,550</u>

22.10 Quoted Debentures

	31.03.2006	31.03.2005
	Cost* Rs 000	Cost* Rs 000
Suntel Limited - 22%	0	98,470
Total quoted debentures - Bank	<u>0</u>	<u>98,470</u>
Investments in quoted debentures by subsidiaries	<u>43,500</u>	<u>43,500</u>
Total investments in quoted debentures - Group	<u>43,500</u>	<u>141,970</u>

Market value of quoted debentures - Group Rs43 million

22.10.1 Investment in Quoted Debentures by Subsidiaries

Commercial Bank of Ceylon Limited - 9.39%	20,000	20,000
Hatton National Bank Limited - 13.75%	7,500	7,500
Hatton National Bank Limited - 12% (2002/7)	6,000	6,000
Hatton National Bank Limited - 10%	10,000	10,000
	<u>43,500</u>	<u>43,500</u>

Market value Rs43 million

22.11 Unquoted Debentures

Ocean View Limited	0	2,260
Riverina Hotels Limited	2	4
Total investments in unquoted debentures - Bank	<u>2</u>	<u>2,264</u>
Investments in unquoted debentures by subsidiaries	<u>92,136</u>	<u>116,032</u>
Total investments in unquoted debentures - Group	<u>92,138</u>	<u>118,296</u>

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

NOTES TO THE FINANCIAL STATEMENTS

22.11.1 Investments in Unquoted Debentures by Subsidiaries

	31.03.2006	31.03.2005
	Cost*	Cost*
	Rs 000	Rs 000
Alutec Extrusions (Pvt) Limited	15,000	22,500
Ceylon Hospitals Limited	4,536	6,857
Coco Lands Limited	20,000	20,000
Coco Lanka Limited	10,000	10,000
Koolair Ventures Power (Pvt) Limited	30,000	30,000
Lanka Transformers Limited	7,500	13,500
Laughs Holdings Limited	5,100	13,175
	<u>92,136</u>	<u>116,032</u>

22.12 Investments in Unit Trusts

	31.03.2006			31.03.2005		
	Number of units	Cost	Market value	Number of units	Cost	Market value
	Rs 000	Rs 000		Rs 000	Rs 000	
NAMAL Growth Fund	2,793,050	27,736	75,915	4,983,050	48,590	103,439
NAMAL Income Fund	10,721,154	107,500	110,857	10,721,154	107,500	109,249
NAMAL Money Market Fund	8,212,385	82,157	84,013	7,500,000	75,000	76,200
National Equity Fund	3,580,540	38,048	48,337	3,580,540	38,048	46,583
Total investments in unit trusts by Bank		255,441	319,122		269,138	335,471
Investments in unit trusts by subsidiaries		50,000	50,589		62,500	62,163
Total investments in unit trusts by Group		305,441	369,711		331,638	397,634

22.12.1 Investments in Unit Trusts by Subsidiaries

NAMAL Income Fund	4,873,740	50,000	50,589	4,873,740	50,000	49,663
NAMAL Money Market Fund	0	0	0	1,230,315	12,500	12,500
		<u>50,000</u>	<u>50,589</u>		<u>62,500</u>	<u>62,163</u>

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

23 Investment in Associate Companies

	Commercial Bank of Ceylon Limited Ownership 27% Rs 000	National Asset Managemnt Limited Ownership 26% Rs 000	Bank 31.03.2006 Rs 000	31.03.2005 Rs 000	Group 31.03.2006 Rs 000	31.03.2005 Rs 000
Balance as at 31 March	3,251,155	0	3,251,155	2,632,603	3,251,155	2,632,603
Share of profit after tax	489,977	85	490,062	306,632	490,062	306,632
Less: Goodwill written off in this financial year	2,321	0	2,321	2,321	2,321	2,321
Gain/(loss) not recognised in the income statement	0	0	0	314,183	0	314,183
(Loss)/gain on deemed reduction in ownership (3,047)			(3,047)	58	(3,047)	58
Transfer from investment in subsidiaries	0	32,353	32,353	0	32,353	0
Share of net assets and unamortised goodwill on 31 March	3,735,764	32,438	3,768,202	3,251,155	3,768,202	3,251,155
Market value of quoted investments	<u>5,806,315</u>		<u>5,806,315</u>	<u>4,548,342</u>	<u>5,806,315</u>	<u>4,548,342</u>
<i>(Voting and non-voting ordinary shares)</i>						

NOTES TO THE FINANCIAL STATEMENTS

24 Investments in Subsidiary Companies

	DFCC Consulting (Pvt) Limited Ownership 100% Rs 000	DFCC Stock Brokers (Pvt) Limited Ownership 100% Rs 000	DFCC Vardhana Bank Limited Ownership 95% Rs 000	Lanka Industrial Estates Limited Ownership 50% Rs 000	Lanka Ventures Limited Ownership 58% Rs 000	National Asset Management Limited Ownership 80% Rs 000	Bank 31.03.2006 Rs 000	Bank 31.03.2005 Rs 000
Balance as at 31 March	0	58,621	510,471	123,783	505,442	91,266	1,289,583	1,232,995
Share of profit/(loss) after tax	5,426	15,960	75,065	(656)	452	4,439	100,686	(7,855)
Net assets on additional acquisition			6,520				6,520	919
Goodwill on additional investment			99				99	180
Initial investment	5,000						5,000	0
Gain/(loss) on deemed disposal					(5,910)	3,845	(2,065)	0
Investment in rights issue			472,259				472,259	120,566
Net assets on sale						67,197	67,197	0
Transferred to investment in associate						32,353	32,353	
Less: Amortisation of goodwill this financial year		668	56,582				57,250	57,222
Share of net assets and unamortised goodwill on 31 March 2006	10,426	73,913	1,007,832	123,127	499,984	0	1,715,282	1,289,583
Market value of quoted investments					422,236		422,236	400,396

24.1 Impact of Equity Method of Accounting

24.1.1 Investment in associate and subsidiary companies are accounted under equity method. If equity method of accounting was not adopted the carrying value of the investment in associate companies would be decreased by Rs2,183 million and the carrying value of the subsidiary companies would be decreased by Rs238 million with the corresponding reduction in reserves and retained profits.

Reconciliation	Associates Rs million	Subsidiaries Rs million
Post acquisition reserves		
Retained profit - Note 42.5	167	241
Statutory reserve - Note 42.2	112	4
Share premium - Note 42.3	0	52
Revenue reserves - Note 42.4	1,994	17
Unamortised negative goodwill arising from acquisition	0	1
	<u>2,273</u>	<u>315</u>
Reversal of loss on deemed disposal of subsidiary shares	(7)	(7)
Goodwill amortised	(83)	(138)
Negative goodwill amortised	0	68
	<u>2,183</u>	<u>238</u>

24.2 Incorporation of Subsidiary

24.2.1 The Bank owns 100% of the ordinary shares of DFCC Consulting (Pvt) Limited which was incorporated on 09.09.2004.

Central Bank approval was granted on 30.03.2005 and the commercial operations commenced on 01.04.2005.

24.3 Ownership Changes

24.3.1 The Bank increased the ownership in DFCC Vardhana Bank Limited from 94.46% to 95.20%.

24.3.2 The ownership of the ordinary shares in Lanka Ventures Limited was reduced from 59% to 58% due to the reduction in the indirect holding via National Asset Management Limited.

24.3.3 Bank reduced its holding during the year in National Asset Management Limited from 80% to 26%.

NOTES TO THE FINANCIAL STATEMENTS

		Bank		Group			
		31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000		
25	Group Balances Receivable						
	DFCC Consultancy (Pvt) Limited	64	0	0	0		
	DFCC Stock Brokers (Pvt) Limited	805	3,311	0	0		
	DFCC Vardhana Bank Limited	6,754	18,573	0	0		
	Lanka Industrial Estates Limited	0	7,045	0	0		
	National Asset Management Limited	516	2,037	516	0		
		<u>8,139</u>	<u>30,966</u>	<u>516</u>	<u>0</u>		
26	Other Receivables						
	Refundable deposits and advances	54,190	96,649	76,753	118,875		
	Dividend due	11,378	14,922	11,378	14,922		
	Reimbursement of exchange loss due from Government of Sri Lanka	101,185	889,235	101,185	889,235		
	Debtors *	295,144	194,922	437,691	367,738		
		<u>461,897</u>	<u>1,195,728</u>	<u>627,007</u>	<u>1,390,770</u>		
* Debtors includes dues on terminated leases net of provision.							
27	Investment Properties						
27.1	Composition						
	Balance on 31 March	12,180	12,180	143,836	145,234		
	Additions during the year	0	0	4,888	3,846		
	Less: Depreciation	0	0	5,610	5,244		
		<u>12,180</u>	<u>12,180</u>	<u>143,114</u>	<u>143,836</u>		
			Building sq.ft.	Extent of Land Perches	Market Value Rs 000		
27.2	List of Investment Properties						
	586, Galle Road, Colombo 3			20	12,180		
	Pattiwila Road, Sapugaskanda, Makola		280,000	20,000	532,092 *		
* Valuation on 27 March 2003.							
28	Goodwill on Consolidation						
	Balance on 31 March			203,809	260,851		
	Arising on consolidation			99	180		
	Less: Goodwill written off			57,250	57,222		
				<u>146,658</u>	<u>203,809</u>		
		Land & building	Office equipment	Furniture & fittings	Motor vehicles - owned	Motor vehicles - finance lease	Total
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
29	Property and Equipment						
29.1	Composition: Bank						
	Cost as at 31.03.2005	251,562	513,060	51,313	105,578	3,689	925,202
	Less: Transfer to intangible assets	0	219,993	0	0	0	219,993
	Additions for the year	6,532	61,557	44,202	17,191	0	129,482
	Transfers *	0	0	0	1,844	(1,844)	0
	Less: Disposals during the year	0	528	310	9,165	0	10,003
	Cost as at 31.03.2006	<u>258,094</u>	<u>354,096</u>	<u>95,205</u>	<u>115,448</u>	<u>1,845</u>	<u>824,688</u>
	Accumulated depreciation as at 31.03.2005	85,527	257,813	30,786	73,379	2,952	450,457
	Less: Transfer to intangible assets	0	83,752	0	0	0	83,752
	Charge for the year	8,820	49,964	5,500	14,193	369	78,846
	Transfers *	0	0	0	1,476	(1,476)	0
	Less: Accumulated depreciation on disposal	0	501	271	5,300	0	6,072
	Accumulated depreciation as at 31.03.2006	<u>94,347</u>	<u>223,524</u>	<u>36,015</u>	<u>83,748</u>	<u>1,845</u>	<u>439,479</u>
	Net book value as at 31.03.2006	<u>163,747</u>	<u>130,572</u>	<u>59,190</u>	<u>31,700</u>	<u>0</u>	<u>385,209</u>
	Net book value as at 31.03.2005	<u>166,035</u>	<u>255,247</u>	<u>20,527</u>	<u>32,199</u>	<u>737</u>	<u>474,745</u>

NOTES TO THE FINANCIAL STATEMENTS

29.1.1 Operating Lease

	Rs 000
Cost as at 31 March 2006	23,593
Less: Accumulated depreciation as at 31 March 2006	23,593
Net book value as at 31 March 2006	<u>0</u>

Included under owned motor vehicles.

29.1.2 List of Freehold Land and Building

	Building sq. ft.	Extent of land perches	Cost Rs 000	Accumulated depreciation Rs 000	Net book value Rs 000
73/5, Galle Road, Colombo 3	57,200	104.45	54,510	43,884	10,626
5, Deva Veediya, Kandy	4,600	12.54	12,699	3,371	9,328
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	181,006	47,092	133,914
4A, 4th Cross Lane, Borupana, Ratmalana		20.00	2,600	0	2,600
			<u>258,094</u>	<u>94,347</u>	<u>163,747</u>

Market Value of Properties

	Rs million	Date of valuation
73/5, Galle Road, Colombo 3	396	31.03.2005
5, Deva Veediya, Kandy	32	31.03.2005
73, W A D Ramanayake Mawatha, Colombo 2	235	31.03.2005

Valued by Mr P B Kalugalagedera - Chartered Valuer

29.2 Composition: Group

	Land & building Rs 000	Plant & machinery Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor Vehicles - owned Rs 000	Motor Vehicles - finance lease Rs 000	Total Rs 000
Cost as at 31.03.2005	306,685	62,050	776,135	99,680	121,389	3,689	1,369,628
Less: Transfer to intangible assets	0	0	219,993	0	0	0	219,993
National Asset Management Limited	0	0	17,148	1,511	2,725	0	21,384
Additions for the year	3,909	2,790	82,985	64,307	23,513	0	177,504
Transfers	0	0	0	0	1,844	(1,844)	0
Less: Disposals during the year	0	0	753	7,134	9,934	0	17,821
Cost as at 31.03.2006	<u>310,594</u>	<u>64,840</u>	<u>621,226</u>	<u>155,342</u>	<u>134,087</u>	<u>1,845</u>	<u>1,287,934</u>
Accumulated depreciation as at 31.03.2005	99,485	54,763	458,879	62,274	84,205	2,952	762,558
Less: Transfer to intangible assets	0	0	83,752	0	0	0	83,752
National Asset Management Limited	0	0	16,132	1,493	681	0	18,306
Charge for the year	8,100	5,610	87,976	9,907	16,207	369	128,169
Transfers	0	0	0	0	1,476	(1,476)	0
Less: Accumulated depreciation on disposal	0	0	7,461	280	6,069	0	13,810
Accumulated depreciation as at 31.03.2006	<u>107,585</u>	<u>60,373</u>	<u>439,510</u>	<u>70,408</u>	<u>95,138</u>	<u>1,845</u>	<u>774,859</u>
Net book value as at 31.03.2006	<u>203,009</u>	<u>4,467</u>	<u>181,716</u>	<u>84,934</u>	<u>38,949</u>	<u>0</u>	<u>513,075</u>
Net book value as at 31.03.2005	<u>207,200</u>	<u>7,287</u>	<u>317,256</u>	<u>37,406</u>	<u>37,184</u>	<u>737</u>	<u>607,070</u>

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006		31.03.2006	
	Rs 000		Rs 000	
30 Intangible Assets				
Transfer from property and equipment	219,993		219,993	
Additions for the year	447		447	
Cost as at 31.03.2006	220,440		220,440	
Transfer from property & equipment	83,752		83,752	
Amortisation for the year	40,740		40,740	
Accumulated amortisation as at 31.03.2006	124,492		124,492	
Net Book Value as at 31.03.2006	95,948		95,948	
	Bank		Group	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005
	Rs 000	Rs 000	Rs 000	Rs 000
31 Deposits				
Demand deposits	0	0	331,720	331,161
Savings deposits	0	0	511,912	400,953
Fixed deposits	3,940,087	3,663,403	7,884,880	5,546,359
Certificates of deposits	77,128	116,030	101,495	141,284
Margin deposits	0	0	55,084	6,773
	4,017,215	3,779,433	8,885,091	6,426,530
Deposits from banks	527,271	766,380	643,500	1,220,143
Deposits from non-bank customers	3,489,944	3,007,231	8,215,208	5,173,093
Deposits from finance companies	0	5,822	26,383	33,294
	4,017,215	3,779,433	8,885,091	6,426,530
32 Borrowing - Medium and Long-Term				
32.1 Borrowing				
Government of Sri Lanka loans under:				
Government of Sri Lanka/IDA loans - credit lines	1,896,354	1,879,273	1,896,354	1,879,273
Government of Sri Lanka/ADB loans - credit lines	3,358,535	3,522,156	3,358,535	3,522,156
Government of Sri Lanka/KfW loans - credit lines	3,203,975	1,758,310	3,203,975	1,758,310
Government of Sri Lanka/ JBIC loan - credit lines	1,299,310	1,167,868	1,299,310	1,167,868
Government of Sri Lanka /IFAD loan - credit line	31,217	36,829	31,217	36,829
Government of Sri Lanka/GOI loans	7,226	11,975	7,226	11,975
European Investment Bank	5,049,697	3,175,290	5,049,697	3,175,290
Central Bank of Sri Lanka refinance loans (secured)	2,180,917	2,133,885	2,180,917	2,133,885
Direct loans	1,257,303	594,667	1,257,303	594,667
Floating rate notes	4,339,732	4,339,732	4,339,732	4,339,732
Development paper	259,503	0	259,503	0
Local borrowing	5,500,000	4,000,000	5,500,000	4,000,000
	28,383,769	22,619,985	28,383,769	22,619,985
Liabilities denominated in foreign currency:				
- US Dollars (US\$)	94,159	82,214	94,159	82,214
- Euro Dollars (EUR)	3,630	5,030	3,630	5,030
- Japanese Yen (JPY)	605,875	605,875	605,875	605,875

NOTES TO THE FINANCIAL STATEMENTS

32.2 Supplementary Information

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

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

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

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

No new guarantees have been issued during year ended 31 March 2006.

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

32.3 Assets Pledged as Security

Nature	Amount Rs 000
Assignment in terms of Section 88A of the Monetary Law of loans refinanced by Central Bank	2,180,917

Acronyms:

ADB	- Asian Development Bank
DEG	- Deutsche Investitions-und Entwicklungsgesellschaft MbH
FMO	- Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.
IDA	- International Development Association
KfW	- Kreditanstalt für Wiederaufbau
JBIC	- Japan Bank for International Cooperation Fund
GOI	- Government of India
IFAD	- International Fund for Agriculture Development

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
33 Borrowing - Short-Term				
Borrowing under repurchase agreements	953,409	198,000	1,016,335	373,847
Bank overdrafts	0	59,279	20,351	87,943
Inter-bank borrowing	1,500,000	1,130,000	1,510,354	1,334,143
	<u>2,453,409</u>	<u>1,387,279</u>	<u>2,547,040</u>	<u>1,795,933</u>

34 Debentures

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

35 Obligation under Finance Leases

Total minimum lease payments outstanding	419	2,279	419	2,279
Less: Interest on lease payments	26	364	26	364
Present value	<u>393</u>	<u>1,915</u>	<u>393</u>	<u>1,915</u>

35.1 Maturity Profile of Total Minimum Lease Payments

Up to 1 year	419
1 to 5 years	-
	<u>419</u>

35.2 Maturity Profile of Present Value

Up to 1 year	393
1 to 5 years	-
	<u>393</u>

The monthly lease payments are fixed for 5 years, the duration of the contract. The contract does not have any restrictive covenant on dividend declaration, additional borrowing or leasing by the Bank and includes a purchase option in favour of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
36 Group Balances Payable				
DFCC Consultancy (Pvt) Limited	<u>0</u>	<u>2,446</u>	<u>0</u>	<u>0</u>
37 Taxation				
Balance before set-off of notional tax credit	262,974	223,248	314,698	229,744
Less: Notional tax credit	<u>44,216</u>	<u>24,862</u>	<u>44,216</u>	<u>24,862</u>
Balance on 31 March	<u>218,758</u>	<u>198,386</u>	<u>270,482</u>	<u>204,882</u>
(Payable within one year from balance sheet date)				
National Tax Credit for Withholding Tax on Treasury Bills & Bonds				
The Inland Revenue Act No. 38 of 2000 as amended by subsequent legislation provides that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of statutory income of the Company.				
38 Deferred Taxation				
Balance on 31 March	461,864	470,324	462,028	471,074
Decrease in provision	<u>(84,684)</u>	<u>(8,460)</u>	<u>(84,847)</u>	<u>(9,046)</u>
	<u>377,180</u>	<u>461,864</u>	<u>377,181</u>	<u>462,028</u>
39 Other Liabilities				
39.1 Composition				
Accruals	97,757	77,334	140,655	120,627
Prior year dividends	10,689	8,785	11,421	9,383
Security deposit for leases	11,846	17,984	54,681	59,817
Provision	87,787	65,541	93,856	73,528
Prepaid loan instalments	26,947	54,900	26,947	54,900
Prepaid lease rentals	58,441	52,715	58,441	52,715
Account payables	134,014	165,560	824,263	447,854
	<u>427,481</u>	<u>442,819</u>	<u>1,210,264</u>	<u>818,824</u>
39.2 Movement in Provision				
Balance on 31 March 2005	65,541		73,528	
Add: Provision for the year	87,787		89,555	
Less: Payments	65,541		66,053	
Consolidation adjustments				
National Asset Management Limited	<u>0</u>		<u>3,174</u>	
	<u>87,787</u>		<u>93,856</u>	*

* Includes gratuity provision of Rs1,786,838 of Bank and Rs6,068,000 of subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

		Bank		Group	
		31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
40	Negative Goodwill				
	Balance on 31 March	3,359	5,489	3,359	5,489
	Less: Negative goodwill recognised as income	2,096	2,130	2,096	2,130
		<u>1,263</u>	<u>3,359</u>	<u>1,263</u>	<u>3,359</u>
41	Share Capital				
41.1	Authorised Share Capital				
	500,000,000 ordinary shares of Rs10 each	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
41.2	Issued share capital				
	57,590,822 ordinary shares of Rs10 each	<u>575,908</u>	<u>574,133</u>	<u>575,908</u>	<u>574,133</u>
	Alloted and Fully Paid				
	57,413,283 ordinary shares (57,145,823 shares in 2005)	574,133	571,458	574,133	571,458
	Issue under share option - 177,539 ordinary shares (267,460 shares in 2005)	1,775	2,675	1,775	2,675
	57,590,822 ordinary shares (57,413,283 shares in 2005)	<u>575,908</u>	<u>574,133</u>	<u>575,908</u>	<u>574,133</u>
	Ordinary shares held by associate on 31 March 2006 Commercial Bank of Ceylon Limited - 7,770,278				
41.3	Employee Share Option Plan				
41.3.1	Scope and Exercise Price				
	Shareholder approval date	-	28 June 2002		
	Amendment to clarify adjustment for theoretical dilution in price from Bonus/Rights issue				
	Shareholder approval date	-	12 February 2004		
	Total options approved	-	4.5% of the ordinary shares in issue at any given time, over a period of 5 years commencing on 31 March 2002.		
	Maximum allocation per year	-	1.5% of the ordinary shares in issue as at the end of that financial year excluding any fractional amount.		
	Grant date	31 March 2006	31 March 2004	31 March 2003	31 March 2002
	Award date	3 July 2006	1 July 2004	1 July 2003	20 July 2002
	Option exercise dates	3 July 2007 to 2 July 2011	1 July 2005 to 30 June 2009	1 July 2004 to 30 June 2008	20 July 2003 to 19 July 2007
	Exercise price				
	- Pre-bonus issue	224.93	-	Rs135.51	Rs155.60
	- Post-bonus issue	-	Rs211.55	Rs101.63 *	Rs116.70 *
	* Adjusted for the theoretical dilution arising from the bonus issue of shares to the shareholders approved by the shareholders on 12 February 2004.				

NOTES TO THE FINANCIAL STATEMENTS

41.3.2 Movement in Options Granted

	Numbers
Options granted in respect of:	
31.3.2002	634,631
31.3.2003	634,628
Adjustment for bonus shares	
issue on 12.2.2004	230,906
31.3.2004	857,162
31.3.2005	Nil
31.3.2006 *	89,119
	<u>2,446,446</u>
Options lapsed year to 31.3.2003	(28,207)
Total granted as at 31.3.2006	<u>2,418,239</u>
Options exercised:	
During year to 31.3.2004	(548,256)
31.3.2005	(267,460)
31.3.2006	(177,539)
Options outstanding on 31.3.2006	<u>1,424,984</u>
Composition:	
Options granted in year to 31.3.2002	21,692
31.3.2003	466,949
31.3.2004	847,224
31.3.2006	89,119
	<u>1,424,984</u>

* The number of options granted in respect of the financial year ended 31 March 2006, shall not exceed 89,119 and could be below due to exclusion of fractional entitlements. Consequently, the options outstanding on 31 March 2006, would be reduced by the exclusion of fractional entitlements when the award is made.

42 Reserve - Bank/Group

42.1 Reconciliation of Movement in Reserves

	Reserve fund	Sinking fund	Share premium	Revenue reserve	Profit & Loss Account
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 31.03.2004	245,000	1,786,458	892,293	4,292,217	942,953
Prior year adjustment					1,349,955
Transfers	60,000	460,410		292,076	(812,486)
Gains & losses not recognised in the income statement				314,183	
First & final dividend approved on 30.06.2004					(314,319)
Issue of shares under share option scheme			25,361		
Balance as at 31.03.2005	<u>305,000</u>	<u>2,246,868</u>	<u>917,654</u>	<u>4,898,476</u>	<u>1,166,103</u>
Profit for the year					1,703,515
Transfers	176,247	584,685		261,168	(1,022,100)
First & final dividend approved on 30.06.2005					(315,897)
Issue of shares under share option scheme			17,915		
Balance as at 31.03.2006	<u>481,247</u>	<u>2,831,553</u>	<u>935,569</u>	<u>5,159,644</u>	<u>1,531,621</u>

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

Computation of Transfers	Rs 000
Profit after tax of the Bank - Note 11	1,112,767
Exclusion - goodwill amortisation (net)	57,475
	<u>1,170,242</u>
Minimum amount to be transferred @ 5%	58,512

The sinking fund is for the purpose of repaying the principal amount of floating rate notes and loan of US\$ 5 million from Asian Development Bank. The amount in the fund is in accordance with the respective loan covenants.

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
42.2 Composition of Reserve Fund				
Bank	365,000	305,000	365,000	305,000
Commercial Bank of Ceylon Limited	112,477	0	112,477	0
DFCC Vardhana Bank Limited	3,770	0	3,770	0
	116,247	0	116,247	0
Total	481,247	305,000	481,247	305,000
42.3 Composition of Share Premium				
Bank	883,376	865,461	883,376	865,461
Lanka Ventures Limited	48,693	48,693	48,693	48,693
National Asset Management Limited	3,500	3,500	3,500	3,500
	52,193	52,193	52,193	52,193
Total	935,569	917,654	935,569	917,654
42.4 Composition of Revenue Reserves				
Bank	3,148,638	3,150,959	3,148,638	3,150,959
Commercial Bank of Ceylon Limited	1,994,477	1,730,988	1,994,477	1,730,988
Lanka Industrial Estates Limited	16,324	16,324	16,324	16,324
Lanka Ventures Limited	205	205	205	205
Associate/subsidiary companies	2,011,006	1,747,517	2,011,006	1,747,517
Total	5,159,644	4,898,476	5,159,644	4,898,476
42.5 Composition of Retained Profit				
First and final dividend proposed (Note 42.6)	345,545	315,773	345,545	315,773
Retained profit	776,848	652,114	776,848	652,114
Bank	1,122,393	967,887	1,122,393	967,887
Commercial Bank of Ceylon Limited	167,325	53,315	167,325	53,315
DFCC Consulting (Pvt) Limited	5,427	0	5,427	0
DFCC Stock Brokers (Pvt) Limited	62,178	46,218	62,178	46,218
DFCC Vardhana Bank Limited	(992)	(72,287)	(992)	(72,287)
Lanka Industrial Estates Limited	23,272	23,929	23,272	23,929
Lanka Ventures Limited	154,301	153,848	154,301	153,848
National Asset Management Limited	(2,283)	(6,807)	(2,283)	(6,807)
Associate/subsidiary companies	409,228	198,216	409,228	198,216
Total	1,531,621	1,166,103	1,531,621	1,166,103
42.6 Dividend Proposed				
Net dividend	334,131	315,773	334,131	315,773
Tax deducted at source	11,414	–	11,414	–
Gross dividend - 60% (55%)	345,545	315,773	345,545	315,773
Dividend per share, Rs	6.00	5.50	6.00	5.50

NOTES TO THE FINANCIAL STATEMENTS

	Bank		Group	
	31.03.2006 Rs 000	31.03.2005 Rs 000	31.03.2006 Rs 000	31.03.2005 Rs 000
43 Contingent Liabilities and Commitments				
43.1 Contingent Liabilities				
Guarantees issued to:				
Banks in respect of indebtedness of customers of the Bank	582,000	612,000	0	230,000
Other banks in respect of indebtedness of customers of the Bank	109,034	50,450	109,034	50,450
Companies in respect of indebtedness of customers of the bank	786,222	668,735	2,549,403	1,460,195
Principal collector of customs (duty guarantees)	0	452	23,860	6,153
Third parties as security for commercial paper issued by customers of the Bank	484,415	446,154	484,415	446,154
Documentary credits	0	0	1,453,411	231,871
Bills for collection	0	0	350,181	244,372
Income tax*	180,915	0	416,464	156,874
Forward exchange contracts (net)	0	0	272,886	0
43.2 Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	8,667,616	5,196,605	9,363,985	5,563,431
Capital expenditure approved by the Board of Directors				
not contracted	12,178	76,170	13,378	80,270
contracted	13,552	2,710	14,863	3,850
	10,835,932	7,053,276	15,051,880	8,473,620

* The Bank's contingent liability relates to an assessment issued on the Bank for the year of assessment 2002/2003 and includes penalty of Rs49,451,809. The Bank has lodged an appeal on 24 April 2006 with a request for holdover of taxes pending determination of the appeal. The holdover of taxes was granted by notification dated 26 April 2006. The main reason for the assessment is the total disallowance of the deduction of provision for doubtful loans.

The contingent liability of Lanka Ventures Limited (LVL) was Rs235,548,863 inclusive of a penalty of Rs79,768,400 for years of assessment 1994/1995 and 2001/2002. The Company has lodged appeals against the assessments and initiated action in Court of Appeal seeking a writ of certiorari to quash the assessment and seek other interim reliefs. The Court of Appeal has granted an interim restraining order valid till 13 September 2006 to prevent recovery of tax in default.

43.3 Litigation

43.3.1 Litigation against the Bank

Bank has appealed to the High Court to set aside the award of Rs1,132,518 to an ex-employee by the Labour Tribunal.

Legal action has been initiated by a party in the District Court of Colombo claiming that a property mortgaged to DFCC Bank by a customer was not transferred to him by the plaintiff and that the customer was holding it in trust in favour of the plaintiff. On legal advice the Bank defended the case.

NOTES TO THE FINANCIAL STATEMENTS

Legal action has been filed against the Bank and several other defendants in the District Court of Colombo praying (a) for a determination that the Bank's holding of voting shares in Commercial Bank of Ceylon Limited aggregated with the shareholdings of three other defendants, is illegal to the extent that the aggregate shareholding exceeds 10%. (The Bank held 29.15% and the other three defendants held 10.33% voting shares as at 31 December 2005); (b) to direct the Bank and other named defendant shareholders to reduce their shareholding to a maximum of 10% by selling the excess shareholding; and (c) for an enjoining order restricting the presence and voting by the Bank and the other specified defendant shareholders to 10% of the total voting rights attached to the shares issued by Commercial Bank of Ceylon Limited.

The District Court refused to issue the Enjoining Order on 2 November 2005. However, the plaintiffs appealed against the Order of the District Court and the Court of Appeal on the same day issued a Stay Order valid until the Court of Appeal issues its Order, which has been reserved, in the matter of the issue of an enjoining order as prayed for by the plaintiffs.

On legal advice received, Bank is defending the legal action on the grounds, inter alia, that the acquisition of the said shares in 1997 by DFCC Bank was made with the specific approval of the Monetary Board under the relevant provisions of the Banking Act which have remain unchanged.

Legal action has been filed against the Monetary Board of the Central Bank of Sri Lanka, DFCC Bank and several other defendants in the Court of Appeal for a mandate in the nature of a Writ (a) Compelling DFCC Bank not to hold shares in excess of 10% in Commercial Bank of Ceylon Limited; and (b) To direct DFCC Bank and four other respondents to divest within a specified time shares held by them in excess of 10% in Commercial Bank of Ceylon Limited. On legal advice received, DFCC Bank will be defending the legal action on the grounds inter alia, that the circumstances under which the approval of the Monetary Board was granted in terms of the Banking Act have remained unchanged.

44 Maturity Profile of Assets and Liabilities

44.1 Definition of Maturity

44.1.1 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.

44.1.2 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.

44.2 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.

NOTES TO THE FINANCIAL STATEMENTS

44.3 Profile

	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
44.3.1 Bank											
Assets with Contractual Maturity											
(Interest bearing assets)											
Treasury bills & other securities	4,297,600	1,996,134	46	1,247,944	29	1,053,522	25				
Securities purchased											
under resale agreements	519,569	519,569	100								
Placements with and loans to other banks											
and financial institutions	737,533	335	0	335	0	3,920	1	642,566	87	90,377	12
Dealing securities	13,530	13,530	100								
Loans	30,215,430	1,615,668	5	5,183,673	17	12,934,656	43	7,772,002	26	2,709,431	9
Leases	5,361,796	617,338	12	1,422,612	27	2,629,861	48	691,985	13		
	<u>41,145,458</u>	<u>4,762,574</u>	<u>12</u>	<u>7,854,564</u>	<u>19</u>	<u>16,621,959</u>	<u>40</u>	<u>9,106,553</u>	<u>22</u>	<u>2,799,808</u>	<u>7</u>
Other Assets											
(Non interest-bearing assets)											
Cash and short-term funds	629,812	629,812	100								
Interest receivable	365,003	365,003	100								
Investment securities											
Ordinary shares/Units	703,136									703,136	100
Preference shares	637,167	70,083	11	154,083	24	329,167	52	66,667	10	17,167	3
Debentures	2	2	100								
Investment in associate companies	3,768,202									3,768,202	100
Investment in subsidiary companies	1,715,282									1,715,282	100
Group balances receivable	8,139	8,139	100								
Prepayments	111,673	2,032	2	31,127	28	66,320	59	8,129	7	4,065	4
Other Receivables	461,897	461,897	100								
Investment property	12,180									12,180	100
Property and equipment	385,209									385,209	100
Intangible assets	95,948									95,948	100
	<u>8,893,650</u>	<u>1,536,968</u>	<u>17</u>	<u>185,210</u>	<u>2</u>	<u>395,487</u>	<u>4</u>	<u>74,796</u>	<u>1</u>	<u>6,701,189</u>	<u>76</u>
Total assets	<u>50,039,108</u>	<u>6,299,542</u>	<u>13</u>	<u>8,039,774</u>	<u>16</u>	<u>17,017,446</u>	<u>34</u>	<u>9,181,349</u>	<u>18</u>	<u>9,500,997</u>	<u>19</u>
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	4,017,215	1,657,790	41	1,703,050	42	597,197	15	59,178	2		
Medium and long-term	28,383,769	839,989	3	1,400,501	5	14,342,536	51	4,171,682	15	7,629,061	26
Short-term	2,453,409	2,287,724	93	165,685	7						
Debentures	2,000,000							2,000,000	100		
Obligation under finance leases	393	163	41	230	59						
	<u>36,854,786</u>	<u>4,785,666</u>	<u>13</u>	<u>3,269,466</u>	<u>9</u>	<u>14,939,733</u>	<u>41</u>	<u>6,230,860</u>	<u>17</u>	<u>7,629,061</u>	<u>20</u>
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	644,098	644,098	100								
Taxation	218,758	218,758	100								
Deferred taxation	377,180							377,180	100		
Other liabilities	427,481	277,481	65	150,000	35						
	<u>1,667,517</u>	<u>1,140,337</u>	<u>68</u>	<u>150,000</u>	<u>9</u>	<u>0</u>	<u>0</u>	<u>377,180</u>	<u>23</u>	<u>0</u>	<u>0</u>
Total liabilities	<u>38,522,303</u>	<u>5,926,003</u>	<u>15</u>	<u>3,419,466</u>	<u>9</u>	<u>14,939,733</u>	<u>39</u>	<u>6,608,040</u>	<u>17</u>	<u>7,629,061</u>	<u>20</u>

NOTES TO THE FINANCIAL STATEMENTS

	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	%
44.3.2 Group											
Assets with Contractual Maturity											
(Interest bearing assets)											
Treasury bills & other securities	4,520,909	2,094,881	46	1,372,506	30	1,053,522	24				
Securities purchased											
under resale agreements	796,959	796,959	100								
Placements with and loans to other banks											
and financial institutions	865,533	250,335	29	335	0	3,920	0	520,566	61	90,377	10
Government & other securities											
held for dealing purposes	13,530	13,530	100								
Bills of exchange discounted	124,982	124,982	100								
Loans	35,090,263	4,868,340	14	6,537,068	19	13,167,345	37	7,783,454	22	2,734,056	8
Leases	5,361,796	617,338	12	1,422,612	27	2,629,861	48	691,985	13		
	<u>46,773,972</u>	<u>8,766,365</u>	<u>19</u>	<u>9,332,521</u>	<u>20</u>	<u>16,854,648</u>	<u>36</u>	<u>8,996,005</u>	<u>19</u>	<u>2,824,433</u>	<u>6</u>
Other Assets											
(Non interest-bearing assets)											
Cash and short-term funds	1,414,197	1,363,295	96	50,902	4						
Balances with Central Bank of Sri Lanka	693,789	693,789	100								
Interest receivable	338,452	338,236	100	216	0						
Investment securities											
Ordinary shares/Units	862,509									862,509	100
Preference shares	839,967	70,083	8	172,833	21	375,417	44	96,667	12	124,967	15
Debentures	105,638	8,313	8	27,432	26	68,018	64	1,875	2		
Investment in associate companies	3,768,202									3,768,202	100
Group balances receivable	516	516	100								
Prepayments	111,673	2,032	2	31,127	28	66,320	59	8,129	7	4,065	4
Other receivables	627,007	606,707	97	3,112	1	1,774	0	2,340	0	13,074	2
Investment property	143,114									143,114	100
Goodwill on consolidation	146,658	14,203	10	42,441	29	89,958	61	52	0	4	0
Property & equipment	513,075									513,075	100
Intangible assets	95,948									95,948	100
	<u>9,660,745</u>	<u>3,097,174</u>	<u>32</u>	<u>328,063</u>	<u>4</u>	<u>601,487</u>	<u>6</u>	<u>109,063</u>	<u>1</u>	<u>5,524,958</u>	<u>57</u>
Total assets	<u>56,434,717</u>	<u>11,863,539</u>	<u>21</u>	<u>9,660,584</u>	<u>17</u>	<u>17,456,135</u>	<u>31</u>	<u>9,105,068</u>	<u>16</u>	<u>8,349,391</u>	<u>15</u>
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	8,885,091	5,179,879	58	1,682,474	19	1,945,941	22	76,797	1		
Medium & long-term	28,383,769	839,989	3	1,400,501	5	14,342,536	50	4,171,682	15	7,629,061	27
Short-term	2,547,040	2,381,355	93	165,685	7						
Debentures	2,000,000							2,000,000	100		
Obligation under finance leases	393	163	41	230	59						
	<u>41,816,293</u>	<u>8,401,386</u>	<u>20</u>	<u>3,248,890</u>	<u>8</u>	<u>16,288,477</u>	<u>39</u>	<u>6,248,479</u>	<u>15</u>	<u>7,629,061</u>	<u>18</u>
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	720,025	720,025	100								
Taxation	270,482	270,482	100								
Deferred taxation	377,181							377,181	100		
Other liabilities	1,210,264	980,857	81	179,662	15					49,745	4
	<u>2,577,952</u>	<u>1,971,364</u>	<u>76</u>	<u>179,662</u>	<u>7</u>	<u>0</u>	<u>0</u>	<u>377,181</u>	<u>15</u>	<u>49,745</u>	<u>2</u>
Total liabilities	<u>44,394,245</u>	<u>10,372,750</u>	<u>23</u>	<u>3,428,552</u>	<u>8</u>	<u>16,288,477</u>	<u>37</u>	<u>6,625,660</u>	<u>15</u>	<u>7,678,806</u>	<u>17</u>

NOTES TO THE FINANCIAL STATEMENTS

45 Concentration of Assets and Liabilities

45.1 Concentration in the Distribution of Assets

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

45.1.2 Industrywise Distribution of main Assets are given below:

Industry Sector	%
Agriculture, forestry and fishing	9.7
Mining and quarrying	0.9
Manufacture of food, beverages and tobacco	11.4
Manufacture of textiles	1.4
Manufacture of wearing apparel excluding footwear	2.3
Manufacture of leather and leather products including footwear	0.4
Wood and manufacture of wood products	1.1
Manufacture of paper products, printing, publishing and packaging	4.0
Manufacture of chemical and chemical products	1.6
Manufacture of rubber products	3.2
Manufacture of plastic products	1.7
Manufacture of non-metallic mineral products	4.6
Basic metal products	0.6
Manufacture of fabricated metal products, machinery and equipment	2.0
Electricity, gas and water industries	7.3
Construction industries	3.6
Trade	12.7
Hotels and restaurants	4.6
Transport, storage and communications	8.5
Financing, insurance, real estate and business services	15.1
Community, social and personal services	3.3
	<u>100.0</u>
Composition of Assets	Rsm
Loans*	30,779
Lease	5,362
Investment securities	1,340
	<u>37,481</u>

* Including loans to banks & excluding staff loans

45.2 Composition of medium and long-term borrowing is given in Note 32

NOTES TO THE FINANCIAL STATEMENTS

46 Non-Performing Loans, Leases and Bills

	Bank				Group			
	31.3.2006 Rs 000	%	31.3.2005 Rs 000	%	31.3.2006 Rs 000	%	31.3.2005 Rs 000	%
Loans and advances	1,473,546		2,247,695		1,702,936		2,427,042	
Finance leases	376,634		386,970		376,634		386,970	
Bills of exchange discounted	6,390		12,642		6,473		12,642	
Gross exposure	1,856,570	5.0	2,647,307	8.8	2,086,043	4.9	2,826,654	8.7
Less: Interest in suspense included in overdrafts	0		0		78,193		43,272	
Net non-performing loans, advances, leases and bills	1,856,570	5.0	2,647,307	8.8	2,007,850	4.7	2,783,382	8.5
Less: Provision for bad and doubtful debts	582,547		742,080		636,051		799,228	
Net exposure	1,274,023	3.5	1,905,227	6.6	1,371,799	3.3	1,984,154	6.3
Net of tangible securities	219,030		394,204		281,363		448,703	

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

46.1 Provision for Bad and doubtful Debts

Loans and advances (Note 19.2.1)	699,928	753,432
Finance leases (Note 20.2)	183,458	183,458
Bills of exchange discounted (Note 18.2)	6,390	6,390
	889,776	943,280
Less: Provision relating to facilities currently performing		
Loans and advances	291,196	291,196
Finance leases	16,033	16,033
Bills of exchange discounted	0	0
	307,229	307,229
Provision relating to non-performing facilities	582,547	636,051

46.2 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 arrears of the loans, financial 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

NOTES TO THE FINANCIAL STATEMENTS

47 Directors' Interest in Contracts with the Bank and Related Party Transactions

47.1 Directors' Interest in Contracts

47.1.1 Financial Facilities Contracts

The Bank has entered into contracts in the normal course of business with the following enterprises in which a Director of the Bank is also a Director and/or shareholder.

J M S Brito	DFCC Vardhana Bank Limited* Ace Exports (Pvt) Limited Aitken Spence Hotel Holdings Limited AEN Palm Oil Processing (Pvt) Limited Ace Power Generation Horana (Pvt) Limited Lanka Bell (Pvt) Limited****
A N Fonseka	Aitken Spence Hotel Holdings Limited **
A M de S Jayaratne	Aitken Spence Hotel Holdings Limited Nations Trust Bank Limited **
T N Jinasena***	DFCC Vardhana Bank Limited*
R T Wijetilleke	Nawaloka Hospitals Limited

* Representing the Bank

** Only a shareholder

*** Ceased to be a director on 7th September 2005

**** Director of a Company whose major shareholder is also the major shareholder of Lanka Bell (Pvt) Limited

Facilities approved by the Board of Directors in prior years have been disclosed in the year in which such contracts were executed.

47.1.2 Other Contracts

The Bank has leased premises owned by the spouse of the Director/Chief Executive, Mr A N Fonseka. This is in discharge of a contractual obligation by the Bank to provide suitable accommodation for the Chief Executive and family. The annual lease contract was renewed on 1 April 2005 for a further period of one year at a rental of Rs100,000 per month.

The Bank paid Rs1,493,234 to Credit Information Bureau of Sri Lanka for services obtained in which Mr A N Fonseka and Mr S N P Palihena are Directors.

The Bank paid Rs1,035,510 during the year to BOC Travels (Pvt) Limited to purchase air tickets in which Mr S N P Palihena is a Director.

The Bank paid Rs115,714 as annual listing fees and registration fees to Colombo Stock Exchange in which Mr A N Fonseka and Mr R T Wijetilleke are Directors.

The Bank paid Rs826,939 for services obtained during the year from National Asset Management Limited in which Mr A N Fonseka is a Director.

The Bank paid Rs11,012,462 as insurance premium to Sri Lanka Insurance Corporation Limited in which Mr J M S Brito is a Director.

The Bank paid Rs239,788 to purchase air tickets from Aitken Spence Overseas Travel Services (Pvt) Limited and Rs1,461,075 as printing charges to Aitken Spence Printing (Pvt) Limited and obtained services to the value of Rs774,237 from Elevators (Pvt) Limited in which Mr J M S Brito is the Chairman.

The Bank paid Rs1,285,628 as rent to Lanka Industrial Estates Limited in which Mr A N Fonseka is the Chairman.

The Bank paid Rs3,895,217 to purchase foreign currency notes from DFCC Vardhana Bank Limited in which Mr J M S Brito is the chairman.

NOTES TO THE FINANCIAL STATEMENTS

47.2 Related Party Transactions

The Bank carries out transactions in the ordinary course of business on an arm's length basis with related parties.

The baseline benchmark for Bank's pricing policy is the cost of finance, tenor premium and other costs plus adequate return to shareholders. This baseline benchmark would be adjusted for the inherent risks of the borrower. The rates of interest on the facilities to related parties conform to the Bank's pricing policy as applicable to a non-related party without any special reduction or concession.

47.2.1 The companies in which a Director of the Bank singly or with the spouse has substantial shareholding of 10% or more of the paid up capital.

These companies, names of Directors and the nature of transactions entered into are listed below:

Party accommodated	Name of Director/position	Aggregate amount of accommodation		Nature of transaction	Security
		Approved	Outstanding as at 31.03.2006		
		Rs m	Rs m		
Handrookanda (Pvt) Limited	T N Jinasena Chairman	2.98	1.56	Finance Lease	Lease assets
		<u>2.98</u>	<u>1.56</u>		

47.2.2 The companies in which a Director of the Bank has a significant influence by representation on the Board of Directors without a substantial shareholding. These companies, names of Directors and the nature of transactions are listed below:

Party accommodated	Name of Director/position	Aggregate amount of accommodation		Nature of transaction	Security
		Approved	Outstanding as at 31.03.2006		
		Rs m	Rs m		
Ace Exports (Pvt) Limited	J M S Brito Chairman	145.00	145.00	Term Loan	Movable property
		<u>145.00</u>	<u>145.00</u>		
Ace Power Embilipitya (Pvt) Limited	J M S Brito Chairman	411.00	411.00	Term loan (US\$)	Immovable & movable property
		<u>411.00</u>	<u>411.00</u>		
Ace Power Generation Horana (Pvt) Limited	J M S Brito Chairman	68.00	51.00	Debenture loan	Immovable & movable property
		<u>68.00</u>	<u>51.00</u>		
Ace Power Generation Matara (Pvt) Limited	J M S Brito Chairman	168.45	168.45 *	Guarantee	Immovable & movable property
		<u>168.45</u>	<u>168.45</u>		
AEN Palm Oil Processing (Pvt) Limited	J M S Brito Chairman	60.00	60.00	Term loan	Immovable & movable property
		25.00	Not disbursed	Term loan	Immovable & movable property
		<u>85.00</u>	<u>60.00</u>		
Agarapatana Plantations Limited	C P R Perera Director	173.42	124.92	Term loan	Immovable property
		<u>173.42</u>	<u>124.92</u>		

NOTES TO THE FINANCIAL STATEMENTS

Party accommodated	Name of Director/position	Aggregate amount of accommodation		Nature of transaction	Security
		Approved	Outstanding as at 31.03.2006		
		Rs m	Rs m		
Aitken Spence Hotel Holdings Limited	J M S Brito Managing Director	13.00	3.47	Term loan	Movable property
		300.00	300.00	Term loan	Corporate Guarantee
		<u>313.00</u>	<u>303.47</u>		
Browns Beach Hotels Limited	J M S Brito Director	2.66	0.07	Term loan	Immovable property
		<u>2.66</u>	<u>0.07</u>		
Elpitiya Plantations Limited	J M S Brito Chairman	364.29	266.76	Term loan	Immovable property
		<u>364.29</u>	<u>266.76</u>		
Kahawatte Plantations Limited	C P R Perera Director	4.21	1.40	Term Loan	Movable property
		<u>4.21</u>	<u>1.40</u>		
Kotagala Plantations Limited	C P R Perera Director	200.19	143.86	Term loan	Immovable property
		7.47	6.69	Term loan	Corporate Guarantee
		<u>207.66</u>	<u>150.55</u>		
Loadstar (Pvt) Limited	T N Jinasena Chairman	850.00	555.00	Term loan	Immovable & movable property
		47.00	Not Disbursed	Term loan	Immovable property
		<u>897.00</u>	<u>555.00</u>		
National Asset Management Limited	A N Fonseka Chairman	1.56	1.07	Lease	Lease assets
		<u>1.56</u>	<u>1.07</u>		
Nawaloka Hospitals Limited	R T Wijetilleke Director	6.12	5.63	Lease	Lease assets
		<u>6.12</u>	<u>5.63</u>		
Orient Motor Company Limited	M J C Amarasuriya Director S B Hewage	61.10	16.30	Trust certificate guaranteed by parent company	
		<u>61.10</u>	<u>16.30</u>		
Palm Village Hotels Limited	J M S Brito Director	10.00	8.78	Term loan	Immovable property
		<u>10.00</u>	<u>8.78</u>		
Serendib Flour Mills (Pvt) Limited	M J C Amarasuriya Chairman	431.45	262.99	Term loan	Immovable property
		<u>431.45</u>	<u>262.99</u>		
Sithma Development (Pvt) Limited	R T Wijetilleke Chairman	250.00	Not disbursed	Term loan	Immovable property
		<u>250.00</u>	<u>0.00</u>		
The Lanka Hospital Corporation (Pvt) Limited	S N P Palihena Director	201.53	201.53 *	Guarantee	Immovable & movable property
		<u>201.53</u>	<u>201.53</u>		

* Only indirect accommodation.

Mr M j C Amarasuriya, Mr S B Hewage and Mr T N Jinasena ceased to be a Director on 6 June 2005, 27 July 2005 and 7 September 2005 respectively.

NOTES TO THE FINANCIAL STATEMENTS

47.2.3 Intra-Group Transactions - Financial Accommodation

The Bank provides financial accommodation to its subsidiary, DFCC Vardhana Bank Limited, in the ordinary course of business on an arm's length basis. Such transactions, if eliminated when the financial statements of DFCC Vardhana Bank are consolidated with the Bank requires no disclosure as provided in paragraph 4(a) and (b) of Sri Lanka Accounting Standard No. 30 - Related Party Disclosure.

Securities purchased under resale agreements include Rs 84 million lending to DFCC Vardhana Bank Limited secured on treasury bills.

47.2.4 Intra-Group Transactions - Others

47.2.4.1 Rent	Rs
DFCC Consulting (Pvt) Limited	87,120
DFCC Stock Brokers (Pvt) Limited	1,827,900
DFCC Vardhana Bank Limited	10,374,307
National Asset Management Limited	981,585

47.2.4.2 Reimbursement of employee cost	
DFCC Vardhana Bank Limited	5,614,478
Lanka Industrial Estates Limited	1,731,734

This relates to employees of the Bank seconded for service in subsidiaries.

47.2.4.3 Reimbursement of utilities and other services provided by external agencies	
DFCC Consulting (Pvt) Limited	125,724
DFCC Vardhana Bank Limited	7,340,492

47.2.4.4 Fee for services

The Bank charged a fee of Rs3,842,437 for undertaking credit appraisal function in respect of credit facilities originated by DFCC Vardhana Bank Limited.

47.2.5 Investment in Companies where a Director of the Bank is a Director

Company	Name of Director/Position	As at 31.03.2006		
		Ordinary Shares		Preference Shares
		Quoted Rs 000	Unquoted Rs 000	Quoted Rs 000
Aitken Spence & Co. Limited	J M S Brito - Deputy Chairman/ Managing Director	16,512		
Credit Information Bureau of Sri Lanka	A N Fonseka - Director S N P Palihena - Director		8,884	
Commercial Bank of Ceylon Limited	D S Weerakkody - Director A N Fonseka - Directors			100,000
Hatton National Bank Limited - Non Voting	R T Wijetilleke - Chairman	22,765		

47.2.6 Key Management Personnel of the Bank

The Chief Executive, Executive Vice Presidents and the Secretary to the Board of Directors constitute the key management personnel of the Bank for purposes of Sri Lanka Accounting Standard on Related Party Disclosure. The Board of Directors or the Chief Executive nominates Executive Vice Presidents and Secretary to the Board of Directors for appointment as Nominee Directors of enterprises to which facilities have been granted. Their appointment is pursuant to an agreement subsequent to the grant of the initial facility. Their appointment and tenure of office is at the sole discretion of the Board of Directors or the Chief Executive.

Under the circumstances these enterprises are not deemed to be related parties of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

48 Business Segment Information

	Lending	Financial leasing	Investing in equity	Venture capital	Commercial banking	Other	Unallocated	Elimina- tions	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
For the year ended 31 March 2006									
Revenue									
Interest income	3,891,943	701,711	0	49,566	556,808	24,505	0	(38,974)	5,185,558
Amortisation of negative goodwill							2,096		2,096
Other income	351,948	0	425,942	62,960	117,620	228,526	57,775	(84,608)	1,160,162
Income from external customers	4,243,891	701,711	425,942	112,526	674,428	253,031	59,871	(123,582)	6,347,816
Inter-segment income							19,911	(19,911)	0
Total income	4,243,891	701,711	425,942	112,526	674,428	253,031	79,782	(143,493)	6,347,816
Percentage*	67	11	7	2	11	4	2	-	100
Expense									
Segment losses	167,460	585	21,470	5,383	9,103	239			204,240
Depreciation	0	0	0	643	37,851	17,641			56,135
Other operating & interest expenses	2,505,514	400,669	0	20,407	466,521	95,757		(38,974)	3,449,894
Inter-segment expense					17,911	2,000		(19,911)	0
	<u>2,672,974</u>	<u>401,254</u>	<u>21,470</u>	<u>26,433</u>	<u>531,386</u>	<u>115,637</u>		<u>(58,885)</u>	<u>3,710,269</u>
Result	1,570,917	300,457	404,472	86,093	143,042	137,394			2,637,547
Unallocated expenses									500,576
Value added tax on financial services									296,337
									1,840,634
Associate companies profit before tax									881,888
Profit on ordinary activities before tax									2,722,522
Income tax on profit on ordinary activities									951,027
Profit on ordinary activities after tax									1,771,495
Minority interest									67,980
Profit for the year									1,703,515
Assets	32,275,903	5,361,796	1,340,305	872,735	6,936,792	526,653	5,720,184	(367,853)	52,666,515
Percentage	61	10	3	2	13	1	11	(1)	100
Investments in associate companies									3,768,202
									56,434,717
Liabilities	27,051,085	4,825,616	0	11,007	6,032,145	196,644	6,645,601	(367,853)	44,394,245
Capital expenditure - additions				422	42,351	5,249			
For the year ended 31 March 2005									
Revenue									
Interest income	3,028,955	615,893	0	52,032	224,971	22,244	0	(8,136)	3,935,959
Amortisation of negative goodwill							2,130		2,130
Other income	404,395	0	520,677	84,196	61,036	176,106	68,149	(83,243)	1,231,315
Income from external customers	3,433,350	615,893	520,677	136,228	286,007	198,350	70,279	(91,379)	5,169,404
Inter-segment income							2,677	(2,677)	0
Total income	3,433,350	615,893	520,677	136,228	286,007	198,350	72,956	(94,056)	5,169,404
Percentage*	66	12	10	3	6	4	3	-	100
Expense									
Segment losses	239,607	10,168	6,250	(333)	(4,133)	327			251,885
Depreciation	0	0	0	746	57,647	17,064			75,457
Other operating & interest expenses	2,013,020	308,611	0	17,125	256,469	89,790		(8,136)	2,676,879
Inter-segment expense						2,677		(2,677)	0
	<u>2,252,627</u>	<u>318,779</u>	<u>6,250</u>	<u>17,538</u>	<u>309,983</u>	<u>109,858</u>		<u>(10,813)</u>	<u>3,004,221</u>
Result	1,180,723	297,114	514,427	118,690	(23,976)	88,492			2,165,183
Unallocated expenses									385,381
Value added tax on financial services									227,715
									1,552,087
Associate company profit before tax									549,577
Profit on ordinary activities before tax									2,101,664
Income tax on profit on ordinary activities									680,392
Profit on ordinary activities after tax									1,421,272
Minority interest									71,317
Profit for the year									1,349,955
Assets	26,327,422	4,113,669	1,730,792	871,354	3,978,100	608,727	4,647,536	(378,966)	41,898,634
Percentage	63	10	4	2	9	1	11	(1)	100
Investment in associate company									3,251,155
									45,149,789
Liabilities	21,969,189	3,702,302	0	10,404	3,652,660	184,406	5,383,338	(378,966)	34,523,333
Capital expenditure - additions				103	32,306	5,622			

* Net of eliminations.

NOTES TO THE FINANCIAL STATEMENTS

- 48.1** Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stockbrokering and consultancy services are included in the column for other.
- 48.2** Revenue and expenses attributable to the business segment of DFCC Vardhana Bank is included in the column for Commercial Banking
- 48.3** Property & equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.
- 48.4** Dealing securities losses and goodwill written off of subsidiary company are included in unallocated expenses.
- 48.5** Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

49 Events after Balance Sheet date

49.1 Bonus Issue

The Directors of the Bank have recommended a scrip issue of 1 bonus share for every 2 shares held. Approval of the scrip issue by the shareholders at the Extraordinary General Meeting to be held on 30 June 2006 will increase the paid up share capital from Rs567 million to Rs864 million with a corresponding reduction in share premium account.

49.2 Options Exercised by Employees

The employees have exercised 4,826 options during the post balance sheet period. The increase in ordinary share capital corresponding to the options exercised was Rs48,260 and the increase in the share premium was Rs442,206.

49.3 Income Tax

The corporate tax rate applicable to the Bank will increase from 30% to 35% from 1 April 2006.

49.4 Proposed Dividend

Directors have recommended the payment of a final dividend of 60% for the year ended 31 March 2006 (55% in 2005) which requires the approval of shareholders at the Annual General Meeting to be held on 30 June 2006. In accordance with the Sri Lanka Accounting Standard No. 12 on Events After the Balance Sheet Date, this proposed final dividend has not been recognised as a liability at the year end. Proposed dividend is included as a component of retained profit as disclosed in Note 42.5.

- 49.5** No other circumstances have arisen which would require disclosure or adjustment to the accounts.

50 Comparative Figures

Amounts shown for the previous year in respect of loans Note 19.1, finance leases Note 20.1, other liabilities Note 39.1 have been reclassified to facilitate comparison.

51 Employee Population - Bank

As at 31 March 2006 - 374 As at 31 March 2005 - 340

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 its off balance sheet transactions and its dealing operations. The minimum risk sensitive capital required to be maintained by the Bank is prescribed by Central Bank of Sri Lanka and is consistent with the international standards of Basel Committee on Banking Capital Regulations and Supervisory Practices. The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb foreseeable, future credit and market losses.

Basis of Computation

The risk weights assigned to the on and off balance sheet assets and composition of capital are prescribed by Central Bank of Sri Lanka. Effective from 31.03.2006 risk weighted assets (RWA) include, in addition to risk weighted on and off balance sheet assets, equivalent RWA capital charge for market risk. The capital charge for market risk is based on standardised measurement method.

Capital to Risk Weighted Assets Ratio

(Based on consolidated financial statements)

	Minimum Requirement	Actual 31.03.2006	31.03.2005
Tier 1 (%)	5.0	22.8	25.2
Tier 2 (%)		0.6	0.7
Tier 1 and Tier 2 (%)		23.4	25.9
Deductions (%)		7.6	8.3
Capital base (%)	10.0	15.8	17.6 *

Investments in the regulatory capital of other banks are deducted from the capital base. Consequently the ratio of capital base to risk weighted assets is lower than Tier 1 capital ratio.

* Does not include risk weighted assets for market risk.

Details of Computation

Capital Base	31.03.2006 Rs 000	31.03.2005 Rs 000
Tier 1 : Core Capital		
Paid up ordinary shares	575,908	574,133
Share premium	935,569	917,654
Statutory reserve fund	481,247	305,000
Published retained profits	1,531,621	1,166,103
General & other reserves	7,677,052	6,831,130
Minority interest	523,667	514,863
	11,725,064	10,308,883
Less: Deductions		
Goodwill	146,658	203,809
Total Tier 1 capital	11,578,406	10,105,074
Tier 2: Supplementary Capital		
Revaluation reserve (as approved by the Central Bank of Sri Lanka)	134,528	137,190
Approved subordinated term debt of subsidiary	122,000	122,000
General provision	59,977	36,999
Tier 1 and Tier 2	11,894,911	10,401,263
Less: Deductions		
Investments in capital of other banks		
Commercial Bank	3,656,146	3,174,131
Other Banks and financial associates	84,093	52,074
Approved subordinated term debt	122,000	122,000
Capital base	8,032,672	7,053,058

CAPITAL ADEQUACY

Risk Weighted Assets and Off Balance Sheet Exposure

Balance Sheet Assets	31.03.2006 Rs 000	31.03.2005 Rs 000	Risk Weights %	Risk Weighted Balance 31.03.2006 Rs 000	31.03.2005 Rs 000
Cash, treasury bills & other securities eligible for rediscounting with Central Bank	4,710,878	2,688,820	0	0	0
Securities purchased under resale agreements	796,959	1,459,502	0	0	0
Textile debt restructure fund	135,033	155,799	0	0	0
Balances due from Central Bank	693,789	282,901	0	0	0
Loans against cash deposits	659,485	385,845	0	0	0
Bank balances	230,743	80,244	20	46,149	16,049
Due from banks abroad	479,015	302,998	20	95,803	60,600
Placements with and loans to other banks and financial institutions	1,385,231	789,080	20	277,046	157,816
Loans guaranteed by SLECIC	10,000	6,023	50	5,000	3,012
Dealing securities	13,530	0	100	13,530	0
Other loans, bills of exchange, finance lease and interest receivable	40,170,952	31,086,763	100	40,170,952	31,086,763
Other investments (excluding items deducted from total capital)	1,979,191	2,402,621	100	1,979,191	2,402,621
Property and equipment	513,075	607,070	100	513,075	607,070
Prepayments and other receivables	829,916	1,509,108	100	829,916	1,509,108
Total assets	52,607,797	41,756,774		43,930,662	35,843,039

Off Balance Sheet Exposure	Credit Conversion Factor %	31.03.2006 Rs 000	31.03.2005 Rs 000	Risk Weights %	Risk Weighted Credit Equivalent 31.03.2006 Rs 000	31.03.2005 Rs 000
General guarantee of indebtedness	100	1,478,019	1,301,188	100	1,478,019	1,301,188
Performance bonds, bid bonds and warranties	50	732,660	294,003	100	366,330	147,002
Shipping guarantees	20	568,747	431,296	100	113,749	86,259
Documentary letters of credit	20	1,453,411	231,871	100	290,682	46,374
Trade related acceptances	20	352,262	166,465	100	70,452	33,293
Others - bills on collection	20	350,181	244,372	100	70,036	48,874
Undrawn term loans	50	8,415,987	5,007,531	100	4,207,994	2,503,766
Others - undrawn lease facilities	50	251,629	264,074	100	125,815	132,037
Forward foreign exchange contracts	2	272,886	0	100	5,458	0
Undrawn overdraft facilities	0	696,369	291,826	100	0	0
Facilities against cash deposits	100	35,024	0	0	0	0
Total off balance sheet exposure		14,607,175	8,232,626		6,728,535	4,298,793

Total risk weighted assets and off balance sheet exposure for credit risk

50,659,197

Total risk weighted assets for market risk

228,670

Total risk weighted assets and off balance sheet exposure for credit risk and market risk

50,887,867

Reconciliation with Balance Sheet

Capital excludes revaluation reserve of Rs314m and negative goodwill, a deferred income.

STATEMENT OF VALUE ADDED - BANK

For the year ended 31 March

	2006		2005	
	Rs million	%	Rs million	%
Value Added				
Gross income	5,449		4,641	
Cost of borrowing and support services	(2,704)		(2,103)	
Provision for bad debts and investments	(190)		(256)	
	<u>2,555</u>		<u>2,282</u>	
Value Allocated				
To employees				
Salaries, wages and other benefits	524	20	438	19
To providers of capital				
Dividends to shareholders	346	14	316	14
To government				
Income tax on profit	472		404	
Value added tax on financial services	<u>270</u>	<u>29</u>	<u>225</u>	<u>28</u>
To expansion and growth				
Retained income	824		792	
Depreciation	<u>119</u>	<u>37</u>	<u>107</u>	<u>39</u>
	<u>2,555</u>	<u>100</u>	<u>2,282</u>	<u>100</u>

SOURCES AND DISTRIBUTION OF INCOME - BANK

For the year ended 31 March

2002 2003 2004 2005 2006

Rupees million

Sources of Income

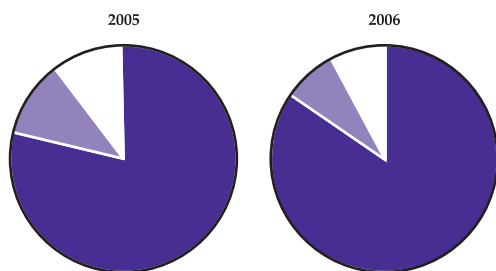
Interest income	3,844	3,495	3,461	3,645	4,594
Income from investments	280	354	414	521	431
Other	187	332	569	475	424
	<u>4,311</u>	<u>4,181</u>	<u>4,444</u>	<u>4,641</u>	<u>5,449</u>

Distribution of Income

To employees as emoluments	257	313	394	438	524
To lenders as interest	2,200	2,091	1,819	1,873	2,448
To providers of supplies and services	132	192	179	230	256
To government as taxation	526	277	567	629	742
To shareholders as dividends	212	233	314	316	346
Retained in the business:					
Depreciation set aside	48	78	72	107	119
Provision for losses	516	374	308	256	190
Reserves	420	623	791	792	824
	<u>4,311</u>	<u>4,181</u>	<u>4,444</u>	<u>4,641</u>	<u>5,449</u>

SOURCES OF INCOME

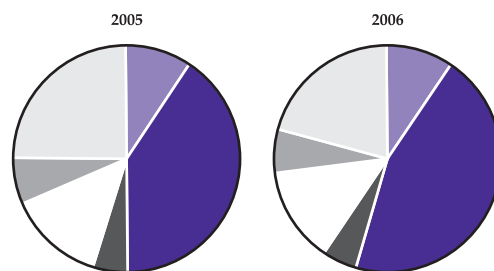
Year ended 31 March



	2005	2006
Average 12 Month Bill Rate	79%	84%
Average Commercial Bank Deposit Rate	11%	8%
DFCC Return on Shareholders' Funds	10%	8%

DISTRIBUTION OF INCOME

Year ended 31 March



	2005	2006
Employees	9%	10%
Lenders	40%	44%
Suppliers and Services	5%	5%
Government	14%	14%
Shareholders	7%	6%
Retained	25%	21%

TEN YEAR SUMMARY

Bank

Year ended 31 March

1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Rupees million

OPERATING RESULTS

Total income (net of TT & NSL)	2,411	2,762	2,949	3,446	3,452	4,037	4,113	4,444	4,641	5,449
Profit before tax	622	942	913	733	818	1,259	1,459	1,874	2,018	2,636
Income tax	206	350	241	203	190	401	327	517	668	932
Profit after tax	416	592	672	530	627	857	1,131	1,355	1,350	1,704

BALANCE SHEET

Assets

Cash, short-term funds and securities	2,352	1,164	2,877	1,631	1,394	2,359	2,398	2,675	2,778	4,927
Dealing securities	0	0	0	0	3	4	3	1	0	14
Receivables	194	286	601	508	533	666	914	909	1,642	947
Placements with and loans to banks and financial institutions	0	0	1,175	651	325	0	0	500	300	738
Securities purchased under resale agreement	0	0	0	23	288	569	48	26	1,051	520
Bills of exchange discounted	247	161	38	23	23	23	23	18	13	6
Loans	10,857	12,426	14,877	15,989	17,878	17,982	19,515	22,386	25,269	30,963
Finance leases	1,970	2,039	2,066	2,009	1,932	1,859	2,445	3,742	4,349	5,545
Provisions	(464)	(710)	(225)	(374)	(633)	(757)	(949)	(1,077)	(995)	(937)
Net of provisions	12,610	13,916	16,756	17,647	19,200	19,107	21,034	25,069	28,636	35,577
Investment securities	1,446	2,004	1,865	1,474	1,784	2,102	1,802	1,704	1,731	1,340
Investment in associate/subsidiary companies	344	1,525	1,695	1,851	2,104	2,351	2,663	3,866	4,541	5,483
Investment property	0	0	0	0	0	187	187	12	12	12
Property, equipment and intangibles	75	100	265	285	277	265	378	516	475	481
	<u>17,021</u>	<u>18,995</u>	<u>25,234</u>	<u>24,070</u>	<u>25,908</u>	<u>27,610</u>	<u>29,427</u>	<u>35,278</u>	<u>41,166</u>	<u>50,039</u>

Negative goodwill	0	0	52	40	27	23	11	6	3	1
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Liabilities

Shareholders' funds	4,028	4,665	4,991	5,413	5,745	6,659	7,627	8,730	10,108	11,516
Medium/long-term borrowing and debentures	11,746	12,750	17,424	17,279	17,841	17,892	16,775	19,570	24,120	30,384
Customer deposits	0	0	555	314	558	1,562	2,868	4,944	3,779	4,017
Short-term borrowings	0	0	1,140	0	796	398	1,143	577	1,387	2,453
	<u>11,746</u>	<u>12,750</u>	<u>19,119</u>	<u>17,593</u>	<u>19,195</u>	<u>19,852</u>	<u>20,786</u>	<u>25,091</u>	<u>29,286</u>	<u>36,854</u>
Other liabilities	1,247	1,580	1,072	1,024	941	1,076	1,003	1,451	1,769	1,668
	<u>17,021</u>	<u>18,995</u>	<u>25,234</u>	<u>24,070</u>	<u>25,908</u>	<u>27,610</u>	<u>29,427</u>	<u>35,278</u>	<u>41,166</u>	<u>50,039</u>

Return on shareholders' funds, %	10.7	13.6	13.9	10.2	11.2	13.8	15.8	16.6	14.3	15.8
Return on total assets, %	2.6	3.3	3.0	2.1	2.5	3.2	4.0	4.2	3.5	3.7

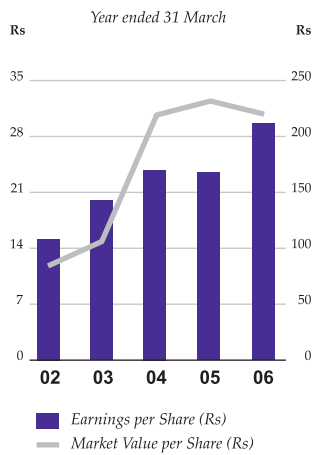
Earnings per share, Rs	7.37	10.51	11.91	9.39	11.12	15.20	20.05	23.80	23.56	29.62
Market value per share, Rs	133.79	135.53	66.88	59.38	46.88	84.00	106.50	219.50	231.75	220.25
Price earnings ratio	18.2	12.9	5.6	6.3	4.2	5.5	5.3	9.2	9.8	7.4

Rate of dividend, %	35.0	35.0	40.0	40.0	45.0	50.0	55.0	55.0	55.0	60.0
Dividend cover, times	2.8	4.0	4.0	3.1	3.3	3.0	3.7	3.5	3.5	3.4
Gross dividend, Rsm	105.8	123.4	141.0	141.0	159.0	212.0	233.0	314.3	315.8	345.5
Liquid assets to liabilities, %	0	0	0	0	0	0	0	28	38	48

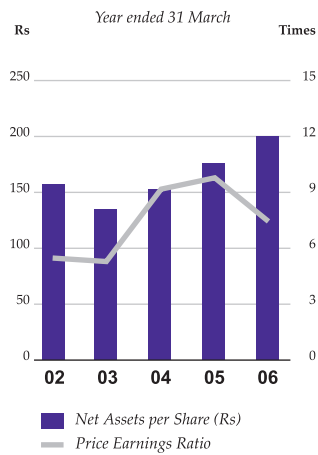
(As specified in the banking Act No. 30 of 1988).

PERFORMANCE OF THE SHARE

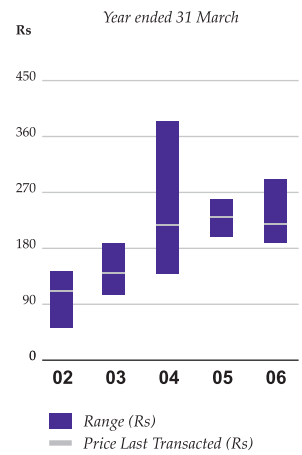
EARNINGS AND MARKET VALUE



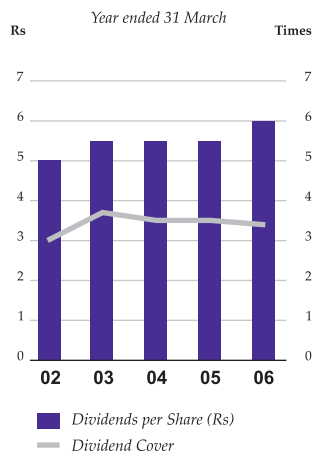
SHARE VALUE



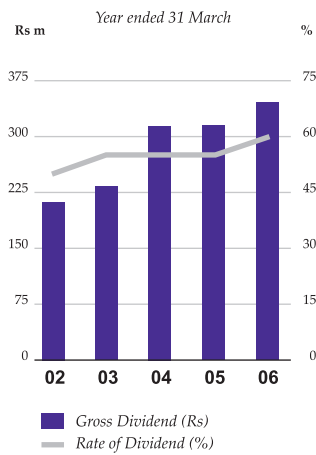
SHARE PRICE



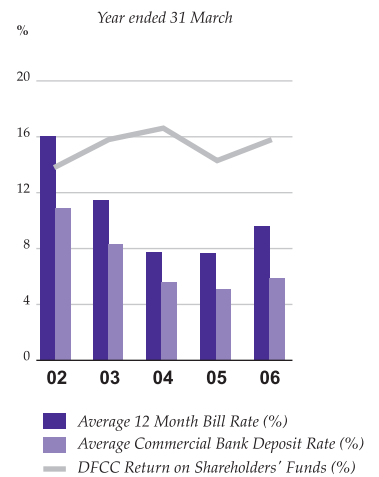
DIVIDENDS



DIVIDEND PAID



RETURN ON EQUITY AND MONEY MARKET RATES



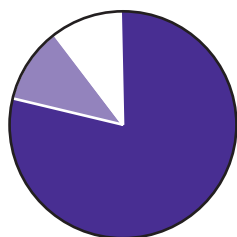
SHARE INFORMATION

<i>Year ended 31 March</i>	2006	2005
Earnings		
Earnings per share, basic, Rs	29.62	23.56
Price earnings ratio, times	7.4	9.8
Dividends		
First and final dividend, Rs m	345.54	315.77
Rate of dividend, %	60.00	55.00
Dividend per share, Rs	6.00	5.50
Book Value - Bank		
Net assets per share on 31 March, Rs	199.98	176.12
Price Indices		
CSE All Share Price Index	2,264.36	1,751.88
Milanka Price Index	2,877.66	2,392.19
Share Prices		
Lowest, Rs	190.00 (10.01.06)	200.00 (06.04.04)
Highest, Rs	292.00 (11.10.05)	260.00 (30.03.05)
Last transaction, Rs	220.25 (31.03.06)	231.75 (31.03.05)
Market Capitalisation		
Value, Rs m	12,684	13,298
% of market	1.84	2.96
Rank	9	6
Value of Shares Traded		
Value, Rs m	933	889
% of total trading	0.82	1.20
Rank	25	20
Days Traded		
Number of days traded	221	226
Total number of market days	241	238
% of market days traded	91.70	94.96
Frequency of Shares Traded		
Number of transactions	1,661	1,915
% of total frequency	0.16	0.24
Rank	124	81

SHARE INFORMATION

SHAREHOLDERS

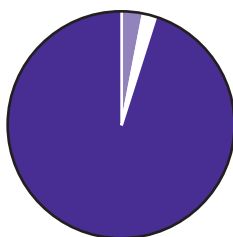
Year ended 31 March



1,000 Shares or less	90%
1,000 - 5,000 shares	8%
Greater than 5,000 Shares	2%

SHAREHOLDING

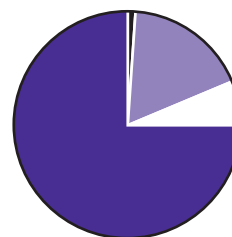
Year ended 31 March



1,000 Shares or less	3%
1,000 - 5,000 Share	2%
Greater than 5,000 Shares	95%

OWNERSHIP

Year ended 31 March



Foreign Individuals	1%
Foreign Institutions	18%
Sri Lankan Individuals	6%
Sri Lankan Institutions	75%

Size-wise Distribution of Shareholding

Number of Shares	As at 31 March 2006			As at 31 March 2005		
	No. of Holders	Total Holding	%	No. of Holders	Total Holding	%
01 - 1,000	6,102	1,546,478	2.68	6,172	1,613,552	2.81
1,001 - 5,000	512	1,034,533	1.80	539	1,107,472	1.93
5,001 - 10,000	72	496,720	0.86	75	516,261	0.90
10,001 - 50,000	54	1,081,853	1.88	62	1,162,492	2.03
50,001 - 100,000	8	584,680	1.02	8	571,201	0.99
100,001 - 500,000	17	4,199,965	7.29	12	2,908,012	5.07
500,001 - 1,000,000	1	560,000	0.97	1	995,800	1.73
Greater than 1,000,000	12	48,086,593	83.50	11	48,538,493	84.54
Total	6,778	57,590,822	100.00	6,880	57,413,283	100.00

Ownership

Shareholding %	As at 31 March 2006			As at 31 March 2005		
	Foreign	Sri Lankan	Total	Foreign	Sri Lankan	Total
Individuals	1.38	5.59	6.97	1.13	5.28	6.41
Institutions	18.35	74.68	93.03	16.57	77.02	93.59
Total	19.73	80.27	100.0	17.70	82.30	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2006 was 48.23% (47.61% as at 31.03.2004).

SHARE INFORMATION

Twenty Major Shareholders of the DFCC Bank as at 31 March 2006 are given below:

Name of Shareholder/Company Name as at 31 March 2006

	No. of Shares	2006 %	Cumu- lative%	2005 No. of Shares	%
Bank of Ceylon	8,453,333	14.68	14.68	8,453,333	14.72
Commercial Bank of Ceylon Limited	7,770,278	13.49	28.17	7,770,278	13.53
Hatton National Bank Limited A/c. No. 1	7,054,025	12.25	40.42	7,054,025	12.29
Sri Lanka Insurance Corporation Limited - Life Fund	6,523,096	11.33	51.75	6,523,096	11.36
Readywear Industries Limited	5,422,600	9.41	61.16	5,861,100	10.21
Distilleries Company of Sri Lanka Limited	3,736,724	6.49	67.65	3,736,724	6.51
Seafeld International Limited	3,397,066	5.90	73.55	3,397,066	5.92
HSBC International Nominees Limited - BPSS LUX - Aberdeen Global Asia Pacific Fund	1,865,466	3.24	76.79	-	-
National Savings Bank	1,766,533	3.06	79.85	1,766,533	3.08
HSBC International Nominees Limited - BPSS LDN Aberdeen Far East Emerging Economies Unit Trust	1,097,400	1.91	81.76	-	-
HSBC International Nominees Limited/DEG - Deutsche Investitions - UND Entwicklungsgesellschaft M6	1,000,072	1.74	83.50	2,462,572	4.29
Yaseen M.A.	560,000	0.97	84.47	-	-
Northern Trust Co. S/A Murray Johnstone International Delaware Business Trust	453,300	0.79	85.26	-	-
RBC Dexia Investor Services Trust S/A Edinburg Dragon Trust Plc	441,200	0.77	86.03	-	-
HSBC International Nominees Limited - SSBTL - Aberdeen Asia Smaller Co. Investment Trust XC	400,000	0.69	86.72	400,000	0.70
HSBC International Nominees Limited - SSBTL - Aberdeen New Dawn Investment Trust XCC6	400,000	0.69	87.41	400,000	0.70
HSBC International Nominees Limited - BPSS LDN - Aberdeen Investment Fund ICVC Aberdeen Emerging Market	333,333	0.58	87.99	333,333	0.58
HSBC International Nominees Limited - SSBT - Frank Russell Investments Co. Plc	292,100	0.51	88.50	-	-
Sri Lanka Insurance Corporation Limited - General Fund	276,400	0.48	88.98	276,400	0.48
HSBC International Nominees Limited - BPSS LUX - Aberdeen Global - Emerging Markets Fund	235,000	0.41	89.39	-	-
	51,477,926	-	-	48,434,460	-
Other Shareholders	6,112,896	10.61	100.00	8,978,823	15.63
Total	57,590,822			57,413,283	100.00

The Annual General Meeting will be held at the Cinnamon Grand, Colombo 3, on 30 June 2006. Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

NAME OF COMPANY

DFCC Bank

LEGAL FORM

A quoted public company with limited liability incorporated by Development Finance Corporation of Ceylon Act No. 35 of 1955.
A licensed specialised bank under the Banking Act No. 30 of 1988.

CREDIT RATING

AA (Ika) 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 Ltd.
Commercial Bank of Ceylon Ltd.
Bank of Ceylon

VAT REGISTRATION NO.

409000088 7000

HEAD OFFICE

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

DFCC BANK'S OTHER OFFICES

Anuradhapura
249, Maithripala Senanayake Mawatha
Anuradhapura.
Telephone: 025-2223417-8
Fax: 025-2223417

Badulla
14, Udayaraja Mawatha
Badulla.
Telephone: 055-2230160-2
Fax: 055-2230163

Colombo
73, W A D Ramanayake Mawatha
Colombo 2.
Telephone: 2305560
Fax: 2305579

Gampaha
123, Baudhaloka Mawatha
Gampaha.
Telephone: 033-2226104
Fax: 033-2226104

Kaduruwela
626, Main Street
Kaduruwela.
Telephone: 027-2225858-9
Fax: 027-2225858

Kalutara
270/1/1, Main Street
Kalutara South.
Telephone: 034-2236363
Fax: 034-2236364

Kandy
5, Deva Veediya
Kandy.
Telephone: 081-2234411
Fax: 081-2228460

Kurunegala
67, Colombo Road
Kurunegala.
Telephone: 037-2224142, 037-2224461-2
Fax: 037-2224142

Malabe
7, Athurugiriya Road
Malabe.
Telephone: 2442714, 2442405
Fax: 2442713

Matara
5, Hakmana Road
Matara.
Telephone: 041-2225500-1
Fax: 041-2225585

Ratnapura
46, Bandaranaike Mawatha
Ratnapura.
Telephone: 045-2223667-9
Fax: 045-2223670

